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cutting through complexity

Global High Growth Markets Outlook 2015

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Foreword

One would be hard-pressed to deny the growing influence of the High Growth Markets (HGM). Massive consumer growth, increasing prosperity, greater rule of law and young populations all create significant opportunity for those organizations able to execute a successful HGM strategy.

But while investment into the HGMs is clearly on the rise, our experience suggests that many organizations continue to struggle to expand outside of their existing markets. For some, a lack of insight into the local market environment is creating uncertainty. Others are working to identify the right market entry models and the right local partners to reduce their risk while maximizing their reach.

To better understand the key challenges, opportunities and market entry strategies at play in the HGMs, KPMG International conducted an in-depth survey of more than 300 senior executives across North America, Western Europe and the developed markets in Asia.

What we found was a high level of optimism for the HGMs in general but significant barriers and challenges in each individual market. And while investment is set to increase, much of that new money will be funneled into existing HGM operations, such as China, India or Brazil, rather than expanding into new markets.

Looking ahead, however, we see great promise in those markets now emerging across Africa, the Middle East and in the ASEAN region. Recognizing this, this report also includes keen insights and valuable context from our market leaders across a number of current and prospective investment regions.

We hope that this report provides practical and actionable insights to help shape and drive international HGM strategies.

Mark Barnes
Global Lead Partner
KPMG High Growth Markets

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Executive summary

As many of the mature markets in the west continue to struggle with slow market growth and aging consumer populations, companies around the world are looking to High Growth Markets (HGMs) as a way to stimulate and sustain growth over the long term.

Our survey shows there is great optimism for HGMs and, as a result, investment is expected to increase rapidly as companies start to expand their market presence and build share in new and emerging markets. Most will enter into joint ventures or partnerships in an effort to combine global know-how with local experience and insight.

For organizations across industry sectors, this data suggests that competition within the HGMs will quickly increase, both from foreign and local players, adding new urgency to the execution of HGM strategies. For HGM governments and decision-makers, the data suggests that competition for investment dollars will increasingly hinge on government action in areas such as regulation, tax incentives and infrastructure.

The outlook for High Growth Markets is strong.

Ninety-one percent of respondents said the outlook for HGMs is either promising or very promising; 76 percent said they expected increased revenue growth from their HGM investments. Fifty-four percent of respondents said that HGMs already account for more than 30 percent of revenues.

Highlights

Investment into High Growth Market strategies is growing significantly.

Seventy-eight percent of respondents with existing HGM operations said that they had invested more this year into the HGMs compared to last year. Eighty-five percent said that the majority of their global growth dollars will be allocated towards those HGMs where they have previous investments.

Partnerships and joint ventures are easing entry into new High Growth Markets.

Joint ventures, alliances and partnerships were cited as the most common market entry strategy by 38 percent of respondents. Thirty percent said their most common market entry strategy was through mergers or acquisitions.

Consumer market growth is driving investment decisions.

Seventy-one percent of respondents said that consumer market growth influenced investment decisions; 48 said they were influenced by tax incentives. At the same time, 56 percent said that a lack of clarity with regard to regulation and law posed the greatest challenge to doing business in HGMs.

High Growth Markets are the top focus for future investment flows.

China, India and Brazil continue to top the list of planned investment destinations for expanding companies, followed by Mexico, Singapore and South Korea. Increased investment is also expected in Africa, the Middle East and in the newly-forming ASEAN economic community.

Rising value, rising expectations

The outlook for HGMs

Business leaders no longer doubt the potential that High Growth Markets (HGMs) offer. Many already reap a significant portion of their revenues from these markets and the majority expects growth to only increase over the medium-term. Yet, while some industry sectors may seem more confident than others in their HGM strategy, it is clear from this survey that the outlook for the HGMs remains strong overall.

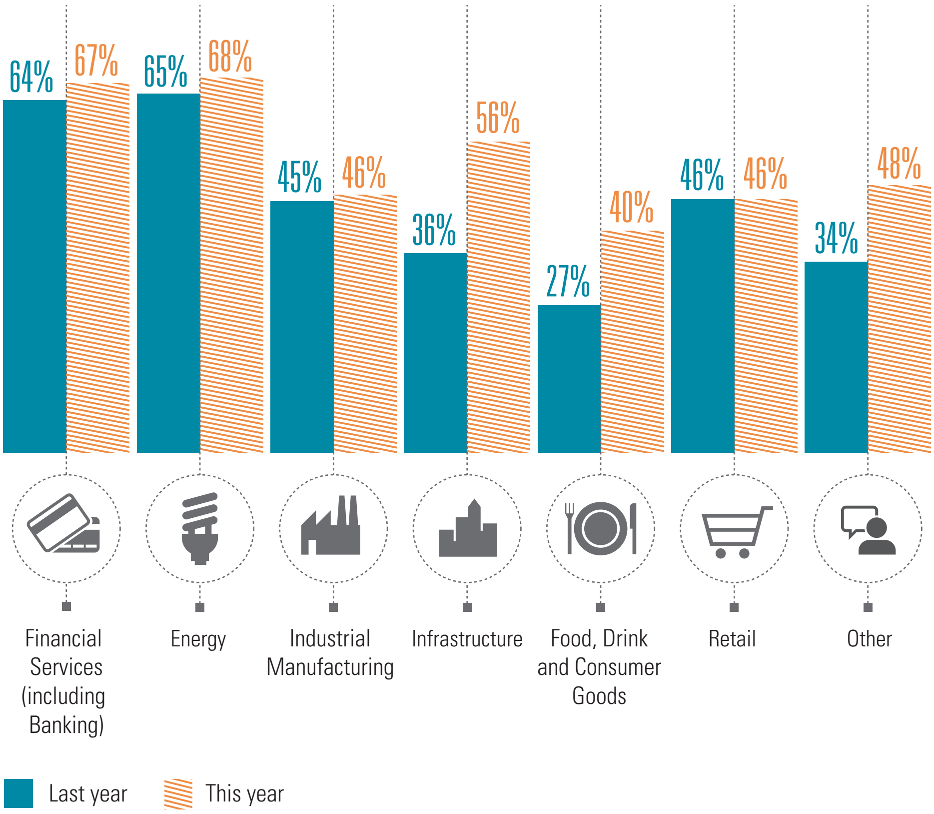
Revenues on the rise

Those organizations active in HGMs know the value that the regions deliver to their bottom lines. As of last year, 49 percent of all respondents suggested that their organizations reaped 30 percent or more of their revenues from HGMs; 18 percent said they had captured more than half of their revenues from these markets.

Interestingly, Financial Services and Energy respondents were most likely to say that HGMs made up more than 30 percent of revenues last year, while Food, Drink and Consumer Goods and Infrastructure firms were among the least likely.

Our survey suggests that most expect to see HGMs become an even greater proportion of their revenue mix in the near future. Fifty-four percent of respondents said they expected HGMs to make up 30 percent or more of their revenues this year, once

Respondents who say HGMs made up 30 percent or more of revenues



Source: Global High Growth Markets outlook survey, 2015

again led by Financial Services and energy respondents.

However, some industry groups seem particularly bullish on revenue growth. Indeed, whereas just 36 percent of Infrastructure respondents said they captured 30 percent or more of their revenues from HGMs last year, a whopping 56 percent say they expect these markets to deliver that, or more, this year.

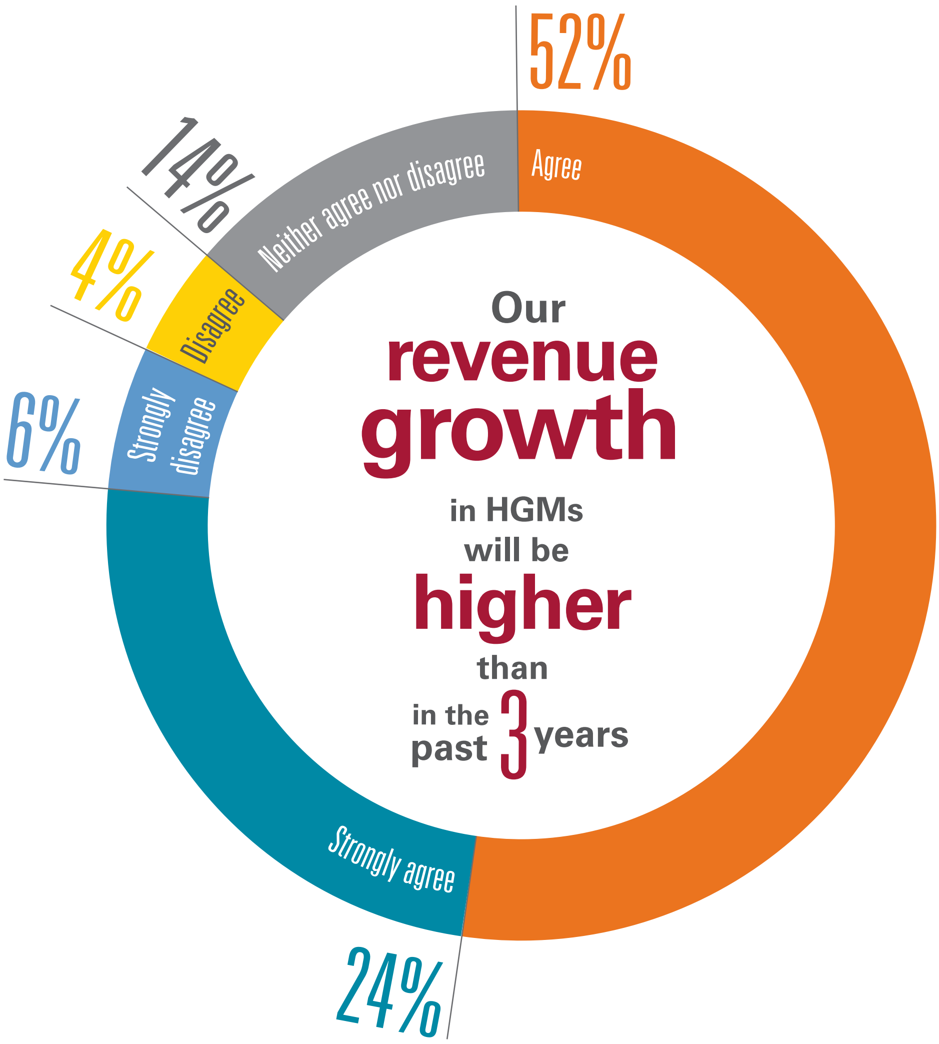
Mid-sized firms (those with revenues of between US$500 million and US$1 billion) also seem to expect their HGM strategies to start paying off soon. Mid-sized firms were the least likely to say they achieved 30 percent or more of their revenues from HGMs last year (just 44 percent said so) but were the most likely to say they expect to achieve as much this year (57 percent).

Bulls on the run

Looking more broadly across the HGMs, our respondents clearly indicate heightened expectations for these markets overall. Seventy-six percent of all respondents said they expected that within the next three to five years, revenue growth in the HGMs will be higher than it was in the past three years.

Interestingly, energy respondents, while still rather bullish on the HGMs, were among the least likely (68 percent) to say they anticipate medium-term revenue growth. Food, Drink and Consumer Goods respondents also reported below-average expectations for medium-term revenue growth from the HGMs, while Infrastructure and Financial Services both suggested above average expectations.

Our survey also shows that larger companies (those with more than US$1 billion in revenues) were most likely (at 80 percent) to expect medium-term revenue growth from the HGMs, while smaller firms reported lower expectations (at 73 percent). Our experience suggests that this likely reflects the disparity in investment capability between small and large firms, which often allows larger firms to gain a wider footprint in new markets faster than their smaller competitors.



