

REPORT

The BCG 50 Local Dynamamos

How Dynamic RDE-Based Companies
Are Mastering Their Home Markets—and What
MNCs Need to Learn from Them



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The BCG 50 Local Dynamos

How Dynamic RDE-Based Companies
Are Mastering Their Home Markets—and What
MNCs Need to Learn from Them

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The companies listed in this report are intended to be representative of a broader phenomenon: the rise of successful local companies in rapidly developing economies around the world. Our inclusion of any particular company on the list should not be construed as an endorsement of the likelihood of that company's future success or be used to support any individual investment decision.

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Note to the Reader

Much has been written about companies from rapidly developing economies (RDEs) that are “going global” and conquering markets abroad. (Indeed, The Boston Consulting Group’s *New Global Challengers* series explores this trend.) But another set of equally important RDE-based companies are “staying home” and conquering their domestic markets. Among these companies are many that are using truly innovative business models to beat back two types of competitors: multinational companies (MNCs) that are seeking shares in those markets and established domestic incumbents, many of which are state-owned.

We call this group of companies *local dynamos*. They are domestically focused, at least for now, and have devised formidable business models with which to master the intense dynamics of their local markets.

MNCs seeking to capture growth in those markets are often surprised to discover how fiercely competitive the local dynamos are. Even more unsettling, many MNCs find that their own deep pockets, solid patent libraries, vast experience, successful business models, and smart employees are not enough to face down the local dynamos in their domestic markets. The issue of how to compete with these bold companies on their home turf has thus become a billion-dollar challenge for many of

the world’s largest and most powerful companies.

This report has two main goals: first, to describe this new phenomenon taking place in RDE markets around the world, in which homegrown companies are effectively defending those markets against much larger foreign competitors; and second, to help readers understand how they do it. What success factors are they deploying? What strategies and tactics are local dynamos pursuing to gain a competitive edge over their bigger, wealthier, and more experienced foreign rivals? What can they teach us?

After addressing these questions, we demonstrate to MNCs that are eager to participate in RDE markets that all is not lost. A number of MNCs are winning in these markets. The path to success involves learning from the locals and borrowing from their approaches, while also bringing the MNCs’ own strengths to bear in ways the locals cannot match.

We hope you will find this report both interesting and useful, and we would welcome the opportunity to discuss the implications of our findings for your business.

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Spotting the Market Opportunity

While waiting for a slow-moving elevator in a crowded Chinese office building, Jason Jiang had an inspiration about advertising. All those people waiting in that lobby—members of China’s new middle class—constituted a momentarily captive audience with nothing interesting to look at. And this scene was repeated daily in thousands of office lobbies across China—while at the same time an increasingly frustrated set of potential advertisers, both foreign and domestic, clamored for more cost-effective alternatives to state-controlled television channels and newspapers, or to signage on dusty bus shelters.

Today, just five years later, the company founded by Jiang, Focus Media Holding, has become a Chinawide media empire. Its revenues already equal nearly 20 percent of the advertising revenues of CCTV, the state-owned traditional-media behemoth. Focus Media is the largest “out-of-home” advertising company in China and among the largest local media-related organizations. Its network of LCD-screen advertising displays now reach 130,000 locations in all regions of the country, and the company has expanded into related areas such as mobile-phone, cinema, and Internet advertising. Morgan Stanley reports that Focus Media enjoys a market share in its sector of 95 percent, with revenues growing at 170 percent annually and advertisers that value its services so much that it increased its prices by 40 percent in 2007. This performance has contributed to the company’s surging stock price, and its market capitalization at the start of 2008 exceeded \$5 billion.

Focus Media has also vaulted past the two global leaders in outdoor advertising in China: Clear Channel Communications of the United States and JCDecaux of France. Clear Channel’s business in China, though established in 1998 as a joint venture known as Clear Media, had 2006 revenues that were less than half of Focus Media’s. JCDecaux, which entered China in 2005 by acquiring two existing businesses, does not report its Chinese revenues but has a presence in only 20 mainland cities, compared with Focus Media’s presence in more than 90 Chinese cities. While both Clear Channel and JCDecaux have made a handful of acquisitions in China in the past decade, Focus Media made five major deals in a span of 17 months between October 2005 and February 2007, cementing its lead in the local market.

A Local Revolution

Focus Media exemplifies a growing number of RDE-based companies that are creating and executing superior strategies, building large businesses, and proving to be tenacious competitors against both local and global companies.

In Mexico, Grupo Elektra has risen to leadership in retailing and financial services, outpacing Wal-Mart. In India, the consumer goods company CavinKare Group has become a major rival to foreign competitors such as Procter & Gamble. In Brazil, TOTVS is the leader in enterprise resource planning (ERP) software, establishing itself as a significant foe to SAP. Brazilian companies using TOTVS software are probably also using computers manufactured by Grupo Positivo, the country's leading computer manufacturer, which has a larger local market share than Hewlett-Packard and Dell combined. (See Exhibit 1.) In Russia, Wimm-Bill-Dann Foods (WBD) has a lead over its multinational rival, Danone.

Back in China, local Internet start-ups Baidu.com and Tencent have the upper hand over their Western rivals, Google and Yahoo! In the Chinese travel sector, similarly, the online booking agency Ctrip.com International has soundly defeated both foreign entrants and the preexisting, state-owned travel services. In China's utility sector, XinAo Gas Holdings, founded by a former taxi-fleet manager, is now an incumbent liquid-petroleum-gas utility, providing service to homes and businesses in more than 60 Chinese cities.

These dynamic local competitors are energetic private-sector companies led by a new generation of ambitious executives. They are neither state-owned behemoths nor long-standing incumbent conglomerates.

The BCG 50 Local Dynamos

These companies, which we refer to as *local dynamos*, pose important new threats to MNCs seeking growth in RDE markets. In the years ahead, there will be more head-to-head battles within RDEs between global companies and local dynamos, as well as among the local dynamos themselves. The stakes in these battles will escalate as the RDE markets grow. The dynamos will also increase both in number and in their impact on the business world. Now is the time, therefore, to study these companies and understand their strategies and tactics. A close look at their business approaches highlights important strategic lessons for any company seeking success in these markets. Promisingly, some MNCs have already learned these lessons and are enjoying greater success in RDEs as a result.

We have developed a list of 50 exemplary domestic players that are winning in their local markets. (See Exhibit 2 and the sidebar "Methodology for Selecting the BCG 50 Local Dynamos.") Our chosen companies are all private-sector market leaders that are besting both foreign players and traditional government-affiliated local players. They represent a very broad group. Some are very new companies, while some have existed for decades. But all have clearly risen above their local peers and achieved significant competitive advantage.

We do not mean to imply that these companies are unequalled or that they are the only ones worthy of study. However, they clearly embody a set of best practices, and we believe that most will remain formidable competitors in their home markets. Of course, some may falter or even fail, given the challenging and fast-changing environments in which they operate. We make no claim here

Exhibit 1. Local Dynamos Lead MNCs in a Variety of Industries

Country	Business	Selected Examples		Description
		Local dynamo (market share/ interest income)	MNC competitors (market share/ interest income)	
China	Search engine	Baidu.com (60%)	Google and Yahoo! (36% combined)	Baidu is China's number one search engine and one of the most visited sites on the Internet.
India	Retail and commercial banking	ICICI Bank (\$5,196 million in interest income)	HSBC (\$1,066 million in interest income)	ICICI Bank was the first bank with a wide network of ATMs in India. With more than 950 branches and 24 million customers, it offers a diverse range of financial products and services and competes well against local and foreign rivals.
Brazil	Computer manufacture	Grupo Positivo (18%)	Hewlett-Packard and Dell (~17% combined)	Grupo Positivo has three separate but interrelated businesses: education, printing and publishing, and IT. Computer manufacturing and software development are conducted by its subsidiary, Positivo Informática, which is the largest computer maker in Brazil.
Russia	Food-and-beverage products	Wimm-Bill-Dann Foods (34%)	Danone (15%)	The largest dairy-product company in Russia, Wimm-Bill-Dann Foods spent \$7 million to modernize its milking technology to ensure product quality and freshness.

Sources: Company Web sites; literature search; BCG analysis.

as to the future success of any particular company. But many more companies like these 50 will arise and succeed as well. Central to the success of the companies on our list has been an unwavering focus on their local markets and an ability to create and execute business models entirely attuned to the local environment.

Where They Come From

The 50 dynamos are based in ten RDEs worldwide: Brazil, China, India, Indonesia, Malaysia, Mexico, Poland, Russia, Slovakia, and Thailand. (See Exhibit 3.) We chose these countries on the basis of their economic size, real growth in gross domestic product (GDP), and importance to MNCs (as represented by the broad interests of our own global clients). We excluded markets such as South Korea and Taiwan, which have already matured significantly and are growing less rapidly. Four of the ten chosen RDEs—China, India, Brazil, and Mexico—account for the bulk of the companies on our list (41). Below we brief-

ly discuss these countries and the types of dynamic companies emerging in each.

China. Chinese consumers are flocking to the Internet, and 4 of the 15 China-based dynamos are Internet companies—Baidu, Ctrip, Shanda Entertainment, and Tencent. While Baidu has become familiar to many in the West, the less well-known Tencent has the distinction of having over 250 million active users, and travel dynamo Ctrip enables China's travelers to plan their trips conveniently, both online and via modern call centers. Another Chinese company on the list also heavily leverages China's booming Internet users: China Merchants Bank distinguishes itself with outstanding e-banking services.

