THOMSON REUTERS

GOING GLOBAL

ASSESS THE RISKS AND SEIZE THE OPPORTUNITIES OF INTERNATIONAL EXPANSION

DEMOGRAPHIC

This report has been compiled through telephone interviews with 250 C-suite individuals from leading organizations across Asia, Europe, North America and Oceania. Interviews were completed by an independent surveying organization on a pre-qualified but random sample. All respondents were provided with relevant contextual information, and the questions that were asked, in advance of the interview.

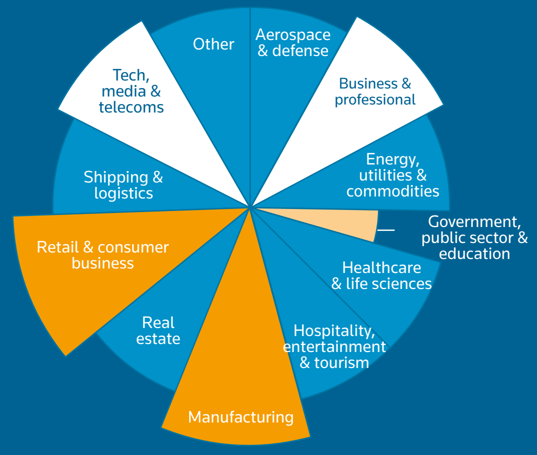
The interviews investigated the respondents' experience and perception of the challenges and opportunities of operating in a global market place. The analysis of the output from the interviews was conducted by an independent analyst. The individuals that participated in the survey covered a broad spectrum of industries.

DEMOGRAPHIC BREAKDOWN OF THE SURVEY PARTICIPANTS

COMPANY SIZE

No. of employees ● 650–6,000 ● 6,000–25,000 ● 25,000–50,000 ● 50,000+
Turnover ● $5m–$100m ● $100m–$500m ● $500m–$1bn ● $1bn+

INDUSTRY SECTOR

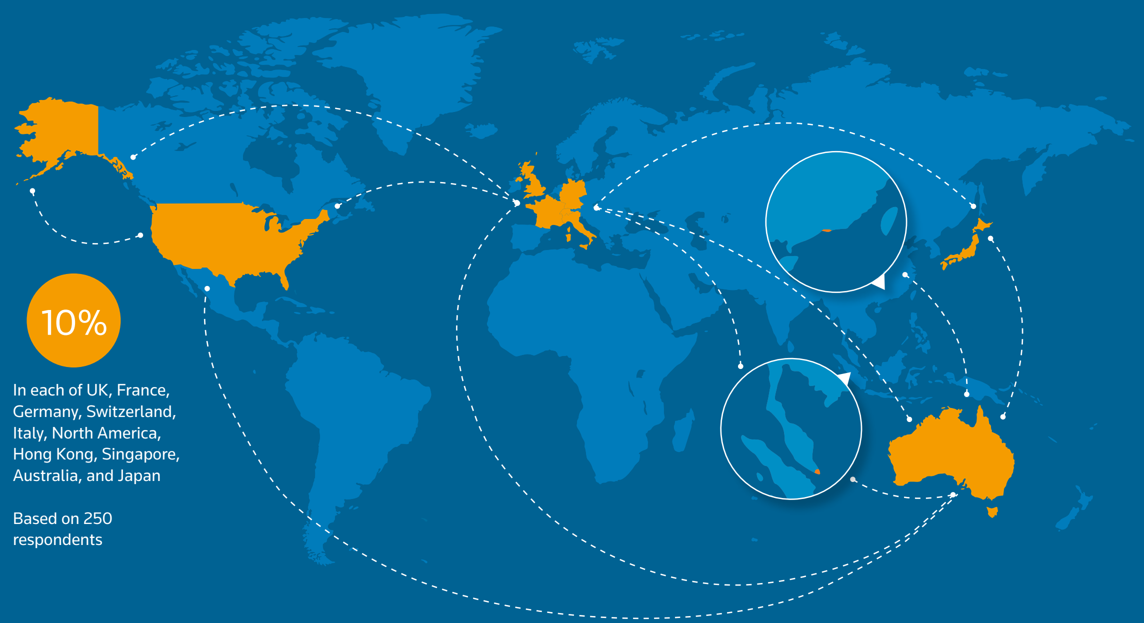


● 4% ● 8% ● 9% ● 10%

JOB TITLE

6%	29%	18%	18%	15%	14%
CEO	CFO	CIO	CRO	Head of Supply Chain	Head of Treasury

PRIMARY MARKET



In each of UK, France, Germany, Switzerland, Italy, North America, Hong Kong, Singapore, Australia, and Japan

Based on 250 respondents

CONTENTS

BEYOND BORDERS

APPETITE FOR INTERNATIONAL EXPANSION REMAINS STRONG, BUT COMPANIES MUST KEEP IN MIND THAT GOING GLOBAL IS NOT WITHOUT COST OR RISK

Recent years have seen increasingly rapid globalization, with the rebalancing of global markets, innovation coming from emerging markets and the world becoming more interconnected. Yet the opportunities that globalization presents can also be quickly counteracted by the risks it brings.

In this 'Going Global' survey, Thomson Reuters spoke to hundreds of senior executives from many industries across the corporate world – from CEOs and CFOs to treasurers and heads of supply chains, in markets ranging from North America to Asia and Europe to Oceania. The aim was to gauge companies' appetites for globalization: whether they have a positive outlook and see a wealth of opportunity, or are more focused on the risks they would need to navigate to drive this corporate growth. Unsurprisingly the results uncovered a mixture of both – with variations according to geographical and industrial nuances. What was found, despite the gloom that pervades some developed economies (and more than a few emerging markets), was a surprising level of optimism. Take the fact that every respondent either agreed or strongly agreed when asked if their corporation would be stronger and more profitable in 2025 than it is today; or that when asked whether their organization was well equipped to capitalize on opportunities, while also presenting a strong appetite for international expansion, 93 per cent of respondents either agreed or strongly agreed.

By far the favored route to global expansion was through direct acquisition, with 38 per cent of respondents favoring M&A (which has undergone a massive revival in recent times, as can be seen from the current trend for megadeals) over direct investment, which came in second. Leon Saunders Calvert, global head of capital markets & advisory at Thomson Reuters, notes that M&A transactions, if well planned, can add significant value to both the corporate buyer and target. In more cases than not, M&A deals were driven by a desire to keep abreast of rivals or a focus on driving down costs (by creating service cost efficiencies through scale and expansion into new markets).

Another notable fact was that respondents viewed Western markets – particularly the UK and the US – as critical to their future success. And while business will typically continue to be conducted in dollars or euros, there is, however, appetite for more information around rising currencies such as China's renminbi, with persistent speculation that it could soon become one of the major international currencies.

Globalization will never be risk-free. C-suite executives surveyed by Thomson Reuters highlighted a set of risks that will always accompany rewards: notably foreign exchange (given the volatility affecting emerging-market currencies), mounting regulation, geopolitical gyrations and US interest-rate uncertainties. Of those surveyed, 55 per cent tipped either the risk or the cost (or both) of doing business to increase over the next ten years.

Yet risk will always be part and parcel of doing business on a global scale. What matters is how an organization plans for success. Companies that invest wisely in technology and people are able to make good decisions at the right time based on accurate information, conduct thorough market assessments, and fully evaluate the risks before acting. These are the organizations that are more able to realize the potentially sizeable benefits of expansion, and which will continue to succeed far into a more globalized future.

1

SEIZING THE OPPORTUNITY

WHAT ARE THE DRIVERS BEHIND THE GLOBAL AMBITIONS OF CORPORATIONS, AND HOW DO THEY MAKE THESE GOALS A REALITY?

