

# Competing In Emerging Markets

GAIBP

**Vinod K. Jain**

June 17, 2010

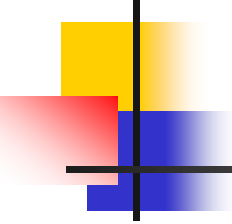




# Agenda

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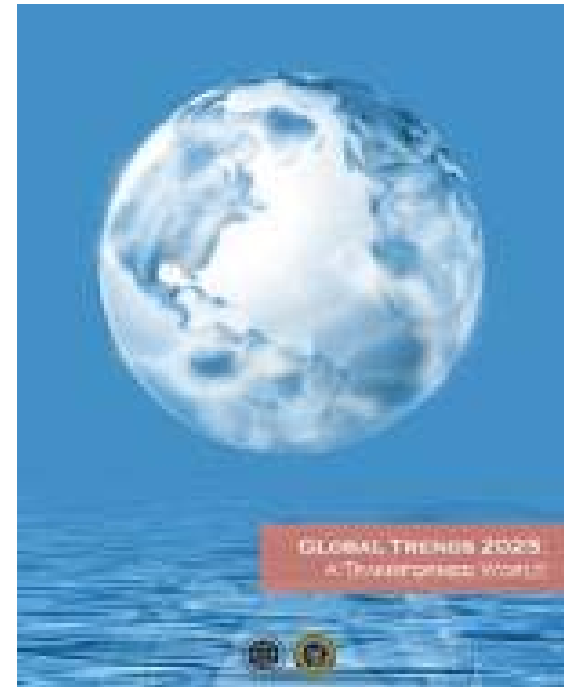
- What is an emerging market
  - Why bother about emerging markets?
- The context of emerging markets
  - Opportunities and challenges in emerging markets
- Strategies for competing in/with emerging markets
  - Competing in Emerging Markets: Adaptation; Aggregation; Acquisitions and Alliances
  - Leveraging Emerging Markets for Competitive Advantage: Arbitrage; Innovation
  - Learning from emerging markets to develop competitive advantage



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“In terms of size, speed, and directional flow, the global shift in relative wealth and economic power now under way – roughly from West to East – is without precedent in modern history.”

- U.S. National Intelligence Council, *Global Trends, 2025*, Report to the White House, November 2008





## What is an emerging market?

- A term coined by Antoine van Agtmael in 1981, “an economy with low-to-middle per capita income”

<b>Group</b>	<b>Per Capita Income</b>	<b>No. of Countries</b>
Low	\$905	53
Lower Middle	\$906 - \$3,595	55
Upper Middle	\$3,596 - \$11,115	41
High	> \$11,115	60

Source: Antoine van Agtmael, *The emerging markets century*. New York: Free Press, 2007.



## Which countries?

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- Morgan Stanley Emerging Markets Index based on 26 countries:
  - Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, Turkey, and Venezuela
- The Economist list is similar
  - Excludes Jordan
  - Includes Hong Kong, Singapore, and Saudi Arabia
- The **BRIC** countries: **B**razil, **R**ussia, **I**ndia, **C**hina
  - Coined by Goldman Sachs in a 2003 report, "Dreaming with the BRICs: The Path to 2050"

[http://www.rhsmith.umd.edu/ciber/pdfs\\_docs/bricreport.pdf](http://www.rhsmith.umd.edu/ciber/pdfs_docs/bricreport.pdf)



# Why bother about emerging markets?

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- They are **mega markets** – providing some of the biggest growth opportunities for practically every product or service
- They offer **cost-efficient platforms** – offering low wage rates and other advantages
- They are **hotbeds of innovation** – with huge pools of scientists, engineers, and entrepreneurs
- They are incubating **new global competitors**

Adapted from: Anil Gupta & Haiyan Wang, *Getting China and India right*. Jossey-Bass/Wiley, 2009.

