Corporate Ambitions

International business for mini-multinationals

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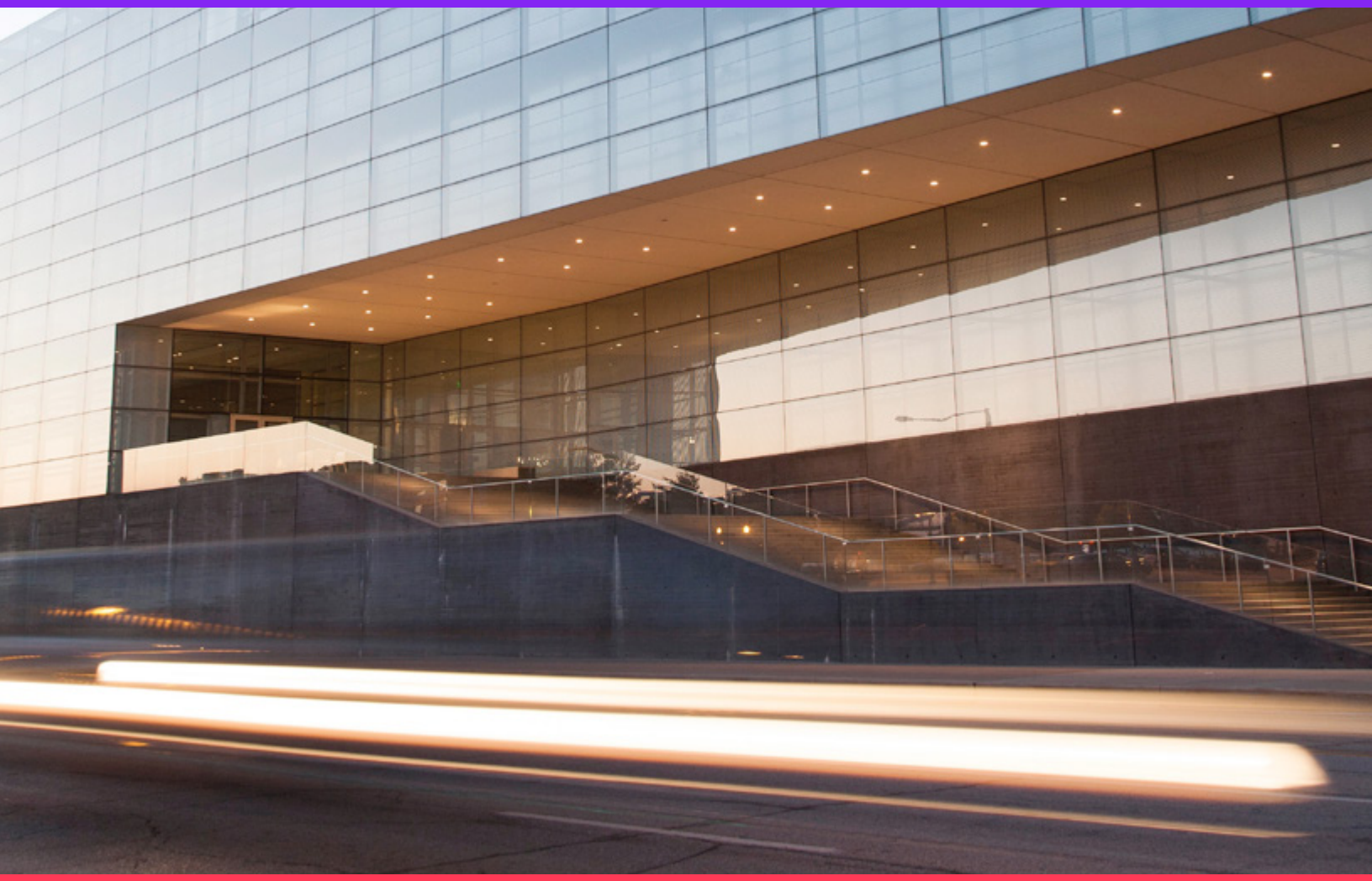

— Why Global Expansion is key to your company's survival

— Takeaways from Toyota's trouble with the Yen

— Considerations when expanding into Canada

WORLDFIRST

Welcome!

