

**LEVERAGING ON EXPERIENCE, RISK AND CONTROL AS KEY
DETERMINANTS TO ENHANCE A LATE-ENTRANT GLOBALISATION
STRATEGY**

-the case of the EPI-USE group of companies-

A RESEARCH REPORT

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Abstract

Purpose – The case study explores how leveraging on experience, risk and control can be used to enhance a late-entrant globalisation strategy.

Design/methodology/approach – Qualitative techniques were used to analyse the data, grounded in theory. Pattern-matching and explanation-building were applied to analyse the literature. An in-depth literature analysis was employed to determine the relevant global learning while interviews were conducted to determine the business processes.

Findings – Experience, risks and control are important factors and should be carefully considered when enhancing a late entrant strategy.

Research limitations/implications: The research concentrates on selected determinants to enhance a late-entrant strategy. In future research, other ISV's could be selected for case studies in order to assess to what extent the determinants of experience, risk and control have influenced their successful globalisation strategies. Also, future studies should consider other determinants that could enhance a late entrant strategy.

Originality/value: The paper presents evidence to assist Independent Software Vendors to enhance a late entry globalisation strategy, leveraging on the determinants risks, experience and control.

Keywords: Risk, Experience, Control, Late Entry Strategy, Globalisation, Extent of Globalisations

Paper type: Research paper

Statement of Work

DECLARATION

"I declare that *Leveraging on experience, risk and control as key determinants to enhance a late-entrant globalisation strategy* is my original work and that all the sources I have used or quoted have been indicated and acknowledged as complete references, and have not been previously submitted for degree purposes."

JC Stofberg

Name

30 November 2006

Date

Signature:

Acknowledgements

There are many people whom I would like to thank for assisting me in completing my research report. First of all, my lecturer Mr Jopie Coetzee, without whose valuable insight and time I would not have been able to rise to the occasion and complete my “Mona Lisa.” He has always been available to offer guidance when necessary and has helped me to remain focussed.

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Acronyms

PPESTLEG: Physical, Political, Economic, Social, Technological, Legal/Institutional, Ecological, Global/Regional.

Products: EPI-USE Advantage Toolset

SWOT: Strengths, Weaknesses, Opportunities, Threats

Definitions

“16 vectors of global venture creation”: A term coined by Coetzee (2005a) to describe the 16 dynamic strategy forces present in key global venture creation models, which together form a basis for a strategic conversation on global business development.

Bargaining power: “Bargaining power refers to a bargainer’s ability to favourably change the bargaining set”, (Alexander & Doherty, no date: 48).

EPI-USE Group of Companies: Consists of service companies: EPI-USE Africa, EPI-USE Limited, EPI-USE America and ILab as well as the product development company EPI-USE Labs.

EPI-USE Labs: An independent software vendor part of the EPI-USE group responsible for developing and marketing the EPI-USE Advantage Toolset.

EPI-USE Advantage Toolset: EPI-USE Advantage Toolset includes the products Data Sync Manager for ERP, Data Sync Manager for HR, Variance Monitor and Query Manager (Appendix B). “EPI-USE products are born out of innovation, customer input, and technical expertise. Our team continuously looks for ways to create efficiency and answer to customer requirements in a maintainable way which saves cost. Our customers recognise our passion for meeting their needs and our zeal for new technology as added value delivered by EPI-USE Systems.”, (Working definition by CoachLab website).

First Line Support: First Line Support comprises the group of people which assist customers with their Product-related issues, to allow the developers to spend most of their time developing new or enhanced functionalities. This support team is highly skilled and knowledgeable about the various products.

Independent Software Vendor is a business term for companies that specialise in developing or selling software, usually for niche markets. (Author's working definition, 2006).

“Market entry” is a term used in the literature is to describe both entry and expansion, and the selection to serve the market at both these stages (Whitelock et al, 2004)

PPESTLEG: Coetzee (2006f) describes PPESTLEG as the macro-environmental analysis to determine the uncertainties of conducting business within the industry. The analysis will assist managers to identify complex macro-environmental issues and their interconnectedness as well as the dynamics within the industry.

Products: The collective name (used internally) for the EPI-USE Advantage Toolset, which includes the products Data Sync Manager for ERP, Data Sync Manager for HR, Variance Monitor and Query Manager (Appendix B).

SAP: SAP is the acronym for System Application Production. “Founded in 1972, SAP is the recognised leader in providing collaborative business solutions for all types of industries and for every major market.”

(<http://www.sap.com/company/index.epx>).

Service Company: In the context of this research report, this is a company that provides technology solutions which specialise in implementation and integration of SAP and the development of add-on tools to enhance quality and productivity in the SAP system.

Abbreviations

AUS	Australia
BDM	Business Developer Manager
EUAF	Epi-Use Africa
EUAM	Epi-Use America Inc
EUUK	Epi-Use Limited
HR	Human Resources
IP	Intellectual Property
ISV	Independent Software Vendor

KSFs	Key Success Factors
MNCs	Multi National Companies
NOs	National Organisations
PDs	Product Divisions
R&D	Research and Development
RO	Regional Office
RSM	Regional Sales and Marketing
SA	Republic of South Africa
SaaS	Software-as-a-Service
SAP	System Application Production
SMEs	Small-to Medium-Size Businesses
SOA	Service-Oriented Architecture
TCA	Transaction Cost Analysis
UK	United Kingdom
US	United States

Chapter 1: Orientation

In this chapter, the purpose of the study, problem statement and research question will be defined. It also includes delimitations and relevance of the study as well as the outline of the research report, which should be of interest to three groups of readers:

- ❖ Academics, scholars or students who are interested in, or wish to conduct research on how to enhance a late-entrance globalisation strategy;
- ❖ Late-entry entrepreneurial Independent Software Vendors (ISVs) conducting or considering doing business in the international market; and
- ❖ Companies considering doing so, which have yet to consider the key determinants, experience, risk and control to enhance their late-entry strategy.

1.1 Contextual Setting

The selection of an entry mode when expanding globally is one of the most important decisions any company could make. Expansion decisions not only influence the structure and implementation of the entry strategy but also the financial and performance outcomes of the company. For a late-entrant strategy expansion decisions become even more critical.

Limited research has been conducted regarding the advantages for the late entrant compared with that of the first-mover. However, Thompson and Strickland (2001: 193) stated that there are advantages for the late mover:

- ❖ “Pioneering leadership is more costly than imitating followership and only negligible experience curve benefits accrue to the leader – a condition the follower end up with lower costs than the first-mover.”
- ❖ “The products of an innovator are somewhat primitive and do not live up to buyer expectations, thus allowing a clever follower to win disenchanted buyers away from the leader with better performing products”; and
- ❖ “Technology is advancing rapidly, giving fast followers the opening to leapfrog first-mover’s products with more attractive and full-feathers second- and third- generation products.”

Differentiation will clearly benefit the late-mover and according to Zhou (2002: 3), add to its visibility and attractiveness while “ambiguity effects negatively influence the late entrant effectiveness”. In a study done by Zhou (2002) two late entrant strategies were identified:

- ❖ A *distinctive strategy* (adding new or unique features). Familiar products will find a distinctive strategy to be more effective, because of its attention-grabbing nature; and
- ❖ An *enhancing strategy* (enhancing features of an existing product). An unfamiliar or niche product class could benefit more when an enhancing strategy is drafted because of the lower ambiguity levels.

An enhancing strategy would best suit EPI-USE Labs when planning to expand into the global market due to its niche products, the EPI-USE Advantage Toolset, developed for the System Application Production (SAP) customers.

In the past, the Products were only considered to be tool to provide additional leverage when competing against competitors for service projects. However, there is a requirement for EPI-USE Labs to play a more significant role contributing towards the future growth of the EPI-USE Group. Currently, EPI-USE Labs only contribute $\pm 15\%$ to the EPI-USE Group of companies' revenue, although the requirement is to grow this to a 33,3% contribution. Under the current market conditions an Information Technology Service Company's value is based on the previous year's turnover. However, a continuous revenue stream from software development, maintenance and support contracts changes the valuation of the company in favour of the shareholder. During the annual strategic planning the following revenue framework was put forward as the future target for the company's revenue distribution:

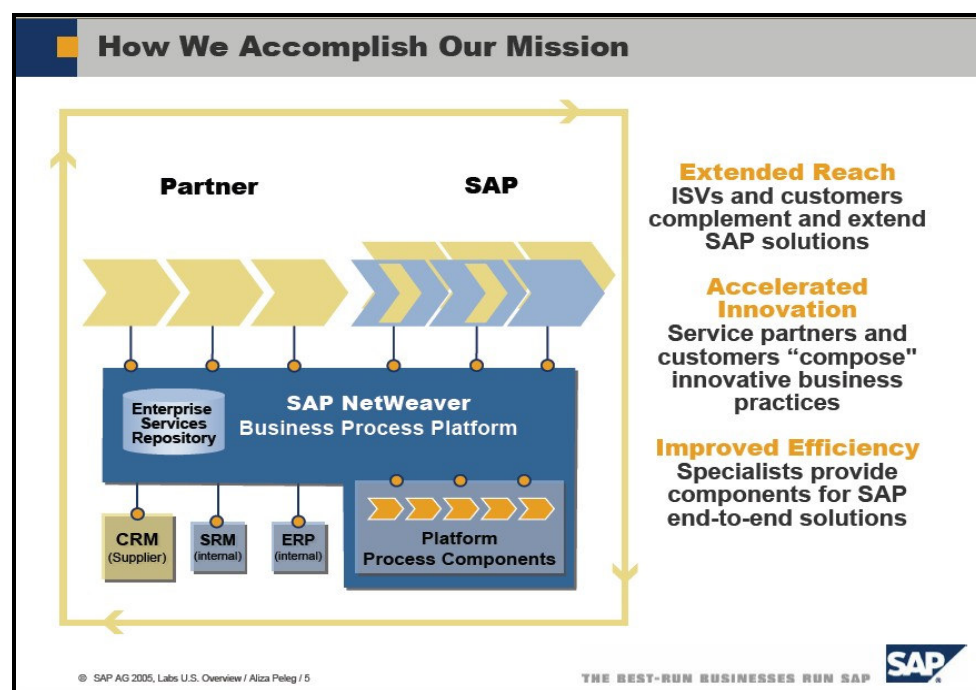
- ❖ 33,3% Revenue from EPI-USE Services Business Unit;
- ❖ 33,3% Revenue from long term contracts such as maintenance and support; and
- ❖ 33,3% Revenue from EPI-USE Labs, the product business unit.

During in-house strategic conversations, it became apparent that this target would be impossible to achieve by utilising the existing targets and existing markets, and if

the Products continue to be viewed only as a complementor to win service projects. One of the most logical multipliers would be to expand EPI-USE Labs as an Independent Software Vendor (ISV) into untapped markets.

The Products are developed at the development centre in South Africa for the SAP environment (Appendix A). In the past there was not much support from SAP for their ISVs, because they mainly focused on building relationships with their Services Partners. During the last year or so, however more emphasis was placed on improving relationships between SAP and the SAP ISV partners. Figure 1 shows the model according to which SAP plans to increase co-innovation with the SAP ISVs. This not only opens a new door of opportunity, but will also increase competition in the global market.

Figure 1: SAP model to harness power of co-innovation



Source: Peleg (2005)

EPI-USE Labs need the help of Regional Partners to introduce and market the Products in new, international markets. Quin & Alexander (2002) state that the advantage of having local partners is their better understanding and knowledge of the local conditions which would not only contribute to the revenue, but also provide

the company with valuable information. Another advantage is the experience provided in order to understand the requirement, desires and behaviour of their markets. Partners should however have a vested interest and be committed to succeed in the business; therefore the selection of local Reseller Partners should be very carefully considered.

Each company in the EPI-USE Group (EPI-USE Africa (EUAF), EPI-USE Limited (EUUK) and EPI-USE America Inc (EUUS)) is given regional sales targets and provides a First Line Support service to assist customers with product-specific issues. However, it seems that more should be done to address the International market. As with Bell (No Author: 2005), EPI-USE Labs have found that the “made in Africa” label placed the EPI-USE Labs products at a disadvantage in both Europe and the US, especially when the competition emanated from the US- or Europe-based vendors. Although the South African product rates better in terms of quality, performance and added value, it is overlooked in favour of US- or Europe-based products.

In summary, the following issues need to be addressed:

- ❖ The development initiatives are mainly funded by retained earnings because the EPI-USE Group of Companies is risk-averse, thus innovation a core competency, is countered by the lack of development investment.
- ❖ The sales and marketing of Products seems to have a limited regional priority in comparison with that of competitors (especially those whose main focus is software development), because regions does not view sales and marketing of products as strategically important.
- ❖ The sales and marketing of Products occurs as an afterthought to the selling of services.
- ❖ Contracts, the rights and obligations of the parties involved, also needs special attention since they should comply with local legislation as well as protect the intellectual property (IP).
- ❖ Language barriers add to the complications since the sale and support of Products should be provided in the language of the customers.
- ❖ The translation of product text (e.g. screen, messages), product documentation and marketing related documents is not only costly but also very complex to manage.

- ❖ The EPI-USE Advantage Toolset is fairly technical and highly specialised; therefore training of Reseller Partners and Business Developer Managers (BDMs) is vital to ensure successful sales.
- ❖ Adjusting the HR component (HR and tax laws and rules) of the EPI-USE Advantage Toolset can only be done with the input of local reseller partners.

To survive in the global market EPI-USE Labs must exploit relevant global learning in enhancing their global entrance strategy. Therefore, in conclusion the management dilemma that EPI-USE Labs faces can be summarised as follows:

- ❖ The late-entry strategy of expanding into the international market to increase market share and financial outcomes;
- ❖ Since no marketing strategy for the current regions exists, it needs to be formalised to ensure that all Reseller Partners know what is expected; thus marketing should be coordinated globally and locally specialised.
- ❖ Reseller Partner and other BDMs have to be educated regarding the Products; knowledge of the various products (Appendix B) is vital to ensure that optimal sales can be guaranteed, since differentiators will be required to ensure that EPI-USE Labs outperform their competitors; and
- ❖ Entry into unknown regions will require Reseller Partners (partner network) and a framework should be established for their selection to ensure cultural fit as well as their contribution to increase business success.

1.2 Research Question

The investigation of this study can be formalised as follows: What are the global learnings that will be relevant in leveraging on experience, risk and control as key determinants to enhance a late-entrant globalisation strategy for EPI-USE Labs?

The objectives of this study are to:

- ❖ Identify a late-entrant strategy for the ISV, using accredited research material;
- ❖ Identify a marketing strategy that would be globally coordinated and locally specialised;
- ❖ Analyse how the concepts of experience, risks and controls could enhance the late entrance strategy.

- ❖ To create a pricing model that is a standardised tool to be used in all regions, an easy-to-use tool that would provide a price at the click of a button and would provide Reseller Partners and BDMs with the freedom to negotiate and offer discounts within set guidelines and limits.
- ❖ Generate a Reseller Partner selection framework to ensure that the selected Reseller Partner would have a vested interest and be committed in succeeding in the business.
- ❖ Conduct an analysis and identify successful globalisation pathways of ISVs who have successfully expanded into the International Business and, from these learnings compile a prioritising framework.

1.3 Delimitation of Study

This study will only consider one ISV, EPI-USE Labs, based in South Africa, who wish to and needs to enhance international expansion. The reason for focusing only on South African-based firms is to provide a possible solution to counter the label “made in South Africa”, which places these ISVs at a disadvantage when competing with US- or European-based vendors. Most firms in “any product-market setting is late entrants”, (Zouh, 2002: 3) and the focus of this study will be to enhance a late entry strategy.

This study only includes ISVs with limited development funds, which are only funded through retained earnings. Funding will not only limit the company’s investment to develop and investigate new product opportunities, but also, have an influence on the structure of the expansion strategy.

The quality of the data collected also exhibits limitations since only one case study will be considered. Therefore the researcher employs multiple data-collection methods (documentation, interviews, accredited articles and industry publications) to ensure the reliability of the data.

1.4 Importance of Study

The importance of this study lies in the value its audience will gain from this research:

- ❖ The study researches a specialised ISV, which has been very successful in marketing and selling its products in the South African market, but needs to expand its borders, not only to ensure growth but also to increase the value of the shareholders.
- ❖ A combination of factors should be considered to ensure that the best entrance strategy into the markets is drafted, but for this study the researcher focuses on previous experience within the various markets that could assist the ISV to mitigate risks, as well as the controls needed to ensure that the best late entry strategy is drafted.
- ❖ The results of this study guide the researcher when suggesting priorities for the globalisation pathway that the ISV should consider when expanding its borders globally.
- ❖ The study investigates a selection criterion that would ensure the most suitable local partner is selected as reseller for the products.
- ❖ A standardised pricing model should be considered to ensure that all factors are taken into account when quoting a price without limiting the pricing advantages of each market.

1.5 Possible constraints of the Research

The researcher experienced time as the main constraint. At times appointments scheduled for interviews had to be rescheduled due to work-related commitments.

The researcher could not address all the issues identified during the literature review and the various interviews; thus, to ensure focus only on the objectives (Section 1.2) will be covered in this study.

1.6 Chapter Outline

In this chapter, the purpose, focus and the objective of the research project are stated, including definitions, delimitations and the importance of the study. In Chapter 2, an overview of the company is presented and in Chapter 3, the foundation of the study is discussed. Chapter 4 covers the literature review, which provides a critical analysis and evaluation of literature dealing with the research problem. The research methodology is covered in Chapters 5 and the outcome of the study in Chapter 6, with the discussions and recommendations to stakeholders being formulated in Chapter 7.

Chapter 2: Company Overview

The case study used in this researcher study is EPI-USE Labs. This chapter describes the company, its environment and its unique challenges.

2.1 EPI-USE Group of Companies

EPI-USE Systems was initiated in 1982 as a specialised software engineering project and research group associated with the Department of Computer Science at the University of Pretoria. The organisation was commercialised in 1994, based on a development project for SAP and the need to provide employees with career paths and opportunities beyond the University environment. The organisation employed approximately 10 employees at the time. The initial commercial goal continues to be the primary business focus; to be a globally recognised specialist provider for SAP services, especially regarding Human Capital Management and technology. The EPI-USE Group of companies established a US subsidiary in 1998 as well as a UK subsidiary early in 1999 and a small Australian office. The rationale for international expansion has been to extend the company's market, to provide ambitious career plans for employees and to diversify the company's geographical risk profile. Consulting experience gained with truly global clients, resulting in a dramatic improvement of marketing collateral, mostly due to the US subsidiary responding to its market needs, provided further advantages. EPI-USE Advantage Toolset has been internationalised with a multilingual capability to fulfil the requirements of European customers and partners. A more global approach to finances has resulted in improved financial structuring and planning.

EPI-USE Group of companies also placed a strong focus on innovation and has established a business incubator, I-Lab, in 2000, which initially, was a cash consuming start-up business that has since become cash generating and a significant contributor to EUAF turnover and profits. I-Lab has allowed the EPI-USE Group of companies to develop a complementary business with alternative and potentially higher risk business models in a controlled environment within which high-quality coaching, proper administration and cross-selling opportunities lead to a high success rate.

In 2002/3 the company also embarked on a pan-European expansion and was the founding member and a significant stakeholder in the Magnisol Group situated in Germany (www.magnisol.com). The rationale for this strategy is to extend the geographical reach of EPI-USE which will allow it to compete more effectively for global customers; to develop improved economies of scale; and to assemble the best SAP skills globally, in one company. This would help position EPI-USE as a global niche player being able to compete effectively with the more generalist large international consultancies. Magnisol¹ is based on a highly innovative business structure that reduces the risk of acquisitions while at the same time leveraging the individual company's strengths on a more global base. Through Magnisol EPI-USE Group of companies is now represented in South Africa, the United States, the United Kingdom, France, Germany, Denmark, Norway and Australia (AUS). EPI-USE, I-Lab and Magnisol employ approximately 400 employees, of which a significant percentage comprises highly skilled consultants.

Based on its consulting experience, EPI-USE has developed a set of SAP complementary products which are collectively known as the EPI-USE Advantage Toolset and, apart from having been a source of income, have also been a differentiator when competing for projects. At the beginning of 2006 the strategic decision was made to evolve the complementary SAP product initiative from a tactical complement of the services business into a fully fledged software company aiming to contribute 33% of the global revenue of EPI-USE Group by 2010. In the execution of this strategy, it was decided that the SAP complementary product business should be separated to form the company, EPI-USE Labs, which allows for the clarification of the definition of the global product business within the EPI-USE Group of companies and for the creation of a new environment to further develop and refine the unique culture of EPI-USE Labs. Furthermore, it also allows for further experimentation of new product initiatives, which may not have been the case if the business had remained part of the services business.

Key milestones in the company's growth are:

¹ This type of structure is supported in the literature discussing new organisational structures by authors such as Eisenhardt and Galunic (2000) who propose co-evolution as a way of using the synergies of companies in a symbiotic relationship.

