

Beware challenges that accompany expansion in emerging markets

Historically, the global marketplace has been dominated by large multi-national corporations. Recent years have seen globalization evolve from a strategy used by the world's largest corporations into a potential business plan for nearly all companies.



**GLOBAL
THINKING**

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The high-tech economy has opened a new gateway for many smaller businesses to participate in the expanding world market. While going global certainly has its advantages, there are also many challenges when expanding beyond

the water's edge.

Many business leaders, especially with the sagging U.S. economy, are turning to the global market for new customers and lower operating costs. Manufacturers see expanded overseas operations as a way to mitigate the impact of the U.S. economic downturn. With U.S. sales lagging due to the economy and exports surging as a result of the weak dollar, companies that export their products have a distinct advantage over competitors that do not sell to foreign markets.

For some businesses, going global can mean operating with fewer regulations and lower production costs compared with the U.S. market. The approval process required by U.S. agencies can significantly increase the cost of making a product and delay its rollout into the market. The regulatory environment in other countries can be much less restrictive, often leading to increased sales and higher profit margins.

Another reason to expand into foreign markets is to take advantage of lower

production costs offered by foreign locations. Many U.S. manufacturers set up operations in foreign countries to access lower-cost resources and labor. For instance, maquiladoras are Mexican assembly plants that manufacture finished goods for export. Maquiladoras are generally owned by non-Mexican corporations that take advantage of low-cost Mexican labor, advantageous tariff regulations, and close proximity to U.S. markets.

On the tax front, there are often opportunities for tax savings by deferring the U.S. taxation of the foreign profits. Conversely, without proper planning there is the risk that the foreign profits will be subject to a double tax, the U.S. tax and the foreign country's tax.

The structure of the relationship between the U.S. parent company and the foreign entity is vital to proper tax planning. It is important to evaluate how the foreign operations will be conducted — as a foreign branch of the U.S. company or a separate foreign company? The business structure must be coordinated with the overall foreign expansion plans so that double taxation can be avoided.

Global challenges can vary depending on the type of market and the foreign jurisdiction. Challenges in emerging markets are often strengths in developed countries, and vice versa. The key challenges in emerging markets usually reside in emerging government organizations. When entering an emerging market, businesses should be prepared for the relative instability of the government and problems such as corruption, contract enforcement and inefficient bureaucracy. The challenges in developed markets usually include higher labor costs, high tax rates and a complex tax system.

One challenge that is common to both emerging and developed markets is the

scarcity of qualified staff. As the global manufacturing industries have transferred to places like China, the supply of qualified managers and technicians has not kept pace with demand, and shortages have become a chronic problem.

Business leaders around the world have been forced to develop new methods of recruiting and retaining qualified employees. This is the key challenge faced by global businesses today, and successful

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global expansion hinges on finding the right people and retaining them.

There are several key questions that need to be answered when global expansion is contemplated. Why expand the business? What part of the business should be expanded?

Where is the best place to expand? How will the business expand — joint venture, merger or license/ outsource? And as odd as it sounds, what is your exit strategy? The answers to these questions will be the base for an effective global expansion process.

The bottom line? Successful global expansion requires careful planning and detailed evaluation of the marketplace. The global strategy should include plans for handling the cultural and bureaucratic differences, hiring and retaining qualified staff, understanding the regional synergies and evaluating all tax opportunities and consequences.

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