



cutting through complexity

Conquering Global Markets

Secrets from the World's Most
Successful Multinationals

A synopsis

June 2013

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KPMG INTERNATIONAL

Foreword

Conquering Global Markets

In *'Conquering Global Markets – Secrets from the World's Most Successful Multinationals'*, Professor Nancy Hubbard challenges some of the common assumptions we have become used to in the M&A market.

The book should illuminate readers from the corporate sector and beyond as it shines a light on the strategies some of the largest companies are employing to globalize through M&A, strategic alliances, distribution models, licensing and outsourcing.

The most surprising results are teased out in this synopsis, which may challenge senior teams to think differently about their own growth strategies. For example:

Globalization is ditched in favor of regional domination or narrowed product offerings

We are seeing evidence of this in the increasingly widespread identification of 'non-core' assets and resulting approaches to ring-fence or dispose of these assets. Also of note are cases where large, mature slow-growing businesses are under the same roof as faster growing units. The markets may not be able to fully value the fast growing elements of these businesses, leading to a desire to separate them out so that their prospects are more visible.

The perception that high growth markets are lagging and still learning from the "developed world" is wrong

The speed of decision making and flexibility in tactics might be attributed to the family-owned business roots of many of the high growth markets globalizers. This presents particular challenges to those from developed markets as companies in the largest and strongest economies are increasingly becoming the targets of their sometimes nimbler high growth counterparts.

Big is beautiful

Greenfield is the most preferred market entry approach but large transformational M&A is the fastest. Small acquisitions are likely to be a waste of time as the management time and resources required exceed the growth results achieved. Deals done for growth require a different, more refined approach to integration, focusing more on talent, culture and governance and less on cost reduction.

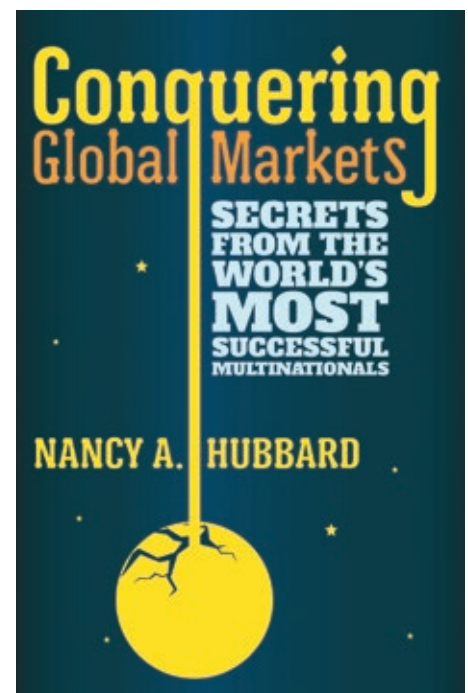
Of course, globalizing companies face big decisions in determining the right path. The book poses some of these questions and reveals how some boards are determining the answers:

- Are strategic alliances safer than acquisition or greenfield development?
- JVs are routinely considered difficult; how can you make them work for you?
- Is global better than regional?
- How are high growth market globalizers progressing so quickly?
- Acquisitions have a notoriously high failure rate for delivering shareholder value – how does that apply to globalization experiences?

Following on from Professor Hubbard's first book – *'Acquisition: Strategy and Implementation'* – we are delighted that we have been able to support her second book and would like to thank our clients for generously sharing their opinions and experiences.

We look forward to discussing this study's findings with you.

Philip Davidson
Global Head
Transactions & Restructuring





Contents

Methodology	2
Major themes	3
Background and strategic intent	4
Who is global?	5
How firms went 'global'?	7
Differences in high growth world and developed nation globalizers	16
Conclusion	19

Methodology

Conquering Global Markets includes a mix of academic research and practical best practice cases and is based on two key sources of information:

1. An existing M&A survey of 162 companies carried out and published by KPMG International.
2. A series of high level interviews with over 70 top managers (CEO's, Heads of Strategy, Finance Directors, Executive board members) in regard to their expansion history and experiences.

Chairs and senior executives were asked to describe their approach to globalization using examples of specific equity investments – M&A/ strategic alliances/greenfield and non-equity – agency/distributor models, licensing and outsourcing.

KPMG International acted as research sponsors, introducing and facilitating interviews between the participants and Professor Hubbard.

“This research, sponsored by KPMG, offers the reader unique insights from fifty of the world’s most respected executives about how they took their businesses global through acquisitions, joint ventures, alliances and greenfield investment. It is an invaluable read for anyone considering taking their business international.”

Dan Tiemann
Global Head of
Transaction Services

Companies

ABB (Switzerland)	Centrica (UK)	Lafarge (France)
Aditya Birla Group (India)	Costain (UK)	Lonrho (Africa)
Allied Domecq (UK)	Diageo (UK)	Mitsubishi Chemicals (Japan)
Amcor (Australia)	EMI (USA)	Nidec (Japan)
ARC International (France)	Evertec (Caribbean)	Petrofac (UK)
Banco de Brasil (Brazil)	Experian (US)	Rover (UK/China)
Bank of China (China)	Fast Retailing-Uniglo (Japan)	SAP (Germany)
Bank of Nigeria (Nigeria)	Ford Motor Company (USA)	Schaeffler (Germany)
Banco Santander (Spain)	GMR Group (India)	Sony (Japan)
Bayer (Germany)	Hitachi (Japan)	Standard Bank (South Africa)
British Aerospace (UK)	Illinois Tool Works (USA)	Tele2 (Sweden)
British American Tobacco (UK)	IMAX (USA)	Teva (Israel)
British Petroleum (UK)	KPMG in the UK	United Technologies (USA)
British Telecom (UK)	Japan Tobacco (Japan/Switzerland)	University of Madrid (Spain)
Cadbury Schweppes (UK)	JBS (Brazil)	
Cargill (USA)	JS Group (Japan)	

Major themes

There were seven major themes that came out of the research. They are:

- 1** Having a mode of entry strategy is paramount but how you attain that strategy should be flexible and can take many routes.
- 2** Dominating your market is critical, whether it is done on a global, regional or domestic basis.
- 3** Replication is where you can get true benefits.
- 4** Act global but be seen to be local.
- 5** Get to know the market before you get there and, once there, be a net contributor.
- 6** Learn from the high growth world globalizers.
- 7** Pick your expansion teams carefully and prepare them well as they make all the difference.



