Australian Government

Austrade

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON SCIENCE AND INNOVATION

AUSTRADE SUBMISSION TO THE INQUIRY INTO PATHWAYS TO INNOVATION

Background

The Australian Trade Commission (Austrade) is the Australian Government's principal trade and international business facilitation agency. Austrade assists Australian companies prepare for and succeed in exporting to international markets.

Through its network of offices in Australia and in 58 countries worldwide, Austrade is able to provide practical advice, market intelligence and ongoing support, including financial support under the Export Market Development Scheme, to Australian businesses looking to develop international markets. Austrade also offers advice and guidance on overseas investment and joint venture opportunities and helps Australian businesses to make contact with potential overseas investors.

Submission

Austrade welcomes the House of Representatives Standing Committee inquiry into pathways to innovation as an important part of the continuous development process for the international competitiveness of Australian businesses.

Based on consultation with the Secretary of the Standing Committee, Austrade is pleased to provide the 5 attached case studies, which reflect the Terms of Reference for the inquiry by providing examples of successful innovative Australian businesses and their pathways to development.

Further to the case studies, Austrade is arranging for 3 representatives of successful and innovative Australian exporters to participate in the Standing Committee roundtable, 18 May in Sydney.

(signed)
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Case Study 1

Company name:	**ACS Laboratories Pty Ltd**
Major product/service:	**Providing reservoir core and fluid analysis services**
Size (people):	**11 employees (in Australia) and 2 employees (in Thailand)**
Turnover ($):	**3-5 million**
Years of exporting:	**11 years**
Revenue from exports:	**40 percent**
Key export markets:	**Thailand, Malaysia, India, Middle East**

Company background

ACS Laboratories Pty Ltd is a privately owned, small independent Australian company that was established in 1986. It provides reservoir core and fluid analysis services to the Oil and Gas industry. ACS has captured about 60 percent of the Australian market and has a total of 11 staff in Brisbane, Darwin and Perth. Since 1989, it has also employed two local staff in its office in Southern Thailand (Songkhla). The locations and services that ACS offers are as follows:

In addition to the three offices in Australia and one branch office in Thailand, most of ACS' projects are conducted via their portable "suitcase labs", containing all required laboratory equipment in a compact format. Two employees carry the suitcases and complete the analysis tasks overseas. Such a low overhead and flexible approach helps the company overcome the disadvantages of being a small company with limited resources.

The company's philosophy strongly emphasises customer service. To ensure a consistent service delivery process to all customers regardless of region, ACS recruits people who have a proven scientific ability in the firm's particular area of expertise, and those who can demonstrate job commitment. Providing value to their clients does not always mean low prices, but rather flexibility and expertise. Confidence and reputation is built by offering customised and simultaneous service delivery. Their money is invested in training their employees who will then have the best knowledge and expertise to deliver the best service to their clients.

First move into exporting

The major motivation for going overseas, and entering South East Asian markets in particular, was to follow their main domestic clients who were operating in the region. In this sense, ACS followed their clients, and most of their new business was obtained through prior contacts and word-of-mouth. Thus, most of the time, ACS' decision to internationalise its market selection process was more or less influenced by the location of its clients. Further, due to the company's limited cash flow and size, ACS can only afford to enter markets where the risks are reasonably low (i.e. commercial and political risks).

This strategy has both advantages and disadvantages. While the company is able to service different international oil companies who are introduced and recommended by their clients in Australia, they may miss opportunities in other attractive markets where those clients are not present. For instance, given that the market in Asia is much larger than it is in Australia, ACS has less than 5 percent share of the Asian market.

Not all their experiences overseas have been positive. In 1991, ACS had tried to form a joint venture in Vietnam because a valued client was active in the region. However, they failed to establish an on-going business even though they spent two years preparing, through market analysis, searching for the right contacts and substantial investment. ACS attribute their failures in Vietnam to the following:

- Error of judgement in the interpretation of business practice in Vietnam and local partner's characteristics;
- Wrong connections (the power base) and wrong partner selection (with weak political power);
- Lack of "commercial law" under the then Communist regime.

