INTERNATIONALIZATION INTO AND FROM EMERGING MARKETS: CASE STUDY OF DIDI CHUXING

Written by DE MYTHON Daniel and POSTY Guillaume

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Under the supervision of: Mr. ORHAN Mehmet
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Résumé

Français

L’internationalisation des entreprises est un phénomène qui n’est pas récent, mais c’est aujourd’hui une étape incontournable pour toute entreprise qui rêve de croissance. Découvrir un nouveau marché, de nouveaux clients avec de nouvelles attentes, changer complètement de stratégie marketing pour s’adapter à une culture différente, adopter une nouvelle langue et une nouvelle chaîne de production, tels sont les défis qui attendent les entreprises en quête de développement international. Ce mémoire de recherche a pour objectif de comprendre et analyser les différentes stratégies d’internationalisation des entreprises, les facteurs à prendre en compte, les différentes étapes de l’internationalisation et les obstacles rencontrés par les entreprises. Nous analyserons plus particulièrement le parcours international de l’entreprise chinoise DiDi Chuxing, qui domine le marché du VTC en Chine, et qui s’est lancé à la conquête du monde en 2018, afin de comprendre comment une entreprise peut-elle accélérer son développement à travers son internationalisation.

Mots-clés : Internationalisation, marché du VTC, entreprise, développement, DiDi Chuxing, Global Production Network

Abstract

English

The internationalization of companies is not a recent phenomenon, but today it is an unavoidable step for any company that dreams of growth. Discovering a new market, new customers with new expectations, completely changing marketing strategy to adapt to a different culture, adopting a new language and a new production line, these are the challenges that await companies seeking international development. The objective of this research paper is to understand and analyze the different internationalization strategies of companies, the factors to be taken into account, the different stages of internationalization and the obstacles encountered by companies. More specifically, we will analyze the international journey of the Chinese company DiDi Chuxing, which dominates the ride-hailing market in China, and which has set out to conquer the industry in 2018, in order to understand how a company can accelerate its development through its internationalization.

Keywords: Internationalization, ride-hailing market, company, development, DiDi Chuxing
Problematic: How can a company accelerate its development through its internationalization? What are the factors and processes that explain the internationalization of EMNE? (Case Study of DiDi Chuxing)

SUMMARY

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KEY WORDS

In the development of our final thesis, we use terms that are very specific to the sector we are studying. You will find below a list of these terms, in order to make the reading of this document easier:

- **DiDi**: Diminutive of DiDi Chuxing
- **BRICSAM**: Brazil, Russia, India, China, South Africa, Mexico
- **MultiLatinas**: Major Latin American companies
- **GPN**: Global Production Network
- **IOM**: International Operations management
- **DMNE**: Developed Country Multinationals
- **VTC**: Voiture de Transport avec Chauffeur
- **FDI**: Foreign Direct Investment
- **FSA**: Firm Specific Advantage
- **CSA**: Country specific Advantage
- **RDT**: Resource Dependence Theory
INTRODUCTION

Internationalization is a growth strategy for developing companies. It is about growing and exporting a company's activities outside its national market. Sociologist Guy Rocher makes a distinction between globalization and internationalization: "Internationalization refers to exchanges of various kinds, economic, political, cultural, between nations, and to the resulting relations, whether peaceful or conflictual, complementary or competitive.... ».

Sometimes, companies resort to internationalization because by relocating some or all of their services abroad, they can reduce their production costs and thus achieve economies of scale, based on local comparative advantages.

We chose to focus on the ride-hailing market because it's a fairly new market, and it's very dynamic because it has experienced a tremendous expansion in recent years. In France, for example, the ride-hailing market is growing rapidly: 30,000 chauffeured vehicles are currently circulating in France, more than 70% of which are in the Île-de-France region. This market therefore presents a lot of opportunities because it can still greatly expand outside the Paris region.

The world is constantly changing, as are consumer habits and expectations around the globe. Companies must therefore constantly innovate and adapt to the markets in which they operate in order to meet the ever-increasing expectations of consumers.

The main advantage of this strategy is the distribution of costs and benefits. When a market stagnates in a given area, it is compensated by growth in another geographical area. Finally, the company continues to increase its sales by taking advantage of the global growth.

The objective of internationalization of a company is also to find growth relays in a historical market with weak growth. Typically, the BRICS (Brazil, Russian Federation, India, People's Republic of China and South Africa) have become geographical areas that are taking over the already saturated and low-growth European and North American markets.

The economic dynamism of BRICS over the last 20 years has forced companies to internationalize their products, production methods and marketing. The emergence of a middle and upper-middle class in these countries, with an increasing purchasing power and a
strong demographic growth is enabling Western companies to redeploy their activities to these zones while maintaining or even significantly increasing their profitability. These are markets to be conquered.

The internationalization of companies is an exciting phenomenon: how to adapt to a new culture, a new market, which internationalization strategy to adopt, what are the advantages and disadvantages of internationalization?

Companies embarking on internationalization will need to prove their pivotal adaptability to overcome the numerous obstacles involved in exporting one's activity. But the growing number of companies from developing countries going abroad demonstrates that they conceive internationalization as a unique opportunity to sustain their business over the long-term and to catapult themselves into the global economy.

Through this final thesis, we will first define the VTC market, and we will present the company DiDi that we have chosen for our case study. In a second step, we will analyze the different internationalization strategies and existing theories. Finally, we will carry out a case study on the Chinese company DiDi Chuxing, and more specifically on its entry into the Mexican market in 2018.
I) Literature Review

1.1) Didi and the VTC market

1.1.1) General presentation of the company DiDi Chuxing

DiDi Chuxing (in Mandarin: 滴滴出行), previously named Didi Kuaidi (in Chinese: 滴滴快的), is a Chinese technology company offering chauffeured passenger car service on mobile application.

The company was founded in February 2015 when China’s two most important companies in the sector, Didi Dache and Kuaidi Dache, announced a $6 billion merger. With 7.43 billion rides completed in 2017, DiDi Chuxing has quickly become China’s most successful ride-hailing application, by pushing back DiDi’s most important rival Uber.

DiDi Chuxing was founded by Cheng Wei, Zhang Bo, and Wu Rui, it counts today more than 450 million users and has established partnerships with seven of the world’s top ride-hailing companies: Grab, Lyft, Ola, Uber, Careem, 99, and Taxify. The company wants to use AI technology to help improve and evolve the transportation industry.

DiDi Chuxing has made several key mergers and acquisitions (M&A) since 2012 and most notably with the most important rivals of the company.

DiDi Dache was having a price war with rival Kuaidi Dache, and finally there have been important losses for both companies. Didi Dache was controlling 55% of the Chinese market, and Kuaidi Dache had the remaining 45%. The merger in 2015 gave birth to one of the most important ride-hailing app, and the new company “DiDi Kuaidi” was valued at about $6 billion at that time.

Didi had an aggressive strategy against the international companies that tried to dominate the Chinese market, like Uber China. Uber lost about $2 billion in the market share battle, and the company negotiated an agreement with DiDi Chuxing in August 2016: Uber China sold its business to DiDi and became a DiDi’s minority investor. In return, DiDi invested $1 billion in Uber.
In 2017, DiDi created the "DiDi Women's Network": it was the first career development plan intended for women in a major Chinese company. Today, DiDi claims that 40% of its total employees are women.

DiDi’s key shareholders are 3 of the most powerful Chinese companies: Alibaba, Tencent and Baidu. DiDi is present in 400 cities in China, and around 1000 cities in the world with DiDi's important partnerships that we will analyze later in this thesis. DiDi is now in a monopoly situation in China, where the company has wiped out all competition, as we saw earlier. DiDi therefore has this huge advantage over its competitors: a market of 1.4 billion people.

Today, DiDi has more than 550 million users, and the company has 31 million drivers worldwide.

“DiDi was founded on July 10, 2012 and was launched in Beijing on September 9, 2012 after 3 months of preparation and promotion on the driver side. DidiDrops is currently a non-listed company, the company does not directly disclose revenue, profit, and revenue composition, the following financial information collected about DidiDrops are provided by third parties.” Mr. Feng, Marketing Director, Didi Chuxing China
Management Team

The management team behind Didi's success is composed of former employees from companies like “Goldman Sachs”, “Alibaba Holding Limited”, and other major companies.

Cheng Wei (also known as Will Cheng), is Didi’s co-founder and CEO. He has a huge experience in business: after graduating from Beijing University of Chemical Technology, Cheng Wei immediately joined one of the most important companies in China: the e-commerce giant Alibaba. Cheng Wei became vice president of Alibaba's online payment service, Alipay.

In 2012, Cheng Wei founded Beijing Orange Technology Co Ltd. which is a high-tech research and development enterprise. In June 2012, Cheng Wei founded DiDi Dache, a taxi-hailing app. In 2015, DiDi Dache merged with Kuaidi Dache, an important player on the ride-hailing market, to create DiDi Kuaidi, which will later be renamed as DiDi Chuxing.

In 2016, Cheng Wei was elected Businessman of the Year by Forbes Asia.