We're well through the halfway mark of 2017, so how did your business do? Did your sales grow as much as you wanted? If you're international, did your earnings fare well against fast-shifting foreign currency markets? Were you successful in setting up shop in new countries with exciting growth opportunities? If you answered "no" to any of these questions and you're itching to still beat your expectations for the second half of 2017, then you'll want to see this issue of Corporate Ambitions!

In helping businesses of all sizes with their currency strategies over the years, we've seen firsthand that there's no better way for a business to kickstart its sales than by entering promising markets overseas. So in this issue, we'll share some crucial tips on how to expand the right way -- from product labeling do's and don'ts to taxation and customs rules -- so you can set yourself up for smarter growth.

You'll also hear from a global trade advisor and corporate consultant who's worked with World Bank and the UN about the exciting growth opportunities in Europe, the six questions you should ask before you start selling there, and the three keys to launching a successful new business venture in the well-established region.

Already in the global game? If you're looking for an easier way to find trustworthy vendors overseas, make international payroll, and keep tabs on ever-changing foreign regulations at the same time, then you'll enjoy learning about the 3 keys to consolidating your international payroll providers.
Are your profit margins at risk of being eaten by foreign currency volatility? We'll look at a real-life example of how Toyota could have saved millions in avoidable currency losses if they had used a widely-available foreign currency strategy. We'll also share how you could use this simple strategy to ensure your foreign costs are more predictable and protect your profit margins -- no matter which way the currency markets go.

As you're about to see, this issue of Corporates Ambitions is full of tips and insight designed to help you grow your international sales, protect your profit margins, and think smarter about going global than most of your competitors. Of course, we should mention that the strategies and opinions in this magazine are those of the individual authors, and not those of WorldFirst USA, Inc.

No matter how 2017 has gone, we hope this magazine will help spark some ideas and lead you to a stronger second-half of the year. We wish you the best in your international endeavors now and for many years to come. Please enjoy!

Inside this issue

Diversify or Die: Why Global Expansion is key to your company's survival

Donald Trump, Brexit and anti-globalization have dominated public discourse this year. All of this has been characterized as manifestations of what appears to be a global situation where companies around the world are operating in more complex business and geo-political environments.

By Omar Allam of Allam Advisory Group

Business environments are more diverse, dynamic, and interconnected than ever—and far less predictable. Future growth prospects and strategies depend on a firm's current position and its alignment with market realities.

Yet many companies are still pursuing classic approaches to global strategy and business development that were designed for more stable times. More and more companies are trying to be agile, nimble and disruptive in their respective categories, but emphasizing more of their efforts on "quick wins" rather than long-term robustness.

Diversification is a corporate strategy to enter into a new market or industry which the business is not currently in, whilst also creating a new product for that new market. Expansion of the existing product line with related products is one such method adopted by many businesses.

When existing accessible markets no longer offer scope for expansion, it is time to look for new markets. Optimizing growth and performance within a line of business involves sustaining the current core business, successfully positioning for follow-on opportunities, and thoughtfully pushing the edges of the business into new attractive adjacencies. Some companies have been remarkably successful in diversification, spotting and exploiting new market opportunities for their products and services, leveraging their existing infrastructure and reputable brand into uncharted territory.

Take for example, Morneau Shepell, a publicly traded company on the Toronto Stock Exchange (TSX: MSI) and a leading provider of employee and family assistance programs, the largest administrator of retirement and benefits plans and the largest provider of integrated absence management solutions in Canada. In 2016, Morneau Shepell's Global Vice President for Business Development, Richard Albert, came up with the idea for the International Student Support Program (ISSP). The company applied the same award winning technology it uses for Employee Counselling and Assistance Programs (EAP) for corporate, small business, and public sector clients to meet the demands of international students and their families living abroad in Canada and the United States. This is an example of how the same technology platform and global infrastructure can be used in a number of ways to create a niche product offering complementary opportunities around the world. Diversification can help your business survive in a crowded market, but it can also be a risky strategy. There will always be risks when doing business in global markets. We are seeing companies starting up and disappearing faster than ever before.

