Competing with Giants: Survival Strategies for Local Companies in Emerging Markets

by Niraj Dawar and Tony Frost

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		Reprint Number
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NIRAJ DAWAR AND TONY FROST	**COMPETING WITH GIANTS: SURVIVAL STRATEGIES FOR LOCAL COMPANIES IN EMERGING MARKETS**	99203
JOHN HAGEL III AND MARC SINGER	**UNBUNDLING THE CORPORATION**	99205
REGINA FAZIO MARUCA	HBR CASE STUDY **WEB SITE BLUES**	99209
ANDREW CAMPBELL	THINKING ABOUT... **TAILORED, NOT BENCHMARKED: A FRESH LOOK AT CORPORATE PLANNING**	99202
J. STEWART BLACK AND HAL B. GREGERSEN	WORLD VIEW **THE RIGHT WAY TO MANAGE EXPATS**	99201
JOHN P. KOTTER	HBR CLASSIC **WHAT EFFECTIVE GENERAL MANAGERS REALLY DO**	99208
THOMAS M. HOUT	BOOKS IN REVIEW **ARE MANAGERS OBSOLETE?**	99207

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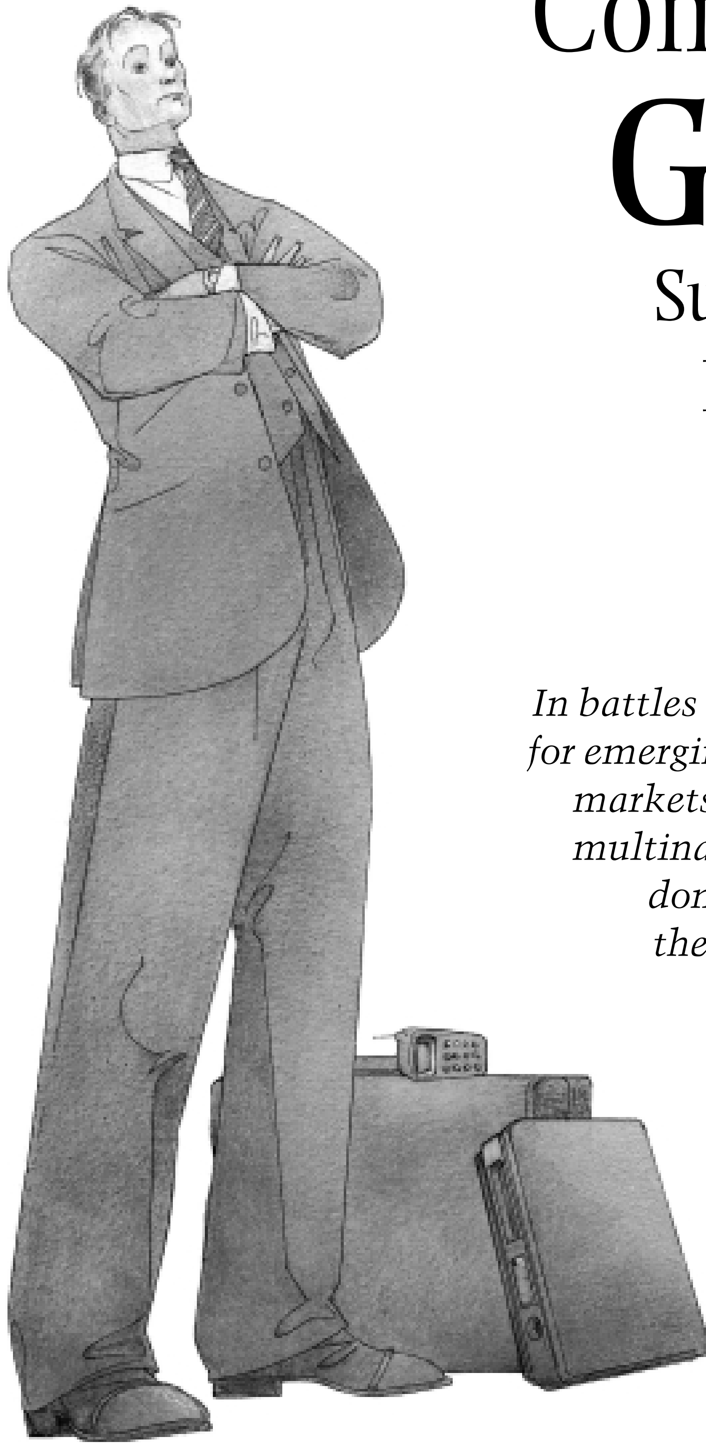
Competing with GIANTS

Survival Strategies for Local Companies in Emerging Markets

by Niraj Dawar and Tony Frost



In battles for emerging markets, big multinationals don't hold all the advantages.

As protectionist barriers crumble in emerging markets around the world, multinational companies are rushing in to find new opportunities for growth. Their arrival is a boon to local consumers, who benefit from the wider choices now available. For local companies, however, the influx often appears to be a death sentence. Accustomed to dominant positions in protected markets, they suddenly face foreign rivals wielding a daunting array

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ARTWORK BY DAVID JOHNSON

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of advantages: substantial financial resources, advanced technology, superior products, powerful brands, and seasoned marketing and management skills. Often, the very survival of local companies in emerging markets is at stake.

