1 GLOBAL STRATEGY: A MARKET CREATION APPROACH

LEARNING OBJECTIVES

1.1 Understand the concept and relevance of global strategy in the contemporary global landscape

1.2 Elaborate on the application and limitation of major schools of strategic thinking concerning global strategy

1.3 Explain the core concept, scope, and implications of a market creation approach to global strategy

1.4 Assess the role of a market creation approach to global strategy in navigating a volatile, uncertain, complex, and ambiguous (VUCA) world

1.5 Examine the implications of a market creation approach to global strategy in addressing grand challenges facing today's world

Opening Case

Axie Infinity Reshaping Global Strategy

John Aaron Ramos was just an ordinary 20-year-old college student in the Philippines. Like millions of other students, his days were passed in travelling between his home and college. But his life changed when the COVID-19 lockdown was enforced across the country. Without a daily commute to campus, John suddenly had free time to himself but was forced to stay at home.

Looking for new leisure activities, John came across Axie Infinity, *a video game in which players breed and grow a variety of monsters, called axies, to use in battles against other players. What was unique about* Axie Infinity, *however, was its play-to-earn model.* Axie Infinity *allowed players to earn cryptocurrency by selling in-game digital assets, particularly their axies, to other players. Axies with unique appearances or abilities attracted particularly high prices.*

Just for fun, John created a digital ID with the name of Magnus TV to play the game. Very soon, he was pleasantly surprised when he started receiving opportunities to sell his axies in exchange for cryptocurrency. Within a year, John was selling his axies and other in-game digital assets to players all around the world. The hobby that started as a leisure activity earned him enough cryptocurrency that he bought two houses in 2021.

John Ramos, or Magnus TV, is not the only one to benefit from the play-to-earn model of Axie Infinity. *Thousands of people, including students, housewives, and even older people across Southeast Asia, like the Philippines, Vietnam, and Indonesia, are now playing* Axie Infinity *to earn or supplement their income. Many make more than double what they could earn in a regular job. Many of them made a fortune by selling some rare axis for as much as $130,000 per axie. Major buyers are players in Western countries willing to pay for rare axies or tools that allow them to progress through the game. In total,* Axie Infinity *has more than 1.8 million daily active players worldwide, creating a burgeoning market of digital assets.*

The story of Axie Infinity *starts in 2018, when a Vietnam-based gaming studio, Sky Mavis, envisions a cryptocurrency-based game. Its gameplay is similar to that of many other games. New players join* *by purchasing three axies using cryptocurrency. These axies engage in battles with axies of other players to win cryptocurrency tokens, called smooth love potion or SLP, which are used to level up current axies or breed new critters. Players can develop large sets of axies with varying appearances and abilities, which may improve their chances to win battles and earn more SLP.*

What distinguishes Axie Infinity *from other games is its play-to-earn model powered by blockchain technology. While other gaming studios seek to maximize in-game purchases,* Axie Infinity *allows players to buy in-game digital assets directly from other players in exchange for cryptocurrency, though the parent company, Sky Mavis, charges a 4.25 percent commission on every transaction. In this sense,* Axie Infinity *fosters a business ecosystem that rewards competent players for their time and contribution to the game. At the same time, these players generate handsome revenues for Sky Mavis.*

The ecosystem of Axie Infinity *relies on the two-sided market platform. On one side of the platform,* Axie Infinity *attracts a large number of players, mostly from Southeast Asia, who are willing to spend several hours a day developing in-game assets for sale.*

On the other side of the platform are players, mostly from Western countries, who are interested in purchasing in-game assets to improve their gameplay experience. A large number of gamers interested in purchasing in-game assets attracts more and more players willing to develop in-game assets for sale. The resulting availability of a large variety of in-game assets attracts even more players willing to buy them, and the virtuous cycle continues.

This play-to-earn model rose to prominence during the COVID-19 pandemic, when Axie Infinity *turned out to be a lifeline for many Southeast Asians who lost their regular incomes. Very few were as skilled and lucky in the game as John Ramos, but many were successful in earning a living. As thousands of Southeast Asian players joined* Axie Infinity *to earn a living, the variety of axies on the platforms enhanced the attractiveness of the game for many Western players. Both sides of the platform grew exponentially, raising the valuation of Sky Mavis to a whopping $3 billion by the end of 2021. Sky Mavis became Vietnam's most valuable unicorn, i.e., a privately owned start-up with a valuation above $1 billion.*

The journey of Axie Infinity *is not without challenges. The changing regulations around and public perception about cryptocurrency lead to massive fluctuations in its value, which can undermine financial returns as well as the motivation of players. Cryptocurrencies are not immune to cyberattacks either. On March 23, 2022,* Axie Infinity *lost $620 million to a hacking attack that the FBI traced to the North Korean government.*

The long-term social and economic implications of the play-to-earn model are also unclear. Instead of pursuing an education or a career in formal industries, thousands of people in Southeast Asia are playing Axie Infinity *as a full-time job. The obsession of youth with* Axie Infinity *can substantially reduce the availability of human capital and skilled labor in these countries. Finally,* Axie Infinity *is facing fierce competition as many large gaming studios, such as Ubisoft, are exploring the play-to-earn model.*

But no matter what, Axie Infinity *foreshadows a new era of globalization, one that will feature novel ways of international operations, new forms of global competition, and an array of regulatory and technological challenges, the magnificent transitions that compel us to take a fresh look at global strategy.*

Sources: "Axie Infinity Player Buys Two Houses in the Philippines from In-Game Profits," *Zephyrnet*, May 11, 2021, www.zephyrnet.com; "The Escapist Fantasy of NFT Games Is Capitalism," *Wired*, November 30, 2021, www.wired.com; "People in the Philippines Are Earning Cryptocurrency during the Pandemic by Playing a Video Game," *CNBC*, May 14, 2021, www.cnbc.com; "The Escapist Fantasy of NFT Games Is Capitalism," *Wired*, November 30, 2021, www.wired.com; "Sky Mavis' Multi-Billion Dollar Vision," *Naavik*, October 10, 2021, www.naavik.co; "Millions of Players in Poor Countries Earned Real Money on Axie Infinity. Then Came an Economic Crisis and a $620 Million Hack," *Fortune*, April 1, 2022, www.fortune.com; "Ubisoft Ends Ghost Recon Breakpoint Updates, Working on NFTs for Other Titles," *gamesindustry.biz*, April 6, 2022, www.gamesindustry.biz

The opening case of *Axie Infinity* reflects some of the recent changes that are leading to a fundamental rethinking of **global strategy**. When speaking of global strategy, most people will think about large established **multinational corporations (MNCs)** from developed economies, such as Coca-Cola and McDonald's, that establish large businesses in their home countries and replicate the success in foreign markets with largely similar products, operating procedures, and management styles. But the global arena is no longer a playground of large MNCs only. **Born globals** like *Axie Infinity*, which started generating revenue from multiple countries from their founding, are becoming increasingly common.[1]

The biggest difference between these two forms of internationalization can be summarized as investment versus **embedment**. Traditional MNCs internationalize through physical investments, termed **foreign direct investment (FDI)**, in factories, offices, and staff to expand their business across borders. Born globals, on the other hand, internationalize by embedding themselves in communities around the world via digital presence. Even without a physical presence in a country, born globals find a place in the smartphones and laptops of people.

The phenomenon is not limited to entrepreneurial ventures like born globals. As we will discuss later, even large, established MNCs are now seeking new ways to embed in foreign countries, mostly by creatively leveraging modern technologies. These new ways of internationalization mean a new look into global strategy. Sure, the field of global strategy must continue to refine our knowledge of how to manage FDI. But the questions associated with born globals, such as how to effectively reach out to users around the world and how to satisfactorily address their needs in the digital world, present a fresh agenda.

Axie Infinity exemplifies another major transition: the changing face of global competition with increasing participation by MNCs from emerging economies. Although there has been growing recognition of these so-called **emerging MNCs (EMNCs)** and their strategies, current global strategy thinking often assumes EMNCs are followers in the global competition that imitate successful business models from developed countries. For instance, Grab is called "the Uber of Southeast Asia"; Naver is the Korean version of Google; Gaana is the Indian version of Spotify; and the list can go on and on.

But born globals from emerging markets, like Sky Mavis, defy the traditional wisdom. Instead of following established models from leading gaming studios, *Axie Infinity* is pioneering the play-to-earn model, and large gaming studios from developed countries are following the lead from an emerging market start-up. This is the transformative power of **Web 3.0** (see Table 1.1) that born globals from emerging markets are harnessing.

If **Web 2.0** had already provided an even playing field, allowing companies and individuals from developing countries to "plug and play," then Web 3.0 created the same starting line for all businesses worldwide to compete simultaneously. Though Web 2.0 had allowed all players to join, the rules and the infrastructure were mainly centralized and controlled by large players from developed countries like IBM, Microsoft, Facebook, and Uber. Web 3.0 is more decentralized and transparent, thanks to technologies like blockchain, which is flattening the world by empowering players from developing countries like Vietnam to have an equal footing in the new game of globalization. Embracing this newly emerging competition from EMNCs and born globals is becoming the key theme in global strategy.

TABLE 1.1 ■ Evolution of Web Technologies

Web 1.0	Allow users to consume online information; for example, Yahoo! Finance, university websites, etc.
Web 2.0	Allow users to generate online content; for example, Facebook, X (formerly Twitter), Uber, etc.
Web 3.0	Allow users to own and exchange digital assets; for example, *Axie Infinity*, NFT, metaverse, blockchain, etc.

Last but not least, *Axie Infinity* is not just an international gaming startup. It is an **ecosystem** enabling thousands of individuals, many of whom are teenagers without even a driver's license, to become "international entrepreneurs." The success of *Axie Infinity* does not stem from increasing its own sales but from helping these international entrepreneurs cultivate a global customer base. The rise of such ecosystems alters the fundamental thinking of global strategy.

For Sky Mavis, handling independent sellers and buyers of in-game assets in an ecosystem differs from how traditional MNCs manage their subsidiaries, suppliers, or partners. Managing a global ecosystem requires a different set of strategies than the key performance indicators (KPIs) used in the traditional MNC context.

More importantly, the canvas of global strategy broadens to include thousands of players in the *Axie Infinity* ecosystem who are utilizing the play-to-earn model to convert their hobbies into income by earning cryptocurrencies. Compared to global Fortune 500 firms, these gamers appear trivial. But what if we define international entrepreneurship as the discovery, enactment, evaluation, and exploitation of opportunities across national borders to create future goods and services?[2]

In that case, these gamers are indeed a new generation of international entrepreneurs, seeking opportunities across national borders to increase in-game purchases. Hence, they should be neither ignored nor underestimated. Don't forget: Jeff Bezos was just selling books on the internet 30 years ago, and Mark Zuckerberg was trying to create online school yearbooks 20 years ago. A fun difference is that Jeff Bezos and Mark Zuckerberg initiated their activities within national borders, whereas this new breed of international entrepreneurs has been targeting global customers from the start.

In sum, *Axie Infinity* is a harbinger of a new era of globalization, in which global strategy is not just for established MNCs but also for a broader set of **multinational organizations (MNOs)** that include traditional MNCs, emerging born globals such as *Axie Infinity*, multinational platforms, nongovernmental organizations (NGOs), and even individual entrepreneurs like John Ramos and you.

This is what this book is all about: opening the jar of global strategy to uncover why some MNOs can consistently achieve superior performance in an ever-changing global business environment while others fail. So we hope that you won't be bored by the title of our book, *Global Strategy*, which may sound abstract and irrelevant to you at first glance. But we believe that everyone, from business executives at large MNCs to play-to-earn gamers, will benefit from knowing something about global strategy in this new era of globalization and technological breakthroughs, such as Web 3.0. Before diving deeper into this exciting topic, let us begin with the fundamental question, what is global strategy?

WHAT IS GLOBAL STRATEGY?

LO 1.1	Understand the concept and relevance of global strategy in the contemporary global landscape

Simply speaking, global strategy is the art of navigating the diverse and turbulent global business environment to sustain superior performance.[3] As the opening case illustrates, a young gamer today can easily engage in international business by playing *Axie Infinity*. Surely, it isn't too hard to sell axies once or twice. But to constantly earn money from the play-to-earn model, gamers like John Ramos need to be strategic about how to target customers around the world. They need to know the different customer preferences around in-game digital assets and variations in customer demands across countries. More than anything, they need to anticipate changes in customer needs, competition with other sellers, and even regulatory changes in some countries, such as restrictions on crypto trading, that may influence opportunities to make money.

This logic definitely applies to traditional MNCs. After all, most existing global strategy books have been mainly about large MNCs from developed economies that seek to create and sustain competitive advantages across multiple countries. Even before venturing overseas, these MNCs are highly successful, with established products and services in their home markets. For most of them, the purpose of global strategy is to identify foreign countries with attractive demand for their current products and services so that they can replicate their domestic success in these foreign markets after necessary local adaptation.

If we borrow the analogy of Peter Thiel in his bestselling book, *Zero to One*, we can consider such an approach to global strategy as part of **1 to n**, which refers to the practice of replicating 1 successful business to *n* different markets or customer segments.[4] In global strategy, the idea of 0 to 1 applies to most MNCs that scale the 1 already established business from their home country to numerous other countries. But this approach misses the entrepreneurial emphasis on **0 to 1**, i.e., creating and innovating businesses from scratch that meet unique customer needs in each overseas market. These innovative businesses create new markets by developing new products, services, and business models to meet customer needs ignored by current players.

The distinction between 1 to *n* and 0 to 1 represents the most important bifurcation between entrepreneurship and traditional global strategy. Entrepreneurship is about creating new businesses, or 0 to 1, whereas the traditional global strategy helps successful companies replicate their success from home to multiple countries with the goal of increasing revenues. 0 to 1 is about creating completely new markets, whereas 1 to *n* is to serve already existing markets better than their competitors.[5]

No doubt, the global strategy of scaling and replicating businesses across borders has created some of the most formidable MNCs of today, but the flurry of new technologies, accelerated by digitalization and artificial intelligence (AI), is turning global strategy inside out. The competitive landscape is no longer limited to a few large MNCs but includes a variety of start-ups with extensive international operations. There are individuals like Ramos who are conducting international businesses but remain under the radar of mainstream global strategy.

More importantly, many of these start-ups now leverage modern technologies to challenge established MNCs. They utilize big data and AI to identify unmet market needs and to develop novel business models with customized products and services that sway customers away from large MNCs. Nowadays, the global market share of Procter & Gamble is not challenged by traditional rivals such as Unilever but by novel business models implemented by small, technology-enabled start-ups like Dollar Shave Club with its subscription model or eSalon with customized hair colors.[6] Beating locally owned hotels in customer service is not sufficient for the global success of Marriott or Hyatt when Airbnb offers a wider variety of living options with lower costs and higher quality. Citibank and HSBC cannot easily win a foreign market by simply offering services that are superior to those of local banks; they are challenged by much smaller financial technology firms that offer more customized services cheaper and faster.

In an era in which competition emerges at an unprecedented pace from most unexpected competitors, the global strategy of scaling up an established business overseas may put large MNCs at a competitive disadvantage against start-ups creating new businesses to meet the unique needs of each country.

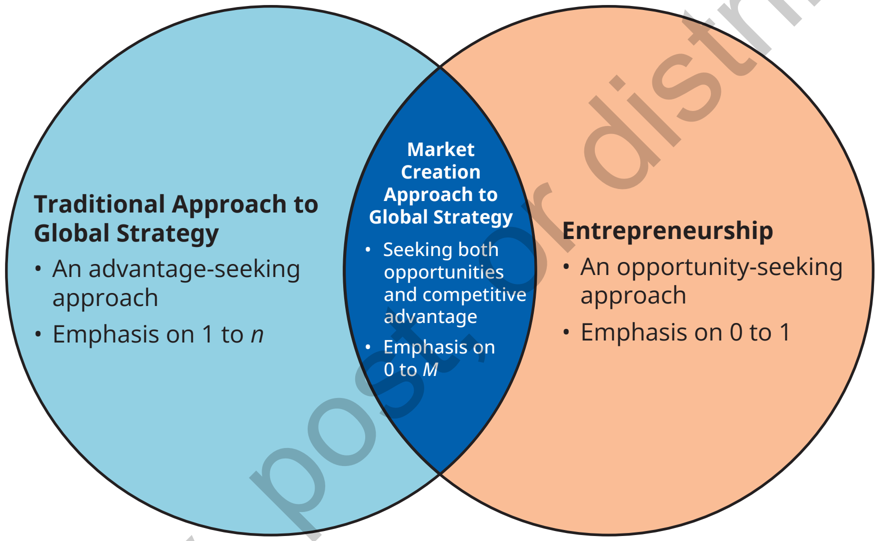
Under these transitions, the scope and the core philosophy of the field of global strategy must be reshaped to align it with the new realities of the modern economy. The distinction between entrepreneurship and traditional MNCs, or the choice between 0 to 1 and 1 to *n*, is blurring. This is where large MNCs need to take a page from entrepreneurs, for whom all markets are new; at the same time, the traditional approach to global strategy can help born globals determine how to consistently deliver superior performance in multiple countries. A sound global strategy is no longer the choice between 0 to 1 and 1 to *n*.

Instead, we propose a holistic view of global strategy that connects both entrepreneurial passion for creating new markets and strategic intent for superior performance. We call this holistic view **0 to M**. In algebra, both *n* and *m* usually denote numbers larger than 1, such as multiple markets. In global strategy, we attribute several additional meanings to M. M stands for multinational, multicultural, and multilateral. It is about embracing the multilateral views around the world to create new markets for multicultural customer segments across multiple nations.

Going from 0 to M represents a new view of global strategy in which MNOs take a new look at global competition, obtain a competitive advantage by leveraging local assets in their multinational networks, embrace differences across multicultural stakeholders, and address multilateral needs with innovative solutions. It is the integration of old and new, strategy and entrepreneurship, that we term a **market creation approach to global strategy**. A market creation approach refers to the unending process of scanning the diverse and ever-changing global business environment, continuously predicting and testing market needs, and consistently structuring and restructuring MNO activities and partner networks to capture fleeting opportunities.

We depict this framework in Figure 1.1, showing how the market creation approach integrates traditional global strategy and entrepreneurship schools to redefine global strategy for a modern era.

FIGURE 1.1 ■ Market Creation as a Holistic Approach to Global Strategy



This all looks exciting, challenging, and yes, very, very complicated. Nevertheless, this is the reality of competing in today's era of hypercompetition. You do not need to worry, however. Throughout this book, we will gradually unpack the art of moving from 0 to M, piece by piece and block by block. In the end, you will surely find yourself transformed into an expert global strategist with an entrepreneurial flare. But first, let us begin by tracing the strategic roots of the field of global strategy so that we can connect the traditional emphasis on 1 to *n* with the entrepreneurial thinking of 0 to 1 to explore the global strategy of taking a business from 0 to M.

THE STRATEGIC ROOTS OF GLOBAL STRATEGY

LO 1.2	Elaborate on the application and limitation of major schools of strategic thinking concerning global strategy

In essence, global strategy extends strategic management thinking to the global context. Strategy is the set of long-term choices that an organization makes to distinguish itself from competitors. It enables an organization to create value that its competitors are unable to deliver. Achieving distinctiveness from competitors is what grants a company competitive advantage, i.e., the ability to attain superior performance vis-à-vis its competitors.[7]

But how can any organization attain and maintain its distinctiveness against competitors? After all, the moment an organization pioneers something innovative and profitable, competitors swiftly emerge, copying products, processes, and systems to replicate the success of the incumbent. There are three major schools of strategic thinking that explore the ways through which organizations can sustain their competitive advantages: **position**, **leverage**, and **opportunity logic**.[8]

Position logic emphasizes the importance of securing an advantageous strategic position in a given industry. Companies can either differentiate from their competitors or decrease costs to take cost leadership. Just like constructing a fortress in a business landscape, this strategy is most effective and relevant when the industry conditions are relatively stable. Because if the surrounding landscape is unstable and crumbling, then no matter how solid the fortress walls are or how massive the fortress is, it won't last long. In the business world, the same is true. Industry stability will ensure that the advantageous position won't easily erode, and companies pursuing this strategy can repeatedly recoup their prior investments to reinforce and preserve the position.[9]

Leverage logic focuses on the development, possession, and exploitation of valuable and unique resources and capabilities in current markets. An organization may not be protected by its position but may have unique resources it can leverage against emerging competition.[10] In this case, the formula of success is not about how strong the fortress can be but whether there are "secret weapons" inside the fortress that an organization can leverage. Or we can think of this as a race car game. A car with a rocket engine is likely to be faster than a turbo engine, which is for sure faster than a horse-drawn carriage.

In the business world, a company's technology and capability will also determine its competitive advantage. For example, a company using AI to analyze consumer data will be more effective than its competitor using PCs to analyze such data, which will be more effective than just using pencils and notebooks. Leverage logic will be most effective and relevant when the industry condition is only moderately dynamic. Because Rome can't be built in one day, companies need time to develop these valuable and unique resources and capabilities.

Suppose the market condition or industry rules change too fast or even become unpredictable. In that case, the valuable resources and capabilities a company developed over time may no longer be relevant in the new context. Following the race car analogy, what if the nature of the game has suddenly changed to take tourists on a tour around a city? Then the horse-drawn carriage can become a potential winner.

Opportunity logic posits that firms need to take entrepreneurial actions to capture attractive, fleeting opportunities faster, sooner, and more effectively than rivals. Firms need to constantly innovate to better adapt to the fast-changing marketplace.[11] To compete in such a fast-changing condition is like surfing. Companies need to catch a great wave at the right time, although they may never know how long the wave is going to last. They must maintain vigilance, constantly scanning for the next wave to ride. Success lies not in clinging to a single wave but in consistently identifying and harnessing successive waves of opportunity. Professor Kathrine Eisenhardt describes this as competing on the "edge of chaos,"[12] a situation that former CEO of Intel Andy Grove notes "only the paranoid survive."

One of the key factors to success in this dynamic environment is to utilize semistructured, improvisational processes to guide innovation.[13] More importantly, companies need to pay greater attention to their customers' unmet needs and pain points, consistently identifying new needs as technology, customer preferences, and the overall business environment evolve. Companies can succeed using opportunity logic only if they can constantly identify the new "jobs to be done" and provide innovative solutions.

From Strategic Logic to Global Strategy

Although these logics of strategy are not mutually exclusive, existing studies of global strategy are largely focused on the first two, mainly because the global business environment in the decades since the Cold War has been largely stable. This stability has made the global strategies derived from position and leverage logics very effective, especially for MNCs from developed countries. As Figure 1.2 shows, based on position and leverage logics, the field of global strategy has focused on AAA strategies, i.e., **aggregation (or standardization)**, **adaptation (or localization)**, and **arbitrage**, for conducting international business activities.[14]

Aggregation strategy stems from the position logic. Established MNCs pursuing aggregation strategy choose to strengthen their current strategic positions by standardizing their activity systems, which helps them scale up and secure favorable strategic positions in the world market. With such a strategy, MNCs can combine—or aggregate—the supply and demand of the same product across multiple countries, which leads to high production volumes and lower costs.[15]

For instance, Walmart takes its domestically successful strategy of offering "everyday low prices" and attempts to replicate it overseas. The strategy has worked well in the U.K., Canada, and Mexico. Nevertheless, Walmart has faced substantial issues in other countries, such as Japan and South Korea, where people prefer fresh groceries every day over low prices every day. This suggests that standardization can be a powerful way to replicate success overseas, but companies may not find similar industry conditions across countries.[16]

Alternatively, MNCs can use adaptation, or localization, strategy to take advantage of—or leverage—the resources or capabilities developed in their home markets to adapt to and serve customers in a new country. They attain a competitive advantage by possessing and deploying resources superior to those of their local competitors. For instance, Coca-Cola started by serving the U.S. market and subsequently offered the same secret recipes around the world with a slight modification of flavors to appeal to local tastes.

