



International Business Expansion:
Optimizing your move abroad

*San Francisco Chamber of Commerce
Member-led Workshop
Wednesday, September 10th, 2003*

Presentation Goals

- Business drivers
- Targets
- Business models
- Main Phases
 - Assessment
 - Planning
 - Execution
- Best Practises
- Pitfalls to avoid



Reduce costs and risks by doing things
step by step, maximize returns with best strategies

Global Targets for International Expansion

Unlocking
Your Market
Potential ...

Ranking	Country	%
1	United States	66
2	China	40
3	Brazil	39
4	United Kingdom	39
5	Mexico	35
6	Germany	35
7	Canada	33
8	France	32
9	Australia	27
10	Spain	27
11	Poland	26
12	Italy	24
13	Singapore	23
14	Czech Republic	23
15	The Netherlands	22

Percentage of global companies with International business expansion plans stating that they are targeting that country

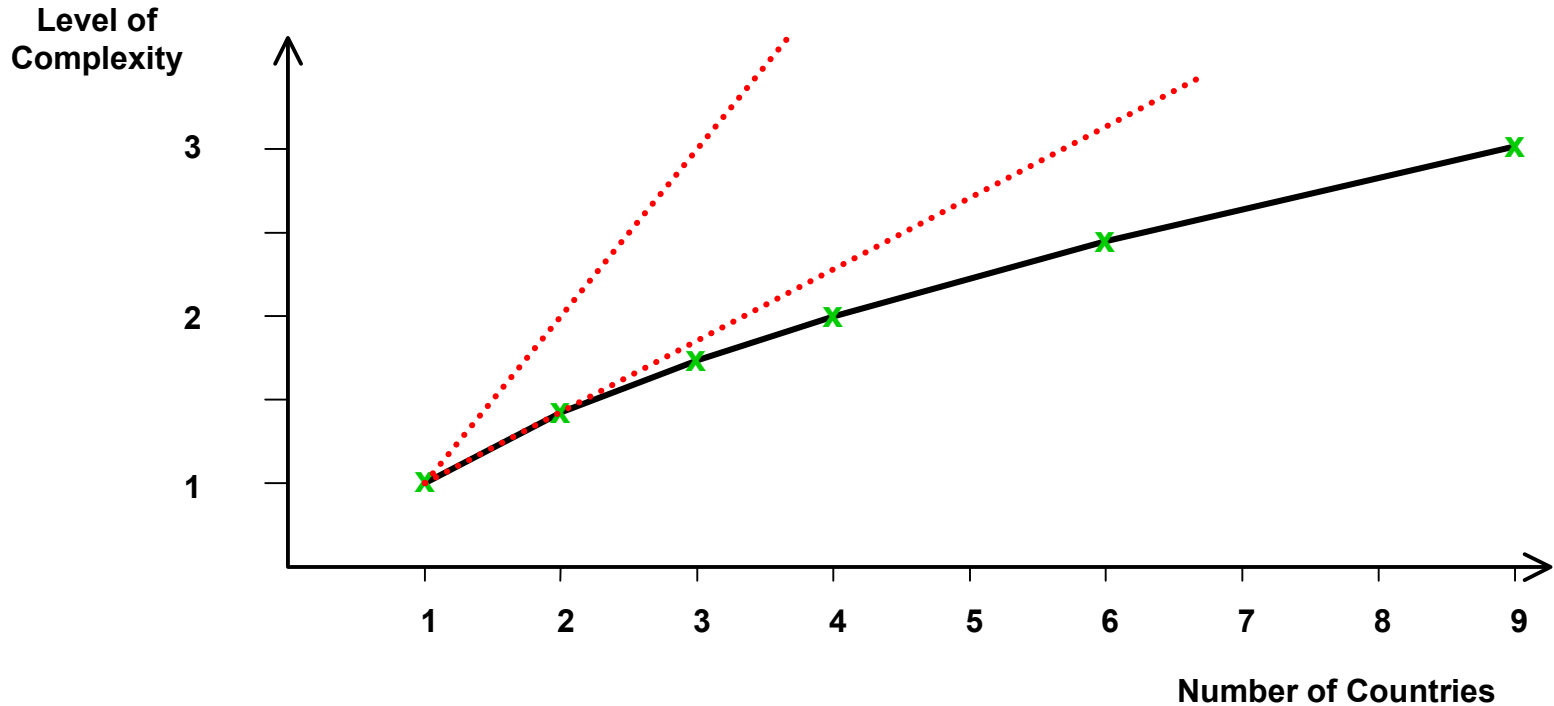
Why International Expansion?

