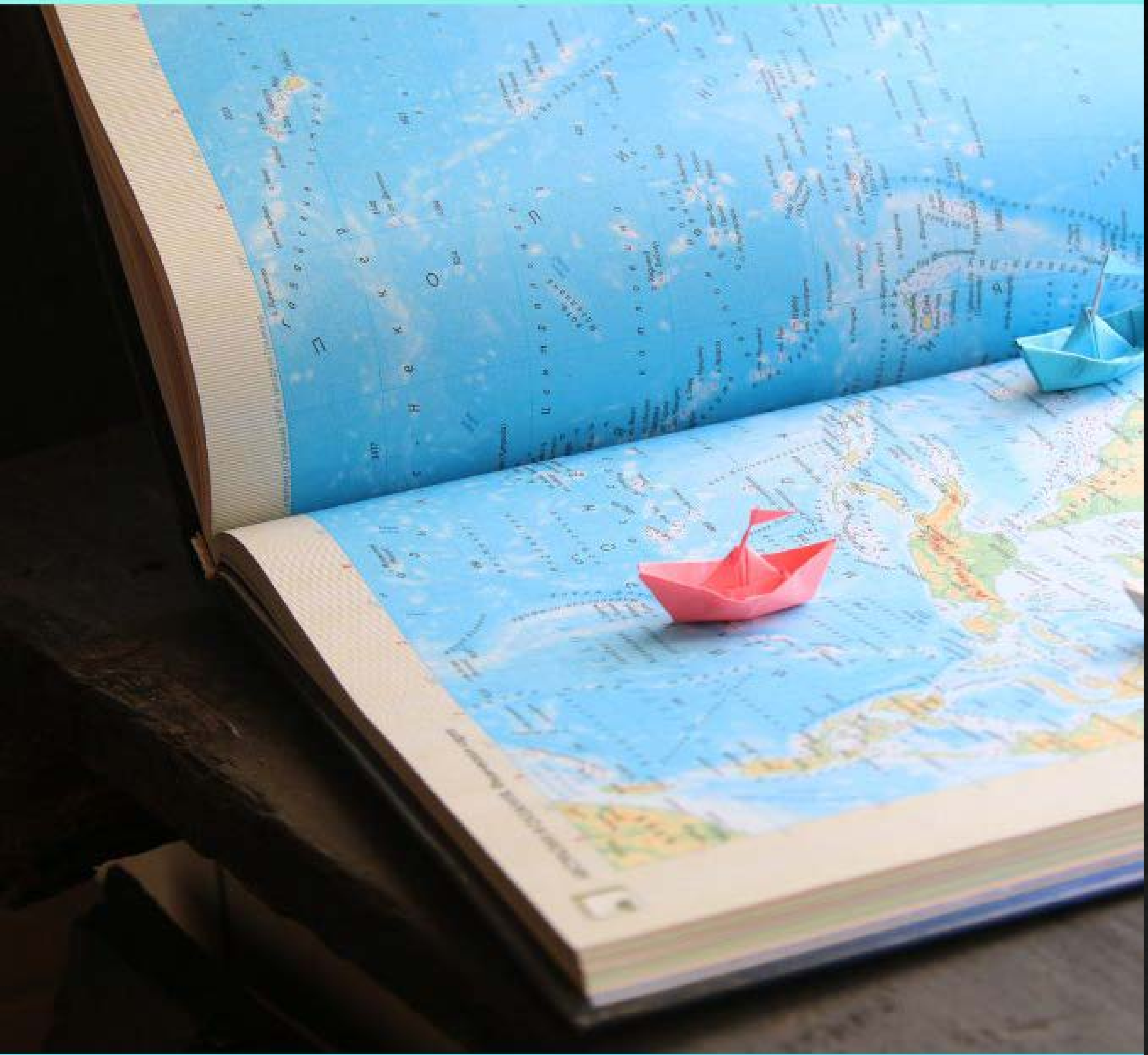
Taking your business overseas.

Are you ready to expand overseas?

