

2016 BCG GLOBAL CHALLENGERS

GLOBAL LEADERS, CHALLENGERS, AND CHAMPIONS

THE ENGINES OF EMERGING MARKETS



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NEARLY FULL SPEED AHEAD

THE RECENT STRUGGLES OF emerging markets are so well known that it can be hard to distinguish the fast-growing trees from the forest. Despite the slowdown in macroeconomic growth, the drop in commodity and currency prices, the crash of equity markets, and the rise of geopolitical risks, the top companies from these markets have kept on expanding overseas.

The economies of some emerging markets may have paused, in other words, but not their strongest and most global companies.

The global challengers, BCG's list of 100 rapidly globalizing companies from emerging markets, are doing just fine.

BCG published its first list of global challengers ten years ago to highlight the achievements of companies that, in the words of the accompanying report, were "changing the world." If anything, we underestimated in that report the future potential of the global challengers—and the larger group of successful emerging-market companies to which they belong. (See the sidebar "A Tale of Three Mar-

A TALE OF THREE MARKETS

In the last several years, companies from emerging markets have grabbed market share from multinationals in several key categories within countries. Here are just three examples:

- **Handsets in China.** Local players, notably Meizu, Oppo, and Xiaomi, increased their share of this expanding market from 19% to 57% from 2009 through 2014. Multinationals grew handsomely, at 24% annually, but local players grew more than twice as fast.
- **Cement in Kenya.** Multinational cement makers increased their revenue

by 8% annually in Kenya from 2009 through 2014, so they may think they are doing well. In fact, their market share dropped from 55% to 40% because local companies are growing more than three times faster.

- **Business Process Consulting in India.** From 2006 through 2014, the market share of multinational business process outsourcers dropped from 85% to 61%, while Indian companies more than doubled their global market share. Indian BPOs, such as Tata Consultancy Services, have grown at three times the rate of similar multinational companies.

kets.”) In this, the tenth anniversary of that inaugural list, we look more broadly at emerging markets and the dynamic companies that they produce. These include a group of nearly 1,500 companies we call “champions,” which are smaller than the challengers but still growing and expanding impressively. Collectively, the challengers and champions are powering ahead, undaunted by the concerns of Western analysts and commentators.

Despite the recent slowdown, emerging markets have benefited tremendously from years of compound growth. For example:

- The top companies from emerging markets grew three times faster than their counterparts in mature markets from 2009 through 2014. (See Exhibit 1.) From 2005 through 2014, the average revenues of the largest emerging-market company in each of 63 industrial sectors expanded from \$15 billion to \$43 billion. Revenues for Huawei, for example, ballooned to \$61 billion in 2015, a 37% increase from the prior year. In IT services, India’s Tata Consultancy Services and HCL Technologies have achieved double-digit growth almost every year.
- In sectors as varied as household appliances, construction and engineering,

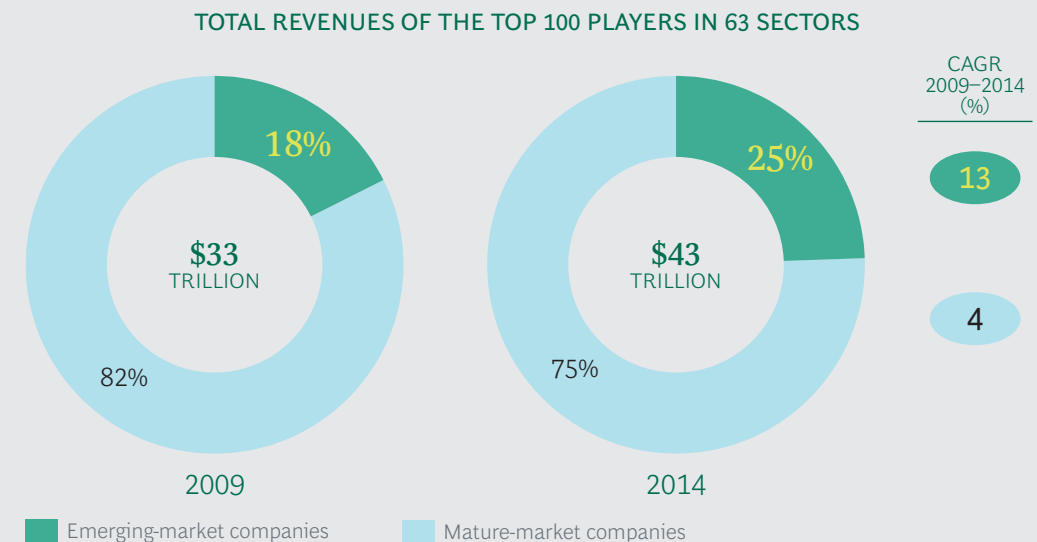
industrial conglomerates, construction materials, and real estate development, companies from emerging markets have captured global market shares exceeding 40%. For example, the three air conditioning manufacturers with the largest market share in the world are China’s Gree, Midea, and Haier.

To be sure, the road ahead will be more challenging than the one just traveled. Despite the growing middle class and increasing disposable income in many of these markets, global challengers are not immune to macroeconomic forces. They cannot necessarily count on the purchasing power of mature markets to fuel growth or on foreign investors to fund their capital needs. More than \$500 billion of net capital flew out of emerging markets in 2015. Commodity players cannot depend on China’s once insatiable appetite for raw materials.

Still, we are bullish on the long-term growth of many of these markets and even more so on the homegrown companies they have produced. Global challengers know how to win in volatile and uncertain times.

These companies are still developing world-class capabilities. And unlike ten years ago, when their primary competitors were multi-

EXHIBIT 1 | Emerging-Market Companies Have Grown Three Times Faster Than Mature-Market Companies



nationals, global challengers today face a new generation of local competitors. Finally, both the challengers and their homegrown competitors are vying for a pool of local revenues that is expanding less quickly, forcing them to seek growth elsewhere. Given these headwinds, global challengers—and companies that aspire to that status—must focus equally

on growth and competitiveness. We still expect the overwhelming majority of them to thrive in this new world order. They are proven winners.

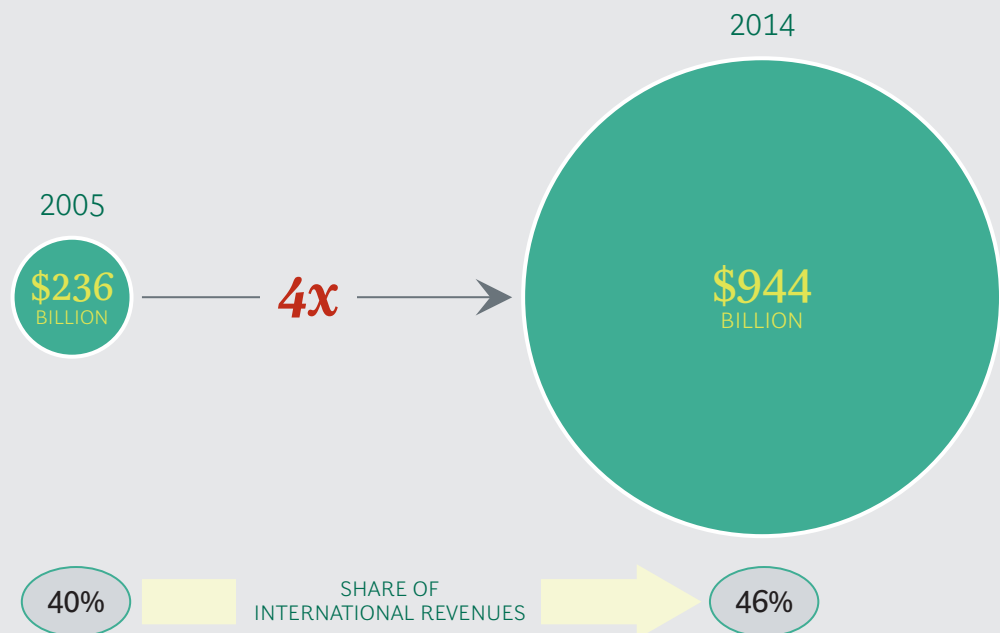
WINNING WAYS

TEN YEARS AGO, WHEN we launched the Global Challenger series, we wanted to introduce companies from emerging markets that were competing on the global stage but still flying under the radar. We anticipated that these companies would become potential competitors, customers, partners, and

M&A targets. We also predicted that they would “radically transform industries and markets around the world.” On both counts, the global challengers have stood the test of time. They have moved into the global spotlight by dramatically increasing their share of overseas revenues. (See Exhibit 2.)

EXHIBIT 2 | The Challengers Have Quadrupled Their International Revenues

INTERNATIONAL REVENUES OF THE GLOBAL CHALLENGERS



Sources: CapitalIQ; BCG analysis.

Note: Based on the financial results of the 97 companies (out of 212 past and current challengers) for which international sales data are available for 2005 and 2014.

And they have reshaped the landscape of their industries and of key geographic markets.

Where Are the Past Challengers Now?

While becoming a global challenger is a worthy achievement, the ultimate goal for many companies is to “graduate” from the list, effectively becoming peers of mature-market multinationals whose rule they have disrupted.

Of the 193 global challengers selected over the past ten years (and described in six previous reports), 19—or 10%—have become global leaders.¹ Here we name seven new graduates, a sign of further maturation. (See the sidebar “Meet the Graduates.”) Put in historical perspective, this is an impressive number. Compared to the time it took to build today’s multinationals, such as General Electric and Toyota, ten years is a lightning flash. Given the rapid change in emerging markets, we expect the next ten years to generate a comparable or even larger number of graduates.

MEET THE GRADUATES

Global challengers live in a sort of halfway house between their home markets and the global economy. They have global aspirations and global footprints but not necessarily global leadership. Graduates, on the other hand, have made the full transition. They have annual sales exceeding \$10 billion, are top-five players in their industries, generate at least half their revenues overseas, and expect to maintain a global footprint and operations. Here are the seven new graduates.

