DUSTING THE COMPETITION

HOW AIR TRACTOR IS PROPELLING EXPORTS BY HELPING SOUTH AMERICAN FARMERS

THE GLOBAL TRADE GAME
How the Creators of ThinkFun Brainteasers Apply Puzzle Logic to the Business World

EXPORTING TO COLOMBIA
The Affects of the U.S.-Colombia Free Trade Agreement
IN JANUARY, YOU REMEMBER, A group of terrorists operating in an impossibly remote stretch of the Algerian desert captured an isolated gas refinery and took hundreds of employees hostage. A few days later, beginning on Jan. 18, special-ops soldiers of the Algerian military responded—not with a cell phone chucked through an open window, cash in a briefcase, or the promise to free jailed Islamic militants, but with a bloody raid that reportedly killed most of the terrorists and their hostages.

It was a weird time to speak with Mauro F. Guillen, Wharton School professor and co-author (with Esteban Garcia-Canal) of Emerging Markets Rule: Growth Strategies of the New Global Giants, a 2013 book with a big idea: that instability is the new normal, and that some of the world’s most volatile places are shaping
multinational firms from which we can learn something about growing a successful global company.

“Emerging markets have become key launching pads for new multinational firms,” Guillen told the Wharton School’s website (knowledge.wharton.upenn.edu). “Many enjoy production cost advantages in the home country. Others have ventured abroad using the brands and technologies developed in an emerging economy, which have proved to be useful in developed markets as well as other emerging economies. They have also learned in the home country how to deal with government regulation.

“The global economy has become a two-way street,” Guillen concludes. “Firms from emerging economies are now every bit as capable and competitive as companies from the U.S., Europe and Japan. The global playing field is now level.”

Fortunately, Guillen tells Global Trade, “it’s not like they have a magic formula. The sources of their strength, the reasons for their success can be emulated.”

Guillen and Garcia-Canal offer seven lessons from the edge.

**EXECUTION IS MORE IMPORTANT THAN STRATEGY.**

“We talk about this disease in U.S., European and some Japanese companies, that they over-strategize,” says Guillen. Yes, he says, strategy is important. But too many executives lose valuable time “trying to come up with perfect strategy, and then don’t execute, don’t implement.”

Writing in the Harvard Business Review, Guillen and Garcia-Canal compared such analysis-paralysis with the more impulsive behavior of emerging-market multinationals. Born in “business environments that are in constant flux—where labor is abundant and inexpensive but often unskilled, infrastructure is far from state-of-the-art, regulations may change unpredictably, and political instability is common,” emerging-market multinationals “are more impatient than developed-world companies. Their internal clock speed seems faster. They’re open to opportunities neglected by established multinationals. They have a higher appetite for risk and a higher tolerance for failure.”

So these emerging-market multinationals spend less time worrying over which market to enter, and more time implementing their best business practices in that market. Guillen and Garcia-Canal point to Bimbo, the improbably named Mexican baker. Established in 1945 by a Spanish immigrant, Bimbo came to the U.S. in the late 1990s when it bought out Sara Lee’s bakery division. It then focused intently on execution, providing for its U.S. customers a service system sharpened in Mexico, where the company delivers to far-flung mom-and-pop shops via Mexico’s notoriously challenging transportation system.

“Bimbo’s leaders are continually on the road, looking for ways to improve the productivity of its 100 plants on three continents, its huge truck fleet and other operational elements,” the pair wrote in Harvard Business Review. “For instance, it uses tricycle delivery bikes in urban areas of China where streets are too narrow for trucks, a practice it first implemented in Latin America. At
the same time, all of its trucks are equipped with sophisticated computer systems to optimize delivery routes.”

CATER TO THE NICHEs.

“There’s a subtle message in that principle,” Guillen says. “It’s not just saying, ‘I’m going to sell to this well-defined group of customers.’ You can use niches as Trojan horses” to enter far broader markets.

That’s how China-based refrigerator manufacturer Haier got into the U.S. market. “They looked for niches that Whirlpool and GE were neglecting,” Guillen says. They settled on student fridges and wine cellars. “That became the beachhead. They went in in a way that the majors didn’t expect. And they didn’t stop there. They thought of niches not as ‘This is our mission, and this is the only thing we’re going to do.’ No, they thought of niches as stepping stones into the mainstream of the market.”

Haier didn’t stop there. Guillen says the company “listened carefully to the customer to design new products” that took market share—however modest—from the North American giants.

By approaching the market through under-served niches, Haier learned that the established giants were vulnerable, that access to the world’s largest market was not an impossible dream. But it didn’t stop there. It listened carefully to the customer to design new products.

Running against the general trend of Chinese manufacturing for export, Haier now builds full-size refrigerators for the North America market in Camden, South Carolina.

SCALE TO WIN.

Begin with this premise: “Unless you grow big, someone else is going to grow big and then have lower costs to produce than you”—and they’re going to win on the global playing field. So increasing scale is hardly an option: it’s a necessity if you hope to compete on price in any way.

