The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy. We partner with clients from the private, public, and not-for-profit sectors in all regions to identify their highest-value opportunities, address their most critical challenges, and transform their enterprises. Our customized approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organization. This ensures that our clients achieve sustainable competitive advantage, build more capable organizations, and secure lasting results. Founded in 1963, BCG is a private company with 78 offices in 43 countries. For more information, please visit bcg.com.

The BCG Game-Changing Program
We are living in an age of accelerating change. The old ways are rapidly becoming outdated, obsolete. New opportunities are opening up. It is clear that the game is changing. At BCG, we are optimistic: we think that the fundamental drivers of growth are stronger than they have ever been in human history. But to capitalize on this trend, leaders need to be proactive, to challenge the status quo, to make bold moves: they need to change the game, too. The decisions they make now, and over the next ten years, will have an extraordinary and enduring impact on their own fortunes as well as those of their organizations, the global economy, and society at large. To help leaders, and to mark our fiftieth anniversary, BCG is pulling together the best ideas, insights, and ways to win—to own the future. This report is part of that endeavor.
ALLIES AND ADVERSARIES

2013 BCG GLOBAL CHALLENGERS
## CONTENTS

<table>
<thead>
<tr>
<th>Page</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>EXECUTIVE SUMMARY</td>
</tr>
<tr>
<td>5</td>
<td>THE GAME HAS CHANGED</td>
</tr>
<tr>
<td>6</td>
<td>COMING OF AGE</td>
</tr>
<tr>
<td></td>
<td>The New Challengers</td>
</tr>
<tr>
<td></td>
<td>State Ownership: From Help to Hindrance</td>
</tr>
<tr>
<td></td>
<td>A New Era</td>
</tr>
<tr>
<td>11</td>
<td>THE 2013 BCG GLOBAL CHALLENGERS</td>
</tr>
<tr>
<td></td>
<td>The Challengers by Country</td>
</tr>
<tr>
<td></td>
<td>The Challengers by Industry Sector</td>
</tr>
<tr>
<td></td>
<td>Value Creation: A Tale of Two Eras</td>
</tr>
<tr>
<td></td>
<td>New BCG Challengers</td>
</tr>
<tr>
<td></td>
<td>Signs of Success: The Graduates</td>
</tr>
<tr>
<td></td>
<td>The Capabilities Beyond Cost Advantage</td>
</tr>
<tr>
<td>20</td>
<td>NEW ADVERSARIES: A CUTTHROAT COMPETITIVE ENVIRONMENT</td>
</tr>
<tr>
<td></td>
<td>Moving into New Businesses</td>
</tr>
<tr>
<td></td>
<td>Captivating the New Consumer</td>
</tr>
<tr>
<td></td>
<td>Capturing the Digital Opportunity</td>
</tr>
<tr>
<td></td>
<td>Exploring Frontiers of Fast Growth</td>
</tr>
<tr>
<td>23</td>
<td>NEW ALLIES: CHALLENGERS GOING GLOBAL</td>
</tr>
<tr>
<td></td>
<td>Three Different M&amp;A Strategies</td>
</tr>
<tr>
<td></td>
<td>Game-Changing Partnerships</td>
</tr>
<tr>
<td>28</td>
<td>REASSESSING GLOBAL RELATIONSHIPS</td>
</tr>
<tr>
<td></td>
<td>Opportunities for Challengers</td>
</tr>
<tr>
<td></td>
<td>Opportunities for Multinationals</td>
</tr>
<tr>
<td></td>
<td>Opportunities for Governments</td>
</tr>
<tr>
<td>31</td>
<td>FOR FURTHER READING</td>
</tr>
<tr>
<td>32</td>
<td>NOTE TO THE READER</td>
</tr>
</tbody>
</table>
**EXECUTIVE SUMMARY**

The 2013 BCG Global Challengers—a list of 100 fast-globalizing companies from rapidly developing economies (RDEs)—are driving global growth.

- From 2008 through 2011, the revenues of global challengers grew by an annual average of 16 percent. Their average revenues now exceed those of the nonfinancial S&P 500 companies.

- From 2006 through 2011, the 2013 BCG global challengers added 1.4 million jobs, while employment at nonfinancial S&P 500 companies remained flat.

- The 2013 BCG global challengers are from 17 countries—7 more than our first list covered when it was published in 2006—reflecting the growing pursuit of global growth.

- More than 30 of the 2013 BCG global challengers are consumer-focused companies—a sign of the rapid rise of consumer spending in their markets and abroad.

- They buy more than $1.7 trillion of goods and services and invest more than $330 billion in capital spending a year, providing a huge market for their suppliers.

The 2013 challengers also reflect a turbulent global economy.

- Twenty-six of the challengers are new to the list. They displaced former global challengers that have fallen behind or refocused on their home markets.

- Since 2006, meanwhile, only seven companies—two this year—have “graduated” from the list by virtue of having sustained industry leadership. It is more common to drop off the list than move beyond it.
As global growth shifts to emerging markets, the 2013 BCG global challengers will compete more directly with multinationals.

- Global challengers are active in a broader set of industries, including for the first time financial services, health care equipment, and electronic commerce.

- Many challengers already have positions to defend in markets that multinationals covet, such as Southeast Asia, Latin America, and Africa.

At the same time, global challengers and multinationals will need to learn how to cooperate.

- As the global marketplace becomes more demanding, partnerships, joint ventures, and other collaborations will be needed.

- Global challengers and multinationals are increasingly collaborating in order to exchange technology, enter new markets, develop products, and enter long-term supplier relationships.

Global challengers, multinationals, and governments all have constructive roles to play in generating economic growth.

- The global challengers need to keep building capabilities beyond low costs, strengthening stakeholder management, and exploring new growth areas.

- Multinationals should localize their approaches to emerging markets, understand when they should collaborate rather than compete with challengers, and seize the potential for beneficial partnerships.

- Governments should not unduly restrict cross-border M&A and investment activity, develop regional specialties to drive local investment, and encourage economic development more broadly.
EMERGING MARKETS HAVE BECOME the world’s economic engines. They are large and becoming larger, thanks to annual GDP growth exceeding 6 percent and a rapidly growing class of consumers with disposable income.

These markets have become highly prized by companies everywhere, not just for their growth but also as sources of talent, capital, and companies. Over the past five years, more than 1,000 companies headquartered in emerging markets have reached at least $1 billion in annual sales. Many of these are content to focus on their home market, while others are expanding abroad. And many of those that are going overseas aspire to be global leaders in their industries. These are the global challengers. They are the companies that will shape the global economy over the next decade.

In publishing our fifth edition of the BCG global challengers—a list of 100 fast-growing and fast-globalizing companies from rapidly developing economies (RDEs)—we hope to illuminate this new economic terrain and its players.

THE GAME HAS CHANGED
Global challengers have arrived; these companies from RDEs are not mere curiosities operating in distant regions. Collectively, the challengers purchase more than $1.7 trillion of goods and services and invest more than $330 billion in capital expenditures a year. (See Exhibit 1.)

Global challengers are full-fledged competitors making game-changing moves. They are winning with a broad range of strategies and capabilities. In doing so, they are fundamentally altering industries ranging from aircraft manufacturing and medical devices to e-commerce and mobile telephony.

