2014 High Growth Markets Outlook Survey

Capitalizing on the high growth markets opportunity

kpmg.com/us/highgrowthindustry

KPMG
cutting through complexity

CONTENTS


"10년의 사랑, 100년의 희망으로!"
DHL

FOREWORD

High growth and emerging markets represent one of the biggest growth opportunities in recent history, as global economic power is shifting toward these previously underserved markets. While high growth market (HGM) countries—like China, India, and Brazil—have long been a significant investment opportunity, they are now at the top of the corporate agenda.

Companies of all sizes—ranging from small to mid-market to multinational corporations—and in each stage of the investment life cycle, from those with no presence in-country to those with well-established operations, are increasingly finding HGMs to be both a significant investment opportunity and a key source of revenue. Nonetheless, while executives recognize the potential of these markets, they often struggle with how to navigate the myriad and complex challenges and risks that HGMs pose.

To provide needed guidance, KPMG LLP's (KPMG) High Growth Markets Outlook has identified not only the HGM opportunities and obstacles, but also the key drivers of success for HGM operations. The survey uses responses and qualitative answers from executives with operations in HGMs as well as from discussions with KPMG practice leaders in and for individual countries to identify both the opportunities and the challenges that companies face in HGMs. Most importantly, the outlook uses this hands-on experience to identify strategies that companies can use to mitigate risks and to overcome challenges in HGMs.

Mark Barnes
Partner in Charge, High Growth Markets
KPMG LLP

Mark Barnes leads KPMG's High Growth Emerging Markets practice. He has more than 20 years of experience working across a diverse range of sectors with companies investing to and from markets such as China, India, Brazil, Korea, Africa, and others. Barnes is a frequent public speaker on topics such as cross-border investment, updates on the business and regulatory climate in growth markets, risk and regulatory framework models, and managing in different cultures.

BACK HOME NEXT

SURVEY HIGHLIGHTS

HGMs have moved to the top of the corporate agenda.
Despite recent headlines of slowing Gross Domestic Product (GDP) growth in HGMs, these economies continue to grow three to four times faster than developed countries. HGMs in this survey contribute on average only 24 percent of a company's global revenues compared to 50 percent of global GDP. This represents a huge area of opportunity.

Executives are looking to a broader range of HGMs than ever before.
Executives are realizing that they must enter new frontier markets, such as those in Africa, ASEAN, and the Middle East, now or risk being left out of the economic gains. Nigeria, Kenya, Myanmar, Vietnam, Saudi Arabia, Argentina, and other newly emerging markets are now on the corporate agenda.

HGM challenges and risks are more complex and difficult than ever before.
Despite years of experience in dealing with the various challenges that the diversity of HGM countries brings, these barriers to success have actually become more difficult. For example, cultural challenges, infrastructure problems, and strong government influence in the economy have actually increased and become more complex to navigate in many HGMs.

Savvy companies have developed strategies to navigate and overcome HGM challenges.
Companies with significant experience entering HGM countries and generating continued revenues in these markets have developed strategies and keys to success. These include newly developed strategies for blending U.S. and local leadership and retaining top employees as well as enhanced policies to address bribery, fraud, and corruption.

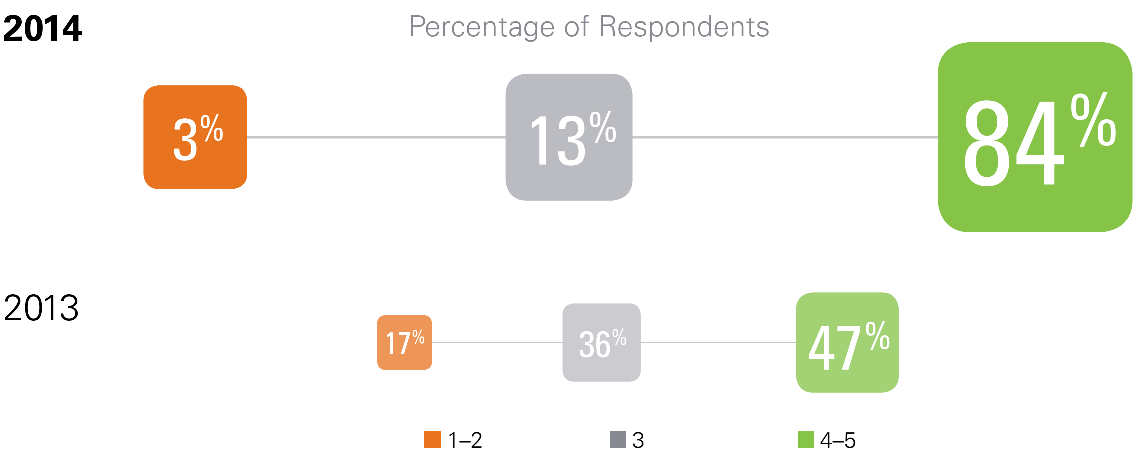
Executives have identified the top drivers of success for operating in HGM countries.
These executives have identified leading practices related to cultural sensitivity, understanding the business environment, business model flexibility, having adequate capital investments, having a local trusted advisor, knowing how to deal with the government, developing an upfront exit strategy, and having the patience to realize results.

HGMs HAVE MOVED TO THE TOP OF THE CORPORATE AGENDA

HGMs continue to be a source of economic growth for many companies despite slowing GDP growth in some countries. Executives recognize that these markets are still growing much faster than developed economies and represent an unprecedented long-term opportunity.

An overwhelming majority of executives (84 percent) say that HGM countries are important to their company's strategy and growth, an increase of 37 points from last year. Another significant majority (83 percent) cited geographic expansion as the top investment area over the next 12 months.

Q: Overall, how important are the High Growth Emerging Market countries to your company's strategy and growth?



1 = Not at all important and 5 = Very important

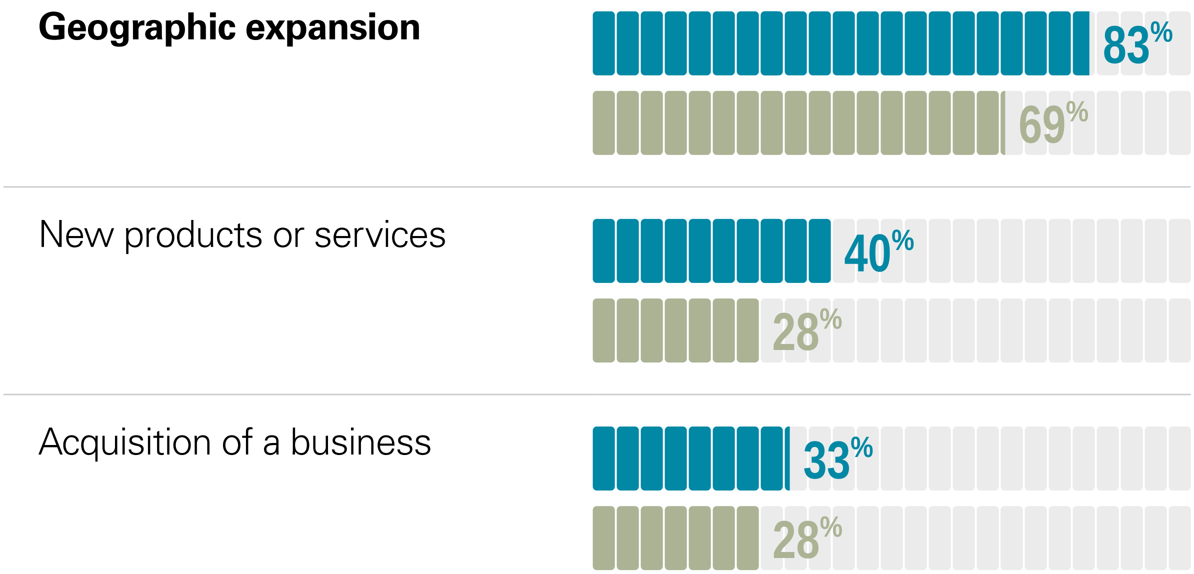
Consumer markets, especially those in China, India, Brazil, and Mexico, will lead this expected revenue growth in the next 12 months, with R&D and innovation, access to technology, and government incentives also driving revenue. "There's a huge number of people becoming wealthier, and people in those markets are demanding better and more expensive products from Western makers," said Mark Barnes, Partner in Charge, KPMG's High Growth Emerging Markets practice. "This will change the way manufacturers in those markets look at the way they develop those products and services." The growth in consumer markets comes from both increasing urbanization, as 70 million people migrate from rural areas to the cities each year, as well as from the growing global middle class, which is expected to grow by 5 billion by 2030.

The High Growth Markets opportunity: *"The global economy is still cautiously recovering, but we are seeing renewed interest in high growth emerging markets, and companies are improving existing investments. Business leaders in the United States realize that there are opportunities to take market share through both expansion and by making current investments more efficient. In addition, these markets are becoming more sophisticated and competition is increasing."*

Mark Barnes
Partner in Charge
KPMG High Growth Markets

HGM expansion is the leading area for spending increases

Q: In which areas do you expect your company to increase spending the most in the next 12 months?



	2014	2013
Expanding facilities	18	17
Research and development	14	17
Information technology	13	33
Business model transformation	9	12
Employee compensation and training	3	13
Advertising and marketing	2	15
Green/sustainability initiatives	1	6
Regulation/control environment	0	13
Other	1	2

(Multiple responses allowed)

Consumer markets expected to drive HGM growth

Q: What do you believe will be the biggest drivers of your company's revenue growth in High Growth Emerging Markets in the next 12 months?