Marketing strategy in Thailand

The company has chosen Thailand to set up a branch, because some of ACS' clients have operations there. The first key challenge was to find the right staff. ACS in Thailand used outsourced technical staff to perform their projects from day one. Finding the right person at the right time has allowed ACS to build a strong business over the last 11 years with nine out of 11 being profitable.

ACS has had a steep learning curve over the past 11 years in exporting their services, especially after the experience in Vietnam. In the service industry, ACS believes that hiring the right people is crucial. When interviewing a new candidate, a holistic personal approach is used, which assesses personality, commitment, skills, focus and background.

As a small independent Australian company, ACS needs word-of-mouth from other well-recognised companies to win new contracts in Thailand. Keeping the relationships and trust intact with local and international companies in the Thai market has become a vital issue.

Business and personal relationships are important in all markets, but the latter out-weighs the former in Asia, particularly in Thailand. As their Branch Manager, Khun Sombat stated, "Thai people would mix lifestyle and business together...for Westerners, often doing business is business, personal is personal but over here we mix both....if you want to succeed in doing business with Thai people here in Thailand you should come closer to our culture...". Further, ACS claims that not only having good relationships with clients, but also with staff, is essential for the success of the company.

Intellectual property

ACS believes that staff expertise and service culture are the key elements of its intellectual property.

Key performance drivers

The following factors appear to be behind ACS' accomplishments overseas:

- **Delivering reliable service:** Consistent and reliable service delivery (in terms of delivery times and accuracy of analysis) together with an excellent service delivery process (i.e. respect, empathy, courtesy, etc) towards their clients, have won ACS many contracts in overseas markets. They believe this is a key source of competitive advantage over other big firms providing similar services.
- **Demonstrating management commitment:** A strong management commitment to exporting is vital in driving the company's performance.
- **Establishing company culture:** A unique company culture has motived the staff to commit themselves and stay loyal to the company.
- **Careful management of human resources:** A distinctive staff selection process and training has also contributed to the long-term success in such an industry.
- **Maintaining a pragmatic company ethos:** Learning-by-doing is the attitude that a company should retain in order to achieve their goals.

Major challenges ahead

- **Managing resources:** The major challenge that ACS faces in the Thai market lies in the area of management of its resources. Due to ACS' size, they need support not only in the Thai market, but also in other exporting ventures. Support for ACS' case does not mean financial support, but rather spreading the positive word-of-mouth through effective relationship management.

Case Study 2

Company name:	**Century Software Pty Ltd**
Major product/service:	**Developing and marketing software applications**
Size (people):	**20 employees (Australia) and 20 employees (Malaysia)**
Turnover ($):	**6 million**
Years of exporting:	**10 years**
Revenue from exports:	**20 percent**
Key export markets:	**Malaysia**

Company background

Century Software was established in 1986 to develop and market software applications. In the 1990s, when Relational Database Management Systems was still the exception rather than the rule and were still mainly in the domain of large computer systems, Century was already leading the mid-range market with a total commitment to this technology. By the time the marketplace had caught up with the advantages of Relational Databases, Century went into producing its own set of CASE tools. Productivity and code consistency were already the hallmarks of Century applications. Not long after that, Century was well entrenched into the Client/Server environment and the Graphical Use Interface. Leadership in technology advancement is an integral part of Century corporate culture as well as a driving force.

Century's primary product is financial applications software, which offers unique simplicity, function, implementation ease, flexibility and elegant results. As part of the product Century also provides installation, support and maintenance. Training is also part of the implementation. Century regularly extends the boundaries of their software into novel domains and original paths, to offer the flexibility to integrate their software with specialised ones from other sources, creating a homogenous environment.

Century started to export to Malaysia in 1991, followed by New Zealand in 1992, and later the Philippines around 1994. With a group turnover of around $6 million and 20 employees in Australia, Century is by any measure a 'small' company. Century's exports now represent around 20 percent of its annual turnover.

First move into exporting

Morgan Ho, Technical Director, Century Software in Australia, explained that the company went into Malaysia in 1991 primarily to move beyond the Australian market to achieve growth. At that time, before the company started exporting, it also went through the New South Wales State Government to channel contracts but lost to overseas companies. *"At that time, I don't believe many other Australian companies similar to us in our industry have had much success with the government,"* Mr Ho added. *"The difficulty has been that people think of overseas products as better somehow, and the same is most likely true with a lot of other countries. When they have a chance to look outside of their own, they see others as being something better.*

Whether that's true or not, it does not matter. The perception is there. If we turned that around the other way and go to other countries like Malaysia and the Philippines; they would also look at our software as being better than their own."

