The Internationalization process of the e-marketplace Scanmarket A/S

Executive Summary

The case describes the initial internationalization process and the considerations about future international expansion of a successful e-marketplace where customers (doing reverse auctions) are the focus. It is the goal to find a type of entry mode that is suitable for Scanmarket, meaning a fast, broad and deep international expansion process that is possible to handle with limited number of resources. The case raises important questions of the importance of physical presence and trust for a dot.com firm selling digital products, that in theory can be handled through processes by digital actors. The case illustrates challenges facing managers of dot.com firms. The case can be used in three types of teaching situations: (1) classroom discussions; (2) as an illustrative case that confronted theoretical issues used in lectures; and (3) finally as the fundament for examinations.

Introduction

Scanmarket develops and sell digital product based on an Application Service Provider idea, where the buyer contacts Scanmarket and buys a subscription to the system, which gives him unlimited access to the system for one year, where he can conduct as many reverse auctions as he wants. Reverse auction is a buyer-oriented marketplace facilitating matching of organizational buyers and sellers based upon variable price setting. Reverse auctions supports primarily the negotiation phase and to a certain extent the information searching and evaluation phase while suppliers often are contacted and qualified before the auction. In that way reverse auctions can be used for both spot and systematic sourcing of both manufacturing inputs and operating supplies. In other words, the Scanmarket customer buys access to a digital product that enables the customer to formalize the negotiation process when purchasing products and services.

> The primary marketing message is: Scanmarket enables the buying organization to reduce cost in purchasing by reducing process-time and product price… The suppliers will also experience process-time reduction and that gives the suppliers the possibility to sell to a lower price and maintain an appropriate contribution margin. (Betina Nygaard, Scanmarket, June 4, 2004)

Personal face-to-face selling had been important, especially in Denmark. When Scanmarket interacted with their customers (buyers in the system), there was a focus on relationship building. Scanmarket was always next to the purchaser when the first auction was started and the employees at Scanmarket visited the suppliers 2-3 times a year afterwards.

Usually Scanmarket helped the customers the first time they had to conduct an auction. This usually took about 1½ hour. Usually implantation of new IT-systems required seminars and a technical consultant from the IT supplier employed at the company for a shorter period of time. This was not necessary with the Scanmarket system. However it had changed because Scanmarket focused on big (top-100) companies with professional procurement departments and because a lot of the crappy products did go out of the market. Scanmarket was monitoring the use of auctions in real-time and could help the customer getting started on a distance. If Scanmarket can see that a customer did not use the system for a while, a personal contact was established. In the extreme case there was no need for being physical present at the customers' location. However, from a psychological point of view it was important to have a business address in the current country.

An international market entry into a new country started with creating a list of the top-100 firms in the current country. In the next step Scanmarket located and called the purchasing director at each of the potential customers. Scanmarket asked for an opportunity to demonstrate the product in a face-to-face meeting. At this meeting, the last actual procurement activity and how this could have been done in Scanmarkets system were discussed. It was the experiences of Scanmarket that the difficult issue was to make the potential customer able to understand how the negotiation process could be, when using the Scanmarket system.

Development of Scanmarket's offerings: from open to closed e-marketplace

The Danish e-market Scanmarket.com was established in the late 1999. Even though the e-market is relatively young, it has gone through a rapid development where different business models have been tested. The founder and current CEO of Scanmarket Mr. Ole Nielsen had been working with sourcing and procurement for a number of years when he was discussing with his father, how the slow and often inefficient purchasing process, which had not changed for many years, could be more effective when using the Internet. This was at a time where the dot.com hype was at its highest and both Ole and his father were convinced that the Internet would revolutionize sourcing and procurement as it was known at that time. The discussions lead to the foundation of Scanmarket - the first Danish B2B e-marketplace. After 6 months other Danish e-marketplaces opened.

When Scanmarket had been running the open e-marketplace for nearly a year, the company closed down the e-marketplace. It was not working in practice.