	2014	2013
Consumer market/growth	60%	64%
R&D and innovation	31%	19%
Access to technology	29%	19%
Government initiatives	25%	23%
Access to local entrepreneurs/women	16%	11%
Growth of smaller/second-tier cities	13%	N/A
Tax incentives	9%	26%
Special investment zones	7%	13%
Other	4%	3%

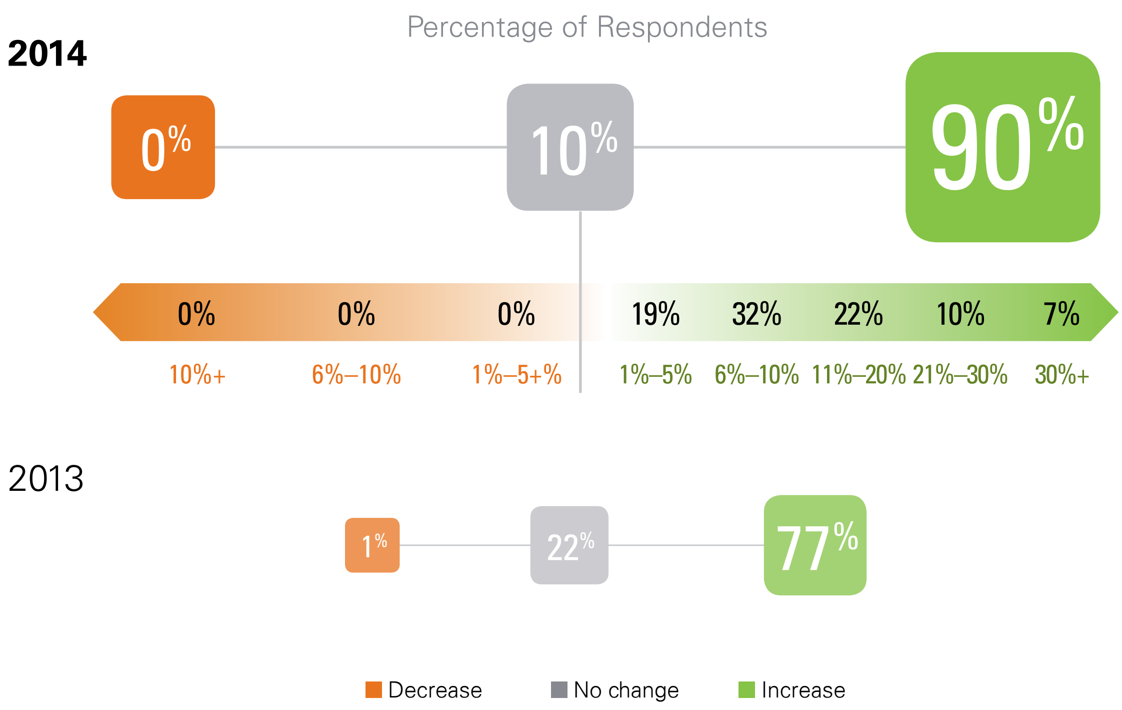
(Multiple responses allowed)

REVENUE GROWTH OPPORTUNITIES

Revenue growth opportunities exist for companies of all sizes and stages in the HGM life cycle. Nearly all (90 percent) executives expect HGM revenues to increase in the next 12 months, an increase of 13 points from last year, and no executives expect a decrease. Most significantly, 39 percent of executives expect HGM revenue growth to be more than 10 percent in the next 12 months, and a significant portion of executives (17 percent) expect growth to be more than 20 percent. In addition, more companies (29 percent) expect a higher share of their global revenues ($31million to $50 million) to come from HGMs, an increase of 17 points from last year.

Executives expect HGM revenues to increase significantly

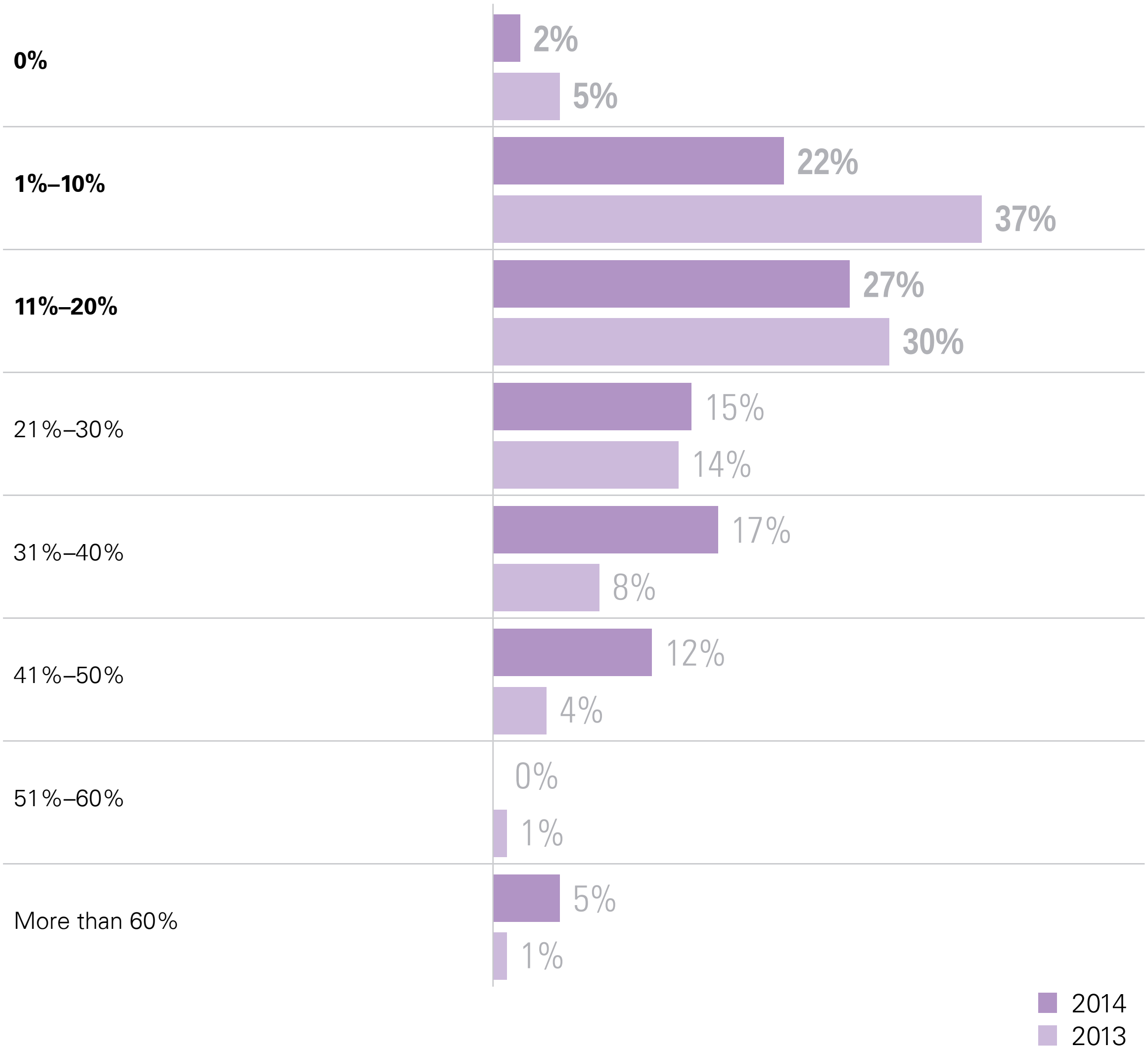
Q: What do you estimate will be the change in your company's revenue growth, in high growth emerging markets, in the next 12 months?



But perhaps most importantly, the survey shows that HGMs present an almost unprecedented opportunity for many companies. There is a significant gap between global revenues and global GDP, as executives expect on average only 24 percent of global revenues to come from HGM countries in the next 12 months but HGM countries currently contribute 50 percent of global GDP. This gap will likely narrow and could prove to be extremely profitable for the companies involved.

Companies expect a higher share of global revenues from HGMs

Q: What percentage of your company's global revenues do you anticipate will come from high growth emerging market countries in the next 12 months?



Realize the opportunity gap: There is a significant gap between global revenues and global GDP, as executives expect on average only 24 percent of global revenues to come from HGM countries in the next 12 months but HGM countries currently contribute 50 percent of global GDP.

EXECUTIVES ARE LOOKING TO A BROADER RANGE OF HGMs THAN EVER BEFORE

Notably, companies are investing in a broader range of high growth emerging markets than they have in the past. Currently, U.S. companies have investments of more than $5 million predominately in China and Brazil, followed by India, Mexico, and select Latin America and ASEAN countries. In the next 12 months, executives plan more than $5 million in HGM investments in China; increased activity in India; and decreased activity in Brazil, Mexico, and Russia.

Q: As of year-end 2013, in which High Growth Emerging Markets has your company made capital investments of over $5 million?

Current investments

	2014	2013
China	49%	41%
Brazil	35%	26%
India	21%	24%
Mexico	19%	24%
Chile	12%	N/A
Argentina	10%	N/A
Philippines	10%	6%
Indonesia	9%	6%
Malaysia	8%	N/A
Russia/CIS	8%	13%
South Africa	8%	3%
Vietnam	7%	6%
Saudi Arabia	6%	%
Colombia	5%	7%
Korea	5%	6%
Poland	3%	%
Turkey	3%	9%
UAE	3%	N/A
Kenya	3%	N/A
Iran	2%	N/A
Myanmar	1%	0%
Pakistan	1%	5%
Egypt	1%	2%
Iraq	1%	1%
Mongolia	1%	0%
Nigeria	1%	0%
Bangladesh	0%	0%
Middle East	0%	3%
ASEAN	0%	1%
Other	3%	4%
None	12%	25%

Q: In which new High Growth Emerging Markets does your company plan to make capital investments of more than $5 million in the next 12 months?

