Strategy in Action: The Creation of the Codex

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ABSTRACT

This thesis provides the foundation of a larger project, namely the Strategy Unlocked Codex. It is my task to provide sufficient content for ten strategic theories to assist the public at large by enhancing their understanding of business strategy and discovering applications in their professional situations. The ten theories have been researched, analyzed, and explained both in print and by film. Videos, both short and long, as well as integrated graphics have been developed to further demonstrate theory understanding. The result is a format that can be replicated for others to use in the population of the Strategy Unlocked Codex. This project resulted in ten separate theories and over 15 videos explaining various strategic models and their relevance today. The Codex will be later used to assist BYU in becoming a landmark school for strategy and assist current industry research by providing a compendium of knowledge, of which there is no comparable equal at this time, to both professionals and students alike. Each theory has been fully researched and is ready for use and application across the Codex.
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Introduction

In the realm of business strategy, there is no comprehensive guidebook or collection of the field’s research. Often, business strategy is condensed into a few theories from a small number of books and streamlined across industries. This results in a dearth of knowledge concerning strategy and an inherent difficulty in teaching and expanding the field.

My thesis is part of a larger project to publicize business strategy in an accessible manner for students, business leaders and scholars alike. I am building out and condensing a number of the known business strategy theories for use in an online codex.

With the rise of online learning, textbooks have quickly become an obsolete method of teaching. This is why it has become paramount to focus efforts on computerized text that can be continually updated and refined with new research and data. The Strategy Codex will perform this function. It will be a multi-media platform containing research about all strategy frameworks (150+) and apply them in a manner that is most helpful to those trying to learn and solve business problems.

My role is condensing and publishing the strategic theories for use. My thesis will contain ten of these theories with a loose focus on the area of international business. Each one will follow a similar format and is built for the website. As such it will contain video explanations and AI powered integrated graphics.

My ultimate goal is to assist in publishing this website and helping BYU become the premier school for Business Strategy, by producing the first comprehensive online encyclopedia for strategic management.
Methodology

Each strategic theorem’s outline will follow the same format:

1. Definition/Description – Succinct details of the theory, relevance, and examples.
2. Video(s) – Short videos explaining and demonstrating the theory in action.
3. Integrated Graphic – AI powered tool to enable users to use the model themselves.
4. Alternate Examples – Between 2-4 examples of actual companies using the theory.
5. History – A concise history of the theory, from formation to popularized practice.
6. Related Frameworks – Several similar or related tools to enhance overall insight.
7. Video Script – Each video’s script detailing the model with unique perspectives.

This outline will be applied to each of the ten theories listed below:

1. Porter’s Five Forces
2. Three Horizons Model
3. Sunk Cost Fallacy
4. Indirect Assault
5. Entry Modes
6. Triple A Framework
7. Cage Distance Framework
8. International Strategy
9. Blue Ocean Strategy
10. Adjacent Market Expansion
PORTER’S FIVE FORCES

Definition/Description
Many business leaders struggle to objectively analyze their industries. Too often, they become obsessed with understanding competitors and fail to recognize alternate (and sometimes more destructive) threats. Porter’s Five Forces is the seminal model to understanding the underlying factors of any industry.

As an example, Southwest Airlines - a global low-cost carrier - used Porters Five Forces model to develop a low-cost carrier strategy. After recognizing the forces at work, Southwest created differentiation by offering low-cost fares to passengers.

Video

Integrated Graphic
**AI Tool enabling clients to input data to represent the five forces. Presenting numerical output with a concise explanation of the forces at work in their market.**
Alternate Examples

Amazon – the international product supplier, used the Five Forces model to expand from books into related markets such as books, music electronics etc. They recognized the cost efficiencies driven by an understanding of supplier and buyer power.

Apple – a modern technology innovator, engaged the model to create a successful product strategy. They focused their brand on consumer-friendly electronics to develop a differentiated product line that enjoys a wide appeal.

History

The first mention of competitive forces was in a 1979 Harvard Business Review article titled “How Competitive Forces Shape Strategy,” written by Michael E. Porter. It was composed after the observation that contemporary business often focused much of their strategic efforts on competitors while ignoring underlying forces in the wider business environment. Post publication, the article was widely circulated, introducing the idea to vast audience. To further hone his points of strategic doctrine, Professor Porter published his seminal treatise, *Competitive*
Strategy in 1980. In this book, he detailed how to accurately use the Five Forces model to analyze the competitiveness of industries.

Throughout the 1980s and 1990s, businesses began to compete around the world. With this rise of global business competition, the Five Forces model became increasingly relevant. It was adopted, used and scrutinized to assist business leaders achieve their ends. Finally, model was immortalized through it’s vast dissemination in MBA programs and business schools. These institutions became viewed as highly valuable from the increased competition of global business of 80s and 90s. Thus, the Five Forces model went around the globe and is still taught today as a simple and effective strategic model. [1]

**Added Information**

Porter’s Five Forces is a strategic analysis developed answer the following questions:

1. What makes some industries more profitable than others?
2. How can I objectively analyze an industry?
3. How can I create competitive advantages within my industry?

The theory was created in 1979 by Michael E. Porter of Harvard University. It is mainly used to assess the relative strength and position of an organization within its respective market. This happens by identifying where “power” resides in business situations. Greater amounts of “power” often lead to favorable outcomes for an organization. [2] The five forces (representing how “power” is distributed) are as follows:

- **Buyer Power** – The assessed ability for consumers to drive down prices in a marketplace.
- **Supplier Power** – The assessed ability for suppliers to drive up prices in a marketplace.
- **Threat of New Entrants** – The assessed ease at which new competitors may enter an industry.
- **Threat of Substitution** – The assessed availability of close substitutes of a product or service.
- **Competitive Rivalry** – The intensity of competition among existing firms in an industry.

Normally, higher forces correspond with lower industry profits. Alternatively, lower forces usually correlate with an increase in profits. In essence, Porter’s Five Forces is a remarkable tool to understand market forces and develop effective strategies to succeed.

**Objectives:**

- Understand Industry Forces
- Assess Industry Attractiveness
- Develop Effective Strategies

**Step by Step Guide:**

1. Identify the Five Forces. Diagnose the forces listed above.
2. Assess the Strength of each Force. Consider factors such as number of competitors, availability of substitutes, barriers to entry, and bargaining power of buyers and suppliers, then rank accordingly.
3. Determine Overall Industry Attractiveness. Industry attractiveness is measured by the overall strength of the forces. Lower amounts of forces equate to higher attractiveness.
4. Develop Effective Strategies. Using insights from the model, create strategies that will maintain or decrease forces, thereby enabling differentiation and competitive advantage.

Common Outcomes:

- Differentiation – Offering unique products, services or a strong brand to create distance between the organization and competitors in the minds of consumers.
- Cost Leadership – Possessing the lowest costs in the industry, either by increasing efficiencies or negotiating lower input costs.
- Focus – Cornering one segment of the market and tailoring all services to meet their unique needs. [3]

Related Frameworks

- CAGE Distance Framework
- PEST Framework
- International Strategy

Video Script

Imagine entering a competitive market. It's like navigating a complex chessboard, where every move matters, and understanding your opponents is crucial. That's where Porter's Five Forces framework comes in!

Developed by Michael Porter, this framework identifies five key factors that determine how intense competition is and, ultimately, how profitable you can be in a specific industry.

First, competition intensity: This measures how hard you have to fight for market share. The more competitors, the lower your pricing power and profits. Consider their strengths, weaknesses, and strategies to predict their next moves.

Next, buyer power: Customers hold the buying power! Analyze their price sensitivity, switching costs, and access to information to understand how much they can dictate your prices.

Don't forget supplier power: They control key resources! Assess their concentration, your switching costs, and alternative suppliers to avoid getting squeezed by their pricing.

Then there's the threat of substitutes: Remember, customers have options! New technologies or alternative products can replace yours. Monitor trends and innovate to stay relevant.
By analyzing these five forces, you can:

- Identify opportunities: Spot gaps in the market where you can offer unique value.
- Anticipate threats: Predict competitor moves and prepare responses.
- Make informed decisions: Choose the right strategies to maximize your profitability and market share.

Don't be blindsided by competition. Use Porter's Five Forces!

*Timed – 1 Minute*
THE MCKINSEY THREE HORIZONS MODEL

Definition/Description

Many businesses struggle to know where to invest efforts in growth. Moreover, they grapple with maintaining their core businesses while pursuing innovation. The Three Horizons Model effectively explains how to correctly prioritize and pursue both incremental and radical innovation, while maintaining the core business as a corporate strategy.

Example - McDonald’s recently launched a new brand “CosMc’s” in the Beverage Sector. However, it also wants to maintain its focus on its core business of Fast Food. The three Horizons framework would be ideal to help the company balance the focus of its core business against its new venture.