> Earlier we believed that we had a good system and that an open B2B e-marketplace would work according to the theories, however, we found that this did not work. (Ole Nielsen, CEO, Scanmarket, Feb. 19, 2003)

The open marketplace concept where everybody could see what and from who a specific purchaser was buying some goods, was not working in practice. The idea should be fine in theory. The Internet brought together known and unknown suppliers from all parts of the world. However, the idea of trading with a supplier that you don't know was problematic. Often the unknown suppliers could not meet the criteria on time delivery and quality.

In the beginning of 2001 the open system was closed down as a result of these problems. The company now worked as consultants for a short period of time, helping buyers purchase non-strategic goods. This led to higher trust between the different buyers and Scanmarket. The buyers wanted them to help with strategic goods. That was more than Scanmarket could handle:

> It is easy to know something about 5 product groups; it is harder if not impossible to know something about all product groups. (Ole Nielsen, CEO, Scanmarket, Feb. 19, 2003)

It was time to focus on the open e-marketplace again and now the idea was to change it into a closed e-marketplace. The buyers had to invite the suppliers. This new system was launched in November 2001.

Actually, it was not possible to integrate the Scanmarket system with the systems in the buyer's firm. However Scanmarket was working on developing a feature so the system could be integrated into different enterprise resource planning (ERP) systems. This was an offer to the buyers, not something which they had to do. The integration ensured that the supplier database easily could be transferred from the ERP to the Scanmarket system. The system would then be able to transfer the historic information from the ERP system to the Scanmarket system and vice versa. The fact that there was no integration requirement in Scanmarket's system was actually an advantage; the resources that the buyer had to use to start the system were very low. The user got a password and a login name and 1½ hour after the start; they were ready to use the system. The Scanmarket system was based on an Application Service Provider concept, where the users subscribed to the system. This meant that the user got unlimited access to the Scanmarket auction system when he paid the yearly fee. In that way the user did not need to use resources on developing their own systems and they benefited from the new features that were initiated from the inputs Scanmarket gained from other users. The system was closed both on the buyer and the supplier side. The buyer-side had the control of the system and was always the initiating party. The system was also closed on the supplier-side, as the sellers could not initiate any processes. The system was mainly developed to serve the buyer and therefore the buyer's needs were in focus. This orientation was based on the following notion:

> The competition in Denmark and globally is so strong that it is hard to take market shares from the competitors. Often, one million in profit means 10 times in turnover and this is difficult to achieve because of the competition. However, it is relatively easy to earn 10 million on procurement savings and these savings are transferred directly to the profit line. (Ole Nielsen, CEO, Scanmarket, Feb. 19, 2003)

The buyer was in control of which suppliers that was invited to participate in the auctions. It was the same suppliers as the buyer had in his existing supplier database and therefore he was certain that these suppliers could fulfill the demands that the buyer had for delivery, quality, etc. The buyer added some extra suppliers that he hoped could fulfill the needs of the buying company. The system did not give the buyer the possibility to pick new suppliers from a common database in contravention of the wishes from many buyers. Scanmarket did not want to add the feature to the system because they did not know how to handle the situation. Technically speaking it was easy. The main reason to the Scanmarket opposition was that Scanmarket only wanted to be regarded as a supplier of a procurement system. If Scanmarket added suppliers to the system that failed to deliver, it would create a

bad image. Another reason was that companies competed both on sales and procurement activities and therefore it was crucial that the suppliers were kept unknown to other suppliers and to the buyer's competitors. However, there was nothing in the system that stopped the buyers from adding new suppliers to the auctions, they just had to find and approach them the usual way. This was the purchaser's job – they still had to search the market for good suppliers. The system only helped them in minimizing the time and resources used for negotiating prices. The system was:

> ...a stupid system that only compares prices, nothing else. (Ole Nielsen, CEO, Scanmarket, Feb. 19, 2003)

A lot of issues came before price when a purchaser evaluated a potential supplier, e.g. quality and development. These elements would sort out some suppliers. If the start was ten possible suppliers, only few could fulfill the demands defined by the purchaser. The last issue was the price. This was where the system came into play. The purchaser's task was to scan the market in order to find a group of qualified alternatives. The system helped with finding the true price and also to save time in the procurement process.