- 1982** EPI-USE was founded.
- 1994** EPI-USE commercialised through by co-development with SAP, of a payroll for the South African market.
- 1999** A private equity partner was introduced ensuring a strong financial backing and powerful human, corporate and global network.
- 1999** Creation of the iLAB Group, a business accelerator.
- 2001** Proprietary ValueFoundation™ model introduced to enhance shareholder value for customers.
- 2003** Forming of Magnisol, a group of associated SAP HR partner companies.
- 2004** BEE Partnership formed with a consortium consisting of Nokusa in South Africa.
- 2006** Forming of EPI-USE Labs, a global company to focus on the development, marketing and sales of EPI-USE's complementary SAP products internationally

The group's growth strategy is both organic and non-organic. Organic growth includes the following options:

- ❖ Enhancements to existing lines of business;
- ❖ Development of new lines of business;
- ❖ Extending the territories in which the company operates;
- ❖ Cross-selling between companies and territories; and
- ❖ Development of new products.

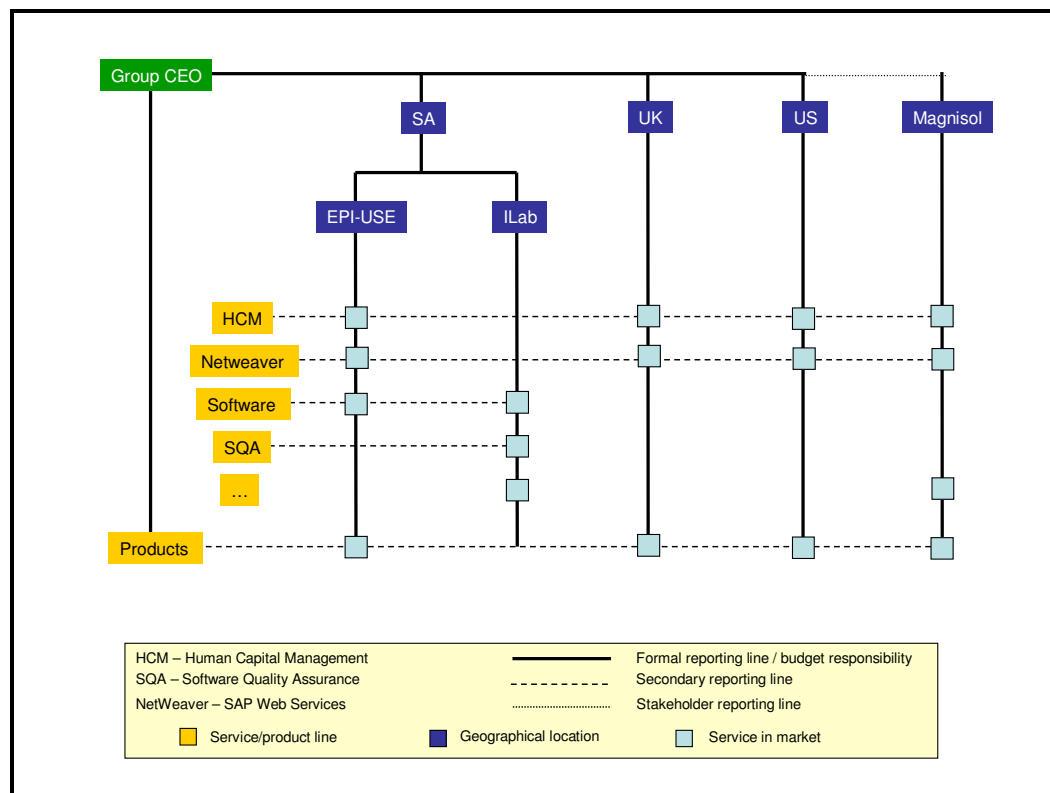
Non-organic growth options will be based on the extension of the territorial reach of Magnisol and possible mergers and acquisitions.

EPI-USE operates on a model where decision-making is mostly decentralised to allow for a quick response to local market conditions. An overall coordination in terms of group strategy, performance objectives, new initiatives, resource requirements, etc., exists. Several meetings between the group CEO and the regional MD's or general managers are held annually, with at least one meeting that includes all group and company leaders. The agendas of these meetings include the review of past performance and more importantly, setting objectives, coordination of activities, marketing, and development and deployment of solutions. On a more operational level, teams are used to coordinate activities such as product support and training between the regions. Individuals, who have varying lengths of service, are frequently drawn from the different territories in order to

resource projects. Each project will include a number of senior consultants, which will have the added benefit of effectively transferring the company work ethic to new employees. Several key positions in the company have been identified to allow for human resources to be moved between territories in order to transfer their skills and knowledge.

EPI-USE's organisational structure is depicted below. Vertical or formal, reporting lines, exist, with budgetary responsibility between geographical areas. The horizontal reporting lines are less formal and are related to business development, knowledge-sharing, tools and methodologies, staff exchanges, and others. Regional input serves as initial or enhancement specifications for product development. The product development group, EPI-USE Labs, is directly responsible to the group CEO.

Figure 2: EPI-USE organisational structure



Source: MBL923 Assignment (2005)

EPI-USE quickly learned that, as the sophistication and maturity of the SAP market increased, although global credentials in a specific industry are an advantage,

clients are more interested in the local experience. This has also influenced EPI-USE Labs, which now adds a translation (if applicable) and a local flavour to products which address the problems experienced in the local market. Consultants also undergo training regarding specific aspects of the country in which they operate, as part of their induction programme. Terminology differences are emphasised so that one can quickly learn the business language of the country in question (e.g. the UK uses the term Inland Revenue, the US, Internal Revenue Services and South Africa, Receiver of Revenue). Senior consultants in the various regions are also allocated the task of assisting new consultants and international transferees to understanding the business requirements in the region.

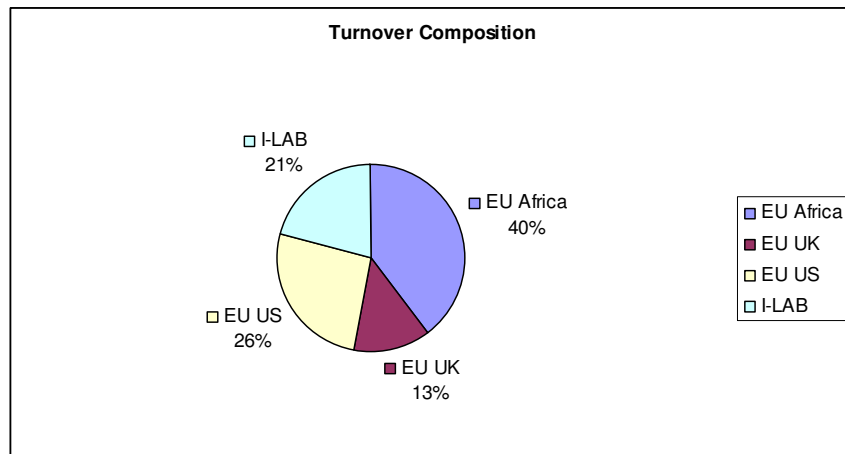
The cost of doing business in a region is very important for EPI-USE as it affects the design of the cost model for the subsidiary. For example, the company has found that due to consulting rate differences, the UK continues to command a substantial premium compared to the rest of Europe which was one of the considerations when establishing Magnisol. Since EPI-USE Group required an alternative business model for Europe it was not feasible to use the UK as a base from which to conduct European business. Furthermore, although the current strength of the Rand eroded some of the UK consulting rate advantages, the administration and operational costs could be more efficiently managed if located in South Africa. The following comprise examples of costs that are located within South Africa to the advantage of the group:

- ❖ Having a shared administrative centre in South Africa;
- ❖ Having shared IT facilities and IT support in South Africa;
- ❖ Having shared product support in South Africa;
- ❖ Using South Africa as a base for consultant training and consultant certification;
- ❖ Obtaining group software licences which are discounted on the total group-wide numbers;
- ❖ Agreements with service companies regarding mobile phones, international dialling, travel and accommodation, based on size of the company; and
- ❖ Printing of stationery and the development of marketing materials are undertaken in South Africa.

2.2 Composition of Turnover

The bulk of EPI-USE's turnover is still generated in South Africa and Africa (EUAF and I-Lab), which accounts for about 61% of the group turnover (excluding Magnisol), the EUUS about 30% and the EUUK 15%. The remainder is divided between AUS and Group-related activities. The UK and US subsidiaries generate approximately 13% and 26% respectively.

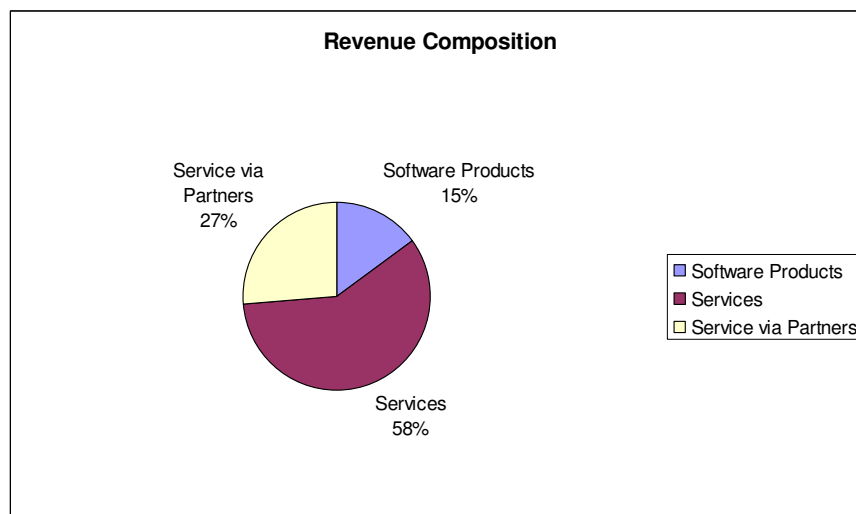
Figure 3: Composition of turnover in EPI-USE



Source: MBL923 Assignment 2 (2005)

The bulk of EPI-USE's revenue is derived from consulting services and a smaller portion (about 15%) is derived from product sales.

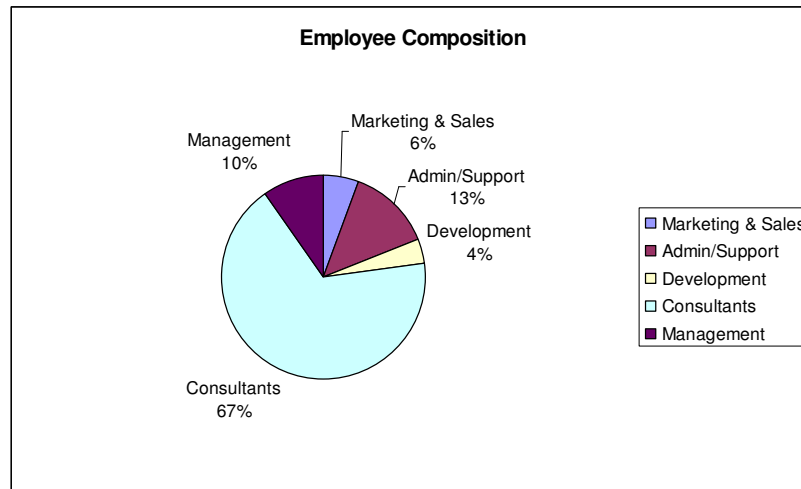
Figure 4: Composition of revenue in EPI-USE



Source: MBL923 Assignment 2 (2005)

Two thirds of the EPI-USE employees are consultants and the remainder are divided between administration and internal support, management, sales and marketing and development.

Figure 5: Employee composition in EPI-USE



Source: MBL923 Assignment 2 (2005)

2.3 EPI-USE Advantage Toolset

The three primary products which EPI-USE Labs have developed are:

Data Sync Manager for ERP: enables SAP users to selectively transfer production data from all R/3 modules to the Quality and Development systems.

Query Manager for HR: an interactive query and reporting tool that vastly extends ease of accessibility for anyone (at the company) to access SAP HR information.

Variance Monitor for HR: provides the fastest and most accurate way to compare Payroll and Time results in SAP.

Chapter 3: Foundation of the Study

In this chapter four theories are defined which form the basis to critically analyse and evaluate the relevant literature to enhance the late mover globalisation strategy. The late entrant strategy will weight heavily on global learnings from experience, risk and control.

For the purposes of this study, no propositions or hypotheses will be formulated. The research was guided by inductive reasoning and the research question (formulated in Section 1.2). Researcher biasness and subjectivity are the two main sources of error to be considered and will be discussed in the context of the research methodology (Chapter 5).

3.1 Scope of the Body of Knowledge

The body of knowledge relevant to this study includes:

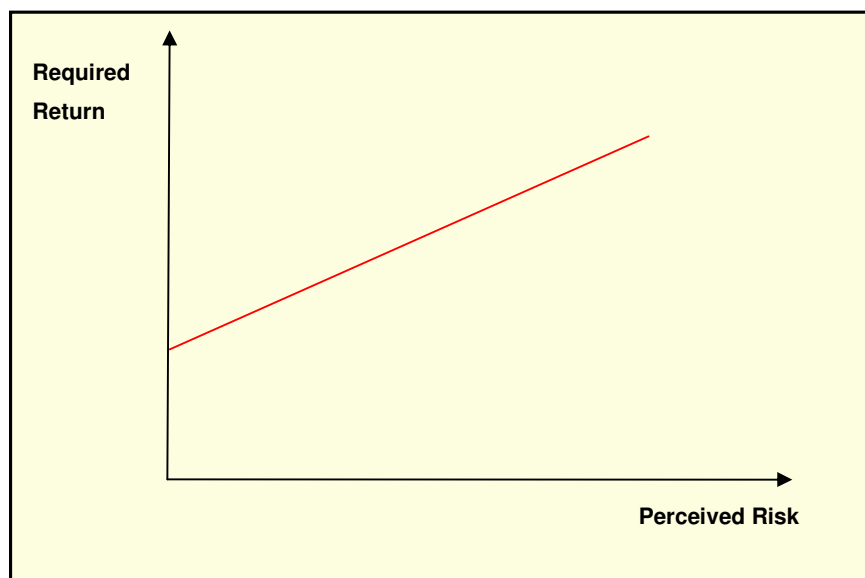
- ❖ The globalisation pathway to be considered: From the literature, establish the determinants that allowed companies successful entry into the global arena. A review of companies and ISVs who were successfully and unsuccessfully transformed from national to international businesses will be analysed in order to prioritise a global pathway to be considered by future businesses.
- ❖ Enhancing entry mode strategy: The vectors experience, risk and control will be used in selecting an entry mode into the foreign markets. There are different entry modes to consider, each with its own advantages and disadvantages. This study will contemplate the different entry modes using the experience gained or lack thereof and determine the risks and controls necessary to decide on the most suitable entry mode for EPI-USE Labs.
- ❖ Architecture of the globalisation strategy to pursue: It is vital that the portion of strategic and functional elements to be globalised should be investigated. The finding will provide focus and road map regarding how to execute the entrance strategy to be drafted by the EPI-USE Labs.
- ❖ Reseller Partner selection framework: A local partner network will assist the Multi National Company (MNC) to gain experience in the new markets. This network should be created by means of an alliance and will assist in establishing a geographical

presence or a means to achieve a common product. The selection framework should be constructed to ensure that the selected partner will contribute to the overall success of the MNC.

3.2 Theories to be Considered

The ultimate goal of doing business is to create shareholder value. The greater the risk the shareholders are willing to take the higher the return they expect (Figure 6 below).

Figure 6: The Correlation between Risk and Return



Source: Bender & Ward (2002)

Therefore, when investing in international expansion, shareholders will expect a certain return to counter for the risk they are willing to take. Christ (2005) and Ghemawat (1999) noted that differentiation and cost advantage are important factors which ensure competitive advantage. To assist EPI-USE Labs to select the best entry strategy to create and ensure competitive advantage, the researcher proposes the utilisation of four theories:

- ❖ Balanced globalisation pathway framework (Walter Kuemmerle's, 2005);
- ❖ Hierarchical model of entry modes (Pan & Tse's, 2000);
- ❖ Evolution of entry mode decisions, a model adapted by Coetzee (2005a) from Wild, Wild & Han (2003);

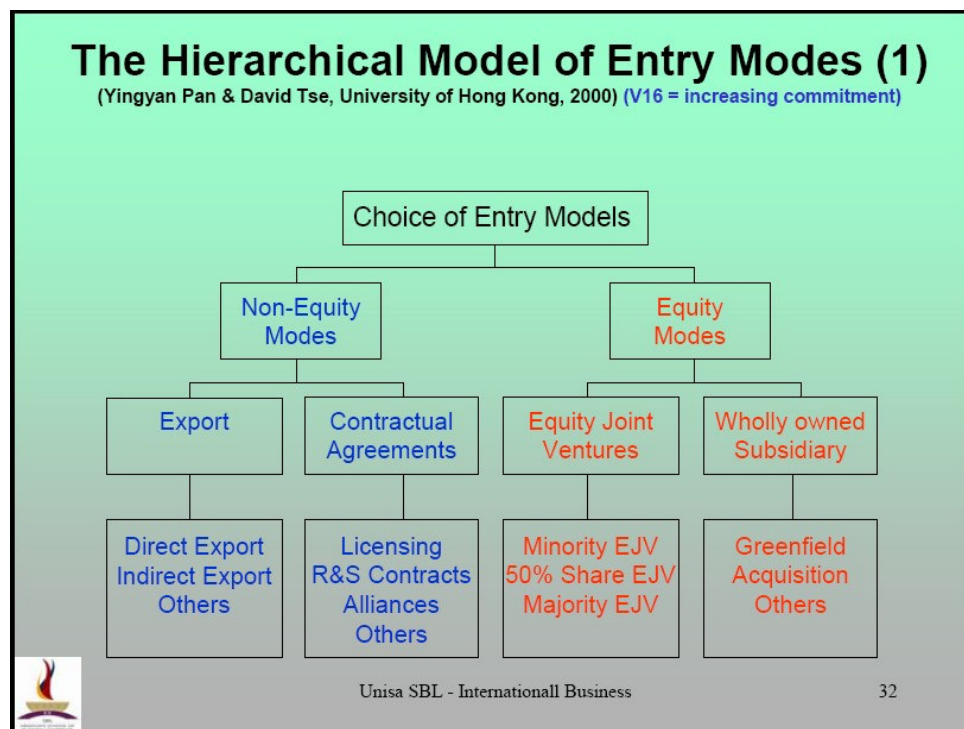
Kuemmerle (2005) further observed that companies which started out with the characteristics found at the upper right-hand corner of Figure 7 experienced extreme difficulties in ensuring revenue growth. It seems that these companies usually ended in financial disaster.

Many global expansions deviate from the proposed model in Figure 7, even those who followed a relatively balanced approach. Preparing and anticipating the risks, and the required experience and controls, comprise the best way to manage them. The application of the hierarchical model of entry modes, the evolution model of entry mode decisions and to what extent to globalise, will allow companies to anticipate and prepare for international expansion as mentioned above.

3.2.2 THEORY 2: HIERARCHICAL MODEL OF ENTRY MODES

This model (Pan & Tse, 2000) assists in determining the levels of commitment necessary to enter a new market. The commitment decision should be based on a small set of variables so as to differentiate between the choice of non-equity and equity modes.

Figure 8: Hierarchical Model of Entry Modes



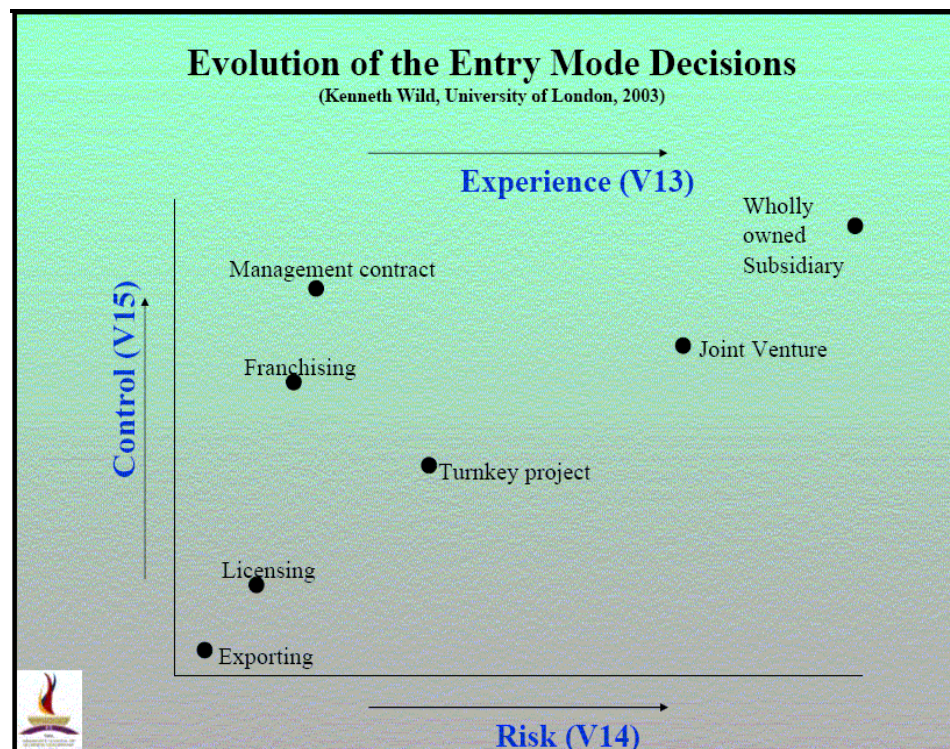
Source: Adapted by Coetzee (2005e)

Equity entry modes (Figure 8 above) require a higher level of resource commitment than non-equity entry modes because “constant interaction with the various local partners” will be required (Pan & Tse, 2000: 538). When first entering a new market a low level of resource commitment, such as exporting, would be advisable. As the company becomes more knowledgeable and experienced in the new market, the commitment could be increased. As the resource commitment increases, so will the levels of risk, control and profit return.

