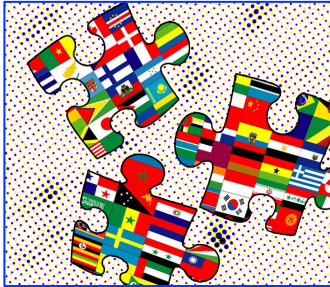


GOING GLOBAL - OPPORTUNITY OR QUAGMIRE?



There are many reasons why a company might consider expansion into a foreign country. It might be for potential sales opportunities or for utilizing lower cost labor pools. Whatever the reason, moving into foreign markets can be a disaster if the company doesn't fully plan that expansion, engage the necessary resources, understand legal, business and cultural differences and have realistic expectations.

English is the international language of business. Foreign businessmen and businesswomen understand that to engage in business transactions and be successful in a global marketplace they must be able to speak English. They not only learn the language, but also seek to mimic our customs, not necessarily to adopt them, but rather to fit into our business community.

On the opposite side of the pond, ocean or other body of water or land mass, when we engage in dealings with foreign businessmen and businesswomen we falsely assume that the ease of communication afforded by their ability to speak our language translates into an equal level of ease in which to transact business with them. This is a big mistake.

When a foreigner appears to be playing by our rules, it is because they are adapting their business tactics and methods to our environment. It doesn't mean they are changing their underlying personalities, business convictions, customs and practices. We need to be mindful of that.

Everything is different in each country we may forge into. Literally everything! Currencies, laws, regulations, customs, cultures, etc. Conventional U.S. business perceptions, norms and traditions are thrown out the window. Nothing can be assumed as normal business practice. You must keep an open mind and at the same time be guarded in all business dealings. U.S. companies can naively begin the foreign expansion process without really considering all of the challenges, the cost of expansion, and the significant attention and resources it will require.

The following is a list of some of the business challenges a company will face when establishing a business presence in a foreign country.

Corporate Structures

Formulating appropriate organizational and corporate structures

Setting up foreign incorporations
Forming appropriate structures to minimize tax costs
Implementing transfer pricing methodologies
Handling intercompany transactions
Managing facilities and logistics

Banking

Setting up multi-national banking
Ensuring security of bank accounts
Providing access to bank accounts
Transferring funds between countries
Repatriating cash to the U.S.
Managing and accounting for currency exchange fluctuations

Financial Reporting & Taxes

Complying with financial reporting requirements
Understanding foreign accounting rules and regulations
Complying with complicated tax reporting requirements
Managing tax compliance audits
Understanding VAT implications

Culture & Employment

Hiring in foreign countries
Understanding employment customs and laws
Implementing employment benefits
Training employees
Implementing payroll services
Understanding and addressing cultural implications
Addressing language barriers

Legal

Understanding foreign business laws
Complying with regulatory filing requirements
Evaluating foreign partners
Understanding the political environment and stability of government
Contracting in foreign jurisdictions
Protecting intellectual property

The above is a long but partial list of foreign expansion challenges. To help mitigate some of these challenges, here are a few tips to consider before taking the global expansion leap.

1. Set realistic expectations and be prepared for what lies ahead.

Do your homework well in advance of any substantive move into a foreign market. Become familiar with the business and regulatory issues in each country. There is

an abundance of information on the Internet published by experts who have travelled internationally before you. Once you begin the move, it can be hard to unwind. Spend time talking to others about their experiences and challenges. Consider partnerships or joint ventures as an interim step into foreign expansion. Assume each step will take longer than expected.

2. Hire experienced professionals.

Finding the right law firm and accounting firm in each country is key to smooth operations. There are many U.S. based professional service firms with offices in foreign countries. Engage firms that mirror your geographic area of planned expansion. Setting up the right corporate structure is key to smoothing the road ahead. In many countries you will need to establish an actual directorship presence. There are several reputable firms that you can engage in order to satisfy that requirement. These firms can help you manage the day-to-day morass of local customs and rules.

3. Understand culture and customs.

Unlike the U.S., other countries' customs have roots going back thousands of years. If you are planning entrance into a particular country acquaint yourself with their customs. Phrasing of thoughts, gestures, and positioning of the body, whether by direct in person communication or on telephone or video conference calls, can convey conflicting meanings in different cultures. Avoid jokes, slang or idioms. Assume a restrained, professional and less than familiar demeanor until your host appears to be moving in that direction. Businesses success in a foreign setting is often based more on interpersonal relationships rather than the actual economics of the business discussion.

4. Invest in foreign staff and be visible.

Running a business in a foreign land cannot effectively be done solely using telephones and video conferencing. You must hire local management that understands your business goals and can translate them into actionable plans in that country. Sometimes it takes a few iterations of getting the right people on the ground. Consider a temporary or permanent move of a trusted U.S. manager to that country. And lastly you must show your face. Foreigners will never be as dedicated to a remotely located U.S. boss as they will to a local boss, so face-to-face time is important.

Leaping into foreign expansion can be problematic for the unprepared. Do your homework and advance planning before making this commitment.

This white paper was written by Steven Bell

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