- **América Móvil (Mexico).** This telecom operator has the third-largest number of mobile subscriptions globally and a 43% share of the Latin American mobile market. With operations in 25 countries, the company plans to increase its wireline presence in Eastern Europe.
- **Gazprom (Russia).** This energy company is the largest producer of natural gas in the world, with a 19% share. It expects 30% of its revenues to come from Asia by 2025.
- **Hindalco (India).** The third-largest producer of aluminum globally has cushioned itself from the financial effects of the collapse in commodity prices through diversification. In particular, its copper business and its 2007 acquisition of Novelis, a producer of rolled aluminum based in the US, have helped smooth out the commodity cycle.
- **JBS (Brazil.)** The largest meat producer in the world has expanded globally through acquisition. It has production facilities in 24 countries and sales in more than 300 countries.
- **Johnson Electric (China).** This supplier of motors and other motion components for the auto industry has plants in China, India, Mexico, the US, and several European countries. It also has innovation and design centers throughout Asia, Europe, and North America.
- **Tata Consultancy Services (India).** This IT outsourcing and consulting company grew by 15% last year, compared with less than 2% for the overall industry. It has 29 customers, each with annual billings exceeding \$100 million, and offices in 46 countries.
- **Tata Motors (India).** India’s largest car maker is also the second-largest bus maker globally and the fourth-largest truck maker. Tata bought Jaguar Land Rover in 2008 and turned the brand around; it now has the largest share of the UK auto market.

The remaining challengers that we identified in past reports are not standing still. Most of them continue to be challengers. In other words, they are still growing and globalizing impressively.

Of course, given the volatility of emerging markets, not all challengers have remained at the top of the globalization game. Some have been acquired or have refocused on local markets. Others are still growing but less so than their successors. A few have suffered lapses in corporate governance that were not initially evident. A vanishingly small number have been flat-out disappointments. Only 2% of the 193 global challengers are now losing money and shrinking in size. In other words, 98% of the challengers are still strong businesses. (See Exhibit 3.)

If the last ten years represented the coming of age of emerging markets, then the overall list of 193 challengers reveals trends that

have stood the test of time. We identify several below.

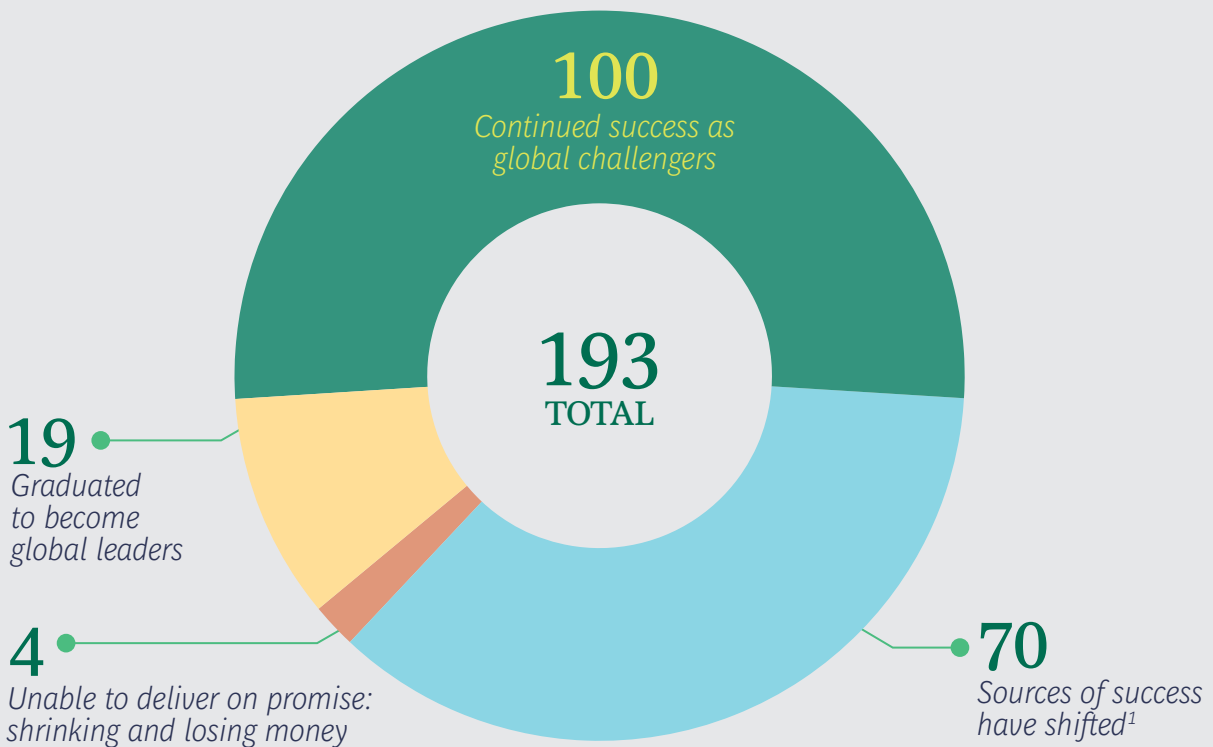
The Global Footprint of B2B Companies

On past lists, companies that sell to other companies have done better than consumer companies, constituting between 63% (the current percentage) and 75% of the global challengers. (See Exhibit 4.) Generally, B2B markets are more global than B2C markets. The similarity of business needs for goods and services across markets allows these companies to build global scale more easily than many consumer-oriented companies.

In particular, commodity companies and engineered products and infrastructure (EPI) companies—a broad group that encompasses construction and manufacturers of heavy industrial equipment and wind turbines, for example—have excelled at globalization over

EXHIBIT 3 | Global Challengers Have Proven Their Worth

PERFORMANCE OF THE 193 GLOBAL CHALLENGERS

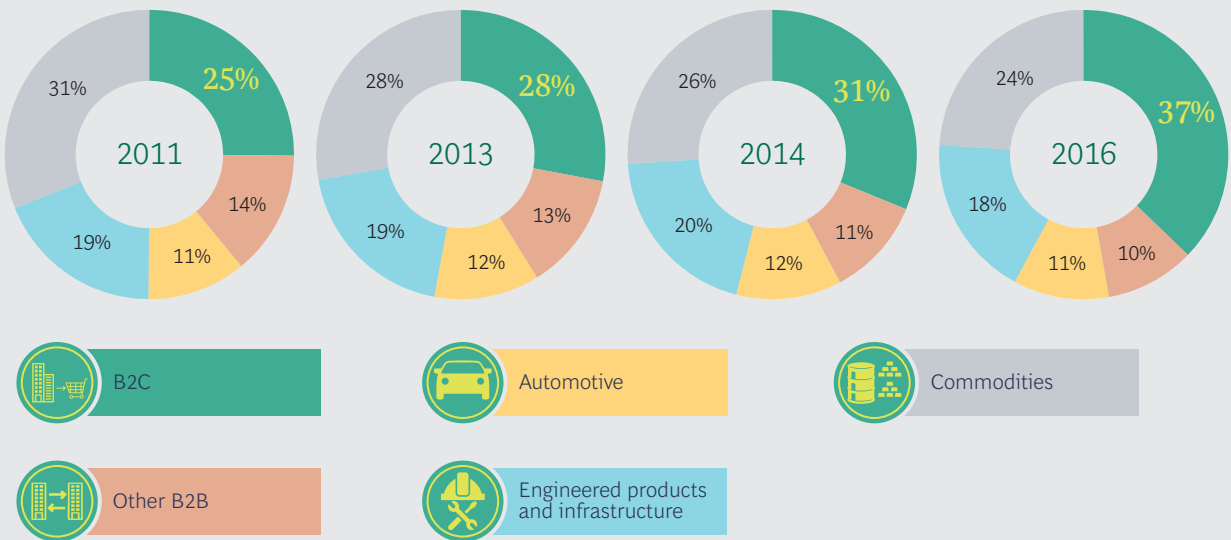


Sources: BCG global challenger database; BCG analysis.

¹The company was acquired, it adopted a local strategy, or it is still growing but less so than its successors.

EXHIBIT 4 | B2B Companies Still Make Up Nearly Two-Thirds of the Challengers

BUT B2C COMPANIES ARE STARTING TO MAKE INROADS



Sources: BCG global challenger database; BCG analysis.

the past ten years. (See Exhibit 5.) But their sources of success are different.

- Commodity Companies.** Commodity companies from emerging markets have succeeded globally by keeping their costs low while achieving global quality standards. They have also benefited tremendously from China's thirst for natural resources.

Few fast-moving-consumer-goods companies make the global challengers list.

- EPI Companies.** EPI companies break into two broad groups: construction companies and heavy-equipment manufacturers. The construction companies have benefited from massive spending in their home markets, which they have parlayed into success in other emerging markets. Heavy-equipment manufacturers, on the other hand, started at the low end to acquire scale and then invested in R&D and innovation as a way to expand into new segments.

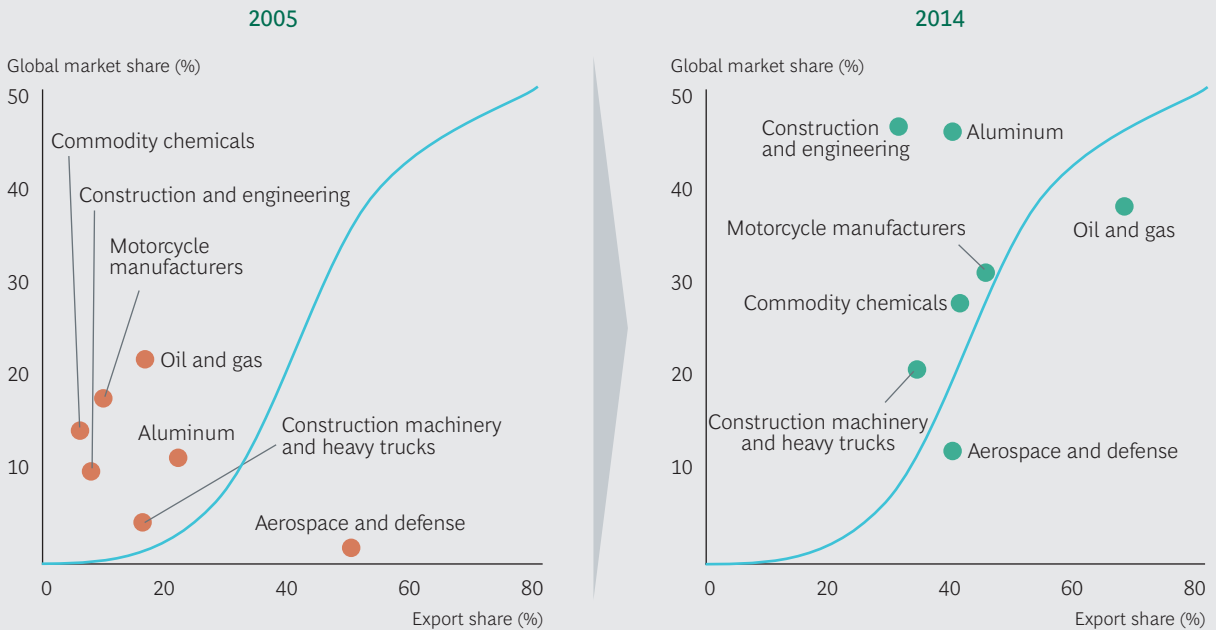
A word of caution: the end point for most of our analysis in this report is 2014, before the drop in commodity prices and the slowdown in infrastructure spending, so it remains to be seen how the composition of future lists of global challengers may change.

