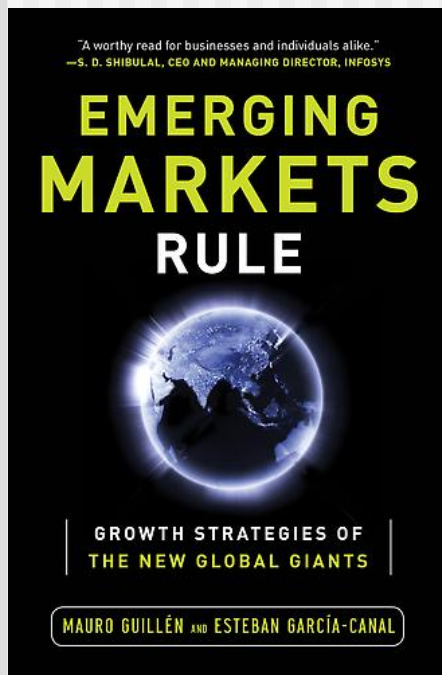


# Emerging Markets Rule

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ESADE  
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FOR GLOBAL ECONOMY  
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ESADE Globalisation Lab

"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?

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- 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.
  - ❑ 24% of new FDI flows (2007-2011).
  - ❑ 19% of FDI stock.
  - ❑ 120 EM MNEs among top 1000 R&D spenders.

## The Fortune Global 500

Country	Number of Companies:			
	2008	2009	2010	2011
China	29	46	61	73
South Korea	15	10	14	13
India	7	8	8	8
Taiwan	6	8	8	8
Brazil	5	7	7	7
Russia	5	6	7	7
Mexico	5	2	3	3
Singapore	1	2	2	2
Malaysia	1	1	1	1
Poland	1	1	1	1
Hungary	0	0	0	1
Saudi Arabia	1	1	1	1
Thailand	1	1	1	1
Turkey	1	1	1	1
Colombia	0	0	1	1
Venezuela	0	0	1	1
Total Emerging	78	94	117	128

Source: Fortune magazine.

# BCG 100 Global Challengers 2013

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## 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

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- 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.
- Indonesia (2): Golden Agri-Resources, Indofood.
- Malaysia (2): AirAsia, Petronas.
- Argentina (1): Tenaris.
- Colombia (1): Grupo Empresarial Antioqueño.
- Egypt (1): El Sewedy Electric.
- Qatar (1): Qatar Airways.
- Saudi Arabia (1): Sabic.
- UAE (1): Etihad.

<b>Firm</b>	<b>Country</b>	<b>Industry</b>	<b>Global Market Position</b>
Arcor	Argentina	Confectionery	#1 candy manufacturer
Bimbo	Mexico	Food processing	#1 in bread
JBS	Brazil	Food processing	#1 in meat
Modelo	Mexico	Beverages	#1 import beer brand
Vale	Brazil	Mining	#3
Tenaris	Argentina	Steel	#1 in seamless tubes
Bharat Forge	India	Metals	#2 in forgings
Cemex	Mexico	Cement	#1 in ready-mix concrete
Haier	China	Household appliances	#1 in white goods
Braskem	Brazil	Bioplastics	#1
BYD	China	Batteries	#1 in Ni-Cd batteries
Acer	Taiwan	Personal computers	#2
Lenovo	China	Personal computers	#4
Samsung Electronics	S Korea	Consumer electronics	#1 in chips & LCDs, #2 in phones
Embraer	Brazil	Aircraft	#1 in regional jets
Cosan	Brazil	Energy	#1 in biofuels
Tata Comm.	India	Telecom operator	#1 wholesale voice carrier

# Are EM MNEs Unique?

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- 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?

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- 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

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- 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

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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.

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- 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

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- 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

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- 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.





Assembling an Embraer jet. *Wall Street Journal* March 29, 2010.

# Infosys

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- 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.





