

Competitive Strategy of Emerging Asian Companies

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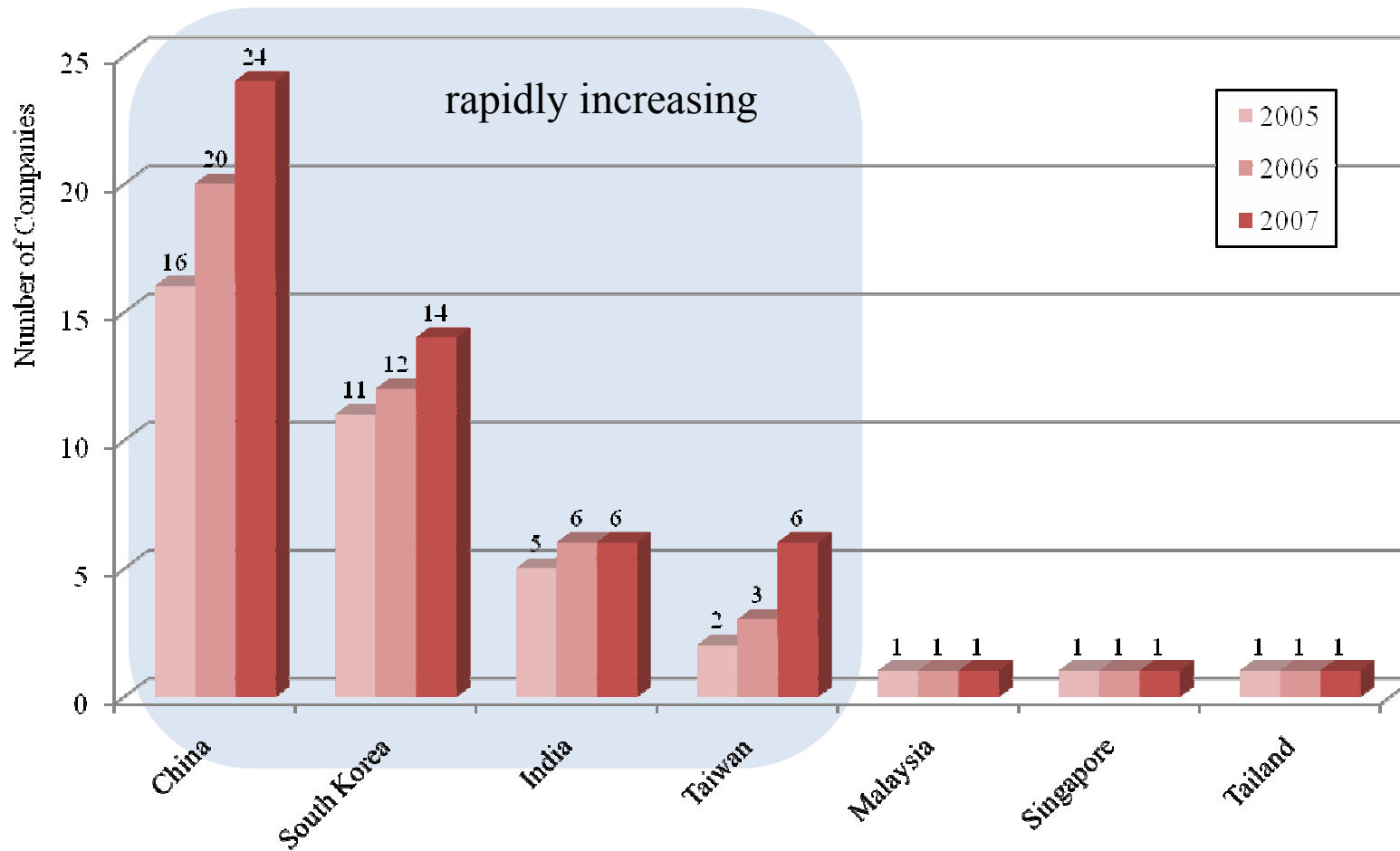
Basic Questions

- As Asian countries integrated themselves into the world economy, MNCs from US, Western Europe, Japan, South Korea stormed in.
- Many local companies lost market share or sold off their business as a result, but some fought back. The excellent local companies not only keep their competitiveness at home, but also exploited new opportunities to built world-class companies.
- Questions
 - » How did Asian excellent companies keep their competitive advantage in their home countries against global giants ?
 - » How did they move from their dominant position at home to establish a global presence ?
 - » What can other emerging companies in Asia learn from these successful companies ?

Contents

- Brief sketch of Asian excellent companies from Fortune/ Forbes Ranking
- What is competitive strategy?
 - » Two approaches of competitive strategy
- Some cases of Asian excellent companies
 - » Haier
 - » Indian software and services providers
 - » Taiwanese PC/mobile component manufactures
 - » others
- New dimension of competitive strategy
 - » From low-cost operators to new market creators

Asian Companies in "Fortune Global 500"



Note: Fortune Global 500 ranking is based on revenues.

China includes companies in Hong Kong. Number of companies of Japan is 81 in 2005, 70 in 2006, 67 in 2007.

Major Companies in Asian Countries

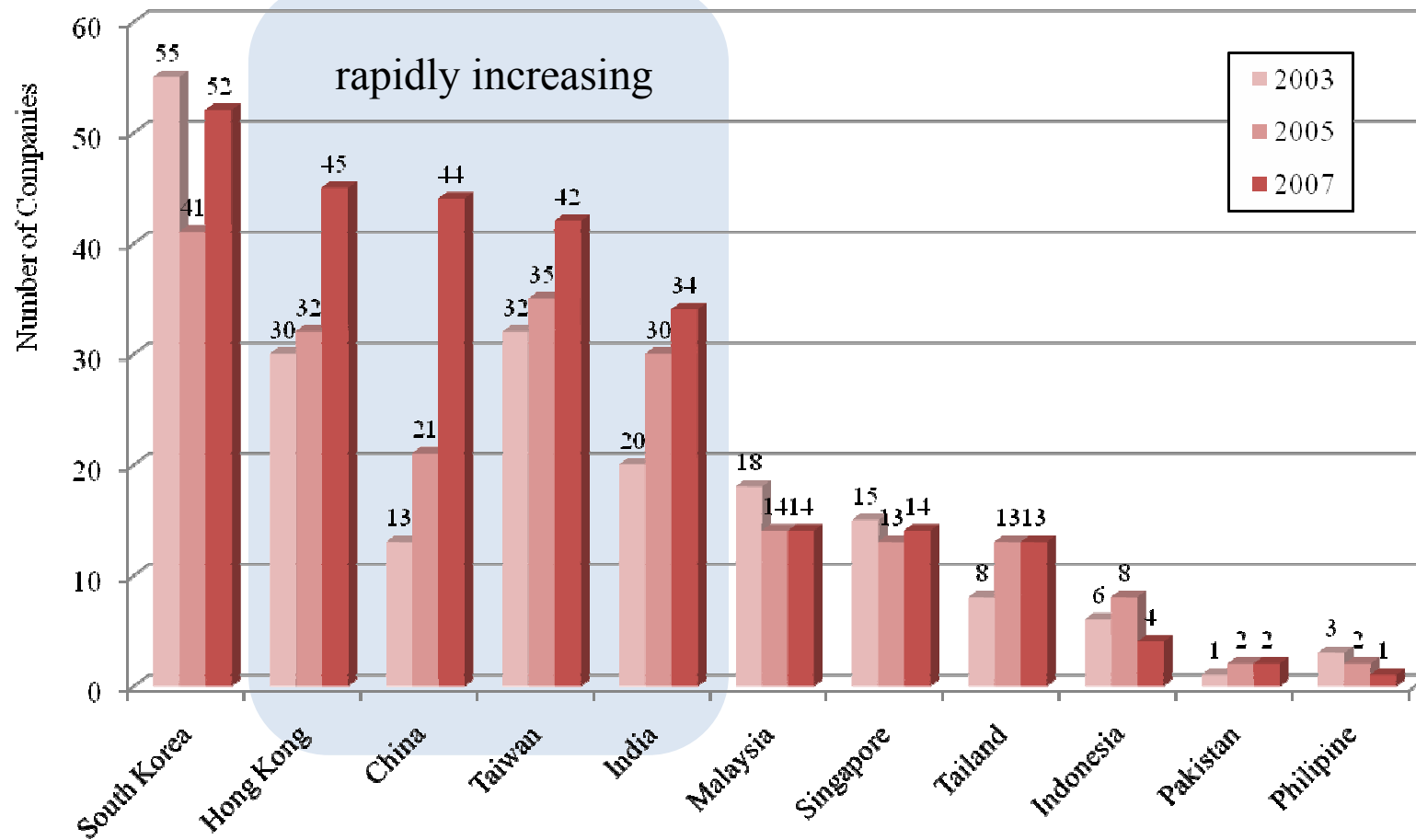
➤ Companies by country in “Fortune Global 500”

