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Applying an iterative “lean startup” approach to geographic expansion

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“Lean Startup” is an increasingly prevalent doctrine for startups around the world. Building on Lean manufacturing principles and agile product and software development, the fundamental idea of the lean startup movement is to continuously test your business and product idea and its underlying assumptions with your potential customers from day one. Ideally, this would be achieved without making large upfront investments into product development. The Lean Startup by Eric Ries is a good source if you want to know more about the concept.

In recent years, this type of thinking has begun to penetrate corporations looking for ways to foster innovation and improve their agility. Progressive companies are no longer making heavy upfront investments in infrastructure and personnel to support launching a new product with massive expectations, while carrying the risks of failing in case customer demand does not materialize. The traditional ‘build it and they will come’ thinking is slowly giving way to a more entrepreneurial mindset where business plans are executed in small incremental pilot programs. The reasons for this are obvious, given that many front-heavy product launches fail. For instance, according to industry analysts, Microsoft lost around nine hundred million dollars on the Microsoft Surface tablet, which in many ways was a startup endeavor – building and selling a tablet device was something they had never done before.

In addition to product development, the lean startup ideas and best practices can be applied in corporations more broadly especially for new corporate business ventures and, particularly, market expansion for globally ambitious companies. The principles of experimenting with the product on the market, adapting the strategy and starting small, while learning from the market have all provided a competitive edge for geographically expanding companies.
Examples of failed corporate expansion attempts such as the Surface tablet are numerous and, while the underlying reason may vary, the commonly heard explanations fall into three categories:

1. "The market wasn't there" – there was no customer demand (yet) for the what we are launching
2. "Our strategy was wrong" – there was a market for our product or service but we were unable to be competitive and capture market share
3. "We lacked the execution capability" – we did not have the right people or the right capabilities in the organization to achieve our goals

The lean startup lessons can mitigate the risks involved in the first two types of failures and help recognize the third one early on.

Experiment with the products in the market immediately

One of the key principles in lean startup is experimenting with the product on the market early on. Creating a minimum viable product to test with the customer is a common way of doing this. Instead of starting with an overly detailed business plan, followed by spending a year on product development and finally launching a product that turns out to be unattractive to customers, begin your process by testing the crucial assumptions of the business immediately. Validating the concept, the customer value propositions and the business idea before significant investments will pay back by providing true data on customer demand for your idea, which is then used to adjust and optimize the product to market demand.

Test the product in the market, understand real customer demand by trying to sell the product and consequently understand how to optimize your product for the market. This similar method can be applied in corporate geographic expansion. Given that a detailed business plan and market analysis can take months, it is beneficial to spend some time after an initial analysis actually trying to sell your product in the market in order to receive direct feedback and quick answers to some of the questions. One Middle Eastern industrial goods manufacturer was interested in expansion into a North African country with its existing product portfolio. As one of its first actions, the company went to the main industry fair in the target market with its product portfolio and met with suppliers, distributors, end-customers and competitors. As a result, the company understood the demand for the products, the need for product localization and the price-points they needed to meet. They were also able to build a valuable initial network that could prove helpful in later stages of the expansion.

Being flexible with your core product and optimizing your product portfolio to the market can provide a substantial advantage in expansion to a new market. In 2012, the average Chinese person consumed 2 cups of coffee a year compared to a global average of 134, according to Euromonitor. Nonetheless, Starbucks is growing rapidly in China, planning to open its 1000th store on the market in 2013. Nestlé's coffee drinks are also prospering. The reason behind the successes is that both companies are adapting to the local market: The typical beverage sold at a Chinese Starbucks has little to no pure coffee, such as milkshake-type drinks, teas, juices or localized products such as red bean lattes. Similarly, a Nescafé in China is more of a "sweet concoction of water, milk powder and sugar" according to Monitor Group.

Be adaptive and creative with your market entry strategy

While experimenting with actual products and sales on the market, a corporation learns rapidly about the customer demand on the market and the needs for its own product portfolio. This helps to mitigate the first risk of failure in corporate expansion – investing heavily into a market that is not there. But another lean startup principle, the ability and willingness to pivot an unsuccessful business strategy, is useful to a corporate expansion situation as well, tackling the second risk of failure.

Conducting actual sales on the market, a company often finds out the limitations of their market entry strategy as the original strategy employed in domestic markets might not scale globally. The acceptance of this fact, as well as the willingness to adapt can be the solution. Reddal started its international expansion in South Korea with a small team, quickly realizing that approaching the same customer segments it was familiar with in its home market, stock-listed corporations and SMEs, was not the fastest way to enter the market. Instead, the chosen approach focuses on technology companies with international growth ambition. The offering has also developed to include various aspects of digital media and marketing to better serve the new type of customers, which has proven to be valuable for the other Reddal offices as well.