Strategists at multinational corporations can draw on a rich body of work to advise them on how to enter emerging markets, but managers of local companies in these markets have had little guidance. How can they overcome – and even take advantage of – their differences with competitors from advanced industrial countries? Many of these managers assume they can respond in one of only three ways: by calling on the government to reinstate trade barriers or provide some other form of support, by becoming a subordinate partner to a multinational, or by simply selling out and leaving the industry. We believe there are other options for companies facing stiff foreign competition.

Despite the heated rhetoric surrounding globalization, industries actually vary a great deal in the pressures they put on companies to sell internationally.

In markets from Latin America to Eastern Europe to Asia, we have studied the strategies and tactics that successful companies have adopted in their battles with powerful multinational competitors. Vist in Russia and Shanghai Jahwa in China, for example, have managed to successfully defend their home turfs against such multinationals as Compaq and Unilever. Others, including Jollibee Foods in the Philippines and Cemex in Mexico, have built on strength at home and launched international expansion strategies of their own. By studying these examples, managers of other companies from emerging markets can gain insight into their own strategic options.

Aligning Assets with Industry Characteristics

When India opened its automotive sector in the mid-1980s, the country's largest maker of motor scooters, Bajaj Auto, confronted a predicament similar to what many "emerging-market" companies face. Honda, which sold its scooters, motorcycles, and cars worldwide on the strength of its superior technology, quality, and brand appeal, was planning to enter the Indian market. Its remarkable success selling motorcycles in Western markets and in such nearby countries as Thailand and Malaysia was well known. For the independent-minded Bajaj family, a joint venture with Honda was not an option. But faced with Honda's superior resources, what else could the company do?

A closer look at the situation convinced Bajaj's managers that Honda's advantages were not as formidable as they first appeared. The scooter industry was based on mature and relatively stable technology. While Honda would enjoy some advantages in product development, Bajaj would not have to spend heavily to keep up. The makeup of the Indian scooter market, moreover, differed in many ways from Honda's established customer base. Consumers looked for low-cost, durable machines, and they wanted easy access to maintenance facilities in the countryside. Bajaj, which sold cheap, rugged scooters through an extensive distribution system and a ubiquitous service network of roadside-mechanic stalls, fit the Indian market well. Honda, which offered sleekly designed models sold mostly through outlets in major cities, did not.

Instead of forming a partnership with Honda, Bajaj's owners decided to stay independent and fortify their existing competitive assets. The company beefed up its distribution and invested more in research and development. Its strategy has paid off well. Honda, allied with another local producer, did quickly grab 11% of the Indian scooter market, but its share stabilized at just under that level. Bajaj's share, meanwhile, slipped only a few points from its earlier mark of 77%. And in the fall of 1998, Honda announced it was pulling out of its scooter-manufacturing equity joint venture in India.

Bajaj's story points to the two key questions that every manager in emerging markets needs to address: First, how strong are the pressures to globalize in your industry? Second, how internationally transferable are your company's competitive assets? By understanding the basis for competitive advantage in your industry, you can better appreciate the actual strengths of your multinational rivals. And by assessing where your own competitive assets are most effective, you can gain insights into the breadth of business opportunities available to you. Let's take each question in turn.

Despite the heated rhetoric surrounding globalization, industries actually vary a great deal in the pressures they put on companies to sell internationally. At one end of the spectrum are companies in such industries as aircraft engines, memory

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chips, and telecommunications switches, which face enormous fixed costs for product development, capital equipment, marketing, and distribution. Covering those costs is possible only through sales in multiple markets. A single set of rules governs competition worldwide, and consumers are satisfied with the standardized products and marketing appeals that result.

At the other end of the spectrum are industries in which success turns on meeting the particular demands of local consumers. In beer and retail banking, for example, companies compete on the basis of well-established relationships with their customers. Consumer preferences vary enormously because of differing tastes, perhaps, or incompatible technical standards. Multinationals can't compete simply by selling standardized products at lower cost. Alternatively, high transportation costs in some sectors may discourage a global presence. In all of these industries, companies can still prosper by selling only in their local markets.

Most industries, of course, lie somewhere in the middle of the spectrum. International sales bring some advantages of scale, but adapting to local preferences is also important. By thinking about where their industry falls on the spectrum, managers from emerging markets can begin to get a picture of the strengths and weaknesses of their multinational competitors. But they need to place their industry carefully. As Bajaj found, industries that seem similar may be far apart on the spectrum – pressures to globalize scooters turn out to be much weaker than those to globalize automobiles. Bajaj may go global in the future, as the Indian market evolves, but it has no need to do so now.

Once they understand their industry, managers need to evaluate their company's competitive assets. Like Bajaj, most emerging-market companies have assets that give them a competitive advantage mainly in their home market. They may, for example, have a local distribution network that would take years for a multinational to replicate. They may have long-standing relationships with government officials that are simply unavailable to foreign companies. Or they may have distinctive products that appeal to local tastes, which global companies may be unable to produce cost effectively. Any such asset could form the basis for a successful defense of the home market.

