Explore, Expand, Extend: 3 steps to overcome cultural barriers and succeed in internationalizing a venture

By

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ABSTRACT

This study is intended to provide a framework of questions, for a manager or an organization, in order to overcome cultural barriers and succeed in internationalizing a young venture. My objective is to focus on young Internet ventures with innovative, easily replicable and scalable business models in the process of establishing a global presence while leveraging and nurturing local differences.

My observations seem to highlight 3 successive steps to successfully enter a geographically new market: a first phase of exploration (where a team is often on the ground mapping the cultural differences, studying the trends, deciding what the best approaches to entrance are) a second phase of expansion (where the company formalizes its operations in the new country, decides the structure to give to the new entity and deals with challenges such as adapting its product or service to local needs and tastes) and finally a phase of extension (where speed is of essence, the company is trying to achieve a network effect and growth while making sure the skills gained through the new market entry will be replicable and reusable for other historical markets).

I would like to study in detail the 3 highlighted steps; each time providing a list of questions a company should seek to answer. For each step I will study the particular strategic decision of one growing venture (Spotify exploring Japan, Airbnb expanding in China and Uber extending its reach in South East Asia) so as to illustrate how a given company chose to answer these questions.

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Introduction

The head of sales of a multinational apparel company dispatched two salespeople to open a new territory in a predominantly rural country. After scouting a few villages, the first salesman rang the head office. “I’m returning on the next flight,” he said. “We can’t sell shoes here. Everybody goes barefoot.” Meanwhile, the second salesman was busy e-mailing the head of sales: “The prospects are unlimited. Nobody wears shoes here!”

A business leader or an organization willing to expand its operations into another country must first recognize what makes the new country a different one. Not putting himself/herself the shoes of the local customer, our business leader is likely to trip over numerous obstacles, and like the first salesman, abandon the new territory altogether. Similarly, thinking only in terms of market potential, like our second salesman, doesn’t lead to recognizing and answering to an actual need. To succeed in a new market, business leaders must first learn to think like a local.

The objective behind this thesis is to be useful for a manager, a company or an organization setting foot into a culturally different and distant market. As a student, I have for a long time being passionate about cross-cultural differences and how to explore, understand and adapt to different geographies. I admire as well as respect cultural diversity and believe in curiosity as a way to learn from one another. I refuse the idea of cultural hierarchy, an ideology too often prompted by ethnocentrism, I don’t believe in the – also too common - idea that we are today living in a flat world, a world made of similar or interchangeable parts in which similarity has become a rule. Quite the contrary, the objective behind this paper is to hint at the idea that globalization should rather be a highlight of each country’s rich and unique particularities.

My objective is to create a list of questions, creating useful interrogations rather than applying not so useful answers, destined to a young company willing to bring value through an innovative business model outside the borders of its own home country. I want to focus on the timeline of global expansion for growing ventures. I would like to provide a framework of questions in order to overcome cultural barriers and succeed in internationally. My objective is to
focus on young Internet ventures with innovative, easily replicable and scalable business models in the process of establishing a global presence while leveraging and nurturing local differences.

Observations seem to highlight 3 successive steps to successfully enter a new market: a first phase of **exploration** (where a team is on the ground mapping the cultural differences, studying the trends, deciding what the best approach to entrance is) a second phase of **expansion** (this is where the company formalizes its operations in the new country, decides the structure to give to the new entity and deals with challenges such as adapting its product or service to local needs and tastes) and finally a phase of **extension** (where speed is of essence, the company is trying to achieve a *network effect* and growth while making sure the skills gained through the new market entry will be replicable and reusable for other markets).

Interestingly enough the on-demand music streaming service *Spotify* is currently exploring the Japanese music market, a small team has been studying the market and creating contact with the Japanese music labels since 2013. The accommodation-sharing platform *Airbnb* announced in August its upcoming expansion into Mainland China and the selection of local partners to help build and adapt the accommodation-sharing service in China. Finally, *Uber* is currently extending its presence in South East Asian countries; the company already adapted its platform locally and is now focusing on customer growth and locally gaining traction. I would like to study in detail the 3 highlighted steps; each time providing a list of questions a company should seek to answer. For each step I will study the particular strategic decisions of one growing venture, so as to illustrate how a given company chose to answer these questions.
I. “Explore” – Spotify in Japan

1. Why going global?

   a. Why not going global?

   Is moving to other markets the most viable option for a company or is overseas expansion just one of the many growth strategies available for a company?

   Two possible alternative strategies to overseas expansion are upselling & looking for adjacent markets. Upselling consists in selling to the same customer an additional product or application. Upselling is a way to generate a higher lifetime value for a given customer, the strategy often makes sense for a company with a B2B model, whose clients are businesses with a high cost of acquisition. On the other hand, looking for adjacent markets is a strategy that consists in selling the same product to similar users than the first core market; often it involves refining the product, and changing some of its features to suit the needs of another market. The strategy makes sense when the first core market is limited in size and the product or service can be easily used to serve different purposes or suit the needs of a broader user base.

   The cost of customer acquisition for Spotify is fairly low as the company is proposing a B2C service and benefits from a widely recognized brand name, fueling the customer’s acquisition’s inertia. There is little the company can do to increase the lifetime value of a given customer apart from encouraging the switch from being a free user to a paying one. Similarly, the core customer base of the company is wide. Spotify appeals to anyone willing to access music on demand, across all types of platforms, making adjacent markets secondary ones. As the company is looking into other sources of growth, leveraging its existing platform in other markets and appealing to customers overseas is the most plausible and attractive option.

   b. Why then going global?

   A company shouldn’t seek to expand abroad for the sole purpose of going global, without first testing whether the expansion makes a strategic sense and will be of value for both the company and its new customers.
The pitfall is all the more common as it seems nowadays there is a « strategic imperative to go global in one form or the other » (Alexander and Korine, “When You Shouldn’t Go Global.”) and because “globalization seems to make sense as customers and suppliers are also becoming more global”. Extensive coverage of successful stories of global expansion only fuels further the availability bias of many business leaders and prevent them to think the decision through. As Alexander and Korine pointed out, expanding beyond a corporation’s home borders should first and foremost be motivated by the will to be worth more than just the sum of its geographical entities and offer clear demonstrations regarding the potential benefits for the company, the necessary management skills, as well as evidence that benefits will outweigh costs. If a company does not offer a convincing answer as to why it is planning to go global, its strategy must be carefully reconsidered. Answering thoroughly to the why question is of extreme importance: should the company expand to tap into new sources of growth? to serve already existing international clients? to capitalize on knowledge or intellectual property? All these answers can be valid if they are in clear agreement with the company’s core. Without it, no clear strategy can be established, seriously compromising the future of the venture outside its home borders.

At Spotify however the answer is clear; the company built a music-streaming platform, serving more than 75 million users (as of December 2015), with revenue streams divided in two: ad-serving and monthly subscriptions, the company’s business model is easily scalable and centered around a clear network effect. Simply put; the more Spotify’s customer base grows, the more attractive the music-downloading platform becomes: more playlists to listen, more friends to share it with, more accurate algorithmic song recommendations. Consequently, expanding across borders is the opportunity for Spotify to grow its user base in order to attract more paying users as well as to become more valuable in the eyes of ad-exchange publishers paying the music streaming service to broadcast advertisements on the platform. Expanding to new countries is of strategic importance for the young company.
2. Timing of the expansion: when is the right time?

   a. First, how important is it to get it right at home?

   The first imperative before moving on to a foreign market is to have a proof of success in your home market.

   Before thinking about expending, a company needs to make sure its product or service is a proof of success at home. This allows the management team to shift focus to foreign market while the home market is following its momentum.

   At the time of its first expansion out of Sweden in 2008, Spotify had validated its product and platform with Swedish users following a strict invitation-only model. Having validated the offer with a limited group of users they launched the music-streaming platform outside Sweden in neighboring countries first. Since then, through iterating in numerous countries, the company has been able to test and validate its revenue generation and artist payout model as well as its pricing. In the history of the company, Spotify made sure to show a significant proof of success of its business model before focusing on untapped markets.

   b. Is there a good timing to go international?

   For such companies with a replicable innovation-based business models, time is of essence. If global expansion makes strategic sense, the company should seek to expand abroad as soon as a critical mass on the home market is achieved. It allows management to focus on foreign market while not putting the home market at risk.