South Korea	China	Taiwan	India	Malaysia	Thailand
Samsung Electronics	Sinopec	Hon Hai Precision Industry	Indian Oil	Petronas	PTT
LG	China National Petroleum	CPC	Reliance Industries		
Hyundai Motor	State grid	Cathay Financial Holdings	Bharat Petroleum		
SK	Ind. & Com. Bank of China	Asustek Computer	Hindustan Petroleum		
Korea Electric Power	China Mobile	Quanta Computer	Oil & Natural Gas		
Samsung Life Insurance	China Life Insurance	Formosa Petrochemicals	State Bank of India		

Manufacturing
(Electronics, Machine, IT...)

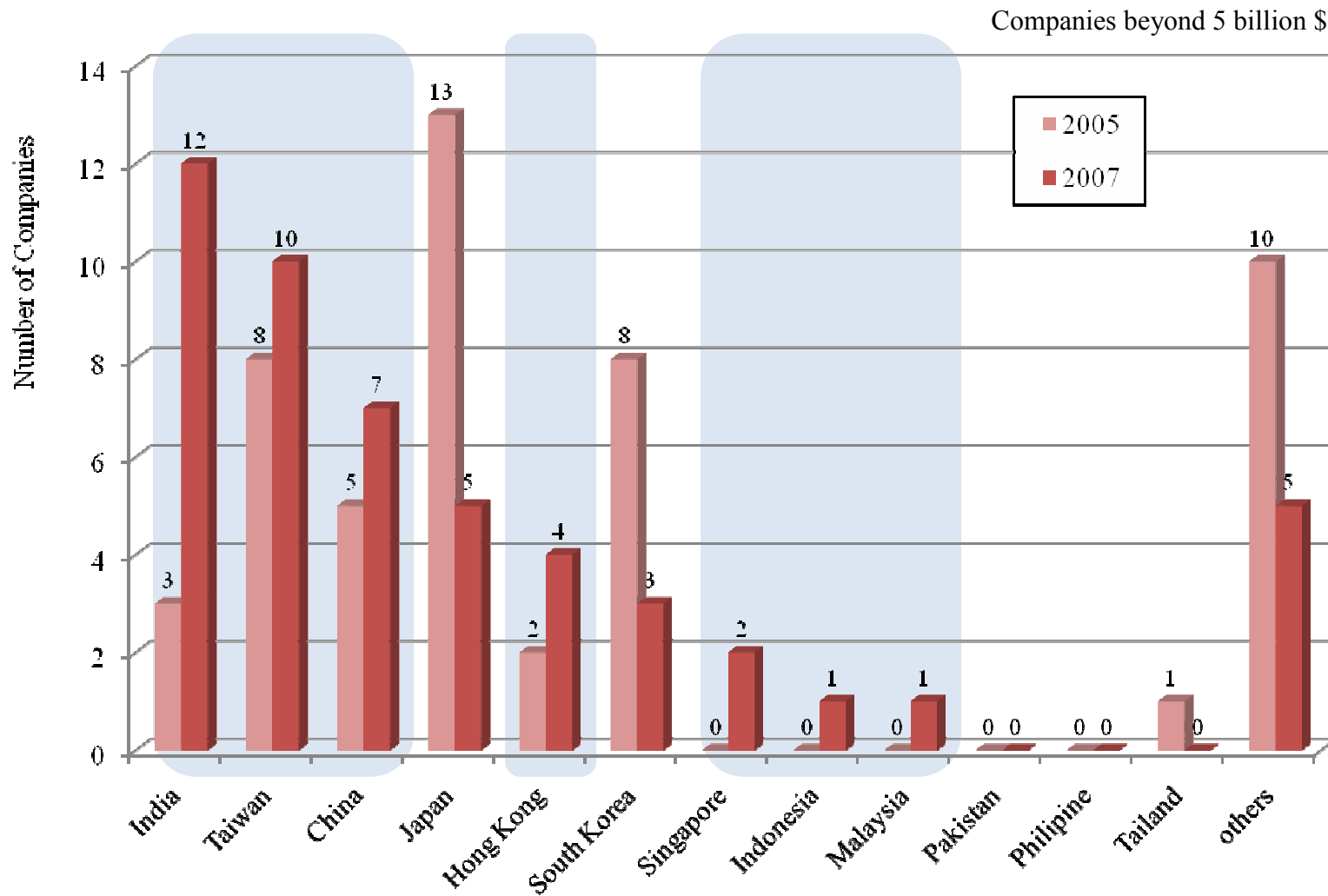
Energy, resource
& Finance

Asian Companies in "Forbes Global 2000"



Note: Forbes Global 2000 ranking is based on the aggregated index of sales, profits, assets, and market value.
Number of companies of Japan is 331 in 2003, 326 in 2005, and 291 in 2007.

