

INTERNATIONAL EXPANSION

A Guide for Independent Software Vendors

For Hewlett-Packard DSPP Members

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WHY EXPAND INTERNATIONALLY?

Whether you have an ingenious application that solves the most complex business challenges or a smart new add-on that simplifies PC users' lives; expanding your business internationally is the challenge your success at home will bring you.

By expanding operations internationally, your organization can benefit in the following ways:

- i. Grow revenues by addressing more opportunities in new markets.
- ii. Reduce risk of local economy decline by addressing growing markets in other countries.
- iii. Improve your product in response to more diverse client feedback and competition.
- iv. Increase company market value through the ability to address more opportunities globally.

Despite the diversity and complexity of entering foreign markets, applying best practices from experience can chart a clearer course which, while not a one size fits all, does bring clarity to the process. Here are the three steps to follow to get started on your international journey.

1. BEGIN YOUR JOURNEY AT HOME

“When should I consider international expansion?”

Often the idea of expanding into another country comes from a sales opportunity that arises unexpectedly. Be it from a business trip abroad, tradeshow meeting, customer referral or online enquiry, opportunities will arise. However, that alone is not sufficient grounds for justifying a full expansion into a specific country. Consideration needs to be given to such issues as; how will your product or solution be sold, serviced and supported, how will on-going sales be generated, what is the investment required to sustain growth? A situation that can arise is to make an easy first sale and then lose all the profit from it by having to fly in support to the customer because the qualification, installation, configuration and training were inadequate. Your company's international expansion needs to begin with a business model that has been proven by success at home and can be replicated in foreign markets.

BUILD A DIFFERENTIATED PRODUCT:

When entering new countries or markets, consider a simple question:

“How is my solution better than any of the solutions already being offered by local vendors?”

If you cannot answer this question with meaningful differentiation that matters to both potential clients and partners, then the going will be tough. In highly competitive markets such as the USA, UK and Germany, this is especially important as there are many local vendors already in the market with established channels, brand and local knowledge. It is estimated that there are over 30,000 ISVs in the US market.

Typically, a software solution will differentiate in the way it addresses end user business or productivity pain points. Often these can be categorized as:

- Improving efficiency, competitiveness
- Increasing ease of use
- Accelerating time to market
- Reducing costs
- Delivering better service levels.

Your solution's ability to deliver these types of benefits, better than the competition, has to be proven in your home country first.

FOCUS ON A MARKET:

While software can be horizontal or vertical and adaptable to a number of markets, it is always good to become best in class in a particular market so that your solution can be recognized for delivering superior value. Focusing on a specific market enables your solution to become specialized and differentiated in addressing the unique needs of businesses and end users in that market. This fine tuned specialization will be harder to overcome by competitors when you enter the same market in another country.

The US market is the largest in the world and often the economy of one of the US states is equivalent to that of an entire European country. Therefore, while it may have been necessary to target a number of verticals in your home country, in the US, focusing and winning in just one vertical may be sufficient.

GAIN RELEVANT PRESENCE:

The real test of acceptance of your solution by the market is your sales success. If customers and partners recognize the business value of your solution then they will be willing to pay for it. This is a sobering test that can dismiss the technical elegance and ingenuity of a product. For a horizontal application, the number of solutions sold is a good measure. For a vertical application, it can be the number of solutions sold and/or the size and prestige of your clients in the market. If your solution is bought by recognizable brand name companies, ones that are being called on by many competitors and with which other clients can identify, then this gives your solution the necessary legitimacy to open doors in other markets.

BECOME PROFITABLE:

Becoming profitable in your home country is a key indicator of whether or not your business model is sustainable internationally. International expansion will require a period of investment to establish a presence, create demand, build a brand and provide world class customer support. The business case needs to be built on a financial model that has a positive return on investment. International expansion will add new levels of complexity to your business model in terms of pricing for foreign markets,

discount structures for partners, management, marketing expenses and delivery of support; so getting it right at home first is essential.

