

NEW WORLD BRANDS

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CHINESE PRODUCTS

Many of the world's fastest-growing and most innovative companies now hail from emerging markets. Far from simply imitating long-established Western brands, a growing number of these emerging-market champions are taking the lead – for example by developing sophisticated hi-tech products, exploiting new markets, or creating ground-breaking business models. Whether as competitors or as business partners, these new players are shaking up industries and challenging conventional business wisdom. In this report, which is produced by UK Trade & Investment in co-operation with the Economist Intelligence Unit, we examine who are the new world brands and what lessons can be learnt from their global expansion.

NEW WORLD BRANDS

They have access to low-cost resources. Their organisations are younger and more nimble than those in mature markets, and a host of obstacles – poor infrastructure, weak legal systems and low-income consumers – have spurred them to pioneer new products and business models. But as emerging-market multinationals spread their wings, another important factor lies behind their success: sheer determination.

“How would you feel if your older brother won all the prizes and you didn’t? How would you feel if you lived for years as an entrepreneur or a policymaker in an environment where you never were really considered to be first class?” asks Antoine van Agtmael, author of *The Emerging Markets Century: How a New Breed of World-Class Companies Is Overtaking the World*.

Mr van Agtmael, who coined the term “emerging markets” when working at the World Bank in the 1980s, believes this underdog mentality is providing much of the impetus behind the audacious growth and acquisitive appetite of companies based in emerging economies. “There’s this tremendous drive and energy to succeed and not to be number two,” he says.

Of course, determination is no guarantee of success. But operating from countries such as Brazil, Russia, India and China (collectively known as the BRICs) has given the newcomers certain advantages that have seen them achieve the growth rates that are now giving old-guard multinationals pause for thought.

Ten companies to watch

1. AirAsia

The Malaysia-based airline has kept its passenger volumes high and fares low by paring down costs to the minimum. A strategy of investing in high-profile sports sponsorships, such as that of Manchester United, has allowed the company to develop strong brand awareness in markets in which it operates or where it plans to expand.

2. Chery Automobile

The Chinese car maker, which recently signed a joint venture with Italy’s Fiat, is highly sought-after by established Western car makers entering China. However, the fact that the state-owned company is showcasing its products at this year’s Detroit auto show is an indication that the company – which is busy working to meet safety standards that will enable it to sell cars in Europe and the USA – increasingly has global aspirations.

3. Haier

The Qingdao-based white goods maker has proved extremely nimble at home, responding quickly to market trends with an ability to launch new products almost overnight. Despite an unsuccessful bid for Maytag, the appliance maker, in 2005, and the denial of reports that it is eyeing General Electric’s appliances unit, most believe that the company – which has expanded rapidly in the USA by supplying the likes of Home Depot and Wal-Mart – will soon establish a global presence in its own right.

4. Marcopolo

The Brazilian maker of components and bodywork for buses has established a presence in several countries. With factories all over the world and joint ventures with the likes of India’s Tata Motors, the company has been able to tap into superior engineering skills and deliver higher-value products at lower cost.

5. Natura

One of the largest cosmetics producers in Brazil, the company develops, manufactures and distributes cosmetics, fragrances and toiletries. It has used an ecological back-to-nature concept to appeal to middle-class markets. Using the direct sales franchise model, the company is expanding rapidly in Latin America and is now making forays into Europe.

6. Reliance

Reliance, one of India's biggest conglomerates spanning the oil, petrochemical and telecommunications industries, continues to pursue an ambitious strategy of launching new businesses and entering new markets. For example, last year it started rolling out thousands of Western-style supermarkets – a radically new concept in India. However, the well-publicised feud between the Ambani brothers raises uncertainty about the future for Reliance. This feud led to the company being split into two separately run organisations: Reliance Industries (focusing on oil and power), and Reliance Industries: Anil Bhirubhai Ambani Group, which focuses on telecoms and retail.

7. Suzlon Energy

Emerging from a small Gujarati textiles firm, the Indian company is now one of the world's five biggest makers of wind turbines. The company has an ambitious overseas acquisitions strategy, having purchased Hansen, a Belgian gearbox maker, in 2006 and Germany's REpower last year, giving it access to the German company's offshore turbine technology.

8. Springs Global

When Brazilian textile company Coteminas and South Carolina-based Springs Industries agreed to merge, Coteminas took the majority stake. Coteminas closed all US production facilities and now sources from factories in Brazil and Asia to serve the US market. The merged company's access to lower-cost cotton and labour has given it an unbeatable cost position.