Forbes Asian Fabulous 50 Companies

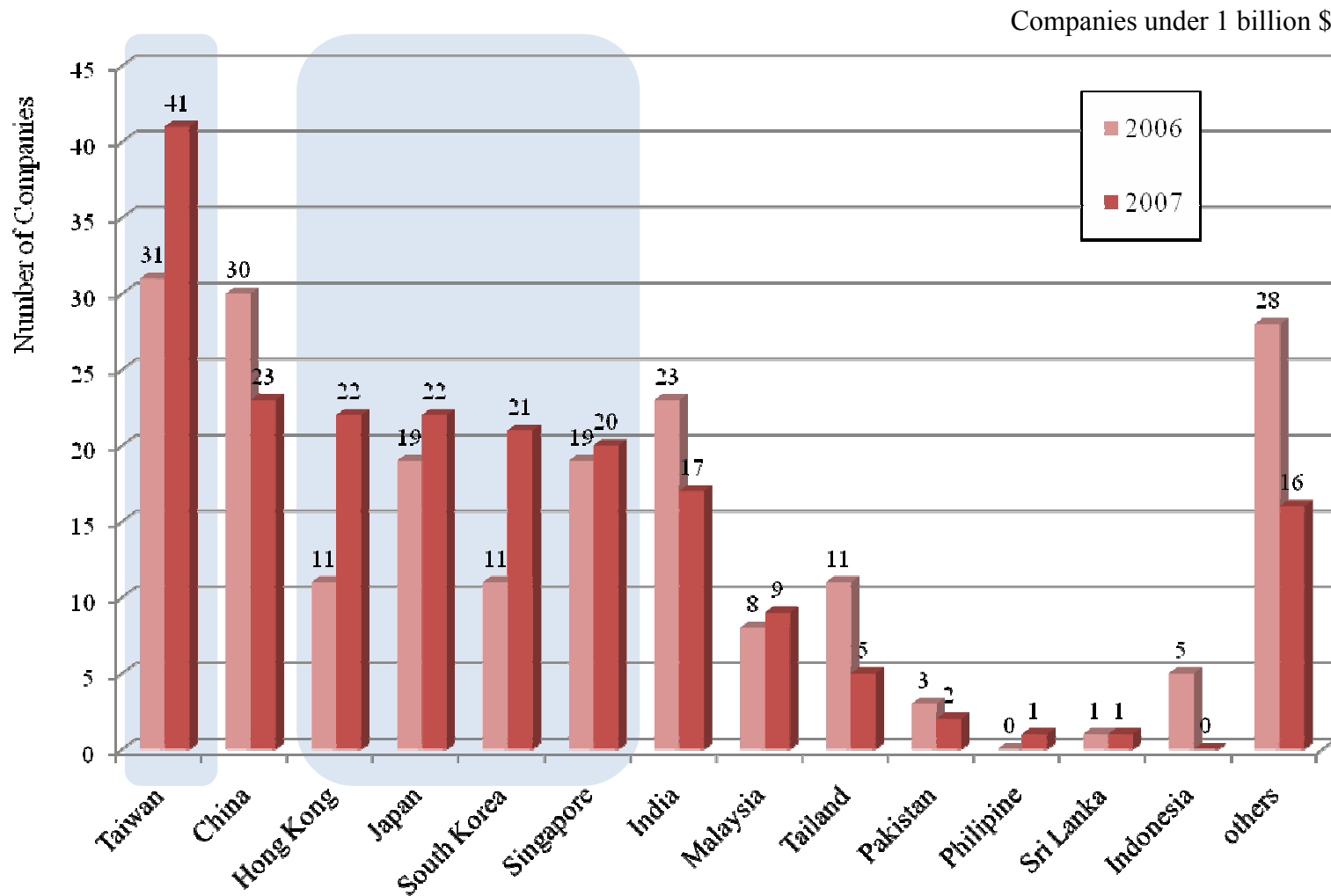


Examples of Asian Emerging Excellent Companies

(excluding Finance, Energy and Materials)

- China
 - » China Mobile, China Unicom, Lenovo, Haier...
- India
 - » Tata Consultancy Services, Infosys Technologies, Wipro, Satyam Computer Services, Tata Motors...
- Taiwan
 - » Hon Hai Precision Industry, TSMC, Media Tek, Compal Electronics, Inventec, BenQ, Acer, Wistron, ...
- Singapore
 - » SembCorp Industries, Neptune Orient Lines
- Malaysia
 - » IOI Corp
- Thailand
 - » Advanced Info Services
- Indonesia
 - » Telekomunikasi Indonesia

Forbes Asian Best 200 Companies under 1 Billion



Profile of Excellent Companies in Asia (1)

➤ China

- » Many big companies (24 companies in Fortune 500, but all of them are national-owned except for 2 HK based companies. Energy, materials, and financial companies are dominating)
- » Number of excellent companies is rapidly increasing, including China Mobile, China Unicom, Lenovo, Haier, Huawei, etc.
- » Number of excellent SMEs under 1 billion is less increasing.

➤ India

- » Big companies in energy, materials, and financial sectors.
- » Number of excellent companies are rapidly increasing, especially in software & services sectors.
- » Number of excellent SMEs under 1 billion is less increasing.

Profile of Excellent Companies in Asia (2)

➤ Taiwan

- » Big companies in manufacturing & ICT sector.
- » Number of excellent companies is increasing in high-tech sectors (PC/mobile hardware and semiconductors)
- » Number of excellent SMEs and its increase are prominent.
 - Interconnections between giants and emerging SMEs

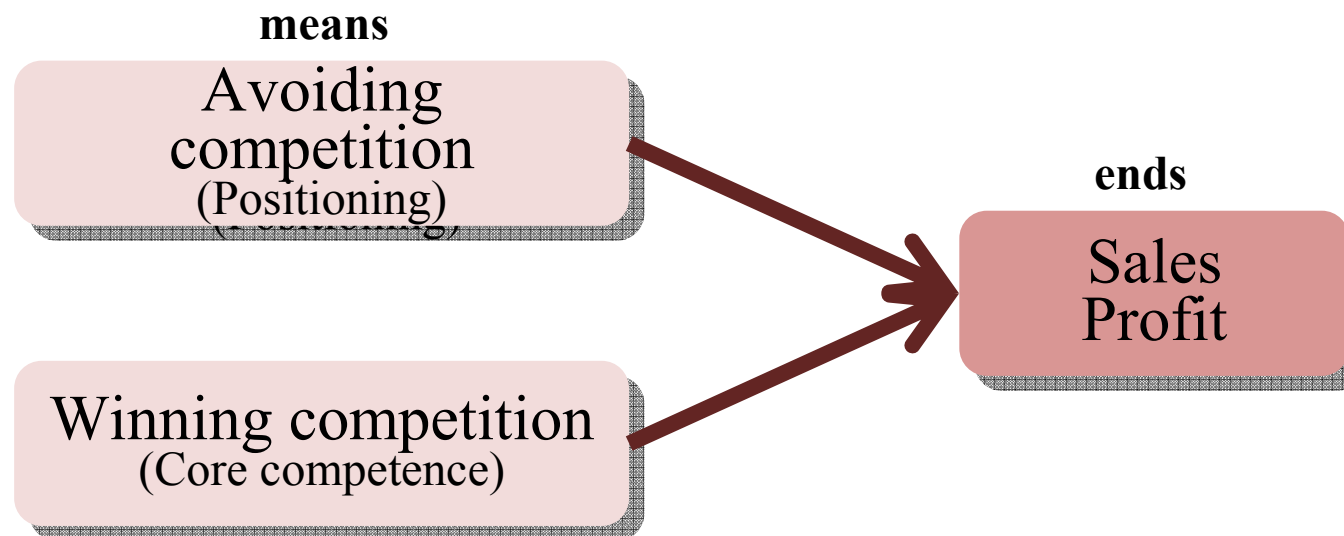
➤ Singapore, Malaysia, Thailand, Indonesia

- » 10-15 big companies in financial, telecommunication, transportation, oil & gas.
- » 5-20 emerging excellent companies under 1 billion\$, but the number is not so increasing.

