2014 BCG Global Challengers

Redefining Global Competitive Dynamics

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2014 BCG Global Challengers

REDEFINING GLOBAL COMPETITIVE DYNAMICS

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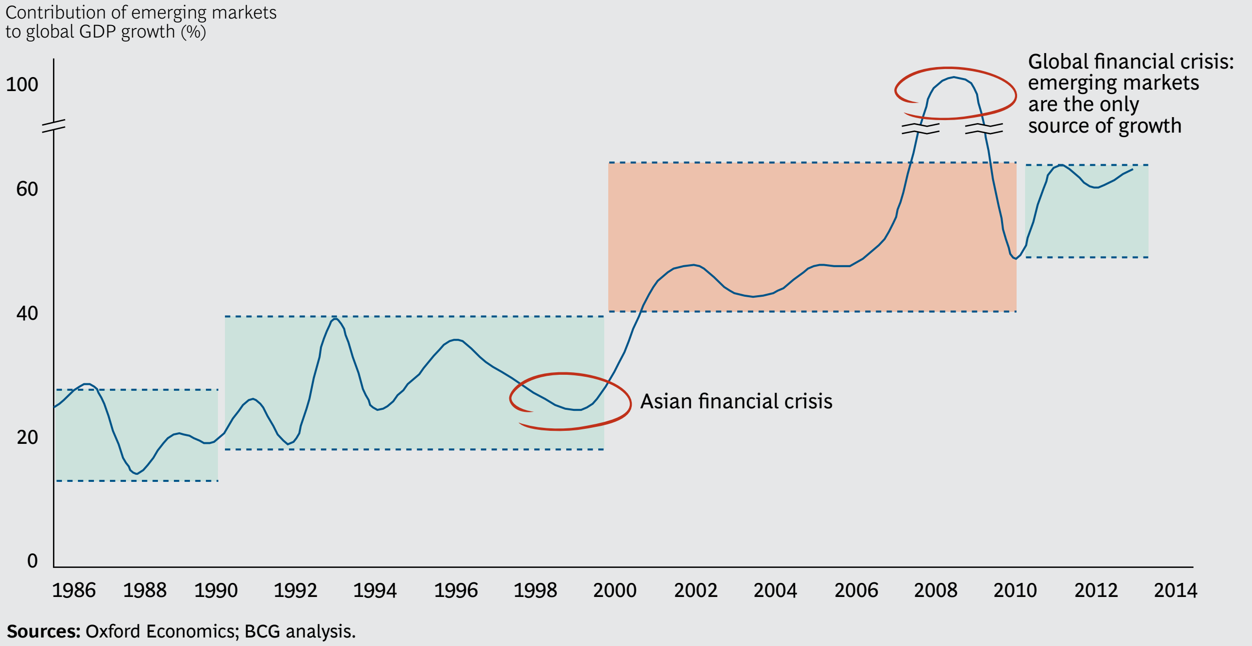
CONTENTS

THE RAPID SUCCESS OF EMERGING MARKETS AND THEIR COMPANIES

Emerging markets are no longer emerging. Many of them have arrived. They are fueling about two-thirds of global GDP growth. (See Exhibit 1.) With young populations, growing middle classes, and rising consumption, these markets are becoming more prosperous and, despite recent headlines, more stable. In most of these markets, long-term resilience will trump short-term turbulence.

Many of the companies in these markets are also growing up rapidly, relying on innovation, talent, and other strengths to win. One example is Mindray Medical International, a Chinese medical-technology provider focusing on patient care and imaging and diagnostic products. Mindray wants to be a force in all major markets and recognizes that it must innovate to succeed in them. The company is committed to spending 10 percent

Exhibit 1 | Emerging Markets Are Powering Global Growth



Sources: Oxford Economics; BCG analysis.
Note: GDP growth is expressed in 2005 dollars. Mature markets consist of Australia, Israel, Japan, New Zealand, North America, Singapore, South Korea, Taiwan, and Western Europe.

of revenues on R&D. More than half of its revenues come from overseas.

Growing Up

Our sixth edition of the BCG global challengers—a list of 100 rapidly globalizing companies from emerging markets that we publish roughly every 18 months—focuses on how quickly these companies are growing up. We measure maturity in three ways.

First, fewer global challengers than in previous reports fell off the list, signaling that they are acquiring more sustainable advantages beyond a large home market or low-cost labor. (See Exhibit 2.)

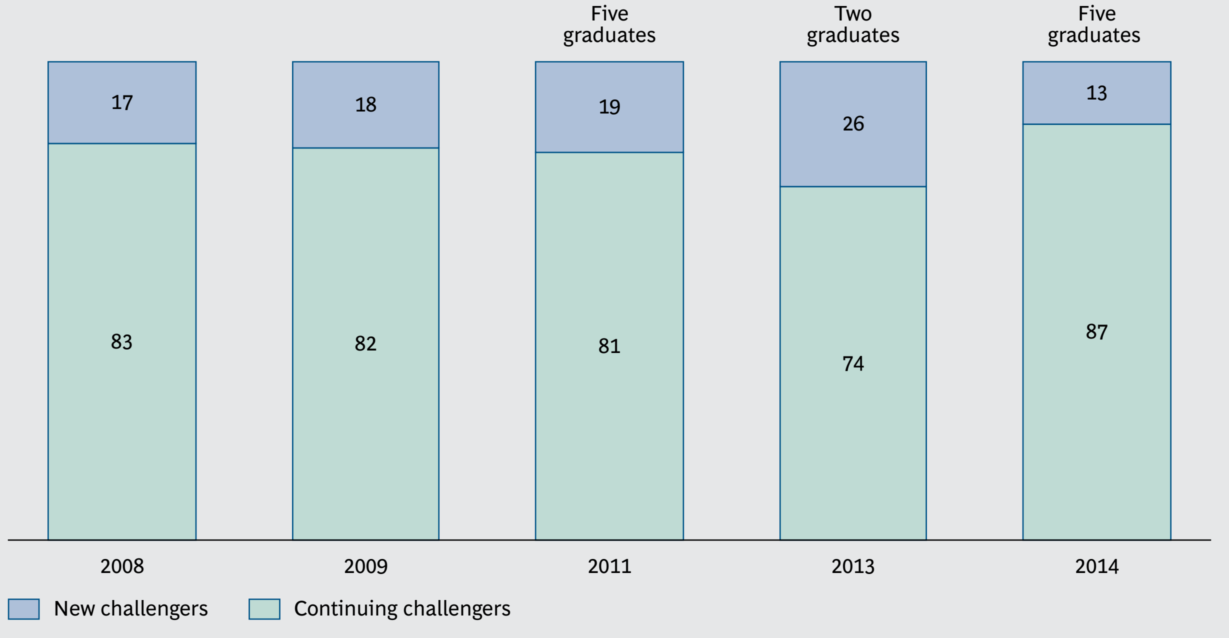
Second, new challengers come from new categories, including fast foods, represented by companies such as the Philippines's Jollibee Foods, with 2,000 restaurants; and wine and spirits, represented by Chile's Concha y Toro, the world's seventh-largest winery, and Thailand's Thai Beverage. These additions show both the growing purchasing power of the middle class in emerging markets and the success of companies in developing capabilities other than low-cost manufacturing.

Third, more companies than in previous lists graduated to become global leaders in their industries. Five former global challengers graduated, compared with just two in 2013. This year's graduates include Mexico's Grupo Bimbo, the world's largest baker, and two Chinese companies: Huawei Technologies, the world's largest telecom-equipment supplier; and Lenovo Group, the world's largest PC maker.

The work of global challengers is not done. To become global leaders, the current crop needs to develop even deeper benches of talent and strengthen current people practices. And, as the cost edge of global challengers shrinks, they need to become increasingly innovative—not just pouring money into R&D but also developing a strategic view of the technological landscape and their place within it.

Based on our work with emerging-market companies, we have created a global "challenger to leader" (C2L) program. C2L helps companies make global ambitions part of their DNA by transforming their people and organization practices, operations, and general go-to-market activities. Talent and inno-

Exhibit 2 | Churn Falls, While the Number of Graduates Rises



Source: BCG analysis.
Note: In 2009, and again in 2011, three global challengers were replaced by their parent or group company. There were no lists of global challengers compiled in 2010 and 2012.

vation are key elements of the 20-prong C2L program.

Growing Pains

Global challengers will have to work harder for their success in the future. Inside their home markets, they must compete against companies that have consciously decided not to go global, the *local dynamos.* (See *2014 BCG Local Dynamos: How Companies in Emerging Markets Are Winning at Home*, BCG report, July 2014.) With their singular focus, local dynamos are formidable competitors.

