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Meeting unmet demand in emerging markets



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INTRODUCTION

More than 300,000 jobs in the Nordic region can be linked to Nordic exports to emerging markets (EM¹) and the importance of new growth economies is no longer in question. Emerging markets are expanding at a rapid pace at a time when traditional and developed economies are struggling with the burdens of the financial crisis, increasing debt, rising unemployment and low productivity growth.

The massive differences in growth and growth potential imply that the economic, social and political development globally will be shaped by emerging markets. The rise of the BRIC countries as global superpowers is often referred to as one of the key manifestations of this development although the development is much more fundamental and involves a broader and more diverse group of countries in Asia, South America and Africa.

A realignment of economic activity from the West to the East and the South has huge implications for people, business and governments all over the world. The welfare level in small open export driven economies like the Nordics is already closely linked to the export performance abroad, and the global shift implies that a truly global outlook is becoming an even more important factor for growth and prosperity in the Nordics.

Nordic companies are already well represented in key emerging markets like China and Russia and each Nordic country holds a number of international strongholds in other markets as well. However, Nordic presence is often either associated with a few flagship companies or specific projects and these often have a close link to official development aid programs. Consequently, Nordic presence in emerging markets is not in accordance with the range of business opportunities offered by emerging markets today. More importantly, the current Nordic presence provides a sub-optimal platform for tapping into the business opportunities of tomorrow.

In order to promote growth and job creation in the Nordic countries, there is an increasing need to identify unmet demands in emerging markets and explore ways to realize the market opportunities. Innovation of products and services tailored to emerging markets and establishment of new innovative partnership across and between companies, sector and countries will be instrumental in this respect.

This purpose of this report is to establish a solid platform for a constructive dialogue on the Nordic opportunities in emerging markets. The report is based on a detailed analysis of international trade patterns to identify current stronghold positions as well as an analysis of nine global megatrends that will shape market conditions for Nordic companies in emerging markets going forward.

The report is considered a first important step in a process that aims to strengthen the existing knowledge base related to emerging market opportunities with the aspiration to unlock new opportunities for Nordic companies in emerging markets in the future.

The report is produced by Dalberg Research, December 2013.

¹ This study focus on the 25 largest economies (measured in terms of GDP) that are classified as either Growth markets or Emerging Markets by IMF

EXECUTIVE SUMMARY

The Nordic countries are all open, export driven economies, and companies within the Nordic region possess a wide range of international stronghold positions, i.e. agriculture, fish, paper, minerals, health, electronics etc. Nordic export patterns to emerging markets reflect these stronghold positions and each Nordic country holds a unique export profile within emerging markets. In general, Denmark and Sweden hold a more diverse range of stronghold positions than other Nordic countries, while Sweden and Finland are more engaged in emerging markets than Denmark, Iceland and Norway. The differences in performance can partly be explained by the fact that capital goods play a more important role in Swedish and Finnish exports as compared with exports from other Nordic countries.

Massive variations in export patterns may indicate untapped market potential

An analysis of Nordic export performance in emerging markets reveals that the export patterns of the individual Nordic countries are characterized by significant differences (e.g. in terms of country and sector focus). Nordic companies within a certain sector might have a high level of exports to some countries, while at the same time no exports to other countries. The differences observed may partially reflect the fact that market focus is explained by opportunistic firm behaviour. Alternatively, the differences can be a result of the existence of global value chains (GVCs), which implies that export performance might be a poor indicator for market focus, as companies may choose to serve a market through local production.

However, a low level of exports to a certain country or sector, could also be an indication of an unrealized potential that needs to be explored in more detail. This study indicates that all Nordic countries hold a broad range of unexplored market opportunities in emerging markets, including pharmaceuticals in Russia (Denmark, Sweden), machinery in China (Finland), dried fish in Brazil (Iceland), chemicals in South Korea (Norway) and tractors in Turkey (Sweden) – to highlight a few examples.

Emerging markets offer a range of opportunities

Emerging markets already offer many attractive market opportunities for Nordic companies and the range of opportunities will continue to expand in years to come.

Market conditions in emerging markets will be shaped by a number of global megatrends – e.g. economic growth, demographic development and a growing demand for resources. The impact of each trend is difficult to predict as the importance of specific trends will vary significantly across sectors and countries. However, an evaluation of the likely trends clearly indicates that the range of market opportunities in emerging markets will expand rapidly in coming years. BRIC countries (Brazil, Russia, India and China) will remain among the most important drivers in the world economy for many years, but other emerging markets such as Indonesia, Nigeria and countries in the Middle East (e.g. Turkey and Saudi Arabia) are also likely to play a more important role going forward.

Market opportunities will emerge in different stages

Short term, the majority of market opportunities will be linked to the larger economic centres in emerging markets where there is a match of needs and demands similar to the match found in traditional Nordic exports markets. In addition to these commercial opportunities, the development sector will also represent a potential for Nordic companies, e.g. as part of public-private partnerships.

China and Russia are likely to remain the most important emerging markets for Nordic countries for many years, although the economic and social development will continue to stimulate market opportunities in a range of other countries as well.

In the medium and longer term, the range of opportunities will be much broader in terms of countries as well as sectors. Global mega trends – e.g. in terms of globalization, expansion of the global grid (ICT infrastructure, communication systems, etc.) and urbanisation – will continue to open up markets and generate business opportunities for companies with a global outlook, a solid resource base, and the capacity to innovate. Food, health, energy, and infrastructure appear to be among the most attractive focus areas in terms of sectors, while the next generation of large growth economies – e.g. Nigeria and Indonesia – are likely to offer even more attractive opportunities for Nordic companies.

1. A WORLD OF EMERGING OPPORTUNITIES

Over the past five years, 70 percent of the growth in the world economy can be attributed to the economic progress in emerging markets. A growing talent mass, high investments rates and technological leapfrogging creates a solid platform for growth, and implies that emerging markets are expected to remain the key driver behind global economic growth in years to come.