Competitive Strategy

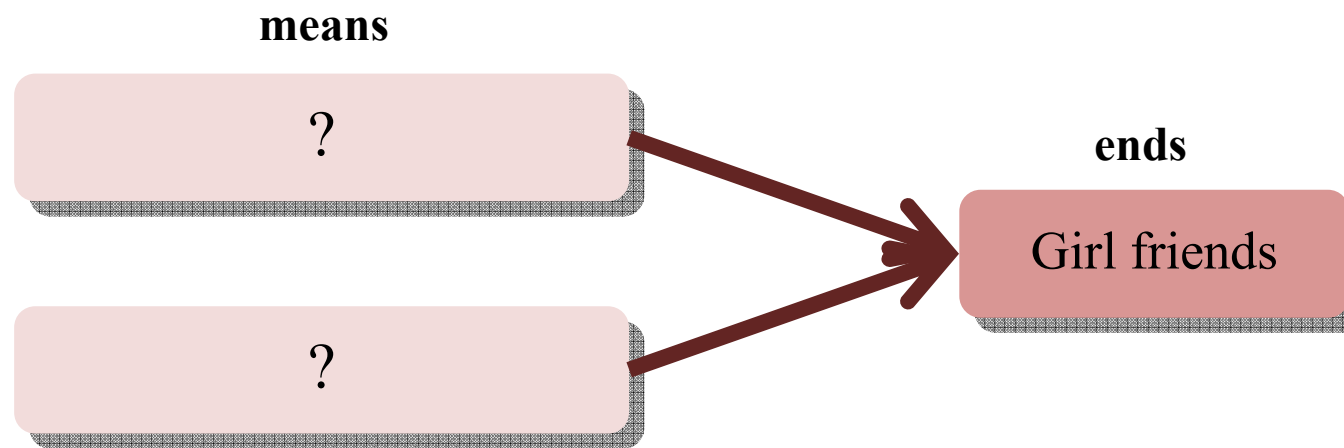
➤ Competitive Strategy

- » Strategy for maximizing sales and profit through dealing with competition
- » Not necessarily means a strategy to “beat the competitors” or “win the competition”



When you were young...

- What did you do to get many girl friends when you were young ?



- » ~~Courting around any girls at random~~ Not a strategy !!
- » Positioning yourself at a place where girls are many, while boys are few
- » Finding and brushing up your attractiveness; character and personality

Two Approaches of Competitive Strategy

➤ Positioning

- » To avoid head-to-head competition
- » Positioning in a niche product market
 - Less competitive markets
 - Hidden, small, non-attractive market
 - Markets that existing companies cannot position themselves

➤ Core competence

- » To build a competitive advantage
- » Developing and utilizing inimitable resource and capabilities, or “core competence”
 - Invisible
 - Can not be purchased in the market
 - Takes time to build up

Positioning of Global MNCs and Local Companies

➤ Positioning of Global MNCs

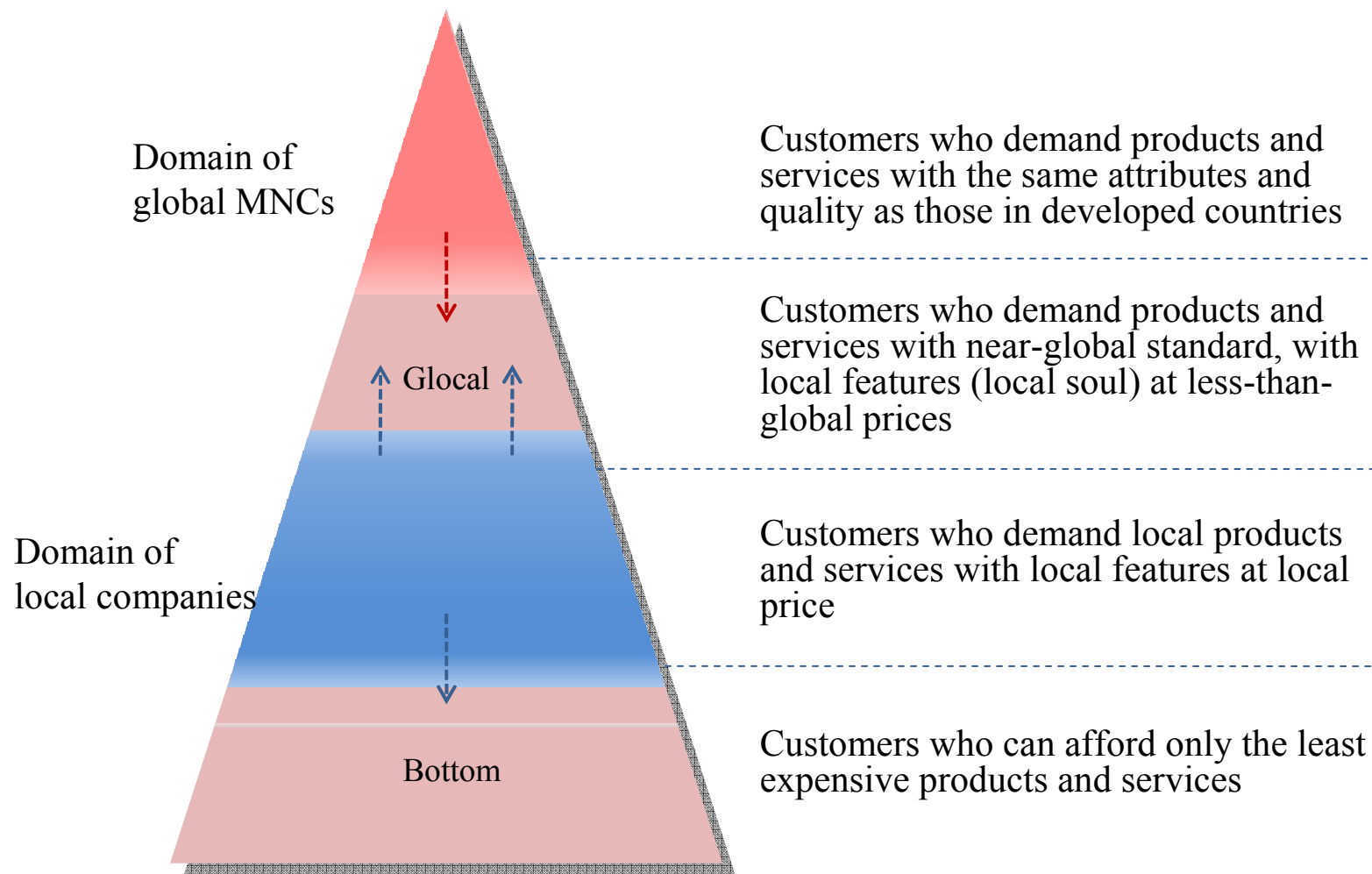
» “Global-tier” of emerging market

- Global MNCs are reluctant to tailor their strategies to every developing markets in which they operate
 - They find it costly and cumbersome to modify their products and services to suit local tastes, simply because the opportunities in developing countries tend to be relatively small or risky
- Further, their organizational processes and cost structures make it difficult for them to sell products and services at optimal price in emerging market; they often end up occupying small, super-premium niches
- Global companies rush into the global-tier of the market

➤ Positioning of local companies

- » “Local-tier” of the market can be a niche for emerging local companies

Structure of Emerging Market



Source: Khanna & Palepu (2006)

Core Competence of Local Companies (1)

- Capabilities of dealing with “institutional voids”
 - » Institutional voids
 - the absence of institutional infrastructure that makes markets work efficiently
 - Business law
 - Regulatory systems
 - Specialized intermediaries such as banks and VCs, accounting firms, quality-certification firms, recruiting companies, research and consultant firms, etc
 - Supplier/distribution/sales network
 - » MNCs from developed countries are used to operating in economies with well-developed institutional infrastructures and are therefore ill equipped to deal with institutional voids.