# World's Top 10 Economies by GDP (PPP), 2007

Rank	Country	2007 GDP (PPP) \$Trillion
1	United States	13.860
2	China	7.043
3	Japan	4.305
4	India	2.965
5	Germany	2.833
6	United Kingdom	2.147
7	Russia	2.076
8	France	2.067
9	Brazil	1.838
10	Italy	1.800

Even not all  
7 of the G7  
countries are  
among the  
Top 10  
economies  
in the world

# Vast Rural India Sparkles As an Expanding Market

Washington Post Foreign Service

Friday, March 20, 2009; Page A15

DHORKA, [India](#) -- With her face wrapped in a pink veil, Suman Yadav squatted on the mud floor of her village home washing clothes, next to her family's gleaming new possession -- a silver-gray, \$10,000 car called Swift.

"My husband's new automobile spare-parts shop is doing well. The mustard and wheat from the farm is fetching good money, too," said Yadav, 30. "We already had a motorcycle and a tractor, but now could afford a car, too. We paid the full amount in cash. We drive everywhere now."



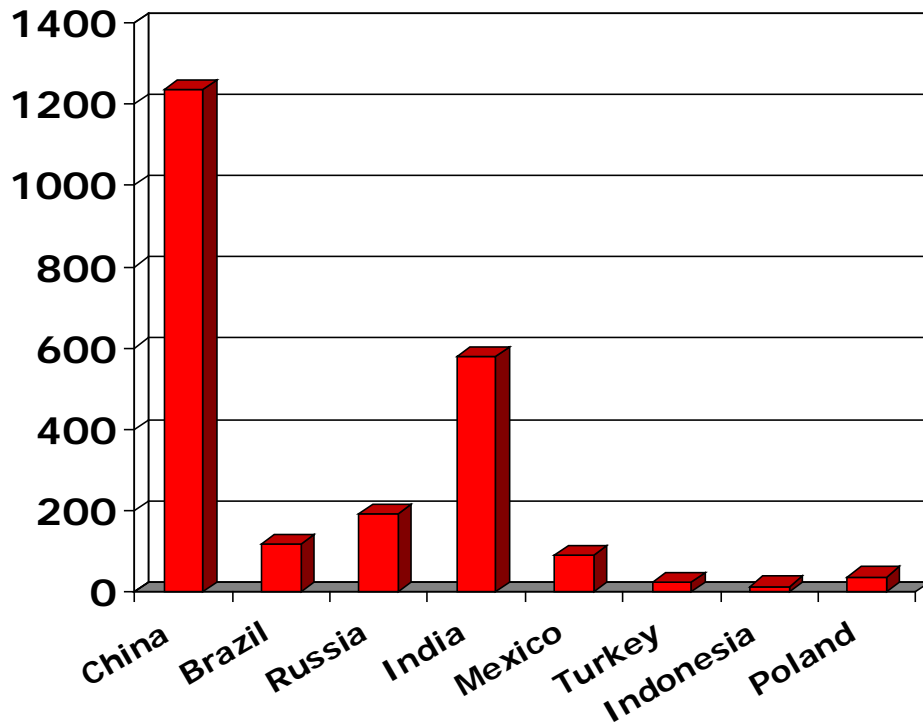
# Emerging Markets: Cost-efficient Platforms

Average Hourly Compensation (+ Benefits) for Production Workers (US\$)

