Schumpeter | The best since sliced bread

Giant emerging-market firms continue to advance everywhere

GRUPO BIMBO is on the prowl in *el Norte* again. In 2009 the Mexican baking giant bought part of Weston Foods for $2.3 billion, becoming the biggest baker in the United States. Two years later it bought Sarah Lee's American baking operations for $960m. In the past month it has been in a battle over the tastiest bits of Hostess Brands' bread business, as that once-iconic and now-bankrupt company winds up its affairs.

Bimbo brings more than a shopper's eye to its expansion. It is a master at bread-related breakthroughs. It helped introduce Spaniards to sliced loaves and pioneered the packaging of bread in clear cellophane. It is also a master of efficiency and logistics: Bimbo lorries with their teddy-bear logo are familiar sights in Mexico and Central America. The combination of savvy deal-making and relentless cost-squeezing has made Bimbo a behemoth of baked goods, with $10.8 billion of sales in 2011.

Together the emerging-market countries now have more than 1,000 firms with annual sales above $1 billion. Many are content to stay at home—after all, their markets are growing at least twice as fast as the rich world's. But some, like Bimbo, are determined to venture abroad, invading foreign markets and buying foreign companies. They are sharpening old skills and acquiring new ones. And in the process they are reconfiguring entire industries.

The Boston Consulting Group (BCG) has been producing an annual study of the top 100 such "global challengers" from emerging markets since 2006. To qualify, besides having revenues above $1 billion, challengers must have a broad global footprint, with foreign revenues equal to at least 10% of the total, or $500m. Their global aspirations must also be credible, as measured by a combination of objective criteria and a poll of industry experts. BCG's 2013 list provides an unusually sharp insight into what Marxists called "the correlation of forces" in the global economy as it begins to recover from the financial crisis.

First, the new list is notable for its variety. In 2006 it was dominated by 84 companies from the four BRIC countries—Brazil, Russia, India, China—including 44 from China alone. In 2013 it includes firms from 17 countries, up from ten in 2006, and only 30 Chinese ones. In 2006 the list was dominated by heavy industries. Today it looks more consumer-oriented, with firms in financial services (China UnionPay), e-commerce (Alibaba Group, also Chinese), health care (South Africa's Aspen Pharmacare) and food manufacturing (Indonesia's Golden Agri-Resources).

Also, the challengers are no longer simply competing on price. They are investing in innovation: almost half of the 150,000 staff at Huawei, a Chinese electronics firm, work in research and development. They are producing new business models: Alibaba has overcome the main problem in online selling—low trust—by creating an escrow-payment system, Alipay. They are gobbling up foreign firms, to acquire new skills or enter new markets: LAN, a Chilean airline group, has bought TAM of Brazil to create South America's biggest carrier, LATAM; Aspen Pharmacare recently bought 25 brands in Australia from GlaxoSmithKline.

What is also striking in the latest league table of emerging-market challengers is that the number of state-controlled firms has slipped from 36 in 2006 to 26 now. It is too early to pronounce the death of state capitalism: there are after all nine new state firms on BCG's latest list. But some may have realised that they have a comparative advantage only in their home market. Some may have been ordered to return by their state owners, for reasons of domestic politics. Others have retreated after failing to crack foreign consumer markets, or losing out to nimbler private companies in takeover battles.

Still, emerging-market multinationals are advancing on all fronts against their Western rivals. They are seeking a lock on other developing economies: Chinese contractors control 37% of Africa's construction market, for example. They are pushing into the rich world too: Alibaba has been buying e-commerce sites in America. And they are forging alliances with each other, such as the ones Naspers, a South African media group, has with Russian and Chinese internet firms.

Reddy's, steady, go

For the rich world, such emerging giants represent opportunity and growth as well as competition and disruption. For a start, they employ lots of Western workers. Tata Group of India employs 45,000 people in Britain (and announced 800 new jobs at Jaguar Land Rover, its luxury-car maker, this week). Wanxiang, a Chinese maker of car parts, employs 6,000 in America.

Emerging-market multinationals are big customers for rich-world firms: Huawei bought about $6.6 billion-worth of parts from American companies in 2011. They are injecting a huge amount of dynamism into the world economy: besides buying $1.7 trillion of goods and services each year, they collectively account for $330 billion in capital spending. They can make good partners too. DuPont of America has formed a joint venture with the China National Chemical Corporation to share skills. Merck of Germany has struck a deal with Dr Reddy's Laboratories of India to develop cheap versions of cancer treatments whose patents are expiring; in a twist to the normal pattern, Dr Reddy's is doing the product development and testing, and Merck is doing the manufacturing.

The top ranks of the emerging-market multinationals are a more volatile bunch, thus far, than their Western peers. Only half the companies that appeared on BCG's original list in 2006 appear on the latest version. But there is no doubt that there are plenty more would-be giants waiting to take their place—and that these will be even more sophisticated and ambitious than those who came before them. ■

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