BUSINESS MODEL MATRIX

Summary of Business Models
For International Operations

Thomas B. McVey[1]

Contents

BUSINESS MODEL MATRIX

Thomas B. McVey, Esq.

	Method	Description	Advantages	Disadvantages	Comments
1.	Sales Through Independent Sales Representatives, Agents	Company appoints independent party to market its product in foreign country. Company does not have an office or other facility in the country. Sales representative identifies customers and company makes sales directly to customers from outside the country. Agent is authorized to enter sales contracts on behalf of principal. Both are often paid a sales commission based on completed sales. Both are independent contractors – cover their own overhead and operating expenses. Both can be appointed on an exclusive basis for the country territory or non-exclusive basis.	Company can take advantage of foreign intermediary's knowledge of the foreign market and foreign customer contacts. Does not require significant investment of capital to set up; limited ongoing overhead expense to the Company. Company can control product quality and branding and market its product with a single brand on a worldwide basis. One of the easiest ways to set up marketing network around the world and begin selling on a global basis in short period of time.	Independent intermediaries can be difficult to control (unlike company-owned operations). Foreign intermediaries must be motivated to produce sales or may focus their attention on other opportunities. If foreign intermediaries do not have sufficient resources or expertise to market product Company will not be successful in targeted market. Termination of independent representatives or agents may be costly and/or complicated. Potential for channel conflict – if Company appoints representative as exclusive for a country this could conflict with other Company sales efforts.	One of the easiest and least expensive ways to set up international marketing network and begin selling on a global basis. Caution – If appoint representative or agent on an exclusive basis in a country, be sure to have minimum sales requirements and/or ability to terminate agreement in a short period; otherwise if intermediary does not market product on a satisfactory basis Company will be precluded from making other sales in that country.
2.	Sales Through Independent Distributors	Company appoints independent party to distribute its product in the foreign country. Company	Company can take advantage of foreign distributor's knowledge of the foreign	Independent intermediaries are often difficult to control (unlike company-	One of the easiest and least expensive ways to set up international

	Method	Description	Advantages	Disadvantages	Comments
		does not have office or other facility in the country. Distributor purchases product from the Company, takes title and possession of product, and resells product to customers. In addition to marketing, distributor often provides related services such as warehousing, delivery and customer support in foreign country. Distributor may also be involved in product localization in foreign country. Distributor is independent contractor – covers its own overhead and operating expenses. Distributor can be appointed on an exclusive or non-exclusive basis.	market and foreign customer contacts. Does not require significant investment of capital to set up; limited ongoing overhead expense to the Company. Company can control product quality and branding and market its product with a single brand on a worldwide basis. One of the easiest methods to set up marketing network around the world and begin selling on a global basis in short period of time.	owned operations). Foreign intermediaries must be motivated to produce sales or may focus their attention on other opportunities. If foreign intermediaries do not have sufficient resources or expertise to market product Company will not be successful in targeted market. Termination of independent distributors may be costly and/or complicated. Potential for channel conflict – if Company appoints distributor as exclusive for a country this could conflict with other sales efforts.	marketing network and begin selling on a global basis in a short period of time. Caution – If appoint distributor on an exclusive basis in a country, be sure to have minimum sales requirements and/or ability to terminate agreement in a short period; otherwise if distributor does not market product on a satisfactory basis you will be precluded from making other sales in that country.
3.	Channel Partners	A channel partner is an independent business in the foreign country that sells products or services that are complimentary to (but different from) the Company's products. The channel partner purchases the Company's product, combines its product/service with the Company's product and sells the combined product to the channel partner's customer in the foreign country. Company	Company can take advantage of foreign partner's knowledge of the foreign market and foreign customer contacts. Does not require significant investment of capital to set up; limited ongoing overhead expense to the Company. Company can control product quality on a worldwide basis. As with other methods of sales through independent intermediaries, is one of the	Independent intermediaries can be difficult to control (unlike company-owned operations). Foreign intermediaries must be motivated to produce sales or may focus their attention on other opportunities. If foreign intermediaries do not have sufficient resources or expertise to market product Company will not be	Is a fast and low cost method of entering a foreign market, and for setting up worldwide distribution. Must address whether Company will be able to utilize its own branding on sales of the "bundled" product.