A classic example of an adaptation strategy is Kentucky Fried Chicken (KFC), which changes its menu in different countries. However, KFC's parent company, Yum! Brands, couldn't effectively replicate this strategy with another of its chains, Taco Bell. Taco Bell, which promotes itself in the U.S. as something straight out of Mexico, tried to sell Mexican food in Mexico. Despite several attempts, even rebranding itself as American fast food by offering Tochka fries topped with cheese, cream, ground meat, and tomatoes as well as soft-serve ice cream, Taco Bell couldn't win Mexican customers, who found the attempt to localize the brand superfluous and continued treating Taco Bell as an inauthentic and inferior version of Mexican food.[17]

Another way to leverage resources across countries is called **arbitrage**, which describes the practice of MNCs exploiting resources in some countries to strengthen their strategic position in others. For instance, a company might take advantage of differences in raw material prices or the quality of human resources in some countries to develop products and services with high demand in other countries. Amsterdam's global flower market, for instance, sells millions of fresh flowers every day, airlifting them from growing regions to buyers in high-demand locations in Europe and North America.[18] MNCs are uniquely positioned to capitalize on this approach due to their presence across multiple nations. This extensive network enables them to seamlessly access resources in some locations and deploy them strategically in others.

As noted, these traditional global strategy frameworks are largely a reflection of Thiel's analogy of 1 to *n*, i.e., finding ways to effectively scale up established businesses across the global landscape. These strategies are particularly effective when the global business environment is largely stable or only moderately dynamic. The stability allows MNCs to pursue an advantage-seeking approach, i.e., MNCs can take advantage of their market positions or superior resources to replicate businesses across borders.

However, such advantage-seeking strategies are facing increasing limitations in a fast-changing modern economy. After all, replicating success requires a certain level of similarity not only between countries but also between the present and the future. Only when the pace of change in the global business environment is slow can companies maintain competitive advantages using the strategies of yesterday. Today, the global business environment is no longer stable. Customer preferences change quickly, competition emerges rapidly, new regulations strike MNOs unexpectedly, and opportunity windows close much sooner than before. In fact, out of hundreds of large companies listed on stock exchanges around the world, only 10 are expected to consistently grow by 5 percent every year for just 10 years.[19] The opportunity to replicate past success in the future is increasingly limited.

In the face of the ever-changing global business environment of today, we may seek help from the third school of strategy: opportunity logic. Taking this perspective, we suggest that a sound global strategy should create a competitive advantage by continuously innovating to address the unique and changing needs of foreign markets instead of simply snatching existing markets from local competitors through incremental improvements and local adaptations of existing products.

A MARKET CREATION APPROACH TO GLOBAL STRATEGY

LO 1.3	Explain the core concept, scope, and implications of a market creation approach to global strategy

Based on opportunity logic, a market creation approach to global strategy emphasizes the unending process of scanning the diverse and ever-changing global business environment, continuously predicting and testing market needs, and consistently structuring and restructuring MNO activities and partner networks to capture fleeting opportunities. It requires riding the tailwinds of global transitions to discover, test, and serve unique customer needs in each market instead of trying to replicate success in one's home country in other countries.

In other words, a market creation approach conceptualizes global strategy as a continuous journey from 0 to M instead of simply scaling from 1 to *n*. Discovering each unmet need presents the opportunity to create a new market by converting noncustomers into customers.

Take Africa, where many world-leading beer brands have found limited success, because most of them simply tried to extend established brands to the African market with little or no modification. When the British alcoholic beverage company Diageo entered Africa, it identified a pain point for African customers: the inability to refrigerate wine due to frequent electricity disruptions. Diageo seized that opportunity by developing a new beer for Africa, Senator Keg, which tastes good even without refrigeration. It created a new market as people without refrigeration facilities started buying beer for storing at their homes and serving at parties and other gatherings. Diageo now claims around 75 percent of the beer market in many African countries.[20]

Discovering and addressing the unmet needs of foreign customers can be a key to success, but opportunity logic has its downsides. Continuously scanning the global business environment to predict and test new opportunities entails higher costs for research, experimentation, and frequent failures.[21] Nevertheless, as we will discuss in what follows, opportunity logic is becoming the optimal lens through which to devise an effective global strategy in today's hyperdynamic global business environment.

Why Shift Toward a Market Creation Approach?

A market creation approach is becoming the new cornerstone of global strategy in view of today's hyperdynamic global business environment, where all industries are constantly facing changes and chaos. This was not always the case. Many industries remained stable for several decades, enabling MNCs with a strategic position to enjoy years of sustained profits. Most other industries have been moderately dynamic. New innovations emerged, grew, and reached a point of stability at which MNCs earned sustainable profits for several decades till they finally declined with the emergence of new innovations. As illustrated in Figure 1.3, profits derived from an initial strategic action, such as an innovation or a launch of a new product, can last as long as the barriers to entry or imitation exist to hold up the competition. When the window of opportunity to exploit innovations spans several years, strategies based on position logic and leverage logic prove effective.

The pattern in Figure 1.2 doesn't hold for high-velocity industries, in which the profits derived from a given innovation will not last long and may even fade away before reaching maturity. As shown in Figure 1.3, high-velocity industries will witness more disruptions and uncertainty, which will reduce the value of existing resources and capabilities. Hence, the profits derived from an innovation are soon eroded by the emergence of newer ones. Sustaining a competitive advantage from one innovation is almost impossible in such hypercompetitive industries. Companies have to continuously innovate to maintain their competitive positions.

We all have heard of Moore's Law, which states that the number of transistors on a microchip doubles about every two years while the cost of computers is halved. However, Moore's Law also underpins the technology growth trajectory throughout history, from the agriculture-based economy to the industrial revolution to today's information revolution, in which changes are accelerating exponentially across the board. In such a fast-changing business landscape, MNOs that have adopted opportunity logic constantly take entrepreneurial actions to capture fleeting opportunities faster than competitors.

Take the example of Myspace, the social media platform that achieved immense global popularity after its launch in 2003. By 2007, Myspace appeared to hold a monopoly after taking over other social media platforms, such as Yahoo! 360 and Friendster. But just the year after, Facebook surpassed Myspace in the number of global users by offering better user interfaces and more on-site innovations. Since then, Facebook has been dominating social media platforms, but to maintain its position, Facebook is continuously engaged in extensive research and development to renew itself with new strategic directions, such as the metaverse. Only the paranoid survive!

FIGURE 1.2 ■ Profits Around the Innovation Life Cycle

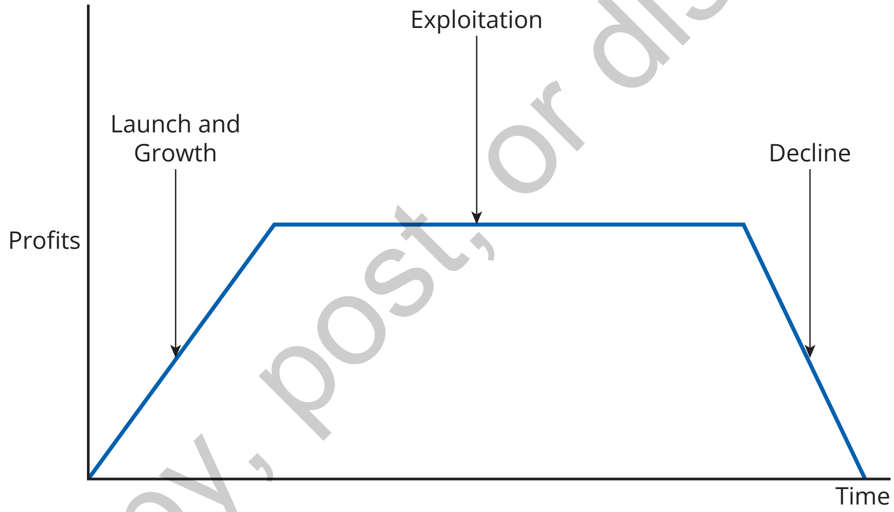
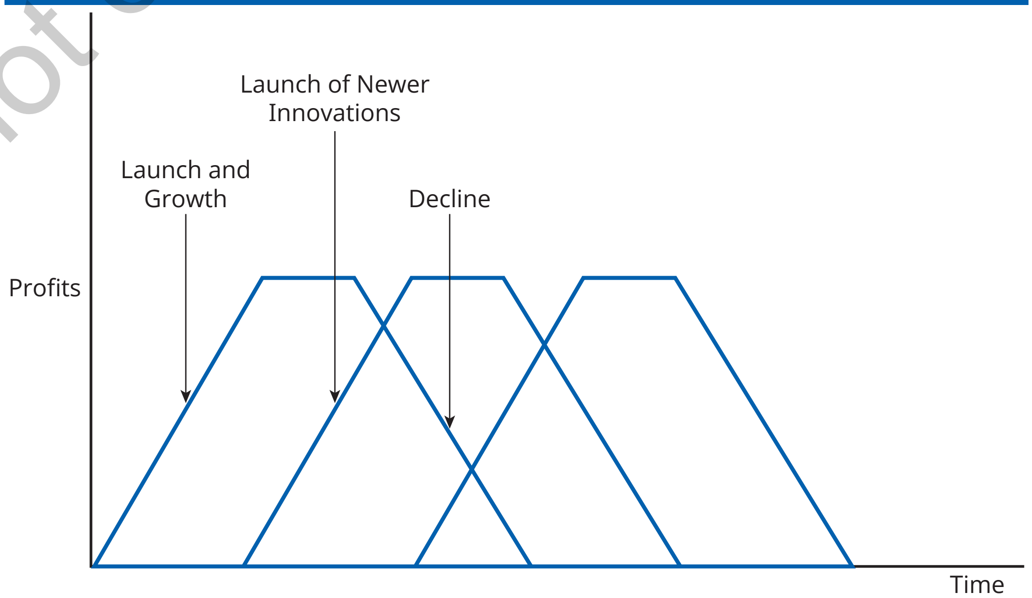


FIGURE 1.3 ■ Innovation Life Cycles in High-Velocity Industries



Another factor is the blurring of traditional boundaries around industries. As the viral internet quote goes, "Uber, the world's largest taxi company, owns no vehicles. Facebook, the world's most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world's largest accommodation provider, owns no real estate." Competition can emerge from anywhere. By using a combination of robotics and drones, Amazon is on the verge of outperforming the global shipping industry in the speed of delivery. This may one day turn an online retailer like Amazon into a direct competitor of logistics firms.[22]

Start-ups are directly challenging large MNCs by capturing new opportunities faster, even in traditional industries. Farmer Jo, a small family business in Australia, is threatening large MNCs like Kellogg and Nestlé by offering healthier, tastier, and allergy-free cereals that remove hundreds of tons of sugar from children's cereals while maintaining a great taste. Large MNCs, on the other hand, are hamstrung when making changes to established brands, as new recipes may disrupt their manufacturing process and turn their existing customers away.[23]

The Scope of the Market Creation Approach

In an era of hypercompetition, the opportunity-seeking emphasis of a market creation approach to global strategy is no longer limited to start-ups. Instead, the core philosophy of innovating and creating new markets is now relevant for every entity engaged in global business. As Michael Hitt and coauthors posit, businesses need the integration of entrepreneurial (i.e., opportunity-seeking actions) and strategic (i.e., advantage-seeking actions) perspectives to design and implement entrepreneurial strategies that create wealth.[24] A market creation approach combines both advantage-seeking and opportunity-seeking actions to develop global strategies for both MNCs and start-ups.

Apple and Facebook are some examples of large corporations with the DNA of start-ups. Even traditional MNCs need to embrace a market creation approach to stay relevant in a changing world. For instance, Best Buy faced a challenge in recent years from independent sellers at Amazon offering higher variety at lower prices. With retail opportunities captured by the online competitor, Best Buy predicted and tested the new opportunity of installing "smart homes." Instead of selling individual products, Best Buy started offering a complete package in which products customized to the needs of individual households are delivered and professionally installed at each home. Procter & Gamble is another large firm with entrepreneurial initiatives. Despite a highly competitive portfolio of globally popular brands, P&G developed a digital platform, Connect+, on which users around the world can share their unique needs, which P&G fulfills through the creation of new products. Acting on user ideas at Connect+ serves as entrepreneurial creation, which is combined with P&G's advanced research and development and manufacturing facilities to sustain competitive advantage in the global market.

We summarize the key differences between the traditional view of global strategy and a market creation approach to global strategy in Table 1.2.

TABLE 1.2 ■ Traditional Versus Market Creation Approach to Global Strategy

	Traditional views of global strategy	Market creation approach to global strategy
Key actors	Multinational corporations (MNCs)	Multinational organizations (MNOs), which include a broader range of global business participants, such as large MNCs, born-global and born-digital start-ups, user entrepreneurs, social entrepreneurs, platform complementors, and nongovernmental organizations, etc.
Core philosophy	Advantage-seeking	Integration of advantage-seeking and opportunity-seeking

(Continued)

TABLE 1.2 ■ Traditional Versus Market Creation Approach to Global Strategy (*Continued*)

	Traditional views of global strategy	Market creation approach to global strategy
Suitable global business environment	Stable or moderately dynamic	Fast-changing/volatile, uncertain, complex, and ambiguous (VUCA)
Strategic intent	1 to *n*: Replicating current success across countries	0 to M: Creating new value for multinational, multicultural, and multilateral stakeholders including the focal firm, customers, local businesses, and host economies
Implications of internationalization	Controlling assets and operations across countries through foreign investments	Embedding in foreign markets with or without investment through the utilization of readily available assets, allying with local partners, and embracing digital platforms to address local market needs
Key theoretical logics	Position logic Leverage logic	Opportunity logic
Key components of global strategy	Securing a favorable strategic position in the world market Leveraging and adapting current resources and capabilities to foreign markets	Predicting and testing unique needs and innovative solutions Creating markets through innovation Orchestrating global ecosystems
Digitalization and corporate social responsibility	Special cases of internationalization	Essential background of global strategy

GLOBAL STRATEGY IN A VUCA WORLD

LO 1.4 Assess the role of a market creation approach to global strategy in navigating a volatile, uncertain, complex, and ambiguous (VUCA) world

MNOs need to embrace opportunity logic to successfully compete in today's highly dynamic global business environment, which is experiencing sudden and unexpected changes at all levels, including in geopolitics, technology, and customer sentiments. There is a word for such an abruptly changing world—VUCA—which is an acronym for volatile, uncertain, complex, and ambiguous. Actually, VUCA used to be a military term used to describe the VUCA nature of battlefields, where every minute brings a new surprise, decisions are made with incomplete information, and a minor judgment error can cost lives.[25]

Certainly, MNOs are not on a battlefield, yet they operate in a VUCA world in which the global business environment is spinning faster and faster, and almost every day, MNOs are facing unexpected changes that can crush even the most successful ones, even without any mistake of their own. For example, many small German MNOs that invested their limited resources in Britain lost their established businesses, not because of any poor business decisions but due to an abrupt introduction of unfavorable regulations after Brexit.[26] Not surprisingly, the term "VUCA" is gaining immense popularity in the business world. Before we apply opportunity logic to derive global strategies, we need to have an adequate understanding of the **volatility**, **uncertainty**, **complexity**, and **ambiguity** of the world in which MNOs are competing.

Volatility, uncertainty, complexity, and ambiguity appear synonymous, but each of them has slightly different meanings and implications. As Figure 1.4 shows, these dimensions differ in the extent to which MNOs facing them understand the situation or are able to predict the outcome of their strategic actions. The distinction is important because each dimension requires a different strategic response. It means that before taking appropriate actions, MNOs first need an adequate assessment of the situation. These dimensions are also interrelated, for example, any MNOs facing volatility and uncertainty will most likely experience complexity and ambiguity as well. Therefore, MNOs need to take a market creation approach to be fast and agile enough to pull multiple levers simultaneously.

FIGURE 1.4 ■ Understanding a VUCA World

Ease of predicting the outcome of actions

Complexity

A large number of interrelated factors determining an outcome

Strategic Response:

- Embed deeply in networks of specialists and stakeholders with expertise in different components of the complex system.
- Develop simpler rules that provide autonomy to stakeholders but align their actions with MNO strategy.
- Creatively deploy technology to speedily detect and respond to any issues.

Volatility

Abrupt and unexpected changes

Strategic Response:

- Maintain reserves of critical resources.
- Take an options approach to hedge against the risks.
- Focus on seeking new opportunities on the face of volatility.
- Make short-term adjustments without compromising long- term goals.

Ambiguity

Lack of clarity on which causes are leading to which effects

Strategic Response:

- Continuously generate and test hypotheses to know the unknown.
- Tolerate failures and mistakes in the process of discovery.

Uncertainty

Imperfect or unknown information impeding future planning

Strategic Response:

- Continuously scanning the environment to not only adjust course based on new information but also discover new opportunities.

Knowledge about the situation

Volatility

Volatility refers to abrupt and unexpected changes that can last for unknown durations. Stock market crashes or sudden, large fluctuations in oil or commodity prices are some examples of volatile events. They usually occur without warning, and it is almost impossible to predict how long they will last.

Volatility is not new to established MNOs. They have experienced stock market crashes, price fluctuations, or abrupt foreign exchange movements in the past. What is different is the frequency and intensity of volatility nowadays. Just take the short period between 2020 and 2022. The U.S. stock market in 2020 was so volatile that several trading halts were triggered in a single day due to massive sell-offs. Equally volatile was market recovery. Within six months of the crash, the S&P 500 hit a record high despite the COVID-19 pandemic.

Next came the oil crash. For the first time in history, oil futures turned negative—that is, some traders paid buyers to take oil because they lacked storage capacity.[27] Within two years, however, oil was trading at more than $100 a barrel. The record-high prices drove global inflation and even pushed some countries to the brink of default.[28]

Meanwhile, the value of Bitcoin in 2022 dropped by more than 70 percent within six months, incurring massive losses to young entrepreneurs like Ramos, start-ups, and large firms.[29] Such concurrent swings across multiple dimensions reflect a state of global volatility that MNOs had rarely seen before.

Volatility strikes unexpectedly, yet MNOs can mitigate the impact of volatility by adjusting accordingly. What they do need in advance is to prepare by, for instance, maintaining reserves of critical resources or taking an option approach to hedge against the risks. What is more important, however, is maintaining a focus on opportunity seeking.[30] MNOs need to find a way to make short-term adjustments in the face of volatile changes without compromising the pursuit of long-term opportunities. For example, aggressively reducing staffing levels after encountering volatility may improve short-term profitability but compromise future growth.

Uncertainty

Uncertainty arises from imperfect or unknown information. No MNO can claim to know everything, but they can still plan ahead in stable or moderately dynamic environments. However, under high uncertainty, it becomes difficult or impossible to foresee coming trends or patterns and to make decisions based on them. Hence, MNOs cannot accurately plan for the future.

Think of the prolonged uncertainty surrounding Brexit. The 2016 vote by the United Kingdom to leave the European Union (EU) was just the beginning. Some hope remained for 6 months, until the British government formally notified the EU of its intention to leave the union. This started years of negotiations on the terms of the exit, keeping MNOs in a continuous state of uncertainty. Larger MNOs like BMW had deep pockets, allowing them to preemptively shift production out of the UK, but many small MNOs that had invested their limited resources in Britain continued hoping that Brexit would not come to pass.[31]

Despite these difficulties, the slow process of Brexit gave MNOs a few years to cope with the uncertainty and consider their options. But not all situations leave ample time to plan ahead. As the box "Global Strategy in Action" describes, McDonald's and other Western MNOs had to rush out of Ukraine a few days after the Russian invasion without even fulfilling necessary liquidity procedures.

Nevertheless, continuously scanning the environment and adjusting course based on new information helps companies not only to navigate uncertainty but also to discover new opportunities. Many MNOs in the fashion industry lost their export orders during the COVID-19 pandemic, but they made up for lost sales by shifting to face mask and lab coat production to address domestic shortages of medical supplies.[32]

GLOBAL STRATEGY IN ACTION

Globalization Broken? Goodbye, McDonald's; Welcome, Vkusno and Tochka

For several decades, McDonald's has been viewed as a symbol of globalization, representing the stability of the global system established after the Cold War. Thomas Friedman, a bestselling author and a three-time Pulitzer Prize winner, even used McDonald's to predict the likelihood of war between two countries. His so-called Golden Arches theory of conflict prevention posits that no two countries that both have a McDonald's would ever fight a war against each other because the existence of a middle class large enough to support a McDonald's indicates the integration of both countries in the global system.

Countries that are thus integrated seek economic prosperity through collaboration instead of conflict with other nations. This theory has arguably withstood the test of time for nearly three decades. However, the 2022 Russian invasion of Ukraine overturned the premise, as a large number of Western MNOs, including McDonald's, exited Russia soon after the military action, an event that warrants a revisiting of the theory's assumptions.

McDonald's departure from Russia ended a long era of globalization that began in 1990 with the opening of the first McDonald's restaurant in Russia. The enthusiasm of Russian customers for an American brand was unprecedented. For its grand opening, 38,000 customers queued up outside the store, symbolizing the triumph of a global brand over national differences. Over the next few years, McDonald's opened 850 restaurants in Russia, employing 62,000 people. If nothing else, the love for McDonald's was common among Russians, Europeans, and Americans until March 16, 2022, when McDonald's sold its outlets to a local license holder, Alexander Govor, and said goodbye to Russia.

Although McDonald's left Russia, burgers did not. Just 90 days later, Govor reopened 15 former McDonald's outlets under a new name, Vkusno & Tochka or "Tasty and that's it," with the slogan, "The name changes, love stays." The new chain changed McDonald's packaging, colors, and even staff uniforms, yet most items on the menu remained the same. However, the rebranded restaurants had no Coca-Cola products because that company had also ceased operations in Russia. The Big Mac and McFlurry were also off the menu because the new chain was not permitted to use the recipes. Still, the first day saw sales of 120,000 burgers, breaking records set by McDonald's.

McDonald's journey in Russia may not end here. Govor said that he paid only a "symbolic" sum for McDonald's Russia, and McDonald's can return to the country in the future. Indeed, many former McDonald's franchisees continued using McDonald's branding and electronic menus, including Big Macs with a different name. While these are violations of Russian law, McDonald's cannot take legal action because it has no rights to the brand in Russia.

The symbol of two McDonald's, one inside and the other outside Russia, points toward a decoupled globalization system. The sudden division of the world into geopolitical blocs threw into question the global strategies of hundreds of MNOs, including McDonald's, that were coordinating their business activities across borders. Such a geopolitical division also represents a grand challenge to businesses and society in general, as the refugee movements and global food crises that started immediately after the Russian invasion made evident.

It is not clear how long this geopolitical division will last. Does the departure of McDonald's from Russia symbolize a long era of a decoupled world, or will another geopolitical shift suddenly unite the world again and possibly bring McDonald's back to Russia? Also, what role can MNOs play in the new world? Should they focus on reconfiguring their strategies to adjust to these geopolitical blocs, or can they play an active role in balancing and perhaps reconnecting the decoupled world? The answers are yet to be seen.

Discussion Questions

1. Analyze the possibility of McDonald's reentry into Russia. Can you identify some novel opportunities McDonald's can pursue in Russia?
2. The case reflects a VUCA state of globalization in which the world can suddenly divide into blocs and reconnect again. How can opportunity logic help enhance a company's performance in such a turbulent geopolitical environment?
3. MNOs like McDonald's lost billions of dollars due to their sudden exits from Russia. Do you think that taking a market creation approach to global strategy could have led to better outcomes and why?

