Economist Intelligence Unit

The Economist

CEO Briefing
Corporate priorities for 2007 and beyond

sponsored by

UK TRADE & INVESTMENT

Preface

CEO Briefing is an annual Economist Intelligence Unit research programme designed to identify the management challenges that face the world's corporate leaders. The 2007 *CEO Briefing* is sponsored by UK Trade & Investment, the UK government's international business development organisation.

The Economist Intelligence Unit bears sole responsibility for the content of this report. Our editorial team executed the online survey, conducted the interviews and wrote the report. The findings and views expressed in this report do not necessarily reflect the views of the sponsor.

Our research drew on two main initiatives:

- we conducted a wide-ranging online survey of senior executives from around the world in November and December. In total, more than 1,000 executives, half of them from the C-suite, took part;
- to supplement the survey results, we also conducted in-depth interviews with chief executive officers (CEOs), chief financial officers (CFOs) and other senior executives from major companies in all of the world's regions.

James Watson was the author of the report and Andrew Palmer was the editor. The following researchers conducted interviews with executives around the world: Ross O'Brien, Peter Baldwin, Alison Rea, Jeanette Borzo, Clint Witchalls and Terry Ernest-Jones. John Bowler also contributed to the report.

We would like to thank all the executives who participated in the survey and interviews for their time and insights.

January 2007

Executive summary

If optimism is any guide, 2007 is shaping up to be a vintage year. Respondents to the fifth annual *CEO Briefing* survey are more buoyant than they have ever been. Nine out of ten executives regard the prospects for business over the next three years as good or very good.

No surprise, then, that topline growth will again be a higher priority for most respondents than cost control. Spending will be targeted at the front office first and foremost: sales and marketing are the areas of the business expected to receive the greatest amount of new investment.

The dynamism of emerging markets largely explains the spring in the executive step. For the second year running, rising demand in the developing world is seen as the most critical force at play in the global marketplace. A clear majority of respondents intends to invest more time and money in emerging markets over the next three years than in developed markets.

Led by China and India, Asia excites most attention among the respondents, both as a revenue opportunity and as a sourcing location. Asian airport lounges will bulge as a result. China vies with the US and the UK as the overseas market that executives intend to visit most frequently in 2007. India will be a more common destination for respondents than Germany, France and Japan, bigger economies all.

The increasing weight of emerging markets in the global economy and in organisations' plans brings the following challenges, however.

- **More complex risk management**. Developing markets are better equipped than they were to ride out financial storms, but the risks are still substantial. Emerging markets remain disproportionately exposed to geopolitical upheavals and to slowdowns in key export markets such as the US.

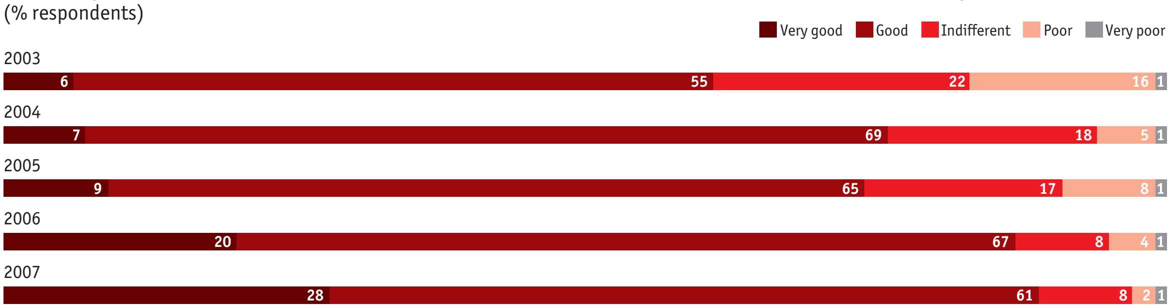
- **Markets at different stages of maturity**. Emerging markets may be growing rapidly, but they are still much poorer than developed economies. In the face of fierce competition and the threat of commoditisation, a large majority of survey respondents intend to differentiate themselves on quality rather than cost. That is easier said than done in countries where average incomes will trail those in the OECD economies for years to come.

- **Unfamiliar customers**. Fewer than one in ten respondents think that they are hampered by an inadequate understanding of customers in the developed world. There's much less confidence about emerging markets. More than one-quarter believe that lack of customer insight is a barrier to growth in these countries.

Although the differences between the developed and developing worlds are eroding, the survey makes it clear that they are still distinct business landscapes. In developed markets, executives point to high labour costs and saturated markets as the critical challenges. Innovation is a priority—respondents primarily look

CEO Briefing is an annual research programme designed to take the pulse of global executives. More than 1,000 executives around the world participated in the 2007 survey. Roughly 25% of respondents were based in Asia, 25% in North and Latin America, and 40% in western and eastern Europe. The US, UK, Germany, India, Mexico and South Africa provided the largest numbers of respondents.

How does your organisation view the prospects for business in the global marketplace over the coming three years?
(% respondents)



Source: Economist Intelligence Unit survey.

to drive revenue growth by selling new products to existing customers.

In emerging markets, by contrast, the challenges are quite different. Labour costs are low and markets are largely untapped. Executives are focused instead on managing shortages of local talent and plan to grow mainly by selling existing products to new customers.

Straddling these two types of environment effectively, let alone addressing the differences between individual markets, is a huge test of management. Executives are right to be optimistic about the prospects for 2007 and beyond. They also need to be realistic about the complexity of the task ahead.

The global marketplace

Following a bubbly 2006, global executives are buoyed up about the future. Nine out of every ten executives polled for this report consider business prospects over the next three years to be either "good" or "very good". Strikingly, nearly one-third of executives (28%) chose the latter option, up from 20% in 2006 and just 9% in 2005. "Candidly, we have never been more optimistic about our growth prospects than we are today," says Lew Frankfort, the CEO of Coach, a US-based upmarket accessories firm.

There are certainly good reasons to be cheery. The global economy expanded by some 5.4% in 2006 (measured at purchasing power parity exchange rates) and despite a modest dip this year, is expected to continue to grow robustly (4.7% on average) over the next five years. World trade growth will also fall slightly in 2007, but expansion of 7.6% is hardly insignificant.

"The global economy continues to grow strongly," says Jürgen Hambrecht, chief executive officer (CEO) of German chemicals giant, BASF. "Asia, and China especially, continues to act as a powerful growth engine. In China, we are well positioned through our large chemical plants to take advantage of the attractive growth rates. In North America, the economic climate is robust despite a few negative indicators. And the upturn continues in Europe."

It is not surprising, then, that topline growth will be a higher priority than cost control for most executives. "Growth will be top of the agenda for 2007," says Henry Seddon, a vice-president for Europe, Middle East and Africa at product lifecycle management firm, UGS. "The target is 20% for [2007]."

Greater optimism is balanced by an awareness of greater uncertainties, however. Thanks to ongoing headlines about Iraq, Iran and the Middle East, along with tensions in North Korea, geopolitical instability continues to concern executives. "There are lots of risks," warns Michael Sproule, the chief financial officer (CFO) of New York Life Insurance, which operates globally. "I'd say I've probably not ever in my career felt that there was so much geopolitical uncertainty that has ways of impacting the company."

Economic risks are also visible. Interest rates have

World and regional GDP growth

(%)	2005	2006	2007	2008	2009
North America	3.2	3.3	2.0	2.6	2.8
Western Europe	1.7	2.6	2.0	2.1	2.2
Asia & Australasia	4.7	5.1	4.6	4.6	4.4
World (market exchange rates)	3.4	3.9	3.1	3.3	3.3
World (PPP exchange rates)	5.0	5.4	4.7	4.8	4.7

Source: Economist Intelligence Unit

World trade growth

(%)	2005	2006	2007	2008	2009
Developed countries	6.1	8.2	5.7	6.0	6.0
Developing countries	11.8	13.2	10.7	10.6	10.5
World	8.0	10.0	7.5	7.7	7.7

Source: Economist Intelligence Unit

been on the rise for the past two years in the US and Europe. A sharp slowdown in the US housing market is leading to fears of a decline in consumer spending, while the ongoing decline in the dollar has put pressure on exporters to the US market. “We are not looking for growth to be as strong in 2007 globally,” says Douglas Flint, group finance director of financial services giant, HSBC Holdings Plc. “We are coming off of the back of what has been a very strong period with very benign characteristics.”

The oil price has fallen significantly from its peak of US$78.40 in July 2006, but it remains historically high, and there are numerous scenarios that could abruptly disrupt supply and push markets into turmoil. “Our energy bills have gone up, or are going up, significantly from before,” says Darren Shapland, CFO of British supermarket, J Sainsbury. “Oil price has a big impact on our business.” Overall, Mr Shapland sees the outlook for 2007 as decidedly uncertain. “I think on the macro-economic environment there are some pressures that are maybe a bit higher now than they were a year ago.”

If risks are greater and world growth is forecast to dip this year, why then are spirits higher among executives? One reason might simply be the growing distance from the last major economic downturn. Another is that the wave of regulatory initiatives that has swept over companies and financial institutions over the past three years or so has crested.

The chief wellspring of optimism, however, lies in the dynamism of emerging markets. OECD economies grew at an average rate of 2.9% in 2006, while non-OECD ones expanded at 8.1% (see box: *Emerging markets: rebalancing act*). HSBC’s Mr Flint says that his firm is in a good position because of its strong access to markets with rapidly expanding middle classes, which in turn drives demand for banking and credit services. “HSBC’s biggest opportunity over the long term is in China, and nearer term in India,” he says. “But then Turkey, Brazil, Mexico and the Middle East are all strong.”