The First Wave of Consumer Challengers

Consumer companies historically have been underrepresented on the global challengers list. (See Exhibit 6.) There are plenty of successful consumer-oriented companies, but relatively few global fast-moving-consumer-goods companies. Instead, many of the global consumer companies based in emerging markets have relied on low costs (the Chinese appliance makers, for example) or on access to commodities (the Brazilian and Southeast Asian food manufacturers).

A few have also emerged from capital-intensive, highly regulated industries, such as airlines and telecoms. Middle Eastern air carriers, for example, have benefited from their hubs in an important long-haul region that was less affected by the global financial crisis, while the Asian and Latin American airline challengers have offered better routes and lower costs than most of their regional competitors.

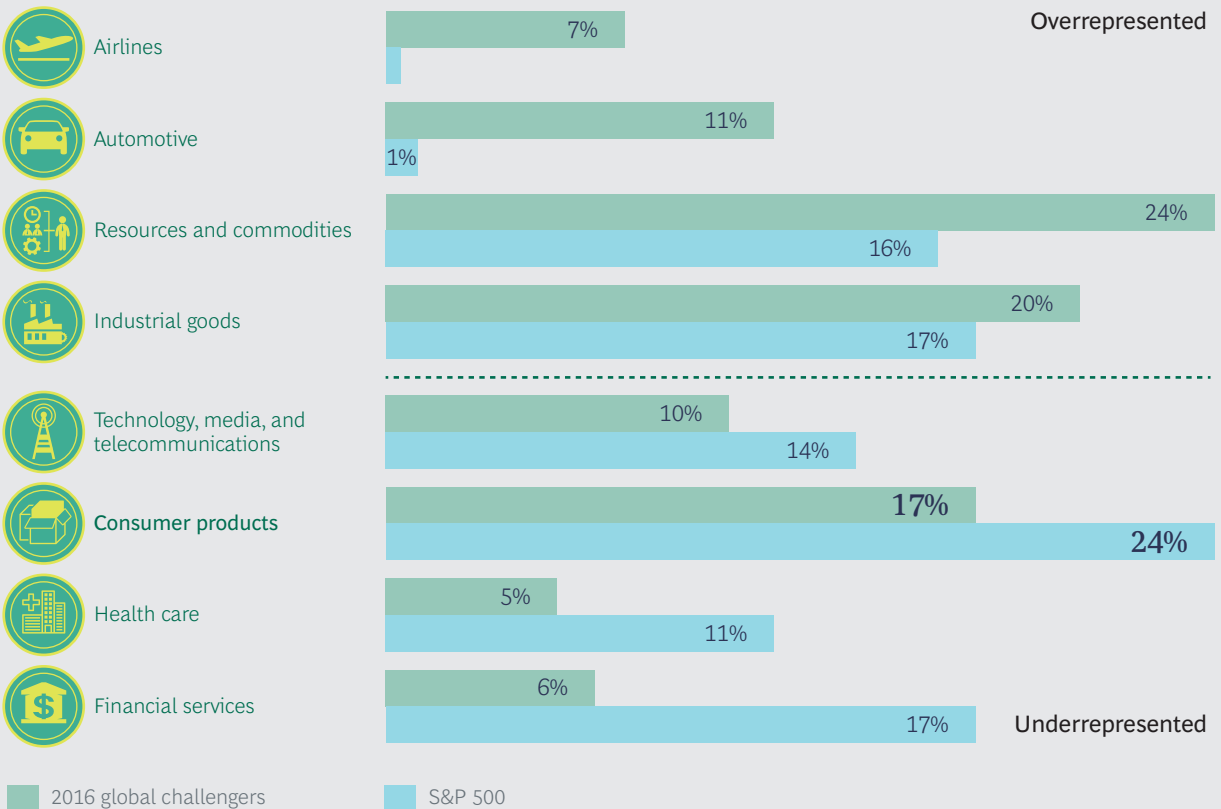
EXHIBIT 5 | Commodity and EPI Companies Have Increased Market and Export Share



Sources: CapIQ; BCG analysis.

Note: Export share is emerging-market companies' average share of the international revenues of the top 100 companies in each industry. Global market share is emerging-market companies' share of the overall revenues of the top 100 companies in each industry.

EXHIBIT 6 | Consumer Companies Are Underrepresented Among the Challengers



Sources: S&P 500; BCG global challenger database; BCG analysis.

Note: The S&P 500 includes only two airlines.

Fast-moving-consumer-goods companies, on the other hand, require superior consumer insight, branding, and go-to-market execution—skills that many emerging companies are just starting to master. To be fair, many consumer companies may not feel the need to expand globally. First, they can find growth close to home. The swelling middle classes in their own and nearby markets may be providing them with ample opportunity to become regional powerhouses, as we discuss later. Second, consumer companies that are privately owned may simply not want to take the risks associated with globalization when they are doing fine close to home.

But, as we will see in the next chapter, the market is in flux. As these companies mature, they are starting to achieve and even exceed the capability levels of multinationals.

The Strategic Importance of M&A

Challengers and other leading emerging-market companies increasingly are engaging in

M&A as a way to achieve key strategic goals. Often they are trying to acquire scale, new markets for growth, intellectual property, and critical capabilities. Deals are no longer simply vehicles to secure natural resources but catalysts to re-engineer companies to compete more effectively in the global economy. For example, China National Chemical Corporation's \$43 billion offer to buy Syngenta, a Swiss seeds and pesticide company—if successful—would help China boost agricultural production and feed its population.

NOTE

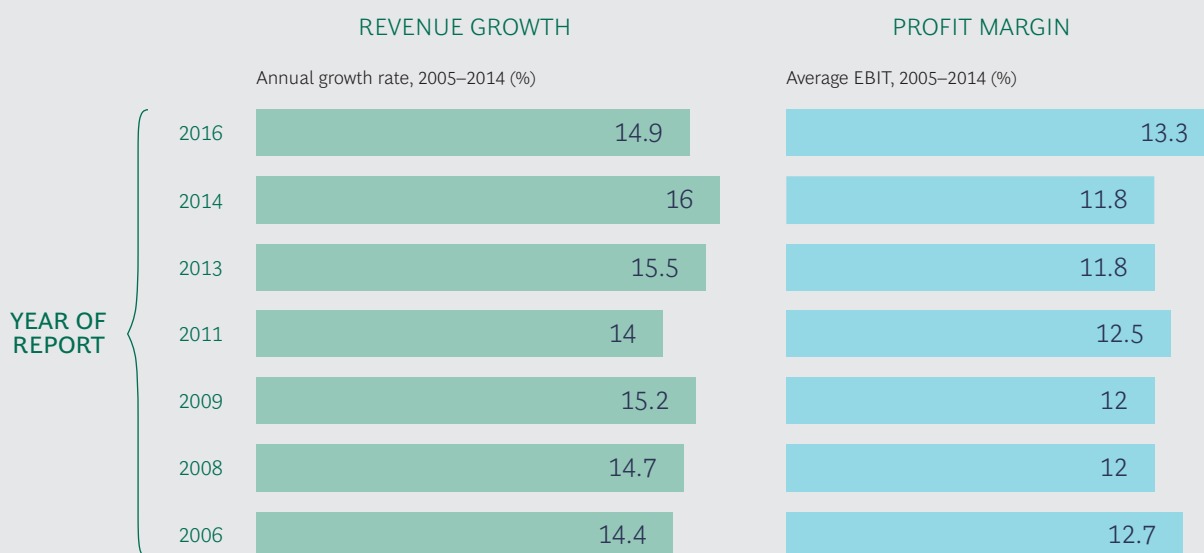
1. We selected 212 global challengers over the past ten years, only 193 of which provided complete company or industry financial information.

MEET THE NEW CHALLENGERS

TURNING THE SPOTLIGHT TO the 2016 list, we see the latest global challengers continuing to show strong performance. Despite economic turmoil in emerging markets, they have maintained both their growth rates and profit margins. (See Exhibits 7 and 8.) The global challengers nearly quintupled their share of overseas revenue from 2005 through 2014. Not surprisingly, this performance has translated into strong total shareholder returns, even with the downturn in 2015. (See Exhibit 9.)

But the numbers tell only part of the story. What are these companies exactly, and where do they come from? (See Exhibit 10.) Outwardly, there has been little shift in the industry or geographic mix of the global challengers. Industrial goods is still the sector with the largest number of challengers; among countries, China and India come out on top. (See Exhibit 11.) This high-level view, however, does not capture many of the undercurrents that are starting to ripple to the surface.

