DBA THESIS (2010)

Cultural Coloring

Exploring How National Origin Affects the International Portability of Business Models

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1. Overview

The rapid shift of economic power to emerging economies, the dramatic failure of financial market mechanisms in the United States, and the swift rise of what might be called "autocratic capitalism" in China suggest a pressing need not only to better understand business models, but how national culture affects them.

Building on theory and qualitative case research, this exploratory study proposes a framework that combines strategic and cultural perspectives to examine the international "portability" of business models, e.g., how well they are likely to transfer to overseas markets. Its goal is to suggest a potentially useful method for evaluating a particular business model's international portability, and to provide teaching cases that give students practical experience in diagramming business models and in applying the evaluation method described herein.

The study's premise is that the strategic and economic logic by which a business profitably acquires and serves customers — its business model — is, like a person, "imprinted" by the distinctive cultural environment in which it was developed. In other words, simply by being born in a specific country, all kinds of attributes and assumptions are somehow "baked in" to the model — it is culturally colored.

Specifically, the study defines a pyramid-shaped, tiered scheme for examining two distinct "layers" of a business model: Firm and Culture. The bottom Culture tier identifies assumptions of the model specific to national origin that may affect the model's international portability. The top Firm tier represents a model's individual "personality" — specific innovations or "plot twists" designed to overcome competitors or meet unserved customer needs.

A second tool, the Imprinting Canvas, was developed to make visible imprinted, national origin-specific assumptions as they affect each element of a business model outside the home market.

The tools were used to evaluate two pairs of Japanese and U.S. companies. The cases give students the opportunity to:

- Define each company's business model, and evaluate how it was imprinted by national origin
- Show how imprinting affected international portability
- Draw conclusions, both about business model portability and about operational and strategic issues specific to the company in question

A concise overview of the research and cases appears in the article entitled "Is Culture Coloring Your Business Model?" on page 150.

Research Questions

The research and cases address several questions: How can an organization evaluate whether its business model will be effective in a particular overseas market? How can an organization modify its business model to achieve greater effectiveness overseas? Should it refrain from modifying its model?

Such questions would seem to be important for any organization — profit or non-profit, private or governmental — seeking overseas success. To address these questions, the thesis proposes a method practitioners may find helpful in seeking solutions for their own organizations.

Definition of Terms

Definitions of key terms used in the research and cases follow:

Business Model

The strategic and economic logic by which an organization profitably acquires and keeps customers.

Portability

The extent to which a business model has been successfully replicated in overseas markets (national markets outside the country where the model was developed). This research deals with replicating business models in overseas markets, rather than with exporting products or services.

Imprinting

The process by which a specific environment conditions behavior.

Business Model Canvas

Developed by Alexander Osterwalder and Yves Pigneur,[1] the Business Model Canvas is a diagram that visually and textually explicates a particular business model using nine Building Blocks. In this research, the Business Model Canvas is the tool by which the Firm layer of a given company's business model is described (see diagram on page 14).

CAGE Distance Factors

Developed by Pankaj Ghemawat,[2] CAGE is an acronym that stands for Cultural, Administrative, Geographic, and Economic distance between two countries. CAGE Distance involves bilateral measures of multidimensional distance between two nations, as opposed to either 1) unilateral attributes of one country, or 2) multilateral measures of distance between one country and the rest of the world. Cultural Distance includes differences in language, religion, and culture. Administrative Distance includes differences in government regulations, policies, and tariffs. Geographic Distance refers to physical distance (or climatic or terrain differences) between two countries. Economic Distance refers to disparities in purchasing power or differences in the cost or quality of physical, human, or financial resources.

Imprinting Canvas

Developed for this research, the Imprinting Canvas is a tool designed to identify and make visible tacit (imprinted) home-market assumptions within a business model. For a pair of countries, it plots the nine Building Blocks of a particular business model against the four CAGE Distance Factors, noting assumptions specific to each country within each Building Block (see example on page 21).

2. Theoretical and Methodological Overview

This study proposes a framework for assessing the international portability of business models, e.g., how well they are likely to successfully transfer to overseas markets. Its goal is to explore a potentially useful method for evaluating a business model's likely effectiveness outside of market of origin, and to provide teaching cases that offer practice in using the method.

The study's premise is that the strategic and economic logic by which a business profitably acquires and serves customers — its business model — is, like a person, "imprinted" by the distinctive national environment in which it was developed. Such imprintings can either enhance or impede effectiveness when the model is transplanted in a foreign environment.

Specifically, the study defines a pyramid-shaped, tiered scheme for examining two distinct "layers" of a business model: Firm and Culture. This scheme is referred to hereafter as the "FC Pyramid." The bottom Culture tier identifies assumptions of the model specific to national origin that may affect the model's international portability. Ghemawat's CAGE Distance Factors are used to operationalize these assumptions.

The top Firm tier represents a model's individual "personality," and often includes an innovation or "plot twist" new to the industry. Osterwalder and Pigneur's Business Model Canvas[3] is used to operationalize the Firm layer.

A second tool, the Imprinting Canvas defined on page 6, was developed to operationalize the link between the Firm and Culture levels of the FC Pyramid.

The FC Pyramid and Imprinting Canvas were used to evaluate four companies: two

Japanese tutoring services, and two U.S.-based providers of at-home senior care services. All four firms successfully transferred their business models to multiple overseas markets, but one company in each pair successfully replicated its model in a significantly greater number of markets, including high-CAGE Distance markets. The cases give students opportunities to:

- Define each company’s business model, and describe how it was imprinted by national origin
- Show how imprinting affected international portability
- Draw conclusions, both about business model portability and about operational and strategic issues specific to the company in question

Literature Review

i. The Growing Importance of Business Models

In an empirical study of thousands of U.S. companies, Lai, et al[4] concluded that type of business model explains performance heterogeneity better than do industry effects. In other words, the study suggested that business model type is a better predictor of corporate performance than talent, industry, access to cheap labor or capital, information technology prowess, and other factors. The Economist, in a survey of more than 4,000 business executives, discovered that "more respondents identify new business models as a greater source of competitive advantage than new products and services."[5] McKinsey[6] found that business executives around the world cited business model innovation, along with service and product innovation, as one of the top three factors "driving the accelerating pace of business change." In interviews with 765 CEOs and other executives, Pohle[7] found that many leaders consider business model innovation "the new frontier" in commerce. IBM's survey of chief executive officers found that more than two thirds believe that "extensive changes" in their business models were needed.[8]

ii. Definition, history, and diverging research tracks

"Business model" has been defined as "the organization's core logic for creating value"[9] and as a "blueprint" describing "a company's underlying economic logic."[10]

The term "business model" first appeared in the academic management literature in 1975, and over the next 19 years was cited only 166 times. But between 1995 and 2000 "business model" was cited 1,563 times in the same literature.[11] The dotcom era clearly popularized the term, and thereafter business model research appeared to split into two separate tracks: one focused on e-commerce, the other concentrated on models applicable to all businesses.

The e-commerce track, representing the greater number of studies, examined issues such as how the Internet disrupts the traditional "value chain,"[12] enables "disintermediation,"[13] and blurs boundaries between companies.[14] More recently, such research has concentrated on mobile communications, music, peer-to-peer networks, social media, and other advanced Internet applications.[15]

While these studies are valuable, they focus on particular Internet-enabled innovations and tend to exclude traditional businesses. This study seeks an inclusive approach to defining and evaluating business models, and therefore focuses on the second, smaller track of studies covering all businesses. This second track of studies can be further divided into two subtracks: one focused on strategy and innovation, and one focused on typologies and taxonomies.

In the strategy-focused track, Magretta[16] was among the first to offer an elegant practitioner's definition of business model applicable to any industry. In addition to defining a business model as a "blueprint" describing "a company's underlying economic logic," she writes about the importance of thinking of a business model in terms of a commonsense story with "characters" (such as customers and suppliers) that compellingly describes a company's underlying economic logic — but with a "plot twist."

Magretta explains plot twist through American Express's invention of the traveler check, which, by creating float, "turned what would have been an unremarkable operation into a money machine." This was because "people paid for the checks before they used them … the equivalent of an interest-free loan from its customers … Moreover, some of the checks were never cashed, giving the company an extra windfall." Zott and Amit[17] echoed Magretta's work by introducing the concept of "novelty-centered" business model design, but limited their examination to the financial performance of e-commerce businesses.

In the typology-focused track, scholars attempted to systematically address the topic at a deep level. Osterwalder[18] offered a business model ontology and Schweizer[19] presented a business model typology. These and other studies examine business models in light of deconstruction of the traditional value chain and fading boundaries between firms, and set forth complex relationship maps. While noteworthy, these efforts somehow lack the simplicity and intuitive appeal needed to make them useful to practitioners.

Osterwalder[20] returned to the strategy track to develop a "business model design" template for diagramming/codifying a business model in terms of nine "building blocks," including Key Partners, Key Activities, Key Resources, Value Proposition, Customer Relationships, Distribution Channels, Customer Segments, Revenue Streams, and Cost Structure. This scheme is intended as a useful tool for organizations wanting to explicate and redesign their business models, and has gained a significant worldwide following among practitioners, most recently in the form of the Business Model Canvas.

Lambert[21] pointed out that over the previous eight years, business model researchers had confused typologies with taxonomies, and that the field had yet to produce a generally-accepted definition of the term business model, let alone a compelling typology or taxonomy. Researchers were addressing different aspects of a complex topic spanning issues from basic economics to strategy. The introduction of large numbers of categories and variables meant that aggregation would create overwhelming complexity, and thus violate the need for parsimony in typologies or taxonomies.

Building on Lambert's insight, it seems that a multi-tiered approach to classifying business models might be productive: one that addresses strategic logic and cultural factors as separate layers within an integrated whole.

iii. The Strategic Firm Layer

To properly explicate and evaluate strategic elements, we draw from Magretta, Malone, et al, Levitt,[22] and business common sense to define the topmost Firm layer of the FC Pyramid as "the strategic logic by which a business profitably acquires and serves customers."

This strategic Firm layer is what most practitioners think of when talking about business models. Yet few companies, it seems, formally explicate their models. We adopted Osterwalder and Pigneur's Business Model Canvas to operationalize this layer of the FC Pyramid, paying particular attention to the Value Proposition Building Block, which contains the plot twist of the business model's strategic logic.

Figure 1 presents a Business Model Canvas with descriptions of each of the nine Building Blocks.

<table>
<tr><th colspan="5">Business Model Canvas</th></tr>
<tr>
<td rowspan="2">Key Partners
Which outside parties can perform tasks on behalf of the organization either more efficiently or at lower cost?</td>
<td>Key Activities
What core activities are required to create and deliver the Value Proposition?</td>
<td rowspan="2">Value Proposition
What specific job(s) does the business do on behalf of customers?</td>
<td>Customer Relationships
How do customers prefer to be contacted?</td>
<td rowspan="2">Customer Segments
What customer segments does the organization serve?</td>
</tr>
<tr>
<td>Key Resources
What resources are needed to support the Key Activities?</td>
<td>Distribution Channels
Through what channels is the service or product delivered?</td>
</tr>
<tr>
<td colspan="2">Cost Structure
Describes the main costs incurred in creating and delivering the Value Proposition</td>
<td colspan="3">Revenue Streams
Describes revenues generated and ways customers prefer to pay</td>
</tr>
</table>

Figure 1. Osterwalder and Pigneur's Business Model Canvas (2009)

iv. The Culture layer

The Firm layer of the business model framework may be adequate when an organization is operating exclusively in its home market. But when trying to replicate a business model overseas, another layer of analysis might prove helpful. Two simple examples illustrate this idea.

In 2001, Merrill Lynch withdrew from the Japanese market, having lost some U.S.

$600 million in a bid to bring U.S.-style brokerage and financial planning services to Japanese investors through its acquisition of Yamaichi Securities. While several factors contributed to the debacle, the failure of one assumption rooted in Merrill Lynch's home market culture loomed large: that Japanese clients would freely discuss their personal finances, including their net worth and goals for the future, with brokers. This assumption, crucial to Merrill Lynch's success, was such an obvious element of its business model, and so taken for granted, that it hardly seemed worth examining.

Another case travels in the opposite direction. BOOKOFF is an extraordinarily successful secondhand merchandise retailer (primarily bookstores) with over 900 outlets in Japan. In 2006, while planning further overseas expansion, founder Hiroshi Sakamoto remarked that, "If our method succeeds, we can open stores even in cities with few Japanese inhabitants such as Madrid or cities in Russia."[23] Today, BOOKOFF's overseas success remains limited to a few stores in locations with large expatriate Japanese populations, such as Los Angeles, Hawaii, and New York, because the company's Japan-rooted business model depends heavily on a domestic retail price maintenance system that forbids discounted sales of new books — a situation that simply doesn't exist in most overseas markets.

In both examples, we can see that *underlying attributes specific to situation of founding* (here, national origin) (Stinchcombe, 1960; Gerschenkron, 1968; Dore, 1973; Kimberly and Miles, 1980) had a powerful impact on international portability. To examine these underlying assumptions within the Culture layer, we adopt Ghemawat's CAGE Distance Framework, which refers to four types of "distance" from a home market: Cultural, Administrative, Geographic, and Economic (see definition on page 6).

The "Culture" label on the middle layer of the FC Pyramid will serve as shorthand for "national origin" — the country in which the business model was developed. Thus the Culture layer represents the national environment — including Cultural, Administrative, Geographic, and Economic factors — that, according to our supposition, imprint the business model.

In BOOKOFF's case, for example, the crucial imprinted factor appears to have been Administrative, in the form of Japan's retail price maintenance system. Because companies seem more adept at identifying Administrative, Geographic, and Economic distance between markets, it is worthwhile to examine Culture more closely.

v. Definition of "Culture"

What exactly is "culture?" Hall[24] and Hofstede[25] have offered various definitions and developed useful constructs (high context/low context communications, monochronic versus polychronic time, individualism, collectivism, power distance, etc.) to explain how culture influences behavior. Together with Hall and Hofstede, many other scholars, including McGrath, et al,[26] Sowell,[27] Begley, et al,[28] Nisbett,[29] and Ghemawat[30] have shown that cultural traits and their impact on behavior are persistent in individuals and enduring in societies.

At the first GLOBE conference in 1994, House and Javidan[31] defined culture as "shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from common experiences of members of collectives and are transmitted across age generations." House and Javidan's use of *transmit* appears to refer to the process of imprinting.

Hofstede defined culture as “the collective programming of the mind, which distinguishes one group or category of people from another … the fundamental invisible values held by a majority of their members, acquired in early childhood.” In writing of “invisible values … acquired in early childhood,” Hofstede, too, appears to refer to the process of imprinting. He conceives of “mental programs” in human beings as three levels of a pyramid, as in Figure 2.

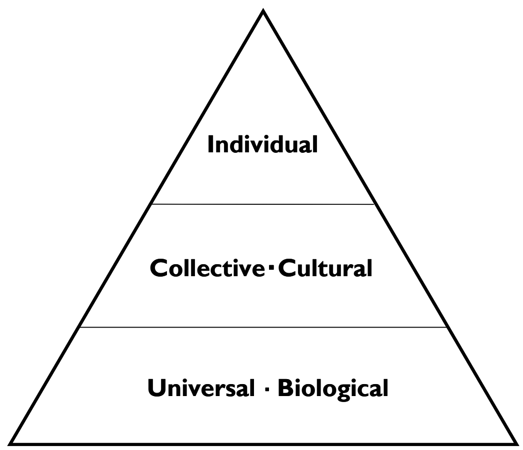

Figure 2. Hofstede’s Three Levels of Human Mental Programming

The foundation, or Universal level, represents a biological, unconscious “operating system” common to all human beings that activates universal behaviors (laughing, crying, fight or flight instinct, etc.).

The middle, or Collective level, represents culture. Culture is not biologically determined, but rather shaped by national environment, including physical factors such as geography and climate, as well as “the language in which we express ourselves, the deference we show to our elders, the physical distance from other people we maintain in order to feel comfortable, and the way we perceive general human activity such as eating, making love, and defecating and the ceremonials surrounding them."[32]

The topmost or Individual level of Hofstede's three layers of human mental programming represents the unique attributes (personalities) of individuals. Individual attributes are strongly affected — but certainly not entirely determined by — the Universal and Collective levels beneath. Individuals are, in short, imprinted by national culture.

vi. Cultural Imprinting of Organizations — and Business Models

Stinchcombe[33] is frequently cited as putting forth the "organizational imprinting hypothesis," which holds that organizations take on elements from their environments in the course of being founded. This hypothesis was further established in the field of organizational sociology through seminal works by Alexander Gerschenkron (1968) and Ronald Dore (1973), as well as Kimberly and Miles (1980).[34]

Gerschenkron[35] offered a cogent alternative to the traditional views of industrialization as monotonous repetition of the same process from country to country. In his view, industrialization was imprinted by the country's circumstances at the time, including cultural and historical elements.

Dore[36] illustrated organizational "imprinting" in his research on the "late development" effect in which Japanese business practices were imprinted by practices current when Japan began re-industrializing after World War II. He challenged the notion of Western "imprinting" in questioning whether market-oriented employment systems created by the peculiarities of nineteenth-century capitalism were necessarily a permanent part of 'modern' industrial relations.

Elsewhere, Porter[37] showed that national origin is a key source of strategic advantage, and Burgess[38] found that business strategy is deeply affected by the strategist's cultural values.

If individuals, organizations, and business strategies are imprinted by national culture, it stands to reason that business models, too, are similarly imprinted. We therefore posit that every business model originating in a particular national culture is powerfully influenced, or imprinted by, that host culture.

vii. The FC Pyramid Framework for Examining Business Models

Building on Hofstede's insight regarding levels of mental programming, we define a comparable two-tiered framework for examining business models called the FC (Firm/Culture) Pyramid. This scheme conceives of business models as being comprised of two layers, as depicted in Figure 3.

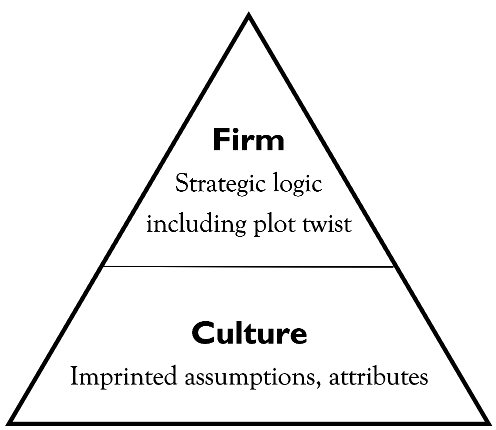

Figure 3. The FC Pyramid for Examining Business Models

The Culture layer forms the base of the pyramid, representing attributes and assumptions specific to the business model's national origin. We posit that the business models entrepreneurs create naturally reflect their own national cultures, and that few entrepreneurs, if any, can operate free of imprinted attributes and assumptions.

The top Firm layer represents the specific strategic logic created by an individual company (described using the Business Model Canvas) which includes a plot twist (innovation) typically invented by the founder.

Figure 4 shows the two-tier framework with layer descriptions.

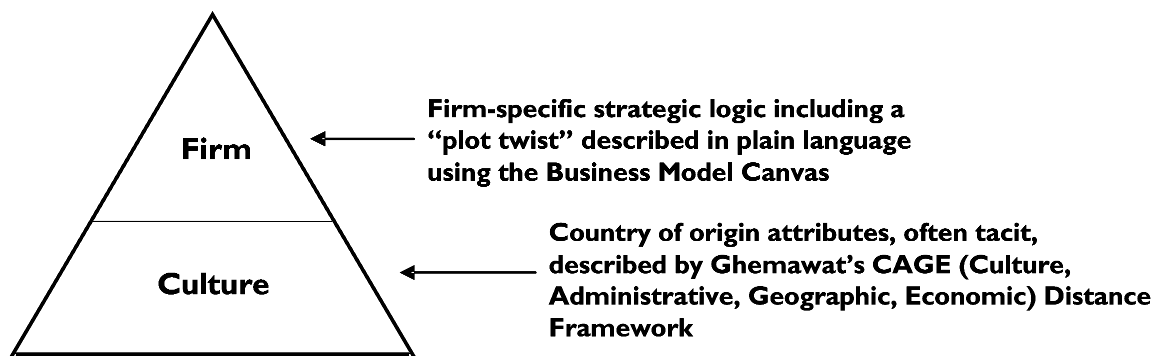

Figure 4. The FC Pyramid with Layer Descriptions

viii. The Imprinting Canvas

The Imprinting Canvas is a tool designed to identify and make visible tacit (imprinted) home-market assumptions within a business model, by linking Firm layer business model elements (explicated in a Business Model Canvas) with Culture layer elements (explicated using CAGE Distance Factors). For a pair of countries, it plots the nine Building Blocks of a particular business model against the four CAGE Distance Factors, noting assumptions specific to each country within each Building Block.

The process of creating an Imprinting Canvas, which was refined as the research took place, involves the following steps:

1. Explicate the business model in the form of a Business Model Canvas
2. Define the Value Proposition by asking, "What job is being done on behalf of customers?"
3. Vertically plot the nine Business Model Building Blocks against the four CAGE Distance Factors arranged horizontally across the page. Create two columns under each CAGE Distance Factor, one for country of origin and one for target market.
4. Explicate home market imprintings for each of the four CAGE Distance Factors
5. Explicate target market conditions for each of the four CAGE Distance Factors
6. Compare home market imprintings, target market conditions for congruence, incompatibilities
7. (Operational action) Determine tactical or strategic steps needed to exploit congruence or overcome incompatibility

Figure 5 shows a partial Imprinting Canvas (only Building Blocks where imprinted assumptions differ from actual market conditions are shown).

Imprinting of Kumon Business Model as Revealed by U.S. Experience								
Distance Type	**Cultural**		**Administrative**		**Geographic**		**Economic**	
Assumptions vs. actual conditions	**Imprinted (Japan)**	**Actual (U.S.)**	**Imprinted (Japan)**	**Actual (U.S.)**	**Imprinted (Japan)**	**Actual (U.S.)**	**Imprinted (Japan)**	**Actual (U.S.)**
Customers	Supplementary education widespread, starts at ages 6-8 Purpose is helping children exceed Parents responsible for children's education	Supplementary education uncommon, starts at ages 11-12 Purpose is remedial School responsible for children's education	Regular school curricula are standardized nationwide, speed/depth of student progress expected to be uniform	Regular school curricula differ by locality, speed/depth of student progress expected to vary			80% of population has ability to pay Private, supplementary educational expenses accepted part of most family budgets	Significantly lower portion of population has ability and/or willingness to pay Private, supplementary educational expenses rarely an accepted part of family budgets
Customer Relationships	High parental involvement in children's education	Lower parental involvement in children's education						
Distribution Channels	Commercial facilities, private homes	Commercial facilities, community centers, churches	Lax regulation of home-based businesses, home centers practical	Strict regulation of home-based businesses, home centers impractical	Many children commute on their own	Few children commute on their own		
Value Proposition	Help children exceed grade level, maximize potential	Help children work back up to grade level						
Revenue / Costs			Enforcing uniform tuition rates across all centers legal	Enforcing uniform rates across all centers illegal				

Figure 5. An Imprinting Canvas

Research Methods

i. Choice of Case Method

The purpose of the study is to explore the usefulness of cultural coloring in answering the question, How can an organization evaluate whether its business model will be effective in the particular overseas market?

The case method approach was adopted because of 1) lack of researcher control over behavioral events, 2) the focus on both contemporary and historical events, 3) the asking of a "how" question, 4) shallow history/lack of archival data on business models,[39] and 5) the practical and logistical limitations of conducting business model-related surveys.

These practical and logistical limitations result from a number of challenges. First, practitioners don't always agree on the definition of "business model." Second, most companies have not formally explicated their business models, and need explication methods explained to them. Third, a business model is unobservable and offers no physical artifacts for examination. Finally, the subject of business models can be strategically sensitive, and therefore difficult to research without access to founders or "C" level executives.

For these reasons the case study method was adopted as the most appropriate and practical vehicle for the research.

ii. Unit of Analysis

The unit of analysis for the study was "the business model" as described by the FC Pyramid and the Business Model Canvas.

Two boundary conditions limited the models examined. First, each model described a scalable, high-potential business. Second, in order to minimize the effects of individual entrepreneurial skill and management expertise on success or failure, cases were limited, when possible, to franchise format businesses.

The selling of a franchise is, for practical purposes, the selling of rights to use and exploit a specific business model. Moreover, because franchises (business models) are freely bought and sold across national borders in a transparent marketplace, it is reasonable to assume that their portability (or lack thereof) owes primarily to their viability in respective national markets. Finally, while entrepreneurial and managerial skill is clearly important to the success of both franchised and non-franchised businesses, because a franchise relies heavily on a standardized business format, the result of transferring a franchise across national borders was assumed provide a better indication of the portability of the model per se.

iii. Company Selection Criteria

The overarching company selection criteria was to find two pairs of companies in different sectors, one pair each from Japan and the United States, where one company from each pair/sector showed superior business model portability as evidenced by successful entry into high-distance market(s) the other had tried but failed to enter. Specific criteria included the following:

1. Successful entrant into multiple overseas markets
2. Competes with rival that is also successful entrant into multiple overseas markets
3. Service rather than product provider

The research was designed to achieve literal replication (through within-class comparisons of models originating in the same national culture and the same industry) and theoretical replication (through between-class comparisons of models used in different cultures and/or industries).

iv. Pilot Study/Company Selection

The director of research for the International Franchise Association (ifa.org) was contacted and the objective of the research explained. He agreed to contact members of the IFA's International Committee with an offer by the researcher to conduct a free "Overseas Market Compatibility Ranking" in exchange for a short-20-minute interview (all International Committee members were franchisors active in multiple overseas markets, whereas most general IFA members are domestic franchisors without overseas units).

The purpose of the offer was for good prospective candidates to self-select themselves as interested and willing to cooperate in research. Six companies responded to the offer. Interviews were conducted and the promised "compatibility ranking" reports, based on Hofstede indices, were written and supplied.

Two of the participants, at-home senior citizen care providers HomeCare and HomeKeepers (pseudonyms), were qualified as per Section iii. above, and the researcher solicited them to participate in the main study. Both agreed and were selected as national origin United States cases. Prior to the pilot study, the researcher had never heard of or had any contact with either HomeCare or HomeKeepers.

The Japanese supplemental educational service franchisors Kumon and Benesse were chosen for national origin Japan cases based on Section iii. criteria above and ICS faculty and alumni connections with potentially cooperative interviewees at these companies.

The following incentives were offered in return for cooperation in the study:

- Explication of the participant company's business model in the form of a Business Model Canvas
- Review of the participant company's international entry process and success/failure factors through the lens of an objective, third-party, and the opportunity to review and critique case writeups
- Provision of pre-publication access to research results.

In view of logistical limitations, and to minimize the effects of Economic distance, cases were limited to two service firms each from the United States and Japan.

v. Interviews

Twenty-two telephone and in-person interviews were conducted with 14 corporate respondents and seven informants between September 25, 2008 and December 4, 2009. The 14 corporate respondents included founders and international marketing executives of both the U. S. companies, and international marketing executives and corporate relations managers of the two Japanese companies. Informants included consultants, current and former franchisees, and an executive of the International Franchise Association. Most interviews were conducted in English; two were conducted in Japanese and one in both English and Japanese.

vi. Data Collection

Prior to conducting interviews, subject company histories were reviewed using corporate Web sites, secondary print sources, and annual reports when available. A general explanation of the Business Model Canvas and Canvas diagram was sent beforehand to facilitate discussion/explication of the subject company's business model during interviews.

The interviews were conducted in an open-ended manner, and focused initially on explicating the subject company's business model in the form of a Business Model Canvas. The purpose was to identify critical features of the company's business model at the Firm level and to create a table shell (Figure 6) for recording the explicit (and later implicit, or imprinted) attributes of the company's Value Proposition and Customers. Canvasses were later drafted and shared with other interviewees to confirm accuracy and fairness.

	Explicit	**Implicit (imprinted)**
Value Proposition	Factor A Factor B Factor C	TBD TBD TBD
Customers	Factor A Factor B Factor C	TBD TBD TBD

Figure 6. Table Shell for Codifying Value Proposition and Customer Attributes

Subsequent interviews focused on overseas market entry. Instances of successful and failed entry into at least two different overseas markets, including one high-distance market, was verified with interviewees. For each market, a Culture layer table shell was created and filled out, noting where local conditions differed from the imprinted content of each business model building block, or where the content of the building block had been modified to adapt to local conditions (Figure 7).

	Cultural		Administrative	
	Imprinted	**Actual (target market)**	**Imprinted**	**Actual (target market)**
Customers	TBD	TBD	TBD	TBD
Value Proposition	TBD	TBD	TBD	TBD
Distribution Channels	TBD	TBD	TBD	TBD
Etc.	TBD	TBD	TBD	TBD

Figure 7. Table Shell for Codifying Culture (National Origin) Layer Factors

These table shells became the basis for Imprinting Canvasses describing each market entry instance.

vii. Data Analysis and Post-Interview Confirmations

All interviews were recorded and transcribed verbatim by the researcher. Text from each interview was compared against text from other respondent and informant interviews, and data from the table shells used to create Imprinting Canvasses. Judgments were then made as to which imprinted factors, if any, enhanced or impeded portability, and respondents and informants alike were invited to review and critique the Imprinting Canvasses. Respondents were invited to review case writeups and suggest corrections or alternative interpretations.

Three of the four subject companies responded and provided valuable feedback.

The material is then rewritten in the form of four MBA teaching cases, which appear as Chapters Three through Six. As an overview for practitioners, an article summarizing the research and case results appears as Chapter Seven.

3. HomeCare: Pondering Entry into a High Cultural Distance Market

"Any chance you could look after my mother while we're at Disney World over spring break? We'll only be gone ten days …"

Steve Holton hardly imagined his answer would change the trajectory of his business — and his life. He thought about his client's frail, aging mother, and his own staff of housesitters in their mid-fifties and early sixties, then hesitated a moment before replying.

"Sure," he said. "We'll watch her until you get back."

Though he didn't realize it in March of 1985, Holton had found a new calling. In his hometown of Madison, Wisconsin, he'd started a business dispatching housesitters to live in client homes while they were away on vacation or business, taking care of pets, plants, and providing owners the security of a "lived-in" look. The business had grown steadily for several years and employed nearly a dozen housesitters, mostly retired men and women looking to earn a second income. But over the next twenty-five years Holton was to see his firm become a thriving small business with more than 150 franchises in eight countries, including the United States. In 2010, HomeCare headquarters recorded royalty and fee revenues of more than U.S. $4 million, while its franchisees posted tens of millions of dollars in sales.

