How local companies keep Multinationals at Bay

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Since the late 1970s, governments on every ontinent have allowed the winds of global competition to blow through their economies.
As policy makers have lowered tariff barriers and permitted foreign investments, multinational companies have rushed into those countries. U.S., European, and Japanese giants, it initially appeared, would quickly overrun local rivals and grab the market for almost every product or service. After all, they possessed state-of-the-art technologies and products, enormous financial resources, powerful brands, and the world's best management talent and systems. Poor nations such as Brazil, China, India, and Mexico, often under pressure from developed countries, let in transnational companies, but they did so slowly, almost reluctantly. They were convinced that global Goliaths would wipe out local enterprises in one fell swoop.
That hasn't happened, according to our research. Over the past three years, we have been studying companies in 10 rapidly developing economies: Brazil, China, India, Indonesia, Malaysia, Mexico, Poland, Russia, Slovakia, and Thailand. In those countries, smart domestic enterprises are more than holding their own in the face of foreign competition.
They have staved off challenges from multinational corporations in their core businesses, have become market leaders or are catching up with them, and have often seized new opportunities before foreign players could. Many of them dominate the market today not because of protectionist economic policies, but because of their strategies and execution. When we drew up a list of 50 homegrown champions, we found that 21 had revenues exceeding US$1 billion in 2006 and that the entire group's sales had risen by about 50% between 2005 and 2006 (see the exhibit "Fifty Homegrown Champions"). The skeptics should have remembered that David slew Goliath—not the other way around.
Consider a few local companies that have fended off foreign competition during the past five years or more:

- In Brazil, Grupo Positivo has a larger harvard business review share of the PC market than either Dell or Hewlett-Packard, and Totvs is the enterprise resource planning (ERP) software leader in the small- and midsize-company market,ahead of the world's largest business software provider, SAP.
- In China, daily use of the search engine Baidu exceeds that of Google China by fourfold; QQ, from instant-message leader Tencent, is ahead of MSN Messenger; and online travel service Ctrip has held off Travelsky, Expedia's eLong.com, and Travelocity's Zuji.com.

- In India, Bharti Airtel has taken on Hutchison Telecom, which sold its Indian operations to Vodafone in 2007, and emerged as the leader in the cellular telephone market.
- In Mexico, Grupo Elektra, which has created one of the country's biggest retail networks, has taken the battle to Wal-Mart.
- In Russia, Wimm-Bill-Dann Foods is the biggest producer of dairy products, ahead of Danone and Coca-Cola.

The local companies' success doesn't augur well for the developed world's corporations, many of which are seeking growth and profits in emerging markets. Two-thirds of respondents to a survey of transnational corporations we conducted in 2006 said they planned to expand their commitments to developing economies over the next five years. That isn't surprising. According to the Economist Intelligence Unit, rapidly developing economies will account for 45% of world GDP and 60% of annual GDP growth by 2010. At the same time, several Western and Japanese corporations have been unable to enter or have retreated from emerging markets. For instance, Yahoo and eBay have pulled out of China, and NEC and Panasonic have withdrawn from the Chinese market for cellular handsets.

Other corporations have found it tough to fly down from the premium perches they constructed for themselves, and they no longer appear irresistible to consumers or unbeatable by local companies.

Why don't the strategies of the biggest and brightest corporations work well in developing countries? Part of the problem is that many transnational enterprises mistakenly believe that emerging markets are years behind developed nations' and that the former's markets will eventually look like the latter's.

Multinational corporations assume it's merely a matter of time before their existing business models and value propositions start delivering results in developing countries. These misconceptions are deadly—for several reasons.

Developing economies neither are behind developed ones nor show signs of converging with them. The emerging markets are different, behind in some ways and advanced in others. For instance, China's telecommunications infrastructure is newer and better than that in most parts of the United States. At the same time, roughly 300 million Chinese live on less than $1 a day, according to the World Bank. In India, an educated elite who command international wages flourish in a nation with high rates of illiteracy. In Russia, abundant venture capital coexists with murky property rights and intimidating bureaucratic barriers. These disparities aren't likely to disappear soon, and they're creating unique markets.