The Boston Consulting Group (BCG) published its first list of 100 global challengers in 2006. The original list was meant to be a wake-up call to executives of multinationals. Today, global challengers are not just competitors but also lucrative customers and poten-

### Exhibit 1 | Global Challengers by the Numbers

<table>
<thead>
<tr>
<th>BCG Global Challengers</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>New challengers in 2013</td>
<td>26</td>
</tr>
<tr>
<td>Countries represented</td>
<td>17</td>
</tr>
</tbody>
</table>

**Average Annual Growth (2008–2011)**
- Total shareholder return: 20%
- Revenues: 16%
- Earnings before interest and tax (EBIT): 10%

- Jobs created: 1.4 million
- Average annual increase in revenue per employee: 12%

**The Business Opportunity (2011)**
- Total revenue: $2.6 trillion
- Total costs of goods sold: $1.7 trillion
- Capital expenditures: $330 billion

Sources: Bloomberg; S&P Capital IQ; BCG analysis.
tial partners. More broadly, they are emblems of the new order in which emerging markets will power global growth.

**The New Challengers**

Let’s examine some of the highlights of the 2013 BCG global challengers.

**Growth.** From 2008 through 2011, the revenues of global challengers grew by an annual average of 16 percent. Global challengers had higher average revenues in 2011 than nonfinancial S&P 500 companies did. (See Exhibit 2.) From 2008 through 2011, the combined earnings of the global challengers expanded by an annual average of 10 percent and total shareholder return (TSR) grew by 20 percent.

Job growth has been equally impressive. From 2006 through 2011, the 2013 BCG global challengers added 1.4 million jobs, while employment at nonfinancial S&P 500 companies remained constant. Even more striking, the average revenue per employee of the global challengers now exceeds that of the nonfinancial S&P 500 companies. (See Exhibit 3.)

**From Diverse Lands.** Our 2006 list was dominated by China—where 44 of them were based. But newcomers from other countries have pushed some former challengers off the list—there are now just 30 Chinese companies. The number of home countries is steadily broadening. The past two lists have added companies from Egypt, Colombia, Qatar, Saudi Arabia, and South Africa.

**R&D.** Initially, the global challengers relied on low costs and large captive domestic markets—in the case of China and India—as their primary sources of competitive advantage. Now, many are increasingly investing in innovation, and their annual spending on R&D more than tripled from 2007 through 2011. (See Exhibit 4.)

**Focus on New Consumers.** From 2010 through 2020, emerging economies will add 270 million households with discretionary income that make them attractive to consumer-facing companies. Global challengers stand to benefit from this shift, since nearly one-third are consumer-products or consumer-services companies.

---

**EXHIBIT 2 | Average Annual Revenues Are Larger at Global Challengers Than at S&P 500 Companies**

<table>
<thead>
<tr>
<th>Year of report</th>
<th>2006</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year of revenue</td>
<td>2005</td>
<td>2007</td>
<td>2008</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>14.0</td>
<td>16.6</td>
<td>17.5</td>
<td>17.9</td>
<td>18.6</td>
</tr>
<tr>
<td>Nonfinancial S&amp;P 500</td>
<td>14.5</td>
<td>17.3</td>
<td>19.0</td>
<td>19.2</td>
<td>18.0</td>
</tr>
<tr>
<td>2013 BCG global challengers</td>
<td>9.8</td>
<td>15.3</td>
<td>17.9</td>
<td>18.6</td>
<td>21.0</td>
</tr>
</tbody>
</table>

**Sources:** Bloomberg; S&P Capital IQ; BCG analysis.
Many of these challengers have embarked on an acquisition spree. For instance, in mobile telecom, VimpelCom bought Wind Telecom for $6 billion in 2011. In travel, Chile’s LAN Airlines bought Brazil’s TAM Airlines for $2.7 billion, creating the largest South American airline, Latam Airlines Group. In fast-moving consumer goods, India’s Godrej Consumer Products bought Indonesia’s Megasari Makmur Group.

Through such deals, some challengers have risen quickly. But no challenger is guaranteed success. A challenger is more likely to be pushed off the list by the next new rising star than to rise above it. Twenty-six of the 2013
BCG global challengers are new to the list, the largest reshuffling to date. Meanwhile, since the initial list was published in 2006 only seven companies—two this year—have “graduated” by achieving sustained industry leadership.

State Ownership: From Help to Hindrance
State ownership or control has been the birthright of many of the global challengers. But fewer of the companies on BCG’s list carry that lineage than ever before. Only 26 of the 2013 BCG global challengers are state controlled; this is down from 36 on the 2006 list. (See Exhibit 5.)

While the state is still the visible hand in the economies of these markets, many companies under state ownership or control have either chosen not to go global or stumbled when they tried. Since our 2011 report, companies with greater success overseas displaced 12 state-owned or state-controlled companies from the list of global challengers. Most but not all of the former challengers were Chinese. Nine state-owned or state-controlled companies are new to the list, demonstrating that some such companies continue to push overseas.

Many of the displaced challengers continue to thrive in their home markets. China Mobile, last named a global challenger in 2009, remains a market-leading carrier at home. The China State Construction Engineering Corporation, a challenger in 2011, has continued to grow at home and abroad. It broke ground in 2011 on a $3.4 billion resort project in the Bahamas but has shifted more of its attention to the domestic market.

Fewer challengers are state owned or state controlled than ever before.

At least five factors explain the setbacks of state-owned and state-operated enterprises on the global stage. First, their relative competitive advantage resides in their domestic markets, where the state may encourage them to focus. Second, private-sector companies generally have had more success than state enterprises in meeting the needs of consumers. Third, their people practices tend to be less flexible than those of private enterprises, limiting their ability to leverage talent abroad. Fourth, they historically have been

---

**EXHIBIT 5 | State Ownership and Control Are in Decline**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of state-controlled and state-owned challengers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>36</td>
</tr>
<tr>
<td>2008</td>
<td>30</td>
</tr>
<tr>
<td>2009</td>
<td>34</td>
</tr>
<tr>
<td>2011</td>
<td>29</td>
</tr>
<tr>
<td>2013</td>
<td>26</td>
</tr>
</tbody>
</table>

Number of state-controlled and state-owned challengers:
- **China**
  - 2006: 6
  - 2008: 4
  - 2009: 10
  - 2011: 9
  - 2013: 8
- **Other**
  - 2006: 30
  - 2008: 27
  - 2009: 24
  - 2011: 20
  - 2013: 18

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Chinese challengers</th>
<th>Percentage of state-owned or state-controlled Chinese challengers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>44</td>
<td>68</td>
</tr>
<tr>
<td>2008</td>
<td>41</td>
<td>66</td>
</tr>
<tr>
<td>2009</td>
<td>36</td>
<td>67</td>
</tr>
<tr>
<td>2011</td>
<td>33</td>
<td>61</td>
</tr>
<tr>
<td>2013</td>
<td>30</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: BCG analysis.
Note: The analysis does not include challenger graduate companies.
more conservative in putting capital at risk in large M&A transactions overseas. Fifth and finally, they can face resistance from stakeholders in other countries as they seek to expand. While many state companies have overcome these challenges, others are at risk of falling behind globally.

To succeed outside of their home countries, state-controlled enterprises will need to attract talent, take risks, develop successful business models, and appease the concerns of key stakeholders in their target markets.

A New Era
Increasingly, challengers and multinationals are competing head to head. Multinationals have modified their cost structures and product portfolios to pursue opportunities in emerging markets, facing challengers on their home turf. And some challengers, notably the conglomerate Alfa and the baker Grupo Bimbo, both of Mexico, are expanding into the home markets of multinationals.

Paradoxically, as competition between multinationals and challengers has become more cutthroat, these companies are also more likely to find it desirable to enter partnerships. Bargaining power is more balanced, so partnerships no longer need to be established solely on the basis of the low costs of challengers or the high gloss of Western brands but rather on a wide range of complementary skills.