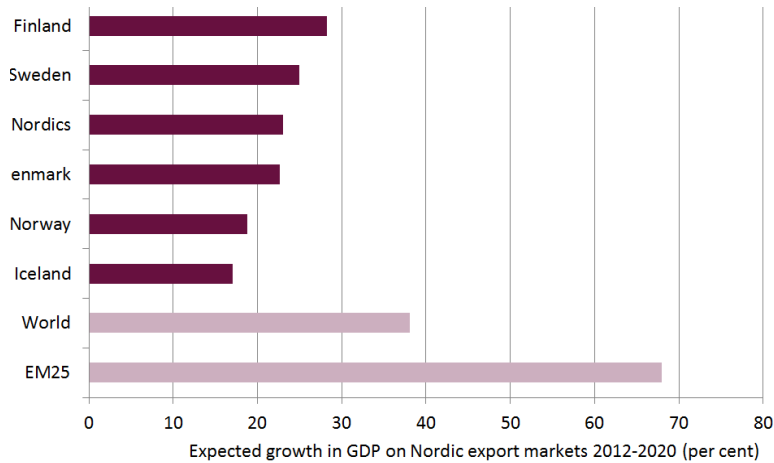
Based on recent estimates from IMF, the economic activity within the eight largest global growth economies² is expected to expand by 8,700 billion USD over the next five years. This increase is more than the total aggregated economic activity within Germany, UK and France today. This growth will generate an enormous demand for goods and services for investments, as well as for consumption, and this will in turn generate a wide range of market opportunities for Nordic countries in emerging markets.

Most Nordic exports continue primarily to be directed toward the most developed regions of the world and in particular, markets within the European Union (EU). At first glance, this market focus may appear rational since European countries are characterized by higher income, a single market structure (i.e. no tariff barriers), better infrastructure and a higher degree of social and political stability compared to emerging and developing markets. On the other hand, emerging markets generally have a much stronger growth base due to population growth, high investment rates, and opportunities for technological leapfrogging. Consequently, emerging markets are expected to grow much faster than the more developed regions of the world, implying that growth and prosperity within the Nordic region will be closely linked to the market focus within individual Nordic companies.

² Brazil, China, India, Indonesia, Mexico, Russia, South Korea and Turkey

Based on the current market focus, Nordic companies can be expected to experience a market growth of 15-25 percent in total over the next five years. In comparison, the world economy is expected to grow about twice as fast, while the growth in emerging markets is forecasted to be three times higher.

Exhibit 1.0: Expected market growth 2012-2020



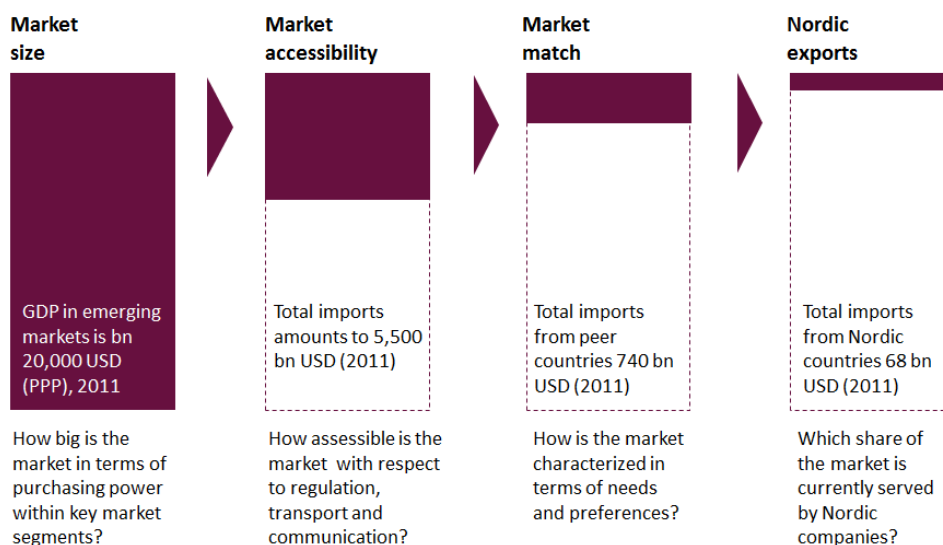
Note: The figures for World and EM25 are estimates for GDP growth within these regions

1.1. ANALYSING THE EMERGING MARKET POTENTIAL

The market potential in emerging markets can be seen as a function of three groups of mutually enforcing market parameters: Market Size, Market Accessibility and Market Match.

- *Market Size:* Aggregated purchasing power and number of potential clients within the relevant market segments
- *Market Accessibility:* General ease of doing business, regulation, transparency, communication, and infrastructure
- *Market Match:* Overlap between needs and preferences in the market and product and services provided by market suppliers

Exhibit 1.1: Market attractiveness is a function of size, accessibility and match



Emerging markets vary significantly in terms of the different market parameters just as there may be considerable differences between sectors. A large economy like Brazil, might appear as an attractive market due to large market size and a good overlap between market demand and the capabilities possessed by companies in the Nordic countries. However, the Brazilian market might in practice be inaccessible due to trade barriers etc. Likewise, a market like Vietnam may at first glance appear unattractive due to its limited size, but may represent a large potential due to easy access and a high preference for goods and services provided by Nordic companies. Consequently, an evaluation of market opportunities in specific markets call for a nuanced and holistic evaluation of market size, market access, and market match, which implies that no simple ranking of market opportunities will be applicable for all countries, sectors and companies.

1.2. EXPORT PERFORMANCE IN EMERGING MARKETS

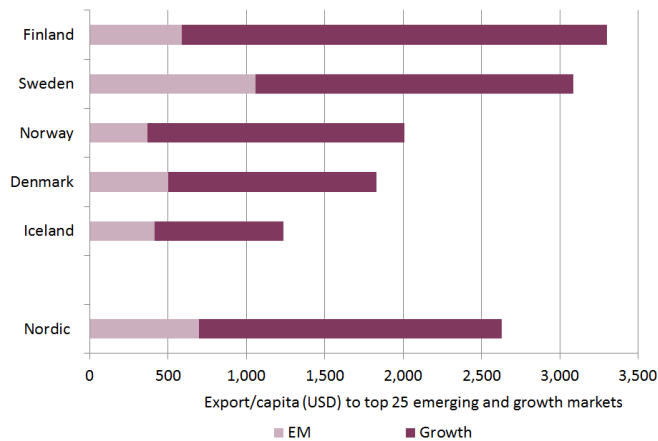
In general, developed economies offer a wider range of business opportunities for Nordic countries and companies than developing countries. This implies that export to emerging markets tend to be concentrated on fewer product categories than export to more developed countries. In particular, this is distinct in developing countries with low income levels, as these economies are less sophisticated and often lack maturity to adopt high-end Nordic consumer goods.

