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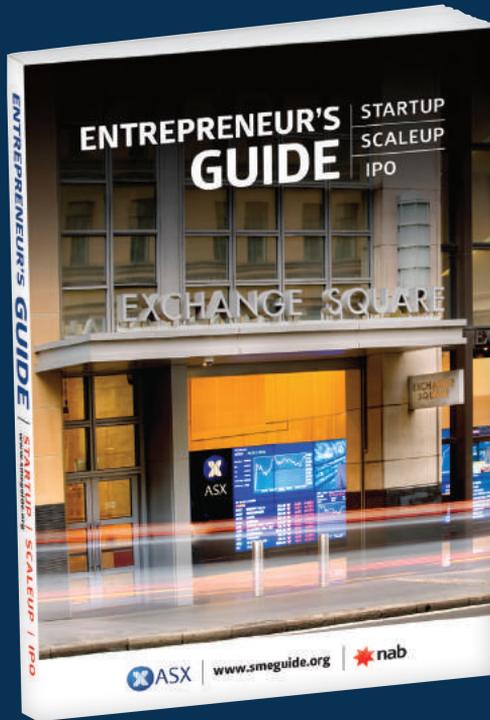
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BUILDING TECH IN AUSTRALIA AND EXPORTING GLOBALLY

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Mick Liubinskas, *Co-Founder*

Australia has more than enough potential to become a world leader in technology. Whether or not we take this chance will not be decided by the media, the Government or big corporations, but by the global ambition and matching execution of entrepreneurs.

Our previous disadvantage, the tyranny of distance, is mostly irrelevant in a flat-world market. We have the core resources of talent, capital and ideas, not in surplus, but enough. This opportunity is ours to take or ours to watch slip by and regret.

THE SIMULTANEOUS OPPORTUNITY AND THREAT

Today we are amidst one massive, surging wave of technology—software, software as a service, marketplaces, tools—that has exponentially lifted productivity and connection. Another wave, probably even larger than the last—artificial intelligence, robotics, augmented reality/virtual reality—is forming and will change the world so much that we will not recognise it.

This new wave will displace many jobs, but it will also create many new ones. Some countries will have a net loss and some a net gain. It is definitely a case of participate and potentially win—or spectate and probably lose.

To the end customer, these technologies may appear indistinguishable from real magic. Those who create them know that they are just carefully arranged ones and zeros. The good news about this for Australia is that these technologies can be crafted anywhere, so why not in Australia?

OUR DISADVANTAGES

AMBITION DEFICIT

Life is good in Australia, which is an advantage on almost all counts. The exception is that it reduces the number of Australians who are willing to forgo good salaries and good living for 10 years of hard work with a small chance of success. Yes, the winners win big, but it feels like a lottery that makes you work long hours and wait a long time for the result, which does not sound like fun.

What also hurts is that we have not had 50 years of successes where the spoils are shared with the employees through share options. We are only just coming out of 10 years of options complexity and, even though we have had some good, big exits, it has not been enough to establish a pattern that supports thousands of employees taking pay cuts for options (along with longer hours and less security) in exchange for options in a 'wild dream'.

Even when we do start a company, we are often happy with an early, smaller exit. Tech industry veteran Terry Hillsberg refers to it as 'two Mercs in the driveway and the kids in private school'. The impact of this route is hopefully some more cash circulating into the ecosystem by new angel investors (although many buy some land by the beach in Byron and never come back).

Contrast that approach with that of entrepreneurs in Asia, Africa, Eastern Europe, Israel and even the middle/south U.S., where real salaries are low or falling. The possibility of success, even a small one, would be life-changing for them, their families and probably their whole city.

How do we fix this situation? Can we celebrate the underdog and the overachiever at the same time? I think so, and I hope so, too. Part of the solution is sharing stories of people who are successful and showing what they created over and above the money.

SMALL, FRAGMENTED MARKET

Australia is a small population spread out across a large country. This situation means that not many companies can achieve scale by staying at home. Consequently, some companies are unsuccessful because they do not get to a revenue point that will sustain them, some companies are just too small and some companies pursue early exits when the global market leader gobbles them up.

The technology industry is also highly spread out, without one major hub. This scenario might be okay if we had a big population, but having a small one spread out means that we are less efficient and less collaborative. Despite all the technology, innovations mainly spring from hundreds of face-to-face conversations.

Israel and New Zealand are small markets and also small geographies, but they are so small that it forces them to think global earlier. Australia seems to be less pressed to jump on a plane early, maybe because we think we are large.

Big companies in Australia are mostly banks, telcos, mining companies or branch offices

of multinationals. They are not interested in exports, other than mining companies, which are highly specialised and commoditised. This focus means less exporting expertise.

SPECIALISATION

Being small and spread out, it would help if Australia could focus on something we could lead the world in. This product or service would have both brand impact and gravity to attract people in that space to Australia. We have had some good wins in enterprise software and marketplaces, but not enough to stand out. We also have a strong research base, but it is not matched by commercialisation and exporting skills.