The language training schools of New Oriental Education & Technology Group exemplify Chinese consumers' interest in education, which is especially strong among the new middle class. This same middle class seeks better housing and cleaner energy—needs addressed by compa-

Exhibit 2. The BCG 50 Local Dynamos Are a Diverse Group

Company	Industry	Business
China		
Baidu.com	Internet/high tech	Search engine
China Merchants Bank	Financial services	Retail and commercial banking
China Vanke Company	Property	Property development
Ctrip.com International	Internet/high tech	Online travel
Focus Media Holding	Entertainment/media	Out-of-home advertising
Goldwind Science and Technology Company	Industrial goods	Windmill manufacture
Gome Electrical Appliances Holdings	Retail	Home appliance retail
Goodbaby	Consumer goods	Baby products
New Oriental Education & Technology Group	Education	English training
Shanda Entertainment	Internet/high tech	Online gaming
SIM Technology Group	IT equipment	Communications hardware
Tencent	Internet/high tech	Communications services
WuXi PharmaTech	Health care	Pharma outsourcing
XinAo Gas Holdings	Energy/utilities	Clean energy
Xinyi Glass Holdings	Industrial goods	Glass making
India		
Amul	Consumer goods	Food-and-beverage products
Apollo Hospitals	Health care	Hospitals
Bharti Airtel	Internet/high tech	Telecom services
CavinKare Group	Consumer goods	Personal-care goods
ICICI Bank	Financial services	Retail and commercial banking
The Indian Hotels Company	Travel	Hotels
ITC Limited	Consumer goods	Diversified
NIIT	Education	IT training
SKS Microfinance	Financial services	Microfinance
Subhiksha	Retail	No-frills supermarket
Titan Industries	Consumer goods	Watch manufacture
Brazil		
B2W	Internet/high tech	Online retail
Casas Bahia	Retail	Nonfood retail
Cosan Group	Energy/utilities	Ethanol and sugar production
Gol Transportes Aéreos	Travel	Airline
Grupo Positivo	IT equipment	Computer manufacture
O Boticário	Consumer goods	Cosmetics
TOTVS	Internet/high tech	Software
TV Globo	Entertainment/media	Television network
Votorantim Finanças	Financial services	Consumer credit service
Mexico		
CIE	Entertainment/media	Out-of-home entertainment
Controladora Milano	Retail	Clothing retail
Desarrolladora Homex	Property	Low-cost housing
Farmacias Guadalajara	Retail	Pharmacy chain
Grupo Elektra	Retail	Multicategory retail and financial services
Sigma Alimentos	Consumer goods	Refrigerated and frozen foods
Russia		
Euroset	Retail	Mobile phone retail
MegaFon	Internet/high tech	Mobile network
Wimm-Bill-Dann Foods	Consumer goods	Food-and-beverage products
Poland		
Atlas Group	Industrial goods	Construction products
Grupa Maspex Wadowice	Consumer goods	Food-and-beverage products
Slovakia		
SkyEurope Airlines	Travel	Airline
Malaysia		
AirAsia Berhad	Travel	Airline
Indonesia		
ASTRA International	Industrial goods	Automotive and heavy equipment
Thailand		
The Siam Cement Public Company	Industrial goods	Cement, paper, and chemicals

Source: BCG analysis.

Methodology for Selecting the BCG 50 Local Dynamos

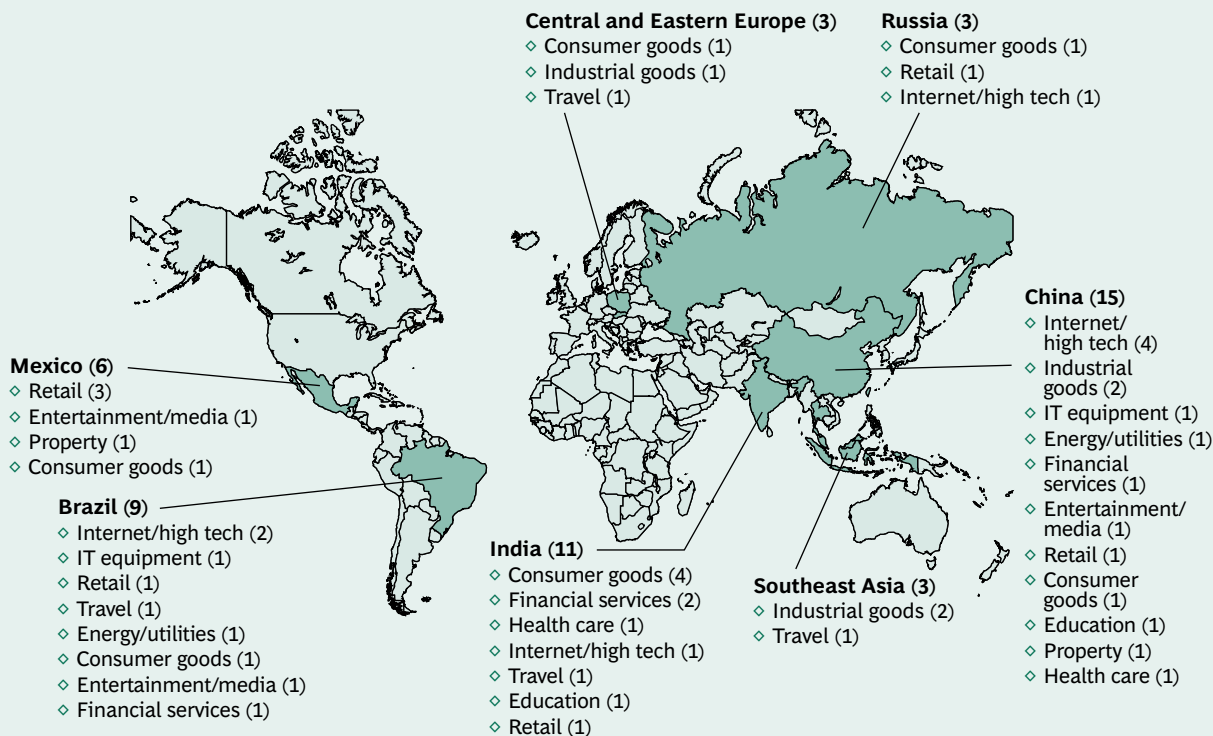
We began by identifying the RDEs that are of particular interest to MNCs, as represented by our own global clients. By focusing on economic size, real GDP growth, and market potential, we selected ten countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Poland, Russia, Slovakia, and Thailand.

To choose companies within each market, we adopted a two-step, qualitative approach. First, we conducted a broad search for successful domestically focused companies. We looked for high-growth companies that had achieved strong market positions despite lacking the traditional bases of incumbency in RDEs, such as government ownership, large land ownership/inheritance, or possession of a monopoly license. We also looked for companies that were regarded by local analysts and industry peers as outstanding for their market successes. This search involved the efforts of a global team, especially BCG experts based in our ten chosen countries who have intimate knowledge of those economies and the lo-

cal companies shaping them. The search yielded a long list of candidate companies.

Our second, more difficult task was to choose companies that really are dynamos. Our primary criteria were that each company have an original business model specifically adapted to the unique challenges posed by RDEs and be either winning in its domestic market or at least among the top competitors. In choosing 50 companies, we sought to develop a representative sample of some of the best examples of the local dynamos phenomenon. The companies in this group, which hail from disparate industries and regions, vary widely in both size and profitability. They are certainly not the only companies that are winning; our list omits many equally compelling companies, and more arise every day. What the companies on our list have in common are original business models and excellent performance in highly challenging environments. They are well worth studying for their insights into how to succeed in RDE markets.

Exhibit 3. The BCG 50 Local Dynamos Represent RDEs Around the World



Sources: BCG 50 Local Dynamos database; BCG analysis.

nies such as property developer China Vanke Company and utility company XinAo Gas, respectively. China's middle class is also shopping at booming local retailers such as Gome Electrical Appliances Holdings and buying locally branded quality products such as those from baby goods manufacturer Goodbaby.

India. The 11 Indian dynamos are a diverse group providing offerings to all segments of society, from the very poor to the wealthy. Addressing the needs of India's poor, rural, and disadvantaged population is SKS Microfinance, which offers small loans to women to help them become financially independent.

A number of Indian dynamos cater to the needs of the middle class for health care, communications, education, and foodstuffs. Apollo Hospitals offers a better alternative to the country's poorly funded public-health system. Bharti Airtel captures the growing number of mobile-phone users. NIIT offers computer courses to those wanting to get a better job. And Amul offers a variety of food-and-beverage products. For the wealthy, The Indian Hotels Company operates some of the country's finest hotels under the brand Taj Hotels.

Brazil. The nine Brazilian dynamos are heavily concentrated in services. They offer their customers quality along with affordability. Gol Transportes Aéreos offers inexpensive flights on new planes, while Casas Bahia helps low-income families buy brand-name appliances by selling them goods on credit.

Many of the Brazilian dynamos operate in new industries, highlighting the fact that this breed of companies creates value from innovation and ideas. Brazil's dynamos include B2W, the country's leading online retailer; TOTVS, the largest ERP developer in Brazil, targeting small and midsize enterprises; TV Globo, whose television network is watched by 80 million people daily; personal-financing company Votorantim Finanças; and Grupo Positivo, which operates successful businesses in education and publishing, as well as in IT.

Mexico. Half of our six Mexican dynamos operate in the retail sector. Clothing retailer Controladora Milano and credit-based multicategory retailer Grupo Elektra cater to customers looking for quality at low prices, and pharma-

cy chain Farmacias Guadalajara brings medicines and food together in a single, convenient location. Meanwhile, Sigma Alimentos, although primarily a wholesale supplier, also offers consumers convenience with its refrigerated and frozen food products. Desarrolladora Homex meets the need for affordable housing, while CIE entertains its customers with a variety of offerings, including theme parks, music events, horseracing, and exhibitions.

Ten dynamos target a segment usually ignored: the poor.

