The 2009 BCG 100
New Global Challengers
How Companies from Rapidly Developing Economies Are Contending for Global Leadership

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Note to the Reader

The emergence of rapidly developing economies (RDEs)—Brazil, China, India, Mexico, Russia, and others—needs no introduction. These RDEs are experiencing a wave of growth in gross domestic product (GDP), trade, and disposable income that is unprecedented in the history of industrialized nations. Accompanying the rise of the RDEs is the ascendency of global challengers—local champions, based in RDEs, that are rapidly globalizing their businesses and challenging the established “incumbent” leaders in their industries.

In this report, we first look at the challengers’ rapid rise to global leadership and what has propelled many of them into leadership positions around the globe. Then, as in our prior two reports on new global challengers, we present our list of the 2009 BCG 100 new global challengers. All these companies either have attained global leadership positions or have demonstrated credible ambitions and abilities to achieve sizable global footprints. We examine the strategies employed by this group of global challengers to help us understand the fundamental reasons for their success. And we assess how they have adapted and strengthened their businesses in response to increased pressures. Finally, we set out the implications of these significant developments for challenger companies and incumbents alike.

We welcome your comments and would be pleased to discuss the implications of our findings for your business.

Acknowledgments
We would like to thank the executives of the global challenger companies who agreed to be interviewed for this report. These interviews provided firsthand insights into the global challengers’ strategies, ambitions, and challenges. They were invaluable in deepening our understanding of these companies.

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Introduction

In our discussions with the CEOs and other senior executives of industry-leading companies around the world, there has been little surprise that a new wave of global challengers has emerged onto the world stage. What has been a surprise—and often a shock—is that they have achieved leadership so quickly in so many industries. In just two years, from 2006 to 2008, the number of companies based in Brazil, China, India, and Russia on the FT Global 500 list more than quadrupled, from 15 to 62. And, like those high achievers, many other companies based in rapidly developing economies (RDEs) have set their sights on global markets.

The tremendous diversity of industries represented, business models deployed, and strategies adopted by the global challengers makes it difficult to generalize about these companies. However, most challengers exhibit several core characteristics that have played a key role in their development into contenders for global leadership. These characteristics include their favorable starting positions in RDEs—which gave them early privileged access to high-growth markets, natural resources, and low-cost talent pools, as well as freedom from the burdens of costly and aging legacy assets typical of companies in high-cost, low-growth economies. The challengers’ ability to reach an initial position of strength in their home markets has provided a solid platform for growth.

A second shared characteristic of most challengers is the vision and will of their ambitious owners and founders, who have taken enormous risk in pursuit of global leadership. A third characteristic is the ability to reach outside their home markets, to learn fast, and to adapt their business models as needed. In the process, many choose international mergers and acquisitions (M&A) as a quick path to developing globally competitive businesses.

To better understand these companies as a group, we have selected a sample of 100 global challengers for the 2009 BCG 100 New Global Challengers list. These companies represent a diverse group from many regions and industry sectors. We interviewed many of their CEOs and other senior executives to get an inside perspective on their international expansion strategies, future directions, and current challenges. This perspective, augmented by additional research, has shaped our view into how challengers are growing and changing in response to the current turbulent times in the global economy.

The process by which RDE-based companies are attaining scale and moving into global markets is just beginning. But the competition between global challengers and industry incumbents is already heating up. There will be winners and losers in both camps, particularly in view of the current economic instability, volatile prices, fluctuating exchange rates, and keen competition for customers, suppliers, raw materials, talent, and brand recognition. Those challenger companies that adapt fastest to these tough times will find themselves in an advantaged position as they continue on the path to leadership. Some will end up being defeated by the powerful incumbents that dominate their industries—or displaced by new challengers that are just setting out on their journey to become global companies. Others will be unable to surmount the tremendous risks of rapid global expansion or to repay the debt incurred in financing their aggressive growth. The incumbents, for their part, must be vigilant about the competitive threat that the global challengers pose to their businesses and must continually seek new sources of advantage to sustain and enhance their leadership positions.
The new global challengers are formidable competitors. In many industries, they have already reached global leadership positions: several on our list rank among the top five in their industries in worldwide market share. Moreover, it would be a misconception to assume that they have done so only by developing low-margin, export-oriented businesses. Many have succeeded in highly sophisticated industries traditionally dominated by large, incumbent multinational corporations (MNCs) based in developed countries. Building on their R&D-based strengths, the challengers have moved boldly to establish strong global operational footprints and distribution networks.

The rise of global challengers as industry leaders has broad implications in their competition with incumbents. This competition extends beyond just battling for market share to include competing for talent and other resources across both developing and developed economies, heralding a new era of what BCG has called “globality”—the current, radically different competitive environment that is being shaped in part by the arrival in global markets of lean, ambitious, resourceful R&D-based companies that are largely unfettered by legacy issues or traditional ways of doing business.1 So it is critical to understand how challengers are rising to leadership positions in such a diverse array of industries and at such a rapid pace. Toward that end, take a look at some of their achievements.

Some of the challengers are among today’s world leaders in the natural resources sector. Vale (Brazil) is the world leader in iron ore and pellets. Basic Element (Russia) and the Aluminum Corporation of China (Chalco) (China) are world leaders in alumina production. Votorantim Group (Brazil) is among the top five producers of zinc globally. Gazprom (Russia) is the leading producer of natural gas, and MISC Berhad (Malaysia) is the leading shipper of liquefied natural gas. China Petroleum & Chemical Corporation (Sinopec) and PetroChina, a subsidiary of China National Petroleum Corporation (CNPC), (both China) are among the top ten energy companies in the world in terms of revenue.

Huawei Technologies and ZTE (both China) have emerged among the top telecommunications equipment manufacturers, and China Mobile (also China) is the top telecommunications network provider in the world in terms of subscriber base. In electronics manufacturing, Galanz Group, Johnson Electric, and Midea Group (all three China) hold leadership positions in microwaves, small electric motors, and electric fans, respectively.

The challengers are no lightweights when it comes to logistics, either. Cosco Group (China) is one of the largest shipping companies in the world; it also owns a sizable stake in challenger China International Marine Containers Group (CIMC) (China), the world’s largest manufacturer of shipping containers. China Shipbuilding Industry Corporation (CSIC) (China) is one of the world’s biggest shipbuilding companies. Likewise, China Communications Construction Company’s subsidiary Shanghai Zhenhua Port Machinery (China) leads in manufacturing container cranes.

Although none of the automotive challengers has yet become a world-leading passenger-vehicle OEM in terms of

1. For a groundbreaking discussion of globality, see Harold L. Sirkin, James W. Hemerling, and Arindam K. Bhattacharya, Globality: Competing with Everyone from Everywhere for Everything (New York: Business Plus, 2008).
market share, many have carved out valuable niches within automotive component manufacturing. Wanxiang Group (China) is the leader in universal-joint bearings, and Bharat Forge (India) has a similar position in chassis components. Marcopolo (Brazil) is among the top manufacturers of bus bodies and components.

There is no shortage of challengers building sizable positions in fast-moving consumer goods as well—including Coteminas (Brazil) in home textiles, JBS-Friboi (Brazil) in meat exports, Tata Tea (India) in tea, Perdigão (Brazil) in poultry, and United Spirits (India) in spirits.

The list goes on, with challengers building sizable positions in many other industries. BYD Group (China) has achieved a world-leadership position in rechargeable batteries and is expanding in the automotive OEM business. Embraer (Brazil) has reached the top position worldwide in regional jets. Reliance Industries (India) leads in polyester fiber, and Tata Chemicals (India) is among the top producers of soda ash worldwide.

Perhaps even more remarkable than the prominent positions some of these challengers have obtained is how fast they have achieved them. Clearly, incumbents need to be ever vigilant about the possibility of new entrants into their industries. The emergence of new challengers is a trend that shows no sign of abating.

For example, in 2002, Mexichem (Mexico) had a mostly domestic operational footprint and annual sales of $200 million. (For consistency, all monetary sums in this report are cited in nominal U.S. dollars unless otherwise noted.) Over the next five years, it launched and conducted a massive international expansion campaign, based primarily on outbound M&A. In 2007, its revenues had grown to $2.1 billion, representing a phenomenal compound growth rate of 60 percent per year. During this time, Mexichem firmly established itself throughout the Western Hemisphere, with the acquisitions of Petroquímica Colombiana ($250 million) in South America, Grupo Amanco ($500 million) in Central America, and Bayshore Vinyl Compounds ($16 million) in the United States. This impressive string of acquisitions has given Mexichem a number one or number two market position in polyvinyl chloride (PVC) and plastic pipes throughout much of Latin America.

Suntech Power (China), a solar-power company, was little known outside its home market in 2004, when it had sales of just $85 million. However, propelled by low production costs in China and a commitment to innovation, the company grew rapidly to achieve $1.3 billion in sales just three years later.

