Harvard Business Review

Global Strategy

# 3 Obstacles to Globalizing a Digital Platform

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May 03, 2022

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**Summary.** Many platform businesses rely heavily on network effects to drive their growth. But when it comes to international expansion, research suggests that network effects are insufficient to replicate the rapid market penetration these firms may be used to at... **more**

As technology progresses, it has become increasingly easy for digital platform companies to reach customers around the globe. This ease of access can make scaling up seem effortless — after all, virtual marketplaces are borderless by nature, and so it can be tempting for these businesses to view the entire world as their target market from inception. In reality, however, distinct challenges remain when it comes to expanding a platform business beyond its home base.

We conducted a series of quantitative and qualitative studies to explore these challenges, including analyses of mobile app data from more than 50 countries' app stores, regulatory filings, and investment records, as well as more than 100 hours of interviews with executives at platform firms such as Xiaomi, Dropbox, and ByteDance.

Through this research, we identified three critical areas that platform firms should consider when pursuing international growth: user acquisition strategy, organizational structure, and business environment.

## User Acquisition Strategy

Platform business models typically depend heavily on network effects to expand their user bases. Unfortunately, our research has shown that network effects tend to decline when crossing borders. For example, Chinese users on the streaming site Bilibili may attract other Chinese users — but they're unlikely to attract many overseas users, limiting the platform's ability to grow beyond China. To expand outside an existing network of customers, more concerted user acquisition strategies are necessary.

Specifically, we found several common pitfalls that can hinder platforms' ability to attract local customers. First, while many platforms rely heavily on algorithms designed to automate user acquisition, this isn't a problem you can solve with AI alone. These AI algorithms can help platforms target content to users in their home countries, but more traditional measures, such as market research or online experiments, are often critical when entering new markets for which platforms likely have less relevant data.

For example, although Alibaba subsidiary Lazada had access to advanced AI-powered search recommendations, it was surpassed in many global markets by the much smaller Shopee, which relied more on local managerial insights than on imported technological solutions. Similarly, while platforms such as TikTok and Twitch are known for their powerful algorithmic content targeting, they have attracted users from around the world by complementing these systems with investment into sourcing localized content such as music, news, recipes, jokes, fitness tips, and medical advice that's specific to different customer segments' unique needs and interests.

In addition, platform businesses must prioritize acquiring not only end users, but also the content creators, streamers, and sellers — or "complementors" — that will populate their platforms. While mature platforms attract complementors easily, new platforms may need to invest substantial resources in recruiting these partners. YouTube, for example, has been fairly successful in organically attracting both users and complementors across countries, while TikTok has seeded its platform with paid content creators in many international markets. Other platforms, such as Clash, started out by paying all their complementors. Platforms may also want to consider offering substantial support to their complementors in exchange for exclusive content in their country's top market categories, as these alliances can help create the distinct market positioning that's essential to attract and retain users.

Finally, many platform businesses attempt to lead global expansions with homogeneous leadership teams recruited from their home countries. These leaders often have limited familiarity with foreign markets, stymying international growth efforts. As the battle between Lazada and Shopee demonstrates, it's critical to empower local managers who are better equipped to understand and adapt to country-specific needs. For example, Shopee's local managers deployed tactics such as introducing "gamified" shopping experiences that appealed to certain customer bases, designing campaigns around holidays such as Eid, and partnering with locally trending celebrities such as

BlackPink. Indeed, even purely digital platforms such as Dropbox and Salesforce (which have no need for any physical infrastructure in their international markets) have begun establishing offices around the world — and empowering local talent to lead those offices — to help them stay abreast of local customers' evolving needs.

### Organizational Structure

Since so much of a platform's value is created by its complementors, many of these firms are able to grow very quickly while maintaining a relatively flat organizational structure. But as platform businesses expand across multiple countries, these flat structures may become insufficient to manage the idiosyncrasies of each market. To address diverse and rapidly shifting local demands, firms may introduce different functionalities, different interfaces, and even entirely separate platforms for different markets (in some cases, this may be through internal development, while in others, a firm may acquire a local competitor).