9. Zhenhua Port Machinery Company

Headquartered in Shanghai, ZPMC is a leading global manufacturer of overhead container cranes. The company has also proved highly innovative, developing specialised modified bulk cargo carriers that are able to transport these cranes by sea, allowing the company to capture the market in marine forwarding services for container cranes.

10. ZTE

The Chinese company has capitalised on lower production and human resources to become China's second-largest telecoms equipment maker. Investing some 10 per cent of its annual revenue in research and development, the company has established a leading position in certain technologies, such as all-IP networks.

DEVELOPING THE LOW-COST MODEL

AirAsia

Having unconventional beginnings has helped many emerging-market companies think innovatively about their business models, and Malaysia's AirAsia certainly got an unusual start. Now the region's leading low-cost airline, the no-frills carrier began life in 2001 when the enterprising former music industry executive Tony Fernandes bought a loss-making state-backed airline for one ringgit.

Mr Fernandes, who is rarely seen in a tie, talks proudly of the company's flat management structures and open-plan offices, but the Chief Executive's casual dress and the lack of office walls are just outward signs of the firm's innovative business model.

Joint ventures have allowed it to operate from three hubs: Thailand, Indonesia and Malaysia. The airline now flies to more than 60 destinations on the lowest operating costs of any carrier worldwide.

To do so, the service is pared down to the minimum, offering no in-flight meals (although passengers can pay for snacks), no airline lounges, no seating assignments and no frequent-flyer miles. "Making the process as simple as possible is the key to AirAsia's success in keeping costs at a minimum," says Mr Fernandes.

The airline also uses one type of aircraft, which cuts down on training and maintenance costs. Moreover, the implementation of a quick turnaround of 25 minutes – the region's fastest – means the company can maximise aircraft use and increase staff productivity. Through marketing campaigns, AirAsia has managed to persuade most of its customers to take to online booking, which represents about 70 per cent of total bookings – another cost-saving strategy.

For Mr Fernandes – who says success comes through "hard work, tactful planning and extreme discipline" – the push to drive down costs remains high on the agenda. "We are vigilantly trying to maintain our low fares," he says.

COST AND CAPABILITY

What is driving the success of these emerging-market champions? Clearly access to low-cost resources is one powerful advantage. “Lower production costs and a cheaper manufacturing chain overall can lead to significant cost reductions,” says Wang Yong, marketing director of ZTE, a Chinese telecoms equipment group. “Access to less expensive, but skilled human resources can also result in a cost reduction of 15 to 20 per cent compared to developed markets.”

With skilled technicians available locally, Chinese companies such as ZTE and telecoms provider Huawei – both of which invest heavily in research and development – have been able to make the most of these investments.

SETTING A BENCHMARK

Demonstrating this superior expertise, rather than simply offering cheap goods and services, has become crucial for those entering overseas markets, particularly for industries such as pharmaceuticals and information technology.

“The first challenge was how to sell from a Third World country to a developed country – especially something that is as advanced as software,” explains Kris Gopalakrishnan, Chief Executive of Infosys, the Indian technology services giant. “So starting in 1991 we invested in benchmarking ourselves with the best in the world and adopting best practices from a quality perspective.”

Companies in other sectors have adopted this approach too. As Chinese companies fight to establish their cars as world-class vehicles, Chery Automobile, the state-owned company that is now one of China’s leading car makers, is developing alternative fuel vehicles and

It is important not to overstate the cost advantage however. For one thing, its power as a competitive tool is waning as foreign multinationals such as Dow Chemical, Novartis and General Electric have also set up research centres in countries such as China and India.

Moreover, cheap resources and labour are not what have given emerging-market companies the edge at home. “In the Indian market itself, the low cost is not an advantage because other companies can access talent at the same price as we do,” says KR Lakshminarayana, Chief Strategy Officer at Wipro, now one of India’s biggest IT services firms. “It’s more an expertise issue and the ability to provide a solution.”

reckons that pressing ahead on green standards can help achieve this global recognition.

Kannan Ramaswamy, a Management Professor at Arizona’s Thunderbird School of Global Management, cites Ranbaxy, the leading Indian generics firm that was recently acquired by Japan’s Daiichi Sankyo for US\$4.6 billion.

“It used low-cost labour when it first started but it also planned for future growth,” he says. “It built its plants to meet worldwide standards at a time when it wasn’t even selling in Europe and the USA.”

Mr Lakshminarayana sees quality standards as central to success. “Even though you come from an emerging market, [you] have to be the best in the world,” he says. “You have to be global in both your thinking and your benchmarks.”

