

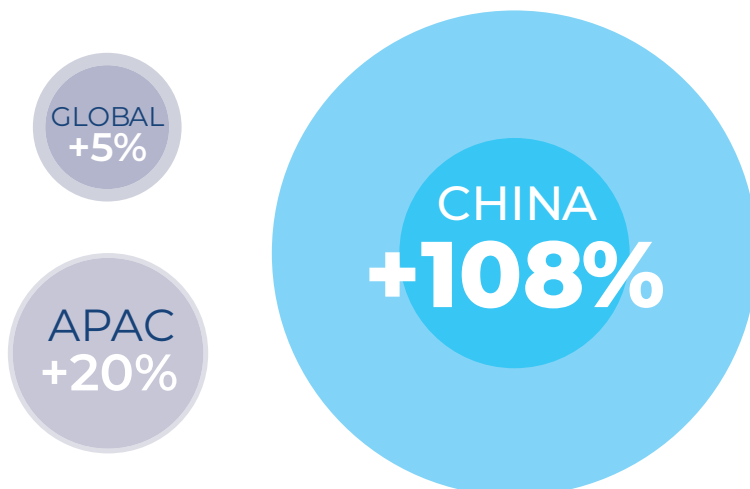
How We Helped a Western Software Company Scale its China Revenues

The focus of this report is a \$100M ARR US-based software provider (which wishes to remain anonymous) backed by a top-tier venture capital/private equity firm. All of the details provided are real numbers prepared with the support of the company.

Prior to 2020, the company had been receiving inbound orders from China for years, through both resellers and direct customers, but garnering less than US\$1 million annually with low growth. However, the company hadn't invested significant resources into localizing its product or developing its China market. Piracy of its products was a problem, suggesting there was demand, but it was unclear how many customers would pay for authorized products. The company's relationships with its existing resellers were informal and there was no collaboration or communications around sales or marketing strategies in China.

After the company was acquired, new management began to look for alternative ways to expand its China business. In late 2019, the company partnered with ADG, which helps Western technology companies scale in China. "Demand for its software solutions in China was booming, but the client just wasn't seeing the corresponding sales. That said, we had a shared thesis with the client that if we could get the basics right, we should see some meaningful growth," said ADG partner Chris DeAngelis.

Here's how ADG and the client worked to make it happen.



Less than 18 months after entering China, the company's China business had become its fastest growing market globally.

I Sometimes It's Worse Than You Thought

At the start, ADG reached out to the company's users and resellers in China to understand the local perspective on the company's situation. On the plus side, it was clear that there was a strong market opportunity and demand for its solutions. However, the bad news was that most usage was through hacked versions that could easily be found online. More disturbingly, unauthorized resellers were selling hacked versions (as if they were legitimate) to their unknowing corporate customers. Some versions sold in China even came with a Chinese language pack that was not even available in the official version! To add to the challenges, the company's trademarks and web domains were held by poachers, and the buying process didn't match local needs.

The Go-to-Market Plan

Needless to say, this was a very difficult situation that required an innovative and methodical approach that would take months to start to turn around. After careful consideration, ADG developed a go-to-market plan for the client with three major focuses:

1

Reducing friction for customers to purchase and enabling resellers to support the brand

2

Promoting new messaging and driving demand through an omnichannel approach

3

Reclaiming the brand and managing IP & piracy

Focus #1: Improve Buying & Reseller Processes

While the company had been taking China orders from its global website for years, most of those purchases were inbound sales from resellers, individuals or enterprise employees that had access to international credit cards. For many larger enterprise prospects, prior to mid-2020, the company's lack of a local Chinese website or local purchasing support limited the type and size of customers that could purchase directly from its global website.*