For example, the Dutch food delivery platform Just Eat Takeaway operates different platforms with unique features and brands in different international markets, including Grubhub, SkipTheDishes, Just Eat, and others. Similarly, ByteDance keeps Douyin and TikTok fully separate, with independent management teams for each brand. Coordinating such a dynamic portfolio of platforms with numerous stakeholders across many different countries typically requires a much more sophisticated organizational structure than necessary to manage a single-market business.

To navigate this complexity and stay ahead of local rivals while avoiding destructive internal competition and duplicated work, some platform firms have begun adopting a modular structure. This refers to an architecture that centralizes common product components (e.g., search recommendations, payment systems, algorithms, etc.) and operational capabilities (e.g., user acquisition, marketing, monetization, customer insights, etc.) into specialized units, allowing global teams to customize and extend these functionalities for their specific needs.

Alibaba's "middle platform" concept exemplifies this approach. Initially, Alibaba followed a traditional, two-tier organizational structure, in which individual teams dealt directly with users and developed operational capabilities on their own, while headquarters allocated resources and support to each team. But as the firm began developing different versions of its platform to meet the needs of users across multiple countries, it introduced a third tier: the middle platform. This middle platform manages a repertoire of common components and capabilities, ensuring that teams across the business can access the components they need while still retaining the flexibility to adapt these shared resources to meet varying customer needs. For example, in markets where digital payment is not popular, product teams can use the existing payment infrastructure available on the middle platform, but customize it to make "cash-on-delivery" the default option. ByteDance has adopted a similar architecture, in which its "shared-service platform" enables global teams and business units to share insights, operational resources, and key assets, without encroaching on their flexibility.

## Business Environment

Without the need for costly physical infrastructure, digital businesses are often able to enter foreign markets a lot faster than traditional firms. However, this can be both a blessing and a curse. Launching so rapidly can mean that these firms end up sidestepping local regulations and evading scrutiny from local stakeholders (whether intentionally or otherwise), disrupting established industries and provoking pushback from regulators, incumbents, and other stakeholders. As Uber's struggles in Europe and parts of Asia illustrate, commercial success is difficult to sustain when local stakeholders are not supportive.

From consumer and data protection concerns to geopolitical issues, tax policies, and old-fashioned competition, there are a variety of ways in which a platform may find a foreign business environment unfriendly — especially if it has taken an "ask forgiveness, not permission" approach to expansion. Some of these hurdles may take the form of what we call "hard legitimacy" challenges: that is, laws and regulations that directly limit firms' market access or render their existing business models untenable, neutralizing any first-mover advantage. For example, legal restrictions on short-term rentals have substantially constrained Airbnb's growth in some cities, and even entirely locked it out from others. In other cases, platforms may face "soft legitimacy" challenges: While not an immediate legal threat, concerns regarding privacy protection, worker rights, environmental and social impacts, etc., may undermine the appeal of a platform, pushing users to defect to rival platforms and increasing the likelihood of regulatory action in the future.

To address these risks, platforms must start by understanding local concerns. While the typical playbook for digital platform expansion generally focuses on prioritizing technological excellence, ensuring a first-mover advantage, and aggressively acquiring users, this approach can backfire when navigating a complex international landscape. When expanding globally, platform firms should consider borrowing a few tricks from conventional multinationals, such as recruiting knowledgeable local staff, building relationships with decision-makers, providing public services, increasing local value-added, and forming alliances with local players across industries.

For example, Singaporean ride-hailing platform Grab employed a combination of these strategies to push for greater acceptance (and eventually formal legalization) of its business model in Thailand. In addition to lobbying lawmakers ahead of a general election, the company publicly emphasized its role in providing much-needed transportation services in smaller cities, contributing tax revenue to government coffers, and creating jobs for drivers. Grab also expanded its service offerings to add more value to local users, and formed win-win partnerships with local insurance and banking firms. These strategies had twin benefits: They both increased the platform's appeal in the market and helped the company build a network of local supporters and spokespeople with a strong interest in protecting the platform's continued operations.

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To be sure, network effects will always be a key driver for globalizing platform firms — but our research suggests that they're not enough to automatically guarantee growth beyond a company's home base. To reap the benefits of a digital platform business model in a global setting and avoid being overtaken by local competitors, firms must adapt their user acquisition strategies, build out effective organizational supports, and take a savvy approach to navigating local business environments.


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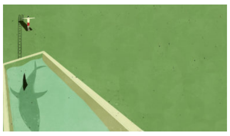

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