Some competitive assets may also be the basis for expansion into other markets. A company can use its access to low-cost raw materials at home, for example, to undercut the price of goods sold in other countries. Or a company may use its expertise in building efficient factories to establish operations elsewhere. Assets that may seem quite localized, such as experience in serving idiosyncratic or hard-to-reach market segments, may actually travel well. By paying close attention to countries where market conditions are similar to theirs, managers may discover that they have more transferable assets than they realize. The more they have, the greater their chance of success outside the home base.

These two parameters – the strength of globalization pressures in an industry and the degree to which a company's assets are transferable internationally – can guide strategic thinking. If globalization pressures are weak, and a company's own assets are not transferable, then, like Bajaj, the company needs to concentrate on defending its turf against multinational incursion. We call a company employing such a strategy a *defender.* If globalization pressures are weak but the company's assets can be transferred, then the company may be able to extend its success at home to a limited number of other markets. That sort of company is an *extender.*

If globalization pressures are strong, the company will face bigger challenges. If its assets work only at home, then its continued independence will hang on its ability to dodge its new rivals by restructuring around specific links in the value chain where its local assets are still valuable. Such a company, in our terminology, is a *dodger.* If its assets are transferable, though, the company may actually be able to compete head-on with the multinationals at the global level. We call a company in that situation a *contender.*

> Two parameters – the strength of globalization pressures in an industry and the company's transferable assets – can guide that company's strategic thinking.

We can plot these four strategies on a matrix. (See the exhibit "Positioning for Emerging-Market Companies.") As with any strategic framework, our matrix is not intended to prescribe a course of action but to help managers think about the broad options available.

To gain a clearer view of all four options, let's look at how companies have used them to succeed in a newly competitive environment. We'll start

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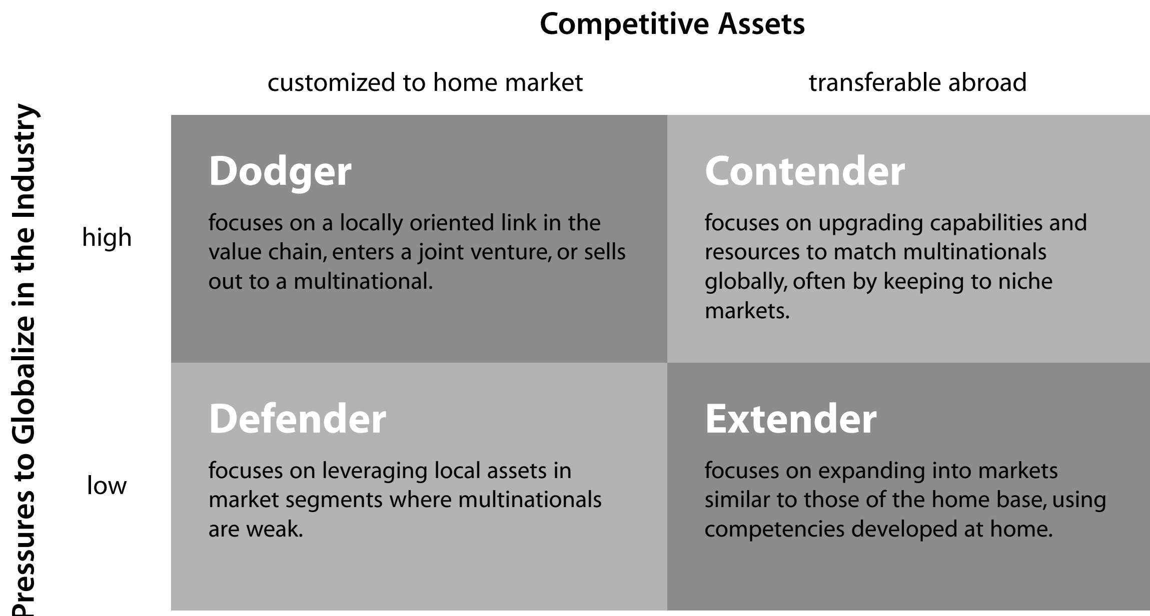

with industries where the globalization pressures are weak, then move to industries where those pressures are strong.

Defending with the Home Field Advantage

For defenders like Bajaj, the key to success is to concentrate on the advantages they enjoy in their home market. In the face of aggressive and well-endowed foreign competitors, they frequently need to fine-tune their products and services to the particular and often unique needs of their customers. Defenders need to resist the temptation to try to reach all customers or to imitate the multinationals. They'll do better by focusing on consumers who appreciate the local touch and ignoring those who favor global brands.

Shanghai Jahwa, China's oldest cosmetics company, has thrived by astutely exploiting its local orientation – especially its familiarity with the distinct tastes of Chinese consumers. Because standards of beauty vary so much across cultures, the pressure to globalize the cosmetics industry is weak. Nevertheless, as in other such industries, a sizable market segment is attracted to global brands. Young people in China, for example, are currently fascinated by all things Western. Instead of trying to fight for this segment, Jahwa concentrates on the large group of consumers who remain loyal to traditional products. The company has developed low-cost, mass-market brands positioned around beliefs about traditional ingredients.

