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REPORT

2011 BCG Global Challengers

Companies on the Move

Rising Stars from Rapidly Developing Economies Are Reshaping Global Industries

THE BOSTON CONSULTING GROUP

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2011 BCG Global Challengers

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Executive Summary

Global challengers are companies based in rapidly developing economies (RDEs) that are shaking up the established economic order.

- The global challengers identified in this report grew annually by 18 percent and averaged operating margins of 18 percent from 2000 through 2009.
- During these years, the annualized total shareholder return of the global challengers was 17 percent.
- These companies are also aggressively acquiring foreign companies in order to expand their reach, acquire brands and technological expertise, and build scale.

The 2011 global challengers are a diverse group, reflecting the dynamic nature of global competition.

- They come from 16 countries, with China, India, Brazil, Mexico, and Russia dominating the list—although less so than they did in past reports.
- Africa, a continent with new-found ambitions, placed four companies on the list.
- Four industries—mining and metals (with nine challengers), steel (with eight), construction (with six), and fossil fuels (with six)—signal the rising importance of infrastructure and natural resources to the ultimate success of developing economies and companies headquartered in these economies.
- Across the 100 global challengers, at least five trends emerge that will shape commerce, not just for the global challengers but for all companies that play on the world stage. These are the emergence of Chinese contractors, the rush for natural resources, the rise of diversified global conglomerates, the challenges of building global consumer brands, and the increasing reliance on partnerships.

The global challengers are entering the new decade from a position of strength.

- They have developed innovative business models and understand emerging markets, which will serve as the growth engines of the global economy.
- They are financially fit and can take advantage of opportunities to buy attractive assets and compete against more established competitors still in recovery mode.

Many challengers are taking on established multinationals, vying for global leadership.

- Within the next five years, about 50 of the global challengers could qualify for inclusion in the *Fortune* Global 500.
- By 2020, the global challengers could collectively generate $8 trillion in revenues, an amount roughly equivalent to what the S&P 500 companies generate today.

Increasingly, global challengers will be engaged in three key battles with companies from developed markets.

- *A Battle for Emerging Customer Segments.* The middle class in emerging markets will make up 30 percent of the global population by 2020. Many challengers have already built successful businesses serving these consumers, but they need to fortify these positions and consider diversification and expansion.

- *A Battle for Industry Leadership.* Over the coming decade, the battle between established players and global challengers will intensify. The challengers need to move beyond advantages that are based on cost and location to create global organizations, strong brands, and world-class innovation capabilities.

- *A Battle for New Markets.* There are several emerging battlegrounds: Africa, an often-neglected continent; domestic markets within RDEs; trade with other RDEs; and small and midsize cities rather than the well-known megacities. Challengers can take advantage of their knowledge of these markets to develop relevant products and compelling brands that stand for quality and value.

Competition between global multinationals and challengers will intensify over the coming decade.

- As competition intensifies, the boundaries between these two distinct sets of companies will continue to blur.

- During the new decade, winning global companies will be identified less by their home market and more by how they adapt to and embrace the fast-moving world in which they operate.

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A Decade of Global Growth

Five years ago, when the first report in this series was released, global challengers were still a novelty. Lenovo Group had recently purchased the PC business of IBM, and the Chinese National Offshore Oil Corporation had made an unsolicited bid for Unocal. But the novelty has become the norm.

Western executives now fully recognize—even if they don't thoroughly understand—the rise of companies with global aspirations from rapidly developing economies (RDEs).

Established Western brands such as Jaguar and Land Rover are now owned by Tata Group of India. Huawei Technologies and ZTE, both of China, are the second- and fifth-largest global manufacturers of mobile telecom equipment ranked by overall revenues, respectively. Mexico's Grupo Bimbo is the largest bread baker in the world; Brazil's JBS, the largest meat producer; and Russia's United Company Rusal, the largest producer of aluminum.

These companies have been the hidden engines of the global economy in recent years. Despite the economic slowdown that closed the past decade, global per capita GDP rose by 50 percent, and 250 million people were lifted out of poverty over the past ten years. Trade is freer now than a decade ago, and global exports have doubled.

Global challengers are also the public face of RDEs. Over the past decade, the share of global GDP generated by RDEs rose from 18 percent to 31 percent; their share of world trade jumped almost as much, from 18 percent to 28 percent.

As the economic profile of RDEs has increased, so has their influence. RDEs now account for half of the influential G-20, an international group of finance ministers. Of the 29 RDEs we analyzed in this report, 25 are members of the World Trade Organization.

This rising economic tide has washed into global rankings. The number of companies from RDEs in the *Fortune* Global 500 has more than tripled—from 21 to 75—in the past decade. The 2010 list of *Forbes* 2000 companies included 398 companies from RDEs, nearly triple the number just five years ago.

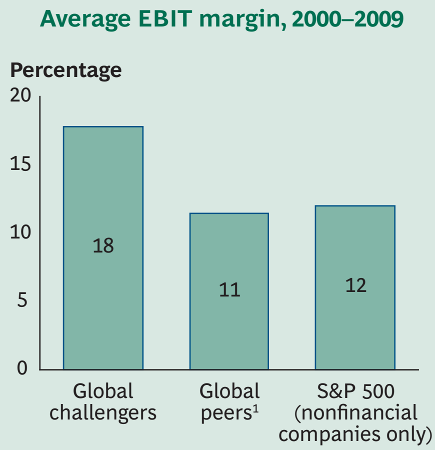
Global challengers are here to stay. While many developing markets are still in economic recovery, global challengers have maintained the momentum they built over the past decade.

Strong Revenue Growth and Profits

Revenues of the global challengers rose by 18 percent annually from 2000 through 2009, triple the average annual growth rate achieved by both global peers and the nonfinancial firms among the S&P 500.[1] Global challengers have achieved this growth without sacrificing margins. The average operating margin (earnings before interest and taxes, or EBIT) of global challengers that were publicly listed during those years was 18 percent—6 percentage points higher than the average of the nonfinancial constituents of the S&P 500. (See Exhibit 1.)

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

Exhibit 1. Global Challengers Exhibited Strong Sales Growth and Margins



Sources: Thomson Reuters Datastream; BCG analysis.
Note: The exhibit is based on the financial results of 57 global challengers, 174 global peers, and 393 nonfinancial companies listed in the S&P 500 Index. We included in this analysis only those companies for which sales and margin data were available for the entire period from 2000 through 2009.
[1]Global peers are multinational companies that are headquartered in developed economies and that operate in the same industries as the global challengers.

Superior Value Creation

The economic downturn took a toll on the total shareholder return (TSR) of nearly all companies. But the performance of the global challengers has bounced back much more quickly and strongly than that of other companies. From 2000 through 2009, the annualized TSR was 17 percent for the global challengers while it practically stood still for the S&P 500 and global peers and rose much more modestly for the MSCI Emerging Markets Index. (See Exhibit 2.) The global challengers have, in fact, resolved many of the traditional tradeoffs that companies make in pursuit of value creation. (See the sidebar "Resolving Tradeoffs.")

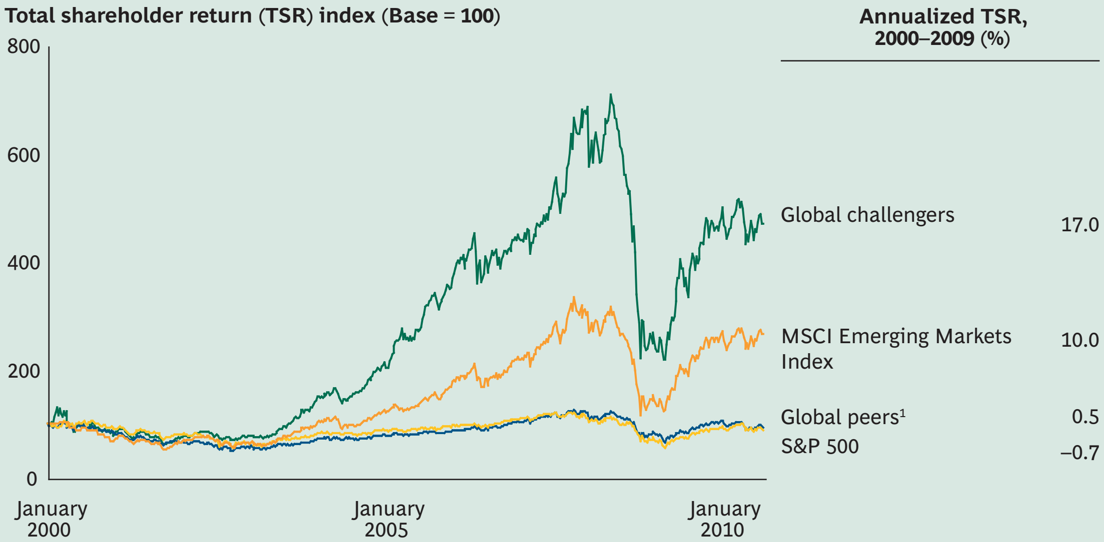
Aggressive Moves in Cross-Border M&A Activity

Global challengers have continued to pursue cross-border mergers and acquisitions aggressively. The number of outbound deals and their average value fell momentarily in 2009—a reflection of economic uncertainty—but have since bounced back. Through August 2010, 56 deals had been announced, the same number announced in all of 2009. (See Exhibit 3.) The average value of the deals in 2010 was almost twice as high as in 2009 and roughly equivalent to the average in 2008. The challengers have also been pursuing proportionately larger deals than their peers have. (See Exhibit 4.)

