THE RISE OF EMERGING MARKET MULTINATIONALS AND ITS IMPACT ON MARKETING

Forthcoming in
Marketing Intelligence &Planning, 2008, 26:4

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Abstract

Purpose
To review and discuss the rise of emerging market multinationals (EMMs), with a special focus on its impact on marketing.

Design/methodology
An invited opinion piece with implicit permission to "think aloud".

Findings
Emerging market countries not only have millions newly affluent consumers and are also the home of a new generation of multinational companies. The rise of EMMs challenges the extant thinking in strategy and marketing, and creates both threats and opportunities for western firms. With unique character and behaviour, EMMs are different from both developed countries multinationals and Japanese and Korean firms. It is imperative to study EMMs in order to win the new competition.

Research implications
The topic is currently under-researched, but has the potential to enrich and further develop the marketing subject.

Originality/value
Hopefully to draw more attention to the rise of EMMs and to encourage more research on the topic.

Keywords
Emerging market multinationals, MNEs, globalisation, marketing, BRIC, China.

Paper type
Viewpoint

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Introduction

The world of business is changing and we are now witnessing the beginning of the end of old economic order which has for decades been dominated by the triad economies (US, Europe and Japan). The new economic order is a multi-polar world characterised by multiple centres of economic power and activity (Accenture, 2007). What is most important change about this new order is the remarkable rise of emerging market multinationals (EMMs) while the share and influence of multinational companies from developed countries is declining.

Emerging market is a term which refers to a country that has undertaken transition in its political or economic systems and experienced rapid economic development. Although there is no exact list of emerging market countries, Morgan Stanley Emerging Market Index (2006) has identified 26 countries. In 1994 the US State Department of Commerce named “Big 10 Emerging Markets”, which are China, India, Indonesia and South Korea in Asia; Poland and Turkey in Europe; Brazil, Mexico and Argentina in South America and South Africa in Africa. BRIC is another term widely used to describe the four largest emerging markets: Brazil, Russia, India and China. According to Goldman Sachs' projections, within the next 20 years, BRIC will add to their populations some 225 million “middle class” consumers who earn at least US$ 15,000 a year. The economy of BRIC will overtake the U.S., Japan, Germany, France, the UK, Italy, and Canada by 2040 (BusinessWeek, 2006).

The significance of EMMs

An emerging market multinational (EMM) is a company based in an emerging market country but has engaged in business operations in international markets. As a new generation of multinational firms emerging on the stage of international business, EMMs have already made a big impact. A study by Boston Consulting Group (BCG) found 100 companies from emerging markets with total assets in 2006 of US$520 billion, more than the world's top 20 car companies. 70 EMMs have appeared on the Fortune Global 500 in 2007, rising from 20 in 1995. Accenture predicts the number will increase to 100 within 10 years (Holstein, 2007). EMMs have been expanding aggressively with more than 1,100 mergers and acquisitions worth some US$ 128 billion in 2006 (Hatton, 2008).

The rise of EMMs has received the attention of world media from BusinessWeek to Economist, and has also been a hot topic in many consulting firms. The significance of EMMs cannot be overestimated, as it represents a seismic shift in the world economy, perhaps “the biggest shift since the Industrial Revolution of the 18th century” (Agtmael, 2007). This will have a profound impact not only on the world economy and markets, but also on the whole human society.

EMMs represent a new force in establishing the new economic order in what Accenture (2007) called “the multi-polar world”, which provides a counterbalance to the McDonaldlisaiton of the world. Understanding EMMs and their strategies will provide important insight into the future of global economy and the competitive challenges of this century.

