

Nail it before you scale it

Five lessons in international startup expansion from elevate⁶¹

October 2015



elevate⁶¹

Rapid growth entrepreneur program



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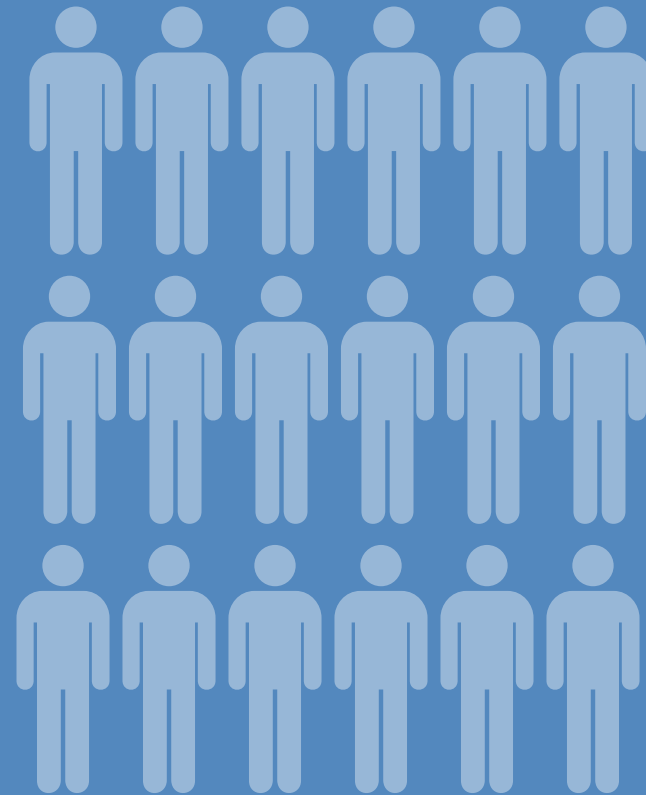
Backed by Advance and KPMG Australia, elevate⁶¹ is a rapid growth entrepreneur program for Australian tech enabled enterprise start-ups. Going into it's second year in 2016, elevate⁶¹ is a unique program designed to enable high performing Australian businesses to fast track their growth into the United States (US) and beyond. elevate⁶¹ provides participants with facilitated access to an established network of successful Australian and US-based entrepreneurs, investors, advisors and global corporations to scale their business from Australia.

elevate⁶¹.com.au

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Go big or go bust

Between April and July 2015, nine Australian high growth tech enabled businesses participated in the elevate⁶¹ program – an accelerator specifically designed to launch late stage enterprise startups into the US market.



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Why should Australian tech firms target the US market?

In an article for inc.com in November 2014, Steve Blank noted that a scalable startup looking to become a \$1 billion company generally requires local access to a population of over 100 million to really gain traction. If a country does not have a population that can support this, its startups need to be 'born global', otherwise they will 'die local' as overseas competitors enter the market with more resources and better products.

Australia is a geographically remote market, with a population of just 22 million people compared to 350 million in the US. However, economically 'we punch well above our weight', contributing 2 percent of global Gross Domestic Product (GDP).

For an Australian tech startup looking at becoming a global company, the US is one location for global expansion. The US is the global centre for tech startup investment, it has similar regulatory frameworks, and there is no language barrier. It is also the 'undisputed king' of startup innovation – with eighty-four \$1 billion startups compared to just one from Australia.

Making the leap into a new market however, is not a simple process for Australian startups. The companies on the elevate⁶¹ program found that there are many hurdles to overcome including different legal structures, a challenging sales environment and a highly competitive market with regards to recruitment.

The five stages of establishing your startup in an overseas market

The key takeaways from the elevate⁶¹ 2015 program can be summarised into the following stages:



1. Evaluate

Before you even embark on international expansion, you first need to ask: are you ready to go to the US?



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1. Evaluate

What you'll need, besides a 'killer attitude' and a 'never-say-die approach' to scaling your business in a new market, is the ability to determine if the US is a fit for your product or service.

The scale is massive, and you'll find plenty of competition and other options for both clients and Venture Capital (VC) funding. Any internationally-founded startups looking to gain traction in the US, regardless of where they come from, need to validate their business through sales in the US. Generally, Australian customers (and even investors) aren't necessarily going to be seen as great references or seals of credibility once you reach new shores.

While you may be looking to 'get your house in order' first, there are some basics you should consider.

