17-20th of June 2012, Tallinn

29th IASP World Conference 2012

The Four – Stage Process for Successful Market Entry

Parallel Session 3

Soft Landing and Internationalization Services

Author:

Christopher Burry (chris@usmarketaccess.com)

Co-Author:

Peter Darling

US Market Access Center, USA

The Four – Stage Process for Successful Market Entry

Executive Summary
Although it is a critical part of any global technology company's strategy, globalization and entry into the United States market, particularly in Silicon Valley, is often poorly executed. This can result in serious setbacks for young, growing technology companies. At the US Market Access Center, we have developed a four-stage market entry process – Go Global Silicon Valley -- that addresses this need.

Stage One consists of review and evaluation of companies considering US market entry. Companies found to be ready then move to Stage Two -- detailed market research, culminating in a formal market entry plan. Stage Three consists of a series of brokered meetings in Silicon Valley with potential customers and partners, followed by actual market entry in Stage Four, with logistical, administrative and legal support. By utilizing a staged approach, companies minimize risk and maximize both speed of entry, and likelihood of success.

Background
One of the most axiomatic concepts in virtually any technology business, especially in their early stages, is the idea of globalization. Due to a variety of well-known, systemic economic and technical factors, even very young technology companies see the entire world as their market -- and rightfully so.

In a recent speech, Peter Thiel, one of the early investors in Facebook (his stake is worth over $1.7 billion) told a group of entrepreneurs that any technology business, to succeed, has to view the entire world as its competition. As another example, our partners at the Kauffman Foundation have christened these companies “born global”, describing them as enterprises that think on a global scale from their inception. http://www.kauffman.org/entrepreneurship/born-global.aspx

However, as in so many things, the devil is in the details here, too. More specifically, the realities of what it takes to enter a new market successfully are typically much more daunting than these companies often actually appreciate. A young company seeking to enter a new market typically has to contend with a myriad of challenges that are both very real, and rarely well-understood when crafting go-to-market strategies.

New markets mean different business customs, business cultures and communication styles. The home office may be 10,000 miles and a dozen time zones away. There may be significant language barriers. Markets and customers are often not well-understood. All these things, particularly when operating in concert, can make market entry extraordinarily difficult.

Nowhere is this more true than Silicon Valley. Almost every technology firm that seeks to globalize has the Valley as one of its top destinations. Yet, along with being one of the global centers of technology, the Valley also is an extraordinarily fluid, challenging place for non-American tech companies to do business. It is a unique, brutally competitive, highly complex ecosystem. While the opportunities the Valley presents can make a young tech company, the difficulties of entering it can, and often do, break it.

This scenario usually follows a well-known pattern. First, a non-American company typically sends over a senior executive on scouting trips. The executive meets with potential customers and partners, realizes the potential of the Valley, and makes the decision to commit to doing business here.

Months, or occasionally years later, the company makes its move. A senior executive is sent to Silicon Valley, sets up shop, and starts pursuing customers and prospective partners.

To make a long story short, at least 50% of these forays just plain fail. After the expenditure of a considerable amount of time, money, effort and management attention, the executive returns home, having landed no significant business and made no real progress. Silicon Valley is written off, and the young company’s globalization plans suffer a major, perhaps permanent, setback.

What makes this unsavory scenario even worse than it appears is the simple fact that in many cases, it is unnecessary. There is often nothing wrong with the company’s technology, its management, or its overall strategy. What is flawed, however, and deeply so, is the methodology the company uses to enter the US market. Or, to put it differently, the problem isn’t strategic, it’s tactical.

At the US Market Access Center, we have learned a better way. This paper will describe it.

Introduction

The United States Market Access Center (the US MAC) was founded in 1995 in order to promote international business development in Silicon Valley. Since then, the US MAC has worked with over 800 companies from 52 different countries. In that time, the US MAC has amassed an enormous amount of expertise in providing services, consulting, mentoring and support to international technology companies wishing to enter the United States market.

In addition to the risk of failure, even if successful, a company entering the US market can also expect to invest at least a year simply understanding who the players are, making initial deals and proposals, and getting market traction. So, in addition to mitigating risk, the US MAC exists to accelerate the market entry process, and shorten the time required for companies to get off to a good start.