The obstacles and opportunities that characterize emerging markets render useless most cookie-cutter strategies. A simple example: In India, lack of reliable internet access renders online customer service useless. However, wireless telecommunication networks and widespread use of mobile telephones allow companies to help customers, even in rural areas, through text messages and handset-based internet portals. Only companies that are unfazed by such contradictions are likely to succeed.

Western companies often forget that entrepreneurship has recently exploded in most developing countries because of internal reforms. Governments have slashed red tape, and capital is cheaper than ever—and those changes are stoking competition. Emerging markets have become so volatile that multinational companies can't tackle them with strategies they developed decades ago and have since refined in mature home markets.

Multinational companies should, we believe, borrow a page, or more, from the local champions' playbook. When we analyzed how 50 companies have become winners, we found six common strands—and they aren't all about low-cost structures. One, unlike global companies, local leaders are not constrained by existing products or by preconceived notions about customer needs. They customize products and services to meet different consumer requirements, and they initially go after economies of scope. Two, their business models overcome roadblocks and yield competitive advantages in the process. Three, they turn globalization to their advantage, deploying the latest technologies by developing or buying them. Four, many of the homegrown champions find innovative ways to benefit from low-cost labor pools and to overcome shortages of skilled talent. Five, they go national as soon as possible to prevent regional rivals from challenging them. Finally, the domestic dynamos possess management skills and talent that multinational companies often underestimate.

In the following pages, we explore each of these factors in detail. No single element may seem groundbreaking, but the homegrown champions cleverly weave at least four of them sometimes all six, as we show into a tight strategy in order to gain competitive advantage.

We also discuss three multinational companies that have followed the six-part path and have tasted success in emerging markets.

A Six-Part Strategy for Success

Many types of local companies have been successful in developing countries. Some are part of old conglomerates owned by business families or tycoons; others are young start-ups spawned by a postreforms generation of entrepreneurs.

All the companies we studied face stiff competition from domestic peers or government-owned enterprises. Most of them also face foreign competition at home, even though countries and markets vary in their degree of openness. These domestic private sector enterprises have outperformed competitors by following several strategies.

Create customized products or services.

The homegrown champions possess a deep understanding of the consumers in their countries. They know people's preferences by region or even city, by income level, by age group, and by gender. These companies also grasp the structures of the raw-materials, components, and finished-goods markets in which they operate. They are therefore able to provide consumers with a low level of customization inexpensively. These local leaders develop offerings tailored to several niche markets and learn to create a large variety of products or services cost-effectively. For example, Goodbaby, the leader in the Chinese market for baby-related products such as strollers, sells as many as 1,600 items in 16 categories. Customization becomes the basis on which companies like Goodbaby differentiate themselves from and get a leg up on multinational rivals.

Some companies develop sophisticated usergenerated customization technologies. In China, consumers favor instant messaging on PCs and text messaging on cellular telephones over e-mail. Despite the presence of U.S. heavyweights—such as Microsoft (which launched a Chinese version of MSN Messenger three years ago), Yahoo, and recently MySpace—Shenzhen-based Tencent is the leader in the Chinese market. Its free messenger, QQ, had a market share of 70% to 80% in 2006, compared with 15% for MSN Messenger, according to Shanghai-based iResearch. QQ's cute penguin mascot and ultrasimple interface endear it to China's internet users, 70% of whom are younger than 30. In addition to the free chat program and chat rooms, QQ offers games, virtual pets, and ringtone downloads.

The U.S. players have tried to capitalize on users' desire to form cyber communities, but Tencent has taken a different route: It taps into the Chinese craving for freedom of expression. QQ offers digital avatars that users can personalize online, from the clothes they wear to the virtual cars they drive. People can choose from a dizzying array of virtual outfits and accessories, each costing just RMB 1 or 2.