- Getting sales in a new market
 - European and Asian companies for example are focused on market access to the US
- Reducing manufacturing costs
 - Developed countries establish foreign manufacturing bases in other less developed countries to reduce costs - cheaper labor and facilities
- Centers of Excellence
 - Some regions in developed countries have research hubs around universities - biotech, high-tech, for example
- Reduce service costs
 - Call centers, data input centers, IT services

Issues

- Longer ROI
- Increased complexity
- Higher risk
- Sometimes more expensive
- Long term rewards
 - large US corporations typically generate 50% of their business abroad

How Difficult Can It Get ...



Project complexity increases by $\sqrt{}$ of the number of countries involved

Clusters - Centers of Excellence

- Developed countries offer high-tech services and Centers of Excellence
 - IT in Silicon Valley
 - Nordic countries for Telecomm
 - Biotech in Switzerland, UK
 - Aeronautics in France
 - Auto industry in Germany

Cluster Phenomenon

- Clusters: geographic concentrations of interconnected companies
- Academia, industry, VC, Government
- Increases the productivity of companies based in the area
- Drives the direction and pace of innovation
- Stimulates the formation of new businesses within the cluster
- Competitive advantage lies increasingly in local things - knowledge, relationships, and motivation



Harvard professor Michael Porter

Zurich, for example ...

- Comparably low taxes
- Political stability
- Central Location
- Long tradition in pharma- and medical
- Excellent universities
- 3 biotech clusters
- Loyal, industrious, multilingual workforce
- Excellent medical system
- High quality of life
- Sophisticated banking industry
- Won the America's Cup 2003

- A variety of factors
 - Stuttgart vs. East Germany vs. Poland for example
 - Manufacturing presence often opens the door to the local marketplace
 - Belgium cited as being close to the major established European centers
 - Vienna cited as being a portal to the new EEC countries
 - Clusters