FIGURE 1
MOST IMPORTANT TRADING CURRENCIES (FOR RESPONDENTS): 2015 V 2025

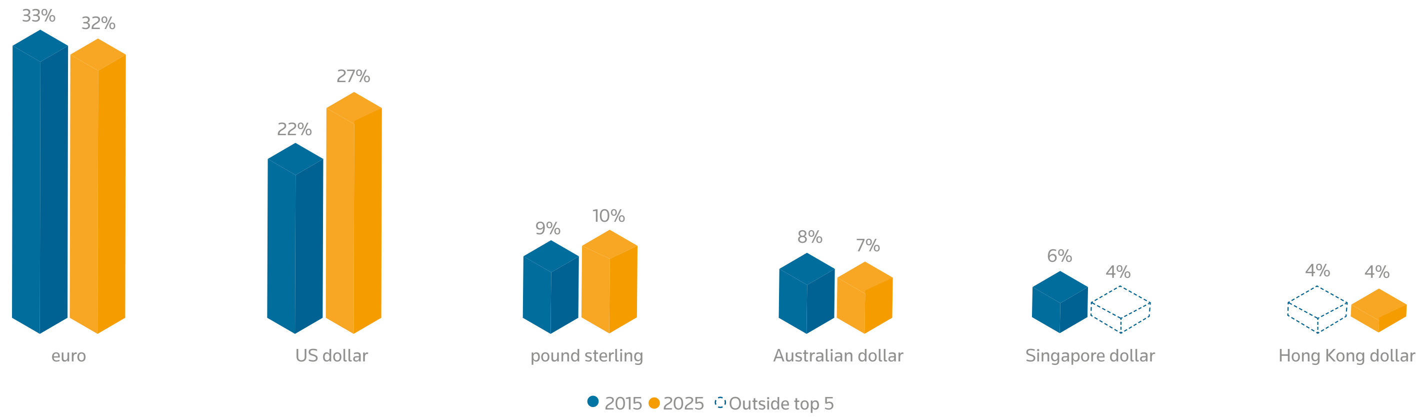
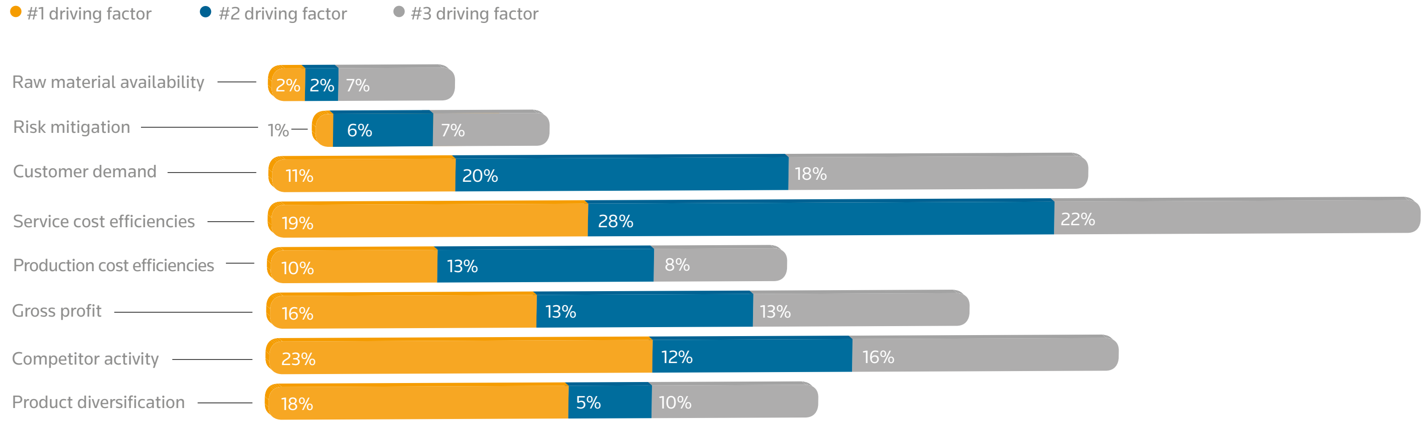


FIGURE 2
DRIVING FACTORS BEHIND INTERNATIONAL EXPANSION



The world is changing, and it always will be. In 2025 it is predicted that 70 per cent of global GDP growth will come from emerging markets. Technology has now enabled us to reach people in seconds as opposed to days, and 3.2 billion people are predicted to be using internet devices by the end of 2015. Given this context, understanding why companies, particularly those in developed countries, are expanding beyond their national borders is fairly straightforward. But for corporates themselves, knowing exactly how and when to capitalize on this evolving globalized landscape is a more complex issue.

So why do it? Corporate leaders – 23 per cent of those surveyed – said simply keeping pace with competitors was the most compelling reason to pursue an international strategy (figure 2). Leon Saunders Calvert, global head of capital markets & advisory at Thomson Reuters, says if C-suite executives see synergy in a deal – an alignment with another corporate whose aims and ambitions chime with theirs – "they tend to do very well, adding significant value to both parties". However, this suggests that deals that are more opportunistic and defensive in nature, (companies doing something just because their competitors are doing it) may be less likely to succeed.

The pursuit of service cost efficiencies was also selected as a driving factor behind international expansion, with 19 per cent of those surveyed selecting it as their top reason. The reasons cited included lower cost of doing business, more efficient logistics and increased customer satisfaction. Nanette Bulger, CEO, Strategic and Competitive Intelligence Professionals (SCIP) also highlights that by creating a geographical presence and sourcing components from that area, it allows organizations to further understand market drivers and the local regulatory landscape. In addition, there was almost universal agreement (98 per cent) that a global presence will be critical to being a relevant brand in 2025. This is because often when corporates buy other companies, what they are actually buying is the brand as opposed to physical assets. Companies may be able to replicate the assets of a competitor, but it's much harder to reproduce the emotion and value people attach to a particular brand.

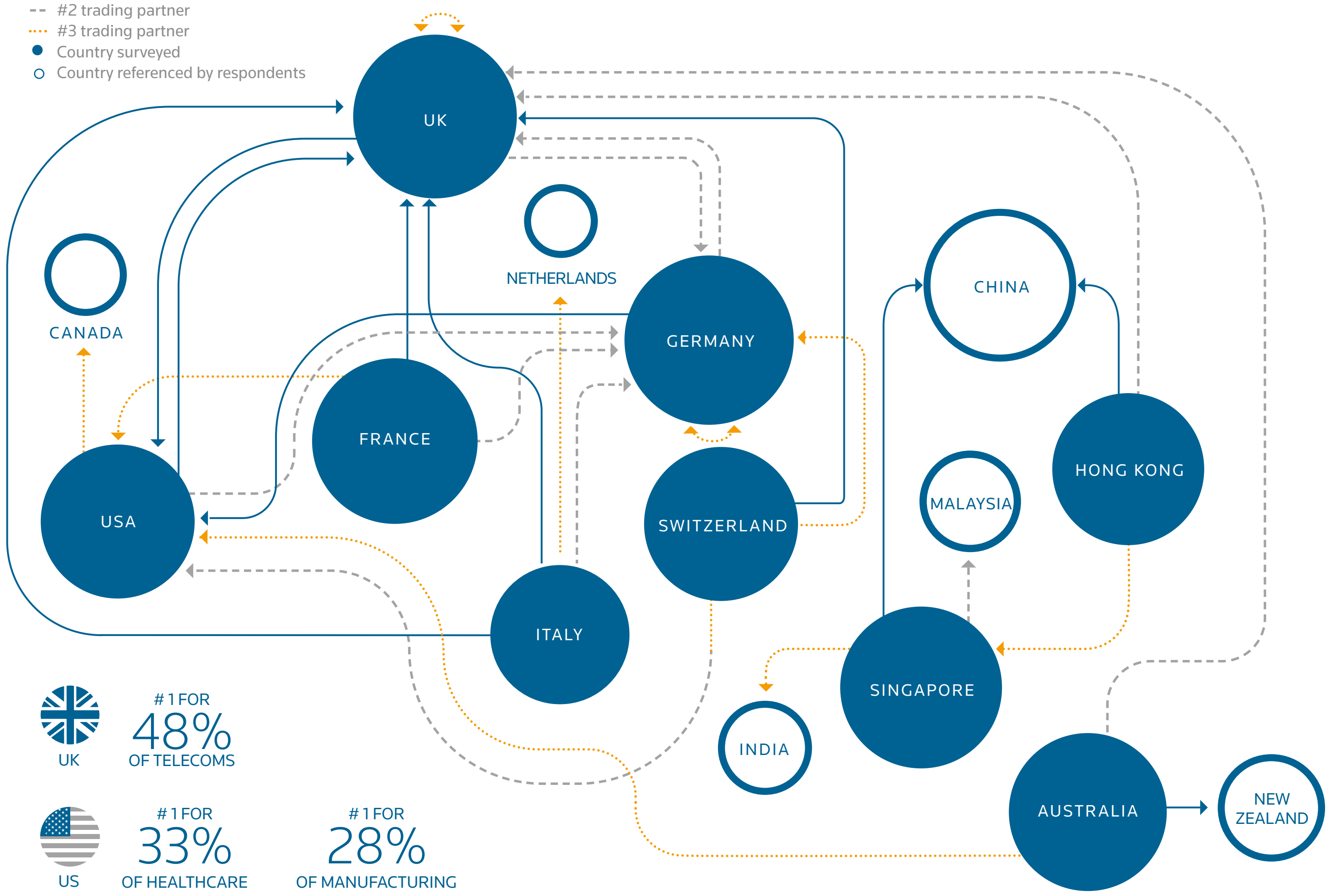
> "Keeping pace with competitors is the most compelling reason to pursue an international strategy"

EMERGING V DEVELOPED MARKETS

The survey also found that the intensity of competition, and the scale of new market entrants, is at its highest level in the developing

FIGURE 3

PRIMARY TRADING PARTNERS 2025



"Many emerging markets remain underexploited, including several, key, long-term growth markets"

world. Again, this makes sense, as the emerging world is more populated but has fewer strong corporates with embedded vested interests and powerful, prevalent supply chains. Thomson Reuters data shows that by 2025, 72 per cent of the world's consuming class will live in the developing world.

