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Go Global—or No?

For two years, DataClear has had the data analysis market to itself. But now a British upstart is nipping at its heels. Should DataClear continue to focus on its strong domestic prospects or expand overseas to head off the nascent international threat?

"Why aren't they biting?" wondered Greg McNally as he laid down another perfectly executed cast. He was fly-fishing in the most beautiful spot he had ever seen, on the Alta in Norway—reputedly the home of Scandinavia's worthiest salmon. And he had plenty of opportunity to admire the view. No fish were getting in the way.

What a difference from the luck he'd had a couple of weeks earlier trout fishing at Nelson's Spring Creek in Montana. It seemed like so much more time had passed since the two-day off-site he had called there, designed to be part celebration of the past, part planning for the future.

Some celebration had definitely been in order. The company, DataClear, was really taking off, fueled by the success of its first software product, ClearCloud. In 1999, its first full year of operation, DataClear's sales reached $2.2 million. Now, the following September, it was looking like 2000 sales could easily reach $5.3 million. At the all-staff meeting on the Friday before the off-site, Greg had announced the company's success in recruiting two more great

by Walter Kuemmerle
executives, bringing the staff to 38. "I'm more confident than ever that we'll hit our goals: $20 million in 2001 and then $60 million in 2002!"

**Clouds on the Horizon**

A New Jersey native, Greg held an MSc from Rutgers and then went West to get his PhD in computer science from UC Berkeley. He spent the next 15 years at Borland and Oracle, first as a software developer and then as a senior product manager. He started DataClear in Palo Alto, California, in the spring of 1998.

At that time, Greg realized that companies were collecting information faster than they could analyze it and that data analysis was an underexploited segment of the software business. It was at a seminar at Northwestern University that he saw his opportunity. Two researchers had developed a set of algorithms that enabled analysts to sift through large amounts of raw data in powerful ways without programmers' help. Greg cashed in his Oracle options and, in partnership with the two researchers, created DataClear to develop applications based on the algorithms.

His partners took responsibility for product development and an initial stake of 20% each; Greg provided $500,000 in financing in return for 60% of the shares and the job of CEO. A year later, Greg offered David Lester, founder of DL Ventures and a former Oracle executive, 30% of the company in return for $5 million in additional funding.

In his previous positions, Greg had shown a knack for leading "fizzy" technical teams, and under his leadership, the two researchers came up with a state-of-the-art data analysis package they dubbed ClearCloud (from the clarity the software brought to large data clouds). Two versions, one for the telecommunications industry and the other for financial services providers, were officially launched in September 1998. ClearCloud had a number of immediate and profitable applications. For instance, it could be used to help credit card companies detect fraud patterns more quickly in the millions of transactions that occurred every day. Greg conservatively estimated the annual demand from the U.S. telecommunications and financial services sectors to be around $600 million. The challenge was to make potential users aware of the product.

ClearCloud was an instant hit, and within just a month of its launch, Greg had needed to recruit a dozen sales and service staffers. One of the first was Susan Moskowski, a former sales rep at Banking Data Systems, who had worked successfully with Greg on several major joint pitches to financial institutions.
She had spent two years at BDS’s Singapore subsidiary, where she had laid the groundwork for a number of important contracts. She had left BDS to do an MBA at Stanford and joined DataClear immediately on graduating as the new company’s head of sales. She was an immediate success, landing DataClear’s first major contract, with a large West Coast banking group.

Greg realized that ClearCloud had huge potential outside the telecommunication and financial services industries. In fact, with relatively little product development, Greg and his partners believed, ClearCloud could be adapted for the chemical, petrochemical, and pharmaceutical industries. Annual demand from customers in those sectors could reach as high as $900 million.

But accessing and serving clients in those fields would involve building specialized sales and service infrastructures. Just two months ago, to spearhead that initiative, Greg recruited a new business-development manager who had 20 years’ experience in the chemical industry. A former senior R&D manager at DuPont, Tom Birmingham was excited by ClearCloud’s blockbuster potential in the U.S. market. “The databases can only get bigger,” he told Greg and Susan. Greg had asked Tom to put together a presentation for the offsite in Montana on the prospects for expanding into these new sectors.