Ultimately, what makes the US Market Access Center unique is our hands-on expertise. We understand market entry because we have done it repeatedly, and over time, have refined our approach down into a tested, effective series of steps. For these companies, we have distilled our work into a four-stage process, which we call Go Global: Silicon Valley, or GGSV for short.

The GGSV program is structured to provide foreign companies with an intensive, multi-week immersion in both the theory and practice of US market entry strategies. Typically, GGSV is delivered to groups of technology companies under the sponsorship of a government ministry, which is tasked with supporting companies seeking to expand internationally. However, the same approach works equally well for individual companies.

The first stage is evaluation -- determining whether a company is actually ready to globalize in the first place. Globalization isn't a realistic option for all companies – some simply aren't ready. If they are, the second stage is detailed market research – this typically means in-depth analysis of markets, customer segments, competition and overall economic and technical trends that will have an impact on a company's business environment. This market research culminates in a formal market entry plan, including timeframes, resource requirements, budgets and strategies.

The third stage is a combination of formal training and initial in-market experience. Training includes a one-week boot camp, based on the Kauffman Growth Venture educational program. Topics studied may include US business practices and cultural norms, networking strategies, presentation skills, and the basics of things like marketing, managing, basic corporate and legal issues, banking and finance and so on.

In-market experience is provided by a period of guided and facilitated meetings in Silicon Valley with potential partners and customers who are known to the US Market Access Center. These facilitated meetings with "friendlies" are intended to introduce foreign companies to how business is conducted in the United States in a guided, low-risk environment, with extensive support from the US MAC and our mentor team.

Following this, the participating companies typically return to their home offices to review their strategy, adapt their business plans and so on. They then make a second Silicon Valley trip for more conventional meetings, as a precursor to formal market entry. Unlike the first meetings, there is no facilitation. These are real business meetings, in which the participating companies are pursuing real business. The last day is a usually a pitch session during which companies present their business plans, ideas and strategies to a group of angel investors from some of Silicon Valley's most well-known angel groups, such as the Harvard Angels, Sand Hill Angels, the Band of Angels and the Keiretsu Forum.

Finally, in Stage Four, the companies formally enter Silicon Valley. Their entry is facilitated by administrative, legal and logistical support, and additional consulting focusing on acquiring a set of reference customers as rapidly as possible, in order to facilitate scaling into the US market.

Viewed in its entirety, this four-stage process is best understood as a series of gradually escalating challenges, structured to move companies into the Silicon Valley market in a calibrated, efficient way. Each stage is taken in sequence, and each draws on the lessons learned in the previous stage. At the conclusion of the program, a young technology company from Finland, or Korea, or Pakistan, will have a realistic idea of what it takes to succeed in the US market, based not on theory, but on practice, and a greatly increased likelihood of success.

We will now describe each stage in more detail.

Stage One: Are You Ready? Really Ready?
If an athlete wants to become, say, an Olympic high jumper, there are some physical requirements that are just plain nonnegotiable. You have to be a certain height, have a certain kind of body type, a special kind of coordination, and along with all this, you also need the drive and persistence to turn your talent into Olympic-level athletic performance. In a very real sense startups are the same way.

To successfully enter a new market, especially one as large, complex and challenging as the United States, a young company has to have certain characteristics. Without them, it's not completely impossible to succeed in the U.S., but it is usually very difficult, and therefore, very unlikely. Some of these requirements may seem obvious to an observer, but inside a fast-moving startup, things are often less clear. Often, simply by understanding this specific list of "must haves" in the initial stages of the market entry process, a startup gains invaluable visibility into exactly what needs to happen for successful market entry.

The first of these is a real, functional product, or at the very least, a very mature beta version. While feature sets may change, and pivots may occur, to realistically think about entering the US market, a company needs to be able to describe with some specificity what it will do, who it will do it for, and how it will all work. This is important when negotiating partnerships, selling to customers, and especially, when talking to investors about funding. The company either needs to have a live product that is up and running in its home market, or be within a very short distance of having it.

Who this requirement specifically excludes is what we at the US MAC call "napkin companies." This term refers to companies whose product is still in the concept stage, i.e., exists only as a set of ideas mapped out on a paper napkin over lunch somewhere by the founding team. While it is true that every company has to start somewhere, and that every Facebook, Twitter and Google began as a napkin company somewhere, there are still light-years of difference between a concept and a working product, and until that gap is bridged, globalization can't be seriously pursued.

