UNDERSTANDING GLOBAL

Manufacturing executives candidly discuss the opportunities and challenges of operating on an international scale
With 95 percent of the world’s population residing outside the United States, the decision to export products or to manufacture or distribute internationally would seem to be an easy one. Surveys have shown a strong correlation between companies that are active on a global scale and companies that thrive and grow.1

The challenges that companies face when they operate on a global basis are formidable and range from transaction barriers to strategic issues, from foreign competition to market acceptability. Yet companies are willing to enter offshore markets and endure the accompanying hurdles because they see the potential for corporate growth, operational efficiencies, financial savings—or some combination of these.

When it comes to learning how to navigate the difficulties of unfamiliar shores, nothing resonates more than the voices of experience, especially when these emanate from industry peers and colleagues.

Following are highlights from interviews with middle market CEOs, chief financial officers, RSM practice leaders and other management-level manufacturing industry professionals who are working on a global basis. Their collective insights—earned from years of working primarily in Canada, China, Germany, Mexico and the United Kingdom—offer unique perspectives and pragmatic advice from the field.

“No matter where you do business, if you’re doing it in your basement, or if you’re doing it in China, it’s all about relationships and trust.”

~ Vice president,
Manufacturer of precision molded products
An offshore presence can range from sales representation to distribution facilities to manufacturing sites. Each company has its own priorities supporting their look abroad. For example, sometimes the best defense is a good offense: With foreign rivals continually entering the North American market due to the strength of the U.S. economy, companies may set up operations in the home countries of the competition. However, extending across borders can be driven by other forces such as customer requirements and labor costs, or opportunities such as market access or product acquisitions.

In other words, there isn't any single reason for a company to go global.

“We wanted to be global. That's probably the central theme in all of it. We wanted to be global to diversify our business strategy.”

-CFO, manufacturer of sports and arena lighting products
Following the customer
Often, the push to expand offshore starts with encouragement from a current client—or a competitor.

“In the late 90s, the competitors were starting to move either to Mexico, or in some cases, even going to Asia. [We] hadn’t done that yet and one of our largest customers was actually very instrumental in saying, ‘You guys really need to consider Mexico.’”

~ Director, manufacturer of special purpose machinery

“It just became obvious to us that we needed a manufacturing operation because our supply chain was so far away from China—and it took so long to get the product there—that we really needed to have a place to manufacture to serve that market better. It does make us more competitive.”

~ CFO, manufacturer of sports and arena lighting products

Pursuing opportunities
Some circumstances offer the chance to work in a new market. This in turn can open up options to pursue new customers.

“At the time, we probably had a 50 percent market share and we knew that we were going to have limited growth opportunity unless we diversified our business in the U.S. or we geographically diversified our business by trying to attack the international market.”

~ CFO, manufacturer of sports and arena lighting products

“The level of sophistication of manufacturing in China [was] going up. It’s improved markedly over the years and we saw a huge potential opportunity. A number of our customers were there, so we set up a sales office with some engineering capability and some light assembly capability, and it’s purely to serve the China market and, to some degree, the broader Asia market. And that’s the reason we went there, because it’s a huge market and we needed to be there.”

~ CEO, provider of consumable and permanent track and trace solutions
**Acquiring talent**

Access to a low-cost workforce is often cited as a primary reason for expanding offshore; but lower costs are not the only reason labor can be an incentive.

"I mean, these are all degreed engineers; they just happen to live in Mexico. The real estate is not cheaper, the facilities are not cheaper, regulations aren’t cheaper. It’s really the cost of our labor which is attractive. And a ready, willing and able workforce."

- CEO, manufacturer of electrical tools, products and accessories

"Right now, I could probably find people in Germany faster than I can in the U.S., and keep the workforce more stable."

- CEO, manufacturer of protective cover products

**Gaining access to other markets**

Acquisitions, joint ventures or temporary partnerships come with their own challenges, but may serve strategic necessities for distribution channels or opening up access to new markets.

