



GLOBAL
GROWTH EXPERTS

International Expansion 101

China

Germany

Hong Kong

India

Japan

Singapore

UK

USA

RADIUS – Global Growth Experts

Radius helps businesses move into new markets, manage overseas operations and outsource entire global accounting and administrative functions.

Services include:

- International accounting
- Finance
- Banking
- Tax
- HR
- Legal
- Compliance services

OverseasConnect– a cloud-based software platform that allows you to manage all of your global operations from your desk





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Radius

Scott has more than 20 years experience helping companies achieve organizational objectives through international expansion

- Vice President of Sales for High Street Partners
- Vice President of M&A at Interliant

- Introduction
- A common expansion scenario
- Permanent establishment and entities
- Revenue Model
- Human resources questions
- Expats and global mobility
- Ten best practices
- Q&A

A COMMON SCENARIO

Situation

- VP of Sales walks into the Director of HR's office with two signed offer letters to hire new sales people in France (or Brazil ...or Zimbabwe)
- The company doesn't HAVE an office in France (or Brazil ... or Zimbabwe)

Considerations

Do we need an entity in country?
If so, what are our options?

Are they contractors or employees?

What types of contracts are required?

What are the local requirements for employment?

What about managing expatriates?

Why does company structure matter?

- Legal presence indicates commitment to market & creates commercial footprint which assists in the hiring and retention of employees
- Dictates the required registrations and timeline for set up, which in turn dictates speed of hire
- Will affect the activities permitted to be carried out in country
- Affects compliance obligations
- Affects the overall cost of operations

Need to understand structure required as basic 101 requirement

POLLING QUESTION #1

What is the biggest challenge your organization faces expanding or operating overseas?

Do You Need An Entity?

Permanent establishment created by business activity that generates revenue in a country

Open to interpretation by local authorities

- Are you operating out of a fixed place of business?
- Are your employees receiving commission?
- Do your employees have revenue-generating roles?
- Are sales made to customers in-country?

A determination of permanent establishment gives local authorities the power to assess income or a value-added tax



Representative Office

- One of the easiest ways to get setup overseas
- Allows a company to establish a minimal presence
- Employees cannot engage in sales or contractual matters
- “Market development”



Branch Office

- An extension of a parent company, serving a certain geographic area
- Can engage in core activities, sales, etc.
- Not a separate legal entity; foreign parent subject to all liability
- Potential for taxation of overseas profits in UK



Subsidiary

- A separate legal entity for engaging in business overseas
- Provides a layer of protection between the interests of the parent and the on-the-ground entity
- Long setup and registration time; heavy oversight



Representative Office



Branch Office



Subsidiary

More on branches/subsidiaries

- Required to be compliant as a corporation doing business in that country
- Typically required to pay corporate taxes, whether or not revenue is earned in that country
- Books maintained on the ground, in local GAAP, in local language, available for inspection
- Corporate tax filings, on a monthly, quarterly, and/or annual basis
- May require: VAT, audit, office lease, local director

GOLDEN RULE: *Do not set up a foreign branch office off the parent entity*

What is the overseas entity doing?

- Provision of intercompany support services
- Direct selling – Services, Goods or both

Revenue model needs to be reflective of the activities

Revenue model needs to be at “arm’s length” – adhering to transfer pricing concepts for corporate tax purposes

Consider indirect taxes (such as VAT or GST) on these transactions – sale and importation of goods

Understanding the revenue model and role of overseas entity is crucial to understanding the associated corporate tax and indirect tax consequences and compliance requirements

POLLING QUESTION #2

What region are you considering expanding operations into?

China

Germany

Hong Kong

India

Japan

Singapore

UK

USA

Consider staffing profile:

- Contractors
- Local employees
- Expatriate employees

Employees (expat and locals) will require local payroll and reporting compensation in local currency

If expatriate : Immigration / Visas requirements must be considered and plan well in advance for associated timelines for applications as well as wider expatriate tax planning and compensation structuring.

Genuine contractor v employee – are they a bona fide contractor?

CONTRACTOR VS. EMPLOYEE

A Contractor ...