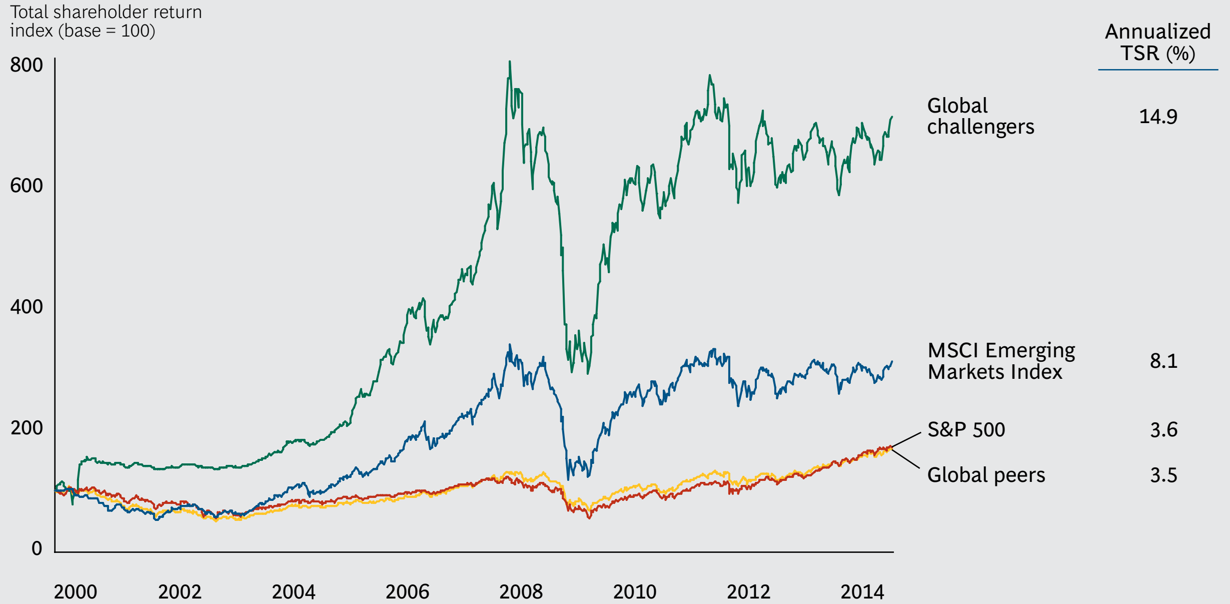
Multinationals are also becoming smarter in their approach to emerging markets. Some companies—including Hyundai Motor Group and Yum! Brands, which owns the KFC, Pizza Hut, and Taco Bell restaurant chains—have figured out how to customize and localize their products without compromising the advantages of scale, size, and brand.

In addition, home markets are becoming more challenging. China's economy is expanding at the slowest pace in more than a decade, and annual growth in once-booming nations such as Brazil, Mexico, Russia, and South Africa has slowed to about 1.5 to 2.5 percent.

Finally, global challengers have pursued most of the easy-growth opportunities overseas and now must make new efforts to expand international revenue. They often need to make investments in overseas markets to capture greater market share. Total shareholder returns (TSRs) reveal these struggles. Although the global challengers have substantially outperformed other indexes over the long term, they have fallen short in the past year. (See Exhibit 3 and Exhibit 4.) Among eight industries analyzed over the past three years, only health care; technology, media, and telecommunications (TMT); and consumer products global challengers outperformed their global peers. Declining margins and stubborn debt levels are dragging down TSRs. (See Exhibit 5.)

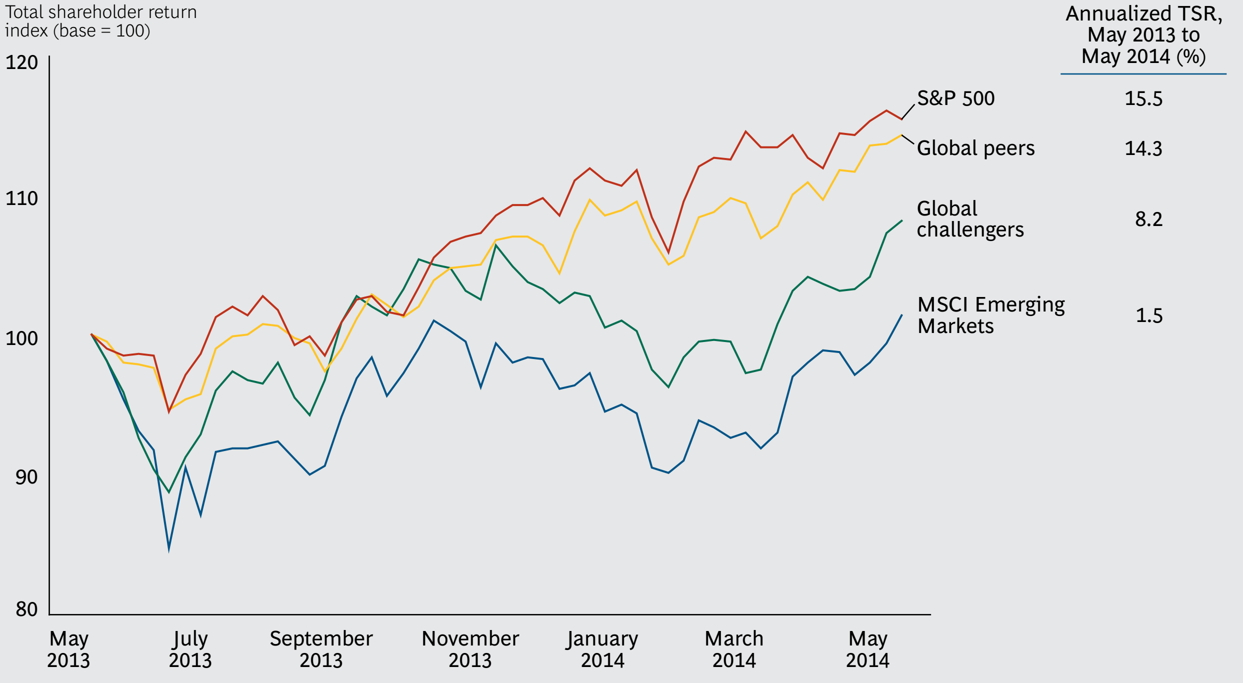
These are growing pains—not the end of growth. The global challengers are still in the game. By understanding who these companies are, where they come from, and what they aspire to be, all companies can become stronger.

Exhibit 3 | Global Challengers Outperform over the Long Term



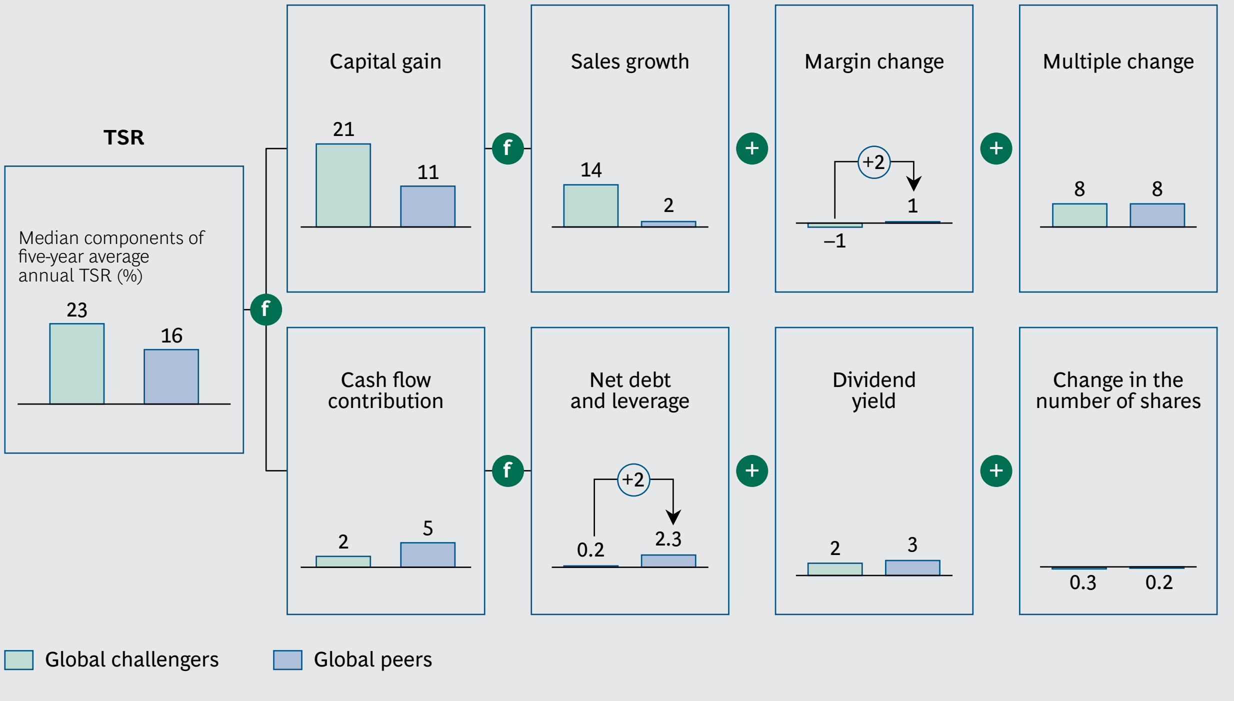
Sources: S&P Capital IQ; BCG analysis.
Note: The index base of 100 was set using data from January 1, 2000, and the data was analyzed through May 19, 2014. All indexes were weighted by the market capitalization of their constituent stocks. The index is based on data from 82 publicly listed global challengers and from 266 global peers. Global peers are multinational companies that operate in the same industries as the global challengers.

Exhibit 4 | This Year's Challengers Outperformed Emerging Markets but Not Mature Market Indexes



Sources: S&P Capital IQ; BCG analysis.
Note: The index base of 100 was set using data for January 1, 2000, and the data was analyzed through May 19, 2014. All indexes were weighted by the market capitalization of their constituent stocks. The index is based on data from 82 publicly listed global challengers and from 266 global peers. Global peers are multinational companies that operate in the same industries as the global challengers.

