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Selling Abroad From the Get-Go

By SCOTT DENNE

Here's one nascent trend among U.S. entrepreneurs that seems likely to gain momentum: a willingness to venture abroad, even as a fledgling company is just getting started.

More founders of new U.S.-based businesses are catering to overseas customers even in the earliest months of their companies' life spans. The idea, they say, is to immediately capture the opportunity for faster growth by catering to clients in other countries, where there's less competition and potentially stronger economic growth.

Reuters

Matthew Prince, co-founder of CloudFlare

But wooing overseas clients during a company's startup phase—the earliest days of selling its product or service—also brings a litany of challenges that range from haggling with customs officials to navigating different countries' employment laws. The strategy is risky, since overextending a new business is one of the most fatal mistakes entrepreneurs can make.

Consider Matthew Prince, a lawyer turned entrepreneur. In 2009, he and some colleagues in San Francisco, started CloudFlare Inc., a service that routes a website's traffic through its own servers to boost performance and block denial-of-service attacks.

Within months of the launch, two-thirds of CloudFlare customers were from outside the U.S., including countries such as Turkey, Japan, Costa Rica and Israel. Mr. Prince hadn't previously given much thought to selling internationally. He and his team had to scramble to capture the opportunity -- turning to Google Translate, and enlisting help from its their early customers in those countries to make its their website available in 23 languages.

"Every time someone like the internal revenue service of Pakistan signs up, you think, 'How in the world did they ever hear about us?' " said Mr. Prince, also chief executive of the three-year-old company with 40 employees. "We've got customers in 211 countries around the world. I didn't even know there were 211 countries around the world."

The challenges of capturing overseas clients, while still formidable, have been greatly diminished as the Internet has made it easier to get software and services to customers and to communicate with them through corporate websites, webinars and video conferencing. That is inspiring certain entrepreneurs to toss aside the common wisdom that it's smarter to focus exclusively on building momentum in the U.S. first.

Regions like East Asia, Latin America and the Middle East have grown at least twice as fast as the U.S. economy's median growth rate of 1.7%, according to the World Bank.

Gary Morgenthaler, a venture capitalist at Morgenthaler Ventures, said he is seeing more U.S. companies expand internationally earlier than he has ever seen in his more than two decades as a professional investor. They include database company NuoDB Inc., Cambridge, Mass., and San Francisco-based Planet Soho, which makes software for managing small-businesses. Because a Web page is now a business's front door, customers can walk in from anywhere, not just the cities where a firm has a physical office. "In the past it was not easy to get information about your product or service" to a broad global audience," Mr. Morgenthaler says. "Today it's instantaneous."

"You definitely see more (very young) companies doing more business overseas or considering doing more business overseas," adds Daniel Isenberg, professor of entrepreneurship practice at Babson Global, a Massachusetts-based subsidiary of Babson College that's focused on spreading entrepreneurship globally. "But it's still relatively rare," he says. "Geographical distance still figures into many aspects of the value chain," noting that many aspects of running an international business haven't been changed by the Web.

"There's still a focus from investors to grow your business in a more natural way by building a repeatable sales model in your own backyard first," says Joe Horowitz, the managing general partner at Jafco Ventures, which invests in U.S.-based information-technology businesses as they're starting to grow sales. His firm is bullish enough on international opportunities that it employs a full-time business development team in Asia to help its portfolio companies land in the region. Still, he says a U.S. founder should mature his sales and marketing strategies in the U.S. before spending money to go abroad, where there are added challenges and expenses.

Not only does a startup risk wasting scarce capital on a failed international venture, but the company also can taint its name if it tries to re-enter a market a second time after having abandoned it once.

Ash Ashutosh, of Waltham, Mass, is an example of a U.S entrepreneur who is targeting overseas markets from the get-go. He previously built two companies—AppIQ Inc. and Serano Systems Inc.—but in both instances he waited until he had about two years' worth of U.S. sales under his belt before bringing their products -- data-storage technologies—to marketplaces outside the U.S.

At the time he founded those companies, both over a decade ago, the U.S. was far and away the biggest market and the investment needed to set up an office and hire staff outside this country was too substantial for a startup to contemplate. With his latest entrepreneurial effort—a data-storage software company called Actifio Inc.—he figured he should just begin to sell software abroad just a few months after launching.

Now, two and a half years later, Actifio is seeing half its $25 million in 2012 sales come from places like Hong Kong, Austria, Singapore, Germany, Thailand and Japan. More than one third of its 196 employees are based overseas. Mr. Ashutosh is focused on setting up in India and China next year and is eyeing moves to South Africa and South America. "There was a time where the U.S. was the biggest market by a long shot," he says. "The others may not be as big, but many are growing faster."

Mr. Ashutosh and his team rely on two decades of experience, as well as data from industry analysts, to decide which markets to tackle next. But by far the most important factor is whether they have found a person with the right knowledge and expertise to run its local operations.

In some markets, Korea for example, a company must demonstrate that it will be there long-term, he says, because many potential customers had been burned by other companies that had set up shop, only to pull out their employees when a region didn't live up to expectations.

Europe also presents a problem, with the hodgepodge of laws, languages and cultures that make up that continent, including unique employment laws that are generally far stricter than what companies face in the U.S. Regulations also differ from country to country with regard to where and how data can be stored.

The nuances of each market, both culturally and legally, mean that managers will have significant latitude in how the operation is run. For a startup to have success in its international ambitions, it has to set up processes and controls that are similar to those found at major corporations.

There can be a tough balancing act in giving international managers the leeway to use their skills without going off the rails, he says.

"In everything about how you build a company you assume there's going to be a distance," said Mr. Ashutosh. "I cannot emphasize enough how many nooks and crannies of the business this permeates."

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