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Global Expansion Strategies for Multinationals from Emerging Markets

NYU Stern School of Business global management and strategy professor and architect of the Global Connectedness Index, Pankaj Ghemawat has observed that: “perhaps the biggest business strategy issue of our time [is] how competition between emerging market and established multinationals is likely to unfold with the big shift in many economic activities from advanced economies to emerging economies.”[1] Globalization has undoubtedly generated economic prosperity on a mass scale, creating more employment, innovation, infrastructure, and trade. Despite temporary reverse headwinds that are taking the world toward trade wars and Brexit, global competitiveness remains the institutional imperative.[2]

Simultaneously, we are witnessing an inevitable shift in global economic activity from advanced to emerging markets, as what was once peripheral becomes the core.[3] For example, Brazil, Russia, India, and China have almost tripled their share of global GDP from 8% in 2001 to 22.4% in 2017.[4] The dominance of BRIC countries accelerated further with the inclusion of South Africa, and their annual summits may soon create an alternative to the old Bretton Woods geopolitical alignment of North America, the EU, and Japan.[5] Emerging markets are home to 85% of the world’s population, and they collectively generated over 80% of the world’s economic growth since 2008.[6] One-third of the world’s largest “unicorns” (companies exceeding $1 billion in market value) hail from emerging markets.[7]

Practitioners and scholars have rightfully focused their attention on the contemporary management of business and innovation in emerging markets, as the infrastructure, regulatory, socio-economic, socio-political, technological, and cultural systems in emerging markets are drastically different.[8]

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Meanwhile, many emerging-market multinational companies (EMNCs from here on) also have global aspirations.[9] Yet, the path for global dominance is long and arduous, and conglomerates from developed markets have significantly more experience in running multinational enterprises.

Do players from emerging markets stand a chance against these corporate giants? Yes. Is there one specific strategy or country (emerging or not) that will dominate the future? Not likely. So which global expansion strategies should EMNCs employ? We assert that their business and marketing strategies have been and should be different from those of the traditional conglomerates of the world in order to succeed. One thing is for sure; the initial group of top three players is far from assured to make it into the final set of global players.

There is a multitude of extant prescriptive literature for mature global players from the advanced economies of the West, but not nearly enough for new entrants to the global arena from emerging markets.[10] We find extant theories, such as transaction cost-based explanations, to be insufficient when it comes to explaining the rise of EMNCs. In this chapter, we attempt to address this void by examining how EMNCs should go about successfully operating in other emerging and developed markets so they, too, can become global players.

Growth of Multinationals from Emerging Markets

We begin by providing some surprising facts:

1. Tata Motors acquired the iconic British brand Jaguar from Ford in 2008. Ford had a multiple luxury brand strategy (Jaguar, Volvo, Land Rover) but was struggling due to the economic downturn in 2008 during which the U.S. automobile industry was decimated. Thus, Ford put the brands up for sale and Jaguar and Land Rover were surprisingly bought by the Indian company Tata Motors for $2.3 billion.[11] Jaguar was an official car used by diplomats all over the world in the old British Empire (Cadillac used to have the same stature for U.S. diplomats). The purchase of Jaguar by a company from a former colony would have been unimaginable a couple of decades ago. Ford's remaining jewel, Volvo, was bought by another emerging market company, Geely, for $1.8 billion in 2010.[12]
2. Though the Indian IT/BPO service industry began with simple Y2K software coding projects that involved converting old systems from two to four digits, it later boomed, exceeding $160 billion annually in sales.[13] Operating in more than 45 countries, Tata Consultancy Services alone generates over $20 billion in revenue and boasts its own AI/cloud-based

neural automation platform, Ignio.[14] Infosys has also exceeded $10 billion in revenue, and Wipro and six other firms all aim to surpass the $10 billion mark. Most of the industry is export-oriented, and these players compete head-to-head with the likes of IBM, Accenture, and Capgemini. Today, they already dominate the ERP space where they install large platforms and are taking business from Oracle and SAP. In addition, these companies are capable of full systems integration and are getting into cloud-based and mobile computing services. Cumulatively, they are expected to generate $350 billion in revenues by 2025![15]

3. In 2002, SAB, the largest brewing company of South Africa, bought Miller, the #2 producer in the U.S., from Philip Morris for $5.6 billion to become SABMiller.[16] In 2004, Brazilian AmBev merged with Belgian beer company Interbrew (creating InBev) in an $11.5 billion deal to temporarily become the top producer in the world.[17] This conglomerate bought the largest U.S. producer Anheuser-Busch in 2008 for $52 billion.[18] Finally, consolidation came full circle with SAB Miller and Anheuser-Busch InBev's merger in a $106 billion mega-deal in 2015 to form AB InBev.[19]
4. The future of autonomous rides may be uncertain, but EMNCs are not taking any chances to prepare for the eventuality which is demonstrated by their ride-sharing investments. China's Tencent and JD.com were among the lead investors in the last $1 billion investment round of the Indonesian ride-hailing company Go-Jek (valued at $10 billion), while Singapore-based Grab (valued at $6 billion) acquired Uber's Southeast Asian business.[20] Didi Chuxing also owns a large stake in Grab.[21]

These are surprising anecdotes because conventional thinking would have predicted the opposite. For example, one would expect Anheuser-Busch, in its quest of globalization, to make a bid for Interbrew (or Kirin in Japan, Tiger in Singapore, or Kingfisher in India), but not the other way around. Similarly, Uber would have been expected to make a bid for Grab rather than divesting its Southeast Asian presence.

