GLOBAL STRATEGY

Case Study: Did We Expand Too Quickly?

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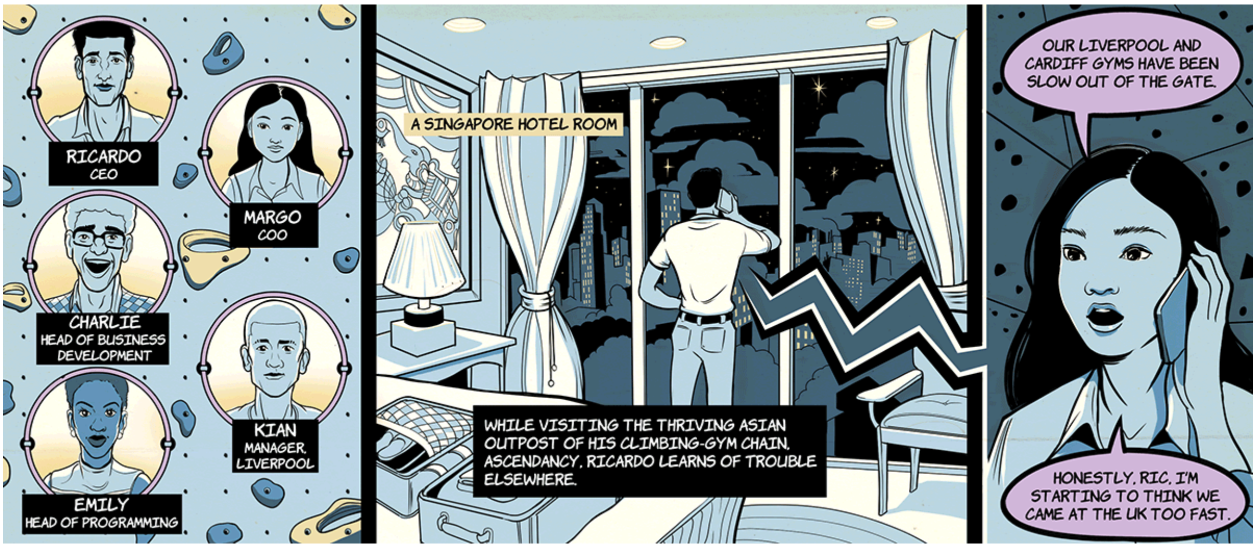

RYAN GARCIA

Ricardo Ruiz couldn't fall asleep. It was his third trip to Singapore—he'd initially come to scout locations for the first Asian outpost of his climbing-gym chain, Ascendancy; had returned for the grand opening a year ago; and was there now to check on operations. But the 23-hour flight from Raleigh, North Carolina, via San Francisco hadn't gotten any easier, and the founder and CEO still found the jet lag brutal.

He had just given up and gotten dressed when his phone rang. It was Margo Little, Ascendancy's COO.

“You remember I’m in Singapore, right? And it’s the middle of the night here?” Ricardo said in a teasing tone. The two were not only colleagues but old friends and climbing partners.

“I wouldn’t have called if it weren’t serious.”

Ricardo snapped out of his fog. “What’s wrong?” he asked, his heart racing. Had something happened to his family? Was there a company crisis?

“It’s Ascendancy Liverpool,” Margo said, referring to the company’s second UK location, which had opened three months earlier. “A novice climber didn’t tie in correctly, fell from 15 feet, hurt his back, and is suing us for £4 million.”

“Didn’t he sign the waiver?”

“Of course he did. Our lawyers say it’s a ridiculous claim and will be thrown out. But it’s all over the press. He says we didn’t adequately warn him of the danger or give him enough instruction.”

“But we follow the exact same procedures in every gym”—after 10 years, Ascendancy had 35 thriving ones in the United States, plus three international locations[1]—“and we’ve never had a problem before.”

CASE STUDY CLASSROOM NOTES

[1] The U.S. commercial climbing-gym industry grew by nearly 12% in 2018, with the launch of 50 new venues, according to *Climbing Business Journal.* Should Ascendancy try to match that pace?

"I know. We're highlighting that fact with reporters and on social media. I called to get you to sign off on a statement. But I'm worried that Liverpool will take a big hit. Maybe Cardiff too. Given how slow out of the gate those gyms have been, we can't afford a PR crisis." She hesitated, and then spoke again. "Honestly, Ric, I'm starting to think maybe we came at the UK too fast."

