



The Internationalization Process of the E-marketplace FoodIT A/S

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Abstract

This case describes the early internationalization process and the considerations about a future international expansion of an e-marketplace. The case illustrates the complexity of internationalizing an internet-based SME. FoodIT is trying to identify the most suitable entry modes; i.e. entry modes that can handle a fast, broad and deep international expansion process with very limited resources. The case raises important questions as to the importance of physical presence for a dot.com firm selling digital products; products that in theory can be distributed digitally but in practice need to be organized by real people having real face-to-face dialog.

Introduction

FoodIT develops and sells a digital product, based on an Application Service Provider idea. The application software resides on the FoodIT's server and is accessed by users through a web browser. In other words, no installation at the user premises is required. However, integration with the buyers' ERP-system is possible.

According to the CEO of FoodIT Kurt Krogsgaard (2006) FoodIT is a “pretty big and complex system” and essentially the offering is “a system by which it is possible to organize your procurement department... additionally we sell all the services related to get the system up and running”. FoodIT is a process enabler: “A standardization of the process will take place when using a system as ours. It is a mega step forward in a positive direction for many firms and in return it is a very difficult process. This is one of our market entry barriers.” The reason for this severe market penetration problem is the fact that “the buying company needs to systematize in relation to the questions who are the suppliers, who are approved, who are preferred and what is the product specification. Often, the company has not made that systemization.” On the other hand, the FoodIT system does not change the procurement

The author will like to notice that this case was made possible through the generous co-operation of FoodIT A/S. The case is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of management situations.

process as such: “Essentially, the business principal is the same... it is here we have had a major success and we are very pleased with that. Therefore, the best feed-back we can get is when a sceptical procurement manager tells us that our system processes are the same as normal procedures. When they can see that they are ready for our system. The only difference is that the system is digital.”

The focus of the FoodIT e-marketplace is to assist the procurement personnel in sourcing from suppliers (selection of new suppliers as well as the negotiation of framework contracts) and in handling the transactions efficiently (with the purpose to decrease the time and the costs of processing orders and thus decreasing the final price of the traded product) by supplying the procurement personnel with catalogues, electronic tenders and reverse auctions trading functions. The catalogue describes the products and services offered by the suppliers; the tender is when the buyer sends a request to buy something; and the reverse auction makes it possible for the buyer to list a product or service which they would like to buy; suppliers submit offers, lowering the selling price for each bid submitted (Swedish Trade Council, 2006). In addition to these traditional e-market trading functions, FoodIT assists in supplier surveillance by giving access to information about products, trade names and sales personnel from suppliers, they handle the call-off of a partial delivery or execute other contract management for both the buyer and the supplier. Suppliers enter and confirm every step of the delivery and quality control and give access to purchasing and contract statistics as well as global product trade statistics. The suppliers have recorded and updated themselves in the FoodIT Supplier Directory (FoodIT, 2006).

Approaching the customers

The customers are coming from the food industry and related industries. The sales and marketing process at FoodIT often starts at trade shows. Because the food industry is a limited industry, it is relatively easy to get access to knowledge about the companies in each country. In the next step, FoodIT contacts the potential customers and pays them a visit. According to FoodIT the difficult issue is to get the potential customer to understand the use and benefits of the system. Personal face-to-face selling is important in order “to convince a procurement department - it can be a procurement manager, a procurement director or the top management in the company - that they should try the FoodIT system for some of their procurement activities... It is important to have extensive knowledge about their business. They can have extremely many reservations as «I cannot use it because this and that»” (Krogsgaard, 2006). Face-to-face dialog is therefore very important.