SECURE CUSTOMER REFERENCES:

One of the most powerful sales tools to establish credibility quickly in a new market is a portfolio of brand name customer references. Ideally, customer references should come from the target market in which you have decided to focus in a foreign country. References from recognizable companies operating internationally will carry additional weight. Depending on the industry, most customers don't want to be the first to implement a foreign solution without a local track record for quality and support. Customer references allow potential new clients to ease these concerns.

INTERNATIONALIZE YOUR PRODUCT:

Internationalizing a software application is about making it look and feel as if it was developed by locals for the local market. This involves more than translating the text to another language or alternative spelling of the same language e.g. UK English to US English. Consideration has to be given to the displaying of currency, numbers and dates. For example, in the US, dates are displayed as mm/dd/yy as opposed to the more common dd/mm/yy. Then consideration needs to be given to tax laws, regulations and cultural interpretations of individual words. For first time internationalization of applications it is advisable to engage vendors that have expertise in this area.

2. PLAN AHEAD

“Where should I plan to expand?”

Selecting which country to expand to needs to be a thoughtful process supported by thorough research that goes beyond mere language similarity, proximity or size of the economy. Each country has unique characteristics associated with growth industries, number of competitors and willingness for technology adoption, to name a few. These need to be factored into the selection process.

ASSESS THE OPPORTUNITY:

In assessing the business opportunity for your product, you need to research at least the following key indicators:

- What is the IT spend for your category of product and how many potential clients are there?
- Which are your target markets?
- Are your target markets/customers experiencing an economic upturn or a downturn?
- How many local and international competitors are already servicing these markets?
- Do you have meaningful differentiators?
- What is your best sales strategy – direct or indirect through channels?
- How large will your investment need to be to create awareness and demand for your solution?
- What are the prevailing laws that will impact your organization in conducting business?

Having considered these issues, you will be much better prepared for assessing the opportunity. If you are researching the US market, you may find the following resources useful:

The World Bank: <http://www.doingbusiness.org/EconomyRankings/>

CIA Fact Book: <https://www.cia.gov/library/publications/the-world-factbook/geos/us.html>

The Economist: <http://www.economist.com/countries/USA/>

DEVELOP A BUSINESS CASE:

The business case for entering a new market can have several dimensions to it, including:

- Financial justification – a positive return on investment is forecasted
- Brand and company equity – company market value will increase from becoming international
- Competitive advantage – international clients can favor companies with international presence
- Product enhancement – adapting your product to different markets improves its functionality

The financial justification is mandatory in any business case. In its basic form; it forecasts over a three to five year period the growth in incremental revenue versus the cost of doing business in the foreign country and estimates a return on investment.

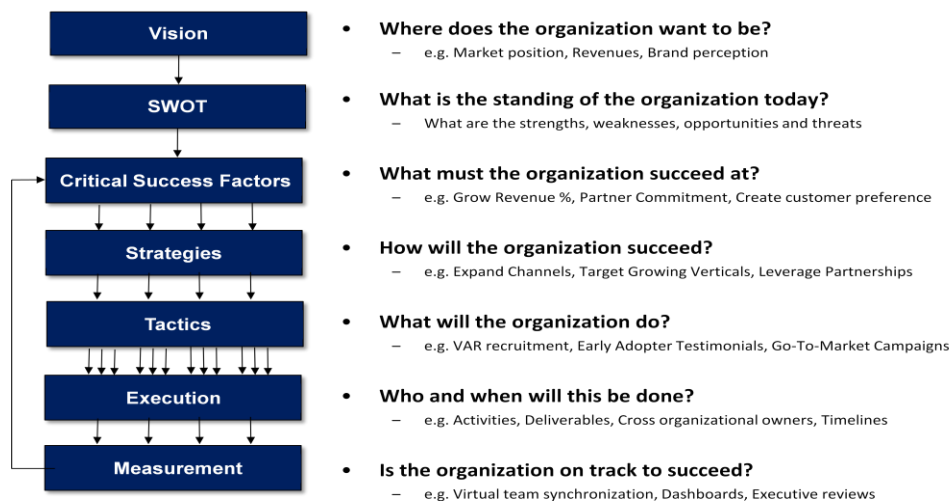
The table below shows a simple comparison of the estimated revenue and costs of setting up a three person direct sales office in the USA versus recruiting three Value Added Resellers (VARs) that are managed by an International Business Development Manager based in your home country. This example is applicable to a business solution application such as a mid-market ERP or CRM.