	Method	Description	Advantages	Disadvantages	Comments
		does not have an office or other facility in foreign country. Is an independent contractor – covers its own overhead and operating expenses. Can be appointed on an exclusive or non-exclusive basis in the foreign country.	easiest ways to set up marketing network around the world and begin selling on a global basis in short period of time.	successful in targeted market. Termination of channel partners may be costly and/or complicated. Potential for channel conflict – if Company appoints representative as exclusive for a country this could conflict with other Company sales efforts.	
4.	Value Added Resellers ("VARs")	A value-added reseller ("VAR") is an independent business in the foreign country that purchases the company's product, makes enhancements or alterations to the product, and re-sells it to the VAR's customers in the foreign country. Company is not required to have an office or other facility in foreign country. Is an independent contractor – covers its own overhead and operating expenses. Can be appointed on an exclusive or non-exclusive basis in the foreign country.	Company can take advantage of foreign intermediary's knowledge of the foreign market and foreign customer contacts. Does not require significant investment of capital to set up; limited ongoing overhead expense to the Company. Company can control product quality and branding and market its product with a single brand on a worldwide basis. One of the easiest ways to set up marketing network around the world and begin selling on a global basis in short period of time.	Independent resellers can be difficult to control (unlike company-owned operations). Resellers must be motivated to produce sales or may focus their attention on other opportunities. If foreign intermediaries do not have sufficient resources or expertise to market product Company will not be successful in targeted market. Termination of resellers may be costly and/or complicated. Potential for channel conflict – if Company appoints representative as exclusive for a country this could conflict with other Company sales efforts.	This is an excellent strategy for penetrating narrow market niches which require specialized enhancements or customize improvements to Company's product. The Company also obtains the benefits of the relationships that the VAR has with its customers. Care must be used to select the right VAR partner, with good reputation and strong market dominance in its field. If you join forces with VAR's that are too small, especially in an exclusive relationship, this will limit your sales

	Method	Description	Advantages	Disadvantages	Comments
					to and through other parties in the territory.
5.	Master Regional Developers	With a Master Regional Developer, the Company appoints a master sales representative or master distributor in a geographic region (eg Southeast Asia, Central America) and the master party recruits and appoints sub-representatives or sub-distributors in individual countries throughout the region. The master party is responsible for appointing highly qualified representatives in each country, and for managing such representatives on an ongoing basis. The master party may also be responsible for direct marketing activities in its home country. The master party is usually paid a sales commission for direct sales that it makes, and portions of the sales commission (or "override") of sales by the sub-representatives. The balance of the sales commission is paid to the sub-representatives that conclude the sale. Master representatives may also assist in localizing the product for sales for countries in the region, as well as localizing other aspects of the Company's business	Company can take advantage of foreign intermediaries' knowledge of the foreign market and foreign customer contacts. Does not require significant investment of capital to set up; limited ongoing overhead expense to the Company. Company can control product quality and branding and market its product with a single brand on a worldwide basis. One of the easiest ways to set up marketing network around the world and begin selling on a global basis in short period of time.	Independent intermediaries are often difficult to control (unlike company-owned operations). Foreign intermediaries must be motivated to produce sales or may focus their attention on other opportunities. If foreign intermediaries do not have sufficient resources or expertise to market product Company will not be successful in targeted market. Termination of independent intermediaries may be costly and/or complicated. Potential for channel conflict – if Company appoints an intermediary as exclusive for a country this could conflict with other Company sales efforts.	This is an excellent method of developing a global sales force quickly with limited financial investment. However the risk of dealing with independent marketing representatives which involves limited control is magnified here since there are multiple layers of independent parties. As with all independent intermediaries, care must be used to appoint the proper master and subrepresentatives.