What you need to know. An overview



Introduction

- Thinking about expanding your business overseas? It might seem like a far-fetched dream, after all even successful MNCs stumble at times. Do not worry, if you're a small start-up or an SME, you can successfully tap into new markets with a well-thought-out global expansion strategy. In this presentation, I will guide you through the process. Consider this a boot camp, when you emerge on the other side you will understand how to successfully take your company into new international markets.
- Let's get started on our voyage of discovery!

Your Guide

- Jeremy Gray
- A CFO with a sense of humor
- Taking your business overseas is an opportunity to grow your sales and to reduce your market risk. However careful planning is required to minimize the risk. Not all businesses and not all business owners are suited to moving into new geographies. Over the next 30+ slides, I will share what I have learned leading business expansion plans in economies as diverse as Argentina, Japan, Germany, China, and Vietnam.

Venturing into overseas markets for the first time will generate a lot of mixed emotions:

Excitement, you are about to become an international business.

Nervousness about the unknown, concern to avoid making the wrong choices.

The fear of failure.

But if you know what you need to understand about your company, the country, and the options open to you, your chances of success are much higher. That is what you will learn from this mini e-book.

Course Outline Modules 1 to 4

Why consider expanding overseas? Overseas expansion can lead to higher sales, improved profitabiltiy and a broader spread of risk

Are you ready for overseas expansion? Before you venture into foreign markets you must assess whether you and your company are ready.

Which is the most suitable country? There are many factors to be evaluated in determining which is the most suitable market for your expansion.

PAGE 5

Assessing market demand. Will there be enough market demand for your product or service to justify the investment in time and money?

Course Outline Modules 5 to 8

Competition: What are the strengths and weaknesses of the competitors already in the market. Both local and international

Should you Partner or Go it Alone? Assess whether you should find a partner or enter the new market alone?

Pros and cons of acquisition: Should you enter the market via acquisition? What are the benefits? What are the risks?

Getting your distribution strategy right: To succeed you have to get your product or service to you clients, How to optimise your supply chain

Course Outline Modules 9 to 12

Finding the ideal location: There are many factors to consider when deciding where to locate your business in your target country. How do you assess your options?

Should you build a plant? What is the best choice for your production strategy? Do you import your products? Or produce locally? Do you take advantage of low-cost manufacturing?

Find the right legal structure. What is the best legal structure to optimize taxes and costs in your target country?

Incentives, taxes and profits. What incentives are available to you? Can you offset taxes paid in your home country? How can you bring your profits home?

Module 13:
Bringing it all together.

- Risk Assessment: Bringing everything together. By following the first 12 modules, you will have your growth plans in place. Now it is time to assess the risks and develop mitigation strategies. You are ready to make the Go or No-Go decision based on research and facts.

Why Consider Expanding Overseas?

Mumbai India

- Expanding your business overseas can be a strategic move with significant benefits. Here are some key points to consider:
- Market Size and Growth Potential: If you’ve outgrown your home market consider countries with robust economies and growth potential.
- Sales Growth and Price Competition: Expanding can increase sales by reaching new customers. Overseas markets may offer less price competition, allowing you to sell at a premium. Early adopters can be valuable targets.
- Profitability and Economies of Scale: Higher profits are a driver, but ensure you maintain profitability. Economies of scale can help by avoiding duplicating back-office functions. Negotiate with suppliers and adapt to the new market’s behavior.
- Risk Diversification: A broader geographic base spreads risks. During financial crises, having operations in multiple countries provides resilience.
- Long-Term Momentum: Successful expansion provides momentum and better positions your company for opportunities.
- Access to Ideas and Technologies: Operating in multiple countries broadens your knowledge base.

Are You Ready for Overseas Expansion?

