

# Doing business in emerging markets

Emerging markets account for a significant and growing proportion of market volumes in the rail supply sector, but companies competing to supply railway equipment face a variety of challenges. In our quarterly survey, we asked our panel of senior executives to rank the different hurdles.

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**W**hen it comes to doing business in emerging markets, complicated, lengthy and sometimes non-transparent tender processes are seen as the largest obstacle by far. Furthermore, the low standard deviation in Fig 1 shows that the executives in our survey panel were quite unanimous in their assessment.

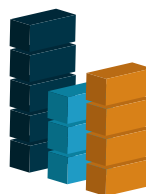
Based on experience, there are several factors that can help to ensure stable and bidder-friendly tendering:

- an up-front description of the tender process and a realistic timetable;
- clear technical specifications;
- advance documentation of the objective and non-discriminatory decision criteria, and strict adherence to them;
- comprehensive and transparent evaluation of technical and financial bids;
- compliance with local and international legal requirements;
- continuity among the key people interfacing with the bidders;
- zero defects in all tender documents.

Following these guidelines also helps the buyer, as it reduces the risk of legal action against the final decision.

The second concern, with an average ranking of 3.16, was local content requirements, such as local manufacturing, training of local employees, the use of local subcontractors, or offset contributions. These may be attractive from the buyer's perspective, maybe with the aim of using large-scale contracts to

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To find out more about the survey and apply to join our panel, visit the RSIW website at: [www.railsupplyindustrywatch.com](http://www.railsupplyindustrywatch.com)

foster economic development. This can certainly bring benefits, but requirements that are not well thought through can end up increasing the costs and reducing the quality of the product. It is important to keep a reasonable balance between the tenderer's objectives and the impact on potential bidders.

Although almost 200 years old, Ricardo's theory of comparative advantage should serve as a guideline when considering the benefits of free trade. Even if a supplier in an emerging country offers an absolute cost advantage, sourcing the equipment from another country may offer a better overall result from an economic perspective.

### Stability

With a mean score of 3.56, there was a clear feeling among respondents that the lack of political stability in several countries was the third most important obstacle. This view is clearly influenced by current problems in areas such as Ukraine, Iraq and Syria, or Nigeria, for example. These developments are beyond the influence of the rail supply industry, and companies must try to cope with the situation as best they can. That means being flexible, trying to envisage the environment and good scenario planning to prepare for any outcome.

Two other hurdles received almost the same ranking: lack of industry experience among procurement departments (4.0) and difficulties in establishing a local presence through a subsidiary or partner (4.16). The first of these is particularly applicable to countries developing railway or metro networks in a region with little or no previous experience. The second reflects aspects such as cultural differences or bureaucracy, with which companies have to contend.

Unfavourable contractual terms received the lowest ranking (4.48) and as such can be considered as not playing a significant role. The second-lowest spread of answers also reflects a high degree of consensus on this point.

### Improving the market

UNIFE Director General Philippe Citroën believes that the results point to 'a growing lack of a level playing field between European public procurement processes and those found elsewhere in the international market'. They also 'reflect the increasing barriers that the European rail industry faces in emerging markets'. Given that many jobs in the EU 'depend strongly on exports', he says UNIFE 'is in the frontline to tackle the current unbalanced situation in public procurement at the international level'.

Our survey suggests that there are two main levers which could make emerging markets more efficient.

Improving the tender process would not only address the primary concerns of suppliers, but would also help to ensure an optimum level of competition, which must surely be in the interest of the client. Transparent, 'short and crispy' tender processes would help to ensure that the winning bid is the best offer in terms of both quality and price.

Secondly, any local content requirements should be defined with care. While it is understandable that tenderers in emerging markets may want to retain part of the value chain, such requirements need to be focused on areas where it is realistic for them to be achieved. The bidders need to be sure that the necessary expertise can be built up easily, that local partners can work on their own on a sustainable basis, and that the bidders are not being forced to give up their core area of value creation. Otherwise such requirements will only lead to increased costs without any meaningful payback. ■

Fig 1. Average ranking by relative importance and standard deviation to demonstrate range of opinions.