Source: Global High Growth Markets outlook survey, 2015

An overall positive outlook

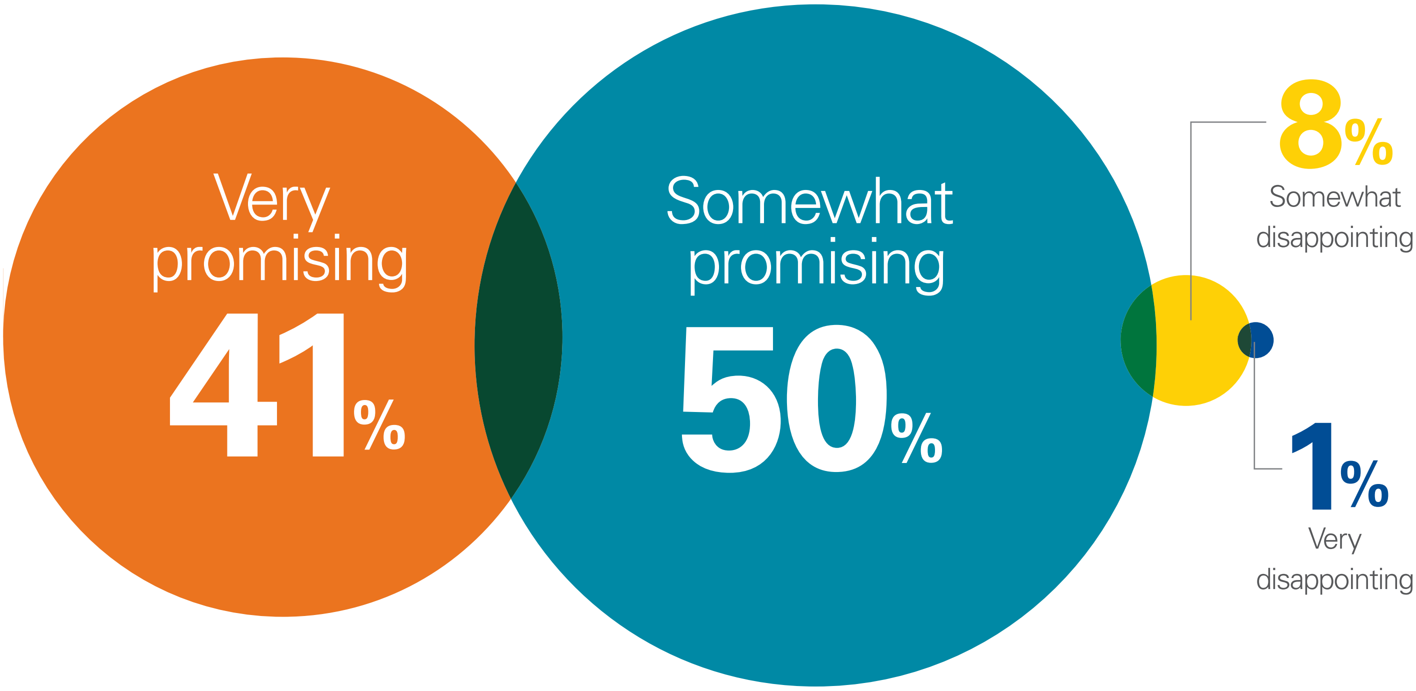
Not surprisingly, the vast majority of respondents (91 percent) also said that they considered the outlook for HGMs to be either promising or very promising. Less than 1 percent (consisting largely of small energy firms) said they expected the outlook to be very disappointing.

Once again, Infrastructure respondents returned the most positive outlook for the HGMs, with just 4 percent saying they expect disappointing growth. Financial Services organizations reported being the most bullish, with half of all sector respondents saying they expected the outlook to be 'very' positive (versus just 36 percent of Infrastructure respondents, who were willing to say 'very' positive).

30%

Mid-sized firms were the least likely to say they achieved 30 percent or more of their revenues from HGMs last year (just 44 percent said so) but are the most likely to say they expect to achieve as much this year (57 percent).

Respondents consider the outlook for HGMs to be:



Source: Global High Growth Markets outlook survey, 2015

The infrastructure imperative

The linkage between infrastructure and economic growth is undeniable. And, as this report clearly illustrates, quality of infrastructure is a key consideration for those investing into the HGMs. Almost across the board, infrastructure was cited as a top-two challenge to investment by respondents.

The good news is that most HGM governments have now recognized the critical need for infrastructure investment and are starting to take great strides to remove barriers to foreign participation. Recent actions and foreign 'junkets' by respected HGM political leaders, such as India's Prime Minister Modi and Mexico's President Peña Nieto have done much to improve investor confidence. The important role that infrastructure will play in the realization of the ASEAN Economic Community Blueprint further underpins the fact that governments across the HGMs are becoming more serious about infrastructure delivery.

It is not surprising, therefore, that infrastructure respondents to this survey reported the highest growth expectations and outlook for the HGMs. Growing confidence, expanding pipelines, new funding sources and the growth of cities in these markets all hold great promise for infrastructure developers, operators and investors alike, particularly when compared to the slow, often stagnant growth prospects of the developed markets.

Ultimately, this report reflects a long-awaited alignment in the HGMs between the infrastructure needs of citizens, governments and investors. Now, it's up to governments and the infrastructure sector to deliver on the promise of economic growth.

Will Modi's reforms be enough to encourage inbound investment?

When India's Prime Minister Narendra Modi set out his reform agenda in mid-2014, most pundits and observers were very positive about the impact that these new policies might have on inward investment. Our survey suggests that businesses are equally optimistic about India's reform program. What remains to be seen is whether enough of the program will be implemented to meet foreign investors' demands.

Top reasons for investing in India

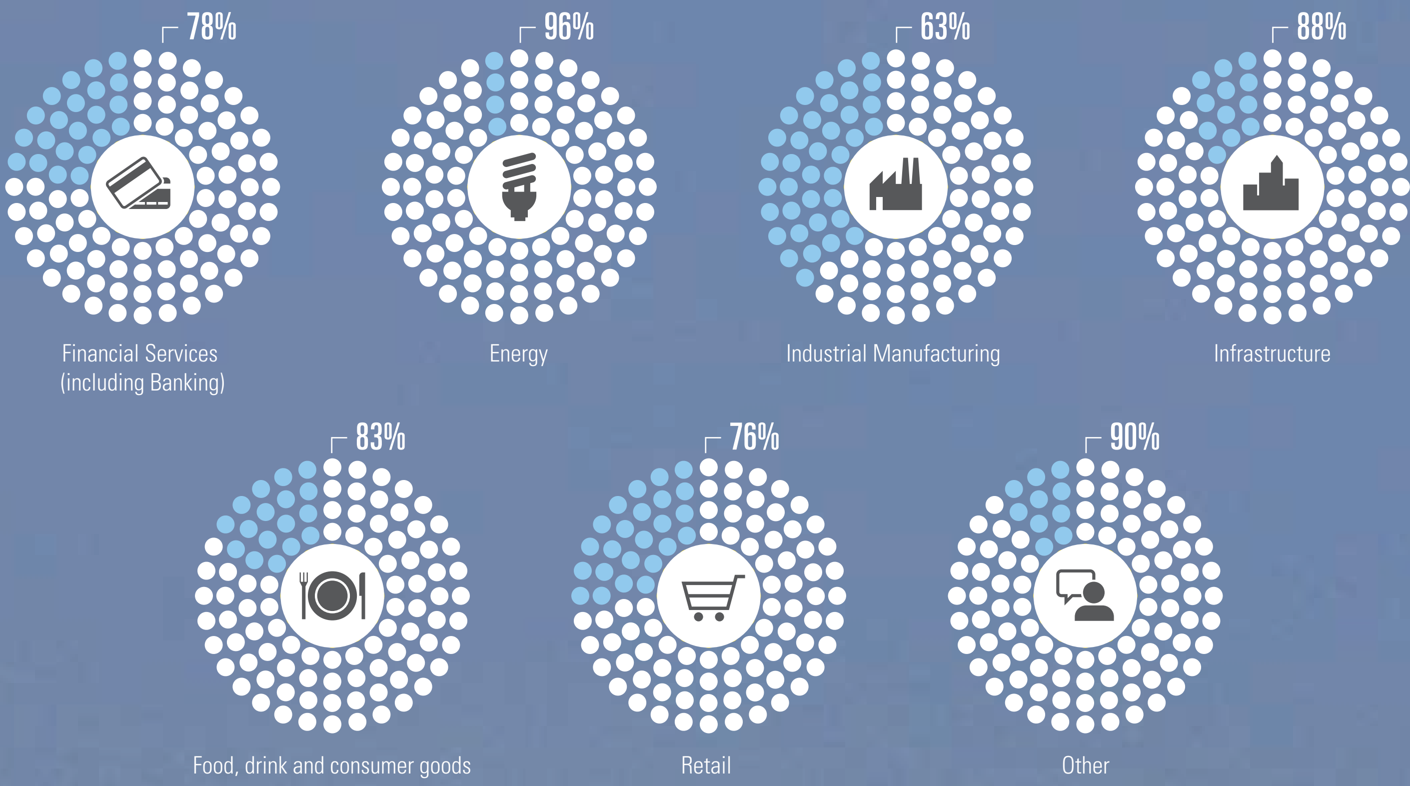
Consumer market growth	55%
Access to technology	47%
R&D/innovation	45%
Government initiatives	43%
Tax incentives	39%

Top challenges when investing in India

Interpretation of regulation	59%
Infrastructure	57%
Bribery and corruption	41%
Intellectual property protection	39%
Language and culture	28%

Source: Global High Growth Markets outlook survey, 2015

Those that are either optimistic or very optimistic about India's reforms



Source: Global High Growth Markets outlook survey, 2015

While India's growth has failed to meet expectations over the past few years, all signs indicate that many of the challenges holding back the country's economy are now starting to be resolved.

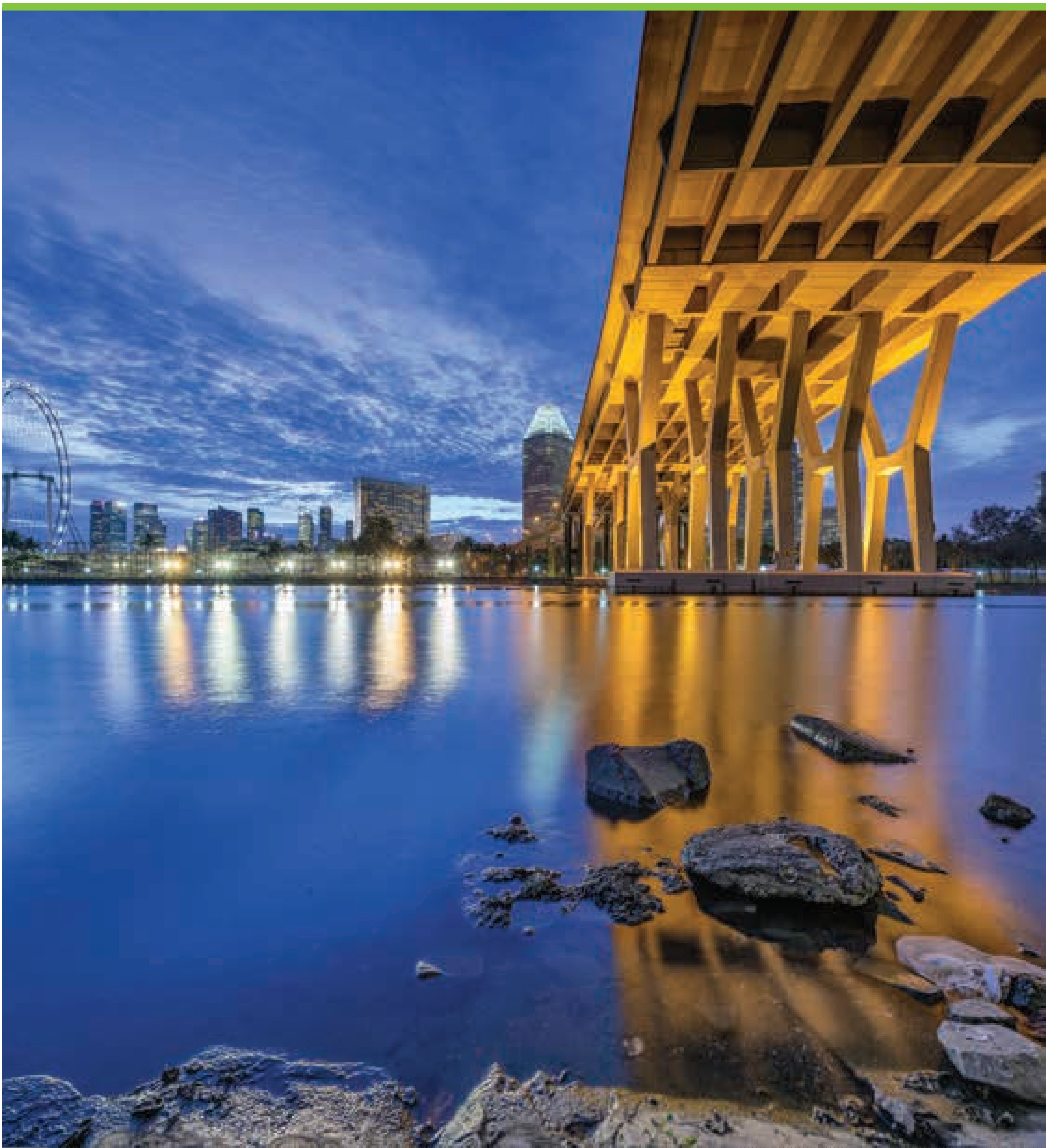
Indeed, with the launch of Prime Minister Modi's ambitious reform agenda, India's government has pledged significant change across the economy, including higher foreign direct investment (FDI) allowances for the Insurance and pension sector, new land purchase rules (largely aimed at unblocking infrastructure development), important labor reforms, a reduction in government subsidies and a long pipeline of asset sales.

