Expanding Your Business Overseas

U.S. Businesses Expanding Overseas More Rapidly Than Ever

With the continued sluggishness of the U.S. economy, businesses which have never sold a single product internationally are now seeking to expand to foreign markets. In 2011, U.S. exports hit a record $2.1 trillion which was broken down as follows:

![Breakdown of Total U.S. Exports - 2011](image)

The U.S. market is mature. Its middle class is no longer growing. In order for businesses to continue to expand at the rate their owners/shareholders desire, they are forced to seek markets that have more dynamic opportunities. Businesses that have not yet gained this insight and begun to take steps to start an expansion internationally are falling behind their competitors.

But entering an international market is not like moving your business into a new city or state in the United States. Foreign countries present an entirely different set of risks and other business factors than they have experienced in the U.S.A. Most American small businesses are ill prepared to deal with these issues.
Before a business can think to begin addressing these factors, the basic question of where to expand has to be answered. This may seem a simple question to address but there are a number of issues to be considered. Some countries present a significantly higher chance of growth but are inherently riskier places in which to set up a business. Other countries have a safer environment in which to establish an enterprise but do not offer the same inherent opportunities. How to weight the various factors, how to arrive at the best net overall choice, and how to set up a business plan that will provide the best chance for success is a complicated set of considerations about which only a handful of professionals have the experience to advise.

Setting a Strategy and Business Plan

Before you can begin your journey to a foreign market, there are a number of questions that need to be answered. One of the first questions is: What is the basis for your business? The answer should highlight your business’ comparative advantage and how it would translate to foreign markets. Understanding this should help you define how you would position your business in those markets. This will also become the basis for your brand differentiation in those markets.

To most completely understand how to position your products overseas, you need to also decide which countries to move into. In order to answer that question, you need to complete an analysis of potential target countries. This analysis will look at a number of factors including size of market, completeness of infrastructure, growth dynamics, potential competitor analysis, access to capital, degree of inherent risk in the market, etc. Additionally you need to decide if you are going to enter one country or multiple countries. If you decide to enter more than one country, you also need to conclude whether you will focus on one region or multiple regions. These decisions could include whether or not you want to work within the legal and regulatory framework of such multi-country structures as the European Union which brings many advantages but also have many limitations, including reduced growth opportunities for many countries in the EU.

As part of your preparation analysis, you need to assess the resources to which you have access. This includes the resources, including people, inside of your company that can aid your international expansion. In addition, you need to evaluate the accessible resources outside of your company to which you have connections that will be able to provide necessary help. Some of these specialized areas are:

- Banking relationships
- Legal/Compliance/Audit/Other Administration support
- Real Estate support:
- Technology support:
- Human Resources support

Once you have completed analyzing and evaluating everything that you have available to you and the information that you have about your potential target countries, you are ready to begin setting your strategy and completing your business plan. This will include defining your marketing & sales objectives and plans, establishing a cost budget, and setting up a technology plan that will be integrated with all of the other objectives.

This needs to be laid out in detail with a comprehensive accompanying project plan. This plan will provide a roadmap for all of the involved stakeholders, including your board of directors, investors, employees, etc.
Setting Up Your Banking Relationships:

It is imperative that you research and investigate the banking market and financial requirements in the market(s) that you wish to enter. You need to have a local banking relationship that knows the local market nuances. A good consultant will have International banking relationships that can facilitate this process and set your new business up for success.

An expert’s proven ability to investigate and negotiate on behalf of their clients with both a home country bank and your new country bank will save you time, effort and money on many everyday issues such as international wires, set up fees, transfer fees, and exchange rates associated with your new account.

Do not assume your new country bank will do business the same way your US-based branch does. Excess paperwork and bureaucracy can be frustrating and may seem needless for everyday transactions. An expert consultant can walk you through these complicated issues so you can concentrate on building your business!

Foreign exchange risk is a topic you will need to familiarize yourself with. Most countries have their own ‘federal reserve’ type of body, usually in the form of a central bank. The exchange rate with the US dollar fluctuates throughout the day, week and month...which can cost you thousands of dollars as you conduct transfers and wires between your accounts. You need an advisor who is experienced in dealing with exchange and negotiating with treasury departments of many international banks, saving you time and money.

US GAAP accounting standards are NOT the standard overseas. There may be specific country accounting procedures and requirements or procedures and requirements may be as a part of a group of countries that have banded together to form accounting standards (such IFRS). An expert advisor will have in-depth experience with all major accounting standards and can work with your finance department ensure you are in compliance in your new market.

You most likely will be in need of local currency funding. The right consultant will be able to work with you to ensure optimal exchange rates and fees on both sides of these necessary transactions.

Setting Up Your Legal/Compliance/Audit/Other Administration:

Expanding into new markets creates numerous unique compliance and regulatory issues. There may be several bodies and governmental departments that must be approached and negotiated with as you set up your new business. As here in the US, most countries have governmental bodies that regulate lending, consumer protection, data privacy, data and personal information storage, security, etc. An expert’s team and network of international legal firms, will work for you and with you to ensure your new business meets all necessary legal and compliance regulations in your new market.

As in the US, compliance with regulations is taken very seriously. Setting up internal systems and controls is not optional and must be on your initial ‘to-do’ list. Self-assessment is a critical function in nearly every new business. Your ability to put controls in place and audit your business’ functions and processes versus local and international laws and regulations could be the difference between your ultimate success or failure in your new country.
Local insurance needs for your new business can be easily handled if your advisor has proprietary relationships with global and regional insurance companies. Some types of insurance you carry here in the US may be valid as well for your new overseas business, but this is most likely the exception to the rule rather than the norm. You need an advisor who will walk you through this important step in setting up your new location(s).

