EMERGING MARKETS,
EMERGING OPPORTUNITIES
Emerging Markets, Emerging Opportunities

Overview

Consumer confidence has driven market rallies, lifted corporate profits, toppled political regimes, closed banks and fueled protests. Now, it is re-shaping the global economy, moving the consumer center of gravity further east toward Asia and south toward Latin America.

Geography alone no longer defines emerging markets-consumer trends do. Trends like the dominance and expanding influence of women shoppers, the rise of a global middle class, an aging population and mobile media convergence. However, more is unknown than known about these segments and this report is intended to deliver singular insights into each area of opportunity. Despite differences between developed and emerging nations, consumers universally enjoy unprecedented choice, power and influence over brands.

A changing world requires changing approaches. Successful companies will need to adopt more flexible business models, manage risk across countries, balance local and global considerations, reconsider the role of emerging markets and continue to monitor the pulse of the global consumer as the pace of change rapidly increases.
Highlights

In 2009, between 75 and 100 percent of global consumers agreed they were in the grips of a recession according to the Nielsen Global Omnibus Survey. Just two years later, emerging markets had re-ignited their economic engines while Western Europe, Japan and the U.S. continued to struggle against financial headwinds. The factors contributing to emerging market growth are manifold, including:

- **Market vitality.** M-commerce growth coupled with overall ad spending changes, shifted funds to emerging markets where the LATAM, Middle East, Africa and Asia-Pacific regions realized 17 percent, six percent and 13 percent growth respectively according to Nielsen’s Global Adview Pulse Report.

- **Population growth.** Emerging market populations are exploding, with the 3.3 billion people in key emerging markets dwarfing the 854 million residents within key developed countries.
  - Emerging: Brazil, China, Egypt, India, Malaysia, Mexico, Russia, South Africa, Thailand, Turkey
  - Developed: Canada, France, Germany, Italy, Japan, Korea, Spain, UK, USA

- **Product innovation.** Overseas innovation tracked by Nielsen uncovered a change in focus for new product testing activity. Over a three year period, emerging market innovation increased by 100 percent, driven by Africa (+131 percent growth) and BRIC countries (+173 percent growth).

- **Purchasing power.** More than half of global purchasing power resides in emerging markets, where Gross Domestic Product is expected to grow at a rate 50 percent greater than developed markets from 2011 to 2016 according to the International Monetary Fund.

- **Women consumers.** Women control some $20 trillion per year in annual consumer spending and determine 80 percent of buying decisions according to the Deloitte Touche Tohmatsu consulting firm.

- **Middle class.** By 2020, more than half of the world’s population will be considered middle class according to the OECD Development Centre.

- **Young populations.** Age differentiates younger emerging market populations from the older inhabitants of developed countries—more than one-quarter of emerging market consumers are 14 and younger.

- **Consumer connectivity.** Connectivity defines the global marketplace and ubiquitous mobile phones have become embedded in the consumer DNA, representing the most rapidly adopted technology in history. There are 5.3 billion mobile subscribers globally, more than 70% of the global population.
Discussion

For most of the 20th century, industrialized nations like the U.S. and Japan were major forces driving economic growth. In a dramatic paradigm shift, emerging markets now are expected to take the lead, thanks to an average annual gross domestic product [GDP] growth rate roughly 50 percent higher than developed markets per the International Monetary Fund. What differs this time around is that growth is being driven by a new consumer. Global consumption patterns moved directionally with GDP growth rates, hitting seven percent by the second quarter of 2011.

Consumer spending increases sourced primarily from the Asia-Pacific countries [APAC] accounted for 62 percent of growth, followed by Western Europe at 19 percent, Eastern Europe at nine percent, Middle East/Africa at five percent and the U.S./Canada at four percent. Despite the geographic power shift, a study by The Economist found that fewer than half of global companies believe they have a good understanding of emerging markets, and fewer than 20 percent say they are ready to fully compete in such markets.

The Female Factor

Four principal factors define the global consumer marketplace today. One of the most powerful forces-women-already represent the biggest "emerging market" on the planet, and their global income is expected to grow by more than $5 trillion over the next five years. Although the economic role of women is evolving around the world, many marketers have failed to fully acknowledge the new, expanded female role.

There are reasons for this dichotomy. In developed markets, women asserted their rights and gained power in a gradual, evolutionary manner. In emerging markets, the change has been rapid and abrupt, leading to higher stress levels and leaving marketers awash in its wake, trying to comprehend the shifting need states of women.

Driven by spending in emerging markets

2Q2011 Growth Contribution

- APAC 62%
- Western Europe 19%
- Eastern Europe 9%
- USA/Canada 5%
- MEA 5%

Source: 2Q2011 Growth Reporter
What Works for Women

The best approach for marketers is to identify women's needs and align product benefits to address those needs, which mainly center around a desire for convenience and individuality. The Nielsen Women of Tomorrow study found that while 60 percent of women around the world felt stressed out, that sentiment was even more pronounced in emerging markets. For example, some 87 percent of women in India said they felt stressed.