   Is there a good timing for the expansion? When is the right time to go abroad? Does it make more sense to first become a leader in your country of origin before expanding abroad? These questions seem all the more relevant for Internet companies seeking to scale their business model to tap into other sources of growth. In today’s globalizing world the choice for the correct expansion timing is critical: oftentimes, companies find it difficult to jungle between establishing a critical mass on their home market and expand their reach on foreign markets before the apparition of local copycat competitors. Quickly recognizing the dilemma for young ventures having to jungle between foreign and home markets, RocketInternet was founded on this
timing opportunity. RocketInternet is flourishing because of its reactivity and local agility, the company is built on the idea that innovative business models are able to bring value in more than just one country and are easily replicable.

For the Swedish-born Spotify, facing the upcoming competition of on demand music players with a similar business model forced the young company to accelerate the launch in numerous countries so as to be the first one to appeal to and capture local users. In the US alone, Spotify was welcomed by a fierce competition at the time of its expansion in July 2011: numerous players were already operating in one segment of the streaming music market among which Pandora (launched in 2000), Rhapsody (2001) and Rdio (2010). Spotify was soon followed by other players, primarily Google Play Music (2011), Tidal (2014), and Apple Music (2015). The timing of entering into a given market was therefore an extremely important variable in order to gain users and grow a loyal customer base in the biggest recorded music market in the world. “Being there first” is also the condition to secure key music distributors: at the time of its US expansion, Spotify signed exclusivity agreements with groups such as Metallica or Led Zeppelin, those contracts were key arguments in attracting and retaining music fans to the platform, while creating a barrier to entry for competitors. Today, as Spotify is peeking at the Japanese market, time is here again of essence. Line music is already proposing its music catalogue to Japanese users, while Apple music and Google Play recently announced their expansion ambitions.

c. How is timing experienced across different cultures?

As a company is wondering when is the right time to expend in a specific country, you should remember that the best way to spend one’s time and the manner in which it should be spent is deeply rooted in one’s culture.

Whereas Europeans and North Americans are much more concerned about how they manage time, optimize their time, and save their time, in Japan for instance this definition is nowhere close enough the country’s own cultural acceptance and perception of time. Japanese are not so much concerned about how much time it takes for a task but rather how time is properly divided so as to respect tradition and properness. The time is segmented and ritualized, which is why it sometime takes a longer time to perform a task, especially creating lasting human
relations or dealing with administrative matters and this can be unsettling for the foreign eye or company settling in.

The managing director of Spotify Japan has been in the country for two years before Spotify even announced its ambition to expand in the country. As Spotify is very much concerned about not moving into a new country before it has secured a big enough music offer with local labels, the move of the company is further slowed down by the fact that relationships take longer to be built on the archipelago. The country is notorious for the emphasis it puts on trust and honesty in human relations. For a Japanese partner, business relations will generally take longer to form so as to allow for time to understand, know and test the business counterpart. Once a business relationship is formed, it might endure for a much longer time than in other countries, specifically because of the trust bond created.

3. How does one company decide where to go first?

a. Which countries should be prioritized?

The first countries to expand to are countries culturally closer to the country of origin where neither the product nor the strategy need a complete rethinking.

Similarity with the home country is a key element in deciding where a company should expand first. A concept, a product or a service successful in France for instance will have higher chances of success in Spain or Italy: the process of expanding in a country with a similar culture requires fewer efforts to understand the drivers of the new market, adapt the product or service to the new consumers, rethink the strategy, and focus resources. The single greatest factor to take into account when expanding abroad is the distance. But distance, as Pankaj Ghemawat points out, does not only refer to geography, it comprises all the dimensions that makes a particular expansion a risky endeavor or an attractive option. In his CAGE distance framework, Pankaj Ghemawat distinguishes and clarifies these dimensions. A company first needs to look at the cultural distance (differences in terms of social norms, religious beliefs, languages...), the administrative or political distance (currency, trade arrangements, political and regulatory regime...), the geographic distance (physical distance between both countries, size and access, internal infrastructures...) as well as the economic distance (difference of wealth, consumer
income, quality of the financial system...). It is by taking into account these factors of distance that a company can better qualify the risks associated with moving into a specific market.

When comparing the Japanese market with the historical Europeans markets where Spotify has for long established its presence, the CAGE model proves useful. It appears the cultural distance with Japan is extremely significant as the country has one the most distant culture with Spotify’s earlier markets in Northern Europe (Sweden, the UK and the Netherlands).

Let us be more precise: Japanese language is composed of hiragana, katakana and kanjis, 3 different alphabets, the country’s religious and spiritual beliefs is a mix between Shintoism, Buddhism and Zen, its history of Confucianism and geographic insularity have only reinforced the country’s uniqueness (eg. Japanese unique music tastes). Interestingly enough a study of the administrative distance highlights the rigor of the country’s administration, the lengthy process to establish business relations, Japan’s stable currency, open economy as well as its strong political regime and national institutions. The geographic distance is however less relevant for the streaming music player Spotify, although the company should value the country’s connection to the rest of the world via first class infrastructures and its high quality bandwidth network that allows for the free circulation of people, ideas (and therefore music). Finally, the economic distance is of a lesser concern as Japan compares quite well to Northern European countries in terms of capita per incomer and consumer’s wealth. Here, the CAGE distance analysis tends to prove that the cultural distance is a key dimension to be taken into account as Spotify is laying the ground for its expansion in Japan. The cultural distance is also a partial explanation as to why Spotify has expanded into 67 countries before launching Japan: the 2nd biggest music market in the world.
4. How can listening and noticing the unusual help explore and understand a particular new market?

   a. How important is studying the market size, the growth trends & the macroeconomic perspectives?

   The first step when studying a market is to understand its drivers, validate the presence of potential customers and calculate the total addressable market size.

   The decision to move into a new market will affect the company on the long term, it implies making investments with a clear vision of the future. A thorough analysis of the underlying macroeconomic drivers of the new market is therefore essential in order to be confident settling in for the long term. The company should look at both the absolute size of the addressable market and its relative size compared to other markets, this process is helpful when designing KPIs and key objectives to reach in the new market.

   What are the expectations of future growth for Spotify in Japan? What are the key trends the company should look at? Japan is already the 2nd biggest music market in the world in terms of sales (amounting to $2.5bn, behind the U.S. but far before any other Asian country: $260m for South Korea, $100m in China), the importance of the Japanese music market for Spotify is overwhelming. Looking further at the trends, the Japanese recorded music market size fell by 4.5% from 2013 to 2014. During the same time subscription-based music platforms generated $40m (tripling the revenue from the year before), accounting for roughly 3% of the market income for the entire country’s music industry. Despite 85% of all music sales in Japan currently being physical sales (mostly CDs, which are often priced higher than US$25), the country might now be at a turning point where streaming services start to appeal to the Japanese consumers. However, having an overview and validate the potential of the market is not enough, one must now dig deeper into understanding the market beyond the numbers.

   b. How different are the new consumers’ behaviors, habits & consumption patterns?

   This is where a thorough observation and a strong curiosity come into play, a company expanding must now learn how to notice the unusual putting itself in the shoes of is new users.
Expanding into a new country means encountering a new culture. Changing cultural environment can affect the way the consumers think about the company’s products or services, understand the company’s communication and advertisement, recommend it someone else… Before concretely thinking about how to adapt the organization, the service, product or the marketing, a company must first gain deep insight on the culture of its new country. Exploring more than the numbers on the surface but going into the details of the different though process of its customers while asking many “why”. Only by genuine curiosity can a company learn more about country-specific consumption patterns. Listening to the unusual is the key to understand what is specific about this new market.

When one applies this curiosity to Spotify and the Japanese market few questions come to mind: why is the recorded music market in Japan still made of 80% physical sales today? Why is it not uncommon to find music fans in the country buying several identical copies of a CD for themselves? (a practice deeply unusual for any other country where Spotify is established) Why are Japanese, in majority early adopters for all new technologies still buying expensive CDs? A deep dive into the Japanese culture and mindset can offer some interesting insights. In Japan, CDs are used as marketing tool, buyers can win concert tickets or the chance to meet the artist in person, oftentimes Japanese fans will buy more that one copy of the same CD just to access what they consider privileges and in light of their cultural love for collecting things (maybe an asset for Spotify regarding its philosophy of collecting songs through playlists). This phenomenon is illustrated via the example of bands such as AKB48 or HKT48. AKB48 for instance is composed of 80 only female members, fans get to decide on whoever is going to sing and dance at the next concert or on the next record, once a member wants to retire from the band, she is immediately replaced by another one. In 2014 the band had sales amounting to $226m. The fans buying the AKB48 CDs have the right to vote online for the performer they want to see singing the next song and being promoted to the front row during the next concerts, of course the more CDs one buy, the more voting rights one gets. Therefore, it is not cheap being a music fan in Japan. If you want to collect DVDs of recorded concerts, exclusive music videos or photo booklets, oftentimes you need to buy the CD that is sold with it. Japan has a culturally rooted love for “collecting things”, thus, Japanese consumers are very loyal to a brand, in this case, a band.

