

## ***How to fast track growth in the US – despite the downturn***

*By Mike Preston*

***Despite what you've heard about the US economy, there are opportunities if you target the right sector or niche for growth.***

Australian entrepreneurs are seizing opportunities to expand their businesses into the US despite – and in some cases, because of – the looming threat of recession in the world's largest economy.

Entrepreneurs and experts on the ground say those who wait for a recovery before making their move could find themselves missing out permanently.

There is no doubt the US economy is struggling. Just in March, for example, 80,000 jobs vanished in the US, the biggest drop in more than five years, while new home sales dropped to its lowest level since 2001.

But Australian business owners shouldn't make the mistake of thinking the downturn is affecting all parts of the US economy equally, according to Viki Forrest, chief executive of ANZA Technology Network, a US-based network for Australian technology entrepreneurs.

“Middle America is feeling the downturn, but Silicon Valley is probably the part of the economy that has been least affected,” Forrest says. “We are still seeing plenty of venture capital and angel investment for tech companies. The only area we are seeing a slowdown in is IPOs.”

While consumer-exposed industries are feeling the effect of the slowdown, Forrest says the pace in cutting-edge sectors such as IT, online and biotech has never been faster.

“Entrepreneurs who see a niche in the US market risk missing out if they hesitate,” she says. “I'm seeing tech companies moving very rapidly to market right now. It is a hugely competitive market and delayed entry is almost always a mistake.”

Economic downtimes can even present some advantages for early stage entrepreneurs. “You can do everything more affordably in a down market; staff are easier to find, rents are cheaper, that sort of thing. So it can be a good time to start doing that early work,” Forrest says.

So what are the best ways to expand into the US market – and the pitfalls to avoid? SmartCompany asked four Australian entrepreneurs currently working to establish themselves in the US about the lessons they've learnt and their tips for success.

## Lee Travena, chief executive officer, Synetek Systems

If Melbourne-based Synetek Systems achieves its million dollar revenue target this year, it will partly be thanks to a deal struck in November for distribution in the US of its key software product.

Under the agreement, US business Reflexion will package Synetek's online email archiving software with its managed email service, currently used by more than 4000 customers around the world.

Synetek's chief executive Lee Travena estimates the deal will provide the core of the business's \$US100,000 revenue this financial year, and much more in years to come.

Travena says he first got talking to Reflexion staff at an internet service provider trade convention in the US in 2006, but it took a year before the deal between the two was confirmed.

"It took twice as long as we thought it would, mainly for operational reasons," he says. "We'd send software development packages and it would be two days before we'd get them back, and when we got to crunch time, when both sides were working on their own sections going back and forth, the time difference meant it was just a much slower process."

Synetek now has an experienced board member based in the US, a contact developed through its participation in the ANZA technology network, to help it generate the next set of US deals.

"He knows people in the US and has a track record, so he's already opened some doors for us that we know we have to do the work to take advantage of – deals don't get done just by turning up," Travena says.

## Tips.....

***It will take longer than you think:*** Time zone differences, legal and jurisdictional issues and little communication differences all mean that building relationships in the US and turning them into deals takes longer than it does between Australian companies.

"Plan for delays, and make sure the deal is worth it, because you can detonate your margins pretty quickly in the meantime," Travena says.

***Just because they're positive, doesn't mean they love you:*** Travena says it is a common American trait to be really positive about business opportunities, but you shouldn't always take it at face value.

“It can give you the false impression that the deal is done, because that is probably what it would mean in Australia. But it is just a standard MO in the US that you can't read too much into,” he says.

***You don't need an office in the US:*** Synetek says businesses that don't need direct consumer contact can get by with a virtual office in the US, but you've got to be available during US business hours.

“You don't need to be available 24/7, but we have introduced flexible hours so staff can be available early in the morning or work from home in the evening, so they engage with the US.”

### **Clint Walker, chief executive, Rising Sun Research**

Rising Sun Research's focus on selling to the largely US-based feature film industry meant it has had little choice but to work on building a customer base there since it was founded seven years ago.

It did have one advantage, however – as a R&D spin off from successful movie post-production business Rising Sun Pictures, it already had contacts and some name recognition in the US.

Chief executive Clint Walker says those few initial connections were crucial to building market acceptance for the business's remote film viewing software.

“That was a fantastic head start, and once we were able to show that we had a few big names behind the product that really drove wider acceptance in the industry,” Walker says.

It is particularly important to show your credentials with recognised US names coming from Australia, let alone a city in Australia – Rising Sun is based in Adelaide – that most people there will never have heard of, Walker says.

Those successes have meant Rising Sun now generates more than half of its revenue of around \$1.5 million from US-based clients.

