Resilience
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Making the tough calls on growth
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It’s a familiar scene that’s being played out in multinational companies across the globe: Organisations are casting their net wider in the pursuit of growth. The problem is that the strategic objectives and measures of success being promoted by the various arms of the company could be pushing in different directions.

The following scenario is taken from a financial services group, though much of it would be familiar to other industries. The Chief Strategy Officer has made a recommendation to her senior leadership team on which countries they should expand into, why and with what products. She is faced with opinions from a number of stakeholders, not all of which are consistent. The country managers from China, India and Brazil are pressing for the significant investments needed to turn the company from a small to major player in these markets. The emerging markets leader is arguing for investments in faster-growing but smaller markets like Turkey, Indonesia and Thailand. The product managers are insisting that growth in these markets should continue to be profitable and do not want their products to be loss leaders to build market share. The Chief Financial Officer wants the return on equity targets in these markets to be met within a five-year investment window. The Chief Risk Officer has cautioned the company to be wary of mounting political and sovereign default risks in particular countries. How does the Chief Strategy Officer square all these different perspectives, and how can she convince the senior leadership team that her recommendations are right?

Views on where to invest, the timescales for return and what criteria to use to judge performance vary according to whom you are speaking in the organisation. The underlying challenge is how to keep pace with the transformational technological developments that are facing every industry and how to deal with a more uncertain risk, regulatory and geopolitical landscape. The resulting decisions affect every aspect of the organisation, from marketing, sales and distribution to finance, operations, technology and talent management. Yet the evaluations are often based on inadequate and sometimes inaccurate data, with little or no appreciation for the sensitivity of the assumptions used to project growth and any potential weaknesses in the underlying analysis. Indeed, many decisions are being driven by rudimentary models or straightforward gut feelings, despite the complexities of what is involved in today’s investments and the fine line between success and failure. Any resulting success is likely to owe more to luck than judgement. Any failure will see heads roll.

In this article, we look at how to create a more informed basis for decision making by using the latest developments in predictive and simulation modelling techniques. We describe a top-down approach that uses predictive modelling to compute a country attractiveness score, which allows executives to quickly
filter their focus down to a handful of
countries for further exploration. Once
the high-potential countries are
identified, you can dive deeper into each
of the markets to build a detailed
bottom-up simulation model. This
allows executives to visualise market
growth and their own market share
under changing social, technological,
environmental, economic and political
conditions in these selected countries.
The decision-making considerations
under these approaches are examined in
light of the Chief Strategy Officer’s
dilemma described earlier.

**Identifying target countries**

With more than 190 countries to
consider, the decisions on where to focus
investments are clearly far from
straightforward. While around a third
can be quickly ruled out because of the
relative size, maturity and growth of
their economies, the remainder are
likely to demand more involved
evaluation criteria.

PwC has been working with a number of
companies to help them develop country
attractiveness scores for their particular
organisation, which are based on three
dynamics:

- **Country dynamics** that take into
  account the economy, politics,
  demographics, business environment
  and infrastructure

- **Industry dynamics** that take
  account of the market potential for
different products, customer
  segments, competition, regulation
  and distribution

- **Corporate dynamics** that take into
  account market presence and
  performance, fit with strategy, fit
  with assets, risk appetite and
  corporate culture

The latest models cover more than 150
aspects of the market being evaluated to
make sure they take account of the
relevant factors and ensure the analysis
reflects the particular vision, culture and
strategic fit of the organisation. The
main advantages of this approach over
more traditional strategic evaluation
techniques are:

- **Use of quantitative and qualitative
data**: The approach uses key
  quantitative metrics where available,
  but can also use qualitative data such
  as political situation, infrastructure
  availability, regulatory outlook, etc.

- **Judging developments and their
interdependencies**: Judging the
  market potential and possible
  barriers and interdependencies to
gauge how attractive the country will
  be in the future

- **Use of external and internal data**: The
  approach uses a number of
  external sources of data for country
  and industry analysis and at the same
time draws on internal data to
  capture the corporate dynamics

For the Chief Strategy Officer in our
scenario, use of this type of predictive
model allows her to work with all of the
regional heads and the country
managers to develop a comprehensive
attractiveness score for each country.

She can then take into account specific
political and regulatory risks and adjust
the weights assigned to different factors
based on the investment criteria that the
CFO has laid out. The Chief Strategy
Officer is thus able to present a
comprehensive rationale to the senior
management team on the approach she
took and recommend they focus on a
particular set of countries around the
world.