In 2017, Forbes selected Cheng Wei as a Global Game Changer, and he has been included the same year in the list of the 50 Most Influential Business Leaders, by Fortune China (a company that provides market research for leading global businesses). Two years later, in 2019, Cheng Wei was included in the list of the 20 Most Influential People in Tech by Forbes Asia.

Jean Liu is the president of DiDi Chuxing. The businesswoman, also known as Liu Qing, is graduated from Peking University and from Harvard University. She worked for Goldman Sachs for 12 years, and then she joined DiDi Chuxing. In 2014, she was Chief Operating Officer (COO) of DiDi Chuxing and finally, in 2015, she became president of the company.

In 2016, Jean Liu was elected Most Powerful Women in China by Fortune.

In 2018, she was selected in the list of the 50 World’s Most Powerful Women by Forbes and in the China’s Top 100 Business Woman List by Forbes Asia.
1.1.2) Presentation of the ride-hailing market

In France, the activity of ride-hailing is very old. Ride-hailing’ activity originated when the Louvres in Paris was used as the Royal Palace.

In front of the Palace, very distinguished “cochets” were waiting to take charge of eminent members of the court and sometimes even the King himself.

The activity met with great success, and the court stewards decided to integrate these precious and top-of-the-range services within the Parisian Palace itself by allocating a discount to each of the cochets according to the personalities they had to transport: a large discount for the cochets working for important members of the court, a small discount for the others.

Ride-hailing in the world was launched in 2009 by UBER in San Francisco. Uber was officially founded by Garrett Camp, Travis Kalanick and Oscar Salazar in 2009 as UberCab. The idea came to them in 2008 while attending the “LeWeb” trade show in Paris. They were looking for a taxi and could not find one, seeing the same problems in the Parisian taxi system as in San Francisco. While still working for StumbleUpon, they returned to Silicon Valley and set up a private on-demand driver service called UberCab.

The main difference with taxis is that taxis are allowed to park in the public square in search of customers, whereas VTCs can only work on reservation and must therefore be parked off the public highway when they are not ordered by a customer.

The ride-hailing market has reached a market size of 61.3 billion dollars in 2018 and is expected to reach 218 billion dollars in 2025. This amazing growth could be explained by the growing need for personal mobility and the fact that people are more and more connected with their smartphones. Today, ride-hailing trips are reported to represent about 1 percent of the overall number of kilometers travelled in the world, and this number is supposed to increase in the next few years. Every day, more than 16 million ride-hailing trips are made worldwide (6 billion trips per year). By 2030, this total is expected to be around 83 billion trips.
The European ride-hailing market is quite saturated, with more than 10 companies present on this market such as Uber, Cabify, JoinUp, TeCab, Wheely… (cf Figure n’2 - Appendix)

(Marketsandmarkets, December 2018, “Ride Sharing Market by Type (E-hailing, Station-Based, Car Sharing & Rental), Car Sharing (P2P, Corporate), Service (Navigation, Payment, Information), Micro-Mobility (Bicycle, Scooter), Vehicle Type, and Region - Global Forecast to 2025”, https://www.marketsandmarkets.com/Market-Reports/mobility-on-demand-market-198699113.html)
1.1.3) DiDi’s competitors

DiDi’s most important competitor is Uber, which operates in around 700 cities, in 63 countries in 2020. Uber has 93 million users and provides the same services as DiDi Chuxing. In August 2016, Uber abandoned the Chinese market, after suffering heavy losses, in favor of DiDi Chuxing.

Another big competitor is Lyft. The company is present in around 660 cities, in 2 countries (USA and Canada) and counts around 2 million drivers. In September 2015, DiDi invested $100 million in Lyft, and in June 2016, both companies signed a partnership.

Cabify is a Spanish company created in 2011, and it is also an important player in the global ride-hailing market. Cabify proposes its activity in more than 130 cities, in 12 countries like Spain, Portugal, and Latin American countries.

Furthermore, another DiDi’s competitor is Careem : created in 2012, the company was born in the United Arab Emirates, and works in more than 90 cities, in 14 countries (Middle East, Africa and South Asia). Careem has more than 30 million users and one million drivers.

Grab, created in 2012, is an important company in the global ride-hailing market, and in particular in Asia. Based in Singapore, the company operates in more than 500 cities in Southeast Asia. Grab declared to have 45 million users and 1 million drivers.

Last but not least, OLA is a ride-hailing company, based in Bangalore in India, that is present in more than 150 cities, in 4 countries including India, Australia, New Zealand and United Kingdom. The company declared to have more than 1.5 million vehicles within its ride-hailing fleet.

DiDi’s numbers are the most impressive ones: the company is present in 400 cities in China alone, and in more than 1,000 cities around the world, thanks to its numerous partnerships. DiDi declared to have more than 550 million users worldwide and more than 31 million drivers in the world, which places the company at the top of the ride-hailing market in the world.
“All competitors (Uber above all) have the ambition to build a super app with a distinct and varied product portfolio. Everyone knows that whoever manages to make that super app before the others will win, people will depend on a single application (model WeChat).”

Pedro Gavroche Argüelles Tirado, Operations Manager, DiDi Mexico

1.1.4) “Uberization” of the market: how DiDi tackles a western phenomenon?

The Uberization of the economy is a French term to describe the fact that the economy is now based on services and not on production anymore. This represents an enormous change in the economic models and creates new sectors of activity like the ride-sharing sector for example. This model is mainly based on the creation of digital platforms that put service providers in direct contact with users, as well as on dedicated applications that take advantage of the real-time responsiveness of the mobile Internet.

Uber is of course an excellent example of the “uberization” of the economy, but Airbnb is also a good example of this phenomenon.

DiDi Chuxing, China’s leading application for booking chauffeured vehicles, announced on Thursday that it had acquired the Brazilian 99 Taxi service, confirming its ambition to compete with the American Uber on an international level.

DiDi, who claims more than 450 million users, already had a strategic stake in the Brazilian firm, where he had invested 100 million dollars a year ago.

In a press release, DiDi Chuxing announced - without revealing the amount of the operation - that he had taken control of “99 Taxis” and their 14 million registered users, confirming his desire to break into the booming South American market.

After biting the dust at Uber in China, Didi is now competing with the American in highly strategic Brazilian cities: according to Bloomberg News, São Paulo and Rio de Janeiro are the world's two leading cities in terms of the number of journeys made using the Uber application, followed by Mexico City.
The acquisition of “99 Taxis” is, according to the Chinese group, "another decisive step in its international strategy". "Internationalization is our priority," says Managing Director Cheng Wei.

In addition to his merger with 99 Taxis, Didi had acquired stakes in 2015 in the Indian taxi booking application Ola, as well as in the American Lyft, Uber's rival in the United States.

He also put a wheel in Europe, via his alliance concluded this summer with the European Taxify, a VTC reservation center present in some twenty countries and which arrived in Paris in October 2018.

DiDi Chuxing, who last year bought Uber's operations in China after a long and expensive battle, says he now controls 90% of the VTC market in his country and almost the entire local market for taxi bookings via mobile phone. After having already raised more than 5 billion dollars in the spring of 2017 (making it the most valuable start-up in Asia at the time), Didi announced on December 21, 2017 that it had raised some 4 billion dollars more to finance its expansion.

According to the company, these new funds are to be used, in particular, to finance its developments in artificial intelligence and the establishment of its own network of charging stations for electric cars.

“At the beginning of 2020, DiDi Chuxing made a "small action" in the Mexican market: put in 700 electric cars and hybrid cars, which makes DiDi Chuxing the first travel company to operate electric vehicles in Latin America. At present, Mexico has become the largest overseas market for DiDi Chuxing.” Mr. Feng, Marketing Director, DiDi Chuxing China

DiDi Chuxing, born in 2015 from the merger of two competing applications supported respectively by the Chinese internet giants Alibaba and Tencent, claims to ensure more than 25 million races per day.
1.2) **Internationalization**

1.2.1) **General presentation of the phenomenon, existing theories and limits**

The late 20\textsuperscript{th} century is undeniably marked by the gradual shift towards liberalization shaped by the multi-polar ecosystem formed by the increasingly growing “Global Village” (McLuhan, 1967).

The Internationalization Process Model or IPM (Johanson and Vahle, 1977), otherwise known as the U-model, initially theorized a two-dimensional conceptual framework to describe firms’ internationalization processes characterized by the importance of progressiveness in the firm’s international expansion. It suggests that companies expand abroad following an incremental dynamic regarding psychic distance with the host country and the intensity of the entry mode. The nexus linking all the existing framework’s scope conceptions is the cumulative learning process of companies.

The internationalization process starts by expanding to a nearby psychic market with common characteristics, thus diminishing the operation’s levels of uncertainty related to foreign markets. An increased level of the overall market’s knowledge will then translate into an enhanced control of resources and commitment allowing the company to appreciate the opportunity to expand to more distant markets (Andersen, 1993). Even though this theory maintains a certain temporal sturdiness as it appears as the tailored model to decrypt companies’ internationalization, its detractors remain numerous in the International Business literature field.

