Case Study
VIRTUAL PARTNERSHIPS IN SUPPORT OF ELECTRONIC COMMERCE:
The Case of TCIS

“If you would have told me two years ago that, two years later, my product would be available to the whole world, that I would be working with Borland, that I would have a company in the US, and that I would be part of such a fast expansion, I would have died of laughter.”

Serge Charbit, President and CEO, TCIS--SystemsObjects

CASE DESCRIPTION
COMPANY BACKGROUND

Traitement Cooperatif et Integration des Systems (TCIS) is a Paris-based firm offering various software that can be described as middleware to interface between AS/400 machines and Windows. TCIS was founded in 1990 by Mr. Serge Charbit, the owner, president, and CEO. Prior to forming TCIS, Mr. Charbit worked as systems engineer at Hewlett-Packard's Center of Development in France in the 1970s before forming his first company, C2S which specialized in software that ran on Hewlett-Packard midrange computers. In 1980, Mr. Charbit became interested in the new IBM minicomputer--the System 38. He decided to purchase a System 38, despite the very large investment this represented to his small company. One of the initial softwares Mr. Charbit developed was a software designed to interface between Minitel terminals and the System 38. This product was very successful and was distributed by IBM France under the name of SVX. In 1990, Mr. Charbit sold C2S and created TCIS. TCIS specialized in software to interface with AS400 machines, the offspring of the System 38.

TCIS currently has 18 employees: in addition to Mr. Charbit, there are 10 engineers in research and development, two administrative assistants, and one technical support engineer in the Paris office, and one engineer responsible for sales and support, one marketing manager, and one assistant in North America. Mr. Charbit has typically hired young university graduates with no work experience, trained them, and then given them responsibility for new product development although it is Mr. Charbit who provides the vision for new products. Mr. Charbit’s philosophy is that it is better to have fewer 100% working products than to have many beta-versions with bugs. Hence, he concentrates his developers on perfecting a small range of products rather than constantly trying to innovate. Nevertheless, the range of products is impressive for a small firm and continues to grow (see [www.systemobjects.com](http://www.systemobjects.com) for a current list of products).

THE AGREEMENT WITH BORLAND

A major event in the life of TCIS was when an agreement was reached with Borland in 1996 that Borland would bundle some TCIS products into certain of its products. This effectively increased the potential market reach of TCIS by multiples over night. Mr
Charbit had previously met with Borland representatives in Paris, but the products had
not interested them. “An associate told me that I should go to Scotts Valley and show
them. But I didn’t know anyone there. If I were to take a plane, show up on their
doors, ring the door, say ‘hello, I’d like to come in. I’m the President of TCIS...’ you
can imagine the response.” The Borland agreement was effectuated after TCIS had made
a sale to Jean Couteau in Canada. Jean Couteau is a large pharmaceuticals company
owning more than 500 pharmacies. Some developers of Borland Canada heard of the
deal and arranged to visit Jean Couteau for a demonstration of the applications that Jean
Couteau built using TCIS products. The developers of Borland Canada then gave word
to developers at Borland USA about the TCIS products and potential applications. This
initiated an eventual agreement between TCIS and Borland wherein Borland bundles
some of TCIS products into applications intended for AS400 machines and TCIS receives
a percentage of the sales. Borland handles support of the products.

THE PRODUCTS AND CLIENTS

TCIS currently has 15 software products ranging from AS/400 communication tools,
electronic document management tools, client/server development tools, Internet/intranet
tools, and decision support tools. See Table 1 for a listing of products and prices. All of
the products are available for sales online [www.systemobjects.com] and, since 1996, the
software and manuals have been translated into English from the original French and
demonstrations are available online.