Many Chinese consumers, for instance, believe that human organs such as the heart and liver are internal spirits that determine the health of the body. *Liushen,* or "six spirits," is the name of a traditional remedy for prickly heat and other summer ailments, and it's made from a combination of pearl powder and musk. Drawing on this custom, Jahwa launched a Liushen brand of eau de toilette and packaged it for summer use. The brand rapidly gained 60% of the market and has since been extended to a shower cream also targeted at the liushen user. Unilever and other multinational companies lack this familiarity with local tastes; they have found their products appeal mainly to fashion-conscious city dwellers.

For those product lines that don't have such an intrinsic appeal to consumers, Jahwa has found that it can compete on price. Here Jahwa has taken advantage of the constraints that multinational companies face in adapting Western-designed products to developing countries. Multinationals typically op-

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timize their operations on a global level by standardizing product characteristics, administrative practices, and even pricing, all of which can hamper their flexibility. Products designed for affluent consumers often aren't profitable at prices low enough to attract many buyers in emerging markets. And even if they are, a multinational might damage its global brand by selling its products cheaply.

As a result, a number of Jahwa's foreign rivals have been stuck in gilded cages at the top of the market, giving Jahwa an advantage in reaching consumers with little discretionary income. Revlon, for example, estimates its target market in China to be just 3% of the country, or 39 million people, whereas Jahwa aims at over half the market. (See the insert "The Importance of Staying Flexible.")

Jahwa has also benefited from the sheer visibility of the multinationals' strategies. Product formulations, brand positioning, and pricing are often well known long before a multinational launches its brands in a foreign market. This transparency affords defenders both the knowledge and the time to preempt a new brand with rival offerings of their own. Jahwa quickly launched its G.LF line of colognes, for example, to protect itself from the entry of a global brand targeted at the upscale urban male segment, which Jahwa had ignored.

Jahwa's strategy has allowed it to weather the initial opening of China's markets – a period when multinational companies often appear irresistible to consumers and local competitors alike. At first, consumers often flock to foreign brands out of curiosity or out of a blind belief in their virtues. Procter & Gamble, for example, grabbed over half the Chinese market for shampoo in just a few years, despite the substantially higher price of its product. But by focusing on offerings that reflect local preferences, Jahwa was able to protect some sales and buy time in which to build up the quality of its products and marketing. Jahwa's managers have good reason to believe that many consumers will eventually shake off their expensive infatuation with foreign brands and go back to Jahwa and other local lines.

Other defenders have been able to blunt the force of foreign competition by beefing up their distribution network. Grupo Industrial Bimbo, the largest producer of bread and confectionery products in Mexico, seized on that asset when faced with foreign competition. Over the years, Bimbo had built up an extensive sales and distribution force to get its products into *tiendas,* the ubiquitous corner stores where Mexicans still do most of their shopping. The company employs 14,000 drivers who blanket the country with 420,000 deliveries daily to 350,000 clients.

THE IMPORTANCE OF STAYING FLEXIBLE

Multinational enterprises bring enormous advantages when they enter emerging markets, but they are also subject to important constraints. In the early 1990s, managers of Johnson & Johnson in the Philippines were looking for new products to boost local sales. They discovered that young Filipino women were using one of their most successful products – Johnson & Johnson baby talcum powder – to freshen their makeup. These users typically carried a small amount of the powder in a knotted handkerchief to use outside the home. To target this latent market, Johnson & Johnson Philippines developed a compact holder for the talcum powder, complete with mirror and powder puff. An advertising campaign was targeted at this segment, and distribution was secured through supermarkets and corner shops.

A few days before the product's launch, however, corporate headquarters in the United States asked that it be canceled. The reason: "We are not in the cosmetics business." Local managers were stunned. They argued that the compact would be a test of their ability to develop products for the local market. Only after the chief marketer in the Philippines flew to headquarters and made a personal plea for the product did the company allow the launch to go ahead.

The product was a great success; sales exceeded projections by more than a factor of ten. Nevertheless, Johnson & Johnson has not introduced the product in other markets. And even in the Philippines, the company has subsumed the product into a broad line of toiletries instead of promoting it separately. Johnson & Johnson preferred to give up sales rather than run the risk of being seen as a cosmetics producer in the company's more-established markets.

Companies based in emerging markets don't have to contend with such constraints arising from established positions in affluent markets. Not only are they closer to their own market, but they are also free to let the market define them. This flexibility is one of a number of advantages that local managers may overlook when they face the prospect of multinationals entering their own market.

For more on the constraints confronting multinational companies, see C. K. Prahalad and Kenneth Lieberthal, "The End of Corporate Imperialism," HBR July–August 1998.

At the time that Mexico was opening its markets, Bimbo's managers were considering a lower-cost approach that would have cut out a number of these daily runs to tiendas, many of which brought only about $10 in revenue per delivery. When PepsiCo aggressively entered the Mexican bakery market in 1991, however, those plans were quickly shelved. The move shocked Bimbo's managers into examining their actual sources of competitive advantage. Far from weighing down operations with low-margin sales, Bimbo's distribution network was the key to defending its home turf. The network tapped into Mexican consumers' preference for freshness and their habit of shopping daily at a nearby store, creating a huge barrier to entry for foreign competitors. Instead of reducing deliveries, Bimbo's managers increased them – although they did lower costs by sending to the smaller tiendas trucks with multiple products instead of the single-product deliveries sent everywhere else. Their defensive strategy paid off: Bimbo has maintained leading positions in each of its major market segments.