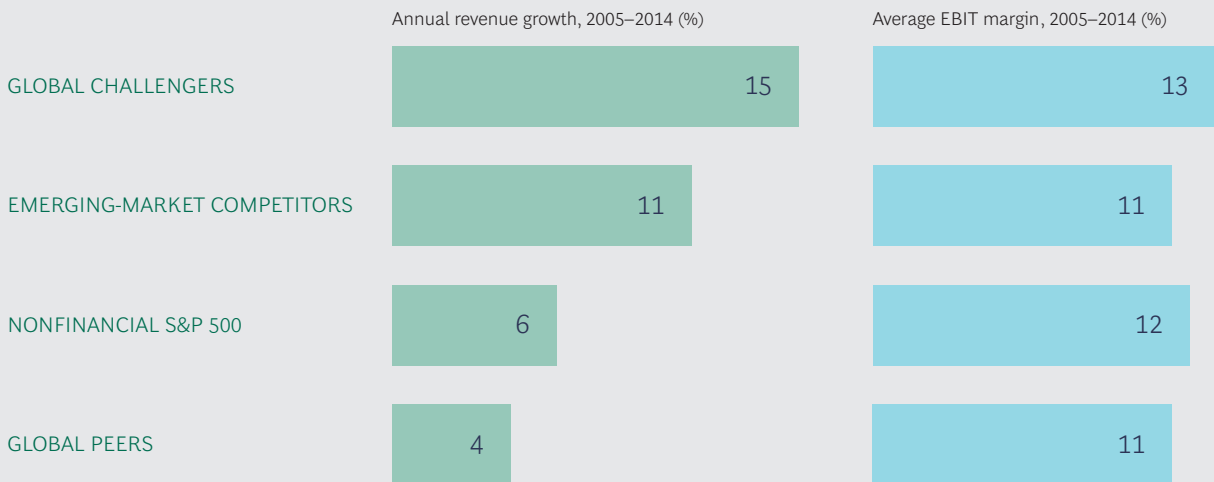
EXHIBIT 7 | Revenue Growth and Margins of the Challengers Are Holding Steady



Sources: CapitalIQ; BCG analysis.

Note: The average revenue and EBIT margins are weighted by revenue.

EXHIBIT 8 | The Challengers Have Outperformed Their Competitors



Sources: CapitalIQ; BCG analysis.

Note: Based on the financial results of 112 past and 100 current global challengers, 285 global peers, and 413 nonfinancial companies listed on the S&P 500 index. Only those companies included for which sales and margin data are available for 2005 through 2014. Global peers are multinational companies that operate in the same industries as the global challengers. Emerging-market competitors consist of emerging-market companies among the top 100 companies in 63 select sectors, excluding challengers, graduates, and champions.

EXHIBIT 9 | The Challengers Outperform Stock Indices, Despite the 2015 Downturn



Sources: Datastream; BCG analysis.

Note: The index base of 100 was set using data for January 1, 2000, and the data was analyzed through December 31, 2015. The indices are market-cap-weighted. The global challenger index is based on data from 85 global challengers, and the global peer index is based on 231 publicly listed companies. Global peers are defined as multinational companies from mature markets that operate in the same industries as the global challengers. This chart has been updated using a new data source and corrected analysis.

EXHIBIT 10 | The Latest List Includes 15 New Challengers and 7 Graduates

ARGENTINA

- Tenaris

BRAZIL

- BRF Brasil
- Braskem
- Embraer
- Gerdau
- Iochpe-Maxion
- Marcopolo
- Natura
- Petrobras
- Tigre
- Votorantim
- WEG

CHILE

- Concha y Torro
- Falabella
- LATAM

CHINA

- Alibaba
- Aviation Industry Corp. of China
- China Communications Construction Co.
- ChemChina
- China Eastern Airlines
- China Minmetals
- China Shipbuilding
- China International Marine Containers
- CITIC Group
- China National Offshore Oil Co.
- China Railway Construction Corp.

- Dalian Wanda
- Fuyao Glass Industry Group
- Geely
- Goldwind
- Haier
- Mindray
- PetroChina
- Shanghai Electric
- Sinochem
- Sinohydro
- Sinoma
- Tencent
- Trina Solar
- Unionpay
- Wanxiang
- Xiaomi
- Zoomlion

COLOMBIA

- Grupo Empresarial Antioqueño

EGYPT

- Elsewedy

INDIA

- Apollo Tyres
- Bajaj Auto
- Bharti Airtel
- Dr. Reddy's Laboratories
- Godrej Consumer Products
- Infosys
- Larsen & Toubro
- Lupin
- Mahindra & Mahindra

- Motherson Sumi Systems
- Reliance Industries
- Sun Pharmaceuticals
- Tech Mahindra
- UPL
- Vedanta Resources
- Wipro

INDONESIA

- Golden Agri-Resources
- Indofood

MALAYSIA

- AirAsia
- Axiata Group Berhad
- Petronas

MEXICO

- Alfa
- Femsa
- Gruma
- Grupo México
- Mexichem

MOROCCO

- Groupe OCP

PERU

- Alicorp
- Grupo Gloria

PHILIPPINES

- Ayala Corp.
- DMCI Holdings
- Jollibee Foods Corp.
- Universal Robina Corp.

QATAR

- Qatar Airways

RUSSIA

- EuroChem
- Lukoil

SAUDI ARABIA

- SABIC

SOUTH AFRICA

- Aspen Pharmacare
- Bidvest
- Discovery Limited
- MTN
- Sasol

THAILAND

- Charoen Pokphand Foods
- Indorama Ventures
- PTT
- ThaiBev
- Thai Union Group

TURKEY

- Koç Holding
- Pegasus Airlines
- Sabanci Holding
- Turkish Airlines
- Yildiz Holding

UNITED ARAB EMIRATES

- Emirates Global Aluminum
- Etihad Airways
- Etisalat

GLOBAL LEADERS AND 2016 GRADUATES

BRAZIL

- JBS
- Vale

CHINA

- Huawei Technologies
- Johnson Electric
- Lenovo Group
- Li & Fung

INDIA

- Hindalco
- Tata Consultancy
- Tata Motors
- Tata Steel

INDONESIA

- Wilmar International

MEXICO

- América Móvil
- Cemex
- Grupo Bimbo

RUSSIA

- Gazprom

SAUDI ARABIA

- Saudi Aramco

SOUTH AFRICA

- Anglo American
- SABMiller

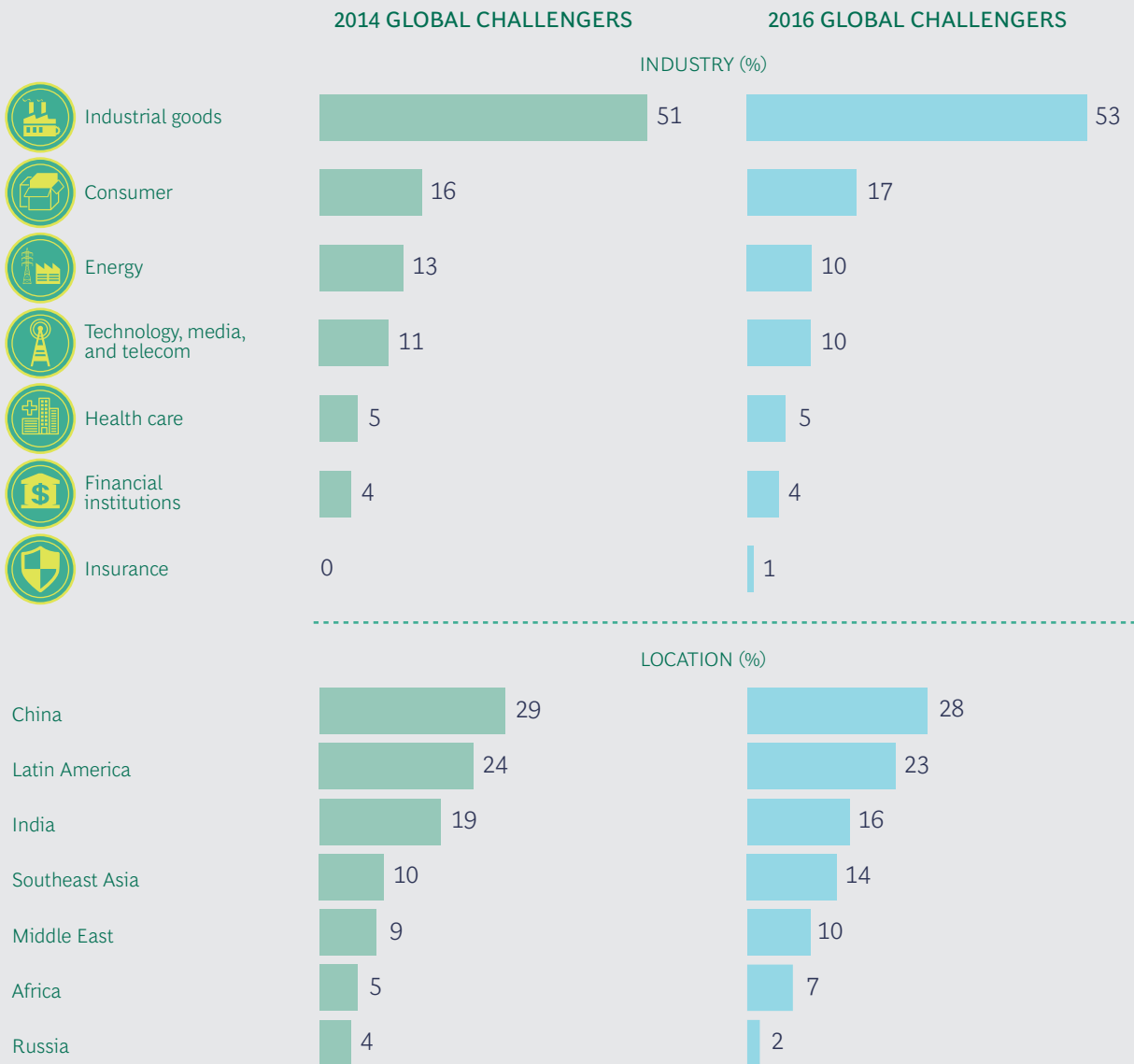
UNITED ARAB EMIRATES

- Emirates Airlines

Source: BCG analysis.

Note: Companies in green are new challengers or graduates.

EXHIBIT 11 | The Challengers' Industry and Geographic Mix Has Changed Very Little



Sources: BCG global challenger database; BCG analysis.

One shift is that resource and commodity companies may have passed their high-water mark. These companies have always made up a healthy share of the global challengers. And they do so in this year's report as well, accounting for 24% of companies on the list. But between 2014 and 2016, the number of challenger energy companies declined from 13 to 10. And none of the new challengers is solely in the resource or commodity business. (The new challenger Grupo México is also active in railroads.) Moreover, as noted earlier, the effect of the drop in commodity prices that occurred in 2015 is not reflected in the composition of this year's list.

Another trend is the rise of a new breed of consumer companies. The consumer-oriented challengers on this year's list are moving beyond advantages based on cost and access to raw materials such as palm oil. They include Dalian Wanda, a luxury hotel and resort developer from China, and Discovery, a financial services firm from South Africa.