> The buyers' primary motive is to lower down the prices and some of the buyers want also to reduce the process time. The suppliers agree to participate in the auction because they have to. (Betina Nygaard, Scanmarket, June 4, 2004)

Typically the system handled goods, which was easy to specify. However, Scanmarket did not take a stand concerning the goods traded via the system. Both strategic and non-strategic goods were auctioned by the system where strategic goods often are understood as products that are bought to build into the product that the buyer manufactures. The system was very formalized and the suppliers did not have any other parameters to differentiate between, when the auction started, than the price. Although, all types of goods could be sold in the system, it was often non-strategic goods or goods for maintenance, repair and operation (MRO goods), which were sold in the system.

Organizational development: From a tiny local to a small international player

The development of the e-marketplace had been a hard fight, and Scanmarket was one of the few Danish dot.coms that survived after the investment-driven dot.com hype. One of the reasons was that the company never had any loans and overdraft facilities.

The first financial year as a private (limited) company Scanmarket had a negative result on 900.000 DKK before tax for the period June 2, 2002 to December 31, 2003. In 2004 Scanmarket had positive monthly revenues and expect to generate total revenue for 2004 between 2 and 3 million DKK. The buyers bought for 3½ billion DKK in 2002/2003 and it expected that this number will increase to 5-6 billion DKK in the financial year of 2004. (Dietrichsen, 2004).

In other words, Scanmarket was a small company with limited resources, but it was the experiences in Scanmarket that the needs for customer support were very limited when the customers had got experiences with the Scanmarket system.

> We have a very user-friendly system so we get less than one customer support-call a day… Also we can follow the auction activities and if we find issues that need to be corrected we call the customer. (Betina Nygaard, Scanmarket, June 4, 2004)

In addition it was possible for Scanmarket to make online product demonstrations for potential customers and handle concrete problems with a certain auction from the main office in Solbjerg, Denmark. It was possible to handle customer support calls until two o'clock local Danish time. It was not only customer support and training could be done on a distance. Also, "production" was not dependent on the physical location. Some of the minor important programming tasks had been outsourcers to firms in the Philippines.

Essentially, Scanmarket was a sales driven entrepreneurial company. The founder Ole P. Nielsen of the firm was CEO together with his father that also held the CEO title. The founder cared about the product and the expansion of the market opportunities for Scanmarket and left the "details" to the rest of the organization. Table 1 illustrates the organizational activities and responsibilities at Scanmarket that roughly could be divided into activities a) before and during the sales process, b) after the customer had been acquired, c) the development of the Scanmarket system and d) organizational support.

Table 1: Organizational activities and responsibilities at Scanmarket, June 2004

Activities	Issues	Director OPN	Consultant BN	Consultant TS	General agent JMJ	Programmer SS	Programmer KN	Director VPN	Secretary IN
Pre-sales and sales process	New markets in general	▨	▨						
	Sales in general					▨	▨	▨	
	German focus	X							
	UK focus			X					
	USA focus	X			▨				
After sales	Education and training		▨	▨	▨				
	Customer support					▨	▨		
Production	System development	X				▨	▨		
Organizational support	Accounting							X	
	Administration								▨

The crosses (X) symbolize managerial responsibility and grey areas symbolize the task responsibility for the current employee

On one hand this organizational setup was weak in the sense of clear focus because many of the employees (especially Ole P. Nielsen) had many responsibilities. On the other hand the organizational setup was strong because there was human link between the sales, after-sales and production activities. However, the economic management control was the weak link. Even though the other CEO Vagn P. Nielsen had the formal responsibility was in realy outsourced to an external accountant took care of the bookkeeping.