- You must ensure you are ready to embark on your overseas adventure. Here are something to consider:
- Financial Reserves: Assess whether you have the financial resources to support your overseas business during its startup phase. Expansion often costs more than expected and takes longer than planned. Be prepared for surprises.
- Cushion for Funding: When evaluating funding, build in plenty of cushion. Consider your business's security in the home market. Minimize the risk of abandoning expansion due to a slowdown back home.
- Business Plan: Create a detailed business plan with project P&L, balance sheet, and cash flow. Pay attention to cash flow statements. Payment terms in the target market may differ significantly.
- Local Business Practices: Understand local business practices. For example, in Japan, payment terms of 180 days are not uncommon. Adapt to cultural nuances and holidays.
- People and Skills: Assess your team. Do they have the right skills and attitude for international expansion? Prioritize those with international experience. Eagerness for new experiences is valuable.
- Remember, successful international expansion requires thorough planning, financial readiness, and a culturally aware team.

Nairobi Kenya

Selecting the Right Target Market

Buenos Aires Argentina

- Expanding your business internationally is an exciting venture, but choosing the right countries to target is crucial. Here are key considerations:
- Proximity vs. Potential: Operating in a country that's a short plane ride away versus one that's 24 hours away makes a significant difference. Proximity affects your ability to visit the market regularly and manage issues promptly. Consider the quality of staff needed based on response time. While nearby markets may seem simpler, more attractive opportunities could lie farther afield in South America, Africa, or Asia.
- Market Receptiveness: How do consumers perceive products from your home country? British education is well-regarded in Vietnam, and Scotch whisky is highly approved in Asia. Research consumer preferences and cultural nuances to gauge receptiveness.
- Personal Preference: Surprisingly, your affection for the country matters. If you enjoy the environment, you'll handle setbacks better. Negative reactions won't help, but a positive attitude fosters resilience. Also, people are more willing to assist if they sense your genuine appreciation for their homeland.
- Remember, your target market selection should be guided by a balance between proximity and potential, cultural fit, and personal affinity.

Competitive Analysis for International Market Entry

- When expanding your business overseas, understanding your competition is crucial. Here’s how to approach it:
- Identify Competitors: Research major competitors in your target market. Use the internet to search for products, industry information, and relevant keywords.
- Focus on direct competitors and prioritize the most important ones using the 80/20 rule.
- Analyze Strengths and Weaknesses: Understand their sales and marketing strategies. Consider factors like pricing, service levels, and delivery costs. Learn about their organizational structure, sales teams, and customer interactions.
- Pricing Strategies: Evaluate their pricing models. Can you be profitable while competing with them? Determine if the market is low-cost, low-service, high-cost, high-service, or a mix of both.
- Market Expectations: Study their online presence, including websites and social media. Understand customer expectations and essential requirements. What are the “ticket to play” items?
- Differentiation: Develop a strategy to stand out. Consider how you can differentiate yourself from competitors. What unique value can you offer?
- Remember, your competition gets a vote, so knowing them well will help you respond effectively to their actions

Riyadh Saudi Arabia

Navigating Market Entry Pt 1: Use Your Own Sales Force

Cincinnati Ohio USA

- How you sell your product in your target market requires careful consideration. Here are three common options you should consider and the pros and cons of each.
- 1) Set up a sales organization within the country.
- Advantages:
  - Gives you better insight and control over the market
  - You can focus on the long term. Distributors and agents may take a short term view.
  - Increased credibility with customers - this shows a commitment to the market
  - No need to share your profits with others
- Disadvantages:
  - You have to do everything yourself
  - Hiring staff requires a good knowledge of labor law and practices in the target country
  - Will probably make you liable for taxes and statutory filings

Navigating Market Entry Pt 2: Use an Agent

- 2) Use an agent. An agent acts on your behalf to find customers that you supply and invoice directly. Agents who sell complementary but not competing products are a good choice.
- Advantages:
- Simplicity and speed. An agent can be promoting your products within days of the contract being signed.
- You benefit from the agent's knowledge and industry experience
- No recruitment costs and tax liabilities.
- Disadvantages
- Agents do not hold inventory. This can put you at a disadvantage compared to competitors who hold inventory in-country and can deliver within days.
- You take the credit risk
- After-sales service can be challenging.

