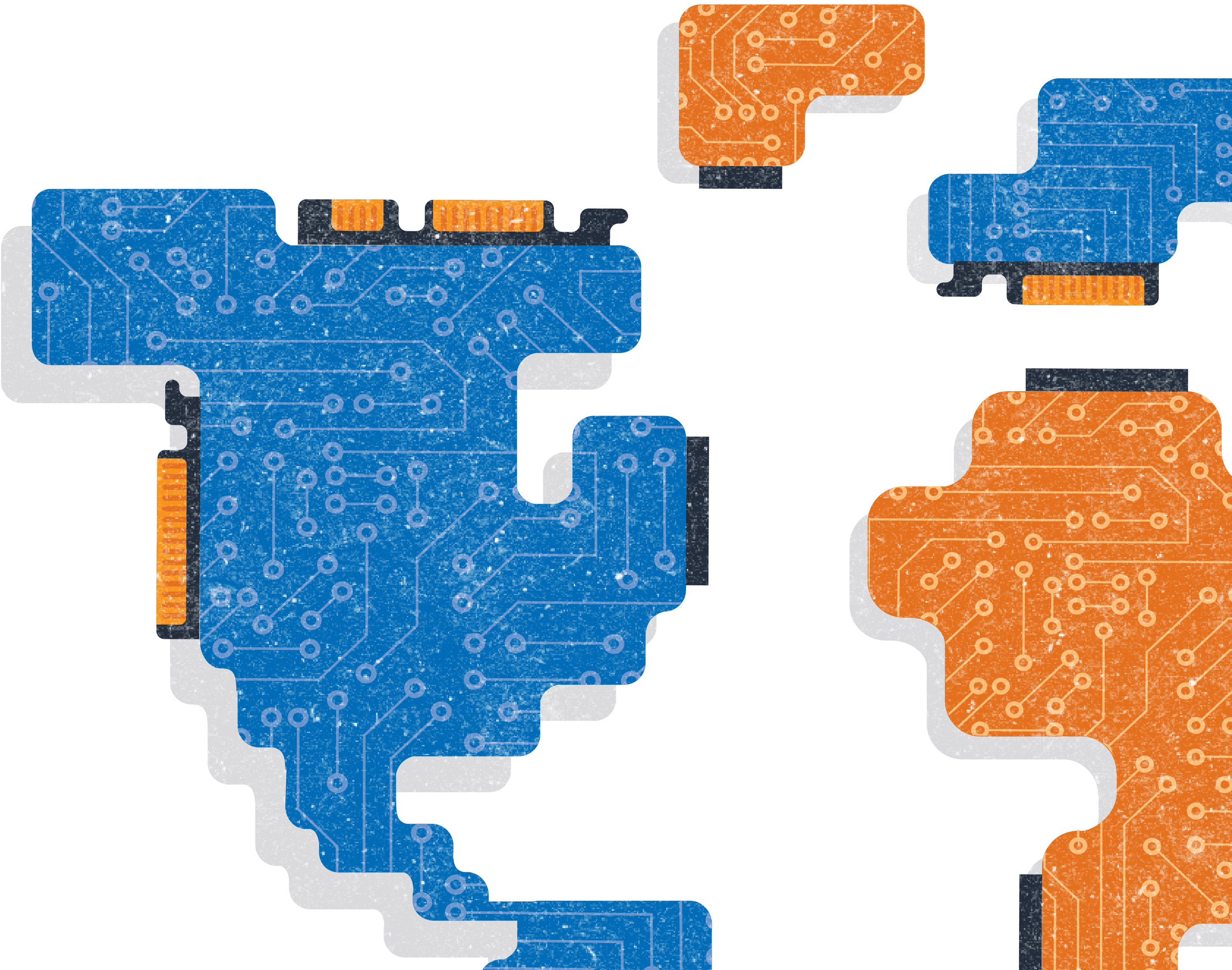
Global on day one

How modern tech firms tackle international markets

Extract from technology, media, telecommunication report
Building tomorrow's billion dollar businesses



How modern tech firms tackle international markets

Business-minded technologists have always hatched grand plans for global business empires. It used to take decades before they could grow their businesses on the international stage. Today, it can be more or less instantaneous – and this creates a host of new threats and opportunities.

Digital platforms – from Google Play to Salesforce and a host of cloud-based, on-demand services – allow companies to build $100s of millions in revenue using teams based anywhere in the world. As a result, tech companies are going global from day one. Canva, a web-based graphic design tool, was available internationally from its launch day. It had over 2.5m users within two years[1]. Spotify took a similar approach and amassed 10 million users in the same period[2].