Planned investments

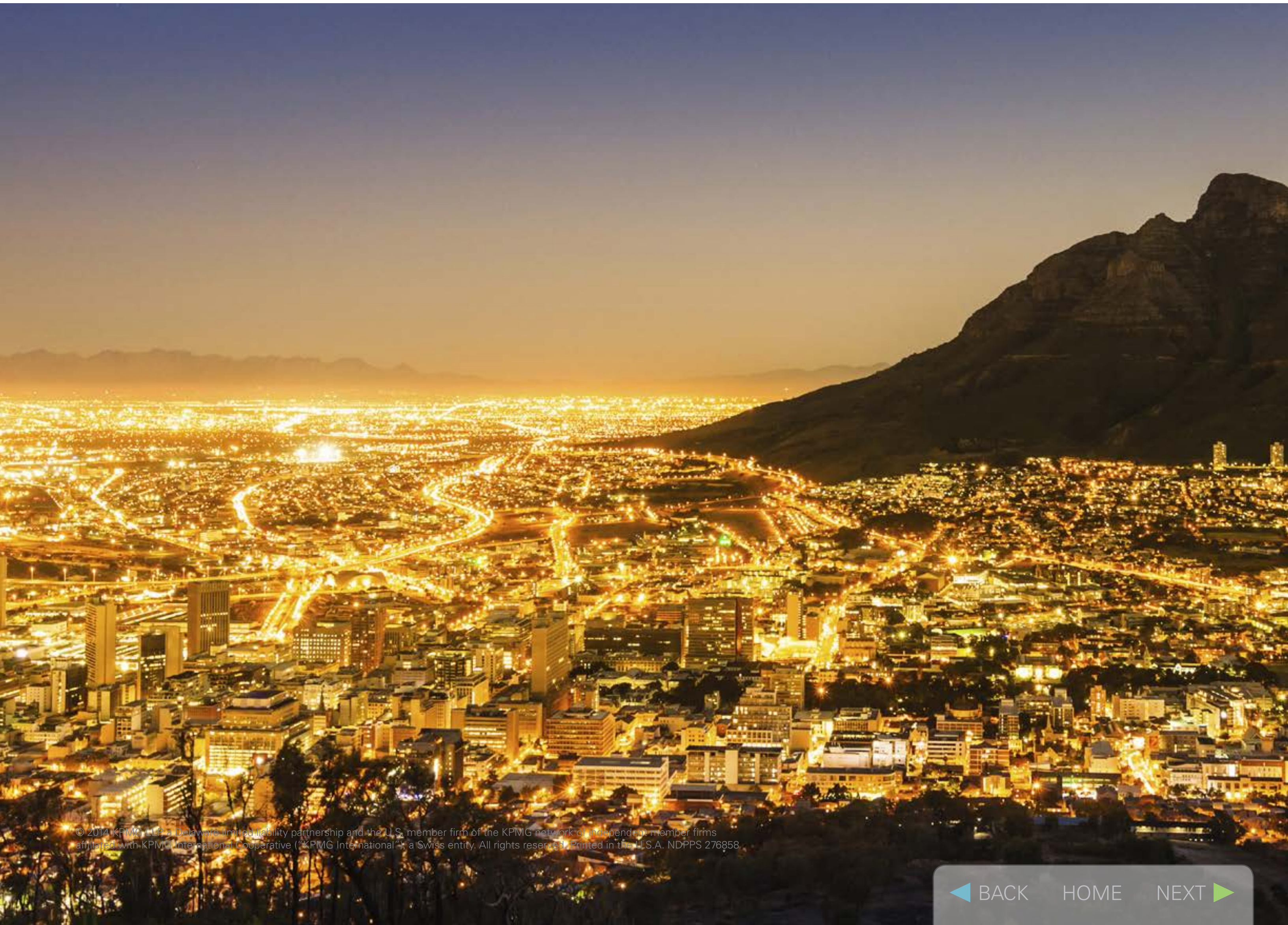
	2014	2013
China	30%	26%
Brazil	22%	27%
India	17%	13%
Vietnam	9%	4%
Chile	8%	N/A
South Africa	8%	5%
Argentina	7%	N/A
Malaysia	7%	N/A
Korea	7%	6%
Indonesia	6%	6%
Bangladesh	6%	N/A
Mexico	6%	17%
Poland	4%	%
Turkey	4%	6%
Russia/CIS	3%	4%
Nigeria	3%	1%
Iraq	2%	1%
Myanmar	2%	1%
Kenya	2%	N/A
UAE	2%	N/A
Philippines	2%	6%
Colombia	2%	4%
Iran	2%	N/A
Saudi Arabia	2%	N/A
Egypt	1%	2%
Mongolia	1%	2%
Pakistan	0%	3%
Middle East	0%	2%
ASEAN	0%	1%
Other	4%	6%
None	20%	27%

(Multiple responses allowed)

Significantly, there is an increasing appetite for investment in emerging countries such as Vietnam, Chile, Argentina, Malaysia, Indonesia, and South Africa. And all for good reason: markets like Vietnam, Nigeria, and India are projected to be the highest growth markets at 6 percent to 7 percent in the years and decades ahead. Frontier markets, such as Nigeria, Kenya, Bangladesh, Myanmar, Mongolia, Iran, Iraq, Saudi Arabia, and UAE, look to see both significant growth and investment, as executives are seeking opportunities in an expanding range of frontier markets.

A significant majority of companies (76 percent) will increase capital spending in HGMs. The majority (62 percent) will increase spending by more than 5 percent, and a significant portion (17 percent) say they will increase spending by more than 20 percent. Further demonstrating the opportunity that HGMs present, more than one third (37 percent) of investments will be allocated to new HGM countries, while almost two thirds (63 percent) of investments will go to countries with current HGM operations.

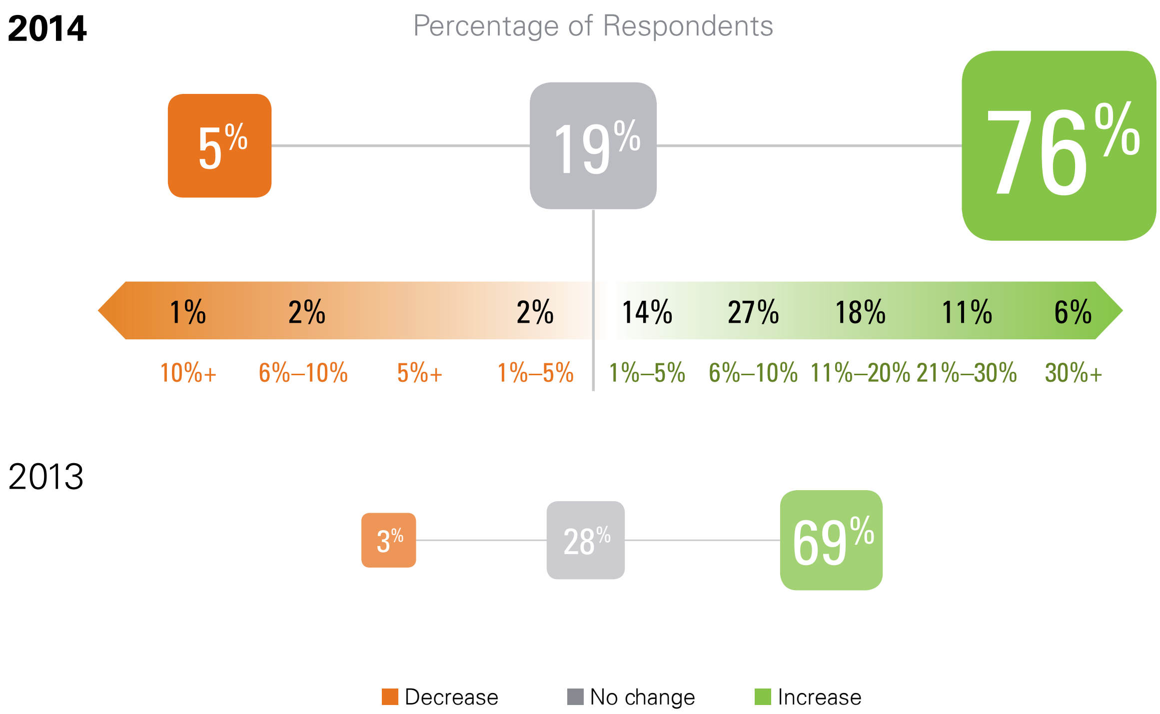
The mode of entry for HGMs could also be in transition. While joint ventures and mergers and acquisitions (M&A) continue to be the leading investment types planned for the next 12 months, there was a 14-point increase in greenfield investments from last year. There was also a decrease in alliances and partnerships (9 percent), down by 29 points from last year.



CAPITAL SPENDING INCREASES IN HGMs

As survey results indicate, the majority of respondents expect capital spending in HGMs to increase over last year's amount.

Q: What is the percentage increase or decrease in your company's level of capital investment spending in High Growth Emerging Market countries compared to 2013?