3.2.3 THEORY 3: EVOLUTION OF ENTRY MODE DECISIONS

The application of this theory, defined by Coetzee (2005a), complements the first-level entry mode (Section 3.2.2). This evolution will assist the company in finding the balance between experience (vector 13), risk (vector 14) and control (vector 15) (Figure 9). A company with low international experience should not consider a joint venture because of the high risk levels. It would be better to consider lower risk entry modes with lower levels of experience, such as exporting, licensing franchising and management contracts.

Figure 9: Evolution of the Entry Mode Decisions



Source: Adapted by Coetzee (2005a) from Wild, Wild & Han (2003)

Expansion into new markets provides MNCs with new opportunities and greater market share, and therefore, the opportunity to increase shareholder value. However, expansion is a costly exercise and companies cannot afford to err. The cost of mistakes escalates with each step of the expansion process. An error made in the planning phase will be more costly to correct once the strategy has been executed.

Therefore, experience of the new market is not a necessity but an imperative. Quin & Alexander (2002), Da Rocha & Dib (2002) and Mayrhofer (2004) observed that low international experience levels are the main reason why MNCs select countries with similar cultures and that the latter would not be willing to adopt risky entry selection modes.

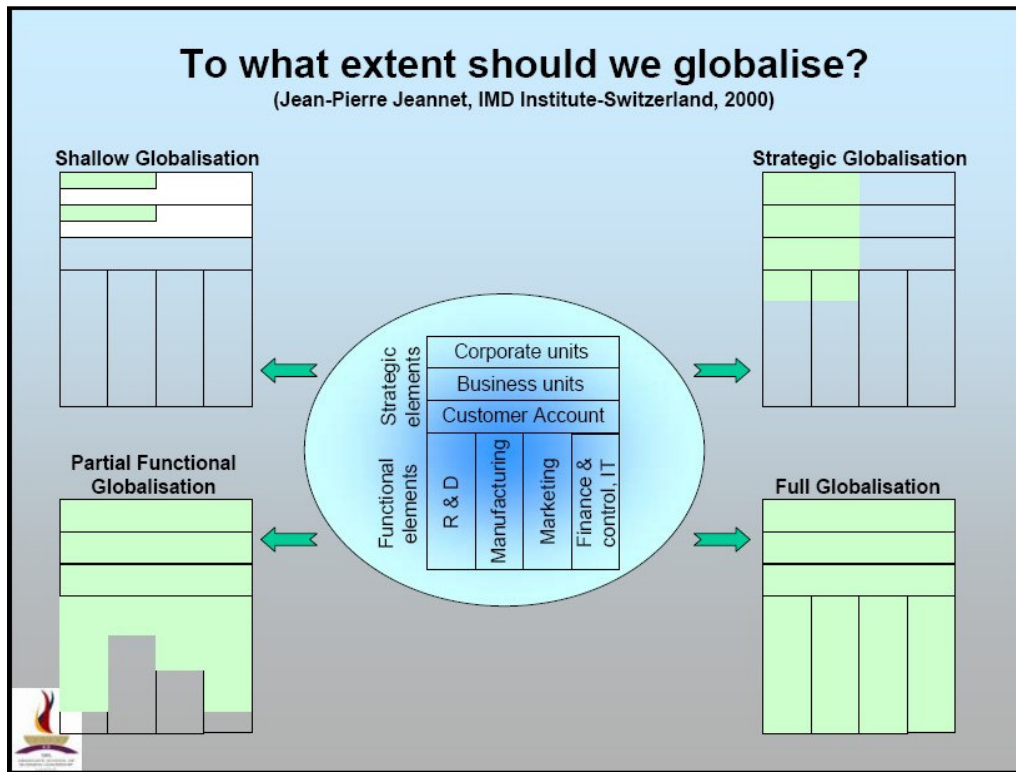
Experience of the new market is therefore most important since it will allow MNCs to identify the entry risks. While drafting the entry strategy, the company should determine what risks it is willing to take and, then, make a decision regarding its most appropriate entry mode. As a company gains experience and confidence in a new market it would be more willing to take on additional responsibilities, and have greater control. As a result, MNCs will be in a better position to evaluate the foreign market (Daniels, 1987).

3.2.4 THEORY 4: JEAN-PIERRE JEANNET'S MODEL

This model (2000) depicted in Figure 10, explains the theory of a globalisation strategy which will assist the company in deciding which portions of strategic and functional elements to globalise (Coetzee: 2005e).

By employing this theory, a company will be able to determine the level of commitment required to enter new markets. For example, full globalisation should not be considered if a company lacks international experience because the risks are too high. In such an instance, a company should rather retain a presence and increase the learning curve, and consider a shallow globalisation strategy, or, a partial globalisation strategy.

Figure 10: Jean-Pierre Jeannet's theory



Source: Adapted by Coetzee (2005e) from Jean-Pierre Jeannet (2000)

Chapter 4: Literature Review

This chapter evaluates the relevant articles and publications that support and expand on the four theories described in the previous chapter. For this purpose the technology industry, accredited research articles and relevant industry publications was reviewed.

4.1 Review of the Technology Industry

A company considering entering, or conducting business in, any industry should understand the associated environmental shifts and changes in order to create core competencies and differentiators to be able to thrive within the industry. By reviewing the technology industry, the researcher will analyse the macro environment in terms of:

- ❖ The PPESTLEG analysis;
- ❖ Porter's Five Forces model; and
- ❖ Key success factors (KSFs).

The combination of the PPESTLEG analysis and Porter's Five Forces model will allow the company to identify new growth opportunities, and the KSFs in order to focus on those determinants which distinguish it from its competitors, and thus, build a sustainable competitive advantage.

4.1.1 PPESTLEG ANALYSIS

This is a technique of macro-environmental analysis utilised to identify and keep track of the changing conditions that could affect a company, in this case, the EPI-USE Group and its markets (Coetzee, 2006f). By means of its identification of the changing conditions, the company could determine the factor(s) that would provide a competitive advantage.

Analysing the trends within the industry would allow companies to prepare counter-actions in a competitive market and could be beneficial when crafting creative action plans for the future. These are described below.

Physical: Kaminsky (2006) reported that in India (a developing country), companies have to deal with unplanned power cuts which compel them to install costly backup generators. The loss of power results in loss of productivity which not only places companies at a disadvantage in the global market, but results in a costly “unplanned” expense. Such additional business costs need to be identified and taken into consideration when planning to enter a developing country.

Developed countries, on the other hand, provide more affordable costs-of-doing-business where infrastructure is concerned. Internet access, software and hardware are cheaper and more readily available.

Political: The instability in the Middle East has a major impact on the rest of the world, due to escalations of the price of oil and the resultant increases in inflation and interest rates, which could lead companies to consider other means to cut operational costs, possibly placing the ISVs at a disadvantage, since their products could be placed on hold.

Policies of the target market should also be taken into consideration because the company might not have control over these. For example, in South Africa companies must consider the impact of the Broad-Based Black Economic Empowerment Act, No. 53 of 2003 and the Preferential Procurement Policy Framework Act which were established to raise the equity of ownership by previously disadvantaged South Africans.

Economical: Kennedy (2006: no page) quoted remarks by John Snow of the US and Peer Steinbrueck of Germany stating that “global growth remained strong and was gradually becoming more broadly based, while acknowledging that high oil prices and trade gaps threatened expansion.” On the other hand the IMF’s latest World Economic Outlook indicated that the world’s output has grown by 5,3% in 2004 and by 4,8% in 2005, and is forecast to remain close to the 5,0% level over the next two years.

Mboweni (2006) noted that the emerging markets experience particularly strong growth at a level of above 7,0% in both 2004 and 2005. Forecasts predicted that this growth would continue for the next two years. Thus, a growth (expansion) strategy should definitely be considered. Nevertheless, oil prices, interest rates and

exchange rates should be monitored since these factors will influence the costs-of-doing-business across borders.

The exchange rate influences the pricing of the products in other markets, especially when the “base” currency is, for example, US dollars. Should currencies fall against the dollar, the Products might be priced out of the market.

High inflation rates could prompt a trend of cost-cutting within companies, which could influence the revenue of EPI-USE Labs, since the business value of its products might be overlooked during such times.

On the other hand, the EPI-USE Advantage Toolset is developed in SA, thus a weaker Rand would result in lower development costs since the global budget is drafted in US\$.

Social: Language comprises one of the greatest risks to be mitigated, especially in countries where English is not spoken nor understood. Language barriers affect the support to be provided to customers, translations of product manuals and understanding the content of a contract.

The levels of education should also be considered, especially in developing countries, where companies need to employ locals in order to comply with government policies and as a result, will be required to introduce effective training programmes to ensure that knowledge transfer is effectively accomplished.

Safety is not only a social issue, but is also a dilemma of costly infrastructure. Because of the high crime rate in South Africa, additional precautions need to be taken to ensure the safety of the personnel, such as coded doors allowing entrance only to people who work in the building, and security guards to patrol the building and car parks. Another result of such high crime rates is the loss of highly skilled employees to the international market.

Information security and privacy have become very sensitive social issues as technology has become pervasive in human lives.

Technological: Innovation is required to ensure that new or enhanced products are continually developed. This keeps existing firms ahead of their competitors, who continually search for ways to improve their present products and to introduce new

and exciting ones to the market. For companies to ensure differentiation and competitiveness in the technology industry, they need to adapt to a continuously changing industry and to continually introduce new ideas regarding products and services, into the market, as well as meet the ever-changing requirements of the customer. Innovation assisted the Microsoft Corporation to replace IBM as the leading software company.

Heap et al. (2004: No page) reported several changes in the technology industry. "Oracle continues its fight for control of PeopleSoft. Microsoft reveals it discussed a merger with SAP. EMC buys Legato, then Documentum, then Vmware. IBM snaps up middleware maker Candle Corporation." In another article, *Business Day* reported (Bloomberg, 2005) that Oracle (the third largest software developer) had leapfrogged SAP to become number one in programs that manage customer relations, when they bought Siebel Systems. It seems that smaller companies are the target of mergers and acquisitions. Heap et al. (2004) predicted that more than half of the ISVs could disappear in the next five years due to mergers and acquisitions. The treat of larger companies should be kept in mind when drafting a late entrant strategy.

Jim Collins in his book "Good to Great" (2001: 10), stated that to know what you are doing good will only make you good, but to focus on that which can potentially make you better, leads to greatness. Thus great designs, alone, will not assist EPI-USE Labs to find their path to greatness but, rather, innovation in all fields of development, sales and design.

Legal/Institutional: Legal changes in the US, the world's largest economy, have implications to many MNCs. Two such changes are:

- ❖ Corporate governance: After the corporate governance scandal reported in Enron and WorldCom new legislation, the Sarbanes-Oxley Act of 2002, was introduced.
- ❖ FCPA (Foreign Corrupt Practices act): The act clearly states that it is illegal for American officials to pay for offers or offer payments to the officials of other governments, for the purposes of acquiring or maintaining business.

Piracy of IP is another threat in the IT industry. China and African countries, where laws are less protective of intellectual property rights, have been quoted as the greatest offenders regarding software piracy.

It would be advisable for EPI-USE Labs to patent its IP especially, since expansion into the global market is inevitable.

Ecological: Due to widely published corporate governance scandals (Enron and WorldCom), a set of corporate government regulations require that corporate leaders clearly and accurately report on business information, and are required to be transparent in their business dealings.

The ethical application of highly technical knowledge and skills is a concern in the IT industry. The attitude or motive that should not be to do something because it is possible, but rather, that the technical knowledge and skills should be utilised to produce products that would allow customers to increase their business value and/or improve their productivity.

Globalisation/Regional: In most instances, companies consider globalising because of limited opportunities or saturation in the domestic market. The opposite is also true that companies identify opportunities in the international market they wish to pursue. When international expansion is considered, the new markets identified should be geographically and culturally similar to the present market location. In the case of most South-African based companies, the US, the UK and AUS would be easier to enter than, for example, China and Nigeria. Due to considerable cultural and language barriers China would be a high-risk expansion choice and Nigeria has a low SAP penetration, which makes it a difficult market to enter.

4.1.2 PORTERS FIVE FORCES MODEL

This model will be used to identify the forces that influence economic performance in the industry. By analysing industry performance, companies are able to identify determinants of the industry attractiveness and, thus, be in a better position to differentiate themselves from their competitors. Ghemawat (1998) explained that Porter's model assists companies to determine the strengths of the five competitive forces that will allow a company to adapt its strategy to compete more effectively on cost and differentiation.

Table 1 below summarises the nature of the competition and competitive forces in the technology industry. The strength assessment criteria were discussed during a meeting with the EPI-USE Labs management and are captured in the discussion column which was used to determine the strength of each of the competitive forces in this Industry.

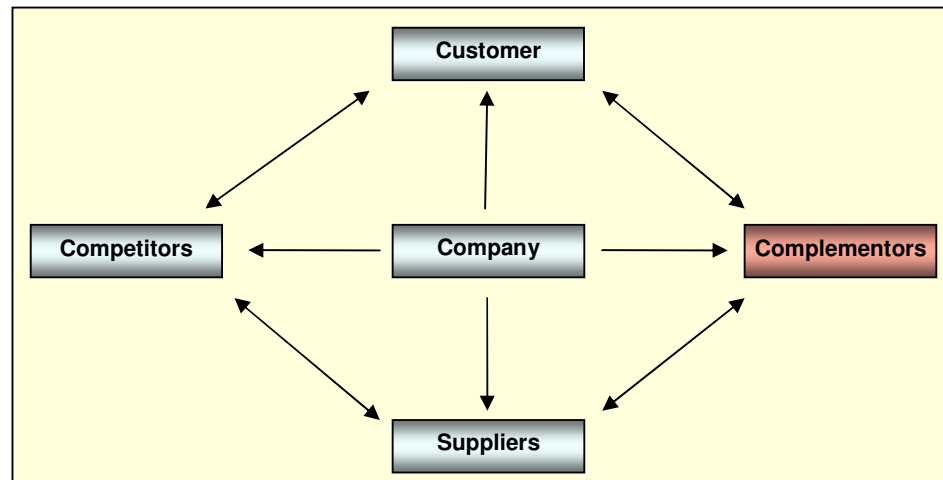
Table 1: Nature of competition and competitive forces

Competitive Force	Discussion	Strength assessment *
Rivalry	<ul style="list-style-type: none"> ❖ Rapid technology change and new technologies that emerge (more cost - effective) intensify the competition between rivals. ❖ To counter rivalry, technology companies constantly need to “find a valuable niche service or market and sell it to consumers and advertisers” (Barlas, 2006: no page). Niche players generally differentiate their products at a higher level, which places them outside the playing field of potential competitors, e.g. ISVs in the SAP Environment. ❖ Heap (2004) mentioned that merger pressures in the software industry are very high and this trend could continue for the next five years. Mergers and acquisitions will increase the intensity of rival competition. 	High
Threat of new Entrants	<ul style="list-style-type: none"> ❖ Generally customers may prefer to develop their own solutions using internal development for various IT solutions, but this threat is countered by the scale of investments, differentiation of products and propriety learning curve. ❖ Developing software products that require highly technical skills and extensive knowledge within a specific field will create entry barriers to new entrants. ❖ For most of the entrants the pursuit of such developments will be uneconomical because of the start-up costs, the existing reputation of quality products, and the diversification of products. 	Medium
Threat of substitute products	<ul style="list-style-type: none"> ❖ The threat of substitute products is low to medium since the high-quality product and increases in productivity will not easily be mimicked. The skills needed and the development costs could be acquired using previous employees in a niche market. Therefore, the risk should be considered to be medium. ❖ Loosely associated groups of unpaid programmers could be a potential threat, especially those devoting considerable efforts to developing software that mimics the features and functionality of several of established firms' products. ❖ The threat of customers developing their own solutions using internal resources for various IT solutions that niche ISVs offers, would in most cases, this will be time-consuming and very costly. The skills basis for many of these developments is spread out over various areas of expertise. 	Medium
Competitive pressures from Suppliers	<ul style="list-style-type: none"> ❖ Bargaining powers of suppliers are low in the industry. ❖ However, SAP has become an international player in providing software products to enhance their own product. 	Low
Competitive Pressures from Customers	<ul style="list-style-type: none"> ❖ Customers wield a high bargaining power in the industry. ❖ High quality and performance of software products will only give the customer an average degree of bargaining power, since this would most probably enhance their business operations. ❖ Pricing of products allows customers a higher degree of bargaining power. Customers will squeeze industry margins by forcing competitors to reduce prices. 	High

Source: EPI-USE Labs Management (2006) adapted from Ghemawat (2003)

Adding value to Porters Five Forces model is the value-net framework (Figure 11 below). “The value net highlights the critical role that complementors – participants from which customers buy complementary products or services, or to which suppliers sell complementary resources - can play in influencing business success or failure”, (Ghemawat, 2003:32). Complementors will, therefore, increase the customers’ willingness to pay for the Products.

Figure 11: The Value Net



Source: Ghemawat (2003:32)

ISVs in the same niche environment (e.g. the SAP environment) as well as marketing firms should be identified as they could be possible complementors. The ISVs could complement EPI-USE Labs especially when the focus falls on technical skills and knowledge not yet established in the company. Other marketing firms would be able to target larger areas especially if they have already established a brand name in a specific market. Forming partnerships with these complementors will increase the exposure of the Products in various new markets allowing EPI-USE Labs to increase awareness of their brand name, EPI-USE Advantage Toolset.

4.1.3 KEY SUCCESS FACTORS

Literature presents various factors to be considered as key success factors (KSFs) in the technology industry. But, as mentioned in Thompson and Strickland (2003), to remain focused, no more than three KSFs should be considered. The researcher has identified these in the present technology industry.

Innovation: Hof (2004) states that innovation is more needed in this day and age than ever before, to ensure survival in the technology industry. Innovation is not just another phase, but a necessity to ensure that companies can compete in this industry. Innovative ideas should capture:

- ❖ doing something new or different,
- ❖ enhancing current products according to the ever changing environment,
- ❖ being at the forefront of technology change, and
- ❖ introducing original ideas regarding products.

Establishing efficient channels of distribution: The most dependable partner with the greatest potential will drive future growth. David Campbell (2004: no page) remarked, “Getting smart about distribution means looking at channel partners relative to their impact on profitability, not just revenues; their ability to drive and convert traffic to actual sales; and their prospects for future growth. Suppliers who arm themselves with this kind of information can make informed choices about which resources to devote to which channel partners, and so drive meaningful profit improvements within the year.”

Providing after-sales support: Efficiency and good quality alone will not ensure customer satisfaction. Customer relationships will be strengthened by timely and responsive support and excellent customer service will have a more positive impact on customer relationships.

