

The tougher competitors in emerging markets

Companies in developing economies are becoming battle hardened as they vie for growth and plug into advanced technologies. Wealth is piling up in areas of economic vitality.

Global companies have long sought new growth in emerging markets. What they're likely to find lately, however, is a strata of local players that are competing fiercely for the same markets and that now are better managed and much sharper on strategy. These companies are overcoming hurdles to the adoption of advanced automation technologies ranging from robotics to machine learning and are steadily improving their processes. As developing-economy companies create greater value, personal wealth is increasing at an impressive rate as a result, particularly in emerging Asia. Incumbents in industries such as asset management will need to follow the money, or face a sharp decline in profitability.

Emerging markets: Why it's tough at the top

Contested leadership is a vital sign of the competitive environment.

by Anu Madgavkar

Developing countries are both an exciting opportunity for new growth and a source of surprisingly tough new global competition. Exactly how tough has been highlighted by new research from the McKinsey Global Institute (MGI).¹

MGI recently looked at 71 emerging economies and identified 18 that consistently outperformed global benchmarks by achieving more than 3.5 percent per capita GDP growth over 50 years, or 5 percent growth over 20 years. These included the long-term success stories of China and Malaysia, recent high-growth economies such as India and Vietnam, and less-heralded outperformers, including Ethiopia and Uzbekistan.

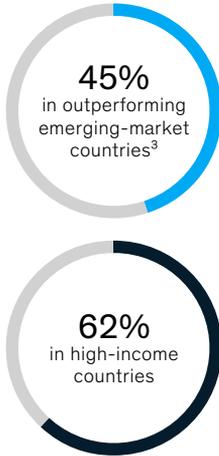
One of the most striking findings for global executives is the fierce competitive environment for big companies in most (though not all) of the outperforming economies. Rising to the top and staying there appears to be much harder than it is in high-income countries—and only the strongest survive.

For example, according to the MGI analysis (exhibit), less than half (45 percent) of companies that reached the top quintile with respect to economic-profit generation between 2001 and 2005 were still there a decade later. By contrast, 62 percent of incumbents in high-income economies stayed in the top quintile for the same decade.

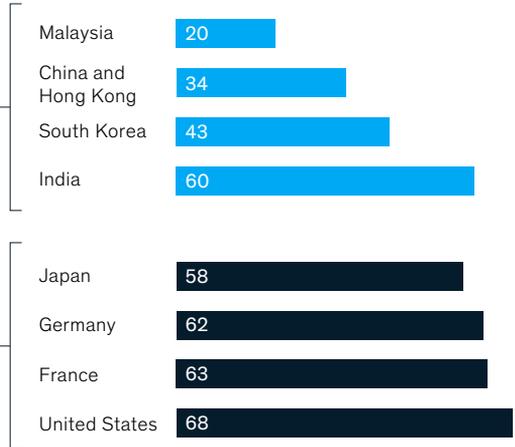
Exhibit

Rising to the top and staying there appears to be much harder for large companies in most of the outperforming emerging-market countries.

Share of large companies remaining in the top quintile for economic profit¹ over 10 years,² %



% of those companies within selected countries



¹Economic profit = net operating profit less adjusted taxes – (invested capital x weighted average cost of capital).

²Quintiles ranked by economic-profit generation between 2001 and 2005 and between 2011 and 2015; n = 48 countries and 2,284 publicly listed companies with revenues >\$500 million in 2016, 457 of which were in top quintile.

³Exceeded global benchmarks and their peers by achieving >3.5% per capita GDP growth over 50 years or 5% over 20 years.

Source: McKinsey Global Institute analysis; McKinsey analysis

The rewards for the successful companies that do stay on top are substantial: the top 10 percent of large companies with respect to value creation, in the outperforming emerging countries, captured 454 percent of the net economic profits generated by all companies. That is more than four times the proportion in high-income countries, where the top 10 percent captures only 106 percent of all net economic profit.

Another indication of the competitive environment in the 18 outperforming countries is their sheer number of large companies: on average just over 160 per trillion dollars of GDP in 2016 compared with 80 in other emerging economies and 95 in high-income countries. Large companies help drive a greater share of exports and

bring other important benefits by investing in assets, R&D, and job training.