ADVERSITY TO ADVANTAGE

Experiments often arise from hardship, and the leaders of emerging-market companies have had to face their share of trials. For a start, many companies have emerged in the wake of political or economic crises. Just a couple of decades ago, Russia and Eastern

Europe were recovering from decades behind the Iron Curtain, China was shrugging off the legacy of the Cultural Revolution and tentatively opening up its markets, Latin America was emerging from a debt crisis and India remained mired in bureaucracy.

Even today, companies in these markets face inadequate infrastructure, weak legal systems, poor governance and insufficient supplies of employees with managerial skills. In an Economist Intelligence Unit survey carried out earlier this year, which examined long-term opportunities and risks in emerging markets, half of those respondents with companies based in Asia-Pacific and Latin America said poorly established legal and regulatory institutions would present trading and investment challenges in emerging markets over the next ten years. Some 46 per cent of these respondents pointed to poor infrastructure as an obstacle, with 49 per cent citing corruption.

However, difficult environments are partly what have given emerging-market firms a head start. “Creativity and innovation is often born in desperation or crisis,” says Mr van Agtmael.

Professor Ramaswamy agrees. “If you look at the emerging-market multinationals, they are characterised by the economics of poverty – they have to fight for capital, product marketing and access to labour,” he says. “They’ve learned to do a lot with very little.” This has forced companies to be nimble. “If you look at

a company like Haier [the Chinese white goods maker], they say that they can go from drawing board to prototype in 18 hours,” says Professor Ramaswamy.

Serving low-income customers in markets with poor infrastructure is another driver of innovation, forcing companies to listen closely to customers and devise new products and distribution models while keeping a tight lid on costs.

Haier gave its washing machines a new level of functionality, according to the Boston Consulting Group, by adding a “vegetable wash” to the cycle after it found that many customers were using their machines to wash more than clothes. Meanwhile, Tata has devised the Nano, a car that, at a price of around US\$2,500, is almost as affordable as a moped.

Stefano Bridelli, a senior partner in the São Paulo office of Bain & Co, believes that working in emerging-market conditions provides effective management training. “Three years at the head of a company in Brazil might teach you the equivalent of what you’d learn in six to eight years in Europe,” he says.

Tapping the talent

When it comes to finding the right people to manage their rapidly expanding empires, their very pace of growth is creating headaches for many emerging-economy firms. While an ageing population is (sometimes) less of a problem than in developed markets and technical expertise is often in abundant supply, the soft skills needed to manage increasingly global businesses are harder to find. And in markets where other local companies are growing fast and foreign multinationals compete on pay and benefits, the war for talent is being keenly felt.

In the Economist Intelligence Unit survey, the cost and availability of local people with appropriate skills was seen as a major challenge by 33 per cent of respondents from companies based in Latin America and Asia-Pacific.

When it comes to managing overseas investments, emerging-market firms have not followed the expatriate models traditionally used by companies from the USA and Europe. Instead, they have been happy to leave the running of their businesses abroad to local executives.

This strategy helps companies absorb knowledge and experience from markets that are new to them. “When Haier went to the USA, they did not send a whole platoon of Chinese managers there,” says Professor Ramaswamy. “Instead, they hired local talent and started directing knowledge flows back from the USA to China.”

Cemex retains key talent from the companies it acquires. After purchasing a business, the company sends a post-merger integration team of executives from a range of countries to analyse the newly acquired business and suggest improvements.

However, some countries are better at this than others. While India has an advantage in the large numbers of well-qualified engineers and technicians, fostering groups of people who can operate seamlessly across a range of different markets remains a challenge, according to Professor Ramaswamy. “Almost all the big Indian companies have a problem when it comes to handling global clients, because they still cannot understand the way global clients think,” he says.

ACQUISITIVE MINDS

Riding on their successes at home, and driven by the need to maintain fast growth rates, many emerging-market companies have expanded aggressively in overseas markets. In the Economist Intelligence Unit's survey, more than half (52 per cent) of the respondents from companies based in Asia-Pacific and Latin America said that their organisation's primary motivation for establishing a presence in their top-choice market was finding a new market for their goods and services. In addition, some emerging-market companies are making acquisitions in Western markets to strengthen their product or technology portfolio.

Many emerging-market companies start by making acquisitions at home or in neighbouring markets, but geographical constraints are no longer seen as an insuperable barrier. "Today proximity is not an issue," says Hector Medina, Executive Vice-President for planning and finance at Cemex. "What we're looking for is market opportunities where we can expand our value proposition."

This approach is reflected in the survey results. Almost half the respondents from companies based in Asia-Pacific and Latin America said that physical proximity had no bearing on their organisation's investment decisions.

Those companies are using a mixture of financing mechanisms. The largest group of respondents (32 per cent) said bank financing was the most likely method for their company, while 21 per cent cited private equity funding and 12 per cent cited a stock market listing.