About 60 percent of the global challengers' cross-border deals in the past decade have taken place in developed markets. Averaging $554 million, these deals have also been larger than those that the global challengers completed in developing markets, which had an average value of $337 million. This focus on developed markets has increased since the start of the recession. Global challengers conducted 71 percent of their cross-border deals in developed markets in the two years after the recession began, compared with 58 percent in the two prior years.

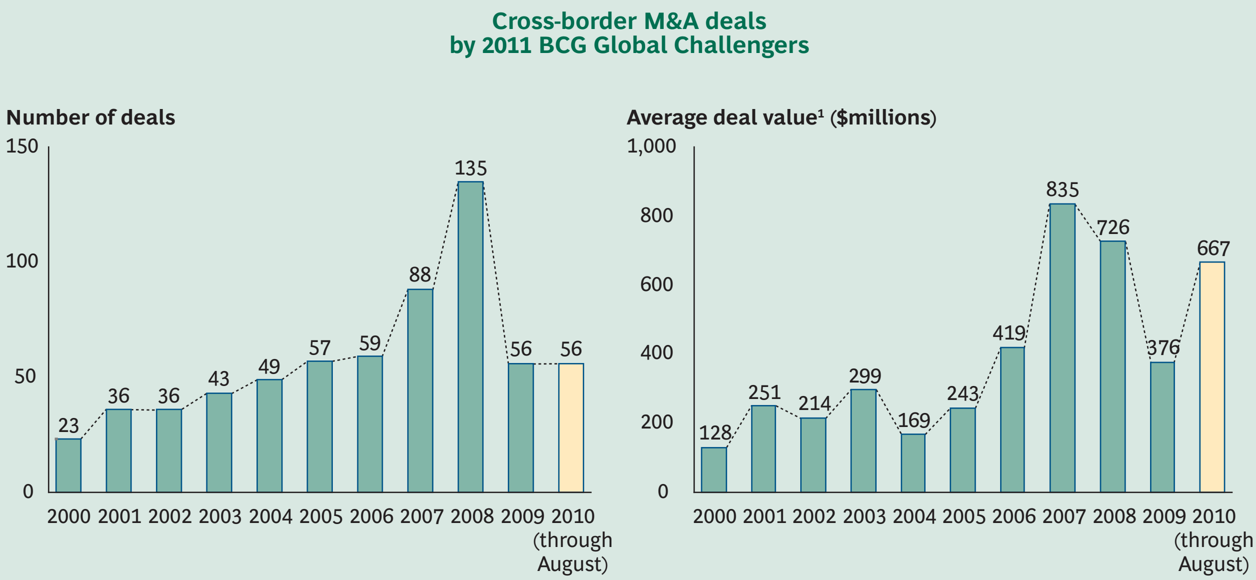
Global challengers are on the hinge of history, balanced between a remarkable past decade of growth and innovation and a promising but unproven future. Their future success will depend on whether they can maintain their momentum over the new decade and continue to narrow the gap with global multinationals. They will have succeeded if, in ten years, the notion of global challengers is once again a novelty—because the distinction between them and global multinationals has been extinguished.

Exhibit 2. Global Challengers Delivered Superior Value for Shareholders



Sources: Thomson Reuters Datastream; BCG analysis.
Note: The index base of 100 was set using data for January 1, 2000, and the data were analyzed through August 23, 2010. All indices were weighted by the market capitalization of their constituent stocks. The challengers delivered an even stronger TSR performance, about 30 percent annually, on an equal-weight basis. The index is based on data from 80 global challengers that were publicly listed and from 194 global peers.
[1]Global peers are multinational companies that are headquartered in developed economies and that operate in the same industries as the global challengers.

Exhibit 3. Global Challengers Have Continued Aggressive Global Expansion



Sources: Thomson Reuters Datastream; BCG analysis.
[1]These data refer only to deals for which the value of the deal was disclosed.

Resolving Tradeoffs

From 2005 through 2009, global challengers delivered an annual return of 22 percent, on average, while global peers delivered just 5 percent.

Breaking down the global challengers' returns into components—sales growth, change in margin, change in multiple, and dividends—yields a remarkable story: the challengers have been able to resolve the three classic strategic tradeoffs confronting companies. (See the exhibit below.)

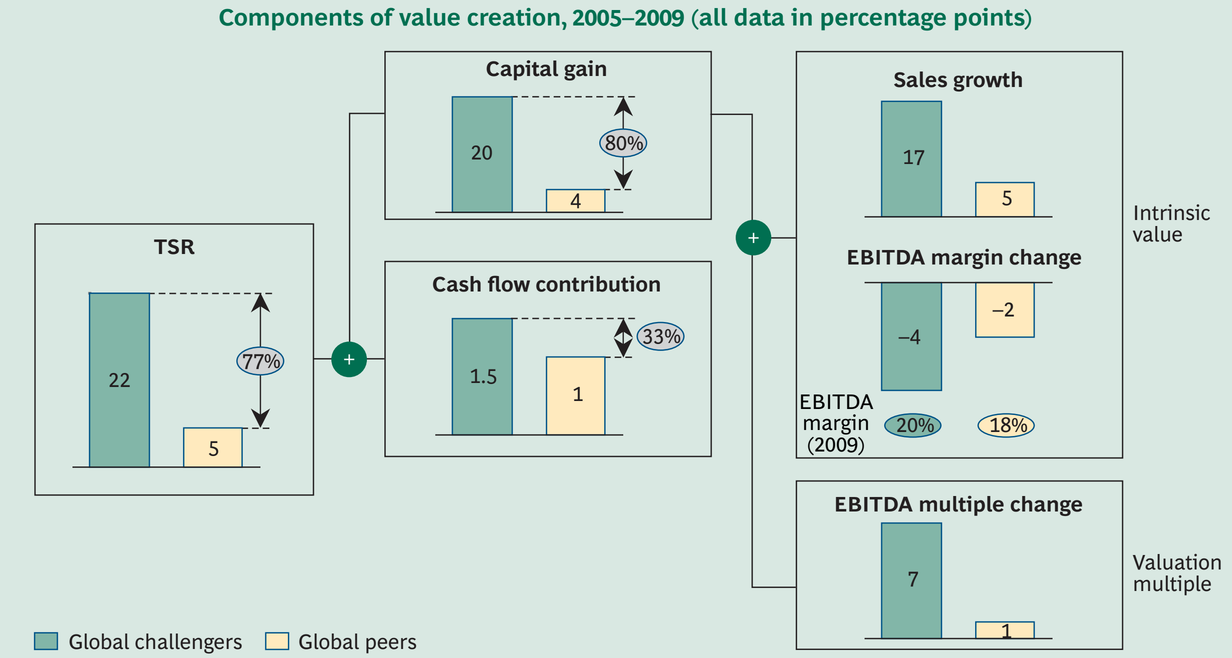
Volume versus Margin. Conventional logic assumes that firms make tradeoffs between volume and margin. The global challengers outperformed global peers by aggressively pursuing growth and taking advantage of their lower cost base to achieve higher margins.

Rapid Expansion versus Low Leverage. To expand rapidly, companies often need to increase leverage to fund growth. The global challengers, however, achieved more than three times the sales growth of their global peers, while maintaining comparable leverage. Since the start of the economic downturn, they have reduced their leverage below that of their global peers. In 2009, the average debt-to-equity ratio among the global challengers was 65 percent, 3 percentage points lower than it was in 2005. By contrast, the same ratio for global peers rose from 52 percent to 66 percent over the same period.

Growth versus Dividends. Investors expect growth companies to pay much lower dividends—if they pay them at all. Yet the global challengers have managed to achieve higher levels of growth than their global peers while delivering greater dividend yields in all years since 2004 except one.

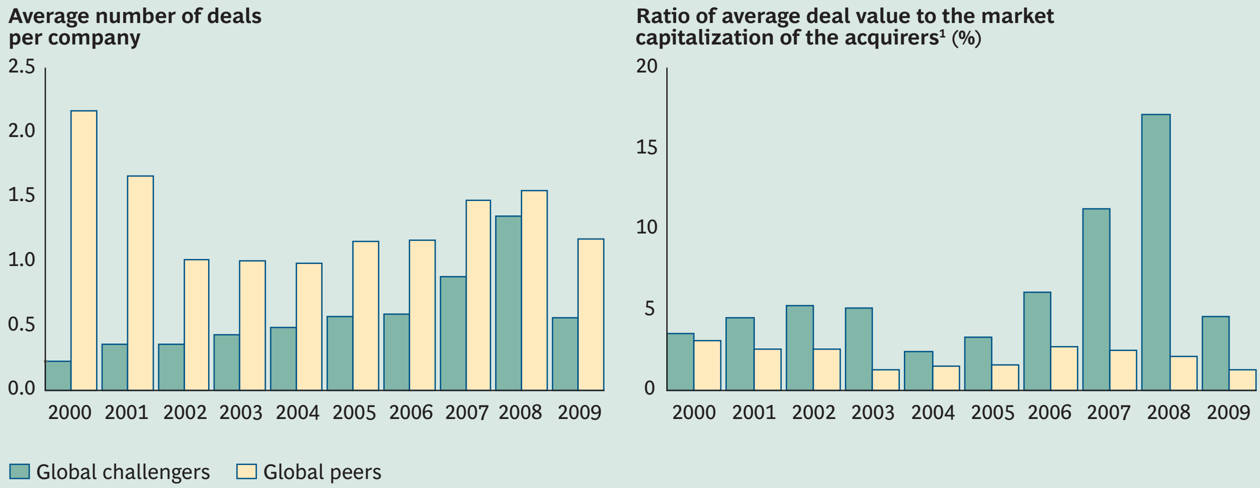
The global challengers have achieved these results across nearly all industries, with pharmaceuticals and consumer goods being the exception. In pharmaceuticals, global challengers have focused on lower-margin generic drugs, while in consumer goods, they have pursued a low-cost original-equipment-manufacturer model until recently.