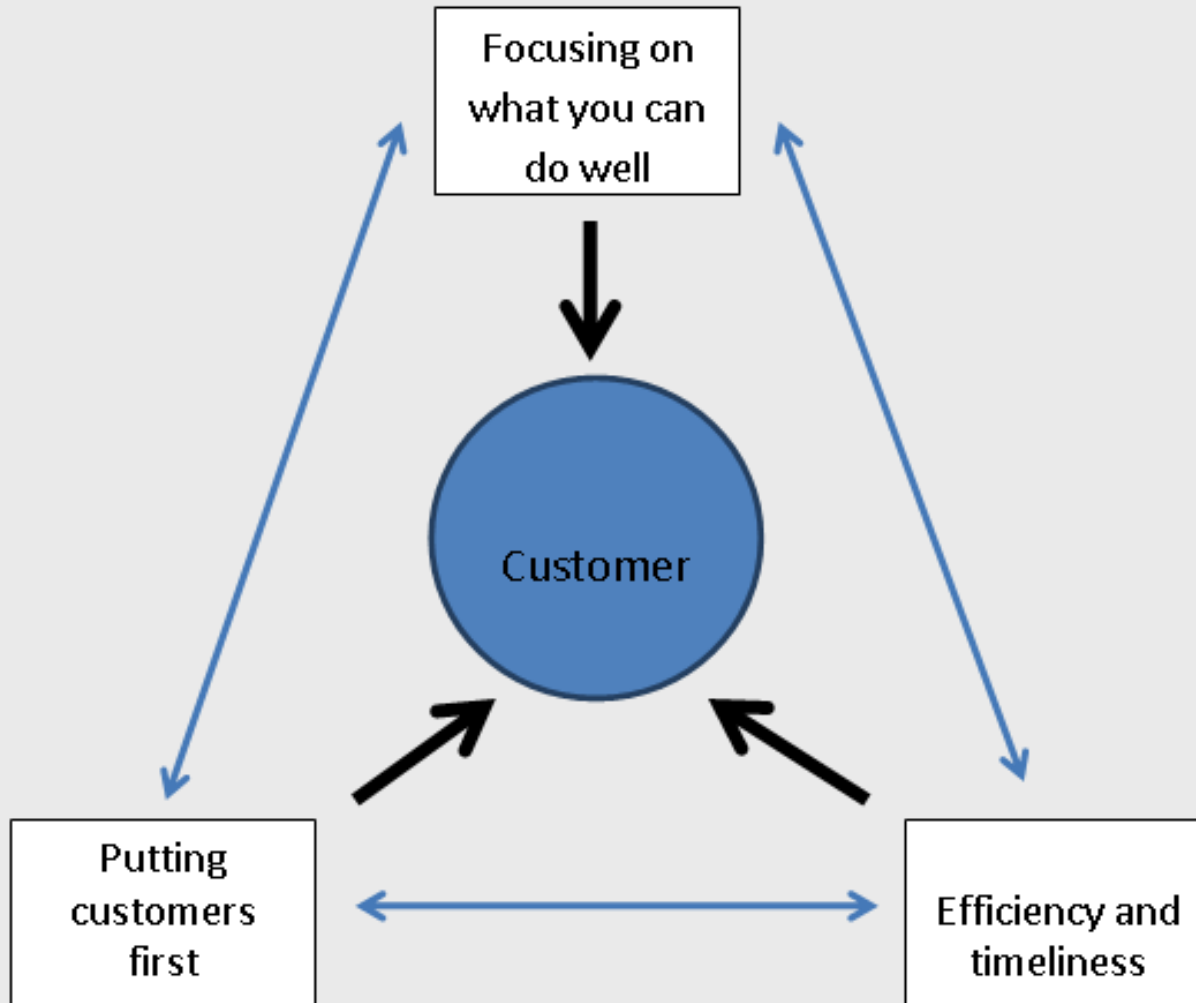
“The most important ingredient is talent.”

—S. D. Shibulal, CEO and Managing Director of Infosys.



# Execution Leads to Customer Value

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# Axiom #4

## Embrace Chaos

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Learn and profit from adverse environments.

“Chaos is a friend of mine.”

