The Rise of Global Challengers

Idea In Short

Retire the assumption that multinationals from rich countries own global markets. BCG's tracked challengers grew revenue at three times the market with 13 percent margins, concentrated in business-to-business sectors, and one in ten graduated to global leadership. Incumbents should study their operating models, not their price points.

The Old Days Are Over

In sharp contrast to slow-growth pessimism about the world economy, BCG's tenth annual report on emerging market companies documents firms that are simply killing it.1 The highlighted companies grow revenue at three times the market rate with above-average margins, and the old days when multinationals from the United States, Europe and Japan easily captured international market share are over. The direction of threat has reversed, with the top 100 global challengers and the next 1,500 global champions taking the fight to the incumbents on their home fields.

A Three-Tier Hierarchy

The report's taxonomy takes a couple of readings to absorb and rewards the effort. Global leaders are emerging market firms that have already reached the global Fortune 500, names such as Gazprom, Tata Consultancy and Tata Motors. Global challengers, the tracked top 100, are actively giving market leaders a run for their money. Global champions, the next 1,500, do excellent work at largely regional scale, forming the feeder pool beneath.2 Across a decade of tracking, 193 companies have appeared on the challenger list, and the graduation statistics below justify the whole exercise.

Thirteen and Thirteen

The performance numbers explain the attention. Emerging market companies grew at an average compound annual growth rate of 13 percent from 2009 to 2014 against 4 percent for their developed-market peers, while operating margins averaged above 13 percent across the decade. Thirteen percent growth at thirteen percent margins is the profile every board wants and few possess. Composition tells its own story: the majority operate in business-to-business sectors, 75 percent of the list in 2011 easing to 63 percent by 2016, because B2B supply chains run global and specification-driven, far less sensitive to local designs, tastes and preferences than consumer markets. A side note for chart makers applies here too, since the original graphic was colorful yet unnecessarily detailed, and simple graphics are always better.

Heavy Industry's Center of Gravity

The sector weighting leans hard toward commodities, engineering and construction, and the history explains why. Commodities have long been the domain of less developed markets, from Asian spice routes and South African gold mines to Caribbean rum and Brazilian forests, with the classic development-economics problem that poor countries sold unprocessed wares for pennies relative to end-product value. That era has progressed markedly: challenger market share in heavy industrial segments climbed from the 10-to-20 percent range into 20 to 50 percent, pressure felt directly by mature-market stalwarts in machinery, materials and equipment. A practical research tip travels with this observation, since sector company lists are a screener away for anyone who wants the full roster.

From Challenger to Leader

The track record validates the category. Of the 193 challengers identified across ten years, about 10 percent graduated to global leadership, and the graduates are instructive. America Movil of Mexico became the world's third-largest mobile provider, holding 43 percent of Latin America and operating in 45 countries. Tata Motors of India ranks second in buses and fourth in trucks globally, and its purchase of Jaguar and Land Rover made it number one in the United Kingdom market. Gazprom of Russia leads world natural gas production and expects nearly a third of revenue from Asia by mid-decade. BCG distills five attributes that carry challengers to leadership, and two matter most in practice. Operating model discipline decides whether companies can scale at all, the same failure point the founder's mentality research documents. And go-to-market judgment separates winners from the majority of acquirers, since half of mergers fail to deliver value, and what works in one market does not copy-paste halfway around the world. Business is beautiful in its complexity and nuance, and the graduates respected that.

What Incumbents Should Actually Do

The defensive playbook follows from the challengers' own strengths. Track the list annually and treat every challenger in your sector as a named competitor with a file, not a distant abstraction, because the graduation rate proves the threat converts. Compete on operating model rather than heritage, benchmarking your cost structure against theirs honestly, since a rival growing at 13 percent with 13 percent margins is funding its next attack from operations. Reconsider the markets you exited as too small or too difficult, because those are the home bases where challengers built scale unopposed. And recruit from them, since executives who built businesses inside challenger organizations carry operating knowledge no incumbent training program teaches. Respect, studied closely, is cheaper than share, lost slowly.

Everyone Runs at Sunrise

For believers in free markets and competition, the report encourages rather than alarms: scrappy companies everywhere are giving big incumbent multinationals a genuine contest. Readers of Thomas Friedman already know the competitive playing field is broad and flat, and the challenger map supplies the visual proof.3 The strategic homework lands on both sides. Challengers must convert regional excellence into global operating models, and incumbents must stop assuming brand and history defend share that operating discipline actually defends. The old proverb closes the case: whether you are a lion or a gazelle, when the sun comes up, you had better be running.

- 1Boston Consulting Group
- 2Emerging market
- 3The World Is Flat

Summary

The era of easy multinational dominance is over. Emerging market challengers deliver 13 percent growth at 13 percent margins, dominate specification-driven B2B sectors and graduate to global leadership at a 10 percent rate. The playing field is flat, and when the sun rises, everyone runs.