**Strategic Management for**
**Competitive Advantage**
**Professor Sanjib Chowdhury**
**Vinod Gupta School of Management**
**Indian Institute of Technology, Kharagpur**
**Lecture 26**
**Strategies for competing in developing markets,**
**And defending against global giants**

(Refer Slide Time: 00:32)


Welcome to the course strategic management for competitive advantage. We continued our discussions on international strategies for competing in global markets. In today's lecture, we will be covering strategies for competing in developing markets and defending against global giants.

(Refer Slide Time: 00:45)


The concepts that will be covered today are the strategies for competing in developing countries by the multinationals of other countries. And also, we will discuss what should be the strategies for defending against giant global companies for developing countries and what they should follow.

(Refer Slide Time: 01:11)


So, these are some of the strategic options for competing in the markets of developing countries. These will be followed by the multinationals who are willing to come to new countries those are developing countries. Nowadays, what is the importance of developing markets? As you have the advanced nations their markets are matured, so the growth rates are not there but the developing nations like BRIC countries Brazil, Russia, India, China, Indonesia and Malaysia all the eastern European countries. So, they are the people who have the aspirations to grow to catch up with the developed countries, so they are growing faster than the matured markets.

So that is why there is huge potential for developing countries, so foreign companies generally eye for that. Take the case and but you should not take it for a granted like whatever the strategies you followed in developed nations, developed markets will be the same as developing markets. Because the differences are for distinctive cultures of different countries, tastes of the customers, a taste of the populations, and preferences of the people of different countries are different. So, you got to be very sensitive to that, for example, McDonald, McDonald used to follow a global strategy, but they had to introduce vegetarian sandwiches not only in India many parts of Asia.

So otherwise, they cannot get the market shares, and also, they have to compromise with the cost because their costs are very high for average Indians, which only the well-to-do people can afford. So, they have to look for a new costing strategy. Kellog produces those cereals for breakfast and all, but in many countries in Asia, these cereals for breakfast are not very popular, so they had to struggle a lot for years to penetrate the markets of the developing countries, and also some in India say single-serving package products like detergent, shampoo, hair oil, cough syrup or edible oil, so these are very popular, so they have to customize that.

So, these are important in working in developing markets one has to be very sensitive to the strategies recommended for multinationals when they are coming to a developing country. There are four distinct strategies that we will be discussing one by one, one is that foreign companies must be prepared to compete at a low price because people in developing countries are very price sensitive. So as a result, what happens is that the local companies which they can produce at a lower price always get an advantage, and the foreign companies will not be able to penetrate and get a sizable market share. So, one has to be very competitive at a low price.

Suppose the foreign company’s multinationals do think they have the notions and operate in developed markets, so they expect there will be wholesaler’s distributors’ networks will be attending at one stage. there will be readily available or that telecommunications support services internet and then retail banking and consumer banking. All will be available at a very efficient level. But that it may not be available in such an advanced stage in many developing countries they got to be prepared. The local players and companies know better about these, and they can leverage those.

So, to get the low prices, competing for low prices take the case of Unilever. Unilever in India introduced the low-cost detergent single pack, the one pack will have the single-use pack. The quantity will be sufficient for single use. you open the pack for single use. they emphasized the cost, so they went for a manufacturing plant with a low-cost manufacturing plant, low-cost distribution channels and low-cost advertisement. The distribution was through hand cards, and the advertisement was through paintings on the buildings and also the demonstrations near the stores and all.

So, everything was low cost, and they introduced this detergent called Wheel and in a very short period Wheel captured that revenue earned in a year was 100 million dollars they captured the market and similarly that Unilever followed those single-use pouch deodorants, then shampoos, hair oil. They produced it, and all those things were successful. Then Unilever replicated this strategy in Latin America they brought out a detergent called Alla. So, these are one strategy that should follow low prices and also this multinational should not expect that they will get a return very quickly. Infect, that in developing countries the return may come after a substantial period may be after many years, but you have to be patient, so this is prepared to compete at a low price.

Secondly, modify business models and the strategy to accommodate local circumstances you. This is another way you should follow to capture the developing country market say, for example, Honeywell. Honeywell is an American company which is known for its industrial products and services. They were supplying it and all their products to many countries in the world, and they followed a model called their subsidy model. Own subsidy model in the countries where they were following it for 100 years. But when they went to China, they found that the local requirements and the culture of Chinese people were different. Their products are taken by the industries and all, but those industrial units not only concentrate on quality and price. Besides quality and price, they expect Honeywell also does contribute to the Chinese economy in the way of giving employment to the Chinese population of Chinese engineers.

