Execution as Strategy

How emerging-market multinationals thrive amid turbulence

by Mauro F. Guillen and Esteban Garcia-Canal

Many emerging-market multinationals are demonstrating a surprising ability to surmount business challenges that developed-world companies have avoided or given up on. That knack has opened up avenues for expansion in regions where established corporations have struggled to grow, and it may give emerging multinationals an edge as they increasingly compete head-to-head with companies from the developed world.

Do multinationals that were born in emerging markets hold some hidden stra-

PHOTOGRAPHY: HARM CUPPENS

ABOVE Bimbo product boxes in China

tegic advantage that has eluded their developed-world counterparts? No—and yes. Our in-depth research into 18 companies based in Asia, the Middle East, and Latin America shows that emerging multinationals share no specific strategy—in fact, many of them set little store by strategy, at least in the classical form that's taught in business schools and espoused in boardrooms across North America, Europe, and Japan. Their leaders spend a lot less time planning long-range moves and making forecasts than do their counterparts from developed countries. Their strategy is to grab opportunities, even if significant risk is involved, and they adapt their goals in "real time." Perhaps that's why they haven't garnered the kind of respect in the developed world that's showered on the likes of GE, IBM, and P&G; few emerging-market multinationals appear on *Fortune's* list of the 50 most-admired firms, for example.

GRUPO BIMBO
BIG BUSINESS FROM LOW MARGINS

HEADQUARTERS
Mexico City
INDUSTRY RANKING
World's largest bakery company
2011 REVENUE
$9.5 billion

In Mexico, more than 80% of sales are through mom-and-pop stores; in the U.S., more than 80% are through large supermarkets.

But these companies do have a distinct advantage, and it stems from a mind-set formed by business environments that are in constant flux—where labor is abundant and inexpensive but often unskilled, infrastructure is far from state-of-the-art, regulations may change unpredictably, and political instability is common. They are more impatient than developed-world companies—their internal clock speed seems faster. They're open to opportunities neglected by established multinationals. They have a higher appetite for risk and a higher tolerance for failure.

Such qualities have helped them move quickly out of their home markets and have fueled their rapid expansion into other markets across the globe. In 2003 when *Forbes* first published its Global 2000 list of the world's largest public companies, the top 10 entries were from developed countries. By 2012 two Chinese firms and a Brazilian company had broken into the top 10, and dozens of emerging-market companies are edging toward the top of their industry sectors. Argentina's Arcor is the world's largest candy manufacturer; DP World of Dubai is the fourth-largest port operator; Russia's Gazprom is the largest energy group, excluding oil companies; India's Tata Communications is the world's leading wholesale voice carrier. And the list goes on.

In this article, we'll describe the emerging companies' mind-set in detail by exploring three examples—a bread baker that uses execution excellence to adapt to rapidly changing circumstances and customer preferences; a genomics company that pursues headlong expansion even in the face of setbacks; and a telecom firm that embraces the chaos inherent in doing business in rough-and-tumble markets like its own.

In today's world, all companies need to be able to function in chaotic, unpredictable business environments. Emerging multinationals already know how to do that—it's what they're used to. Lessons from their success are applicable to global firms wherever they're from and wherever they do business.

Focus on Execution

Bimbo, the world's largest bakery company, was founded in 1945 by a Spanish immigrant to Mexico. Initially seeking low-cost and relatively unsophisticated ways to grow, the firm expanded its operations throughout Latin America in subsequent decades. It made its first U.S. acquisition in 1996, thanks in large part to a focus on optimal efficiency in oven utilization and delivery routes. By 2012 it had swallowed up more than a dozen U.S. firms, including the bakery divisions of Weston Foods and Sara Lee.

Bimbo's executives understand that in a low-margin business like theirs, execution is crucial. Profits depend heavily on getting the right amount of highly perishable products to stores at the right moment and at a reasonable cost. In many markets, "stores" are mainly mom-and-pop outlets scattered many miles from one another over poor roads. To make such customers profitable, Bimbo searches relentlessly for ways to eliminate waste and increase the efficiency of its operations.

The same approach served Bimbo well when it acquired the bakery division of Sara Lee, the huge U.S. food, beverage, and personal-care company. For years, sales for Sara Lee's bread business had been declining because of what we see as a lack of focus on maintaining high standards in execution. Success would have entailed continual improvements in production and distribution efficiency, but the company did not choose to pursue that approach. In 2010 Sara Lee sold the bread business to Bimbo, which applied its execution focus to the business.