4.2 Review of the Accredited Academic Research

This review is based on the four theories previously defined (Chapter 3), to enhance a late entry strategy to ensure a competitive advantage:

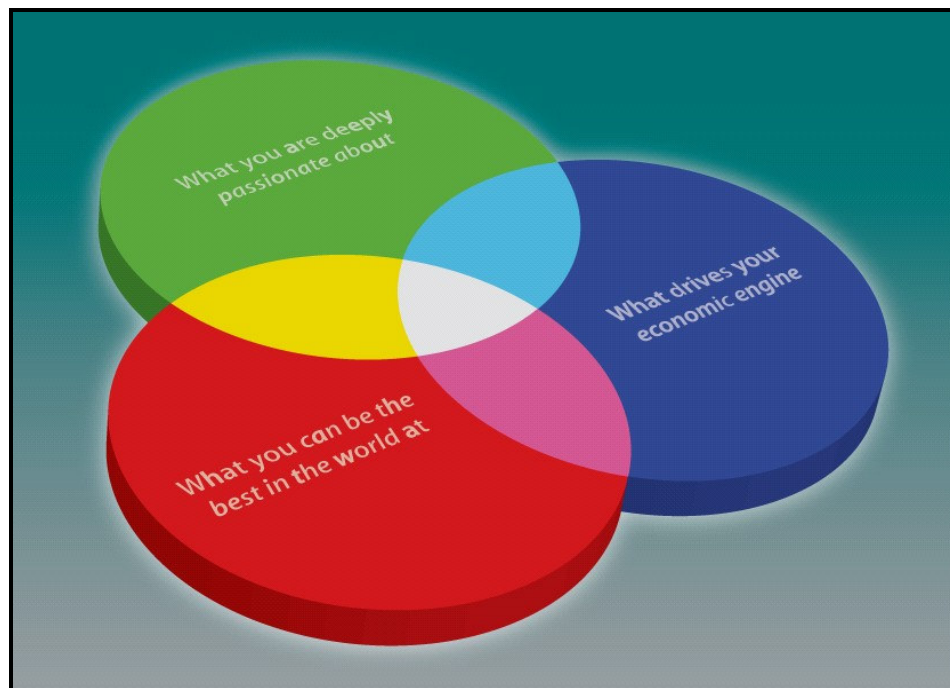
- ❖ Balanced globalisation pathway framework (Walter Kuemmerle's, 2005);
- ❖ Hierarchical model of entry modes (Pan & Tse's, 2000);
- ❖ Evolution of entry mode decisions, a model adapted by Coetzee (2005a) from Wild, Wild & Han (2003);
- ❖ Theory of globalisation strategy, a model adapted by Coetzee (2005e) from Jean-Pierre Jeannet's (2000).

In the 1980's observational research tended to suggest that because of limited opportunities, or saturation in the domestic market internationalisation was considered. However, empirical studies later indicated that internationalisation is considered because of international opportunities rather than a lack of domestic opportunities. Choosing the most appropriate entry mode is important to ensure successful expansion. Ekeledo & Sivakumar (2004: 47) state that “each entry mode is associated with a certain level of control, resource commitment and investment risk” that will influence the strategy and operations of the given MNC.

4.2.1 BALANCED AND STRUCTURED EXPANSION

For a company to determine its entry strategy, it must first identify its “greatness”. Companies that managed to move from “good-to-great” identified its “one big thing” (Collins, 2001: 119) and focused on exactly that. International opportunities should reinforce the greatness of the company and for this reason expansion, or the reasons thereof should be clearly understood; otherwise, as described in his book *Good to Great* Jim Collins noted that the investment will end in failure.

Figure 12: Three Circles of the Hedgehog Concept



Source: Jim Collins (2001: 118)

If the company has not identified its “one big thing”, it should be very careful in considering global expansion. An unexpected finding by Jim Collins (2001: 119) was that “no matter how bad the industry, every good-to-great company figured out how to produce truly superior economic returns.” Using the three circles in Figure 12 can assist a company in identifying its particular greatness. The focus point of the company is indicated by the intersection of the three circles (white portion).

Keumlerle Theory (Section 3.2.1), based on patterns and lessons learned from other ISVs, advises a balanced and structured expansion, mainly because of the large company investment required when expanding globally. To ensure such an expansion, the company should anticipate and prepare for possible risks, the experience needed, and controls that should be put in place.

Success in the home country is described by Porter (cited in an article by Mayrhofer (2004)) as very important. He argues that the “home-country environment is the main cause for international competitive advantage”, (Mayrhofer, 2004: 71), which would therefore, affect the entry strategy. Bartlett & Goshal (2000) argued that companies lose focus because they forget where they come from in the process of moving forward. Thus, to build a successful future, late movers should protect their past. Past successes, together with the greatness of the company, should comprise the basis of the late-entrant strategy.

Bartlett & Goshal (2000: 141) also argue that late movers, who successfully entered the global market, had strong leaders who “drove them relentlessly up the value curve.” The leaders believed that their companies would succeed and were open to new ideas even when “established practice and core capabilities” were challenged.

4.2.2 EQUITY OR NON-EQUITY ENTRY MODE

After the decision has been made to expand globally, the company begins to build its structure: the enhanced late entry strategy. External (PESTLE) and internal (SWOT) factors will influence the decision regarding the entry mode. The strengths and weaknesses of these factors will assist the company to enhance an entry mode strategy, especially for the late mover, which will benefit from the opportunity to learn from the pioneering MNCs and use the lessons they have learned to plan a strategy.

Employing these factors, the company must decide on a mode of entry. The first level decision involves whether to pursue an equity or non-equity investment, and will determine the resource commitment needed in the new market. An equity entry mode investment will call for more resource commitment than non-equity entry mode investments. When choosing equity as entry, the company needs to interact on a higher resource level with the new market competitors and clients. Table 2 provides details of the impact of the macro-level factors to consider when deciding on the entry mode to pursue. The study undertaken by Pan & Tse (2000) indicates the impact of these on the choice of the first level (equity or non-equity) entry mode.

Table 2: Impact of Macro-Level Factors on Choice on Entry Modes

Determinants	Equity vs Non-Equity	Within Non-Equity Export vs Contractual	Within Equity Modes Joint Ventures vs Wholly owned Subsidiary
Host Country Factors:			
Prioritised Location	High	Low	Low
Host Country Risk	High	Low	Low
Home Country Factors:			
Management Orientation	High	Low	Low
Risk Orientation	High	Low	Low
Host and Home Country:			
Trade Relationship	High	Low	Low
Political Relationship	High	Low	Low
Industry Factors:			
Marketing Management	High	Low	Low
Asset Management	High	Low	Low

Source: Pan & Tse (2000: 539)

Whitelock & Jobber's (2004: 1439) study enhances and clarifies the factors used in the study by Pan & Tse (2005). A greater understanding of these factors will assist a company in selecting the entry mode that best suit its strategic objectives.

Establishing a company's competitive advantage in the global marketplace is determined by the cost-of-doing-business in a country, which is dependent on the culture (norms and values) of that country. Therefore, "the connection between culture and competitive advantage is important for two reasons ", (Hill, 2003:115):

- ❖ Which countries are likely to produce the most viable competitors; and
- ❖ In which country to do business?

Table 3: Clarification of Macro-Level Factors

Determinants	Equity vs Non-Equity
Host Country Factors:	
Prioritised Location	Geocultural distance: "factors preventing or disturbing firms learning about and beginning by entering new markets which are physically close, gaining experience in these countries before expanding their operations abroad into more "distant markets" (Whitelock & Jobber 2004:1440)
Host Country Risk	Competition: "...the degree of competition from local manufacturers in the market may have an impact on market entry", (Whitelock & Jobber 2004:1441)
Home Country Factors:	
Management Orientation	Uncertainty of managers about the extent of globalisation
Risk Orientation	Market-based factors: "Where market potential is relatively low, ecological models predict that only larger organisations have the resources required to bear the risks associated with entry into such markets", (Whitelock & Jobber 2004:1440)
Host and Home Country:	
Relationship	The country environment: "Favourable (or 'hot') countries are those defined as having high levels of political stability, market opportunity, economic development and performance and cultural unity, and low legal barriers", (Whitelock & Jobber, 2004:1439)
Industry Factors:	
Marketing Management	Information and market knowledge: "...ignorance, unfamiliarity and uncertainty related to international business products, operations and markets can be reduced through gaining experience and through collecting, interpreting and evaluating information", (Whitelock & Jobber 2004:1441)

Source: Whitelock & Jobber (2004: 1439)

4.2.3 THE DETERMINANTS OF EXPERIENCE, RISK AND CONTROL

The second-level decision entails the establishment of the matter in which the determinants of experience, risk, and control (evolution of entry mode decisions), will enhance the entry strategy. Complementing the theory of Pan & Tse is the theoretical model of Lotayif (2003) which allows the company to match entry modes (experience, control and risks) with defensive marketing strategies. Four pillars should be considered when drafting a marketing strategy:

Gradual incremental involvement: This links to the commitment levels (described in Section 4.2.4) the commitment of resources, the risk and the international experience the company has in the new market. For example in a high-risk market, the company commits fewer resources to be deployed. Should the company have substantial experience in the new market, the entry strategy will commit more resources.

Transaction Cost Analysis (TCA): "All costs associated with various aspects of the value-added chain from the production to the consumption are considered. The basic premise in TCA is that organisations will internalise those activities that they

can perform at a lower cost but will subcontract those activities externally if other providers have a cost advantage”, (Lotayif, 2003: 460).

Dunning eclectic theory, or location specific factors, or contingency theory: External factors (industry and host country), as well as internal factors (company and home country), will influence the entry mode selection decision.

Agency Theory: “In the agency theory the principals (new entrants), are highly motivated to collect data about their agents (entry modes in foreign markets), in the target market. It uses the metaphor of a contract to describe relationships in which one party delegates work to another”, (Lotayif, 2003: 460).

The globalisation entry strategy influences the financial and operational performance of the company and therefore management should carefully consider the marketing entry options for international expansion as discussed by Hill (2003), Lotayif (2003) and Coetzee (2005a). By considering the categories of each entry mode, the company could decide on the appropriate marketing strategy. Table 4 would assist the company to draft the most appropriate marketing strategy to ensure efficiency, effectiveness and customer satisfaction.

Table 4: Marketing Strategy proposed for different Entry Modes

Entry Modes	Risk imposed	Experience	Control	Continuity Probability	Time Required	Resources required	Marketing Strategy
Licensing, Franchising, Alliances and Turnkey Projects	Low	Low	Low	Volatile	Short	Small	❖ Focus ❖ Cost Leadership
Management Contracts	Low	Low	High	Volatile	Medium	Small	❖ Cost Leadership
Purely marketing (Direct Exporting and Indirect Exporting)	Low	Moderate	Low	Moderate	Medium	Small	❖ Free Telephone Line ❖ Differentiation
Shared-Owned and Shared-Controlled (Joint Ventures and Partial mergers and acquisitions)	High	High	High	Moderate	Medium	Medium	❖ Customer complaints Management
Wholly Owned and Fully-Controlled (Subsidiary, Branches and Representatives and Agency Offices)	Very High	Very High	Very High	High	Long	Large	❖ Business Intelligence ❖ Customer Service

Source: Lotayif (2004: 462) and Tsai & Cheng (2004)

As stated by Florin & Ogbuehi (2004), markets which are new to the MNC will require different marketing strategies to those whose products have already been introduced. Entry and international marketing strategies should not be considered separately, but rather, an integrated strategy. "It is not sufficient to integrate international marketing strategies into the overall corporate strategy of the firm. Managers that understand how entry strategies affect and are affected by their international marketing strategies should see an improvement in their firm's performance in global markets", (Florin & Ogbuehi, 2004: 84).

The risk imposed on contractual entry modes (licensing, franchising and calculated alliances) is low, since the local partner (Partner Selection 4.3.2) would remain in business with the assistance of the foreign partner (e.g. in licensing and franchising contracts), or would remain as it was previously, as in the case of alliances, for which contracts will continue as long as benefits for both parties.

Rasheed (2005) found that small-and medium sized enterprises (SMEs) would choose an equity-based entry mode (joint ventures and wholly-owned subsidiaries) to maximise their international growth. Thus, by choosing equity-based entry modes, foreign risk companies will minimise their risk in the new market, which is substantiated by the study undertaken by Lotayif.

Tsai and Tseng (2004; 6) aver that "Foreign investment experience can contribute to the development of new knowledge and capabilities" resulting in efficient reduction of uncertainties and threats. Furthermore Tsai & Tseng (2004) indicated that companies with more international experience are more likely to enter the new market by means of acquisitions, since their experience will provide them with the knowledge to identify proposed risks and enhance their strategies accordingly. Not only will risks be more easily mitigated but the firm's awareness of opportunities in the new market will also be increased. Companies with no experience in a new market will not be able to prepare for the threats and risks therein. To increase their awareness, they would most probably enter the market by means of contractual entry modes, and thus, select a partner to provide them with the necessary experience.

A local partner network will assist the MNC to gain experience in its new markets. This network should be created by means of an alliance and will assist in

establishing a geographical presence or a means to achieve a common product. Furthermore the local partner would have greater understanding of the local conditions and will therefore, be “in a better position to handle cultural and language barriers, bureaucratic red tape, political problems and so on. The local partner is viewed therefore not only as a source of revenue for the company but also as a source of information about what aspects of the marketing programme may need to be altered to fit the values of the host country”, (Quinn & Alexander, 2002: 266).

It has been remarked that: “Alliance strategy research has identified other competitive benefits of cooperation, its performance implications, and factors and antecedents that effect performance. Alliance advantages include strategic flexibility, leveraging partners’ knowledge and resources, and higher levels of innovation and learning”, (Florin & Ogbuehi, 2004: 90). In the literature reviewed innovation is one of the key factors in countering entry barriers for a late-entry strategy. An alliance with a local partner often increases public awareness of the product within the community.

However, an alliance will also require special training regarding the products, since the local partner will be marketing and selling these products to local businesses. At first, the process might appear to be time-consuming, and it may be difficult to keep team members interested if it takes an excessive amount of time to achieve successful sales.

The four most common reasons that MNCs will consider when forming alliances are:

- ❖ “In response to a threat: Individuals, groups, and organizations will sometimes band together in an attempt to preserve security and stability in response to a threat, real or perceived.
- ❖ In cases of similar or shared beliefs: People or groups which share common beliefs or goals may also form alliances. Although alliances have historically formed in reaction to a threat, increasingly, nations and other organized bodies are using alliances as proactive tools to solve problems.
- ❖ Economic interdependence: Groups, which rely on each other financially, or which make financial exchanges, may form alliances.

- ❖ Groups share the same members: Alliances are sometimes formed when group members of one organization are involved or somehow associated with another organization. People will often move in and out of both circles. The 'insiders' can use their knowledge of these organizations to emphasize joint areas of responsibilities, vision, and goals; thereby, identifying possible alliance members.", (Florin & Ogbuehi, 2004: 90).

4.2.4 THE EXTENT OF GLOBALISATION

The decisions made, as described in the sections above, will determine what functional and strategic functions should be globalise (section 3.2.4) in each region while still maintaining a competitive advantage within the global economy.

The Products would meet the requirements of customers while the marketing programmes will address the customers' habits and should therefore, address the local flavour. According to Florin & Ogbuehi (2004) businesses with globally standardised products perform better in market share and profit performance than businesses that adapt products to various market conditions. "In most successful cases, firms tend to standardise the product to benefit from globalisation and adapt the marketing program to individual markets or clusters of markets with similar preferences and habits", (Florin & Ogbuehi, 2004: 87). Decisions with respect to standardisation should never be treated as an absolute, but, each product-market case should be carefully considered.

The question arises whether it is possible to bring about a late-mover advantage. Most products that enter a new market will be considered late movers because there can only be one pioneer. Therefore, many ISVs will need to consider how to best achieve an advantage when entering the market at a later stage.

Christ (2005) suggests several late entrant strategies that could be considered:

- ❖ Low Price Advantage: Late entrants can gain market share by entering the market with lower prices. This would be ideal if customer loyalty is not very strong. The risk of such a strategy is high, because the competitors would most probably retaliate by lowering their prices. The entrant would most probably not be able to sustain the low pricing advantage for very long, but will have a platform from which to continue.

- ❖ **Create or Suggest Added Value:** Since competing on low price is often a risky strategy, an option that may lead to greater long-term success is to offer additional benefits beyond the basic product. “Examples may include promoting the new product’s compatibility with other products sold by the company or directing attention to advantages in the manufacturing process (e.g., locally produced, state-of-art manufacturing process, dedicated work force, etc.)”, (Christ, 2005: No page).
- ❖ **Exploit Ease-of-Use Advantages:** The Product Life Cycle concept “suggests new products appeal to different user groups at different times with a small market of early purchasers (called innovators and early adopters) willing to experiment by purchasing the product well before the much larger markets (called early and late majority) make the commitment. Buyers, in the early stages, often seek benefits that are more personal in nature (e.g., status within their peer group), while customers in latter stages of adoption are often drawn to products offering significant usage benefits beyond those of existing products, such as how it can save them time or money. However, this group is often opposed to a steep learning curve in order gain these advantages. For this group showing how easy the product is to use in order to start experiencing these gains may trump other benefits offered by competitors’ products”, (Christ, 2005: No page).
- ❖ **Non-Price Incentives:** Price competition is usually a short-term solution because competitors will respond to such a strategy. Offering other financial incentives such as trading in the older product and free installations, could be attractive.
- ❖ **Outsmart and Outsell Competition:** Finally, instead of spending significant funds in efforts to differentiate a product from those already on the market, being more creative and working harder than the competition, might offer a feasible solution. For instance to investigate opportunities that have not been exploited by competitors, such as selling via new sales channels, or brainstorming to develop new promotion methods that are likely to capture media and buyer attention.

4.3 Review of Industry Publications

Slower growth, merger and acquisitions are predicted for technology companies. These do not paint an optimistic picture for technology companies, nevertheless selecting distributions channels that would ensure future growth and to re-evaluate its capital structure could provide the smaller ISVs with greater prospects of survival. An analysis of the case study of Philips vs Matsushita is included because there are many similarities to the case and EPI-USE Labs.

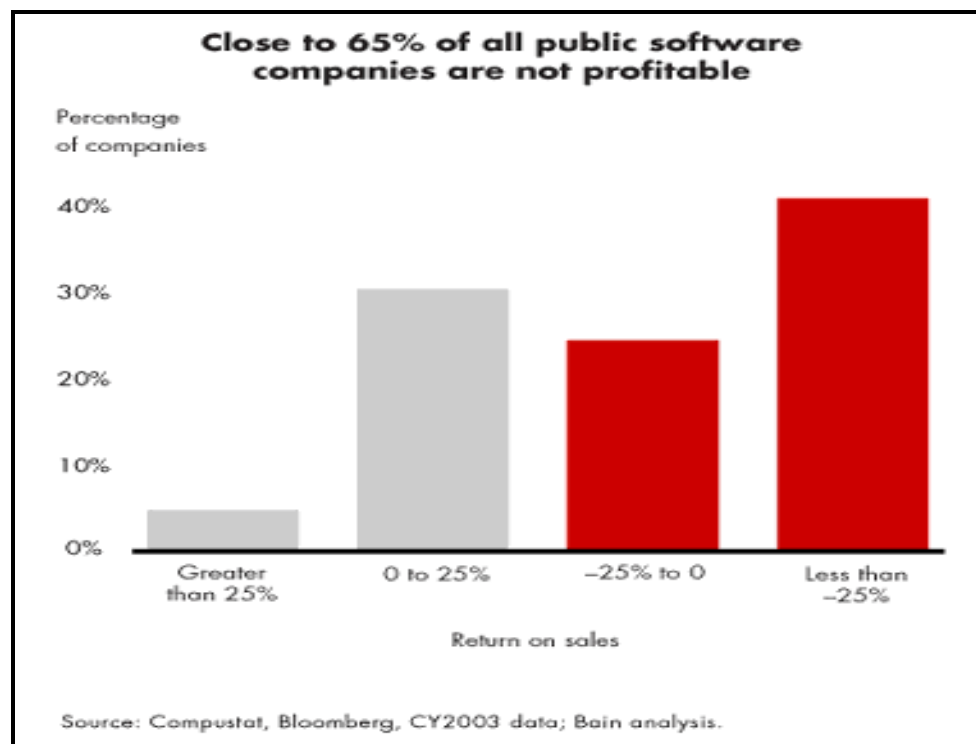
4.3.1 FUTURE GROWTH IN TECHNOLOGY INDUSTRY

According to Heap et al (2004), Bloomberg (2005) and Bartels & Rymer (2006) ISVs, especially the smaller companies, face two major threats:

- ❖ Mergers and Acquisitions; and
- ❖ Slow growth.

An analysis by Heap et al. (2004: No page) reported several changes in the technology industry. “Oracle continues its fight for control of PeopleSoft. Microsoft reveals it discussed a merger with SAP. EMC buys Legato, then Documentum, then Vmware. IBM snaps up middleware maker Candle Corporation.” They predicted that more than half of the ISVs could disappear within the next five years as a result of mergers and acquisitions. As indicate in Figure 13, 65% of public software companies are more vulnerable to mergers and acquisitions due to poor financial performances.

Figure 13: Financial outcomes of Software Companies



Source: Heap et al (2004: No page)

A publication released by Bartels & Rymer (2006) adds to the findings of Heap et al. (2004), that growth will slow down and that software product prices will decrease. Bartels & Rymer (2006: No page) indicate that “the magnitude of growth and structural change will be determined by clashes between the four horsemen of software commoditisation — service-oriented architecture (SOA), open source, software-as-a-service (SaaS), and offshore development — and the four fortresses of market inertia — vendor concentration, IP rights, installed bases, and brand loyalty.”

The prediction, then, is that there will be fewer players in the technology industry. Bartels & Rymer (2006) do not contradict the analysis done by Heap et al. (2004) but supports their findings. Slower growth and lower prices will hinder sustainable growth for smaller ISVs which will make them a target for mergers and acquisitions by category leaders.