Core Competence of Local Companies (2)

- Capabilities of understanding local product market and customers' needs
 - » Product/service markets are unique since customers' needs and tastes are idiosyncratic.
 - » Local companies can understand them and build businesses around distinctive national characteristics, while foreign MNCs are faced with difficulties in understanding them
- Capabilities of understanding and accessing local resource market
 - » MNCs are often faced with difficulties in collecting talent in emerging markets where the level of people's skill and the quality of educational institutions vary widely
 - As talent becomes scarcer in urban centers, MNCs can not know how to lure people from second-tier cities and rural towns
 - » MNCs lack the knowledge of local production and supply chain network

Case of Haier (海爾)

- Haier
 - » Leading company in China's white goods market in teeth of competition from GE, Electrolux, and Whirlpool
- Haier developed products and service networks tailored to the needs of Chinese customers
 - » New washing machine that meets needs of rural Chinese customers, who have used washing machines to clean vegetables like sweet potatoes
 - » Tiny washing machine that cleans a single set of clothes, which meets customer needs to change clothes frequently in humid Chinese cities like Shanghai and Shenzhen
 - » Established a distribution and service network that covers semi-urban and rural areas in China
- Haier cemented its leadership at home before venturing abroad
 - » Haier became China's biggest manufactures by 1991
 - » Set up the first JV in Indonesia in 1995
 - » Started sales in Philippines, Malaysia, and Yugoslavia in 1995-1997
 - » Started sales in Germany in 1997
 - » Entered the US market in 1999
 - 26% share of refrigerator market and 50% of low-end wine cellar market in the US

Competitive Strategy of Haier

- Why and how Haier built its competitiveness at home against global giants and developed their business abroad ?
 - » Haier built and keep its competitive advantage by adapting to the special characteristics of product market and customers' needs at home countries
 - » In growing across boarder, Haier initially turned to other emerging countries by exploiting similarities between developing markets
 - » When Haier entered market in developed countries, it avoided head-to-head competition with global giants; Haier focused on niche opportunities that allowed it to capitalize on its existing strengths
 - » Then, Haier gradually stretched its capabilities as it learned how to operate in developed countries

Indian Software/Services companies and Taiwanese high-tech component manufactures

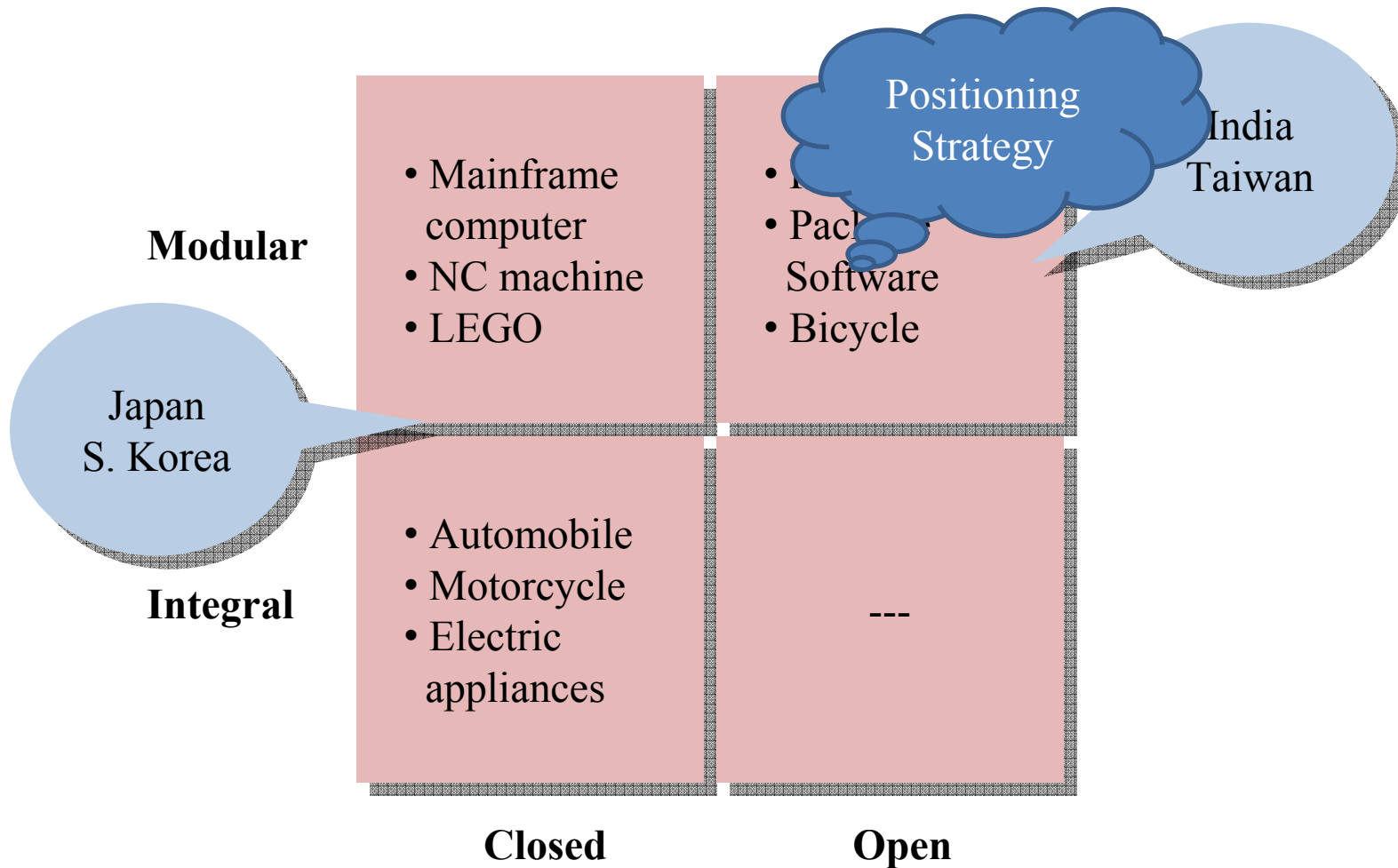
➤ India

- » Many excellent companies in software & service sector
 - Deregulation and government supports in IT sector
 - Excellent education systems in mathematics and Information Technologies (e.g. Indian Institute of Technology)
 - 400 IT educational institutes producing 150 thousand engineers per year
 - English capabilities

➤ Taiwan

- » Many excellent companies in PC/mobile hardware and semiconductor sector
 - Accumulation of small and medium-size companies in electronics, machinery, and metals
 - Close human and business relationship with the US and China
 - Hiring people who have experiences of studying or working in the US
 - Setting up manufacturing plants in China
 - Entrepreneurial culture to spin-off from existing giants
 - Interconnection between giants and emerging SMEs

Types of Product Architecture



Source: Modifications to Fujimoto (2006)

