

Incorporating an Economic Index as a Guide to Developing a BRIC Strategy

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Abstract

The global economy was approximately \$60 trillion in 2005, of which the United States represented about 20% and the European Union represented about 20%. Four other nations, collectively known as the BRIC (Brazil, Russia, India, China) nations, are emerging economies and represented about 25% of the global economy in 2005. Many multinational companies are developing strategies to participate in these emerging economies, but forward-looking economic data is scarce. Government-provided Gross Domestic Product (GDP) numbers are historical, and are very crude, macro-level indicators of future economic vitality.

Decision Analyst has developed a consumer-based monthly Economic Index for over a dozen countries that asks about near-term (six months to a year) personal economic expectations. This forward-looking index correlates extremely well with prior year GDP growth ($r=.91$), which indicates that consumers are well attuned to near-term economic conditions and are able to project this information into expectations about unemployment, durable goods purchases, personal debt levels, and similar economic indicators. Thus, utilizing the Decision Analyst Economic Index as a guide for developing a BRIC strategy has merit.

Introduction

Most multinational corporations have comprehensive, long-standing strategies for successful operation in the United States and the major countries in the European Union. However, only within the past few years have they given significant attention to four emerging economic powers, collectively known as the BRIC countries.

BRIC stands for Brazil, Russia, India, and China, and as a group accounts for almost \$15 trillion in GDP, measured as purchasing power parity. In 2005, these economies were estimated to be the tenth, ninth, fourth, and second largest economies in the world, respectively. Collectively, these four countries accounted for about a quarter of the global economy in 2005. In addition, these four countries contain almost 42% of the world's population, also known to marketers as consumers.

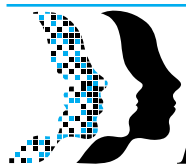
Often, when multi-national corporations expand into a new country, extensive research is done regarding the economic health of the country and its ability to sustain adequate volumes of the products being introduced to the country. For countries with stable and predictable economies, historical data such as GDP measures are useable as broad-brush indicators of potential. Following initial country screening, in-depth research is often conducted among potential consumers to determine product acceptance and utilization. The initial country screening approach does not work as well when the subject economy is volatile or rapidly growing.

It is therefore clear that in order to maintain a competitive positioning in the near future, multinational corporations must develop and implement a BRIC strategy that incorporates some forward-looking measures. Failure to do so will significantly limit future growth opportunities.

Global Economy

The global economy in 2005 was approximately \$60.7 trillion. Of that amount, the United States accounted for about \$12.4 trillion, or a little over 20% of the global economy. The European Union (an economic trading block of 25 countries

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led by the economies of Germany, France, Italy, the United Kingdom, and Spain) accounted for an additional \$12.2 trillion, again roughly 20% of the global economy. Finally, Japan by itself is the third largest global economy, with about \$4.0 trillion in GDP.

However, this just presents a snapshot of the current global economy. A clearer picture emerged with consideration of current economy growth rates. Whereas the United States economy is currently growing at a moderate 3.5% annual rate, and the European Union economies are growing at a slower 1.7% annual rate, the BRIC countries are growing at an aggregate rate of 7.8%, paced by China's annual rate of 9.9%. This growth rate is only for 2005 and should be monitored carefully. The top-10 global economies are summarized in Table 1.

Typically, large global economies are carefully managed by individual country central banks and by larger political entities. When growth is too rapid, interest rates are raised and other mitigating actions are taken to prevent uncontrolled and damaging currency inflation. When growth is too slow, stimulus actions such as lowered interest rates or reduced trade tariffs are implemented. Often, however, these macroeconomic actions are blunt, imprecise, and slow-acting. In addition, it is often

necessary to wait months to begin to observe the impact on the economic health of the country, and causality is difficult to attribute to specific macroeconomic actions.