VIDEO

Three Horizons 30sec Video (3).mov
Three Horizons Examples.mov
**Use AI to help users identify the proper delineation of time and resources for their businesses as well as identify close opportunities for innovation in their market.**

**Alternate Examples**

Unilever – a global consumer goods company – used the framework to drive innovation across a wide brand portfolio. Horizon 1 included initiatives to enhance product formulations and packaging. Horizon 2 explored opportunities in personalized nutrition and sustainable packaging options. Horizon 3 included investments in a new business model, a possible subscription service for personal care products.

LEGO – the global toy manufacturer engaged the model to revitalize its business and maintain its market position. Horizon 1 includes strengthening their core product line by expanding the range of building sets and introducing new themes. Horizon 2 explored digital experiences including virtual and augmented reality experiences to enhance play. Finally, Horizon 3 included new ideas such as educational robotics and sustainable materials development.

Toyota – the multinational automaker adopted the model to drive innovation throughout the changing automotive landscape. Horizon 1 initiatives included investments in enhancing fuel efficiency and performance of existing models. Horizon 2 pursued adjacent areas such as electric and autonomous vehicle technology. Horizon 3 included new manufacturing technology to expedite construction techniques.

**History**

The model was originally published in the book, The Alchemy of Growth, written in 1999. The authors included three McKinsey directors who were focused on helping companies achieve sustained growth. The model was created to combat the typical product lifecycle of decline as companies mature. This model would theoretically incentivize innovation throughout the entire corporate lifecycle. [1]

Over time the model has seen alterations with the main development being that the model is no longer bound by time. Instead of relegating each horizon to certain time periods, all three can occur simultaneously. This is necessary in the modern environment when business is rapidly changing. This means that horizon three may (of necessity) occur before horizon 1. This change was publicized in 2019 in a Harvard Business Review Article by Steve Blank. [2]

Additionally, later articles communicated the 70/20/10 rule of prioritization. Simply stated, 70% of time and resources should be spent on the core business (Horizon 1), 20% of time and resources on emerging businesses (Horizon 2), and 10% on new businesses and technologies (Horizon 3). This rule enabled the model to be more effective as it demonstrated where to place optimal effort while operating the business for success. [3]
Related Frameworks

- Blue Ocean Strategy
- Porter’s Five Forces
- International Strategy

Video Script

Short Video

Innovate wisely! McKinsey's model splits efforts in 3:

- Horizon 1 (70%): Your "bread and butter" (McDonalds: burgers, fries). Here you focus on your core.
- Horizon 2 (20%): Innovate nearby (McDonalds: wraps, salads). Here we find related expansion
- Horizon 3 (10%): Be BOLD! (McDonalds: McCafe). High risk, high potential!

Remember, balance is key!

Timed = 30 seconds

Long Video

“Do you wonder where to invest to properly incentivize company growth? Or do you struggle to balance your innovation vs your core business. Today we’re going to answer those questions using McKinsey’s Three Horizon Model.

The model divides innovation across three segments, called “horizons.” We’ll quickly define each one using the example of McDonalds:

Horizon one is known as the core horizon, this can be considered the bread and butter of your business. For McDonalds, their core horizon would consist of hamburgers, fries and traditional fast food. Think “Big-Mac”. The model indicates that 70% of your company’s efforts should be dedicated to this area.

Horizon two is called the adjacent horizon. This is the area where innovation can be pursued in markets adjacent to your own. To continue with McDonalds, their initiatives to create wraps, salads and healthier options would be considered in this adjacent Horizon. 20% of the company effort should be allocated here.

Finally, Horizon three is known as the Transformational Horizon. This is where radical change can be researched and developed. McDonalds spin-off beverage brand called CosMec epitomizes
this horizon. Despite the exciting nature of the third horizon, only 10% of effort should be spent here. This horizon is inherently risky and too much effort can ostracize your core business.

So, there we have the three horizons: Core, Adjacent and Transformational. We hope this helps you know how to balance your company’s innovation portfolio and where to allocate investment.”

*Timed = 1 minute*
SUNK COST FALLACY

Definition/Description

While assessing projects, managers tend to lend more weight to costs that have already been incurred rather than the costs to come. Not wanting past efforts to go to waste, managers then allocate interminable growth of scope and cost of failing projects. This is the sunk cost fallacy; an understanding of this concept can help leaders know when to end projects.

Example – Blackberry. Despite all societal trends moving towards smartphone technology, the phone mogul continued to invest heavily in the proprietary blackberry technology. This disabled the company from adapting with changing customer preferences and ultimately being left behind in the cellular market.

VIDEO

30 sec Sunk Cost Fallacy.MOV

Full Sunk Cost Fallacy.mov
Create an AI powered questionnaire that can enable users to determine whether they have succumbed to the sunk cost fallacy by listing the physical and metaphorical resources that have been expended in a project.

Alternate Examples

Particle Accelerator – “Forward waste”. In the 1990s, science was enamored with the particle accelerator project. It was a scientific experiment using a vast array of resources with neither end nor useful application anywhere in sight. When questioned about the project, it was defended by citing all the resources expended that would now be “wasted.” In 1993 Congress ultimately shut down the project. The stated reason was to avoid “forward waste.” This perfectly exemplifies the sunk cost fallacy in that the engineers wanted to continue based on the effort and resources put into the failing project. Congress epitomizes the leader able to see past the current waste by instead focusing on the future costs and a project’s ability to create sustainable value. [1]

Blockbuster - This video rental giant famously clung to its brick-and-mortar model despite the rise of online streaming services like Netflix. Despite heavy investments in its physical stores, Blockbuster was slow to adapt, leading to its eventual downfall.

Kodak – This company dominated the film photography market for decades, investing heavily in research and development. However, when digital cameras emerged, Kodak was slow to shift its focus, clinging to its sunk costs in film technology. This ultimately led to the company's bankruptcy.

Yahoo - Once a leading internet search engine and portal, Yahoo struggled to compete with Google’s innovative approach. Despite acquiring multiple companies in an attempt to catch up, Yahoo failed to adjust its core strategy and ultimately lost significant market share.
**History**

Although the fallacy originated in the 20th century, the idea of the sunk costs had roots long before. In the 17th century, the French philosopher Blaise Pascal observed the tendency to persist with poor investments despite their irrationality. In the 18th century, the British economist Adam Smith noted the phenomenon of “sunk costs” which influenced financial & economic decisions.

Even with early underpinnings, it wasn’t until 1972 that psychologists Amos Tversky and Daniel Kahneman, Nobel laureates in economics, created the foundation of the sunk-cost fallacy within publications about cognitive biases. Finally, in 1980, Richard Thaler, also a Nobel economic laureate, coined the term “sunk-cost fallacy” in his research of behavioral economics. This emphasized how individuals often disregard the “sunk-costs” ultimately leading to sub-optimal outcomes.

Following the formalization of the concept it was widely used in research papers in the 1980s and 1990s. One main form of popularization was its inclusion in psychology books such as the famous, *Thinking Fast and Slow*, by Daniel Kahneman. In the 2000s, McKinsey adopted the fallacy as a framework for analyzing business decisions. Today, the framework is used widely in a variety of fields helping us understand and mitigate irrational decision-making processes. [2]

**Related Frameworks**

- PEST Model
- Cost Theory
- Corporate Strategy

**Video Script**

Short Video

“Today we’ll discuss the Sunk Cost Fallacy.

It's the mental trap where we let past investments, time, or effort influence future decisions, even if irrelevant. We feel compelled to "see it through" regardless of the outcome.

In business, this can be disastrous. Imagine pouring money into a failing project just because you've already invested heavily. Like throwing good money after bad!

Instead, make rational choices based on current information and future potential. Cut your losses, pivot strategies, or adapt!”
Imagine this: You're halfway through an overpriced buffet, feeling stuffed but obligated to "get your money's worth." Or, you're stuck in a terrible movie, forcing yourself to stay despite wanting to leave. These are classic examples of the sunk cost fallacy!

It's the mental trap where we let past investments, time, or effort influence future decisions, even if irrelevant. We feel compelled to "see it through" regardless of the outcome.

In business, this can be disastrous. Imagine pouring money into a failing project just because you've already invested heavily. Like throwing good money after bad!

Instead, make rational choices based on current information and future potential. Cut your losses, pivot strategies, or adapt!

Remember, the past is sunk, don't let it drown your future. Make smart decisions for what lies ahead!

Example Video

“Let’s walk through some examples:

1. Particle Accelerator. Many of you may not know today, but the fancy sounding particle accelerator was all the scientific rage during the 80s the 90s. Proponents believed this project would change modern science. There were just three problems: 1) it didn’t work, 2) it was extremely expensive and 3) there was no end in sight. In 1993, Congress opted to cut it’s losses and relinquish the famed Particle Accelerator, reallocating millions of dollars in tax income. One of the main reasons cited for the demise of the project was “Forward Waste.”

2. Blockbuster. You may remember the good old days of going to rent a movie by picking out the DVD at the store. I’m sure Blockbuster’s CEOs certainly do. Unfortunately for Blockbuster, after Netflix came on the scene, they just couldn’t adapt. They’re biggest asset, their brick and mortar real estate, ultimately became their biggest liability. As profits sunk, but costs mounted, blockbuster would not sell their stores to go virtual. Their mistake ultimately cost them the business.