**Gauging the risks and rewards**

Having filtered the selection down to a
dozen or so countries, more complex
dynamics can come into play. For
example, while countries like China and
India may seem attractive because of
their size, growth and opportunities for
further market penetration, their
regulatory and political environment
could make it difficult to deliver a target
return within a given time horizon. Your
organisation may be required to invest
for the long term to realise the
anticipated returns. On the other hand,
countries like Turkey may be much
smaller but more attractive in the short
term. Also, countries typically go
through a tipping point when all the
different political, economic and social
factors come together to create the
‘golden moment’ for investment. There is
a danger of entering markets too early
and laying out a lot of cash without
delivering an adequate return at the
beginning and then making the wrong
call by exiting just as the market is about
to reach its ‘golden moment’.
Faced with these dilemmas, simulation models can help senior executives to evaluate the growth potential of markets, how much market share they can achieve and the strategic actions and competitive responses that will determine their ability to meet their objectives. The pace of global developments demands models that are robust enough to consider different scenarios. They should also be able to look beyond straight-line development to anticipate rapid movements and deviations such as the tipping points for market take-off or the interactions where government policies, company policies and consumer attitudes all influence each other. In turn, they should be able to take account of the potential for delay in how people, companies and governments react to different situations. For example, by opening up a market and investing in it, a government can spur growth, but there is often a lag before the impact is felt.

The most advanced techniques use artificial intelligence to simulate the interplay between the strategic choices made by governments and corporations on the one hand and the economic developments, consumer behaviour, government policies and other key factors that influence them on the other. The results would allow your business to shape strategies and target investment more effectively by judging when, why and how consumers make individual purchasing decisions and how the actions of your organisation in areas such as marketing or product design influence such choices.

The main advantages of this multiple-simulation technique over more traditional market evaluations are:

- **Individual insights**: By analysing hundreds of thousands of individual consumers, their purchasing decisions can be simulated over long periods of time (i.e., 10-20 years) while accounting for their economic and behavioural evolution.

- **Emergent behaviour**: The technique captures the interactions between consumers, companies, governments and changes in the environment and the complex behavioural patterns that result from these exchanges (‘emergent behaviour’).

- **Calibrated model**: The simulation model can be repeated and updated (typically weekly, monthly or quarterly) to generate purchase and re-purchase decisions for multiple years. The simulated output is then calibrated with actual historical data to estimate the values of specific consumer parameters using optimisation techniques. You can then explore future consumer behaviour across different economic and social conditions.

- **Evaluating different scenarios**: The calibrated model is used to simulate consumer decisions through their lifetime. The simulation approach would also allow your business to run different scenarios by changing a set of input parameters at any point during the simulation run. Simulating different scenarios provides insights into the impact of a particular strategy or economic condition on the purchase behaviour of consumers.

In our scenario, the Chief Strategy Officer is able to use this simulated analysis to work with the country manager from Brazil to evaluate the potential returns from a major investment in a target sector, such as auto insurance, over various investment horizons. The Brazilian auto insurance simulation (see Figure 1) takes into account the historical and future growth of Brazil’s GDP, increasing affluence, projections for vehicle numbers in the country, the road infrastructure and the strategies of existing players in the market. The model thus captures the dynamics of a growing economy and emerging middle class, which is leading to an increase in car sales and reducing prices for vehicles and associated insurance. At the same time, more cars put greater strains on the road network, which may dampen demand for cars and insurance. The model is also able to capture the stimulus to the market and economy overall of trade liberalisation in the early ’90s. Using the Brazilian auto insurance model, the Chief Strategy Officer is able to evaluate the return on
investment over 5-year, 10-year and 20-year periods under different economic conditions, as well as the strategic options for her firm and its competitors. This allows her to demonstrate to the senior leadership team the impact of their strategy in Brazil and also compare it with growth prospects in other countries.

**Sharpening decision making**

The latest developments in country assessment and strategy evaluation provide senior executives with a way to capture, analyse and reconcile multiple perspectives on what markets to focus on, how to grow, when to enter or exit and, finally, what the expected returns would be under different scenarios. As a result, they can make informed, assured and balanced decisions on their growth strategies, despite the uncertain and rapidly changing environments.

*Marie Carr, David Gates, Nirav Bhagat, Marik Brockman, Mark Paich and Jamie Yoder also contributed to this article.*