This is an extraordinary catalog of achievement. The question naturally arises, how have the challengers done it?
The paths that challengers have taken to contend for leadership have been as diverse as the challengers themselves. But a number of characteristics common to many challengers offer insights into the powerful forces underlying the emergence of these companies on the global stage. These characteristics include early advantages as a result of their location in RDEs, the ambition and determination to go for global leadership, and a willingness to reach outside for rapid growth.

### Early Advantages

The business environments in the challengers’ countries of origin have played a key role in their development. The early advantages that the challengers have enjoyed include privileged access to high-growth markets and resources, freedom from legacy assets in high-cost, slow-growing countries, and access to low-cost labor pools.

**Privileged Access to Markets and Resources.** Protected or highly regulated market environments have given challengers access to valuable natural resources or rapidly growing markets where there was initially little or no threat from global competitors. Many challengers have enjoyed success in their home markets (or export markets) by mastering their sources of competitive advantage before globalizing their operations. They have been able to “ride the wave” and rapidly build the scale necessary to contend for leadership at a global level. Their governments have also, in some cases, provided some defense against incursions by global incumbents or challengers from other RDEs into their home territory.

**Freedom from Legacy Assets.** Unlike their established rivals, the challengers have not needed to contend with outdated assets or technologies left over from the past wave of globalization. Similarly, they have not generally been bound by entrenched agreements with suppliers, distribution channels, or labor unions. Moreover, they have been able to pick which (if any) high-cost, slow-growing developed markets to enter: this advantage has given them a great deal of flexibility in charting their future course.

**Access to Low-Cost Labor Pools.** RDEs benefit from low labor costs, which give labor-intensive businesses based there an often significant cost advantage over rivals based in developed countries. Moreover, as some of the largest, fastest-growing, and most exciting companies in their home countries, challengers typically provide compelling career opportunities for new recruits, and some have developed the ability to hire and train at lower costs than competitors.

Dr. Reddy’s Laboratories (India) cites several drivers for attracting and retaining the best talent, including offering a better learning experience, giving people a sense of empowerment, and having a company culture that is valued by employees. Providing career opportunities is also key; Sinomach (China National Machinery Industry Corporation) (China) states that, as a large-scale enterprise, it can offer employees the opportunity to make a real impact in the industry, which is an important attraction for recruits.

Global challengers also have the ability to hire and train at lower cost than competitors. Nowhere is this more evident than in the IT sector in India, where talent management is one of the critical levers of competitive advantage. For example, to attract the new employees it needs in order to continue its impressive growth, Wipro (India)
actively recruits beyond traditional engineering and computer science disciplines, seeking talented individuals who have majored in other sciences. The incremental training costs that the company incurs are less than the salary premiums commanded by many engineering graduates. Similarly, Tata Consultancy Services (TCS) (India) builds partnerships with local universities to provide in-school training. In addition, TCS has launched an IT skills training program for science graduates.

**The Ambition to Go for Global Leadership**

The allure of going for global leadership is truly compelling. It provides a strong motivating force for many companies aiming to accelerate their growth, become more diversified, and increase their international recognition. However, the risks are also great, and so it takes an unusually ambitious challenger to even begin this journey.

Privileged access to high-growth markets and resources, freedom from legacy assets in high-cost, slow-growing countries, and large pools of low-cost labor provide the basic platform for globally competitive companies—but these advantages alone are not enough to make a global challenger. Indeed, many companies that enjoy these advantages are content to be major players in their home countries without moving abroad. Not so the global challengers. Something compels them to go further, to play in a higher-stakes game. Often the ambition and risk tolerance underlying their bold moves can be traced directly to the aspirations of their founders and leaders.

More than half of the global challenger companies profiled in this report are led by the company’s founders, their family members, or individuals who have been instrumental in growing the company from its early beginnings. Similarly, only 23 percent of challengers are accountable to highly diverse shareholder groups; the rest are privately held or effectively controlled by a limited number of shareholders.

Of the countries with companies on our list, China has the most concentrated shareholding; the government owns most of the China-based challengers on our list. Challengers based in India, by contrast, tend to have a more diverse set of shareholders. However, even where there are diverse shareholder groups, the influence of founders or family members can still remain strong, as is the case with many Indian challengers.

These tightly controlled ownership structures strongly influence the challengers’ ambitions and ability to contend for global leadership—providing them with a large appetite for risk, a low perceived cost of capital, and an effective defense against takeovers.

**Something compels the global challengers to play in a higher-stakes game.**

**A Large Appetite for Risk.** Expanding overseas is always a risky proposition. So the entrepreneurial spirit embodied by many owner-founders can make a key difference in a company’s success or failure. Furthermore, because the owners of many challenger companies have a large proportion of their wealth tied to their companies, their attitudes toward diversification can vary significantly from those of institutional investors. This explains why some of the challengers have developed into diversified conglomerates, including Koç Holding (Turkey) and the Tata Group (India).

**Low Perceived Cost of Capital.** In financing growth, MNCs typically consider both the cost of debt and the cost of equity—representing the actual cost of debt and the expected return for shareholders, respectively. By contrast, state owners of companies can have agendas that extend beyond shareholder returns—for instance, securing access to natural resources or reducing unemployment—which lower the expected rates of return they require on their investment. Similarly, family-owned challengers with long-term investment objectives may make decisions that appear inconsistent with their cost of capital. This different way of viewing the cost of capital can enable challengers to be more aggressive than established competitors when bidding for acquisition targets or making other overseas investments.

**Effective Defenses Against Takeovers.** Few challengers are vulnerable to hostile takeovers, thanks to the concentration of equity holdings in the hands of family members or governments. In fact, among challenger companies, boardroom coups by rival family members are far more common than hostile-takeover attempts. The benefits of being protected from hostile takeovers are debatable, but it is certain that managers protected in this way can feel emboldened to take greater risks.
A Willingness to Reach Outside for Rapid Growth

Despite the aggressive expansion plans of the challenger executives and their high tolerance for risk, few challengers have adopted a go-it-alone strategy in their quest for global leadership. Most recognize the tremendous opportunities available in the form of partnerships with incumbents and with other challengers, acquisitions of companies beyond their borders, and international management talent. The ability to reach beyond home markets to leverage international experience and resources is a critical success factor for many challengers.

Partnering to Build World-Class Capabilities—Fast. Often, the challengers fill any gaps in their capabilities by forming international partnerships with incumbents and other challengers. These partnerships can range from technology-transfer arrangements to sales and distribution agreements. Effective use of partners can help challengers quickly overcome entry hurdles and tap into global markets.

Using Acquisitions as a Quick Path to Global Leadership. With their high tolerance of risk, challengers often look to international M&A as a preferred way to gain footholds overseas quickly.

Of the 100 new global challengers in our list, those in the natural resources and metallurgy sectors and in the service sector were most likely to use M&A as a way of growing the business. Challengers in those sectors conducted an average of 9.5 and 5.3 outbound deals, respectively, between January 2000 and mid-2008. By contrast, challengers in the consumer durables sector (excluding automotive OEMs and component suppliers) tended to rely mostly on organic growth, with only 1.4 average deals per company during this time period. (See Exhibit 1.)

Managing the M&A process to maximize value creation is no easy task.

The global challengers’ hunger for value-creating M&A deals is clear. However, while successful overseas M&A can provide a launching pad for global leadership, failed acquisitions can halt an otherwise promising challenger in its tracks. Effectively managing the M&A process to maximize value creation is no easy task. Grupo Bimbo (Mexico), a baking company that relies heavily on acquisitions to grow its brand portfolio abroad, identified thorough due diligence and planning as critical to reducing the risk of M&A failure.

Challengers are also increasingly working with outside partners such as private-equity firms to make the most of their M&A activity. These partnerships can constitute a win-win relationship, with challengers providing operational expertise and private-equity firms assisting with financing and regulatory approval. Teaming up with a partner can also help overcome negative public relations from a perceived foreign takeover. However, such partnerships are no guarantee of success. Huawei Technologies teamed up with Bain Capital (United States) in a bid for the U.S. networking-equipment company 3Com but was unable to win regulatory approval for the deal.

Actions that companies take following the acquisition are also critical. Wang Guoliang, CFO of Chinese oil company CNPC, states that 20 percent of the risk occurs during the M&A process, whereas 80 percent comes during the post-acquisition period. Accordingly, challengers adopt a variety of approaches to integrating companies once the deals have closed. Some challengers prefer to minimize disruption to acquired businesses, keeping existing management teams in place and conducting limited, if any, formal integration among existing companies. Tata Group’s “light touch” strategy exemplifies this approach: it relies on buying businesses with solid management teams already in place and minimizing interference in company operations. This strategy has been one of the keys allowing Tata Group to grow into the largest R&D-based diversified conglomerate in the world. Similarly, Vedanta Resources (India) does not conduct formal post-merger-integration activities but relies on executive discussions, workshops, and audits to ensure that subsidiaries perform consistently with best practices developed within the group.