Emerging markets are also hotbeds of innovation: 40 per cent of all patent applications are now registered outside the developed world, while 46 of the top 100 most innovative companies are based in Asia. In 2014, sub-Saharan Africa contained 11 of the world's 20 fastest-growing economies. India, meanwhile, is on track to contain 20 per cent of the world's working-age population within ten years, which presents the Government in New Delhi with the potential for a huge demographic dividend (if enough jobs can be found to satisfy aspirational workers) or the potential for rising social turmoil (if they cannot). According to the International Monetary Fund, Oxford Economics and Frost & Sullivan, high GDP growth and improved foreign direct investment is giving rise to new emerging countries beyond Brazil, Russia, India and China such as Poland, Turkey, Indonesia and Mexico where we will find the next trillion-dollar economies.

Karan Batra, head of corporate coverage at Thomson Reuters, says his conversations with clients support the findings of the survey: "There is a lot of interest in entering new markets, especially in Africa, Latin America and South East Asia." However, new market entry is only successful if a company undertakes a full assessment and considers a range of factors such as political and economic trends, the competitive and innovation landscape, and regulation environment. Batra says clients have started running sophisticated 'what if' scenarios with these variables in place to test whether they are in a position to expand. Indeed, the lack of a thorough market assessment can impact the success of an organization to expand globally. For example, Uber have had to halt their expansion in India, owing to a lack of understanding of key transport legislation. This view is supported by the chief strategy officer of a leading chemical firm: "So often, companies will come up with all sorts of ideas, but if you don't anchor them with market opportunity and impendent risk, you're all over the place."

Even with clear evidence of rapid growth opportunities in emerging markets, the Going Global survey shows that many remain underexploited, including several, key, long-growth markets. However, there's always a reason for this absence of global corporate interests. India's consumer sector remains underdeveloped because of state protectionism, although the current Government in New Delhi under Narendra Modi has talked of opening the retail segment to greater foreign competition and participation. Also, with changes in regulations, currencies and political environments, corporates have many questions that need answering in regards to effective global expansion. But with access to the right news, data and analytics, corporates can ensure they have the information and tools needed to capitalize on the opportunities in underexploited markets.

Going global does not mean just focusing on the emerging world. While some mature markets have lost their sheen in recent years, others have retained or regained their allure. In this survey, more C-suite executives tipped the UK or the US to be their most important trading partner by 2025 than any other country (figure 3). The pull of those markets is notably high in Oceania and North America, underlining the importance of shared legal and cultural norms to an expansion-minded business, along with a common tongue. But France, Italy and Switzerland all tagged the UK to become or remain their most important trading partner over the next ten years – a view based as much on the UK's proximity as on its strong economy.

INNOVATION

Innovation is another reason why companies choose to expand globally. As the same chief strategy officer of a leading chemical firm explained: "At the end of the day, if a company fails to innovate, it fails." New products were once made in-house. But corporates realized they couldn't do everything; for example, healthcare and pharma firms now have robust links with leading universities and colleges, notably in the US and Europe. Procter & Gamble's well-regarded Connect + Develop program, which creates new products through external innovation partnerships, has added billions of dollars to the consumer goods

FIGURE 4

EXTERNAL PARTNERSHIPS WILL BECOME MORE IMPORTANT IN DRIVING INNOVATION

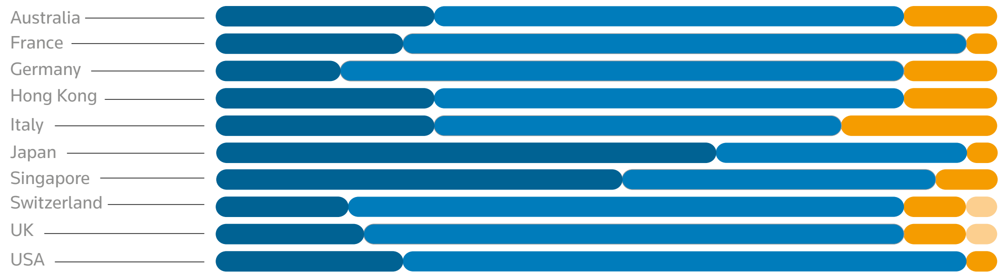


FIGURE 5

EXPANSION MECHANISMS BY COUNTRY OF ORIGIN AND (OR) PRIMARY MARKET

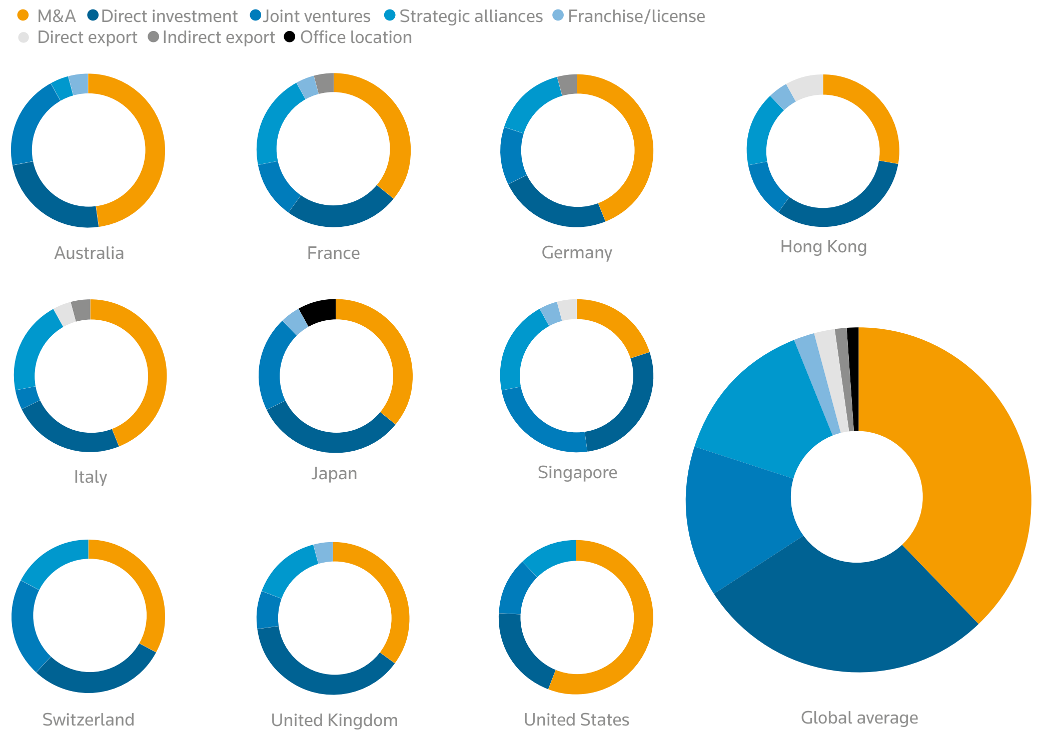
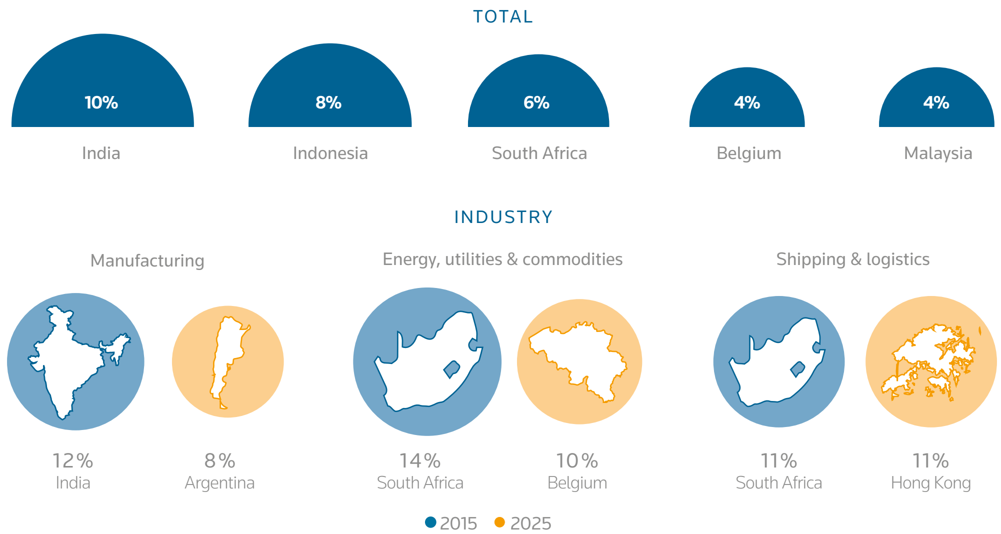


FIGURE 6

THE MOST UNDEREXPLOITED MARKETS



company's bottom line since its introduction. The program was a response to the slowing of the growth rate and decline in product launches. As a result the CEO declared that, going forward, there should be a target of 50 per cent of innovation coming from external sources.

The survey also shows that 90 per cent of respondents said external partnerships were increasingly powerful drivers of innovation (figure 4). This is because in today's fast-paced, high-tech, knowledge-based era, it is no longer possible for companies to rely solely on their own R&D and innovation teams to keep up with customer demands. For example, Thomson Reuters works with a large electronics company to track patent activity in the 4G technology space, as it wants to assess and build partnerships early with firms that are most active in 4G innovation.