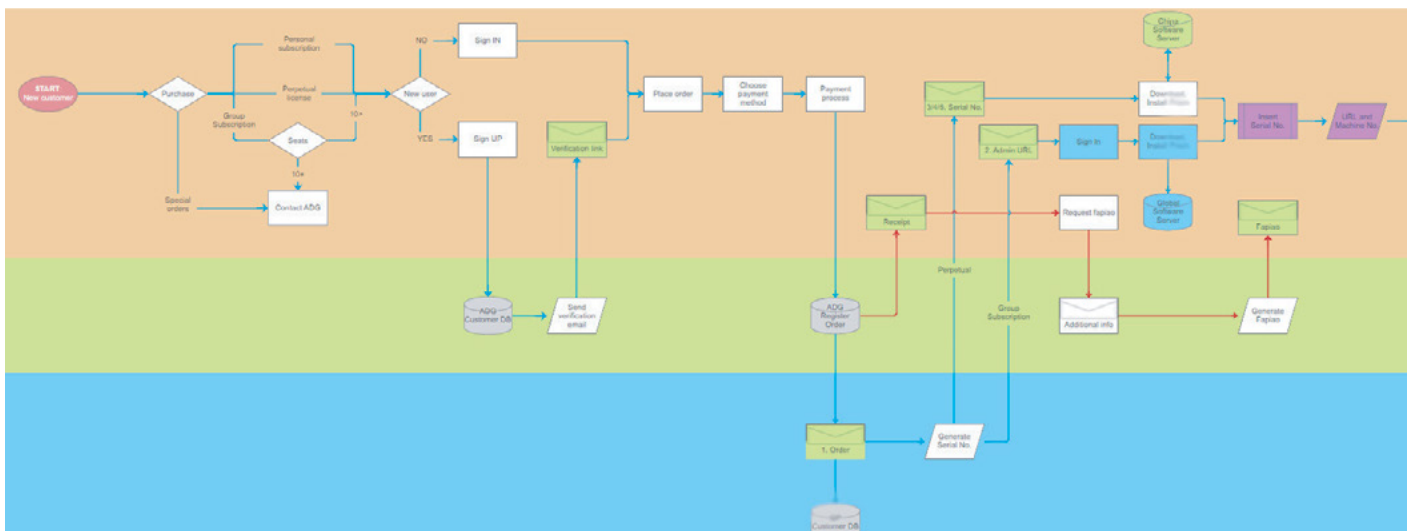
To make the buying process easier, ADG setup a local bank account under the ADG legal entity and began accepting local transactions. In mid-2020, ADG acquired a ".cn" domain under its legal entity and worked with the company to build and launch a basic online e-commerce website. This allowed the company to accept local payment methods, pay local taxes and issue official tax receipts to customers and resellers. On the backend, ADG managed cross-border payments and processed VAT to import the products into the China market.

It was also important to develop a much closer relationship with resellers. Prior to 2020, the company didn't have a reseller or lead management program for China. It only worked with cross-border software resellers, which are attractive to buyers because they offer many products, but those resellers typically

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The attitude towards purchasing authentic software and overall IP enforcement in China has significantly improved in recent years. IP protection is now a critical concern for the Chinese government, in large part over security and malware concerns.

So, all things being equal, many Chinese enterprises prefer to purchase authentic software to keep in line with government policies and to protect themselves from malicious intrusions. However, when companies can't find or easily purchase legitimate software, or aren't shown added value (through support, etc), they may turn to pirated versions.



Web purchasing process

won't take an active role in driving sales deeply into any one company's market. So, it was critical to reach local resellers that had real relationships with target customers.

These key partners played a dual role in the strategy: first, they provided access to larger enterprise customers who were under-penetrated, and second, it was key to get the support of these resellers to help deliver key messages into the market.

Because the relationship with the resellers was informal and opportunistic, it meant that many of the important local resellers were reluctant to invest or pursue larger projects where the RFP process would invite reseller competitors and pricing wars. In response, in early 2020 ADG worked with the client to develop and launch an official reseller program. The program included IP protection provisions*, tiered discounts, and a lead management system to manage competition among resellers (allowing them to lock-in an exclusive discount for new leads). Between the development of this program and ADG's consistent on-the-ground interactions, the company was able to attract new highvalue local and vertically-focused resellers.

