Mile High Tech Entrepreneurship Conference: Going International

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Executive Summary

On Friday, April 22 Silicon Flatirons hosted the third annual Mile High Tech Conference, *Going International*, on global considerations for local startups. Topics included macro trends related to economic development and human capital, cultural differences among entrepreneurs from different countries, and how to develop and structure relationships with offshore providers and developers. With nearly 200 people in attendance and a list of prominent speakers including Anthony Chan, Chief Private Bank Economist at JP Morgan, and Ram Vasudevan, CEO of legal outsourcer QuisLex, the conference inspired uniquely insightful discussion, setting the stage for more detailed and focused dialogue in the future on a variety of issues surrounding international entrepreneurship and cross regional relationships.

Introduction and Overview

Global trends suggest that emerging companies which focus solely on domestic considerations may be missing large markets and, perhaps, operating at their peril. Internet adoption world-wide, and especially in developing countries, is spawning a global start-up generation where innovation, market opportunities, and copy-cat threats span the globe. Internet usage is increasingly international. An estimated 240 million Americans are now Internet users. Meanwhile, another 521 million people are Internet users in China, Brazil and India combined. Each of these three emerging countries feature annual growth in Internet user adoption rates which are 4 to 7 times those in the United States. International aspects of entrepreneurship are no longer quaint stories of isolated economic development or matters of outsourcing mundane tasks. Rather, international considerations are increasingly critical for a start-up.

The conference began with an introduction from Associate Clinical Professor Brad Bernthal, Director of the Silicon Flatirons Entrepreneurship Initiative, and two keynote addresses from Anthony Chan of JP Morgan and Professor Eva Yao. Following these presentations, the first discussion focused on macroeconomic trends around the globe as well as cultural differences between entrepreneurs in distinct countries. Panelists included Law Professor Victor Fleischer, Dave Drach of Microsoft, and Bruce Dines of Liberty Global Ventures, in addition to the two keynote speakers.

Keynote Speakers: Anthony Chan and Eva Yao

In his keynote address on global macroeconomic trends, Anthony Chan highlighted the importance of increasing economic activity and improving consumer balance sheets in the United States, as these trends are producing viable customers for the new startups that are currently forming and creating job growth. Next, he dismissed concerns that the current growth in venture capital investments is anywhere close to the surge in financing that created the first internet bubble. Chan then defended quantitative easing as a strategy that has helped to limit inflation in the US, and highlighted the weaker dollar as a benefit to startups hoping to competitively market their products and services overseas to emerging economies such as China and Brazil.


Addressing a question on how the Standard and Poor's downgrade in the US credit rating could affect the country's ability to stay ahead of the global innovation curve, Chan pointed out that the adjusted rating might actually succeed in encouraging Democrats and Republicans to work together more effectively to address the nation's budget concerns. He also addressed a question on rising energy and food prices, explaining that quantitative easing is not the only factor behind the increase. Finally, he answered a question on the housing market, asserting the prices would start to rise again once job growth improves and people start to have faith in houses again as an investment.

Professor Eva Yao then presented on cultural differences between Chinese and American entrepreneurs, explaining that there is much less agreement on what characteristics are typical of an entrepreneur in China, where the history of entrepreneurship is not as long or well defined and entrepreneurs must rely more on personal networks and informal institutions because of a relative lack of formalized organizations. In China this reliance on established trust and personal connections is called "guanxi" and the typical social network can be divided into three layers: a core circle of close friends and family, and intermediary circle of government officials and clients, and a peripheral circle of chance encounters and acquaintances. Gaining enough trust to become part of a Chinese entrepreneur's network can be a long process involving a series of seemingly non-relevant interactions, subtle rituals, and gifts, whereas in the US networking is typically more purposeful and rapid, depending on specific needs as people try to help others make connections to strengthen the community overall. Chinese entrepreneurs, however, still place trust in institutions such as law firms, foreign partners, and stock exchanges, which work as signals that they are reliable to those who are outside their personal network. Yao concluded her presentation by pointing out that there are many foreign students, scientists and entrepreneurs currently living in the US, which can be seen as the "low hanging fruit" in terms of American entrepreneurs making connections with the contacts that these foreigners have back home and building up an international business network.
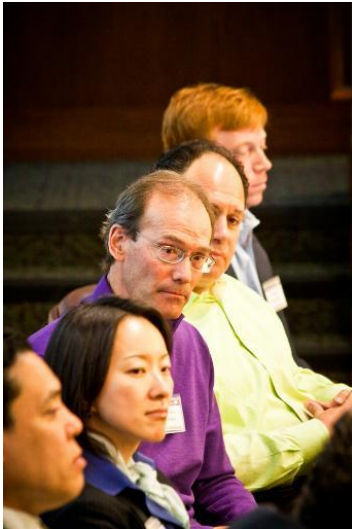
Panel I: Macroeconomic Trends and International Mobility