Sources: (1) "Food Companies, Long Symbols of the West in Russia, Pause Operations," New York Times, March 8, 2022, www.nytimes.com. (2) "The First Rebranded Former McDonald's Just Opened in Russia — See How It Compares to the Real Golden Arches," Business Insider, June 15, 2022, www.businessinsider.com. (3) "Big Macs Still Sold in Russia Despite McDonald's Exit," Reuters, June 17, 2022, www.reuters.com. (4) "McDonald's in Russia: Departure Is about a Lot More than Burgers," Guardian, March 12, 2022, www.theguardian.com. (5) "McDonald's Will Have a 15-Year Option to Buy Its Restaurants in Russia Back," Reuters, June 3, 2022, www.reuters.com.

Complexity

MNOs face complexity when they have to manage a large number of interrelated factors to achieve their objectives. With high complexity, a small issue in one tiny factor can stop the entire system.

Take semiconductors, which have one of the most complex global supply chains, requiring hundreds of components from more than 20 countries across different continents.[33] The entire supply chain nearly collapsed when only one country, Ukraine, stopped delivering a single raw material, neon gas, amid the Russian invasion. The disruption, in turn, impacted industries ranging from consumer goods to electronics, which rely on semiconductors in their manufacturing.[34]

The United Nations' (UN) efforts to manage the Venezuelan refugee crisis, the largest recorded refugee crisis in the Americas, is another example of complexity.[35] The factors influencing refugee movements are so complex that the UN is unable to even identify all the causes, instead categorizing more and less important ones in an attempt to target factors likely to have the most impact.

Managing complexity requires companies to embed themselves deeply in networks of specialists and stakeholders with expertise in each component of the complex system. Such embeddedness can help MNOs receive more relevant insights and identify potential problems in advance. For example, the UN is demanding an international response to refugee crises, which goes beyond the mandate or capacity of any single agency like the UN or the ongoing UN country programs. Instead, it requires active participation and collaboration among multiple stakeholders.[36]

At the same time, MNOs need simpler rules that provide autonomy to stakeholders but align their actions with MNO strategy. Technology can also help. Pfizer deployed advanced technologies to remotely coordinate its complex supply chain to manufacture, ship, and deliver COVID-19 vaccines around the world. The MNO monitored the supply chain in real time by deploying blockchain technology, which enabled Pfizer to speedily detect and respond to any issues.

Ambiguity

Ambiguity is perhaps the toughest dimension in the VUCA framework. In ambiguous situations, it is impossible to pinpoint which causes are leading to which effects. Often, this is referred to as the "unknown unknown." For example, anytime we mention good luck or bad luck, we refer to an ambiguity in which we are unable to understand what really caused something good or bad. Korean musical artist Psy struggled for almost 16 years. He released several albums with only marginal success.

He was under substantial financial difficulties when he uploaded his song, "Gangnam Style," to YouTube. Out of nowhere, the song went viral and turned into a global sensation. The reason behind the success, however, is unclear. Psy released several songs afterward but could never replicate the success of "Gangnam Style." This is the main challenge of ambiguous situations. Success or failure is visible, but its underlying causes are not. Hence, systematically replicating success or avoiding failure becomes impossible.

Ambiguity requires MNOs to first embrace the courage to face the unknown unknowns and to make mistakes in the process of discovering them. Continuously generating and testing hypotheses can gradually reduce ambiguities in the global business environment, but they require a high tolerance for failures. Psy had only one lucky break with "Gangnam Style," but the K-pop industry has extensively experimented to uncover the secrets of producing viral songs. Over the last few years, marketers in the K-pop industry have been very successful in producing multiple viral songs and popular bands.[37] What we attribute to luck often has a reason behind it.

Navigating the VUCA World

Is a VUCA world good or bad for MNOs? The easy answer is that it is relative. Any unexpected change can be a threat to some but an opportunity for others. On the one hand, rising energy prices after the Russian invasion of Ukraine threatened industries that rely heavily on traditional energy sources. On the other hand, the war rejuvenated interest in renewable energy, creating huge opportunities for electric car makers and the solar panel industry. However, even the most negatively affected industries can benefit from the energy crisis if, for example, they are flexible enough to restructure their activities to consume less energy.

On the contrary, MNOs in the renewable energy sector may miss their opportunity if they are not prepared to meet emerging needs in an energy crisis. Hence, the impact of a VUCA world on MNOs depends on their preparedness and flexibility. This is where the continuous commitment to identifying, testing, and capturing fleeting opportunities can help MNOs navigate a VUCA world. As Captain

Gareth Tennant, a former military officer and now an adviser to the Future Strategy Club, argues, instead of trying to make precise forecasts, companies should discuss ideas that push the boundaries of what is possible.[38]

In fact, a VUCA world may open novel opportunities for MNOs with an opportunity-seeking mindset. Many new opportunities arise from engagement with stakeholders who are also affected by VUCA. When retail stores shut down during the COVID-19 pandemic, Samsung engaged with its retailers to find solutions. The collaborations helped Samsung discover a new opportunity, an e-commerce platform via which Samsung retailers could continue selling online. The initiative created a new market of online selling for both retailers and Samsung, which continued generating profits even after the pandemic was over.

This is the main idea behind a market creation approach to global strategy. Rather than treating volatility, uncertainty, complexity, and ambiguity as threats to current competitive advantages, they help MNOs ride the emerging waves of a VUCA world.

GLOBAL STRATEGY MEETS GRAND CHALLENGES

LO 1.5	Examine the implications of a market creation approach to global strategy in addressing grand challenges facing today's world

So far, we have discussed how a VUCA global business environment impacts MNOs and how MNOs can strategize to effectively respond to it. However, opportunity-seeking MNOs can also play an active role in reshaping and refining the world by identifying specific needs or pain points in different countries by testing and iterating possible solutions to resolve them.

This is consistent with **market-creating innovation**, which is emphasized by Clayton M. Christensen and colleagues in their book *The Prosperity Paradox*. Market-creating innovations are those that transform complicated and expensive products and processes into ones that are simple and affordable, making them accessible to a whole new segment of consumers. The new segment of consumers tends to get ignored and sometimes even considered "nonconsumers" because no adequate solution exists to meet their demand. In other words, many times, the solutions to problems in a given country or region exist but they are either unaffordable or inaccessible to those in need.

MNOs can revise their views on innovation, pivoting from exploiting existing markets to creating new ones by transforming useful but expensive solutions into more affordable and accessible ones. This grassroots approach can allow MNOs to collectively help address some of the **grand challenges** of the global economy, such as conflicts among countries, environmental changes, global poverty, food crises, and rising inequality. We group these grand challenges into three specific categories: geopolitical, social, and environmental.

Next, we illustrate how some MNOs have already undertaken an opportunity-seeking and market-creating approach to address these challenges as part of their global strategies.

Geopolitical Grand Challenges

We are living in a world that is speedily dividing into geopolitical blocs. The idea of a globalized world, in which countries collaborate for mutual prosperity, is now a thing of the past. There are aggressive trade wars and even armed conflicts among major economies. Governments are encouraging domestic MNOs to relocate their supply chains to home or alliance countries while creating barriers for foreign MNOs that belong to other geopolitical blocs despite the cost of such moves. This is evident from regulatory barriers Chinese MNOs like ByteDance, Tencent, and Huawei face in the U.S. and Europe.

Indeed, MNOs once made a convincing argument to promote global economic integration. MNOs orchestrate the flow of valuable products across countries, create new jobs, and exchange knowledge. This puts MNOs in an ideal position to promote progress and prosperity in both domestic and foreign markets. For the past several years, however, many large MNOs did not live up to this promise. Instead of creating new value for foreign markets, they resorted to selling current products and services across countries with minor adjustments.

This behavior earned many MNOs a reputation as imperialists imposing their values on other countries. For instance, Asian customers criticized American fashion brands for selling products that do not even fit the body sizes of most Asian customers.[39] Many countries also hold MNOs responsible for the closure of local industries, loss of jobs, and drain of wealth. The reaction against MNOs and globalization was inevitable.

MNOs can win back global support for globalization by adopting a market creation approach. Only when MNOs focus on solving local challenges can they build mutual collaboration and positive sentiment toward globalization. One example is Alibaba, which maintains the philosophy of creating mutually beneficial initiatives in Southeast Asian markets. In Southeast Asia, Alibaba worked closely with governments, businesses, and other stakeholders to identify key economic issues. This helped Alibaba predict the pain points of Southeast Asian businesses and test a customized solution, the Electronic World Trade Platform (eWTP), which enables individuals and small enterprises of Southeast Asian countries to seamlessly engage in international e-commerce.[40]

It enlarged the seller side of the Alibaba platform by allowing hundreds of sellers to engage in online business. Consequently, the increased variety of products created new markets of buyers interested in newly available products on the platform. Besides benefits to the business, Alibaba won the support of governments and the general public by demonstrating its contribution to the Southeast Asian economy.

If MNOs shift their attention to such entrepreneurial initiatives, they may help overcome the grand challenge of geopolitical conflict, and we may be able to see McDonald's in Russia again before long.

Social Grand Challenges

Hunger, poverty, and the lack of economic opportunities are today's most prominent grand challenges. The global food crisis has increased the number of people without enough food by 440 million, putting nearly 250 million people on the brink of famine.[41] COVID-19 has pushed more than 125 million additional people into poverty, raising the number living in extreme poverty to 689 million.[42] To put this into perspective, the U.S. population is about 335 million. To some extent, the common reason for both issues is a lack of economic opportunity. There are simply not enough jobs or business opportunities to supply everyone with a reasonable income.

There are several reasons behind these social grand challenges, and unfortunately, large, powerful MNCs are one of them. There are rising public concerns over the massive profits MNCs earn and the practices they use to maximize those profits, notably premium pricing, low pay to labor and suppliers, tax-avoidance tricks, and misuse of their influence on foreign governments.

The 2022 financial crisis in Sri Lanka was caused in part by Chinese state-owned enterprises (SOEs) that irresponsibly lent money to the Sri Lankan government and used the debt to gain control of Sri Lanka's Hambantota Port.[43] The discourse against excessive corporate profits has entered a new phase with the rise of global digital platforms like Amazon and Uber, which are criticized for exploiting smaller firms, preventing merchants from selling on different platforms, and denying food-delivery drivers and other gig workers basic benefits.[44]

Such relentless pursuit of profits aggravates poverty and puts food and other necessities out of reach for many people. For example, the Indian inventor and entrepreneur Arunachalam Muruganantham criticized MNCs for selling sanitary pads at a price 40 times higher than the cost of raw material, which deprives 88 percent of Indian women of this basic necessity.[45]

MNOs are uniquely positioned to address social grand challenges by identifying unique needs and addressing them through innovative solutions with profit potential. Consistent with market-creating innovations, MNOs can develop new businesses that make necessary products more accessible and affordable while also creating new economic opportunities.

Due to the expensive and inefficient banking sector in Kenya, the majority of Kenyans do not maintain bank accounts and rely on cash payments. Many Kenyan villagers who work in cities have to travel hundreds of miles each week to provide money for their families. Financial technology app developers saw opportunities in Kenya and made digital money transfers affordable for even the poorest users. It saved some Kenyan villagers around 30 percent of their income, which they can now use for education, health care, and other needs.[46] These apps also created new jobs by hiring thousands of agents who received the funds and handed over the cash.

SUSTAINABILITY AND YOU

Growing Food in Arid Lands

In 2022, when disruptions in global food supply chains were putting nearly 250 million people on the brink of famine, refugee camps in arid areas across nine African countries were self-sufficient in food. Despite the lack of water and suitable soil, refugee families were growing their own food to feed themselves and their livestock. Many of them were even selling surplus food and livestock to turn a profit. The credit goes to H2Grow, a social venture by the World Food Programme (WFP), which promoted small-scale farming in refugee camps and local villages in harsh environments across the world.

To feed hundreds of families, humanitarian organizations like WFP traditionally relied on donations of surplus food from other countries, which were neither sufficient nor always available. WFP started exploring alternatives that could involve stakeholders in finding a solution for their problems.

An entrepreneurial exploration led to the Sahrawi refugee camp in Algeria. Agriculture was almost impossible at the camp due to the low quality of soil and lack of water. Taleb Ibrahim, a former refugee and now an agricultural engineer, proposed utilizing high-tech hydroponics systems in small-scale agriculture like home gardens and household livestock. These systems can grow plants without soil and consume up to 90 percent less water than traditional agriculture. However, this solution was unaffordable due to the cost of purchasing such a hydroponics system and transporting it from the U.S. to Algeria.

Instead of starting a massive round of fundraising to purchase high-tech hydroponics, WFP undertook the entrepreneurial approach of developing a local solution to meet the specific needs of refugees. In coordination with Taleb Ibrahim, WFP experimented with ways to manufacture hydroponics equipment within Algeria using locally available materials. After extensive trial and error, they developed a low-tech hydroponic system that was 90 percent cheaper than imported high-tech systems.

To promote low-tech hydroponics, WFP launched a social start-up, H2Grow. The start-up tested the solution by training families at the Sahrawi refugee camp to grow their food. Soon, the camp had sufficient food to feed all inhabitants and livestock. The success encouraged H2Grow to scale up the project to more refugee camps and local villages across Africa and Asia. Gradually, thousands of farmers across nine countries received agricultural training and started growing their own food.

In each place, the approach was modified and optimized for local requirements. As Taleb Ibrahim noted, it "allows people to become part of their own solution." For example, when face-to-face training was not feasible during the COVID-19 pandemic, many camps with more reliable internet access created WhatsApp messaging groups that connected families with H2Grow staff. Growers shared updates on the growth of their vegetables and received real-time advice from agronomical experts stationed across countries.

The success of H2Grow shows how the transformation of complex and expensive products and processes, like hydroponics, into simpler and more affordable ones can create new opportunities for firms and customers. The typical refugee family may not have even dreamed of growing their own food, but WFP experimented and tested novel solutions to empower refugees and many farmers in harsh environments. It also made the project more sustainable without traditional aid. Families got the opportunity to earn profits by selling surplus food and livestock, which in turn enabled them to continue reinvesting in hydroponics and other agricultural supplies.

Discussion Questions

1. Not all refugee camps are likely to be similar. Research to identify key differences among refugee camps in different countries and explain what modifications these differences may require in the H2Grow project.
2. Most refugees have access to smartphones, but their internet is not reliable. How could technology further improve H2Grow?

3. A market creation approach to globalization encourages the development of novel solutions to local needs. Identify a country beyond the current locations of H2Grow that might be a good expansion target for this project. Find unique needs of the country and propose ways to transform the project to address those needs.

Sources: (1) "WFP's Hydroponics Project Grows during Kenya's Coronavirus Lockdown," WFP Innovation Accelerator, June 20, 2020. medium.com. (2) "Taleb Brahim Dreams of Creating a Sustainable Level of Food Supply for Refugees," Ventures of Africa, March 21, 2021, venturesafrica.com. (3) "H2Grow Growing Food in Impossible Places," World Food Programme, June 23, 2022, Wfp.org.

MNOs must also realize that one size does not fit all. As the box "Sustainability and You" shows, even humanitarian organizations like the World Food Programme can develop more sustainable solutions by taking a market creation approach to achieve the transition from 0 to M. H2Grow was multilateral (in that it involved and respected the views of local stakeholders), multicultural (in that it enabled different cultures across refugee camps to grow food of their choice), and multinational (in that it was customizable to unique needs of refugee camps in different countries).

This stands in contrast with the traditional way of responding to hunger by simply dumping surplus food in refugee camps or poor countries. In such projects, not only is the food supply unreliable, but also, the food may not match the cultural and religious preferences of the recipients. For example, Zimbabwe refused to accept genetically modified food during its 2002 and 2016 droughts due to concerns about the social and economic consequences of GMO food.[47] The success of entrepreneurial initiatives like H2Grow and the failure of many traditional food distribution programs reflect the need for respecting and incorporating the unique needs of each country while addressing grand challenges.

Environmental Grand Challenges

Environmental sustainability is a burning issue. Issues like climate change, global warming, and deforestation are leading to catastrophic events all over the world. The higher frequency of extreme heat waves across the world has claimed thousands of lives in recent years.[48] Due to rising temperatures and reduced rainfalls, droughts are more frequent and severe than ever. In 2019 and 2020, Australia experienced a so-called megafire, which lasted for almost a year throughout the country and was estimated to have caused damages totaling 100 billion AUD.[49] And the 2021 drought in Zimbabwe deprived people of water and food, forcing many Zimbabweans to survive on leaves and provoking violent conflicts over scarce food and water.

MNOs cannot stay safe from these environmental problems either. Heavier floods, fiercer wildfires, and more severe storms are disrupting global supply chains more often than ever. For example, low water levels in the Rhine grounded barges that BASF, a German chemicals firm, uses to ferry its products. Also, hotter, more humid days imperil the productivity of employees and equipment. The UN predicts that the demand for water worldwide will be 40 percent greater than its supply by 2030, which may particularly risk business operations of "thirsty" industries such as food, mining, textiles, and utilities. Indeed, some analysts estimate that properly accounting for climate risk could shave 2 to 3 percent off the value of listed corporations.

Business activities place a heavy burden on environmental resources. Globally, 20 percent of carbon dioxide emissions emanate from the global supply chains of MNCs.[50] Governments are taking notice. During the 2021 UN Climate Change Conference (COP26), the intergovernmental summit to tackle global climate and environmental issues, more than 100 countries that own 85 percent of the world's forests vowed to phase out deforestation, and 192 countries including China and the U.S. committed to phase down coal power by the midcentury. The U.K., the EU, and the U.S. announced $8.5 billion in financing for the transition from coal power.

COP26 particularly puts pressure on MNCs to restructure their production processes, adopt environmentally friendly technologies, and reduce the carbon footprint across their operations. This is an arduous task. McKinsey & Company, a management consulting group, estimates that meeting COP26 demands may require significant expenditures and that spending on physical assets alone may reach $9.2 trillion per year. It is no surprise that the day after COP26, the share prices of MNCs with questionable environmental practices fell sharply.

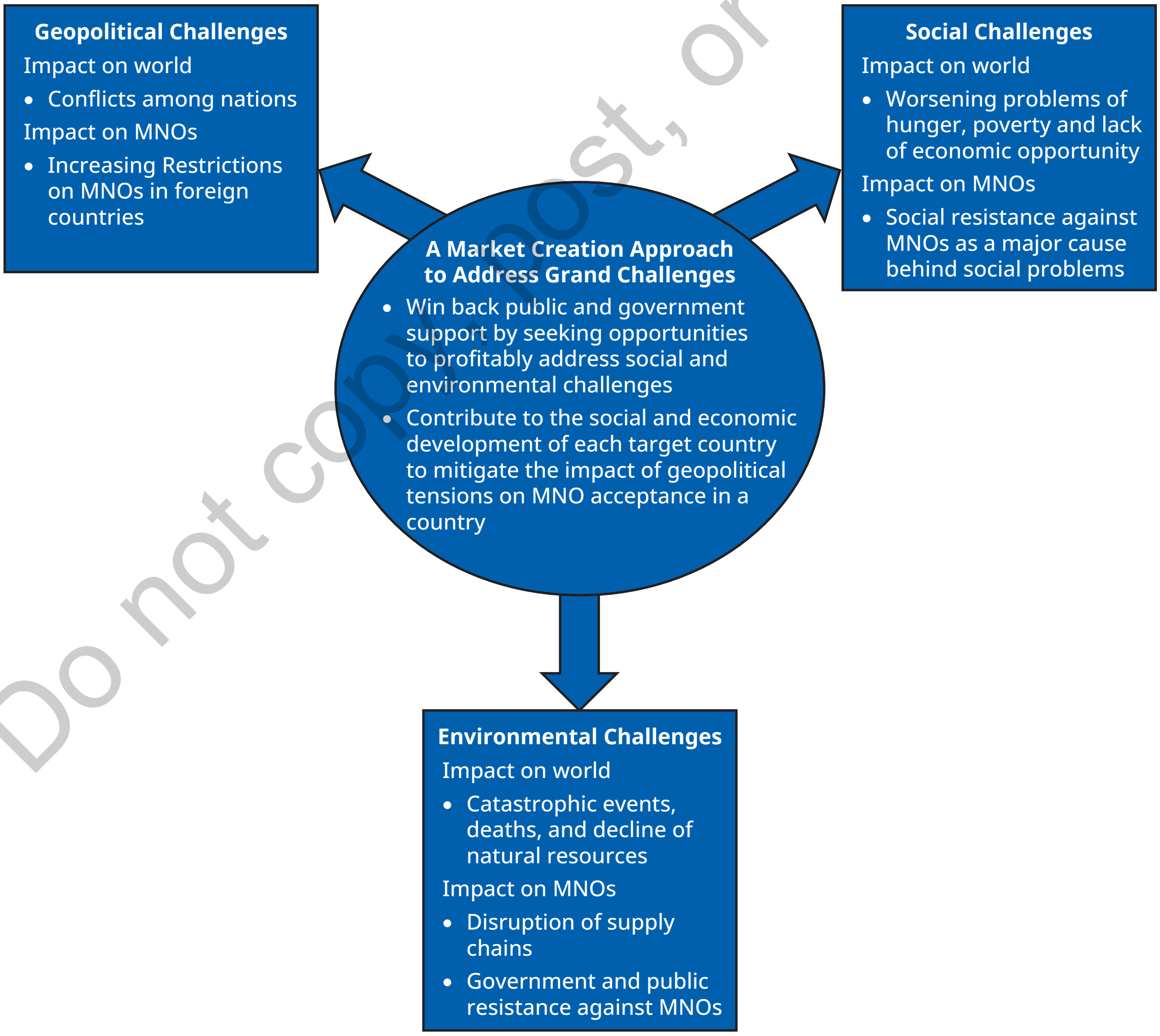
High costs of environmentally friendly business practices may erode the strategic advantages of many MNOs, but some MNOs also see new opportunities in profitably addressing this grand challenge. VinFast, a vehicle manufacturer from Vietnam, offered locally developed electric scooters and electric buses at competitive prices to save fuel costs for scooters and bus riders. Low-cost electric scooters and buses not only created a new market for electric vehicles but also helped improve the carbon footprint of Vietnam. Encouraged by local success, VinFast is now venturing into the U.S. market with a new plant in North Carolina.

Some opportunity-seeking MNOs also experimented with digital technologies. Schneider Electric developed digital applications to track and optimize the use of energy, water, land, and minerals in its industrial processes across 100 countries, which led to substantial cost savings. Gradually, Schneider Electric established a new business of providing environmental consultancy services to other MNOs.

Microsoft also found a new opportunity to deploy machine learning to conserve energy in large industrial operations. The initiative first reduced the carbon footprint of Microsoft and later allowed Microsoft to sell technology-based environmental solutions to other clients. These examples reflect how MNOs can turn environmental sustainability into a source of new opportunities that may improve firm performance and address the environmental grand challenge.

Figure 1.5 summarizes how taking a market creation approach to global strategy can help address some grand challenges and mitigate their impact on MNOs. These grand challenges also represent

FIGURE 1.5 ■ A Market Creation Approach to Address Grand Challenges



grand opportunities. Instead of relying on the government, which cannot address these challenges alone, MNOs can take a more active role in improving both the world and their performance.

Traditional MNCs may also take a step away from Milton Friedman's emphasis that the business of business is business; this is simply not true anymore. Businesses are also integral members of the global village, which should contribute to the countries and regions in which they operate.

