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Tomorrow's Global Giants? Not the Usual Suspects

Key ideas from the Harvard Business Review article By Pankaj Ghemawat, Thomas Hout

The Idea in Brief

In the largest emerging markets, established multinationals and local players are battling for dominance. Conventional wisdom says MNCs rule in high-end, knowledge-intensive businesses; local companies, in low-end segments where production and logistics matter most.

But the game is changing, say Ghemawat and Hout. Some MNCs in low-end segments are beating local players at their own game. And some local challengers are besting their supposedly more sophisticated competitors in knowledge-intensive industries.

Whichever type of company yours is, you can invade the other's turf using these strategies:

- **Exploit evolving market conditions.** MNC Otis Elevator beat locals in China during a high-rise construction boom by quickly building out a service network.
- **Manage convergences in costs.** As local players offer more sophisticated products, their cost advantage declines, creating openings for established MNCs.
- **Rework value chains.** For example, consider specializing in one part of the chain. Bharti Airtel outsourced everything but customer care--and became the largest mobile-services operation in India.

The Idea in Practice

A closer look at the three competitive strategies suggested by Ghemawat and Hout:

Exploit Evolving Market Conditions

As economies develop, customers and competitors evolve. By anticipating the changes and leveraging your knowledge of customers, you can spot opportunities to bundle services and products where you have an advantage.

Indian wind-turbine maker Suzlon Energy leveraged its local knowledge and networks to offer a turnkey approach to selling: It began helping customers acquire permits for wind farmland, deliver and maintain the farms, and sell the power generated. Profits from these parts of the business have sometimes been higher than from the turbines themselves.

Manage Convergences in Costs

Local companies in emerging markets formerly enjoyed cost advantages in manufacturing and distribution, based on their proximity to materials and customers. But that cost advantage is eroding: Governments in emerging markets are removing barriers to outside MNCs, thus lowering their costs. And market demand is forcing local players to offer more sophisticated products that cost more to produce. Result: a more level playing field for emerging and established MNCs. Both types of companies can work around or capitalize on this convergence.

India's software services provider Tata Consultancy Services is acquiring new low-cost capacity in locations outside India, such as Latin America. It's also investing in U.S. and European operations to defend its position with customers around the world.

Telecom MNC Nokia has expanded its Chinese production facilities, neutralizing up-and-coming local competitor Ningbo Bird's cost advantages.

Rework Value Chains

Emerging and established MNCs alike can find competitive opportunities by closely examining what customer needs may not be served by existing industry value chains. Some companies succeed by specializing; for example, Taiwanese computer assembly contractors help established multinationals such as Dell fend off competition from Chinese computer companies. And instead of competing with each other, they can collaborate to piece together and manage value chains across industries and geographies.

Li & Fung, the world's largest contract supply-chain-management firm, manages front-end design, marketing, sales, and corporate governance in Hong Kong and production in China. For instance, the company can source product anywhere in the world for Western retailers who simply provide the brand. Or it can go further and manage the brand for the client, as it does for Levi Strauss in Asia.

Further Reading

Articles

Managing Differences: The Central Challenge of Global Strategy

Harvard Business Review

March 2007

by Pankaj Ghemawat

The main goal of any international strategy should be to manage the large differences that arise at the borders of markets. Yet executives often fail to exploit market and production discrepancies, focusing instead on the tensions between standardization and localization. In this article, Pankaj Ghemawat presents the AAA Triangle, a framework that encompasses all three effective responses to the

challenges of globalization. Through *Adaptation*, companies seek to boost revenues and market share by maximizing their local relevance. Through *Aggregation*, they attempt to deliver economies of scale by creating regional, or sometimes global, operations. And through *Arbitrage*, they exploit disparities between national or regional markets, often by locating different parts of the supply chain in different places; for instance, call centers in India, factories in China, and retail shops in Western Europe. Because most enterprises should draw from all three As to some extent, the framework can be used to develop a summary scorecard indicating how well the company is globalizing. While it is possible to make progress on all three strategies, companies usually must focus on one or two when trying to build competitive advantage.

Fast, Global, and Entrepreneurial: Supply Chain Management, Hong Kong Style: An Interview with Victor Fung

Harvard Business Review

October 2002

by Victor Fung and Joan Magretta

In this interview, Li & Fung Chairman Victor Fung explains both the philosophy behind supply-chain management and the specific practices that Li & Fung has developed to reduce costs and lead times, allowing its customers to buy "closer to the market." Li & Fung, Hong Kong's largest export trading company, has been an innovator in supply-chain management. Li & Fung has also been a pioneer in "dispersed manufacturing": It performs the higher-value-added tasks such as design and quality control in Hong Kong and outsources the lower-value-added tasks to the best possible locations around the world. To produce a garment, for example, the company might purchase yarn from Korea that will be woven and dyed in Taiwan, then shipped to Thailand for final assembly, where it will be matched with zippers from a Japanese company. For every order, the goal is to customize the value chain to meet the customer's specific needs.

The Hidden Dragons

Harvard Business Review

October 2003

by Ming Zeng and Peter J. Williamson

Most multinational corporations are fascinated with China. Carried away by the number of potential customers and the relatively cheap labor, firms seeking a presence in China have traditionally focused on selling products, setting up manufacturing facilities, or both. But they've ignored an important development: the emergence of Chinese firms as powerful rivals--in China and also in the global market. In this article, Ming Zeng and Peter Williamson describe how Chinese companies like Haier, Legend, and Pearl River Piano have quietly managed to grab market share from older, bigger, and financially stronger rivals in Asia, Europe, and the United States. As the government's policies about the private ownership of companies have changed from forbidding the practice to encouraging it, a new breed of Chinese companies has evolved. The authors outline four types of hybrid Chinese companies that are tackling the global market. *National champions* are using their advantages as domestic leaders to build global brands. The *dedicated exporters* are entering foreign markets on

the strength of their economies of scale. The *competitive networks* have taken on world markets by bringing together small, specialized companies that operate in close proximity. And the *technology upstarts* are using innovations developed by China's government-owned research institutes to enter emerging sectors such as biotechnology.

- Purchase the full-length Harvard Business Review article here.
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