

Morgan Lewis

face to face

**Global
BRANDING**
RANDY THURMAN
of VIASYS
Healthcare Inc.

**Globalization
AND YOUR BEST INTENT**
How to make it happen

New Markets,
New Opportunities
**SunBridge
Corporation**

Morgan Lewis
C O U N S E L O R S A T L A W

Issue 2 - Summer 2005

in this issue



2 Letter from the Editors

3 Building a Global Brand

Randy Thurman, chairman, president and CEO of VIASYS Healthcare Inc., discusses how his company built its global brand, and how it has been sustained.

7 Globalization and Your Best Intent

CEOs and venture capitalists discuss the best practices to ensure global success, and what to avoid.

11 New Markets, New Opportunities

An interview with Allen Miner, president and CEO of SunBridge Corporation, who discusses his success in launching an emerging growth incubator in Japan.

15 Morgan Lewis Capital Connection

Morgan Lewis recently launched an internal program designed to connect emerging growth clients with the firm's global network of venture capital relationships.

18 Food for Thought

Our editors discuss the greatest competitive advantage in global business.

On the Cover: Randy Thurman, chairman, president and CEO of VIASYS Healthcare Inc.

MORGAN LEWIS FACE TO FACE

EDITORIAL STAFF

Executive Editors

Stephen M. Goodman
Thomas W. Kellerman

Managing Editor

Rory J. Wilson

Editor

Shannon McLaughlin

Writers

Karin Abarbanel
Laura Schefflow

Art Director

Mitzi M. Cruz

Photographers

United States-Dominic Episcipo
Japan-Yasu Nakaoka

If you would like to submit suggestions for articles, or would like to be added to the mailing list, please email rory.wilson@morganlewis.com

© 2005 MORGAN, LEWIS & BOCKIUS LLP. All Rights Reserved. This communication is provided as a general informational service to clients and friends of Morgan, Lewis & Bockius LLP. It should not be construed as, and does not constitute, legal advice on any specific matter. The enclosed materials may be considered advertising in some states.

LETTER FROM THE EDITORS

Starting a business is one of the most exhilarating and challenging things anyone can do.

Taking that business abroad, adapting to local conditions, understanding a new culture, and succeeding in another country poses an entirely new set of challenges and opportunities for entrepreneurs and investors alike.

The focus of this second edition of *Morgan Lewis Face to Face* is on globalization, specifically "Growing Globally." Our goal for this issue has been to assemble a series of discussions related to what to expect, who to rely on, and how to create and execute a global strategy. Rather than discuss what specific global markets are hot right now, we decided to focus on the basics you need to know for success in any market-no matter what size or stage your business.

We've assembled some of the best success stories from leading companies in a diverse group of industries, and at equally diverse stages of growth. Although there are thousands of texts devoted to the various nuances of succeeding in a global marketplace, we hope that *Morgan Lewis Face to Face* lives up to its name by giving you the viewpoint of those who have been there, and succeeded. The lessons learned by those interviewed for this issue offer you an opportunity to consider various options for market entry, how to adapt your strategy to a new market country, and why having the best local people in place is critical to your overall success.

Morgan Lewis Face to Face is designed to offer clients and friends of the firm an added value-insight into the real world experience of those with whom we do business. By sharing our network of knowledge we hope to continue to serve our clients and friends with the most insightful business advice available.

Please let us know what you think. We encourage you to visit our Web site at www.morganlewis.com/facetoface to complete the readership survey, suggest content for future editions, or share your insights on any of the articles in the first or second editions. Alternatively, please feel free to contact either of us at the email addresses listed. We look forward to your feedback, and hope you enjoy being a part of this magazine.



Stephen M. Goodman
sgoodman@morganlewis.com



Thomas W. Kellerman
tkellerman@morganlewis.com

A handwritten signature in blue ink that reads "Stephen M. Goodman".

A handwritten signature in blue ink that reads "Thomas W. Kellerman".

building a global BRAND

VIASYS HEALTHCARE INC.

Several years ago VIASYS Healthcare was a group of more than 20 small, independently run medical technology companies. Since going public in 2001, Chairman, President and CEO Randy Thurman unified those companies into a global brand with leading-edge products in four areas: respiratory care, neural care, medical disposables, and orthopedic implants.

Under Thurman's guidance, VIASYS has launched a major branding initiative, pursued a targeted acquisition strategy, and built a global infrastructure of talented individuals with diverse backgrounds. Today, more than 40 percent of VIASYS Healthcare's total revenues are generated outside the United States, and its major customers include hospitals, clinical diagnostic laboratories and physician specialists in more than 100 countries.

Prior to joining VIASYS, Thurman was chairman and CEO of Strategic Reserves LLC, a privately held company in the healthcare technology sector. Thurman has also served as chairman and CEO of Corning Life Sciences, chairman of the board of Enzon Pharmaceuticals, and president of Rhône-Poulenc Rorer Pharmaceuticals.

In this interview with Morgan Lewis Face to Face, Thurman discusses the three most important aspects of building a global brand – people, products and perspective. He describes the corporate integration process, global branding, and the challenges of building an internationally focused management team to drive his company's expansion.

SHAPING THE STRATEGY

It took Thermo Electron, the predecessor of VIASYS Healthcare, several decades to acquire the more than 20 medical technology companies that make up its core today. Nearly half of those companies were based outside of the United States, and all of them were operated independently. According to Thurman, it took him about three years to fully integrate all operations. Since then, the company has added six new acquisitions to the global organization. "When we

began," he said, "we had redundancies in our commercial facilities, our manufacturing facilities, our distribution system, and our R&D operations – all of which had to be restructured to create a global company. Though the original companies were relatively small, I've found that this didn't decrease the complexity of the integration process."

