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Competing for Advantage

How to Succeed in the New Global Reality

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How to Succeed in the New Global Reality

The adverse economic environment—unprecedented in the working lives of most business leaders—has led many companies to retrench in their national or regional markets. The priorities for executives have become the survival of their businesses and the restoration of their balance sheets. Continuing uncertainty about their companies' economic prospects has made them averse to the risks perceived in international expansion. Globalization has slowed or even stopped for many companies. But companies with international ambitions need strategies for competing in the new global reality. BCG has developed an analytical framework—the Global Advantage Diamond—for assessing a company's current market position and devising strategies to achieve global competitive advantage.

The New Global Reality

Globalization has appeared to be an unstoppable force in recent decades, with global trade continuing to expand through the ups and downs of the world economy. In the summer of 2007, however, the financial crisis began to unfold, and 2009 became the first year since 1945 in which the world economy shrank. Global trade in the second quarter of 2009 was 33 percent below the same quarter of 2008, while foreign direct investment also dropped sharply—down more than 50 percent in the first quarter of 2009 compared with the same period in 2008.

As the world economy slowly limped back to life in the second half of 2009, it became clear that the structural changes of recent years in the global business environment had been accelerated by the crisis. While the global economy shrank, the BRIC economies as a group—Brazil, Russia, India, and China—continued to enjoy solid growth in 2008 and 2009. Their combined gross domestic product is projected to be larger than that of the G7 countries within the next 40 years. China is expected to become the second-largest economy in the world in 2010, sooner than many experts had predicted.[1]

Although many Western companies stepped back from international expansion, their rivals from the rapidly developing economies (RDEs)—the "new global challengers"—have seized opportunities to gain stronger market positions and enhance their competitive advantage.[2] These RDE challengers, with their low-cost position in the fastest-growing markets, are now increasingly taking leadership roles in global markets. They are already the leading global suppliers of natural gas, iron ore, regional business jets, nickel-cadmium batteries, micromotors, ready-mix concrete, automotive forgings, marine containers, LNG (liquefied natural gas) shipping capacity, and many other products and services.[3]

And while these changes in the competitive environment were taking place, the volatility and complexity of the world's markets were also being amplified by the economic crisis. As the financial crisis got under way in 2007, the costs of raw materials, foodstuffs, and energy were rising steeply. Their subsequent decline was dramatic as the global economy slipped into recession. While signs of a recovery are visible, price volatility is likely to remain a key challenge. Transportation costs, which had risen to new heights, collapsed with the sharp fall in international trade that began in 2008, but began to move back up sporadically in the second half of 2009. Currency volatility has also been increasing in recent years, a development that is likely to continue as global imbalances unwind in the aftermath of the economic crisis.

1. For more on the nature of the recovery, see *Accelerating Out of the Great Recession: How to Win in a Slow-Growth Economy* by BCG senior partners David Rhodes and Daniel Stelter (New York: McGraw-Hill, January 2010).

2. See *From Crisis to Opportunity: How Global Challenger Companies Are Seeking Industry Leadership in the Postcrisis World,* BCG White Paper, September 2009.

3. See *The 2009 BCG 100 New Global Challengers: How Companies from Rapidly Developing Economies Are Contending for Global Leadership,* BCG Report, January 2009.

There have also been fears of a revival in protectionist sentiments as governments come under pressure to protect local industries from the impact of the economic crisis. A report to the G-20 summit in Pittsburgh noted that some member countries had raised tariffs and introduced new nontariff measures to protect domestic production in sectors such as steel and motor vehicles.[4] However, the report concluded that governments had thus far succeeded in managing the political process of keeping domestic protectionist pressures under control. While opportunistic and populist protectionist measures are likely to be an irritant as the global economy struggles to return to previous growth levels, they are not expected to be a long-term barrier to further globalization.

These global trends—the shifting economic center of gravity from the West to the East, the rise of new global challengers from RDEs, and the growing volatility and complexity of the business environment—are not new. But the worst crisis in half a century has accelerated those trends and forced Western businesses to confront them. The nature of globalization has changed, and the new global reality—also referred to as "globality"[5]—has changed the rules of the game and calls for new competitive models to win.