	Method	Description	Advantages	Disadvantages	Comments
		model for such countries, such as currency issues, customer service, regional logistics and distribution, advertising and product positioning (based on regional cultural or ethnic factors, etc.). [overhead/exclusive]			
6.	Sales Through Independent Local Retail Stores	The Company's customer in the foreign country operates a chain of retail stores in the country. Company sells its product at wholesale prices to the customer and customer resells product at the retail level through its stores. Customer may assist in product localization for the foreign country. Company does not have an office or other facility in foreign country. Is an independent contractor – covers its own overhead and operating expenses. Can be appointed on an exclusive or non-exclusive basis in the foreign country.	Company can take advantage of foreign party's knowledge of the foreign market and foreign customer contacts. Does not require significant investment of capital to set up; limited ongoing overhead expense to the Company. Company can control product quality and branding and market its product with a single brand on a worldwide basis. Is a low-overhead and cost effective way to set up marketing network around the world and begin selling on a global basis.	Independent parties such as a foreign retail chain is often difficult to control (unlike company-owned operations). Foreign party must be motivated to produce sales through prominent shelf-positioning and promotion efforts or may focus its attention on other opportunities. Termination of the business relationship may be costly and/or complicated. Potential for channel conflict – if Company appoints party as exclusive for a country this could conflict with other Company sales efforts.	This is an excellent strategy for penetrating a retail market in a foreign country.
7.	Consumer – To – Consumer Direct Marketing	Company appoints a network of consumers in the foreign country who market the Company's products on a retail basis to other consumers. This can include	This business model requires relatively low overhead and capital investment and hence can support a global marketing expansion at low cost.	Managing single-tier and multi-tier consumer marketing organizations requires highly specialized management expertise and	This model can be an excellent method of developing an international marketing network at a relatively

	Method	Description	Advantages	Disadvantages	Comments
		one-tier direct sales (such as Avon) or multiple tiers of sales representatives (such as Amway). Company will usually appoint a master marketing representative or company-employed sales executive to organize and supervise marketing operations in each country. The Company may also establish national or regional distribution, logistics and customer support facilities.		significant management time and resources. This will add to the expense of establishing and operating a direct sales network. In addition, the Company's products and other elements of its business model will need to be localized for each country in which marketing is undertaken. Many foreign countries heavily regulate or prohibit multi-level consumer marketing.	low cost. However, consumer-to-consumer direct marketing requires highly specialized management resources to be successful. In addition, the company will need to conduct a legal review and perform localization efforts for each country in which it operates.
8.	Direct Foreign Presence In Foreign Country – Major Facility	Company establishes a company-owned facility in the foreign country. This could be a sales office, distribution center, company-owned retail stores, manufacturing facility, professional or technical services office, or other facility. Company will be required to acquire office or commercial space, hire local employees, acquire equipment, and pay overhead expenses. Company will bear one hundred percent of the cost of establishing and operating the facility on an ongoing basis.	Company has tight control over marketing process – if the Company is good at selling its product or service at home it can extend this into foreign markets. Company has tight control over its employees. It is often easier to control and manage performance of direct employees than independent representatives. If employees are not performing up to Company requirements it is often easier to terminate them than terminating independence representatives. Company has tighter control over its branding, image and advertising message in the marketplace. A local office	This strategy entails significant investment and economic risk. The establishment of a foreign office can be expensive and requires significant up front expense and investment. Operating direct company offices also consumes significant working capital on an ongoing basis. Hiring local employees entails not just salaries but "welfare" costs such as health care, retirement benefits, etc. In many foreign countries it is difficult to terminate employees or employers are required to pay	Establishing a direct presence in a foreign country presents a significantly higher level of investment and risk than selling from outside the jurisdiction through independent intermediaries. The Company must bear the direct costs of the operation. It subjects itself to a higher level of taxation, legal regulation, employment laws, etc. In many countries there is increased risk from political instability, inadequate