We have entered the era of allies and adversaries.
THE 2013 BCG GLOBAL CHALLENGERS

The 2013 list represents the most diverse group of global challengers yet, with wider geographic and industrial breadth than ever before. (See Exhibit 6.) They are hard at work transforming themselves into global champions. (For details on the selection criteria, see the sidebar “Methodology for Selecting the BCG 2013 Global Challengers.”)

The Challengers by Country

The 2013 BCG global challengers are from 17 countries, 7 more than in 2006. (See Exhibit 7.) As in previous years, China and India boast the highest numbers, with 30 and 20 global challengers, respectively. Brazil is next with 13, followed by Mexico, with 7, and Russia, with 6. South Africa increased its number of challengers from three in 2011 to five in 2013. Malaysia, with two, and Turkey, with three, increased their number of BCG global challengers by one each. The BRIC nations (Brazil, Russia, India, China), once home to 84 challengers, are now down to 69. Many markets beyond the BRICs are now producing global challengers as well.

The Challengers by Industry Sector

The span of industries represented on the 2013 BCG global challenger list is widening. The new list includes representatives from the financial services (Citic Group and China UnionPay), health care equipment (Mindray), and electronic commerce (Alibaba Group) industries.

BCG’s 2013 list represents the most diverse group of global challengers yet.

But the list is still heavy on industrial-goods companies (38) and resource and commodity companies (20), which account for twice the share of the challengers list than these industries occupy on the S&P 500. The services sector, with 24 entries, is still underrepresented compared with the S&P 500 index. (See Exhibit 8.)

Value Creation: A Tale of Two Eras

Global challengers have generated long-term value for their shareholders. Over the past 12 years, they have outperformed the S&P 500, the MSCI Emerging Markets Index, and their global peers (multinationals from the same industry and based in a mature market). Their average annual TSR of 17.3 percent is nearly 3 times greater than that of the MSCI
### 2013 BCG Global Challengers

<table>
<thead>
<tr>
<th>Argentina</th>
<th>PetroChina</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tenaris</td>
<td>• Sany Group</td>
<td>• Aspen Pharmacare</td>
</tr>
<tr>
<td>Brazil</td>
<td>• Brasil Foods</td>
<td>• Bidvest Group</td>
</tr>
<tr>
<td>• Camargo Corrêa Group</td>
<td>• Sinochem</td>
<td>• MTN Group</td>
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<tr>
<td>• Embraer</td>
<td>• Sinohydro</td>
<td>• Naspers</td>
</tr>
<tr>
<td>• Gerdau</td>
<td>• Sinoma International Engineering</td>
<td>• Sasol</td>
</tr>
<tr>
<td>• JBS</td>
<td>• Sinopel</td>
<td>Colombia</td>
</tr>
<tr>
<td>• Marcopolo</td>
<td>• Trina Solar</td>
<td>• Grupo Empresarial Antioqueño</td>
</tr>
<tr>
<td>• Natura</td>
<td>• Wanxiang Group</td>
<td>Egypt</td>
</tr>
<tr>
<td>• Odebrecht Group</td>
<td>• Yanzhou Coal Mining Company</td>
<td>• El Sewedy Electric</td>
</tr>
<tr>
<td>• Petrobras</td>
<td>• Zoomlion</td>
<td>India</td>
</tr>
<tr>
<td>• Tigre</td>
<td>• ZTE</td>
<td>• Bajaj Auto</td>
</tr>
<tr>
<td>• Votorantim Group</td>
<td></td>
<td>• Bharat Forge</td>
</tr>
<tr>
<td>• WEG</td>
<td></td>
<td>• Bharti Airtel</td>
</tr>
<tr>
<td>Chile</td>
<td>Colombia</td>
<td>• Crompton Greaves</td>
</tr>
<tr>
<td>• Falabella</td>
<td>• Grupo Empresarial Antioqueño</td>
<td>• Dr. Reddy’s Laboratories</td>
</tr>
<tr>
<td>• Latam Airlines Group</td>
<td>Egypt</td>
<td>• Godrej Consumer Products</td>
</tr>
<tr>
<td>China</td>
<td>• El Sewedy Electric</td>
<td>• Hindalco Industries</td>
</tr>
<tr>
<td>• Alibaba Group</td>
<td>India</td>
<td>• Infosys2</td>
</tr>
<tr>
<td>• Aviation Industry Corporation of China</td>
<td>• Bajaj Auto</td>
<td>• Larsen &amp; Toubro</td>
</tr>
<tr>
<td>• China Communications Construction Company</td>
<td>• Bharat Forge</td>
<td>• Lupin Pharmaceuticals</td>
</tr>
<tr>
<td>• China International Marine Containers Group</td>
<td>• Bharti Airtel</td>
<td>• Mahindra &amp; Mahindra</td>
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<tr>
<td>• China Minmetals</td>
<td>• Crompton Greaves</td>
<td>• Motherson Sumi Systems</td>
</tr>
<tr>
<td>• China National Chemical Corporation (ChemChina)</td>
<td>• Dr. Reddy’s Laboratories</td>
<td>• Reliance Industries</td>
</tr>
<tr>
<td>• China National Offshore Oil Corporation</td>
<td>• Godrej Consumer Products</td>
<td>• Sun Pharmaceutical Industries</td>
</tr>
<tr>
<td>• China Shipbuilding Industry Corporation</td>
<td>• Hindalco Industries</td>
<td>• Tata Chemicals</td>
</tr>
<tr>
<td>• China UnionPay</td>
<td>• Infosys2</td>
<td>• Tata Consultancy Services</td>
</tr>
<tr>
<td>• Citic Group</td>
<td>• Larsen &amp; Toubro</td>
<td>• Tata Motors</td>
</tr>
<tr>
<td>• Geely International</td>
<td>• Lupin Pharmaceuticals</td>
<td>• Tata Steel</td>
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<td>• Goldwind</td>
<td>• Mahindra &amp; Mahindra</td>
<td>• Vedanta Resources</td>
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<td>• Motherson Sumi Systems</td>
<td>• Wipro</td>
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<td>• Huawei Technologies</td>
<td>• Reliance Industries</td>
<td>Indonesia</td>
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<td>• Johnson Electric</td>
<td>• Sun Pharmaceutical Industries</td>
<td>• Golden Agri-Resources</td>
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<tr>
<td>• Lenovo Group</td>
<td>• Tata Chemicals</td>
<td>• Indofood Sukes Makmur</td>
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<tr>
<td>• Li &amp; Fung</td>
<td>• Tata Consultancy Services</td>
<td></td>
</tr>
<tr>
<td>• Mindray</td>
<td>• Tata Motors</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• United Arab Emirates</td>
</tr>
</tbody>
</table>

### 2013 BCG Challenger Graduates

Seven companies with large sustained global positions have moved beyond challenger status.

<table>
<thead>
<tr>
<th>Brazil</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Vale</td>
<td>• Anglo American</td>
</tr>
<tr>
<td>• Cemex</td>
<td>• SABMiller</td>
</tr>
<tr>
<td>Mexico</td>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>• Wilmar International</td>
<td>• Saudi Aramco3</td>
</tr>
</tbody>
</table>

### Other

- **Source:** BCG analysis.
- New global challengers are listed in green.
- 1Latam Airlines Group is the result of a 2012 merger of Brazil’s TAM Airlines and 2011 challenger LAN Airlines.
- 2Infosys is the new name of Infosys Technologies, a 2011 challenger.
- 3Although Saudi Aramco was not a 2011 challenger, we have designated it as a graduate because it is already a global leader in the oil and gas industry and is on its way to becoming a global integrated energy player.
We began our analysis by compiling a list of potential global challengers from companies based in RDEs. As in the 2011 report, we focused on companies located in developing Asia, central and eastern Europe, the Commonwealth of Independent States, the Middle East, Latin America, and Africa.

