GUIDELINES FOR SUCCESSFUL GLOBALIZATION BY HIGH-TECH START-UPS

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Emerging companies obviously must confront and overcome significant risks during the early stages of development, even when their operations are initially limited to strictly domestic markets and a relatively small group of potential customers. However, many emerging companies have found that aggressively expanding into foreign markets soon after the firm has been launched can actually increase their chances of success, even while they are still struggling to gain a foothold in their home market. For example, young businesses with limited financial resources may benefit from using low-cost manufacturers in foreign countries to produce goods that can be sold at attractive prices in the company's own domestic market. A new company may also seek out foreign markets that have not been identified by larger competitors and build significant market share as a barrier to entry. The success of the product or service in a smaller foreign market can then be used as a base for entering larger markets and can accelerate the process of establishing a positive global reputation for the company.

Globalization can seem like a daunting task for the founders of an emerging company when they are first starting out and struggling to complete development of their first product or service and identify potential customers and partners that can assist the company with scaling up operations quickly and efficiently. Nonetheless, the evidence shows that globalization should be incorporated into initial strategic planning, even if exporting is not the first priority. A group of researchers who surveyed and analyzed globalization among young high-tech companies from Germany and the UK in the late 1999s—and found that internationalization was the norm for those firms and that the key strategic question for them was not whether, but when, to internationalize—generated a useful list of recommendations to founders and managers of similar firms who wished to improve their chances of successfully growing and internationalizing.[2] In general, these recommendations can be broken out into several key areas, each of which is discussed in the following paragraphs: skills and experiences of the founders and initial senior managers; the strategic orientation of the company; the core resources of the company; the company's research and development focus and activities; the attributes of the company's initial

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[2] O. Burgel, G. Murray, A. Fier and G. Licht, The Rapid Internationalisation of High-Tech Young Firms in Germany and the United Kingdom (2000), 10.

products and services; the target customer base and the channel strategies for engaging with those customers; the company's efforts to establish a local presence and reputational profile; and the company's financing strategies.

The pursuit of successful globalization begins long before the company has been formed and commenced operations with the formation of founding team and recruitment of senior managers to oversee various functional activities. Whenever possible, emerging companies looking aggressively exploit foreign markets should look to bring on founders and managers with extensive international experience, particularly in the foreign markets that the company will be selecting as its initial targets. In many cases, the international experience comes from previous work with large multinational companies that provide exposure to a wide range of foreign markets and sophisticated methods for analyzing those markets and developing and implementing marketing and sales strategies. However, international experience gained by working with smaller companies can be an invaluable asset since it teaches how to get by with limited resources, which is the situation that normally confronts an emerging company when it is first starting out. Founders and senior managers who have worked on international activities at small companies in the past will likely be more adept at assessing and managing local sales agents and distributors in foreign markets and identifying and implementing cost-effective ways to identify potential customers. A background with a smaller company also builds a better appreciation of the need for simple product design, which is easier for a small company to support and enhances the chances that foreign customers will adapt the emerging company's products even though the company has yet to build a track record in the marketplace. Regardless of where the founder or senior manager obtained his or her international experience, the hope would be that he or she can bring their own network of prior professional relationships with suppliers, customers, investors and consultants to the new venture as future resources for building the firm's international knowledge base.

The founding team, along with the other senior managers, is the key determinant of the next factor that is essential to successful globalization: the development and implementation of the company's strategic plan. Planning is important for any new business; however, for companies looking to undertake early expansion into foreign markets it is essential that the strategy reflect an intention to be a "Global Company" for the very first day and that the founders and senior managers create a scalable business model that can quickly expand in terms of volume and easily transition from the company's domestic market into several foreign markets simultaneously as success is achieved. The strategic plan should include international sales, coupled with both actions and planning targets, from the very beginning and the founders and senior managers should select market targets based on projected aggregate international demand, not just the results that might be expected if the company confined its activities to customers in its domestic market. The plan should not be limited to just one foreign market, regardless of the size and apparent profitability of that market, since the evidence indicates that the emerging companies that are most successful with globalization are those that are ready and able to rapidly enter additional new countries once they have launched in the first foreign market.

The initial strategic plan should incorporate an "international business plan" that addresses both exporting, including the most promising foreign markets for the company's products and services and the appropriate distribution channel for each of those markets, and opportunities for using foreign markets to gain access to resources needed for the company's entire business. For example, even if a product is going to be marketed and sold primarily in the company's domestic market the company may find the raw materials for that product in a foreign market and/or select foreign manufacturers for the product in order to reduce costs. The strategic plan for a new company bent on internationalization should also include initiatives for getting known quickly and building global awareness of the company and its products to overcome what researchers have referred to as the "liability of alienness" when approaching customers in foreign countries customers that are likely to be very wary of entering into trading relationships with unknown firms. Another thing that should be ignored is the inevitable entry of competitors into the market that the company has chosen. New companies are likely to select niches to gain entry into new markets quickly without having to overcome a large number entrenched firms; however, if the company is successful it can expect that others will follow and the company needs to anticipate where the competition might come from, the timing of their entry into the market and the strategies they are likely to pursue.

