Let's get started with looking at adaptation strategies for adaptation as well as for all the other segments that we have videos on today. There are chapters which have been uploaded to the Coursera platform, that are basically short write-ups on each of these topics, drawn from my 2011 text and cases book, with Jordan Segal, so there is a short reading on adaptation. Similarly, there are short readings on aggregation, on arbitrage, and on integration that I'll get to when we get to the relevant sections within this particular discussion. And again, I'm not going to try and cover all the material that's in the readings. I'm simply going to try and induce you to take a look at the readings. By getting you to realize the wealth of strategic possibilities that are embedded in these triple A strategies. So, let's start off by looking at adaptation, and I'm going to mostly in the interest of time, rely on examples that we've already talked about in the course of the globalization of business enterprise. Lots more examples to be found in some of the supplementary reading that I will point you to towards the end of this particular talk. So, one example of adaptation that we saw early in the course, on the very first week, in fact, had to do with Coca-Cola, which has a dominant position in Japan, where it offers 200 varieties of soft drinks. Many of them not sold outside Japan, many of them in fact of taste very exotic for non-Japanese and so no hope of ever being sold outside Japan. And it's a continuously shifting lineup. There are years in which Coke has been known to introduce as much as, as many as 100 new, or reformulated, products into the Japanese market. So, Coke's, variation at Coke, is obviously meant to deal with a number of distinctive characteristics of Japan the fact that people there have limited appetite for cola drinks. The fact that it's a vending machine market so you need a lot of products if you actually want to pack that particular channel and make it hard for competitors to get into.

Now, of course, when we look at these 200 different products you know, while they worked for Coke in Japan, because it has such a commanding market share position, it's obviously costly to introduce this many different varieties. And so, while variation in terms of products, in terms of policies, in terms of store formats, what have you, is a standard feature of adaptation in most business context. The critical challenge that the strategist often faces is achieving variation cost effectively, in a way that doesn't compromise overall system economics. So, in addition to making the point about variation being the obvious response to the challenges of adaptation, what the reading for this particular segment of the discussion goes on to focus on are some of the complimentary mechanisms that really help make for cost effective variations rather than variation that simply torpedoes one zone economics. Here again, let me just give you two examples as a way of motivating what some of these complimentary levers might be.

Think back to the Totto case, and we already spent a lot of time discussing this maker of Columbian backpacks back in week two, so I'm not going to review the whole discussion of their entry sequence, et cetera. But how did Totto deal with the challenges of potentially quite different market environments, quite different preferences in regard to backpack designs, et cetera, around the world? Well, the one obvious response was focus. We talked earlier about how Totto had a very focused expansion path, started off in Colombia, then moved on to ND-impact countries which, until recently, were the major international markets. Look North to the Central American and Caribbean, look South, but without going as far south as Brazil, which is very large and Portuguese-speaking. And then finally, when they did look at Europe, they first went to Spain, where there was some obvious cultural and administrative commonalities associated with a common language, colony/colonizer links, et cetera. So what focusing in this way on relatively similar strategic targets does is, it obviously reduces a little bit the need for adaptation that you face. So focus, whether by product, by vertical stage in the value chain, by channel, by geography, is one of the devices that firms use to simplify their adaptation challenges. If you have a very focused expansion strategy, that focuses only on entering markets similar to your home base. Effectively, you've made the problem of adaptation much easier on yourself.

The second complementary lever, which Totto also provides an illustration of is the idea that sometimes through things like, you know, networking user or buyer innovation, or franchising. You can actually shift some of the burden of adaptation outside your own firm onto the shoulders of others. So, specifically, if we look at Totto's stores, while it owns many of it's stores in Columbia, most of it's stores outside Columbia are franchised. And this is a simple way of ensuring that Totto has somebody on the ground who knows a particular foreign market well, the franchisee and who has a real incentive to make. Make sure that that knowledge gets plugged in to how the Totto's franchise actually operates in that particular country. So, Totto illustrates two levers that help make variation a little more effective for little bit easier to deal with focus which reduces the burden of variation and externalization in this case through franchising. Which also reduces the burden by shifting some of it onto the shoulders of other players in this case those franchisees.

For a final example of adaptation that illustrates some additional levers that can be used to ensure cost effective variation, think of McDonalds. McDonalds, of course, is famous to us as, as the producer of the Big Mac and other highly standardized products not completely standardized. But standardized to such an extent that the Economists Magazine actually calculates a big MAC index to try and figure out which currencies are under valued and which currencies are over valued.

But, despite this popular perception of McDonalds as a very, very homogenized purveyor of food, look at what they have to say about themselves. In many markets, we supplement our iconic menu items, and I suppose the Big Mac would qualify as an icon, with distinctive offerings that embrace local tastes. And this isn't just marketing fluff. Let's take a look at some of the kinds of products that McDonalds offers in its stores around the world that may be less familiar to you, if you don't happen to be from a particular country. So, in addition to their regular burgers, in Japan they have the EBI Filet-O burger, a shrimp burger. In Israel, they have the McFalafel. In India they don't even have hamburgers they sell lamburgers given Hindu religious taboos about eating beef.

And in Argentina, where people certainly don't have any problem eating beef Argentina has about the highest per capita consumption of beef in the world, they sell something a bit more familiar, but still relatively unique. A triple burger, with more meat, I understand, than is found pretty much anywhere else. So, McDonald's has obviously taken it's burgers and tried to think about, okay, how do we adapt these burgers to local taste. In addition, they've offered a lot of local items that look entirely unfamiliar if you're familiar with, say McDonald's in the United States. So cheese quiche with this kind of topping in Brazil, the caldo verde green soup from Portugal, and the red bean pie from Hong Kong are probably products that you might not expect to see in this well known U.S. based burger chain. And it's about more than just, sort of, you know, it's about more than, again, while there's lots of variation within the McDonald's system.

The interesting thing is that they have a management philosophy that actually does try and delimit how much variation is acceptable. In particular the way McDonald's has designed its menus, there's roughly speaking, in most countries, an 80-20 strategy. Where 80% of the products are supposed to be off the standard global menu and 20% are supposed to be responsive to local taste. And thinking about how to integrate the 80%, where McDonald's is following, more or less, standardized processes around the world, with the 20%, that are, more or less, local is something that's greatly facilitated by, at least, this level of specificity about what's global and what's local. So, McDonald's has a very clearly partitioned business system in terms of the mix of global versus local products, within its system. And so that, in some sense, is cost effective variation by design. They've designed their whole system in a way that allows them to put some of these local items on the menu, without necessarily disrupting the operating consistency and the operating efficiencies that McDonald's is so famous for. But that's not the only thing they do, so the final complimentary lever that one wants to look at, and again I'll just use McDonald's as an example, has to do with innovation, or the idea that, you know, if you actually modify products, modify policies, etc.

If you do it in the right way, you can actually make variation happen much more, with much greater benefits, with much more effect, than if you weren't as attuned to the local market. And here again, since this may sound rather abstract, let me just take one of my favorite examples, from McDonald's India, this is the McAloo Tikki burger. If you're not from India you probably have no idea what this is. The AlooTikki is a traditional snack in India made out of potatoes with peas, a savory filling, et cetera. And McDonald's twist on the McAloo Tikki burger was to take the Aloo Tikki, put it on a bun, and use that as a marketing device to reach an audience that reach, reach consumers that had never previously thought of having their aloo tikkis in this fashion. So, McDonald's isn't simply just putting local items into its menu, which would be adaptation level zero, it's actually thinking about how to take those local items, put a distinctive McDonald's twist on them, and then put them on its menu. Which I argue is a higher and potentially more fruitful form of adaptation.