In 1997, TCIS had sales of 12 million French Francs. TCIS expects sales to reach 20
million francs in 1998. Currently, 50% of TCIS clients reside in France (about 300-350
clients) and the remaining 50% are outside of France, with more in Europe than the US.
TCIS clients are in general medium sized companies (100-200 million French Francs).
Company growth is based on reaching new clients--90% of growth is estimated to result
from new sales. The base client is a programmer analyst--a technician responsible for
application development on AS400 machines. Says Mr. Charbit, “the base client is a
technician whose degree of decision is zero. The base client doesn’t order the product,
but he’s important because he’s the one whose conviction you need.” In the past, even
medium sized organizations would have 10-15 programmer analysts working on the
company’s systems. But as companies have purchased more and more of the important
software--such as SAP--there are only a handful of systems analysts in many medium
sized firms. Says, Mr. Charbit “So now, there is a direct connection between the
manager and the developer and the manager can no longer just dictate to the systems
analysts what they will and will not do. They have to listen to the systems analyst and
have good reasons for not going with the choice of his developer.” For this reason, even
though the base client doesn’t have the power to authorize purchase, gaining his support
with demo versions is critical to the ultimate sales of TCIS products. Another type of
client is a company, typically a small company that sells software and wishes to include
TCIS as a product. A third type of client would be a software development company that
licensed TCIS products to use in their own product development.
Getting on the Web

In March of 1996 Mr. Charbit decided to open an electronic commerce site for marketing and sales. In his view, his product represented a prefect fit for electronic commerce: the base client would likely have Internet access and the technical curiosity to try new software. In addition, his product could be delivered online as well. Mr. Charbit uses the Internet for all phases of marketing: first is the product advertising, then he has demonstrations of the software products available online. However, while one can read the information without entering any identification information, in order to download the demonstrations, one must complete a short questionnaire. Mr. Charbit uses the responses to the questionnaire to determine if the individual is a real prospect or a technically curious individual with “too much free time.” A record is kept of which software products an individual demonstrates and the individual is emailed information about related products or upgraded versions. To test a product online, the individual is sent an ID and password via email which allows access to the software stored on the TCIS server. If the individual requests to not receive any additional information, the file is closed but otherwise, email is used to continue to send promotional material as appropriate to the potential customer’s interests. For individuals choosing to purchase a product, it is possible to pay online. Because the product is delivered online as well, there are no customs or delivery charges or delays. As with the product demonstrations, individuals purchasing the product are provided an ID and password via email which allows them to download the software.

Opening of a New York Subsidiary

Given that France represents “a small market” to Mr. Charbit, he considered the best ways to tap into the US market. While opening the TCIS web site opened doors to sales in the US, he still felt that selling a French software product based in France to US firms would be difficult. Several months after opening the original web site developed and maintained from the Paris office, Mr. Charbit decided that he needed to open a subsidiary in the United States. For various reasons, the subsidiary would be incorporated in Delaware but located in New York City. A major reason for the decision to open a US subsidiary was that he viewed the US as the biggest potential market for his products and felt that local support would be needed due to language and time zone differences. Moreover, another reason “which was a little hidden, was that I thought, and now I am deeply convinced, that to sell in Stockholm, in Berlin, in Paris, in Taiwan, or in South Africa, you have to be American. In this trade, you have to be American, and what I see after two months of activity (of the subsidiary, SystemObjects) makes me think it is even more true than I imagined.”

Mr Charbit believes strongly that SystemObjects is critical to the long term success of TCIS. “I believe that what is going to work well for us, is having the US company which will help us establish a global visibility in marketing, in sales, in partners etc. The French company--TCIS--will be the research and development function. Marketing information will be on the SystemObjects web site; technical information, on the TCIS site.”
Explains Mr. Charbit, “If you’re a Swede, a German, an Australian, an American, France represents champagne, perfume, wine, camembert, and Hermes. France doesn’t have the image of a great exporter of software, whether right or wrong.”

Interestingly, Mr. Charbit reports that since the opening of the SystemObjects and its web site, European firms are often purchasing from the US subsidiary instead of the French headquarters. “Today, there are French companies that test the product from the New York site, thinking that it’s a US product.” In fact, Mr. Charbit reports that a neighboring French firm ordered some TCIS software from the New York web site rather than simply phoning a few miles away. Likewise, European companies were visiting the US site at a greater rate than the Paris site.

