Pinpointing the markets with the highest growth potential

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A new tool called Cityscope Navigator helps companies identify which cities and product categories will yield the highest returns on investment.

Most of the world's consumers live in urban centers. Today, 70 percent of global consumption can be attributed to the 2,400 largest (of more than 200,000) cities worldwide. By the year 2020, the 100 most populous cities alone could account for 30 percent of global consumption.

As one might expect, cities in emerging markets contribute the lion's share of consumption growth. But these cities are all growing at different rates, some much faster than others. To make the best decisions about which markets to prioritize, consumer-goods companies must be able to determine which cities—or groups of cities—are growing the fastest, and which ones will yield the highest returns on investment. Somewhat surprisingly, a number of cities in developed markets, including Western Europe and the United States, are growing as rapidly as those in emerging markets. Companies that ignore these cities could be missing out on opportunities very close to home.

Market prioritization is made even trickier by the fact that within a city, product categories follow different growth trajectories. For example, in Moscow, the estimated real growth in the juice category in the 2010–20 period is 5.4 percent, compared with only 1.6 percent in soda. Again, to make the best investment choices, companies must accurately predict critical inflection points for particular products in particular markets.

But most consumer-packaged-goods (CPG) manufacturers lack accurate, detailed market information to help them make such predictions. Information sources are fragmented and often inadequate, with many relying on historical data rather than forward-looking statistical analyses. How, then, can companies identify the markets in which the demand for their products will be strongest? How can they increase their chances of selling the right products in the right markets at the right time?

McKinsey's Cityscope capability can help. Cityscope represents a range of proprietary databases, models, and analytic tools that help clients gain granular perspectives on their markets in over 2,400 of the world's largest cities. One of these tools, Cityscope Navigator, enables a fact-based approach to prioritizing growth markets for 45 consumer-goods categories and developing market-entry strategies. By combining historical data on consumers and product categories with socioeconomic indicators, statistical consumption-growth analyses, and insights into local markets, Cityscope Navigator estimates market potential to the year 2020, by city and by category.

Debunking myths about growth

For much of the past 20 years, the discourse on growth markets has centered on the BRIC countries: Brazil, Russia, India, and China. With competition in these markets intensifying, some companies have shifted their focus to other regions of the world, such as Africa and elsewhere in Asia and Latin America. Everywhere, however, competition and high capital requirements are making it increasingly difficult to achieve growth and create value through geographic expansion, making it crucial for companies to take guesswork out of their expansion plans. A more granular look at metro markets around the globe reveals where the most promising opportunities lie—and clears up widespread misconceptions.

'Western Europe isn't a growth market'

Most CPG companies have had very low expectations for growth in Western Europe. They've long seen the market as a battle for distribution, where they must secure placement for their products in the fastest-growing retail channels just to maintain their share of a pie that isn't getting any bigger. But this no-growth (or, at best, low-growth) picture isn't entirely accurate. Cityscope Navigator data indicate that between 2010 and 2020, certain product categories—including fruit juices, ready-made meals, and skin-care products—will grow at almost twice the rate of overall consumer spending in Western Europe. Companies can thus generate above-average growth in the Western European market not only by taking market share from competitors but also by making targeted investments in high-growth categories.

Cityscope Navigator further supplements this category perspective with the geographic dimension. The beer category illustrates the power of granular analysis: average consumption growth in Western Europe from 2010 to 2020 is estimated at 0.2 percent, but in a few cities, such as Dublin and Oslo, the projected growth rate exceeds 1.5 percent.

Like Western Europe, the United States has pockets of rapid growth, with some categories expanding at two to three times the national average in certain metropolitan areas. The nominal growth of baby food in Orlando, Florida, for instance, is around 6 percent—comparable to the rate of growth in Mexico City.

'It's too late to enter China or India'

Some companies have written off China and India as unrealistic expansion opportunities; they feel their capital base is insufficient for credible entry into these markets, or that the competitive environment in these countries has already gotten too tough for new entrants to break in. But companies shouldn't dismiss these markets outright. Instead, they should ascertain whether building a presence in only a few select cities is a viable option.

For product categories in which minimum scale requirements are low, even limited entry into China or India can yield returns equivalent to—or higher than—countrywide coverage in other emerging markets. The market for juices in Shanghai alone, for instance, will grow three times as fast in absolute terms as in all of Malaysia. Furthermore, many cities in China and India are continually upgrading to a modern retail and distribution infrastructure, making market entry less complex than it would be in remote or rural areas.