EMMs from China

China is by far the largest source of EMMs, so China based EMMs deserve a special attention. In 2007 China has 24 firms on the Fortune Global 500 compared with six from India; on the BCG top 100 EMMs list, 44 are based in China. When PetroChina floated in November 2007 it became the world's largest public company with a stock market capitalisation of US$ 1 trillion –double that of Exxon Mobil. China's outward foreign direct investment has accelerated in the recent years. Figures from Chinese Ministry of Commerce shows that China outward FDI reached US$ 36 billion in 2007, up from 20 billion in 2006, and 200 million in 2004. This growth is set to continue, with some forecasting investment level of US$ 50 billion by 2010. The geographic areas of Chinese investment are diversified. In German Chinese firms spent 2 billion Euros in buying small and medium sized firms in 2006. Africa is another key region China is keen to invest in order to secure the supply of energy and raw materials. There are about 700 companies operating in 49 African countries (APCO, 2007).

A number of internal and external factors propel many Chinese companies into the internationalisation process. A survey of China's 50 largest industrial firms finds that the internal corporate motives provide the greatest impetus for overseas expansion while the threat of foreign competition is a big push factor (von Keller and Zhou, 2003). With major international competitors all having established production facilities within China, Chinese firms have seen their cost advantage eroded significantly in the recent years. Facing problems of intense domestic competition and overcapacity, many more Chinese companies realised that they have to 'go global' for future growth and profitability, and must succeed globally in order to win the domestic market (Fan, 2006). Buckley, et al, (2006) identify three broad categories of investment strategy adopted by the Chinese multinationals, namely market seeking, resources or asset seeking and efficiency seeking strategies.

One of the best Chinese multinationals is Huawei, China's largest networking and telecommunications equipment supplier. Founded in 1988 as a small distributor of imported PBX products, the company has become one of the world leaders in the industry in less than 20 years. Sales turnover reached US$ 8.5 billion in 2006. Last year 72 percent sales came from outside of China rising from 57 percent in 2005. Huawei serves 35 of the top 50 telecoms operators worldwide and invest 10 percent of revenue into R&D each year. Of the 68,000 strong workforces, nearly half of them are engaged in R&D in 12 centres located in seven Chinese cities, and in Bangalore in India, Silicon Valley and Dallas in USA, Stockholm in Sweden and Moscow in Russia. In the last three years, Huawei has been successful in wining large deals from BT, Vodafone and France Telecom, after fighting off stiff competition from more established western companies. In May 2007 Huawei was named in the World's Most Respected Companies list published by Forbes.

The challenge faced by EMMs

As a new global challenger to the established multinationals from developed countries, EMMs face great challenge themselves. Internationalisation is never a plain sailing and many of them will not make it; but there is no doubt some EMMs will emerge to become the new global market leader. The problem facing many EMMs is that they entered as OEM the global marketplace at the bottom of the value curve and stuck there, because of lack of brand equity. The biggest challenge for EMMs as a late comer is how to create new competitive advantages in the market. Organisation learning is crucial for them to fulfil a successful catch up strategy, and this learning process is likely to be long and expensive, especially where the technology continues to advance rapidly and competition from the incumbent firms remains fierce (Zhu, et al., 2007). EMMs must be good at learning and accumulating new knowledge and expertise in order to move from cost based competencies and location-based advantages to ownership or firm specific advantages (Mathew, 2002; Sim and Pandian, 2003). The key to the success of EMMs has been the ability to treat global competition as an opportunity to build capabilities, to go beyond being OEM to become primary suppliers and move up into more profitable industry segments and adopt strategies that turn latecomer status into a source of competitive advantage (Bartlett and Ghoshal, 2000; Khanna and Palepu, 2006; Bonaglia, et al, 2007).

The impact of EMMs on marketing

Some commentators like to compare the rise of EMMs with the rise of Japanese firms in the 1970s. Although some similarities exist, there are important differences. The world economy is now in an advanced stage of globalisation compared with three decades ago, with a much higher degree of interdependence and integration between national economies. Unlike Japanese firms which benefited from a protected home market when they expanded internationally, most EMMs have to fight intense competition in their domestic markets from both local firms and western multinationals, which is one of the major drivers that propel them into international markets. Another major difference lies in the route to internationalisation. While Japanese firms followed organic growth in their international expansion, EMMs have adopted a variety of different options from OEM exporting to strategic alliance. In order to acquire key strategic assets, acquisition has been used increasingly, as evidenced in high profile deals such as Lenovo's purchase of IBM PC business in 2004 and Haier's unsuccessful bid for Maytag in 2006.