Just two weeks before the outing, however, Susan burst into Greg’s office and handed him an article from one of the leading trade journals. It highlighted a British start-up, VisiDat, which was beta testing a data analysis package that was only weeks away from launch. “We’re not going to have the market to ourselves much longer,” she told Greg. “We need to agree on a strategy for dealing with this kind of competition. If they start out as a global player, and we stay hunkered down in the U.S., they’ll kill us. I’ve seen this before.”

The news did not take Greg altogether by surprise. “I agree we’ve got to put together a strategy,” he said. “Why don’t we table the domestic-expansion discussion and talk about this at our offsite meeting, where we can get everyone’s ideas? Unlike the rest of you, you’ve had some experience overseas, so perhaps you should lead the discussion. I’ll square things with Tom.”

Go Fish

In Montana, Susan kicked off the first session with the story of GulfSoft, a thinly disguised case study of her former employer. The company had developed a software package for the oil and gas exploration business, which it had introduced only in the United States. But at almost the same time, a French company had launched a comparable product, which it marketed aggressively on a global basis. A year later, the competitor had a much larger installed base worldwide than GulfSoft and was making inroads into GulfSoft’s U.S. sales. When she reached the end of the story, Susan paused, adding ominously, “Today, we have only 20 installations of ClearCloud outside the U.S.—15 in the UK and five in Japan—and those are only U.S. customers purchasing for their overseas subsidiaries.”

At Susan’s signal, the room went dark. Much of what followed, in a blizzard of overhead projections, was market research showing a lot of latent demand for ClearCloud outside the United States. The foreign markets in telecommunications and financial services were shown to be about as large as those in the U.S.—that is, another $600 million. The potential in pharmaceuticals, petrochemicals, and chemicals looked to be about $660 million. Taken together, that meant a potential market of $1.5 billion domestically and $1.26 billion abroad.

In ending, Susan drew the obvious moral. “It seems pretty clear to me that the only defense for this kind of threat is to attack. We don’t have any international sales strategy. We’re here because we need one—and fast.”

She glanced at Greg for any hint of objection, didn’t see it, and plunged ahead: “We know we can sell a lot of software in the U.S., but if we want DataClear to succeed in the long run, we need to preempt the competition and go worldwide. We need a large installed base ASAP.

“I propose that for the afternoon we split into two groups and focus on our two options for going forward. Group A can consider building our own organization to serve Europe. Group B can think about forming alliances with players already established there. Based on what you come back with tomorrow, we’ll make the call.”

As the lights came back on, Greg blinked. He was dazzled. But he sensed...
that he needed to do some thinking, and he did his best thinking knee-deep in the river. After lunch, as the two groups got to work, Greg waded into Nelson’s Spring Creek. The fish seemed to leap to his hook, but his thoughts were more elusive and ambivalent.

Money, Money, Money

Greg decided he needed a reality check, and that night he called David Lester to review the day’s discussion. Not too surprisingly, Lester didn’t have a lot of advice to give on the spot. In fact, he had questions of his own. “Instead of focusing on foreign markets in our core industries, what if we focus on developing ClearCloud for the domestic pharmaceutical, chemical, and petrochemical industries and capitalize on that $900 million U.S. market?” he asked. “How much would that cost?” Greg offered a best guess of $2 million for the additional software-development costs but hadn’t yet come up with a number for marketing and sales; the industries were so different from the ones DataClear currently focused on. “Whatever the costs turn out to be, we’re going to need another round of financing,” Greg allowed. “Right now we’re on track to generate a positive cash flow without raising any additional capital, but it won’t be enough to fund a move beyond our core industries.”

“That’s not where I was headed,” Lester replied. “What if we went out and raised a lot more money and expanded the product offering and our geographic reach at the same time?”

Greg swallowed hard; he was usually game for a challenge, but a double expansion was daunting. He couldn’t help thinking of the sticky note he’d posted on the frame of his computer screen a few days after he started DataClear. It clung there still, and it had just one word on it: “Focus.”