3. Blackberry. Good old blackberries. They were great for email and businesspeople loved them for their convenience and ease. There was one problem, touch screen technology. Blackberry CEOs saw the wave coming, but didn’t invest accurately in
new technology. They continued to think that their buttons would keep them at the
top. History proved them deeply wrong as in only a few years, blackberry was out of
business, surrendering to the smart phone tech it once scoffed upon.

4. Kodak – Did you use of these as a Kid? Ever wonder where they went? Well who
needs a camera when you have a phone? Kodak’s problem was investing more and
more money into a sinking product. Cell phones with their amazing cameras made all
others completely obsolete. Kodak simply couldn’t keep up.”

*Timed – 5 mins*
INDIRECT ASSAULT

Definition/Description

How do companies enter markets where existing players possess key advantages in recognition, distribution, and loyalty? Entrants can succeed using an indirect assault in which they do not confront incumbents head on. Instead, they may perform one or a combination of the following actions to break into a market:

1. Find Weaknesses
2. Leverage Assets
3. Build a Niche
4. Expand Gradually

Example – Red Bull successfully entered the well-guarded soft drink industry by targeting a specific niche of energy beverages. It expanded its offering by targeting 20-year-olds in nightclubs and bars. Now Red Bull is found in refrigerated cabinets next to industry icons like Coca-Cola and Pepsi.

Video

Indirect Assault.mov
**Integrated Graphic**

**Build an AI tool that identifies one or a combination of the factors of Indirect Assault to create a market entry strategy tailored to the user’s industry. This could walk through a sequence of questions to identify market weaknesses.**

**Alternate Examples**

Prime – The Prime beverage has recently overtaken social media and adolescents alike through their status branding. Set up as an incognito competitor to Coca-Cola and Pepsi, Prime branded itself as the luxury sports drink. It couldn’t get into most drink cabinets due to standing competitor distribution agreements. Instead, Prime took over space by the refrigerated areas of the Deli. With its unique branding and separate store positioning, Prime has been able to differentiate from the standing sodas and successfully break into a market long dominated by Coke & Pepsi.

**History**

“Indirect Assault” despite not being a universally accepted theory, was coined in the Harvard Business Review Article “How to Crack Well-Guarded Markets” by Jeffrey Dyer and David Bryce in May 2007. Instead it’s considered a specific strategic concept for target well-established markets. However, the idea of indirect assault builds upon various theories in strategic management such as the Market Penetration theory by Michael Porter wherein he postulating gaining market share by exploiting weaknesses and targeting niches. Another similar theory is the Blue Ocean Strategy by W. Chan Kim & Renee Mauborne focusing on creating uncontested space. Therefore, the indirect assault draws upon many other theories to craft a compelling case for entering new markets. [1]

**Related Frameworks**

- Blue Ocean Theory
- Greenfield Strategy
- Adjacent Market Strategy

**Video Script**

Short Video

Forget direct confrontation! In the cutthroat world of business, sometimes the most effective offense is disguised. Enter the art of the Indirect Assault!
Unlike a head-on attack, this strategy lets you bypass your competitor's defenses and strike at their weaknesses... indirectly. Think Trojan Horse.

There are a number of ways to launch indirect assaults. One way? Leverage existing assets - like partnering with another company to access new markets or resources, or offering a complementary product that attracts your competitor's customers.

Alternatively, disrupt the game - introduce new technology that renders your competitor's product obsolete, or shift consumer preferences through innovative marketing campaigns. Remember, it's about outsmarting, not overpowering.

But be warned, the Indirect Assault requires careful planning and execution. You need to understand your competitor's vulnerabilities, anticipate their reactions, and stay agile to adapt your strategy.

Don't just fight fair, fight smart! Use the Indirect Assault.

Timed – 1 min

Long Video

If you’re like me, you might love a good war movie. You may get excited with the premise of a brave and daring charge right into the enemy, and inspiring troops to overpower based force of will and might.

However, when it comes to business, launching head on attacks might not be the best idea to achieve success.

Let’s take Virgin Cola, have you ever heard of them? Probably not, and there’s a reason for that. Mostly, because their “war” on Coke and Pepsi really didn’t work out, despite all their willpower, marketing and direct confrontation they could never gain more than a foothold in the industry.

However, have you heard of red bull? I’m sure you have. In contrast, their “covert” operation against Coke and Pepsi has been wildly successful and is one of the few beverages to enter and gain market share within that sphere. Why? Well because Coke and Pepsi didn’t see them as a competitor. Red Bull focused on a specific customer segment, mainly, 20 somethings who wanted to party all night long. Alternatively, they received athlete endorsement that would propel their influence among this consumer segment. Also, they changed the appearance of the can so it didn’t look like the average soda. Therefore, in anyone’s minds it didn’t seem like a competitor.

Exactly what I've described is the epitome of Indirect Assault. Let’s take another beverage example to showcase more of this strategy. Prime Soda. Little known is the monopoly that Pepsi and Coca Cola have in the beverage coolers in gas stations. All the rows at eye level, or sometimes even the whole cabinet is owned by these two conglomerates. Prime, considered its
distribution and decided not to play by the rules. Instead of in the drink cooler, you probably find these drinks in the deli section next to the eggs.

Additionally, Prime branded itself by esteem. It became a status symbol as an expensive beverage much like driving a Mercedes or wearing a Rolex. But, you only need to spend a few dollars for a prime, thereby increasing the appeal, especially among young cash-strapped consumers. By not playing by the “rules” of the industry and being a little creative in its marketing and distribution, Prime has bubbled it’s way into the beverage space.

By following similar methods, you also can achieve great success through indirect assault. Remember it’s about outsmarting your opponents, not overpowering them. So get out there and start constructing your next trojan horse.

*Timed – 5 mins*
ENTRY MODES

Description/Definition

When businesses are considering international expansion, it is not always clear which avenue aligns with corporate objectives. Understanding the various entry modes (as well as their pros and cons) can assist business leaders as they identify which strategy is optimal for their situation.

Here are the six modes with examples:

1. Exporting – The process of producing a good or service in one country and selling it to another.
   a. Ex. Apple selling iPhones directly to consumers in China through its online store and authorized retailers.

2. Turnkey Operations – A company builds a foreign facility while a client owns and operates it.
   a. Ex. A construction company builds a power plant in Africa, trains local personnel, and then hands over ownership and operations to a local government agency.

3. Licensing – A contractual agreement granting the licensee certain rights such as producing or selling the product, displaying brand names, or using licensor's IP.
   a. Ex. Coca-Cola grants a bottling company in India the right to produce and sell Coke products using the Coca-Cola brand and recipe.

4. Franchising – Similar to licensing, but the franchiser maintains an active role in the ongoing operations.
   a. Ex. McDonald's grants franchise rights to an entrepreneur in France, who opens and operates a McDonald's restaurant following company standards and procedures.

5. Joint Ventures – A new legal entity created and owned by multiple companies in different countries.
   a. Ex. BMW partners with a Chinese automaker to establish a new car manufacturing plant in China, sharing ownership, profits, and management responsibilities.

6. Wholly Owned Subsidiary – A parent company sets up a new legal entity that is legally separate but that it fully owns.
   a. Ex. Amazon establishes a fully owned subsidiary in Germany to build its own fulfillment centers and deliver products directly to customers.

By understanding these entry modes you can correctly determine the amount of control and risk you would like to undertake.
### Video

![Video](image)

### Integrated Graphic

<table>
<thead>
<tr>
<th>Non-Equity Modes</th>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting</td>
<td>Low cost, quick access, flexibility, economies of scale</td>
<td>Tariffs, embedded production costs, transportation costs</td>
<td>Apple sells iPhones directly to consumers in China through its online store and authorized retailers.</td>
</tr>
<tr>
<td>Turnkey</td>
<td>Entry into restricted highly technical markets</td>
<td>Customers can become competitors</td>
<td>A construction company builds an African power plant, trains local personnel, entrusts ownership and operations to local government.</td>
</tr>
<tr>
<td>Licensing</td>
<td>Low risk, quick growth, outside strategic growth, differential pricing</td>
<td>Distance from the customer, limited control of product and brand, loss of core capabilities</td>
<td>Coca-Cola grants an Indian bottling company rights to produce and sell Coke products using the brand and recipe.</td>
</tr>
<tr>
<td>Franchising</td>
<td>Limited financial risk, high degree of response to local needs</td>
<td>Distance from customer, limited control of product and brand, loss of core capabilities</td>
<td>McDonald’s grants franchise rights to a French entrepreneur, who opens/operates a restaurant following company standards and procedures.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity Modes</th>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Ventures</td>
<td>Reduced political risk, increased local knowledge, shared development costs</td>
<td>Difficult to find suitable franchisees, need to build brand in country prior to franchising</td>
<td>BMW partners with Chinese automaker to establish manufacturing plant in China, sharing ownership, profits, and responsibilities.</td>
</tr>
<tr>
<td>Wholly Owned Subsidiaries</td>
<td>Retain knowledge, full control of foreign operations, direct exposure to local customers</td>
<td>Expensive, High risk</td>
<td>Amazon establishes a fully owned subsidiary in Germany to build fulfillment centers and deliver products directly to customers.</td>
</tr>
</tbody>
</table>

Figure 5
History

Entry modes is characterized by a sequence of strategic theories that ultimately resulted in the six distinct “Entry Modes” that we find today. To properly represent that, we will walk through the various theories simplified by their time frames.