Global Challengers Led in All Dimensions of Value Creation



Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; company disclosures; BCG analysis.
Note: This exhibit reflects data for 57 global challengers and 168 global peers—the companies for which data were available. EBITDA is earnings before interest, taxes, depreciation, and amortization.

Exhibit 4. Global Challengers Pursued Relatively Bigger M&A Deals



Sources: Thomson Reuters Datastream; BCG analysis.
Note: This exhibit reflects our analysis of 100 global challengers and 189 global peers.
[1]These data refer only to deals for which the value of the deal was disclosed.

The 2011 BCG Global Challengers

BCG has selected a list of 100 global challengers that are already sizable, are globally expansive, and are taking a run at traditional multinational companies. As in past reports, our point in this exercise was not to pick industry winners but to spotlight the innovative business models, strategies, and challenges emerging from the plethora of constraints in RDEs.

In selecting this year's list, we undertook a rigorous screening process. (See the sidebar "Methodology for Selecting the 2011 BCG Global Challengers.")

Who They Are

The global challengers list is as dynamic as the markets in which its members are located, with 23 new members in this report. (See Exhibit 5.)

In most cases, previous entrants that do not appear on the current list continue to be strong contenders in their respective industries, but they may not be expanding globally as aggressively as the currently listed companies are. Some companies have dropped from the global challengers list because they suffered during the economic downturn and are now focused on bringing their businesses back to health.

In addition to the new entrants, we are also introducing in this report challenger emeriti—a new group we created to recognize companies that now more closely resemble traditional multinationals than newcomers.[2]

The 23 new additions to the BCG Global Challengers list are the following companies:

Anshan Iron and Steel Group (China) is one of world's top-ten steel producers, with revenues of more than \$15 billion. Over the past few years, the company has made a series of overseas and domestic acquisitions, including the 2010 acquisition of China's Panzhihua Iron and Steel Group. The combined production capacity will propel Anshan to become one of the world's leading steel producers.

Bharti Airtel (India), with more than 200 million subscribers, ranks among the largest telecom operators worldwide. The company generated revenues of \$8.8 billion in fiscal 2010 and has grown by an average of 38 percent annually over the last five years. Spreading out from its base in India, Airtel has aggressively pursued acquisitions in other RDEs. With its \$10.7 billion acquisition of Zain Africa's mobile operations in 15 countries, the company now has a presence in 19 countries.

Bidvest Group (South Africa) is a diversified holding company with interests in food services, freight, manufacturing, and automobile sales. It is the largest food-distribution company outside the United States. The company had revenues of \$14.4 billion in fiscal 2010 and has a strong footprint in Africa, Europe, Asia, and Australia.

Bumi Resources (Indonesia) is among the fastest-growing coal companies in the world. In 2009, Bumi posted

2. In addition to the 23 new companies on the 2011 list, there are five new names among the list of challengers. Brasil Foods (Brazil) is the product of a merger in 2009 of Sadia and Perdigão, both of which were listed previously as challengers. DP World (United Arab Emirates) replaces its parent company, Dubai World. Grupo Alfa (Mexico) replaces its manufacturing subsidiary Nemak. Tata Tea has changed its name to Tata Global Beverages (India). United Company Rusal (Russia) replaces its parent company, Basic Element.

Methodology for Selecting the 2011 BCG Global Challengers

We began our analysis by compiling a list of potential global challengers from companies based in RDEs. We focused on companies located in Asia, Central and Eastern Europe, the Commonwealth of Independent States, the Middle East, and Latin America. In this report, we also expanded the geographic reach of our analysis to include the African continent; we took this step to reflect the dynamic growth of the economies there.

Our initial master list of potential global challengers was drawn from local rankings of the top companies in the geographic markets listed above. We excluded joint ventures and companies with significant overseas equity holders. We decided to consider a few companies that are headquartered in financial capitals—such as London, Hong Kong, and Singapore—on the condition that these companies' operations take place primarily in RDEs. These companies are listed in the RDE that houses most of their operations.

Next, we applied a set of quantitative and qualitative criteria. We deemed company size important, as smaller companies have fewer resources to mount aggressive globalization efforts. We sought companies that already had high international revenues or large cross-border M&A deals; we also sought companies with credible aspirations to build truly global footprints, and we excluded those that could pursue only low-end, export-driven models. We determined this globalization potential by analyzing each company's international presence, the number and size of its international investments over the past five years, and the strength of its business model. We measured the size of each company relative to that of other challengers and multinational competitors in their industries. We wanted to ensure that the global challengers are credible contenders to become market leaders.

We based our selection of the final 100 on these criteria and feedback from industry experts around the world.

revenues of $3.2 billion, with the majority generated overseas. The company has a strong sales presence in Japan, India, Hong Kong, Taiwan, and Europe and has recently entered the Chinese market.

China State Construction Engineering Corporation (China) is a leading construction company, ranking sixth on *Engineering News-Record*'s Top 225 Global Contractors for 2010 and earning 2009 revenues of $22.4 billion. The company has undertaken more than 5,000 projects in 100 countries and has a significant presence in North Africa, United Arab Emirates, India, and the United States.

Chint Group (China) is a leading player in the low-voltage transmission and distribution industries and has recently expanded into solar energy. It exports to more than 90 countries. Chint has a strong focus on R&D and has begun over the past five years to create its own brands rather than simply supply equipment to other companies.

El Sewedy Electric (Egypt) is one of the leading electrical-equipment manufacturers in Africa and the Middle East, specializing in cables and power transformers. The company's revenues grew by 35 percent annually, on average, from 2004 through 2009 and reached $1.7 billion in 2009. El Sewedy focuses on underpenetrated markets and is the sole producer of power transformers in many African countries. Its new wind-energy business is a pioneer in renewable energy in the Middle East and North Africa.

Geely International (China) is one of the fastest-growing car manufacturers in China. In 2010, Geely agreed to pay $1.8 billion for Volvo Cars. Geely intends to preserve Volvo Cars' existing manufacturing facilities in Sweden and Belgium while exploring opportunities to manufacture Volvo vehicles in new production facilities to be built in China for the local market.

Indorama Ventures (Thailand) is the largest global producer of polyethylene terephthalate (PET), which is used to make plastic bottles, and it is the only PET producer with a manufacturing presence in the United States, Europe, and Asia. The company's revenues have grown annually by 60 percent since 2005, reaching $2.3 billion in 2009, with 85 percent of these revenues generated overseas. Indorama Ventures focuses on cost control, tight integration, and a contrarian growth strategy that has helped the company build scale through acquisitions in mature markets.

LAN Airlines (Chile) has domestic operations in five South American countries—Argentina, Chile, Colombia,

Exhibit 5. There Are 23 New Global Challengers—and 5 Emeriti

2011 BCG Global Challengers

Argentina
- Tenaris

Brazil
- Brasil Foods[1]
- Camargo Corrêa Group
- Coteminas
- Embraer
- Gerdau
- JBS
- Magnesita Refratários
- Marcopolo
- Natura
- Odebrecht Group
- Petrobras
- Votorantim Group
- WEG

Chile
- Falabella
- LAN Airlines

China
- Aluminum Corporation of China
- Anshan Iron and Steel Group
- Baosteel Group
- BYD Group
- Chery Automobile
- China Communications Construction Company
- China International Marine Containers Group
- China Minmetals
- China National Chemical Corporation
- China National Offshore Oil Corporation
- China Shipbuilding Industry Corporation
- China Shipping Group
- China State Construction Engineering Corporation
- Chint Group
- Cosco Group
- Galanz Group
- Geely International
- Haier
- Huawei Technologies
- Johnson Electric
- LDK Solar
- Lenovo Group
- Li & Fung Group
- Shanghai Electric Group
- Sinochem
- Sinohydro
- Sinomach
- Sinosteel
- Suntech Power
- Wanxiang Group
- Yanzhou Coal Mining Company
- Zoomlion
- ZTE

Egypt
- El Sewedy Electric

Hungary
- Gedeon Richter

India
- Bajaj Auto
- Bharat Forge
- Bharti Airtel
- Crompton Greaves
- Dr. Reddy's Laboratories
- Hindalco Industries
- Infosys Technologies
- Larsen & Toubro
- Lupin Pharmaceuticals
- Mahindra & Mahindra
- Reliance Industries
- Suzlon Energy
- Tata Chemicals
- Tata Communications
- Tata Consultancy Services
- Tata Global Beverages[2]
- Tata Motors
- Tata Steel
- Vedanta Resources
- Wipro

Indonesia
- Bumi Resources
- Indofood Sukses Makmur

Malaysia
- Petronas

Mexico
- América Móvil
- Femsa
- Gruma
- Grupo Alfa[3]
- Grupo Bimbo
- Mabe
- Mexichem

Russia
- Evraz Group
- Gazprom
- Lukoil
- Norilsk Nickel
- Severstal
- United Company Rusal[4]

Saudi Arabia
- Saudi Basic Industries Corporation (Sabic)

South Africa
- Bidvest Group
- Sappi
- Sasol

Thailand
- Charoen Pokphand Group
- Indorama Ventures
- PTT
- Thai Union Frozen Products

Turkey
- Koç Holding
- Sabanci Holding

United Arab Emirates
- DP World[5]
- Emirates Airline
- Etisalat

2011 BCG Challenger Emeriti

We identified five RDE companies that are emerging from the global challenger role to closely resemble established multinationals

Brazil
- Vale

Indonesia
- Wilmar International

Mexico
- Cemex

South Africa
- Anglo American[6]
- SABMiller[6]

New global challengers are listed in red

Source: BCG analysis.
[1]Brasil Foods was created through the merger of two 2009 challengers, Sadia and Perdigão.
[2]Tata Tea, a challenger last year, was renamed Tata Global Beverages in 2010.
[3]Grupo Alfa replaces its subsidiary Nemak.
[4]United Company Rusal replaces its parent company, Basic Element.
[5]DP World replaces its parent company, Dubai World.
[6]We define these companies as challenger emeriti because although they were not named in prior global challenger reports, they were listed in *The African Challengers,* a BCG report published in June 2010. Had our analyses in the 2009 global challenger report covered the African continent, these companies, which are already beginning to resemble their global peers, would have met our criteria for global challengers.