ENTERPRISE SOLUTION DIRECT MODEL:		MID MARKET SOLUTION DIRECT MODEL:		MID MARKET SOLUTION INDIRECT MODEL:	
3 Person Office		3 Person Office		12 VARs	
Item	Per Year	Item	Per Year	Item	Per Year
SOLUTION:		SOLUTION:		SOLUTION:	
Software License Value/Sale	\$ 250,000	Software License Value/Sale	\$100,000	Software License	\$ 100,000
Services Value/Sale	\$ 500,000	Services Value/Sale	\$200,000	Number of VARs	12
				Number of sales/VAR	5
INCOME:		INCOME:		INCOME:	
Number of sales per year	5	Number of sales per year	5	Number of sales per year	60
Revenue from sales	\$3,750,000	Revenue from sales	\$1,500,000	VARs' Revenue from sales	\$6,000,000
Margin from Sales (100%)	\$3,750,000	Margin from Sales (100%)	\$1,500,000	Margin from Sales (50%)	\$3,000,000
EXPENSES:		EXPENSES:		EXPENSES:	
VP Sales	\$250,000	VP Sales	\$250,000	VP Sales	\$0
Business Development Manager	\$180,000	Business Development Manager	\$180,000	International Business Development Manager	\$180,000
Technical Consultant	\$100,000	Technical Consultant	\$100,000	Technical Consultant	\$0
Serviced Office	\$60,000	Serviced Office	\$60,000	Serviced Office	\$0
Communications	\$20,000	Communications	\$20,000	Communications	\$2,000
Travel (domestic)	\$50,000	Travel (domestic)	\$50,000	Travel (international)	\$80,000
Taxes	\$26,500	Taxes	\$26,500	Taxes	\$0
Insurance	\$10,000	Insurance	\$10,000	Insurance	\$0
TOTAL	\$696,500	TOTAL	\$696,500	TOTAL	\$262,000
NET Income	\$3,053,500	NET Income	\$803,500	NET Income	\$2,738,000
ROI	4.4:1	ROI	1.2:1	ROI	10.5:1

BUILD A PLAN:

If it is important to do well, then it deserves a plan. A strategic business plan can enable your organization to chart the course for its success. Defining a vision and then breaking it down to actionable activities that individuals and groups across your organization, as well as partners, are responsible for executing can bring a unity of purpose that delivers results.

Entering a new market will require preparation, investment and a multi-year plan that enables you to test the priority market segments, build targeted sales strategies, implement marketing programs that create demand for your applications and deliver support to your new customers. A business plan typically spans a three to five year period and the process for its creation can follow the form below.



The result is a clear roadmap of activities, roles and responsibilities across your organization and your partners'. It should be recognized that if you are seeking venture capitalist investment, a detailed business plan is often a prerequisite.

3. EXPAND INCREMENTALLY

“How do I limit risk?”

ESTABLISH A SUBSIDIARY:

Setting up your own subsidiary will enable you to control the sales engagement and technical support provided locally to your new customers and partners. However, establishing a three person office can cost around \$700,000 or more per year. While this is a considerable upfront investment, if the sales value of your solution (software plus services) is around \$500,000 or more and your customers are willing to pay well for maintenance and support, this may be a viable option. Once a small serviced office has proven itself, you can consider expanding the presence with more staff and locations as well as longer term leases.

ESTABLISH A CHANNEL

If your solution (software plus services) is around \$300,000 or less per sale, and you are looking to ramp up your sales quickly without a major upfront investment, building a VAR channel that already has experience selling into your target market(s) and with an installed base of customers, may be the best strategy. While large markets, such as the US, have an enormous number of resellers (estimated at over 200,000), the real challenge is not finding resellers but to identify and recruit the ones that will proactively sell your product. Often companies have false starts in international markets because they just focus on signing up resellers. It is not uncommon for a foreign ISV to sign up tens of resellers and have no meaningful incremental revenue to show for it a year later. This is because there is much work that needs to be done up front before a VAR channel can become self sufficient and revenue producing. Some key elements to success include:

- A partner program that defines the roles and responsibilities of all parties.
- Compelling business terms that reward revenue growth by offering a tiered discount structure.
- Marketing materials tailored to the local market's cultural expectations.
- Competitive positioning.
- Ideal customer profiles and business scenarios.
- Sales and technical training.
- Demand generating marketing programs.