The new challengers are also appealing to the digital needs of the expanding middle class in emerging markets. Two prime examples are Axiata, a leading regional telecom operator, and Xiaomi, a maker of smartphones. Remarkably, the revenues of device

makers from emerging markets grew eight-fold from 2005 through 2014, reaching \$211 billion. While many device makers are winning with low-cost products, others are increasingly investing in innovation and R&D.

Several other new challengers are likewise emblematic of larger themes. The emergence of China Eastern Airlines and Pegasus Airlines as challengers reflects the rise of air carriers in emerging markets. From 2005 through 2014, the revenues of such airlines tripled, and their global market share rose from one-fifth to one-third. Seven airlines based in emerging markets are now global challengers, compared with none ten years ago. (See Exhibit 12.)

Pharmaceutical companies based in emerging markets have also grown rapidly, from \$8 billion in revenues in 2005 to \$80 billion in 2014. This growth reflects both inroads in mature markets and rising health care spending in emerging markets. Lupin Pharmaceuticals and Sun Pharmaceuticals, both of India, have completed acquisitions to round out their

product portfolios. Indian companies now have a 20% global market share for generic drugs and own 22% of pharmaceutical plants approved by the US Food and Drug Administration. (See the sidebar “The Sun Machine.”)

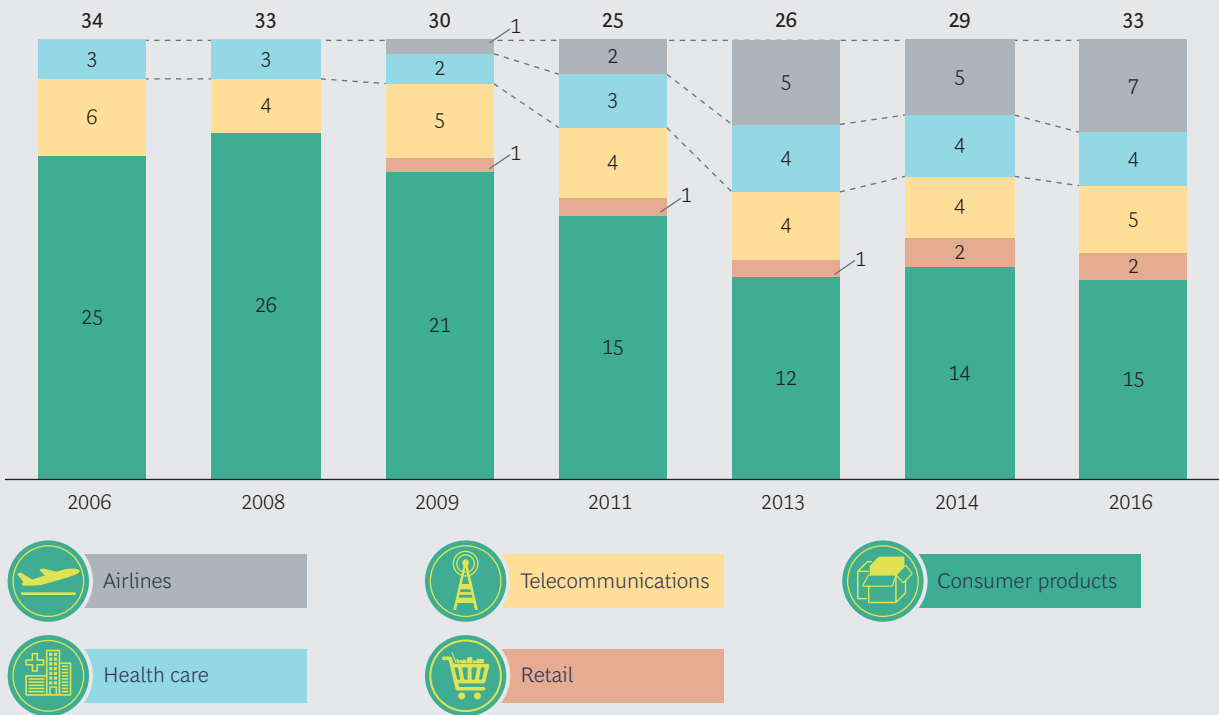
Few global media companies have launched from emerging markets, although that may be starting to change. China’s Alibaba has investments in several online media properties, and Dalian Wanda is buying a majority stake in Legendary Entertainment, a Hollywood studio.

Building and Supplying the World

Emerging markets continue to play a significant role in supplying the world’s raw materials and meeting the infrastructure needs of both emerging and mature economies. That role is in flux, however, and most of the new challengers in this category are emphasizing integration, value-added services, and other higher-end capabilities. The name of the game is no longer simply low cost.

EXHIBIT 12 | Airlines Have Gained Among the Challengers

GLOBAL CHALLENGERS IN B2C SECTORS



Sources: BCG global challenger database; BCG analysis.

Note: Two technology companies (Tencent and Alibaba), one media company (Naspers), one insurance player (Discovery), and one EPI player (Dalian Wanda) are not included in the figures for 2013, 2014, and 2016.

THE SUN MACHINE

Just a decade ago, Sun Pharmaceuticals was a successful, midsized company in India with \$300 million in sales. But like so many other challengers, the company was restless and eager to expand. Powered largely by both overseas and domestic mergers and acquisitions, Sun recorded sales of \$4.4 billion in fiscal year 2015 and has a portfolio of more than 2,000 products.

Since 2005, Sun has nearly doubled its percentage of overseas sales, from 39% to 74%. It has established manufacturing facilities on five continents and in 14 countries, including Bangladesh, Hungary, Malaysia, Nigeria, and the US. In fact, the US accounts for half of Sun's sales, while other emerging markets account for 14% of revenues.

Since 2010, Sun has completed 11 acquisitions to achieve both geographic reach and portfolio expansion. Its 2015 acquisition of the US company InSite Vision, for example, strengthened its ophthalmic portfolio, while its acquisition of Ranbaxy the same year strengthened its generics footprint in emerging markets.

While Sun remains primarily a generics manufacturer, it is increasing investments in specialty and complex products with higher margins.

- **Braskem (Brazil).** Braskem is the largest producer of thermoplastic resins in the Americas. The company manufactures polypropylene, polyethylene, PVC, and basic petrochemicals. It has grown both organically and through acquisition. Braskem entered the global market with the acquisition of Sunoco Chemical in 2010 and Dow's polypropylene business in 2011.
- **DMCI Holdings (Philippines).** The main businesses of this conglomerate are power generation, property development, construction, mining, and water distribution. The growing economy and population of the Philippines are increasing demand for energy, infrastructure, water, and real estate. Despite softening nickel and coal prices, operational efficiency has helped DMCI Holdings's mining business continue to generate value.
- **Grupo México (Mexico).** This conglomerate is the fourth largest copper producer in the world and operates the largest rail network in Mexico. Grupo México benefits from a low cost structure, geographical diversification, fully integrated operations, and strong finances.
- **OCP (Morocco).** This fertilizer company has exclusive access to the largest phosphate-rock reserves in the world. OCP has focused on integration, ranging from mining to the production of fertilizers and other value-added products, while reducing its environmental footprint. It has production and distribution joint ventures in Asia, Europe, and Brazil, one of the fastest-growing fertilizer markets in the world, where OCP has created an innovative supply channel. The company is also pursuing growth in Africa by encouraging the development of agriculture and the smart use of fertilizer.

Capturing Middle-Class Consumers

Many emerging markets are relatively young countries with a rapidly expanding middle class. This generation of consumers is optimistic, with the disposable income required to spend on goods and services.

Eight of the new challengers are serving the needs of these consumers, although only three of them are traditional fast-moving-consumer-goods companies.

- **Alicorp (Peru).** This consumer goods company has three main business lines: food, personal, and home care products; industrial food products, such as flour and food oil; and animal nutrition. Its consumer brands are well known throughout Latin America.
- **Ayala (Philippines).** This conglomerate, founded more than 180 years ago, has holdings in real estate, financial services, telecommunications, water infrastructure, electronics manufacturing, automotive dealerships, and business process outsourcing. It is moving into power generation, transport infrastructure, and education and is expanding primarily in Southeast Asia.

Companies are tapping into consumers' demand to be connected at all times.

- **China Eastern Airlines (China).** Started as a largely domestic carrier in 1998, China Eastern has been rapidly expanding overseas. With its main hub in Shanghai, the airline now flies to several destinations in the US and Europe. It also offers flights throughout Southeast Asia that appeal to Chinese tourists.
- **Dalian Wanda (China).** This Chinese conglomerate has achieved a trifecta. It is the largest owner of luxury hotels, the largest commercial property developer, and the largest owner of cinema chains in the world. It recently announced a deal to buy a majority of Legendary Entertainment, becoming the first Chinese company to own a Hollywood studio. By 2020, Dalian Wanda expects to be one of the world's five largest companies devoted to entertainment and cultural activities.
- **Discovery (South Africa).** This insurer has created partnerships and joint ventures with other insurers to enter China, the US, Singapore, Australia, and Europe. Its Vitality health insurance

program rewards consumers who make healthy changes in lifestyle. Vitality is currently available in China, South Africa, the UK, and the US.

- **Gloria (Peru).** This consumer goods conglomerate is training its sights on regional expansion throughout Latin America. Gloria has an active presence in Bolivia, Colombia, Ecuador, Argentina, and Puerto Rico. In 2014, it acquired five companies in Colombia, establishing itself as an important player in that country's dairy and food and beverage categories.
- **Pegasus Airlines (Turkey).** The largest low-cost carrier in Turkey, Pegasus increased revenues by 13% and earnings before taxes by 34% in 2015. The airline has a 28% share of the domestic market and a 10% share of international flights. It is growing twice as fast as the market for international routes.
- **Universal Robina (Philippines).** This is one of the largest food and beverage companies in the Philippines, with a growing presence throughout Southeast Asia and beyond. In 2014, Universal Robina bought Griffin's Foods, the largest snack maker in New Zealand. Last year, the company was named the best-managed consumer company in Asia by *FinanceAsia* and *Euromoney*.

Meeting Digital Needs

The three companies below are tapping into the insatiable demand of consumers to be connected at all times.

