



# Going global

Developing and maintaining  
a successful global business



[kpmgenterprise.co.uk](http://kpmgenterprise.co.uk)



# Message from Kevin Smith



**Trade, and particularly international trade, is at the heart of the growth agenda for many businesses.**

We have developed this guide to help more UK privately-owned and PE backed enterprises to maximise global opportunities.

Many of the companies that we work with have a product or a service that they believe is suitable for export or want to expand their reach overseas through a variety of market routes, but are turning to us for guidance on how to actually go about it, the scale of the opportunities out there and the potential pitfalls that need to be avoided.

This comprehensive guide offers holistic advice on how to explore, evaluate and target those markets that could work for your business according to the maturity of your overseas strategy. From small businesses who have little or no footprint overseas through to larger organisations who are already operating abroad successfully, we hope this guide will help you to assess the cost versus the benefits, and the risks versus the return for any business that recognises the huge opportunities on offer through 'going global'.

"This comprehensive guide offers holistic advice on how to explore, evaluate and target those markets that could work for your business according to the maturity of your overseas strategy."

## **Kevin Smith**

KPMG Partner, Chairman for London Region and Specialist in International Trade



# Foreword by the Rt Hon Dr Liam Fox MP

## International trade and investment is more important than ever.

The UK government has established the Department for International Trade (DIT) to oversee trade promotion, policy and finance to ensure the UK takes advantage of global opportunities and meets international demand.

The world wants our products and services and many businesses across the UK already successfully export. However, businesses that do not yet export fear that it can be time consuming or difficult. As an international economic department we are working to address the barriers that prevent companies exporting and to encourage overseas direct investment.

Research shows organisations that export tend to be more profitable, innovative and resilient. To support more businesses to benefit from this, DIT's 'Exporting is GREAT' campaign, aims to inspire and support more UK companies to take their first steps towards selling overseas and to help existing exporters to grow further.

Since the Department's creation, we're making it easier for businesses to sell overseas.

Our digital platform – great.gov.uk – is a single destination for trade and investment, bringing together UK businesses, international buyers, international investors and online marketplaces.

Our export credit agency, UK Export Finance, ensures no viable export will fail due to lack of finance or insurance. **In 2016/17 we provided £3 billion in export support, helping hundreds of UK companies sell to more than 60 countries around the world – 79% of these companies were SMEs.**

UK businesses also receive support in growing their trade overseas. We can provide in-market support and advice for outward investments through our overseas network, which operates in 108 countries and through 177 individual posts. Supporting UK-based companies to invest and operate overseas and become global businesses is increasingly important as we forge new trading relationships around the world.

KPMG's *Going global* demonstrates the size of the opportunity across the globe for UK business and provides insight into how businesses can maximise this opportunity. We will continue to work with partners to ensure that UK SMEs have access to the resources and support needed to expand and succeed globally.

**The opportunity is out there, our businesses should be too.**

### Rt Hon Dr Liam Fox MP

Secretary of State for International Trade and President of the Board of Trade



**Department for  
International Trade**

"Research shows organisations that export tend to be more profitable, innovative and resilient."

"KPMG's *Going global* demonstrates the size of the opportunity across the globe for UK business and provides insight into how businesses can maximise this opportunity."

# Introduction

## Globalisation. Trade deals. Protectionism.

Rarely a day goes by post-Brexit and the election of President Trump without these items featuring prominently in the news. Whilst we are now living in more uncertain times, there remain many positive reasons for a business to explore overseas markets, and one could make a strong case that now is an opportune time to pursue such a strategy.

"An overseas footprint is fast becoming a key feature of mid-market businesses."

In recent months we have heard more voices questioning the benefits, at least to society, from globalisation. However it is likely that globalisation, in one form or another, is here to stay.

Many of the UK's most successful businesses have an international footprint, taking advantage of the opportunities available through a wider customer, supplier, and talent pool while supporting diversification through exposure to different local markets.

