talent, and resources, multinationals have unique competitive advantages in emerging markets. These advantages are so valuable in emerging markets—where domestic rivals lack access to the intermediaries that help companies acquire and build these capabilities—that multinationals can build strategies around them. Multinationals can exploit their relative advantage to gain traction, replicating their home-market business models with little modification. This approach enables multinationals to sidestep some institutional voids and does not particularly strain their organizations, but often it limits companies to serving only the global market segment, where those capabilities are most rewarded.

The global segment features infrastructure, tastes, talent, and resources similar to those in developed market-based multinationals' home markets. It thus offers these companies an easy entry point into emerging markets where institutional voids are relatively moot. The absence of market research, product design, brand-building, or distribution intermediaries, for example, does not impede multinationals from reaching the global segment. Many Western fashion houses entering China brought their standard global lines with global pricing to retail outlets in the shopping plazas in five-star hotel properties; in this way, the fashion houses exploited their global brands and existing design expertise at easily accessible retail locations frequented by members of the country's market segment having both wealth and global tastes.

Multinationals' experience in catering to this segment in developed markets gives them a natural advantage vis-à-vis emerging market-based entrepreneurs. By limiting their ambition to serving—or producing from—this segment, multinationals can treat emerging markets like small outposts of their home markets. However, the global segment is small in most emerging markets—much smaller than many multinationals anticipate.

Multinationals can establish footholds and test the waters in emerging markets by simply exploiting their natural endowments without significant modification. To reach customers and access talent and resources in the emerging middle class, local, and bottom-of-the-market segments—the mass markets that attract many firms to invest heavily in emerging markets—multinationals need to adapt their product offerings, business processes, and organizational structures in light of the institutional voids that they may sidestep in the global segment.

Adaptation is difficult for multinationals in emerging markets for a number of reasons. To reach customers in the other market segments, multinationals first need to identify these. These segments are not easily distinguished purely on the basis of income, so local knowledge is critical to targeting segments effectively. Acquiring this local knowledge is difficult in the absence of sophisticated market research intermediaries. Even after identifying segments, multinationals need local knowledge to tailor products to local needs. This could mean deciding which elements to eliminate from products to meet lower price points than in the companies' home markets. Meeting lower price points can also be a source of internal stress for multinationals as they accommodate new cost structures. Beyond product development and marketing, often multinationals also need to adapt their approaches to distribution to reach customers outside urban centers in the absence of retail chains and third-party logistics providers. In the talent market, these companies need to work around the absence of information and certification intermediaries to attract, sort, and motivate employees.

Before adapting standard approaches to target emerging markets, firms must compare the benefits of doing so with the additional coordination costs they will incur. Multinationals can localize too much in emerging markets, thereby undermining their advantages of scale and branding while creating operational complexity. Different forms of localization are often needed in different emerging markets, and these divergent adaptations can strain multinational organizations. Multinationals need to determine which pieces of their business models are sacrosanct and carefully manage any modification of the pieces that are not.

Compete Alone or Collaborate?

Multinationals entering and operating in emerging markets also need to relate their business models and organizations to competitors and other stakeholders, such as the government, in emerging markets. Partnerships