Customer Hint Transforms Business

Holton's experience underscores the powerful role chance can play in the evolution of a successful business model. Launched as a two-person enterprise, Holton's housesitting venture turned out to be highly seasonal: most clients required services only in the summer and holiday months, leaving yawning gaps in year-round revenue.

As often happens, a customer unwittingly hinted at a solution to the entrepreneur's dilemma

 Doctoral candidate Tim Clark (tim@timclark.net) prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

— by requesting an off-the-menu service. In HomeCare's case, a client roadtrip to Disney World helped Holton recognize the potential for a new set of services: at-home minor medical care and life assistance for the elderly, and at-home care and rehabilitation services for recovering patients of all ages. Soon his company was poised to start an entirely new business offering personal, minor medical, life assistance, and companionship care.

A New Service Menu

"Personal care" involved tasks whereby the caregiver touched the patient's body, such as bathing or toilet assistance. Minor medical services included services for clients with dementia or who had undergone colostomies, tracheotomies, and other procedures that required skilled assistance with feeding tubes or other medical devices. Companionship care involved accompanying and conversing with clients as they performed daily activities. Companionship services could overlap with "life assistance" tasks such as housekeeping, grocery shopping, medication reminders, and cooking.

HomeCare served three customer segments: 1) elderly adults, mostly women, with complex personal or minor medical care needs, 2) dementia (Alzheimer's) patients, mostly over the age of 70, plus other patients of all ages recovering from illness or injury, and 3) disabled or mentally retarded clients of all ages.

The U.S. Home Health Care Market

The need for — and acceptance of — at-home caregiving services had roots in the U.S. healthcare system.

The United States was one of the few industrialized nations that lacked universal health care: a system of government-sponsored or subsidized healthcare systems that provided basic health care services for almost all citizens. Despite this, more than 15% of U.S. GDP — nearly a trillion and a half dollars — was spent on health care each year.[1]

This meant that even with employer-sponsored plans, a typical U.S. family could spend between $500 and $1,500 per month — or more — on health insurance and health and related services, depending on age and household composition.[2] Families in the U.S. were, in short, accustomed to paying out of pocket for health-related services.

Within this massive sector, Holton's revamped venture became part of the $55 billion home health care industry, which was heavily focused on 1) helping people recuperate from hospital stays at home, 2) assisting clients, who, because of a functional or cognitive disability, were unable to take care of themselves, and 3) providing hospice services. Services such as personal, minor medical, companionship, and life assistance care represented a new and unfamiliar sector within the home health care industry, but one whose

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1 Organisation for Economic Co-operation and Development. *OECD Health Data 2006*.

2 "The High Concentration of U.S. Health Expenditures." U. S. Department of Health and Human Services, June 2006.

value as a complement to traditional medical services was slowly becoming recognized.

For example, studies had demonstrated that patients recover more quickly and completely at home compared with hospital or nursing facilities.[3] Yet home health care was dominated by medical service providers dispatching nurses and physical or respiratory therapists. Healthy clients and those with minor medical problems usually did not need — nor could they afford — ongoing services provided by highly-skilled professionals.

Meanwhile, aging Americans and their custodial children began to question the true value, both personal and financial, of moving into dedicated care facilities or "retirement homes." Custodial children unable to spend time with parents during daytime hours, and those who maintained loving — but mutually frustrating — relationships with aging mothers and fathers began to realize they needed help. What's more, according to HomeCare's internal research, 70% of adult children did not live in the same community as their parents, and among those who did live nearby, few had the training or skills to provide complex personal or minor medical care.

At-home care services helped bridge these gaps. Because the new services were usually not reimbursable by government-sponsored programs for the elderly, they became known in the industry as "private duty, private pay" services because clients, or their custodial children, paid out of their own pockets. Most prospective clients accepted — however grudgingly — that neither private health insurance nor state programs would cover fees for the new category of at-home care services. But many found at-home care a less costly and far more agreeable option compared with retirement home living.

Traditional medical service providers, for their part, discovered that life assistance and personal care services could complement their own medical offerings, enabling complete, holistic client care.

Exhibit 1 shows private pay, private duty at-home caregiving services, broken down by category. The key distinction in the industry was whether the caregiver touched the client's body or not. Caregivers who touched client bodies were providers of "personal services" and were subject to regulation and licensing, depending on the state.

A Changed Model

Armed with his new minor medical and personal care business model, Holton steadily built the firm, and grew to love home care work. Enabling customers to continue living in their own homes rather than moving to senior care or nursing facilities proved deeply satisfying. Along the way, he discovered that the value HomeCare provided was defined by something more than personal care, minor medical, and companionship services. The true benefit was

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[3] "Home-Treated Patients Improve Faster than Those Hospital-Bound." *Immunotherapy Weekly,* 1/24/2001

intangible: Helping preserve dignity and independence by enabling customers to live where they *wanted* to, rather than where they *had* to.

"Helping people stay in their homes, providing additional income for those who naturally want to care for others [caregiver staff], and making a good living doing so was tremendously satisfying," said Holton. "It was a win-win-win situation."[4]

The company's Value Proposition could be conceived as follows:

HomeCare's Value Proposition
Reliably provide home-based personal and minor medical care through qualified, trained, skilled caregivers, thus enabling customers to live where they want to, rather than where they have to.[5]

Medical Background

A chemist who was drafted out of college during the Vietnam War, Holton had returned from overseas duty to spend more than seven years as the chief supervisor of a 400-bed hospital. The facility was crowded with more than a thousand patients suffering from severe injuries or other health problems resulting from service in Vietnam. Many were Holton's age.

"It was a depressing environment, and extremely hard work," Holton remembers.[6] The experience prompted him to pursue another career with his house and petsitting business.

But caregiving seemed to be in Holton's blood. Following the 1985 change in business model, HomeCare grew steadily, mostly through word-of-mouth recommendations by customers. By 1997, minor medical services grew to account for approximately 75% of the company's business, with minor medical and personal care together accounting for approximately 90% of revenue (refer to Exhibit 1). Middle-aged businesspeople, entrepreneurs, new retirees, and others started approaching Holton about opening their own HomeCare businesses.

Considering Franchising

"To me, franchising had a very negative connotation," Holton recalls.[7] But a meeting with a franchise industry representative made him think twice.

Holton had always thought franchising was synonymous with fast food chains, and was surprised to learn that one in every seven dollars spent on goods and services in the United

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[4] Interview with Steve Holton, 4/22/2009
[5] Articulated by case writer, confirmed by HomeCare 5/6/2009
[6] Holton, 4/22/2009
[7] Holton, 4/22/2009

States is spent in a franchised business.[8] Holton hadn't considered that many homes are bought and sold through franchised real estate companies, and that such homes are cleaned, painted, and carpeted through franchised businesses. He realized that his wife bought travel tickets through a franchised travel agency, and that over the years he had purchased, serviced, and washed his cars using franchised businesses. Friends and family had their taxes done, their hair cut, and their clothes cleaned through franchises.

Franchising Basics

Franchising is a method of doing business whereby one company (the franchisor) owns the right to the name and/or trademark of a particular business, and has developed a proprietary and valuable system (essentially a business model) for successfully carrying out that business.

The franchisee is an individual or company that purchases the right to use that name and/or trademark and business system.

Franchisees pay an upfront "franchise fee" for the right to use the business system, and to receive training and help with site selection, advertising, hiring, and other startup activities. Upfront franchise fees can range from $7,500 to $150,000 or more depending on the nature and scale of the business. Thereafter the franchisee pays the franchisor an ongoing royalty (a percentage of gross sales, usually between four and nine percent). In return, the franchisor provides some combination of ongoing consulting, training, national advertising, or other support services. HomeCare charged a franchise fee of $30,000 and an ongoing royalty of five percent.

A "master franchisee" is a franchisee with special rights to act as a kind of "sub-franchisor," reselling the business's name, trademark, and system to new franchisees within a specific geographic region (usually a foreign country). When expanding into overseas markets, many franchisors adopt the master franchisee system to avoid the overwhelming logistical difficulties that can arise from negotiating, training, administering, and providing ongoing support to multiple franchisees located thousands of miles away.

The master franchisee system is especially useful in high cultural-distance markets — markets distinguished by significant differences in language, customs, or religion — because the master franchisee is better positioned to train in the local language, prepare localized manuals and advertising materials, and provide ongoing local-language support for sub-franchisees.

Master franchisees collect upfront and royalty fees from the sub-franchisees they sign, and return a portion of these fees to the home franchisor. Because they are granted exclusive rights to an entire territory, and therefore enjoy significant potential revenue upsides, master franchisees pay significantly higher upfront fees to franchisors.

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[8] International Franchise Association Web site (www.franchise.org) as of 4/22/2009

Shifting to a Franchise Format

Holton realized that establishing HomeCare as a franchise could give others a way to operate under his model and at the same time improve the company's credibility.

Because the fledgling market for at-home senior care services was highly fragmented[9] and largely unregulated, prospective clients were understandably concerned about caregiver qualifications and background (no license was required to provide companionship services, while 22 states required licenses for individuals delivering personal or minor medical care). A company with a proven methodology and reputation for screening, training, and reliably dispatching dependable caregivers could gain advantage over competitors.

The company's shift to a franchise format was successful. The company gained more than a dozen franchisees between 1997 and 2000, giving Holton new confidence in both the HomeCare business model and the franchise format.

This success set the stage for the next phase in the firm's development: one that would surpass Holton's expectations, even as he started thinking about eventual retirement. The new millennium set him to thinking, and in private moments, he began to wonder whether he should sell his company within a few years.

Franchise and Family

While the notion of selling HomeCare perked quietly in the back of Holton's mind, his daughter, Laura Holton Wilson, faced career decisions of her own.

Following graduation from university with a business degree, Wilson had built a career in the information technology sector, becoming a UNIX administrator, then a manager of engineers who served high profile clients such as Adidas and Amazon.com. But she started experiencing "tech burnout" — feelings of spiritual emptiness.

"I saw too much emotional energy invested in things with zero impact on people's lives," she said. "I needed more meaning in my work."[10]

Recalling her own family's struggle to care for aging grandparents with serious health problems, she admired how her father's business helped recovering patients and the elderly remain in their homes. Returning to Wisconsin for a family visit in 2000, she and her father spoke late into the night. Holton told his daughter he planned to sell the company and retire within five years.

Laura dissuaded her father, telling him she wanted to eventually run the company. He agreed, but granted no favors to his daughter.

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[9] "Basic Statistics About Homecare." The National Association for Home Care & Hospice, 2008

[10] Interview with Laura Holton Wilson, 4/2/2009

"I had to work twice as hard to earn his respect, because I was already family," she remembers. "He told me I would have to buy and run my own HomeCare franchise for at least two years so I could truly understand the business and be qualified to run it as president."[11]

Father and daughter struck a deal whereby Laura purchased a HomeCare franchise in Vancouver, Washington, and Laura learned firsthand how the company's business model worked. She ran her franchise successfully and took over as HomeCare president in 2003.

The HomeCare Business Model

Typically, each HomeCare franchise required two people with complementary skill sets. First, a general manager was needed to hire, train, and dispatch caregivers, and often double as "client care coordinator" — the person who matched clients with appropriate caregivers, and ensured that care plans were being followed. Franchisees communicated with clients mostly by telephone, but also through pre-engagement in-person interviews and post-engagement visits — both announced and unannounced — in order to ensure that care plans were being followed.

Second, a salesperson was needed to build strong relationships with hospital discharge planners, nurses and nurse associations, doctors, attorneys, financial planners, and other professionals who regularly discuss sensitive care-related decisions with elderly clients and/or their custodial children. These private sector practitioners were the key source of new customers for HomeCare, because they had direct access to qualified prospective clients and frequently referred them to caregiver businesses. It was therefore crucial for the salesperson to build strong, ongoing relationships with such professionals.

In addition to initial training and ongoing consulting support from HomeCare headquarters, each franchisee received comprehensive manuals and templates documenting the proprietary methodology and techniques by which they were to acquire customers and solicit, qualify, interview, hire, train, dispatch, monitor, and retain caregivers. This was the "nuts and bolts" of the business — the result of long, hard, collective experience with hundreds of caregivers — experience that no single franchisee could ever develop independently. Each franchisee also received back-office software to handle accounting, operations, and administration.

Almost all HomeCare clients were cared for in their own dwellings, though a few preferred to receive HomeCare's services in assisted living or skilled nursing facilities. Caregivers usually spent between four and eight hours per day with a client, and sometimes stayed overnight.

Of the three segments, the first — elderly adults with complex personal or minor medical needs — accounted for nearly 90% of revenue as of 2004. More than 95% of HomeCare fees were paid directly by clients or their custodial children; payments from federal or state

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[11] Wilson, 4/2/2009

programs accounted for only a fraction of revenue.

In terms of costs, caregiver wages were the single greatest upfront component, given that the general manager and salesperson were often a husband-and-wife team or partners/principals in the business who initially drew no salaries. Office rent and associated expenses were next.

A Passion for Caregiving

Most HomeCare franchisees were, like the Holtons themselves, family businesses, and most of them (again, like the franchisors themselves) had strong personal commitments to caregiving. These commitments often grew out of personal family experiences caring for aging or infirm loved ones. Many prospective franchisees were retired or approaching retirement. As founder Holton put it, HomeCare provided an ideal second career “for those who naturally want to care for others.”[12] Few franchisees expected to grow rich, and HomeCare expected, and was ready to support, long-term franchisee commitments.

“Dealing with client lives and long-term care issues is no short-term business,” said Charlene Dumond, who joined HomeCare as Director of International Operations in 2005. “It’s not something franchisees can jump into and jump out of quickly.”[13]

Unsolicited International Inquiries

By 2002 HomeCare had a total of 23 franchisees — and for the first time, unsolicited interest from prospects outside the United States. The inquiries prompted Wilson to start thinking about how to deal with overseas opportunities. She attended a number of events hosted by the International Franchise Association and other industry groups, and through informal conversations with other participants, started to get a feel for how other franchisors handled international inquiries. One common theme was the importance of “pull” as opposed to “push” marketing.

“Push-style marketing doesn’t work well,” one retired franchise veteran had told her. “It’s fine to exhibit on the international franchise roadshows, but ultimately you want your partners to self-select, for them to come to you.”

Other conference participants stated similar points. “Multiple unsolicited inquiries are the best indication of potential in a particular overseas market,” one had said. “Local entrepreneurs can judge better than we can whether our systems will work there or not.” Wilson discovered that many franchisors did little due diligence on new overseas markets other than confirming basic facts such as population concentrations and average income levels. “As long as you’re in a modern economy with 25 million people, reasonable GDP, plus understanding and acceptance of the franchise format, you’re good to go,” said the cheerful founder of a fast food chain operating in seven countries.

Wilson also found that many non-restaurant service franchisors preferred engaging a master

12 Holton, 4/22/2009

13 Interview with Charlene Dumond, 4/7/2009

franchisee “when the culture is different” or “if they don't speak English.” The key, many agreed, was to find a company or entrepreneur with franchising experience and strong management skills.

Many franchisors were adamant about *not* modifying their models to adapt to overseas markets.

“The word ‘system’ is the key concept in franchising,” said the international operations director for a weight-loss service chain. “If you can’t run your basic model as-is overseas, you shouldn’t go international. You need to address a universal need with a solution that works anywhere.”

The weight-loss executive was quick to admit, though, that minor operational tweaks and localized PR and advertising were essential. He and Wilson shared a laugh when he described how his Irish franchisee had complained that U.S.-supplied advertising photos were “too American looking — the teeth are way too white and too straight!”

Wilson took her industry colleagues’s advice to heart, but felt HomeCare still had much to learn about international expansion. HomeCare had only two dozen franchisees, most of which were small family companies, and was operating with a tiny headquarters staff and no dedicated international sales staff.

The company took on its first international franchises in Australia and New Zealand in 2003. Though geographically distant, from the standpoint of U.S. headquarters, Australia is a low cultural-distance market. Even so, the franchise proved unsuccessful.

“We failed in Australia in part because it was our first international experience and we hadn’t yet developed an international strategy,” said Laura Holton Wilson. “We treated it like selling to a domestic buyer, but there are real differences between Australia and the U. S. in terms of both culture and the healthcare system.”[14]

Opportunity in the East?

HomeCare’s first encounter with a high cultural-distance prospect— a listed Japanese corporation called Moriguchi Kaihatsu — came in 2004, just as the company was rethinking international opportunities.

Moriguchi Kaihatsu’s approach to HomeCare was unsolicited — and very businesslike. The firm, a real estate developer listed on a regional Japanese Stock exchange, appeared to be a strong candidate for the Japan master franchisee position. The company had an excellent English speaker on staff, and discussions quickly progressed from e-mail to telephone, then to the successful submission and review of HomeCare’s standard franchisee application form. Soon an on-site visit to Madison, Wisconsin was arranged.

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[14] Wilson, 4/2/2009

"Domestically, we'd focused on getting social workers, nurses, and others into franchisee positions," Wilson remembers. "But it turned out that many of these well-intentioned people lacked business skills. So when looking overseas, we decided to focus more on business-oriented prospects with money to invest, including some corporate candidates."[15]

Laura Wilson's first move in preparing for the meeting was to call Mary Ellen Livermore, a consultant who had provided HomeCare with advice on transactions in Australia and New Zealand. Livermore had lived and worked as a commercial officer in U.S. embassies around the world for more than 30 years, mostly in Europe and the Middle East, and had gained extensive experience with international franchisors before retiring. She had never lived or worked in Japan, but had visited Singapore extensively.

As usual, Livermore was well prepared for the meeting.

"First of all, the basic economic and demographic profile is outstanding, though healthcare expenditures are lower in Japan," she said. "Did you know that, in U.S. dollar terms, there are more than *one million* millionaires in Japan today?"

She showed Wilson key facts gleaned from her research (Exhibit 2).

"All the demographics are pointing in the right direction, and the number of single-person households, including those headed by senior citizens, is steadily rising," said Livermore. "What's more, the government is pushing for higher co-payments on medical services, and for more individual citizen responsibility on retirement-related matters, such as defined contributions rather than defined payments in retirement plans."

Livermore continued, warming to her topic. "The franchise format is well understood and well accepted in Japan," she said. "And it's not just McDonald's and Kentucky Fried Chicken. Century 21, Merry Maids, Seven-Eleven, and a host of other U.S. service franchisors have been successful in Japan."

There were challenges as well. Livermore's cousin's daughter, Kate, had taught English in Japan for two years, and Livermore had quizzed her about doctors and the national health insurance system in Japan.

Kate described what she knew about Japan's government-sponsored universal health insurance. For one, coverage was extensive. Even for major procedures, co-payments were tiny compared with the U.S., she'd said. Health insurance premiums were compulsory, and automatically deducted from salaries, so the notion of budgeting significant amounts for out-of-pocket medical expenses would be odd in Japan, Kate thought. At the very least, the idea that a family might spend 15% of its annual income on health insurance and related expenses would be absurd.

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15 Ibid.

“In Japan,” she’d said, “you walk into any hospital or clinic you want, without an appointment, and hardly ever pay more than ¥500.” Also, the average hospital stay in Japan was substantially longer compared with the United States, and in fact hospitals encouraged non-essential tests and extra in-patient days, even after patients had fully recovered, because they were compensated by the government for such services. In short, Japanese hospitals were reluctant to discharge patients, whereas in the U.S., hospitals practically pushed you out the door, said Kate.

The prevailing belief, Kate explained, was that responsibility for citizen health care lies with the state. What’s more, national health insurance benefits continued after retirement.

“In America, you have to take responsibility for your own healthcare,” she’d said. “In Japan, people expect the government to take care of them.”

Overall, though, Wilson was encouraged by Livermore’s report, and asked the retired consultant to do more research in preparation for a debriefing following the meeting with Moriguchi Kaihatsu.

Moriguchi Kaihatsu

Two Moriguchi Kaihatsu representatives attended the meeting. Mr. Moriguchi, a man in his mid-30s and the son of the firm’s founder, spoke little English, but was extremely polite, cultured, and clearly a man of means. He was accompanied by Mr. Ochiai, a slightly older man with excellent English skills, who was introduced as the manager of the prospective HomeCare Japan business.

Moriguchi Kaihatsu had no English-language company materials, but presented an impressive array of Japanese language corporate brochures.

Mr. Ochiai explained that the company had been in business for 42 years, was profitable, with gross sales of approximately U.S. $65 million and 320 employees. Its main business was building and renovating suburban apartment buildings, but it also built custom homes and had a small, vaguely-defined “services” division. In recent years, Moriguchi Kaihatsu had taken a keen interest in senior citizen housing, both because of the founder’s retirement and certain work that came its way courtesy of Japan’s national health insurance system.

In Japan, Mr. Ochiai explained, a consumer who reaches the age of 65 reports to a municipal office to formerly register as a “senior citizen.” A government case manager accepts this registration, then acknowledges the applicant as qualified to receive and/or be reimbursed for certain age-appropriate health maintenance procedures, such as specialized massage and home renovations designed to render the residence “barrier free.” These “barrier-free” renovations usually involved work such as installing modern soaking bathtubs with special handrails, eliminating potential trip hazards throughout the dwelling, and installing wheelchair ramps. Though not particularly profitable for Moriguchi Kaihatsu, this renovation work had given it insight into how apartments could be better designed for senior citizen ease and comfort, and the company had decided to start building “barrier free” apartments designed especially for the aged.

Mr. Moriguchi was excited about the potential for Homecare’s business model, which he considered “ground-breaking” for Japan. He explained that Japan had the world’s largest per capita ratio of senior citizens, a ratio growing more quickly than any other nation. In addition to this rapidly growing senior segment, known in Japan as the “silver” market, Japan had an underdeveloped nursing/retirement home infrastructure. Meanwhile, nuclear families continued to fragment, with more and more retirees living alone — and farther away from their children. This combination of factors, Mr. Moriguchi said, presented an attractive business opportunity for Moriguchi Kaihatsu, both as a builder and as a provider of HomeCare services.

When quizzed about Moriguchi Kaihatsu’s focus on real estate and lack of caregiving service experience, Mr. Moriguchi was quick to point out that Mr. Ochiai, who had health sector experience, would be in charge of the new business. Mr. Ochiai had sold Japanese health supplements in Singapore, and had worked in Thailand for a well-known hospital that specialized in “medical tourism.” The hospital performed various procedures, including plastic surgery, for visiting clients from around the world, including Japan, at reasonable rates and with very high service levels, including post-surgical recuperative care. Moriguchi Kaihatsu had the resources to hire qualified staff and caregivers, he said, and the company’s services division already had a newsletter about “barrier free” living with 7,000 subscribers, mostly in the Nagano area. This list could be used to win HomeCare customers.

Laura Wilson asked about franchise experience and caregiver licensing requirements in Japan. While Moriguchi Kaihatsu had no franchising experience it supervised dozens upon dozens of subcontractors, and therefore had “strong management experience,” according to Mr. Moriguchi. With respect to caregiver licensing requirements, neither of the two men responded with specifics, but Mr. Ochiai assured her that any such requirements could be easily met, and that Moriguchi Kaihatsu would hire an expert to “make sure everything’s okay.”

Wilson also expressed concern about whether the HomeCare model would work within Japan’s national health insurance system, and how private pay services would be perceived by consumers. Mr. Moriguchi quickly admitted that at-home care was still not widely understood in Japan, but that there were “plenty of wealthy senior citizens who need and are willing to pay for services not reimbursable by national health insurance — they are our customers!” For that very reason, HomeCare’s new model had explosive potential, “perhaps in ways HomeCare has not yet considered,” he said.

The two visitors left HomeCare headquarters after reaching a tentative agreement with Wilson that a price of U.S. $225,000 for the master franchisee license would be acceptable, subject to HomeCare’s due diligence on the Japanese applicant. It would be HomeCare’s largest transaction ever. The meeting left Wilson and her staff flushed with excitement.

Opportunities and Challenges

Wilson immediately met with Livermore following the meeting. Based on her research, Livermore was reasonably confident that caregiver regulations wouldn't pose a problem, but she was concerned that it would be harder to gain access to referral sources such as hospital discharge planners, doctors, and nurses. For one thing, Japanese culture drew far tighter distinctions between "insider" and "outsider" groups, and it might be difficult to get "insider" medical providers to give referrals to an "outsider" group like HomeCare, especially given greater Japanese concerns with privacy and confidentiality.

Privacy concerns extended to the home. Kate had mentioned the small size of the average Japanese dwelling, and how families drew sharp lines between *uchi* ("inside") and *soto* ("outside") status, both with respect to insider and outsider groups, and in reference to the home itself. Livermore wondered whether clients would accept having caregivers unknown to the family stay in their homes.

Another issue was that, compared with the U.S., Japan had far fewer private-sector professionals such as attorneys and financial planners — professionals who (in the U.S. at least) often confer with clients about sensitive life planning and post-retirement care issues. Livermore recalled that Merrill Lynch had failed in its high-profile takeover of Yamaichi Securities in part because it assumed that — as in the U.S. — Japanese investors would be willing to share sensitive financial information and life-planning goals with brokers. That assumption proved mistaken.

Finally, said Livermore, Japanese companies and consumers have long memories. If Moriguchi Kaihatsu failed, it might be tough to reenter Japan later with a new master franchisee. "You only get one chance to make a first impression," she said.

The conversation concluded with Livermore advising Wilson to find a Japanese-speaking consultant or business student who could perform local language due diligence on Moriguchi Kaihatsu and research the market in more detail. Japan was a huge market that wasn't going away, she said, and HomeCare should take plenty of time to choose the right partner.

Though Wilson was unsurprised by Livermore's comments, the conversation did temper her enthusiasm somewhat. Still, she was excited by the financial and strategic possibilities a master licensee agreement would present. She recalled with pleasure the businesslike discussion she had enjoyed with Mr. Moriguchi and Mr. Ochiai, and despite the language difference, how easy the conversation had been compared to trying to explain customer acquisition techniques to a group of nurses in Omaha, Nebraska.

Decision Time

Two days later Mr. Ochiai called. Moriguchi Kaihatsu needed to stick to its internal development schedule, and the company was ready, willing, and eager to move ahead with the transaction, paying upfront in cash. Mr. Moriguchi needed an answer from HomeCare within three days, said Mr. Ochiai, hinting that his boss was considering purchasing a competing franchise if the deal with HomeCare didn't pan out.

Laura Wilson's pulse ran faster as she hung up the phone. She had decided to follow Mary Ellen Livermore's advice, and had already called a couple of local MBA programs to try to find a Japanese student who could help with due diligence.

But now it looked like the time for a decision had arrived. Even as she started drafting an e-mail note calling for an all-hands-on deck meeting on the issue, she knew that, in the end, the decision would be hers alone.

Assignment Questions

1. Diagram HomeCare's business model. How is it "imprinted" by the founder's family?

2. Draw an Imprinting Canvas for HomeCare for Japan and the United States. What does the Canvas suggest about the kind of partner HomeCare needs to successfully replicate its business model in Japan? Support your conclusion.

3. Should Wilson sell the franchise to Moriguchi Kaihatsu? Explain your reasoning, and if/how the business model should be modified for Japan.

Exhibit 1. At-Home Caregiving Services Breakdown (private duty, private pay)

Non-Medical, Non-Personal (caregiver does not touch client's body)		**Personal** (caregiver touches client's body)	
Life Assistance	**Companionship**	**Non-Medical Life Assistance**	**Minor Medical**
Housekeeping, meal preparation, shopping, medication reminders, transportation, etc.	Conversation, providing accompaniment for daily tasks, can overlap with life assistance tasks	Bathing, toilet assistance, light massage, etc.	Post-colostomy, tracheotomy assistance, dementia behavior supervision, etc.

Exhibit 2. U.S.-Japan Elderly Demographic Comparison as of 2004

	U.S.	**Japan**
Population	292.8 million	127.8 million
Percentage of citizens over the age of 65	12.5	19.5
Number of citizens over the age of 65	36.6 million	24.9 million
Average life expectancy	79	82
Number of households	105 million	45 million
Per capita GDP	$48,000	$36,000
Mean wealth per person	$144,000	$181,000
Per capita healthcare expenditures	$6,280	$2,250

Source: Livermore research

Teaching Note

HomeCare: Pondering Entry into a High Cultural Distance Market

This case was written as a vehicle for helping students consider and weigh the opportunities and challenges involved in replicating a business model in a culturally distant market, particular in a small company context. Teachers may find it useful for courses in international business, international entrepreneurship, family business, or franchising. Students should be familiar with the Business Model Canvas, the CAGE Distance Framework, and the Imprinting Canvas before undertaking this case (see summaries on pages 10-14).

Preparation

The case could be prepared off-line by students and discussed in class. Under this scenario, the instructor may wish to provide Assignment Questions as pre-preparation guidance. Alternatively, the case could be read off-line, with or without Assignment Questions, then worked in class. The case lends itself well to in-class group work, so that approach is outlined here. Regardless of approach, remind students to avoid attempting a comprehensive U.S.-Japan health care industry comparison; they should work with the facts presented and focus on basic business model elements.

Assignment Questions

Pre-preparation guidance questions follow. The business model could be diagrammed together with students in class or assigned as part of the off-line case preparation (Q1).

1. Diagram HomeCare’s business model. How is it “imprinted” by the founder’s family?

2. Draw an Imprinting Canvas for HomeCare for Japan and the United States. What does the Canvas suggest about the kind of partner HomeCare needs to successfully replicate its business model in Japan? Support your conclusion.

3. Should Wilson sell the franchise to Moriguchi Kaihatsu? Explain your reasoning, and if/how the business model should be modified for Japan.

Discussion and Analysis

Assuming the business model will be diagrammed in class, one way to begin might be to ask whether any students have personal experience with a franchise-format business (if not, call for a definition of "franchise"). Guide a short discussion around franchising to reinforce the point that franchisors sell their franchisees two key things 1) a business model or "system," and 2) a brand or reputation.

The instructor might want to ask students, Which is more important with respect to HomeCare's potential entry into Japan: its business model or its brand?

Clearly the business model is more important, as at-home care is a new category in Japan, and HomeCare enjoys no brand recognition in Japan. With that in mind, the class could move on to Question One:

1. Let's diagram HomeCare's business model.

While drawing the Business Model Canvas outline, the instructor might ask, Which is the most important Building Block in the Canvas? (students should respond with either "Customers" or "Value Proposition"). Label that Block first, or ask for clarification/second opinions, then solicit and labeling each of the remaining eight Building Blocks in order of importance. The instructor might suggest that each student draw his or her own Canvas at the same time.

Next, brief descriptions of each component of the HomeCare model could be solicited, again in order of importance. Pay particular attention to the Value Proposition, asking students to distinguish between its "feature" component (reliably providing care) and its "benefit" component (enabling clients to live where they want).

