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How Local Context Shapes Digital Business Abroad

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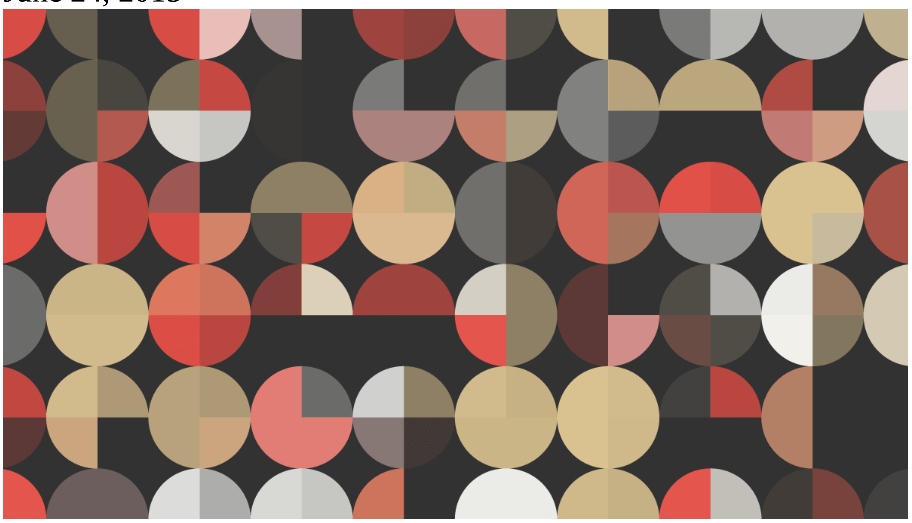

One of the most enticing global entrepreneurial opportunities these days is taking a digital business model that works in the U.S. and transplanting it somewhere else, particularly in a developing country.

Several students in my Leading Global Ventures class at Harvard Business School have done just that over the past few years, and many more would like to follow suit. The appeal is easy to understand: You don't have to invent a new business model, and the digital nature of these enterprises seems to promise a smooth transition to a new environment. There doesn't appear to be any supply chain or heavy machinery to worry about.

But strangely enough, it's often the nondigital components of a digital business that are most important for creating value in a new environment. It's a hidden snag (or opportunity, as we will see) that many entrepreneurs don't discover until they're deeply into trying to port a business model to a new place.

What do I mean by nondigital components? Let's consider first the example of Blink Booking, which Rebeca Minguela started in 2011 after graduating from HBS. Minguela had observed the rapid success of the U.S.-based Hotel Tonight, a last-minute online-booking service founded in 2010. She identified her home country of Spain as a great market to port the model to.

First, she had to persuade many hotels in Spain to sign up for the service, often by conducting individual sales calls. Second, she needed to convince local residents to sign up, usually through tailored advertising campaigns and direct appeals. Furthermore, Blink Booking had to make the app available in multiple languages to draw in a European market. In fact, at one point, most of Blink's employees were translators.

Doesn't this list sound a bit odd? We began by talking about replicating a digital business concept across borders, but most of the tasks facing Minguela were very local in nature. Blink Booking's experience is not an aberration. Instead, it highlights the important irony about business-model replication: *Models that generate the most value through global replication are often the most localized.* Consider the flip side of this: Google, an extremely profitable venture that is almost never replicated. Absent regulatory barriers, Google can so easily extend its search technology to new regions and countries that would-be rivals struggle to find an untapped location.

As a broader observation of this point, consider Rocket Internet. Rocket Internet's core business model is replicating successful business ideas globally, matching the latest-and-greatest e-commerce ideas to the biggest untapped markets. In less than a decade, the Samwer brothers have built a multibillion-dollar empire (and earned the ire of many of the businesses they cloned). A close look reveals that the digital businesses copied by Rocket Internet over the years — Groupon, Amazon, eBay, eHarmony — stress local features. Rocket's competitive advantage often centers on achieving operational excellence in difficult settings (for example, in Amazon clones, getting books to customers in countries with poor infrastructure).

So there are a few key points for entrepreneurs to consider in replicating digital businesses abroad:

Barriers to entry can work for you. A classic lesson from strategy is that value can come from entry barriers. It can be a big mistake to focus on settings where there do not appear to be any local barriers to entry. While a frictionless environment can make your own entry faster, it can also enable future competitors. Overcoming local challenges can create entry barriers against future competition and generate value for the venture. When Groupon acquired Blink Booking in 2013, it saw lots of value in the hotel clients and customers that Blink had established through painstaking door-to-door sales. In fact, some entrepreneurs end up selling their businesses back to the companies they copied when those companies begin international expansion (for example, Rocket Internet sold its European clone of Groupon, CityDeal, to Groupon itself).

Much of the replicated model will need to change. Transplanted businesses often end up looking very different once they are established. Another recent HBS graduate, Oliver Segovia, began his e-commerce company, AVA.ph, in the Philippines by replicating the concept behind the luxury flash-sales site Gilt Groupe. Yet Segovia quickly discovered that major changes were needed for an environment in which two-thirds of customers accessed the internet from public computers, one-third paid via cash on delivery, and the major business hurdles involved infrastructure and logistics. In fact, Segovia found as he tackled these problems that a much bigger opportunity for AVA lay in providing a general e-commerce platform for women's fashion that incorporated many local designers and brands.

Closely study the type of network effects involved. Most digital businesses involve network effects, where the user value of being a part of the platform depends upon the participation of others. Some digital businesses benefit from local (often meaning city or regional) network effects (eHarmony, Groupon), while others have strongly global connections (Airbnb, Elance-oDesk). Still others can be in-between and evolving: Much of Uber's network effects are regional, but international business travelers also value Uber's presence in major overseas cities. Digital businesses with local network effects have often been the easiest to replicate in ways that create sustained value; with broader effects, entrepreneurs need to think carefully about future competition scenarios as the original business expands or others react.

There is a long history to replicating business ideas in new locations, and several aspects of globalization make today a particularly ripe environment. But aspiring entrepreneurs need to recognize that behind many apps lie complex nondigital business operations that are crucial to the process of creating value.

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