Europe



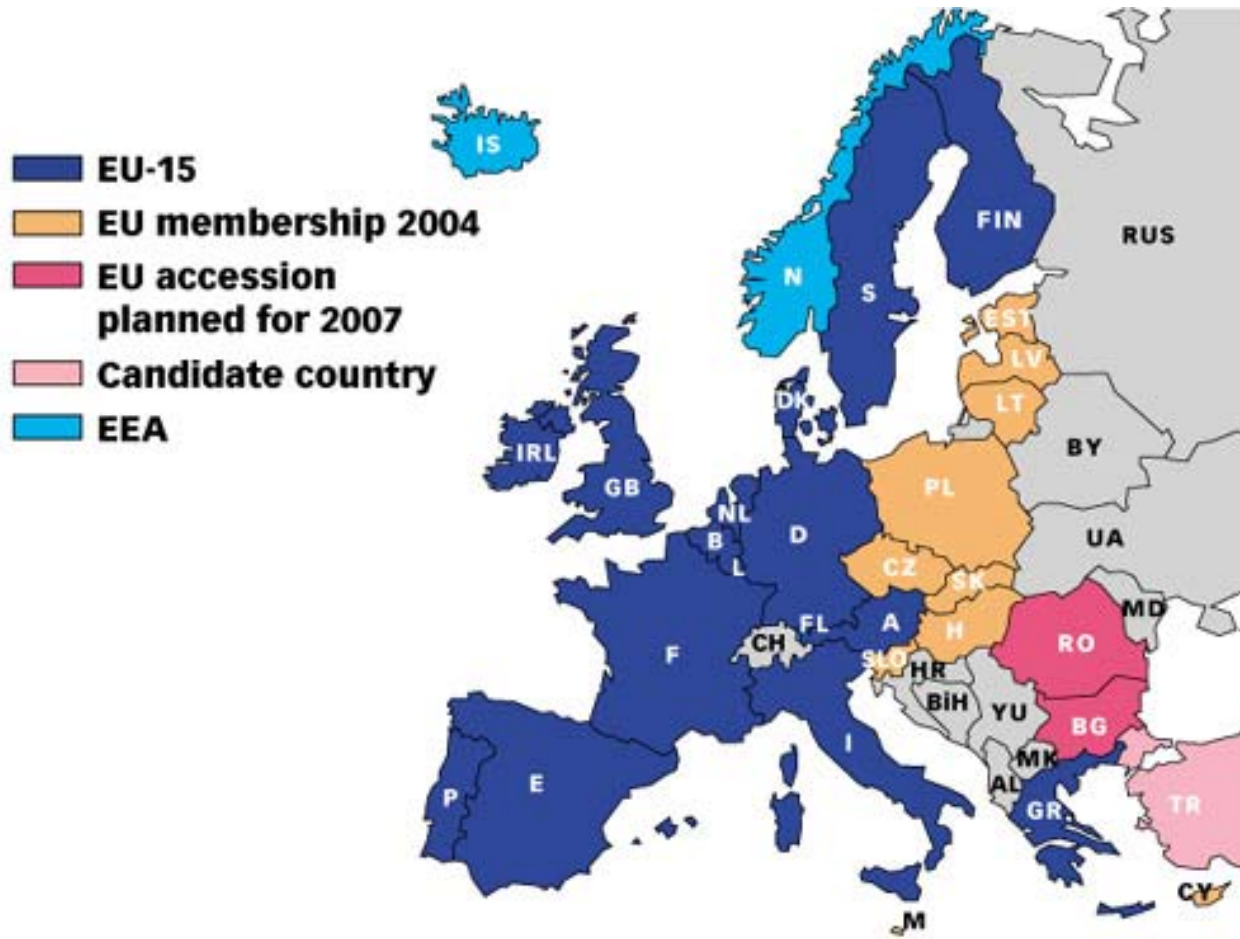
Country	Accession Date	Population (in mio)	Area (in km2)
Belgium*	1957	10.2	30,528
Denmark	1973	5.3	43,094
Germany*	1957	82.0	356,854
Finland	1995	5.1	338,139
France*	1957	60.4	543,965
Greece	1981	10.5	131,957
United Kingdom	1973	58.6	242,429
Ireland	1973	3.7	70,283
Italy*	1957	57.6	301,302
Luxembourg*	1957	0.4	2,586
Netherlands*	1957	15.8	41,864
Austria	1995	8.1	83,858
Portugal	1986	10.8	92,389
Sweden	1995	8.9	449,964
Spain	1986	39.4	504,782
Total		376.8	3,233,994



Country	Accession Date	Population (in mio)	Area (in km2)
Cyprus	2004	0.7	9,251
Czech Republic	2004	10.3	78,866
Estonia	2004	1.8	45,227
Hungary	2004	10.0	93,036
Latvia	2004	2.8	64,589
Lithuania	2004	3.7	65,300
Malta	2004	0.4	316
Poland	2004	38.7	312,685
Slovakia	2004	5.4	49,035
Slovenia	2004	2.0	20,253
Total		75.8	738,558

Country	Accession Date	Population (in mio)	Area (in km2)
Bulgaria	-	8,1	110'993
Romania	-	22,4	238'391
Turkey*	-	67,804	779'452
Total		98,304	1'128'836

Unlocking
Your Market
Potential ...



