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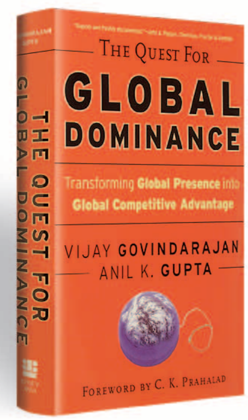
Vol. 24, No. 2 (2 parts) Part 2, February 2002 • Order # 24-05

SOUNDVIEW Executive Book Summaries®

FILE: STRATEGIC MANAGEMENT



By Vijay Govindarajan
and Anil K. Gupta

Transforming Global Presence into Global Competitive Advantage

THE QUEST FOR GLOBAL DOMINANCE

THE SUMMARY IN BRIEF

We live in an increasingly global world. Hollywood producers have to care about whether a movie will be a box office success in the United States and overseas. The CEO of Black & Decker has to care about the actions of its foreign competitors, Makita and Bosch.

Globalization is no longer an option; it is a strategic imperative for all but the smallest corporations. To stay competitive in the worldwide marketplace, business executives must lead their companies in developing and sustaining efforts to globalize their organizations. This is as true for firms in industries such as cement, construction and health care as it is for firms in industries such as semiconductors, television and automobiles. This summary offers the actions and mindset you'll need to emerge as a winner in your battle for global dominance.

What You'll Learn In This Summary

● **There are market opportunities worldwide.** To grab them, you must identify key markets and establish a strong presence in them.

● **Global presence isn't enough.** Turning a global presence into a global competitive advantage requires identifying and developing the opportunities for value creation that your global presence offers.

● **A global mindset is crucial for success.** Cultural and geographic diversity are a challenge as well as an opportunity. Develop a global mindset, and you will be able to adopt successful practices and good ideas at home and across borders.

● **The rules of the global game are being reinvented.** To reinvent your own rules, you must rethink the answers to the classic business model questions: Who are our target customers? What value do we want to deliver to these customers? How will we create this value?

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Published by Soundview Executive Book Summaries, 10 LaCrue Avenue, Concordville, Pennsylvania 19331 USA

What is Globalization?

Globalization refers to growing economic interdependence among countries as reflected in increasing cross-border flows of goods and services, capital and know-how. The world really is becoming more global. But not all countries, industries and companies are becoming globally integrated at the same rate.

At the country level, globalization refers to the extent of the interlinkages between a country and the rest of the world. Historical and political reasons have caused some countries, such as Cuba, to remain relatively isolated while other countries, such as China and India, have made great strides toward global integration.

At the industry level, globalization refers to the degree to which, within the industry, a company's competitive position in one country is interdependent with its competitive position in another country. The greater the degree of interdependence, the greater will be the extent to which the industry is dominated by the same set of global players who face each other in almost every market. For example, the global wireless industry is dominated by Nokia, Motorola and Ericsson and the soft drink industry by Coca-Cola, Pepsi-Cola and Cadbury-Schweppes.

What is a Global Company?

A global company can be viewed along four dimensions: globalization of market presence, globalization of supply chain, globalization of capital base and globalization of corporate mindset. Globalization of market presence is the extent to which a company is targeting customers in all major markets for its industry. Globalization of supply chain is the extent to which a company is accessing the most beneficial locations worldwide for meeting its supply chain needs. Globalization of capital base is the extent to which the company is tapping into optimal sources of capital worldwide. Finally, globalization of corporate mindset occurs when a corporation understands global diversity and embraces it.

Four Essential Tasks for Global Dominance

Companies that want to become globally dominant players within their industries must:

- Lead their industry in identifying market opportunities worldwide and pursue these opportunities by building a presence in those key markets.
- Work relentlessly to convert global presence into global competitive advantage and identify and exploit value creation opportunities.
- Cultivate a global mind set, view cultural and geographic diversity as opportunities to exploit, and be prepared to adopt successful practices and good ideas wherever they originate.
- Constantly strive to reinvent the rules of the global game.

