



Navigating digital borders.

**Strategies for
successful global
solutions on
the Internet**

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Sapient Report

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The Internet was intentionally designed to improve communication and to share scarce computing and information assets across a distributed community. It is the first and only globally scalable mass communications vehicle that successfully supports many-to-many, one-to-many, and one-to-one communications simultaneously. The Internet's global diffusion has created opportunities and challenges for businesses with global ambitions. To be successful, businesses must develop appropriate strategies that address these issues.

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Introduction

Globalization is a socioeconomic trend characterized by intensified cross-border movements of information, capital, products, services, and people. The current trend of globalization is different from earlier periods of globalization because of the speed and ease with which these cross-border movements occur. The Internet is playing a pivotal role by making information instantly available around the world. Increased access to information is enabling individuals to build cross-border relationships and engage in cross-border exchanges, and is facilitating fast, efficient growth of cross-border markets.

Businesses that seek to reap benefits from the current intensified trends of globalization need to develop solutions that maximize economies of scale, harness the potential for transporting products and services across borders, and ensure that their offerings are culturally relevant for the chosen target audiences. Every business must carefully consider each of these goals in the context of their own offerings, drivers, and industry to devise an appropriate strategy for globalizing their business.

Many businesses are currently implementing multi-domestic global solutions, with separate features, functionality, and supporting organizational structures, aligned to meet the unique needs of each target national market. While this is often an appropriate approach, the emergence of cross-border markets has increased opportunities for obtaining larger economies of scale and has increased the risk of misaligning multi-domestic solutions with markets that cut across national borders. In some cases, a cross-border solution with features, functionality, and operations aligned with a cross-border audience will be the most effective strategy. However, most businesses will likely need to implement a hybrid approach, aligning some business units or processes to national needs while others take a cross-border approach.



What is globalization?

Globalization is a socioeconomic trend characterized by increasingly transparent and open financial markets, reductions in general trade restrictions and intensified cross-border movements of information, capital, products, services, and people. Significant advances in communications and transportation technologies are fueling the current period of globalization by enabling efficient movements across borders. These improvements are also bringing people in closer reach of each other, as they can now move with ease around the world both physically and virtually. International travel, migration, and the proliferation of mass media are changing markets and helping to accelerate the spread of ideas and practices across borders.

Globalization is not a new phenomenon. Countries around the world have engaged in financial and cultural exchanges for hundreds of years. The world also went through an intensive period of globalization at the end of the 19th century that was only halted by World War I. Yet the current trend of globalization is historically unique because of the rapid rate of adoption of technology; the speed and ease with which information, products, and services are exchanged around the world; and the fact that many high value products are now miniaturized—or virtual—and can be exchanged at little to no shipping cost. These intensified trends are not perceived as positive influences by all people, and there is significant opposition from groups around the world. The increasingly interdependent global economy is variously perceived as a threat to the political and economic autonomy of less powerful nations, a threat to labor in wealthier nations, and a threat to cultural diversity.

And yet the rate at which new technological advances are being developed and adopted around the world continues to grow, particularly in the field of communications. As telephone, radio, and television technologies have evolved and proliferated, the cost of their adoption and use has fallen dramatically. The rate of diffusion of the Internet is surpassing even that of these earlier technologies, largely because it is based on existing global telecommunications infrastructure. Growth is also fueled by the spread of digital devices—such as computers, mobile phones, and personal digital assistants—that can be easily Internet-enabled. The existence of these devices in areas of the world with low Internet penetration is driving demand for further growth.

Rapid expansion of the Internet around the world is opening up new opportunities for businesses to engage in global exchanges to both reduce costs and increase revenues. Business processes can be transformed and streamlined; rapid communications with employees, partners, and customers can be supported and new markets can be more easily penetrated.



Unintended consequences of the Internet for global business

The Internet was intentionally designed to improve communication and to share scarce computing and information assets across a distributed community. It is the first and only globally scalable mass communications vehicle that successfully supports many-to-many, one-to-many, and one-to-one communications simultaneously. The Internet's open standards-based architecture facilitates rapid growth by reducing the cost and complexity of adding systems to the network. This ease of expansion allows even those organizations and individuals with relatively few resources to build effective offerings that can reach a large distributed audience. These features of the Internet are well known and have succeeded beyond the designers' expectations. Its global diffusion has created opportunities to exploit these features in unintended ways. These unintended consequences of the Internet for global business are significant and directly contribute to its ability to both support globalization and to drive it deeper.

It is imperative that businesses with global ambitions understand the unintended consequences of the Internet and effectively exploit them. In many cases these consequences create challenges to existing business practices that must be addressed and present opportunities for increasing economies of scale and entering new markets. Businesses must develop appropriate strategies that address these issues.

Geographic distance is less constraining

Geographic distance and location is no longer an impediment to communicating with either captive or non-captive audiences. Businesses can easily communicate with employees, customers, or partners most anywhere in the world. Information can be moved—almost instantaneously—in many digital forms to any point in the world at costs less than those of a telephone call. Previously distributed operations can be coordinated or centralized, leading to significant cost reductions. Products and services with high information content and low delivery costs can be delivered globally, often leading to a significant increase in potential market size. Competition and collaboration with distant organizations in untapped markets becomes more possible.

New types of business communities are emerging

The Internet does not have national borders. There are no inherent barriers to the movement of information or digital products and services from one country to another. The ability to exchange information across national borders with speed and ease has laid the foundation for the emergence of new kinds of cross-border business communities. Consumers, employees, and business partners can network with each other, exchange information with peers and providers, and form new kinds of international communities. Both retail and enterprise customers are increasingly active participants in the exchange relationship, seeking out information, assessing choices, and reaching an informed and strategic decision about where to invest their money. This will intensify global competition and will demand that businesses be more relationship-focused than ever before to succeed against market competitors.

Businesses are also using the Internet to network their employees into stronger communities with more efficient processes. The Internet provides a global tool for building internal efficiencies based on optimized exchanges of complex, in-depth information and knowledge. This presents enormous opportunity for businesses to expand interna-



tionally while maintaining efficient cost structures by facilitating internal transfers of knowledge, seamless international transactions, or centralized business processes.