At the opposite end of the spectrum are companies that adopt a philosophy of systematically integrating acquired companies, seeking to maximize synergies and share best practices between acquiring and target organizations. For example, Nemak (Mexico) has recognized the benefits that increased integration can confer. It launched an initiative in 2007 to integrate its previously acquired companies under one roof.
Building Management Teams with a Global Outlook.
Many challengers are working to globalize their management team by tapping into talent beyond their domestic markets. The boards of directors of challenger companies are already as international as those of most developed-country MNCs, despite the fact that many challengers have entered international markets only quite recently. Some, such as Lenovo Group (China) and Tata Steel (India), have truly embraced the benefits of having international management teams and have integrated talent from acquired companies into their top ranks. Agility (Kuwait) has also built a highly international management team distributed across multiple headquarters around the world. These international managers are empowered to take on risks and make big bets, with the central organization acting in a governance role. Agility cites this approach as a key source of competitive advantage, allowing the company to take on projects in emerging markets that competitors would find difficult to pursue. The trend toward international management teams is likely to continue as challengers globalize further. In the future, R&D-based challengers are likely to surpass many incumbents in terms of the international character of their boards of directors.

To better understand how the new challengers will affect the global business landscape, we look first to some of the front-runners among the global challengers—100 companies that are aggressively contending for global leadership.
This year, as twice in the past, BCG has selected a list of 100 global challengers that are already quite large, actively expanding their businesses into overseas markets, and accessing global resources. We look to these companies’ innovative business models and recent successes—as well as the challenges they face and the setbacks they have overcome—to help us understand how challengers in general are growing and changing. (See Exhibit 2.)

In selecting this year’s list, we again went through a rigorous screening process to identify 100 companies that best exemplify the characteristics of global challengers. (For details on that process, see the sidebar “Methodology for Selecting the 2009 BCG 100 New Global Challengers.”)

Newcomers to This Year’s List

Regular readers of this report will note that 19 new companies have displaced others from last year’s list. In most cases, the companies that no longer appear on this year’s list continue to be powerful contenders within their respective industries but are not growing their international businesses as rapidly as others on the list. Nonetheless, on average, the removed companies have continued to grow revenues faster than their developed-country peers, although some have been less aggressive overall in continuing their international growth. And a handful of companies that have undergone or are undergoing major restructurings or potential changes in control have been removed from the list until their future structures become clear.

The 19 new additions to the BCG 100 New Global Challengers list for 2009 are the following companies:

- Agility (Kuwait) is one of the world’s top ten logistics service providers, with 2007 revenues of $6.3 billion, a presence in 100 countries, and very active cross-border M&A activity. The company is composed of three interrelated business groups: Global Integrated Logistics, Defense & Government Services, and Investments. Agility has grown 127 percent annually since 2004, when its revenues totaled $541 million.

- Camargo Corrêa Group (Brazil) is one of the largest conglomerates in Brazil, with activity in construction and engineering, footwear, textiles, infrastructure, building materials, and real estate; 2007 revenues of $6.4 billion; and a significant presence across Latin America, Spain, and Africa. Camargo Corrêa doubled in size from 2005 to 2007, and its international revenues are estimated to be increasing even faster.

- China National Chemical Corporation (ChemChina) (China) is a chemical company with estimated 2007 revenues of $14.5 billion. The company has experienced rapid growth at home and abroad, driven in part by significant overseas acquisitions. In 2007, ChemChina purchased Fibres Worldwide (United Kingdom) and Rhodia Silicones (France). It also launched a multibillion-dollar bid for Nufarm (an Australian farm-chemicals group), which was not completed.

- Dalian Machine Tool Group (DMTG) (China) is the largest machine-tool company in China, with 2007 revenues of $1.4 billion. It has been actively buying and partnering with overseas machine-tool companies to gain access to proprietary technologies. DMTG purchased two divisions from Ingersoll International USA and acquired a majority stake in German machine-tool manufacturer F. Zimmermann.
Exhibit 2. The 2009 BCG 100 New Global Challengers Include 19 New Entrants

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★This company is new to the BCG 100.

Source: BCG analysis.

1This entry replaces a subsidiary that appeared on the 2008 list: Odebrecht Group replaces Braskem, China Communications Construction Company replaces Shanghai Zhenhua Port Machinery, China National Petroleum Corporation replaces PetroChina, and Basic Element replaces United Company Rusal.

2Wilmar International is headquartered in Singapore.
Dubai World (United Arab Emirates) is a diversified holding company focused on transport and logistics, drydocks and maritime, urban development, and investment and financial services, with more than 80 companies operating in more than 100 countries. In 2006, Dubai World’s port-operating company DP World purchased the P&O Group for $6.8 billion, making it the fourth-largest port operator in the world. In 2007, Dubai World’s investment arm Istithmar World purchased prominent U.S. retailer Barneys and invested significantly in the MGM Mirage. Its equity investment exceeds $2.6 billion. Dubai World’s real-estate developer Nakheel built the iconic Jumeirah Palm in Dubai and is currently adding more than 1,000 kilometers of coastline to Dubai with its projects.

Emaar Properties (United Arab Emirates) is a FT Global 500–listed real-estate and development company with a highly global approach and 2007 revenues of $4.8 billion. Emaar frequently uses joint ventures in its investments; it has applied this strategy successfully in China, India, Saudi Arabia, and other countries. It focuses primarily on emerging markets but entered the United States in 2006 with the $1 billion purchase of John Laing Homes.

Emirates Airline (United Arab Emirates) is a passenger airline with a modern fleet, substantial international growth, a rising position among global airlines, and 2007 revenues of $10.6 billion. Except during its first three years in operation, Emirates has never recorded an annual loss since its founding in 1985. As of October 2008, it had 122 aircraft in service and firm orders for another 174—a clear indication of its aggressive growth ambitions.

Etisalat (United Arab Emirates) is a telecommunications services provider with operations in 16 countries spanning Africa, Asia, and the Middle East, with 2007 revenues of $5.8 billion. Its continued acquisitions, such as the 45 percent stake in Swan Telecom in India that it recently acquired for $900 million, clearly dem-
onstrate its vision to become a Top 20 global telecommunications company by 2010.

- Evraz Group (Russia) is one of the largest vertically integrated steel and mining companies in the world, with a significant presence in Europe and North America and 2007 revenues of $12.8 billion. Evraz completed several major overseas acquisitions from 2005 to mid-2008, including the $2.1 billion purchase of Oregon Steel Mills (United States), the $414 million purchase of Claymont Steel Holdings (United States), and the acquisition of IPSCO (Canada) for $2.9 billion. Those acquisitions made Evraz the second-biggest large-diameter pipe manufacturer in North America.

- Falabella (Chile) is a fast-growing Latin American retailer with diversified interests, including department stores, supermarkets, home improvement, retail financial services (such as credit and insurance), malls, and travel services, with 2007 revenues of $6.6 billion. Like some other challengers, Falabella takes a “multilocal” approach to expansion, seeking to adapt products and services to local market preferences while retaining consistent global management systems.

- Gedeon Richter (Hungary) is one of the leading independent pharmaceutical companies in Eastern Europe, producing both generic and original drugs, with $1.2 billion in 2007 revenues. From 2000 through 2007, Gedeon Richter’s revenues grew at a 25 percent compound annual growth rate, driven mostly by increased international sales.

- Mexichem (Mexico) is a chemical company that has undertaken a major inorganic growth campaign throughout Latin America to build a sizable position in PVC and fluorite, with 2007 revenues of $2.1 billion. The company has vertically integrated its operations; it now operates a salt mine for its vinyl-chlorine chain business and the world’s largest fluorite mine for its fluorine chain business.

- Sinosteel (China) is a metallurgical and mineral resource development and trading company active in purchasing overseas resources. The company achieved 2007 revenues of $16.3 billion. Sinosteel does not produce steel—rather, it supplies minerals, machinery, and value-added services to the iron and steel industry. Sinosteel launched the first-ever hostile takeover bid by a Chinese state-owned enterprise, culminating in the $1.3 billion purchase of Midwest, the Australian iron-ore miner.

- Sistema (Russia) is the largest non-natural-resource conglomerate in the CIS, with a focus on telecommunications, other consumer services, and high technology. It has experienced significant growth in Europe and Asia and earned 2007 revenues of $13.7 billion. Its Mobile TeleSystems subsidiary is the largest mobile operator in Russia and the CIS. Sistema owns a majority stake in Shyam Telelink, an Indian telecommunications company. The company sees India as a potential beachhead for the long-term development of its business, including possible diversification into other fields in which the corporation has accumulated significant expertise, such as real estate, retail, tourism, high technology, film production, and mass media. But the first-priority market for Sistema’s telecommunications business is still Russia and the CIS.