Stress related to time- and budget constraints creates the need for convenience products that are value-priced. Firms seeking a blueprint for success in marketing to women can leverage the U.S. game plan. Incorporating convenience attributes like products to go, single portions, nutraceutical formulas and cause-related tie-ins all resonate with women.

A cautionary note when shaping advertising for women: trust is paramount, and women consumers value personal recommendations over paid advertising. This fact has led to the emergence of the so-called Mommy Bloggers, who wield unprecedented influence over their peers with respect to product purchases.

Coke and Dove both have earned recognition for female-oriented ad campaigns that emphasize individuality, relevant social topics and convenience. Almost all income growth in the last 15 years in the U.S. has derived from women.

A Bulging Middle

The second major trend defining the path of global marketing is the emerging middle class. Two billion people will be classified as "middle class" by 2030, with almost 80 percent of them residing in emerging markets. Defining and marketing to the middle class poses an intriguing challenge to marketers, because the definition of "middle" varies so dramatically.

The World Bank definition of middle class differs by country based on earning power, ranging from an annual mean income of $46K in the U.S. to $3K in India, and includes the comparatively meager earnings between $10 and $20 a day on average.

Such a wide range in income underscores the point that marketers should not think of the middle class as a homogeneous, collective body that can be addressed as a unit. Marketers need to operate globally but think locally when it comes to package and product innovation.

Age Gaps

The third major trend impacting the course of global marketing is the age gap between developed and emerging nations. In developed countries, only 16 percent of the population is age 14 or younger; in emerging countries, 26 percent of the population falls into the 14 and younger age cohort. Conversely, in developed countries, more than 17 percent of the population is over age 65, while a slight six percent of the emerging country population sits in the over 65 age bracket. This contrast underscores the astounding fact that emerging nations are growing 30 times faster than developed countries.

By 2023, the aging population will have the entire U.S. looking a little grayer. Germany and Japan already bow under the burden of supporting large senior populations, with France and U.K. on schedule to join the ranks of elder-weighted societies by 2016.

Gray Matters

While collectively the elderly population comprises a large and economically powerful market segment, individually, these consumers are less attractive due to smaller households, lower spending levels per trip and a higher deal propensity than their younger counterparts.

To capture the spending power of this age cohort, marketers need to start paying attention to the unique need states of the over-50 demographic. Smaller households call for smaller or single portion sizes. Aging bodies benefit from supplements added to food. Package design changes directed at this audience include larger font sizes, higher contrast color schemes and relatable, age-appropriate photos to enhance product appeal.
Mobile Impact

The fourth factor impacting emerging market development is connectivity, enabled principally by mobile phones. On track to overtake PCs as the most common web access device by 2013 according to the Gartner Group, mobile phones represent the single most powerful unifying device in developing nations, doing double duty as both a personal and commercial consumer lifeline. More than three-quarters of the emerging world population owns a mobile phone, contributing to the 5.3 billion mobile subscribers worldwide.

It comes as no surprise that near-ubiquitous mobile penetration supports a robust and growing M-commerce economy, one expected to reach $119 billion by 2015. Associated mobile ad revenues should more than double each year, skyrocketing to an impressive $21 billion.

That said, it remains early days in mobile channel development for media and purchasing purposes. Representing unfamiliar turf, many advertisers struggle to leverage the power of mobile as a communications and transaction medium. Currently, eight of ten online advertisers lack a mobile-friendly web site optimized to the unique requirements of the small screen. Mobile marketing campaigns should become an integral part of every integrated marketing plan.

App-propos for Profit

By focusing on the upper segment of the online purchase funnel, marketers can deploy mobile to educate consumers, deliver precisely-calibrated offers, influence decisions at the point of purchase, capture feedback on product performance and foster an ongoing relationship with the shopper. The catchphrase for consumer packaged goods marketers should be “there’s an app for that”.

Social networking has circled the globe, credited by many for enabling the Arab Spring and creating the brand ambassador phenomenon. Blogging, Tweeting and Facebooking brand advocates write product reviews and post unsolicited evaluations based on personal interaction with products-good or bad. A Nielsen sampling of 10 markets around the world confirmed that social networks and blogs are top online destinations.

“Smart” strategies revolutionizing the retail experience

Shoppers now can locate more than 100,000 items in Meijer Supercenters

Peapod Mobile App Text-message service to alert customers when their delivery driver is due to arrive within 10 minutes

Walgreen’s Innovative Scan to Rx Refill

Mobile Coupons.com

Peapod Mobile YouTube Facebook Twitter
Common Concerns

Whether female, middle class, elderly or tech savvy, many of the issues top-of-mind with consumers around the globe are shared, although the rank order changes between developed and emerging market consumers. For example, on the financial front, the economy tops the list in developed markets, followed by utility bills and jobs. In emerging markets, jobs take the top spot, followed by food prices and the economy.