1.2 How is the model "imprinted" by the founder's family?

Another way to ask this question is, Why did this business model turn out like it did? Students might mention Steve Holton's formative experience as a hospital supervisor, his employment of older workers in the first iteration of his business, his personal experience caring for a failing relative, the personal satisfaction he discovered when he switched to the caregiving model, Laura Holton Wilson's quest for more meaning in her work, etc.

The instructor could bring up the idea that when an organization is founded, it is "imprinted" by both the founder(s) and the broader environment. In larger organizations, the results of such imprinting may be referred to as "corporate culture" or "administrative heritage." In HomeCare's case, this imprinting appears to have taken the form of *passion for caregiving.* Discuss what this means (for one, all of Homecare's franchisees to date appear to be motivated by the same passion — what does this apply for future franchisees, both domestic or overseas?).

Broader environmental or national origin imprinting can be addressed in the next exercise:

2. *Draw an Imprinting Canvas for HomeCare for Japan and the United States. What does the Canvas suggest about the kind of partner HomeCare needs to successfully replicate its business model in Japan? Support your conclusion.*

The instructor could break the students into pairs or small groups and have them work on this exercise independently in class for 30-40 minutes.

The key point is that students should not only think through how Cultural, Administrative, Geographic, and Economic distance affects each part of HomeCare's business model, but how those differences imply what capabilities a master franchisee would need in order to make the model successful in Japan.

One approach to eliciting insights is to proceed step-by-step through the Imprinting Canvas, focusing primarily on the Customer and Value Proposition building blocks:

2.1 How does CAGE distance affect the Customer building block?

Cultural: In Japan the concept of "private duty, private pay" is unfamiliar. Most consumers are likely to resist a private pay model and unlikely to allot significant funds for health care in household budgets. This implies that a successful master franchisee might need to target affluent consumers, or would need significant marketing and customer acquisition skills specific to the healthcare or a similar sector. Clearly, an established brand, reputation, or "captive" customer base would be helpful. Homes are small and closed to strangers compared with the United States, suggesting that a successful partner will need to possess or acquire some form of effective "entrée" into prospect homes.

Administrative: U.S. consumers rely primarily on private health insurance and their own finances for health care, while Japanese consumers rely primarily on the national health care system.

Geographic: Smaller Japanese homes could be considered a geographic factor. Otherwise Geographic distance seems to matter little.

Economic: Japan's consumers are wealthier on a per capita basis, but allocate less disposable income to healthcare. This would be a good time to point out that CAGE Distance factors often overlap. For example, is consumer resistance to the private pay model a result of Cultural, Administrative, or Economic distance? It's probably a combination, but in any case such distinctions are irrelevant. The point is to identify differences and discern their implications.

NOTE: Questions 2.1 through 2.5 could be addressed as a whole-class discussion. Alternatively, pairs/small groups of students could work separately on the set of questions, then make short presentations of their analyses.

2.2 How does CAGE distance affect the Value Proposition?

Cultural: In the United States, the nature of at-home personal, minor medical, and companionship care is reasonably well, though not widely, understood. In Japan, the nature of such care appears to be poorly understood. This implies that the partner will need the power to shape public perception of the Value Proposition to some extent.

Economic: On a per capita basis, Japanese consumers have a higher net worth compared with their U.S. counterparts. Home Care's Value Proposition might be attractive to wealthy clients. Does the potential partner already have, or can it gain access to, wealthy clients?

2.3 How does CAGE distance affect affect Key Activities such as customer acquisition?

Administrative: In the United States, state agencies such as Medicaid and Medicare account for little of HomeCare's revenue, and the company acquires customers almost exclusively through referrals from private parties and medical providers who are reimbursed for their services through private health insurance plans. In Japan, on the other hand, national health insurance plans account for the overwhelming majority of reimbursements to medical providers, and it is unclear which, if any, private parties would be effective referral sources. The successful franchisee will need either strong expertise in the intricacies of Japan's healthcare system, a strong internal source of customers or prospects, or both.

The instructor can refer to the Imprinting Canvas on page 14 for more guidance on this portion of the discussion. When the key points have been covered, it might be fruitful to guide the students toward linking Imprinting Canvas insights to desirable franchisee capabilities by asking a question such as:

2.4 If HomeCare could choose its ideal master franchisee for Japan, what kind of company would it be? What qualities would it have?

Student responses could then be listed on a whiteboard. Points made might include:

- Services corporation focused on individual consumers

- Strong expertise in, commitment to health care or senior services
- Ability, resources to shape public perception
- “Captive” customer or prospect base
- Access to wealthy prospects, “entrée” into prospect homes
- National brand or reputation
- Franchise experience, strong management capabilities
- Smaller firm passionate about caregiving, with wealthy customer base
  etc.

Next, the instructor might ask:

2.5 How does Moriguchi Kaihatsu stack up against the ideal franchisee?

Students may note points such as:

- Mr. Moriguchi seems primarily interested in using HomeCare’s business model to exploit real estate-based opportunities in Japan, and his company lacks relevant health-related service sector experience. HomeCare’s business model, though, is based on a strong personal commitment to caregiving. This is a fundamental incompatibility.

- Moriguchi Kaihatsu is ready, willing, and able to take on the franchise, is financially viable, understands the market, and perhaps most important, is the only available option at this point.

- The Japanese firm is fundamentally a real estate developer. Building “senior” apartments contradicts Homecare’s Value Proposition of helping clients stay in their homes rather than relocate.

- Moriguchi Kaihatsu has no franchise experience, and its management experience is limited to supervising subcontractors, which is fundamentally different from soliciting, qualifying, training, and supporting franchisees.

- Moriguchi Kaihatsu shows no evidence of the resources or expertise needed to shape public perception in the healthcare sector, or any compelling logic as to how it will qualify and acquire customers.

- While Mr. Ochiai’s language skills would be indispensable for training, etc., his medical background is in sales and services in overseas markets, not in Japan. Moriguchi Kaihatsu lacks core staff experienced in and committed to senior care.

These and other comments could be added to a retitled whiteboard list as follows:

Ideal partner	**Moriguchi Kaihatsu**
Committed to senior care	Passion for caregiving lacking
Experience in relevant sector, qualified staff on board now	No relevant experience evident, key manager's qualifications questionable, no qualified staff on board
Resources, expertise to shape public perception in healthcare sector	Apparently strong financial resources, but little evidence of power to shape public perception in healthcare sector
Compelling customer acquisition logic	Customer acquisition logic apparently related to building "senior" apartments, which contradicts HomeCare's Value Proposition
Franchising, management experience	No franchising experience, little relevant management experience
Etc.	Etc.

2.6 What was HomeCare's international strategy in 2004?

In line with many franchising veterans, HomeCare's international strategy was a "pull" strategy: it let qualified prospects identify themselves, then evaluated them as candidates. Like many franchisers, it did not have a proactive, "push," go-to-market international strategy.

This would be a good time to remind students that going international requires two things: 1) management resources, and 2) financial resources. A proactive international strategy requires at least one full-time employee dedicated specifically to that task. International market development is not a task that can be shared on a part-time basis between several managers. In 2004, HomeCare still lacked a full-time director of international operations.

At this point the instructor may want to ask for a show of hands: How many think HomeCare should sell the master license to Moriguchi Kaihatsu? How many think otherwise?

3. *Should HomeCare to sell the franchise to Moriguchi Kaihatsu? Explain your reasoning, and if/how the business model should be modified for Japan.*

HomeCare has an immediate opportunity to earn substantial revenue and establish a franchise in the world's second largest economy. The only way to develop the Japan market is by entering it, and right now it has no immediate options other than signing the deal with

Moriguchi Kaihatsu (the absence of multiple unsolicited inquiries may suggest limited opportunity in Japan). It is possible, though not certain, that Homecare would lose the opportunity to a competitor if it delays its decision.

This only downside appears to be that Moriguchi Kaihatsu will fail, eliminating future franchisee revenues and possibly — though not certainly — making it difficult for HomeCare to reenter Japan later with another partner.

Given this yes/no option, it would be logical for a smaller firm to sell the master license.

Should the model be modified? It seems that the Value Proposition is sound, but that important modifications may be needed in how customers are acquired, and perhaps which prospects are targeted. Generally speaking, most business model building blocks other than the Value Proposition can be modified without undermining the integrity of the model.

This might be a good time to discuss the nature of franchising, and how Moriguchi Kaihatsu is potentially both a customer of, and a partner with, HomeCare. Contrary to popular perception, franchisors don't necessarily sell franchises to any reasonably credible party with the ability to pay. Franchisors incur significant costs supporting franchisees.

Still, $225,000 is a lot of money for a small, closely-held family business, and success would mean a steady stream of revenue from Japan for years to come. Clearly this market entry decision is different from a market entry decision on the part of a non-franchise format business.

Epilogue

When formal classroom discussion has run its course, the instructor may want to ask, "Would you like to hear what actually happened?"

Students are always eager to hear a case's epilogue, so this is a good time to invoke a short, informal round of additional discussion by inviting students to share their predictions as to what HomeCare actually did. Some students may have personal experience or knowledge relevant to the case, and this is a good time for them to offer their insights. Here is the epilogue:

HomeCare sold the master franchisee license to Moriguchi Kaihatsu.

The new franchisee had harbored an ambitious plan to build a chain of "senior" apartments. Its main goal was, indeed, based on its core real estate business, and it had purchased the HomeCare franchise (and another health-care-related franchise, as it turned out) in order to "quickly gain expertise in the senior care service sector." But due to financial difficulties brought on by Japan's depressed real estate market, it abandoned these plans — which *seemed at odds with HomeCare's value proposition of helping clients* stay *in their home of choice — and launched HomeCare Japan as a stand-alone business instead.*

Mr. Ochiai hired a full-time salesperson, a full-time client care coordinator, and several caregivers, but the fledgling company, which enjoyed no domestic name recognition, no specialized healthcare expertise or client base, and no resources beyond the financing needed to fund a five-person startup, struggled to acquire customers. In particular, the franchisee found itself excessively dependent on government case managers, who supplied more than 90% of HomeCare Japan's prospective customer referrals.

Also, following medical procedures, potential clients tended to use hospitals as "caregivers," in a sense, because they could stay for little or nothing, and the hospitals themselves encouraged such stays because of the extra reimbursements they generated. For example, one 100-bed hospital with which HomeCare Japan established a relationship provided the company with only one patient referral in an entire year. The franchise closed within two years, and HomeCare has not reentered the Japan market since. Today HomeCare has more than 150 franchisees in eight countries.

Following any discussion of the epilogue, the instructor could ask:

Does this mean HomeCare's business model is untenable in Japan?

Not necessarily. The model might well be viable with the right partner (refer to the HomeKeepers case for an example of market entry success under a similar business model). It does appear that Administrative distance presents a tough obstacle.

HomeCare Japan didn't make enough of a market splash to damage the U. S. parent's reputation by its withdrawal. Perhaps with the right partner, it could reenter the market and be successful.

Summary of Learnings

Instructors will develop their own learnings from this case, but may find the following points useful:

1. Business models often contain "unspoken" assumptions imprinted by national origin. Methodical application of the Imprinting Canvas or the CAGE Distance Framework can make these assumptions visible and provide insights into opportunities and challenges involved in replicating a model overseas.

2. Insights from such analysis need to be "operationalized." That is, the implications of Cultural, Administrative, Geographic, and Economic distance need to be defined in terms

of capabilities or resources that will be required to successfully implement the model in that new market.

3. All businesses require two Key Activities: 1) making or developing a product or service, and 2) selling that product or service (acquiring customers). Strong customer acquisition logic is crucial to the success of any business model. This is a basic point often underappreciated by students.

4. Given roughly equal economic distance between two markets, service sector business models may be especially sensitive to Cultural and Administrative differences. Healthcare services, for example, appear to be especially sensitive to Administrative distance.

5. Families, which comprise the dominant form of business organization worldwide, leave a powerful personal stamp on their business models. The same can be said for founders of any organization. In Homecare's case, "imprinting" took the form of a passion for caregiving — a passion Moriguchi Kaihatsu lacked.

6. Proactively "going international" requires two things: 1) management resources, and 2) financial resources. Few small companies have such resources.

Reference

Business Model Canvas

Developed by Osterwalder and Pigneur, the Business Model Canvas is a diagram that visually and textually explicates a particular business model using nine Building Blocks.

Customer Segments is arguably the most important Building Block, as no business can exist without customers. The Value Proposition, perhaps equally important, defines the specific job or jobs a business performed on behalf of customers.

Key Activities describes the most important things that must be done in order to 1) create (make or develop) and 2) deliver (sell) the Value Proposition.

Key Resources (people, equipment, intellectual property, facilities, money) describes the most important assets needed to support Key Activities.

It may be illogical for a company to perform every activity in house. Companies often outsource or form partnerships with other companies or individuals (Key Partners) who can offer lower cost or higher quality.

Key Resources, Key Activities, and Key Partners comprise the Cost Structure of a business model.

All Value Propositions must be delivered to Customers through a Distribution Channel. Channels include in-person, the Internet, physical transport of goods to the customer site, telephone, and so forth.

All businesses must communicate with customers. The Customer Relationships Building Block describes such communications: in-person, telephone, e-mail, the Web, and so forth.

Customer Segments account for the Revenue Building Block of the model. If Revenues consistently exceed Costs, the model is viable.

A Business Model Canvas diagram with the nine Building Blocks appears on the next page, followed by a Business Model Canvas depicting HomeCare’s model.

<table>
<tr><th colspan="6">Business Model Canvas</th></tr>
<tr>
<td rowspan="2">Key Partners

Which outside parties can perform tasks on behalf of the organization either more efficiently or at lower cost?</td>
<td>Key Activities

What core activities are required to create and deliver the Value Proposition?</td>
<td rowspan="2" colspan="2">Value Proposition

What specific job(s) does the organization do on behalf of customers?</td>
<td>Customer Relationships

How do customers prefer to be contacted?</td>
<td rowspan="2">Customer Segments

What customer segments does the organization serve?</td>
</tr>
<tr>
<td>Key Resources

What resources are needed to support the Key Activities?</td>
<td>Distribution Channels

Through what channels is the service or product delivered?</td>
</tr>
<tr>
<td colspan="3">Cost Structure

Describes the main costs incurred in creating and delivering the Value Proposition</td>
<td colspan="3">Revenue Streams

Describes revenues generated and ways customers prefer to pay</td>
</tr>
</table>

<table>
<tr><th colspan="5">HomeCare's Business Model</th></tr>
<tr>
<td rowspan="2">Key Partners

Investigator who performs background, criminal checks

Insurer</td>
<td>Key Activities

Screening potential caregivers

Hiring, orienting, training and caregivers

Finding clients

Retaining both caregivers and clients</td>
<td rowspan="2">Value Proposition

Reliably provide home-based personal and minor medical care through qualified, trained, skilled caregivers

Enable customers to live where they want to, rather than where they have to</td>
<td>Customer Relationships

Extensive personal contact via telephone, e-mail, in-person communications

Announced and unannounced personal visits to ensure care plan is being followed</td>
<td rowspan="2">Customer Segments

Elderly adults with complex personal or minor medical care needs

Dementia patients, patients of all ages recovering from illness or injury

Disabled or mentally retarded clients of all ages (minor segment)</td>
</tr>
<tr>
<td>Key Resources

Client care coordinator

Salesperson

Back office toolset, scheduling system</td>
<td>Distribution Channels

Directly to home of client's choice

Assisted living facilities (minor channel)

Skilled nursing facilities (minor channel)</td>
</tr>
<tr>
<td colspan="3">Cost Structure

Caregiver wages

Office manager, salesperson wages

Background checks, legal fees, rents, etc.</td>
<td colspan="2">Revenue Streams

Payments made by individual or family

Payments made by Medicaid, other agencies (minor revenue source)</td>
</tr>
</table>

CAGE Distance Factors

Developed by Ghemawat, CAGE is an acronym that stands for Cultural, Administrative, Geographic, and Economic distance between two countries. CAGE Distance involves bilateral measures of multidimensional distance between two nations, as opposed to either 1) unilateral attributes of one country, or 2) multilateral measures of distance between one country and the rest of the world. Cultural Distance includes differences in language, religion, and culture. Administrative Distance includes differences in government regulations, policies, and tariffs. Geographic Distance refers to physical distance (or climatic or terrain differences) between two countries. Economic Distance refers to disparities in purchasing power or differences in the cost or quality of physical, human, or financial resources.

Imprinting Canvas

The Imprinting Canvas is a tool developed by the author to identify and make visible imprinted home-market assumptions within a business model. For a pair of countries, it plots the nine Building Blocks of a particular business model against the four CAGE Distance Factors, noting assumptions specific to each country within each Building Block.

An Imprinting Canvas for HomeCare in Japan appears on the following page. This Canvas was developed for this case based on the master franchisee's actual experience in Japan.

Imprinting of HomeCare's Business Model Revealed by Japan Experience

Distance Type	Cultural		Administrative		(G)	Economic	
Assumptions vs. actual conditions	**Imprinted (U.S.)**	**Actual (Japan)**	**Imprinted (U.S.)**	**Actual (Japan)**	**n/a**	**Imprinted (U.S.)**	**Actual (Japan)**
Customers	Clients assume responsibility for own healthcare Clients accept private pay model	Clients believe responsibility for basic health care lies with the state Clients resist private pay model	Medicaid, Medicare, other state agencies contribute few clients	State agencies contribute many clients	n/a	Private pay responsi-bility accepted	Private pay responsi-bility resisted
Customer Relationships	Direct communication with end clients	Significant portion of communication through government care managers					
Distribution Channels							
Value Proposition	Nature of at-home personal care reasonably well understood	Nature of at-home personal care poorly understood					
Key Activities	Sales: End clients recognize, accept private pay model, prospects approached directly or through private introductions	Sales: End clients unfamiliar with, resist private pay model, government agencies comprise indirect sales channel	80% of customers acquired through private referrals: lawyers, financial planners, doctors, care managers Caregiver acquisition: Third-party background checks readily available	90% + of customers acquired through government referrals of officially qualified clients Caregiver acquisition: Third-party background checks illegal			
Revenue / Costs			Most payers are private-pay end clients or custodial relatives, services lie outside scope of Medicare, etc.	Most payers are government case managers, some initial services fall within scope of national health plan			

4. HomeKeepers: Exporting a New Service Model (1)

"I was totally and completely green. I was totally naïve about the healthcare field. When I heard words like 'ambulatory,' I thought, No, I don't need an ambulance."[16]

Philip Langley laughed, recalling the early days at HomeKeepers, his non-medical companionship and personal care service for the elderly. "Companionship, light housekeeping, meal preparation, running errands, doing incidental transportation — those were services I could understand."[17]

Langley may have lacked health care expertise, but he enjoyed a powerful advantage: potent insight into unsatisfied non-medical needs among the elderly — and how his new service could complement traditional medical offerings. Launched in 1997, in just over a decade HomeKeepers had evolved into an industry leader with more than 700 franchises, including 200 outside the United States.

How did non-medical senior care — hardly an intuitively attractive business concept, given the medical nature of many services for the elderly — develop into such an internationally successful business?

Founder Imprinting

As with many ventures, HomeKeepers's business model was born from the founder's involvement in solving a personal problem: in Langley's case, caring for an aging relative whose health was rapidly declining.

"We designed the service based on what my family did for my grandmother. My grandmother was eighty-eight years old and she lived in her own one-bedroom apartment down the street where I grew up. It got to the point where she was so weak she couldn't

[16] Interview with Philip Langley 5/7/2009
[17] Langley 5/7/2009

even get out of her chair.

"My mom and her siblings got together and had a family discussion and decided there was no way she was going to go into a nursing home. My mom raised her hand and said, 'Bring her up to my house, and we'll all chip in and keep her comfortable for the next six months or year.'

"Well, that one year turned into eleven years. My grandmother thrived, she didn't just survive. She regained her strength, and for another decade she had a pretty independent life considering she was in her 90s."[18]

A Life-Saving Value Proposition

Langley's experience uncovered a key Value Proposition element that his company would sharpen and refine worldwide: *Restoring the will to live.*

His grandmother's initial problem — poor nutrition — was common among senior citizens. Elderly people living by themselves often found it difficult to cook and depressing to eat alone. As a result, they failed to eat properly and grew weak and prone to injury, risking a downward spiral of deteriorating health. Once healthy eating habits were restored, HomeKeepers could deliver the true value of its services.

"We reintroduce encouragement, stimulation, and assistance to someone who's not had it for a while; those who've declined because they haven't had it," said Langley. "My grandmother was blessed: she had twelve kids, fifty grandkids and fifty-one great-grandchildren by the time she died. But what do other families who only have two kids do? They want the same thing for their parents. Their goal is to keep their loved ones at home rather than somewhere else."[19]

Companionship, Life Assistance, and Personal Care Services

HomeKeepers offered three sets of services. "Companionship care" involved accompanying and conversing with clients as they performed daily activities. Companionship services sometimes overlapped with "life assistance" care such as housekeeping, grocery shopping, medication reminders, and cooking. "Personal care" involved tasks whereby the caregiver touched the patient's body, such as bathing or toilet assistance.

A Brand-New Business

Langley decided to assemble a group of people in Cleveland, Ohio who could do for others what his own family had done for his grandmother. It didn't take long to discover he had a viable venture — at least for a single office.

"When I started, I didn't know if I had a business or not. You think you have one, but you're

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[18] Langley 5/7/2009
[19] Langley 5/7/2009

not sure," Langley recalled. "My first two clients were just three hours once a week, and I thought, 'Wow, it's going to take a lot of clients to make this work.' When we signed up our third client I knew it was a real business, because this client wanted our service ten hours a day, seven days a week."[20]

But evolving from a single viable office to a chain of service providers required not only a large market need, but scalable systems and processes. Langley, who had studied franchising at Ohio State University and worked for franchisor ComputerKids for six years following graduation, had always known he would eventually start his own franchise format business, and keenly understood the importance of systems, scalability, and management expertise. But he hit a roadblock that, in retrospect, seemed entirely due to semantics.

"When I went to health care companies and said, 'Hi, I'm Philip Langley, and I do senior care,' they immediately thought I was a competitor and wouldn't talk to me."[21]

Langley started gaining traction when, out of pure frustration, he began using the term "non-medical."

"A lot of people would argue that 'non-medical' has a negative image. They tell you in Sales 101 that you shouldn't ever use the negative tense," said Bill Kemper, HomeKeepers's Vice President of Operations. "But it turned out that was the best way to position the service in order to provide clarity."[22]

The problem, said Langley, stemmed from a widespread mentality that assumes discussions about elderly people necessarily involve medical issues. So he changed the way he approached prospective partners.

"I started saying, 'Hi, I'm Philip Langley, and I've got this service for the elderly, but we don't do anything medical — it's 100% non-medical.' That got their curiosity up. They thought, How in the world is this guy going to make it if he's not doing anything medical for the elderly?"[23]

Most of the prospective partners Langley approached were at-home health care providers, visiting nurse associations, and other firms that bill U.S. or state government-subsidized health or social insurance programs such as Medicare for their services. These providers offered a few companionship care and personal services, but all were primarily focused on medical problems.
Langley's Value Proposition with respect to such providers was that HomeKeepers could take over non-medical client work as needed, then refer the client directly back when medical

[20] Langley 5/7/2009
[21] Langley 5/7/2009
[22] Interview with Bill Kemper 5/7/2009
[23] Langley 5/7/2009

services were again needed.

"That's what worked about the business model," Langley recalls. "But I couldn't get to that conversation until I raised their curiosity. And the only way to raise their curiosity was by using the word 'non-medical.'"[24]

In essence, Langley helped establish a new category of services for the elderly: non-medical companionship, life assistance, and personal care. Hospitals, visiting nurse associations, doctors, and other medical service providers quickly became the key source of HomeKeepers customers. The company internally referred to this crucial partner group as Referral Partner Networks (RPNs).

The U.S. Home Health Care Market

The United States was one of the few industrialized nations that lacked universal health care: a system of government-sponsored or subsidized healthcare systems that provided basic health care services for almost all citizens. Despite this, more than 15% of U.S. GDP — nearly a trillion and a half dollars — was spent on health care each year.[25]

This meant that even with employer-sponsored plans, a typical U.S. family could spend between $500 and $1,500 per month — or more — on health insurance and health and related services, depending on age and household composition.[26]

Within this massive sector, Langley's venture became part of the $55 billion home health care industry, which was heavily focused on 1) helping people recuperate from hospital stays at home, 2) assisting clients, who, because of a functional or cognitive disability, are unable to take care of themselves, and 3) providing hospice services. Services such as companionship, life assistance, and personal care represented a new and unfamiliar sector within the home health care industry, but one whose value as a complement to traditional medical services was slowly becoming recognized.

For example, studies had demonstrated that patients recover more quickly and completely at home compared with hospital or nursing facilities.[27] Yet home health care was dominated by medical service providers dispatching nurses and physical or respiratory therapists. Healthy clients and those with minor medical problems usually did not need — nor could they afford — ongoing services provided by highly-skilled professionals.

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24 Langley 5/7/2009

25 Organisation for Economic Co-operation and Development. *OECD Health Data 2006*.

26 "The High Concentration of U.S. Health Expenditures." U. S. Department of Health and Human Services, June 2006.

27 "Home-Treated Patients Improve Faster than Those Hospital-Bound." *Immunotherapy Weekly*, 1/24/2001

Meanwhile, aging Americans and their custodial children began to question the true value, both personal and financial, of moving into dedicated care facilities or “retirement homes.” Custodial children unable to spend time with parents during daytime hours, and those who maintained loving — but mutually frustrating — relationships with aging mothers and fathers began to realize they needed help.

At-home care services helped bridge these gaps. Because the new services were usually not reimbursable by government-sponsored programs such as Medicare, they became known in the industry as “private duty, private pay” services because clients, or their custodial children, paid out of their own pockets. Most prospective clients accepted — however grudgingly — that neither private health insurance nor state programs would cover fees for the new category of at-home care services. But many found at-home care a less costly and far more agreeable option compared with retirement home living.

Traditional medical service providers, for their part, discovered that companionship, life assistance, and personal care services could complement their own medical offerings, enabling complete, holistic client care.

Exhibit 1 shows private pay, private duty at-home caregiving services, broken down by category. The key distinction in the industry was whether the caregiver touched the client’s body or not. Caregivers who touched client bodies were providers of “personal services” and were subject to regulation and licensing, depending on the state.

Misunderstood Model, Hidden Value

HomeKeepers’s new companionship and life assistance care category defined a set of services for which demand was growing rapidly, even while the category itself was poorly understood.

“Even back in 1998, people didn’t quite get it,” said Kemper. “It wasn’t just the health care companies, it was everybody.”[28]

HomeKeepers had identified a highly compelling Value Proposition: Enabling senior citizens to live where they *want* to rather than where they *have* to. Yet HomeKeepers had identified another, unstated aspect of its Value Proposition — something more fundamental than helping keep clients in their homes.

This element was embodied in an expression of core values often stated by HomeKeepers employees: “Relationship over task.”

The phrase meant that a HomeKeepers caregiver’s primarily responsibility lay in engaging the client socially and emotionally rather than in merely performing tasks (such as giving baths, preparing meals, doing housekeeping, and so forth). Engagement could take the form

[28] Kemper 5/7/2009

of conversation, assistance with family-related tasks such as letter-writing, or companionship during walks or everyday tasks such as grocery shopping. Emotional engagement was what clients valued, said Langley, and at times, such engagement could even restore the will to live.

"That's what makes us different from home health agencies and other competitors who just have individuals come in, perform tasks, and leave," said Kemper. "Our caregivers build relationships with their clients. That's the 'secret sauce' of our business."[29]

Not only had HomeKeepers discovered its "secret sauce" — it had made "relationship over task" the central guiding principle for employee action.

Ironically, this powerful Value Proposition created a marketing challenge. Emotional engagement developed through the delivery of companionship services, which accounted for approximately three-fourths of HomeKeepers's workload. But families considering purchasing care services for an aging parent typically focused on housekeeping, meal preparation, errands, transportation, medication reminders, and other *tangible* services. Many resisted discussing, let alone paying for, an intangible deliverable such as "companionship."

Yet internal surveys of end clients — people actually receiving HomeKeepers services — consistently found "emotional support" to be the number one benefit, according to Langley. Meanwhile, surveys of prospective clients and their families — people who haven't yet experienced HomeKeepers services — showed that "help around the house" was the key perceived benefit.

For HomeKeepers to acquire customers, therefore, it first had to successfully promote "help around the house," a secondary, albeit important, benefit. The company's Value Proposition could be conceived as follows:

HomeKeepers Value Proposition
Enable clients to remain in their residence of choice, while providing them with emotional support that helps them face the challenges of aging.[30]

HomeKeepers's Value Proposition proved compelling, and the company quickly attracted many clients. Langley adopted the franchise format in 1998 and rapidly added franchisees across the United States.

[29] Kemper 5/7/2009

[30] Articulated by case writer, confirmed by HomeKeepers 5/11/2009

Franchising Basics

Consumers who equate franchising with fast food chains are often surprised to learn that one in every seven dollars spent on goods and services in the United States is spent in a franchised business.[31] Many homes, for example, are bought and sold through franchised real estate companies, and many of those homes are cleaned, painted, and carpeted through franchised businesses. Millions of consumers buy travel tickets through franchised travel agencies, while purchasing, servicing, and washing their cars using franchised businesses. Millions more have their taxes done, their hair cut, and their clothes cleaned through franchises.

Franchising is a method of doing business whereby one company (the franchisor) owns the right to the name and/or trademark of a particular business, and has developed a proprietary and valuable system (essentially a business model) for successfully carrying out that business.

The franchisee is an individual or company that purchases the right to use that name and/or trademark and business system.

Franchisees pay an upfront “franchise fee” for the right to use the business system, and to receive training and help with site selection, advertising, hiring, and other startup activities. Upfront franchise fees can range from $7,500 to $150,000 or more depending on the nature and scale of the business. Thereafter the franchisee pays the franchisor an ongoing royalty (a percentage of gross sales, usually between four and nine percent). In return, the franchisor provides some combination of ongoing consulting, training, national advertising, or other support services. HomeKeepers charged a franchise fee of $35,500 and an ongoing royalty of five percent.

A “master franchisee” is a franchisee with special rights to act as a kind of “sub-franchisor,” reselling the business’s name, trademark, and system to new franchisees within a specific geographic region (usually a foreign country). When expanding into overseas markets, many franchisors adopt the master franchisee system to avoid the overwhelming logistical difficulties that can arise from negotiating, training, administering, and providing ongoing support to multiple franchisees located thousands of miles away.