INVESTING IN HGMs

Over 1/3 of investments will be allocated to new HGM countries

Q: Thinking about your investments in High Growth Emerging Markets, what percentage of investment spending, in the next 12 months will be allocated to:

	0%	1%–20%	21%–40%	41%–60%	61%–80%	81%–100%	Mean
High growth emerging markets you had a presence in as of year-end 2013	N/A	4	14	34	32	16	62.6
New high growth emerging markets 2014	N/A	33	25	31	10	1	37.4
High growth emerging markets you had a presence in as of year-end 2012	3	5	10	30	23	29	64.8
New high growth emerging markets 2013	15	27	15	31	6	6	35.2

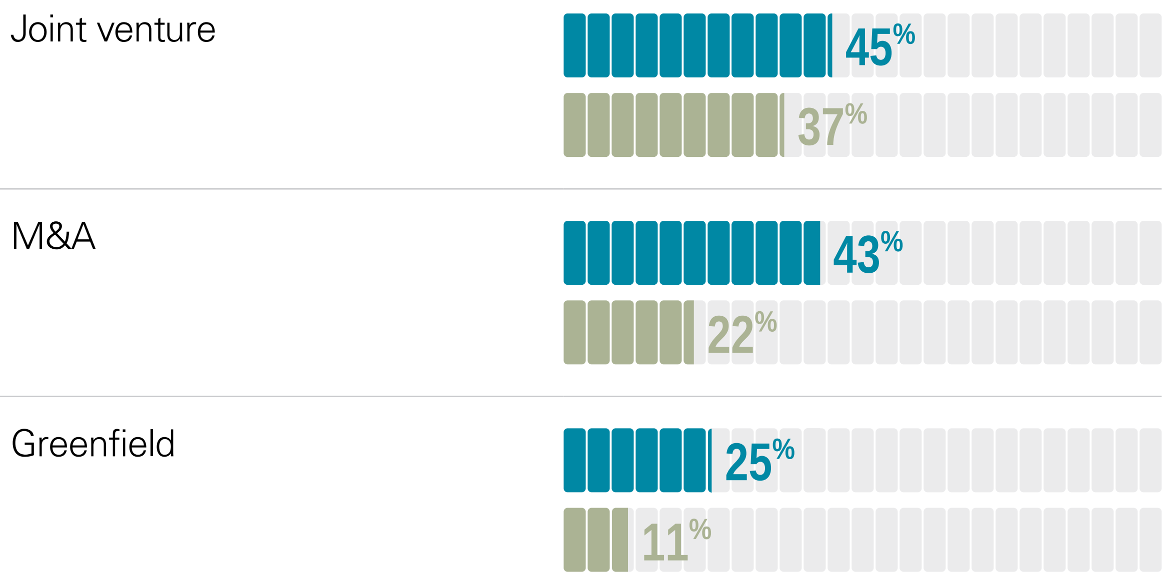
Africa: the market of the future

"Africa has 6 of the 10 fastest growing economies that are going to be the future China and India. There are significant challenges in Africa, but companies that do not invest now will likely miss out when these countries overcome these challenges over the next 10 years. There is also a significant opportunity for the private sector to contribute and influence the development of these markets by using their products and expertise."

Emad Bibawi
Partner in Charge
KPMG U.S. Africa & Middle East Corridor

Preferred type of investments

Q: Which of the following type of investments does your company plan to make in these new High Growth Market countries over the next 12 months?



Other .... 4 / 4

No investment but alliance/partner .... 9 / 38

2014 2013

(Multiple responses allowed)

HGM CHALLENGES AND RISKS ARE MORE COMPLEX AND DIFFICULT THAN EVER BEFORE

While HGMs have high potential, they also pose complex, difficult challenges and risks in both market entry and in sustaining revenue growth. Perhaps most significantly, these challenges mean very different things and are found in varying levels in each HGM country, as seen in the summary chart on pages 34–35. While the challenges of HGMs are well-known, many challenges have evolved and become more complex and difficult than they were in the past. Cultural challenges, infrastructure problems, and strong government influence in the economy have actually increased, and the usual methods of overcoming these challenges are less effective.

Market entry challenges

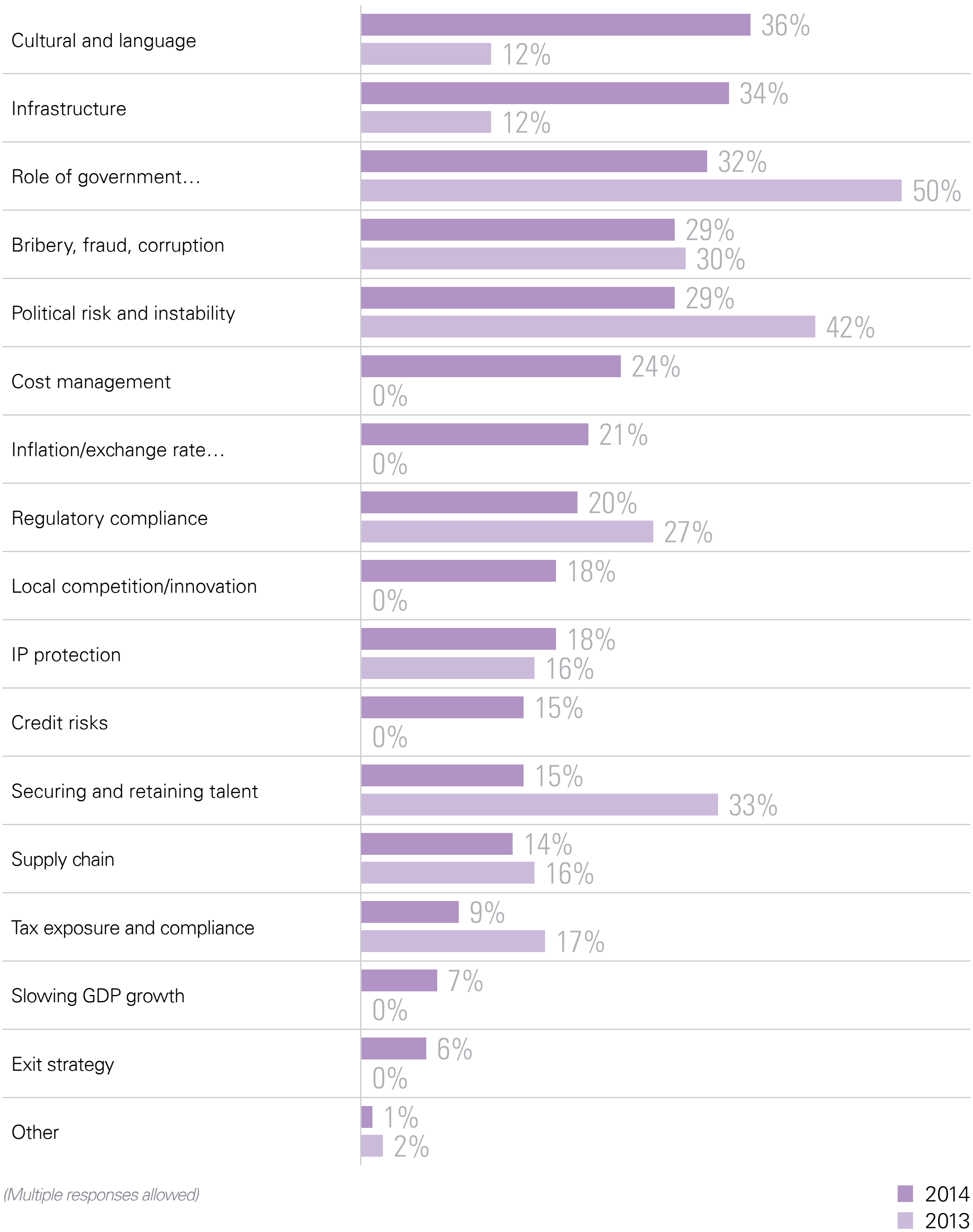
Executives identified numerous HGM market entry challenges and risks, and are placing greater importance on cultural and language barriers and poor infrastructure than they did last year. Rounding out the top challenges were the role of government, corruption, and political risk, and a list of other challenges from regulatory compliance and IP protection to supply chain issues.

Market entry in China

"In developing an investment plan, joint ventures and M&As are typically the preferred way of entering into China, especially a company's first entry. However, how laws are implemented and enforced in China is a challenge. An alliance might not offer the legal protections that a greenfield investment might offer."

Linda Zhang
Partner in Charge
KPMG U.S. China Practice

Q: What do you believe are the biggest challenges and risks for your company to enter and invest in High Growth Emerging Market countries?



(Multiple responses allowed)

Revenue growth barriers

Local competitive activities increased in importance from last year and were identified as the greatest threat to a company's revenue growth in HGM countries. This looks to only increase, as it is projected that almost half of FORTUNE Global 500 companies could be from HGMs by 2050.