"If you already have a presence in the US, be that customers or otherwise – it's going to be easier to transition. It's a big decision, and like any big decision it needs to be carefully planned, researched and well thought out."

Chris Shoff, Partner, Cooley Lawyers
(elevate⁶¹ US presenter and host)

The basics – are you ready to go to the US?

- **What will your first location in the US be?**

Going to the US doesn't mean the whole market, pick a market that you can tackle. The choice will vary based on your target clients, your stage of growth and your existing networks. Silicon Valley is the predominant home for venture capital, but hiring staff will be a challenge with competition coming from the best startups and the biggest tech houses. Los Angeles is the relatively new kid on the block with a big (and growing) tech startup market, while New York is a global business hub and a particularly good place for fintech and media/marketing businesses.

- **What functions will you locate in the US?**

Sales and marketing are an obvious choice. Finances as well, as with a myriad of state and national tax and finance laws to consider, local expertise will be required.

- **Where will your capital will come from?**

Launching a product or ramping up a marketing campaign in the US is generally not a cheap thing to do. What is your go-to-market strategy for investment? Are your existing investors backing your international expansion, or are you targeting in-market US capital to expand and go global?

- **What about the personal challenges?**

One major and often overlooked element are the personal lifestyle issues for the founders. Are you ready and willing to move yourself, your family and your business? What are the visa issues for any of the team that do need to be located in the US? Ironing out your visa issues is critical before you go to ensure the least disruption to your growth plans once you do get your feet on the ground.

2. Prepare

What you do before you hit the US will make or break your expansion plans.



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The most important stage – what you do before you hit the US will make or break your expansion plan.

Firstly, prepare your expansion capital strategy. Consider the benefits of ‘smart money’, the value gained from US-based investors can be greater than a pure dollar amount, when you think about the access to advisors, customers and a VCs ability to plug you into the right networks.

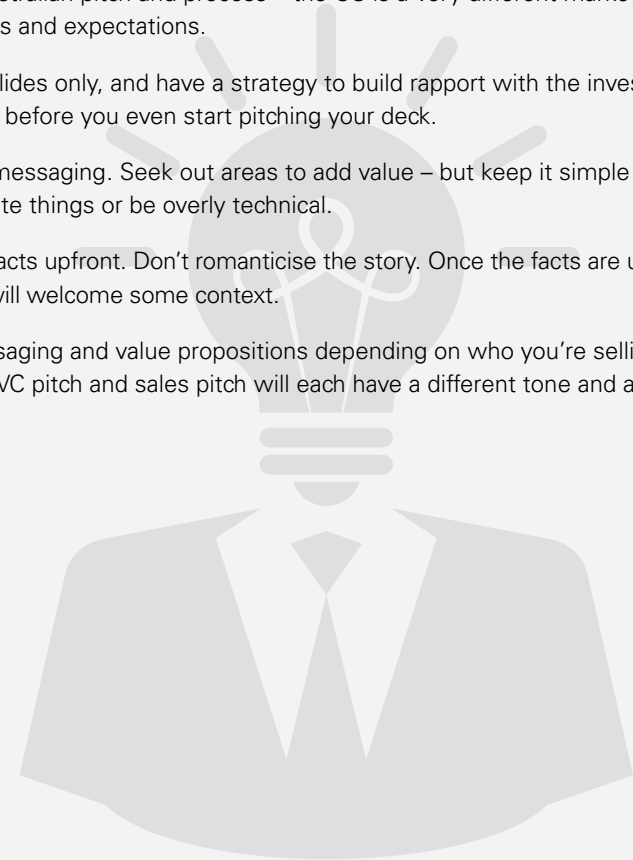
It’s also imperative that you establish a legal presence in the right state, preferably with a well-respected US law firm. When the time comes, remember to task them with helping you smooth out any discrepancies between US and Australian requirements, and also advising on upcoming contract negotiations. And remember to keep your legal structures simple. You don’t want to deter investors or large corporate clients with over-complicated structures when it comes to doing business with you.

Start building networks from Australia. While still in Australia, research the market and tap your local markets to help set up as many meetings with their US contacts as you can. Tapping into your networks in Australia to engage with the US market early will help set-up a soft landing for when you arrive.

Allow enough time for your US lawyer to sort out all your visa requirements. Study the E3 visa and make sure you understand its limitations and how to work the Visa Waiver Program (VWP) to your advantage.