Exhibit 5 | Global Peers Have Done a Better Job of Managing Margins and Debt



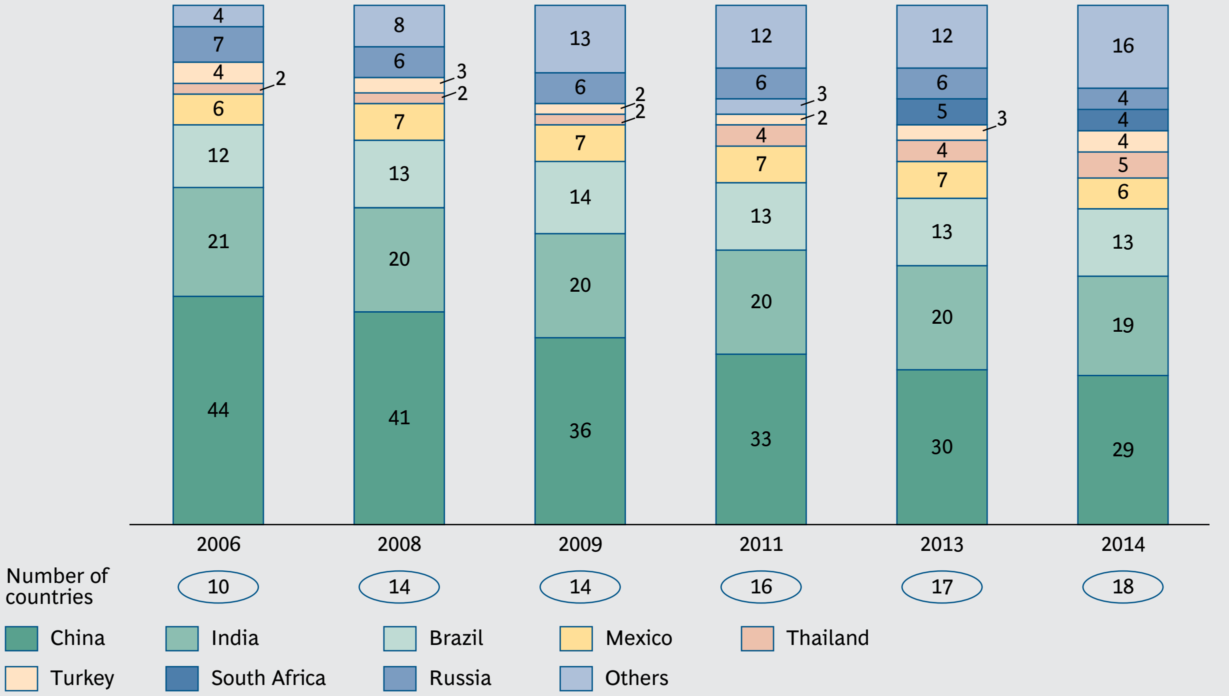
Sources: S&P Capital IQ; BCG analysis.
Note: The exhibit is based on the median results of 70 global challengers and 225 global peers. Global peers are multinational companies that operate in the same industries as the global challengers.

MEET THE 2014 BCG GLOBAL CHALLENGERS

Each list of global challengers is more diverse than the prior one. With the addition of the Philippines this year, headquarters for the 2014 BCG global challengers can be found in 18 countries, nearly double the ten countries represented in the inaugural 2006 list. (See Exhibit 6 and Exhibit 7.)

In that first list, China and India supplied nearly two-thirds of the challengers. In 2014, the number of Chinese and Indian challengers has fallen below 50 percent for the first time. Smaller countries are picking up the slack. Thailand (five challengers), Turkey (four), and Chile (three) are at all-time highs.

Exhibit 6 | The Expanding Reach of the BCG Global Challengers



Source: BCG Global Challengers reports.

EXHIBIT 7 | There Are 13 New Global Challengers and 5 New Graduates

Argentina
- Tenaris

Brazil
- Brasil Foods
- Camargo Corrêa Group
- Embraer
- Gerdau
- Iochpe-Maxion
- JBS
- Marcopolo
- Natura Cosméticos
- Odebrecht Group
- Petrobras
- Tigre
- Votorantim Group
- WEG

Chile
- Concha y Toro
- Falabella
- Latam Airlines Group

China
- Alibaba Group
- Aviation Industry Corporation of China
- China Communications Construction Company
- China National Chemical Corporation (ChemChina)
- China Minmetals
- China Shenhua Energy
- China Shipbuilding Industry Corporation
- China International Marine Containers
- CITIC Group
- China National Offshore Oil Corporation
- China Railway Construction Corporation
- Fuyao Glass Industry Group
- Geely International
- Goldwind
- Haier Group
- Johnson Electric
- Mindray Medical International
- PetroChina
- Shanghai Electric Group
- Sinochem
- Sinohydro
- Sinoma International Engineering
- Sinopec
- Tencent Holdings
- Trina Solar
- China UnionPay
- Wanxiang Group
- Zoomlion
- ZTE

Colombia
- Grupo Empresarial Antioqueño

Egypt
- El Sewedy Electric

India
- Apollo Tyres
- Bajaj Auto
- Bharti Airtel
- Crompton Greaves
- Dr. Reddy's Laboratories
- Godrej Consumer Products
- Hindalco Industries
- Infosys
- Larsen & Toubro
- Lupin Pharmaceuticals
- Mahindra & Mahindra
- Motherson Sumi Systems
- Reliance Industries
- Sun Pharmaceutical Industries
- Tata Consultancy Services
- Tata Motors
- UPL
- Vedanta Resources
- Wipro

Indonesia
- Golden Agri-Resources
- Indofood

Malaysia
- AirAsia
- Petronas

Mexico
- Alfa
- América Móvil
- Femsa
- Gruma
- Mabe
- Mexichem

Philippines
- Jollibee Foods

Qatar
- Qatar Airways

Russia
- EuroChem Mineral andChemical
- Gazprom
- Lukoil
- Severstal

Saudi Arabia
- Saudi Basic Industries

South Africa
- Aspen Pharmacare
- Bidvest Group
- MTN Group
- Sasol

Thailand
- Charoen Pokphand Foods
- Indorama Ventures
- PTT
- Thai Beverage
- Thai Union Group

Turkey
- Koç Holding
- Sabanci Holding
- Turkish Airlines
- Yildiz Holding

United Arab Emirates
- Emirates Global Aluminium
- Etihad Airways
- Etisalat

Graduates

Brazil
- Vale

China
- Huawei Technologies
- Lenovo Group
- Li & Fung

India
- Tata Steel

Indonesia
- Wilmar International

Mexico
- Cemex
- Grupo Bimbo

Saudi Arabia
- Saudi Aramco

South Africa
- Anglo American
- SABMiller

United Arab Emirates
- Emirates Air

Source: BCG analysis.
Note: New global challengers and graduates are listed in green.

(See the sidebar "Methodology for Selecting the 2014 BCG Global Challengers.")

Global challengers are growing more quickly than are comparable companies. From 2000 through 2013, the revenues of global challengers grew by an annual rate of 18 percent, on average, compared with 7 percent for global peers and 6 percent for the nonfinancial S&P 500.

Job growth has been equally impressive. From 2008 through 2013, the 2014 BCG global challengers increased their employment by 32 percent, compared with 11 percent for the nonfinancial S&P 500. Even more striking, the average revenue per employee of the global challengers exceeds that of the nonfinancial S&P 500 companies—$479,000 compared with $440,000. (For other statistics about the global challengers, see Exhibit 8.)

The Newest Members

Each global challenger report provides an opportunity to welcome new members and ap-

METHODOLOGY FOR SELECTING THE 2014 BCG GLOBAL CHALLENGERS

We began our analysis by compiling a list of potential global challengers based in emerging markets, focusing on companies located in developing Africa, Asia, Central and Eastern Europe, the Commonwealth of Independent States, Latin America, and the Middle East.

Our initial master list of potential global challengers was drawn from local rankings of the top companies in the markets listed above. As in previous years, we excluded joint ventures and companies with significant overseas equity holders but included state-owned companies that compete internationally. A few of the global challengers and graduates are headquartered in global financial or commercial centers, but their operations take place primarily in rapidly developing economies. We have listed these companies in the markets that house most of their operations.

Next, we applied a set of quantitative and qualitative criteria. Companies needed to have annual revenues of at least $1 billion—a threshold that ensures they have the resources to go global. We sought companies in which overseas revenues totaled either 10 percent of total revenue or $500 million. In export-oriented industries, such as mining, oil, and gas, we also required that companies possess overseas assets of at least 10 percent of total assets or $500 million. We made a few exceptions when we strongly believed that companies would meet these thresholds in the next two years. A final set of quantitative measures were related to growth and performance.

We sought companies with credible aspirations to build truly global footprints, excluding those that could pursue only export-driven models. Accordingly, we analyzed each company's international presence, the number and size of its international investments, M&A activity over the past five years, and the strength of its business model. We also compared the size of each company with the size of other challengers and multinational competitors in its industry.

We based our final selection on these criteria as well as feedback from industry experts around the world.

In identifying graduates, we looked for top global competitors in an industry that reported foreign sales of at least 60 percent of total revenue. Graduates also needed to demonstrate a commitment to maintaining a global footprint.

plaud the graduates. The 13 newcomers in 2014 are grouped by three themes that help describe the reasons for their entry to the list. A fourth theme—growing through acquisitions—cuts across the groupings and applies to several companies from several industries.

Capturing Middle-Class Consumers. As the world becomes increasingly middle class, global challengers are emerging to serve these new consumers. From 2009 to 2020, the size of the global middle class will expand from 1.8 billion to 3.2 billion, and nearly all of the new members will live in emerging markets. By 2020, the number of middle-class people will exceed the number of poor people. The following are the new global challengers that are best serving this massive middle class:

- *Concha y Toro (Chile).* The first luxury-goods company to become a global challenger, Concha y Toro is the largest Latin American wine producer and the seventh largest in the world. The company, with $950 million in sales, has vine-

Exhibit 8 | Global Challengers by the Numbers

Global challengers since 2006	205
Global challengers that have been listed in every report	40
State-owned global challengers	28
Chinese state-owned global challengers	18
New challengers	13

Most employees

PetroChina	544,000

Revenues

Largest auto company	Tata Motors	$38.7 billion
Largest consumer company	JBS	$39.7 billion
Largest health-care company	Aspen Pharmacare	$2.3 billion
Largest TMT company	América Móvil	$59.7 billion
Fastest revenue CAGR, 2009–2013	Tencent Holdings	50 percent

Sources: Bloomberg; S&P Capital IQ; BCG analysis.
Note: CAGR = compound annual growth rate. TMT = technology, media, and telecommunications.

yards in Argentina, Chile, and the U.S. It is one of the few winemakers trying to create a global brand, as evidenced by its sponsorship of the Manchester United Football Club. Despite flat wine consumption globally, Concha y Toro increased revenues by 5 percent annually from 2011 through 2013. Exports, which account for 68 percent of revenue, are growing even faster. Global wine consumption is increasing in the U.S., where Concha y Toro bought Fetzer Vineyards in 2011, and in China.

