

## The States or bust



Richard Wraith (right) and Tim van Gelder from Austhink. Insets: Dean McEvoy (top) and Paul Hardwick.  
Photo: *Rodger Cummins, Sahlan Hayes, An*

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**Many Australian technology entrepreneurs look to lucrative markets across the Pacific. But selling technology to the Americans takes more than a good product and enthusiasm, reports Brad Howarth.**

VIKI FORREST has seen many Australian technology companies stumble and fall in their quest to sell their wares to the US.

Ms Forrest is the chief executive of the ANZA Technology Network, a not-for-profit organisation that runs mentoring services and an annual showcase conference for new exporters.

She recalls the tale of one Australian company that had identified what it thought would be a great US distributor. Left to get on with the job of selling, the distributor stole the Australian company's intellectual property - and the company lacked the money to chase the claim through the US courts.

"The lesson there is you really can't do business sitting here in Australia," Ms Forrest says.

"Even if your model is through distribution channels, you need to get over there and build the distribution channels, manage them, make sure they are trusted and operating."

It's not just the legal risk, there's the sheer size and complexity of the market.

The IT market in the US is huge - fully 20 times larger than the Australian market for corporate spending on IT hardware, software, services and staff.

Small Australian start-up companies easily get lost in a sea of possibilities. Differences in business customs and culture can see them wasting time and money on leads that take them nowhere.

There are no set paths for a entering the US market. Most experts agree nothing beats having feet on American soil - but the first sale for three-year-old software developer Aruspex came before founders Stacy Chapman and Tess Walton had even taken the company to the US.

And it wasn't a small deal - the interest in its workforce-planning software came from the global coffee

chain Starbucks.

"They came to us - we hadn't done any real outbound marketing there and have only just started to do that anywhere," Ms Chapman says.

"We got the opportunity to do a bit of consulting work for them and that was the opportunity for us to knock their socks off.

"From that point they liked us and went ahead to be an early adopter of our software."

The discovery was not entirely by chance.

The founders had worked hard to become known as thought leaders in workforce management in the US, writing articles and sitting on global industry discussion panels (often at 2am local time).

Ms Walton says Aruspex's size - only 10 employees - has not been a problem for Starbucks. The two have become adept at working all hours to support their client.

"They genuinely appreciate us doing that," she says. "Where they can, they will try and fit in with our time lines."

With Aruspex now working on two more US deals, both representing even greater revenue than Starbucks, Ms Chapman and Ms Walton plan to relocate to the States. Research and development will stay in Australia.

"There's no doubt that the two big firms we are talking to at the moment would prefer to deal with an American firm, because it would be easier," Ms Chapman says.

"So what we have to do is make it as easy to work with us - hence the getting up at 2am.

"Up to a point, you can do this from a distance, and in other ways you can't. It is important that our first deals be extremely successful, because as other people enter our space, our best defence is to have brands that are really thrilled with us."

According to technology entrepreneur and exporter Frank Stranges, it is important that entrepreneurs understand US sales processes, the value propositions and what needs to be done to strengthen their market-entry strategy.

"You can learn a lot here and save yourself a lot of pain and time and money," Mr Stranges says.

"It doesn't matter how much you anticipate it, the enormity of the US market is absolutely overwhelming, and it is so easy to get sucked in to trying to deal with all of it."

IT IS important to put senior people into the US market early to drive deals and create reference customers.

"It doesn't matter what you've done in Australia or the UK, because unless they are US references, no one there cares," Mr Stranges says. "Once you start to grow, you can look for a leveraged model, where you can work with a local partner that gives you more feet on the street without having to build your own direct sales force. But no one can sell your product as well as you do."

Mr Stranges says when he took his document management technology company, 80-20 Software, to the US in 1999, he did so off the back of an existing strong relationship with Microsoft in Australia, and chose a base near Microsoft's Seattle headquarters.

While 80-20 is still competing well in the US market (Mr Stranges has since left the company), in

retrospect, Mr Stranges says this action possibly cost 80-20 attention that it could have gained from other technology companies.

"The smart thing for us to have done (would have been to) set up in New York or New Jersey and focus on financial services or pharmaceutical companies," Mr Stranges says. "But that's life - you live and learn."

Numerous services are in place to help new exporters. Austrade's dedicated technology team in the US provides free market assessment assistance through its TradeStart Program and financial assistance through the export market development grant, which covers half the cost of overseas marketing expenses.

Austrade's technology team leader for the US, Michelle Pflaum, says Austrade is focusing on opportunities in security, consumer electronics, financial markets, transportation technologies, games and digital content. Social networking and clean technology are other hot sectors.

State governments also help. The Victorian Government has staff in four American cities, and with ANZA offers an assistance package to budding exporters. Commercial service providers include Gramercy Ventures, Traction-USA and TransTech USA.

The chief executive of Brisbane-born software company Ephox, Andrew Roberts, who is based in Silicon Valley, says he has been grateful for the assistance, and he has seen millions in government funding help fellow entrepreneurs.

"At Ephox, we have also benefited from starting in a federally funded incubator and tapped into some excellent research free of charge at the Research and Information Service from the Queensland Government," Mr Roberts says.

Start-ups need all the help they can get. Invest Victoria's executive director for the Americas, Andrew Dyer, estimates that a serious entry strategy would take at least one or two full-time staff on the ground in the US and cost between \$50,000 and \$250,000.

While the technology market is buoyant, Mr Dyer says that also means that it is more crowded with local and foreign businesses. Getting good coaching on a sales pitch and presentation is essential.

He says it is important to educate entrepreneurs on how the US market works. Visiting companies must spend as long as necessary in the US to follow up leads.