In order to realize opportunities in these new communities, businesses must understand how to communicate effectively with a wide range of individuals and groups. Who should a business communicate with, how can they communicate in a way that will enact positive change, and how can they maximize business value through efficient communications systems?

Redefinition of markets: multi-domestic or cross-border

As the Internet has expanded access to information across international borders, customers, employees, and partners can more easily become aware of opportunities and threats outside their home market. The Internet is driving the formation of cross-border markets more quickly and efficiently than ever before, as availability of information about products and services around the world is increasing market awareness and fueling demand. Cross-border markets are based on various kinds of groups of individuals who share key characteristics in relationship to a product or service, including similar needs, interests, and experiences.

For many years, most businesses have taken a multi-domestic approach to national markets by addressing each market independently with separate national features, functions, and operations. But as more cross-border markets emerge, maintaining a multi-domestic approach to business may result in misalignment between organizational structures and markets. For example, a business may face channel conflict on a global scale between its own national markets due to different operational or pricing structures. In other cases, a business may lose customers or partners altogether to a competitor in a different national market.

In today's world, the market may not be synonymous with the country. If approached appropriately, the emergence of cross-border markets represents a huge opportunity for businesses to tap. A target market that is defined in terms of common needs and experiences may be either multi-domestic or cross-border. A cross-border approach would define the appropriate cross-border markets, seek to build communication with similar market segments in different countries, and align features, functions, and operations with the cross-border market. If appropriate, a cross-border solution may be able to serve larger markets at significantly less cost than a traditional multi-domestic approach.

For most businesses neither a cross-border nor a multi-domestic approach will be completely appropriate. In these cases a hybrid approach will be needed. By combining features of each approach in different ways, businesses will be able to tailor their solution to uniquely meet their needs.



Meeting the challenge of globalization

So how should a company determine what kind of approach—multi-domestic, cross-border, or a hybrid of the two—would be most effective for its business? Three key factors must be taken into consideration in making this decision: maximizing economies of scale, harnessing the potential for transporting offerings across borders, and ensuring cultural relevance of offerings and strategies to target markets. Businesses must also ensure that they evolve the organizational capabilities needed to effectively support a global solution.

Maximize economies of scale

The Internet is opening up unprecedented opportunities for companies to realize large economies of scale. These opportunities range from reductions in logistical expenses, realized through supply and demand chains, to reductions in marketing costs, through focused market segmentation strategies. Streamlining duplicated business processes and IT infrastructure and optimization of pricing strategies or sales channels are also potential areas for cost savings. However, the ways in which savings can be realized need to be considered in light of several constraints.

Centralization and decentralization of business functions. Centralization of functions may be required in areas like pricing strategy, macro-level marketing strategies, and IT infrastructure. National subdivisions of global corporations, which can have considerable autonomy, are often reluctant to do this, citing their knowledge of their local market as justification for retaining control over certain functions. The challenge of optimizing global economies of scale lays in identifying the appropriate mix of centralized and decentralized functions for a particular business.

Development costs and operational costs. Global solutions are expensive to develop. But development costs of a solution should be weighed against its longer-term operational costs. The cheapest, quickest solution to develop is not necessarily the cheapest to operate. In order to ensure the appropriate balance between development and operational costs, companies need to look at overall returns on investment. Returns on investment should be measured globally across the entire company, at the national subdivision level, and at the business unit level.

National legal and economic systems. The differences between national legal, regulatory, and economic systems can also present challenges to realizing economies of scale by obligating businesses to satisfy different requirements in different countries. Local taxation and import/export tariffs also must be addressed. While there has been some discussion of potential international standardization, there will be few changes in the near future. This means many businesses will have to implement a multi-domestic approach to these constraints.

Limitations of existing technology. The software and hardware industry has long recognized the need to localize products for different national markets. Localized software is usually designed to work in only one country at a time. Yet global Internet solutions need to handle many countries at the same time and switch between them very frequently. Most Internet-specific software packages have only recently been internationalized. Of these, many have only been localized for a few countries and very few can support multiple countries and languages at the same time. As a result, the need to support multiple countries and languages often dictates multiple physical implementations of the same software package. This is especially true when Asian and western lan-



guages must be handled in the same system. Although this situation will eventually change as the technology matures, it will not change for several more years. These technological limitations are often a shock to businesses when they learn that their existing systems cannot support multiple countries without major changes or complete duplication.

Harness the cross-border potential of your offering

The potential for transporting a company's product or service across borders is a key criteria to assess when developing a global business strategy. The potential for transporting a product or service is determined by its own properties, such as weight and adaptability, as well as external influences that affect its movement to new places, like language, tariffs, or legal regulations. Global access to information about products that are transportable will increase demand by customers regardless of their location, stimulating more global exchanges and forcing suppliers to become efficient at moving their goods across borders.

A primary indicator of transportability to consider when assessing opportunities for global expansion is the cost of transport of the offering compared to its value. Products or services with high value and low shipping costs tend to be very transportable and have high profit margins. This holds true for many information-based offerings such as software, news and entertainment, financial advisory services, or educational tools in the form of digital media that have negligible shipping costs when delivered via the Internet. Although geographic distance may no longer be a barrier, other constraints may need to be addressed, such as copyright laws, language, or tax regulations.

Many physical products that have high research and development costs but relatively low manufacturing costs, such as pharmaceuticals, communications hardware, computer hardware, or cars usually have high margins that enable the manufacturer to recover the R&D costs. Costs can also be recovered by charging different prices in different regions of the world. However, shipping costs are often lower than the actual price differences between countries. Information available through the Internet can now expose these pricing differences to consumers in many countries, who can learn that the combined cost of buying a product abroad and having it shipped to them may be cheaper than buying it locally. This will create channel conflict on a national scale and in some cases drive the creation of gray markets that will exploit these unsustainable price differences.

