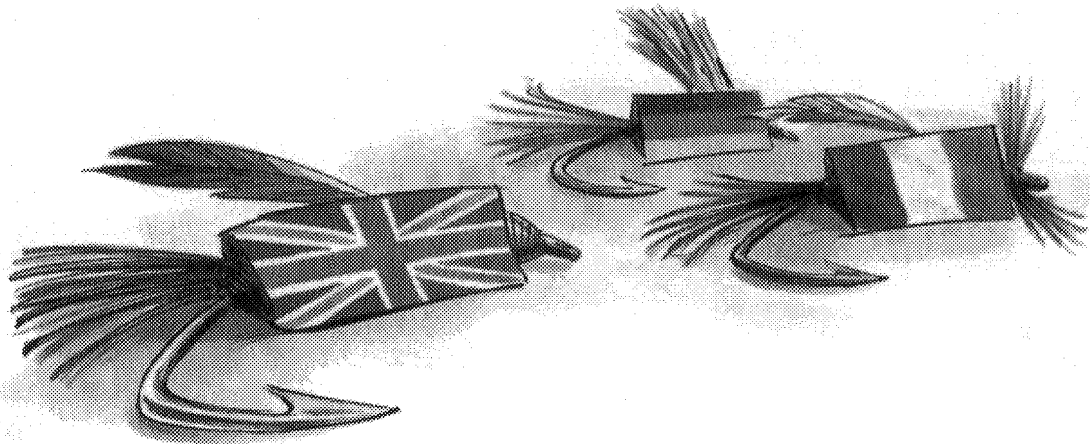


Go Global-or No?

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?



by Walter Kuemmerle

“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



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 tele-

communications 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.

ILLUSTRATION BY DANIEL VASCONCELOS



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 telecommu-

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HBR's cases present common managerial dilemmas and offer concrete solutions from experts. As written, they are hypothetical, and the names used are fictitious.

nications 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 off-site 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 off-site meeting, where we can get everyone's ideas? Unlike the rest of us, 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 cost turns 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 ap-

proach. 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 that 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

"So you think you made the wrong choice in expanding internationally?"

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 slogged back to shore and peered 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.