4.3.2 CRITERIA FOR SELECTION OF PARTNERS

To increase growth prospects, the smaller ISV's will need to consider additional distribution channels. The value of selecting a partner in an area with low levels of experience, or to address possible lost opportunities, will complement growth as described by SAP (no date) and Overby (2005): Partners

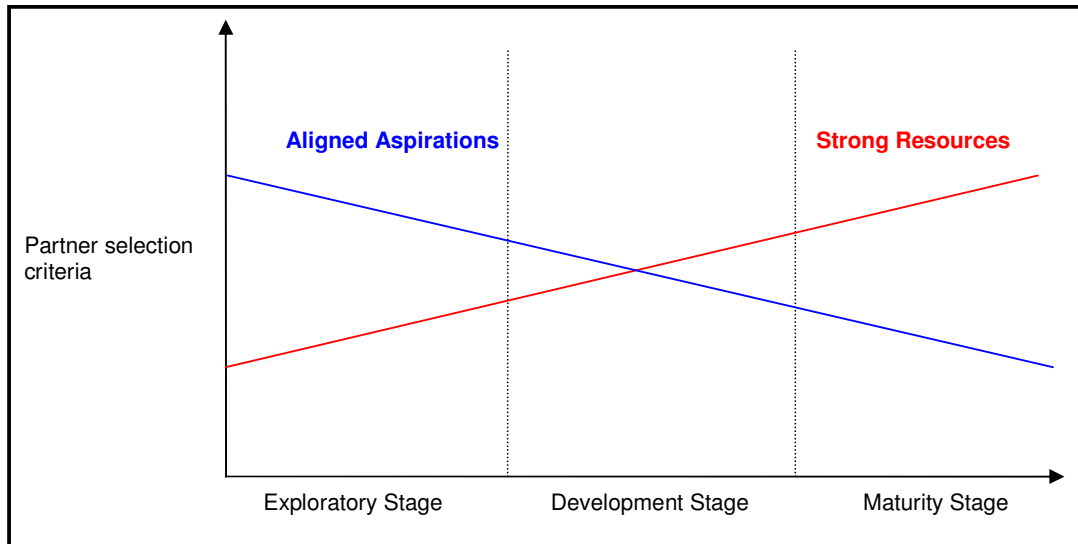
- ❖ Should enhance the company's strategy;
- ❖ Offer greater market exposure in their local markets ;
- ❖ Assist in expanding new business opportunities;
- ❖ Will improve sales and marketing initiatives;
- ❖ Assist in increasing the market share in new markets (increase customer base);
- ❖ Are dedicated to training and learning culture; and
- ❖ Increase experience in the local market.

It is important for a company to select the correct partner when entering a new market. The partner should provide sufficient distributing systems, marketing capabilities and expertise in the new market (Overby, 2005: 2). The main reason for selecting a partner is to create strategic benefits, which are enhanced by the financial benefit (the cost vs benefit ratio). The company seeks to increase its

shareholder value and in so doing, increase its level of experience in less familiar markets.

Overby (adapted from Williamson, 1975) indicated that the partner selection criteria will change during the life cycle of the product, as illustrated in the diagram below.

Figure 14: Importance of Partner Selection criteria as Distribution Channels



Source: Overby (2005: 13)

For the early exploratory stage the reasons and needs for a partner will be different from the intermediate developmental stage or even the maturity, stage. A summary of the Partner Selection criteria during the different cycles follows:

Early exploratory stage:

- ❖ Change the status quo: need to address market uncertainties therefore consider low resource commitment.
- ❖ Lower risk of early entry; even companies with a strong brand name that do not wish to risk a negative perception of their brand.
- ❖ Rapid adaptation to change is an essential competitive parameter.

Intermediate Development Stage:

- ❖ Potential for market share growth declines, but should continue to develop the market.
- ❖ Product innovation will ensure new buyers.

- ❖ Improve process innovation.

Maturity Stage

- ❖ Resource strength very important because of intensified competition.
- ❖ Stronger process innovation to reduce costs.

These factors indicate that partners should be selected with great care since the selection of an unsuitable one could be a costly exercise. They will communicate the image of the company to the client; therefore, they could contribute to the success of the company if carefully chosen.

Table 5: Partner Characteristics Definitions and Examples

Characteristic	Definition	Example
Financial Assets	Resources that reflect liquidity/financial health	<ul style="list-style-type: none"> ❖ Lines of credit ❖ costs of capital ❖ debt/equity position
Complementarity of Capabilities	The degree to which a partner's resources can be used in conjunction with those of your firm	<ul style="list-style-type: none"> ❖ Distribution channels of partner are complementary if those channels can be used to market your firm's products.
Unique competencies	Abilities or skills possessed by a partner but not by other firms	<ul style="list-style-type: none"> ❖ If a partner produces a product that cannot be imitated by other firms, it possesses unique competencies
Industry Attractiveness	The degree to which an industry presents a favourable environment in which to achieve a firm's goals	<ul style="list-style-type: none"> ❖ An industry composed of a small number of competitors and/or potentially large number of buyers may be viewed as attractive
Cost of Alternatives	The cost to your firm of alternative to joint ventures	<ul style="list-style-type: none"> ❖ An alternative to a joint venture may be the development of a wholly owned subsidiary
Market knowledge/Access	The expertise or ability of a partner to effectively operate in a market or industry	<ul style="list-style-type: none"> ❖ Understanding competitors and customers ❖ Experience with government regulations ❖ Knowledge of culture
Intangible assets	Assets which are not reflected in financial statements	<ul style="list-style-type: none"> ❖ Firm reputation ❖ Brand name ❖ Human resource
Managerial Capabilities	The ability of managers to guide their firm efficiently and effectively	<ul style="list-style-type: none"> ❖ Ability to build consensus among group ❖ Ability to recognize demographic changes in customers

Capabilities to provide quality product/service	The ability of a partner to provide buyers with the quality of products they desire	❖ Low defect rates ❖ Strong manufacturing facilities
Willingness to share expertise	The degree to which a partner is willing to allow your firm to acquire its capabilities	❖ Share technological knowledge ❖ Marketing know-how
Partner's ability to Acquire your firm's special skills	The ability of a partner to learn/acquire skills which your firm possesses	❖ Experience acquiring skills in joint ventures
Previous alliance experience	The number of alliances in which partner has engaged	❖ Prior participation in joint ventures resulting from formal agreements
Special skills that you can learn from your partner	The ability of your firm to learn/acquire skills which a partner possess	❖ Partner has technological or marketing know-how your firm does not possess but wishes to learn
Technical capabilities	The ability of a partner to develop new process or product technologies	❖ significant R&D operations ❖ develops and commercializes new products

Source: Dacin et al (2001: 10)

4.3.3 CAPITAL STRUCTURE FOR TECHNOLOGY BASED FIRMS

Tran (2006: no page) wrote “whether we pay for our widget machine with debt or equity will not change its productivity, and thus capital structure can only affect value if investors paid more (or less) for a leveraged firm.” Value is created when the firm finance an investment with debt or equity. Hogan & Hutson (2005) studied the Irish technology sector and found that New Technology based firms tend to select the following capital structure:

- ❖ The main source of funding is internal funding (retained earnings);
- ❖ When external funding is needed they prefer equity, especially at the start-up life cycle.

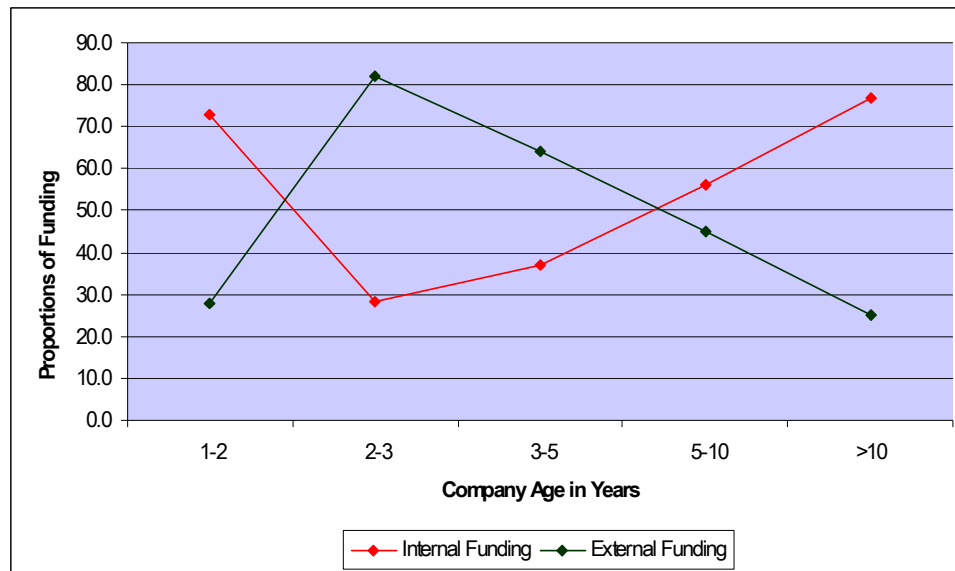
Gellatly et al. (2003) researched the Canadian SMEs and found that SMEs in high-knowledge sectors (such as technology):

- ❖ Are less likely to use debt for funding,
- ❖ Are more likely to use reinvested profits (retained earnings) for funding.

As can be seen in Figure 15, technology based firms are mainly funded by retained earnings. They do, however, rely on external funding in which case they would opt for equity rather than debt. This is consistent with the findings of Gellatly et al.

(2003) and Hogan & Hutson (2005), who also propose that firms operating in more uncertain domains may face greater barriers to obtaining external funding.

Figure 15: Proportions of Internal and External Finance Funding



Source: Hogan T & Hutson E. (2005)

The main reasons why technology based firms choose equity over debt are:

- ❖ They experience information asymmetries with banks, meaning that decision makers in the latter find it very difficult to assess and understand the business of high-technology firms.
- ❖ Technology based firms lack collateral: when their assets are not yet in place, and their present value is that of “growth options” it difficult to obtain finance for companies whose assets are dominated by intangibles; therefore the less risky options, such as overdraft facilities, sort-term or at-call lending, are offered when dealing with companies that take high risks.

It is also interesting to note that owner-managers of technology based firms are more willing to cede control to shareholders because innovation and the pursuit of wealth are much more important to such firms.

When reviewing the reasons mentioned above, it is not surprising that technology based firms enjoy a more positive perception amongst venture capitalists who seem

to understand their businesses and more importantly, that the presence of fixed assets is not a prerequisite for the involvement of venture capitalists.

Hogan & Hudson (2003) further observed that technology based firms are in business to maximize the potential selling value of the business and furthermore, to increase its growth by creating a substantially increased cash flow which leads to a higher business value. The former contributes to an increase in its shareholder value.

4.4 Article on Philips versus Matsushita

The researcher would like to single out an article by Bartlett (1999) on Philips vs Matsushita. EPI-USE Labs experience similar problems to Matsushita. Both have a strong corporate culture, but poor brand recognition. Learning from Matsushita and Philips will prove valuable in order to enhance a late-entry strategy to expand globally.

4.4.1 ANALYSIS OF KEY LEARNINGS IN PHILLIPS

Philips use location economies, the experience curve and economies of scale to enhance their multidomestic strategy. They needed to integrate core competencies into limited product offerings and this change gave birth to new, innovative products. The key learning is that the new strategy proved to be very difficult to implement.

4.4.1.1. GLOBAL STRATEGY, ESTABLISHING A BRAND AND JOINT VENTURES

Philips was founded in 1892 and until 1930 their emphasis was on production, R&D, new technology and a few products which were all located in Holland. Third parties were used to market their products internationally. The strategy to use joint ventures was to gain experience in the new markets and to ensure acceptance in local markets as well as to decentralise sales.

Capitalising on the benefits of the experience curve and economies of scale assisted Phillips to develop into a global company. Once the brand was established in other countries, it was easier to introduce new products.

4.4.1.2. MULTIDOMESTIC STRATEGY, EXPERIENCE CURVE AND GLOBAL LEARNING

The threatening war in 1930 caused Philips to adjust its strategy by transferring its Dutch assets to the UK and the US. Individual companies became more independent as a result of isolation during the war. The "after-the-war" multidomestic strategy was to develop the strengths of these self-sufficient national organisations (NOs). They developed their own marketing, technical and product development capabilities. Based on experience gained from other countries and economies of scale, the company in Holland remained responsible for the development, production and global distribution of 14 product divisions (PDs). Research remained independent and was located in eight separate laboratories located in Europe and the US. The corporate-level structure was represented as a product / geographic type.

The strategy for Phillips's corporate architecture was to develop a worldwide product divisional structure. This decision shifted power to the NOs, which were in control of their own assets, and the NOs and PDs were driven even further apart; a situation which highlights the difficulties incurred by exercising control within a multidomestic strategy. Phillips' rotation of managers between different countries facilitated global learning and the ability to transfer these skills within the global firm.

4.4.1.3. IMPLEMENTATION OF THE NEW STRATEGY

The lowered international trade barriers and international transport caused Philips to revise its strategy. The need was to increase the size of the production runs and locate production plants in the optimal international locations. Product offerings needed to be consolidated around their core business and Phillips also had to improve the development of new products. To succeed, Philips needed to strengthen the position of the PDs relative to the NOs.

Numerous chairmen (between 1970 and 1997) attempted to reorganise the company in an attempt to address the various problems that faced Phillips. They found it difficult to implement the adjusted strategy in bringing about the desired changes.

4.4.2 ANALYSIS OF KEY LEARNINGS IN MATSUSHITA

Matsushita developed a wide range of products which they sold in their own retail outlets in Japan. This gave them the advantage of direct access to market trends and consumers' reactions to products. In the 1960s, the liberalisation of trade barriers and improved transportation made exporting more attractive. However, poor international brand recognition made retailing difficult.

Matsushita consequently decided to expand their borders. Workers were motivated by means of a strong corporate culture, which proved to be invaluable when expanding internationally because cooperation and coordination between the various subsidiaries was necessary. However, a poor and late introduction of their product into the international market had a negative effect on sales.

4.4.2.1. ARCHITECTURE

Matsushita adopted a product division structure where each product line was managed almost like an independent corporation, but with strong centralised decision-making. Attempts were made to decentralise decision-making by giving local managers of overseas subsidiaries complete autonomy to achieve financial goals. The centralised management located in Japan offered a great deal of advice and support if these goals were not achieved.

Local nationals were appointed to key positions, but with the support of senior Japanese advisors linked directly to the parent company. Matsushita also retained the ability to overrule any subsidiary decision in favour of decisions of strategic importance to the parent company.

4.4.2.2. LOCATION ECONOMIES

Matsushita made use of location economies in order to create greater value and reduce costs. In 1960 Matsushita shifted basic production to low wage countries. This strategy was reinforced in 1980 in an attempt to move more than 25% of production outside of Japan. Despite this change, they still had not achieved their goal of value creation; therefore, in the mid-1990s aggressive moves by product divisions were made to move value-adding activities from Japan to Southeast Asia.

4.4.2.3. LOCAL RESPONSIVENESS

Matsushita attempted to improve its local responsiveness by differentiating product offerings to local requirements. Throughout the 1970s central product divisions maintained strong control over offshore production units. This trend was later relaxed and by the 1980s national subsidiaries were allowed greater freedom in sourcing local equipment and components, modifying designs to meet local requirements and adapting corporate processes to accommodate these changes. This relaxation of central power was reinforced by the appointment of an increasing number of local nationals to key positions, which was done in order to customise product offerings and, also, to encourage innovation.

4.4.2.4. DEVELOPMENT OF NEW PRODUCTS

Basic technology was developed at a central research laboratory, while product development and engineering occurred at product divisions. They also extensively copied new products developed by other companies, and rapidly introduced their own version to the market.

The development of new products within product divisions facilitates the development of multi-disciplinary teams in creating new products. This advantage is reinforced with having their retail stores and thus being able to monitor public sentiment.

4.4.2.5. TRANSNATIONAL STRATEGY

To ensure that the corporate culture is maintained, Matsushita employs expatriate managers in foreign countries. Foreign general managers were also required to make at least 2-3 visits to headquarters per year. However, the corporate culture is based on a Japanese background which is very different from western culture. This difference probably hampers the implementation of the transnational strategy.

The literature recommends a strong corporate culture to implement such a strategy. While trying to build an international brand name, Matsushita focuses on location economies, economies of scale, the experience curve and leveraging core competencies and global learning to implement its transnational strategy. The major problem faced is to balance cost reduction while, simultaneously trying to improve local responsiveness.

Chapter 5: Research Methodology

Before the research results (Chapter 6) can be presented the research methodology must be explained. In this chapter, the research investigation methods employed in this study, such as the sample and measuring instruments, as well as the data collection, will be described.

One limitation of this research study is that only one case study, EPI-USE Labs, is investigated. Therefore, the research results cannot be generalised since certain problem areas and core competencies are specific to the company. However, the fundamentals of the theories employed, together with the literature review, could be utilised by other ISVs to enhance their late-entrant strategy.

5.1 Research Question and Objectives

The research question has been formulated as follows: What are the global learnings that will be relevant in leveraging on experience, risk and control as key determinants to enhance a late-entrant globalisation strategy for EPI-USE Labs?

The objectives of this research paper are:

- ❖ To identify a late-entrant strategy for the ISV, using accredited research material.
- ❖ To analyse how the concepts of experience, risks and controls could enhance the late entrance strategy.
- ❖ To create a pricing model that is a standardised tool to be used in all regions, an easy-to-use tool that provides price at the click of a button and will provide the Reseller Partners and BDMs with the necessary freedom to negotiate and give discounts within set guidelines and limits.
- ❖ To generate a Reseller Partner selection framework to ensure that the Reseller Partner selected will have a vested interest and be committed to succeed in the business.
- ❖ To conduct an analysis and identify the globalisation pathways of ISVs who have successfully expanded into international business and from these learnings, compile a prioritising framework.

5.2 Outline of type of Field Study

The following statement formed the basis of this research study. EPI-USE Labs only contribute $\pm 15\%$ to the EPI-USE Group of companies' revenue, but the need is to increase this to a 33,3% revenue contribution. The necessity for future growth and to increase shareholder value provided opportunities for the EPI-USE Labs business unit to grow internationally.

Understanding the risks, experience and controls required in global expansion the researcher would, by means of qualitative approaches, create a framework to enhance a late-entrant strategy. By conducting interviews and a literature analysis, the researcher searched for the learnings that would enhance such a strategy.

By interviewing the Regional Partners and the management of EPI-USE Labs, the researcher identified the business processes of this firm.

Content (literature) analysis was employed to furnish a framework for a late-entrant strategy, with the focus falling on the determinants of experience, risks and control to enhance such a strategy. By means of the content analysis, the researcher was able to:

- ❖ Analyse and identify successful globalisation pathways;
- ❖ Identify a prioritising framework; and
- ❖ Establish a partner selection framework.

The research was conducted under field conditions (actual environmental conditions) and no manipulation of the setting took place since this could have skewed the outcome of the study.

The main sources of error to consider were the bias and subjectivity of the researcher. In order to limit these, the researcher ensured that the literature review was extensive, refrained from predicting outcomes, and only to interpret the evidence.

5.3 Sample Size and Data Collection Methodology

The researcher used a Judgment Sample where “the researcher samples members to conform to some criteria”, (Cooper & Schindler, 2003: 201). In other words, the researcher selected respondents who are familiar with the characteristics of the population; in the case of the EPI-USE Group, the respondents who know the Products and are actively engaged in marketing these in their specific regions.

Case study research usually covers a combination of primary and secondary data; this study was no exception. Primary data was collected by interviewing the Regional Partners and the management in order to determine the business processes of EPI-USE Labs. Their opinions, perceptions and experiences were ascertained and captured. To limit bias data collection took place during the participant's actual work routine without any modification. The researcher attempted, as far as possible, to ensure that the interviewees remained focused during the interviews, which were taped to minimise loss of data.

Secondary data was gathered by researching accredited articles from various journals, books, the Internet, industry-related publications and company documentation. The latter provided an understanding, analysis, and overview of the business processes of the firm. To complement the documentation, various management members were interviewed.

Yin (1994) noted that using multiple data collection methods ensures construct validity. Reliability was ensured by following the procedures explained above.

5.4 Measuring Instruments

A literature review and interviews were employed to collect data. For the present research paper, no propositions or hypotheses have been formulated, because the intention has been to compile a framework to enhance a late-entry strategy based on an analysis of the literature.

Measuring instruments for interviewing the sales and marketing teams were devised as follows:

- ❖ The researcher relied on academics and the Epi-Use Labs Management team to validate the measurement instrument before it was distributed to participants;

- ❖ Interviews were conducted in person as far as possible. Interviews in the US and UK were conducted in May and June during a regional visit.
- ❖ Interviews that could not be conducted in person were done telephonically.
- ❖ Questions were open-ended.
- ❖ Qualitative questions were posed to determine opinions and perceptions.
- ❖ The question “Why” was not directly posed.
- ❖ An effort was made not to lead the interviewee during the interview.
- ❖ Notes were taken during the interview.