- Developing countries
 - Low cost labor in developing countries
 - Export, re-export to developed countries
- Outsourcing Services
 - Ease of data communication facilitates offshore work
 - Leverages low-cost labor
 - Offshore software development in India
 - Data input offer by companies in Ireland
- Who benefits?
 - Backlash possible

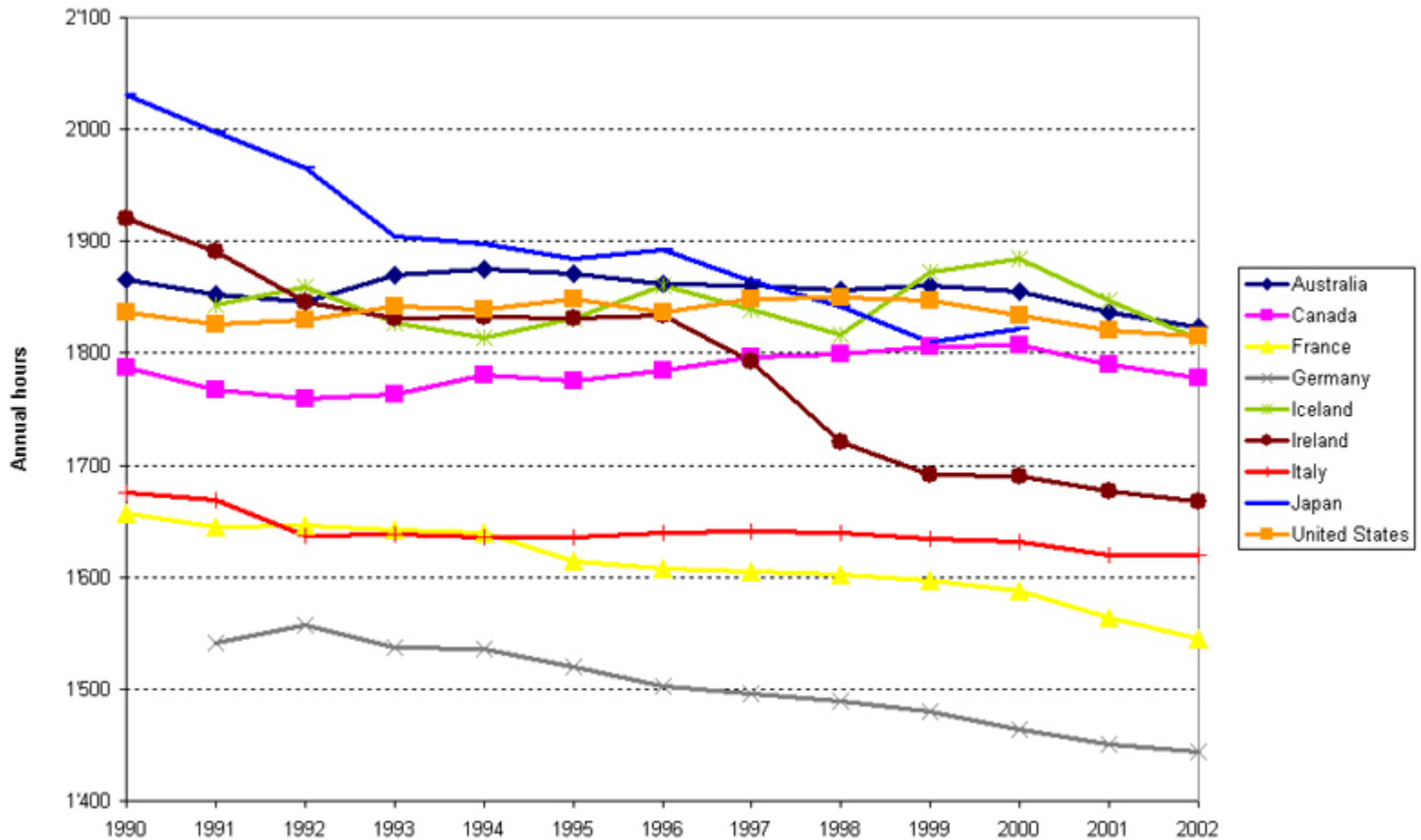
Worldwide Productivity

Country	Wages (A)	Labor Productivity (B)	Unit Labor Cost A/B * 100
US	100.0	100.0	100.0
Sweden	74.5	53.8	138.5
Japan	62.6	67.8	92.3
Taiwan	43.1	24.4	176.9
Korea	27.0	43.9	61.5
Mexico	16.3	30.3	53.8
Philippines	8.6	15.9	54.1
Bolivia	7.7	16.8	45.8
Egypt	5.9	5.1	115.7
Kenya	5.4	3.5	154.3
Indonesia	4.6	6.6	69.7
India	3.1	2.9	106.9
China	2.1	2.7	77.7

