

# **Opportunities and Challenges of Internationalization:**

## **What can Iranian Companies Learn from Other Emerging Market Companies?**

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# The Current Situation:

## Among large, middle-income economies, Iran has low exposure to the global economy

	<i>GDP per capita (US\$ PPP)</i>	<i>Exports/ GDP (%)</i>	<i>Imports/ GDP (%)</i>	<i>FDI/GDP (%)</i>
Russia	24,067	29.5	21.2	0.5
Turkey	20,188	28.0	30.8	2.4
<b>Iran</b>	<b>17,141</b>	<b>14.8</b>	<b>10.0</b>	<b>0.3</b>
Brazil	15,940	13.0	14.3	4.2
Thailand	14,980	16.5	17.4	1.8
China	13,801	24.0	18.8	2.3
Indonesia	11,135	21.0	20.8	1.8
India	6,266	6.5	6.7	2.1

# What Does the Future Have in Store?

## The Process of International Economic Engagement

- **TRADE**

- Increased imports into the domestic economy (= increased competition for local companies)
- Export opportunities for local companies

- **DIRECT INVESTMENT**

- Overseas companies acquire local companies, establish JVs with local companies, set up “greenfield” subsidiaries
- Local companies acquire overseas companies, or establish JVs “greenfield” subsidiaries in overseas markets

- **CAPITAL MARKETS**

- Access to global financial markets

# What Does the Process of Internationalization Mean for Local Companies?

## KEY STRATEGIC CHOICES

### *Where to focus?*

- Home market
- Overseas

### *How to develop?*

- Internal development
- Joint ventures with foreign companies
- Acquisition of foreign companies

## KEY STRATEGIC CONSIDERATION: BUILDING COMPETITIVE ADVANTAGE

- Exploiting existing resources
- Building capabilities

# Local Companies Can Beat Global Giants

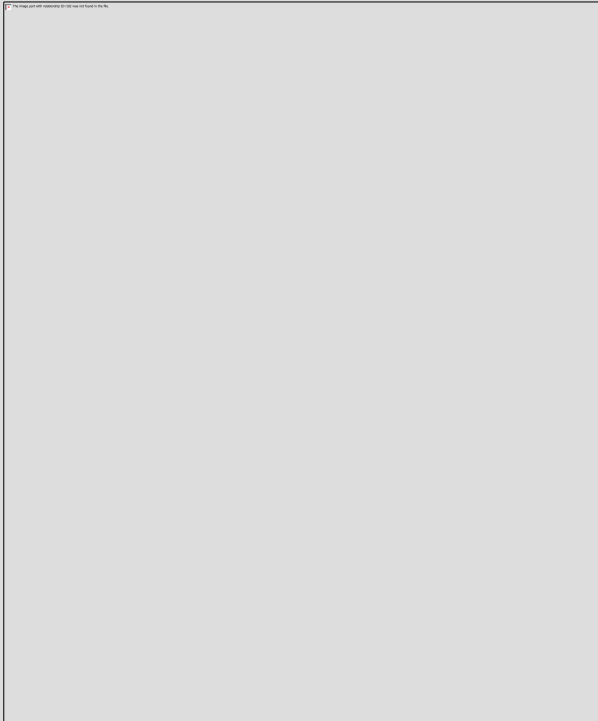
## E-commerce in India

SECTOR	GLOBAL GIANT	LOCAL CHALLENGERS
Online retailing	Amazon	Flipkart, Snapdeal
Ride sharing	Uber	Ola
Online payment systems	Paypal, Google Wallet	CCAvenue, Citrus Pay, PayUbiz / PayUMoney, EBS, Instamojo.
Online travel agencies	Expedia (including Orbitz and Travelocity), Priceline (including Kayak)	MakeMyTrip, Cox & Kings, Yatra, Goibibo

## How Do They Do It?

- Exploit early mover advantage
- Exploit local knowledge
- Exploit idiosyncrasies of local regulations

*The key is not to imitate the strategies of global leaders, but to learn from them and use local resources to gain a distinctive advantage*



Baba Ramdeth:  
spiritual teacher

## **Patanjali Ayurved Limited**

- Fastest growing FMCG company in India
- Diversified from organic and ayurvedic food and personal care products into cosmetics, household cleaning products and clothing
- Annual sales US\$450
- Company market valuation US\$30 billion