- **Axiata (Malaysia).** This mobile operator has about 290 million customers in ten Asian countries. It recently bought a controlling stake in Nepal's NCell. While most mobile operators based in emerging markets have struggled to maintain their profitability in recent years, Axiata's margin has averaged 38% in the three years ending in 2015.
- **Tech Mahindra (India).** This IT and business-process-services company is active in many industries but especially

telecommunications, which accounts for one-half of its revenues. Tech Mahindra is the only Indian IT services company with a major presence in the \$43 billion network-infrastructure business. It has engaged in several key strategic deals and partnerships (described later in the report) in order to expand into new businesses.

- **Xiaomi (China).** Founded in 2010, Xiaomi is already the fourth-largest handset maker globally. It sells more phones in China than Apple and is rapidly expanding into other emerging markets such as India and Indonesia. It sells directly to customers through online channels and keeps close track of feedback and suggestions through social media.

ACHIEVING GLOBAL LEADERSHIP

AS THEIR NAME SUGGESTS, the global challengers have unfinished business to complete. They are on a path to become top companies in their industry, but there is no guarantee that they will get there. Our 19 graduates, on the other hand, have reached that peak. What separates those companies from the challengers?

Five Under-the-Hood Success Factors

In seeking to understand the difference between challengers and graduates, we uncovered five “under the hood” attributes that separate global leaders from the pack. Collectively, they constitute a winning combination that is greater than the sum of its parts. (See Exhibit 13.) Indeed, all of our 19 graduates have acquired at least four of these five attributes.

Vision and Culture. In the case of all 19 graduates, their vision is easy to describe and see in action. América Móvil aspires to be the fastest-growing telecommunications company in the world, while Tata Motors’ ambition is to be the car company most admired by customers, employees, and shareholders. Johnson Electric aims to be the most innovative and reliable supplier of motors and motion systems. Many former global challengers also articulated a compelling vision. But they failed to create a culture that unified

the company and amplified individual effort and achievement.

Operating Model. The operating models of global leaders are built to go global and to be adaptive. They are not modified versions of the model designed for the company’s home market. Global leaders build global processes, especially for risk management and other core activities, but are willing to bend the rules so that local markets can make adaptations. Hindalco, for example, has deliberately created a portfolio of high- and low-margin products in order to provide a buffer against ups and downs in the economy.

Leaders build global processes but allow local markets to make adaptations.

Talent and Organization. Talent and larger organizational issues are often what distinguish global leaders, since the demand for great people is so intense, especially in emerging markets. Global leaders build global leadership and talent programs, rotate top people through geographies, and create opportunities for star talent outside of the home market. They build an employer-of-choice brand in key recruiting markets. They know how to inte-

EXHIBIT 13 | Five Attributes Shared by Global Leaders



VISION AND CULTURE

- Ambitious global vision
- Global culture and commitment to global standards



OPERATING MODEL

- Globally scalable model with optimized footprint
- Global risk management and process excellence



TALENT AND ORGANIZATION

- Globally competent leadership, global talent acquisition and development
- Strong global organization model and governance



GO-TO-MARKET MODEL

- Clear globalization master strategy
- Successful international M&A and partnerships
- Localization and adaptation to different markets



INNOVATION AND REINVENTION

- Continuous innovation for global markets
- Reinvention and recovery after a major disruption or crisis

Source: BCG analysis.

grate talent and retain key aspects of their culture when they acquire other companies. They create cost-effective training engines for line workers and middle managers. Tata Consultancy Services, for example, has learned how to scale its recruiting, onboarding, and training engines for the 50,000 or more employees that join the company each year. Such companies as Lenovo and Emirates Airlines have created a diverse and international workforce at all levels.

Go-to-Market Model. Global leaders understand how to be successful in many markets. They make smart local acquisitions and develop local partnerships to fill in the gaps in their coverage, product portfolio, or distribution networks. Meat processor JBS, for example, has created strategic partnerships in key geographies, established direct-sales teams, and located production facilities in low-cost countries.

Innovation and Reinvention. Global leaders are continually innovating and, when necessary, reinventing themselves to stay relevant. Li & Fung will create and shutter business units as necessary. Recognizing that beer tastes are regional, SABMiller uses local

ingredients in its breweries. In Africa, for example, it offers many bottle and can sizes and uses local crops like sorghum to brew affordable beer.

Winners Versus Losers

To better understand these factors, we examined two pairs of companies in two industries. They started in similar positions of strength, but their fortunes took dramatically different turns.

In one case, a large industrial goods conglomerate took advantage of a favorable cost structure, strategic M&A, and strong leadership to rise to the top of its sector. Managers knew how to execute and how to work with local partners in new markets. The other company focused on achieving efficiency and reaching production targets, but management conflicts and low-performing assets kept it from continuing on its growth path. The first company is now a global leader. The second has fallen off the global challenger list.

The companies in the second pair are both involved in similar technology, media, and telecom businesses. One invested heavily in

innovation, especially localized R&D. It actively developed new technologies, both in-house and in partnership with outsiders. It developed modern, agile ways of working. The other company remained true to its command-and-control bureaucratic structure, which led to sluggish decision making and a lack of local adaptation. Its innovation strategy was reactive, responding to requests from customers, rather than forward looking. Not surprisingly, the paths of these two companies also diverged—global leadership for one, falling revenues for the other.

While graduate companies share most of the five attributes described above, they did not all achieve success and competitive advantage in the same way. We have identified their three primary strategic approaches.

- **They rely on strategic M&A and world-class integration to create long-term value.** Mexico's Cemex in cement, South Africa's SABMiller in beer, and Mexico's Alfa have successfully integrated companies with diverse cultures and spread best practices.
- **They scale and replicate a successful business model to achieve growth.** Li & Fung, headquartered in Hong Kong, has become the largest global supplier of

clothes and consumer goods by acting as supply chain manager between consumers and manufacturers in Asia and elsewhere. Wilmar International, headquartered in Singapore but with major holdings in Indonesia, has become the world's leading supplier of palm oil by developing an integrated origination-to-distribution business model. Both companies had a singular vision of what they needed to do to go global and achieved it.

- **They emphasize innovation and global branding.** UAE's Emirates Airlines has become a world-class airline by providing a superior passenger experience. Likewise, China's Lenovo has maintained a heritage of quality and innovative design in the PC business, which it acquired more than a decade ago. And unlike other telecom suppliers that have focused on low cost, Huawei has invested in R&D and innovation in order to provide high-quality products. These companies have demonstrated an ability to both develop global brands and be relevant in local markets.

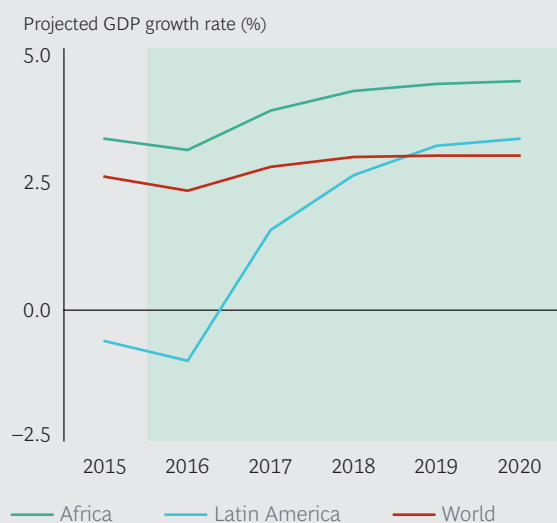
COMPETING FOR THE FUTURE

SLOWING ECONOMIES, RISING GEOPOLITICAL risks, and falling commodity prices are real problems, but they do not need to be show stoppers for the global challengers and other aspiring companies in emerging markets. Most of these markets are still growing faster than their mature counterparts. (See Exhibit 14.) Their demographic and consumer spending trends are also more favorable than those of mature markets. Consider the following:

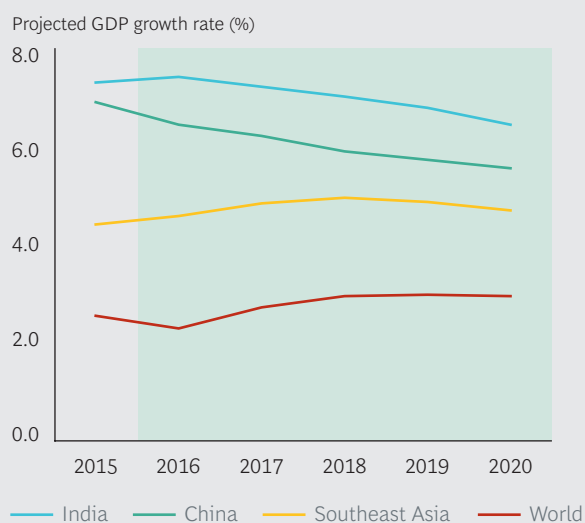
- Between 2015 and 2030, the population of emerging markets is set to expand by 17%, more than three times faster than the rate in mature markets.
- Between 2015 and 2030, the urban population of sub-Saharan Africa will expand by 70%, double the still impressive rate of the Asia-Pacific region, and more than three times the rate of Latin America.

EXHIBIT 14 | Growth Is Not Over in Emerging Markets

AFRICA AND LATIN AMERICA WILL GROW FASTER



GROWTH ELSEWHERE WILL SLOW BUT REMAIN ROBUST



Sources: Oxford Economics; BCG analysis.
Note: Analysis is based on constant 2010 dollars.

- Even if GDP growth slows to 5.5%, China and India will add \$3.9 trillion in consumption over the next five years, equal to the entire GDP of Germany.
- Emerging markets will account for one-third of global consumption by 2020, up from 29% in 2015. (See Exhibit 15.)

It's a more challenging environment than it was five years ago. But for companies that want to send themselves into global orbit, emerging markets are still strong launching pads, albeit ones that are becoming more crowded.