"What do you mean?" the CEO asked. "This is one incident."

"Yes. But it's another warning sign. Why haven't our UK marketing campaigns worked as well as the U.S. ones? Why aren't sales doubling month to month like they're doing in Singapore? Why aren't we getting the same influencer traction we have everywhere else?[2] And why on earth would any reporter think that a guy who fell because of his own carelessness deserves a story? I don't understand this market."

[2] How might business tactics need to shift for different geographic areas?

Ricardo ran a callused hand through his hair. He'd been worried about the UK gyms too. That's why he hadn't slept on the plane: P&L review.

"Let's focus on the problem at hand—damage control," he said. "Send me the statement, and I'll review it ASAP. I'll also book a flight to Liverpool. It sounds like I should be on the ground there. You too. We'll discuss the bigger picture then."

Ricardo ended the call. He felt sick, and it had nothing to do with jet lag. After all of Ascendancy's domestic success and the recent win in Singapore, had the team grown overconfident about its ability to conquer new markets?

A Heated Disagreement

Ricardo was still in Liverpool a week later. The climber had withdrawn his lawsuit following reports that he had previously injured his back in a nightclub brawl and had tried to sue on that occasion, too. But the gym still wasn't attracting the crowds the team had counted on.

Ricardo had called a meeting at the gym with Margo, who was also still on-site; Charlie Saperstein, the head of business development, who was Skyping in between visits to potential locations in Amsterdam; and Kian Chambers, whom they'd hired to oversee Ascendancy Liverpool.

Ricardo turned to the local manager first. "Kian, you know this market best. What do you think is going on?" He sensed the young man's hesitation and gave him an encouraging nod. "Please speak frankly."

"Well, like I said when we started, climbing is just catching on here.[3] My mates and I have been doing it for years, but most lads my age do footie or rugby or cricket for sport, and the fitness people are used to just treadmills and machines. We've got to educate them, right? Plus, it's winter; when it's dark by afternoon, people don't get out as much. Even the athletic ones settle down for a pint at home or at the pub. And I know the lawsuit is over, but I think it created a bit of a scare and maybe some worries that this big American company was more interested in making a few quid than providing a quality experience. We get lots more questions about safety now, especially from mums. It's gotten even harder to fill the youth classes."

[3] England now has over 75 climbing gyms in more than 60 cities.

Ricardo grimaced. Young adults, teenagers, kids—they were Ascendancy's bread and butter.

Charlie jumped in. “We knew there would be challenges. But we picked Liverpool precisely because climbing gyms are new there, because it’s not saturated with competitors, because we could start and lead the trend just like we did in our U.S. cities.”

When the executive team had begun its international push, the criteria for site selection had been simple: The company looked for markets with English as the primary or the dominant secondary language and with city-plus-suburb populations of more than 2 million and two or fewer existing climbing gyms; populations of more than 1 million and just one existing gym; or more than 400,000 people and no gyms. [4] Liverpool, with more than 2 million residents in the metropolitan area and only two small climbing centers, had fit the bill.

[4] Are these criteria adequate? What other data might Ascendancy take into account?

“That strategy is working in Singapore,” Charlie continued. “We can’t open another gym there soon enough. I’ve also found two amazing sites in Amsterdam. There’s a huge advantage to being a first mover[5]—making sure people get to know climbing through our walls and equipment and classes. We just need to give Liverpool more time.”

[5] Some studies have shown that a company can gain a significant advantage by being the first big player in its sector or geography, through technology leadership or the acquisition of prime resources. But experts note that first movers have a mixed track record, and often it is followers who succeed in the long term.

“Cardiff too?” Margo chimed in. “The numbers there are just as bad.”

“They’re not *bad*—they’re just not quite as good as we typically see,” Charlie replied.

Ricardo frowned. “Not quite as good” was unlikely to satisfy the chain’s private equity investors.

"With the growth we're seeing in Singapore, and with the success of the new Providence and Nashville gyms—and maybe Amsterdam, Manchester, and Dublin next year—we can make up for the slow start in Liverpool and Cardiff," Charlie said, his enthusiasm undimmed.