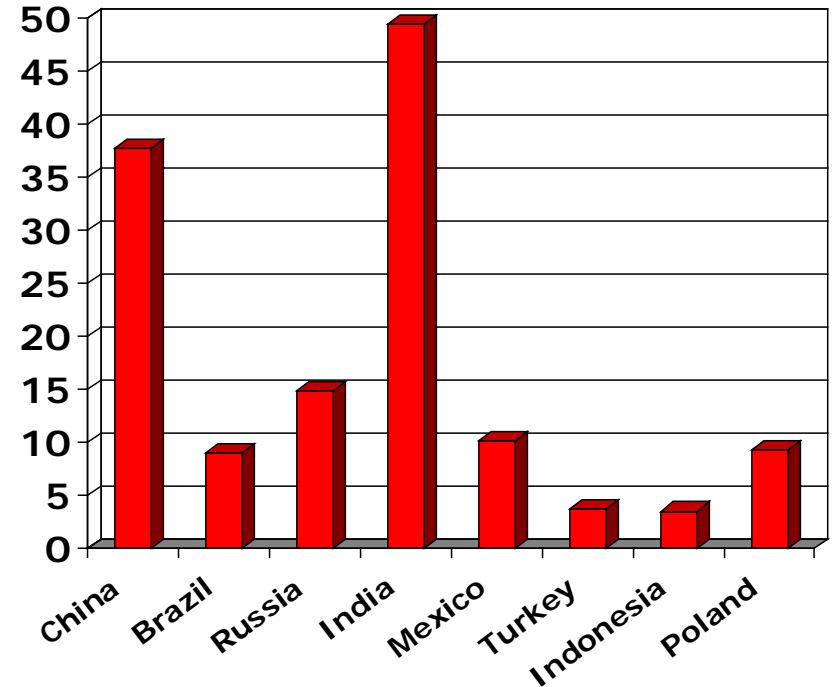
Country	2003	2009 (Projected)
China	0.80	1.27
India	1.12	1.68
Russia	1.50	2.38
Mexico	2.45	3.28
Poland	2.70	3.83
Brazil	2.75	3.90
Hungary	3.53	5.30
South Korea	9.99	13.01
U.K.	17.87	20.14
Japan	20.68	22.61
U.S.	21.86	25.34
Germany	30.60	34.46

Sources: The Economist; Euromonitor; U.S. Dept. of Commerce; Boston Consulting Group © 2010 Vinod K. Jain

# Patents and Innovation Index for Emerging Markets



# 2007 US Patents (USPTO)



Innovation Index =  
 $1000 \times \text{Patents} \div \text{GDP (US\$B)}$



# 700 Multinational Companies Have R&D Facilities in China

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## An Incomplete List of MNCs in China

ABB, Accenture, Ajinomoto, Amway, Alcatel, AVL List GmbH, BASF, BEA Systems, Bearingpoint Inc, Calsonic Kansei, Cisco, Coca-cola, Danone, Degussa, Dell, Delphi Corp, Dow International, DSM, DuPont, eBay, Ericsson, Firmenich, France Telecom, GE, GlaxoSmithKline, Hitachi, Honda, Honeywell, HP, Hyundai, IBM, Intel, Kao, Keihin Corporation, Kodak, LG, L'Oreal, Lucent, Matsushita, Microsoft, Motorola, NEC, Nestle, Nifco Inc, Nissan Motor, Nissin Kogyo, Nokia, Nortel Networks, Novo Nordisk, Novozymes, Oracle, Panasonic, Pepsi, Philips, Procter & Gamble, Roche, Rohm and Haas, Samsung, SAP, Schindler, Shell, Siemens, Sony, Synopsys, Teling Manufacturing, Tetrapak, Toray, Toyo Ink, Trelleborg AB, Unilever, Valeo Group, Volkswagen

Source: Unilever, China



# Why China?

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- Good tradition of education; esteem for science
- Abundant R&D resources
  - 590 universities
  - 300 institutes
  - 3 million undergraduates
  - 0.5 million postgraduates
  - 150K foreign-trained scientists
- Well established academia
- Leading capabilities in a wide range of science fields
- Excellent infrastructure
- Strong manufacturing and well developed supply chains
- **Strong governments support and commitment**

# New Global Competitors from Emerging Markets



Leadership with trust



HUAWEI



WIPRO  
Applying Thought



RANBAXY



CNOOC LIMITED  
中国海洋石油有限公司

# Mahindra & Mahindra



- At US \$6.7 billion in sales, M&M is one of the top 10 industrial houses in India, with leading presence in several industries - financial services, trade, retail and logistics, automotive components, after-market, information technology, and infrastructure development
- Mahindra's **Farm Equipment** division has won the Japan Quality Medal and the Deming Prize, the only tractor company world-wide to have these honors; two JVs in China
- Mahindra Tractors is the only Indian company among the top tractor brands in the world; sales of 85,000 units in ten countries
- Mahindra USA (established 1994) has hundreds of dealers, and does final assembly of 40HP tractors here in two plants; 6% market share (20% in Southern states); and sales of over \$100 million
- “Deere John, I have found someone new!” advertisement