According to our survey, organizations with existing investments in the HGMs are overwhelmingly positive about the potential impact these reforms may have on India's economy. Seventy-seven percent of all respondents said that they were either optimistic or very optimistic about India's recent reforms. Just 5 percent of respondents noted any pessimism at all.

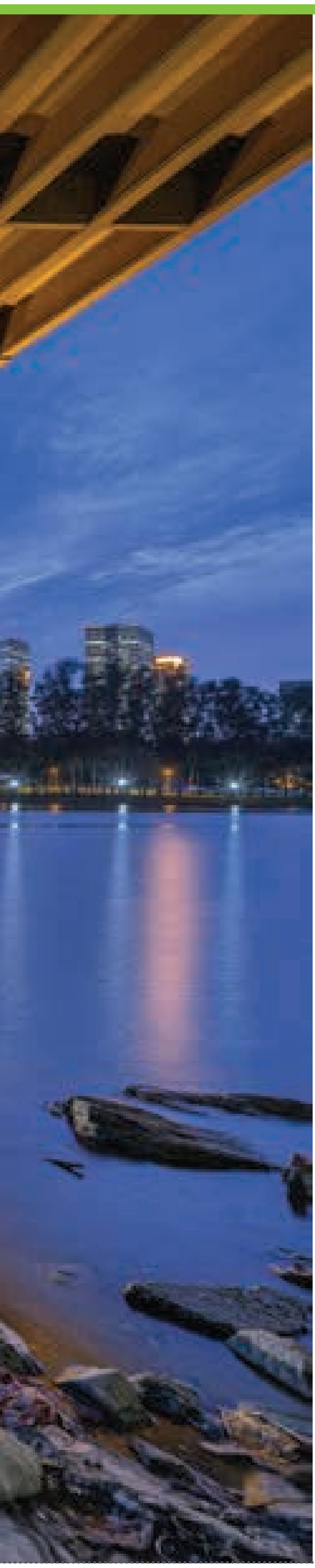
Modi has some reason to be pleased about our results but also some reasons to worry. On the positive side, Energy and Infrastructure providers seemed to demonstrate the most optimism which, given some of the reforms on the table, suggests that these industry sectors see strong opportunity emerging from the reforms. However, industrial manufacturers and retailers, two sectors that India would dearly like to court, reported the lowest levels of optimism.

Rising tide

Investment starts to flow



With expectations for HGMs running high, most organizations say they have increased their investments into target countries. Many have invested more than US$100 million in the past year alone. But our research suggests that the vast majority of this money is being placed into improving or expanding existing operations, rather than breaking into new markets.



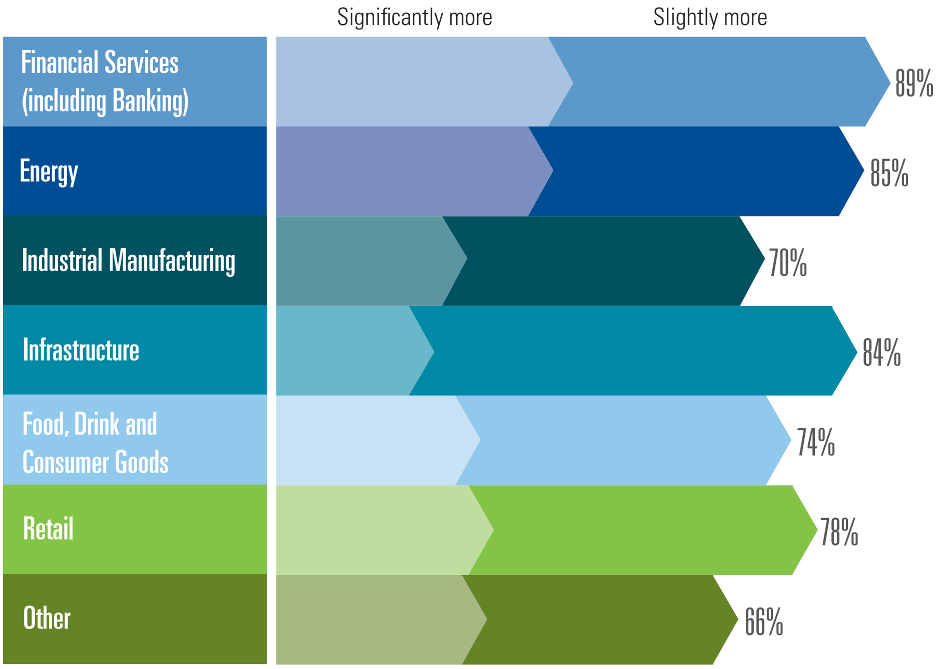
HGM investments are up

Investment into the HGMs has risen dramatically over the past year, according to our respondents. Seventy-eight percent said that they had invested more this year into the HGMs compared to last year. Of those, 30 percent said they had invested 'significantly more'.

Financial Services organizations led the way with 89 percent of that sector's respondents saying they invested more overall, which is not surprising based on the high percentage of revenues that the Financial Services sector collects from the HGMs.

Interestingly, while Infrastructure respondents overwhelming suggested that they had invested more overall (84 percent agreed), they were the least likely to say they had invested 'significantly more'. Given the sector's rather high expectations for revenue growth, this indicates that Infrastructure investors may be expecting a high return on their investments.

The level of investment companies made within the last 12 months in high growth markets, compared to the previous year



Source: Global High Growth Markets outlook survey, 2015

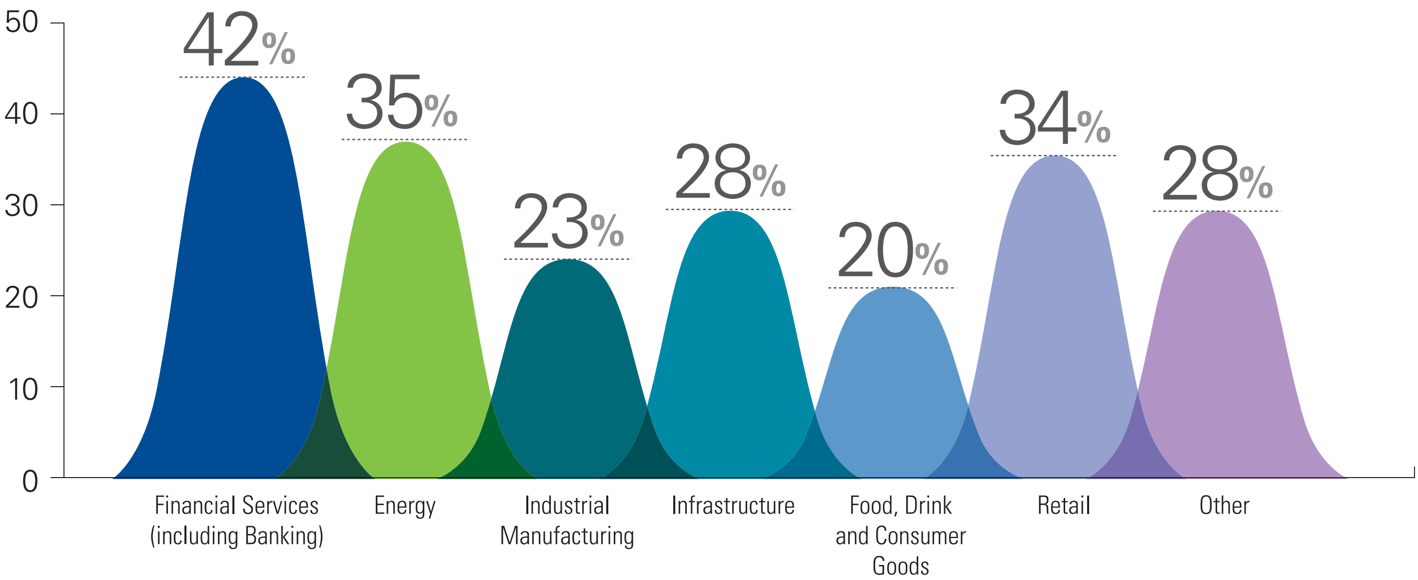
The US$100 million club

Almost a third (31 percent) of respondents said that they had invested more than US$100 million into HGMs over the past year. In part, these numbers may be somewhat skewed by the Financial Services and Energy sectors, both of which often require significant investments in order to establish a presence (consider, for example, the cost a building a new nuclear plant versus the cost of developing a retail distribution network).

One might also expect the result to be biased by the relative investment power of larger companies (those with revenues of more than US$1 billion) versus smaller companies (those with less than US$500 million). And while that is evident in the data (large companies are 50 percent more likely than their smaller competitors to have invested more than US$100 million in HGMs last year), smaller companies seem more willing to invest more of their revenues overall.

Indeed, almost a quarter (24 percent) of all 'smaller' company respondents in our survey said they spent more than US$100 million (at least a fifth of their revenues) in the HGMs last year. A surprising 10 percent said they spent more than US$150 million (almost a third of their annual revenues).

Those that invested more than US$100 million into HGM this year



Source: Global High Growth Markets outlook survey, 2015

Expanding the footprint

While these investment trends seem to be a positive sign for HGMs overall, the reality is that much of this investment is being placed into those markets where investments had already been made in the past 3 years. Eighty-five percent of all respondents said that the majority of their global growth dollars will be allocated toward those HGMs where they have previous investments.

Energy and Food, Drink and Consumer Goods companies, in particular, seem keen to focus their investments into existing markets versus expanding into new ones. Almost all of our Energy respondents (96 percent) and more than nine out of 10 Food, Drink and Consumer Goods respondents (91 percent) pointed toward existing market investments versus Infrastructure, where just 70 percent of respondents said they would focus their growth dollars on existing markets. Smaller companies were also more likely to say they would focus their investment dollars into existing markets.