- Suntech Power (China) is one of the world’s largest solar-photovoltaic manufacturers, with 2007 revenues of $1.3 billion. Nearly all of Suntech’s revenues come from exports to major solar-energy markets around the world. In addition to achieving rapid organic growth, Suntech Power has acquired MSK Corporation in Japan and KSL-Kuttler Automation Systems in Germany.

- Tata Chemicals (India) is an inorganic-chemicals producer with a significant global market share in soda ash; plants in Kenya, the Netherlands, the United Kingdom, and the United States; and 2007–2008 fiscal-year revenues of $1.5 billion. The company’s 2008 purchase of General Chemical Industrial Products for $1 billion made it the world’s second-largest producer of soda ash.

- United Spirits (India), formerly known as McDowell & Company Limited, is the spirits arm of the UB Group. The history of the company dates back to 1826, when it was established as a proprietary business before being acquired by UB in the 1950s. In 2007, its purchase
of Whyte & Mackay, the leading Scotch-whiskey company in the United Kingdom, catapulted the company into the number three position by volume in the global spirits industry, after incumbents Diageo and Pernod Ricard.

- Vedanta Resources (India) is a U.K.-listed holding company with major subsidiaries operating in copper, zinc, aluminum, and iron ore, and with 2007–2008 fiscal-year revenues totaling $8.2 billion. Vedanta has operations in Australia, India, and Zambia. In 2004, Vedanta acquired copper mines in Zambia and in 2008 bid for the operating assets of Asarco, the third-largest copper producer in the United States. Vedanta Resources relies on a lean production model achieved through low labor costs and fully captive power plants to improve the profitability of mining assets.

- Wilmar International (Malaysia/Indonesia) is a Singapore-headquartered agribusiness group founded by two entrepreneurs from Singapore and Indonesia. Its integrated business model focuses on the processing and merchandising of palm oil, oilseeds, and grains, and earned first-half 2008 revenues of $15.0 billion. Wilmar has a network of more than 160 processing plants and conducts operations in more than 20 countries across four continents, principally in Indonesia, Malaysia, China, India, and Europe. It is one of Asia’s leading agribusiness groups.

In addition, we have added to this year’s list the parent companies of four challengers that we profiled in our prior reports on new global challengers and have therefore removed the names of the subsidiary companies from this year’s list. The four parent companies are Basic Element, the diversified industrial holding company behind United Company Rusal, insurance company Ingosstrakh, and automotive producer GAZ Group, among other assets; China Communications Construction Company (CCCC), an international construction contractor that owns a controlling stake in Shanghai Zhenhua Port Machinery; CNPC, the state-owned majority shareholder of publicly listed PetroChina; and Odebrecht Group (Brazil), which controls a global construction contracting company, Construtora Norberto Odebrecht, as well as petrochemical company Braskem.

Our 2009 Challengers by Home Country and Industry

The 2009 BCG 100 new global challengers represent a tremendously diverse group. They are based in 14 RDEs: Argentina, Brazil, Chile, China, Hungary, India, Indonesia, Kuwait, Malaysia, Mexico, Russia, Thailand, Turkey, and the United Arab Emirates. Some of them are headquartered in Hong Kong, London, and Singapore; we have included them on the basis of their significant operating presence in, or historical association with, RDEs. (See Exhibit 3.)

In terms of the number of companies based in each country, China remains in the lead with 36 companies on this year’s list, followed by India (20), Brazil (14), Mexico (7), and Russia (6). These five economies continue to be fertile breeding grounds for the types of large, fast-globalizing companies that are candidates for inclusion on this list. Two RDEs—the United Arab Emirates and Kuwait—have representatives on the list for the first time, reflecting the rapid globalization of service and development companies based in these countries.

The industries represented by the new global challengers are also very diverse. The natural-resources and metalurgy sectors, with 20 companies, represent a sizable portion of the list, as do food and beverage companies (13) and automotive OEMs and component suppliers (10).

The Challengers’ Six Tried and Tested Globalization Strategies

In our 2006 report, we identified six globalization models that challengers adopt when seeking to expand:

- Taking RDE brands global
- Turning RDE engineering into global innovation
- Assuming global category leadership
- Monetizing RDE natural resources
- Rolling out new business models to multiple markets
- Acquiring natural resources
These strategies continue to be the primary methods by which the challengers have expanded internationally. It is important to note that these strategies are not mutually exclusive—some of the challengers effectively employ several of them in their quest for global leadership.

More than half of the new entrants to this year’s list emphasize the importance of turning RDE engineering into global innovation or rolling out new business models to multiple markets. Clearly, these remain prominent choices for emerging challengers as they go global. The new natural-resources companies on the list globalize by acquiring natural resources. Several challengers are assuming global category leadership in their fields, including Tata Chemicals, which achieved the number two position globally in soda ash in 2008. United Spirits exemplifies a company taking RDE brands global as it continues to expand the distribution of its portfolio of spirits brands in both developed and emerging markets worldwide.

A Snapshot of the BCG 100

As a group, the 100 companies on this year’s list had a tough time creating the kind of value in 2008 that they had created in less turbulent times. Nonetheless, they continued to grow revenues rapidly in 2007 and early 2008 while maintaining superior levels of profitability. They also wielded hefty purchasing power and exhibited a healthy appetite for M&A deals, as well as a bold attitude toward risk in general.

Value Creation During Economic Turbulence. The year 2008 was difficult for the challengers in terms of value creation, as global economic turmoil took its toll on the companies’ formerly soaring stock prices. (See Exhibit 4.) The first ten months of the year saw the challengers’ performance on total shareholder return (TSR) lagging behind their developed- and emerging-market peers, as measured by a market capitalization–weighted composite index of the 78 challengers that are publicly traded on major stock exchanges. Much of the underperformance can be attributed to the significant declines in stock prices of a few very large challengers, while the remaining challengers continued to perform well relative to their peers. Many of the factors that contributed to the challengers’ rapid growth over the past few years, such as high leverage, are presenting new challenges as these companies adapt to highly volatile economic conditions.
There will be both winners and losers from the list of 100 challengers, and economic turmoil can provide a crucible for defining those that will ultimately achieve and sustain global leadership positions.

**Robust Revenues and Profits.** The challengers’ revenues grew at the impressive rate of 29 percent per year from 2005 to 2007, reflecting their aggressive expansion. This outstanding performance significantly outpaced constituents of the S&P 500, Nikkei 225, and DAX 30. (See Exhibit 5.) In total, the challengers’ sales reached a combined $1.5 trillion dollars in 2007, of which more than $600 billion represented sales outside their domestic markets. This trend continued into the first half of 2008, when the challengers’ revenue growth soared by close to 32 percent. However, with the credit crisis constraining some challengers’ ability to finance new acquisitions, these growth rates will be difficult to sustain over the near term.

Moreover, challengers are not just competing for market share at the expense of profits. In 2007, these 100 challengers had an average operating profit of 17 percent—notably higher than the 14 percent average operating profit of the S&P 500 companies. This high profitability plays a vital role in enabling the challengers’ overseas expansion.

**Hefty Purchasing Power.** The global challengers are making an impact along their entire supply chains. Many companies that serve as their partners and suppliers are also benefiting tremendously from their rise. In view of these 100 challengers’ $1.5 trillion in revenues, it is not surprising that they are also very large buyers of everything from iron ore to paper clips. In 2007, these challengers spent an estimated $600 billion to $800 billion on raw materials, parts, and components, as well as $80 billion to $100 billion on services. This represents a significant increase over their 2006 spending, caused in part by higher commodity prices during this period.

**A Tremendous Appetite for M&A.** In 2007, these 100 challengers conducted at least 88 outbound M&A transactions—a significant increase from the estimated 19 such deals they conducted in 2000. The average value of
The 2007 deals for which value was disclosed was quite large, at nearly $600 million. (See Exhibit 6.) (Greenfield investments and organic expansion also played a significant role in the challengers’ overseas growth, contributing approximately 70 percent of their international revenue growth in 2007.)

The target regions for the challengers’ outbound M&A deals vary widely. Europe is the M&A destination of choice for challengers based in India and Russia, whereas Chinese challengers’ outbound M&A targets have been more geographically diverse, with 26 percent of their deals in Europe, 26 percent in the United States and Canada, and the rest widely distributed around the world. (See Exhibit 7.) Interestingly, however, despite the many examples of high-profile outbound deals from China, the 36 challengers based there are less acquisitive as a group than either their 20 Indian or their 6 Russian counterparts. Brazilian and Mexican challengers have made more outbound M&A deals in Latin America than other challengers, and Brazilian challengers are also major acquirers in the United States and Canada.