- *Jollibee Foods (Philippines).* Jollibee is the first restaurant chain to qualify as a global challenger. The company, which started in 1975 as an ice-cream stand, moved into burgers and Filipino fast foods a few years later. Jollibee has since expanded to more than 2,000 locations through internal growth and domestic and foreign acquisitions, such as Mang Inasal, a U.S. barbecue chicken chain. Jollibee also has operations in Brunei, China, Indonesia, and Taiwan. In 2013, its 500 overseas restaurants generated nearly one-quarter of the company's $1.8 billion in revenues, which have increased by 12 percent annually from 2011 through 2013.

- *Thai Beverage (Thailand).* With $4.8 billion in sales in 2013, Thai Beverage is Thailand's largest beverage producer. Known for its rum, whiskey, and beer, the company has six overseas distilleries. Although international sales make up only about 3 percent of revenues, the company expects one-half of future growth to come from overseas. Charoen Sirivadhanabhakdi, Thai Beverage's chairman and one of the wealthiest Thais, acquired control of Fraser and Neave, a Singapore beverage and real estate conglomerate, in a 2013 deal that valued the expanded company at $11 billion. The acquisition creates a new beverage leader in Southeast Asia, with a strong platform to expand further.

- *Yildiz Holding (Turkey).* As Turkey's largest packaged-food company, Yildiz Holding has long been well known in Africa, Central and Eastern Europe, and the Middle East. It broke onto the global stage in 2007 when it acquired Godiva, a premium chocolatier with 600 outlets in Asia, Canada, Europe, and the U.S. Within Turkey, its Ülker subsidiary controls nearly half of the nation's biscuit and chocolate markets. Yildiz sold a 20 percent stake in Ülker in late 2013 for $431 million—one of the nation's largest recent stock offerings. In 2013, the company generated revenues of $8.2 billion. International sales accounted for about 20 percent of total revenue.

Meeting Digital Needs. Many companies in emerging markets have been rapidly developing innovative and advanced digital services, helping consumers improve their lives and companies strengthen their capabilities. Two new challengers are taking advantage of these trends:

- *Etisalat (United Arab Emirates).* The largest telecommunications operator in the Middle East returns as a global challenger after sluggish revenue growth kept it off the last list. The company operates in 19 countries in the Middle East, Asia, and Africa, including Nigeria, that continent's largest economy. Etisalat expanded its African footprint in May when it acquired a controlling stake in Maroc Telecom from Vivendi. The acquisition helped boost second-quarter profits by 27 percent.

- *Tencent Holdings (China).* Tencent, one of the three most valuable Internet companies in the world ranked by market capitalization, is the first global challenger whose roots are wholly online. Tencent recently began expanding overseas and is already generating 7 percent of its revenues outside of China. Of the 600 million users of its WeChat social-messaging service, 100 million are located outside China. The company is investing heavily overseas in gaming, a business that now generates more than half its revenues. For example, Tencent now owns Riot Games, the studio that created the popular League of Legends video game. The company generated $9.8 billion in revenues in 2013 and recorded 46 percent annual revenue growth from 2011 through 2013.

Building and Supplying the World. Seven of the newcomers belong to the industrial-goods and resources sectors from which global challengers have traditionally come. But their success is increasingly driven by innovation rather than low costs.

- *Apollo Tyres (India).* India's largest tire manufacturer has been growing rapidly overseas, especially in Europe. Apollo Tyres opened a global R&D center in the Netherlands in 2013 and is adding plant capacity to produce 6.2 million car and truck tires in addition to the 6.5 million tires it currently produces in Europe. In 2014, the company generated $2.7 billion in revenues—37 percent of which came from overseas. Revenues grew by 12 percent annually from fiscal 2010 through 2014.

Innovation is increasingly more crucial than low costs.

- *China Railway Construction Corporation (China).* China's largest engineering contractor has ambitions to generate 30 percent of revenues overseas by 2020, compared with 4 percent in 2013. In addition to rail construction, the company also works on highways, airports, ports, industrial plants, and municipal projects. It has completed or is working on major projects in Italy, Libya, and Saudi Arabia. The company generated $95 billion in revenues in 2013 and grew by 16 percent annually from 2011 through 2013. China Railway Construction Corporation has nearly 250,000 employees.

- *Emirates Global Aluminium (United Arab Emirates).* The fifth-largest aluminum company is the product of a merger completed earlier this year between Dubai Aluminium and Emirates Aluminium, two state-owned enterprises. In 2012, the last year for which data is available, the companies collectively generated $4.3 billion in revenues. The new company expects to generate $6.6 billion in 2015 by taking advantage of the Middle East's strategic location for serving global markets. It will also benefit from operating at full capacity, since demand is high for its value-added specialty products. The company has customers in nearly 70 countries.

- *EuroChem Mineral and Chemical (Russia).* A top-ten fertilizer producer today, EuroChem aims to break into the top five and go public in the next few years. Its business model is built around vertical integration, pulling raw materials out of the ground and producing and distributing final products. EuroChem announced plans in 2013 to build a $1.5 billion fertilizer plant in the U.S. and form a joint venture with Migao, a specialty fertilizer producer based in China. Foreign sales accounted for more than 80 percent of EuroChem's $5.5 billion in revenues in 2013, and revenues grew by 24 percent from 2011 through 2013.

- *Fuyao Glass Industry Group (China).* Fuyao, the largest maker of auto glass in China and the fourth largest globally, is opening a plant in Russia this year and recently bought part of a former General Motors plant in the U.S. In 2013, one-third of Fuyao's $1.8 billion in revenues came from overseas. From 2011 through 2013, revenues grew by 21 percent annually.

- *China Shenhua Energy (China).* The world's largest coal producer is rapidly expanding its overseas presence. In 2013, it entered into a $2 billion agreement with Russian coal operator En+ Group and the China Development Bank to build coal mines and transportation infrastructure in Siberia and the Far East. It has also entered into a joint venture with Energy Corporation of America to develop shale gas. China Shenhua Energy earned $46 billion in revenues in 2013 and grew by 19 percent annually from 2011 through 2013.

- *UPL (India).* UPL, which sells seeds and a full range of insecticides and other crop-protection products, is the third-largest agrochemical company in the world. Most of its 23 manufacturing plants are located outside of India, and 81 percent of its $1.5 billion in 2013 revenues were generated overseas. From 2011 through 2013, revenues grew by 19 percent annually. UPL is seeking to transition from selling generic products to selling branded products by investing in R&D.

Growing Through Acquisitions. Many of the new challengers have achieved growth, market share, and momentum through acquisitions. (See Exhibit 9.) Jollibee is a strong example. In 2004, the company bought Yonghe King, a noodle, rice, and dim sum chain that has about 80 outlets. Today, Yonghe King has 314 restaurants in China. Jol-

Exhibit 9 | Largest M&A Deals by Global Challengers and Graduates over the Past Five Years

Date announced	Acquirer	Industry	Target	Deal value ($billions)
January 2010	América Móvil	TMT	Carso Global Telecom	17.8
June 2011	SABMiller	Consumer products	Foster's Group	10.8
February 2010	Bharti Airtel	TMT	Zain Africa	10.7
June 2009	PetroChina	Resources and commodities	Addax Petroleum	7.2
October 2010	PetroChina	Resources and commodities	Repsol Brasil	7.1
September 2012	Thai Beverage	Consumer products	Fraser and Neave	6.9
August 2011	América Móvil	TMT	Telmex	6.0
November 2013	Etisalat	TMT	Itissalat Al Maghrib	5.7
January 2010	América Móvil	TMT	Telmex Internacional	5.5
September 2012	Petronas	Oil and gas	Progress Energy Resources	5.4

Source: BCG analysis.
Note: These deals were announced over the five-year period preceding June 2013. SABMiller is a graduate. PetroChina acquired a minority stake in Repsol Brasil. Addax Petroleum was acquired through a subsidiary. Fraser and Neave was acquired by Thai Beverage's chairman. The América Móvil transactions collectively consolidated Carlos Slim's telecommunications holdings. TMT = technology, media, and telecommunications.

libee followed up by buying Hong Zhuang Yuan, which serves congee, in 2008, and San Ping Wang, a noodle restaurant, in 2012. Today, China is Jollibee's largest foreign market.

Other new challengers have also been busy. Tencent has made more than 100 overseas acquisitions in the past two years as part of its globalization push. UPL has acquired 14 companies in the past ten years, primarily in the U.S. and Europe. Yildiz has expanded into new markets and new categories.

The Graduates

Five former global challengers graduated from the list because they became leaders in their respective industries. Before this report, a total of seven challengers had graduated, so 2014 represents a big coming out on the world stage for emerging markets. When selecting graduates, we followed broad guidelines about financial performance and overseas footprint. But we also looked qualitatively at companies that have successfully developed talent, innovation, and other initiatives that are core to our C2L program. This year's graduates include the following companies:

- *Lenovo Group (China).* Lenovo has done a particularly impressive job of achieving global leadership. Through organic growth and acquisitions in Brazil, Germany, and Japan, Lenovo has become the world's largest PC maker. Its corporate brand and product brands, such as ThinkPad, are recognized globally. It has operated dual headquarters in the U.S. and China for nearly a decade. And in early 2014, Lenovo embarked upon another major diversification effort, acquiring a portion of IBM's server business and acquiring Motorola Mobility from Google—a move that will give it stronger access to the global smartphone market.