In Malaysia, the company found that although top end companies tend to look to the US or Germany, Australia is still perceived as a technology leader in this region. The company also had a cost advantage when compared to the US or Germany. The price and the level of functionality that the company provides to its clients could be considered as value pricing. Currently, Century has contacts with the Malaysian statutory bodies where it is one of only two possible providers. *"That would not happen and could not happen here in Australia,"* explained Mr Ho, *"but it can happen in other countries. So, that's the turning point in the business for us."*

Marketing strategy in Malaysia

Around 1990, there was an Asia Pacific region conference in Bali for the company's database people, which is where some initial contacts were made. It was mostly networking with some of the agents in other countries and they started building relationships from there. Mr Ho pointed out that going into a new place where many business practices are different is not easy. For example, Century did not realise at that time that there would be a lot of request notices for credit and that was a learning experience for the company. Up until then, Century had dealings with other companies in New Zealand, but they were very similar in culture to Australia. *"Obviously in Malaysia it was a different culture,"* Mr Ho added, *"To us, it was a bit of a culture shock. We did not know whom to trust."*

Fortunately, the company was introduced to a fairly large company called News Straits Times Press that was keen to get into a particular segment. *"Dealing with a large company was something that we felt comfortable with,"* explained Mr Ho, *"We can be certain about their reputation and market knowledge, we can also expect that our bills would be paid and so on."* The company originally started by appointing a distributor, then over the course of time this increased to three distributors. One person from those distributors subsequently became the managing director of the company's office in Malaysia. Currently, Century's operation in Malaysia is a joint venture between Australia and Malaysia.

Referring to the company's market entry strategy, Mr Ho explained that: *"Unless you are a company like McDonalds or Coca-Cola, you cannot expect to meet your customers in an unknown territory without somebody being there for you. Some of the products that we have, the third party products, we could certainly do, because the reputation of the product precedes itself. But, for our own product you know the only face of the products is the person that they (i.e. customers) will see."*

The most important thing, Mr Ho felt, was to find the right partner and build a trusting relationship with that partner. It was also important to be in Malaysia in the first instance when Century was dealing with distributors. *"Getting to meet a potential distributor is still not the most difficult thing. I think one of the most crucial things is maintaining your presence there. When you go into a new country and nobody has really heard of you, it takes a fair bit of exposure. Having some presence is part of the exposure. People will forget about you if they are not continually reminded."*

Realistically, a company will need to spend a few months in another country in order to establish something. Being in another country over an extended period of time was certainly not cheap. Century also looked into Thailand, Hong Kong, Philippines and even mainland China, but there was no way that the company could conduct business in all places at the same time, considering its people and financial resources.

Tamil Selvan Durairaj, Managing Director of Century Software Malaysia, said that another reason for Century's success is that it listens to clients. *"A big market that we cover is the government market, which has a lot of restrictions in it,"* Mr Durairaj further explained, *"If we don't listen, there is no way we could do business."* As for the cultural differences, Mr Durairaj stated that it was a normal part of doing business in another country. *"You are in a different country, and of course the culture is different. One good example is that in Australia, when people say 90 days, they mean 90 days. In the Asian culture, 90 days does not necessarily mean 90 days."*

One of the solutions that the company had was for people to work in Malaysia and experience a culture transfer, where the people come to observe how work is managed in a different country and they try to get used to it. *"I think business is done a certain way in Australia, with buses that are on time and shops that open punctually,"* Mr Durairaj stated, *"However, you're in a different country; you need to understand that there are different expectations. This is something that needs to be realised quickly, or else there would be issues."* He also said that it takes a long time to get understanding, which is why one of the best things that a company can do is be willing to commit to a long-term relationship with a local firm as a joint venture. *"If the company is just a distributor, I think the relationship could sometimes be strained because of the lack of understanding."*

Mr Durairaj also states: *"I think the Asian culture is not so much about documents, it's more trust. There's a lot of emphasis on relationship. Marketing here is more relationship selling. I think you can have the best product, but if you don't have that connection to talk to them, to show them, then it's not going to work. Of course,"* he adds, *"having a knowledgeable partner is also invaluable to success, as well as a willingness to customise the product to suit local requirements."*

Intellectual property

Selling specialised financial software solutions mainly to government statutory bodies left Century without much worry about intellectual property. However, the software developed by the company is subsequently built with a licensing technology that would ensure that nobody would be able to use it without it being activated first from the company.