(Source) United Nations Conference on Trade and Development (UNCTAD), Trade and Development Report, 2002.

Who Works the Most?

(Source) Survey of global labor market trends from the Geneva-based International Labour Organisation (ILO)



Corruption kills sustainable growth in its tracks

Global corruption report - Score ranges between 10 (highly clean) and 0 (highly corrupt), and relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts

1	Finland	9.7
2	Denmark	9.5
3	New Zealand	9.5
4	Iceland	9.4
5	Singapore	9.3
6	Sweden	9.3
7	Canada	9.0
8	Luxembourg	9.0
9	Netherlands	9.0
10	United Kingdom	8.7
11	Australia	8.6
12	Norway	8.5
13	Switzerland	8.5
14	Hong Kong	8.2
15	Austria	7.8
16	USA	7.7
17	Chile	7.5
18	Germany	7.3

89	Bolivia	2.2
90	Cameroon	2.2
91	Ecuador	2.2
92	Haiti	2.2
93	Moldova	2.1
94	Uganda	2.1
95	Azerbaijan	2.0
96	Indonesia	1.9
97	Kenya	1.9
98	Angola	1.7
99	Madagascar	1.7
100	Paraguay	1.7
101	Nigeria	1.6
102	Bangladesh	1.2

(Source) Transparency International, 2002.

Key Components

- Comparative location assessment
- Overseas orientation visits
- Market viability analysis
- Best company profile to present to new market
- Competitive analysis
- Business plan
- Execution - identifying and securing new partners and customers

Business Orientation Visits

- Don't waste time on the visit - be prepared !
 - Briefing book
 - Interviews pre-arranged
 - Pre-departure preparation
- Face to face meetings with:
 - Partners
 - Customers
 - Service providers
 - Government
- Debriefing and next steps for follow-ups



Essential to know what is
happening on the ground in your sector

Market Viability Study

- Respondents asked to provide details on:
 - Business drivers
 - Technology drivers
 - Level of interest
 - Current implementation plans and schedule
 - Price points

What sold well in your home location
might fare differently in the US - 
for example, more mature market, more competition

Competitive Analyses

- What the competitor's product does best
- What the competitor's product does well
- Where they are similar
- What the competitor's product does not do well
- How your product provides that missing functionality
- Price point determination where possible

- What aspects of your company work best abroad?
 - Don't make a broad attack
 - Spearhead with the best focus
- Find out your differentiator for the new market
- People must be interested in that differentiator
- Be prepared to prove it

Branding !



International expansion can be very different - you may have grown organically in your home market, but need a single point of attack in a new market.

Company Credibility

- Don't forget the company credibility issue
- How effectively can you support that country?
 - Don't think that you can fool them
 - Language, cultural barriers
 - Time zone difference
 - Long commute times :-)

**I don't know who you are,
I don't know your company's reputation,
I don't know your company's products ...**

Now what was it you wanted to sell me?



Protecting Intellectual Property

- Patents, copyright, trademarks
- 120 national patent systems. Need to file in each target country
- Different regulations - trademark prior use rights in the US, first to file in the UK
- Copyright more global
- Trademark squatting
- FDA approval becoming more reciprocal

- Revenue
 - Potential market size
 - Optimal geographic regions
 - Pricing policy, licensing structure
 - Distributor model vs. direct sales
- Costs
 - Distribution costs
 - Real Estate Costs
 - Personnel costs
 - Marketing costs



Roadmap to profitability - Projected revenue vs. costs...