Lester sensed Greg’s hesitation: “Look. We’re not going to decide this tonight. And really, at the end of the day it’s up to you, Greg. You’ve done the right things so far. Keep doing them.” Hanging up, Greg was reminded of how pleased he was with Lester’s hands-off approach. For the first time, he wondered what things would be like if he had a more hands-on venture capitalist as an investor—maybe one with some experience in international expansion.

Greg was also reminded of his own lack of international management experience. Eight years earlier, he had politely turned down an opportunity to lead a team of 50 Oracle development engineers in Japan, primarily because he had been unwilling to relocate to Tokyo for two years. His boss at the time had told him: “Greg, software is a global business, and what you don’t learn early about cross-border management will come back to haunt you later.”

Options on the Table

At ten o’clock the next morning, Group A took the floor and made their recommendation right off the bat: DataClear should immediately establish an office in the UK and staff it with four to six salespeople. Britain would be a beachhead into all of Europe, but eventually there would also be a sales office somewhere on the Continent, maybe in Brussels. They had even drafted a job description for a head of European sales.

Greg was impressed, if a little overwhelmed. “Any idea how much this would cost us in terms of salaries and expenses over the first year?” he asked.

“Conservatively, about $500,000 a year; probably more,” the group leader replied. “But cost is not so much the point here. If we don’t make this move, we’ll get killed by VisiDAT—or some other competitor we don’t even know about yet. Imagine if SAP introduced a similar product. With their marketing machine, they would just crush us.”

Tom Birmingham started to object. “Where are we going to find local staff to install and support the product?”

he wanted to know. “I mean, this is not just about setting up an office to sell: ClearCloud is a complex product, and it needs a service infrastructure. We’d have to translate the interface software, or at least the manuals, into local languages. We’d need additional resources in business development and product support to manage all this. Selling ClearCloud in Europe is going to cost a lot more than $500,000 a year—”

Susan was quick to jump in. “Good point, Tom, and that isn’t all we’ll need. We also have to have somebody in Asia. Either Singapore or Tokyo would be an ideal base. Probably Tokyo works better because more potential clients are headquartered there than in the rest of Asia. We need at least four people in Asia, for the time being.” Tom frowned but, feeling that Susan had the momentum, decided to hold his fire.

After lunch, it was Group B’s turn. They suggested using autonomous software distributors in each country. That would help DataClear keep a tight grip on expenses. Greg spoke up then. “What about teaming up with some local firm in Europe that offers a complementary product? Couldn’t we get what we need through a joint venture?”

“Funny you should mention that, Greg,” said the presenter from Group B. “We came up with the idea of Benro but didn’t have time to pursue it. They might be willing to talk about reciprocal distribution.” Benro was a small software shop in Norway. Greg knew it had made about $5 million in sales last year from its data-mining package for financial services companies. Benro was very familiar with European customers in the financial services sector but had no experience with other industries. “Working with Benro might be cheaper than doing this all on our own, at least for now,” the presenter said.

Susan chose that moment to speak up again. “I have to admit I’m skeptical about joint ventures. I think it will probably take too long to negotiate and sign the contracts, which won’t even cover all the eventualities. At some point we will have to learn how to succeed in each region on our own.”

That’s when Greg noticed Tom studying Susan, his eyes narrowing. So he wasn’t surprised—in fact he was a little relieved—when Tom put the brakes on: “I guess I don’t see how we can make that decision until we gather a little more input, Susan,” Tom said. “At the very least, we need to have a conversation with Benro and any other potential
partners. And I know I’d want to meet some candidates to lead a foreign sales office before I’d be comfortable going that route. But my real concern is more fundamental. Are we up to doing all this at the same time we’re building our market presence in the U.S.? Remember, we don’t yet have the capability to serve the chemical and pharmaceutical industries here. There are still only 38 of us, and I estimate that building the support infrastructure we need just for domestic expansion could cost as much $2 million — on top of product development.”

Before Susan could object, Greg struck the compromise. “Tell you what. Let’s commit to making this decision in no more than three weeks. I’ll clear my calendar and connect with Benro myself. At the same time, Susan, you can flush out some good candidates for a foreign sales office and schedule them to meet with Tom and me.”