Along with the product, the company also needs to have a sufficient number of real, live customers who are using the product, and more importantly, paying for it. Test or beta customers don't count. Before moving into and adapting to the US market, a company contemplating market entry has to have a realistic, fact-based idea of the value proposition the product offers, to whom, and in what environment. What are people willing to pay for, and where to they find value? This value proposition also has to be generating significant revenue, and that revenue has to be growing. It is astonishing how many entrepreneurs, in their enthusiasm for their mission, neglect or ignore that absolutely foundational fact that they are, at the end of the day, running a business, and that business must make money.

The product for which customers are paying also has to either have protected IP or protectable IP. Typically, this means a technology that can be patented, rather than a business model, which is much more difficult to protect, define and communicate to possible partners or investors. Unprotected technology makes maintenance of a sustained competitive advantage in the marketplace much more difficult, and makes a company much more vulnerable to utilization of its capabilities by competitors.

Once these elements are in place – revenue, IP protection, customers and a product – the final, critical thing a globalizing startup needs to have in place is a core team that also needs to have a certain set of characteristics. To begin with, this team should include leaders with a business skill set as well as leaders with a technical skill set. Very rarely are these found in the same individual. Studies have shown, however, that companies are vastly more likely to grow, to compete successfully and to get funding when there are both technicians and business people at the helm.

Even more important than the technical/business mix is coachability. “Coachability” refers to the ability of a company’s leadership to learn, to be taught, and to understand that the market they seek to enter is almost certainly completely different from their home market. This seems like a simple enough requirement, but in point of fact, it’s often extraordinarily challenging, and is one of the key factors leading to unsuccessful market entry. It merits a little bit of explanation.

Entrepreneurs by nature have to be extraordinarily persistent people. They also have to be extraordinarily self-confident, to the point of being driven. At its best, this trait makes them resilient, effective and compelling leaders. However, what also happens is that after launching a company in their home market, they unconsciously develop the belief that they understand their customers, that they understand their market, and this can make them resistant to accepting different points of view. While this is not much of a handicap in a well-known home market, this can be absolutely fatal when entering a new market.

To quote one of our government clients, our job in helping non-American clients enter this market is first and foremost, to “open their eyes.” The company needs to understand that Silicon Valley is a very different market than the one they’re coming from, and that much of what they know about how business is done and who their customers are, is irrelevant. For this to happen, they have to be willing and able to work with us, to listen to our recommendations, and to acknowledge that they must accept, and act on, conclusions and recommendations that differ greatly from their own. This is coachability, and it is incredibly important.

All the criteria listed above can be evaluated through any of several different approaches. It can be as simple and straightforward as potential companies simply filing out a form for evaluation. There can be formal juried competitions, in which companies present their qualifications in person – this can take place either face-to-face or using teleconferencing technology. Evaluation can also be done as part of an in-country training program, in which instructors work directly with founders, develop knowledge of their strengths, weaknesses and capabilities, and use that as a basis for a market entry recommendation.

As a final observation, a certain percentage of the companies who are interested in market entry will be found not to be ready. While this is obviously an unwelcome conclusion, in the long run, it is often the best possible outcome for a young technology company. Unlike a high jumper, companies mature, change and grow, and often a company that isn’t ready to enter Silicon Valley today will be tomorrow. And regardless of that, by not attempting to enter the United States when they are not ready, a company is sidestepping a disaster. If they’re not ready, the results of premature market entry can actually take it under. Difficult as it can be to hear, a verdict of “not yet” can turn out to be good for a company.

Stage Two: Think Big

When it’s been determined that a company has what’s needed for US market entry, the real work begins. And the first step in that work is research, in as much depth as possible.

At the US MAC, we have seen literally hundreds of companies attempt to enter Silicon Valley. And far too few of them, particularly small, fast-moving technology companies, have done anything like enough market research. For a variety of reasons, and in a variety of scenarios, there is often a “we’ll figure it out when we get there” attitude, which translates into a company entering the US with no concrete idea of who their US market might be, how it operates, which way it’s trending, or who they compete with. The results of this are often decidedly not pretty.