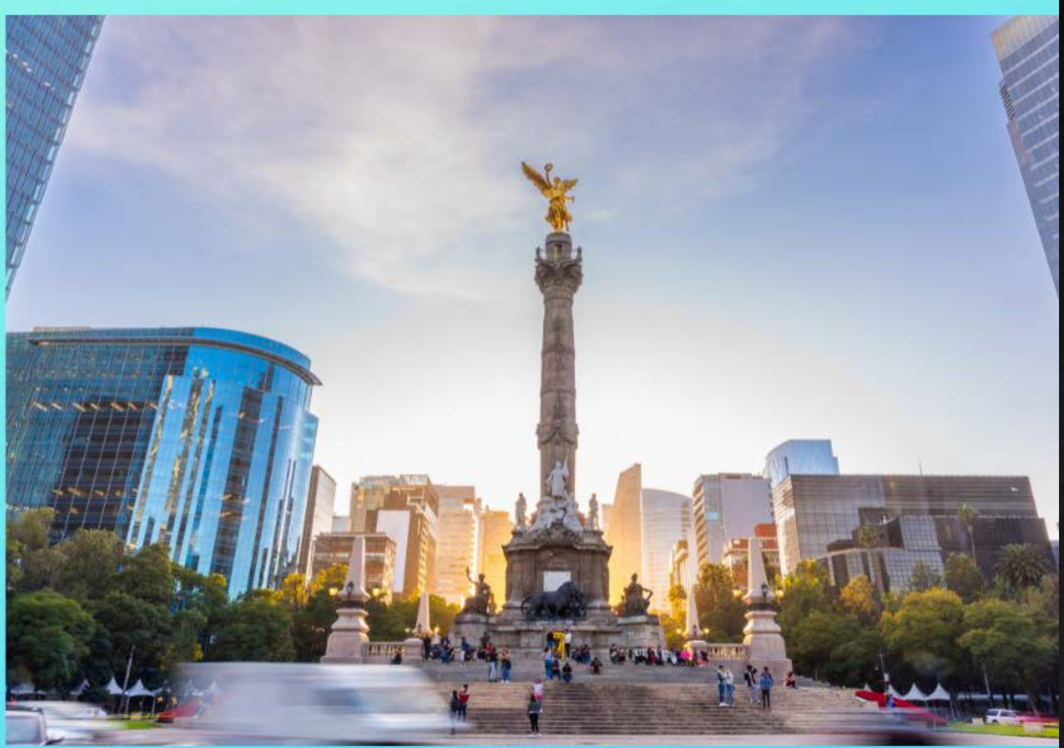
Oslo Norway

Navigating Market Entry Pt 3 Use a distributor

- 3) Use a Distributor - a distributor should be able to buy, store and market and as the name implies distribute your product to the end user.
- The Advantages:
- A distributor allows you to hold inventory in the country, enabling you to compete with local competitors in delivery times.
- Markets and sells your product to end customers.
- Takes on the credit risk
- Disadvantages:
- A distributor will expect large discounts and credit terms.
- You will have less control over your marketing strategy
- A longer-term commitment will be required compared to using an agent.
- Whether you are using an agent or a distributor ensure that they know the anti-corruption legislation in the target country and the rules that apply in your home country. You are liable for breaches by an agent or distributor of your home country's laws. Pleading ignorance is no excuse.
- An agent or distributor can be a great market entry strategy, switching to your own sales force as you become more established.

Jakarta Indonesia

Strategies for Entering New Markets via Mergers and Acquisitions Pt 1



Mexico CIty Mexico

- M&A is a great way to enter a new market providing you can find the right target.
- To improve your chances of success, in any M&A deal there are three fundamentals you must focus on:
- Is the target company a good fit in terms of size, industry and culture?
- Getting the valuation right
- Planning and implementing a solid integration strategy.
- The first and third are the most important. If you overpay, it will not wreck the deal, but selecting the wrong target and a poorly prepared and/or implemented integration plan will jeopardize the future success of your deal.
- When acquiring an overseas company there are areas that are particularly important:
- Cultural Fit and Employee Retention
- Understanding and respecting cultural differences is crucial. Develop robust communication channels for feedback and address employees' concerns promptly.
- Retaining key employees and bridging cultural gaps are vital for successful integration and maintaining business continuity.

