Globalization:

Recognizing and leveraging market similarities to make **a world of difference** for your business.

Recognizing the differences between national markets is easy. It's understanding the similarities and leveraging them to maximize economies of scale that's the hard part. It's also the part that can make a world of difference for your business.

Introduction

We're witnessing a period of globalization unlike any other that preceded it. The lines delineating commercial markets have been redrawn; the walls separating countries have come down and they're not likely to go back up. The socioeconomic implications are complex and daunting—that is probably one thing that globalization foes and advocates alike would agree on.

If they've responded to globalization at all, most organizations have favored business solutions based on the premise that national markets can and should be addressed independently. They've taken what we call a "multi-domestic approach," with separate features, functionality, and support structures to meet the unique needs of each national market. For many years, this meant duplicating an existing national solution and adapting it to be culturally relevant for the new market. More recently, businesses have favored a more expansive (not to mention expensive) multi-domestic approach in which key business processes and systems are internationalized (i.e., designed to be used for multiple countries, languages, and cultural conventions without the need for redesign), followed by linguistic and cultural customization for each target locale.

The multi-domestic approach is often a logical one, in part because businesses do not have to significantly alter their existing organizational structures to support it. However, thanks to the innovations of the Internet, we've seen the emergence of more cross-border markets in the last decade. In today's networked digital world, a company's target audience may share needs, desires, and experiences but not necessarily a common nationality. That means businesses pursuing multi-domestic solutions run the risk of misaligning those solutions with markets that cut across national borders.

In response, a small number of organizations have begun to pursue a cross-border approach to globalization. In this scenario, a business identifies markets defined by common behaviors and expectations and creates a system that supports the necessary subset of languages, currencies, and so forth to meet the needs of that target audience. Cross-border solutions present considerable opportunity for increasing revenues by reaching audiences of larger total size than can be supported by a multi-domestic approach. They can also deliver significant economies of scale, often exceeding those of an internationalized multi-domestic solution. The risk of this approach, however, is that businesses will lose customers by failing to establish cultural relevancy with them.

In effect, there is now a spectrum of globalization solutions, ranging from the pure multi-domestic approach to the pure cross-border one. We think many organizations will do well to chart a course somewhere in the middle of the spectrum, devising solutions that combine the best of both ends: a hybrid approach.