—Bob Dylan

# Dealing with risk and chaos

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- 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 discretionary governments

# Acer: A contract manufacturer that developed a global brand

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“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

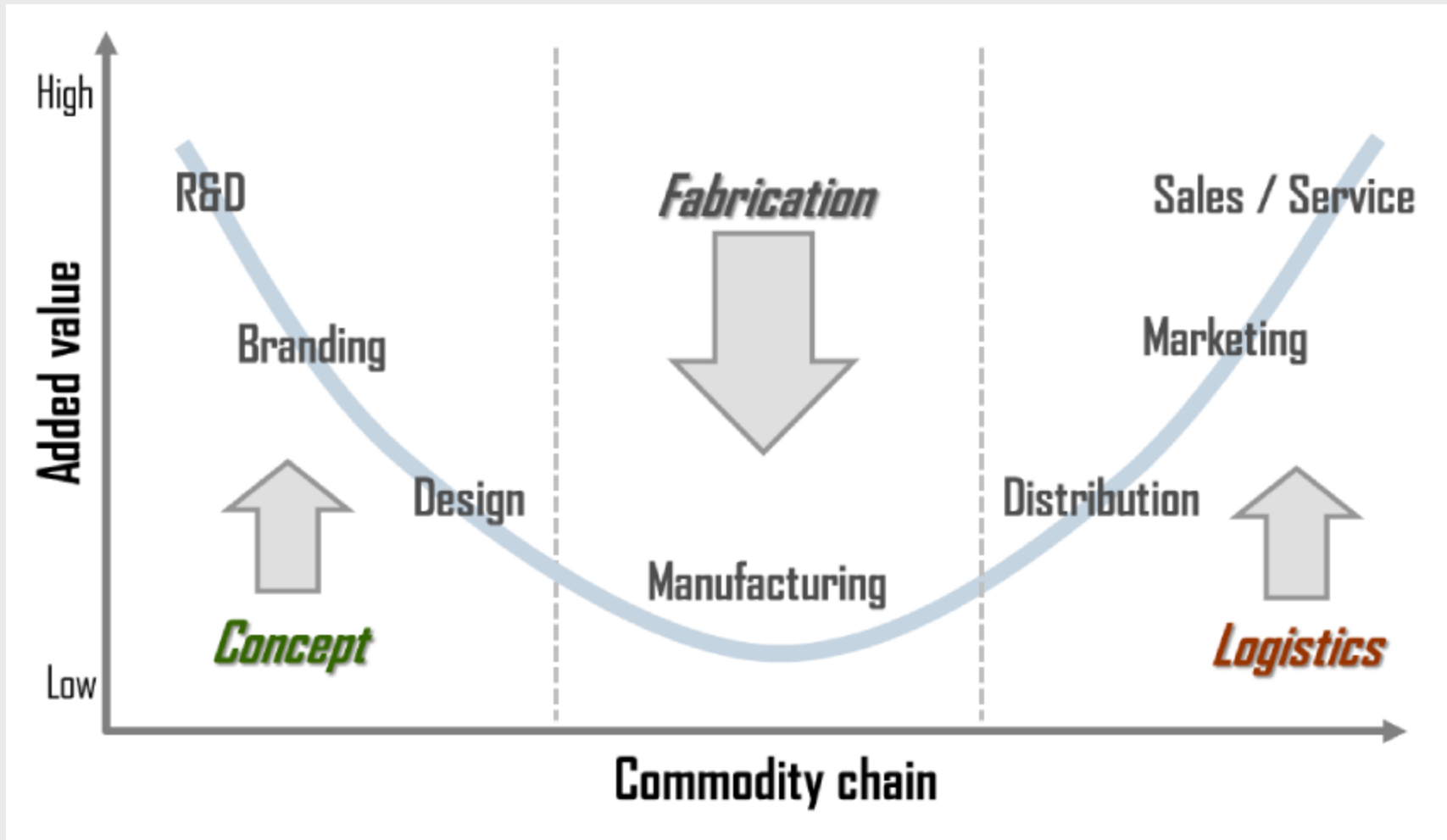


# Acer: A contract manufacturer that developed its own brand

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- 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

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- 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.
- Negotiating win-win agreements with gradual commitments
- No problems with divestments

# Country risk? What's the big deal?

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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

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- 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

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“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

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“We are the Infosys of manufacturing”  
—Baba Kalyani,  
chairman and  
managing director of  
Bharat Forge

# Bharat Forge: when necessity becomes the mother of invention

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- 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

