Finding a niche in the global software marketplace: The case of the Peruvian firm LOLIMSA, *Technologias para Salud.*

"This is the year of the launch of Peruvian software, like a rocket," said Alfredo Taboada, at the congress hall in San Borja, a wealthy suburb of Lima. The congress hall held the Annual Peruvian Software Congress. Taboada heads the Program to Support the Competitiveness of the Software Industry, which is a project co-financed by the Inter-American Development Bank

Also at the Congress was Rolando Liendo, one of the key people in Peruvian software, head of the Peru software association, and General Manager and founder of *LOLIMSA*.

Later, at the hotel bar Liendo sipped a Pisco Sour, a traditional Peruvian cocktail, and discussed his company's strategic dilemma. LOLIMSA was already successfully exporting software for some years to Latin American nations: Colombia, Brazil Mexico, Ecuador, Bolivia, and the Dominican Republic. Liendo's dilemma was not whether to export since his firm was already exporting. Rather, his dilemma was whether to target the largest and most lucrative market in the world, the United States, and if so, how.

LOLIMSA

LOLIMSA's slogan says *technologias para salud*, meaning *technologies for health.* Specifically, the company specializes in medical software for the health care sector. It has two main software products: LOLFAR 9000 for drugstores and LOLCLI 9000 for hospitals. It also has two secondary products: LOLMED for doctors and LOLLAB for clinical laboratories. LOLCLI 9000 sells for roughly $100,000 and LOLFAR 9000 for about $2,000. Annual support revenues from each hospital averages $15,000, or roughly equivalent to 15% of the purchase price.

The company was founded in 1987 by three engineering students who had just graduated from university: Rolando Liendo, Abraham López, and Ezequiel Munarriz. From the beginning, the founders of LOLIMSA wanted it to be a specialized company. The question was: what sector? Mining, Education or Health? These were the obvious major sectors for specialization in the company's early years.

As is often the case, the answer came with their first client. In 1987, an American company hired LOLIMSA to develop an epidemiological control system. The relationship lasted six years and sealed the future of LOLIMSA. In the early 1990s LOLIMSA began selling its early software package to the Peruvian healthcare sector. This was novel for its time, since the norm was for each healthcare client to develop its own customized systems. LOLIMSA was the first Peruvian company to sell such software in boxes, with preprinted manuals.

By 2005, LOLIMSA grew to roughly $3 million in annual sales, with 45 employees in Peru, making it a medium-sized firm in the Peruvian software marketplace (the largest Peruvian software firm had 300 programmers) and one of the largest in the healthcare vertical.   Indirectly, the firm had even more employees with another 50 employees in its franchises throughout Latin America.

Interestingly, by 2005 LOLIMSA performed almost no software development itself, but outsourced development activities to a network of friendly Peruvian software firms--- to PacNet, Medisys, and Novatronic.

Exporting Software

"In Peru we already had a large share of the market and began exporting in 1995 to Ecuador, Colombia, Venezuela and Bolivia. Three years later we began to export to the Dominican Republic and México," said Liendo. "Yes, we tried to penetrate the USA market in 2000," he recounted. He continued: "We had a branch in Miami. We thought Miami would be our Latin headquarters but we made many mistakes and then closed our Miami office in 2001, only eighteen months after."

"We discovered our strategy by chance," said Liendo. The Mexican market was the company's learning field in which it stumbled by trial and error. After failing in Miami LOLIMSA hired a distributor in Mexico City in 2000. By 2002, however, the distributor was assessed to be performing poorly. The distributor had too large a product portfolio and was not pushing the LOLIMSA products. In 2002 LOLIMSA discontinued the distributor relationship. It then decided to make a financial commitment and open a branch in Mexico City. LOLIMSA sent Roberto Garcia from Peru. But Roberto proved to be expensive and ultimately did not sell enough. Thus, having exhausted many of the classic options for international expansion and market entry, LOLIMSA looked to an unusual approach and decided to franchise.

"The franchise worked in Mexico because we found the right people. And then we found the right people elsewhere," said Liendo. LOLIMSA's franchise owner in Mexico City was Antonio Menache. Liendo recounted that Antonio sincerely believed in the firm's products. Antonio was further evangelized by watching Liendo selling his software products to a Mexican hospital.

