

INTERNATIONAL MARKET EXPANSION



Seizing The Opportunity

This is a discussion document on the timing and advice on expanding business from North America into the European Market.

International Business Expansion

THE HOW AND THE WHEN

MY 'IF ONLY' STORY

A long time ago, I was offered a job as the UK Sales Manager of a US Company entering into the European market. It had a natty name but they were simultaneously changing the name to the founder's name and adopting an innovative 'direct only' sales model, almost unheard of in the industry at the time. Stock options, salary rise and all, my then employer persuaded me this would never catch on and I actually turned the job down.

The Company I launched in the UK and changed its name to **Dell**. The rest, as they say, is history.

SOME COMPANIES ARE DIFFERENT, WHY?

Dell is joined by other Companies like Symantec, Autodesk, Microsoft, HP, Oracle, Apple, IBM, and SAP in that they all have very strong international businesses so much so that all of them have significantly more revenue coming from their combined international operations than from their domestic markets. And it isn't a coincidence.

It's a fact that rapidly growing, early-stage companies have to focus on domestic markets initially to build credibility with reference customers and that pleases the VC and banks they partner with no end. But to be a dominant force in future years, companies must also make plans for business development internationally, and in reality this should be undertaken as early as possible.

SOME COMPANIES MISSED THEIR OPPORTUNITY

After the boom and bust of Web 1.0 where so much money was wasted on futile ideas, VCs and therefore fledgling Companies became very reticent about international expansion. In fact, US Companies began to view European trade as not cost effective because of the multitude of languages, cultural differences, business rules, accounting issues, potential duplication of resources and sheer size that they adopted a 'suck it and see' approach. Local agents were appointed or persuasive Channel Companies given exclusives or single-man-in-territories were set up as a 'shoestring' method was adopted to cultivate markets. Yet they knew full well that to be successful, they needed to extend their tried and tested domestic model to the international markets. It was doomed to fail and it did. I can't remember how many Companies I spoke to post-web 1.0 who wanted to take that approach and failed.

We could all name one or two of those that failed to take advantage of their domestic leadership to become serious global companies but it is just history now. Web 2.0 and newer thinking in terms of VC money is helping drive a fresher approach.

IT'S ALL IN THE TIMING

The timing conundrum is a two question issue:

1. When should a Company start planning to expand internationally?

The first question is relatively easy to answer as those who haven't had an inkling or a vision of international business expansion at the very outset are probably never going to succeed in being a global player or indeed they may be happy with a domestic market only. So the trick is to start planning as early as possible. Having this international expansion vision early sets the expectation early in management and cascades through the organisation from the start. This poses an interesting question of its own – **'Do I have management who are sufficiently bought into international expansion?'**

As a quick anecdote on this, when I first met the management at PlaceWare, the VP Marketing felt very strongly that Europeans and Brits in particular were not capable of working at the pace required to be in synch with the US parent – and he referred to working at 'Internet speed' (no doubt he had read some Bill Gates throwaway comment). Some months later, the VP Sales joined me on a sales tour. The first day started badly when I had him check out of the hotel he had booked into for 3 days as I pointed out that the agenda I had sent mentioned visits outside of London – he was not amused having little idea of European geography. We visited a large Enterprise customer in London, travelled to West London to visit a major Telecoms Company and then got on a plane to Paris. The next day we visited several customers in Paris before flying to Nice and having a day visiting Companies in Sophia Antipolis. At one point he very nearly fired me because he had not had time to get his morning injection of coffee. He later regaled to the story to our annual Sales Conference in California highlighting to never, ever underestimate the work ethic of the Europeans.

But it was illustrative of a type of US management character that tree-hugged domestic sales even when talking a good game about international business. The VP of Marketing in question had a degree from Trinity College, Dublin and that might have explained a slight misconception about European work ethic!

Planning early is about being committed to grow internationally from the start and this means understanding the implications of decisions made on future international business early. Having that thought process in planning growth early is a vital part of building a platform for international success in the future, even if it is not to do something on an international basis immediately.

There are an awful lot of things to consider – have no doubt. Local accounting practices, tax, legal contracts, terms and conditions, pricing, cash collection, product development, languages etc but these really kick in on implementation.