> Far from weighing down operations with low-margin sales, the company's distribution network was the key to defending its home turf.

Extending Local Advantages Abroad

In some cases, companies in local industries can go beyond defending their existing markets. With the right transferable assets, these extenders can use their success at home as a platform for expansion elsewhere. A selective policy of international expansion, carefully tied to the company's key assets, can reap added revenue and scale economies, not to mention valuable learning experiences.

Extenders can leverage their assets most effectively by seeking analogous markets – those similar to their home base in terms of consumer preferences, geographic proximity, distribution channels, or government regulations. Expatriate communities, to take a simple case, are likely to be receptive to products developed at home.

Jollibee Foods, a family-owned fast-food company in the Philippines, has extended its reach by focusing on Filipinos in other countries. The company first overcame an onslaught from McDonald's in its home market, partly by upgrading service and delivery standards but also by developing rival menus customized to local tastes. Along with noodle and rice meals made with fish, Jollibee created a hamburger seasoned with garlic and soy sauce – allowing it to capture 75% of the burger market and 56% of the fast-food business in the Philippines. Having learned what it takes to compete with multinationals, Jollibee had the confidence to go elsewhere. Using its battle-tested recipes, the company has now established dozens of restaurants near large expatriate populations in Hong Kong, the Middle East, and California.

Similarly, managers can look for countries with a common cultural or linguistic heritage. Televisa, Mexico's largest media company, used that approach to become the world's most prolific producer of Spanish-language soap operas. Recognizing that its programs would have considerable value in the many Spanish-speaking markets outside Mexico, the company targeted export markets in Latin America, Spain, the U.S. border states, and Florida. Recently, Televisa has begun its own news broadcasts, teaming up with Rupert Murdoch's News Corporation for distribution to Spanish-language markets worldwide.

The concept of analogous markets can be stretched far indeed. India's Asian Paints controls 40% of the market for house paints in its home base, despite aggressive moves by such major multinationals as ICI, Kansai Paints, and Sherwin Williams. The company has thrived against foreign competitors by developing its local assets, notably an extensive distribution network. Its paint formulations and packaging practices make for an extremely low-cost product – one that, its managers have discovered, holds considerable appeal in other developing countries. After its success exporting to neighbors such as Nepal and Fiji, the company is now pursuing joint ventures abroad.

Asian Paints brings substantial advantages to these countries. Its managers are used to dealing with the kind of marketing environment there – thousands of scattered retailers, illiterate consumers, and customers who want only small quantities of paint that can then be diluted to save money. Multinational rivals, by contrast, have built their operations around the demands of affluent customers looking for a wide choice of colors and finishes. Their expatriate managers are used to air-conditioned offices and bottled water that costs more per liter than most customers are willing to pay for paint. Even after they develop a low-end paint product, the multinationals will still have a

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long way to go to catch up in emerging markets. Asian Paints already knows how to speak the language of these customers.

Dodging the Onslaught

In industries where pressures to globalize are strong, managers will not be able to simply build on their company's local assets – they'll have to rethink their business model. If their assets are valuable only in their home country, then the best course may be to enter into a joint venture with, or sell out entirely to, a multinational. The Czech carmaker Skoda took that latter step after the collapse of the Soviet Union in 1989. Like many companies in communist countries, Skoda's position as an official producer under the old Soviet regime had allowed the company simultaneously to survive and to stagnate. Only the choice-starved consumers in the former Eastern bloc could appreciate Skoda's cars, and even they recognized how outdated the designs were, how poor the quality was, and how limited the appeal of the brand was compared with Western makes.

When markets opened in Eastern Europe, Skoda's position became untenable. Multinational carmakers arrived with the sort of insurmountable advantages made possible by their global scale: superior models, well-known brands, and financial muscle. The Czech government soon sold the company to Volkswagen, which subsequently restructured Skoda's operations, invested heavily in new products and technology, and positioned it as the value brand in Volkswagen's global line of vehicles.

In many cases, however, there are alternatives to selling out. Consider the Russian personal-computer maker Vist. When Russia liberalized its economy, Vist's managers knew they would win few battles going head to head with the likes of Compaq, IBM, and Hewlett-Packard. Rather than sell out or seek a joint venture, however, they sidestepped oblivion by redefining their core business. They dodged the global threat by focusing on links in the value chain where Vist's assets provided competitive advantage. Instead of viewing the company as a manufacturer of personal computers, they increasingly emphasized the downstream aspects of Vist's existing business – distribution, service, and warranties.

While its multinational rivals concentrated on selling machines to government and corporate markets in Moscow, Vist took advantage of its familiarity with the wider market. It reached into the interior of the country through an extended dealer network and developed exclusive distribution agreements with several key retailers. It also established its own full-service centers in dozens of Russian cities.