• Risks

- Exchange rate fluctuations, inflation
- Purchasing power parity must be factored
- Repatriation of profits
- Political stability
- Corruption

Big Mac Index



Location Assessment

- Overall costs
- Labor
- Real estate
- Tax rate/incentives (don't go for tax breaks or incentives primarily - these should be icing on the cake. If you don't sell your product, a tax break will not be much help).
- VAT
- Management structure options
- Ownership structure
- Legal environment - how protected are you – recourse in disputes, ownership rights on foreign investments, percentage ownership of companies, intellectual property rights, repatriation of profits and dividends, how are key staff paid ...
- Work visas
- Incentives to employ – no social security tax first year, subsidies on new hires
- Capital equipment – relief on export/import duties

Getting Started Abroad

- **Sole Representative**
 - Formal role, needs work visa
 - Qualified high level employee
- **Branch Office**
 - Division of parent organization
 - Easy to set up
 - Parent company assumes liability
- **Subsidiary**
 - Separate legal and taxable entity
 - Subject to local laws
 - Profits are paid out as dividends



GAAP



Flexible office space?

Five Key Points

- Employ your own people or local people?
 - Country manager, sales force should be local
 - LOB personnel from HQ
 - Hiring, firing
- Set expectations
 - Overall productivity, flexibility, employment costs, time zone differences ...
 - Skill sets, loyalty ...
- Stock options
- Personnel moral
 - differences in sales, compensation, recognition etc
- Accommodate local differences

Americans buy from companies,
Europeans buy from a person –
so don't fire your European sales force



Localization of Marketing Materials

- Produce it in the home country and customize it
 - Market globally, sell locally
 - Not translation, but adaptation, localization
 - 80% is the same but you must accommodate cultural differences - Get it checked by locals!

To quote Willy Brandt, the former German Chancellor:

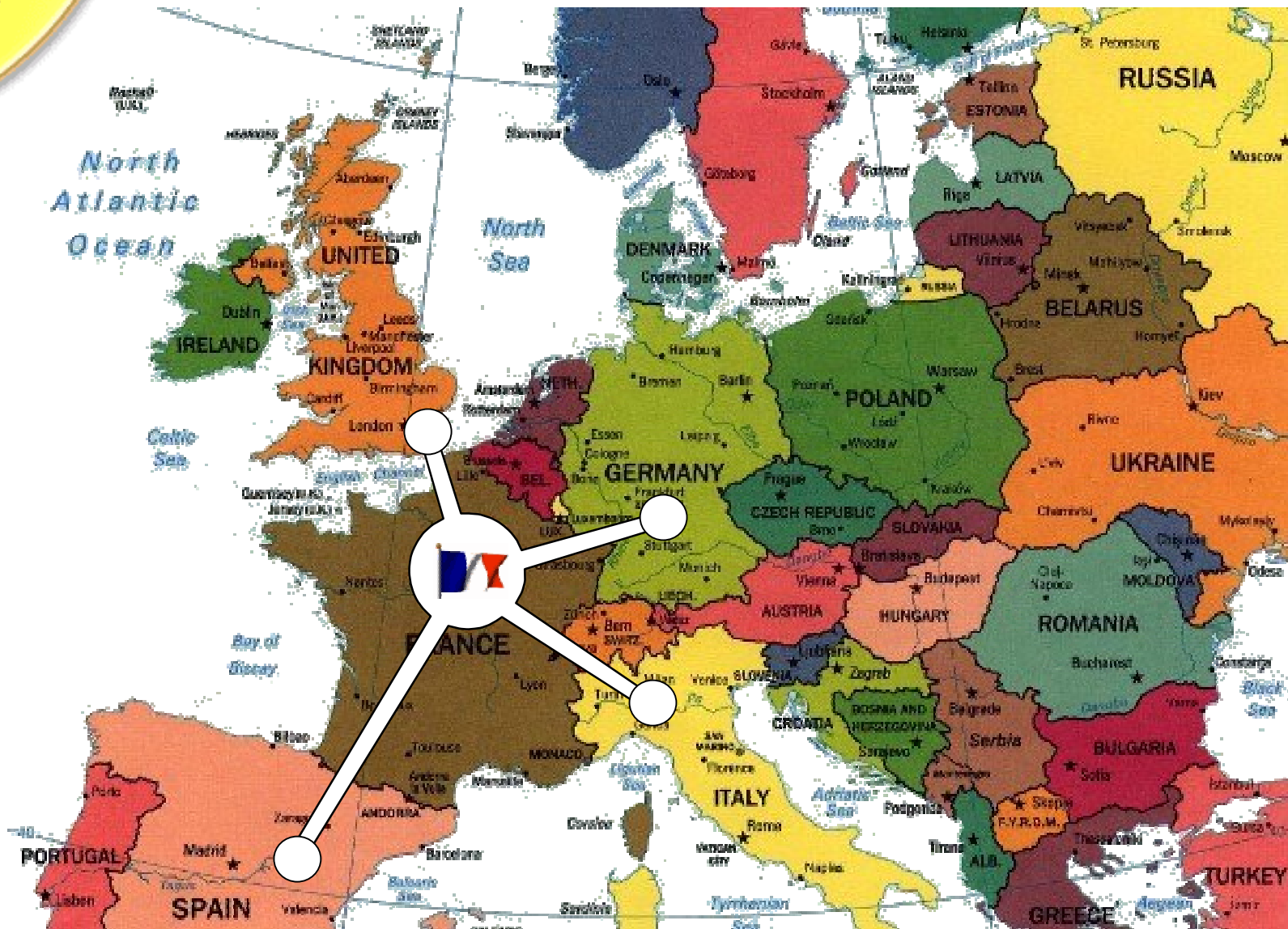
"If I'm selling to you, I speak your language.
If I'm buying, dann müssen Sie Deutsch sprechen
(then you have to speak German)."