International experiences

In the start of Scanmarket the goal was to establish Scanmarket on the Danish market:

> The starting point was to create a company that also opens tomorrow, the fundament should be in order, and we needed to cover our fixed cost. Often the customers ask us: "Are you here tomorrow?", this is extremely important. This [the Scanmarket system] is a process and when you use time and effort in such a process and you shift to a new system, you need to train your employees again. . (Betina Nygaard, Scanmarket, June 4, 2004)

The internationalization process of Scanmarket started when Scanmarket still was working with the old product - the open e-marketplace. A Danish woman Vibe Puggaard that had moved to England, because her husband had got a job there, contacted Scanmarket. She asked if she could be the Scanmarket representative in England. She started the UK sales offices in January 2001 on a commission basis. In 2003 Vibe Puggaard moved home to Denmark with her family and an agent was hired to serve the English market. Also in 2003 a strategic alliance with ADR International Purchasing Consultants was formed to sell the Scanmarket system to the customers of ADR International that was present in UK, USA and South Africa. Scanmarket was very pleased with this arrangement. In 2004 Scanmarket created a virtual office in UK. Together with the UK market responsible at Scanmarket, ADR International and an independent agent handled the UK market.

The German sales office opened in June 2003 and it was handled by an agent on commission basis. The agent Teit Silberling was Danish and was interested in a formal employment at Scanmarket. In the summer of 2004 the CEO of Scanmarket Ole P. Nielsen moved to Germany in order to help with expanding the sales in the German market. Ole P. Nielsen met with the big customers together with the agent and he also developed new customers on his own. A German contact bureau helped with booking these meetings. On the longer run it was the meaning that the agent should handle Germany personally.

During the Christmas holiday of 2003 a contact was made to the Dane Johan Møller Jensen that previously was selling business intelligence software from the Danish IT-firm Targit A/S. The Targit software was sold through Navision partners. The goal was to sell the Scanmarket System through partnerships with existing IT-solution firms that are experienced in the market as they already was certified as Navision solution partners. These partner would act as agents. After the meeting the North American sales office, which covered USA, Canada and Mexico, opened in January 2004. The agent got the exclusive right to sell to the customers in the current state and the agent agreed to buy a certain amount of licensees every month. The price of the exclusive right corresponded to the potential sales in the state. The head of the American sales office acted as general agent and he were paid commission for each license sold in the USA. The commission should cover the training of the partners so the agents could handle customer support. In that way Scanmarket Denmark did not have any customer interaction with North American customers.

In January 2004 the first Swedish customer came to Scanmarket. The contact came through a Danish customer's membership at EMD AG. EMD AG was an international central purchasing and marketing organization with primarily autonomous and independent grocery trade firms in 15 European countries as members. The Swedish customer was also a member of EMD AG. Scanmarket saw cooperation with EMD AG as a possible international

expansion vehicle so some test were planned in 2004 regarding the possibility that EMD would recommend Scanmarket to EMD-members.

In the relation to the Swedish customer, the Scanmarket system was translated to Swedish and the customer paid for the translation. It is the normal procedure in Scanmarket to make the first customer pay for the translation. This did cost 25000 DKK and took three weeks. In the summer of 2004 five languages were available; Danish, English, French, Spanish and Swedish. The Scanmarket customers' primary concern regarding language options were that the domestic language should be an option together with English.

Table 2 shows that Scanmarket had 89 active customers in June 2004, where the majority came from Denmark. The table also illustrates that the international expansion took of in 2003 when Scanmarket got one customer from Germany and four from UK. In the first half of 2004 more customers came from Germany, UK and also USA and Sweden.