Ecuador, and Peru. It has a strong focus on operational efficiency. In August 2010, LAN Airlines announced a merger with TAM, the largest airline in Brazil. In 2009, the combined revenues of the airlines totaled $8.4 billion.

LDK Solar (China) is a leading integrated manufacturer of photovoltaic products and the world's largest producer of multicrystalline wafers. In 2009, 75 percent of its $1.1 billion in revenues originated outside China. Since 2006, LDK Solar's revenues have more than doubled annually.

PTT aspires to become a member of the *Fortune* 100 and plans over the new decade to invest $100 billion.

Lupin Pharmaceuticals (India) is a rapidly growing pharmaceutical firm with both generic and branded products and a sizable presence in the United States and Japan. The company has made recent acquisitions in Australia, Germany, Japan, Philippines, and South Africa, and it reported revenues of $1 billion in fiscal 2010.

Mabe (Mexico) is the largest home-appliance manufacturer in Latin America. It has leveraged strategic alliances with such companies as General Electric and Fagor to drive international growth. The company has 18 manufacturing facilities in the Americas, and its products are sold in 70 countries. The company's revenues reached $4.5 billion in 2009.

Magnesita Refratários (Brazil) is the third-largest—and the only fully integrated—global producer of refractory products (materials resistant to the high temperatures that are used in steel and cement production). The company has 28 manufacturing facilities in South America, the United States, and Europe, and it reported 2009 revenues of $1.1 billion.

Norilsk Nickel (Russia), which returns to the challenger list after a hiatus in 2009, is the largest vertically integrated mining company in Russia and the largest global producer of nickel and palladium. It generated revenues of $10.2 billion in 2009 and has sales networks across 20 countries.

PTT (Thailand), a state-owned oil and gas company, generated 2009 revenues of $46 billion, nearly half of which came from its international trading business. The company aspires to become a member of the *Fortune* 100 and plans over the new decade to invest $100 billion—half of it overseas. It has 44 exploration and production projects in 13 countries.

Saudi Basic Industries Corporation (Sabic) (Saudi Arabia) is the largest and most profitable Middle Eastern company outside the oil industry and one of the world's largest manufacturers of chemicals, plastics, and fertilizers. A series of acquisitions has expanded Sabic's presence across more than 40 countries. In 2009, Sabic had revenues of $27.5 billion.

Sappi (South Africa) is the leading producer of several types of fine paper. Most of its facilities are located in Europe and North America. In fiscal 2009, Sappi had revenues of $5.3 billion, with 87 percent originating outside Africa.

Sasol (South Africa) is the largest producer of synthetic fuel and among the largest coal-mining companies in the world, with revenues of $16.1 billion in 2010—half from international sales.

Shanghai Electric Group (China) is one of China's top-three manufacturers of electric equipment and one of the largest elevator manufacturers, with 2009 revenues of $8.4 billion. It has acquired technical and managerial know-how through more than 50 joint ventures with leading players such as Siemens and Mitsubishi. In 2010, Shanghai Electric acquired Goss International, a U.S. provider of engineered goods, for $1.5 billion.

Sinohydro (China) is a leading construction firm that has captured more than half of the global hydropower-construction market. Revenues in 2009 exceeded $11 billion. The company has more than 200 projects under construction in 46 countries. Its presence is particularly strong in Southeast Asia, the Middle East, and Africa.

Yanzhou Coal Mining Company (China) is the first Chinese coal company to be listed on both the New York and Hong Kong stock exchanges. In 2009, the company generated $3 billion in revenues and acquired Felix Resources for $3.2 billion, making it the largest Chinese investor in Australia.

Zoomlion (China) is a leading construction-machinery company and the largest manufacturer of concrete-making machinery. The company, which reported $3 billion in revenues in 2009, has grown annually by 60 percent since its founding in 1992. Zoomlion's strong R&D culture has helped generate a wide range of products. In 2008, the company extended its presence to more than 70 countries when it acquired Italy's CIFA, a manufacturer of concrete equipment.

The 2011 BCG Global Challenger Emeriti

Some RDE-based companies have made such significant progress in globalizing that they are starting to look and feel like established global multinationals. We call such companies challenger emeriti and identified them using the following four key criteria:

Some RDE-based companies are starting to look and feel like established global multinationals.

- *Size and Scale Required to Operate Globally.* Achieved annual sales in 2009 of at least $20 billion
- *International Sales.* Had at least 75 percent of 2009 sales originate outside the country where headquartered—or from international customers
- *Industry Leadership.* Ranked as a top-five global competitor in their industry
- *Global Presence.* Maintained global operations and footprint

The globalization journey is not over for these companies, and they will continue to face challenges, as do all global companies. But the challenger emeriti are further ahead than their peers in the RDEs.

Five companies qualified as challenger emeriti. This list includes two companies from South Africa that were not named in prior global challenger reports but were listed in *The African Challengers,* a BCG report published in June 2010. Had our analyses in the 2009 global challenger report covered the African continent, these South African companies, which are already beginning to resemble their global peers, would have met our criteria for global challengers.

Anglo American (South Africa) is one of the leading diversified-mining companies in the world and the largest global producer of platinum and diamonds. Anglo American has extensive mining operations in South Africa, Australia, and Latin America.

Cemex (Mexico) is the third-largest producer of cement and the largest producer of ready-mix concrete in the world. It operates in more than 50 countries in the Americas, Europe, the Middle East, and the Pacific Rim. Cemex's success rests on its effective operations and marketing strategies, as well as its proven ability to integrate acquired companies. In 2009, 79 percent of Cemex's $20.2 billion in revenues were generated internationally.

SABMiller (South Africa) is the world's second-largest brewer, with operations and distribution agreements in 75 countries. Its sells both premium beers with global brands and leading local beers. SABMiller is the number-one or number-two brewer in many of its markets including the United States and several countries in Africa, Latin America, and Europe. In fiscal 2010, almost 80 percent of SABMiller's revenues of $26 billion originated outside South Africa.

Vale (Brazil) is the second-largest diversified mining company in the world, with a presence in 38 countries and activities in exploration, operations, and sales. It is the world's largest producer of iron ore and the second-largest producer of nickel. Among large companies tracked by BCG's Value Creators team, Vale has the best ten-year record of creating value for shareholders. The company has succeeded through strong management practices, aggressive pricing strategy, and successful acquisitions. In 2009, 85 percent of Vale's revenues of $23.9 billion were generated internationally.

Wilmar International (Indonesia), a leading global agribusiness company, has an integrated business model that covers origination, processing, branding, and distribution. It is the largest global processor and merchandiser of palm and lauric oils and a major oil-palm plantation owner. It is the largest oilseed crusher, edible-oil refiner, and manufacturer of consumer pack oils in China. In India, it is one of the largest edible-oil refiners and a leading producer of consumer pack oils. Wilmar sells its products in more than 50 countries, and, in 2009, 77 percent of Wilmar's $24 billion in revenues originated outside Southeast Asia.

The Countries and Industries of the 2011 Global Challengers

The global challengers come from 16 countries. (See Exhibit 6.)

Although China, India, Brazil, Mexico, and Russia still dominate the list of home nations for the global challengers, countries in other regions are starting to compete for attention. In particular, Africa, with four global challengers this year, will likely emerge as a region worth watching. It is rich in natural resources, has emerged as a growth market for several industries, and has newfound ambition.

The global challengers have historically been well distributed across industries. Industrial goods (with 35 challengers) and resources and commodities (with 24) continue to lead the list. The construction industry (with 6 challengers) moved up the list, reflecting the increased focus on infrastructure in RDEs.

Five Trends That Will Shape the Future

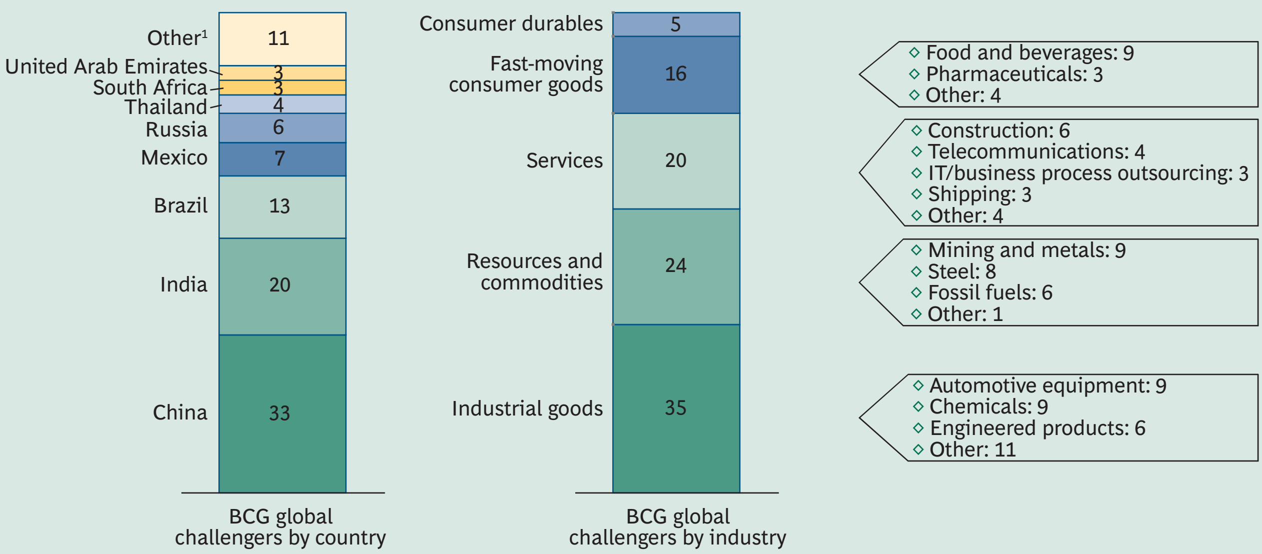
Across the 100 global challengers, we have identified at least five emerging trends that will shape commerce—not just for the global challengers but for all companies that play on the world stage.