Moreover, in Japan’s mature national market, Japanese music (hōgaku) has outsold Western music (yōgaku) since 1967. In 2014, 32 millions of CDs sold in Japan were imported
from overseas, accounting for only 26% of all CDs sold in Japan that year: only 1 in 4 CDs sold in Japan is coming from outside the country (mainly the US, UK & Germany). The strong dominance of Japanese music on the archipelago is even more striking when looking at the music charts: in 2013, alongside South Korea, Japan was the only country in the world to have a TOP 10 album rundown entirely comprised of local artists (unsurprisingly representing well Japan’s two favorite genres: J-pop and metal!), in 2014, 100% of the Japanese Top 100 was comprised of local acts versus 90% for the United States, 75% for France and 71% for the UK. An outside observer will interpret these numbers to be the reflection of the relative isolation of Japan from the outside world (both historical and still very much culturally imprinted) as well as its quite unique and unequaled tastes.

c. How to understand where the power lies and identify key partners?

As a newcomer in a foreign county, the expanding company must prove itself of value not only for the customers it is trying to reach but also to the suppliers it is willing to establish relations with. The young company should therefore work to identify who holds the power in the new environment, whether it is policy makers, regulators, or business partners in order to start building balanced and sustainable relations.

Who has the upper hand between the artists, the consumers, the regulators, the labels and the records companies in Japan? Music labels definitely have a strong foothold in the recorded music market of the archipelago. They control the majority of the recorded music distribution: physical sales amounting to 85% of the total sales in 2014 versus a little less than 25% for the United States. Japanese labels are under much less pressure to go digital because of their strong hold of the recorded music value chain: first, the price of the physical sales of music is strongly fixed, and hasn’t changed over a decade due to strong regulations in place to preventing retailers from selling CDs at a discount (while this has proved to be a winning strategy in the United States in order to get the customers through the door of BestBuy and Wal-Mart). Second, illegal music downloading is an extremely limited phenomenon in Japan, although the quality of the bandwidth should make it easy for peer to peer networks to form and exchange music it seems however that because of the over reliance of Japanese consumers on their mobile, they are less akin to illegally download songs: a majority of P2P networks being created to be used on a
personal computer (Ian Condry, Cultures of Music Piracy: An Ethnographic Comparison of the US and Japan). The Japanese government has recently implemented jail sentences for pirates, more designed to have a strong deterrent effect judging from the relatively low number of trials it brought to court so far. Finally, although a lot a streaming and downloading services were launched in Japan, none were actually able to gain a strong foothold in the market. There is currently no real music streaming service with a big enough offer to be credible in Japan (even if Line Music is offering a catalogue of 1.5m songs, its size is relatively small compared to Spotify’s 30m songs offering). Because of the lack of other ways to get music in Japan there is therefore an unequaled strong power in the hands of the music labels, whom Spotify now has to convince to go digital.

d. How to deal with a new market structure while creating sustainable relations with local actors?

Once the key partners are identified, building relations from the ground in a foreign environment can be a long process or a relatively easy one altogether, let’s see how.

This paragraph echoes to the one on the different perception of time across cultures. Once the decision makers of the envisioned market are identified, the company should put itself in the shoes of those key players and a great dose of empathy is needed. The idea is to see through the partner’s lense: what will they be looking for in our relationship? What do they expect from me?

In the Japanese music market for instance, established companies will look at the reputation to-be-partners have in their home markets. No doubt that the local labels will be extremely careful in their negotiations with Spotify as they are well aware of the firm reputation, being criticized overseas by artists who are unsatisfied with Spotify remuneration model. In Japan, more than a reputation, hard work and commitment is the single most important success factor when building successful and sustainable business relationships on the ground, especially in a country where companies “believe they can create the foundations for partnerships only if they know as much about their vendors as their vendors know about themselves” (Liker and Choi, “Building Deep Supplier Relationships.”). In Japan, Spotify must recognize that negotiating exclusive contracts with the music industry’s labels will not be as straightforward as in other markets. Not only are the labels key decision makers, they are also plenty and are a very
fragmented group. On the opposite, in 2013 approximately 80% of the music industry in the United States belonged to 3 players: Universal, Sony and Time Warner. Among which a 38% market share for Universal Music only. Compared to the music industry in the US where the artists sourcing & recording has been for a long time in the hands of a handful of individuals, the Japanese labels are a lot more fragmented. It is therefore much more difficult for Spotify to do business and set up large contracts in order to significantly increase their music repertoire. If it want to propose an attractive Japanese music catalogue, not only will Spotify have to convince labels to go digital in a country where 80% of the music sales are physical, it will have to spend much more time negotiating a greater number of smaller contracts with the many independents music labels of the fragmented market.

e. How to observe and learn from your competitors’ best practice?

Local competitors have the advantage to be culturally immersed and therefore provide a great source of knowledge for who wants to learn.

Innovation-based Internet companies, whose business models are easily replicable, are likely to find local competitors already operating on the market they ambition to enter. A careful study of those competitor’s strategy and particularies is interesting because it often give some key insights on the local culture and highlights strategic differences with the company’s home market. It offers a great window on how business should be conducted in the country, and generally illustrates a deep understanding of the codes, usages and local particularities and a given market, “Particularly today, no company is an island. Those that most accurately perceive the competitive landscape as it is and is likely to be in the future have a distinct competitive advantage” (Courtney, “Getting into Your Competitor’s Head”). When a competitor acts in an unusual way or takes a risky turn, a manager’s role is to uncover the motivations for such a move and ask what should the organization learn from it, the process of observing and learning from your competitors should not be a one-time only but an on-going commitment.

Although in limited numbers, Spotify has much to learn from it local Japanese competitors, in particular Line Music, currently the main player in the on-demand music streaming market, offering a catalogue of 1.5m tracks, from labels including Sony or Universal and with a similar business model. Line Music service is free for the first two months and then
switch to a subscription model, which cost is $8/month for unlimited access or $4/month for 20 hours of music monthly. The Line app has a lean and sleek design and allows its users to share songs through conversations or timeline, contributing to expand Line’s presence on the Japanese user’s phone. Here is a cue the Japanese users might value the social component of Spotify more than users from other geographies. The ability to not only collect and curate but also share songs with friends or the public is an interesting feature that seems to be quite appealing in Japan. Interestingly enough, Line is also launching LinePay, an online payment tool, designed to provide an alternative to the cash only mindset of many Japanese customers today. Currently, only 4 credit card transactions per person are recorded each year in Japan, a country where cash payments are still very much predominant. There is little doubt that the launch of both Line pay and Line Music at the same time is a very strategic move, allowing Line to redirect its users to discover and register on the online payment service while subscribing to the music-streaming platform.

Exhibit: The competitor’s insight loop - “Getting into your Competitor’s head”, Mckinsey Quaterly
5. After understanding the barriers to entry in the new market: when and how to decide on the proper strategy to enter?

The purpose of the exploration phase is to thoroughly understand and picture the differences and the identity of the new market before taking actions. Once the principal barriers to entry have been identified it is time to formulate a proper entry strategy.

The work conducted previously should have led to uncover some unusual aspects about the consumers of the new market. These discoveries should lead the company to rethink the way it is approaching and entering this market by leveraging this new knowledge to first overcome barriers to entry. Now is the time to formulate a clear entry strategy, laying a clear path to action in order to overcome barriers and making a great first impression in the new market.