The standout role of large companies does not happen in a vacuum. MGI finds that it comes about in part because of a domestic policy environment that stimulates and encourages competition, along with other policies to promote a pro-growth agenda marked by rising productivity, income, and demand.

¹ See “Outperformers: High-growth emerging economies and the companies that propel them,” McKinsey Global Institute, September 2018, McKinsey.com.

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Asset managers look to emerging Asia

Firms in Europe and North America must look for new ways to reignite growth.

by Sid Azad, Jon Harris, and Leda Zaharieva

The center of gravity of the global asset-management industry is set to shift dramatically toward Asia over the next ten years, senior industry executives predict.

Asked in a live poll about the outlook for growth at a recent CEO Asset Management Summit in London, a majority of the 100 or so attendees¹ said emerging Asia (including China but excluding Japan and Australia) would account for more than 25 percent of global assets under management by 2030, against 11 percent today. As Exhibit 1 shows, emerging Asia is already on the rise, accounting for about 37 percent of net flows over the past five years (more than any other part of the world); according to

industry representatives this trend is set to accelerate significantly.

Geographic evolution is one of several global trends reshaping an industry that enjoyed record growth in assets under management in 2017, pushing revenue and profits to an all-time high. Other key trends are the new power and sophistication of customers, the embrace of advanced analytics, and the emergence of new “ecosystems” as the combination of analytics, customer information, and data prompt the formation of new business models across traditional business boundaries.

Our own analysis highlights not only how competition among asset managers is intensifying but also how staying at the top (as in most business sectors) has become more challenging; half of the top-ten global asset-management players a decade ago, for example, have now fallen out of the top tier.

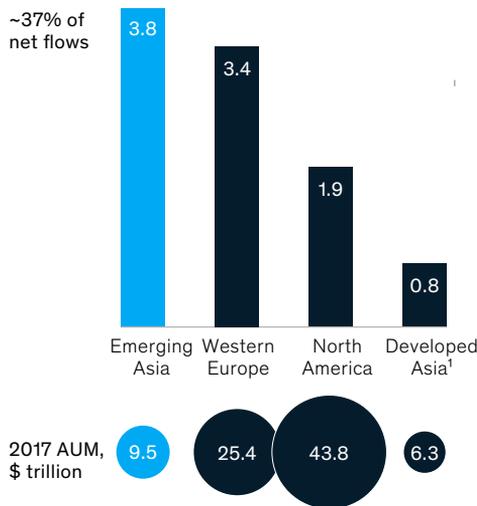
The pressure on revenue margins looks set to continue with half the executives in our poll projecting that these would continue to decline at the same rate as today (less than one basis point), and the other half suggesting they would fall even faster. If the current trend of a broad 5 percent increase in costs persists, asset growth by 2030 would no longer mitigate other pressures on profitability, and global profit pools would shrink threefold (Exhibit 2).

The risks for an average regionally focused US or European asset manager with limited exposure to Asia are even more stark.² By 2030, we project that such a firm would see a 21 percent drop in its share of global assets, and revenue margins would be down

Exhibit 1

Asset-management activity is heating up in emerging Asia.

Net flows of assets under management (AUM), 2013–17, \$ trillion



¹Including Australia and Japan.
Source: Performance Lens by McKinsey

Exhibit 2

If fee pressure persists and costs continue rising in line with past trends, global profit pools will come under pressure.

Compound annual growth rate for global asset-management industry, 2017–30, %



¹Assumes 3.9% global growth of assets under management (AuM); share of global AuM by 2030 as follows: passives at 30% (21% today); alternatives and multiassets at 28% (22% today); emerging Asia at 25% (11% today); revenue margins to decline at 1 basis point annually through 2030; costs to grow at 2013–16 rates.

Source: McKinsey 2018 CEO summit on asset management; Performance Lens by McKinsey; McKinsey analysis

ten basis points. If the firm isn't able to bring its costs down significantly, that would translate into a fall in operating profits of up to 83 percent.

²The ten biggest asset managers have just 12 percent of their people in Asia, notwithstanding that the region contributes almost half of net flows.

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¹One hundred senior asset-management executives from Asia–Pacific, Europe, and North America.