Our initial master list of potential global challengers was drawn from local rankings of the top companies in the geographic markets listed above. As in previous years, we excluded joint ventures and companies with significant overseas equity holders but included state-owned companies that compete internationally. A few of the global challengers are headquartered in global financial or commercial centers, such as London or Amsterdam but their operations take place primarily in RDEs. We have listed these companies in the markets that house most of their operations.

Next, we applied a set of quantitative and qualitative criteria. Companies needed to have annual revenues of at least $1 billion, a threshold that ensures they have the resources to go global. We sought companies in which overseas revenues either totaled 10 percent of total revenue or $500 million. In export-oriented industries, such as mining, oil, and gas, we also required companies to possess overseas assets of at least 10 percent of total assets or $500 million. We made a few exceptions when we strongly believed that companies would meet these thresholds in the next two years. A final set of quantitative measures were related to growth and performance.

We sought companies with credible aspirations to build truly global footprints, excluding those that could pursue only export-driven models. Accordingly, we analyzed each company’s international presence, the number and size of its international investments, M&A activity over the past five years, and the strength of its business model. We also compared the size of each company with the size of other challengers and multinational competitors in its industry.

We based our final selection on these criteria and feedback from industry experts around the world.

**EXHIBIT 7 | The Global Reach of the Challengers**

<table>
<thead>
<tr>
<th>BCG 100 global challengers</th>
<th>Number of challengers by country</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
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<tr>
<td>2008</td>
<td>13</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>17</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>3</td>
</tr>
<tr>
<td>2013</td>
<td>19</td>
</tr>
</tbody>
</table>

**Source:** BCG analysis.
Emerging Markets Index. The average annual TSR of the S&P 500 and global peers, by comparison, is negligible. (See Exhibit 9.)

The picture changes dramatically when the time frame is compressed to the past year (from late October 2011 to November 2012). During that time, the S&P 500 and global peers both outperformed the global challengers by wide margins, while the challengers barely beat the MSCI Emerging Markets Index. (See Exhibit 10.)

This recent weakness has at least two explanations. First, the global challengers bounced back earlier from the global financial crisis, while the recovery of companies based in mature markets has been much more recent. Second, declining stock prices of several large challengers in the commodities sector have pulled down the average, masking the relatively strong performance of smaller players.

New BCG Challengers
Among the most interesting challengers are the 26 newcomers to the 2013 list. They are grouped by the features that help describe their entry to the list of global challengers.

**Caring for and Feeding a Growing Middle Class**

**Aspen Pharmacare** (South Africa) is the largest generic-drug manufacturer in the Southern Hemisphere and has 18 manufacturing facilities located throughout the world. Its products reach more than 150 countries. In 2011, almost half of its $1.8 billion revenues were generated outside of South Africa. Aspen acquired 25 brands in Australia from GlaxoSmithKline for $268 million in 2012. Aspen has been one of the best-performing South African stocks with a three-year average annual TSR above 100 percent.

**Golden Agri-Resources** (Indonesia) is one of the world’s largest producers of palm oil. In 2011, 89 percent of its $6.0 billion revenues originated overseas. Over the past three years, Golden Agri-Resources has delivered average annual TSR of 14 percent, outperforming other market players.

**Godrej Consumer Products** (India) is a consumer goods company with leading home-care, personal-wash, and hair-care products. Its 2011 revenues reached $1 billion. Godrej has focused its acquisitions on emerging markets. Recent acquisitions include Megasari.
Makmur Group in Indonesia, Darling Group in Senegal, and Issue Group and Argencos in Argentina.

**Grupo Empresarial Antioqueño (GEA)** (Colombia) is a conglomerate with total 2011 revenues of $10.2 billion. Grupo Nutresa, Inversiones Argos, and Grupo de Inversiones Suramericana constitute the core of the conglomerate, in which members have ownership stakes in one another but do not have a central headquarters. GEA is expanding be-

**EXHIBIT 9 | Global Challengers Outperformed from 2000 to 2012 . . .**

![Graph showing total shareholder return (TSR) index (Base=100) from 2000 to 2012.](image)

**Sources:** Thomson Reuters Datastream; BCG analysis.

**Note:** The index base of 100 was set on January 3, 2000, and the data were analyzed through November 5, 2012. All indices were weighted by the market capitalization of their constituent stocks. The challengers delivered an even stronger TSR, about 30 percent annually, on an equal-weight basis. The index is based on data from 80 global challengers that were publically listed and from 388 global peers.

1Global peers are multinational companies that are headquartered in developed economies and operate in same industries as the global challengers.

**Exhibit 10 | . . . But They Underperformed the Past Year**

![Graph showing total shareholder return index (Base = 100) from November 2011 to November 2012.](image)

**Sources:** S&P Capital IQ; BCG analysis.

**Note:** The index base of 100 was set on October 22, 2011, and the data were analyzed through October 22, 2012. All indices were weighted by the market capitalization of their constituent stocks. The index is based on data from 83 global challengers that were publically listed and from 388 global peers.

1Global peers are multinational companies that are headquartered in developed economies and operate in same industries as the global challengers.
Beyond its Latin America base, and its products are sold in more than 75 countries.

**Mindray** (China) is China’s largest medical-equipment manufacturer. It had 2011 revenues of $900 million, more than half of which were generated overseas. Mindray’s business model is built around low cost and innovation, allowing it to win market share from larger competitors.

**Sun Pharmaceutical Industries** (India) is a global pharmaceutical company with a strong presence in the U.S. generic markets. Its 2011 revenues reached $1.7 billion, 62 percent of which were generated overseas. It has achieved an average annual TSR over 100 percent for the past three years and has the largest market capitalization in the Indian pharmaceutical sector.

Alibaba.com is the world’s largest online trading platform for small businesses.

**Making Financial, Commercial, and Digital Connections**

**Alibaba Group** (China) is the largest e-commerce company in China, with 2011 revenues of $2.8 billion. Alibaba.com is the world’s largest online business-to-business trading platform for small businesses, while Alibaba’s Taobao Marketplace and Tmall.com are leading China-based consumer-to-consumer and business-to-consumer sites, respectively.

**China UnionPay** (China) is the world’s second-largest credit-card network by transaction volume. It reported 2011 revenues of $900 million. China UnionPay cards are accepted in 125 countries and are responsible for more than 80 percent of the cross-border transaction volume of Chinese credit cards.

**Citic Group** (China) is a conglomerate with 2011 revenues of $49.3 billion. Citic is active in M&A. Its subsidiary, Citic Securities, bought CLSA, an investment research and advisory firm, in 2012 for $1.25 billion. The acquisition strengthens the company’s analytical capability outside China. Citic also has strategic partnerships with global leaders such as Itochu and Deutsche Bank.

**MTN Group** (South Africa) is Africa’s largest mobile operator. It has 183 million subscribers and licenses in 21 countries across Africa and the Middle East. About 60 percent of its revenues originated outside South Africa.

**Naspers** (South Africa) is the largest media company in the developing world, with revenues of $5.3 billion in fiscal 2012. The company’s portfolio includes a 34 percent share of Tencent (China) and a 29 percent share of Mail.ru (Russia).