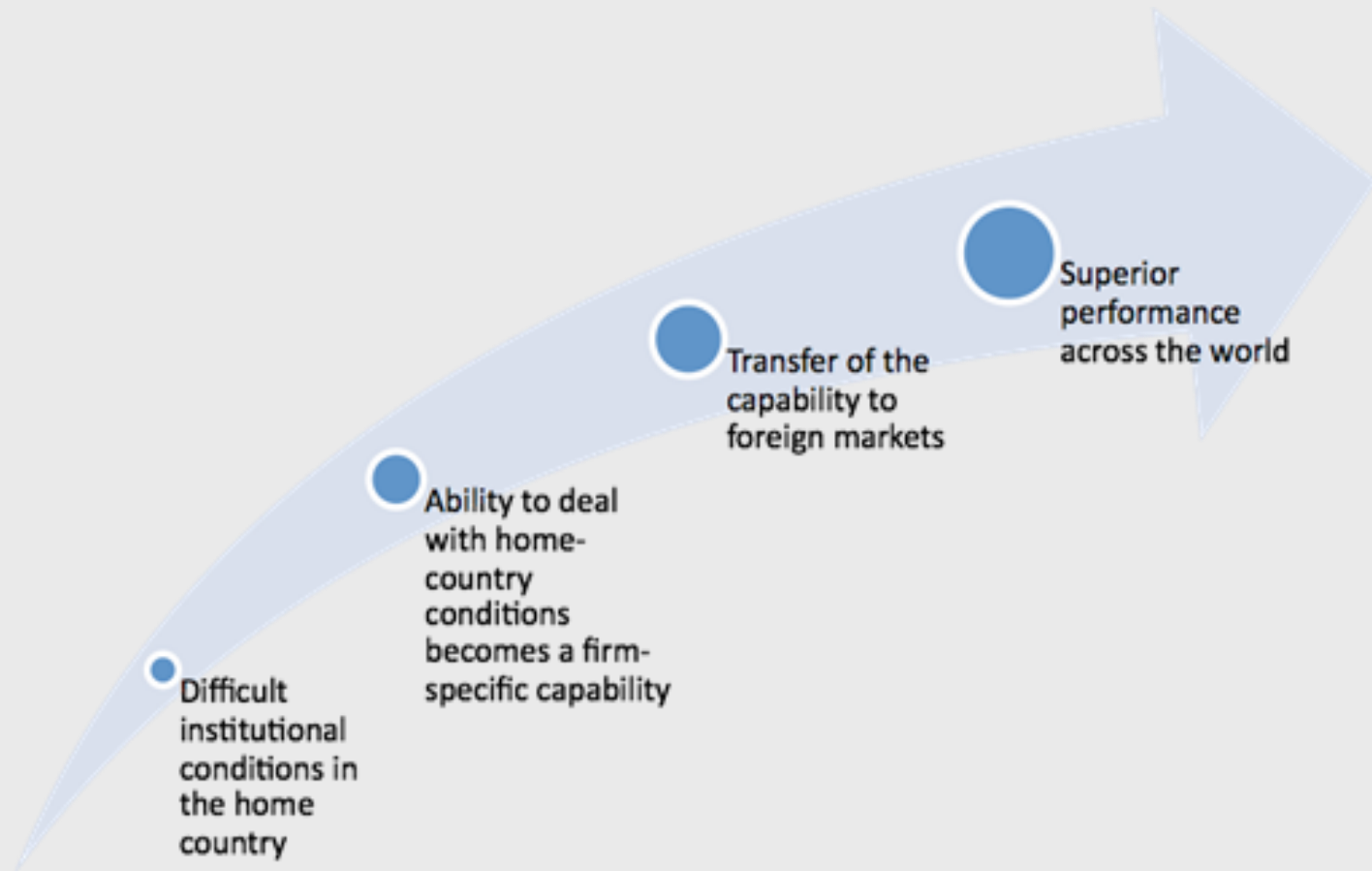
# Thriving on chaos

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- 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