The media and the public imagination are preoccupied with exciting stories coming from Silicon Valley and firms such as Airbnb, LinkedIn, Uber, and so forth. Indeed, most of these firms are younger than 20 years; they can be considered millennium babies. However, there is an alternative reality in traditional industries such as beer, steel, automobile where EMNCs are "springboarding" to global prominence like never before, either through acquisition or greenfield expansions.[22]

The world had to wait for 700 years for the next big wave of globalization after Genghis Khan's Mongolian Empire in the twelfth century. The Ricardian theory of comparative advantage propelled trade then.[23] Ricardo proposed that nations should focus on utilizing their existing resources, and should even pay more for certain goods than domestic production would enable, as long as the domestic resources could be used more productively elsewhere. Thus, Great Britain was to buy corn, steel, and textiles from Spain, the U.S., and India and sell them machinery and higher value-added products. Consequently, Great Britain also exported technology, and effectively, the industrial revolution to its colonies. The result was a boon for trade, a win-win for Great Britain and its colonies, and a rejuvenated global economy.

By the 1850s, England was widely considered to be the "workshop of the world." Naturally, the Ricardian logic also applies to today's wave of outsourcing. If your neighbor is better in auto manufacturing than you are, you can focus on services, including car rentals, and generate higher value-add in the process.[24] In many ways, the U.S. and India both owe their heritage industries to Great Britain. Upon becoming an industrial powerhouse, the U.S. outsourced some of its manufacturing to the politically aligned Taiwan, Korea, and Japan, fueling their growth.[25]

It is no longer disputed that large emerging nations will serve as the economic growth engines of the twenty-first century. "These emerging nations are already moving away from being exporters of raw materials and inexpensive mass-produced goods, to manufacturing of high value-added goods and services by importing more machinery, equipment and know-how from their developed counterparts. Their next phase in globalization will be to create global brands."[26]

For example, the global market leader in the steel industry has surprisingly come from an emerging market. After the collapse of communism in the early 1990s, many of the Eastern European bloc countries became truly independent nations. They had stranded assets in government-owned enterprises, especially steel mills. Poland, Hungary, the Czech Republic, and Slovakia all wanted to divest. Lakshmi Mittal (of Indian origin, but based out of London for tax purposes and capital access) became the aggregator, and with subsequent acquisitions, rose to global dominance. Mittal Technologies acquired Arcelor (out of Luxembourg) in a $33 billion hostile bid, and ArcelorMittal is currently the largest steel producer in the world by far.[27] Similarly, Huawei, which has been filing an average of 5000 unique patents per year, became the largest telecom infrastructure manufacturer in the world.[28] In the process, it also overcame Lucent (which had merged with Alcatel and still failed), Ericsson, and Siemens.

Interestingly, 200 years after the last golden age of globalization, we may now be coming full circle. There are new world realities where multinationals from emerging markets have very high aspirations. In the new world order, some regions or nations may dominate entire sectors globally. For example, it is now conceivable that the steel and telecom sectors may be dominated by companies from the Far East (India, China, South Korea, or Japan) without a single European or U.S. competitor to challenge them.

Global competition from EMNCs is real and is spread across a wide variety of industries. The top two agricultural seed companies are from Mexico and India, and China and India are among the largest exporters of industrial raw materials such as iron ore and coal. Multinationals from emerging markets are active in fiber for making garments, petrochemical products, and increasingly branded consumer products and services.

China has already become a globally dominant player and competes against other super-economies such as the U.S., Japan, and Germany. It competes virtually across all sectors and will eventually become dominant across several industries in the aggregate analysis: for example, steel mills, banking, pharmaceuticals, telecom infrastructure, mobile phone manufacturing, and services. Thus, China will lead EMNCs; however, they will also come from countries such as India, Mexico, South Africa, Russia, and Brazil. This is the new global reality no matter how you look at it. Competition from other emerging countries (e.g., Vietnam, Turkey) will be much more focused and selective. Each global industry will be subject to a different configuration of competitors. As markets consolidate and converge, it is vital to comprehend where the new set of global leaders will come from and what their respective expansion strategies are.[29]

Ramamurti offered a typology for EMNCs consisting of five categories: natural-resource vertical integrator (based on special access to natural resources or home markets, e.g., Lukoil); local optimizer (serving low-income consumers via underdeveloped infrastructures, e.g., HiSense and Mahindra & Mahindra); low-cost partners (that utilize skilled low-wage workforce, e.g., Infosys and Dr. Reddy's); global consolidator (based on home-country scale advantage, e.g., Hindalco, Lenovo, and Cemex), and global first-mover (low-cost operation in new growth industry, e.g., Huawei and Embraer).[30] In Fig. 7.1, we augment previous efforts by identifying 12 strategies that are, in many ways, very different from the patterns and theories of mature MNCs from the West. We discuss each of these next.

Fig. 7.1 Twelve strategies and six differential advantages of EMNCs. (Source: Jagdish N. Sheth presentation on "Global Expansion Strategies of Multinationals from Emerging Markets," 2018)

Competitive Strategies of Multinationals from Emerging Markets

Reverse Brand Life Cycle

The competition for consumer and business brands generally takes place within (as opposed to across) three segments: premium, value, and price. The premium segment is typically 15–25% of the total market whereas the price segment tends to be between 10% and 15% (larger if there is no value brand yet). The majority lies within the value segment, which usually is 50–65% of the total market. Brands also go through life cycles.[31] The prototypical brands begin with a premium image (with high margin, low volume), evolve into value brands (with low margin, high volume), and eventually degenerate into price brands (with low margin, low volume).[32] For example, the businesses that grew out of the industrial revolution such as those from Germany, France, England, and the U.S., typically began with an invention. They had a proprietary technology and/or patent protection which provided them with high margin but confined them to low volume early on. The high margin was necessary to create positive cash flow and invest in new R&D and plants. Later, their objective shifted to growing sales and becoming mainstream, so they eventually became value brands, and ultimately got commoditized with thin margins as their industries matured. This pattern applied to pharmaceuticals, steel, machinery, gun manufacturing, automobile, and certainly consumer electronics among others.