Key performance drivers

The success of Century Software can be primarily attributed to the following factors:

- **Establishing reliable relationships:** The company found a partner in a foreign country that could be trusted. A local partner is an invaluable source of information on local conditions, the local culture and the local business climate.

- **Conducting marketing feasibility studies:** Researching the market for several months before entering it was another thing that the company did. As with most business ventures, research can reveal issues that would not have been obvious, such as the legal ownership requirements, reputation of various agents/distribution, and market reaction your products.
- **Accurate assessment of money and people resources:** The company did well in knowing its personnel and financial limitations, not over-expanding to multiple sites at the same time. Maintaining a presence in each market so clients remember a company takes commitment of resources.
- **Maintaining patience and planning:** The company understood that it takes time and patience to enter into a new market. They were willing to invest time, money, and patience in developing relationships as well as understanding the cultural differences.
- **Accurate interpretation of customer requirements:** The company listened to what local clients needed and adapted their product to suit them. Especially in a hi-technology environment sometimes the clients require more help than clients in more developed countries.

Major challenges ahead

- **Constantly maintaining a visible presence:** Each foreign market would have to be considered as one of the challenges. This will place a strain on their resources such as capital and human resources.
- **Identifying and understanding the differences in culture:** This is something that the company needs to continuously attend to, handling any cultural differences as they arise.

Case Study 3

Company name:	**Ecotech Pty Ltd**
Major product/service:	**Pollution monitoring**
Size (people):	**55 employees**
Turnover ($):	**10-20 million total sales**
Years of exporting:	**13 years**
Revenue from exports:	**50 percent**
Key export markets:	**China, Korea, Thailand, Vietnam, Malaysia**

Company background

Ecotech is an independent, wholly Australian-owned company that specialises in the design, supply and maintenance of sophisticated air and water monitoring equipment and systems. The firm was established in 1973 and today Ecotech's expertise is applied in areas such as:

- Air pollution monitoring
- Continuous emission monitoring
- Particulate sampling
- Process gas analysis
- Water and waste-water sampling/analysis
- Data acquisition systems and reporting software

In order to provide the most suitable monitoring solutions for their clients, Ecotech provide a mix of their own manufactured products, products made under license, software and value-added services.

Ecotech equipment and systems have been installed for many water authorities, environmental protection bodies and a range of private sector industrial clients worldwide. Increasingly, Ecotech is penetrating overseas markets, with installations in New Zealand, India, Indonesia, Malaysia, Thailand, China, Mexico and Cyprus. The company has 55 employees (35 of which have an engineering qualification) and a turnover of between $10-20 million.

First move into exporting

The major export business began when the current general manager Peter Phaedonos joined the company in 1989. At that time there were seven employees and the company's major focus was on Victoria and New South Wales. Exports were more opportunistic, as Mr Phaedonos recalls: *"I would say that in the last couple of years we have been really consolidating this steady growth of exports. Before that, in the early '90s it was sporadic".*

The first project opportunity came from India, from where Ecotech was contacted by a local firm that wanted to put in a joint tender with them. Thereafter came projects in Thailand, Cyprus, Mexico, Sri Lanka, Indonesia and Brazil.

As General Manager Mr Phaedonos is involved in a number of facets of the business, with one of his key roles being to develop export business. Exports now account for between 40-60 percent of the company's revenue. *"If you talk to about a dozen major environmental firms around the world, they would have heard of Ecotech in some way or another"*, says Mr Phaedonos.