Furthermore, MNOs are also affected by grand challenges. Geopolitical conflicts compromise the effectiveness of globalization strategies, environmental issues disturb their supply chains and employees' well-being, and increasing poverty reduces their customer bases. There is nothing more in the interest of MNOs than a prosperous and stable world.

At the same time, addressing these grand challenges helps MNOs seek novel opportunities that create value for them and their stakeholders. As noted by Christensen, in market-creating innovation, we maintain that the social responsibilities of MNOs can be an integral part of their global strategies, which guide their choice to pursue opportunities to address the unmet needs around the world.

CLOSING CASE

Gucci in Post-COVID-19 China

Laurent Cathala, a former executive at Tiffany & Co., took charge of Chinese operations for Gucci, an Italian luxury fashion house, in June 2022, when COVID-19-related restrictions were easing across China.[51] The country had been set to become the biggest market for the luxury sector by 2025 but was severely hit by COVID-19 lockdowns.

While customers had started to emerge from lockdowns, consumer spending had yet to recover due to income losses during the pandemic. Foot traffic in shopping centers remained low in large cities like Shanghai and Shenzhen even after lockdown measures eased. Experts expected luxury sales to drop by 15 percent. Cathala was now tasked with reviving Gucci sales in China.[52]

Started by Guccio Gucci in 1921 in Italy, Gucci maintained its status as one of the most prestigious luxury brands in the world. Gucci largely follows the industry standard top-down approach to fashion design, prioritizing the exclusivity of its products and the craftsmanship of creators.[53]

Such norms are actively enforced by educational institutions that attribute excellence in fashion design to the independent creativity of designers. The Swedish School of Textiles advises newly trained fashion designers that they should let their creativity flow freely, without considering commerciality at all.[54] With a similar philosophy, Gucci designers in fashion meccas like Paris and Milan developed exclusive designs that were sold around the world to high-income customers who valued the luxurious and sophisticated image of Gucci. To some extent, the top-down approach had earned Gucci its prestige and market leadership.

By the turn of the millennium, however, Gucci was facing a new world that was undergoing substantial transitions. Generations Y and Z were responsible for 40 percent of consumption and 100 percent of industry growth.[55] These generations were markedly different from their elders. Instead of high-quality craftsmanship and exclusivity, Gens Y and Z prized the social responsibility and authenticity of the brand.

Indeed, many customers were buying and selling preowned luxury goods on platforms like Farfetch and Poshmark that facilitate the resale and repurposing of high-end fashion items. Gens Y and Z also had a high digital orientation. There was an explosion of global and country-specific social media platforms, which Gens Y and Z frequently used to connect with brands.

The competitive landscape was also evolving. In addition to large competitors like Chanel and LVMH, Gucci was facing a new breed of independent fashion designers offering a wider variety of designs at competitive prices via online channels. With its traditional approach of leveraging European fashion to appeal to the world, Gucci found itself far behind the curve. Its classic products had less appeal to new, younger customers. It offered only a few designs each year, which put it at a substantial disadvantage against more agile independent fashion designers. The company also had a poor track record in terms of pollution and wastage. Participation in digital media and online sales activities was very low.

In 2015, the new leadership, CEO Marco Bizzarri and creative director Alessandro Michele, recognized the need to shift from the luxury fashion industry's traditional recipe for success and find ways to better understand and respond to a fast-changing environment. Gucci revamped its design by blending luxury with streetwear. It also replaced old brand ambassadors and hired more contemporary ones who could attract Gens Y and Z.

The company also undertook sustainability initiatives, vowing to stop using animal furs and going carbon neutral in its supply chains. In addition, Gucci substantially enhanced its digital presence through social media campaigns and a complete redesign of its website. However, most Gucci sales in 2019 still originated from its network of 487 physical stores. It invested heavily in revamping its physical stores to provide a more pleasant shopping experience.

The humble approach to serving customer needs substantially enhanced Gucci's popularity among Gen Y and Z customers. Profits increased nearly fourfold between 2015 and 2019.[56]

The turnaround efforts met a major blow during the COVID-19 pandemic. Carefully designed Gucci stores were empty. Gucci sales dropped by 39 percent in mature markets and 27 percent in emerging markets.[57] Nevertheless, the pivot to a more digital orientation paid off as the company's online sales soared at an unprecedented rate. As lockdowns started easing, some long-lasting shifts in customer behaviors became evident. Customers were drawn toward more mindful shopping, with cutbacks in luxuries and discretionary products like apparel as well as reduced preference for expensive products.

Gucci also found some novel opportunities to sell virtual luxury items. The reliance on digital channels continued even after lockdowns were over. People were buying more and more items to express themselves in virtual worlds with virtual products. Gucci experimented by creating a Gucci Garden in the metaverse. The exhibition attracted more than 20 million visitors.[58] Gucci was also able to sell virtual handbags, sunglasses, hats, and other items.

As lockdowns began to lift, rebuilding its Chinese sales became Gucci's top priority. Gucci had heavily invested in China due to its large market size, but the strategy of leveraging European prestige to win the key Chinese markets backfired during the pandemic. Historically, Gucci relied on young Chinese shoppers traveling to Europe's fashion capitals and coming back inspired by Gucci designs. The freeze on international travel revealed the weakness of this model. Compared to rivals like LVMH and Hermes, Gucci faced a steeper drop in sales, partly because Gucci was more reliant on mainland Chinese customers who frequently traveled internationally.

Although Gucci had been developing substantial flexibility to identify and respond to market dynamics across countries, unexpected transitions in VUCA China took it by surprise. Now, Gucci was on the verge of another journey, going to the grassroots level to assess evolving customer needs and build a more multilateral and multicultural business. Some efforts were underway already before Cathala took charge. While Chinese regulations provided limited opportunities to sell in the metaverse, Gucci started promoting its presence in China's digital world by collaborating with Marsper, a Chinese virtual character that is a collectible figurine. Gucci offered Marsper figures dressed in Gucci's suits for sale in the Chinese market.[59] Gucci also entered the high-end beauty category to reach a larger and younger audience.

In a highly unusual move, newly appointed Cathala was tasked with bolstering local teams, giving them control of marketing and advertising activities. Previously, Gucci's strategy was normally dictated by European executives based in Paris or Milan.[60] With such autonomy to transform the Chinese business of Gucci, can Cathala lead Gucci back to success in VUCA China?

Discussion Questions

1. Using the VUCA framework, identify volatilities, uncertainties, complexities, and ambiguities Gucci is facing worldwide and in China.
2. Identify the opportunities and challenges created by the COVID-19 pandemic for the global and Chinese luxury industry.
3. How can Cathala deploy opportunity logic to identify and address the unique needs of the Chinese market in a post-COVID-19 world?

SUMMARY

LO 1.1 Understand the concept and relevance of global strategy in the contemporary global landscape

Global strategy is the art of navigating the diverse and turbulent global business environment to sustain superior performance.

- For large, traditional MNCs, mostly from developed economies, the purpose of global strategy is to identify foreign countries with attractive demand for their current products and services. They aim to replicate their domestic success abroad, with necessary local adaptation; this is sometimes termed going from 1 to *n*.
- From a market creation approach, global strategy is about creating and innovating businesses from scratch that meet unique needs in overseas markets, which is referred to as going from 0 to 1.
- As the distinction between traditional MNCs and entrepreneurial initiatives, or the choice between 0 to 1 and 1 to *n*, is blurring, global strategy is becoming a process of 0 to M, where MNOs address the needs of multinational, multicultural, and multilateral stakeholders by developing innovative solutions.

LO 1.2 Elaborate on the application and limitation of major schools of strategic thinking concerning global strategy

- The traditional view of global strategy focuses on large MNCs, mostly from developed countries, that seek to replicate a business that is successful in their home country in numerous countries through aggregation (standardization), adaptation (localization), or arbitrage strategies.
- An aggregation strategy requires MNCs to adopt position logic. MNCs secure an advantageous strategic position in a given industry by either differentiating from competitors or decreasing costs. MNCs can expand their strategic position in the world market by combining the supply and demand of standardized products across multiple countries.
- An adaptation strategy is based on leverage logic. MNCs develop valuable and unique resources and capabilities in home markets, which are leveraged to serve customers in a new country after necessary localization or adaptation.
- Arbitrage is the strategy of exploiting resources in some countries to strengthen their strategic position in others.
- Recent transitions in the global business environment require revisiting the scope and the core philosophy of the traditional view of global strategy.
- The limited scope of the traditional global strategy of MNCs is inadequate in the modern economy where new participants such as born-global and born-digital firms and even individuals are actively engaging in global business.
- The new participants in the global arena are competing through new strategic imperatives, such as embeddedness, instead of foreign direct investments or ecosystems instead of value chains, which are rarely addressed by traditional global strategy.
- Leverage and position logics are largely applicable in stable or moderately dynamic industries, but with the entry of new entrepreneurial competitors, technological

advancements, and the decline of industry boundaries, almost all industries are facing hypercompetition.

LO 1.3 Explain the core concept, scope, and implications of a market creation approach to global strategy

- A market creation approach to global strategy provides a more relevant way to compete in an ever-changing global economy
- A market creation approach to global strategy is based on opportunity logic, which focuses on entrepreneurial actions to capture attractive, fleeting opportunities faster, sooner, and more effectively than rivals. Accordingly, the market creation approach emphasizes the unending process of scanning the diverse and ever-changing global business environment, continuously predicting and testing market needs, and consistently structuring and restructuring business activities and partner networks to capture fleeting opportunities.
- A market creation approach integrates the opportunity-seeking emphasis of entrepreneurship with the advantage-seeking focus of large MNCs to reconceptualize global strategy as a process of moving from 0 to M, that is, creating new businesses from scratch to address unique and unmet needs of multinational, multicultural, and multilateral stakeholders.
- This new perspective recognizes and is applicable to a broader set of global business participants called MNOs (multinational organizations), which includes traditional MNCs, born-global and born-digital start-ups, multinational platforms, NGOs, and even individuals.

LO 1.4 Assess the role of a market creation approach to global strategy in navigating a volatile, uncertain, complex, and ambiguous (VUCA) world

- A market creation approach to global strategy provides an adequate recipe to navigate today's volatile, uncertain, complex, and ambiguous (VUCA) world.
- MNOs can navigate the VUCA world by actively scanning the global business environment, predicting new opportunities, and continuously testing and iterating novel solutions.
- The focus on fleeting opportunities prepares MNOs to quickly identify and act on new opportunities created by a VUCA world instead of sticking with existing business activities.

LO 1.5 Examine the implications of a market creation approach to global strategy in addressing grand challenges facing today's world

- A market creation approach to global strategy can also help firms address grand challenges of the modern world, particularly geopolitical, social, and environmental challenges.
- MNOs can develop market-creating innovations by transforming products and processes to bring them within reach of nonconsumers, that is, people who need a product or service that is currently unaffordable or inaccessible to them.
- By actively predicting and testing solutions to grand challenges, MNOs can profitably address the pain points of people across countries, develop innovative solutions to environmental problems, and motivate countries to subside their conflicts to continue benefitting from collaborating.

DISCUSSION QUESTIONS

Test Your Knowledge: Review Questions

1. What new realities of the modern economy require reshaping the scope and core philosophy of traditional global strategy?
2. Which global transitions are enhancing the relevance of opportunity logic for today's global business environment?

3. List and explain the main differences between the traditional view of global strategy and a market creation approach to global strategy.

4. How can a market creation approach to global strategy simultaneously create value for both MNOs and their multinational, multicultural, and multilateral stakeholders?

Apply Your Knowledge: Critical Thinking Questions

1. Many corporate leaders think that new technologies provide more opportunities to traditional MNOs that have deep pockets, established customers, and years of experience. Entrepreneurs, on the other hand, believe that they can compete against larger MNOs by identifying novel opportunities faster than them. What is your opinion? Defend your position.

2. Hypercompetition, once limited to a few industries, is now becoming the norm for all industries. Do you think that some industries are still stable and that MNOs in these industries can perform well with position or leverage logic? Do you anticipate that the industry will turn hypercompetitive sometime in the near future? If so, why?

3. Global platforms claim to provide new employment opportunities to thousands of individuals around the world, but many people criticize global platforms for exploiting these individuals by paying lower wages or even stealing their ideas. Which side do you take? Develop a convincing case in support of your position.

Extend Your Knowledge: Research Projects

1. Find an ecosystem like *Axie Infinity* that allows youth to engage in global business. If you join the ecosystem, how will you apply a market creation approach to create value for the ecosystem and improve your performance as an entrepreneur?

2. Many MNOs are still relying on position or leverage logic. Identify one such MNO. Analyze the strengths and weaknesses of the MNO in a specific country. Prepare a presentation to give to the country manager to advocate the adoption of a market creation approach. Describe specific opportunities the MNO can pursue that it is currently missing.

3. Visit the H2Grow website. Choose a few locations H2Grow is currently serving and analyze the unique value H2Grow is creating in each location. How can you apply the concept of market-creating innovation to enable H2Grow to serve segments other than refugee camps?

KEY TERMS

0 to 1
0 to M
1 to n
Adaptation (Localization)
Aggregation (Standardization)
Ambiguity
Arbitrage
Born global
Complexity
Ecosystem
Embedment
Emerging MNCs (EMNCs)
Foreign direct investments (FDI)
Global strategy
Grand challenge
Leverage logic
Market-creating innovation
Market creation approach to global strategy
Multinational corporations (MNCs)
Multinational organizations (MNOs)
Opportunity logic
Position logic
Uncertainty
Volatility
Web 1.0
Web 2.0
Web 3.0

2 BUSINESS MODELS: THE PATHWAY TOWARD MARKET CREATION ACROSS COUNTRIES

LEARNING OBJECTIVES

2.1 Understand the business model concept and its relevance for global strategy.

2.2 Identify the three building blocks required to construct a business model.

2.3 Explain the key reasons for the rising importance of business models in global strategy.

2.4 Apply an opportunity logic lens to test and iterate business models to gain an edge over international competitors.

2.5 Examine the art of leveraging business models for identifying and seeking market-creation opportunities across countries.

Opening Case

Washington Post Crossing Borders

We had suffered all the pains that the internet had to offer, but we had failed to take advantage of that gift that the internet had to offer. And that gift was essentially worldwide distribution at little incremental cost.

According to Martin Baron, the former editor of The Washington Post *(WP), Jeff Bezos was looking to strategically leverage the internet's gift of worldwide distribution when he acquired the struggling WP for $250 million in 2013. This was the time when digital technology was putting the future of the newspaper industry in question. Buying printed newspapers was falling out of fashion as newsreaders relied on social media sites and search engines to access freely available news. The largest source of newspaper income, advertising revenue, was drying up as advertisers were rapidly shifting their dollars to digital advertising via platforms like Google and Meta Platforms, the parent company of Facebook.*

Journalism was no longer limited to highly professional editorial teams and journalists. Anyone with a camera and a keyboard was increasingly seen as a credible source of information by the general public. News shared by many social media influencers and bloggers had a higher readership than some of the most established newspapers, most of which were facing a financial crisis. Revenues at WP had been in decline for 7 straight years, with annual losses reaching $40 million.

Digitalization was clearly endangering the very existence of the newspaper industry, but Bezos envisioned it as a novel opportunity. With zero marginal cost of digital distribution—meaning that it costs nothing to create each additional "copy" of a digital newspaper—WP can leverage digital channels to reach a global audience.

Many industry analysts were skeptical about Bezos's global ambitions, however. Why should someone in Australia, Canada, or Britain pay for an American newspaper when high-quality local newspapers are available? After all, the primary interest of most news consumers lies in national affairs. They want to know about local political developments, economic policies, and social issues or international events affecting their countries. Such needs are best fulfilled by national newspapers that are deeply ingrained in local environments.

But Bezos was thinking of an unfulfilled need of news consumers, particularly expatriates, who wanted a global perspective on local issues. For example, understanding the implications of Brexit (the British exit from the European Union, which was finalized in 2020) for Britain may not be enough; many British and expatriate news consumers may have also wanted the perspective of other European countries and the United States. Similarly, Australians and American expats in Australia may be interested in an American perspective on Australia–China relations.

Bezos considered WP well positioned to deliver such a multidimensional global perspective to readers worldwide thanks to WP's globally acclaimed journalism, its location in the key city of Washington, D.C., and its name, which is recognizable even to people who have never read the paper.

The drive toward globalization required WP to initiate news services that could appeal to overseas news consumers. WP did recruit journalists across 26 major locations, such as Sydney, Seoul, China, and London, but it was not enough to develop a deep coverage of local affairs across countries. To overcome this challenge, WP resorted to a novel measure: a news crowdsourcing platform. WP invited not only journalists but also "netizens," i.e., the ordinary users of the internet, to submit news stories through its crowdsourcing platform. The platform's editorial team was substantially enlarged to give them the capacity to select and professionally rewrite stories submitted by the public.

Gathering the news was only the first step. Journalism's traditional emphasis on presenting events objectively was insufficient to attract global audiences that were already getting adequate news coverage from local newspapers. Instead, WP switched to a storytelling approach that analyzed events from multiple perspectives and discussed their implications.

With Bezos on board, WP took storytelling to the next level by blending news with technological advancements. The WP website and mobile app enriched news by creating videos and interactive slideshows and enhancing them with augmented reality (AR). In addition, WP constructed three studios that provided advanced recording facilities. They allowed WP journalists to remotely join programs at major news channels and also produced high-quality original content for the WP website.

Finally, WP localized its websites across several countries. The WP homepage in each key market featured news likely to interest local audiences. Websites also displayed local currencies when promoting paid subscriptions. The extensive localization ensured that readers felt WP was a global newspaper with a local touch.

Despite its innovative approach to news delivery, WP maintained its affordability. In fact, by offering a wide range of material for free, WP prioritized web traffic over subscription income. In addition, WP extensively shared its content on almost every major platform, including Facebook, Twitter (now X), LinkedIn, Snapchat, Pinterest, Tumblr, Google+, and Instagram. The idea was to get as many readers as possible to sample WP, get some of them to pay for a subscription, and convert some of them into repeat buyers.

At the same time, WP kept subscription prices very low. Amazon Prime members were offered additional discounts. Partnerships were also cultivated with local newspapers across countries through which subscribers of local newspapers received deeply discounted WP subscriptions.

Bezos clearly stated that WP's goal was to earn less money per reader on a much larger number of readers instead of a larger amount of money per reader on a smaller number of readers. Such a strategic move was counterintuitive. For many years, advertising revenues had been shrinking for the newspaper industry. For most newspapers, charging higher prices to readers was the only viable way to make up for those losses.

WP intended to buck industry trends, aiming to regain lost advertising revenues. Rapidly increasing web traffic on the WP website was a starting point. Next, WP reshaped industry norms by offering advertisers end-to-end collaborative partnerships and cutting-edge advertisement technology. WP engineers developed novel technologies to understand user preferences and show the most relevant ads that *could boost ad engagement. Such technological advancements started attracting large advertisers like AT&T and Rolex, which appreciated more targeted advertising opportunities.*

WP also developed a third revenue stream beyond advertising and subscriptions. It started licensing its state-of-the-art publishing platform, ARC, to other news companies. ARC was the product of several years of coding and experimentation by WP engineers. It automatically managed news content, user experience, and subscriptions, allowing newsrooms to focus less on technology and more on the news. The software was licensed to a large number of news agencies, producing millions of dollars in revenues for WP.

In 2018, 5 years after Bezos took over WP, the newspaper regained its profitability. By 2021, the newspaper was growing its global subscriptions by more than 60 percent yearly. The WP website was receiving more than 100 million unique visitors each month. WP had accumulated 3 million digital subscriptions, the second highest in the world. As expected, the majority of revenues and web traffic came from English-speaking countries like the U.K., Canada, and Australia.

After such a massive digital transformation, many analysts consider WP as much a tech company as a media company, where engineers are as important as journalists. In fact, WP was recognized as one of the world's most innovative companies, bringing an "Amazonian" ambition to the news.

The challenges for WP, however, are far from over. The newspaper is facing the challenge of attracting a new generation that has drastically different and fast-changing needs. Many initiatives are already underway. In 2021, WP created a new program, Next Generation, to accelerate the acquisition of younger and diverse audiences by developing new products, practices, and partnerships. One example is Help Desk, a team of experts at WP that offers practical advice to younger audiences on better understanding and taking control of technology in their everyday lives.

The changing global landscape is another consideration as reader preferences across countries change fast. Clearly, WP has successfully ridden the waves of digitalization, but new storms are on the shore. In the words of a WP executive: "When a WP employee asks, 'Are we out of the woods now?' we tell them that the woods are endless. We will never be out as the woods are constantly growing. As we get to the edge, new trees crop up."

Sources: "Why Bezos Bought The Washington Post," *60 Minutes*, 2013, https://www.youtube.com/watch?v=oMZaCUylYU8; Martin Baron and Adi Ignatius, "Life's Work: An Interview with Martin Baron," *Harvard Business Review*, July–August 2021; Walter Frick, "Data Goes Best with a Good Story (and Vice Versa)," *Harvard Business Review*, April 28, 2014; Steve King and Carolyn Ockels, "How PwC and The Washington Post Are Finding and Hiring External Talent," *Harvard Business Review*, March 29, 2016; Shirley Koh and Geraldine Chen, "Singapore Press Holdings: Do or Die in a Time of Digital Disruption?" *ABCC at Nanyang Tech University*, January 7, 2019; Ryan Nelson and Kevin Miner, "Digital Transformation at the Washington Post: Innovating for the Next Generation," *Darden School of Business*, 2021; Simon Owens, "The New York Times and Washington Post Have Very Different Business Strategies," 2021, https://www.youtube.com/watch?v=J_13U-kTomA; James Quinn, "CEO Spotlight: Jeff Bezos," *Rotman Management Magazine*, May 1, 2016; "Jeff Bezos Helped the Washington Post 'Take Advantage' of What the Internet Offered: Marty Baron," *Yahoo Finance*, 2021, https://www.youtube.com/watch?v=m4rhcPMNl4c.

The case of WP reflects how companies can identify and profitably meet the **unmet market needs**, i.e., unavailability, inaccessibility, or unaffordability of appropriate products and services required for jobs customers want to accomplish in their lives. Indeed, WP went through a long and tedious journey to identify and address the unmet needs of news readers. As a successful newspaper, WP was committed to traditional tenets of journalism. The focus was on finding and accurately describing newsworthy events, not finding and acting on emerging opportunities.

Jeff Bezos changed this order of business. He challenged WP to find new market needs across countries and leverage technology to develop new products to address these needs. A storytelling approach, using AR to enhance news, engaging customers via Help Desk, and advertisement software are just a few examples of new products, each targeted at specific unmet market needs, that WP developed to stay abreast of the competition. It was a change of mindset, a shift toward inventing and building instead of repeating the recipes of success from the past.

The WP case also reflects the need to leverage internal resources in novel ways, continuously build new capabilities, and engage **external partners**, i.e., independent businesses and individuals that support an MNO in the achievement of its strategic objectives, to capture emerging opportunities. WP's expertise in journalism was valuable but insufficient in a changing world. WP cultivated deep technological expertise by recruiting and retaining hundreds of top technologists. Bezos facilitated a new organizational culture in which journalists and engineers worked together to develop new products that infused news with technology.

Not everything was developed in-house, however. WP relied on its news crowdsourcing platform to broaden its coverage. Crowdsourcing news from around the world, coupled with an efficient editorial team, enabled WP to share news about any important event within minutes. WP also designed the platform and talent network to find, hire, and deploy freelance writers from around the world.

The strategy of going beyond organizational boundaries to cultivate external partners also turned out to be a revenue source. WP treated advertisers as partners who worked together with WP to display more relevant and customized ads. This not only boosted advertising effectiveness but also improved the experience of WP users. Similarly, WP offered its ARC platform to other news agencies, which helped WP earn revenue while also opening an unending stream of fresh ideas for how to improve the platform.