Fortunately, Guillen says, “In this age of customization, where customers want specific features in the products or services you are selling them, because of technologies we have a lot of opportunities for so-called ‘mass customization.’” So it’s much easier to reduce costs while increasing scale. Translation: You can scale up production even across markets with very different taste requirements.

For example, a separate study of one of the author’s favorite examples, China’s Haier, reports the company has scaled up while producing “extra-large-capacity washers that can accommodate the robes of Middle East consumers; electronically sophisticated washers that can cope with the frequent power fluctuations in India; whisper-quiet, timer-equipped washers for Italians who want to take advantage of the lower power rates available late at night; and other locally targeted variants.”

Guillen also likes the example of Arcor, the Argentina firm that is the world’s largest candy maker. Privately owned and managed by its founding family, and based in a country that is seemingly a once-per-decade basket case of nationalizations followed by privatizations, labor strife, currency fluctuations, and wild (even violent) political swings between the left and right, their internal clock seems faster. They’re open to opportunities neglected by established multinationals. They have a higher appetite for risk and a higher tolerance for failure.
and right, Arcor has still managed to scale up and win production jobs for the world’s largest candy brands. They didn’t try to create new products—in the candy business “almost everything, every flavor has been invented,” Guillen says. Instead, “Arcor was able to find a profitable place under the sun” by going big, “by building big factories” to supply its global clients, and they did that by focusing on production at the molecular level. Guillen sums it up this way: “It’s all about efficiency.” Several major global candy brands decided to outsource production to Arcor given that they couldn’t match prices or quality.

EMBRACE CHAOS.
The volatility of the global marketplace goes beyond such high-profile events as January’s Algerian terror attack or the 2011 tsunami in Japan. It extends to equally significant though subterranean changes—like subtle movements in the global energy market, the death or removal from office of key foreign officials, the unfunded liability of public-employee pensions in distant countries.

Emerging-market multinationals run toward such frontiers. Guillen and Garcia-Canal offer the example of Cairo-based Orascom. Founded in 1950 as a construction company, “the firm got a taste of political risk in 1971, when it was nationalized by the Egyptian government,” the authors write in Harvard Business Review. Privatized again a few years later, Orascom evolved, partnering with Motorola and France Télécom to win a majority of an Egyptian mobile phone company. As global cellular service exploded in the late 1990s, so did Orascom. CEO Naguib Sawiris “recognized that despite the promise of rapid growth, developed-world telecom firms were reluctant to enter those markets, in part because of the risk for instability.” The firm moved aggressively into such “turbulent hotspots” as Pakistan, Zimbabwe, Algeria, Iraq, North Korea, Central African Republic, and Lebanon—“places,” Guillen says, “no other telecom company wanted to go. Instead of avoiding chaos, they embrace it. This is a distinct capability.”

ACQUIRE SMART.
Guillen says he and Canal-Garcia “observe too many CEOs” who see acquisitions as ends in themselves. Pushed by shareholders or ego to grow globally, “they acquire a company in a foreign market and say to themselves, ‘Mission accomplished.’”

But that’s like planting a flag to declare ownership of a continent. “They make an acquisition and don’t worry about the details of integrating that acquisition into the operations of the company,” says Guillen. The results can be catastrophic for the acquirer and acquired alike.

The logic here is simple, Guillen says: Use acquisitions as smart emerging-market multinationals do, only “when they feel that they cannot do something on their own.”

TAKE ON THE SACRED COWS.
Working against the U.S. exporter is a pervasive nostalgia, a longing for the Cold War world in which dramatic change was exceptional. Nostalgia accounts for the sense among many Americans—including business leaders—that upheaval is temporary and unusual rather than a permanent feature of the global economy. “For the next 25 years, we might want to build a new set of expectations around uncertainty. This,” says Guillen, “is the new normal.”

Each of the emerging-market multinationals’ lessons requires examining “the assumptions of ways we’ve been thinking, and the ways we’ve been doing things for a long time.”

The market has changed, customers change, and their preferences change, Guillen says, but “complacency and inertia and past dependence—on the idea that what brought you success in the past will work in the future—are the big dangers.”

EXPAND WITH ABANDON.
Guillen says he’s logged a lot of miles over the last decade to track down companies who’ve made much with little (when he’s traveling south, it’s the Star Alliance’s United Airlines and US Airways; headed to the Far East, he looks forward to flying on Singapore Airlines). And what he’s seen allows him to offer this note of caution: Ignore the global marketplace at your own peril.

Recall the example of Argentina’s Arcor: “there’s always going to be someone with a product or service similar to your own, and they’re going to get into those other foreign markets,” Guillen observes. “At some point, they will go to where you’re strong and challenge you there. This is the whole point of globalization. If you don’t expand with abandon into all of those niches—large niches and small niches—then somebody else will. And they will dominate the market you choose not to enter.”

Once there, those competitors will generate cash holdings, sharpen their customization and increase their scale. They’ll start to eye your home market. “And then,” says Guillen, “it’s game over.”

Cairo-based Orascom rushes toward risk in such hotspots as Pakistan, Algeria, Iraq, North Korea and Central African Republic.