Early Stages (1950-1970):

Pioneering works by Hymer (1960) and Vernon (1966) explored how firms gradually progressed from exporting to foreign investments, influenced by market knowledge and resource needs. Ultimately enabling a focus on the stages of internalization.

Buckley & Casson developed Transaction Cost Theory (1976) which argued firms choose modes that minimize internalizing the costs of market transactions (like information gathering, control) compared to outsourcing them.

Dunning's (1979) OLI framework (Ownership, Location, Internalization) emphasized firms leverage proprietary assets (O) in advantageous locations (L) while internalizing knowledge (I) to gain a competitive edge.


Firms were seen as leveraging unique resources and capabilities to choose entry modes that best exploit them in foreign markets. This coined “Resource-Based view.”

Institutional factors like regulations, culture, and political stability gained importance in shaping entry mode choices resulting in Institutional Theory (1990)

Firms were recognized as forming networks with partners, affecting entry modes like joint ventures and alliances creating Network Theory (1990).

Knowledge-Based View (2000s): Knowledge acquisition and transfer became central, leading to increased use of modes like joint ventures and franchising to access local knowledge. Strategists called this the “Knowledge Based View.”

Recent Developments (2010s-Present):

Dynamic Capabilities View was established noting that firms adapt their entry modes based on their ability to learn, innovate, and respond to changing market conditions.

Collaboration with external partners in various forms, including joint ventures, licensing, and crowdsourcing, becomes more common. This was called “Open innovation.”

Technology (Digitalization) disrupts traditional entry modes, enabling new forms like online platforms and remote operations. [2]
Related Frameworks

- International Strategy
- 9 Aspects of a Business Model

Video Script

The world is your oyster, but how do you crack it open? Business expansion offers exciting opportunities, but navigating different markets requires the right strategy. Enter the diverse world of entry modes, your keys to unlocking international success!

Exporting: Send your products directly to foreign markets, a classic and cost-effective option. But remember logistics, cultural nuances, and competition.

Contract manufacturing: Partner with a local company to produce your goods, gaining market access and expertise. Consider quality control and intellectual property protection.

Franchising: Let others leverage your brand and know-how through licensing agreements. Scale fast, but ensure brand consistency and partner selection.

Joint ventures: Share resources and expertise with a local partner, combining strengths and navigating complexities. But align goals and manage expectations carefully.

Foreign direct investment: Establish your own presence in a foreign market, maximizing control and potential long-term returns. Requires significant resources and market understanding.

The ideal entry mode? It depends! Consider your resources, risk tolerance, market dynamics, and long-term goals. Choose wisely, adapt strategically, and conquer the global marketplace!

Example Video

1. Exporting – the process of producing a good or service in one country and selling it to another.
   a. Ex. Apple sells iPhones directly to consumers in China through its online store and authorized retailers.

2. Turnkey Operations – A company builds a foreign facility while a client owns and operates it.
   a. Ex. A construction company builds a power plant in Africa, trains local personnel, and then hands over ownership and operations to a local government agency.
3. Licensing – A contractual agreement granting the licensee certain rights such as producing or selling the product, displaying brand names, or using licensor’s IP.
   a. Ex. Coca-Cola grants a bottling company in India the right to produce and sell Coke products using the Coca-Cola brand and recipe.

4. Franchising – Similar to licensing, but the franchiser maintains an active role in the ongoing operations.
   a. Ex. McDonald's grants franchise rights to an entrepreneur in France, who opens and operates a McDonald's restaurant following company standards and procedures.

5. Joint Venture – A new legal entity created and owned by multiple companies in different countries.
   a. Ex. BMW partners with a Chinese automaker to establish a new car manufacturing plant in China, sharing ownership, profits, and management responsibilities.

6. Wholly Owned Subsidiary – A parent company sets up a new legal entity that is legally separate but that it fully owns.
   a. Ex. Amazon establishes a fully owned subsidiary in Germany to build its own fulfillment centers and deliver products directly to customers.

Pros and Cons Video

1. Exporting:
   (Let’s start with the) Pros:
   
   - Low risk and investment
   - Maintenance of control
   - Leverages existing infrastructure

   First you have Low risk and low investment: Ideal for testing foreign markets without significant upfront costs.
   Second, exporting allows you to Maintain control: You retain full ownership and decision-making over your products or services.
   Exporting Leverages your existing infrastructure: This occurs by utilizing your domestic production and distribution capabilities.

   (Now we’ll discuss the) Cons:
   
   - Limited market access
   - Less control over brand image
   - Higher transportation and logistics cost

   Exporting grants only limited market access. This is because it relies on intermediaries to reach foreign customers, potentially limiting reach and control.
Additionally, when you export you have less control over brand image: Despite full ownership and decision making over the products, you have little say in how your product is presented and marketed in the foreign industry. Finally exporting requires higher transportation and logistics costs: Depending on the location and distance, exporting can incur significant shipping and handling expenses.

Here’s a quick example of well used exporting, Apple sells iPhones directly to consumers in China through its online store and authorized retailers. This maintains their product quality and control but does incur higher shipping fees.

Hope this helps you weigh whether or not exporting is the right fit for you.

Let’s jump to licensing.

2. Licensing:

First, the Pros:

- Licensing enables:
- Fast and low-cost entry:
- Benefits from local expertise:
- Recurring revenue stream:

Let’s go over each one:
Fast and low-cost entry: Licensing grants access to the foreign market without significant investment or establishing a physical presence. Benefits from local expertise: you may leverage the licensee's local knowledge and network to navigate regulations and market nuances. This is a massive leg up within the foreign market.
Lastly, the Recurring revenue stream: Licensing enables the earning of royalties or fees from the licensee's sales, which then creates more profits for you as they do well.

So far, Licensing is sounding pretty good, but let’s go over the cons.

Cons:

Despite the upsides Licensing also entails
- A Loss of control:
- The Potential for competition:
- And Limited profit potential:

Here’s the details:
Loss of control: Licensing grants less control over production, quality, and brand image in the foreign market, this is because all of these things are now controlled by the licensee, not you.
Second, the Potential for competition: The Risk of the licensee becoming a competitor in the future is high. For this reason, some licensing agreements include non-compete clauses or other barriers to imitation.

Third, the Limited profit potential: Your Revenue is capped by the royalty and fee agreement, so although it may be recurring, it will be significantly less than greater ownership of the product of the service.

An example to bring this together, Coca-Cola grants a bottling company in India the right to produce and sell Coke products using the Coca-Cola brand and recipe. This is successful for Coca-Cola in part due to the simplicity of their product and the rapid access to a foreign market with incredible growth potential.

Now for Turnkey operations.

3. Turnkey Operations

What’s good about these? Well, they offer:

Pros:
- Convenience and Efficiency:
- Reduced Risk and Uncertainty:
- Expertise and Experience:

We’ll go over how that works.
- Convenience and Efficiency: Turnkey providers handle everything from planning and design to construction and implementation, this saves you time and effort.
- Reduced Risk and Uncertainty: The provider assumes responsibility for project completion and meeting agreed-upon specifications, thus mitigating potential risks and cost expansions for you.
- Expertise and Experience: Turnkey providers often have extensive experience in specific project types, bringing expertise and efficient processes to the table.

So, what’s limiting here?

Turnkey operations also require.

Cons:
- Limited Customization:
- Higher upfront cost:
- Vendor - Lock-In:

Here’s why:
- Limited Customization: Turnkey solutions may follow pre-defined methods and designs, offering less flexibility to tailor the project to your specific needs and preferences.
- Higher upfront cost: While potential cost savings exist, the turnkey approach often comes with a higher initial cost compared to managing the project yourself.
- Vendor - Lock-In: You may become reliant on the specific provider for future maintenance, upgrades, or support, potentially limiting your options and flexibility.
An example of turnkey ops would be a construction company building a power plant in Africa, training local personnel, and then handing over ownership and operations to a local government agency. Clearly, the government agency would now be responsible for the continual operation and maintenance of the facility, which would take some pressure off you, but as always, there are significant costs included with these strategies.

4. Franchising:

Pros:
- Rapid market expansion:
- Standardized brand experience:
- Recurring revenue stream:

Rapid market expansion: Franchising leverages the franchisee's resources and expertise for quicker market penetration.
Standardized brand experience: It also ensures consistent brand image and quality across different locations, creating sometimes national or global brands.
Recurring revenue stream: Earns franchise fees and royalties from the franchisee's operations.

Cons:
- Significant investment and training:
- Less control over operations:
- Risk of franchisee failure:

Let’s go over why that is:
Significant investment and training: Franchising requires substantial resources to establish and maintain a strong franchise system.
Less control over operations: control of the franchise lies in the hands of the franchisee, granting you less control over day-to-day operations compared to owning a subsidiary.
Risk of franchisee failure: The success of the franchise hinges on the performance of individual franchisees.