That approach was well suited to the Russian computer market, which is still in its early stages. Russians need much more information and reassurance than most Western buyers before they will purchase a computer, and they appreciate a local presence. All of Vist's manuals are in Russian, and the company provides lengthy warranties, unlike rivals, which simply sell extended service contracts. The computers that Vist sells – the product of a low-cost assembly operation using mostly imported components – are unremarkable; nevertheless its downstream assets have made Vist the leading brand in Russia with 20% of the market. And as the Russian computer market advances, Vist's network of service centers will alert the company to changes before its rivals see them.

Just as defenders focus on market segments responsive to their local strengths, dodgers like Vist move to links in the value chain where their local assets still work well. But, as Skoda's experience shows, not all companies can make the jump that dodgers have to make. Vist was able to restructure around distribution and service because it was already active in those areas; Skoda had little room to maneuver because it was devoted almost entirely to one part of the value chain. Skoda also had enormous investments in capital-intensive manufacturing (not to mention a large number of jobs) that the Czech government was understandably reluctant to drop in order to refocus on other parts of the business.

While distribution and service are common recourses for dodgers, there are others. One approach is to supply products that either complement multinationals' offerings or adapt them to local tastes. When Microsoft moved into China, for example, local software companies shifted their focus from developing Windows look-alike operating systems to developing Windows application programs tailored to the Chinese market.

Where globalization pressures are strong, managers can't just build on their company's local assets; they will have to rethink their business models.

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Dodgers can also move to the other end of the value chain. As Mexico has opened its markets, many manufacturing companies have reoriented themselves, becoming local component suppliers to the newly built factories of foreign multinationals.

Dodging may be the most difficult of the four strategies to execute because it requires a company to revamp major aspects of its strategy – and to do so before it's swept under by the tide of foreign competition. But by focusing on carefully selected niches, a dodger can use its local assets to establish a viable position.

Contending on the Global Level

Despite the many advantages of their multinational rivals, companies from emerging markets should not always rule out a strategy of selling at the global level. If their assets are transferable, they may be able to become full-fledged multinationals themselves. The number of these contenders is steadily increasing, and a few, such as Acer of Taiwan and Samsung of Korea, have become household names. The reasons for their success are similar to those of any thriving company that competes in a global industry. However, contenders often have to take into consideration a different set of opportunities and constraints.

Most contenders are in commodity industries where plentiful natural resources or labor give them the low-cost advantage. From Indonesia, Indah Kiat Pulp & Paper (IKPP), for example, has aggressively moved into export markets by drawing on a ready supply of logs – the product of favorable tropical growing conditions, low harvesting costs, and government-guaranteed timber concessions. In its core paper business, it enjoys production costs that are nearly half those of its North American and Swedish competitors, a huge advantage in export markets.

IKPP's cost advantage is not due entirely to geography. The company has also invested heavily in advanced machinery to make its production more efficient. This is an important lesson for all companies trying to capitalize on lower costs of resources or labor, particularly as multinationals set up their own operations in developing countries. Rather than being content to let resources provide the sole advantage, contenders need to measure themselves against the practices of leading companies in their industry. Many, like IKPP did, will find their quality or productivity levels lacking. Others will have severe deficiencies in service, delivery, or packaging. As a result, the cost advantage they enjoy will often be undermined by deficiencies in other areas. But by moving toward the productivity, quality, and service levels of their competitors from developed countries, local contenders in commodity industries can build a sustainable basis for long-term competitive success.

For would-be contenders that lack access to key resources, finding a distinct and defensible market niche is vital. One increasingly common approach is to join a production consortium, in which a lead company manages a regional or global web of component developers and suppliers. Few emerging-market companies have the market presence, coordination capabilities, or innovative technology they would need to act as the lead organization in a far-flung production network. Most of them will need to concentrate on building scale and expertise along particular pieces of their industry's value chain.

When General Motors decided to outsource the production of radiator caps for its North American vehicles, India's Sundaram Fasteners seized the opportunity to go global. Sundaram bought an entire GM production line, moved it to India, and a year later became the sole supplier of radiator caps to GM's North American division. In addition to the obvious benefits to the bottom line that accrue from the guarantee of selling 5 million radiator caps a year, participation in GM's supply network made it easier for Sundaram to develop its capabilities and learn about emerging technical standards and evolving customer needs. Sundaram was one of the first Indian companies to achieve QS 9000 certification, a quality standard developed by U.S. automakers, which GM requires for all its component

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suppliers. The skills learned during the certification process also benefited Sundaram's core fastener business, putting it in a position to target the European and Japanese markets. Unlike local suppliers to multinational companies, Sundaram's Indian operations are capable of supplying factories all over the world. (See the insert "How to Stay Independent with Partnerships.")

Sundaram was able to transfer the knowledge it gained by being part of a production consortium directly to its core business. But finding a viable niche in a global industry usually means an extended

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HOW TO STAY INDEPENDENT WITH PARTNERSHIPS

For companies in many emerging markets, giving up control is the option of last resort. This is especially true for the family-owned businesses that play a leading role in most of these economies. But alliances with multinationals do not always involve a loss of independence. When carried out within well-defined parameters, they can actually help a company preserve its freedom in the face of competitive threats.