More specifically, consider again the case of Levi's which was established as a premium brand early on. Rather than remain a specialty niche brand, Levi's chose to go through volume-driven retailers such as JC Penney and Sears for the sake of growth. In the process, it became a volume brand. Volume-driven businesses enjoy good growth; however, their margins collapse. Consequently, Levi's went through vigorous cost-cutting and destroyed its brand equity in the process. The brand was no longer unique or exceptional and eventually became so mainstream that it got commoditized. The end result was the opposite of what it started out as; it became price-sensitive. Overall, such a brand life cycle is very typical and predictable.

The reverse brand cycle is not only fascinating but also very disruptive: a brand that starts out by focusing on price can develop itself into a value brand and ultimately get into the premium segment. The original impetus for the reverse brand cycle approach was sheer necessity. All global premium and value-based markets had established incumbents from developed countries. Thus, EMNCs had to resort to a reverse strategy and focused on the gap in the marketplace based on price competition.

For example, though the Chinese initially emphasized price, they subsequently improved their quality and became value brands. Specifically, Haier started with smaller appliances and wiped out Italian competitors. It then became a full-line appliance company, successfully competing against Electrolux and Whirlpool. Haier's worldwide success put pressure on and served as the impetus for GE's exit from appliances altogether by selling to Haier in a $5.6 billion deal.[33] Today, Haier is the top-selling appliance brand in the world, and Chinese-manufactured products possess the same mass-quality as everyone else. In fact, China, as the *de facto* factory of the world, can manufacture anything from the most low-end to the most premium products; for instance, both uniforms and delicate lingerie are manufactured in China sometimes under the same roof. Other examples of China's manufacturing prowess can be observed in chandeliers, smartphones, telecom equipment, steel, and pharmaceuticals.

As mentioned in an opening example to this section, Indian IT firms' capabilities began with outsourced coding, then moved up to enterprise applications (ERP), and, now, full-service system integration.[34] Similarly, Mahindra & Mahindra of India started by selling small agricultural tractors to the U.S. market (55 HP or less: cost-efficient/fuel-efficient). It emphasized affordability; the vehicles could even be operated as sit-down lawnmowers in large acreage homes. Today, it is competing with John Deere successfully in this niche market. The next stage for this company is to move up-market and become a value market player in the U.S. as John Deere further moves into premium. As an aside, John Deere wishes to host an ecosystem (i.e., MyJohnDeere) of agricultural products/services for its farmers becoming much like what Apple does with its ecosystem for its customers. (In fact, John Deere had already commercialized the first self-driving vehicles in 2004, years before Tesla or Google, and it is estimated that over a third of the crop acreage in North America is handled with such tractors.[35])

Of course, this approach is not new. In fact, this is precisely the strategy Japanese firms have followed in foreign markets. For example, Yamaha entered the U.S. market with low-end small home-use pianos but then demonstrated value and became a formidable competitor to Steinway on the high-end of the market. In the process, it also became the largest piano manufacturer in the world.[36]

Similarly, Datsun 210 was a boxy car with no frills, no A/C, not even heating/cooling on some models; later Nissan was launched as a value brand, and ultimately Infiniti as the luxury brand. Similarly, Honda entered the U.S. with Civic, which was followed by the family sedan Accord, and eventually launched Acura as its luxury brand. Toyota entered the U.S. market with Corolla, then upgraded to Camry (which became the best-selling family Sedan in the competitive mass market), and ultimately launched Lexus as their luxury brand. Today, Toyota is the top-selling auto brand in the world.[37] Korean companies like Samsung and Hyundai went through the same journey in the 1980s.

Now it is the turn for other emerging market firms such as those from Brazil, Russia, Indonesia, and South Africa. Therefore, in the reverse brand life cycle (see Fig. 7.2), brands emphasize price first and value later, and ultimately premium image which is expected to result in better financial performance for EMNCs than when they employ the traditional premium-value-price sequence.

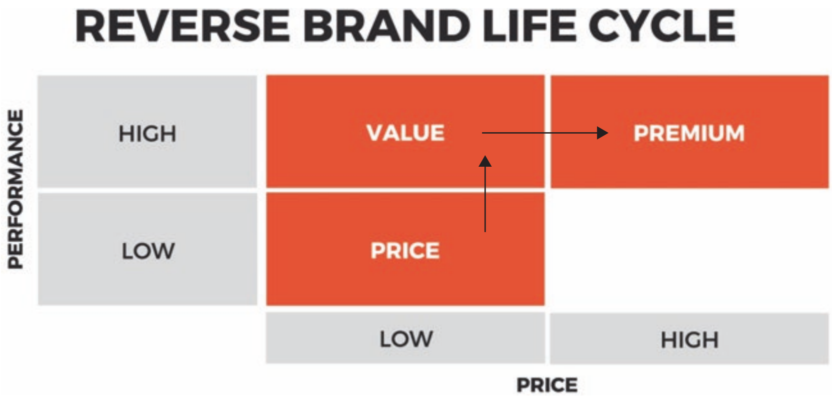

Fig. 7.2 The reverse brand life cycle, (Source: Jagdish N. Sheth presentation on "Global Expansion Strategies of Multinationals from Emerging Markets," 2018)

Emerging Market to Emerging Market to Advanced Markets

As the recent tariff wars between China and the U.S. have shown, jobs are at stake and the sentiment to protect domestic manufacturers remains alive and well even in free-market economies. Even without tariffs, established market incumbents have political clout and lobbying power in their home markets, which serve them well in slowing down new entrants despite free trade agreements in B2C and B2B markets.