Now we all know a few examples of fast food franchises, so here’s one about the classic, McDonald's. McDonald's grants franchise rights to an entrepreneur in France, who opens and operates a McDonald's restaurant following company standards and procedures. This franchisee adheres to the regional menu and oversees all management and operations of the local franchise, which means, less work for McDonalds, and more work for the Franchisee.

5. Joint Venture:

Pros:
- Shares resources and risks:
• Benefits from local knowledge:
• Faster market entry:

Shares resources and risks: Partners contribute resources and expertise, reducing financial burden and risk sharing.
Benefits from local knowledge: Leverages the local partner's market knowledge and connections to navigate regulations and build relationships.
Faster market entry: Expedites access to the foreign market compared to setting up a wholly owned subsidiary.

Cons:
• Shared control and decision-making:
• Potential for conflict:
• Limited profit potential:

Shared control and decision-making: Requires cooperation and potentially necessitates compromise with the partner.
Potential for conflict: Disagreements between partners on strategies, operations, or profit sharing can arise.
Limited profit potential: Profits are shared with the partner, potentially reducing overall return on investment.

An example of Joint Venture: BMW partners with a Chinese automaker to establish a new car manufacturing plant in China, sharing ownership, profits, and management responsibilities. This can assist both partners in gaining access to resources and specialized knowledge, but all partnerships also have the potential to go south.

Now for our final entry mode;

6. Wholly Owned Subsidiary:

What’s good about it?
Pros:
• Full control and decision-making:
• Long-term commitment:
• Potential for higher profits:

Full control and decision-making: Maintains complete control over operations, strategy, and profits.
Long-term commitment: Demonstrates strong commitment to the foreign market, potentially fostering trust and confidence with local stakeholders.
Potential for higher profits: Has the potential to capture all profits generated in the foreign market.

Cons:
• High investment and risk:
• Management complexity:
• Slower market entry:

High investment and risk: Requires significant financial resources and carries higher risk compared to other modes.
Management complexity: Establishing and managing operations in a foreign country can be complex and require additional resources.
Slower market entry: Setting up a subsidiary from scratch typically takes longer than other entry modes.

Example - Amazon establishes a fully owned subsidiary in Germany to build its own fulfillment centers and deliver products directly to customers.

We hope this assists you in selecting the right entry mode for your company, get out there and start making it happen.

Timed – 10mins
THE TRIPLE A FRAMEWORK

When considering international expansion, it is difficult to determine an effective strategy. The triple a framework provides a model to help companies navigate these complex scenarios. It is a flexible model that enables corporate leaders to adapt their strategy to suit global needs. The model consists of three main strategies. An individualized combination of two or all three usually results in the most effective international expansion plan.

1. Adaptation - customizing products, services, and operations to fit the specific needs and preferences of different local markets. Ex. Changing product features, marketing messaging or pricing strategies.

2. Aggregation - achieving economies of scale and scope by standardizing operations across different markets. Ex. Standardize manufacturing, distribution, or marketing across countries.

3. Arbitrage - exploiting differences in costs, resources, and regulations between different markets. Ex. Low-cost sourcing, tax favorable production, advantageous trade agreements.

This framework can be used to develop a wide range of strategies. No one strategy supersedes another and all three should be considered in the development of the expansion plan.

Example – Starbucks. This coffee chain showcases a blend of strategies. They adapt store designs and beverage offerings to local preferences while maintaining brand consistency. They leverage aggregation for efficient supply chain management and brand recognition but engage in limited arbitrage due to their focus on quality control and premium positioning.

Video
**AI Tool, to help determine which combination of A’s is best for client by using inputting data and comparing with market averages.**

**Alternate Examples:**

McDonald's: This fast-food giant exemplifies adaptation through its diverse menus across regions. In India, they offer McVeggie burger and Maharaja Mac, catering to vegetarian preferences. Whereas in Brazil they serve rice and beans as sides. They utilize aggregation for standardized operations and resource management, while leveraging arbitrage opportunities by sourcing ingredients from cost-effective regions.

Toyota: This automobile manufacturer balances adaptation and aggregation. They offer customized car features for specific markets while maintaining core engine and platform technologies across regions. Toyota benefits from arbitrage by strategically locating production facilities for efficient distribution and cost-effectiveness.
Nestlé: This food and beverage company utilizes multiple approaches. They adapt products like Maggi seasoning to regional tastes while utilizing global R&D and marketing expertise. They aggregate resources and operations for production efficiency and leverage arbitrage through strategic sourcing and manufacturing locations.

IKEA: The Swedish furniture giant has mastered the art of balancing adaptation and aggregation to cater to its global audience. They offer furniture collections that cater to the living spaces and cultural preferences of different regions. For instance, in Japan, smaller furniture is offered than in the US. Despite the adaptation, Ikea standardizes components of its furniture this allows for a global cost reduction and streamlined operations.

History

The Triple A framework emerged in the 1990s, born from the need for businesses to navigate the increasingly interconnected global market. Professor Pankaj Ghemawat, a renowned business strategist, saw the limitations of existing frameworks that often prescribed a "one-size-fits-all" approach to globalization. He instead proposed a more nuanced and flexible framework that considered the diverse realities of international markets. [1]

Here's a timeline of its development:

1991: Ghemawat publishes his seminal work, "Borderless Management: Traversing the Global Labyrinth," where he first introduces the "three As" - Adaptation, Aggregation, and Arbitrage.


2003: The framework gains wider recognition among scholars and practitioners as globalization intensifies. Ghemawat continues to refine and expand upon it in subsequent publications and lectures.

2010s: The framework becomes a staple in international business curricula and is adopted by various companies to guide their global expansion strategies.

Present day: The Triple A framework remains relevant and widely used. Its flexibility and adaptability allow companies to tailor their global approach based on specific industry dynamics, market demands, and their own resources and goals.

It's important to note that the framework is not static. Ghemawat and other scholars continue to analyze and evolve it in response to the ever-changing world of international business. Additionally, newer frameworks have emerged and complement the Triple A approach, offering broader perspectives for complex global strategies.
Related Frameworks

- International Strategy
- Entry Modes

Video Script

Short Video

Going global? Exciting, but navigating diverse markets can be tricky. Enter the Triple A framework, your key to unlocking world domination...well, maybe not quite, but certainly unlocking success!

Triple A stands for Adaptation, Aggregation, and Arbitrage. These three strategies help you tailor your approach to any market, while mitigating the downside and capitalizing the upside.

The first “A,” Adapt means adjusting your product, service, or message to local preferences. Think spicy burritos in Mexico and cozy sweaters in Iceland. Or even better, at McDonalds the Bababooey burger, The McRice Burger, and the Cheese Tsukimi Burger. Now I’ll let you figure out where each of those are from, but it aptly demonstrates how the menu adapts for the local populations.

The second “A,” Aggregate means leveraging economies of scale by standardizing operations across markets. Common examples include efficient production and streamline marketing.

The third “A,” Arbitrage means exploiting cost differences by sourcing materials or setting up operations strategically. This usually consists of low-cost manufacturing or favorable tax laws.

By combining these strategies, you can find the perfect balance between global efficiency and local appeal. Adapt where necessary, aggregate for savings, and arbitrage for an edge.

Timed – 1 min

Long Video

Let’s dive into some detail about the parts of Triple A Framework.

It was created by Pankaj Ghemawhat, who you may remember from CAGE theory, the main objective of this model is to increase revenues and market share by adjusting the components of a company's business model to satisfy local requirements or preferences.

The model is split into three “A’s”, Adapt, Aggregate and Arbitrage. We’ll go through some examples of each.
A Number 1, “Adapt,” means tailoring your product, service, or message to local preferences. One example of this is McDonalds. If you’ve ever been to a McDonalds around the World, you’ve probably noticed there are different menu items based on the location. Some notable instances include the Bacon, Macaroni and Cheese Toasties in Hong Kong, Tomato and Mozzarella turnovers in Rome, Banana Shakes in Tokyo, and the famous McLobster in Ontario. And these are just a few of the various items you’ll find around the world. This demonstrates how McDonalds modifies its menu to cater to the local palette, generating great success all around the globe.

A Number 2, “Aggregate,” consists of leveraging economies of scale by standardizing operations across markets. We’ll demonstrate this concept with IKEA, who manufactures furniture in only a limited number of locations (Mostly China and a small number of Asian countries) and then distributes it globally, reducing production costs.

A Number 3, “Arbitrage” means exploiting cost differences by sourcing materials or setting up operations strategically. Citadel LLC, an American Multinational Stock Trading firm overseeing 62 billion Dollars, engages in Arbitrage every day to increase profits. Their main use is by engaging complex algorithms to identify and exploit price differences across currency exchanges. This enables them to buy low on one exchange and sell high on another before the prices change.

Now let’s look at an example that brings all three together: Nestle.