From the insight gathered earlier, let us evaluate the barriers to entry in the streaming music market in Japan and formulate a strategy to overcome them. First and foremost it seems the music market in Japan is strongly controlled by the labels and is extremely different from any other markets Spotify has experience in. We can only assume that it is the reason behind the presence of Spotify on the archipelago since 2011: highlighting the necessity to explore the culturally unique music market and understand its underlying drivers before taking action. It will be essential for Spotify to handle well the negotiation with the music labels that have the upper hand in the distribution. As of today, the labels are able to generate massive physical sales thanks to a perfect product/market fit (Japanese music consumers are listening to an overwhelming majority of Japanese acts, which the labels produce and own). The customer’s willingness to pay is high ($25 for an album) and because of the “love to collect” philosophy, so is the band loyalty in the country. For these reasons Japan will be an extremely difficult market to enter. Spotify, in order to appeal to the Japanese music consumer, needs to enrich its catalog with popular Japanese acts, whose rights are controlled by an extremely fragmented and rigid Label industry who has currently no incentives to go digital. From our analysis there is however one opportunity Spotify can leverage to enter Japan: because Japanese music is overly sold inside the country, it is of interest for Japanese labels to extend their reach in foreign markets. Thanks to Spotify agility and global presence, the firm has a strong argument in its negotiation with Japanese music labels. It could negotiate the necessary distribution rights to originate a local music streaming service while offering in return to distribute Japanese labels music through digital channels to an
already consequent listeners base outside Japan. To this extend, the Korean K-pop music market offers a great illustration of a global success: thanks to the use of social networking services and its availability online, K-pop is now appealing to music fans throughout Asia, most particularly in Japan and China. A great way to expand out of the relatively limited music market of South Korea, a country with a population of only 48 million. The K-pop music market has achieved double-digit growth for over a decade and is perceived as South Korea’s greatest export. This is where Spotify should find its inspiration.
II. “Expand” – Airbnb in China

A decision has been made about entering a particular market, a thorough and proper study has been conducted, consumer’s patterns and differences have been identified, the structure of the domestic market is clear, risks as well as actors with the most power have been identified. Now is the time to decide on the modality of entrance. Who are the partners to approach? How do you handle the first contact with competition? What is the minimum viable presence you need to establish in the country? What should the company start doing first? Maybe most importantly, to what degree do you have to adapt yourself to local specificities while staying true to your global identity? Let’s move ahead and find out.

With a presence in 190 countries, Airbnb has had both the time and the experience to study in depth the Chinese travel & tourism market while considering expanding in the country. As advertised on the company’s website, Brian Chesky confirmed that the company has been “testing the water in China”, spending time on the ground and learning the local culture, trying to understand whether Chinese consumers are interested in AirBnb”. With 1.5 million listings worldwide, Airbnb has strong advantage in its move into Mainland China trying first to capture a great share of the outbound Chinese travels thanks to its extensive worldwide properties listing. But as the greater share of the Chinese travel market is made of domestic travels, representing as much as 90% of the total market, the company will have to test whether its product as it is, appeals and fits the domestic market. The Chinese market is already well segmented with local players providing properties for the low and middle range consumers’ segments, as well as high end players with an extremely well defined offer, some of them only targeting business people in need for a house to hold meetings, parties or holidays. Airbnb is expanding into the Chinese market, let’s now study how they indent to succeed in it.
1. What are the options of entering the new market?

Once a decision has been made about a market entry and a detailed exploration has been conducted, now is the time to make the first move, setting the proper structure in order to start operating promptly.

How do young ventures navigate the option range available to them? Partner with a local venture capitalist firm to recruit local talents? Opt for a local acquisition? Form corporate alliances? Create a joint venture or start from scratch? Organic growth is the most resource-consuming, because none of the basic structures are already in place in the new country and the young company must focus on building a business from scratch, however it leaves the decision maker with plain authority and a great decision leeway while building a unified structure with a coherent culture. Forming a joint venture or a corporate partnership provides a company with the assistance of a foreign partner and a better knowledge of the local culture, regulations and internal market. A joint venture also helps limit risks and reduce taxes while helping navigate the regulatory environment in the new market, however negotiating a joint venture can be a long process to initiate and manage over an extended period of time. All the more that, traditionally, joint ventures tend to emphasize short term performance over long term goals, and the alignment of both partners’ vision is often a difficult balance to find. Finally, an acquisition should be considered once the product/market fit has been validated and sometimes after a significant degree of success has been experienced though a joint venture for several years. Although outbound M&A provides a fertile base for growth as the mechanics of the business are already in place, it can however prove challenging when integrating a different culture and governance.

As broadcasted on the Airbnb website: “as we move into our next phase of expansion in China, we know we will need deep local knowledge and expertise to keep this momentum going” the company’s management highlights its will to gain useful insight on the Chinese market. In order to do so, Airbnb’s management chose to expand organically while seeking advice and financing from China BroadBand Capital (CBC) and Sequoia China, two local venture capital firms. The local partners will help Airbnb recruit a Chinese CEO to manage the development, from the ground up, of the Airbnb Chinese extension. The choice to partner with local venture capitalist firms is consistent with the company’s will to “clearly understand the needs and desires of Chinese travelers going overseas and partner with Chinese companies to
create a truly localized platform for these travelers”. Both VCs were chosen for their experience building and developing Internet companies in the Chinese market as they previously worked with LinkedIn’s expansion in early 2014, similarly hiring a local CEO for the China operations. Both venture capitalists firms share deep knowledge of the Chinese hospitality industry, but most importantly will help Airbnb navigate Chinese tough regulatory system. China BroadBand - as its founder is a close friend of China’s former president’s son, Jian Zemming - can help with the government relations. These relationships will be all the more important that Airbnb is a company with a foreign background and might have more difficulties adapting itself to the Chinese regulatory system, even if it has a reputation for trying hard to establish communication and foster dialogue with local authorities. The choice of Airbnb to move forward in China with the help of local venture capitalist firms is rooted in the belief that the company will need support navigating the country’s heavily regulated environment. Similarly, looking for a local CEO to launch the Chinese branch is a signal that the company is valuing cultural insights and experience, as well as the local network of the future CEO over an experience within the firm and knowledge of the company’s specific culture.

2. What should be your minimum viable presence in the country?

The underlying question is what should the company start by doing? How do they “put their foot in the door”? With limited resources, entering a new market could be like starting a new company altogether.

Because what worked and appealed to a customer in a past country doesn’t mean the same service or product will in the new market, the idea of moving into the country as if you were starting a new business is interesting because it leads to test new assumptions, formulate new hypothesis ultimately building the company’s presence on a solid ground without trying to simply replicate a past success on a market were underlying drivers are different. For internet companies it means not to be blinded by a previous success but to start with a well defined “beachhead market”, a first community of users, whose consumptions patterns are similar and who will later advocate your product or service to a wider audience in their country. This strategy is essential so as to dedicate enough time to study the consumers the company tries to address (it is already a different culture, let’s not try to grasp all the country’s potential users at once). In order to appeal
to a certain category of users in the new country, it might mean for the company to scale back on its current value proposition so as to make it more easy to understand, it might also mean to get rid of certain features who have been added to please users of another country, it really means going back to the core service or product so as to rapidly gain feedback for a consistent and unified community of users.

The bigger the potential market, the more destabilizing the question of “where to start” can be. For Airbnb ultimately trying to target the Chinese travel market as a whole, the question is how to first gain a community of loyal customers before extending its reach to other segments of the market? The current answer of the company is to start with Chinese outbound travel. “Airbnb is smart enough not to aggressively try to build a whole inventory in China from scratch, the best approach is to build a loyal community of fans starting with outbound travel” says Hans Tung, an Airbnb investor, managing partner of the China-focused venture investing firm GGV Capital. In fact, targeting outbound tourism from China is a strategic move: getting the Chinese users to use the platform for their international travels plans first will incentivize them to use the platform again later while travelling domestically (providing Airbnb can appeal to and create successful travel experiences for outbound Chinese travelers). In fact there is already a version of the Airbnb site in simplified Chinese and travelers have the possibility to pay their accommodation expenses through local paying services such as AliPay and UnionPay, more common and easier than credit card purchases in China. The strategy is clear, putting into fruition the extensive worldwide accommodations listings for Chinese travelers outside their borders, while collecting extremely valuable feedback and data on the first Chinese users of the service while shaping the habits of the Chinese users when looking for accommodations online. This should allow Airbnb to set a foot on the booming China’s outbound tourism market, as the booking by Chinese users on the website - having grown from 700% compared to last year – seem to indicate.

3. **How will you handle your first contact with local competition?**

Oftentimes in the case of Internet companies with innovative business models, local imitators, who know the codes of the domestic market, haven’t waited for the company to start operating in the country to replicate the recipe of success in their home country.
Benefiting from a local point of view, even if without prior business experience, how local players - or “copycats” - adapted or interpreted a business idea is always rich in learning. Confronted with local competitors, your company must make good use of its experience building a product, brand image, financial resources, advanced and proprietary technology as well as marketing and management talents.

Airbnb’s first contact with the competition will be interesting as Chinese players not only have deep cultural insights and know the Chinese users fairly well; the local copycats also have a first mover advantage in a sector where network effect is an important factor of success. Local competitors, who started operating in China as early as 2012 will also benefit from an experience they gained over 3 years of operations and iterations in the accommodation-sharing market in China. The Chinese accommodation sharing landscape is already crowded. Most notably, XiaoZhu.com is offering accommodations in more than 200 Chinese cities, recently raising $60m in a fundraising series C. Another competitor, Tujia, is also helping marketing homes for tourists and focusing particularly on short terms stays, property management and cleaning services... lists 300,000 properties in China among which 10,000 are managed by the company itself. Another local player, Maiyi, also announced they secured a $10m funding round. A direct consequence of this competitive landscape is the segmentation of the Chinese travel market. In order to differentiate themselves, local players have already divided the market from low to high customer segments, some focusing exclusively on high-end properties (Tuija) and others on budget Chinese travelers. The difficulty will now be for Airbnb to compete on all these segments against identified and recognized players offering a well defined value proposition. A sound move for Airbnb would be to choose a segment to compete in, before moving up and address a larger base of Chinese travelers.
4. Adapting or replicating? To what degree do you need to adapt yourself?

a. Adapting the product? (service, design, user interface, content, language...)

