

Building Business with BRICS



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Headline findings



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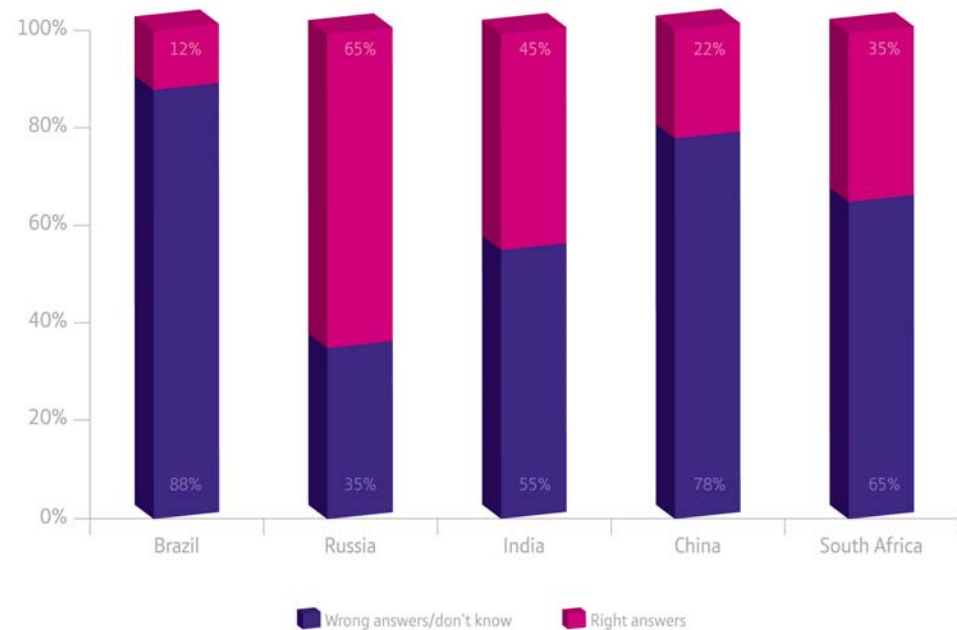
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Directors of Western businesses lack awareness of the basic facts of BRICS economies

- Western business is not fully prepared for the imminent impact of emerging markets. While more than six out of ten (64 per cent) directors of large American, British, French and German corporations accept that emerging economies will “reshape” the global business landscape, many seem to have only a rudimentary knowledge of their business environments.
- Even though a clear majority (61 per cent) of respondents admit it is “crucial” their business is able to work with the economies of Brazil, Russia, India, China and South Africa – the so-called ‘BRICS’ nations – to succeed in the long term, many of them demonstrate worrying ignorance of the realities of those countries
- Almost nine out of ten directors (88 per cent) could not name the currency of Brazil and 14 per cent believe that vodka is the main product of Russia, for example.

Does the West know the BRICS currencies?

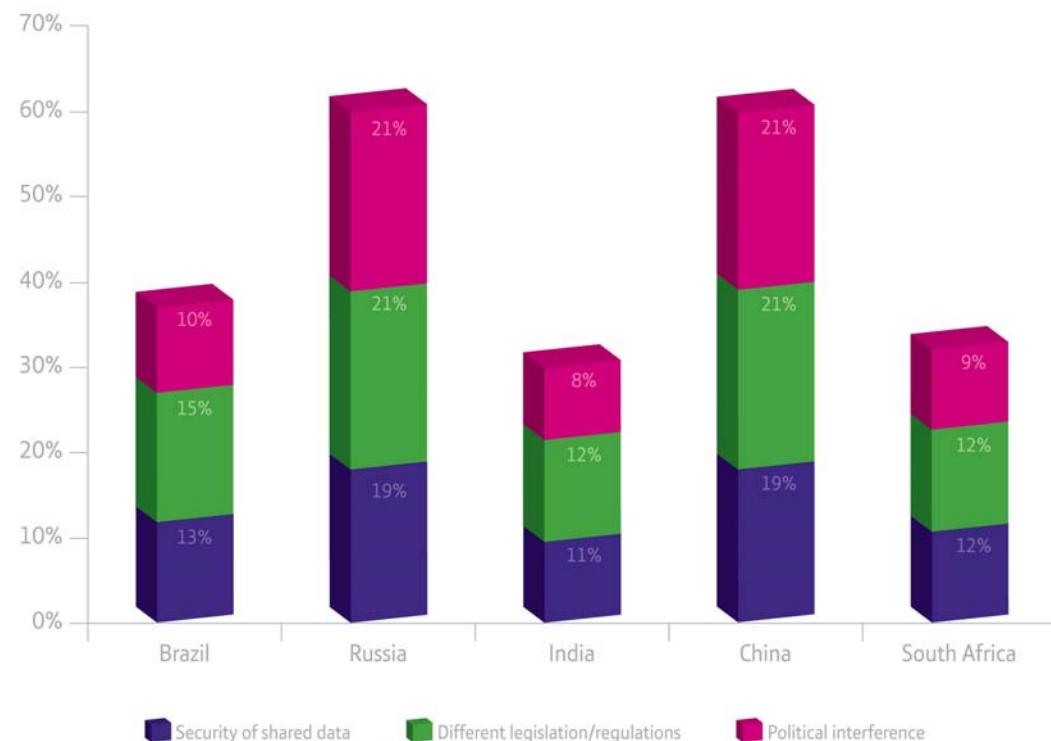


Source: Building Business with BRICS by Datamonitor, June 2007

Stereotypical notions of BRICS nations being underdeveloped are still present in Western minds

- More than seven out of ten (72 per cent) Western directors believe that organisations in the 'developed' world are better equipped technologically to work internationally than those in BRICS.
- Directors in the US, UK, France and Germany perceive data security to be the main barrier to effective collaboration with international businesses, followed by different legislation and/or regulations and political interference.