The New Champions

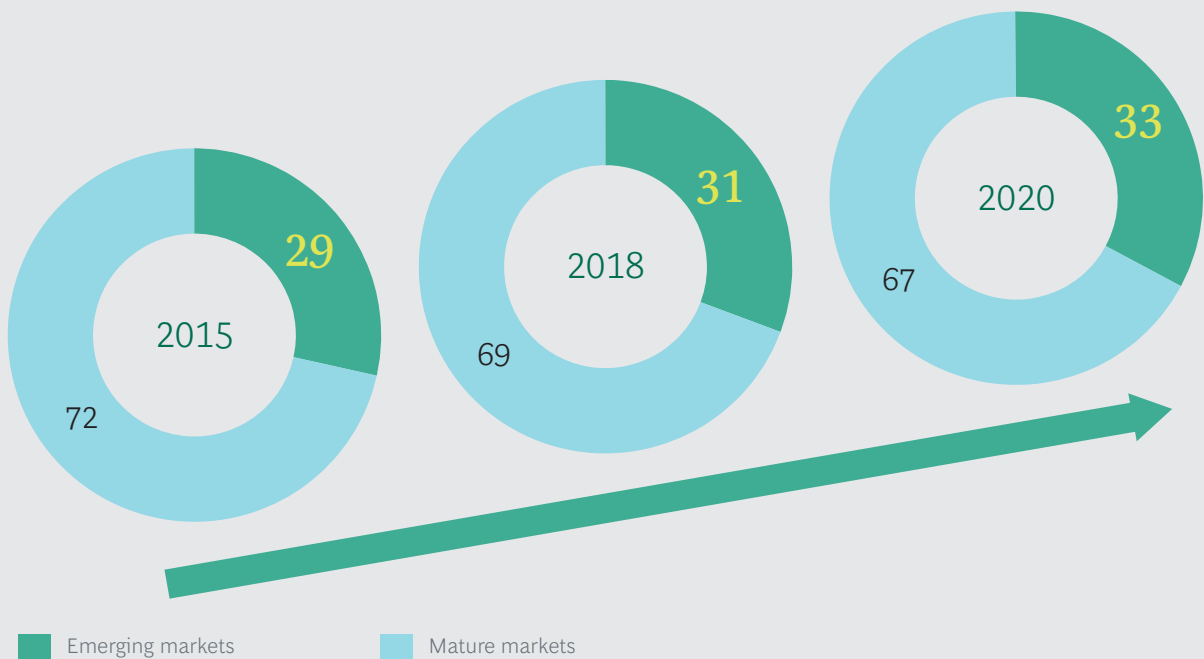
As global challengers look to grow in a slower-growth world, they will face increasing competition not just from multinationals—their historic adversaries—but also from homegrown rivals. We have identified nearly 1,500 companies based in emerging markets that, while not qualifying as global challengers, are still successful, growing companies.

These companies—the champions—tend to be smaller than the challengers but still highly profitable and fast growing.¹ Indeed, from 2005 through 2014, they averaged 18% annual growth and in 2014 had revenues equivalent to 6% of global GDP. (See Exhibit 16.) While many of them have regional or global ambitions, others are wholly focused on their home market. (In two earlier reports, we identified 50 “local dynamos,” a group of domestic-oriented companies that were selected to illustrate the dynamism of their home markets. Selection of the champions was largely based on financial benchmarks.)

Champions are companies to watch over the next ten years. Like the global challengers, they are concentrated in China and India. But African, Latin American, and Southeast Asian companies are also well represented. (See Exhibit 17.) The champions have grown faster than the global challengers over the past five years and are more profitable. (See Exhibit 18.) Given their current growth rates, many champions are likely to become top-ten companies in their industrial sector by 2020. (See Exhibit 19.) These companies will also be re-

EXHIBIT 15 | Emerging Markets Will Drive Global Spending

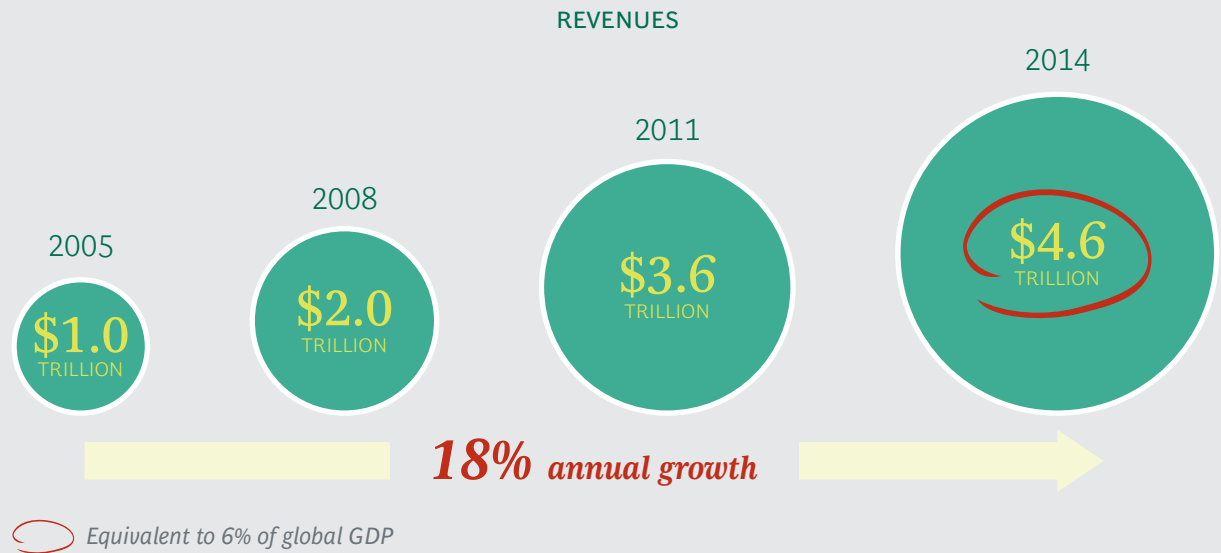
% OF GLOBAL CONSUMER SPENDING



Sources: Economist Intelligence Unit; Euromonitor; World Bank; BCG analysis.

Note: Emerging markets = China, India, Indonesia, South Korea, Mexico, and Russia; mature markets = Australia, France, Germany, Japan, the US, and the UK.

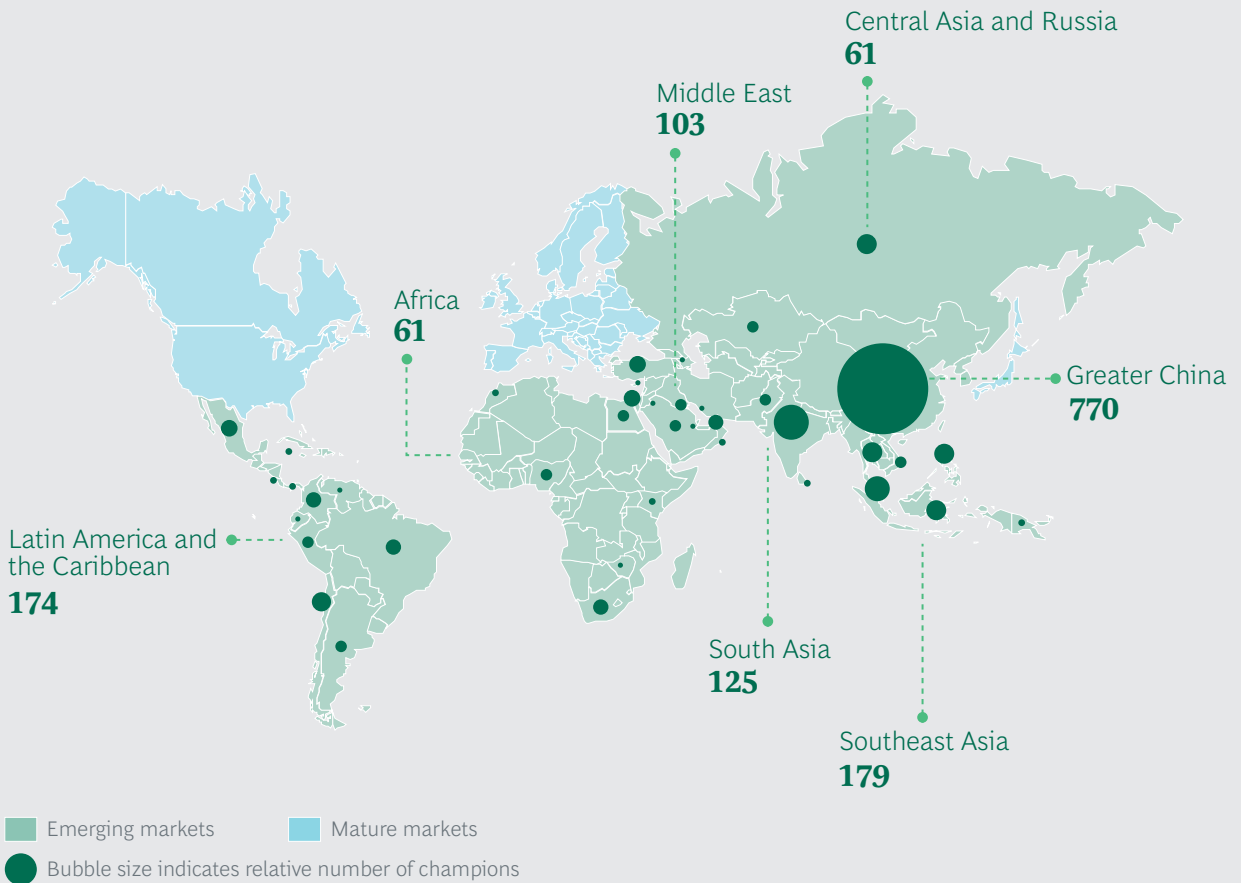
EXHIBIT 16 | The Global Champions Are Profitable and Fast-Growing



Sources: S&P Capital IQ; BCG analysis.