Let's take Europe for example. We've seen many companies miss out on major global business opportunities because they didn't have the right leadership or approach toward Europe. As we know from our own experience, entering new global markets demands courage, but also working capital, the right team, key contacts, insight into the local culture and knowledge of doing business in the market and understanding of the relevant legislation and regulatory requirements. Simply put, if you are a busy person, would you hire an electrician to wire your whole house or would you try doing it yourself and risk a major failure?

What makes doing business in Europe especially complex is that, despite the overriding image of an integrated market, there are still many significant differences between individual countries. With free trade agreements in place, Europe has huge potential for North American companies.

Here is how you can get off the bench and on the field now to help you avoid a collapse in the fourth quarter:

“Brands need to think globally but act locally, by offering a solution that suits the needs of the local market, taking into account the local cultural preferences and regulations.”

1. Determine if you’re ready

Making that first step into the European market is an intimidating one for most companies in Canada and the United States. To diversify, a company must have all the necessary strategic assets, not just some of them. Getting an Export Readiness Assessment will help your company figure out its real potential, the risks involved, and serve as a review of corporate capacity to allow your company to tackle European expansion. Going through an exercise like this will help your company assess objective and real potential, risks involved, and corporate capacity check for European expansion. Instead of wasting time, energy, and money trying the “DIY” approach, a modest up-front investment will help you answer the following questions:

— Do we have what it takes to go to Europe?
— Where are the best market opportunities?
— What is the size of market we can realistically go after?
— Are we ready to expand into Europe?
— What steps are required, and how much will it cost?
— Is the plan realistic? If not, why not?

Ultimately, this process needs to boil down to a simple “go” or “no go” decision.

2. Develop your Europe strategy

The European marketplace is constantly changing. There is no one-size-fits-all approach by which North American companies should approach Europe. Each company’s European strategy is likely to be informed by any number of different factors – from industry sector, product type, company size and culture, through to long-term business aims and global corporate vision. We commonly see two challenges when working with companies expanding into Europe. One is that they rush to make a quick sale; the other is that they try to do it too cheaply.

This simply does not work. Entering or expanding presence in a new market like Europe involves complex choices, ranging from the mode of entry to appropriate investment levels to local organizational structure design. Companies need to translate market entry objectives into realistic, time-phased plans with appropriate decision-gates and performance metrics with the right partners.

3. Get some expert advice

With few exceptions, European expansion dictates the formation of new relationships with a host of unfamiliar players and rules. Turning strategies into operational realities requires rigorous planning processes that rally the entire team behind new initiatives and market understandings. Too often, this process is weakly implemented, defaulting to familiar patterns or prompting paralysis. For leaders of North American enterprises that want to compete globally, current intelligence combined with the thoughtful perspectives of experienced senior advisors can be a critical differentiator in performance and results. Many CEOs have articulated ambitious goals to tackle international markets, yet are saddled with outdated and poorly aligned business development tactics because they are stuck in their old habits or simply do not have the internal skill sets/bench strength to effectively execute the “going global” plan. International business development efforts are often unfocused, spread too thin, and not held accountable against rigorous metrics. To succeed in Europe, you need to adopt approaches to manage assets and business development effectively, ensure transparency and accountability, and use metrics to drive to hard objectives. At the end of the day – you pay for what you get.

Bottom line: It’s time for global business executives to get their heads in the game. Question is: Do you want to settle for the status quo or do you want to grow your business and stay relevant in tomorrow’s global economy?

About the Author

Omar Allam is a former Canadian diplomat with private sector, World Bank, and UN experience in international trade, export promotion, investment attraction, and foreign affairs that spans the Americas, Europe, Middle East, Africa, and Asia. He currently serves as the CEO of the Allam Advisory Group, a global trade advisory and commercial diplomacy consulting firm that supports clients with global expansion across North America, Europe, Africa, Middle East and Asia-Pacific.