Some services targeted to the needs of specific geographic regions or otherwise tied to geographic location may have limited potential to transport to other geographies. However, in these cases the business model itself may be suitable for export to other national markets. For example, online services based around finding and purchasing real estate can be exported to other countries even though the real estate being exchanged is immovable.

Be strategic about culture

More than ever, a company must place its target audience at the center of its strategy in order to compete effectively. This presents a challenge for any company seeking to expand globally: while it may be easy to establish a global presence, such as through a single website, it is far more difficult to build a global presence that can speak meaningfully to individuals from diverse cultures. And yet the costs of failing to communicate effectively, not articulating the right kind of value to their lives, or not offering understandable and appropriate information, products, or services for their needs is higher



than ever before. In order to succeed in today's global markets, a company must create and execute strategies that are culturally relevant to their target audience.

Culture, which can be understood as a system of tools, practices, beliefs, and symbols shared by a group, shapes people's everyday experiences and the ways in which they integrate products and services into their lives. Culture can be shared by any kind of group of individuals—such as employees of the same company, groups of consumers, or professional colleagues—and is by no means synonymous with nationality or strictly aligned with geography. An international community of market traders, professional chemists, owners of luxury cars, and teenage girls with cell phones all share practices or beliefs that shape the way they work and things they do on a daily basis and the kinds of products and services that they use.

Existing approaches to localization of products and services have focused on translation of language, currencies, and visual systems as the primary mode of adaptation to different international markets. But translation and adaptation of a single solution may not be all it takes to effectively communicate with one's employees, customers, or business partners across the world. In order to build effective market strategies, businesses also need to understand the contexts of use of their offerings—how they are taken up and utilized by people in their cultural context—and how these might be different or similar across communities around the world. In order to implement efficient organizational strategies, businesses need to understand how employees can usefully integrate technologies into their processes and practices.

This means that businesses must learn to be strategic about culture and how it shapes their employees', partners', and customers' behaviors, both online and offline. Businesses must begin thinking about their international audiences early in developing their global business strategies, rather than adapting an approach designed for one cultural context to a potentially very different one. For both captive and non-captive audiences, businesses need to understand individuals' experiences around a product or service, how this may be similar or different across groups and how the Internet is supporting, changing, or integrating into these contexts of use. This will help identify opportunities and insights for culturally relevant products and services that can effectively reduce costs or maximize profits in different international markets.

Evolve your global solutions and capabilities

An appropriate infrastructure solution is not all it takes to realize the potential benefits of globalization. Many businesses, including established multinationals, do not currently have the capabilities they will need to operate successful global solutions on the Internet. There are significant risks associated with developing a solution, like global content management, without also developing the capabilities necessary to operate it. This, coupled with the inherent risks of large complex solutions, means businesses embarking on global initiatives must take an incremental approach that allows them to develop and evolve the solution as well as the necessary capabilities.

In building a strategy for jointly developing the solution and associated capabilities, businesses must seek to identify a series of smaller solutions that each deliver value and move incrementally toward the final solution. The development of each smaller solution must be accompanied by the development of the capabilities necessary to support it. This sequencing can be arranged to favor return on investment, time to market, risk reduction, or other business drivers. This kind of incremental approach allows businesses to learn from the experience of operating smaller solutions and evolve the strategy for reaching the desired final solution.



Identifying strategic solutions: multi-domestic, cross-border, or hybrid

International business solutions should maximize economies of scale, harness the cross-border potential of products and services, and ensure that products and services are culturally relevant for the chosen target audiences. Strategies that target only economies of scale may be culturally inappropriate and thus reduce returns on investment. Failure to understand opportunities related to the potential for transporting an offering to new locales may leave potential markets untapped. And pursuing only cultural relevance can lead to a solution that may be more expensive to develop and operate than necessary. Every business must carefully consider each of these goals in the context of their own needs, drivers, and industry to devise an appropriate strategy.

Multi-domestic solutions

A multi-domestic approach is based on the premise that national markets can and should be addressed independently, with separate features, functionality, and supporting organizational structures all aligned by process of localization to meet the unique needs of each national market. This type of solution is appropriate when national markets are significantly isolated from each other, such that there is limited demand for movement of information, products, or services across borders and limited movement of customers across borders. There may also be barriers preventing cross-border interaction, such as differences between national legal, regulatory, and economic systems or significant cultural differences. Businesses should also assess whether this situation is likely to remain the same in the foreseeable future, or if there are indications that increasing cross-border interactions may rapidly change the existing circumstances.

This is the most common approach taken by businesses today, partly because businesses do not have to significantly change their existing multi-domestic organizational structures in order to support it. Localization and internationalization consultants advocate multi-domestic approaches, with a focus on language and country as the key factors defining audiences. For both of these reasons, this type of solution is often the default approach, even if a potentially simpler and more cost-effective cross-border or hybrid solution would be a better choice. Any organization that wants to strategically pursue the right approach should carefully assess whether a multi-domestic solution is indeed appropriate for its business.

Solution #1: Localization by duplication and adaptation

Businesses that have decided to pursue a multi-domestic solution and wish to rapidly enter a new national market may choose to duplicate an existing national solution and adapt it to be culturally relevant for the new market. This approach may be appropriate if the total anticipated number of countries is small (fewer than four countries), and if significant local infrastructure for supporting the business must be established, such as fulfillment systems and specialized customer support and sales.

The process is relatively fast compared to other approaches and is also relatively low risk, since it is primarily handled in the target country and will have little or no effect on existing businesses in other countries. A further advantage of this approach is that the brand, offerings, and many other features of the solution can be highly localized to make them culturally relevant for the target market.



However, localization by adaptation is not a long-term strategy that can support expansion into many countries. It is extremely difficult to realize large economies of scale since every time a new national market is entered the system must be completely re-adapted to meet local needs and staff must be hired to support local systems. And as more and more local systems are created, the task of synchronizing features and functions across multiple systems becomes expensive and slow.

This type of solution does not support cross-border markets and is difficult to convert to one that will.