How do western companies, both multinationals and SMEs, respond to the rise of EMMs? History can teach a good lesson. Western companies were largely caught by surprise when they faced the onslaught from Japanese firms in the 1970s. Underestimated the Japanese rivals they were poorly prepared for the new competition from the East. Even strategy guru such as Michael Porter showed sheer ignorance by claiming that Japanese companies "rarely have strategies" and that "they will have to learn strategy" (Porter, 1996:63). The superior performance of many Japanese firms over their western counterparts in 1980s proved Porter was totally wrong. Japanese companies did have strategy, but their strategy was very different from the Porter's version. Rather than having to learn strategy from the west, the Japanese perhaps could teach Mr Porter something about strategic thinking. Three decades later, western firms now face almost the same situation. Despite huge interest on EMMs, so far little is known about them. The majority of EMMs remains enigmatic to the west: how they are organised, how they compete, what competitive advantages they have, and what marketing strategies they follow. Academic studies on EMMs are few and far between. Searches on Google Scholar and several leading data bases found no articles on EMMs marketing.

Need for new thinking

EMMs are different from developed countries multinationals in their characteristics and behaviours. The main area of difference stems from the nature of competitive advantages possessed by EMMs which have internationalised in ways that do not simply recapitulate the experience of earlier MNEs that are the incumbents today (Bonagolia, et al, 2007). For example, the mainstream theory of FDI claims that the possession of some kind of firm-specific advantages, such as proprietary technology, products and brands, is the key factor in explaining the international expansion patterns of the firm (Dunning, 1995). But in the case of Chinese firms, most of their advantages are location-specific rather than firm-specific. The problem faced by many Chinese multinationals is that, once they are in international markets, they will be cut off from the sources of their existing competitive advantages derived largely from the low cost base at home (Fan, 2008). Contrary to the assumption that firms internationalise to exploit competitive advantages, for many Chinese firms, to internationalise seems to mean seeking competitive disadvantages. In other words, they have to develop or acquire new firm-specific advantages first before embarking on international expansion.

Coming from a different environment each EMM has its own unique characteristics with a special set of strengths and weaknesses. It would be a serious mistake to underestimate EMMs, or try to generalise - stereotyping them all as low cost copycat followers. Many of them are still are; but there are also a growing number of EMMs, like Huawei mentioned afore, having a combination of cost advantage with R&D strength and innovative marketing makes them a formidable competitor for the west.

Multinationals are the product of western developed economy formed during the early stage of globalisation; while EMMs are based in developing countries in the later stage of globalisation. The rise of EMMs is a brand new and complex phenomenon, which will put all the extant theory of strategy and marketing into test: the rule of the game has been changed by these new players and is still changing. Marketing faces a special problem as the discipline is said to suffer from mid-life crisis for the last decade (Brown, 1995). Some even believes there has been no significant new theoretic development since 1960s. This raises an important question of whether the extant theory of internationalisation, competitive strategy, and marketing (a discipline largely based on the experience of big US firms particularly those in the FMCG sector), can be applied to EMMs. There are many challenging questions whose answers cannot be found from existing strategy and marketing literature. This gives a good opportunity to rethink about marketing. On the one hand, there is a need for EMMs to develop indigenous theory and practice; on the other hand, marketing practitioners and academic in the west will have to rethink about marketing and how to rejuvenate the subject discipline.

Conclusion

Marketing intelligence and planning has become more international than ever before. This is reflected in the many papers published in this journal in recent years with international focus and/or by international authors. Sun Tzu, the Chinese strategist (c. 6th century BC) said that know your enemies and know yourself, you will not be imperilled in a hundred battles. It is imperative for western companies to study and understand EMMs. It is hoped that this short piece will help stir up the debate around EMMs and encourage more research contributions to the topic.

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