A key question that your company should ask now is how much should you adapt your product or service. Now that the organization has a greater understanding of how different, unique or special the consumers of the new market are, it is time to understand the implications those differences will have on your value proposition.

Having recognized consumers of the new market have similar needs but different expectations should lead the company to rethink its value proposition. This is where the previous work should aim at: thanks to valuable insights gained from on-the-ground studies; the company can now adapt its value proposition to local particularities. In Japan for instance, e-commerce retailers have learnt to adapt their platform to Japanese specificities. Whereas a western customers is sensitive to the consistency of the brand image, the emotion inherited for the atmosphere of the e-shop or the design of the website, Japanese consumers are much more looking for factual information and products specifications. A Japanese e-commerce website is therefore full of information on the products, the more photos of the product, the better. This often comes as a drawback of the overall design of the website, a feature that Japanese consumers are much less sensible to compared to western online buyers.

How different is the Chinese consumer compared to the average Airbnb user? and what does it mean for the company’s platform and service? Studies show the Chinese consumer would hesitate much more when it comes to spending the night at someone else’s home, the model of Airbnb taking its roots in the sharing-economy does not come as straightforward for the average Chinese traveler as it would in other part of the world. First, in China, individuals do not rely as much on “trust” as other foreign cultures do. this is a problem for a company at the forefront of the sharing economy, whose key definition is: trust among users. Local copycats of Airbnb have integrated this issue in their business model: inspecting properties to make sure the pictures on the site correspond to the actual accommodation, and local teams on the ground taking care of the check-in and check-out, making sure the place is left the way it was found. Another great illustration of how to overcome the “trust” challenge is the online payment tool Alipay, originally designed and developed to enable Chinese buyers to validate the quality of the
products they buy, before releasing the money, the amount of the transaction is locked until approval by the buyers that the product or service is conform to what is advertised. This mechanism echoed so much with the reality of commercial transactions in China that Alipay now accounts for nearly 80% of all online payments made in the country. A second aspect of the Chinese culture impacting the Airbnb’s service in the country is that Chinese consumers are not willing to get rid of the traditional hotel experience to go staying at someone else’s place so easily. When they pay for a service, they like to be served, therefore when traveling (whether abroad or domestically) Chinese travelers are looking for a hotel experience, not simply living in somebody else’s home. Adaptation of the current service will be needed in order to appeal to Chinese travelers, added-on services could be provided by Airbnb such as daily clean ups, car rental services or dedicated butlers coming with luxury listing for instance. This is a strategy Tuija.com is already choosing to pursue in the country. Airbnb, while setting up its Chinese branch should aim at tailoring its services to suit its new local users, their tastes and expectations. Finally, Airbnb will also have to adapt its offering to the local infrastructures and country specific challenges: Chinese buildings for instance are hardly made to fit Airbnb’s model of accommodation-sharing. In China, Airbnb will have to deal with accommodations and apartments located in fenced communities which require key passes, access codes and on average more identification check points than traditional apartments in other countries. How will Airbnb make sure the guests find, easily access and enter the correct building or housing complex while going through the usual security checkpoints characterizing most of the accommodations in China? The idea that urban communities are structured differently in the country should be of interest to Airbnb: another element to be taken into account in the company’s reflection regarding how to locally adapt its service.

b. Adapting the business model? (revenue generation, revenue collection and regulation)

After adapting your value proposition in order to make it locally attractive, let’s look at how replicable your business model is.

For instance, in light of the current regulatory landscape of the new country, you might want to adapt your company’s signature at generating revenue. Legal systems of host countries
might have a dramatic effect on a company’s business model: the more different the cultural heritage between two countries is, the wider the gap between two legal systems will be. The illustration of the failure of Walmart in Germany is explicit: moving into Germany, the American retailer counted on its ability to operate large stores opened 24 hours while heavily discounting items they sold. However none of those competitive advantages fitted the German regulatory landscape: German policies favors small and medium size retailers and German retailers are well acquainted with the complex restrictions on business hours as well as intricate labor laws, challenging Walmart’s ability to adapt locally in Germany. The failure of Walmart in several other countries in particular Brazil, South Korea and Japan has shown the limits of replicating the same retailing business model abroad, especially when it echoes so much with the values of the cultural sphere in which the model was first implemented. Walmart sought to impose its values around the world to the extent that its experience in those countries “has become the sort of template for how not to expend in a country” (Landler and Barbaro, 2006)

For Airbnb in China, as well as in South East Asia, the reliability of the business model is an obvious challenge. Airbnb’s business model relies on the free listing of one’s apartment on the site, and the dates for which the property is available for booking. Airbnb generates revenues from commissions on transactions, a percentage of both the amount received by the hosts and the amount paid by the guests (3% and 10% respectively). Before moving into China, the company already experienced trouble with its operations in Taiwan and Hong Kong (two territories with particularly strong cultural and political ties with Mainland China). In 2015, the Taiwanese government ordered the company to take down nearly 95% of its listings in the capital city, Taipei, claiming the listed accommodations were not granted the proper government issued authorizations, officially because the government could not guarantee that short terms rentals in the city offered on the website met certain standards of security. The concerned listings amounted to 4,200 in Taipei city alone. The story has been quite similar in Hong Kong, where the regulation prevents apartments owners from offering a sleeping place for less than 28 days without a government-issued license, offences being punishable by a fine up to HK$200,000 (US$26,000). Of course, the story is not new and Airbnb has been known to try impacting the regulations of the countries it is doing business in. France for instance recently legalized short-term rentals for primary residences, providing the company collects the tourist tax from guests in place of the government. Similarly, the Netherlands decided to allow property owners to rent
their apartment for up to 2 months a year; they too will have to collect a similar tourist tax. Although still challenged in several countries by regulators, Airbnb has a history of trying to foster dialogue with policy makers. The challenge is not different in China, but might be exacerbated thanks to a wider cultural gap. One of the reason the company sought the help of local venture capitalist firms is that it hopes to benefits from their Chinese partners’ network and experience navigating China’s complex regulatory landscape while locally adapting its business model.

### c. Adapting the marketing? (message, communication channels, market segmentation, pricing..)

How does a company make sure it conveys the right message to potential customers? How do you make sure people with different cultural backgrounds equally perceive the value of your business? Do all customers perceive your company’s offer the same way? How to overcome cultural traps in communication? Ultimately how does one company marketing strategy evolve and change from one country to the next? How will customer’s segmentation change in the new market? What is their willingness to pay? Such are questions your company will have to answer next, as your marketing strategy should reflect the changes your service, product and business model have already gone through.

Interestingly enough, a same message, brand image, communication strategy can be interpreted very differently depending on the cultural sphere in which the company is operating. History has plenty of examples of miscalculated communication strategies, which dramatically backfired. The failed attempt of Ebay at entering the Chinese market is such a story. In her book The Chinese Dream, Helen H. Wang comparatively studies the marketing strategies of Ebay and its local competitor in China, Alibaba. In 2004, at the time of Ebay’s launch in the country, Alibaba was a local Internet company with a strong focus on small and medium-size businesses. “Soon after Taobao was launched, eBay signed exclusive advertising rights with major portals Sina, Sohu, and Netease with the intention of blocking advertisements from Taobao. Jack Ma fought back cleverly, knowing that most small business people would rather watch TV than log on to the Internet, Jack Ma secured advertisements for Taobao on major TV channels. It was clear that Taobao had an upper hand against its American counterpart because it really
understood Chinese customers” (Wang, *The Chinese Dream: The Rise of the World’s Largest Middle Class and What It Means to You*). The story of Ebay in China is a great illustration of how a misaligned local strategy can fail at reaching its goal. Before communicating across borders, your company should know the customers it is trying to talk to. This will help localize your marketing strategy. What are you trying to say? To whom? How will you say it? A thoughtful illustration of a message adaptation is the story of NorthFace in China (through the attentive eye of Louis Liu, Business lead in IDEO’s office in Shanghai). The outdoor clothing retailer and brand mandated the Shanghai office of the design-thinking firm IDEO in order to adapt its brand image to the Chinese customers (other projects also included a review of the brand’s product portfolio and the creating of an online community of users). In the United States, NorthFace communicates on the challenges sportsmen like to undertake when they put themselves in nature, pushing the limits, exploring further and faster. In the US, nature is perceived as an adventure, such a perception reflected in the NorthFace’ communication across the country, advertisement posters showing rock-climbers on an acrobatic and uneasy position in the Sierra. In Shanghai, IDEO’s research team came up with insights that Chinese generally choose to *experience* nature rather than to *challenge* it, “when outdoors, Chinese tend to seek a closer contact, a connection, a certain balance far from the concept of challenge, which the brand was accustomed to in other countries”. says Louis Liu. IDEO’s work proved very impactful for the clothing brand in China, the rebranding of NorthFace message and communication in the country enabled the brand to leap from the 5th place to the 1st in terms of market share, just under 2 years. Northface’s successful marketing strategy in China is a further example that your company will have to rethink how it talks to its users and what message is important for them to hear, a message that varies from one country to the next.