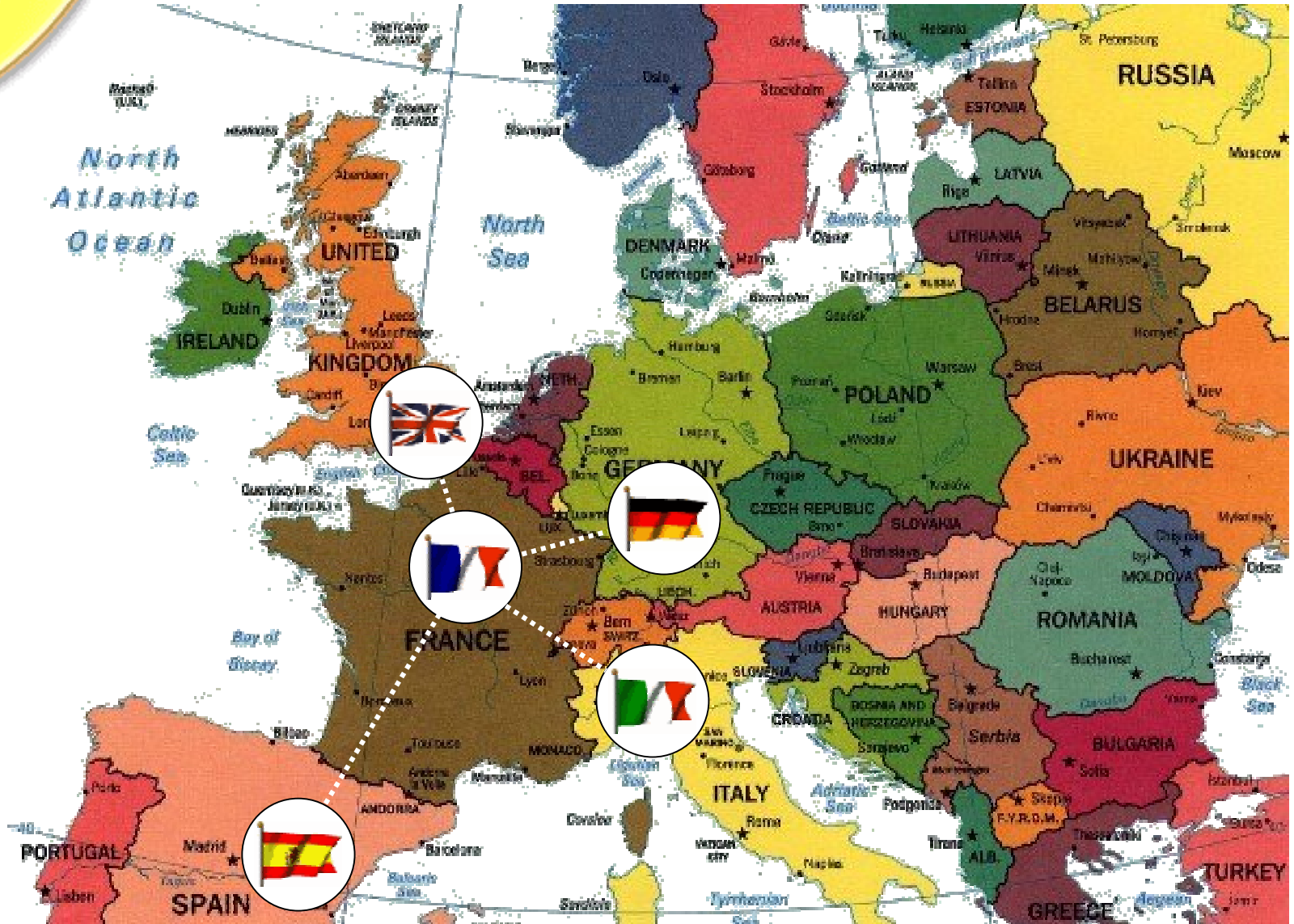
Multiple International Subsidiaries

- Don't have 12 separate European managers
 - Better is 4 regional managers
 - Get the managers together every three months
- International projects handled by subsidiaries in several countries:
 - Who staffs projects?
 - Who gets commissions?
 - Who gets maintenance fees?
- Multinationals
 - Just because you have a success story with one location doesn't mean this will be the same with other international locations

Unlocking
Your Market
Potential ...



Unlocking
Your Market
Potential ...



- VAR Partners
 - Resell the product as complementary to their own
- OEM Partners
 - Embed and resell the product as part of their integrated system
- Systems Integrators
 - Implement the solutions
- Distributors
 - Find the optimal model for reselling and servicing a product
 - Factor in margins on reseller contracts
 - Support agreements

- R&D collaborations
 - Innovation
 - Funding from larger companies
 - Relaxed regulations abroad
 - Faster time to market
 - Specific populations for OCR
 - Scalability
- Product manufacturing
- Licensing - small companies to larger distributors
- Royalty agreements



Must always be a
win-win situation

Getting Help

- US Government organizations
- Economic Development Agencies
 - Inbound, they help you when you get there
 - Real estate, business parks, new hires, incentives for employment, tax breaks, subsidies ...
- International Business Incubators
- Complementary services
 - Legal services
 - Financial services
 - HR services – employment
 - Office setup
 - Marketing & Sales

Summary

- Don't jump in with both feet
- Validate step by step
- Set expectations realistically
- Make sure there's a market
- Tailor your offering to that market
- Keep yourself out of the target country at first
- Get the right mix of local representation
- Get help!



Key Marketing Resources & Associates

Keith Rayner,
krayner@kemarra.com

Unlocking your market potential

www.Kemarra.com

- www.isc.hbs.edu/econ-clusters.htm
- www.ipanet.net/fdisurvey
- www.itri.loyola.edu/bid/
- www.itri.loyola.edu/bid/inclinks-eng.html#africa
- www.countrydata.bvdep.com/EIU/Help/exrates.htm
- www.buyusa.com/cgi-bin/db2www/index.d2w/input
- www.ita.doc.gov
- www.tda.gov
- www.ilo.org
- www.transparencyinternational.com
- www.workpermit.com

- Kemarra, Inc. www.Kemarra.com