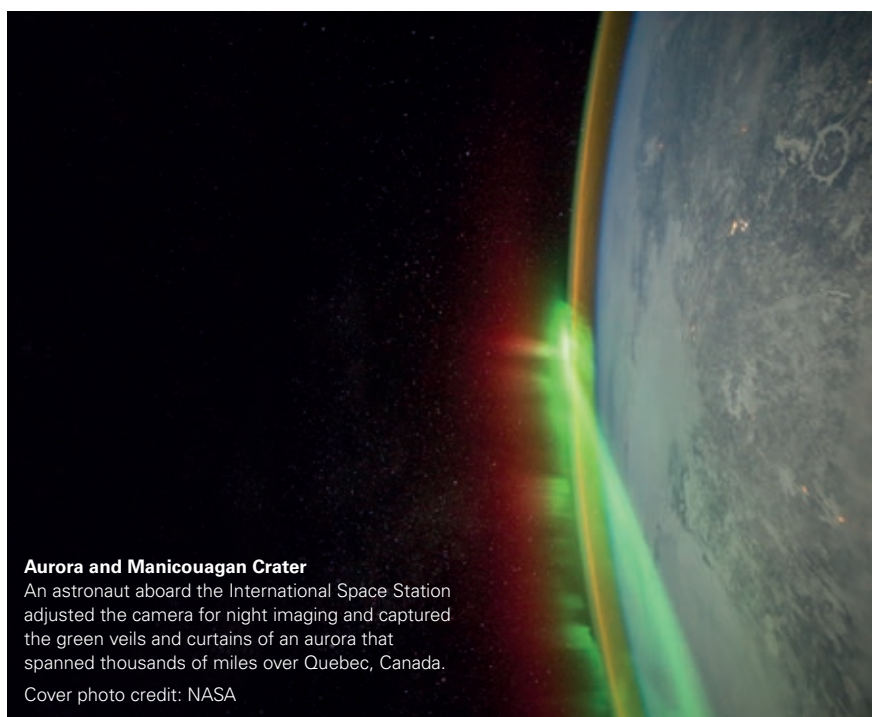
Over the last 12 months, we have seen, and supported, an increase in the number of our clients 'going global'. A myriad of reasons have driven this activity including:

**Sales** - access to new customers and markets, and brand development.

**Costs** - access to lower-cost labour or production.

**Strategy** - access to specialist skills, capability and capacity.

Companies have pursued this growth both organically and acquisitively and across a range of sectors and geographies.



### Aurora and Manicouagan Crater

An astronaut aboard the International Space Station adjusted the camera for night imaging and captured the green veils and curtains of an aurora that spanned thousands of miles over Quebec, Canada.

Cover photo credit: NASA



Even before all of the recent focus on Brexit, we have felt the impact of uncertainty in global markets on our own domestic economy, our companies and financial institutions. Whether it be fluctuating oil prices, falling steel prices caused by Chinese competition, Russian sanctions or the rise of populism, events happening elsewhere inevitably have both a direct and indirect impact on UK companies. Closer to home, the EU bailouts of Ireland, Greece, Spain and Italy have resulted in protracted negotiations creating an unstable Eurozone and contributing to the Brexit debate.

All of which underscores the complex dependence of UK plc on the global economy, irrespective of whether (and to what extent) they trade internationally themselves.

Becoming a more international company may provide you with a better diversified risk profile, through access to different and/or larger markets. This can create a more resilient, valuable company that can weather more storms.

For companies considering 'going global', **Where** to start can often be unclear with the lack of data and the need for an 'inside track' view of a particular country; **How** is an important question given organic versus acquisition led approaches will have very different risk versus reward profiles; and ultimately **Why** is the question that management teams need to satisfy for themselves as one of the benefits of the technological revolution means a physical presence isn't always required.

Whilst 'going global' can be a complex task with financial, tax, legal and cultural implications to consider, the rewards can be great. These benefits can be compelling with new market opportunities and the ongoing development of skills and experience for the company and its individuals as part of the process. Whilst there are some sectors that can grow and expand on a purely domestic basis, many others need to have an international footprint for example, professional services and manufacturing. These two sectors contain contrasting labour versus capital operating models. Notwithstanding this difference, the requirement in order to support and retain their key customers and remain competitive is the same and an international footprint is important.

Going global does expose companies to a more complex regulatory regime, particularly in relation to tax and legal matters. The introduction of the Bribery Act and Modern Slavery Act together with increased focus on anti-money laundering and a more transparent global tax system through the OECD's BEPS (Base Erosion Profit Shifting) project are just a few examples of major changes that are impacting companies from a regulatory standpoint. Other areas such as cyber regulation do not yet have a global standard and therefore being aware of local and UK compliance requirements is key.

There is therefore much to absorb as part of assessing the cost versus the benefit and the risk versus the return for those companies who are considering 'going global'.

This guide has been written to share some of KPMG's experience and knowledge in supporting clients with overseas matters to provoke some thought and provide the benefit of our insight in order to give you the **EDGE** when considering how overseas markets may support your business strategy.