The company's strategic plan should not only identify prospective foreign markets and the specific strategies and tactics to be used in those markets, it should also carefully lay out a plan for identifying and acquiring the specific resources that the company will need to develop, build, market and support its products around the world. The company must have the necessary technical and financial resources and the skills and experience among the founders and senior managers to manage those resources and leverage them in a global marketplace. For example, the company must have the technical resources to develop products that combine innovative technology with usability and reliability and this requires a research and development team that understands the relevant technology and is adept at designing products that can transfer well over long distances to foreign markets with their own unique requirements. The R&D team should include members with direct experience in key foreign markets, since they would be in the best position to understand how potential customers in those markets would perceive and use new products. In that regard, resources should also be set aside to facilitate adaptation of the company's products by foreign customers, including service and support and ongoing R&D efforts focusing specifically on reducing installation and maintenance costs. Internationalization also requires more capital than might otherwise be needed if a company was simply concentrating on its domestic market and the founders and senior managers should develop plans for financing uninterrupted ramp-up of the company's entry into foreign markets. In particular, the company must anticipate additional costs in developing international sales and marketing activities, even when the company is relying on foreign intermediaries (i.e., local agents or distributors) as its initial distribution channel. The strategic plan discussed above is an important tool with respect to financing since a thorough analysis of potential foreign markets accompanied by clear and specific plans and tactics for entering each of those markets can be used in presentations to prospective investors.

As discussed above, the new company's R&D resources and strategies are important factors in launching and building a global business and the founders should make an early and lasting commitment to a focused R&D effort that is concentrated on the continuous development of innovative product and manufacturing technologies. A significant amount of time during the start-up will be invested in R&D and recruitment of qualified and experienced scientists and engineers with experience working with technologies that have been successfully deployed in the target foreign markets is essential to success. It is unlikely that new companies will have the capital necessary to establish a full internal R&D team and the founders and senior managers should be the willingness, and the contacts, to tap into external sources such as universities and not-for-profit research organizations. Another possibility is to partner with larger firms in targeted foreign countries that might be willing to provide funding and technical support in exchange for a license to distribute any products that may be created out of the research activities. This type of arrangement obviously has several initiative advantages beyond solving difficult financing issues, including the opportunity to gain access to customer insights on product requirements that would presumably enhance the chances of success for the products in the first important foreign market; however, the company must avoid getting sucked into focusing on "deep niche" products in order to gain an initial foothold in a target market, as might be the case when a company gets too involved with creating a customized version of its initial product for a single customer. While success with that customer certainly has financial and reputational value, the founders and senior managers should not forget that their ultimate goal is entry and growth in multiple global markets and that this will require that the company be able to create and maintain a global product platform that allows it to offer a wide range of applications for each of its products and technologies.

When focusing its R&D activities a new company intent on rapid globalization needs to be concentrating on developing technologies and products that can gain acceptance in its target foreign markets, which means creating technologies and products that can overcome local skepticism and be easily adapted by customers in those markets. Since the company is presumably looking to enter fairly large foreign markets from the very beginning and expand beyond those markets to fully global sales, it is imperative that products be based on innovative technologies that provide customers with truly new and useful features and/or ways to solve pre-existing problems in a significantly more cost-effective manner. In addition, new products should be designed with a particular eye on "usability", "reliability" and easy and inexpensive adaptation. These factors are important for any new product; however, they are particularly crucial when a company is relatively unknown in the market and customers are rightly skeptical about the quality of the products and the ability of the company to provide the required support and service from afar. Balancing innovation and usability is a challenging task and one that requires constant assessment by the founders and senior managers to ensure that the company is not drifting off track and pursuing a path that will delay product introduction and create products that are perceived as too difficult to deploy by customers in the target markets.

Several of the issues already mentioned above—strategy, resources and product focus—are all relevant to the key decisions that must be made regarding the type of customer that should be targeted and the methods that should be used for get customers to buy the company's products and making sure that they are satisfied with their purchases. Some companies seek to enter foreign markets by concentrating on a major customer that is interested in a customized application of the company's product. As already discussed, this type of project can be a good way to access funding for R&D and raise the company's profile in the target market; however, excessive customization should be avoided and the company must retain the right to develop and sell more generic applications of the product to similarly-situated customers in the target market. New companies should also select products that can be sold to industrial users rather than attempting to break into the consumer market at the very beginning. Working with industrial users allows a company to take a more focused sales approach and satisfied industrial customers, whose demands regarding performance, quality and support are typically quite high, can be good references for the company and its products and technologies. However, as already discussed, new companies should be careful to avoid getting too consumed with meeting the non-standard needs of a handful of large customers to the point where they neglect the longer-term goals of building a broader platform of products and applications.