- *Grupo Bimbo (Mexico).* In May 2014, Grupo Bimbo, the largest baker in the world, completed its acquisition of Canada Bread for $1.8 billion. Before the acquisition, Grupo Bimbo employed 123,000 people, operated 144 plants, and had 52,000 routes. In 2013, 60 percent of Grupo Bimbo's $14 billion in revenues originated outside of Mexico. The U.S. is now a larger market for the company than Mexico is, thanks to the company's acquisition of Weston Foods and Sara Lee's bakery operations in 2009 and 2011, respectively. The company also owns such well-known U.S. brands as Entenmann's and Thomas'. In July, it agreed to acquire Ecuadorian baker Supán.

- *Huawei Technologies (China).* The largest telecom-equipment maker in the world, Huawei reported nearly $40 billion in revenues in 2013 and 16 percent annual growth since 2009. Two-thirds of revenues come from overseas, with plants in Africa, Europe, and Russia. Huawei is also the third-largest maker of smartphones, after Apple and Samsung Group.

- *Li & Fung (China).* This $20 billion trading company manages supply chains for buyers of clothes, toys, and other merchandise sourced globally. Despite rising competition and rapidly changing market conditions, Li & Fung grew at an annual rate of 12 percent from 2009 through 2013. The company operates in more than 60 countries and works with more than 15,000 suppliers. An early adopter of the Internet and digital technologies, it is able to rapidly shift sourcing and supply resources to meet demand and lower costs. It has also integrated several acquisitions in recent years, including suppliers to JC Penney, Macy's, Sears, and Target.

- *Tata Steel (India).* Tata Steel is a top-ten global steel producer with operations in more countries than all but one other competitor. More than 70 percent of Tata Steel's revenues come from outside of India. The company generated more than $27 billion in sales in fiscal 2014 and employed about 80,000 people in 26 countries. Over the past decade, Tata Steel has integrated several acquisitions, including the UK's Corus in 2007, Thailand's Millennium Steel in 2006, and Singapore's NatSteel Asia in 2005.

THE EMERGENCE OF PARALLEL WORLDS

The global challengers offer a window into how emerging markets fit within the overall global economy. Increasingly, the global economy is shaped by parallel worlds—the slow-growth mature markets and fast-growth but volatile emerging markets—and defined by the difficulty in moving between them.

Multinationals from mature markets are struggling to move into emerging markets because they face strong competition from global challengers and local dynamos. At the same time, many challengers have chosen not to expand into mature markets—either because the grass is greener closer to home or they do not want to expend the effort.

Charoen Pokphand Foods, Thailand's largest agribusiness company, for example, derives almost all of its revenues from emerging markets. Indonesia's Indofood, maker of instant noodles and other products, generates more than twice its revenue in emerging markets as it does in mature markets. Crompton Greaves, an Indian manufacturer of power equipment, generates 80 percent of its export revenues from emerging markets.

It's no surprise that among the top 20 trading partners in 2020, the fastest growing is expected to be India and the United Arab Emirates, followed by China and India, and then China and Brazil. (See Exhibit 10.)

In their home markets and throughout the emerging world, global challengers are often leaders. In much of Asia, Africa, and South America, their market share is higher than that of their multinational competitors. They understand the constraints of these markets and have business models that apply to them. In many markets, multinationals from mature markets are the challengers—not the other way around.

Bajaj Auto, for example, created five segments in India for its motorcycles in order to satisfy consumers ranging from entry-level drivers to young executives. It then exported specific products to specific markets, depending on their needs. For the low end of the market in Africa, the company sells its basic-model Boxer 100cc motorcycle—a vehicle no longer offered in India. The motorcycle became the market leader in Nigeria in two years. Africa now accounts for 46 percent of Bajaj Auto's overseas sales of motor vehicles—exceeding sales in its overseas markets in Asia. For the higher end in Indonesia, Bajaj has introduced the Pulsar, a model that appeals to consumers fond of high-tech and trendy products.

Not all challengers are sticking close to home. Grupo Bimbo, Lenovo Group, and China's Geely International, which owns Volvo Cars, are three such examples. Resources and commodity companies are also able to sell petro-

Exhibit 10 | Emerging Markets Will Dominate the Top 20 Trading Partners in 2020

Top 20 bilateral trading partners in 2020

Rank		Market	Market	Bilateral trade value in 2020 ($billions)	Share of global trade (%)	CAGR, 2010-2020 (%)
⬆	1	China	United States	1,056	3	11
➡	2	China	Hong Kong	1,017	3	9
⬇	3	United States	Canada	894	3	5
⬇	4	United States	Mexico	869	3	8
⬆	5	China	South Korea	672	2	14
⬆	6	China	Germany	406	1	11
➡	7	Germany	Netherlands	388	1	7
⬇	8	China	Japan	382	1	4
⬇	9	Germany	France	339	1	5
⬆	10	China	India	318	1	18
⬆	11	China	Australia	294	1	14
⬇	12	Saudi Arabia	Taiwan	270	1	5
➡	13	Germany	Belgium	252	1	6
⬆	14	China	Singapore	251	1	14
⬆	15	China	Brazil	226	1	15
⬆	16	India	United Arab Emirates	223	1	23
➡	17	Germany	Austria	220	1	7
⬆	18	China	Netherlands	201	1	13
⬇	19	Germany	United Kingdom	199	1	5
⬆	20	Germany	Poland	197	1	8

⬆ Rise ➡ Steady ⬇ Decrease

Sources: International Trade Commission; Economist Intelligence Unit; BCG analysis.
Note: The arrows denote the change in ranking from 2010.

leum, minerals, and palm oil globally because these raw materials do not need to be customized for local markets. The same is true of many industrial goods. But few global challengers have crossed the divide to become household names in mature markets.

The End of Easy Growth

Many global challengers may not be expanding into mature markets because they have their hands full closer to home. Emerging markets are tougher places to do business than they were five or ten years ago. These companies are starting to confront many of the business challenges common to established multinationals, which helps explain declining TSRs and margins. As global challengers expand into other emerging markets, they need to shoulder the cost of running a global organization and acquiring high-cost talent. And even those that are not state owned forgo the advantages and protections they have at home. In other words, as they mature, global challengers face the familiar trade-off of growth and profitability that has long confronted their global peers.

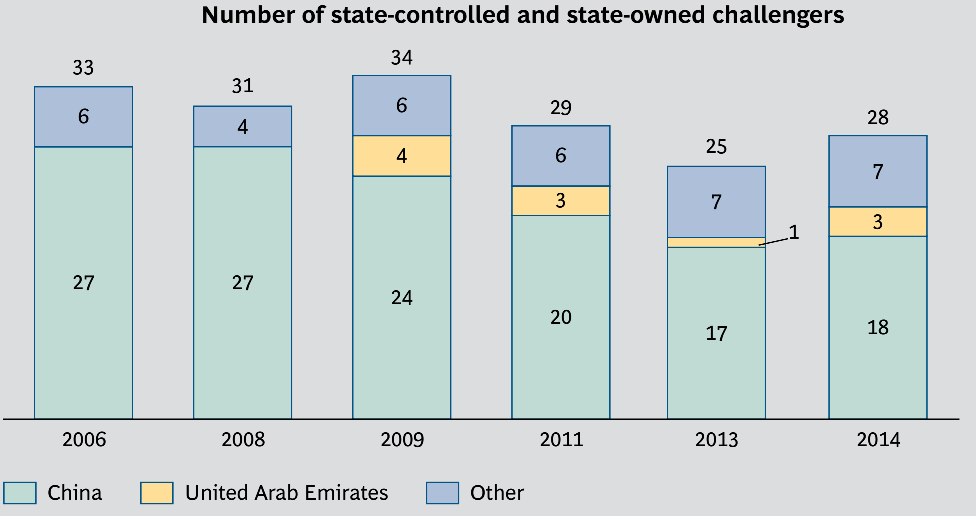
In this environment, these companies have to be careful about where they place their bets. Will they retreat to their home and other emerging markets? (See the sidebar "The Influence of State and Family.") Or will they de-

THE INFLUENCE OF STATE AND FAMILY

Ownership often influences the willingness of a company to expand overseas. The share of state-owned or state-controlled challengers is in long-term decline, despite a small uptick in this year's report. These companies tend to be less globally expansive—especially outside the energy and natural-resources industries, where a global footprint is often required. (See the exhibit below.)

In addition, 67 companies are controlled by a founder or family or are otherwise privately owned. Our analysis of challengers with concentrated ownership shows that these companies are less likely to invest overseas than other challengers are. In particular, family owners based in emerging markets tend to be less willing to make big bets outside of their home markets, to cultivate overseas connections, and to cede control to those outsiders.

A Long-Term Trend Shows a Decline in State Ownership



Source: BCG analysis.
Note: The analysis does not include challengers that graduated.

cide that their long-term strength rests on creating truly global footprints and business models in order to take advantage of the eventual convergence of the growth rates of the two worlds?