For a closer look at what's driving globalization, go to:
http://my.summary.com

Build a Global Presence

There are six issues companies making the journey from local to global company must confront: choice of product; choice of strategic market; mode of entry; transplanting corporate DNA; winning the local battle; and speed of global expansion.

Choice of Product

If your company produces multiple products, your first decision will be whether to introduce all or some to the global market. Introducing all products at the same time carries a large risk. You must identify those products, business units, or lines of business that are good candidates. Evaluate each project along two lines:

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Published by Soundview Executive Book Summaries (ISSN 0747-2196), 10 LaCrue Avenue, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corporation. Publisher, George Y. Clement. V. P. Publications, Maureen L. Solon. Editor-in-Chief, Christopher G. Murray. Published monthly. Subscriptions: $195 per year in U.S., Canada & Mexico, and $275 to all other countries. Periodicals postage paid at Concordville, PA and additional offices.

Postmaster: Send address changes to Soundview, 10 LaCrue Avenue, Concordville, PA 19331. Copyright © 2001 by Soundview Executive Book Summaries.

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Build a Global Presence

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potential return (expected payoff) and potential risk (required degree of local adaptation.) The greater the need for adaptation to the new market, the less likely it can be exported. Pick a product or service that has high potential return and requires the least amount of reconfiguration.

Choice of Strategic Market

You could pursue opportunities in an ad hoc, random fashion, but a systematic and logical framework is preferable. Major considerations are the strategic importance of that market and your company's ability to exploit that market. If you find that one market has high strategic value and that you have the ability to exploit it, rapid entry is called for. If the market is of high strategic value but you have limited ability to enter it, consider establishing a beachhead first.

Mode of Entry

Once you have selected a country to enter and decided which products will be part of the launch, you must determine the appropriate mode of entry. Will you export products into the market, or will you set up local production? Will you use a combination of exports and local production? Will you export components for local assembly? Will you retain ownership and license or franchise your product or service, or will you acquire or grow a locally owned operation? You may also have to consider other partial ownership options such as joint ventures or affiliates. These factors dictate your choice:

● **The larger the market, the more likely that you will achieve efficiencies of scale by operating locally.** This minimizes tariff and transportation costs.

● **Sometimes shipping and tariff costs are too great.** Local production is then the answer.

● **Products that have to be greatly customized should be locally produced.**

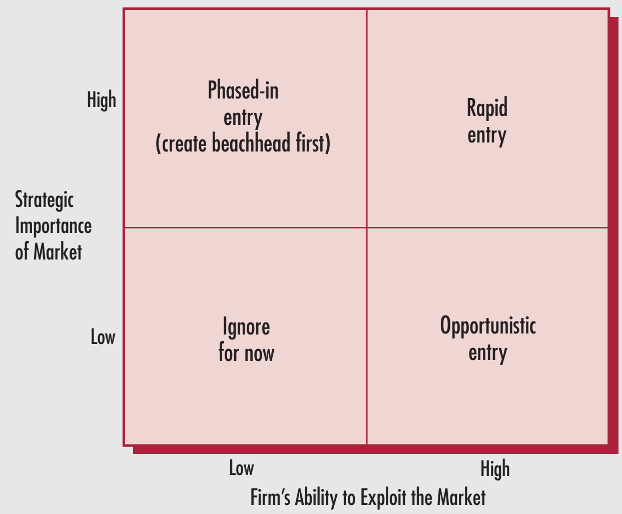
● **The more dissimilar and unfamiliar the target market is to your current market, the more likely you will have to rely on a local partner or an acquisition.**

● **Watch out for a partner's ability to learn from you how to run the business while you don't learn from it how to operate in the market.** If your partner learns faster, he has an incentive to break ties and go it alone. He can, in effect, become your biggest competitor.

