



# Winning in Emerging Markets

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**Krishna Palepu**  
(with Tarun Khanna)  
Harvard Business School



# Research and Teaching Agenda: 1995-2009

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- What is special about doing business in emerging markets?
  - Lot of business and student interest
  - Many opportunities and challenges
- To exploit opportunities in these markets, what are the appropriate strategies for
  - domestic entrepreneurs,
  - overseas multinationals, and
  - international investors?



# Intellectual Journey

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- Case writing, empirical research and field work in a dozen emerging markets in Asia, Latin America, and Eastern Europe
- Published many scholarly and management oriented articles
- Developed a new second year HBS MBA elective, “Globalization of Emerging Markets.”
- Chair: Global CEO Program for China, Building Global Enterprises in India
- Forthcoming Book: “Winning in Emerging Markets.”



# Part I

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What is an emerging market?



# Emerging Markets: Old View

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- Corruption
- Macro Shocks – inflation, exchange rate
- Unpredictable politics
- Infrastructure bottlenecks
- Distribution difficulties
- Lack of access to risk capital
- Protection of intellectual property...



# Emerging Markets: New View

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- Hyper growth
- Many business opportunities
  - Deregulation
  - Abundant low priced talent
  - Large and growing consuming class
  - Absence of basic products and services
  - Infrastructure development



# Emerging Markets: A Structural View

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- An emerging market is one where the infrastructure of the market place is under developed
- History, politics, and culture drive institutional development
- Market infrastructure involves both the hard and the soft kind
- These institutional voids make it difficult and costly to conduct transactions in product, labor, and financial markets
- Institutional voids offer both opportunities and challenges as the countries join the global markets



# Network of Market Institutions (soft infrastructure)

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- Markets need many institutions to mitigate information and contracting problems
  - Credibility enhancers (Auditors, J.D Power, Business Schools)
- Information analyzers and advisors (Analysts, Consumer Reports, FT Business School Rankings)
- Aggregators and distributors (Institutional investors, Mass retailers, classified job listings )
- Transaction facilitators (Brokers, Credit Cards, Search firms )
- Regulators (SEC, FDA, Accreditation organizations)
- Adjudicators (Courts, Consumer protection agencies)





# Some Observations on Market Institutions

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- It took the US and other advanced countries a long time to develop market institutions. Even then, they are not “perfect”!
- You will notice them most when they don’t function well – eg: financial market institutional flaws in Dot.com bubble, Enron/Worldcom scandals, Asian financial crisis.
- Opening markets is different from developing market institutions
- History, politics, and culture influence institutional structure and development



# Segmentation of emerging market

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- Traditional indexes of market size, growth, and profitability are potential land mines
- There are usually four distinct segments in emerging markets
  - Global segment (small size)
  - Local segment with global quality aspirations (medium size, fast growing)
  - Local segment with local quality acceptance (large size, very price sensitive)
  - “Bottom-of-the-Pyramid”
- Institutional voids make accessing and serving all but the Global segment challenging



# Business Implications

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When you consider an emerging market opportunity, you should ask:

- In this market, what institutions work and what don't?
- What part of our business model can be affected by these institutional voids?
- How can we build competitive advantage by navigating around these voids?
- Is there an opportunity to profit by filling voids?




# Some key choices

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- Enter, wait, or exit?
- Replicate or adapt?
- Compete alone or collaborate?
- Accept or attempt to change market context

# Responding to Institutional Voids



<b><i>Response to Institutional Voids</i></b>	<b><i>Strategic Implications for Domestic Companies</i></b>	<b><i>Strategic Implications for Multinationals</i></b>
<b>Exploit Relative Advantage</b>	<b>Leverage local knowledge, reputation, or internal market institutions</b>	<b>Leverage global brand, credibility, know-how, talent</b>
<b>Acquire New Capabilities to Neutralize Institutional Voids</b>	<b>Access mature market institutions through overseas listings, JVs, acquisitions</b>	<b>Access local capabilities to navigate institutional voids through local staff, JVs, partnerships</b>
<b>Change Market Context</b>	<b>Build market institutions, or induce others, to fill voids</b>	<b>Build market institutions, or induce others, to fill voids</b>
<b>Emphasize Opportunities Elsewhere</b>	<b>Go global</b>	<b>Stay global</b>



## Part II

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# Multinationals in Emerging Markets



# Issue I: What is the opportunity

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- Be clear about how you want to engage in each market
  - Market to sell into
  - Regional or global production platform
  - Innovation and product development hub
  - Access to talent pool
  - Supply source
  - Market infrastructure development
- Each market offers a different opportunity for different companies

Question: How should you enter and what should be your journey?