"In Brazil, the acquisition that we made was because we wanted the owner to be our partner. We weren’t buying the building; we were buying the owner and his relationships."

- CEO, global supplier of electrical power equipment

"The transaction was an acquisition of a company that focused on the textile market. There’s a lot of textile printing that’s done in Mexico and in Central America. This company had a much broader range of products and it filled a void in our product line, and gave us a much bigger presence in those markets."

- President, manufacturer of screen printing, digital inks and industrial coatings

"So much of our business happens in music and entertainment. Because the U.K.’s musical influence is felt all around the world, we wanted to concentrate there."

- Senior vice president, manufacturer of audio products
Insights

**Form follows function:** Typically, foreign market expansions start with establishing a foreign sales representation or a physical presence, whether a sales and service unit or a manufacturing facility. Acquisitions, joint ventures or temporary partnerships come with their own challenges, but may serve strategic necessities for distribution channels or for opening up access to new markets.

**Strategy and due diligence:** Consider where the business wants to be in three to five years’ time and whether goals can be met through domestic growth alone. Evaluate the risks and their impact on the business to ensure the strategy is realistic and prepared for all contingencies.

**Customer base:** Review the dynamics of the target offshore customer base, including its size, growth rate and future spending power. Understand your competition and their relationships with your future customers.

**Operational costs:** Whether the company is selling overseas, manufacturing offshore and bringing products back, or some combination, is such a venture sustainable for the long term? Will the company realize anticipated financial savings, for example, when shipping and other additional costs are added to the total cost of production? Will the customer be willing to pay for that?
"It seems the world’s become more global and I think sometimes people confuse going into India is like going into Iowa, what’s the big deal? It’s global. But their cultures are different and language is different, their laws are different. And they add up to being much, much more complicated than just expanding into a new location in the States somewhere."

-CFO, manufacturer of screen printing, digital inks and industrial coatings

The challenges companies face when they initially expand into a new market appear to change as the impulse to grow evolves into a specific strategy. Following the first foray into an offshore market, the issues become more transaction-related, and include challenges in shipping, regulatory compliance, human resources, distribution, patents and trademarks.

Management executives need to understand exactly what it means to do business in another country, weighing the benefits of the market with the challenges of working in it. The World Bank, for example, offers an ‘ease of doing business’ ranking based on criteria ranging from getting construction permits and electricity to paying taxes and enforcing contracts. Depending on their company goals, executives may prioritize the importance of the ranking differently. In the World Bank’s latest report, for example, China ranks 78 out of the 190 countries studied. Yet one would be hard-pressed to find a company that doesn’t see the enormous business potential of the Chinese market.

Companies continue to set up in China, despite the obvious obstacles. Due diligence must be performed on the target market’s taxes, credits, tariffs, labor laws and a host of regulatory and cultural issues. Long-range business planning forecasts should be conducted to ensure the business is sustainable in the new market. Ultimately, management must answer the questions: Is doing business in this country economically feasible? Does this offshore strategy align with the long-term goals of the company?

Seeking the advantages
As growth opportunities shrink in the United States, seizing opportunities in new markets before the competition does provides an incentive for going global.

“*The initial attraction to that market was just that it was a growing market, with a lot of demands, where you have a billion people all of a sudden waking up [to] consumerism.*”

~ CFO, supplier of printing presses and finishing systems

“You know, we’ve done projects in well over 100 countries all over the globe and when we find a place where we find a really strong distributor or a really strong market, those are the places we tend to end up with a footprint.”

~ CFO, manufacturer of sports and arena lighting products

Doing business with ease
There may not be a single element about a country that indicates whether or not it offers a business-friendly environment.

“Well, the part that gets interesting is you have certain regulations in China, like Skype; there’s no Skype in China. So, if you want to do a video conference, you couldn’t do it. The infrastructure is not bad in China, especially in the more urban areas. I mean the highways are nice, the airports are decent. It’s very easy to underestimate China. The part that makes me nervous is all this geopolitical stuff.”