Given this impediment, EMNCs have been compelled to go to other emerging markets first, build their scale and international business experience, and then enter advanced markets. This approach is already being practiced by the Chinese very well; Huawei and Xiaomi are prime examples. Huawei started by providing infrastructure for wireless carriers in China (e.g., China Mobile), and they later did the same for carriers in Africa. Once the technology was hardwired, Huawei was able to develop core engineering capabilities as well as understand and obtain experience in diverse markets, climate, and topology. With all that learning curve behind, Huawei aims to earn half of its sales from outside China by 2020 where it already successfully competes against Erickson, Siemens, and Alcatel for wireless infrastructure contracts.

Cell phone maker Xiaomi, with its online-only business model, eliminated a lot of costs initially. Like Apple, they organized an efficient supply chain for manufacturing without engaging in manufacturing themselves. Next, they entered India, broadening their distribution to offline. As Xiaomi builds on that success, it plans to become available in 14 European markets beginning with Spain, France, and Italy soon.[38]

A third case-in-point is Lenovo, which enhanced its position globally after buying IBM's ThinkPad PC franchise. However, its biggest gains in its leadership challenge to Hewlett-Packard came from other emerging markets. Similarly, Godrej is a multinational company from India operating in both B2C and B2B markets. It dominates the market for metal cabinets for home use. Godrej's core competency is not only design but also its lock systems. (Wood cabinets rot easily in Indian climate so metal cabinets are used to keep jewelry, cash, and other valuables.) Godrej is also in mosquito repellents as well as hair care businesses. From India, they went to South Asia, Africa, and Latin America where the climates are similar. In the future, they may enter the U.S. and other advanced markets and compete with leading companies such as S.C. Johnson.

Similarly, IHH of Malaysia which is the largest private health care provider of Southeast Asia also owns Acibadem Healthcare of Turkey and Parkway Pantai of Singapore, each of which also happens to be the largest private health care provider in its country. They also own Continental Hospitals of India.[39] IHH operates in 11 countries including China and the United Arab Emirates among others. Heading West, it acquired Tokuda Hospital in Bulgaria in 2016, and Acibadem launched hospitals in Macedonia and the Netherlands in 2017. After conquering its home market, Mahindra & Mahindra of India has bought a majority stake (80%) in Jiangling Tractors of China in addition to other minority investments and JV efforts. It then focused its attention to advanced markets—Mahindra currently operates five assembly and distribution centers in the U.S. and has been the top-selling manufacturer of tractors worldwide since 2010.[40]

The common denomination here is Walmart founder Sam Walton's "hit them where they ain't" approach. Walmart initially went to small towns that big retailers such as Sears and Kmart ignored.[41] In the process of moving from these rural areas into metro locations, Walmart became the largest retailer in the world.[42] The demand from low population density areas that Walmart aggregated and served can also be aggregated at the income level where the new demand comes from the slums and other underdeveloped, underserved markets. EMNCs can initially focus on less competitive markets and defer attacking the rest until they are ready. Their product and market adaptation in their home markets can provide them with competitive advantages in other emerging markets.[43]

Go Global with Diaspora Markets

EMNCs can follow the lead of their diasporas as an inexpensive way of global expansion. They can simply utilize their home-brand equity; the immigrants grew up with the brand in the home market so many still seek and cherish it in their new homes abroad as well. Examples include Inca Kola (Peru), and Thums Up soft drinks (India). This approach has been tested and holds not only for Chinese and Indian firms but also for the Brazilian, Nigerian, Turkish, and Mexican brands and products.

India has more than 30 million non-residents abroad. Many people go to Gulf countries to work (Saudi Arabia alone is home to 3 million Indians).[44] When IT professionals go to outsourcing assignments and they seek their own food, Udipi, a vegetarian restaurant, takes advantage by following them.

In Los Angeles alone, there are at least 70 communities from around the world that speak their native language, buy their native products including canned products, frozen foods, and fresh produce. Little Saigon feels like Vietnam, and on Pioneer Boulevard in Cerritos you may feel like you are in Mumbai.

The Chinese diaspora in Southeast Asia and around the world is overwhelming. Similar to the Indian diaspora, they have very large communities in San Francisco, New York, Atlanta, Europe, and Latin America. Ali Baba effectively enables Chinese merchants to sell their products anywhere in the world. Following one's diaspora makes for a great starting point in making foreign markets familiar. Kumar and Steenkamp suggest focusing primarily on affluent biculturals and ethnic affirmers based on their high level of desire to maintain home country identity and characteristics.[45]

From Diaspora to Mainstream Markets

The journey may begin with specialty stores/groceries for ethnic groups but then the multinationals can become mainstream through restaurants and supermarkets. For example, Mexican cuisine is well established in the U.S. and tortillas and salsa are in every supermarket in America. Italians have done the same with pasta, pizza, and cheese; Greeks with gyros and yogurt.

In the U.K., Tesco, Sainsbury's, or other mainstream supermarkets offer spicy Pathak pickles. The most consumed convenience food in the U.K. is no longer fish and chips; it is Indian curry (and Pathak pickles go well with it).

Inca Cola, which was started by a British ex-pat couple who moved to Peru in 1935, offers the Latin lifestyle. With its heritage, affordable price, and sweet flavor that complemented the local cuisine well, it achieved 35% market share in the 1980s against Coca-Cola's 21%.[46] Unable to compete successfully, Coca-Cola finally acquired it in 1999 and converted it into a diaspora Latin American culture brand. San Pellegrino of Italy was similarly acquired and converted to a Mediterranean mainstream brand by Nestle. Thums Up of India was bought by Coca-Cola when they re-entered the Indian market. Heineken bought Kingfisher and Tiger beers and could build both to global brands by following their diaspora followers and then going mainstream.