# Comparison of U.S. and Indian IT Services Companies

Company	HQ	Revenues* (\$Billion)	Profit Margin* (%)	Net Income* (\$ Billion)	Market Capitalization ** (\$ Billion)
<b>Accenture</b>	<b>USA</b>	<b>22.40</b>	<b>5.99</b>	<b>1.34</b>	<b>21.70</b>
<b>Electronic Data Systems</b>	<b>USA</b>	<b>22.00</b>	<b>3.38</b>	<b>0.76</b>	<b>11.20</b>
<b>Infosys Technologies</b>	<b>India</b>	<b>3.60</b>	<b>27.12</b>	<b>1.01</b>	<b>25.40</b>
<b>WIPRO Technologies</b>	<b>India</b>	<b>4.40</b>	<b>18.18</b>	<b>0.79</b>	<b>21.80</b>

\* Trailing 12 months as of December 24, 2007

\*\* Market capitalization as of December 24, 2007

Source: [www.finance.yahoo.com](http://www.finance.yahoo.com) (from Gupta & Wang, 2009)

# Emerging Markets Present Huge Diversity

	Population (Millions)	2007 GDP (US\$B)	2007 P.C. GDP (US\$)	2000-2007 GDP Growth Rate (%)
Brazil	192	1,314	6,844	3.3
Russia	142	1,291	9,092	6.6
India	112	1,171	1,043	7.8
China	1,320	3,820	2,485	10.2
Mexico	105	893	8,505	2.6
Turkey	74	657	8,878	5.9
Indonesia	226	433	1,916	5.1
Poland	38	420	11,053	4.1

# Emerging Markets Present Huge Diversity

	2007 Gross Capital Formation as % of GDP	2007 No. of Patents Issued by USPTO	Innovation Index = 1000 x Patents ÷ GDP (US\$B)
Brazil	22	118	9.0
Russia	25	193	14.9
India	38	578	49.4
China	44	1,235	37.7
Mexico	23	90	10.1
Turkey	22	24	3.7
Indonesia	25	15	3.5
Poland	22	39	9.3



## Global Competitiveness Index, 2009-2010

	Overall GCI Rank	Institu- tions	Infrast- ructure	Macro. Stability	Hr Educ & Training	Goods Market Soph.	Labor Market Soph.
Brazil	56	93	74	109	58	99	80
Russian Fed.	63	114	71	36	51	108	43
India	49	54	76	96	66	48	83
China	29	48	46	8	61	42	32



## Global Competitiveness Index, 2009-2010

	Overall GCI Rank	Financial Market Soph.	Techno- logical Readiness	Market Size	Business Soph.	Innova- tion
Brazil	56	51	46	10	32	43
Russian Fed.	63	119	74	7	95	51
India	49	16	83	4	27	30
China	29	81	79	2	38	26



# Challenges in Emerging Markets

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## ■ Institutions

- Legal system; governance; IPR enforcement; corruption; industrial relations
- Financial market rigidities
- Educational system
- Coalition politics

## ■ Infrastructure

- Mostly poor infrastructure

## ■ A heterogeneous market

- Diverse cultures, languages, religions, socio-economic classes, levels of economic development, and distances