The Chinese love the idea of customizing their online messengers, and in less than a decade QQ has become the market leader. "QQ" has even become a verb, and the phrase "QQ me" has been used in pop songs. Since its founding in 1998, Tencent has made steady progress: It had 220 million active users (caveat: many Chinese have more than one online identity) and US$375 million in revenues in 2006 and counting. Other local winners' customization techniques are simple. The companies package products innovatively to make them affordable. In India's $500 million hair care market, the well-entrenched multinational incumbent Hindustan Unilever, which has operated there since 1933, and challengers such as America's Procter & Gamble and France's L'Oréal have been slugging it out in the cities for decades. While Hindustan Unilever and P&G are the leaders with 36% and 27% of the market in 2006, respectively, according to Datamonitor, CavinKare, a local company, is giving them a run for their money with its market share of 16%. The Chennai-based

start-up, established in 1983, packs shampoo in sachets—an idea its founder borrowed from his father, who pioneered the use of these pouches, and his brothers, who first launched shampoo sachets in 1979.
CavinKare's single-use plastic sachets are convenient to use and easy to store, and they minimize product waste because people are not tempted to use more than what they need for one wash. The packaging size makes shampoo affordable for many Indians who don't earn enough money to spend on big bottles and who regard the product as an expensive indulgence. CavinKare went after lowerincome city dwellers and rural consumers for the first time. For years, it found the going tough; the company had to demonstrate how shampoo cleans hair better than soap and used trade-ins and discounts to get people to try it. Once CavinKare tasted success, Hindustan Unilever and P&G started to package shampoo in sachets as well. Price matters, though, and CavinKare's relatively cheap Chik brand has allowed the company to become the largest local shampoo player in India.

Develop business models to overcome key obstacles.
Multinational corporations often complain about insurmountable problems structural issues such as a lack of distribution channels, or infrastructural hurdles like limited telecommunications bandwidth that prevent them from doing business in their usual way. Smart local companies are adept at identifying the key challenges that their markets pose and, from the get-go, at designing strategies to overcome or sidestep those obstacles.
Sure, multinational enterprises later copy the same tactics, but by then the local ones have sharpened their first-mover advantage.
For instance, the global leaders in video games, such as Microsoft, Nintendo, and Sony, haven't made much headway in China because of software piracy. Does that mean China doesn't have much of a market for games? Of course not. Chinese companies such as Shanda, which entered the industry in 2001, have developed a thriving game business by developing massively multiplayer online role-playing games (MMORPGs) instead. These products are impossible to pirate since they are live experiences created by technologies that link many players over the internet. China's youth, eager for entertainment options, have warmed to the idea.
China's MMORPG industry, which generated revenues of about $600 million in 2005, has been growing at 40% a year since 2003, according to iResearch. Belatedly in 2007, Electronic Arts acquired a 15% equity stake in one of Shanda's competitors, The9, for $167 million.
It's tough to make money on the internet in China because of consumer concerns about online theft and the lack of a credit card culture.
Shanda has tackled the online-payment problem by taking transactions off-line. China's gamers purchase prepaid cards from local merchants. When they scratch the film off the card, they get a number that entitles them to a fixed

amount of game-playing time online. Shanda keeps adapting its business model. Sensing that Chinese gamers are becoming less willing to pay to play, it now offers free access to old games. It makes money, as Tencent does, by selling virtual merchandise such as weapons and equipment. The company is also moving into mobile gaming, which is set to take off.

Later this year, Shanda will launch mobile versions of its popular *World of Legend* and *Magical Land* role-playing games on customized Motorola handsets.