As an aside, the educated members of the diaspora can also become returnees to invest and/or boost innovation in their home countries.[47] There is also the case of reverse diaspora: Deep Foods started in New Jersey where there is a large Indian community. It plans to bring the brand to India for a generation that does not know how to cook. In the meantime, as a leading Indian packaged food producer, it can still go mainstream in the U.S. Several "mainstream stores began stocking frozen Indian entrees like kafta curry, palak paneer, and samosas, many bearing the Deep Foods label."[48] Its Tandoor Chef line is sold across 11,000 retail locations including those by Whole Foods, Kroger, Albertsons, Safeway, and Publix.[49] The company offers hundreds of items for Indian food lovers around the world through Amazon as well as other e-retailers, and estimates to have already captured 60% share of frozen foods across ethnic retailers in the U.S.[50]

Go Global with Key Accounts

This approach involves riding the coattails of your key accounts and expanding with them as they become global. EMNCs' best customers would prefer that their suppliers join them because of established relationships, quality, and value proposition.

For example, Surinder Kapur, the founder of Sona Group, after studying engineering in the U.S., went back to India and started making steering wheels for automobile makers. Toyota was one of Sona's key customers. Since then, Toyota has taken Sona all around the world wherever they started manufacturing. The same pattern is also common in the aerospace sector. As part of geopolitical alignment, companies such as Boeing, Airbus, and Lockheed do not buy from Chinese or Russian companies but instead source from Indian suppliers. Foxconn is similarly going global with clients such as Apple. It is worth noting that the partnership implied here goes beyond low-cost supplier status. The suppliers need to meet and exceed international quality standards to become viable global partners. Xia and colleagues provide evidence from the Chinese context that working with MNCs can help domestic firms to build their own capabilities and increase their propensity to go abroad.[51]

OEM to Branded Products and Services

Branding practice is rooted deep in human history. In thirteenth-century England, bakers, goldsmiths, and silversmiths were required to mark their goods. Papermakers have long used watermarks. Potters' marks were used in China around 1300 BC, and branding of cattle has been practiced since 2000 BC. Overall, the concept of branding may be 5000 years old, with evidence of brand advertising in Babylon dating back to 3000 BC.[52]

Branding is used for products, services, people, and even cities, destinations, and nations.[53] Meanwhile, many products and services still remain unbranded/generic around the globe. The shift in consumer preferences toward branded goods provides a major opportunity, especially for EMNCs. In a traditional bazaar of the agricultural era, offerings such as rice, lentils, and wheat had no branding. Hundreds of years later, as much as 60% of consumption in emerging markets is still through unbranded products and services and a lack of branding is still very prevalent in many emerging markets from the spice market of Istanbul to the boat vendors in Bangkok.[54] On the other hand, snacks that street vendors sell in India are increasingly becoming branded packaged goods, and in the process, markets are created based on selective demand as opposed to generic demand. Branding provides quality assurance and value, but at the same time, it typically does not require new technology; thus, success relies on mostly marketing and quality of execution.

Ultimately, brand equity can be a source of competitive advantage. (In developed economies, most products are already branded; however, the main opportunity is for branding services. For example, hair stylists—especially women's hair saloons are still primarily small store operations, and there are thousands of them. Despite regional efforts, this service remains primarily unorganized and unbranded.)

EMNCs access the market, gain economies of scale, develop a skilled workforce, and put manufacturing excellence in place initially as OEM suppliers, but later as marketers of their own global brands. For example, Global Green has a presence in over 50 countries and fulfills orders for the largest pickle manufacturers around the world. Most pickles sold in the U.S. are not made in California anymore but come from India. As a leading producer of processed vegetables and fruits, Global Green developed the brand Tify for the Indian market, and we expect it to build its brand(s) globally in the future.[55]

We also observe this pattern in the automotive sector: in India and, to a certain extent, in China, turn signals, ignition controls, and steering wheels manufacturers have been moving from OEM to branded offerings. It is also a very common strategy for garment makers. For example, OEM manufacturers from China, Bangladesh, and Caribbean Islands make garments for Manhattan, Van Heusen men's shirts, Arrow shirts, or private store brands. Over time, they can create their own brands and go to market directly.

Finally, moving from OEM to new global branding is also very common in engineering and professional services (e.g., Wipro IT services, SCIS aerospace security services). In particular, we single out EMNC branding based on sustainability position as a potential differentiator in emerging markets, as environmental constraints become more prominent.[56] Being lulled into the comfort of OEM is a mistake if the firm has global aspirations, especially since the relative value-add of manufacturing activities has been decreasing.[57] For example, Taiwanese firms have been criticized for not having the strategic vision to invest in branding and marketing capabilities to complement their early know-how and manufacturing competencies.[58] Therefore, EMNCs that transform themselves from OEM/unbranded offerings to branded products and services perform better than those that do not.

Leverage Skill Advantage

This approach goes back to the Ricardian model of comparative advantage.[59] As discussed earlier, a country or region that has unique skills or resource advantages should put them to use. The Resource-Based View of the firm that has dominated management literature over the last three decades proffers that the resources in question go beyond capital, and must be imperfectly mobile, rare, and hard to imitate at scale.[60] Examples include carpet-making in the Middle East (expert rug-makers), Indian IT services (based on a very large pool of software engineers), and the Philippines (business process outsourcing).