- Is free to work for other companies/institutions
- Does not hold business cards in the name of the company/institution
- Can be substituted
- Uses their own equipment
- Is not usually granted stock options and employee incentive plans
- **Everyone else is an employee**

Where a true contractor relationship exists, arrange for the contractor agreement to be in place before work starts

CONTRACTOR BENEFITS VS. RISKS

Benefits

- Contractor can commence pseudo employment prior to payroll/entity being established
- Less likely to lose ideal candidate as they can start work without the uncertainty of “we are awaiting the entity/payroll set-up”

Risks

- Authorities may look beyond the contractor agreement and use local employment tests
- If a contractor is deemed to be an employee, company can be liable for: back taxes (social security, etc.), noncompliance penalties, and backdated employee benefits
- Your pseudo employee will have to deal with their own taxes and social security

CASE STUDY: GETTING IT WRONG WITH CONTRACTORS

Background

- U.S.-based company hired an “independent contractor” in Columbia to do work
- After five years without incident, the company needed to terminate her due to economic reasons

What Went Wrong

- Worker went to labor court and claimed that she was in fact, an employee
- Local employment tests proved the case: work for one company, etc.

The Result

- Company had to pay out accrued vacation time, 13th month paycheck, etc. to employee
- Company was on the hook for various back taxes to the government

OFFERS LETTERS AND EMPLOYMENT CONTRACTS



- Most countries require a **locally compliant employment contract** written in accordance with local employment legislation (this will impact employee reimbursement/spend as well)
- Local employment legislation **will take precedence** if the terms of the employment contract are less favorable than locally mandated or statutory terms, or in cases where no employment contract exists
- Employment contract's “value” comes when negotiating the termination of employment
- Be wary of local HR issues, examples:
 - Collective Bargaining agreements and trade union
 - Holiday Pay
 - Post Termination restriction payments
 - Working time
 - Holiday roll over provisions
 - Local language requirements

EMPLOYEE BENEFITS

Globally, the employer-employee relationship will vary, dependent on your overseas countries.

Extensive statutory benefits may exist and be required – supplemental benefits are up to you but we are aware of local industry and country best practice.



The Netherlands

- Very common for employees to expect a company car (as opposed to just providing a car allowance), as it is a tax efficient way of providing a local benefit in-country
- It is almost impossible to take out a car lease unless the Company has a local entity established, for credit purposes

Belgium

- Payroll is made in 13.92 installments per year with 1.92 installments being the calculation of single and double holiday pay (payable in December and July)
- Granting stock options creates a problem with ownership

Mexico: Federal labor law governs termination indemnity benefits, which are funded by the employer

- Severance: 3 months final salary, plus 20 days salary for each year of service;
- Seniority benefit: 12 days salary for each year of covered service from 1970

Germany: Mandatory supplemental health insurance where employee opts out of state health system

Netherlands: Regardless of the cause of sickness, the employer is required to pay a minimum of 70% of the daily wage for up to 2 years

- Maximum daily wage is EUR 191.82 as of Jan. 1, 2012

Australia: Superannuation Guarantee Act mandates that employers must provide retirement benefits

- Minimum employer contribution is 9% of salary

Learn in-country statutory requirements as well as best practices to create an effective benefits plan which may be more a company insurance plan against risk

Be sensitive to and understand the landscape in each country

- Social and statutory
- Language and culture
- Benefit practices and trends
- Balance of cash v benefits v equity

Conduct local employee benefits benchmarking

- Don't offer the same benefits across the board, just because you offer them to your U.S. employees
- Benchmark industry specific benefits for your size of business
- Compare benefits being offered by similar businesses in your location

Quantify and qualify existing plans in each country

- Costs, compliance, market competitiveness

A good HR administrative infrastructure is key to successful program implementation

- Identify, budget for and source the necessary contacts required to implement employee benefits—this is often the “easy” part
- Multiple plans in multiple countries can be time consuming and frustrating for employers and employees

- Expats may be critical in helping you grow your business in overseas markets
- Sending an employee abroad, however, creates a host of issues, and tax liability is one of the most complicated
- A major consideration in designing an expatriate package is the degree of tax assistance provided to the employee
- Tax assistance is required to ensure the employee does not have to pay more income taxes as a result of the assignment than would have been paid at home



Consider a US expatriate working in a country whose local tax burden is higher than it would be in the UK



Tax Equalization

- The employee would pay the same taxes as he/she would if working at home
- Company's responsibility to pay any tax difference to the government
- Easiest for the employees, as they pay the same tax as if working at home



Tax Protection

- Expatriates expected to pay any difference in taxes between home and host country, but employer promises to reimburse for any cost above the tax rate in the home country
- The result is an expat being "protected" from higher rates



Laissez-Faire

- All taxes on income are the responsibility of the expatriate
- Keeps company costs down, but increases the pressure on expatriates

POLLING QUESTION #3

Does your company have an effective global expansion strategy?