Background and strategic intent

“The key challenge for corporates will be to service the desire from their stakeholders to show growth while managing the risk of extending beyond core low growth markets into high growth, higher risk markets while minimizing risk and maintaining control. The normal answer - 'Do a JV' - doesn't seem to work.”

John Kelly
Global Head of
Integration & Separation
KPMG in the UK

There has been a fundamental shift in global development during the past 20 years. The focusing of corporations on narrower business lines to take global, faster communication methods, and the opening of previously closed markets all have created opportunities never before seen. The international business scene is confronted with a very different landscape than it was a couple of decades ago.

Four main trends are occurring in globalization:

- Global focusing – a shift in organizations from being diversified industrially and geographically centralized to be narrowly focused industrially and geographically diversified
- A move away from globalization to regionalization in some organizations
- An increasingly diverse pool of global investors including more high growth market companies and more state owned enterprises, and
- The changing role of mergers and acquisitions in transforming the geographic footprint of an internationalizing organization.

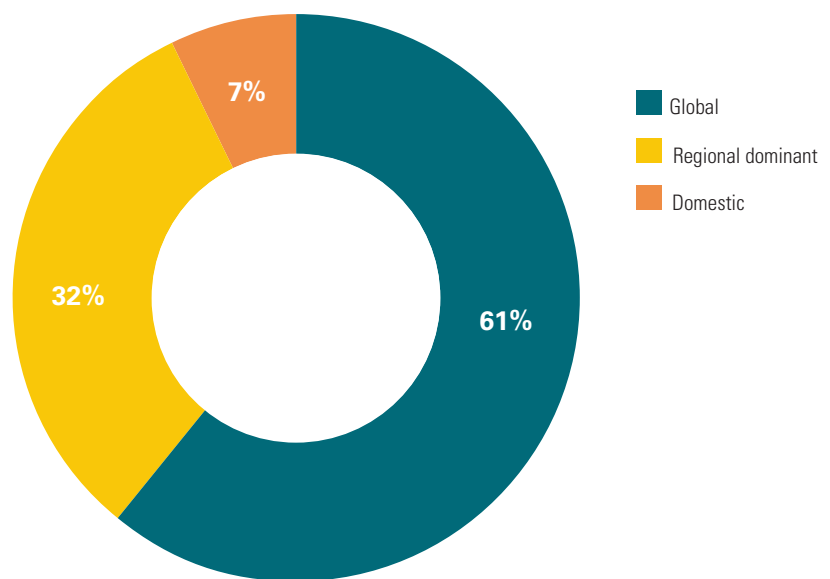
When asked, study participants said that they were, not surprisingly, going to concentrate their expansion efforts in the high growth world markets although not to the abandonment of the developed world; in fact, over 80 percent of respondents indicated they were looking to high growth markets for business expansion in the coming five years. Interestingly, the BRIC countries (Brazil, Russia, India, and China) were almost seen as 'old news' while the high growth markets of Nigeria, Indonesia, and Vietnam were seen as a greater focus of attention. The high cost base and legal and tax inconsistencies were seen as a major stumbling block for Brazil, while India's bureaucracy and ownership restrictions were also seen as onerous. Russia was seen as the most difficult country of size in which to operate with its insular reputation.

Who is global?

“Efforts to acquire a divested business in new markets as part of a regional domination strategy can leave corporate buyers without any local back office operations to integrate into. The resulting need to build supporting operations around the acquired asset is a common scenario for financial buyers, but can be an entirely new and challenging exercise for corporates who are more familiar with tucking acquisitions into existing operations.”

Steve Miller
Head of Integration & Separation
KPMG in the US

Graph 1. How participants viewed their businesses



Source: Conquering Global Markets, N Hubbard, 2013

Those who viewed themselves as domestic (7 percent) had typically less than 15 percent of their turnover coming from overseas operations. Of those who felt their business was regionally based (32 percent), one quarter aspired to be global players as part of their longer term strategy. The remaining three-quarters, “regional dominants”, were tactically pursuing a regional strategy where they could gain the same benefits of globalizers but only on

a regional basis. Of those, the regions were either based around a defined geography (e.g. Europe) or a hybrid ‘home market’ axis which shared certain characteristics (e.g. Anglo American).

A small but significant portion of respondents indicated that their organizations had retrenched from being global into a more regional focus, becoming what is seen as a ‘regional dominant’. There they could gain some

“Despite the challenges identified about investing in Brazil, in the current economic context, LATAM remains a very interesting investment option, either greenfield or brownfield. However, the growing economies, such as Colombia and Mexico as well as the substantial size and unexplored regions and segments of Brazil are contrasted by the tax, political and cost issues. But for those who manage to navigate the cultural differences and deliver efficiencies, the rewards can be significant.”

Carlos Gatti
LATAM Head of Advisory
KPMG in Brazil

of the benefits of globalization without the cost, seen not only in financial terms but more so in management time and expertise. Therefore, resources were more able to be coordinated and spread less thinly.

Global businesses had certain characteristics. They operated in a commodity product, one that required little tailoring for the domestic market, or had a brand or technology that held universal appeal that was relatively easily replicable across boundaries.

Risks and benefits of going global

Those interviewed saw the obviously increased risks of operating in multiple markets especially political risk and social/market knowledge risk when operating in the high growth world. The other major risk noted was managing resources within the firm whether it be human capital, allocating financial resources and budgeting, sharing knowledge and collaborating effectively or sharing global services. Managing the balance between centralization and decentralization was a theme that permeated the research especially in developed world participants.

The benefits of globalization were numerous. The majority of respondents indicated the main drivers for globalization were gaining access to new customers and markets as well as reduced geographic risk. A significant number of participants, including the majority of Japanese respondents, also

noted that globalization gave access to a more diverse pool of managerial employees, which for them was a major driver. This was less prevalent in Anglo American and European respondents. For service companies, the drive towards globalization was inevitable as in order to serve their own international clients, they too, had to become more global in their reach. Very few respondents indicated that the move towards new markets was in search of lower cost operations; in fact the overwhelming majority were pursuing overseas expansion for top line growth. The final drive towards globalization was seen to be the favorable outlook given to international firms vis-à-vis domestics in terms of investor attractiveness – global was seen as a positive in the eyes of shareholders and internationally focused firms were rewarded for being such.