Strategies for Entering New Markets via Mergers and Acquisitions Pt 2

Brisbane Australia

- Due Diligence is Critical
- Conduct formal due diligence with local lawyers and accountants, and informal due diligence to understand the target company's reputation and market standing.
- Early investment in external background research can help uncover potential red flags.
- Valuation
- Business owners often have greatly inflated valuations for their businesses. You need care and tact when presenting your bid to avoid it being seen as a lowball offer.
- Misunderstanding and, therefore, overvaluing synergies is a common mistake. Acquirers often enter a deal with an overly optimistic belief in the synergies that can be achieved and the time it will take to bring them to fruition.
- Be aware of negative synergies. You may be unable to sustain some of the acquired company’s sales tactics, which might result in lost sales. The acquired company may be able to sail closer to the edge of the law than you can.
- A successful acquisition will be the fastest way to becoming established in your target market. But it is predicated on the right company being available for sale at a fair price. Acquisition should not be your initial market entry strategy unless you have the patience to wait for the right opportunity to arise.

Optimizing your Distribution Strategy

Milan Italy

- When it comes to distribution strategy your objective should be to meet a simple criteria. **To deliver the right product to the right place and the right time at the right price.**
- Getting your distribution strategy right is essential to customer retention. Your customers will not be happy if they cannot get the product they want, where they want it when they want it.
- An initial question you need to ask is: Am I going to distribute nationally, or just in targeted regional markets?
- Whether you plan a regional or national strategy you must balance inward and outward logistics to optimize costs.
- If you are planning a regional roll out, take the time to learn where your potential customers are. Are there regional industry clusters that make sense?
- Do you go direct or indirect? Direct distribution is probably not appropriate unless you are selling high-ticket items. Find a distributor who can add value to you and your end customer. Vet your choice carefully. Can they provide after-sales services? Do they have appropriate warehousing? What are their charges? Will they support your pricing strategy?
- If your products have a shelf life ensure your distributor or warehouse agent has a robust tracking system to monitor shelf life.
- What is your saturation strategy? High such as chewing gum, Exclusive - such as the Apple and AT&T in the past or Selective such as used by Gucci.
- Consider market positioning. By restricting distribution you may be able to take your product from mass market to premium, thus commanding higher selling prices and higher profits.
- Remember, a well-executed distribution strategy can significantly imp your business success!

What you need to know before Setting Up a Manufacturing Plant in a New Market Pt 1

- Building a plant is a significant investment, whether it is a green field or an existing building. It is a long-term investment
- Consider all the options that may be open to you:
- Supply products from your home country
- Find a toll manufacturer in your target country
- Lease an existing building where you can install your plant
- Find a developer who will build to suit
- Go the green field route, buy a piece of land and build a plant to your design.
- It's crucial to be well-informed about the laws of the target country, especially those that restrict foreign ownership of land. This knowledge will prepare you for any potential challenges and ensure a smooth investment process.

Toronto Canada

What you need to know before Setting Up a Manufacturing Plant in a New Market Pt 2

Osaka Japan

- Economics will play a large part in your decision making process but there are soft factors:
- Customers perception of your commitment to the country (security of supply and switching costs)
- Employee’s belief in security of employment. You are more likely to attract people looking for a career.
- Government support Financial and non-financial
- Your personal view and risk profile.
- Whether you lease an existing building, find a developer for built to suit or go greenfield you will need to understand the permitting process required to be allowed to construct your plant. This can be lengthy, sometimes this can take over a year.
- This will be complex, often applications must be in the local language. If you do not have in-house ertise hire a consultant to help.

What you need to know before Setting Up a Manufacturing Plant in a New Market Pt 3

- To operate your plant you will need operating permits. Requirements will vary by country and industry but almost certainly you will need an Environmental Impact Assessment. This will include:
- Details of raw materials used and quantities
- Production processes
- Waste generated and how treated
- Any intermediate products generated during production
- Finished products formulations
- Close inspection of any dangerous or hazardous goods can be expected
- Standby processes such as generators
- Before committing, do a groundwater and soil contamination check. This may or may not be legally required, and although not cheap, it is vital. Cleanup costs are never cheap, and you do not want to pay for someone else's failings.