CURRENCY INFLUENCES

C-suite leaders currently view the euro and the US dollar as their most important trading currencies (figure 1). Overall, the dollar was predicted to remain the predominant global trade currency over the next ten years (by the US itself, but also notably in Switzerland and Japan, by 50 per cent and 56 per cent of surveyed corporate leaders respectively). Despite the eurozone's ongoing economic and institutional malaise, which calls into question the single currency's future, the euro is predicted to remain the most powerful tender in core European countries such as Germany and France. In the UK, which will make its own choice over membership of the European Union by 2017, sterling is set to remain the currency of choice for UK-based firms by 2025, according to a majority (54 per cent) of those surveyed – but with the US dollar gaining ground.

Finally there is the ongoing discourse of China's currency, the renminbi (RMB). It is surprising that the survey results did not highlight this emerging currency, as HSBC expects more than half of all bilateral trade with China to be completed in RMB by 2020, up from 25 per cent in 2014. The internationalization of the RMB is an indicator of the Chinese Government's broader ambitions for a dominant economic role, through further development of their financial markets and management of the economic transformation to become more open. Although the recent downturn has shown that such fast-paced ambitions are not so easily realized, China may well still become the world's largest economy. Corporations around the world should be prepared, therefore, for the potential future impact on the way they do business.

HOW TO CAPITALIZE

Currency fluctuations are just one of the reasons why breaking into a new market is never easy. Although the opportunities are seemingly endless, the process is fraught with risk – and, notes Saunders Calvert, is "probably one of the largest strategic undertakings any company will ever undertake". Cultural barriers, legal hurdles and political and economic uncertainty can undermine even the best-laid plans.

So how are corporates capitalizing on global opportunities? The answers in this survey, from leaders of corporates ranging from multinationals to thriving mid-sized firms, are mixed. Thirty-eight per cent of C-suite executives saw M&A as the best and most direct way to expand into a new market, followed by direct investment (28 per cent) and joint ventures or strategic alliances (both 14 per cent) (figure 5).

The survey results clearly demonstrate that the C-suite has an appetite for global expansion, and it is clear that the opportunity is there for the taking. However, for corporates to achieve their goals and visions for the future, they require connection and clarity between information, people and systems, across both organizations and target markets.

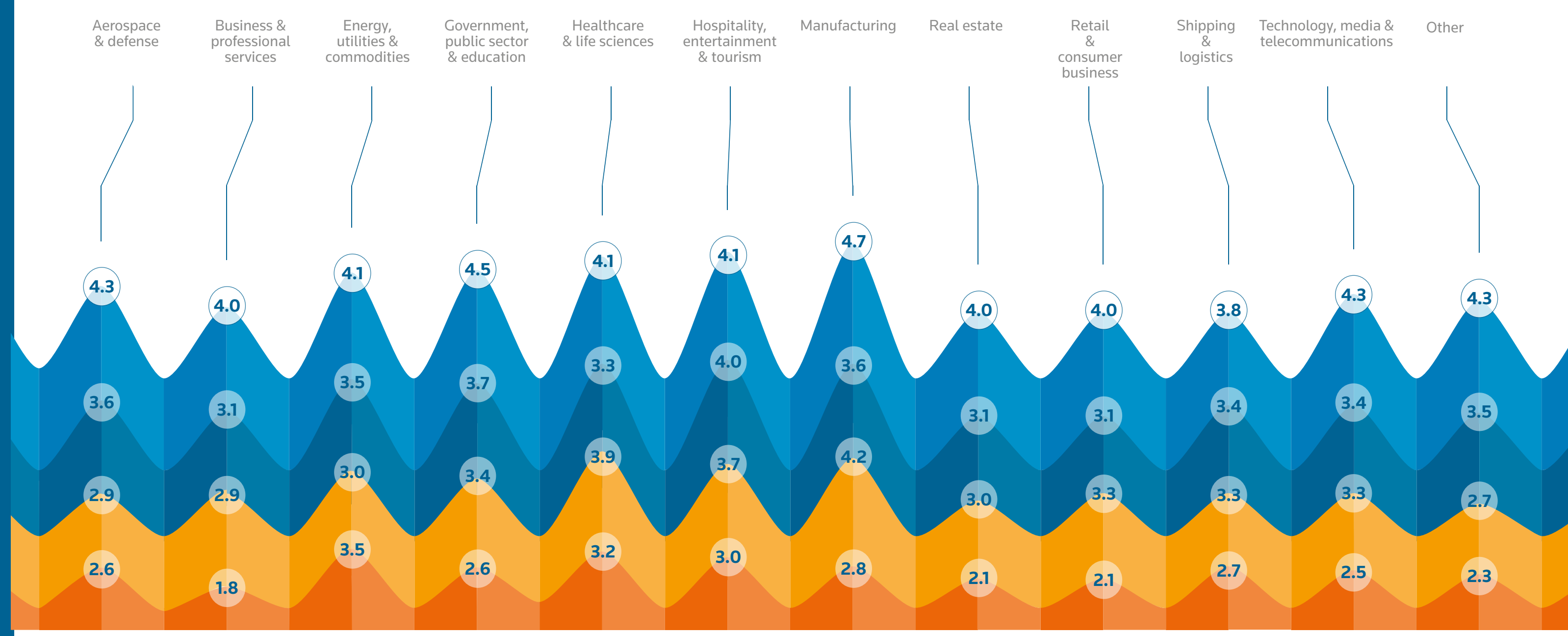
> "Cultural barriers, legal hurdles and political and economic uncertainty can undermine even the best-laid plans"

2

NAVIGATING RISK

THE RISKS OF INTERNATIONAL EXPANSION ARE MANY AND VARIED. BY THOROUGHLY EXAMINING THE POSSIBLE PITFALLS IN AN UNTRIED MARKET, COMPANIES CAN ENSURE THEY REAP THE REWARDS OF GOING GLOBAL

FIGURE 7
SUPPLY CHAIN CHALLENGES BY INDUSTRY (AVERAGE SCORE)



● Natural/national disasters and weather events ● Supplier dependency/third-party risk ● Geopolitical risk ● Regulatory risk

1 = low impact and/or provisions to manage; 5 = high impact and/or inadequate provisions to manage

"Regulation and managing risk exposure are keeping executives up at night"

When companies decide to enter new markets or expand existing operations – whether by acquiring a company, investing fresh capital in an overseas division, or joining forces with a local partner – risk increases alongside the variables involved. But so do potential rewards. And while risk cannot be entirely controlled, it does need to be examined and communicated effectively at company board level for it to be better mitigated by senior executives and their teams. A chief risk officer within the energy sector told us: "I think the responsibility that a risk team has is to make sure the conversation happens at the right point." And as Warren Buffet, CEO of Berkshire Hathaway, once noted, "risk comes from not knowing what you're doing".

GEOPOLITICAL AND REGULATORY RISK

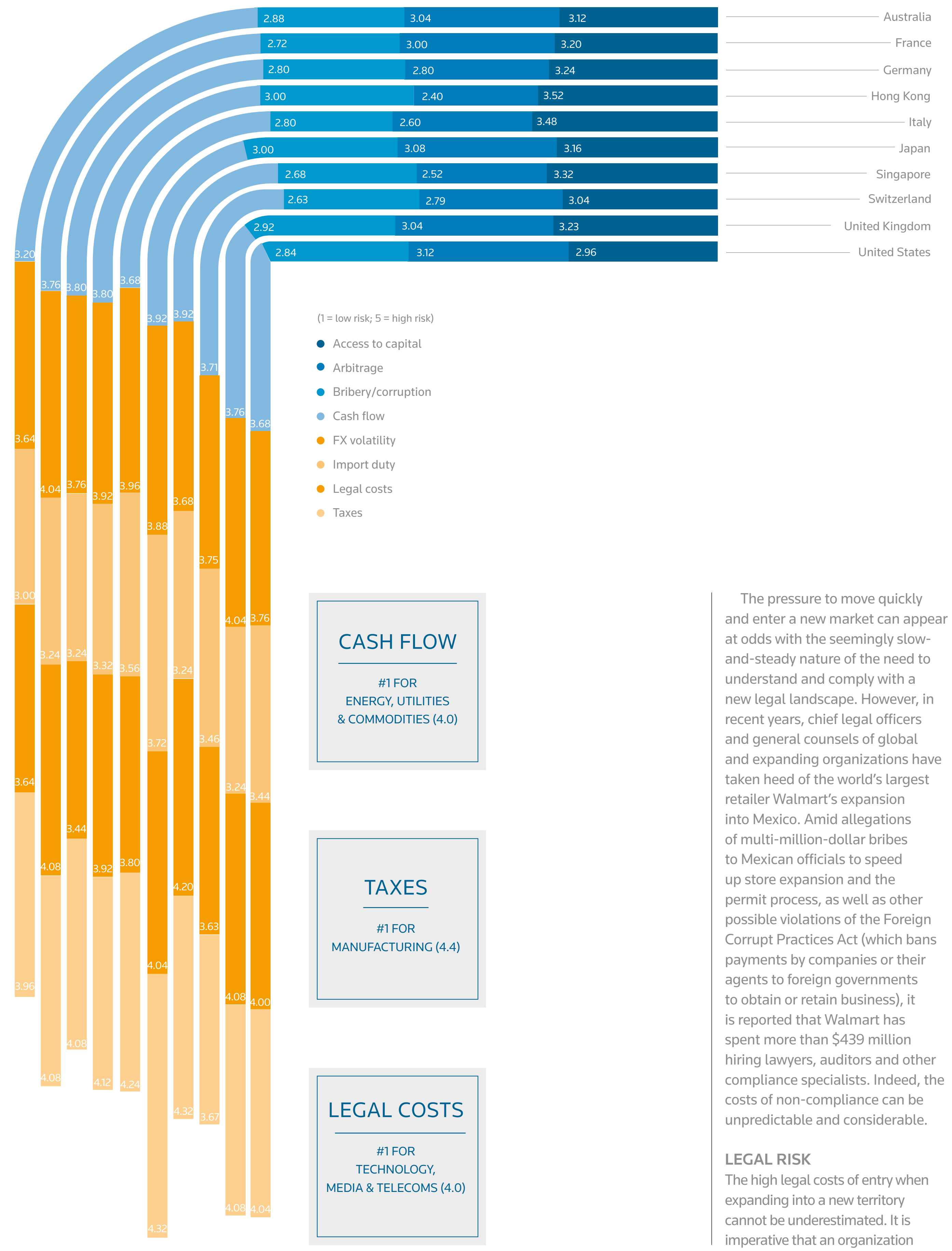
Few predicted the rolling series of events in Ukraine that began with Moscow's annexation of Crimea and culminated in Western sanctions against Russian corporate and financial interests. It seems that large firms (those with more than 50,000 employees) are more than twice as concerned about the impact these sanctions will have on their organization globally, than firms half their size. Corporates based in the US and Europe are more likely to be worried about sanctions (because they stand to lose the most from their governments' restrictions against Russian interests).