~ CEO, manufacturer and distributor of machines and machine components

Determining feasibility
It’s not just a matter of if the company can expand offshore; management needs to ask if the company should.

“Without any analysis or doing anything, we said, ‘Oh, sure, yeah, we can do that.’ And quickly hired people in an office, started working subcontractors, all centered around this one customer. And we hadn’t really run the scenario of, ‘Okay, well, what if this one customer goes away or their volume changes? And then more importantly, who else we can we sell to?’ So suddenly we were left with a building and a bunch of people [who] had nothing to do.”

~ COO, manufacturer of special purpose machinery
Dealing with taxes and tariffs
It can be difficult to understanding the tariffs, duties, customs clearance issues and transaction taxes that come with international operations.

“China and India are areas where importing and exporting are very intricate processes with taxes and tariffs, depending on what you do there. If you’re there as a sales office, but then you have a subcontractor build product for you, in one country that’s heavily taxed because what they really want you to do is build a plant, employ people, build the product there and become truly a manufacturer, not a trading company.”

~ COO, manufacturer of special purpose machinery

“‘What do you want to do in that particular location? Because if you’re going in to build product to sell locally, that’s one set of scenarios and taxes, tariffs. If you’re going in to build product for an export, again it’s different. You get into a whole quagmire of tax and tariff issues selling local as compared to exporting.’”

~ COO, manufacturer of special purpose machinery

Adjusting to logistics
Identifying the right location involves planning for the long term as well as for day-to-day activities.

“You know, having [operations] in Mexico, you’ve got lower cost. [It] may not be the lowest, but you’ve got lower cost, [and] you’ve got proximity. So as your demand changes, your supply chain gets shortened. That’s really where I think Mexico has come in. It’s cost, but it’s also proximity.”

~ CFO, producer of investment castings, subassemblies and components

“Frankly, we’re really unable to do anything in China when we are inside the economic development zone, because we’re forbidden to sell into China. We can sell into other parts of Asia, but not into China. So, when the decision was made to move outside of the economic development zone, I decided to greenfield this new factory.”

~ CEO, provider of consumable and permanent track and trace solutions
Insights

**Know your market:** When developing a global strategy, management needs to know if its product will be acceptable in an overseas marketplace and how the company matches up in that market's competitive landscape. How will the domestic market react if manufacturing is done offshore?

**Leverage your resources:** Expanding to a new market can give rise to fears that the company’s product might not be successful, and even political risks are top of mind for some executives when they move into terra incognita. Yet when it comes to market research, few companies utilize the best-kept secret resource in the area: the U.S. Department of Commerce. Contacting the department is a good first step for those planning to expand.

**Ready or not:** Early losses are likely when entering overseas markets. To ensure success, businesses must confront some uncomfortable questions: Will the company be able to absorb international shortfalls? Can the company afford to fail?
Entering a new market without adequate planning or implementation can lead to diminished returns on a company’s investment. If a company is establishing a presence overseas for the first time, management often goes into a country without enough knowledge of the business environment.

The challenges begin even before a border is crossed. Supply chains must be established, vendors and distributors need to be identified, organizational structures must expand to reach overseas, global processes must be established, and intellectual property must be protected.
Establishing vendors and sourcing
Companies need vendors to operate in a secure and compliant manner, for peace of mind and also because certain compliance frameworks require it.

“One of the reasons we started this joint venture was so we would have a source of quality products but at a lower cost. Our Asian companies [have] gotten to the point where they’re very frustrated with our joint venture partner because they can’t rely upon the on-time delivery, lead times can be much longer than what they are from the U.S. and the quality is inconsistent. So we’re working at trying to improve that and strengthen the relationship so that we can get a better product from China.”

~ Treasurer, manufacturer of mobile, folding and portable space products

“It was very complex for us because we had never done any manufacturing outside the U.S. So that whole dynamic of trying to find vendors, and how do you find a supply chain and how do you do a facility search, that was all new to us just generally. I would say it probably ratcheted up the complexity of the process by 50 percent.”