Before you go: Tips to build the perfect pitch

1. Update your Australian pitch and process – the US is a very different market, with different focuses and expectations.
2. Aim for 10–15 slides only, and have a strategy to build rapport with the investors/ buyers/partners before you even start pitching your deck.
3. Optimise your messaging. Seek out areas to add value – but keep it simple and try not to overcomplicate things or be overly technical.
4. Give them the facts upfront. Don’t romanticise the story. Once the facts are understood, your audience will welcome some context.
5. Tailor your messaging and value propositions depending on who you’re selling to in the organisation. A VC pitch and sales pitch will each have a different tone and approach.



3. Explore – Get over to the US

When you get to the US
ensure you balance your
focus between investment
and business development.

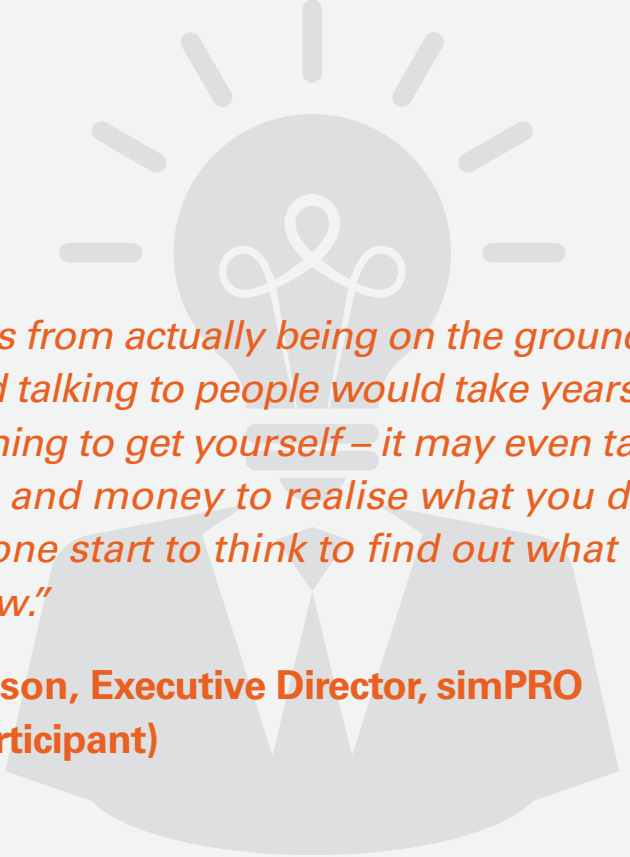


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3. Explore – Get over to the US

What do you need to keep in mind during a mission to the US?

When you're in-the-zone and your feet are hitting the ground in the US, time will be short and pressure will be high. If capital is the lifeblood of a fast growing tech startup, sales is the heart pumping it. Without prior validation in the US market getting your first sale will be difficult. So make sure that you balance your focus between both investment and business development while in market.



“The insights from actually being on the ground listening and talking to people would take years of organic learning to get yourself – it may even take a lot of time and money to realise what you don’t know, let alone start to think to find out what you need to know.”

Curtis Thomson, Executive Director, simPRO
(elevate⁶¹ participant)

Looking for investors?

When pitching to VCs and angel investors:

- Do your research prior to speaking to them—review their website and analyse their existing portfolio and their stage of fund (they may have already closed).
- Do ask for exact timelines for yes/no answers from VCs.
- Do not cold call or send a LinkedIn message directly—get out there and meet as many people as you can first, and try to get soft introductions through their networks.
- Know what valuation and terms you want, but don't lead with it – they will expect you to know this and will demonstrate your knowledge of your business and the market.
- Always try and get more than one term sheet to create demand, but also give you some signposts.
- VCs don't want to invest at a too low valuations nor take too much equity – not more than 50 percent. They want the founders to be motivated, and the best way to do this is through retaining significant stock holding in the company, especially as the founders get diluted through each round.
- The valuation of your startup often depends on the size of the fund you are talking to, the cheque size they can write and how many investments they can place.

Looking for customers?