However, regulations emerged as the most common threat to an organization in the survey, selected by respondents as one of their top three threats more often than any other (figure 9). From speaking to customers, Karan Batra, head of corporate coverage at Thomson Reuters, echoes these thoughts and says regulation and managing risk exposure are keeping executives up at night. In particular, clients are especially concerned about how they manage their risk exposure and keep on top of regulations in emerging markets. This is because business laws may not be clearly defined on these markets or consistently enforced by local regulators or court systems. One CFO from a chemicals firm commented: "The local and global regulations cannot be overstated enough."

Sneha Shah, managing director of sub-Saharan Africa at Thomson Reuters, agrees with this sentiment. "The innovation landscape is fantastic in Africa, with incredible potential, especially around technology in areas like mobile payments and rural healthcare," she explains. "As a result we are seeing a lot of interest in partnerships and cross-border technology and investment projects. However, each African country has its own set of regulations with its own set of risks, and international companies are cautious about establishing partnerships because not only do they have to be compliant but they must vouch that their local partners/suppliers are too."

FIGURE 8

FINANCIAL RISK BY COUNTRY OF ORIGIN AND (OR) PRIMARY MARKET ASSOCIATED WITH INTERNATIONAL EXPANSION (AVERAGE SCORE)



CASH FLOW

#1 FOR ENERGY, UTILITIES & COMMODITIES (4.0)

TAXES

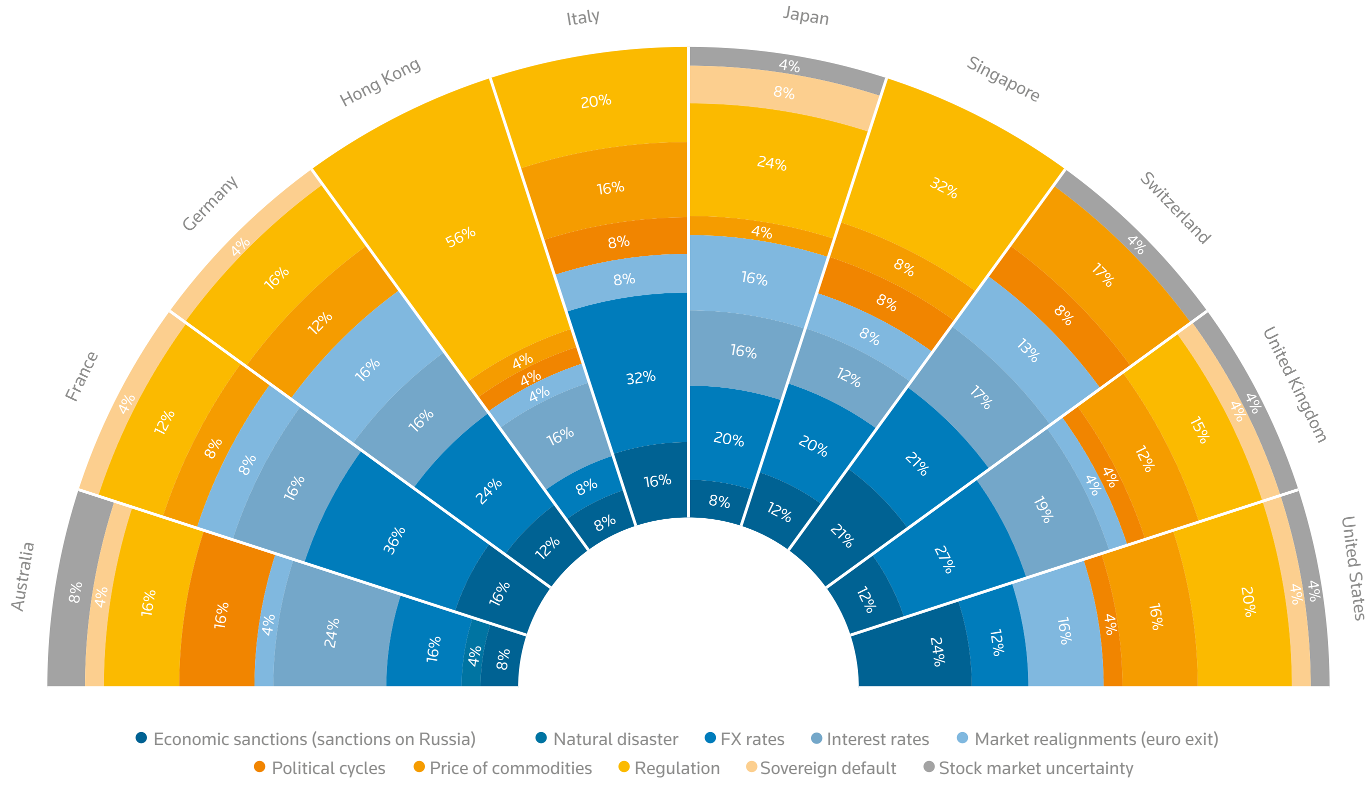
#1 FOR MANUFACTURING (4.4)

LEGAL COSTS

#1 FOR TECHNOLOGY, MEDIA & TELECOMS (4.0)

FIGURE 9

#1 THREATS TO ORGANIZATIONS GLOBALLY (BY COUNTRIES OF ORIGIN AND (OR) PRIMARY MARKET)



The pressure to move quickly and enter a new market can appear at odds with the seemingly slow-and-steady nature of the need to understand and comply with a new legal landscape. However, in recent years, chief legal officers and general counsels of global and expanding organizations have taken heed of the world's largest retailer Walmart's expansion into Mexico. Amid allegations of multi-million-dollar bribes to Mexican officials to speed up store expansion and the permit process, as well as other possible violations of the Foreign Corrupt Practices Act (which bans payments by companies or their agents to foreign governments to obtain or retain business), it is reported that Walmart has spent more than $439 million hiring lawyers, auditors and other compliance specialists. Indeed, the costs of non-compliance can be unpredictable and considerable.

LEGAL RISK

The high legal costs of entry when expanding into a new territory cannot be underestimated. It is imperative that an organization understands the new legal system in which it hopes to conduct business. The Going Global survey shows that corporate leaders from a wide range of industries ranked the overwhelming and unpredictable legal costs as one of the highest financial risks associated with an international expansion (figure 8). In advance of any overseas venture, a great amount of both time and money must be spent with legal counsel to ensure compliance with the myriad laws and regulations that may be applicable when doing business in a new jurisdiction: tax laws, customs laws, import restrictions, corporate organization rules, intellectual property protection and agency/liability laws. Local legislation also needs to be investigated for issues arising under labor, immigration, customs, and agency laws, and other producer/distributor liability provision.

SUPPLIER RISK

In today's business environment, organizations are held responsible for the actions of suppliers, vendors and partners in addition to their own internal activities. Knowledge and understanding of supplier and third-party risk is therefore of the utmost importance. It is critical that a robust risk management program includes due diligence in the selection of business partners and third parties as well as in ongoing monitoring activities. "Corporate supply chains can contain hundreds – if not thousands – of counterparties, both upstream and downstream," says Sanjeev Chatrath, managing director of Asia Pacific and Japan at Thomson Reuters, "making effective due diligence a nearly impossible task without assistance from technology".