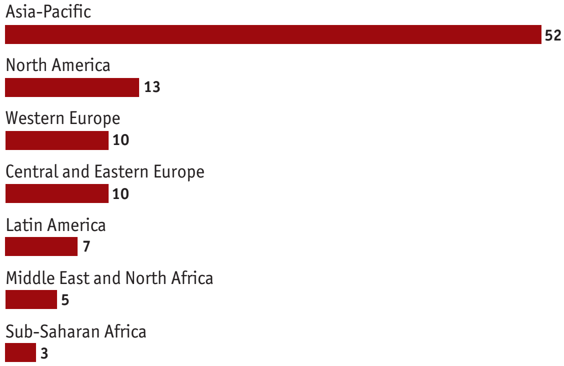
The Asian opportunity

When firms discuss emerging market opportunities, they’re usually talking about Asia-Pacific. Half the companies (52%) polled for this report believe that the greatest opportunity for revenue growth lies in Asia. North America, in second place, captured just 13% of the vote.

Six out of ten respondents (60%) believe the region offers the greatest sourcing opportunities, followed by central and eastern Europe with 15%. Businesses are putting their money where their mouth is. The largest share (43%) of respondents will pump most new investment into Asia, with western Europe, eastern Europe and North America all lagging well behind.

The Economist Intelligence Unit predicts that growth in the economies of Asia and Australasia (excluding Japan) will average 6.3% between 2007 and 2011. China and India lead the way with dramatic growth rates of 9.6% and 7.6% in 2007, respectively. However, other parts of the region should not be ignored. “I think everyone is underestimating the growth opportunity in ASEAN,” says Bill Barney, CEO of Asia Netcom. “This region is collectively more stable politically and economically than it has been in at

Which region do you think will offer the greatest opportunities, in terms of revenue growth, for your business over the next three years?
(% respondents)



Source: Economist Intelligence Unit survey.

"Asia has got the best opportunity for growth. It is starting from a lower base, but it certainly has more opportunities."

Peter Jackson, CEO at Asia Satellite Telecommunications.

least five years."

Japan continues to experience one of the longest economic expansions in its post-war history, although this is likely to slow slightly in 2007. We forecast that the economy will grow by 1.7% in 2007 and 2008—still respectable rates by the standards of the past decade.

Europe: A little more cheer

After years of stubbornly slow growth, the euro economies are in the midst of a recovery. Estimated growth of 2.4% in 2006 within the euro-13 countries was strongly up from 2005. And while we expect this rate of expansion to fall to about 2% in 2007, in part because of a decline in external demand, the fundamentals are in place for an average growth rate of just above 2% between 2007 and 2009. "In 2007 significant new investment will go into Europe, which will provide the greatest opportunity," says Ed Colligan, president and CEO of mobile computing firm, Palm.

Europe's real growth story lies further east with the new members of the EU, which are expected to expand by an average of some 4.7% in 2007, down from 5.5% in 2006. The Baltic region (Estonia, Lithuania and Latvia) will grow by some 7.8% in 2007, slightly cooler than the red-hot growth of 9.6% in 2006, but sizzling nonetheless.

Much risk remains, though. Should the euro strengthen more sharply than expected against the dollar and the US economy deteriorate, growth would be substantially reduced. Moreover, housing markets in several countries have become substantially overvalued, increasing the risk of a correction. We forecast that interest rates will increase to 3.75%, most likely in March 2007.

Emerging markets: rebalancing act

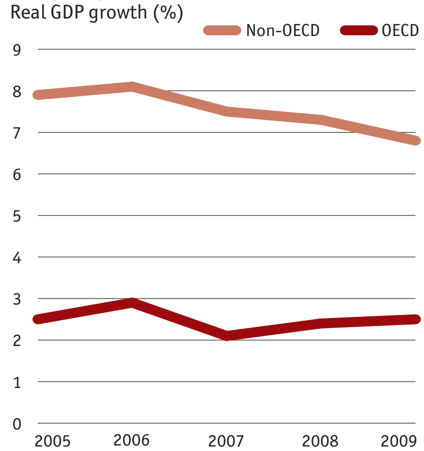
The balance of economic power is shifting from the developed world towards the larger emerging markets, and in particular towards China and India, Russia and Brazil. "Asia and eastern Europe, including Russia, offer most potential for us and will get most investment in 2007," says Henry Seddon of UGS.

We have been here before, of course. The last time sentiment about emerging markets was so positive was the first half of the 1990s, shortly before a wave of crises that devastated the emerging world in the second half of that decade. Risks remain. Emerging markets are disproportionately exposed to geopolitical threats, to a slowdown in the US, to capital flight and to the risk of overheating. And it is important to remember that incomes in the developed world are still much higher.

Emerging markets are also better equipped to deal with a liquidity crunch than ever before, however. Whereas ten years ago a large proportion of the emerging world was vulnerable to a balance of payments crisis, today the risk is concentrated on fewer countries that account for a much smaller share of global GDP, such as Turkey and Hungary.

Several of the larger developing economies, including China, India, Korea, Taiwan and Singapore, are net external creditors, able to cover not only their short-term foreign debt with foreign exchange reserves, but also their entire foreign debt. Indeed, in contrast with the previous decade, many of the fault lines are now in the developed world, in the form of large current-account deficits, rising household debt and overvalued property markets.

Going for growth
Real GDP growth (%)



Source: Economist Intelligence Unit.

The US: dodging a cold?

The rate of growth in the US is slowing considerably and the economy as a whole is forecast to expand by just 2% in 2007, partly because of a slowdown in the housing market, which will dent consumer demand. We expect the US Federal Reserve (the central bank) to cut rates modestly from around mid-2007, helping to deliver a moderate recovery in 2008, but the chances of a recession before the end of 2007 are high, at around one in three.

Four years of double-digit profit growth has led to a surge in corporate investment, but profitability will deteriorate in 2007 (leading to a moderate slowdown in corporate investment) as domestic demand weakens and productivity growth dips. A weakening dollar will give a boost to exports, but will result in a slowdown in US demand for imports.

Fortunately, however, the reliance of the world economy on the fortunes of the US market, while still huge, is being steadily reduced, as China and India emerge as powerful sources of global demand. “If the US caught a cold, it used to be that emerging markets stumbled, whereas it is less certain that that would be the outcome today,” says HSBC’s Mr Flint.

Hyped up?

China and India are the headline-grabbers of globalisation, with their disproportionately large populations captivating the attention of firms the world over. China has firmly established itself as the workshop of the world, while India is the globe’s back-office. Both are racing to make inroads on each other’s territory.

Unsurprisingly, respondents based in both countries are fired up about prospects for business in 2007, but China-based executives are notably cooler. Eight out of ten respondents there say the outlook is promising, but just 3% agree that it is looking “very good”, well down on a figure of 28% overall.

India-based executives, by contrast, are practically melting with excitement: 98% say the prospects are either good or very good, with 70% of those falling into the “very good” camp. In India, says Tejpreet Chopra, CEO of GE Commercial Finance in India, “Growth prospects are huge.” He cites the airline industry as just one example: “For 1bn people, we’ve only got about 250 to 280 planes. In the US, for 300m people, there’s over 6,500 aircraft. So that gives a perspective about how big the opportunity is in India,” he says.

True enough, but being fired up can also lead to overheating. Inflation in India has almost doubled in the past 12 months, housing prices are skyrocketing and strong wage gains are fuelling buoyant domestic demand.

How does your organisation view the prospects for business in the global marketplace over the coming three years?
(% respondents)

Source: Economist Intelligence Unit survey.

Enabling commerce: more logistics complexity ahead

Behind the growth in global commerce lies a vast network of ships, trucks and aeroplanes, manned by literally hundreds of thousands of people. As globalisation and trade increases, global logistics and transportation firms ensure that millions of tonnes of oil, coal, food, clothing, electronics, car parts and other goods are all efficiently delivered every day.

Many firms are struggling to keep pace with demand. Take American Commercial Lines, a barging company in the US. "In the barging company, capacity is the constraint. If you don't have enough barges to serve your customers, that means rates skyrocket," says board director, Richard Huber. "We will have a period of several years where capacity will be very much constrained. That's good if you happen to own barges. It is not good if you happen to be a guy who has to ship things up and down the river."

Much of the growth in the industry over the past few years has been driven by trade between developed and developing markets. "We are a beneficiary of offshoring and outsourcing by our customers because as and when customers outsource their manufacturing to China or to other places, their consumers will still be here in western Europe or in North America, or wherever they may be, and therefore their transport requirement as part of their supply chain increases," says Peter Bakker, CEO of express and mail delivery company, TNT.

The big new story, though, is the rising volume of trade within emerging markets themselves. "Intra-Asia trade actually has the highest growth at the moment," says Christoph Remund, CEO for DHL's Global Forwarding business in India. "[There's] obviously a key focus on China, India, Japan and South Korea, [but also] other countries, such as Indonesia, which supply raw materials. It's a two-way street."

And as international firms start to source more from Asia, they are also starting to supply local customers from within the region itself, rather than from Europe and the US. "The way things are stored and moved is more complex," says Mr Remund. It is no longer just about a Chinese firm shipping goods on the main routes to the west, he says, but rather about goods being made in multiple locations, with components sourced from numerous other places, before being shipped to markets all over the world.

The notoriously poor transport networks within developing countries remain a major challenge. The Transport Corporation of India, a freight firm, notes that the 2,150-km journey between Kolkata and Mumbai can take a cargo truck some seven days to navigate, at an average speed of 11 km per hour, with some 32 hours spent waiting at tollbooths and checkpoints. "Transport providers need to invest in putting domestic transport solutions inside China [and] inside India to allow those economies to develop and to allow those consumers to, basically, consume," says TNT's Mr Bakker.