How firms went 'global'?

“To grow anywhere, companies need to collaborate effectively. Especially in the emerging-and-now-emerged economies, this means a joint venture. In the world of JVs and strategic alliances, the deal is just the beginning. Learning how to influence as a (minority) partner, moving with the times and keeping the JV 'marriage' secure demands more focus and new skills from many companies – even global multinationals.”

Dr Marc van Grondelle
Global Head of
Joint Ventures
KPMG in the UK

How participants internationalized differed in terms of their use of greenfield investment, strategic alliances, joint ventures or mergers and acquisitions. Two-thirds of those interviewed favored one mode of market entry over others with the majority of participants stating that joint ventures were their least favorite. In fact, 80 percent of participants said they would avoid using joint ventures as long as another entry form was available to them. Others, most notably many high growth market participants, took a more pragmatic approach indicating that they use all modes depending on the situation.

While control remained a crucial criterion for selecting a mode of entry, the most influential reason for choosing a preferred entry mode into a new geography was speed. Wanting control was the second most cited response. This combination meant that some modes of entry were more appropriate for some circumstances; for instance in those cases where spend was important, greenfield investment was a less attractive option and instead acquisition (where a suitable target could be identified) was preferable.

Strategic alliances

Strategic alliances were the most ambiguous of all the topics discussed in the interviews. This is not surprising considering they run the gamut from loose cooperative working agreements through to joint ventures.

Non-equity alliances: best for restricted/lower priority markets

Non-equity alliances are those working relationships where the two parties do not take equity in a joint venture or in each other. Instead they have a contractual agreement to work together; this may or may not be reliant on collaboration between the parties (see Diagram 1). There is one term worth defining – 'outsourcing'. Offshoring is sending business functions overseas to a lower cost servicing or manufacturing location. Outsourcing is contractually allowing another organization to perform a certain business function for the organization. Outsourcing was seen as a common practice by those interviewed – one in which business functions were performed overseas by another organization. Tasks being performed included customer services, billing and back office functions, and manufacturing. The biggest users of this were the Japanese participants although interestingly, high growth market companies were also moving some of their functions to even cheaper locations.

There are types of non-equity alliances that do require true joint collaboration; examples include joint functions or agency agreements. In these cases, success relies on the mutual cooperation and coordination of the two organizations. Equity alliances are those which include organizations taking minority stakes in others, either

reciprocated or not as well as joint ventures regardless of the ownership control levels.

Non-equity alliances were used heavily by some participants and the majority of others in only a few circumstances. The reasons for use were access to a restricted market, the market not being seen as a priority enough for a fully owned operation or lower cost manufacturing. The latter was mentioned infrequently, only by the majority of Japanese respondents. Interestingly for those who used contractual alliances frequently, the most successful set-up a small representative office to aid the local agent in pursuing their mutual objectives. While this entailed an additional expense, it was still seen as the most successful model in terms of these types of agreements. The reasons for entering strategic alliances differed quite dramatically across those participating organizations and their nations of origin. The most obvious reason for developed nation organizations for using a strategic alliance is because outright ownership control is restricted. They also

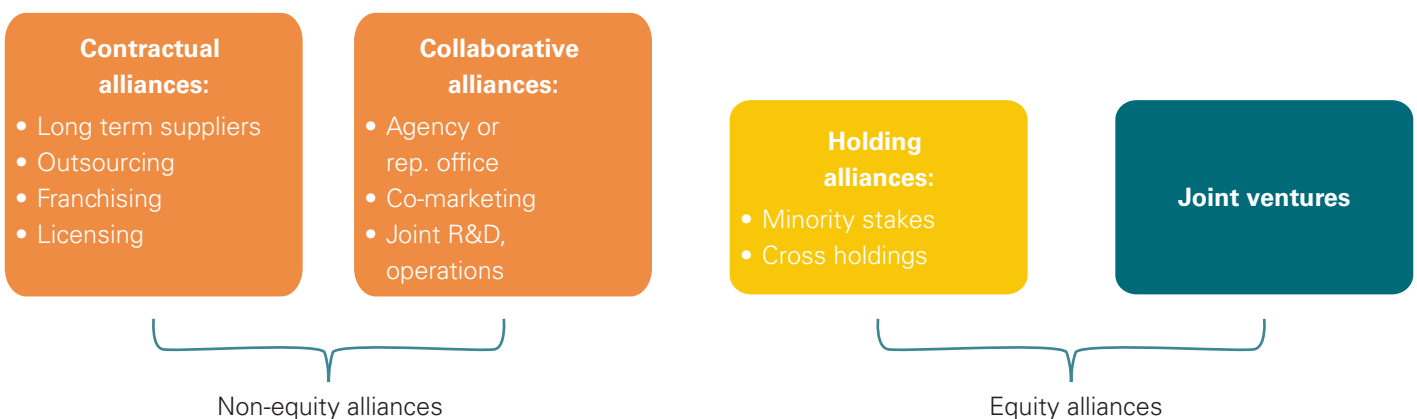
commented that joint venture was used as a defensive mechanism to tie in a relationship with a leading domestic player to ensure there is collaboration rather than competition in that market. Giving away a portion of that venture was seen as the cost of doing so. Others, especially high growth markets globalizers, used alliances very successfully to bring resources they did not possess, including: market knowledge, key technology, international management expertise, and local brands. The four main reasons given were overwhelmingly:

1. It was legally required to operate in that market.
2. The market entering business wanted to secure a partner with local knowledge of the culture, market, distribution channels and political landscape.
3. The collaborator wanted to use the experience as a learning tool to better understand that market.
4. A good partner became available so the opportunity was more opportunistic and defensive.

“Overcoming the JV challenges raised by respondents and successfully executing JVs can mean operations have to be carved out and subsequently integrated with a partner. This places a greater emphasis on having a compelling rationale, rigorous execution to create value and a willingness to embrace cultural differences doing the deal and running the JV.”

Gavin Combe
Partner, Integration
& Separation
KPMG in the UK

Diagram 1



Source: Conquering Global Markets, N Hubbard, 2013.