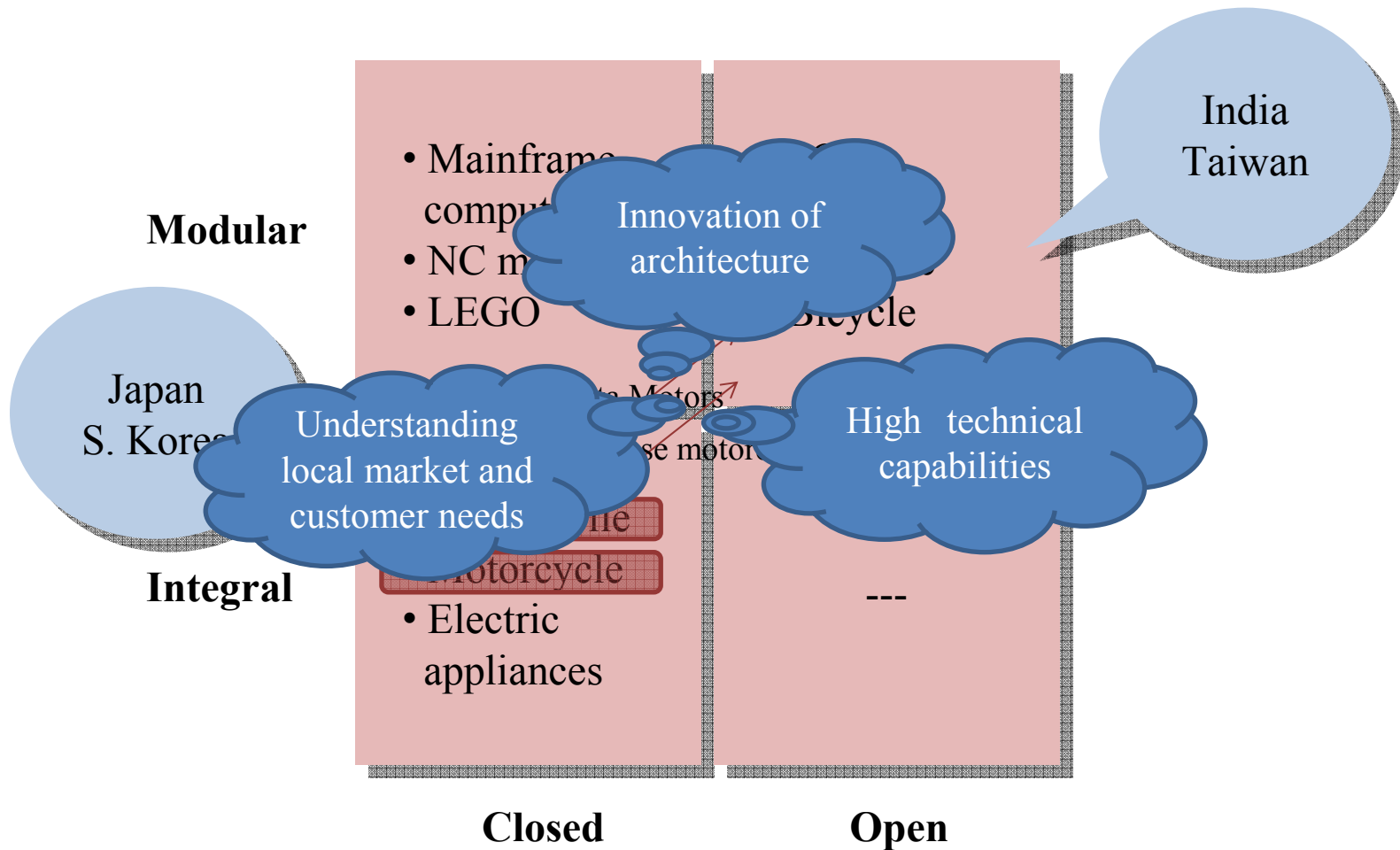
Tata Motors "Nano"

- Tata Motors unveiled a super mini-car "Nano" at New Delhi Auto Expo on January 10th, 2008.
- 30-horsepower 624-cc engine; a four-speed manual transmission
- Price is 100 thousand INRs (US\$2,500)
- Developed new small engine technologies and issued patents through alliance with Fiat of Italy
- Planning to export to and produce in south America and Africa
- "I was always thinking, we have to develop a new car , as I often saw a men who drove his motorcycle with his wife and child on the back."



Source: <http://www.asahi.com/car/news/TKY200801100320.html>

Types of Product Architecture



Source: Modifications to Fujimoto (2006)

Two approaches of Competitive Strategy

➤ Positioning

- » Avoiding head-to-head competition
- » Positioning in less competitive product fields
 - Samsung Electronics in 1980s
 - Haier
 - Tata Consultancy, Infosys, Wipro...
 - Hon Hai Precision, Inventec , Compal Electronics ...