● **If you lack sufficient capital to go it alone, you have no choice but to find a partner.**

● **If government regulations require local equity participation, you also may have no choice but to go the partnership route.**

A Framework for Choices of Markets



● **You must also decide whether you will set up production as a green field or make an acquisition.** Starting from scratch the green field way has the advantage of allowing you to take with you your corporate culture and management style. It also carries the risk that your entry will be delayed while you gear up.

Transplanting Corporate DNA

As you enter the new market, you will have to transplant the core elements of your business model, its core practices and beliefs — in short, its DNA. This is no easy task.

Consider what happened when Walt Disney opened its Euro Disney theme park near Paris in the early 1990s. The Disney dress code includes a ban on facial hair and colored stockings, and requires the use of appropriate undergarments. The French did not take kindly to being told how to dress, and hiring employees proved very difficult.

Transplanting core beliefs to a company you have acquired requires that a group of true believers in the company be transplanted so that the new beliefs can take root. This group must retrain and expose all workers and managers to the company's beliefs. Imbedding will take time.

When the Ritz-Carlton chain opened in Shanghai, the company had to embed its beliefs in its new subsidiary. The company believed the hotel needed significant upgrading if it were to reflect the company's core beliefs about what a hotel is and how it should be run. To that end, it brought in 40 expatriates from other units in Asia and around the world. What it did the first week worked magic to embed the company's standards of quality and service in the minds and hearts of employees. The renovation process for the hotel began with the employees' entrance and work areas. This served to sig-

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Build a Global Presence

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nal two radical changes; that standards were to be radically higher and that employees were valued. By renovating worker space first, the company reinforced the company belief that "We are Ladies and Gentlemen serving Ladies and Gentlemen."

Winning the Local Battle

Winning the local battle requires the global enterprise to anticipate, shape and respond to the needs and actions of three sets of players in the host country; its customers, its competitors, and the host country government.

Host country customers. Winning host country customers is easiest if the foreign market is similar to the one in the home market. But that is seldom the case. Consider what happened when Nike thought it could transplant its marketing approach to Europe. In the United States, Nike had become a huge success by projecting the image of an irreverent rebel who glorified the lowly sneaker, worshipped athletes, and rebelled against the establishment. Nike took that approach in Europe, running commercials featuring a French bad boy saying that he had won a Nike contract by insulting his coach. That did not play well in tradition-bound Europe.

Host country competitors. Expect retaliation from local competition. Remember, local competitors have an advantage — they know the local market. You have four possible defenses: acquire the competition, acquire a weak player and gain local advantage, enter a poorly defended niche, or stage a frontal attack. This last approach was taken by Lexus when it entered the United States market. It took on Mercedes and BMW, knowing they were constrained by high labor costs in Germany.

Host country government. In emerging markets, local government are often a key external stakeholder. Local government cannot be ignored. Companies must anticipate the regulatory climate and even explore helping shape it.

Speed of Global Expansion

When a company is building a global presence, it has to decide how fast it should expand globally. A rapid expansion is more appropriate if it is easy for competitors to replicate your recipe for success. Fast food companies expand quickly to arrive on the local market before local competitors copy their business models. The ability of management to manage global operations is another important consideration. ■

The Imperatives to Globalize

Five imperatives drive any firm to pursue global expansion, but each firm feels the imperatives differently. These are:

✓ **The growth imperative.** For many companies, developed country markets are mature, compelling them to look to emerging markets for fresh opportunities. For example, annual paper consumption per capita is about 600 pounds in North America, but 30 pounds in China and India. Were consumption to increase by just one pound per capita, the increase could keep five state-of-the-art paper mills running at peak capacity.

✓ **The efficiency imperative.** Whenever there are one or more activities in your value chain where the minimum efficient scale exceeds the sales volume feasible within one company, a global player has a cost advantage over a domestic one. By producing at peak efficiency and selling in more than one market, you can cut cost and beat the competition.