US$100 million

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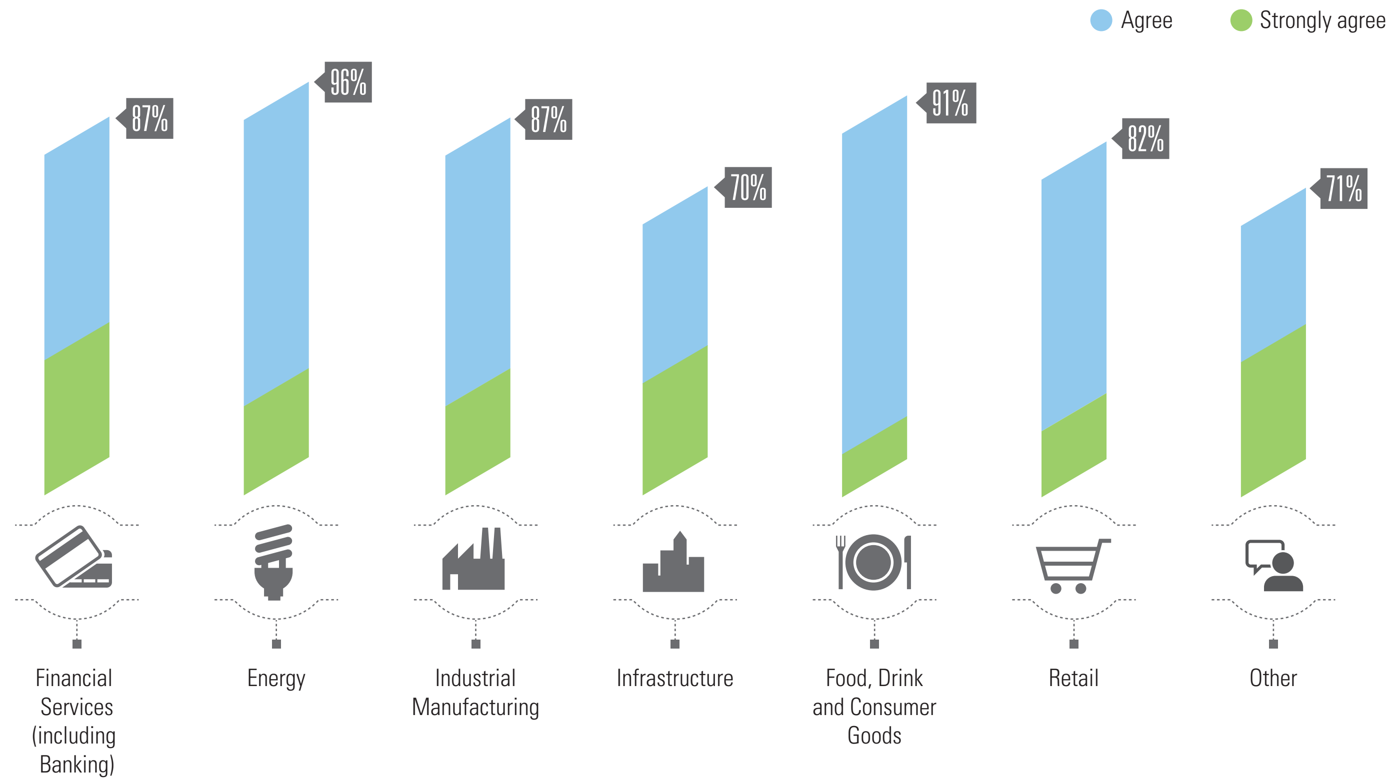
The majority of global growth US$$s that will be allocated towards those high growth markets companies previously invested in the last 3 years



Source: Global High Growth Markets outlook survey, 2015

Private enterprise in the HGMs

It is not just large companies and multinationals that are focused on HGMs. So, too, are many smaller private companies. In fact, as this report suggests, almost a quarter of smaller companies with active operations in the HGMs report spending upwards of US$100 million on their expansion strategies.

Not surprisingly, private companies and small-to-medium enterprises (SMEs) face many of the same challenges as their larger peers. Concerns related to interpretation of local regulation, lack of infrastructure, rule of law and bribery and corruption are shared by all companies, large or small.

Our experience and the data in this survey suggests that private enterprises and SMEs are taking a more strategic and targeted approach to new HGM entry, preferring to focus on establishing and stabilizing their businesses in one market rather than executing on multiple market entry strategies simultaneously.

Most recognize that entering into new markets is complicated and requires deep local capabilities, experience and know-how. However, few organizations of this size tend to boast the type of capacity or capability required to properly assess new opportunities or create sustainable business structures. As a result, most SMEs and private companies are looking to enter into partnerships (possibly joint ventures or acquisitions) in order to leverage local experience and expertise.

Regardless of the market entry strategy, however, the key to success in any HGM comes down to due diligence. Those that do their homework and fully assess the risks (both known and unknown) should suffer fewer setbacks, enjoy greater benefits and be better-positioned to meet their growth expectations. Those that jump into new markets without looking first are more than likely to find only disappointment.

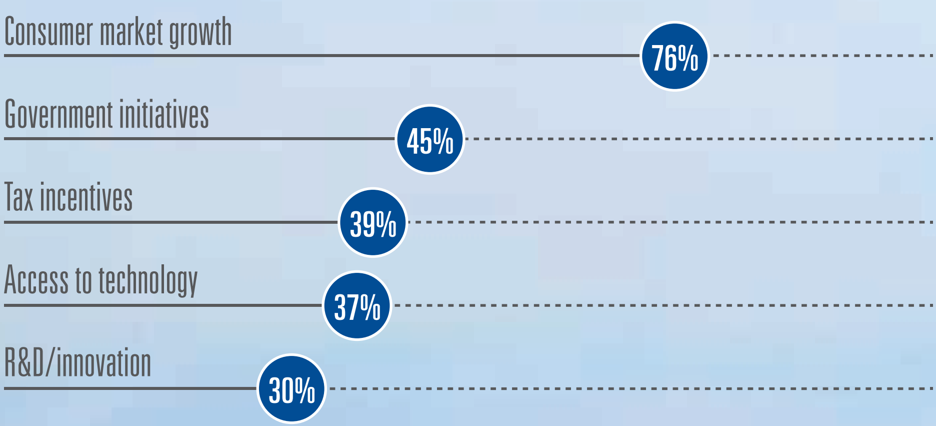
Creating a positive investment environment in China

Don't be fooled by what you read in the media: China's economy is booming. As this report clearly illustrates, foreign investors continue to flock to China seeking new opportunities for growth. However, this is not the China of low-cost manufacturing and exports. Today's China is being driven by consumerism, services and investments into greater economic growth.

There is no doubt that China's government is focused on encouraging increased foreign investment across a wide swath of the economy. Free trade zones have been created and expanded, the judiciary and legal systems are being reformed, new foreign investment laws are being drafted and a larger number of sectors are being opened to foreign investment.

At the same time, China's government is investing heavily into improving regional and bilateral trade. In November, US$40 billion was earmarked to develop the One Belt, One Road initiative to improve logistics and trade links across Asia. One month earlier, the government announced that it would invest US$50 billion to fund the

Top reasons for investing in China



Source: Global High Growth Markets outlook survey, 2015

newly-announced Asia Infrastructure Investment Bank with the intention of improving infrastructure links between Asia's markets.

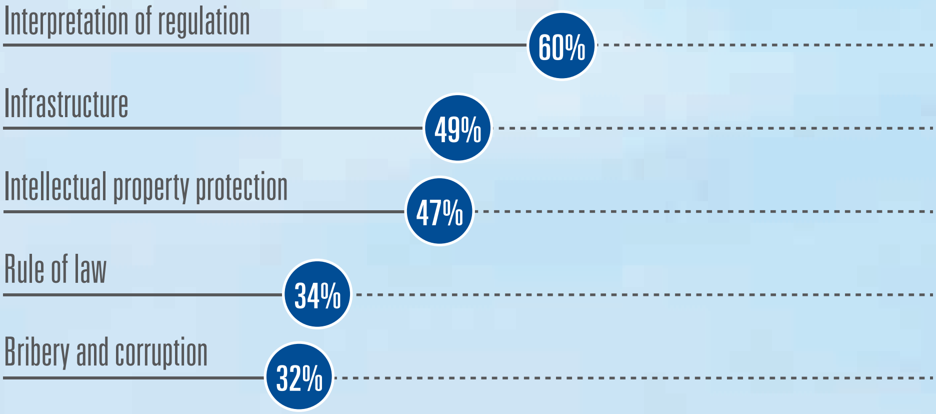
Foreign investors are also increasingly encouraged by China's internal reforms focused on improving transparency and the rule of law. Intellectual property protection, while still a challenge within certain sectors, has become a high priority for China's lawmakers (not least because, as China's companies start to invest more into R&D, they are increasingly worried about their own intellectual property protection as they expand into other HGMs). In addition, the ongoing drive to stamp out bribery and corruption seems to have long-term support from party leadership.

The fact that most respondents to this survey cite interpretation of regulation as their greatest barrier to entry into China is not entirely surprising. The economy is transforming at an unprecedented pace and rules and regulations are continuously being introduced in response. Local advisors with the right insight and experience to help manage regulatory requirements will certainly be key.

However, to truly be successful in China's market, our experience suggests that foreign investors will need to start by focusing on understanding the intention and purpose of China's policies and then working to align their corporate and market strategy in order to reflect or, better, support those intentions. Energy companies, for example, will likely enjoy greater success by tying their strategies to the energy requirements of the One Belt, One Road initiative, rather than by pitching (yet another) coal generation facility near Beijing.

At the end of the day, foreign investors will need to stop thinking of China as a low-cost supplier and start thinking of the country as both a growing consumer market and a potential business partner for projects and joint ventures in Asia and around the world.

Top challenges when investing in China



Source: Global High Growth Markets outlook survey, 2015

Partnering for growth

A world of market entry strategies

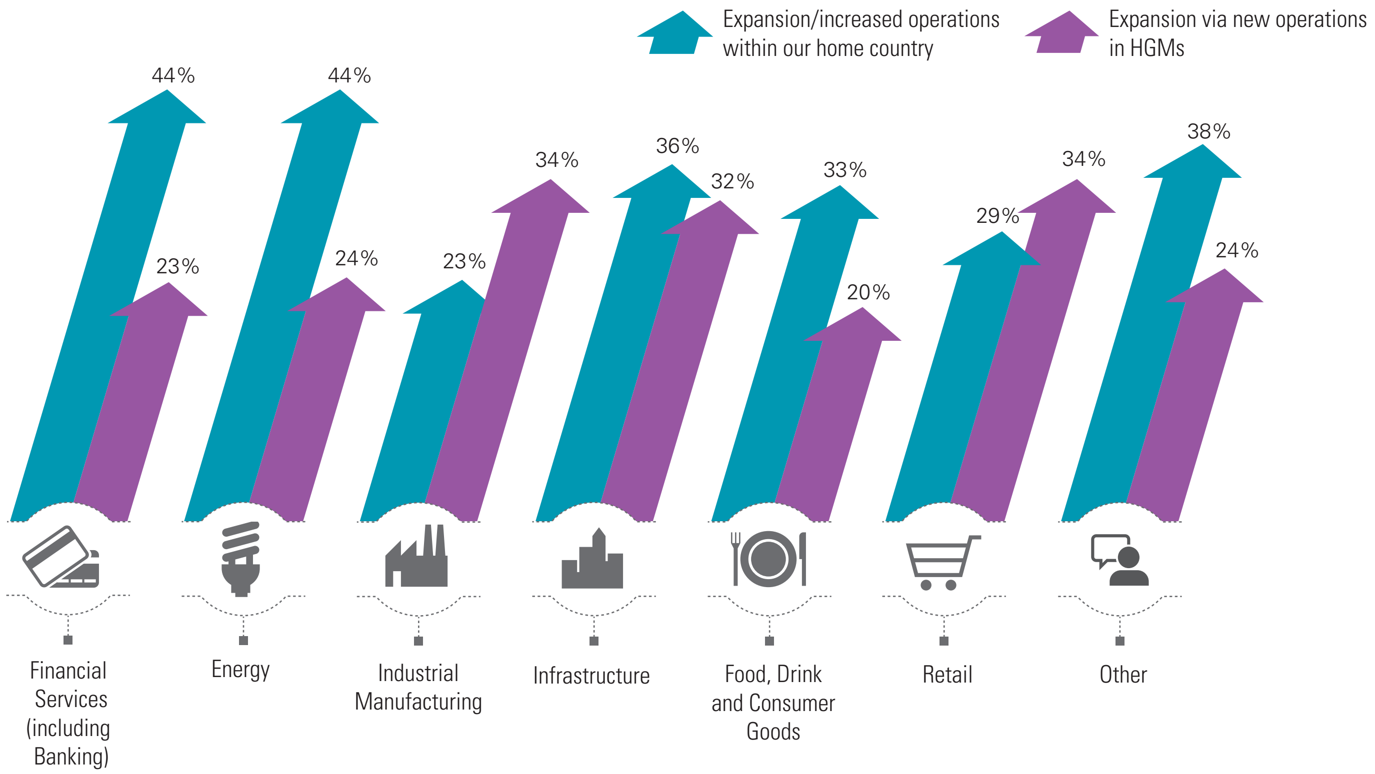
Preparing for future opportunity

Organizations of all types seem keen to test out new growth markets. Many believe that expanding into new markets today could lead them to their top revenue opportunities of tomorrow.