**A Bold Attitude Toward Risk.** International expansion is not without its risks, which most challengers have embraced in their quest for global leadership. However, during difficult economic times, this attitude toward risk can easily backfire, sending companies into retreat or even bankruptcy. As of November 2008, 18 of the challengers had either debt-equity ratios more than 30 percent above their industry peers or very low solvency ratios. Some sustained sizable foreign exchange losses owing to the sudden appreciation of the U.S. dollar in late 2008. These factors, combined with tightened credit markets caused by the economic crisis, threaten the very existence of some of the challengers that relied on high leverage to sustain their growth during the boom years. Accordingly, it is likely that some challengers will need to restructure their businesses significantly in order to survive during these difficult economic times.

Often, challengers seek to minimize the risks inherent in M&A deals by purchasing minority stakes rather than obtaining outright control of acquired companies. The percentage of challengers’ outbound deals resulting in a majority stake declined from a high of nearly 84 percent in 2004 to just below 68 percent in 2007. M&A deals leading to minority stakes were most common in the natural-resources and metallurgy sectors and in service sectors such as telecommunications. In many cases, companies can fulfill their strategic objectives through minority-stake purchases without having to overcome the additional regulatory and integration hurdles that result from an outright acquisition. Outbound M&A is always risky, but pursuing minority stakes can mitigate the possibility of a failed postmerger integration.
Exhibit 6. The Global Challengers Have Increased the Pace and Value of Their Outbound M&A Deals

Outbound M&A deals by the 2009 BCG 100 Global Challengers, 2000–2007

Disclosed value of deals by the 2009 BCG 100 Global Challengers, 2000–2007

Sources: Thomson Financial Datastream; BCG analysis.

*a Only deals for which the deal value was disclosed, according to Thomson Financial Datastream, are included.

*b The 2006 data include three deals worth more than $10 billion each.

Exhibit 7. The Regions in Which the Global Challengers Conduct Outbound M&A Deals Vary Widely

Locations of outbound M&A targets for the 2009 BCG 100 Global Challengers based in BRIMC countries, January 2005–mid-2008

Sources: Thomson Financial Datastream; BCG analysis.

Note: The BRIMC countries are Brazil, Russia, India, Mexico, and China.

Others comprise Africa, Australia and Oceania, and the Middle East.
Increased pressures on several fronts—including significantly more volatile costs, changes in government priorities, and the need for international brand recognition and world-class R&D capabilities—have not deterred the challengers from their growth ambitions. As a group, they are responding to all these pressures by adapting and strengthening their businesses.

**Significantly More Volatile Costs**

From 2005 to early 2008, the challengers saw their operating margins buffeted by rising costs in several categories. As a result, their average operating margins declined from 18 percent in 2005 and 2006 to 17 percent in 2007. Commodity price increases affected nearly every global challenger in 2007 and early 2008, increasing costs for most and boosting profits for a select few. Many resource owners benefited from record high prices, although some encountered significant profitability challenges. In 2007, challengers in the manufacturing sector faced significantly higher costs for many materials, such as plastics and steel, which they could not always pass on through price increases. As commodity prices fell in late 2008, concerns about high resource prices were supplanted by the impending challenges posed by global economic instability.

Challengers adopted various strategies to hedge against commodity price volatility. Tata Chemicals, for example, chose to produce a higher proportion of natural soda ash to synthetic soda ash (60/40 compared with the world average of 30/70)—a clear departure from the strategy typically pursued by incumbents. Natural soda ash entails higher freight costs, but production of synthetic soda ash uses more energy. Tata Chemicals’ strategy has paid off, as high energy prices in 2007 and early 2008 put incumbents focused on synthetic soda ash at a cost disadvantage.

Similarly, high energy prices have caused other challengers to look more closely at opportunities to improve energy efficiency. Severstal states that energy efficiency is beginning to play a very significant role in its business; the company has several initiatives under way designed to improve on this dimension. Basic Element, too, has launched a series of initiatives to improve energy efficiency at its production facilities.

Many RDEs registered significant increases in labor costs in 2007 and 2008, and some regions experienced labor shortages during this period. In response to these developments, some challengers, such as Basic Element, are creating new educational programs to help attract and retain skilled manufacturing workers.

But it is nevertheless important to note that despite the recent wage increases in RDEs, the gap in labor costs between RDEs and developed countries is still wide and unlikely to close anytime soon. So RDEs should remain highly competitive as sites for labor-intensive industries. Productivity gains in RDEs have also offset some of the labor-cost increases.

In addition to rising costs, currency appreciation in some RDE countries hurt challengers’ international sales in 2007. Some challengers’ currencies, such as the Chinese yuan, are governed by strict currency controls that limit the challengers’ ability to address this risk through financial hedges. The currency appreciation issue has af-
fected challengers in different RDEs to varying degrees. Similarly, the sudden appreciation of the U.S. dollar in late 2008 also underscored the significance of currency risk, as many challengers did not take sufficient hedges against their exposure.

While many of the underlying cost pressures cited above are beyond individual companies’ control, challengers are adopting strategies to respond to them and to mitigate their impact. These strategies include diversifying geographically, optimizing supply chains, improving productivity, passing costs on to others, and seeking government support.

**Challengers are attempting to mitigate the impact of cost pressures.**

**Diversifying Geographically.** The challengers’ geographic expansion acts as an indirect hedge against both rising labor costs and exchange rate fluctuations. For instance, although Lenovo is based in China, its manufacturing plant network spans Europe, North America, South America, and Asia, effectively containing its risk from possible appreciation of the yuan. Similarly, Severstal balances its growth between developed and emerging markets as part of its risk-management approach, tapping into the growth and cash-generation potential of the emerging markets as well as the stability and capability development available from competing in the developed markets.

**Optimizing Supply Chains.** The challengers seek ways to optimize their supply chains in order to reduce costs, variability, and risk of disruption. Strategies may include relocating manufacturing or assembly operations to low-cost regions or closer to end customers. Some challengers opt to produce low-complexity components in low-cost regions and use plants in high-cost countries to produce more complex components that require frequent interaction with customers.

**Improving Productivity.** Challengers are improving the productivity of their operations both by investing in new technologies and by reducing their labor resources or re-allocation them to more effective use. Wipro, for example, has applied lean-manufacturing concepts to software development, often generating efficiency improvements of 10 percent or more on individual projects. Thai Union Frozen Products (Thailand) cites its continuous drive for operational excellence as key to being a low-cost produc-

**Passing Costs on to Others.** Despite the potential risk to sales, some challengers are finding it prudent to raise prices in response to macroeconomic cost increases. The success of this strategy is, of course, highly dependent on specific market conditions.

**Seeking Government Support.** In some cases, challengers with strong support from national governments have used these relationships to help buffer their profits against cost increases. Sinopec, as the largest refiner in China, was able to offset some of the profit it lost because of price controls on refined fuels thanks to government-supplied subsidies. The opposite effect takes place in some developed countries, where politicians may seek to impose windfall profits taxes on local incumbents in the fossil fuels industry.

**Changes in Government Priorities**

One ever-present consideration in any RDE is the possibility of changes in government policies. RDE-based governments frequently revise their policies on trade, foreign direct investment, domestic subsidies, and industry restructuring or consolidation. Challengers that are aligned with current government priorities stand to gain, while those that are not must operate with caution.

Most recently, as the global financial crisis began to unfold in late 2008, governments around the world responded by abruptly launching a range of regulatory programs. These programs will have direct effects, both positive and negative, on challengers’ competitive positions. Indeed, most challengers must respond simultaneously to multiple government programs at home and abroad. Given the extent of the financial crisis and the multiplicity of governmental responses, whole industries will be reshaped. It will be imperative for all challengers, regardless of home country or industry, to navigate these complex new circumstances effectively.
The current financial crisis aside, incumbent MNC competitors often highlight the advantages RDE governments offer to their national champions. These include tax breaks, reduced financing costs, subsidies of various kinds, privileged access to resources, and trade barriers against external competitors. However, not all challengers receive such preferential treatment from their governments. Indeed, some have been adversely affected by regulatory changes at home. For example, China sought to scale back and modernize its domestic aluminum industry because the large number of inefficient, subscale aluminum smelters was draining the growing nation’s precious electricity resources. Toward that end, the government cut value-added-tax (VAT) rebates and power subsidies for the aluminum industry and implemented a minimum-scale directive on aluminum smelters. The Aluminum Corporation of China (Chalco), China’s largest aluminum producer and the second-largest worldwide, responded by increasing its efforts to boost the productivity of its domestic assets, limiting its domestic greenfield investments, and actively expanding its footprint abroad. In 2008, Chalco formed a joint venture to create a 1-million-ton aluminum plant in Saudi Arabia; it also joined with Alcoa in purchasing a $14 billion stake in Rio Tinto.

In addition to its desire to shift to higher-value-added industries, China has sought to improve working conditions. In early 2008, China introduced a broad set of labor law reforms, including open-ended work contracts and severance pay for workers. These reforms have added costs to labor-intensive manufacturing industries in China.