This global food and beverage company utilizes the Triple A Framework to maintain its dominant market position:

- **Arbitrage:** Nestle doesn't directly use financial arbitrage. Instead, they leverage it strategically in sourcing raw materials. They establish processing plants in regions with readily available and lower-cost ingredients for specific products. This allows them to produce at a competitive price while selling at a premium in other markets.

- **Aggregation:** Nestlé's massive size allows them to negotiate significant discounts with suppliers for raw materials and packaging due to economies of scale. Additionally, their extensive distribution network ensures their products reach a wide range of consumers worldwide.

- **Adaptation:** Nestlé understands the importance of adapting products and marketing to local preferences. They adjust product formulations, packaging sizes, and even marketing messages to resonate with different cultures and dietary needs. For example, they might offer smaller portion sizes or lactose-free options in certain regions.

As you can see, global expansion is no easy thing. But the Triple A model can provide some significant insights to generating success no matter the market. Keep in mind the three A’s, and you’ll be well on your way to creating your own global empire.

*Timed – 5 min*
THE CAGE DISTANCE FRAMEWORK

Description/Definition

When contemplating international expansion, business leaders often have difficulty predicting the differences between their home countries and foreign expansion opportunities. By analyzing the CAGE distance between the two markets, they can understand the potential challenges and opportunities associated with international expansion. A larger CAGE distance would indicate greater challenges while a smaller CAGE distance could indicate easier entries.

(C) Culture – referring to differences in language, religion, traditions, values and social norms. These differences significantly impact consumer preferences and norms.

(A) Administration – relating to differences of legal systems, political ideologies, regulations and bureaucracies. These can affect operating procedures, taxation, IP & labor laws.

(G) Geography – representing physical distance, infrastructure, time zones, & climate. These could impact distribution, communication and logistics.

(E) Economy – meaning the difference of income levels economic development, and currency exchange rates. This affects consumer buying power, production costs and overall market attractiveness.

Example: Spotify. Expanding globally, Spotify adapted their music catalogue and user interface to different languages and cultural preferences (cultural factor). They complied with complex licensing and copyright regulations in each country (administrative factor). Geographical considerations involved tailoring streaming quality based on internet infrastructure and adapting marketing strategies to different time zones. Spotify also adjusted subscription fees based on local economic realities.

Video
Integrated Graphic

**AI will prompt users to follow CAGE framework by asking specific questions about each parameter within the market. The User’s answers will help them brainstorm potential challenges to expansion.**

Alternate Examples

The following three companies explicitly mentioned using the CAGE model:

Domino's Pizza: When entering India, Domino's undertook extensive analysis using the CAGE framework. They adapted their menu to accommodate vegetarian preferences (pizza with paneer) and navigated complex administrative regulations regarding food safety and franchising. Understanding the geographical distances and economic limitations also led them to adjust delivery pricing and store formats.

Netflix: Their expansion into China involved adapting their content library and interface to comply with censorship regulations (administrative factor). They considered cultural differences in content preferences and partnered with local companies to address geographical and logistical challenges. Understanding economic limitations, they introduced tiered subscription plans.

Uber: Entering new markets involved tailoring their app to different languages and cultural norms (cultural factor). They navigated licensing and regulatory hurdles in each country (administrative factor). Uber utilized geographical mapping and adjusted payment methods based on local preferences. Additionally, they considered economic differences by offering different service tiers and pricing structures.

History

The CAGE framework for understanding distance in international business was developed by Pankaj Ghemawat, a professor at IESE Business School in Barcelona, Spain. Its debut came in his 1986 paper titled "Distance Despite Borders: How Firms Manage in the World Economy."
Here's a breakdown of the key points:

1986: Initial development and publication. Ghemawat proposed the CAGE framework as an alternative to traditional models that primarily focused on geographical distance. He argued that cultural, administrative, and economic differences also significantly impact the "distance" between markets, influencing operational challenges and opportunities.

1991: Further refinement. Ghemawat expanded on the framework in his book "Borderless Management: Traversing the Global Labyrinth." He provided deeper explanations for each of the CAGE dimensions and demonstrated its application in analyzing different international business scenarios.

1990s-2000s: Growing recognition and application. The CAGE framework gained traction among academics and practitioners in international business. Its simplicity and flexibility allowed companies to assess market potential and develop more nuanced strategies for global expansion.

2010s-present: Continued relevance and evolution. While newer frameworks have emerged, the CAGE model remains a valuable tool for understanding international business complexities. Scholars continue to analyze and refine it, emphasizing its adaptability to various industries and market contexts.

Additionally, the framework has been empirically tested and validated through research studies, demonstrating its effectiveness in predicting the challenges and opportunities associated with international expansion. Its focus on multiple dimensions of "distance" encourages companies to move beyond solely geographical considerations and develop more comprehensive global strategies.

It's important to note that the CAGE framework is not a rigid formula, but rather a starting point for analysis. Other factors like political stability, technological advancements, and competitive landscape also play crucial roles in international business decisions. The framework's true strength lies in its ability to prompt a holistic evaluation of potential markets and guide companies towards making informed expansion choices. [1]

Related Frameworks

- PEST Analysis
- Triple A Framework
Imagine expanding your business globally. Exciting, right? But hold on, navigating unfamiliar markets can be tricky. That's where the CAGE framework comes in! Consider it your passport to global success.

CAGE stands for Culture, Administration, Geography, and Economy. These four dimensions create "distance" between markets, impacting your success.

Culture means understanding local preferences, not just language. Think spicy pizza in India or right-hand drive cars in Japan!

Administration focuses on government regulations, political stability, and legal systems.

Geography's all about distances, logistics, and time zones. Will your delivery pizzas still be hot across continents?

Economy considers purchasing power and regulations. Can people afford your products, and can you navigate local financial systems?

By understanding these CAGE distances, you can adapt your strategy, avoid pitfalls, and unlock global opportunities!

Timed – 1 min

Example Video
Today, we're diving into a powerful framework for analyzing business environments – the CAGE framework.

CAGE stands for four key dimensions that shape a company's operating landscape: Cultural, Administrative, Geographic, and Economic. Understanding these dimensions is crucial for businesses looking to expand globally or simply navigate their existing market.

Cultural Dimension
The cultural dimension looks at values, beliefs, and social norms in a particular market. How do people communicate? What are their attitudes towards work ethic or customer service?

Example: Coca-Cola
Let's consider Coca-Cola, a global beverage giant. They understand the importance of cultural adaptation. In China, they offer green tea-flavored Coke to cater to local tastes. This cultural sensitivity helps them succeed in diverse markets.

Administrative Dimension
(Scene: Government buildings, legal documents)
The administrative dimension focuses on government regulations, political stability, and legal systems. How easy is it to set up a business? What are the tax implications?

Example: Spotify
Consider Spotify, the music streaming service. They navigate the administrative dimensions carefully. They tailor their subscription options and pricing strategies to comply with local regulations and tax laws in different countries.

Geographic Dimension
The geographic dimension considers physical distance, infrastructure, and natural resources. How easy is it to transport goods? Are there resources readily available for production?

Example: Inditex (Zara)
Inditex, the fashion giant behind Zara, uses geography to their advantage. They source materials from countries with lower costs and have efficient manufacturing close to European markets. This allows them to react quickly to trends and get new clothes on shelves faster.

Economic Dimension
The economic dimension examines factors like currency exchange rates, inflation, and consumer spending power. What's the overall economic climate of the market?

Example: Xiaomi
Xiaomi, the Chinese tech company, leverages the economic dimension. They offer high-quality smartphones at competitive prices, targeting budget-conscious consumers in emerging markets. This understanding of economic realities fuels their global growth.

Conclusion
By understanding the CAGE framework, businesses can make informed decisions about entering new markets, adapting products and services, and navigating the complexities of the global business landscape.

We hope this video helped you crack the code of the CAGE framework. Leave a comment below with any questions, and don't forget to like and subscribe for more business insights!
Timed – 3-5min
INTERNATIONAL STRATEGY

Description/Definition

Selecting the appropriate international strategy can be challenging. It must align with your company objectives and unique industry pressures. By comparing forces of globalization and forces of localization, three main international strategies have emerged, suitable for any expansionist objective.

1. Multidomestic Strategy – A strategy whereby global firms respond to differentiated needs and preferences in each local market where they operate.

2. Meganational Strategy – A strategy wherein global firms focus on increasing profitable growth by reaping cost reductions from economies of scale and other advantages of global integration.

3. Transnational Strategy – A strategy whereby global firms take a hybrid approach combining multidomestic and meganational approaches by simultaneously offering benefits of global and local advantages.

By learning about each strategy, business owners can identify which strategy can be the best suited to their business.

Video
AI tool with prompts to learn about corporate goals and needs thereby to determine with the result of the strategy that would be the most effective for them.

**Examples**

Multidomestic - Nestle. When Nestle expanding to China, it discovered that its globally branded KitKat bar wasn’t quite making the impact that it had on other countries. As a result, the Chinese nestle team designed produced and marketed a new type of chocolate wafer bar at a fraction of the cost of KitKat. Today, it is the best-selling candy bar in China.

