Emerging Markets Rule

Mauro F. Guillén @MauroFGuillen
Esteban García-Canal @EstebanGCanal

"Las multinacionales de los mercados emergentes: ¿Hacia un nuevo orden empresarial?"
Jueves 14 de febrero de 2013, de 19:00 a 20:30 horas
EM MNEs

- Emerging-market multinationals:
  - Their home is an emerging economy.
  - They have established operations outside the home country.
  - They are taking over the world
How Important are EM MNEs?

**EMs:**
- 50% of global GDP.
- 75% of Forex.

**EM MNEs**
- 4 trillion dollars invested.
- 26% Fortune G500.
- 29% of 103,786 MNEs in the world.
- 19% of FDI stock.
- 120 EM MNEs among top 1000 R&D spenders.

## The Fortune Global 500

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Companies:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>China</td>
<td>29</td>
</tr>
<tr>
<td>South Korea</td>
<td>15</td>
</tr>
<tr>
<td>India</td>
<td>7</td>
</tr>
<tr>
<td>Taiwan</td>
<td>6</td>
</tr>
<tr>
<td>Brazil</td>
<td>5</td>
</tr>
<tr>
<td>Russia</td>
<td>5</td>
</tr>
<tr>
<td>Mexico</td>
<td>5</td>
</tr>
<tr>
<td>Singapore</td>
<td>1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1</td>
</tr>
<tr>
<td>Poland</td>
<td>1</td>
</tr>
<tr>
<td>Hungary</td>
<td>0</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>1</td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
</tr>
<tr>
<td>Turkey</td>
<td>1</td>
</tr>
<tr>
<td>Colombia</td>
<td>0</td>
</tr>
<tr>
<td>Venezuela</td>
<td>0</td>
</tr>
<tr>
<td>Total Emerging</td>
<td>78</td>
</tr>
</tbody>
</table>

Source: Fortune magazine.
BCG 100 Global Challengers 2013

China (29)
- Alibaba.
- Avic.
- Geely.
- Goldwind.
- Haier.
- Huawei.
- Lenovo.
- PetroChina.
- Sinopec.

India (20)
- Bharat Forge.
- Bharti Airtel.
- Dr. Reddy’s.
- Infosys.
- Tata Consultancy Services.
- Tata Motors.
- Wipro.
BCG Global Challengers 2013

- Brazil (13): Embraer, JBS, Natura, Odebrecht, Petrobras...
- Mexico (7): América Móvil, Bimbo...
- Russia (6): Gazprom, Lukoil, Severstal...
- South Africa (5): MTN, Sasol...
- Thailand (4): Charoen, Indorama, PTT...
- Turkey (3): Koc, Sabanci, Turkish Airlines...
- Chile (2): Falabella, Latam Airlines Group.
- Malaysia (2): AirAsia, Petronas.
- Argentina (1): Tenaris.
- Colombia (1): Grupo Empresarial Antioqueño.
- Qatar (1): Qatar Airways.
- UAE (1): Etihad.
<table>
<thead>
<tr>
<th>Firm</th>
<th>Country</th>
<th>Industry</th>
<th>Global Market Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arcor</td>
<td>Argentina</td>
<td>Confectionery</td>
<td>#1 candy manufacturer</td>
</tr>
<tr>
<td>Bimbo</td>
<td>Mexico</td>
<td>Food processing</td>
<td>#1 in bread</td>
</tr>
<tr>
<td>JBS</td>
<td>Brazil</td>
<td>Food processing</td>
<td>#1 in meat</td>
</tr>
<tr>
<td>Modelo</td>
<td>Mexico</td>
<td>Beverages</td>
<td>#1 import beer brand</td>
</tr>
<tr>
<td>Vale</td>
<td>Brazil</td>
<td>Mining</td>
<td>#3</td>
</tr>
<tr>
<td>Tenaris</td>
<td>Argentina</td>
<td>Steel</td>
<td>#1 in seamless tubes</td>
</tr>
<tr>
<td>Bharat Forge</td>
<td>India</td>
<td>Metals</td>
<td>#2 in forgings</td>
</tr>
<tr>
<td>Cemex</td>
<td>Mexico</td>
<td>Cement</td>
<td>#1 in ready-mix concrete</td>
</tr>
<tr>
<td>Haier</td>
<td>China</td>
<td>Household appliances</td>
<td>#1 in white goods</td>
</tr>
<tr>
<td>Braskem</td>
<td>Brazil</td>
<td>Bioplastics</td>
<td>#1</td>
</tr>
<tr>
<td>BYD</td>
<td>China</td>
<td>Batteries</td>
<td>#1 in Ni-Cd batteries</td>
</tr>
<tr>
<td>Acer</td>
<td>Taiwan</td>
<td>Personal computers</td>
<td>#2</td>
</tr>
<tr>
<td>Lenovo</td>
<td>China</td>
<td>Personal computers</td>
<td>#4</td>
</tr>
<tr>
<td>Samsung Electronics</td>
<td>S Korea</td>
<td>Consumer electronics</td>
<td>#1 in chips &amp; LCDs, #2 in phones</td>
</tr>
<tr>
<td>Embraer</td>
<td>Brazil</td>
<td>Aircraft</td>
<td>#1 in regional jets</td>
</tr>
<tr>
<td>Cosan</td>
<td>Brazil</td>
<td>Energy</td>
<td>#1 in biofuels</td>
</tr>
<tr>
<td>Tata Comm.</td>
<td>India</td>
<td>Telecom operator</td>
<td>#1 wholesale voice carrier</td>
</tr>
</tbody>
</table>
Are EM MNEs Unique?