Cape Town South Africa

What you need to know before Setting Up a Manufacturing Plant in a New Market Pt 4

Edinburgh Scotland

- If you construct a manufacturing plant, look for ways to maximize your return.
- Could it be used to supply neighboring countries?
- Is it feasible to be a low cost plant for your home market?
- Can excess capacity be used to supply other companies?
- Get the most publicity possible from your plant opening:
  - Media Coverage
  - Customer entertainment
  - Supplier tours
- Entertain Government Officials - ensure you understand local customs regarding entertaining government officials.
- Remember, whether you're building a plant from the ground up or exploring alternative market entries, thorough research, solid advice, and strategic planning are your best allies for successful international expansion.

Essential Legal Steps for Global Business Expansion Pt 1

- Ensure you have completed steps 1 to 10 before you select your legal structure. In some jurisdictions mistakes made here can be difficult to correct and can have significant tax implications.
- What is your company going to look like? What activities will it conduct in-country? What activities will be outside the country? Where will you be located? What products or services will you sell? Will you hire people? Until you can answer these and any location-specific questions, you cannot identify the legal structure that is right for you.
- Typically, there are three options available to foreign owners:
- Representative office: A representative office is the choice when you want to have a minimal presence in a country and only conduct non-transactional activities. That includes no selling. Setting up a representative office is usually simple and quite quick. The permitted activities of a representative office vary widely, so understand what is allowed or not allowed in your chosen location.
- Once you want to start commercial activities you will need a branch office or a subsidiary.

Hong Kong SAR PRC

Essential Legal Steps for Global Business Expansion Pt 2

Vancouver Canada

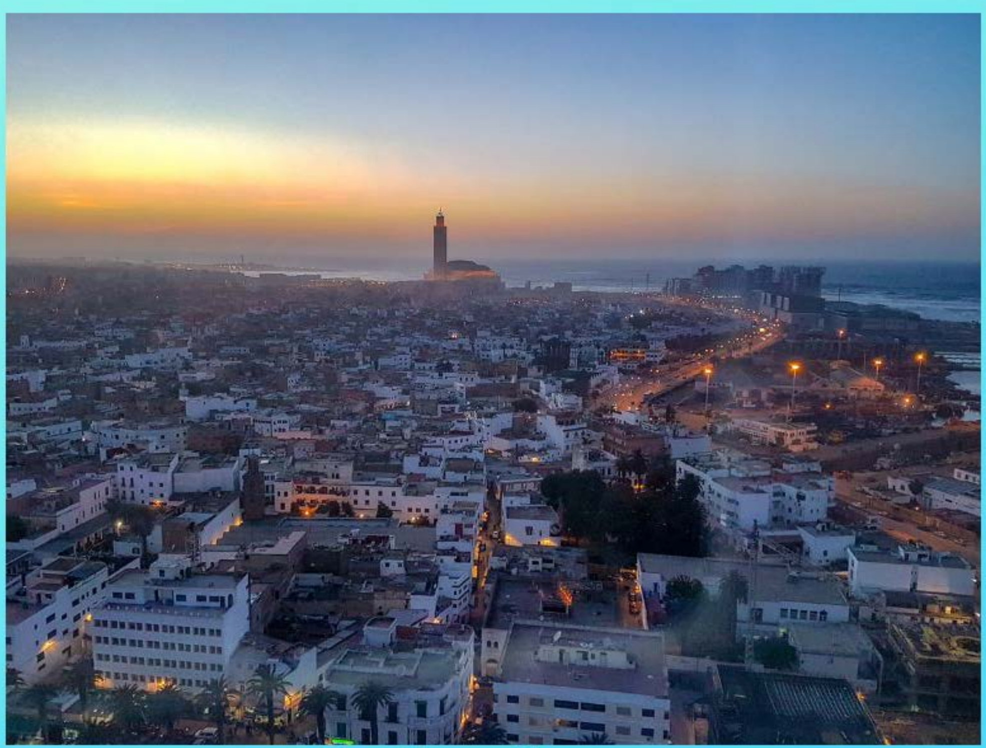
- A branch office is an extension of the parent company and is not a separate legal or financial entity from its parent. But unlike a rep office it can engage in sales activities.
- Some countries restrict some activities from working via branch offices – in Vietnam, financial institutions, credit rating agencies, and commodity traders are not permitted to set up as branch companies.
- Setting up a branch office can be quite cumbersome depending on the jurisdiction you are operating in.
- A subsidiary is a legal entity in its own right – independent from the parent company
- Setting up a subsidiary in a foreign country can be a large undertaking, similar to setting up a branch office.
- But because it is a separate legal entity it is a good choice for limiting the legal and financial exposure of the parent company's interests. A subsidiary can be wholly owned by the parent company, a WOFE, wholly owned foreign enterprise in China, or partially owned by the parent company and a partner or partners