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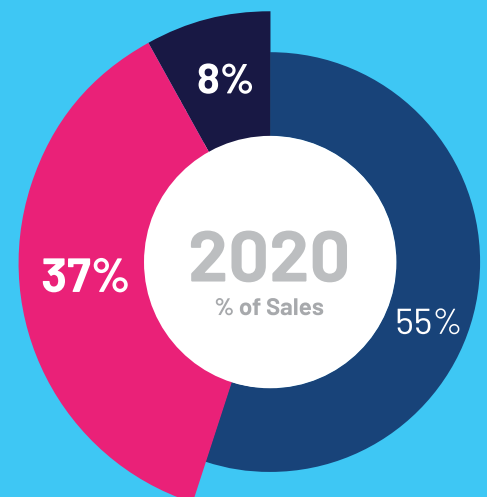
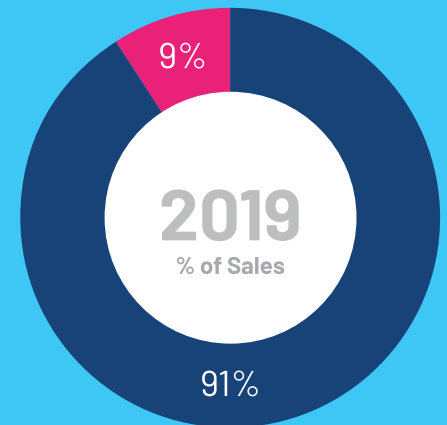
Western companies should include provisions to protect IP in their reseller contracts. Beyond the ability to strengthen a company's position in legal proceedings, such provisions are valuable commercial use evidence when submitting applications to China's trademark office for either new trademark registrations or invalidation of trademarks registered by unauthorized parties.

+51%

Client Reseller Revenue Since Entering Market

90%

of growth from new resellers



I Focus #2 – Drive Demand Generation Through Omni-Channels

The company's products are well known globally, with the vast majority of customers outside of China buying directly from its global website. At first, the client thought its popularity meant that Chinese enterprise customers could be attracted through basic inbound marketing to support its already high brand awareness. However, piracy was so out of control that it was a real challenge for any potential buyer to understand if they were buying authorized products or not. ADG worked with the client to develop a proactive marketing approach to communicate its value, the risks of hacked software, and how and where customers could buy the legitimate and supported products.

For a mid-sized company, advertising in China is prohibitively expensive and too scattered (and in fact, the client doesn't do advertising in other markets either). Instead, the company focused on demonstrating its commitment to the local market

through activities including the development of the local ".cn" website, building a local digital community for users and partners, and making some small investments into SEO and paid search. At the same time, ADG helped strengthen communications with existing and new resellers by getting their support and input on the messaging and offers that would be most attractive to their customer base.

To develop the community in China, the company focused on where its partners and end users congregate online, including WeChat, Zhihu (China's Quora) and local industry focused BBSs. Along with translated and SEO-optimized tutorials, user guides* and videos, by late 2020 the company's users and resellers increasingly recognized and began interacting with the legitimate brand.