Tips for Enterprise Selling

- Enterprise sales deals take time – so be prepared for a longer sales cycle. Getting your process started early is important.
- Know their commercial terms. Have a draft legal contract (US version) to show that you know what you are doing, but understand they will likely use their legal document. Be prepared for negotiation and pay attention to the correct spelling – using 's' instead of 'z' is only acceptable once.
- Startups are sometimes willing to accept more lenient commercial terms compared to large enterprises.
- Understand the approval authorities of your buyers—what decisions can they make? Procurement teams are involved in many contract negotiations now and corporate buyers will buy in accordance with their budgets. To win, get your product in the budget cycle, and plan ahead.
- Things like insurance, and security and privacy policies are critical—where and how data is stored is important, particularly in the US.
- Products and services don't sell themselves. You need a quality sales and marketing team in the US and a process for identifying and qualifying leads. Utilise online tools to help manage your sales pipeline. Social media is also a powerful enterprise sales lead tool, particularly LinkedIn.
- When hiring sales staff, always take quality over quantity. During the interview process, use video platforms such as YouTube or Vimeo to see how they sell by giving them a scenario to act out, record and send to you for analysis.

4. Evolve

Both during and after any trips to the US to establish your business, you need to continually evolve your offering, your messaging and your expectations.



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As with any process of discovery, a visit to the US market will throw up insight that is immediately actionable. The elevate⁶¹ participants found that, in some ways the same rules apply as when you were starting up in Australia.

However, local knowledge is key, don't lose sight of the fact that you can't land in in the US and build a network fast, it will take time. Key insights into taking those steps are:

1. Be prepared to give away equity to get in local networks, hiring someone who is already connected.
2. Strategic partnerships are a good distribution network into a validated network of customers.
3. Basic needs to establish yourself in the market: have a relevant local competitive advantage (better product, pricing or position). Make sure your site looks like a US business, no .com.au or 'Australian' English, and consider having a Spanish language version of your website and documents.
4. Get the legal structure in the US right from the start, a Delaware corporation is the most common method.
5. It will take time to build momentum and learn the market, plan at least 6 months to get yourself going.
6. Employ locally, especially sales and marketing teams.



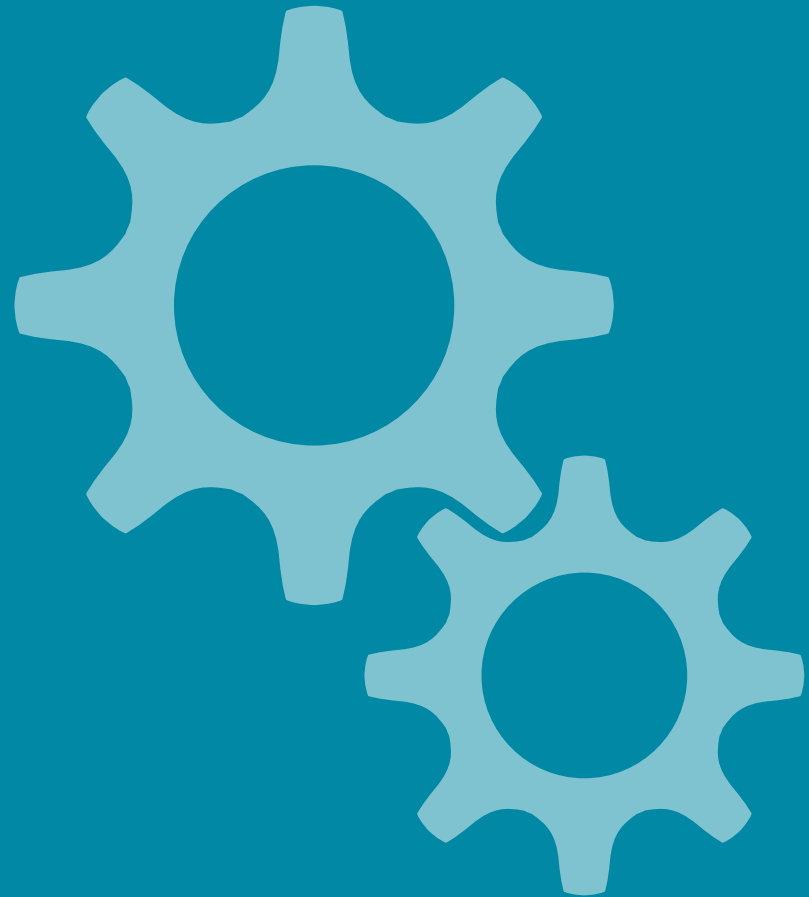
“Just the scale of things is amazing, as are the problems that come with that scale. That’s what we’re now looking at solving.”