Standard of Living

One consideration to understanding the economic potential of a country is whether or not the standard of living for the citizens of the country is improving relative to the rest of the world. A simple measure is GDP per capita. The United States leads the top-10 economies with a GDP per capita of about \$41,800. This is sharply contrasted with India, which has the lowest GDP per capita of the top-10 economies at \$3,300. In fact, the standard of living in the four BRIC countries is only \$5,474, with the two largest population bases in the world (China and India) having the two lowest standards of living among the top-10 global economies. These numbers are summarized in Table 2.

Total population per country, and population growth rate for that country, can be used to estimate the direction of the standard of living for each country. With robust growth rates in GDP, both China and India will see improvements in the standard of living, as measured by GDP per capita. However,

Table 1. Largest GDP Economies in 2005¹

GDP Rank	Country	2005 GDP (\$ trillions)	2005 GDP Growth
1	United States	\$12.36	3.5%
2	China	\$8.86	9.9%
3	Japan	\$4.02	2.7%
4	India	\$3.61	7.6%
5	Germany	\$2.50	0.9%
6	United Kingdom	\$1.83	1.8%
7	France	\$1.82	1.4%
8	Italy	\$1.70	0.1%
9	Russia	\$1.59	6.4%
10	Brazil	\$1.56	2.4%
	WORLD TOTAL	\$60.71	4.7%
	European Union ²	\$12.18	1.7%
	BRIC	\$14.99	7.8%
	Rest of World ³	\$16.01	4.6%

* 1 – Measured in purchasing power parity, not official exchange rate, updated June 1, 2006

* 2 – Includes all 25 official EU participating countries

* 3 – Excludes top-10 economies and remainder of EU countries

this measure does not always translate directly into standard of living, or even health of the economy, because of military expenditures, surplus or deficit trading balances, or other mitigating factors.

An additional set of measures, developed by Geert Hofstede, looks at cultural values within a country. Four main dimensions were identified, and indices developed to capture these dimensions. They are named the Power Distance Index (PDI), Individualism/Collectivism Index (IDV), Uncertainty Avoidance Index (UAI), and the Masculinity/Femininity Index (MAS). The first three dimensions have proven useful in subsequent analysis.

The Power Distance Index looks at the distance between social strata. People from cultures with a high PDI rating are more likely to distrust people from outside their strata, and tend to believe that those in the higher strata maintain more coercive power.

The Individualism/Collectivism Index looks at how people view their own self-interest relative to the self-interest of the group.

Groups with high IDV scores tend to be individualist and not group-oriented.

The Uncertainty Avoidance Index (UAI) looks at the degree to which members of a culture accept uncertainty and ambiguity. Cultures with low UAI scores tend to tolerate higher levels of uncertainty, and those with high UAI scores are not tolerant of uncertainty. Those in the latter group tend to focus on rules, strict patterns of behavior, and historical dogma. Table 3 summarizes the PDI, IDV, and UAI scores for the largest economies in the world.

Based on these indices, one might suspect that Japanese, Brazilian, and French consumers might be less risk-taking, and prefer less radical product introductions. Japanese and Brazilian consumers might tend to prefer products oriented to group benefit. Those from Germany and the United Kingdom might tend to prefer products which were oriented toward equality and knowledge. As can be seen from the indices, there are major gaps in the data for even the largest economies, so its utility is somewhat sporadic.

Table 2. GDP per capita and population parameters¹

GDP Rank	Country	2005 GDP/Capita	2005 Population (millions)	2005 Population Growth
1	United States	\$41,800	298	0.91%
2	China	\$6,800	1,313	0.59 %
3	Japan	\$31,500	127	0.02 %
4	India	\$3,300	1,095	1.38 %
5	Germany	\$29,900	82	-0.02 %
6	United Kingdom	\$30,400	60	0.28 %
7	France	\$29,900	60	0.35 %
8	Italy	\$29,200	58	0.04 %
9	Russia	\$11,100	142	-0.37 %
10	Brazil	\$8,400	111	1.04 %
	WORLD TOTAL	\$9,300	6,525	1.14 %
	European Union ²	\$28,100	456	0.15 %
	BRIC	\$5,474	2,738	1.04
	Rest of World ³		2,906	