Following these two keynote presentations, there was a panel discussion moderated by Professor Bernthal and involving Bruce Dines of Liberty Global Ventures, Dave Drach of Microsoft, and Professor Victor Fleischer. Reacting to Chan's presentation on macroeconomic trends, Drach affirmed that we are truly living in a global economy now, with talent and markets emerging everywhere and change occurring very rapidly. Professor Fleischer noted that the quality of US universities is one of the few remaining competitive advantages in our country, but that the sustainability of that advantage is being threatened by a decline in funding. Although there is a temptation in tight budgets to think of foreign students as an ATM card, Fleischer affirmed that we need to think about them as an investment in our future, bringing more of them here and building longer term relationships with them. Dines agreed that building relationships with foreign entrepreneurs is important, pointing out that around one third of the companies he interacts with in Silicon Valley have foreign founders, but added that unfortunately his experience in China had so far not been very positive, with a lack of reciprocal behavior presenting challenges to business.

Related to this issue of the potential difficulties involved with international entrepreneurship, Professor Bernthal asked Anthony Chan if there was any danger in overstating how important current international trends are, recalling that in the 1980s there were dire but unfounded predictions about the rise of Japan and Germany destroying the US economy. Although Chan acknowledged that the path to international business may include adversity, he reaffirmed the idea that demographic trends in China, Brazil and other countries are so favorable that US entrepreneurs should not ignore those markets. Drach followed up with an anecdote about a successful product launch in China of an American accounting system, and pointed out that the online comic company Graphic.ly was able to modify their content to target China, Brazil and other markets once they noticed an increase in traffic coming from those regions. Dines then pointed out that international opportunities actually depend very much on the individual country, so having a clear plan and a good understanding of the culture is essential. In particular, making sure that the company's intellectual property is well protected in the foreign country is very important for a startup. Professor Yao agreed, acknowledging that because developing countries haven't yet created the formal institutions necessary to enforce the rules, it's important to go into any foreign market with a "guilty until proven innocent" mentality to ensure that you are protected. Professor Fleischer added that any company thinking about international operations should be organized as a multinational rather than a US corporation for tax purposes, because making the transition is nearly impossible.

Professor Bernthal then introduced the question of whether trust among international business partners was similar to the reputational concerns inherent in any venture capital agreement. Dines responded that issues of trust are the same in every interaction and restated his impression that the Chinese culture, however, made trust very difficult. Professor Yao explained that this could be because in China the traditional mentality is guilty until proven innocent, making every interaction related to the art of war because trust among strangers in China is extremely low. As an example of this strategic thinking, she mentioned the story of how when she was studying for the GRE the instructor had to explain to her and the other Chinese students in the room that there was no hidden agenda behind the test questions.

Finally, the panel addressed the importance of cross regional relationships for the future of the Front Range. Chan explained that evolving these relationships over the long term is essential, especially because Americans typically attempt to develop trust quickly, as if they were in a sitcom, which doesn't work in many other cultures. Dines agreed, citing Israel as an excellent example of a culture with a strong relationship to the US and an impressive history of rapid business development. Drach agreed that Israel is an amazing example of an engineered startup ecosystem, and Professor Bernthal concurred, citing Yozma as a highly successful government program providing top-down entrepreneurial development. Professor Fleischer concluded that it was very important for CU Boulder to focus on international programs.

