International markets

How to be strategic when establishing operations in another country

Interviewed by Clare DeCapua

Companies often choose markets to enter based on an opportunity that presents itself. They might get an e-mail from a potential customer saying they'd like to buy their product and sell it in another country. While there's nothing wrong with those opportunities, the question is: Are they the right opportunities in which to invest?

"It's important to have a strategy in which you've studied markets that have the most potential and determined where you want to focus your efforts and, more importantly, your time and money," says S. Martijn Steger, chair of the International Business and Mediation practices at Kegler, Brown, Hill & Ritter. "If you're more focused you'll be more likely to create a profitable operation, and less likely to overextend yourself."

Smart Business learned more from Steger about how to spend your time and money wisely on a venture in an international market.

S. Martijn Steger
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How can businesses identify opportunities in other markets and establish a presence?

When a client calls and says, 'I met this great person at a trade show and she wants to distribute our products in all of Asia. Draft up an agreement for us,' I would say, 'I can do that. How does that fit your international strategy?' Because that might be a great opportunity, and it might not. It depends on whether you can really devote the necessary resources to make that a successful venture.

If all you're doing is making occasional sales in a market, and if that's consistent with your strategy, then you probably don't need a whole lot of firsthand knowledge of the market. You do have to be able to trust whomever you're selling to that they'll find the right customers, and that they'll pay you when they buy products. If you're not getting payment in advance or a letter of credit to secure the payment, then you have an accounts receivable risk in that country.

On the other hand, if you want to do a joint venture, buy an existing company or form your own company, you have an elevated need to have someone you know and trust in that market who can give you local knowledge and guidance. Also, having your project leader spend significant time in the country sends the strong signal to your partner that you're committed. It's critical not to take the human element out of business. Without that commitment, you have a higher risk that something goes wrong and you won't know about it until it's too late to fix it.

What are the pitfalls to look out for when entering another market?

Many companies assume that their intellectual property protection here will carry over to another country. As a general rule, you need to seek registration in that country, whether it's a trademark or a patent. Also, you need to have the right agreements in place with whomever you're working with to make sure that they're also obligated to protect your trade secrets. And if you're going to have employees in another country, make sure their employment agreements specify that anything they develop belongs to the company. Otherwise, in many countries, an employee developing intellectual property on the job has a claim to it.

Legal regimes in both developing and developed countries can be quite different from ours. For example, in most U.S. states, we have the concept of employment at will. We can fire employees for any reason, unless it's discriminatory. That's not true in many countries, where employees are entitled to severance at the time of the termination of contract. So reducing your work force in markets where the business hasn't been as successful as you'd anticipated can be a very expensive proposition.

The tax laws can also be very different. One of the first things to analyze is what your tax exposure is going to be for the type of operation that you'll have in that country.

What other challenges might businesses encounter?

If you're going to strategically develop markets, your investments will be greater than for a comparable-sized domestic market. Travel takes longer and is more expensive; plus you've got to spend more time training in-country people.

As we draft contract provisions to capture the terms of the deal, normally we're looking for balance so that both you and your in-country partner believe that it will be mutually beneficial. The value that they're getting may not be completely equal because their investment may be smaller than yours, but it ought to be commensurate to their investment. Otherwise, resentment will grow, they might want to try to cut corners in order to compensate themselves in other ways and it will undermine a successful relationship.

What other advice can you provide to businesses establishing international operations?

Despite the ease of electronic communications with other countries, the timeline will be slower because of travel time and time zone differences. You will also face cultural differences. The work style may be slower than it is here. If you haven't invested the time in that market and you're asking for a major commitment from them early on, they could drag their feet because they haven't yet been shown the respect that they expect before making their own investment.

When you establish your budgets and your expectations about how long things will take, those kinds of cultural disparities can make a difference. That will impact the time at which you can expect to start seeing profits from your work, and that then needs to be factored into realistic timelines. <<

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