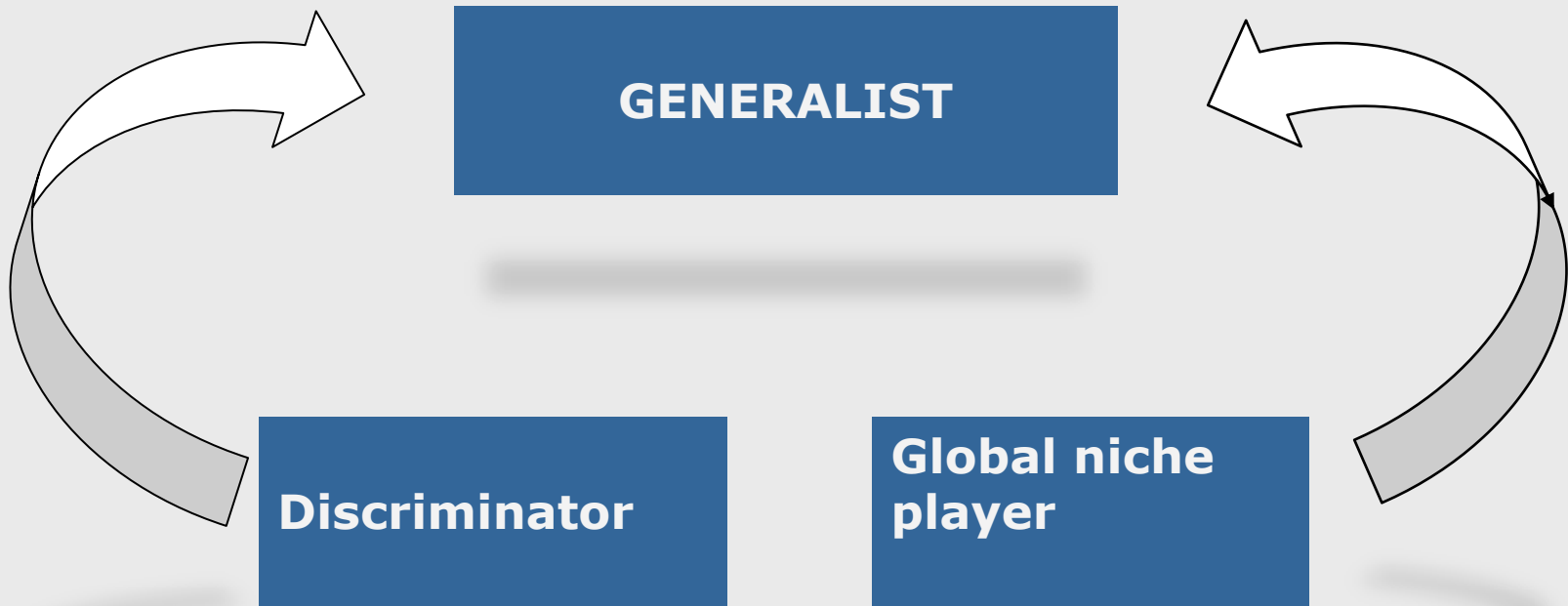
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# Axiom #2

## Cater to the niches

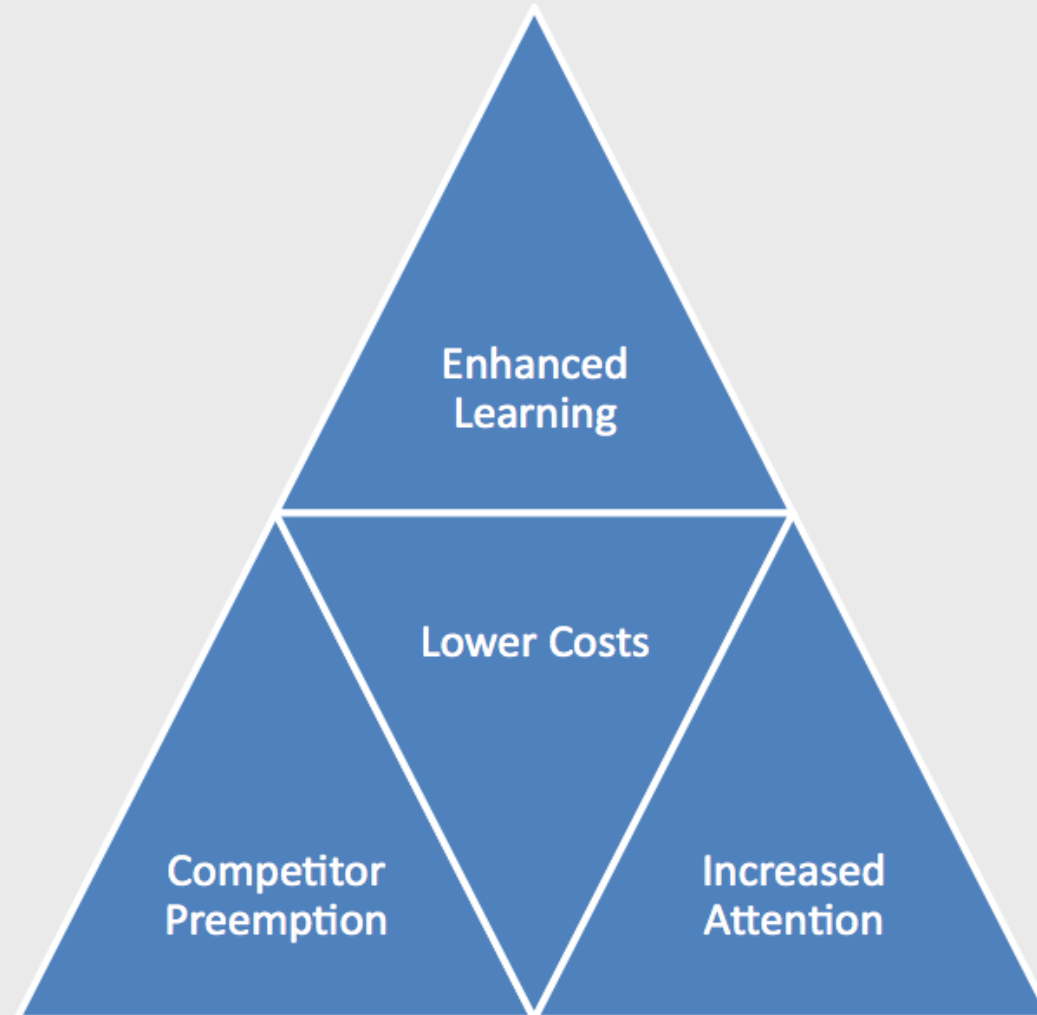
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# Axiom #3