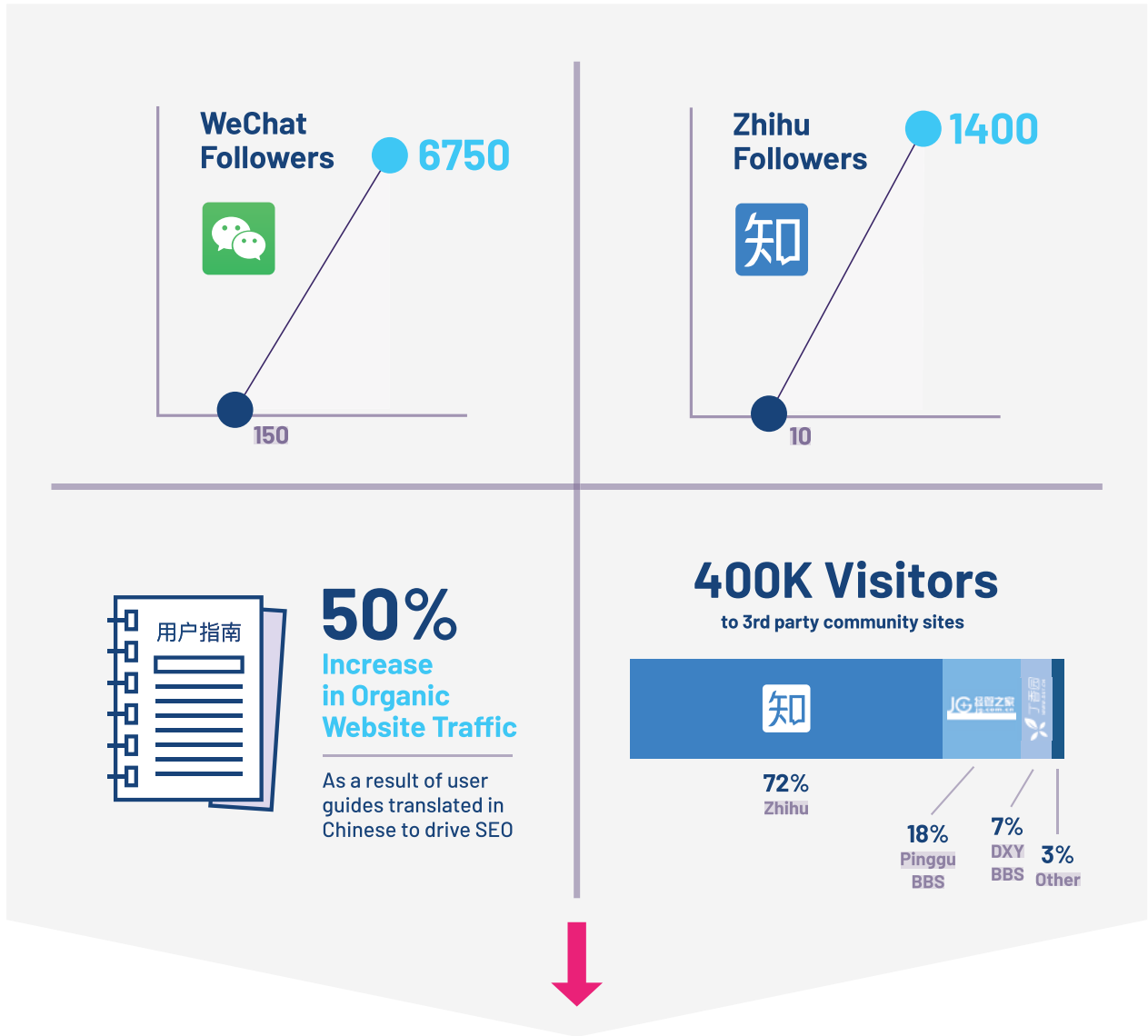
*ADG INSIGHT

Getting these massive, 700,000 word HTML-based user guides translated and SEO-optimized for Baidu was a large undertaking but has driven nearly 50% of user views to the .cn website. As an added benefit, having this work outsourced in China was faster and saved the client around US\$70,000 compared to quotes in the United States.

“ Users and resellers trust you more when they can see you're committed to the market and there is a local team they can reach out to and count on.”

China Omni-Channels Driving Orders

June 2020 - March 2021



I Focus #3: Mitigate Piracy & Reclaim IP

Without owning trademarks, it is very difficult for any Western software provider to mitigate piracy and assert itself as the legitimate brand owner in China. Throughout 2020, ADG worked to meticulously reclaim the brand by working with China's major e-commerce platforms, and in some cases, approached unauthorized shops directly to execute "take-downs" across the digital ecosystem. These websites are monitored on a weekly basis by ADG to address new violators, which show up regularly.

A Piracy Mess

300,000+

illegal downloads

Very **HARD** for users to find authorized software

IP, trademarks & domains poached

Resellers selling pirated versions to corporate users

1,000+

illegal download links online

Very **EASY** to find pirated versions

Readily available tutorials on how to crack the software

Links across all search engines & online communities

Pirated version had unofficial Chinese language pack

Reclaiming IP and mitigating piracy in China required a multi-faceted approach, and a lot of work and patience. As the client told us, “We learned that piracy can’t be solved by just dealing with hackers or hardening the product. Companies also need to address regulatory and legal issues, as well as have resources to deal with the business aspects that lead customers to buy pirated software in the first place. And all of this takes time.”

China Piracy Mitigation Program

1 Reclaim IP

- ✓ Register
- ✓ File to invalidate
- ✓ Buy from poachers

2 Takedowns

- ✓ Top e-commerce sites
- ✓ Social Media community site
- ✓ Search

3 Re-establish the brand

- ✓ Setup domains
- ✓ Direct global users to legitimate .cn website
- ✓ List official resellers on .cn website



Results



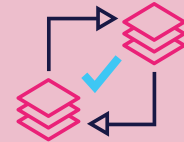
Client trademark acquired through negotiation

60%+

of 300+ download links removed from platforms



Moved a percentage of customers from pirated to legal versions



Strong relationships with platforms for ongoing mitigation

One Year In - Surprising Findings

Over the first year, the client learned how to integrate the China business (that was being operated on the ground by ADG) with its existing global business. Additionally, the company felt that a couple of areas stood out as surprises worth sharing with other companies considering expanding their efforts into China.