Bimbo's leaders are continually on the road, looking for ways to improve the productivity of its 100 plants on three continents, its huge truck fleet, and other operational elements. For instance, it uses tricycle delivery bikes in urban areas of China where streets are too narrow for trucks, a practice it first implemented in Latin America. At the same time, all of its trucks are equipped

These companies are more impatient than their developed-world counterparts—their internal clock speed seems faster.

ILLUSTRATION: NICHOLAS BLECHMAN

with sophisticated computer systems to optimize delivery routes.

As Bimbo has expanded, it has adapted to consumer trends and local preferences, creating niches all over the world. Even in China, a country in which bread is little more than a culinary footnote, Bimbo has found a responsive customer base among young, urban consumers, successfully offering individually wrapped snacks such as beef rolled in bread.

If there is a vision at Bimbo, it's chief executive Daniel Servitje's insistence on keeping "a firm grip on the day-to-day realities" of operations. Many emerging multinationals maintain a similar focus on execution. Often, the only way for those companies to compete with their better-capitalized rivals in the developed world is to keep costs very low through a combination of operational excellence and cheap labor. Bimbo's choice to focus more intently on execution than on detailed planning suggests that the company's leaders understand the danger of becoming encumbered by rigid internal rules about which markets to target and how-rules that have prevented developed-world multinationals from moving more quickly into the booming markets of the developing world. Instead of getting bogged down in planning, Bimbo takes chances, experiments, gets market feedback quickly, and does what's needed to improve its value proposition to customers.

Expand with Abandon

Developed-world firms often formulate their overseas plans in terms of decades. It took McDonald's a half century to generate more sales abroad than in the United States. Sweden's H&M also waited about 50 years after its founding, in 1947, before venturing into the U.S.; even today its presence is tiny in Asia and virtually nonexistent in Latin America. These companies and many others have chosen to build powerful organizations and market positions in their domestic markets before expanding abroad.

Emerging-market multinationals, by contrast, tend to be impatient to expand internationally. Scarcity of resources such

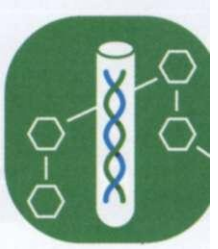
as capital means that these firms are never fully comfortable in their domestic markets, so venturing into the unknown isn't such a big leap. Rather than waiting to go global, they plunge in, using their hard-won knowledge of how to do more with less.

Consider Ocimum Biosolutions, one of the major players in the Indian bioinformatics industry. Although relatively small, Ocimum is intensely ambitious, and it illustrates the breadth of the segments that emerging-market multinationals are targeting. Anuradha Acharya, who was born and raised in India and studied physics and information technology in the U.S., launched the business in 2000 with her husband, Subash Lingareddy, after considering and rejecting several other business ideas, including a messaging and a bandwidth-trading service. Ten years later, Ocimum had become one of the world's premier genomics-outsourcing companies. Its success owes much to its zeal for rapid growth. As CEO, Acharya has launched new products, pursued new markets, and made acquisitions on a timetable few developed-world firms would find comfortable. For instance, in 2001 she assembled a small team to build Biotracker, a resource-planning tool that helps scientists in academic labs manage samples and research processes. Before the year was out—and before the product was completely ready—she closed the first sale.

Just five years after its founding, Ocimum got a foothold in Europe by buying a division of Germany's MWG, one of the firm's clients and the leading genomics company in Europe at the time. The acquisition gave Ocimum not just valuable technology but also a ready-made sales team for an unfamiliar market. In 2006 Ocimum acquired a division of Isogen Life Science, a Dutch company, which garnered the firm complementary technologies and a large client base. The company took an even bigger step in 2007, when it acquired a division of Gene Logic, a U.S. genomics firm with a market capitalization of $2 billion.

The company has also stumbled. In 2011 dwindling orders from U.S. pharmaceutical firms forced the company to put its American subsidiary up for sale. But the company appears to have a high tolerance for such failures. Despite the U.S. setback, the company has made plans to expand significantly into Malaysia. Without aggressive risk taking, Ocimum never would have gotten to where it is today: The firm has established a presence in a wide range of markets, such as reference databases, life-science lab-information management solutions, and bio-IT consulting. It boasts more than 2,000 customers, including most of the top 25 global pharmaceutical companies.

There's a certain logic to being cautious about global expansion: By taking the time to learn about foreign markets and how to operate in them, companies can avoid significant problems. But rapid expansion abroad offers benefits of its own: Companies can rapidly build relationships with a vast range of new customers, partners, and government entities. Waiting decades before going global is a luxury most firms simply cannot afford today.



OCIMUM BIOSOLUTIONS
GROWTH BY LEAPS AND BOUNDS

INDUSTRY
Life sciences contract R&D

FOUNDED 2000

HEADQUARTERS
Hyderabad

In its short existence, Ocimum has acquired two organizations in Germany and the Netherlands, and it recently announced an expansion into Malaysia.