Takeaways from Toyota's trouble with the yen

Even the biggest global companies can feel the pain of exchange rates moving against them, especially those without a programme in place to manage that risk. Currency markets are notoriously volatile, and these moves can distort the performance and costs of international operations, or worse – eat into your profit margins.

By Natalie Ciavarella of WorldFirst

Take Toyota for example. They recently forecasted an 18% fall in profit in the 2018 fiscal year, which would mark the second year in a row where the second-largest automaker saw double digit declines. The culprit? A stronger yen, coupled with slowing demand in the states.

Auto sales in America reached an all-time high last year, but Toyota's US sales fell 2% year-on-year, their first decline since 2012. Auto sales are expected to fall this year. While controlling the ebb and flow of demand may be beyond their control, managing currency exposure certainly isn't.

Utilizing strategies and products to mitigate exposure to cross-currency movements allows you to accurately budget and create a predictable cost structure. Although they are headquartered in Japan, Toyota has heavy traffic in the US market. Thus, Toyota has a significant amount of exposure to the ever-changing currency markets in the funds they move cross-border. With expected revenue at ¥27.5 trillion yen, Toyota budgeted their USD to JPY exchanges for this fiscal year at a rate of 105. What we've seen since last year is a dollar-yen exchange rate that has moved upwards of 18%. While it is unclear what, if any, of their USD exposure was insulated with products like a forward contract, it wasn't enough to protect them from even a short period of yen appreciation.

A forward contract is a tool that many businesses use to balance their exchange rate risks. A forward contract allows you to purchase a block of currency for a future date. Your business then builds your accounting out with a set pricing structure – much like agreeing to a price with a vendor. The contract confirms the exact rate you will be moving your funds cross-border, controlling costs and securing your bottom line.

The yen spent much of July through October well below their budget rate of 105. This means that any USD revenues that were repatriated at this time were vulnerable to being brought back at 5% less than their budgeted value. At even half their anticipated revenue, Toyota could be looking at losses of 6.5 billion dollars from the floor to their budget line.

As consumers take their foot off the gas, Toyota's annual sales are expected to remain flat. The expected cost to their profit teaches us a valuable lesson: exchange rates are a critical concern for any global business. Toyota is a case study for any company that works cross-border – no matter the size; currency exposure is an important consideration that you can't afford to leave in the slow lane.

FAQ on forward contracts

Currency risk is a key consideration for any business working internationally, and it can have a noticeable impact on your overall profit. Luckily, there is something you can do about it.

Forward contracts allow Finance professionals to create a predictable cost structure, protecting your bottom line. Here are some FAQs to get you better acquainted with forward contracts.

By Natalie Ciavarella of WorldFirst

What is currency risk?

Currency risk – also known as exchange rate risk – is your exposure to moves in the exchange rate between two currencies.

As the value of a currency moves up or down, this has a direct effect on your costs when moving money cross-border.

What is a forward contract?

A forward contract is a product that allows you to purchase a block of currency for a future date. Securing the rate now mitigates the risk of fluctuations in the exchange rate risk, creating a predictable cost structure.

"A forward contract relieves any worry about currency fluctuations, giving you the ability to build steady, foreseeable cost projections."

Should I consider using a forward contract?

If you have exposure in foreign currency, a forward may be the perfect tool to manage your risk appetite and insulate your profit margins. Proactively addressing these concerns can differentiate your approach to finance and risk management.

For example, say you are sourcing products overseas. Due to fluctuations in the exchange rate, the costs suddenly leaped 6% from your budget rate – that's 6% against your expected profit margin, and ultimately your bottom line.

This is the exact scenario we saw with the Mexican peso in the first five months of this year. Such moves are not uncommon in the world of foreign exchange and hold the power to seriously damage your bottom line.

A forward contract relieves any worry about currency fluctuations, giving you the ability to build steady, foreseeable cost projections.

Do I have to pay for this upfront?

The beauty of a forward contract is that you don't tie up cash flow to secure the rate. Simply pay a 5% deposit, we secure the rate, and you pay the balance when you use the contract.