Airbnb’s mission statement of “helping creating a world where you can belong anywhere” as stated by Brian Chesky in the Airbnb Open 2015 in Paris, is a strong statement, and surely appeals to the affluent educated and westernized traveler. Whether it also appeals to the Chinese travelers is another story. As the company moves to a new cultural sphere it will be of paramount importance to test if the mission statement still appeals to the customers it is trying to target. As a result, Airbnb’s marketing, most particularly its message, communication channels, customer segmentation, brand image and pricing should be tailored to fit the expectations of the new Chinese traveler. Airbnb’s use of digital storytelling strategy has been extremely successful so far
in countries where the company is currently operating. In China, a successful marketing strategy means localizing the creation of the company’s content while featuring traditional Chinese accommodations as well as local interviews and story telling throughout the brand communication. Similarly, whereas Airbnb in the United States makes great use of the most locally used social medias such as Instagram or Youtube, adapting its marketing channels means to go through local Chinese ways to communicate and to reach the customer where he/she is: Weibo, Qzone, Pengyou and Wechat.

d. *Adapting the organization, its management and its values?*

Moving into a new country not only involves rethinking what you sell and how you sell it. It also entails rethinking who you are while making sure your company’s values are aligned in all your locations.

For a young company, entering a new market means making the shift to being a multinational corporation. What does this entails when it come to the organization in itself, its structure and its management? Ultimately, how can a company integrate and internalize the lessons learned from a particular market at the organization level? First, any company should recognize that moving abroad would change its very core; the most apparent mechanism of this change is that lessons from successes or failures in a particular country can affect other countries as well. The process of internationalization is inherent to the process of organizational learning. How does your company for instance will make sure that it is developing a coherent structure with a single set of core values worldwide?

Many Internet company’s with an innovative business model have decided – whether an internal decision or a forced one – not to operate in China. In a country where the government asks of Internet companies to either monitor - and in some case censor - its users, some companies amongst which Facebook or Twitter, have been refrained from operating in the country. In 2010 Google announced its will to stop censoring searches and the company’s decision to pull out of China highlights the fact that entering a new market can often prove to be a difficult compromise to solve. In the case of Airbnb, the Chinese government will require that the company’s data from its Chinese operations should be stored in the country (Tsang and Mozur, “Airbnb Seeks to Expand in China With Local Help.”) This would mean giving “access to the
Chinese government to data of not just the domestic travels of Chinese travelers but also about where they stay abroad.” Complying or not from the company will have a direct effect on its future in the country. Dramatic political fallouts are to be expected if the company-government relations are not working (content of Google being censored in China and leading to the company pulling out of the country is a great illustration of this challenge in China). Airbnb will have to find its own answer to the question: how to open a new location while being intransigent to the core company’s values?
3. “Extend” – Uber in South East Asia

Now that your company has decided to which extent it should adapt its product and service so as to better suit the needs, the expectations and the culture of new users, now that you have thought about adapting your marketing, your business model and even your organization, let us now study the next phase, making your stay in the new country an impactful and sustainable one. How will your organization gain traction and customers? How can you make sure that knowledge your company develops locally is integrated globally? When do you know your organization it building on itself and inertia is at work? How can your venture extend its presence in the new country?

The illustration of Uber in Singapore and more generally in South East Asia is of great interest in this final chapter. The ride-sharing application was first introduced in Singapore in 2011. As of 2016, after 4 years experimenting on the ground, testing its services in different South Asian cities, Uber, whose presence is sometimes contested, is operating in Indonesia, Thailand, Singapore, China, Taiwan, and the Philippines. This phase of extension is worth reflecting, how did the company find answers to questions raised in this third and last step? Let us find out.

1. Path to growth: How do you gain traction & momentum?

   a. Understanding if a network effect is important for your company?

   How much of your competitive advantage is made of your company’s ability to gain users?

   As “training and educating technologists, marketers and innovators alike to both design for and exploit network effects will become an essential core competence” (Schrage, “Who’s Managing Your Company’s Network Effects?”) the ability to gain users and rapidly grow your company’s customer base is becoming the most important competitive advantage when entering a new market. As your company faces competitors with similar services, similar value
propositions, similar business models, your company should stand out in terms of users it is attracting and appealing to.

Gaining new users is the number one concern of Uber in South East Asia, and has been since the company’s entrance in the ride-sharing market in the region. At Uber’s core lies a strong network effect: its users are the company’s competitive advantage, its greatest asset. Unlike our former example Airbnb, who can capitalize on its global accommodation offerings for each market entry (depending on the size between domestic and international travel in the country: the bigger the share of outbound travel, the easier it will be to bring Airbnb in the country, targeting outbound travels first and aiming at domestic travels second). Uber however cannot claim to have a similar competitive advantage: each time it enters a new market it must find both local drivers and local passengers. This helps explain why Uber tends to be more aggressive in its expansion strategy trying to gain more customers and faster than competition. This also explains why the company is trying to build a brand in South East Asia, as it is at least something that can be replicated and is transferable across countries: “I think that we are really focused on building a brand that is really associated with great customer service, a really high feel of quality and a really high level of reliability,” says Allen Penn, head of Asia operations at Uber. The idea behind creating a brand is that it is associated with high quality service and reliability across countries. Uber will leverage the segment of its users travelling in different cities across south East Asia: business travellers who can find the same level of service in any city they travel to.

b. Growing through customer acquisition & retention: how to create external inertia?

Having recognized that your customers are your greatest assets, how then do you grow your customers base? How do you create enough inertia so that your company attracts more and more customers? let’s explore ways through which such growth is achievable.

Uber’s top priority is to gain traction through more users. Uber has demonstrated great creativity seeking to create inertia in the countries where the company set its foot. When trying to enter the Chinese market for instance, the ride sharing company sought to get as many drivers using the service as possible, creating an offer for rides so that demand would follow naturally.
In the early stage of its growth in the country, the company actually paid the drivers 2 to 3 times the actual fare paid by the passenger. Creating such arbitrage opportunities that Chinese Uber drivers would buy another phone and pretend to be both the client and the driver, earning a great margin for each ride. This technique accounts for 3% of all the Uber rides in China in 2015 (30% according to some media). Another case in point to gain users is the recommendation model put in place by the mobile app allowing any user to recommend friends as other potential users. Each time a user recommends a friend on Uber, both the recommender and the friend get a free Uber ride through the application, or a discount on the next ride. Another way for a mobile application to gain traction in a new country is to build deeplink connections with other popular applications. This is what Uber is aiming at with its API (Application Program Interface) allowing developers from other apps in South East Asia (but not restricted to) to integrate the Uber ride request into their Apps. A user would be able to request a ride from Google Maps thanks to the embedded “Ride there with Uber” button. Uber’s main Chinese competitor copied the move: Didi Kuaidi is now allowing Wechat users (the world’s largest messaging app boasting as much as 500 million active users) to request a ride without having to close the application. This growth hacking move is trying to capture users in a closed ecosystem, observers believe this move can only bring small incremental revenue for both partners, however it offers the advantage for Didi Kuaidi to further grow and retain its customer base while staying ahead of the competition. The move should be of concern for Uber in China, the company has so far been able to leverage its API, building relationships with Google, Facebook messenger, Trip advisor, OpenTable, Starbucks and Hilton in the United States (a country where Uber is growing 6 times faster than its first competitor Lyft), in other countries such as China - where Uber partnered with Baidu - Facebook and Google might no be as relevant.

c. Recruiting and empowering employees: how to create internal inertia?

How do you create a growing organization from the inside? Should the subsidy be considered to have enough freedom to define its recruiting policy? How much freedom should be given to the human resources of the new entity?