Companies using any of the four strategies to counter the entry of multinationals into their markets can benefit from forming alliances, but the nature and objectives of the alliances will differ depending on which strategy they adopt. Alliances can help defenders fortify their positions. Shanghai Jahwa, for example, saw that multinational rivals were offering a broader product line than it could. By forming alliances with the Japanese companies Kanebo and Lion, Jahwa was able to offer to the distribution trade a line of household and personal care products as broad as those of the competition. Jahwa was careful, however, to limit the partnership to a small part of its lineup, which enabled it to maintain financial and managerial control over its products. Dodgers can also benefit by establishing similar sorts of limited partnerships to fill gaps in their capabilities quickly as they move to a different part of the value chain and redefine themselves.

For extenders and contenders, alliances are often essential. They can range from supply chain partnerships, like the one Sundaram Fasteners joined with General Motors, to distribution arrangements with retailers in other countries. Forming manufacturing partnerships to supply private-label goods may be the only way for many companies to crack international markets. Before investing in its own brands and becoming a full-fledged contender, Acer of Taiwan made computers for sale under the Compaq brand; similarly, Kia Motors of Korea manufactured the Ford Fiesta.

Private-label partnerships can be useful even for extenders that have no global ambitions. Balsara, an Indian hygiene-products and cosmetics company best known for its Promise brand of clove toothpaste, is facing stiff domestic competition from Colgate-Palmolive. Balsara's managers are committed to defending their home market, but Colgate's strengths as an international brand are imposing. By winning private-label toothpaste agreements from such nonrivals as Henkel and the Beecham Group, Balsara was able to strike back at its rival's turf in the West. But more important, the partnerships enabled Balsara to upgrade its factories and the quality of its products and packaging – improvements that will help the company protect its market share at home.

process of restructuring. Many companies may have to shed businesses that can't be sustained on the global level. To many managers in emerging markets who are conscious of links between their businesses, that process will be difficult. But shedding businesses, outsourcing components previously made in-house, and investing in new products and processes are the keys to repositioning contenders as focused, global producers. Indeed, the need to get smaller before getting larger is one of the major themes in the corporate restructuring process under way in Eastern Europe.

In Hungary, Raba, for example, used to produce a diverse line of vehicles and components – from engines and axles to complete buses, trucks, and tractors. When markets in Eastern Europe opened, the company faced a collapse in demand. Yet as the automotive industry rapidly consolidated globally, Raba managed to avoid Skoda's fate. It focused on the worldwide market for heavy-duty axles, a segment in which its technology was fairly close to the standards of international competitors. Restructuring has paid off, especially in the United States, where the company has captured 25% of the large market for heavy-duty tractor axles. Axles now account for over two-thirds of Raba's sales, and nearly all of them are exported.

By contrast, the company's remaining operation in the wider engine and vehicle market, where it operates only in Eastern Europe, is facing a severe challenge from such major multinationals as Cummins and DaimlerChrysler. Despite Raba's extensive service network, the globalization pressures in that industry, throughout its value chain, may be too strong to withstand.

Perhaps the greatest challenge for contenders is to overcome deficiencies in skills and financial resources. Especially in high-tech industries, where product life cycles are short, contenders are often put at a disadvantage by their distance from leading-edge suppliers, customers, and competitors. The cost of capital is also much higher for them than it is for their multinational rivals, a direct result of the greater political and economic risk in

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A TALE OF TWO STRATEGIES

It's not just individual businesses that need to consider how their competitive assets match the globalization pressures of their industry. Many companies from emerging markets belong to multibusiness organizations. By mapping their business portfolio on the matrix, the heads of diversified companies in emerging markets can see potential trouble spots and areas of opportunity, and make decisions accordingly.

India's Arvind Mills is a good example of a company that pursued opposite strategies in adjusting its different businesses to competitive threats. In the 1980s, Arvind found itself being squeezed by low-cost foreign integrated mills and nimble domestic power-loom operators. Stuck in the middle, Arvind's managers realized that the company would not be viable if India's textile industry became fully liberalized. Central to their company's turnaround was their recognition that, despite similar symptoms, their two main businesses were suffering from different maladies – and required different cures.

Success in the fabric division increasingly depended on economies of scale, and the managers decided that the company could survive only by moving onto the global stage. As contenders, they were careful to concentrate on a niche market that allowed them to catch up with existing producers quickly. That market was denim, a fabric that at the time accounted for only 10% of Arvind's output. The denim fabric itself is essentially a commodity; while fashions in denim do change, those changes are imposed by the apparel makers, not the cloth manufacturers. A few large buyers choose from a fragmented base of cloth suppliers. Once a company pays the high price of entry – expensive, high-output technology – it is in business.

Arvind developed relationships with key buyers, and it applied innovative process engineering to reduce costs below those of most competitors. Arvind's installed capacity in denim is now ten times that of its closest Indian rival, and the company exports over half of its total output. From a standing start 13 years ago, Arvind Mills is today the world's third largest manufacturer of denim and the fastest growing.