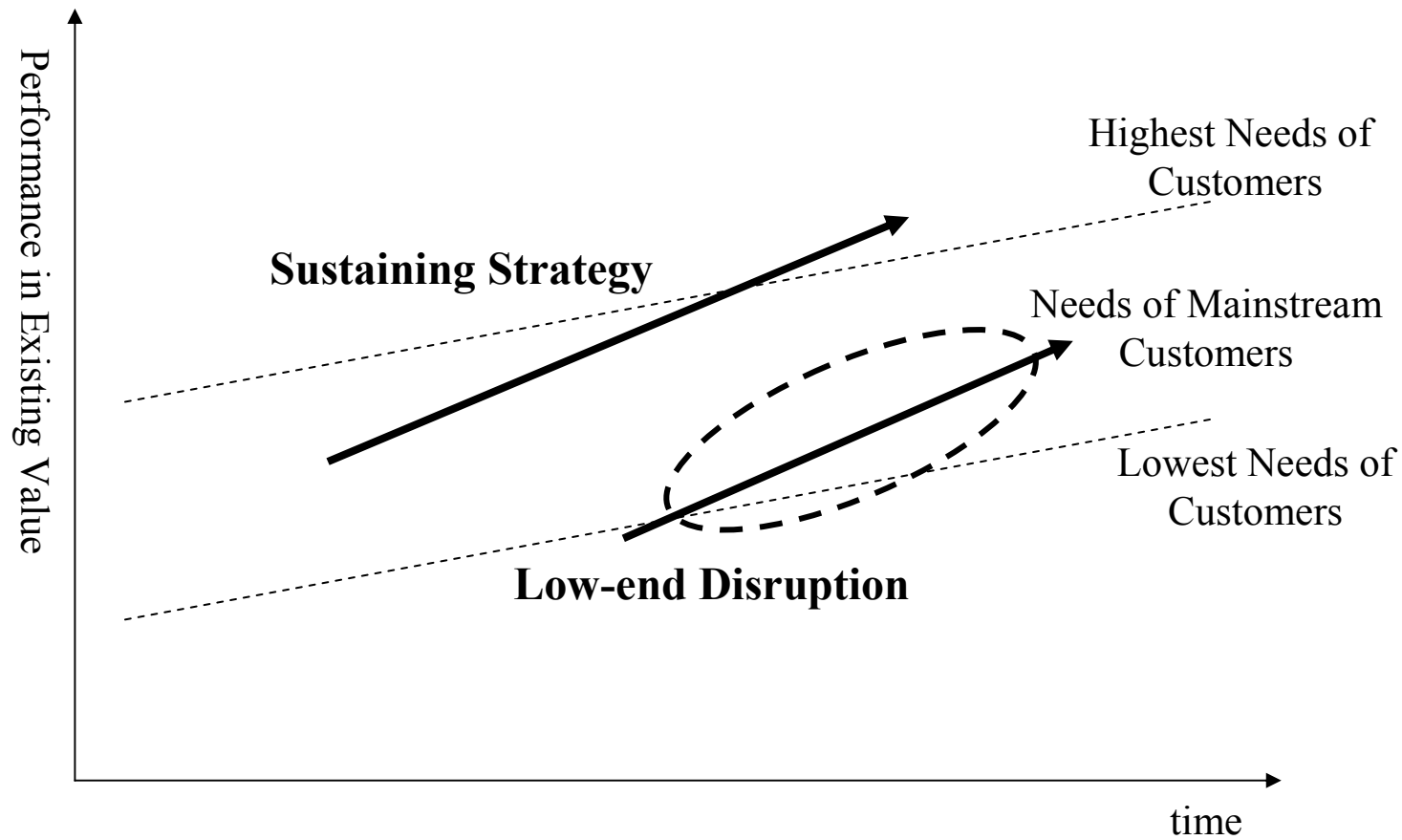
➤ Core Competence

- » Capabilities of dealing with “institutional voids”
 - Emerge Logistics
- » Capabilities of adapting to local market and customer needs
 - Haier
 - Jollibee Foods
- » Capabilities of accessing local resource market
 - Tata Consultancy, Infosys, Wipro...
 - Hon Hai Precision, Inventec , Compal Electronics ...

Competitive Strategy and Innovation

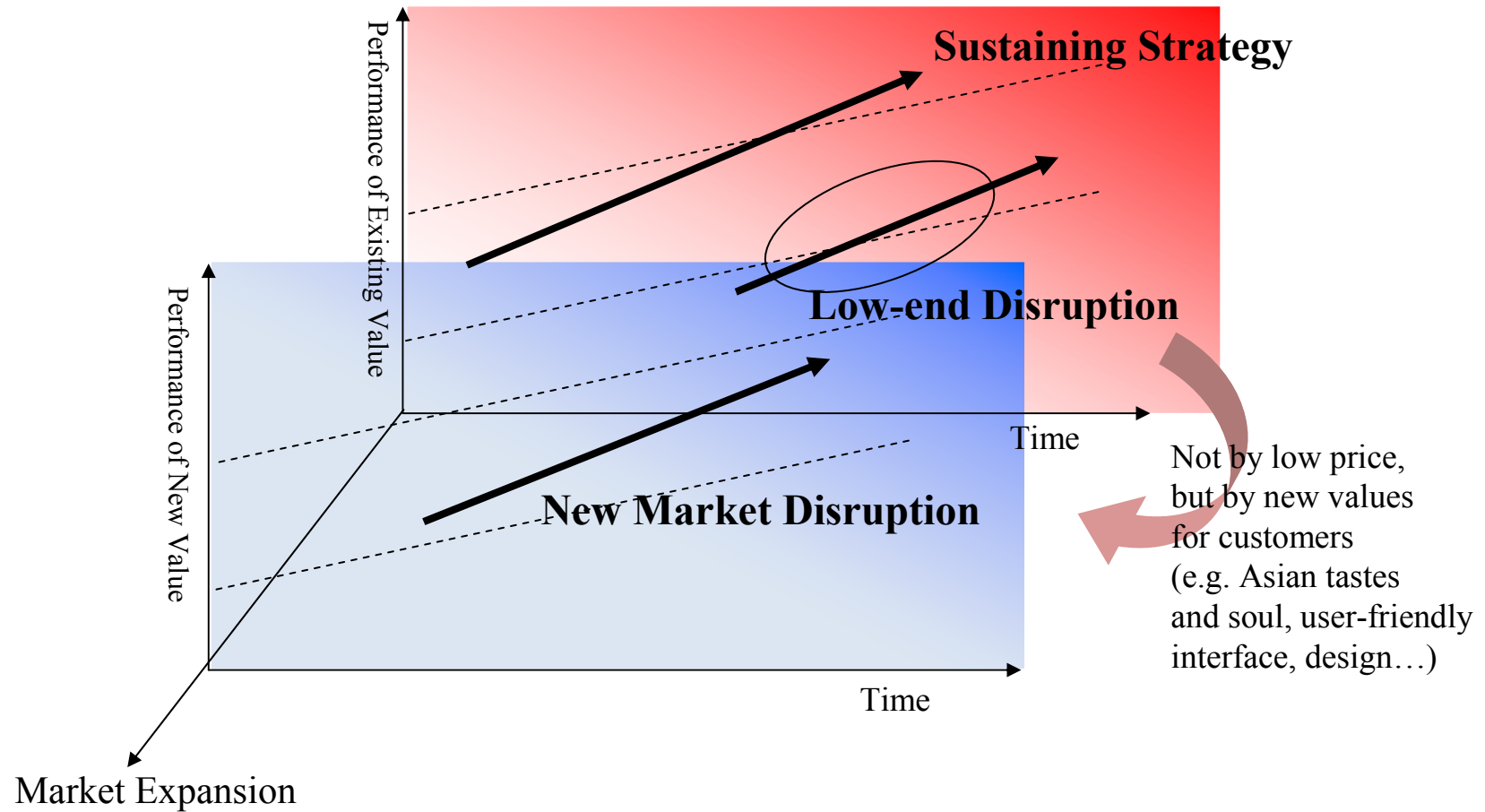
- New dimension of competitive strategy
 - » Avoiding head-to-head competition is one of the important approaches of competitive strategy
 - Positioning approach
 - Finding attractive market spaces to position in
 - Dynamic view of competitive strategy
 - From finding attractive market spaces to creating new market spaces in which there is no competition
- Strategy for disrupting existing competition
 - » Strategy of low-end disruption
 - » Strategy of new market disruption
 - “Blue Ocean Strategy”
- Challenge of Asian companies
 - How to move from low-cost operators to new market creators

Strategy of Low-end Disruption



Source: Christensen & Raynor (2003)

Strategy of New Market Disruption



Source: Christensen & Raynor (2003)