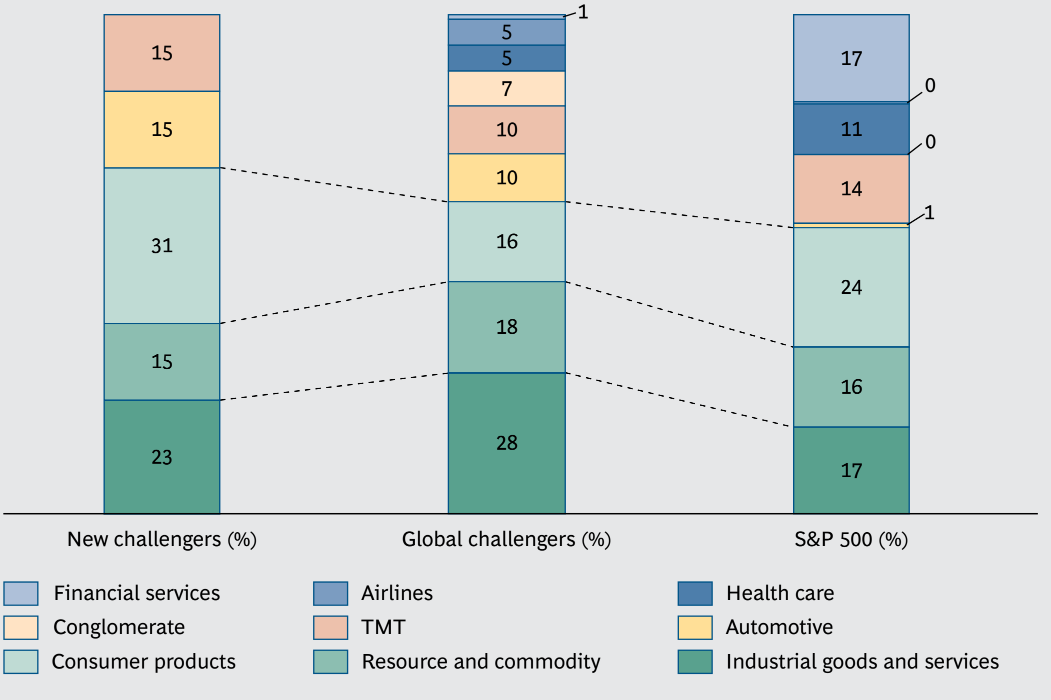
The Rise of the Global Middle Class

Whether they stay within emerging markets or go truly global, the challengers still have a built-in advantage over other multinationals: they understand the new members of the rapidly expanding middle class. In trying to reach these new consumers, the challengers can apply the lessons they have learned at home while building local brands and understanding the consumers in these new markets.

Against the backdrop of a swelling middle class, the emergence of challengers from fast-moving consumer goods, TMT, and other consumer-facing companies in this year's list is noteworthy. Among the new challengers, four, or 31 percent, are consumer goods companies, and two, or 15 percent, are TMT companies. These shares are much larger than the ones represented by those industries in the overall list of global challengers—and equal to or larger than their share in the S&P 500. (See Exhibit 11, Exhibit 12, and Exhibit 13.) As noted earlier, challengers from these industries also generated positive TSRs over the past three years.

Industrial goods and resource and commodity companies continue to have the most companies represented on the global challenger list.[1] (See Exhibit 14.) But they may be crowded out in the future as emerging markets move beyond basic activities.[2] Consumer-facing companies, for example, rely heavily on marketing, branding, logistics, and other services that have little to do with land holdings, low-cost manufacturing, preferential treatment by local governments, or other strengths of the early challengers. Likewise, the new TMT challengers—Tencent, in particular—are representative of the service orientation of mature-market economies.

Exhibit 11 | New Challengers Are Concentrated in the Consumer and Technology Industries



Source: BCG analysis.
Note: The S&P 500 Index includes two airlines—Delta Airlines and Southwest Airlines—but their share of the overall index rounds to zero. Companies are not classified as conglomerates in the S&P 500. The percentages for new challengers do not add up to 100 due to rounding. TMT = technology, media, and telecommunications.

Exhibit 12 | There Are 16 Consumer Global Challengers

Company	Country	Business or product line	2013 revenues ($billions)	International sales (%)
Brasil Foods	Brazil	Poultry and other food products	13.0	44
Charoen Pokphand Foods	Thailand	Fish and poultry	11.9	66
Concha y Toro	Chile	Wine	1.0	79
Falabella	Chile	Apparel and household retailer	12.7	35
Femsa	Mexico	Beverages and retailer	20.1	NA
Godrej Consumer Products	India	Home and personal care products	1.1	46
Gruma	Mexico	Corn flour and tortillas	4.2	60
Haier Group	China	Appliances	13.8	NA
Indofood	Indonesia	Noodles and other food products	5.5	12
JBS	Brazil	Meat products	39.7	36
Jollibee Foods	Philippines	Restaurants	1.8	23
Mabe	Mexico	Appliances	NA	NA
Natura Cosméticos	Brazil	Cosmetics	3.0	15
Thai Beverage	Thailand	Beer and spirits	4.8	4
Thai Union Group	Thailand	Canned fish and seafood	3.5	93
Yildiz Holding	Turkey	Chocolates and biscuits	8.2	NA

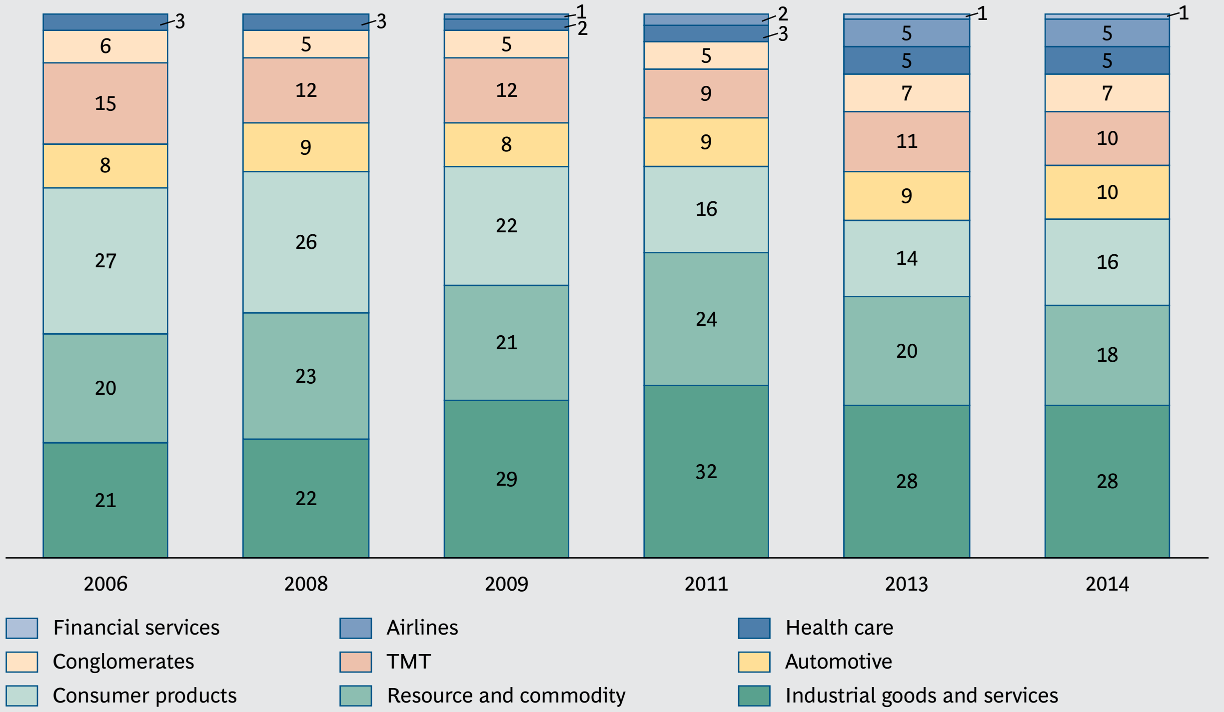
Source: BCG analysis.
Note: Companies in green are new challengers. NA = not available.

Exhibit 13 | There Are Ten TMT Global Challengers

Company	Country	Business	2013 revenues ($billions)	International sales (%)
América Móvil	Mexico	Telecommunications	59.7	65
Alibaba	China	E-commerce	5.6	NA
Bharti Airtel	India	Telecommunications	7.5	32
Etisalat	United Arab Emirates	Telecommunications	10.6	35
Infosys	India	IT services	6.7	98
MTN	South Africa	Telecommunications	13.0	73
Tata Consultancy Services	India	IT services	10.5	91
Tencent Holdings	China	Online services	9.8	7
Wipro	India	IT services	5.5	81
ZTE	China	Telecommunications maker	12.4	53

Source: BCG analysis.
Note: Companies in green are new challengers. NA = not available. TMT = technology, media, and telecommunications.

EXHIBIT 14 | The Industrial-Goods Sector Dominates the List



Sector	2006	2008	2009	2011	2013	2014
Financial services			1	2	1	1
Airlines					5	5
Health care	3	3	2	3	5	5
Conglomerates	6	5	5	5	7	7
TMT	15	12	12	9	11	10
Automotive	8	9	8	9	9	10
Consumer products	27	26	22	16	14	16
Resource and commodity	20	23	21	24	20	18
Industrial goods and services	21	22	29	32	28	28

Source: BCG analysis.

Despite the growth of the middle class, emerging-market companies still face challenges in developing an overseas consumer presence. For consumer-facing companies that want to expand outside of their home market, three capabilities are crucial.

Brand Building. Consumer companies need to sharpen their focus on building brands and consumer engagement in their target markets. Consumer-oriented global challengers currently spend less on marketing than their global competitors do. We analyzed the share of revenues spent on advertising by nine global challengers, and Concha y Toro was the only company whose proportional ad spending was higher than that of global competitors.