Within the medical technology sector, Thurman described VIASYS Healthcare as neither a giant nor a startup. The industry is "bifurcated," he said, describing the large players like GE Medical, Johnson & Johnson and Siemens, and contrasting them with early stage companies that are involved predominantly in new technology innovation. According to Thurman, "Serving hospitals around the world positions VIASYS Healthcare as the lone mid-size global company in the medical technology industry. We're unique, given our size and the international nature of our business."

That unique positioning has led to several important benefits for his company. "For example," he said, "I think we're more adept and nimble at dealing with early stage companies in the acquisition process than some of the megacompanies. That's why our acquisition strategy has succeeded. Being a smaller, very focused company allows us to think and act entrepreneurially. We can move more quickly when competing against the mega companies. We like to think that when our customers change their requirements, we can act more responsively to meet their needs than some of the larger industry players. As we expand globally, our current size is very manageable."

Throughout the expansion and integration process, one of the company's biggest challenges was to build a global brand identity for VIASYS. Thurman noted that hospitals using their products knew only the brands of each specific small company, rather than the brand name, VIASYS. To build global brand recognition, he implemented several strategies. The company invested heavily in global branding for the VIASYS name within the hospital product market-



PHOTOGRAPHED ABOVE: RANDY THURMAN
BY DOMINIC EPISCOPO

place. This involved incorporating foreign languages, including Japanese, Spanish, Portuguese, French and German, into each product development strategy – an element the smaller companies rarely had to deal with, he said.

Establishing a global infrastructure of talented people was also a high priority. VIASYS' international headquarters were established in London, with regional headquarters in Eastern Europe, the Middle East, Africa, South America, China and other parts of Asia. These areas represented the regions in which they wanted to reinforce their presence. Internal support systems including financial reporting, business forecasting and medical economy analysis had to be created as well.

BUILDING A GLOBAL BRAND

Thurman made a pivotal decision early in his career at VIASYS – every product would carry the VIASYS Healthcare brand identity. “This sounds simple,” he said, “but it was a fairly bold move, inasmuch as all our products had previously been known only by the brand names of the small companies that offered them.” He likened this step to Intel’s approach to the computer industry. “You can buy computers from many different manufacturers,” he said, “but most of them carry a label that says ‘Intel Inside.’ We wanted all our products to say ‘VIASYS Healthcare.’ This decision put a stake in the ground. Many of the small businesses might have opted to keep their old names, but the mandate to unify under the VIASYS global brand forced the issue.”

Furthering such brand recognition, the company has held hundreds of investor presentations, and three international symposiums bringing together more than 200 distributors from around the world. These events have been a showcase at which to present the VIASYS strategy. “We’ve worked with all the major group-purchasing organizations to establish VIASYS as a viable entity,” Thurman said. “It’s been a demanding process. There are a thousand little actions that you have to take to establish a global identity. One of our biggest tasks was overcoming our previous history as a collection of small disassociated companies and creating a uniform image of VIASYS as a company.”

Developing and finding executive talent has been another major consideration in VIASYS’ globalization. Most managers from the smaller companies had little international experience, so in addition to cultivating these managers’ global perspective, VIASYS has recruited a crop of international talent to lead its international offices. “The person who runs Western Europe, the Middle East and Africa for us was recruited out of the French marketplace,” Thurman said. “The person who runs the Eastern Europe and Central Asian region is British. The person who has taken a key role in creating our

international strategy is by origin a Pakistani but was raised and educated in England. The person who runs our Americas region, which spans everything from Canada to Argentina, is Cuban.”

He continued, “When you build a global organization, if you’re really serious, you have to find people with culturally diverse backgrounds and recruit the best talent wherever it exists. The chief financial officer of our company has a Spanish background, is bilingual in English and Spanish, and was not only a chief financial officer but an operations executive who managed Mexico and Central America for his prior company.”

Thurman himself had a great deal of international responsibility early in his career, living and working in France, Iran, Thailand and Cambodia. “I think that if you were to ask most people about the challenges for American business in the last quarter century,” he said, “one of the biggest, whether in the automotive industry or communications or medical technology, has been evolving away from our myopic U.S. view in order to build truly global companies. We are trying to think and act globally. I’m not going to hire anyone for a senior position in this company unless they’ve had business experience on at least two continents.”

GROWING GLOBALLY

In the last three years, VIASYS has invested more than \$80 million in new product development, a total that Thurman said is “a substantial amount for a company of [its] size.” “As such,” he said “it’s important to develop products with a global customer base in mind. Today, when we sit down and strategize about new products, we have to think about features, functionality, and applications that address the needs of many different markets.” Citing VIASYS’ involvement in innovating patient ventilators for hospitals, he said, “A ventilator design for the acute care marketplace in

the United States may have far more features and greater functionality than customers in other countries need. So, we have to develop systems that meet the requirements of their markets; sometimes this means different price levels as well.”

In terms of growth, Thurman likened the acquisition market to the employment market. “Just as you have to look around the world for talent,” he said, “you have to look around the world for acquisitions.” One of the most valuable new acquisitions in the VIASYS portfolio is based in Reykjavik, Iceland; its technology is geared toward a segment of the global neural care market that domestic VIASYS companies did not address. The new company has also provided VIASYS with a team of talented software development engineers who, according to Thurman, really understand “how to

Factors You Should Consider for Global Success

PEOPLE:

“We’ve had to develop or bring in leadership at several levels of the company who can think globally. Without strong leadership to execute your global strategy, it’s going to fall on deaf ears.”

PRODUCTS:

“Our product development strategy has focused on really looking at all of our new products in terms of what’s required for success in different major markets worldwide.”

PERSPECTIVE:

“Don’t be U.S.-centric: You can’t just develop products for the U.S. market and force them on other markets. Begin to think globally in the earliest stages of your product development strategy.”

develop products and systems architecture for different country applications." The company made two U.K. acquisitions in a similar vein earlier this year. "Each brought us products for a segment of the U.S market that we weren't addressing," he said.