Innovative strategies sometimes create new businesses in addition to giving local champions an edge. In Mexico, Grupo Elektra wanted to be a successful retailer, but it created a banking business along the way. The company realized early that to make money, it had to sell big-ticket items such as washing machines and refrigerators. Many middle- and low-income Mexicans could buy consumer durables only by taking loans or paying in installments. They couldn't get credit easily because Mexico's commercial banks didn't consider them creditworthy or know how to evaluate their repayment potential. Grupo Elektra started offering consumer financing and, effectively, selling products on installment plans. Once the company offered credit, its business took off. In 1987 Grupo Elektra operated 59 stores; today it runs more than 1,600, making it one of the largest retailers in Mexico. Imitation is a form of followership: Wal-Mart, which is Mexico's largest retailer by sales, obtained a banking license in November 2006 to offer financial services in all its 997 Mexican stores.

In 2002, Grupo Elektra, which still sells about 60% of its goods on credit, set up a full-fledged bank, Banco Azteca, with branches inside Elektra stores. The bank's business, measured by assets under management, has had a compound annual growth rate of 133% for the past five years. Given that most customers have no credit histories, the bank has developed a novel credit appraisal system. A corps of 4,000 loan officers uses motorcycles to visit prospective borrowers' homes. These officers on wheels assess whether each applicant's standard of living matches the claimed income level and conduct an on-the-spot credit assessment. Collectively, the corps clears as many as 13,000 new loans a day. This unique system has worked so far: Banco Azteca's repayment rate in 2006 was 90%.

Deploy the latest technologies

Contrary to popular perceptions, local winners' products and services often incorporate the latest technologies, as the cases of Shanda and Tencent show. New technologies keep operating costs low and enable companies to deliver good-quality products and services. That helps them outperform competitors that believe they can satisfy local consumers with older technologies.

Unburdened by past investments or old processes, younger companies in particular invest in the state of the art to lower costs and offer customers novel features. For example, Brazil's Gol Linhas Aéreas Inteligentes, South America's first low-cost airline, has shaken up the market since it started flying with five aircraft in January 2001. Gol's share of the domestic market, based on revenue passengerkilometers, grew from 5% in 2001 to 37% in 2006, according to Brazil's civil aviation authority, Agência Nacional de Aviação Civil (ANAC). The world's second-most profitable airline after Ireland's Ryanair, Gol can attribute its success partly to its single-aircraft type of fleet—a model Southwest Airlines pioneered—and to investments in the latest models. In 2007, Gol operated 97 single-class Boeing 737 aircraft, and it had placed orders with Boeing for 64 new 737-800 aircraft that would join the fleet between 2008 and 2010.

By buying an aircraft model with a capacity approximately 30% higher than that of its predecessor, Gol will be able to use its landing slots more effectively.

The planes in Gol's fleet were, on average, less than eight years old in December 2006, making it one of the youngest in South America.

A young fleet requires less maintenance, so Gol manages quick aircraft turnarounds and operates more flights per day with each plane. In 2006, Gol's aircraft utilization rate (the time between a plane's departure from the gate and arrival at its destination) was 14.2 block hours a day—the highest in South America, according to ANAC—and the airline boasted the lowest cost per available-seatkilometer.

Gol has also reduced costs by using the latest technology in other operational areas. It was the first Brazilian airline to issue e-tickets and promote internet-based sales; in 2006, it sold 82% of its tickets on its website.

Customers can check in on the internet or, if they don't have Web access, there are kiosks and attendants with wireless-enabled pocket PCs to process check-ins. Gol's call centers employ the latest automated voice recognition software to handle high call volumes with a limited staff.

New technologies can help old companies get a second wind after economic liberalization. Gujarat Cooperative Milk Marketing Federation (GCMMF), India's largest dairy company, manufactures and markets a range of dairy products under the brand name Amul. Despite the fierce competition that has come with the opening up of India's dairy industry to big business, the enterprise has managed to stay ahead, in part because it has invested in the latest technologies. For instance, it can collect and process 6.5 million liters of fresh milk every day from close to 13,000 villages in the western state of Gujarat.