Price

The buying company pays an annual license fee for the right to use the system. There are no additional costs for the suppliers. The license includes the right to unlimited use of the e-marketplace during the license period, including the use of the additional features that might be added during the license period. However, because most of FoodIT’s customers are in the upstart phase, FoodIT recommends that the buyer pays per transaction and the related

consultant services are paid per hour. The transaction fee is at the moment 1% of the purchased value until €150,000, 0.2% from €150,000 until €750,000 and then 0.1 % for trades with higher value. According to FoodIT it is very cheap: “In some of the bigger transactions during the last months, we have had buyers that saved DKK 20 millions on a purchasing process that took a week. They paid us DKK 150,000. In another transaction they saved DKK 2.2 million and they paid us DKK 53,000” (Krogsgaard, 2006). Although the good return of investment of the FoodIT system is so obvious, the big figures can be a barrier and therefore dialog is needed in order to sell the system, because the buyer will focus on the figures and say: “It is a lot of money, we will prefer to hire an extra procurement manager instead... However, when they have tried it a couple of times and they can see how much they can save, we are not talking financial issues anymore” (Krogsgaard, 2006). In other word, the customer pays for access to the system, which is a network of potential suppliers.

Supporting the use of the product

Because the procurement part of the FoodIT system, it is rather complex, FoodIT prefers to be next to the buyer’s procurement personnel the first few times they use the system. A part of the agreement is that FoodIT gives the customer one day free assistance. “During one day, we can give them access to the system, train them and make it running. We go through a couple of exercises where they tell us what they would like to buy and then we go through the scenario with some test suppliers we have in the system. In a couple of hours or a working day, we can illustrate in a very precise manner how they should use the system” (Krogsgaard, 2006). After the face-to-face personal training session, it is not important for FoodIT to be physically present. Then the presence can be handled virtually: “We use some conference software that makes it possible for us to log-in on their computers to see what they do. Over the phone we can guide them. I.e. when they start an auction, then we can look over their shoulders as if we were sitting next to them... In doing so, we guide them without the need of being physically present” (Krogsgaard, 2006). In order to make an efficient flow, FoodIT does also consider the suppliers as customers and they receive the same service as the buyers but only virtually. Both buyers and suppliers have access to an online and phone-based helpdesk 24 hours a day. In other words, at FoodIT the support process starts with face-to-face interaction which can later be supplemented by interaction on a distance through the Internet.

Development of FoodIT’s offerings reflecting their change of customer focus

The Danish e-marketplace FoodIT was developed in 1999 and launched in June 2000. Even though FoodIT is a relatively young firm, it has gone through a development where different business models have been tested.

The founder and CEO of FoodIT, Mr. Kurt Krogsgaard has worked in the food industry for 30 years. Before establishing his own firm 14 years ago, he served as a sales and marketing director at Aarhus United, a major supplier of vegetable oil products, where he was

in charge of the firm's internationalization process. The CEO of FoodIT was wondering how the slow and often inefficient purchasing process in the food industry, which had not changed for many years, could be more effective when using the Internet.

In 2000, the intention was to offer an e-marketplace to the small and medium sized firms as an alternative to the systems that the big multinationals as Danone, Nestlé and Unilever were developing at the time. The level of financial resources and know-how, that was needed to build such a system, was above what smaller companies could and would be willing to invest. "So we actually designed it to the small and medium sized firms. However, in practice, they do not use it" (Krogsgaard, 2006). In other words, FoodIT has re-focused its business model from focusing on the smaller firms to the big international firms because systematization of the procurement processes is more widespread in bigger than smaller firms.

Another issue was the pricing scheme of the FoodIT system. From the start in 2000, the system was marketed as free of charge for the procurement people and then the suppliers that won the contract should pay for the services. The rationale was that FoodIT acted as a sales agent for the supplier and it is always the seller that pays the sales agent his provision. However, the FoodIT changed the pricing model upside-down. FoodIT realized that the supplier would pay for getting a new customer, but FoodIT actually acted as an intermediary between the two parties in an existing relationship. "We called the supplier and said if you continue to do business with your current customer, you shall pay us a provision and they said: why should we pay you a provision for a customer we already have? We changed it rather quickly, it made no sense" (Krogsgaard, 2006). Again FoodIT changed their world view and thereby the business model so instead of focusing on the suppliers as the customers they focus on the procurement department at the buying companies.