The master franchisee system is especially useful in high cultural-distance markets — markets distinguished by significant differences in language, customs, or religion — because the master franchisee is better positioned to train in the local language, prepare localized manuals and advertising materials, and provide ongoing local-language support to sub-franchisees.

Master franchisees collect upfront and royalty fees from the sub-franchisees they sign, and return a smaller portion of these fees to the home franchisor. Because they are granted

[31] International Franchise Association Web site (www.franchise.org) as of 4/22/2009

exclusive rights to an entire territory, and therefore enjoy significant upside revenue potential, master franchisees pay significantly higher upfront fees to franchisors.

Expansion Overseas

Langley's newly franchised business was expanding rapidly, in parallel with an even greater boom: growth in Internet usage.

"The Internet was coming alive in the late-1990s, and we started getting inquiries from outside the United States," he remembers. "As a result we soon identified and signed two master franchisees in Europe."[32]

"The non-medical senior care industry is extremely fragmented in every country around the world," said Andreas van der Pijl, HomeKeepers Director of Development. "We therefore chose master franchisees in Europe based on their ability to establish and promote this new category in their countries. But our basic business model is the same everywhere."[33]

Langley was a staunch believer in the notion that franchisors should maintain the same business model regardless of national market. He had taken to heart the words of his old boss at ComputerKids: "The word 'system' is the key concept in franchising. If you can't run your basic model as-is overseas, you shouldn't go international. You need to address a universal need with a solution that works anywhere."

So far that approach had proven effective.

"Aging is a universal issue," van der Pijl often said. "If you leave the countries out of it, and hear the stories between caregivers and clients, they face the same challenges everywhere and have the same experiences we do in the United States. Everyplace you go you've got clients with dementia issues, strain on the family, the decision-maker who needs to make difficult choices, and so forth."[34]

With a firm foothold in several relatively low-cultural distance European markets, and the new millennium stretching before him, Langley started thinking about expanding into Asia. He'd already received unsolicited inquiries from small, unqualified prospects in Taiwan and Japan, and knew that Japan, with its rapidly aging population and the world's second-largest economy, could become a huge market for HomeKeepers. While studying ComputerKids competitors, he'd read about successful franchise format businesses in Japan, and asked van der Pijl to pull together some basic facts about the market. It was June of 2000.

The following day, he sat down with his international development director over coffee.

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[32] Langley 5/7/2009
[33] Interview with Andreas van der Pijl 5/7/2009
[34] Van der Pijl 5/7/2009

"First of all," said van der Pijl, "the basic economic and demographic profile is over the top, though healthcare expenditures are lower in Japan. "Did you know that, in U.S. dollar terms, there are more than *one million* millionaires in Japan today?"

He pulled a sheet from a manila folder and showed Langley key facts gleaned from his research (Exhibit 2).

"The senior demographics are incredible and getting better," said van der Pijl. "What's more, the government is pushing for higher co-payments on medical services, and for more individual citizen responsibility on retirement-related matters, such as defined contributions rather than defined payments in retirement plans."

Van der Pijl continued, warming to his topic. "As you know, the franchise format is well understood and well accepted in Japan," he said. "And it's not just McDonald's and Kentucky Fried Chicken. Century 21, Merry Maids, Seven-Eleven, and a host of other U.S. service franchisors have been successful in Japan."

Based on his research, van der Pijl was confident that caregiver regulations wouldn't pose a problem, but he was concerned that it would be harder to gain access to referral sources such as hospital discharge planners, doctors, and nurses. For one thing, Japanese culture drew far tighter distinctions between "insider" and "outsider" groups, and it might be difficult to get "insider" medical providers to give referrals to an "outsider" group like HomeKeepers, especially given greater Japanese concerns with privacy and confidentiality.

Privacy concerns extended to the home. Japanese dwellings were small, and families drew sharp lines between *uchi* ("inside") and *soto* ("outside") status, both with respect to people belonging to either insider or outsider groups, and in reference to the home itself. Van der Pijl wondered whether clients would accept having caregivers unknown to the family stay in their homes.

Langley thanked van der Pijl and resolved to start investigating potential master franchisee candidates immediately. He contacted several local MBA programs and found a Japanese student, Nobue Miwa, who agreed to provide HomeKeepers with 30 hours of consulting and due diligence services for $1,500 — "the best international due diligence investment I ever made," Langley would later say.

Health Care in Japan

Miwa's first interview with the HomeKeepers team proved enlightening. The MBA student explained that Japan's compulsory national health insurance coverage, which covers all citizens, is extensive, and co-payments, even for major procedures, were tiny compared with the U.S. Health insurance premiums were compulsory, and automatically deducted from salaries, so the notion of budgeting for out-of-pocket health-related expenses was, well, strange in Japan, Miwa thought. And the idea that a family might spend 15% of its annual income on health insurance and related expenses would be absurd.

In fact, Miwa — and most of her Japanese friends living in the United States — had at first been baffled and amazed at U.S. health care plans that involved unfamiliar concepts such as “primary physicians” and “preferred providers,” and which demanded significant out-of-pocket expenditures in addition to monthly premiums.

“In Japan,” she said, “we walk into any hospital or clinic we want, without an appointment, and hardly ever pay any more than ¥500.” In her view, it would be difficult to get Japanese consumers to pay substantial, recurring out-of-pocket fees for health-related services, especially services not clearly related to a particular medical condition.

“In America, you have to take care of yourself,” she said. “Japanese people expect the government to take care of them.”

Van der Pijl then sketched the company’s business model on the conference room whiteboard. He asked Miwa to describe anything comparable in Japan with which she had had first-hand experience.

Though Miwa had no direct professional experience with senior services, her sister-in-law worked in the welfare services section of Ota Ward (one of the Tokyo Metropolitan Government’s 23 municipalities), and she had heard stories of elderly consumers interacting with Japan’s national health insurance program. This sister-in-law had advised Miwa’s grandmother to apply for and receive a special renovation grant to render her apartment “barrier-free” (the work basically involved installing a modern soaking bath with special handrails, and eliminating potential trip hazards throughout the dwelling).

The MBA student explained that in Japan, a consumer who reaches the age of 65 reports to a municipal office to formerly register as a “senior citizen.” A government case manager accepts this registration, then acknowledges the applicant as qualified to receive and/or be reimbursed for certain age-appropriate health maintenance procedures — such as specialized massage or “barrier free” renovations of the type authorized for Miwa’s grandmother.

Because of this case manager mediation, and because of the greater formality of doctor-patient relationships in Japan, Miwa was quite sure that Japanese referral partner networks (RPNs), such as they were, would be far less open to working with private pay service providers. Given the importance of RPNs for acquiring customers, this could make replicating HomeKeepers’s business model in Japan difficult, she thought.

Asked to comment on Japanese homes, Miwa described the small size of the average Japanese dwelling, and how families drew sharp lines between *uchi* (“inside”) and *soto* (“outside”) — terms used to refer both the home and to insider (immediate family, close relatives) and outsider (nearly everyone else) groups. Consumers in Japan were very guarded about having “outsiders” enter their dwellings, and she doubted that clients would accept unknown caregivers into their homes unless they were providing essential medical care or were somehow known to the family.

Langley and his colleagues listened intently, then asked if Miwa could perform an Internet search using Japanese terms corresponding to “companionship care.” The MBA student produced her laptop, plugged in a nearby Ethernet cable, and started tapping the keys. No matches.

The Proposal

Miwa promised that, after studying HomeKeepers’s materials in more detail at home, she’d broaden the search to include terms comparable to “personal care,” “life assistance services,” and the like. She also suggested that she research Japanese franchisors, and create a kind of “cross-cultural business model mapping” document to help the HomeKeepers team evaluate the Japan opportunity, and potential master franchisees, in a structured way.

Langley and his colleagues eagerly agreed to this proposal, and asked Miwa to return in a week to present her findings.

After Miwa departed, van der Pijl remarked that the Japanese government’s remodeling grants for senior citizens reminded him of Ireland, where the government offered tax breaks on private payments to home care service providers in order to encourage the elderly to remain in their own houses. He was concerned, though, about the RPN issue. While HomeKeepers had proven successful in several European countries with socialized medicine, Japanese culture drew far tighter distinctions between “insider” and “outsider” groups, meaning winning client referrals from “insider” medical service providers would probably be tough for an “outsider” like HomeKeepers.

Langley agreed, but seemed less concerned about the RPN issue. He was more interested in how companionship and personal care services could be made familiar to Japan’s consumers. Even in the group’s session with Miwa, it had been difficult to separate discussion of HomeKeepers’s services from discussion of medical services. In his view, the key challenge in Japan — more so than elsewhere — would be to identify a strong partner who could define and establish an unfamiliar new service category. He felt in his gut that such a partner would be contacting HomeKeepers soon — and he wanted to be ready.

Assignment Questions

1. Based on the limited information provided, diagram HomeKeepers's business model. Then create a simple Imprinting Canvas to help evaluate the potential of the model in Japan.

2. Given the challenges of replicating this new service model in Japan, what kind of master franchisee should HomeKeepers seek? Use your Imprinting Canvas to broadly define some of the key attributes and capabilities a successful master franchisee would need.

3. Review the summaries of the three candidate companies identified by Nobue Miwa (these will be provided separately in the next class session by the instructor). Based on this very limited information, which of the three, if any, stands out as a strong master franchisee candidate? Why?

Exhibit 1. At-Home Caregiving Services Breakdown (private duty, private pay)

Non-Medical, Non-Personal (caregiver does not touch client's body)		**Personal** (caregiver touches client's body)	
Life Assistance	**Companionship**	**Non-Medical Life Assistance**	**Minor Medical**
Housekeeping, meal preparation, shopping, medication reminders, transportation, etc.	Conversation, providing accompaniment for daily tasks, can overlap with life assistance tasks	Bathing, toilet assistance, light massage, etc.	Post-colostomy, tracheotomy assistance, dementia behavior supervision, etc.

Exhibit 2. U.S.-Japan Elderly Demographic Comparison as of 2004

	U.S.	**Japan**
Population	292.8 million	127.8 million
Percentage of citizens over the age of 65	12.5	19.5
Number of citizens over the age of 65	36.6 million	24.9 million
Average life expectancy	79	82
Number of households	105 million	45 million
Per capita GDP	$48,000	$36,000
Mean wealth per person	$144,000	$181,000
Per capita healthcare expenditures	$6,280	$2,250

Source: van der Pijl

HomeKeepers: Exporting a New Service Model (2)

Nobue Miwa stepped into HomeKeepers's conference room on a bright July morning, and greeted Philip Langley, Andreas van der Pijl, Bill Kemper, and three other headquarter staff. The MBA student quickly connected her laptop to the projector and began her presentation.

Miwa first showed a Business Model Canvas explicating the HomeKeepers's business model. Next, she displayed an Imprinting Canvas that assumed replication of the model in Japan, and briefly described key Cultural, Administrative, Geographic, and Economic distance factors as they related to each Building Block of the model. Finally, she focused on what her analysis implied in terms of capabilities and resources needed in a master franchisee.

After responding to questions, Miwa brought up a new slide entitled "Candidate Partners."

"Here are three companies I identified that may be good master franchisee candidates," she said. "Let's look at them one by one."

Vitesse

The first candidate was Vitesse, a 50-year-old educational services provider that had grown into a multibillion-dollar diversified services firm listed on the Tokyo Stock Exchange.

Vitesse's core business was extracurricular correspondence courses for kindergarten through senior high school students, designed to help learners succeed in their regular schoolwork and pass entrance exams. The company delivered study materials monthly by postal mail to approximately three million students, and had a cadre of 40,000 "go-to tutors," mostly university students, who visited nearly 100,000 client homes four to six times monthly to tutor junior high and high school students. Vitesse was well known and trusted for these

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This case is based on actual events. For privacy and pedagogical reasons, names, company names, place names, and some facts have been changed. Doctoral candidate Tim Clark (tim@timclark.net) prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

services, which were used extensively by middle-class consumers.

Because Japanese housewives were deeply involved with their children's education, Vitesse had branched out into various "lifestyle" services aimed at married Japanese women. It published several magazines and Web sites, and offered a specialty food delivery service. In recent years, it had launched Vitesse Care, a new division focused on building and operating assisted living facilities for the aged, particularly women. This new unit quickly grew to account for nearly nine percent of consolidated Vitesse sales of approximately U.S. $3 billion.

Vitesse had developed a franchise-format chain of women-only membership-based exercise clubs that had quickly grown to 45 locations in the greater Tokyo metropolitan area, and the company had aggressive plans for further expansion.

Takahashi Medical Center

The second candidate, Takahashi Medical Center, was Japan's oldest and arguably most respected medical facility. The center was famous for having been in operation for more than 300 years under the continuous direct supervision of the Takahashi family, an extremely long and prominent line of physicians who had served the imperial family during the Edo period.

The Center was also famous for having U.S. and German doctors on staff, and for attracting patients from throughout Asia — and beyond — thanks to its leading-edge facilities and "patient-centric" approach to medical care, which it claimed integrated the best of Eastern and Western medicine. While its clientele was not limited to the wealthy, many of its patients were well-to-do.

Takahashi Medical Center was also known for expert management and efficiency: somehow it managed to see nearly 2,000 patients daily at its enormous flagship facility in Kanagawa Prefecture, which included hotel-like accommodations for 600 in-patients, plus numerous outbuildings dedicated to medical specialties, rehabilitation services, training, and administration.

The Takahashi family had opened two other large centers in central and western Japan, and had announced plans to build assisted living facilities and provide a variety of yet-to-be-defined "senior care services." The Center's reputation was unsurpassed in medical circles and among those with serious illnesses, but it was less well known among consumers. It had no franchising experience, and as a privately held company, did not disclose revenues or details of its operating units.

Maison

The third candidate was Maison, a 45-year-old diversified services, leasing, and sales company listed on the Tokyo Stock Exchange. The firm had three core business units and annual sales of approximately U.S. $2 billion.

Maison's CleanService business unit leased cleaning materials and machines, bathroom and hotel room towels, water purifiers, and other equipment and supplies to restaurants, inns, and hotels nationwide. This business-to-business brand was unknown to most consumers, but accounted for half of Maison's revenue.

CleanService supplied another Maison business unit called CleanHome. CleanHome, which operated on a franchise basis, was well-known and trusted among consumers for providing housecleaning and housework services to private homes. CleanHome franchisees served approximately 90,000 households across Japan. Uniformed cleaning staff generally visited each home two to four times monthly.

Maison's Food Service segment sold cafe food and drinks on a wholesale basis to restaurants (many of which were also supplied by CleanService) and had successfully developed a U.S. pizza franchise with more than 600 units throughout Japan. The pizza chain retained its U.S. name, which most consumers did not associate with Maison.

Assignment Question

1. Review the summaries of the three candidate companies identified by Nobue Miwa. Based on this very limited information, which of the three, if any, stands out as a strong master franchisee candidate? Why?

Teaching Note

HomeKeepers: Exporting a New Service Model

This two-part case was written as a vehicle for helping students consider and weigh the opportunities and challenges involved in replicating a business model in a culturally distant market. Teachers may find it useful for courses in international business, international entrepreneurship, or franchising. The case features optional presentation and group work components. The instructor may find it effective to assign students to work in pairs or small groups rather than alone.

Preparation

Students should be familiar with the CAGE Distance Framework, the Business Model Canvas, and the Imprinting Canvas before undertaking this case (see summaries on pages 9-13). Part One is self-contained and includes assignment questions, so no other preparation is necessary. The instructor may wish to provide students with the following reminders before passing out Part One of the case:

1. Cases involve businesspeople making significant decisions based on limited, imperfect information. Work with the facts presented and focus on basic business model elements; don't try to create a comprehensive U.S.-Japan industry comparison.

2. Using the Internet to guess the identities of the companies involved or to try to find an "answer" to the case only undermines learning. Again, work with the data given.

3. Concise responses require more thought than long responses.

This case is based on actual events. For privacy and pedagogical reasons, names, company names, place names, and some facts have been changed. Doctoral candidate Tim Clark (tim@timclark.net) prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

Assignment Questions

Part One of the case is meant to be worked off-line by individuals or small groups, with responses to Question 1 and 2 to be handed in during the following class session. Responses to Question 1 should include a single-page Business Model Canvas and a single-page Imprinting Canvas. The response to Question 2 should be a concise essay. The instructor could also ask students or groups to prepare short oral presentations as part of the response to Question 2.

Question 3 is designed to be addressed and discussed by small groups in the following class session after passing out Part Two of the case (the brief summary of three candidate companies compiled by HomeKeepers's consultant). Here are the Assignment Questions given in Part One:

1. Based on the limited information provided, diagram HomeKeepers's business model. Then create a simple Imprinting Canvas to help evaluate the potential of the model in Japan.

2. Given the challenges of replicating this new service model in Japan, what kind of master franchisee should HomeKeepers seek? Use your Imprinting Canvas to broadly define some of the key attributes and capabilities a successful master franchisee would need.

3. Review the summaries of the three candidate companies identified by Nobue Miwa (these will be provided separately in the next class session by the instructor). Based on this very limited information, which of the three, if any, stands out as a strong master franchisee candidate? Why?

Pre-Presentation Discussion

The instructor could begin by asking the class whether they believe the HomeKeepers business model would be viable in Japan. After soliciting a few comments from both "yes" and "no" camps, the instructor could ask for volunteers to present their responses to Questions 1 and 2 (it might be best to have two presentations in succession from either the "yes" or "no" camps before having presentations representing the opposing viewpoint). In a larger class, two or three presentations from each camp might be sufficient; the instructor could then ask remaining class members to bring up additional points not covered by the presentations.

Presentations and Discussion

Depending on class size and time constraints, the instructor may want to permit audience Q&A after each presentation. Following are possible paths the discussion might take:

2. *Given the challenges of replicating this new service model in Japan, what kind of master franchisee should HomeKeepers seek? Use your Imprinting Canvas to broadly define some key attributes and capabilities a successful master franchisee would need.*

The main point is that students should not only think through how Cultural, Administrative, Geographic, and Economic distance affects each part of HomeKeepers's business model, *but how those differences imply what capabilities a master franchisee would need in order to make the model successful in Japan.*

For example, in Japan, the term "companion care" appears to be unknown. The master franchisee will need the will, determination, knowhow, and finances required to establish a new service category defined by this unfamiliar term.

One way to go about eliciting insights is to proceed step-by-step through the Imprinting Canvas, focusing primarily on the Customer and Value Proposition building blocks:

2.1 What are some of the Cultural assumptions in HomeKeepers's business model, and how do they affect the Customer building block?

Cultural: In Japan the concept of "private duty, private pay" is unfamiliar. Most consumers are likely to resist a private pay model and unlikely to allot significant funds for health care in household budgets. This implies that a successful master franchisee might need to target affluent consumers, and/or would need significant marketing and customer acquisition skills. Clearly, an established brand, reputation, or "captive" customer base would be helpful. Japanese homes are physically smaller and relatively closed to strangers compared with the United States, suggesting that a successful partner will need to possess or acquire some form of effective "entrée" into prospect homes.

Administrative: U.S. consumers rely primarily on private health insurance and their own finances for health care, while Japanese consumers rely primarily on the national health care system. The partner will need some way to get around this. Bypassing the national health care system would be the ideal solution.

Geographic: Smaller Japanese homes could be considered a geographic factor. Otherwise Geographic distance seems to matter little.

Economic: Japan's consumers are wealthier on a per capita basis, but allocate less disposable income to healthcare. This would be a good time to point out that CAGE Distance factors often overlap. For example, is consumer resistance to the private pay model a result of Cultural, Administrative, or Economic distance? It's probably a combination, but in any case such distinctions are irrelevant. The point is to identify differences and discern their implications.

2.2 How does CAGE distance affect the Value Proposition?

Cultural: In the United States, the nature of at-home personal and companionship care is reasonably well, though not widely, understood. In Japan, the nature of such care appears to be poorly understood. As mentioned above, the term “companion care” apparently is unknown in Japan, so the partner will need the volition, determination, knowhow, and finances required to establish a new service category defined by this unfamiliar term. This implies the power to shape public perception — a strong national reputation/brand and trust among consumers, especially among those who are prospects for HomeKeepers services.

Economic: On a per capita basis, Japanese consumers have a higher net worth compared with their U.S. counterparts. HomeKeepers’s Value Proposition is probably most attractive to wealthy clients who do not need to depend on national health insurance (which is unlikely to cover HomeKeepers’s primarily non-medical services anyway). Does the potential partner already serve, or can it readily identify and gain access to, wealthy clients?

2.3 How does CAGE distance affect Key Activities such as customer acquisition?

Administrative: In the United States, state agencies such as Medicaid and Medicare account for little of HomeKeepers’s revenue, and the company acquires customers almost exclusively through referrals from private medical providers (RPNs) who are partially or wholly reimbursed for their services through private health insurance plans. In Japan, on the other hand, national health insurance plans account for the overwhelming majority of reimbursements to medical providers, and it is unclear which, if any, private parties would be effective referral sources. The successful franchisee will need either 1) strong expertise in the intricacies of Japan’s healthcare system, 2) a strong internal source of customers or prospects, or 3) some other logically compelling way of acquiring customers.

The instructor can refer to the Imprinting Canvas on page 13 for more guidance on this portion of the discussion. When the key points have been covered, it might be fruitful to guide the students toward linking Imprinting Canvas insights to desirable franchisee capabilities by asking a question such as:

2.4 If HomeKeepers could choose its ideal master franchisee for Japan, what kind of company would it be? What qualities would it have?

Student responses could then be listed on a whiteboard. Points made might include:

- Services corporation focused on individual consumers
- National brand or reputation, strong trust among consumers
- Strong franchise experience, management capabilities
- Strong expertise in, commitment to senior services, especially non-medical services
- Ability, resources to shape public perception, deep pockets
- “Captive” customer or prospect base
- Access to wealthy prospects, “entrée” into prospect homes

- Passion for non-medical caregiving, helping the elderly remain in own homes etc.

Now might be a good time to organize the students into small groups and suggest that they assume the role of HomeKeepers executives ready to review Nobue Miwa's three candidates. The instructor could pass out Part Two of the case and give students 30-40 minutes to review and prepare short presentations in response to the final Assignment Question:

3. *Review the summaries of the three candidate companies identified by Nobue Miwa. Based on this very limited information, which of the three, if any, stands out as a strong master franchisee candidate? Why?*

Student points could be listed on a whiteboard. Models follow:

Ideal partner	**Vitesse**
National brand or reputation, strong trust among consumers	Good match
Resources, expertise to shape public perception	Good match
Strong franchise experience, management capabilities	Some franchise experience, strong management capabilities
"Captive" customer or prospect base, preferably well-to-do	Captive base, but household composition is skewed toward younger demographic (those with school-aged children still at home) and not necessarily qualified as well-to-do
Passion for non-medical caregiving, helping the elderly remain in own homes	Passion for medical caregiving, but assisted living facility Value Proposition contradicts HomeKeepers Value Proposition

Ideal partner	Takahashi Medical Center
National brand or reputation, strong trust among consumers	National reputation, but “brand”/awareness lacking among general consumer population
Resources, expertise to shape public perception	Power to shape public perception likely limited restricted to medical issues
Strong franchise experience, management capabilities	No franchise experience, strong management capabilities
“Captive” customer or prospect base, preferably well-to-do	Captive base of wealthy prospects, but heavily skewed toward medical patients
Passion for non-medical caregiving, helping the elderly remain in own homes	Passion for medical caregiving; plans for assisted living facilities, related services may contradict HomeKeepers Value Proposition

Ideal partner	Maison
National brand or reputation, strong trust among consumers	Good match
Resources, expertise to shape public perception	Good match
Strong franchise experience, management capabilities	Good match
Services corporation focused on individual consumers	Good match
“Captive” customer or prospect base, preferably well-to-do	Very good match, customers who have their homes professionally cleaned are likely to be well-to-do and/or own larger-than-average dwellings

At this point the instructor may want to call for a vote on the favored candidate, then facilitate a short discussion/debate regarding the class's collective choice.

Epilogue

When formal classroom discussion has run its course, the instructor may want to ask, "Would you like to hear what actually happened?"

Here is the epilogue:

Langley and his team favored Maison, and asked Miwa to use the remainder of her 30-hour consulting commitment to write up a report on the company.

Five weeks later, on a late Monday afternoon, Langley's executive assistant was startled by a tremendous yell coming from her boss's office. She rushed in to see Philip Langley beaming, shoeless feet atop his desk, arms happily clasped behind his head.

"Marge! We heard from Maison. They want to talk about a master franchisee license for Japan!"

Maison signed with HomeKeepers, and the business proved successful. The new partner launched a comprehensive PR/education campaign aimed at squarely establishing "companion care" as a new service category, and the effort resulted in "companionship" becoming a new English loan word in the Japanese vocabulary.

Maison cleaning staff were perfectly positioned to identify prospective clients. Many CleanHome customers were older, wealthy owners of larger-than-average dwellings, and Maison cleaning staff were already visiting the homes regularly for at least several hours at a time, so they were intimately familiar with family composition and the needs of any elderly residents. Since they were already performing a small subset of the functions that HomeKeepers caregivers typically performed, it was an easy, natural step to extend cleaning services to caregiver services, starting with current CleanHome customers. This customer acquisition strategy removed Administrative Distance obstacles by completely bypassing the national healthcare system.

The HomeKeepers Value Proposition remained identical in Japan. Some minor cultural differences did surface.For example, third-party background checks are common in the United States but illegal in Japan. Also, some customers wanted new caregivers to work in the yard or elsewhere outside the home for the first few visits, until they were comfortable inviting them inside (HomeKeepers experienced the same cultural difference in Germany). The business has been successful and continues today.

Summary of Learnings

Instructors will develop their own learnings from this case, but may find the following points useful:

1. Business models often contain “unspoken” assumptions imprinted by national origin. Methodical application of the Imprinting Canvas or the CAGE Distance Framework can make these assumptions visible and provide insights into opportunities and challenges involved in replicating a model overseas.

2. Insights from such analysis need to be “operationalized.” That is, the implications of Cultural, Administrative, Geographic, and Economic distance need to be defined in terms of capabilities or resources that will be required to successfully implement the model in that new market.

3. All businesses require two Key Activities: 1) making or developing a product or service, and 2) selling that product or service (acquiring customers). Strong customer acquisition logic is crucial to the success of any business model. This is a basic point often underappreciated by students. Maison’s customer acquisition logic was completely different from the U. S. imprinted assumption, but it proved highly effective.

4. The Value Proposition appears to be at the heart of international business model portability. If the Value Proposition has truly universal appeal, it should be workable in most markets. Other business model Building Blocks (the Key Activity of customer acquisition in HomeKeepers’s case) may need modifications to make the model workable overseas.

Reference

Business Model Canvas

Developed by Osterwalder and Pigneur, the Business Model Canvas is a diagram that visually and textually explicates a particular business model using nine Building Blocks.

Customer Segments is arguably the most important Building Block, as no business can exist without customers. The Value Proposition, perhaps equally important, defines the specific job or jobs a business performed on behalf of customers.

Key Activities describes the most important things that must be done in order to 1) create (make or develop) and 2) deliver (sell) the Value Proposition.

Key Resources (people, equipment, intellectual property, facilities, money) describes the most important assets needed to support Key Activities.

It may be illogical for a company to perform every activity in house. Companies often outsource or form partnerships with other companies or individuals (Key Partners) who can offer lower cost or higher quality.

Key Resources, Key Activities, and Key Partners comprise the Cost Structure of a business model.

All Value Propositions must be delivered to Customers through a Distribution Channel. Channels include in-person, the Internet, physical transport of goods to the customer site, telephone, and so forth.

All businesses must communicate with customers. The Customer Relationships Building Block describes such communications: in-person, telephone, e-mail, the Web, and so forth.

Customer Segments account for the Revenue Building Block of the model. If Revenues consistently exceed Costs, the model is viable.

A Business Model Canvas diagram with the nine Building Blocks appears on the next page, followed by a Business Model Canvas depicting HomeKeepers's model.

<table>
<tr><th colspan="5">Business Model Canvas</th></tr>
<tr>
<td rowspan="2">Key Partners
Which outside parties can perform tasks on behalf of the organization either more efficiently or at lower cost?</td>
<td>Key Activities
What core activities are required to create and deliver the Value Proposition?</td>
<td rowspan="2">Value Proposition
What specific job(s) does the organization do on behalf of customers?</td>
<td>Customer Relationships
How do customers prefer to be contacted?</td>
<td rowspan="2">Customer Segments
What customer segments does the organization serve?</td>
</tr>
<tr>
<td>Key Resources
What resources are needed to support the Key Activities?</td>
<td>Distribution Channels
Through what channels is the service or product delivered?</td>
</tr>
<tr>
<td colspan="3">Cost Structure
Describes the main costs incurred in creating and delivering the Value Proposition</td>
<td colspan="2">Revenue Streams
Describes revenues generated and ways customers prefer to pay</td>
</tr>
</table>

<table>
<tr><th colspan="6">HomeKeepers Business Model Canvas</th></tr>
<tr>
<td rowspan="2">Key Partners

Referral Partner Networks (RPNs: hospital, care agencies, primarily medical services providers)</td>
<td>Key Activities

Hiring, training, retaining caregivers

Selling</td>
<td rowspan="2" colspan="2">Value Proposition

Enable clients to remain in their residence of choice, while providing them with emotional support that helps them face the challenges of aging</td>
<td>Customer Relationships

Face-to-face meetings

Telephone contact

Announced and unannounced visits to ensure care plan is being followed</td>
<td rowspan="2">Customer Segments

End clients

Decision-makers (adult children of end clients)

Medicaid, other government agencies (minor segment)

(Note: Caregivers and Referral Partners are considered to be internal customers)</td>
</tr>
<tr>
<td>Key Resources

Caregivers
Referral partners</td>
<td>Distribution Channels

Direct to client (no agencies used)</td>
</tr>
<tr>
<td colspan="3">Cost Structure

Caregiver wages
Coordinator and salesperson wages</td>
<td colspan="3">Revenue Streams

Decision-makers/end clients
Medicaid, other agencies (minor revenue source)</td>
</tr>
</table>

CAGE Distance Factors

Developed by Ghemawat, CAGE is an acronym that stands for Cultural, Administrative, Geographic, and Economic distance between two countries. CAGE Distance involves bilateral measures of multidimensional distance between two nations, as opposed to either 1) unilateral attributes of one country, or 2) multilateral measures of distance between one country and the rest of the world.

Cultural Distance includes differences in language, religion, and culture.

Administrative Distance includes differences in government regulations, policies, and tariffs.

Geographic Distance refers to physical distance (or climatic or terrain differences) between two countries.

Economic Distance refers to disparities in purchasing power or differences in the cost or quality of physical, human, or financial resources.