A New Framework to Compete Globally

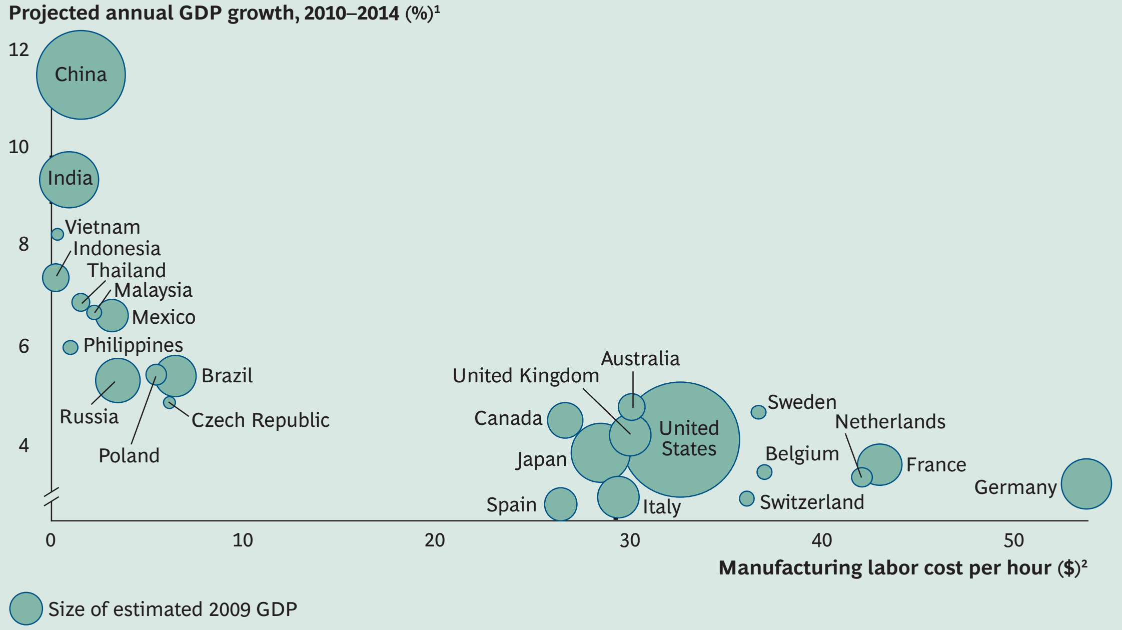
The RDEs still offer the most attractive opportunities for Western companies with global ambitions, for two reasons: their growth is forecast to continue outpacing that of the developed world, and their cost advantages, which are afforded primarily by lower-cost labor, will persist. (See Exhibit 1.) But what are the winning business models for the emerging markets of the RDEs when "domestic dynamos" have a home advantage?

In the past, companies from mature economies planned their globalization strategies in incremental

4. "Report on G20 Trade and Investment Measures," a joint report by the OECD, UNCTAD, and the WTO, September 14, 2009.

5. Harold L. Sirkin, James W. Hemerling, and Arindam K. Bhattacharya, *Globality—Competing with Everyone from Everywhere for Everything* (New York: Business Plus, 2008).

Exhibit 1. RDEs Offer Companies the Most Attractive Opportunities



Sources: IMF *World Economic Outlook*, October 2009; Economist Intelligence Unit; BCG analysis.
[1]Five-year compound annual growth in gross domestic product on the basis of purchasing-power-parity (PPP) valuations at current rates.
[2]Average cost of manufacturing labor per hour (pay and nonpay costs).

steps—expanding into Latin America, for example, or offshoring production to China. Such strategies had two key characteristics:

- First, they were driven from the center, taking the home-country business model into new markets
- Second, entry into new countries, particularly if they were developing markets, often targeted the customers most like those of the home country—the premium segments and the main cities

The underlying philosophy was "oneness"—replicating the home-country business model and its key processes across markets to exploit sources of competitive advantage and produce scale benefits and synergies.

The new global reality means that it is not oneness that will win global leadership in the coming years. Large parts of RDE markets are different in important respects from developed countries and will continue to be so. A further complication is the fact that most RDE markets are themselves heterogeneous, with many distinct submarkets. Success in these countries will require a philosophy of "manyness"—many products and services, drawing on many skills, talents, ideas, organizations, and systems to compete in many market segments. Such approaches are driving the success of the new global challengers from the RDEs.

Leaders in manyness are able to adapt and localize their business models to target new groups of customers in RDEs, while also finding ways to integrate these different business models to share best practices and achieve synergies. Western businesses that aspire to global leadership must plot their courses in a more holistic way that leads to sustainable global advantage, developing integrated strategies that combine the following elements:

- *Market access:* driving sales growth by targeting new markets and new market segments
- *Resource access:* leveraging resources in RDEs to maximize competitive advantage
- *Local adaptation:* recognizing manyness by adapting the business to meet the full range of needs of RDE customers
- *Network coordination:* integrating operations to capitalize on the benefits of the business's global reach

These elements can be graphically represented on a simple two-dimensional framework that we call the BCG Global Advantage Diamond. (See Exhibit 2.) It can be used by companies to analyze their current position and to devise the right strategies to achieve their global ambitions.