Olivier Play is the engineer in charge of SystemObjects. He has worked for TCIS since 1993 where he worked on “Objects Frontword”—a middleware chosen by Borland for Delphi400. Mr. Play handles the web site and the pre- and post-sales support. SystemObjects has its own server and web site which is maintained separately from the TCIS site. As of May, 1998, he says there have been more than 3000 visits to the site and that 700 copies of Active Objects is being tested. 45% of the testing is being done in US companies. When someone tests a TCIS product, the product will function normally for two months after which the product stops working, although clients can ask for an extension. Mr. Play says that often, developers request the demo version but do not actually begin testing it for 2 or 3 months. The price for the products is $2000 for a developer license (with $200 discounts for each subsequent developer), and $2000 for deployment to unlimited users. Most of the support Mr. Play has handled has been via email. Indeed, Mr. Charbit thought that having an 800 number was critical but he says “It didn’t ring! I had thought that an 800 number was indispensable, but it didn’t ring!” It didn't ring because potential clients preferred reading about the products online. Mr. Charbit reports that 53% of their current contacts registered via the New York site and that, in two years time, the Paris TCIS web site had less than the 2000 visitors the New York site had in its first two months.

ON ADVERTISING SYSTEMS OBJECTS

The method Mr. Charbit used to advertise the new subsidiary was (1) to advertise in News400, a trade journal for developers working on AS400s—“the Bible of our trade,” says Mr. Charbit. News400 is distributed in 70 countries. He also purchased Web banners on some popular AS400 sites. In addition, he sponsored the “News Wire”, an electronic journal sent via email to 7000 subscribers, likely users of AS400, and at the bottom of the email was the message “sponsored by SystemObjects” and by clicking on the SystemObjects, the individual was taken to the Web site. Says Mr. Charbit, “all our publicity is now organized around a single thing—we have to get people to come to our SystemObjects site.” Mr. Charbit is expecting more and more sales to occur via SystemObjects—he estimates that in 1999, SystemObjects will account for 50% of all sales and that by 2000, it will represent 100%. The cost of opening and operating SystemObjects for the first year are estimated to be roughly $250,000. TCIS will remain the venue of development and technical information.
SOME CHALLENGES: AMERICAN-STYLE FRENCH ENTREPRENEURSHIP

French Entrepreneurship is almost an oxymoron; add the words Online in the middle, and it is indeed a hard find. Says Mr. Charbit, “You’d have to be a crazy fool to do this in France! I’d have left two years ago, if my wife would have come with me...seriously!” He adds, “It’s a mortal sin in France to make a profit. And the administrative bureaucracy is suffocating.” Mr. Charbit applied in 1993 for a tax credit for innovation, under a “Crédit d’impôt recherche” which in France is permitted for innovative products. “I thought it was a real innovation. Not only did I not get the credit, I was slapped with an additional 20,000 Francs fee. The tax authorities told me that this product wasn’t at all innovative, that it was already available all over the whole world. “ Just eight months later, Borland International visited TCIS and asked for the license to sell their products--these products that were supposedly “available all over the world.” “At the same time, you read in Le Monde or in Les Echos, that the Minister of Industry and Finance, after he returns from a trip to the US, that France has to encourage young companies to innovate, to export, to take risk.”

According to Olivier Play, opening the subsidiary in New York was relatively easy. “You don’t need to begin with a lot of money” as in France. Says Mr. Charbit, “It’s amazing. I created a company in Delaware. I don’t even know where Delaware is! I’ve never been to Delaware!” Moreover, Mr. Charbit feels that finding venture capital for firms in the US is far easier than in France. “If we’d have been born in Boston, LA, or Houston, we would have found a venture capitalist who would have put $2-3 million into our bazaar. I’d have 6000 contacts instead of 600.”

The difficulty of being an entrepreneur in France is even more accentuated for an electronic commerce entrepreneur. “France missed the Internet. France succeeded in making a computer system a tool of mass media--with Minitel--but we let the Internet go by. The Internet is an industrial revolution, but the cards have been dealt. When I hear the administration of the ENA debate the liberalization of access to electronic commerce, I say ‘too late. It’s done--the hands are dealt.” “We had already sensitized an entire generation. Your butcher, your baker--they use Minitel! In the US, your butcher or your baker don’t use Internet! We let that all go for naught.”