“The perception that Russia’s market for corporate development/control is lagging behind and is only waiting to learn from the ‘developed’ world does not reflect the complexity of ‘Corporate Russia’. The operating style of ‘emerging’ economic powers – like Russia or China – is very different from ‘the West’. These states and their large state-owned corporations have recognized that the Western ‘rule-based’ model is increasingly failing to deliver results, in particular on the long-term strategic investments required these days. Hence, we should expect these players to have a significant impact on the way future ‘game changing’ deals are orchestrated and executed: much more pragmatic.”

Tony Thompson
CEO of EMA Region
KPMG in Russia

Joint venture: the least favorite type of alliance

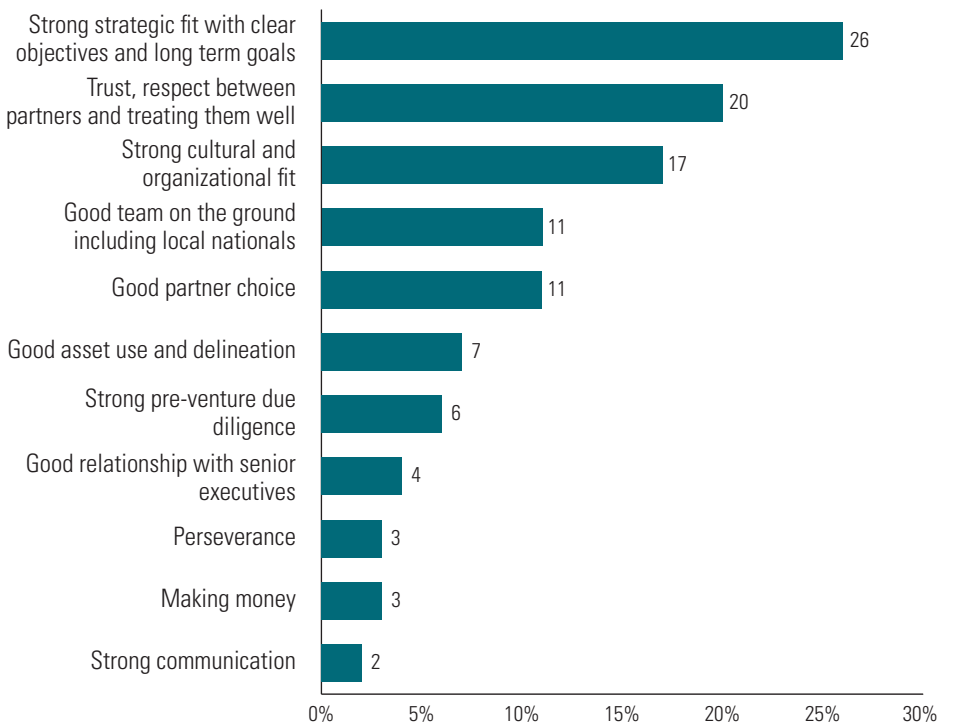
Operating control and shareholding are viewed differently in the high growth markets

Joint ventures were the least favored of all modes of entry with over 80 percent of respondents saying they would choose another option if it were available. Almost all Anglo-European participants interviewed indicated that if they had to operate in a joint venture they wanted operational control. Asian and high growth market companies were more pragmatic in the sharing of control. A small but significant number of participants actually favored joint ventures – they tended to be either Japanese or high growth market globalizers.

Success rates for joint ventures were higher than those reported in previous research – with 70 percent of participants indicating that their most recent joint ventures had either been very or somewhat successful in meeting their strategic objectives (see Graph 5).

Those undertaking joint ventures indicated the following reasons were the most important for success (see Graph 2).

Graph 2: Reason given for joint venture success (%)



Source: Conquering Global Markets, N Hubbard, 2013.

There were several trends being employed by participants in joint ventures that were cutting edge. These included project based joint ventures, non-traditional partnerships (such as direct competitors, NGOs, and non-

profits), virtual JVs and in-house alliance units to coordinate overall joint venture management. Bearing in mind the size of the study's participants, the use of alliance units is not surprising and, it is thought, added to overall success.

Mergers and acquisitions: Big is best

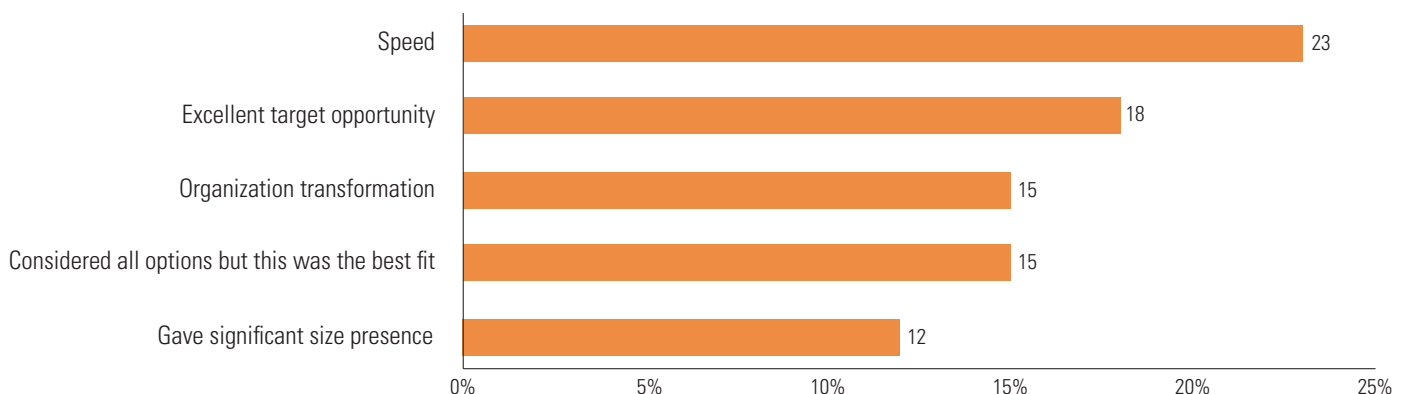
Large transformational acquisitions are most beneficial. Top acquisition drivers are access to local markets and top line growth, acquire for speed, access to markets and competitive advantage.