- The emergence of Chinese contractors
- The rush for natural resources
- The rise of diversified global conglomerates
- The challenges of building global consumer brands
- The increasing reliance on partnerships

The Emergence of Chinese Contractors. A group of previously unknown construction players from China has emerged to win prestigious multibillion-dollar projects. These companies are building a broad range of struc-

Exhibit 6. The Global Challengers Represent 16 Countries and Several Industries

16 Countries						
Argentina Brazil Chile	China Egypt Hungary	India Indonesia Malaysia	Mexico Russia Saudi Arabia	South Africa Thailand Turkey	United Arab Emirates	



Source: BCG analysis.
[1]The other countries are Argentina (1), Chile (2), Egypt (1), Hungary (1), Indonesia (2), Malaysia (1), Saudi Arabia (1), and Turkey (2).

tures: bridges and power plants in Southeast Asia, highways and railways in Africa, and even a casino in the United States.

Over the past decade, the average annual value of overseas contracts for Chinese construction companies has expanded at a rate of 29 percent. These players are climbing the global rankings and capturing both market share and top positions. In the most recent Top 225 Global Contractor list published by *Engineering News-Record,* Chinese firms hold three of the top five—and 19 of the top 100—slots.

Three reasons are behind the success stories. The first, of course, is cost. Even on overseas projects, Chinese competitors frequently enjoy a labor cost advantage over competitors from the United States, Europe, and Japan. They also tend to be vertically integrated and can buy equipment and material from domestic suppliers or their own subsidiaries. Shanghai Zhenhua Heavy Industry, the world's largest manufacturer of heavy machinery, for example, provides container cranes for the projects of its parent, China Communications Construction.

The second reason is the talent and experience of Chinese contractors. Chinese contractors have gained valuable experience domestically that they can apply on international projects. China, for example, has built 4,000 miles of high-speed rail lines, including the Wuguang Passenger Railway that allows trains to reach peak speeds of 245 miles per hour. China is also home to the Three Gorges Dam, the world's largest hydroelectric project, completed in 2006, and the Hangzhou Bay Bridge, the world's longest sea-crossing bridge, opened in 2008.

The final reason is that the Chinese government and state-owned banks provide diplomatic and financial support to contractors. The Chinese government has important ties with Africa, Southeast Asia, and the Middle East—the three areas where 90 percent of Chinese overseas orders originate.

The Rush for Natural Resources. Global challengers are searching for natural resources to fuel their growth. From January 2006 through August 2010, challengers in the resources and commodities industry announced 154 cross-border mergers and acquisitions, far more than any other sector and nearly twice the 86 M&A deals completed in the five previous years.

These deals have two significant objectives: to satisfy the local thirst for natural resources and to develop footholds in growth markets. In Thailand, for example, PTT is looking for foreign assets to meet fast-growing domestic demand. About one-half of its planned investment will focus on overseas expansion. Brazil's Petrobras plans to acquire long-term sources of liquefied natural gas in the Asia-Pacific region.

In Russia, where more than 60 percent of export revenues are generated by oil and gas and 14 percent by metals, companies are especially motivated and activated acquirers. (See the sidebar "Going Global.")

As we saw with the rise of Chinese contractors, many of these acquisitions have strong financial, regulatory, and diplomatic support from RDE governments. The debt of

Going Global

The Russian challengers, all of which operate in the natural resources industry, completed 143 cross-border deals from 2000 through August 2010—accounting for 22 percent of these deals closed by all 100 global challengers.

Steel giant Severstal, for example, has an established record of acquiring and integrating assets in both developed and emerging markets. Severstal's $1 billion deal for PBS Coals in the United States will provide the raw materials and lower transportation costs needed to enable its expansion. In 2010, Severstal inked deals to secure iron-ore exploration rights in the Congo and Gabon.

Rosatom, the state-owned nuclear-power monopoly and a leading global manufacturer of nuclear fuel and reactors, is seeking geographic diversification and access to lower-cost uranium reserves. In 2010, it acquired a controlling stake in Canadian Uranium One. More broadly, Rosatom is seeking to become a global leader in nuclear technologies through international partnerships and M&A.

Oil and gas companies are not sitting still either. In addition to scouting for new reserves, these companies are aiming to vertically integrate. In recent years, they have made a large number of downstream acquisitions (in pipelines, refineries, and filling stations) across the world to gain better access to their customers.

many state-owned challengers is guaranteed implicitly or explicitly by their home-country government. In 2009, the Russian government set up a unit to advise on foreign M&A in the energy sector. Many Russian and Chinese companies have signed foreign-venture deals in Nigeria and Australia during official visits by state dignitaries.

The Rise of Diversified Global Conglomerates. Seven global challengers are conglomerates; the most notable is the Tata Group in India, which has operations in the chemical, communications, IT, beverage, automotive, and steel sectors. (Six of the Tata Group companies qualify as challengers in their own right.) The other diversified challengers are Grupo Alfa in Mexico, Koç Holding and Sabanci Holding in Turkey, and Camargo Corrêa Group, Odebrecht Group, and Votorantim Group in Brazil.

These companies are at different stages of globalization and diversification. At one end of the spectrum are Tata and Votorantim, major global contenders. Votorantim's recent acquisition of Aracuz led to the creation of Fibria, the largest competitor in the pulp and paper industry. The Votorantim Group's member companies are also among the top-five global zinc companies and the top-ten global cement producers. At the other end are the conglomerates with less diverse global portfolios. Grupo Alfa from Mexico, for example, is the world's leading manufacturer of high-tech aluminum cylinder heads and engine blocks and has interests in refrigerated products and polyester businesses. Companies have also adopted different management approaches to globalization. For Tata, globalization was a way to distribute risk and lessen its dependence on the Indian economy. Although its operations are independently managed by group companies, the corporate center plays an important role in defining shared values and vision, developing brand and marketing strategies, facilitating people development, measuring performance, and creating common M&A practices.

Over the last decade, the Tata Group has completed cross-border acquisitions whose value exceeded $17.5 billion. Among others, Tata Steel acquired the Anglo-Dutch steel group Corus; Tata Chemicals acquired General Chemical Industrial Products, which is based in the United States; Tata Motors acquired three car and truck lines; and Tata Global Beverages acquired Tetley Tea.

To expand the markets they serve, some global challengers are trying actively to create global brands.

The Tata Group works collaboratively with its acquisitions. The acquired companies generally remain separate organizations and have operational freedom, even when they operate in the same or related businesses as the acquiring company does, as was the case for Tetley and Corus. Tata also emphasizes the retention of top managers. The glue that holds the acquisitions together is Tata's corporate center.

Koç Holding in Turkey takes a more decentralized approach, letting subsidiaries seek growth opportunities. For instance, Koç's Arçelik subsidiary recognized that the domestic Turkish market was saturated and began to expand its appliance business in Europe and beyond. To date, Arçelik is the most global of Koç's subsidiaries.

The Challenges of Building Global Consumer Brands. In their bids to transcend business models that are based on low costs and to expand the markets they serve, some global challengers are trying to create global brands.

Historically, many durable-consumer-goods companies from RDEs have entered developed markets as original equipment manufacturers, distributing goods through better-known Western brands. This model has reached its limits, as manufacturing costs have risen and demand for appliances in developed markets has dropped since the global recession. Wages in China's Guangdong province, for example, rose by 11 percent in 2010. In India, copper prices more than doubled in 2009. Since 2008, meanwhile, demand in North America has dropped by 10 percent and by 3 to 5 percent in Western Europe. Also, many established global companies have created manufacturing operations in RDEs, a move that erodes cost advantages held by companies based in developing markets.

In response to these developments, many traditional manufacturers have begun to build their brand identity in developed markets. To better understand the needs of Western customers, for example, China's Haier has located R&D facilities in the region and hired local staff. It has also developed relationships with retailers to expand its reach with customers. Mexico's Mabe has acquired Bosch's Brazilian subsidiary. Turkish conglomerate Koç has both invested in developing its own Beko brand in major European markets and acquired local brands in other markets.

In the food and beverage sector, global challengers have a different motivation to develop brands. They have well-known brands at home and are expanding their global footprints through acquisitions of brands and distribution networks in developed markets.

In its campaign to become the world's largest beef processor, JBS acquired the Bertin brand in Brazil and the Pilgrim Pride and Swift brands in the United States. The Swift acquisition also gave JBS access to distribution channels in Japan and Korea. Likewise, Thai Union Frozen Products, one of the world's largest exporters of seafood, has established strong market positions overseas by acquiring leading foreign brands. Its first major acquisition was Chicken of the Sea, the third-largest brand of canned tuna in the United States. More recently, it purchased MWBrands, gaining leading canned-seafood brands in the United Kingdom, Ireland, Netherlands, France, and Italy.