Another constraint is true of most European firms: language, time zone, and currency differences. “I don’t think that Microsoft is any more intelligent than the others, or that MGM is more intelligent than CANAL+. The difference is that you have a market of 200-250 million people who speak the same language, the same money, the same legislation. In a market like that, you can make investments that will pay off.”

THE CHALLENGE OF SUPPORTING A GROWING INTERNATIONAL CLIENT BASE

One of the major challenges Mr. Charbit has experienced as his sales have grown internationally has been the need to support an international client base across multiple time zones and with multiple languages. There are two levels of post-sales support: first
and second level. Mr. Charbit estimates that 80% of technical questions result from individuals who failed to read the documentation. This 80% he refers to as "first-level" support. He initially had the single individual in Paris responsible for all first-level support (excluding support to Borland customers) but this was quickly becoming a challenge. As for the 20% of questions that reflect limitations or bugs with the software, these he refers to as "second-level" support. Second-level support often requires product modification. For second-level support, it is important for TCIS developers to handle not only so that they can learn of needed changes to the various products, but to ensure as rapid a solution to the customer problem as possible.

Mr. Charbit saw several possibilities for handling the growing client base. One option was simply to hire more personnel for the TCIS office in Paris. He could even have an 800 number ring to the Paris office with an American working, so that the growing North American client base would have the impression of local support. This seemed a short-term solution though. "If tomorrow I have 10,000 clients call the hotline, I’ll have to hire 20 extra people, but I’ll have trouble finding them. If there is unemployment in France, it’s surely not in computer science.” Moreover, time zone differences and language barriers would make such a solution ephemeral. A second alternative was to franchise TCIS to companies around the world. Mr. Charbit developed a franchising plan wherein, eventually, he would have a franchise in most industrialized countries. He debated this plan for several months with his lawyers. “I wanted to franchise—it was a strong and aggressive plan—one franchise per country. But my lawyers were up-in-arms, saying that if ever I wanted to get out of the franchise, that it would cost me greatly.” The problem was that, were he to franchise TCIS, he would not have the legal authority to sell TCIS should a lucrative offer arise. “Who knows. Maybe Microsoft or IBM or Computer Associates will approach me tomorrow. I didn’t foresee Borland and can’t foresee others. If I concede legal control of our business activities, this could prevent me from accepting such an agreement.” Another option was the development of partnerships in various countries around the world. This option had the appeal of maintaining legal ownership, but the disadvantage of having less control over the partners. The partner approach would involve locating partners in various countries, ensuring that the partners were sufficiently trained on AS400s to be able to support TCIS products, and ensuring that the partners were trustworthy. Says Mr. Play, "we have to be careful that they are not selling competitor products because if we are giving to him a prospect, we don't know if he's going to sell to his prospects the competitor software or our software."

The decision was to handle the growth via the partner approach. Currently Mr. Charbit has contracts almost ready for signature in Germany, and one very advanced in the UK. He has “interesting contacts” in Taiwan, Argentina, Israel, Turkey, Portugal, and Belgium. His longest running partner to date is a small company in Spain, IFR, that sells an accounting software for AS400s. The company requested a license from Mr. Charbit to sell TCIS products. Mr. Charbit worked with IFR for over a year before meeting in person. “We exchanged orders, bills, checks, messages of problems...We became very familiar with each other over the phone.” Eventually Mr. Charbit arranged a visit to Spain to meet his partners, “They trusted us because they had purchased our products.
They had invested heavily in our products. But it isn’t the same as meeting in person. We now have a trust that’s at a different level.”