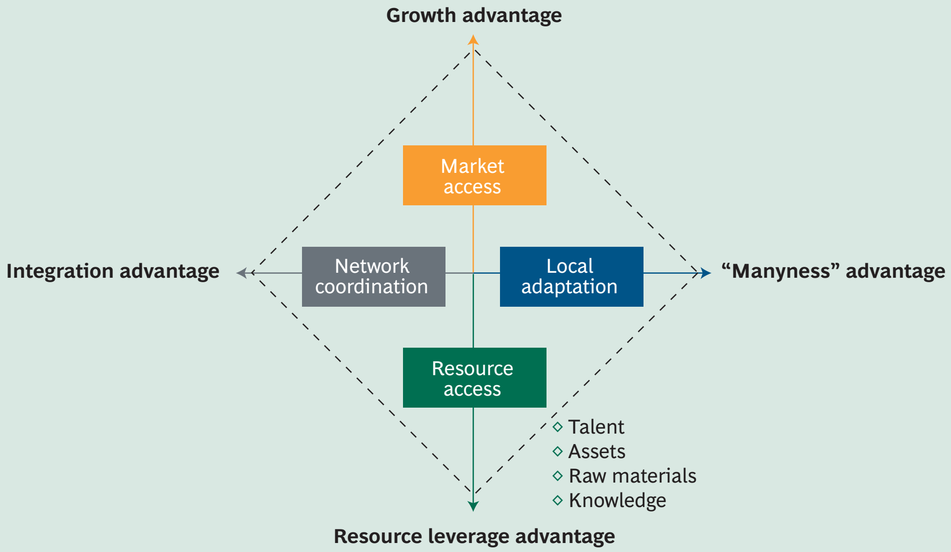
The vertical axis of the diamond measures the success of a company's business model in reaching out for growth opportunities in RDEs (in addition to traditional markets) while taking advantage of the low-cost resources that are available in these new markets. The horizontal axis measures the ability of a company to adapt and localize to specific markets and segments while deriving synergies through its global network by finding economies of scale or sharing best practices and values.

Using this framework can help businesses achieve three types of competitive advantage:

- Deeper penetration of markets relative to peers and competitors from both developed and developing countries
- The ability to meet local needs in different markets and customer segments while exploiting the synergies of a global network
- The creation of economic advantages—in terms of all four elements of the diamond—that competitors will find hard to copy

The most successful global companies will move out in all four directions, maximizing their global footprint by moving toward the ideal diamond shape. Nokia is an example of a company that has done exactly this

Exhibit 2. The BCG Global Advantage Diamond



Source: BCG analysis.

during the last decade in developing its globalization strategy. It traditionally saw RDEs only as sales regions and rolled out global products with a strongly uniform approach. The company realized early in the 2000s that in order to further penetrate growth markets, it needed to locally adapt its products and go-to-market approaches. That meant customizing handsets and devising new distribution models while increasing sourcing from and manufacturing in RDEs to reduce costs. Nokia also hired managers from those markets—while maintaining strong global coordination by, for example, establishing a common IT platform. Other companies can follow suit by similarly focusing on the four elements of global advantage.

Market Access

There are two ways of expanding market access in the RDEs: broader coverage, by increasing the range of countries served; and greater penetration, by pushing deeper into new customer segments and new product categories in existing markets. Deeper penetration is often more difficult than expanded coverage for Western companies, whose international business models have traditionally sought growth by rolling out what end up being premium products for the top of the income pyramid when entering developing markets. Such models are usually based on cost structures that are higher than those of their local competitors, whose cost advantage allows them to offer lower-priced, simpler products and services to consumers below the premium segment. Multinational companies must go beyond the premium segments for their next wave of growth.

That means addressing the so-called midmarket, which has grown the fastest in many emerging markets and product categories, as well as the *next billion* consumers, who sit above the poorest of the poor in the income pyramid, often in difficult-to-reach locations. Routinely ignored by Western companies, the next billion consume more than $1 trillion in goods and services per year, making them the sixth-largest consumer economy globally. They have the means—more than one-third of their household income is spent on nonessentials. But their access is limited because they are not served by the normal channels of distribution or offered products that meet their requirements.

The next billion consumers are tomorrow's mass market, and the RDE challengers are already reaching out to them. Products devised for the developed world are often not attractive or affordable for these new target customers, who expect products at prices that are lower by as much as 50 percent or more. Companies targeting these new segments must develop more appropriate products at much lower prices—reengineering the entire value chain to bring cheaper new products to market faster.

One Western company that exemplifies this approach is General Electric. In May 2009, GE announced that it would spend $3 billion over six years on creating at least 100 health-care innovations to substantially lower costs, increase access, and improve quality. Its high-performance medical-imaging equipment—designed for hospital use in developed countries—was cumbersome and too expensive outside the big cities in markets such as India and China. Health care services in such countries want high-tech, portable equipment that can deliver decent performance at very low cost. GE's $1,000 hand-held electrocardiogram device, although created for emerging economies, is now being sold in the United States, where it has found a market niche in inner-city areas and among general practitioners. GE calls this process *reverse innovation,* with new products developed in emerging markets and then disseminated to other markets.[6]

Resource Access

Western companies have been exploiting resource access for several decades already, primarily in search of lower costs for their global operations, by relocating manufacturing and business processes to low-cost countries. But maximizing the leverage of resource access is no longer just a matter of outsourcing to the lowest-cost sites. Companies must consider ongoing exchange-rate volatility, changing demand, and shifting cost dynamics when they make decisions about where to locate global operations. They must also weigh the tradeoffs among factor costs, supply chain constraints, transportation costs, tariffs, and the relative strengths and weaknesses of different RDEs. Longer shipping times in a global supply chain add cost, risk, and variability to delivery schedules—and long supply chains reduce the flexibility of response when demand is unpredictable.