# Joint Ventures: Capability Sources or Dead-End?

## The Chinese Automobile Industry

*Production (2015) 21.1 million cars —of which 2.1% exported*

<i>COMPANY</i>	<i>NOTES</i>	
Shanghai Auto (SAIC)	JVs with GM and VW	} <b>Develop-ment by JV</b>
Dongfeng	JVs with Honda, Nissan, PSA, Renault, Kia.	
FAW Group	JVs with VW, GM, Mazda, Toyota.	
Beijing Automotive Group	JVs with Hyundai and Daimler.	
Chang'an Automobile Group	JVs with Suzuki, Ford, Mazda and PSA	
Great Wall	Own brands: Great Wall, Haval. Overseas production in Bulgaria, Russia, Iran.	} <b>Internal develop-ment</b>
Chery	Own brands: Chery, Karry. JV with JLR	
BYD Auto	World's biggest producer of electric cars	
Geely	Acquired Volvo & London Taxi Company	

# The Indian Automobile Industry

*Production (2015) 3.4 million cars —of which 17% exported*

<i>COMPANY</i>	<i>NOTES</i>
1. <b>Maruti Suzuki</b>	Initially a JV between Indian Government and Suzuki. Now listed company 56% owned by Suzuki Corp. 47% share of Indian auto market
2. <b>Mahindra</b>	World's largest tractor manufacturer, major producer of cars and trucks, market leader in SUVs and electric cars). JVs with Renault and Ford. Acquired Ssangyong Plants in China, S. Korea, Brazil, USA, UK, Egypt.
3. <b>Hyundai India</b>	Established 1996. Wholly-owned subsidiary of Hyundai of S. Korea.
4. <b>Honda India</b>	Initially a JV between Honda Motor Company; now 100% owned by Honda
5. <b>Toyota Kirloskar</b>	JV between Toyota Motor Corp. and Kirloskar Group.
6. <b>Tata Motors</b>	32% owned by Tata Group. Leading producer of trucks. Became a global player in cars with acquisition of Jaguar Land Rover.

**Dominated by JV with Suzuki**

**Maintained autonomy from JV partners**



# The Turkish Automobile Industry

- *Total output in 2015: 1.3m cars of which 75% exported.*
- *1,100 component suppliers in Turkey of which 250 are overseas-based*

<b>LEADING MANUFACTURERS</b>	<b>OUTPUT 2016</b>	<b>NOTES</b>
<b>Tofas</b>	282,000	JV between Koc Holding and Fiat Produces Fiat models for local and export markets (notably the Fiat Tipo and Agea)
<b>Oyak Renault</b>	310,000	JV between Renault (51%) and Turkish Armed Forces Pension Fund (49%). Assembly of Megane and Clio models plus drivetrain production.
<b>Ford Otosan</b>	410,000	50-50 JV between Ford and Koc. Global production center for Ford Transit and Cargo trucks.
<b>Hyundai Assan Otomotiv</b>	210,000	50-50 JV between Hyundai and Kibar Holding. Models include i20 and i10.

# **An Exemplar of Capability Building in an Emerging Market: Haier Group**

- **1984: Zhang Ruimin appointed general manager of Qingdao General Refrigerator Factory**
- **1984-91: Building the Haier brand within the Chinese market through quality and customer service. JV with Liebherr, collaboration with other foreign appliance companies**
- **1991-97: Diversification: acquiring other Chinese companies to broaden product range and build critical mass**
- **1998-2004: Internationalization: enters 19 countries (including USA, Japan and Europe)**
- **2008-2011: Global brand strategy—changes from product-driven to customer driven, on-demand company. Uses global resources to create locally-focused product appeal**
- **2012-2015: Networking strategy—transforming Haier into a decentralized, collaborative, fast-response enterprise**
- **2016: acquires General Electric's appliance division to become world's biggest domestic appliance company**