Interestingly, there was no long-term strategic plan setting the roadmap to WP profitability. Bezos encouraged a culture of continuous **experimentation**. Behind each innovation, there was a rigorous process of experiment-test-learn-adapt. For example, WP initially allowed visitors to its website to read 20 stories before encountering a paywall, which was reduced to 10 and, later, 5.

Finally, WP adopted dynamic paywalls in which users who regularly visited the site or read columns by a particular journalist received subscription offers. Similarly, WP created two teams, one focusing on reader revenue and the other on reader experiences. The teams jointly experimented with several website features and storytelling tools to improve user experience and revenues.

WP returned to profitability and growth, but what exactly was the secret behind its success? WP began by identifying unmet market needs. Next, to address these needs, WP leveraged its expertise in technology and journalism in novel ways. It forged new partnerships. It redesigned **key activities** to align with new market realities. At the same time, WP creatively developed new **revenue models** based on subscriptions, advertising, and software licensing, each based on the unique needs of different customer segments.

More importantly, none of this happened in a preplanned way. Extensive experimentation gradually improved every strategic move, but only after substantial trial and error. In the end, it created a focused, coherent, and creative combination of different strategic initiatives that made WP successful. In other words, WP discovered a **business model**, i.e., a way to create and capture value by identifying unmet needs of customers. The business model is all about cost-effectively combining internal resources and external partners to orchestrate key strategic activities that address unmet customer needs and generate revenues in return.[1]

Business models are becoming a new way of formulating and executing global strategies for large multinationals, small start-ups, individual entrepreneurs, and even nonprofit organizations. But what exactly is a business model, how is it developed, and how does it fit in a broader global strategy framework? These are the questions we are exploring in this chapter. Let us start with the most fundamental one: What is a business model?

WHAT IS A BUSINESS MODEL?

LO 2.1	Understand the business model concept and its relevance for global strategy.

A business model is the logic through which an MNO creates value for its multicultural, multinational, and multilateral stakeholders.[2] A business model starts by answering the key question about the value an MNO is creating for its customers. Answering the questions requires MNOs to look deeper into the unmet needs of target customers in a target country and identify a solution.

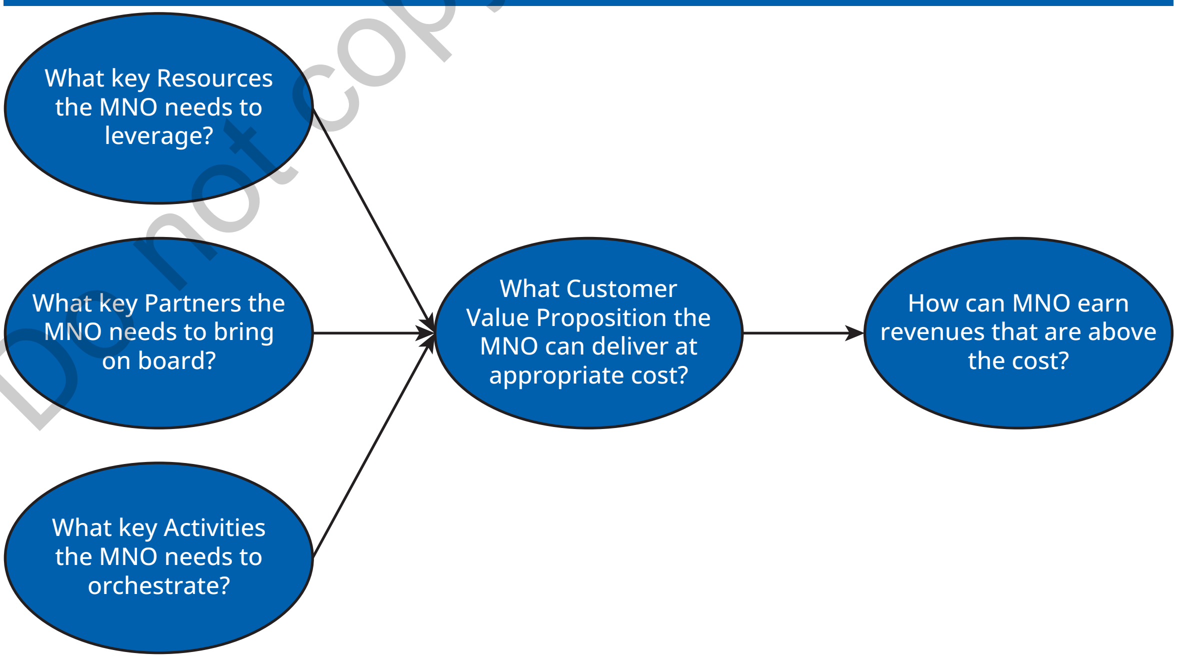
The solution to an unmet customer need is what we call the **customer value proposition**. A customer value proposition can be a product, a service, or simply a different way to operate that responds to an important but unmet customer need. Next, the MNO needs a formula to deliver on the customer value proposition. This is where an MNO identifies **key resources**, key partners, and key activities required to deliver the identified solution to customers at an appropriate cost.

A sound business model helps an MNO determine how to integrate its internal resources and capabilities with the expertise of its partners to architect key activities to create value for customers as well as for a wide range of stakeholders such as suppliers, employees, distributors, governments, and the wider society. Finally, after an MNO successfully creates value for customers by satisfying their unmet needs, the MNO needs a revenue formula to capture some of the value it has created.

As far as the revenues from a customer value proposition are higher than the cost of delivering it, the MNO creates value for itself and its shareholders in the form of higher profits. The concept of the business model aligns the value creation for customers with value capture by MNOs. The stronger the customer value proposition, the higher the customer willingness to pay and the higher the revenues for the MNO.

In a nutshell, a business model answers three critical questions, which we also illustrate in Figure 2.1, to describe the value it creates for customers and other stakeholders. By answering these key questions, a business model tells a coherent story that explains how an MNO operates in a particular target country to serve a specific segment of customers.

FIGURE 2.1 ■ What Is a Business Model?



1. What is the customer value proposition the MNO promises to its customers?
2. What are the key resources, external partners, and key activities required to deliver on the customer value proposition at a reasonable cost?
3. How will the MNO generate sufficient revenues that surpass the cost of delivering the value proposition?

Business Model Versus Traditional Global Strategy

Embracing the concept of business models can steer MNOs toward a trajectory distinctly different from traditional global strategy paradigms. Traditional global strategy commences with the establishment of a vision and mission.[3] The **vision** statement embodies the company's long-term aspirations, delineating its ultimate objectives and desired standing within the global arena, painting a vivid picture of the future. Simultaneously, the mission statement articulates the organization's fundamental purpose, elucidating its core values, target industries, and customers.

Together, these statements delineate the goals an MNO aims to achieve and the avenues through which it intends to do so—by competing in specific industries, targeting particular countries, and catering to specific customer segments where the MNO can attain a competitive position (recall position logic from Chapter 1) or leverage its unique resources for competitive advantage (recall leverage logic from Chapter 1).

For instance, BMW's vision statement, "We are Number ONE. We inspire people on the move. We shape tomorrow's individual premium mobility,"[4] succinctly outlines the company's aspirations and its industry focus. In this context, vision and mission statements delineate the **corporate scope**, which specifies the range and boundaries of business activities of an MNO. The range in corporate scope refers to the industries, countries, and target customers in which the MNO intends to compete because the MNO can attain a competitive advantage in these contexts.

Conversely, the boundaries in corporate scope define the markets in which the MNO chooses not to compete because it lacks a competitive edge or unique resources required to attain a competitive advantage. Derived from vision and mission statements, global strategy guides MNOs in identifying target countries where they can replicate their offerings and resources to achieve a competitive edge and thus, achieve corporate objectives such as profitability or market leadership while avoiding markets that do not align with their current products, services, competitive positions, and resource portfolios.

Reconnecting with Chapter 1, traditional global strategy is mainly about 1 to *n*. MNOs following traditional global strategy frameworks turn into a collection of products and services from largely similar industries, aiming to penetrate countries with sufficient demand for those offerings.

In contrast, the business model approach starts by identifying unmet customer needs that MNOs can reasonably address. While corporate vision and mission statements define what an MNO stands for and aims to accomplish, business models define what customers are and what they want to accomplish. This seemingly subtle shift bears significant practical ramifications. By prioritizing the identification and fulfillment of customer needs, MNOs liberate themselves from the constraints of their existing industries and resource allocations. They are not confined to only countries where their current offerings are valued and their resources yield competitive advantages.

Instead, MNOs embrace the diversity in needs of multicultural, multinational, and multilateral customers and are willing to develop new resources, cultivate new partnerships, and design new activities in each country to serve the unique needs of their customers. As a result, MNOs create new markets in each target country.

As we will explain later in the book, these business models often transcend industry boundaries, leveraging knowledge and resources from multiple partnering companies, industries, and countries to offer distinctive customer value propositions in each target market. For such MNOs, corporate scope remains fluid as these MNOs constantly redefine themselves in response to changing customer needs across countries.

As Jeff Bezos put it, Amazon is all about creating new, agile, product-focused businesses that perfectly address the needs of a particular customer segment, however small.[5] Because of that approach, Amazon has consistently renewed itself with new business models centered around novel products like Amazon Web Services, Alexa, and even a household robot, Astro.

Implementing Opportunity Logic in Global Strategy

Business models offer a practical pathway to approach global strategy from an opportunity logic lens. MNOs that prioritize identifying and capturing new opportunities faster than competitors shift their focus beyond their own vision and mission to newly emerging market opportunities across countries. This includes addressing new customer needs or leveraging technological and geopolitical transitions to fulfill existing needs in innovative ways. This is where business models provide a framework to embrace opportunity logic by shifting MNO focus to consistently seek unmet customer needs and address them by developing innovative business models.

THE BUILDING BLOCKS OF A BUSINESS MODEL

LO 2.2 Identify the three building blocks required to construct a business model.

After we understand the concept of the business model, we can dive deeper into three key components, or building blocks, to construct business models, i.e., identification of customer value proposition, creation of customer value by delivering on customer value proposition, and capturing value through revenue formulas.

For now, you can consider these three components as three stages MNOs can follow in a linear fashion to develop their business models. As the textbook progresses, you will see many interactions among these building blocks as MNOs experiment and iterate these components to gradually perfect their business model.

Let us discuss each of these building blocks in detail.

Customer Value Proposition

Designing a customer value proposition requires a deeper understanding of customer needs in a country. To identify these needs, MNOs examine what customers are trying to accomplish in their lives. Products or services are just vehicles and tools that help a customer get a specific job done.[6]

For example, a customer pays money for a Netflix subscription, but what the customer really seeks is relaxation after a busy day of work or a way to connect with friends interested in similar movies. So for that customer, it doesn't matter whether a show is a Hollywood-style blockbuster movie or a Korean TV drama; Netflix will get the job done as long as it can provide entertainment value for viewers with that need around the world.

Whenever an MNO identifies a job for which appropriate tools are unavailable, unaffordable, or inconvenient, the MNO has found an opportunity to create a new customer value proposition. For example, General Electric (GE) noticed that unexpected machinery breakdown was a key pain point for its industrial customers in the U.S. and Europe. Most GE customers recruited armies of checkers carrying hand-held devices to periodically gather data on machinery conditions and identify breakdowns quickly.

However, the method was inefficient and prone to errors. In other words, GE customers had a job for which current tools were inadequate. The realization led GE to develop an automated solution: GE started installing sensors in its machines that collected real-time data about each machinery component. GE captured a massive amount of data in the cloud, where machine learning and artificial intelligence algorithms continuously analyzed it to predict the need for preventive maintenance.

As a result, GE could alert customers of any machinery issues well in advance, eliminating the need for machinery checkers and reducing the risk of production halts due to machinery breakdowns. Hence, GE provided its customers with a cost-effective and convenient way to get their jobs done.[7]

Creating Value to Deliver Customer Value Proposition

After identifying a customer value proposition, the next step is to design key activities and processes to create value. MNOs can begin by deploying their current resources and capabilities, such as research expertise, engineering infrastructure, and manufacturing facilities, which can help deliver on the customer value proposition.

However, simply leveraging and refining current capabilities may not be sufficient. The novelty of value propositions often requires MNOs to develop a new range of resources and capabilities as well as to engage with external partners who can help fill any gaps in the MNO's resource portfolio.

The management consulting firm Deloitte realized the need to build its expertise in digital technologies, particularly artificial intelligence and machine learning, to serve its clients. But the reality was that neither Deloitte nor its large, established clients were successful in attracting digital natives and data scientists. As a result, Deloitte designed a global crowdsourcing platform to hire digital experts worldwide on a temporary, as-needed basis. The platform enlarged Deloitte's talent pool to include experts from not only the U.S. and Europe but also developing economies like India.

Partnering with digital experts substantially enhanced the range of services Deloitte could offer its diverse clients in multiple countries. Nevertheless, to benefit from the crowdsourcing platform, Deloitte had to develop a new range of capabilities, such as breaking complex tasks into small parts, evaluating the quality of work from crowdsourcing platforms, and retaining high-performing digital experts across different countries without signing formal employment contracts.[8]

The creative combination of internal resources with the expertise of external partners leads to a new set of key activities. In the process, MNOs create value not only for customers but also for a wide range of stakeholders whose contributions are critical to delivering on the value proposition.

Ensuring appropriate value creation for all stakeholders is essential for the long-term viability of a business model. Only when stakeholders receive appropriate value do they remain committed and actively contribute value to the MNO. Conversely, exploitative policies, such as using bargaining power to secure low prices from suppliers, may improve short-term profitability but reduce stakeholder commitment to MNOs.

On the other hand, creating value for stakeholders may not appear profitable in the short term, but positive relationships can ensure long-term success for an MNO. When Italian energy company ENI entered Kazakhstan to source oil and gas resources, it focused on creating value for Kazakhstan instead of simply exploiting natural resources. It trained local employees for engineering and managerial positions at ENI, secured equipment from Kazakh suppliers, disseminated knowledge to local industry,[9] and supported the Kazakh government in its strategic goals, such as a transition to renewable energy.[10]

Such initiatives may increase ENI costs in the short run. Still, they turn ENI into a strategic partner for Kazakh society, ensuring continuous commitment and support from local stakeholders for ENI's value-creating activities.

Capturing Value

A business model is viable only if it contributes to the MNO's profitability. Revenue streams and resultant profits reflect the MNO's portion of the value out of the total value it creates.

Capturing value requires MNOs to create value at a reasonable cost. In this sense, cost management is not about exercising bargaining power or squeezing employee salaries but about finding innovation opportunities. For example, the Italian handbag manufacturer XYZbag reduces the massive cost of designing handbags and carrying inventories by combining open innovation and 3D printing. XYZbag provides an easy-to-use platform through which customers from any country can design their own bags, which will be produced by 3D printers and shipped anywhere in the world. It enables the company to address the unique tastes of every country while minimizing the cost of designing, manufacturing, and storing a large variety of handbags.[11]

Besides managing costs, MNOs can also be innovative in designing revenue formulas. On a basic level, if MNOs effectively address significant customer needs that customers are willing to pay for, they can charge a reasonable price for their offerings. Nevertheless, MNOs can go beyond the traditional buying and selling model to create new revenue streams that align better with unique customer needs in a country.

For example, the Israeli firm Netafim developed drip irrigation technology that could increase crop yield by 300 percent to 500 percent. However, farmers, particularly in developing countries like Ethiopia and India, were not interested in or even able to understand the complicated drip irrigation hardware and machinery. With some frustration in the early trials, Netafim soon realized that what deterred farmers from adopting the technology was the high price tag, as they couldn't afford the new technology before harvesting their crops.

After discovering this pain point, Netafim started offering partnership agreements under which the company installed and ran the technology for free. Farmers paid Netafim a portion of revenues earned from increased crop yield. This revenue model developed farmers' confidence in the technology and accelerated its adoption.[12] By reaching out to farmers in developing countries with its innovative revenue models, the company enjoys a 30 percent global market share in drip irrigation.[13]

With technological advancements, MNOs are also finding novel ways of earning revenues that may require minimal payments from end users. The obvious ones are advertising and sponsorships. Even subscription giants like Netflix are now offering lower-cost subscriptions to customers willing to watch advertisements.[14] Another attraction is the data MNOs collect from customers, especially if this data can help create new value propositions and business models.

For example, Uber used massive amounts of data it collected from its ride-sharing business to experiment with innovations like autonomous cars.[15] Finally, perhaps one of the most prominent revenue models of today is the **freemium** model in which a basic product or service is available free of charge, but payment is required for additional features.[16]

Besides providing customers a trial of a product or service for free, the freemium model allows many customers with low purchasing power to afford the basic version of many products and services, allowing MNOs to tap new markets.[17] For example, some MNOs experimented with free internet service in Africa, where only about 20 percent of the population uses the Internet. General access to low-speed Internet was provided for free with an option to pay for faster speeds. The freemium internet allowed many Africans to explore the advantages of the internet without worrying about any financial burdens.[18]

THE RISING IMPORTANCE OF BUSINESS MODELS

LO 2.3	Explain the key reasons for the rising importance of business models in global strategy.

What is driving the widespread discussion about business models in today's business world? While we've touched upon various advantages of business models, let's consolidate our discussion to pinpoint the primary reasons behind the significant interest in business models, even among large and well-established MNOs that have achieved decades of success through traditional global strategy approaches.

An Emphasis on Value Creation

What makes a business model approach the new recipe for success in a turbulent global business environment is its emphasis on value creation. Historically, MNCs have taken an **inside-out approach**. They looked inside the organization to identify products, resources, and capabilities that could be leveraged to earn profits across countries, even if these offerings do not address the real pain points of customers in a country.

For a long time, Coca-Cola and Pepsi deployed their marketing capabilities to cultivate a global preference for carbonated drinks, even when it required swaying people away from traditional and often healthier alternatives like water, fruit juices, and tea. A spokesperson for Coca-Cola famously said in the late 1990s that the company's real competition was water, tea, lemonade, and Pepsi… in that order.[19] Such an approach reflects the traditional mantra of sticking with the businesses MNCs know or the industries they understand and then finding ways to reshape customer preferences accordingly.

A business model approach, on the other hand, flips this equation. It emphasizes an **outside-in approach** in which MNOs start by understanding customers' unique needs and pain points in different countries. In a rapidly evolving landscape in which competition arises unexpectedly and industry borders blur, numerous MNOs are finding it essential to shift the emphasis from internal resources and capabilities to fulfilling genuine customer needs. In this context, a business model serves as a suitable framework.

A Broader Tool Set

The business model approach empowers MNOs to transcend their existing resources and industry confines, adopting a comprehensive and multidimensional approach to value creation.[20] This expansion significantly broadens the tool kit and strategies accessible to MNOs, facilitating the seamless navigation across industry borders and national frontiers to integrate resources and expertise in addressing customer needs.

For example, major sports leagues traditionally relied on cable companies for broadcasting their events. However, they found that viewers were shifting to streaming services and dropping cable services. Responding to these new needs, many leagues started going direct to consumers by launching their own video subscription services. The transition to a new business model required new technology and expertise, such as sensors to enhance the audio or cameras on referees to give viewers a player's-eye view.[21]

Orientation to Stakeholders

A major strength of business models is an adequate assessment of multiple stakeholders involved in their business operations. Instead of globalizing the best of its expertise, an MNO seeks to access the best expertise that partners around the world can offer. Indeed, MNOs can radically redefine value propositions when they stitch together pieces of external knowledge.

For example, the management consulting firm McKinsey & Company studied a Chinese financial technology MNO that targeted international travelers who needed to borrow money on the fly while shopping overseas. To securely lend money to international travelers, the company combined technologies from different partners to develop a lending app. The app detected a customer's voice and passed it to online algorithms for identity recognition.

Next, it queried the customer's bank accounts, credit history, and social media profiles. Based on this analysis, it combined offers from multiple lenders to show a range of loan amounts available at different terms. All of this happened within seconds, compared to the days normally required by financial institutions extending credit to international travelers.[22]

In fact, a substantial engagement with diverse stakeholders can help create entirely new products and even industries by integrating internal resources, formal partnerships, and access to shared, free, and autonomous resources. After exclusively developing its products internally since its establishment, Procter & Gamble (P&G) realized that a wide variety of smart new ideas that were more relevant to varying customer needs around the world lay outside P&G boundaries. For more than two decades, P&G has been operating its Connect+Develop platform, which allows customers to submit ideas for products that meet their local needs. More than 45 percent of product development initiatives at P&G are now discovered via the Connect+Develop platform.[23]

Certainly, engaging stakeholders necessitates that MNOs reciprocate and contribute to their welfare. The focus of business models on collaborative value creation motivates MNOs to extend beyond mere financial transactions and actively identify and fulfill the authentic needs of all stakeholders. When Netflix moved beyond exporting American movies and TV shows and began to develop localized content for each country, it partnered with filmmakers and studios worldwide.

Such partnerships enable Netflix to attract a more multicultural, multinational, and multilateral audience. They also provide a global platform for filmmakers across countries to showcase their talent on the world stage. Just see the number of Oscars won by the three amigos (Alfonso Cuarón, Alejandro Iñárritu, and Guillermo del Toro) that is largely attributed to their engagement with Netflix, an achievement almost unimaginable for most filmmakers from developing countries.[24]

Overall, MNOs taking a business model approach extend their reach beyond industry confines to engage a diverse array of stakeholders. A business model delineates various stakeholders, laying out the value they bring and receive in return. This explicit acknowledgment of stakeholders enables MNOs to duly recognize and compensate them, thereby placing stakeholder value creation at the forefront of business operations.

An Agile but Systematic Approach to Global Strategy

Last but not least, business models emphasize flexibility and agility while also providing a systematic and modular approach. Let us begin by the systematic thinking a business model invokes.