The Industries They Represent

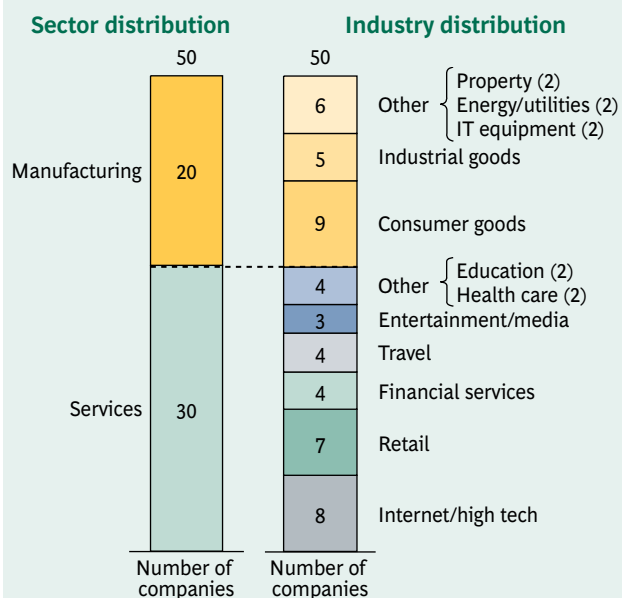
Clearly, the local dynamos represent a broad range of industries. Their strategies and dynamism apply to whichever business they choose to enter, be it selling baby strollers or apartments to the middle class or providing the business market with computer software or ethanol. It is worth highlighting that some 20 percent of our chosen dynamos operate in IT or Internet/high-tech businesses. Of the entire group, 30 companies offer services, whereas 20 are involved in manufacturing; of the latter, only 5 operate in the industrial goods sector. (See Exhibit 4.)

The Markets They Serve

Our chosen dynamos focus primarily on business-to-consumer markets and target their offerings predominantly to the middle class. Only one company on our list, The Indian Hotels Company, targets the high-income segment, managing a chain of luxury hotels; however, the company is rapidly growing a new budget-hotel chain, known by the brand name Ginger. Interestingly, 10 of the 50 companies on our list target a segment of the population that most companies ignore altogether: the poor. (See Exhibit 5.)

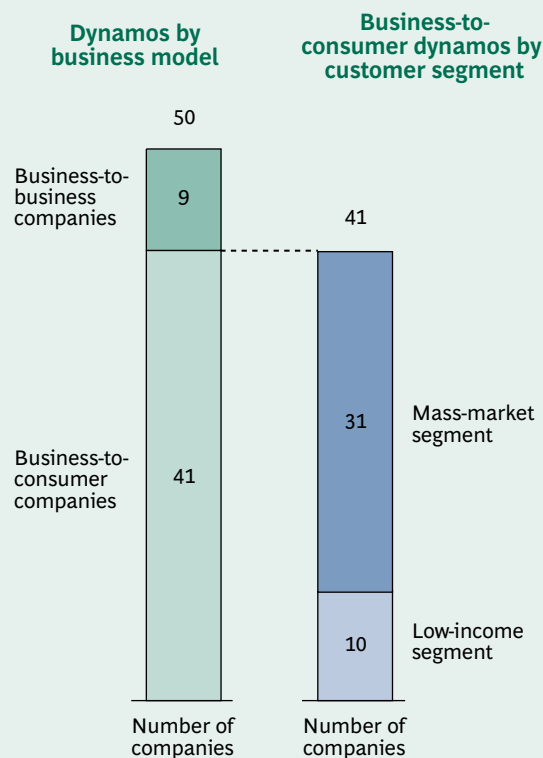
In this respect, India leads the charge, showing that companies can serve the poor profitably provided they use the right approach. In consumer goods, CavinKare entered the personal-care market by selling shampoo in affordable sachets to rural customers. Titan Industries produces more than 7 million watches a year; its number one seller, the Sonata brand, retails for less than \$25 and comes with a one-year warranty. (See the sidebar "Titan Industries Is the Sixth-Largest Watchmaker in the World.") No-frills retailer Subhiksha has brought low prices and convenience to the lives of many Indians by locating small supermar-

Exhibit 4. The BCG 50 Local Dynamos Operate Primarily in the Services Sector



Sources: BCG 50 Local Dynamos database; BCG analysis.
Note: Although we have assigned each company to a single industry, some dynamos operate in more than one. Cosan, which is categorized here under energy/utilities, also operates in consumer goods (foods and beverages). Grupo Elektra, categorized here under retail, also operates in financial services. Grupo Positivo, categorized here under IT equipment, also operates in education and publishing. And ITC Limited, categorized here under consumer goods, is also involved in industrial goods, Internet/high tech, retail, and travel.

Exhibit 5. The Local Dynamos Address Different Segments of Their Markets



Sources: BCG 50 Local Dynamos database; BCG analysis.

kets close to its customers. Indian conglomerate ITC has improved the lives of its farmer-suppliers by introducing technology into their businesses and their personal lives. In financial services, ICICI Bank, the country’s most valuable bank in terms of market capitalization, targets the rural market. SKS Microfinance goes even further in meeting the financial needs of the country’s rural poor by making microloans available to help them create profitable enterprises.

Although companies cannot serve the low-income segment profitably by using existing business models, this segment does offer opportunities. As certain dynamos and a small number of global players have shown, there are profits to be made here—provided that companies adopt new approaches. Samuel Klein—founder of dynamo retailer Casas Bahia in Brazil—has built a business worth more than \$5 billion by serving the poor. Quoted in a 2002 *Wall Street Journal* article, he said, “My talent is trusting the poor and giving the poor good service.”

The Value They Create

Of the 50 companies on our list, 37 are clear market leaders in their domestic-market segments, while the remainder are among the top industry players and growing rapidly. Twenty achieved 2006 revenues of at least \$1 billion, and the group earned combined revenues of \$60 billion in 2006 while also growing their revenues 52 percent from 2005 to 2006. During the same period, the S&P 500 and the *Fortune* Global 500 grew far more slowly, at 10 percent and 8 percent, respectively. (See Exhibit 6.)

In terms of profitability, the 32 publicly traded dynamos enjoyed an average operating-profit margin of 20 percent in 2006. On this dimension, they outperformed by a wide margin their global peers on the S&P 500, as well as on the Nikkei and DAX indices. (See Exhibit 7.)

Furthermore, our 50 dynamos have provided shareholders with phenomenal returns, increasing their market

Titan Industries Is the Sixth-Largest Watchmaker in the World

Everyone is familiar with the big-name watch brands: Omega, Rolex, and Swatch. Perhaps less familiar, at least in the West, is India's Titan Industries. But Titan is a serious player that produces more than 7 million watches per year, making it the world's sixth-largest watchmaker. Moreover, Titan is not just churning out millions of cheap plastic watches. With a customer base of more than 65 million, it offers nine separate subbrands that cater to every segment of society—from executives to children and those on budgets.



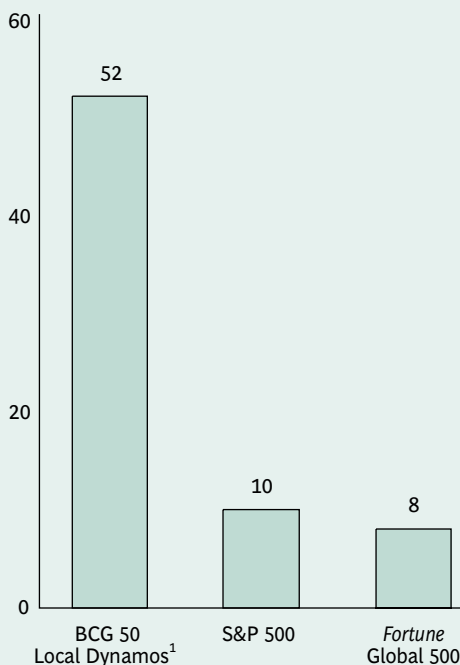
The company's success comes from understanding that just because people have limited finances does not mean they want to sacrifice quality or style. Even its cheapest Sonata models, shown here, which sell for less than \$25

apiece, carry a brand name and a one-year warranty, and they are water resistant. Before Titan entered the market, the only watches available at the low end were of poor quality, lacking both warranties and service networks. The Sonata brand is extremely popular, selling more than 3 million units a year. The company also sells solid-gold watches that retail for more than \$1,000, as well as what it claims is the world's thinnest watch.

Titan drives sales through an extensive network that extends to more than 9,000 outlets. And to motivate and retain its frontline staff, the company has developed a novel program, Face of Titan. The program includes a 360-degree assessment of each staff member that looks beyond sales alone and makes use of customized software to capture data. This initiative earned the company India's top retail-industry award for employee satisfaction in 2007.

Exhibit 6. Local Dynamos Exhibit Extraordinary Revenue Growth

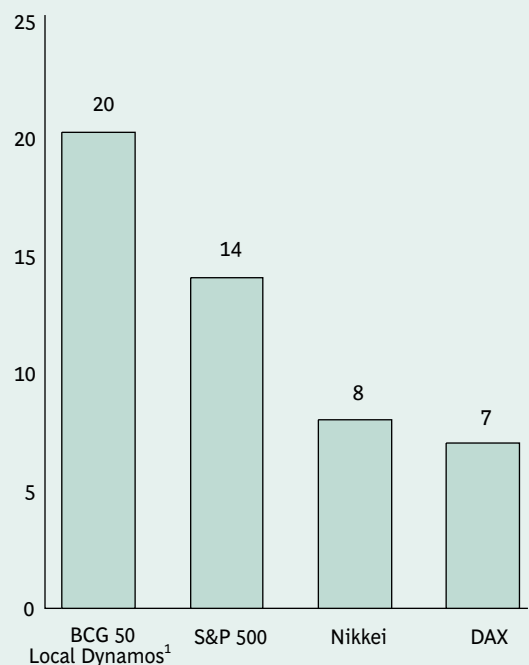
Revenue growth, 2005–2006 (%)



Sources: Datastream; literature research; BCG analysis.
¹Based on the average of 47 companies with available revenue-growth data.

