

Capgemini Press Contacts :

Christel Lerouge

Tel. : +33 1 47 54 50 76

E-mail : christel.lerouge@capgemini.com

Vanessa McDonald

Tel: +44 (0)870 238 2856

E-mail: vanessa.mcdonald@capgemini.com

Press Contact IfM :

Clare Gilmour

Tel: +44 (0)1223 766 141

Email: vgcg@eng.cam.ac.uk

Report finds the Growth of New Multinationals from Emerging Markets Challenges Traditional Western Business Model

Capgemini releases report by Cambridge University which reveals impact of internationalisation strategies of manufacturing companies in Brazil, Russia, India and China

Paris, June 20, 2008 – Capgemini, one of the world’s foremost providers of consulting, technology and outsourcing services, today released an in-depth report from Cambridge University’s Institute for Manufacturing (IfM), into the role of emerging multinationals in global trade. The report highlights the threat to western business growth from a new breed of companies emerging onto the global stage. These companies have ambitious internationalisation strategies, pursued increasingly through mergers and acquisitions, some of which have targeted well-known western companies

The report investigates the growth profiles of a cross-section of manufacturing organisations within the key emerging markets of Brazil, Russia, India and China (the BRIC nations). A number of key trends are identified in the study:

- The process of globalisation within emerging economies is driving the growth of domestic companies into emerging multinationals (EMs), which are challenging the traditional model of western business.
- Expansion approaches for these companies include international investment in Green-field operations, Joint Ventures and Mergers and Acquisitions, with the latter an increasingly popular strategy.
- Companies from the BRIC nations can grow by entering markets with offerings in products and services which would be unattractive for western businesses because of low prices, but these may be a bridge-head to growth into more profitable segments.

The growth of these EMs was studied by the Cambridge’s researchers in the context of historical, political and economic factors with particular reference to outward foreign direct investment (FDI). The four countries studied have very diverse economic backgrounds and these factors have created similarly individual contexts for growth and development. Nonetheless, each is exhibiting strong growth and acceleration in outward FDI which reflects the internationalisation of its EMs.

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“In recent years, we have seen strong, sustained growth of the global economy and a large part of this has been due to the performance of the emerging market countries,” said Nick Gill, Global Automotive and Manufacturing leader, Capgemini. *“The report indicates this actually poses a challenge to western multinational corporations as they face significant competition from organisations which were initially able to grow within a sheltered environment. Established corporations will seek to understand the internationalisation strategies of organisations in these emerging markets, since many of them will become the multinational corporations of tomorrow.”*

Status Overview of Emerging Markets and Emerging Multinationals

Brazil: Following the stabilisation of the economy in recent years, Brazil has seen a recent surge in outward FDI mostly in the form of M&A deals, alongside fluctuating GDP and inward FDI, which is currently growing slowly after a recent fall back. At present, 12 Brazilian firms are on the list of the top 100 emerging multinationals from the BRIC nations and the majority of the 40 international Brazilian firms are in the manufacturing industry.

Russia: A new generation of Multi-National Corporations (MNC) is developing the steady economic growth, which Russia has experienced since the turn of the century. Heavy industrial production dominates the Russian manufacturing industry, however there is still some way to go in encouraging free competition and grass root entrepreneurship across all industries. In 2006, Russia was in fourth place for the highest outward FDI amongst the developing nations.

India: The government has begun to prioritise manufacturing to provide employment resulting in an increased growth in GDP which has averaged 8.5% since 2006. Other key factors are the influence of citizens returning after completing a western business education, the increased exposure of India’s economy to global markets and pressures, and the relaxation of controls on outward investment. Recently there has been a surge in international M&A activity - particularly in the pharmaceutical industry.

China: Only one-third of the economy is directly state-controlled. It has become the main provider of manufactured goods for the world. Although a lot is written about the operations of foreign companies in China, some domestic manufacturing companies have achieved very impressive scale and they are beginning to invest overseas. This increase in outward FDI has followed China’s admission to the World Trade Organisation in 2001 and the introduction of the ‘Going Out’ policy by the government to raise its global economic profile.

To access the full report, please go to www.capgemini.com

About Capgemini

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working - the Collaborative Business Experience - and through a global delivery model called Rightshore®, which aims to offer the right resources in the right location at competitive cost. Present in 36 countries, Capgemini reported 2007 global revenues of EUR 8.7 billion and employs over 83,000 people worldwide.

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About IfM

The IfM is part of the University of Cambridge's Department of Engineering. It brings together expertise in management, economics and technology to address the full spectrum of industrial issues. Its activities integrate research and education with practical application in companies, providing a unique environment for the creation of new ideas and approaches to modern industrial practice. The authors are from IfM's Centre for International Manufacturing (CIM), which has a strong research focus on international manufacturing and supply chain networks. This research has been applied to help several major companies transform their global footprints.

More information is available at www.ifm.eng.cam.ac.uk.