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Abstract

The objective of this whitepaper is to assist business development, marketing, sales and other revenue generation professionals in the information technology industry make informed decisions about entering a foreign market. Using the recommended market assessment approach should help you reach a go/no-go decision.

Information technology companies with ambitions for global expansion seldom have deep pockets nor do they have plenty of time available to choose and assess the potential markets they could enter. In the whitepaper “Choosing Foreign Markets in the Software Industry” (TBK-WP-019) we provide a simple approach for picking the best markets first.

This whitepaper provides a simple approach for making a fast yet fairly comprehensive assessment of a foreign market (that you have short-listed among the many opportunities available to you), which will indicate which adjustments you need to make to your business model and to your go-to-market approach to become successful in that market. The whitepaper lists the questions you should ask and get some valid answers to before you allocate too much of your precious time and scarce funds to revenue generation activities.

A fair number of the questions can be answered through desk research from anywhere in the world, while some questions will require conversations with local industry analysts, potential customers and potential business partners.

Planning is cheap – implementation is expensive.

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It's (almost) under your own control

A business model describes the rationale of how an organization creates, delivers and captures value. Using the Alexander Osterwalder business model framework you will notice that all the building blocks on the canvas are (almost) within your own full control.

You select your target customer segments, you design your value propositions to best serve these customer segments, you set the prices that you charge for your products and services, you choose which types of relationships you will have with your customers and you choose which channels you will use to find, nurture, mature, activate, develop, win, make, keep and grow your happy customers. We call this part of the business model “The Front Office”. Your front office activities will generate customers and revenue (which are results of your efforts and not something that you fully control).

In the “Back Office” of your business model you need to employ delivering your value propositions to your customers. The back office may build relationships with key partners and the back office generates cost.

You make all the decisions concerning how to design and run our business model yourself.

The Business Model Environment

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When you take a close look at the business model canvas you will notice the absence of some significant areas impacting your business.

Where do you deal with the competition, the key influencers, the shortages of skilled staff, the technology trends, the availability of business partners, the changes and differences in customer needs and behavior, the demographic changes, the legal and environmental issues, the global economy, etc. etc.?

No business model lives in a vacuum and the toughest part in any business endeavor is dealing with the issues that you cannot control.

You have to make it to page 200 in Osterwalder & Pigneur’s book “Business Model Generation” before you are exposed to what they call the business model environment.

Separating what you can control, “The Business Model”, from what you cannot control, “The Business Model Environment”, is an excellent way of structuring your strategy development process when you are planning to move into foreign markets.

When considering moving into a new geographic market there are two basic questions that you need to clarify:

1. Which differences in the business model environment in the new geography dictates changes to your business model?

2. Which other portions of the business model must be modified to work effectively and scale our business in the new geography?
In order to help you make a structured and systematic analysis, Alexander Osterwalder has divided the business model environment into four major areas:

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Osterwalder actually names these areas “forces”, which in my opinion may confuse them with Porter’s “Five Forces” to which there is some overlap.

However, Osterwalder’s four business model environment areas are fairly comprehensive and complete and will work well for most information technology companies.

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### Key Trends

The key trends include:

1. Technology Trends
2. Regulatory Trends
3. Societal & Cultural Trends
4. Socioeconomic Trends

No two countries are alike and even the big countries may have substantial regional differences.

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The questions you could ask concerning the Trends part of the business model environment are:

- Are the technology platforms for your business model in place?
- Are there legal issues that require changes to your products and services?
- Are there legal issues that require changes to your revenue generation process?
- How will differences in language impact your business model?
- How will “the distance to the market” impact your business model?
- Do customers and business partners have different behavioral patterns that may impact the performance of your revenue generation process?

Market Forces

The market forces include:

I Market Issues
II Market Segments
III Needs & Demands
IV Switching Cost
V Revenue Attractiveness

The market forces include all issues associated with the size and nature of the demand for your type of product and services. Experience proves that assuming that customers in a new market have the exact same characteristics as the customers in your domestic market can lead to major mistakes, lost investments and lost opportunities. You will therefore need to assume that there are differences in the market forces in each new geography you decide to enter.

Revenue generation includes business development, marketing, sales development, sales, account management and customer success activities.
Key issues to consider when moving into a new market are:

- How big is the market for your products and services?
- Is this market growing, flat or shrinking?
- Is what you offer considered more or less important in the new market compared with your domestic market?
- What may prevent the potential customers from buying your product/service?
- What are the switching costs for customers who may be attracted to your value proposition?
- Where do your potential customers go for information about the type of issues you address and who do they listen to for recommendations?
- Are there specific market requirements that you must be able to cover in your product and services?
- Are there specific ways the market acquires products and services like yours that requires changes to your revenue generation process?

The industry forces include:

I Competitors (incumbents)
II New Entrants (insurgents)
III Substitute Products & Services
IV Stakeholders
V Suppliers & Other Value Chain Actors

The industry forces include all issues associated with the supply of product and services similar to yours. All your potential customers in a new geography are running their businesses without your product and service, which makes it fair to assume that you will have competitors and that your potential customers have substitution alternatives.
Stakeholders are people in organizations that have influence on your business model without being customers. Stakeholders are typically your new staff, labor unions, shareholders, industry associations, the government, lobbyists, consultants, analysts and the media.

The industry forces also include the channels through which the customers are served, the influencers, the organizations and the media dealing with these domain issues.