Critical forces

The biggest story, if not the newest one, emerging from this year's report is the relentless march of globalisation. "The number of markets to do business with is increasing," says UGS's Mr Seddon, "and the producing countries are becoming consumers."

The proportion of revenue that firms derive from overseas is one obvious indicator of globalisation. Within the next three years, more than half the executives surveyed for this report expect to get more than 50% of their revenue from abroad.

Much of that growing pool of overseas revenue comes from the developing world. For the second year running, the biggest critical force at work in the global marketplace is seen as rising demand in emerging markets. China and India's burgeoning middle classes are being pursued with particular vigour. "The growth in Asia has created a phenomenal pool of wealth in China and India in particular, and the size of the middle class in those countries is creating an unprecedented scale in global consumerism," says Mr Barney at Asia Netcom.

India alone is expected to be home to some 500m middle-class people by 2010. For many, developed markets pale by comparison. Take Mr Sproule of New York Life Insurance, who says his firm's international focus is on emerging markets. "Generally, the developed markets are much slower growth marketplaces and we don't see those as really prime opportunity areas for us to go and invest our capital," he argues. His firm already employs some 12,000 agents in India in a joint venture with a local firm, Max India, and plans to double that number over the next couple of years.

Demand is just one side of the globalisation coin. Supply is the other, and executives pick global

In your opinion, which of the following forces will have the greatest impact on the global marketplace over the coming three years? Select up to three options.
(% respondents)

Source: Economist Intelligence Unit survey.

sourcing as the second-biggest force impacting on the global marketplace. As Mr Barney recounts: "I recently met the CIO of a group of US hospitals that does not do a single dollar's worth of business outside of its home country, but it had moved its entire customer service infrastructure to Bangalore. In today's economy, you

"Our customers are becoming more and more dependent on the way their business operates in real time across huge distances, as the world globalises."
Andy Green, CEO, BT Global Services.

don't have to be a global company in order to globalise."

Cubist Pharmaceuticals, a US pharmaceuticals firm, has established a "virtual" manufacturing and logistics chain, all managed by external partners. "We don't own the manufacturing plant. We don't own the shipping routes. We don't own the warehouses that store our product," says David McGirr, the firm's CFO. "All of that is done for us by subcontractors. So all we have in the company are the thinkers, the brains, the scientists and the doctors—who do all the clinical studies and research—the marketing and sales force, and then all the people like me, who support them."

Executives also recognise that these emerging markets not only provide today's new customers, but also tomorrow's new rivals. A small but significant minority of firms point to the threat of rising competition from domestic companies based in emerging markets (see box: *Race for the top*).

The talent gap

One of the biggest problems that businesses will contend with in 2007 is a shortage of talent. This is especially true in emerging markets, where one in two respondents identify a lack of available talent as the primary barrier to growth. "If there's one limiting factor to growth, it is people and talent," says Tejpreet Chopra, the president and CEO for GE's Commercial Finance business in India.

Despite the vast numbers of graduates entering the workforce every year in both India and China, a relatively low proportion of them have the skills required by global firms, especially given the brisk

Race for the top

The developed world isn't alone in worrying about competition. "We started at a particular point on the value chain for historical reasons," says Mr J Rajagopal, global head of the life sciences division of India's Tata Consultancy Services (TCS), "but as time has gone by we have gone up the value chain. There is a clear realisation that we cannot stay where we are. The competition is catching up both from India and from other countries."

India has a staggering 1.5m doctors and, as Mr Rajagopal discovered, not all of them are gainfully employed. Given the rich pool of medical talent, plus TCS's knowledge of information systems, continuous improvement and quality control, the company realised that it was in a strong position to compete with traditional contract research organisations (CROs), such as Parexel, on the provision of clinical data management services for clinical trials.

"Pharmaceutical companies want more flexibility and they want more scalability," says Mr Rajagopal. "One of our customers wanted 100 people and, because of the innovation processes we have, we were able to hire these people in a flat four weeks and have them working in our organisation. Now that's something a normal CRO organisation could not possibly do."

TCS's life sciences division began five years ago and took a year before it won its first contract. Today, however, revenue is growing at 30-40% per year and it employs some 3,200 people, including medical doctors, biostatisticians, biochemists and pharmacologists. Its clients include Johnson & Johnson, GE Healthcare and Novo Nordisk. In fact, TCS recently partnered with Eli Lilly to set up an exclusive medical information centre near New Delhi, which will provide Eli Lilly with data management, statistical analysis and medical writing.

Mr Rajagopal says Eli Lilly has partnered with TCS because it is looking for a flexible model. "They want to make sure that they have access to resources and a global talent pool," he says. "They want to be able to scale resources when possible and they want to maintain a global work flow, 24 by 7. We were able to offer all those things."

In order to provide a global workflow, TCS has acquired (and will continue to acquire) companies in locations from China to Chile. "It's no longer an Indian story," says Mr Rajagopal, "It's a global story and we will go where the markets are and where we can offer our services most effectively".

growth in demand. In many sectors, costs are already spiralling. Wage inflation in the Indian information technology (IT) sector is about 20% and turnover is double that, as highly skilled workers switch jobs in order to boost their wages rapidly.

It's a similar story in China. "Most multinational operations [in China] must contend with a 20-30% annual staff turnover rate and recruit 1,000 plus employees annually," says Indranil Sen, a vice-president for strategic intelligence at logistics firm, DHL Express. "With two years experience in logistics, many employees will job-hop and start work for another firm, the incentive being a 50% plus pay increase."

Competition for the best people doesn't just come from within the domestic market. Mr Chopra recalls being on a flight recently and sitting next to London-based staff from one of the world's major banks, who were travelling to all the major Indian management institutes to recruit graduates. Asked if they were recruiting for their Indian offices, the answer came back as no. "From now on, we're recruiting [in India] for [our] offices in London, New York, Hong Kong and Singapore," they told him. What's more, Mr Chopra says those same bankers plan to pay the top graduates they hire out of India exactly what they will pay graduates coming out of Harvard or any other globally renowned business school.

Shifts in climate

Although the challenges of managing globalisation, emerging markets and talent will be the top priorities for business leaders in 2007, other forces will also have an impact. **Environmental issues** and climate change are creeping up the agenda, boosted by a surge in public interest and helped along by 2006's rocketing oil price. "Sustainability issues will become more important," notes one survey respondent. "My organisation will respond by developing more energy-saving ways of production."

"Something that will be put on the agendas more and more ... is the whole impact that longer supply chains and globalisation have on global warming and climate change," says Peter Bakker, CEO of Dutch express and mail delivery company, TNT. He believes companies such as his will be pushed to reduce their impact on the environment, especially as global trade continues to climb. "In Europe, where the distances are smaller, you can already do a lot by moving stuff away from air onto the road, and on the road going for cleaner trucks by either putting particle filters on or by piloting alternative fuels," he says.

"We see 'green' factors as an opportunity and beneficial to our own industry and that of our clients. Any regulatory change or investment is an opportunity to create new technologies that help to develop more environmentally friendly operations."

Pierre-Yves Cros, Group Strategy Director, Capgemini

Others will turn their minds to how they can profit from the green agenda. Richard Huber from American Commercial Lines is also an equity investor and board director of US firm, Covanta, which has developed a significant and rapidly expanding waste-to-energy business. "Everybody 'oohs' and 'ahs' about windmills and solar and all that stuff. They represent 1-2% of renewable energy in the US. That's nothing," he argues. "Burning garbage and turning it into electricity is as large a factor and could be an even larger factor in the whole energy production equation." Better still, the waste energy business, in his opinion, is built on two near certainties: volumes of waste will increase, as will the demand for energy. "The one thing that is recession-proof is garbage," he says.

Advances in technology feature less prominently in the list of critical forces this year, although developments in customer-facing technologies and the ongoing hype surrounding "Web 2.0" will continue to affect a number of industries (see box: *Recruiting the Web 2.0 way*).

Julie Meyer, CEO of Ariadne Capital, a UK-based investment firm that specialises in technology, argues that the trend towards the co-creation of content—whether

"The global market is going to explode for the Internet going mobile."

Neil Edwards, CEO of dotMobi (mTLD, Ltd)

Recruiting the Web 2.0 way

While much of the business world spent 2006 arguing over the definition, merits or even the existence of Web 2.0, Jason Goldberg has been busy taking Web 2.0 to the bank. His Seattle-based start-up, Jobster, demonstrates the key elements of Web 2.0, and how to put them to work for bottom-line results.

The basic premise of Jobster centres on something most recruiters already know: it is hard to tap into referrals, the best source of job candidates. In a February 2006 survey of 73 leading employers by Booz Allen Hamilton, 88% of companies said the best-quality job applicants come through referrals. And yet companies get less than 20% of their applicants in this way, the study found.

So Mr Goldberg built a candidate-referral service around Web 2.0 principles. Jobster uses social networking to increase network effects (the more people who use a product, the more valuable it becomes); treats customers as co-developers; sells a product as a service; and encourages user-generated content to tap the wisdom of crowds. The results speak for themselves. Officially launched in 2005, Jobster already counts one in five Fortune 100 companies among its customers.