In addition to a globally minded acquisition strategy, VIASYS is expanding through internal investments as well. Currently the company is preparing to open a regional operation in China later this year – either in Shanghai or Hong Kong. "We believe the Chinese healthcare infrastructure is developing and that VIASYS products need to be there," Thurman said.

When considering an acquisition, VIASYS examines several criteria. "The company should fit well strategically within VIASYS' existing areas of business and products." It should also be "financially attractive," generating positive returns for shareholders. "Finally," Thurman said, "we want companies that bring us products, technology or innovations that will advance our global strategy." This could mean "acquiring a U.S. company with technology that will work well internationally, or making an international acquisition to gain technology that will be an advantage in the U.S. market," he said.

"Basically, we look at almost every country in the world and then at our product portfolio to determine whether we ought to introduce our products in particular countries through our distribution partners or whether we ought to create our own direct selling presence," Thurman said. "Take our recent acquisition of Oxford Medical. Separately neither Oxford nor VIASYS had the critical mass to support a direct selling operation in Spain. But based on our combined strengths, we've decided to invest in developing a direct sales presence in Spain." Sometimes, however, the decision is made to eliminate a direct presence in favor of dealers or distribution partners, he said. "For all of our 100-plus markets, a country-by-country and product-by-product analysis is required."

The pending office in China will add to an existing presence in Japan, as well as a distributor presence in Korea, Thailand, Taiwan, Hong Kong and Australia. To reflect the large and diverse nature of the Chinese marketplace, VIASYS' strategy for market entry in China is similarly varied. "What works well in Beijing may not be the right strategy for Shanghai, which may not be the right strategy for Guangzhou," Thurman said. In addition to the internal investments, VIASYS has partnered with existing Chinese dealers and distributors, and the company is searching for a country manager who is a Chinese national familiar with both the country's economics and its medical technology. "The Chinese Ministries of Health and their regulatory organizations have requirements and policies that are vastly different from those in other parts of the world," Thurman said. He added that Chinese language versions of their products will need to be developed in several different dialects. "It's a huge task. At the same time, it's an incredible opportunity if we do it right," he said. To augment the Chinese office launch, the company's 2006 annual international distributor meeting will be held in Asia. "We have decided, from a humanitarian point of view, that we will probably have this conference in one of the cities affected by the tsunami."

SUSTAINING SUCCESS

Thurman cited several lessons he has learned during this process of integration and globalization. "Committing to a global strategy as CEO has turned out to be very important," he said. "Globalization has to start at the top; it's not going to bubble up from the bottom." He also noted the importance of recruiting and "upgrading" the company's executive talent – and its commitment to finding the right people. "Believe me, it requires tremendous individual commitment to spend time in these different countries. You have to reach out and bring in people with culturally diverse backgrounds. Make sure that you create a presence in the different countries that are key to your success, as we're doing in China."

Finally, he offered, globalizing has been essential to VIASYS' success. Thurman concluded, "Everything we do today is approached from the perspective that we are a global company. You have to develop new products with a global strategy in mind. You have to develop your internal systems with a global strategy in mind. You have to develop your people with a global strategy in mind. You can't just talk globally; you have to really act globally."



Best Supporting Product?

It's not only hospitals that use VIASYS products – Hollywood regularly employs the company's devices in medical dramas, from the big screen to the small screen. With one of the company's manufacturing facilities based in Southern California, VIASYS products have played a silent, but major supporting role in TV shows, including **ER**, and the Academy Award-winning movie **Million Dollar Baby**, starring Clint Eastwood, Morgan Freeman and Hilary Swank. For nearly 30 minutes toward the end of the critically acclaimed film, VIASYS' products are clearly visible. Not to be left out of the promotion, while filming an episode of **ER** featuring VIASYS' products last year, company employees were invited to serve as extras on the long-running TV drama.



Globalization and your Best Intent

EXPANDING YOUR BUSINESS GLOBALLY IS RISKY. STAKES ARE HIGH AND SUCCESS ISN'T EASILY UNDERSTOOD. YOU MUST BALANCE FOCUS WITH FLEXIBILITY AND STRATEGY WITH ADAPTABILITY TO YOUR NEW MARKETS. TIMING IS CRITICAL, BUT SPEED KILLS.

Balance. Adaptation. Timing. With all these factors to manage, how do emerging growth companies plan and execute cost-effective global strategies? To find out, Morgan Lewis interviewed 10 executives and entrepreneurs from a broad range of venture capital firms and well-established companies. The result? A wealth of front-line advice on how to expand globally while avoiding costly pitfalls.

Repeatedly, themes emerged: Don't be lured into overseas markets prematurely. Pursue disciplined expansion based on your company's product life cycle and internal dynamics. Seek out experienced managers. Play by the "home-court" rules. Don't sacrifice strategy to speed.

WHY GLOBAL?

"Most of the companies we fund, which are U.S. domiciled, will start attacking the U.S. marketplace first and build critical mass and then look toward global expansion to take them to the next level," observes Amir Goldman of TL Ventures.

Today, this pattern is evolving, both in the United States and worldwide. For example, California-based Athena Semiconductors partners with far-flung multinationals, conducts its R&D in Athens, Greece and Bangalore, India, and is building customer relationships across Asia. Still in the prerevenue stage, the wireless communica-

tions start-up operates overseas not just to lower its burn rate, but "by design," says CEO Chandrashekar Reddy, "because we wanted a strong global presence to better serve the needs of our partners and customers overseas."