In a proper market entry program, Stage Two consists of in-depth research, planning and strategizing. This work is powered by two sources of expertise – high-level commercial market research, and a mentor.

While the Internet offers many free research resources, they usually lack the detailed sector focus that useful research for a company needs. In-depth analysis of individual industry sectors is not inexpensive or easy, and we have found it pays to obtain the best information possible. For the commercial research, we work with Gartner. Gartner is probably the world’s leading market research service for technology, with a global reach, which is important for our clients. To reveal the numbers, Gartner has over 4,000 employees, has been in operation since 1979, and provides detailed market research in virtually every technology vertical that matters, around the world.

Gartner’s analysts and research reports can provide in-depth information about the market for a technology, the current and trending state of that market, potential competitors – both up-and-comers and also-rans – as well as a meaningful sense of the overall evolution of the market for the technology using their well-known “Hype Cycle” and “Magic Quadrant” methodologies. Gartner can tell a young online banking security software company in Korea, for example, an enormous amount about the market for their technologies in the United States.

Market research is important both in itself and as the foundation of a market entry strategy. It will uncover important factors such as the overall size of the market, the various submarkets and the overall technology category, which can offer insight into how much of the market a company can actually capture. In addition, understanding the competitive landscape in detail is extremely important. A company must analyze the strength of its competition, and determine what approaches will work to compete against them. Finally, market research will identify factors such as import restrictions, operating licenses, differences in business cultures and how these issues might introduce potential risks and opportunities.

Our market research has three components – needs assessment, quantitative research and qualitative research. Needs assessment insures that before research begins, we understand exactly what kind of information a company needs.

Quantitative research begins with an analysis of the United States market for the specific technology categories a company specializes in. We research the critical metrics within each of these categories, such as sales volume, growth, average sales price and degree of market maturity. We then focus on the performance and competitive environment of the specific market segments a company is targeting.

Again, we analyze critical data such as the distribution of customers, the profile of a typical buyer, the degree of buyer sophistication, overall sales volume and overall sales growth.

In addition to the “hard” information provided by quantitative research, we also conduct qualitative research – information that is descriptive and predictive rather than factual. We obtain it through in-person interviews. Qualitative research methods capture the rich, nuanced, varied, and sophisticated feedback of potential partners and/or direct customers.

In our experience, this type of data will offer the most useful, relevant and recent information for developing a meaningful go-to-market strategy. Ultimately, the most important factor in determining whether and how to enter the US market is what customers say, and intend to do. Qualitative research is where that is explained, and understood.

In general, qualitative research:

- Enables participants to say, in their own words, what matters to them and why
- Provides a forum for potential partners and/or customers to express diverse beliefs
- Enables a company to understand how key competitors position themselves, and how credible the positioning is with customers; and
- Results in a meaningful understanding of customers’ needs and expectations

While the research provides the raw material for devising a plan and a strategy for market entry, the really heavy lifting is done with the support, assistance and involvement of one of our mentors. Mentors and mentorship are critically important to our work. The’re really the heart and soul of our Go Global Silicon Valley program.

As a word, “mentor” has roots that go all the way back to Greek mythology. The term refers to someone who “imparts wisdom to and shares knowledge with a less experienced colleague.” That is as apt a description as possible of what the US MAC’s mentors do for our client companies. While the team leading a company with which we work doubtless has deep expertise in their technology and their business in their home market, by definition, they are inexperienced in pursuing that business in the United States, particularly in Silicon Valley. That is where the mentor comes in.

A mentor is an independent professional with deep expertise in the particular technology and market a company is seeking to enter. This can be anything from gaming to enterprise software to chip fabrication. One of the great strengths of Silicon Valley, and therefore of our program, is the fact that there is a very deep pool of expertise here, from which this talent can be drawn.

The mentor’s job is to guide and advise our companies on their market entry strategy. In Stage Two, then, this means overseeing the research done on their behalf. Utilizing both their personal expertise and the resources available from Gartner and the other research companies with which we work, the mentor insures that the market research done at this stage is applicable to the company’s individual situation, is accurate and of high quality, and sets out a framework for Stage Three.

That framework is delivered in the form of a plan. While the knowledge research provides is not unimportant, it really only has relevance when it’s translated into a concrete plan. This is especially important for a young company entering a new, unfamiliar market. With a plethora of information, signals, responses and competitors to deal with, a company entering the US market absolutely needs a detailed plan to guide them. As we have seen, without one, companies tend to get lost.