One of the major goals in forming partnerships is to be able to externalize as much as possible the first level of support which is the most cumbersome to support. However, ensuring that partners are equipped to offer effective support is not easy. Even with Borland, Mr. Charbit had to invest heavily in training Borland developers to answer client questions. He says, "the number of mistakes that Borland support made the first year isn’t countable. But finally, it works. Today, Borland has sold several hundred licenses.” To help train the support engineers, TCIS began entering in a database all problems encountered and the corrections. "We now have a memory of about 2-3 years of problems. This summer, we’re going to make this available for our partners and clients on the Web.”

TCIS will still be available for support, so that if a local partner was unable to solve the customer problem, the business partner (not the client) would call TCIS. However, Mr. Charbit desires to minimize these support calls to TCIS as the major cost to be reduced by partnering is that of support. Currently, Mr. Charbit is considering two types of partners: (1) the "occasional" partner would earn a lower commission and would only have to demonstrate a working knowledge of AS400, (2) the "certified" business partner would receive a higher commission but would be expected to handle most support. Partners could become "certified" partners by successfully completing a test demonstrating AS400 and TCIS product skills, which would be available online. These certified business partners could also have other partners within their country and, when these occasional partners were unable to handle the support, would provide support to the occasional partner. Mr. Charbit's idea is to have one certified business partner in each country where TCIS products are selling and then these certified business partners could form partnerships in their country. Overall, the objective is to appear to potential clients as truly an international company, so that he can say to potential clients “No matter where you are in the world, close to you, you always have someone to help you.”

What these partnerships will entail is a 50% discount to the partner on TCIS products in return for the partner handling the local support. TCIS plans to advertise with the partners: the publicity will have the local address and also the New York address of SystemObjects. Were a local client to send an email inquiry to SystemObjects, SystemObjects would respond by asking if they would prefer to go through a local partner. In addition, the SystemObjects web site would have a zone for the local certified partners to advertise TCIS products in their own language with information on ordering the products as well.

Finding reliable partners around the world is not a simple task. For the moment, Mr. Charbit anticipates finding partners by advertising on his web site and letting the potential partners come to him. Mr. Charbit posts information on the web site about countries where they have prospective clients and asks if anyone is interested in becoming a partner. His long term goal is to be physically present in Paris, in New York, and, if possible, in Japan and then to have partners in other countries. He is also
considering the necessity of having a SystemObjects subsidiary based in London to coordinate European operations.

**WHAT'S TO COME**

In considering the keys to continued success, Mr. Charbit says that “one thing that seems to me to be fundamental to the success of this experience, is that we transform this company of technicians into a company that is also one of marketing….You can’t forget that TCIS is a company in a state of a major transition. TCIS is a company lead, managed, created, and organized by technicians. TCIS is a product, it was produced and even sold before we realized we needed to give it a name, to present it. I think we have to change that.” As a first set, Mr. Charbit has hired Kevin Shannon, a former marketing product manager with Borland, to handle worldwide marketing. When Mr. Shannon first met with Mr. Charbit, he "went crazy--he asked for the name of clients with such and such a product, and why they chose our product and what other product they tested and I didn’t know.” Mr. Charbit will rely heavily on Kevin Shannon to develop an international marketing plan to propel TCIS growth even further. In addition to the marketing challenge, Mr. Charbit is facing other challenges as a small global company. For example, a large English firm wished to purchase TCIS software, but only under the condition that TCIS supply the original source code. In another instance, a large Swedish firm wished to purchase TCIS products, but only if a certain "Company X" was to become a partner. The company did not want to work 10,000 kilometers from support. Finally, in addition to the post-sales support challenge, the pre-sales support challenge is increasing as well. The traffic to the SystemObjects site and demand for demonstrations requires corresponding with many potential clients in a timely fashion, distributing IDs and passwords, and following up with the client. Indeed, sparking interest in product demonstrations has flowed naturally, but turning the potential clients into purchasers is a greater challenge. Mr. Charbit desires to find a way to do more with existing clients and, in particular, wants to establish maintenance contracts with clients that would allow the clients to seek online access to product upgrades as well as product support. Finally, Mr. Charbit is considering whether it is necessary to have the separate names--TCIS and SystemObjects, and separately maintained web sites, or whether to focus on creating a single image under one of the two names and sites.