Mergers and acquisitions are the backbone of overseas expansion by developed world organizations into geographies where they are permitted. They are the favored route to market for many reasons. Participants indicated that they chose acquisition as opposed

to alliances or greenfield investment, not because of the anticipated answer of control, but because of speed (see Graph 3). In addition, opportunistic acquiring was also prevalent as were transformational acquisitions discussed below. Further, acquisitions were favored for tapping into an existing market capacity and not creating an oversupply as would a greenfield investment.

Cheaper sourcing, tax, natural resources, diversification and asset

Graph 3: Why acquisition was chosen as a method of entry: top answers (%)



Source: Conquering Global Markets, N Hubbard, 2013.

“Adopting a ‘light touch’ approach to integration as part of acquiring in new geographies does not mean do nothing; the key aspects of control, revenue synergy, talent retention and creating a strong corporate culture as an operating framework for all business units remain crucial to delivering deal success.”

Roberta Carter
Head of Integration
& Separation
KPMG in the UK

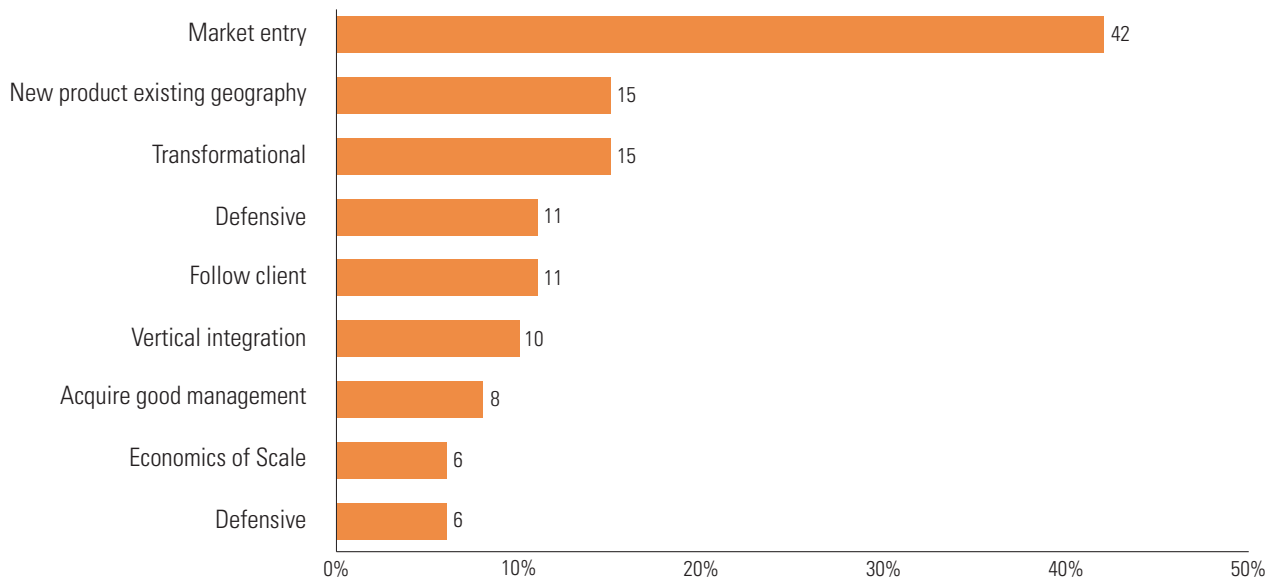
potential were all mentioned by 2 percent of participants.

The nature of acquisition according to the participants, however, is changing. Research has found that in the past, acquisitions were used for economies of scale and cost saving and market share consolidation of domestic and neighboring markets. This research found that this has changed. The vast majority of acquirers (see Graph 4) were acquiring for access to local markets and top line growth as opposed to cost savings. In addition, “transformational acquisitions” or the use of acquisition to radically increase an organization’s geographic footprint was also used strategically by organizations of all nationalities. While rare, these opportunities were seized readily not only to grow the organization’s territory but to deny a competitor the ability to

do so. Likewise, the use of acquisition as a defensive strategy featured in a small but significant number of cases. Differentiation was mentioned as a major reason for acquisition primarily by Japanese participants and significantly less so by Anglo-Europeans.

Globalizing businesses were more successful in achieving acquisition success than in previous research. In fact, 38 percent of participants indicated that their last acquisition had created significant value while 24 percent said it had created some value. Interestingly, acquisitions had a higher degree of high failure levels with 16 percent of respondents indicating that their last acquisition had destroyed value compared to none in joint ventures (see Graph 5).

Graph 4: Reason given for acquiring in that geography (%)



Source: Conquering Global Markets, N Hubbard, 2013.

“Post-acquisition management especially in developing economies can be the single most critical factor for deal success. Our clients typically enhance local executives with Japanese management in order to ensure local market understanding while leveraging parent capabilities.”

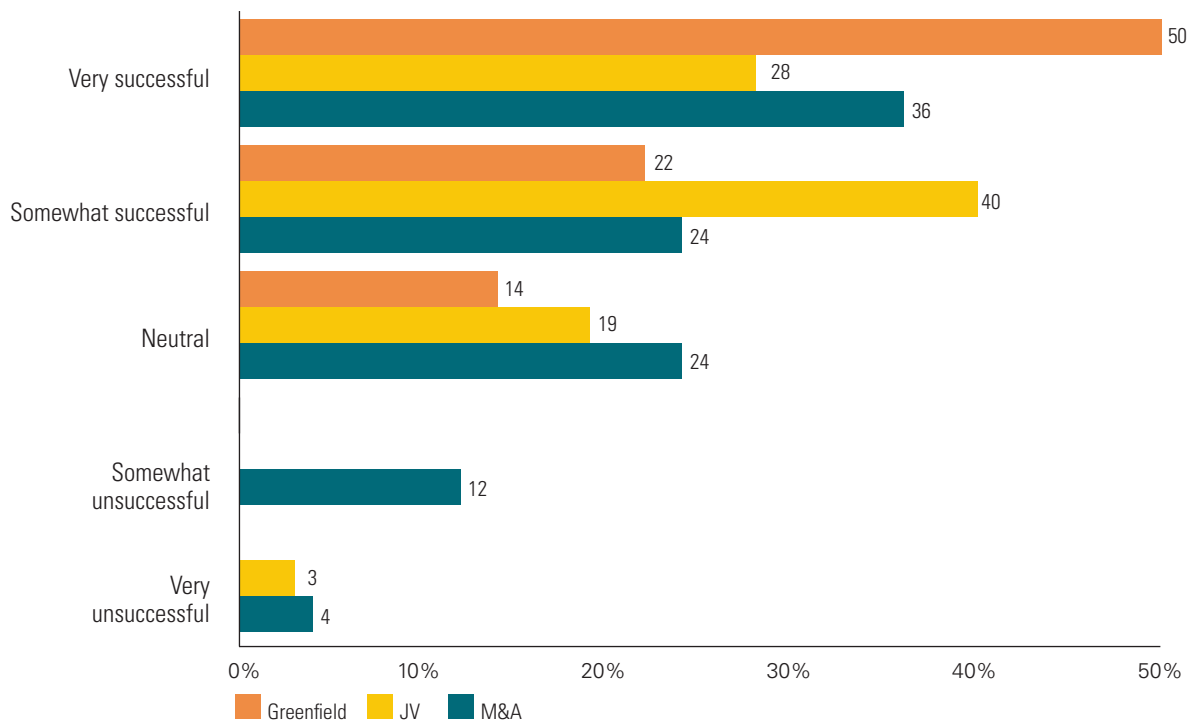
Masahiko Chino
Head of Transactions & Restructuring
KPMG in Japan