When global challengers partner with multinationals, they do so from a position of strength.

Grupo Bimbo's $2.8 billion acquisition of Weston Foods, which boasted 13 percent market share in the United States, made the Mexican company the largest global manufacturer of bread. In 2010, Grupo Bimbo agreed to buy Sara Lee's North American bakery business for $959 million, further solidifying sales outside Mexico and complementing the existing scale in its U.S. operations.

The Increasing Reliance on Partnerships. Global challengers have been entering partnerships and joint ventures for a long time, but the nature of those relationships is changing in two fundamental ways. First, they increasingly are joining forces with other global challengers rather than established multinationals. The rising popularity of ventures and partnerships among global challengers rests on four pillars.

Sharing Knowledge and Expertise. The best example of this trend may be the joint venture between India's Tata Motors and Brazil's Marcopolo. This venture, formed in 2006, brings together Tata's expertise in chassis and Marcopolo's know-how in designing and building bus bodies. It is aimed at capturing share in such growing markets as India, South Africa, Russia, and the Middle East.

Gaining Access to New Markets. The joint venture of India's Bharat Forge and China's FAW Group unites two large forging companies. It gives Bharat Forge an entry into the Chinese auto market, while it enables FAW to leverage the global sales channel held by Bharat Forge.

Achieving Scale to Compete Globally. The merger of Perdigão, Brazil's largest food company, and Sadia, a large poultry exporter also based in Brazil, created a conglomerate capable of competing against global food giants. The new Brasil Foods—which boasts 42 factories, more than 100,000 employees, sales in 110 countries, and 24 offices around the world—can compete in the United States, Europe, and the Middle East.

Sharing High-Risk Investments. India's Reliance Industries and Mexico's Grupo Alfa are partnering along with U.S.–based Pioneer Natural Resources to develop American shale-gas reserves. The venture plans to build 1,700 drilling sites in unconventional locations.

Challengers often pursue more than one of these approaches in their bids to become global. VimpelCom, the Russian mobile operator, has engaged in M&A activity to access new markets, achieve scale, and create synergies. It recently announced mergers with the Italian mobile operator Wind and with Egypt's Orascom; the latter has a strong footprint in the Middle East and North Africa. Once they receive regulatory approval, these deals will create one of the top-five mobile operators in the world—with $21 billion in annual revenues, 174 million subscribers, and operations in 20 countries.

Furthermore, when global challengers partner with multinationals, they do so from a position of strength. In the past, these ventures were largely formed to transfer technology from the multinational to the challenger or to satisfy regulatory requirements within RDEs. Now, the two sides are more like partners. In 2010, India's Dr. Reddy's Laboratories partnered with GlaxoSmithKline to market pharmaceutical products in emerging markets. The deal brings together Dr. Reddy's manufacturing capability and portfolio of branded products with the global commercial capability of GlaxoSmithKline. Daimler and China's BYD Group, meanwhile, are sharing R&D efforts to develop electric cars in China. The venture capitalizes on Daimler's know-how in electric-vehicle architecture and safety with BYD's excellence in battery technology and e-drive systems.

The Success of Challengers

The global challengers are certainly not the first firms to emerge from developing economies to achieve global leadership, but they are taking a different path than their predecessors from Japan and South Korea did. The Japanese and Korean globalization campaigns were built around organic growth—but the global challengers are growing both organically and through M&A.

The Japanese and South Korean pioneers also developed a different set of strengths than the global challengers have. Over time, Japanese companies became known for technological innovation, lean manufacturing, and brands that stood for quality, while South Korean companies developed a reputation for making quality products at affordable prices. The global challengers are more varied in their approach. Notably, they are creating disruptive business models and coming up with new and better ways to get the job done in many industries. Three challengers exemplify this approach: Bharti Airtel, Indorama Ventures, and Grupo Alfa's Nemak subsidiary.

Bharti Airtel's Operations and Channel Innovations

Bharti Airtel has grown to become the world's fifth-largest mobile operator, as measured by the number of subscribers. From its base in India, the company has expanded into 19 countries—and is the leading mobile provider in 12 of them. The secrets to its success are innovative business models relating to operations and distribution.

In 2004, Airtel developed what is known as its "minute factory" model. Under the model, Airtel took the radical step of outsourcing significant parts of its network—long considered the crown jewel among telecom operators—to Ericsson and other parties. Outsourcing allowed Airtel to flexibly increase and manage its network capacity, essentially "building" minutes with the increased demand, just as a factory line accelerates in line with demand.

This model has delivered multiple benefits to Airtel. First, it allowed Airtel to ramp up its network speedily. By lowering its capital outlays, Airtel gained the financial flexibility to buy more spectrum. Second, as the first mover in telecom outsourcing, Airtel won great terms with vendors, enabling it to lower operating costs below those of its main rivals. Finally, these deals freed up resources and management time and allowed the organization to focus on customer activities.

The company also developed new channels to help alleviate the logistical challenges of doing business in India. It piggybacked on the existing distribution networks of fast-moving-consumer-goods companies and created a standardized process for expanding into new areas. These approaches have helped Airtel add subscribers significantly more rapidly than its nearest rival has.

Airtel's innovations in outsourcing and distribution have paid off handsomely. With an operating margin of 40 percent, it is the most profitable company in India. Airtel's average revenue per user is also almost 12 percent higher than that of its nearest competitor, even while its operating costs per minute are 14 percent lower.

Indorama Ventures' Contrarian Bent

Thailand's Indorama Ventures is a leading polyester and PET company with global production facilities in the

United States, Europe, and Asia. The company has grown from the tenth-largest to the top global producer over the past four years by having the courage to challenge conventional wisdom.

First, while most major competitors were drawn by high-growth rates to the East, Indorama Ventures concentrated on the West, particularly the slower-growing but less crowded North American and European markets. Second, in the late 1990s, when other companies began to divest their low-margin PET businesses, Indorama Ventures acquired many of them, often at prices below their replacement cost, and gained advantages of scale. Third, in order to improve their margins, many traditional companies directed R&D and marketing to specialty product lines. Indorama Ventures instead focused on the commodity side of the business and optimized R&D and marketing costs. Fourth, at most companies, the polyester line was part of a much broader portfolio of businesses. By contrast, Indorama Ventures specialized almost exclusively in polyester in order to ensure that it had both its financial resources and best talent devoted to the business.

Indorama Ventures became the low-cost leader in the industry through a relentless focus on operating efficiency. Its plants were running at full capacity in 2009, for example, while the average utilization rate of its competitors was around 85 percent. Indorama Ventures also lowered the cost of purified terephthalic acid (PTA), a key raw material, by locking in supplies and keeping transportation costs down. In the future, it will internally source as much as 80 percent of the raw material for its new U.S. plant in Alabama. Indorama Ventures' presence on three continents also helps to reduce its transportation costs and lower the risk of trade barriers or duties.

The company's conviction that polyester is a core business and its focus on cost turbocharged its business. From 2005 through 2009 at Indorama Ventures, revenues grew sevenfold, profits increased ninefold, and its stock price tripled.

The Technological Focus of Grupo Alfa's Nemak

Nemak, a subsidiary of Grupo Alfa, is the global leader in producing aluminum auto components such as cylinder heads and engine blocks. From its base in Monterrey, Mexico, it has expanded its manufacturing operations into 12 countries and now generates 90 percent of its revenues from international sales.

The company, which serves all the major automakers, has greatly transcended its humble origins as a joint venture with Ford Motor. As its expertise grew, Nemak improved both its cost structure and technological sophistication. It has partnered with global leaders in automotive technology and made major investments in talent. Rather than simply taking advantage of location and labor costs, Nemak is now a world-class auto supplier known for technological innovation, customer focus, and quality products.

The company has several product-development centers around the world and hires from some of the best universities. It has systematized R&D to reduce inefficiency, promote collaboration, and assure the sharing of best practices. These measures have allowed Nemak to reduce its overall product-development cycle to less than six months—a reduction of 70 percent. Nemak involves customers early in product design in order to meet their needs and control production costs.

The New Decade

The global challengers are entering the new decade from a position of strength. They have developed innovative business models that extend beyond low cost. They have succeeded in entering new markets and are well positioned in emerging markets. They are financially fit and can take advantage of opportunities to buy attractive assets and compete against more established companies that may still be in recovery mode.

If they maintain their growth trajectories, they will acquire significant status over the new decade. Within the next five years, 50 of the global challengers could qualify for inclusion in the *Fortune* Global 500. Within ten years, 15 to 20 challengers may join the *Fortune* 100. By 2020, the challengers could collectively generate $8 trillion in revenues, an amount roughly equivalent to the collective revenues of the S&P 500 today.

These scenarios, however, could easily be disrupted by external economic events.

A shortage of resources or volatility in commodity prices could intensify the pressure to secure access to supplies. For instance, there is already a shortage in coking coal needed to produce steel. Challengers and global multinationals alike are on the prowl for fresh supplies.

A shortage of talent will intensify the battle for high-quality employees. Talent is increasingly the most valuable resource for firms. Within RDEs, local and multinational companies will battle for the best and brightest.

Protectionism could dampen exports. Global trade is rising again after falling off during the economic downturn, but protectionist sentiment still lingers.

In addition to these external constraints, challengers will also be testing their organizational limits. While global challengers can learn from the experiences of global multinationals, they also have unique issues to address. Many global challengers, for example, are still run by founders or their family members who have not yet passed the baton to the next generation of leadership. Most have not yet built global brands or world-class R&D capabilities.