# World's Leading Petroleum Companies (PIW 2016 ranking)

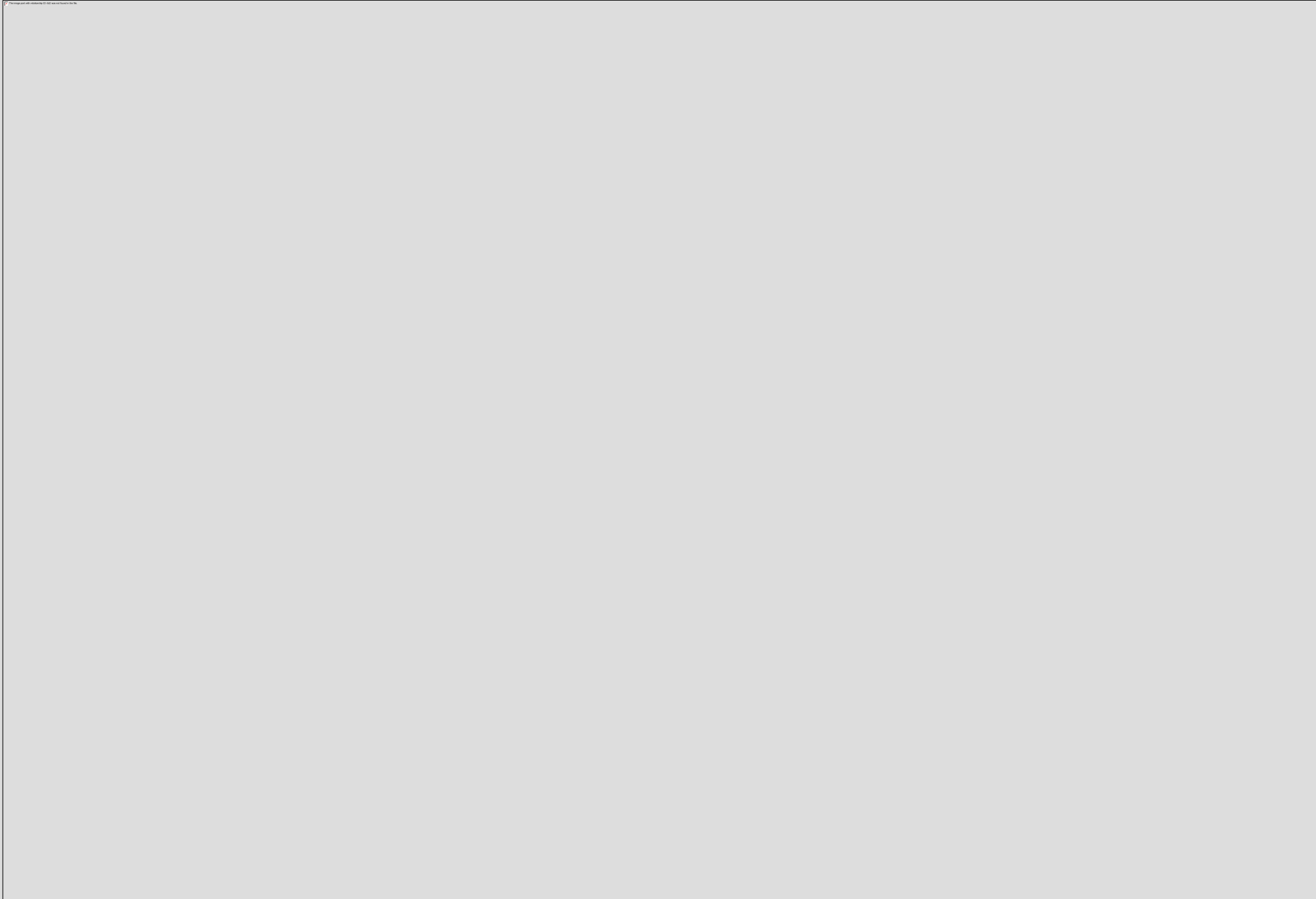
1. Saudi Aramco, Saudi Arabia.
2. National Iranian Oil Company (NIOC)
3. China National Petroleum Company (CNPC)
4. ExxonMobil, USA.
5. Petroleos de Venezuela (PDVSA)
6. Royal Dutch Shell, Netherlands/UK.
7. BP, UK.
8. Rosneft,
9. Gazprom, Russia
10. Total, France