✓ **The knowledge imperative.** No two countries are completely alike. Companies must adapt products or services to dissimilar environments, which requires local know-how. In turn, these adaptations may benefit the company at home and abroad. For example, GE India developed a CT scanner that was simpler, easier to transport, and cheaper for the Indian market and can now use that technology in other markets.

✓ **Globalization of customers.** When domestic customers start to globalize, firms must keep pace with them. Executives who travel overseas, for example, come to expect the same level of service away from home as at home.

✓ **Globalization of competitors.** If your competition globalizes, and you don't, you become vulnerable to a two prong attack. First, the competition gets a first-mover advantage in a new market, and second, they can use a multi-market presence to cross-subsidize and wage a more intense attack back home.

Exploit Your Global Presence

In the early 1990s, PepsiCo established an ambitious goal to triple its international soft drink revenues. By the mid 1990s it had built an extensive global presence. The expansion did not, however, translate into growth and profitability. By 1997, the company withdrew from some major markets, including South Africa, and had to take a nearly $1 billion loss from international beverage operations. PepsiCo's international market share and revenues were actually shrinking, while Coca-Cola was growing. Securing a global presence isn't synonymous with possessing global competitive advantage.

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Exploit Your Global Presence

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Transforming global presence into solid competitive advantage requires systematic analysis, purposeful thinking and careful orchestration. Without a disciplined approach, global presence can easily degenerate into a liability that winds up distracting management and wasting resources. Worse yet, the end result can be a loss of competitive advantage in the domestic market.

To convert your company's global presence into global competitive advantage, you must pursue six value creation opportunities. You must:

● **Adapt to local market differences.** Differences in language, culture, income levels, customer preferences and distribution systems need to be considered. McDonald's adapts its menu to regional differences with lamb-patties in India and teriyaki burgers in Tokyo. *Business Week* produces different editions for the North American, Asian, and European markets. Be careful that your efforts to adapt to local tastes don't backfire, though. When TGI Friday's opened in Korea, the restaurant offered traditional local dishes like kimchi on the menu. Customers responded negatively, and surveys revealed that they had expected a visit to TGI Friday's to be "a visit to America."

> ***McDonald's adapts its menu to regional differences with lamb-patties in India and teriyaki burgers in Tokyo.***

● **Exploit economies of global scale.** As you build a global presence, you must convert the larger scale you will be working with (i.e. larger revenues and asset bases) into economies of scale. You may be able to do this through spreading fixed costs, reducing capital and operating costs, and pooling purchasing power.

● **Exploit economies of global scope.** Global scope refers to the multiplicity of regions in which a company markets. When a company finds it needs to provide similar goods or services across many regions, it can reap rich rewards. For example, McDonald's needs to provide identical catchup and mustard packets to its operation in every market. By using a single global supplier, it can reduce costs significantly over using multiple local sources, and can guarantee consistency.

● **Tap the optimal locations for activities and resources.** When expanding into global markets, your company may need to make location decisions based on factors like the availability of local talent. For example, when Microsoft sought to establish a corporate research unit in England, it located near Oxford and Cambridge universities. Significant cost reductions can occur if a company sets up shop where labor is inexpensive. Texas Instruments took this approach when it set up a software development unit in India.

● **Maximize knowledge transfer across locations.** Every global company has what amounts to a portfolio of knowledge centers. After all, global companies develop unique knowledge as they exploit the resource and market opportunities of the local environment. This specialized knowledge pool can be leveraged to yield strategic benefits to the entire global enterprise. For example, Proctor & Gamble developed Liquid Tide using knowledge from operations in Cincinnati (ingredients to help suspend dirt in washwater), Japan (cleaning agents), and Brussels operations (ingredients that fight mineral salts in hard water).