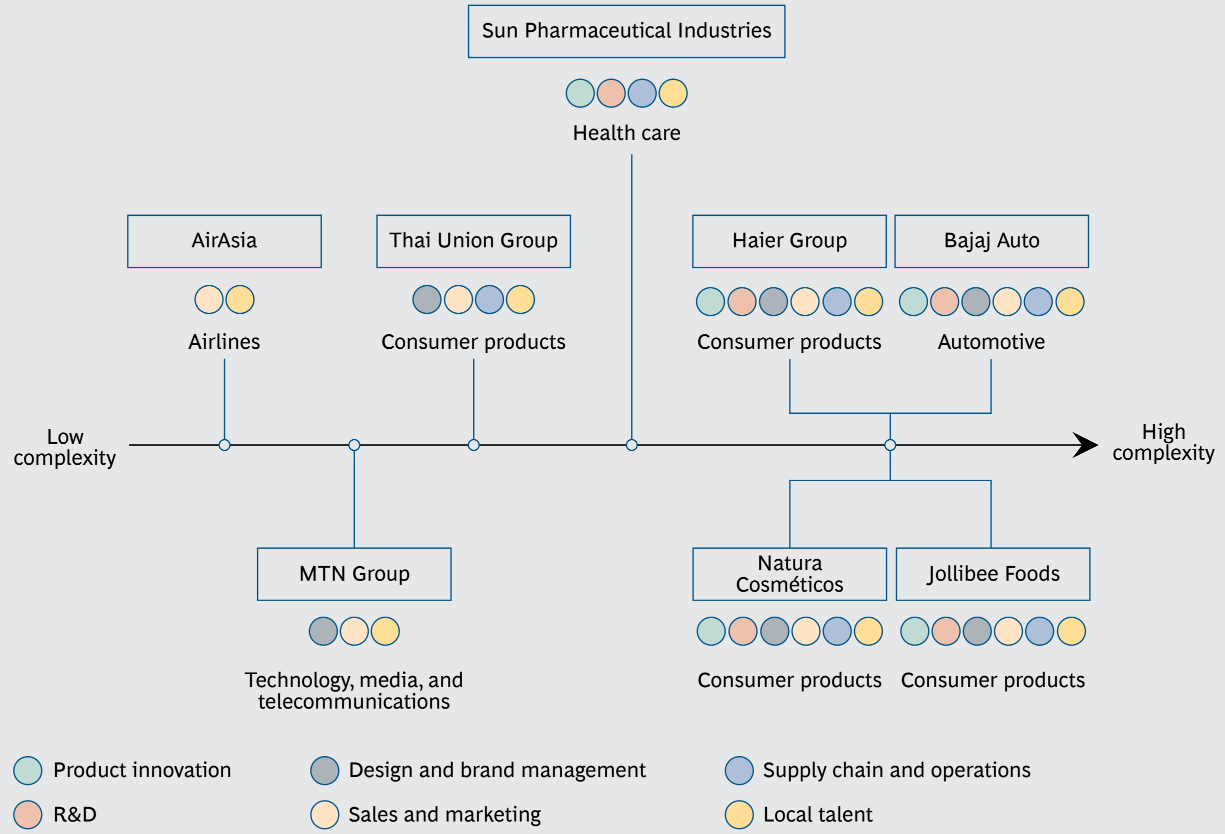
In fact, few emerging-market consumer brands are well known outside their home countries. But this can change quickly. With the popularity of online channels in emerging markets, companies can partly bypass traditional and expensive forms of marketing and advertising. They can also gain entry by buying foreign brands. All four consumer companies that are new to the list have relied on overseas acquisitions to build presences in new markets.

Localization. Many consumer products need to be tailored to local markets, and tailoring requires strong capabilities in several functions, including R&D, marketing, sales, supply chain, and talent. Jollibee, for example, has had great success at home selling hamburgers that appeal to Filipino tastes, but the company stumbled when it entered China with its own Jollibee restaurant in 1998. Jollibee's fortunes in China did not turn until it shifted strategy and started buying local restaurant chains.

Not all consumer-facing companies need to localize every aspect of their operations. Although Jollibee has to engage in a full range of localization activities, a company such as Malaysia's AirAsia has to market and hire locally but not redesign its products or engage in extensive R&D to succeed in local markets. (See Exhibit 15.)

Resisting the Pull of Home. It is probably not a coincidence that the four new challengers in consumer goods are based in Chile, the

EXHIBIT 15 | Some Companies Need to Localize More Than Others



Source: BCG analysis.

Philippines, Thailand, and Turkey, rather than the megamarkets of China and India. In fact, among the 16 consumer-goods challengers, only two are based in those countries: Godrej Consumer Products, in India, and Haier Group, in China.

Many consumer companies in the large emerging markets have not aggressively expanded overseas because their home markets have provided plenty of opportunity for growth. China's Snow, for example, is the fastest-growing and fifth-largest beer brewer in the world, but most of its revenues come from domestic sales. Both Godrej and Haier have shown that it is possible to serve a large and growing domestic market while expanding abroad. But such a feat requires a steadfast commitment.

NOTES

1. We remapped the industry categories this year in order to provide a better view of the diversity of companies. We eliminated the services industry and created health care, financial services, and TMT industries. We broke out automotive and airlines as separate industries from industrial goods and services. We combined consumer durables and fast-moving consumer goods into consumer products and created a conglomerate category for those that span industries.

2. Consumer companies made up a much larger share of the early global challenger lists than they do today, but nearly half of those companies were Chinese durable-goods manufacturers that have lost market share with the rise of local labor costs. The number of consumer durables challengers has dropped from 15 in 2006 to 2 in 2014. In terms of economic development, the durable goods companies are more similar to industrial-goods manufacturers than they are to fast-moving consumer-goods companies.

FROM GLOBAL CHALLENGERS TO GLOBAL LEADERS

While the environment may be tougher today than it was ten years ago, global challengers have two key advantages as they continue to go global: they can learn from other companies that have recently traveled similar journeys, and they have a much clearer sense of the capabilities that they need to develop.

Lessons Learned

Even large global consumer companies struggle with globalization. In India, for example, LG Electronics was not known for innovation or quality for many years, and it was competing against established Japanese and European companies. The South Korean company made a series of shifts aimed at creating products for the Indian market. Local managers now have the authority to modify television sets by addressing performance issues related to power fluctuations and adding local languages to setup menus—and they can use subcontractors for basic assembly in order to lower costs. And to create awareness of its products, LG invested heavily in marketing. It is a major sponsor of cricket and Formula One racing.

LG also started to balance locally recruited managers with talent from the home office. The head of its consumer-electronics business in India and a few important functional executives are South Korean expats; the rest are local, and they have full decision-making authority—except on key investments. Today LG is India's largest television manufacturer.

New Capabilities

While no two companies are the same, many of them face the same challenge of translating the global aspirations of senior leaders into systematic programs that will transform their organizations. BCG's C2L program, which we developed in collaboration with the leaders of companies in emerging markets, addresses people and organization, operations, and go-to-market capabilities. (See the sidebar "Becoming a Global Leader.") While the program addresses 20 initiatives, two of them—talent and innovation—are especially critical for leaders to address.

Talent. The shortage of talent threatens to undermine growth plans for all global challengers, but especially those seeking to move into new markets. In Indonesia—a country BCG has studied extensively—a gap of 40 to 60 percent between the demand for middle managers and the supply will develop by 2020. (See *Growing Pains, Lasting Advantage: Tackling Indonesia's Talent Challenges,* BCG Focus, May 2013.)

To make matters worse, almost 60 percent of graduates switch jobs within their first three years of employment, and more than one-

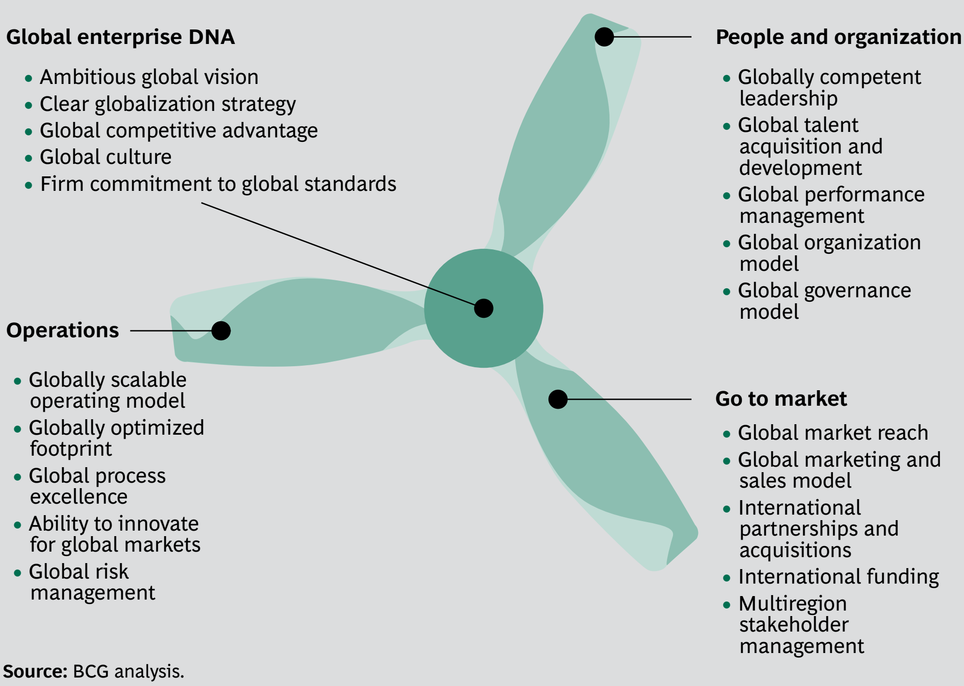
BECOMING A GLOBAL LEADER
A Call to Action for Senior Executives

Making the transition from global challenger to global leader is not easy. It requires companies to systematically address four core capabilities. They need to develop a globally oriented DNA and transform their people and organization, operations, and go-to-market activities. (See the exhibit below.) All companies' journeys to global leadership depend on their starting points. But there are proven pathways and best practices to follow—as well as pitfalls to avoid.