In fact, 29 percent of all respondents said they believed that their greatest revenue potential within the next 3 to 5 years would come from new operations in the HGMs. When compared to the 34 percent of respondents who pointed to expansion within their home country, it is clear that many are starting to recognize the importance of executing on an HGM strategy.

Interestingly, industrial manufacturers emerged as the sector most likely to expect revenue growth from new operations, versus expansion at home. Thirty-four percent of Industrial Manufacturing respondents said they expected their greatest growth potential to come from HGMs, versus just 23 percent who said it would come from home markets. However, it must be noted that much of this expansion may be related to supply chain capacity investments rather than new manufacturing plants and lines.

Our greatest revenue potential within the next 3 to 5 years will come from



Source: Global High Growth Markets outlook survey, 2015

While investment dollars may be funneling toward existing operations, most respondents believe that their best path to revenue growth is through some level of expansion into new HGMs. Recognizing the need for local experience and capabilities, our survey finds that partnerships and joint ventures have emerged as the preferred path to new market entry.

Purchase or partner?

Our survey illustrates that organizations are using a variety of market entry strategies when expanding into new HGMs. Some (30 percent) have taken a more direct approach by merging or acquiring an existing brand or company within their target markets. Perhaps not surprisingly given the highly regulated nature of their businesses, Financial Services and Energy respondents were the most likely to identify M&A activity as their most common market entry strategy.

More frequently, however, organizations are entering into new joint ventures or partnerships in order to expand into new markets. This is understandable; joint ventures and partnerships tend to offer organizations a lower-risk, lower-cost option for testing out new markets, while simultaneously providing access to local experience and capabilities. Given the extensive distribution and logistics networks needed to launch a new retail or Food, Drink and Consumer Goods venture in a new market, it is hardly surprising that these sectors emerged as the most likely to enter into joint ventures or partnerships to achieve their market entry goals.

However, our data also demonstrates that those entering into M&As expect to see higher revenue growth than those entering into joint ventures. Of those that selected M&A as their most common path of entry, 79 percent also said they expected HGMs to make up 30 percent or more of revenues this year. In comparison, just 40 percent of those that had entered into joint ventures said HGMs would make up 30 percent or more of their revenues this year, suggesting that while joint ventures and partnerships may carry lower risk, they can also offer smaller rewards.

Sector	Most common	Second most common
Financial Services	42% M&A	39% JV
Energy	35% M&A	35% JV
Industrial Manufacturing	37% JV	28% M&A
Infrastructure	36% JV	24% New operations
Food, Drink and Consumer Goods	40% JV	40% Local distributors
Retail	46% JV	23% M&A, Local distributors

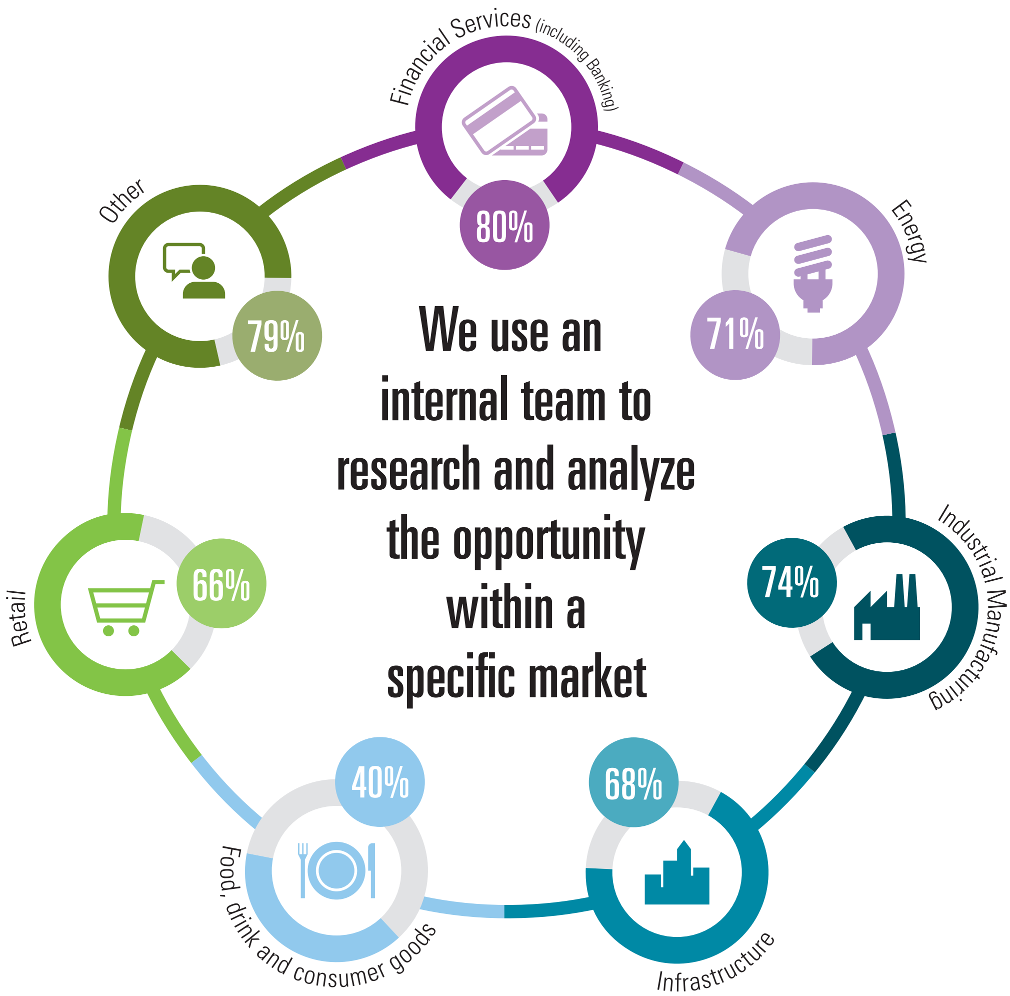
Source: Global High Growth Markets outlook survey, 2015

Seeing the opportunity from all angles

When planning their market entry strategies, most organizations tend to use an internal team, often in partnership with an outside advisor, to research and analyze the opportunity within a certain market. Our experience suggests that this is a prudent approach. An internal team with the right capabilities to analyze various scenarios and opportunities is key to creating a successful HGM strategy. So, too, is having trusted local advisors with the right experience, regulatory insight and national/regional networks to deliver sound 'on the ground' advice.

Not surprisingly, therefore, our survey found that 72 percent of organizations with an existing presence in an HGM said that they used an internal team when exploring new opportunities for expansion. Almost half (44 percent) said they had used a third-party analyst group and 29 percent said they had used a Big Four advisory firm. Some suggest that they may have used all three options to create their optimal strategies.

72% Our survey found that 72 percent of organizations with existing presence in an HGM said that they used an internal team when exploring new opportunities for expansion.



Source: Global High Growth Markets outlook survey, 2015

Making an entrance in the HGMs

Many organizations struggle with market expansion into HGMs; few seem to achieve the growth that they had initially expected. Our experience suggests that it is those that exhibit a willingness to 'stay the course' that realize results; those with the persistence and consistency in not only their actions but also in their market position.

When selecting a new market for investment or assessment, organizations should put particular focus on market education and development initiatives. Those looking to expand in existing HGMs, on the other hand, may want to focus on understanding the positioning and practices of their local and regional competitors while simultaneously expanding existing partnerships to maintain quality and consistency of operations as they scale up.

Clearly, the risks of market entry are many and varied. Some will struggle to find the right talent or to adapt existing campaigns and products to local culture. Others will falter as a result of insufficient attention from HQ during the early strategic decision-making process.

And in many cases, organizations fail in HGMs because they were unable to properly recognize the full diversity of the different geographic markets they were targeting, where consumer tastes, buying behaviors and even regulation can vary on a regional basis.

Yet our experience suggests that success in the HGMs does not need to be fraught with risk. Those who took a path of persistence, awareness and patience are already fighting – and winning – fierce competitive battles in the HGMs, taking advantage of the scale and dynamic environments these markets offer.

Exploring ASEAN's Economic Community Blueprint

As the ASEAN Economic Community moves toward establishing more formal economic integration, our survey suggests that organizations are waiting to see what the change will mean when practically applied. For many of the HGMs involved, the shift toward economic integration should help drive increased foreign investment in the long term.

With the deadline for the establishment of the ASEAN Economic Community currently set for the end of the year, many observers and investors are watching carefully to see whether or not the 10 member countries will be able to meet the requirements set out in the ASEAN Economic Community Blueprint.

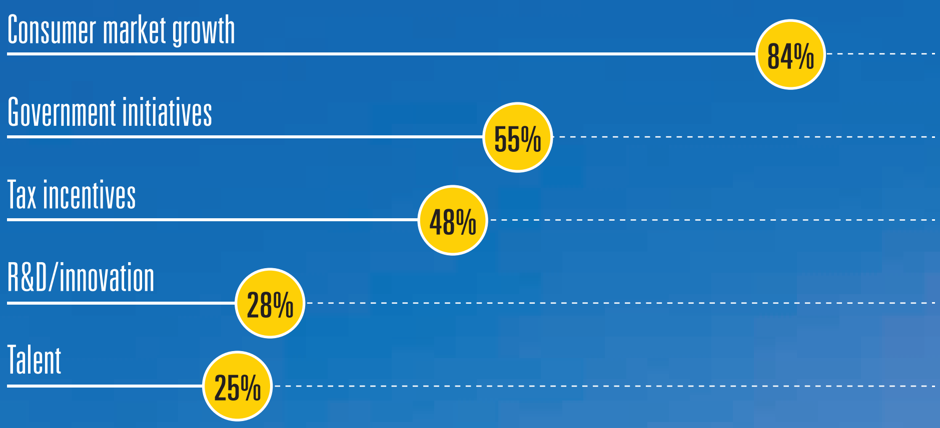
The ASEAN Economic Blueprint focuses on the development of a joint competition policy, as well as the protection of intellectual property, the facilitation of e-commerce and the introduction of a more comprehensive investment protection and dispute resolution system.

It is not, as some westerners would believe, a mirror image of the EU in Asia but rather a vision for an economic community based on more streamlined trade policies, regulations and infrastructure. And, as such, many expect the formalization of the bloc to deliver significant benefits to both the markets involved and those investing in them.

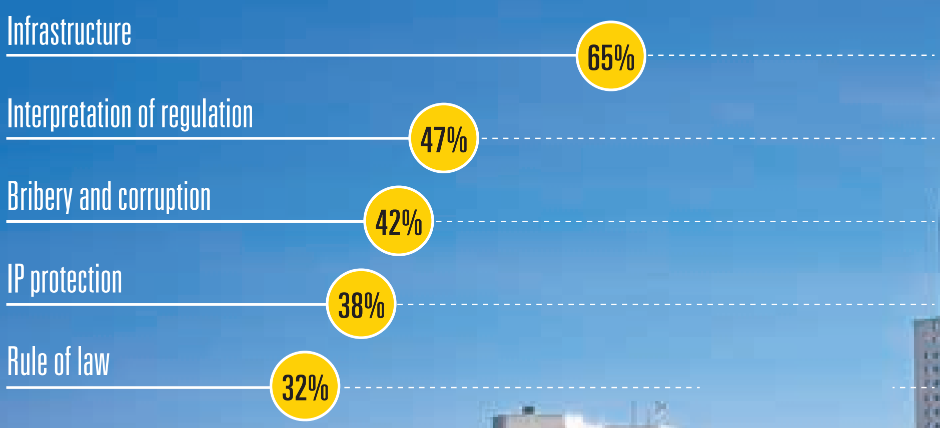
Yet, our survey suggests that the majority of organizations are taking a slightly more cautious stand on the impact the initiative will have on their investment decisions. So while 43 percent said that they expected the Blueprint to 'improve their confidence' by providing better protections and improved competition, 52 percent simply called it a 'worthwhile development' and said it could be a key factor in their future investment decisions.