"That's not how we operate," Margo said, bristling. "Each gym needs to recoup 20% of its initial capital investment within a year and cover its operating costs within two.[6] We're not on pace to do that here." She gestured at the three-story expanse of undulating gray across from the table where the group sat. Only two climbers were on it, gripping Ascendancy's signature neon holds.

[6] Is this a reasonable per-location hurdle rate?

"That's how we've done it in the past," Charlie answered. "But we've gotten some bad press here. When you're working in new countries, different issues crop up. Maybe we need to be more flexible with our overseas operations—shift the goals and the model to a portfolio approach."[7]

[7] What are the pros and cons of changing the individual-location ROI requirements?

"Or maybe we should hit pause on our international expansion—take a little more time to understand the markets we're entering," Margo retorted. "Perhaps consider more factors than language, population, and competitors, and start way earlier on the education and outreach that Kian talked about. This is a $50 million company now. Why would we change the model that's gotten us to this point? It's the aggressive growth plan we should be rethinking."

"And let rivals like Kilimanjaro and Triple Peaks pass us?[8] They're looking at Europe too."

[8] How much should Ascendancy worry about competitors?

“I get the urgency, Charlie,” Margo said. “But I don’t think we need to move quite as fast as you’re suggesting.”

Ricardo had never minded having his team engage in heated debates, but he saw that Kian was starting to look uncomfortable.

“OK, you two,” he said. “It’s clear where you stand. Charlie, go ahead to your next meeting. Margo, we have a plane to catch. And Kian, let’s get you back out on the floor.”

As Margo took calls from various local managers on the way to the airport, Ricardo replayed the earlier discussion. He couldn’t imagine telling the board that he wanted to change the company’s accounting practices to allow for more-modest single-gym targets, nor could he see suggesting that the global strategy they’d approved the previous year needed to be completely revamped. Neither was a good option.

Kids on the Wall

What Ricardo loved most about climbing was that it required so much focus you couldn’t think about anything else. Toe on this foothold, hand on that jug, find another hold, stretch for the next grip. He was on one of the toughest routes at Ascendancy Raleigh and was almost to the top. If it was a choice between climbing and lunch, he always chose the former and ate a few energy bars at his desk.

Suddenly he heard cheering from below. It was the first day of his kids’ December school break, and his wife, Emily—who was also Ascendancy’s head of programming[9]—had brought them in for an afternoon of climbing.

[9] With his wife as head of programming and an old friend as COO—both also enthusiastic climbers—does Ricardo have enough diversity on his executive team?

"Just in time!" he shouted as he grasped the final hold and slapped the top of the wall. The kids continued cheering as he rappelled down and high-fived him on the ground.

"Can you stay and watch for a bit?" Emily asked.

"Sure." Ricardo smiled; his enthusiasm for the sport had rubbed off on the family long ago. "Fifteen minutes here, a quick shower, then on to my next call."

Once the kids were tied in and climbing, Emily turned to business. She had taken the day off, but the company's UK challenges were worrying her, too.

"What's the latest on Liverpool? The last I heard from Kian, classes were still at 50% capacity."

"It's slow," Ricardo answered.

"Is it fallout from the lawsuit? Or are the English less into climbing than we thought?"

Ricardo hesitated. "I'm really not sure. We've upped the marketing. Kian is working his connections. But it's just not picking up."

"And Cardiff?"

"Slightly stronger. But not like here or Singapore."

"What's going on with Amsterdam?"

"Charlie just emailed. He's negotiated two potential contracts. He wants me to visit this week, sign one this month, prep the site this winter, and start construction in the spring."

"Are you comfortable moving that quickly?"

Ricardo looked at his seven-year-old son, who was already high up on the wall. Mateo was a risk-taker, trusting his gut and usually ascending in record time. Maya, 10, was more cautious. She climbed at about half Mateo's pace but never slipped or fell.

In climbing and in business, Ricardo had always been like Mateo. But he was starting to wonder if under Ascendancy's current circumstances, Maya's strategy made more sense.

Question: Should Ricardo press on with or pull back from his international expansion plans? The Experts Respond

ASCENDANCY DOESN'T necessarily need to slow down—but it does need to focus. When you're trying to expand globally as a boutique fitness business, like the brands my company owns, it doesn't make sense to plant your flag in multiple countries at once with one or two locations in each. You should choose the geographic market that best suits your business and focus on winning it.

