

Will multinationals from the emerging world take over?



By [Mrinalini Reddy](#)

Today's emerging markets are also "emerging" as big businesses on a global stage. What explains their success and how serious of a threat are they to dominant multinationals in the West?

When Brazilian cosmetics company Natura decided to expand its international footprint, it bravely ventured into one of the most advanced—and toughest—skincare markets in the world: France. Its skincare formulations containing active ingredients from herbs found in the Amazon proved hugely successful with discerning Parisians. Today, the company's international operations are responsible for 11 percent of net revenues, compared to 8.1 percent in the first quarter of 2011.

Natura's global aspirations are similar to those of other companies from emerging markets that are increasingly seeking to raise their international profiles—and profits. In 2005, only 44 such companies featured on Fortune's

list of the top global 500 firms; in 2010, there were 113. What explains their successes in certain markets—and failures in others? Natura failed miserably when it first tried to enter neighbouring and presumably similar consumer markets in Chile and Argentina.

A new book *The New Emerging Markets Multinationals: Four Strategies for Disrupting Markets and Building Brands* co-authored by INSEAD Professor of Marketing Amitava Chattopadhyay shows a combination of traditional acquisition and clever entrepreneurial strategies that are working to their advantage. How sustainable are their strategies and just how much of a threat do these emerging players pose to the dominant multinationals (MNCs)? The authors cast a lens through 39 such companies with global operations across a range of product categories from countries including China, India, Brazil, Russia, Turkey, South Africa, and Mexico.

“What’s changed today is their ambition,” said Chattopadhyay, in an interview with INSEAD Knowledge. Clearly growth and success in home markets are making these companies confident, he notes, and relative to developed economies, emerging markets have largely been spared the recession. “Maybe growth slowed a little bit but there is growth,” says Chattopadhyay. Also, as the recession has bitten into the wallets of developed markets consumers, they are also beginning to look for value. “These companies are terrific at creating value for money which creates an opportunity on the demand side for these products.”

Strategies for success

The immense success of Taiwanese smartphone manufacturer HTC illustrates the most threatening strategy to established MNCs. In essence, such companies build their own brands through focused innovation—developing technologies and products—but only in very narrow slices of the market. For HTC, this was developing sophisticated Android and Windows compatible mobile phone products. For Natura, it was harvesting plants sustainably and extracting the active ingredients; and exploiting the mystique of the Amazon to woo new consumers in France. These companies invest more in R&D and take advantage of the lower costs of R&D in their home markets and their own manufacturing skills. They then go on to scale with more new products and services. Once, just a faceless supplier to Western MNCs with healthy but unspectacular margins, HTC is now the

world's third largest smartphone manufacturer.

In other cases, companies like India's Mahindra Tractors, also the largest tractor manufacturer in the world, relied on a cost advantage in manufacturing labour at home markets to sell low-priced products in both developing and developed markets overseas. For another group, particularly Chinese and Indian companies entering Africa, it's transferring and applying the knowledge and expertise of operating in similar emerging environments. Whether market volatility, poor infrastructure, highly-fragmented distribution systems or less-transparent political regulatory systems, emerging market managers are likely to be more adept, Chattopadhyay observes.

Still some have gone global by tapping into small and neglected product segments—primarily but not exclusively in developing markets. Marico, an Indian fast-moving consumer goods company, developed an alcohol-free hair gel for markets in the Middle East. They recognised an aversion to alcohol among Muslim consumers and adapted an existing product for this consumer segment. It's an augmented strategy, says Chattopadhyay that plays not only to their knowledge, manufacturing and R&D strengths but also to the weaknesses of their Western counterparts that are in pursuit of "ruthless standardisation". "Over time these challengers will master the narrow segments and grow into bigger and broader threats."

Stumbling blocks

But these approaches are not equally sustainable, argues Chattopadhyay. Companies can easily stumble when strategies are poorly crafted. Natura's entry into Argentina in 1994, for instance, proved premature. Growth in Brazil at the time was so high that the company had no internal resources to devote outside. Consequently, it led to both high sales representative turnover and low sales volume. Furthermore, while companies might have access to cheaper R&D talent, they are usually not yet at the high technical levels and scale to pioneer really high-end technical capabilities. Nor is their access to lower-cost manufacturing and R&D necessarily a long-term sustainable competitive advantage as Western players source their own manufacturing and R&D from their own low-cost locations. General Electric in late 2010 announced plans to spend US\$500 million to set up six product-development centres in China.

Threat to MNCs?

So just how much of a threat are these emerging market aggressors? “We are saying to MNCs that you need to take these new companies seriously and that there are things you can learn from them,” says Chattopadhyay. But it doesn’t mean developed market MNCs don’t have an advantage. “They have been around a long time. They have data about consumers in a huge number of markets. They also own storied brands. All else being equal, these storied brands have an advantage over the emerging market MNCs’ brands.”

Who emerges more successful will depend on how these companies build—or maintain—their branded businesses and their ability to innovate and lead in tightly focused product-market spaces.

Amitava Chattopadhyay is Professor of Marketing and The L'Oréal Chaired Professor of Marketing - Innovation and Creativity at INSEAD.

http://executive.education.insead.edu/asian_international_executive

Asian International Executive Programme

http://executive.education.insead.edu/international_marketing

International Marketing Programme

Find article at

<https://knowledge.insead.edu/economics-finance/will-multinationals-emerging-world-take-over>

About the author(s)

Mrinalini Reddy is web editor at INSEAD. [View full profile](#)

Download the free Knowledge App