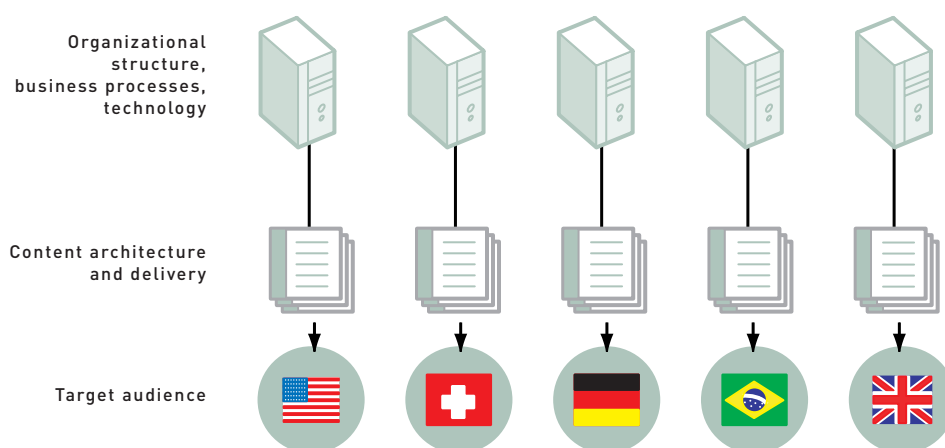


Figure 1: Multi-domestic solution by duplication and adaptation

This diagram illustrates how operational capabilities necessary to support Internet-based solutions often evolve independently for each national market. These independent solutions make it difficult to coordinate brand and offerings across national markets and lead to inefficiencies and unnecessary expense, especially when many national markets must be supported.

Solution #2: Enabling localization with internationalization

Businesses wishing to develop a multi-domestic solution that can be rolled out to many countries should pursue one that enables them to realize greater economies of scale. This approach requires a two stages. First, the solution should be internationalized by identifying all business functions, processes, and system functionality that will change from country to country and redesigning them in such a way that they can support all the target countries with a minimum of adaptation. This is a complex process that requires considerable effort and must be carefully planned and budgeted. Second, the internationalized solution is localized on a country by country basis. If the internationalization process was successful, the cost of localization should be minimal. After rolling out two or three localized systems, the economies of scale of this approach should become evident.

Key advantages of this type of solution are its ability to support global or regional coordination of features and functions while also allowing them to be localized for each target market. In addition, this approach supports rapid expansion into new target markets once the system has been internationalized. However, businesses should bear in mind that the number of countries that can be supported by a single system depends upon the particular countries being targeted, the level of localization those countries require,



and the extent to which available technology has been internationalized. In many cases, commercially available software is not fully internationalized and cannot yet fully support this type of solution, and will only provide partial support. It is often necessary for localized solutions to build custom processes and systems to meet the unique needs of some markets. The desire to extract maximum economies of scale from this type of solution must also be tempered by the need to ensure the solution is culturally relevant to the target audience.

This type of solution does not support cross-border markets, however it is possible to convert to one that does with careful planning.

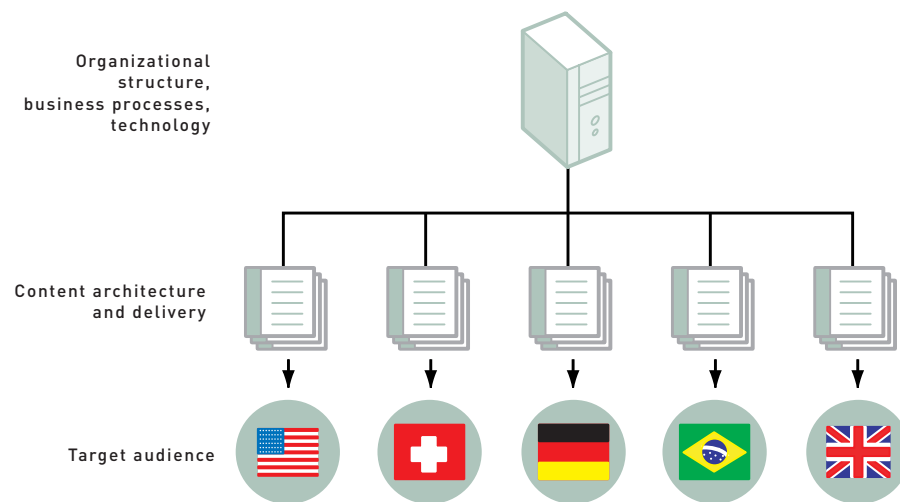


Figure 2: Multi-domestic solution by internationalization and localization

This diagram illustrates how centralization of operational capabilities can increase efficiencies and enable coordination across national markets. However even this approach can become cumbersome when many tens of national markets must be supported. This approach is ideal when national markets must be treated independently.

Case examples of when a multi-domestic approach is appropriate:

- International discount retailers that target a broad cross-section of consumers are unlikely to sell across national borders. Consumers in each national market expect a highly localized service, delivered in an appropriate manner for local cultural context, with local language, currency, and consumer protection laws taken into full account. Products must also be tailored to local needs by adaptation of labeling and quantities.
- Suppliers of building materials and the online collaborative markets that service the construction industry often deal with fundamentally local products and services. Building materials are not usually worth shipping in small quantities over large distances. In addition, the services needed in construction are usually locally or regionally based. The need to deal with local building regulations, planning laws, and construction techniques demands a high degree of localization.
- Mutual fund management companies targeting individual investors must take a



multi-domestic approach in order to conform to constraining national fiscal laws and to minimize their own exposure to risk. Even though their products—financial instruments—have high potential for transporting across borders, national regulations have so far been a critical constraint. This situation may change as the trend of globalization continues. The emergence of regional markets such as the European Union, with increasingly harmonized laws, will facilitate more cross-border exchanges and some of the leading players among financial advisory companies are already experimenting with trading of foreign funds. This suggests that a mutual fund management company may want to build a multi-domestic solution that will also provide them flexibility to begin implementing some cross-border functions and processes in the future.