The following measuring instruments were employed for the literature review:

- ❖ Reading through data to identify patterns found in the literature.
- ❖ Identifying relationships found in order to provide the literature.
- ❖ Interpreting the literature in order to provide an explanation.
- ❖ To ensure validity of interpretation, the researcher used contradictory literature as well as supporting literature.
- ❖ A logical train of thought was important in presenting the review of the literature.

To ensure the validity of the interpretation, the researcher made use of various data, but subjectivity cannot be ruled out. As Yin (1994) advised techniques such as cross-case examination and within-case examination were used along with a literature review to ensure external validity.

5.5 Analytical Techniques to be Used

Qualitative techniques were used to analyse the data, grounded in theory. Pattern-matching and explanation-building were employed to analyse the literature. The main problem faced by the researcher was to remain focused on the problem identified and not to be distracted by issues not covered in this paper.

Interviews with the various members of management were used to apply the literature analysis to EPI-USE Labs. As already mentioned above, the processes and current strategy of EPI-USE Labs were identified during interviews, and the

case information mapped to the literature which has enabled the researcher to devise a possible framework for the given purpose.

The following illustrative measures to explain data as clearly as possible, and to visualise the findings, were used:

- ❖ Tables;
- ❖ Pie Charts; and
- ❖ Diagrams.

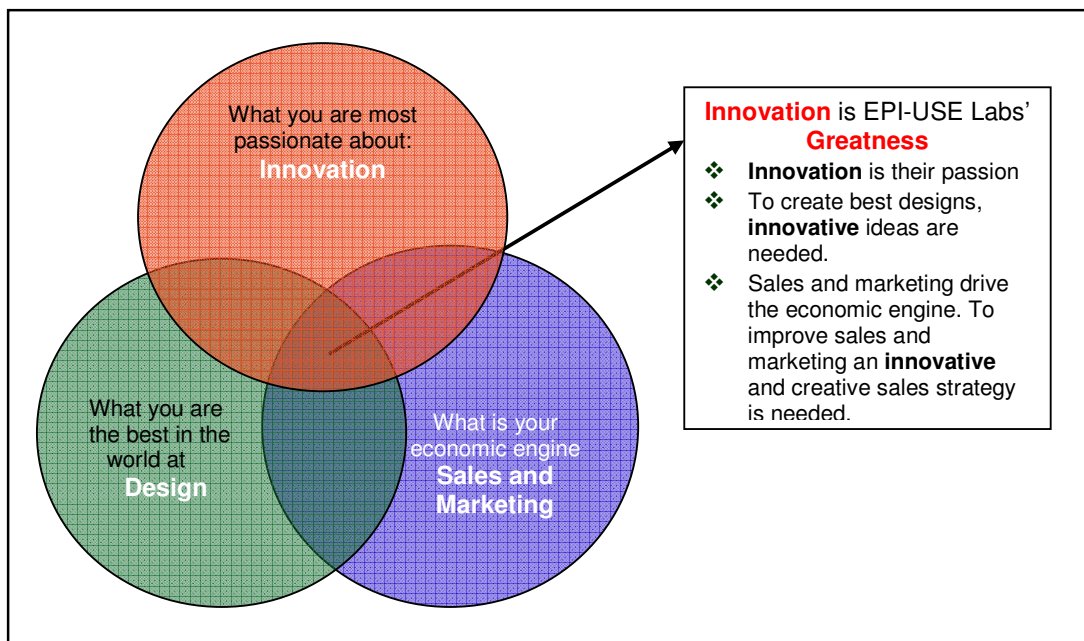
Chapter 6: Research Results

The research results described in this chapter identify the strengths and weaknesses of EPI-USE Labs which need to be addressed. Correlating these results with the literature study (Chapter 4) will assist in the drafting of a late-mover globalisation strategy for EPI-USE Labs (Chapter 7).

6.1 Greatness within EPI-USE Labs

Using the hedgehog concept of Jim Collins (section 4.2.1), the results indicate that **innovation** is the greatness which differentiates EPI-USE Labs from other firms in their industry. Innovation fits the culture of the company, since constant innovation is vital to ensure that developers are retained and remain interested.

Figure 16: Identification of Greatness in EPI-USE Labs



Source: Adapted by EPI-USE Labs (2006) from Jim Collins (2001: 118)

Although EPI-USE Labs might not have captured the market to the same extent as their competitors, they seem to be trend-setters when it comes to the Products they have developed. As one of SAP's most senior employees said, "Data Sync Manager for ERP is a generation ahead of its competition". It is therefore no

surprise that *innovation* is the one thing the team is deeply passionate about. Their innovative solutions and ideas allow EPI-USE Labs to compete with the best in the market. EPI-USE Labs' leadership continually push for innovative ideas to furnish elegant and value-adding product solutions.

The area which EPI-USE Labs identified as the one thing, at which they are the best in the world at, is product *design*. They also reported that competitors in the global market have been copying their designs to improve their own products. Creative and innovative ideas will ensure that the product designs of EPI-USE Labs are always of a high standard.

EPI-USE Labs have identified *sales and marketing* as their economic engine. The focus has always been on product development, enhancing current products and identifying new development opportunities in the market. As a result the economic engine, *sales and marketing*, has taken a back seat. The management are faced with the question whether to alter the status quo and focus on improving their sales and marketing-engine. Another ISV, Acquire, only makes use of Reseller Partners as distribution channels while focusing on their core competency, namely product development. This approach seems to succeed since they were able to build a larger customer base than EPI-USE Labs in a shorter period of time. Although EPI-USE Labs perceives sales and marketing as their economic engine, they are not able to ensure aggressive market growth at present. Sales and marketing are not addressed with the same innovation or passion to which the development team is accustomed. Innovation should be made use of to create successful distribution channels for all regions as it will improve this firm's chances to grow their global market share.

6.2 Globalisation Process

When the EPI-USE Group of companies entered the global market they needed a differentiator to ensure they out-competed other service companies. The EPI-USE Advantage Toolset was the differentiator and complementor, used with which many service projects were won in the SA, US and UK markets. The problem faced by the EPI-USE Group was that a Service Company's value is based on the previous year's turnover. To address this problem EPI-USE Group of companies need the

Products to grow from a complementor to a business entity in its own right. A continuous revenue stream from software development, maintenance and support contracts changes the valuation of the Service Company in favour of the shareholder.

Within the next three years EPI-USE Labs must to grow from contributing 15% to 33.3% of the Group's global revenue. Hence they need to enhance their globalisation strategy to ensure that such growth is possible. Porter (cited in an article by Mayhofer (2004)) has suggested that in entering the global market a company should not forget its past as its successes in the home country will be the main reason for enjoying an international competitive advantage. As a South African-based company EPI-USE Labs will benefit from having a continued South African presence. Firstly, a home presence "aids the learning process and the development of skills, knowledge and experience that will be useful for later international expansion", (Quinn & Alexander, 2002: 268). Secondly, a home presence creates a widespread network. International companies such as BHP Billiton and CSC whose South African-based companies are using the SAP products will offer an opportunity to introduce these products to their AUS and US companies, and in some cases this has already happened, e.g. Sasol, Bombardier and Pitney Bowes. Thirdly, since the SA SAP market experienced skills outflow in recent years the Products have been introduced to overseas companies by the ex-South African employees.

EPI-USE Labs are very successful in the SA market. Here they have a strong brand name, being known for their high quality products and effective and efficient support. Sales thus far have been easily secured, but a slight change has been noticed in the market. Although EPI-USE Labs experience no real competition in the local market, sales are not concluded as fast as previously experienced. Deals lately are taking more energy to secure owing to a different kind of market "saturation". Many SAP clients are still left in the SA market but the focus of sales should address a different customer need. According to the SA sales and support team the current sales "saturation" are mainly due to:

- ❖ Clients experiencing budget constraints; and
- ❖ The "easy-buy" clients have already bought the Products.

The SA sales and support team therefore needs to adjust its marketing strategy to address the specific needs of existing and new clients and should indicate how the Products could add value to a specific business. Presentations can no longer be stereotyped but should address client-specific needs head-on and describe the value the Products can add. This confirms the previous finding that more energy is needed to secure sales.

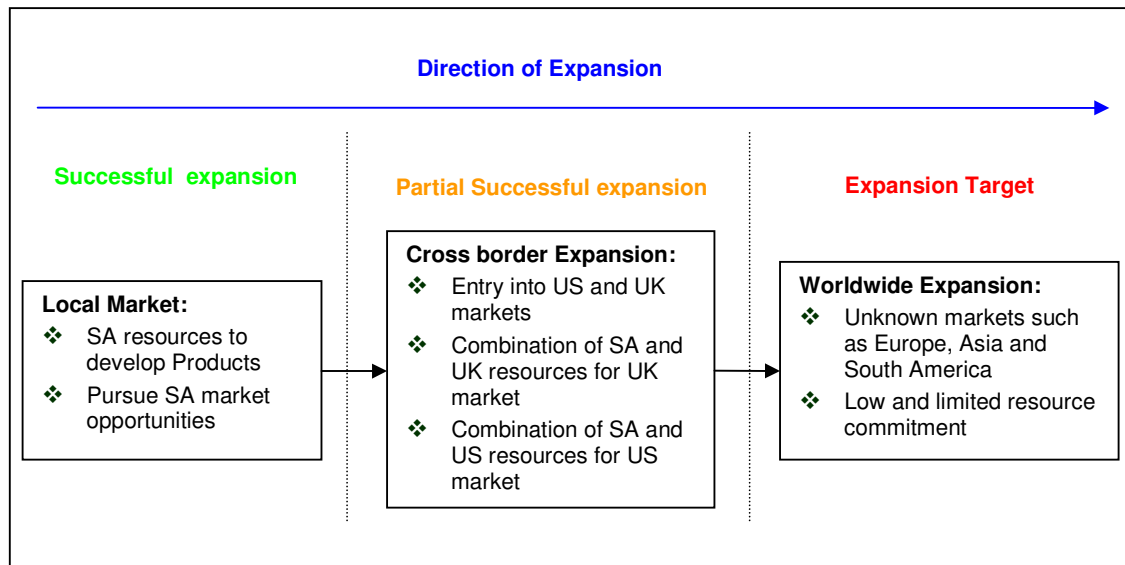
The lessons learned in the SA market should not be forgotten but employed to generate successes in the global market. EPI-USE Labs has successfully marketed the Products in the local market, as well as achieving moderate success in the US and UK markets. Keummerle's theory proposes a balanced and structured globalisation process to ensure a successful transformation. By capitalising on the successes of its local and regional expansion EPI-USE Labs should continue to pursue a larger representation in the market.

Brand awareness in the US market has increased. Although successfully concluding deals still takes too long, the market exhibits much greater sales potential since the US market is currently one of the largest SAP markets. The US sales and marketing team are not able to execute on a large number of leads generated through various SAP conferences attended.

The UK sales and marketing team are using a word-of-mouth strategy, which does not allow them to penetrate the market aggressively. The EPI-USE Labs brand name is not as strong in the UK as in the US or SA markets.

The diagram below summarises the current global expansion of EPI-USE Labs. Worldwide expansion into more countries is the logical next step, according to Keummerle's theory. This will increase the chances for EPI-USE Labs to contribute 33.3% to the Group's global revenue. Many countries identified as possible markets are expected to be unfamiliar to the company, implying low levels of experience in those markets. To mitigate the as-yet-unknown risks, low levels of resource commitment should be considered. Control measures would be quantified depending on the mode of entry EPI-USE Labs select.

Figure 17: Global Expansion of EPI-USE Labs



Source: Adapted by JC Stofberg (2006) from W Kuemmerle (2005: 45)

6.3 Entry Modes and Determinants

The order of entry and the mode of entry are important factors since these will influence the profitability and market share of the company. Currently EPI-USE Labs use a combination of Alliances, Partner Contracts and Wholly-Owned entry modes. Table 6 demonstrates the differences in the determinants of risk, control and experience between the entry modes chosen. The US, UK and AUS markets were identified for expansion since these markets are geographically and culturally close to the South African market.

The EPI-USE brand name was later withdrawn from the AUS market during which time the AUS reseller entered into an alliance with EPI-USE Labs. EPI-USE Labs is trying to elude this situation in terms of which the AUS reseller will enter a Partner Contract with EPI-USE Labs. As indicated in the literature review an alliance should benefit both parties, which is not currently the case with the AUS market. The EPI-USE Labs management experience that the AUS market:

- ❖ Does attempt to preserve security and stability in response to a threat;
- ❖ Does not share the beliefs of EPI-USE Labs; and
- ❖ Does not share employees to transfer knowledge.

Referring to Table 6, moving from an alliance to a partner contract, will give EPI-USE Labs the opportunity to enforce more control measures.

Table 6: EPI-USE Market Entry Options

Entry Modes	Market	Risk Imposed	Experience	Control	Continuity Probability	Time Required	Resources Required
Non-Equity Mode: Alliances	AUS Reseller Partner	Low	Low	Low	Volatile	Short	Small
Non-Equity Mode: Partner Contract	Israeli Reseller Partner	Low	Low	Medium	Volatile	Medium	None
Equity-Mode: Wholly-Owned and Fully-Controlled	SA, UK and US Offices	Very High	Very High	Very High	High	Long	Large

Source: Lotayif (2004: 462) and Tsai & Cheng (2004)

6.3.1 EXPERIENCE

EPI-USE Labs' experience levels in the SA, UK and US markets are relatively high, while in the AUS market is rated as moderate. For the Israeli market and the rest of the world these experience levels are still low. As can be expected, EPI-USE Labs would prefer to enter these regions with low to limited resource commitment.

Reseller Partners and regional sales and marketing (RSM) teams need to be skilled in, and confident and knowledgeable about all the products. They need to know the SAP environment but must be able to provide answers relating to the domain of the problem which the Products address. They should also be able to demonstrate practically too potential clients how the products will add value to the business.

RSM teams have indicated that they have a personal "favourite" product. This phenomenon can be attributed to their relevant SAP experience levels and work-related experience. It seems that a strong relationship exists between their technical SAP experience and the Product they prefer. However, EPI-USE Labs expects that RSM teams should be skilled, confident and knowledgeable in all products. The focus should not be to introduce the customer to their favourite Product, but the most relevant should be introduced and even service contracts later on.

Some of the RSM teams identified the level of support as a differentiator in selling the Products. According to the US sales team, clients identified support as the most important reason for buying the EPI-USE Advantage Toolset.

6.3.2 RISK

An article on Bell (No Author, 2005) stated that one of their disadvantages was the label “made in Africa”, which EPI-USE Labs are experiencing as well. Mitigating this risk a second development centre was established in the US. After several failed interviews with potential US developer candidates, developers from the SA development centre were relocated to the US development centre. Management found that although many candidates were experts in their fields they were not multi-skilled in all the areas that were required. The three main benefits of the US development centre are:

- ❖ Knowledge transfer from developers to US sales and marketing team.
- ❖ Developers will more easily tap into the US market requirements and feed the requirements back into the development process.
- ❖ A label stating “made in America.”

Management is also considering opening regional offices (ROs) (focussing on sales and support) in selected European countries, such as the Netherlands and France. However, they have not been successful in appointing skilled and knowledgeable candidates. In addition, the risks, controls and entry mode have also not been fully identified and analysed. One risk to consider is the financial, because EPI-USE Labs is funded by means of retained earnings and therefore the financial risk of the RO investment will be higher than that of an alliance or partner contract. The resource commitment will also be slightly higher.

As the Products are introduced into non-English speaking countries, language becomes a major concern. The product text (e.g. screens and messages), product documentation and marketing-related documents need to be translated if English is not the primary language used in business.

At the moment one of the primary concerns of EPI-USE Labs is to protect their IP. This concern is emphasised when Reseller Partners demonstrate the Products to

third parties without a proper background check. This occurred in the AUS market where the “potential client” turned out to be a competitor and subsequently introduced a similar product six months later. It seems that Reseller Partners are not necessarily as concerned with protecting the IP as EPI-USE Labs would be; therefore better control protocols need to be introduced in order to ensure that EPI-USE Labs’ IP is protected.

As noted above, the sales and marketing teams identified incomplete Product knowledge as their primary constraint. To be effective in selling Data Sync Manager for ERP they need a broader knowledge of the business and must be better equipped to address the technical aspects of SAP. Query Manager and Variance Monitor are not as technically advanced, but more Human Resource (HR) knowledge is required; however, since the company is strong in this area this should not be a problem.

Another challenge, not only within the UK but also in new markets, will be to establish brand recognition.

6.3.3 CONTROL

EPI-USE Labs has not established many control measures, especially not for Reseller Partners. However, some financial controls are in place:

- ❖ The pricing calculator allows regions and Reseller Partners to offer discounts within a selected set of criteria.
- ❖ Activation keys (which activate the use of the Products) are used as a control measure for sales and invoice processes.
- ❖ Pipeline controls: the following controls need to be introduced, a) the Year-to-Date sales targets, b) the Year-to-Date controlled sales, c) committed sales and d) predicted sales.

A major concern of the EPI-USE Labs management is related to the engagement rules. Inadequate control measures have been established to enforce a non-disclosure/non-competition agreement when Reseller Partners introduce the Products to potential clients. More needs to be done if EPI-USE Labs wish to protect their IP.

The Reseller Partner selection criteria of EPI-USE Labs are summarised in Table 7:

Table 7: **Partner Selection Criteria used by EPI-USE Labs**

Characteristic	Definition
Network	Spread of client database in the area Products will be marketed.
Experience	<ul style="list-style-type: none"> ❖ Depth of SAP knowledge. ❖ The years of SAP experience. ❖ Experience in selling 3rd party products.
Infrastructure	<ul style="list-style-type: none"> ❖ Demo system: Is there a demonstration system in place to demonstrate Products to potential clients? ❖ Marketing and Sales: Is there a dedicated person available? ❖ First-Line Support: Is there a dedicated and knowledgeable person available? ❖ The first-line support person will be optional where EPI-USE Labs already has a presence (e.g. UK, SA and US).
Finances	<ul style="list-style-type: none"> ❖ Stability of finances. ❖ Integrity of finances.
Culture	❖ Cultural similarities between EPI-USE Labs and Partner.
Willingness to share expertise	❖ Willingness to assist EPI-USE Labs with the adaptation of Products to the local market.

Source: EPI-USE Labs (2006)

It is requirement of the RSM teams to implement a process by means of which successes and failures (intangible knowledge) are discussed and documented. This will not only ensure that the knowledge-base is continually updated and used, but that knowledge is shared across all regions.

Another requirement is the standardisation of sales and marketing documentation so as to empower regions with the proper knowledge to sell and market the Products.

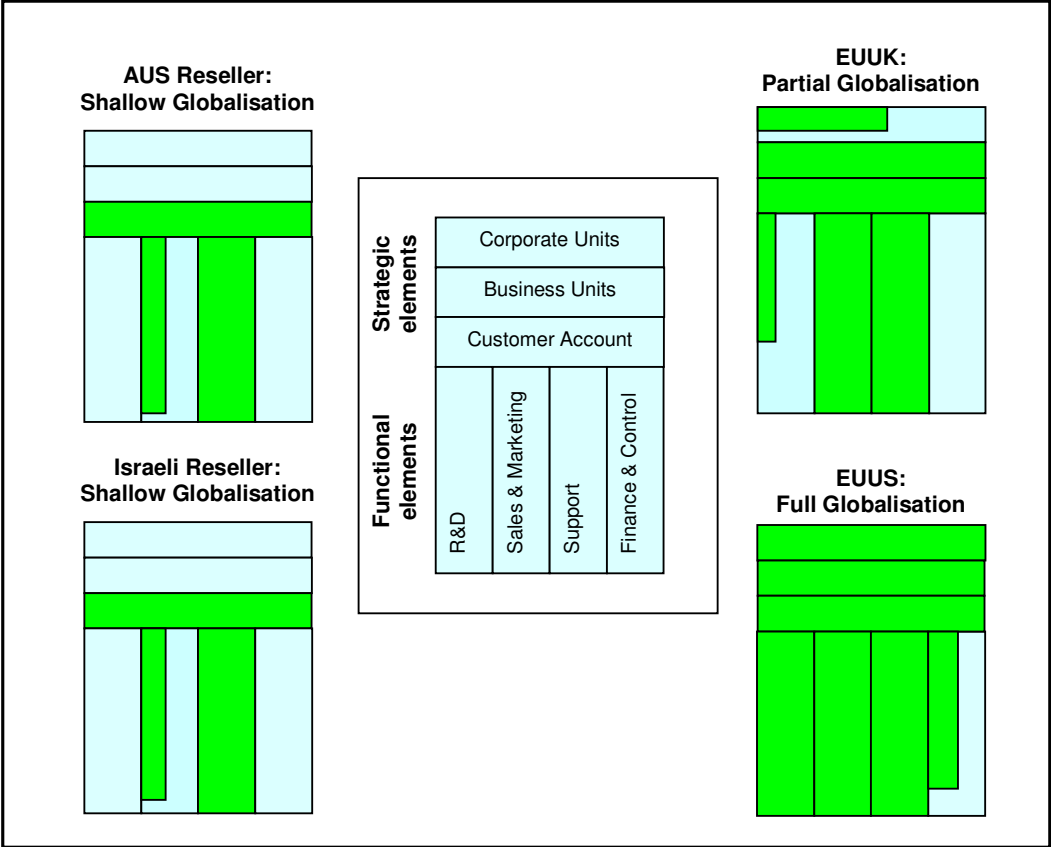
6.4 Extent of Globalisation

The diagram below illustrates EPI-USE Labs' extent of globalisation. As illustrated, the US market is fully globalised with the exception of the functional element, finances and control. The creation of activation keys (which activate the use of the Products) which is a control measure for sales and invoice processes are centralised in SA. This is the only finances and control element not globalised to the US market.