## ■ Entrenched competitors

- Domestic (private sector and state-owned) and foreign multinationals

# Ease of Doing Business, 2010 Rankings: G7 vs. the BRICs

Country	Ease of Doing Business Rank	Starting a Business	Dealing with Constr. Permits	Employing workers	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders
U.S.	<b>4</b>	<b>8</b>	<b>25</b>	<b>1</b>	<b>12</b>	<b>4</b>	<b>5</b>	<b>61</b>	<b>18</b>
U.K.	<b>5</b>	<b>16</b>	<b>16</b>	<b>35</b>	<b>23</b>	<b>2</b>	<b>10</b>	<b>16</b>	<b>16</b>
Canada	<b>8</b>	<b>2</b>	<b>29</b>	<b>17</b>	<b>35</b>	<b>30</b>	<b>5</b>	<b>28</b>	<b>38</b>
Japan	<b>15</b>	<b>91</b>	<b>45</b>	<b>40</b>	<b>54</b>	<b>15</b>	<b>16</b>	<b>123</b>	<b>17</b>
Germany	<b>25</b>	<b>84</b>	<b>18</b>	<b>158</b>	<b>57</b>	<b>15</b>	<b>93</b>	<b>71</b>	<b>14</b>
France	<b>31</b>	<b>22</b>	<b>17</b>	<b>155</b>	<b>159</b>	<b>43</b>	<b>73</b>	<b>59</b>	<b>25</b>
Italy	<b>78</b>	<b>75</b>	<b>85</b>	<b>99</b>	<b>98</b>	<b>87</b>	<b>57</b>	<b>136</b>	<b>50</b>
China	<b>89</b>	<b>151</b>	<b>180</b>	<b>140</b>	<b>32</b>	<b>61</b>	<b>93</b>	<b>125</b>	<b>44</b>
Russian Fed.	<b>120</b>	<b>106</b>	<b>182</b>	<b>109</b>	<b>45</b>	<b>87</b>	<b>93</b>	<b>103</b>	<b>162</b>
Brazil	<b>129</b>	<b>126</b>	<b>113</b>	<b>138</b>	<b>120</b>	<b>87</b>	<b>73</b>	<b>150</b>	<b>100</b>
India	<b>133</b>	<b>169</b>	<b>175</b>	<b>104</b>	<b>93</b>	<b>30</b>	<b>41</b>	<b>169</b>	<b>94</b>

# Corruption Perceptions Index, 2009

Rank	Country	CPI 2009 Score	Surveys Used	Confidence Range
1	New Zealand	9.4	6	9.1 - 9.5
2	Denmark	9.3	6	9.1 - 9.5
3	Singapore	9.2	9	9.0 - 9.4
5	Switzerland	9	6	8.9 - 9.1
8	Canada	8.7	6	8.5 - 9.0
17	Japan	7.7	8	7.4 - 8.0
17	U.K.	7.7	6	7.3 - 8.2
19	U.S.	7.5	8	6.9 - 8.0
75	Brazil	3.7	7	3.3 - 4.3
79	China	3.6	9	3.0 - 4.2
84	India	3.4	10	3.2 - 3.6
89	Mexico	3.3	7	3.2 - 3.5
146	Russia	2.2	8	1.9 - 2.4
176	Iraq	1.5	3	1.2 - 1.8
176	Sudan	1.5	5	1.4 - 1.7
179	Afghanistan	1.3	4	1.0 - 1.5
180	Somalia	1.1	3	0.9 - 1.4



# Strategies for Emerging Markets; The Framework

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- **Competing in emerging markets**
  - Adaptation
  - Aggregation
  - Acquisitions and alliances
- **Leveraging emerging markets for competitive advantage**
  - Arbitrage
  - Innovation
- **Learning from emerging market giants for competitive advantage**

Adapted from: Ravi Ramamurti & J.V. Singh, Ch 6, in *Emerging Multinationals from Emerging Markets*, Cambridge University Press, 2008; Ghemawat (HBR, March 2007); plus Vinod Jain's additions



# Adaptation

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- **Adaptation** involves responding to customer needs, tastes, and preferences in each market where you do business, and adjusting your business model for those markets
  - Making a product linguistically and culturally appropriate to the target market where it will be sold and used (**localization**)
  - The company's marketing, operations, and strategy must also comply with the laws and regulations of the host market, and be appropriate for the local distribution channels
- Example: Wanxiang's localization strategy
  - Wanxiang became successful in the United States via a localization strategy, which involved localization of staff, capital, product development, and management systems



## Example: Goodbaby (China)

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- One of the world's largest makers of baby goods, with a product portfolio of 1,600 items in 15 categories – strollers, beds, clothing, car seats, toys, diapers, etc.
  - Dominates the mid- and upper-end segments in China in its primary product categories
- Goodbaby **customizes** (adapts) its products to the markets where it sells them, offering a variety of products that range in quality and price from mid to the upper tier
  - Ships about 4,000 strollers to the United States **every day** with a 25% market share; 50% market share in children's bicycles
  - With a market share of 20%, its strollers sell for up to 700 euros in Europe

Source: Sirkin, Hemerling, and Bhattacharya. *Globality*. Headline Business Plus, 2008.