During the tenor of your contract, you may be asked for an additional deposit / margin call should the market move against you. This does not change the rate which you locked in. The deposit will simply work toward the balance owed.

Can I book multiple contracts?

You can book multiple forward contracts that match your exchange needs.

Every business is unique, and so is every currency strategy. Our team will work with yours to develop a tailored solution for your risk management.

Some companies will lock in the rate upfront for the entire amount they need. Others only purchase a portion of their total currency exposure outright, leaving some flexibility for the rest. Combining both spot and forward contracts is a more blended approach to diversify your risk.

How do I find out more?

We'd love to discuss what strategies may be right for your business. Get in touch with us at 737.209.4024 or by email at corporate.usa@worldfirst.com.

Meet the team

Here at WorldFirst, we're one of the most experienced teams in the international payments space. Even more importantly, we're a group of people who care and who'll pull out all the stops to make sure you get the most from your transactions.

Below you can put a face to the names of our WorldFirst US Corporate account managers! We thought you might like to learn a little about what makes them tick. They've picked three words that really mean something to them.

Alex Fitzpatrick

Barbados, Water polo, Friday Night Lights

Born and raised in London, Alex jumped the pond to move to the heart of Texas this year. He worked in our UK headquarters for a number of years before making the move. Alex has developed quite the taste for the US having traveled extensively and seen some exciting places. A big fan of long road trips, he's made the journey from San Francisco to San Diego and Austin to Atlanta via New Orleans and Tennessee and, most recently he went from Boston to Chicago by way of Philly and enjoyed a Buckeyes game in O-H-I-O.

Back in his London days, Alex's University time was spent studying languages and history at Exeter University alongside Harry Potter (Daniel Radcliffe). Rubbing shoulders with stars present and future he was also good friends with Jack Crawford, the defensive end for the Falcons.

Kyle Markwardt

Chelsea, Faulkner, SRV

Kyle's a Texas native and originally called Dallas home before moving to Austin. Another fan of road trips, he's made it to St Louis, New Orleans and spent a lot of time in Colorado, just to name a few pins on the map. He's also traveled further abroad with vacations in St. Thomas and Puerto Rico. Prior to joining WorldFirst, Kyle worked as an underwriter for an insurance company in Kansas City, MO - the BBQ battle is real, but there is a clear winner.

Soccer is Kyle's sport of choice – he's an avid fan of Chelsea FC who play just a few miles from our UK headquarters. Not only just a fan, he's been playing from a young age and more recently featured in a couple of seasons for the men's club team at the University of Texas!

Will Robertson

Mountains, Fishing, Hook'em

Another Texas native, Will was born and raised in Burnet, TX. He's no stranger to Austin however, having studied at University of Texas, earning a degree in Economics and never left! Will comes to us after working in the financial sector with Merrill Lynch for the past four years. It's no surprise having studied at UT that he finds himself cheering for the Longhorns in his spare time. When he's not at a UT sporting event, he's quite the avid sportsman and you'll find him hiking, skiing, fishing, or sailing from the lakes to the mountains.

So the next time you're working with Alex, Kyle or Will, be sure to let them know what your three words would be.

Tax and supply chain considerations when expanding into Canada

Canada is the first country that US businesses should think of when they start looking at international expansion. Not only does the US share a common border, but also the culture, values and language are the same. With a population of 36.5 million and a GDP per capita that is fifth largest in the world, it offers a large consumer base for American companies.

Here are the most important product labeling, taxation, customs and supply-chain considerations that American businesses should keep in mind when importing into Canada.

By Munish Gupta of Supply Chain Advisory Group

Labeling requirements

Canada is a bilingual country and you can't sell to Canadian customers if you lack the correct labeling and translations required by law. Your product will get stuck at Canadian customs and will not be allowed into the country.

So how can you avoid having your products be held back by customs? Extensive guidelines have been laid out by the Consumer Packaging and Labelling Act and Regulations, and the Charter of the French Languages. Here are some of the product labeling and translation rules you should know.

1) Mandatory information

— **Product Identity:** information must be in both official languages of Canada: English & French.