## Scale to Win

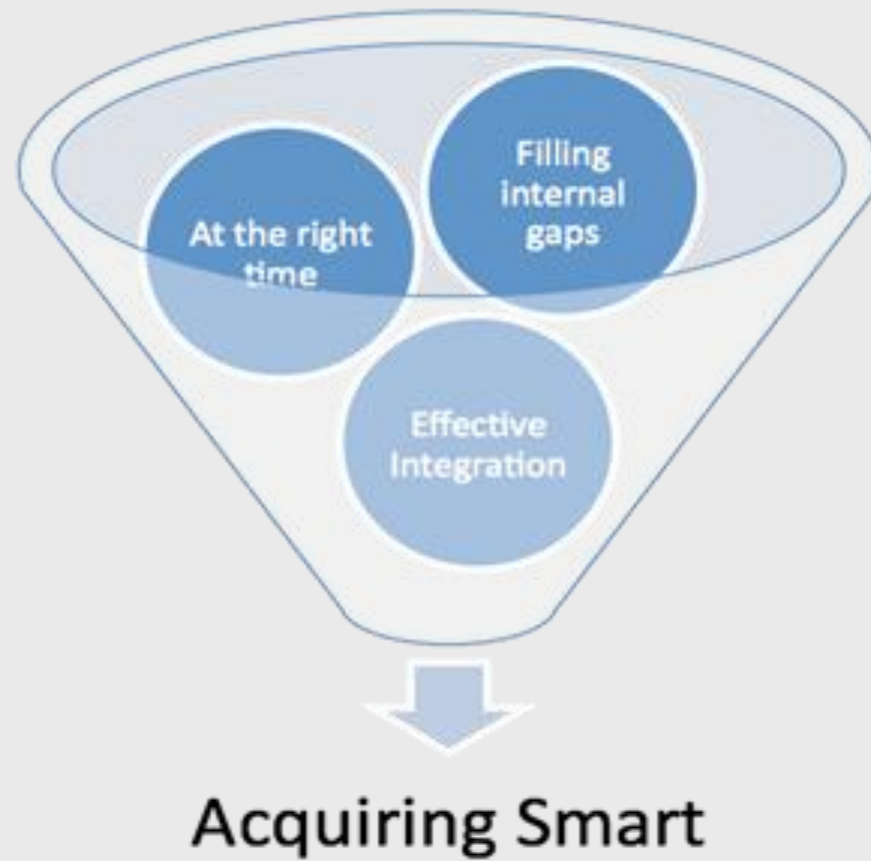
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# Axiom #5