## Example: Natura (Brazil)

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- The most admired brand in Brazil, Natura offers a range of beauty products for women, men, and children – targeting the mid-price segment
  - Natura Cosméticos (founded in 1969) is a market leader in cosmetics, fragrances, and toiletries, overtaking the multinationals in Brazil (e.g., Unilever, Avon, and L’Oreal)
  - Built its success on **emotional and functional attributes important in Brazil** (pleasure, naturalness, Brazilian soul, and biodiversity), commitment to sustainable development, and a decidedly Brazilian image, in contrast with global brands offered by American and European competitors
- Sells its products through a direct sales network of over 600,000 self-employed “consultants” in Brazil, and another 70,000 elsewhere in Latin America – mostly women working part-time and being paid on commission
  - Has recently entered both Europe and United States



## Example: Bharti Airtel (India)

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- A cellular service provider, Bharti Airtel has about the lowest rates in the world (about 2¢ per minute nationwide)
- Succeeded by **adapting** its business model to the needs of customers in India: A very low price for cellular service – achieved by:
  - cutting costs by **outsourcing two of the major components of its business system to global leaders**:
    - network capacity to Nokia Siemens Network and Ericsson
    - responsibility for supplying, installing, and managing all hardware and software to IBM

Source: Gupta & Wang (2009)



# Aggregation

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- **Aggregation** is a *regional* strategy, which involves grouping similar countries into geographic regions and the adopting the same strategy for the entire region, e.g., a pan-Pacific Asian strategy, a pan-African strategy
  - A useful approach when a country-by-country approach is expensive or otherwise infeasible; can also create ad hoc regions using one or more country-selection criteria, e.g., language and culture
  - The strategies used in one emerging market can sometimes be used in other emerging markets located in the same region
- **Examples**
  - Cemex's initial forays into Latin America with a similar business model used in different countries, and then entry into Spain
  - Tata Consultancy Services opened in Uruguay and Brazil to also serve Spain and Portugal



# Acquisitions and Alliances

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- **Acquisitions and alliances** are a common approach for entering and competing in emerging markets, in fact in all foreign markets
  - Make strategic acquisitions and/or alliances – for obtaining market access, technology, and brands
  - Acquire or join with strong local partners to enter and compete in their (and other) markets
- Examples
  - Accenture and EDS in India
  - Infosys's acquisition of Philips' back-office operations in Poland
  - Cemex's acquisitions in Latin America



# Leveraging EMs for Competitive Advantage Through Arbitrage

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- **Arbitrage** is the original cross-border strategy; this is how companies have traditionally gone abroad
  - While adaptation and aggregation take advantage of similarities across countries, arbitrage seeks to benefit from differences across countries
- Arbitrage involves choosing the best locations for performing different value-creation activities, based on the **comparative advantage** of nations (theory of comparative advantage)
  - Advantages accrue from lower input costs (land, labor, capital, and technology), higher demand in the host market, regulatory environment (cost of doing business, incentives offered by host government), etc.
- Examples:
  - Pontiac Le Mans
  - Infosys, Wipro, TCS, etc. in IT and ITeS