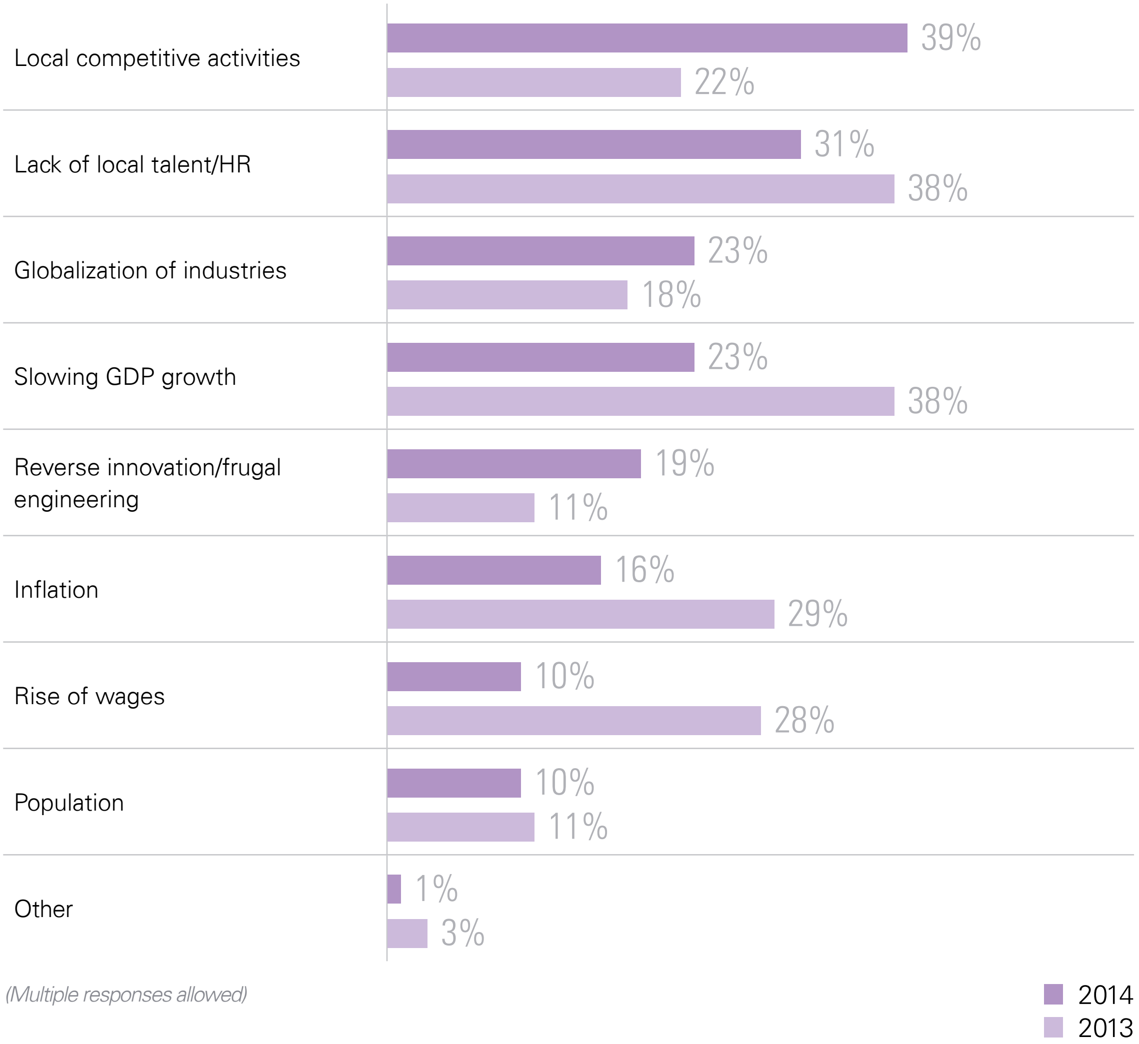
This will be a significant disruption for both HGM markets as well as the home markets of many international companies. Talent, wages, and slowing GDP continue to be factors in revenue growth in HGMs, but they have decreased in importance since last year.

Overcoming barriers in India

"India is a compelling growth story, as it continues to stay in the top three HGM markets for investment. However, comparatively speaking, India does not seem to get its fair share of investment based on the size of its economy. India continues to rank in the lower percentiles in terms of ease of doing business, but these challenges can be overcome with the right market entry and expansion strategies."

Rishi Chugh
Partner in Charge
KPMG U.S. India Practice

Q: What do you believe will be the biggest barriers to achieving your company's revenue growth in current High Growth Emerging Markets Countries in the next 12 months?



(Multiple responses allowed)

SAVVY COMPANIES HAVE STRATEGIES TO NAVIGATE AND OVERCOME HGM CHALLENGES

While the survey identified the biggest challenges and risks for investing and operating in HGM countries, executives in our study provided insight into what makes these obstacles increasingly difficult to manage. Nonetheless, these executives also provided some keys to success in overcoming these challenges.

Cultural and language

While language may be less of a concern with the increasing use of English, differences in accepted norms, customs, decision-making, communication, and relationships can be the difference between success and failure. For example, in India, the family takes priority over the individual, making consensus-based decisions difficult to finalize. In the Middle East, contracts are based more on trust than on specific terms and conditions. In Korea and in Brazil, socializing is a critical part of business development. These cultural challenges are becoming a more significant factor as employees at HGM companies move into performing more complex tasks.

Keys to success: Adapt business practices and business models to the local culture. Gain a thorough understanding of business, legal, cultural, political, and consumer environments for each country. Identify local differences and fully understand the culture and language with the help of trusted local advisors. Use local talent and do not rely solely on expatriates. Adapt business practices and business models for the local culture.

"It's important to understand the culture and language, as it shows a sign of 'good faith.'"

– HGM executive

Cultural challenges in the Middle East

"Many countries in the Middle East have wealth, infrastructure, and local talent, but the conflicts and security concerns can make these countries difficult for business. Pockets of the Middle East that experienced the Arab Spring are prone to a still developing operating environment. By contrast, Saudi Arabia, Kuwait, and UAE are stable and pro-business. Understanding the local culture, relationships and government priorities is key to successful operations in the Middle East."

Emad Bibawi
Partner in Charge
KPMG U.S. Africa & Middle East Corridor

Infrastructure

Infrastructure makes a difference in a company's revenue potential, as it can add significantly to the cost and time of doing business in a particular country. Fundamental gaps in access to and stability of reliable sources of water, power, and electricity can result in unreliable service and skyrocketing prices. Gaps in manufacturing, transportation, retail and wholesale channels, and communications infrastructure make it difficult to produce, transport, distribute, and promote products and services. Brazil, for example, is noted for extreme infrastructure challenges, as poor highways and rural roads slow commerce. Poor infrastructure also exposes companies to significant business interruptions such as natural disasters.

Keys to success: Ensure access to infrastructure as part of the due diligence for any investment. This includes access to power and water facilities, supply chains, and transportation, including roads, airports, and sea. Also, investigate special economic zones that have higher quality infrastructure. Companies that are building facilities infrastructure should consider an agreement with the local government before beginning construction.

"Make sure that infrastructure is in place when doing due diligence, as inadequate infrastructure could cost millions and delay shipping the product."

– HGM executive

Brazil: infrastructure challenges

"Transportation and infrastructure are major challenges that are likely holding back GDP growth in Brazil. Poor highways make it difficult to get products quickly to the growth areas outside of major cities. Successful companies will be those that can optimize their supply chain in order to mitigate these infrastructure risks."

Devon Bodoh
Partner in Charge
KPMG U.S. Brazil Practice

Role of government

The role of government and bureaucracy is pervasive in many HGMs. Governments in HGMs are much more involved in business than are the governments in other countries and they can have significant power over private enterprise. Multiple and sometimes competing levels of government (local, regional, national) often do not have the same goals. This can lead to difficulties and costly delays in reaching decisions with companies, winning government contracts, and getting projects approved. In China, for example, government incentives play a big role, especially for preferred industries, which include modern agriculture, renewable and clean energy, high-tech research and development, and advanced manufacturing.

Keys to success: Recognize the pervasive role of government and bureaucracy in many countries. Ask first, "what does this HGM government need?" Understand how to work with the local government, gain access, and build relationships using trusted local advisors. Employ local experts to help manage the different government relationships and navigate the bureaucracy.

"Having experienced governmental relationship experts that are trusted by both sides is essential."

– HGM executive

Bribery, fraud, corruption

High growth markets also present the potential for significant exposure to bribery and corruption. For example, countries with limited resources often underpay government employees, leading to incentives or pressures for bribery and corruption. In addition, sales commissions, revenue/growth targets, or personal ambition provide incentives or pressure for corporate personnel to engage in this behavior. Organizations with immature anti-bribery and corruption compliance programs are less likely to prevent or detect bribery or corrupt activities. Additionally, lack of oversight or transparency provides a safe haven for corrupt government officials to request and accept bribes. In recent years, there has been increased regulatory enforcement focused on reducing bribery and corruption.

Keys to success: Establish zero-tolerance policies, an effective compliance infrastructure, anti-bribery controls and guidelines, and continuous training. Implement ongoing assessment of internal and external anti-bribery risks as well as ongoing communication of anti-bribery policies and procedures to all affected employees and business partners. Develop mechanisms that allow for anonymous reporting of improper conduct, issues or concerns. Practice due diligence and periodic monitoring to assess employee and business partner compliance with anti-bribery obligations. Have an incident response plan and policies to investigate alleged bribery or corruption. Enforce policies and procedures.

"Absolutely no bribes allowed. There is training about the no-bribery policy. Employees have a designated route of who to contact in these situations about what to do."

– HGM executive

Political risk and instability

History, elections, economic crises and challenges, volatile foreign exchange rates, and changing societal attitudes can lead to political instability and increased investment risks. For example, in Brazil, a newly empowered middle class could lead to short-term unrest, while events in the so-called Arab Spring in the Middle East point to instability and increased security risks. Since the 2008 financial crisis, globalization and economic issues must be given adequate consideration in determining political risks.

Keys to success: Conduct due diligence in order to understand political risk and instability. This includes understanding the current government and its track record related to business. Also, ensure that the company is not involved in any negative media coverage, and establish local community-building projects to build relationships and trust.

"Look at the historic political track record and the current government to understand the games they play."