Therefore, in addition to overseeing the research, mentors use it to prepare an in-depth market entry plan. This insures that the company knows EXACTLY who it competes with, what it has to offer, and what it has to do. This information is then built into a very specific plan, including budgets, timeframes, revenue expectations, resource requirements and other metrics.

There's an old American military saying that "no plan survives contact with the enemy." This is true in business as well – it is well understood that this plan will probably change – in fact, should change – once the company is in the US market, and is working and learning here. That being said, a plan is an invaluable exercise in compelling a company to think through exactly what they are trying to accomplish, and insuring that the work they do is always measured against that goal. Without it, particularly in a new market, companies tend to drift, with unpleasant results. A mentor-guided plan is an extraordinarily valuable tool.

Stage Three: Start Smart

Once companies have been selected, mentors have been assigned, research has been completed and strategies have been devised, it's time for companies to transition into actually encountering their markets – in other words, beginning to work with real, live customers and prospects. The first step in this is training.

One of the challenges companies often encounter in entering a new market is suddenly having to deal with operational demands and challenges they may never have seen before, or that were insignificant in their home market. Training prepares them for this, and helps them respond effectively.

Something we hear over and over from the companies with which we work is that Silicon Valley is both an immensely challenging market to enter, and an immensely promising one. Success here can be transformative, but compared to most other markets, the pace is much faster, the demands are greater, the competition is world-class, and most importantly, it is all unfamiliar.

A company coming from outside the US is deeply embedded in its home market. It has a network of contacts and relationships. It understands the rules. It may have longstanding customers. All these things are woven into the very fabric of the business, and shape the company's operations and planning. This familiarity and innate understanding can also conceal or minimize the impact of a wide array of operational issues that, while insignificant at home, can be a major liability when entering Silicon Valley.

Marketing is a classic example. In the home market, marketing may be a relatively low priority. Customers and their needs are well known, product sales may be primarily based on objective technical criteria, and marketing may be unnecessary. As a consequence, a company's marketing may be mediocre. The executive leadership may be relatively unschooled in what marketing is, how it works and why it matters. We have found this particularly true in Asian companies, where business tends to be driven by technical or objective factors, and longstanding personal relationships are of paramount importance in doing business.

When a company like this arrives in Silicon Valley, they are in for a rude awakening. Marketing is absolutely essential here, and a company that does not have an adequate understanding of how it works is at an immediate, significant competitive disadvantage. This same dynamic applies across all the various disciplines that comprise a young company – operations, sales, financial metrics, strategy, everything. Our training is designed to remedy that situation as quickly and efficiently as possible.

The core of our program is the Kauffman FastTrac series of courses. The Kauffman Foundation, based in Kansas City, Missouri, is the world's leading nonprofit devoted exclusively to studying, supporting and understanding young companies, and an important element of their work is training. The program they have developed, over the course of decades, and hundreds of thousands of students, is called FastTrac.[1]

FastTrac has a number of unique features that we find particularly valuable to the companies we work with. First, it is interactive – students do not simply receive lectures, they actively work with one another. Second, the instructors must be experienced entrepreneurs themselves – the leadership team at the US Market Access Center meets this requirement. Third, FastTrac includes a wealth of online tools and resources that greatly enhance its utility to students. And fourth, FastTrac is delivered in an intensive format which permits us to deliver a great deal of value to our students very quickly.

By utilizing FastTrac, we insure that our students have a basic grounding in the essential components of operating a business. This insures that they are fully prepared to take maximum advantage of the other aspect of Phase Three – the face-to-face meetings.

We believe that there is absolutely no substitute for face-to-face meetings with potential customers and partners. These, after all, are the people who will purchase your product or service, or who will become your partners in entering the US market. Assuming a basic level of expertise, which is provided by the Kauffman FastTrac training, the next step is for our mentors to work to insure that our companies have a certain number of face-to-face meetings with Silicon Valley prospect.

Again, this is where our mentors expertise and track records really come into play. Along with being technical experts, and experienced entrepreneurs, our mentors are also expected to be well-networked, and willing to share that network with our students, and their colleagues' students.[2] By doing this, mentors insure that meetings can be arranged for our students with almost every company in Silicon Valley, through this extensive (and exclusive) network of contacts. A security software company from Korea, for example, had arranged meetings with senior security executives at Google, Apple, Square One Bank, Bridge Bank and elsewhere.