Only partial globalisation was identified for the UK market. Functional elements such as R&D, finance and control as well as the strategic element corporate units

are not globalised to the UK market. For both the Reseller Partners (AUS and Israeli) the extent of globalisation is shallow.

Figure 18: Globalisation Extent of EPI-USE Labs



Source: Adapted by EPI-USE Labs (2006) from Jean-Pierre Jeannet (2000)

Chapter 7: Discussion and Recommendations

The corporate directive for EPI-USE Labs is to grow the global revenue contribution of the EPI-USE Group of companies from 15% to 33.3%. Being primarily a services company, the value of the EPI-USE Group of companies is based on the previous year's revenue. However, the continuous revenue stream from software development, maintenance and support contracts changes the valuation of the company in favour of the shareholders.

As in the case of Matsushita, EPI-USE Labs need to enter the global market to enhance value creation. Matsushita, also a late entrant to this market, implemented a poor global strategy which negatively affected their sales. The lessons learned from such companies entering the global market are applied to assist EPI-USE Labs to draft an enhanced late-entrant global strategy.

EPI-USE Labs identified innovation in developing and designing products as the one factors that allows them to become great (Collins, 2001: 119). Unfortunately the same level of innovation is not necessarily found in the sales and marketing teams. This is one of the major issues to be addressed.

EPI-USE Labs have developed truly industry-leading products, but to date have not been able to capitalise on these successful investments and convert them into financial success. As the research results indicate, the following aspects need to be addressed to ensure a successful expansion transition:

- ❖ Effective distribution channels;
- ❖ Brand awareness;
- ❖ Sales and marketing control measures; and
- ❖ Empower distribution channels by product and sales training as well as the necessary marketing material.

As in the case study carried out on Phillips vs Matsushita these aspects are critical. Matsushita addressed brand awareness poorly and since they were a late entrant as well they suffered financially while Phillips made use of third parties to increase their experience level and brand awareness. Once the Phillips name was

established it was easier to introduce new products. Their experience indicates that proper planning is essential when expanding borders internationally.

Without proper planning successful strategy implementation is not possible. Proper planning is a pre-requisite for drafting a strategy, but if not implemented it is of no worth. To assist EPI-USE Labs in drafting a late-entrant strategy the following framework for the globalisation pathway is recommended:

- ❖ Step 1: Investigate the company and industry factors;
- ❖ Step 2: Determine the desirable attributes which the expansion entry mode must exhibit;
- ❖ Step 3: Select entry mode; and
- ❖ Step 4: Extent of globalisation of the strategic and functional elements.

The main objective of the globalisation pathway is to identify the entry mode and fit the various situational factors in order to identify the best strategy to proceed.

7.1 Step 1 of Globalisation Pathway

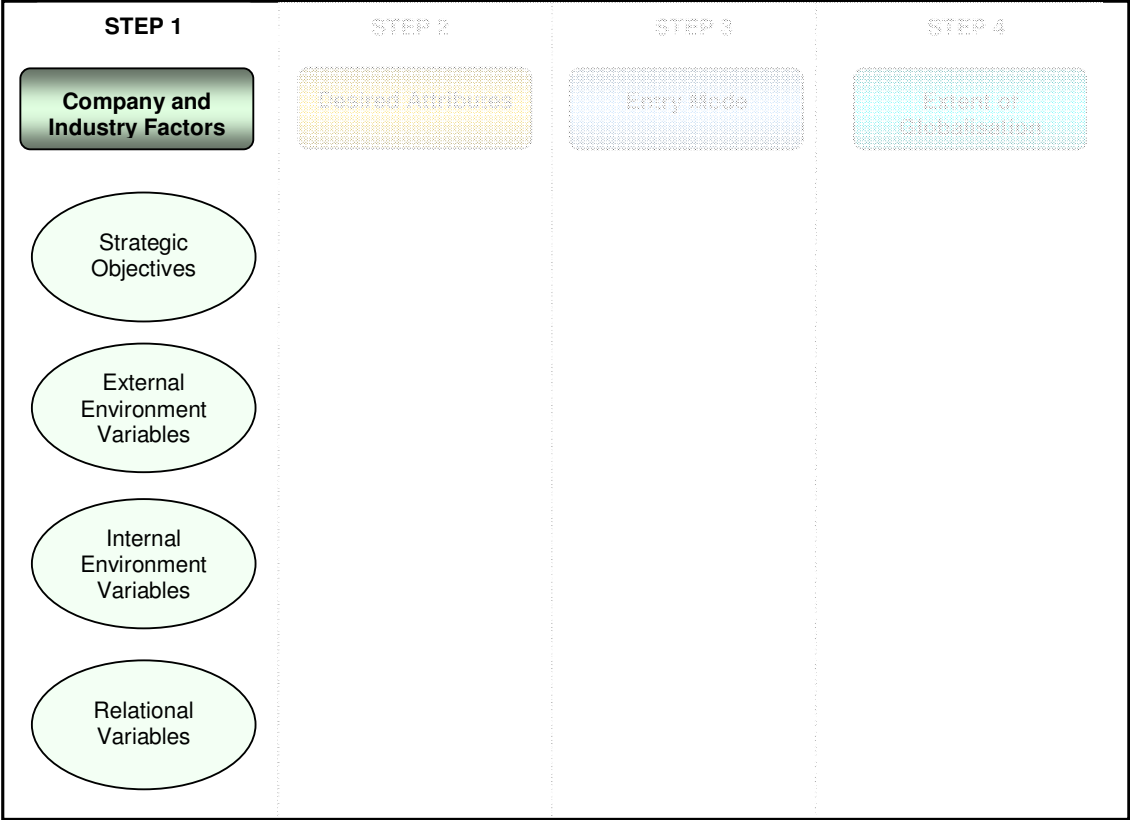
Many research studies indicate that internationalisation is considered and pursued because of international opportunities rather than a lack of domestic opportunities. This is true for EPI-USE Labs as well. There are many opportunities to pursue in the SA market but the global opportunities are vast. The Products will benefit SAP customers across the world. The question is no longer “should EPI-USE Labs expand into other countries?” but rather “how to enhance their current strategy to enter new countries successfully?”

Choosing the most appropriate entry mode is important to ensure a successful expansion. As Ekeledo & Sivakumar (2004: 47) point out, “each entry mode is associated with a certain level of control, resource commitment and investment risk.” To determine the entry mode that is appropriate for EPI-USE Labs the company first needs to analyse industry and company factors.

The factors to consider are: a) the strategic objective, b) analysis of the external environment, c) internal factors and d) relational factors. Determining the strengths

and weaknesses of these factors will assist EPI-USE Labs in enhancing their global strategy.

Figure 19: Globalisation Pathway, Step 1: Identify Company and Industry Factors



Source: Adapted by JC Stofberg (2006) from Gao (2004)

EPI-USE Labs have identified their *objectives* as “money, products and people”. The main objective is value creation, in order to contribute to building the EPI-USE Group of companies into a world leader. Secondly, to be market leaders in the arena for which the Products supply solutions. Thirdly, to appoint top people in the technology industry to ensure that product innovation and design remains of a high standard.

The *external environment* analysis (Section 4.1) indicates that entering developing countries will require a larger investment. The cost-of-doing business is expected to be higher because the infrastructure in many developing countries is not as advanced as that those in developed countries. Another consideration is the extent of the SAP customer network, which is not as large as that of developed countries.

Except for the US, UK, Canada and AUS market the language of business will be a consideration in almost every new market. The cost of translating the Product text, marketing and Product documentation determines the level of commitment in the new markets. The greatest need is that of technical SAP expertise required to translate the Product text.

The research results demonstrate that EPI-USE Labs are concerned with keeping their IP safe; this will exclude most of the African countries, China and Russia. Not only will IP protection be a consideration in these countries but also language and culture.

The *internal environment* of EPI-USE Labs can be summarised as follows:

Strengths:

- ❖ Innovation and design.
- ❖ Their ability to identify development opportunities proactively. EPI-USE Labs is continually identifying opportunities to improve the Products. Bartels & Rymer (2006: No page) identified SOA and SaaS as two of the four software commoditisations that will enhance growth in the software industry, both of which is supported by the Products. However, new opportunities are a constant balance of software architecture vs software financing.
- ❖ Support has been identified as a competitive tool to ensure that sales are secured.
- ❖ EPI-USE Labs does not compete on price alone, since this is only a short-term solution. The Product price includes free consulting service for 2 days.
- ❖ The Products are also offered with standard free 35-day evaluation period.

Weaknesses:

- ❖ Ineffective distribution channels; and
- ❖ EPI-USE Labs do not have strong brand awareness in the UK and new markets.

Opportunities:

- ❖ To identify third parties with a strong brand name;
- ❖ To identify third parties with a large SAP customer base; and

- ❖ To build brand awareness in existing and new markets through third parties.

Threats:

- ❖ Due to a high rivalry threat, EPI-USE Labs must adjust to technology changes faster than their competitors.
- ❖ The threat of a substitute product has been identified as medium; however the threat of product design being copied is very high.

EPI-USE Labs are not new to the international market. Currently this company is fully represented in the US and UK markets, but experience levels in other countries are low to limited.

7.2 Step 2 of Globalisation Pathway

The next step for EPI-USE Labs is to determine the desirable attributes needed to enter foreign markets. The desired attributes provide the link between the choice of entry mode and the company and industry factors. Although value creation is the main reason for expanding globally, EPI-USE Labs should quantify the levels of control and levels of risk they are willing or can commit to.

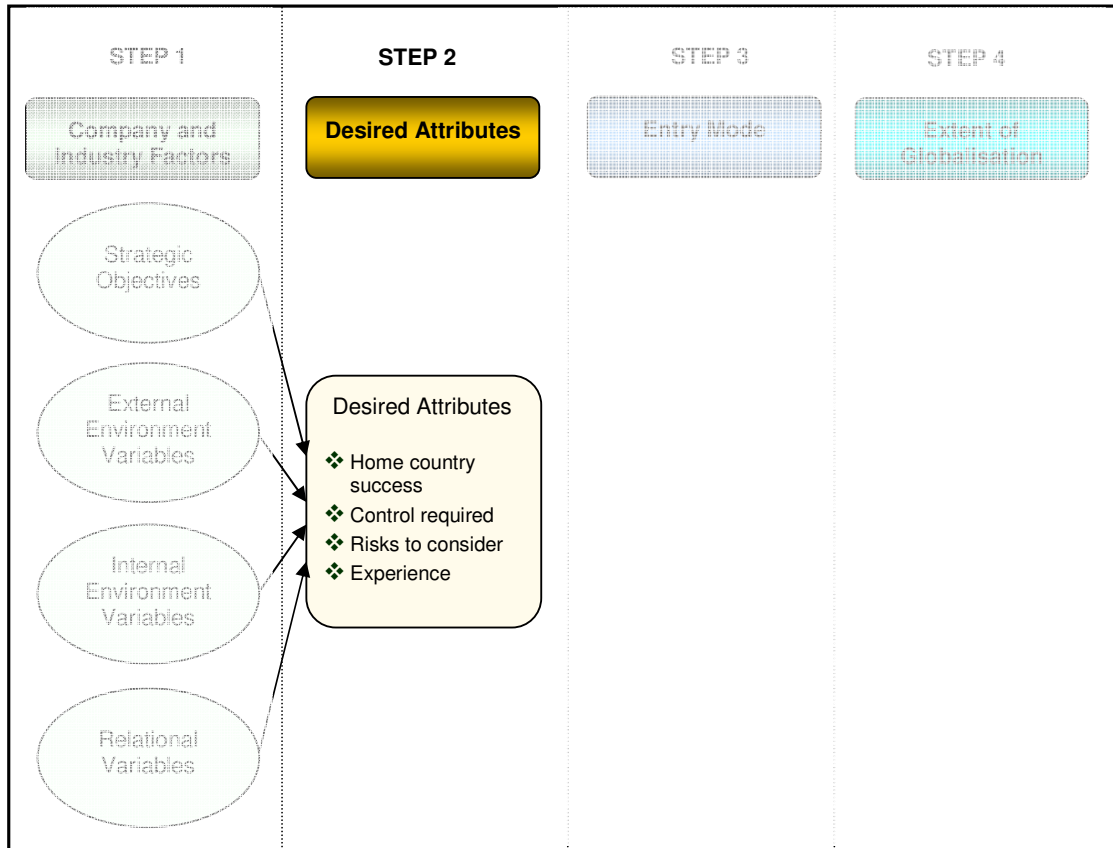
Keummerle theory suggests a balanced and structured expansion, mainly because of the huge company investment in expanding globally. As indicated in Figure 17 EPI-USE Labs followed a structured approach in expanding globally and the logical step forward will be to enter more countries worldwide.

However, Porter in Mayhofer (2004) warns that a company should not forget the “home-country environment” because this will contribute to international competitive advantage. The EPI-USE Labs’ management team has been very successful in the SA market and the following factors are the main contributors to this achievement:

- ❖ Innovation-driven;
- ❖ Strong brand name;
- ❖ Large network or customer database;
- ❖ Passion to aggressively sell and introduce the Products into the market;

- ❖ Sell products to address the customers' needs;
- ❖ Support to customers; and
- ❖ Leadership that relentlessly drive them up the value curve.

Figure 20: Globalisation Pathway, Sept 2: Quantify the Entry Mode Determinants



Source: Adapted by JC Stofberg (2006) from Gao (2004)

EPI-USE Management indicated that they prefer low resource commitment in the new markets they choose to enter. The management want to minimise their risks, because retained earnings are used to fund investments and, experience levels in new markets are low to limited.

Low resource commitment is also recommended when expanding in existing markets. The main reason is the large amount of investment funds needed for global expansion and as already mentioned EPI-USE Labs use retained earnings to fund investments. Using only retained earnings increase the financial risk of the company and since global expansion already increase the business risk EPI-USE

needs to consider investing their funds carefully. “It is inappropriate for a company with high business risk to adopt a financial strategy that involves high financial risk”, Bender & Ward (2002: 38). Therefore, EPI-USE Labs should select entry modes with low financial risks.

Another reason for opting for low resource commitment is that of poor brand awareness in the UK and new markets. To build brand recognition EPI-USE Labs require large funds for investment and high resource commitment. The recommendation is thus for EPI-USE Labs to enter with low resource commitment levels and consider low financial risk opportunities to enter new markets.

The lessons learned from Matsushita were that they implemented a poor strategy and were not able to improve their brand recognition and these negatively affected sales. Phillips on the other hand, used third parties to market their products with great success. Although this strategy was not easy to implement they were able to gain experience in new markets and ensure acceptance in local markets. Once the Phillips name was established it was easier to introduce new products.

EPI-USE Labs would, however, prefer stronger control levels to be in place to ensure that third parties be made aware of the importance of protecting EPI-USE Labs’ IP. Reseller Partners should refrain from introducing the Products to potential and existing competition.

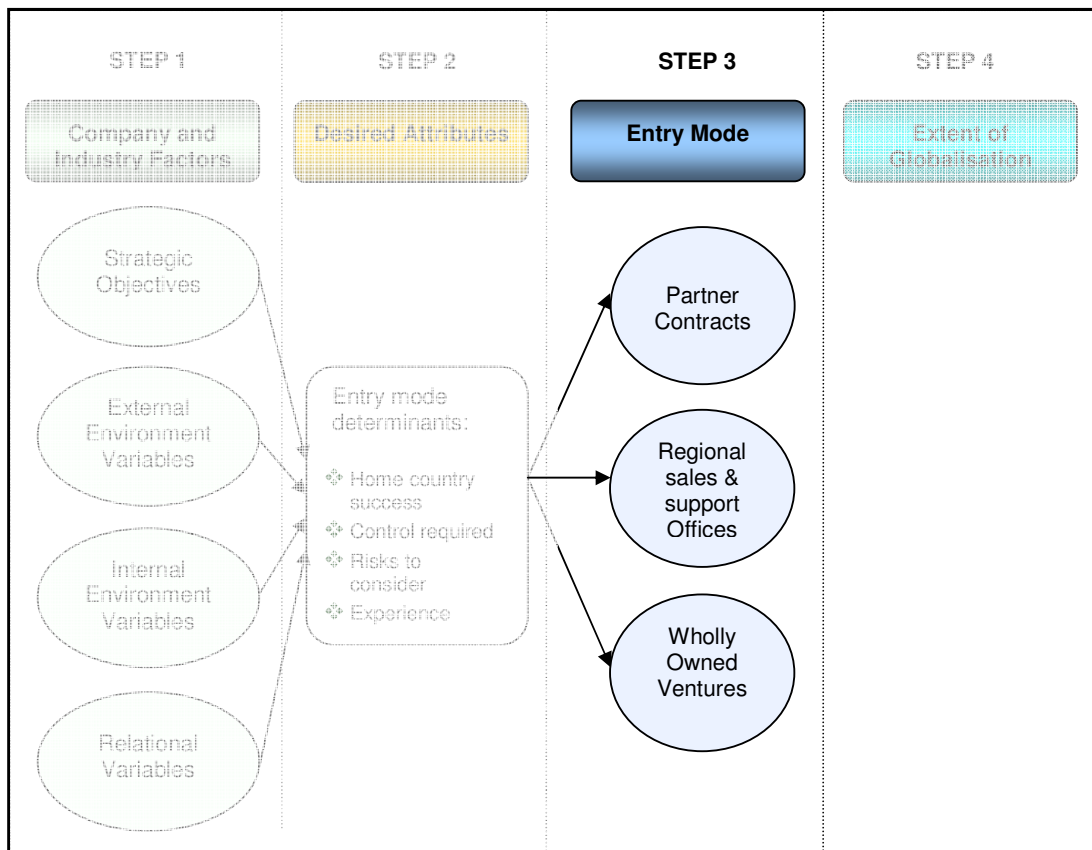
The four attributes discussed are central when evaluating the different entry modes from which EPI-USE Labs can choose. As indicated in Table 2 the macro impacts between the equity mode and non-equity mode are very high and the company should therefore select an entry mode that:

- ❖ Capitalises on home-country successes to protect the past;
- ❖ Evaluates resource commitment and the risk involved;
- ❖ Evaluates experience needed to commit the recourses; and
- ❖ Offers the controls needed to secure commitment levels.

7.3 Step 3 of Globalisation Pathway

The desired attributes defined, together with the company and industry factors should be used to select the entry mode that best fits EPI-USE Labs' enhanced global strategy. Since the globalisation strategy will influence EPI-USE Labs' financial and operational performance the marketing entry modes should be considered very carefully. Research carried out by Alexander & Doherty (no date) found that both management attitudes and market conditions dictate selection of entry mode. Because EPI-USE Labs management prefer to enter new markets with low control levels and low resource commitments, an equity entry mode should not be considered. Market conditions, analysed in Section 7.1, concur that equity entry modes are not the best choice.

Figure 21: Globalisation Pathway, Step 3: Link Entry Mode to Company and Industry Factors



Source: Adapted by JC Stofberg (2006) from Gao (2004)

EPI-USE Labs has already invested in equity entry modes in the US and UK markets. This investment should not be terminated but should be used to “influence

the strategy direction”, (Alexander & Doherty, no date: 46) of EPI-USE Labs in the UK and US. EPI-USE Labs should make use of the amount of experience gained to increase brand awareness, increase market share and secure higher levels of control. Higher control levels do imply an increase in risk, but EPI-USE Labs should use their market experience to mitigate risks.

In order to enter new markets non-equity modes are proposed, since this will fit both the management criteria and the industry factors described in step 1. The recommended markets which EPI-USE Labs should target are Europe, Canada and South America.

EPI-USE Labs should increase their brand awareness in all the existing and new markets. A strong brand name is considered to constitute one of its success factors within the SA market. Increased brand awareness will result in increase sales. Two paths to this goal are proposed.