Table 2: New customer distribution by year and market

| | New customers in the year of: | | | |
	2002	2003	2004	Total
Denmark	28	31	17	76
Germany		1	3	4
Sweden			1	1
UK		4	2	6
USA			2	2
Total	28	36	25	89

June 2004

However the number of new customers did not tell the whole story. Scanmarket saw a tendency that foreign customers bought more advanced and expensive versions of the Scanmarket product. The Scanmarket system was in the middle of 2004 sold in three versions.

**Table 3: Product sold distribution by versions and markets**

| | Product versions: | | | |
	Bronze	Silver	Gold	Total
Denmark	40	33	3	76
Germany	1	3		4
Sweden			1	1
UK	1	2	3	6
USA		2		2
Total	42	40	7	89

June 2004

The Bronze license was the basic solution for a one-user license and the price was 19,500 DKK. The Silver license included the possibility for the customer to having 5 users, designed with the customer's own logo, two colors, and 3 standard languages options. Also the Silver license made the customer able to use some of the new auction type developments. The price was 50,000 DKK. The most expensive Gold license did cost 125,000 DKK. The

customer could have 15 users that could use all auction types. The Scanmarket system could be designed after the customer's specification and all five language options were a possibility.

Based upon this information it was possible to calculate the turnover for each market in order to rank the importance of the market as they were in June 2004. Figure 1 illustrates the origin of turnover: In June 2004 the Danish market had the dominating part of the total turnover at Scanmarket.

Figure 1: Origin of turnover
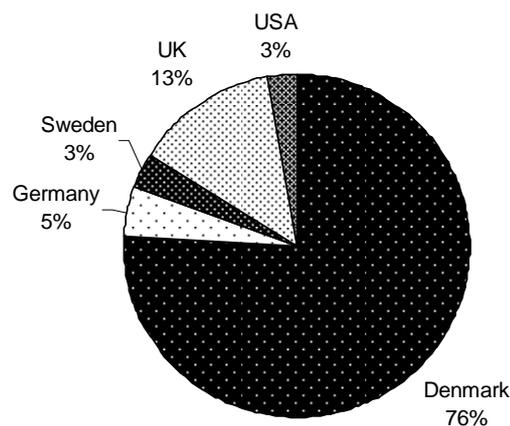
June 2004

However, the focus in Scanmarket did not reflect that the Danish home market was dominating. Figure 2 can help in explaining this misfit between the turnover origin and the market focus. The figure illustrates that the international customers had had a big impact of the origin of the turnover. Taking each year separately, in the middle of 2004 the Danish market only contributed to approximately half of the turnover.

Figure 2: Turnover origin for each year
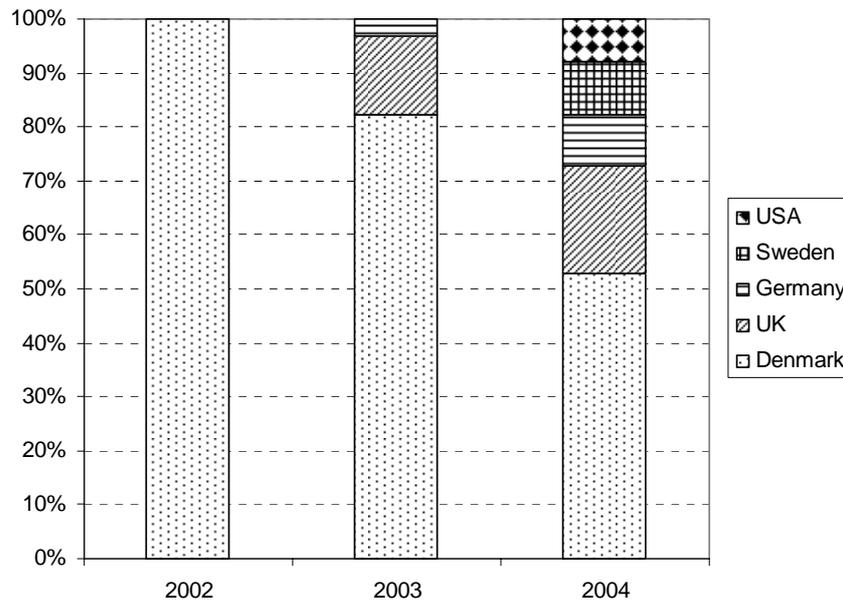
June 2004