	Method	Description	Advantages	Disadvantages	Comments
			provides the customer with the sense that the Company is a "local" business rather than a "foreign" business. This reinforces a sense that the Company is local, reliable and has a permanence in the community. Company will get direct feedback from its customers. Company can conduct its customer service, warranty call-back, product distribution in this office. This will create a higher quality of customer experience. While this model entails a significant up-front investment and economic risk, if the Company is successful in the foreign market this may ultimately be the most customer friendly and efficient way to operate in the foreign country.	severance payments. Company collateral operating expenses, such as advertising, warehouse space, and other overhead expenses are higher than with independent intermediaries. Company's proven marketing strategy from its home country might not work in the foreign cultures of other countries. What works in the U.S. may not translate well into foreign markets. Managing foreign employees entails additional administrative burdens for the Company such as language translation, ex-patriot packages for compensation and benefits, overseas legal compliance.	infrastructure, undeveloped legal system. However, this method affords tighter operating control than operating in the country through independent intermediaries or joint venture partners. If executed properly, it can generate the greatest level of profitability for the Company. Most mature companies establish or eventually migrate to this business model. See Localization Outline For Individual Countries.
9.	Direct Foreign Presence In Foreign Country – Support Facility	Company establishes a company-owned facility in the foreign country, but for a limited or support function rather than for fully-scoped company operations in the country. This might include a representative office for conducting initial market research and	This model presents the same advantages as in section 9 above, although most likely on a reduced scale.	This model presents the same disadvantages as in Section 9 above, but most likely on a reduced scale.	The establishment of a small physical presence in a foreign country raises the same issues as with a major facility, but on a more limited scale. Notwithstanding, no matter how small the foreign local presence

	Method	Description	Advantages	Disadvantages	Comments
		investigation, customer service or call center, small office for IT support, etc.			the Company will still be subjecting itself to the direct taxing and legal regulatory authorities of the foreign country in which it is operating and this will impact on effectively every aspect of the Company's operations there – from consumer regulation, employment, repatriation of profits, etc.
10.	Combination – Company Offices In Regional Centers And Independent Sales Intermediaries In Each Country	The Company sets up a company-owned office within a geographic region such as Southeast Asia, Europe, GCC countries, etc. Company employees located in that office recruit and appoint independent marketing representatives or distributors in each country within the region, and manage them on an ongoing basis. The regional office may also be involved in localizing the Company's product and other aspect of its business model for countries in the region, such as currency, logistics and distribution, customer support, advertising, etc. Can use the	This method presents the advantages of low cost and other advantages of utilizing independent intermediaries, yet also presents the advantages of a company-owned office in the region.	Same disadvantages as independent representatives – limited control over most sales intermediaries.	This is an excellent method for a company to develop a firm foothold in a foreign region without incurring the expense and risk of establishing Company-owned offices in each country. The Company may wish to convert its independent marketing representatives to Company-owned offices in the future, however, and it should be conscious of this when entering agreements with its marketing representatives at the