Exhibit 7. Local Dynamos Have Relatively High Operating Margins

Average operating margin, 2006 (%)

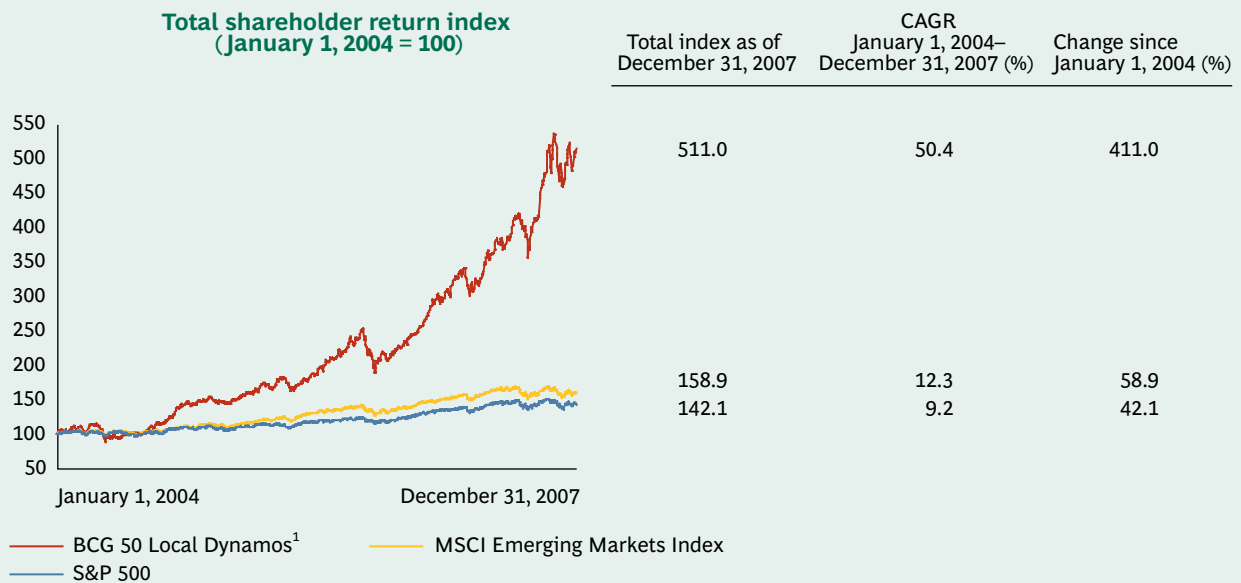


Sources: Datastream; literature research; BCG analysis.
¹Based on the average of 32 publicly traded companies.

value more than four times in the four years since January 1, 2004. One hundred dollars invested on this date would have returned an additional \$411 on December 31, 2007, compared with a payback of \$59 on an equal investment made in the MSCI Emerging Markets Index and only \$42 for an investment in the S&P 500. In just four

years, these companies recorded a compound annual growth rate (CAGR) of 50 percent, compared with only 12 percent for companies in the MSCI Emerging Markets Index and 9 percent for companies in the S&P 500. (See Exhibit 8.)

Exhibit 8. Local Dynamos Have Created Significant Shareholder Value



Sources: Datastream; BCG analysis.

¹The TSR index of the BCG 50 Local Dynamos is based on 32 publicly traded companies.



RDE Markets

Incubators of Business Dynamism

Today MNCs eager for growth are turning their attention to consumers and business-to-business clients in RDE markets. In a 2006 BCG survey of executives of MNCs, 68 percent of respondents expected to significantly expand their commitment to increasing RDE-based sales in the period 2005 through 2010.¹

This is no surprise, given the stakes. The Economist Intelligence Unit estimates that by 2010, emerging markets will account for 45 percent of the world's GDP—and 60 percent of GDP growth. China, for example, is already the world's largest market for mobile handsets, motorcycles, and refrigerators, and will soon be the number two market globally for automobiles. RDE markets also enjoy far faster growth than developed ones do. The Indian retail market, worth more than \$230 billion in 2005, is growing at a rate of 6 percent per year, with projections that it will reach \$310 billion in 2010. And the countries of the Association of Southeast Asian Nations (ASEAN) are also growing in importance. Together, their economies constitute more than 4 percent of the world's GDP and are growing faster than 5 percent per year.

Missing the Market Opportunity

Despite the tantalizing promise presented by all this growth, MNCs entering these markets risk misjudging what it takes to capture the opportunities. Indeed, there are numerous stories of less than successful attempts to penetrate RDEs. Yahoo! and eBay retreated from the Chinese market. A large number of Western automakers have struggled in their attempts to build businesses in India. NEC and Panasonic withdrew from the Chinese handset market. Japanese retailer Yaohan folded its operations in China. Many MNCs are failing to capture op-

portunities, while dynamic domestic companies—like the 50 on our list—are capturing them instead. What are MNCs missing?

In our view, too many MNCs base their RDE strategies on outmoded assumptions. RDEs are now so dynamic—and so complex—that it is simply not useful to regard them as “x years behind our home market” or to use business models taken from home as the preferred path to success in RDE markets. China will simply never look like some other market: fixed-asset investment accounts for 40 percent of GDP spending every year, the country has the largest number of mobile-phone users in the world, and 210 million residents already connect to the Internet. At the same time, 300 million people in the country live on less than \$1 a day, there are 700 million Chinese living in rural areas, and more than 140 million migrant workers roam a landscape the size of the United States.

In India, similarly, subsistence farming coexists with widespread mobile-communications access, and the flamboyant Bollywood movie industry coexists with enormously complex religious, social, and cultural diversity. Abundant low-cost labor coexists with some of the world's best-educated people, while primitive manufacturing and agricultural methods coexist with the world's most advanced technologies.

Winning in Complex Markets

The winners in such environments will be companies that understand these contradictions, take a broad view of the opportunities they create, and build the right busi-

1. See *Organizing for Global Advantage in China, India, and Other Rapidly Developing Economies*, BCG report, March 2006.

ness models to address them. Many successful Western companies operating in RDEs have mastered the vast differences between local market environments and their home bases.

General Motors, for example, learned that in China, luxury-car owners typically employ drivers and sit in the back seat. So today GM's Buicks made for China have climate and music controls in the back, and GM holds the number two position in a crowded market. LG Electronics, similarly, learned that in India many TV purchasers live in noisy households and care more about sound than picture quality. Today the affordable TVs that LG sells in India include massive speakers, and LG is the market leader.

Another good example is Perfetti Van Melle, the Italian maker of candies and chewing gum. The company learned much in its battle for share in the Indian market. For instance, it learned that national cricket matches provide a perfect opportunity for major promotions, that cash-poor retailers will buy more of your product if you visit them three times a week than if you visit weekly, and that India's vast countryside is a huge market. The company has customized its flavors to meet local tastes and redesigned its products to meet target price points. It has also adapted its packaging both visually, to appeal to Indian consumers, and physically, to facilitate stacking in small Indian shops. Perfetti Van Melle is now India's market leader in candies and gum. It has launched hundreds of products and 20 brands into the market—far more than its nearest competitor, Wrigley. Notably, 40 percent of Perfetti Van Melle's sales in India come from towns with populations below 100,000.

Perfetti Van Melle's success in the Indian countryside underscores the importance of viewing RDE opportunities broadly. A more conventional or narrow view might have led to the conclusion that a rural Indian market is simply unattractive—with consumer incomes too low and the costs of distribution too high. Yet by redesigning its products, marketing, and distribution, Perfetti Van Melle created a much larger opportunity for itself than many of its competitors would have expected. Indeed, the company turned the “obstacle” of India's fragmented distribution and far-flung rural markets into a major competitive advantage. It built a network of 5,000 distributors that de-

liver its products to 700,000 retail outlets. Perfetti Van Melle believes that the resulting market reach is roughly twice the size of its average competitor's and has been key to its success.

Redefining Opportunities to Unlock RDE Markets

Conditions seen as impediments in developed markets can create advantage in RDEs.

Companies that succeed in RDEs learn that conditions that would be considered impediments to the success of established business models in developed markets can actually help create sources of growth and competitive advantage when viewed in a new way. For example, software piracy in China poses a fundamental obstacle to the

business models of video-game-console makers such as Microsoft and Sony. Where piracy is prevalent, selling cheap video-game consoles and making money on expensive software simply do not work. Indeed, the market for video-game-console software in China was only \$16 million in 2005—a minuscule amount considering that this is a multibillion-dollar industry globally and that China has a large gaming population.

Dynamic domestic companies in China saw the opportunity and managed to sidestep the profit problem by creating an alternative, piracy-proof video-gaming industry based on massively multiplayer online role-playing games, or MMORPGs. This alternative industry enjoyed revenues of some \$660 million in 2006, which represents a 70 percent increase over 2005.

The essence of MMORPGs is the experience of thousands of gamers playing at the same time on computers connected to the Internet. This multiplayer experience is inherently impossible to pirate, since it is created “live” through the complicated efforts of the company operating the game. China's youth, eager for entertainment, are more than willing to pay, and Chinese companies such as Shanda dominate this space. Electronic Arts, a computer-game development company based in the United States, recently acquired a 15 percent stake (for \$167 million) in one of Shanda's local competitors, The9, after determining that entry into China with a traditional business model based on software sales would be problematic.

Shanda also tackled the obstacle of how to get people to pay in a country where e-commerce is not widely used

and credit cards are still a relatively new concept. Instead of paying for Internet games through online channels, China's gamers purchase from local merchants prepaid gaming cards that allow them to play for a specified length of time. This ingenious modification of the standard gaming business model helped resolve the payment challenge. However, it also created a need for Shanda to excel in other areas. The company had to make its prepaid cards widely available at stores countrywide, both to help create large gaming communities and to defend against competitors. In addition, the company had to develop a range of channel partners. Because many Chinese play games in Internet cafes, game companies need to ensure that their products are available, working, and visible on thousands of computers in such locations around the country.

Creating Opportunity from Disadvantage

The stories of Perfetti Van Melle and Shanda highlight the truly unexpected nature of RDE market opportunities. Who would have thought that India's rural consumers would become a major portion of the world's second-largest market for candies and gum—and a globally strategic market for an Italian candy company? Who would have thought that China's urban consumers would flock to Internet-based games in such large numbers? More than 50 million Chinese now play MMORPGs regularly, happily paying to do so.