THE ADVANTAGES

CULTURE

Australia is a multicultural melting pot that mostly copes with strong diversity. We are entering a phase (slowly but hopefully) where differences are valued, appreciated and rewarded more than similarities. This outlook should position Australia well. It also means that we have a positive connection to most of the world. Everyone seems to like us. This advantage allows us to do business globally, which many other countries cannot do.

The negative factor of our distance from other countries has also meant that many of us are comfortable with travelling. We are fine to get on a 24-hour flight to London, whereas Americans consider a six-hour flight from San Francisco to New York to be torture. We just need to be as open to the travel for business as we are for backpacking.

BUSINESS

Existing without rivers of venture capital has made Australians hardy and thrifty. Our companies are built in a desert, so when winter comes, we survive while those banking on their next big round of capital die off.

Venture capital is a long, lagging indicator of a market's success. They are 10-year funds, based on 20 years of data, that are actually risk

averse. They need to pick 20 good investments from thousands of options and back them over multiple rounds through to initial public offering. That is a difficult full process to go through in Australia alone.

MARKETS

The U.S. market is still dominant and is the easiest big market for Australians to target. We have a strong and growing bridge to the U.S. built by those who have been there for decades building out some big networks, if not big companies. The market is also not just Silicon Valley. In multiple cities, we have networks of people who will help you find customers, team and capital.

Only considering the U.S. would be a mistake. Businesses can target multiple other big and growing markets. We are the only Western country to be in the close time zone to most of Asia. We also have a slight geographical advantage, although it is really only a slightly longer flight from Los Angeles than from Sydney to Tokyo or Beijing, so I think we overplay that advantage. Also, Asia is not a single country, culture or language. It is multiple markets, and it does business very differently than Australians do. Unless you have a deep personal connection (i.e., you or your parents are from the country and you speak the language), it will take many years and commitment to make it in Asia. This is a big, long-term investment we have to make if we want to participate in the fastest-growing region in the world. The Aussie networks in Asia are not quite as big or active as in North America, but they are there if you look for them.

We still have a strong connection to Europe, and I see a lot of solid groundswell, particularly in Germany, France and the U.K. Very cost-effective tech talent also exists in Eastern Europe. On the downside, you have Brexit, the distance and fragmented markets. From the community side, networks are forming for Aussies in the European Union, and I expect solid growth over the next five years.

On the emerging market side, Africa and South America have perhaps the next big

growth potential; long-term investments in those markets are promising. That being said, Australia does not have any real advantages or network there, so the going will be hard and lonely for a while. But go and get it started, and others will follow.

TALENT

New tech companies are about people and our people are talented, although they have room for improvement. In general, we work pretty hard. We do not work as hard as some people, but we are also quite balanced, so maybe that is an acceptable trade-off. We have a fine educational system that produces good raw talent. Although the quality of our people is good, the quantity is not enough, especially in Science, Technology, Engineering and Mathematics (STEM). You might think by all the noise that we are obsessed by STEM in school, but it takes a generation for this approach to flow through to the workforce, so we have to keep it up for 20 years. We need to be aggressively retraining people in droves but, even with that, there will be a shortfall. The options for growing tech companies are to bring the people in (which adds to Australia) or to set up offices where the people are (which does not add to Australia).

OFFSHORE TEAMS

Another big advantage for Australia is the change in attitude to remote teams. Even five years ago, the preference of chief executive officers and investors was to have the whole team in one building. Australian companies like BluePulse got investment on the proviso that the whole team pack up and move to Silicon Valley—which they did. Nowadays, due to the high cost and difficulty of recruiting and retaining talent in the Bay Area, it is expected that a company will have a team somewhere else. Yes, it could be Denver, Santiago, Jakarta, Kiev or Nairobi, but it could also be Gosford, New South Wales (near where I grew up, hence the plug).

Having offshore teams is also in the 'could be better' pile as an advantage. This situation is because of the high cost of living, mainly

the high cost of real estate for Sydney and, to a lesser extent, Melbourne. What moves the needle to the positive is the research and development (R&D) offset, giving early-stage tech companies a big bonus for managing cash flow (which is still queen).

EXPORT SUPPORT

Another consideration is the Export Market Development Grant, or EMDG. It can support any investments you make in trying to get export customers, including research, visiting the target customers and more. Combining the R&D offset (building stuff) and the EMDG (selling stuff overseas), we have enough support from the Government to succeed in growing big, world-leading tech companies. As a reminder, it is not their responsibility to make it easy; it is our opportunity to do it even if it is hard.

STRATEGIC OPTIONS

Infinite combinations of markets, vertical markets, timing, financings, team and plans are used to build technology in Australia and sell it globally. A few patterns (described in the next sections) have been more successful than others.

GET BIG, GO GLOBAL LATER

- *What:* Have your company get big enough in Australia to be meaningful, and then use that position as a base to attack other markets.
- *Examples:* Spaceship, Carsales, Realestate.com.au, SEEK.
- *Pros:* Your company stays at home, you know the market, it is less risky and you expand on a big base.
- *Cons:* Not many businesses can get to scale in Australia. You are unlikely to be a world leader due to the time it takes.