In addition to providing unparalleled access, these brokered meetings[3] are unique for a second reason – they are "friendly" meetings. It is understood that the goal is to introduce a non-American student company to contacts within Silicon Valley. The mentor is physically present in the room, to oversee the meeting. And the meeting is explicitly structured to provide the student company with the experience and input of the discussion, without the pressure, expectations or risk of a formal sales presentation or meeting.

---

[1] Extensive information about the FastTrac programs is available at www.fasttrac.org

[2] Interestingly, this is also something that is common at many Silicon Valley venture capital firms. New partners are expected to share their entire base of contacts with both the firm as a whole, and with partners who need contacts in a particular company or discipline.

[3] "Brokered meetings" is our term for describing meetings that are arranged with the involvement of a third party – a "broker", if you will.

At this point in Stage Three, student companies have been trained in the Kauffman FastTrac method, have received extensive consulting and direction from an expert mentor, and have had a series of meetings with real, live customers in their market. They have learned an enormous amount. Then, they return home for a kind of “recess.”

The recess is important. The Silicon Valley immersion experience is intense, by design. Companies who go through it need time to absorb what they’ve learned, and perhaps to execute a market entry pivot based on the information they’ve obtained. We have found that giving student companies time to process what they’ve seen and heard, and fit it into their broader strategy, insures that their next move, whatever it is, is as considered and effective as possible.

Following the recess, a large proportion of our student companies return for a second round of brokered meetings. These differ from the “friendly” meetings in that, although they’re arranged with the assistance and support of a mentor, they’re with real potential customers and partners, and intended to be discussions of real business. These are the final step in our process prior to formal market entry. Often, the business relationships developed during these second-stage meetings provide the momentum needed for a company to decide to make the jump into the US, with a genuine partner, or at least a strong prospect, driving their decision.

Stage Four: Scale Fast

Stage Four, the final stage of our market entry process, is where the student company finally makes the leap to full-fledged market entry, and formally sets up shop in Silicon Valley, with the intention of doing business here. This, of course, is the result all the other work that has been done is directed towards, but unlike the majority of companies that take it, this move is planned, research and meetings are in place, and the company has a far better, more realistic idea of what to expect and how to accomplish their goals.

This step typically includes two forms of support from the US MAC. The first is logistical and administrative. Particularly for companies entering from countries with business cultures and legal systems that are very different from that of the United States, the legal, financial and operational requirements of setting up a business here can be baffling. It the critical early stages of official market entry, it is essential to avoid letting these matters delay or hinder a company’s progress here. In Stage Four, utilizing the expertise of our sponsor law, accounting and recruiting firms, we assist companies in quickly, efficiently handling the necessary legalities, such as incorporation, immigration and visa issues, handling of transfer taxes, and so on. We also provide office space, and incubation services, along with the continued participation of their assigned mentor during the first year of the United States operation.

Although the mentor assists in whatever way is required, the key objective is almost always helping the company focus on obtaining a certain number of reference customers. True scaling in the Silicon Valley market requires the ability to demonstrate to customers here that other customers here have adopted the solution, technology or other capability a foreign firm offers, and are using it and succeeding with it. This is almost always a precursor to any successful market entry, and it is the mentor’s job to focus on it, and to insure that despite all the distractions of entering a very new, very different market, the company does, too.

Conclusion

It is obviously impossible to eliminate all the risk from entering a new market, particularly one as large, dynamic and different as Silicon Valley. However, as a whole, the process is a perfect example of the Pareto Principle – better known as the 80/20 rule. Eighty percent of the challenges, difficulties and obstacles to successful market entry can be controlled by managing twenty percent of the critical factors that influence a business's first year in Silicon Valley.

Through training, brokered meetings, and careful planning, the US Market Access Center's Go Global Silicon Valley program insures that the strongest, soundest and most appropriate companies are selected to enter this market, that they have the training, experience and guidance they need, and that they have thoroughly researched their market as well as personally encountered a significant number of key players. The ultimate outcome is market entry by a company that's as ready as possible to come here, and therefore, as likely as possible to succeed.