Top Considerations for International Expansion

COMPANIES EXPANDING INTERNATIONALLY GENERALLY TAKE ONE OF TWO OVERARCHING APPROACHES—ORGANIC OR INORGANIC—EACH OF WHICH INTRODUCES A NUMBER OF IMPORTANT AND UNIQUE BUSINESS DECISIONS THAT LEADERS SHOULD CONSIDER AS THEY PLAN FOR GLOBAL GROWTH.

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Business success is rarely an accident. Strong sales and growth stem from careful analysis, methodical planning and strategies that account for the full spectrum of business considerations. These things are particularly important when expanding internationally—but having a clear understanding of the challenges and opportunities that lie abroad can help company leaders realize the growth and revenue they seek.

When it comes to international expansion, companies generally look to utilize one of two main growth methods—organic or inorganic.

EXPANSION THROUGH ORGANIC GROWTH

For some companies, the most lucrative and effective approach for international expansion may be through organic growth and the creation of an entirely new production or sales entity in an entirely new market. There are, generally, three primary models for this type of growth:

1. A newly formed or existing entity sells the company's product(s) or service(s) in the new market. This requires the company to acquire new customers in that market and develop payment methods tailored to that local customer base. As such, the company must refine its sales strategy to take into account differences in, for example, anything from language to methods for brand awareness and advertising.
2. In the second model, the company creates a production entity in the new market. This raises considerations like satisfying requisite licenses and securing access to local infrastructure. With a new point of production, the company must integrate the new entity into its existing supply chain; it must also assess the advantages and challenges of human capital and technology that are unique to the local market.
3. The final model involves constructing a near-self-sufficient entity in the new market and producing and selling to the new customer base. This requires an end-to-end understanding of the local market, as well as focused quality control and supply chain strategies.

CONSIDERATIONS FOR ORGANIC GROWTH

Each model raises numerous interdependent factors, with cascading implications that can be grouped according to considerations for operating in the new market and the challenges and advantages of the market itself.

Operational Considerations

If your business is considering going the organic route, you must first decide the level of local autonomy for your new entity. Depending on the results of that assessment, your company must decide whether your existing business strategy suits this new entity and whether an amended strategy focuses on company function or is tailored to a specific region.

Any entity in a new market also needs to identify how it sources goods and determine whether to work with local, regional, international or even intercompany suppliers. These decisions include considerations of the currency in which suppliers are paid, as well as implications for days payable outstanding (DPO) and order-to-pay cycle.

In line with these concerns are possible changes to the cash management structure. Your company must weigh:

- Whether your centralized treasury function can serve the new market
- Which banks are best suited to serve your new entity
- What treasury technology is used to communicate between your new market and the rest of the business

Technology use is a wider consideration for the organic growth model. When it comes to reporting and supply chain management and visibility, your new entity may (or may not) be able to rely on the technology used by the

rest of your business. In some cases, it may be necessary to make technology investments to best operate in the new market and then align reporting channels and technology platforms.

Finally, your company must consider how tax and legal requirements will impact both your new entity and the larger organization. Additional reporting may be required, and local regulations can dictate the need for local funds retention and/or restrictions on international transfers and loans.

Local Challenges and Opportunities

Meanwhile, there are also considerations for addressing and capitalizing on factors specific to your new market. For example, how can your new entity reach and serve your new customer base? Company leaders should determine whether your local sales strategy should be aligned with your global brand or tailored to your local customer. This extends to your strategy for growing brand awareness through marketing and advertising, as well as determining the credit terms and payment methods for new customers.

Employment laws vary across regions and countries, which raises implications for the ease and costs of hiring (and firing). Additional costs, as well as the need for legal advice, may also arise from varying regulations, including those related to health and safety. That said, while a new environment can bring new costs, it can

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also offer new opportunities for cost savings. Some governments, for example, may provide incentives for locating operations in areas where there are ongoing efforts to regenerate or grow the local economy.