1.2.1 GENERAL PERFORMANCE

In 2011, total Nordic export to the top 25 emerging market countries (EM25) amounted to 66 billion USD, equivalent to 1.2 percent of total imports, or 0.3 percent of the total economic activity (GDP) within these 25 countries.

The export performance of the individual Nordic countries varies significantly as companies in Finland and Sweden are generally more active in emerging markets than companies from Denmark, Iceland and Norway. In Sweden and Finland, exports to EM25 amounts to more than 3,000 USD/cap., while the corresponding levels in Denmark, Iceland and Norway is less than 2,000 USD/cap.

Exhibit 1.2: Nordic performance in top 25 emerging markets

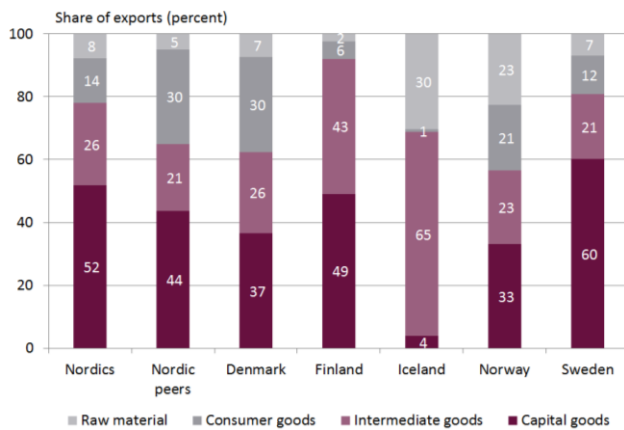


1.2.2. NORDIC EXPORT PATTERNS

The relative importance of raw materials, consumer goods, intermediate goods and capital goods in terms of total exports to emerging varies substantially between the Nordic countries. Exports of capital goods account for more than half of Nordic exports to emerging markets - twice the share found in traditional Nordic export markets. The Finnish and Swedish strongholds within the capital good sector constitute an important explanation for the relative stronger export performance in these two countries compared to the other Nordic countries. The proximity to the large Russian market is another important explanation.

While Nordic export performance is relatively strong within the capital goods sector only few Nordic companies are present in emerging markets within the consumer good industry. Consumer goods account for only 14% of total Nordic exports to emerging markets, which is much lower than the share of consumer exports from Nordic countries to Europe where the corresponding share is 30%. However, export of consumer goods is relatively high to Russia and to other large countries such as Turkey and Mexico.

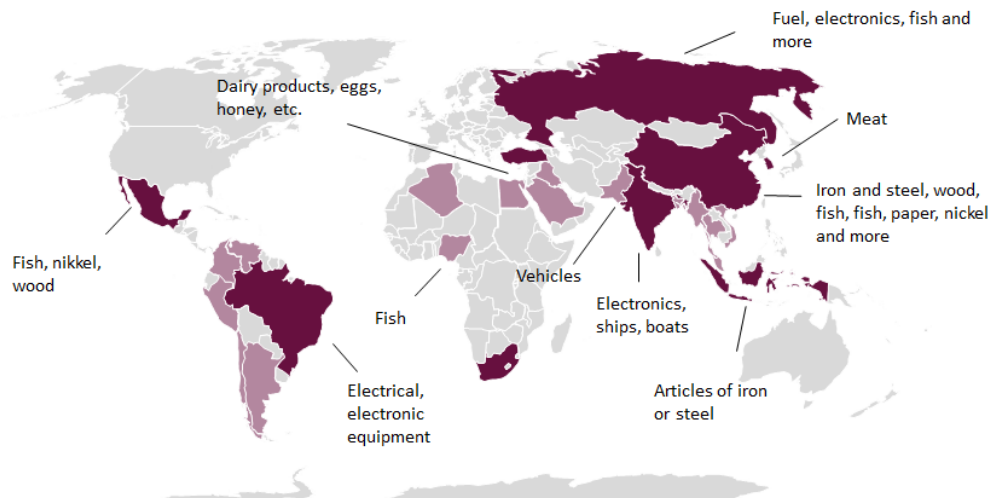
Exhibit 1.3: Nordic export to growth markets by product type



1.2.3 NORDIC STRONGHOLDS

Each Nordic country holds a unique stronghold in terms of sectors and countries. Sweden is particularly strong in electronic exports to markets such as China and Russia, while Iceland has a significant stronghold in terms of export of fish to emerging markets such as Nigeria and Egypt.

Exhibit 1.4: Current Nordic stronghold positions in emerging markets (relative)



Note: The map depicts some of the current Nordic stronghold positions (relative) in emerging markets defined as product /country combinations where the aggregated Nordic market share is at least 50 percent higher than the average Nordic market share in global markets. Only products that constitute more than 0.5 percent of total exports are included.
Sources: UNCOMTRADE, World Bank and Dalberg Research

The diversity in terms of individual stronghold positions among the Nordic countries renders it difficult to draw clear conclusions regarding the most attractive markets for Nordic companies. However, the range of stronghold positions emphasizes the fact that emerging markets represent a broad range of opportunities for Nordic companies in addition to indicating potential for enhanced Nordic collaboration to realize synergies across sectors and borders in terms of knowledge sharing, innovation and market entry.

2. GLOBAL MEGATRENDS

Fast paced economic and social progress in emerging markets is resulting in very rapidly changing market conditions. Over the past 10 years, economic activity in emerging markets has doubled; the number of internet users has grown from 1 million subscribers to almost 300 million subscribers; and the number of people residing in urban areas has risen by more than 600 million. A series of megatrends are shaping emerging markets, instigating significant changes in consumer behavior as well as demand for products and services.