10 EXPANSION BEST PRACTICES



1. Define your motives and do your homework

- Is it right for your business?
- What are your goals in setting up international operations?



2. Start small and don't overextend yourself

- Start with 1-2 key goals in a small slice of a foreign market

10 EXPANSION BEST PRACTICES



3. Create a detailed plan for setup

- Determine early on how you will structure your company overseas



4. Resist the urge to standardize

- Is it right for your business?
- What are your goals in setting up international operations?



5. Know that almost everything will be different

- Hiring employees, issuing stock options, opening a bank account, filing taxes, setting up insurance and other benefits for new staff—every country has completely different requirements for each



6. Don't underestimate the effect of culture

- Learn and respond appropriately to different customs in a business setting

10 EXPANSION BEST PRACTICES



7. Prepare realistic budgets and contingency plans

- Spending can start out restrained, but mushroom in the future



8. Recognize that you'll need initial and ongoing support

- HQ finance and HR need to be involved
- Outsource functions where possible

10 EXPANSION BEST PRACTICES



9. Be patient

- Rapid growth can mean rapid failure; planning can facilitate success



10. Get help

- Even if you have the best product/service team in your industry, your time is likely best utilized focused on what's important – your company

CASE STUDY – TESLA MOTORS



TESLA MOTORS



Headquarters: Silicon Valley, CA

Product: Model S

Showroom Locations: Australia, Canada, Denmark, Hong Kong, Italy, Japan, Monaco, Singapore and Switzerland



CHALLENGES

- Frustrated with juggling multiple vendors
- Strong desire for onboarding consistency across employees and cultures
- Many countries, fewer employees
- Difficulty getting timely attention from vendors
- Rapid expansion – 25 countries in 24 months



SOLUTIONS

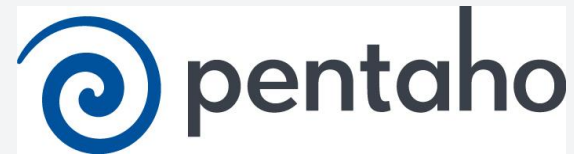
- Managed Services and Consulting
- HR Operations Management
- Human Resources Consulting



RESULTS

- Solid reputation as a model employer, globally
- Locally compliant employment contracts
- Employee handbooks and benefits packages
- 15 employees have already sold their first cars

CASE STUDY – PENTAHO



Headquarters: Orlando, FL

Product: Business analytics;
providing powerful software tools
for data insight

Locations: U.K., Germany and
four other European countries



CHALLENGES

- Rapid expansion into multiple European countries
- Deploying sales representative, service providers and software developers overseas
- Meeting legal requirements in a foreign country
- 8 week deadline



SOLUTIONS

- Managed Services plus Consulting
- Compliance Services
- Radius Global Payroll



RESULTS

- Successful international expansion
- 30 staff members outside the U.S.
- Increased sales and revenue
- Access to new markets
- Highest growth in international markets
- Continued expansion in key European markets

CASE STUDY – ACQUIA



Headquarters: Burlington, MA

Product: Software and services for the Drupal social publishing system

Locations: U.K., Germany and four other European countries



CHALLENGES

- Expansion into the U.K.
- Establishing a legal entity
- On-boarding consistency across employees and cultures
- Understanding complex tax structures and employee regulations
- Handling ongoing compliance requirements



SOLUTIONS

- Establishment Services
- F&A Outsourcing
- Global Payroll
- Global Expense Reporting



RESULTS

- Successful international expansion
- Continuing growth at our U.K. office
- Establishing operations in France and Germany
- Continued expansion in Asia Pacific

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