Nor is resource advantage simply about lower costs for production and business processes. Expanding resource access can allow companies to fundamentally change their cost structure and create "best cost" supply chains that will improve competitiveness in RDEs and elsewhere. Resource advantage is also about designing and manufacturing in the RDEs to meet the price points of price-sensitive RDE customers.

RDE challengers start with a huge home advantage in this dimension, and they do not stand still—they are continually evolving and improving their competitive position. Bharat Forge, an Indian company that manufactures complex metal forgings primarily for the automobile industry, expanded from its low-cost RDE origins into Europe and the United States in pursuit of capability and proximity advantage. This "dual-shoring" of manufacturing links both types of location through shared processes and best practices.

Another type of resource advantage in RDEs is access to talent. While the population in developed countries is aging, the RDEs have more and more people entering the workforce—often with skills in disciplines such as engineering that are becoming scarce in many Western markets. The war for talent has led to dramatic increases in wage rates and salaries, but local challengers are able to reach beyond the top universities into smaller cities and towns to recruit promising young people who can be trained to meet their needs. Companies such as Wipro Technologies in India, Huawei Technologies in China, and Embraer in Brazil run their own large-scale training, rapid on-boarding, and continuing-education programs to develop thousands of employees—supporting the most promising through advanced degrees and training by creating partnerships with local and international universities.

Many RDE challengers have understood the competitive aspect of resource access better than some of their global peers. For example, Chinese companies have been aggressive in trying to secure access to commodities during the economic crisis through deals with countries and stakes in Western companies. Chinese bids have included Chinalco's $15 billion attempt to buy Rio Tinto, PetroChina's $1.7 billion investment in Canadian oil sands, and CNOOC's bid for a sixth of Nigeria's oil reserves.

Advancing in either direction on the vertical axis of the Global Advantage Diamond inevitably raises questions about how the company operates—as shown on the horizontal axis. Businesses will not be able to grow through market access and resource access unless they also adapt to local conditions in an increasingly complex world and have a global organization that can fully leverage these advantages.

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6. Jeffrey R. Immelt, Vijay Govindarajan, and Chris Trimble, "How GE Is Disrupting Itself," *Harvard Business Review,* October 2009.

Local Adaptation

As we have noted, reaching new customers in RDEs requires companies to move beyond the idea of oneness—the one best way and the single global strategy—and instead live with and thrive on the concept of manyness. Manyness is an uncomfortable concept for those incumbents that look for the single best way, the ideal business model, the greatest degree of scale, the signature leadership style. Yet manyness is essential in meeting the needs and spending power of the midmarket and the next billion consumers in the RDEs, which can be very different from those of the higher-priced premium segments. A differentiated approach that responds to local demands is needed if deeper penetration of the market is to be achieved—and fundamental changes in the organization of the company may be required to meet those demands.

When Renault wanted to reach out to price-sensitive customers in Eastern Europe, it knew that existing small-car models such as the Clio were just too expensive—and that its engineers in France had never designed low-cost cars before. The group put together a team at Dacia, its Romanian subsidiary, which took the basic Clio platform and reengineered it to produce the Logan, costing 40 percent less. When Renault wanted to enter India, it partnered with Mahindra to take out a further 15 percent of the cost. All three car models have the same platform heritage but are at different price points to meet different needs.

It is easier to exploit manyness in products and services if the business has also taken on manyness in its organization—for example, through empowerment of local executives, which frees them up to deepen customer connectivity. Some Western companies have gone even further by shifting the headquarters of operating divisions to RDEs, as Nokia Siemens Networks has done for its services division, which is run from India. Cisco Systems, which is based in California, has opened a second global headquarters—its Globalization Center East—in Bangalore, India, to explore how it can globalize talent, innovation, and growth.

RDE challengers have grown up in a culture of manyness, which they are exploiting to enter developed markets. Tata Chemicals has three centers—one in India, one in the United Kingdom, and one in the United States—to reflect the origins of the acquisitions it has made. Each center has local and global responsibilities. Many incumbents will claim that this is a recipe for disaster, but Tata Chemicals believes that its approach not only helps leverage capabilities across the organization but also allows the retention of top talent in the company—and enables faster and more effective decision-making because there is ownership at the local level.

Network Coordination

Even as a company adapts to local conditions, it must maximize its impact by leveraging its global network—ensuring that the whole is greater than the sum of the parts. It can share practices, knowledge, technologies, systems, and operational infrastructure. It can allow the resource advantages developed in different markets to be shared and diffused around the world. It can manage risk globally through the network but also share its successes around the world—taking innovations developed in RDEs back to mature markets and vice versa.

Procter & Gamble's starting point in China in the 1980s and early 1990s was typical of most traditional Western multinational companies: it sold products identical to the ones in developed markets and aimed for big economies of scale through standardization. During the latter part of the 1990s, P&G significantly widened its manufacturing, sourcing, and local staff footprint in China. More recently, it has adapted its products to local Chinese requirements without sacrificing its global brands—and while maintaining its strongly coordinated approach through global business units.