A new wave of support services is also helping tech firms expand across borders. In order to manage the complexity of operating across borders, tech companies are increasingly outsourcing back office functions. This can include tax, compliance, legal, HR and book keeping. Customers can simply 'switch on' a back-office team as they enter new jurisdictions. Language barriers are also falling as cloud-based support services mature.

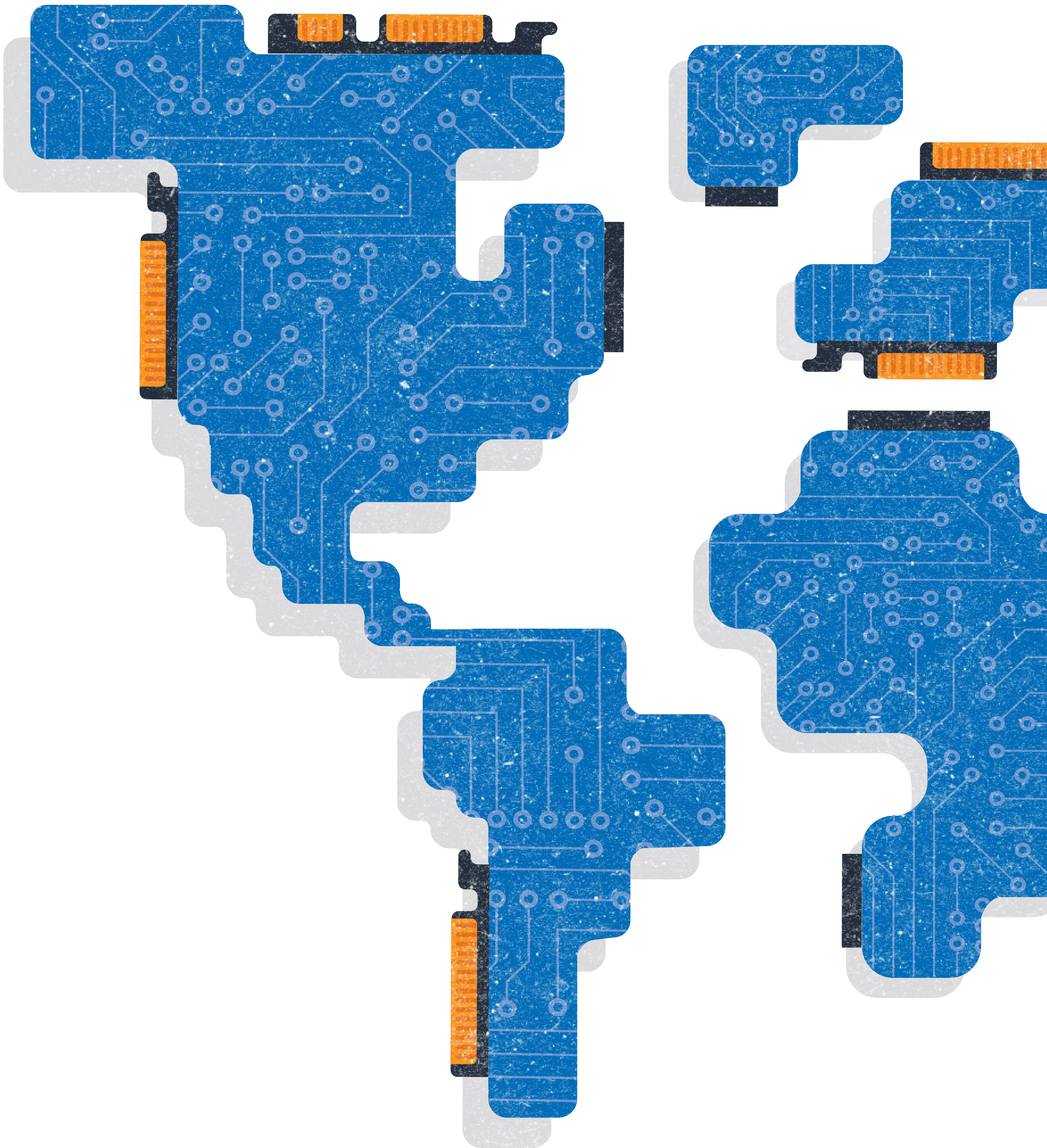
Being first with the right platform

One reason that tech companies are so keen to grow globally is through fear of coming second. Being first to a tech niche can be critical to success. Often, users will not switch to a late-arriving competitor. Spotify users, for example, create libraries and playlists of their favourite music, which they would lose if they switch. Twitter's lead over its rivals became unassailable almost the moment it created the micro-blogging niche.