Against this backdrop, global challengers will be competing with established players. This competition will occur in three arenas: the battle for emerging customer segments, the battle for industry leadership, and the battle for new markets.

The Battle for Emerging Customer Segments

Over the next 20 years, the fiercest battle will be for the many billions who are joining the middle class. By 2020, the middle class in RDEs will account for 30 percent of the world's population; by 2030, that figure will jump to 50 percent.

It will not, however, be easy to compete in these markets. Within RDEs, the "middle class" can be sliced many ways by preferences and spending patterns. The traditional challenges of product development, marketing, pricing, sales, and distribution will be multiplied in these markets.

Many global challengers are well poised to reach these consumers because the companies sprang to life serving the emerging middle classes in their home markets. Brazil's Natura, for example, generates 60 percent of its revenues from its midrange cosmetics and fragrances. Galanz

Group in China has become the global leader in microwave ovens largely by focusing on the low end and the middle of the market.

These companies are exporting the expertise they gained in domestic middle-class markets to other markets. India's Bajaj Auto exemplifies this approach. For the low end of the market, Bajaj Auto redeveloped its basic-model Boxer 100cc motorcycle—a vehicle no longer offered in India—to win price-sensitive customers in Africa. For the higher end, it introduced the Pulsar model in Indonesia to attract customers fond of high-tech and trendy products.

Global challengers are exporting expertise gained in domestic middle-class markets to other markets.

Natura has been able to move into other markets in Latin America by carefully studying local conditions and introducing tailored products. The company also relies on a direct sales force of 880,000 "beauty consultants" in Brazil and 160,000 in the rest of Latin America to reach customers. These strategies helped Natura boost international sales by 42 percent in 2009.

At the same time, established players are not standing still. They recognize the size of the prize and are also seeking to develop new ways of reaching these customers.

One Japanese computer-electronics firm, which had been focused on the high-end market in China, launched low-price laptops and flat-screen televisions in January 2010. It is promoting these products as it enters tier 3 and tier 4 cities. The company is also revamping its development strategy to increase its presence in the smaller cities, where the government's stimulus package is expected to keep demand strong.

The Battle for Industry Leadership

Established players and global challengers are also competing for industry leadership. In some industries, the established competitors have responded effectively to inroads by challengers—but this is not true in others. In the new decade, the ability of many established players to remain competitive will be tested. But so will the capacity of global challengers to create truly global organizations and footprints.

This tug of war will play out differently in each industry. Over the past decade, established players have defended their chosen industries by taking one of the following four approaches:

- Adapt the business model to stay competitive
- Integrate RDEs into the global supply chain
- Partner with or acquire challengers
- Reinforce traditional strengths

Adapt the business model to stay competitive. In the first half of the past decade, Indian IT firms grew rapidly, increasing their share of the global IT-services market from about 1 percent in 2000 to 4 percent in 2005. Such firms as Tata Consultancy Services, Wipro, and Infosys Technologies were winning large contracts internationally and enjoying strong after-tax margins that exceeded 20 percent. But Western competitors quickly realized that if they wanted to compete effectively with these challengers they would need to radically lower their costs, and then they placed a big bet on India.

Since 2003, employment in India by IBM Global Services, Accenture, and HP Enterprise Services has risen at an average annual rate of 40 percent and now exceeds 150,000. Employment at the largest Indian IT firms has also grown during those years, but at a slower pace (28 percent). The move to India has helped the Western firms reduce the cost gap with Indian companies and improve their margins. In addition to leveraging India as a delivery center, these global peers are also establishing themselves as local competitors. Today, IBM is the largest company in the domestic IT-services market in India, and it actively leverages the insights that it generates in the country across global markets.

Integrate RDEs into the global supply chain. We see this approach taking hold among multinationals in the automotive sector. Turkey, for example, has become a manufacturing hub, with such companies as Ford and Fiat Group establishing facilities there to serve both domestic and European demand. The BMW Group, meanwhile, has set up international-procurement facilities in Chennai and Beijing as a part of its sourcing strategy.

Partner with or acquire challengers. In the pharmaceutical industry, major companies have entered new markets by acquiring or partnering with challengers. In 2009 and 2010, French pharmaceutical company Sanofi-Aventis made several acquisitions to expand in Russia and other emerging markets. It acquired a 74 percent stake in Bioton Wostok, a Russian insulin manufacturer, and it also signed an agreement with Rostechnologies to manufacture drugs locally. The acquisition of Czech generics manufacturer Zentiva solidified Sanofi-Aventis's presence in Central and Eastern Europe—especially in Romania, Slovakia, Russia, and the Czech Republic, where it is the market leader. Elsewhere, Sanofi-Aventis acquired Laboratorios Kendrick, the leading generics company in Mexico, and Medley, the leading generics company in Brazil.

Reinforce traditional strengths. In the consumer electronics industry, established multinationals have fortified their traditional prowess in R&D and branding rather than trying to compete solely on price. Such companies as Samsung and Sharp Electronics stayed away from the conventional-television market in China, which was dominated by low-cost players. Instead, they focused on competitively priced flat-screen televisions. Consumers voted with their pocketbooks and chose the flat-screen products, causing the conventional-television market to collapse.

At the same time, challengers in other industries are continuing to strengthen their positions. China's Huawei Technologies and ZTE have quickly become global leaders in the telecom equipment industry. (See the sidebar "Big and Getting Bigger.")

In the aerospace industry, Brazil's Embraer continues to strengthen its position as the leading manufacturer of regional jets of up to 120 seats. Embraer focuses on high-growth markets and on innovation aimed at creating aircraft that feature lower price tags and operating costs as well as higher reliability, comfort, and safety. Its Phenom business jets, for example, have spacious interiors and require less maintenance than other aircraft in the category. The Phenom has a design life of 35,000 hours, an impressive length for such aircraft.

The battle for industry leadership is closer to its start than its end. Challengers cannot rest on their laurels.

The battle for industry leadership is closer to its start than its end. In the industries for which success turns solely on cost advantage, global multinationals may ultimately find themselves unable to compete. But there are many more industries in which they can be quite competitive if they adapt their business models to the new normal of global competition. Challengers, meanwhile, cannot rest on their laurels.

The Battle for New Markets

RDEs will likely grow at an annual average rate of 5.5 percent over the next ten years, compared with just 2.6 percent for developed economies. And they will capture about 45 percent of global GDP by 2020, compared with the 31 percent they command today. This growth will be produced not just by the usual suspects

Big and Getting Bigger

What a difference three years can make. In 2006, the wireless equipment industry was dominated by Western companies but remained fairly fragmented. By 2009, industry consolidation had reduced the number of Western competitors. During the same period, China's Huawei Technologies rose from eighth to second place in the global rankings of equipment suppliers in terms of overall revenues, while ZTE rose from ninth to fifth.

Huawei has certainly enjoyed having home field advantage in the rapidly expanding Chinese telecom market, but the company has also quickly expanded abroad. In 2002, three-quarters of Huawei's sales were domestic; today, three-quarters now come from overseas. The company has also established R&D facilities in India, the United States, and Europe.

Still, established players are fighting back hard. Nokia Siemens Network, for example, has launched a large transformation plan designed to build its presence in low-cost countries, shift its business toward services, and focus its organization around RDEs.

of Brazil, China, India, and Russia, and Mexico. When these five countries are excluded, the 40 countries projected to have the highest growth in real GDP over the new decade include 18 countries in Africa, Eastern Europe, and Latin America. By 2020, many new countries are likely to join the ranks of the top 40 nations listed by GDP.

Four trends are likely to emerge from these growth scenarios.

New Scrimmages. Africa, Latin America, and parts of Eastern Europe and Southeast Asia will emerge as the next markets where multinationals and challengers compete for customers and leadership.

Africa, in particular, has towering needs in several industries including telecommunications, power, railways, and consumer goods. The construction market in Africa, for example, grew by 78 percent from 2008 through 2009. Of the top-ten construction companies in the African market, five are from China, four are from the United States and Europe, and one is Brazilian. Three—China Communications Construction Company, Sinohydro, and Odebrecht Group—are global challengers.

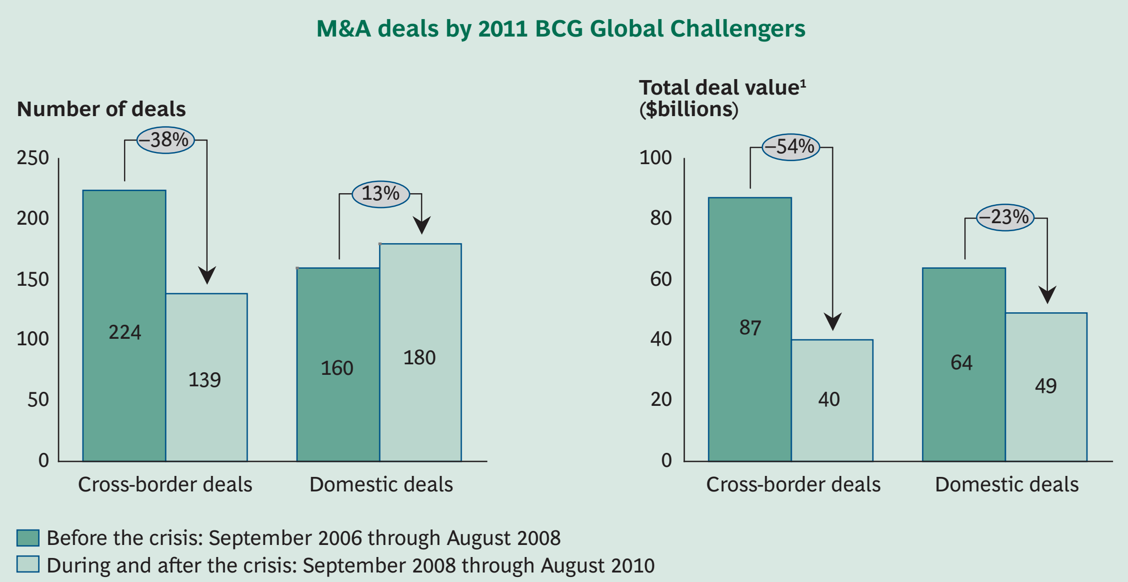
Several regional and international retail chains are expanding into new markets in Latin America. Chile's Falabella plans to open 180 stores and seven shopping malls by 2014, including two key projects in Peru. Mexico's Femsa opened stores in Colombia in 2010 and plans to have 20 to 30 stores by 2012. Carrefour is also present in Colombia.