**Casting About**

And that’s how Greg McNally found himself up a creek in Norway on Sunday morning. Benro’s CEO had been interested; Greg was confident that the meeting with him on Monday would yield some attractive options. And once the trip was booked, it didn’t take Greg long to realize that he’d be near some fabled fishing spots.

He also realized it would be a great chance to pick the brain of his old Berkeley classmate, Sarah Pappas. A hardware engineer, Sarah had started her own company, Desix, in Mountain View, California, in 1993. The company designed specialty chips for the mobile communications industry. Within seven years, Desix had grown into one of the most successful specialized design shops around the world, with about 400 employees. Like Greg, Sarah had received funding from a venture capitalist. Since a lot of demand for Desix’s services was in Scandinavia and to a lesser degree in Japan as well, Sarah had opened subsidiaries in both places and even decided to split her time between Mountain View and Oslo.

Greg arrived in Oslo on Thursday morning and met Sarah that evening at a waterfront restaurant. They spent the first half-hour swapping news about mutual friends. Sarah hadn’t changed much, thought Greg. But when the conversation turned to potential geographic expansion and he asked about her experience, Greg saw her smile grow a little tense. “Ah, well,” she began. “How much time do you have?”

“That bad?”

“Actually, to be honest, some things were easier than we thought,” she allowed. “Recruiting, for example. We never expected to get any great engineers to leave Nokia or Hitachi to join us, but we ended up hiring our Oslo and Tokyo core teams without much trouble. Still, some things turned out to be so hard — like coordinating the three sites across borders. There were so many misunderstandings between Oslo and Mountain View that at first our productivity went down by 40%.”

The story got worse. Sarah explained how, in 1998, her venture capitalist sought to exit its investment. Since an IPO seemed inadvisable for various reasons, the parties agreed to sell the company to Pelmer, a large equipment manufacturer. Sarah agreed to stay on for three years but couldn’t do much to keep the engineers in her Oslo and Tokyo subsidiaries from leaving. No one had fully anticipated the clash between Pelmer’s strong U.S. culture and Desix’s local cultures in Oslo and Tokyo. By this point, Sarah felt, the merger had destroyed much that had gone into making Desix a small multinational company.

“I can tell I’ve been a real buzz killer,” she laughed apologetically, as Greg picked up the check. “But if I were you, given what I’ve been through, I’d stay focused on the U.S. for as long as possible. You might not build the next Oracle or Siebel that way, but you’ll live a happier life.”

“So you think you made the wrong choice in expanding internationally?”

“Well, no,” said Sarah, “because I don’t think we had a choice. You, on the other hand, can sell much more product in the U.S. than we could have.”

**Up to His Waist**

The next day brought its own worries, as Greg met with Pierre Lambert, a candidate for head of European sales, whom Susan had identified through a headhunter. Lambert had graduated from the Ecole des Mines in Paris and then worked for four years at Alcatel and five years at Lucent. As they talked, it occurred to Greg that he had no experience in reading résumés from outside the States. Was Ecole des Mines a good school? He noted that Lambert had worked only in France and the U.S. How successful would he be in the UK or Germany? As he wrapped up the interview, Greg figured he would need to see at least five candidates to form an opinion about the European labor market. And Asia would be even harder.

That evening, he compared notes with Tom, who had interviewed Lambert by phone the previous day. Tom expressed some doubts: he suspected that Lambert wasn’t mature enough to deal with the level of executives — CIOs and chief scientists — that DataClear would be targeting. That call only just ended when the cell phone rang again, with Susan on the line. “Greg – I thought you would want to know. VisiDat just made its first significant sale — to Shell. The deal is worth at least $500,000. This is huge for them.”

And now, two days later, here he stood in the glorious, frustrating Alta. He could see the salmon hanging just under the surface. He cast his line again, an elegant, silvery arc across the river and maneuvered the fly deftly through the water. Nothing.