BCG's global challenger-to-leader (C2L) program can help fundamentally reshape existing globalization strategies or develop a first-time, full-scale globalization program by providing the processes, tools, and expertise to undergo fundamental transformation. It will give you a comprehensive baseline of your company's globalization ambitions and capabilities along 20 key dimensions. The baseline will help you identify the specific gaps to close in order to earn a global win.

The C2L program will also help you set priorities and take action. You will have access to leading-edge expertise and seasoned practitioners who can help you achieve your ambitions.

BCG's Comprehensive Global Challenger-to-Leader Framework



Source: BCG analysis.

third switch jobs two or more times in that period. New employees leave for better offers but also because they are disengaged. Only 20 percent of employees say that they are satisfied in their jobs. The following is a five-part plan of attack that will go a long way toward alleviating shortages and addressing employee dissatisfaction:

- *Tapping New Talent Pools.* To attract a broader group of potential qualified employees, executives can look in unconventional places and at alternative groups of candidates. These include decent universities in small cities, expatriates who have studied or worked abroad and are open to returning to their native country, retirees seeking part-time work, immigrants, candidates from other industries, and young mothers reentering the corporate world.

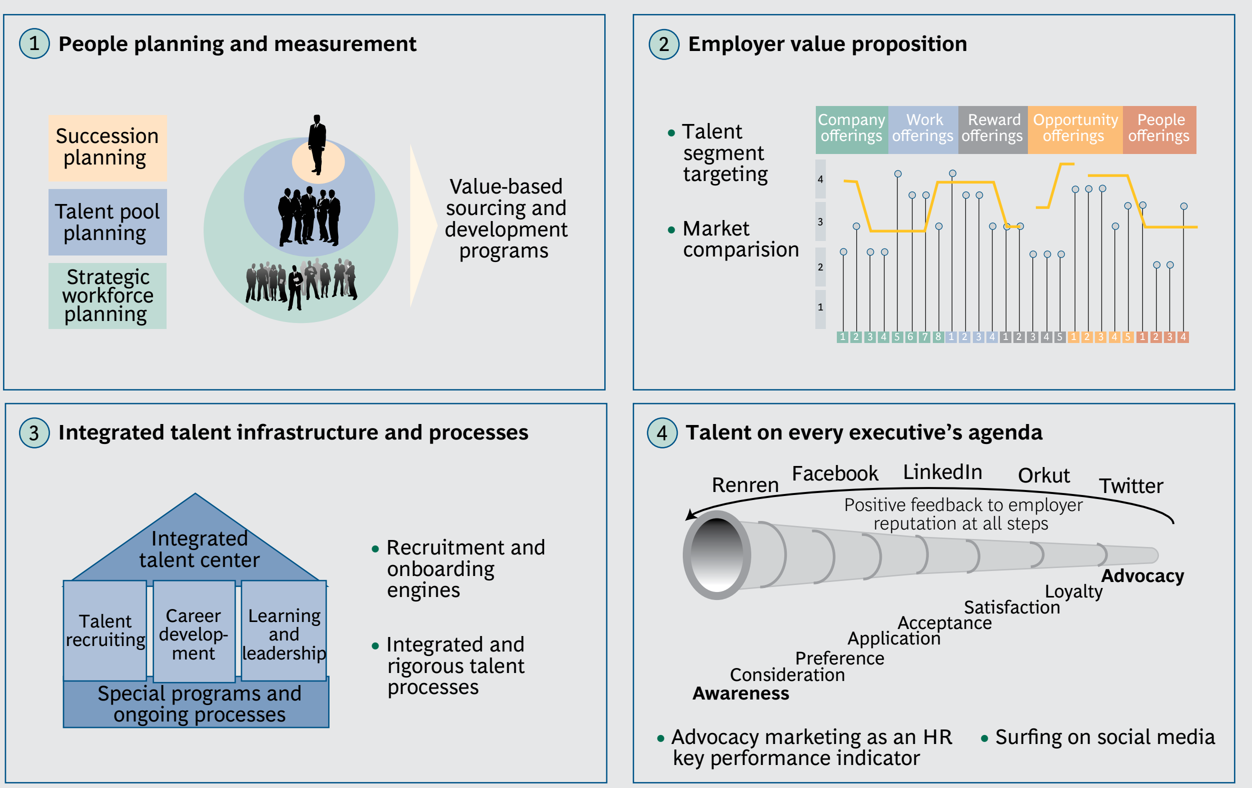
- *Building Recruitment and Hiring Engines.* A well-designed process for bringing on new employees and starting their career development early on can help cut the level of undesired turnover in half during the first year of employment. Executives should be willing to invest more in education at all levels of the enterprise—in both hard and soft skills as well as in both on-the-job and classroom settings.

- *Creating a Meritocracy.* Greater productivity does more than just improve the cost structure; it also helps companies manage their talent needs and enriches individual jobs. Reducing the number of people who must be recruited every year hinges on making the current workforce more engaged, more productive, and better organized. Executives can accomplish this through appropriate organization reviews that aim for fewer structures, leaner processes, and performance-based HR systems.

- *Enhancing Middle Management.* Senior executives should be paying special attention to the development of middle managers. They should seek to identify high-potential employees early on and invest heavily in them through job rotation, opportunities for project leadership, and a variety of assignments. Most middle managers would benefit from training in strategic thinking, effective coaching, and collaborative work with a diverse group of employees.

- *Professionalizing Talent Management.* No major company would dream of launching a product without a detailed plan, resources allocated for product distribution, and a marketing campaign. Likewise, executives should professionalize talent management along several dimensions. (See Exhibit 16.)

EXHIBIT 16 | Companies Have Four Ways to Professionalize Talent Management



Source: BCG analysis.

Innovation. The success of a company's innovation activities is generally expressed in the number of patents issued or R&D dollars spent. But in emerging markets, innovation also is evident in the low-cost development of products that appeal to specific consumer segments, brand development, creative distribution networks, and other novel business practices.

Executives at global challengers have proven adept at coming up with solutions to the constraints of emerging markets. They need to continue to create innovations and disruptions through what we call the "accelerator mindset." (See "The Accelerator Mindset," BCG Perspective, August 2012.) But they also need to spend more money on R&D. From 2008 through 2013, the challengers increased their R&D spending by an average of 16 percent, four times faster than the top 100 U.S. patent issuers—but they still have a long way to go to catch up.

Some companies have figured this out. Huawei, a global-challenger graduate, spends more than $5 billion, or 14 percent of revenues, on R&D and is developing a large patent portfolio. *Fast Company* recently identified the top ten most innovative companies in China, and five of them were technology companies. Haier, the world's largest appliance maker and six-time global challenger, was also on the list, as was a generic listing for "China's luxury brands."

Winning in Parallel Worlds

Executives will increasingly need distinctive strategies for specific types of markets. IBM, for example, has established a business unit focused on growth markets, and it may make sense for global challengers to organize businesses in a similar way.

And as global challengers move outside of the protective field of their home market, they need to start behaving like multinationals in the way they approach such transformative capabilities as talent and innovation. It's not that multinationals have all the answers—far from it. But they have been developing and professionalizing their practices for longer.

Executives should be carefully assessing their capabilities in order to understand the transformative moves they will need to make. They also have to understand that strengthening their capabilities will likely come at the expense of margins. It is not cheap to be big in many markets. But it is necessary if you want to win over the growing numbers of middle-class consumers in markets close to home. These consumers represent the future of the global economy, and they are there for the taking.

FOR FURTHER READING

The following publications by The Boston Consulting Group will help readers who want to win in emerging markets.

2014 BCG Local Dynamos: How Companies in Emerging Markets Are Winning at Home
A report by The Boston Consulting Group, July 2014

Time to Reengage with, Not Retreat from, Emerging Markets
A Perspective by The Boston Consulting Group, May 2014

Going to Market in Developing Economies: Winning Big by Targeting Small
An article by The Boston Consulting Group, April 2014

Understanding Consumers in the "Many Africas"
A Focus by The Boston Consulting Group, March 2014

Winning in Africa: From Trading Posts to Ecosystems
A report by The Boston Consulting Group, January 2014

Why It's Time to Reassess Your Emerging-Market Strategy: From Emerging to Diverging Markets
An article by The Boston Consulting Group, October 2013

Playing to Win in Emerging Markets: Multinational Executive Survey Reveals Gap Between Ambition and Execution
A Focus by The Boston Consulting Group, September 2013

2103 BCG Global Challengers: Allies and Adversaries
A report by The Boston Consulting Group, January 2013

The Accelerator Mindset
A Perspective by The Boston Consulting Group, September 2012

When Growth Outstrips Talent: Five Strategies for Emerging Markets
An article by The Boston Consulting Group, April 2012

NOTE TO THE READER

This is BCG's sixth report in the global challenger series. While the centerpiece of these publications is the list of 100 global challengers, the main purpose is to understand the evolution of emerging markets and how companies can compete within them. More than ever, your company's success in emerging markets will determine its overall success. We hope that this report has brought these markets and the companies that arise from them to life.

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About BCG's Winning with Growth Initiative

Growth is not optional. It disproportionately drives shareholder returns, and it attracts and motivates talent. But achieving value-creating growth, while possible in any industry, is rarely easy. BCG's Winning with Growth initiative brings together leading experts on corporate strategy, innovation, globalization, M&A, business model innovation, marketing and sales, and organization to help clients chart their unique paths to value-creating growth. This publication is a product of that collaboration.

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