~ CFO, sports and arena lighting manufacturer

Creating the organizational structure
Companies operating globally for the first time should focus on the structure and duties that need changing.

“In China, since it is a joint venture, much of what we’re able to do there is controlled by the operating agreements that we established with our partner when that was first set up. At the time, the management here let opportunities slip through those agreements or did not have enough flexibility built into those agreements where sometimes we feel that, even though we control that subsidiary, we may not have as much authority.”

~ CFO, manufacturer of custom molded components

“We’re 7,000 miles away, 13 hours. It’s really hard to control things through email and phone, unless you’re physically there. That’s why we go over there. We have people over there probably once every couple months. Either it’s our operations guy, our VP, our president [or] myself. We are over there monitoring things all the time. You have to.”

~ COO, manufacturer of special purpose machinery
Complying with laws and regulations

Transparency and accuracy are just some of the benefits of carefully planning for global compliance needs.

“Just doing some **up-front work to ascertain tax, tariff issues, cultural issues**, you have to have all those things in the soup before you can really make some informed decisions.”

> COO, manufacturer of special purpose machinery

“Can you get the money out? **Have good, strong exit strategies**, and make sure that when you draft that paperwork that it will comply [with] what is considered law in the country you’re operating in. You don’t want to be in a situation where you’re stuck.”

> COO, manufacturer of special purpose machinery

Protecting intellectual property

When a company decides to do business in another country, it needs to protect the company’s brand and its products in that market.

“I spent a whole three days trying to have somebody explain to me how VAT worked. I just didn’t understand it. We’d never dealt with it before and it was just a whole different animal so certainly there’re things from a regulation’s standpoint and a tax system’s standpoint that are different.”

> CFO, manufacturer of sports and arena lighting manufacturer

On the intellectual property, my partner there is really, really careful. He will hire a number of Chinese people and each of them only stay in their area. He doesn’t do a lot of cross-training, he’s really uncomfortable having a general manager who has so much power that, all of a sudden, the next day he starts his own business.”

> CEO, manufacturer and distributor of machines and machine components
Securing a workforce
Market research should help the staffing plan by identifying the availability of and access to in-country staffing and expertise. The right people in those markets can make a real difference.

“[In China], the employee–employer relationship’s much different. You’re expected to feed them. You’re expected to provide them a housing allowance. You’re expected to provide them transportation, so we had to create a bus route and buy a bus and drivers to go pick our team members up and get them to work.”

~ CFO, sports and arena lighting manufacturer

“[You can’t put a bunch of expats in and expect it to be successful.] It’s no different than European companies trying to come to the U.S. and failing because they try and take a European approach to management and it doesn’t work in the States. Just like when we go to Europe, if we try the American approach, it doesn’t work there. The same thing happens in Asia.”

~ CEO, provider of consumable and permanent track and trace solutions

Understanding local labor laws
Labor laws vary dramatically around the globe, and often are more protective of local workers.

“If you’re operating in Canada or France and you need to go through downsizing or you want to shut a facility, it’s incredibly expensive. There are incredible worker protections around doing that.”

~ CFO, manufacturer of military-grade expeditionary, aerospace and medical products

“In the States, typically we have a merit-based system. If you and I both do the same job, and you’re really, really good at your job and I’m not so good at the job and I’m 52 years old and you’re 34 years old. In many cultures, I’m getting that promotion, or that raise or that bonus because I’m older than you are. [It’s] the seniority system. Merit-based accomplishments [don’t] necessarily account for a lot.”

~ CFO, manufacturer of military-grade expeditionary, aerospace and medical products

“Folks in China are driven by a whole other incentive. They want to be sure that everybody is employed and if you have a cost problem or a dip in the volume that you don’t take people out.”

~ CFO, manufacturer of specialty chemicals
Insights

Leverage incentives: It’s not uncommon for companies that are beginning to implement their global strategies to overlook the many tax incentives and credits that may be available to them. Yet these incentives could have a significant impact on their plans, let alone their bottom lines. By taking advantage of these incentives, many companies could be saving a great deal of money.