**VimpelCom** (Russia) is the world’s sixth-largest mobile operator, as measured by the number of subscribers. In 2011, 40 percent of its $20.3 billion revenues were generated in Russia, although the company is headquartered in Amsterdam. VimpelCom has also completed several large acquisitions, including the $6 billion purchase of Italy’s Wind Telecom and a majority stake in Egypt’s Orascom Telecom Holding.

**Powering Future Growth**

**PetroChina** (China) is the world’s largest publicly traded oil producer, with 2011 revenues of $313.3 billion. In the past two years, PetroChina has been on the acquisition trail, spending $3 billion with Royal Dutch Shell to buy Arrow Energy jointly and $1 billion to buy assets from Ineos Group.

**Sinopec** (China) is the largest producer and distributor of chemical products in China, with 2011 revenues of $397.4 billion. Sinopec conducted several major overseas transactions and investments in 2011 and 2012, including the $2.1 billion purchase of Daylight Energy, the $1.5 billion purchase of a 49 percent stake in Talisman, both of Canada, and the acquisition of a one-third stake in five shale-oil and gas basins for $2.2 billion from U.S.-based Devon Energy.

**Goldwind** (China) was the world’s second-largest wind-turbine manufacturer in 2011, producing 9 percent of the turbines worldwide. In 2011, Goldwind spent $56 million on R&D, or nearly 3 percent of its $2 billion in...
revenues. Goldwind has a presence in North and South America, Australia, Europe, Africa, and Southeast Asia.

**Trina Solar** (China) is the world’s fourth-largest solar panel manufacturer, with 2011 revenues of $2 billion. Trina Solar’s vertical integration helps to improve its efficiency and shorten product-development cycles. More than 80 percent of its sales are generated overseas.

**Flying the Skies**

**Aviation Industry Corporation of China (AVIC)** (China) is a state-owned aerospace and defense company, with 2011 revenues of $40.5 billion. AVIC is investing heavily to become a leading competitor in the commercial aircraft market. China is currently evaluating a $16 billion plan from AVIC to fund jet-engine research.

**AirAsia** (Malaysia) is Asia’s largest low-fare, no-frills airline and a pioneer of low-cost travel. It reported 2011 revenues of more than $1.4 billion and the lowest per-available-seat cost per kilometer traveled in the world. AirAsia’s recent orders for 375 planes from Airbus will allow it to take advantage of the rising demand for air travel.

**Qatar Airways** (Qatar) is the state-owned flag carrier of Qatar with more than 120 destinations throughout the world. In 2011 and 2012, Qatar Airways was recognized as the world’s best airline at the Skytrax World Airline Awards.

**Etihad Airways** (United Arab Emirates) is the national airline of the United Arab Emirates. The airline, which began operations in 2003, carried 8.3 million passengers to 86 destinations in 55 countries and generated $4.1 billion in revenues in 2011. It has more than 90 aircraft on order, including 10 Airbus A380s, the world’s largest passenger aircraft. Etihad Airways holds equity investments in airberlin, Air Seychelles, Virgin Australia, and Aer Lingus.

**Turkish Airlines** (Turkey) flies to more countries—91—from a single hub than any other carrier. It also has the goal to become the world’s largest airline by 2023. In 2011, 84 percent of its $7 billion revenues originated overseas.
Signs of Success: The Graduates

Two former global challengers graduated from the list, meaning that they have achieved sustainable leadership positions in their global markets. In 2011, the first time BCG designated graduates, there were five.

**Emirates** (United Arab Emirates) includes both Emirates airline (listed as a 2011 BCG global challenger) and a range of other portfolio companies, including dnata, a growing airport-services operator. Emirates airline, has reported 24 consecutive profitable years and has built a strong global brand. Its orders for the Airbus A380 superjumbo airliner exceed by three times that of any other carrier.

**Saudi Aramco** (Saudi Arabia) is the largest gas and oil company in the world. It has extensive Saudi Arabian operations. In its quest to become a global integrated energy business, it has ventures all across the world, including the U.S., China, Japan, South Korea, and Saudi Arabia.

The Capabilities Beyond Cost Advantage

The 2013 BCG global challengers are at a turning point in their individual histories—and in the history of the economic development of RDEs. Their cost advantage over competitors from mature markets is eroding. In response, they have been building new capabilities—such as manufacturing higher-quality products, harnessing their cash resources, and investing in R&D.

**High-Quality Products.** Many challengers are still low-cost companies, but this label is more likely to describe their business models than their product offerings. The Middle Eastern airlines, for example, operate low-cost structures while winning global awards for exceptional service and quality. The low-cost Ascend D1 quad from Huawei Technologies is among the fastest smartphones in the world.

**Capital Availability.** Challengers took advantage of low equity prices from 2008 to 2010 by completing hundreds of cross-border acquisitions that provided access to international assets and management. They remain well financed and possess the resources and scale to make significant strategic investments.

**Innovation.** Global challengers increasingly see the need to become more innovative and are rapidly increasing their research spending. About 46 percent of Huawei’s 150,000 employees are in R&D. Mindray generates more U.S. patents per revenue dollar than many global leaders. Many other companies in emerging markets are making similar moves. In 2011, companies from China were granted more U.S. patents than companies in Israel, Australia, Italy, Netherlands, Sweden, and Switzerland. India also ranked in the top 15 for the first time. (See Exhibit 11.)

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**Exhibit 11 | China and India Are Gaining Ground as Recipients of U.S. Patents**

<table>
<thead>
<tr>
<th>2007</th>
<th>2009</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Germany</td>
<td>South Korea</td>
</tr>
<tr>
<td>Korea</td>
<td>Taiwan</td>
<td>China</td>
</tr>
<tr>
<td>Canada</td>
<td>U.K.</td>
<td>France</td>
</tr>
<tr>
<td>Italy</td>
<td>Australia</td>
<td>Netherlands</td>
</tr>
<tr>
<td>China</td>
<td>Switzerland</td>
<td>Sweden</td>
</tr>
</tbody>
</table>

Sources: U.S. Patent and Trademark Office; BCG analysis.
Many of the innovations are aimed at creating new business models rather than tangible products. For example, Li & Fung Limited, a member of Hong Kong’s Fung Group, has pioneered an innovative role acting as a middleman between designers in developed markets and Chinese manufacturers. (See the sidebar “Challenger-Led Innovation.”)

**CHALLENGER-LED INNOVATION**

Companies in RDEs are getting serious about innovation. In the past five years, the number of patents granted by the U.S. Patent and Trademark Office to companies based in RDEs increased at a rate more than three times faster than that of companies in other countries. If this growth continues, up to 25 percent of the patents issued in 2018 may originate in RDEs—up from just 1 percent in 2006.

Patent growth in China and India is increasing by more than 30 percent annually. Overall, challengers are responsible for about 22 percent of the growth in patents issued to investors in RDEs—even though they represent less than 11 percent of the companies from RDEs that received U.S. patents in 2011. China’s Huawei Technologies broke into the top 100 patenting organizations in 2011 when it was issued 374 U.S. patents.
Moving into New Businesses

Many challengers are expanding into new businesses and across the value chain. In 2011, Wipro enhanced its sector expertise by acquiring the oil-and-gas IT practice of U.S.-based Saic, and in 2012, Wipro acquired Promax Applications Group, an Australian analytics company specializing in trade promotion, a promising opportunity for growth as consumer spending rises in India. Meanwhile, Mindray has broadened its product line and entered the health-care-IT space through acquisitions.