As a result of working with Thomson Reuters to conduct due diligence on their partners, one large global IT firm discontinued using a particular agent in Africa. Thomson Reuters found the agent was banned from participating in government bids, and a year later the executives at that agency were found guilty of bribing public officials.

INTELLECTUAL PROPERTY

When an organization is looking to expand, an important concern is protecting their intellectual property (IP) such as trademarks, domain names and patents. This is because some countries have very weak IP laws, especially those in emerging markets. For example, car makers might find their products blatantly copied in important markets with weak IP laws, as Jaguar Land Rover found when a Chinese competitor, Jiangling Motors, made a seemingly identical copy of the Range Rover Evoque and named it the LandWind X7. Thomson Reuters has found that the global automotive industry loses close to $12 billion annually to counterfeiting, a process in which a business partner steals or copies the most prized patterns and patents.

TAXATION

When asked about the financial risks of expanding into a new territory, corporate leaders highlighted the pressing issue of taxation. Only in two industries did the issue of direct and indirect taxation not emerge as the primary financial concern. Those industries were real estate, where legal costs were the greatest ongoing concern to industry leaders, and the energy, utilities

> "Only in two industries did direct and indirect taxation not emerge as the primary financial concern"

and commodities space, where cashflow trumped taxation worries – though not by much (figure 8).

The World Bank's Paying Taxes 2015 report found that the average global company makes 25.9 payments to various authorities each year (this number ranges from 3 in Hong Kong to 71 in Venezuela), and pays an average corporate tax rate of 40.9 per cent. Firms typically put aside 264 man hours to assess their annual tax spend (with consumption taxes being the least time-consuming), a number that rises to 2,600 hours in Brazil, where tax departments can often be strung out across a city and even the entire country.

Uncertainties over a country's tax program can significantly hamper corporate attempts to enter new markets. After taxes were hiked on North Sea oil at the height of the financial crisis, energy firms shelved new local projects. Multinationals view India's retroactive policy, which allows the Government to levy additional late corporate taxes against firms, with understandable suspicion. Corporates ranging from Vodafone to Shell have felt the sting of this policy which is often viewed as arbitrary and opaque. Recently a CFO within the pharma industry remarked: "The world is getting more and more regulated. BEPS (base erosion and profit shifting), is a buzzword now, especially for those that know what's going on in the world. It's about the changing environment within the regulations in terms of taxes."

COMMODITY PRICE RISK

As they expand, corporations also face the pressing need to manage currency and commodity price risk, as these factors are constantly in flux and can have a big impact on the bottom line. The Going Global survey found that manufacturers view commodity price fluctuations as the greatest single threat to their business. A good example comes from June 2015, when severe droughts in Russia led to a 41 per cent wheat price increase, and the impacts were felt by a major UK bakery chain through significant cost increases. Recently, for some industries, that pressure has been mitigated by tumbling prices for everything from copper to iron ore, though this could also have a negative impact on global growth, as warned by the International Monetary Fund in September 2015. One chief risk officer within an energy firm recently spoke about how important it is to have "a lot of linkages with the front office to really understand the trading strategies and commodity exposures".

CURRENCY RISK

Corporate leaders surveyed by Thomson Reuters singled out foreign exchange as the number one greatest threat to their organization globally. Looking at the situation with the global economy, it's easy to understand why. The dollar continues to firm as investors price in a tighter US monetary policy, and capital continues to retreat from emerging markets toward developed economies. Emerging-market currencies are in turmoil. As of September 2015, the Malaysian ringgit and Indonesian rupiah were trading at their weakest levels to the US dollar since the Asian financial crisis of 1998. In January 2015, Switzerland unpegged the franc from its fixed exchange rate with the euro. And in August, China's central bank devalued the renminbi twice, in an attempt to shore up its flagging economy.

Foreign exchange volatility, notes Thomson Reuters' Ron Leven, FX pre-trade strategist, is now "definitely higher" than it was a few years ago. The reasons for this are many: from a fluid global fiscal and financial environment to the prospect of higher interest rates, plus economic turmoil across much of the emerging world. And all the while, large and ambitious companies, more determined than ever to tap into new markets, have "a lot more foreign exposure than they used to", adds Leven.

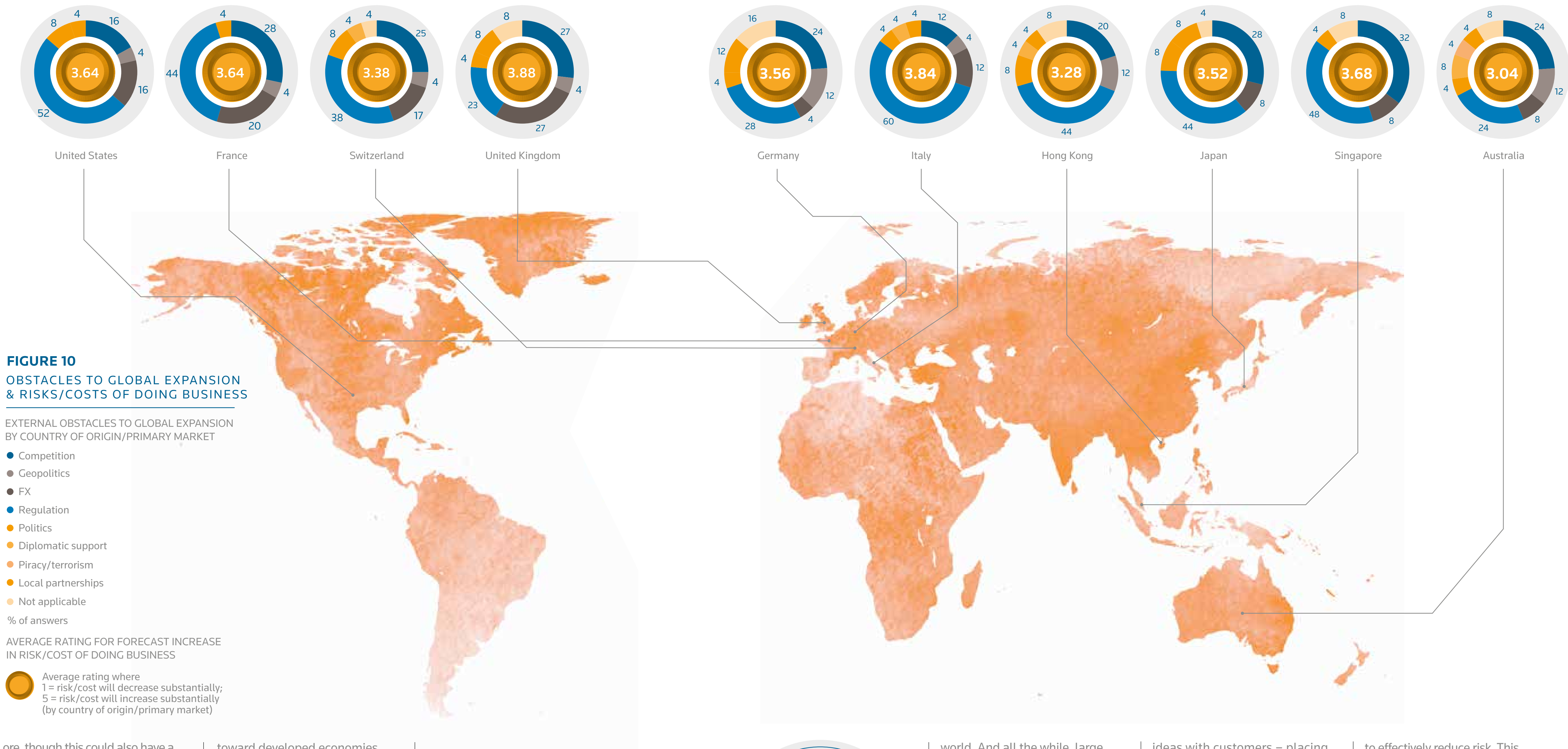
This dichotomy is a threat and an opportunity to everyone. On the one hand, notes Neill Penney, head of FX workflow at Thomson Reuters, "the world is less predictable than it seemed a few years ago", even while globalization has made the business world more interconnected than ever. Moreover, banks, fearful of failure, are more loath than ever to offer precise FX advice. In the past a bank might call in the morning with targeted FX news, events and insights. Yet now, notes Penney, "banks feel more exposed sharing these sorts of ideas with customers – placing the onus on the customer to create a more informed view by themselves".

Mitigating foreign exchange fluctuations is of paramount importance to every corporate, small or large. It's worth noting that the largest US company by market capitalization, Apple, saw its fourth-quarter 2014 revenues reduced by $3.7 billion, or around 5 per cent, owing to currency fluctuations. And while foreign exchange risk will never be entirely mitigated, every corporate can now access a wealth of sophisticated and inexpensive real-time FX data and information. A proactive, forward-looking hedging strategy is critical, and should be supported by appropriate technology, data and analytical tools that provide accurate and timely information to effectively reduce risk. This sentiment was supported by a senior treasury executive, who remarked: "If you can easily forecast revenue, you can hedge your revenues."