Farmers bring their milk to collection centers, each located roughly five to 10 kilometers away from a village, twice a day. Thanks to a new milk collection system, GCMMF's field staff can weigh the milk, measure the fat content, and pay the farmer in less than five minutes. That contrasts with the old system whereby employees took samples and performed fat-content tests days later at a central facility. Not only did farmers have to wait for a week to receive payment, but the lack of transparency led to complaints about fraud.

GCMMF employs satellite communication technologies to collect and track transaction data. A customized ERP system coordinates all the back-office functions and analyzes data in real time to forecast imbalances between the demand for milk products and milk supplies.

Its technological infrastructure permits the cooperative to make 10 million error-free payments every day, totaling US$4.3 million (170 million rupees) in cash, and to coordinate large numbers of trucks and processing plants with military precision. That efficiency has enabled GCMMF to penetrate India's urban and rural markets deeply.

Take advantage of low-cost labor, and train staff in-house.

Many local champions have at their core a business model that taps a pool of low-cost labor instead of relying on automation.

Consider, for instance, Focus Media, which has become China's largest outdoor advertising firm. It has placed LCD displays that it engineered in-house in more than 130,000 locations in 90 cities to create a national advertising platform. The company's screens are in office buildings, apartment blocks, retail stores, shopping malls, restaurants, hospitals, drugstores, beauty salons, health clubs, golf courses, hotels, airports, and airport transit buses.

Focus Media uses a decidedly low-tech solution to refresh and service all those LCD screens: a veritable army of employees who move from building to building on bicycles and replace, whenever necessary, the DVDs and flashcards that play the advertisements.

Focus Media could link the LCD screens electronically—as any blue-blooded transnational company would—but it does not. Using people keeps the company's operating costs low while enabling it to offer clients a great deal of flexibility. For a small premium, Focus Media will allow a client to flash ads on office buildings nationwide on the week of a major product launch; or target only outdoor plaza locations on one weekend in one city; or use a mix of online, in-cinema, and shopping center advertisements the day before Chinese New Year. Were Focus Media to use an automated system, the Chinese government could deem it a network-based broadcaster and regulate it as a media company, which might curtail its growth. Focus Media's bicycle-based solution fits well within an otherwise high-tech business.

At the other end of the labor spectrum, skilled talent is hard to find and difficult to retain in emerging markets. Successful companies such as Grupo Elektra, Gol, China Merchants Bank, and India's ITC invest heavily in in-house training. India's Apollo Hospitals, another case in point, has developed a good reputation by recruiting some of the country's best doctors and nurses. The quality of its services is a key differentiator, allowing the chain to charge patients 10 times what they would pay in a public hospital.

Although the company employs 4,000 specialists and 3,000 medical officers at 41 facilities, it needs more people to staff new hospitals and to offer additional services.

Recognizing that India's medical education infrastructure is growing slowly, Apollo Hospitals established a foundation in 1998 to finance new teaching institutes, including one that offers a postgraduate degree in hospital management and a nursing school.

That's not all. In 2000, Apollo Hospitals and a leading Indian technology training company, NIIT, set up a joint venture to offer online medical classes. Medvarsity Online offers postgraduate courses in family medicine, emergency medicine, and health insurance.

Apollo Hospitals has also introduced programs to train physiotherapists, medical technicians, and laboratory technicians. It provides nurses with medical training as well as communication and customer-service skills. Without all these investments in training, Apollo Hospitals would not have been able to sustain its growth.

Scale up quickly

In many emerging markets, when a new business opportunity becomes apparent, several companies crop up to capitalize on it. The size of countries like China, India, and Brazil particularly the large number of provinces and cities allows regional players to flourish. However, only companies that operate nationwide can reap the benefits of scale. Many homegrown champions go after scale economies after generating economies of scope. Expansion often entails mergers and acquisitions.