At its core, Jobster is a subscription-based online service for recruiters. With its dashboard downloaded to their computers, recruiters have a quick and simple way to launch and monitor e-mail campaigns for open jobs. For example, if a recruiter at a real estate firm needs to hire a new property manager, they can go to their dashboard and run a query to see who in the network has relevant experience, knows a property manager, or has set a related career goal. They can then send an e-mail containing unique tracking URLs to all those contacts. Each person who gets the e-mail has the option to respond directly (if interested in the company or the job) or to forward the e-mail to a colleague by selecting "send to friends". Each viral click can increase the recruiter's network of candidates, even if the current job isn't right for them: a link in the e-mail invites candidates to join the real estate firm's network without having to apply for the current job, in case future jobs interest them.

These and other features were designed in collaboration with Jobster's customers. Before his programmers wrote a line of code, Mr Goldberg approached dozens of potential customers with the suggestion that they build a product together. All told, 25 large firms (including Starbucks, Google, Boeing and Samsung) not only participated in an early "alpha" test, but also invested US$10,000 each.

Jobster has also put its users to work developing content for the Jobster site. Job seekers who create an online profile, for example, can add comments about current or past employers, answering questions such as "what's something you learned from working at Microsoft?" and "what do you miss most about Amazon?" This user-generated content adds personality to employers, who can otherwise seem faceless in job listings, and makes the site more interesting for job seekers.

The site also uses the technical and programming mechanics of Web 2.0 to get ahead. Bloggers, for example, can copy some code onto their sites and get a steady stream of industry-specific job listings. This not only gives Jobster's customers wider distribution for job listings, but also brings additional readers to the blogs themselves.

All these features have put the start-up on the fast track to promotion: revenue for 2006 was expected to more than triple, up from US$3m in 2005. "Jobster is really on to something unique. It's fixing an age-old problem with new technology," says Jason Corsello, a research director with analyst firm, Yankee Group.

video (YouTube), social networking (MySpace) or even consumer credit (Zopa)— will continue to shake up industries in unexpected ways. Ms Meyer also thinks that the degree to which people are living their lives online today is helping to make online businesses less vulnerable to the fluctuations of the market. They are being categorised less as "Internet businesses" and more as online businesses in whatever sectors they operate in, she says.

After a record-breaking 2006, **merger and acquisition (M&A) activity** will remain lively. Merger activity has been driven by generally cheap credit and a massive rise in private equity, among other things. "The amount of private equity investment is just growing in leaps and bounds," says Jim Goodnight, CEO of SAS, a privately held multibillion dollar US software firm. "A lot of people are interested. They get good returns on the private equity funds and I think you're going to see that trend continue."

As the market for private equity deals matures in developed countries, that money will increasingly flow towards deals in emerging markets, where capital is scarcer. "The sweet spot is to find places where the economy is growing and where there is indeed demand for capital, but where capital is either relatively scarce or relatively expensive," says Covanta's Mr Huber, who is investing in markets like Brazil.

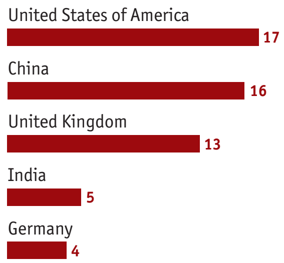
Finally, responding to **demographic trends** will continue to top many agendas. Financial services firms especially have been gearing up to offer more products and services that cater to the growing legions of retirees. "Here in Canada there is lots of opportunity to do profitable business with the ageing baby boomers," says Barbara Stymiest, the chief operating officer of RBC Financial, the largest Canadian-based financial services company. "It is one of the underlying drivers of growth in all our major product segments."

Corporate strategies

Nearly 60% of executives surveyed for this report believe that they will invest more time and money in emerging markets than developed markets. They are making travel plans to suit. China vies with the US and UK as the overseas market that executives expect to visit most frequently in 2007—and is easily the number one destination if Hong Kong is included as well. India will be travelled to more often than economic heavyweights such as Germany, France and Japan.

Managing an enterprise that sprawls across several continents and many more countries may be good for the air miles account, but poses huge challenges. “The more multinational a company becomes, the more exponentially challenging the management environment is,” says Michael Jenkins, the Asia managing director of the Center for Creative Leadership (CCL).

Which countries (other than your home country) will you visit most often in 2007?
(% of respondents; top 5 shown)



Source: Economist Intelligence Unit survey.

Different landscapes

That’s particularly true given the substantial differences that still exist between emerging markets and developed markets.

- **Reasons for expansion**. Although expansion in both emerging and developed markets is primarily motivated by the goal of increasing sales, companies’ secondary motives for going into these types of market vary widely. Executives tend to see emerging markets more as a route to reducing costs and developed markets as a source of ideas and innovation.
- **Barriers to growth**. Executives pinpoint the high cost of labour and market saturation as the biggest obstacles that they face in developed markets. In emerging markets, by contrast, they are concerned about talent shortages, trade and investment barriers and an inadequate understanding of customers.
- **Key risks**. Whatever the market, there is no escape from competition: executives agree that the biggest risk that they face in both developed and emerging markets is increased competitive pressures. However, secondary risks diverge strikingly. In developed markets, respondents see the second-biggest risk as a failure to innovate—a majority of respondents say that they will drive revenue growth by selling new products to existing customers in developed markets. Within emerging markets, executives are more preoccupied by geopolitical and security threats, as well as macroeconomic and financial risk.

Straddling these two types of environment effectively, let alone addressing the differences between individual markets, is a huge test. To succeed, firms must localise their products and services, differentiate themselves appropriately in a range of markets and have the right people in place around the world.

Localise products and services

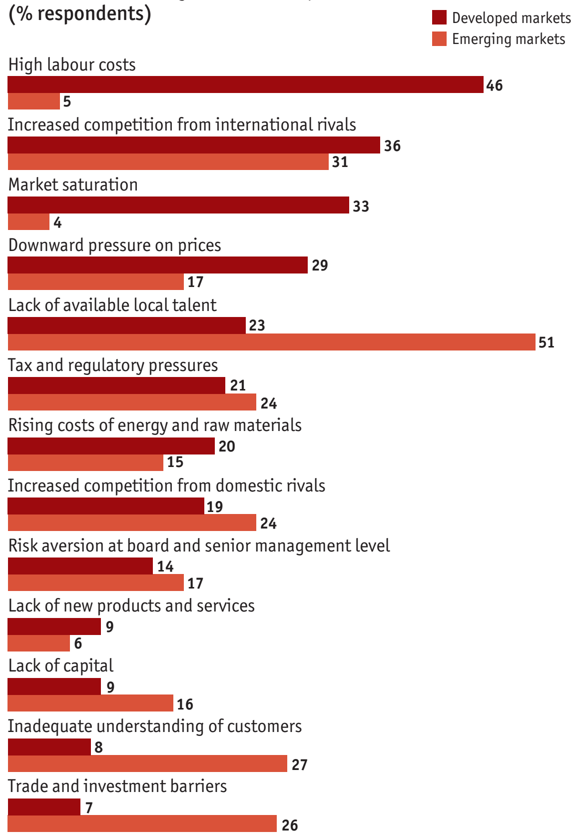
Although a majority of executives intend to drive growth by selling existing products to new customers in emerging markets, simply shovelling old products into new markets is not enough. Leaving aside the fact that emerging markets are themselves increasingly sources of innovation, market-leading companies recognise the need to develop products that are tuned to local needs, cultural preferences and demands.

Intel, for example, produces computer equipment with better protection against dust for the Indian market, while GE's healthcare business reduces the height of some devices for Chinese hospitals so that (typically shorter) local nurses can use them more easily. At Allergan, a US-based provider of specialist pharmaceutical products, Ravi Menon, the company's east Asia managing director, points out that the company has a low-profile product within its breast implant range that is ideally suited to the narrower chests of the many Chinese and Korean women opting for breast augmentation.

CCL's Mr Jenkins highlights how even the seemingly simplest products need to be adapted to local tastes. "[The Indian] market is a great example of one that requires companies that have had to create new delivery paradigms: a tube of toothpaste or soap in a large 'western' size won't sell here, and it is only partially because of the price—it is the size of the packaging." Consumer goods firms that have been successful in India, local and multinational alike, have put their products into sachets and other smaller packages that can be more easily transported and sold within smaller retailers, as well as consumed more efficiently.

The need for adaptation stretches into services too, such as the growing array of financial products that are being marketed in emerging markets. "Some unique products would include some of the micro-insurance products that we sell in places like India,

Which of the following represent the greatest barriers to growth for your business within both emerging and developed markets over the next three years? Select up to three.
(% respondents)



Source: Economist Intelligence Unit survey.

that are geared to protecting small business people from losses that could put them and their family totally out of business," says New York Life's Mr Sproule.

Differentiate yourself

Faced with rising competition, about three-quarters of survey respondents agree that their firms will differentiate themselves on quality in future, rather than cost. A race is under way for the high ground, as firms seek to differentiate themselves on brand, through better product or service quality, or by innovating in their field—or by a combination of these approaches.

“We believe in having a global sales methodology, but there is [a] different finished coating for each market.”

Alex Murchie, head of global sales operations, Orange Business Services.

“Consumers are increasingly careful about the way that they make purchases. They are looking for distinctive concepts,” says Coach’s Mr Frankfort, who argues that a strong brand will be critical for firms to succeed. “Some of the mass retailers that try to differentiate only on price are having a real challenge. Consumers are discerning, they’re intelligent and they get more so each year. Each year the bar rises.”

Alex van Someren, CEO and co-founder of nCipher, a software firm that provides security products, believes the main risk in developed markets is competition, which is best defended through innovation. “Reputation is very important in security and is a barrier to entry for new companies. Innovation is vital so [other firms] don’t outpace us. We’ve got to keep research and development going.”