FoodIT understood their e-marketplace as open and neutral. However, the experiences described above made it clear that the e-marketplace is buyer-driven even though it is open for suppliers. The suppliers can participate with company information in the Ingredient Supplier Directory that is a part of the FoodIT e-marketplace where buyers of ingredients can approach the suppliers via e-mail for purchasing requests. Thereby to be in the directory is an important marketing tool for the suppliers. The neutrality is handled in the way that FoodIT tries to help both buyers and suppliers in the training and use of the e-marketplace and FoodIT makes it clear that they do not prefer any specific buyers or suppliers. Today the buyer-side has the control in the system and is always the initiating party. The system is mainly developed to serve the buyer and therefore the buyer's needs are in focus.

Typically FoodIT handles goods, which are easily specified. Both direct products and in-direct products were traded. Direct products are often understood as raw materials such as ingredients, packaging materials etc. Although direct products as raw materials were the original focus of FoodIT, today also indirect products or goods for production machinery, for maintenance, repair and operation (MRO goods) as well as office-equipment, are traded in the system. FoodIT experiences that some procurement managers are using FoodIT for big contracts, because it is easy to obtain lower prices and some procurement managers are using FoodIT for smaller orders that they before did not pay any attention to. According to a case-

study of Carletti, a producer of chocolate and sugar confectionary, made by the independent eMarket Services, the reason for them to use FoodIT's e-marketplaces was the ability to reduce costs and resources and to extend their supplier base. Even though Carletti is very satisfied with the results of using FoodIT, they also have some concerns: "Our main concern is that everything becomes black and white. My point is that when you trade via e-marketplaces, it is possible to put things in boxes e.g. the price is crucial and sometimes this can compromise the quality. This is something that your organization must be aware of. We demand that new potential suppliers send tests samples to us before we even consider them as potential suppliers. Furthermore, the verbal communication with the suppliers is limited which also makes the trade more pragmatic and less social" (Jacobsen, 2004). This clearly illustrates another challenge for FoodIT, namely that the buyers' understanding of the benefits of an e-marketplace as FoodIT needs to be developed so trust in the system can be established. This development of understanding took longer time than expected. One of the reasons is according to a case study made by FoodIT that "... no doubt the fear for loosing the personal touch with the market is a real barrier" (FoodIT A/S, 2006). FoodIT has also recognized that if the buyer has had bad experiences with other e-marketplaces this has been a major entry barrier. However, this seems to be shifting in 2005. "In December 2005 we were at a trade show in Paris. Three years ago we experienced a substantial skepticism and almost nobody seemed interested. Now it almost seems inevitable that they will start-up. It is just a question of time before they will do it" (Krogsgaard, 2006).

Organizational development: From proactive global set-up to reactive regional set-up

The development of the e-marketplace has been a hard fight, and FoodIT is one of the few Danish dot.coms that survived after the stock-market-driven dot.com hype. One of the reasons is that the company had a good understanding from the investment firm in which FoodIT has been a 100% owned subsidiary since 2002. In 2002 the turnover was zero, in 2003 it was DKK 4,657 and in 2004 it was DKK 17,150. Each of the years had a negative result of approximately DKK one million and two employees. The management expects a smaller negative result for 2005 (FoodIT, 2003; FoodIT, 2004; FoodIT, 2005). In other words, FoodIT is a small company with very limited resources. However the investment firm is a part of a global multinational company with food manufacturers in many countries. Often there can be economic co-interest between these companies and FoodIT, so FoodIT can in practice have access to greater resources than the official annual accounts describe.

In 2000 FoodIT started with the ambitious goal to start almost immediately with a sales subsidiary in USA. "When we introduced our new firm at IFT, the biggest ingredients trade show in the world, located in Dallas, it was of course with the intention of establishing a sales subsidiary in USA in a couple of months. However, we accepted that this was not possible. Even though we had a brand new product, there were 5-10 competitors with the same idea and they had used substantially more money in developing and they were must larger than us. A year later, they had gone bankrupt all of them" (Krogsgaard, 2006). The reason for the ambitious goal was the very widespread expectation in 2000 that the development in the e-

marketplace area would be very fast. When FoodIT saw that this would not happen, they downsized the firm by letting the two international sales managers go and wait until the market were ready.