Cross-border solutions

A cross-border approach to a global solution is based on the premise that target audiences in different countries share common needs, desires, or expectations about products and services, and may often need to interact and build relationships across borders. In essence, this approach is about enabling cross-border communication. It is most appropriate when there are clear cross-border markets, indicated by shared characteristics of target audiences; movements of information, products, or services across national borders; or the existence of significant gray markets. If participants in cross-border markets have a common interest that overrides their differences, the features and functions, brand strategy, marketing approach, and offerings may be similar for the entire market. But a cross-border solution does not necessarily mean the same experience for all customers or partners. For example, it may be possible for some businesses to reach 80% of their potential global market by supporting four languages, seven currencies, and three types of customer while maintaining only four distribution centers. To reach the same market, a multi-domestic solution may need to localize for 50 or more countries.

Cross-border solutions represent considerable opportunity for increasing revenues by reaching audiences of a larger total size than can be supported by a multi-domestic approach to national markets. Cross-border solutions also allow costs to be reduced by building optimized international organizational structures and business processes. They can deliver significant economies of scale, often exceeding those of an internationalized multi-domestic approach.

The risk of this approach lies in its potential failure to establish cultural relevance with diverse users. Potential users will only embrace the solution if it meets their needs and expectations and is relevant for the contexts in which they use the features and functions it delivers. Balancing cultural relevance against economies of scale is vital for the success of cross-border solutions, and great care must be taken to understand the expectations of potential users and ensure the solution meets them.

°Solution #3: Supporting and building cross-border markets

Businesses that choose to support and enable development of cross-border markets should take a three-stage approach to developing a strategy. First, the features of the solution that should be common across national borders must be identified. This should be based on a review the nature of the information, product, or service to be offered the potential features and functionality of the system and a thorough understanding of the cultural relevance of these factors to the target market.

Second, any barriers to communication must be identified and a strategy for lowering



these barriers should be developed. For example, the solution may need to be delivered in several languages and support several currencies. Reducing barriers to communication does not mean localization of the solution. Providing the option of only three languages, such as English, Spanish, and French could enable many people from diverse countries to participate in a cross-border market. In order to achieve this flexibility, the solution requires an internationalized infrastructure, albeit a simpler one than required for a multi-domestic solution.

Finally, any remaining factors that must be handled at a national level should be identified and a strategy developed to isolate them. This may include conforming to data protection legislation, abiding by local taxation systems, and formatting and validating postal addresses. Isolating them from the overall solution allows local cost-effective solutions to be developed and prevents changes in these areas affecting the whole solution.

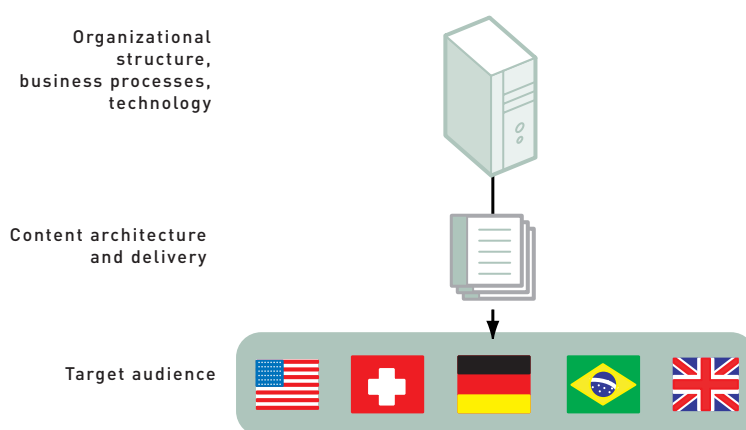


Figure 3: Cross-border solution

This diagram illustrates how a single solution can, in some cases, support many national markets. Here a solution available in three languages supports many national markets. This is possible because the target audience shares common needs, behaviors, and tools and can therefore be treated in a standard way. This approach is ideal when the barriers between national markets need to be lowered.

Case examples of when a cross-border approach is appropriate:

- International business-to-business exchanges and collaborative marketplaces often serve distributed markets that deal with highly specialized products and services, such as bulk minerals and chemicals, energy, antique furniture, rare cars, or shipping capacity (i.e., buying and selling excess cargo capacity on ships and airplanes). Participants in these markets expect an international experience as they interact with partners around the world. They also share specialized knowledge and patterns of behavior that support a common culture. Moreover, the need to exchange information or offerings within a specialized market often means that a few key languages or currencies are regularly utilized.
- Businesses with successful international lifestyle brands achieve their success by associating a particular lifestyle with the product or service they deliver. The desire of potential customers around the world to experience the promise of the brand allows such businesses to charge a premium for their product. Many



businesses with such brands attempt to build active communities around their products in order to further enhance the brand and leverage the loyalty of their customers. By taking a cross-border approach to their customers, such companies may be able to build larger more robust communities that will enable them to extract greater value from their brands.

- Corporate intranets are rapidly becoming indispensable business tools. The ability to swiftly share information, collaborate with colleagues in different countries, and access potentially vast corporate knowledge assets is compelling for many businesses. For international businesses the challenge is to lower barriers to communication by making the user interface to these systems culturally neutral and the information stored in them understandable across national borders. This type of solution is an ideal candidate for a cross-border approach.

Hybrid solutions

For most businesses, the optimum solution will be a hybrid of multi-domestic and cross-border approaches. Many different combinations are possible, but care must be taken in examining the dynamics and consequences of combining the approaches. If carefully designed, hybrid approaches can produce many benefits. But regardless of the specific characteristics of a hybrid solution, the approach must strike the appropriate balance of maximizing economies of scale, harnessing the cross border potential of the offering, and achieving cultural relevance for the target markets.

Solution #4: Tailored approaches for business functions or business units

Pure cross-border solutions will be difficult to support in many cases due to legal and regulatory requirements for certain features to be handled on a country by country basis. In these cases, businesses must understand the legal consequences of their business model in the context of each country. If significant localization is required to satisfy legal and economic requirements, the businesses should implement any affected functionality or business processes with a multi-domestic approach.