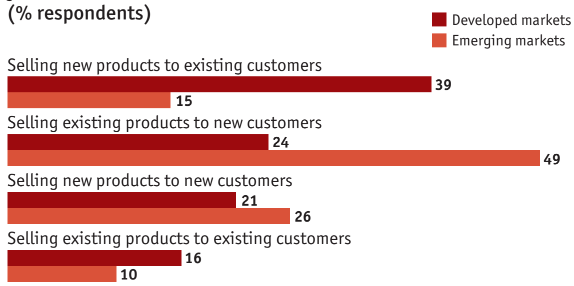
Depending on what industry firms are in, this race to the top can take very different forms. Within supermarkets, for example, much attention is being paid to organic foods and other premium products that appeal to a growing niche of price-insensitive consumers that are willing to pay for goods matching their ethical outlook. “We would look to continue to grow via our focus on fresh, healthy, tasty, safe food, including organic and ‘free from’ foods,” says Sainsbury’s Mr Shapland. “And it is those areas where we are seeing the strongest demand and where we believe we can grow the business.”

“We feel the pressure of technology leadership. We need to lead the market with differentiated products.”

Dale Sohn, president, Samsung Telecommunications America

A strategy of differentiation can be more difficult to execute in emerging markets, however, where average incomes are low and price sensitivity remains high. For many companies the challenge will be to find a way to translate the high-end products and services that they sell in developed markets into something that can appeal in emerging markets, perhaps by reducing functionality and cost (See box: *Lenovo: marrying East and West*). “I think that’s a key success factor for firms like ours, to be able to innovate and adapt to local conditions,” says GE’s Mr Chopra.

Which of the following strategies will be most important to driving revenue growth in your company over the next three years? Select one.
(% respondents)



Source: Economist Intelligence Unit survey.

Fight for talent

As discussed earlier in this report, companies must also find enough talented people—be they statisticians, airplane mechanics or coffee shop baristas—to power a firm’s expansion plans globally. Executives favour two approaches in particular: building successful training and development programmes to develop tomorrow’s stars from within and placing greater emphasis on performance-based compensation, in order to give today’s stars more incentive to weave their magic.

GE, for example, has long had a strong focus on internal development. “We believe in training up people, so we build our own pipeline of people,” says Mr Chopra. “Bring them straight out of school and help train them and bring them in.” The next challenge is to retain these stars, which is “where all of us are being challenged right now,” he says. “In [India], with the crazy boom in growth happening, figuring out ways to keep people is stretching our imaginations.”

In China, DHL has set up its own Logistics Management University, which covers everything from basic operational aspects of the courier business to full-fledged supply chain management.

Lenovo: marrying East and West

Lenovo is a new breed of company, a hybrid of Western and Eastern business cultures, which aims to cross-pollinate the best practices of each. What Lenovo is not, insists David Miller, the firm's president for Asia Pacific and Japan, is a Chinese company. Rather it is a "new world company", a US$14bn start-up that just happens to have a major global footprint and well distributed sales revenue across the world—just over one-third in China and just under one-third in the US, with the balance across Europe and the rest of the world.

The company is undeniably international: its executive headquarters are in New York State, with its principal operations in Beijing and North Carolina. Meanwhile, the company's CEO, William Amelio, along with many of its global functions (tax, services and supply chain) are located in Singapore. The company employs more than 19,000 people worldwide and is listed on the Hong Kong stock exchange.

Nonetheless, Lenovo's heritage is unmistakably Chinese. The name combines the Latin word for "new" preceded by "Le" from Lenovo's progenitor, Legend. Legend was the Chinese equivalent of Microsoft, a company founded on a shoestring in 1984 by 11 Beijing computer scientists that grew to dominate the Chinese personal computer (PC) market. The firm's global leap was achieved at a stroke when it acquired IBM's PC business in early 2004, along with 10,000 employees, advanced design facilities in Japan, China and the US, the IBM brand (for five years), the Think brand and a range of highly engineered products.

Now, one of Mr Amelio's key goals is to transplant the company's competitiveness in China into other markets. All the primary emerging markets—Brazil, Russia, India and China—are now priority markets. However, the problem that firms like Lenovo face is that these markets all have varying degrees of pent-up demand that is constrained by limited purchasing power. For example, while India is a US$1bn PC market, this represents a penetration rate of only about 5%. Computer use is actually much higher, but mainly through the country's ubiquitous Internet cafés.

To tap into this potential demand, Lenovo has partnered with Microsoft and various local banks to launch a pay-as-you-go "cyber café at home" concept. Under the scheme, which borrows from the mobile-phone market, consumers that can't afford a PC outright can get their first Lenovo desktop for a small initial deposit, and then access it using prepaid cards or through a monthly subscription, which is credited towards paying off the machine. The concept has only just been launched in India, but it exemplifies how the firm is working to tap into emerging market growth. Rivals have been warned.

The institution takes in graduates as well as workers from other industries. "While China's universities are churning out good graduates, these young people are not trained in logistics," says Mr Sen. In his view, the typical 30-day induction training period is no longer sufficient: DHL instead replicates two years of experience through three months of intensive training at its university.

As well as putting the right people in place on the ground, firms must also develop management teams with an international outlook. 60% of respondents agree that their senior management teams will become more international over the next three years, although much progress remains to be made.

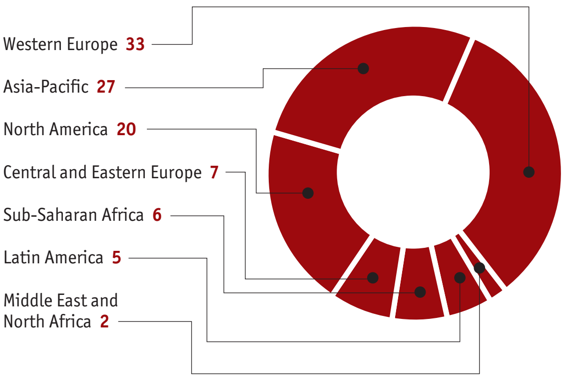
"Everybody views China and India as the emerging markets that will deliver the greatest business opportunity in coming years. But how many Fortune 500 board members are from either of these two markets?" asks Ashis Bhattacharya, the director of global marketing at precision manufacturing firm, Moog International. "And how many board meetings are held in the Asia Pacific region? The geographic spread of market opportunity is not reflected in management teams."

Appendix: Survey results

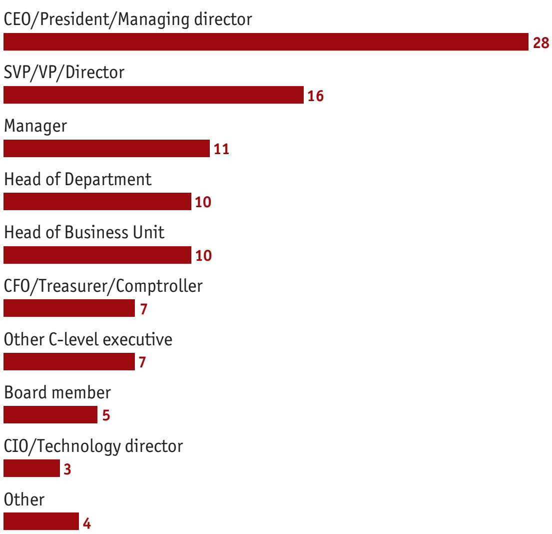
In late 2006, the Economist Intelligence Unit conducted a survey of 1,006 executives around the world. Our sincere thanks go to all those who took part in the survey.

Please note that not all answers add up to 100%, because of rounding or because respondents were able to provide multiple answers to some questions.

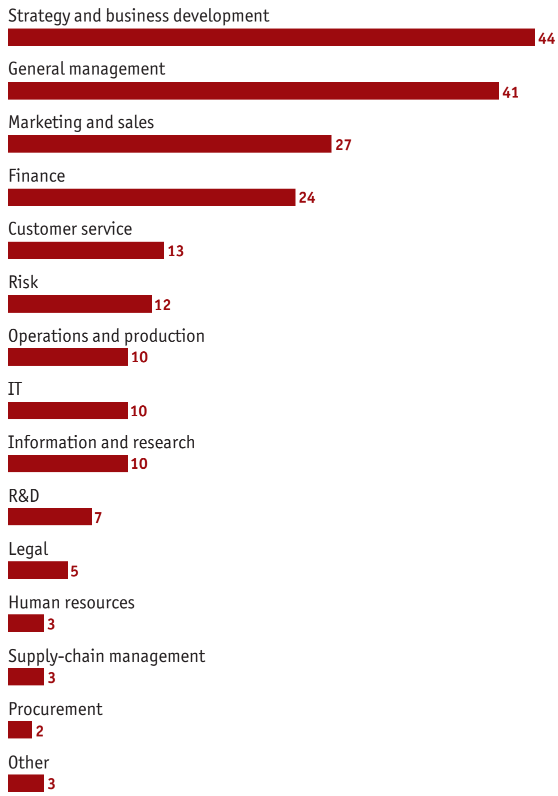
In which region are you personally located?
(% respondents)



