Plan and Launch International Expansion:

Key Questions That Lead to Success in Europe

EXPANSION
PARTNER

Tech companies need to be global to win. Today's tech giants did not follow someone else's blueprint to win internationally. International expansion is about understanding local circumstances, answering the right questions and having a creative strategy.

This whitepaper provides a guiding light to plan and launch international operations successfully.

TECH COMPANIES NEED TO BE GLOBAL TO WIN.

1 INTRODUCTION

Internationalisation is a challenge.
Not going international is a wasted opportunity.

In the world of tech startups, borders matter less and less. U.S.-born tech companies such as Facebook, Google, Apple, Amazon, Whatsapp, Airbnb, LinkedIn are changing the lives of millions of users around the world. Along the way these tech giants have altered user behavior, established marketing tools and tech infrastructure. They also brought along major changes in policy and social conditions, laying the foundation for the next generation of startups to expand much faster.

Smartphones are cheap and easily accessible. Low-cost airlines and travel giants such as Expedia, Booking and Airbnb have made it easier and cheaper to move around. Facebook's penetration doesn't differ much between London, Istanbul, Hanoi and Philadelphia. These trends make it easier to expand. But the same holds true for the competition.

As the market for tech products is moving beyond local, it is essential for startups to understand that competing globally is no longer an option, but a necessity.

Some startups build international expansion into the very first version of their business plan; while others consider foreign markets at a later, more mature, stage. **The actual decision to go international can be prompted by different factors, including saturation of the home market, access to a significantly larger customer base or nearing competition.** Regardless of when internationalisation is brought into the overall business strategy and what props it, winning foreign markets might be one of the greatest challenges and opportunities at the same time that a startup faces.

EXAMPLE facebook

Founded in: 2004

Background: Facebook launched internationally in 2007.

Challenges: Large international user base from early days put enormous pressure on Facebook to expand.

Facebook faced threat from local copycats around the world.

Expansion strategy: Instead of spending months to decide which markets to target, building local operations and adjusting its product, Facebook used user generated translations of its core product to scale into new markets very quickly after reaching a growth inflection point. For example, in less than 24 hours, 90% of its website had been translated into French.

Facebook internalized key learnings about regional differences such as a reliance on slow mobile data connections in many parts of the world.

The company now has 17k employees in 34 international and 15 U.S. offices.

More than 90% of Facebook users are from outside the U.S.

Entering new markets is an intense project that demands company-wide commitment, sufficient resources and sustained effort. As a first step, it requires a solid strategy that is timely, relevant and realistic. Poor preparation and inflexible mindsets too often thwart internationalisation efforts.

A typical international expansion strategy consists of the following three phases:

PLAN	LAUNCH	GROW & SCALE
• Choosing the right time. • Evaluating the product. • Picking new markets.	• Designing performance management criteria and tools. • Settling regulatory and legal issues. • Establishing a local presence: build, buy, or partner.	• Testing and iterating. • Measuring progress. • Setting up regional operations: centralized or decentralized. • Building and adapting company culture.

This white paper discusses key strategic aspects of the first two phases of breaking down a company's national borders and rolling out international operations: Plan and Launch. It focuses on expansion into European markets. It draws on over 10 years of our combined experience of successfully guiding American tech companies through the full cycle of setting up, growing and leading operations in Europe.

2 START WITH EUROPE

Europe has a lot to offer: access to a market that population-wise is twice the size of the U.S., diverse customer base and a single currency in key markets. It also provides a contrast that helps better understand the existing target audience in the home market and improve the product. Another important business case for European expansion is a significant valuation increase.

Many startups recognize the value of the European expansion, yet very few manage to execute it successfully. In fact, history shows that the European markets are bestrewn with carcasses of U.S. startups. This is unfortunate, not only because the high failure rate results in tremendous waste of resources and often overall business damage, but also because many missteps can be avoided if planned and executed correctly.

> While the U.S. accounts for nearly 70% of global VC activity, the E.U. offers access to a single largest market in the world: The adjusted GDP of the 28 EU members is bigger than both China and the U.S.!

Two biggest mistakes that companies make when planning and executing their European expansion are:

1. Assuming that Europe can be treated as a single market.
2. Assuming that Europe can be treated like the U.S. and applying the same product, marketing and operating principles as they do at home.

In many ways, of course, Europe is a single market (currency, free movement of people, etc.). Still, it is important to recognize that each EU member state has its language, culture, traditions as well as different business regulations. Targeting European countries, entrepreneurs should strategically analyze their business case and the individual markets they're interested in. This includes mapping product suitability, adaptability and scalability onto the unique circumstances of each country.

European expansion is not risk free. However, failing to grasp international market opportunities is also a risk: competitors with the courage to move into new markets can quickly become a threat to a core U.S. business.

There are many ways to mediate respective risks when planning international expansion. Answering the right questions conscious of the nuances of a local market is a first step towards increasing chances of success.

The following section discusses specific strategic aspects of Plan and Launch phases of international expansion in Europe.