Network coordination produces several benefits. It achieves economies of scale and scope by employing levers such as process standardization, adoption of a common terminology, and sharing of best practices. It can exploit a diverse and distributed global network in order to simultaneously foster and leverage this diversity, rather than unduly streamlining it. Elements such as viral learning and rapid and free information-sharing can build cohesion, trust, and identity across the organization. Although economies of scale and network advantages typically come from within a company, they can also be achieved by network coordination through external relationships and partnering.

Some companies need to be able to offer a global service to clients and customers—again requiring network coordination. Global business units may be appropriate in such circumstances, but in others, regional and local business units may be more successful at exploiting globalization opportunities. IBM is an example of a company that once created a series of country units that offered the full range of the company's activities in each market, only to realize that it had lost opportunities for scale economies. It then introduced a regional structure to improve coordination, but more recently has shifted to global business units that are able to exploit globalization opportunities—for example, by recruiting large numbers of staff in India for its fast-growing global services division.

Pfizer is another company that, after a program of acquisitions, found itself with a loosely coordinated structure of manufacturing plants and research facilities spread around the world. It established a cost advantage over competitors by streamlining manufacturing, coordinating sourcing, and focusing research activities where there was the greatest expertise and cost advantage—including opening a global R&D center in Shanghai to leverage the company's cost base and capabilities in Asia. Other benefits included faster and cheaper clinical trials, greater flexibility to respond quickly to new areas of research, and a stronger position (in terms of regional and product spread) to take advantage of rising demand for better health care among the middle classes in RDEs.

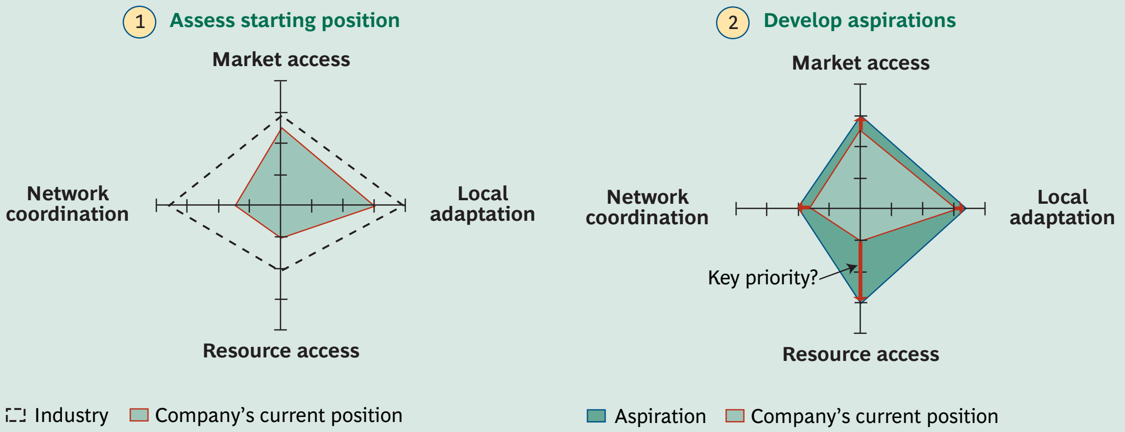
While local entrepreneurialism is indispensable, it is the network that allows any results to be shared and diffused around the world.

Harnessing the Global Advantage Diamond

Companies from Western countries and RDEs alike can use the Global Advantage Diamond to analyze where they are in their globalization process, reflect on the opportunities and challenges they are facing, and decide how they want to be positioned in the future—both in absolute terms and relative to their competitors. On the basis of those aspirations, they can prioritize specific thrusts in all four directions of the diamond and consolidate them into a globalization strategy that can deliver global competitive advantage.

The first step for a company is to plot not only its own present shape in the diamond but also that of key competitors in the industry. (See Exhibit 3.) This is not an exact science, and BCG has defined a series of factors that can help calibrate an organization's position with respect to growth, resources, manyness, and integration. Next, the company should analyze which future shape would best position it for global advantage, taking into account its starting position, strategy, resources, and capabilities, as well as the competitive landscape (including the new global challengers) and changes in the overall environment (such as consumer trends, protectionism, and regulation). The differences between the two globalization

Exhibit 3. Harnessing the Global Advantage Diamond



Source: BCG analysis.

footprints will illustrate how the company needs to expand in each of the four directions to realize its global aspirations.