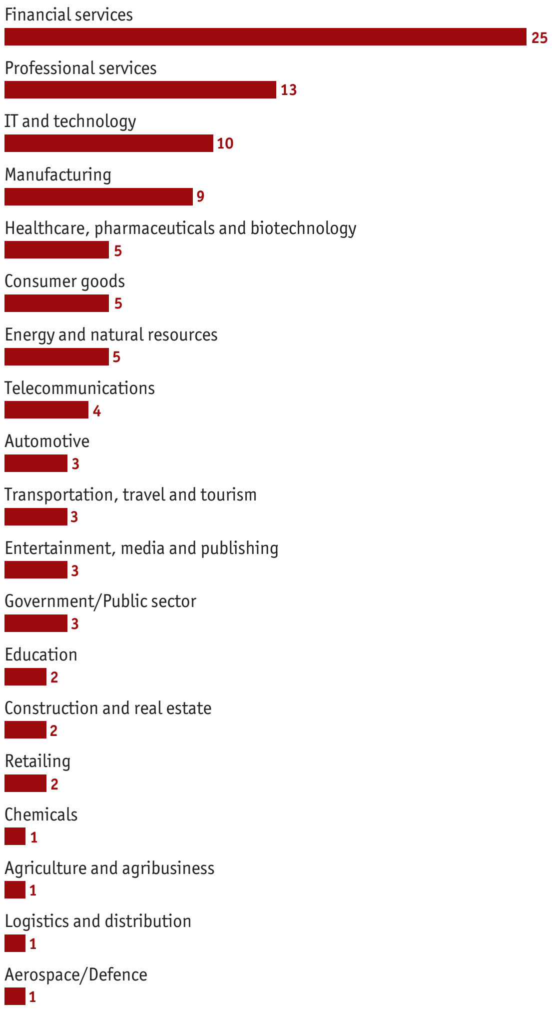
Which of the following best describes your title?
(% respondents)



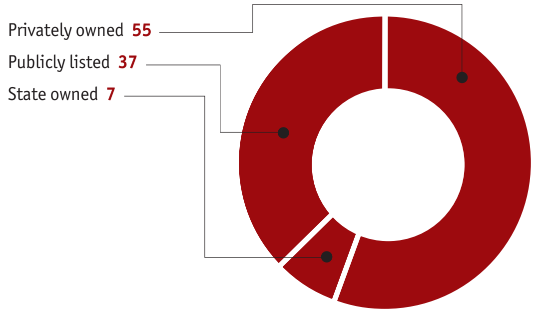
What are your main functional roles? Please choose no more than three functions.
(% respondents)



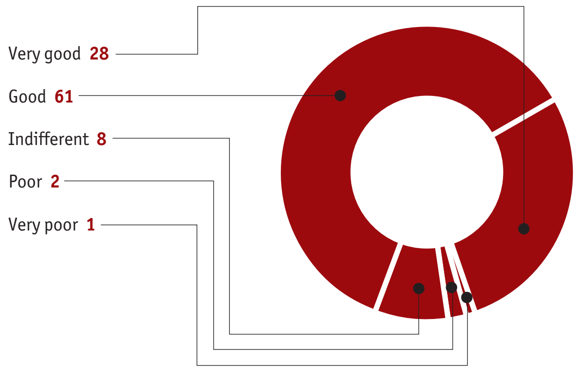
What is your primary industry?
(% respondents)



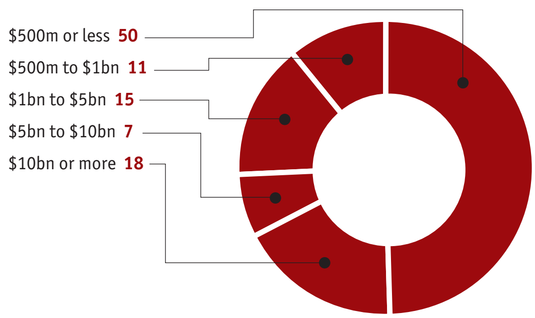
What is the ownership structure of your organisation?
(% respondents)



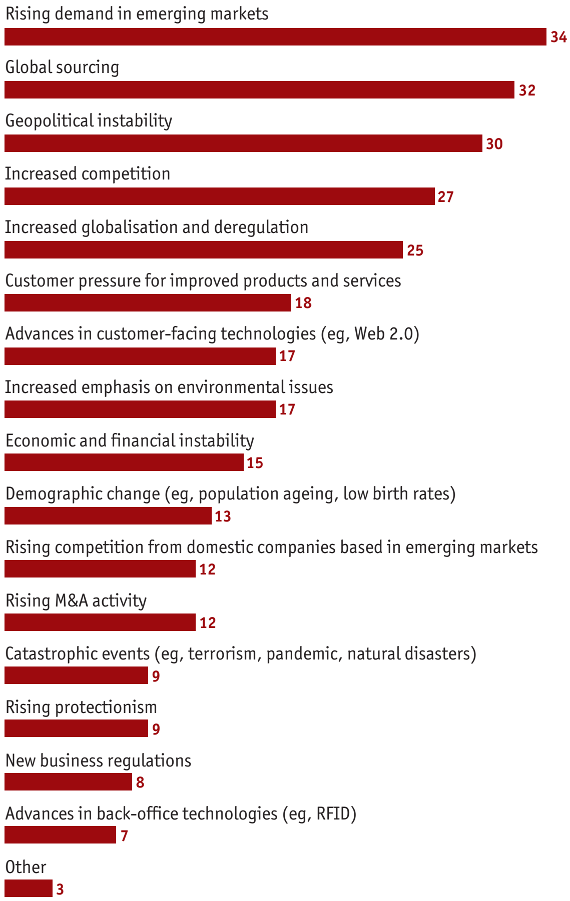
How does your organisation view the prospects for business in the global marketplace over the coming three years?
(% respondents)



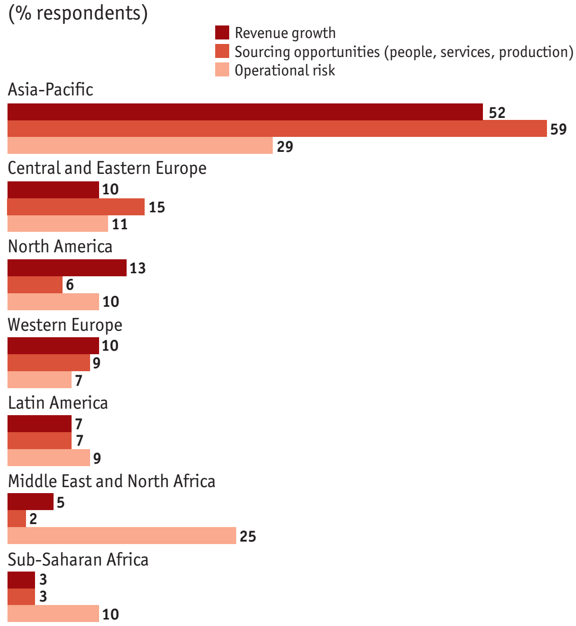
What are your organisation's global annual revenues in US dollars?
(% respondents)



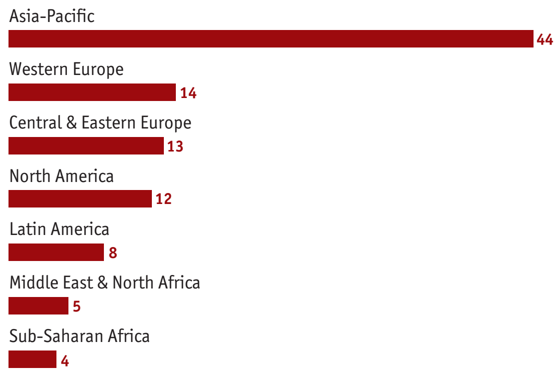
In your opinion, which of the following forces will have the greatest impact on the global marketplace over the coming three years? Select up to three options.
(% respondents)



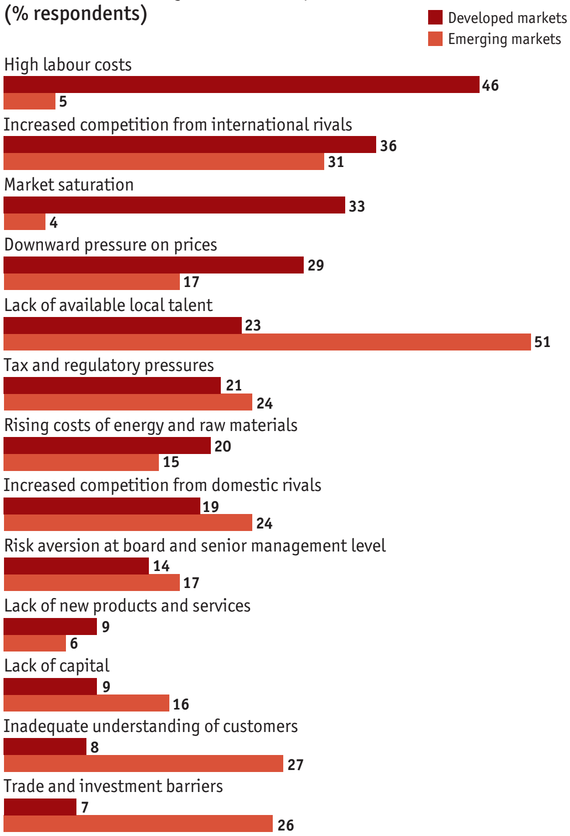
Which region do you think will offer the greatest opportunities, in terms of revenue growth and sourcing, for your business over the next three years? And which will be the source of greatest operational risk?
(% respondents)



