

How to develop and deploy European operations for high-end B2B software companies

Accelerating growth of US software companies

September 2003

Agenda

- 1- Why build international operations**
- 2- Opportunities of European markets**
- 3- Key Challenges**
- 4- Questions to address before entering these markets**
- 5- What business model to choose**
- 6- Next steps**

Main reasons for building international operations

- Take advantage of existing opportunities
- Increase revenues
- Create competitive advantage by gaining early market share
- Develop ability to support of multinational customers
- Balance risk of local performance shortfall



Time

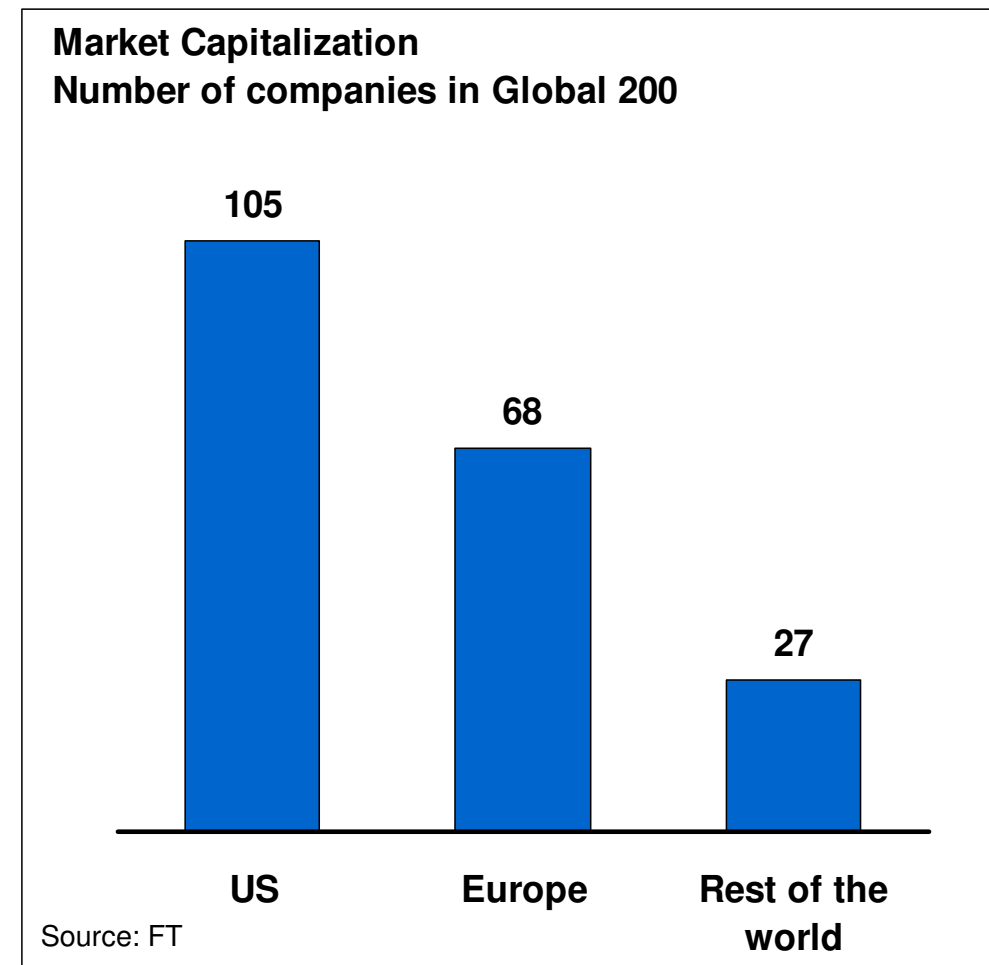
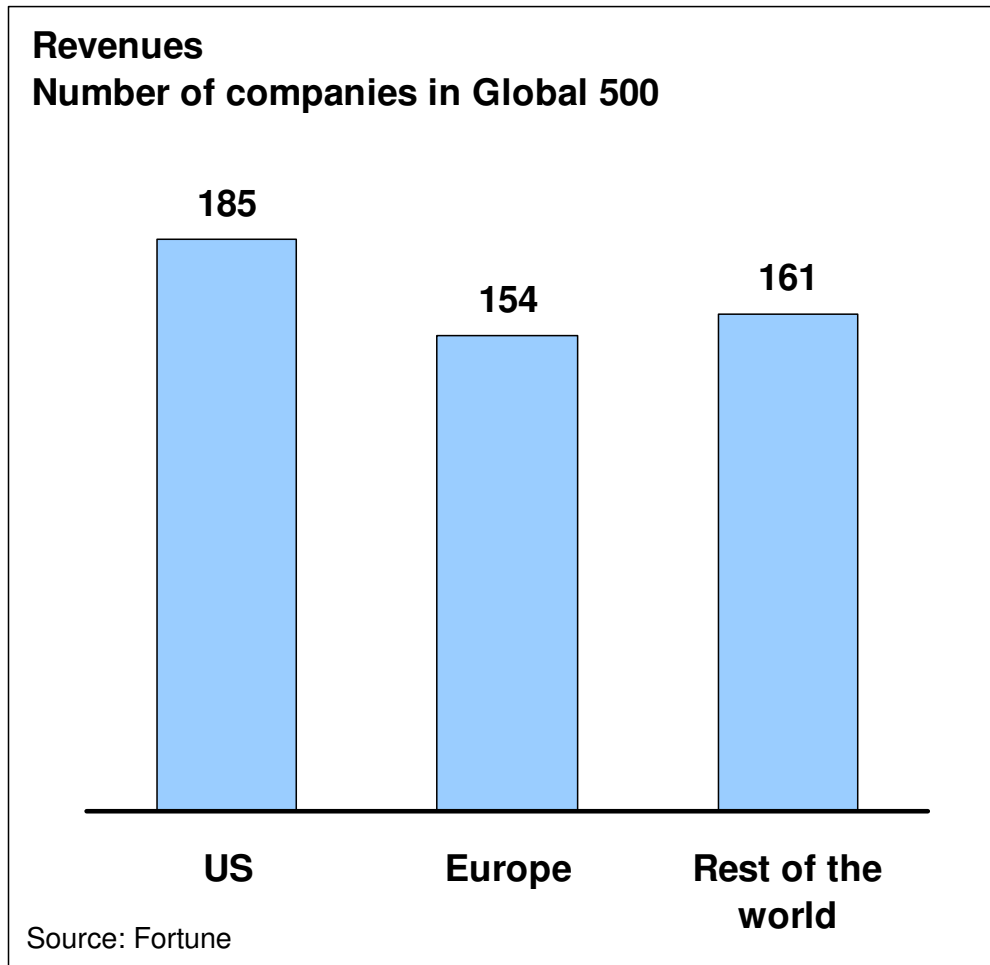
**While the US market must be top priority,
early international presence maximizes company valuation**

