Fast-Expanding Markets:
Where New Growth Can Be Found!

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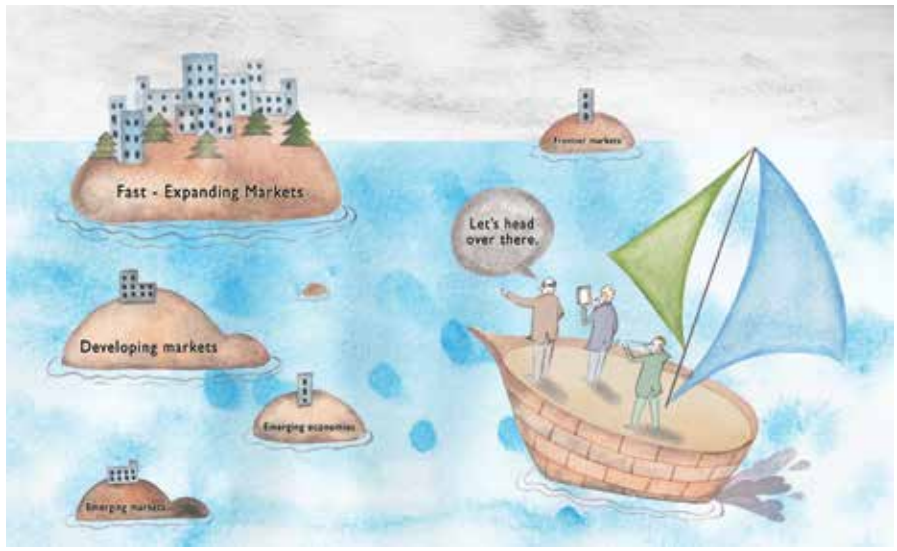
This article is dedicated to provide a working definition of these markets, which we call "Fast-Expanding Markets" (FEMs). The need to coin a new term for such markets is increasingly urgent, as commonly used terms are deficient. For instance, "emerging economies" or "developed markets", whilst popular, focus only on markets at the country level. In contrast, the term FEM is far more encompassing, as it is not restricted to traditionally defined boundaries, such as geographical, industrial or firm boundaries. It is sufficiently general to refer to any rapidly growing opportunity, with the market as a focal point, regardless of whether that market exists on a supranational, national, regional, industry, cluster or firm level. While it is possible to argue that the term is too broad or unspecific to pinpoint real economic drivers and determinants of growth, it is exactly this unique characteristic that allows managers and policy makers to find new sources of wealth and prosperity. In short, thinking along the lines of FEM frees our minds from the restrictions and boundaries of geographies or industries, and enables us to consider markets from new perspectives and to find new ways of achieving economic growth.



From the end of the dot-com crash in 2001 to the beginning of the financial crisis in the first decade of this century, markets blossomed and new business opportunities emerged around the world. With property values and share prices constantly increasing, the general public felt rich. This feeling led to overspending and overconsumption, which in turn promoted more new business opportunities than ever before. This further fuelled the propensity to spend, supported by the illusion of the potential for new fortunes. While we – the general public – found it easy to part with our money, it was even easier for us to borrow the money that we wanted to spend. Hence, a general impression of wealth emerged. At the same time, manufacturing-based countries – especially China – kept churning out the products that we increasingly desired at ever-lower prices. It was a tremendously prosperous period for companies and businesses, which only had to comply with one requirement: to ensure their place on the map of the evolving world.

However, in the aftermath of the financial crisis, the golden decade has been consigned to history. After the financial crisis and the subsequent economic crisis, we live in a world in which people have no choice but to start (belatedly) exercising financial discipline. Such discipline has taken many forms, ranging from austerity in the countries in which overspending was a habit to parsimony in those that were always prudent. In today's world, individuals find themselves questioning their ability to hang on to their jobs on a daily basis. Consumer confidence has plummeted, severely affected by diminished prosperity and uncertain job prospects. This, combined with deep cuts in public spending, has left individuals financially conservative and spending savvy (if they spend at all). In addition, many companies and businesses have shifted their focus away from

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profitability and towards ensuring their economic survival.

The Importance of Top-Line Growth

While the outlook remains bleak, we do not believe that the situation is all "doom and gloom". Understandably, companies may adopt a policy of retrenchment in response to a real economic recession. In difficult times, firms tend to favour business processes focused on "re-engineering", "streamlining", "restructuring", reorganising", "downsizing" and "outsourcing" in order to maintain profitability. In fact, in challenging economic contexts, such means are often preferred because they are easier to pursue than revenue growth, which requires the enlarging of existing markets or the discovery of new ones. The costs of retrenchment are initially hardly visible. Some strategists suggest that as the level of complexity in the economic landscape rises, these processes "protect" companies from market expansion by enabling them to focus on perfecting corporate introversion or organisational alignment.