Focus Media, for instance, faced many rivals scattered across China's cities when it started out in 2003. It pursued an aggressive acquisition-led strategy, which soon gave it the nationwide reach to attract advertisers and diminish the competitiveness of regional rivals. By scaling up quickly, Focus Media vaulted past two global leaders in China's outdoor-advertising industry: America's Clear Channel Communications and France's JCDecaux.

In 2006, Clear Channel was less than half of Focus Media's size in terms of revenue, even though it had set up shop in China back in 1998. JCDecaux, which entered the country by acquiring two companies in 2005, doesn't report its China revenues. However, it operates in only 20 cities, compared with Focus Media's presence in 90. While Clear Channel and JCDecaux have made a few acquisitions in the past decade, Focus Media struck five deals between January 2006 and February 2007 in order to cement its leadership.

Some local champions create regional entities to speed up organic growth. For example, Goodbaby has set up 35 companies, each operating in a Chinese province or a city, to strike local distribution agreements and to open new points of presence quickly. That has spawned one of the most extensive marketing and sales networks in the country: 1,600 stand-alone stores or department-store counters and 300 distributors. By 2010, the company plans to have opened 500 more locations. In addition, Goodbaby opened the first in a series of flagship stores two years ago. These sites offer a few foreign brands, Goodbaby's own products, and access to professionals who dispense parenting advice. By overcoming the distribution challenges of the Chinese market quickly, Goodbaby has laid the foundation for success.

Invest in talent to sustain rapid growth

In market after market in emerging economies, invading multinational corporations encounter domestic rivals with the entrepreneurial zeal and the knack to keep growing quickly for a long time. They discover, to their shock, that there are great local managers in these countries. In fact, most transnational giants underestimate the management depth and capability of rivals that have the additional advantage of not needing to negotiate with headquarters in a distant First World city.

Many companies face the risk of meltdown when they grow at double-digit rates for years. There are no silver bullets to prevent that altogether, but smart organizations minimize senior management turnover and institutionalize management systems to tackle the complexities of rapid growth. Consider Russia's Wimm-Bill-Dann Foods (WBD), which five entrepreneurs founded in 1992 with borrowed funds. They leased a production line at the partially idle Lianozovsky Dairy Plant near Moscow to make fruit juices and decided to make a foray into the dairy industry. Since the short shelf life of dairy products limits their distribution to a radius of 400 kilometers, WBD had to manufacture products close to consumers. Between 1995 and 2003, the company acquired 19 dairy companies and created a national distribution system by appointing 100 distributors. However, by 2003, multinational companies such as Danone and Coca-Cola also built strong sales and distribution systems and capitalized on the growth of local retailers to storm the Russian market. Soon, Danone's dairy products and Coca-Cola's fruit juices were selling faster than WBD's products. The founders of WBD realized that they needed to adopt a new approach in order to retain the company's leadership position. In April 2006, they hired a new CEO, who had worked with Coca-Cola in Europe for 20 years.

To allow him a free hand, the founders moved into new roles as members of a supervisory board. They helped create a more powerful corporate center and a new company mission.

Led by the new CEO, WBD focused on reducing costs; improving quality; and investing in its people, including executives. To ensure high quality at a reasonable cost, the company drew up detailed specifications for all of its products and raw materials, improved forecasting and demand planning, reengineered processes to eliminate bureaucracy, simplified its legal structure, and invested in information technology. WBD adopted a number of human resource management practices including a key performance indicator system, semiannual performance reviews, and individual development plans for the top 500 employees. It also linked salaries with performance and offered stock options to top managers for the first time. Finally, WBD brought in seasoned managers, many from multinational companies, even as it sought to maintain the culture of a Russian company. Partly as a result, WBD had around 34% of the Russian market for packaged dairy products in 2006, according to ACNielsen more than double Danone's 16% share—and was one of the top three players in fruit juices, with an 18% share.