The main objection was that it delivered a simplistic approach regarding an angular variable, location, interpreting it with a microeconomic lens while dismissing a more completed macroeconomic approach in terms of location’s comparative advantages (Kojima, 1990). But first and foremost, the IPM reflects the internationalization path followed by developed market’s MNEs (primarily Sweden and European companies), which does not transpose with the actual situation experienced by the EMNEs. The very same authors understood that their theory didn’t propose an in-depth understanding of those new global players, so they submitted a revisited version taking into consideration new types of mechanisms and putting
the emphasis on the importance of network linkages in the internationalization development (Johanson and Vahlne 2009, Ojala 2009).

1.2.2) OLI Paradigm

The OLI paradigm, commonly referred to as the Eclectic theory, was developed by John H. Dunning in 1979 and used as the literary common ground to extend the internationalization theory. The goal here was to detect the key specific strategic advantages that would encourage firm’s decisions to initiate their operations abroad. It articulates around three components:

- **Ownership** advantages: specific to the firm over its competitors. It may be a tangible asset or access to technology

- **Location** advantages: specific to the targeted foreign country. Allows the company to relocate a part of its production in order to minimize costs

- **Internationalization** advantages: specific to the international scope. It benefits the company in several ways like accessing a new market, benefits from optimized transaction costs, and holds a competitive position while reducing dependency to the home-market.

According to Dunning, prioritization of those components will shape the international strategy of an MNE and deliver different outcomes according to their conjunction. This paradigm propounds some key aspects to understand the logic behind the use of FDI with a diachronic hindsight, but it has limited itself to traditional actors in static environments without having been able to deal with the dynamic’s complexity specific to MNEs. For example, the model clearly follows an asset-based mindset by assuming that competitive advantages emanate from ownership. This is contradictory as EMNEs dispose of CSA and productive capabilities as their primary competitive advantage, revealing its lack of correlation for the early development of new firms formations nor the dynamic nature of competitive advantages acquisition (Mathews 2006, Luo 2002).
1.2.3) EMNEs general presentation

Although the first multinational firm was developed in the middle of the 17th century under the name "East India Company" and several renowned authors theorized about the concept with the Absolute cost advantage (Smith, 1776) and the Comparative cost advantage (Ricardo, 1817), the objectification of the notion of emerging markets will appear much later. It is only in 1981 that this term was coined by a Dutch economist and World Bank employee Antoine van Agtmael. At the time, the organization's finance department wanted to stimulate the funding of the formerly called Third World countries. But the risky connotation of these countries was not frankly attractive to investors, so he invented the term in order to distinguish countries between risky economies and the attractiveness of other countries in matters of foreign investment.

Nowadays the broadness of the concept encompasses a wide variety of attributes, but we may focus on the distinctive ones. Emerging markets are defined as low income and high growth economies that use liberalization as their means of growth (Hoskisson and al., 2000). They present institutional voids, symptomatic of a weak governance, as well as lower levels of development in terms of infrastructure, labor markets and immature financial and juridical entities (Khanna et Palepu 2010). The latter conjugated with relatively frail patent protection laws increases the risks and the uncertainty of the business climate (Hoskisson, 2005 ; Xu and Meyer 2013).

But despite those institutional weaknesses, they were able to maintain a dazzling growth and have a strong position both on the world trade and geo-political scene. According to the World Development Prospects 2019 edited by the OECD : “In 2008, the share of developing countries’ economic output in global production rose to over 50 % for the first time” (OECD, 2019). Perspectives on Global Development 2019. https://www.oecd-library.org/development/perspectives-on-global-development-2019/development-strategies-for-the-21st-century_persp_glob_dev-2019-5-en)

This statistic echoes the fact that, “since 2000, the average growth of real GDP in emerging countries is 3.5 times faster than that of the United States” (Dupuis and Généreux, 2016). By 2050, six of the ten largest economies in the world could be emerging countries according to a PWC study.
Demographics as well as the continental size of emerging countries are also variables on which these countries bolster up their global role and ambitions, as their global population accounts for 80.7% of the world’s population. These unique characteristics offer a context where EMNEs have different motivations and competitive strategies compared to MNEs.

2.1 Internationalization Strategies

2.1.1 Internationalization Strategies

As we previously analyzed, those traditional theories bring a relevant framework to understand why and how firms engage in international operations. But the MNEs firm-focused data in which scholars relied upon doesn’t quite fit with the particular context in which the EMNEs evolve in. Indeed, the peculiar features of emerging markets multinationals and the global context give these companies different motivations, ambitions, strategic orientations and organizational frameworks than traditional actors.
This shows us how EMNEs are exponentially becoming serious players in several industries, jeopardizing the long-lasting leader position of western companies. The main challenge, and therefore objective, for EMNEs is to catch up and overcome their latecomer’s disadvantages by compensating through their capacity to seek and internalize knowledge while simultaneously setting off aggressive, pro-active and even risk-taking internationalization strategies.

2.1.2) FDI, Country specific advantages and Firm specific advantages

EMNEs have access to a panel of different tactics that they can choose to follow such as exportation, licensing, alliances, joint ventures, mergers and acquisitions or establishing a wholly owned subsidiary. Exportation being considered as the least engaging operation, allowing the firm to inter without heavy investments (Mahoney 1998), the others are catalogued as Foreign Direct Investment (FDI) and play a prominent role in their worldwide participation as the size and relative stability of FDI makes it the most important source for external development. In addition to this, recent financial performance enhanced the FDI stocks level of EMNEs and turned them less dependent upon bank loans to finance their foreign investments projects (UNCTAD, 2008).

During the first steps of their strategy, EMNEs can only take advantage of home-country advantages or CSA (natural resources, government supportive policies, easy access to low-cost labor) instead of firm-specific advantages or FSA (companies ‘asset and/or capabilities unavailable to competitors that lead to a dominant competitive position). For example, DiDi, which was created in 2012, overthrown the Western phenomenon Uber in less than 2 years, controlling at the moment over 90% of the hugely profitable Chinese market and buying the operations from American tech companies. The government was definitely the trump card in favor of DiDi as after a harsh and pricey legal battle concerning the licences to operate, Uber surrendered and left to DiDi the dominant position in one of the most phenomenally dense, demographically speaking, and populated countries of the globe.

This type of advantage is obviously important but it is paramount to underline that the country-of-origin advantages are partly the fluctuating product of economic, cultural and
pol i tical a c tions as w ell as exogenous facto rs (natural disasters and/or resources, fi nancial crises) that may e volve and/or fade away over t ime. A s a matter of f act, EMNEs internationalization is clearly dr iven by the characteristic s of the institutional environment where they originate from. (Peng, Wang and Jiang 2008). B ut in order to become a genuine competitor, EMNEs need to d evelop firm-specific advantages if they want to remain competitive in the l ong run. S o, to develop these “western advantages”, EMNEs use OFDI as a channel to obtain the sought knowledge and technology, e nhance production processes, increase competitiveness, improve managerial skills and f inally access to global distribution networks (World Bank, 2018). OFDI incites a peculiar focus owing to its skyrocketing intensification as outward investments for emerging economies grown from roughly $1 billion in 1980 to $409 billion in 2015, a lso nine of the top twenty host economies were emerging economies in 2018 which reveals the ferocity that animates EMNEs to t ransition and be able to influence long-term market trends (UNCTAD, 2019).

It will not be an oversimplification to state that EMNEs are laggard in terms of managerial, marketing and technological competences. B esides, empirical evidences show that their competitiveness in international markets stands out from their production and operation competences (Fleury, 2011) instead of marketing or R&D, so they need to deviate from MNEs traditional path to catch up.
2.1.3) Asset exploitation VS Asset augmentation

Given the imperative needs of knowledge for production purposes, firms are theorized as institutions for integrating knowledge, which according to the theoretical consensus in International Business literature is the predominant resource to become and remain globally competitive (Grant 1996). EMNEs brings a unique context to the table to study knowledge-seeking operations as, due to their latecomer’s disadvantages, they trigger an accelerated internationalization with the aim to develop a constituent firm-specific advantage to exploit thereafter. They will enter a foreign market by leveraging their CSA, thanks to the exploitation of their particular position in the value chain and will tend to have an asset-augmentation attitude rather than asset-exploitation like MNEs.

The requested knowledge depends on a wide variety of determinants such as the specific industry EMNEs evolve in or the idiosyncratic environment and nature of each company.

However, this concept needs to be nuanced in order to avoid any dichotomy, as these perspectives are not mutually exclusive but, on the contrary, can be executed simultaneously. De facto, the FSA that EMNEs develop gradually are due in part to the recombination with home turf CSAs (Rugman and Nguyen, 2013). However, scholars acknowledge the indispensable capability that EMNEs must be able to integrate efficiently the pursued knowledge and skills. Transferability of a firm’s resources and capabilities is a critical determinant to develop sustainable competitive advantages (Barney, 1996). Transferring knowledge is not the same as integrating it, hence the return on investment for knowledge-seeking procedures comes along efficient integration (Grant, 1996).

In order to get a better insight of the FDI incentives and procedures, we are going to focus on the main proposed conceptual frameworks, the Springboard Perspective (Luo and Tung, 2007) and the LLL framework (Mathews, 2006).
2.1.4) LLL framework

The LLL framework established by John Mathews in 2006 asserts itself in the continuum of the OLI paradigm, by providing an enlarged understanding for these new-comer firms searching for strategic assets. By investigating what he described as “dragon multinationals" firms (Korean and ASEAN member’s firms), he revealed that EMNEs following resource-seeking operations do not adhere to the same procedures as developed economies multi-nationals. The OLI’s former mindset considers asset exploitation as the initial purpose while the latter exhorts asset-exploring as the primary objective for EMNEs (Mathews, 2006).

