
Routes to Success in a Global VME Market

“Many collateral issues may exist, to be sure, but if these three essentials are not effectively planned for, the rest are meaningless.”

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Small to mid-size companies (which include most of the VME community) are just starting to realize what the mega-companies realized five years ago — the globe is becoming one market. The big guys can move into markets through mergers and acquisitions. These types of deals come easy for a British Telecom, a Siemens or an AT&T, but for the rest of us, this is pretty risky business. However, the handwriting is on the wall: small companies that used to provide niche product to local markets will no longer be immune to outside competition. Economic borders and protectionist laws are dropping like flies.

Those companies that can see the opportunity presented by these changes — and capitalize on them early — will succeed. There will be many more that ponder and discuss the subject for years to come and miss the opportunity. My expertise in international trade is really limited to Europe and North America, so the following thoughts and comments focus on these markets, although I'm sure they are valid everywhere.

The biggest hurdle to an even more rapid proliferation of the trend towards globalization is local culture. At best, we're tolerant of other cultures and we try to work around them. Time and increased exposure to diverse cultures will eventually rectify this situation. Discussion here will be restricted on this issue as it has been beaten to death by everyone who writes about international trade.

North Americans have the same problem penetrating the European market as the Europeans have penetrating the North American market. In order to be a global player and a major player in any market, you need to have a presence in these two, and eventually, in other international markets. The issue is how to achieve a successful market entry. Any time a group of business people get together and talk about going 'overseas' you can hear ten horror stories, for every success. The stories have similar themes: a lot of time, a lot of money, diverted talent and effort lost and nothing in return. If you really study these experiences, you learn that almost all the failures are a result of poor planning and an inability to deal with local culture.

A company planning to enter a new geographic market has to develop a plan that falls within its budget, yet has a strong probability of success. If a company does not plan, or is inca-

pable of developing a 'valid' plan that ensures success, it is better off opening a window and throwing out the money they planned to invest. Throwing the money out a window will create less corporate turmoil and loss of company focus than attempting to execute a plan doomed to failure.

Three Essentials for Successful New Market Entry:

There are many criteria for successful entry into a new geographic/cultural market. The three most crucial are the ability to:

Introduce a product that is needed by the market, 'packaged' for that market, and offered at an acceptable price.

Develop an awareness and a demand for the product.

Provide a mechanism and infrastructure to fulfill the demand.

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Similar to the subject of cultural differences, countless opinions have been published about product introduction and promotion, so I'll reserve comment on these two issues for another time. But little is ever published about establishing the most effective route to market that will fit within the budget and the plan.

Since we are concentrating on the VME market, some sales channels are a much better fit than others, and discussion will be limited to those.

Sales Route Choices

The VME market ranges from connectors, to silicon, to boards, to systems. Depending on the product, any one, combination, or all of the classic sales channels may be a good fit. Here is a simplified summary of how they may relate to the VME market:

1. 'Mail Order' — This now includes all the electronic media. The potential customer is stimulated by a presentation of the product's ability to solve a problem he or she may have. No questions need to be answered and the customer places an order electronically or via the mail if the prospect has the problem detailed and perceives this product to be the best solution.

This route to market works only when a concise simple message can be presented detailing the potential problem the



product solves, how it solves it, benefits over any and all alternative solutions, cost and how to obtain the product.

2. Distributors — This is the next step up. Depending on whether you are located in Europe or North America, the definition and operation of these organizations vary. European distributors tend to act more as a cross between VARs and U.S. manufacturers representatives. They perform sophisticated design-in activity, take possession of the goods and, in many cases, set their own prices, but may not always stock product.

In the U.S., distributors do not act like VARs, do take possession of the goods, stock product, tend to be less sophisticated technically than their European counterparts and are most effective selling established, stable products that require limited design-in effort. Products requiring a high level of customer hand holding to achieve the design-in are not as effectively sold through distribution in the U.S.. For highly technical products like VME, U.S. distributors are most effective when coupled with established suppliers and products; providing many faces in front of existing customers and allowing the manufacturer's direct sales personnel to concentrate on design-ins.

3. Manufacturers Representatives and Agents — Once again there are different definitions and views depending on geography. An agent is a little like a bounty hunter. The agent uncovers a potential customer, notifies the manufacturer, performs some form of introduction, then basically steps out of the picture. Europeans tend to associate manufacturers representatives with agents. I'm sure that if not properly managed, some manufacturers representatives will act like agents. A well managed, quality manufacturers representative's job is to uncover sales opportunities, qualify them, help develop the design-in, provide support and act as liaison through the project and then condition the customer for the next opportunity. This route to market tends to be much more technically capable and qualified in the U.S. and much less so in Europe. In almost all situations these sales organizations do not take title of the goods.

4. Direct Personnel — Naturally, having your own people concentrating on just your product will provide just what you want — it's all under your control. These personnel concentrate solely on your product, derive their entire income from its success and can be continually

trained technically on the product. Accepting as fact that there are geographical problems (distance and, in Europe, language), in order to get in front of the customers effectively a large number of personnel are required.

What's Right for VME

VME is a sophisticated technical market and I can think of very few VME products that can be sold via 'Mail Order'. This does not mean that providing product information electronically doesn't work. To the contrary, it is a highly effective and efficient means of providing information. There are people who feel that this is the wave of the future. There are also people who do not think that they should abdicate the sales function to the customer, and think that sales people are still necessary to influence the customer's decision. With few exceptions, 'mail order' is not an effective sales solution for VME manufacturers, although it is an effective promotional tool.

The direct sales force is the most productive. The issue is — when is it the most efficient? This is the most costly of all the routes to market and has a high fixed cost regardless of sales. Each situation is unique; however, if a company's customers are concentrated geographically, focused in numbers, or the company has reached a certain threshold in annual sales within the territory (in the U.S. VME market it is in the neighborhood of \$25M), a direct sales force may be the most productive and efficient route to market.

Most VME suppliers looking to develop a new geographical territory can not afford to move into it with a direct sales force. They may proceed with a limited number of direct personnel, if any, and a supplement of indirect sales organizations.

One difference between Europe and North America is the ability to isolate territories. In Europe you can say (for example), I do not have sales channels in Portugal or Greece, where in North America you can not say, I do not have sales channels in Arkansas and Idaho. (The only place left in North America that can still be excluded is Mexico and this will change within the next five years, too). That means that once a company decides to penetrate the US market it must provide a solution for the entire market.

A Money Marriage

When developing a relationship with independent sales channels, it is important to keep one thing in mind — these channels are in business to make money. Too many manufacturers think that they can go into a relationship like this with an attitude that they are giving the distributor or representative a golden opportunity to take on their line. This is wonderful when true; sometimes this 'truth' is colored by those through whose eyes it is viewed. Utilizing independent sales channels is like a marriage. You must have respect for one another and be able to work together to be successful together. As long as there is continuous effort, communication and support, this union will be all that it can be. One of the most difficult sales efforts a manufacturer will have is selling the concept of success with his product to an independent sales channel.

Selecting the appropriate mix for your route to market, establishing a plan for growth and supporting these routes to market are essential for success. As few as five years ago, it was virtually impossible for companies under \$10M in sales to effectively penetrate an overseas market. Fortunately, today many options are available electronically that allow companies to establish virtual companies, provide support from the home office and still appear as a local supplier. This, coupled with some indirect or direct local sales channels, enables almost any size company to successfully penetrate a new geographic market. The important thing is to explore the possibilities and develop a viable sales channel plan that will result in a successful and affordable market penetration.

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