Like WBD, many national champions have used the appeal of ballooning equity valuations and the prospect of rapid career advancement to attract talent from multinational companies. Gone are the days when executives regarded working for a foreign corporation as something special; now they believe it is just as rewarding to work for a homegrown giant. Several executives have left multinational companies or jobs abroad to join local leaders. In China, for instance, Focus Media CFO Mingdong Wu used to work for Merrill Lynch; Ctrip chairman Jianzhang Liang is a veteran of Oracle, and CFO Jie Sun used to work for KPMG; and Shanda president Jun Tang previously headed Microsoft's China business, and CFO Yong Zhang came from PricewaterhouseCoopers.

How One Local Winner Wove Its Strategy

Many companies pursue one or the other of the success strategies just described. What distinguishes winners is their ability to pursue several, or often all, of them simultaneously and to execute them well. Ctrip, China's largest travel consolidator and online travel agent, has been able to do just that. Founded in 1999, the start-up recognized at the outset that online travel services such as Travelocity, Orbitz, and Expedia wouldn't do well in China with the business models they use so effectively in the United States. At the time, China didn't have a national ticketing system, such as Sabre, and it still lacks a secure online-payment system. Most of the country's hotels don't belong to a global or national chain, and most local airlines and consumers prefer paper tickets to electronic tickets. Ctrip therefore decided to focus on both off-line and online sales.

Chinese consumers prefer to deal with travel agents, so Ctrip has set up a call center where more than 3,000 representatives can serve 100,000 customers a day. To break into the corporate travel services market, where personal relationships dominate, Ctrip has cleverly developed a loyalty program for executive assistants. Although 70% of Ctrip's revenues still come from off-line sales, it has invested in a sophisticated, automated voice-response system so that it can offer 24/7 booking to consumers. The company has also developed a booking infrastructure that links its online and call center operations to a central database. A large team of researchers constantly updates the database while technical experts integrate it with the systems of Ctrip's airline and hotel partners that are slowly computerizing their operations. The database has yielded the company a formidable advantage since most rivals lack a similar system. In a classic move to use low-cost labor, Ctrip collects payments and provides delivery of paper tickets through couriers who get around China's cities on bicycles and scooters.

It's tough to operate in China's travel market, which comprises hundreds of cities in dozens of provinces, because of regulatory and licensing barriers. Setting up shop in each city requires a license from the local government, which usually owns a competing travel company. There's also the challenge of organizing sales teams and delivery services in many cities. Over the past 10 years, Ctrip has patiently overcome these hurdles and built a national travel business with 5,600 hotel partners and alliances with all of China's leading airlines. Recognizing that Ctrip is a widely dispersed organization, senior executives have created a companywide management culture, the Ctrip Way, and they emphasize the use of common business processes across the company. Ctrip has even established Six Sigma standards for customer-service operations and expects employees to meet them.

Furthermore, the company has a strong management team with its cofounders still at the helm. Not surprisingly, Ctrip has beaten back several foreign competitors, such as Expedia's eLong.com and Travelocity's Zuji.com as well as Travelsky, the online portal launched by Chinese state-owned airlines and foreign investors such as Sabre in 2001. At the time, many believed that Travelsky would be the winner in China since it had government backing and priority access to airline tickets.

However, it hasn't caught up with Ctrip, at least not yet.

Beating the Locals at Their Own Game

If multinational companies are to succeed on local champions' home turf, they have to fight on two fronts. First, they must emulate some of the local companies' strategies, as we said earlier. Second, they must develop other strategies that local companies cannot easily copy. That's tough but not impossible, as is clear from the recent experiences in China of three multinational companies, each from a different continent and industry.

Kentucky-based Yum Brands, which owns restaurant chains such as KFC, Pizza Hut, and Taco Bell, is thriving in China. The company has adapted in many ways in order to break into the Chinese market. It has customized menus to local tastes and has launched dozens of new items each year. It has also tailored store formats to consumers' behavior, and as preferences change, it modifies those formats.