– HGM executive

Cost management

Companies operating in emerging markets have been hit by escalating costs, which can make the difference in the profitability of an investment. Explicit expenses, such as custody and trading fees, are generally higher in HGMs, as are the implicit costs that come from operational challenges. The inability to factor steady and predictable costs into an HGM investment can significantly increase the risk of higher costs.

Keys to success: Determine industry and competitive norms for costs and develop specific strategies to maintain target cost levels. Leadership must also direct international company segments to record the properly allocated U.S. costs.

"It has been an issue with getting the international companies to be okay with recording certain costs on their books for U.S. costs that are properly allocated to other companies. As always, as long as the message comes from the 'top,' people will comply."

– HGM executive

Inflation/exchange rate risk

Inflation and exchange-rate volatility are ongoing risk factors in HGMs. Operations in countries with high inflation require significant revenue growth in order to maintain profitability. Inflation can also cause the rise in wages to outpace productivity and can lead workers to leave for higher pay elsewhere. For example, workers in some Latin American countries with high inflation require quarterly pay increases.

Keys to success: Be aware of the region's historical risk in these areas.

"Be aware of regional historical risk."

– HGM executive

Regulatory compliance

Regulatory complexity and uncertainty pose numerous hurdles for market entry and ongoing operations. Many HGM countries have a less-developed rule of law, complex and vague regulations, and inconsistent application of both laws and regulations. Many countries have changing legislation and less-developed corporate governance, leading to more complex compliance issues.

Keys to success: Understand regulatory and tax issues at a deeper level and employ local market experts who can help navigate bureaucracy and ensure regulatory compliance. This makes access to the right talent critical to overcoming regulatory challenges. Employ well-informed and well-connected government relations experts. Also, become involved with local chambers of commerce and trade associations.

"Do a deep dive into the regulatory and tax issues and have an expert on each as key assistants to the new business development team."

– HGM executive

China's regulatory environment

"China has a fairly stable regulatory environment, as regulations for most industries have not changed significantly. The issue for many companies is in learning how to apply the rules in daily competition. Companies that are able to do this will have a strategic advantage and stay ahead of the competition."

Linda Zhang
Partner in Charge
KPMG U.S. China Practice

Local competition and innovation

Growth and innovation from local companies now pose a significant challenge to companies investing in HGMs. Less sophisticated companies can have an advantage through their understanding of the local markets or through lower cost structures. There is also a risk from HGM governments favoring local companies over international ones. Reverse innovation, in which local companies use reverse engineering to develop less-expensive products to meet the unique needs of HGM consumers, poses yet another significant risk. In China, local competition is a growing challenge, as local companies are becoming more sophisticated and globally competitive.

Keys to success: Focus on developing the corporate brand locally. Global companies should focus on becoming a strong local competitor. This could include tailoring products to meet the needs of the local market in order to deter reverse innovation. Using local business partners is key.

"Play to be a strong local player even if you are a global company. Create strong brand awareness and generate organic demand with products that are not perceived as cookie cutter but made with the local consumer preferences in mind."

– HGM executive

IP protection

IP protection and the risk of unauthorized access and/or piracy continue to weigh heavily on the minds of executives. Given the interconnected nature of today's business environment, the portability of information, and the increasing use of third parties to drive key business processes, these risks pose a clear and present danger to our clients. IP issues are most prevalent in countries that have limited or no laws addressing IP protection. This is a big challenge for even the largest U.S. companies that are used to a strong legal system that enforces IP rights. HGMs, like China and India, are largely improving laws and enforcement, but it will take time to address procedural and technical related deficiencies.

Keys to success: Protect sensitive IP by leaving it at home or by placing its critical content at different locations (with strong access and encryption controls) throughout an HGM country. Use non-disclosure agreements and effective security awareness training in order to help protect IP. Invest in countries with stable governments and ready access to a legal system recognizing the importance and sanctity of IP.

"Implement and manage strong controls – especially digital rights management and privileged user access management controls."

– HGM executive

Credit risks

HGM investors often face the risk that local company counterparties or HGM governments will default on their debts.

Keys to success: Due diligence is critical prior to entering a country. Use local experts to help in vetting counterparties.

"Use knowledgeable local resources, such as attorneys, to assist in vetting customers."

– HGM executive

Securing and retaining talent

As demand for labor increases locally, regionally, and globally, companies struggle to find and keep skilled talent, particularly midlevel employees. With certain skills in high demand in HGMs, the best employees will seek out better opportunities and higher pay early and often. They frequently seek employment outside of the country or region. This makes retaining locally talented employees a struggle. In addition, fewer work days, slower work pace, lower productivity, and lower capacity for innovation in some countries bring significant challenges.

Keys to success: Offer competitive pay and benefits as well as opportunities for advancement. Also, be willing to pay a premium salary for people who have worked for U.S. companies. Alliances with foreign firms can also help companies close the talent gap. Programs for employee retention, training, and motivation are essential.

"Promote quick growth of high-potential employees to send the message."

– HGM executive

The importance of strategy in Korea

"Korea is a very mature market with high labor costs, and companies enter Korea for strategic reasons, not for cheap labor. The biggest challenge is determining the strategic advantage of going into Korea. This means companies with a multiyear strategic planning process will be the ones that are able to drive growth. They are the ones that will be able to compete in specific markets or with specific technology."

Joon Kim
Partner in Charge
KPMG U.S. Korea Practice

Supply chain

Establishing effective and efficient supply chain operations in HGMs is fraught with challenges. Contributing to this complexity is a myriad of difficult-to-navigate regulations, trade and customs requirements, tax considerations, and supplier relationships. The number of participants and trading partners involved in the extended supply chain often result in a lack of both forward and backward visibility of product and financial flows. This visibility is critical to ensuring that the appropriate quality, cost, and service are maintained. As HGMs mature, competition will continue to increase and poorly performing supply chains will be vulnerable. A supply chain that can adapt to the nuances associated with HGMs will serve as a competitive differentiator in the marketplace.

Keys to success: Work with local providers with advanced knowledge of the supply chain. Ensure that you have a well-developed partnering and outsourcing strategy. Be flexible to enable an evolving approach. This flexibility can also help to demonstrate commitment to a long-term presence in the HGM country.

"Ensure your supply chain is purpose built for the market you are penetrating. Leverage processes, policies, and procedures from other markets but recognize the differences and adapt."

– HGM executive

Tax exposure and compliance

Managing tax exposure and compliance adds to the risks of HGM investments. The overall tax burden in an HGM may be significantly higher than in other countries, as different regions often have different tax treaties. Many HGMs have strict processes for withholding taxes on transfers overseas as well as strict foreign exchange controls that can make accessing cash reserves difficult. Nonetheless, there can also be significant opportunities, such as lower tax rates on certain types of income or activities, to reduce the overall tax cost of investing in an HGM. Foreign investors, however, often do not fully understand these opportunities, which can require significant up-front processes before a company can realize the benefits. These opportunities are also often subject to additional local country examinations and requirements.

Keys to success: Actively assess and manage in-country tax opportunities and risks before undertaking an acquisition or expansion.

"It can be very difficult to keep up with both the local tax exposure and compliance and the U.S. compliance required for new international companies. It is best to spend the time and money to get expert advice and help to get started."

– HGM executive

Slowing GDP growth

Like the rest of the global economy, HGMs have experienced slowing GDP growth in the recent past. Slowing growth of some HGMs is related to the developed world's slow recovery from the recession after 2008. Some countries, notably China, actually welcomed slower growth to reduce inflationary pressures. Nonetheless, growth in HGMs is projected to continue to outpace developed countries by three to four times for the foreseeable future.

Keys to success: Evaluate countries carefully before making an investment, and be prepared to stay for the long term in order to take advantage of the likely significant future GDP growth.

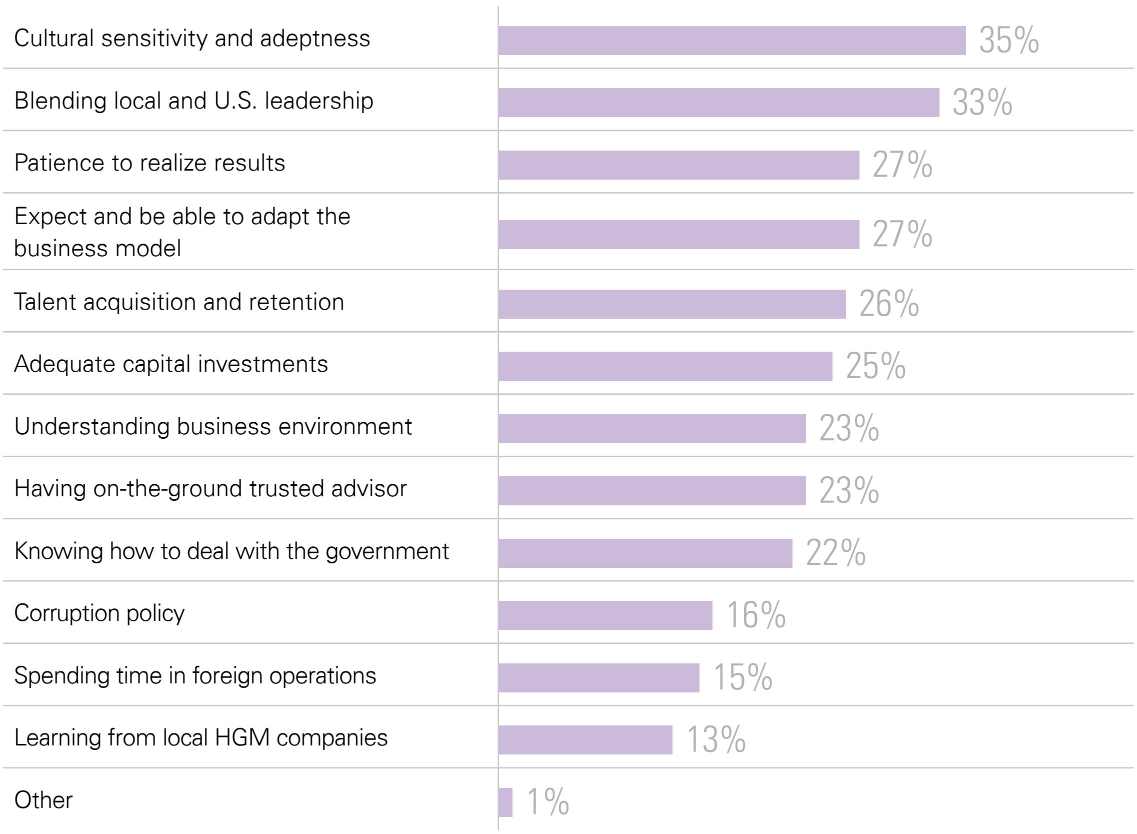
"It's cyclical."

