DTU Management Engineering
Technical University of Denmark

FOUNDATION FOR ENTREPRENEURSHIP
YOUNG ENTERPRISE DENMARK

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CASES for DTU course "Knowledgebased Entrepreneurship"

Case EnCode: Expansion strategy; USA or what?

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Background

As they wrapped up one of their regular weekly meetings, the owners and founders of Encode were still thinking about how they were going to move the company forward. They had been contacted by a company from the US and were very intrigued by the prospect of doing business with this customer and would have to make a decision soon. As a small young company with limited resources there were many restrictions to the number of expansion options that they could realistically pursue. If they were honest with themselves, they had to admit that the company in its present situation was not prepared to service international clients. However, this US-based client could be just what the company needed at this time.

The three founders of EnCode were former employees of a now defunct advertising company that ran out of money in connection with the recession in the late 90`s and declared bankruptcy. Together, they bought the IP of the old company and attracted their first and largest customer to the new company 'EnCode'. Since 2001, Encode has supplied software solutions to local and international Danish companies.

The Product

Over its relatively short life EnCode has developed state-of-the-art expertise in supplying flexible software systems to companies with significant advertising budgets. Its clients are marketing departments, advertising agencies and retail chains that want to enhance workflow efficiency and knowledge sharing between internal departments and external agencies, to create dynamic communications. The company offers three main systems:

- Encode Marketing which is a digital solution for controlling and managing brand's identity, logos, guidelines, marketing workflows and production management in a local or global marketing department;

- Encode Agency which is an online portal where users can share documents and assets in all formats, repurpose material, proof and approve online; and

- Encode Retail is a system that connects marketing, purchasing and graphic design and its many functions allow for combining of goods, logos, product images, texts, access control, e-mail notifications and workflows.

Whether the customer employs a workforce of 5 or 10,000 is not important; Encode can modify its systems to support all sizes of business and deliver a significant and measurable business effect.

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EnCode´s solution allows its clients to gain time on their marketing operations, which is why the company's motto is Time to market! However, this high level of customization calls for close contact to the customer and this creates several challenges for the company. It would like to be able to offer a more standardized version of its software for the market which would help to streamline its operation.

Growth & Markets

EnCode has grown steadily over seven years to its 2012 size of 19 employees, distributed across development, management and sales functions. The company has also seen a steady increase in revenues to approximately DKK10 million at the end of 2009. Interestingly, the company's revenues rose steadily from 2007-2009 in the heat of the financial crisis when many companies were cutting advertising budgets resulting in declining global advertising spending. Recent reports however, have shown that since 2009 global advertising spending has been increasing with the biggest increases happening in the US market while spending in Europe continue to lag behind.

Despite its relatively short life, EnCode has developed an extensive network in the industry and the company has been approached by potential clients from many different international markets through this network.

Late 2011 EnCode was contacted by a US based company that could not be ignored. This caused the EnCode partners to give serious thought and consideration to how they should response since this was an opportunity they all agreed that could move the company forward.

Any solution that they come up with must take into consideration the fact that EnCode´s solutions are to a great extent tailor made and require close contact to the customer. This means that for them to enter into a business relation with this new client, they would have to set up an office in the US which would be costly. What to do?

Your tasks:
How should EnCode orchestrate its entry into the US market?
Comment on the following:

1. How can EnCode find a person to represent the company in the US?

2. What kind of profile should this person have?

3. Is the US market the right choice as the second market for establishing an office? List a few considerations that you would use to evaluate this.

What really happened:
A quick and easy solution was found – by sending a Dane who was available and willing to move to the US. The person received 3 months intensive training in the product and afterwards sent to the US.

This proved to not be a successful solution because:
- Not enough resources in DK to support and follow-up
- The person did not make new sales due to lack of knowledge of the US market – and not sufficiently mastering the product as a solution to US customers' challenges.

Lessons learned and actions taken:

1. Encode decided to target geographically and culturally closer markets, starting by UK.

2. EnCode hired a British citizen with solid knowledge of the industry and the market. Intensive training took place in DK to ensure that the new sales person developed a close relationship to the company and the management in Denmark.

3. The US experience helped to identify the right person with the right profile and the right contract:

   - An attractive incentive package was agreed upon, including low salary, high commission and an additional bonus program.

   - The UK marketing plan was designed on more realistic expectations on how long it takes from first customer contact to final order.

The first order in the UK came after 8 months.

The UK remains a very good market for EnCode with good growth and today the organization consists of an additional sales person, as well as 2 telemarketing employees.

The UK experience is today the model for further international expansion.