The downside of retrenchment is that it is, at best, a short-term solution that temporarily boosts earnings. It produces few benefits in the long run because it relies on a strict accountancy perspective – costs can only be slashed to a certain point without causing unintended consequences. For example, in order to cut costs, many companies have moved production to countries with less-expensive labour. However, this does not necessarily lower costs – lower labour efficiency alone might cancel out anticipated savings. Furthermore, past studies suggest that if labour costs in a new country are one-third the corresponding costs in the home country, then labour productivity tends to be one-third the level in the home country.[1] Similarly, reducing costs for parts can have counter-productive effects: cheap parts usually result in an increase in costs associated with quality, service, operations and overhead. This can be a particularly important consideration given that customer retention becomes more important in economically difficult times. If all firms compete on price, thrifty consumers will be more inclined to base their purchase decisions on the quality and unique features of goods and services with similar prices. Excessive cost slashing can therefore dampen sales. In summary, cost-saving programmes are only effective in maintaining financial profitability if revenues do not shrink.

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From this vantage point, we argue that it is far more paramount for firms to concentrate on top-line growth than on lowering costs. While cost cutting can lead to an immediate increase in profit, an expansion of the sources of revenue will lead to far more sustainable advantages. While new ways of lifting sales in tough times have been widely discussed in the past, we suggest a new possibility: the identification of business opportunities in new markets, which we call "Fast-Expanding Markets" (FEM).

Fast Expanding Markets

Put simply, "Fast-Expanding Markets" refers to any rapidly growing opportunity in which the market is the focal point. Such a market may exist at the supranational, national, regional, industrial, cluster, sector, corporate or product level. FEM are everywhere. At times, they grow intuitively, while at other times they grow counter-intuitively, so that the application of traditional market and economic theories is often inappropriate. Which place in forecast and predictability a quintessential part of how value is generated. FEM are distinct from some of the previous concepts related to new markets and new market spaces due to the fact that FEM represent potentially extremely lucrative markets that many people are unaware of or have overlooked.

How could so many of us have missed out on these potential markets? We believe that a combination of limitations inherent in the existing terminologies and the prevalent conservative view on growth play important roles. Thus far, people have associated such expressions as "emerging markets", "emerging economies", "frontier markets" and "developing markets/economies" with growth opportunities. In our view, such concepts suffer from various shortcomings when describing new growth opportunities.

First, ***these terms are obsolete if not misleading***. Terms such as "emerging markets" traditionally refer to countries or regions with inadequate economic welfare and structures. However, this label is also applied to those economies that have already "emerged". For example, until recently, *The Economist* viewed Singapore and Hong Kong as emerging economies, and the FTSE labels them as "advanced emerging markets". Nevertheless, according to the World Bank, the purchasing-power-adjusted per capita GDPs of Singapore and Hong Kong in 2010 were USD 43,867 and USD 31,758, respectively. On this basis, Singapore exceeded Japan, Germany, France and the UK, and both economies ranked above Spain, Israel and Portugal. In contrast, numerous "advanced", "emerged" and "developed" economies, such as Greece, Spain and Italy, are on the verge of economic contraction. They might even be described as "submerging" markets.

Indeed, some of the stigma attached to the concept of "emerging markets" are no longer valid and should be contested vigorously. Emerging countries tend to be seen as possessing small equity markets with levels of liquidity

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and price fluctuations typical of inefficient capital markets. Their labour efficiency and market size are often believed to be reduced, and they are often assumed to suffer from controversial policies that demonstrate economic inadequacy. In reality, however, equity markets in some "emerging" countries are sufficiently sizeable, with liquidity and volatility levels that match those of their more "advanced" counterparts. At the same time, the level of corporate governance in various "emerging markets" is moving close to, if not surpassing, levels seen in developed markets.[2] As the distinction between "emerging" and "developed" markets blurs, the applicability of these descriptions becomes increasingly limited. It is, therefore, no wonder that *The Economist* (2008) called for the term "emerging markets" to be rendered obsolete. Clearly, a new term is needed to describe growth markets.[3]

Second, ***these terms only imply growth***. While the difference between "advanced" and "emerging" countries is becoming increasingly ambiguous, one distinction is clear: "emerging" markets are the engines of the world economy, while "developed" economies are experiencing marginal growth, at best. "Emerging" countries have experienced above-average, if not substantial, GDP growth in recent years, although part of this has been the result of starting from a lower base. Linear extrapolation implies that these economies should continue to show similar growth rates in the coming years. The problem with this line of logic is that growth is only suggestive and structurally contingent, if not conditional. Expressions such as "emerging markets" or "developing countries" imply growth, but they do not explicitly stress this prospect. Given the importance of the search for fresh sources of growth, it is surprising that a proper term dedicated to describing new growth opportunities is lacking. We believe that the FEM term can serve this purpose.

