Survival strategies for local companies in emerging markets

ASSIGN BUSTER

This article sets out to to define the alternative strategies that are adopted by the local companies when they are confronted by a multinational corporation. As such these local companies carry a proper SWOT Analysis of their own company and set out to decide on a strategy based on the results of that analysis.

Introduction

In battles for emerging markets, big multinationals don’t hold all the advantages. However, local markets do get affected. The local markets suddenly face foreign multi-national rivals with many advantages: in terms of financial technology, financial resources, superior products, powerful brands, and seasoned marketing and management skills. Often, the survival of the local players in the markets that are emerging is at stake.

Many questions arise in the mind of the local player as to define ways to overcome this new but powerful entrant into the local market. Many of the local players seek the help of the government to reinstate trade barriers or any kind or form of support. They have two options:

To become a subordinate partner to a multinational or

Simply selling out and leaving the industry.

Two key questions that needs to be addressed by every manager in emerging markets:

How strong are the pressures to globalize in the industry?

How internationally transferable are the company’s competitive assets?

Once these questions have been addressed, a local player can better understand the basis for competitive advantage in the industry and the strengths and weaknesses of the multi-national rivals.

Just because a multinational enters the local market, it does not mean that they have a better advantage over the local player considering the brand that they have developed in the international market.

To answer the first question, the company must understand the products that they are manufacturing. For example, aircraft manufacturers, computer chips and telecommunication switches have to seek to globalize because they have an enormous fixed cost for their product development and they can only survive by selling in multiple markets. Moreover the products that they seek to globalize are standardized products and customers are satisfied with that.

On the other hand, there are other industries that seek to gain success by meeting the local needs of the customers. This way they get closer to the customer and understand their wants and needs. For example, in retail banking companies try to build a relationship with the customers by catering to their needs. Consumers differ differently in their tastes. Their preferences vary enormously because of different tastes and different customs. Multinationals selling their standardized products will never be able to cater to these local needs. Alternatively, high transportation costs in these markets may discourage the multinational presence.

When we closely look , most industries lie somewhere in the medium spectrum. They sell internationally as well as try to cater to the local needs.

Managers of companies must try and identify their presence in the spectrum. Industries that seem similar may be far apart on the spectrum—pressures to globalize as in the case of Bajaj when it thought that it had to globalize its scooter products the minute Honda stepped in to the market. However, Bajaj found out that customers seek low-cost durable products and not the Honda’s standardized products. Moreover, Bajaj has the advantage of handling distributors in the country. Its distribution network is well diversified within the country which is almost impossible for a multinational to compete with it. Bajaj had this competitive advantage. Moreover, companies operating in the local markets may have good relationships with the government and they readily get the government support which is not possible for foreign nationals. Or, they may have distinctive products that appeal to the local customers which the foreign nationals are not able to produce cost effectively.

So effectively, there are two parameters by which managers will have to decide when they seek to have a competitive advantage against a foreign but huge national.

The Strategies Adopted

Companies adopt different strategies when dealing with foreign nationals in the local markets:

Defender: Focus on supplying local assets in segments where multinationals are not doing too well or weak

Extender: Focus on expanding into international markets similar to those of the local market, using the competencies that had been developed at home.

Dodger: Focus on creating a synergy viz. by entering into a joint venture with the multinational , or allow to be acquired by the multinational.

Contender: Focus on upgrading the company’s capabilities and resources so as to be able to match foreign nationals or multinationals globally, often by concentrating to niche markets

1. Defender (TonyFrost 1999):

Companies adopt this strategy when the pressure to globalize in the industry is low and their competitive assets can be customized or served to the home market. These companies have the advantage of better distribution and better understanding and coping with the local differing tastes.

For example, when Honda entered in to the market, Bajaj did not try to compete with Honda’s products. Bajaj found that customers seek low-cost durable products and not Honda’s standardized products. Moreover, Bajaj has the advantage of handling distributors in the country. Its distribution network is well diversified within the country which is almost impossible for a multinational to compete with it. Bajaj had this competitive advantage. Moreover, companies operating in the local markets may have good relationships with the government and they readily get the government support which is not possible for foreign nationals. Or, they may have distinctive products that appeal to the local customers which the foreign nationals are not able to produce cost effectively.

Similarly, there are other companies that do not seek to compete with the multinationals but they have a competitive advantage over the foreign

nationals primarily with the fact that they can reach better to the rural markets and seek the support of the government.

2. Extender (TonyFrost 1999):

Companies that adopt this strategy are those that have developed quite well in the home market and are using their competency to extend to the global market. This strategy is adopted by companies when the pressure to globalize is not so high. Companies that adopt this strategy are those that seek to try and provide the same products that is being offered in the home market to customers living abroad. For example, Jollibbee a Mexican fast food store did not try to compete with McDonalds when this huge multinational tried to enter its market. Rather, it concentrated on its competency in the Mexican market and tried to follow Mexicans all over the world by providing and catering to Mexican populated colonies in the world. Similarly, most television channels are seeking to adopt the same strategy. NDTV can be viewed by Indians who are in Canada, USA and the other countries. This way, they keep in touch with their customers and seek to find out their differing needs and tastes.

3. Dodger (TonyFrost 1999):

When the pressure is high to globalize and the company does not possess any transferable assets, companies seek to connect a link to their value chain and either enter into a joint venture with a multinational by synergizing their operations in the market or allow itself to be acquired by the multinational company. In such a case, companies have no other option but to dodge the competition in the market.

For example, the Indian ice cream market has a dominant player viz. Kwality Walls. Kwality sold its brand and assets to Unilever and now it is the leading ice cream player in the country. Kwality knew that it would not be able to compete with Unilever and so it allowed itself to be acquired by this multinational. Similarly, when Russia became a liberalised economy and Iron Curtain dropped down, Vist , a Russian local personal computer manufacturer did not try to compete with the American or Japanese multinational manufacturer. Rather, it concentrated on the distribution system of PCs in the country. The distribution system in Russia is marked by corruption and theft and it becomes almost a difficult task for a foreign national to carry out operations in Russia. This way, Vist seeks out to help the foreign nationals in the distribution of the multinational's products because they being a local player will know all about the ins-and-outs of the country. As a result, they establish an important link in their value chain and seek to help out these companies.

4. Contender (TonyFrost 1999):

When the pressure is high to globalize and the company's assets are transferable abroad, companies adopt the Contender strategy. These companies try to compete with the multinational companies by continuous upgradation and improvement in their overall operations but they try to stick to the niche that they have created and maintained all over the years.

For would be contenders that lack access to key resources, finding a distinct and defensible market niche is vital.

For example, when General Motors decided to outsource the production of radiator caps for its vehicles, Sundaram Fasteners seized the opportunity to go global. Sundaram bought the entire production line of General Motors, moved it to India, and within a year it became the sole supplier of radiator caps to General Motors. This way it not only supplied the materials but it also got involved in the Supply chain of GM and understood the changing needs of customers.

So it is important for every company to know where they stand in terms of competitive advantage when a new but huge multinational enters a local market.