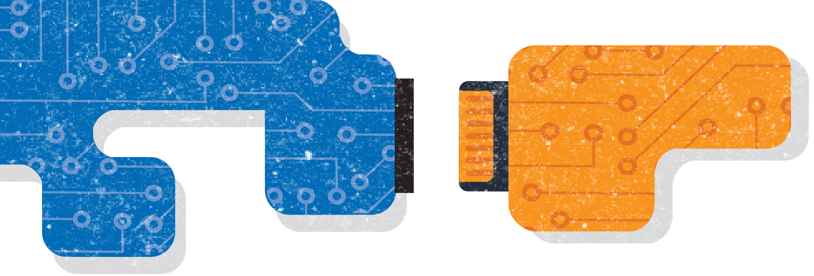
One of the most important considerations at this stage therefore comes down to the platform that the tech company is using. It is worth remembering that, as product and internet services companies expand, they face different adoption models and associated R&D investing decisions.

"We have definitely made extensive use of various cloud services. Instead of trying to build everything from scratch, or host everything internally, we've leveraged areas available as a service."

John Erskine
Vice president of publishing, Cloud Imperium



1 'Five reasons why Aussie startups should go global day one,' Blackbird Ventures, May 2015
2 'Spotify hits 10 million users and 10 million tracks,' Wired, September 2010



10,000,000

The number of users Spotify amassed within two years from being internationally available from its launch day

Age-old entry challenges remain: culture, language and infrastructure

It may be easier to go global than ever before, but significant barriers remain. "In terms of social, cultural, legal and organisational issues, I think nothing has changed," says Bob Sutton, professor of management science and engineering at Stanford University and author of Scaling-up Excellence. "Take Airbnb and Uber – they have needed to tackle significant cultural and legal obstacles."

Another issue that expanding tech companies face – especially those that are more mature – is the need to rationalise their infrastructure after they have established a presence in a new market. If they do not invest time and resources in making the infrastructure more efficient – eliminating redundancies in processes, systems and the operating structure – they will face significant costs later on.

> "In Asia, the biggest challenges are language and culture, the level of internet penetration and the size of the banked population."

Emiliano Librea
Head of advisory services, P&A Grant Thornton

Local knowledge and company knowledge

To tackle these issues, many companies have the same philosophy as Qlik CEO Lars Bjork: "When you enter into a new territory, you always hire a very strong country manager."

But while a strong local manager may understand the target market, they are often new to the business – or even the industry. Companies that want global consistency must balance local and company knowledge. "This means making sure there's enough rotation from headquarters into those organisations, or else a very tight coupling with headquarters," says Hussein Kanji, partner at venture capital firm, Hoxton Ventures.

Google has experienced several failures from getting this balance wrong. Like many tech giants, they keep their real intellectual and creative work centralised, at their Mountain View headquarters in Silicon Valley. "The only international expansion projects that worked were the ones where they had people from Mountain View involved," says Bob Sutton. "At the same time, they had to understand the local culture. The perfect person was someone who'd spent five years at Mountain View but was also a native of the new country."

> "When you enter into a new territory, you always hire a very strong country manager."

Lars Bjork
CEO, Qlik

> "Asian governments provide many different types of so-called 'free money'. If you set up a new business and employ local people, you can apply for government backed sponsorships and awards."

Manish Chawda
Partner, Grant Thornton Singapore

The right structure for the right market

Tech companies need to structure themselves to meet new and traditional challenges. There are four broad approaches to any market, and each involves a balance of control, local market risk and margin protection.

1 Local offices

The most traditional option is to set up 'mini me' offices, much like Facebook has done. These can consist of legal, sales and marketing functions, with everything else controlled at head office or development centres. This option takes a lot of time and money, but lowers legal risks and increases the ability to tailor products to local markets. In Asian markets, for example, tech companies can use government incentives to base their businesses locally. "Asian governments provide many different types of so-called 'free money'," says Manish Chawda, partner at Grant Thornton Singapore. "If you set up a new business and employ local people, you can apply for government-backed sponsorships and awards."

