

# Leaping THE POND

By Michael Gale – CEO of Gramercy Venture Advisors



The increasing globalization of markets and the evolution of different markets as key standard setters make an international footprint critical for many companies. Many companies talk about being “born global” but the practicalities are quite challenging for small under-resourced high growth companies. China is the world’s biggest market for mobile phones and has the world’s largest online population but it’s not so easy to have a viable business there to back up a “China story.” Japan imports 55% of its food. In Cambodia 50% of the population are under 21. Germany is a leading exporter to South America of precursor chemicals for cocaine processors. The majority of revenue associated with cricket these days comes from India and it leads in outsourced software development. Whatever industry you’re in the chances are that to gain scale you need to make an impact in a market that’s not Australia.

Not only that but if you study the valuations achieved by liquidity events such as IPOs or the prices paid in trade sales the best multiples are normally found in the US and the bulk of trade sale buyers are still American, European or Japanese with China moving up the ranks smartly. Hard to get on a buyer’s radar however if you’re not active in their territory.

Companies do not always have the bandwidth, experience or contacts to generate high value business in markets like the US or China. Hence the need to seek out talented local partners. Seeking them out is the key. Almost by definitions the ones that find you won’t be the dominant players with the best channels and market access. Those top entities are busy serving their entrenched market and you have to identify them and go to them and convince them to partner with you to take your product or service in the local market. Sometimes they can’t be found and you have to go in yourself but that is not for the faint hearted. In entering all overseas markets, there is significant tension between the

need to provide equity upside for local partners versus giving up control of revenues and markets in ways that are hard to undo later. Additionally in many territories there are regulatory requirements that can be difficult to navigate.

Increasingly there is an opportunity and a need to raise capital in overseas markets, to enable sufficient resources to be deployed without retarding the performance of the parent company. Traditionally the source of this off-balance sheet funding has been distribution partners but often the market control this provides the local partner is excessive given the need to incorporate global revenues and customer account control as the business grows and seeks an exit or listing. Often it is necessary to have three partners; the company, a local distributor and non-aligned financial investors. It is important to develop a functional local entity that can give long term product access to the distributor, a defined exit (usually via “roll-up” into the parent) for the investors and acceleration for the vendor.

One avenue of approach that is much simpler than setting up partnerships and getting the exit clauses right in advance is to simply acquire a distributor or competitor in the target market. Japanese companies have always been good at this approach but very few Australian companies take advantage of this strategy. One obvious reason is relative scale. If I am the number one maker of sausage machine software in Australia I might be a \$10m business. When I find that perfect partner in the US they are a \$200m business so not much shot at me acquiring them is there? Not necessarily so. If they are underperforming and your product will give them a new differentiation or better quality, higher margins and/or lower costs you may be surprised at how much easier it is for you to raise capital from investors both in the local market and at home. As a general rule I find it much much easier to raise money for growth by acquisition than almost any other growth story because you are instantly creating revenue and accretive earnings.

Another nice thing about starting the approach to a market by going in as a buyer is that even if you don’t end up buying you learn a great deal about the market from the companies you look at for acquisition and from the advisory firm that takes you round the market.

**Michael will be holding a free seminar “Leaping the pond - How to get your company international ready and assessing the risk”. For enquiries please contact [jmckenzie@gramercyventures.com](mailto:jmckenzie@gramercyventures.com)**



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