***NOTE: Of top-25, 16 are NOCs (majority government owned)***

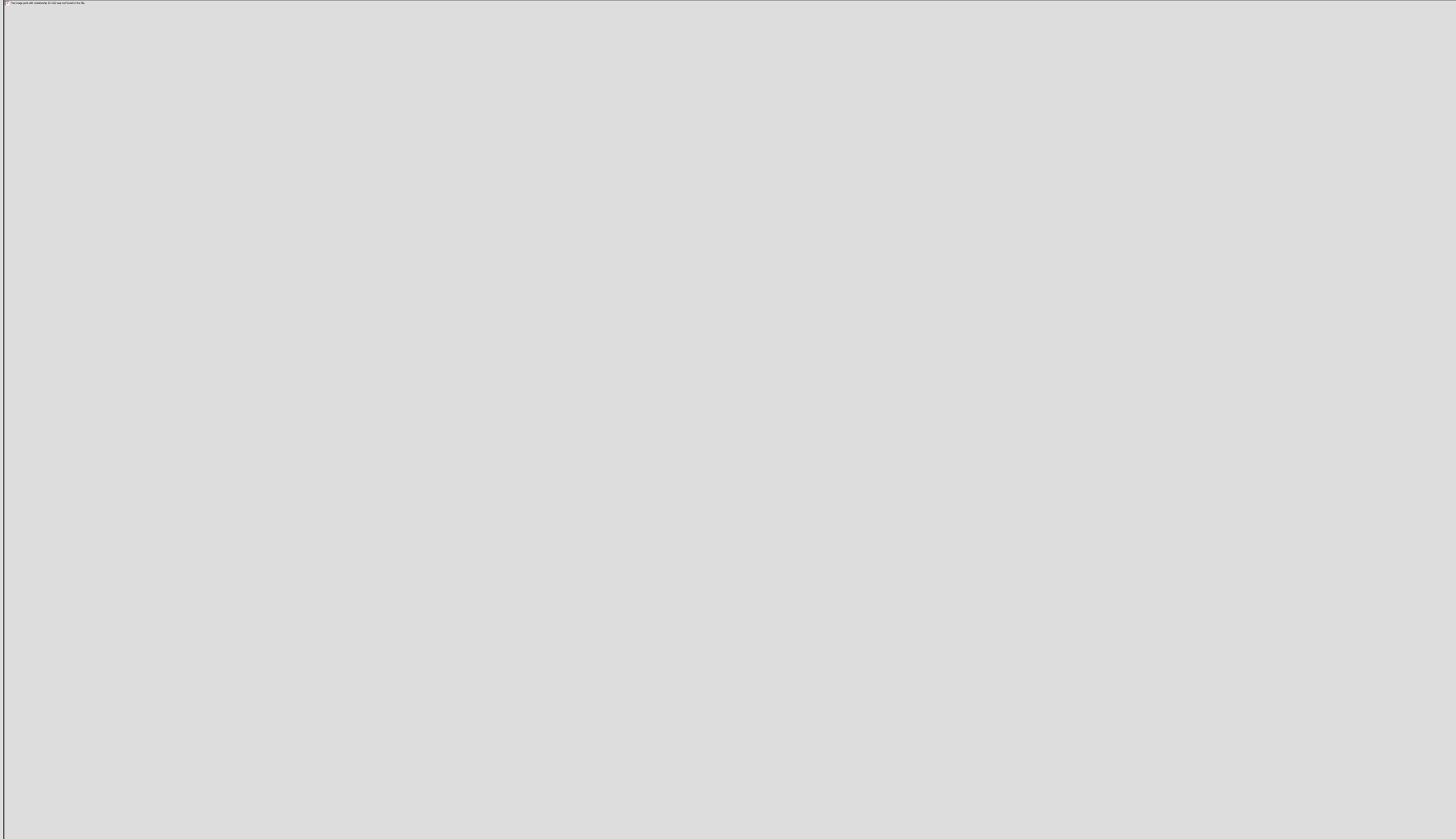
# Who Has the Biggest Reserves?