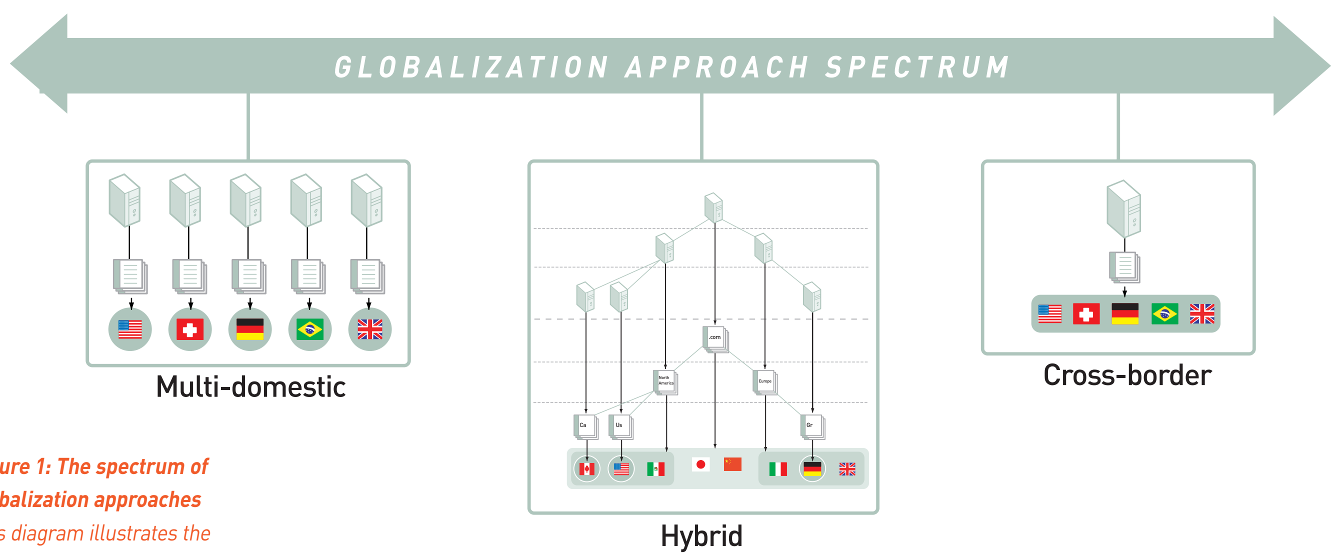

Figure 1: The spectrum of globalization approaches
This diagram illustrates the spectrum of possible approaches to globalization. The spectrum ranges from multi-domestic to cross-border. Most businesses will find that a hybrid solution is the best approach, since it allows them to allocate resources in proportion to the size of the markets they serve while gaining maximum ROI across national borders.

How do you decide where your business fits on the spectrum? First, let's look at the context of globalization.

What's happening?

Globalization is essentially 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.

It's not a new phenomenon. Countries around the world have engaged in financial and cultural exchanges for hundreds of years.

The current period of globalization, however, is historically unique for several reasons: 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.

Significant advances in communications and transportation technologies are 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.

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.

How did we get here?

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 open, standards-based architecture of the Internet 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.

The Internet's capacity for global diffusion has produced consequences that its creators never imagined. These unintended consequences directly contribute to the Internet's ability to both support globalization and drive it deeper.

Geographic distance is less constraining

Today, organizations 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 for less than the cost of a phone 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 is far more possible.

New business communities are emerging

The ability to exchange information across national borders with speed and ease has laid the foundation for new types of cross-border business communities. Consumers, employees, and business partners can network with each other and exchange information with peers and providers. 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 has intensified global competition and will demand that businesses be more relationship-focused than ever before to succeed against market competitors.

What constitutes a market is changing

In today's world, the market is no longer synonymous with the country. We're seeing the creation of cross-border markets that comprise various groups of individuals who share key characteristics in relationship to a product or service, including similar needs, interests, or experiences. If approached strategically, the emergence of these cross-border markets represents a huge opportunity for businesses.

Approaches to globalization

Most businesses have historically expanded internationally on a country-by-country basis, setting up parallel organizations within each new targeted country. While these organizations may sell the same or similar products under the same or similar brands, each national organization is essentially a separate silo. This is often an inefficient way of doing business and limits a company's ability to take a global view of its customers and suppliers.

Today, the most common multi-domestic approach taken by global businesses is internationalization of the back end followed by customization of the front end for each national market. By allowing companies to share as many resources and processes as possible across countries, the Internet makes it possible for them to link their supply chains, aggregate their customers, and enjoy improved economies of scale—without losing cultural relevance to the local customer.

There are also specific market circumstances that can permit organizations to create a truly global presence with customization that essentially targets just one audience. This is possible when the brand itself is so powerful that it has its own cultural associations (Coca-Cola or Harley-Davidson, for examples) or when the market served is so specialized that participants have voluntarily agreed on a subset of rules and standards to use for business purposes—from language to currency and so on.

Broadly speaking, there are three different approaches to globalization that a company might chose to adopt, each with attendant strengths and weaknesses.

Solution 1: Multi-domestic

A multi-domestic approach to globalization assumes that markets are segmented by nationality. There are two basic strategies for developing multi-domestic solutions: separate national silos and customized front-end, shared infrastructure. Each solution has its advantages and disadvantages, as described below.

Separate national silos

This strategy is appropriate for organizations that wish to enter a limited number of markets, or a single new market quickly. It is, however, very expensive to add new countries and, in a fast-changing market environment, the task of achieving any degree of global coordination can become both difficult and expensive. The other major disadvantage of this approach is that national systems are independent and not generally designed to talk to each other on a global basis. It is thus virtually impossible to integrate a global supply chain, to leverage the strength of the global customer base, or to recognize customers who move across markets.

