



<i>Case</i>	<b>Abido Tech</b>
<i>Class</i>	<b>Opening a Subsidiary</b>
<i>Assignment</i>	<b>Design a plan for expanding in Japan</b>

**Overview:**

You are VP of International Sales, responsible for sales of a combination hardware/software video editing solution with an average sales price of \$125k. The software has been purchased by broadcasters, corporations and film production companies who use the product to reduce their production cost by up to 70% and make multiple versions of videos, which is very difficult to with analog editing products. Customers include NTT, NHK, Kao Corporation and Tohokushinsha. There re is a range of models, starting at \$25k and going up to \$150k per system. You started the Japanese territory two years ago with no revenue and have grown the business to \$1M per year. You work with an exclusive distributor, Techno-wise, and signed a three year contract two years ago. They have a three year quota of \$5M. The Japanese market is large, with sales of traditional analog equipment well over \$200M a year. Your product is a digital version and currently you have two direct competitors selling digital technology, one British and one American. You estimate the market for digital editing is \$100 million in Japan. The Japanese business is not performing as well as expected and you have to report to the Board of Directors with your plan to improve the business.

Techno-wise has two dedicated sales people and one dedicated sales engineer focused on your product. You receive close to US list prices for your product, after Techno-Wise’s commission. You receive a letter of credit for each order so you have no credit risk. However, you recently relocated to Japan and have been working out of the Techno-wise offices in Tokyo. You travel to other markets when you are not in Japan. When you previously visited Techno-wise, you were very impressed by their dedication to your business. However, having worked out of their offices now for 3 months, you are beginning to believe that Techno-wise is not representing you well in Japan. Despite enormous potential in the market, they only attend two trade shows per year, spend almost all their time selling only in Tokyo, and have no dedicated marketing person focusing on your product. They employ a number of workers who don’t seem to do much of anything but read the newspaper.

Most importantly you can’t figure out how much Techno-wise is charging the local market for your product, but you believe it is between 2 and 3 times US list price. They only sell the high end products. Some local customers have purchased in the US and imported your product to Japan. In that case, Techno-wise does not want to support these customers.

As an exclusive distributor, they have the ability to generate software license keys. You believe that they also sell illegal copies of your software, keep the profit and pay you nothing. You have no proof of this but you suspect this is happening.



## 15.387 – Entrepreneurial Sales

Abido has opened subsidiaries in Germany and the UK and their businesses have grown from \$1M when they worked through exclusive distributors to now over \$10 million each. You recently attended an international sales meeting with the head of US and Europe and believe those markets have a big advantage because they have hired their own staff, have dedicated marketing and are now pursuing partnerships with multiple resellers, none of whom have exclusive country agreements. They sell to a range of customers at a variety of price points and therefore are reaching multiple market segments.

### **The Numbers:**

Hiring a salesperson will cost \$100k per year base salary and \$50k per year commission at plan. An SE costs \$75k base and \$25k commission at plan. A marketing person costs \$85k in total. A support person would cost \$75k per year. You would also need to find an office, which would cost you \$5k per month plus utilities and phone. A good marketing programs budget would be \$100k per year.

### **Assignment:**

Devise a plan that would help you grow your business to \$7 million annually in two years. You have a number of options to consider:

- 1) Terminate the exclusive agreement, hire your own staff and form a subsidiary.  
Terminating the agreement would cost \$100k. You worry that Techno wise will sign an agreement with a competitor and potentially take your current customers with them. If you open a subsidiary you have to provide customer support for your installed base.
- 2) Make Techno-wise a master distributor and have them sign up multiple resellers reporting to them.
- 3) Terminate the agreement, citing sales of pirated licenses and sign another exclusive distributor.

Choose one of these options and present your plan to the Board of Directors.

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