Captivating the New Consumer

Many challengers have learned to cater to consumers across emerging markets. VimpelCom, a telecom provider founded in Russia that generates 40 percent of its revenues in the country, and Naspers, a South African media company, are two fast-expanding services companies that were born in countries traditionally driven by commodities.

Indian companies Bharti Airtel and Godrej Consumer Products have leveraged their insights from the challenging Indian market to expand into other developing markets—notably, Africa. Bharti Airtel began its domestic mobile-phone service in 1995, when India only had 1 million phone lines—all of which were landlines. It is now the nation’s largest mobile provider and an emerging force in Africa. Godrej allows local managers in Africa to set local marketing and sales strategies and to tailor their offering, such as top-selling hair products, to local needs.

Emerging markets frequent require products tailored for local conditions. One example is the chotuKool—an inexpensive, environmentally friendly, and portable refrigerator made by a sister company of Godrej Consumer Products. ChotuKool, which means “little cool,” weighs less than eight kilograms and addresses the rural Indian market and its intermittent power supply. It is battery-operated, consumes less than half the power used by a regular refrigerator, and uses high-end insulation to protect its contents if the batteries die.

Challengers are also experimenting with innovative banking and financial services. Alibaba Group, the Chinese e-commerce player, has
created Alipay, an escrow-payment system. The buyer does not release payment until he has received and validated the merchandise. Alipay helped unleash explosive growth in e-commerce by overcoming mistrust in online transactions and low credit-card adoption. In 2010 Alipay surpassed PayPal as the world’s largest online third-party payment platform, ranked by number of users.

Many challengers have expanded to Africa, the Middle East, Southeast Asia, and Latin America.

Meanwhile, in Mexico, mobile telecom provider América Móvil has partnered with BBVA Bancomer to offer banking services through its mobile network, much like mobile operator Safaricom did in Kenya with M-Pesa. Elsewhere, VimpelCom has partnered with Google to offer Google Play content. Charges are debited from consumers’ prepaid accounts, circumventing the lack of credit card availability in developing countries.

Capturing the Digital Opportunity

The digital divide between mature and fast-growing markets is starting to shrink. By 2016, 3 billion consumers—or 45 percent of the world’s population, will use the Internet. Nearly 800 million of them will be Chinese, about the same number of Internet users in France, Germany, India, Japan, the U.K., and the U.S. combined.

Companies are taking advantage of this connectivity. Naspers, founded as a newspaper company in South Africa in 1915, has emerged as a global player in the media and the Internet markets through its stakes in Tencent and Mail.ru.

Alibaba Group’s Alibaba.com, China’s business-to-business e-commerce leader, has expanded its presence in the U.S. in 2010 by acquiring Vendio, an e-commerce site, and Auctiva, which provides listing and marketing tools to vendors on e-commerce websites such as eBay. Alibaba.com had more than 5 million U.S. users as of mid-2012.

Even traditional industries, such as airlines and credit cards, are facing competitive threats created by digital connectivity. AirAsia was the first Southeast Asian carrier to introduce e-ticketing in 2002. In 2011, it partnered with Expedia, the first venture between a low-cost carrier and an online travel agent.

China UnionPay, while still small, is providing financial services in more than 125 countries globally. It has a running start in winning the emerging-market consumers as they migrate toward financial services.

Exploring Frontiers of Fast Growth

Over the past six years, China and India have become the most common targets for multinational corporations looking to expand overseas. Many of the global challengers, however, have expanded their sights to Africa, new growth spots in the Middle East, Southeast Asia, and Latin America.

Africa. With more than 1 billion people and $3 trillion in total GDP, Africa is a larger market than Brazil or Russia. While some global consumer companies, such as Unilever, Nestlé, and Coca-Cola, entered the market decades ago, Africa has become a more recent focus of consumer-oriented challengers. Godrej Consumer Products, for instance, has acquired several hair-care businesses in South Africa and the Tura brand in personal care in West Africa. At Bajaj Auto, Africa accounts for 41 percent of its overseas sales of light motorbikes—exceeding sales in its overseas markets in Asia.

Heavy-industry companies are also arriving in Africa to meet the growing demands of a continent under construction. For instance, Sany Group, the Chinese mining-machinery company, signed its first equipment contract in Africa in 2010. Chinese contractors now account for 37 percent of the African construction market, according to African Business magazine. Nearly 42 percent of the contractors’ overseas revenue now comes from Africa, the magazine reports.
In telecommunications, the global challengers have focused heavily on Africa as it skips fixed lines altogether and goes straight to mobile. Huawei and ZTE—two Chinese equipment makers—have leveraged their experience working with low-income or rural markets at home to develop products for Africa. India’s Bharti Airtel entered the continent by acquiring the African operations of Kuwait’s Zain. It then applied its knowledge of low-cost markets to expand organically through its subsidiary Airtel Africa.

Southeast Asia. Southeast Asia is on the move. For most of the past decade, the region has been enjoying a surging economic renaissance. Nearly 100 million people will enter the consumer class by 2015, most of them in Indonesia, the Philippines, Thailand, and Vietnam, driving projected annual growth of 12 percent in consumer spending.

Latin America. This region is also growing sharply. Strong commodity prices helped such countries as Chile, endowed with remarkable natural resources, expand real annual GDP in excess of 4 percent in the post-2009 recovery. In BCG’s new Sustainable Economic Development Assessment, an approach to systematically assessing and comparing the socio-economic development across 150 countries, Brazil made the greatest improvement over the past five years. Several other Latin American nations, including Peru and Uruguay, are also in the top 20 nations. Meanwhile, Chile, Colombia, and Peru have forged an alliance that is binding together their financial and commercial markets.

Hot Spots. Though best known for their larger economies, the Middle East and Latin America both have smaller markets with strong growth. Real GDP in Qatar and Colombia, for example, has expanded by more than 4 percent annually over the past five years, outpacing regional heavyweights Saudi Arabia and Brazil. Prospects for both countries remain bright.
In recent years, the nature of the challengers’ M&A activity has changed: They are now completing fewer deals than they did prior to the 2008 financial crisis, but their deals are larger and aimed at establishing global leadership. The number of overseas deals completed by the 2013 challengers fell from 130 in 2007 to 99 in 2011, but the average deal size increased from $484 million in 2007 to nearly $1.1 billion for deals announced in 2012. (See Exhibit 12.)

Three Different M&A Strategies

The history of M&A by the 2013 BCG global challengers has three chapters—the two years prior to the September 2008 onset of the financial crisis, the two years during the crisis, and the two subsequent years of turmoil. Companies within the same industries and countries have tended to respond in similar ways to the global economic climate. We describe their movements as expanding in the turmoil, integrating after the crisis, and returning home. (See Exhibit 13.)

**Exhibit 12 | Global Challengers Are Completing Fewer But Larger Deals**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of deals</th>
<th>Average disclosed deal size ($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>2001</td>
<td>23</td>
<td>0</td>
</tr>
<tr>
<td>2002</td>
<td>38</td>
<td>0</td>
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<tr>
<td>2003</td>
<td>99</td>
<td>0</td>
</tr>
<tr>
<td>2004</td>
<td>6</td>
<td>1,500</td>
</tr>
<tr>
<td>2005</td>
<td>100</td>
<td>1,000</td>
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<tr>
<td>2006</td>
<td>150</td>
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<td>2007</td>
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<td>2008</td>
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<td>0</td>
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<tr>
<td>2010</td>
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<td>1,500</td>
</tr>
<tr>
<td>2011</td>
<td>100</td>
<td>1,000</td>
</tr>
<tr>
<td>2012</td>
<td>150</td>
<td>500</td>
</tr>
</tbody>
</table>

Sources: S&P Capital IQ; BCG analysis.
Note: Data for 2013 BCG global challengers.