- They come from emerging economies with underdeveloped infrastructure and institutions.
- They grew up in volatile environments.
- Few are publicly listed firms with dispersed ownership. They tend to be controlled by families or state owned.
- They have grown very quickly.
Can We Learn from Them?

- In spite of how unique EM MNEs are, we can identify their sources of strength.
- We can also emulate their strengths.
- They innovated in order to overcome growth constraints such as scarce capital, lack of skilled labor, or a poor infrastructure.
- They have developed unique political skills.
- They are not unbeatable.
- But they are not easy to compete against either.
Seven Axioms

- Execute, Strategize, then Execute Again—Céntrate en hacer bien lo que el cliente quiere.
- Cater to the niche—Satisface los nichos.
- Scale to win—Acumula escala para ganar.
- Embrace chaos—Acepta el caos.
- Acquiring smart—Adquiere inteligencia, inteligentemente.
- Expand with abandon—Entrégate a la internacionalización.
- No sacred cows!—No hay vacas sagradas.
Axiom #1
Execute, Strategize, Then Execute Again

Winners act while losers agonize over what to do.

“However beautiful the strategy, you should occasionally look at the results.”
—Winston Churchill
Firms tend to over-strategize... especially when they are in trouble.

- Benetton: Lost out to Zara.
- Phillips: Reorganized itself many times before moving away from mass manufacturing.
- Panasonic: Forgot its own recipe for success.
- The best strategy often is an emergent one focused on execution.
Bimbo

- World’s largest baker.
- Bread is a low-margin business.
- It’s main competitor, Sara Lee, did not have the stamina and the focus to engage in sustained execution.
- “A lot of vision with a lot of planning.”
“Short term is expansion, to deeply understand our clients, [our] consumers, and our competitors, and to develop a local talent [pool]. Medium term is to continue growing and expand as a national brand. In the long term we see China as one of the primary sources of growth for Bimbo Group, as well as a source of innovation and talent to other opportunities.”

—Jorge Zárate, CEO of Bimbo China. Photo from The New Yorker.
Embraer

- In aircraft manufacturing you bet the farm with each new product launch.
- Company did not pioneered the regional jet concept (Bombardier did), but refined its design, manufacturing, and servicing.
- It was weaker technologically than its rivals, so it had to innovate in the manufacturing process.
“Thanks to the Embraer 190, combined with our narrow-body fleet, we can enjoy the benefits of wider market coverage and develop greater business opportunities, while offering the same level of comfort to our passengers.”

—Niki Lauda, founder of NIKI.

Seattle PI September 29, 2009.
Infosys

- If there’s an industry in which the customer reigns supreme, that is IT services.
- Infosys adopted a global delivery model emphasizing expertise, customization, and efficiency.
- IBM’s transformation from hardware hegemon to IT services giant shows that firms can learn execution skills.
Infosys Mysore training facility, capable of housing 14,000.
“The most important ingredient is talent.”

—S. D. Shibulal, CEO and Managing Director of Infosys.
Execution Leads to Customer Value

Focusing on what you can do well

Customer

Putting customers first

Efficiency and timeliness
Axiom #4
Embrace Chaos

Learn and profit from adverse environments.

“Chaos is a friend of mine.”
—Bob Dylan
Dealing with risk and chaos

- Some Established Multinationals are reluctant and/or unable to expand outside their comfort zone
- But the line separating safe and risky markets has become blurred
- For EMMs, chaos is taken for granted, so:
  - They can land everywhere
  - They are used to do more with less
  - Lack of resources and infrastructure is not a barrier impossible to overcome
  - They are used to deal with discretionaryary governments
Acer: A contract manufacturer that developed a global brand

“For a company pursuing sustainable growth, all kinds of risks will follow, like a shadow. But if you don’t take risks, what you create can be quite limited.”

—Stan Shih, founder of Acer
Acer: A contract manufacturer that developed its own brand

- Fast-fashion-like Business model: “Fresh Technology for Everyone”
- Expansion through joint ventures with local partners
- The smiling curve: Wistron and BenQ, manufacturing arms, spun off
- Acquisitions in the U.S., Latin America, Europe and Asia to become the second largest computer company in the world
Acer: the smiling curve
“Eventually, Acer will have a majority of local ownership in each country, and no one will be able to say that we are a Taiwanese company ... some people talk about control with 51 percent ownership. But I control through an intangible approach, common interest.”
—Stan Shih, founder of Acer
Orascom Telecom: a local partner that became a MNE

“If you come from a risky destination, then the risk is relative. I remember when I went to Algeria, and they told me they were killing people there, and there are some bombs, and I said, ‘This is everyday news in my part of the world, so what’s the big deal?’”