**Yazz Krishna, CEO, FiveFaces
(elevate⁶¹ participant)**

5. Act

You have the insights, now is the time to use them.

A mission to the US will give valuable insight into what your startup needs.



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You have the insights, now is the time to use them. A mission to the US will give valuable insight into what your startup needs.

A mission to the US will give valuable insight into what your startup needs. Whether it's a head first leap into the US market, or an understanding that you need to recalibrate what your business does before you expand overseas. The elevate⁶¹ experience proved that there are three key post trip insights linked to follow on action:

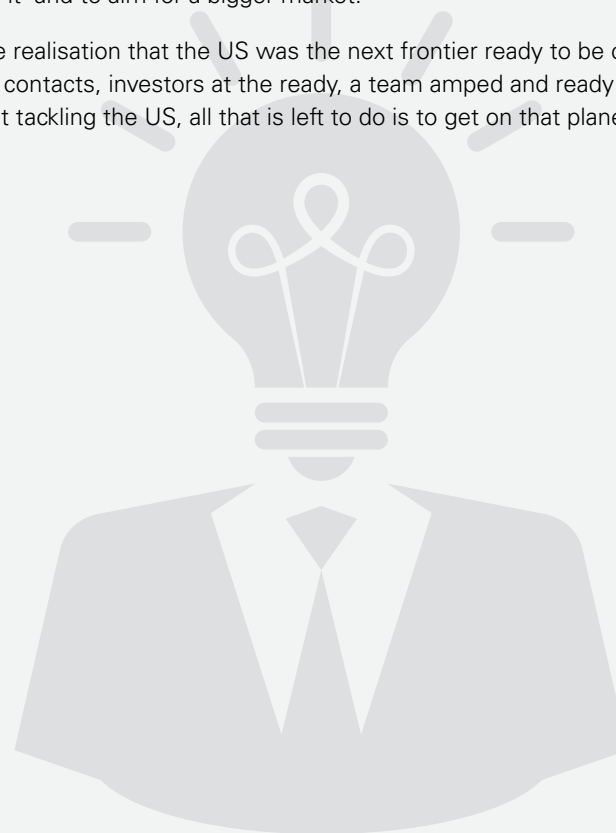
Validation — The participants came on the trip with a number of pre-conceived ideas about the US. This included many hypotheses about how they had planned to tackle the US market. The program opened their eyes, validated ideas and hypotheses and helped the participants navigate the next steps for their business expansion. Each business faced the reality of where they are, and where they want to be and what they needed to do to get there. Importantly, knowing your vision (or knowing you need to have one) and where you want to go was incredibly powerful.

Networks — No one has done it alone. The power of the network was ever present everywhere we went. As a speaker from 500 startups said during the trip, Silicon Valley is '2.5 town', where everyone is willing to help and have two to three meetings with you. It is also no coincidence that VCs won't invest in startups without a solid team. As a founder, you just can't do it alone.

Execution — Finally, before the participants left, many were unclear of what, where and how to tackle the US. With the 10 day mission to the US completed, the participants came back to Australia and started putting the learnings into action.

For some, the realisation from the trip was how hard it will be to tackle the US market at this stage. The participants needed to build their product (or service) out further and obtain more market presence in Australia. For some, this also required a full recalibration of their strategy to 'globalise it' and to aim for a bigger market.

For others, it was the realisation that the US was the next frontier ready to be conquered. With a range of new contacts, investors at the ready, a team amped and ready to go and a clear strategy about tackling the US, all that is left to do is to get on that plane.





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Want to know more about the elevate⁶¹ program?

elevate⁶¹ is a rapid growth entrepreneur program for established Australian start-ups that are ready to go global. It's a strategic alliance between Advance and KPMG Australia.

KPMG Australia works with start-ups and entrepreneurs to help them achieve their growth objectives, and to share their knowledge of their sector with the Australia's largest corporations to enable them to innovate and respond to market trends. KPMG is a global network of professional firms providing Audit, Tax and Advisory services. They operate in 155 countries and have more than 162,000 people working in member firms around the world.

Advance is the preeminent global community of high achieving Australians and alumni abroad, with a growing membership of over 25,000 in 90 countries. Advance forges connections with the one million Australian diaspora, drawing on their experience and networks to open doors and opportunities for Australia, Australian companies and Australians around the globe.

To find out more and how to apply for the 2016 program, visit elevate61.com.au

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