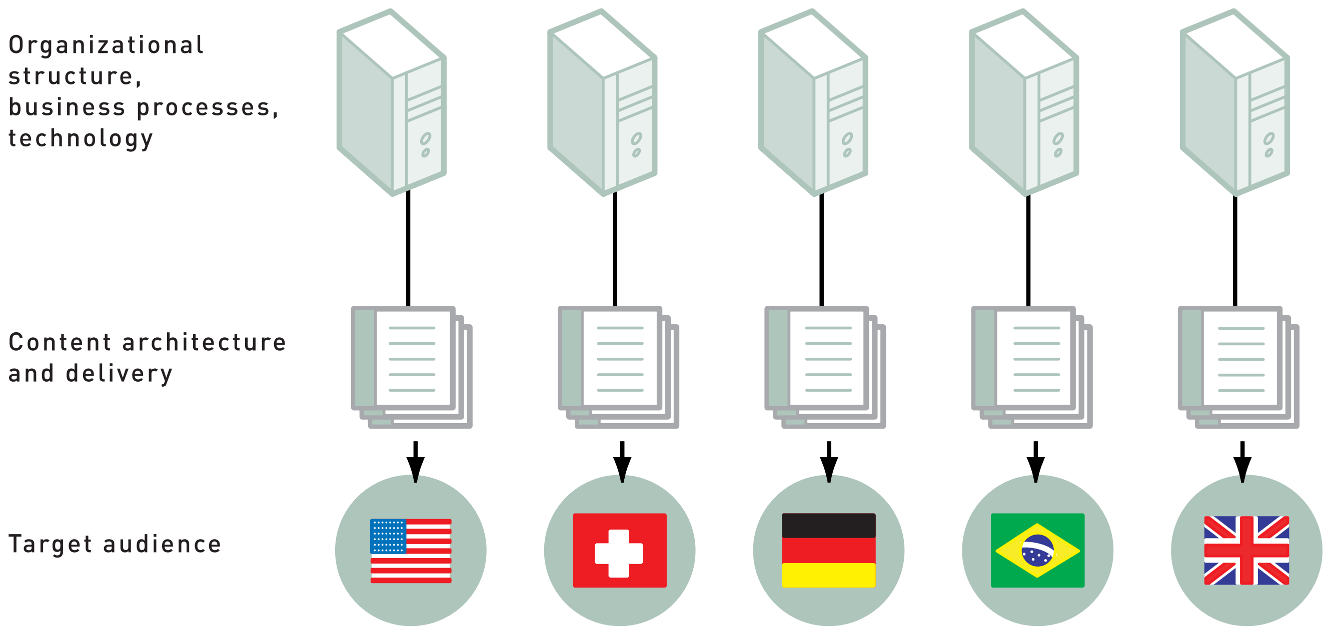

Figure 2: Separate national silos solution

This diagram illustrates how operational capabilities necessary to support Internet-based solutions evolve independently for each national market through duplication and adaptation. 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.

Customized front-end, shared infrastructure

Once an initial infrastructure has been created, additional countries can be added quickly at relatively low cost—making new markets profitable sooner. A significant disadvantage of this approach is that it is expensive to build the back end in the first place and the requirement to customize the front end may make it unprofitable to enter smaller markets. The aggregate of these smaller markets often represents a major business opportunity that remains untapped. For companies with a truly global reach, this approach can become burdensome when many national markets need to be supported. The complexity of maintaining a consistent message with up-to-date content localized for dozens of markets becomes increasingly expensive. Few companies pursuing this approach have managed to support more than 50 countries.