Indeed, by creating business models that overcome the obstacles to realizing these opportunities, companies have created market openings for themselves. At the same time, they have shut the door on followers. Perfetti Van Melle's extensive distribution networks are both a source of its success and also, given India's weak infrastructure, a barrier to entry for others. Shanda's business model has not only overcome piracy issues but also created large communities of loyal users. Once these users have invested many hours playing a particular game in a large virtual world, they will not switch to a new game as easily as would someone playing a console game alone. And when they do switch, it is more likely to be to another Shanda game.

Dynamic domestic companies based in RDEs are masters at looking at obstacles in developing markets as opportunities for devising not just any solution, but one that improves on existing or accepted methods. Because their models are fluid, obstacles often direct them along alternative paths toward previously unseen opportunities. In contrast, unsuccessful MNCs often try to force their way through obstacles and end up stymied.



Six Key Success Factors

What is it that sets the dynamos apart? What do they do that gives them the edge? We have identified six key success factors that distinguish these companies from their less successful competitors. Most of the companies we studied have implemented several of these factors simultaneously and consistently over time to fashion and sustain new business models that thrive in RDE environments. The six factors are:

- ◇ Customizing to local needs
- ◇ Devising innovative business models that overcome local challenges
- ◇ Leveraging the latest technologies
- ◇ Benefiting from low-cost labor and overcoming shortages of skilled labor
- ◇ Scaling up fast
- ◇ Sustaining long-term hypergrowth without imploding

Below we discuss each success factor individually and offer specific illustrative examples from our list of 50 dynamic companies.

Customizing to Local Needs

A common thread among local dynamos is a deep understanding of domestic markets. Many MNCs have attempted unsuccessfully to compete in RDEs by importing products and services proven in developed markets. In contrast, dynamos often overhaul the existing formula in

order to create more compelling offerings tailored to local needs. Examples include the following.

Tencent. While instant messaging (IM) services generally capitalize on Chinese users' need for a convenient and low-cost means of communication, as well as facilitating exchanges with large groups of contacts or communities, Tencent has gone one step further by tapping into a strong desire for creativity, personalization, and added functionality. A highly popular feature of the company's IM product, QQ, is its customizable digital avatar that allows users to personalize everything from their avatar's clothes and hairstyle to the virtual car it drives. With more than 70 percent of the Chinese Internet-using population under the age of 30, Tencent profits handsomely from its strategy of focusing on the youth market. From its cute, chubby penguin mascot to an ultrasimple interface, QQ has huge appeal among young users. (See the sidebar "QQ's Avatars Are Cooler Than Those of MNC Competitors.")

Grupo Elektra. Mexico's retailing and financial-services giant, Grupo Elektra, has based its success on insights into ways to profitably serve the unmet needs of citizens who live on less than \$10 a day and have no bank accounts. The company started by offering goods on credit, thereby allowing even people with very low incomes to afford big-ticket items such as televisions, washing machines, and refrigerators. Having developed a relationship with its customers—and having itself developed competencies in credit vetting, risk control, and debtor book management—the company, apparently overnight, added banking to its list of services. In 2002 it enabled its vast network of stores to double as bank branches, where people can withdraw, deposit, and transmit cash, as well as take out loans. This separate but integrated business,

Banco Azteca, serves a customer segment that traditional banks choose to ignore. Today that segment is an important part of Elektra's business. Banco Azteca has been growing at a rate of around 40 percent annually since its inception; as of third quarter 2007, the bank had 7.4 million savings accounts and 8 million loan accounts.

New Oriental. China's New Oriental offers courses tailored to Chinese students preparing for English proficiency exams. The programs are designed to accommodate students' preferred learning styles. New Oriental recruits local university graduates who have excelled in English proficiency exams as teachers and role models, and uses interactive, group-learning methodologies—a significant departure from the country's traditional, and boring, rote-learning system. As a result, its student body grew to 15,000 two years after launch, and New Oriental now commands approximately 55 percent of the English-exam-prep market.

CavinKare. Indian personal-care-products company CavinKare used a deep understanding of consumer needs to grow its business from a one-person operation to a multimillion-dollar enterprise whose strategies are cop-

ied by big-name MNCs. In the 1980s, while large corporations sold shampoo in standard-size containers through conventional retailers, CavinKare packaged its Chik shampoo brand in cheap sachets and targeted small stores in rural areas. It followed up with marketing efforts that included demonstrations, showing people—many of whom were then using soap to wash their hair—the benefits of using shampoo and giving away free samples. It soon captured a large share of the market and has gone on to expand its portfolio to include a range of hair- and skin-care products that offer good quality at low prices.

SKS Microfinance. Indian microfinance company SKS offers a range of products tailored specifically to the needs of India's poor rural women, who are unable to get bank loans or even to access a nearby branch. The organization offers training and makes loans, which recipients then use for income-generating projects. Instead of collateral, SKS requires only an oral pledge, but it reduces its risk by lending exclusively to women, whom it regards as more financially responsible than men. It also organizes borrowers into groups of five so that members can help one another meet their payment obligations when necessary. This novel approach has resulted in a customer base of more than 1 million and a 99 percent repayment rate.

QQ's Avatars Are Cooler Than Those of MNC Competitors

When you compare the avatars of Tencent's QQ with those of other IM companies, there is simply no contest. Not only are the former amazingly realistic, they can also be customized in myriad ways. Users can choose among a dizzying array of outfits, backgrounds, hairstyles, and accessories to enhance their avatar's look.



Girls, especially, enjoy browsing through the pages of bags, shoes, hats, and jewelry to create new styles. And for Tencent, this is a good business. When customers first sign up for the service, their avatars are dressed only in underwear. Of course, one cannot chat online in underwear alone, so users outfit the avatars in ways that express their unique style. Each item

purchased carries a small charge; a complete look costs around \$1. This may be a small amount, but multiplied by the company's many registered users—at last count more than 600 million and growing—it adds up to a sizable revenue stream. Aside from the avatars, Tencent's IM product offers a great deal of functionality that integrates seamlessly with a whole host of other QQ offerings, including QQ Video, for video sharing; QQ Bookmark, a service similar to del.icio.us; QQ.com, a news and entertainment portal; QQ Doctor, an antivirus tool; QQ Mailbox, a free e-mail service; QQ

Download, a downloading tool; QQ Music Player, for listening to music; and even QQ Love, for online dating.



Download, a downloading tool; QQ Music Player, for listening to music; and even QQ Love, for online dating.

Along the way it has also improved the lives of thousands of people.

Devising Innovative Business Models That Overcome Local Challenges

While MNCs typically encounter “insurmountable obstacles” in RDE markets, local dynamos have developed business models that not only meet these challenges but also, in some cases, manage to turn them into sources of growth and competitive advantage. These business models may not necessarily be revolutionary, but they do adapt to the unique characteristics of the market and the behavior of its consumers.

Ctrip. Instead of adopting the proven business models of its Western peers, such as Orbitz and Travelocity, China’s online travel-booking agency Ctrip recognized early on that Chinese consumers are reluctant to engage in e-commerce, often for reasons of trust. Even today, roughly 70 percent of Ctrip’s revenues are from offline sales, primarily driven by call center operations that cater to consumers who prefer placing an order with a human agent. Ctrip has also shifted its advertising strategy away from online advertising with major portals, instead engaging in direct marketing by using sales staff at airports and railway stations to encourage people to sign up.

Focus Media. Advertisers in China have long been frustrated by the high cost and limited effectiveness of government-owned traditional media outlets. Historically, these were their only media-based options for reaching consumers. Focus Media, by contrast, offers a wide array of highly targeted advertising services neatly packaged for large advertisers. For example, an advertiser can choose to reach all high-end office buildings nationwide during the week of a major product launch, to reach only outdoor-plaza locations on one particular weekend in one specific city, or to launch a mix of online, in-cinema, and shopping-center advertisements the day before Chinese New Year. Compared with traditional alternatives, such offers are compelling—and are one reason why newspaper advertising in China is declining while new alternatives surge.

Gol. While this Brazilian budget airline has adopted many of the philosophies of low-cost airlines in the Unit-

ed States and Europe—for example, operating a fleet of identical planes—it has gone further and adapted its business model to better serve the needs of Brazilian consumers. Gol realized that for local travelers, unlike many of their peers in developed markets, price is the primary consideration, ahead of convenience and speed. Therefore, instead of opening more direct-service routes like

low-cost leader Southwest, Gol uses multiple-stop itineraries to extend its service into previously unprofitable destinations. To maximize plane utilization, Gol schedules flights late at night and in the early morning as well as throughout the day. Customers accept the inconvenient flight times in return for more choices and lower costs. Gol’s deeply discounted fares attract

a large share of Brazilian travelers, and its planes typically fly at nearly 80 percent capacity.

Goodbaby. Because many Chinese couples have only one child, they are often happy to spend more on raising that child than they might if they had larger families. But because nearly all young Chinese parents are first-time parents, they also need some guidance and assistance. Baby products manufacturer Goodbaby cleverly integrates consumer education into its business model to capitalize on this reality. With a focus on familiarizing Chinese parents with new products and practices in infant and child development, the company organizes hundreds of Goodbaby Parent-Child Clubs across the mainland. It has also established China’s first specialized baby-focused Web site, which offers access to more than 200 experienced practitioners in medicine, psychology, and education, as well as a library of popular children’s songs, stories, and games.

Shanda Entertainment. We have already mentioned how Shanda has used a multiplayer online gaming strategy to overcome software piracy. Recently it shifted its business model from subscriptions to “come-stay-pay.” Recognizing that it can expand its gaming community by doing away with monthly fees, it now offers free access. It earns revenues from the sale of virtual merchandise, such as weapons and other equipment. Although this shift has led to a drop in revenues over the short term, the new strategy is sound. Indeed, markets have rewarded the company, which enjoyed a stock price increase of nearly 50 percent for the 12 months ending December 2007.