Marketing strategy in China

The opportunity for Ecotech to enter the Chinese market came through MonitorLabs, the US company from whom it imported hardware (analysers of gaseous air pollutants). Ecotech provides the software that goes with these analysers. MonitorLabs was also exporting their hardware to China and Ecotech originally looked to provide their software to the same Chinese government-owned distributor. However Mr Phaedonos saw a much larger opportunity: *"The original connection was with the US firm. But we also knew the potential would be huge in China. Within the Chinese government there was a move to have monitoring stations in most of the provinces around the country for pollution monitoring. So we were introduced to the distributor of our American partners. In the meantime I also discovered that there was a possibility that the US company was going to license the manufacturing of their analysers. We started negotiating and obtained the manufacturing rights for their products. I made sure that one of the countries that we could supply would be China. People were laughing at me saying you are not going to make anything out of China. I thought otherwise. We then started packaging the analysers with our software and after sales services as a total solution which is what the buyers wanted"*.

A critical part of the process was the personal relationships formed with key people from the original Chinese distributor. Ecotech joined forces with the distribution company Beijing Monitoring Environment Technology (BMET), which proved to be a mutually beneficial decision. Mr Phaedonos stresses the importance of the relationships he formed: *"We have developed a close relationship. One can't simply say, as many Australian business people do, that this is the product, this is the quality, these are the technical aspects of it and then you negotiate the best price, but don't really get to know the people. If you do it like that, you might as well forget it. We aligned ourselves with people we knew and trusted. They also have key contacts in China – genuine contacts as they command genuine respect being experts in their field. You have got to be loyal to them and they in turn will be loyal to you"*.

Mr Phaedonos does not believe cultural differences necessarily get in the way of doing business in China, however having a distributor who can advise you is important. Business has progressed so well that Ecotech has invested in developing a Chinese language version of their software.

Intellectual property

Ecotech came across a common problem in China – the end customers who bought it from the local distributor originally copied their software. The distributor explained the situation to Mr Phaedonos *"He said, 'I like your software and I'll protect your software. I don't mind paying for it. But my customers don't want to pay for it. You don't pay for software in China'. I then convinced him and said it's not profitable for us and therefore it's not going to work – we've got to help each other. Then I came up with a price whereby at least we are getting something and for his customers it would be better to purchase it than copy it because if they are going to have problems at least we can support them as a registered user."*

Ecotech then also made sure that the next version of the software had a mechanism built into it that stopped it from being used on more than one computer.

Key performance drivers

Ecotech has successfully established a beachhead in China with their distributor BMET. The following seems to have helped them get to where they are today:

- **The development of internationally competitive systems:** This allowed them to offer holistic solutions to their clients. Ecotech's combination of hardware, software and services allow them to better serve their customers, and it provides them with multiple revenue streams.
- **Greater management commitment:** The conversion from an opportunistic approach to exports to one that is more strategic, better planned and resourced – with greater commitment from senior management.
- **The importance of networking:** The development of close, personal and business relationships with key people in China. This helped them choose the right distributor for their products and services. It also meant they had a local 'cultural translator' that helped work through Chinese business customs.
- **Protecting intellectual property:** Dealing with intellectual property protection in an innovative way that took into account local habits and attitudes. The mixture of pricing, value-added services (for those who purchased the software) along with protection built into the software itself, seems to have been successful.

Major challenges ahead

- **Greater competition:** Competition is expected to increase significantly as the Chinese market grows and becomes more attractive for both international and local competitors to enter.
- **Providing the right level of support to the distributor:** It will be critical to get the level of support for the Chinese distributor (BMET) correct as opportunities expand and competition increases. Allocating the right amount of time and resources for a growing international market like China is a key issue for a medium-sized firm experiencing both domestic and international growth.

Case Study 4

Company name:	**Kann Finch Group**
Major product/service:	**Architectural services, urban planning and business strategies**
Size (people):	**120 employees**
Turnover ($):	**12 million**
Years of exporting:	**8 years**
Revenue from exports:	**25 percent**
Key export markets:	**China**

Company background

Kann Finch Group is a multi-disciplinary consultancy in the property sector. The services provided by the company include architecture, urban planning, interior design business strategies and delivery or fulfilment strategies for the projects' corporate clients.

Kann Finch was established in 1963 and they currently have offices in Sydney, Melbourne, Perth, Canberra, and China. The head office is in Sydney with 55 employees.