Explore  
the  
opportunity

Page 8



Develop  
your  
footprint

Page 22



Govern  
with  
confidence

Page 40











Evaluate  
your  
operations

Page 52

We hope you find this document useful as you consider the opportunities and challenges of operating your own business in a global market. Should you wish to explore the opportunities further, KPMG's global network can help you every step of the way.

# How to use this guide

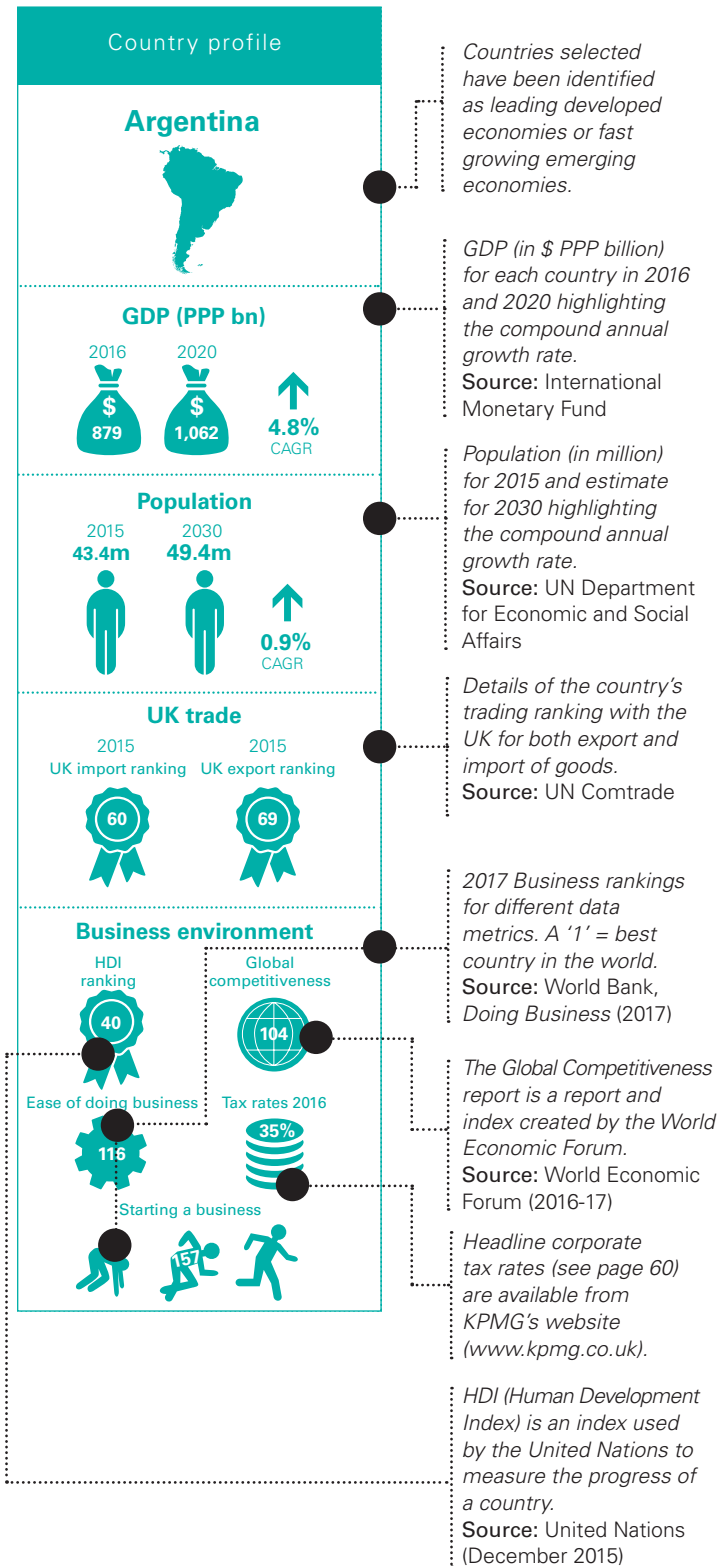
This guide looks at four key phases ('Explore', 'Develop', 'Govern' & 'Evaluate') for companies to consider as follows:

 <p>Explore</p>		<p>Most relevant for companies who are considering expanding overseas or have a modest footprint which they wish to expand further.</p>
 <p>Develop</p>		<p>Most relevant for companies with existing overseas operations and also of interest to those companies who are considering their first foray abroad.</p>
 <p>Govern</p>		<p>Most relevant for companies with existing operations.</p>
 <p>Evaluate</p>		<p>Most relevant for companies with existing operations.</p>



# Contents

For each of the main developed and emerging economies we have created a country profile throughout this guide highlighting data collated from different sources (see below):



The top 10 countries for a range of different datasets are also included in the guide.