As we previously looked upon, EMNEs navigates in challenging institutional settings and are the outcome of erratic market circumstances attributable to an incremental and strengthened competition. In order to sustainably secure their position in an environment subject to such oscillations, they have been able to develop organizational flexibility, which is proving to be a decisive skill.

2.1.5) Springboard Perspective

The main substantiated conclusions of this perspective is “that these firms use international expansion as a springboard to (1) acquire strategic resources to compensate for their capability voids, (2) overcome laggard disadvantages, (3) exploit competitive advantages and market opportunities in other countries, (4) alleviate institutional and market constraints at home and bypass trade barriers into advanced markets, and (5) better compete with global rivals with augmented capabilities and improved home base after strategic asset acquisition” (Luo and Tung, 2007).

This theory parses the specific features of EMNEs lacking in their existent theoretical taxonomy and then organically springs up the fact that their aspirations and tactics may require a reinterpretation. For example, it contradicts the IPM theory previously puzzled out by stating that springboard firms tend to internationalize with an aggressive rapidity following leapfrog trajectories to advanced markets without consideration for the psychic distance, rather than incrementally and aiming neighboring countries first (Luo and Tung, 2018). The fact that they usually bypass cross-country, even cross-continental, frontiers is
due to their lagging position rebalanced by their investment in MNE’s markets that disposes
of industry-specific comparative advantages and assets (Chen, Li and Shapiro, 2012).

The famous example of Tata’s set of acquisitions of technological expertise niche British
companies like Jaguar Land Rover, Corus Steel and Teslet Tea proves the geographic
disregard and the meticulousness of their idiosyncratic selection. The goal of these operations
didn’t superimpose with classical theories which would have described this tactic as a means
of gaining access to the European market or reducing operational costs. Indeed, these
investments were more in response to the search for managerial skills specific to the luxury
sectors and the motivation to develop in-depth skills in the acquisition of international groups
and be better equipped for the incoming ventures.

According to Kuemmerle (1999), those assets can come in the form of “technology, brands,
distribution networks, R&D facilities and managerial competences”.

If we take the case of DiDi Chuxing, its first international operations in 2015 and since then,
came in the form of investments directed to Uber’s direct competitors. According to the
company’s statement, DiDi is actively looking to “engage local industry champions to share
technology and best practices in product development and operational expertise”. They
initiated partnerships through investments in EMNEs like the future Southeast Asia unicorn
Grab ($350 million) or the Indian market leader Ola, as well as in MNEs in developed
countries such as Lyft ($100 million) which is by the way Uber’s biggest US competitor.
Once the internal capacities' portfolio was consistent enough thanks to the accumulation of
geographical dispatched ride-hailing technology knowledges, they set off their first
acquisition of the Brazilian company 99 for an undisclosed amount.

This agenda sheds light on 2 important dimensions that any EMNEs who seeks to
internationalize take into account : location and entry mode
2.1.6) Location & entry modes

As we previously looked upon, EMNEs disposes of a broad spectrum of possibilities to enter a foreign market, going from exportations to acquisitions according to the company objectives. In the case of DiDi, which is a tech company, the noose tightens from the beginning in terms of internationalization early stages. For tech companies, the requirements of pre-existing home-based knowledge levels are more important than in other less disruptive industrial sectors because technological know-how is the most severe denominator for EMNEs vis-à-vis MNEs (Elia and Satangelo, 2012). We appreciate the validation of this statement when we see that DiDi was created in 2012 but waited until 2015 to create and confirm its necessary capabilities in order to launch its phenomenal expansion.

A plethora of academics and scholars have argued for decades to detect the intrinsic motives, logistics and procedures encompassed in the EMNE’s international growth and the adjacent investments. One of them has become a reference in particular to the point of becoming a scholastic reference, the Resource Dependence Theory or RDT portrayed by Pfeffer and Salancik in 1978, considering resources as the core tenet. According to the author’s statement: “to understand the behavior of an organization you must understand the context of that behavior—that is, the ecology of the organization.” (Pfeffer and Salancik, 1978). Transposed to the EMNEs phenomenon, they acknowledge that companies are confronted to external factors that shapes the global environment in which they navigate, thus influencing their options and positions. Owing to their underdeveloped position in the global network production merged to incremental competition, EMNEs managers have the duty of reducing environmental uncertainty and dependence (Pfeffer and Salancik, 1978).

To this end, DiDi’s executives choose with precaution the location and entry mode according to the contextual needed knowledge.

In February 2019, DiDi announced a joint venture with Volkswagen Group, a $9.6 million partnership (64 million of yuan) in order to develop technologies for DiDi’s ride-hailing fleet. DiDi wants to position itself very quickly in the electric vehicles market and show that the company is environmentally friendly.
The opening of the DiDi Labs in Mountain View (California, USA) in March 2017 was settled with the ambitious will to create an AI research lab based on the values of sharing and international collaboration of knowledge.

Mechanically these companies will have a propensity to select developed market economies for their strategic asset-seeking ventures as they are the most likely to possess this value-added knowledge thanks to their educated workforce, strong patent protection policies and pre-existing available technology inter alia. But the dazzling success of certain companies such as Samsung and Huawei for example, now democratized in the consumer’s psyche from all around the world, proves that the EMNEs intend in the long-term to detach themselves from this imposed international division. In order to do this, they are not limiting themselves to imitate and recreate low-cost solutions thanks to the obtained technology, but rather they are investing heavily in R&D in order to offer a truly innovative product and to stand out from their Western competitors. In January 2019, DiDi announced the creation of “Jingju” a joint venture with Beijing Electric Vehicle, a unit of state-owned Chinese automaker BAIC Motor Group, in order to develop electric vehicles and connected car systems (AI and fleet management technologies) for DiDi’s ride-hailing fleet.

2.1.7) Recombination

The popular case study of the Blue Jean supply chain reveals the intricacies and the geographic fragmentation of the global production network and the specific know-hows. Thanks to information technology and the lowering of transport costs, distances no longer represent the obstacle of yesteryear and the multi polar opening of markets theoretically allows any company to enter markets and sectors long considered to be the preserve of industrialized countries. Any company with a global mindset wishing to reduce its dependency towards world-wide players, caused once again by the EMNEs structural delay, in the “international chessboard” will proactively multiply, often simultaneously, its operations with different partners in different locations. It is an uphill battle for global
managers to efficiently redirect FDI and combine it to the smartest choices in terms of location and modes of entry while maintaining the course of profitability.

**2.1.8) Absorptive capacity**

The accelerated pace of internationalization buttresses asset-seeking explorative operations leading to the development of firm specific advantages through the accessibility to codified knowledge, unavailable resources, operational expertise and remote marketplaces. But accessing all those elements is useless if the entity is not able to absorb, integrate and exploit those externally obtained assets in the aftermath. Introduced in 1990, the notion of “absorptive capacity” formulated by Cohen and Levinthal evaluate a company’s ability to “recognize the value of new, external information, assimilate it, and apply it to commercial ends is critical to its innovative capabilities” (Cohen and Levinthal, 1990) The conclusion is that EMNEs can’t buy their way up to success because, in order to transform these assets into strategic leverages, it is critical to exercise control over its subsidiaries abroad, efficiently transfer the knowledge obtained between them and to ensure the absorptive capacity of the parent company.

The cumulative nature of DiDi asset-seeking operations is indeed correlative to the authors' conclusion as R&D became the azimuth compass for their development model. We can champion this idea as, over the course of the interview with Mr. Arguelles, he spotlighted the fact that DiDi clearly understood this element from the onset. Its internationalization is constantly accompanied by a strict control over the web of resources and centralization exerted by the laboratories and headquarters located in Beijing thereby increasing the firm’s innovativeness. This way, it may better focus on the development of value-added activities and diversify its portfolio. In the particular case of DiDi, diversification is the vital pivotal plan corporate wishes to foster.

According to Mr. Arguelles, the ride-hailing service is merely the tip of the iceberg regarding DiDi’s long-term plan but nonetheless it constitutes the face of the company to the public's conception. The recent diversification leads us to affirm that DiDi is in the process of
becoming a serious competitor in the high-tech industries of big data analytics, artificial intelligence and fintech. In addition to gaining a foothold in the self-driving vehicle sector maintaining a rivalry with giant conglomerates such as Google or Tesla, it offers like Uber a myriad of financial services. The nexus behind all these tactics is to follow the WeChat and Alipay model and become some sort of “super application” that answers all of your B2B / B2C concerns in one same application. According to Mr. Arguelles, this is the real underlying race dispute with Uber and other entities and if there is one real assumption to make, is that the winner takes it all.
2.1.9) Organizational flexibility

This framework helps us understand the organizational flexibility, strategic management aptitudes and learning mentality that developing countries firm’s leaders need to put to practice. Moreover, this malleable nature enables them to position themselves in markets and sectors on a global scale. Indeed, by relying on the knowledge base they have gathered, they are able to chronologically surmount their foreigner status by developing relationships with local customers by familiarizing with their products, thus forging a legitimate image over time (Liu, 2007; Luo and Tung 2007). In order to bypass an already overcrowded market by well-established competitors or to simply avoid discriminations from consumers and even institutions, EMNE’s investors may use the channel of acquisitions instead of establishing a from scratch wholly owned subsidiary. That was the spirit behind the acquisition of 99 in Brazil as their first implementation to the South American market, the leading competition emanating from Uber and 99 was considered way too intense as, in the ride-hailing industry, every percentage of market share requires significant human and financial resources. Another channel of greenfield investment will be the launching of a venture from the ground up like it was the case for the creation of the Didi Mexico hub. In this case competition was less relentless giving them the right opening window at the right timing to enter while minimizing the risk of facing handicapping legislation for example.