The hiring process is of great importance when setting up a new branch in a new city or country. One the one hand, recruiting needs to be consistent with the global standards of the firm
so that your company retains a similarity across all offices, an alignment on the company’s core values and mission so as to keep the team’s work consistent with the global efforts of the firm. On the other hand the recruiting process should be local enough so that the company can adapt to the local particularities of the market, recruiting locally is a way for your company to step outside of its ivory tower. For example, as the design-thinking firm IDEO carefully planned to scale up it’s entity in China, it did so carefully respecting a mix of local hires new to the company and foreign hires accustomed to design thinking and the IDEO way of doing business. The IDEO Chinese entity is both local and global: able to leverage the company’s global process and design thinking philosophy while working for local clients. 

Uber is well aware of the necessity to integrate as much local hires into each of its local branches. While moving to China, the company decided to create an independent business unit, in charge of its own recruitment and entirely run by Chinese managers. The more culturally different a market is, the more efforts Uber puts in integrating local hires, so they can have a better understanding of the specific culture they are stepping in, all the more important as the culture is distant. At the same time, the company puts great emphasis globally in creating a unified and global workforce, across countries, Uber’s human resources departments are briefed to seek global cultural values (eg. fierceness or tenacity) among its pool of candidates. The very sophisticated interview process is designed so that each locality can stay in line with the company’s global values over time. A Uber recruiting playbook was even created, laying out common hiring practices to follow in order for local branches to replicate more easily and scale faster in their respective countries. 

2. How to foster knowledge transfers? From historical markets to new countries and vice versa

a. What does it take to build a learning organization?

How do I make my company learn from success or failure? How to make sure that every effort undertook at the local level will help to better structure your company on the global level? 

Professors Garvin and Edmondson from Harvard Business School have designed a tool that helps organizations to implement a learning culture. The purpose of their research is to study
what makes employees skilled at creating, acquiring and transferring knowledge inside an organization. And the result of their research is what the authors call the “three building blocks of learning organizations” (Garvin, Edmondson, and Gino, “Is Yours a Learning Organization.”). The first block is a **supportive learning environment**, allowing for reflection time, openness to new ideas, and appreciation of differences. The second block is made of **concrete learning processes and practices** such as education, training, fostered experimentations and available information collection and analysis. The third block, built on the first two, is a **leadership that reinforces learning**: the manager must act as a role model and not only support learning practices but fully embody them. Leaders must demonstrate through their own behaviors the ability to actively question and listen to employees. As such can employees feel empowered to learn and share knowledge throughout the organization, by emulating (matching and surpassing) the behaviors of their leaders.

**b. What are the skills you organization will put to fruition while entering a new country? The RAT test (Replicable, Applicable, Transferable)**

Building a learning organization is one thing; learning to use the rights skills at the right time is another. Your organization should ask itself what kind of skills would it be using when entering a new market.

Donald Lessard, Professor of International Management and Engineering Systems at MIT Sloan, developed a framework for organizations to reflect on the right skills to use when entering a foreign market. In essence, are the skills your organization developed throughout its experience in a specific country of origin **relevant, appropriable and transferable** to the targeted country? The framework allows companies to reflect on their capabilities before setting foot into another market: is your knowledge and know-how going to be useful in that other country? (“**Relevant**”) How unique is the set of skills you intend to use in the new market? How difficult will it be for local competition to simply imitate and replicate? (“**Appropriable**”) Finally, can your company transfer it skills from one location to the next without loosing too much of its value in the process? (“**Transferable**”)

Let us now study how Uber passes Lessard’s RAT test in South East Asia. It is quite clear that Uber’s model is both extremely relevant and transferable in the markets the company is
trying to pursue. However, when it comes to appropriable, the answer is less evident. First, what are the relevant skills Uber brought to South East Asia? Uber is answering and tackling a problem that is met widely across borders; in all of it targets markets, and especially in South East Asia, there are an overwhelming number of people willing to go from point A to point B while saving time and money. Uber value proposition is a potential fit for all of its targeted markets. In Singapore for instance, the fit is even greater as the city is currently actively looking for ways to reduce the number of cars circulating in the city-state. The country has always had a tough stance against car ownership, implementing a certificate of entitlement (COE) scheme: according to which Singaporeans willing to drive in the city must bid and pay for a car ownership license often more expensive than the car itself (Lee, “Why the Singapore Government Secretly Loves Uber.”). It is one of the reasons why the street of Singapore are much less clogged than neighboring cities like Jakarta, Bangalore and Manila. The city-sate certainly intends that it remains so, making the rise of ride-hailing apps like Uber extremely relevant for the country. Second, are the skills Uber intend to bring along in South East Asia transferable? It very much seems so, it is even the very nature of Uber’s business model: the Uber platform is easily replicable from one city to the next and easily scalable. Opening each new location requires only a handful of employees to set up the platform and launch it. Finally, are the skills used for Uber’s expansion abroad appropriable? In this case however, the answer is much less straightforward. On the one hand the company would argue that it has perfected a proprietary algorithm that makes its service and knowledge unique and appropriable: the company has grown very good at routing, detecting availability, matching drivers and passengers and detecting fraud; launch speed could also be held as an appropriable skill, the company has so much experience launching a new structure in a new city that it has become one of the company’s own trademark skills. On the other hand however, there isn’t so much Uber can do in order to prevent local competitors from imitating and replicating its service and platform. One of the direct consequences of Uber’s relative lack of appropriable skills is the race against time when entering a new market, and its aggressive scaling strategy. In fact the lack of appropriability of Uber’s model might be its first weakness: the Chinese Didi Kuaidi founded 3 years after Uber - now the company’s first competitor in China - was quick to recognize that it could replicate the business model in his home country achieving a weekly growth rate of 30% and already claiming a 80% market share of the private car sector in China.
c. What are the skills your organization will learn and develop from entering a new country? The CAT test (Complimentary, Appropriable, Transferable)

Once your company thought about the preferred skills it intends to use while launching abroad, it must now identify the skills it will bring back to its country of origin, more generally, what skills will your company develop in a new market that will be beneficial for the company on a global scale?

Companies who are focused on transferring knowledge and skills from home to new foreign markets should not forget to take the time to learn from the new market in diverse ways and bring those lessons home. Here is the second half of Donald Lessard’s framework: will the skills your company builds in the new market be not only appropriable and transferable, but also complimentary to your historic markets? Will the skills you build in the new market complement existing ones in your home market or further reinforce the company’s competitive advantage globally? (“Complimentary?”). Can the head office gain sufficient value from those skills developed locally? (“Appropriable”) and are those skills transferable from the target market home to the head company without loosing its value? (“Transferable”). In essence the CAT test allows organizations to build a global entity through local iterations.

For each launch in a new country, Uber is building complimentary skills beneficial for the global organization: in essence, the launching process becomes a standard skill. The more cities targeted the more knowledgeable the company becomes. Today, Uber is a company extremely experienced globally about how to expand in a new location: able to start, build and scale a structure extremely fast in a new country. The company went from 40 cities in September 2013 to 330 cities in September 2015: one new city every 3 days. This know-how, owned in great part by Uber’s managers, is appropriable as long as it stays inside the organization, meaning that Uber needs to put great efforts in retaining its knowledgeable managers. Similarly, fostering the mobility of its workforce is a way for Uber to guarantee that best practices as well as lessons from failures are transferable and can be applied at every subsequent stage of a future city launch. Through the numerous city openings, the head office has developed a “culture of resilience”, learning to be “operationally awake in every time zone to address any opportunity or accident that might arise” (Emil Michael, SVP of business at Uber)
3. What does *scale up* really mean?

   *a. Getting bigger or faster?*

   Should you company prioritize opening a new country or making sure it is growing enough to outpace local competition in current markets?

   In their research article, Mark Bonchek and Chris Fussell discuss to which extent an organization can become both *bigger* and *faster*. At first sight it rather seems from observation of nature that what gets bigger becomes slower (think about the whale living longer but moving slower than other mammals), cities however are an example of a structure that becomes faster as it gets bigger (think about the public transportation and the pace of innovation). How can organizations become more like cities and not like whales? The answer lies in the **creation of “communities”** (Bonchek and Fussell, “Can Bigger Be Faster?”). Creating a community means building and strengthening relationships, allowing for individuals to connect on all levels of the organization. It means creating a common purpose for the members of the organization: a consensus on the way forward, often embodied by a set of values or a common mission, a shared consciousness bringing individuals from diverse backgrounds to work toward the same ideal. Finally a culture of dissent is inseparable from the idea of a community – itself, fostered by the network’s inner diversity - guaranteeing the free exchange of ideas.