* 1 – Measured in purchasing power parity, not official exchange rate

* 2 – Includes all 25 official EU participating countries

* 3 – Excludes top-10 economies and remainder of EU countries

Table 3. Cultural Values Indices

GDP Rank	Country	PDI Index	IDV Index	UAI Index
1	United States	40	91	46
2	China	Not Available		
3	Japan	54	46	92
4	India	77	48	40
5	Germany	35	67	65
6	United Kingdom	35	89	35
7	France	68	71	86
8	Italy	Not Available		
9	Russia	Not Available		
10	Brazil	69	38	76

Table 4. GDP Growth and Decision Analyst Economic Index per Country

GDP Rank	Country	2005 GDP Growth	Dec. 2006 Economic Index	Near-Term Outlook
1	United States	3.5%	112	Expansion
2	China	9.9%	133	Expansion
3	Japan	2.7%	Not available	
4	India	7.6%	133	Expansion
5	Germany	0.9%	100	Contraction
6	United Kingdom	1.8%	109	Neutral
7	France	1.4%	93	Contraction
8	Italy	0.1%	103	Neutral
9	Russia	6.4%	121	Expansion
10	Brazil	2.4%	116	Expansion

* 1 – Monthly index for December 2006 using respondents from Decision Analyst's proprietary American Consumer Opinion® Internet panel

* 2 – Index calibrated such that values of 100 or below indicate economic contraction expected in the next 6-12 months, values above 110 indicate economic expansion expected in the next 6-12 months, and values between 100 and 110 indicate economic uncertainty in the next 6-12 months

Decision Analyst Economic Index

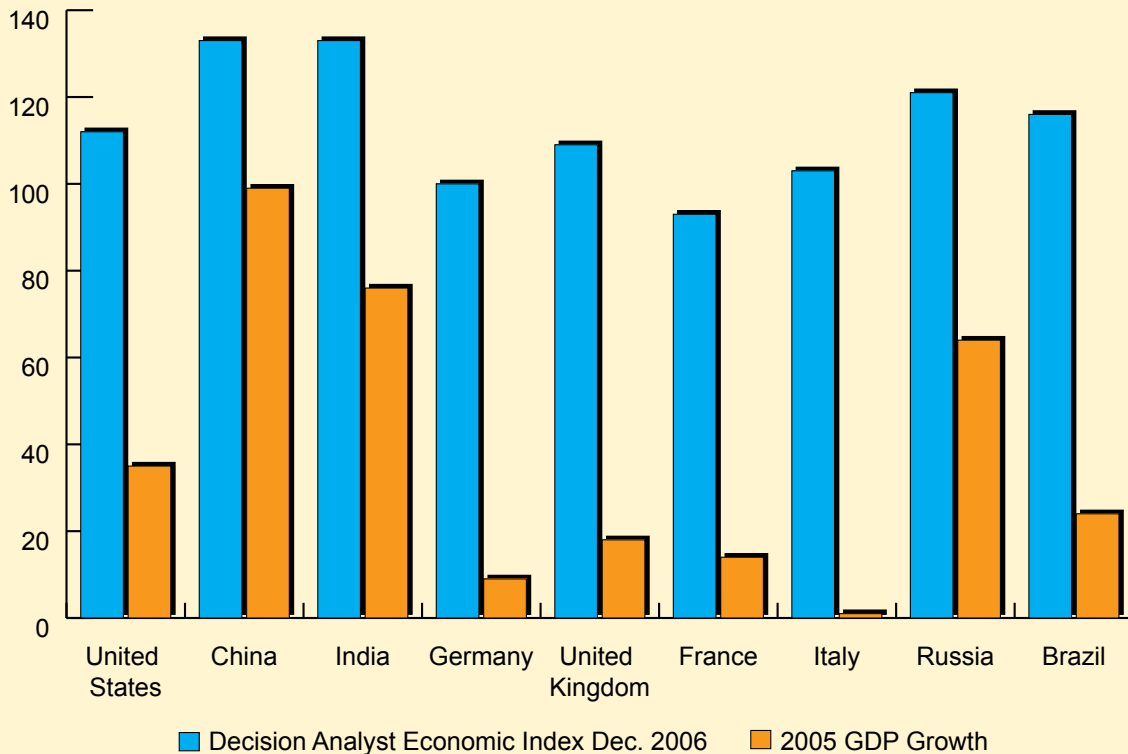
Another means of gauging an economy's economic vigor is asking the country's citizens to project their short-term economic well-being. Since 1999, Decision Analyst has been doing just that in the United States, asking a nationally representative sample of consumers a series of forward-looking economic questions. These questions are summarized in the monthly Decision Analyst Economic Index.

