ECONOMIC DISTANCE

Economic distance has two distinct yet interrelated **definitions**. One is a relative measure of household well-being based on a percentage of median income, or an absolute difference in per capita income between social groups.

Cultural distance refers to how similar the underlying culture is, and language often has a strong effect on this variable. Other key variables in the social gaming space are ethnicity (does the target market share the same ethnicity as your home market?), religion(s), values, norms and the target market's overall insularity (openness to foreign entertainment products).

Administrative distance is primarily about political systems and how tied/similar they are to your home market. A common currency (do they use, either officially or unofficially, dollars or Euros) would also lessen administrative distance. Also, whether the target government takes an active or passive role in the social or gaming space would affect this variable.

Geographic distance is what it sounds like: How far is the target market from your home market? That is, if you are based in California, China is a lot farther away than is Canada (yes, I know, the value of a graduate degree). Other things than can affect geographic distance are difference in climate (e.g., inverted seasons between North and South America), transportation links, communication infrastructure, and differences in time zones (though many of these are tied to absolute distance).

Economic distance is last, but not least. This measure refers to how similar the economic system and metrics are between the home country and target market. That includes rich-poor differences, per capita GDP (not necessarily the same, as you could have a bifurcated economy with a similar GDP to a country with a more level income distribution), access to natural resources, etc.

A couple of quick examples can show, on a high level, how this framework can be used to analyze a market. Let's use California as the "home territory" in this example. When analyzing Japan, the cultural distance is quite high: there's a different history, language, religion and cultural norms (e.g., less individualistic). The administrative distance is actually quite small, as much of their system was created by the US after World War 2. The geographic distamce is medium: it's about the same as Europe and obviously more than Canada. And the economic distance is also pretty low, as both countries have relatively free markets and comparable income levels and wealth distribution.

Now let's look at Russia. The cultural distance is actually medium to low. Americans and Russians often share the same values and norms; both are Judeo-Christian cultures and Russia is actually very open to US games and movies. Administrative distance is medium;

although both are considered free markets, each approach is slightly different. Geographic distance is medium: it's not exactly a quick flight from the US. The economic distance is high. Russia is a much more stratified economy than the US and is more reliant on natural resources.

Although you might ask how many of these factors could affect the social gaming sector in a market, they often do in subtle ways that provide opportunities for you to optimize for the market by changing your approach. In the weeks and months ahead, I will discuss some of the strategic options for social game companies in tackling different markets and how these four key measures of distance help determine what strategy is appropriate for a particular market.

The **CAGE Distance Framework** identifies Cultural, Administrative, Geographic and Economic differences or distances between countries that companies should address when crafting international strategies. It may also be used to understand patterns of trade, capital, information, and people flows. The framework was developed by Pankaj Ghemawat, a professor at the University of Navarra - IESE Business School in Barcelona, Spain.
The impacts of CAGE distances and differences have been demonstrated quantitatively via gravity models. Such models "resemble Newton's law of gravitation in linking interactions between countries to the product of their sizes (usually their gross domestic products) divided by some composite measure of distance."

Components

The table shown below provides more detail on each of the CAGE categories, and how they can manifest themselves depending on whether one is comparing a pair of countries or looking at one in isolation. One of the distinctions between the CAGE Framework and other country analysis frameworks is its inclusion of **bilateral** as well as **unilateral factors**.

	Cultural Distance	**Administrative Distance**	**Geographic Distance**	**Economic Distance**
Country Pairs (Bilateral)	Different languages Different ethnicities; lack of connective ethnic or social networks	Lack of colonial ties Lack of shared regional trading bloc Lack of common currency	Physical distance Lack of land border Differences in time zones Differences in	Rich/poor differences Other differences in cost or quality of natural

	Different religions Lack of trust Different values, norms, and dispositions	Political hostility	climates / disease environments	resources, financial resources, human resources, infrastructure, information or knowledge
Countries (Unilateral / Multilateral)	Insularity Traditionalism	Nonmarket/closed economy (home bias vs. foreign bias) Lack of membership in international organizations Weak institutions, corruption	Landlockedness Lack of internal navigability Geographic size Geographic remoteness Weak transportation or communication links	Economic size Low per capita income

Practical Use

Ghemawat offers some advice on how the CAGE Framework can help managers considering international strategies:

- It makes distance visible for managers.[
- It helps to pinpoint the differences across countries that might handicap multinational companies relative to local competitors
- It can shed light on the relative position of multinationals from different countries. For example, it can help explain the strength of Spanish firms in many industries across Latin America.
- It can be used to compare markets from the perspective of a particular company. One method to conduct quantitative analysis of this type is to discount (specifically, divide) raw measures of market size or potential with measures of distance, broadly defined.[

Ghemawat emphasizes that different types of distance matter to different extents depending on the industry. Because geographic distance, for instance, affects the costs of transportation, it is of particular importance to companies dealing in heavy or bulky products. Cultural distance, on the other hand, affects consumers' product preferences. It should be a crucial consideration for a consumer goods or media company, but it is much less important for a cement or steel business.

To facilitate quantitative analysis based on the CAGE framework, Prof. Ghemawat has developed an online tool called the CAGE Comparator. The CAGE Comparator covers 163 home countries and 65 industries, and allows users to customize the impacts of 16 types of CAGE distance.