Third, ***these terms are overwhelmingly focused on the macroeconomic context***. Perhaps the greatest problem with expressions such as "emerging markets", "developing markets", "advanced economies" and "developed markets" is that as long as markets are maintained as the unit of analysis, it is easy to miss growth markets in countries with lacklustre overall economic performance. If we only conduct analyses at the macroeconomic level, many growing business opportunities that have yet to contribute substantially to a country's GDP will go unnoticed. It is exactly the identification of markets that are "off the radar" that create businesses advantages for companies.

For example, many researchers have viewed Japan as a languishing economy for the past two decades: its traditional businesses are facing ever-mounting cut-throat competition from China and Korea, and it ranks low in competitiveness.[4] From this perspective, it may be tempting to view Japan as a nation in continuous decline with few growth prospects and to discount it as a potential source of new opportunities. However, this view reflects a focus on the country's macroeconomic situations. If we look deep enough, *pockets of exceptional growth* can be observed. Whereas Japan's consumer-electronic industry may appear to have passed its prime, its pop culture-industry has been expanding in the global market. For instance, the popularity of Japanese comics, or *manga*, has been booming in the US for the past decade, even though this genre is culturally distinct from mainstream US comics.[5] The same is true of "cosplay", a sub-culture originating from Japan in which people dress in costumes and take on the roles of various characters from animated series or computer games. In Japan alone, the cosplay costume industry grew by 5% in 2009, to around USD 500m.[6] Cosplay is becoming an important part of Japan's pop-culture exports. Indeed, a "World Cosplay Summit", which was sponsored in part by Japan's Trade Ministry and publicised by Japan's Ministry of Foreign Affairs, was held in the summer of 2011.

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While some may argue that "emerging markets" as such are neither sizable nor significant, it is far harder to dispute the fact that they could offer growth opportunities. The above example clearly illustrates that new opportunities exist at more granular levels. We can discover a new configuration of how markets emerge by focusing on or around those pockets of growth, which develop in a much more spontaneous manner than what we have been trained to anticipate. Pockets are spontaneous in nature, rebellious in behaviour, fast and expanding at a rate that would impress in terms of any indicator or in any angular analysis. Pockets of growth are cells of FEM in that they are embryonic transporters of new business opportunities that are often untapped and undetected.

Examples

To better understand FEM, we conducted extensive pilot research in an attempt to identify markets that could expand by more than 15% per year over a period of three to five years. This time span enabled us to exclude distortions arising from speculative behaviour, which can be recursive in several prime and equity markets.

To our surprise, the markets that we identified as "fast" and "expanding" were much more "fast and furious" than we initially assumed. For example, the bio-stoves market in Kenya has been growing by at least 300% annually for the last three years, with growth peaking at 500% in 2012. Similarly, in Uganda, money transfers made through SMS-based technologies totalled USD 17.5 billion in the last five years, with annual growth peaks ranging from 200% to 290%. This highlights an opportunity to turn the cancerous nature of an informal economy into something formal. We also investigated whether a form of FEM could be found in agriculture. We found that, for example, Bolivia's economy has been supported by the rapid increase in demand for quinoa, which resulted in an annual growth rate of 26% for the last five years. This FEM was not only inspired by technological innovation but also by a truly territorial emergence across a number of organized economic complexities.

The Merits of the Fast-Expanding Markets concept

In short, FEM refers to any rapidly growing pocket of excellence. Often, such pockets have gone undetected given the fixation on terms such as "emerging" and "developing" economies. In contrast to these terms, FEM places explicit emphasis on the growth aspect. The adoption of this perspective enables the exploration of markets at more granular levels.

Some may suggest that the term FEM is too broad to be useful. However, we believe that it is exactly this characteristic that allows the term to encompass a vast variety of business opportunities and new sources of wealth, which could truly shape new seeds of prosperity. It is only by broadening our horizons that we can break away from limitations imposed by such popular terms as "emerging", "developing/developed" or "frontier" markets.

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Moreover, some may argue that FEM are nothing more than conjectures, as forecasting naturally entails disappointments. This may be true – admittedly, not every FEM will deliver promising results. However, analyses of FEM phenomena should help us prepare for the future. In a sense, these markets are akin to a compass – while they may not provide enough information to pinpoint exactly what lies in the future, they can generate opportunities that honour real economy as the agency of development rather than the financial-based economy that has created the disillusioned need of emerging economies, to despair, divide and impoverish our world even more.

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2. Everest Capital (2009) "The End of Emerging Markets," November, http://evcapan.com/documents/TheEndofEmergingMarkets.pdf, accessed on 7 November 2011.
3. The fact that *The Economist* uses term "emerging markets" while it simultaneously calls for a halt in the use of the term highlights the genuine need for new term to describe up-and-coming markets.
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