Gedeon Richter also saw a major shift in government support. After the fall of the Communist regime in Hungary, the company had to build up its distribution networks with limited assistance from the government. A new pharmaceutical law established in 2006 further cut into the industry’s profits, lowering prices for generics by 30 to 50 percent and imposing an extra 12 percent tax burden.

Challengers can take a proactive approach by establishing diligent regulatory processes and campaigns across their organizations to more effectively engage with stakeholders at multiple levels of government.

The Need for International Brand Recognition and World-Class R&D Capabilities

Many challengers are still struggling to develop internationally recognized brands and world-class R&D capabilities, while others have already gained significant leverage in these areas.

### Challengers have had only limited success building strong global brands.

Building Brands with International Recognition. Managing and developing strong brands remains one of the biggest hurdles facing the global challengers. Many have built formidable brands in their home markets but remain little known or plagued by perceptions of low quality abroad. Changing those perceptions will be critically important as they seek to expand the global reach of their product lines—particularly as many are choosing to move up market, not only into developed economies but also into premium segments, where branding forms the basis of sustainable competitive advantage.

To date, global challengers have had only limited success in building strong global brands. China Mobile, Haier (China), and Lenovo have all succeeded in gaining international recognition for their brands, while others have acquired well-known brands from abroad: for instance, Grupo Bimbo has bought overseas brands such as Plus Vita and Orowheat. Thai Union Frozen Products recognized that to build a sustainable competitive position, it needed to be more than just an OEM. In line with this strategy, it purchased the well-known Chicken of the Sea brand of tuna, solidifying its position in the industry and giving it a significant market share in the United States. However, these companies are the exception rather than the rule. When it comes to branding, there is a sizable gap between challengers and their established rivals.

The challengers on our list are pursuing four main brand strategies: acquiring established local brands in other RDEs, acquiring established local brands in developed countries, acquiring established global brands, and taking RDE brands global. Acquiring established brands provides rapid access to other markets, whereas building global brands organically permits greater flexibility in the brand’s positioning. The challengers that seek to build their own brands organically overseas have generally focused on differentiation and high quality. Haier, for ex-
ample, has taken this route in developed markets, where it remains a relatively new entrant and must overcome preexisting consumer perceptions and lack of familiarity with its brand.

The cost of global branding should not be understated. Tata Tea’s acquisition of The Tetley Group cost more than $400 million, and Haier spends nearly $100 million every year on advertising costs related to its brands. For this reason, scale is a key success factor in achieving international brand recognition.

To mitigate the risks inherent in such large investments, many challengers are adopting transitional branding strategies. Lenovo, for example, licensed the IBM brand for five years following its purchase of the latter’s personal-computer business but phased in its own brand name after only three. Similarly, Bajaj Auto (India) has a partnership with Kawasaki whereby a series of coproduction and distribution deals give both companies greater access to a number of key markets worldwide and help improve Bajaj Auto’s reputation for quality and value. Both challengers chose to leverage the more established incumbent brands while seeking to develop reputations for high-quality products.

Using World-Class R&D to Compete as an Innovator. The global challengers’ R&D spending is on the rise, but significant gaps need to be closed between challenger and incumbent R&D spending if challengers want to be competitive at a world-class level. Many challengers are only just beginning to embark on this journey but have the potential to reshape their industries as they embrace the values (and nuances) of innovation. The learning curve is steep, however. Challengers with the determination and long-term vision required to be successful at innovation will ultimately be among the global champions.

As Erik Bogsch, CEO of Gedeon Richter, points out, the biggest winners in the generic pharmaceutical industry are the companies that are making money from innovation. G.V. Prasad, CEO of Dr. Reddy’s Laboratories, expressed a similar view, highlighting that the line between “generic player” and “innovator player” is blurring. CNPC identifies innovation as a key strategic priority, with new developments in deep-water oil extraction and coal bed methane as offering significant potential for future growth.

RDE-based companies are not generally recognized as being at the forefront of R&D. Many suffer from insufficient enforcement of intellectual property rights in their home countries, which effectively reduces the value of R&D investments that target domestic markets. However, the status quo is changing. The number of patent applications from major RDEs is growing quickly, although it is still dwarfed by applications from developed economies. (See Exhibit 8.)

Challengers such as Huawei Technologies are adopting comprehensive intellectual-property strategies and filing increasing numbers of patent applications both at home and abroad. In 2008, the World Intellectual Property Organization recognized Huawei Technologies as the fourth-largest patent applicant in the world. However, many other challengers need to focus significantly more resources in this area to reach parity with the standard practices of incumbent MNCs. In addition, investing in intellectual property protection can narrow and ultimately reverse the “royalty gap” by allowing challengers to become net exporters of innovation.

Rather than develop innovative products entirely from scratch, challengers often use partnerships and acquisitions to access world-class technology. Wind-power specialist Suzlon Energy (India) bought REpower Systems, Germany’s third-largest wind-turbine manufacturer, to gain access to the latest technologies in wind power and expand its base of talented engineers. DMTG has adopted a similar strategy, purchasing F. Zimmermann and two divisions of Ingersoll International USA to obtain access to advanced machine-tool technology that can be incorporated into DMTG’s product line. This approach has proved challenging in some instances because of regulatory or other hurdles. For example, regulations in Germany required Suzlon Energy to increase its minority stake in REpower Systems to a majority stake to guarantee access to the company’s core technology.

Given the lower labor costs in RDEs, the leverage for R&D investments there is significantly higher than it is for similar investments in developed countries. In many RDEs, challengers can hire local scientists and engineers for a fraction of the cost similarly trained people would command in developed markets. This cost discrepancy makes the competition for scientific and engineering tal-
ent even more critical in RDE markets. In addition to attracting qualified talent, companies such as Gedeon Richter also recognize the need for continued investments in R&D infrastructure; otherwise, according to CEO Erik Bogsch, “it is like running barefoot while your competitors have sport shoes.” Today Richter is putting strong efforts into original R&D and generic development, spending one of the highest amounts on R&D in the Central and Eastern European region.


The challengers find themselves at a crossroads. They are expanding and building global businesses, while at the same time their established MNC competitors are seeking a deeper foothold in the challengers’ attractive home markets. Pressures are building, and the allure of entering developed markets—with their high profit margins, high consumption levels, and wealth of talent and technologies—is counterbalanced by the tremendous growth opportunities in emerging markets, both at home and abroad. Accordingly, challengers must accelerate their decisions about where they want to build defensible competitive positions and where they want to become leaders. Failure to make these hard choices may leave them in an unsustainable position—neither globally strong nor locally competitive.

Future Directions for Challengers

The choices that challenger-company executives make about investing their scarce resources into both domestic and overseas markets will drive their companies down very different paths. Accordingly, challengers should choose their aspirations carefully. Most will move toward one of five outcomes: global industry leadership, segment leadership, a defined geographic focus, a return to the domestic market, or partnerships or other combinations with incumbents to build global powerhouses.

Global Industry Leadership. Several challengers have already joined the ranks of global leaders in their industries; for many others, global leadership remains the goal. Vale is already the global leader in iron ore and pellets, supplying steel companies all over the world. Similarly, Tata Tea is the number two producer of tea worldwide. As these companies continue to evolve, the challenges they face will more closely resemble those of the incumbents than those of other emerging challengers. Some may go even further, creating a new definition for a globally transformed business.

Segment Leadership. Many challengers may not become global leaders in the near future but will carve out profitable segments in which they can sustain competitive advantage in the long run. Some companies have already benefited from the advantages that segment leadership can bring, and they can build from these positions of strength. For example, while challenger Nemak trails behind automotive component titans such as Delphi and Bosch in overall revenues, it has built a leadership position in aluminum engine heads and blocks.

A Defined Geographic Focus. Some challengers will focus either on other emerging markets or on developed markets. Others will choose to develop strong regional leadership positions and not to expand beyond those regions. Sinomach currently focuses mostly on emerging markets, where its low-cost position gives it an advantage when it bids against developed-market competitors for projects. Suntech Power, in contrast, currently takes the opposite approach, exporting most of its solar-energy modules to developed countries that have strong markets for solar products.

A Return to the Domestic Market. For many challengers, RDEs continue to be significant growth markets. Some may choose to refocus their efforts on capturing domestic market share before continuing their aggressive expansion abroad. In some cases, this choice will reflect a strong ambition to grow; in other cases, it will be a response to a direct competitive threat by an incumbent or another challenger.
**Partnerships or Other Combinations with Incumbents to Build Global Powerhouses.** Challengers may choose to sell large equity stakes in their businesses to incumbents, with the goal of creating global powerhouse companies. This approach can help the new company benefit from the advantages of challengers and incumbents—leveraging the low-cost, flexible capabilities of challengers and the financial muscle, strong brands, and top-notch innovation capabilities of the incumbents. This approach was adopted by Ranbaxy Laboratories CEO and promoter, Malvinder Mohan Singh, in 2008, when he sold a majority stake to Daiichi Sankyo, a Japanese pharmaceutical company. (See the sidebar “Combining with an Incumbent: the Ranbaxy Deal.”)