If Ascendancy Singapore is a success, Ricardo should open more gyms there—as many as the market can handle. It's a cosmopolitan, English-speaking country, and the company has already worked through the typical banking and technology hassles associated with launching abroad.

Ricardo might want to expand in the UK as well, provided he can diagnose and solve the problems in Liverpool and Cardiff. Ascendancy seems to have a good recipe; it needs to make sure its UK gyms are following it. In a membership-based business, you want to dive into sales-lead flow, closing ratio, and attrition to see where locations are falling short. If the idea is to pull people in for parties, corporate events, and seasonal classes, you need to look at where and how you're advertising and what's working and what's not. The company might interview customers who are leaving to determine why.

If Ricardo and his team learn that demands and desires are different on that side of the Atlantic, it might be wise to bring on a local partner. That's why our company operates under a franchise model. The people who run our hundreds of Pure Barre, Club Pilates, CycleBar, StretchLab, Row House, AKT, YogaSix, and Stride studios across the United States are embedded in their communities. Our international partners have extensive experience bringing American brands into their markets, and they sign on to take our entire portfolio across their respective countries.

If Ascendancy wants to maintain corporate ownership over all its locations and keep going in the UK and Singapore, I would strongly advise adding a new layer of management: country manager. You want boots on the ground, not just for a week but all the time. I would also encourage the team to use more data in deciding which cities and neighborhoods are suitable for expansion. Surveys can determine who the gym's core UK and Singapore customers are and where people like them live.

Ascendancy needs to take Amsterdam off the table for now. It should look at opportunities to improve and expand in the international markets into which it has already ventured.

ASCENDANCY NEEDS TO take a step back and reassess its expansion plans. When and where is speed strategically necessary, and where is it not.

Some retail businesses pursue a predatory strategy—establishing footprints all over the place to thwart would-be competitors who could duplicate their offering—even if that means operating unprofitably for an extended time.

But if you feel that urgency, you'd better have something you know people in your new locations will get excited about. I'm told that this case study is based on one about trampoline parks, which makes sense. Everyone knows how to bounce, and kids love it, so it's easy to pitch that as a leisure activity in many different geographies.

Ascendency's gyms could be a much harder sell, especially where the activity isn't well-known or broadly practiced. Climbing is niche and requires far greater levels of skill and commitment. So as Ricardo and his team consider their expansion plans, they need to factor in not only basic criteria such as market size, core target demographics, and the competitive landscape but also whether the population includes passionate climbers who will frequent the gym and perhaps encourage others, including novices, to do the same.

It's critical to understand why people may or may not engage in an experience. Ascendancy might consider moving more cautiously— or not at all—in areas where generating enthusiasm may require substantial amounts of time.

Climbing gyms have obviously caught on in the United States and, for whatever reason, in Singapore. But the UK is a different market. The Dave & Buster's restaurant-and-arcade chain discovered that fact during its unsuccessful foray into the country: English people accustomed to intimate pubs may not have understood the massive entertainment venues it was opening.

At Boda Borg we are fortunate to have a product, Questing, that appeals across broad demographics and cultures. Before my investment group acquired the company and I became CEO, in 2008, I visited its location 150 kilometers from Stockholm and was shocked to see people from five countries. On another visit I saw two busloads of church ladies arrive. We work hard to understand why people fall in love with our product and to replicate its success in new locations.

Although Questing is brand-new to most people and nearly impossible to fully explain, the percentage of our guests who are exhilarated by the experience and share their enthusiasm through word of mouth is extremely high. So a new Boda Borg location in a well-targeted geography easily serves as a massive marketing vehicle for new guests and future expansion.

Our strategy is long-term: We want to be sure that our product remains highly attractive today and in the future, and we believe it is hard for others to duplicate. So we have been extremely patient over the past 11 years in deciding where and how to grow. We now have seven locations in Sweden, one in the United States, and one in Ireland. We want to ensure that Boda Borg is as strong everywhere as it is in our core locations. That means we take a good long look at new markets and partners before we act.

I would encourage Ascendancy to slow down and do the same.

HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the Ivey Publishing Case Study "CircusTrix: The Ups and Downs of International Expansion," by Simon Greathead, Case Lawrence, and Jonathan Richards.

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