So, Honeywell what they did create 150 positions for Chinese engineers, strategies, marketers and all. So, the Chinese companies also felt they were contributing to their economy, and Honeywell grew very fast in China. Similarly, they introduced the policy for the east when only Honeywell came to India, they also replicated this. China and India taken together have a 30% growth rate for Honeywell's global growth rate. China and India accounted for. So, this is what this is you modify your business model and strategy to accommodate the local circumstances that way you can get your competitive advantage and get the market share and can get be successful in the developing country.

Then try to change the local market for the betterment of quality, infrastructures and all. When a foreign company comes, it has many cloud people expect many things from them. And this cloud can influence the local markets, and they should take advantage of that for the betterment of quality and infrastructure improvement in that country. Take the case of Suzuki, when Suzuki came to India in the 1970s and 80s then the automotive component industry in India was the very poor quality that is not worth telling the name. So, what Suzuki did do? they tried to improve the auto component suppliers.

So, these auto suppliers and all they wanted to do it in the nearby say in India itself. So, the auto component manufacturers in India contacted the vendors of Maruti Suzuki in Japan they contacted japan and Suzuki also facilitated it. So, they could get improve the quality and get the standards required for Suzuki, and within 2 decades they improved so much that they got the ISO certifications and everything nowadays many automobile manufacturing components companies in India is global suppliers. They are supplying to the different auto giants all over the world. They are second only to japan they have acquired so many laurels and many appreciation certifications and all. The Indian companies in automobile component manufacturer that is only second to japan.

And outside japan, no other country has got it .to say take the case of Mahindra, Mahindra is now an automobile manufacturer and has got quality certifications from the top automobile federations in the world. Now they ranked number one for the new car, quality of the car and also many other laurels. So, this is the thing that a foreign company can influence to improve the quality and the infrastructure required for that country.

Then the last one is that you stay away from the developing country if it is uneconomic to modify the business model to accommodate local circumstances it is better you do not. For example, that Home Depot is a company where that requires certain prerequisites for doing business, and they were successful in Mexico which is also a developing country. But they were not successful in China and many other developing countries from where they have withdrawn then. what were the reasons that Home Depot? They have those prerequisites. the country should have good highways and a transport facility system so that their inventory holding is very less.

So, whenever they require materials or products they can be dispatched very quickly, so that is one criterion. Another criterion is to motivate the employees of their stores and issue stock options so that they feel they are part of the company and that their efficiencies and involvement go high. And the other one is that in the home buildings and all materials and all that doing we are very costly things in the USA and many other countries. That is why many people do it by themselves instead of spending money painting the room they do it in themselves. But all these attitudes are not very popular with the Chinese and all and they did not succeed.

So you stay away from those markets where it is uneconomic to modify the business model. So these are the strategies that should be followed by multinationals in a developing country.

(Refer Slide Time: 18:01)

Now I will be discussing defending against global giants. Now, what will the local companies in developing countries will do when the global companies and multinational companies threaten to enter? What strategy will the local companies adopt? These are the five strategies they should follow; one is to develop a business model that exploits shortcomings in local distribution networks or infrastructure. As foreign companies come to a new country and they may not know the actual status of the distribution networks and they will have shortcomings in those and the infrastructure. They may have the expectations that the developing country will also have these infrastructures and all to the extent of the developed countries, but the reality is very different.

So, the local players will be knowing all these shortcomings and local companies can get leverage this to confront the multinational companies. So, take the case of Shanda is a producer of that massive multiplier online role-playing games they produce. this is a Chinese company, but they do not have an advanced credit card network. So, for developed countries, it may be taken for granted, but it is very poor in China so what did Shanda do? Shanda developed the access card and distributed it through the local merchants, and they overcame the credit card network issues, so these are the local policies.

And also similarly, you see one Indian electronic company that made machines for all-purpose or machines for small traders where the small traders can do all the jobs. And the beauty of that machine is it can work in case of power outages and all which is very frequent in India. So, you can exploit the shortcomings in the local distribution network or infrastructure as a local player. Another strategy you can take is to utilize knowledge of local customer needs and preferences to create customized products or services. So, as I told you a local player knows the culture, behaviour and tastes of their population.