	Method	Description	Advantages	Disadvantages	Comments
		same process for appointing distributors, agents, VAR's and other independent marketing intermediaries as well.			outset of the relationship.
11.	Joint Venture – Joint Ownership With Local Partner	Company establishes a business entity in a foreign country and another party in the country has an ownership interest in the entity. The foreign partner is often looked to in order to provide expertise, contacts and intelligence in dealing in the foreign country which the Company would not otherwise have. The foreign partner can have a minority, 50/50 or majority interest in the business operation in the country.	The Company can take advantage of the foreign partner's expertise, reputation and business relationships in the foreign market. Removes a significant level of risk for the Company as the local partner knows how business is conducted there.	Foreign partners may be difficult to control. Dealing with foreign partners often requires significant time and expense. May be difficult and expensive to replace if have disagreement.	Joint ventures are often the preferred method used by companies in entering a foreign market if they are not familiar with the country or international markets in general. However, due to the complexity and expense of dealing with joint venture partners, once companies become familiar with the country they often prefer to terminate the joint venture and have 100% company-owned operations.
12.	Licensing	Company licenses its technology or business process to licensee in foreign country. Foreign licensee manufactures product or operates its service business under license and markets its products or services in foreign country. Licensee pays royalty to licensor, usually based on a percentage of gross revenues.	Allows Company to expand globally with considerably less risk and investment, and greater speed, than company-owned facilities. Allows Company to maintain strict control over the operation of the business including branding, consumer offerings, facility operations.	Company faces risk of loss of its proprietary technology in countries which have weak intellectual property law. Enforcement is expensive – requires costly litigation. Independent licensees are more difficult to control than company-owned	Company should take all steps to protect its intellectual property in each foreign country in which it will operate (including protection of patents, copyrights, trademarks, trade secrets and other proprietary processes);

	Method	Description	Advantages	Disadvantages	Comments
		Common practices: (i) appoint separate licensee in each country; or (ii) appoint regional development partners who appoints licensees in separate countries in their region. Technology license – foreign licensee manufactures products abroad based upon a license from your Company. Business process license – Company licenses its proprietary system for conducting a business, or performing a service to licensee in foreign country.		facilities.	In countries which have weak IP laws or inconsistent legal enforcement, Company should take extra steps to protect proprietary IP including use of confidentiality agreements, careful due diligence review for potential licensees, high levels or security, selective disclosure and obtaining security (e.g. letter of credit) in case of breach.
13.	Franchising	Franchisor grants license to franchisee for a proprietary "system" to operate a business including trademark, operations management support (e.g. site selection, etc.), software, etc. within a defined, exclusive territory. Franchisee pays multiple fees including one-time franchise fee, royalties for life of franchise, advertising and other additional fees. Franchise is a form of licensing where a significant part of the license involves use of registered trademarks and branding. The most well known franchises involve consumer services such as restaurants and hotels.	Allows company to expand globally with considerably less risk and investment, and greater speed, than company-owned facilities. Allows company to maintain strict control over the operation of the business including branding, consumer offerings, facility operations.	Franchisees can be more difficult to control than company-owned facilities. In countries with weak intellectual property laws company runs the risk of losing its rights in its intellectual property, including trademarks, business process, trade secrets (food menu items, etc.).	Franchising is an excellent method to utilize to expand a brand globally with reduced investment and risk. However franchising is a specialized form of business and requires qualified management to execute successfully. Company should take all steps to protect its intellectual property in each foreign country in which it will operate (including protection of patents, copyrights, trademarks, trade secrets and other

	Method	Description	Advantages	Disadvantages	Comments
		Typically the franchisor grants a license to the licensees for the right to use: (i) a proprietary business process (contained in an operations manual); and (ii) trademarks, related trade dress, on an exclusive basis within a defined territory. Franchisors operate internationally in three common ways: (i) granting rights to individual franchisees; (ii) granting regional development rights to regional developers for a region (such as an entire country) and the regional developer gradually develops and operates multiple franchises through the region; and (iii) granting rights to a sub-franchisor for a region (such as a country) where the sub-franchisee recruits and supervises individual franchisees throughout the master territory.			proprietary processes); In countries which have weak IP laws or inconsistent legal enforcement, Company should take extra steps to protect proprietary IP including use of confidentiality agreements, careful due diligence review for potential licensees, high levels or security, selective disclosure and obtaining security (e.g. letter of credit) in case of breach.
14.	Direct Sales From Outside The Country (Internet Sales, Telephone Sales, Direct, Other)	The Company markets to consumers in the foreign country directly without the use of intermediaries such as through Internet sales, direct mail, tele-marketing, television sales and similar methods. Payment is usually made by debit or credit cards and delivery by commercial delivery services.	Requires significantly less capital than company-owned facilities or sales through intermediaries. Can reach large worldwide market quickly. Can have tight control over product quality, delivery, branding, sales message.	Company may still be required to localize its products for the countries in which it is selling and to comply with legal and tax requirements in such countries.	This is an excellent method of expanding in overseas markets with reduced investment and risk, especially if the company takes advantage of globalization technologies such as website personalization