   Uber embodies perfectly well the idea of community. First, rather than concentrating the decision making in a central unit, the company allows each of its subsidiary a relative leeway, allowing every country and city manager to be a key decision maker. This freedom is necessary especially when locally dealing with each country’s specific regulatory framework. Second, Uber employees can relate and feel empowered by the company’s global vision: “*transportation as reliable as running water, everywhere, for everyone*” a strong mission statement which not only unites its employees, but also its customers, just like a brand would. The culture of dissent, finally, is deeply rooted in company’s core values and is therefore fostered throughout its worldwide offices. Dissent is a value that is so widely shared among employees that it is also how the company identifies: positioning itself as the *Uber counterculture*, a disruptive alternative or the “candidate in the political campaign against the big taxi cartel” as described on the
company’s website in a post from CEO Travis Kalanick. The culture of dissent in written in the company’s genes. It appears Uber has all the characteristic of a network company allowing it to grow faster and bigger at the same time, how then can the company achieve it?

b. Getting bigger and faster?

How then do you allocate your resources between investing so that a local branch stays ahead of competitors or launching a new location?

Uber’s current strategy is to move fast and replicate its offering in different cities. Because at Uber’s core lies strong local network effects, the company’s principal competitive advantage, it needs to establish its presence in key markets in order to capture users and quickly outpace local competitors. In fact there is such a great product/market fit that Uber only needs minor tweaks or particular adaptations for special locations: higher fares and more subventions were put in place for Uber drivers in China in order to gain traction in the very competitive market or the new services introduced to fit specific market constrains, making up for the lack of drivers owning a car in Singapore through a unique car leasing opportunity. Uber also adapted its segmentation to better fit the level of income and service expectations of customers in given countries: the split between UberTaxi, UberX, UberXL and UberExcec in Singapore compared to the simple distinction between UberX & UberPool in France is a great illustration that Uber seeks to stick to the habits and the culture of each new host country. The company is also enabling its users to pay cash in the following cities: Ho Chi Minh City in Vietnam or Manila in the Philippines (a particular country which has a credit card penetration of only 3%). Scaling up overseas for an innovative Internet company with a replicable business model is a race against time: "Uber moved faster than any other company going international, if you don’t move quickly, the clones will pop up fast" says Bill Gurley of Benchmark Capital, a key investor in Uber who sits on the company’s board, probably thinking about Easy Taxi (backed by Rocket Internet and available in 30 countries) or Grab Taxi (headquartered in Singapore and available in 6 countries across South East Asia), both companies already working with the current taxi system and achieving faster “ride liquidity” (e.g. a ride wherever you want, whenever you want) than Uber who is trying to enroll both new drivers and new users. Amid competition on all these markets, Uber so far seems to jungle well between extending its ride-sharing offering across countries and
competing at a local level. The ability of the company to place 5 Chinese cities its worldwide TOP 10 ranking in terms of revenues after less than two years of operations in China while maintaining the pace of city launches close to one city per day globally is a striking illustration of this ability.

c. If you’re not the first, how can you turn the challenge into an advantage?

For proven business models, how fast you can launch is often the only thing limiting the growth of the business globally, can patience have any virtue at all? Sometimes patience can prove to be a key element in building partnerships or learning from competitors failures and best practices.

Patience in business can have its virtues: it allows preserving your resources while observing and learning from competitors’ mistakes. The ride-sharing market highlights well this argument: Uber is going global and establishing its presence in more than 70 countries while its local US competitor Lyft if staying home and focusing on the domestic market. What is the reason behind these two very different strategies? Lyft is trying to build a strong presence at home before focusing on overseas markets, first establishing themselves as a top player in the US, where the profit margins are higher before chasing growth to foreign markets where margins are slimmer and barriers to entry more challenging (Uber is facing lawsuits in France and executives of the company face criminal charges in South Korea). What is currently at stake for Lyft isn’t just growth but proving the sustainability of its model on its domestic market, therefore all efforts are made in that direction. While Lyft is focusing on bringing value for its U.S. users, the company is studying very carefully Uber’s global expansion and learning from it. The global acceptance of ride sharing is going to be a long battle, the low profile racer Lyft might well be saving its strength and resources for a final push in the global race: the path will have been already paved by Uber throwing itself in expensive legal battles while working tirelessly at changing the consumer’s mind. Waiting would eventually provide an alternative to battling with regulatory issues in overseas markets.
d. Recognizing failure: how do you know when to pull out of a country?

When do you know that your company won’t make it in the new market? How soon can you acknowledge a failure? How will that impact your operations in other locations?

Uber for instance seems to be encountering the same problems it encountered in other cities around the world, in particular legal challenges and unwelcoming public policies. In August 2015 Uber office in Hong Kong was raided, its business in the country has been investigated and branded as “unlicensed operations” by Chinese authorities who also arrested 5 drivers for “illegal use of vehicles for hire”. Uber had no other choice but to pull out of Hong Kong while being unusually silent about its response strategy. By keeping a low profile on Hong Kong the company hopes to maintain business running in mainland China; pulling out of a location to preserve another one.
Conclusion

Two shoe salesmen are on a boat. The boat lands on an isolated island. The first shoe salesman sees lots of barefoot people and says, “Wow, what a great opportunity! I’m staying.” The second shoe salesman sees the same barefoot people and says, “No one wears shoes here. There’s no opportunity here. I’m leaving.” How important is doxa for a company or organization willing to expand abroad? How can an organization find an alternative to replicating a business model outside its borders or applying a preconceived framework when trying to bring value to people from other cultures? For organization leaders, it is of paramount importance to explore a new country and culture first before deciding to which extent should they adapt to it, if it should expand at all.

Cultural distance and differences play an immense role in cross-border organizations. There is no question about it, otherwise why has the on-demand music streaming service Spotify been so long before setting a foot in Japan, the world 2nd biggest music market, launching its service in as much as 64 countries before even contemplating the Japanese archipelago? Extremely codified music market in the country, unique consumption patterns and culturally imprinted music tastes are among the principal reasons. Every country has nurtured its own singularity and particularity, cross border businesses should therefore aim at fostering exchanges among cultures while recognizing – acknowledging and respecting - the differences among them. Any organization or business, whose ambition is to change the status quo, should first recognize that the world’s richness depend on each country’s uniqueness and refuse any kind of culture hierarchy. Am I trying to impose a service, a product or values (e.g. “western music” or “democracy”) to people who don’t need it, or worse, don’t want it?

Should then companies adapt to local specificities or simply replicate a working model? Business is all about nuance. Adapting and localizing require more time and efforts - in business, the first resource is scarce, and the second needs the first - on the other hand, replicating a working model, as so often criticized in today’s globalization, is dangerous because at best it overlooks differences, at worst it bullies them. This is where an organization should step outside
of its doxa and recognize the specific set of norms and values of the country in which it is stepping, while adapting its offering in consequence. Walmart failed to recognize this imperative and pulled out of South Korea, Germany and Brazil, three countries in which it failed to "tune in" its retail offering to local shoppers. Ebay, failing to grasp the complexity of the Chinese market, to reach and appeal to local online buyers, pulled out of China after a fierce competition with Alibaba who benefited from key cultural insights and experience. On the other hand, the accommodation-sharing upstart Airbnb so far succeeded in adapting its booking platform across 190 countries, with local teams opening each of the 34,000 cities in which the company operates, the former startup fosters cultural particularities, helping its users to travel and discover no matter their country of origin. This study leads me to believe that a company's growth strategy strongly reflects the philosophy of its leaders, and vice versa, does it come as a surprise then, that today's business world in search of agile, learning and adaptable leaders also needs organizations who are agile, learning and adaptable?

Building replicable skills and becoming a learning organization: ultimately, overseas expansion should prove to be an education for any business; building replicable skills and growing more impactful at changing the world's status quo. Most important of all, organizations should develop a deep industry expertise coupled with an ability to read and act. The first without the second is dangerous; the second without the first can only have a limited impact. Human-centered approach of design thinking as pioneered by IDEO, help companies through consulting to better understand the people they are serving, putting back market research at the core of corporate strategy, helping to unlearn past or erroneous convictions to rebuild knowledge from the start. Through this effort, design thinking is a powerful and scalable approach to innovation in large organizations. The future for such a human-centered pursuit is to evolve from an external consulting advice to an integrated in-house capability; only then will international businesses convert into being curious, impertinent and impactful, across the vast array of promising industries, be it in education, healthcare, energy or technology.

While expanding across borders, the question any international organization and cross border business should ask is: "why?"
Are we really willing to bring value into another country or are we replicating a working model and imposing our values and vision, from one country to the next? Therefore, is expansion necessary? And to whom? Each organization needs to find its own answer. Let us be the salesman who asks: “wait a second, why aren’t they wearing shoes?”
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