By contrast, a pure multi-domestic approach may be ideal for many businesses but will be too expensive to develop and operate. In these cases, a business may pursue a cross-border approach to audience and content while maintaining a multi-domestic approach to commerce and fulfillment. This enables a global approach to brand and marketing activities while ensuring local tariffs and legal systems and other regulations are supported in each country. Some businesses may choose to develop a multi-regional approach in which each region is addressed in isolation but cross-border communication and commerce is supported within the regions.

Some businesses may decide to pursue alternative approaches based on their different business units. For example, a cross-border approach may be more relevant for some industries than others. Or a business may choose a multi-domestic approach for private consumers, a multiregional approach for enterprise customers, and a global cross-border approach for suppliers and employees, with each approach tailored to be culturally relevant to the target audience.



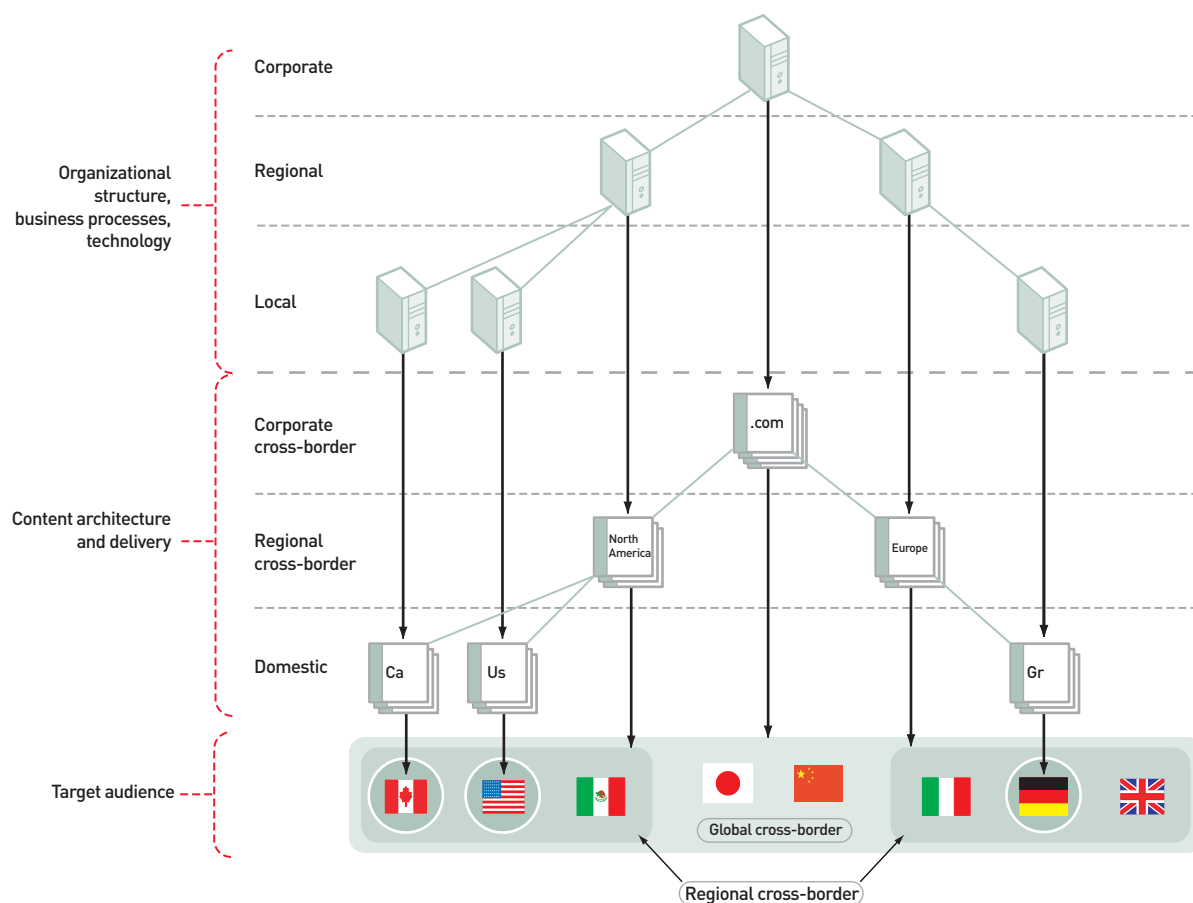


Figure 4: Hybrid multi-domestic and cross-border solution

This diagram illustrates a hybrid multi-domestic, cross-border solution. Using this approach operational capabilities and offerings can be marshaled to maximize economies and efficiencies of scale while delivering the solution in the most appropriate way to the target markets. Parts of the solution are targeted at national markets while other parts are targeted globally or regionally.

Solution #5: Supporting physically or virtually mobile customers.

Internationally mobile customers, partners, or employees present unique challenges with respect to developing global solutions. The potential need for businesses to support mobile users is greater than would be expected at first glance, since their mobility need not be physical. The Internet enables virtual mobility by allowing users to access information targeted at other users in other countries. Businesses wishing to support either physically or virtually mobile customers or partners must understand why they seek mobility in the first place. These drivers will help shape the appropriate solution.

In general, people are mobile in order to participate in an experience or transaction that is not available locally. Some examples include tourism, education, and access to unique products and services only available in a particular place, or conducting business with foreign partners. In these cases, users are either purposefully seeking a fundamentally foreign experience or they expect to have a foreign experience in order to meet their goals. As a result they generally want, or will accept, a foreign online experience that is not localized to their needs. They will accept an interpreted experience that enables understanding but makes few concessions to their own expectations. The difference between localization and interpretation is important. Localization changes the nature of the products and services offered to make it appropriate for the physical loca-



tion of the user. Interpretation does not change the nature of the products and services but enables a foreign user to understand them irrespective of the user's location. Only a hybrid solution can meet the needs of mobile customers or partners since it must support both a localized experience and a cross-border market.