The higher success rates can be linked to the reasons for acquisition. With almost half of acquirers acquiring for market entry, the majority did not unduly integrate business units together, instead, operating them in a more hands off manner. In some cases the acquirer had a smaller presence in the country of acquisition; in these cases they almost all merged those smaller operations into larger acquired units. Because of this, most did not undergo full integration and the complications that this entails. Rather, most participants ran their new acquisitions as standalone entities integrating operations only in those areas where they needed intra-firm collaboration. This provided a much higher success rate than in previous

research where acquisitions suffered from implementation issues.

The implications for this are echoed in the key factors for acquisition success (see Graph 6). More so than in previous research, key employee retention surfaced as a major consideration. Those acquiring were interested in retaining local knowledge through their acquired employees. Thus “getting the top team right” was a top response as was using a “lighter touch” during the integration phase to ensure the top team remained in place. This was seen most acutely in those acquirers from the developed world acquiring into the high growth world and by high growth market acquirers.

Graph 5: Reported success factors for various entry modes (%)



Source: Conquering Global Markets, N Hubbard, 2013.

In an unrelated piece of KPMG research, 162 acquirers (both domestic and cross border) were anonymously surveyed. Those buying cross border, not

surprisingly, indicated their most difficult HR challenge was managing cultural differences.

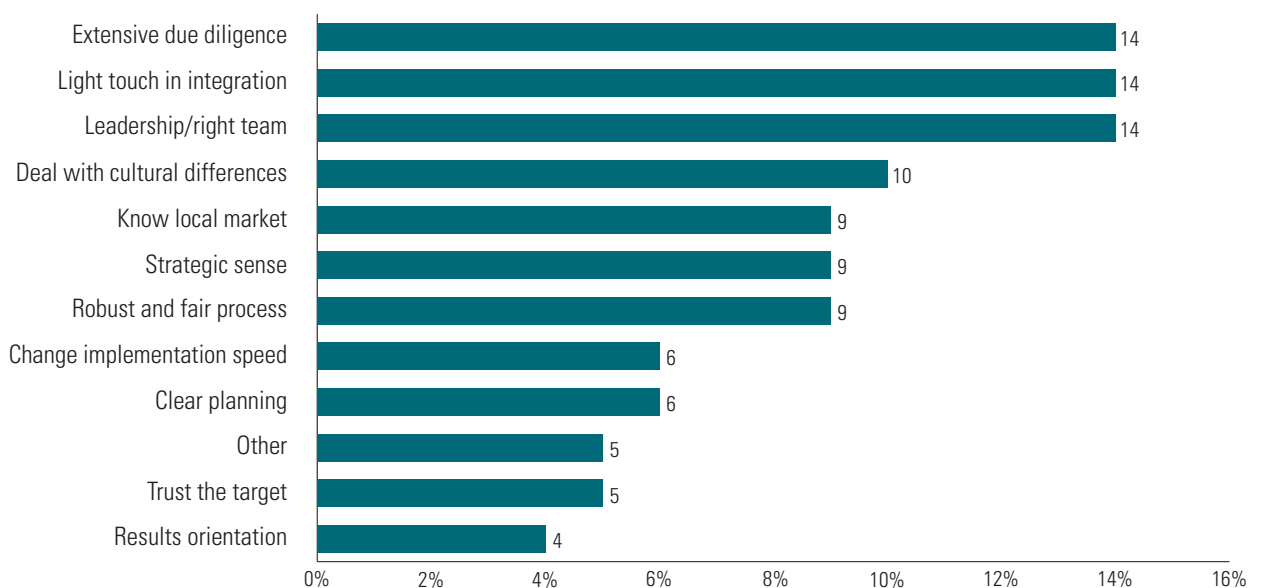
Greenfield investment – the most successful equity investment vehicle for global growth and long game

Greenfield investment was the most successful of all entry modes as reported by the survey participants (see Graph 5) with a greater number reporting success and none reporting greenfield disasters. If anything, their responses indicated that disappointments were related to lost opportunities rather than actually destroying value.

The main reasons for market entry were different for greenfield investors (see Graph 7) than other modes. While market entry remained the top reason,

following a customer into a new market featured prominently while it did not for other entry modes. This is logical – the ability to generate immediate revenue through an existing client base means that the initial newness to the market and revenue generation lag is mitigated. It also provides instant legitimacy to new market entrants. Competitive differentiation is also featured prominently, especially among Japanese companies. Cheaper cost locations as well as vertical integration is also featured more prominently in greenfield investment.

Graph 6: Reason for acquisition success (%)



Source: Conquering Global Markets, N Hubbard, 2013.

“Whether in greenfield or acquisition situations, what is needed is the assessment of four key questions in every investment:

1. What needs to go right?
2. What might go wrong?
3. How can risks be mitigated?
4. What is excellent execution of deals that addresses the first three questions?

This is proven true for those learning from speed and opportunity generation of companies in the almost ‘settled’ emerging markets but also for corporate investors from these regions planning to buy into Europe and North America.”