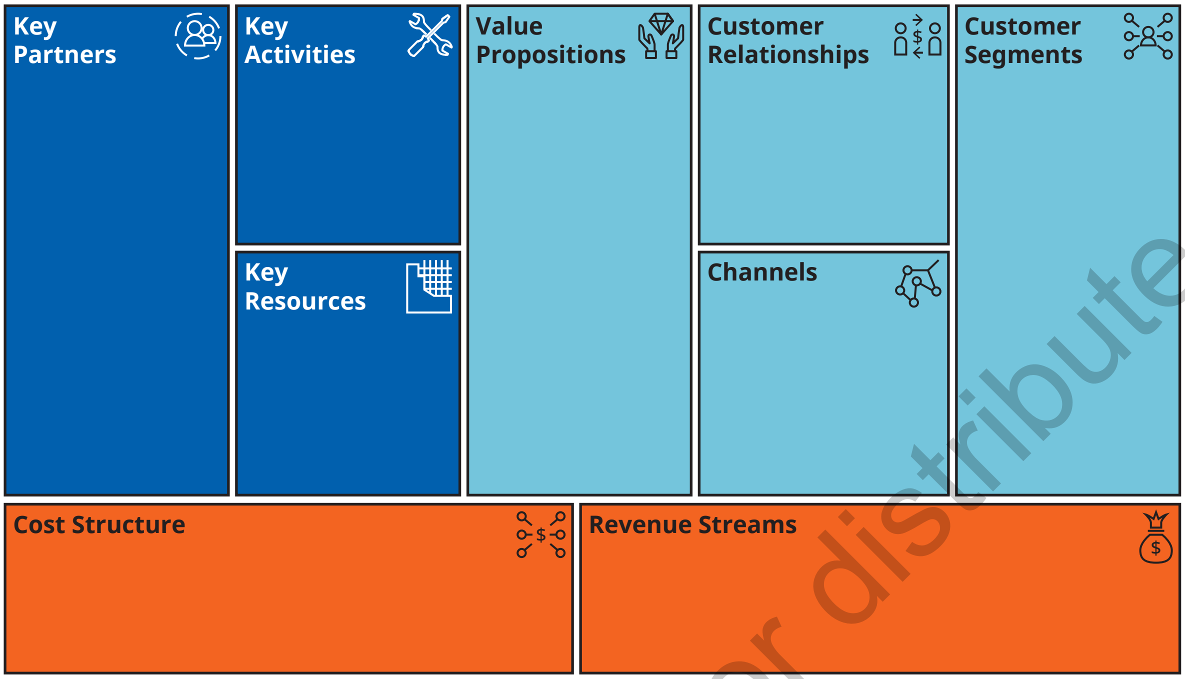
To many, a business model is a complex web of multiple components strongly interrelated with each other. Fortunately, we have a simpler way to design a business model. Alexander Osterwalder, during his PhD studies, coined a creative way to systematically organize different elements of a business model in a comprehensive and easy-to-understand manner.[25]

The outcome was **Business Model Canvas**, a comprehensive dashboard that represents key strategic factors and their interrelationships on a single page,[26] as we show in Figure 2.2. The Canvas summarizes business models in nine key blocks, which represent three major modules, as highlighted in blue, pink, and orange colors. The blue boxes represent the value an MNO seeks to create for customers. MNOs identify relevant customer segments, channels to reach them, and strategies for building customer relationships, all of which are required to develop a unique customer value proposition. Pink boxes represent the formula for creating value, or delivering the customer value proposition through key resources, key partners, and key activities. Together, the blue and pink boxes represent a **narrative test**, i.e., a logical story about who the customers are, what they value, and how a company can deliver value to them.[27]

Filling these boxes requires MNOs to dig deeper into unique but unmet customer needs and outline the effectiveness of the proposed solution in meeting these needs. Orange boxes represent the financial viability of the plan. The two orange boxes offer a **number test**, which compares expected costs and revenues to determine the profitability of the business model. Business models necessitate that MNOs ensure alignment between the narrative test and number test, i.e., in order to be profitable, MNOs need to deliver the customer value proposition at a cost lower than the price customers are willing to pay. Putting all interlinked components in a dashboard enables an MNO to construct and communicate a coherent story.

However, the journey does not end by filling all boxes at Business Model Canvas. Remember, a business model is not a long-term plan but a framework to consistently adjust and respond to changing market needs. The Business Model Canvas is aimed at making MNOs more agile and dynamic in a

FIGURE 2.2 ■ Business Model Canvas



Source: Sahil Patel, "Business Model Canvas Explained: A Step-By-Step Guide," *LinkedIn*, June 21, 2020, https://www.linkedin.com/pulse/understanding-business-model-canvas-sahil-patel/.

systematic way. By putting all key elements on one page, the Business Model Canvas allows MNOs to test the effectiveness of a business model in the real market.

This is where MNOs uncover which elements do or do not work, which provides them the basis for **iterations**, i.e., modifications in the business model or its components based on a better understanding of customers and market or due to changes in the business environment. It initiates a cycle of continuous testing, experimentation, and iteration under a disciplined and systematic approach. As we will discuss in the next section, such continuous iterations of business models are critical for identifying and capturing fleeting opportunities in multiple countries.

AN OPPORTUNITY LOGIC VIEW OF A BUSINESS MODEL

LO 2.4	Apply an opportunity logic lens to test and iterate business models to gain an edge over international competitors.

A business model is a powerful tool to help MNOs develop a global strategy, but a business model is not a strategy itself. Instead, it can be considered a snapshot of the strategy an MNO is following at a particular time.[28] In other words, the business model takes a static view of the world. It does provide the logic through which an MNO creates and captures value in a target country but does not specify how the MNO can continue creating and capturing value in the face of a turbulent global business environment.

If you love gaming, you might be familiar with *Super Monday Night Combat*, a free-to-play multiplayer game developed by Uber Entertainment. Since its 2012 launch, the game has enjoyed immense popularity among European gamers. However, despite its European fan base, the introduction of GDPR by the European Union imposed rigorous requirements on the platform. These included obtaining explicit user consent for data collection, providing data upon customer request, and deleting user data upon customer demand.

Complying with these requirements necessitated that Uber Entertainment completely rewrite the game, as the existing software couldn't meet the standards. Consequently, despite its success, Uber Entertainment was compelled to shut down the game in Europe.[29] This example underscores how a value-creating business model can face challenges or even be rendered obsolete by shifts in the broader business environment.

This is a critical limitation of business models. No business model operates in a vacuum. It faces continuous transitions in regulations, customer preferences, and competitive environments, which can thwart even the most promising business model. The success of any business model also attracts a swarm of competitors looking to outcompete or even outright imitate the business model.

For example, Domino's enjoyed success in Italy by addressing the unmet need for quick and efficient online ordering of pizza for delivery. Creating this new value earned the American pizza chain substantial popularity in the birthplace of pizza, but local chains soon learned and copied the model. As a result, Domino's lost its market share, and its Italian franchisee filed for bankruptcy.[30]

Similarly, in China, Didi successfully outsmarted Uber and TaoBao outcompeted eBay, mainly by introducing more refined and locally relevant versions of the same business models Uber and eBay had created. In fact, some MNOs like Rocket Internet have made a fortune simply by launching clones of already-proven business models in new countries. Under the brand name of CityDeal, Rocket Internet copied Groupon's business model so successfully in Germany that Groupon had to purchase CityDeal for $170 million to enter the German market.[31]

The dynamic nature of the global business environment and the hypercompetitiveness of the global marketplace can prevent an MNO from earning sustainable profits or recovering substantial investments in foreign operations. This is where a strategic spin on the business model becomes necessary.

Compared to a business model, global strategy seeks the long-term survival, growth, and profitability of an MNO. Hence, simply designing a winning business model is insufficient. From an opportunity logic lens, global strategy is about identifying and riding on new waves of opportunities to consistently create new value curves.

In this view, MNOs need to continuously reiterate their business models to address turbulences in the global business environment and stay ahead of their competitors. They constantly develop, test, iterate, and reiterate multiple business models across countries and, when required, scrap current business models altogether to adopt entirely new ones. Only maintaining and renewing a portfolio of business models leads to long-term profitability in a constantly changing global business environment.

Take the example of Zynga, the developer of many globally popular social games like *Farmville, Zynga Poker*, and *Words with Friends*. Many competitors cloned its games, but Zynga remained ahead of them through continuous iterations. The company collected petabytes of daily user data and released hundreds of weekly updates to offer new gaming options that better met gamer preferences.[32]

Zynga also used data to iterate and refine its revenue formula several times each year. For example, it offered in-app purchases initially but added some novel options, such as opportunities to earn in-game assets by completing surveys for advertisers or buying products and services sold by Zynga partners.[33] Continuously testing and iterating its business models kept Zynga several steps ahead of emerging competition. Therefore, it is critical to understand how MNOs ensure long-term profitability through testing and iterations of business models.

Testing a Business Model

A business model comprehensively summarizes all key components and their mutually reinforcing relationships, yet there is no guarantee that all components will work exactly as described in the business model. In reality, a business model is not a plan waiting to be implemented. Instead, it is a set of **hypotheses** about the possible implications of different business model components, which must be rigorously tested in the real world and continuously refined based on market feedback.[34]

Deliberate Versus Emergent Strategy

Treating a business model as a set of testable hypotheses instead of a rigorous plan marks the major distinction between two perspectives of strategy: deliberate strategy and emergent strategy.[35] A **deliberate global strategy** outlines detailed strategic plans to achieve the corporate vision, mission, and strategic objectives. It is a conscious and analytical process in which top management carefully analyzes the global business environment, target markets, competitors, technologies, and all other variables affecting the business. The outcome is a detailed top-down plan with a discrete beginning and ending that specifies the actions an organization needs to undertake.

Such an approach to strategy is only feasible if strategists perfectly understand all essential details required to succeed and can communicate the strategy in a way that will win the approval of employees at all levels. There can be no unanticipated changes in political, competitive, or technological environments. Rarely are such conditions met in real life.

Even the most rigorous plans are not based on known facts but on several myriad **assumptions**, i.e., sets of conditions about customer needs, competitive moves, and other market dynamics that the strategists expect to be true for the business model to work. However, many of these assumptions may not survive the dynamics of the real world, especially when MNOs face a variety of business environments across diverse countries in a VUCA (volatile, uncertain, complex, and ambiguous) world. As the boxer Mike Tyson put it, "Everybody has a plan until they get punched on the mouth."

This leads us to the second perspective of strategy, mainly proposed and advocated by Henry Mintzberg: strategy as action or **emergent strategy**. From this perspective, strategy emerges in a bottom-up fashion when front-line staff and middle managers seek to better understand and respond to markets, customers, competition, and evolving trends by making a series of smaller decisions.[36] The series of smaller decisions gradually morphs into a specific set of resources, partners, and activities successfully meeting a well-defined set of customer needs.

To better understand the distinction, let's contrast the strategies of Nokia and Apple. Nokia relied on a deliberate strategy based on its understanding of the cell phone market. It mass-produced its mobile phones for sale around the world, even when new technologies were available for experimentation.

Apple, on the other hand, used an emergent strategy as it tried and tested a variety of technologies, frequently designing several new models of smartphones simultaneously. It continuously evolved smartphones, underlying technologies, pricing models, and marketing strategies as it gained a better understanding of the market, customers, and technologies. Such flexibility also put Apple in a better position to respond to unforeseen trends.

Given the hypercompetitiveness of markets in a VUCA global business environment, emergent strategy is emerging as the critical approach to global strategy, particularly when many MNOs seek to create **nascent markets**, i.e., new markets or novel industries in which competition may not even exist, and the rules of the game are not yet defined. In such situations, customer needs, the competitive environment, or industry norms are in flux. Even regulations pertaining to these new markets are sometimes unclear, nonexistent, or unexpectedly changing.

In such VUCA markets, designing and executing deliberate strategies is usually impractical. Instead, strategies emerge as MNOs test their initial ideas, learn from feedback, and modify their intended strategies based on their customers' feedback. This is a process of continuous experimentation and learning.[37] This is how we can utilize the business model to develop a dynamic and flexible global strategy. As a set of hypotheses instead of deliberate plans, a business model forces MNOs to consider various alternate means that can create and capture value.

The Art of Testing the Business Model

After the business model sets up the hypotheses, MNOs develop tests to distinguish alternatives that actually work. Accordingly, an MNO may implement, drop, or modify different components of its business model.

For example, when LinkedIn focused on India, the platform found it difficult to engage Indian job seekers due to the slow internet speed in India. The company started with the hypothesis that offering a light version of the site with reduced graphics might enhance user engagement. This was a testable proposition, so LinkedIn put together a plan to gather the data required to affirm or reject this proposition. It conducted several experiments on a subsection of Indian users with varying quality of graphics. Through substantial trial and error, LinkedIn identified a viable LinkedIn Lite version to increase user engagement without compromising user experience.

Nevertheless, testing any component of a business model is not a one-time process. The extensive experimentation only created a viable version, or minimum viable product (MVP), which LinkedIn continuously refined by testing new features and graphic settings, especially given the changing preferences among Indian users and improvements in internet speed in India. Throughout the process, it was customer feedback, not the managerial institution, that defined and refined LinkedIn Lite.

In other words, testing a business model is an infinite journey of refining different components of business models and often replacing them with more viable alternatives.[38] The business model that emerges from such continuous actions, learnings, and refinements reflects the realized strategy of an MNO.

Dealing With Failure

Emergent strategies usually require a high tolerance for failure and the ability to find alternate paths. For instance, Vendedy, an online platform that allowed artisans in Haiti to showcase and sell their artworks to buyers around the world, initially required street artisans to upload pictures of their handmade products to the platform. The strategy failed, as street artisans lacked digital marketing skills, and it wasn't easy to train thousands of them.

After the business model failed the test, Vendedy hypothesized another alternative. It asked tourists instead of artisans to take photos of street market products they find attractive and tag the contact information of the artisan, including phone number and social media profile. The new strategy worked. It turned out that tourists loved to support artisans they liked and contribute to the countries they visited.[39]

Not all business models ultimately work, however. Despite repeatedly testing different hypotheses, some MNOs fail to figure out the right business model for the desired market. Nevertheless, the experience and learning can lead to a new business model in the same or even different countries.

In Nairobi, SC Johnson & Son found many houses are infested by insects, but people were either unable to afford home cleaning products or couldn't understand the appropriate method to use them. To address these pain points, SC Johnson developed home cleaning teams that could appropriately clean each home and charge for only the product used in the cleaning. It freed customers from the burden of buying several home cleaning products or learning to use them.

However, it turned out that people were so accustomed to their surroundings that SC Johnson offers did not resonate with them. Also, local norms deterred people from inviting strangers inside their homes. SC Johnson modified and retested the model again and again, changing pricing and packages and targeting different customer segments like schools, stores, and housing developments. However, these efforts achieved only limited success, and the project was finally scrapped.

Nevertheless, a new strategy emerged from the failure in Nairobi when SC Johnson targeted similar demographics in rural Ghana. Instead of focusing on insects or cleanliness, however, SC Johnson targeted the goal of malaria prevention. This value proposition resonated with people in an area in which many endure illness and loss of wages due to malaria. SC Johnson created a direct sales model with community coaches who gave product demonstrations to educate people about the correct methods of use.

SC Johnson also sold products via a subscription model to ensure that people use them multiple times. The model proved a big success in Ghana and paved the way for SC Johnson to address other societal problems caused by the lack of cleanliness in other countries.

Such examples indicate how can strategies emerge by embracing failures, learning from them, and refining the business model in the same or different markets.[40]

Testing as a Gradual Process

An emergent strategy enables an MNO to gradually allocate new resources and win the support of MNO managers and external partners based on the initial success of a business model. This is particularly critical when MNOs venture into new markets and chances of success are unclear.

By continuously testing viewership of different programs across customer segments, Netflix realized that underrepresented audiences, particularly Latina and Black women, were driving Netflix viewership. The evidence played a critical role in convincing Netflix management and movie studios to put more stories on the air about women and underrepresented audiences.

Netflix also scored a counterintuitive victory in France due to its culture of testing and experimentation. The industry wisdom suggested the American crime drama series *Power Universe* would find little viewership in France, yet it became Netflix's best-performing show in France. Netflix had noticed substantial changes in the population of France with the arrival of refugees from all over the world who have distinct viewing preferences. This realization allowed Netflix to target refugees with programs that were not popular with the native French population.[41]

Iterating a Business Model Toward a Virtuous Cycle

After the business model is tested and refined in a country, MNOs can scale the business model to serve other suitable countries. The idea of replicating a proven business model across countries is always tempting. Globally replicating the same business model can multiply revenues manyfold while saving MNOs a great deal of resources required to test and refine the model in every country. The question is, to what extent are such replications possible?

Google is a case in point. Absent regulatory barriers, Google's unique search engine algorithms may be valuable to users in almost every country. But does it mean that Google can replicate its business model in any country? It may not be that easy.

First, consider variations in web search behaviors. For example, when an American searches for information about his partner's pregnancy on Google, medical and insurance websites may be of interest. On the contrary, someone in Mexico in the same situation is more likely to visit florist and gifting websites.[42] Such systematic differences in search behaviors require substantial adjustments in Google's algorithms across countries.

Next comes advertising, the primary source of revenue for search engines. Each country has a different network of advertisers that Google needs to tap into. Not to mention, different languages, cultures, and regulations may further limit Google's ability to replicate its business model from country to country.

GLOBAL STRATEGY IN ACTION

Lumni: Selling a Stake in Your Future

You must be aware of many businesses that solicit investments to finance their operations and, in return, share a part of their profits with their investors. But will you be willing to accept an "investment" to finance your education and share a percentage of your future income with investors? This might seem expensive. What if you end up securing a multimillion-dollar job? You could end up paying your "investors" several times over the cost of your education. Instead, you may prefer student loans that just require you to repay the principal plus interest.

But take a step back. Think about risks. What if you decide to launch your own business, which might earn nothing for a few years? What if you prefer a job in the nonprofit sector or in developing countries that may not pay as much? Whatever the circumstances, you need to pay back these loans with interest. After all, the student loan industry is largely interested in getting its money back, not in your success. Investors, however, would have a stake in your future. They may go beyond money to contribute their guidance, mentorship, networks, and other resources, because their returns will be tied to your success.

While you compare the pros and cons of financing your education via debt or selling "equity" in your future, consider an MNO, Lumni, which provides investments instead of loans for university education. Two Colombians, Felipe Vargara and Miguel Palacios, launched Lumni to help Latin American students finance their educations. Higher education in Latin America is highly valuable. A university degree holder makes around 140 percent more than a high school graduate.

Due to high default risk, however, there are very few federal loan programs, while private banks charge prohibitively high interest rates. No wonder only about 2 percent of students take out student loans, and 80 percent of high school graduates decide not to pursue higher education. Vargara and

Palacios explored investments as an alternative. What if investors paid for education in exchange for a percentage of the student's income after graduation? It would be a low-risk option for students and a high-return option for investors.

Vargara and Palacios launched Lumni in Colombia. Instead of directly investing in students, Lumni partnered with private investors and the Colombian government to establish various funds, each directed at different student profiles and study programs. Lumni developed unique expertise in assessing the future potential of students, particularly their salary projections after graduation.

This required Lumni to consider a variety of factors, including not only academic histories, career goals, and personal competencies of students but also future macroeconomic and industry conditions. The tool they developed also allowed investors to evaluate and choose students for investments independently and feel confident that their investments would be profitable. It was equally critical to safeguard the interests of students. Lumni limited the maximum payment to 15 percent of salary after graduation. Creating such win-win agreements led to a successful business model in Colombia.

Soon, Lumni set its sights on other countries. Although Lumni was focused on countries with low-income students and insufficient financing options, the unique needs of each country required Lumni to create new models. The factors that predicted a student's potential in Colombia had little relevance in other countries due to differences in macroeconomic environments, salary standards, and industry requirements. Lumni had to relearn the art of assessing students in each new market.

Similarly, Lumni dealt with different political, legal, and economic systems. In Chile, for example, a lack of transparency in the economy makes it difficult to determine the income a student earns after graduation, especially if the student starts a new venture or joins the family business. Therefore, Lumni created contracts based on average industry salaries. Similarly, Mexico lacks a culture of responsibility and liability, which enhances default risk. Lumni required Mexican students to sign agreements with a co-obligor—another person, such as a parent or friend, who considers the student a trustworthy individual and agrees to fulfill the contract if the student does not.

Lumni has supported more than 8,000 students in Colombia, Mexico, Chile, and Peru. Bloomberg Businessweek named Palacios among the 25 most promising social entrepreneurs. Indeed, Lumni's success led to imitators around the world, even in advanced economies, such as the U.S. and Germany. The popularity of this idea is perhaps Lumni's most significant achievement, since the MNO pioneered a new industry creating new value curves across countries.

Discussion Questions

1. Compare the value propositions of student loans and educational investment for yourself. What resources could educational investors offer to convince you to share your future income with them?
2. Find a potential target market for Lumni. Then, propose a business model Lumni can employ in the new market and specify virtuous cycles that Lumni can leverage.
3. From the business model you proposed in question 2, identify three testable hypotheses. Describe the method through which Lumni can test these hypotheses.

Sources: "Business Innovator: Lumni, Inc., Chile and Colombia," Americas Quarterly, July 22, 2010; Luis Felipe Marti Borbolla, Jose Alfredo Walls Gomez, and June Cotte, "Lumni Inc.: Improving Society in a Sustainable Way," Ivey Publishing, February 14, 2018; "Start Me Up," Crowdfunding Students, Economist, June 15, 2013.

A successful business model, refined over several rounds of iterations, is undoubtedly valuable but rarely replicable across borders. That fact does not mean MNOs should limit their business models to a single country, however, or reinvent the wheel in each new country. Scaling a business model to new countries does require a fresh lens to see the unique needs of stakeholders. However, MNOs may still be able to leverage several components of the current business model in the new country.

Refer to the feature on Lumni. The company had to iterate its business model in each country it entered, even though it was focusing on Latin American countries with largely similar political, social, and economic conditions. Indeed, the success of Lumni turned out to be a **reverse innovation**, in which an idea spreads from developing economies to more developed ones.

Start-ups in advanced economies followed Lumni's lead, creating business models to finance higher education via investments. Though all these start-ups were financing higher education, they iterated Lumni's business model to suit drastically different environments in advanced economies.

Take the example of Upstart, which introduced a similar model in the U.S. Unlike Lumni, however, Upstart used crowdfunding, in which several investors can jointly finance a single student. Candidates post gushing profiles to attract investors by describing their achievements and plans, and they choose the percentage of their income to share with investors. Based on this information, investors choose whom to support. Upstart also caps total payback at 5 times the investment so that any students creating highly profitable start-ups don't have to pay exorbitant amounts.

Leveraging Virtuous Cycles

The complexity of scaling a business model is compounded by **mutually reinforcing relationships** among its various components, known as **virtuous cycles**. These cycles occur when one component of the business model reinforces another, creating a self-reinforcing pattern. Alterations to even a few components can disrupt the virtuous cycles upon which the business model depends.[43]

Take the example of Uber. Given the limited presence of digital payment systems in Africa, Uber decided to allow cash transactions. The seemingly small change put into question the mutual interdependence of several components on which the Uber business model is based. With its reliance on electronic payments, the Uber business model rarely had to address issues like the identification of riders or the safety of drivers traveling with large sums of cash.[44]

To implement cash transactions, Uber had to reconfigure its business model by leveraging new resources and adding new partners. For example, Uber partnered with Facebook to access social media profiles and developed algorithms to combine social media data with other publicly available data sources to verify rider identity and calculate ride risk factors.[45] Hence, scaling a business model across borders is possible, but the effort goes beyond simple replication or minor adjustments. Instead, a substantial reconfiguration of business model components may be essential to meet the needs of multicultural, multinational, and multinational stakeholders.

The complications of iterating a highly integrated business model also represent an opportunity to create virtuous cycles in which all key components of a business model mutually reinforce each other.

Contrast the opening case on WP's business model innovation with the business model of its major rival, *The New York Times*. While WP sought to create a global news platform powered by advertising revenues and sales of platform services, the *Times* focused on maximizing digital subscriptions. Each newspaper created a different set of value propositions, key activities, and revenue streams to support its business model. WP aimed to maximize web traffic by targeting the global market with lots of free content and a storytelling approach. Attracting a global audience from diverse countries attracted a wide range of advertisers and helped WP develop new publishing and advertising platforms. These revenue streams boosted WP's capacity to offer more free content and attract more web traffic.

