

# BRICS – THREAT OR OPPORTUNITY?



“ For years now, everyone seems to have been scratching their heads and wondering what to do about the BRICs. But their worry may well be misplaced: if we play our cards right, these emerging economies could well end up helping the UK, not hindering it.

Brazil, Russia, India and China were first referred to as BRICs by Goldman Sachs in 2001, and since then they have been much vaunted as the next economic powerhouses, and much has been said about them overtaking the traditional superpowers in the G7.

In fact, these economies account for 25% of the world's land coverage and 40% of the world's population. Combine these facts with the recent financial crisis and it's no wonder that many believe that the West's time will soon be up.

To a certain extent this is right: the BRICs are indeed catching up with the UK and Europe – China has done so already and is expected to be top of the pile in terms of GDP per capita by 2030. According to a blue paper released by the Chinese Academy of Social Sciences recently, China became the second-largest luxury product market after Japan. The paper goes on predicting that the country is set to become the world's No. 1 luxury market in 2015.

But patterns of consumption in China are striking, with huge differences between urban and rural areas, as well as demographic factors such as age. For example, in China it is the under 40s who are spending most on luxury goods, while in the G7 the pattern is reversed, with senior adults spending more on pampering themselves. And while people in mature economies approach luxury as a life style, the Chinese embrace it as something to show off, with gift shops displaying the price tag of goods prominently on outer wrappers, for example.

The car industry in China highlights this upward trend. Despite an average per capita income of just over \$4000, Bentley has sold more Mulliner limousines in Beijing than anywhere else in the world. A Mulliner retails (if you can think of it as a plain retail purchase) at a cool \$1.2 million apiece.

Unsurprisingly, car industry analysts predict that China will soon become the world's largest market for luxury automobiles.

The opportunities are therefore most definitely there for any country that doesn't just throw up its arms and accept defeat. The real question is how to get it right.

In a recent article in 'Investment Week', Jim O'Neill, the father of the BRICs concept, said that the key to competing with these countries is realising how big their markets are going to become. Marketing in the BRIC countries isn't going to be straightforward though, and even luxury brands are ambivalent as the concept of brand loyalty is virtually unknown.

The importance of getting it right is highlighted by the tale of a familiar car manufacturer's attempts to break into the Indian market. In a well documented example, when this multinational adapted one of its inexpensive cars for the Indian market, they tried to cut costs by only installing power windows for the front two seats.

The problem was that even though the car cost in the region of £10,000, it was still affordable only by India's richest – the sort of people who have chauffeurs. They had given the power windows to the wrong people.

Similarly, a British manufacturer of specialist photo processing systems had specified the use of expensive UV equipment in conjunction with one of its products – only to find out that with sufficient manpower (something that's inexpensive in the BRIC countries) and by just exposing the product to the fierce Indian sunshine, there was no need to commission additional equipment.

Adaptation to the needs of the BRIC markets also requires preparation to prevent counterfeiting. This problem is probably more evident in China than anywhere else and it doesn't just affect fashion brands such as Gucci, Louis Vuitton or Cartier, but even industrial products. Chemical manufacturers are fully aware that some of their products are constantly imitated, at times very crudely and with great danger to operators, by inexpensively forging containers and labels. In a country with a population of just under 1.5bn and distribution processes of Byzantine

complexity, keeping an eye on brands can be a colossal challenge even for large international corporations.

Exports from the G7 to the BRIC countries have begun to trickle. O'Neill claims that many American companies are taking themselves off to these emerging markets. The onus now seems to be on British and other European companies to do the same and the first indicators are showing a strong upward trend in this direction.

As these countries develop, it seems ridiculous to think they will be content to work in our call-centres and construct our electronic goods: these are countries that are changing rapidly and we have to come to terms with that.

These are also countries with ambition, and meeting that ambition is something we can help them do – and from which we can derive great benefit. But aside from fuelling ambition we have a duty too, especially when it comes to matters environmental. In a globalised economy, it is simply inconceivable that we could neglect good practices, either in terms of health and safety or environment, for the sake of short term gains, as the effects of such carelessness will soon come back to haunt us too.

The amount of global competition is going to increase, and everyone will have to up their game, but what more exciting prospect is there? The countries – and indeed companies – that worry about the BRICs could well be the ones that won't survive their advent. The ones that welcome the competition with open arms can almost certainly gain from it.



***So, yes, it is probably true that the BRICs will rank amongst the biggest economies in the world by 2050, but don't let this blind you to the fantastic opportunity this represents.***

***And anyway, BRICs are so 2000s. The next big thing is N-11: the so-called Next Eleven made up of Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam.***

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