

Don't fear the barriers on foreign shores



Red tape and culture clashes are still features of overseas trade, but with help they can be overcome, says **David Maxwell** of Grant Thornton

Increasingly, overseas expansion is part of a company's plans from the outset, and a step that many take very early on.

The research shows that half the companies on the Sunday Times HSBC International Track 100 league table sought out opportunities abroad in their first, second or third year.

For these firms there is the excitement of the new as well as the dream of huge growth. But it is easy to underestimate the time, cost and effort involved in taking on new territories.

The biggest barrier to overseas expansion among league-table companies is regulation, with 28% finding this a problem, followed by language and cultural differences, at 24%.

There is a lot of frustration with the legal and financial regulations of other countries, but firms in those other countries experience some of the same frustrations with ours. The important thing is to do your homework so you are prepared, and not to assume that the way you do things at home is also the right way everywhere else.

Grant Thornton International circulates people around its member firms throughout

the world because that helps in advising clients on these crucial differences, both technical and cultural.

Regulation is a particular problem in emerging economies, where rules change quickly and regions or states within a country often have their own requirements. For instance, India can be a very difficult market, with state-by-state rules and what appears to be a wall of regulation. Our specialist South Asia Group has been helping clients to navigate these issues for 20 years. Without such help, firms can become tied up in red tape, which will deflect management from understanding the market and competing in it successfully.

Operating internationally demands time and a set of skills that is not always available in companies' domestic teams. Where a local presence is required overseas, the selection of good staff from that area and recruiting the right leader is critically important to success. Of the 100 companies on this year's league table, 17 admitted that they had struggled to secure the right people for their overseas operations.

Where the focus is mostly on sales, the classic route is to move from agents and distributors to licensing and franchising models, although the internet is now widely used as a direct channel. The research showed that about a third of the International Track 100 firms had international websites in place, and their use of the internet is becoming more sophisticated. Anacasta Group (No 100) is a good example of a business creating strategic links with other websites to drive its overseas sales.

It is also worth noting that cross-border mergers and acquisitions are no longer just the preserve of large businesses and that the middle market is highly active in this area. Grant Thornton's recent International M&A survey showed that 34% of respondents were planning to grow through overseas acquisition.

Joint-venture arrangements are often used to gain access to foreign market know-how, facilities and contacts. But in emerging areas such as China and India, we are now seeing that local joint-venture partners are increasingly being required to bring more to the



Cutting edge: Hydra Mining's products are in big demand in China, the US and Australia, boosting foreign sales by 65% a year

table in terms of hard capital, rather than just helping to open doors.

Lack of access to finance was cited by 17 companies on the league table as a barrier to

global trade. But the situation is improving. Banks are adopting a more international approach to lending and making it easier for growing companies to manage their

requirements across national boundaries.

Taxation is a common issue for businesses operating globally. For those that build an international vision into their

early thinking there is the opportunity of setting up suitable structures that can flex with the changing needs of the group. There are some very clever and complex ideas in

this area but for most firms tax should be a consequence of creating profits, not the driver and reason for the business.

Many firms on the league table have overcome barriers to expansion because they have a clear competitive edge. Redwood Distribution (No 8), which makes heavy-duty textiles, clearly knew what value they were bringing to overseas markets. They had a high-quality product and sold it as such.

Hydra Mining Tools International (No 67) also has a powerful story. A manufacturer of cutting tools used in coal mines, it came back from receivership and now sells to China and Australia. If you have that kind of dynamism and the right mindset, then there are fantastic opportunities for companies that have exhausted the potential of their home market.

In some respects, it is becoming easier to do business overseas. In China, for example, wider areas of the country are opening up. Grant Thornton's China services team report that they are seeing the nation's second-tier cities — those away from the developed east coast — now offering interesting openings for new entrants.

For dynamic companies that have the ambition and drive, there are boundless opportunities to build up their international trade.

David Maxwell, a partner at Grant Thornton UK LLP, a member firm of Grant Thornton International, was talking to Nick Britton.