2 Local partners

Finding a local partner to resell products can be an effective way to move fast. Companies that get this right, such as Apple, access established sales channels, local knowledge, staff, licences, office networks, legal expertise and more. For example, in countries without a branded Apple store the company partners with 'premium resellers' such as Compu B in Ireland and Electonic Things in Argentina. While establishment costs for this approach are low, profit margins are too.

3 Virtual presence

For many app developers the option of having a virtual presence is what attracts them to the industry – services can be sold without any local presence or representation at all. It maximises margins, but it also presents risk. "Uber think legislation will adapt to their business model," says Bruno De Wolf, senior consultant at BeAligned, a Grant Thornton member firm. "That is what they hope for but there could realistically be a legal claim against them within the coming months or years."

4 Merge or acquire

The M&A route is expensive but gives tech companies an instant local business to build on. In 2014, global tech M&A reached its highest level since 2000 – and cross-border deals were a large component of that[3]. One example is the purchase of Renesas, a Japanese display technology specialist, by Synaptics, a US interface solutions company. The acquisition helped Synaptics instantly expand into Japan, while gaining control over strategically important technology[4].

Inevitably, some take a blended approach. "In Asia, the biggest challenges are language and culture, the level of internet penetration and the size of the banked population," says Emiliano Librea, head of advisory services, P&A Grant Thornton. "Smartphone vendor Xiaomi has used different entry models for different Asian countries. In China it uses its own retail e-commerce platform, while in India and the Philippines it uses a combination of third-party online marketplaces and the existing offline retail distribution network for better market penetration in these cash dependent economies."

3 'Return of the M&A,' TechCrunch, September 2014
4 'Savvy acquisitions may catalyze 30% upside For synaptics,' seeking Alpha, February, 2015

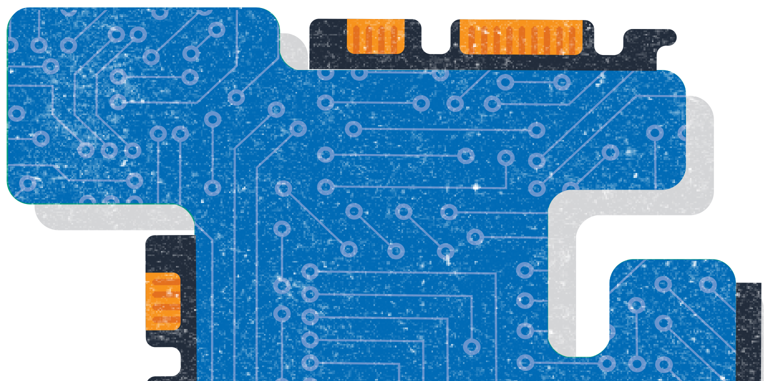
> "It becomes a complex business quickly. You have complicated jurisdictional issues around tax, IP, privacy, security and structuring. These are significant challenges and opportunities for both emerging and mature technology companies."

Steven Perkins
Global leader – technology, media, telecommunications, Grant Thornton

CASE STUDY

Netcomm's 'coat-tails' expansion strategy

NetComm Wireless is an Australian communications device manufacturer that allows machines to communicate with each other. Applications include smart meters, contactless payment cards, remote medical monitoring, digital display and countless others in the ever-increasing internet of things. "We're in full throttle mode," says CFO and executive director, Ken Sheridan. "We've now got operations in the US, Europe, Japan, the Middle East as well as New Zealand and Australia." NetComm targets big telecommunications carriers, like Vodafone and Verizon, using a low-touch, high-impact strategy. "Our coat-tails strategy sees us linking up with big players, and solving problems for them. It's a much lower risk strategy than hiring your own teams. You can make it too hard for yourself," says Ken. Using this approach, NetComm has kept all their engineering expertise back in Australia, limiting staff in new markets to sales and technical support. "We don't need to replicate that engineering everywhere in the world," he adds. "You get much better results by centralising here in Australia, where the teams can be collaborative." Despite favouring developed markets, NetComm is prepared to follow its customers. "We're happy to go anywhere if a 'coat-tail partner' takes us there," he says, referring to developing countries. "If Ericsson took us, and we're just supplying them, that's okay. We want the protection of someone big that knows what they're doing in that territory. Then we're insulated."



Key questions: tackling international markets

- Will our infrastructure let us down at a critical moment of growth?
- What's the right balance between central control and freedom on the ground?
- How do we decide on a market entry approach for each market?
- How do we adapt our operations to the cultural norms of each new market?
- What kind of new risk mitigation strategies do we need to protect us from litigation, reputational damage, IP theft, cybercrime, local politics and regulatory change?

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