Leveraging its unique local talent, India has become the leading center for diamond cutting in the world, especially for small-size high-volume pieces. Raymond Diamond Tools are respected even in advanced markets. Meanwhile, the cutters located in New York or Antwerp are now specializing in niche markets (larger diamonds). Turkey has utilized its creative talent to become #2 exporter of TV series in the world after the U.S.[61]

Leverage Country-of-Origin Reputation

There is a long lineage of research regarding the country-of-origin effect.[62] To be fair, country-of-origin matters less in a global world where ownership, design, and manufacturing of a product can each reside in different continents around the world. The shirt you buy from a leading U.S. retailer may be contracted to a third party based in Hong Kong, manufactured in Singapore with fabric from Pakistan and buttons and zippers from Japan. Consumers do not even recognize the country of origin of many household brands as in the case of Haagen-Dazs or Haier. Nevertheless, country-of-origin still remains an important factor in many product categories such as Caribbean rum, (French) Champagne, Russian vodka, Mexican beers, Swiss chocolate or watches, Egyptian cotton, Cuban cigars, or Turkish tobacco. To the extent that a country of origin advantage is applicable, it represents a form of resource that can be utilized by EMNCs.[63] Japan, for example, was able to overcome its quality gap in consumer goods following World War II under the leaders such as Akio Morita (Sony) and Kiichiro Toyoda (Toyota). Today, "Made in Japan" is perceived favorably worldwide unequivocally, especially for electronics. The importance of country-of-origin can also vary by market. For example, Russian consumers are known to put considerable weight on the country-of-origin over the brand name for their purchases.[64]

Leverage Domestic Scale Advantage

With this approach, the EMNC dominates its home market first and then goes global. Country-specific resource advantages are assumed to be available to all firms operating in a given country. In reality, EMNCs enjoy advantages in their home countries that other MNCs do not due to protectionism, brand equity, or customer-centricity.[65] For example, the largest tobacco company in the world is China National Tobacco Corporation which is responsible for a third of global production. While it focused on its enormous domestic market for much of its history, it is currently expanding into select foreign markets.[66]

Reliance which started out as a modest polyester producer in 1966, was renamed Reliance Industries in 1973, later diversifying into financial services, refining, and energy. It has recently surpassed ExxonMobil to become #2 most valuable energy firm in the world second only to Saudi Aramco.[67]

Additional examples include telecommunications and flour:

Telecom: China Mobile is the largest cellular network operator in the world, even bigger than Vodafone. It is now expanding outside of China to Southeast Asia (e.g., Vietnam, Cambodia, Thailand, and Indonesia). Airtel of India is also going global.

Flour: Grupo Bimbo, the world's largest baking company, began as a small bakery in Mexico City in 1945. After dominating the home market until the 1980s, the company began exporting to the U.S. in 1984. It eventually became the largest flour maker in the U.S. through acquisitions.[68]

Home-country location advantages (such as scale enabled by market size) can be critical for the success of EMNCs.[69]

Reverse Innovation

The R&D engines of MNCs have traditionally been geared toward high quality/margin innovations. Reverse innovation changes this traditional focus of innovation from the developed markets, superior performance, and convenience, to emerging markets, affordability, and accessibility.[70]

Despite the enormous latent demand, consumers in emerging markets cannot afford the products/services or access them through the existing distribution infrastructure. Thus, it is imperative for EMNCs to invent for the local market with acceptable quality using "business models that provide truly beneficial products and services to the poor at prices they can afford."[71]

Consider the case of battery-operated medical instruments. These days companies like HP, GE, Siemens, or Phillips move their R&D to India or China to learn how to make more affordable (in some cases by a factor of 10) but profitable products.[72] These MNCs can then take the invention and offer the same product in rural, small-town hospitals in developed markets such as those in the U.S. These are patients who cannot afford expensive products that are designed for a system where the cost is covered by insurance.

There is an untapped opportunity to serve disadvantaged consumer markets even in advanced economies.[73] Consider the startling statistic that nearly two-thirds of Americans live paycheck-to-paycheck and approximately 40% have less than $400 in the bank for emergency expenses.[74]

There is a large opportunity for EMNCs to come up with significant innovations to serve the base of the pyramid. Most already have the domestic market scale advantage; it is only a matter of time for them to combine scale with speed, and serve these customers affordably. This advantage led to the birth of Japanese conglomerates historically; now EMNCs can follow a similar approach. Consumers in emerging markets may skip stages in adopting e-commerce due to necessity, and they are even ahead of developed markets in adoption in some cases, which further boosts the accessibility of new products/services.[75] M-Pesa from Kenya mentioned earlier is an example of this.

Interestingly, price-led costing that reverse innovation is based on "is an American invention…GE's turbines and transformers…designed from the price the customer could pay and was willing to pay; and so the customer could and did buy them."[76] "Under price-led costing, the entire economic framework focuses upon creating value for the customer and meeting cost targets while earning the necessary rate of return on investment."[77] Drastic cost reductions, hybrid solutions, scalable and transportable solutions, eco-friendly products, radical redesign, process innovation, de-skilled work/services, customer education in product usage, adaptability to extreme environments, adaptable user interfaces, and a broad architecture that enables quick changes are some of the pathways through which reverse innovations can be realized.[78]

For example, Reliance Jio (a subsidiary of Reliance Industries) has disrupted the mobile telecom market in India in just a few years. Jio bypassed the obsolete 2G and 3G technologies and invested in an Long Term Evolution (LTE) network that covers all of the urban population and 85% of the population of India overall. "The result is a high-quality mobile network that has gained about 15% market share and carries some 1.7 billion gigabytes of data traffic every month (the highest rate in the world) at the lowest prices in the world: 0.05 rupees/MB."[79] When it launched in 2016, the company also offered free trials and plans for under $1 per month.[80] (One U.S. dollar is about 75 Indian Rupees as of July 2020.)

EMNCs have become dominant players for generic drugs and are able to sell their products in advanced markets as well. Governments and insurance companies are promoting the prescription and use of generic drugs due to their affordability.

Focus Regionally

If an EMNC does not have sufficient resources to expand globally via major acquisitions, then they can expand regionally through greenfield investments. For example, Turkey, hopeful of ultimately integrating to the EU one day, has traditionally focused on the European markets where it also has a large diaspora. Vestel Electronics captured a quarter of the European television market by producing on an OEM basis for a large number of distributors.[81] Historically, Russia has also been a large customer of Turkish branded products.