# Case Examples

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- GM in China
- L'Oreal in India
- Monsanto in Brazil
- McDonalds in Russia
- Home Depot in Chile, Argentina
- Tetrapak in Argentina
- Novartis Emerging Market Strategy
- Microsoft in China and India
- GE Healthcare in China and India
- Metro Cash and Carry in Russia, China and India





# Issue 2: Standardization versus Localization

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- Each market requires certain amount of localization of your business model to succeed
- Localization is critical to access and serve any segment other than the “Global” segment
- Failure to localize is one of the most common reasons for failure of MNCs in emerging markets
- Too much localization destroys your basic advantage of scale and global branding, and creates operating complexity

Question: What is the “core” of your business model and what is changeable?



# Issue 3: What is your role in national development?

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- Local aspirations of development are extremely powerful
- MNCs are seen both as a boon and a threat to this aspiration
- MNCs cannot be passive in this complex game

Question: How can you position yourself as a “partner in progress”?



# Issue 4: How do you relate to local businesses?

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- Nature of local business is different in different emerging markets
  - China is dominated by SOEs
  - India has a significant local private sector
  - Brazil and Russia are somewhere in between
- You need to understand the capabilities, aspirations, and comparative advantage of domestic businesses
- Recognize that there are many ways to collaborate, not just compete with local businesses
  - Supply chain partners
  - Joint venture partners
  - Potential acquisition targets



# Issue 5: Institutional voids as business opportunities

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- Creating private sector solutions to emerging market institutional voids is one of the most assured business opportunities
- New market institutions are often human capital intensive, and create winners and losers, so sensitivity to local conditions is essential
- Need for adaptation, local competition, and market segmentation apply equally here



# Issue 6: Tailoring strategies to each market

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- Not all emerging markets are the same
- The nature of institutional voids, the nature of socio-political set up, the degree of openness to the rest of the world are important dimensions of difference
- China and India illustrate this point dramatically



# Contrasting China and India

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China and India have completely different sets of Institutional Voids, so they offer quite different opportunities and challenges

- China has a better product market infrastructure, but India has a better financial and managerial talent market infrastructure
- China attracts more FDI, India attracts more FII
- Dominant domestic firms in China are SOEs, and in India, they are (family) business groups.
- Historically, China has been more open for FDI than India, but India has been more open than China for human capital investments
- Government and media play quite different roles in the two countries



# Issue 7: Managing internal decision making

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- MNCs often fail in emerging markets for two key reasons
  - Lack of local knowledge
  - Not listening to local managers
- The first problem can be more easily addressed than the second one
- Home country experience can be a disadvantage when operating in a market with institutional voids
- Regional organizations can play an important role in facilitating communication between country and head-office



## Part III

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# Emerging Giants





# Case Examples

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- Haier in China
- Tata Group in India
- Dogus Grop in Turkey
- Cemex in Mexico
- Agora in Polan
- Jollobies in Philippines
- SA Breweries in South Africa
- Li & Fung in Hong Kong
- Bharti Telecom in India
- TCS in Latin America
- Blue River Capital in India



# “Emerging Giants”

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- Emerging giants are world class companies from emerging markets
- Being world class does not necessarily mean operating beyond home country
- It does mean that a company can meet the challenge of global competition in what ever market it operates in



# The Challenge

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- MNCs have established brands, technology, financial muscle, and organizational capabilities
- Emerging markets suffer from institutional voids," making it hard to access talent, technology, and finances

Challenge: How do you build competitive advantage when facing these disadvantages?



# Two strategic choices

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- Responding to institutional voids
  - Four generic strategies discussed earlier
  - Most likely wins: Local segments
  - Key to success: Local knowledge, global excellence
- Globalization journey
  - Staying home
  - Going to other emerging markets
  - Going to advanced markets



# The Journey (1)

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- If you focus on unique customer knowledge to build a strategy, then
  - Start with the local market
  - Expand to similar market segments in other emerging countries
  - Get your toes wet in niche markets in advanced markets

Examples: Haier, SA Breweries, Jollibees, Cemex



# The Journey (2)

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- If you build your strategy around unique local factor markets, then
    - Start with focusing on advanced customer markets for products and services that can be profitably served from home country
    - Expand operations to other emerging markets with similar factor inputs
    - Serve local customers as the home market matures
- Examples: Infosys, Inventec



## The Journey (3)

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- If you build strategy around filling local institutional voids, then
  - Establish credibility by building a well-functioning local market institution
  - Expand by building other related institutions in the same market

Example: Li & Fung, Deremate



# Execution Excellence Is a Must

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- Execution excellence in emerging markets requires
  - Leaders who have world class aspirations
  - Flexibility and adaptability
  - Doing beyond what is immediately demanded by the market place
- Each generic strategy will require investing in different capabilities and processes





# Good Governance

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- Good governance is a way to assure your customers, employees, partners, and investors that you will live up to your promises
- Transaction costs increase when there is a lack of credibility and trust
- Good governance can be a competitive advantage in emerging markets where transaction costs are usually very high



# Future Agenda

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- Innovation
  - For emerging markets
  - From emerging markets
- Organizational challenges
  - Local companies going global
  - MNCs in emerging markets