● **Play the global chess game.** In the global competition between Kodak and Fuji, and Coke and Pepsi, each side can adopt one of two approaches: view it as a war and slug it out on a country by country basis, or view it as a chess game, attacking through coordinated action of all available resources. If you choose chess, one goal is to weaken the competitor in its current strongholds. For example, Fuji took on Kodak in its home market by aggressively cutting the price of multi-packs of film by as much as 50 percent and gained substantial market share. Another chess move involves preempting a competitor from building a strong presence in future strategic markets. ■

Building World-Class Competencies

Once you have chosen the locations at which a particular activity will be performed, the next step is to build competencies at those locations. Many countries with lower wage rates also suffer from lower levels of productivity. Smart companies aren't prisoners of such statistics. Instead, they cultivate competencies in their work forces. This can be done successfully in locations where:

- ✓ **despite relative poverty, there is a large pool of highly educated workers such as in India, China and the Philippines;**
- ✓ **high unemployment levels mean a talented and motivated pool of workers;**
- ✓ **the company is starting from scratch, and can train workers.**

For another example of leveraging knowledge, go to: http://my.summary.com

Cultivate a Global Mindset

A person's mindset represents a theory of what the world is like and is the result of that person's efforts to make sense of the complex, changing and ambiguous information we are exposed to. To complicate matters, one's mindset tends to filter new information so that only that which is consistent with our existing beliefs reaches us.

For example, Kenneth Olsen was founder and CEO of Digital Equipment Corporation. In the mid-1970s DEC was the world's second-largest computer market and the market leader in the minicomputer segment. In 1977, Olsen observed that, "There is no reason for any individuals to have a computer in their home." That mindset resulted in his company's late entry into the personal computer market. It never recovered its footing, and by the mid 1990s it ceased to be an independent company. It was acquired by rival Compaq.

Just as individuals have mindsets, so do organizations. An organization's mindset is an aggregated mindset of individuals adjusted for the distribution of power and mutual influence among the group. Unless the CEO is extremely powerful, a company's mindset is far more than a carbon copy of the CEO's.

Organizational mindset can be changed. This happens when there is a change in the relative power of individuals who are in decision-making positions, a change in the way members of the organization interact, and a change in the mindset of those arriving from that of those leaving the organization.

What does it mean to say that an organization has a global mindset? Chiefly, it means that the organization is open to and aware of diversity across cultures and markets and can work with that diversity while, when necessary, challenging assumptions based on that diversity. For example, a manager with a global mindset can understand the role of unions in Italy or Spain while challenging the assumption that, "You can't do that in Italy or Spain because of the unions."

The ability to deeply understand diversity and yet challenge preconceived notions is illustrated by a U.S.-based household accessories company, Home Decor (not its real name.) Founded barely four years ago, the company is one of the fastest-growing manufacturers of household accessories, with a five-star customer base that includes some of the biggest and most prestigious retail chains in the United States. According to the CEO, who is an immigrant from China, the company's strategy is to combine Chinese costs with Japanese quality, European design and American marketing. The company understands that there are Chinese competitors, but they don't concentrate on quality, and that there are American companies with excellent product quality, but high cost. Home Decor has a mindset that lets it embrace diverse standards, and synthesize a business that capitalizes on the strengths while minimizing the weaknesses.

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Building A Global Knowledge Machine

Whenever a company extends its presence across borders, it is confronted with diversity. Companies that view that diversity as an opportunity to create value for customers and shareholders have a powerful resource on their hands. The process of adapting products to each location forces each subsidiary to engage in at least some local innovation. Every such innovation represents the creation of new knowledge.

In a world in which the half-life of new knowledge is becoming ever shorter, an effective knowledge machine must excel at two central tasks: creating and acquiring new knowledge; and sharing and mobilizing this knowledge throughout the global network. How do you get people to continually come up with new and novel ideas? Try these:

✓ **Set stretch goals.** The easier the target, the less the need for new approaches. You need to set goals that are hard to achieve and require new thinking.

✓ **Provide high-powered incentives.** Stretch goals increase personal risk of failure. Unless the potential reward matches the higher level of risk, it would be irrational for smart people to stay with the company.