2. When should the Company start implementing an international strategy?

In reality, while there are other key issues as I have mentioned above, to consider, implementation is mostly about sales and marketing and their execution. Classically, if the decision is made to implement international expansion too early, there may not be enough dollars to do the job properly.

When at PlaceWare, management foresight brought them to set up a European business very early. In doing so, I was able to build a small team and actually out-sell PlaceWare's domestic nemesis, WebEx, and become the European market leader within a year. But PlaceWare had extended itself too far on US expansion and ploughed a lot of money into product development – not enough was left to drive sales and marketing in Europe. Consequently, a year later, WebEx made its move and set up in Amsterdam. It put a whole lot of funds in to drive

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marketing and sales. A year later, the status quo was achieved and WebEx became the worldwide market leader. PlaceWare got bought by Microsoft for a song; WebEx has been sold for billions to Cisco.

It was all about sales and marketing execution.

Taking the Right Approach

I have seen it so many times. The first move by a US Company is to either buy plane tickets or to believe in the smiling chap who has alighted on their offices and told them they are the most successful sales agent or Distributor in Europe. A year later either there has been some sporadic success in named customers or the Distributor won't take your calls because they don't have the time.

GETTING THE FOCUS REQUIRED TO SUCCEED ISN'T EASY AND IT COMES FROM THE PLANNING

The daft thing is that nobody would adopt the same approach in trying to extend their reach domestically, so what on earth possesses people to make such leaps of faith is mystifying.

My free advice and it's worth every penny, is save yourself that airline ticket and save the cup of coffee for the grinning foreign Rep. Do some planning and research instead – there is no real substitute for this. It may cost a little time and even money but believe me it is small fry compared to the cost of plane trips to nowhere.

Ask Yourself Questions

It may seem obvious, but every Company needs to ask itself: *'Why do I want or need to address international markets at all?'*

As I mentioned earlier, some Companies may be happy that they can only be successful in their domestic market – and that's actually a good strategy if it fits into their financial goals. You don't have to be an international player to be a successful Company in many instances so don't be afraid to answer the question in the negative.

If you have answered negatively but in your business plan to the VC you promised you had access to a global market worth \$3 billion, don't be surprised if there may be some repercussions!

It is fair to say that this would be unusual in the high-tech arena, in any case there are some questions which need to be answered:

- *Going back to the VC business plan - What are the overall goals of our various stakeholders, and does international market penetration feature as a requirement in those plans?*
- *What are the individual international market dynamics and requirements?*
- *What is the competition doing? Why are they doing it that way – is it being successful?*
- *Is international market entry more of a defensive measure because the competition is there or you have one or two customer subsidiaries who want product or is it for a genuine market leadership move?*

WHAT ARE THE COSTS INVOLVED? HOW DO THESE COSTS COMPARE WITH DOING MORE OF THE SAME IN DOMESTIC MARKETS?

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GET EXPERT ADVICE

It is important to get advice – and expert advice rather than barstool anecdotes. There is plentiful research available on the web about demographics, industry trends and they can be very targeted on the specific markets you wish to address.

And there are experts who have been there and done it before – who bear the scars and the success stories.

People like me have had experience of working with and for US Companies who want to get into Europe. Knowledge and know-how is vital but does cost money. It's as well you know that up front but it's worth it in avoiding issues and mistakes later, and getting traction and sales much, much earlier.

Also, commit internally and externally to the resources required early. In developing a plan for international expansion, have someone whose role and responsibility encompasses this and is not swamped by their day job. That or employ or contract to someone who can do just that.

More importantly, the company needs to be able to articulate the reason for international business development to the stakeholders, and to justify the resources necessary to make it a success.

Nigel Dunn, Calx Europe's Principal, is expert in starting up subsidiaries of US Companies developing sales into Europe. He was 'First Man In' as the VP Europe for PlaceWare Europe Ltd, a subsidiary of PlaceWare Inc (now Microsoft LiveMeeting) and successfully expanded the business to become the market leading web conferencing service in Europe (Frost & Sullivan). Building a business in Europe means trusting your chosen individual and team several time zones and thousands of miles away. Read the testimonial by PlaceWare CEO, Barry James Folsom on www.calxeurope.com.