It is human nature to be risk-seeking adventurers. But it is also human nature to worry. Every C-suite leader interviewed for this survey knew of the risks to be found in expanding into new markets. And a majority – 55 per cent – said they expected the risks and potential costs of doing business to rise over the next ten years. Overall, the message from the Going Global survey is clear. Opportunities through globalization are everywhere, as is risk. However, risk can be effectively managed if the right tools and information are available to help make these critical decisions.

FIGURE 10

OBSTACLES TO GLOBAL EXPANSION & RISKS/COSTS OF DOING BUSINESS



20%
OF AEROSPACE & DEFENSE COMPANIES SEE FX AS THE BIGGEST OBSTACLE

52%
OF TECHNOLOGY, MEDIA & TELECOMMUNICATIONS COMPANIES SEE COMPETITION AS THE BIGGEST OBSTACLE

3

PRIMED FOR EXPANSION

HOW CONFIDENT ARE BUSINESSES THAT THEY ARE OPERATIONALLY READY TO MAKE GOOD ON THEIR GLOBAL EXPANSION AMBITIONS?

The Going Global survey by Thomson Reuters looked at how and why companies are expanding internationally, but also at how well optimized they are operationally to take effective action. Expanding is, of course, not always inherently better. Successful economies are built on the backs of thriving mid-sized organizations as well. For some corporates it might be more beneficial to focus on investing in existing products or services or retaining and expanding revenue pools in current markets than to be chasing new opportunities.

APPETITE AND READINESS

Every corporate needs to decide whether they are in a position to expand globally – first, if they have the appetite and, secondly, if it is right for their business. Judging by this survey, most corporate leaders believe the answer to both points is yes: 93 per cent of all global respondents agreed or strongly agreed that their firm currently had both the appetite and the means to expand internationally (figure 11). One CTO surveyed said they must look at expansion options as they "had to scan up the outside world for new technology and new emerging ways of doing business", and that this "was a key component of responsibility". Asia was the most cautious region, but even there only 7 per cent gave neutral or negative responses to these statements. Confidence in the future, and in a company's international potential, was at its highest in the healthcare and life sciences sector, with 43 per cent of participants describing themselves as very well equipped for future expansion.

FIGURE 11
EQUIPPED FOR EXPANSION BY INDUSTRY

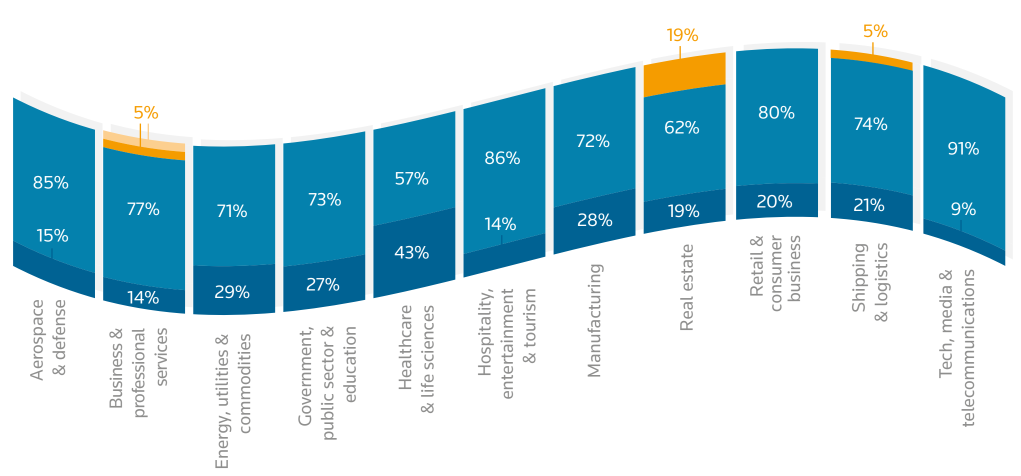
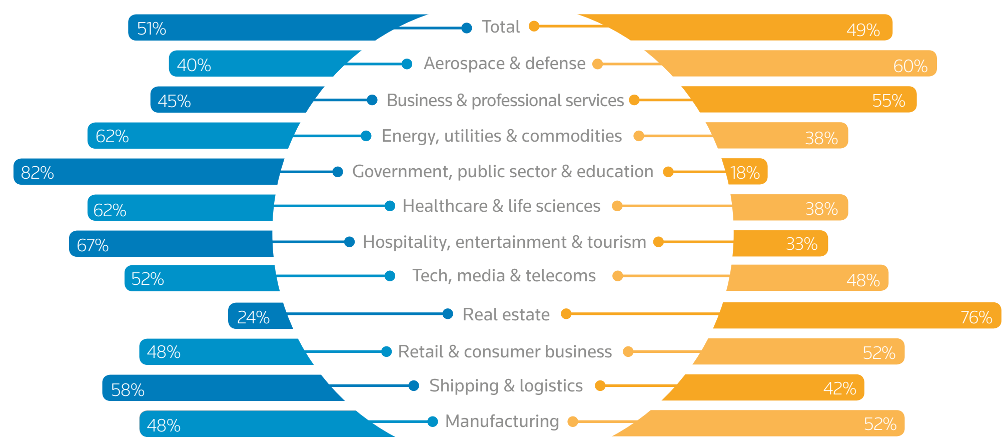


FIGURE 12
MY ORGANIZATION WILL BE STRONGER AND MORE PROFITABLE IN 2025 THAN IT IS IN 2015



INFORMATION IS CRITICAL

In an increasingly interconnected global market, companies need the ability to access the right information quickly and efficiently to free up time, facilitate collaboration, and make important decisions. However, when executives were asked in the survey about the quality of their content, and delivery, and how cost effective their current data infrastructure was, overall the quality of content fared worst. This highlights the fact that even with the huge amount of information at people's fingertips, it is not always easy for executives to draw intelligence from it. It is therefore imperative that executives have access to news, data and analysis they can trust to gain intelligent insights that facilitate global expansion.

BARRIERS TO TRADE AND OPERATIONS

In the survey some countries were perceived as being more restrictive to global trade than others. Six per cent of the 250 participants cited the US as the country with the most internal barriers to inward trade (figure 14). Reasons cited for this included import restrictions, poor demand for foreign products, high levels of competition, and the difficulty of securing travel and work visas. These are all factors that an organization needs to address if it wants to trade and operate not only in the US but in other countries and regions as well.

In terms of shipping and logistics, respondents tagged Bangladesh as the country with the highest barriers to free and fair trade (figure 15), followed closely by Brazil. Reasons cited included poor infrastructure, an erratic regulatory framework, protectionism, and unfavourable tax regimes. However, some countries are more rapidly developing than others. For example, in June 2015 Brazil's president announced a $65 billion infrastructure package focusing on roads, airports, railways, and ports. For corporates seeking to expand into a new market, the challenge of locating and grasping all of these unknowns can be daunting.

"93 per cent of respondents believe their firm has the appetite and means to expand internationally"

They must consider how they can facilitate collaboration between different time zones, languages and cultures, adapt technology, automate processes and comply with different regulations. The need for accurate and timely macroeconomic and geopolitical information has never been greater than when making critical expansion decisions.

GLOBAL PRESENCE

In the past few decades a truly global presence has become the aim of every ambitious corporate. This is reflected in the survey's findings, with 98 per cent agreeing with the statement that a global presence would be critical to having a relevant brand in 2025. In Japan – a country that forged its modern industrial reputation from its own globalized corporates, from Toyota to Mitsubishi and Hitachi – 56 per cent of those surveyed strongly agreed with that statement. However, that share fell to 24 per cent and 23 per cent when the question was put to C-suite leaders in Hong Kong and the UK respectively, two of the world's most highly developed, urban and open economic societies.

Nanette Bulger, CEO, SCIP, says there is no doubt that internal expansion is critical for the brand identity, "This doesn't mean you have to be present in every country, like we see with Apple stores around the world, but it does mean you have to have a presence of sorts in the critical purchase pools around the world. Online has certainly helped with that".

In the healthcare and life sciences industry, 57 per cent of corporate leaders view a global presence as being critical to becoming a relevant brand. This makes sense, as we know citizens in developed countries are living longer and the pharmaceutical lobby has scrambled to secure international rights to the most lucrative patents, targeting everything from osteoporosis to cancer treatments. However, only 29 per cent of those operating in the real-estate sector strongly agreed with that view. Therefore we can see that those in the property development market stung by the financial crisis, appear to view globalization in a different light. Few truly global international brands exist in this sector, owing to the cost of working in multiple jurisdictions and the difficulty of securing operating licenses in fast-growing but protectionist emerging markets. To back up this theory, in the World Bank's annual Doing Business reports, countries like India, Russia and Nigeria score poorly in two key metrics: dealing with construction permits and registering property.

LOCALIZED OPERATIONS

Expanding operations globally requires an organization to change its mindset. No corporation can be wholly run from a single, dominant headquarters. The best big firms, from Google to Monsanto and Cisco to S.C. Johnson, tend to build strong local operations that bed into the company's supply chain, and that share its energy, ethics and ethos. Some divisions within a company are tailor-made to localization: around a quarter of those in the Going Global survey said they would be likely to create a localized marketing department, with 15–20 per cent saying the same about their IT support and sales divisions (figure 13). A CFO in the chemicals industry stated: "If you're doing business in China, versus Mexico, versus the US, your approach to people and talent is different. Some things work differently than others so you can't just go in with the same kind of approach."

