GROWING INTERNATIONALLY

# Crossing borders effectively

Taking the leap abroad offers companies many opportunities including access to new markets and resources. However, the challenges on the way are great. Here is an overview.

Companies continue the trend toward international integration. Between 2000 and 2014 alone, worldwide exports of goods increased by almost 72 per cent according to the World Trade Organisation, WTO. It is not only the global players in the economy that are responsible for this growth. Many small and medium-sized companies are also involved abroad – as exporters or investors with their own branches or trade investments. There are many reasons for going international: Whilst one company concentrates on developing new sales markets, another focuses on access to cheaper resources, such as raw materials or employees. Yet the leap abroad does not happen of its own accord. What works well in the domestic market is not automatically as successful in another country.

### Clothing sizes and price levels

'Companies should take great care in preparing to make their commitment, because going abroad is not a sprint but rather a marathon,' says Christian Elsholz, Director at the auditing and consultancy company, PwC. One fundamental prerequisite is that the company is already successfully established in the domestic market and has achieved a stable profit-sales ratio for some time. What is more, there should also be definite potential demand for the product or service in the target country. Those in charge have to be mindful of specific national differences. Even mundane things, such as clothing sizes or mains cables, vary from country to country. 'Before entering the new market, a company should, therefore, carry out a detailed analyses of the market, clients and competitors,' explains Mr Elsholz. 'The management must also take account of bureaucratic and legal conditions, as well as the political and economic situation in the target country.' Using this knowledge as a basis, the company can tailor its business model to the particular features of the new market. This includes, for example, adapting the price of the product to the local price level.

A further step involves adapting the organisational structure. Centralised or decentralised management? In favour of the former, for example, is the cost saving achieved by using existing resources, for example, in the areas of IT or management. A decentralised structure, in turn, generally offers better local networking and more straightforward staff recruitment.

### Guard against risk properly

Personnel resources are one of the deciding factors when committing the company internationally. Company management and employees involved in the process should have appropriate foreign experience and language skills. 'It is also sensible to employ managers and employees from the country in question. They know the local conditions and have important contacts,' adds Mr Elsholz.

Because developing a new market is always a risk, the company should be able to build on well-functioning risk management. For example, it will make use of credit checks, carry out country risk analyses (see also map, right) and guard against payment defaults and currency risks.

### THIS IS HOW TO TAKE A SUCCESSFUL STEP ABROAD

Careful planning as well as seven key factors are decisive for success when launching a company internationally.

- Active risk management
- Market, competition and customer analyses
- Financial resources
- Personnel resources
- Organisational structure
- Adaptation to local conditions
- Network of partners

Source: Handelsblatt Research Institute

On the move internationally: More and more companies are developing new markets

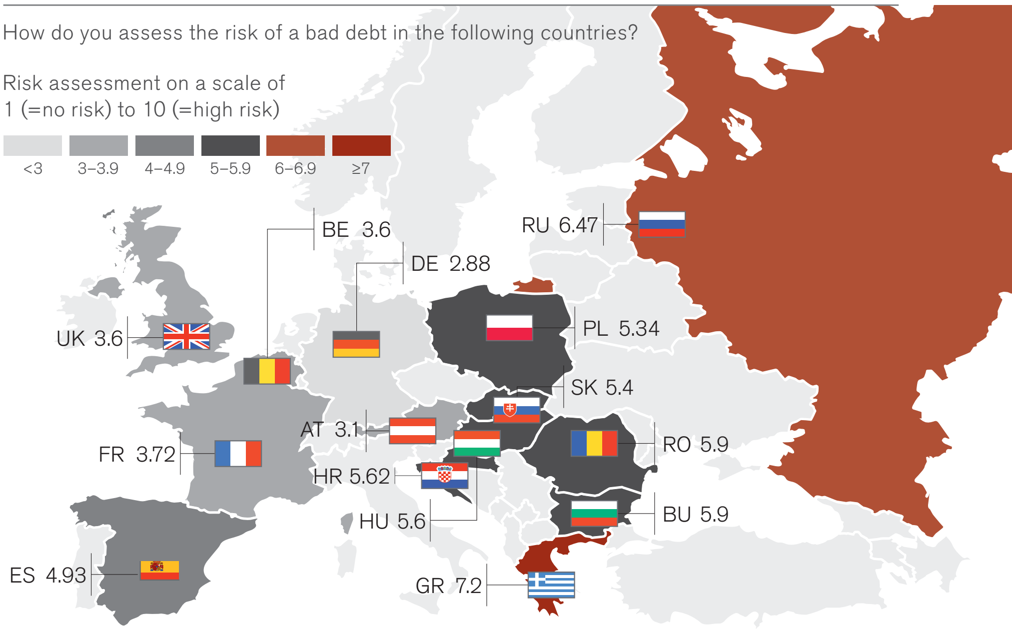
**Christian Elsholz of PwC Consulting:** 'Going abroad is not a sprint but rather a marathon'

Once the organisational framework is in place, it's time to look at finance. It is precisely at the beginning of the process of internationalisation that companies have to cope with large investments and possible start-up losses. In other words, the process will fail without secure, long-term sources of financing.

Last but not least: External partners make life easier. Every company knows its domestic market best. A network of local sales and technology partners greatly simplifies entry into the new market. But companies should select their co-operation partners carefully. For one thing, you will have to provide them with insights into internal data. For another, the reputation of the business partner reflects on your own company. This is what the expert, Mr Elsholz, has to say: 'My advice to companies seeking to establish an international foothold is to acquire local knowledge. Support is provided in the target country by, amongst other things, industry associations and clusters, i.e. regional networks of companies and institutions, which link a common area of activity.' ■

## UNRECOVERABLE RECEIVABLES IN EUROPE

Default risk clearly varies from country to country. In order to successfully establish themselves abroad, companies should focus on detailed risk analysis and hedging.




n = 3,000

Source: EOS Survey 'European Payment Practices' 2016 – Special report on foreign receivables