2.1.10) From emerging markets to emerging markets

The plurality of matrices’ recombination and simultaneous execution highlights the adaptability and adjustability demonstrated by EMNEs. This double-edged dynamic certainly enables them to compete in the long term with industrialized countries, but it also gives them a preferential situation in the emerging markets which will boost and drive tomorrow’s global demand.

In fact, firms originating from these developing economies are by definition better suited to invest in other developing countries. First off all, they benefit from a certain pre-internationalization phase by simply evolving on the same operational environment as companies from developed economies that have been set up beforehand. But foremost, they were confronted with the same typology of structural challenges present in their local market,
giving them a certain upper-hand over developed economy opponents. The lack of institutional quality in their home-country accustomed them to operate in similar harsh conditions as their developing partners, thus reducing the need to partner with established companies as they are already aware of the situation and the solutions to mitigate them. In addition to that, they have a more established global knowledge of this type of consumer giving them the opportunity to tailor products to the specificities of these type of personae and to set up more organically than Western companies (Cuervo-Cazura and Genc, 2008). This is a quantifiable trend as 75% of China’s FDI stock, which totaled US$789 billion in 2014, is invested in Asian developing economies (UNCTAD, 2016). In a speculative point of view, emerging markets shouldn’t be forgotten as they present really bankable features such as their continental size and the resultant significant investment opportunities.

This massive consumer base relies on the exponential skyrocketing growth of population occurring in those markets. This sustained growth encourages the maintenance of operations between emerging economies because it represents a unique opportunity for EMNEs to acquire a favorable position on these markets (see first-mover) which will drive world demand in the years to come, without forgetting the fact that they are prepared to better navigate the institutional meanders and better circumvent them than their Western rivals. The Multilatinas, large Latin American companies whose operations extend beyond the borders of
their countries, are a perfect example to embody this trend. To give a little bit of context, Multilatinas evolved in a context of pronounced government intervention and high levels of regulation orchestrated to protect the market from any foreign intrusion. Coupled to titanic levels of available natural resources and the exploitation of CSA (cheap cost labor), this combination has historically influenced the drive for more regional expansion than other players such as China and its "Go Global" policy. EMNEs regional ambition from the South American market in the early stages of their expansion in linked to the reductions of cultural distance and risk avoidance as consumers from the Mercosur area present the same broad characteristics in a market with growing dynamic potential (Olaya and Cueter, 2012)

III) RESULTS

4.1) Case study: DiDi Chuxing in Mexico

4.1.1) DiDi’s entry into the Mexican market

We chose to study DiDi’s arrival in Mexico because it is the first country in which the company went outside of China. Moreover, we, Daniel and Guillaume, have a special affinity for Mexico because we have both lived there, and we have both been there recently.

DiDi Chuxing arrived in Mexico in 2018 with a great objective: to transform mobility. Mexico was the first country where DiDi went out of China. After having completed its pilot test period in the city of Toluca, which began in April 2018, the DiDi Chuxing private cab service began its operations in Mexico City on November 21, 2018.

“Toluca is known to be located about 60 kilometers west of Mexico City and is a prosperous regional economic and cultural center. DiDi Chuxing said that the online car service will gradually expand to other major cities in Mexico during the year.” Mr. Cheng, Marketing Director, DiDi Chuxing China

The arrival of DiDi Chuxing in Mexico is a symbol since it is the first physical implementation of the Chinese giant in another country than China. The company said it was targeting Latin America, which it believes is the third largest market in the world after the
United States and China. To finance its international ambitions, the Chinese giant had raised $4 billion by December 2017.

Today, the company has operations in 33 cities in the country with our products: DiDi Express, DiDi Taxi, DiDi Comparte, DiDi Food, DiDi Economy, DiDi Entrega and DiDi Protect.

DiDi Express is a mobility network at affordable prices. This service is intended for individual users or groups of up to 4 passengers. DiDi Taxi provides exactly the same service but is made to order a taxi with the DiDi app. DiDi Comparte is an option for users who want to share their travel: The passenger will be saving up to 20% and promoting environmental sustainability. Didi Food is a service of food delivery in Mexico. DiDi Economy is a service that has the standards of DiDi Express and with lower prices in schedules with little demand: in this way, DiDi Economy is positioned as the most accessible option by offering trips from 20 pesos in some cities. DiDi Entrega is a new service for the problems of the current contingency, which will have a platform of packages for a great part of Mexico, so that users can send goods or packages through the drivers registered in the application. DiDi Protect is a service with special hygiene measures, including the new Zest Protect+ Antibacterial Spray, plastic barrier, unit disinfection and verification of the use of driver's mouth covers, for the same price as always.

"We are very excited to start operations in one of the most important cities in Latin America. Mexico City is an interesting challenge and at the same time an ideal place to showcase the benefits DiDi can bring to the community, which come from the many lessons we have learned from the Mexican market," said Pablo Mondragon, DiDi's Mexico City Operations Leader.

DiDi's passengers in Mexico City will be able to take advantage of benefits such as competitive rates, lower than the average of similar services in the city, as well as launching promotions for users.

Didi provides its customers a safety toolkit, where users can share their ride with up to five trusted people and have access to a safety button in case of a dangerous situation, with two options: call 911 or the DiDi Rescue Hotline.
Since its arrival in the country in April 2018, DiDi has strengthened its application and operational processes, which today allows it not only to offer a new transportation option, but a business vision based on accessible rates, a lower commission to increase drivers’ profits, and safety and quality of service for passengers.

“Why Mexico? Because Mexico City is the country and city with the highest number of platform drivers in the world and the safest in Latin America, then controlling a market of this size is an incredible opportunity” Pedro Gavroche Argüelles Tirado, Operations Manager, DiDi Mexico (cf. Appendix)

In 2019, DiDi’s market shares were only 4%, and Uber shares were 80%. That means that DiDi still has some work to do, in order to gain market shares. The graph below represents the different market shares of the companies in the Mexican ride-hailing market.


“The products and mindset were deeply rooted in the Chinese mindset where there is the custom of paying for any service via WeChat/ AliPay (digitalization of the currency custom of consuming via phone/ penetration of the use of apps much more important than in Latin
which does not exist in the Mexican or Latin American mentality. One step back, so they need to win the market of "smartphone users" and promote the use of smartphones and the development of virtual habits. In Mexico the customs are very different, street cabs are still used” Pedro Gavroche Argüelles Tirado, Operation Manager, DiDi Mexico

4.1.2) Focus on the internationalization of DiDi

DiDi began investing in companies outside China in September 2015 with investments in Grab, Lyft and Ola. DiDi’s real international expansion began in 2018 with the creation of an office in the city of Toluca, Mexico. After that, the company decided to establish offices in Australia, Brazil, Chile, Colombia, Japan, and most recently in Russia. Here is a detailed explanation of how DiDi has established itself in these countries.

Australia: DiDi arrived in Australia in 2018, starting in the city of Geelong before focusing on other cities including Melbourne, Newcastle, Perth, Brisbane, and then Sydney. DiDi declared that its activities in Australia were 10% cheaper that its local competitors like Uber and Ola.

Brazil: DiDi has entered in Brazil in January 2018, and acquired a controlling stake in 99 Taxis (a Brazilian ride-hailing company created in 2012) with a deal that now values the Brazilian startup at more than US$1 billion. DiDi Chuxing thus acquired an activity of 600,000 drivers, 18 million users spread in 1600 cities including São Paulo, Rio de Janeiro… The amount of the operation was not revealed to the general public but in 2017, DiDi had already invested 100 million dollars in the Brazilian start-up.

Chile: DiDi entered Chile in 2019 with a two months test in the city of Valparaiso, in June 2019, and then expanded its activities in the capital of the country, Santiago, in August 2019. As part of its strategy, DiDi offered a welcome package up to $14 for the new users of the app, available for the first five trips. DiDi also provides its customers with an accident insurance for all trips, and a 24/7 emergency hotline service. Furthermore, the company offered a $697 earning for the new drivers if they succeed to reach the daily customer targets in their first week of activity with the company.
China: In June 2016, DiDi raised more than $7 billion (Apple was a $1 billion investor). At this moment, DiDi was valued at more than $25 billion, it was operating in only one country and was in a very good position compared to its competitor Uber in terms of market shares in China. DiDi succeeded because they knew the Chinese market way better than Uber: DiDi started by having partnerships with Chinese Taxis and offered its customers the choice to order a DiDi, a cab or a driver in case the owner of the car is not able to drive. DiDi also created “Hitch”, its carpooling service, so that the Chinese people have plenty of choices when they want to do a trip.