**Guidelines for Challengers**

In view of the wide array of issues and opportunities they face, how should challengers chart the best possible course for the future? What can they do to accelerate their business transformation? We suggest that they observe the following six guidelines.

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**Don’t concede the innovation high ground.** Few challengers have mastered the use of innovation as a means of obtaining competitive advantage. But those that succeed at innovation will be well positioned to become global leaders in their fast-changing industries.

In addition, challengers must never allow themselves to become complacent about developing comprehensive intellectual-property strategies. Those that proactively protect their investments will be rewarded by reduced royalty expenditures, new sources of royalty revenue, and protected access to markets.

**Find opportunities in turbulent times.** Today challengers face many pressures on the bottom line. They should not pursue reactive strategies. Instead, they should plan very carefully to make the right deals, invest in the right projects, and enter the right markets. At the same time, they should ensure that they effectively leverage their valuable resources, minimize their costs, and look for opportunities to buy distressed companies and assets at home or overseas.

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**Combining with an Incumbent: the Ranbaxy Deal**

In June 2008, Japanese pharmaceutical company Daiichi Sankyo announced the purchase of a majority equity stake in Ranbaxy Laboratories, India’s largest manufacturer of pharmaceuticals. This deal marked the first sale of a majority stake to an incumbent by any of the BCG 100 new global challengers. We met with Malvinder Mohan Singh, CEO and managing director of Ranbaxy, to better understand the strategic rationale for this deal.

Ranbaxy was the first multinational pharmaceutical company based in India. It began to look overseas as early as the 1970s, when India’s economy remained largely closed and few pharmaceutical capabilities existed. The former CEO of Ranbaxy, the late Parvinder Singh, recognized that globalization was imperative if his young company were to develop a substantial position, given that the Indian market constituted less than 1 percent of the global pharmaceutical market. Today, Ranbaxy has achieved an impressive global footprint with ground presence in 49 countries, 2007 sales of $1.6 billion, and a formidable position in the generics markets in the United States and Europe, as well as in many emerging markets.

The next wave of globalization, according to Malvinder Singh, will see innovative products produced in emerging markets. There will also be a convergence of the “generic” and “innovator” business models, enabling companies to better serve various customers and stakeholders in different markets. As strategic preparation for this convergence, Ranbaxy decided to forge ahead and “shape the menu rather than waiting and being forced to pick [a partner] out of a limited set of options,” Malvinder Singh told us.

Daiichi Sankyo was exactly the kind of partner Malvinder Singh was looking for. Both companies recognized the tremendous potential and synergies that a combination could bring. Ranbaxy could leverage Daiichi Sankyo’s deeply innovative R&D capabilities and its commercial presence in Japan and other developed markets. Daiichi Sankyo would benefit from the low cost, efficiency, and global reach offered by Ranbaxy. To make this combination successful, the companies decided to preserve each other’s strengths while collaborating on specific areas of synergy. As a result, Ranbaxy will continue to operate independently following the combination.

Other challengers should weigh the benefits and risks of a strategic combination with a developed-country incumbent, especially in industries in which global scale and reach are critical to success.
Protect core RDE markets. As they grow globally, challengers must not become complacent in their home markets. It is nearly impossible for a challenger to achieve a sustainable global-leadership position if its domestic market is coming under attack from an incumbent or another challenger. The RDE middle markets—the market space between entry level and premium—are projected to grow at phenomenal rates over the next ten years; sluggish growth in the home markets of established MNCs may drive many of them to tailor their products and services in order to gain market share in RDEs.

Make productivity improvements a top priority. Improving productivity—of both physical assets and human resources—will be a critical lever for challengers in maintaining their cost competitiveness during turbulent times. Making significant and lasting improvements will require taking a balanced approach to investment, training, and targeted cost reductions to achieve world-class productivity levels. Challengers that manage their businesses for productivity will find new sources of advantage that extend well into the future.

Manage risks to the business. Challengers, like all companies, must be constantly aware of the risks their businesses face. These risks come in many shapes and sizes—including raw material prices, exchange rates, and legal, regulatory, environmental, and other risks. Ignoring these risks can put the challengers’ core levers of competitive advantage under tremendous pressure.

Challengers that successfully plan and manage for these risks will be less likely to fail because of unanticipated challenges. Perhaps most important, challengers should ensure they do not fall victim to their success by taking on more leverage than they can handle. (See the sidebar “Adopting a World-Class Risk-Management System.”)

Develop globally recognized brands. Companies seeking to achieve category leadership abroad, particularly in the consumer sector, must continue to build and develop their brands or find other ways to achieve similar results. Challengers seeking to develop brands that are recognized internationally for quality or value need to focus especially closely on this area.

Adopting a World-Class Risk-Management System

Recent volatility in the global financial and commodity markets and rapidly changing business environments are placing many challengers in precarious situations that they had not fully anticipated. The issues posed by the challengers’ rapid expansion further compound the risks they face. Regardless of the success of their underlying business models, challengers need to develop world-class enterprise risk-management systems to systematically identify risks (financial, legal, political, and other), evaluate their potential business impact, and develop mitigation strategies. Companies that do not develop such capabilities remain exposed to issues that threaten to curtail their impressive growth.

A world-class risk-management system encompasses five key characteristics:

- Clearly defined governance and responsibilities for each aspect of risk management
- Executive information systems that provide an integrated view of risks

Companies can use strong enterprise risk management to drive significant value creation. For instance, they can use risk management to reduce the overall volatility of cash flows, allowing more effective use of capital and lowering the possibility of a financial crisis. In fact, risk management can generate a net increase in cash flows overall, as events with negative value implications can be anticipated and actively managed. Incorporating risk management practices can also play a strong role in defining company strategy, as executives have a clearer picture of risk-return tradeoffs when making critical decisions.
**Guidelines for Incumbents**

Established MNCs face many of the same pressures now confronting challenger companies—compounded by the issues of legacy assets and the threats posed by current and emerging challengers. What can incumbents do to sustain and grow their global leadership positions?

As incumbents prepare for the rise of global challengers, they should be wary of possible industry disruptions, evaluate their potential exposure, “challenger-proof” their businesses, and gain advantage during difficult times.

**Be wary of possible industry disruptions.** Ten years ago, most global challengers were still small, domestically focused dynamos with big visions for the future. The rapid emergence of these challengers and their ascendance to positions of global leadership threaten to disrupt many industries—and to change their established order. In some industries, this shift is already happening or poses an immediate threat; in others, the risks are only now becoming apparent.

Disruptions by challengers can take various forms. Some challengers are changing competitive landscapes in their home countries, preventing incumbent MNCs from gaining strong footholds in fast-growing local markets. (Also contributing to this exclusionary effect are innovative local companies, which we have described elsewhere as local dynamos.)

Challengers are also altering the global competitive landscape. Embraer’s leadership in the regional jet market has fundamentally changed that sector’s playing field. Tata Motors’ (India) entry-level cars represent a significant threat to automotive MNCs competing in emerging markets. The enviable cost structures built by some challengers, such as Nemak, can have game-changing implications for their industries.

These examples all refer to direct competition for customers. But challengers are competing with incumbent MNCs for talent and resources as well. To attract talented engineers in the competitive Indian job market, challenger companies such as Wipro and Infosys Technologies are changing the basis of competition for talent by using nonfinancial incentives, such as opportunities for training and development. Similarly, natural resources companies such as Sinosteel, Vale, and Vedanta Resources compete head-on with MNC incumbents in their race to tap into the world’s mineral resources.

Competitive threats of this kind will only accelerate as more and more RDE-based companies aim for global leadership positions.

Incumbent MNCs should be aware of warning signs that industry disruption is likely or already in progress and should develop strategies to protect investments and maintain growth. Incumbents should conduct assessments of their exposure along two dimensions: the vulnerability of their industry and the vulnerability of their individual company. (See the sidebars “Assessing Your Industry’s Vulnerability” and “Assessing Your Company’s Vulnerability.”)

If these questions indicate that disruptive change is likely in the industry, incumbents should further evaluate their current positions: are they especially vulnerable, or well positioned to benefit from the change?

All too often, companies become aware of disruptive changes only when it is too late to take effective action. Accordingly, incumbents need to remain constantly aware of emerging RDE-based competitors with global aspirations. One major incumbent in the industrial goods sector tracks its local competitors in China and India on the basis of the quality of their products—ranging from copycat to innovative—as well as the geographic scope of their activities.