First move into exporting

Prior to their establishment in China, Kann Finch had previous offshore experience. Over the past 30 or 40 years the Group has designed commercial buildings in New Zealand and has done work in the Middle East and the South Pacific. Most of the Group's customers have connections, affiliations or wholly owned offices throughout the Asian region as well as Australia.

In regards to the China Operations, Graham Harris, Chairman of the Group's joint venture in China, explained: *"The joint venture opportunity came through one of our staff members. We were seeking offshore markets and in particular had an interest in China due to it's aspirations for World Trade Organisation (WTO) membership and even in 1994, their potential for the 2000 Olympic Games which of course eventually came to Sydney. We were invited with an itinerary of ten days to commence negotiations on the joint venture." "You go along the negotiation path and part of the process is getting to know you. For the first few days of this negotiation, it was a mix between personal and business issues. Part of this important time was spent in a social environment, taking us out to see the Great Wall, banquets, etc."*

Sending employees to work offshore can be crucial to the company. As mentioned by Mr Harris: *"It is a matter of sending the right people up here. It's preferable to have people who are adaptable, flexible, tend to be culturally sensitive, and not thwarted by a different environment."*

Kann Finch established itself in China in 1994. For the first few years it was a hard time for the company as it only made nominal profits and the revenues from the country were only around 10-15 percent of their total revenue. However, it was what management expected at the time that Kann Finch made the decision to enter this offshore market. Now after seven years hard work Kann Finch's efforts are bearing fruit. As stated by Mr Matthews: *"It effectively took five years to establish ourselves and sort out any business or cultural difficulties that we had with the kind of extensive business we have in China."* The profit margins continue to improve and with WTO coming on board, the Group believes that business is looking very positive for the future. The Olympics will be in China but it is really just a small part of the landscape. There is a lot of excitement there with regard to the next four to five years.

Marketing strategy in China

As for Kann Finch's marketing strategy in China, the Group first looked to see who its competitors were. From a western point of view there weren't many firms practicing in China at the time. The Group's competitors could then be perceived as being opportunistic: flying in, hitting a job and heading back home. For Kann Finch, the focus has been on making a commitment to the market and to the country in order to make a point of difference. Kann Finch finally received an A-Class design licence, one of only five international design joint ventures worldwide to have received this in China. This gave the company strength, credibility and a point of difference. Currently no other Australian firm has such a license.

Although its clients are predominantly international, Kann Finch has a number of local clients as well. It has done a number of projects where the local government or the World Bank has been joint venture partners. Clients include firms from Europe, America, and Australia and what they expect is good design, quality outcomes and a firm who understands the international focus of what the business is about.

As indicated by Mr Harris: *"Flying in and out is not really considered by our Chinese clients to be acceptable. I think we came here at a time when a lot of other architectural firms came here. The difference between our competitors and us is that we stayed, established roots and achieved an unrestricted licence to practice. Having a permanent presence on the ground here is definitely demonstrating commitment."*

Entering China was not as easy as often imagined. Kann Finch spent around two years obtaining a licence that the company finally received in 1994. As indicated by Mr Matthews: *"No one was able to provide us with a shopping list of things that were required to be done. We were very much reliant on our joint venture partner and our own enquiries to provide that information. That was very difficult in terms of language and communication issues and we would generally find out what the next step was as each step arose."*

There was a myriad of approvals that Kann Finch needed that did not become apparent until the time came to get them. The Group persevered because getting the registration was an important part of its regional strategy for their total business interests.

Mr Matthews also added that: *"Once we obtained the registration we had to make sure that we achieved plenty of market publicity. Our formal launch with an opening ceremony was held in the Hall of the People's Congress. We had a number of special guests there who included various vice Chairmen of the People's Congress and esteemed leaders"*. There was television coverage of the event, which gave the company's people a chance to start networking and speaking to developers, local Council authorities, Austrade and the Australian Chamber of Commerce in China.

As Mr Harris mentioned: *"Austrade and the Australian Embassy have been very supportive when we have ever needed assistance."* In the Chinese market, businesses from Australia that come up and try to do it on their own, often don't appreciate that they are also competing with other significant businesses from around the world, each using every resource that they can to acquire market share.