– HGM executive

KEY DRIVERS FOR OPERATING IN HGM COUNTRIES

Our survey identifies a broad range of important drivers that executives can use to increase their chances of success in HGMs. Notably, cultural sensitivity and blending U.S. and local leadership are increasing in importance.

Q: What are your management's key drivers for achieving success in High Growth Markets?



(Multiple responses allowed)

"Business in Brazil is an interpersonal endeavor forged over years, not months. This means that the best product does not always win in the market."

Devon Bodoh
Partner in Charge
KPMG U.S. Brazil Practice

"Cultural sensitivity is an important driver for success in Korea. While people speak English, you need to understand the culture and be a part of Korea if you want to succeed. Companies need a local presence and local management to help you navigate the subtle cultural differences."

Joon Kim
Partner in Charge
KPMG U.S. Korea Practice

DRIVERS FOR SUCCESS IN HGMs

1 See the local country through HGM eyes

The lack of cultural understanding is a top reason for failures in HGMs, especially relevant now as executives are looking to a broader range of frontier markets than before. Establish a long-term local community presence and have local talent to guide important initiatives.

2 Blend local and U.S. leadership

Ensure that you have strong local HGM leaders and leverage local managers and market experience while maintaining U.S. leadership. Develop strong communication between local country employees and host countries, and develop strong mentor/mentee relationships. Train local talent in the core business operations to help them take higher positions as soon as possible.

3 Patience to realize results

Take a long-term perspective when considering the profitability of the investment. This includes taking the time to understand potential partners and the overall business environment.

4 Adaptable business model

Have a business model that is flexible and can respond to emerging competitive threats and the unique needs of individual HGMs. Observe local HGM companies in order to learn how to adapt.

5 Talent acquisition and retention

Develop a strong employee retention program with competitive compensation and benefits, opportunities for advancement, training, and programs that create optimism and a desire to stay at the company. Hire employees who are already comfortable working in a U.S. company and pay them a premium.

6 Adequate capital investments

Have adequate capital in order to take a long-term view. This is also an important factor in developing an adaptable business model to stay competitive as well as in attracting and retaining the right talent.

7 Understand the business environment

Audit the business environment prior to risking technology and capital. Help ensure that management and the board have the proper experience to provide international oversight.

8 Have a local trusted advisor

Employ a local trusted advisor to bring invaluable knowledge on a variety of issues. This includes regulatory and tax advice as well as advice on dealing with local government officials. Develop a thorough understanding of the political, cultural, legal, and business environments.

9 Know how to deal with the government

Ask what does this HGM government need? Build relationships through the help of a local advisor. Retain local legal or market experts to help manage the different government relationships and the bureaucracy.

10 Corruption policy

Maintain a non-negotiable set of global ethical standards through compliance training. Partner with a local advisor that has had longtime operations in the HGM and that shares the company's values. Communicate to local operations that there is no compromise on these rules.

11 Spend time in foreign operations

Take the time to visit foreign operations. Experiencing the culture, meeting the people, seeing the operations, and understanding what management is struggling with can provide executives with invaluable insight into their HGM operations.

12 Have an up-front exit strategy

Develop an exit strategy to leave a country if a certain level of net profits is not achieved by a certain time. It is sometimes more difficult to exit a country than it is to establish an investment in that country. Companies must be clear-eyed about market entry or foreign acquisitions and know how to walk away.

The importance of high growth markets to growth – Lee M. Ahlstrom of Paragon Offshore

Paragon Offshore, a recent spin-off of Noble Corporation's offshore drilling unit, has worldwide operations and extensive experience in high growth markets. Lee M. Ahlstrom, Senior Vice President– Investor Relations, Strategy and Planning, emphasized the importance of high growth markets to Paragon Offshore but noted that each market is different with its own set of risks.

Ahlstrom discussed some of the risk from cultures that accept bribes. "Your best mitigation is constant training and attention from the board level through senior management and down to everyone in the organization understanding not only the risks but what the potential consequences are." Ahlstrom also noted the importance of having local advisors to help in overcoming this challenge. Despite the many challenges, he believes overall that high growth markets are vital to growth. "You ignore emerging markets at your peril," he said. "Emerging markets are here to stay."

COUNTRY SUMMARY TABLE

OPPORTUNITY

	ASIA			EUROPE	
	CHINA	INDIA	KOREA	RUSSIA	POLAND
IMF GDP PPP 2013 ($B)	$13,374	$4,962	$1,666	$2,558	$814
IMF GDP Growth 2013 (%)	7.6%	3.8%	2.8%	1.3%	1.3%
IMF Proj. GDP PPP Rank 2050	1	3	17	6	N/A
Middle Class Population (M) Annual Income (% of Total Pop)	350 ($9,000-$24,000) (25%)	255.6 ($3,350-$16,900) (20%)	33 ($22,467-$67,402) (67.7%)	85 ($4,000-$50,000) (60%)	19 ($3,545-$7,596) (49%)
Key Industries	New Energy, New IT, Biotech, Equip MFG, Clean Energy Vehicles	Textiles, Chem, Transp., Mining, Petrol, Food Production, Software, Pharma, Engineering, ITeS, Real Estate/ Construction, Retail	Electronics, Automotive, Shipbuilding, Steel	Petroleum, Metals, Mining, Consumer Goods, Retail, Agriculture, Telecoms & Media, Infrastructure Development, Banking & Finance	Energy, Mining, Food, Metals, Rubber, Automotive, Electronics Manufacturing, TLS, Financial Services, IT, BPO/SSC/ITO

CHALLENGES

		CHINA	INDIA	KOREA	RUSSIA	POLAND
	EASE OF DOING BUSINESS INDEX	96	134	7	92	45
Market Entry Challenges	Culture/Language	▲	▲	■	■	■
	Infrastructure	■	▲	▽	■	■
	Role of Government	■	■	▽	▲	■
	Bribery & Corruption	■	▲	■	▲	■
	Political Risk	■	■	▽	▲	■
	Cost Management	■	▲	■	■	▽
	Regulatory	▲	▲	■	▲	■
	IP Protection	▲	■	■	■	▽
	Credit Risks	■	■	▽	▽	▽
	Supply Chain	▲	▲	■	▲	■
	Tax Exposure	▲	▲	■	▲	▲
Revenue Growth Barriers	Local Competition	▲	▲	▲	■	■
	Lack of Talent/Competition for Talent	▲	▲	▲	■	■
	Slowing GDP	■	■	■	▲	▲
	Reverse Innovation	■	▲	■	■	■
	Inflation	▽	▲	▽	■	▽
	Rise of Wages	▲	▽	■	■	■

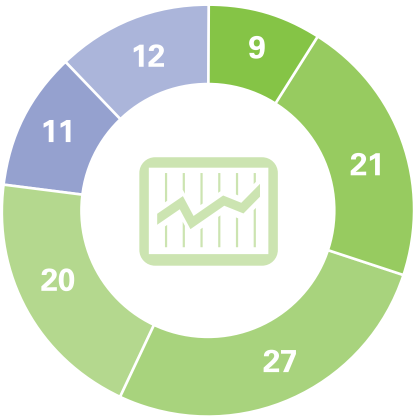
▲ High Challenge/Barrier ■ Medium Challenge/Barrier ▽ Low Challenge/Barrier