Greg slugged back and shore and peeked into the box housing his extensive collection of hand-tied salmon flies. Was it just that he was so preoccupied? Or were the conditions really so different here that none of his flies would work? One thing was for sure: it was a lot chillier than he’d expected. Despite the liner socks, his feet were getting cold.
Should DataClear go global?

Four commentators offer their advice.

"Remaining a domestic U.S. player is not an option. DataClear needs to take its business and product global."

Heather Killen is senior vice president of international operations at Yahoo!

DataClear is facing a dilemma common to many small companies that realize they have a global opportunity on their hands. Should it take the plunge into new markets at the risk of overreaching its capabilities or stick to its knitting at the cost of missing key growth opportunities?

Greg doesn’t have too much to work with. He and his team have little international operating or sales experience. His current VC has adopted a hands-off approach and is unlikely to be much help in plotting out an international strategy. What’s more, the company may have to overcome technical difficulties. If DataClear has to reengineer the product so it can analyze data in other languages (especially two-byte languages like Japanese and Chinese) or use different data formats (commas instead of periods to indicate decimal places, for example), the road ahead will be long.

That said, remaining a domestic U.S. player is not an option. DataClear needs to take its business global. For a start, the company is not growing quickly enough, and it needs to move aggressively if it is to break out. What’s more, if Greg is correct that the demand for data analysis services is about to explode, then the company could easily be scooped by established businesses entering the space or by better-funded start-ups.

A move abroad also fits with both DataClear’s actual customers in the telecommunications and financial sectors and its potential customers in the petrochemical and pharmaceutical industries. Many of the players in these industries are based outside the United States (DataClear’s first real competitor, VisiDat, has just sold its product to Shell, a global enterprise that’s not based in the States).

It makes no sense to distinguish between the “U.S.” and the “international” markets. Rather than ask whether they should expand overseas, Greg and his team should ask whether customers will want to implement DataClear’s product on a global basis. The case gives us little to go on, but if we assume that they will, then, once again, that’s a strong argument for moving abroad. After all, DataClear needs to reach its customers wherever decisions about global investments are being made.

However, the expansion alternatives presented in the case are not attractive, and Greg needs to review his options more thoroughly. Building international sales offices from scratch could be expensive and may not yield much in the way of concrete results. On the face of it, an alliance strategy is more promising—but choosing a joint-venture partner is a difficult process. What’s more, Greg has already given up a fairly large slice of his equity in the company to DL Ventures, so he needs to be judicious about the partners he brings into the business at this stage. Benro is clearly a nonstarter. As a small niche player, it doesn’t have the juice to help DataClear.

There are, however, other options. Targeting global companies based in the United States could be a good way to begin to expand overseas. In fact, DataClear has already made a start in this direction; several U.S. customers have purchased the product for their foreign subsidiaries. (This also suggests that the product may be fairly easily adapted to conditions outside the States.) Greg should also seek out a powerful channel partner with connections to non-U.S. markets. SAP, mentioned as a possible competitor, could also be a good partner in view of its strong European orientation. In fact, co-opting SAP as a partner before it becomes a competitor would be a smart move. Finally, Greg should consider looking for fresh input and capital from a strong VC in Europe or Asia. That would help DataClear get incubation support for a more daring go-it-alone approach.
“Greg needs to clarify his rationale for global expansion and consider a broader range of tactical options.”

Alison Sander is a manager in the Boston office of the Boston Consulting Group and serves as BCG’s global topic leader.

DataClear has a product with international potential, but Greg is on the verge of making three classic mistakes in evaluating his options. The first is going global for reactive instead of strategic reasons. The second is basing a decision on numbers that seriously underestimate the costs of international expansion. The third is gravitating toward obvious and expensive approaches rather than examining a full range of options.

Greg needs to clarify his rationale for global expansion and consider a broader range of tactical options. VisiDat’s sale to Shell is not reason enough to refocus DataClear’s strategy on overseas alternatives. An international strategy should be based on at least one of three competitive advantages:

- arbitrage - leveraging advantages available in specific countries (for instance, low-cost capital or labor, special expertise, or favorable tax positions);
- strategic positioning - preempting a competitor, gaining a first-mover advantage, or locking in favorable terms with suppliers;
- replicability - reproducing a product or a business model cost-effectively in many countries in order to gain scale advantages.