EXAMPLE UBER

Founded in: 2009

Background: Recognising the threat posed by second movers (Lyft, SideCar) in its home market and international competitors, Uber adopted an aggressive international expansion strategy.

Challenge: Uber assumed that Western European markets would be willing to change or ignore long-standing regulations and embrace Uber's product.

Expansion strategy flaw: Uber failed to understand that the perception of their growth was higher than their actual business. The taxi cab industry in many cities, especially across Germany, France and Italy, got organized and lobbied media and lawmakers successfully before Uber had won the market, stifling the company's chance to grow.

Uber reported an international expansion loss of $2.8 billion in 2016.

Key learning: Underlying cultural and philosophical assumptions may prompt a different local reaction to new products even if some of the industry dynamics seem the same.

3

WHEN? HOW? WHERE?

What to think about when planning expansion to Europe

1. When is your company ready to go international?

Often times decisions to expand internationally are triggered by external forces: competition (either escaping or preempting it), customers (luring of larger markets) and investors' expectations. However, even the most thoroughly designed strategy and abundant resources stand little chance of success if a company is not ready to enter foreign markets.

A single most important prerequisite for successful internationalisation is a critical level of organizational maturity. For a tech startup it usually means to be out of the "everyone is working around the clock just to keep the train on the tracks" phase.

Other criteria for international expansion:

- A stable position in the home market, paved by a product and business model that works. The company doesn't need to be a market leader in its home market, but there has to be a prospect to get there.
- Internationalisation strategy that is planned and fits the company's product and vision.
- Available organizational resources to focus on and execute international expansion.
- Allocated sufficient hiring and onboarding resources.
- Secured financing that significantly exceeds a projected budget.

2. Where to start?

Internationalization typically starts with answering two fundamental questions:

- Is there a market for our product outside of the U.S.?
- What needs to be done to have a product work outside of the U.S.?

European markets require product modifications (user experience, communication, language, design, etc.). Finding a key to the latter question is critical: if the product can't be made to work in European markets, the overall business might require a careful consideration.

3. How to pick new markets in Europe?

Europe is a single market. It seeks to guarantee the free movement of goods, capital, services, and labour. At the same time, it is a gross mistake to treat it as one. Europe is made up of individual countries rich with centuries-old cultures, traditions, languages and mentalities.

Testing international waters in "easy markets" is rarely an optimal strategy. For example, Dublin or London might seem like attractive European destinations to many American startups. There are numerous advantages of launching international operations in these places as both are English-speaking and culturally similar markets with simple tax and regulatory requirements. In fact, Ireland offers particularly attractive tax and regulatory incentives for tech startups.

However, such reasoning is likely to be a curse in disguise. Dublin or London, and even the entire United Kingdom, are small markets compared to wider Europe. As a result, most learnings from these markets are not relevant or replicable in the rest of Europe. Market segmentation, size, growth, customer behavior and cultures are country-specific. Meanwhile, tax optimization only makes sense when a business is on its way to becoming profitable. Therefore, unless there is a direct intention to limit international operations to, say, the UK, launching international expansion in London or Dublin alone would incur high costs, while yielding little additional strategic value and learnings.

A better approach is to enter several, ideally different, markets that have enough potential (i.e. where medium-term returns are greatest) and that in a long run would offer a competitive edge to the overall business. Launching international operations in Germany, France and the UK is usually a good such strategy. This approach has two main advantages:

- It allows to avoid a situation where by going to, say, Paris alone, a company concludes that the entire European continent does not work.
- Winning these markets makes it more likely to win the rest of Europe.

The UK market:

The UK is different from the rest of the EU:

- A different currency: Pound Sterling, not Euro.
- A centralized country with a heavy focus on London.
- A culturally tricky market: In some areas it has a strong U.S. influence, in many others it does not. It can be difficult to estimate how a new product might be adopted.

Brexit:

Industry fears around Brexit are numerous. The biggest one is uncertainty over Brexit negotiations and the following years. Key areas that could adversely affect U.S. startups expansion plans are:

- Immigration regulation, reduced talent attraction and mobility.
- EU and UK ending up as two separate regulatory jurisdictions.
- Data protection regulation.
- Intellectual property regulation.

4. What countries to launch in first?

Ideally, the sooner a product or local operations can be launched in more than one country, the better. However, in reality organizational, financial and strategic constraints rarely allow companies to successfully unroll their operations in all European markets at once. A good way to get a baseline understanding of which countries to prioritise is to identify those that would allow you to:

- Create most learning data points.
- Push the organization to commit as opposed to treat internationalisation as an experiment.

Typically, the countries that match these criteria are those which host most competitive markets. Statistically, in the EU those are Germany, France and the UK.

Competition is, in fact, one of the key variables in the equation. There are multiple reasons for going after a competitor's target or home market, including:

- Entering a market before competition gets there.
- Entering a market before the existing competition makes it too difficult or too expensive to do so.
- Winning the home market of a competitor, which would pave way for winning the rest of Europe.