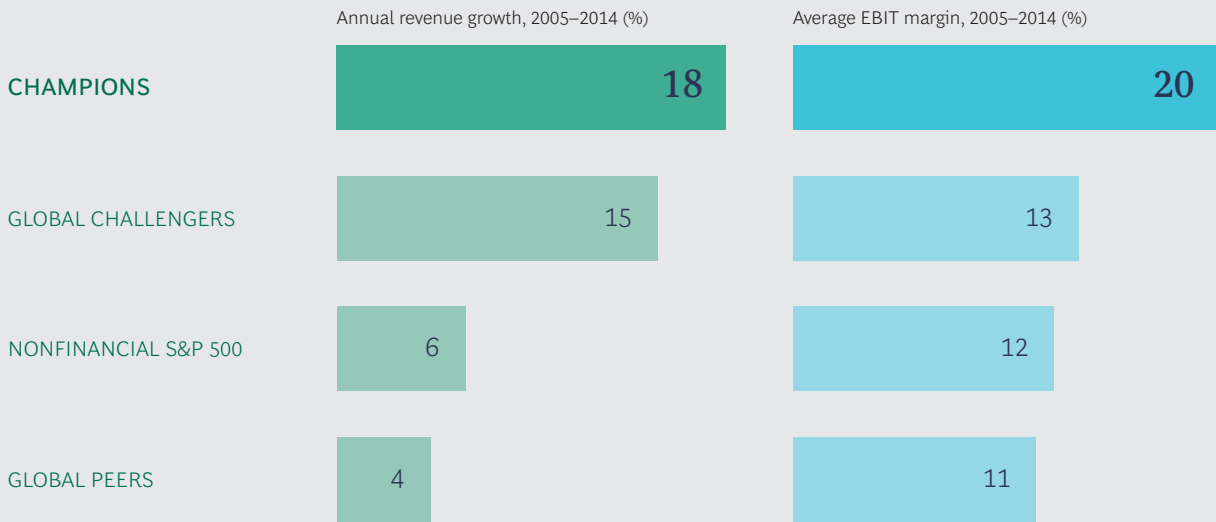
Note: Based on 1,007 companies out of the total 1,473 champions for which more complete financial information was available.

EXHIBIT 17 | The Global Champions Are Spread Over 44 Countries



Source: BCG analysis.

EXHIBIT 18 | The Global Champions Have Outperformed the Challengers, the S&P 500, and Global Peers

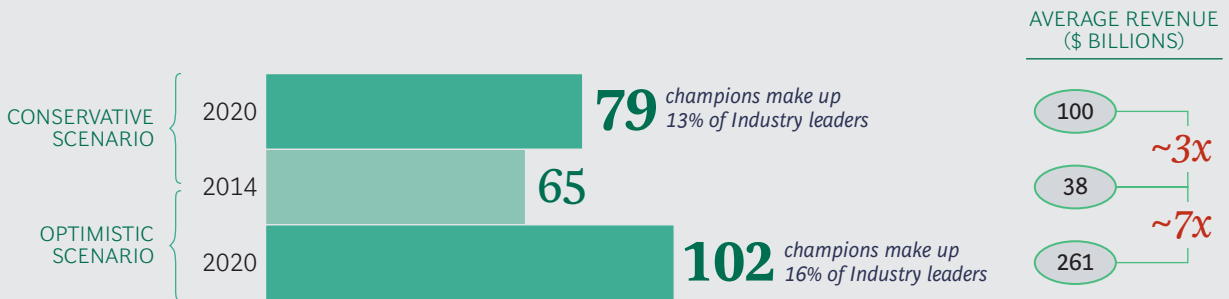


Sources: S&P Capital IQ; BCG analysis.

Note: Based on the financial results of 1,473 global champions, 100 global challengers, 275 global peers, and 413 nonfinancial companies listed on the S&P 500 index. Only those companies for which sales and margin data were available from 2005 through 2014 are included.

EXHIBIT 19 | Many Global Champions Could Join the Top Ten in Their Sectors by 2020

CHAMPIONS IN THE TOP TEN IN THEIR SECTORS



Sources: S&P Capital IQ; BCG analysis.

Note: Industry leaders are the top ten companies in 63 sectors, or 630 companies altogether. The conservative scenario assumes that emerging-market companies will grow at 50% of their 2010–2014 growth rate (if CAGR >30%). Historical growth rates are used for other companies. The optimistic scenario is based on growth at the 2010–2014 rate.

sponsible for most of the world’s economic growth through 2025. (See Exhibit 20.)

In other words, within five years, the top-ten lists of many industrial sectors will be populated by several companies that are virtually unknown today outside their home market. Here are just three examples of champions that demonstrate their dynamism:

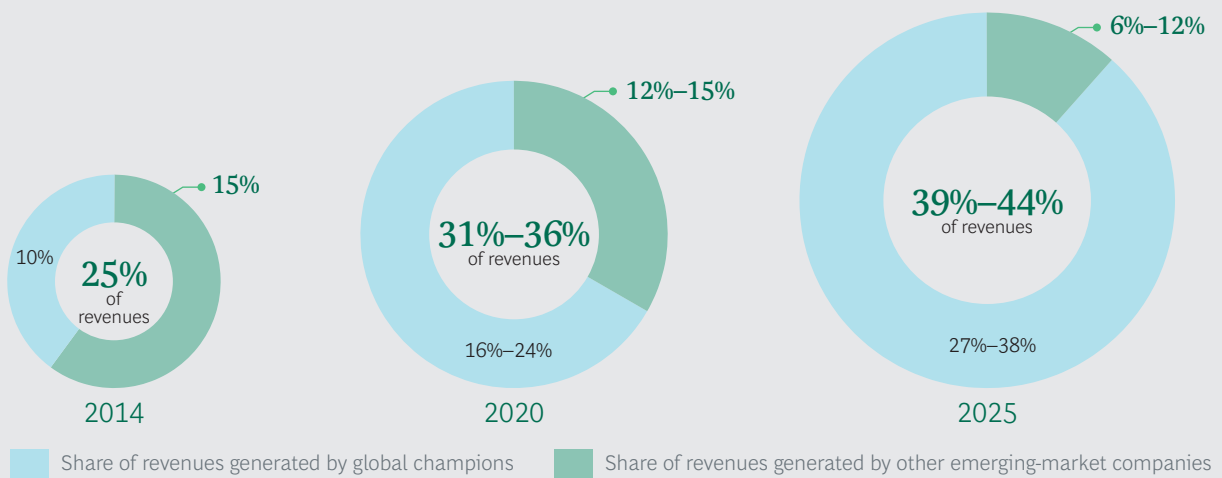
- **Aurobindo** is one of India’s five largest pharmaceutical companies, measured by both sales and market capitalization. It

has grown by 18% annually over the past five years, reaching \$1.9 billion in sales in fiscal year 2015, and the US Food and Drug Administration has certified more than 230 of its drugs.

- **Shenzhen O-film Technology** is the largest producer of touchscreens in the world, with 2014 revenues of \$3.1 billion. Its annual revenue growth has more than doubled over the past five years. This Chinese company has created five R&D centers around the world and secured more

EXHIBIT 20 | The Global Champions Will Drive Future Growth

EMERGING-MARKET COMPANIES WILL CONTRIBUTE UP TO 44% OF REVENUES IN KEY SECTORS BY 2025



Sources: S&P Capital IQ; BCG analysis.

Note: The sample consists of the top 100 companies in each of 63 sectors. The high end of the ranges is based on champions growing at their 2010–2014 rate, capped at 150%. The low-end projection is based on champions growing at half their 2010–2014 rate, if their 2010–2014 CAGR exceeds 30%.

than 1,100 patents. It has invested more than 4% of revenues in R&D since 2011 and used M&A to acquire key technologies. To diversify away from the slowing smartphone market, Shenzhen O-film Technology has invested in smart car, fingerprint sensor, and camera technologies.

- **Alsea**, of Mexico, is the largest restaurant operator in Latin America, running quick-serve and casual-dining franchises such as Starbucks, Burger King, Domino's Pizza, and The Cheesecake Factory. It has created economies of scale across these brands by building several distribution centers and relying heavily on shared services. Alsea also has a presence in Spain. Revenues have been growing by more than 25% annually in recent years.

Facing the Future

Against a backdrop of slower growth and greater competition, global challengers, local dynamos, and champions alike will need to do more than float higher on the tide of an expanding economy. They will need to compete.

This will be tougher for some challengers than for others. Many state-owned enterpris-

es, such as shipping and port giant COSCO, are facing pressure to restructure. Family-owned companies, especially newer ones, will likely need to transition to a new generation of leaders. The average age of CEOs at family-owned businesses in Asia is 61, so this is a real and present concern. Conglomerates in particular will need to focus on productivity and profitability, not just top-line growth.

Companies from emerging markets increasingly will need to rely on strategic M&A to build their capabilities and reach their goals. Tech Mahindra, an Indian IT services company, has thoughtfully expanded its business through deals. In 2015, Tech Mahindra and a sister company bought Italian design house Pininfarina to expand their high-end capabilities. That same year, Tech Mahindra also bought Geneva-based Sofgen Holdings, to move into the banking industry, and Lightbridge Communications, to expand its network-services capabilities.

Not all global challengers will be up to these tasks. But if their past is any indication, most of them will continue to be viable companies, and many will become global leaders. In the ten years that we have been tracking them, global challengers have grown even faster and stronger than we initially expected.

NOTE

1. In identifying champions, we sometimes had to rely on limited or incomplete data sets, but here are the general selection criteria we used. They must have annual sales of at least \$500 million. Their five-year annual growth rate must be at least 0.8 times that of their home country's GDP or their industry's growth rate. Finally, the EBIT margin of a champion must exceed 50% of its industry's margin. (Challengers, on the

other hand, have annual sales of \$1 billion, five-year growth rates exceeding their home country's or industry's growth rate, and margins exceeding the industry average.) Unlike challengers, champions do not have to meet minimum thresholds for overseas sales or headcount, and they do not need to have global ambitions or the potential to become global leaders.

FOR FURTHER READING

Transformation in Emerging Markets: From Growth to Competitiveness

A Focus by The Boston Consulting Group, February 2016

Think You Need an Emerging-Markets Strategy? Think Again

A Focus by The Boston Consulting Group, September 2015

The Globalization Capability Gap: Execution, Not Strategy, Separates Leaders from Laggards

A Focus by The Boston Consulting Group, June 2015

Five Things Every CEO Must Do in the Next Era of Globalization

An article by The Boston Consulting Group, November 2014

Redefining Global Competitive Dynamics: 2014 BCG Global Challengers

A report by The Boston Consulting Group, September 2014

NOTE TO THE READER

This is BCG's seventh report in the Global Challengers series. While the centerpiece of these publications is the list of 100 global challengers, their broader purpose is to understand the evolution of emerging markets and how companies can compete within them. We hope that this report has brought these markets and the companies that arise from them to life.

We do not just write reports but help companies win. That is why we created the global "challenger to leader" (C2L) program. C2L helps companies make global ambitions part of their DNA by reshaping existing globalization strategies or developing a first-time, full-scale globalization program. It provides a comprehensive baseline of a company's globalization ambitions and capabilities and identifies specific gaps that must be filled in order for it to win globally.

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