DataClear appears to have no arbitrage advantage. The company really has no strategic-positioning advantage either, even though the main rationale presented is that DataClear should preempt VisiDat in order to defend its strategic position. VisiDat is oriented toward the oil and gas market rather than DataClear’s financial services market. Defending a strategic position is expensive, and until DataClear builds a bigger war chest, such a move may divert management’s attention from the immediate priority of selecting markets where DataClear can build profitable market share quickly. Indeed, Susan’s focus on VisiDat appears to have obscured her best argument for going global: the opportunity to profitably replicate DataClear’s existing software product. But a far more thorough analysis is required before a replication strategy can be developed, as the competitive challenges of and opportunities for building profitable operations vary widely from country to country.

Building a successful global strategy would also require Greg to take a much closer look at the cost estimates. For a start, he hasn’t factored in the typical costs for software adaptation, such as local product customization and support. What’s more, the company has focused on two of the world’s most expensive markets in which to set up operations: London and Tokyo. Finally, as Sarah points out, global complexity comes with unexpected administrative and coordination costs.

If Greg does decide to go global, he needs to look beyond the options presented in the case. Establishing an overseas subsidiary is expensive. And while a joint venture would cost less and bring in new knowledge and capabilities, the poor track record of joint ventures suggests that DataClear needs to evaluate its potential partners more systematically. An ill-conceived alliance with Benro could prove as risky as competing against VisiDat; Benro also serves the financial services sector and could develop capabilities through the venture that would let it compete with DataClear.

Fortunately, Greg does not have to choose between those two options. Lower-cost alternatives do exist: licensing ClearCloud, selling it on the Web, or hiring a local sales representative, for instance. Perhaps the smartest option, however, would be to continue with the strategy that is already working: selling to financial institutions that are purchasing for their overseas subsidiaries. By targeting global companies like Visa or MasterCard, DataClear could leverage those customers’ existing global infrastructures. Instead of investing in overseas offices, Greg could hire a manager in the United States to supervise sales and develop customized support for large multinational customers. The best-run companies follow a step-by-step approach to global expansion.
“DataClear needs to understand its potential competitors a lot better than it seems to. Thus far, its competitive analysis seems to be limited to reading news articles and press releases from the competition.”

Barry Schiffman is president and executive managing director at JAFCO America Ventures, a venture capital firm based in Palo Alto, California, and Boston.

Greg is facing a common strategic threat: the possibility that a competitor will beat his company to overseas markets with a similar or better product. A more-established company would be wise to preempt the threat as soon as it can. But as a fledgling start-up, DataClear does not yet have the personnel or capital to support an international venture. Unless Greg and his team take a lot more time than they seem to wish to do, they may well find that they'll spend a lot of money without getting a single international order.

For a start, DataClear does not have a manager who can spearhead a move abroad. To pursue that option, the company would need a senior executive with five to six years' experience in the target markets and a mastery of at least one relevant foreign language. At present, the only executive with any international experience is Susan—and hers was just two years in Asia, not Europe. Greg may be tempted to strike a compromise by putting Susan in charge of the expansion on an interim basis while searching for someone with the right experience. But going that route would be unwise. DataClear would be likely to lose domestic business without winning enough foreign business to compensate.

Second, DataClear needs more capital. Global expansion tends to be a long, drawn-out war. International sales teams (especially in non-English-speaking markets) take a long time to close their first deal. Even when they have a well-developed product, they still have to customize it to suit local needs and establish distribution channels. When the California-based software company BroadVision, for instance, set up its Japanese subsidiary in 1997, it had to wait about two years before it was able to realize any value from the venture. In the meantime, it had to support the subsidiary from its U.S. operations.

DataClear doesn't have the capacity to support a move abroad from current operations; it will have to raise cash from its investors to cover the costs—as Lester and Greg recognize. That means coming up with a convincing business plan, which Greg is far from being able to do at present.