Whether companies adopt a global stance before or after commercializing, their decisions to expand overseas are driven largely by three factors:

Customer demand: This was the globalizing catalyst most often cited in our interviews. Sometimes an anchor client provided the impetus; in other cases, cascading demand triggered a global move. Within three years of its U.S. launch, for instance, Princeton Softech's Fortune 500 clients wanted access to its database archiving solutions in other countries. "Customer demand pushed us hard," comments Paul Winn. "We were getting inquiries from France, Australia, Germany and the United Kingdom."

Cost-effective R&D: Many companies have succeeded through outsourcing. The search for talent and technology is propelling start-ups overseas more quickly than before. "We can have 60 experts working on products in our offshore centers, as opposed to 20 in the United States," says Chandrashekar Reddy of Athena Semiconductors. "This lets us do more and leverage our investment."

Competitiveness: Strategic advantage is a key reason for businesses to go global. ICT Group, for instance, has expanded aggressively to stay ahead of the competitive curve in providing customer relationship management (CRM) services to clients. The firm began its global push in Europe, then entered Canada, Mexico, and Australia. Recently, it moved into the Caribbean and the Philippines. "In order to bid on many projects," explains John Brennan, "we needed to offer off-shore options."

PATHS TO MARKET ENTRY

Not surprisingly, emerging growth firms are eclectic in their choices

of globalization routes. Executives cited an array of vehicles, from partnerships and acquisitions to off-shoring and franchising. Globalizing via some form of joint venture with a local partner was a popular point of entry for companies such as Princeton Softech, ICT Group, and salesforce.com, which is a client of Japan-based IT incubator SunBridge Corporation.

Strategic alliances are also widely used to expand companies overseas. As Jay Eum of Samsung Ventures America noted, Samsung Electronics pursues a broad range of alliances with innovative early-stage firms, from IP licensing deals and R&D codevelopment, to comarketing and standard vendor-customer relationships.

Increasingly, emerging growth firms are entering global markets via acquisition. For example, MedCases, an e-learning company, acquired a Canadian firm in 2003. While expanding its product offerings, this move has also primed MedCases to grow globally. In addition to providing a gateway to the Canadian market, the new Montreal base offers a springboard for expansion into France and deeper into Europe.

As companies move along the commercialization curve, they tend to employ a mix of globalizing vehicles. AirClic, a provider of mobile applications targeted at field workers, first launched globally through a direct team focused on selling a technology tool kit to European-based software and applications developers. More recently it has established strategic alliances with European software companies and opened up a second path by setting up a franchise in Latin America. Princeton Softech has adopted a different strategy: initiating entry into overseas markets via joint ventures and then forming subsidiaries by acquiring partners once a strong revenue base is established. Among the firms interviewed, ICT Group has globalized most aggressively via multiple routes: joint ventures, alliances, and buy and build.

ADAPTING TO THE LOCAL MARKET

Globalizing successfully requires strategic focus, a specific tactical implementation plan, and knowledge of local social costs and obligations. Both entrepreneurs and venture capital funders stressed the need for targeted expansion and market readiness. "Full capability is essential," advises Paul Winn of Princeton Softech. "When you go into a country, the products must fit, the channel partners must fit, the support must fit, and you must have a localized view of your offerings in that domain."

AirClic's experience in premature growth demonstrates the impor-

tance of market readiness. Launched in 2001, the U.S.-based firm made an acquisition in Europe within 30 days of its primary capitalization. Its global operations quickly grew to include offices in Stockholm and Geneva – and sales reps in London, Munich, and Oslo. "The vision was quite grand," comments President John Parker. "We were really a little ahead of our time with our initial business model and focused on the wrong things. We were offering a technology tool kit to an entirely new market, and this market was demanding a complete solution. We reorganized in 2003, closed our European offices, completed our product development and focused on providing a full solution in the United States market."

AirClic's retrenchment, while largely technology driven, was also a strategic decision: To prosper overseas, the start-up first needed to build a solid commercial base in its home market. AirClic's staged reentry into the global marketplace is proving successful: Today, 75% of its business is U.S. based. European sales are surging and it recently launched AirClic Mexico – a franchise that offers a promising globalization model.

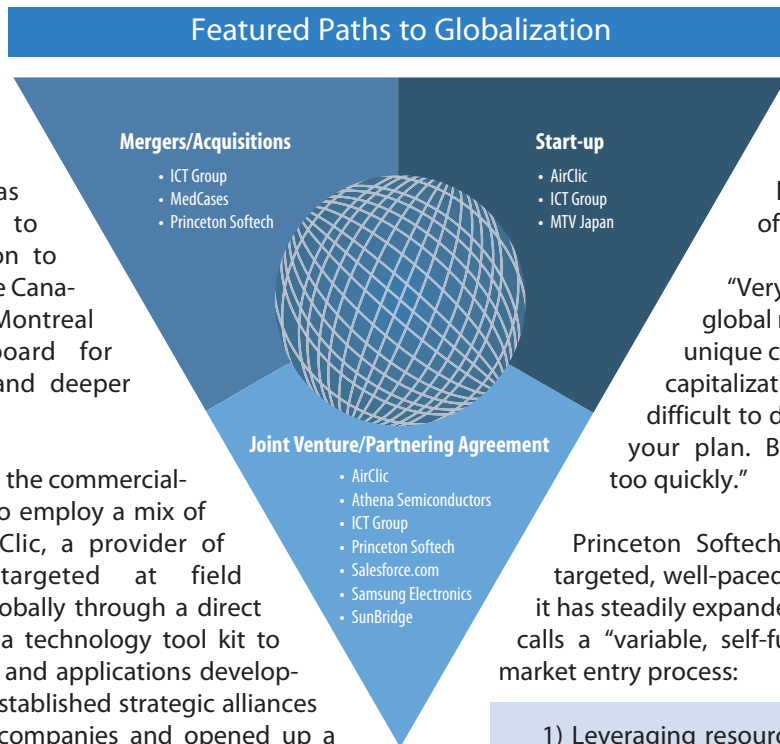
"Very few companies start with the edict to be global right away," notes John Parker. "We were a unique company. Even with the backing and initial capitalization we had, we couldn't pull it off. It's very difficult to do. So my advice is: Stay disciplined about your plan. Be focused at the expense of growing too quickly."

