

## Two Characteristics of Digital World Conquerors



By Andrew Shipilov , INSEAD Professor of Strategy

### **Why some digital businesses easily take the world by storm, and others get lost in translation.**

Many digital products seem destined to achieve global success. WhatsApp was started in 2009 on the basic premise that SMS could be sent through the internet rather than through telecom operators. By the end of 2013, WhatsApp claimed a global user base of 400 million. Facebook bought the company for \$19 billion the next year. Likewise, Angry Birds was developed by the Finnish company Rovio in 2009. The game quickly reached two billion downloads, and Rovio's 2017 revenues totalled close to 300 million euros.

These companies grew internationally with little initial adaptation of their products to the local geographical markets. For example, WhatsApp had the same user experience in the United States and in France. The experience of an Angry Birds player was also uniform around the world. While strategy

textbooks say that internationalisation often presents hurdles, Rovio and WhatsApp seem to provide counter-examples. So, does this mean that in the digital era, the traditional barriers to rapid international growth have been radically lowered?

To answer this question, let's take a look at the experiences of three companies: TomTom (a navigation company), BlaBlaCar (an online marketplace for carpooling) and Mastercard (a payment technology company). According to their senior leaders, Corinne Vigreux, Nicolas Brusson and Carlos Menendez, the story of internationalising digital business models is far from simple.

### **National culture still matters...**

Taking maps global might sound straightforward for TomTom. After all, aren't addresses written in the same way all around the world? No, as it turns out. In India, for example, most streets don't have names. Instead, you navigate by points of interest. If you want to find a location in the city, you need to know its block. TomTom's executives were forced to adapt their maps and navigation interfaces to help customers orient themselves more easily in India.

BlaBlaCar's platform solves a common pain point in many countries – it connects passengers looking for a ride to drivers with empty seats heading in the same direction. Together, they split the costs of a long-distance shared car ride. BlaBlaCar quickly discovered that cultural differences between countries led to varying rates of adoption. For example, since carpooling was more common practice in Russia than in the United Kingdom, Russian travellers took to BlaBlaCar services much more readily than British ones. Consequently, BlaBlaCar evolved the habit of entering new countries through “acqui-hires”: Where possible, BlaBlaCar identified and absorbed teams developing a local carpooling platform. Acqui-hiring enables the company to grow into a new market with an existing team well aware of local cultural specificities, which is key to inducing behavioural change at scale. This is also why the company typically gives relatively high autonomy to local teams when it comes to marketing and communication strategy. BlaBlaCar now counts **65 million members** in over 20 markets.

### **...and so do partnerships**

Partnerships are of the essence when entering new markets, even with digital products. For example, Mastercard's Smart Cities initiative leverages contactless payment solutions for customers like Transport for London. Mastercard provides the infrastructure, while its partners (like Cubic Transportation Systems) supply the local payment hardware. By focusing on the digital back end and allowing its partners to focus on the physical front end, Mastercard ensures the global stability of the network while facilitating local transactions.

Likewise, BlaBlaCar works with AXA, an insurance company that provides coverage for drivers willing to accept passengers on ride-sharing trips. This collaboration started in France and then expanded to international markets. BlaBlaCar realised that in addition to the aforementioned cultural barriers (relative to the rest of Europe, or emerging markets like Russia and Brazil), U.K. travellers needed an additional layer of trust in order to take the leap and try this new mode of transport. Whereas French travellers were willing to experiment with BlaBlaCar and rightly assumed that their auto insurance covered shared trips, U.K. carpoolers believed that their insurance company would not. The AXA collaboration, which offers free additional insurance coverage for carpoolers, has been successful in overcoming British travellers' scepticism.

### **Beware of local network effects**

Digital business models are often based on a winner-take-all dynamic: One or two incumbents enjoy a disproportionately large customer base while all other players compete for the small pool of remaining users. Hence, to the extent a foreign country already has an established player benefitting from network effects – the more people use a product in a country, the more valuable it is – it might be difficult for a new digital player to enter that market.

The situation is more favourable for firms selling physical products. A company can achieve economies of scale in manufacturing even when it starts from a small base. When TomTom (a Dutch company) sold its navigation devices to the U.S. market, it did not have to be the market leader in the U.S. to lower its costs with each additional unit sold. Moreover, the lack of a wide, pre-existing user base did not prevent new customers from purchasing a device. Ultimately, the makers of physical products can find profitable niches in new countries, as their businesses are normally not

affected by the winner-take-all dynamic.

## Two conditions

What factors explain the relatively easy global spread of Angry Birds or WhatsApp? It seems that the barriers to internationalisation will be low for a digital product under two conditions. First, the product needs to address a sufficiently common need that doesn't vary across national cultures (such as the need for free SMS in the case of WhatsApp). Second, this product needs to ride on a partner's platform. It is relatively rare that a new product will satisfy both criteria - which is why digital world conquerors remain the exception rather than the rule.

If you are thinking about going global digitally, don't assume that internationalisation will be a smooth ride. Beware of cultural differences, look for local partners and figure out how you will fight network effects.

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