For example, Yum recently introduced drive-throughs to cater to China's growing cardriving population. Its marketing emphasizes educational content, not just food, so its restaurants appeal to parents' priorities. The company positions stores as fun places; for instance, a KFC outlet in China averages two birthday parties a day. In addition, Yum has grown faster than McDonald's. In 2002, KFC outlets in China numbered 766, compared with 538 for McDonald's; by November 2007, the gap had widened to about 2,000 KFC restaurants (in 420 Chinese cities and towns) versus about 800 McDonald's locations. The company is also expanding Pizza Hut, which has nearly 300 restaurants in China, and its local chain, East Dawning, which serves Chinese food. In fact, Yum opens an average of one new restaurant every day in China.

Yum uses its global expertise to differentiate itself from local players. A network of 16 distribution and two processing centers supports its expansion. To ensure consistent deliveries of quality raw materials, the company has adopted tough supplier-selection policies. Yum also uses its global reputation and resources to

influence the Chinese government's policies regarding food safety and supply chain regulations. By doing so, it protects its local reputation, builds government support, and influences industry structure.
The result is a combination not easily found in China: a family of quick-service restaurant brands that serve good-quality food in clean environments with local appeal. Yum's strategy is working: Its China business accounted for 20% of its global profits in 2006.
Yum may have set the pace, but Finland's Nokia came from behind to win in China. Five years ago, Nokia trailed Motorola in the Chinese market. It also faced stiff competition from local players such as TCL and Ningbo Bird, whose basic cellular telephones targeted midtier cities and midmarket and lowend customers. In the early 2000s, the local companies moved fast, opening retail outlets and distribution capabilities across China.
Surprisingly, Nokia countered equally quickly by investing in a national sales and distribution network. It used a sophisticated IT platform, which provides near real-time information on sales volumes and competitor pricing, as well as an army of 3,000 in-store promoters to push products. Nokia also focused on areas where its Chinese rivals were hard-pressed to match its efforts. For instance, it accelerated product development and launched a stream of innovative cellular telephones. The company rapidly ramped up production of these products to high volumes and leveraged its bargaining power to keep costs competitive. Partly because of these factors, Nokia has become the market leader in China today.
The experience of South Korea's Hyundai shows that even late entrants can succeed in crowded emerging markets. The automaker's share rose from zero in 2002, when it entered China, to 7% in 2006; cumulative sales topped the 500,000 mark just 40 months after launch. Hyundai identified a consumer need that other automakers had overlooked, because it sent teams who spent months learning what Chinese consumers want. The company noticed that foreign players held the top end of the market and local players the bottom end, but no company offered a good-quality car at an affordable price. Understanding that China's new middle class wanted such a car, Hyundai refined the Sonata and Elantra models for that market.
Hyundai was determined to bring its expertise and experience to China. China's laws require foreign automakers to enter into joint ventures with domestic firms. These arrangements often result in local enterprises' taking control. Hyundai retained operational control of its joint venture but created a healthy working relationship with its partner, Beijing Automotive Industry Holding Corporation (BAIC). For instance, it insisted that South Korean employees who worked in China learn Chinese. Hyundai minimized its upfront investment by using BAIC's functional but labor-intensive production line. It has kept costs down by forcing its South Korean suppliers to set up operations in China.
Buoyed by its success in China's fiercely competitive market, Hyundai is building a $1 billion manufacturing plant in Beijing, which will start operations in

April 2008 and will double the company's production capacity to 600,000 units a year.

Globalization is clearly a double-edged sword.

The advantages of being a transnational corporation in emerging markets have declined dramatically in recent times. Smart local companies have used the benefits of globalization to close gaps in technology, capital, and talent with their rivals from the developed world.

Although the average local competitor is weak, transnational corporations would do well to rethink their strategies. After all, it often takes only one strong homegrown champion to shut a multinational out of an emerging market.