The biggest barriers to business in BRICS, according to the West

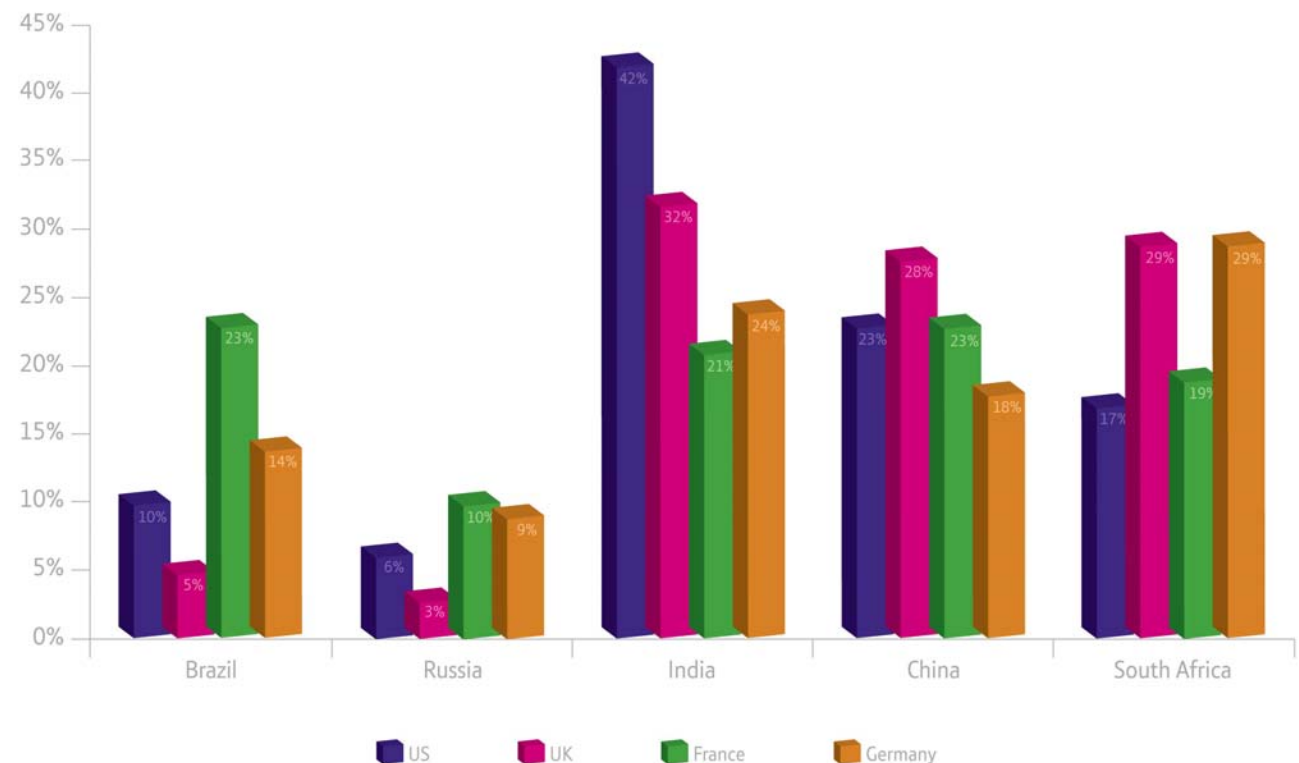


Source: Building Business with BRICS by Datamonitor, June 2007

Varying attitudes towards working in each BRICS economy

- India is perceived as the most comfortable BRICS economy in which to do business, significantly more than China
- Russia is perceived as the least comfortable BRICS economy in which to do business

In which BRICS economy do Western bosses feel most comfortable doing business?



Source: Building Business with BRICS by Datamonitor, June 2007

UK attitude towards BRICS economies



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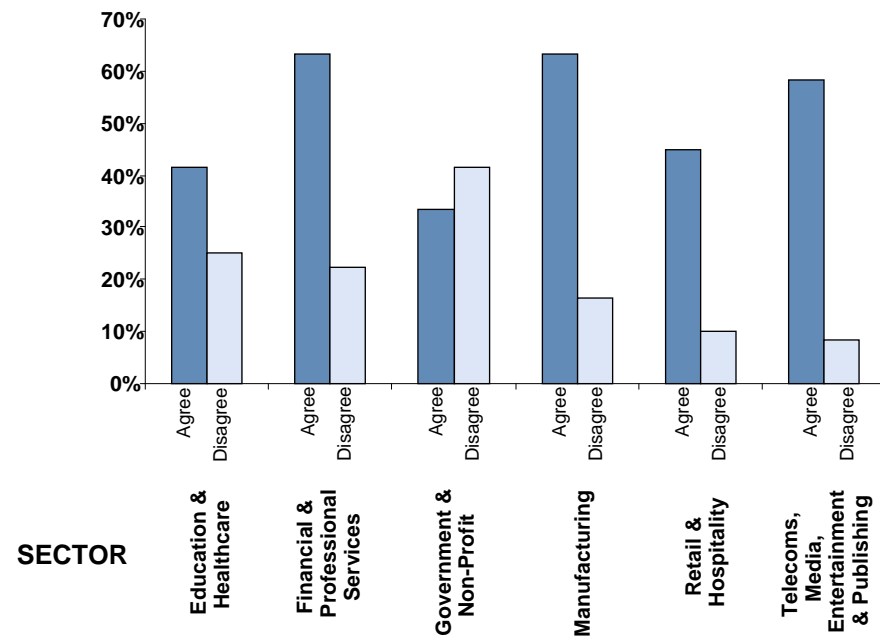
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UK companies have begun to take advantage of favorable factors within the BRICS & South African economies, particularly in the manufacturing and financial services sector

- UK companies are visibly active within the BRICS economies. This is particularly true of financial & professional services and manufacturing sectors where 63% of respondents said that their company was already working with other businesses within BRICS. The loosening of foreign investment regulations and trade agreements has made these countries more attractive to foreign investors. Further, an increase in disposable income and expanding middle classes have increased the need for consumers to manage their finances.
- 58% of companies within the telecoms sector are also active in these areas.
- The retail industry has a smaller presence than the other industries within BRICS; 45% of respondents said that their company was active in these economies. Incumbents still dominate the retail landscape in countries such as Brazil and India, and the industry is still highly fragmented despite rapid economic growth.

Proportion of UK Respondents per Industry currently Active within BRICS



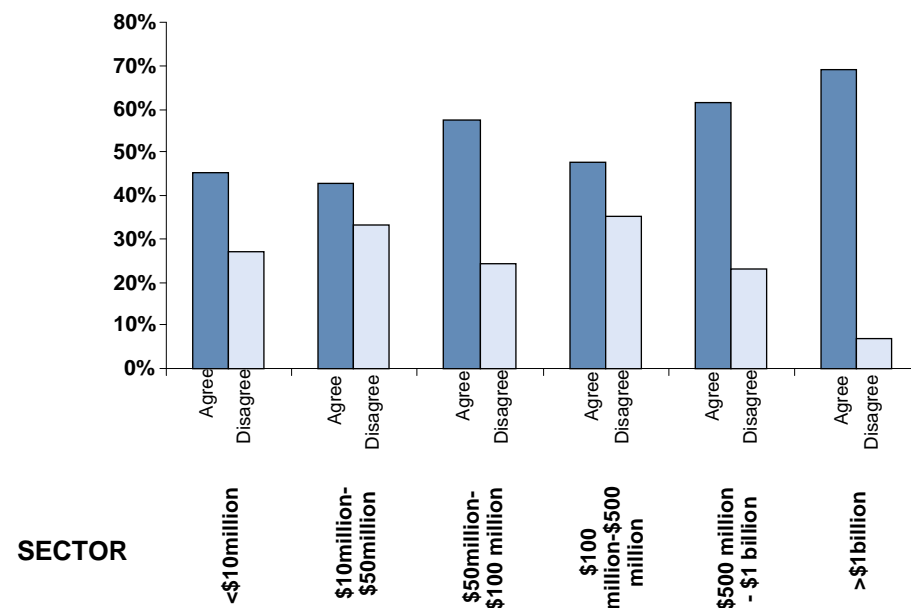
Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

**UK companies with a high revenue base are more active within the BRICS.
Smaller companies lack the scale to expand internationally.**



**Proportion of UK Respondents by Revenue Base
currently Active within BRICS**

- UK companies with revenues in excess of \$1 billion are currently the most active within the BRICS economies. Larger companies possess the economies of scale which provide them with the capital and scope to launch business overseas. These large companies from the UK are expanding internationally to mitigate the risk posed by the stale performance of their home markets.
- Smaller firms lack the scale needed to move overseas and will traditionally expand in their domestic markets. However 45% of the sub \$10 million bracket have a presence within BRICS, demonstrating an increasing exposure.