— **Product Net Quantity:** Numbers are considered bilingual. Measurements must use the metric system. The net quantity declaration must be in English and French. Please note that a net quantity declaration using only numbers and metric symbols is considered bilingual.

— **Dealer's Name and Principal Place of Business:** The identity and principal place of business can be in either English or French. There are a few cases in which you do not need bilingual labelling:

— Products in which knowledge of the language is essential to its use (for example: books or greeting cards) can appear in the appropriate language (Non-food products only)

— Information outside of the must-haves (for example: slogans or directions) does not have to be bilingual. That being said, it is strongly encouraged to include bilingual translations for this information as well.

2) Québec

Québec has additional French language requirements for products sold in their jurisdiction:

— Every "inscription" on a product, its packaging, container, leaflet, brochure, or card supplied must be in French

— If there are multiple languages on a product label, French must have "greater prominence" than the other languages

Once the product is labeled correctly, there are three different ways the product can be shipped to Canadian customers, with different tax implications for each approach.

Option 1: The customer acts as the Importer of Record (IOR)

You can adopt a cross-border model by shipping your products from your US-based warehouse. Or if your manufacturing base is in China, you can also ship from there to Canada.

In this case, the end customer is the Importer of Record (IOR) and bears responsibility of all customs duties and taxes. You also don't need to deal with tax liability in Canada, as the end customer is responsible for the tax. If the end customer does not want to be the IOR, there are agents that can function in that capacity. The IOR agent, which typically charges a commission on shipped products, handles all customs duties and paperwork on your behalf.

The plus side of this approach is that you do not have to deal with the Canadian tax system at all.

Option 2: Getting set up as a Nonresident importer (NRI)

Any person or entity residing outside of Canada but wishing to import into Canada is required to become a Non-Resident Importer (NRI). An NRI is a foreign-based company, including those residing in the United States, that does not have a permanent presence in Canada but imports into Canada under its own name and business number.
To become an NRI you would need to get set up with a Canadian Business Number (BN), Import-Export Program Account Number and GST/HST Tax Account Number. Once you have these pieces of identification, you can import into Canada without any issues.

The benefits of this approach are that you can be the Importer of Record (IOR) for your products into Canada. The process of getting set up as a Nonresident Importer is relatively quick and not very expensive.

When you pick this route, you are liable for taxes in Canada. However, the only taxes that you are responsible for are the sales tax in the different provinces. You are not responsible for any corporate or income tax.

Option 3: Setting up a Canadian tax entity

If you already enjoy a large volume of business, you will have more control over your office, customer service staff, and local fulfillment by setting up your operations in Canada.

In addition to complying with the local laws and selecting great business partners to work with, you have to think about overhead costs, HR matters, and corporate income, local and state taxes. This option should be considered if you have enough business volume to justify the entity set up and tax compliance costs.

Once you have decided on the option to import into Canada that you think will work best for your business, it's important to understand how Canadian customs work.

Here is a brief overview of the Canadian sales tax system.

Canadian Sales Tax System

The Canadian tax regime is based upon both provincial sales taxes and a federal sales tax. Each province has the option of retaining its Provincial Sales Tax ("PST") system alongside the federal Goods and Service Tax ("GST"), or joining the national harmonized sales tax system ("HST").

The federal government levies a Value-Added Tax (GST) of 5% on Goods and Services in all provinces. However, in the five provinces that have joined the HST program, the 5% is included within the HST percentage. In addition, there are three provinces that levy a retail sales tax – Saskatchewan (PST), British Columbia (PST), and Manitoba (RST). Quebec has its own tax which is called the Quebec Sales Tax or QST. Alberta, as well as the territories of Nunavut, Yukon, and the Northwest Territories, do not levy any sales taxes at the provincial level, hence only the GST is chargeable in these provinces.

Custom duties

Most imported goods are subject to GST tax at a rate of 5%. If duty is applicable, it is added to the value of the goods and that is the amount that tax is charged on (essentially, you also pay tax on duty). It is your responsibility to comply with all Canada Customs laws and regulations, including applicable duty and tax requirements.