Princeton Softech's success reinforces the benefits of a targeted, well-paced international strategy. Founded in 1989, it has steadily expanded overseas by replicating what Paul Winn calls a "variable, self-funding model" based on a three-phase market entry process:

- 1) Leveraging resources by structuring agreements with local partners to capture local knowledge and minimize initial expenses;
- 2) Growing this partner base and revenues by complementing these partners with small product specialist teams once revenues reach \$1.5 million; and
- 3) Forming a subsidiary once locally generated business reaches \$3 million in sales.

Using this approach, Princeton Softech launched its global strategy in France in 1991, entered Germany and the U.K. in 1993, Italy and Spain in 1998, and Australia in 1999.

A self-funding strategy "allows you to grow in a way that is not a burden to your company," asserts Paul Winn. "It gives you local presence with people who know the culture, the environment, the customers, and the channels If you don't have a vision and a road map, you'll get lost, unless you have such a great product that



the market pulls it through. That happens, but it's rare."

Whatever approach a firm adopts, interviewees advised, it must be homegrown. "You need to decide when the time is right in the life cycle of your company to go global," says Michael DiPiano of NewSpring Capital. "And there *will* be a time when you will be successful. You don't want to make the move prematurely for the wrong reasons."



IBM attributed its 25% sales growth last year to which emerging markets?

- A. Russia, India and Brazil
- B. China, Brazil and Poland
- C. Mexico, Russia and India
- D. Brazil, Mexico and Taiwan
- E. Taiwan, Russia and China

For the answer to this question, visit *Morgan Lewis Face to Face* online at www.morganlewis.com/faceoface

John Parker of AirClic agrees. "There's a lot of pressure placed on entrepreneurs, driven by expectations of how narrow the window of opportunity is and how quickly global markets are going to develop. In reality, that window is wider than most people think. And the importance of getting it right over speed is critical."

CRITICAL SUCCESS FACTORS

Along with strategic focus, there are a host of other factors that influence the success of globalization. When asked what advice they would offer a start-up, interviewees shared the following strategies:

Find internationally experienced managers you can trust – and trust them. Entrepreneurs and venture funders offered the same message: Find talented, reliable executives with international or local experience to spearhead a global move. A seasoned manager can fine-tune a cross-border strategy, act as a cultural mediator, and help avoid costly market missteps. "More than corporate structure, more than the kind of partnership relationships you develop, as with venture investing," notes Allen Miner of SunBridge Corporation, "the key is to find someone with an entrepreneurial bent, a passion for your product, and a deep commitment."

Foster connectivity and a "one firm" mentality. Sustaining a shared vision across borders and cultures is vital to globalization: The danger of creating satellite sites with little or no connectivity to headquarters is real. Strong communication links diverse operations and keeps them moving toward the same goals. "It's always more complex to manage split sites than it is to manage one site – and that's especially important for start-ups," warns Amir Goldman of TL Ventures. "There must be a lot of communication, a lot of interchange; employees have to go back and forth. If you're a CEO, you must be willing to get on a plane to Israel or India or China or wherever your team is located. As much as there are cost savings associated with overseas talent, you need to invest in building an integrated organization."

continued on page 17

EXECUTIVES INTERVIEWED

John Brennan

Chairman, President & CEO of ICT Group, Inc., a leading globally integrated provider of outsourced customer relationship management (CRM) solutions.

Keith Cox

EVP & General Manager of MedCases, Inc., a medical education e-learning company and provider of comprehensive, cost-effective interactive training.

Michael DiPiano

Managing Partner of NewSpring Capital, a family of targeted private equity funds focused on the Mid-Atlantic region of the United States.

Jay Eum

Managing Director of Samsung Ventures America, the independent, U.S.-based venture capital investment arm of Samsung Electronics.

Amir Goldman

Principal of TL Ventures, a leading national venture capital firm with a network of offices in Pennsylvania, Texas, and California.

Allen Miner

President & CEO of SunBridge Corporation, Japan's leading incubator of emerging information technology businesses.

John Parker

President of AirClic, Inc., a leading global provider of mobile enterprise applications.

Chandrashekar Reddy

CEO of Athena Semiconductors, Inc., a start-up company providing cost-effective, system-on-chip solutions for wireless communications.

Yu Sasamoto

President & CEO of MTV Japan, a joint venture of the global music/entertainment media company, MTV.

Paul Winn

Chairman, President & CEO of Princeton Softech, Inc., the global market leader in database archiving.



ALLEN MINER

New Markets, New Opportunities

Nurturing Early Stage Ventures in Japan

PHOTOGRAPH BY YASU NAKAOKA

Allen Miner is president and CEO of SunBridge Corporation, one of Japan's premier incubators for emerging growth companies. Founded in 2000, SunBridge provides a collaborative environment in which Japanese IT start-ups can develop at a globally competitive pace. It also has a U.S. venture capital team and works with companies seeking entry into the Japanese marketplace.

Mr. Miner guided Oracle Japan's early commercial growth – a launch that is still widely recognized as a model for successful U.S. corporate expansion – and one that ultimately led to a multibillion-dollar IPO on the Japanese stock market in 1998. Mr. Miner is on the boards of several SunBridge portfolio companies and is a founding board member of the Japanese Venture Capital Association.

Having created an incubator, you have a unique perspective on the globalization challenges facing new ventures. Why did you pursue this direction?