	Method	Description	Advantages	Disadvantages	Comments
					and foreign exchange conversion. However companies will still be required to localize their product for sale in the foreign market.
15.	"Piggyback" Sales Through Other Multinational Companies – Walmart, etc.	The company sells to a major multinational company that has marketing resources in foreign countries (such as Walmart) and that company sells your product in its stores in the foreign country. The multinational company may require your company to adopt the product for international sales or localize it for individual countries or geographic regions.	Allows company to "piggyback" on other companies with limited expense and risk.	Company has reduced control of product offering, positioning sales effort, etc. The major multinational can "drop" the company's product at any time.	This is an excellent method for a small company to gain international exposure, or for any company to obtain international product distribution. However, it is not a substitute for a mature company to establish its own international operations.
16.	"Piggyback" Sales Through Electronic Gateways – e-Bay, Amazon	The Company places a product for sale with Internet companies such as Amazon.com or e-Bay which have marketing presence in foreign countries. Foreign consumers with access to these Internet websites purchase the product.	Allows fast, inexpensive exposure to consumers in most foreign countries. The Internet company may be able to assist with payment, currency conversion and delivery.	For high volume sales the Company will most likely need to localize its product for sale in foreign countries.	This is a highly inexpensive, fast, low risk method of gaining exposure in multiple foreign countries. Since this is a new category of international marketing, we are just beginning to learn the potential that this method provides. However, sales through one Internet-based business such as e-Bay may be a narrow market niche. This is not a

	Method	Description	Advantages	Disadvantages	Comments
					substitute for a mature company to establish its own international market presence.
17.	Sales Through Other Worldwide Electronic Platforms – Internet, Wireless Networks, Digital Satellite Television, For Marketing, Transaction Processing on Content Delivery	Company places its product for sale on other electronic networks that are accessible in foreign countries such as cable television channels, wireless telephone networks, etc. Examples include licensing of downloadable applets on telephone networks, downloadable music and video content, etc.	If the electronic network operates in foreign countries, these will provide the Company immediate access to consumers in such countries. Relatively low cost and low risk. Network may be able to assist with payment, currency conversion and product delivery.	The electronic network may have requirements for access, such as product registration for wireless telephone networks or advertising charges for satellite television. For high volume sales the company will be required to localize its product in each foreign country.	Since this business model is so new we are still learning about it potential for international product distribution.
18.	Combination – Promotion of Product Through Global Media or Internet Channels But Close Sales Through Local Sales Presence	The Company promotes and advertises its products through global media channels such as television advertising, website ads, etc. and sales to consumers are made by Company employees or independent marketing intermediaries in the foreign country.	Obtain the benefits of worldwide media and online promotion, and the benefits of direct interpersonal contact to close sales.	Must bear the expense of online promotion and also build a marketing organization in the foreign country.	Combines the best attributes of two strong business models.
19.	Acquisition of Operating Business	The company acquires an operating business which is located in the foreign country.	Acquirer has control of a fully operating business in the foreign country on the date of closing. Allows company to have full operating presence in the foreign country quickly.	Acquirer must pay purchase price for the business.	An acquisition is often the fastest way for a Company to establish a business in a foreign country. While the acquirer will be required to pay a purchase price to purchase the target

	Method	Description	Advantages	Disadvantages	Comments
					company, such expense is often less than the total investment required to start-up and grow a business in the foreign country.

1536489_3.DOC