Looking back on the relatively short internationalization process of Scanmarket, the experiences from UK and USA had made big impressions at Scanmarket:

> The USA-model and ADR have been the most important experiences because this wake-up-call had made it possible for us to see that international expansion can be done fast and in another way than if we should do it "correct" from a traditional point-of-view. This gave us ideas to how to proceed in the future as a combination of USA and ADR. In that way we can start new markets without using too many resources. (Betina Nygaard, Scanmarket, June 4, 2004)

The international expansion in Scanmarket of the future should be understood as project-based work that ends with 10 reference customers. Then the market responsibility can be handed over to external partners. A new market can then be approached. This can be done with limited resources.

The priority of markets was based on how IT-experienced the country was. The data for this selection was the e-readiness rankings (Economist Intelligence Unit, 2004) where a country's e-readiness essentially measure its e-business environment. When the countries of interest were identified the next step was to locate IT-solution firms like them in USA and consulting firm like ADR International in UK. When these types of firms in the current country were found there was a need for dialog in order to understand if a partnership could be appropriate. However, Scanmarket was not certain how this type of screening should be done.

Additional Scanmarket was willing to take sporadic inquiries from other countries seriously.

> Last Wednesday we had a call from Israel, he was interested, it is clear that such kind of approaches will not end in the garbage can. If we do it like this [combination of USA and ADR, red.] there is no risk. (Betina Nygaard, Scanmarket, June 4, 2004)

It was also a question about the possibility to use Scanmarket existing customer base to create new customer leads.

> This [usage of existing customer base, red.] is possible. However, it is a slow process. On the other hand, the potential customer in UK I will visit in next week came through an existing customer; such kind of leads will not end in the garbage can. (Betina Nygaard, Scanmarket, June 4, 2004)

This had not been a deliberate strategy in Scanmarket to use the existing customer base to create new customer leads. One of the reasons is that it is seen as a slow process that you can not plan.

> We are in the need of an action plan we follow until the sporadic inquiries arrives. If this random inquiry can be handled with limited resources and without loosing the focus we will of cause take this customer in. (Betina Nygaard, Scanmarket, June 4, 2004)

Internationalization challenges facing Scanmarket

Scanmarket felt the need to consider how to handle the international expansion in the future. The hard work in Denmark was over. One fulltime employee in Denmark was enough. The rest of the sales oriented people in the Danish office should find partners in other countries and would also take concrete customer leads in countries with no representation.

It was the opinion in Scanmarket that the physical presence could be handled by a partner if they had the same business philosophy as Scanmarket: that they would nurse the customer. Until Scanmarket had 10 customers in the current country and the customers were using the Scanmarket system on a continually basis, there was a need of focus and surveillance from the people at Scanmarket Denmark.

On the longer run Scanmarket wanted to find general agents like the case of North America in each country so it is possible to outsource the customer contact. The ideal internationalization process for Scanmarket was seen as a fast, broad and deep international expansion that was possible to handle with limited number of resources. It was not the wish to establish a big and resource demanding organization. The goal was to have a small organisation that took countries in as "projects" that later was handed over to a general agent in the current country. Franchising was not of interest because Scanmarket did not want to sell the right to use the company name.

The open question was how the process in selection and prioritizing of the markets and potential agents should be. Planning oriented processes based upon e-readiness rankings and the like was one way. Involvement in membership organizations as EMD AG was another. Also, Scanmarket had often acquired customers who had been invited as suppliers and afterwards wanted to use the system for their own procurement activities. This could also be a driver for the international expansion of Scanmarket, if it was not the case that most of the auctions handled by the Scanmarket were only focused on domestic suppliers. It was not clear what the reason was.

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