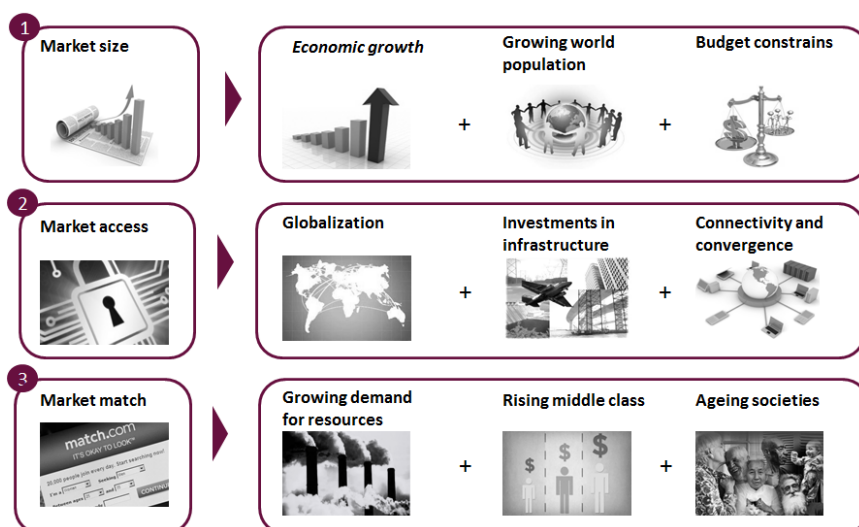
An assessment of the future Nordic potential in emerging markets not only requires an identification of current Nordic export performance and stronghold positions, but also necessitates an identification of key trends that shape opportunities in new markets moving forward.

2.1. MARKET SIZE, MARKET ACCESS AND MARKET MATCH

Most experts agree that trends related to economic growth and industrialization, demographic development, infrastructure investments, increases in the size of middle classes, and the expansion of ICT, will be among the most important market-shapers going forward. However, the actual impact of these trends and events is difficult to predict and will differ significantly across sectors and countries – e.g. due to differences in industry structure, market focus and product portfolio.

In this analysis, nine megatrends have been identified as important shapers of emerging market demand conditions moving forward³.

Exhibit 2.0: Emerging market opportunities will be shaped by nine megatrends



³ The analysis is based on insights from a broad range of international thought leaders, including: Frost & Sullivan; McKinsey & Company; NIC; CSIRO; Konrad Adenauer Stiftung; Credit Suisse; ATKearney; Roland Berger; European Environment Agency etc.

Each of the influencing megatrends is associated with a broad range of opportunities and challenges. A thorough evaluation of specific market openings need to be supplemented by in-depth evaluations of the context in terms of countries, sector, and company characteristics⁴.

2.2.1. MARKET SIZE




The aggregated demand and purchasing power in emerging markets will be closely linked to the underlying economic growth and the demographic development in terms of increasing population. Likewise, budget constrains in developed as well as in developing countries are likely to influence market conditions and impact the relative size of the B2C, B2B and B2G market.

- *Economic growth*
 - Traditional growth engines in terms of technological progress, investments and population growth implies that EMs possess a much stronger growth potential than more developed regions.
 - The increase in the local knowledge base will further boost the innovation potential within EMs and hence the long term growth potential.

- *Growing global population*
 - The demographic structure in the world implies that the vast majority of the expected increase in world population toward 2030 will take place within EMs.
 - The population expansion will be accompanied by an intensified urbanization process. More than 90 percent of the increase in urban residents will take place within EMs.

- *Budget constraints*
 - The economic and social development in developing countries combined with an ageing population will stimulate the demand for welfare services.
 - The increasing pressure on public funds in EMs will be aggravated by increased budget constraints in many developed countries due to low growth and increasing debt problems.

⁴ The market opportunities and innovation potential associated with each trend are very broad and will vary immensely across sectors and countries. Hence, the assessment and specific examples need to be interpreted with caution.

Trend	Impact on market size	Examples of business opportunities
<p>Economic growth</p> 	<p><i>"Increased purchasing power within all market segments and more resources to be deployed for long term solutions"</i></p>	<ul style="list-style-type: none"> • B2C: Basic consumer goods and high end products aimed at the emerging middle class in growth markets etc. • B2B: Green growth technologies and capital goods aimed at the manufacturing industry in more developed emerging markets etc. • B2G: Resource management systems etc.
<p>Growing world population</p> 	<p><i>"Increased need for consumer goods and efficient production systems/ technology to satisfy growing demand"</i></p>	<ul style="list-style-type: none"> • B2C: Food and other basic necessities etc. • B2B: Agriculture and resource extraction etc. • B2G: Infrastructure , utilities and public welfare services etc.
<p>Budget constraints</p> 	<p><i>"More focus on public sector efficiency and low cost welfare offerings within the private sector"</i></p>	<ul style="list-style-type: none"> • B2C: Pensions funds/insurance schemes aimed at low income client etc. • B2B: Private welfare service offerings etc. • B2G: Financial services and innovative financing models aimed at clients within the public sector etc.




Note: The market opportunities and innovation potential associated with each trend are very broad and will vary immensely across sectors and countries. Hence, the assessment and specific examples will need to be interpreted with caution.

2.2.2. MARKET ACCESS

Economic, technological, and political developments in emerging and developing countries are likely to ease the access to markets significantly in coming decades. Even more developing countries will become an integrated part of global value chains and massive investments in infrastructure – including ICT infrastructure – will reduce the cost of servicing foreign markets and hence make the world more flat.

- *Globalization*
 - International trade has traditionally grown much faster than global production due to a combination of economic, technological, political, and social influence. The outlook for the multilateral talks under WTO are not particularly positive at the moment, but a whole range of bilateral and plurilateral trade agreements are likely to considerably enhance market access.
 - Economic and social development, combined with technological innovation will continue to reduce the costs of global trade, further stimulating the globalization progress.
- *Investments in infrastructure*
 - Increased demand for long-term investment opportunities, increased capacity to manage large scale investment projects, and rapid urbanization will stimulate capital flow into the infrastructure sector.
 - Improvement in infrastructure will ease market access and increase the capacity to consume – e.g., due to an expansion of the electricity grid.