(Source: PIW, 2012)

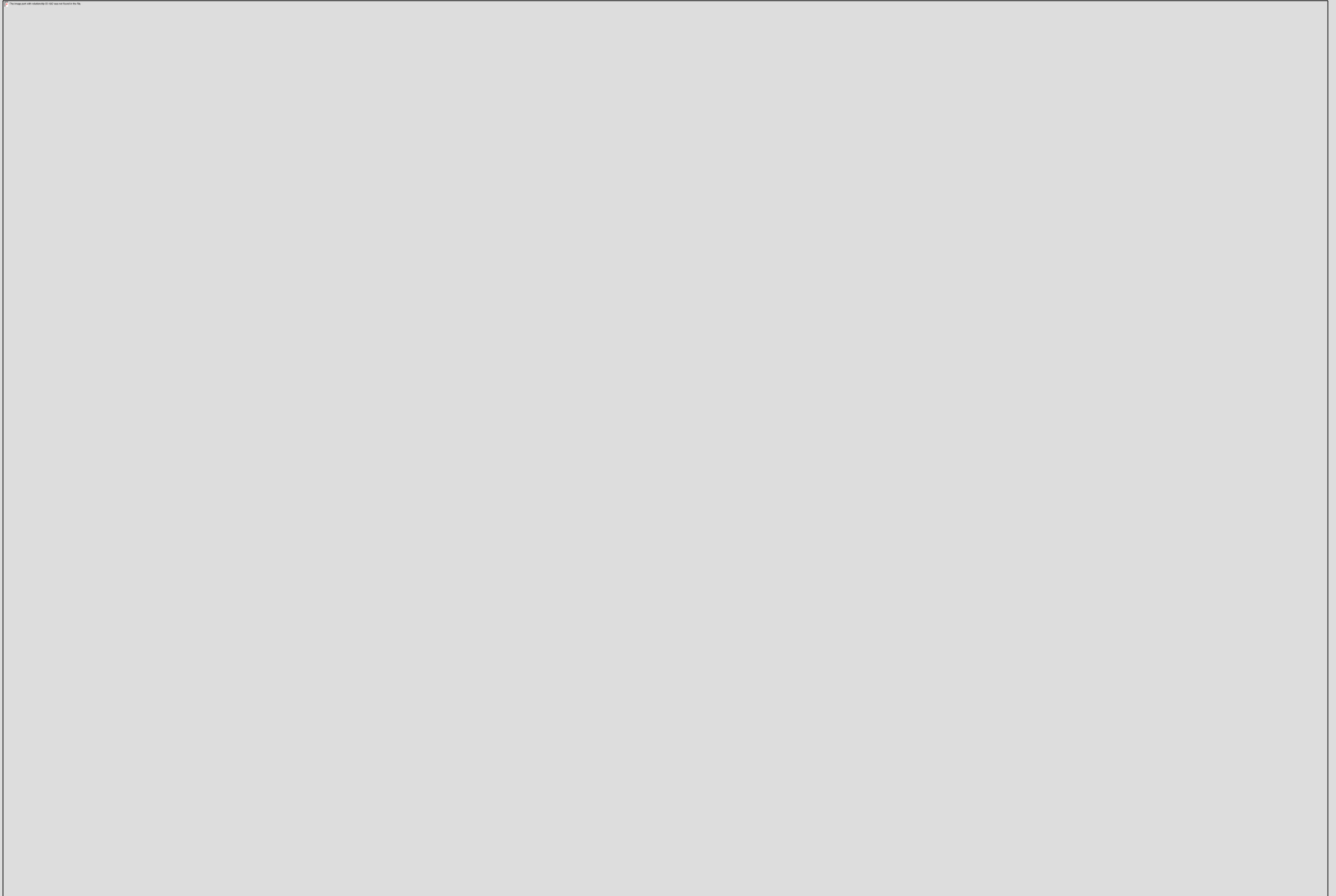
# How International are the NOCs?



# The Technical Capabilities of the NOCs



# The NOCs: Technical Capabilities and Internationalization



# Conclusion: What does this imply for Iranian companies?

- **Exploit national resource strengths**
  - Market potential
  - Human resources—young, well-educated, entrepreneurial
  - Cultural resources—art, design, creativity, antiquities, national identity
  - Iranian diaspora—US 283,000; Germany 120,000; Malaysia 100,000; Canada 95,000; UK 83,000
  - Natural resources
- **Where to focus: home or abroad?**
  - Competitive advantage begins at home
  - Overseas ventures can play a key role in development and knowledge acquisition
- **The role of joint ventures**
  - Access to resources (capital, intellectual property) and capabilities (technical, managerial)
  - *But* requires commitment to absorb know-how, *not dependence*
- **The critical role of *strategic intent*—ambition that is consistent, long-term, continually communicated and reinforced from the top**
- **Day-to-day commitment to learning and process development**



*Finally...*

An effective strategy is one that exploits differences in order to create competitive advantage