## Acquire Smart

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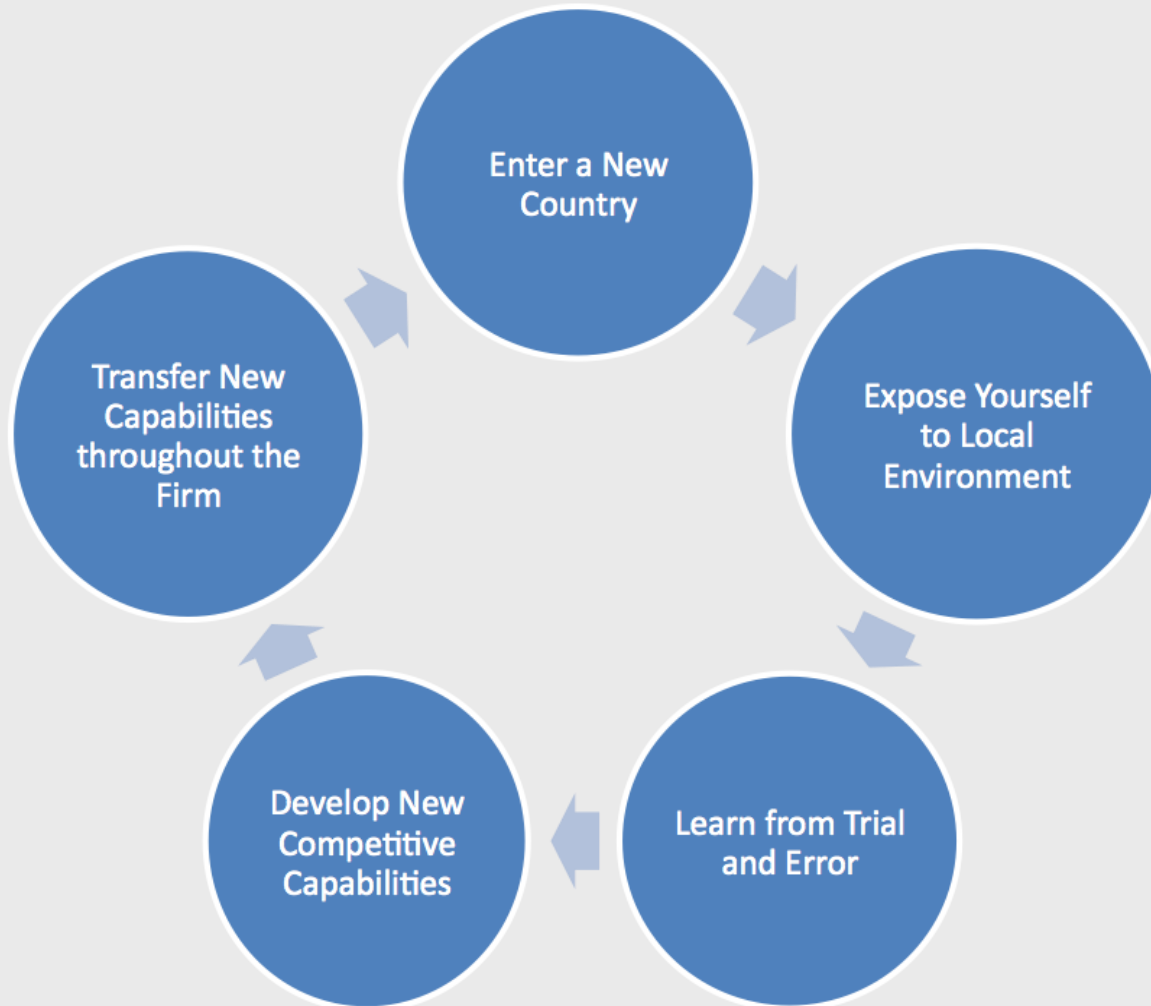




# Axiom #6

## Expand with Abandon

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# Axiom #7

## No Sacred Cows

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- 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

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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

"A worthy read for businesses and individuals alike."  
—S. D. SHIBULAL, CEO AND MANAGING DIRECTOR, INFOSYS

# EMERGING MARKETS RULE



GROWTH STRATEGIES OF  
THE NEW GLOBAL GIANTS

MAURO GUILLÉN AND ESTEBAN GARCÍA-CANAL