Japan does not have a long history of venture-capital-backed entrepreneurship, or an ecosystem to support the rapid development of start-ups, so I saw the value of an organization that would act as an incubator, investor, and full-service collaborator. We launched SunBridge with an investment fund, and a sales and marketing services subsidiary. We have also added human resource services and have an incubation facility where companies share space and interact on a daily basis. To date, over 60 companies, both foreign subsidiaries as well as local firms, have shared the facilities. We've invested in 33 Japanese and 12 U.S. ventures and completed several hundred service engagements for clients ranging from

seed-stage local startups through domestic and foreign-based global 500 corporations. We've found over and over again that having a trusted third-party advisor who is familiar with both worlds can help a company navigate cultural, communication, and business practice issues and strike the most productive balance between global and local best practices.

Is globalization a key issue for some of the companies you're working with?

Among the 42 companies we've worked with, salesforce.com is far and away the strongest example of a start-up moving quickly and aggressively beyond its Silicon Valley roots to operate on a global basis. Its CEO, Marc Benioff, was in Japan and Europe about a year after starting the company and released a Japanese version for trial use about the same time the product was commercially launched in the United States. SunBridge designed and co-funded a joint venture with salesforce.com in Japan and I have remained very actively involved as a director, advisor, and partner to the company to ensure its continued growth and success. Today, salesforce.com is a profitable public company with very strong businesses in Europe, Japan, and the rest of Asia. Benioff and his team have done a superb job of leveraging relationships and capital to go global quickly and successfully.

Have Japanese companies in your portfolio globalized this aggressively?

Four or five had very strong global linkages from the start, but most are domestically focused. Within a year of launching the world's first and fastest growing mobile games service when NTT Docomo introduced Java phones in 2001, g-mode was reselling games developed in the U.S. and Japan through carriers in Europe, Korea and China, as well as in Japan. Fibest does optical communications chip R&D in Japan, manufactures in the Philippines and sells to equipment manufacturers in the U.S. and Europe. ByD:sign does digital appliance R&D in Japan, component purchasing in Japan and Taiwan, manufacturing in southern China and sales and distribution in the U.S., Europe and Japan.

Nevertheless, I think the American start-up culture is much further along in approaching overseas markets than Japanese entrepreneurs are. Paradoxically, one reason Japanese startups don't move as quickly globally is the very reason they can grow rapidly with little capital in their home market.

Partnerships, alliances and channel resale work so well in Japan that companies often don't build a direct sales culture - a capability that is key to growth globally particularly in the software industry. In Japan, the most effective way to launch a software company is to get traction with a few end customers and leverage it into relationships with big computer manufacturers and systems integrators.

Based on your experience, what's the single most important factor that influences successful globalization?

Passionate people you trust. If there's one key differentiator between companies that do well in a given overseas market and companies that don't, it's the passion and quality of the people on the ground and the degree to which headquarters trusts and enables them to do what's right for customers. The most valuable thing we've done over and over again for companies we've helped come to Japan is finding someone locally who is motivated by the kind of commitment and sense of ownership that a founder-entrepreneur of the parent company has. The key is to find people who are passionate about your product, who will live or die by its success and drive the business forward. In the case of Oracle Japan, we first found those individuals within a distributor; they were very excited about the Oracle opportunity and worked around the clock for a couple of years to make it successful. Later we hired Chikara Sano, a senior sales executive out of IBM Japan who caught the vision of the company's potential and led its dramatic success, in the process creating the model and methods for win-win partner engagement that were later adopted by Oracle globally.

What other strategies and factors have you seen to be especially important in building a global presence?

One key to succeeding is not to confuse vision, mission, and core

“In Japan, the most effective way to launch a software company is to get traction with a few end customers and leverage it into relationships with big computer manufacturers and systems integrators.”

product value propositions with business methods and processes. For example, as they grow, companies often decide that they should coordinate all their marketing globally. In good cases, they'll talk about a high-level message they want to communicate within each market and culture around a common theme or brand. In bad cases, you'll see marketing people assume that specific promotions and even ad copy should be translated quite literally in every country — that building a common brand and customer value proposition requires identical behaviors in every country. Companies often confuse commonality of brand or core values with commonality of processes.

As you launch your business globally, it can be useful to look back at your company's life cycle, at how you got started. It's easy to get caught up in wanting to quickly replicate the current status quo of your parent company's operations in each country you enter. Yet your company wasn't born fully grown. How did you get your first customers in your domestic market? What was the messaging then? Is it the same now or has it evolved as your company has grown and matured? What were the challenges when you were fresh and new? As you enter global markets, you're more likely to succeed if you think of them as start-ups. For example, one of the best early decisions Chikara Sano made in 1990 was to focus Oracle exclusively on becoming number one in database management, before trying to build the applications and consulting businesses in Japan despite significant pressure from headquarters middle-management to the contrary. Larry Ellison though, with the perspective and memories of a founder, immediately understood and supported his strategy.

Another concern is how you respond to opportunities as you expand globally. Over and over again, I've seen companies assume more of an opportunistic approach than a strategic one; they react rather than having a master plan for when and how they're going to pursue this or that market. As a company gets some traction in its home market, people watching trends from overseas may express interest in purchasing the product or offer to start operations in their home market. Be open to such opportunities, but don't necessarily jump at the first one.

A potential deal with a major end-user customer can look very attractive to a start-up, but large customers are usually extremely demanding. To provide high-quality service halfway around the world in a different culture requires a far greater commitment of resources than providing a similar service level to a domestic client. If this becomes a trigger to think about and put in place a local operation or partnership, that's fine. But a one-off deal can be the first step down a path to creating a very dissatisfied global customer while monopolizing limited corporate resources.

There's another piece of advice I often give companies: Assignees from headquarters can be much more successful in helping to move a local business forward if they see their role as being an advocate for the overseas operation to headquarters rather than acting as a

headquarters controller of the overseas organization.