Comply with regulations: Understanding tariffs, duties, customs clearance issues and transaction taxes can be difficult. Some countries even have rules on businesses that extend far outside their borders. But regulatory issues are not difficult once they become familiar.

Determine how to enter a country: In the absence of overseas networks, foreign market expansions typically start with establishing a foreign sales representation, but some companies choose to set up their own production facility; still others may partner with an overseas entity. Alternatively, companies aligned with private equity groups use the experience and network of these groups to tap into new markets and drive growth and value in their company. It all depends on the company’s strategic goals and what will work in a specific location.

Protect products and brands: When a company decides to do business in another country under its own brand, it needs to protect the company’s brand and its products in that market. A trademark will protect the brand and its elements (such as the logo), but it will not protect against competitors making, using or selling a product. To that end, understanding patent and trademark policies is critical. Organizations operating globally should identify potential key risks and barriers and develop mitigation plans.

Understand the international playing field: To overcoming trade obstacles, it helps to get a deep understanding U.S. free trade agreements and U.S. government trade advocacy programs. Arranging visits with potential business associates and key foreign officials with direct support from U.S. officials stationed overseas can help.

Have an exit strategy: Have an exit strategy to mitigate unexpected and potentially costly tax consequences upon departure.
When it comes to doing business overseas, language differences—as well as local business cultures—present unique barriers to business communications that can be difficult to overcome. However, with some preparation and an open mind, these issues are not insurmountable.

For companies conducting business across international borders, regulations, import tariffs and duties can make entering an overseas market difficult. Increased scrutiny from local governments seeking to prevent illegal practices can add to the challenge.

But entering a foreign market is not just about government compliance. For executives working in offshore markets, understanding an overseas business environment requires an effort to get out of their spreadsheets and encounter new cultures firsthand.

Differences in cultures can be subtle and hard to anticipate. Regional nuances and even local history can have an impact on the way business is conducted that an outsider might not expect.
Establishing relationships

The reality is that every situation is unique, so the challenges will differ from organization to organization, and country to country.

“"The cultural element is the one that gets missed all of the time. I've seen more international expansion failures from a lack of paying attention to that. Their language, people, customer, habits, do we understand it? Can we operate in their culture? How does it work when you cast things through that lens? That's my number one concern.”

- CFO, manufacturer of military-grade expeditionary, aerospace and medical products

“A lot of people underestimate culture. They think it’s gonna be like in the States, and people are gonna work like we do, think like we do, and act like we do—and that rarely is the case. That probably to me is the biggest failure of companies that start to branch out into international markets. It's incredibly complicated. You can’t find it in a rule book, you can’t find it in a manual.”

- CFO, manufacturer of military-grade expeditionary, aerospace and medical products

Negotiating agreements

It’s clear that there is not a “one size fits all” approach for middle market companies operating globally.

“"[Negotiating] with Japanese and Chinese, you cannot negotiate with the same level of bluntness and frankness that we do here in the United States. You cannot embarrass them. You absolutely cannot embarrass them in any way. That can make negotiations and doing business really difficult.”

- CFO, manufacturer of military-grade expeditionary, aerospace and medical products

“Sometimes the approach to making decisions is different. You have to be attentive. Find acceptable ways to explore what they understood and whether you’re really on the same page.”

- Senior vice president, manufacturer of audio products
CULTURE IN A NEW MARKET

Slowling the pace
Be prepared for the tempo of business to be different.

“The time difference is huge. It’s eight o’clock at night and my phone starts blowing up, because that’s when they’re working. So if our people don’t respond, or if we don’t respond to them back that night, it’s another day before something happens.”

~ Controller, designer and distributor of electronic controls

Speaking the language
Even if you speak the same language, it does not necessarily mean you will be understood.

“When I went over there, I had a conversation with people in our office and our IT consultant. I would ask a question and she, the consultant, who spoke very good English, would speak in Chinese to our team over there for 15 minutes. Then she’d tell me in about two minutes what they just said. Well, I know there was more than just that said. When two people in America talk, you know everything that’s going on and it’s right in front. The language barrier is very challenging.”