- *Connectivity and convergence*
 - More than 300 million people in emerging markets already have broadband connections, while the number of people with access to the internet via smart phones is counted in billions.
 - Massive investments in ICT-infrastructure, coupled with innovation of new and attractive offerings at low cost, will further expand the global grid in coming years within all regions and segments.

Trend	Description	Key questions
Globalization 	<ul style="list-style-type: none"> • International trade has traditionally grown much faster than global production due to a combination of economic, technological, political and social forces • Economic and social development, combined with technological innovation will continue to reduce the costs of global trade which will stimulate the globalization progress further 	<p>Which emerging market countries are most likely to become more integrated in the global value chains and where is the opposition toward trade liberalization strongest?</p>
Investments in infrastructure 	<ul style="list-style-type: none"> • Increased demand for long term investment opportunities, increased capacity to manage large scale investment projects and rapid urbanization will stimulate capital flow into the infrastructure sector • Improvement in infrastructure will ease market access and increase the capacity to consume (e.g. due to an expansion of the electricity grid) 	<p>Which countries provide the best framework conditions for large scale investments (e.g. in terms of attraction of foreign capital)?</p>
Connectivity and convergence 	<ul style="list-style-type: none"> • More than 300 people in emerging markets already have broadband connections, while the number of people with access to the internet via smart phones are counted in billions. • Massive investments in ICT-infrastructure, coupled with innovation of new and attractive offerings at low costs, will further expand the global grid in coming years within all regions and segments. 	<p>Which countries are best suited for tapping into the opportunities generated by the expansion of the global grid and which factors will shape the innovation of products and services ??</p>

Source: Dalberg Research based on trends reports from international knowledge providers (see annex for specific references)

2.2.3. MARKET MATCH

Growing demand for resources




- Economic growth, industrialization and population growth will continue to put pressure on the global resource base.
- Resource scarcity represents a special challenge for Least Developed Countries due to a lack of economic resources and low capacity to deal effectively with the consequences – e.g. in terms of climate change and price fluctuations.

Rising middle class

- Economic expansion and a decreasing rate of population growth will increase the number of people with a disposable income that exceeds basic needs.
- The new middle class will be characterized by a greater level of choice with respect to consumption and investments and will be demanding consumer goods that are attuned to their lifestyle and incomes, i.e. cheap, robust, simple to use etc.

Ageing societies

- Social progress, advancement within medicine and decreasing birth rates, will substantially alter the global demographic structure in coming decades.
- The development will generate a new, interesting market segment, but will also impact social cohesion and government clients due to budget constraints.

Trend	Impact on market access	Examples of business opportunities
<p>Growing demand for resources</p> 	<p><i>"Growing demand for resources will lead to resource scarcity and aggravate current environmental challenges"</i></p>	<ul style="list-style-type: none"> • B2C: Energy saving devices and products • B2B: Modern technology to enhance recycling and minimize waste in the production process • B2G: Efficient resource management systems
<p>Rising middle class</p> 	<p><i>"The rise of the middle class consumer will consolidate EM's role as the leading consumer economies in the world"</i></p>	<ul style="list-style-type: none"> • B2C: Higher end consumer goods • B2B: Intermediates aimed at the consumer goods industry in emerging markets • B2G: Public service offerings based on user financing aimed at middle class consumers
<p>Ageing societies</p> 	<p><i>"Ageing population will add further pressure on public finances and increase the need and demand for efficiency"</i></p>	<ul style="list-style-type: none"> • B2C: Product (and services) tailored at elderly people with limited purchasing power • B2B: Health service offerings at low price points, (e.g. due to use of modern ICT technology) • B2G: Health service infrastructure (e.g. hospitals, health care systems, governance structures etc.)

Note: The market opportunities and innovation potentials associated with each trends are very broad and will vary immensely across sectors and countries. Hence, the assessment and specific examples will need to be interpreted with caution.

3. NORDIC OPPORTUNITIES IN EMERGING MARKETS

The identification of Nordic stronghold positions and the evaluation of key market trends that will drive economic growth and emerging market demand moving forward, display significant opportunities and openings for Nordic countries and companies with respect to emerging markets.

In the years ahead, emerging markets will offer even more attractive market opportunities. In 2030, emerging markets will account for 2/3^{rds} of the economic activity in the world, 90% of the world's population, and around 2.5 billion of the 7.2 billion people residing in emerging markets will have an annual income above 5,000 USD (2010 prices) – compared to only 800 million today.

The growth in market size will be accompanied by easier access to markets due to massive investments in infrastructure and a further expansion of the global grid. At the same time, economic and social progress will strengthen the value proposition of Nordic companies that operate in the higher end of the quality scale.

Nordic companies already face a range of attractive market opportunities in emerging markets, and the exports to emerging markets have increased steadily for a number of years. However, an analysis of current Nordic export performance reveals massive differences across sectors and countries. The differences can be seen as an indication of unique stronghold positions within certain countries and sectors due to extraordinary marketing efforts, historical ties etc., but might also be an indication of unrealized market potential in the countries in which Nordic export performance is less impressive. This calls for further exploration.