The partner program is essential to establish the expectations of how the two organizations will work together. Not only does it define the trading terms but also the roles and responsibilities relating to sales, marketing and technical support. The number of channel partners you should aim to recruit will depend on the simplicity or complexity and horizontal or vertical nature of your solution. If your solution is an add-on or utility that is simple to install and use then broad market coverage should be considered with tens of resellers. However, if your solution is complex and vertical with sales cycles of six months or longer, requiring industry knowledge, initially recruit a small number of VARs that can cover their geographies without conflict so that they invest resources for sales development. Contractual exclusivity is not recommended. In the US, often six VARs in the north and south of the east, mid and west of the country will achieve the initial geographical coverage desired.

You should consider appointing an International Business Development Manager with a specific job description to focus on establishing and growing these new partners. Partners expect their suppliers to be very responsive; therefore, having a person within your organization assigned to assisting their growth is critical to establishing and growing long term partnerships.

In the initial stages of penetrating a new market, the focus should be on making the VARs self sufficient as quickly as possible through training and coaching so that you can realize the benefit of their sales reach. Focus should also be on sales initiatives as opposed to marketing, being deliberate in targeting customers that can bring credibility and prestige to your customer list. Winning reference accounts is critical to future growth.

APPLY LEARNINGS:

Establish the habit of quarterly business reviews with each of your partners to keep in touch with their issues and the market. After about a year in the new market, you and your partners would have learned a lot about how to improve operations. Bring your partners together for an offsite retreat and spend a couple of days addressing the challenging issues to find ways for optimization. Apply the learnings and measure the impact to the business. Continuous improvement should become a part of your organization's DNA.

INVEST WHERE YOU CAN SUCCEED:

After about a year in the new market, you will have learned where your channel and solution are most successful. Look to tightly define that segment(s) and invest focus there by appointing additional VARs and through marketing. Keeping in mind that the whole cycle of prospecting, qualifying, recruiting and skilling up of new VARs will be additional to the support needed for the existing partners, therefore, you will need to plan for the necessary resources to do both.

INVEST IN CREATING BRAND AWARENESS AND DEMAND:

Fuel the momentum of the new partnerships with demand generating marketing programs that can create a brand presence for your company and bring leads to your VAR channel. In the US, marketing is critical to growth. US customers are use to buying from recognizable brands with glossy marketing that presents crisp value propositions, professional web-sites, brochures and presentations. In Europe, it is expected that a senior manager evaluating a solution would read through and comprehend a detailed product brochure, manual or white paper. In the US, senior managers expect the business value propositions, ROI and unique differentiators to be presented to them in time efficient sound bites. A typical marketing plan needs to leverage a diversity of marketing mechanisms including search engine optimization, press briefings, telemarketing campaigns, customer events and trade show participation.

LEVERAGE PARTNERSHIPS

If your application is strategic to another company by providing a unique solution in a market segment where they want to grow, they may want to partner with you to do joint market development. Great potential partners can be companies like HP and Microsoft.

LEARN FROM BEST PRACTICES

It is always useful to connect with CEO's of other ISVs who have already gone through international expansion. Joining partner advisory councils of companies such as HP and Microsoft is an excellent way to make those connections.

ABOUT AIM:

Based in Seattle, Washington, AIM provides management consulting services to help ISVs realize their business growth potential by utilizing the best practice insights gained in business development in over 25 years at Microsoft, HP, Intel, Compaq and DEC. AIM services include Comprehensive Market Assessment, Strategic Business Plan development, Partner Search and Recruitment, Partner Program development, Marketing Plan development, Technical Capacity Sourcing. AIM services are available throughout North America, Europe and Asia.