Another customer-related issue is selecting the appropriate channel strategy and for newer companies that typically means at least some degree of reliance on local sales agents and distributors. Industry and local knowledge are essential to making the correct decisions regarding channel selection and if a local agent or distributor is to be used it should be managed carefully by one of the founders or a senior manager to ensure that the company's interests are being protected and that the company's goals and objectives with regard to market penetration are being aggressively pursued. New companies, and the persons within those companies assigned to manage channel relationships, need to understand and accept that effective channel management will require a significant investment of time, effort and financial resources and the person in charge should be prepared to travel to the foreign market regularly to meet with key contacts inside the organization of the agent or distributor and participate in customer visits. The company also needs to make sure that procedures have been established for sharing information with agents and distributors on a regular and timely basis. Finally, agency and distribution arrangements should be subject to regular review and assessment on a mutually-agreed schedule. New companies should be aware that termination of agency and distributor relationships is heavily regulated in some countries and care must be taken to draft contracts correctly at the outset to provide companies with maximum flexibility to make a change if the relationship is not working or the company prefers to implement a different sales strategy.

New companies certainly want to get their products and services in front of prospective customers in their target markets and the channel strategy discussed above is certainly a major part of those efforts. However, companies that are new to specific market, particularly new companies with no track record or global brand recognition, need to be prepared to act aggressively to establish and continuously grow their profile and presence in the market. In other words, they need to "get known quickly" and build a strong positive reputation in the market. Obviously one way to do this is through marketing activities for the company's products which may be done directly or through the company's local agent or distributor. In most cases though this is not sufficient and companies must engage with customers and other key stakeholders in the market by establishing personal relationships forged during frequent visits by founders and senior managers to the market. The need to overcome the "liability of alienness" has already been mentioned and this process can and should begin even before the company's products are formally introduced into the market. Once the company has a working prototype of its initial product, founders and senior can set up meetings with large potential customers in the market, including potential agents and distributors, to introduce themselves and the product and elicit feedback on how the product might fair in the market and what changes in the design or features might be desirable in order to enhance the attractiveness of the product. New companies should also establish a physical presence in the market—at least one local office or a network of offices in larger markets—even if they are relying on local agents or distributors in order to show commitment to the market, make company representative available for meetings in the market and, not to be ignored, to facilitate the collection of knowledge and intelligence about the market that is proprietary to the company as opposed to be owned by outside agents and distributors.

Not to be forgotten in all of this is the fundamental question of how foreign market activities should be managed on a day-to-day basis. Given the importance of the initial foreign markets to the company's success and survival, overall responsibility should remain at the very top of the company's organizational hierarchy with one of the founders and/or senior managers, and is particularly important for that person to develop and maintain a high level of knowledge regarding the target market and the activities of the company's local agents and distributors. In addition, he or she should have direct communications and relationships with the company's key customers in the target market and develop processes for accessing real-time information on the sales, expenses and overall business conditions in the market. Decisions also have to be made regarding recruitment of local managers and other specialists who will be "on the ground" in foreign markets and become the face of the company and conduits for the flow of information back to the senior management team. In general, the preferred approach is to find home-grown talent, either persons currently living and working in the foreign market or qualified expatriates willing to return to the market. Whoever is selected should be adept at managing and motivating local personnel, networking with local stakeholders and communicating effectively with senior management at the main office. The company should seek the proper balance between centralization and delegation of authority, which means determining the actions that can be taken by local personnel without prior consultation with the home office and which decisions need to be vetted at the home office before action is taken. When deciding on how much autonomy will be given to local personnel, companies must be mindful of the need to move quickly but should avoid giving up too much control until they have developed the appropriate level of trust in the judgment of local managers, a process that will require continuous interaction and communication between those managers and the senior manager responsible for the market.

Finally, an internationalization strategy is undoubtedly expensive, at least in relation to limiting the focus of sales and marketing activities to a domestic market, and the founders and senior managers must seriously consider how the company will be able to finance all of the activities required to quickly and successfully penetrate foreign markets. As mentioned above, the company's initial strategic plan should include and address establishing a presence in foreign markets, the logistics of shipping products into foreign markets, and the establishment and maintenance of communications with company representatives in foreign markets. In addition, costs of adapting the company's products to conform to the requirements of foreign markets must also be calculated and included in estimated budgets. Once all of the information has been collected, the company can approach external financing sources, such as venture capitalists, with a complete picture of the investment that will be needed in order to establish a global business. The founders should assess potential investors closely and pay particular attention to whether or not they have a proven record of providing meaningful assistance to their portfolio companies with respect to advice on internationalization and introductions to potential customers, suppliers, agents, distributors and in-country managers in the foreign markets that have been selected as the company's initial targets.