Imprinting Canvas

The Imprinting Canvas is a tool developed by the case writer to identify and make visible imprinted home-market assumptions within a business model. For a pair of countries, it plots the nine Building Blocks of a particular business model against the four CAGE Distance Factors, noting assumptions specific to each country within each Building Block.

An Imprinting Canvas for HomeKeepers in Japan appears on the following page. This Canvas was developed for the case based on the master franchisee's actual experience in Japan.

Imprinting of HomeKeepers's Business Model Revealed by Japan Experience							
Distance Type	**Cultural**		**Administrative**		**(G)**	**Economic**	
Assumptions vs. actual conditions	**Imprinted (U.S.)**	**Actual (Japan)**	**Imprinted (U.S.)**	**Actual (Japan)**	**n/a**	**Imprinted (U.S.)**	**Actual (Japan)**
Customers	Clients assume responsibility for own healthcare Clients accept private pay model	Clients believe responsibility for basic health care lies with the state Clients resist private pay model	Medicaid, Medicare , other state agencies contribute few clients	State agencies contribute many clients	n/a	Private pay responsi-bility accepted	Private pay responsi-bility resisted
Customer Relationships	Direct communication with end clients	Significant portion of communication through government care managers	(Direct communication with end clients)	(Significant portion of communication through government care managers)			
Distribution Channels			Direct delivery to end customers	Government case managers must approve non-medical services			
Value Proposition	Nature of companionship, personal care reasonably well understood	Nature of companionship, personal care poorly understood					
Key Activities	Sales: RPNs are key customer acquisition channel	Sales: Customer acquisition channel unclear, likely to involve government case manager intermediation	Caregiver acquisition: Third-party background checks readily available (Sales: RPNs are key customer acquisition channel)	Caregiver acquisition: Third-party background checks illegal (Sales: Key customer acquisition channel unclear, likely to involve government case manager intermediation)			
Revenue / Costs			Most payers are private-pay end clients or custodial relatives, services lie outside scope of Medicare, etc.	Most payers are government case managers, some services covered by national health plan			

5. Kumon: Japan Roots, Universal Method

Tipsy from cups of cold sake, Dan Turner tripped on the pavement as he approached his car, nearly sprawling face first onto the rainy sidewalk of Degraw Avenue. *Good thing Iwasaki-san wasn't here to see that,* he thought, smiling to himself.

Turner had just returned from dinner with his boss, Junichiro Iwasaki, Vice-President of Kumon North America. Earlier in the day Iwasaki had stopped by Turner's office and suggested they have a drink after work. Turner understood the invitation meant his boss had something important in mind. Now he knew what it was: Turner was to provide recommendations on Kumon's overall franchisee recruitment strategy — and address a thorny, related problem while doing so.

I guess the reward for hard work is more hard work, he thought to himself, twisting the key in the Camry's ignition. *Better get some thoughts on paper before sleeping tonight.*

A Life-Changing Experience

As a high school junior, Turner, a judo enthusiast, had spent a year in Osaka on a homestay. His host family had two boys studying judo, and Turner had been impressed by the boys' skill and by their instructor's teaching style.

The children, in fifth and eighth grade, also studied through Kumon, the nation's top after-school tutoring franchise. The older boy had amazed his American high school guest by rapidly solving math problems Turner found unfathomable. Turner returned to his Atlanta, Georgia home greatly impressed with Japanese work and education ethics. He resolved to return to Japan someday.

After college, Turner taught in a rural Japanese prefecture through the Japan Exchange and Teaching Programme (JET) for two years, then worked another two years for Sanyo Electric in Osaka before returning to the United States. He completed an MBA, but found himself drawn more to education than to business. After a series of temporary jobs, he took a position as Assistant Manager of Franchisee Enrollment at Kumon North America's headquarters in Teaneck, New Jersey. Turner felt that working at Kumon North America, which was responsible for both U.S. and Canadian operations, would be a good way to develop professionally while making use of his Japan background.

A Successful "Software" Export

Kumon was the world's oldest and largest education services franchise, and an oddity among Japanese companies. In a nation renowned for hardware exports but with few successful worldwide service firms, Kumon was an international smash: it had successfully established a truly global brand and served more than three million students in forty-three countries.

Though Turner had been at Kumon for less than three years, he was deeply familiar with the company's history. He was fascinated by Kumon's seemingly self-contradictory nature: it emphasized memorization and repetition — learning techniques typically perceived as "Japanese" — yet despite its traditional roots, its overall approach to learning had been squarely at odds with Ministry of Education, Culture, Sports, Science and Technology (MEXT) policy.[35]

Turner realized that his boss's request would require him to articulate core Kumon principles, and how they resonated — and failed to resonate — in the United States. In his mind, he started replaying all he had learned, both from study and personal experience, about education in Japan.

Japan's National Curricula

Kumon was a for-profit education business, and as such was deeply affected by the nation's educational policy, specifically its standardized national curricula.

Like many countries in Asia and elsewhere, the Japanese government mandated standardized national curricula for public elementary, junior high, and high schools. The MEXT determined material to be taught in each grade and approved a limited number of textbooks to support each curriculum. In each grade, the same subjects were taught in the same sequence, whether the school was located in Okinawa, Osaka, or overseas, in schools for Japanese expatriate children worldwide overseen on-site by MEXT officials. Turner was familiar with such Japanese schools in Atlanta and New Jersey.

In essence, Japan's government maintained a monopoly on determining educational content. All elementary, secondary, and upper secondary public schools — and almost all their private school counterparts — used the national curricula. University entrance examinations, for both public and private institutions, were based upon this state-defined content.

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[35] Ukai, Nancy. "The Kumon Approach to Teaching and Learning." *Journal of Japanese Studies*, Vol. 20, No. 1. (Winter, 1994), pp. 87-113

"Exam Culture"

This system succeeded in producing the world's highest literacy rates and extremely high average levels of intellectual competence. At the same time, critics maintained that the government monopoly on educational curricula was responsible for the phenomenon known as "examination hell," whereby many students (and often their mothers, as Turner had seen for himself) focused excessively on preparing for tests required to gain admission to desirable universities, high schools, junior high schools, and, less commonly, elementary schools or even kindergartens.

The intense stress — and extracurricular educational expenses — brought on by such preparation affected the entire household, critics argued, and often resulted in excessive focus on fact memorization, a lackadaisical approach to university studies by exam-weary students, and workplace credentialism based on university attended. Moreover, this "examination culture" was widely accepted by private and public sector employers, who tended to hire based on university of origin rather than specialization, experience, or interests.[36]

The reason for examination hell was simple: the primary — and usually exclusive — criterion for successful admission to prestigious institutions, particularly upper-secondary schools and universities, was mastery of national curricula as demonstrated through high exam scores, rather than a balanced combination of academic achievement, extracurricular activities, and personal interests.

In short, entrance examinations in Japan served as a method for numerically ranking students along a single criterion — mastery of standard curricula — and thereby determining their eligibility for slots within a well-defined hierarchy of increasingly prestigious schools. Rather than as a way to match students to appropriate schools based on interests, aptitude, and personality, critics argued, entrance exams functioned as a near-absolute mechanism for determining entrance eligibility. This definition of eligibility was almost unquestioningly accepted by students, parents, and schools.

A Double-Edged Sword

Ranking tens of thousands of students solely on the results of exams covering identical content requires "flattening" ordinarily tight score distribution curves by including many exceedingly difficult problems. This intensified competition even further, as each year students struggled to achieve high scores on tests with increasingly difficult, even esoteric, problems.

A private sector factor was also at work. As growing numbers of better-prepared students took tests each year, prestigious universities were forced to make their entrance exams tougher in order to maintain "difficult to get into" reputations.

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[36] Takeuchi, Yo. "The Self-Activating Entrance Examination System — Its Hidden Agenda and its Correspondence with the Japanese 'Salaryman.'" *Higher Education*, Volume 34, Number 2, September, 1997

This fostered intense competition between students throughout their public school careers, particularly in the upper secondary years, and gave birth to a multi-billion-dollar industry of supplementary, for-profit, private sector cram schools known as *juku.*

Observers had noted that other nations with fixed national curricula faced similar problems created by their own versions of examination hell, and responded similarly with their own forms of *juku:* Korea has its *hagwon,* China and Taiwan their *buxiban,* India its "tutorials," Peru its *academias.*[37] The standardized national curriculum, which produced both high literacy and examination hell repercussions, was truly a double-edged sword, thought Turner.

Diversity, But a Common Purpose

From personal experience, Turner knew that not all of Japan's *juku* focused on test preparation. Aside from the major players, the industry was fragmented and included run-from-the home neighborhood studios as well as mid-sized academies.

Some focused on remedial study for students lagging in their regular schoolwork. Still others provided advanced or extracurricular instruction for outstanding students bored with the standardized curricula of their regular schools. And some *juku* served a social function: *juku*-going was so common that children attended mainly to socialize with peers.

Nonetheless, massive corporate chains and franchises focused on helping students gain admission to elite institutions accounted for the lion's share of industry revenues, and overall Turner felt it was fair to say that most *juku* compensated in some way or another for the inability of public schools and their uniform curricula to effectively accommodate individual differences in learning ability or speed. An inflexible, week-by-week curriculum made little allowance for students working either beyond or below grade level.

Turner remembered what one educational critic had written in a petition to the Ministry of Education: "No educational theory or educational psychology argues that every child at each grade develops at the same speed."[38]

Despite its flaws, Turner was convinced Japan's system effectively produced extremely literate, educated citizens — and that it was the source of his employer's extraordinary success.

Amidst Uniformity, a Personalized Model

Turner believed it was the Japanese system's very lack of flexibility that led Toru Kumon, a public high school mathematics teacher, to forego conventional lecture-based instruction and concentrate instead on individual, self-paced learning techniques that proved popular in his school on the southwestern island of Shikoku.

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[37] Fujimori, Shuichi. "What Causes Examination Wars in Japan? Delayed Educational Democratization and Deregulation." 7/30/99

[38] Ibid.

One day, Kumon was dismayed to learn that his own son, a second grade student, was performing poorly on math tests. Kumon's wife suggested that he begin tutoring the boy. The father responded by preparing a graded sequence of single-page, self-study problem worksheets. Kumon began at a level slightly below his son's actual ability, reasoning that the experience of successfully completing the first sheets would give the boy confidence and motivate him to continue. In a story Turner had heard countless times, Kumon's son was successfully handling high school-level differential calculus by the time he completed sixth grade.[39]

At his wife's urging, Kumon started using the same system to offer twice-weekly math study sessions to neighborhood children in his home. His wife served as "instructor," really a facilitator who oversaw worksheet distribution and correction.

Kumon's method succeeded in accomplishing its purpose: it helped children master increasingly complex mathematical operations regardless of their standing in regular school. The sessions quickly acquired a reputation for effectiveness and became popular through word-of-mouth in Japan's densely populated, close-knit neighborhoods.

Contradicting Standard Practice

Turner remembered vividly his one visit to an Osaka Kumon center with his two homestay brothers. At three tables in the converted dining area of a large private home, about a dozen students sat bent over mathematics problems, the silence broken only by scratching pencils. Every few minutes, a student carried a completed worksheet to the woman instructor, who sat facing the tables. She rapidly corrected the paper while murmuring encouragements or advice, then provided a fresh sheet to the learner, who promptly returned to his seat. After about 40 minutes, the two brothers received a fresh packet of worksheets from the instructor, bowed, and excused themselves along with their American guest.

The experience was remarkable for its uneventfulness, but also for the quiet atmosphere of shared concentration and the instructor's nurturing aura, so different from the authoritarian — even bellicose — attitudes some male teachers displayed. Though it didn't occur to him then, years later Turner realized that as a business, the Kumon model was brilliant in its simplicity: all an instructor needed was a room and places for the students to sit. There were no assigned seats and no tools needed other than pencils, erasers, and the worksheets. Students came and left at will for 30 or 40 minutes once or twice a week, usually between three and 6 p.m.

Yes, the Kumon method's "secrets" were simple but profound, thought Turner, and had much in common with Japanese instructional techniques developed outside the public school system, such as the Suzuki Method for teaching music — and even judo.
First, concepts were not explicitly taught. Instead, learners experienced insight through

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[39] Kinoshita, Reiko. *Learning for Life: The Kumon Way.* I-House Press, 2008

repeated completion of a series of problem worksheets. Each worksheet featured one or more sample problems showing work-through methodology and solution. Learners followed this example to work through similar problems below the example.

Second, school grade level was ignored, and the new enrollee started learning with material slightly below his or her current level of actual competency. This enabled the learner to experience success immediately and enjoy the satisfactions of achievement, while solidifying mastery of concepts previously studied.

When a learner had demonstrated mastery of one level, he or she could progress to the next level. Altogether there were thousands of worksheets in more than 20 carefully planned, progressively more challenging levels. This self-paced worksheet approach, while repetitious, fostered self-motivated learning and self-reliance. Many children found the repetition comforting, even enjoyable

Third, progression to subsequent, more difficult levels was completely self-paced and dependent upon 100% mastery of previous material. Such mastery was demonstrated through timed, error-free completion of summary worksheets.

Finally, in addition to once or twice-weekly visits to a Kumon learning Center, consistent parental involvement in at-home worksheet correction was essential, as was consistent, 20-to-30-minute daily, at-home worksheet practice on the part of the learner. In Japan, it was the mother's job to make sure that "doing Kumon" became part of the daily routine.[40] The ultimate goal was for learners to develop self-discipline.

Turner thought the Kumon method contradicted most tenets of postwar Japanese education:

- It advocated self-paced study based on actual ability rather than grade-defined, lockstep progress.
- It rejected explicit instruction in favor of do-it-yourself, experiential learning.
- It rejected group methods and concentrated on the solitary student.
- Its ultimate purpose was to maximize the individual learner's potential rather than pass difficult exams.

"Kumon is not a teaching method," said Masahiko Ezaki, a Kumon executive who spent a number of years developing the company's U.S. operations. "It is a learning method."[41]

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[40] Ukai, Nancy. "The Kumon Approach to Teaching and Learning."*Journal of Japanese Studies*, Vol. 20, No. 1. (Winter, 1994), pp. 87-113

[41] Interview with Masahiko Ezaki, 6/5/2009

Shift to a Franchise Model

The Kumon method was a hit with students, and its Value Proposition resonated strongly with parents. The number of enrollees grew quickly, and Toru Kumon and his wife opened and directly supervised some eighty centers before running headlong into a hurdle many entrepreneurs encounter when trying to expand operations: large cash reserves were needed to lease physical facilities and to hire, train, and retain qualified personnel.

Kumon saw that franchising could largely eliminate the burdensome cash investment involved in establishing new learning centers. Instead of selling directly to end-users, he could license his intellectual property to intermediaries (franchisees) for a fee. Franchisees would in turn bear the cost of establishing their own centers and attracting students.

Low startup and operating costs, in fact, were crucial elements of the Kumon model. Franchisees were almost exclusively women, and during the early years, few could afford to rent commercial space. Operating out of their homes was not only less costly, but far more practical and convenient for the overwhelming majority of franchisees.

The shift to a franchising format in 1963 accelerated the already brisk pace of Kumon's growth, setting the stage for the number of enrollees in Japan to increase one hundredfold over the next fifteen years.

Franchising Basics

Turner had always equated franchising with fast food chains, but in an MBA marketing course he was surprised to learn that one in every seven dollars spent on goods and services in the United States was spent in a franchised business.[42] Many homes, for example, were bought and sold through franchised real estate companies, and many of those homes were cleaned, painted, and carpeted through franchised businesses. Millions of consumers bought travel tickets through franchised travel agencies, and purchased, serviced, and washed their cars using franchised businesses. Millions more had their taxes done, their hair cut, and their clothes cleaned through franchises.

Franchising, Turner had learned, was a method of doing business whereby one company (the franchisor) owns the right to the name and/or trademark of a particular business, and has developed a proprietary and valuable system (essentially a business model) for successfully carrying out that business.
The franchisee is an individual or company that purchases the right to use that name and/or trademark and business system.

Franchisees pay an upfront "franchise fee" for the right to use the business system, and to receive training and help with site selection, advertising, hiring, and other startup activities. Upfront franchise fees can range from $7,500 to $150,000 or more depending on the nature and scale of the business. Thereafter the franchisee pays the franchisor an ongoing royalty (a

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[42] International Franchise Association Web site (www.franchise.org) as of 4/22/2009

percentage of gross sales, usually between four and nine percent). In return, the franchisor provides some combination of ongoing consulting, training, national advertising, or other support services. Some franchisors also require franchisees to purchase supplies, consumables, or other materials (or services) directly from the franchisor or from a specified supplier.

In addition, new franchisees needed working capital to finance office rents, inventory, and other startup costs, and a reasonable personal net worth to ensure they could bear the risk of failure. Franchisors therefore included a clause along the lines of the following in their advertisements for franchisees:

- CASH INVESTMENT: $30,000-100,000 startup cash; $30,963-129,414 total investment required

Kumon was well-known among franchisors for its low upfront fees and capital requirements. Because the exclusively paper-and-pencil method required no computers, special furniture, or private tutoring spaces within the learning facility, startup costs were low: Kumon North America charged initial franchise and materials fees of only $1,000 each. The biggest expense for a new franchisee was typically rent. Kumon offered new franchisees a $500 per month rental subsidy for the first year, meaning franchisees could deduct $500 from tuition royalty payments each month for the first year.

These low initial costs made the Kumon opportunity attractive to aspiring franchisees who lacked significant startup capital. In fact, low startup cost was probably the main reason why Kumon had more franchisees than any other tutoring service, thought Turner.

On the other hand, Kumon's ongoing royalty fees were high. Each franchisee paid a royalty of $26 per subject per month (some students took more than one subject). This $26 was a flat per-subject fee, not a percentage of tuition. Franchisees could set their own prices, which typically ranged between $75 and $110 per subject per month. Depending on the end-user price, then, Kumon's ongoing royalty fee could be as high as 33% of revenue, far higher than the typical franchise.

Exhibit 1 compares Kumon North America's startup cash, total cash, and ongoing royalty requirements with those of leading rivals. Startup cash requirements could vary greatly depending on size and quality of space leased, urban versus suburban location, and working capital needed for initial advertising, launch, and instructor compensation. These factors in turn depended on operator aggressiveness, type of student targeted, solo versus multi-person operation, and other conditions specific to each franchise.

A "master franchisee" was a franchisee with special rights to act as a kind of "sub-franchisor," reselling the business's name, trademark, and system to new franchisees within a specific geographic region (usually a foreign country). When expanding into overseas markets, many franchisors adopted the master franchisee system to avoid the overwhelming logistical difficulties that could arise from negotiating, training, administering, and providing ongoing support to multiple franchisees located thousands of miles away.

The master franchisee system was especially useful in high cultural-distance markets — markets distinguished by significant differences in language, customs, or religion — because the master franchisee was better positioned to train in the local language, prepare localized manuals and advertising materials, and provide ongoing local-language support to sub-franchisees.

Kumon was unusual in that it did not use a master franchisee system overseas. Rather, it dispatched expatriate managers to set up wholly-owned subsidiaries that directly supervised franchisee development in that country.

"Because we're in the education business, we have to train and supervise each instructor very carefully, because instructors directly influence children," said Nakatsuka. "If a franchisee wants to sell his business to a third party, we have to approve that buyer. Our system is unique compared to other franchisors."[43]

Turner agreed with this policy. Though he hadn't worked for other franchise format businesses, his own franchisee recruiting experience showed that pre-contract vetting, due diligence, and post-contract training were crucial to a Kumon center's success. Strong commitment to education was essential; Kumon franchisees could not expect to become rich teaching children.

An Imprinted Model?

Though he'd never written down his thoughts on the subject, Turner believed that the Kumon service was "imprinted" by a number of Japan-specific factors.

Turner had seen for himself how high educational achievement was considered essential to life success in Japan, and how women, the default overseers of education, were deeply involved in their children's studies. Kumon's wife had served as the first Kumon center instructor, and Toru Kumon had subsequently discovered in Japanese women a motivated, highly-qualified, underutilized source of talent for implementing his learning program.

Not only were Japanese women well-educated and eager to undertake part-time work that could be performed flexibly at home, as the chief stewards of their own children's education, they understood examination hell all too well, and were eager for alternatives to — and supplements for — regular school curricula and traditional *juku.* Consequently, more than 90% of Kumon classrooms in Japan were headed by women.[44] Even now, in late 2001, women accounted for 80% of Kumon instructors in the United States.[45]

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[43] Nakatsuka, 6/5/2009
[44] Ukai, 1994
[45] Klein, Deven, and Koch, David. "Retool Your Franchise Agreement to Recruit Minorities and Women." *Franchising World,* April 2001

On the government and legal side of things, Japan's lockstep approach to education had triggered development of the Kumon system, Turner thought. Meanwhile, Japan's lack of zoning restrictions had made home-based businesses feasible just about everywhere, and they offered convenience and flexibility to women instructors.

Japan's geographic factors, such as high population density and close-knit neighborhoods also made private homes logical choices as Kumon centers. High levels of public safety and excellent public transportation — children as young as eight often commuted miles to school each day by bus or train — made it possible for many students to visit Kumon centers without being chauffeured by their parents. Together with the potency of the Kumon method itself, all these factors made word-of-mouth promotion both logistically feasible and cost-effective. As a result Kumon did almost no national advertising, either in Japan or overseas.

Finally, thought Turner, most Japanese families accepted after-school education fees as a standing expense in household budgets, an outgrowth of the cultural emphasis on high educational achievement. From the franchisee standpoint, too, low cost seemed built into the model, thanks to low franchise fees and minimal materials and supply expenses.

These "imprints," as Turner liked to call them, appeared potent and permanent. While Kumon had undergone extraordinary growth and significant internal innovation over the years, the company's business model seemed essentially unchanged: today's learners studied exactly the same way they had nine years ago when Turner was an exchange student in Osaka. And from what he had read, the method had been identical 20 years prior to that.

Now, thought Turner, *it's time to review Kumon's entry into the U. S.* He would need a firm grasp of this history to tackle the task Iwasaki had assigned him.

Overseas Ambitions

By 1973, Kumon had 35,000 students and was growing rapidly under a proven franchise format business model. Founder Toru Kumon began to imagine new markets beyond Japan.

Kumon's aspirations to export his service began to be fulfilled in 1974, when the daughter of a long-time Tokyo-based Kumon instructor found herself living in Larchmont, New York. Working directly with Kumon's Tokyo office, she opened the company's first overseas center, which catered exclusively to children of Japanese expatriates.

For nearly a decade Kumon grew in the United States primarily by targeting Japanese expatriates. In the meantime, the company opened centers in the U.K., Taiwan, the Netherlands, Brazil, and elsewhere, again focusing on Japanese expatriates and a small number of other families, primarily from Asia, who were willing to pay for private tutoring services.

But Toru Kumon grew frustrated with the limited overseas acceptance of his method, particularly in the United States. In 1983 the company opened its first foreign operation overseen directly by an expatriate manager dispatched from Japan. California-based Kumon Educational Institute USA's mission was clear: to transcend the Japanese expatriate customer base and bring the Kumon method to learners everywhere — first in the United States, then globally.

Education in the United States

Turner knew that broadening Kumon's U. S. customer base had proven frustratingly difficult, and he thought this had much to do with the U. S. educational system itself.

Unlike Japan, the United States had no national, government-defined curricula. Although the federal government imposed certain administrative requirements on all U.S. public schools, for the most part each state was free to run schools as it saw fit.
The result was curricula that differed not only by state, but by county and even by school district. Japanese expatriates new to the United States often told Turner how surprised they were that their children brought home miscellaneous collections of worksheets rather than "standard textbooks" from public schools each week.

Perhaps because there were no national curricula, the United States lacked an examination culture comparable to Japan's. Most colleges required high school students to take either one form of the SAT Reasoning Test (formerly known as the Scholastic Aptitude Test or Scholastic Assessment Test) or the ACT in order to apply for admission, but these results were only one element of an application process that took into consideration school grades, essays, descriptions of interests and extracurricular activities, and other non-test factors.

In fact, until they were ready to apply for college, few students took entrance exams at all. Most took yearly state competency exams that assessed basic skills in mathematics, science, and language arts, and some outstanding high school students took advanced placement (AP) or College-Level Examination Program (CLEP) tests to try to obtain college class credits while still in high school. But relatively few underwent special preparation for such tests. Applications to prestigious secondary and senior high schools and boarding schools were, like colleges, based on comprehensive application submissions rather than test scores per se.

The upshot of all this was, Turner thought, that while there were many private tutors and a number of national tutoring chains, pre-high school tutoring services occupied a far less prominent role in U.S. family life compared to Japan. "Exam culture," such as it was in the United States, started in high school, and was largely focused on preparing for college applications. For-profit exam tutoring services focused on ACT and the SAT, as well as graduate school or professional credential tests such as the Graduate Record Exam (GRE), Law School Admissions Test (LSAT), and the MCAT, or Medical College Admissions Test).

Exhibit 2 shows how Kumon and its leading competitors described their services.

Turner believed this was because the purpose of after-school studying was viewed in fundamentally different ways. In Japan, the purpose of such studying was enrichment, and most children were expected to do extra work in order to exceed. But in the United States, the basic purpose seemed to be remedial. For example, one of Kumon's biggest competitors, Sylvan Learning Systems, squarely positioned itself as the solution for students lagging in regular school.

In Japan, thought Turner, *the* juku *industry is about exceeding — in the U.S., it's about catching up.*

A Yawning Cultural Gap

Developing the Kumon business in the United States had proven an enormously difficult task. According to one study Turner had read, even after ten years of hard work by the U.S. subsidiary, in 1993 Kumon was still widely perceived as a service "only for the Japanese, or at best, the Asians."[46]

Several reasons lay behind the slow progress, in Turner's view.

First, the Kumon method was disdained by some U.S. educators, including prominent ones, for what they called its "drill-and-kill" emphasis on memorization and rote learning. "To want to be able to recite [multiplication tables] is a sad commentary on math education at the end of the century," said a former president of the National Council of Teachers of Mathematics.[47]

Second was a fundamental East-West difference in parental attitudes.

"In Asian cultures, parents push their children to strive. Many Japanese parents want their children to work beyond grade level," said a manager who had spent years in the United States developing Kumon's business. "But in America, parents are satisfied if the children are working up to grade level. This is a key cultural difference."[48] In Japan, after-school hours were typically devoted to studying. In the U.S., after-school hours were often devoted to sports or hobbies.

Third, Kumon's early-age, enrichment focus didn't jibe with popular perception of tutoring as a remedial service.

"In Japan, Kumon is perceived as preparation for the future, and the majority of students start at age six, seven, or eight," said Nakatsuka. "But in the United States, many students come for remedial purposes. The average age is eleven or twelve."[49] Few U.S. families considered

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[46] "Kumon Educational Institute USA." Harvard Business School Case 9-694-032, 1/2/1996
[47] Ukai, 1994
[48] Nakatsuka, 6/5/2009
[49] Nakatsuka, 6/5/2009

tutoring expenses a household budget requirement.

Kumon had struggled to overcome a harsh reality, thought Turner: in North America, tutoring was perceived as a remedial service for underperforming students. Indeed, competitors promoted themselves to concerned parents specifically as solutions for students foundering in regular school.

Part of the problem, Turner thought, was that unlike Japan, which was largely monocultural, the United States was a mix of subcultures. For example, fully 60% of Kumon students and franchisees in the United States were ethnic minorities.[50] Asian and immigrant families consistently sought educational enrichment through Kumon. Meanwhile, ethnic majorities, primarily Caucasians, accounted for the minority of enrollees and generally used Kumon as a remedial tutoring service.

In fact, Turner had heard of a successful Canadian Kumon franchisee who explicitly embraced this ethnic divide and used it to classify new students. Type A students were those with parents *not* native to North America, who desired more educational rigor and wanted their children to advance beyond the regular school curriculum. Type B students were those with parents who *were* native North Americans, and who viewed Kumon as a remedial program. Type B students reportedly accounted for 75% of this franchisee's enrollees.

A franchisee with 19 years of Kumon experience in the United States summarized the situation neatly. "Our non-Asian students are typically there because something's not going well in school or they need extra help," he said. "Most of our Asian and Indian students are in it for the enrichment."[51] Attrition, too, was clearly higher among Type B students.

In one sense, there was little he could do about this ethnic difference, thought Turner. The simple truth was that franchisees attracted students of the same ethnicity. Hispanic instructors, for example, tended to attract Hispanic students, and Asian instructors tended to attract Asian students. This also affected franchisee recruitment. Many instructors started out as parents of Kumon enrollees, and, after relocating or undergoing a career change, decided to become Kumon franchisees themselves. Turner called this scenario "organic" franchisee recruitment, because it tended to result in the most stable, successful Kumon centers.

Turner's Task

While Kumon's method had proven effective with U.S. students of every nationality and ethnic background, management in Japan was still frustrated with relatively sluggish enrollee growth in the non-Asian-American, non-expatriate population. Turner was aware that Iwasaki was feeling pressure from Japan to make Kumon North America more "mainstream." As it turned out, growing the business in non-minority was precisely the issue

[50] Klein and Koch, April 2001
[51] Interview with current Kumon franchisee Peter Garrecht, 12/3/2009

Iwasaki had wanted to discuss at dinner.

“Dan,” Iwasaki had begun, “we have a very interesting opportunity. Do you know the No Child Left Behind Act? It’s called NCLB.”

Turner nodded. NCLB would require states to develop basic skills assessments for all students in certain grades in order to continue receiving federal funding. It had recently passed the House and Senate and would be signed into law in early 2002.

Iwasaki asked Turner if he had considered NCLB’s significance for Kumon. The younger man shook his head.

“What this means for us,” Iwasaki continued, “is two things. First, it will make schools focus more on low-performing students, and leave them less time for high achievers. That means parents of good students will start looking for outside instruction.”

Turner reddened, mentally scolding himself for not having seen the potential connection between NCLB and Kumon’s business — and for ever assuming that his boss spent too much time reading newspapers and educational journals.

Iwasaki smiled placidly. “The other thing is, schools that fail to make required progress will be required to provide after-school tutoring. Do you see what this means?”

Yes, Turner replied — No Child Left Behind could help Kumon win more customers, and potentially strengthen the company’s links with public schools.

“Exactly,” said Iwasaki.

The older man went on to reveal specifics of his request.
First, he wanted Turner to prepare a document that explained the challenges Kumon North America faced in building its business in non-minority U.S. communities. Kumon’s senior VP in charge of global operations was traveling from Osaka to Teaneck next month, and Iwasaki wanted Turner to present some background material.