Indian companies have been among the most aggressive in their expansion overseas. In 2006, for example, Indian firms announced foreign takeovers worth

US\$23 billion, more than five times higher than in any previous year and more than the investments made by foreigners in Indian companies.

Chinese companies have also been audacious in their foreign acquisitions, as in the example of Lenovo with its purchase of IBM's personal computer business in 2005. These types of deals look likely to continue, particularly as emerging-economy currencies strengthen and a weak dollar makes US assets cheaper. Haier, for example, is said to be in talks with the Blackstone Group to bid for General Electric's appliance business, although it has denied these reports.

Mergers too have helped emerging-market champions gain market share. In 2007 Rusal, the Russian aluminium producer, merged with a smaller Russian company, Sual, and the aluminium business of Switzerland's Glencore to create the world's biggest aluminium company. The merger of Coteminas with Springs of the USA gave the Brazilian company – now called Springs Global – a recognised brand and a market. By moving production to Brazil and Asia it also reduced product and labour costs.

Not all companies favour acquisitions as the primary route to expansion. ZTE uses a combination of partnerships and its own local sales operations to enter new markets. From an investment of US\$250, Infosys grew into a leading global technology services company with US\$4 billion a year in revenue by using the cash gained from rapid expansion at home in India, forming strategic alliances with technology providers and taking its work globally to locations where it found the best talent available for the right price. "We made a very small acquisition in Australia and we got about 300 people through that acquisition," says Mr Gopalakrishnan. "Otherwise the growth has all been organic."

A FRESH START

Many emerging-economy firms are benefiting from having avoided traditional models of management developed in mature markets. Because they remain unencumbered by complex management systems, executive hierarchies and preconceptions about how business should be done, new entrants may find it easier to adopt innovative new business models.

"Sometimes, having a short memory is a good thing," says Mr Bridelli. "Companies from the BRIC countries don't have decades of history and the burden of how 'you do things over here', so they're more willing to experiment."

It remains to be seen whether the wave of acquisitions of European and US brands by those companies from emerging economies will prove successful marriages. Mergers are notoriously hard to pull off, even for established businesses with long track records of such deals, and history has provided some painful lessons. In the 1980s many of the corporate raids of cash-rich Japanese companies in America proved a disaster. Moreover, concerns over levels of protectionism may also have an impact on future mergers. In the survey, more than a third of respondents from those companies based in emerging markets (42 per cent) identified levels of protectionism as the second most important challenge when looking to invest and trade in a developed market over the next ten years – after high labour costs.

However, Mr van Agtmael believes the current generation of emerging-market acquirers is learning fast. “The jury is still out, because most of these mergers and acquisitions are barely out of the honeymoon stage,” he says, “but they’ve learned that you have to do more than fall in love with a company.”

CONCLUSION

A source of competition

- The new world brands are shaking up industries and challenging conventional business wisdom.
- They benchmark themselves against global standards, and are increasingly international in their outlook.
- A growing number of them are innovative both in terms of their technological know-how and their creativity around new business models.
- They benefit from the “home advantage” in some of the world’s fastest-growing economies.

Multinationals in mature markets cannot ignore the challenge set by emerging multinationals and must be ready to react. As these young entrepreneurial organisations with low costs, lightweight management structures and innovative business models start to move into their territory with high quality products and services, the old guard will need to re-examine some of their business strategies and become leaner and more nimble.

The newcomers are rapidly gaining experience, whether in negotiating global regulatory regimes or fending off competition from established multinationals. This will only give companies greater confidence to move overseas, particularly as saturation in home markets forces them to look abroad to support their rapid growth.

“For a BRIC company to make an acquisition in the USA or in the first tier world is a major emotional event,” says Mr Bridelli, “but as they figure out that doing business in Cincinnati or Barcelona is not as difficult as it once was, they will do a lot more of it.”

They also have a particular set of issues to deal with if their expansion into developed markets is ultimately to be successful. They may be unable to match the pay structures of their developed-world counterparts, leading to difficulties in recruitment and retention. While their brands may be well known in their own home market, they may have to start from scratch to establish a presence in new territories, and there are also challenges such as tougher regulatory environments and increased tariffs to overcome.

Moreover, established companies will need to find ways of re-creating the entrepreneurial underdog spirit that provides much of the emotional driving force behind the rapid growth of emerging-market leaders. For not only are these new companies competing with established multinationals in emerging markets – the newcomers are heading overseas, armed and ready to carve out some of the market share of US and European companies on their home territory.

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Fast track to the world^{UK}