FIGURE 13

OPERATIONS THAT WOULD BE SET UP LOCALLY BY INDUSTRY

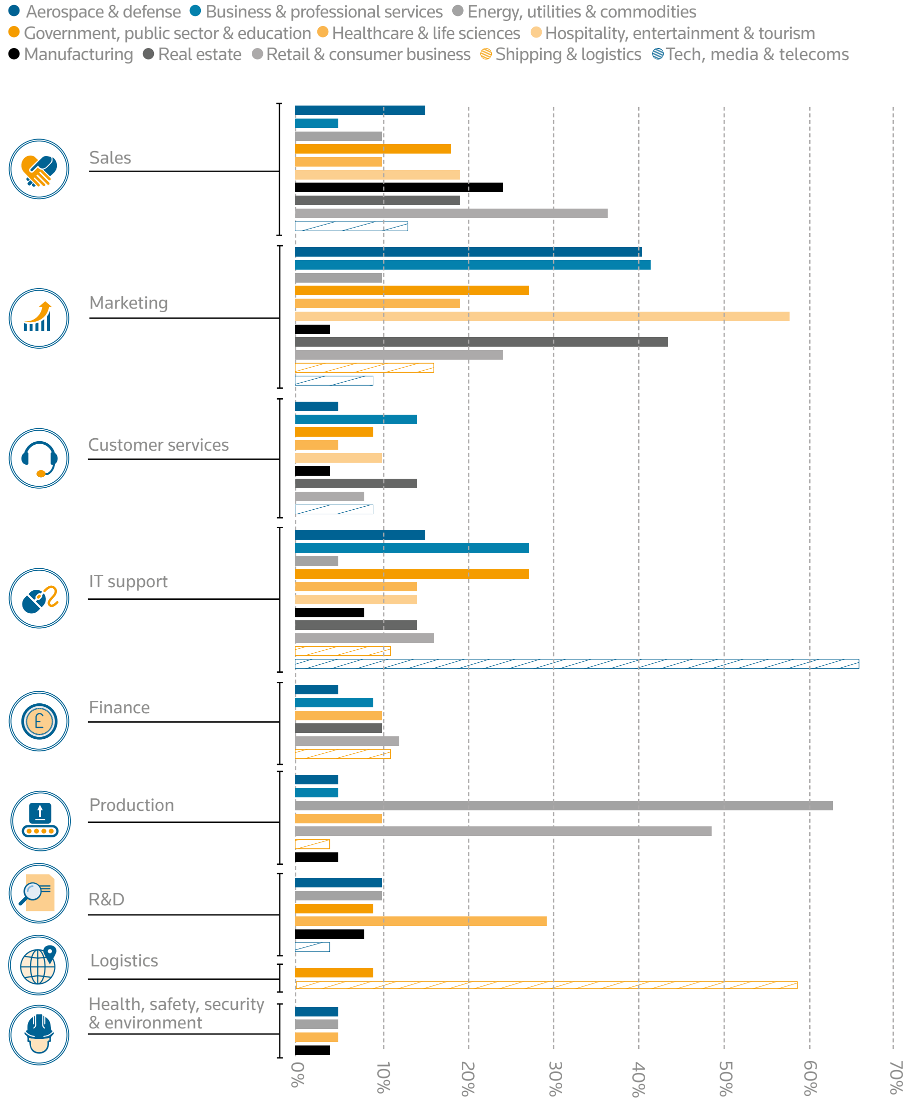


FIGURE 14

COUNTRIES WITH GREATEST BARRIERS TO TRADE

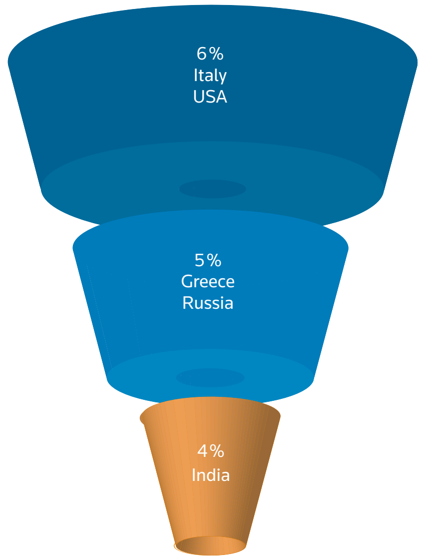
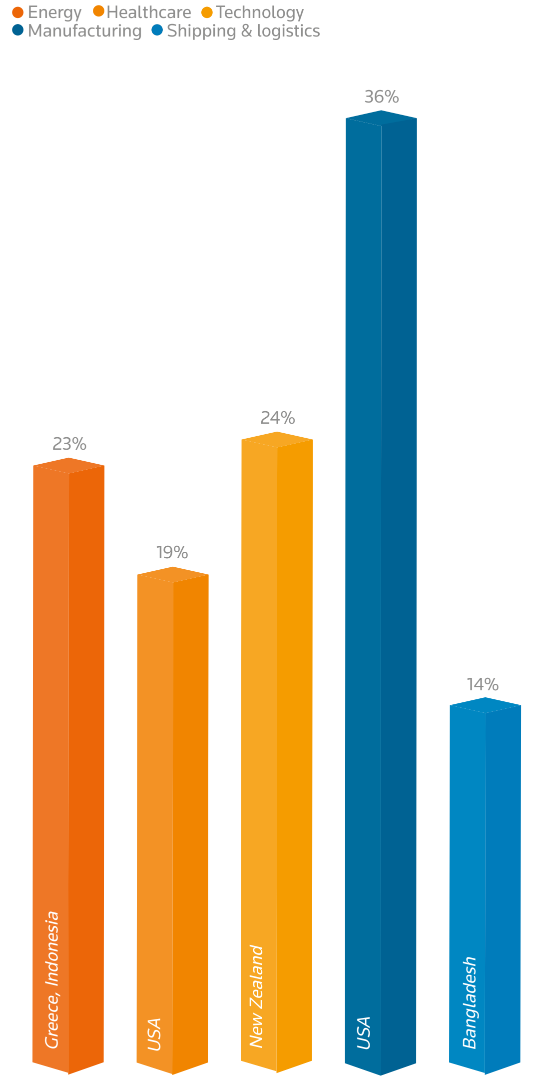


FIGURE 15

COUNTRIES WITH GREATEST BARRIERS TO TRADE, AS RATED BY SELECTED INDUSTRIES



"Expanding operations globally requires an organization to change its mindset"

Organizations have to think about how they can facilitate collaboration between different markets. This is not easy: no two markets, supply chains, legal systems or sets of consumers are the same. This is evidenced by a CTO within the tech industry stating: "There needs to be a local implementation and adaptation to each of the different markets." It is obvious that senior executives need to stay informed by keeping their finger on the pulse wherever their operations are located.

Every industry is different. In the energy, utilities and commodities space, 62 per cent of those surveyed by Thomson Reuters were happy to set up local production operations. Shipping firms were overwhelmingly likely to set up local logistics operations, while a majority of tech firms were willing to set up local IT support functions. It seems that whatever a corporation specializes in, they tend to be more likely to replicate that locally.

SUPPLY CHAIN MANAGEMENT

Finally, there is supply chain management, which will always be a central part of running a genuinely global company. If companies get this wrong, it can have a severe impact on operations and profit. Recent statistics found that companies that have an inefficient supply chain are 66 per cent less profitable than companies with an efficient one.

Supplier dependency, and therefore supply risk, is viewed by those surveyed as another key threat to the manufacturing and healthcare/life sciences sectors. Both of those industries are increasingly outsourced, adding new layers of risk to supply chains. Highlighting the business threat posed, a procurement executive within the energy sector remarked: "You have to have a great supply chain in order to actually make money and make the business work." Automotive firms, for instance, might rely on external companies to build drivetrains and chassis, and even complex electronics systems. Healthcare firms are increasingly likely to lean on universities and teaching colleges to invent and test new medical treatments and drugs. However, while outsourcing slashes costs, companies are on the hook if something goes wrong. When Hyundai found a steering defect in its Elantra sedans, it recalled more than 200,000 sedans at the cost of $73 million.

Supply chain management is larger than just moving goods across borders; it cuts through many different areas. Organizations need to be aware of all the moving parts, securing the appropriate licenses and maximizing free trade agreements and tracking the movement of goods, natural disasters and weather events. These risks need to be mitigated wherever possible, as witnessed by a procurement officer who stated that if a board member were to ask "what is really your top priority in a company?", their answer would always be "security of supply". The good news is that fast-evolving technology has yielded a lot of data and greater transparency around physical assets – such as planes, ships, mines, refineries and power plants – and is enabling corporates to make sense of their supply chains and respond effectively.

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goglobal@tr.com

Or alternatively contact your Thomson Reuters representative.

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- access to the right technology and human expertise

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