Key issues to consider when moving into a new market are:

- Who are the main direct competitors in the segments that you plan to address?
- What are the strength and weaknesses of these competitors?
- Do their weaknesses leave enough room for your value proposition to be sufficiently attractive to the market?
- Do you need to narrow your market focus to remain sufficiently competitive?
- Are there any other new entrants pushing the same value propositions as yours? Can you leverage their efforts?
- Who are the main influencers, organizations and media dealing with your domain?
- Can you find “friends” among the influencers, organizations and media that will promote your value proposition?
- Who are the channel players in your domain?
- Can you find channel players that can profit from the success of your value proposition and approach?

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4 When you move into new countries that are substantially bigger than your domestic market, then you will typically face competitors that are more specialized and focused than you currently are.

5 New entrants can be more difficult to identify than the established competitors.

6 Working with someone pushing the same message as yours may create a bigger buzz than if you have to do the job all on your own.
The macro-economic forces include:

I  Global Market Conditions
II  Capital Markets
III  Commodities and Other Resources
IV  Economic Infrastructure

Macro-economic forces are highly unpredictable and may change quickly. The macro-economic forces should therefore seldom have any significant importance for your considerations concerning entering new markets. Achieving any significant position in a new market is typically at least a 3 to 5-year project and within such a time frame the macro-economic forces may have changed completely.

Big consulting companies may make predictions on the development of certain countries and regions and may appoint these regions as future growth centers. Such predictions were made in 2001 for Brazil, Russia, India and China under the label BRIC and in 2014 the MINT countries (Mexico, Indonesia, Nigeria and Turkey) were named the new growth countries. None of the predictions have been solid. The economic climate and the political situation can change the predictions with very short notice.

Small companies with little international experience, limited capital resources and a shortage of management and leadership capacity should first focus on developed and stable markets that are not too far away.

Identifying significant differences in the business model environment will call for adjustments or even changes to your business model compared to how you operate it in your domestic market.

These changes can best be defined by reviewing each element of the business model separately.
Our value proposition and the target market segments you decide to approach are very closely related. As customer requirements and the competitive situation may be different from country to country you often have to make adjustments here.

You can ask if the differences in the business model environment:

- Will require any adjustments to your value propositions?
- Will require any adjustments to your target market segments?

Channels

The channels are employed to find, nurture, mature, activate, develop and win happy customers.
You can ask if the differences in the business model environment:

- Will require any adjustments to how you facilitate the customer’s buying journey?

**Customer relationships**

Your customer relationships are designed to make, keep and grow happy customers.

You can ask if the differences in the business model environment:

- Will require any adjustments to how you make, keep and grow happy customers?

**Revenue**

The revenue is a function of your ability to facilitate the customers’ buying journey and the prices you can charge.

You can ask if the differences in the business model environment:

- Will dictate differences in the prices you can charge?
- Will impact how you charge or invoice customers?
- Will impact debtor days and payment collection?

**Key activities**

Running the business model front office including defining and making changes to the products and services behind the value propositions, adjusting the target market segments, refining the process to find, nurture, mature, activate, develop, win, make, keep and grow happy customers and finding the right pricing level may require different and additional activities.
Managing staff or business partners in other locations, speaking different languages and understanding different cultures will certainly add a layer of complexity that you need to master.

You can ask if the differences in the business model environment:

- Will call for new activities to be undertaken?
  - What are these activities?
  - Which of these activities can be undertaken at headquarter level and which must be undertaken in each region or country?

Key resources

Running activities requires employing and engaging resources. In the discussion so far we have stressed that becoming successful in a new country may (most likely will) require tweaking everything in your front office. You not only perform more activities, but also different activities, which again implies that you not only need additional resources, but also new types of resources.

You can ask if the differences in the business model environment:

- Will require additional resources and if so which and how much?
  - How will you recruit these resources?
  - How will you on-board these resources?
  - How will you organize these resources?
  - How will you manage and measure the performance of these resources?
- Which resources do you need at the HQ level and which do you need at the country or regional level?
Key partnerships

Key partners are suppliers and strategic alliances that form a critical part of your value proposition. If they fail to deliver, then you cannot deliver. Information technology and especially software and services companies traditionally have few or no key partnerships\(^7\). It is unlikely that moving into a new country will make any changes to this scenario.

You can ask if the differences in the business model environment:

- Have any impact on your key partnerships?
- If new key partnerships in the country could improve your value proposition and competitive position?

Cost

Entering foreign markets require investments and recurring operational costs. Knowing how fast you can win the first light house customers and form a bridgehead from where you can scale the business is extremely hard to predict. Not even big companies that set up their own operations, hire their own staff and invest massively in building market awareness can predict if and how soon they will reach break-even.

As planning is cheap and execution is expensive it makes good sense to run a number of planning sessions and gather market intelligence before committing resources to engage with partners and customers to whom you will have obligations if you fail to establish a sustainable business in that country.

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\(^7\) Customers, distributors and resellers are not key partners. Suppliers that can easily be replaced are not key partners. You can normally identify a key partner by the fact that you will arrange a second source option to mitigate the risk of failure.
About the author

Hans Peter Bech is an Amazon bestselling author. He is a frequent blogger on how to make information technology companies global market leaders and has written several books and numerous whitepapers on business development in the IT industry. Hans Peter also facilitates workshops for the TBK Academy® and is an advisor for governments and companies. He holds a M.Sc. in macroeconomics and political science from the University of Copenhagen.

More about Hans Peter Bech

Other publications by the author