EXPANSION THROUGH INORGANIC GROWTH

For some companies, international expansion may be better achieved by acquiring an existing entity and integrating it within the originating company. This inorganic mergers-and-acquisitions (M&A) approach raises considerations related to integrating and harmonizing strategies and tools for the enlarged organization. Factors like supply chain optimization, cross-border payment terms, cash visibility, access to liquidity, and bank payment and credit terms must be aligned so that the entire entity can realize the greatest benefits.

There are four main M&A models:

1. **A vertical merger**—this reshapes the organization to align with the acquired firm while managing sales to existing customers and integrating the supply chain.
2. **A horizontal merger**—this reshapes the acquired company to avoid duplication and to create efficiencies, streamlining the brands, processing, production and other supply chain functions. This also brings in new suppliers and customers while deepening the acquired firm's relationships.
3. **A concentric merger**—this reorients the sales strategy to target all customers and suppliers, thereby increasing production and sales efficiencies.
4. **A conglomerate merger**—this integrates new processes into the company overall, operating in all markets in ways unlike the premerger entities.

CONSIDERATIONS FOR INORGANIC GROWTH

Any inorganic model can bring your business new opportunities for improved efficiency and cost savings. With suppliers, the enlarged organization can find efficiencies through an optimized procure-to-pay cycle and realize better payment terms, leveraging the greater bargaining power of a larger organization. As a part of this approach, harmonizing electronic payment methods can create important improvements for working capital and risk management.

For processing, the enlarged organization can potentially reduce costs by improving the international coordination of credit agreements and trade financing solutions. Likewise, harmonized technologies can yield the kind of inventory and manufacturing process visibility and management capabilities that allow headquarters and local managers to capitalize on new opportunities.

Inorganic growth also has the potential for significant impact on the sales strategy, raising considerations for increasing efficiency and data management, and ensuring that all sales channels are linked to the same enterprise resource planning (ERP). At the same time, customer loyalty programs should be reconsidered and streamlined to appeal to the expanded customer base. Centralizing distribution channels should form a part of the revised sales strategy—this includes credit terms and payment channels for customers and growing the customer base through greater brand awareness and customer outreach.

Technology impacts all of these considerations. An enlarged organization may find multiple dissimilar technology systems, and while system differences may not be burdensome in the short term, it's important to consider the hard (versus intangible) cost implications of labor-intensive processing—both now and in the future.

CROSSCUTTING GROWTH CONSIDERATIONS

In addition to these considerations, businesses must weigh a range of crosscutting factors that emerge regardless of an organic or inorganic growth strategy.

One primary business decision should be whether your company sells and/or receives payment in foreign currencies. Foreign currency raises risks, but these can be mitigated with the right tools and expert advice. A necessary consideration should be how your company plans to satisfy discrepancies between payments and revenue. Does it make more fiscal and/or strategic sense to sell and receive in the local currency or to convert currencies, perhaps relying on a third party to manage those conversions?

Growing businesses must also consider payments-on-behalf-of (POBO) or receipt-on-behalf-of (ROBO) structures. Centralizing functions can make payment and collection processes more efficient, creating economies of scale and reducing the number of bank accounts and associated costs. There are also implications and questions regarding liquidity structures. It may be that your company does not require a liquidity structure immediately, but it's important to consider whether you want to create a stand-alone account structure that can grow into a liquidity structure if necessary.

Perhaps one of the largest issues a company can encounter when expanding internationally is culture. Calculating foreign currency exposure and counterparty risk can be straightforward for most treasurers and chief financial officers; more difficult is understanding the impact that cultural differences can have on operations, sales and opportunity. Particularly in the case of M&A, companies may encounter resistance to change, raising questions such as: How does your enlarged company manage resistance to new ownership? How does your company establish effective processes for sending and receiving documents in different languages?

International expansion is at once challenging and exciting, and deciding on whether organic or inorganic growth is the best approach for your business hinges on multiple important factors. But growing businesses can find support and insight by partnering with expert advisors—and by doing their research to become deeply versed in these multifaceted challenges and the rewards they can bring.

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