T&E SIG's STRONGER TOGETHER
Mini IB-case 2021-01

Hmlet's early internationalization: Too much of a good thing?
(By Prof. Nitin Pangarkar)

In March 2021, Hmlet a Singapore-based co-living startup (www.hmlet.com), announced that its co-founder and CEO Yoan Kamalski would step down and be replaced by Peter Kennedy a senior advisor at Burda Capital Investments, an investor in Hmlet. Its CTO would also leave in June 2021.

Yoan Kamalski

Founded in 2016, Hmelt had rapidly built up a portfolio of co-living properties in Singapore, Hong Kong, Sydney and Tokyo—all large cities with high rentals. Co-living properties which were popular among expatriates and a section of locals, had several key characteristics: they typically offered short- or long-term rental options on furnished rooms or apartments at more flexible terms than traditional leases or rentals; charged members a flat rental that included utilities and services; and had common areas such as lounges, and shared kitchens.

Hmlet's ambitious expansion was backed by a large pool of financial resources (US$48 million) that it had raised in 2018 and 2019 from investors such as Burda Capital, Sequoia India and Mitsubishi Estate Company.

Though Hmlet enjoyed high occupancy rates for its properties until end-2019, the COVID-19 pandemic wreaked havoc on the demand for Hmlet's properties. Hmlet was still in the expansion mode in September 2020 when it announced that it had clinched management contracts for several properties in Malaysia and Thailand and also widened its product range to include services such as property management, interior design and furniture subscription.

By December 2020, probably recognizing that the pandemic would linger on, Hmlet laid off a number of its staff. By April 2021, the company needed to think about whether it needed more drastic changes to its strategy.

Photos are from: https://kr-asia.com/co-living-startup-hmlet-pivoted-to-offer-furniture-subscription-interior-design

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Teaching Notes 2021-01

Discussions from AIB members around the world

Three experts from Singapore, Colombia, and France provide questions for discussion and insightful perspectives for the Mini IB-case: **Hmlet's early internationalization: Too much of a good thing?**

Prof. Nitin Pangarkar, Ph.D, NUS, Singapore

To what extent did a rapid international expansion contribute to Hmlet's later problems?

The Hmlet mini-case illustrates many different aspects of startup and international expansion strategies. After its founding in 2016, Hmlet was quick to seize on an opportunity it identified. As a service, Co-living offered several benefits over traditional rentals and leases, most saliently with regard to the flexibility of lease terms and the all-inclusive prices. Hmlet's choice of locations was quite appropriate because the rentals are typically high in big cities such as Singapore, Sydney and Hong Kong which tend to also have a larger number expatriates as well as others looking for short-term rentals. On the flip side, the Co-living space has attracted many competitors, most with similar business models and it is difficult for any player to differentiate itself.

Armed with a large stash of funds, Hmlet expanded quite aggressively across different countries. While this diversification might have lent some stability in terms of reducing its dependence on one city or country, most likely it consumed valuable financial and managerial resources, particularly because the real estate sector tends to be heavily regulated in many countries.

One could argue that Hmlet was a victim of circumstances because the COVID-19 crisis severely impacted the demand for its key services. While that may be true, over-aggressive expansion was a key strategic mistake made by Hmlet which left it little room to ride out the storm. Had it expanded in a more measured fashion, it would have had the financial resources to fall back on, in terms of money in the bank as well as a leaner cost structure.

Prof. Maria Alejandra Gonzalez-Perez, Ph.D, Universidad EAFIT, Colombia

Understanding the learnings, reflections, and theories of internationalization in emerging markets as well as the stakeholder management approaches, what considerations would have to be taken into account and what decisions the manager would lead for business continuity?

Hmlet took advantage of the market opportunity at the time and its firm-specific advantages (FMA) for early regional internationalisation.

Like most companies worldwide, the long-term duration and the consequences of the pandemic were not in the risk mapping. However, the new Executive Committee will have to review its existing strategy to face and adapt to the new realities.

The fact that a senior advisor of one of Hmlet's investors will be leading the company could bring new perspectives. Peter Kennedy's experience in Capital Market would be fundamental to a potential financial restructuring and working together with the other investing firms. Kennedy's direction would be strengthening the financial capabilities of the company.

New leadership would have the opportunity of considering internationalisation paradigms for emerging market firms such as LLL (linkages, leverage and learning).

Hmlet's expansion learnings will be precious for its new strategy development. Indeed, the company should have critical stakeholders such as employees, former guests, local governments, and suppliers in the host markets. Reach to those stakeholders could be valuable to maintain its positioning and involve them in developing the new strategy. Perhaps in specific locations, Hmlet might consider selling its assets to local investors.

The company could leverage its existing networks to widen even more its alternatives, such as exploring the market of medical tourism to compensate for the low demand for expatriate housing. During pandemic times, through strategic alliances, Hmlet could consider the possibility of offering vaccine tourism packages for domestic and international guests. For instance, hosts could stay for up to 4 weeks at Hmlet's co-living properties while receiving first and second vaccine shots. Certainly, they would have to adapt to inoculation requirements for safety reasons and perhaps unable to share spaces such as lounges and the kitchen.

Another alternative, also linked to strategic alliances, would be targeting a specific market. For instance, to adapt the space for e-gamers and e-gamming experiences.

Prof. Monica Riviere, Ph.D, ISC Paris, France

How Hmlet's past strategic investment decisions have led to the current situation, i.e., left the company more vulnerable to crises?

Hmlet's story is a realistic illustration of an international new venture (INV) whose agility and entrepreneurship capabilities attract both investors and clients who support its rapid international expansion. Hmlet sensed and seized a market opportunity in the housing rental sector in major cities that attract a large number of expatriates. Initially very successful the enterprise started to encounter difficulties, due to the Covid-19 crisis that caused travel restrictions.

At first glance, one might conclude that this is an unfortunate and unexpected crisis that has hit many enterprises and claim the inexorability of the situation that seems to punish the smallest and youngest of them by discouraging their founders and managers. But is this the whole story? On the one hand, the IB literature has provided evidence of the vulnerability of the INV, even in "normal" times. Building on the advances in this literature, the case can be thoughtfully discussed to disentangle the doomed from the past strategic investment decisions. It may seem that, as is the case with many INVs that achieve early success, the enterprise was overly ambitious in simultaneously diversifying geography and its offering, which strained its financial resources.

For example, the case indicates that in prospecting two new countries, Malaysia and Thailand, the enterprise also considered expanding its product line to include services such as property management, interior design and furniture subscription. These expansions involve high fixed costs. On the one hand, diversification means diversification of risk, but the high fixed costs and the use of generated revenues for expansion severely expose the enterprise to any kind of downturn, which can also be a financial crisis.

These past decisions can be studied in terms of business model, leadership, market choice, entrepreneurship, etc.