Meganational - the Danish shoe company ECCO sells the same shoes all over the world. It applies a similar market strategy and has focused manufacturing in a few key countries with competitive advantages in shoe production.

Transational - GE is known for having globally standardized procedures but has begun to encourage foreign subsidiaries to develop and share innovative new ideas for the rest of the
global organization. This has enabled multiple products to be developed for local markets such as compact and inexpensive heart monitoring devices.

**Related Frameworks**

- Cage Framework
- PEST Framework
- Blue Ocean
- Entry Modes

**History**

Two strategy professors at Brigham Young University, Shad Morris and Jim Oldroyd sought to standardize the modes of international strategy. In their published book on international business, they outlined the above model which differentiated the various expansion modes. This model has helped illustrate and grant understanding to the field of international strategy. [1]

**Video Script**

Short Video

Selecting the appropriate international strategy can be challenging. It must align with your company objectives and unique industry pressures. By comparing forces of globalization and forces of localization, three main international strategies have emerged, suitable for any expansionist company. Let’s go over each one.

1. Multidomestic Strategy – A strategy whereby global firms respond to differentiated needs and preferences in each local market where they operate.
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3. Transnational Strategy – A strategy where by global firms take a hybrid approach combining multidomestic and meganational approaches by simultaneously offering benefits of global and local advantages.

By learning about each strategy, business owners can identify which strategy can be the best suited to their business.

*Timed – 1 min*
What’s the best way to take your firm globally? How can you identify what practices will enable you to achieve your corporate objectives? Today, we’re taking the birds eye view of international strategy. Or namely, the three international strategies proven on large scales to generate success.

In summary, the three strategies are: 1. Multidomestic, 2. Megantional and 3. Transnational. We’ll discuss each one in detail.

(First) Multidomestic – This strategy hinges on responding to the differentiated needs and preferences of each country where the company operates. In this strategy local subsidiaries act with a certain degree of independence, almost like domestic companies for each individual market. In this way, Multidomestic strategy enables firms to pursue differentiation at a local level around the globe. This bandwidth can include the firm’s value chain as well as company structure to be more perfectly suited to local customs and needs.

A great example of this is Nestle. When Nestle expanding to China, it discovered that its globally branded KitKat bar wasn’t quite making the impact that it had on other countries. As a result, the Chinese nestle team designed produced and marketed a new type of chocolate wafer bar at a fraction of the cost of KitKat. Today, it is the best-selling candy bar in China.

(Second) Meganational – In contrast to Multidomestic, the meganational strategy focuses on standardization and is exemplified by taking advantage of economies of scale and cost reductions on a global level. In essence, Meganational companies aim to achieve cost leadership. Their management structure usually adheres to a top-down model, where global headquarters make decisions about the value chain. Accordingly, products are made for the entire world population, being manufactured in a few efficient plants and marketed in a small number of key channels.

One requirement of Meganational strategies is location economics in which the cost advantage of performing each stage in the value chain at the lowest cost for that activity.

As a quick example, the Danish shoe company ECCO sells the same shoes all over the world. It applies a similar market strategy and has focused manufacturing in a few key countries with competitive advantages in shoe production.

(Third) Transnational – This strategy is a combination of both multidomestic and meganational strategy to simultaneously offer the benefits of both global and local advantages. This approach is most often used when companies face pressure to be globally integrated and locally responsive. Despite the immediate difficulty of this approach. Like multidomestic companies, transnational subsidiaries are given discretion to adapt and customize locally, however that discretion is bounded by the global integration and coordination from headquarters. Additionally, these transnational firms rely on coordination between subsidiaries and headquarters to find solutions.
An example of this strategy is GE (At least in terms of coordination among hierarchy). GE is known for having globally standardized procedures but has begun to encourage foreign subsidiaries to develop and share innovative new ideas for the rest of the global organization. This has enabled multiple products to be developed for local markets such as compact and inexpensive heart monitoring devices.

Therefore, by determining which focus your company wants to pursue, either differentiation, low cost or both, you can easily decide which approach will work for you.

Timed – 5 mins
BLUE OCEAN STRATEGY

Description/Definition

One of the main difficulties in business is trying to compete with so many alternatives. Blue ocean strategy was developed to create and capture uncontested market space. By pursuing both differentiation and low cost, business leaders can reimagine market boundaries and industry structure to innovate their way to success.

Example - Dollar Shave Club: The traditional razor market was dominated by expensive, multi-blade razors with frequent cartridge replacements (Gilette). The Dollar Shave Club created a blue ocean by offering a subscription model of high-quality, single-blade razors at a significantly lower price. They targeted a segment of consumers who found traditional razors overpriced and unnecessary, providing a simple and affordable alternative.

Creating blue ocean strategies can be diluted down to five points all directed questioning industry assumptions.

1. Make the competition irrelevant by offering leaps in value through innovation. This can include producing new products that engender new markets.
2. Shape industry structure to your advantage by your strategy. Instead of vertical competition, look for horizontal expansion.
3. Consider not just existing customers, but also non-customers as prime targets for your products. These may contain the greatest insights for revolutionizing your industry.
4. Review modes of industry improvement by speaking to past customers, non-customers, and new customers. This will help you tailor new products and strategies towards expansion of the industry.
5. Balance your strategy by maintaining focus on low cost and differentiation. This will be the ultimate key to creating a winning strategy.

Video

Blue Ocean - Short.mov
**Integrated Graphic**

**AI tool used as a questionnaire to determine whether the user is currently using a red ocean perspective or a blue ocean perspective to inform their thinking.

**Examples**

Airbnb: The hospitality industry was dominated by traditional hotels and motels. Airbnb created a blue ocean by offering a peer-to-peer platform allowing individuals to rent out their own homes or spaces to travelers. This catered to a growing demand for unique and authentic experiences at competitive prices. Additionally, it offered homeowners the opportunity to generate income by utilizing their unused space.

Cirque du Soleil: Traditional circuses were often seen as catering to children and families. Cirque du Soleil, however, created a blue ocean by offering a high-end, theatrical circus experience for adults. They combined artistic elements with traditional circus acts, appealing to a broader audience and offering a unique value proposition.

Apple iPod: While portable MP3 players existed before the iPod, they were often bulky and inconvenient. Apple created a blue ocean with the iPod by offering a sleek, user-friendly design
with a large music library through iTunes. This combination of design, functionality, and content created a new market for stylish and easy-to-use music players.

**Related Frameworks**

- McKinsey’s Three Horizons Framework
- Adjacent Market Expansion

**History**

In 2005, the book “Blue Ocean Strategy, How to Create Uncontested Market Space” was written by Renee Mauborgne and Chan Kim. This book authored the beginning of blue ocean strategy by pursuing both low cost and differentiation. The systematic approach detailed by the book led to wide adoption across various sectors. Following the worldwide success of “Blue Ocean Strategy” the later named #1 Management thinkers in the world wrote “Blue Ocean Shift” to describe how to move beyond industry competition to inspire employee confidence and seize new growth opportunities. [1]

**Script**

Let’s break down Blue Ocean Strategy.

Tired of cutthroat competition? Red oceans of rivals fighting over scraps? There's a better way. It's called Blue Ocean Strategy.

Imagine a vast, unexplored market space. These Blue oceans represent new demand, uncontested by competition. Here, the focus is on value innovation.

That means creating something truly different. Not just a cheaper version of what already exists. We're talking about delighting customers with a combination of high value and low cost. Think Cirque du Soleil which was a whole new experience that redefined entertainment.

So, how do you find your blue ocean? Really by questioning industry assumptions. As a few examples: What factors are taken for granted? What can be eliminated, reduced, raised, or created? By breaking the mold, you can create a win-win for your company and your customers.

Forget treacherous red oceans. Set sail for the calm, profitable waters of a blue ocean.

*Timed – 1 min*

Imagine your business is a boat sailing on the sea. You, as captain, are planning your voyage and you have two routes you can select. One route goes through what is called the Blue Ocean. It is a wide expanse that is rarely traveled and not well known. The alternative is called the Red Ocean.
Which is a narrow strait fraught with sharks and well, it’s red for a reason. The issue is that many know this route and it’s proven to have worked for others. So, which route would you rather take?

Well, if you haven’t noticed, today we’re discussing the Blue Ocean strategy. You probably don’t like sharks, especially if the water is red. So today let’s break down how to get into uncontested wide-open spaces. You might even be surprised to learn they could be right in your industry.

So, what does blue ocean mean anyway? Ultimately, the blue ocean strategy means creating uncontested spaces in industries by pursuing both low cost and differentiation.

So how does that happen? Creating blue ocean strategies can be diluted down to five points all directed questioning industry assumptions.

4. Make the competition irrelevant by offering leaps in value through innovation. This can include producing new products that engender new markets.
5. Shape industry structure to your advantage by your strategy. Instead of vertical competition, look for horizontal expansion.
6. Consider not just existing customers, but also non-customers as prime targets for your products. These may contain the greatest insights for revolutionizing your industry.
7. Review modes of industry improvement by speaking to past customers, non-customers, and new customers. This will help you tailor new products and strategies towards expansion of the industry.
8. Balance your strategy by maintaining focus on low cost and differentiation. This will be the ultimate key to creating a winning strategy.