International expansion is an essential strategic move

« **Winning the first client is the greatest priority** » (71% of CEOs)

- **A majority of CEOs (89%) also say they recognize the competitive disadvantages of not being first to market in a new territory**
- **Some 82% of CEOs say opportunistic client wins were the catalyst for moving into new territories**
- **Important to satisfy existing corporate customers for international deployment**

Key corporate customers are located in Europe



Software companies face several challenges when entering Europe

- **Difficult to take advantage of existing opportunities without some form of local presence :**
 - ➔ **“cherry picking” still requires some effort**
- **European market is big but fragmented: culturally, legally, etc.**
- **Many factors need to be adapted locally: customers, partners, employees**
- **Although the company sells the same business value, it is sold differently from one market to another, requiring some customization**
- **Target markets are far from HQ, the business model needs to be sharp in order to deploy successfully and maximize ROI**
- **Supporting international operations is time consuming. If something goes wrong, capacity to react is limited, expensive and takes a long time**

Questions to address before entering these markets

- **What are the existing opportunities? How to leverage them?**
 - Customers
 - Partners
- **Which markets should be targeted? Why? Timing?**
 - Geographic
 - Verticals
- **What are the company objectives?**
 - Revenue (gross and net), contribution, investment...
 - Size, country presence, customer base, ...
- **What level of investment is required**
 - Financial
 - Management time, technology etc.
- **Visibility over a 2-3 year period**

**Use a mix of bottom-up and top-down approaches
build international operations by making these two approaches converge**

Potential business models

Direct Operations

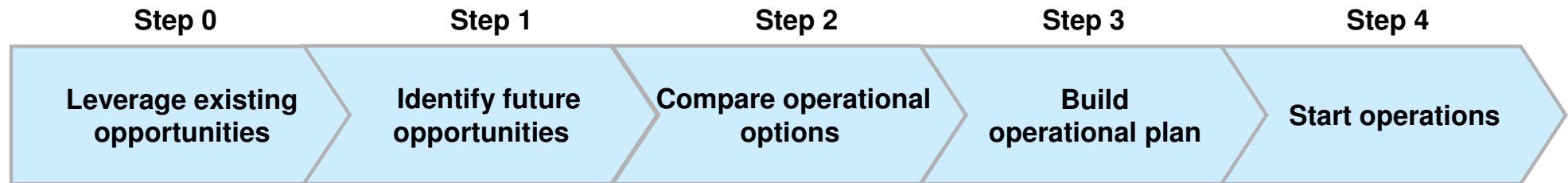
Distribution Network

Joint Venture

- Direct Operations
- Distribution Network
- Joint Venture

All models have both pros and cons
Optimal choice depends on company objectives
All approaches require investments in terms of resources
in order to be successful

Key steps for building European operations



Scope

- Selected countries
- Europe
- Europe
- Selected European countries
- Selected countries

Main activities

- Identify existing opportunities
 - incoming calls
 - existing leads
 - ‘low hanging fruits’
- Close 1st customer
 - build reference
 - generate market awareness
 - generate revenue!
- Estimate potential market per country
 - size
 - growth
- Identify competitors or alternatives
 - regional / local
- Identify key stakeholders
 - prospects
 - partners
 - people
- Per country
 - Identify operational options
 - direct sales
 - indirect sales through distributor network
 - joint venture
 - Estimate quantitative aspects of operational options
 - revenues
 - costs / investments
 - breakeven and profitability
 - risks and hurdles
 - Make recommendation of countries and options
- Per country
 - Customers
 - Define ideal customers
 - Identify priority one prospects
 - Organization
 - Define profile of key people
 - Create scale-up plan
 - Business plan based on selected operational option
 - revenues per quarter
 - costs per quarter
- Organization set-up
 - Hire key people
 - Set-up key processes with HQ
- Customers
 - deploy

Quantitative and Qualitative Expectations: Assumptions

- **Model is obviously generic and needs to be customized**

- **Requirements**
 - Starting point, objectives and expectations clear at corporate level
 - Operational Business model is defined in remote deployment mode
 - Profile of ideal customer, value proposition, average sales cycle, average Size of deal, profile of individuals, partners required etc. realistically defined

- **Investments**
 - Number of countries
 - Structure of teams and profiles
 - Management time
 - Technical support required in presales and project deployment
 - Technological investment

- **Return**
 - Revenues Net and Gross
 - Contribution
 - Customers
 - Partners
 - Market Share

Direct operations

Pros

- **Maximum control**
 - Teams
 - Customers
- **Maximum return**
 - Revenue
 - Visibility

Cons

- **Greatest / Most significant risk**
- **Heavy investment required**
 - Financial
 - Management time
- **Financial investment required at the beginning**

Tasks to be completed

- **Identify existing opportunities**
- **Identify target markets**
- **Customize deployment of business model according to local specifications**
- **Employee profiles**
- **Hire team**
- **Generate first leads and convert them to customers**
- **Take team up to speed**
- **Identify and build relationship with key partners**
- **Scale up operations**