# Pontiac LeMans

## Creating a Global Web

Assembly

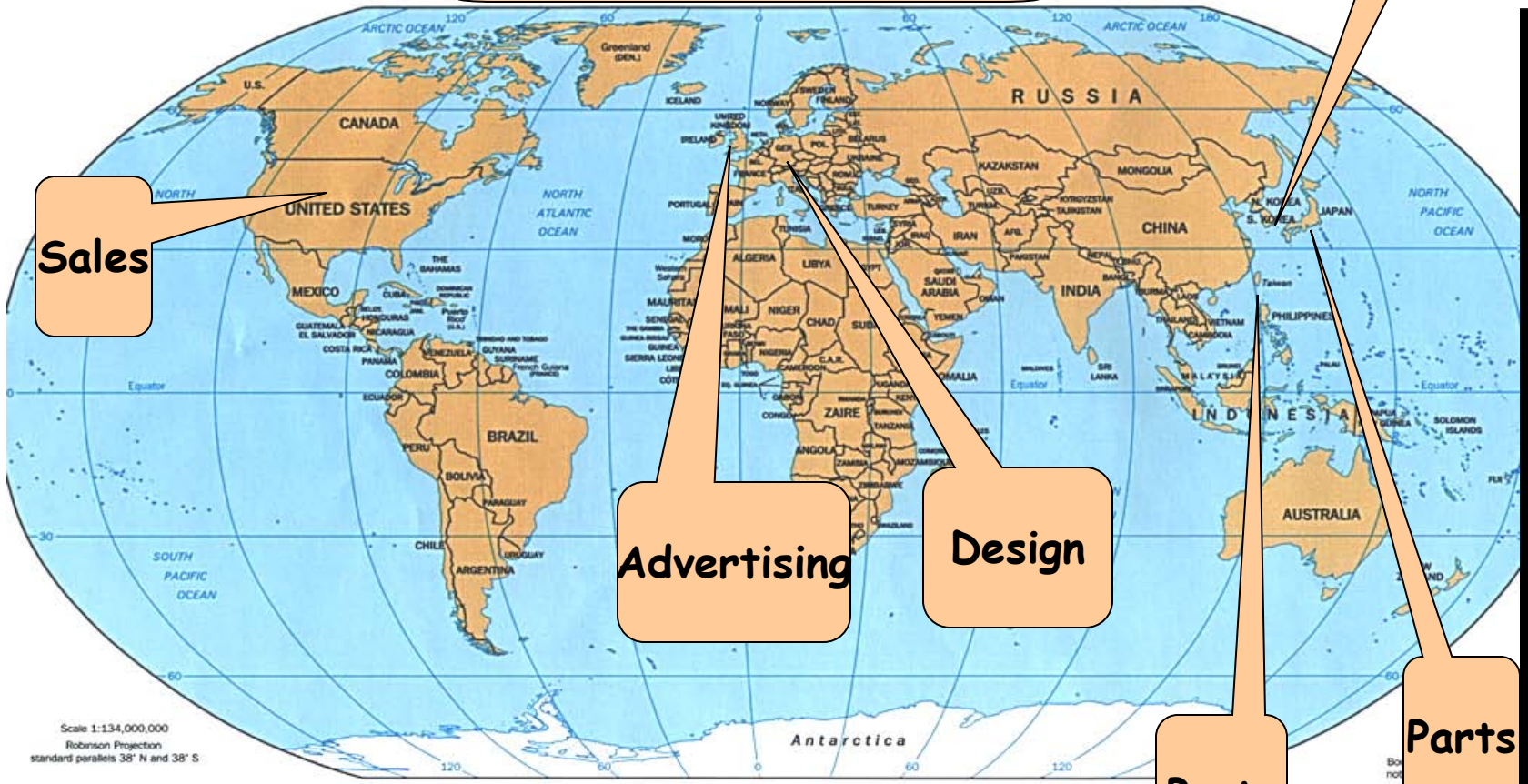
Sales

Advertising

Design

Parts

Parts



Scale 1:134,000,000  
Robinson Projection  
standard parallels 38° N and 38° S



# Made in America?

(Robert Reich, 1991)

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## **Example: Pontiac Le Mans** (say, @ \$20,000)

\$6,000	South Korea for assembly
\$3,500	Japan for advanced components
\$1,500	Germany for design services
\$800	Taiwan, Singapore, Japan for small components
\$500	U.K. for advertising and marketing services
\$100	Ireland and Barbados for data processing
\$7,600	GM Shareholders + employees + lawyers + lobbyists + bankers + + +



## Example: IBM (USA)

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- For most of its history, IBM pursued an **adaptation** strategy, establishing a mini-IBM in every market where it competed
  - Each of these companies performed the whole set of business activities, as independent businesses, except for R&D and resource allocation, and adapted to local differences as needed
- In the 1980s and 1990s, as competition grew, IBM needed to try and develop economies of scale in its overseas operations, and adopted a regional strategy (**aggregation**) – combining country markets into regions so that they could have at least some economies of scale
- More recently, IBM has begun to exploit differences across nations – the classic **arbitrage** strategy
  - IBM currently has its largest R&D center in India with over 75,000 staff