Case examples of when a hybrid solution is appropriate:

- High tech product manufacturers are locked in a race with other manufacturers to continually innovate and develop new products and services. The speed of this race and the cost of localization allow for offerings to be adapted to only a few, key national markets. The demand for these products is so high that they regularly sell to customers outside the target markets. In many countries, customers do not expect these products to be localized. They willingly accept products localized for other markets since they need them in order to stay abreast with technology and remain competitive. However, all customers need to interact with each other and with customer support representatives for after sales support. A hybrid solution can support localized products and services for key target markets through a multi-domestic approach. By using a cross-border approach for customer support and building self-help communities, the remaining non-target markets can also be supported to a degree. The lower level of service in non-target countries, while not ideal, is better than the current level of support.
- An international discount retailer could take a multi-domestic approach for customer-facing activities and a cross-border approach for supplier activities so that the best products at the cheapest price can be obtained on a regional basis. This supply chain optimization could be achieved through a regional cross-border solution that operates with a limited number of languages and currencies.
- Businesses associated with international travel (airlines, hotel chains, credit card companies) must accommodate physically and virtually mobile international customers as well as domestic customers. Mobile customers often want information on services and activities available in the country they are planning to visit (virtually or physically) but they want the information presented in a way that they understand. Depending on the nature of the service, interpretation is often sufficient and other issues of cultural relevance may not be critical. In some cases, customers may explicitly not want the information to be adapted to their own cultural context since they are often trying to understand issues in the context of a "foreign" culture. In this situation, a multi-domestic approach is appropriate to support domestic customers in each country and a cross-border approach should be taken for international travelers who do not expect the information to be highly adapted to their cultural context.



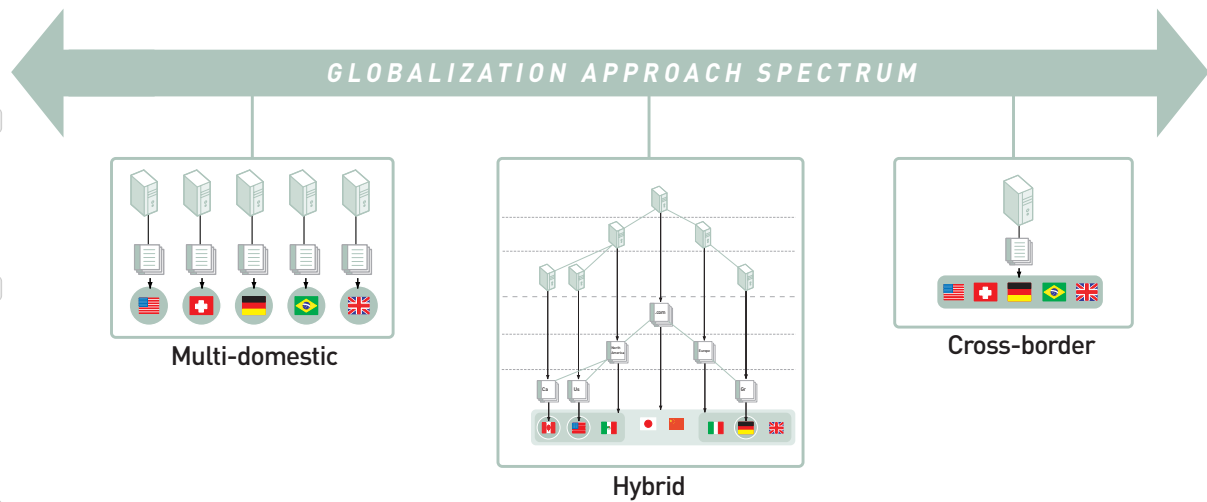


Figure 5: Globalization Approach Spectrum

This diagram illustrates the spectrum of possible global approaches. The spectrum ranges from multi-domestic solutions at one end to cross-border solutions at the other. Most businesses will find that a hybrid solution is the best approach since it allows them to allocate resources in proportion to the size of the markets they serve and at the same time gain maximum return on their investments across national borders.



Conclusion

The Internet is both an agent of global change and a tool to help businesses realize the opportunities of globalization. Its rapid global diffusion will have unintended consequences for global business. Geographic distance will become less constraining, allowing new types of cross-border business communities to emerge. Businesses now have a choice of how they support international markets. A traditional multi-domestic approach, where each country is treated in isolation as a separate market. Or a cross-border approach, where the market is defined by common needs, behaviors, and practices of the target audience and is not based on nationality. In practice, most businesses will opt for a hybrid approach that will blend the best features of both of these approaches.

Regardless of the approach chosen, businesses with international or global ambitions must devise strategies that maximize economies of scale, harness the cross-border potential of products and services, and ensure that products and services are culturally relevant for the target audience.

By devising a strategic approach to global solutions, businesses can successfully realize opportunities for streamlining and transforming business processes, enhancing communication with their diverse target audiences and facilitate entry into new markets.



Glossary of terms

Audience

The groups of people or individuals for which a company creates and markets its products or services.

Community

A group of people bound together by social relationships or a common cultural identity; a **market segment** may be synonymous with a community, may be a subset of a community, or may be larger than a community.

Context of use

The specific social and cultural context in which products or services are taken up and utilized by individuals.

Culture

A system of symbols, beliefs, tools, and practices shared by a group of people; culture is dynamic and always changing and must be understood in terms of a particular point in time. Cultural context refers to the broader cultural system within which an individual's behaviors and experiences occur at any particular place and point in time.

Cultural adaptation

The process of modifying business strategies, products, services, etc., so that they are appropriate and useful for the **cultural context** in which they are intended to be used. Localization is one form of cultural adaptation.

Cultural relevance

The degree to which business strategies, products, services, etc., are appropriate and useful within a particular cultural context.

Globalization (1)

A socioeconomic trend characterized by increasingly transparent and open financial markets, reductions in general trade restrictions and intensified cross-border movements of information, products, services, and people that is being enabled by improvements in technology.