Essential Legal Steps for Global Business Expansion Pt 3

- Which is better for you? A branch or subsidiary?
- A subsidiary is a separate legal entity from your home company.
- It stands alone, it can be taxed, it can sue and be sued, it can be prosecuted if it breaks the law. But because it is its own entity there is a layer of protection for your home business.
- If the foreign entity becomes entangled in legal issues, the liability lies with the local subsidiary, not the parent or the holding company. It is difficult for parties or even governments to pursue action against the holding company for infringement committed by the local company.
- Taxation could be another advantage. The subsidiary will be subject to the tax laws of the host country. This might enable you to manage your tax burden by taking advantage of favorable tax policies in the country and limiting the impact of local taxes on the parent company’s profits.
- But once set up, unwinding a subsidiary is a time consuming and could be an expensive exercise. In addition, you must understand if there are restrictions or tax implications on altering the capital structure.
- Setting up a subsidiary is a step that must be fully researched before proceeding.
- Remember, international expansion is a complex but rewarding endeavor and the right legal structure can be pivotal to your company's success.

Newcastle Upon Tyne United Kingdom

Taxes Incentives and Repatriation of Profits Pt 1



Casablanca Morocco

- Taxes, incentives, and profit repatriation are among the most complex areas of working overseas. This guide provides a general understanding of these topics, but the unique rules of each country make seeking professional advice a necessary step for navigating these complexities.
- Funding structure and how your overseas is funded can have significant tax implications.
- **Thin or thick capitalization** – what it is and why do countries/tax authorities care?
- Companies are financed by a mixture of equity and debt.
- Equity is investment by shareholders and retained earnings. Investors are rewarded by dividends or by an increase in share price.
- Debt is money lent to the company by third parties. Lenders are rewarded by interest payments. Note that third parties will include parent companies.
- Companies are said to have thin or thick capitalization depending on the funding ratio between debt and equity. Thin capitalization is when the ratio of debt to equity is high. That is the company is predominantly funded by debt. Thick capitalization is the opposite, the company is primarily funded by shareholder investment.

Taxes Incentives and Repatriation of Profits Pt 2

- Why do authorities care? Interest is usually tax deductible. The higher the debt load the lower taxable profits. As the lender could be the parent company this is a means to reduce taxes in the foreign company and to repatriate profits to the home country. If the home country does not tax interest income or taxes it at a low rate – the advantages are obvious.
- As you might expect some countries do not look favorably on thin cap companies and apply special rules for companies deemed to be thinly capitalized. Again, seek professional advice.


Santiago Chile

Taxes Incentives and Repatriation of Profits Pt 3

- **Sales taxes:** Most countries levy some form of sales taxes. Many use a Good and Service Tax (GST) or Value Added Tax (VAT). These taxes work differently than a sales tax such as used in the US. If these taxes are applicable to your target market take the time to understand how they work. Note VAT and GST are very similar as a rule of thumb VAT rates tend to be higher than GST.
- **Employment taxes:** Employers are often required to pay levies on employees both in terms of the number of employees and the amount that they earn.
- **Corporate taxes:** It is possible that some countries do not apply taxes on corporate earnings, but I have not found one yet. You will be taxed on the money you make in country.
- **Expat employee taxes**. If you use employees from your home country to work in the target country, understand when they will become eligible to pay taxes in the host country, usually 181 to 183 days but some are less. If the home country taxes on worldwide income then the employee may be liable for tax in both the host and home country.
- **Collaboration:** Country tax authorities do talk to each other. So do not assume, “They will never know.” Here is a quote from the Australian tax authorities: “Since September 2018, we have received and exchanged financial account information with participating foreign tax authorities.”