Direct operations : investment and return

■ Investments

- 1 Manager with strong focus on results and good understanding of business model
 - Deliver results
 - Build an international scalable organization
 - Customize business model
 - Build Partnerships
- Minimum local team: 1 or 2 sales with leadership, 1 presales, 1 consultant/support
- Number of countries? Phasing? UK, France, Germany?
- Support from headquarter
 - Management
 - Technical

■ Return

- Revenues per country depending on ramp up (Top down)
- Existing Opportunities (Bottom up)
- Contribution
- Lower risk of quarterly shortfall
- Position against competition

Distribution network

Pros

- **Existing market presence**
 - Customers
 - Partners
- **Part of the cost is outsourced**
 - Gross Revenue
 - Net Revenue
 - Contribution

Cons

- **Misaligned incentives of company and distributors**
- **Control is more difficult**
- **Getting commitment of resources from distributors**
- **Scaling may be difficult**
- **Necessity to transition to direct Operation later**

Tasks to be Completed

- **Identify existing opportunities**
- **Identify target markets**
- **Develop distribution business model**
- **Build profile of “ideal” distributor**
- **Research target markets for potential distributors and partners**
- **Exploit existing opportunities**
- **Build company’s team dedicated to manage distributor network**
- **Finalize contracts**
- **Bring distributor organization up to speed and support them on first prospects**
- **Develop direct relations with end users**
- **Ensure the solution is deployed**
- **Build market knowledge to keep negotiating power and continuously manage distributor relationship**

Distributor network: investment and return

■ Investments

- 1 Manager with strong focus on results and good understanding of business model
 - Deliver results
 - Build an international scalable organization
 - Customize business model
 - Build partnerships
- Minimum team: 1 presales, 1 consultant/support
- Number of countries, phasing?
Are some operations direct or is it a global distribution approach?
- Management and support required should not be underestimated
 - Management
 - Technical

■ Return

- Revenues per country depending on distribution ramp up and contract discount
- Enter markets quicker and build local presence
- Existing opportunities (Bottom up) maximized with local presence
- Contribution high because operations costs are outsourced
- Lower risk of quarterly shortfall
- Position against competition

Joint Venture

Pros

- Shared investment
- Exit defined: Call/Put
- Transition towards direct operations
- Consolidation of revenues?

Cons

- Relationship is complex
- Takes time to:
 - Set Up
 - Manage
- Deployment of business model must be accurate from the beginning

Tasks to be completed

- Identify existing opportunities
- Identify target Markets
- Define JV as global or local
- Build profile of “ideal” partner
- Identify potential partners
- Build deal “architecture”
- Build company ’s team dedicated to manage and support JV
- Finalize contracts
- Exploit existing opportunities
- Take JV team up to speed
- Support them on first projects
- Know the end users

Direct Operations

Distribution Network

Joint Venture

Joint Venture: investment and return

■ Investments

- Dependent on deal structure
- Is the deal local or global?
- Resources to manage and support JV

Example

- Dedicated European Operations
- Company can buy European Ops on multiple of revenues + net assets in a time frame
- Royalties paid to corp by JV
- Revenue consolidated when buyback takes place

■ Return

- Dependent on deal structure

Example

- Limited financial investment
- Royalties on European Operations
- Dedicated European ops with corporation's name
- Contribution high because operations costs are outsourced

Direct Operations

Distribution Network

Joint Venture

Deployment options synthesis

		Direct Operations	Distribution Network	Joint Venture
Return (short term)	Revenue	★ ★ ★	★ ★	★
	Contribution	★	★ ★	★
Financial Cost		★ ★ ★	★	★
Management Cost		★ ★ ★	★ ★	★
Control		★ ★ ★	★	★ ★

Next Steps

- **Assess international development objectives**
- **Identify opportunities on European market and find the right local presence to follow and close these opportunities**