Referring to the cultural differences, Mr Matthews mentioned that there are cultural sensitivities and the Western ways of doing business are in a lot of respects not acceptable in China. Asia is a huge region with many countries and many cultures within those countries. A blanket Asian focus is completely inappropriate. Each culture requires its own attention to detail. Kann Finch needed to understand the Chinese way of negotiating, what particular words meant, and the way to interpret the thought processes of their Chinese counterparts. An example of one instance where cultures differed was at the negotiating table: Kann Finch's approach was quite direct across the table, while the Chinese used a more indirect approach about coming up with a satisfactory outcome, as opposed to being confrontational. *"There was a lot to learn in understanding what was important to our joint venture partners in terms of business strategy and ways of communication at a business level,"* Mr Matthews said. *"That required a lot of work and we had to respect those...as much as they had to come to understand our way of dealing as well. The best outcomes are derived from face to face communication with our partners."*

Mr Harris reported similar opinions. *"There is no substitute for face to face contact. Specifically, you need a person who is going to have a similar status to a person they are negotiating with. So if it's at a ministerial level, you've got to be an equal ministerial level. This goes right through. If we sent people of a lower position to negotiate, it could be construed as a lack of commitment to the discussions"*.

Intellectual property

Kann Finch's intellectual property is effectively the buildings that it designs and builds. Any architect in the world would say that the best form of flattery is through imitation, and the work the company does are one-off projects where a particular feature in a project could become an area of interest for a number of designers, inspiring other architects and designers to do great things as well.

Another part of Kann Finch's intellectual property comes directly from their professional employees. At the beginning it was hard to manage cultural and motivational differences, a handful of people felt that the culture was not right for them and left the firm. But once Kann Finch was established on the ground, it was easier to get a better feel for what the company should do, which included having business and management strategies to suit the local market.

Key performance drivers

- **Establishing company commitment:** The company made a visible commitment when it formed a joint venture and it took the time to establish trust and personal relationships with the Chinese suppliers and clients. Networking is an integral part of their success.
- **Careful marketing strategy:** The company studied the market, noting the differences to its domestic situation. Its marketing plan was thus tailored to suit the Chinese business environment
- and was still flexible enough to adjust whenever appropriate.
- **Establishment of a co-operative liaison with government:** The company was one of only five companies able to obtain the A-class licence, which gave it credibility and strength within the Chinese business environment. The company was able to demonstrate a long-term commitment by this licence.
- **Ensuring cultural awareness:** The company took the saying "When in Rome, do as the Romans" to heart. They took the time to understand and assimilate Chinese culture. It thus made the working environment more co-operative and avoided unnecessary conflicts.
- **Accurate assessment of human resources:** The company hired designers and engineers who are greatly respected, with high profiles, producing quality projects which then attract new work.

Major challenges ahead

- **Coping with new competitors:** As China enters into the world arena by way of the WTO the business environment will become more open. Kann Finch will have to deal with a flood of new competitors who are willing and able to establish themselves.
- **Adaptation to current trends:** In the current changing business environment, the company must be quick enough to modify their operational plans in order to adapt to new situations that occur.
- **Monitoring liaison with local industry:** The company will need to continue to develop trust and strong relationships with local industry bodies and the bureaucracy, in order to maintain a clear path through the "red-tape" to win new projects and keep emerging competitors at bay.

Case Study 5

Company name:	**World.Net Services Limited**
Major product/service:	**Travel services, including e-tourism solutions**
Size (people):	**50 + employees**
Turnover ($):	**1-5 million**
Years of exporting:	**2 years**
Revenue from exports:	**95 percent**
Key export markets:	**UK, Malaysia, South Africa**

Company background

World.Net Services Limited, a wholly owned Australian company, was the result of a merger of two companies. One of them, Ausnet, was among the first Internet service providers in Australia who specialised in the government and corporate sector. The other company, Travel Computing Services, developed and operated systems integration and communication applications in the travel industry.

James Norriss, Executive Director of World.Net Services said: *"It came together because Travel Computing Services had an idea to build a land content reservations and exchange system. The technical director of Ausnet was contacted and it was decided that they would build it. However, as the two companies worked together they realized that there was an opportunity to perhaps take this thing a whole lot further and set up a business that would focus on content and business process applications using the latest internet style technology."*

World.Net was established on July 1, 1997. Its primary business activities started out as being government and corporate applications and R&D in the travel industry. Around the fourth year of its operation, the Travel the World.Net product became the prime focus of the company due to its high success.