—Naguib Sawiris, Executive Chairman, Orascom Telecom Media and Technology Holding S.A.E.
Orascom Telecom: a local partner that became a MNE

- A construction group that lacked any expertise or technological background in telecommunications.

- But had political skills and project execution capabilities.

- They entered where established multinationals did not dare to venture. In these places being from EM was not a disadvantage.

- Negotiationong win-win agreements with gradual commitments

- No problems with divestments
Country risk? What’s the big deal?

Naguib Sawiris, Executive Chairman, Orascom Telecom Media and Technology Holding S.A.E. Interview with Charlie Rose. July 2, 2008
Orascom Telecom in North Korea: Getting to win-win arrangements

- First step: invest $115 million in a cement plant in exchange for 50 percent of its equity. As part of the deal Orascom Construction was allowed to use North Korean labor in its China projects.

- In 2008 Orascom was granted a 25-year license with an exclusivity period of four years, without any licensing fee, although with the commitment to develop the telecommunications network.
  - [The North Korean project] “is, in fact, relatively low-risk ... In most other countries, the licensing fees are a significant portion of the initial investment, but in this endeavor there was no such cost.”

- Recently, Orascom has also diversified into other activities, creating a bank and is also active in construction projects, like the finishing of the Hotel Ryugyŏng.
Orascom Telecom in North Korea: Getting to win-win arrangements

“When I go anywhere and someone says ‘impossible,’ I laugh. In 90 percent of the cases, the impossible happens,”
—Naguib Sawiris, Executive Chairman, Orascom Telecom Media and Technology Holding S.A.E.
Bharat Forge: when necessity becomes the mother of invention

“We are the Infosys of manufacturing”
—Baba Kalyani, chairman and managing director of Bharat Forge
Bharat Forge: when necessity becomes the mother of invention

- In the late 1980s, Bharat Forge was completely unprepared to succeed in international markets.
- State of the art machinery was acquired and white-collar employees capable of using computers for both design and production replaced blue-collar workers.
- The thousands of low-cost technicians brought in to run the operations allowed the company to introduce multiple process innovations.
- To look for new clients, the company adopted the “4×3 strategy,” a growth map based on international expansion (to three regions) and diversification (to up to four main product areas).
- Thanks to a series of global acquisitions, BF became a “dual-shore manufacturer”.
Process innovations

“We feed into the computer, every day and every hour, every piece of data that tells you what you have to do during the manufacturing process, instead of making you deal with the problem during the downtime,”
—Baba Kalyani, chairman and managing director of Bharat Forge
Thriving on chaos

- Don’t throw in the towel because you lack the resources or budget of bigger competitors.
- Network-like structures can help overcome chaos and the lack of resources, both at home and abroad.
- In chaotic environments, politicians and regulators gain power. Think of this power as an opportunity.
- But never be naïve when dealing with foreign governments, especially in environments where you are overexposed to the risk of expropriation.
- Succeeding calls for innovative thinking and the willingness to go through a trial-and-error process.
Learning and Profiting from Adverse Institutional Environments

- Difficult institutional conditions in the home country
- Ability to deal with home-country conditions; becomes a firm-specific capability
- Transfer of the capability to foreign markets
- Superior performance across the world
Axiom #2
Cater to the niches

- GENERALIST
- Discriminator
- Global niche player
Axiom #3
Scale to Win

- Enhanced Learning
- Lower Costs
- Competitor Preemption
- Increased Attention
Axiom #5
Acquire Smart
Axiom #6
Expand with Abandon

- Enter a New Country
- Expose Yourself to Local Environment
- Develop New Competitive Capabilities
- Learn from Trial and Error
- Transfer New Capabilities throughout the Firm
Axiom #7
No Sacred Cows

- Successful managers are often their own worst enemies. As human beings, we all feel a weakness for what brought us success.

- Our evidence shows how important it is not to take anything for granted, to constantly scan the environment for new clues and opportunities, and to seize the moment of change by changing and adapting yourself.

And one last piece of advice: Have fun. This is a world of vast opportunity. Dive in!
Lessons for Other Companies

1. Exploit what you can do well and is good for your customers
2. Follow the path of least resistance offered by niches
3. Build global scale to leave your competitors behind
4. Don’t discard options due to the lack of resources or high risk
5. Acquire the right targets, only at the right price, at the right time and with the right integration approach.
6. Expose your company to international markets since the first day
7. Take nothing for granted
EMERGING MARKETS RULE

GROWTH STRATEGIES OF THE NEW GLOBAL GIANTS

MAURO GUILLÉN AND ESTEBAN GARCÍA-CANAL