



© Louis Vest/Getty Images

Why emerging-market companies acquire abroad

Long focused on deals to acquire technology, brands, or know-how, more emerging-market companies have begun using M&A to tap into new markets.

David Cogman, Patrick Jaslowitzer, and
Marc Steffen Rapp

After years of using cross-border deals to acquire strategic and natural resources, multinational companies headquartered in emerging markets are increasingly looking to penetrate new markets—just like multinationals in developed markets do.

Growth in such deals over the 14-year period from 2000 to 2013 reached double digits on an annual basis, and by 2013, deal activity accounted for about 37 percent of the world market for cross-border deals. Moreover, when we analyzed more than 1,000 cross-border acquisitions¹ by emerging-market companies and categorized them by the most common reasons companies pursue acquisitions, we found that the main reason

emerging-market companies reach across borders has been to fill capability gaps caused by limited access to strategic resources, such as technology, management capabilities, or other intangible assets in their home markets (Exhibit 1).² Over the longer term, only about a third of cross-border M&A deals by emerging-market companies have been made to enter new markets, acquire natural resources, or improve efficiency—deal types that are more common among developed-market buyers.

That pattern, however, is changing. As emerging-market companies have developed and matured, they've completed fewer deals in pursuit of

strategic resources and more deals to tap into new markets, often located in other emerging countries (Exhibit 2).³ Companies that followed this rationale include Latam Airlines Group, which merged its Chilean LAN Airlines with TAM Airlines of Brazil in 2012, and the Philippine food and beverage company San Miguel Corporation, which acquired Australia's National Foods in 2005. In general, market seekers are mostly from nondurable consumer-goods industries or wholesale and retail.

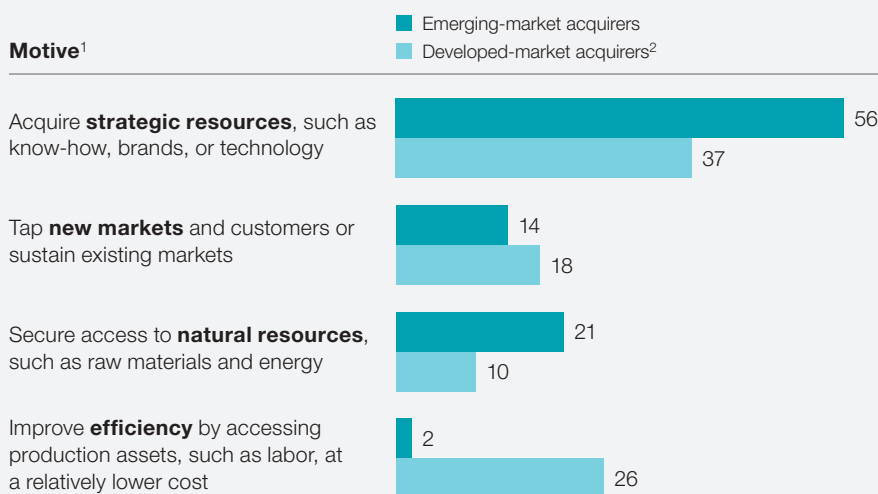
Around every fifth dollar spent for cross-border M&A by emerging-market companies has been in pursuit of natural resources—though the scarcity of certain resources, such as rare earths, has not led to proportionately more deals to secure access to them since 2010. Well-known landmark transactions of this type include the acquisition

of Canadian mining company Inco by Brazilian metals and mining company Vale in 2006 and the takeover of Udmurtneft, a large Russian oil asset, by Chinese oil and gas company Sinopec that same year. These companies tend to generate most of their revenues in the domestic market and are disproportionately large. Often, natural-resource seekers are state-owned enterprises, such as Sinopec or Russian gas giant Gazprom.

The least common reason for emerging-market companies to acquire abroad is in pursuit of efficiency. Motivated by low labor costs or specific government policies related to import barriers or investment incentives, acquirers move manufacturing capacity to foreign markets by acquiring production-related companies abroad. The small but admittedly growing portion of efficiency-

Exhibit 1 Cross-border deals by emerging-market companies have mostly been in pursuit of strategic resources.