**Establishing a Physical Distribution Network;**

Brick and Mortar physical locations may be a necessary and vital part of your distribution strategy. The right advisor will have established relationships with International broker firms that will have knowledge of the local market. They will work with their partners to ensure your real estate needs are handled in an ethical, straightforward manner. In many cases, local listing services for properties may not speak English, may have specialized and unorthodox processes and nuances that can lead to inappropriate and damaging decisions in this critical area. Leases can be very complicated in many countries. The professional partners of a good consultant can ensure this critical component is taken care of quickly and professionally for your new business.

**Setting Up a Virtual Distribution Capability**

Establishing a physical distribution system in a new country can be difficult, expensive and time-consuming. A very effective alternative can be to use a technology-enabled means of connecting to and servicing your customers. In today’s world, this largely means using the internet as a delivery envelope but can also include such devices as ATM’s and kiosks. In order to accomplish this kind of objective, you need to assess a number of things in your target country/countries:

- **The robustness of the internet environment**: If you are going to rely on the internet to touch your customers, the infrastructure needs to be vigorous enough to consistently meet your needs in areas such as bandwidth and speed.

- **The degree to which your target customers have access to and utilize the internet**: For example, if you want to use a web-based system to touch your customers, they have to have access to it and use it sufficiently to allow you to be effective.

- **The availability of necessary devices (ATM’s, kiosks, etc.) and support for these devices**: Automated delivery systems such as these can be a highly efficient means of dealing with your customers. But in order to integrate them into your business expansion plans, you have to know that you can obtain them in sufficient quantity and can obtain good enough quality support afterwards. Otherwise you will not be able to depend on this channel to be reliable for your customers.

You may also want to use social networks such as Facebook or Twitter to enhance your connection to your customers. For this to be effective, you need to have a well-defined strategy for this medium overall for your company.

**Facebook** is an international business and can be a very powerful communication and client acquisition tool. We highly recommend a professionally set up Facebook site for your new business. In addition to Facebook (as you may know from your US experience), several countries have locally owned and
operated social media sites, data sharing sites, and search engines. You must be present in all major social media site for the country you are entering to ensure full and proper coverage for your business,

**Setting Up Your IT Systems**

Much of what you will need to do in order to expand to a new country will rely on technology to be successful. You need to make sure that you have a sufficiently robust enough set of systems that are adapted to the needs of that country and an IT support system that will meet those needs initially and over time.

Even if you have an IT structure in the States with which you are reasonably happy, it very likely will not be sufficient for your needs overseas. There are a lot of issues that you will need to consider in making your decisions about your IT setup overseas. Language, currency, legal/regulatory requirements and the specific needs of your business setup there (which may be different from what you use in the U.S.) are just a few of the considerations. These considerations may dictate that you bring in an entirely new set of systems.

Additionally, once you have decided what systems you will set up, you need to conclude how your production environment will be run and how it will be serviced. This can be done inside your company at home or you can decide to outsource IT development and/or production to a vendor overseas. These are complex decisions that require a thorough analysis to be able to complete. Here again an advisor will be of tremendous assistance.

**Establishing Human Resources Support:**

Attracting and hiring your new team is one of the most important things you will do in setting up your business. The US is as “right to work” country, meaning most of the power of employment sits with the employer. This sort of set up is, for the most part, not common to the rest of the world. Employment background checks, your ability to hire and let go, physical examinations, fixed or variable employee contracts, significant holiday requirements, required benefits, restricted work hours, labor unions and strict labor laws, employment visas for non-locals are the ‘norm’ for a good part of the world. It is imperative that you review this topic with the right Human Resource professionals to ensure there are no missteps in this critical area.

A good HR advisor will have established relationships with numerous International search and placement companies that will save you time and money and ensure you are getting qualified and talented people to assist you in running your new locations(s).

In many cases you will want to transfer some of your own people from the US to help set up, establish your company culture and standards and build your new international business. This can be an exciting adventure for the right profile person(s). The right consultant will have experienced HR personnel who will facilitate the identification of the right resources, assist in complicated processes such as temporary and a permanent work Visas, work permits and residency permits. Their selection process will take into consideration numerous areas when recruiting a US employee to assist your start up in a new country. Language skills, adaptability, personal concerns, children’s schooling, housing, permits, temporary living, etc. all play a key role in ensuring your new recruit(s) are focused on their job and not distracted by the necessary bureaucracy and costs associated with an expatriate assignment.
Conclusion

The decision to expand your business overseas is not a simple one. Given the situation in the U.S. market, it may be a very logical conclusion that the international market offers the best chance of meeting your profit requirements. The success of many businesses that have made this conclusion is evidence that this can work for your business. The failure of those who have attempted this without the proper preparation and analysis is also evidence that there are no automatic guarantees of success.

We would highly recommend that if you are considering this move, you seek the advice of a trusted advisor who can guide your steps before you start to make the move. There are relatively few people with the requisite experience to provide this level of assistance. Make sure that you examine the credentials of any potential consultant.

About The Authors

Ron Malak is the CEO of Beryle & Lee, a specialty consulting and software enterprise geared to provide tailored solutions for enterprises of all sizes. He led Citigroup’s consumer finance expansion into Central & Eastern Europe and directed post-merger integrations for GE Capital in Romania and Poland. He has received training in some of the most respected organizations in the world in management best practices and reengineering principles.

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