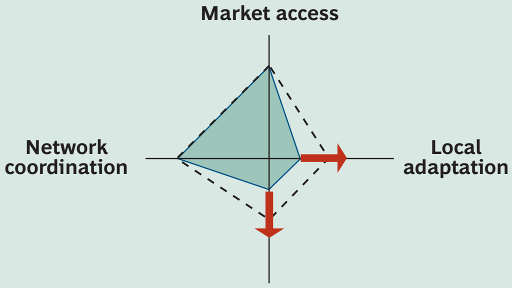
The Global Advantage Diamond can be used by established businesses from developed countries and by challengers from the RDEs—although the diamond footprints of both will typically reflect their different starting points. (See Exhibit 4.) Most Western companies that have already become global businesses will tend to be strong on the market access and network coordination elements. But there is often upside potential in advancing toward greater resource access and local adaptation if they want to achieve deeper market penetration of RDEs and tap into lower-cost resources in these markets. RDE challengers, in contrast, have usually embraced the nuances of emerging markets and have access to low-cost resources, so their globalization ambitions typically can best be realized by gradually expanding market access into developed economies and strengthening their network coordination by creating a global operating model.

Other things being equal, companies can gain a global advantage by moving outward in any one of the four directions. However, they are unlikely to achieve the full potential of global advantage by moving in one direction only: for example, full growth advantage will rarely be achieved without simultaneously pursuing at least some degree of local adaptation and network coordination. Similarly, a clear resource advantage can be gained only by paying attention to local practices in employment, production processes, and business models. A company that does not advance in all four directions may find itself at a competitive disadvantage relative to rivals that do.

A comparison of three competitors in one sector of the precision equipment industry illustrates how shapes on the diamond framework relate to performance. (See Exhibit 5.) The market leader has the most advanced global footprint, with sales in more than 100 countries, locally adapted products, and RDE origination of 60 percent of its production and 50 percent of its sourcing. As a result, it has the highest sales and profit margins among the three key players in this sector. The third-largest company has always put a strong emphasis on local product offerings, which has given it a presence in more than 50 markets—but only one of its 24 production sites is located in an RDE. With quality issues attributed to its weak global coordination, it has the lowest sales and margins of the three companies. The second-largest company has achieved technological leadership, manufacturing its high-end products largely in Europe. Recently, it has started to move closer to a diamond shape by acquiring assets in RDEs and locally adapting products for high-growth markets, generating sales and profit margins that fall between those of the other two competitors.

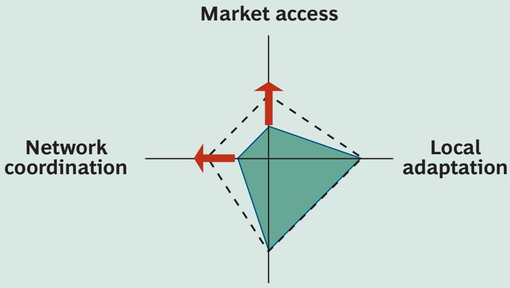
Exhibit 4. Western Multinationals and RDE Challengers Typically Have Opposite Starting Points

Western multinationals are expanding along the resource and adaptation axes



- Usually first expand to RDEs, with high coordination of global products and processes
- Gradually discover the need for local adaptation
- Further use the footprint in the RDEs to leverage it for resources

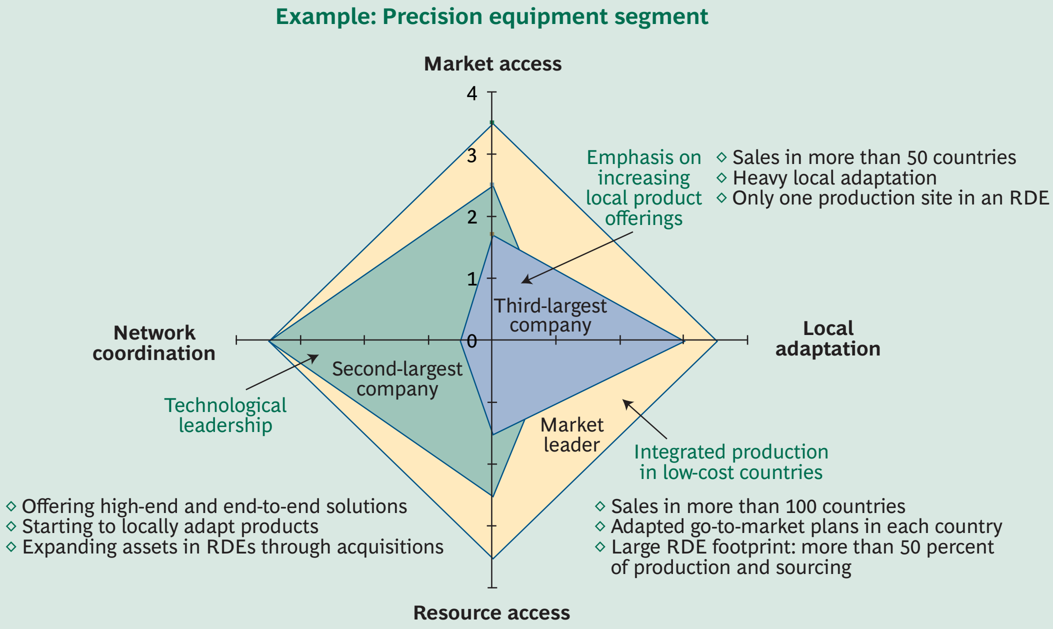
RDE challengers are expanding along the market and coordination axes



- Compete on the basis of local products and access to local resources
- Gradually expand to Western markets and bring in global operating models

Source: BCG analysis.
Note: Plotting of the diamond is based on qualitative estimates and approximations, and not on precise quantitative ratings.