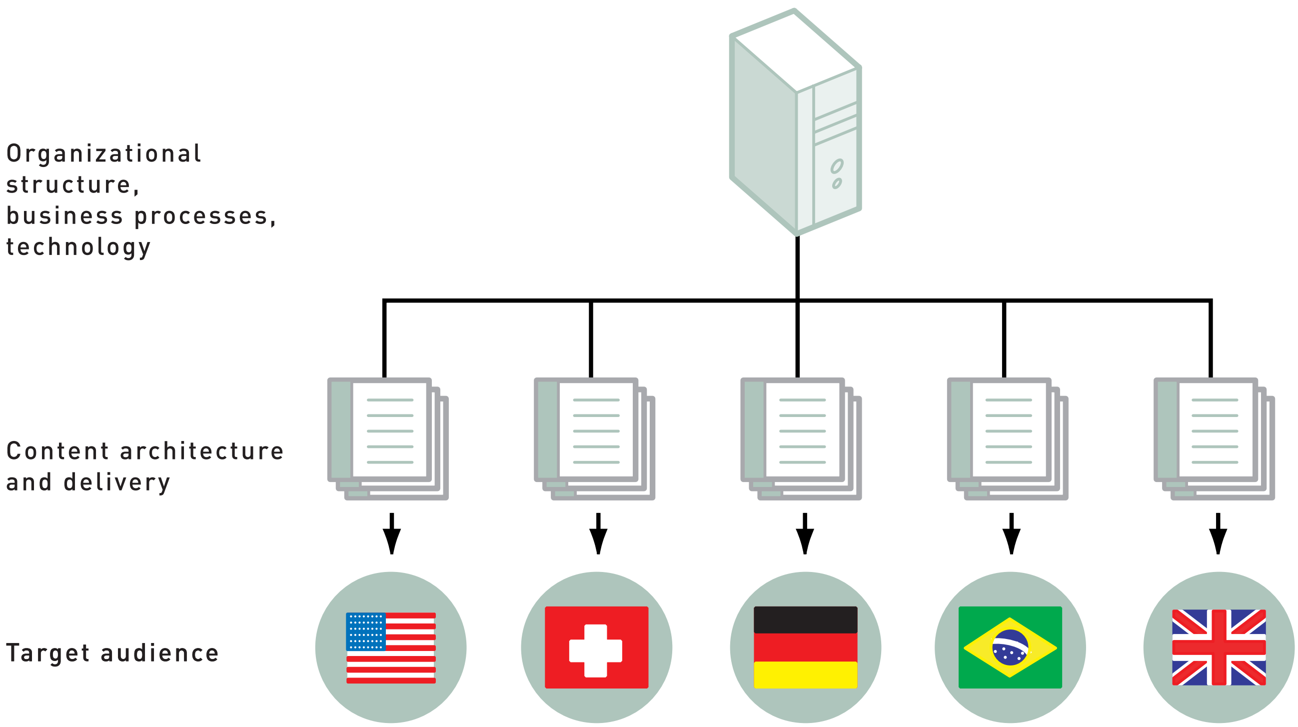

Figure 3: Customized front-end, shared infrastructure solution

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

Solution 3: Pure cross-border

Unlike solutions based on differences between national markets, the cross-border approach recognizes and exploits affinities. This is the best way to leverage the strengths of a global customer base, but it will only be applicable where the organization can insist that customers adhere to rigid global standards or the market served is highly specialized and already international in nature (international shipping insurance or specialized commodity trading are typical examples). However, by introducing a small amount of customization (for example, by offering a few additional language options) it might be possible to unlock incremental revenue opportunities at relatively low cost.

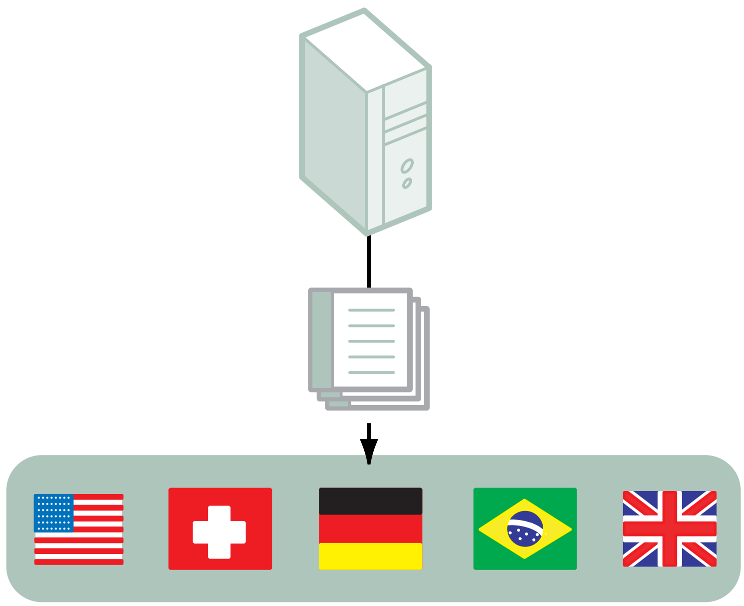

Figure 4: Pure cross-border solution

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 experiences and can therefore be treated in a standard way.