At KPMG, we believe that the ASEAN region represents a tremendous opportunity for organizations to grow as

Top reasons for investing in ASEAN

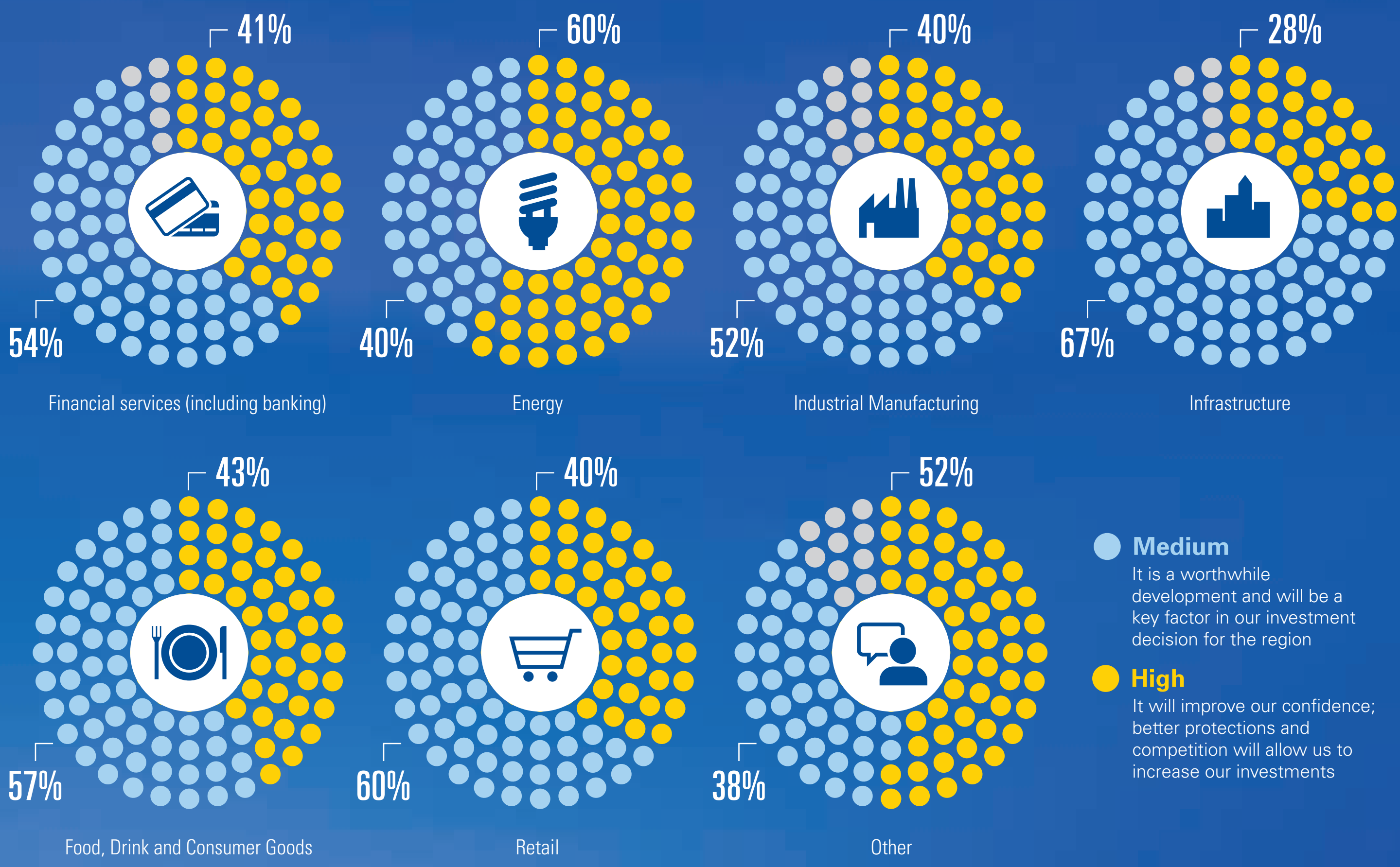


Top challenges when investing in ASEAN



Source: Global High Growth Markets outlook survey, 2015

What impact will the establishment of the ASEAN Economic Community have?



Source: Global High Growth Markets outlook survey, 2015

barriers are reduced and regulations are increasingly harmonized. However, we also recognize that there are risks that need to be considered, such as geo-political tensions, local political tensions, financial and policy issues and varying levels of trust among the key players.

Recent activity demonstrates that positive and sustainable progress is being made. Already, the region has seen import duties virtually eliminated across six of the 10 ASEAN markets and much work continues on integrating tariff and trade policies across all of the participating markets. Some estimates now indicate that the ASEAN community already attracted more inbound capital than China did in 2014.

With a growing middle class and the world's third largest labor force, it seems clear that the ASEAN Economic Community will form one of the largest markets in the world. Many companies around the world are keenly watching policy developments in the region and trying to decide when and where they should invest or expand.

However, we believe that ASEAN is a difficult region to assess from afar. Our experience suggests that organizations with interest in the ASEAN region may be better served by making small investment bets today and then working up to bigger investments. This approach should allow foreign organizations to more carefully watch and participate in the Economic Community's forming while, at the same time, building experience in the market to support future growth strategies.

Making the decision

Challenges and opportunities

What makes one HGM destination more favorable than another? What issues are foreign investors facing in the HGMs? What can HGM governments do to improve the investment climate? According to our survey, there are a variety of factors that influence the investment decision for organizations when considering HGMs.

Growing markets see growing interest

As economies grow and a new middle class emerges in the HGMs, organizations of all types are increasingly recognizing that these markets will soon account for much of the world's consumer purchasing power.

It should come as no surprise, therefore, that those investing in the HGMs are on the hunt for opportunities that can offer strong consumer market growth. Almost three quarters (71 percent) said that consumer market growth was one of the top three factors they look for when making investment decisions. Sixty percent of Consumer Packaged Goods respondents ranked consumer market growth as their number one consideration.

Interestingly, consumer market growth seems to be of greater importance to those investing in Asia than those investing in Africa or the Middle East. Eighty-three percent of those investing in ASEAN countries cited consumer market growth as a top three factor, versus just 65 percent and 64 percent for Africa and the Middle East respectively.

Opportunities for governments?

Two other key factors rose up the list as motivators for investing into certain HGMs, both of which fall within government control. Around half of all respondents (48 percent) said that tax incentives in their target markets were an influencing factor, while 47 percent of respondents cited government incentives.

This should be positive news for HGM leaders seeking to improve the inflow of foreign capital. Ultimately, these findings suggest that with the right mix of incentives and tax benefits, governments could influence investment decision-making by adjusting their tax regimes and updating their regulatory frameworks to create a welcoming environment for foreign capital.

Consumer goods and consumer markets

With growing populations, rising purchasing power and prospering consumer markets, it is not surprising that consumer goods organizations are particularly focused on the HGMs. Indeed, as this survey illustrates, many have already established a presence in the fastest-growing markets, such as India and China.

However, with some notable exceptions, many of those with existing HGM operations have found performance to be lacking. In some cases, such as Brazil and Russia, larger economic forces have softened market prospects. In others, a lack of understanding of local market realities has tempered expectations and highlighted some of the challenges inherent in many HGMs. And across the board, competition (both from local and foreign entrants) has exploded as consumerism rises.

As a result, those consumer goods organizations already active in the HGMs are now largely focused on expanding, strengthening or improving their existing operations rather than entering into new markets.

Our experience suggests that there are three critical factors to success for consumer goods organizations entering into HGMs. The first is local market insight; understanding the local culture, language, regulations and relationships is key, particularly in diverse markets such as India and China. The second factor is timing; first-to-market is certainly an advantage but must be balanced against having the right entry strategy at the right time.

Likely the most important factor when investing in the HGMs, however, is stamina. Building a market presence in a new foreign market takes time, patience and much hard work. Those who come looking for instant gratification will always be disappointed. However, with the right local insight, the right strategy and the right long-term outlook, it seems clear that the HGMs offer massive opportunity for consumer goods organizations.

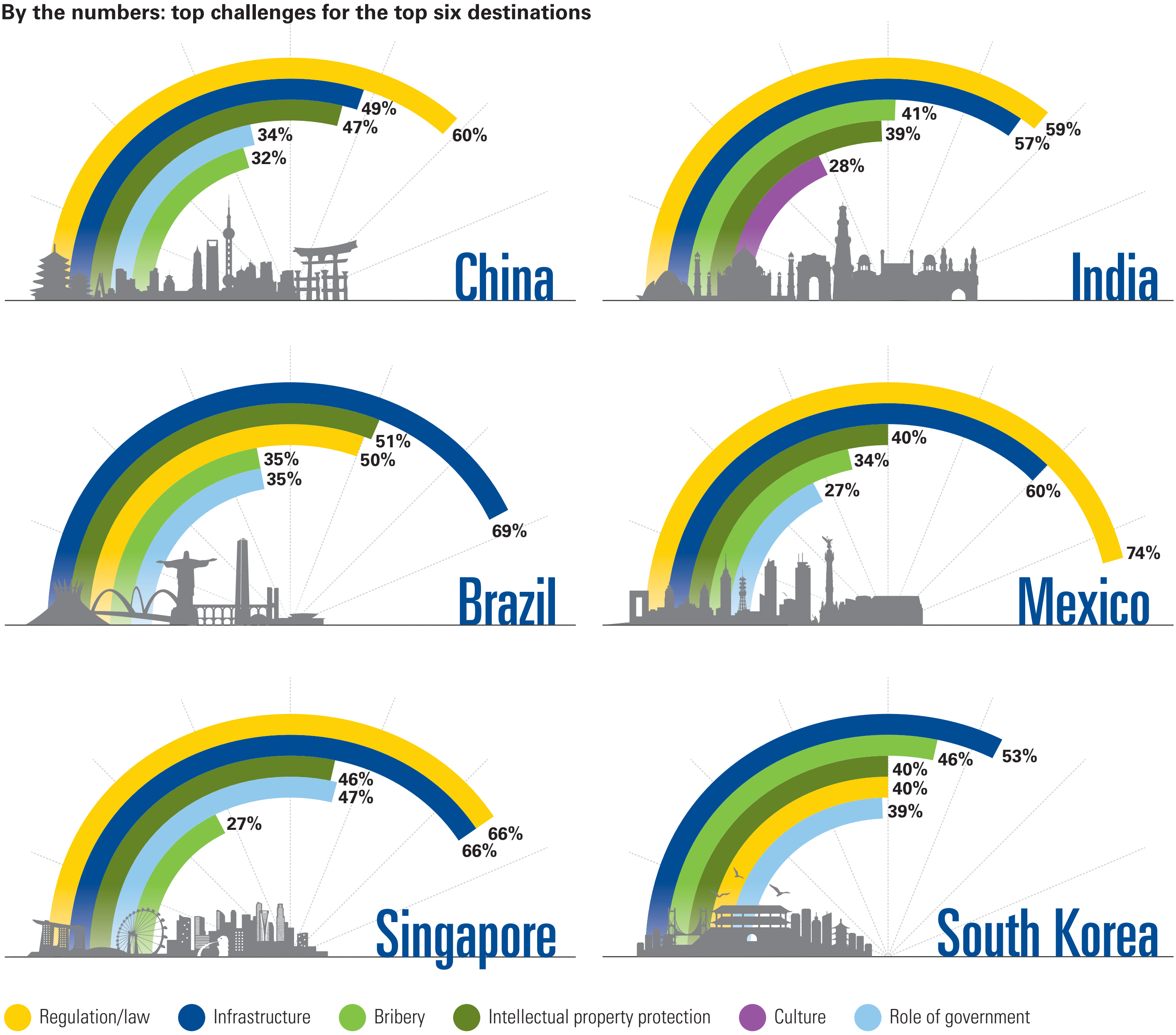
Big challenges remain

Our survey also finds that HGM governments could be doing more to remove some of the challenges cited by investors. More than half of all respondents (56 percent) said that a lack of clarity with regard to regulation and law posed the greatest challenge to doing business in HGMs. As India's recent market reforms have demonstrated, investor confidence can be greatly enhanced by clarifying and rationalizing regulatory requirements.

Infrastructure also created challenges for more than half (52 percent) of those investing into HGMs. Energy and Industrial Manufacturers reported facing the greatest challenges due to either insufficient or inadequate infrastructure, suggesting that investments into energy distribution grids and transportation infrastructure may go far to attract additional FDI.