Second, Turner was to suggest strategies for attracting more franchisees from non-minority communities. Iwasaki made it clear, though, that offering lower royalty fees or providing other financial incentives was impossible. Iwasaki also instructed Turner not to concern himself with details of the NCLB legislation, because Kumon legal counsel was currently reviewing the bill and would provide interpretation and recommendations later.

Third — and this request was somewhat vague — Turner was to give his opinion as to what Kumon North America’s overall franchisee recruitment strategy should be going forward.

Progress and Problems

Turner was grateful for the confidence Iwasaki had shown in him, and for the opportunity to present to senior management from Japan. *To get started, I should review some milestones of Kumon North America's progress,* he thought.

Turner pulled out a memo pad and pencil, and jotted down the following points under a "U.S. Progress" heading:

- Method effective regardless of ethnicity: despite the high percentage of minority students the Kumon method had proven effective with U.S. students of every nationality and ethnic background.

- Strong enrollee base: the company had more than 100,000 students in the United States (Exhibit 2)

- Good industry reputation: Kumon had been ranked the number one franchise in Entrepreneur Magazine's tutoring category.[52]

- Program diversity: Kumon had long since transcended its dependence on mathematics programs by successfully developing worksheet-based local language reading programs. About 35% of enrollees worldwide studied reading, testimony to the universality of the Kumon method itself, independent of its core focus on mathematics.

Turner pondered the list for several moments, then flipped the sheet and wrote "Challenges" on a fresh page. Over the next hour, he wrote notes under the following bullet points:

- Franchisee dissatisfaction with compensation

This was an ongoing issue, particularly in the non-minority communities where Turner was expected to improve recruitment. Turner reluctantly agreed with the opinion of one former franchisee, who said that Kumon's high ongoing royalty fees made it difficult to attract instructors with the business acumen needed to attract a broader customer demographic.

"Kumon couldn't make it financially interesting enough to get the kind of franchisees they needed," the franchisee had said. "They were never able to figure out how to attract non-Asian students into the program."[53] This franchisee had built a successful Kumon Center in Vermont, which he referred to as "the whitest state in the union."

The problem, though, wasn't limited to the United States.

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52 Kumon press release 1/8/2000
53 Interview with former Kumon franchisee Ben Mason, 12/2/2009

Some women in Japan had complained of feeling exploited by Kumon, although they wouldn't quit because they wanted to continue working "for the sake of children."[54] And in a private conversation with Turner, a successful U.S. franchisee who had visited Japan on Kumon business put it more bluntly. "It's a money machine for the founders. They exploit the people who work for them, especially women."

U.S. franchisees certainly faced other financial pressures. Unlike Japan, zoning restrictions on home-based businesses made it unfeasible for most U.S. franchisees to operate out of their homes. As a result, many sought low-rent space in churches, community centers, or other non-commercial buildings. Kumon discouraged this because of the unprofessional image it presented, but its modest rental subsidies covered only a portion of the cost of commercial space.

Meanwhile, U.S. franchisees had to consider location carefully, because population density was significantly lower compared with Japan, and most parents had to chauffeur their children both to and from Kumon centers. Well-located, quality commercial space was expensive.

Kumon management, though, refused to reduce royalty fees or provide franchisees with other financial incentives, claiming that teachers had to put education first and money second. After all, the typical Kumon franchisee was "motivated more by a desire to improve the lives of children than to make his or her first million dollars," according to Kumon's national head of U.S. franchising.[55]

"Offering more money only attracts people interested in financial gain over helping children," a senior Kumon executive had once told Turner.

- Franchisees attract students of the same ethnicity

This was a chicken-and-egg question, thought Turner, because organic recruitment in non-minority communities required more students from non-minority families, but attracting such families required more non-minority instructors. Each franchisee was responsible for marketing his or her own business, so minority instructors often placed ads in local ethnic publications. But no publications specifically targeted non-minorities, and Kumon did very little national advertising.

Besides, Turner thought, instructors attracting students of the same ethnicity was the natural order of things. In that sense, he was unsure this issue was truly a problem.

In fact, Turner had been encouraged by the growing number of franchisees of Indian descent joining Kumon. The trend had accelerated noticeably following the bursting of the dotcom

54 Ukai, 1994
55 Klein and Koch, April 2001

bubble in the spring of 2000, as technical workers lost their jobs and started searching for more meaningful, albeit lower-paying work.

"The methods we use are familiar to those educated in India," Turner had explained to a colleague, "and the idea of owning a business and being self-sufficient is something many Indians seek here in the United States. So these two things go hand-in-hand with our program."

- Uneven service quality

One constant headache for Kumon North America was uneven service quality. Without elements commonly found in Japan — in particular, enthusiastic parental support and uniform training of instructors — the method was clearly less effective.[56] Parents who had experienced the Kumon system both in Tampa and San Francisco, for example, complained of dramatically different service quality, and dramatically different results.

The only solution, Turner believed, was to more carefully qualify and vet aspiring franchisees before accepting them for training. This problem was already well understood by management and not limited to the United States. It was the primary reason why Kumon refused to use master franchisee agreements and insisted on direct, close supervision of all overseas franchisees.

Moving Ahead

Now's the time to start writing, Turner thought. He was confident drawing the cultural comparison, but felt uneasy about the issue of recruiting non-minority franchisees. Something felt odd about this portion of Iwasaki's request, though he couldn't put his finger on it.

Somehow, though, Turner sensed that clarity on the "going mainstream" issue held the key to Kumon North America's overall franchisee enrollment strategy.

I need a change of scenery, he mused. Deciding to take an early lunch, Turner found himself heading in the direction of Hiro's Japanese Restaurant, memo tablet in hand. *Sushi always inspires great thinking,* he thought, grinning to himself.

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[56] Ukai, 1994

Assignment Questions

1. Draw a Business Model Canvas describing Kumon's model.

2. To help Turner respond to the first part of Iwasaki's request, create an Imprinting Canvas to show how the Kumon model is imprinted by national origin. Be ready to discuss which of the four CAGE factors are most significant with respect to Kumon's operations in the United States, and why.

3. Propose how Turner should respond to the second part of Iwasaki's request. Is it desirable (or feasible) to specifically target franchisee candidates who are not minorities?

4. Suggest how Turner might respond to the third part of Iwasaki's request. Going forward, what should Kumon North America's franchisee enrollment strategy be, and why?

Exhibit 1. Kumon, Competitor Cash Requirements and Royalty Fees

Franchisor	Startup cash	Total investment	Royalty
Kumon	$30,000-100,000	$30,963-129,414	20-33%
Huntington Learning Center	60,000	203,487-393,756	8%
Sylvan Learning Center	92,000-125,000	140,000-220,000	8-9%
Oxford Learning Centers	60,000-90,000	125,100-215,500	10%

Source: *IFA's Franchise Opportunities Guide,* Fall/Winter 2008. Dollar figures provided by each franchisor.

Exhibit 2. Kumon, Competitor Service Offer Descriptions

Franchisor	Service Offer Description Provided by Company
Kumon	Kumon is an after-school math and reading program that employs a unique learning method designed to help each child develop the skills needed to perform to his or her full potential.
Huntington Learning Center	Pioneer provider of supplemental education in the U.S., Huntington Learning Center provides individualized instruction and tutoring in reading, writing, spelling, phonics, math, and study skills, as well as SAT/ACT preparation.
Sylvan Learning Center	Personalized instruction for grades K-12 available in-center, online, and at home. Tutoring services include reading, math, writing, study skills, college prep, and more.
Oxford Learning Centers	We teach skills for a lifetime of learning — in school, on the job, and in life.

Source: *IFA's Franchise Opportunities Guide,* Fall/Winter 2008. Descriptions are those provided by the franchisors.

Exhibit 3. Kumon Subscriber Growth in the United States

Year	Enrollees
1974	enters market
1991	23,000
2000	100,000

Source: *Harvard, 1996, and Kumon, 1/8/2000*

Teaching Note

Kumon: Japan Roots, Universal Method

This case was written to give students practice 1) diagramming a business model, and 2) evaluating the replication of a model in a high-cultural distance market using an Imprinting Canvas. Teachers may find the case useful for courses in international business or cross-cultural marketing.

Preparation

The teacher and students should be familiar with the Business Model Canvas and with Ghemawat's CAGE Distance Framework before undertaking this case (refer to pages 11-15). Students should be reminded to:

1. Work exclusively with the case's limited facts, and focus on the business model diagramming, the CAGE analysis, and lessons extractable from those facts.

2. Avoid comprehensive industry or competitor comparisons — Kumon already leads this sector, so the concern is primarily with its own business model.

3. *Not* use the Internet to search for additional facts or find an "answer" to the case — this only undermines learning. Again, work with the material given.

The instructor may want to assign students to work in pairs or small groups when preparing the case rather than having them work alone. Groups should combine students of different nationalities when possible.

Pre-Analysis Discussion

One way to start might be to ask the class for a definition of "business model":

 Doctoral candidate Tim Clark (tim@timclark.net) prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

What is a business model? Everybody talks about business models, but what are they, really?

Students might offer definitions such as:

- How a company creates value
- How a company makes money
- An organization's core logic for creating value
- The "blueprint" for a business (or other organization)
- A plain-language description of a company's underlying economic logic
- etc.

The instructor may want to point out that even though there is no widely agreed-upon definition, today the term "business model" is used not only to describe the core logic underpinning businesses, but the core logic behind non-profit ventures, social enterprises, and even government organizations. Therefore "enterprise model" might be a more appropriate term.

In any case, here's one plain-language definition that might prove useful:

- The strategic and economic logic by which an organization profitably acquires and keeps customers

The discussion could be extended by introducing the notion of "plot twists" within business models. A plot twist is something contrary to convention/received wisdom/dominant logic that gives a model particular power. Kumon's plot twist could be discussed now or with Assignment Question 1.

Assignment Question Discussion

The discussion could begin with a question to the class: "Has anyone ever studied with Kumon?"

If the instructor is lucky enough to have a student with actual Kumon experience, this would be a good time to prompt *general* comments from the student with questions such as, How old were you? Where were you living? What subjects did you study? Did the method work for you? What did your parents think? The instructor may want to hold the student's deeper insights in check with a remark such as, "We'll look to more of your first-hand experience later in the discussion."

Before class begins, the instructor could outline a Business Model Canvas on the whiteboard in preparation for the first Assignment Question.

1. Draw a Business Model Canvas describing Kumon's model.

One way to cover this question would be to solicit elements of each business model building block from the students. Each suggestion could be discussed and/or agreed upon before writing it within the appropriate building block on the whiteboard.

Students could then be asked what they think are the most important building blocks of Kumon's model. The most important elements of *any* business model are 1) Customers, the model's raison d'être, and 2) the Value Proposition.

Questions for moving the discussion forward could include:

What is the model's plot twist?
Worksheet-based, self-paced learning, whereby insight is achieved through self-guided repetition rather than through explicit third-party instruction.

What does the Kumon model depend on? What is it sensitive to?
Excellent instructors, which is why Kumon insists on closely supervising franchisee selection. Enthusiastic and dedicated parents.

Describe other noteworthy features of the model.
Two sets of customers (parents and children), a single revenue stream (tuition fees only). The Kumon business model is extremely simple — maybe that's why it's so powerful.

A Kumon Business Model Canvas appears below for reference. This Canvas assumes a sole instructor/franchisee, which is typical.

<table>
<tr><th colspan="6">Kumon Business Model Canvas</th></tr>
<tr>
<td rowspan="2">Key Partners

Kumon headquarters</td>
<td>Key Activities

Run learning sessions for students

Attract new students</td>
<td rowspan="2">Value Proposition

Help children achieve their full potential by facilitating development of self-motivated learning through structured, self-paced mathematics and language programs</td>
<td>Customer Relationships

Face-to-face, telephone, e-mail communications</td>
<td rowspan="2">Customer Segments

Parents of school age children

School age children</td>
</tr>
<tr>
<td>Key Resources

Strong instructor/franchisee (usually the same person)

Well located, appropriate physical facility</td>
<td>Distribution Channels

Direct, face-to-face, on-site “delivery” at home or other dedicated facility</td>
</tr>
<tr>
<td colspan="3">Cost Structure

Instructor compensation
Royalty fees
Rent, supply, administrative, marketing expenses</td>
<td colspan="3">Revenue Streams

Learner tuition fees</td>
</tr>
</table>

One way to approach the rest of the Assignment Questions is to divide students into small groups (if students prepared the case beforehand in small groups, it will enhance the learning if they form *different* groups for this portion of the discussion).

Each group of, say, three would then have three different Imprinting Canvasses and three different sets of short essays to compare and discuss for 20-40 minutes. Groups could be tasked with presenting their consensus views to the rest of the class on the remaining Assignment Questions. Alternatively, the instructor could lead a general discussion.

2. *Create an Imprinting Canvas to show how the Kumon model is imprinted by national origin. Be ready to discuss which of the four CAGE factors are most significant with respect to Kumon's operations in the United States, and why*.

The instructor could start by asking for a quick definition of the CAGE Distance framework and its potential applications. A key point is that managers will usually want to apply the framework in the context of a particular industry: in Kumon's case, education.

The discussion could be developed by asking, Which factor most influences education services? Kumon's service in particular?

Clearly Cultural distance matters, as tutoring services have a high linguistic content, although this is less important with Kumon's mainstay math programs (and one reason successful Kumon franchisees include many non-native speakers of English). Students may also cite Economic distance as an important factor, because demand for tutoring services varies with income.

This would be a good time to note that Distance factors can overlap and are a bit "fuzzy." For example, is Japanese enthusiasm for education a Cultural trait, or is it due to Administrative imposition of standardized national curricula? Also, Cultural and Economic factors overlap with respect to customer willingness to pay, which is reflected in the Imprinting Canvasses below. But does the distinction really matter if the result is the same? (No.)

Students could make a case for any of the four CAGE factors having a significant effect. For example, Geographic factors can be important in service sectors where "local supervision and operational requirements are high," a situation that certainly describes Kumon (see Ghemawat's table on page 14). Overall, students are likely to say that Cultural and Economic factors are most influential.

2a. Which Kumon building block is most affected by CAGE factors? Why?

Most students will state that the Customers building block is most powerfully affected by CAGE factors, because the imprinted assumption of the model varies so dramatically from actual conditions in the U.S. (at least with respect to ethnic majorities).

The Imprinting Canvasses below provide key discussion points:

Imprinting of Kumon Business Model as Revealed by U.S. Experience				
Distance Type	**Cultural**		**Administrative**	
	Imprinted (Japan)	**Actual (U.S.)**	**Imprinted (Japan)**	**Actual (U.S.)**
Customers	Supplementary education widespread, starts at ages 6-8 Supplementary education's purpose is helping children exceed High parental involvement, after-school hours devoted to additional education	Supplementary education uncommon, starts at ages 11-12 Supplementary education's purpose is remedial Lower parental involvement, after-school hours devoted to sports, hobbies	Regular school curricula are standardized nationwide, speed/depth of student progress expected to be uniform	Regular school curricula differ by locality, speed/depth of student progress expected to vary
Value Proposition	Help children exceed grade level, maximize potential	Help children work back up to grade level		
Distribution Channels	Commercial facilities, private homes	Commercial facilities, community centers, churches	Home-based businesses unregulated, home centers practical	Home-based businesses highly regulated, home centers impractical
Customer Relationships	Parental involvement, enforcement of home study strong	Parental involvement, enforcement of home study weaker		
Revenue / Costs			Enforcing uniform rates nationwide legal	Enforcing uniform rates nationwide illegal

Imprinting of Kumon Business Model as Revealed by U.S. Experience				
Distance Type	**Geographic**		**Economic**	
	Imprinted (Japan)	**Actual (U.S.)**	**Imprinted (Japan)**	**Actual (U.S.)**
Customers			80% of population is able, willing to pay	Significantly lower portion of population is able, willing to pay
Distribution Channels	High population density Many children commute independently	Lower population density Few children commute independently		
Value Proposition			Tutoring expenses accepted part of most family budgets	Tutoring expenses accepted part of few family budgets

3. *Propose how Turner should respond to the first part of Iwasaki's request. Is it desirable (or feasible) to specifically target franchisee candidates who are not minorities?*

Solicit opinions. Student comments may include the following:

- Iwasaki is asking for two contradictory things. On the one hand, he wants more non-minority community instructors. On the other hand, Kumon is unwilling to provide higher compensation, which is the only readily modifiable incentive known to attract such instructors. Turner should tactfully point out the contradiction inherent in Iwasaki's request.

In response to such a comment, the instructor might ask, "Has anyone ever been asked by a superior to achieve contradictory goals? How did you respond? What happened?" Students may share stories from their own experience (e.g., "we were told to maximize market share and earnings — at the same time!"). At the instructor's discretion, this could lead to a discussion of workplace diplomacy, i.e. how does one effectively but diplomatically point out contradictions to a superior?

The answer is, by offering to accomplish *one* of the conflicting goals, but clearly at the expense of the other. ("We can attract more non-minority franchisees, but only by offering a financial incentive such as a bigger rent subsidy. If we did that, of course, we would have to offer the same incentive to all franchisees, not just non-minority franchisees. Would you like to do that, or would you prefer keep the rental subsidy as it is now?").

- Even assuming such targeting is desirable, how could it be accomplished? If Kumon wants more non-minority franchisees, it is going to have to invest in general marketing and advertising efforts that reach all demographics.

It would be possible, of course, to conduct "push" marketing by placing advertisements in newspapers or other publications that target certain professional groups, conducting free seminars targeting such groups, etc. But without better financial incentives, such advertisements are likely to be ineffective. Again, "pull" marketing incentives must be offered to *all* franchisees, not just subgroups.

- Kumon should ignore ethnicity. Growth in non-minority communities has been steady over the years: Kumon started with a 100% Japanese expatriate customer base in the United States, and this figure has been falling steadily ever since (minorities now account for 60% of all franchisees). Why not let successful "organic" growth continue as-is among both ethnic minorities and majorities? Organic growth lets all franchisees self-select themselves as being more interested in education than money, and this is what Kumon wants.

This makes sense. Minorities are, in general, more satisfied with current compensation than non-minorities, and overall their students (and parents) are a better match for Kumon's model. Over time, deeper penetration of all segments will make the company more profitable and enable it to afford financial incentives if necessary.

4. *Propose how Turner should respond to the third part of Iwasaki's request. Going forward, what should Kumon North America's franchisee enrollment strategy be, and why?*

Solicit responses. Student comments might include:

- Knowledge-sharing: Turner should contact the Canadian franchisee who developed the "Type A/Type B" distinction and set up a program whereby her methodology/learnings are broadly shared throughout the United States. This would likely 1) improve the performance of Type B students, and 2) help franchisees better attract Type B students, thereby leading to greater penetration of non-minority communities.

This makes good business sense and would give Turner more opportunity to work with Kumon's Canadian units. It's hard to imagine more cost-effective training.

- Kumon should forget about targeting non-minority communities and instead concentrate on recruiting even more minority franchisees. After all, this is the market "sweet spot" with lower attrition rates, strong organic recruitment, and where more growth can be expected in coming years. Kumon could easily place inexpensive corporate advertisements in U.S. newspapers or other publications that target certain ethnic groups (*The Asian Reporter, Little India,* etc.).

There's much to be said for this approach. One wonders to what extent Kumon's eagerness to expand in non-minority U.S. communities is a question of pride rather than a question of business.

- Kumon should target education-conscious parents of children in public schools with a national advertising campaign playing off concerns likely to be generated by the impending enactment of NCLB. Alternatively, Kumon could research schools likely to be significantly affected by NCLB and propose tutoring partnerships.

This could be good advice, and would likely require national or regional advertising significantly more expensive than the targeted advertising mentioned above.

- Kumon should focus on recruiting potential franchisees of Indian descent. This is a new, emerging demographic with very strong growth potential. The company could easily place advertisements in newspapers such as *Little India* or IT publications that target certain ethnic groups.

Another good point — see Epilogue.

Epilogue

Students are always eager to hear a case's epilogue. If a student has actual Kumon experience, this would be a good time to ask for his or her prediction as to what actually happened, and why. Here is the epilogue:

Turner tactfully pointed out the contradiction inherent in Iwasaki's request, and respectfully suggested that, until the company had generated sufficient earnings to afford a national advertising campaign, Kumon North America stick with organic recruitment, more proactive knowledge-sharing (including inviting the Type A/B Canadian franchisee to train in the United States), and some low-cost grassroots marketing efforts, including some specifically targeting candidates of Indian descent.

NCLB appeared to have a significant, though difficult-to-quantify, effect. Anecdotally, more parents coming to Kumon expressed concerned about the declining quality of public schools.

Starting in 2003-2004 Kumon implemented a worldwide rebranding and marketing campaign that involved spending some $9 million on advertising in the United States, by far the biggest national North American spending campaign ever. As part of the initiative, Kumon required all new franchisees to set up in retail or commercial spaces: community centers and churches were no longer acceptable as centers.

Meanwhile, the number of franchisees of Indian descent continued to grow rapidly. By the end of 2009, Turner estimated that one third of all North American franchisees were of Indian descent.

Kumon also increased financial incentives for franchisees. Currently it offers a $700 monthly rental subsidy for the first year, and will raise this to $1,000 per month in 2011. The current royalty rate is $36 per subject per month, discounted to $32 per month after one year.

Kumon also implemented some policies unusual for a franchisor: it required aspiring franchisees to undergo training before *signing formal franchisee contracts. This further qualified aspirants as being extremely dedicated to education, and imposed a greater opportunity cost on opting out of the training program midway. Kumon also required all new franchisees to be devoted full-time to their Kumon businesses.*

Overall, these measures appear to have been highly effective. Between 2001 and 2010, enrollee numbers doubled. Today Kumon North America has more than 200,000 students.

Reference

Business Model Canvas

Developed by Osterwalder and Pigneur, the Business Model Canvas is a diagram that visually and textually explicates a particular business model using nine Building Blocks.

Customer Segments is arguably the most important Building Block, as no business can exist without customers. The Value Proposition, perhaps equally important, defines the specific job or jobs a business performed on behalf of customers.

Key Activities describes the most important things that must be done in order to 1) create (make or develop) and 2) deliver (sell) the Value Proposition.

Key Resources (people, equipment, intellectual property, facilities, money) describes the most important assets needed to support Key Activities.

It may be illogical for a company to perform every activity in house. Companies often outsource or form partnerships with other companies or individuals (Key Partners) who can offer lower cost or higher quality.

Key Resources, Key Activities, and Key Partners comprise the Cost Structure of a business model.

All Value Propositions must be delivered to Customers through a Distribution Channel. Channels include in-person, the Internet, physical transport of goods to the customer site, telephone, and so forth.

All businesses must communicate with customers. The Customer Relationships Building Block describes such communications: in-person, telephone, e-mail, the Web, and so forth.

Customer Segments account for the Revenue Building Block of the model. If Revenues consistently exceed Costs, the model is viable.

A generic Business Model Canvas diagram with the nine Building Blocks appears on the next page, followed by a Business Model Canvas depicting Benesse's *Kodomo Challenge* model.

<table>
<tr><th colspan="6">Business Model Canvas</th></tr>
<tr>
<td rowspan="2">Key Partners

Which outside parties can perform tasks on behalf of the organization either more efficiently or at lower cost?</td>
<td>Key Activities

What core activities are required to create and deliver the Value Proposition?</td>
<td rowspan="2" colspan="2">Value Proposition

What specific job(s) does the organization do on behalf of customers?</td>
<td>Customer Relationships

How do customers prefer to be contacted?</td>
<td rowspan="2">Customer Segments

What customer segments does the organization serve?</td>
</tr>
<tr>
<td>Key Resources

What resources are needed to support the Key Activities?</td>
<td>Distribution Channels

Through what channels is the service or product delivered?</td>
</tr>
<tr>
<td colspan="3">Cost Structure

Describes the main costs incurred in creating and delivering the Value Proposition</td>
<td colspan="3">Revenue Streams

Describes revenues generated and ways customers prefer to pay</td>
</tr>
</table>

<table>
<tr><th colspan="5">Kumon Business Model Canvas</th></tr>
<tr><td rowspan="2">Key Partners

Kumon headquarters</td><td>Key Activities

Run learning sessions for students

Attract new students</td><td rowspan="2">Value Proposition

Help children achieve their full potential by facilitating development of self-motivated learning through structured, self-paced mathematics and language programs</td><td>Customer Relationships

Face-to-face, telephone, e-mail communications</td><td rowspan="2">Customer Segments

Parents of school age children

School age children</td></tr>
<tr><td>Key Resources

Strong instructor/franchisee (usually the same person)

Well located, appropriate physical facility</td><td>Distribution Channels

Direct, face-to-face, on-site “delivery” at home or other dedicated facility</td></tr>
<tr><td colspan="3">Cost Structure

Instructor compensation
Royalty fees
Rent, supply, administrative, marketing expenses</td><td colspan="2">Revenue Streams

Learner tuition fees</td></tr>
</table>

CAGE Distance Factors

Developed by Ghemawat, CAGE is an acronym that stands for Cultural, Administrative, Geographic, and Economic distance between two countries. CAGE Distance involves bilateral measures of multidimensional distance between two nations, as opposed to either 1) unilateral attributes of one country, or 2) multilateral measures of distance between one country and the rest of the world.

Cultural Distance includes differences in language, religion, and culture.

Administrative Distance includes differences in government regulations, policies, and tariffs.

Geographic Distance refers to physical distance (or climatic or terrain differences) between two countries.

Economic Distance refers to disparities in purchasing power or differences in the cost or quality of physical, human, or financial resources.

Cultural distance	**Administrative distance**	**Geographic distance**	**Economic distance**
Cultural differences matter most when:	Government involvement is high in industries that are:	Geography plays a more important role when:	Economic differences have the biggest impact when:
• Products have high linguistic content (TV programs) • Products matter to cultural or national identity (foods) • Product features vary in terms of size (cars) or a standards (electrical equipment) • Products carry country-specific quality associations (wines)	• Producers of staple goods (electricity) • Producers of other "entitlements" (drugs) • Large employers (farming) or large suppliers to government (mass transportation) • National champions (aerospace) or vital to national security (telecommunications) • Exploiters of natural resources (oil, mining) • Subject to high sunk costs (infrastructure)	• Products have a low value-to-weight or value-to-bulk ratio (cement) • Products are fragile or perishable (glass, fruit) • Local supervision and operational requirements are high (many services)	• The nature of demand varies with income level (cars) • The economics of standardization or scale are limited (cement) • Labor and other factor cost differences are salient (garments) • Distribution or business systems are different (insurance) • Companies need to be responsive and agile (home appliances)

Source: *Redefining Global Strategy*

Imprinting Canvas

The Imprinting Canvas is a tool developed by the case writer to identify and make visible imprinted home-market assumptions within a business model. For a pair of countries, it plots the nine Building Blocks of a particular business model against the four CAGE Distance Factors, noting assumptions specific to each country within each Building Block.

Japan-U.S. Imprinting Canvasses for Kumon appear on pages six and seven. These Canvasses were developed for the case based on Kumon’s actual experience in the United States.

6. Benesse: The Limits of Service Portability

"We took what had been successful in Japan and tried to apply it as-is in the United States," said Hiroko Tabata, gazing out over the Tokyo skyline from the fourteenth floor headquarters of Benesse, one of the most recognized names in Japan's educational services sector.

She turned to Yuko Fujii, of the company's International Business Support unit — a group Tabata hoped to join — and replaced her teacup on the low mahogany table. "It's hard to pinpoint any single reason for our failure. But things would've gotten off to a better start if we'd had a strong speaker on staff. None of us had a complete command of English, so a Japanese element permeated everything we did."[57]

Fujii nodded, and refilled Tabata's cup.

"Still, you were lucky to have the chance to start a brand-new operation overseas, even if it didn't turn out the way everyone hoped," Fujii said. "And if your report's well received, you might get a promotion."

Tabata smiled, and a nervous thrill ran through her. The head of International Business Support had asked her to write a comprehensive analysis of the U.S. market failure, complete with recommendations that could help Benesse in future overseas market entry attempts. Before their meeting ended, he'd told her that the company was already investigating mainland China. Tabata knew that good pre-entry advice could easily save the company a hundred million yen — or more.

The Task at Hand

If she did a good job on this report, Tabata thought, she might earn a spot in International Support. Benesse was clearly stepping up its overseas activity: it had acquired Berlitz

 Doctoral candidate Tim Clark (tim@timclark.net) prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

[57] Interview with Hiroko Tabata 5/26/2009

International a few years back, and last year, in 2004, it had set up a subsidiary in Korea.

As she said goodbye to Fujii and walked toward the elevator, she thought back over the company's history and her own role in trying to develop Benesse's *Kodomo Challenge* business in the United States. How should she compile and communicate the lessons she'd learned?

Publishing Roots

Founded in 1955, Benesse was Japan's leading provider of educational correspondence courses for school-age children and teenagers.

The company began life as Fukutake Publishing, a publisher of textbooks and memo pads, but within seven years had refocused operations on exam preparation services for senior high school students.

Five decades later in 2005, Benesse was a multi-billion-dollar business listed on the Tokyo Stock exchange, and enjoyed the top share of Japan's market for supplementary, for-profit educational correspondence courses targeting preschoolers through high school students.[58]

A Well-Oiled Machine

Each month, Benesse sent paper work packets by postal mail to nearly three million students throughout Japan. Students worked through the exercises, which covered everything from math to science to language arts, then submitted their work by mail to Benesse, where "red pen" teachers corrected and returned the materials.

This process was backed by an enormous infrastructure that included marketing, direct mail, database management, art direction, production, clerical, accounting, and back-office functions. Well over one thousand full-time employees supported the business, which was well connected with schools, government agencies, testing organizations, and a host of partners and vendors such as professors of education, market research firms, advertising agencies, and printers.

The company acquired customers by placing advertisements or inserts in high-circulation magazines and newspapers. These messages explained Benesse's courses and asked readers to request free materials using postage-paid response cards or toll-free telephone numbers. Conversion-to-customer ratios were high, and because subscribers paid monthly or annually in advance with cash or cash-equivalent electronic bank transfers, the business was largely risk-free. Few Japanese housewives with school-age children were unfamiliar with the Benesse name. In 2005, the company reported that it had served a cumulative total of more than 43 million students.[59]

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[58] "Education Industry White Paper 2006." Yano Research Institute

[59] Benesse Corporation Annual Report 2008

Though driven by educational publishing and correspondence courses in particular, over the years Benesse's operations expanded to include language training (it owned Berlitz International), women's "lifestyle" magazines and grocery delivery services, information services related to pregnancy, childbirth, and child care, and residential and at-home nursing and care services for the elderly.

Still, educational services were the company's bread and butter. Excluding Berlitz, such services accounted for close to 60% of nearly U.S. three billion dollars in revenue in 2005.[60]

Background: Japan's National Curricula

For-profit education businesses in Japan were deeply affected by the nation's educational policy, specifically its standardized national curricula.