To eliminate its competitor Uber from the Chinese market, DiDi signed a partnership in 2016 with Lyft, the number 2 in the U.S. market, so that DiDi users can use the Chinese application to travel to the U.S., and this also applies to U.S. tourists who can now travel to China with their Lyft app.

DiDi also received favorable treatment from the Chinese government, which granted the company licenses to operate in all major Chinese cities in a very short period of time, which favored and helped DiDi’s development in the Chinese market.

With the various elements we have just seen, Uber has seen its market share decline and in August 2016, Uber had no choice but to sell its Chinese operations to DiDi. In return, Uber gets 20% of DiDi’s new set of business in China. Furthermore, DiDi became a minority shareholder of Uber.

In 2017, DiDi Chuxing claims to control 90% of the VTC market in China.

Colombia: DiDi entered Colombia in June 2019 and launched its activities in Bogotá, capital of Colombia, with 2 services: DiDi Express (classic DiDi) and DiDi Passenger (taxi service).

Japan: On July 19, 2018, DiDi announced that the company established a joint venture with SoftBank called DiDi “Mobility Japan Corp.” in order to expand DiDi’s activities in 12 majors Japanese areas including Tokyo, Kyoto and Osaka.

"Through this joint venture, I am delighted to deliver DiDi's most advanced transportation platform service with AI technology to the Japanese market. Combining DiDi's outstanding innovation with SoftBank's extensive business base including advanced network"
infrastructure, I believe the joint venture can provide new value to both consumers and taxi companies in Japan” says Ken Miyauchi, President & CEO of SoftBank Corp.

Russia: In August 2020, the company DiDi Chuxing decided to enter the Russian market. DiDi launched its services in Kazan, the capital city of the Southwest Russian Republic of Tatarstan. The company will only charge drivers 5% commission and promises an economical and safe transportation option for users in the city.

“On the flip side, Latin America is the second fastest growing mobility market in the world. Out of approximately 640 million people, there are more than 200 million smartphone users. It is expected that by 2020, 63% of Latin America's population will have access to mobile internet. However, many internet and technology companies have yet to fully exploit the region's potential, and there is still the potential for great things to happen. These are naturally good news for drop-shipping.” Mr. Feng, Marketing Director, DiDi Chuxing
Below is a representative map of DiDi's international presence.

4.1.3) DiDi’s partnerships worldwide

As we have seen previously, DiDi has been looking to accelerate its international development in recent years. The company has made investments, such as in Australia or Colombia for example, but the company has proven that it can operate differently. In Brazil, DiDi acquired the company “99 Taxis”, in Japan DiDi created a joint venture with SoftBank to conquer the Japanese market. DiDi also established a partnership with Lyft to invest in the US market, in order to dominate the Chinese market, and DiDi invested $100 million in Lyft in September 2015.

Furthermore, DiDi has announced in June 2017 that it has acquired a stake in Taxify, an Estonian company established in Eastern Europe and Africa. The amount of DiDi's stake in the company Taxify is unknown, but it shows once again DiDi's great appetite for international development. Taxify claims more than 2.5 million users worldwide and the company is present in 18 countries and 25 metropolises in Eastern Europe (Baltic countries, Hungary, Romania...) and in Africa (South Africa, Nigeria, Kenya...).

In September 2015, DiDi Kuaidi (at that time the company was not yet called DiDi Chuxing) announced its investment in the Indian ride-hailing company Ola. As Ola is the largest ride-hailing company on the Indian market, this investment confirms DiDi's international ambitions already in 2015. The amount of the investment remains private but DiDi declared that they had a big interest in investing in experienced companies like Ola (Ola was created in 2010) as they will both share technologies and develop new products together.

In August 2015, DiDi invested in Grab (initially known as GrabTaxi), the first ride-hail startup in Southeast Asia established in Singapore, for an unknown amount. Almost 2 years later, in July 2017, DiDi and SoftBank announced a cumulated investment of $2 billion in Grab, which strengthened the ties between these companies.

In 2017, DiDi invested in Careem, a VTC company owned by Uber and operating in more than 100 cities in 15 countries in the Middle East, Africa and South Asia, with more than 12 million customers. The amount of the transaction was not disclosed but the purpose of the partnership is to share information on transportation technology and product development.
In January 2019 DiDi established a joint venture with Beijing Electric Vehicle, a unit of state-owned Chinese car manufacturer BAIC Motor Group, in order to develop electric vehicles and connected car systems (AI and fleet management technologies) for DiDi’s ride-hailing fleet. The new company created by this joint venture is called “Jingju”.

DiDi’s desire is to clearly show its attraction for electric vehicles, as BAIC Motor Group has committed to no longer sell gas-powered vehicles by 2025. DiDi announced in 2019 that it had nearly 400,000 “new energy” vehicles within its ride-hailing fleet and the company has declared that it had, in 2019, 31 million drivers worldwide, which represent an enormous potential for the electric vehicles market. (Techcrunch, 2019)

One month later, in February 2019, DiDi announced another joint venture with Volkswagen Group, a $9.6 million partnership (64 million of yuan) in order to develop technologies for DiDi’s ride-hailing fleet. DiDi’s aim here is to invest further in the production of electric vehicles, in order to position itself very quickly in this growing market and to show that the company is environmentally friendly and prepared for the transition to reduce its global footprint.

“By investing in competitors, you give them the opportunity to increase their evaluation which allows them to keep innovating so the market grows (there are more competitors) and logically your market shares too, Microsoft did it with Apple before Apple became Apple”

Pedro Gavroche Argüelles Tirado, Operations Manager, DiDi Mexico

cf. Image n’1 in the appendix to see DiDi’s partnerships worldwide on the world’s map.

The image above shows the different connections between companies that invested money into the ride-hailing market, and we can clearly notice that DiDi is the company that invested the most in this sector (6 connections) just before Lyft that has 5 connections and Uber that has 4 connections. Source: Recode, 2017
IV) Discussion

5.1) What are the obstacles & limits of internationalization?

5.1.1) Common Errors Committed in Internationalization

Many companies are opting to develop their activities in other countries. Some because they have problems and use internationalization as a means of survival, others because they operate on a national scale and want to continue to grow by increasing their presence abroad.

Currently, in this era of globalization, with few trade barriers, extraordinary communication facilities and low transportation costs, there are numerous opportunities for business development. However, in conjunction with these opportunities, there is an increase in competition around the world. This implies that operating in foreign markets with different customers and political, economic and financial risks is a real challenge for companies.

Let’s analyze some common errors committed by companies during their internationalization process.

Lack of planning

Planning is essential in almost all areas of business action, to know how to act and what we may face. In the case of internationalization, which is normally a strategic decision, and in most cases does not produce short-term results, planning will be crucial. Analyzing the new markets and methods of entry as well as the capabilities and advantages of our company are essential steps for this project to be successful.
Not taking into account the differences of the foreign country

Normally, when entering foreign markets, companies are facing many changes. Cultural, logistical, fiscal and other differences that can make our business not work if these differences are not taken into account before launching. As an example, the company PUMA has decided in 2011 to celebrate the 40th anniversary of the birth of the United Arab Emirates, and to celebrate this with a special pair of trainers for the occasion, with the flag of the United Arab Emirates printed on the shoes. The company had not anticipated that in the culture of this country, toes being a symbol of dirt and impurity. The Emiratis did not like to see their flag associated with shoes at all and the operation was a failure for the company.

As a matter of fact, DiDi Mexico’s Operation Manager Mr. Arguelles made similar comments when mentioning the main difficulty facing the subsidiary. He explained that the tropicalization, inevitable in this kind of operation, has required an additional financial and human effort and may quickly cannibalize any operation and can quickly cannibalize any operation if it is not treated with the mandatory seriousness. The services proposed by DiDi faced the cultural barrier between Chinese and Mexican mentalities. Indeed, the Chinese population has, for several years now, developed a real symbiosis with digital technology and its daily use for any type of request which is something not so rooted in the Mexican mindset. So DiDi needed to take a step backwards, which turned out to be quite expensive on all levels, in order to capture as much as possible of the pool of smartphone users and launch promotional campaigns to increase its visibility to other categories of customers.

Companies often forget the importance of the Internet

In international markets, the company's website will be its business card. That is why it is very important to take care of it so that it is attractive and consistent with the image and perception you want your customers to have of your company. The website must be available in the native languages of the countries where the company will be present.
Companies do not pay attention to customer service

Customer service, when the company decides to go international, must follow the same path. It is fundamental that it adapts to new customers so that they have a satisfying purchasing experience and become loyal customers. To do this, it will be very useful to have specialized agents who speak the necessary languages and who know how to give advice and figure out any trouble related to the customers efficiently. To manage the service properly and professionally, it is important to have tools such as the virtual switchboard that offers a wide variety of functionalities and will give your company a much more professional image.