Panel II: Strategies for Collaboration and International Opportunities

The second panel began with a presentation from Katrin Windsor on strategies for identifying international opportunities, followed by a discussion moderated by Robert Reich of OneRiot and including Taryn Westberg of Glo, Jim Franklin of SendGrid, and Professor Eva Yao. Reich began by asking the panelists to discuss three overall topics in relation to international opportunities: (1) growing revenues, (2) cutting costs, and (3) finding and using specialized talent.

First the panelists discussed revenue growth opportunities including the difficult issues surrounding revenue growth and the management of language gaps. Westberg began by discussing revenue growth in terms of launching an international website. She noted the importance of considering where you are going to launch, what language you are going to launch in, and where your business is going to be located prior to website launch. She noted that all of these decisions should complement future international goals. Windsor then mentioned that when dealing in international business, one must remember that everyone has a different sense of time and that different cultures may place more importance on the value of the business relationships. As such, the establishment of business relationships with people of other countries may take more time and effort than Americans would expect. To create a bonding experience Windsor recommended eating the local food with local business associates. While international business opportunities can be very beneficial, Franklin reminded the audience that international business growth is an ongoing process which is more expensive and time consuming than people initially anticipate. It is for this reason that people pursuing international business opportunities must be prepared and anticipate these costs and time. Another aspect of international revenue growth that must be anticipated is the differences in cultural communications. Windsor commented that different cultures may be more or less aggressive, or more or less direct with you in terms of business. Windsor noted that this may be avoided by having someone with local knowledge help you address this issue. In addition, Windsor has perceived that women in particular may be treated differently in terms of building a business relationship in other countries. Westberg agreed, and noted that age can be an issue as well.

Secondly, Reich asked the panelists to discuss issues regarding cutting costs. Franklin responded by saying that one can cut costs by hiring employees from outside of the United States; however, outsourcing is not an easy process. In addition, Franklin noted that having customer service or employment located within the United States may be more expensive but may create better service than if exported elsewhere. Reich asked the panelists to comment on management of language differences when using overseas assistance. Westberg responded by saying that employing abroad can result in miscommunication between different countries. Franklin agreed, noting that language differences can be better managed using written communication rather than oral communication. Westberg noted that using Skype for written communication has been very beneficial in communicating with those who speak a different language.

Finally, Reich asked the panelists to comment on retaining specialized talent from abroad to help with international business growth. All three panelists agreed that talent can be found in other countries, and can be very beneficial to one's domestic or international business. Windsor has personally observed that one can find specialized talent by looking for educational prominence in different countries. Franklin agreed with Windsor saying that in terms of math and software, great talent comes out of both India and China. The panelists each concluded by telling the audience how beneficial international experiences can be. Westberg concluded by reminding everyone that "ideas are global" and the more one can travel and experience new things the more one can learn and help their international business grow. Windsor concluded by noting that international business is "multi-sensory" and can be very fascinating for those who choose to pursue international opportunities. Franklin brought the presentation to a close by stating that one of the most fun aspects of international business is the growth and change one personally experiences. In addition, being involved in international business opportunities makes one a "global citizen" rather than a citizen of only one nation.

Panel III: How to Find and Work With Offshore Providers

Following a presentation by Ram Vasudevan on "best practices" when seeking to outsource, the third and final panel discussed how companies who are looking to outsource should go about finding and working with offshore partners. The final panel was moderated by Professor Bernthal, and included panelists Ram Vasudevan, CEO of QuisLex, Carrie Schiff, Chief Legal and Risk Officer for MWH Global, Bill Mooz, Sr. Director & Associate General Counsel for VMware, Inc., and Heather Terenzio, Founder and CEO of Techtonic Group. The panel discussion began with Terenzio pointing out that many of the concerns that arise when looking for an offshore partner are the same issues that would be faced when partnering with a local company.