✓ **Cultivate empowerment and slack.** Stretch goals and high-powered incentives stimulate a demand for new ideas. In contrast, empowerment and slack are supply-side tools that play a critical role in increasing creative output. At 3M, for example, scientists are expected to spend 15 percent of their working time on projects of their own choosing.

✓ **Cultivate a market for ideas within the company.** Create a culture where an idea rejected by an immediate supervisor can still be shopped around.

✓ **Ban knowledge hoarding and turn knowledge givers into heroes.** You want good ideas to spread.

✓ **Rely on group-based incentives.** These reinforce the idea that knowledge should be shared.

✓ **Invest in codification of tacit knowledge. Write it down.**

✓ **Match transmission mechanisms to type of knowledge.** Some things are best transferred in writing or electronically, while other kinds of knowledge should be directly passed from person to person.

Challenged in Knowledge Creation and Mobilization

Identifying and using intellectual property is often hampered by complacency, employees with low decision-making discretion, and the lack of support for innovative ideas by management. Knowledge acquisition is often hampered by failure to be an early mover and the inability to integrate external knowledge. Knowledge retention is hampered by employee turnover and leak of proprietary information to the competition. Other factors preventing use of intellectual property include the "How does it help me?" "Not invented here" and "Knowledge is power" syndromes.

Cultivate a Global Mindset

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IKEA's Learning Curve

When IKEA first tried to enter the United States market, it showed that it didn't yet have the right global mindset. Swedes constitute almost the entire top management team of the company, and fluency in Swedish was considered essential at the senior level. And when the company attempted to enter the United States, it replicated the traditional Swedish concepts that had made it a success in Scandinavia, without regard to differences in the target market. For example, it didn't offer home delivery, it opened Swedish style cafeterias in the stores, and it sold beds that needed Swedish sheets rather than sheets made to fit United States standard sheets. In short, IKEA saw the world through Swedish filters.

The company reexamined its U.S. operations, and began to understand that the needs and buying behaviors of American customers were different. It took time before the company was able to adapt the advantages its products offered to the needs of American consumers.

Advantages of a Global Mindset

A global mindset will allow the company to outpace its rivals in assessing market opportunities, and to convert its presence across multiple markets into global competitive advantage. It will be able to combine speed with accurate response. It will have an early mover advantage in identifying emerging opportunities, will experience faster roll-out of new product concepts and technologies, and rapidly and efficiently share its best practices across subsidiaries.

Cultivating a Global Mindset

The quest for a global mindset is a ceaseless journey. But four qualities will help. These are:

- **Curiosity about the world and a commitment to understanding how it works.**
- **An explicit and self-conscious articulation of the current mindset.**
- **Exposure to diversity and novelty.**
- **A disciplined attempt to integrate what you learn about cultures and markets.** ■

For another example of a company with a global mindset, go to: http://my.summary.com

Change the Rules Of the Global Game

Prior to 1995, most books were bought in bookstores or from printed catalogs. Then Amazon.com began offering books for sale on its web site. By mid-2000, over 20 million customers worldwide were buying books, CDs and other goods worth more than $2.5 billion annually from Amazon.com via the Internet. The retailer provides 24-hour-a-day convenience, global reach and a wider and deeper product mix than any conventional bookseller, while boasting lower prices and better customer service. Amazon.com illustrates that competitive advantage isn't just a function of how well a company plays by existing rules, but also of how well if can radically change those rules.

A Framework for Creativity

Transforming the game is fundamentally a creative undertaking that cannot result purely from a deliberate and purposeful process. Neither is it strictly a function of luck, accident or opportunism. In fact, it is possible to use an explicit and systematic framework to guide the creative process.