Domestic Duty. The global economic downturn encouraged many companies headquartered in RDEs to refocus on their domestic markets. Domestic M&A deals by global challengers increased 13 percent during the two years ending in August 2010, compared with the earlier two-year time period. (See Exhibit 7.)

These companies doubled down on their bets in the markets they knew best because they recognized that many of the most promising growth prospects were close to home. Indeed, some companies have chosen to diversify into new domestic industries rather than expand their business globally.

A few companies have also reevaluated or postponed international expansion plans after the recession exposed the vulnerabilities of international markets.

Exhibit 7. The Crisis Shifted the Challengers Toward Domestic Deals



Sources: Thomson Reuters Datastream; BCG analysis.
[1]These data refer only to deals for which the value of the deal was disclosed.

Trade-Led Globalization. The expansion of emerging markets is swelling trade volumes in the region. (See Exhibit 8.) Such countries as Brazil, Chile, India, Indonesia, Malaysia, Thailand, and Russia now receive more than 25 percent of their export revenues from other RDEs.

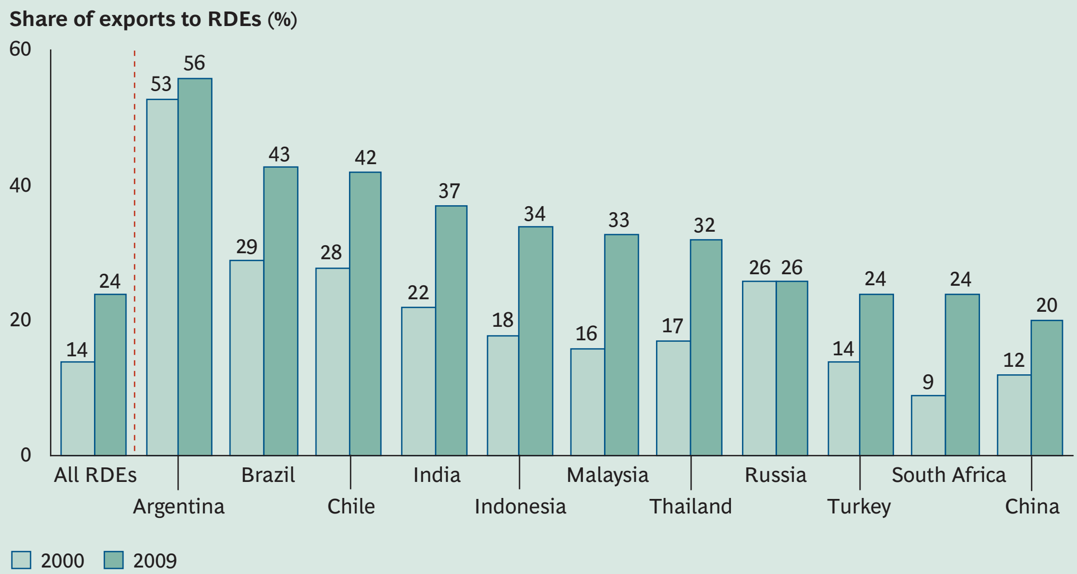
This rise in trade is straining the capacity of ports and shipping facilities. In Latin America, port capacity will need to double every five years in order to accommodate increasing cargo traffic. Container demand in Asia grew by an average of 12 percent annually from 2005 through 2009, compared with growth of 5 percent in other parts of the world. By 2015, the Asia-Pacific region is expected to handle 68 percent of global traffic, and intraregional container-trade volumes within Asia will be equivalent to the Asia-Europe and trans-Pacific trade combined. In order to accommodate this growth, $51 billion in port-related infrastructure investments are required, according to the United Nations.

Global challengers are taking advantage of these trends. DP World of the United Arab Emirates has focused on emerging markets as a core strategy and is growing 50 percent faster than the industry average. Of its 50 terminals and 11 new developments and major expansions, 37 are in Africa, Asia, and Latin America. DP World plans to double capacity in line with market demand during the new decade to around 92 million TEU (an industry measure of container units), mostly in such emerging markets as Brazil, Egypt, India, Pakistan, and Turkey.

Rise of Many Cities. Growth in emerging markets is moving from megacities to midsize cities, where more than 80 percent of the RDE population lives. Revenues for consumer finance in emerging cities, for example, will likely total $10 trillion by 2030, with 65 percent originating in midtier cities. The same pattern will hold true for other industries, causing companies to rethink their sales and distribution strategies.

In Indonesia, tier 2 cities such as Samarinda have become the focus of global multinationals. Ford opened its first dealership in Samarinda in 2007, and sales there have increased 30 percent over the past two years. Ford is planning retail outlets in seven other tier 2 cities. In India,

Exhibit 8. Many RDEs Derive Significant Export Revenues from Other RDEs



Sources: UN Comtrade; BCG analysis.
Note: The analysis is based on data for 29 countries: Algeria, Argentina, Brazil, Chile, China, Colombia, Egypt, Hungary, India, Indonesia, Iran, Kazakhstan, Kuwait, Malaysia, Mexico, Nigeria, Pakistan, Peru, the Philippines, Poland, Romania, Russia, Saudi Arabia, South Africa, Thailand, Turkey, Ukraine, United Arab Emirates, and Venezuela.

Tommy Hilfiger opened stores in five cities in 2010 including Amritsar, Bhopal, and Dehradun. In China, retail giants Best Buy, Carrefour, and Wal-Mart are rapidly adding stores in midsize cities. The next frontier for retail in Latin America, meanwhile, is actually cities with fewer than 50,000 inhabitants—as larger cities are already reaching saturation.

These battles have implications for global challengers and established competitors alike. For challengers, they are the following:

- Choose carefully where to compete: domestic markets, in either existing or new businesses; developed markets; or emerging markets.
- Protect core home markets that may be vulnerable to attack from global multinationals and other global challengers. Take advantage of proximity to these markets to develop more relevant products.
- Create innovative business models to reach middle-class consumers in many cities or serve the growing cities themselves by providing infrastructure projects.
- Consider acquiring skills and scale through partnerships with other companies. Be aware of partnership opportunities with multinationals in local markets.
- Adapt business models to move beyond the traditional bases of competitive advantage.

The implications for established players are the following:

- Understand the competitive advantages and cost structures of the challengers and determine whether these advantages are waxing or waning as the structure of the industry shifts.
- Be clear about the customer segment you are targeting. There is no single middle market but rather three general subsegments: consumers trading down, consumers trading up, and consumers who serve as a stable middle.
- Adapt business models swiftly to fight the challengers. Localize product development and marketing—in most industries, "global" products will not cut it. Take advantage of the lower costs in developing markets.
- Reinforce the barriers that impede challengers by focusing on traditional strengths in branding and R&D, but be prepared for the emergence of innovative and brand-savvy challengers. Identify ways to compete beyond price.
- Actively look for local partnerships, especially to distribute and service products. Consider partnerships or acquisitions in RDEs. Closely scan companies in RDEs as potential customers and vendors.

Competition between global multinationals and challengers will intensify in the new decade, with each side bringing its own strengths to bear. As things evolve, the boundaries between these two distinct sets of companies will blur. In order to succeed in RDEs, global multinationals will need to adopt the practices of challengers—and vice versa. Increasingly, there will be a cross-pollination of ideas and practices.

Before the end of the new decade, the winning global companies will be identified less by their home market and more by how they adapt to the fast-moving world in which they compete.

For Further Reading

The Boston Consulting Group publishes other reports and articles that may be of interest to readers of this report. Recent examples include the publications listed here.

The Internet's New Billion: Digital Consumers in Brazil, Russia, India, China, and Indonesia
A report by The Boston Consulting Group, September 2010

Threading the Needle: Value Creation in a Low-Growth Economy
A report by The Boston Consulting Group, September 2010

Winning in Emerging-Market Cities: A Guide to the World's Largest Growth Opportunity
The BCG 2010 Value Creators Report, September 2010

The Global Infrastructure Challenge: Top Priorities for the Public and Private Sectors
A White Paper by The Boston Consulting Group, July 2010

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

The Keys to the Kingdom: Unlocking China's Consumer Power
A report by The Boston Consulting Group, March 2010

From Crisis to Opportunity: How Global Challenger Companies Are Seeking Industry Leadership in the Postcrisis World
A White Paper by The Boston Consulting Group, September 2009

The 2009 BCG 100 New Global Challengers: How Companies from Rapidly Developing Economies Are Contending for Global Leadership
A report by The Boston Consulting Group, January 2009

Note to the Reader

This is BCG's fourth report in the Global Challenger series. While the centerpiece of these publications is the list of 100 companies, the main purpose of the research and analysis is to understand the specific strategies and challenges of companies operating in RDEs and the evolution of those markets. Especially today, when developed markets are struggling to regain their momentum, these economies—and the companies that make them so vibrant—are worth paying attention to.

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