Dynamos turn obstacles into sources of growth and competitive advantage.

Leveraging the Latest Technologies

Technology plays a major role in many local dynamos' strategies. Often unburdened by either legacy infrastructure or entrenched methodologies, RDE companies are free to experiment with the latest innovations. By integrating these technologies into their business models, dynamos can offer a better customer experience; they can also scale up their businesses more easily than their competitors can.

Apollo Hospitals. Besides recruiting the best doctors from India and abroad, India's Apollo Hospitals employs cutting-edge diagnostic equipment such as latest-generation MRI scanners and cardiovascular imaging systems. Alongside its network of primary-care facilities, Apollo expands its operations by means of a fleet of mobile health units equipped with onboard satellite connectivity. These "clinics on wheels" operate in rural areas, enabling doctors to transmit diagnostic images to specialists based in Apollo's primary hospitals.

Gol. Gol's multiple-stop model—whereby the company keeps its planes in the air longer than its competitors do—would be impossible to sustain were it not for the airline's advanced fleet of latest-generation Boeing 737s. Gol's 2004 purchase of 15 aircraft—the largest ever by a Latin American carrier—allowed the company significant input into the planes' specifications. The new planes give Gol a number of benefits, including significantly lower maintenance costs, fewer delays, faster flight times, and a superior overall travel experience for passengers. Gol's embrace of technology extends to the rest of its operations and is a core component of the company's low-cost strategy. It was the first Brazilian airline to issue e-tickets online, and customers have the option of checking in over the Internet, via their mobile phones, or at airport kiosks. In addition, Gol's call centers employ the latest automated voice-recognition technologies to handle high volumes of calls with a limited number of staff. As a result, Gol has managed to reduce per-seat booking costs by 75 percent.

Grupo Elektra. Since most of Grupo Elektra's customers have no credit history, its banking division developed a loan-processing system that takes advantage of both advanced technology and Mexico's low-cost labor force. The company maintains a team of 4,000 loan officers on motorcycles; when a prospective borrower makes a loan ap-

plication, a loan officer arrives at his or her house within 24 hours. The loan officer speaks with family members about their finances and inputs the answers into a hand-held electronic device, which routes the information back to the company's operations center. The center shoots back a confirmation, informing the officer whether he or she can authorize the loan or offer a smaller amount. Once the loan application is approved, customers can go to a branch the same day to get their money. If they forget their ID documentation, fingerprint scanners can confirm their identity.

Amul. Also known as the Gujarat Cooperative Milk Marketing Federation, Amul is India's largest food-and-beverage-products marketing organization. By embracing the latest technology, the cooperative collects an average of 6.5 million liters of milk per day from nearly 13,000 villages. Despite a wave of new competition created by the liberalization of India's dairy industry, Amul's modernization has enabled its 2.6 million member producers to compete effectively against both local and foreign companies.

At the heart of the Amul operation is its milk-collection system. Each day, farmers bring milk to a local collection center located no more than ten miles from their farms. Within minutes, the milk is weighed, its fat content electronically measured, and the farmer paid. This efficient process stands in stark contrast to the old system, in which samples were taken and the fat content tested days later at a central facility. Not only did farmers have to wait up to a week to receive payment, the lack of transparency led to a high degree of fraud. To link its operations, Amul employs satellite communication technologies that collect and track all transaction data. Furthermore, a customized ERP solution coordinates all back-office functions and performs complex data analyses, such as forecasts to determine whether farmers should boost production.

Benefiting from Low-Cost Labor and Overcoming Shortages of Skilled Labor

At the heart of most local dynamos' competitive advantage is a business model that taps into the vast pools of low-cost labor in RDE markets. By finding ways to deploy large numbers of local staff to their advantage, local dynamos completely replace the business models of developed economies, which seek to reduce reliance on labor as much as possible.

At the opposite end of the labor equation, dynamos confront another reality of RDE markets: an acute shortage of experienced management talent in the labor force. The best local companies have found ways to attract and retain the best local management talent. Indeed, such companies are becoming employers of choice because—in contrast to many MNCs operating in these markets—they offer their local employees pathways to jobs with impact, status, and the opportunity to create wealth.

Focus Media. Focus Media deploys LCD screens for its advertisements in the lobbies of office buildings. But it has a decidedly low-tech solution for servicing those screens: a nationwide army of employees who move from building to building on bicycles, routinely replacing the screens' DVDs and flash cards. Given China's advanced communications networks, it would be feasible to link the LCD screens electronically, but for reasons of network cost and flexibility—and to avoid broadcast regulations—the bicycle solution fits very well into an otherwise technology-driven business model.

Apollo Hospitals. Apollo has built an outstanding brand image by recruiting, training, and retaining some of the best doctors and nurses in India. Its unparalleled quality is a key point of differentiation that allows it to charge its clientele some ten times what they would pay in a public hospital. To sustain its superior medical services as it grows, Apollo taps into the country's large labor supply but has also developed its own training programs to educate staff. Furthermore, to compensate for the country's shortage of specialists, Apollo has extended its recruiting efforts to Indian doctors abroad. It has even managed to turn this skills deficit to its advantage by building a separate business, Medvarsity Online, which offers a variety of health-related courses. This online business not only brings the company profits but also helps develop the skills base of the entire country, benefiting Apollo over the long term.

Ctrip. A large team of researchers developed and continue to maintain this company's central booking database, which links to the databases of its key hotel and airline partners. In China's fragmented hotel market, such a database is a unique competitive advantage. At the same time, a team of 3,000 sales representatives bring the company's state-of-the-art call center to life with their strong focus on customer service. Ctrip also supports its

predominantly offline sales with a national network of low-cost couriers who use bicycles and motor scooters to collect payments and deliver paper tickets.

China Merchants Bank. Although China Merchants Bank is smaller than many of its local rivals, many analysts and customers regard it as the country's best-run bank, in part because of its excellent customer service. In an industry where customer service has been lacking, China Merchants Bank achieves service excellence through its rigorous training programs for frontline and management staff. The organization also puts a heavy emphasis on hiring. It aims its recruiting efforts at university graduates, with 90 percent of new hires coming fresh out of local universities. After a strict selection process involving exams, interviews, case studies, group discussions, and simulations, the bank selects the brightest and most hard-working candidates.

Scaling Up Fast

When a new market opportunity becomes apparent in an RDE, many rivals pop up quickly, jockeying for position. Particularly in China and India, the large number of cities and provinces or states enable many companies to grow independently in separate regions. Being first to attain national scale positions a company to reap the benefits of scale advantage. For dynamos, becoming a market incumbent typically involves balancing aggressive organic growth with targeted acquisitions.

Tencent. For Tencent the rise to incumbency was largely a result of its strong focus on innovation and new-product development. Tencent developed its very first IM client, Open ICQ, in just three months. Since then, it has consistently stayed ahead of its MNC competitors by quickly integrating the latest features while introducing new products. For example, QQ's user interface has undergone several significant transformations to meet changing tastes. When businesses in China began to restrict the use of QQ in offices, Tencent introduced two business-oriented IM products: Tencent Messenger and Real Time Exchange. Tencent has also fueled its growth by offering a host of services that extend from its core IM platform. These include casual games, social networking services, online videos, and a customer-to-customer auction system.

Focus Media. In its early days, this company faced many small rivals scattered in cities across China, all with simi-

lar concepts of selling screen-based advertising services. Focus Media, however, pursued an aggressive strategy of expansion and acquisition, punctuated by a few very large transactions. From its start in the lobbies of office and apartment buildings in big cities, the company's business now extends nationwide, which is highly attractive to advertisers and diminishes the competitiveness of regional rivals. Today Focus Media's screens are not only in offices and apartment blocks, but also in a host of other locations: retail chain stores, shopping malls, restaurants, hospitals, drugstores, beauty salons, health clubs, golf clubs, hotels, airports, and airport buses.

Wimm-Bill-Dann Foods. Russia's WBD gained its national scale primarily through a series of well-executed acquisitions and careful management of its supply and distribution networks. From 2002 through 2006, partly funded by its 2002 initial public offering, WBD acquired 13 local competitors, thus expanding its manufacturing facilities from one leased production line in 1992 to 33 lines in 2006. On the distribution side, WBD built up a maze of trading companies and distributors across Russia's large expanse of territory. To counteract a nationwide drop in the number of dairy cattle, WBD launched its Milk Rivers program, which involved leasing expensive farm and dairy equipment to its suppliers in order to boost their productivity. Through consolidations, licensing, and franchising, WBD's nationwide distribution and production networks currently serve 280 million consumers. This extensive reach provides the company with an almost unassailable advantage over its competitors, including foreign giant Danone.

Goodbaby. This baby-products company has used organic growth to build the most extensive local sales and marketing network in its industry. In 1990, Goodbaby was a loss-making tool factory situated in Kunshan, a small city outside of Shanghai. Today the company controls nearly 80 percent of the local market, with a 12,000-acre industrial campus in Kunshan that includes the world's largest baby-stroller factory, as well as two other factories in China's coastal city of Ningbo. Furthermore, its network consists of 35 branch companies, each of which operates within its province or city to establish distribution agreements and open new retail locations. In total, Goodbaby operates 1,600 standalone specialty stores and department-store counters (stores within stores). Looking for-

Dynamos are able to sustain hypergrowth over the long term.

ward, Goodbaby plans to expand its operations through additional stores, flagship retail centers, and an online sales channel.

Cosan Group. Brazil's sugar and ethanol producer has grown its business aggressively through acquisitions. Starting with one sugar mill in 1936, the company currently owns 17 mills, two refineries, two port terminals, and numerous warehouses. Today, having raised \$1.2 billion in an August 2007 initial public offering, management continues to focus on growth but says market prices currently are too high for acquisitions. Its present strategy is to expand existing facilities as well as invest in new areas. It has broadened its traditional sugar-production business to include ethanol production, an attractive new business as the world seeks alternative energy sources. Moreover, the company's size—it is the world's largest grower and processor of sugar cane—allows it to shift its product mix between sugar and ethanol to best capitalize on prevailing market conditions.