Respondents also cited a host of other challenges that have continuously plagued the reputation of the HGMs: protection of intellectual property was cited as a challenge by 43 percent of respondents, bribery and corruption created challenges for 36 percent of respondents and government influence/Rule of Law was cited as a challenge by 33 percent of respondents. Clearly, HGM governments could be taking stronger steps toward overcoming some of these challenges.

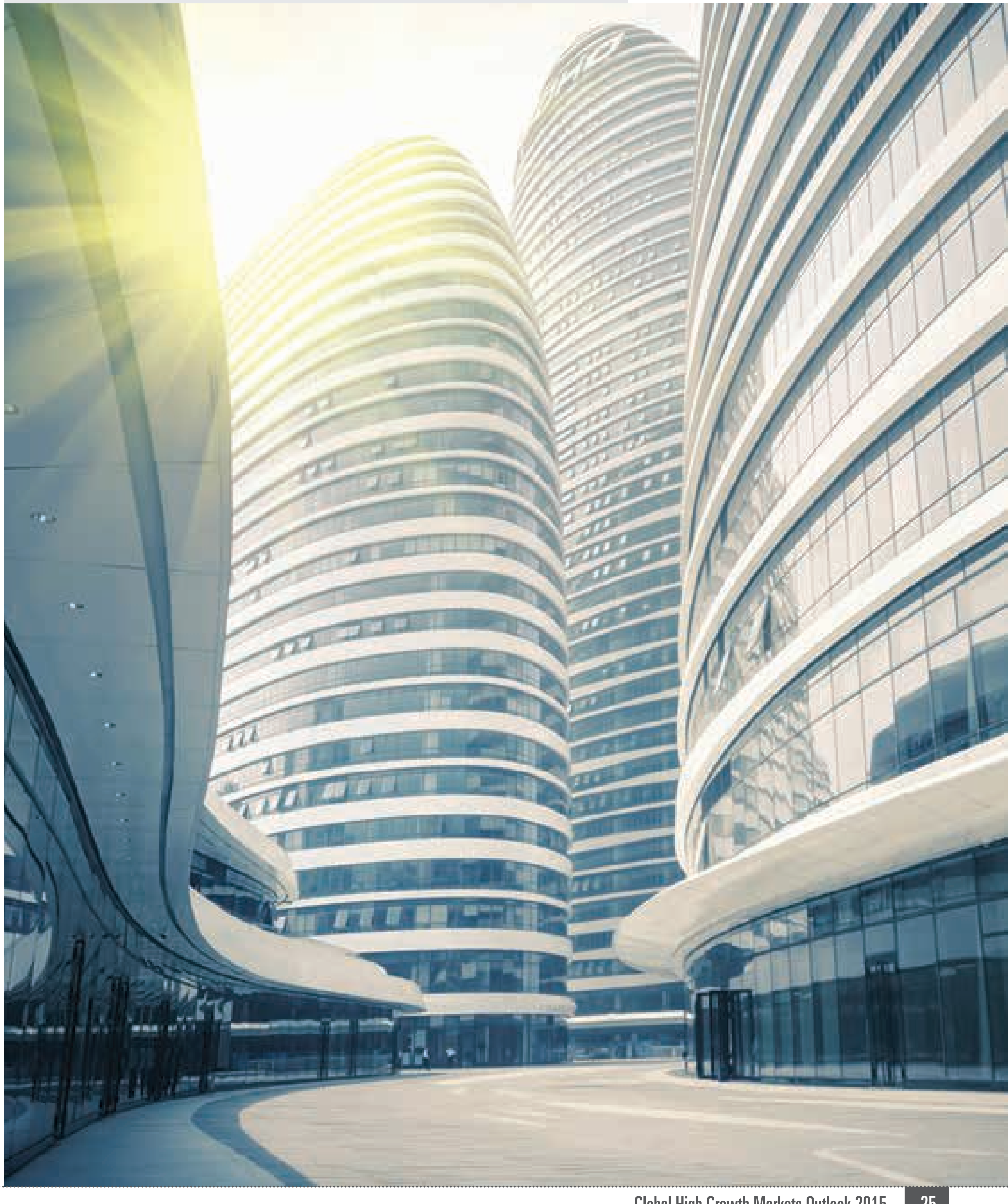
By the numbers: top challenges for the top six destinations



Source: Global High Growth Markets outlook survey, 2015

48%

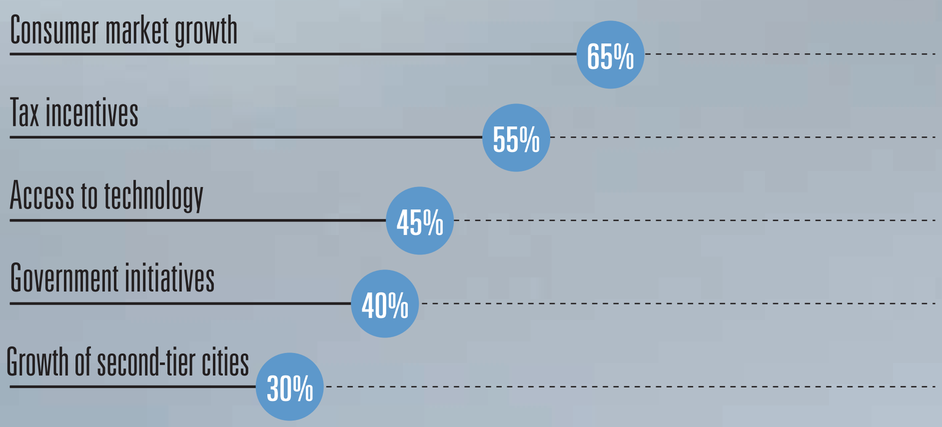
Around half of all respondents (48 percent) said that tax incentives in their target markets were an influencing factor, while 47 percent of respondents cited government incentives.



The lion roars: Africa opens up to investment

The vastness of Africa's potential has been evident for centuries. Blessed with ample resources, rapidly growing populations and huge tracts of arable land, Africa has long been the subject of speculation and expectation. Yet, while Africa is still not widely perceived as a welcoming investment climate, we firmly believe that the continent offers some of the greatest promise for those bold and resilient enough to invest in this rapidly emerging continent.

Top reasons for investing in Africa



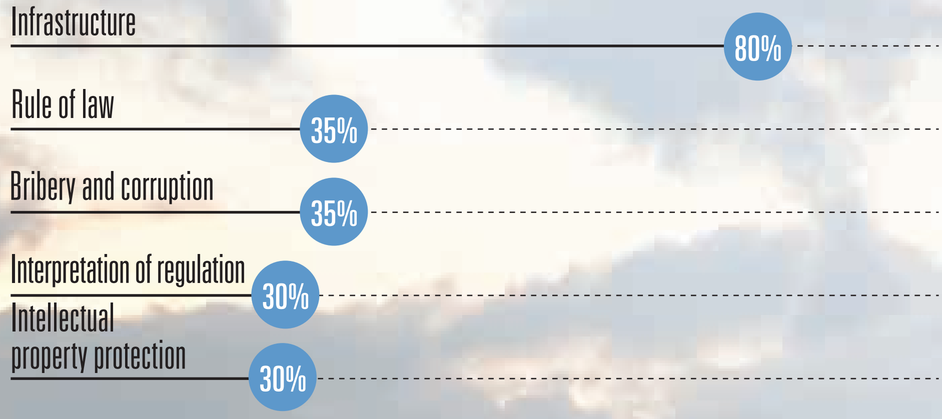
Source: Global High Growth Markets outlook survey, 2015

The fact that respondents cited consumer market growth as their top motivation for investing in Africa is not surprising. Africa boasts more than a billion people, a fifth of whom fall into the 15 to 24 age bracket. Many estimates suggest that the number of youth in Africa will double in the next 30 years.[1]

Improving the continent's prospects is the fact that many of its governments have made strong headway in addressing the lingering legacy of post-colonial inefficiencies by trying to establish stable democracies, effective legal and tax regimes and realistic economic strategies.

1 http://www.un.org/africarenewal/magazine/may-2013/africa%E2%80%99s-youth-%E2%80%9Cticking-time-bomb%E2%80%9D-or-opportunity

Top challenges when investing in Africa



Source: Global High Growth Markets outlook survey, 2015

Once turbulent and opaque markets (e.g. Ghana, Nigeria, Angola and Ivory Coast) are now experiencing long periods of economic, political and social stability.

Yet, success in Africa is by no means assured, with progress often held back by bureaucracy, inadequate infrastructure and a deep-rooted nepotism that obliges entrepreneurs to share their wealth and offer jobs to relatives and friends. Most markets also suffer from a lack of certain essential skills, such as engineering, IT and management.

However, our experience suggests that Africa is increasingly 'opening for business'. Since 2009, special economic zones have been introduced in several African countries, including Zambia, Mauritius, Ethiopia, Nigeria, South Africa, Egypt and Algeria, each offering exciting prospects for growth and job creation. In addition, major infrastructure projects are starting to move out of the pipeline.

In Angola, for example, the government expects to attract more than US$4 billion in non-oil foreign investment. And already, major players are taking note; GE recently formed a joint venture with Angola-based GLS Holding to construct a new manufacturing facility in the country worth almost US$200 million to help fulfill its HGM strategy.

For most foreign players, the ability to deliver and support effective social programs will be an integral part of the Africa growth strategy. Whether it is building roads, housing, schools and hospitals or simply demonstrating a commitment to local communities, Africa offers investors a unique opportunity to be part of the continent's renaissance.

Investment flows

Taking a 'bottom-up' approach to HGMs

This first Global High Growth Markets Outlook from KPMG provides a rare and valuable real-time view into how global businesses are prioritizing HGMs. The most striking conclusion is the continued optimism in corporate boardrooms toward HGMs: A full 91 percent of respondents said the outlook for HGMs is either promising or very promising. This optimism persists despite recent cracks in the case for HGMs (economic growth has slowed for each of the past 5 years). Reform is too slow and limited. And recent corruption scandals from Latin America to Asia remind us that political institutions in HGMs still have a long way to go.

Despite these challenges, global businesses continue to prioritize HGMs. That resilience and far-sighted outlook is well-placed. It rightly puts the slowdown in context: HGM growth in the mid-2000s was propped up by high commodity prices and excessive consumer leverage. Correcting these imbalances, even at the cost of growth today, will create a

Alex Kazan, Director

Emerging Markets Strategy and Comparative Analytics, Eurasia Group

Over the next decade, HGMs will continue to outpace developed markets. The optimism revealed in the Global High Growth Markets Outlook is justified.

more sustainable longer-term platform for growth and profitability tomorrow. Over the next decade, HGMs will continue to outpace developed markets. The optimism revealed in the Global High Growth Markets Outlook is justified.

One key long-trend not captured in the investment patterns revealed in the survey, however, is the *divergence* that increasingly will define the HGMs. Instead of an across-the-board bull case, a clear trend toward greater differentiation is taking shape. This differentiation already is unfolding in GDP growth, consumer demand, portfolio flows and asset price performance. Going forward, the HGM universe increasingly will divide into winners in losers in the competition for global investment dollars.

This divergence will demand a new strategic approach from global businesses looking to successfully expand into HGMs. It will require a big shift away from viewing them as one opportunity and toward seeing them as a set of potential opportunities and pitfalls, in other words, shifting from a 'top-down' to a 'bottom-up' approach. This, in turn, means no longer prioritizing growth markets by market size alone but, instead, prioritizing them by their risk-reward balance.

This survey suggests that businesses have not yet made that strategic shift. The largest core HGMs (China, India and Brazil) dominate the list of likely investment destinations. The next group down (Mexico, Singapore and South Korea) are among the most 'established' and developed of the growth markets. These results suggest that traditional established patterns of investment into HGMs are holding and that market size and relative 'safe choices' continue to drive market expansion strategies.

Looking ahead, economic reform will be one primary driver of divergence. Many HGMs are struggling to balance slower growth with more demands for spending from newly emerged middle classes. Overcoming these dual challenges will require deep structural reform to raise productivity and eliminate structural bottlenecks. Some HGMs (especially India and Mexico) are responding well to these challenges. Others, like Brazil, are faltering. Most ASEAN countries are somewhere in between. Many of their national governments, such as the newly elected Joko Widodo administration in Indonesia, are prioritizing reform but are held back by nationalism at the state and local levels. China is a special case but there, too, important structural reforms intended to smooth the economy's transition from over-reliance on investment toward more consumption are well underway. Given the urgency of economic reform, it was encouraging to see its importance reflected throughout the survey and especially as a reason for investing more in India.