"Unlike Australia, where you typically have to build relationships with people for a long time, here you can get almost instant gratification," Mr Dyer says. "If you have the right product at the right place at the right time, someone will buy it.

"So, if you're not set up to respond to that, you can actually miss out on opportunities."

A lack of research and attitude problems are common obstacles for Australian companies. The former Austrade high commissioner to San Francisco, Peter Lewis, who is now with Gramercy Ventures, says his firm still comes across Australian companies that believe their technology is so good that Google would be foolish not to buy it for millions of dollars.

"They become blinded by the fact that good technology does not necessarily mean they have a viable or sustainable business," Mr Lewis says.

"We have had a number of clients with social-networking start-ups or similar who believe that despite the small number of users, the concept is so robust that they are a natural acquisition by Yahoo!, Google or MySpace."

The chief executive of Traction-USA, David Cannington, believes many Australian entrepreneurs bring arrogance about their businesses, coupled with ignorance of how the market really works.

He stresses the importance of getting the company pitch right and the need to be able to tune it to the exact needs of the person listening.

"Doing business in Silicon Valley is distinctly different to doing business in Australia," Mr Cannington says. "The Americans are very, very good at not saying no, so you really do get a false sense of optimism around potential relationships that you think you are going to cement.

"Australians (also) don't understand how difficult it is to get to the right people to have the right conversations. People come over here, they will exchange business cards, and then don't follow up with them and keep a constant level of communication."

He cites one of his clients, Omecom, which creates technology for personal video advertising, as one company that is doing things the right way.

Omecom built a name for itself in the US through getting nominated to the Always On Network's list of Hollywood top 100 private companies.

It was also covered in Always On magazine and was introduced to senior investment executives from Time Warner, Disney and other top-tier Silicon Valley venture capitalists. "The exposure generated significant interest and opened many doors, which it is now leveraging," Mr Cannington says.

"The cost was just smart resourcing, leveraging and messaging. There was no money down."

Ms Forrest stresses the importance of building networks.

"(Entrepreneurs) continually misunderstand how important networks are, and they think because they are a very successful entrepreneur, and are very clever and smart with a great product, that they can do it," Ms Forrest says.

While successful entry into the US market can take two years or more, there are shortcuts. Mr Roberts says online advertising, marketing and delivery have opened up opportunities for Ephox to start selling long before having any physical presence in the US.

"In Ephox's case we were able to secure many early adopters and get real revenue traction through online marketing alone," Mr Roberts says. "Online collaboration tools have also made it easier to share screens, make and receive phone calls and co-ordinate activities with staff, customers and partners."

Another approach is to find an international partner to help broker international deals.

This has been the strategy for the four-year-old Sydney-based software developer Seertech, which is now deriving 80 per cent of its revenue for its learning management tools from the US market, thanks to its close local relationship with software giant Oracle.

Seertech director Paul Hardwick says that on many occasions Oracle has brought sales leads to Seertech for the two companies to work on in tandem. Seertech has set up an office near Washington, DC, with US staff, in order to satisfy requirements for selling to the US Government.

"(Oracle has) a specific learning sector of its sales force and we work with its channels to help Oracle sell their software," Mr Hardwick says. "We have actually won deals where they wouldn't have won them just on the core product alone, which is good - it's a relationship which everyone gets something out of."

Being flexible is an essential part of a good market-entry strategy. ANZA 2006 showcase company

Austhink had already found success in the Australian secondary education market for its software for helping people improve their reasoning ability.

General manager Richard Wraith says the company had hoped to go to market in the US through the same channel.

However, upon visiting the US and speaking to an experienced exporter in the education sector, Austhink discovered individual schools had little discretionary buying power, so Austhink's strategy of selling school by school would not work. US Government policy also dictates that spending should be directed to assisting the most disadvantaged children. "Our product is much more high-end and is aimed at the thinking skills of upper-level students," Dr Wraith says.

While Austhink will still target the US private-school sector, it has changed its strategy to more strongly target sales into the corporate sector. "The professional market in the US, while it's got its own challenges, doesn't have the same sorts of problems that the educational market has," he says.

## **TIPS, LESSONS**

Be prepared to play by different rules, and modify your strategy as you go.

Network. Attend conferences and nominate for awards.

Get your pitch right: describe what your company does and where its value lies in 30 seconds or less in a way that anyone will understand.

Americans are good at not saying "no" and can kill with flattery. "Let's do lunch sometime" can mean "we will never speak again".

Follow up introductions quickly and professionally.

Stay in the market to satisfy the leads you generate.

## **Angel winging it in the US**

The latest on the list of Silicon Valley-bound hopefuls is Sydney-based Booking Angel. The start-up has developed a service for helping small businesses take bookings and appointments over the internet and has already had some success with restaurants in Australia.

Booking Angel founder Dean McEvoy says the opportunities here pale in comparison to the chance to sell to about 10 million small businesses in the US - many of which do not even have a website. The US market has been in Mr McEvoy's sights since the company's foundation. He has already uncovered one promising lead while demonstrating the software on his notebook after a US conference in 2005. Among the onlookers was an executive from the US web portal CitySearch.

"They really liked it," Mr McEvoy says. "Being set up only in Australia, we thought that was awesome. So we did a specification process with them but then got to the stage of realising that we would have to be set up in the US - we couldn't run it from Australia."

Unfortunately, CitySearch was not prepared to provide the \$100,000 needed to relocate, but in early June Booking Angel received \$100,000 from the Australian Distributed Incubator and Information City to begin its expansion.

So Mr McEvoy is back in the US to continue discussions with CitySearch and other online portals while continuing the search for more funding. Booking Angel's inclusion in the AlwaysOn 100 Top Private companies list has helped.

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