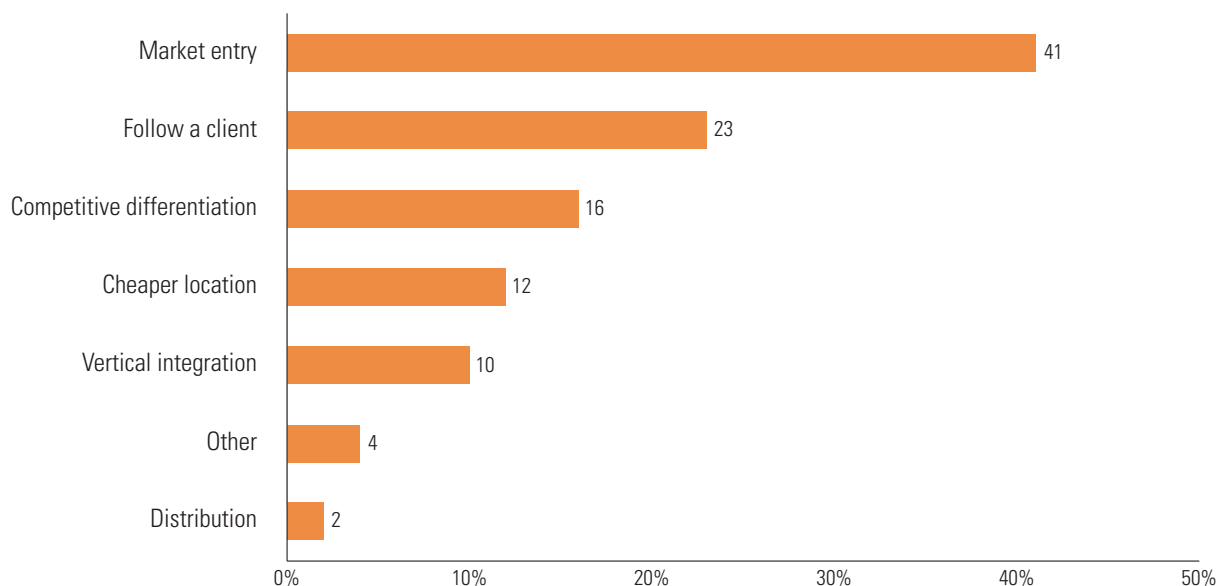
Christoph Zinke
Head of Transaction Strategy Group
KPMG in Germany

Those entering markets via greenfield investment were most successful if they had either certain characteristics or employed certain techniques for their expansion. These included:

- Following a client into a new market.
- Utilizing existing corporate relationships and knowledge more fully in order to facilitate their expansion. Twenty percent of participants indicated that they used a ‘piggyback approach’ to enter a new market by which they were able to leverage an existing corporate relationship. The most common approach was entering a market occupied by a corporate division and utilizing their knowledge of the local market as a spring-board for speeding up their own learning process.
- Using a ‘beachhead effect’ to enter markets abutting an existing operation’s geography. This worked

Global focusing – leveraging a narrow product or services set across markets versus regional dominant – broaden product/service range dedicated to dominating a particular market

Graph 7: Reason for greenfield investment (%)



Source: Conquering Global Markets, N Hubbard, 2013.

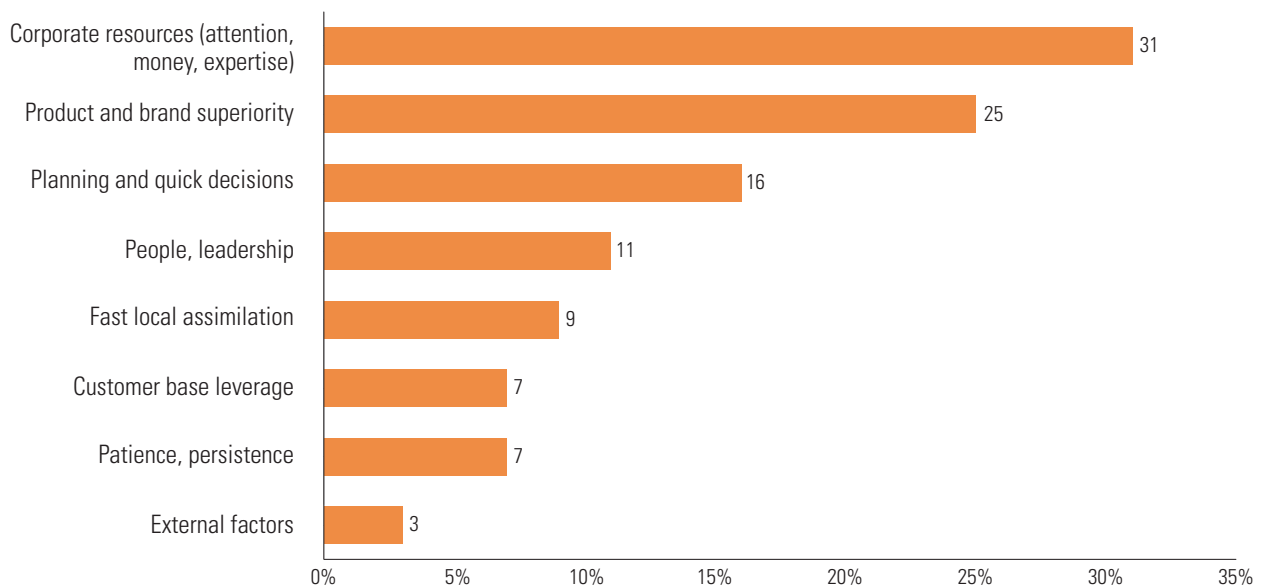
best in those regions that shared cultural similarities. In one case, the globalizer actually set up a temporary operation while it grew its business until a permanent operation was warranted and established.

- Rolling out a product or technology that needed little tailoring for the new geography but that did not expand supply that was at capacity.
- Establishing a low cost site for either manufacturing or back office support. Pursuing a lower cost site was a tactic frequently used by Japanese companies.
- Employing world class marketing expertise. Unlike joint ventures and acquisitions, entering greenfield investments is the one mode of entry that does not come with top line revenue in place – which

is a distinct disadvantage unless the globalizer has a world class marketing department. With a known brand name and reputation, they are more able to attract local staff and employ their marketing prowess from other markets.