Sustaining Long-Term Hypergrowth Without Imploding

For RDE-based companies, the risk of meltdown or stagnation is always present, especially given the fact that management talent is generally scarce in these markets. New companies that make use of mergers and acquisitions face the difficulty of integrating organizations that are often equally inexperienced. A key differentiator between local dynamos and their less successful peers is the ability to sustain hypergrowth over the long term. Dynamos achieve this in large part by maintaining low management turnover, consistently creating value through acquisitions, investing in human resources, and developing business processes that help growing dynamos face new complexities.

Ctrip. Operating in China's travel market is not easy. Challenges include the country's vast size and lack of modern payment systems, as well as regulatory and licensing barriers. Each time Ctrip sets up shop in a new city, for example, it must obtain a license from the local government—which usually owns a competing travel company. There is also the challenge of organizing sales teams and delivery services in more than 100 cities. Over the last ten 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 emphasize the use of common business processes across the company. Ctrip has even established Six Sigma standards for customer service operations, which it expects employees to meet. Furthermore, the company has a strong management team, with several of the original founding executives still in place. Ctrip has beaten back several foreign competitors—such as Travelocity's Zuji.com and Expedia's eLong.com—as well as TravelSky, an online portal launched by China's state-owned airlines and foreign investors in 2001. At that time, many believed that TravelSky, with its government backing and links to the state-owned airlines, would be the local winner. However, the company's consumer-facing travel business has yet to rival Ctrip's.

Wimm-Bill-Dann Foods. Over the years, WBD has adopted a series of management practices that have ensured the sustainability of its rapid growth. These practices include maintaining a stable, multinational senior-management team, investing in human resources, and ensuring an optimal balance between quality and cost. Four of the company's five founders remain on its board of directors. In 2006 WBD hired a new CEO who had worked with Coca-Cola for 20 years and could provide a multinational perspective. WBD has also adopted a number of best practices in human resources, including key performance indicator (KPI) metrics across all business units, individual development plans for its top 500 employees, performance-based compensation, and stock option plans for high-level managers. Finally, WBD has made strides in optimizing its business processes to reduce operational costs. It has improved forecasting and demand planning, reengineered processes to cut bureaucracy dramatically, simplified its legal structure, and launched a new IT system.

New Oriental. This company utilizes a hub-and-spoke model to sustain expansion and revenue growth despite endemic shortages of experienced managers in its markets. By opening new learning centers that share the ad-

ministrative and management resources of its hub schools, New Oriental has been able to increase its student population and expand its geographic footprint without a heavy strain on resources.

O Boticário. Brazilian cosmetics company O Boticário invested heavily in a centralized computer-management system to link the point-of-sale computers at all of its 2,400 stores. Before the company undertook the overhaul, each store was responsible for purchasing its own computers in the local market and installing software from a preapproved list. As the number of stores grew, the company recognized the need for a centralized system that would allow it to resolve issues remotely and also manage critical communications.

Our local dynamos pursue several success factors simultaneously and continuously.

Bringing All Six Success Factors Together

Tens of thousands of companies based in RDEs are adopting some of the success factors discussed above. What really distinguishes the 50 dynamic companies under study is their ability to pursue several—if not all—of them simultaneously and consistently over time in a manner that produces explosive growth far outstripping their rivals. In the challenging operating environments of RDEs, this is a formidable achievement.

Low-cost housing developer Homex, in Mexico, is an example of how a company can integrate all six success factors. Homex is the largest low-income real estate developer in the country, with more than 140,000 families living in its homes. The company recorded 2006 revenues of \$1.18 billion, representing a 46 percent increase over 2005. Homex has gone beyond simply meeting the needs of its customers for affordable housing and regards itself as a builder of communities. These are not just words. The company builds schools, day-care facilities, parks, and churches, and donates them to the communities it creates. It has also established community centers as a way to encourage communication among neighbors and to facilitate access to resources and tools, such as the Internet.

Homex adapts its business model to meet the seasonality of Mexico's property market, which in turn reflects the lending cycles of the country's large, government-sponsored credit organizations. The company begins construction on a new home only when it has an approved buyer.

It then keeps working-capital requirements low by using standardized construction methods that trim overall construction time to between 10 and 14 weeks, depending on the type of home. Underpinning the whole business are proprietary IT systems that ensure standardized business processes and a carefully managed approach to growth. On the human resources side, Homex benefits from Mexico's low-cost labor, while members of its senior management team have an average of 15 years of relevant experience.

Started in 1989, Homex is the fastest-growing developer in the country. In 2006 it had 67 developments under construction in 28 cities in 18 states. At the same time,

Homex's management has leaned toward a systematic, conservative approach to the company's land holdings. By the end of 2006, Homex had total land reserves of some 53 million square meters, sufficient to build approximately 265,000 homes. This portfolio is under continual review. The company aims to reduce excess inventory, always striving to maintain just enough land reserves for approximately three years of projects. Homex has learned through experience that this is enough time to prepare the land for development and eventual sale.

As the Homex example shows, by pursuing a number of strategies in parallel, dynamos create strong businesses that are hard to emulate—and even harder to beat.



Dueling with the Dynamos

New Rules, New Tactics

As foreign companies square off to duel against local dynamos in RDE markets, one fact is striking: the dramatic decline in the advantages of being a global company in those markets. Increasingly, the dynamos are becoming very good at activities that were formerly the natural domain of global companies. For example, dynamos access cutting-edge technologies through eager-to-serve international suppliers. They use their own locally or globally trained engineers to customize those technologies rapidly. And they not only access global capital but also bring the funds to bear on their businesses' growth faster than many global companies can even allocate them internally. Similarly, they make good use of global management talent, cherry picking the best local veterans from foreign companies. And they employ top global financial institutions to help them execute complex mergers and acquisitions, thus consolidating domestic industries.

The domains of foreign companies in RDEs are at risk of narrowing very fast. As these dynamic RDE-based companies expand and as more such companies conquer other high-growth markets in RDEs, what can foreign companies do? Can they build competitive businesses in RDEs?

In our view, foreign companies seeking to respond to the challenge posed by local dynamos face two imperatives:

- ◇ *Become dynamos themselves.* MNCs should take to heart the lessons taught by the local dynamos and emulate them in a range of ways. Most important, they should operate their businesses in RDEs with the speed, flexibility, and local commitment of a dynamo. Otherwise, they will be increasingly outmaneuvered.

- ◇ *Beat the dynamos at their own game.* MNCs should use their global advantages—such as a broad and deep capacity for innovation and a strong brand presence—to do what the dynamos cannot do. They should take some specific steps to differentiate themselves from the competition.

It is essential to pursue both of these imperatives together. Only by combining the two can foreign companies come up with new models of competitive advantage uniquely relevant to RDEs. This is not theoretical posturing; some farsighted foreign companies are taking exactly this approach in RDE markets, and a number of them are already trouncing local and international competitors.

Yum! Brands

One stellar example is Yum! Brands, based in the United States, which owns quick-serve restaurant brands that include KFC and Pizza Hut. Yum! Brands attacks RDE market opportunities like a dynamo, while also using its globally developed expertise to create businesses that its local competitors are unable to replicate. As a result, the company's business in China already accounts for 20 percent of its global profits, while its business in India, though smaller, is growing revenues at over 30 percent per year.

Yum! Brands pursues these markets with the zeal of a dynamo. For instance, moving at a very rapid pace, the company opened more than 1,200 KFC restaurants in China in a period of less than five years; it currently operates close to 2,000 locations. It understands the importance of establishing a true national presence, with a network of restaurants that today extends to more than 420 Chinese cities. The company's stated long-term target is to have 15,000 KFC outlets in China. Moreover, it is re-

peating this rapid expansion with Pizza Hut, which now has nearly 300 locations in China and a long-term target of 7,000 locations nationwide. Yum! Brands has also created a new locally branded restaurant, East Dawning, which serves Chinese food. Overall, the company opens one new location per day in China.

Yum! Brands has pulled ahead of McDonald's in China. In 2002 it had 766 KFC locations there, compared with 538 for McDonald's. By 2007, Yum! Brands had expanded to run more than 1,900 KFC locations, while McDonald's had 812.

Yum! Brands has adapted its business model to RDEs in several ways, customizing menus by launching many “local-style” food items each year and tailoring restaurant formats to local consumer preferences and behavior. Pizza Hut, for example, offers populations with rich culinary traditions a distinctly upscale dining experience. Yum! Brands is quick to update restaurant formats as local behaviors evolve; for example, the company has introduced drive-through formats in a number of areas as China's car-driving population has increased. Marketing programs that reach out to youth place a particular emphasis on learning, appealing to the educational priorities of Chinese parents. Yum! Brands positions its outlets not just as restaurants but also as fun places to be; the company's KFC outlets in China average two birthday parties per day.

Yum! Brands also builds low-cost labor into its business model. KFC stores in China employ more than 7,500 people trained to serve customers quickly and with a smile. To ensure the smooth rollout of its restaurants, a team of 500 focuses exclusively on new-restaurant openings.

At the same time, Yum! Brands brings very significant global expertise to differentiate itself from local players. It has built a highly IT-enabled and tightly managed supply chain to support rapid national expansion: a network of 11 distribution centers, five satellite distribution centers, and two processing centers. The company's sourcing capabilities complement this sophisticated distribution. To overcome China's complicated supply-chain challenges, Yum! Brands has stringent policies for selecting suppliers in order to ensure the consistent delivery of high-quality materials. It also operates a number of its own food-preparation facilities to guarantee timely supply.

In addition, the company uses its global reputation and resources to influence Chinese government policies regarding food safety and supply chain regulation, and it participates in formulating governmental food standards. In this way, it protects its local reputation, builds government support, and influences the overall industry structure in a favorable manner.

Yum! Brands has built sustainable advantage in a number of ways.