### **Tips.....**

***Adapt to the US pace of business:*** Walker says Australians heading to the US need to be prepared for a pace of business that is 10 times faster than in Australia.

“They are hyper-aggressive and competitive when it comes to chasing business deals – if you see a market niche or an opportunity, you can’t hesitate because you know there will be three other guys there racing to beat you to it,” Walker says.

***Be clear what your expectations are:*** Walker says style, language and business practices in the US are subtly different, and caution needs to be taken to avoid what can turn out to be calamitous misunderstandings.

“You can’t assume you are talking the same language – we had one experience with a major film company where we were going to meet about what we thought would be a massive deal for us, so we prepared a great presentation and flew over there.

“In our first meeting they pitched a proposal that involved us managing their in-house IP rather purchasing our product, so there had been a huge miscommunication and we ended up having to walk away,” Walker says.

***Trade shows are a great opportunity to build your network:*** “Especially if you don’t have an office in the US, trade shows give you a great platform to meet people in a very efficient and cost-effective way – the US is a big place, so they are a great opportunity to aggregate industry face-time.”

## **Tim van Gelder, chief executive, Austhink**

The decision to tackle the US was a straightforward one for Austhink, a Melbourne business that has developed software to assist people to make decisions in a range of academic, policy and business contexts.

Late last year Austhink obtained \$4.1 million in funding from venture capital firm Starfish Ventures to help fund its expansion into the US.

That funding will help Austhink maintain a chief executive, marketing manager and other staff in a US office to help spearhead an effort to build market recognition of its business decision making software product this year.

Already, however, Austhink has learnt a few lessons about the US. Chief executive Tim van Gelder says it initially planned to launch its product into the education sector, but found the US’s regulatory and administrative structures so different and complex compared to Australia that it has changed focus to a segment of the business market.

## **Tips.....**

***Don’t assume markets work in the same way:*** Some aspects of business in the US are very similar to Australia, others very different. Van Gelder advises business to scope out the market terrain very carefully before committing to a business strategy.

“We were looking at going into the education market and we encountered a mish-mash of systems – every state is different, every school is different, and it was just going to be very complicated.

“We hired a chief executive with some experience in that sector and she said we would need \$80 million to do it, and we don’t have that. That advice enabled us to change directions before we had wasted significant time or money,” van Gelder says.

***Find your market niche:*** “Don’t think you can take the whole of the US in one big bite unless you have huge resources behind you,” van Gelder says.

Austthink, for example, plans to target its marketing at the management consulting sector, a very narrow slice within once profession within one part of the total US market. As van Gelder points out, however, the size of the US means even that narrow niche presents massive opportunities for an Australian business.

“Look at opportunities in industries, vertical market segments or geographic regions – after all, several US states are about the same size or bigger than Australia, so if you are a minnow with limited resources it is better to be efficient, nimble and focused on a well defined niche.”

## **Raphe Patmore, chief executive, Buzka**

Is it possible to build a business based around online social networking from the world’s most remote capital city? Perth-based social networking technology company Buzka and its chief executive, Raphe Patmore, are about to find out.

Buzka plans to sell its social networking application as a white label product to businesses or organisations that want to establish their own internal or external online communities.

In the meantime, it has launched two online social networks – Buzka and Pop Networks – in an effort to fine-tune the technology, but Patmore says that has presented its own challenges.

“The user certainly won’t put a great deal of effort into learning about your product – it really has to be as intuitive as a doorknob,” Patmore says. “You see products like Facebook and think consumers will give you the same time, but that is the result of building over time a very loyal customer base, so there is a kind of chicken and egg problem there.”

## **Tips.....**

***Tell a compelling story about your target market:*** Buzka has spent the past year working at fine tuning its product before it seeks to raise funding to back a launch into the US market.

Patmore says his recent experiences in the US have begun to make him wonder whether perhaps it would be better to do things the other way around, however.

“We have focused on building a rock-solid technology, but when you speak to potential investors in the US they are more interested in hearing about the consumer motivations in your market and how they will drive acceptance of your product – it’s much more about finding that sexy market niche that makes people sit up and take notice,” he says.

***Work those networks:*** Patmore says he has been surprised by how tough it has been to get a hearing from US venture capitalists.

“You don’t realise until you get there just how big the VC industry is there, and how much time and resources you need to put in to get your profile up and into consideration,” Patmore says.

“We have used ANZA Tech to make some connections, but they have to be constantly refreshed and reinforced so you maintain your relevance to contacts,” he says.

Available online at: <http://www.smartcompany.com.au/Premium-Articles/Top-Story/20080410-How-to-fast-track-growth-in-the-US-despite-the-downturn.html>

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