

HOW TO AVOID THE TOP FIVE PITFALLS IN GLOBAL EXPANSIONS

WRITTEN IN CONJUNCTION WITH TMF GROUP BASED
ON A STUDY BY INTERNATIONAL DATA CORPORATION
(IDC)



“The key take-away across the board is that global expansion is highly complex, and requires intense planning, preparation, relationship building, and judicious use of outsourcing.”

Are you among the 64% of companies planning to enter new global markets within the next 24 months? Then you'll want to know the key lessons learned from companies that have expanded globally.

International expansion expert TMF Group surveyed top decision-makers in corporations which had already expanded or were in their planning stages. The study, conducted by research house IDC, highlights important recommendations for firms with no experience in entering global markets.

The companies surveyed spanned all industries — manufacturing, retail, high technology, construction, utilities, professional services and pharmaceuticals. The key take-away across the board is that global expansion is highly complex, and requires intense planning, preparation, relationship building, and judicious use of outsourcing.



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THE CHALLENGES

The top two challenges going in were “finding the right premises and local suppliers” and, “understanding and complying with complex local rules, regulations and processes.” However, working with local regulations and processes is their number one expected challenge in their next expansion.

This underscores the persistent difficulties in “learning regional differences and navigating a continually changing regulatory landscape.” To this point, the companies surveyed said they would start planning earlier, and increase their use of outsourcing service providers, particularly business compliance services.

Corporate compliance services include legal entity creation and registration, preparing and filing legal documents, and ensuring the accuracy of legal and company records. Most traditional business process outsourcers for IT and HR do not offer these services, so one of the top five recommendations is to engage a specialized service provider who is well established in the local jurisdictions.

THE TOP FIVE RECOMMENDATIONS TO AVOID THE PITFALLS OF INTERNATIONAL EXPANSION

- 1. Start pre-launch research and planning early.** At least a year before establishing a physical presence, carefully research the specifics of the territory's political, legal and cultural environments, in addition to business factors such as competitive landscape, target markets and workforce. Pay attention to how the local specifics and nuances could impact your operations, and potentially expose you to financial, legal, and reputational risks. Errors and omissions in your research phase can be exponentially costly to correct later.
- 2. Get local help from third parties.** The role of local advisors and service providers is crucial, particularly in creating the new legal entity, recruiting and training senior management and operational workers, and supporting day to day administrative functions such as payroll processing, cash management, regulatory reporting and the like. Local knowledge and experience is essential for these tasks that are critical but add little value to the organization. Thus they are often best handled by local specialist organizations.
- 3. Use outsourcing pragmatically.** Using local outsourcers, professional services firms and consultancies is an important time-saver in the early phases of expansion. However, keep in mind that the engagement has to be fluid. An organization should regularly assess what functions can be taken back in-house, and which to further outsource. Pick a provider who can keep their services flexible, and can customize them to your needs as they evolve.
- 4. Consider joint ventures and acquisitions.** One way to avoid some of the effort and cost (and risk) involved in setting up a subsidiary in a new territory is to buy or create a joint venture or an existing operation. But even when considering an acquisition or joint venture, an organization must still acquire a deep understanding of the local political, economic, and social conditions of their target territory, as well as understanding the commercial and operational capabilities of the target organization. That means seeking advice from local business and political advisers and local business services providers.
- 5. Consider strategic, multi-territory relationships with key service providers.** One of the critical issues involved in managing territorial expansion is gathering, processing,

and reconciling operational, financial, and legal data across multiple territories. It's a given that local reporting and regulatory requirements in each territory are country-specific. One of the major advantages of using an outsourcer or service provider to manage functions such as payroll, cash management, HR, legal compliance, and financial reporting is that the provider will be expert at reconciling the data between the enterprises' corporate formats and standards and those demanded by the local regulatory authorities. Managing multiple subsidiaries involves even more complications and management overhead. That's why using a single strategic supplier to handle these outsourced functions in multiple territories can remove most if not all of the pain from this process. At the very least, it will ensure consistency across processes and standards.



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CONCLUSION

The pace of U.S. companies that are expanding internationally is rapidly increasing. Companies that are venturing overseas for the first time can learn important lessons from companies that have already done so. One of the top challenges companies will face is not having a good grasp of local legislation and business regulations. Without this, a company is at risk of inadvertently alienating local stakeholders, or even breaking the law. As in the U.S., consequences of non-compliance can include fines, suspension of trade, and sometimes even criminal prosecution.

Experienced companies were clear that in their next expansion, they would rely more on corporate compliance services providers with a well-established local presence. By outsourcing transactional, administrative services they can focus on establishing their core business mission.

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