For these reasons, I do not recommend that Greg go along with Susan's evident determination to head up an immediate international expansion initiative. But he would certainly be well advised to invest some money in a feasibility study in the next three to six months. I would suggest that he hire a consulting firm to do a detailed analysis of the opportunities in both Europe and Asia. Working with the consultants, Greg should spend a few days himself in each of his initial target markets and meet face-to-face with potential partners and customers.

At the same time, DataClear needs to understand its potential competitors a lot better than it currently seems to. There are plenty of unanswered questions. Is VisiDat the only threat? How real is the $500,000 order from Shell? Is that a big order in the petrochemical market? How long will it take to convert ClearCloud to compete with VisiDat's product in that market? Thus far, DataClear's competitive analysis seems to be limited to reading news articles and press releases from the competition.

If the results of these market research efforts are encouraging, DataClear should immediately approach its investors with a two- to three-year business plan. When its funding is in place, the company should recruit a new executive to head its international operations. In the meantime, DataClear might benefit from continuing to build close relationships in its domestic markets with customers that have a strong international presence or at least global brand recognition. Names like Sprint, Citigroup, and Microsoft spring to mind. Having references from companies like these will make it much easier for DataClear to get its foot in the door with overseas customers.
“To spend so much time establishing foreign operations when the company has not yet fortified its home base is a recipe for failure.”

Scott Schnell is senior vice president of marketing and corporate development at RSA Security, a software company based in Bedford, Massachusetts.

DataClear is facing a decision that sooner or later every new business must face. But any expansion plan must be fully understood in the context of a company’s existing strengths, its management experience and talent, and its current and future opportunities. Greg is in danger of allowing himself to be rushed into a decision without taking the time for responsible due diligence—and his celebratory off-site has been transformed into a crusade to solve an issue that does not need an immediate resolution.

In fact, a move abroad at this time makes questionable strategic sense. In DataClear’s market, it is much more important to focus on cementing a position of strength in the United States—where the company has an early lead in the largest, most-promising territory—than to be the first to market in all possible territories. Businesses win by building from a strong, defensible market position with a top-performing product and a supporting organizational infrastructure. To spend so much of senior management’s time on aggressively establishing foreign operations when the company has not yet fortified its home base is a recipe for failure. A $5 million, 58-person company like DataClear does not seem to have a strong enough base of strength, given the potential size of the markets involved.

From an organizational perspective, DataClear’s lack of planning demonstrates that management is not ready for the challenges involved in building an international business. The company has not even developed a strategy or a time line for expansion into new domestic markets. And no company should guide its actions solely on the press releases, rumors, and sales triumphs of competitors, especially when selling a sophisticated product with a long sales cycle like ClearCloud.

Worse, DataClear is worryingly thin on international experience. Greg admits he doesn’t know what it would take to be a good head of European sales. The only person with any international seasoning is Susan, but her judgment seems to be clouded by BDS’s bad experience in Singapore. She has failed to realize how different BDS’s situation was from the one that DataClear now faces. BDS was already an international company and could easily have sold its new product overseas had it decided to—it just unwisely chose not to. For DataClear, however, going abroad represents a much greater challenge.

At some point, of course, DataClear will have to expand internationally, and in my experience, its best alternative will be forming joint ventures or partnerships with value-added resellers—not establishing its own international presence as a first step. In this respect, Greg’s instinct is quite sound. But before talking to companies like Benno, Greg and his team need to think carefully about the markets and partners they should choose. How do DataClear’s current target segments differ in the United States, Europe, and Asia? Should the company look for partners that have similar product experience in adjacent markets or ones that serve DataClear’s traditional customers with other products? How many partners should DataClear have in Europe? What sort of partnership structure will best align the incentives of the partners involved?

Finally, Greg should not delegate the task of devising an international plan to Tom and Susan. Given their strongly different views on expansion, their joint efforts could disintegrate into a power struggle. Instead, Greg should lead the planning effort himself and allow two to three months to formulate a strategy. For help in learning about foreign markets, Greg should look outside the company to colleagues, investors, and specialists—as indeed he has started to do with Lester and Sarah. The challenge Greg faces is daunting, but it is not immediate, and a panic reaction will only make matters worse.

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