The result of Yum! Brands' efforts is a combination not easily found or replicated in China: a family of convenient restaurants that offer high quality and cleanliness with local appeal and a differentiated dining experience, available in thousands of locations across the country. From its initial entry into China, Yum! Brands has

built sustainable advantage in a number of ways. Compared with its competitors, it has greater knowledge of its markets, broader on-the-ground capabilities, a larger management team, a broader supplier base, and higher spending on marketing. Furthermore, it is in a stronger position to roll out new store brands and concepts. To both local and global companies considering market entry, Yum! Brands is a daunting competitor.

Nokia

Another fast-moving global player winning in RDE markets is Nokia. Its leading position in both China and India is the result of aggressive steps that it took in the past five years, allowing it to pull definitively ahead of global peers and local rivals alike. In China, for example, starting in 2003, the Finnish company fought back against an aggressive set of Chinese competitors. At the time, Nokia was trailing Motorola in China, and a large number of local players began aggressively attacking the market, together with many smaller foreign brands.

The local players—for example, Ningbo Bird Corporation and TCL Corporation—focused on cultivating a new market that others had overlooked: dozens of midtier cities that lay beyond China's coastal provinces and tens of millions of mid- to low-end customers. Ningbo Bird and TCL aggressively pursued these segments with modern, affordable products, opening the first retail outlets for handsets and developing distribution capabilities in dozens of cities. Although the foreign companies retained strong businesses in their targeted cities and segments, they suddenly discovered that entire new segments of the

market were rising fast—and moving away from them just as quickly.

Challenged by this situation, Nokia fought back. It did several of the things that the dynamos were doing: it moved very fast to set up extensive sales and distribution networks across China. It also combined the most sophisticated sales-force IT platform—providing near real-time information on sales volumes and competitor pricing—with an army of more than 3,000 in-store promoters and thousands more salespeople. It hired a new generation of managers away from other consumer-focused MNCs and added a new set of local distributors as partners in each key Chinese province, focused on penetrating new markets and segments.

At the same time, Nokia did a number of things that dynamos are less adept at doing. It significantly accelerated its global product-development programs and launched a steady stream of innovative products at all price levels. (As a result, today China is Nokia's largest market for both its low-end and its high-end phones.) It marshaled its global supply chains to ensure that these new products could reach high volumes quickly and reliably. And it used its global purchasing power to ensure a highly competitive cost position. Currently, Nokia is the market leader in China, far ahead of all other international and local players. No other company has built such extensive distribution networks or broad product lines. Local players have not managed to match Nokia's rate of product innovation, a failure that has set in motion a vicious cycle: fewer appealing products have resulted in reduced sales, which have led to less interest from retailers, which has limited scale economies in purchasing and R&D, which has created higher costs.

Nokia also leads the market in India, with more than 60 percent market share. Although it faces few domestic competitors in that market, the company has nonetheless employed a combination of dynamolike strategies, as well as strategies based on its global capabilities.

Hyundai

Some South Korean companies—themselves local dynamos not too long ago—also show the way forward in RDE markets. Automaker Hyundai has aggressively en-

tered a number of RDE markets in the past few years with much success. In the crowded Chinese market, Hyundai's market share surged from zero in 2002, when it entered the market, to 7 percent in 2006, with cumulative sales topping the 500,000 mark just 40 months after launch. In India, the automaker entered the country in 1998 and now holds the number two spot—behind Maruti Suzuki India, which has been in operation for more than 25 years—with an 18 percent share. Its combined 2006 sales in China and India approached 500,000 vehicles.

Hyundai took dynamolike steps—and did things its local rivals couldn't.

What did Hyundai do? On the one hand, it took dynamolike steps, including adapting its products and its business model to the specific needs of local customers and the local market, expanding aggressively and rapidly, and leveraging local labor supplies. On this score it overcame many foreign companies. On the other hand, by bringing its existing expertise, experience, and products to the market, it did a variety of things its local rivals could not do. The company entered both China and India by targeting an unmet need that other automakers had overlooked. And it did not rely on guesswork.

Hyundai succeeded as a result of careful planning. First, it sent in teams that spent months researching the markets and understanding customer needs. It saw that in China, foreign players held the top end of the market and local players held the bottom, with no company offering a high-quality car at an affordable price. Hyundai stepped in to fill that gap. In India, foreign players were selling old models. Hyundai offered customers the same cars it was selling in dealerships back home, and it also created its Santro model specifically for the local market, designing the car to deal with India's poor roads and high temperatures. The car now sells under the Visto brand name in South Korea. In both India and China, Hyundai's value proposition was the same: good quality at an attractive price.

Hyundai also customized its business model. China requires foreign automakers to enter the market by means of a joint venture with a domestic company. This arrangement typically results in the foreign partner losing control, while the partnership frequently experiences internal distrust and friction. From the outset, Hyundai retained full operational control but at the same time

sought to create a healthy working relationship with its partner, Beijing Automotive Industry Holding Company (BAIC). One way it did this was by requiring all Korean employees working in China to learn Chinese. On the operations front, Hyundai minimized up-front investment and ongoing operating costs by using BAIC's old but functional production line, which runs on low-cost labor. It further reduced costs by requiring its Korean suppliers to set up operations in China, thereby helping the automaker overcome tariff barriers while improving its logistics efficiencies.

In the Indian market, Hyundai built its largest production facility outside of South Korea, enabling it to achieve economies of scale. It also worked quickly to localize its supply chain to further reduce costs and enable it to deliver on the promise of good value. On the marketing front, the company was unknown when it first arrived in the country, so it employed a hugely popular film actor, Shah Rukh Khan, to promote the brand. This was the first time a movie star had endorsed an automobile in India, and it created a high level of buzz for Hyundai.

Today Hyundai sees limited capacity as a problem; this is the stated reason for the company's declining China sales in 2007. To meet this challenge, Hyundai has invested billions of dollars in both countries to build new factories and allow the company to achieve the scale it needs to sell moderately priced, high-quality cars and remain profitable. The company hopes that this added capacity will enable it to reach its 2008 sales targets, which total 1 million units for India and China combined. Certainly success in these RDEs will help Hyundai achieve its longer-term goal of becoming a top five global automaker.

As these examples show, MNCs are in a strong position to succeed in RDEs provided they tweak their business models appropriately. Whereas dynamos are skilled at using the six strategies we have identified, well-managed foreign challengers can deploy those same strategies and more. In short, they can use a two-punch combination that local incumbents will find difficult to defend against.



Questions to Consider

While the lure of fast-growing RDE markets remains powerful, domestic competition there is also intensifying. In many cases, local dynamos prevail—and are growing stronger.

Executives of MNCs seeking the rewards of operating in RDEs must address several fundamental questions:

- ◇ Which are the dynamos in your target RDE markets—and in adjacent market spaces? Chances are that dynamos are already operating in your sector, whether you know it or not. Are you keeping an eye on them?
- ◇ How are these dynamos competing today, and how are their capabilities improving? How are they negotiating difficult obstacles while seeking out new areas of opportunity? Where will they be in three years? What does this imply in terms of the competitive response you need to make?
- ◇ To what extent is your company lacking when compared with the dynamos? Where are you failing to match the best of what the dynamos are doing (for example, in terms of speed of expansion, tweaking of the business model, meeting customer requirements, leveraging low-cost labor, and attracting and retaining top management talent)?
- ◇ What is your plan for boosting the dynamism of your response in RDEs? What are the internal barriers to dynamism in your company? How should your company organize itself globally to support growth in RDE markets?
- ◇ How will you beat the best dynamos? What, specifically, can you leverage from your global capabilities to create advantages in RDEs that local players will struggle to match?

The answers to these questions may well determine a company's success not only in RDEs but also in developed markets around the world. With each passing day, dynamos better understand, adapt to, and dominate important RDE markets. And whether or not your company is active in RDEs, you need to keep an eye on the leading companies in these markets, because many of today's local dynamos are poised to become tomorrow's global challengers.



For Further Reading

The Boston Consulting Group publishes other reports and articles that may be of interest to senior executives engaged in globalizing their operations. Recent examples include:

Winning the Localization Game: How Multinational Automotive OEMs and Suppliers Are Realizing the Strategic Potential of China and India

A report by The Boston Consulting Group, January 2008

The 2008 BCG 100 New Global Challengers: How Top Companies from Rapidly Developing Economies Are Changing the World

A report by The Boston Consulting Group, December 2007

Aligning Talent for Global Advantage: How Top Companies Develop the Right Talent in the Right Places

A Focus by The Boston Consulting Group, September 2007

Avoiding the Cash Trap: The Challenge of Value Creation When Profits Are High

The 2007 Value Creators Report, September 2007

Sourcing from China: Lessons from the Leaders

A Focus by The Boston Consulting Group, July 2007

Organizing for Global Advantage in China, India, and Other Rapidly Developing Economies

A report by The Boston Consulting Group, March 2006

“Spurring Innovation Productivity”

Opportunities for Action in Industrial Goods, November 2005

“The New Economics of Global Advantage: Not Just Lower Costs but Higher Returns on Capital”

Opportunities for Action in Operations, July 2005

“Globalizing R&D: Building a Pathway to Profits”

Opportunities for Action in Operations, May 2005

“Globalizing R&D: Knocking Down the Barriers”

Opportunities for Action in Operations, May 2005

“Avoiding Supply Chain Shipwrecks: Navigating Outsourcing’s Rocky Shoals”

Opportunities for Action in Operations, March 2005

The Central and Eastern European Opportunity: Creating Global Advantage in Serving Western Europe

A Focus by The Boston Consulting Group, January 2005

Navigating the Five Currents of Globalization: How Leading Companies Are Capturing Global Advantage

A Focus by The Boston Consulting Group, January 2005

Capturing Global Advantage: How Leading Industrial Companies Are Transforming Their Industries by Sourcing and Selling in China, India, and Other Low-Cost Countries

A report by The Boston Consulting Group, April 2004

“What Is Globalization Doing to Your Business?”

Opportunities for Action in Industrial Goods, February 2004

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