Rising food prices affect emerging markets disproportionately, elevating the food share of household expenses in Pakistan, Kenya, Indonesia and Nigeria into the 40 percent range. Food accounted for more than 30 percent of household expenditures in Egypt, India and China. In Russia, Brazil, Mexico and Chile food costs represented a 23 percent or greater share of household spending due to price escalation. Conversely, the U.S, Canada and the U.K. saw modest single digit increases in food-related household expenditures.

A common thread that cuts across countries and demographic variables is value. Consumers are more concerned about what they get for their money and how well it meets a need, than the nominal product cost. This value orientation should hold up even as more shoppers join the ranks of their country’s middle class.

Source: USDA
Payment Planning

When asked about plans for the coming year, global consumers in developed nations intend to “save on gas and electricity”, “switch to lower-priced grocery brands”, “cut down on take-away meals”, “spend less on new clothes” and “reduce telephone expenses”.

Emerging nation consumers share the top concern about cutting back on energy costs, but rank the need to “reduce telephone expenses” second highest in importance, followed by, fewer take-away meals, purchasing less expensive grocery brands, less away-from-home entertainment and fewer clothing purchases.

Not quite a bunker mentality, but consumers exercise caution with their purchase behavior, looking for ways to save without sacrificing quality or eliminating goods. Saving strategies differ by market with shoppers in the U.S. and China favoring coupons, while European shoppers prefer bulk buying. Understanding consumer attitudes and behaviors in an increasingly diverse, demanding and connected world will require more data, more sophisticated analytics and more global expertise.

What’s next for the global consumer

DEVELOPED
- SAVE ON GAS & ELECTRICITY
- SWITCH TO LOWER PRICED GROCERY BRANDS
- CUT DOWN ON TAKE AWAY MEALS
- SPEND LESS ON NEW CLOTHES
- REDUCE TELEPHONE EXPENSES

EMERGING
- SAVE ON GAS & ELECTRICITY
- REDUCE TELEPHONE EXPENSES
- CUT DOWN ON TAKE AWAY MEALS
- SWITCH TO LOWER PRICED GROCERY BRANDS
- REDUCE OUT OF HOME ENTERTAINMENT/SPEND LESS ON NEW CLOTHES

WHAT’S NEXT

Source: Nielsen Global Omnibus Survey, 4Q2011
From Fixed to Flexible

Established market economies remain rooted in the iconic philosophies of the 20th century Industrial Age, heavily weighted toward fixed elements such as brick and mortar architecture, set pricing, traditional media and well-defined distribution networks.

Today’s new economies reflect the more fluid dynamism of the Information Age, a flexible model defined by variable pricing, variable locations and variable distribution, delivering products and services at a scale and speed unattainable under the anachronistic fixed model. Examples of flexible distribution include Nestle’s floating store traveling the Amazon, Nike pop-up stores, Coca-Cola returnable bottle kiosks and Tesco virtual stores at subway stations, conveniently catching consumers en route to a destination.

The transition from a fixed model to a flexible model can prove highly disruptive to mature economies, as it requires jettisoning a long-held legacy system. The uptake is much more rapid in emerging nations, unfettered by pre-existing investment and precedent. This holds true especially for the adoption of new media technologies.

Creating new business models

<table>
<thead>
<tr>
<th>Supply Economy</th>
<th>Set Pricing</th>
<th>Boundary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brick &amp; Mortar</td>
<td>Traditional Media</td>
<td></td>
</tr>
</tbody>
</table>

FIXED MODEL

<table>
<thead>
<tr>
<th>Negotiated Pricing</th>
<th>Varied Distribution Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boundless</td>
<td></td>
</tr>
<tr>
<td>Demand Economy</td>
<td>Traditional and New Media</td>
</tr>
</tbody>
</table>

FLEXIBLE MODEL

Conclusion

Success on a global level requires thinking differently about markets and consumers, uncovering new insights about the dynamics of a new marketplace and capitalizing on the opportunities presented by a changing world.

Growth opportunity exists where macroeconomic forces like market expansion, retail development and technology reach converge with consumer forces like time constraints, discerning shoppers, connectivity and individuality. Flexible, fluid business models characterize emerging markets, and established countries will need to adapt to compete and survive. Rising risk accompanies rapid growth and companies will face the dual challenges of managing that risk while capitalizing on new market opportunities.

Another test of management skill will be the ability to deliver local-centric products around the world at an affordable price. However, redefining “emerging” on the basis of demographic characteristics versus geography should help ameliorate that issue. Ultimately, success as a global player resides in executing the fundamentals: understanding consumer needs and wants and delivering products that fulfill them.


About Nielsen

Nielsen Holdings N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade shows and related properties. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands. For more information, visit www.nielsen.com.