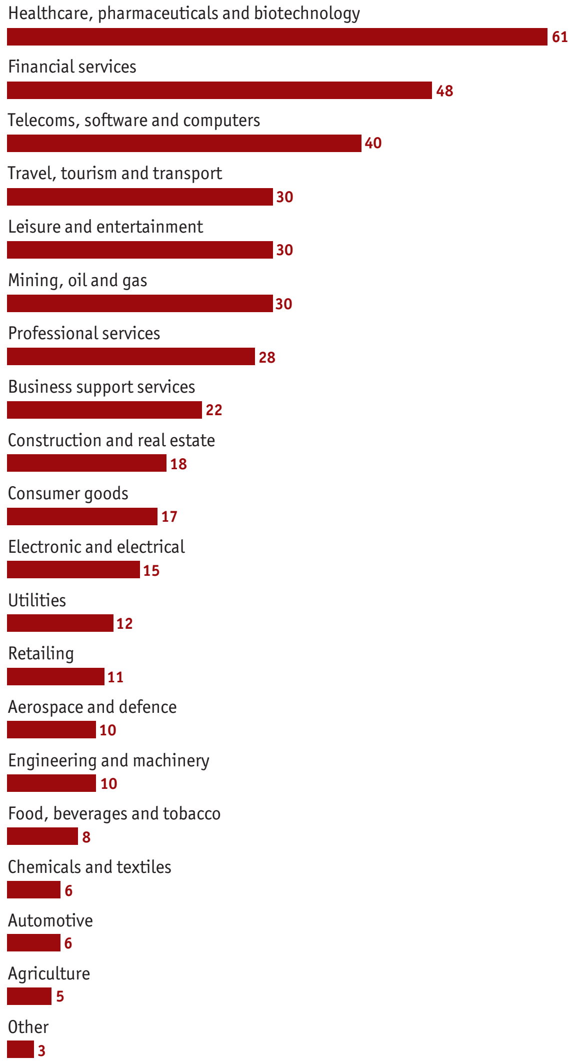
In which of the following regions will your business commit most new (ie, incremental) investment in 2007?
(% respondents)



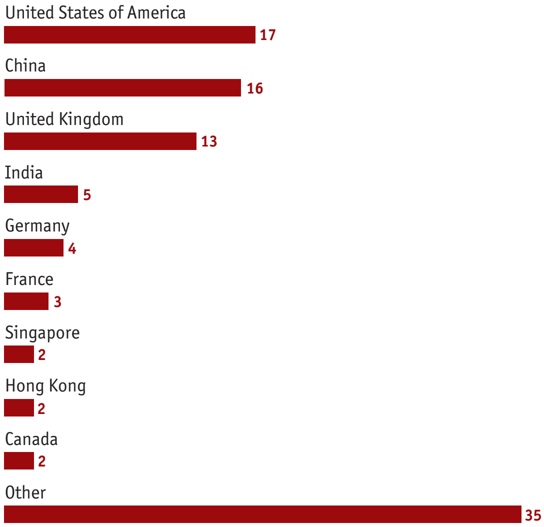
Which of the following represent the greatest barriers to growth for your business within both emerging and developed markets over the next three years? Select up to three.
(% respondents)



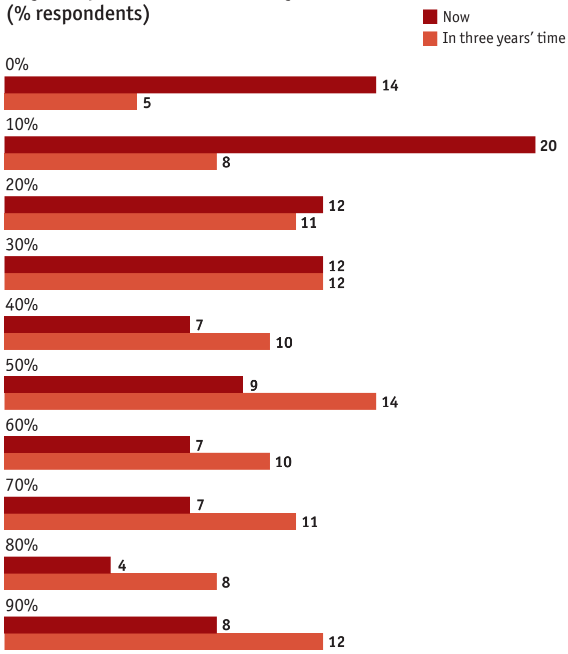
Which industries do you believe enjoy the best growth prospects over the coming three years? Select all that apply.
(% respondents)



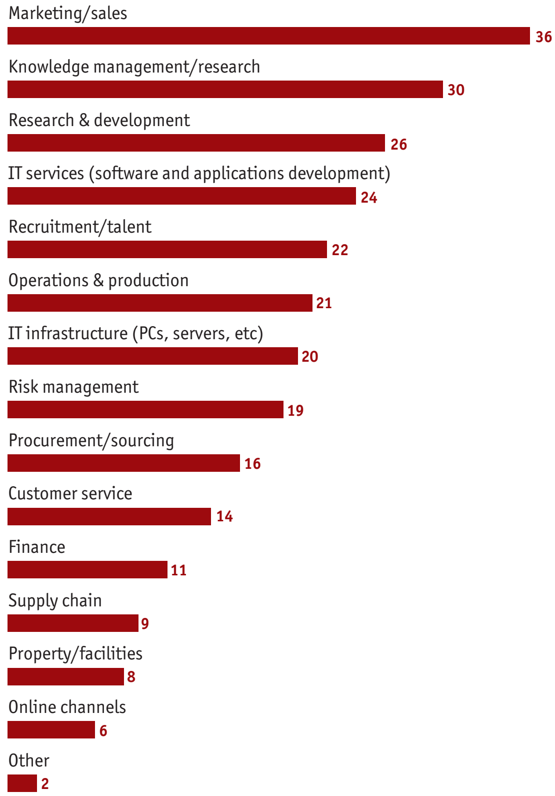
Which countries (other than your home country) will you visit most often in 2007?
(% respondents)



Approximately what proportion of your company's revenue is accounted for by overseas markets now, and what proportion do you expect it will be in three years' time?
(% respondents)

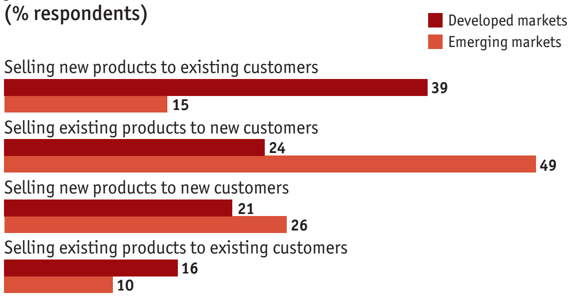


In which of the following areas do you expect your business will commit most new (ie, incremental) investment in 2007?
(% respondents)

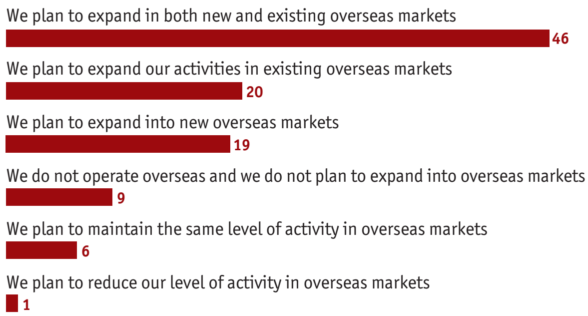


Which of the following do you think will be most important for lowering costs at your organisation over the next three years?
(% respondents)

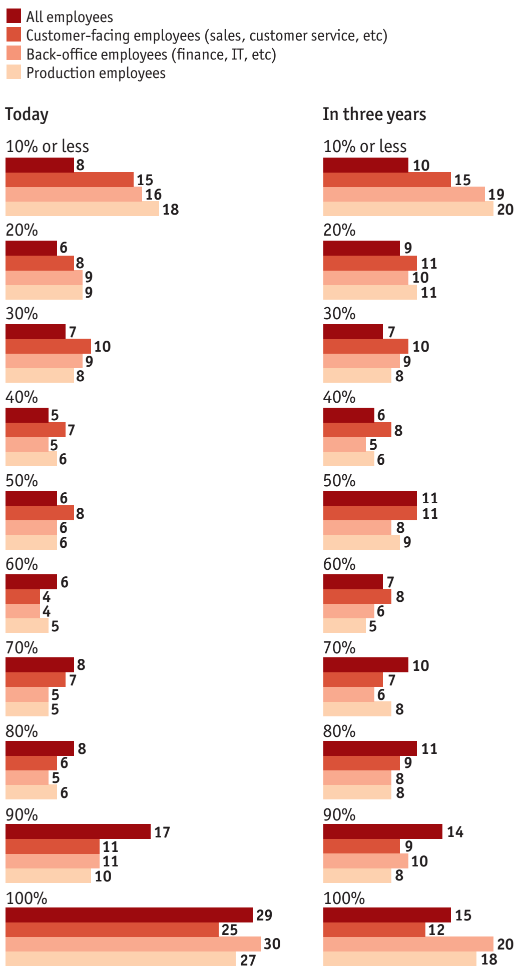
Which of the following strategies will be most important to driving revenue growth in your company over the next three years? Select one.
(% respondents)