## Example: Procter & Gamble

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- Original strategy for decades: **Adaptation**
  - Set up mini-P&Gs in dozens of countries
- Now, while still using adaptation, the company has moved toward **aggregation**
  - Global business units sell through market development organizations that aggregate up to the regional level
  - **Arbitrage** is also important, accomplished mostly through outsourcing, but takes a backseat to adaptation and aggregation (“If it touches the customer, we don’t outsource it”)
  - Example: Vizir, a pan-European liquid detergent (late 1970s)



# Leveraging EMs for Competitive Advantage Through Innovation

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- **Locate R&D facilities** in emerging markets to not only leverage talent but to also acquire deeper customer knowledge, and then to build and market products for worldwide competitive advantage
  - Leverage the capabilities of R&D leaders from emerging markets
  - Be a global first-mover if the technology being developed is truly innovative, e.g., Intel's latest chip designed in Bangalore
  - Develop "good enough" products for emerging markets
- Examples: Intel in India; Nokia in China



# Learning from Emerging Markets for Competitive Advantage

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## 1. Create customized products/services

- Need a deep understanding of the needs of customers in emerging markets; serve niche markets by providing low levels of customization inexpensively
  - Haier (China)
  - Goodbaby (China)
  - CavinKare (India)

## 2. Use innovative business models to overcome major obstacles

- Shanda (China) – multiplayer online role-playing games (to deal with IP issues); prepaid cards (to deal with lack of online payments)
- Grupo Elektra (Mexico) – installment loans to customers unable to obtain bank credit; novel credit-appraisal system



# Learning from Emerging Markets for Competitive Advantage

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## 3. Deploy the latest technologies

- Amul Dairy (India) – uses latest technologies to process 6.5 million liters of milk from 13,000 villages every day, with each transaction taking about 5 minutes; uses satellite communications to collect and track transaction data – 10 million payments (\$4.3 million) every day
- Cemex (Mexico), Embraer (Brazil)

## 4. Take advantage of low-cost labor and train staff in-house

- Focus Media is China's largest outdoor advertising firm, with LCD displays in 13,000 locations in 90 cities; employees on bicycles move from location to location to replace DVDs and flashcards in LCD terminals
- Apollo Hospitals has set up a new educational venture and a nursing school to educate and train hospital staff; joined with IT training company (NIIT) to offer online medical classes



# Learning from Emerging Markets for Competitive Advantage

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## 5. Scale up Quickly

- Gain scale through **acquisitions** and **organic growth**
  - Focus media (China) grew quickly, and past major rivals from the U.S. (Clear Channel Communications) and France (JCDecaux), via an aggressive acquisition strategy
  - Goodbaby (China) grew organically by setting up regional entities, companies to develop local distribution arrangements and to open new distribution points quickly

## 6. Invest in talent to achieve/sustain rapid growth

- Need for management and HR systems to meet the demands of rapid growth and to stem employee turnover; hire the best employees irrespective of nationality background
- Wimm-Bill-Dann Foods (Russia); Samsung's strategic planning team



“WE’VE CHANGED.”

Find out what else has changed  
at [jetairways.com](http://jetairways.com)

JET AIRWAYS

The billboard is set against a background of green trees and a building. To the left of the main billboard, there is a smaller advertisement for a man in a green shirt. To the right, a portion of another billboard with a fiery image is visible. The billboard is supported by a metal structure with lights.

WE MADE THEM CHANGE!!

FLY KINGFISHER and experience the finest service in the sky.



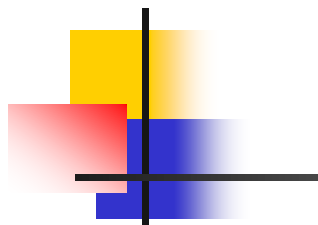
**KINGFISHER**  
AIRLINES

“WE’VE  
CHANGED.”

Find out what else has changed  
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JET AIRWAYS





WE'VE NOT CHANGED.  
WE'RE STILL THE SMARTEST WAY TO FLY.



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FLY SMART



WE MADE THEM CHANGE!!

FLY KINGFISHER and experience the finest service in the sky.



"WE'VE  
CHANGED."



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JET AIRWAYS

# Ab bus karo

Warna plane hoarding se crash ho jayega!

Issued in public interest by



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FLY SMART



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JET AIRWAYS