Riga Latvia

Taxes Incentives and Repatriation of Profits Pt 4

Shanghai PRC

Incentives.

- Incentives to encourage investment are often offered by governments at the national, regional and local level.
- Broadly, there are three categories of incentives.
- **Financial incentives** which are usually directed to cash flow, typically in the form of a grant that minimizes the investment cash required in the up front investment needed to get the new project up and running. These tend to be preferred by developed countries and often used to encourage setting up in less economically successful parts of the country.
- **Fiscal benefits** – tax breaks, tax holidays or reduced tax rates. Usually these are for a limited period of 3-5 years. Often favored by developing countries who may not have the funds available to provide up front grants. Tax breaks also carry a lower risk to the provider of incentives. Up front grants can be lost if the new venture is not successful.
- Economic zones with different regulations from the rest of the country, often with tax privileges, such as lower corporate tax rates etc.
- Do not forget to check incentives your home government may provide to encourage foreign expansion.

Taxes Incentives and Repatriation of Profits Pt 5

- Other incentives – a broad category that can include:
- Subsidized infrastructure to increase accessibility and usefulness of a site. Building roads or adding a rail connection. Improving the utilities etc.
- Regulatory concessions, such as speeding up approval processes, help on visa programs for employing foreign workers, family resettlement.
- Employment subsidies covering some of the employee costs of the investor. Provision of workforce training, such as courses at local colleges or vocational schools.
- If you want to learn more about the incentives available in your host country check out Deloitte's Global Survey of investment and innovation incentives. It's a little our of date now, they do not seem to have updated it but it is a decent starting place.
- https://www2.deloitte.com/us/en/pages/tax/articles/global-survey-of-investment-and-innovation-incentives.html

Paris France

Taxes Incentives and Repatriation of Profits Pt 6

Singapore

- Repatriation of Profits
- Having achieved success you want to be able to bring your profits home to invest in your next expansion.
- I have not yet worked in a country where repatriation of profits is not allowed. A Google search was not able to identify any country that did allow repatriation of profits.
- The level of complexity in sending money home varies widely but most countries want to be sure you have paid the relevant taxes and that you are repatriating profits not capital.
- Many countries have rules regarding the payment of dividends. In Singapore dividends can only be paid out of profits. No profits, no dividend. Past year profits can be used to pay profits but the company should not be in a net loss position.

Taxes Incentives and Repatriation of Profits Pt 7

- China is often considered one of the more difficult countries for repatriation of profits, so let’s use its rules as our worst-case guide.
- Payment of dividends is the most common method of sending money home, but it does have conditions
- Details of registered capital must be filed and be in accordance with the company’s articles of association.
- Enterprises can only repatriate profits once a year due to tax and compliance regulations.
- Withholding taxes need to be applied.
- Past losses must be made up before dividends can be paid
- If a WOFE it is mandatory to put 10% of profits in a reserve fund until that fund equals at least 50% of the registered capital of the enterprise.
- As I said at the start of this section, the rules about taxation, incentives and repatriation of profits are very complex. Seek professional advice.

Beljing PRC

Next Steps

- Use this guide to assess your readiness to expand overseas, to determine the best market for you, and develop your expansion strategy.
- Consider signing up for my course launching in Q4 2024. This will cover each of these topics in more detail using videos, recordings and e-books. Plus relevant bonus materials to make your road to expansion a success. To register your interest go to my3CC.com. Note I will be offering the course at a 50% discount for folks who sign up during the week of October 7.
- For tailored dedicated support please contact me via jeremy@business-in-asia.org. Or via WhatsApp on +65 9178 4395.
- Wishing you every success on your overseas adventure.

"Man cannot discover new oceans unless he has the courage to lose sight of the shore."
André Gide