FoodIT is ready to serve the global market but has decided to reduce its current activities to Northern Europe.

International experiences

The initial goal was to establish FoodIT globally. In 2000 a small sales organization was established and two sales managers were hired. These two people should share the world between them. The ideas were that they should take country by country in step with getting the customers needed. The goal was to get one to three “nice” customers and then decide if more people in the country in question should be hired to expand the customer base and to make customer service locally. In these situations the original sales manager should not focus on the specific country any longer.

From 2001, FoodIT had customers in several European countries and a few in the USA from 2002. However, the sales never reached the needed level and the two sales managers were fired: “After the introduction in USA, we recognized that it would not happen so quickly as we had dreamt of, i.e. we could not hire the number of people needed to serve the whole world. We changed strategy to focus on buying firms in Europe that were limited to Northern Europe because Southern Europe was not ready and they are actually still behind. So we are focusing on Northern Europe. However, the suppliers are found globally. We have a database with 15,000 suppliers from all over the world. We work intensively on sales to buying firms in Northern Europe. At the moment we are ready to establish us in a number of countries. It could also be the USA here in 2006. However, you cannot handle the sales and support process in the USA without being physically present. Therefore, the USA have until now been left out of consideration. We have customers in the USA but they are all connected to companies in Europe” (Krogsgaard, 2006).

According to FoodIT, some issues should be in place in order to be ready for using the FoodIT e-marketplace. The procurement department should be able and willing to develop their procurement activities in a more systematic manner and to use IT and the Internet as a tool to help them with that development. In general, FoodIT found this to be more fulfilled in Northern Europe and in the USA.

Internationalization challenges facing FoodIT

The overall challenges facing FoodIT in order to expand globally are to get the potential customers’ procurement department ready for the FoodIT e-market place. FoodIT realized that the sales process needs to reflect that and this often means that the physical presence of FoodIT people is needed. Support activities are also crucial in supporting the development of the procurement activities by using FoodIT’s e-marketplace but here the physical presence is not a need in the same way as is the case in the sales processes. This means all together that, if

FoodIT should be able to serve the global markets, more employees are needed. For both sales and support processes the certain competencies of the sales and support people are essential, especially their knowledge of the food business is crucial.

It can be difficult to handle the sales process without being physically present in the market. Today, the CEO of FoodIT travels from Denmark to the customer location but this is a limitation for the reach and power of FoodIT marketing activities: “It can be difficult to organize a series of meetings with four firms in England within two or three days, because the people we want to meet are very busy. Therefore it is important to be physically present so it is possible to have the meeting when they have an hour. This is not possible to handle from the Danish office, however we do it now but it is not economically rational” (Krogsgaard, 2006).

If the sales people who should also be able to handle the support were placed on location in each of the focus markets it would also be more economically rational to handle the local face-to-face upstart education and the world wide online support. “When we have the right foothold, we will have an office in the Far East, one in Europe, which could be here and one in the USA. Then we have a service covering 24 hours a day” (Krogsgaard, 2006).

Even though the FoodIT e-marketplace is a digital product that can be distributed online without any physical processes involved, there is a need of more employees: “If it should be reasonable, we should be present in 20-25 countries worldwide with one or two employees at each site. We would be around twenty here in Denmark to maintain product development, documentation and marketing. A company size around 30-50 employees would fit our company well. Nevertheless, 30-50 are extremely few people when considering that we cover the whole world 24 hours day” (Krogsgaard, 2006).

In other words, according to FoodIT, more people are needed. The ideal sales and support people have a general interest in IT and decent language skills combined with industry specific competencies obtained by working as a salesman or as a purchaser in the industry for some years. Another general competence that is needed at FoodIT is a high personal drive and an ability to work independently, balanced with a high degree of being service minded meaning patiently understanding the customer and their present stage of development and at the same time being able to have an explicit focus on getting the benefits of using the FoodIT e-marketplace.

The open question is: How can a firm as FoodIT with very limited resources face these challenges?

Sources

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