

## TOOLBOX

### ■ International Business

# Increasing your odds of success when expanding abroad



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Notwithstanding the recent economic crisis in Europe, statistics indicate that world trade is growing faster than the U.S. economy. International expansion, done correctly, can create growth for U.S. businesses. So what steps should you take when considering international expansion for your business?

First, you need to gather information about the opportunities and risks involved in the geographic area you are considering for expansion. Create a country profile to help you decide whether to do business in a particular country and how to enter its market. The profile should include tax, labor, economic, political, industry-specific and legal information, and should provide you with the tools for assessing whether a particular venture makes business sense.

Next, decide the optimal way to structure the business. In making that decision, you should consider the initial capital required by the various alternatives, the amount of reinvestment that may be required, the anticipated return on investment and the tax consequences (both domestic and foreign). You may decide to:

**1 Enter into a foreign sales representative, distribution, license, supply or manufacturing agreement or some combination.** Typically these arrangements are

often the first step in international expansion since they are the least costly way to enter into a foreign market, requiring significantly less initial capital. Of course, the potential rewards are also more limited.

**2 Enter into a joint venture.** With a joint venture, the risks, costs, management and success of the venture are shared by the partners. In addition, in some cases a foreign partner may be required by law. A joint venture is one of the most common and effective means of conducting business internationally.

**3 Make an acquisition.** The advantage of this option is that following the acquisition, the U.S. business will have exclusive control of the foreign business. The initial capital investment and risks are generally higher than that required by a joint venture; however, so are the potential rewards.

**4 Establish a subsidiary.** Typically, you wouldn't establish a subsidiary without some prior experience in a geographic market, so this choice will often follow a period of operations through an arrangement with a foreign company under a representative or similar agreement. You'll have to deal with the same issues as a U.S.-based startup, but the path to profitability is typically significantly longer than other alternatives.

You then need to identify and select an appropriate local company with which to do business. Your selection should follow comprehensive market research, during which you determine the other

party's financial condition, the identity and percentage ownership of its shareholders (or partners), the background and existence of any political scandals or bribery, its experience in the proposed business and its ability to do what you contract for. Knowing your local partner is critical since U.S. anti-terrorism laws, sanction programs and the Foreign Corrupt Practices Act requires detailed due diligence. Once you have selected your local partner, you must also be satisfied with the results of your negotiation of the terms of the necessary agreements between your companies.

After you determine your ideal structure, prepare a business plan including your general business purpose, operating policies, objectives (including measurable goals) and goals of time, product line, geographic market and sales volume, as well as elements that are specific to the nature of the business structure selected.

No matter which structure you decide to use, you'll need to address certain legal issues. A U.S. lawyer experienced with international transactions can provide you with guidance regarding U.S. legal requirements and help draft and negotiate the necessary agreements. Your U.S. counsel can also help you locate and engage reliable, responsive, experienced, English-speaking local counsel who is familiar with applicable laws and regulations.

By following these simple guidelines, you can greatly enhance your business's chances for success when expanding into a new geographic market.

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