First, identify your current business model. A company's business model is typically created by answering three questions: Who are our target customers? What value do we want to deliver to these customers? How will we create that customer value? To radically change that business model, redesign the end-to-end value chain architecture to be more efficient, reinvent what value the customer receives, or redefine the customer base. Changing any of the three will radically change the other two. What you will be doing is essentially converting one internally consistent business model into another internally consistent business model.

Dell's New Business Model

Dell Computers went through a radical redesign when its founder, Michael Dell, looked at the old way of producing, selling and delivering personal computers. The traditional way was to build-to-stock. Computer makers

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Change the Rules of the Global Game

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would build the kind of computers they thought customers wanted, send them to warehouses, and distribute them to resellers and retailers, who then sold them to customers.

Dell's redesign worked like this: outsource all component manufacturing, and assemble the units in-house as customers placed orders directly with the company. Dell takes order over the phone or via the Internet. It works. Customers order directly because they don't need the hand-holding they did early in the computer revolution. Dell buys only those components it needs to assemble computers that have been ordered and doesn't have to pay a reseller. And there are no outdated, unwanted computers sitting in warehouses losing value.

Reinventing Customer Value

If you choose to reinvent customer value, consider making the move from selling discrete products to selling an integrated system of products and services. Be aware that customers may be reluctant to make you their sole source for products and services for fear that you will exploit your position. Therefore, be sure that your total product or service system includes only products that are best in class, that the system you design is really superior to getting the goods or services from multiple sources, and offer the bundle at lower cost than it would cost to get the items or services from separate providers.

Reinventing Your Customer Base

If you choose to redefine your customer base, be sure that there are real benefits to doing so. To work, the customer segment you discover must be so large as to result in dramatic enlargement of the entire industry's customer base. Examples include Apple Computers, which redefined the computer market to include every man, woman and child in the world, and Canon, which redefined the copier market to include individuals and small businesses.

Here's what happens when you redefine the customer: The new segment changes the value potential of the entire industry. Then the solutions companies design for the new segment begin to substitute for the historical solutions of the original segment. The real breakthrough occurs when the company dominating the new segment then leverages that dominance to use in a direct attack on the incumbent players in the original segment. ■

Reinventing Customer Value

Want to reinvent customer value? Here are some ideas to get you started:

✓ **Move from selling software and hardware to supplying total business solutions.**

✓ **Go from selling insurance, banking, mortgages, or mutual funds to providing financial security and freedom by integrating financial products and services.**

✓ **Go from selling packaging material to supplying total packaging systems.**

Globalization in the Digital Age

The emergence of the digital era has done more to bridge distance than any other development in the last few decades. Innovations include computers and the Internet, point and click interfaces, broadband connections, mobile communication, speech recognition, and wireless data transfer. Digital technologies are making the world highly connected. As a result, within the next five years, every company will likely be an Internet company or it won't be a company at all.

Globalization Imperatives for Newly Formed Netcentric Firms

For newly formed Netcentric companies, the pressures to globalize at Internet speed are enormous. The basic concepts behind business models pioneered by Yahoo!, e-Bay and Amazon.com, and the value propositions they offer, are globally applicable. The problem, of course, is that if these companies don't go global right away, someone else will take their concepts. The opportunity cost of delay is potentially very high. But for new companies, expanding rapidly has dangers.

Netcentric companies will have to resolve the dilemma. In most cases, it boils down to how early in its life should the company go abroad and how rapidly should that deployment happen. It can take one of four approaches: go global from the beginning, preemptively go global as quickly as possible, acquire potential competition overseas, or adopt a slow globalization strategy. The choice depends largely on the cross-border scalability of the enterprise's business model.

One Netcentric company that found its business model wasn't scalable was Internet retailer Boo.com. A well-funded venture, it intended to sell fashionable sportswear worldwide. It launched in November 1999 in 18 countries. Four months later it added 13 additional countries (and currencies, languages and fulfillment infrastructure.) It proved to be too much too fast. Two months later and well before its first anniversary, it was liquidated. Others have fared better, usually by going global at a less rapid pace. ■