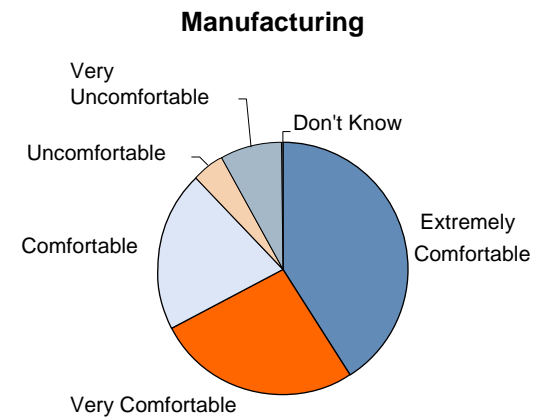


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

UK financial services companies have reservations about operating in India

- UK financial services firms appear less comfortable entering India than manufacturing firms.
- UK FS companies are reluctant to invest in India, despite the opening of the market and rising wealth in the country. Strict regulations from governing bodies have created high entry barriers to India - most entry can only be gained through joint ventures. In India foreign banks cannot own more than 5% of a local bank, if they have their own branch network in the country.
- In contrast, most UK manufacturing companies feel rather more comfortable entering the Indian market. Lower labour costs allow companies to boost margins and gain an advantage in the declining UK manufacturing industry.

Proportion of Respondents likely to do business in India



Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

French attitude towards BRICS economies



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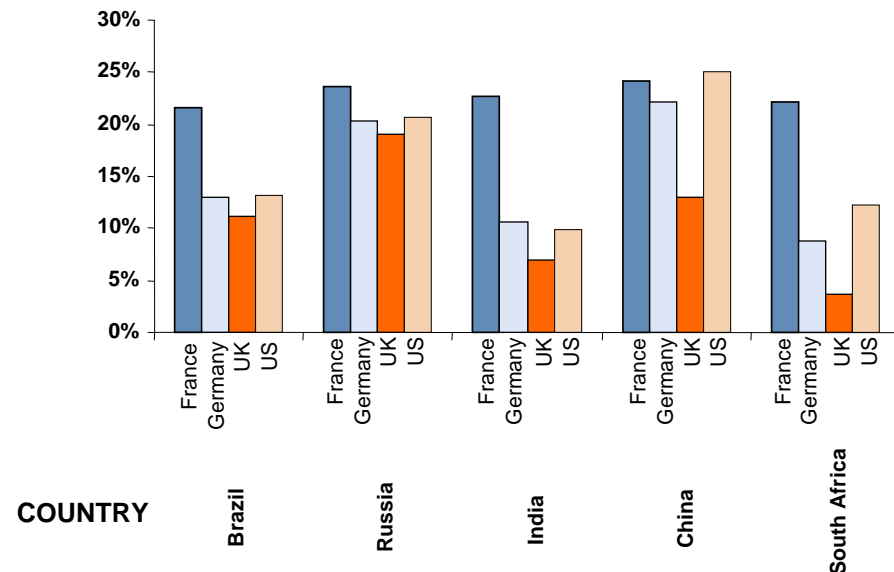
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Legislation and regulation are seen as problems in France

Proportion of respondents rating legislation and regulation as a high barrier

- In all BRICS countries and South Africa, almost a quarter of French respondents see legislation and regulation as being a very high barrier to market entry.
- Respondents from Germany, the UK and the US do not see legislation and regulation being as high a barrier, with only an average 14% rating it as a very high barrier.

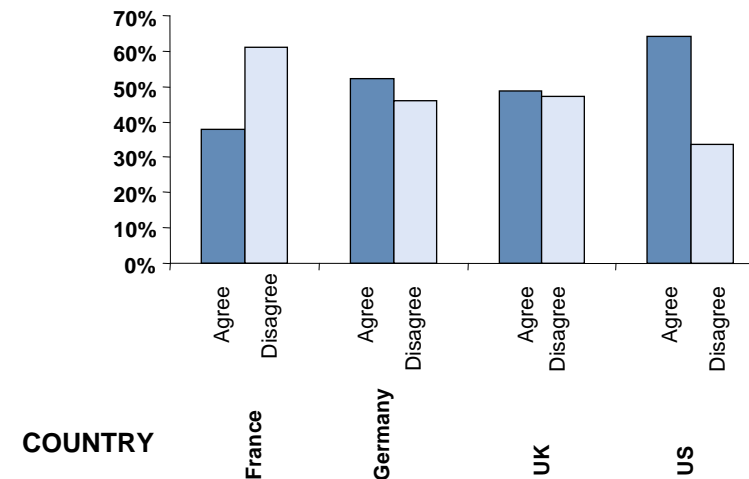


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

Differing opinions on cultural differences

Proportion of respondents across four countries

- 61% of French respondents disagreed that cultural differences were a barrier to effectively working in BRICS economies
- Respondents in the US see cultural differences as much more of a problem, with 64% agreeing on it being a barrier to working effectively.

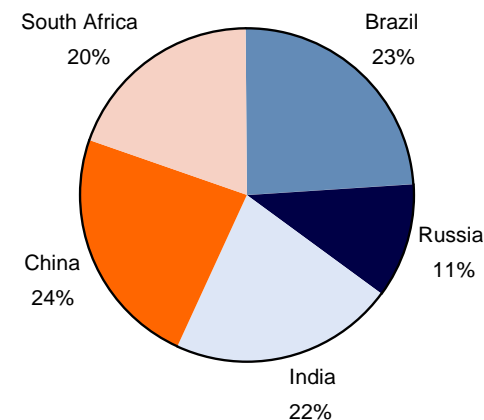


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

French most comfortable in China

Most popular emerging economy to work with

- 23% of French respondents rated China as the country in which they would feel most comfortable doing business in of all the emerging economies.
- Sino-French trade relations are being actively encouraged by both sides, and a number of investment bodies have been set up for this purpose.
- French company Michelin has been a pioneer in this field and has set up operations in China.
- In 2006, France was the fourth largest exporter to China and the third largest investor in China.

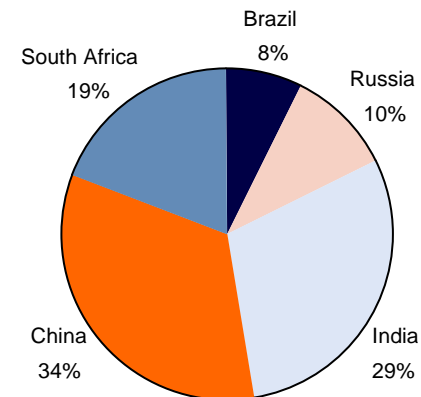


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

China perceived as the most technologically advanced emerging economy in France

Most tecnologically advanced emerging economy

- French respondents rated China as the most advanced emerging economy in terms of information and communications technology support.
- Respondents from all other countries rated India as the most advanced economy.
- This is indicative of France's growing trade relationship with China and the encouragement shown by both sides on this matter.