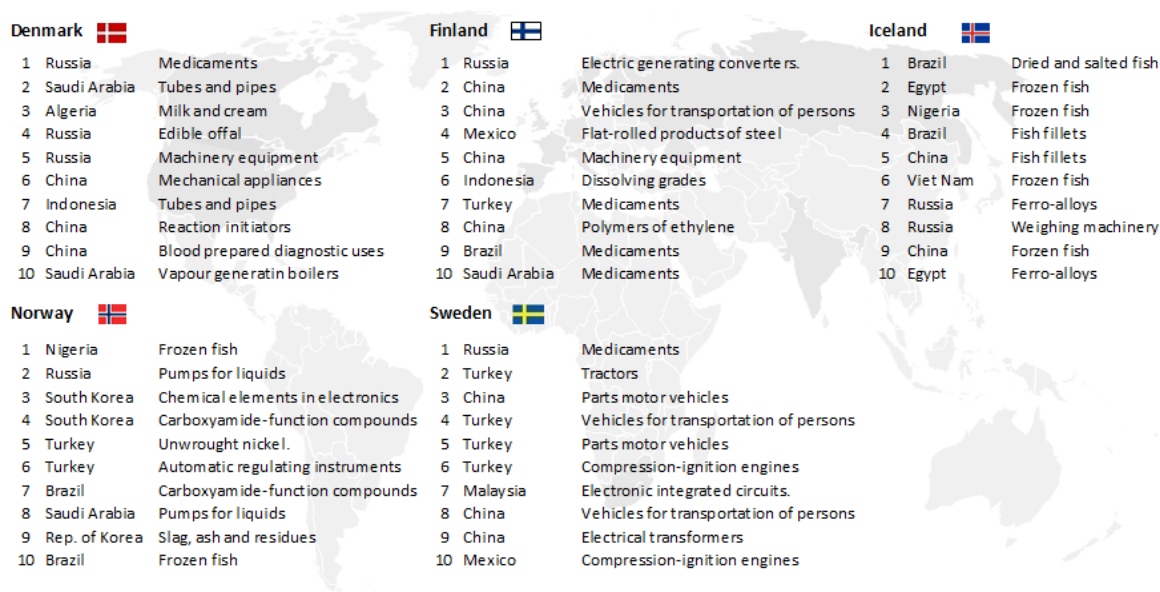
3.1. UNMET DEMAND TODAY

An analysis of Nordic export performance in emerging markets reveals that the export patterns of the individual Nordic countries are characterized by substantial differences – e.g. in terms of country and sector focus.

The observed differences can, in part, be seen as a natural consequence of historical links, past opportunistic behaviour and differences in strategic focus. Similarly, it is important to acknowledge that export performance might be a poor indicator for market focus as companies may choose to serve a market through local production or sourcing from other centres in their global value chain. Finally, an analysis of trade flows in a specific year will often involve a certain amount of statistical outliers in terms of large orders etc.

However, poor performance could also be an indication of unrealized potential that needs to be explored in more detail. This study indicates that all Nordic countries hold a broad range of unexplored market opportunities in emerging markets – including pharmaceuticals in Russia (Denmark and Sweden), machinery in China (Finland), dried fish in Brazil (Iceland), chemicals in South Korea (Norway), and tractors in Turkey (Sweden).

Exhibit 3.0: Unrealized market opportunities in emerging markets



Note: The opportunities have been identified by comparing the export performance of each Nordic country, with the export performance of a group of peer countries (EU15) involving more than 5,000 product groups and 200 countries. The specific market opportunities represent the combination of markets and sectors, in which Nordic export performance, relative to the performance of peers, is lowest compared to the performance in other countries

Sources: UNCOMTRADE and Dalberg Research

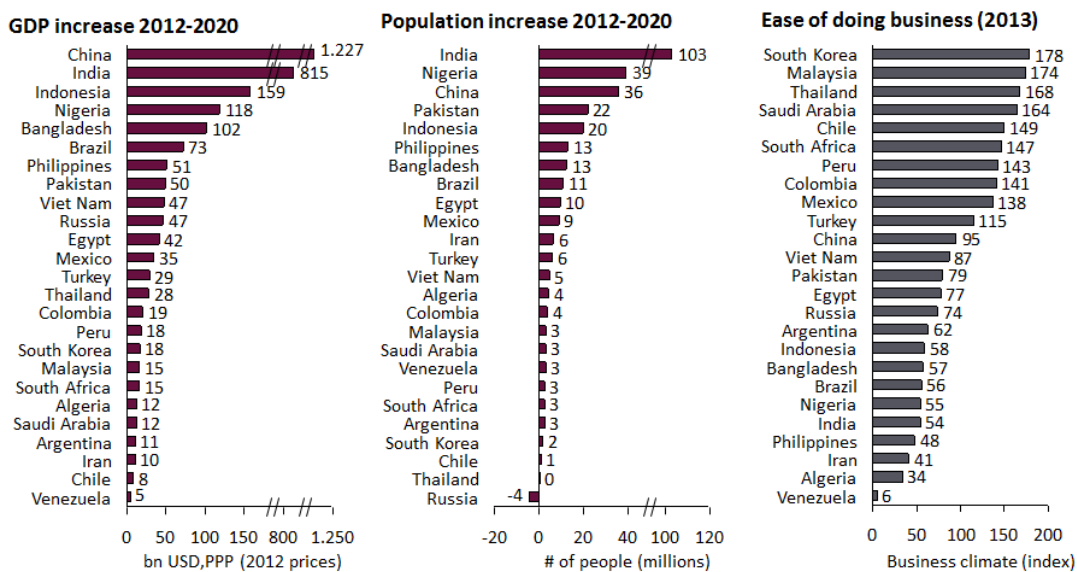
3.2. MARKET OPPORTUNITIES GOING FORWARD

Global megatrends will generate a variety of new business opportunities in emerging market in the years to come. Economic progress, population growth, infrastructure improvements, and globalization will stimulate market opportunities within all countries and market segments, implying clear-cut opportunities for Nordic businesses.

Additionally, the diffusion of modern technology, resource scarcity and ageing of the population will also be associated with a high potential for companies that manage to innovate new products, services and business models that match the special needs among consumers, businesses and governments in emerging markets – e.g. with respect to resource management, education and health care systems. Nordic companies already have a number of international stronghold positions within important development sectors and are well suited to tap into these sectors by adopting a more proactive approach towards innovation.

Two of the most influential drivers affecting the market growth in emerging markets going forward are economic progress and population growth. Here, China and India stand out in terms of absolute market growth, but countries such as Nigeria and Indonesia are also expected to record high growth in business fundamentals - e.g. in terms of GDP. Yet, as in the case of India, some countries are also characterized by a very challenging business climate.