LATAM			ASEAN			AFRICA		MIDDLE EAST	
BRAZIL	MEXICO	ARGENTINA	INDONESIA	MALAYSIA	VIETNAM	NIGERIA	SOUTH AFRICA	TURKEY	SAUDI ARABIA
$2,422	$1,845	$771	$1,284	$525	$359	$479	$596	$1,162	$928
2.5%	1.2%	3.5%	5.3%	4.7%	5.3%	6.2%	2.0%	3.8%	3.6%
4	7	20	8	N/A	19	13	N/A	12	18
98 ($565-$2,270) (50%)	44 ($10-$50 per day) (39%)	19 ($7,500-$102,000) (47%)	76 ($3,000-$5,000) (57%)	10 ($1,556 & above) (33.6%)	12 ($714 & above a month) (13%)	52 ($6-$10 per day) (30%)	4.2 ($1,391-$4,637) (20%)	43.5 ($3,650-$20,000) (59%)	16.2 ($533-$2,667 a month)
Petroleum, Electr., Telecom, Automotive, Mining, Sanitation	Energy, Financial Services, Consumer Goods, Retail Manufacturing, Automotive, Tourism, Infrastructure	Agribusiness, Construction, Food, Automotive, Chemicals, Mining, Petroleum	Petroleum, Textiles, Apparel, Mining, Chemical, Food, Tourism, Electronics, Telecom, Customer Goods	Petrol. & Energy, Palm Oil & Rubber, Wholesale & Retail, Financial Services, Tourism, Electronics & Electrical, Business Services, Comm Content & Infrastructure, Education, Agriculture, Healthcare	Food Processing, Construction, Manufacturing	Petroleum, Food, Telecom, Retail, Clothing, Chemical, Construct., Shipbuilding	Agriprocessing, Mining, Shipbuilding Automotive, Chemicals, ICT and Electronics, Metals, Textiles, Clothing and Footwear	Textiles, Food Processing, Automotive, Electronics, Mining, Construction, Tourism, Energy	Petroleum, Petrochemicals, Transport. & Logistics, ICT, Healthcare, Life Sciences, Human Capital
BRAZIL	MEXICO	ARGENTINA	INDONESIA	MALAYSIA	VIETNAM	NIGERIA	SOUTH AFRICA	TURKEY	SAUDI ARABIA
116	53	126	120	6	99	147	41	69	26
▲	■	▲	▲	▲	▲	▲	■	▲	▲
▲	■	■	▲	▼	▲	▲	■	■	■
▲	▲	▲	▲	■	▲	▲	■	■	■
■	■	▲	▲	■	▲	▲	■	■	■
■	▼	▲	▲	▼	■	▲	■	■	■
■	▼	■	■	▲	■	▲	–	■	■
▲	▲	▲	▲	▲	▲	▲	■	▲	▲
■	■	■	■	■	■	▲	■	■	▲
■	▼	▲	▲	▲	■	▲	–	■	■
▲	■	▲	▲	■	▲	▲	■	▲	■
▲	▲	▲	▲	▲	▲	▲	■	▲	■
■	■	■	■	▲	■	▼	▲	■	■
▲	▲	▲	▲	■	▲	▲	■	■	▲
■	▲	■	▼	▼	▼	▼	▲	■	▼
■	■	■	■	■	■	▼	■	▼	▼
■	▼	▲	■	▼	■	▲	■	■	■
■	■	▲	▼	■	■	■	▼	■	■

*See Page 37 for sources

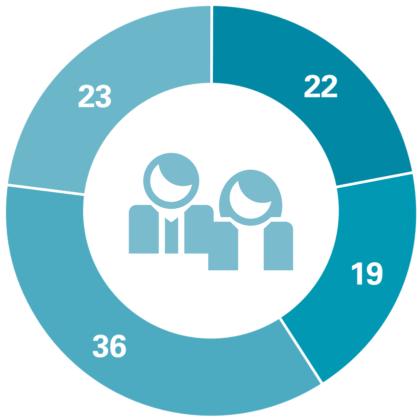
ABOUT THE SURVEY

KPMG 2014 High Growth Markets Outlook reflects the viewpoints of 100 senior executives in the United States. The Web survey was conducted in February–April 2014.



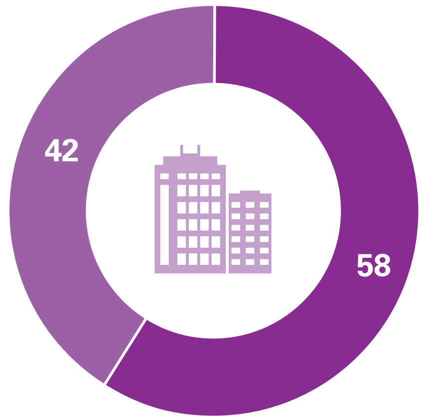
Revenue
2014

- More than $10 billion (9%)
- $5 billion to $10 billion (21%)
- $1 billion to $4.9 billion (27%)
- $500 million to $999.9 million (20%)
- $250 million to $499.9 (11%)
- $100 million to $249.9 million (12%)



Title
2014

- C-Class (22%)
- Executive Vice President/Managing Director (19%)
- Senior Vice President/ Director (36%)
- CEO/President (23%)



Company type
2014

- Privately held
- Publicly held

About KPMG's U.S. High Growth Markets practice

KPMG's High Growth Markets (HGM) practice helps companies navigate the complex challenges and risks of cross-border investments to, and from, high growth emerging markets. HGM provides audit, tax and advisory services to U.S.-based companies in their pursuit of outbound investment opportunities in high growth markets such as China, India, Korea, Brazil, Mexico, Russia, ASEAN, Africa, Middle East and beyond, and to companies based in high growth markets with inbound investment interest in the U.S. With dedicated U.S. practices and robust global corridors, KPMG's HGM practice combines global reach with in-depth country knowledge and deep industry experience across the full range of high growth emerging markets to help companies achieve their growth objectives.

Sources for Country Summary Table:

Opportunities

- ***IMF GDP PPP 2013***: *IMF World Bank World Economic Outlook 2013 Year End GDP, PPP*
- ***IMF GDP Growth 2013***: *IMF World Bank World Economic Outlook 2013 Year End GDP, Constant Prices*
- ***IMF Projected GDP PPP Rank 2050***: *IMF World Bank World Economic Outlook; World in 2050, PwC*
- ***Middle Class Population/Income Range***: *Country by country assessments using KPMG country profile data, Webcast presentation data, secondary research on % of populations, HHs middle class, CIA World Factbook 2014: Population*
- *China: Middle Class, McKinsey report*
- *Korea: Middle Class population ratio based on OECD standard*
- *Mexico: Middle Class – based on information by INEGI (National Economic and Geographic Statistics Institute)*
- *Argentina: Middle Class population and earnings source – The World Bank, accessed June 16, 2014. Estimation based on the publication of Consultora W (private marketing agency). Official exchange rate June 2014: 1USD=8,15ARS.*
- *Russia: Middle Class sources – World Bank; Russian Statistics*
- *Poland: Middle Class Population source – According to Luxembourg Income Study (LIS)*
- *Indonesia Middle Class sources – Jaringan Berita Terluas di Indonesia; antaranews.com*
- *Vietnam: Middle Class sources – McKinsey, August 2010; Boston Consulting Group, December 2013*
- *Nigeria: Middle Class size and share, based on analyst reports and the recent rebasing of Nigeria's GDP*
- *South Africa: Middle Class research by the University of Cape Town's Unilever Institute of Strategic Marketing; Bloomberg, April 29, 2013*
- ***Key Industries***: *Country by country assessments using KPMG country profile data, Webcast presentation data, secondary research*
- *Malaysia: The information provided is based on the Government's Economic Transformation Plan (ETP)*

Challenges

- ***Ease of Doing Business Index***: *World Bank Ease of Doing Business Index*

Market Entry

- ***Culture/Language***: *KPMG HGM practice leads, KPMG country leaders qualitative assessments*
- ***Infrastructure***: *EIU ViewsWire Country Reports 2014*
- ***Role of Government***: *KPMG HGM practice leads, country leader qualitative assessments*
- ***Bribery & Corruption***: *Transparency's Corruption Perception Index*
- ***Political Risk:*** *EIU ViewsWire Country Reports 2014*
- ***Cost Management***: *KPMG HGM practice leads, country leader qualitative assessments*
- ***Regulatory***: *KPMG HGM practice leads, country leader qualitative assessments*
- ***IP Protection***: *KPMG HGM practice leads, country leader qualitative assessments*
- ***Credit Risks***: *KPMG HGM practice leads, country leader qualitative assessments*
- ***Supply Chain***: *KPMG HGM practice leads, country leader qualitative assessments*
- ***Tax Exposure***: *KPMG HGM practice leads, country leader qualitative assessments*

Revenue Growth

- ***Local Competition***: *KPMG HGM practice leads, country leader qualitative assessments*
- ***Lack of Talent***: *KPMG HGM practice leads, country leader qualitative assessments*
- ***Slowing GDP***: *IMF World Bank World Economic Outlook 2013 Year End Growth*
- ***Reverse Innovation***: *KPMG HGM practice leads, country leader qualitative assessments*
- ***Inflation***: *EIU ViewsWire Country Reports 2014*
- ***Rise of Wages***: *KPMG HGM practice leads, country leader qualitative assessments (Secondary research data for Vietnam and Saudi Arabia)*

KPMG High Growth Markets Practice

Mark Barnes
Partner in Charge,
KPMG High Growth Markets
+1 212-872-3199
mbarnes1@kpmg.com

Linda Zhang
Partner in Charge,
KPMG U.S. China Practice
+1 212-954-2423
lindazhang@kpmg.com

Rishi Chugh
Partner in Charge,
KPMG U.S. India Practice
+1 704-335-5397
rchugh@kpmg.com

Joon Kim
Partner in Charge,
KPMG U.S. Korea Practice
+1 213-955-8514
jkkim@kpmg.com

Devon Bodoh
Partner in Charge,
KPMG U.S. Brazil Practice
+1 202-533-5681
dbodoh@kpmg.com

Ismael Berumen
Partner in Charge,
KPMG U.S. Mexico Corridor
+1 504-584-1016
iberumen@kpmg.com

Lawrence Thomas
Partner in Charge,
KPMG U.S. Russia Corridor
+1 404-979-2305
lthomasii@kpmg.com

Emad Bibawi
Partner in Charge,
KPMG U.S. Africa & Middle East Corridor
+1 212-954-2033
ebibawi@kpmg.com

Russ Ackerman
Senior Director,
KPMG High Growth Markets
+1 203-571-8220
rackerman@kpmg.com