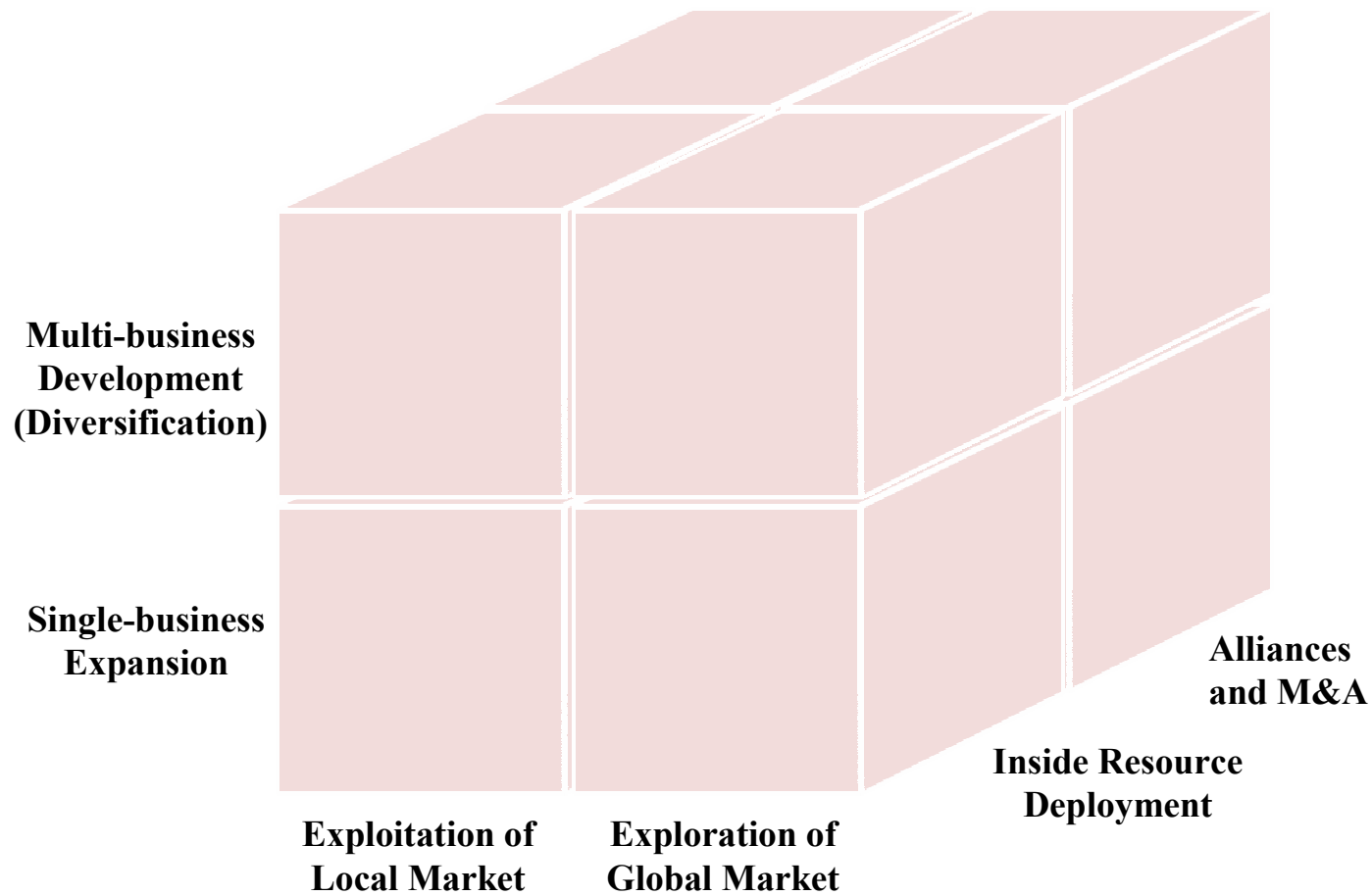
Competitive Strategy and Innovation

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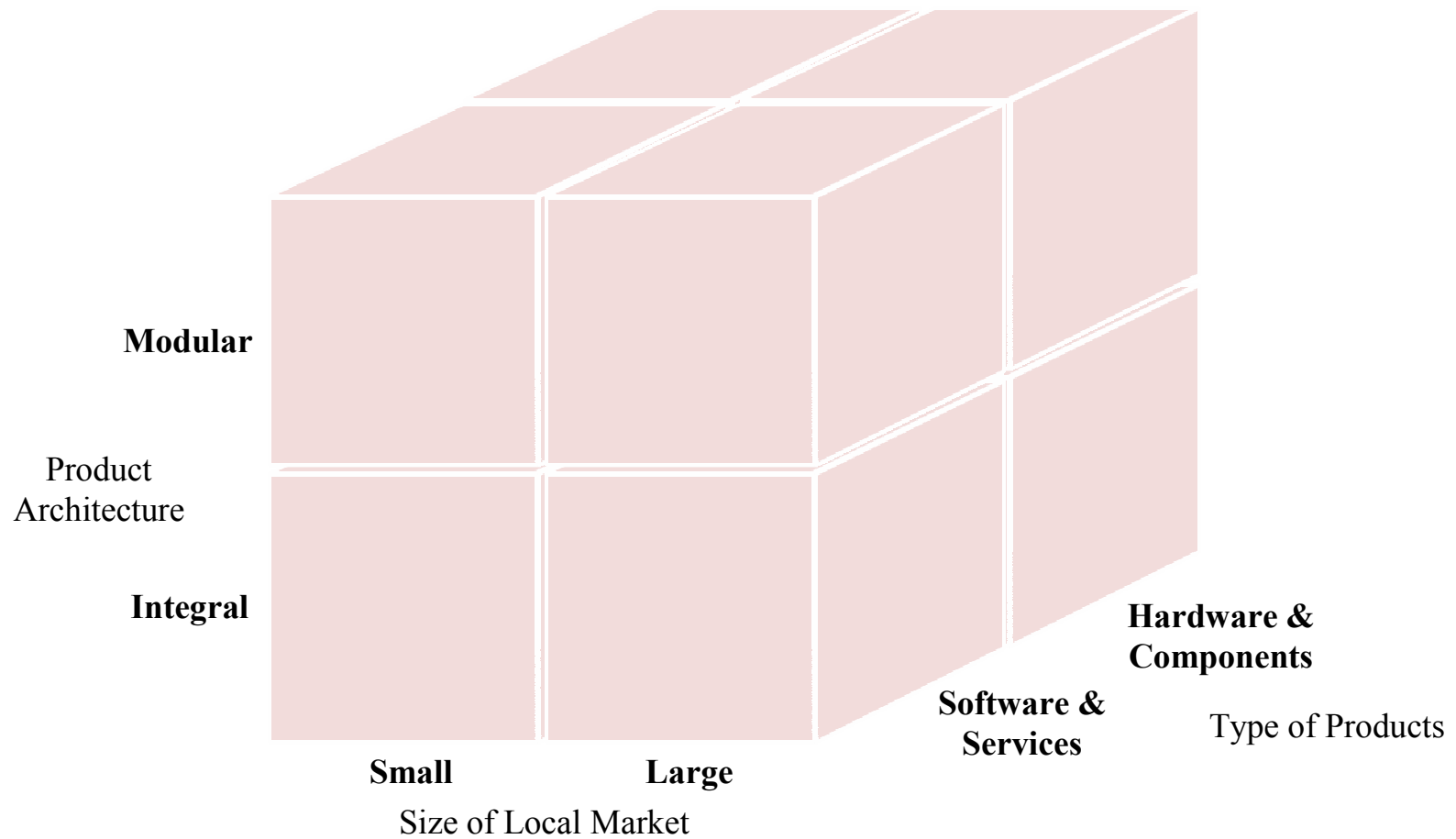
Patterns of Corporate Growth of Asian Excellent Companies

- Enhancing competitiveness and dominant position in local market
 - Some emerging companies operate in several countries, but others operate only at home.
 - Correlation between size (market value) and degree of globalization is relatively low ($r=0.4$).
 - » Chinese communication companies (China Mobile, China Unicom)
 - » Indian automobile company (Tata Motors, Mahindra & Mahindra)
 - » Thailand communication company (Advanced Info Services)
- Enhancing competitiveness as global OEM/outsourcing/component companies
 - » Indian IT/Software companies (Tata Consultancy, Infosys, Wipro)
 - » Taiwanese PC/mobile hardware & component companies (TSMC, Media Tek, Hon Hai Precision, Compal Electronics, BenQ)
- OEM/outsourcing/component partners of global MNCs to global equipment manufactures
 - » Taiwanese PC/mobile hardware companies (Acer,)
- Local champions to global players
 - » Chinese technology hardware & equipment manufactures (Haier, Lenovo)

Growth Cube of the Firm



Industrial Cube



Forbes Asian Best 200 under 1 Billion