Embrace Chaos

Multinationals often shy away from turbulent regions. They're uncomfortable operating in areas where legal, financial, transportation, and communications support is weak, and where government bureaucracies and changing rules hamper operations. But many emerging multinationals have been toughened by such environments.

Consider Cairo-based Orascom. The company, founded in 1950, began as a small construction firm that eventually came to build everything from highways to shopping malls. The firm got a taste of political risk in 1971, when it was nationalized by the Egyptian government. Five years later, under a new political regime more favorable to private business, founder Onsi Sawiris formed a second construction company that became the starting point of Orascom Group, a diversified conglomerate.

In its initial foray into the telecommunications sector, in 1994, Orascom Group purchased InTouch, a domestic internet service provider. Three years later, Orascom Telecom was incorporated and soon teamed with Motorola and France Telecom to successfully bid for the privatization of 51% of the Egyptian mobile-phone company ECMS. Naguib Sawiris, who had taken over for his father as CEO of Orascom Telecom, realized that because of limited landline infrastructure in emerging markets, the potential of mobile telecommunications was huge. He also recognized that despite the promise of rapid growth, developed-world telecom firms were reluctant to enter those markets, in part because of the risk for instability.

Sawiris was unfazed by the political upheaval and civil strife that scared off the multinationals. Indeed, the countries Orascom entered are a roster of turbulent hotspots: Jordan (1999), Yemen (2000), Pakistan (2000), Zimbabwe (2000), Algeria

Naguib Sawiris recognized the huge potential of mobile telecom—and that developed-world firms were reluctant to enter politically unstable markets.

ILLUSTRATIONS: NICHOLAS BLECHMAN

(2001), Tunisia (2002), Iraq (2003), Bangladesh (2004), North Korea (2008), Burundi (2008), Central African Republic (2008), Namibia (2009), and Lebanon (2009).

Orascom's entry into North Korea is a good example of its approach to chaotic markets. The company, which had projects under way in China near the border and wanted access to North Korean labor, began negotiations with the North Korean government. In 2007 Orascom agreed to invest $115 million in the modernization of a cement plant in exchange for a 50% equity stake in the operation and permission to use North Korean labor in its China projects. Through this arrangement, Orascom not only built trust with officials but also gained insight into the North Korean government's infrastructure plans.

In 2008 Pyongyang granted Orascom a 25-year license to operate a nationwide cell phone network with exclusivity for four years. With no competition in the market and no licensing fees to pay, it was a golden opportunity. Since then, Orascom has further diversified into a North Korean bank and construction projects such as the Ryugyong Hotel, a 105-floor skyscraper in Pyongyang.

In each negotiation with the government, Orascom orchestrated a win-win agreement. In exchange for investments and services that helped push the country's development forward, Orascom gained excellent entry conditions. It then escalated commitments in the country, taking a series of small steps over time.

Orascom's generally smart and sensible approach to risk taking in emerging economies hasn't always succeeded. In Algeria, Orascom's most profitable market, the firm's relationship with the government deteriorated after December 2007, when its construction arm sold its cement business there to the French group Lafarge for $12.8 billion, without notifying the Algerian government beforehand. In retaliation the government went after Orascom Telecom Algeria for alleged unpaid taxes and threatened the company with nationalization. Orascom has pushed back, seeking support from both the Egyptian and U.S. governments (the majority of the company's equity is held by American investors).

However the Algerian situation turns out, Orascom's hybrid approach to investing in high-risk countries—combining proactive negotiations with the government and a defensive strategy of taking small steps—has paid off. After a merger with Russian operator Vimpelcom in 2010, Orascom became part of the sixth-largest telecommunications firm in the world.

ORASCOM TELECOM
AN AFFINITY FOR RISK

HEADQUARTERS
Cairo
2010 REVENUE
$3.8 billion
SUBSCRIBER GROWTH (2004–2010) 703%

Most countries where Orascom operates are ranked in the last quartile of the World Bank's Ease of Doing Business list.

ONCE UPON a time, there were predictable markets and unpredictable markets, and the least predictable tended to be in the developing world. Companies from those markets necessarily learned to adapt to turbulence—doing more with less, adopting unconventional methods in order to compete, and giving little thought to fashioning elaborate corporate strategies.

Today many developed markets are themselves in a state of upheaval. Developed-market companies no longer face a predictable future, except in the sense that there's a high likelihood of disruption. Under these circumstances, the emerging multinationals' approach to growth, risk, and chaos appears more fitting than a complicated long-range strategy.

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