

The Plusses and Minuses of Expanding Outside of the US Where? Why? When?

Presented By:

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My Qualifications

- Owned and ran Advanced Cerametrics for 42 years, retiring in 2008
- Secured state funding and established subsidiary, ACI Ohio, in Findlay, Ohio, 2006
- Created joint venture NTB Certec in Pune, India, 1986-1995, with NTB International
- Established joint venture/tech transfer with Shanghai Textile Ceramics in Shanghai, 1987-1998
- Established joint venture, Corundum, Ltd, Bangkok, Thailand, 1988-present
- Helped establish a European sales office with client, 2012 to present
- Helped establish a sales office in Russia with client, 2013-present

Why Do It?

- Proximity/Access to customers
 - ❖ If your target customers aren't nearby don't do it.
- Access to Raw materials
- Less Tangible Factors
 - ❖ Cheap labor
 - ❖ Lax laws
 - ❖ Local financial incentives
 - ❖ Escape the US regulatory environment
 - ❖ Lower taxation

Benefits of a Foreign Location

- Possibility of avoiding US taxes
- Less regulation
 - ❖ Environmental
 - ❖ Labor/work rules
- Access to a new pool of customers
- Access to a new pool of suppliers
- Lower costs of labor, construction & land
- Possibility of highly educated and/or skilled workforce

Risks

- Political and cultural differences-You're not in Kansas any more
- Difficulty in repatriating profits/Double taxation
- Need for a domestic partner you can trust
- Loss of your IP
- Long distance management and associated expense
- Foreign accounting practices and monetary laws
- Everything except labor is more expensive
- Short supply of many critical materials often including energy (electric and fuel)
- Poorly educated workforce with lower work ethic
- Visa Issues

Where?

➤ BRIC countries- mostly have lost their appeal

- ❖ China- They built a wall to keep us out-growing world mood of A.B.C.
- ❖ India- Receptive to investment, but difficult environment for US business
- ❖ Brazil- Political instability and limited raw materials. Rapid growth, but not very receptive
- ❖ Russia- Like China was 25 years ago, ripe for opportunity and/or failure. New markets arising

➤ EMEA countries- overlap with above

- ❖ Europe is established
- ❖ Middle East has limited markets and resources, but lots of cash to attract investment

Reasons Not to Invest Overseas

- The dollar exchange rates generally favor US manufacturing
- Even though our recovery is lousy, it's still better than most of the rest of the world
- The new levels of political instability in many parts of the world should give you pause
- Over the years many US businesses have been nationalized by the host government
- It's hard to get a decent ROI

Conclusion

- Creating a subsidiary or JV overseas is risky
- However, the rewards can be enormous if the chips fall just right
- It costs a lot of time and money to establish a foreign arm and small businesses just don't have the resources
- You won't even be considering it unless you have vetted the big picture, but the small things are what will make or break you.
- And finally-If it Feels Good-Do It