Expanding in the Turmoil. Services companies seized the global financial crisis as an opportunity to build their overseas presence. They increased the total value of their cross-border M&A by 107 percent from 2006 through 2008 and from 2010 to 2012 while reducing the value of domestic deals by 76 percent.

During that time, VimpelCom became the sixth-largest global telecom company largely through acquisition. Its $6 billion deal to buy Wind Telecom, including a 52 percent stake in Orascom Telecom Holding, added 123 million mobile subscribers.

Global challengers from China also increased their overseas M&A activity during the financial crisis. The value of their outward-bound M&A deals rose from $7 billion in the two years prior to the crisis to $30 billion in the two following years, before settling at $23 billion in the last two years. Sany Group’s acquisition of Putzmeister is emblematic of this trend.

Integrating After the Crisis. Many challengers, notably consumer goods and Brazilian companies, increased their outbound M&A activity during the financial crisis and are now digesting those deals. The value of outbound deals by Brazilian deals went from $5 billion before the crisis, to $9 billion during the crisis and immediately afterward, and $2 billion in the most recent period. Godrej Consumer Products has not made any sizeable deals since its acquisition of Indonesia’s Megasari Makmur, its largest ever, in May 2010.

Returning Home. Some challengers, especially commodity players and Indian companies, were active before the global financial crisis but have pulled back. Commodity companies, especially from Russia, reduced their cross-border deal value by 43 percent between the 2006–2008 pre-crisis periods and the most recent 2010–2012 period. Instead, many of them are doing domestic deals. At the end of 2012, United Company Rusal moved to acquire several Russian aluminum companies.

The value of outbound deals by Indian challengers has declined from $26 billion in the first two-year period to $3 billion in the third two-year period. They are seeking to augment...
their capabilities by integrating a series of smaller domestic acquisitions. (See the sidebar “The Allure of Home.”)

Examining the six years altogether, commodities challengers still completed the largest number of cross-borders deals: they closed 34 percent of all deals completed by challengers even though they represent only 20 percent of this group.

**Game-Changing Partnerships**

As the nature of M&A and dealmaking changes, so does the relative importance of partnerships with large, established companies from mature markets. The growing strength of the global challengers means that these partnerships can be negotiated on more equal terms.

Traditionally, partnerships between global challengers and multinationals have focused on access to resources, brands, markets, technologies, and low costs. These types of collaborations will continue, but challengers and multinationals will increasingly come together to develop new products, exchange—rather than transfer—technology, and enter new markets.

While reliable statistics on the growth of partnerships are scarce, the nature of many recent partnerships demonstrates how these relationships are evolving to become game changing.

**Technology Exchange.** China National Chemical Corporation (ChemChina) and the U.S. company DuPont formed a 50-50 venture in 2012 that combines DuPont’s leading fluoroelastomer technology with ChemChina’s integrated manufacturing. The venture will produce fluoroelastomer gums and precompounds, most likely in a new plant in China.

**New Markets.** Indian auto player Bajaj Auto and Kawasaki, a Japanese maker of motorcycles and other vehicles, have entered an alliance to jointly market their products. Bajaj and Kawasaki have been partners in various ventures for about 30 years but have rarely collaborated on marketing or selling. The two companies launched a pilot in the Philippines in 2003 that will be expanded to Indonesia in 2013 and possibly to Brazil.

**New Products.** Indian pharmaceutical company Dr. Reddy’s Laboratories has entered into

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**THE ALLURE OF HOME**

Not all challengers have found an easy path to profitability overseas. Many challengers—and emerging market countries more broadly—have slowed their overseas investments. Some countries are reducing their foreign-investment exposure and refocusing on domestic markets.

This movement of capital back home and the inflow of capital from developed economies have helped to level the playing field between mature and emerging markets. Prior to the financial crisis in 2008, mature markets averaged more than $1.1 trillion in inbound investment annually, twice the amount invested in emerging markets. By 2011, parity had almost been reached. Mature markets received $748 billion in inbound investment, while emerging markets received $684 billion. Three macroeconomic trends explain the shift: rising demand for capital, poor overseas demand, and shifting currency values.

First, the domestic demand for capital in emerging markets—particularly fixed assets—is bringing money back from overseas. Brazil’s Petrobras, for example, announced recently that it was close to finalizing the sale of $6 billion in assets in the Gulf of Mexico to raise funds to develop fields in Brazil.

Second, the economic crisis in Europe and U.S. has led companies to re-evaluate investments in mature markets. Third, depreciation of local currency, particularly in Latin America, has decreased the purchasing power of many companies overseas.
a deal with Germany’s Merck to jointly develop inexpensive versions of cancer therapies that are losing their patent protections. Dr. Reddy’s will take the lead in early product development and testing while Merck will handle manufacturing and late-stage trials. This division of labor represents a reversal of roles. Typically the company from the emerging market has done the manufacturing, while the mature-market company has done the product development, but Dr. Reddy’s has ample experience in developing low-cost medicines.

New Supplier Relationships. Global challengers are starting to provide expertise, rather than just raw materials, in their supplier relationships with multinationals. Mexichem, the Mexican chemical company, and Occidental Chemical (Oxychem), a U.S. chemicals firm, are exploring the construction of an ethylene plant. Oxychem would convert the ethylene produced by the plant into vinyl chloride monomer (VCM) that it would sell exclusively to Mexichem. VCM is a key ingredient in PVC products, a key product line for Mexichem.

Of course, like M&A transactions, partnerships have their own challenges. (See the sidebar “The Dilemmas of Partnership.”)

THE DILEMMAS OF PARTNERSHIP

Partnerships offer many advantages to challengers and established companies, but differing cultures, policies, and growth trajectories can complicate or destroy these arrangements. If managed poorly, a partnership can limit growth of the two companies rather than expand their reach.

Both sides need to have a firm and consistent understanding of the scope of the partnership, the expectations of all parties, the degree of control of all parties, and an exit strategy. These core elements often get overlooked. (See the exhibit “Questions You Should Answer Before Partnering.”)

Partnerships often enable one party to enter a new market. But the terms of the deal sometimes constrain one party from making alliances with other entities or entering

Questions You Should Answer Before Partnering

<table>
<thead>
<tr>
<th>Partnership phases</th>
<th>Key elements</th>
<th>Key questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic alignment</td>
<td>Scope</td>
<td>• What are the key financial targets and expectations?</td>
</tr>
<tr>
<td></td>
<td>Expectations from partner</td>
<td>• What will be the focus industry and range of products?</td>
</tr>
<tr>
<td></td>
<td>Degree of control</td>
<td>• What will be the geographic scope of the market?</td>
</tr>
<tr>
<td>Setup</td>
<td></td>
<td>• What will be the exclusivity conditions for the partners?</td>
</tr>
<tr>
<td>Operations</td>
<td>Exit strategy</td>
<td>• What will be the role of the partners in the joint venture?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• What are the expected contributions from the partner?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• What will be the degree of control in ownership?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• What will be the equity split?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• What will be the degree of control in management?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Who will control the CEO position?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• What are the exit scenarios and mechanisms?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• How will the value created be monetized?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• What will be the preferred duration for the joint venture?</td>
</tr>
</tbody>
</table>

Source: BCG analysis.
different markets. Too often allies become adversaries. Companies need to fully understand the second-order and long-term effects of any proposed partnership.