% of cross-border deal value in 1,095 emerging-market acquisitions, 2000–13

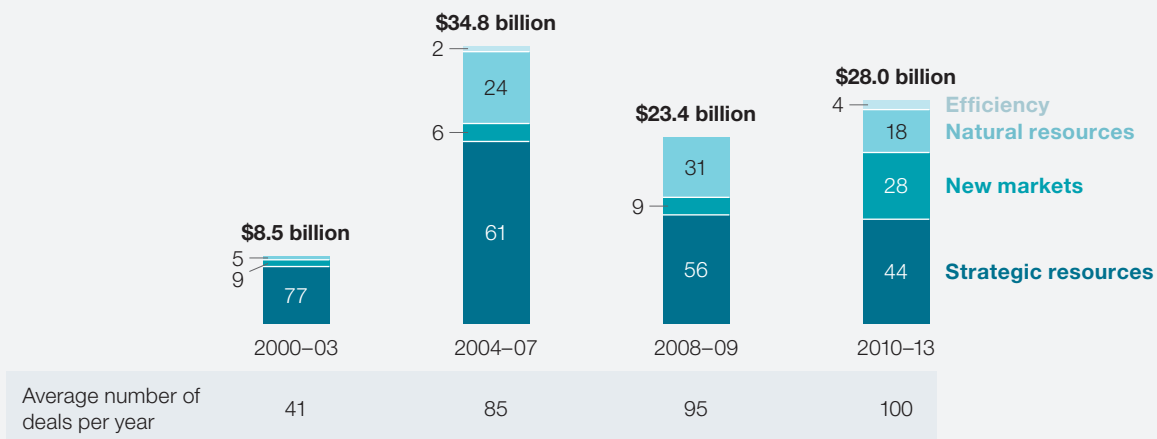


¹Other strategic motives account for 6% of emerging-market and 10% of developed-market M&A deal value. Figures may not sum to 100%, because of rounding.

²Based on 6,957 acquisitions by developed-market acquirers between 2000 and 2013.

Exhibit 2 Since 2010, emerging-market companies have shifted their focus to new markets.

1,095 cross-border acquisitions by emerging-market companies, 2000–13, average deal volume per year, %¹



¹Totals do not sum to 100%, because other strategic motives have been excluded.

seeking M&A by emerging-market bidders mainly flows into other emerging countries, where production factors are comparatively cheap. Notable examples of such deals are the acquisition of Malaysia’s Titan Chemical Corporation by South Korea’s Honam Petrochemical in 2010, or Singapore-based Biosensors International Group’s takeover of Chinese JW Medical Systems in 2011. ■

values to all acquiring and target companies. By comparing the variables’ standardized differences between both companies involved in a deal, we are eventually able to identify a transaction’s dominant strategic motive.

³We also analyzed the deal-type distribution per country and found that companies in traditional emerging markets, such as Brazil, China, India, and Russia, focus on seeking assets and natural resources, while buyers from potentially more economically advanced countries, such as Chile, Mexico, and South Korea, strongly engage in market and efficiency seeking.

The authors wish to thank Jan Krause for his contributions to this article.

David Cogman (David_Cogman@McKinsey.com) is a principal in McKinsey’s Hong Kong office, **Patrick Jaslowitzer** (Patrick_Jaslowitzer@McKinsey.com) is a consultant in the Munich office, and **Marc Steffen Rapp** is a professor of business administration and head of the Institute of Management Accounting at Philipps University of Marburg.

Copyright © 2015 McKinsey & Company. All rights reserved.

¹ Including deals valued at 1 percent or more of the acquirer’s total assets (excluding financial companies) by acquirers from Brazil, Chile, China, Colombia, Egypt, Hong Kong, India, Indonesia, Malaysia, Mexico, Peru, Philippines, Russia, Saudi Arabia, Singapore, South Africa, South Korea, Taiwan, Thailand, and Turkey. Our developed-market data cover acquirers from all high-income Organisation for Economic Co-operation and Development countries.

² More specifically, our measures are based on median R&D intensity and intangible assets per industry (for asset-seeking motive), median sales growth per industry (for market-seeking motive), median staff cost per industry (for efficiency-seeking motive), and target-company affiliation with the natural-resource industry (for natural resource-seeking motive). We calculate these industry measures for each year in each country of our sample and assign the respective