One last thing: Once you make a commitment to be in a market, stand by it. One reason for the success of salesforce.com in Japan is that, from the start and to this day, Marc Benioff and his team have remained very actively engaged with customers, operations, strategy, and execution worldwide. They manage their key international markets with the same kind of attention and commitment to success that they give their domestic organization. And they listen to their local leaders with the same sincerity and open-mindedness. I think that's a real challenge. It's a rare entrepreneur who does it well.

SUNBRIDGE PORTFOLIO COMPANIES	
PRIVATELY HELD JAPANESE COMPANIES	
Accela Technologies	www.accelatech.com
atmarkIT	www.atmarkit.co.jp
Avec Lab	www.aveclab.com
BeTREND	www.betrend.com
Class Technology	www.class.co.jp
DFT Microsystems	www.dftmicrosystems.com
e-Medical System	www.e-medicalsystem.com
FAOPEN	www.faopen.jp
FiBest	www.fibest.com
Fun-Life	www.fun-life.co.jp
GaiaX	www.gaiax.co.jp
HAMSTER Corporation	www.hamster.co.jp
Horizon Digital Enterprise	www.hde.co.jp
istyle	www.istyle.co.jp
Miracle Linux	www.miraclelinux.co.jp
OK Web	www.okweb.co.jp
QuickSilver Technology	www.qstech.com
Roonets	www.roonets.co.jp
RouteLambda	www.routelambda.co.jp
Smarts Japan	www.smarts.co.jp
VistaPoint Technology	www.vpt.jp
Wizaz	www.wizaz.co.jp
PRIVATELY HELD U.S. COMPANIES	
Alien Technology	www.alientechnology.com
Eclipse Aviation	www.eclipseaviation.com
Embedded Planet	www.embeddedplanet.com
Encirq Corporation	www.encirq.com
Flarion Technologies	www.flarion.com
IPLocks	www.iplocks.com
PUBLICLY TRADED JAPANESE COMPANIES	
G-Mode	www.g-mode.co.jp
MacroMill	www.macromill.com
Shicoh Engineering	www.shicoh.com
PUBLICLY TRADED U.S. COMPANY	
Salesforce.com	www.salesforce.com

Morgan Lewis CAPITAL Connection

Morgan Lewis offers another opportunity to get face to face through its Capital Connection Program.

Morgan Lewis' Emerging Business and Technology Practice recently launched its Capital Connection Program. The program is designed to leverage the firm's global resources by presenting client companies with opportunities to seek funding from venture capitalists.

Partners from across the firm's 19 offices worldwide coordinate via a quarterly teleconference to introduce a client company they have worked with that is seeking funding. Each partner presents a brief report on the client company's background and operations. The partners then collectively discuss their relationships with venture capitalists who may be interested in learning more about Morgan Lewis clients. By coordinating resources and leveraging relationships on a national and global level, Morgan Lewis partners offer their clients and venture capitalists greater opportunities to generate deal flow.

The program was started by Pittsburgh-based partner Eric Kline, and Palo Alto-based partner Armando Castro. In the last two years Morgan Lewis has opened seven new offices and the firm has added more than 150 lawyers in California alone. The growth of the firm has enabled the Emerging Business and Technology Practice to offer clients and partners access to a well-established, successful national emerging business platform, as well as rapidly growing international platforms in Europe and Asia.

"We put together a package of 10 or 12 companies, which is then sent to different investors in each market. If there is an interest we make an introduction," said Kline. "The benefit is obvious from our standpoint—our clients get access to well-known, well-connected venture capitalists on a national and international level. Our venture capital contacts benefit from a potential deal flow that they would not otherwise see."

"Our last call included partners from almost all of our U.S. offices and London, Paris and Frankfurt," noted Castro. "We plan on including our Tokyo partners in upcoming calls as well. Although the time

"We put together a package of 10 or 12 companies which is then sent to different investors in each market. If there is an interest we make an introduction..."

differences make it difficult—someone is going to lose sleep—all of our Emerging Business and Technology Practice lawyers worldwide are very committed and enthusiastic about the program."

While in its infancy the program has generated several meetings between Morgan Lewis clients, venture capitalists and strategic partners.

"Although I'm based in Pittsburgh, several of my most recent deals have been financed by money from Boston, New York and Philadelphia. Another benefit the program offers is that in areas where there is less venture capital presence (Pittsburgh vs. New York or Palo Alto) we are providing a connection to sources of funding outside the region. Unfortunately not every local idea will get local funding, but by collaborating, each Morgan Lewis partner is increasing the scope of our clients' reach" Kline said.

For more information on Morgan Lewis' Capital Connection program, please contact Eric Kline at ekline@morganlewis.com or Armando Castro at acastro@morganlewis.com.

COMING SOON



- An interview with Paul Deninger, chairman of Broadview, a division of Jefferies. Broadview is a leading corporate finance advisor serving IT, communications, healthcare technology and digital media companies.

- A look at the Japanese private equity market. Recent legislation has changed the private equity marketplace in Japan. Find out the opportunities in the next issue of *Morgan Lewis Face to Face* coming fall of 2005.



Resist the temptation to export your business model. Every market-place requires a unique approach; trying to replicate domestic business practices overseas is a common, but costly, mistake. Cultural issues are a major factor in any globalization strategy. Relying on in-country partners and managers for coaching on local customs and business practices is a time-tested approach. Their knowledge can be critical in developing locally driven business models that further a company's core mission while being responsive to cross-border cultural dynamics.

GLOBAL MARKETS - LOCAL HELP

Many countries have economic development agencies to support the entry of new businesses. For example:

- Japan has JETRO (Japanese External Trade Organization): www.jetro.org.
- Ireland has the IDA (Industrial Development Agency): www.ida.ie.