Arvind's managers focused on denim for the apparel division as well, but they chose a completely different strategy. Going global in apparel would have been prohibitively expensive – developing a global consumer brand is beyond the resources of most contenders, which is why they almost always specialize in producer goods. Arvind's managers went on the defensive and emphasized the local aspects of the industry's value chain – tailoring and distribution. They built capabilities and local brand appeal to sell jeans specifically in India. Recognizing that major brands like Levi's would have little choice but to target the top end of the market, Arvind saw huge potential in the mass-market segment, which would include many first-time jeans buyers. The question was how to make the price attractive to those consumers.

Arvind's radical solution was to launch a brand – Ruf & Tuf – sold in kit form. The kit consisted of fabric, a metal zipper and rivets, a leather Ruf & Tuf patch, a pattern, and sewing instructions. The company launched the concept in conjunction with a major advertising campaign and an education program intended to reach some 6,000 tailors.

Arvind's insight was to accommodate its product to local buying practices. It was the custom of people to purchase fabric and use local tailors to stitch the final product. The company knew that major multinationals would be powerless to follow that approach since local tailoring undermined a key value proposition of foreign brands – the consistency of the product.

At the same time, Arvind could use its marketing and cost advantages to nullify the smaller local competitors. Within the first year, sales of the new product exceeded expectations by an order of magnitude, as more than 250,000 units shipped every month. Arvind has now carved out a dominant position in the local market.

For more on the prospects for diversified business groups operating in emerging markets, see Tarun Khanna and Krishna Palepu, "Why Focused Strategies May Be Wrong for Emerging Markets," HBR July–August 1997.

emerging markets. The most successful contenders – those that have moved beyond competing solely on the basis of cost – have learned to overcome those disadvantages by accessing resources in developed countries.

An extreme example is Korea's Samsung, which moved to the frontier of memory chip technology by establishing a major R&D center in Silicon Valley and then transferring the know-how gained there back to headquarters in Seoul. But even contenders in mature industries can benefit from looking abroad.

Consider Mexico's Cemex, which has transformed itself from a diversified business group into a focused producer of cement – now the third largest in the world. Although Cemex enjoys low

production costs at home, it has had to overcome major disadvantages. To lower its cost of capital, Cemex tapped international markets by listing its shares on the New York Stock Exchange. The acquisition of two Spanish cement producers in 1992 put it in the backyard of a major international competitor, France's Lafarge, and also allowed Cemex to shift its financing from short-term Mexican peso debt to longer-term Spanish peseta debt. What's more, its foreign acquisitions greatly reduced the company's dependence on the Mexican cement market, always a concern given the country's history of economic volatility.

In addition, Cemex has aggressively sought to be on the forefront of information technology – a key factor for success in the logistics-intensive cement industry. Its managers have worked closely on systems development with IBM, and the company has invested extensively in employee development programs designed to support its emphasis on logistics, quality, and service. Through its efforts, Cemex has become one of the world's lowest-cost producers of cement, and it has applied the lessons it has learned to boost efficiency in its acquired companies. Instead of being the target of multinationals, Cemex has since bought additional companies of its own. In the eat-or-be-eaten world of global competition, Cemex is positioning itself at the top of the food chain.

Managing Transitions

A recurring theme in these examples is the importance of being flexible in response to market opportunities. This familiar advice is often forgotten by managers from emerging markets, for whom industry boundaries have traditionally been taken as a given, in many cases established by government mandate. Liberalization is now making the structure of many industries much more fluid, and managers exposed to new kinds of competitors need to realize that they can respond by positioning their companies in a variety of ways.

By better understanding the relationship between their company's assets and the particular characteristics of their industry, managers can also anticipate how their strategies may evolve over time. As more and more companies learn to compete in global markets, we are bound to see a growing number of aggressive contenders like Cemex. But few are likely to make the jump soon, in part because globalization pressures in many industries will continue to be weak. We suspect that many of the most successful companies will remain focused on their local markets, strengthening their main sources of competitive advantage. Others will build on a successful defense of their home base and look for opportunities abroad, but they may never make the final step up to global competition. Managers will need to revisit their assumptions and conclusions as the capabilities of their companies develop.

Not only will managers find their strategies likely to evolve over time, but the nature of their industry may change as well. A company in a predominantly local business may prosper because of its superior service and distribution. But a competitor may make a move that changes the industry fundamentally, giving advantages to global players. That is what happened in the insulin business, when the major players raised the ante by developing a superior product – genetically engineered human insulin – at a fixed cost that only companies with global reach could justify. The new manufacturing process drove prices below anything that local producers could sustain.

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Just as the structure of some industries favors companies that operate on a large scale, so can the structure of other industries evolve to favor companies operating at a small scale. In India, Arvind Mills took a seemingly global product – blue jeans – and refashioned it to fit the budgets of millions of rural villagers. While Levi Strauss and other multinationals aim for the urban middle class, Arvind has built a new and protected market for itself. (See the insert "A Tale of Two Strategies.")

In many emerging markets around the world today, we've found a fundamental dynamic. Multinationals are seeking to exploit global scale economies while local enterprises are trying to fragment the market and serve the needs of distinct niches. The former bring an array of powerful resources that can intimidate even the most self-assured local manager. But like David against Goliath, the smaller competitor can rise to the challenge and prevail.

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