Solution 4: Hybrid

We believe there are many instances where companies—whether they are using a multi-domestic solution or a cross-border one—can improve profitability by adopting a more flexible, hybrid approach. Within the multi-domestic approach, this may involve taking an aggregate view of smaller national markets and developing a solution in which the product is only partially localized for smaller markets. Within the cross-border approach, it may involve adding a restricted number of local customization options to satisfy legal or economic requirements. In both cases, the result is to extend the applicability of the solution at a relatively low cost.

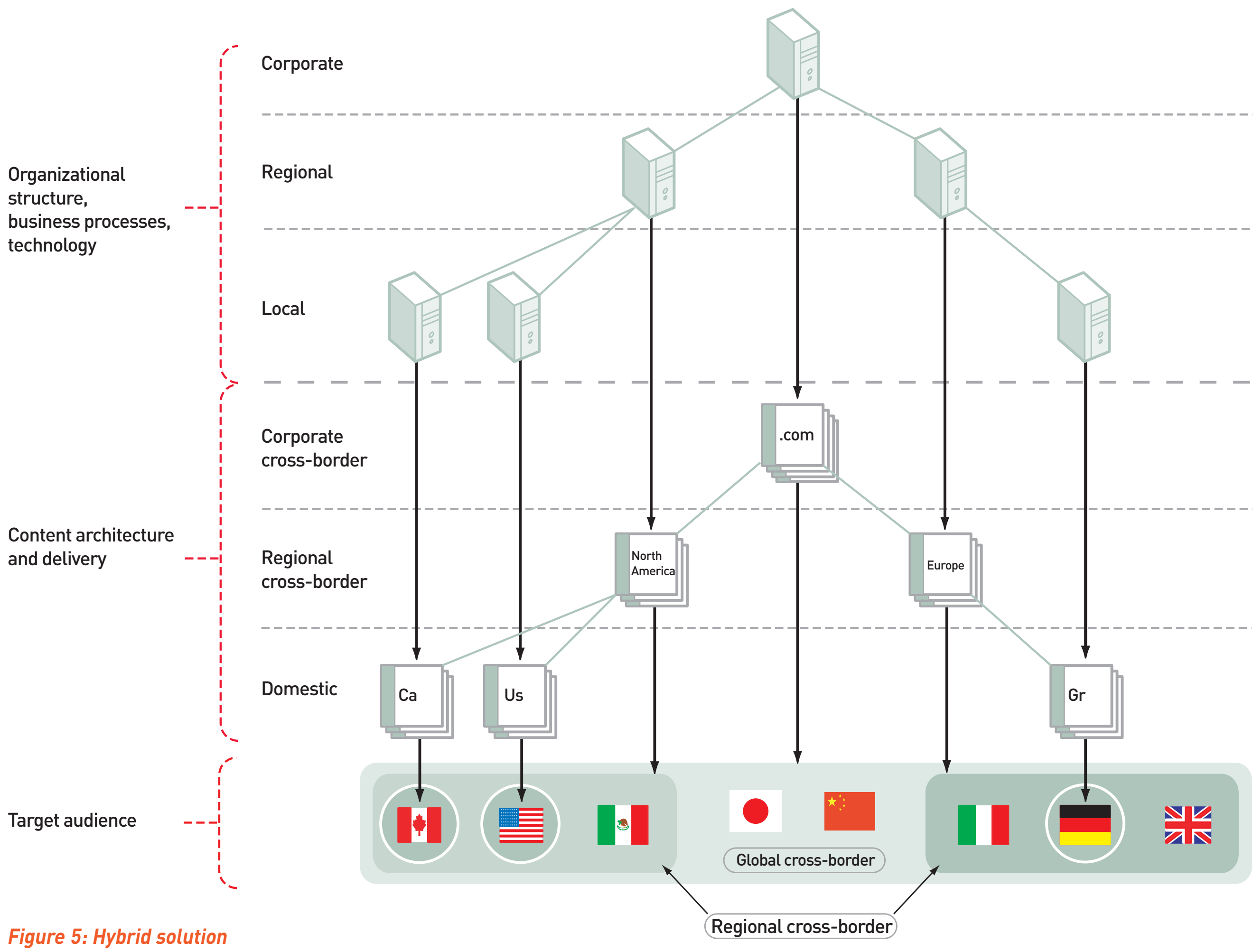

Figure 5: Hybrid solution

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.