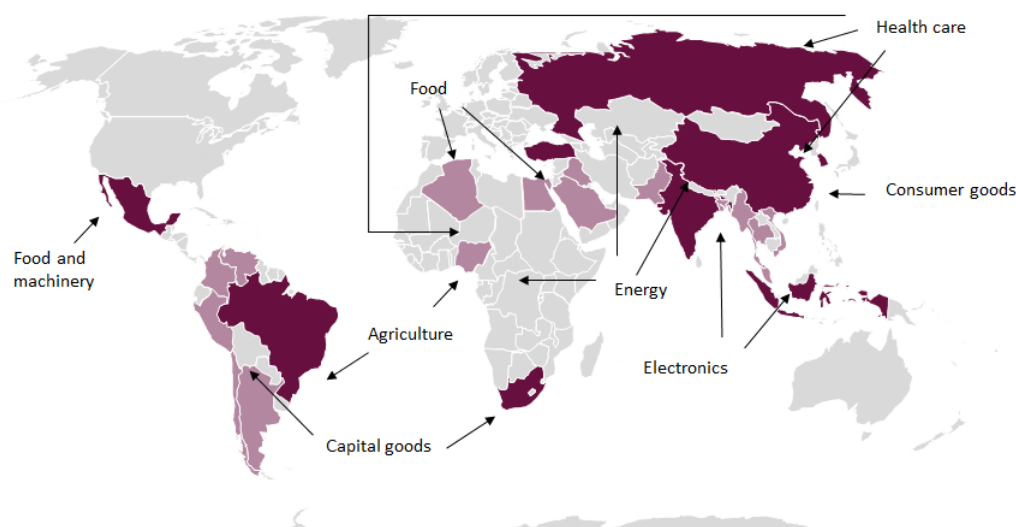
Exhibit 3.1: Emerging markets are a diverse group of countries with different risk-reward profiles



Sources: IMF, UN and Dalberg Research

Economic progress and social development will lead to an increased demand and increased market opportunities within most countries and market segments. The size of specific opportunities will vary significantly between regions just as the ability to tap into the opportunities will differ among Nordic companies. However, some sectors and countries appear to be associated with more attractive prospects than others, including sectors such as food, health care, energy and capital goods.

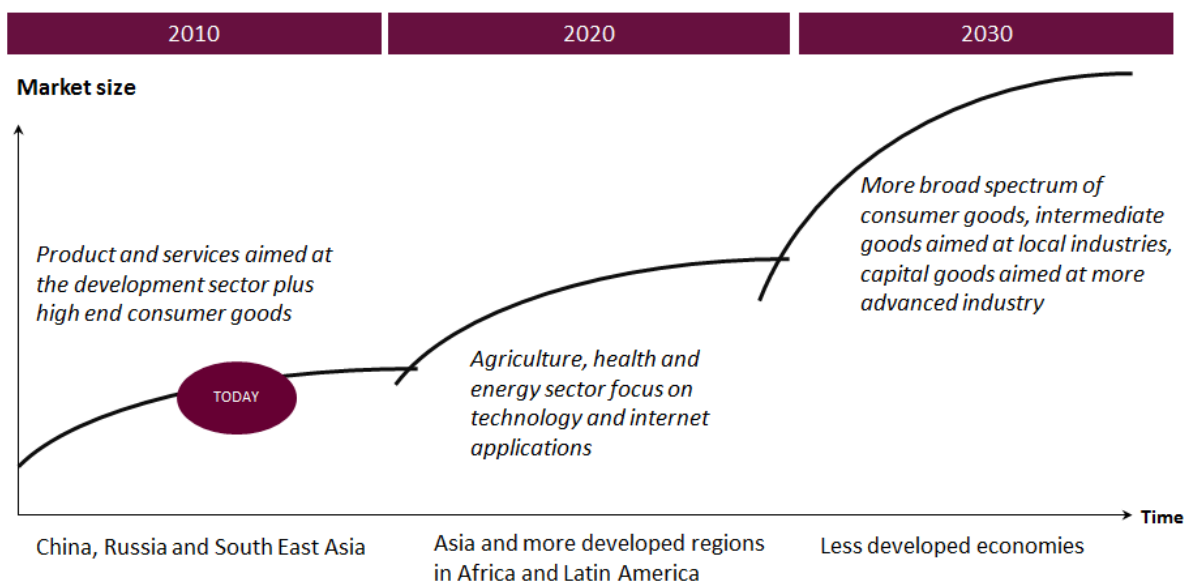
Exhibit 3.3: Market opportunities for Nordic companies towards 2020 (suggested examples)



Note: The identification of specific market opportunities is based on an analysis of current export performance and evaluation of nine global mega trends. The size and accessibility of the specific market opportunities will vary significantly with the characteristics of specific companies, which implies that the examples are to be interpreted as illustrative examples.

Primary economic centers in emerging markets – e.g. Shanghai, Moscow, Mexico City, etc. – already offer a range of business opportunities that are similar to those found in economic centers in more developed regions of the world. In frontier markets and outside the economics centers of the leading emerging market economies, business opportunities will evolve gradually. In the first phase, market opportunities are found primarily within the development sector and among clients (B2B and B2C) that belong to the global elite.

Exhibit 3.5: Business opportunities in emerging markets will evolve gradually



Note: Exhibit 3.5 depicts a potential scenario for the development in future market opportunities.

4. PERSPECTIVES FOR A WAY FORWARD

(Written by Nordic Innovation)

Emerging markets already represent a huge opportunity for companies within the Nordic countries, in addition to exports to these markets playing an important role for growth and job creation in the Nordics.

The range of market opportunities will continue to grow rapidly in coming years in accordance with the economic, social and technical development in emerging markets. There is an imminent need to review the strategic approach towards emerging markets in the Nordics in order to tap into these merging opportunities effectively. The possibility of leveraging existing stronghold positions needs to be explored, just as the prospects for building new stronghold in sectors and regions that appear to offer the most interesting perspectives going forward need more detailed analysis.

In order to unlock the markets and realize unmet demand, it will be instrumental to adopt an open and innovative mind-set with respect to product and service offerings, as well as in terms of general market approach. Success in emerging markets may often require that existing products and services are adjusted to the local context - e.g. in terms of quality, price point, etc., and may also call for the use of alternative business models, establishment of innovative partnerships etc.

The purpose of this study has been to establish a high-level overview of market opportunities for Nordic companies in emerging markets now and in the future, by analyzing unmet demand in addition to important trends that will shape market conditions in the years to come.

The project is an integrated part of a larger initiative that aims to promote Nordic companies engagement in emerging markets.

The first step taken in this report, has been to create some common ground for a discussion on the broader market perspectives in emerging markets, as well as to create a complete list of opportunities to be explored in more detail.