Data based on Datamonitor's survey of 830 industry experts across 6 sectors

US attitude towards BRICS economies



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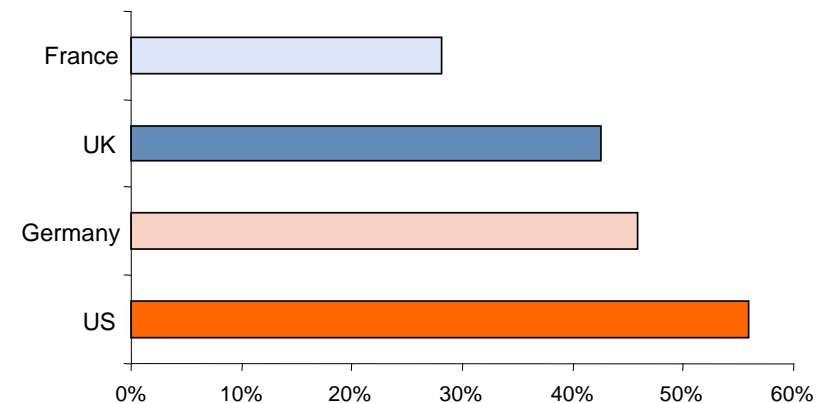
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Chinese language barrier is seen as a big problem in the US

- Over half of all American respondents agreed that language differences in China were a high barrier to market entry
- The Chinese pictorial language has proved notoriously difficult for Westerners to learn and this is compounded by the vast number of different dialects spoken in the country.
- The French do not see the language difference being a particularly big problem in China; only 28% rated it as a high barrier.

Percentage of respondents rating Chinese language differences as a high barrier

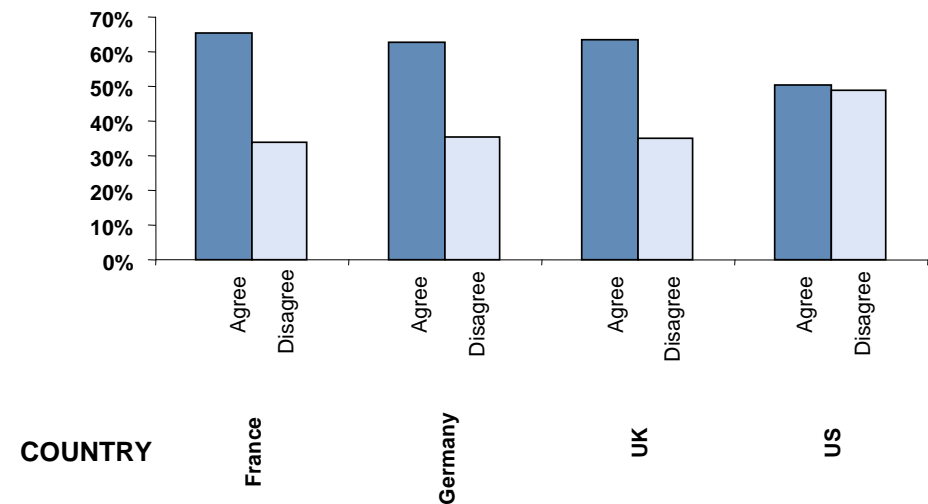


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

Opinion on the impact of BRICS economies is split in the US

Percentage of respondents feeling that they must enter BRICS economies in order to achieve long-term success

- Just over 50% of American respondents agree that their business must work with BRICS companies to achieve long-term success. The equivalent figure in all other respondent countries was over 60%
- The US has the largest and most complex economy in the world, and it would appear that opinion is divided as to whether the emerging economies will bring about a shift of focus for companies looking to expand
- By contrast, Americans do expect to change the way their companies work, with 75% disagreeing with the statement "The emergence of these economies won't change the way businesses in my country operate"



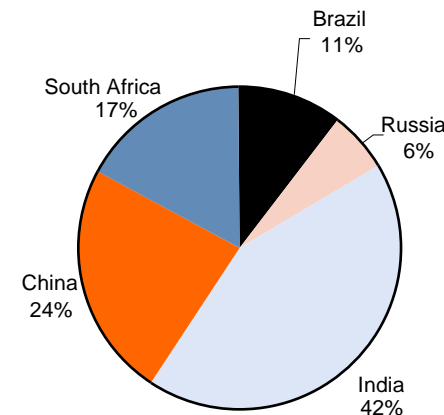
Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

US respondents would feel most comfortable doing business in India



Emerging economy most favored for doing business

- Almost half of all US respondents rated India as the country in which they would be most happy to do business
- A number of US companies have already become active in India, where English is widely spoken. This has led to a number of outsourcing operations, as US companies have looked to reduce costs with the lower-cost labor available in India.
- Call centers and engineering operations are the most common activities to be outsourced to India.

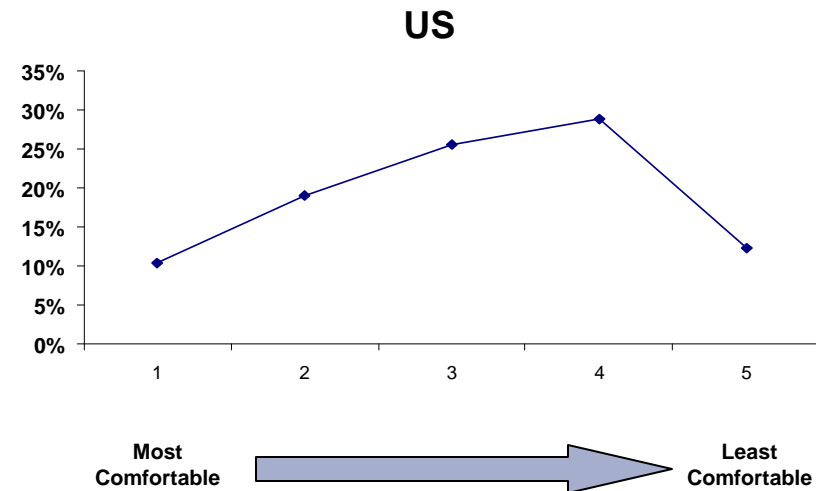


Data based on Datamonitor's survey of 830 industry experts across 6 sectors

US respondents not comfortable doing business in Brazil

Readiness to work with Brazilian economy

- US respondents do not or would not feel comfortable doing business in Brazil.
- Despite this, no one barrier to entry to the Brazil market was singled out as a very high barrier.
- Brazil represents a huge opportunity for American businesses due to its geographical proximity to the US, and a relationship similar to the French and Chinese would prove beneficial for both countries.



