

An Introduction to International Expansion

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Going international can be an exciting and rewarding process for growing technology companies. When it is done properly, it will lead to higher profit margins, wider recognition of the company's technology and, ultimately, a higher market value for the enterprise.

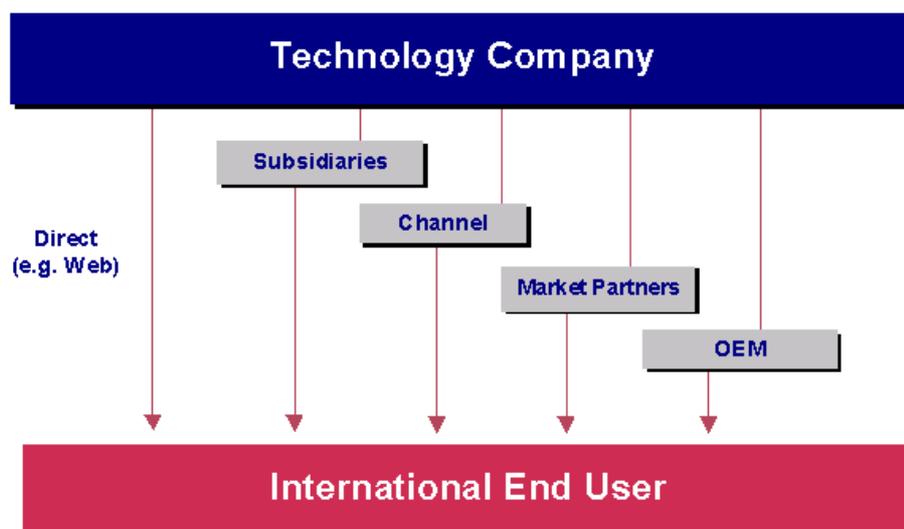
Develop a Strategy

The first steps in developing an international plan are to determine which markets to enter and the most effective way to reach them.

Before deciding upon your target and strategy, it is essential to know what kind of competition you potentially will be facing. This will usually be a combination of competitors you face at home, local champions with a strong domestic market position, and companies from other countries. Understanding the strength and structure of the competition as well as your unique value proposition and key differentiators are critical in determining your market entry strategy and the resources you will allocate.

In choosing your sales and distribution channels, you must recognize that they all require time and resources to implement successfully. You need to review budget availability and determine market priorities. It is usually counter-productive to enter too many markets at once, and different countries often require different approaches. For instance, some companies prefer to establish their own offices in key markets, while using indirect channels to establish a presence in secondary markets.

The illustration below shows the most common ways of going international, all of which carry distinct advantages and disadvantages.



Be Prepared

It is essential for a company to prepare itself as a vendor, whether the decision has been made to go direct or to work through a channel of some kind. International end users and potential channel partners will know right away if a company is making a commitment to its international program. They will be less likely to take a vendor seriously if it is apparent that they have not made adequate preparations. So a technology vendor must establish processes and procedures to prepare itself for the challenges of selling overseas.

Working with Channel Partners

Consider how the world looks through the eyes of resellers and distributors.

Most companies that are just starting to go international will do so through an indirect channel. Vendors are justifiably proud of their technology, and they believe that anyone willing to invest time and resources in marketing their product will be successful. But this is what a reseller hears from everyone that comes knocking on their door, so you have to offer more than good technology.

Channel partners assume three levels of risk when they take on a product.

The first level of risk is the sales and marketing risk. They spend their money to market your product and, if the product is successful, they can make a good return on their investment. If the product doesn't work, they will have lost their investment, but this is essentially a risk they are paid to take.

The second level of risk is what we call the "exit" risk. This is the risk they run if the product turns out to be very successful, and the vendor either sets up a direct operation and terminates the agreement or sells out to a larger company, such as Computer Associates, which sells direct or through their own channels. Since a channel partner in most cases will make its profit from a product it represents in years 3 to 5, an early exit can severely impact the total profit earned from the product. However, most channel partners understand this risk, and, if they believe in the product and the vendor, they are willing to invest in the relationship.

The third level of risk is the "vendor" risk, and all experienced channel partners will try to minimize this risk. This is the risk imposed by a poorly organized and ill-prepared vendor. If a channel partner senses that a vendor doesn't know what he is doing, they will not invest a significant amount of money to promote the product. They will sign a contract to represent it, just in case anyone asks, but it won't be one of their core products and they will not make extraordinary efforts to actively sell it.

We therefore cannot stress emphatically enough that vendors must recognize this fact of life in the world of international IT marketing. Resellers and distributors often represent 20, 30, 50 or more products, but in most cases they make most of their money from two or three of them. If you want to become one of their core products, it will require changes in the reseller's internal business processes, and they will only make these changes if

they are convinced that the vendor is committed to developing and supporting a high-quality channel.

Get Expert Help

You need a well documented methodology to prepare you to go international and to search for and qualify partners. This methodology should be applied consistently in all of your markets and should be used to identify a wide variety of prospective partners, such as acquisition targets, strategic alliance partners, resellers and distributors, OEMs, investors and others.

Make sure you are never left to fend for yourself in unfamiliar surroundings. After completing the contract with a channel partner, you will need “feet-on-the-street” to provide local partner management and support. It is critical that you motivate and encourage your partners to market your products and provide continuous support. This can best be done with an on-the-scene presence.

Going international is within the reach of growing IT companies. Expanding into new markets doesn't have to be a money pit or a roulette table. Do your homework by choosing your markets and your partners wisely. Understand what motivates your partners. Execute your strategy in phases to limit exposure. And make arrangements for in-country market advice and channel support.

After all, the quickest way to establish credibility in a new market is to align yourself with local experts.