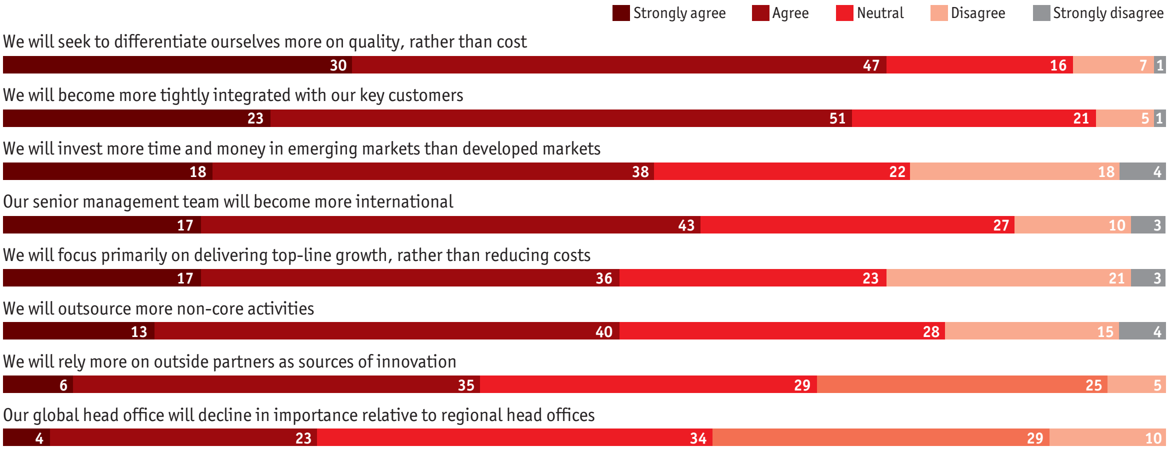
Is your organisation planning to expand its operations in overseas markets over the next three years?
(% respondents)



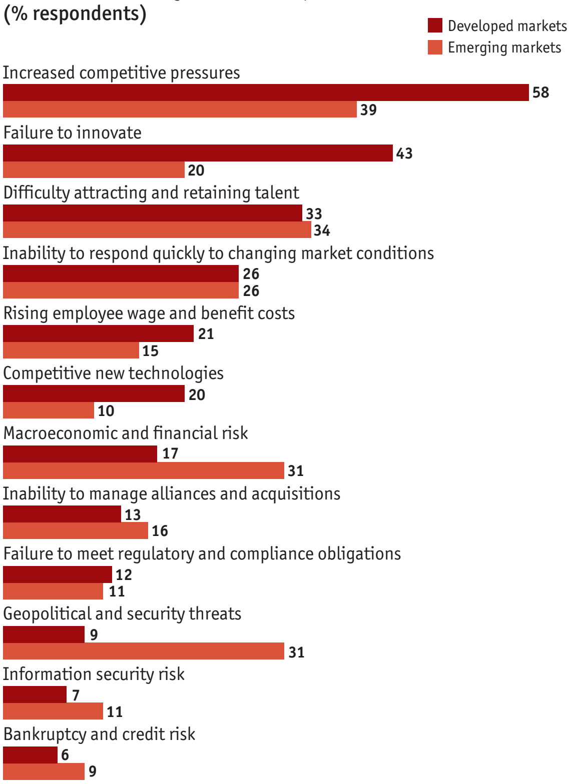
Approximately what proportion of employees is based in your organisation's home market today and what proportion will you expect in three years time?
(% respondents)



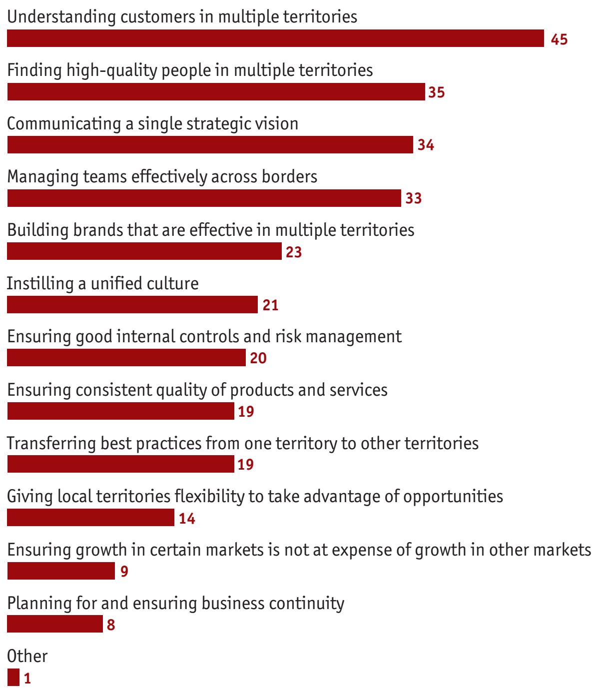
Do you agree or disagree with the following statements regarding how your business will evolve over the next three years?
(% respondents)



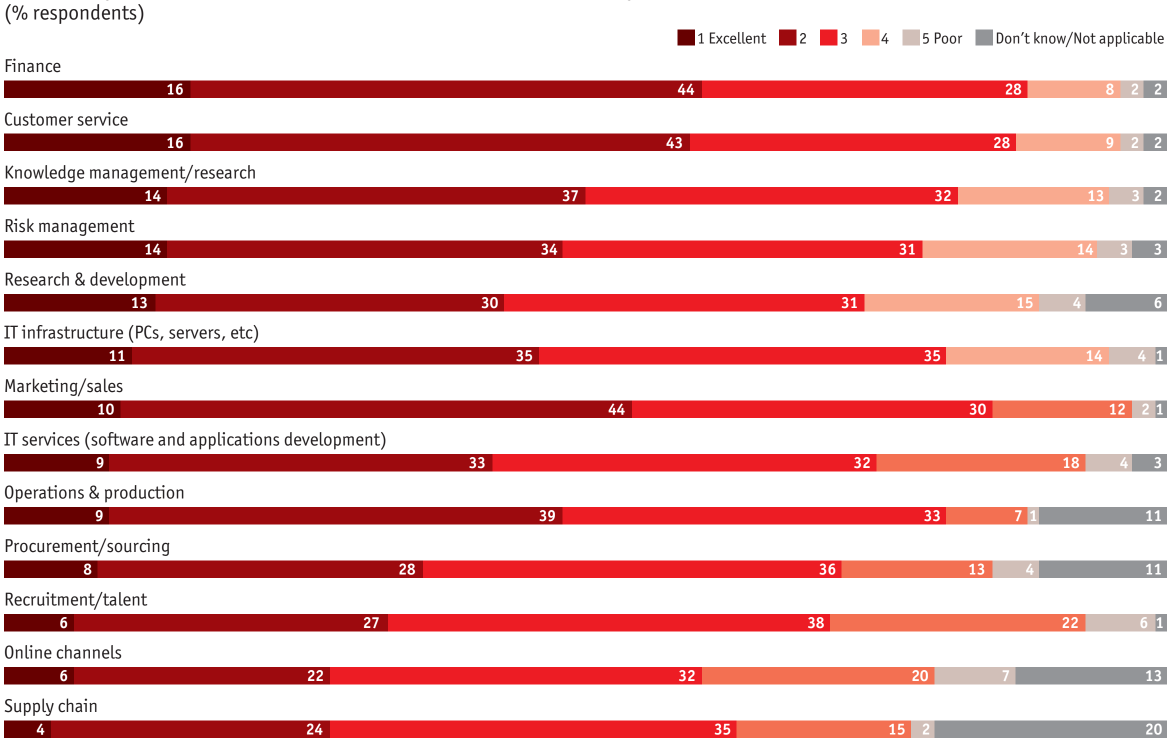
What do you think are the greatest risks your company will face over the next three years? Select up to three.
(% respondents)



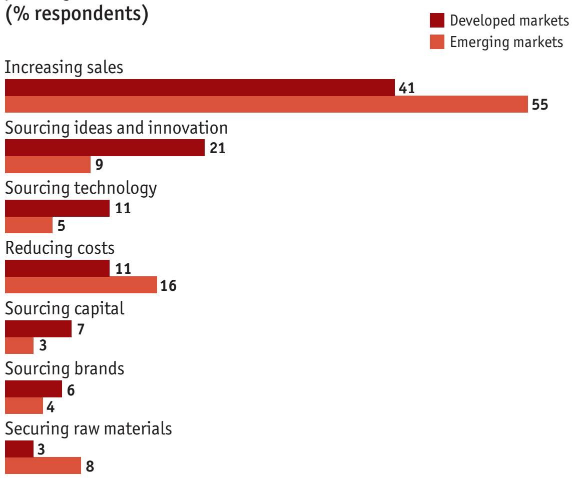
What will be the greatest challenges to running a successful global company over the next three years, in your view?
(% respondents)



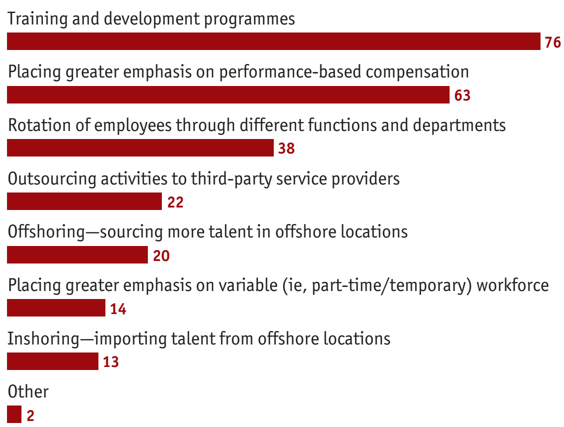
How would you rate the performance of the following functions within your organisation?
(% respondents)



If your organisation does plan to expand its activities in overseas markets over the next three years, what will be its primary motivations? Select one.
(% respondents)



How do you think your organisation will ensure that its employees have the skills required to meet its strategic objectives over the next three years?
(% respondents)



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The Economist Intelligence Unit is the business information arm of The Economist Group, publisher of *The Economist*. Through our global network of over 500 analysts, we continuously assess and forecast political, economic and business conditions in 200 countries. As the world's leading provider of country intelligence, we help executives make better business decisions by providing timely, reliable and impartial analysis on worldwide market trends and business strategies.

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LONDON
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8476
E-mail: london@eiu.com

NEW YORK
111 West 57th Street
New York
NY 10019
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2
E-mail: newyork@eiu.com

HONG KONG
60/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com