Globalization (G11N) (2)

Globalization addresses the business issues associated with taking a product global. In globalization of high-tech products this involves integrating **localization** throughout a company, after proper **internationalization** and product design.
(LISA)

Gray markets

Gray markets specify exchanges that cross over existing barriers between national markets, resulting in products sold to customers at lower costs than intended for their geographic market and thus potentially lower profits. For example, through the Internet a customer in Germany can order the identical pair of Italian shoes at a cheaper price directly from an Italian reseller than from a reseller in Germany.

Internationalization (I18N)

Internationalization is the process of generalizing a product so that it can handle multiple languages and cultural conventions without the need for redesign.
(LISA)



Localization (L10N)

Localization involves taking a product and making it linguistically and culturally appropriate to the target **locale** (country and language) where it will be sold.
(LISA)

Segmentation

The process of partitioning markets into groups of potential customers, or market segments, with similar needs and/or characteristics who are likely to exhibit similar behaviors or attitudes. Segments are often based on demographics, attitudinal, or behavioral variables. Experience-based segmentations are based on actual behaviors of individuals, their uses of products and services, and the way that these behaviors and uses are situated within broader social and cultural contexts.

Translation

The process of converting the meaning of expressions in one language (the "source" language) into expression with equivalent meaning in another (the "target" language). Translation is a generic term that covers all forms of such conversion irrespective of the medium; written, spoken, or signed.
(Crystal, D. 1997)



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Appendix 1: Comparison of global solution types

	Approach	Description		Cost profile		Scalability	Estimated demand		Selection Criteria	Strategic issues to consider	Standard industry opinion	Sapient opinion
		User facing	Internal systems & processes	Development	Operational		Current	Future				
Multi-domestic	Duplication of systems and processes followed by Localization for target country and language	<ul style="list-style-type: none">Translated and localized for each target national marketNo constraints on the degree of localization	<ul style="list-style-type: none">Duplicated business processes in each countryDuplicated common technology platform for each country or different technology platform for each country	<ul style="list-style-type: none">Initial development costs are reduced significantly for each successive country if a common technology platform is usedInitial development costs are duplicated for each successive country if a different technology platform is used	Operational costs are duplicated for each successive country	<ul style="list-style-type: none">3 to 5 countriesDuplication of operational costs limit scalabilityDuplication of business processes and systems is not scalable	15 %	5 %	<ul style="list-style-type: none">Markets primarily defined by country and languageSpeed to marketMaintenance of barriers between national marketsSimplicity gained through national isolation	<ul style="list-style-type: none">Organizational capability development in each target country.Short-term tactical solution lacks scalability	A poor approach with few benefits.	Appropriate from some businesses when speed to market vastly outweighs long-term scalability or only a small number of target markets will ever be entered.
	Internationalization of systems and processes followed by localization for target country and language	<ul style="list-style-type: none">Translated and localized for each target national marketLocalized within the flexibility allowed by internationalization	Duplication of systems and processes followed by localization for target country and language	Initial development costs for the first country are high but costs for subsequent countries are reduced massively	Operational costs increase as more countries are added. But centralization of business processes and systems reduces the rate of increase dramatically.	<ul style="list-style-type: none">50 countriesTotal operational costs limit scalability.Complexity of managing tens of target countries eventually limits scalability	70 %	10 %	<ul style="list-style-type: none">Markets primarily defined by country and languageMaintenance of barriers between national marketsEconomies of scaleScalability	<ul style="list-style-type: none">Centralization vs. decentralization of business processesOrganizational capability developmentMaximizing economies of scale	The best sustainable approach. Most businesses should take this approach. Culture is primarily defined by country and language.	Appropriate for some businesses but can limit flexibility and is not completely scalable.
Cross-border	Parameterization of systems and processes followed by adaptation for target audience characteristics	Common front end supporting a common subset of parameters languages, currencies, payment methods etc. sufficient to meet the needs of the target audience	<ul style="list-style-type: none">Centralized and internationalized technology platform supporting multiple country and language combinations concurrentlyA balance of centralized and decentralized business processes	Initial development costs are high but the flexibility of the design allows for a large internationally diverse markets to be targeted initially	Operational costs increase only in proportion to the size of the market served. Centralization of business processes and systems reduces the rate of increase dramatically.	<ul style="list-style-type: none">Unlimited countriesTarget audience is a clearly defined group with common expectationsNumber and complexity of target audience types limits scalability	5 %	10 %	<ul style="list-style-type: none">Markets primarily defined by common needs, behaviors, and expectations (not by nationality)Maximize market size quicklyEconomies of scaleSimplicity	<ul style="list-style-type: none">Reduction of barriers between national marketsDefined target audience with clearly defined needs	Rarely recommended since it does not always require translation services.	Appropriate when the target audience is best defined by common needs, behaviors and expectations not by nationality. This is the best approach for reaching the largest audience with the least effort and reducing the barriers between national markets.
Hybrid	Internationalization and parameterization of systems and processes followed by localization for target country and language and/or adaptation for target audience characteristics	An appropriate combination of multi-domestic and cross-border approaches	<ul style="list-style-type: none">Centralized and parameterized technology platform supporting one or more target audiences concurrentlyCentralized business processes	Initial development costs are high but the flexibility of the approach allows these costs to be allocated to markets with the highest potential and tailored to the available resources.	Operational costs increase as more countries are added and in proportion to the size of the total market served. Centralization of business processes and systems reduces the rate of increase. And the flexibility of the approach allows the costs profile to be tailored to the available resources.	Can be scaled to meet demand by mixing the approaches appropriately	10 %	75 %	<ul style="list-style-type: none">Markets defined both by nationality and by common needs, behaviors, and expectationsMaximize market size and retain the ability to localize.Economies of scaleFlexibilityScalability	<ul style="list-style-type: none">Reduction of barriers between national marketsDefined target audience with clearly defined needs	Not recognized, or sold, as a distinct approach. Solutions often end up like these but they are not designed to be this way from the beginning.	Appropriate for most businesses. This approach allows development and operational costs to be balance by allocating resources to the most significant markets. In addition less significant markets can be supported without incurring excessive costs.



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