BOOTSTRAP, SELL ONLINE

- *What:* Stay lean and sell your product online without a sales force; grow by reinvesting profits.
- *Examples:* BigCommerce, Campaign Monitor, Atlassian.

- *Pros:* Your strategy is low risk, and your company retains equity because you do not need to raise capital.
- *Cons:* The 'easy money' in this space is gone and it is very competitive; most of the time, it involves two founders, both of whom can code.

MOVE OVERSEAS, LEAVE TECH AT HOME

- *What:* If you need capital early, you often have to have your core team in the market where the money is. You may be able to have your tech team in Australia. For this strategy to work best, you have to have a founder in each location.
- *Examples:* Culture Amp, Canva, SafeSite, Accelo.
- *Pros:* You get the capital and market access.
- *Cons:* You split up the team, value is split and the founders overseas have fewer opportunities to have an impact on the local ecosystem.

RAISE LOCAL, GO GLOBAL

- *What:* The increase in Australian accelerators, angels and venture capital firms with real vision and capability to help you build a global business has gone 10x in 10 years. This factor makes building more capital-intensive businesses with global ambitions possible.
- *Examples:* Stackla, Edrolo, FluroSat.
- *Pros:* You get the capital locally (so any returns stay local); you are more supportive of the local team.
- *Cons:* You have fewer options for capital, which sometimes means less of a good deal with terms and valuation.

MOVE OVERSEAS COMPLETELY

- *What:* Despite what you might think, it is not a total loss if a company moves overseas. If that is what it needs to do to achieve its potential, the company needs to do it. There is a good chance that some of the team will come back to Australia and bring experience, networks and capital.

- *Examples:* Larry Marshall, James Tynan.
- *Pros:* You get the capital and market access.
- *Cons:* You split up the team, value is split and the founders overseas have fewer opportunities to have an impact on the local ecosystem.

TIPS FOR BUILDING TECH IN AUSTRALIA AND EXPORTING GLOBALLY

YOU CANNOT DO IT ALL REMOTELY

Yes, your business is digital, but much of business building is not. Observing customers, hiring, managing and leading employees, building relationships with suppliers and partners—they all take time, and they all take some face-to-face interactions. If you want to build a four-hour work-week lifestyle business, sure. But if you want your product to fit in with a market you are not next to, then you will find it very hard to be completely remote.

GO EARLY

The more you work on your product/market fit without visiting the market you eventually want to get into, the further away from fit you will probably be. It is the same thing as being non-agile and waiting a year before showing your product to your customers. Go early. There is little excuse. Fairly cheap flights are available to most markets; find a couch to sleep on. Eat ramen pasta or two-minute noodles. Get meetings, go to events, get out there, follow up, stay as long as you can, call customers, make sales.

STAY FOCUSED

If your company is in the stage of pre-product/market fit or even pre-scale (sub \$1 million annual revenue) and you are thinking about having customers in Australia AND in a foreign market...do not do it. You are basically trying to work out two businesses at once. Remember that product/market fit includes three parts—a

product, a market and it fitting. It would be really hard to get two products nailed, and it is equally hard to get one product nailed in two markets. You may say, 'But the U.S. is pretty much the same as Australia, right?' Wrong. My rough rule of thumb is that consumer markets will be 50–80 percent the same, so they are still 50–20 percent different. And business-to-business is 30–60 percent the same—very different. Why? Taxes, laws, channels, competition, payment methods, industry groups, geography. Nail one geography—preferably one inside a large market—and then grow.

If that means firing your Australian customers, including those who have helped you out, do it. It is better to be tough on them than to make life much harder on yourself and decrease your chances of reaching your full potential. If the Australian customers can use your product as is without any help, support or customising—great. I remember that in the early days of Pollenizer, we started using Confluence from Atlassian, and we had to pay in U.S. dollars. Why would an Aussie company pay another Aussie company in U.S. dollars? Because that was the market they cared most about.

GET HELP

Building technology is hard enough—do not try and work it all out on your own. Many Aussies are patriotic enough to take a call or grab a coffee. Reaching out will not get you all the way, and you should definitely not do everything your colleagues say, but they will help you get moving and help you avoid the dumb stuff.

DO IT

Do it because you can: you can build a tech company with customers around the world. Aim high, be disciplined, look after your people, be customer obsessed.

You can do it.



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Mr. Liubinskas lives with his wife and three kids in San Francisco, California, USA. He surfs, plays soccer and writes. Mr. Liubinskas grew up in Australia on the New South Wales Central Coast. He has been programming software since the age of 8 and building tech companies since he was 18. Surviving the first dot-com boom, he went on to lead marketing for the controversial peer-to-peer file-sharing platform Kazaa, based on the North Side of Sydney. After working in Tanzania on education micro-finance, he returned to Australia, working on two tech companies and launching them into the U.S. He then co-founded Pollenizer with Phil Morle, was a co-founding mentor and investor of Startmate and became known as Mr. Focus. In 2013, he teamed up with Charlotte Yarkoni and Annie Parker to setup murU-D, the technology accelerator backed by Telstra. In 2016, he moved to San Francisco to help Australian companies get customers and capital in the U.S.