Those companies that were able to achieve greenfield success attribute it to several key factors (see Graph 8). The most mentioned was having corporate support especially in terms of having a senior ‘champion’ who was willing to commit resources and attention to the project. Unlike other methods of entry, persistence and patience also featured heavily. Having a known international brand which could create a pull in the market was also seen as a source of success. Finally, quick decisions and leadership was also seen as critical for success.

Graph 8: Greenfield success factors (%)



Source: Conquering Global Markets, N Hubbard, 2013.

Differences in high growth world and developed nation globalizers

“The primary attraction factors for acquirers investing in India is the size of its market and its growth potential. These growth expectations have driven up valuations multiples significantly in recent years and it is not uncommon for acquirers to struggle to realize value post deal. Further, the majority of domestic companies are promoter driven (owner managed) and defining their role post deal is critical to ensuring a smooth transition. Acquirers have learned the hard way that integration planning is vital and has to be done a lot earlier in the deal lifecycle and in some cases has become a pre-requisite before a deal is signed.”

Varun Gupta
Head of Integration & Separation
KPMG in India

Developed market companies need to emulate high growth market players who have successfully grown very quickly due to agility, nimble decision making, collaboration, innovation and coping with ambiguity.

The meteoric growth of the high growth world globalizer is one of the most astonishing business developments of the past 20 years. Indeed, 20 years ago there were only six companies among the world's largest 100 that originated from the high growth world. The number now is triple that. Perhaps the most surprising finding of the research was the different approaches taken by developed world globalizers and those from or operating predominantly in high growth markets. The differences can be summarized below. High growth world globalizers tended to be:

- flatter organizations and less bureaucratic
- quicker decision makers with clear decision making channels that were well understood
- more flexible, creative, and pragmatic in their approaches to market entry
- more creative towards and open to unusual partnerships, especially in the choices of partners
- more proactive in openly promoting their distinct corporate cultures and seeing them as a major source of competitive advantage
- reliant heavily on internal communication and had systems in place to deliver it effectively

- holistic in their approach to business including being a good corporate citizen to the communities in which they operated.

These characteristics are not surprising given the history of high growth world globalizers. In their early years, many had to make do with limited resources, creating opportunities where and with whom they could. Because of this they developed a more flexible and nimble approach to expansion. In addition, as their histories tend to be much shorter than their developed world counterparts, they have been more able to keep bureaucracy at bay, promoting fast decision making and effective group communication without the organizational baggage that comes with an organization's age. In many, they continue to operate as multi-million dollar enterprises as opposed to the multi-billion dollar giants they have become. They are nimble, collaborative, communicative, and creative. That is not to say that developed world organizations did not demonstrate these characteristics. Some did but not to the extent of their high growth world brethren. It should serve the latter well in the future.

“Acquirers from developing countries, with the Chinese being an excellent example, have learned the hard way in recent years as overseas acquisitions have not completed or performed against expectation. Employees at target companies, and associated governments, are highly suspicious of ambitious and inexperienced acquirers from the developing world over issues such as intellectual property and employee protection. Today, developing world acquirers are acutely aware of these concerns and spend significant time and energy addressing the softer and intangible aspects of deals, as well being open to minority shareholdings or ensuring management are retained to manage the business with significant autonomy post-deal.”

Dominic Orchard
Head of Integration & Separation
KPMG in Hong Kong and China

China as a source of investment

Because of China’s sheer size and influence, participants talked specifically about their Chinese experiences. While China was seen as a place of high-risk yet high-reward with almost all participants investing in China now for the domestic market rather than a source for cheap manufacturing. Participants found China an increasingly difficult place in which to do business with increased competition from rapidly learning domestic firms, partners who were being more choosy and demanding in their joint venture arrangements, and an ever increasing domestic cost base especially in terms of middle and senior management.

But those who operated in China and achieved success, demonstrated some similarities. Those most successful were greenfield investments where globalizers controlled their own technology and importantly HR function. The latter is important as the Chinese state-owned enterprises are openly interested in ensuring full employment as a management objective. This approach did take considerable time taking up to an estimated 10 years to become profitable in some cases.

Joint venture success, while less common, was reliant on:

- clear and agreed expectations and measurable goals
- mutual trust between the partners often built over years of exchanges and discussions
- good management and leadership in China especially senior management.

For those achieving joint venture success, the most common route was to take a longer term approach, establishing a presence in China and spent time building local knowledge prior to making any significant investment. Once local knowledge had been established, knowing the best local partners or acquisition targets became a much easier alternative. During this time, those companies also demonstrated their willingness to be a good corporate citizen and contribute to the local community which enhanced their reputation with the market and government. It was time well spent.

The issues that were most mentioned as being critical to future success in China were trust, employee retention, perseverance, and the rise of the Chinese competitor. Trust featured more heavily in discussions about China than any other market – trust with partners, with the government and municipalities and with employees. It is something that only time and consistently good behavior can create. As mentioned before, employee retention was seen as a major challenge exacerbated by the scarcity of linguistically and technically good executives. The threat of intellectual and technological property preservation was highly sensitive to employee turnover which, when combined with the first point, has led to hyper wage inflation for key middle and senior managers. Perseverance was also repeatedly mentioned again, especially in the context of building business relationships and ultimately trust.

In some cases, Chinese partners almost seemed to test participants' resolve to be in the market before moving forward. It is not a market where one can fly in and out and expect to solidify any meaningful business relationships. Finally, many spoke of the rise of the Chinese competitor. All commented that it is a matter of time before the

Chinese don't need foreign joint venture partners for success. When this happens they will begin to buy key brands and technologies overseas for use in those markets and in China. With over three trillion dollars of Chinese reserves at present, the time is not far off before this will happen.



Conclusion

Those interviewed gave a holistic view of globalization, its challenges and their routes to success. The world is changing quickly and these globalizers have mastered the art of being global but acting local on a large scale, whether it be regionally or globally.

While the business world will focus on the high growth markets for future

growth, there was a belief that industry will return to the developed world as high growth world economies develop.

And with this will come the influx of high growth world globalizers to compete in the developed world. If anything the lessons learned will become only more important.

A note from the author

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