Data based on Datamonitor's survey of 830 industry experts across 6 sectors

German attitude towards BRICS economies



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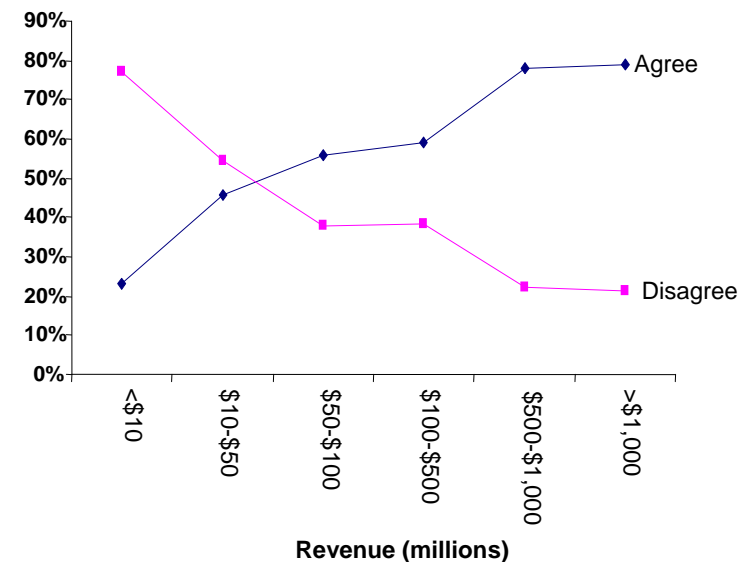
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Larger German companies perceive themselves to be more active in BRICS economies

- 23% of respondents at companies with revenues of less than \$10 million agreed with the statement “My business already works with other businesses or offices in BRICS countries”
- At companies with revenues of over \$1 billion, 79% of respondents agreed with this statement and an overall increasing trend can be seen across the scale
- Larger companies tend to be more involved in the markets of emerging economies as they seek to drive growth away from their domestic market
- Companies with relatively small revenues concentrate more on their domestic market share and will find it harder to diversify into BRICS markets due to financial constraints

Germany's perception of involvement in BRICS and SA – Proportion of respondents conducting business in BRICS

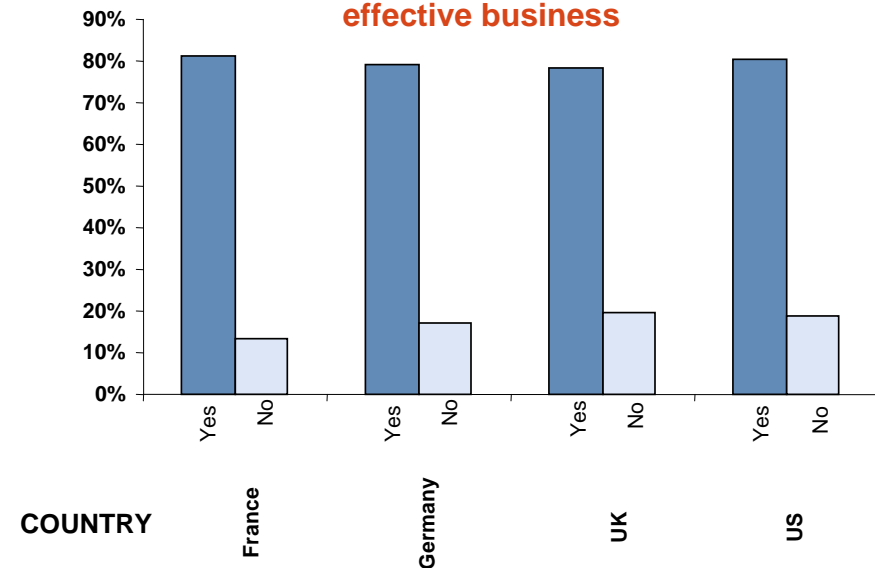


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

Consistent opinion on existing technologies in BRICS and SA

- Opinion on existing information and communications technology in emerging economies was uniform across all four respondent countries.
- Roughly 80% of respondents in each country agreed that the technology in place in BRICS and SA is sufficient to allow effective cooperation.

Proportion of respondents believing the requisite levels of Information and Communication technology available in BRICS & South Africa are readily available to allow effective business

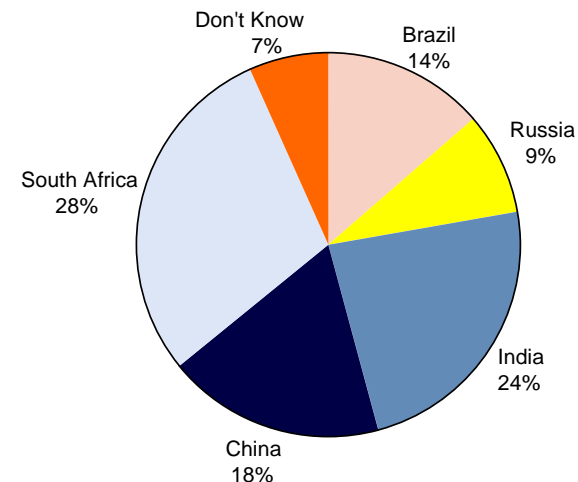


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

German businesses are happiest doing business in South Africa and India

Proportion of respondents per country they would feel most comfortable doing business in

- German respondents named South Africa and India as the two emerging economies that they would be most comfortable doing business in.
- The German car companies Mercedes and BMW have both established plants in South Africa and this has helped to create a working relationship between the two countries.
- Siemens, another German company, was one of the first companies to establish operations in India as it looked to cut running costs. Other companies have followed this lead and India has become associated with outsourcing activities.

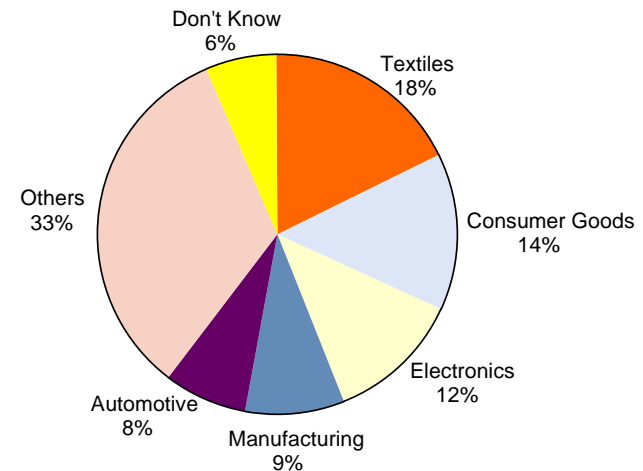


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

Germany has a different view of Chinese industry

Product associated to the Chinese industry, by respondent (proportion)

- German respondents were the only ones who didn't rate manufacturing as the service most associated with China.
- Textiles proved to be the most popular answer – a product which most other respondents primarily associated with India.
- Germany still maintains a vast domestic manufacturing network and Germans pride themselves on their own products. Hence, Chinese manufacturing is not seen as a big threat.



Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

Sector findings



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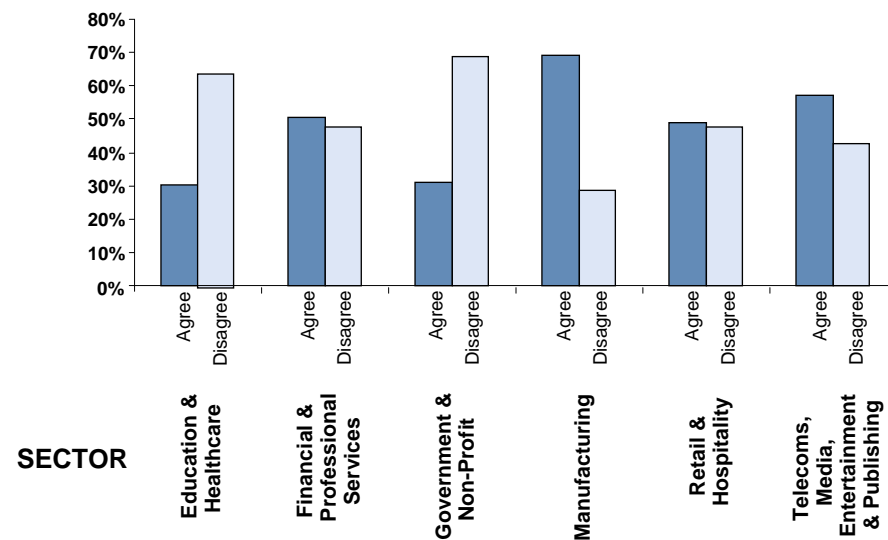
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Companies have begun to take advantage of favorable factors within the BRICS economies, particularly in the manufacturing sector

- Companies within the manufacturing industry are the most active across the BRICS economies; 82% of respondents said that their company was already working with other businesses within BRICS. Increasing investment into the transportation and logistics infrastructure within these areas has allowed manufacturing companies to exploit the lower-cost and highly skilled labor available in a bid to remain competitive through lower costs.
- 57% of companies within the telecoms sector are also active in these areas. The rapid expansion of the BRICS economies requires a complex telecommunications network – western companies are facilitating this through their experience. Expansion into the BRICS economies has allowed telecom companies to mitigate against the sluggish performance of their home markets through the expansion of their revenue base and geographical portfolio.
- 51% of companies within the Financial & Professional services sector are active in the regions. The BRICS economies are an opportunity for these companies to apply their specialized knowledge to a rapidly developing economic model.
- Few government & non-profit and education & healthcare companies are active; such companies are generally prohibited in their expansion overseas.

Proportion of Respondents per Industry currently Active within BRICS

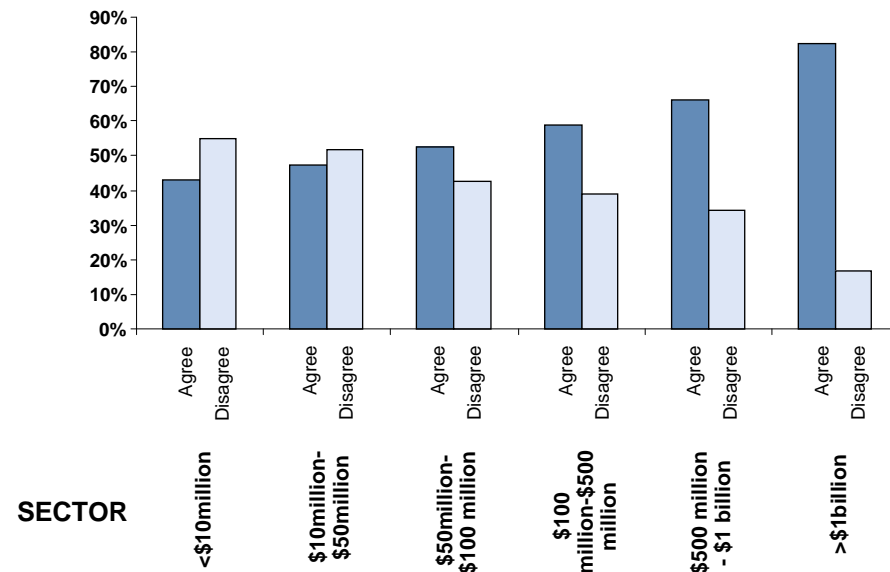


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

**Companies with a high revenue base are more active within BRICS.
However, smaller companies have begun to increase their exposure**

- Companies with revenues in excess of \$1 billion are currently the most active within the BRICS economies. The increasing trend towards globalization has a wider effect on such firms who must look to developing economies to enhance sales, diversify their geographical portfolios and minimize costs through low-cost labor and energy. Larger companies possess economies of scale and scope which facilitate their international expansion.
- Smaller companies will generally look to expand in their domestic market although over 40% of companies in the sub-\$10 million revenue bracket are already active in the BRICS markets.

Proportion of Respondents by Revenue Base currently Active within BRICS

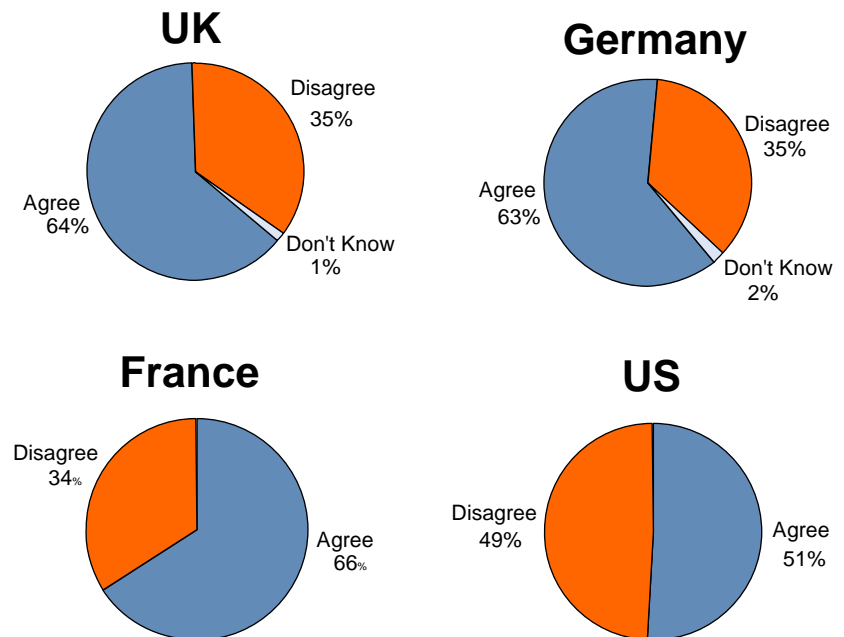


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

In contrast to companies across France, the UK and Germany, US companies are undecided on whether the BRICS economies will have a significant impact upon their the global economy or their business moving forward

Proportion of respondents by company location believing that the BRICS economies will reshape the global economy and have a significant implication on their business