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 are 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.

Where do you start?

How should you determine what kind of approach—multi-domestic, cross-border, or a hybrid of the two—would be most effective for your business? You'll need to address three key factors: how to maximize economies of scale, how to effectively harness your offering's potential transportability across borders, and how to ensure cultural relevance to your target markets. You must also take care to evolve the organizational capabilities needed to effectively support a global solution.

Maximize economies of scale

The Internet has opened up unprecedented opportunities for organizations to realize large economies of scale. Businesses can reduce logistical expenses through supply and demand chains and decrease marketing costs through focused market segmentation strategies. They can also streamline duplicated business processes, consolidate IT infrastructure, and optimize sales channels. However, all these potential savings need to be weighed against several factors:

→ *Centralization and decentralization of business functions*

Centralization may make sense in areas like pricing strategy, macro-level marketing strategies, and IT infrastructure. However, national subdivisions of global corporations are often reluctant to do this and may fight to retain control.

→ *Development costs versus operational costs*

The cheapest, quickest solution to develop is not necessarily the cheapest to operate. As always, development costs should be weighed against longer-term operational costs.

→ *National legal and economic systems*

The differences between national legal, regulatory, and economic systems can present challenges to realizing economies of scale by obligating businesses to satisfy different requirements in different countries. Many businesses will have to implement a multi-domestic approach to these constraints.

→ *Limitations of existing technology*

Global Internet solutions need to handle many countries at the same time and switch between them frequently. Most Internet-specific software packages, however, have only recently been internationalized and, of these, very few can support multiple countries and languages at the same time.

Understand the cross-border potential of your offering

Global access to information about products that are transportable is increasing demand by customers, regardless of their location. This is stimulating global exchanges and forcing suppliers to become efficient at (and strategic about) moving their goods across borders. Businesses are no longer "protected" by nationality. In the past, companies may have recovered costs by charging different prices in different regions of the world. However, thanks to the Internet, consumers can now learn that the combined cost of buying a product abroad and having it shipped to them is cheaper than buying it locally. This can create channel conflict on a national scale and in some cases drive the creation of gray markets that exploit these price differences.

A key criterion to assess when developing your global business strategy is the mobility of your product or service. Some companies will see advantages in exploiting the cross-border potential of their products or services. For example, they may determine that lowering prices worldwide is a reasonable tradeoff for maximizing the size of their audience. Other companies will conversely fight hard to contain the cross-border potential of their offering. This is often an uphill battle but may be one worth fighting if the profit margins you get from nationally segmented pricing strategies are high enough.

Determining whether to constrain or maximize the cross-border flow of your product will require an analysis of several factors: the cost of transport versus the value of the offering; adaptability; tariffs; legal regulations; and, the offering's appeal to a global market.

Be strategic about culture

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.

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. To build effective market strategies, businesses also need to understand the contexts of use of their offerings—how they are taken up and used by people in their cultural context—and how these might be different or similar across communities around the world.

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. Organizations 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 different one.

Evolve the solution

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, such as 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.

Conclusion

The Internet is both an agent of global change and a tool to help businesses realize the opportunities of globalization. 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.

In addition, businesses with international or global ambitions must grapple with how best to maximize economies of scale, harness the cross-border potential of their products or services, and ensure that products and services are culturally relevant for the target audience. Care must be taken to consider all three factors simultaneously. Strategies that target only economies of scale may be culturally inappropriate and, thus, reduce returns on investment. Failure to understand cross-border opportunities may leave potential markets untapped or expose a business to exploitation by gray markets. And, pursuing only cultural relevance can lead to a solution that may be more expensive to develop and operate than necessary.

By devising a strategic approach that harnesses differences and similarities across borders, businesses can successfully realize opportunities for streamlining and transforming business processes, enhance communication with their diverse target audiences, and facilitate entry into new markets.

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