Taxes are full of nuance and complexity. Make sure to work with a tax professional to understand your tax obligations in Canada.

Canada offers plenty of opportunity for American businesses seeking growth in new markets overseas and could be a comfortable first step if it's your first time selling your products abroad due to similarity in culture, language and consumer behavior. Hopefully, this discussion on compliance, customs, and various paths to setting up shop will encourage you to find your place in Canada's business landscape while helping to demystify some of the process.

Need help with your labeling and translations? Agencies like Supply Chain Advisory Group can help you with product labeling, customs clearance, and most importantly, finding a local agent to be the importer of record.

3 key things to know about **consolidating international payroll providers**

If you're managing payroll in multiple countries or even one country overseas, you know global payroll is challenging. You have to keep track of compliance, quarterly or annual regulation changes in each country, and reporting, all while maintaining visibility into the cost of payroll in each country. Most companies with U.S. payroll don't understand the complexities of managing multi-national payroll until they start new operations overseas. The payroll and tax nuances of each country can be difficult to manage and compliance risk increases with each new country and new employee.

By Victor Lobo of Blue Marble

Many companies manage international payroll with payroll providers or accounting firms within each country. The problems that arise with utilizing different vendors in each country are many. The technology may vary from one vendor to the other, there may be no aggregated reporting, little visibility into the costs of payroll by region, multiple tax and accounting audits, language barriers, working with different currencies, and much more. Even though the employee and financial data is highly sensitive, most payroll providers continue to use spreadsheets and email to transfer this data across borders. Depending on the country, fines and penalties for non-compliance can be high and the risk increases exponentially. Would you use this manual process and accept these limitations for U.S. payroll? Of course not! A great first step to get global payroll under control is to utilize technology and consolidate providers.

Once you've decided to consolidate, where do you start? Here's a few key considerations.

1. Use a payroll aggregator

For small and mid-sized companies, finding payroll providers in each country can be difficult. Depending on the type of business entity, number of employees, language barriers in the country, and launch time, the process of selecting a vendor in each country takes time. Using a payroll aggregator can get payroll set up quickly, because the aggregator has completed the vendor vetting process and has relationships in the new country.

2. Look for the right technology and reporting solution

There are many payroll aggregators in the market offering global payroll solutions, but selecting the right payroll aggregator is crucial to long-term success of your global business. You should start by looking for a payroll aggregator that offers technology to solve your payroll headaches, reporting solutions to offer real-time visibility into the cost of payroll within each country, and access to the in-country providers when you have questions about a specific country.

Once you've decided to consolidate your payroll, reporting is a critical tool to manage the global payroll costs. Knowing what you're spending in each country, ensuring employees are paid accurately and on time, and seeing a view across all countries is important to keep your global business on track. Make sure the payroll aggregator offers real-time reporting and views across countries so you can easily manage the global payroll expense and make changes when necessary. You should ensure the data is in the local payment currency, and so is the currency you post to your General Ledger.

3. Have access to in-country providers

Another aspect of the payroll aggregator is that they manage the relationships with the in-country providers. While that is helpful in day-to-day operations, questions can come up from time to time. Having access to the in-country providers is crucial to save time and resources when questions arise, so make sure your payroll aggregator allows you direct access to in-country experts. There is no one company or one person that knows everything about global payroll. Why work with a company that gives you one resource for your global payroll?

Consolidating payroll providers can be the best step to ensure you're remaining compliant, have visibility into the processes in each country, and are being cost-effective. If you are just starting to launch into new countries, or have been managing global payroll for years, there are new technologies and solutions that can help run your business faster, smarter, and more cost-effectively. Global payroll should not be a barrier to international growth – the right payroll partner will manage your international payroll so you can focus on growing your business.

Victor Lobo is SVP of Sales and Marketing of Blue Marble Global Payroll. He has more than 25 years of sales experience with Fortune 100 and start-up companies. He spent many years in the Financial Services and Human Capital Management industries, and has successfully led sales teams focusing on new business acquisition, client growth and retention, and partnerships with Private Equities, CPAs and Broker communities.