Likewise, South Africa has made similar forays in Africa, and Brazil has done the same in Latin America. The link to the chosen region can be based on geographic, cultural, socio-economic, or socio-political proximity or other market-based characteristics for specializing EMNCs. Therefore, resource-constrained EMNCs that focus regionally are expected to perform better than those that do not.

Focus and Make Acquisitions in Advanced and Mature Markets

Hindalco, India's largest aluminum producer, acquired Novelis for $6 billion in 2007.[82] Novelis, headquartered in Atlanta, Georgia, was the global leader in beverage can recycling and a leading producer of rolled aluminum. It was spun off from Alcan of Canada, whose stature was akin to Alcoa in the U.S. (the Canadian Government mandated that Alcan break up for antitrust reasons, and a separate company, Novelis, was formed in 2005). Aditya Birla Group, which owns Hindalco, also bought Columbian Chemicals and became the largest producer of carbon black (a widely used industrial raw material) in the world based on the combined market sizes of India and the U.S.[83]

Heinz and Kraft were bought by a partnership between Brazil's 3G Capital and Warren Buffet's Berkshire Hathaway and then merged together in 2015. This global merger created the third-largest food and beverage company in North America and the fifth-largest food and beverage company in the world. Heinz-Kraft might go after Campbell, General Mills, Kellogg, or ironically even Mondelez (a previous spin-off of Kraft) next.[84]

SAB's acquisition of Miller and InBev's original bid for Anheuser-Busch can be considered in this category. Turkish Yildiz Group acquired Godiva Chocolate in 2007. Similarly, Grupo Bimbo of Mexico made acquisitions in the U.S. to reinforce and solidify their flour business, and Raymond from India has bought garment design houses in France and Spain.

Some shareholders, as well as scholars, have been puzzled that EMNCs make large acquisitions in areas where they lack competitive advantages and legitimacy.[85]

It has been suggested that EMNCs use acquisitions to catch-up with MNCs on technology.[86] We believe that the reason for the surge in acquisitions[87] is more basic: EMNCs seek access to global markets, and these legacy businesses tend to be available at reasonable prices. EMNCs are typically encouraged by their governments to become global and the urgency to show progress usually manifests itself in large acquisitions instead of painstaking organic entry and growth.[88] Upon acquisition, EMNCs leverage their combined resources and infuse their entrepreneurial spirit into these mature sectors.[89] (We observe that MNCs will be challenged to replicate this EMNC entrepreneurial spirit at scale.) If Uber, Tesla, or Netflix were up for sale at reasonable P/E multiples and the government did not object, EMNCs would be buyers of them too.

EMNCs also invest in advanced complementary capabilities when possible. For example, Jain Irrigation (India) acquired Observant (Australia) for its farm information management platforms; Midea Group (China) acquired KUKA (Germany) which manufactures robots and Servotronix (Israel) for its AI-based automation systems; Zoomlion (China) acquired m-tec (Germany) for its accelerated building processes; Tianqi Lithium (China) acquired a controlling stake in Windfield, which is parent to Talison Lithium, the world's largest lithium producer.[90] Roughly 20% of the $200 billion that Chinese firms spent in global acquisitions in 2016 were spent on technology firms.[91]

More typically, however, acquisitions in mature markets involve acquiring established companies with great brands, human resources, technology assets, in low growth, low margin, commoditized industries with typically depressed asset prices. The original owners want to divest, and EMNCs are happy to oblige; essentially, this relationship is an example of Ricardo's comparative advantage theory (which we also refer to as a theory of vacating markets) in practice.

Competitive Advantages of EMNCs in Executing Identified Strategies

In sum, competition from EMNCs is real and is not limited to China. The strategies we have outlined are not mutually exclusive. There is no single model of global expansion but rather a wide range of options from flanking to domestic scale/skill advantages to leveraging key customers and diaspora ecosystems. The two strategies that provide the most sustainable futures for EMNCs are acquisitions in mature legacy industries where advanced market multinationals have already exited or are seeking to exit (a sunset mindset exists for incumbents in many mature industries in the U.S., Japan, Scandinavia, and Germany), and the reverse brand life cycle.

While the most common pattern will be one globally dominant player from each of the largest markets of China, India, and the U.S., it is possible for one nation to dominate an entire sector if it has a distinct operand (knowledge and skills) and operant resource (tangible factors of production such as land and equipment) advantage. Brand equity and/or concentration of capital in a sector can also lead to a similar outcome.

For example, the U.S. historically dominated the soft drinks and mainframe computer markets, and China may soon dominate telecom manufacturing. Of course, this does not mean that this outcome is inevitable and multinationals elsewhere should give up on building resource advantages. Australia can take the lead in pockets of mining with further global investment. The delicate balance between free trade and protectionism will surely preserve ample space for multinationals from emerging markets in the coming decades. In Table 7.1, we recap the *differential* advantages of EMNCs.

Meanwhile, many EMNCs such as those from Mexico, Brazil, China, and India are still ethnocentric. Successfully transitioning to a transnational culture represents the key challenge to their long-term success. Many of the EMNCs are rooted in trading and favor push over pull strategies, and intuition over marketing research.[92] This mentality must change to prevail in higher-margin sectors.

Table 7.1 Differential advantages of EMNCs

Differential advantages
Flanking advantage: EMNCs foray into advanced markets and flank competition using the reverse brand lifecycle.
Diaspora advantage: The greater the diaspora, the greater the advantage for the EMNCs to eventually go mainstream.
Customer advantage: EMNCs can benefit from the patronage of their key customer(s). They can go global with their key accounts, eventually, learn how to market and distribute globally themselves, and offer their own branded products and services.
Cost advantage: EMNCs have access to skilled workforce at reasonable cost. Some also benefit from the scale of their domestic markets.
Home turf advantage: EMNCs can engage in reverse innovation since they know the realities of their consumer markets better than foreign MNCs and utilize country-of-origin reputation.
Geopolitical advantage: The importance of this factor cannot be overstated. Markets are shaped as much by country relationships as they are by free markets; for example, India has a significant advantage over China for access to the U.S. Geopolitics enables certain firms to easily obtain a beachhead, and subsequently, EMNCs can follow up with investments by buying out mature companies. Governments also encourage their firms to engage where geopolitical alignments are favorable.