Given that the focus of the conference was startup companies, the discussion then shifted slightly from how to find a partner to understanding why a company would look to outsource in the first place. Mooz then extrapolated on the point from Vasudevan's presentation that a company should not outsource if cost is the only advantage, but rather should look to pick up where the company is lacking core competencies. One example Mooz gave was payroll, by outsourcing the entirety of this department a company would be able to free up time and energy to put into their core competencies and growing the business.

Shifting back to the how, Mooz and Terenzio emphasized that one of the most important things to do is put in face time with the offshore provider. Mooz asserted that it is simply negligent to outsource without visiting the sight on at least an annual basis. Another key is putting in the time to work with the offshore provider. Vasudevan noted that the process will take time to get the specific objectives worked out, and that the process may even take multiple iterations before the offshore provider will be able to fully deliver on expectations. Schiff then explained that the company must be comfortable with what they are outsourcing, explaining that in the legal field the only type of work that it makes sense to outsource is low touch high volume. Schiff then further emphasized the previous point that the process should be approached in much the same way that a company hires a person and that it requires the same level of due diligence.

The focus then shifted to some of the concerns in working with offshore providers when Schiff presented many of the legal concerns involved with contracting out work overseas. Chief among her concerns were the enforceability of the contracts in other countries, privacy, and security. Vasudevan tried to assuage the concerns raised by Schiff, at least as far as India is concerned, by pointing out that IP security there is at least as strong as it is in the United States, and that if the contracts are drafted in a way that establishes jurisdiction and choice of law most of the enforcement concerns could be avoided. Terenzio then explained that in her experience even when these provisions are in the contract they often do not help, and that even if the company is able to prevail in a legal dispute they will be unable to collect on the judgment, echoing some of Schiff's concerns. Mooz pointed out that the contract is really just an aspirational piece of paper and that the key is to know what is behind the terms, further stating that it is important for the other side have more at stake if things go wrong since no one wants to rely on the contract, and often it is not worth the time or money involved to litigate. Schiff then expanded on the privacy concerns, explaining that often American privacy laws pose operational problems since companies may be required to get consent from their employees before providing personal information to offshore providers.

Professor Bernthal then returned the focus back to the startup community, which led to most of the panelists pointing out that the prospect of outsourcing may not be suited to early stage startups. The panelists agreed that companies in this stage should focus more on development, and if they are going to look offshore then the key is to know what they are getting into. Most importantly, the panelists urged companies to perform due diligence on all of the same issues that would be addressed in partnering with a local company, adding that the expenses and face-to-face time that

need to be put into the process may be cost prohibitive for early stage startups. Schiff further expounded on these ideas, noting that it is very important to have an exit strategy even before a company begins the process of looking for offshore providers. Schiff also provided a silver lining to startups citing examples of leveraging the cost savings involved with going overseas when dealing with possible local partners in order to bring down costs to early stage companies before making the leap abroad.

Professor Fleischer concluded the discussion by posing a question to the panel about what mechanisms companies that have been successful at outsourcing use to combat the contract design problems mentioned earlier. Mooz replied that with outsourcing it is much easier to commoditize the process than deal with the contractual issues, explaining that it is really about the scope of the work not the contract itself. He further expounded on this point by saying it is a much easier process to configure than it is to customize, so picking individual off the shelf type outsourcing solutions is a much better approach than trying to have one company do a full custom job. Schiff again expounded on this idea with a comparison to the game of Jenga: the company has to know if they can pull out this one particular block without the entire thing falling down, or if an entire level will have to be removed instead. This brought the discussion full circle back to the key point that any company looking to outsource must have a clear vision of what they want out of the experience, and put in the due diligence to find that fit.

Conclusion

Professor Bernthal concluded the conference by pointing out that while much had been covered, there were still plenty of questions left on the table. Key among these were some of the specific regional considerations and advantages moving forward, as well as the legal issues that different regions presented. Discussions of international issues for local businesses will become increasingly important for Boulder to remain competitive in a global marketplace, forging cross-regional relationships that allow companies to expand successfully into new cultures. As internet adoption continues to increase dramatically worldwide, international aspects of entrepreneurship are no longer simply a matter of outsourcing mundane tasks, but rather are increasingly critical for a start-up.