Both of these organizations have facilitated new market entry in their countries. If you're considering going abroad, contact the embassy of the countries you are targeting to learn more about what they have to offer.

Maintain flexible, open-ended partnering arrangements. Steer clear of "exclusive" partnerships. While they may offer quick entry into overseas markets, you run the risk of locking yourself into a long-term paradigm that can severely limit growth. "You never want an exclusive relationship – that's almost a cardinal rule," advises Paul Winn. "Suppose you're very successful and your partner isn't growing at the rate you want; you are boxed in."

Take advantage of local experts. Exploit every available resource. When U.S.-based salesforce.com planned a Japan launch, for example, it turned to SunBridge Corporation to structure an attractive joint venture and find an experienced manager to run it. When The Republic of Ireland's Industrial Development Agency (IDA) asked John Brennan to use Dublin as ICT Group's European base it offered wide-ranging assistance, from finding multilingual employees to support their European client base to locating office space.

Jay Eum of Samsung Ventures America offers another type of support: helping start-ups navigate the process of partnering with Korea-based Samsung's family of companies. "Partnering with multinationals is challenging for startups," says Eum. "Support from the Samsung Ventures team locally in the U.S. can help streamline the process." Working with an independent entity like his to broker a deal can provide guidance in negotiating with large and complex multinational corporations.

Protect your intellectual property (IP). Take a proactive approach to safeguarding IP. U.S. firms, for example, often keep proprietary

technology stateside while outsourcing applications work. The more global a company becomes, the more important it is to ensure adequate IP coverage. As a company moves across borders, U.S. laws provide protection only if it has formally filed in a specific country. Patent registration and protection fees add up, but forgoing preventive measures can prove far more costly.

Keep control of your branding. Maintaining brand integrity as you grow is a challenge; so is aligning global branding with local initiatives. When MTV Japan relaunched in 2001, for example, branding was key. "We had to bring the MTV brand to Japan in a way that would retain its global image but create a local brand identity as well," Yu Sasamoto explains. "We approached this by bringing Japanese artists into our shows, not suddenly, but gradually. It took a year or two, but the steps we took resulted in MTV's being perceived as a local, friendly brand – and not just a totally U.S.-based media company."

Recognize the real costs of expansion. Be aware of the costs in both financial and human capital exacted by global expansion. An off-shore acquisition, for instance, can be a cost-effective development option. However, up-front savings can be eaten away by employee exchanges, travel, and communications. Harder to measure are human capital expenditures. "As a manager, one of the things I didn't know how to estimate was how much time it was going to take to really integrate our two operations," recalls Keith Cox, regarding MedCases' acquisition of a Montreal-based firm. "It's hard for two companies that are across the street from each other. It's doubly hard when two companies are on opposite sides of an international border and operate in two different languages and cultures. . . . It's a cost, particularly for a small organization."

Another caveat: Don't overlook the social costs of doing business globally. Employee benefits, such as health care and severance, are highly regulated overseas. As a result, human resources issues are financially significant. Government unions, trade groups, and regulatory agencies can all affect decisions about in-country operations. The bottom line: Social costs must be carefully factored into global budgets.

WHEN YOUR GOAL IS THE GLOBE

Globalization can push your business to new levels and create exciting opportunities, but it demands risk-taking and resilience. Mistakes will happen and staying power is essential. As Michael DiPiano sums up, "My advice on going global is the same as not going global. There are three critical things: Execute, execute, execute. Pick the right time, make the appropriate investment, plan on it costing more than you thought, and then don't look back - make it happen."




According to The Bureau of Economic Analysis, U.S. companies earned how much of a profit doing business overseas last year?

- A. \$125 billion
- B. \$215 billion
- C. \$315 billion
- D. \$415 billion

For the answer to this question, visit *Morgan Lewis Face to Face* online at www.morganlewis.com/facetoface

Both questions are answered in *The Wall Street Journal* article, "U.S. Multinationals Reap Overseas Bounty," page A2, by Jon E. Hilsenrath, 4/4/05.

FOOD FOR THOUGHT



We didn't set out to talk about leadership, talent or the importance of people in a globalization strategy, but our interviewees led us there. Over and over again, we heard that a company can't successfully globalize without the right talent in place. Well thought out strategy is a given. Technology is important. Infrastructure is critical. Speed to market is essential. But without a team of savvy managers who can operate across cultures, it will go nowhere.

Randy Thurman put leadership as the most important critical success factor in globalizing. "We have had to develop leaders at several levels who can think globally. Without leadership, you can't execute." He looks for senior managers with substantial international business experience.

It takes the right talent to translate a strategy into an executable action plan. "If you are a CEO, you must be willing to get on a plane to wherever your team is," advises Amir Goldman of TL Ventures. It is the direct contact that makes the strategy come alive.

Allen Miner, a U.S. national with many years of business experience in Japan, knows that the individuals on the ground must live and breathe the local environment. And he knows that to move the business forward, those people from headquarters must see themselves "as an advocate for the overseas operation to headquarters, rather than acting as a headquarters advocate to the overseas organization." The right people, he notes, have "an entrepreneurial bent, a passion for the product, and a deep commitment."

That passion and commitment is to be found in every corner of the globe. Those CEOs who can find, nurture and inspire that talent will be the ones with the greatest competitive advantage.

Please share your thoughts with us by completing the survey at www.morganlewis.com/facetoface



Morgan, Lewis & Bockius LLP

guiding your growth globally

With one of the most recognized Emerging Business and Technology Practices, Morgan Lewis is consistently ranked among the world's leading law firms for a reason: We deliver effective solutions to our clients. From day-to-day business transactions to the most complex needs of global businesses, our clients trust Morgan Lewis.

www.morganlewis.com/go/emerginggrowth

Ask Our Clients. [Ask Morgan Lewis.](#)

Morgan Lewis
C O U N S E L O R S A T L A W