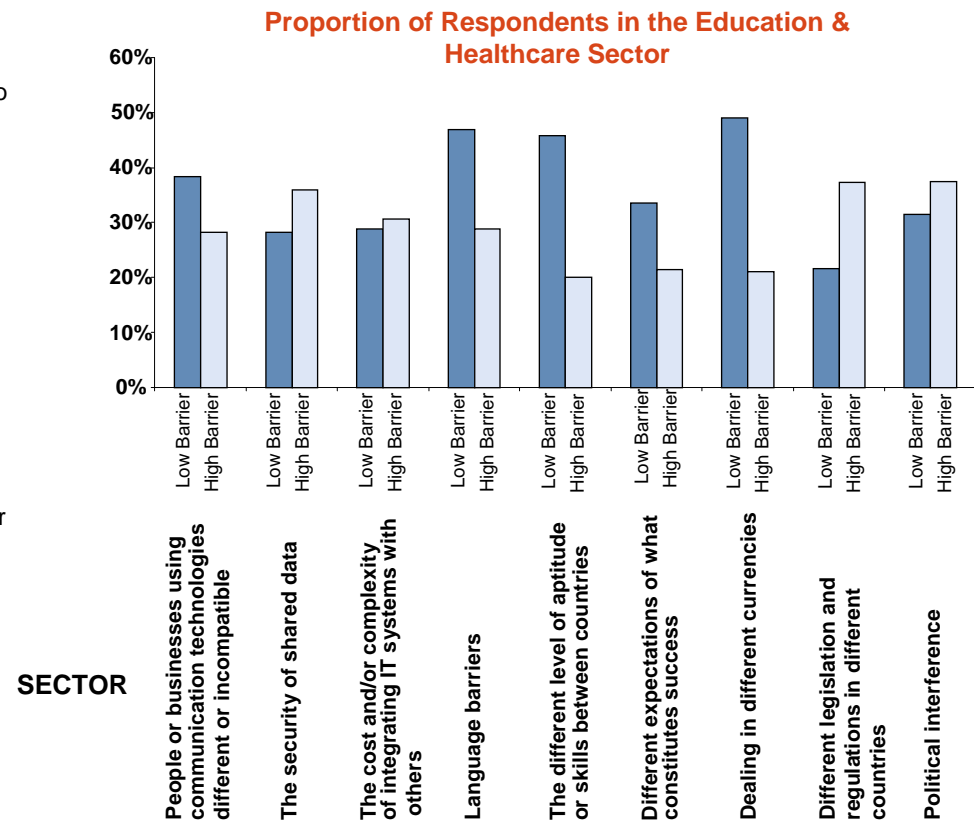
- While more than 60% of respondents in France, Germany and the UK agree that the emergence of BRICS economies will have an important impact on their business and the global economy, only half of US respondents think the same.



Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

Education & Healthcare companies see fewer barriers to entry to the BRICS markets

- Companies within the Education & Healthcare industries see entry into the BRICS economies as an easier prospect.
- Industry Specialists:
 - Rated language as a low barrier to operating within the BRICS countries and South Africa.
 - Consider the BRICS countries to have a similar level of aptitude or skills as within their home markets.
 - Think that varying expectations of what constitutes success in the BRICS economies would not affect their ability to conduct business.
 - Feel that operating in countries with different currencies would not affect their business performance within the BRICS economies.
- However, the security of shared data is considered to be a high barrier to entry as are the regulatory and legislative landscape and political interference.

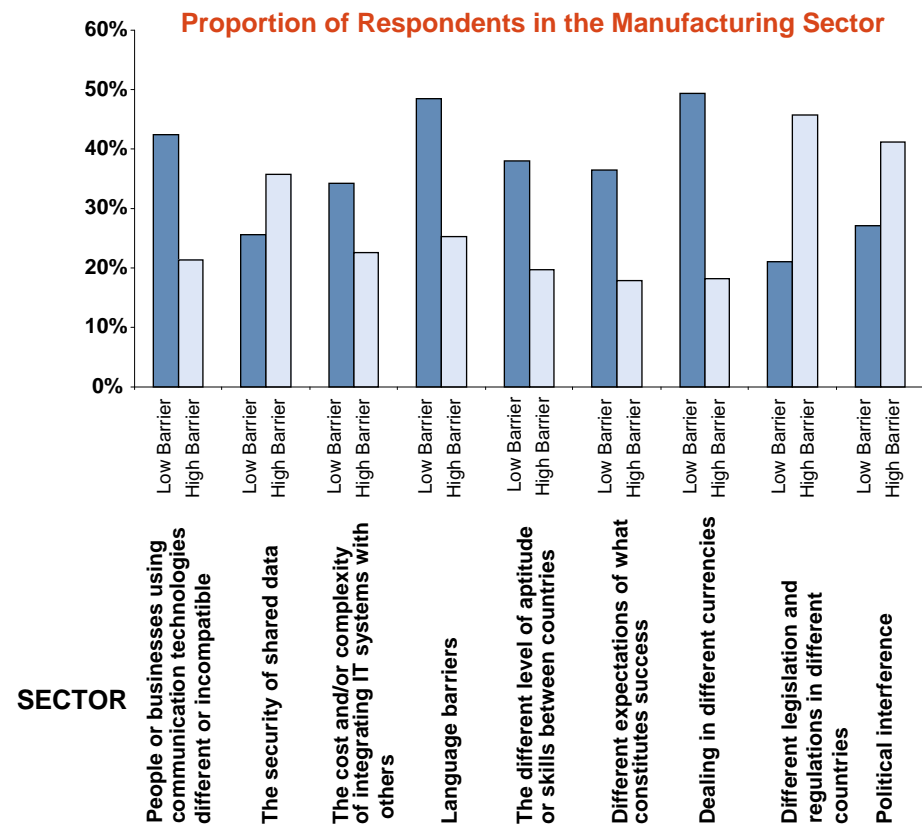


Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

Manufacturing is increasingly being relocated to the emerging BRICS economies

- Manufacturing is increasingly being relocated to emerging economies; companies have looked to reduce costs through higher labor productivity while maintaining a similar quality of product.
- The high number of responses in the low barrier metric strengthens this argument, indicating that manufacturers are happy to conduct business within the BRICS economies.
- Aptitude is considered a low barrier indicating that the types of manufacturing could be lower skilled or rely heavily on machinery.
- Language skills were rated by 48% of manufacturers as a low barrier to entry; manufacturing is generally conducted in the same way independent of language.
- Legislative barriers are considered the highest barrier to entry for manufacturers; further barriers include political interference and the security of shared data.
- Legislative and regulatory barriers are considered among the highest barriers to entry when looking at the overall study; only experts within the education and healthcare sectors gave a response rate of less than 40%.

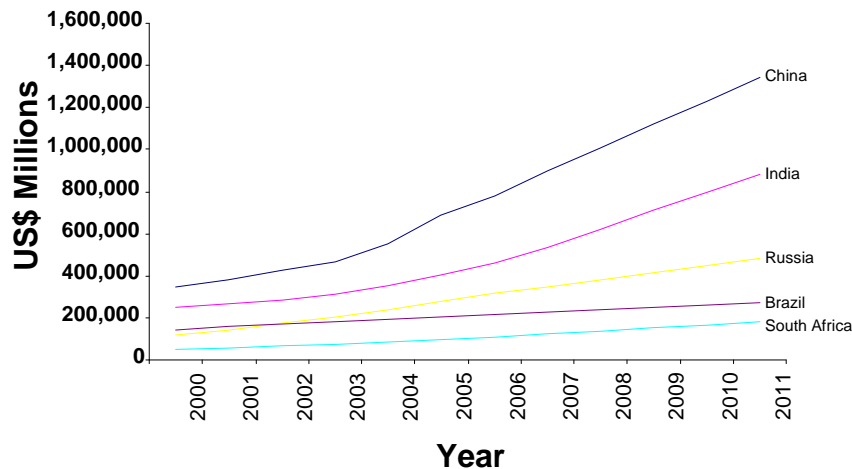
Proportion of respondents considering legislation & regulatory barriers to be a high barrier to entry per sector	
Education & Healthcare	37%
Financial & Professional Services	45%
Government & Non-Profit	40%
Manufacturing	46%
Retail & Hospitality	41%
Telecoms, Media, Entertainment & Publishing	45%



Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

High growth in retail markets across the BRICS economies has attracted investment

Value of Retail markets across the BRICS economies, in US\$ millions



Data from Datamonitor's Retail Knowledge Database

		CAGR 02-06	CAGR 06-11
Compound annual growth, historic and forecast for BRIC and South Africa retail markets	China	16.12%	11.43%
	India	12.71%	13.78%
	Russia	15.48%	8.91%
	South Africa	13.37%	10.54%
	Brazil	6.15%	4.83%

Proportion of Respondents in the Retail & Hospitality Sector

	Low Barrier	High Barrier
People or businesses using different or incompatible communication technologies	42%	24%
The security of shared data	30%	34%
The cost and/or complexity of integrating IT systems with others	30%	20%
Language barriers	43%	30%
The different level of aptitude or skills between countries	36%	20%
Different expectations of what constitutes success	34%	16%
Dealing in different currencies	45%	23%
Different legislation and regulations in different countries	20%	41%
Political interference	35%	34%

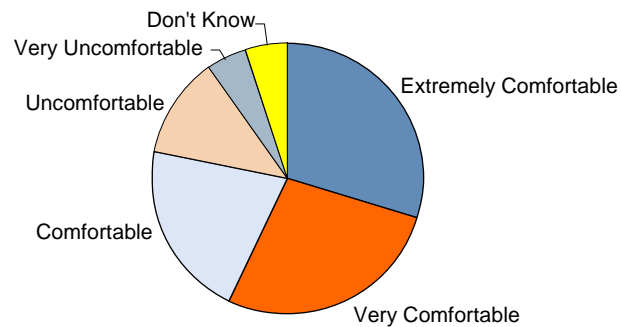
Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

- The rapid increase in both population and disposable incomes across much of the BRICS economies have created a large and increasingly affluent consumer base which retailers in particular have looked to exploit. Retailers have shown a clear tendency towards China and away from Russia.
- Retailers consider legislation as the highest barrier to entry but generally consider most barriers to be low when compared to the potential for revenue growth.

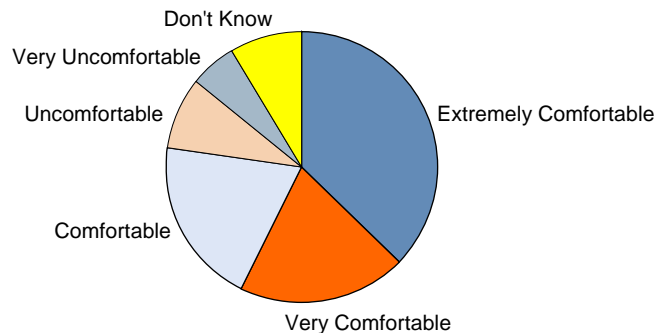
Companies in high skilled and regulated industries are generally more comfortable doing business in India than other BRICS countries or South Africa

Proportion of Respondents comfortable doing business in India, by sector

Financial & Professional Services



Telecoms, Media, Entertainment & Publishing



- The highly skilled, English speaking Indian workforce is a popular destination for companies involved in the high-skill financial services and telecoms, media, entertainment & publishing sectors.
- UK and US companies are particularly confident doing business in India.
- However, UK companies within the Financial Services sector, while comfortable, posted a low proportion of extremely comfortable responses, suggesting a lower involvement.
- Rapid growth in GDP makes India an attractive market for financial services providers but the competitive landscape is different to many western markets. The existence of high levels of poverty, especially in rural regions, the continued strong contribution of agriculture to GDP, and the dependence of many on small-scale businesses have all influenced the way the industry in India has developed and the financial products that are in demand.
- WTO membership and a need for direct foreign investment have recently led India to liberalize a large proportion of their FS industry. While domestic players still benefit from protection in several sectors, - foreign companies are forbidden from owning any more than 26% of an Indian insurance company - this picture is changing.
- At present, a foreign bank can operate in India as a branch, a wholly owned subsidiary, or a subsidiary with up to 74% foreign ownership. Beyond Q1 2009, foreign companies are to be permitted to acquire up to 74% of private-sector Indian banks and, under WTO commitments, India must allow at least 12 foreign bank branches to open each year creating a more favorable outlook for foreign investment into the Indian FS industry moving forward.

Data based on Datamonitor's survey of 830 industry experts across 6 sectors.

Companies appear less willing to enter the Russian market but the outlook appears promising for the Russian FS landscape

- Companies have demonstrated that they are generally less comfortable doing business in Russia than in most other BRICS economies. Further, the relatively new free market and a lack of legislation continue to be a large hindrance to entry.
- The Russian business community has less than 15 years experience of operating within a free market economy. Although the majority of Russian business interests are now privately owned, business practices and traditions hold many legacies of the former regime.
- The Russian government has introduced a substantial amount of legislation in recent years to increase the transparency of business operations and facilitate the policing of industry. Perhaps one of the greatest benefits to the supervision of business operations will be the harmonization of Russian national accounting standards with international financial reporting standards (IFRS). Consumer banking is growing strongly, in terms of accounts opened and credit extended, demonstrating increasing consumer incomes and a potentially lucrative area for foreign FS companies moving forward.
- The Russian insurance market was shaken in 2005 and 2006 by the closure of many life insurance companies that had operated as tax-avoidance mechanisms. This undeveloped market is, while currently not attractive, expected to become an exciting proposition to foreign companies, and the recent lifting of restrictions on foreign ownership of insurance companies should facilitate market entry. Indeed, it is anticipated that the preparation of the country over the following decade for accession to the WTO will open many Russian industries to foreign investment.
- Due to the sheer size of the country, telecommunications have always been in high demand in Russia. Historically, the rest of Europe has developed its telecommunication infrastructure at a faster rate than Russia, chiefly due to political and economic reasons.
- Long distance telecommunications have been slow to develop in Russia, as the market remains mostly regionalized. This is again due to the size of the country. Only a handful of operators provide national and international long distance calls, and the market is dominated by Rostelecom, which used to hold a monopoly.

Proportion of Respondents comfortable doing business within the Russian economy

	Education & Healthcare	Financial & Professional Services
Extremely Comfortable	7%	6%
Very Comfortable	12%	13%
Comfortable	27%	24%
Uncomfortable	25%	27%
Very Uncomfortable	21%	25%
Don't Know	8%	6%

	Government & Non-Profit	Manufacturing
Extremely Comfortable	10%	8%
Very Comfortable	7%	11%
Comfortable	14%	23%
Uncomfortable	31%	29%
Very Uncomfortable	21%	26%
Don't Know	17%	4%

	Retail & Hospitality	Telecoms, Media, Entertainment & Publishing
Extremely Comfortable	2%	11%
Very Comfortable	7%	11%
Comfortable	30%	20%
Uncomfortable	35%	20%
Very Uncomfortable	25%	29%
Don't Know	1%	9%

Data based on Datamonitor's survey of 830 industry experts across 6 sectors.



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