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Developing economies face headwinds as they step up the pace of automation

Automation has become a global phenomenon, but developing economies need to be wary of obstacles that may prevent them from realizing all of its benefits.

by Pascal Bornet, Thierry Chesnais, and Ignacio Gorupicz

Automation technologies such as software robotics, machine learning, and natural-language processing are offering new ways to increase productivity and reduce costs in manufacturing and service companies alike. Striving for an automation edge, however, isn't exclusive to companies in

mature economies. Developing markets from Southeast Asia to Latin America are moving just as aggressively, according to our latest survey on global automation trends. We queried executives at 1,300 companies worldwide¹ and found that emerging-market firms are deploying automation technologies

at a rate as high or higher than companies in North America, Europe, and developed Asia-Pacific (exhibit).

Emerging-market firms' rationale for gearing up is similar to that of their counterparts in mature economies. Concern with the effectiveness (for example, speed and quality) of business processes was the primary reason companies were pursuing automation, cited by 28 percent of executives in mature and 32 percent in developing markets.

Yet we found that companies in emerging economies expect more workforce disruption than those in mature economies. Larger numbers of developing-market

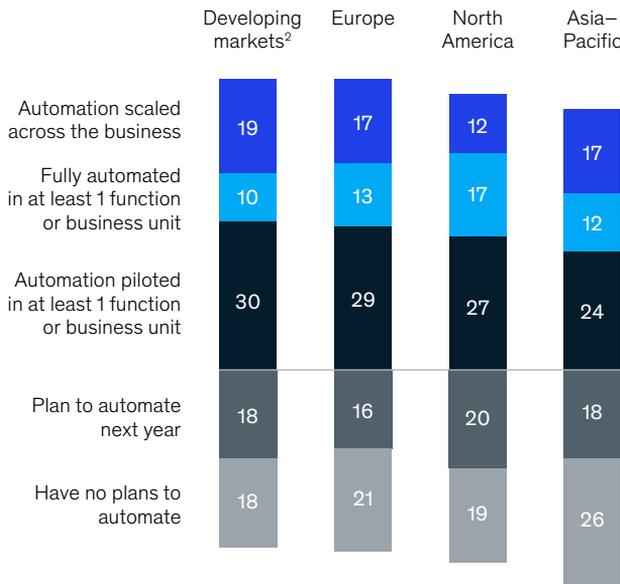
executives say that they expect employee resistance to automation. Further, leaders in developing markets assert that their human-resources teams lack the ability to address automation-related skills gaps, which is a must-have capability as workplaces become increasingly digitized.

Against that backdrop, we found several factors that could generate increasing momentum for adoption of automation technologies in emerging economies. Many developing-market firms are "born digital," with minimal legacy systems to bridge, such as telecommunications companies bypassing early-stage broadband to adopt advanced high-speed wireless communication. Another potential plus:

Exhibit

Developing-market players are pursuing automation technologies at rates as high or higher than those in developed economies.

Levels of progress in automating business processes,
% of respondents by office location¹



¹Respondents who answered "don't know" are not shown. Total n = 1,303; in developing markets, n = 373; in Europe, n = 479; in North America, n = 281; and in Asia-Pacific, n = 170.

²Includes respondents in China, India, Latin America, the Middle East, and North Africa.
Source: 2018 McKinsey Global Survey on automation

Emerging-market firms are deploying automation technologies at a rate as high or higher than companies in North America, Europe, and developed Asia–Pacific.

labor costs of implementing automation are lower among developing-market companies. Meanwhile, trade frictions have the potential to reduce demand for exports of emerging-market goods and services, so governments are cognizant of the need to automate to remain globally competitive.

As we have written elsewhere, despite differences between mature and developing markets, developing players need to think through their management approaches according to priority themes. Invariably, these should include raising the strategic profile of automation at the company and pursuing ongoing investment in automation technologies. Learning to do all this while sharpening employee skills and understanding the implications of workplace disruption will be an ongoing challenge—and management imperative.

¹ In Asia, Europe, Latin America, the Middle East, North Africa, and North America.

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For more on the research and implementation priorities for automation, see "The automation imperative," on [McKinsey.com](https://www.mckinsey.com).

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