The World.Net products offered cover land content, e-tourism solutions, reservations with distribution, e-business intelligence and dynamic inventory and rates. As described by Mr Norriss: *"We own all the IT and we license off and build applications that enable anybody in the travel and tourism industry to be able to operate anything, from a small tour operating system to a hotel distribution system."*

First move into exporting

World.Net went public in August 2001 which enabled them to roll out the necessary infrastructure into various places like the UK, Asia, and South Africa. Travel is an international activity similar to tourism. World.Net started its export business around 1999, which currently accounts for about 80 percent of its total sales. The company decided that it would be advantageous to sell overseas, as the company's cost base is very low and the products have more value overseas.

The company could sell its services overseas for five or ten times more than what it could sell the same service in Australia. Last year the company only exported to South Africa and South East Asia, primarily Malaysia. Around 90 percent of the company's service exports were in South East Asia and 10 percent in Africa. However, this year World.Net also exported its services to London and it's expected that this will expand the company's revenue to twice its amount now, which will make 50 percent of the exports come from the UK and the other half from the rest of the countries.

Marketing strategy in Malaysia

Mr Norriss explains: *"We went into the market on the basis that we knew people. The Chairman and Managing Director of Reliance Travel (Malaysia) was somebody that I had known for over 20 years. He came down looking for a consultant and I built the piece of software that has become what they now have. Then as a result of doing that we expanded to other companies and countries."*

World.Net's competitive advantage comes from its superior products. Their product provides total solutions for all activities related to the travel industry in which hardly any other products could compete. World.Net has also received Multi Service Corridor status from the Malaysian government, an award that is only granted to select companies who can meet several qualifications set by the Malaysian government.

The barrier to entering the market was that the company's products were rather advanced for the market. This represented a challenge and an opportunity for the company. World.Net was not selling an out of box product it was selling a solution. The company therefore had to be able to convince people to buy this solution.

Another barrier the company faced was the business culture of going to other travel companies that are in competition with its investors. As Mr Lachlan McKerrow of World.Net states: *"They would say, we can't use your system even though it's a good one - the reason we can't is because an investor in your company is a competitor of ours and we feel that it's the Malaysian way that World.Net will pass back to the investment company information about the content in their system"*. Mr McKerrow said he took a great deal of time to explain that the service agreement states that they are forbidden to do so.

Intellectual property

World.Net is highly concerned about their Intellectual property. They do not have any contractors to develop their technology, instead their employees develop everything at head office in Australia. The programs are encrypted to increase security.

World.Net views their people as the heart of their intellectual property. From a programming point of view, the company's employees know that they are living in an environment where they are not just code cutters, they are participating at all levels. The majority also have shares in the company. Because of these reasons, employee turnover is almost nonexistent.

Key performance drivers

World.Net believes their success has come from several factors including:

- **Superior products and relationship building:** These are of utmost importance in starting up business in overseas markets. A superior product attracts customers, while competent relationship building will keep them.
- **Establishing cultural awareness:** The expression "When in Rome, do as the Romans do" is an apt expression. The company took time to understand and become sensitive to cultural differences, which pays off in the lower amount of cultural clashes that occur.
- **Careful staff selection and provision of benefits:** Because the company knows its intellectual property resides in people, it treats its employees well, giving them considerable freedom, a say in the company's affairs and providing them with stock in the company.
- **The establishment of good co-operative relations with government:** The company co-operated with the Malaysian government well and received Multi Service Corridor status.

Major challenges ahead

- **Continue to hire the right people:** This is essential in order to maintain client confidence in the company's competence in creating suitable software as well as retaining its key staff.
- **Product development to cope with competition:** With the construction of Malaysia's super IT city, the increasing number of competitors that would flood the market should be taken into consideration in future company plans.
- **Maintenance of ongoing high staff training levels:** As technology advances, it is imperative for the company's personnel to be able to explain the technology in a way that clients can understand, as well as be able to develop more effective solutions to the clients' problems.