Mexico became the largest foreign site for LOLIMSA with ten large client hospitals and ten employees in the franchise. Menache had two other co-owners to the franchise. These were two former employees of LOLIMSA in Peru that were lured to Mexico by the higher wages. The franchise arrangement was quite liberal. Menache, in Mexico City, paid ¨about nothing¨ for the franchise, but then had to pay 50% of each sale back to LOLIMSA.

By 2005 LOLIMSA had numerous clients: 125 hospitals and 3000 drugstores spread out over the continent. Besides Mexico, Latin operations included franchises in two other important markets: Colombia and Brazil. The most profitable markets were the two largest ones, Brazil and Mexico.

LOLIMSA also has customers in Ecuador, Bolivia, Venezuela, and the Dominican Republic. In each country LOLIMSA was changing its business model: from dealer, to branch, to franchise. Several of these markets were too small to justify a branch.

Recently, the company conducted a market study on entering the US market and determined that LOLIMSA could need as much as $12 million for that venture. "This is totally unreal for us," said the CEO, "it is too much." "But," he continued, "the healthcare sector is standard in the world: the processes are standard, the software should be standard. The American market should be our main objective."

As he finished his Pisco Sour cocktail, he concluded with a question: "So, is 2006 the year we launch in the USA?"

Appendix A: Market Entry

Small firms that wish to sell abroad -- to export -- are faced with a classic sets of choices. All the options have implicit trade-offs: in risks and legal obligations, control, cost, investment, and effectiveness. A brief introduction is presented here.[1]

- ❒ **Direct Sales thru the internet.** Software firms can market and sell through the Internet, thus reducing sales costs.
- ❒ **Direct Sales by flying around.** Periodically, the exporting firm sends a sales representative on foreign trips calling on potential clients.
- ❒ **Direct Sales through a local office/ branch**. The exporter establishes a local presence through a representative or branch office, rents office space and hires staff. This could be just one person.
- ❒ **Cooperative branch.** A variation on direct sales branch. Small firms from developing nations cannot afford the costs of setting up a branch in the USA and instead of bearing it alone, they pool resources with friendly firms from their country and create a cooperative marketing branch that represents several firms.
- ❒ **Distributor**. The exporter contracts with a local representative. The distributor agrees to sell the product and is guaranteed some form of commission.
- ❒ **Licensing.** This is often used for Intellectual Property (such as software). The licensor assigns rights to a foreign company in return for royalties or other kinds of payment. As with a number of other options, the exporting company (here, the licensor) achieves rapid entry, needs a minimal investment, and possible quick returns.
- ❒ **Strategic alliance.** Strategic partners are often identified through bankers, accountants, business consultants, industry associations and networks, and government contacts.
- ❒ **Joint Venture (JV).** The exporter and a domestic company in the target country join together to form a new incorporated company.
- ❒ **Franchising**. A franchise is an ongoing business relationship where one party ('the franchisor') grants to another ('the franchisee') the right to distribute goods or services using the franchisor's brand and system in exchange for a fee. More sophisticated franchise arrangements specify a precise business format under which the franchisee is expected to carry on business and ensuring a common customer experience throughout the network. McDonalds is an obvious example.

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[1] Based on several sources including: http://www.austrade.gov.au/

Appendix B: Peruvian economy and software industry.

Peru is a developing nation in South America with a population of 28 million. Of the national population, 1/3 live in greater Lima, the capital, and hub of business. Peru's GDP per capita is 5,600 USD.

Peru's economy has traditionally been focused on exports of minerals. More recently with the opening of the economy, agriculture has made up a larger part of the exports. Tourism is also growing with increased attention on the Andes (e.g., Machu Picchu) and the Amazon basin in the north.

Total exports are at 14 billion USD (2005 estimated) of which almost a third go to the USA (US 29.5%, China 9.9%, UK 9%, Chile 5.1%).

The language of Peru is Spanish. English was not taught in most schools until recent decades.

Peruvian software firms were estimated to export 20 million USD in software in 2005. Indian software exports for the same period were over 12 billion USD.

LOLIMSA company description web page in English circa 2005.

LOLIMSA product description web page in English circa 2005.