In addition to the United States, Decision Analyst has been steadily adding other countries to the Economic Index, and currently has over a dozen individual country indices. A sample of

consumers from eight of the top-10 global economies is currently surveyed each month via the Internet, and an index is calculated based on their responses. Respondents are asked questions about their personal economic situation and outlook, rather than about national issues to which they might have difficulty responding. The relationship between GDP growth rate for 2005 and the current Decision Analyst Economic Index for these countries is shown in Table 4.

In fact, a strong correlation of .91 is found between the 2005 GDP growth rate and the December 2006 Decision Analyst Economic Index per country, indicating that consumers are fairly well tuned into the economic conditions surrounding

Chart 1. Correlation of GDP Growth for 2005 and Decision Analyst Economic Index, for Nine Major Global Economies



them, and are able to project near-term (six months to one year) conditions with some clarity. This is shown in Chart 1.

The correlation between 2005 GDP growth and the Decision Analyst Economic Index for these nine countries was calculated for each month of 2006, and ranged from .89 to .93. The Economic Index has the highest correlation with the prior year GDP growth at about nine months out, indicating that consumers do have some predictive capabilities relative to their own countries economies stretching out almost a year.

Utilization of Decision Analyst Economic Index

This measure of consumer expectation can be utilized as one of many factors in conducting an initial country screening, or in the development or updating of a company's strategic plan for a specific country. It can be an assist in determining the level of investment in a country, and in assisting with the development of product-specific forecasts. As a future-looking measure, it contains the ability to assist in piercing the veil of the

unknown, and aiding product and brand managers in gaining more insights into future country-specific economic conditions. Similar to other measures of economic or cultural activity, this measure should be utilized as an input to a larger picture, not as the sole answer.

Limitations and Considerations

The Decision Analyst Economic Index utilizes a large, proprietary Internet panel of approximately 8 million members worldwide. For the United States and the European Union, where Internet penetration rates are high, a stratified quota sample produces sample results which are broadly representative of the underlying population. However, for the BRIC countries, with lower Internet penetrations at this time, the samples are not necessarily representative of the underlying populations, and tend to be skewed toward younger, more educated, and more economically advantaged respondents.

In addition, though GDP is generally utilized as a proxy for purchasing power, there are two mitigating factors in this proxy.

The first is the amount of individual country expenditures on military budgets, and the second is the degree of government surplus or deficit experienced. No account of export or import activity is included in the prior analysis, though most of the top-10 economies in the world have the United States as their leading export partner.

Summary

To be successful in positioning one's company for future global growth, one must develop and execute a meaningful and useful BRIC strategy. Rather than wait for lagging government-provided data, it is possible to peer into the future utilizing consumer perceptions of economic vigor. The monthly Decision Analyst Economic Index is one tool that can be utilized in this effort. Though there are limitations that must be considered, this approach can be expanded and utilized to provide some degree of a forward-looking guide to the four emerging economies that form the BRIC countries. Each country has specific situations that need to be addressed with any business strategy, but the Decision Analyst Economic Index can be a valuable tool to assist that strategy development.

Source for GDP and Population Data:

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