Like many countries in Asia, South America, and elsewhere, the Japanese government mandated standardized national curricula for public elementary, junior high, and high schools. The Ministry of Education, Culture, Sports, Science and Technology (MEXT) determined material to be taught in each grade and approved a limited number of textbooks to support each curriculum. In each grade, the same subjects were taught in the same sequence, whether the school was located in Okinawa, Osaka, or overseas, in schools for Japanese expatriate children worldwide overseen on-site by MEXT officials.

The government, in essence, maintained a monopoly on determining educational content. All elementary, secondary, and upper secondary public schools — and almost all their private school counterparts — used the national curricula. University entrance examinations, for both public and private institutions, were based upon this state-defined content.

"Exam Culture"

This system succeeded in producing the world's highest literacy rates and extremely high average levels of intellectual competence. At the same time, critics maintained that the government monopoly on educational curricula was responsible for the phenomenon known as "examination hell," whereby many students (and often their mothers) focused excessively on preparing for tests required to gain admission to desirable universities, high schools, junior high schools, and, less commonly, elementary schools or even kindergartens.

The intense stress — and extracurricular educational expenses — brought on by such preparation affected the entire household, critics argued, and often resulted in excessive focus on fact memorization, a lackadaisical approach to university studies by exam-weary students, and workplace credentialism based on university attended. Moreover, this "examination culture" was widely accepted by private and public sector employers, who tended to hire based on university of origin rather than specialization, experience, or

[60] Benesse Corporation Annual Report 2008

interests.[61]

The reason for “examination hell” was simple: the primary — and usually exclusive — criterion for successful admission to prestigious institutions, particularly upper-secondary schools and universities, was mastery of national curricula as demonstrated through high exam scores, rather than a balanced combination of academic achievement, extracurricular activities, and personal interests.

In short, entrance examinations in Japan served as a method for numerically ranking students along a single criterion — mastery of standard curricula — and thereby determining their eligibility for slots within a well-defined hierarchy of increasingly prestigious schools. Rather than as a way to match students to appropriate schools based on interests, aptitude, and personality, critics argued, entrance exams functioned as a near-absolute mechanism for determining entrance eligibility. This definition of eligibility was almost unquestioningly accepted by students, parents, and schools.

A Double-Edged Sword

Ranking tens of thousands of students solely on the results of exams covering identical content requires “flattening” ordinarily tight score distribution curves by including many exceedingly difficult problems. This intensified competition even further, as each year students struggled to achieve high scores on tests with increasingly difficult, even esoteric, problems.

A private sector factor was also at work. As growing numbers of better-prepared students took tests each year, prestigious universities were forced to make their entrance exams tougher in order to maintain “difficult to get into” reputations.

This fostered intense competition between students throughout their public school careers, particularly in the upper secondary years, and gave birth to a significant industry of supplementary, for-profit, private sector cram schools known as *juku.* Cumulatively, these businesses produced sales of close to ten billion U.S. dollars in 2005, according to the Yano Research Institute.[62]

Most *juku* were physical classrooms to which students commuted after school or in the evening. Benesse’s correspondence courses competed with *juku*, but the company had acquired a successful *juku* chain to assure a “bricks & mortar” place for itself in the *juku* world.

Observers had noted that other nations with fixed national curricula faced similar problems

[61] Takeuchi, Yo. “The Self-Activating Entrance Examination System — Its Hidden Agenda and its Correspondence with the Japanese ‘Salaryman.’” *Higher Education,* Volume 34, Number 2, September, 1997

[62] “Education Industry Research Results 2006.” Yano Research Institute

created by their own versions of "examination hell," and responded similarly with their own forms of *juku:* Korea has its *hagwon,* China and Taiwan their *buxiban,* India its "tutorials," Peru its *academias.*[63] The standardized national curriculum, which produced both high literacy and "examination hell" repercussions, was truly a double-edged sword.

Hiroko Tabata was familiar with arguments for and against nationalized curricula, and she recognized that Japan's system wasn't perfect. On the whole, though, she believed it was highly effective.

Education in the United States

Unlike Japan, the United States had no national, government-defined curricula. Although the federal government imposed certain administrative requirements on all U.S. public schools, for the most part each state was free to run schools as it saw fit.

The result was curricula that differed not only by state, but by county and even by school district. Japanese friends with school-aged children in the United States, for example, had told Tabata how surprised they were to discover that each week their kids brought home what seemed to be miscellaneous collections of worksheets rather than "standard textbooks."

Perhaps because there were no national curricula, the United States lacked an examination culture as well. Most colleges required high school students to take either the SAT Reasoning Test (formerly known as the Scholastic Aptitude Test or Scholastic Assessment Test), another SAT test, or the ACT in order to apply for admission, but these results were only one element of an application process that took into consideration school grades, essays, descriptions of interests and extracurricular activities, and other non-test factors.

In fact, until they were ready to apply for college, few students took "entrance exams" at all. Most took yearly state competency exams that assessed basic skills in mathematics, science, and language arts, and some outstanding high school students took advanced placement (AP) or College-Level Examination Program (CLEP) tests to try to obtain college class credits while still in high school, but relatively few underwent special preparation for such tests. Applications to prestigious secondary and senior high schools and boarding schools were, like colleges, based on comprehensive application submissions rather than test scores per se.

The upshot of all this was that the United States lacked a significant pre-high school counterpart to Japan's *juku* industry, although there were many private tutors and a number of national chains and other organizations specializing in test preparation (including ACT and the SAT, but more commonly graduate school or professional credential tests such as the Graduate Record Exam (GRE), Law School Admissions Test (LSAT), and the MCAT, or Medical College Admissions Test).

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[63] Fujimori, Shuichi. "What Causes Examination Wars in Japan? Delayed Educational Democratization and Deregulation." 7/30/99

Benesse's Flagship Business: *Shinkenzemi*

Benesse's mainstay correspondence course was called *Shinkenzemi,* short for *shingaku kenkyu zemi,* literally "scholastic advancement study seminars." These *Shinkenzemi* materials, designed specifically to help elementary, middle school, and high school students master national curricula and pass entrance exams, were mailed to nearly three million students each month.

One key subscriber benefit was that Benesse customized the content sent to each *Shinkenzemi* enrollee each month. Customization was based on a number of factors, including student comprehension level, which textbook the student was currently using at school, and which school the student aspired to enter. While largely automated, this customization work was another reason why Benesse needed powerful database and IT capabilities and a massive back-office infrastructure to support its correspondence course of business.

Over the years, *Shinkenzemi's* continuing success gave Benesse the idea of developing a similar program for preschoolers — one that would encourage families to look to the company for supplementary educational services even before formal schooling began.

A Preschool Correspondence Course

In 1988, Benesse released *Kodomo Challenge* ("Children's Challenge"), its first correspondence course for preschoolers. Hiroko Tabata, who until then had been an art director, was assigned to work in the unit as a production manager.

Kodomo Challenge materials, delivered by postal mail to subscriber homes each month, consisted of 1) a colorful, highly visual activity workbook, and 2) a supplement such as a cassette tape (later CDs), craft project, or small educational toy. The materials were designed to help children learn age-appropriate tasks such as dressing and teeth-brushing.

Together with their children, parents, usually mothers, worked the activities and read through the books, which featured a baby tiger named Shimajiro who encountered the challenges of growing up. The supplements were a key part of the package, because they changed each month, and were therefore a surprise or special "treat" that delighted the children.

Parents found that *Kodomo Challenge* helped them bond with their children and identify and encourage age-appropriate developmental behavior. They also valued the program's overarching goal of helping children achieve school-readiness.

"The reason it works is that children identify with Shimajiro; they see him growing at the same rate at which they themselves are growing," said Kunihiko Ochiai, a ten-year veteran of Benesse's International Business Support group. "They see Shimajiro using the same toothbrush that's on the sink in front of them, and they think, 'Shimajiro's brushing his own teeth, maybe I can too.' Children experience a feeling of accomplishment, and because they find that enjoyable, they want to continue working with the materials. And mothers, for their part, see that their child has become able to brush his own teeth, and they feel that the materials are worthwhile and they want to continue."[64]

In 2005, more than 1.3 million Japanese families subscribed to the *Kodomo Challenge* correspondence course, which was priced at a modest 1,700 yen (about U.S. $17) per month. The Shimajiro character enjoyed extremely high recognition among Japan's consumers. The *Kodomo Challenge* business model is outlined in Exhibit 1.[65]

The Benesse Model

Benesse's correspondence course model was largely the same for both its mainstay *Shinkenzemi* and its *Kodomo Challenge* businesses, but the *Kodomo Challenge* materials were not customized for each subscriber. Both courses, though, were predicated on 1) direct-response marketing, and 2) serving end users directly without intermediation by distributors, franchisees, or other middlemen. In short, Benesse was "vertically integrated."

"In Japan, Benesse is a direct marketing company," said Ochiai. "We acquire personal information about prospective clients through direct response advertisements. If we don't know that you have a five-year-old child, we have no way of approaching you as a prospective customer."[66]

Both *Shinkenzemi* and *Kodomo Challenge* were highly scalable, and profitable. For the year through March 2005, Benesse's Education Group generated operating income of 15.7% on sales of approximately U.S. $1.7 billion.[67]

Subscriber Slowdown Prompts Overseas Ambitions

Despite *Shinkenzemi's* continuing success, around the beginning of the new millennium, Benesse began to have concerns. Population growth in Japan was slowing quickly, and experts expected the nation's population to start declining in 2005 (Exhibit 2). Meanwhile, *Shinkenzemi* subscriber numbers had started to slip (Exhibit 3).[68]

The company was able to compensate with price adjustments and additional services, but it began to think seriously about overseas expansion as a long-term measure to counteract declining domestic subscriber growth.

Benesse had entered Taiwan with *Kodomo Challenge* in 1989 under a plan for deliberate slow growth that would allow the company to learn from its first-ever venture into a market outside Japan. By 2000 the business, while not yet profitable, was well established, and management decided it was time to venture into the United States, a potentially far bigger market.

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64 Interview with Kunihiko Ochiai, General Manager of International Support Office, Benesse Corporation, 5/25/2009
65 Explicated by case writer, confirmed by Benesse staff 9/2009
66 Ochiai, 5/25/2009
67 Benesse Fact Book 2008
68 Benesse Fact Book 2008

Along with three other Benesse employees, in late December of 2000 Hiroko Tabata received and accepted an invitation for an overseas posting. The company's first initiative was to launch *Shinkenzemi* in the United States.

Shifting Plans

Benesse set up an office in New York City in 2001 and launched *Shinkenzemi* on the East Coast, targeting expatriate Japanese families exclusively. But it soon discovered that expatriate demand was insufficient to support the business. It also recognized that creating *Shinkenzemi*-like courses for non-Japanese students would be overwhelmingly difficult.

"*Shinkenzemi* depends heavily on national education policies and language-specific content. It would be impossible to localize everything about history, geography — and especially language arts — for the U.S. market," noted Ochiai, the International Business Support manager.[69]

Early childhood education needs, on the other hand, were universal: parents everywhere wanted their children to develop basic motor coordination skills, learn to dress themselves, use the toilet independently, and master self-management tasks before entering kindergarten. Preschool materials, Benesse management reasoned, should work just about everywhere.

The company commissioned a market research firm to identify subscription-based children's correspondence courses in formats similar to *Kodomo Challenge*, specifically monthly publications with a supplement, craft, or toy that changed each month. Benesse staff also instructed the research firm to limit its search to offers priced at a minimum of $17 per month, the current *Kodomo Challenge* subscription rate in Japan, and the lowest rate at which they felt they could earn a reasonable margin.

The only closely comparable offering identified was a do-it-yourself science project correspondence course for early elementary school students run by a Midwestern museum.

The First Attempt

Benesse USA decided to emulate this program, and developed a craft-oriented, hands-on, science-focused mail-order curriculum based on materials the company was already using in Japan. It priced the offer at U.S. $30 per lesson, and launched the service in late 2001 using the same direct marketing techniques that had long proven effective in Japan.

The offer attracted few subscribers.

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[69] Ochiai, 5/25/2009

"There's no way parents would pay $30. They had to prepay without even seeing it," Tabata recalled. "We were relying entirely on one direct-mail solicitation to both explain the offer and persuade prospective customers to buy."[70]

Thinking back, Tabata believed that part of the problem was a lack of brand recognition. "In Japan, there's hardly a single consumer who doesn't know who Benesse is," she said. "But in the United States we had zero name recognition."[71]
In Japan, the company was a seasoned expert at creating awareness, and at the follow-up customer acquisition process. But Benesse's small U.S. unit had a limited budget and support staff, and couldn't afford brand-building advertisements on television or in popular publications.

Reasoning that creating awareness and inducing purchase in a single communication was impractical, the Benesse team tried a "free trial" direct mail campaign. This attracted more than 10,000 one-time acceptances, but subsequent invoices resulted in few paid subscriptions. In 2002 the group decided to abandon the science curriculum and focus instead creating a version of *Kodomo Challenge* localized for the U.S. market.

A Localized *Kodomo Challenge*

Tabata and her colleagues hired translators to create English language *Kodomo Challenge* materials, and engaged a child education expert at UCLA to reassemble the curriculum for the U.S. market. They then purchased mailing lists and executed the kind of direct marketing program that had long proven successful in Japan, pricing the offer at $19 per month.

Response was poor.

"We had a terrible time moving the business forward," Tabata remembered. "U.S. parents wouldn't pay $19 per month for a workbook and CD or toy. Affluent families seemed to have other methods for providing extracurricular education, so we aimed for middle-income families. But they were unwilling to pay at that price point."[72]

It was then that Tabata decided there were gaping differences between Japan and the United States regarding attitudes toward education.

High Economic Distance?

Though she hadn't thought about it until moving to the United States, Tabata realized that, in Japan private, supplementary educational expenses were an accepted part of most family budgets. Though she had no hard figures to back her opinion, it was obvious to her that most Japanese families were willing to spend the yen equivalent of U.S. $40-80 per month per child — sometimes substantially more — for either *juku* lessons, correspondence courses, or

[70] Tabata, 5/26/2009
[71] Tabata, 5/26/2009
[72] Tabata, 5/26/2009

other supplementary educational materials. Most families had both the ability and willingness to pay — but this simply didn't seem to be the case in the U.S.

Exhibit 4 shows a table Tabata created to compare prices for various education-related service offers in Japan and the United States.

Tabata concluded that perceptions regarding the purpose of supplementary education were fundamentally different. In Japan, the basic purpose of supplementary educational services was enrichment, and most children were expected to do extra work in order to exceed. But in the United States the basic purpose seemed to be remedial. For example, Sylvan Learning Systems, the leading tutoring franchise in the United States, squarely positioned itself as the solution for students lagging in regular school. *In Japan*, thought Tabata, *the* juku *industry is about exceeding — in the U.S., it's about catching up.*

Finally, customers in Japan readily prepaid for services. Tabata knew that the uncollectible invoice ratio among Japanese service providers who accepted post-delivery payments was only one or two percent on average. But U.S. customers expected to be billed for services, and uncollectible invoice ratios could go as high as twenty percent, at least in the magazine industry.

Benesse USA had, in fact, briefly considered a magazine model along the lines of Highlights. But the magazine business was fundamentally different. Subscription rates could be kept low, thanks to significant revenue streams from advertising and subscriber lists sales. But Benesse was focused on localizing existing Japanese language materials, and saw the recurring monthly writing and editorial tasks involved in creating a new magazine — not to mention start-from-scratch production, art direction, and advertising sales — as overwhelming tasks it couldn't possibly manage, even on outsourcing basis, with its tiny staff of four.

Taking Stock

Looking back, Tabata realized how isolated Benesse USA had been, not only from schools and the U.S. educational system, but from the local business community — and from consumers. Now that she was back in Japan and thinking objectively about her U.S. experience, she realized how easy it was to take for granted Benesse's massive operational infrastructure, powerful brand, and solid reputation among consumers.

In retrospect, Tabata realized that in contrast to Benesse's direct-marketing, go-it-alone business model, U.S. educational publishers such as Scholastic worked through multiple distribution partners, including schools, wholesalers, mail-order retailers, and conventional retail outlets.

By happenstance, Benesse's U.S. office had acquired an alternative distribution channel when a preschool franchisor with some 700 domestic locations approached it with a partnership proposition.

The franchisor sought Benesse's help selling franchises in Japan, and agreed to buy 10,000 *Kodomo Challenge* course packs for distribution through its U.S. franchisees. In return, Benesse became the firm's master franchisee for Japan and opened several preschools in-country.

But the partnership foundered and ended within two years, as franchisor-mandated equipment purchase requirements became too onerous for Japanese franchisees, who were already struggling to increase enrollments.

The Task at Hand

Tabata reviewed what Benesse had accomplished in the U.S. Altogether the group had acquired approximately 15,000 *Kodomo Challenge* customers through the preschool channel, and between 2,000 and 3,000 customers on its own.

We were in the red from the beginning and never got out, Tabata thought to herself. *Everyone sent to the United States to handle marketing was steeped in the direct-mail methodology we use in Japan. We should have been more focused on U.S. culture, U.S. customers, a U.S. selling style. If we'd developed a new model unlike what we use in Japan, things might have been different.*

Still, Tabata couldn't shake her conviction that an unbridgeable gap separated Japan and the United States with respect to education. How could she frame the issues she needed to cover in her report?

With an odd mix of confidence and uncertainty, she withdrew a bright clean pad of lined paper from her desk drawer, carefully sharpened three pencils, and started writing.

Assignment Questions

1. Using the CAGE Distance framework and the limited information available in the case, describe some differences between Japan and the U.S. as they might affect for-profit education businesses.

2. Were CAGE Distance factors primarily responsible for Benesse's market failure in the U.S.? What other factors, if any, might account for what happened?

3. What general lessons about overseas market entry could Tabata draw from her experience in the United States? Would these lessons apply in mainland China?

Exhibit 1. *Kodomo Challenge* Business Model Canvas

<table>
<tr><th colspan="6">Kodomo Challenge Business Model</th></tr>
<tr>
<td rowspan="2">Key Partners

Education experts, university researchers</td>
<td>Key Activities

Research, develop reading/activity packages

Acquire new customers

Produce and mail monthly activity packages</td>
<td rowspan="2" colspan="2">Value Proposition

Achieve school readiness: Prepare children for preschool/kindergarten by teaching them age-appropriate behaviors

Help parents understand child developmental stages, enhance parent-child communication</td>
<td>Customer Relationships

Direct response print advertisements, Web site, call center

Monthly communications enclosed with materials packet</td>
<td rowspan="2">Customer Segments

Parents of preschool children, primarily mothers

Preschool children</td>
</tr>
<tr>
<td>Key Resources

Expert course development staff

Marketing and database management experts</td>
<td>Distribution Channels

Direct to end users via postal mail</td>
</tr>
<tr>
<td colspan="2">Cost Structure

Employee salaries

Material research, production, marketing, mailing expenses</td>
<td colspan="4">Revenue Streams

Subscription fees from parents, paid monthly or annually upfront

Retail sales of related books, other materials</td>
</tr>
</table>

Exhibit 2. Japan Population Trends 1970-2005

Japan Population Trends 1970-2005

Year	Population (1,000)	Age composition (%) 0-14 years	15-64	65 +	Increase (%)
1970	104,665	24.0	68.9	7.1	1.08
1975	111,940	24.3	67.7	7.9	1.35
1980	117,060	23.5	67.3	9.1	0.9
1985	121,049	21.5	68.2	10.3	0.67
1990	123,611	18.2	69.5	12	0.42
1995	125,570	15.9	69.4	14.5	0.31
2000	126,926	14.6	67.9	17.3	0.21
2004	127,787	13.9	66.6	19.5	0.17
2005*	127,768	13.7	65.8	20.1	-0.01

*projected

Source: *2008 Statistical Handbook of Japan*, Statistics Bureau, Ministry of Internal Affairs and Communications

Exhibit 3. Benesse Numbers Start Slipping (thousands of subscribers)

Correspondence Course	1999	2000	2001	2002	2003	2004
Shinkenzemi Senior High	490	470	430	350	290	290
Shinkenzemi Junior High	920	870	760	680	630	710
Shinkenzemi Elementary	1,350	1,340	1,420	1,390	1,330	1,410
Kodomo Challenge	1,440	1,520	1,490	1,450	1,450	1,420

Source: *Benesse Fact Book 2008*

Exhibit 4. Japan, U.S. Educational Service Offerings

Japan		U.S.	
Course	**Price**	**Offer**	**Price**
Kodomo Challenge (preschool enrichment correspondence course)	$17/month	Highlights magazine (subscription-based preschool and elementary school enrichment)	$3/month
Shinkenzemi Elementary School (enrichment correspondence course)	$34/month	Highlights activity books (subscription-based preschool and elementary school enrichment)	$7/month
Shinkenzemi Middle School (enrichment correspondence course	$51/month	*Kodomo Challenge* (subscription-based preschool enrichment)	$19/month
Shinkenzemi High School (enrichment correspondence course)	$84/month	Science project kit (subscription-based early elementary school enrichment)	$25/month
Kumon (all grades walk-in enrichment)	$60-120/month	Kumon (all grades walk-in enrichment)	$60-120/month
Other *juku* (all grades walk-in enrichment, remedial)	$120 +/month	Sylvan Learning Systems (all grades walk-in remedial)	$200 +/month

Source: Tabata

Teaching Note

Benesse: The Limits of Service Portability

This case was written as a vehicle for helping students evaluate the challenges involved in exporting a service to a culturally distant market. Teachers may find it useful for courses in services marketing, strategy, or international business. The case features optional group work and presentation components. Rather than having students work alone, the instructor may find it effective to assign them to work in pairs or small groups when preparing the case. Ideally, groups should combine students of different nationalities.

Preparation

Students should be familiar with Ghemawat's CAGE Distance Framework and the Business Model Canvas before undertaking this case (refer to pages 10-14). It may be helpful to suggest that students apply the CAGE analysis separately to each element of the Business Model Canvas, particularly the Customer and Value Proposition building blocks. Students should work exclusively with the case material, focusing on the CAGE analysis and lessons that can be drawn given the limited facts presented, rather than attempting a comprehensive U.S.-Japan comparison of the education sectors.

Pre-Analysis Discussion

The instructor could begin the class by asking if any students have ever worked in for-profit education businesses. Encourage any such students to describe their experience, then ask, Why did that business work in your country? This offers an opportunity to discuss how national origin or culture shapes service offers.

Alternatively, the instructor could start by asking for a quick definition of the CAGE Distance framework and its potential applications. A key point is that managers will usually want to apply the framework in the context of a particular industry: in Benesse's

---

case, education.

The students could then be asked, Which industries are most sensitive to Cultural distance? Administrative distance? Geographic distance? etc. Solicited comments could be listed on the board. Refer to the following table from Ghemawat:[73]

Cultural distance	**Administrative distance**	**Geographic distance**	**Economic distance**
Cultural differences matter most when:	Government involvement is high in industries that are:	Geography plays a more important role when:	Economic differences have the biggest impact when:
• Products have high linguistic content (TV programs) • Products matter to cultural or national identity (foods) • Product features vary in terms of size (cars) or a standards (electrical equipment) • Products carry country-specific quality associations (wines)	• Producers of staple goods (electricity) • Producers of other “entitlements” (drugs) • Large employers (farming) or large suppliers to government (mass transportation) • National champions (aerospace) or vital to national security (telecommunications) • Exploiters of natural resources (oil, mining) • Subject to high sunk costs (infrastructure)	• Products have a low value-to-weight or value-to-bulk ratio (cement) • Products are fragile or perishable (glass, fruit) • Local supervision and operational requirements are high (many services)	• The nature of demand varies with income level (cars) • The economics of standardization or scale are limited (cement) • Labor and other factor cost differences are salient (garments) • Distribution or business systems are different (insurance) • Companies need to be responsive and agile (home appliances)

[73] *Redefining Global Strategy*, p. 50

The discussion could be developed by asking, Which factor most influences education services? Clearly Cultural distance matters, as education services and products have a high linguistic content. Students may also cite Economic distance as an important factor, because demand for non-public educational services is likely to vary with income.

Someone may propose that Administrative distance is relevant, as public education is considered an "entitlement" good, and governments that enforce standardized national curricula have a heavy hand in domestic education affairs.

Discussion and Analysis

1. *Using the CAGE Distance framework and the limited information available in the case, describe some differences between Japan and the U.S. as they might affect for-profit education businesses.*

One way to proceed would be to solicit specific differences for each of the CAGE factors. These could be listed on a white board under "C" "A" "G" and "E."

Alternatively, the instructor could ask for a show of hands regarding which "letter" has the biggest effect on for-profit education services. That Distance factor could be listed first and differences solicited for that category.

The table on the following page compiles differences clearly identifiable from the case (Geographic distance is not considered applicable).

Cultural distance		Administrative distance		Economic distance	
Japan	**U.S.**	**Japan**	**U.S.**	**Japan**	**U.S.**
Idea of private-pay educational services widely accepted, even among less affluent families Purpose of private education is to exceed Educational correspondence courses for pre-college students common Extra work expected of children	Idea of private-pay educational services not generally accepted, especially among less affluent families Purpose of private education is to catch up Educational correspondence courses for pre-college students uncommon Low expectations that children should do extra schoolwork	Standardized national curricula "Exam" culture implicitly endorsed by state	No national standard curricula Entrance exams largely unknown	Most households expect to pay for private educational services, materials Most families with children are prospects Prepayment for services expected, uncollectible invoice ratio 1-2% Enrichment service price point higher	Relatively few households expect to pay for private educational services, materials Relatively few families with children are prospects Post-payment for services expected, uncollectible invoice ratio as high as 20% Enrichment service price point lower

This would be a good time to note how Distance factors can overlap and are a bit "fuzzy." For example, is Japanese enthusiasm for education a Cultural trait, or is it due to Administrative imposition of standardized national curricula? Does the distinction really matter if the result is the same? (No.)

At this point the students could be broken into small groups to discuss Assignment Question 2. Each group could be asked to prepare a short, informal oral presentation covering two points:

1. Were CAGE factors primarily responsible for the failure?

2. What non-CAGE factors, if any, were key contributors to the failure? Focus on just two or three.

Twenty to forty minutes could be allotted to this task. Here is Assignment Question 2 as it appears in the case:

2. Were CAGE Distance factors primarily responsible for Benesse's market failure in the U.S.? What other factors, if any, might account for what happened?

The instructor could lead a general discussion, or ask each group to give a short oral presentation of their conclusions, with or without listener Q&A. By now, the class may be coming to a consensus that Cultural and Economic distance factors had the biggest impact on Benesse's U.S. venture.

The key point is that students should not only think through how Cultural, Administrative, Geographic, and Economic distance affected the business, but how those differences imply what the company could have done, or should have done, to be successful. If students are not yet bringing up implications for action, the instructor could ask:

2a. What specific actions could Tabata's group have taken to overcome obstacles posed by the various CAGE Distance factors?

To answer this question, it's helpful to examine the impact of CAGE Distance factors on one aspect of the business model at a time.

"Customers" is a logical starting point.

Q: How do CAGE Distance factors affect the Customers portion of the model?

A: Both Cultural and Economic distance factors suggest that relatively few U.S. families purchased supplementary educational services. Case facts show that 1) enrichment-oriented offers in the U.S. were priced very low ($3-7 per month), and that 2) Benesse needed a price point of at least $17, as per its instructions to the market research firm (p. 7).

Logically, then, Benesse needed to focus on higher-end Customers. Its rationale for ignoring such Customers apparently was that "affluent families seemed to have other methods for providing extracurricular education …" (p. 8). Yet there's no indication that

Benesse seriously explored ways to target affluent prospects.

Students can then work through the Value Proposition and any of the other building blocks. Together, Customers and Value Proposition account for most of the differences.

2b. What other factors, if any, might account for what happened?

Initial Value Proposition incompatibility

Kodomo Challenge's Value Proposition was to "achieve school readiness [and] prepare children for preschool/kindergarten by teaching them age-appropriate behaviors." Yet Benesse USA started by emulating a science-oriented craft kit designed for early elementary school aged children rather than preschoolers. Perhaps it made this choice because the science kit 1) had a desirable (higher) price point, 2) featured a craft component, and 3) was subscription-based, all desirable features that closely matched the *Kodomo Challenge* offer in Japan. But the basic Value Proposition was mismatched: it failed to draw on Benesse's demonstrated competence and track record with preschoolers. Rather than starting with an unproductive detour, the company should have launched *Kodomo Challenge* immediately.

Lack of proactive distribution strategy

Benesse USA predicated its direct-mail, go-it-alone approach on resources and expertise its parent enjoyed in Japan, but which it completely lacked in the United States: a powerful brand, a massive direct-mail/marketing/back office infrastructure, market power, and economies of scale and scope.

For example, because of its strong brand and vertical integration in Japan, Benesse's default or "imprinted" assumption was that it did not need distribution partners. As a result, the U.S. operation failed to pursue distribution partnerships, even while competitors made effective use of such partnerships.

In fact, only after taking on a distribution partner did Benesse's U.S. unit acquire a significant number of customers. Yet this partnership came about by happenstance — and was instigated by the partner, not by Benesse USA. Had Benesse USA acted proactively, it might have secured an effective partner with compatible goals focused on the U.S. market, not overseas.

Failure to sufficiently examine substitutes

Emulating the science kit suggests that the company was excessively focused on features rather than benefits, and wasn't examining a broad enough range of ways the job could be delivered to customers. Specialogs, "private brand" magazines, book clubs, and sponsored school book fairs are just a few potential vehicles for the offer. In addition to education, the company might have investigated health, psychology, and parenting as domains around which to center its offer, or considered partnering with existing publishers, preschools, healthcare providers, or other groups.

Insufficient resources or commitment?
While the case lacks sufficient detail to make a judgment here, the fact that Benesse had already invested ten years in its *Kodomo Challenge* operations in Taiwan — without turning a profit — suggests that it may have given up prematurely in the U.S., where it had only four full-time employees and a limited budget, and withdrew in less than four years.