The first is for EPI-USE Labs and the EPI-USE Group of companies to capitalise on each other’s success in order to increase brand awareness in both the US and UK markets. Together the service companies and product teams can complement each other in growing their businesses. For this to be successful a contractual agreement between EPI-USE Labs and the Services Companies should be in place which will secure the necessary controls measure for EPI-USE Labs to ensure that the parties do not revert to the previous way-of-doing-business, using the Products as a bargaining tool.

The emphasis on the contract between The Products and Service Companies should be a complementary agreement. The role of complementors is highlighted in the value net (Figure 11), whereby complementors can play a significant role, influencing business success or failure (Ghemawat, 2003:32). Complementors will increase the customers’ willingness to pay, thus increase the value of both businesses.

Secondly, EPI-USE Labs should utilise third parties (Reseller Partners) to increase brand awareness in new and existing markets. Phillips made use of third parties (Reseller Partners) to gain experience in new markets and build strong brand recognition: a very successful strategy. Literature studies agree that Reseller

Partners will be “in a better position to handle cultural and language barriers, bureaucratic red tape, political problems and so on. The local partner is viewed therefore not only as a source of revenue for the company but also as a source of information about what aspects of the marketing programme may need to be altered to fit the values of the host country”, (Quinn & Alexander, 2002: 266).

Alexander & Doherty (no date) mention bargaining power as a source of securing control levels for non-equity entry modes. Bargaining power (competition in the market, resources and skills) should be utilised to ensure that EPI-USE Labs’ IP is protected when Reseller Partners are made use of to enter the market. The following Reseller Partner selection criteria should be included in the existing criteria (Table 7), as they will assist in selecting the best possible partner with which to enter into business.

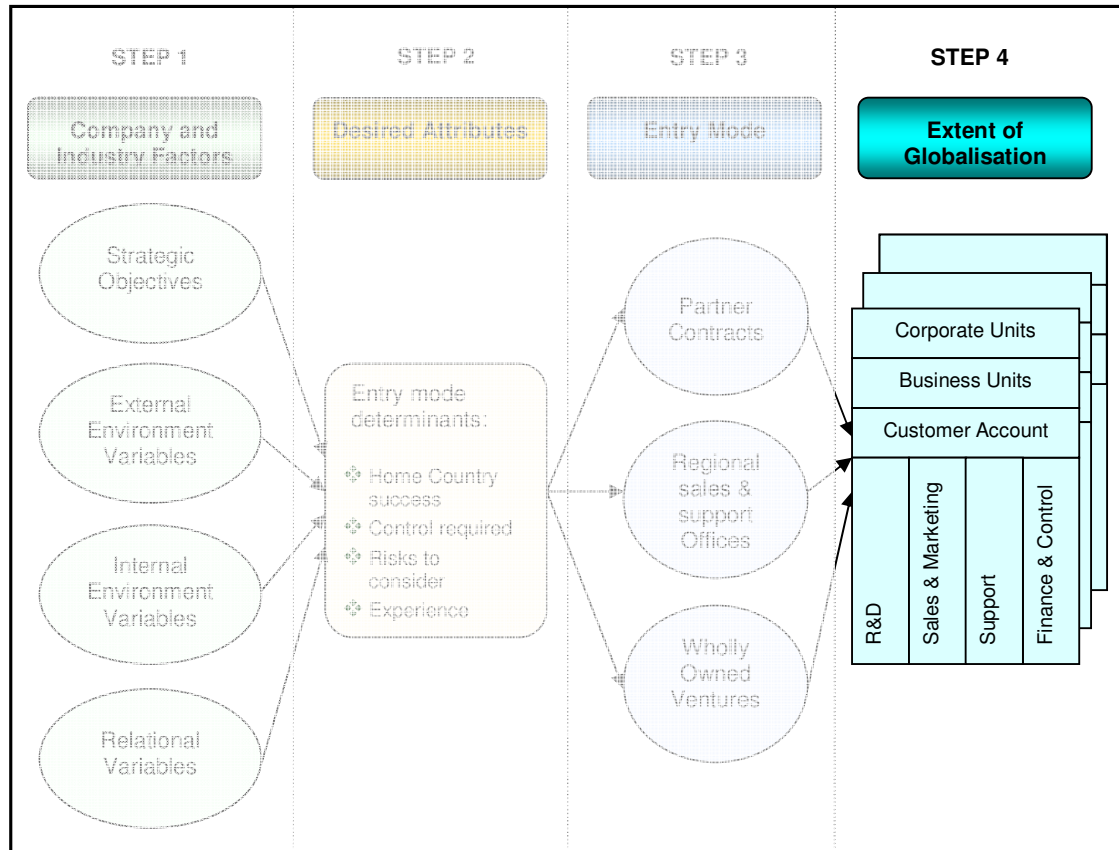
- ❖ Industry attractiveness: degree to which an industry presents a favourable environment in which to achieve the firm’s goals.
- ❖ Market knowledge/Access: The expertise or ability of a partner to effectively operate in a market or industry (e.g. understanding competitors and customers).
- ❖ Intangible assets: Assets that are not reflected on a balance sheet (e.g. firm’s reputation, brand name, human resources).
- ❖ Previous alliance experience: The number of alliances in which partner has engaged.

As the experience levels in new regions increase EPI-USE Labs should consider establishing RSM Offices in those regions. A study done by Tsai & Tseng (2004: 6) indicated that “Foreign investment experience can contribute to the development of new knowledge and capabilities”, resulting in efficient reduction of uncertainties and threats. RSM Offices will comprise a higher financial risk than Partner Contracts but the increased experience levels should assist in mitigating risks. EPI-USE Labs will also need to increase the levels of control and as a result will be in a better position to identify new market opportunities and influence their strategic direction, thus allowing EPI-USE Labs to create value.

7.4 Step 4 of Globalisation Pathway

The final step in the globalisation pathway is to identify which strategic and functional elements should be globalised.

Figure 22: Globalisation Pathway, Step 4: Extent of Globalisation



Source: Adapted by JC Stofberg (2006) from Gao (2004)

The extent of globalisation being currently implemented in EPI-USE Labs (Figure 18) is to be commended. The only recommendation is that the R&D functionality be centralised until the RSM teams are all skilled and confident in all Products. This will allow management to control the depth of training and training schedules in order to ensure that continuous training is undergone by all teams.

This presents the opportunity to standardise the sales and marketing material. Another recommendation is to select stream leaders to ensure that the sales and marketing material is gathered, documented and distributed across regions. The stream leader should be the person who knows the Product best and will be at ease in leading such an event.

7.5 Conclusion

EPI-USE Labs already maintains a presence in the US, UK, AUS and Israeli markets. To ensure growth and value creation EPI-USE Labs are expanding their borders to more countries world wide. Since global expansion is risky and requires financial investment an enhanced late-mover strategy should be formulated to ensure globalisation is successful.

Experience levels in the target markets dictate the use of Reseller Partners to build stronger brand name recognition. The initial foreign investment costs will be low and as experience levels increase, resource commitment to the regions can likewise be increased. Once experience levels are higher EPI-USE Labs should consider opening RSM Offices in those regions. This strategic move will give EPI-USE Labs the ability to influence the strategic directions of the company at a higher level.

Entering new markets and expanding existing markets comprises a constant trade-off between controls and resource commitment levels and the effect these will have on financial returns. It is important to secure the correct control levels as they determine the “entrant’s ability to influence activities of foreign operations” (Alexander & Doherty, no date). But higher control levels imply larger risk for the company, which should be mitigated by the higher levels of experience.

The researcher believes that following the recommended globalisation pathway will allow EPI-USE Labs to draft an enhanced late entry strategy to conquer the global market successfully.

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Appendix

A: SAP ENVIRONMENT

SAP a German-based company is one of the world's largest software makers. Five former IBM employees founded SAP. Their vision was:

- ❖ To develop and market standard enterprise software which would integrate all business processes; and
- ❖ That data should be processed interactively in real-time, and the computer screen should become the focal point of data processing

The table below provides a summary of the history of SAP.

Table 8: History of SAP

Year	Description
1972: How it all started	<ul style="list-style-type: none">❖ Five systems analysts began working nights and weekends to create standard software with real-time data processing.
Seventies: New development	<ul style="list-style-type: none">❖ SAP headquarters move to Walldorf❖ Signed up its first two foreign customers, two companies from Austria❖ Conversion into a publicly-held corporation whose shares are listed on several stock markets.❖ The development and in 1979 market release of the R/2 software system for mainframes.❖ International expansion: 236 companies in Germany, Austria and Switzerland were using SAP standard programs by the end of 1979❖ SAP's software became even more attractive with the addition of order history to the product range
Eighties: International Expansion	<ul style="list-style-type: none">❖ Founding of SAP (International) AG in Switzerland, whose focus was to increase sales of the R/2 System in international markets.❖ Development teams began work on two new applications, Personnel Management and Plant Maintenance, while the Production Planning and Control System were installed at its first pilot customers.❖ International sales network strengthened by the establishment of Swiss, Denmark, Sweden, Italy and US subsidiaries.❖ SAP systems were now in use in most European countries, and❖ SAP began to penetrate markets outside Europe with customers in South Africa, Kuwait, Trinidad, Canada and the US❖ Sales topped DM 100 million❖ SAP announced its strategy for a new generation of software, and the R/3 System was born❖ Through the "International User Conference" in Lausanne, Switzerland, and the first "SAPPHIRE" user conference in North America, SAP demonstrated its solid commitment to direct international customer contact.❖ Increase of SAP's capital stock from DM 5 million to DM 60 million❖ The flotation of SAP shares on the stock market
Nineties: R/3 client/server software	<ul style="list-style-type: none">❖ SAP strengthened its commitment to small- and medium-sized businesses by an investment in the software company Steeb and the acquisition of software vendor CAS❖ SAP collaborated with a local Russian software company to develop an R/2 version in

	<p>Russian</p> <ul style="list-style-type: none"> ❖ The first Japanese installation of SAP software was successfully completed ❖ In 1992, R/3 client/server software system was introduced and started a record of growth that even SAP's most optimistic planners had not predicted ❖ Almost half of the DM 831 million in product revenues was being generated outside Germany. ❖ SAP took top position among German software vendors in 1993. ❖ On an international scale the company moved to 7th place among software companies, establishing a clear lead in the global business applications software market. ❖ The establishment by SAP America of a development centre in Foster City in Silicon Valley, California
Today:	<ul style="list-style-type: none"> ❖ SAP Group is the global market leader in enterprise resource planning software ❖ Has subsidiaries, affiliates and branch offices in nearly every industrial nation in the world ❖ SAP's employees – currently more than 9,000 of them - whose know-how, motivation and performance have nurtured the company's progress. ❖ Employee commitment and innovative drive which will pace the company's future success and keep it ahead of the competition.

Source: SAP History (2006)

Appendix

B: EPI-USE ADVANTAGE TOOLSET

Data Sync Manager for ERP

The most flexible data transfer tool FOR ALL ERP MODULES

Building on the great success of Data Sync Manager for SAP Human Resources, Data Sync Manager/ERP (DSM/ERP) is a modular product that enables the transfer and integration of Human Resource, Accounting and Logistics data between R/3 systems within a SAP system landscape.

Supporting Your Business Processes

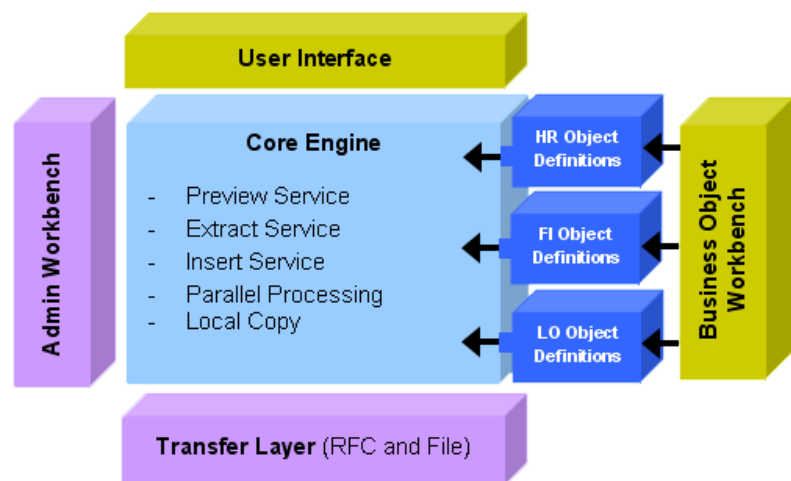
Use DSM/ERP for testing, training, and for debugging production problems on real data in your Development or QA systems, without having to manually recreate scenarios or perform lengthy and resource-intensive SAP® client copies.

DSM/ERP accelerates Upgrades and Support Pack testing: DSM/ERP's built-in technology transfers data across SAP® versions and Support Pack levels without Basis intervention. Select data for on-the-fly transfers according to your business needs for production support, training, and new configuration testing.

Performance and Flexibility

Transfer data from the Production system to your Development or QA system via Remote Function Call (RFC) or by file.

DSM/ERP leverages all technology and infrastructure in your SAP® landscape to move volumes of every type of SAP® data with ease and efficiency across systems. Real-time compression, intelligent database reads/optimal selection, and dynamically controlled process distribution result in smaller files and faster transfers with DSM/ERP than with any other method available.



Users may preview and navigate within the selected data before executing the transfer. Users can also run the process in the background or schedule a once-off or recurring transfer with DSM/ ERP's integrated job scheduler.

Features

- ❖ Transfer data selectively from all SAP® modules using a process-based roadmap with simple navigation trees and templates.
- ❖ Extend and add business objects and custom tables without coding or consulting.
- ❖ Transfer multiple levels of related objects.
- ❖ Work with any HR Infotypes and any SAP® master data objects.
- ❖ Work efficiently thanks to features such as intelligent number range handling - DSM/ERP automatically rennumbers the synchronised object according to the target number range position and updates all references.
- ❖ Transfer a business scenario or a group of objects which logically follow and depend on each other, such as the sales document flow: Sales Order. Delivery. Goods Issue. Billing Document.

Data Integrity and Security

- ❖ DSM/ERP caters for multilevel SAP authorisations and support for user roles permitting different levels of access for users in the organisation. Administrators may also restrict the number of objects and the number of parallel processes available for a single copy.
- ❖ The scrambling and conversion logic (including user exits) used by DSM/ERP enables seamless manipulation and protection of source data on the development system.
- ❖ For example, balances affected by transferring portions of records in the Finance module are recalculated to guarantee consistent data and correct results.
- ❖ DSM/ERP prevents accidental data transfer to your production system.

Architecture and Philosophy

DSM/ERP consists of a generic data transfer engine and user interface that copies the business objects, independent of the SAP module it belongs to. DSM/ERP uses a built-in Business Object Workbench that records the logic for extracting and inserting a SAP Business Object. This provides a generic and flexible way of handling Business Objects and scenarios of arbitrary complexity without the need for hard coding.

Ease of Deployment

Data Sync Manager/ERP is a turnkey solution, hence installing is simply a matter of loading the transports, setting up a default file directory and RFC destinations. No further configuration or consultants is required to get the product up and running.

Data Sync Manager for HR

The Most Completely Flexible Data Transfer Tool

Data Sync Manager™ for HR (DSM/HR) is a cost-saving tool that enables the transfer of Human Resource master data between R/3 systems within an SAP system landscape.

DSM/HR saves time and money by enabling testing of new HR functionality in a development environment on real, up-to-date data, without disruption of the production environment and without complex, time-consuming client or system copies.

It is now possible, without the expert intervention of a Basis administrator, to selectively transfer:

- ❖ Employee Data, including time & payroll results and Travel Expense data
- ❖ Personnel Planning and Development Data, (e.g. the organisational structure)
- ❖ Applicant Data

Flexibility

Transfer data from the Production system to the Development or QA system via RFC or file. For larger datasets, DSM can transfer employees in parallel ranges, thereby substantially reducing the transfer time. Use DSM/HR's cloning capabilities to create fictitious employees for training or stress-testing purposes.

Integration

Leveraging SAP HR's tight integration, DSM/HR allows automatic transfers of all employee-dependent data, including the organisational unit, position, job, qualifications, cost centre and travel expenses.

Upgrade Support

DSM/HR supports the transfer of master data from a lower release (e.g. 3.1x, 4.0B, 4.5B, 4.6x) to a higher release of R/3 (e.g. 4.6C or R/3 Enterprise).

Security

DSM/HR ensures the integrity of the data it transfers and protects confidential employee information. Specifically, DSM/HR:

- ❖ Keeps an audit trail of all data transfers
- ❖ Checks standard HR authorisations
- ❖ "Scrambles" sensitive personal data, allowing for the easy and safe set-up of training clients as well as protection of employees
- ❖ Prevents accidental transfer to a production system

HR Planning Functionality

- ❖ The following options are available for transfer:
- ❖ Single PD objects and relationships
- ❖ The Organisational Structure
- ❖ Training and Events Data, Appraisals, Development Plan Catalogue Data, Qualifications Catalogue

- ❖ PD Objects can be selected via an evaluation path
- ❖ The whole of HR Planning

Query Manager: A complete SAP HR Reporting Solution

Add muscle to your reporting capabilities with EPI-USE's Reporting Tool - Query Manager. This tool's easy to use interface vastly extends access to SAP HR information by offering interactive queries and detailed reporting. Query Manager allows for the querying and reporting of Master Data, HR Cluster Data, PA and PD Infotypes, Recruitment Data, HR Configuration Tables, Audit Trail (PCL4), and User Master Data.

Advanced Cluster Reporting

Query Manager (QM) is the **only** query tool that allows detailed reporting on payroll and time results stored within the SAP HR clusters

Payroll Results: Breakdown of retro-active results, payroll accumulations and wage type split details, e.g. "Create a monthly report showing employees total cost data grouped by cost centre, including the cost information based on percentage splits or cost centre reassignments."

Time Results: Leave balances and quotas, e.g. "List employees in my division who took less than 10 hours sick leave in the previous quarter" or "Query on the overtime counter to report on employees who will start to receive overtime at a given point in time"

Master Data and Results Combination: "Download into Excel all 401K and benefits deductions grouped by cost centre for the month."

Easy to Use Interface

Query Manager eliminates the gap between those who need information and those who can access it. All users can now employ the power of SQL by using a simple drag-and-drop interface. The "query by example" abstraction enables the use of powerful data retrieval features while hiding the complexity of native SQL.

The Query Manager Advantage

- ❖ Create reports without the need for an ABAP programmer.
- ❖ Generate reports from live data without having to first extract the data into an external file.
- ❖ Query Manager generates a normal PA or PD logical database ABAP report. Standard HR authorisations and use of default selection screens are automatically supported.
- ❖ Complete scalability. Query Manager employs the most optimal ABAP coding techniques to deliver reports that perform even better than "hand-written" reports.
- ❖ Relieves users of the need to realign report development from one SAP HR release to the next.
- ❖ Query Manager seamlessly integrates with SAP Query

Variance Monitor

Why Invest in Variance Monitor 3?

No matter what industry your business is in, you will have a large amount of HR data. The question is, how do you make sure that all this data is correct? The answer is VM3 (Variance Monitor 3).

Created by the experts at EPI-USE, VM3 is the fastest and most accurate way to compare:

- ❖ Payroll results,
- ❖ Time results,
- ❖ Master Data, and
- ❖ FI Postings (VM 3.1)

EPI-USE is a leading consulting firm that also specializes in SAP product development. Our extensive knowledge of the implementation and upgrade process for HR has led to the creation of VM3.

Ease of Use

VM3 is a vast improvement on its predecessor. It is extremely user-friendly with wizards to guide you through complex activities.

It also features easy-to-understand textual descriptions for rules. The Graphical Rule Network will allow you to quickly change the order in which rules are evaluated while the Legacy File Designer makes creating legacy file formats as simple as clicking a button.

How does Variance Monitor 3 add value to your business?

VM3 is an analytical software tool that will help you to identify and highlight errors (or differences) in your HR data that may have arisen during a SAP upgrade, from cycle to cycle, or during a Legacy to SAP upgrade.

Multi-level analysis allows you to compare data at personnel number level, cost centre level or other groupings from infotype 0001. It is an especially useful aspect of the tool's functionality and will allow you for example, to find fluctuations between cost centres from one period to another.

Payroll simulation runs enable you to compare data from a payroll simulation run instead of live database data. In addition to this VM3 can now also compare data from any Payroll table.

When to use Variance Monitor 3?

New Implementation of SAP: Data comparisons between your legacy system and SAP HR have never been easier. You will reduce consulting hours by at least 75%!

Upgrade to new SAP version/Support Packs: Compare results between different SAP systems and versions with ease and accuracy. Gone are the days of custom queries and random samples. Check every employee instantly.

Period-to-Period Comparisons: Avoid costly mistakes from cycle to cycle by setting a percentage difference threshold and automatically comparing payslips. You never have to recoup money again.

Supported Versions

VM3 has support for the following SAP versions: 4.6C, SAP Enterprise, ECC5 and ECC6.