Learning From Emerging Markets - By Kerrie MacPherson

2006-10-25

Investors in emerging markets are pulled in two directions. On one side, the huge opportunities presented by Brazil, Russia, India, and China - the so-called BRIC countries - and other growth markets today are attracting increasing competition for investments and demand speed. But BRIC opportunities often feature unreliable accounting, volatile regulatory environments, tax complexities, and cultural differences - warning buyers to slow down and mitigate risk.

As deal-makers confront this dialectic of velocity versus complexity, one thing is clear: The transaction lifecycle will change. In emerging markets, it’s essential to think far ahead and consider a broad range of factors and scenarios in pursuing and executing deals - for private equity firms as well as companies.

FRESH APPROACHES. These days, transaction leaders take a more qualitative view of valuation and consider taxation a key to deciding when and where to invest. In emerging markets, integration should be custom-tailored and may be partial or slow-paced. Regulatory change can put a new spin on investment prospects, as with recent M&A rules issued by the Chinese central government.

Fresh approaches are surfacing as Ernst & Young’s Transaction Advisory Services conducts the 2006 Global Transaction Leaders Study, a follow-up to our landmark Corporate Development Officer (CDO) Study. The 2006 study, slated for completion next spring, explores views and experiences around cross-border deals and other issues, via interviews with CDOs and other deal team members in some of the largest, most forward-thinking global companies.

In preliminary findings from North America, study participants say that deal teams must make decisions in places where the standard transaction process may not apply and the home office may be unable to provide guidance. How to assess different types of risk - how to ’diligence’ a company with three sets of books - how to value deals that may not pay off for years - such questions challenge CDOs and their teams to rethink strategies and transaction processes.

COMPELLING. In fact, adaptation of process to emerging markets must improve corporate development as a whole. For some time, leading companies have been working to link strategy with transaction integration, make due diligence more comprehensive, and take a more analytic view of opportunity and risk. A transaction process that works well in the crucible of an emerging market cannot help but benefit deal-making in any environment of growth or change.

That logic is particularly compelling as globalization links emerging and developed markets in new ways. American investors look to BRIC demographics as a way out of slow growth in a mature market, but Brazil’s big companies are investing in the United States and in Asia, too. Meanwhile, leading Indian companies have racked up more than $2 billion in cross-border deals in the past two years.

By 2050, the BRIC countries are predicted to be among the top six economies in the world. Those who learn from emerging markets today will build the great global companies of tomorrow.

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Emerging Markets

Read our Cross-Border Transaction Series which explores the environment in emerging markets.