Subsequently, the next step will be to engage in a more detailed discussion on specific market opportunities in which the high-level insights presented in this report are combined with a more refined understanding to enable identification of the most promising opportunities for Nordic countries that need prioritisation.

The final step will be to explore practical ways to unlock the identified markets and sectors - e.g. through the launch of new initiatives to support innovation of product and services tailored in an emerging market setting. Meeting the needs and demands of the emerging middle class is associated with a high potential, but as the needs and preferences within this market segment differ significantly from the needs and preferences found within traditional Nordic export markets tapping, into these markets will constitute major challenges for many companies. Consequently, there is a need to explore new ways of supporting the innovation process. Increasing the general level of understanding of local market conditions; establishing innovative partnerships across sectors and countries to leverage potential synergies; and launch of innovation camps aimed at emerging markets, could all constitute important initiatives in a new Nordic approach to emerging markets.

APPENDIX A: METHODOLOGY

This section outlines data and methodological approaches applied in the analysis. The outline includes a presentation of data, short descriptive statistics and introduction to the methodologies for identifying strongholds in Nordic export performance and unmet demand in emerging markets.

I. Data

Data applied in the analysis originate from the UN Comtrade database that contains trade data on six-digit levels enabling rigorous analyses. Data retrieved included 2011 figures for export to emerging and growth markets from the Nordic countries, both individually and from a number of peer countries (EU15). A framework for analysis was then constructed to investigate export patterns for Nordic countries in terms of both strongholds and unrealized potential. The framework enabled cross-analyses of strongholds across both countries and product categories, as well as a comparison of Nordic export patterns with those of a number of peer countries, to identify unmet potential.

Furthermore, this trade data was matched with classification codes from the World Bank (WB) to investigate export patterns on more aggregated levels such as across type of products i.e. raw materials, intermediate goods, consumer goods and capital goods.

The final sample contained export figures on 5,046 product codes for 236 receiving countries, resulting in trade matrices with more than 1m data points for each Nordic country and each peer country.

Based on IMF's country classifications, the 236 countries were classified as either: a) a developed market, b) a growth market or, c) an emerging market. This classification was used as the basis for identifying our top 25 priority countries for the analysis.

II. Identification of stronghold positions

To review current Nordic export performance, stronghold positions were identified in terms of both products and receiving countries. The stronghold criteria contained two dimensions to reflect, a) the performance relative to peers (EU15 including all Nordic countries), and b) the importance of specific export flows (product/country) in the total export flow from each of the Nordic countries.

Definition of stronghold position:

A product/country is defined as a relative stronghold position when (a) the product accounts for at least 0.5 percent of the country's total exports and, (b) the market share within the relevant sector in the specific country is at least 50 percent higher than the similar market share found in other emerging markets.

Note: market share is here defined as exports from the relevant Nordic country as a share of the total exports from peer countries (EU15 including all Nordic countries)

Exhibit A.1: Nordic stronghold positions

	Nordic	Denmark	Sweden	Norway	Finland	Iceland
I. Products						
Number of strongholds	8	17	10	4	11	5
#1	Paper & Paperboard	Meat	Electronics	Fish	Paper & Paperboard	Fish
#2	Wood	Dairy Products	Paper	Ships &Boats	Iron & Steel	Animal products
#3	Minerals	Articles of Iron or Steel	Iron & Steel	Nickel	Pulp of Wood	Food preparations
#4	Fish	Toys & Games	Minerals	Aluminium	Wood	Residues products
#5	Pulp of wood	Enzymes	Wood		Copper	Aluminium
II. Countries						
Number of strongholds	14	11	12	7	5	4
#1	Russian Federation	China	Brazil	China	Russian Federation	Russian Federation
#2	Rep. of Korea	Russian Federation	Saudi Arabia	Rep. of Korea	Chile	Nigeria
#3	Brazil	Rep. of Korea	South Africa	Brazil	Bangladesh	Chile
#4	Egypt	Brazil	Iran	Nigeria	Philippines	Vietnam
#5	Thailand	Saudi Arabia	Egypt	Thailand	Vietnam	-

III. Identification of unmet demand

The analysis of unmet demand was conducted including a number of methodological steps and for all product categories, both individually and on more aggregated levels with the WB classification codes.

The steps were as follows:

- 1) Calculate market share⁵ for a specific product to a given market (growth market or emerging market) for each Nordic country individually.
- 2) Calculate average market share for each Nordic country within each country group (growth market or emerging market) for the specific product
- 3) Identify underperformance by comparing each Nordic country's market share in specific countries, with the average market share of the particular Nordic country, in the country group as a whole (growth market or emerging markets)
- 4) Evaluate the level of underperformance by calculating the difference between current exports to a specific market and the export that would arise in the instance the Nordic country had the same market share as found in other growth/emerging countries (i.e. average market share for the specific product in either growth markets or emerging markets).

⁵ Market share is defined as: exports from the relevant Nordic country as a share of the total exports from peer countries (EU15 including all Nordic countries) to the specific country/sector

Table of Abstract

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Meeting unmet demand in emerging markets

More than 300,000 jobs in the Nordic region can be linked to Nordic exports to emerging markets (EM1) and the importance of new growth economies is no longer in question. Emerging markets are expanding at a rapid pace at a time when traditional and developed economies are struggling with the burdens of the financial crisis, increasing debt, rising unemployment and low productivity growth.

The massive differences in growth and growth potential imply that the economic, social and political development globally will be shaped by emerging markets. The rise of the BRIC countries as global superpowers is often referred to as one of the key manifestations of this development although the development is much more fundamental and involves a broader and more diverse group of countries in Asia, South America and Africa.

A realignment of economic activity from the West to the East and the South has huge implications for people, business and governments all over the world. The welfare level in small open export driven economies like the Nordics is already closely linked to the export performance abroad, and the global shift implies that a truly global outlook is becoming an even more important factor for growth and prosperity in the Nordics.

Nordic Innovation is an institution under Nordic Council of Ministers that facilitates sustainable growth in the Nordic region. Our mission is to orchestrate increased value creation through international cooperation.

We stimulate innovation, remove barriers and build relations through Nordic cooperation

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