So, when a new company comes so they can expect two things. Most people will be loyal to the local companies, and usually, it happens. But certain sections of the population may look be attracted to the global players. So, you take that as a loss you do not think much about it, but you try to exploit your leverage with the customers who are looking for local needs, tastes, and local cultures and you take the advantage of that. For example, in the Middle East one local cell phone manufacturing company. they developed a cell phone in which the Quran was embedded. It can recite the Quran and also it can give alert the customer at the precise time of the prayer.

And during that, it will also have a compass that will show towards Mecca so that they can do the prayer at the dotted time and they can recite the Quran. So, this was very useful, and they are very popular in the Arab world in Muslim countries. So, they competed with say Apple, Samsung, Motorola and Nokia these were the major global players, so they competed with them and were successful. Similarly, 10 cents are a Shanghai-based instant messaging company, and they knew the culture, behaviour, and preference of the Chinese people, and they capitalized on it. And this instant messaging was a very successful product for them. So, this is you customize your products and services as per the local customer needs. this strategy you can follow.

Another strategy is you take advantage of aspects of the local force with the large multinational firms that may be unfamiliar with—taking the case of that focused media in China. It is an outdoor advertising company, and how they confronted the multinationals, and they have many of resources. And they took advantage of those resources to capture the markets and then focused on the media what they did do to 1,70,000 thousand billboards (electronic display boards) in 19 cities. But in the foreign companies and all. what do they change the holdings and banner and messages all periodically through the remote control and all the messages will be changed from one location control?

But focus media used a very cheap they knew they hired those local workforces and this local workforce (employees) used to go by riding a bicycle. They will take a USB drive and with that everything is programmed and they will upload it to every billboard and electronic board and all. So, this way they were very cost-effective because the wage rate for these is very low and they can compete with the global multinationals and all and be very effective. Similarly, if you see in India Infosys and all you hire their personnel from tire 2 and tire 3 cities where the average cost of people is very less.

Whereas the foreign companies when they came first the Accenture, EDS and other companies and all EDS and all. They hired it from the tier 1 city Bangalore or Bombay, or Delhi where the cost of the personnel the specialist like computer engineers is much higher. So, you take advantage of the local forces and which multinationals may not know, so you take these approaches. The fourth is user acquisition and rapid growth strategies to defend against expansion-minded internationals like when they come with their cloud, and so the small local players get intimidated. And it becomes easier for the multinational to capture the market.

But here the strategy should be that you also scale up your business and activities so that you also become very big. And how can you do that you can do it through acquisition because you have seen acquisitions gives a way for rapid growth. So, if you have that rapid growth, you get those you can confront bigger companies. In the case of Hindalco first acquired many Indian aluminium companies and became bigger not only bigger they acquired many competencies and gained many experiences. With that, they went for foreign acquisitions and bought big foreign aluminium companies and all. They managed it very well and became a wave force to reckon with on the world stage.

So that way you can counter now any foreign companies that come for the aluminium in India they have to counter the Hindalco proviso and all. Similarly, take the case of Lenovo, Lenovo is a Chinese PC-making company, but China was in a protected economy and all. But when the Chinese government liberalized foreign companies to come into the Chinese market. So, Lenovo felt the threat of dell and HP computers would come because they were the behemoth. So, what did they do? Lenovo went and acquired the IBM PC business, and with that acquisition, Lenovo got access to the IBM R&D and IBM market more than IBM's many other services.

So it captured it very well and became not only very competent in their own country. So it thwarted the threat coming from foreign players like HP and Dell computers, and they competed with them plus they forayed to the foreign markets where IBM was strong, so they captured those markets also. This is the strategy for acquisition and rapid growth to defend against any expansion-minded international.