External stakeholders also play an important role in the dynamics of partnerships. Lawmakers and regulators can make decisions that radically change the economics of a deal. These risks need to be carefully managed.

Breaking up is also hard to do. The dissolution of a partnership can damage one or both parties beyond the lost business opportunity. A breakup in the Middle East cost each party billions of dollars in anticipated payments.

Fortunately, well-crafted partnerships, such as the arrangement between Sara Lee and Godrej Consumer Products, can lead to a smooth dissolution. In 2011, Sara Lee (which has since split into two companies) sold its share in its Indian joint venture with Godrej because it no longer fit the U.S. company’s strategic direction. The breakup was uneventful because the original agreement clearly anticipated such an exit.
IN THE NEW WORLD order, global challengers are becoming stronger and multinationals are seeking fresh sources of growth. Challengers and established multinationals are increasingly chasing the same consumers and customers. But there are also opportunities for them to join forces. Those that figure out when to compete and when to collaborate will be better off than those that decide to go it alone. Meanwhile, governments can encourage economic development most effectively through policies that recognize the importance of their homegrown challengers but also allow foreign companies to participate.

Opportunities for Challengers

The future success of the 2013 BCG global challengers is not guaranteed. Just half of the global challengers selected in 2006 continued to make the cut in 2013. To reach the next level of global expansion, challengers require greater capabilities, greater engagement with both private and public entities, and greater access to new growth opportunities.

**Build capabilities beyond cost advantage.** The success of global challengers will increasingly rest on innovation, operational excellence, quality, branding, and customer service. These capabilities need to be backed by organizational capabilities such as talent management and brand-building. For example, the shortage of experienced managers in Africa leads to poor efficiency and productivity of both global and local companies in many African countries. Even in China, which graduates a large number of university students each year, talent management was the most commonly cited concern among HR and business executives in China.

Successful postmerger integration remains a key challenge. As more challengers use M&A to vie for industry leadership, they will need to get stronger at smoothly folding large companies into their own and managing the talent, operational, and organizational complexities that come with acquisitions.

**Strengthen stakeholder management.** As challengers increase their overseas footprint, stakeholder management becomes even more important. Political, nongovernmental, and regulators are critical stakeholders. Challengers should treat these stakeholders as if they are partners—or run the risk that they become opponents.
Opportunities for Multinationals

The global challengers are competing more effectively in more markets and for a greater variety of products and services than ever before. This means that multinationals should be entering and building positions in emerging markets with localized strategies and partnering with these companies when it will help them get ahead.

Develop localized approaches in emerging markets. Many multinationals have enjoyed success in emerging markets through localization and the redesign of their product line. Yum! Brands, the owner of Pizza Hut and KFC, has reinvented its menus for the Chinese market.

Other multinationals are targeting mid-sized cities for growth. For example, Ford opened its first dealership in Samarinda, Indonesia, a town of less than 1 million in Borneo, in 2007, and sales rose 30 percent over the next two years. In India, Tommy Hilfiger expects to add 500 stores, many in mid-sized cities, through a joint venture over the next five years. In China, retail giants Best Buy, Carrefour, and Wal-Mart are rapidly adding stores in mid-sized cities.

Seize the potential for partnership and growth. Cooperation and partnership with global challengers can provide access to new markets and resources, allow for the exchange of technology, and create economies of scale. Wise multinationals are targeting challengers as key customers and partners.

Opportunities for Governments

Governments, especially those in mature markets, should recognize challengers as a positive force for growth in jobs and investment. Rather than imposing restrictions, governments should be actively encouraging acquisitions and investments, developing regional hubs in order to attract overseas investment, and avoiding excessive nationalism and protectionism.

Allow cross-border M&A and investment without undue restrictions. Under the right conditions, acquisitions and investment by challengers can create jobs in mature markets. In the U.S., several members of the Chinese 2013 BCG global challengers are becoming major employers. Wanxiang America has 6,000 employees. In the fiscal year ending in March 2011, Tata Consultancy Services alone hired 1,150 people in the U.S. In 2012, Tata-owned Jaguar Land Rover created 2,500 jobs in the U.K. The Tata group of companies collectively employs about 45,000 people in the U.K., making it the largest manufacturing employer in the country.

By cooperating with challengers, multinationals can gain access to new markets and resources.

Challengers have often contributed to job creation after entering a market through M&A or a partnership. A joint venture between Cnooc and Chesapeake Energy to acquire and manage oil and gas assets has created 4,000 to 5,000 new U.S. jobs.

Develop regional specialties to drive local investment. Governments in both mature and emerging markets can play a positive role in helping to develop regional hubs of expertise. The Malaysian government has been setting up public institutions such as technical schools, industrial training institutes, and skills development centers to meet the growing requirements of the industrial sector. These hubs can encourage outside investment and job creation.

Encourage economic development. Challengers are contributing innovation, capital, and jobs to the countries in which they operate. Huawei, for example, sourced about $6.6 billion in parts from U.S. companies in 2011. Governments should embrace and leverage the innovation that challengers can bring to regional development.

The Sustainable Economic Development Assessment can assist governments in economic development by showing where they should be focusing their energies.
The 2013 BCG global challengers are game-changers in their global industries. They are meeting the needs of customers in the world’s high-growth markets, and they bring greater choice to customers everywhere. Challengers are now an established fact of global business. But if they aspire to global leadership they must continue to step up their game. Meanwhile, multinationals must both compete and partner with these challengers in order to thrive.

We are just at the dawn of a major new era of global competition—of challengers and multinationals, of allies and adversaries.
The Boston Consulting Group publishes other publications that may be of interest to senior executives interested in globalizing their operations. Recent examples include:

**From Wealth to Well Being: Introducing the BCG Sustainable Economic Development Assessment**
A report by The Boston Consulting Group, November 2012

**Leadership in a Two-Speed Economy: Conversations with CEOs on Straddling Different Worlds**
A report by The Boston Consulting Group, November 2012

**The 2012 BCG 50 Chinese Global Challengers—End of Easy Growth: Fast-Growing Companies Face Headwinds as They Expand**
A Focus by The Boston Consulting Group, September 2012

**Unlocking Growth in the Middle: How Business Model Innovation Can Capture the Critical Middle Class in Emerging Markets**
A Focus by The Boston Consulting Group, May 2012

**China’s Digital Generations 3.0: The Online Empire**
A report by The Boston Consulting Group, April 2012

**The Andean Three: A New Source of Latin American Dynamism**
An article by The Boston Consulting Group, March 2012

**The Connected World: The Internet Economy in the G-20**
A report by The Boston Consulting Group, March 2012

**2012 BCG Southeast Asia Challengers: The Companies Piloting a Soaring Region**
A Focus by The Boston Consulting Group, March 2012

**BCG 2011 Global Challengers—Companies on the Move: Rising Stars from Rapidly Developing Economies Are Reshaping Global Industries**
A report by The Boston Consulting Group, January 2011

**The African Challengers: Global Competitors from the Overlooked Continent**
A Focus by The Boston Consulting Group, May 2010

**The 2009 BCG Multilatinas: A Fresh Look at Latin America and How a New Breed of Competitors Are Reshaping the Business Landscape**
A Focus by The Boston Consulting Group, September 2009
This is BCG’s fifth report in the global challenger series. While the centerpiece of these publications is the list of 100 companies, the main purpose of the research and analysis is to understand the evolution of those markets and how challengers and multinationals can compete within them. More than ever, RDEs are critical to the success of all companies with global aspirations, and we hope this report has brought these markets to life.

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