Surprise #1 – Offering Perpetual Licenses Doesn't Have to Hurt Subscriptions

In 2019, the company began pushing strongly towards a subscription model in all of its markets, including China. To drive this effort, the company lowered its discounts on perpetual licenses in hopes that its resellers would be motivated to sell subscriptions. It was successful in most markets, but not in China.

Its resellers at the time were mainly the cross-border software resellers mentioned above. With the reduced discounts, these resellers were not interested in selling a less profitable product, so they just ended up selling fewer licenses. This resulted in perpetual license sales falling in early 2020 without enough growth in subscriptions to offset the decline. The company received some pushback from resellers on this, so when the company launched the official reseller program in China in mid-2020, it went back to incentivizing deals with perpetual licenses. What happened next was at the time surprising.

After the company brought back discounts, it saw perpetual sales volume return to previous levels as well **as growth of over 170% in subscriptions**. Even within reseller channels, subscriptions rose from around 10% of sales in 2019 to **above 40% by early 2021**.*

As the client remarked, “This was helped by attracting new, vertically focused resellers, as well as our new purchasing system. Along with ADG’s marketing and community building efforts, more customers latched onto the stability and authenticity of the brand, all of which made subscriptions more attractive.”

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It is generally understood in China that enterprises typically prefer to purchase perpetual licenses over subscriptions. This is especially true for large state-owned companies that may have an “use it or lose it” budget, and want to ensure that what they buy can be used in perpetuity. In addition, many companies need to maximize book profits by capitalizing purchases, so they prefer a perpetual model. These characteristics align well with resellers, which strongly prefer perpetual licenses in order to improve their margins. It’s also critical to note that the larger marketplace software resellers with offices outside of China have a way to reduce cross-border leakage that is not available to the local resellers. This is one of the key reasons that certain resellers that approach Western companies are often willing to accept a lower discount structure than local resellers.

Surprise #2 – China is Not Always a Place You Need to Discount Your Product

One of the most interesting learnings was around overall pricing levels. Most companies believe that, in order to compete in China, they need to offer lower pricing. “In the early stages, we were debating at ADG and with the client on the appropriate strategy to address a pair of issues,” said ADG’s DeAngelis. “First, we wanted to find additional margin to incentivize the resellers who already were losing margin on crossborder costs and were only receiving relatively small discounts – this was a challenge because the company was already skeptical on the priority put on resellers. Second, the China platform run by ADG was technically and legally separate from the global website and required manual processing of orders,” continued DeAngelis.

In response, ADG proposed an unusual solution: to **raise the list price in China an average of 13% higher than its global price**. The thinking behind this was:

1. **This would drive price-sensitive users to the global website, thereby reducing the amount of processing done in China**
2. **Provide a higher list price inside China to provide local resellers extra room to gain margin**

It worked beyond expectations by accomplishing both initial goals of attracting new resellers, while also increasing direct sales on the global website. An additional - and unexpected - bonus was that direct sales in China dramatically increased, and by early 2021 **China direct sales processed at the .cn website in China outpaced and overtook the .com global website!**

“ Chinese enterprise customers understand that there’s a cost for a Western company to provide local payment options, official receipts, and support. They are willing to pay a premium for these to be provided locally in China, as the client’s success shows.”

- Mavy He, Enterprise Team Leader, ADG

Continued Success and Product Expansion

The client continued to see excellent revenue and brand awareness growth in Q1 2021. Based on the successful model developed by ADG, the parent company is expanding its cooperation with ADG to rollout additional brands under its umbrella. Already, a second brand introduced in October 2020 is seeing record growth in China and a third product is in the early stages of launching.

Regarding piracy moving forward, the company plans to take a more proactive effort to convert its largest corporate violators into paying customers, and if necessary, pursue legal enforcement. In addition, with its IP and trademarks now secured, the client plans to continue to develop its takedown program, by pushing for more direct support from other B2C, ISP and search platforms.

More about ADG

ADG's Virtual Market Presence provides a managed solution for companies looking for a complete market entry solution - but at a fraction of the time or risk of setting one up on their own. Virtual Market Presence leverages our team, licensed platform, relationships, and operating experience along with a predictable budget and the option to defer a major investment until a company's China objectives have been met.

ADG works side-by-side with Western technology companies in a fully dedicated and transparent way to build brand equity and success. Further, the client is always in control of their strategic direction and level of investment, with ADG providing our experience, advice, and the ability to execute the preferred strategy.

Click here to know more about this project and how ADG helps technology companies in China.



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Interested in building and executing your own winning strategy in China?

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