Not having adequate agents and distributors

Having agents and distributors from the country of destination who can give you a closer view of the country you wish to operate in will be of great help. They will be able to give you information about their customs, market prices and many interesting tips. Of course, without losing the essence of the company. Finding a person who will fit the position and integrate well into the company will be important to ensure a long-lasting relationship and to make the company’s action in the country as effective as possible.

Wrong choice of market entry methods

There are many strategies you can choose to internationalize your business. Among these we can mention direct and indirect export and joint ventures for example. Depending on the needs of the business and the action plan, there may be some that are more advantageous than others and better adapted to what the company wants. It will therefore be very important to study the advantages and disadvantages of each one of the strategies so that you do not make a mistake when choosing your entry method.
Impatience

Internationalization is a slow and gradual process that, moreover, is subject to multiple troubles. It is a process that requires patience on the part of the company, which will not see quick results, which can be a little frustrating at first.

Here are some points to consider if a company wants to expand its business to other countries. The use of tools such as the virtual switchboard that we mentioned, or the use of international virtual numbers, among many other communication options, can help the company to attract customers and to retain them.
5.1.2) Intercultural Management: The Hofstede Model

Since 1980, the field of management of human resources from different cultures has strongly progressed. Companies are becoming more and more interested in cross-cultural management as the internationalization of companies is becoming more and more frequent. Diversity of skills is a competitive advantage that allows companies and organizations to improve the performance of their teams. Interculturalism offers benefits that are nowadays considered indispensable by managers.

Geert Hofstede (1928-2020) is a Dutch psychologist and professor. According to this author, cultural dimensions influence the way we perceive space, time, and social relations. He identifies 6 main factors of cultural differentiation: The index of hierarchical distance, The control of uncertainty, Individualism and collectivism, the male-female dimension, the long-term or short-term orientation, and finally the indulgence towards severity. The knowledge and study of these six dimensions allows leaders to adapt their management style and thus avoid any internationalization errors.

5.1.3) Being a Chinese company worldwide

According to us, it is not easy today to be a Chinese company in the world. The image of these companies suffers a lot from the trade war between China and the United States. Donald Trump, at the end of 2018, directly attacked the Chinese company Huawei, accusing them of espionage and theft of private data.

This accusation indirectly affected all Chinese companies because Donald Trump implied that Chinese companies did not respect the privacy of their clients' data, and suggested that Chinese companies were totally devoted to their government: according to Trump, if the government asks a Chinese company to provide it with private data, the company can only accept the Chinese government's request because it required by law.
These elements show us that being a Chinese company is not necessarily an advantage in today's world. Foreign countries, especially Western countries, have a certain mistrust towards Chinese companies, this mistrust is fueled by the Huawei affair which is being followed very closely by the media around the world.

Western countries have a fear of "reverse engineering", which is the activity that consists in studying a product to analyze and determine its internal functioning or method of production. China has long been accused of intellectual property theft and these accusations weigh heavily in the international development of Chinese companies: the French operator “Bouygues Telecom” announced on August 2020 that it will remove out 3,000 Huawei cell-phone antennas by 2028, in French densely populated cities, after a request of the French government for security reasons of the future 5G network.

Emerging countries also suffer from currency volatility: the unpredictable fluctuation of exchange rates on the global foreign exchange market. This volatility can cause significant losses (or profits) on the foreign exchange market.

Some countries index their currencies to the U.S. dollar to ensure the stability of their currency and to attract the confidence of foreign investors. This phenomenon can lead to the dependence of these emerging countries on the dollar.
Composition of foreign exchange reserves by currency in Q1 2019:

In this picture, we see the composition of the world's foreign exchange reserves by currency. We can clearly see the dominance of the dollar, which occupies 61.82% of the world's foreign exchange reserves, followed by the euro with 20.24%. China's currency, the yuan, occupies only 1.95% of the world's foreign exchange reserves in 2019. (FMI COFER, 2019)
5.1.4) The disadvantages of internationalization

The internationalization of a company also has disadvantages. First of all, the administrative steps to be taken are very slow and complicated enough to legally sell a product or service in a new country. Each country has its own tax and employment laws, as well as different administrative processes for registering companies, trademarks and documents that must be filed in accordance with the law.

In addition, it is important for a company to monitor currency fluctuations. If the national currency of a company's home country is weak in comparison with the national currency of the country in which the company is setting up operations, this may allow the company to offer competitive prices in the new country in which the company is seeking to set up operations.

At the same time, companies that want to expand internationally are faced with the logistical complexity that this requires. It is very complicated to effectively manage the supply chain of a company that is expanding globally. It requires a complete change in the company's production chain, having to anticipate a lot of new potential problems (delays in deliveries, etc...), not every country has the same resources and infrastructure.

Speaking the language of the country in which a company is setting up is also a crucial step in internationalization. More than three-quarters of the world does not speak English as its main language, so it is essential to invest in localization and translation services to avoid language-related mistakes. Anticipating changes in time zones is also crucial for a company that wants to expand internationally. It is a matter of minimizing the loss of time when two offices located in different parts of the world have to work together. As an example, in 2011, Pepsi decided to change its slogan in Taiwan to "Come alive with the Pepsi generation". Problem, this slogan was interpreted by the Taiwanese as meaning "Pepsi will resurrect your ancestors" and this was a big mistake in marketing for Pepsi which quickly changed the slogan again.

Furthermore, credit risk is greater in some developing countries, i.e. companies do not always have guarantees that they will be reimbursed for the outstanding debts of customers who do
not pay. This risk must be taken into account because it can be very dangerous for some companies.

When a company wants to expand internationally, it is very likely that it will have to adapt the products/services it offers to its new customers. This involves costs in research, market research, new product design, etc. Companies have to anticipate this and therefore anticipate additional costs in order to adapt the offer to the new markets the company is entering. Companies should not underestimate the needed resources for a large-scale expansion.

Last but not least, it is essential for companies to be up to date on the political and geopolitical situation of the country in which the company wants to establish its activities. If the foreign government decrees an embargo or declares a product offered by the company illegal, it can be a disaster for the company's economy. In these times, the political and international situation of countries can evolve and change very quickly, so it is very important for companies to always be aware of these factors.
Conclusion

In conclusion, we would say that DiDi is a company that has undergone a rapid international expansion. In less than 10 years, DiDi Chuxing has conquered the Chinese market by pushing its main rival Uber outside the Chinese borders and by carefully orchestrating a coordinated and thoughtful business plan. By undertaking a well-calculated international expansion, beginning in the city of Toluca in Mexico, DiDi set off the first physical stone of its worldwide empire and it is only a matter of time before it takes root in the 5 continents.

Through direct investments, partnerships, acquisitions and joint ventures, the company has always maintained an aggressive strategy to establish itself in the targeted countries. The definitive strength of DiDi relies upon its meticulous modus operandi which sharpens their strategy. Thanks to well-directed investments, intelligent configuration of entry modes, efficient network management and a constant learning mentality, DiDi has been able to develop its portfolio at an astonishingly fast pace in both developing and developed countries. Its relentless ambition pushes the company to constantly innovate and attack such disruptive fields as artificial intelligence and Big Data in which she is forging an expert status. Fully aware of this next digital gold rush, DiDi intends to perpetuate her achievements and continue to make a place for herself, proving her long-term vision.

DiDi has faced many challenges in its international expansion, from cultural differences to different government regulations, as well as different consumer habits and expectations of local customers. However, the company has been able to manage these constraints because it is now one of the worldwide leading company in the ride-hailing market and has far outstripped its main competitor Uber.

However, the company still has a long way to go. It must continue to acquire market shares in the countries in which the company is present while facing the tremendous impact that the Covid-19 is currently having on the ride-hailing market and fighting increased competition in foreign markets as well as its domestic market.

So even though DiDi is a marvelous example of emerging economies’ success story, it is paramount to highlight the institutional weaknesses that undermine and erode EMNEs opportunities and position.
In view of the multiplicity of engaged operations and the consequent several pivots, this company seemed to us the ideal case to study the phenomenon of internationalization of companies from emerging countries and its multimodal nature. But even scholars would “agree to disagree” when theorizing about the internationalization of emerging economies as the phenomenon is currently occurring in a constantly changing multipolar world where it is almost paradoxical to try to quantify and extract a sovereign truth applicable to all idiosyncratic situations. Even the most basics conceptions are subject to personal interpretations or contradictions (such as the fact that South Korea is still classified as a developing country although presenting a higher income per capita than developed nations like Portugal).


**Recommendations**

We would advise DiDi to carefully choose their entry mode into the European market because it is strictly regulated and controlled, which is not an advantageous situation, at least for the creation of subsidiaries.

Placing safety and consumer service respectively as their strategic cornerstone is a wise move because well-developed operations in this area will provide a loyal base of consumers while differentiating themselves in this field from their main competitors. We recommend DiDi to continue their efforts in terms of security, and to make it a real comparative advantage because this subject is very important in countries where DiDi is not yet established, such as in Western European countries.