Benesse strengths and weaknesses in Japan and the U.S., with potential implications, are outlined in the table below:

Implications of Benesse Strengths and Weaknesses		
Japan strengths	**U.S. weaknesses**	**Implications**
1. Very strong brand 2. Market power: Strong relationships with university researchers, government, testing agencies, business community, consumers media, advertising agencies, 3. Massive, well-developed, well-staffed, extensively-tested, vertically integrated infrastructure: database experts, production/editing/mailing, post-fulfillment analysis, accounting, etc. 4. Economies of scale and scope	1. No brand 2. Little market power: Weak relationships with researchers, business community, consumers, vendors 3. Little back-office infrastructure: extensive reliance on contractors, vendors, no vertical integration 4. No economies of scale or scope	Strong distribution partner and/or greater investment in local unit needed Innovative or alternative customer acquisition/distribution channel needed High-margin, premium offer focused on affluent customers needed

3. *What general lessons about overseas market entry could Tabata draw from her experience in the United States? Would these lessons apply in mainland China?*

1. Operating overseas under the "default" domestic model is dangerous. Because it's logistically and economically impossible to re-create in a foreign market all the resources, infrastructure, experience, and brand equity that the company enjoys at home, the overseas unit may be forced to operate in ways that run counter to parent company culture.

2. Insights from CAGE analysis need to be "operationalized." That is, the implications of Cultural, Administrative, Geographic, and Economic distance need to be defined in terms of capabilities or resources that will be required to successfully export the model to that new market.

3. Overseas market entry requires significant commitment of both financial and management resources.

4. Partnerships may be required to acquire customers or deliver the Value Proposition.

Epilogue

When formal classroom discussion has run its course, the instructor may want to ask, "Would you like to hear what happened next with *Kodomo Challenge?*"

Students are always eager to hear a case's epilogue, so this is a good time to invoke a short, informal round of additional discussion by inviting students to share their predictions as to how *Kodomo Challenge* fared in other countries. Some students may have personal experience or knowledge relevant to the case, and this is a good time for them to offer their insights. Here is the epilogue:

Benesse launched Kodomo Challenge *in Korea and mainland China in March and June of 2006, respectively. The Korea unit is a wholly-owned subsidiary, while in China the company has a government-mandated partnership, because the publishing industry is closed to foreign entrants. In March of 2008, the company claimed more than 100,000 customers in mainland China, and "good prospects for further growth."*[74]

Meanwhile, Taiwan had developed into Benesse's number one overseas market for Kodomo Challenge. *The company claimed 190,000 subscribers as of March 2008, and profitability as of May 2009. As of this writing the company had not attempted to reenter the U.S. market.*[75]

[74] Benesse Annual Report 2008
[75] Ochiai, 5/25/2009, Benesse Annual Report 2008

Following any discussion of the epilogue, the instructor could ask:

Does this mean the Kodomo Challenge *model is tenable only in Asia?*

So far the model has proven workable only in Japan, Korea, Taiwan, and China, all countries with standardized national curricula and a strong cultural focus on education. It's also fair to say that Korea, Taiwan, and China are nations that look to Japan as a market leader and role model in various areas. All this suggests that the *Kodomo Challenge* model works only in Asia.

But the honest answer is that nobody knows. With the right positioning, or the right partners, the model might well be viable in the U.S. or other Western markets (refer to the Kumon case for an example of successful U.S. market entry by a different Japanese educational services provider).

Reference

Business Model Canvas

Developed by Osterwalder and Pigneur, the Business Model Canvas is a diagram that visually and textually explicates a particular business model using nine Building Blocks.

Customer Segments is arguably the most important Building Block, as no business can exist without customers. The Value Proposition, perhaps equally important, defines the specific job or jobs a business performed on behalf of customers.

Key Activities describes the most important things that must be done in order to 1) create (make or develop) and 2) deliver (sell) the Value Proposition.

Key Resources (people, equipment, intellectual property, facilities, money) describes the most important assets needed to support Key Activities.

It may be illogical for a company to perform every activity in house. Companies often outsource or form partnerships with other companies or individuals (Key Partners) who can offer lower cost or higher quality.

Key Resources, Key Activities, and Key Partners comprise the Cost Structure of a business model.

All Value Propositions must be delivered to Customers through a Distribution Channel. Channels include in-person, the Internet, physical transport of goods to the customer site, telephone, and so forth.

All businesses must communicate with customers. The Customer Relationships Building Block describes such communications: in-person, telephone, e-mail, the Web, and so forth.

Customer Segments account for the Revenue Building Block of the model. If Revenues consistently exceed Costs, the model is viable.

A generic Business Model Canvas diagram with the nine Building Blocks appears on the next page, followed by a Business Model Canvas depicting Benesse’s *Kodomo Challenge* model.

<table>
<tr><th colspan="6">Business Model Canvas</th></tr>
<tr>
<td rowspan="2">Key Partners

Which outside parties can perform tasks on behalf of the organization either more efficiently or at lower cost?</td>
<td>Key Activities

What core activities are required to create and deliver the Value Proposition?</td>
<td rowspan="2" colspan="2">Value Proposition

What specific job(s) does the organization do on behalf of customers?</td>
<td>Customer Relationships

How do customers prefer to be contacted?</td>
<td rowspan="2">Customer Segments

What customer segments does the organization serve?</td>
</tr>
<tr>
<td>Key Resources

What resources are needed to support the Key Activities?</td>
<td>Distribution Channels

Through what channels is the service or product delivered?</td>
</tr>
<tr>
<td colspan="3">Cost Structure

Describes the main costs incurred in creating and delivering the Value Proposition</td>
<td colspan="3">Revenue Streams

Describes revenues generated and ways customers prefer to pay</td>
</tr>
</table>

Figure 1. *Kodomo Challenge* Business Model

<table>
<tr><td rowspan="2">Key Partners

Education experts, university researchers</td><td>Key Activities

Research, develop reading/activity packages

Acquire new customers

Produce and mail monthly activity packages</td><td rowspan="2">Value Proposition

Achieve school readiness: Prepare children for preschool/kindergarten by teaching them age-appropriate behaviors

Help parents understand child developmental stages, enhance parent-child communication</td><td>Customer Relationships

Direct response print advertisements, Web site, call center

Monthly communications enclosed with materials packet</td><td rowspan="2">Customer Segments

Parents of preschool children, primarily mothers

Preschool children</td></tr>
<tr><td>Key Resources

Expert course development staff

Marketing and database management experts</td><td>Distribution Channels

Direct to end users via postal mail</td></tr>
<tr><td colspan="2">Cost Structure

Employee salaries

Material research, production, marketing, mailing expenses</td><td colspan="3">Revenue Streams

Subscription fees from parents, paid monthly or annually upfront

Retail sales of related books, other materials</td></tr>
</table>

CAGE Distance Factors

Developed by Ghemawat, CAGE is an acronym that stands for Cultural, Administrative, Geographic, and Economic distance between two countries. CAGE Distance involves bilateral measures of multidimensional distance between two nations, as opposed to either 1) unilateral attributes of one country, or 2) multilateral measures of distance between one country and the rest of the world.

Cultural Distance includes differences in language, religion, and culture.

Administrative Distance includes differences in government regulations, policies, and tariffs.

Geographic Distance refers to physical distance (or climatic or terrain differences) between two countries.

Economic Distance refers to disparities in purchasing power or differences in the cost or quality of physical, human, or financial resources.

Imprinting Canvas

The Imprinting Canvas is a tool developed by the case writer to identify and make visible imprinted home-market assumptions within a business model. For a pair of countries, it plots the nine Building Blocks of a particular business model against the four CAGE Distance Factors, noting assumptions specific to each country within each Building Block.

A Japan-U.S. Imprinting Canvas for Benesse appears on the following page. This Canvas was developed for this case based on Benesse's actual experience in the United States.

Imprinting of Benesse Business Model Revealed by U.S. Experience						
Distance Type	**Cultural**		**Adm**	**Geo**	**Economic**	
Assumptions vs. actual conditions	**Imprinted (Japan)**	**Actual (U.S.)**			**Imprinted (Japan)**	**Actual (U.S.)**
Customers	Private pay educational services widely accepted, even among less affluent families Most families with children are prospects	Private pay educational services uncommon, especially among less affluent families Few families with children are prospects	**n/a**	**n/a**	High willingness to pay Prepayment is norm, uncollectible invoice ratio 1-2%	Low willingness to pay Post-payment is norm, uncollectible invoice ratio up to 20%
Value Proposition	Educational correspondence courses for pre-college children common	Educational correspondence courses for pre-college children largely unknown			Enrichment service price point higher	Enrichment service price point lower
Key Activities	Direct mail effective customer acquisition method	Direct mail ineffective in acquiring customers				
Partners	Strong brand, vertical integration, partners unneeded	Weak brand, weak infrastructure, partners needed				

Going Global

Is Culture Coloring Your Business Model?

When Google withdrew from mainland China earlier this year, many saw the move as a rare, high-profile case of political ideologies clashing. The truth is more subtle: Google's cultural DNA — not its political ideology — has caused it to lag rather than lead, in China and elsewhere.

But this poses a troubling question: If a sector-dominating, cash-rich technology juggernaut like Google stumbles internationally, how can less extraordinary companies manage to keep their footing?

Part of the answer lies in understanding that culture affects far more than mission statements and political beliefs. The "clashing ideology" view of Google in China misses a productive way of thinking about doing business overseas: how culture "imprints" key elements of every company's business model.

When we view things through a business model lens, we see imprinted values collide with market reality daily — at the operational level, and rarely in the spectacular manner of the Google affair. Any organization, regardless of size or stature, can achieve more overseas by examining the "cultural colors" of its business model.

Business Models: Imprinted by National Origin

Cultural imprinting, which draws on the work of Hofstede,[76] Ghemawat,[77] Stinchcombe,[78] and others, posits that business models are deeply affected by national origin: Simply by being born in a certain country, all sorts of unvoiced attributes and assumptions are "baked into" the model.

The practitioner perspective described here grew out of helping clients such as Amazon.com, Bertelsmann Financial Services, and General Motors enter or improve

[76] Hofstede, Geert. "Culture's Consequences (Second Edition): Comparing Values, Behaviors, Institutions, and Organizations Across Nations." Sage Publications, 2001

[77] Ghemawat, Pankaj. "Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter." *Harvard Business School Press,* 2007

[78] Stinchcombe, Arthur. "Social Structure and Organizations." Handbook of Organizations, Rand McNally, 1965

operations in Asia. Cultural imprinting seemed obvious from work with Western companies struggling to enter Asian markets, and from Asian competitors striving to do the same in the United States.

Building on Oscarwalder and Pigneur's Business Model Canvas and Ghemawat's CAGE Distance framework, this article presents a tool that helps users visualize imprintings and assess a business model's "international portability" — its basic viability in a specific overseas market. Obviously, when a company starts operating outside its home ground, many factors affect the probability of success: entrepreneurial skill, partner choice, competitor response, and so forth. The approach described here focuses on an organization's most elemental concern: its business model.

The article proceeds as follows. First, it defines "business model" and introduces a tool for describing business models. Next, it shows how to make a model's imprinted assumptions visible, with examples of how those assumptions affect viability overseas. Finally, it draws simple conclusions about international business model portability.

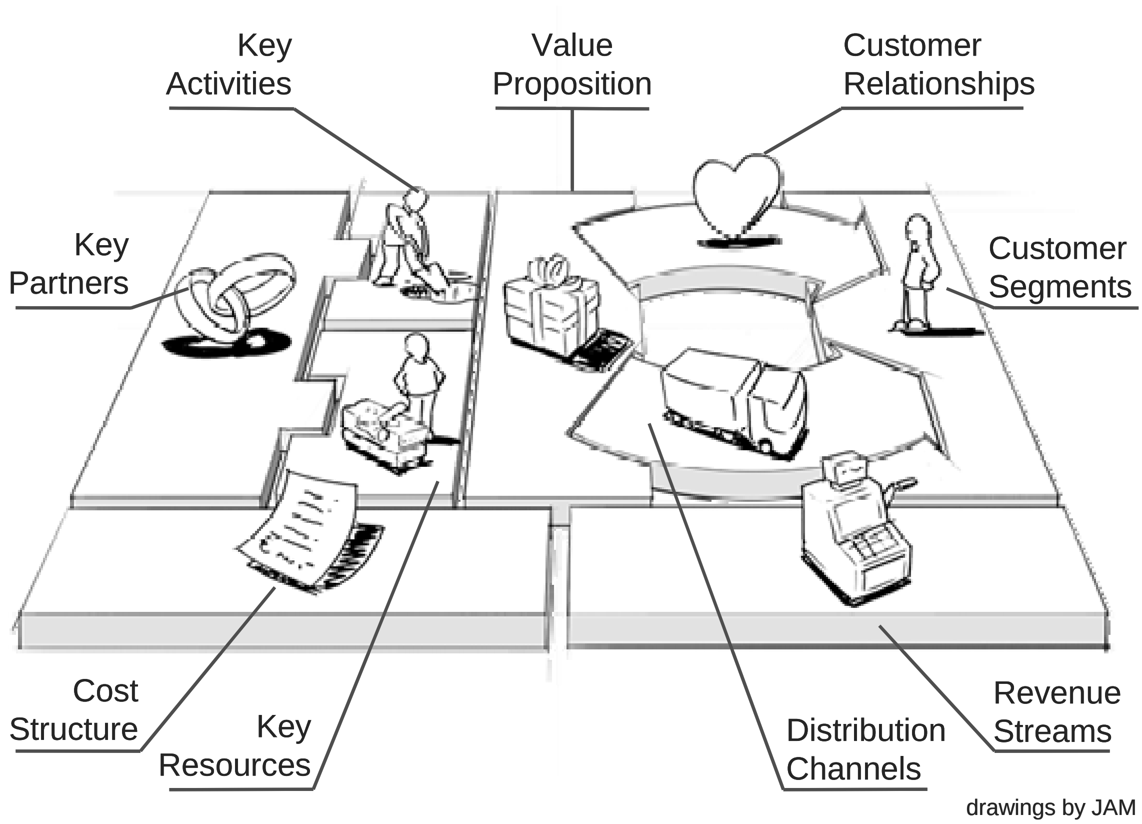
Defining and Describing Business Models

First of all, what is a business model? The definition used here is:

> *The strategic and economic logic by which an organization acquires and serves customers*

Describing business models simply but in a compelling way is tough. Osterwalder and Pigneur's Business Model Canvas, shown in Figure 1, was designed to facilitate description and discussion of business models in an intuitively understandable way, without oversimplifying the complexities of how enterprises function. Practitioners worldwide have found the Canvas useful, and organizations such as Capgemini, Deloitte, Ericsson, PriceWaterhouseCoopers, Telenor, and 3M have adopted it for internal use.

Figure 1. The Business Model Canvas



Source: *Business Model Generation*

The Canvas breaks business models into nine building blocks, each of which describes a crucial element of the logic by which customers are acquired and served. The two most important building blocks are Customer Segments — a model's raison d'être — and Value Proposition, the "job" performed on behalf of customers.

Other building blocks describe how the job is delivered (Distribution Channels), how the organization communicates with customers (Customer Relationships), critical resources and actions needed to do the job (Key Resources and Key Activities), and outsiders who can perform certain tasks more effectively or at lower cost (Key Partners). A business model works, of course, when revenues consistently exceed costs.

Figure 2 demonstrates the Canvas by applying it to Google.

Google's Value Proposition has three parts, but only one — targeted advertisements — produces significant revenues. Advertisers, the paying clients, are listed first under Customer Segments. Keyword auctions, the source of advertising fees, are listed first under Revenue Streams.

Google also helps content owners monetize their offers through its AdSense service, and provides free search, e-mail, and services to Web users. While these jobs produce no revenue for Google, they are crucial to building traffic and page views, so their respective elements are listed second and third under Value Proposition, Customer Segments, and Revenue Streams.

Google's Distribution Channel is clearly the Web, and it handles Customer Relationships almost exclusively through automated online interfaces.

The company's Key Resource is its search platform, and its Key Activities revolve around building, maintaining, and promoting this platform. Aside from employee salaries, platform maintenance and development accounts for most of its Cost Structure.

<table>
<tr><th colspan="10">Figure 2. Google's Business Model</th></tr>
<tr>
<td colspan="2" rowspan="2">Key Partners</td>
<td colspan="2">Key Activities
Build, maintain search infrastructure
Manage the three main services
Promote platform</td>
<td colspan="2" rowspan="2">Value Proposition
1. Targeted online advertisements, delivered globally
2. Monetize online content
3. Free search, Web mail, other services</td>
<td colspan="2">Customer Relationships
Automated online interface</td>
<td colspan="2" rowspan="2">Customer Segments
1. Advertisers
2. Content owners
3. Web surfers, e-mail users</td>
</tr>
<tr>
<td colspan="2">Key Resources
Search platform</td>
<td colspan="2">Distribution Channels
Web</td>
</tr>
<tr>
<td colspan="5">Cost Structure
Employee salaries
Platform maintenance and development costs</td>
<td colspan="5">Revenue Streams
1. Keyword auctions
2. (Free of charge)
3. (Free of charge)</td>
</tr>
</table>

Source: *Business Model Generation*

Distance Still Matters

With a description tool in hand, we can now use Google to examine how business models "travel."

In *Redefining Global Strategy*, Pankaj Ghemawat demonstrated that, notwithstanding valid points made by "flat world" proponents, distance still matters greatly when entering overseas markets. Ghemawat described four types of distance between nations: Cultural, Administrative, Geographic, and Economic. These are collectively known as the CAGE Distance factors.

Despite the supposedly frictionless, borderless nature of Google's online-only business model, the effects of distance are clear. Figure 3 defines the four CAGE Distance factors and shows how they posed obstacles to Google's expansion overseas.

Figure 3. CAGE Distance Obstacles to Google's Overseas Expansion

Distance Type	Definition	Obstacles Posed to Google Overseas
Cultural	Differences in language, religion, and culture, different ethnicities, values, norms, lack of trust	Chinese Web users expect search engines to be the locus of large social and entertainment communities — one reason why Google failed to become the search engine of choice in China. In Russia, language difficulties left Google with half the share of market leader Yandex.
Administrative	Differences in government regulations, policies, and tariffs, lack of colonial ties or a common currency, political hostility	Google's withdrawal from China ultimately resulted from its unwillingness to comply with censorship requirements — its Value Proposition is incompatible with host government mandates.
Geographic	Physical distance, climatic, time zone, or terrain differences, lack of common land border	Unable to develop its business remotely in Russia — Google cofounder Sergey Brin's homeland — Google was forced to set up a physical office there and hire local engineers.
Economic	Disparities in purchasing power or differences in the cost or quality of natural, human, intellectual, or financial resources	Google lagged Chinese competitors in adopting micropayment schemes that matched local economic and cultural norms. In Russia, which lacked credit card and online payment infrastructure, Google failed to develop traditional bank payment options.

Source: Author adaptation of table from *Redefining Global Strategy*

Painting the Invisible: How to Make an Imprinting Canvas

CAGE Distance concepts can be combined with the Business Model Canvas to create an Imprinting Canvas, a tool for making imprinted assumptions visible. The tool plots a business model's building blocks against the four CAGE Distance factors, noting market-specific assumptions within each building block.

Figure 4 uses the Google example to show how an Imprinting Canvas is drawn.

First, plot the business model building blocks vertically against each of the four CAGE Distance factors.

Next, create two cells within each building block: one for the home market and one for the target market.

Then, beginning with Customer Segments and Value Proposition, articulate home and target market assumptions specific to each building block and to each of the four CAGE Distance factors. You'll likely need help from a target market native to do this effectively.

For example, from an Economic perspective, Google's Value Proposition is "targeted online advertising, delivered globally." From a Cultural perspective, though, Google's self-described Value Proposition is to "make the world's information universally accessible and useful." But in China, where some individual freedoms are sacrificed in the name of social stability and prosperity, disruptive information is censored. The Value Proposition is incompatible with Chinese market reality.

Similarly, from an Administrative viewpoint, legal concepts of freedom of speech and information transparency deeply imprint Google's model: the assumption is that the state will only restrict access to national security-related information. But corresponding Chinese values — imprinted just as deeply — are completely different. Again, the Value Proposition is incompatible.

Administrative distance within the Customer building block is equally great. The imprinted U.S. assumption is that government is a necessary evil. In China, though, government is widely considered a necessary virtue.

Culturally, U.S. customers value Google's utility and functionality — and perhaps its egalitarian search result algorithm and "do no evil" philosophy. But Chinese users — at least the younger ones — are more interested in using the Web to socialize and watch bootlegged foreign television shows than to foment democracy.

The Canvas can be completed by filling out the rest of the seven building blocks, but Value Proposition and Customer elements are crucial. If imprinted home market assumptions are at complete odds with actual target market conditions, the business model may be a non-starter.

On the other hand, differences in Distribution Channels or Key Activities — even big ones — may not be showstoppers, as the following examples show.

Figure 4. A Partial Imprinting Canvas for Google in China

CAGE Factor	Cultural		Administrative	
Imprinted assumptions vs. actual conditions	**Imprinted (U.S.)**	**Actual (China)**	**Imprinted (U.S.)**	**Actual (China)**
Customers	Users value utility, functionality of search engine features	Users value community, entertainment aspects of search engines, in addition to functionality	Government is a necessary evil	Government is a necessary virtue
Value Proposition	Make the world's information universally accessible and useful	Make non-disruptive information available	Government restricts access only to national security-related information	Government restricts information access as it deems necessary

Imprinting Canvasses in Action: The Case of Home Instead

Home Instead is an Omaha, Nebraska-based provider of at-home companionship and life-assistance services for the elderly. The company solicits, hires, trains, and dispatches caregivers to client homes.

Home Instead's Value Proposition is to provide emotional support for the challenges of aging while enabling clients to stay in their own homes instead of moving into assisted living facilities.

With some 850 franchisees, including more than 250 outside the United States, Home Instead's Value Proposition has proven highly portable.

"Aging is a universal issue," says David Banark, a Home Instead executive. "Everyplace you go, clients face the same challenges and have the same experiences we do in the United States."

Moving into a High-Distance Market

When Home Instead was preparing to enter the Japan market, it foresaw a serious challenge with respect to Key Activities and Distribution Channels. In the U.S., the company acquires customers through referrals from doctors, nurses, hospital discharge planners, and other private-sector professionals who advise clients on care decisions.

But Japan's national health insurance system — Culturally and Administratively distant from the U.S. — loomed as a formidable obstacle. It was unclear whether soliciting referrals from government-reimbursed medical professionals would prove workable. Also, because the Japanese government takes responsibility for the citizenry's healthcare, consumers are unused to paying out-of-pocket for health-related services. That meant Home Instead needed to identify and target affluent consumers.

Home Instead solved the problem by teaming up with a housekeeping business that already served thousands of affluent Japanese households. During regular cleaning visits, the housekeepers were able to identify strong prospects for caregiving services. Home Instead's new Japan partner successfully converted these prospects into customers, neatly bypassing not only medical providers, but the entire national health insurance system. Modifying one Key Activity — customer acquisition — had a dramatic impact on the viability of Home Instead's business model in Japan.

A similar U.S. caregiving service, one whose Value Proposition is focused on minor medical care, had the opposite experience in Japan.

Like Home Instead, it relies on doctors, nurses, hospital discharge planners, and other private-sector professionals for client referrals in the United States. But its new Japan partner adopted the imprinted, U.S.-style customer acquisition approach and relied excessively on referrals from medical professionals and from government case managers who authorize medical expense reimbursements. Such referrals proved either unworkable or insufficient, and the business failed.

Some Jobs Simply Don't Need Doing

As Google's experience shows, sometimes a Value Proposition is incompatible with target market realities. Some jobs, though, simply don't need doing overseas.

Benesse, a multibillion dollar listed Japanese corporation, provides an example. Benesse is Japan's leading provider of correspondence courses for primary, secondary, and high school students.

The key job Benesse does for customers in Japan is help them pass highly competitive school entrance exams. This job is needed because of intense competition for a limited number of spots at prestigious universities, high schools, and middle schools — and even some elementary schools and kindergartens.

When Benesse set up a U.S. subsidiary, it recognized that formal entrance exams are rare in the United States, even at the university level. Its job of helping students pass entrance exams simply didn't need doing. And because secondary educational services are highly sensitive to Cultural and Administrative distance, replicating Benesse's Japan model would have required an overwhelming localization effort.

The company decided to sell a highly visual, activity-based preschool course instead. But the business failed, partly because of imprinted Economic assumptions about customer willingness to pay that were incompatible with U.S. market reality.

Repositioning the Value Proposition

Another Japanese educator, Kumon, found success in the United States — after decades of effort.

Kumon is the world's oldest and largest tutoring service franchisor, with more than four million students in forty-six countries. Unlike competitors in Japan, the company ignores entrance exam preparation, grade levels, and traditional instructional techniques, and focuses instead on learning for learning's sake, using a unique system of self-paced, self-study worksheets. Kumon's Value Proposition is deeply imprinted by the notion of enrichment-focused, future-oriented learning.

Kumon entered the U.S. market in 1974, and initially served children of Japanese and Asian expatriates exclusively. These families shared Cultural and Economic assumptions that the value of private tutoring services lay in helping children work beyond grade level.

But Kumon failed to gain traction among a broader range of U.S. customers for nearly two decades, forcing the company to acknowledge that, for most U.S. families, tutoring was about catching up rather than exceeding. By broadening perception of its Value Proposition to include remedial-focused, short-term-oriented learning in addition to enrichment-focused, future-oriented learning, it dramatically expanded its customer base. Today Kumon is the leading tutoring franchise in the United States.

Is Culture Coloring Your Business Model? Yes.

The question is not whether culture colors your business model, but how. Identifying your model's imprints, and evaluating their implications, makes good business sense — and is hard work. Here are some points to bear in mind:

- Business models are indelibly — and invisibly — imprinted with assumptions specific to national origin

- An Imprinting Canvas can help make these assumptions visible

- The key to a business model's international portability lies in the Customer and Value Proposition building blocks. If imprinted assumptions in these building blocks are at odds with target market conditions, the business model may be a non-starter (remember Google in China).

- When the Value Proposition appears portable but Administrative or another type of distance is high, modifying other building blocks may unlock the model's potential (remember Home Instead in Japan).

Wherever your destination, it's worth considering how national origin imprints an organization's most fundamental elements. So before starting your next journey, why not outline a fresh, clean Canvas — and try painting your business model's true colors?

Tim Clark is an entrepreneur, teacher, and writer who most recently served as contributing co-author and general editor of* Business Model Generation *(Wiley).

Recommended Readings

Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter, by Pankaj Ghemawat. *Harvard Business School Press,* 2007

Business Model Generation, by Alexander Osterwalder and Yves Pigneur. Wiley, 2010

Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations Across Nations, by Geert Hofstede. Sage Publications, 2001

8. Conclusions and Implications

The conclusions presented below are simply hypotheses subject to 1) practitioner testing for usefulness, and/or 2) verification through further research.

Business Models Appear to Be Imprinted by National Origin

All four cases appeared to support the proposition that business models are imprinted by national origin. When explicated and compared across-culturally, it seemed clear that each model contained “baked in” assumptions specific to national origin.

Imprinting Canvas Appears Useful for Evaluating and Assessing Portability

Most important in the author’s view, the study proposed and applied a method for evaluating and assessing a business model’s international portability. Specifically, a new tool, the Imprinting Canvas, was developed and used to examine business models for factors that may influence portability. The key purpose of this tool/process is *to make imprinted business model assumptions visible.*

The study applied the Imprinting Canvas retrospectively (post-market entry) to four companies whose models displayed varying degrees of international portability. This process appeared to be useful in identifying where imprintings either enhanced or hindered portability. The potential value of the Imprinting Canvas could lie in 1) pre-entry analysis of a model’s potential in overseas markets, and 2) post-entry identification of problem areas/generation of potential solutions.

The author hopes the Imprinting Canvas and related assessment process will prove useful to practitioners and stimulating to academic researchers, who may want to critique or build upon the work in other research.

The Meaning of *Not* Modifying a Model

It is noteworthy that representatives of both of the higher-portability companies were proudly adamant that they do *not* modify their basic business models in response to local conditions overseas (though they do make tactical adjustments). In contrast, representatives of the lower-portability companies spoke of modifying their business models for overseas markets.

The Value Proposition seems to be the key to international business model portability. As seen in the HomeKeepers case, if the Value Proposition itself is highly portable, it may well be that high Administrative or other CAGE Distance factors can be overcome by modifying a building block of lesser importance, such as Distribution Channels.

At the risk of stating a tautology — that business models globally accepted in unmodified form are highly portable — it seems that a need to significantly modify a business model for overseas market indicates low portability.

More to the point, when considering entry into overseas markets, it may be useful to think of differences not as residing in the target market, but rather as residing in one's own business model in the form of national origin imprintings. This changes the question from "let's adapt our strategy to local conditions," to "let's examine our model for workability in the target market." Such thinking would represent a shift in orientation to looking for problems *within* rather than *without.*

* * * * *

The author would like to note that superior international portability does not necessarily mean that one company is superior to another in terms of size, earnings, or social contribution. Benesse, for example, is far larger than Kumon in terms of both sales and earnings, even though its model is less portable internationally. Comparisons of the subject companies are not meant in any way to imply judgments concerning their respective economic or social worth.

Limitations of the Study

This study consisted of exploratory research using the case method, and is therefore based on analytic generalization, whereby a theory is used as a template with which to compare the empirical results of multiple case studies, rather than statistical generalization, or making inferences about a population on the basis of empirical data collected from a sample of that population.

As such, its purpose was to 1) investigate the idea that business models are imprinted by national origin, and how such imprinted factors can affect international portability, 2) develop the FC Pyramid and the Imprinting Canvas as tools for evaluating and assessing the international portability of business models, and 3) apply the tool to several corporations in two different industry sectors to develop some hypotheses about what influences international portability. Case results appear to support the proposition that market entry failure resulted from cultural coloring — CAGE factors imprinted within the Cultural layer of a business model.

On the other hand, it is impossible to rule out the rival proposition that market entry failure resulted from explicit factors such as poor partner choice or inability to localize effectively. It is possible, for example, that HomeCare's Japan partner was inadequate, and that Benesse simply failed to sufficiently localize its offer for the U. S. market.

Other limitations include the following:

1. Drawbacks inherent in case study work

The research is limited by drawbacks inherent in case study work, including the small number of cases, lack of application of the scientific method, and so forth. The entire study was conducted by a single researcher and is therefore subject to various single-researcher biases enumerated by Yin and others, such as lack of investigator triangulation. The limitations of the case study method have been covered at length elsewhere and will not be repeated here.[40]

2. Reliance on subject company self-reporting

In addition to secondary data sources such as books, magazine, newspaper, and journal articles, annual reports, and Web sites, the study relied heavily on interviews with subject company executives. While interviews were conducted with at least three different people from each company, and when possible corroborating/additional comments about each firm were solicited from neutral third party industry experts, franchisees, and consultants, the study's interpretations and conclusions rely heavily on subject company self-reporting.

3. Cases limited primarily to service industry franchisors

Because the cases are limited primarily to service sector franchisors, conclusions may not be applicable to product companies or firms operating under non-franchise formats.

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