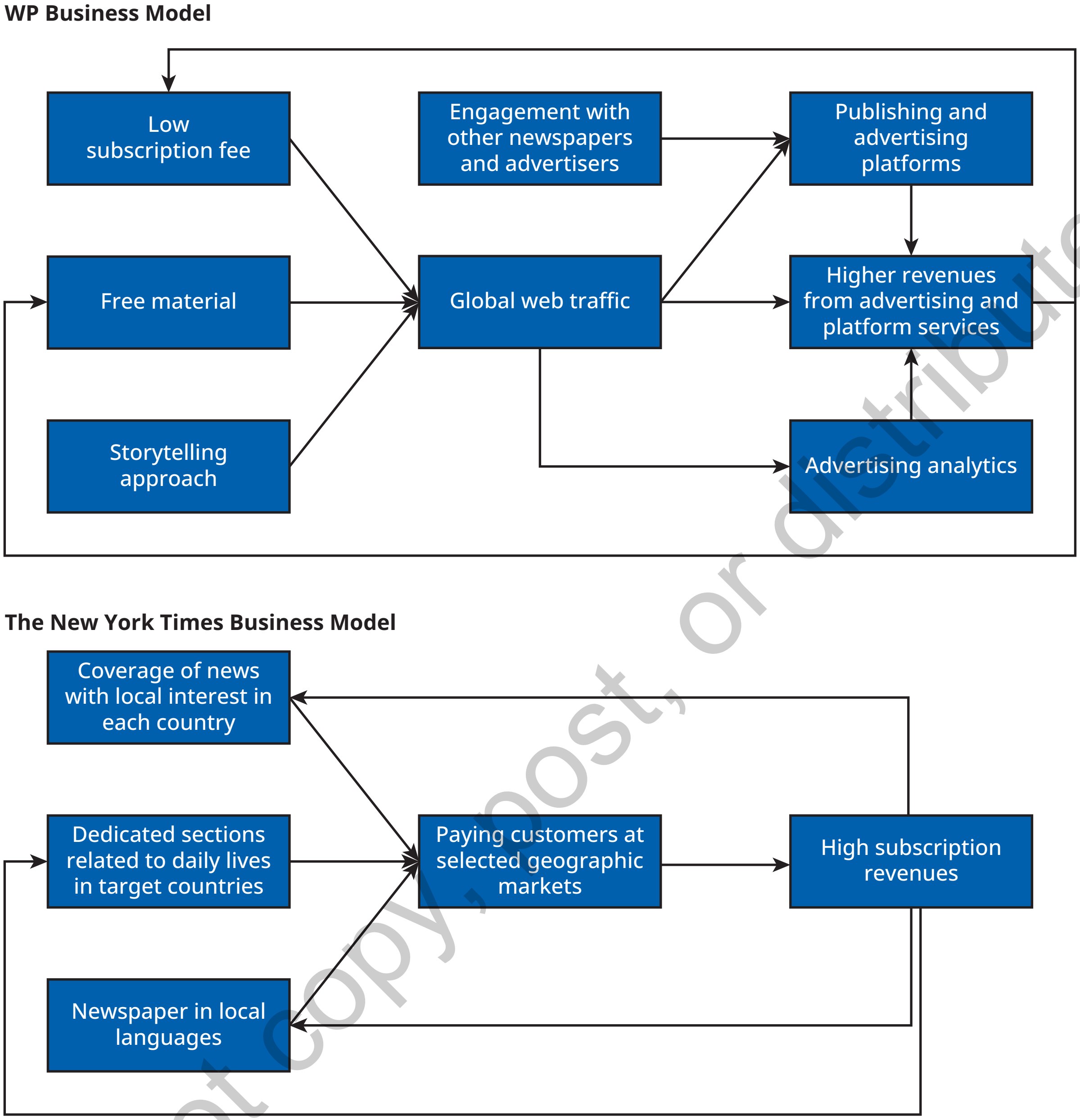
By contrast, *The New York Times* focused on the unique needs customers are willing to pay for. For example, it included sections related to people's daily lives, such as cooking recipes and crossword puzzles, and charges customers separately for each section. The *Times* also focused on well-defined customer segments within selected geographic regions. In particular, the *Times* targeted North America, China, and Latin America with its English, Chinese, and Spanish versions, which largely covered their respective geographic regions. Such strategies attracted a selective group of people willing to pay a much higher digital subscription price.[46]

Figure 2.3 depicts how both WP's and *The New York Times*'s business model components mutually reinforce each other to create virtuous cycles. On the one hand, Figure 2.3 suggests that changes to one component may have ripple effects across the business model. For example, increasing WP subscription prices may reduce web traffic, compromise the validity of advertising analytics, negatively impact advertising revenues, and decelerate new developments in publishing and advertising platforms.

Similarly, reducing subscription prices at *The New York Times* may reduce budgets for more localized content, lowering newspaper quality and the customers' willingness to pay for the newspaper. In this sense, a careless change in the business model can reverse the virtuous cycle to a vicious cycle.

On the other hand, such virtuous cycles set MNOs on different strategic trajectories. Many analysts believe that with their different business models, two newspapers that were direct rivals in the past now look drastically different from each other. WP is now a global publishing and advertisement

FIGURE 2.3 ■ Virtuous Cycles in Business Models of WP and *The New York Times*



platform. In contrast, the *Times* is a leading newspaper touching the daily lives of a select but loyal group of customers in specific geographic regions.

Hence, reinforcing virtuous cycles through constant iterations allows MNOs to establish uncontested territories in which they can continue earning returns for a long time.

Business Model Iterations and Opportunity Logic

MNOs that consistently iterate business models develop the structures and experiences to sense and address newly emerging needs. Strategically pursuing opportunities that take advantage of and add to current competencies ensures the fit between MNOs and the global business environment. It can also help MNOs continuously evolve with respect to new trends and the unique needs of different target countries.

Medtronic, a medical device manufacturer, identified hundreds of thousands of Indian patients who desperately needed Medtronic pacemakers. However, inadequate medical facilities in India prevented timely diagnosis of heart disease, and most Indian patients could not afford pacemakers.

With these constraints, technologically advanced pacemakers had little value for India. Medtronic developed a new business model for India. It first developed new ways to serve low-income patients, such as temporary diagnostic camps, where technicians instead of doctors screened dozens of people using low-cost machines and digitally sent patient data to doctors hundreds of miles away. Medtronic also developed India's first financing plan for medical devices so patients could pay for pacemakers in easy installments.

Pursuing a new business model in India added a new range of expertise to Medtronic's portfolio, such as management of medical services and financing of medical devices, which Medtronic later used to serve other Asian countries and even low-income patients in the U.S.[47] Cases like Medtronic indicate how an effective global strategy uses current business models to facilitate the development of new business models that could serve customer needs in new countries.

Perhaps a good analogy to understand the strategic perspective of business models comes from Hinduism. The religion recognizes many gods but has three main deities: the god of preservation, named Vishnu; the god of destruction, called Shiva; and the god of creation, Brahma. In Hindu philosophy, the three gods create a continuous preservation-destruction-creation cycle that helps sustain the circle of life.

Similarly, an MNO needs to manage (or preserve) its winning business models, discard (or destroy) obsolete components of business models, and reiterate (or create) new value curves in the face of a consistently changing global business environment and fast-emerging competition. In a turbulent global business environment in which every business and industry is under constant threat of disruption, constantly creating new value becomes the only recipe for surviving and staying ahead of fast-emerging competition. This is where taking an opportunity logic approach of seeking new opportunities via novel business models offers a new playbook to all MNOs.

DISCOVERING OPPORTUNITIES IN THE GLOBAL MARKET

LO 2.5 Examine the art of leveraging business models for identifying and seeking market-creation opportunities across countries.

A business model is a powerful tool to consistently uncover new opportunities in global markets. As noted in Chapter 1, MNOs in today's business landscape may only have a short window to enjoy their competitive advantages. Continually identifying the next new opportunity and making competition temporarily irrelevant is the key to sustaining competitive advantages for most MNOs.

In this sense, MNOs must constantly seek uncharted spaces or nascent markets in which a few pioneering MNOs can post profits. MNOs ensure long-term profitability by continuously identifying these novel opportunities and developing business models to create new value curves across countries.

But what are these uncontested market spaces? This was the question Clayton Christensen, one of the most influential business thinkers, explored in his famous work on disruptive innovation. According to Clayton, **disruptive innovations** start by serving nontraditional customers whose needs are markedly different from those of mainstream customers. As a result, major players in the industry ignore these nontraditional customers and continue pursuing more prominent and profitable opportunities in mainstream markets.

However, some businesses, usually start-ups from outside the industry, sense the opportunity. They create new products or services that, in many aspects, may not be perceived as being of as high a quality as those used by customers in mainstream markets. Still, these products or services can meet the unique or less-demanding needs of nontraditional customers: these start-ups pioneer new value curves or even new industries in which competition may not even exist.

The journey does not stop here. Products or services targeting nontraditional customers gradually improve to such a level that they start meeting the needs of mainstream customers as well. Soon, these outsider start-ups disrupt major players in the mainstream industry and emerge as new market leaders.

In this sense, disruptive innovators are not busy building defenses to block competition. Instead, they challenge and take over powerful competitors in their strongholds.[48]

Disruptive innovation is a powerful theory. It has been considered the most influential business idea of the early 21st century.[49] The theory is particularly critical in the current hyper-competitive era, where all industries face the risk of disruption from emerging competitors. And the key takeaway is that both start-ups and established businesses should actively look for nontraditional customer segments to develop new value curves. By identifying and serving nontraditional customers better and faster than others, start-ups aim to overtake powerful firms and their large market shares.

But established firms could strategically preempt emerging competitors by going after these nontraditional customers. This is where the theory of disruptive innovation raises a new question: where, exactly, can companies and start-ups find these nontraditional customers? Christensen also explored this question, and the search led him to a vast, uncharted territory.[50]

Let us join Christensen on his journey via Figure 2.4. The figure divides the world population into four tiers based on annual incomes. The largest tier is tier 4, the **bottom of the pyramid**. Four billion people, or around 70 percent of the global population, belong to this tier.[51] Individuals in this tier earn less than $1,500 a year, or around $4 a day.

Oh, in case you did not notice, the chart is not based on real income. Instead, it's based on something called **purchasing power parity**, which means it looks at what your money can buy in different places.

Despite people at the bottom of the pyramid earning an unimaginably low income, does the large size of this tier nonetheless represent attractive market opportunities? For Christensen, the answer was a big yes. Tier 4 represents the largest segment of nontraditional customers, which are mostly ignored by mainstream MNCs. It may seem surprising that people who may not even be able to afford food every day can represent a profitable segment for corporate behemoths offering soaps and shampoos, ice creams and juices, TV channels and streaming services, housing and construction, electronics, hospitality, and even education or health care.

And income is not the only constraint. Around 1 billion people do not have access to electricity, 3 billion do not have internet access, and many live in remote areas not accessible by roads.[52] They live in environments that most products of the modern world cannot reach or function properly. How can medical equipment operate without electricity? What can a free educational service like Coursera do without the internet? And how can nutritious food be distributed in areas that lack basic transportation infrastructure?

FIGURE 2.4 ■ Global Economic Pyramid

Annual Per-Capita Income*	Tiers	Population in Millions
More Than $20,000	1	75–100
$1,500–$20,000	2 & 3	1,500–1,750
Less Than $1,500	4	4,000

*Based on purchasing power parity in U.S.$

No wonder most disruptive innovations have focused on identifying and serving nontraditional customers among tiers 1 and 2 while largely staying away from tiers 3 and 4. But these are exactly the tiers where Christensen saw infinite opportunities to innovate. It may seem almost impossible to bring modern products and services into the reach of people in tiers 3 and 4, even if you weren't concerned with profit, but this is the definition of a nontraditional customer segment.

Designing a business model to serve these nontraditional segments can present novel opportunities for MNOs. These are the opportunities that are spread everywhere in the world, from cities in North America and Europe to remote areas in Africa and Latin America. What's more, addressing the unmet needs of people at the bottom of the pyramid may also help resolve grand challenges such as poverty, hunger, inequality, and the lack of economic opportunities.

Market-Creating Innovations

The untapped markets at the bottom of the pyramid prompted Christensen's decision to rename disruptive innovations and instead call them market-creating innovations. We broached this topic in Chapter 1, but this is the right place to dive deeper and explore how an MNO can make market-creating innovations a reality. The key is an innovative business model, the focus of this chapter.

In essence, market-creating innovations represent novel business models that make complex and expensive products and services more affordable and accessible to a whole new segment of people in a society whom Christensen called "**nonconsumers**."[53] Indeed, these nonconsumers are found in all tiers, and targeting any nonconsumer segment requires business model innovation.

Still, the bottom of the pyramid represents the largest and the most ignored segment of nonconsumers in the global market. In other words, if opportunity logic is about riding new waves of opportunities, then tiers 3 and 4 are the surfing paradises where these new waves are the most abundant. Business models to create new markets are the surfboards needed to ride these waves. It is quite possible that some of these market-creating innovations will find a way back to mainstream markets and disrupt established competitors. Even if they don't, they still evolve to serve the unmet needs of nonconsumers across multiple countries.

Take the example of Transsion, the largest cell phone maker in the African market. Smartphones have become necessary for many of us but can be too expensive for many African users. Transsion targeted these nonconsumers through an innovative business model to manufacture and distribute affordable smartphones.

Instead of releasing new models every year like most smartphone makers, Transsion renewed its product range only every 2 years. This move saved Transsion the high cost of cutting-edge components used in yearly upgrades. Transsion set the price for its phone just a little higher than the cost of components, which enabled Transsion to launch its phones at less than half the price of phones from major players like Samsung and Apple.

Such low prices did not mean a big compromise on profits, however. While the cost of components dropped by more than 90 percent over the 2 years a given phone model was on the market, Transsion did not drop its price and thus pocketed a higher margin.

While its innovative business model has earned Transsion the number-one spot in terms of market share in Africa, can Transsion disrupt major brands like Apple someday? It is unlikely, at least for now, that Transsion will be able to overtake Apple. What is more certain is that Transsion will continue growing by adapting its smartphones to the unique needs of traditional nonconsumers worldwide. And there are 4 billion of these nonconsumers, a large market Apple or Samsung may have neglected so far.

SUSTAINABILITY AND YOU

Pad Man: When Love Turns to Inventions

Did you ever invent a product to solve problems in your society, family, or life? The question may seem weird to you. It is not my job, you may think. This is what engineers and scientists do. You may be correct, but have a look at the blockbuster Bollywood film Pad Man. The film is based on the true story of an Indian villager who dropped out of school and invented a machine to manufacture sanitary pads for a third of the cost of international competitors. Armies of engineers and scientists at MNCs had failed to produce such a machine. And the initial purpose of his innovation was not to start a business, get rich, or take over MNCs but simply to help his wife.

The story began in the Indian city of Coimbatore, where the newly married Arunachalam Muruganantham noticed his wife, Shanti, hiding a dirty rag. It was too dirty even to mop the floor, but Shanti used it for her menstruation. Arun hurried to the shop to buy a sanitary pad. As he looked at sanitary pads, he wondered why only 10g of cotton, which cost only 0.1 Indian rupees, was selling for 4 rupees. At this price, buying pads every month would not leave enough money to even afford food, he calculated.

On looking into it further, Arun discovered that hardly any women in villages used sanitary pads. Instead, they relied on unhygienic alternatives such as dirty rags, leaves, and even ash.

What Arun observed was just the tip of a nationwide problem. India was entering the new millennium with less than 12 percent of women using sanitary pads. This was responsible for approximately 70 percent of all reproductive diseases, including maternal mortality. However, MNCs manufacturing sanitary pads were rarely interested in lowering prices, arguing that if people can buy products like cosmetics, they can spend on pads as well.

Arun was committed to the health and hygiene of Shanti. So he decided to manufacture pads himself. To Arun, a sanitary pad was nothing more than a bundle of cotton. For several years, Arun experimented, but his pads simply did not work. Finally, he found the issue. The material inside the pad was not cotton but a unique cellulose fiber processed by a machine that cost $500,000.

The new challenge could only shift Arun's focus. So he started exploring ways to build a cheaper machine. It took Arun nearly another 5 years, but he successfully invented a low-cost and easy-to-use machine to manufacture pads. The first model of his machine was mostly made of wood, and he presented it in the innovation competition at the Indian Institute of Technology. He won the first prize out of 943 participants, an impressive achievement for someone who had not finished school.

Still, the future of his innovation was uncertain. Arun refused to sell the patent for the machine because he did not want a company to capture all the profit. Instead, he wanted to spread menstrual hygiene across India. But how could it be possible without substantial resources? Arun needed a creative business model.

Instead of centrally manufacturing pads and distributing them across the country, Arun manufactured hundreds of machines and spread them across villages. Women in each village took ownership of the machine, launched their own businesses selling pads to the community, and used profits to pay for the machine in easy installments. Arun kept the machines simple so that the users could maintain them on their own. The business model accelerated the widespread distribution of pads and cultivated an ecosystem of women entrepreneurs. As a result, thousands of women earned income for the first time.

Arun received worldwide acclaim. Time Magazine named Arun among the world's 100 most influential people. Several universities invited him to give speeches. And, of course, Bollywood released a blockbuster film, Pad Man, to tell his story. The Miss Universe Organization collaborated with Arun to improve menstrual equity. Gradually, Arun started exploring other developing countries where women could benefit from his innovation. Most importantly, Arun is happy because he can help his wife and thousands of women worldwide.

Discussion Questions

1. Shanti once commented that she was glad her husband dropped out of school. If he had been highly educated, he would have never felt the responsibility to solve the problems of ordinary people. Do you agree with Shanti's criticism of the educational system? As a student, what changes do you propose in your university that could help produce business leaders who are more committed to addressing unmet needs at the bottom of the pyramid?
2. Currently, Arun is exploring pathways to expand to other developing countries. In your view, which country should Arun target? Design a business model for Arun that could address the unique needs of the new target country.
3. Analyze how Arun leveraged five keys for unlocking the market-creating innovations in India. Share your views about the effective or ineffective implementation of each key in the Indian market.

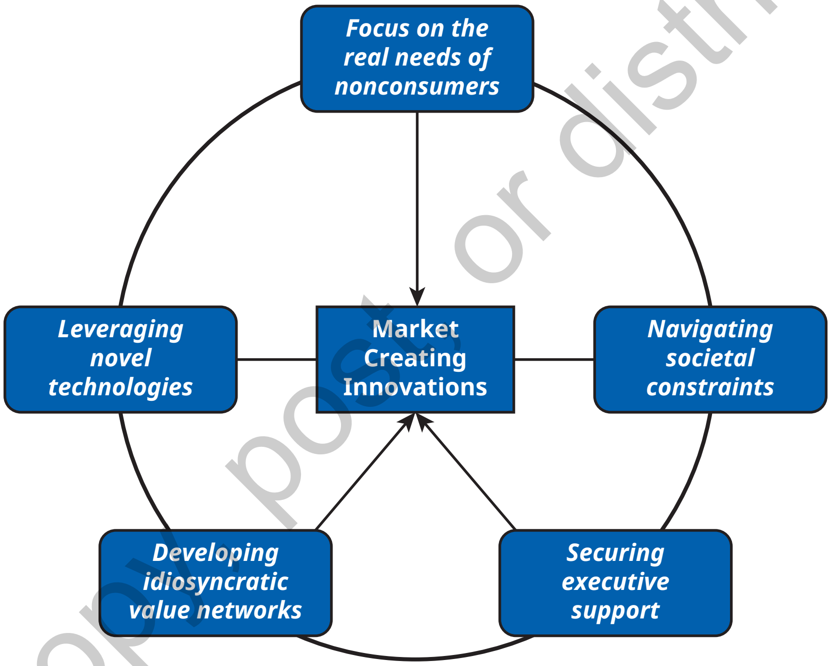
Sources: Vibeke Venema, "The Indian Sanitary Pad Revolutionary," BBC, March 4, 2014, https://www.bbc.com/news/magazine-26260978; Sagar Malviya and Prabha Raghavan, "Why Padman Alone Can't End the Taboo in India," India Times, February 9, 2018, https://economictimes.indiatimes.com/industry/cons-products/fmcg/why-padman-alone-cant-end-the-taboo-in-india/articleshow/62856410.cms; "Cut from a Different Cloth," Social Entrepreneurship in India, Economist, September 14, 2013; "Initiative Launched for Menstrual Equity," Hindu, March 22, 2022, https://www.thehindu.com/news/cities/Coimbatore/initiative-launched-for-menstrual-equity/article65248331.ece.

Cases like Transsion and the Pad Man illustrate the fortune at the bottom of the pyramid. These markets are the most prominent and largely untapped opportunities where MNOs can create countless value curves across countries. Indeed, ignoring the bottom of the pyramid can be devastating, because even an ordinary villager like Arun can potentially disrupt established MNCs with his innovation.

But Christensen noted many prominent MNCs failing in this endeavor, mainly because they attempted to target the bottom of the pyramid by simply replicating existing strategies used to serve existing customers at tiers 1 and 2. However, the bottom of the pyramid requires a novel business model, not simply a modification of current strategies.

Following Christensen, we specify five keys, as depicted in Figure 2.5, to designing business models that could unlock new markets at the bottom of the pyramid. As the figure shows, these keys are not stand-alone; they complement and reinforce each other. Hence, they must be utilized collectively to unleash market-creating innovations.

FIGURE 2.5 ■ Five Keys to Unlock Market-Creating Innovations



Key #1: Focusing on the Real Needs of Nonconsumers

When we think of a company or industry, what typically comes to mind are the products and services they offer. Naturally, when we think of their customers, we imagine people using these products and services. This logical and rational thinking process limits our focus on existing consumers—those who can already afford products available in the market. What such an approach ignores are nonconsumers, people who have very similar needs to existing customers but who cannot afford, access, or use current products and services.

Targeting nonconsumption begins with a shift in business focus from products and services to the tasks nonconsumers are trying to accomplish. A villager in India may not be looking for a refrigerator but simply needs the ability to store food for 1 or 2 days. A Ghanaian worker may need a way to transfer money to his family in a village, not necessarily a bank account.

However, affordability, accessibility, or the skill to use a product or service prevents nonconsumers from adopting existing products or services. It is possible that the Indian villagers could save enough to buy a fridge but don't have access to reliable electricity. Similarly, the Ghanaian worker may have several banks within walking distance but may not have the right education or the personal confidence to go through complicated banking procedures.

With a greater understanding of what nonconsumers are trying to accomplish, MNOs can start from scratch to build a new solution to help. This requires going beyond current assets, capabilities, and industry boundaries to create innovative business models that could address the pain points of nonconsumers.

When Renault developed its low-cost car model, the Dacia, for low-income Europeans, sales did not take off as expected. It turned out that the real pain point was not the price of a car but the prohibitive cost of driving licenses in many European countries, particularly for migrants and other people at the bottom of the pyramid. Renault addressed the pain point by venturing into new territory and creating driving simulations. It developed a computer game to facilitate the licensing process, which ultimately resulted in higher sales of the Dacia.[54]

One major mistake many MNOs make is simply modifying current products and services. This approach seldom works. For example, stripping some features out of existing products may reduce costs by 30 percent to 40 percent, but to serve nonconsumers at the bottom of the pyramid, costs must drop by 80 percent to 90 percent. Such audacious goals require building novel products and services from the ground up, a practice called **zero-based design**.

Also, most people at the bottom of the pyramid live in environments that lack basic infrastructure. Hence, it is unlikely that simply tweaking existing product lines will successfully meet the unique needs of nonconsumers. This is where start-ups gain an edge. Entrepreneurs, by definition, start from scratch to develop novel solutions that are markedly different from the products offered by their large competitors. After all, no banks managed to appeal to African workers looking for ways to easily receive and transfer money. Instead, financial technology apps like M-Pesa, which were developed by keeping African workers in mind, captured the money transfer market at the bottom of the pyramid in Africa.

Nevertheless, many large MNOs also realize the opportunity and break industry boundaries to develop novel solutions. Lafarge, the French industrial giant, identified that when residents in India's poorest neighborhoods construct their homes, they prefer mixing concrete themselves to save labor costs. The pain points included a lack of skill in mixing concrete and the difficulty of transporting bulky concrete across narrow, unpaved streets.