The role of infrastructure as an obstacle to investment emerges as another key theme in the Outlook. The infrastructure gap remains one of the most urgent challenges for HGM political leaders to tackle, especially in the ASEAN countries and in Latin America. Many governments are lagging but better prioritization of public spending and the right balance of incentives for private participation could be the most important steps governments take in raising their appeal as investment destinations. On the infrastructure front, India and Indonesia may have the best odds of breaking through in the next several years. The Modi government has prioritized infrastructure and the land reform bill before congress could be an important positive step. And while Indonesia's Widodo has faced challenges from within his governing coalition, infrastructure is one area with broad consensus. If bureaucratic and administrative challenges can be overcome, infrastructure may be Widodo's legacy for Indonesia.

Another important detail that jumped out of the survey results was that energy and financial services firms are most likely to say that HGMs make up more than 30 percent of revenues and they plan on expanding further. These are perhaps the most sensitive sectors of the economy to the risks posed by politics discussed here. As such, a shift to a 'bottom-up' strategy is even more imperative for these firms.

This first Global High Growth Markets Outlook is a tremendous resource for understanding how companies are positioned in HGMs. The optimism that shines through suggests that most companies are patient and far-sighted. Successfully navigating the path to the long term, however, will require more than patience alone. Companies increasingly will need to recognize and act on patterns of divergence within the HGM world.

About Alex Kazan

Alexander Kazan is Eurasia Group's lead emerging markets strategist and also directs the firm's comparative research, including quantitative approaches to political risk. Alex led the development of the political risk country portfolio, a systematic, comparative framework for analyzing the market pricing of political risk across emerging markets.

Before joining Eurasia Group in 2013, Alex led the Latin America equity strategy team at Goldman Sachs, where he developed and communicated the firm's view on Latin American equity markets to internal sales and trading desks and institutional investors. He also has worked at Daiwa Asset Management as an economist and investment strategist and at Bear Stearns covering Latin America as part of the global emerging markets equity strategy team.

Alex was born in San Francisco and lives in New York. He holds degrees from the University of California, Davis and Georgetown University.

30% Energy and financial services firms are most likely to say that HGMs make up more than 30 percent of revenues and they plan on expanding further.

The Middle East: the oil states diversify

With the price of oil under continued pressure, governments within the six-nation Gulf Cooperation Council (GCC) have redoubled their focus on diversifying their economies and attracting new business sectors and industries. For foreign investors, the time has never been better to invest into the Gulf States.

Top reasons for investing in MESA

Consumer market growth	64%
Tax incentives	47%
Government initiatives	44%
Access to technology	39%
R&D/innovation	35%

Top challenges when investing in MESA

Infrastructure	52%
Interpretation of regulation	50%
Rule of law	42%
Bribery and corruption	42%
Intellectual property protection	35%

Source: Global High Growth Markets outlook survey, 2015

While much of the Middle East remains chaotic and complicated, the Gulf States shimmer as an oasis for foreign investors. The underlying statistics illustrate the potential: GDP growth of more than 4 percent, per capita GDP of more than US$33,000, clear and consistent rule of law, a young and highly educated population and enough amassed public wealth (housed in Sovereign Wealth Funds) to allow for both massive investment and low to non-existent tax rates.

The governments that make up the six-nation GCC (Saudi Arabia, UAE, Qatar, Oman, Kuwait and Bahrain) have also been highly focused on improving the investment climate. Economic free zones and knowledge cities have risen out of the desert right across the region, attracting many of the world's top hospitals, media outlets, tech firms and services organizations, while investment regulations and policies have been softened to allow greater participation from foreign investors. As a case in point, Saudi Arabia has announced the opening of its stock exchange to foreign investors, which is expected to happen in the coming months.

The long-term growth prospects for the region are also being driven by investment into infrastructure which has skyrocketed over the past few years. In Qatar, the government is investing heavily into airports, railways and metros to prepare for the 2022 FIFA World Cup. In Saudi Arabia, the government is building new high speed rails to connect the country from the north to the south and from the east to the west. Right across the region, ports, airport, railways, hospitals and schools are being planned, funded and delivered.

As these measures start to bear fruit and the GCC economies increasingly diversify, we expect foreign investors to start playing an increasingly important role across many industry sectors. For some, it will be the highly educated and increasingly affluent population that will drive interest in these markets. For others, it will be the low tax rates and investment incentives. Others, still, may be drawn by the growing ecosystem of innovative companies now setting up shop in the GCC markets.

We believe that as these markets start to shake off the 'restrictive' perception held by many foreign organizations, the GCC states will quickly become seen as an area of steady and strong growth in a region punctuated by uncertainty.

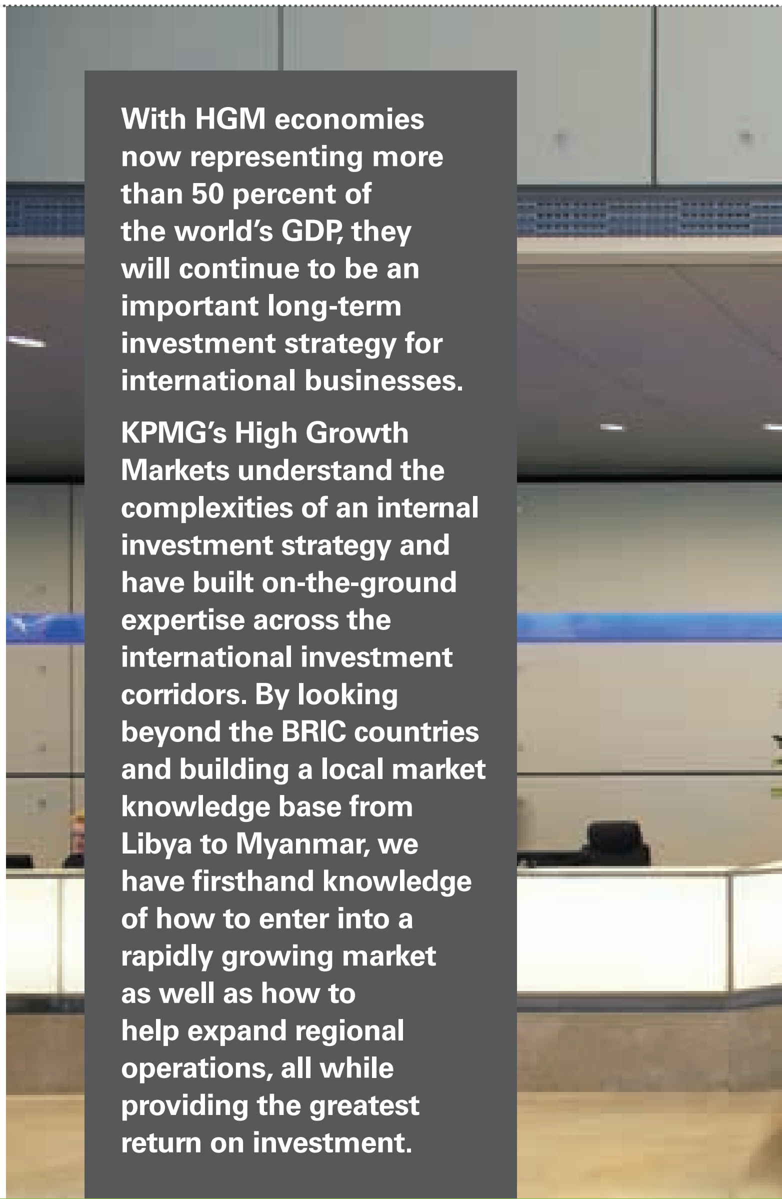
Conclusion

The global landscape has changed. The center of gravity for economic and business growth is quickly shifting east and south. Simply put, companies that want long-term growth cannot risk ignoring the HGMs. This survey demonstrates that companies not only see the potential that the HGMs hold, they are also increasingly working to capitalize on them. However, understanding the challenges and the local realities will ultimately be the keys to success.

Key takeaways:

1. **Be a partner, not a sales person:** The most successful HGM strategies treat their target markets as partners and catalysts, rather than customers and revenue opportunities. Co-create with local partners, combine local insights with your global intellectual property and work with local leadership to build a true local presence.
2. **Be patient:** While heightened expectations often fuel short-term thinking, success in the HGMs often requires patience. Take the time to better understand how to do business in your target markets and be willing to adapt as you gain more experience and insight.
3. **Be focused on the stakeholders:** Develop strong relationships and open lines of communication with local stakeholders such as governments, regulators and communities. Build a community presence and invest in local leadership and developing local skills.
4. **Be prudent:** Take the time to properly establish and stabilize your operations in a small number of markets (or just one market) rather than taking a 'rapid fire' approach that spreads your resources across too many different markets.
5. **Be resilient:** HGMs tend to see more economic volatility (good and bad) than more established markets. Be prepared to experience periods of highs and lows and be flexible in your strategy to ensure that you always have the right strategy for the right market at the right time.
6. **Be willing to seek help:** Detailed in-house research is great. However, it is no replacement for 'on-the-ground' experience. Local dynamics such as culture, language, relationships and politics are critical to success and cannot be underestimated.

About KPMG's Global High Growth Markets



With HGM economies now representing more than 50 percent of the world's GDP, they will continue to be an important long-term investment strategy for international businesses.

KPMG's High Growth Markets understand the complexities of an internal investment strategy and have built on-the-ground expertise across the international investment corridors. By looking beyond the BRIC countries and building a local market knowledge base from Libya to Myanmar, we have firsthand knowledge of how to enter into a rapidly growing market as well as how to help expand regional operations, all while providing the greatest return on investment.

Our network

Entry and expansion within the HGMs requires an understanding of the complex business environment, as well the cultural differences that exist across borders.

Our coordinated approach, called the Strategic Corridor Super Highway, combines consistent, high-quality,cross-border coordination from one country into another, allowing our dedicated network of professionals in the Super Highway network to share local knowledge, yet leverage the power and resources of the global organization.

Our expertise

KPMG has made significant investments in many of the HGMs, giving our network first-hand, on-the-ground experience.

Our network of professionals not only understand the challenging dynamics that exist from country to country, but have successfully navigated through the complexities, leading our teams to success. That experience has helped other companies successfully meet their growth objectives in those same markets.

The clear choice

KPMG is the clear choice for companies expanding globally.

The business world has never been as international as it is now and having the right knowledge, network and on-the-ground experience is vital to investment and growth within the HGMs. We pride ourselves on the long-standing commitment KPMG has in these markets.

About the survey

The Global High Growth Markets Outlook 2015 is based on a survey of more than 300 senior executives conducted by Forbes on behalf of KPMG International that was completed in early 2015.

Respondents represented multinational companies across 16 developed market countries throughout the Americas, Europe and Asia Pacific.

Sixty-five percent of respondents held executive-level positions and represented organizations that ranged from US$250 million up to $20 billion in annual revenue.

Location

A total of 303 respondents participated in the survey, representing the following regions:

Americas
151 (50%)

Asia Pacific
78 (26%)

Europe
74 (24%)

Title

More than half of the respondents are c-level executives:

CEO/president/board member
42%

CFO/COO/other c-level
12%

SVP/VP
11%

Director
28%

Head of region or business unit
7%

Industries

Respondents of the survey represent the following industries:

Industrial manufacturing
33%

Financial services
22%

Retail
12%

Energy
11%

Infrastructure
8%

Food, drink and consumer goods
5%

Other
9%

Size

Respondents of the survey represent multinational companies with global annual revenues (US$) of:

$5 billion – $20 billion
20%

$1 billion – $4.9 billion
26%

$500 million – $999 million
15%

$250 million – $499 million
29%

Contributors

The following KPMG partners contributed their valuable insights into this report:

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Market focus: the Middle East

Steve Beatty
The infrastructure imperative

Akshay Bhalla
Market focus: India

Seyi Bickersteth
Market focus: Africa

David Frey
Making an entrance into HGMs

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