A brief side note here, notice the blue ocean centralizes on creating a low-cost strategy. This is not the same as low price. Keep the costs and price according to the value of the product (for more information on pricing strategies visit our pricing modules). Low costs are the long-term key to victory not short-term price cuts.

Anyways, Blue Ocean strategy will assist your company to achieve systematic success, rooted in data to maximize the opportunity while minimizing the risk.

Now get out there and explore those uncharted blue oceans brimming with profitability.

Timed - 3-5 mins
ADJACENT MARKET EXPANSION

Description/Definition

Many companies may wonder how to best expand their portfolio. Adjacent markets are rife with opportunity while usually offering a solution that is similar to your existing product line. In a basic sense, Adjacent market expansion entails moving into a market closely related to their present one. As such, expansion in this sector can mean maintaining low costs and leveraging existing relationships.

Example: Harley-Davidson. The iconic motorcycle manufacturer has built a strong brand identity around freedom and rebellion. They successfully expanded into a line of branded clothing and accessories. This taps into the existing customer loyalty and extends the brand experience beyond motorcycles. The same customer who buys a Harley might also want a Harley jacket to express their affiliation with the brand.

Video

Adjacent Market Expansion- Short.mov
**Integrated Graphic**

(See The McKinsey Three Horizons Model)

**AI tool can be used to suggest adjacent markets with user input of their current market or industry.**

**Examples**

Clorox – while being known for bleach and disinfectants recognized demand for eco-friendly alternatives, they introduced “Green Works” which is a line of plant-based cleaning products. This caters to a similar cleaning need but focuses on sustainability. This enabled the company to access a new market segment of eco-cognizant customers.

P&G – The cosmetics and grooming giant recently acquired Brita Water purification systems. They could easily leverage their existing knowledge of personal cleanliness and apply it to water filtration. This opened up a new market for them to pursue, adding to their gigantic reach.

Michelin - the tire company renowned for its quality and durability, famously expanded into restaurant guides. This might seem like a leap, but it leverages their expertise in understanding long journeys and the importance of pit stops. Their restaurant guides cater to a similar customer base with a focus on quality and providing a positive travel experience, but in a completely different way.

**Related Frameworks**

- McKinsey’s Three Horizon Framework
- Blue Ocean Strategy
- Porter’s Five Forces

**History**

The concept of adjacent market expansion isn't formally traced back to one specific point in history, but rather has evolved through business practices over time. However, there are key thinkers and milestones that highlight its growing importance:

Throughout history, companies have intuitively expanded into adjacent markets. For instance, a blacksmith might start selling nails or horseshoes alongside their core service. These early
examples lacked a formal framework, but they demonstrate the underlying logic of leveraging existing capabilities.

Management thinkers in the 20th century like Peter Drucker emphasized the importance of companies focusing on their core competencies. This philosophy laid the groundwork for strategic expansion into areas that utilize those core strengths.

The concept gained more specific recognition in the 1990s with the rise of competitive strategy frameworks like Michael Porter's Five Forces. Businesses began to analyze not just their core market but also adjacent markets to identify growth opportunities with less competition.

Building on competitive strategy, W. Chan Kim and Renée Mauborgne introduced the concept of Blue Ocean Strategy in their influential 2005 book. They argued that companies should not just compete in existing markets (red oceans) but seek out entirely new market spaces (blue oceans) – often achieved through adjacent market expansion with innovation.

Today, adjacent market expansion is a widely recognized strategy for companies seeking growth. It offers a balance between the risks of entirely new ventures and the saturation of existing markets. Companies across various industries are constantly exploring and implementing this approach.

**Related Frameworks**

- McKinsey’s Three Horizon’s Model
- Indirect Assault
- Blue Ocean Strategy

**Video Script**

Feeling stuck in your current market? Adjacent market expansion might be the answer!

Imagine your business as a tree. Your core market is the trunk, strong and established. But for real growth, you need to branch out. Adjacent markets are those close branches - new markets with shared ground.

They share similar customers, like athletes who might also wear activewear for different sports. Or, they share related products, like your athletic shoe technology used in a fitness tracker.

The beauty? You leverage your existing strengths. Brand recognition, customer base, even technology - all springboards to new opportunities.

Adjacent markets let you explore new horizons with less risk. It's a calculated way to expand your reach and keep your business flourishing.

*Timed: 1 min*
How would you like to know how to leverage your strengths to create incredible growth. Welcome to adjacent market expansion. This strategic theory entails expanding into markets that are similar to your own. Think Honda motorcycles into cars.

This is one of the oldest and most proven methods of success in the business sphere. In fact, it could be traced further back than blacksmiths selling nails in addition to their traditional swords and hammers.

Why has it been around for so long? Because it works. Sometimes adjacent markets can be created from excess products that would normally be wasted like the nails mentioned before. Alternatively, adjacent markets could also include new customer segments like hungry riders for Uber Eats.

So how do you identify adjacent markets? The key is in noticing the natural extension of your current business. Adjacent markets won’t require exponential change to enter, but maybe just a few tweaks to the business model.

Using the analogy of a shoe market, let’s demonstrate identifying adjacent markets. These markets will usually have shared attributes with your current market.

- Consider if your customer base or brand recognition could go further. For athletic shoes, maybe a pivot into more activewear leveraging an athletic customer base.

- Consider your current understanding of your customers, are there alternate products that could complement current ones? Perhaps fitness trackers to pair with the running shoes.

- Let’s also remember geography. If you’re already dominating North America, or a single state, maybe it’s time to look further. Although this solution may require more research into local laws and regulations -Visit PEST analysis for more details – it can be an effective method to gain access to new markets.

- Additionally, current expertise can create adjacent markets. If the athletic shoe company has effective digital marketing campaigns, it could expand this reach to begin targeting new audiences.

These were just a few ideas, but remember, thorough research is key. When observing adjacent markets identify the best opportunities with the highest potential for success.
RESULTS

This project resulted in over 13 videos, 10 Graphics and 50 pages of content for 10 theories of the Strategy Codex. Each of the theories was researched, composed, and filmed with great care. Efforts were made to maintain a spirit of simple and didactic language whilst sustaining a mildly entertaining edge. I find the results to be professional and satisfactory for both the student and professional. Additionally, I wholeheartedly believe that my efforts are the start of a great process that will uplift the strategy program of BYU and bring recognition to this relatively new field.

CONCLUSION

This thesis has brought me great joy to complete. I feel it is a culmination of my experience at BYU and has given me the opportunity to research an area that has become a personal expertise. Additionally, I have received the opportunity to give back to the institution from which I have obtained much learning and development. Despite my contribution, there is still much to accomplish for the Strategy Codex to become a reality. I have merely laid the foundation for what I hope will become a great work and assistance to many throughout the nation and world. I hope that the pattern and quality of work that I have completed will continue to inspire other students to hold themselves to high personal and professional standards as they continue where I will end. There are over 100 theories that still need to be recorded for the codex. I am pleased that I can continue this work without the thesis requirement and I look forward to doing so.

Additionally, I see my thesis as the opportunity to give thanks to the Strategy Program and Honors Program overall. They have made my BYU experience an absolute thrill. I am so grateful for the incredible enlargement of my intellect that these programs have engendered within me. As such I am excited to take my place among the few honors graduates of BYU. I feel it is a great honor to have accomplished this feat and I look forward to discovering how I can use my new skills throughout my life.

Finally, I hope that this thesis will serve as an inspiration to other students who are attempting to complete their thesis. By reading this, I hope they may contemplate how they may use their unique talents and skills to effectuate a project that not only makes a difference, but that they enjoy. This thesis is a testament to my determination, perseverance and will to win. If I could do it, then it can be done by anyone else with a willingness to see it through to the end.

Thank you.

Joshua Samuel Lucas
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Sunk Cost Fallacy

Indirect Assault


Entry Modes


Triple A Framework


Cage Distance Framework


International Strategy Framework


Blue Ocean Strategy


Adjacent Market Expansion

APPENDIX

Threat of New Entry
- Key relationships with Suppliers
- Specific Recipes
- Learning curve for quality mass production
- Product Variety
- Controlled Distribution Channels

Threat of Substitution
- High Number of substitutes (All beverages)
- Low Cost of Change

Supplier Power
- Many bean suppliers
  (Unregulated)
- Size of Suppliers
- Selection by environmental and quality concerns
- Cost Advantages (Discounts by Scale)

Competitive Rivalry
- Few large competitors, many boutique shops
- Low Switching Costs
- Med. Customer Loyalty
- Med. Cost Advantages
- Med. Quality Differences

Buyer Power
- Large number of customers
- Small Orders
- Large Economies of Scale (Learning Curve)
- Relatively insensitive (Will pay more for quality)
- Low Cost of Changing
- High Barriers to Entry

Supplier Power: Med

Competitive Rivalry: High

Buyer Power: High

Threat of New Entry: Low

Threat of Substitution: High