Source: Jagdish N. Sheth presentation on "Global Expansion Strategies of Multinationals from Emerging Markets," 2018

The Ultimate Prize: Consolidate Resources to Prevail as a Global Leader

An appropriate constellation of resources is critical for recognizing opportunities and entrepreneurial action[93] and is vital for any type of firm to become dominant. As mentioned above, operant resources (knowledge and skills) and operand resources (tangible factors of production such as land and equipment) can both be sources of differentiation and competitive advantage.[94] However, in certain sectors such as mining, it is not possible to become a global player without tangible resources. Furthermore, due to unprecedented demand from emerging markets and increasing sustainability concerns, there will be natural resource shortages, and commodity prices are likely to fluctuate in the twenty-first century.[95] Hence, we posit that MNCs will need to aggregate both operant and operand (natural) resources in order to prevail as global leaders in the long run. For example, Apple is not likely to remain a global generalist by relying solely on its vast operant resources, as operand resource-rich EMNCs from China and India build their own operant resources and close in. Apple is destined to become a very profitable global specialist unless it changes its strategy. Even sharing economy players proudly devoid of physical assets (such as Airbnb and Uber) will need to operate their own locations/fleets in key markets to keep up with demand, competition, or regulation. However, these are "first-world" problems.

For EMNCs, it is imperative to gather operant resources quickly to succeed as global leaders. Success in developed markets necessitates the use of indirect learning more than direct learning.[96] In the short run, EMNCs' dominance will be most apparent in sectors where operand resources are dominant (e.g., mining and palm oil). Over time, EMNCs will challenge global leadership sectors where both operand and operant resources are critical (automobiles, high-end consumer electronics). In these sectors, we may see global leadership shared between MNCs and EMNCs. The last frontier will be sectors where primarily operant resources are sufficient (AI); these sectors may be where MNCs have the best chance of holding on to their turfs. However, even here we expect the emergence of global players from EMNCs within the next decade. EMNCs that aggregate operand *and* operant resources the fastest will emerge as global leaders. By the end of the century, EMNCs from today's emerging markets will tend to occupy two (and in some cases all top three) leadership spots across all global markets.

"In the 'underdeveloped' countries of the world, the more 'glamorous' fields such as manufacturing or construction are generally highlighted while marketing is treated with neglect … Yet marketing holds a key position in these countries … Marketing is also the most effective engine of economic development."[97] Drucker's words ring true today as much as they did six decades ago.

Opportunities for EMNCs include retail, fast-moving consumer goods, micro-finance, telecom, affordable housing, and agri-business, and will increasingly involve artificial intelligence, health- and wellness-oriented foods, health care, education, pharmaceuticals, energy, and transportation. Taking advantage of these opportunities will require an innovation sandbox approach (new product development with constraints), emphasis on scalability, price-based costing, modern technology, and global standards (quality, safety, as well as sustainability).[98] Resource scarcity will drive major technology breakthroughs, such as cloning and nanotechnologies, where key drivers of innovation will be affordability and accessibility of products, technologies, and services. Policy-makers need to ensure that there is access to opportunities and not let wealth inequality get extreme. Once again, we think EMNCs may be the solution to the world's challenges.

Key Takeaways

- Globalization has generated economic prosperity on a mass scale, creating more employment, innovation, infrastructure, and trade.
- Emerging markets are home to 85% of the world's population, and they collectively generated over 80% of the world's economic growth since 2008. One-third of the world's largest "unicorns" (companies exceeding $1 billion in market value) hail from emerging markets.
- The infrastructure, regulatory, socio-economic, socio-political, technological, and cultural systems in emerging markets are drastically different. We assert that their business and marketing strategies have been and should be different from those of the traditional conglomerates of the world in order to succeed.
- The Ricardian logic also applies to today's wave of outsourcing.
- The competitive strategies of multinationals from emerging markets include:
  - Reverse brand cycle
  - Emerging market to emerging market to advanced markets

(*continued*)

(continued)

- Going global with diaspora markets, from diaspora to mainstream markets
- Going global with key accounts
- OEM to branded products and services, leveraging skill advantages
- Leveraging country-of-origin reputation
- Leveraging domestic scale advantage
- Reverse innovation
- Focusing regionally
- Focusing and making acquisitions in advanced and mature markets

- Differential Advantages of EMNCs include:
  - Flanking Advantage
  - Diaspora Advantage
  - Customer Advantage
  - Cost Advantage
  - Home Turf Advantage
  - Geopolitical Advantage
- Competition from EMNCs is real and is not limited to China. There is no single model of global expansion but rather a wide range of options. The two strategies that provide the most sustainable futures for EMNCs are acquisitions in mature legacy industries where advanced market multinationals have already exited or are seeking to exit, and the reverse brand lifecycle.
- In the short run, EMNCs' dominance will be most apparent in sectors where operand resources are dominant (e.g., mining and palm oil). Over time, EMNCs will challenge global leadership sectors where both operand and operant resources are critical (automobiles, high-end consumer electronics). In these sectors, we may see global leadership shared between MNCs and EMNCs. The last frontier will be sectors where primarily operant resources are sufficient (AI); these sectors may be where MNCs have the best chance of holding on to their turfs. However, even here, we expect the emergence of global players from EMNCs within the next decade.

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