Exhibit 5. The Right Shape Can Yield Competitive Advantage



Source: BCG analysis.
Note: Plotting of the diamond is based on qualitative estimates and approximations, and not on exact quantitative ratings.

Advancing in all four directions is not always easy to do. Achieving both local adaptation and global integration can be a complex undertaking, and it requires investment in process and systems support. Some types of businesses find enormous variation in the different markets for their products, which limits their ability to harvest the economies of scale and scope brought by greater network integration; these companies may prefer to focus on adapting to local competition. Companies with strong premium brands—in watches, for example, or upmarket drinks—will be less concerned about embracing manyness, even if they wish to grow by expanding their market access, accessing local resources to reduce costs, and strengthening their global networks. However, most companies will find that they can achieve the greatest advantage by pursuing *both* local adaptation and global network integration, and by doing so in ways that avoid traditional business-model compromises.

Developing a Global Advantage Strategy

The Global Advantage Diamond will help companies identify more clearly their global aspirations and set priorities for their globalization journey. Once the desired global footprint has been established, the company should analyze which programs it can pursue to move in the directions required.

If the aim is to expand market access, business leaders might consider the following:

- *Revamping the Go-to-Market Approach.* This can be done, for example, by substantially improving the effectiveness of current marketing and sales capabilities in RDEs. Improving channel management and local distribution often proves to be a key lever for a new growth trajectory in RDEs.

- *Forming Partnerships and Pursuing M&A.* New alliances are often critical to success in many RDEs and are typically more challenging than in developed markets. Target selection and the right approach to coordination or postmerger integration are key factors.

- *Reaching Out from the Premium Segment into the Midmarket.* This often entails competing head-on against local companies that are moving up from a low-cost and lower-value proposition, be they new global challengers or domestic dynamos that have gained a dominant local position in a market.

- *Capturing the Next Billion Consumers.* The segment below the emerging middle class is often seen as unprofitable. These consumers could become profitable with new business models.

If the aim is to increase access to resources, the following thrusts can be pursued:

- *Globalizing R&D Activities.* Companies must address the specific needs of RDE markets, capture global innovation potential, tap into increasingly attractive local research capabilities, and improve overall R&D efficiency.

- *Sourcing from Best-Cost Countries.* The cost advantage of RDEs remains significant and compelling, but increased volatility, the risk of protectionism, exchange rate movements, and supply chain considerations suggest moving from lowest-cost to best-cost sourcing, with the objective of creating a global network of cost-advantaged sourcing bases.

- *Realizing Global Manufacturing.* Going beyond isolated plants in RDEs to create a competitively advantaged network of plants can ensure that companies supply the right products at the right prices and in the right markets.

- *Business Process Offshoring.* Many companies embraced this thrust earlier in their globalization efforts, especially in the service sector. But there is a lot of potential for most companies to reduce costs and increase productivity by offshoring more activities.

- *Tapping into Global Talent.* Hiring from large and increasingly attractive local talent pools can help fill skills gaps in the mature economies, where companies are facing a demographic challenge stemming from an aging employee base and shortages in certain disciplines.

Experience has shown that, for many companies, moving out in both the market and resource access directions is highly synergistic. Some started their RDE engagement with the objective of low-cost sourcing and manufacturing. Once they had captured those advantages, they discovered the attractiveness of the RDE markets as the next growth frontier. Other players initially had market potential in mind—but quickly recognized the opportunities in developing, sourcing, and manufacturing on the ground.

Manyness can be embraced in several ways:

- *Leveraging Local Market Know-How.* A deep understanding of local customers, along with effective customer segmentation, are needed for the development of a customized product and service offering. It is also important to understand the threat from RDE competitors—both new global challengers and domestic dynamos.

- *Adapting the Value Proposition.* Tailoring the product or service to the unique circumstances of a market is vital. Multinationals are often inclined to reduce features and functionalities to achieve a lower price point in RDEs, but a fundamental, zero-based redesign with target costing can often be the key to success.

- *Differentiating the Go-to-Market Approach.* This involves adjusting elements of sales and marketing to the unique conditions of each country and segment. When a consumer electronics company took a closer look at the availability of strong distributors across 12 RDE markets, the realities on the ground suggested very different distribution structures and principles.

- *Revamping the Entire Business Model for Both Local and Global Success.* Sometimes what is needed is an adaptation of different elements of the value chain—essentially, a true localization of business activities to fully exploit the opportunities of each individual market and at the same time leverage capabilities found in different markets to make operations truly global. Many companies are moving to an organization model that supports this approach: in parallel with the regional or product division with

P&L responsibility, they create "centers of excellence" located in RDEs with global responsibility for a product, function, or specific capability.