Lafarge developed a new variant of concrete that was ready-mixed and could withstand transportation in typical three-wheelers like auto-rickshaws. Lafarge also offered cement delivery to doorsteps by installing mini plants near target neighborhoods that could produce small quantities on order and deliver them within 50 minutes. Lafarge developed not only a new product but a complete business model precisely designed to meet the unique needs of Indian cities' poorest residents.[55]

Key #2: Leveraging Novel Technologies

Every MNO has its own technological expertise. An MNO in the consumer goods industry may be an expert in mass manufacturing, or fashion MNOs may have advanced graphic design expertise. These traditional technologies may not always work for the bottom of the pyramid.

Instead, business models designed to target the bottom of the pyramid often require a creative deployment of novel technologies, mostly from outside MNOs' areas of expertise, to make products and services more affordable, accessible, or easy to use for nonconsumers. These technologies are usually available to most MNOs, but it is the novel application of these technologies that creates new value.

For example, big data analytics and machine learning are now widely available, but Shein used them in a novel way. The company gathered data from thousands of websites, analyzed it to identify a few fashion designs that almost guaranteed success, and mass-produced these designs to keep costs down. This saved Shein the massive costs other fashion companies incur by designing and manufacturing a variety of designs. The low cost enabled Shein to make high-quality fashion affordable for many nonconsumers.[56]

Novel technologies may also help MNOs smoothly manage their processes to reduce costs and improve quality. M-Kopa, a solar power solutions provider in Africa, aims to install solar devices in homes across rural Africa. Most of these homes did not have electricity at all before installing M-Kopa's devices.

However, it proved impossible to monitor the devices and provide customer support across thousands of remote villages. Instead of training hundreds of maintenance specialists, which would have been inefficient and costly, M-Kopa created a technology platform to monitor, repair centrally, and upgrade solar devices. The platform can also detect any anomaly several days before the device stops working. If needed, M-Kopa can dispatch a repair team in advance to ensure an uninterrupted power supply to customers.[57]

Key #3: Developing Idiosyncratic Value Networks

A **value network** is comprised of different participants whose activities enable an MNO to create value. Raw material providers, retailers, transporters, and storage services are common participants in a value network. However, value networks designed for existing customers may prevent MNOs from targeting nonconsumers. MNOs often need to create new value networks that redefine their cost structures and reach nonconsumers that are simply inaccessible by current networks.

Take the example of Amazon in India. Its value network, comprised of central warehouses and electronic payments, could not reach Indian customers, 67 percent of whom live in rural areas and 75 percent of whom do not have internet access. Transactions are still carried out in cash instead of with credit cards. Indian customers are served by more than 14 million small shops that typically have high prices and limited inventories, but they are the only options in thousands of Indian villages.

Amazon created a new value network in India by enlisting these small shops as partners. Given that most rural customers do not have computers, smartphones, or internet access, Amazon equipped these small shops with computers and internet access. Customers can visit the shop to place orders that Amazon delivers to the shop overnight. The shop collects cash on delivery. The new value network substantially enhanced the variety of products available to Indian households at much more competitive prices while also generating additional income for small shops.[58]

Value networks are not limited to delivering products and services to the bottom of the pyramid. They can also enable people in tier 4 to connect with and contribute value to higher tiers. Recall Vendedy, which created an online marketplace for street artisans in Haiti, providing talented but severely underresourced people a direct route to the global marketplace. As noted by Christine Souffrant, founder of Vendedy, more than 2 billion street artisans cannot bring their handmade products to markets. To connect these sellers with prospective buyers worldwide, Vendedy created a new value network comprising not only a globally accessible digital platform but also several partnerships with postal services and insurance companies to ensure the seamless distribution of products in many countries.

Finally, nonconsumers can also become value network participants by invoking network effects. Once a critical mass of nonconsumers is achieved, the value of the product or services for both nonconsumers and mainstream customers is enhanced.

M-Pesa initially targeted nonconsumers like African workers, but once these workers started accepting payments from employers and clients via M-Pesa, the app spread to the corporate sector and more affluent people. Hence, the app that began at the bottom of the pyramid is now used by people at all income levels by the force of network effects.

Nonconsumers also contribute directly to products and services. The users of smartphone manufacturer Xiaomi translated the MNO's operating system into 24 languages, and the MNO did not spend a dime. Xiaomi also created vibrant user communities that write software for the operating system without any monetary reward.

Indeed, a compelling value network transfers value to both sides.[59] It creates value for nonconsumers while also enabling them to contribute value back to the MNO and other participants in value networks.

Key #4: Securing Executive Support

MNOs targeting the bottom of the pyramid follow a different set of rules. Their focus is on value creation, and many MNOs discover revenue formulas on the go. They rarely have deliberated strategies that almost guarantee profits in existing markets. Instead, they need substantial investments in testing and reiterating their business models. Hence, proposals to serve the bottom of the pyramid are often unpopular in many corporate boardrooms not only because these proposals target a market that does not exist yet but also because these endeavors require more resources.

Indeed, many successful MNOs serving the bottom of the pyramid failed to raise investments or secure loans from formal banking sectors. This reinforces the importance of executive commitment from a CEO or someone else high up in the executive team, which could steer an MNO toward a different course than most traditional firms. After all, innovating for the bottom of the pyramid is perhaps one of the most important ways to avoid unexpected disruptions and create new value curves to sustain competitive advantages.

Key #5: Navigating Societal Constraints

For MNOs aiming to reach the bottom of the pyramid, the challenge extends beyond the low income of nonconsumers to encompass the complex socioeconomic conditions in which they reside. The majority of individuals in this demographic inhabit emerging markets where regulatory frameworks are often ambiguous, absent, or undergoing frequent changes. Moreover, inadequate infrastructure is a common issue, with essential amenities such as electricity and water being scarce.

Consider, for instance, the barriers preventing the widespread adoption of smartphones among the 4 billion people at the bottom of the pyramid despite their affordability. The primary hindrance is not the inability of smartphone manufacturers to produce even cheaper devices but rather the lack of reliable internet access.

Nevertheless, these same societal constraints also provide MNOs the opportunity to impact broader society. Many MNOs originate in developed countries and bring with them advanced skills. If these MNOs are empathetic to emerging markets and willing to acquire new skills and capabilities, they are well positioned to solve social problems that governments cannot address.

For example, instead of relying on governments, many MNOs are attempting to make electricity available to individuals at the bottom of the pyramid via solar technologies. Amazon, Facebook, and Space X are developing low-cost technologies to make the internet available for free to people at the bottom of the pyramid. It turns many MNOs into strategic partners of governments and society, paving the way for long-term growth and profitability.

However, exploiting flaws in systems of emerging markets or lobbying for unfair laws or taxation policies may lead to lost opportunities despite some short-term profits. Sharing-economy companies like Uber, despite providing employment opportunities to countless people at the bottom of the pyramid, quickly lose public support as they try to exploit weaker institutions in emerging economies. Their lobbying efforts did bring them some success, but ultimately, public pressure induced governments to impose stronger regulations or even support competitors to and substitutes for sharing economy firms.

Certainly, MNOs create immense value at the bottom of the pyramid, and it is natural to capture revenues from their massive investments and efforts. Nevertheless, profits gained by exploiting any institutional weaknesses are usually short term. Focusing on long-term value creation for not only nonconsumers but society in general is critical for survival and growth at the bottom of the pyramid.

CLOSING CASE

The ByteDance Journey: Long Before TikTok, There Was Neihan Duanzi

Many of you know TikTok. With more than 2 billion downloads, the app may have found its way to your cell phone. Some of you may even be TikTokers, regularly contributing your creative work to the platform. However, few of you likely know ByteDance, the Chinese company behind TikTok.

Even fewer are likely to have heard of Neihan Duanzi, the largely unknown jokes app that sowed the seed of the globally renowned platform that is TikTok. But why is the story of a world-dominating short-video-sharing platform, TikTok, incomplete without a local jokes app, Neihan Duanzi? Let us figure it out.

The story begins with Zhang Yiming, a Chinese entrepreneur. Zhang discovered an interesting user need in large, busy Chinese cities. Long commutes to and from schools and workplaces are the norm in such cities, during which people may spend several hours on their smartphones. Zhang thought to target this market through an addictive app that could keep people entertained throughout their commutes, and what could be more entertaining than humor?

Zhang created a company, ByteDance, to develop Neihan Duanzi, an app for sharing jokes, memes, and humorous videos. This was surely not the first app of its kind. However, what was unique about Neihan Duanzi was the extensive application of artificial intelligence (AI) to make the app addictive. The AI embedded in Neihan Duanzi analyzed user interaction with the app to pinpoint the jokes, sketches, or stories that an individual user would like the most.

It was an arduous task. The AI needed to go through a vast amount of text, pictures, and videos to match each user with the right content. ByteDance had to recruit several engineers to iterate and perfect AI algorithms to deliver on this goal. After several rounds of upgrades, these efforts paid off. The resulting AI so accurately matched people with their preferred content that users found it hard to look away. Soon, Neihan Duanzi became a massive hit.

Success usually invites competition, but the popularity of Neihan Duanzi attracted political opposition. Regulators found many jokes on the app inappropriate because they appeared to indirectly criticize the Chinese government. As a result, Neihan Duanzi faced censorship and the threat of a shutdown. The political interference forced ByteDance to find alternative applications for its AI.

This time, Zhang thought of the news. As many people look for more productive uses of their commute time, they might be attracted to an app that pinpoints news relevant to a user's interests. The realization led ByteDance toward a news app, Toutiao. As the app simply aggregated news from state-controlled media sources, it largely avoided political scrutiny. While Toutiao provided a new venue to leverage AI technology developed for Neihan Duanzi, ByteDance had to extensively modify AI algorithms to suit a news app.

Unlike other apps, Toutiao did not track user preferences by requiring them to create accounts and link them with social media profiles and product purchase histories. Instead, AI algorithms learned user preferences by analyzing their behaviors: swipes, time spent on each news item, pauses, comments, locations, etc. It created a virtuous cycle. The more data the AI gathered, the better it directed users to relevant content.

User insights gleaned from this data helped refine the app as well as the AI algorithms. Toutiao and its underlying AI were updated almost weekly throughout its first year. Thanks to its advanced AI, Toutiao soon became China's largest news aggregator, with 360 million users.

The success of two drastically different apps, Neihan Duanzi and Toutiao, had the same underlying message for ByteDance: combining AI with the right network of partners can create new value for widely different stakeholders. The revelation inspired ByteDance to strengthen its AI expertise. A dedicated research arm, ByteDance AI Lab, was launched to develop advanced AI that could understand and utilize information in different formats (text, images, videos).

An impressive achievement was Xiaomingbot, an AI bot co-developed by ByteDance AI Lab and Peking University, which could write news articles by aggregating text, images, and videos from the internet. Such accomplishments in AI research enabled ByteDance to develop Douyin, an app for recording and sharing short videos. The app was backed by advanced AI that could analyze more complicated data in a video to match it with users to whom it would appeal. Although Douyin was similar to several other Chinese short-video apps, it became a hit in China due to its AI-powered discovery engine.

ByteDance envisioned the global potential of a short-video app like Douyin. Music and videos usually have a global appeal. From a technological standpoint, AI behind a short-video app is mainly independent of languages, i.e., because the AI relied on images, motions, and object recognition rather than words, algorithms trained on a huge number of Chinese users were beneficial across languages and cultures. Still, ByteDance did not simply replicate the Chinese business model it used with Douyin. AI developed in a Chinese context still needed to take into account the different preferences of overseas users.

At the same time, the Chinese origin of the app carried little global appeal, and there was almost no viewership for Chinese creators overseas. Therefore, ByteDance created a new app with a fancier name, TikTok. The new app targeted different countries with new business models suited for their unique user needs.

In Japan, for example, ByteDance opened a dedicated office that sought Japanese celebrities to produce videos for the app. The presence of celebrities attracted a large audience in Japan, providing ByteDance with sufficient data to understand Japanese user preferences. The large viewership also attracted average Japanese creators to contribute their work to TikTok.

While TikTok focused on urban users in Japan, it found higher value creation potential in rural areas of India and other emerging markets, where entertainment options were more limited. In such countries, TikTok focused more on average creators.

In North America, TikTok faced a different challenge. A similar app, Musical.ly, was already popular. ByteDance made a bold decision. It paid around $1 billion to acquire Musical.ly and merge it with TikTok. The vision was to create a global platform to bring together viewers and creators from East and West. Musical.ly creators, singing and dancing to globally popular English songs, had the potential to appeal to audiences worldwide. In contrast, North American viewers at Musical.ly presented an attractive target market for creators worldwide.

The move was nevertheless a risky one. It was possible that Musical.ly users would disapprove of the merger and drop out of the platform. However, ByteDance's AI expertise saved the day once again. TikTok leveraged AI to offer a more level playing field to video creators. Its advanced video editing features substantially enhanced video quality, allowing amateurs to turn wobbly recordings into slick-looking videos. These features provided Musical.ly creators a powerful reason to stay with and actively contribute to TikTok.

More importantly, the AI discovery algorithm dangled the prospect of success in front of many creators who were previously struggling on platforms like Facebook or Instagram, which reward creators with an already huge fan following. TikTok turned many small creators into global celebrities by connecting them with the audience most interested in their work. Whereas the most popular personal accounts on Facebook, X/Twitter, and Instagram belong to already famous athletes, singers, politicians, or other celebrities, many top TikTokers are famous for just being TikTokers. Creators loved the opportunities on TikTok, and users loved the content at TikTok.

Three months after TikTok acquired Musical.ly, the monthly downloads of TikTok surpassed those on Facebook, Instagram, YouTube, and Snapchat for the first time, making TikTok the third most downloaded app globally. User retention was as high as 10 percent, compared to the social media average of just 4 percent.

Toutiao, Douyin, and TikTok represent a small subset of the business models ByteDance has developed. Since its inception, ByteDance has consistently identified unmet needs that can be addressed by creatively applying AI. ByteDance is effectively a superapp factory, constantly churning out new apps with purposes as diverse as e-books, audiobooks, anime, comics, gaming, online education, and office productivity.

The company has more than 140 apps that leverage a variety of business models to target user needs in different countries. In education, for example, ByteDance has developed 11 different products for seven market segments in a short period of 2 years, from 2019 to 2021. The company also tests and implements new business models across countries, even for already successful apps.

After several iterations, Toutiao, which started as a news aggregator, has now evolved into a platform powered by user-generated content. The platform earns income from advertising and shares revenues with contributors.

TikTok has extensively experimented with social commerce, allowing TikTokers to make money by marketing and selling products. TikTok also tested various tools through which users could provide gifts and tips to favored creators, boosting the incentive for creators to produce fresh material and generating revenues for TikTok.

And what happened to Neihan Duanzi? It did survive a few years, but in 2018, it was finally shut down by the Chinese government. Even though most people do not even remember its name, Neihan Duanzi laid the foundation for many new apps and business models at ByteDance.

Despite this, the survival and growth of ByteDance depends neither on a nascent app like Neihan Duanzi nor on a portfolio of world-leading apps like TikTok. Instead, the future of ByteDance relies on its capacity to continuously identify new needs across borders and test and iterate new business models to address them. New challenges are already on the horizon. Customer needs are constantly in flux, which requires consistent upgrades in AI algorithms.

Market giants like Facebook and Instagram are aggressively entering TikTok's territory by including short videos on their platforms. Rivals are also taking AI expertise more seriously.

For example, Facebook CEO Mark Zuckerberg has announced that Facebook's news feed, which mainly shows users' posts from friends, will be transformed into an AI-powered discovery engine to serve content from all over the internet—just like TikTok. It is clear that at any time, political, technological, or competitive forces can convert TikTok, Toutiao, or any successful app into another Neihan Duanzi.

Hence, ByteDance is already in search of new opportunities. The company is eyeing virtual reality technologies as fresh ground to test and iterate new business models. To ByteDance, virtual reality is not only the future of video viewing but also the source of novel user data to train AI algorithms. ByteDance is also experimenting with virtual "idols" that could replace or supplement human creators on music and video platforms. For example, ByteDance developed Carol, the lead singer of the virtual band, A-Soul.

To what extent ByteDance will be successful in continuously churning new business models is yet to be seen, but the company is constantly searching for new opportunities.

Discussion Questions

1. Compare the strategies of ByteDance and Facebook. What similarities and differences do you notice? How do you see the value-creation potential of both companies across different countries, particularly given a turbulent global business environment?

2. Assume you are serving as head of innovation at ByteDance. Identify unmet needs in a developed country, an emerging economy, and an underdeveloped economy that could serve the bottom of the pyramid. Which of these needs can be addressed by the creative application of AI? Design business models that could help ByteDance capture these opportunities.

3. ByteDance has successfully attracted and retained millions of users, but its ability to generate revenues is still a question mark. Choose any of ByteDance's apps with a global presence. Propose different revenue models ByteDance can adopt across countries in order to enhance app income without compromising value creation.

Sources: Roger Chen and Rui Ma, "How ByteDance Became the World's Most Valuable Startup," *Harvard Business Review*, February 24, 2022; Rebecca Fannin, "The Strategy Behind TikTok's Global Rise," *Harvard Business Review*, September 13, 2019; "Seeing and Believing," *Economist*, April 9, 2022; "Creating Seduction," *Economist*, January 15, 2022; "China Ponders the People Behind Computer-generated Stars," *Economist*, June 18, 2022; "Quavering," *Economist*, July 9, 2022.

SUMMARY

LO 2.1 Understand the business model concept and its relevance for global strategy.

- A business model represents the logic through which an MNO creates value for multicultural, multinational, and multilateral stakeholders and captures a portion of the created value in revenues.
- MNOs taking a business model approach create a new value curve in each target country by identifying and addressing customer pain points instead of replicating their strategies across countries to meet similar customer needs.

LO 2.2 Identify the three building blocks required to construct a business model.

- The three building blocks of the business model are a unique customer value proposition, key activities to create value, and a revenue formula to capture value.
- MNOs identify a customer value proposition by focusing on different jobs or goals customers are trying to accomplish for which adequate products or services are unavailable, inaccessible, or unaffordable.
- MNOs design key activities and processes by integrating their internal resources and partner networks to create the value promised in the customer value proposition.
- MNOs develop a profitable revenue formula to capture value. It requires MNOs to create value at a reasonable cost and design revenue streams that align with unique customer needs in a country.

LO 2.3 Explain the key reasons for the rising importance of business models in global strategy.

- Instead of looking inside the organization to identify the right products, resources, and capabilities, business models emphasize an outside-in approach in which MNOs understand and address customers' unique needs and pain points in different countries.
- A business model approach requires MNOs to go beyond current resources and industry boundaries to engage with external partners and develop new competencies required to create value.
- A business model approach explicitly recognizes multicultural, multinational, and multilateral stakeholders contributing to business operations and includes a formula for contributing back to stakeholders.
- A business model approach balances flexibility and agility with a systematic and modular approach to creating and capturing new value.
- The entire business model can be summarized in a comprehensive dashboard highlighting key strategic factors and their interrelationships. This dashboard helps construct and communicate a coherent story, test its effectiveness, and continuously refine it based on market feedback.

LO 2.4 Apply an opportunity logic lens to test and iterate business models to gain an edge over international competitors.

- Despite its merits, a business model does not specify how the MNO can continue creating and capturing value in the face of a turbulent global business environment.
- In view of this shortcoming of the business model approach, MNOs need to take an opportunity logic lens to continuously test and iterate business models to create new value curves across countries.
- Business models emerge in a gradual, bottom-up fashion, since MNOs test and refine different components of business models based on market feedback.
- MNOs further iterate business models to address new needs across countries. Such continuous iterations set MNOs in distinct strategic positions that ensure long-term profitability.

LO 2.5 Examine the art of leveraging business models for identifying and seeking market-creation opportunities across countries.

- To stay competitive, MNOs must keep identifying new opportunities in uncontested market spaces.
- Most MNCs seek new opportunities in tiers 1 and 2 but largely ignore the majority of the world population, which is in tiers 3 and 4. MNOs find the most opportunities to create new markets in tiers 3 and 4, where people are largely nonconsumers of modern products and services.
- Despite promising opportunities at tiers 3 and 4, MNOs must be aware of five caveats:
- MNOs must not misinterpret the real needs of nonconsumers, because customer needs at tiers 3 and 4 may be different from the needs of customers with higher incomes.
- MNOs must not ignore the novel technologies, even outside their areas of expertise, that can be deployed to creatively address customer needs.
- MNOs must not rely on current value networks that are not designed to serve new markets. It is often critical to orchestrate new networks that closely engage nonconsumers.
- MNOs must not underestimate the need for substantial executive support, which is required to experiment, test different models, and tolerate failures.
- MNOs must not overlook the broader social environment that constrains nonconsumers. For success, MNOs may focus on solving broader social problems instead of merely selling a few products or services.

DISCUSSION QUESTIONS

Test Your Knowledge: Review Questions

1. Define a business model and its key components. How does a business model enable an MNO to effectively create and capture value?
2. Reflect on the shortcomings of a business model. Explain how MNOs can leverage opportunity logic to overcome these shortcomings and create a sustainable competitive advantage.
3. What are the main challenges MNOs face when creating new markets? How can a business model approach help MNOs find novel opportunities in uncontested market spaces?

Apply Your Knowledge: Critical Thinking Questions

1. MNOs can sustain competitive advantages by consistently testing and iterating their business models to create new value curves. However, the initial investments, as well as the cost of testing and iterations, can be enormous. How can MNOs maintain their profitability while consistently creating, testing, and iterating business models? What are your recommendations to MNOs?
2. Nonconsumers in tiers 3 and 4 live in both developing and developed countries. Nonconsumers in developed countries usually struggle with lower income, whereas nonconsumers in developing countries also face an underdeveloped institutional environment. Given the additional challenge of targeting nonconsumers in developing countries, do you think that nonconsumers in developed countries offer a more attractive and less risky segment for MNOs? If you were the CEO of an MNO, would you prefer to target nonconsumers in developed or developing countries? Why?
3. Many financial technology apps serving customers at the bottom of the pyramid in Africa have been accused of charging excessive prices or selling unnecessary features by manipulating less-educated customers. Financial technology apps claim that charging higher fees and developing multiple revenue streams is critical due to the high cost of serving African customers. Research African fintech apps to identify some of their questionable practices. Do you think these practices are ethical and legitimate, given the high-cost structures of most such apps and the enormous value these apps create for African customers?

Extend Your Knowledge: Research Projects

1. Visit the website of Upstart, an educational financing platform targeting the U.S. market. Compare the value propositions, key activities, and virtuous cycles in the business models of Lumni and Upstart. How do the institutional differences in Latin America and the U.S. lead to the variation in their business models?
2. Identify two MNOs competing in the same industry but following different business models. Map key components of their business models, their interrelationships, and virtuous cycles. Evaluate how virtuous cycles in their business models make it difficult for each MNO to replicate the business model of the other MNO.
3. Consider the country in which you currently live or a country you are familiar with. Identify an unmet customer need in the country that, in your opinion, an existing MNO can address. Then, design a presentation for the top management of the MNO that could convince them to seek the opportunity. In your presentation, include a business model that describes the logic for creating and capturing value from this customer segment. Also, specify key assumptions in your business model and your proposal for testing and iterating the business model.

KEY TERMS

Assumption
Bottom of the pyramid
Business model
Business Model Canvas
Corporate scope
Customer value proposition
Deliberate global strategy
Disruptive innovation
Emergent strategy
Experimentation
External partners
Freemium model
Hypothesis
Inside-out approach
Iteration
Key activities
Key resources
Mutually reinforcing relationships
Narrative test
Nascent markets
Nonconsumers
Number test
Outside-in approach
Purchasing power parity
Revenue model
Reverse innovation
Unmet market needs
Value network
Virtuous cycles
Vision
Zero-based design