We also recommend that DiDi could take advantage of the advantageous situation of the MSCI EM index, which currently favors Asian countries, especially in the digital sectors. This position determines the speculative appetite of investors around the world. Maintaining a strong position for China will imply a high flow of FDI. But the advantageous returns on investment in this type of economy come from the risky nature of these countries, reflecting their volatility.
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APPENDIX

IV) Interview Pedro Gavroche Argüelles Tirado, Operations Manager, DiDi Mexico

1) Why choose Mexico? What is the specific value of this market? And how is the creation of Didi Mexico part of Didi’s global strategy in Latin America?

Because Mexico City is the city with the highest number of platform drivers in the world, so controlling a market of this size is an incredible opportunity. We went Full stack in Mexico with Didi Mexico’s Launch. In Brazil there were already 2 strong competitors: Uber and 99 Taxis are very rooted in Brazil, it would be dangerous to compete against them. VTC is an industry in which each percentage of market share requires important human and monetary resources.

2) What was the main obstacle Didi faced during her expansion in Mexico?

Without a doubt: the tropicalization. The products and mindset were deeply rooted in the Chinese way where there is the custom of paying for any service via WeChat/ AliPay (digitalization of the currency custom of consuming via phone/penetration of the use of apps much more important than AmLat) which does not exist in the Mexican or Latin American mentality. One step back, so they need to win the market of "smartphone users" and promote the use of smartphones and the development of virtual habits. In Mexico the customs are very different, street cabs are still used.

Tropicalization of the products destined to the Chinese market that had to be adapted to the Mexican demands and customs (in Mexico the salaries of the chauffeurs were indexed to those in China, making them feel that were being cheated), or the types of promotions (campaigns that seem excellent in Mexico but not China). The relationship with the government (regulations in Mexico differ from state to state) is really different compared to China.

3) What is the objective behind investing such amounts of money in Uber's direct competitors (Ola, Taxify…)? What are the objectives apart from cannibalizing Uber's market shares?

By investing in competitors, you give them the opportunity to increase their evaluation which allows them to keep innovating so the market grows (there are more competitors) and logically your market share too (Microsoft did it with Apple before Apple became Apple). Moreover, to have one foot in each market and understand them better as they are very different from each other.
4) In your opinion, what are the specific comparative advantages of Didi? Are they based solely on the sector of ... or the processing of data and information from Big Data?

We have a technology conglomerate (laboratories in China have an excellent status), smart algorithms and IA for safety (Didi’s top priority) then customer experience and efficiency. Didi is not really a ride hailing company (it is only the public face of the company) but it is a data scientist and data management company with an offer of 20 different B2C products: (Food/premium Business cars/ scooters/ Didi chauffer (a Didi driver takes you home in your car if you are too drunk to drive to avoid leaving it there or driving it), financial products such as insurance companies, fintech, investment funds, life insurance...)

We work in B2B with IA : we do some analysis with our algorithms, for client companies in mobility or construction for example, the mobility of people and vehicles. For the construction of a shopping center they were asked what type of customers (personae) lived in that specific geographic area to evaluate the profitability of the project or the stores that will be present. All competitors (Uber above all) have the ambition to build a super app with a distinct and varied product portfolio. Everyone knows that whoever manages to make that super app before the others will win, people will depend on a single application (model WeChat). WeChat already tried to export its app and business model abroad but was not successful, maybe this is the best way.

5) How is knowledge transfer between Didi’s subsidiaries carried out?

All our data are centralized quite successfully by the networks and laboratories in Beijing. All the information centers (DSI) are attached to those in Beijing.

6) What kind of operations will Didi set up in the future, only focused on R&D as in the past?

Our main objective right now is Didi automatic driving = Didi is the principal investor in automatic driving/ self-driving car. We also want to race with Tesla and Google to get the most performing autonomous vehicle. The next step is to establish bases in the different countries where we have been implanted (many recently Australia, Russia ...) and continue to be implanted in other countries. Our final goal is to control the global ride-hailing market.

We already have plans to establish ourselves in Europe but it is more complicated than we thought, since the market is very controlled with many regulations.
Interview Mr. FENG, Directeur marketing, DiDi Shanghai

1) Can you tell us something about Didi's company? (Date of creation, number of employees, turnover...)

“DiDi was founded on July 10, 2012, and was launched in Beijing on September 9, 2012 after 3 months of preparation and promotion on the driver side. DidiDrops is currently a non-listed company, the company does not directly disclose revenue, profit, and revenue composition, the following financial information collected about DidiDrops are provided by "third parties".

A financial data circulated within Didi Chuxing shows that the company continued to suffer huge losses in 2018, with annual losses of RMB 10.9 billion. By the end of 2018, the accumulated losses reached 39 billion yuan. On September 7, 2018, Cheng Wei, founder of Didi Chuxing, had mentioned in an internal letter that Didi had lost 4.04 billion yuan in the first half of 2018, which, combined with the above-mentioned outgoing financial data, shows that Didi had a loss of up to 6.86 billion yuan in the second half of last year. Previously, in 2017, Didi's annual loss was 2.5 billion yuan. In 2017, the number of employees of Didi was 8,000, in 2018, an increase of 5,000 to 13,000. In 2019, the total number of employees of Didi is planned to be 13,500”

2) What was Didi's first international operation? In which year and was this first operation a success?

“On September 27, 2018, Didi Chuxing Japan held a press conference in Osaka to announce the launch of its taxi hailing service in the region. DDD has added a real-time Chinese and Japanese text translation feature for the Japanese service to facilitate barrier-free communication between Chinese speaking roaming users and Japanese drivers and improve service efficiency. A bilingual customer service is available in Japan to provide local support for roaming users in Greater China. Didi Chuxing said it will also enter Kyoto, Fukuoka, Tokyo and other major cities in Japan in the future.”

3) When did Didi's company arrive in Mexico? What was the move to Mexico like?

“On April 23, 2018, Didi announced its official entry into the Mexican market with the launch of the Didi Express service in Toluca, the capital of the state of Mexico, with an official announcement. Previously, Didi's overseas strategy was more reflective of technology and capital export, and it was the first time that Didi's service was directly landed in a non-native language market.”
4) What was Didi's strategy for establishing itself in Mexico (which city first, etc.)?

“Toluca is known to be located about 60 kilometers west of Mexico City and is a prosperous regional economic and cultural center. Toluca said that the online car service will gradually expand to other major cities in Mexico during the year.”

5) What were Didi's goals and expectations when it arrived in Mexico? Did the company meet these objectives?

“Chinese online taxi company Didi Chuxing has officially landed in Mexico, introducing its services to drivers and passengers through advertisements on a website launched in the country and preparing for a burnout battle with rival Uber. Didi Chuxing began making plans to enter the Mexican market, marking the company’s first foray out of Asia. Mexico's crowded streets, underdeveloped public transportation system, and growing population of smartphone users make the mobile app car service in Mexico ripe for development.

The main goal of DDD Mexico is now to humbly listen to its users and understand the travel needs of the local market and community, according to the company. "There are similarities in the challenges that each emerging market faces in the field of transportation development, and we believe that Drip's powerful artificial intelligence technology and flexible services can help local residents get around more easily, generate more jobs and income for drivers, and contribute to the sustainable development of these beautiful municipalities.””

6) What are Didi's future prospects for her business in Latin America?

“At the beginning of 2020, Didi Chuxing made a "small action" in the Mexican market: put in 700 electric cars and hybrid cars, which makes Didi Chuxing the first travel company to operate electric vehicles in Latin America. At present, Mexico has become the largest overseas market for Didi Chuxing.

In the past two years, DiDi travel has been vigorously exploring the international market: on the one hand, to participate in the United States Lyft, Southeast Asia's Grab, India's Ola, Brazil's 99 and other companies of investment; on the other hand, Drip travel is personally, in a number of overseas markets operating travel business, including Japan, Australia and a number of Latin American countries, of which Latin American countries is the internationalization strategy of Drip travel the most important.”

7) What were the obstacles Didi encountered during its internationalization in Latin America?

“From an opportunity perspective, Latin America, unlike many other parts of the world, is still heavily reliant on traditional forms of public transport such as buses, trains and metros. And with roads in cities such as São Paulo and Mexico heavily 'saturated' and at or above maximum capacity during peak hours, owning a car is more of a hassle than a necessity. As a result, the demand for new mobility options in Latin America is growing further.

On the flip side, Latin America is the second fastest growing mobility market in the world. Out of approximately 640 million people, there are more than 200 million smartphone users. It is expected that by 2020, 63% of Latin America's population will have access to mobile internet. However, many internet and technology companies
have yet to fully exploit the region’s potential, and there is still the potential for great things to happen. These are naturally good news for drop-shipping.

But it’s not easy for ride-hailing companies to successfully do business in Latin America. For example, taxi drivers who have been hit by ride-hailing have a strong hostile attitude towards Didi and Uber. Even in July last year, taxi drivers in Chile launched a vigorous anti-Uber campaign. In addition, the chaotic law and order environment in Latin America has raised higher demands on the expansion of ride-hailing companies."

**Didi Chuxing’s many partnerships give it a global footprint**

Source: Didi Chuxing

Figure 2: Overview of transport network companies by region

Source: Companies’ public filings, Arthur D. Little analysis


Figure 3

Figure 3: Description of key global and regional ride-hailing platform

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<td>Alibaba</td>
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Source: Arthur D. Little analysis
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