In fact, this type of creative approach for market positioning has a lot of successful precedents in Asia. Starbucks's strategy in China has not been so much about creating a café but more about providing a third place for people to socialize outside their homes and offices. In most Chinese cities prior to Starbucks, there were no casual high-end cafes among the myriad of fast-food places or high-end restaurants; socializing and business was conducted either at home or at the office. Positioning themselves as 'the third meeting space', Starbucks stores in China are 50% to 100% larger in size than their US counterparts and rent is their biggest cost component according to the Wall Street Journal. The strategy has proven successful as 90% of the beverages are consumed on-premise, the exact opposite of the US.

Another example comes from Japan and the pharmaceutical industry. In the late 1980s, Eli Lilly conducted market research on Japan and decided against selling their antidepressant Prozac on the market due to virtually no demand for antidepressants caused by a cultural stigma vis-à-vis depression and a lack of awareness regarding depression in general. Ten years later, all the global pharmaceuticals were entering the market with their antidepressants thanks to a repositioning of the products. Depression was no longer referred to as depression but as 'kokoro no kaze'; a cold of the soul or heart. Although it is unclear which company was the first to use the strategy, it quickly became common practice. The seemingly simple marketing slogan was ingenious in creating the analogy to the common cold: anyone can get it, it is transitory and there is medicine for it. In a matter of a few years, awareness for the disease was created and depression was virtually rebranded.

Start small – learn as you go

Starting small and learning as you go is one of the key principles of the lean startup methodology. The approach has benefits in corporate expansion because it allows for rapid adaptation of the product and the strategy to each respective market as one learns from operating on the market and interacting with customers. It also mitigates the risk of diluting the global brand image due to high-profile failures in some markets. Furthermore, it allows geographic expansion to be done with a small budget initially, so that by the time big decisions are needed there is already a solid fact base and execution track record in place. For CEOs, this implies easier discussions with the Board, since proposals for larger efforts are supported by initial successes giving credibility to the effort.

There are several ways to apply lean startup principles in corporate expansion in practice. A product company, for example, can start small by beginning with small-scale exports and a single or few end-point distributors. As an example, a Middle-Eastern industrial goods manufacturer is contemplating starting its expansion by shipping one container of product to learn from the market. This will be followed by a local final assembly plant leased on a short-term basis with minimum personnel. Starting small and slowly growing the operations to a larger scale allows them to monitor whether the expected demand realizes and optimize the approach according to market needs. With a final assembly plant, investments into the production line and tools are minimized, and this equipment is easily transferrable to another location should the pilot fail.

A service company can expand in a lean way by going to markets where demand is identified and some business already exists. See for example the article about Reddal's own experiences in international expansion. Another approach is to start in a focused market with high expected volumes that allows you to test your business and strategy. Starbucks, for example, opened its first store in China in a very busy location in the World Trade Center in Beijing in the late 90s. Social media and digital marketing tools are also enabling this approach with the ability to target specific groups of people in specific locations. For example a Korean fashion SME is considering using such methods to gain traction and build hype in specific cities and age groups as an initial step in their expansion, thereby minimizing the initial investments while building skills in international markets.

Ground rules: maintain the vision, set clear boundaries and nurture

Because the lean startup approach is based on flexibility, agility and adaptability, in a corporate expansion situation some ground rules need to be set. Firstly, while the product may be optimized and the strategy revised later on, the vision is not allowed to change. Setting the global vision and some boundary conditions that result from that vision is crucial. A company may, for example, want to set rules on the product in order to manage the balance between localization and excess customization for each specific market. Secondly, some conditions may need to be set on the acceptable positioning for the entry of each new market; judgment calls may be needed upfront on what type of price segments are reasonable and will not dilute the brand or whether multiple brands can be used in multiple markets.

Finally, although the approaches discussed so far have been lean, they still do require dedicated resources. Leveraging lean startup methods in a corporation may not be possible due to inflexibility in the organization, cultural issues or the lack of the right capabilities and resources, namely the third risk of failure. Developing an organization and culture that supports innovation and recognizing and nurturing a company's corporate innovators – intrapreneurs – is an important prerequisite for successfully applying lean expansion strategies. A thorough discussion on ways to develop these issues is beyond the scope of this article, but Govindarajan & Desai (2013) provide some good tips in their article.

Lean startup methods can help in mitigating expensive failures in corporate expansion through market-specific adaptation and real market insights early on at low cost. As long as your global vision is clear, experiment immediately, be adaptive, start small and learn as you go!