'Emerging-market consumers don't buy premium products'

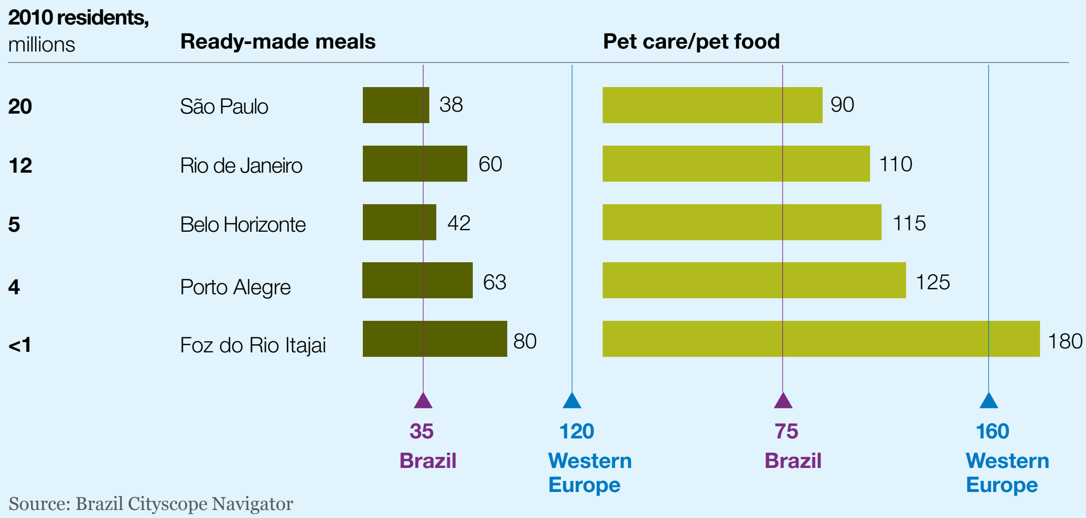
As they venture into emerging markets, many international CPG companies choose to sell only simple products that meet basic needs. And with good reason: fast-moving categories such as soft drinks and laundry detergent offer the greatest reach and the highest market potential there.

Yet Cityscope Navigator reveals that some large cities in emerging markets have per-capita income levels comparable to those in large European and North American cities. Demand structures in these emerging-market cities are becoming increasingly similar to those in their developed-market counterparts—which means higher sales potential for discretionary products such as premium cosmetics, disposable diapers, and pet food. In some Brazilian cities, for example, by 2020 per-capita spending on ready-made meals and pet care will significantly exceed Brazil's national average—although Brazil's overall consumption levels will still lag behind Western European levels (exhibit). Companies that meet this nascent consumer demand early on will be well positioned to become market leaders.

Exhibit

Consumption of highly developed product categories is increasing substantially in some emerging-market cities.

Per capita consumption in Brazil and Western Europe, 2020
$



Source: Brazil Cityscope Navigator

Companies that meet nascent consumer demand early on will be well positioned to become market leaders.

Developing strategies for micromarkets

Using Cityscope Navigator data, companies can develop country-specific profiles for each product category and then prioritize micromarkets within each country. In an in-depth study on Brazil's growth outlook, for instance, we analyzed 45 categories in 550 microregions and more than 5,500 cities.[1] We found that Brazil is indeed poised for speedy economic growth in this decade, with the Northeast region growing the fastest. Consumer spending in the Northeast will increase almost threefold, and in 2020, the region will become Latin America's second-largest consumer-goods market after Mexico.

Notably, some of Brazil's fastest-growing cities aren't sprawling metropolises or state capitals but medium-size cities with populations ranging from just over 20,000 to 500,000—cities that aren't even on the radar screen of many CPG companies. At about 9 percent, the annual growth rate of these cities is comparable to China's. Collectively, they are projected to contribute approximately half of Brazil's total growth in consumer spending.

With Brazilians' increasing affluence, a number of product categories will experience explosive sales growth. One of those categories is sunscreen: sales volumes of this previously low-penetration category are expected to triple by 2020. Other categories will grow at a more measured but still impressive rate—baked goods, for instance, will grow by "only" 40 percent. In Caruaru, a city in the Brazilian state of Pernambuco, by 2020 the average beer consumption per resident will be higher than that of Germany.

But, to date, the leading retailers in Brazil aren't capturing much of this growth. Many large retailers, including Wal-Mart Stores, Carrefour, and Companhia Brasileira de Distribuição, are either underrepresented or don't have even a single store in some of the country's fastest-growing cities.

Consistent application of a fact-based, granular approach using Cityscope Navigator data can help consumer companies gain valuable insights into the industry's competitive dynamics. And companies that venture into high-growth regions and categories ahead of the competition will be better able to take—and hold on to—a market-leader position for years to come. ■

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[1]Brazil is divided into more than 500 microregions, which are legally defined administrative areas made up of groups of municipalities. Our Brazil Cityscope Navigator database contains information on these microregions as well as on more than 5,500 cities in Brazil.