~ Controller, designer and distributor of electronic controls

“I’ve been involved in places, situations where the CEO says, “We’re gonna get this deal done in three days” and blah, blah, blah. Three years later, it still isn’t happening. They just don’t get it.”

~ CFO, manufacturer of military-grade expeditionary, aerospace and medical products
Insights

**Know the differences:** Learn about the business culture and etiquette to avoid messages getting lost in translation. Stay away from actions that could be culturally misinterpreted. Remember that speaking the same language does not always mean understanding the culture.

**Cultural immersion:** One popular approach to addressing the cultural divide is to conduct company meetings in overseas locations rather than at a U.S.-based company’s headquarters. This can not only boost participation, it will provide a comfortable atmosphere where U.S. employees can have face-to-face meetings with their foreign colleagues as well as for the chance to learn more about local customs and culture. Both sides can gain levels of understanding that cannot be gleaned from communicating through conference calls.

**Take a long-term view:** It takes time and money to fully integrate benefits, compensation, taxes and other concerns. As a result, it may take some time before the company sees a profitable return on its investment.
What did executives in leading global companies learn from their experiences conducting business on an international basis?

“There’s a ‘hidden factory’ you’ve got to sort of work your way through. Hidden factory being a set of activities that may not be visible on the surface that are necessary and always ongoing to kind of keep the real factory going, right? So, it’s a phrase that we have always used around here. [The] hidden factory is like a big sink of activity that is probably not generating sales value, but is required to keep the business going.”

- Vice president, manufacturer of precision molded products and materials

“In some of these countries, we thought initially—and we were naïve in retrospect—that we could penetrate markets without having a physical presence. It wasn’t until we acquired a business down there with employees that we had some success.”

- President, manufacturer of screen printing, digital inks and industrial coatings
“There are some challenges just from a standpoint of dealing with logistics. If you always had the chance to start over with a clean sheet of paper, would you do things the same way? The answer is, generally, no. Our distribution center is in the British Midland, so we’re about as far from any port as you can get.”

- Director, manufacturer of special purpose machinery

“I worked with some smaller companies that wanted to get into Mexico, and they went down there and set things up. I told them upfront, ‘Do you want the name of our lawyer? Do you want the name of our accountant? There’s a lot of things you want to get set up right.’ They didn’t avail themselves of that, they cost themselves untold amounts of time and aggravation, because they didn’t really get things set up right.”

- CFO, producer of investment castings, subassemblies and components

“I can tell you one thing: Early on, we recognized that not every formula works in every country. You need to be flexible. In China, we went wholly-owned and we have our own operation. In Japan, we partnered with a company. Brazil, we’re going in on our own.”

- CEO, supplier of electrical power equipment

“Our brand was worldwide known, but it wasn’t respected in that particular market well enough to overcome the local competition. And I think the U.S. folks who made the decision were just blind to it, or they didn’t want to understand it, or didn’t wish to believe local marketing information about what the local competition was. We literally had this product being made in China and it was filling the warehouse because it wasn’t getting sold.”

- CFO, manufacturer of specialty chemicals
Bringing the global market to the middle market

Having an advisor who not only understands your business but also understands the intricacies of doing business globally is important. RSM US has established country desk practices with professionals who possess the extensive local knowledge and experience to be effective international guides. These specialists leverage their multilingual language skills as well as their understanding of regional business and cultural issues to provide audit, tax and consulting services to middle market companies focused on international growth and expansion.

Entering a new market without adequate planning or implementation can lead to diminished returns on investment. RSM's global expansion services practice has the experience, methodology and relationships to help companies address the complexities of expanding internationally. This dedicated team helps companies leverage opportunities, reduce risk and identify potential blind spots. Our membership in RSM International offers the proven experience and deep resources of 730 offices in more than 120 countries to help its middle market clients build successful cross-border strategies that benefit their companies and stakeholders.

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