Of course, the established MNCs should also be aware of the moves their global rivals are making in RDE markets. While a landmark deal by any measure, IBM’s 2004 sale of its personal-computer business to Lenovo was not immediately disruptive to the industry leaders Dell and Hewlett-Packard, which essentially traded an incumbent competitor for a challenger. In 2007 and 2008, Dell and Hewlett-Packard remained the industry leaders, and Lenovo slipped to fourth place in market share behind

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Assessing Your Industry’s Vulnerability

Not all industries are equally vulnerable to the challenges posed by RDE-based competitors. To assess your industry’s vulnerability, ask yourself the following questions:

- Is cost critical as a basis for competitive advantage? Can a low-cost competitor enter the market?
- Are RDEs driving most industry growth, and is this growth disproportionately benefiting local players?
- Is there a trend toward increasing diversity of customer needs and preferences across international markets?
- Is there a risk that the value chain in the sector could be deconstructed or altered?
- Are new business models emerging in RDEs that could enable new entrants?
- Have companies based in RDEs already built international positions, using either organic expansion or outbound M&A?
- Do regulations make global product rollouts difficult?
- Are middle and lower-tier segments growing faster than high-end segments, lowering barriers to entry for non-branded competitors?
- Is the pace of innovation relatively slow in the sector, reducing the competitive advantage of established incumbents?
- Are there incumbent competitors that could be takeover targets for fast-growing challengers?

Assessing Your Company’s Vulnerability

It’s likely that your company is already competing with one or more RDE-based challengers for market share at home or abroad. To assess your company’s vulnerability to disruption, ask yourself the following questions:

- Is the company’s cost structure competitive with challengers?
- Is the company’s manufacturing footprint aligned with best-cost locations?
- How well does the company understand RDE markets, and how significant is its sales footprint in high-growth markets?
- Is there an effective plan to respond to emerging challengers in the industry, as competitors, partners, or potential customers?
- How well is the company tapping into the lower-cost pools of scientific and engineering talent in RDEs?
- How flexible is the company’s organization in reacting to new competitive threats?
- Does the company have compelling value propositions for the “next billion” consumers entering the middle markets in RDEs?
- How well developed is the company’s ability to acquire and integrate other companies in international markets?
Taipei-based Acer, following the latter’s acquisition of Packard Bell and Gateway. Incumbents in other industries are also increasingly likely to find themselves competing simultaneously with incumbent peers and global challengers.

**Challenger-proof your business.** Most incumbents already have favorable starting positions when compared with the challengers. But those that fail to adapt quickly may find their advantage overturned. Companies must adequately protect their business models or move fast to find new bases for competing with emerging challengers.

Incumbents can respond to the rise of challengers that compete with them directly in one or more of four ways:

- Reinforcing traditional MNC strengths, such as branding and innovation
- Leveraging RDE-based opportunities to improve the cost base of their core business
- Adapting business models to RDEs
- Transforming their businesses globally

**Reinforcing Traditional MNC Strengths.** Established MNCs still hold several competitive advantages that should not be discounted. Chief among them are the existing positions they have built with their brands, as well as existing investments in R&D and innovation that challengers cannot easily replicate. In these two categories, the differences between challengers and incumbents remain striking. Incumbents should not abandon these investments in the rush to compete with new challengers from abroad; rather, they should reinforce them and position them as a core part of their response strategy. This approach will become especially important as incumbents and challengers clash increasingly in middle markets—those often underserved market spaces between the high-end premium segments historically dominated by incumbent MNCs and the low-cost value segments in RDEs often occupied by challenger companies.

**Leveraging RDE Opportunities to Improve Your Cost Base.** Although costs in many RDEs are rising, those costs are still significantly lower than in developed countries. Incumbents should, therefore, continue to look for opportunities to use RDE resources to lower their own costs. This process often takes multiple iterations, as was the case with Emerson Electric. In the 1980s, in response to a slowing market and the emergence of low-cost competitors from Brazil, Emerson embarked on a “best cost” initiative to develop products with high quality and low cost anywhere in the world. As a result, it grew its head count and sourcing activity significantly in “best cost” locations from 2000 to 2007.

**Adapting Business Models to RDEs.** The business models underlying established MNCs’ success often meet with challenges in the RDEs. Different consumer needs, regulatory environments, and competitive landscapes necessitate a tailored approach. Nokia has exemplified this flexibility in markets such as China, where the company has used a multilayered distribution strategy to reach deep into Chinese tier 4 cities and rural locations. Moreover, Nokia’s product line is tailored to RDE customer needs. For example, Nokia’s broad range of products includes the 1000 series, especially designed for use in rural locations. Nokia invests heavily in understanding the needs of diverse customer segments in RDEs, developing the products to serve them and creating the sales channels to reach them.

**Transforming the Business Globally.** The steps outlined above may not be enough to guarantee success in the evolving competition with challengers. Some MNCs are exploring more radical approaches to tapping into RDE markets and resources fast—even to the extent of relocating entire divisions there. While the risks of this approach should not be understated, these bold moves may also be just what is needed to keep up with the rapid growth achieved by the global challengers operating in these markets.

**Gain advantage during difficult times.** Rather than becoming overly preoccupied by short-term business pressures caused by difficult economic times, incumbents should recognize the tremendous opportunity that such times represent. These are the times when the rules of the game can be changed.

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Incumbents should look for opportunities to buy attractive challengers or other RDE-based companies in order
to gain a foothold in these high-growth markets. However, given the large number of state- and family-owned companies among the challengers, incumbents seeking to acquire must also be very clear about the value proposition for both sides. In 2008, Daiichi Sankyo acquired a majority stake in global challenger Ranbaxy Laboratories, creating a combined company that can leverage Daiichi Sankyo’s strength in innovation and recognized brand and Ranbaxy’s low-cost research and production capabilities. In other cases, the value proposition will be driven by financing considerations, as some challengers have taken on too much leverage in their rush to global expansion. The time is opportune for incumbents to acquire or partner with challengers on incumbents’ own terms.

Even if no such acquisition targets are available, incumbents should still look for opportunities to go on the offensive. Many incumbents remain confined to the premium segments within the RDEs; but they should look for ways to tap into the rapidly growing middle market in these countries.

The importance of challengers as a business opportunity should also not be underestimated. Challengers can be particularly valuable partners and customers, as they are located in fast-growing markets with significant strategic importance to incumbents. Some incumbents have already been taking advantage of this opportunity. For example, Schlumberger built a full suite of capabilities that cater to the national oil companies based in the RDEs. Other incumbents have partnered with challengers as a first step to entering RDEs. Every one of the automotive OEM challengers on our list has significant joint ventures with foreign automakers.

Looking Ahead

The emergence of global challengers is far from over: we are still at the beginning, not the end, of a trend. Challengers are continuing to ascend to leadership positions at breakneck speed, disrupting the established order of many industries. Although volatile financial markets and other risks present obstacles to the challengers, they are learning quickly to manage these hurdles—and building stronger businesses in the process. Incumbent MNCs would be well advised to pay attention to the challengers and prepare themselves for what is a fast-changing business climate. The game is on, and the pace is picking up.

The companies profiled in this report represent only one subset of the broad universe of new global challengers. Many other challengers are out there, all with grand global ambitions. Some are at earlier stages in their globalization efforts, while others have limited their goals to local markets for the time being. But many have the same characteristics as the 100 companies profiled in this report, and they may have similar potential to contend for global leadership positions. We expect to see many more challengers emerge in the coming years. Some will fail owing to the shortcomings of their business models, and others will not survive during times of economic crisis. However, some will certainly succeed and ultimately take their place among the ranks of global leaders.
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**Globality: The World Beyond Globalization**  
BCG Perspectives, July 2008

**Oil Retail: What It Takes to Win in the BRIC Countries**  
A Focus by The Boston Consulting Group, July 2008

**Mexico’s Evolving Sweet Spot in the Globalization Landscape**  
A Focus by The Boston Consulting Group, April 2008

**The BCG 50 Local Dynamos: How Dynamic R&D-based Companies Are Mastering Their Home Markets—and What MNCs Need to Learn from Them**  
A report by The Boston Consulting Group, March 2008

**Winning Over the Next Billion Consumers in Brazil: A Guide for Growth**  
A Focus by The Boston Consulting Group, February 2008

**Eyes Wide Open: Managing the Risks of Acquisitions in Rapidly Developing Economies**  
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**Winning the Localization Game: How Multinational Automotive OEMs and Suppliers Are Realizing the Strategic Potential of China and India**  
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**Ringing In the Next Billion Mobile Consumers: A Road Map for Accelerating Telecom Growth in India**  
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**Aligning Talent for Global Advantage: How Top Companies Develop the Right Talent in the Right Places**  
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Opportunities for Action in Consumer Markets, September 2006

**Organizing for Global Advantage in China, India, and Other Rapidly Developing Economies**  
A report by The Boston Consulting Group, March 2006

**The New Economics of Global Advantage: Not Just Lower Costs but Higher Returns on Capital**  
Opportunities for Action in Operations, July 2005

**Navigating the Five Currents of Globalization: How Leading Companies Are Capturing Global Advantage**  
A Focus by The Boston Consulting Group, January 2005

**A Recent Book by BCG Authors**

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