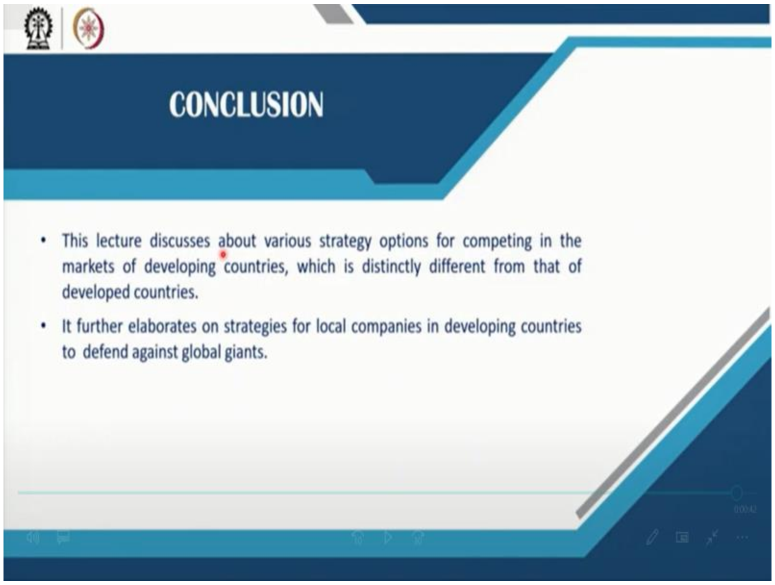
And the last strategy is you transfer company expertise to cross-border markets and initiate actions to contain on an international level. So, what do you do? I will give you an example if you are good at those activities and all. you cross the border if you have those things. Then capture the international marker just like Tele visa, Tele visa is a Mexican company, and it is a Spanish-language soap opera it produces, and it is very popular in Mexico. Now from there what did they do? they captured the market of all the countries where the Spanish language is predominant. So, they captured around 16 - 17 more countries where the Spanish language soap opera are very popular.

And this way you cross borders and leverage your expertise. They had that expertise that is why they could get that market. Similarly, if you take the case of Indian Sundaram fasteners it was a very small company. they got an opportunity to produce small auto components and all. It got a break when General Motors did not want to produce more of the radiator, and radiator cap of the car, so they thought of outsourcing it. Then Sundaram motors (the Sundaram Fasteners) participated and contacted. they became the least stream GE's list by standardizing the product, contacting the personnel, contacting the experts and they got QS 9000 certification that was one of the first companies in India to get those certifications and developed the product and became a trusted supplier of GE and also became the GE's list of component suppliers.

So, then they became acceptable to many auto manufacturers in the world. And in this way, they developed that expertise in many auto component products, and they are one of the now leading auto companies manufacturing components products in Asia and in the world. So, you transfer company expertise to cross border market. This way can locally company in a developing country can defend themselves from the onslaught of global multinationals.

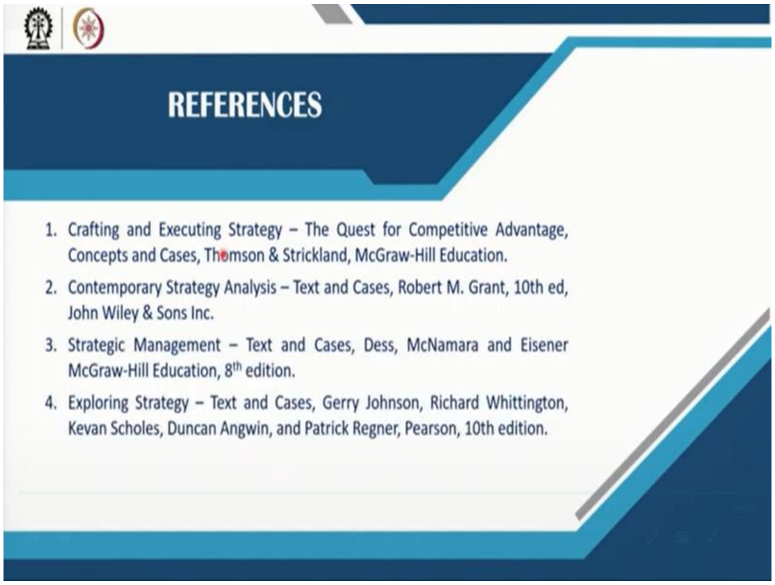
These are the five strategies company's local companies in developing countries should follow to confront multinationals.

(Refer Slide Time: 34:40)




So, to summarize today's lecture in this. We have talked about various strategy options for competing in the markets of a developing country which are distinctly different from that of developed countries. Also, we have elaborated on strategies for local companies in developing countries to defend against global giants.

(Refer Slide Time: 35:10)




So, these are some of the references one can go through and to enrich you further in this way we have completed the international strategies for competing in a competitive global market. Next module we will be going for the strategy implementations. Thank you very much for attending the lecture.

(Refer Slide Time: 35:40)