Increasing network advantage can be accomplished through a variety of means, including the following measures:

- *Institutionalizing Common Standards and Processes.* Globally applying defined key processes and common terminologies can accelerate decision making. It can also enable a much faster integration of acquisitions and facilitate the exchange of personnel across countries and businesses.

- *Encouraging Know-How Transfer and Best-Practice Sharing.* A key network effect is the ability to share information and insights across markets, especially if common standards and processes are realized. Disseminating successful concepts across markets can be a powerful lever to add value to an individual country operation.

- *Offering Shared Platforms.* It doesn't make sense to replicate all support platforms locally if there is a lack of critical mass in a particular country. Effective shared-services platforms can serve as centers of excellence and ensure that support functions within each location are lean.

- *Instilling a Common Set of Values and Cultures.* These soft factors can be the powerful glue connecting the international positions that a company has built over time. Local leadership should be selected not just on the basis of financial performance metrics but also for the ability to instill the right values and culture in a given market.

Capturing a network advantage is often seen as conflicting with the concept of local adaptation. While there is certainly some tension, successful companies have been able to improve in both directions at the same time. For example, a global device manufacturer has developed a highly standardized way to assess a market, which it uses to generate differentiated strategies for each of its markets. The company is very sophisticated when it comes to capturing and exchanging knowledge and best practices—which are rich in nature given the different concepts being pursued. At the same time, the business is supported by a highly efficient global supply chain with a strong network of production bases around the world. The product portfolio varies from market to market to reflect local customer preferences, but it is nonetheless based on global product platforms. The best companies are those that deliver on the manyness advantage while at the same time capturing an advantage from global integration.

Preparing for Global Change Management

Change management efforts have typically proved to be a challenge for many companies—and the magnitude of the challenge grows exponentially in an international context. As with any strategic change, success in globalization requires the organizational capability to create and execute strategic, ambitious, and sustainable change. Without explicit attention to managing both the operational and people sides of change, even intelligent, well-intentioned globalization strategies will fail.

Inspiring the organization to change its approach to global markets requires that the senior leadership team exhibit real alignment, commitment, and focus. These leaders must set out transparent, understandable, fact-based actions—and follow up rigorously with clear positive and negative consequences to reinforce the strategic changes that are needed and to ensure accountability.

There are five actions that chief executives can take to capture global advantage.

Evaluate your competitive position. The first step is to understand your company's current position in the Global Advantage Diamond and where your relevant competitors are—both incumbents and current or potential challengers. Identify the threats and opportunities, which may vary markedly by business. Analyze how competitors have built their market position through relationships and advantages that you do not have today. Decide what your company needs to do to become more competitive globally.

Define your future global shape. Use the Global Advantage Diamond to map out the priorities for moving from your present globalization footprint to where you want to be. This analysis is not just about market access, however: you must look at the opportunities to lower costs, tap into resources such as talent, embrace the manyness advantage through local adaptation, and connect the dots through an effective global network.

Recognize your full set of opportunities. These may lie in advancing in all four directions on the Global Advantage Diamond. The next growth wave in RDEs will require you to exploit resource access, local adaptation, and network coordination. The low-cost products that you design for these markets could be brought back to developed markets to establish new value propositions.

Shift mindsets and align your people. It is important that your company's senior managers understand the changing global reality and the need for change. You and they should visit RDEs to get firsthand experience of their cultures and needs. Listen to customers, suppliers, partners, and, above all, your people in the local markets regarding their concerns and the opportunities they see.

Lead your transformation from the front. Make sure you spend the right amount of time on the challenges of globalization, acting as a role model for your senior managers. Create the right incentives for your top business leaders to embrace and lead change. Again, spend time in RDEs to see that investments are being made in the right areas and locations and that you are moving the right people to the right places. Ensure that your business is a globally advantaged company.

Conclusion

The global economy has suffered its biggest shock in a generation, but every crisis is also an opportunity. Companies that are bold can reshape their global footprint—as many challengers from the RDEs are doing already. But globalization is no longer simply a matter of expanding sales of premium products or offshoring production to low-cost centers. In a much more complex global economy, every company with international ambitions needs a strategy that recognizes the differences in markets and the challenges they pose.

On the basis of our work with numerous international companies—both established multinationals and new global challengers—we created the BCG Global Advantage Diamond as a framework to help companies navigate those challenges. It can be used to analyze a company's current position, map out its global aspirations, and devise a strategy for getting there. The Global Advantage Diamond differs from previous global-strategy models in its focus on all four aspects of global advantage:

- *Market access,* which is no longer just about selling to the premium segment—it is also about reaching into new segments like the midmarket and the next billion consumers

- *Resource access,* which involves not just lowering costs but also tapping into talent and expertise in RDEs to deepen penetration and devise new offerings that can also be taken back to developed countries

- *Local adaptation,* which entails moving away from the one-size-fits-all traditional business model to recognize manyness and exploit the full set of opportunities in global markets

- *Network coordination,* which ensures that the company's global business is worth more than the sum of all its international positions

In many sectors, the industry leaders of the future will be those that advance in all four directions toward the optimum diamond shape. Now is the time for action.

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