So a good approach would be to identify several high potential markets with a diverse customer base and key competitor(s) in Europe.

EXAMPLE airbnb

Founded in: 2008

Background: The U.S. is a relatively small travel market compared to Europe and Asia. The network effects of Airbnb triggered early international user growth and pushed the company to expand internationally.

Challenge: Airbnb faced serious competition from two well-funded and large European copycats in 2011. Letting the competition win the European market could have potentially destroyed the company.

Expansion strategy: In 2011 Airbnb established a local presence in Germany followed by a rapid expansion into other key European markets. The international strategy can be summarized as: Win Germany, win Europe.

By summer of 2012, Airbnb had opened 8 offices in Europe with over 150 employees. After beating the competition, Airbnb streamlined its customer support and marketing operations. In the whole process, Airbnb not only won the market but also matured significantly as a company.

Key learning: Airbnb's success was due to its "all in" approach. International expansion took up a big part of their early day business strategy. The company first went after the most competitive market, which allowed it to win the rest of Europe.

5. What to measure?

What you measure matters, because it shapes up your business. But what you measure also depends on where you do it, as success factors do not always translate internationally. What works well in the U.S. does not always work in Europe.

For example, a German market is traditionally harder to win than that in the U.S. A German consumer takes innovation with a grain of salt, seeks ethical explanation for a product use and asks for high quality. German consumers do not fall in love easily, but when they do they stick with it. This latter aspect can be a key to adjusting performance measure variables in Germany. Whereas in the U.S. MAUs or even DAUs are often used to measure a product's success, in Germany respective download volumes is likely to precede those.

A European business strategy must evaluate local market nuances and identify relevant challenges upfront to adjust its success measurement tools respectively.

6. Regulatory and legal issues: Picking the right battles

When dealing with regulatory issues in Europe one must differentiate between a real problem and a future problem. Many companies start with future problems and concentrate of risk mitigation (tax structure, legal entities, employment law, etc.). This approach tends to impede the ultimate expansion priorities.

In reality, most regulatory questions can be handled fairly easily (with some exceptions e.g. fintech and biotech) compared to true objectives of internationalisation, i.e. winning foreign markets. A more logical course is to identify opportunities that would maximise learnings and growth, and then build a legal infrastructure around it.

7. Finding a local partner

There are many ways to leverage local knowledge and expertise when planning a business expansion abroad. A partner who is fully immersed in the local environment, speaks the local language, and understands the local customer is likely to be more effective in setting up European operations than catapulting an entire team from San Francisco to Berlin, Paris or Amsterdam. There are several ways to go about securing a local partner.

The ultimate choice of a local partner depends on short and long-term business objectives, available resources and existing network in the target markets:

Strategy	Use case	Advantages	Disadvantages
Buy a local competitor	A strong and talented team, which is up for sale Buying a competitor out of the market	Minimizes complications and saves time of building a local company Allows to acquire an existing and trained team of local experts	May push to buy staff, infrastructure and assets that are not needed Runs the risk of losing key local personnel Existing customer base might be difficult to transfer
Hire a local team	Time and resource availability A solid understanding of local market and regulatory environment is present Building a local team that has close ties with HQ	Closer alignment and identification with the company's culture and values	A tedious and time-consuming process Risk of investing heavily into the wrong market or skill-set ahead of generating initial learnings
Hire a local consultant	Tight time and budgetary constraints Highly competitive local environment which requires local expertise for rapid roll-out Multiple market launches	Local resources and knowledge Local network of contacts Previous experience The ability to quickly test and iterate without compromising internal resources	Investing into people who are not part of the official team and would eventually leave

4 CONCLUSION

International expansion is a must for many U.S. tech startups to remain competitive. Europe has been an attractive destination for a lot of U.S. companies. Winning European markets has proven to be not an easy task. There are risks associated with launching operations in Europe, but long-term risks of failing to do so are much greater for many companies.

There are effective ways to mitigate such risks. A typical international expansion strategy consists of three distinct phases: Plan, Launch and Grow and Scale. Careful planning at the first two stages allows companies to avoid most common pitfalls of international expansion, which are most often associated with failure to appreciate the power of cultural nuances and local circumstances across European countries.

ABOUT EXPANSION PARTNER

Expansion Partner is a Berlin-based advisory firm that helps U.S. startups to successfully expand operations in Europe. We offer a range of bespoke services, including market entry strategy, talent recruiting, operations launch and interim management.

Founded in 2015, we are a diverse team of entrepreneurs, analysts, consultants, engineers and designers from across Europe. We bring along many years of combined experience of successfully helping U.S. companies to bring their businesses to Europe. We are proud to have supported the successful expansion of Airbnb, Wonder Workshop, Peerspace and other U.S.-based startups.

Europe is our home. We work with a sense of purpose. We bring the right people together to make things happen and bring new ideas and products to Europe. We go deep to explore value and have the courage to act. We work with our clients to build a strong foothold in Europe. In doing so, we live up to our label: “Made in Germany”.

If you want to talk about your international expansion get in touch:

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