The sections are colour coded for easier navigation to the articles (and there is a useful glossary at page 60 which includes further information on the country profiles):

Section introduction	8	Explore
Assessing the opportunity	10	
Developing organically	12	
Working with partners	14	
Making an acquisition	16	
Navigating global law	18	
Understanding tax implications	20	

Section introduction	22	Develop
Managing global workforce movements	24	
Developing a robust supply chain	26	
Investing in technology	28	
Navigating the international tax regime	30	
Funding overseas expansion	32	
Optimising global treasury arrangements	34	
Intra-group funding: a tax perspective	36	
Introducing shared service arrangements	38	

Section introduction	40	Govern
Protecting your organisation	42	
VAT & customs duty	44	
Getting assurance overseas	46	
Establishing risk management procedures	48	
Operating with global cyber risks	50	

Section introduction	52	Evaluate
Fixing an overseas entity	54	
Selling your business	56	
Closing down your operation	58	

# Explore







## Explore

From growing sales, to securing supply chains, to providing 24/7 cover, to building a brand, an overseas strategy can help you achieve your goals and answer the important 'Why?' question. Once established, 'Where?' and 'How?' quickly follow as important supplementary questions.

Deciding where to pursue growth can be challenging and many companies use their cadre of advisers (often international professional services firms with links on the ground) and organisations like Department for International Trade (DIT, formerly UKTI) to better understand target locations.

Management can often find themselves stretched as they visit potential partners, locations or acquisition targets and, post-investment, deciding how the overseas operations are managed and by whom can also be challenging.

For those companies who are commencing their expansion phase, it can often be better to be situated within a few hours' flight of the location, particularly if the management team is limited in size and wants to exert a reasonable level of control for a period of time, rather than lose key personnel for a few days or weeks at a time due to travelling to and from a further flung place.

During the exploratory phase, legal and tax matters should be fully considered to ensure the group structure is optimal as this is much easier to establish at the outset rather than change at a later stage. ◆

### Section contents

Assessing the opportunity	10
Developing organically	12
Working with partners	14
Making an acquisition	16
Navigating global law	18
Understanding tax implications	20



Yen Bai  
Vietnam

## Argentina

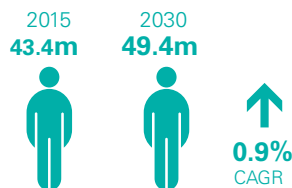


Explore

## GDP (PPP bn)



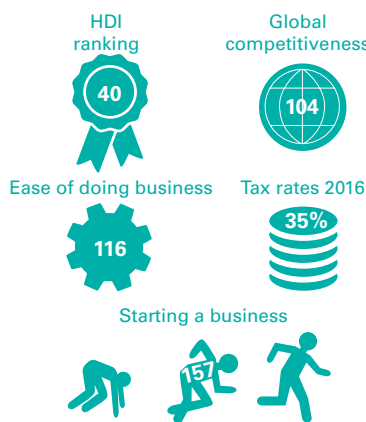
## Population



## UK trade



## Business environment



# Assessing the opportunity

Evaluating risk and return whilst considering 'Why?' 'Where?' and 'How?' is the first area of focus for management teams.

Accessing new markets could mean developing a presence in a new geography and there are a variety of ways that this could be achieved. At its simplest through sales agents employed around the globe; but it may also include an organic development (e.g., establishment of a factory), an alliance, joint venture or acquisition. Each of these carries a different risk and potential for return.

## Using your contact base

Before entering a market for the first time, it is a good idea to use your network of professional advisors to better understand the country you are looking to enter.

Many larger professional services firms have a global network and therefore it should be easy to get an 'on the ground' view. Equally, trade bodies such as DIT (formerly UKTI) should be able to provide support and guidance.

## Doing your homework

Work may be undertaken to assess a country before committing to the establishment of operations. Fundamentally this will incorporate an assessment about the market opportunity. An estimate of the market size should be undertaken

both on a current and future basis. Pricing and cost dynamics are important to understand in evaluating what the market opportunity might be rather than just relying on the 'as is' position.

Analysis will be needed to assess demand for a company's products or services, the opportunity to use cheaper labour and improve inputs or the supply chain into the UK over both the short and medium terms, noting the potential of this to evolve in say a high wage growth market.

However, it can also include PEST (political, economic, social, technological) analysis or more specific analysis pertinent to the business (e.g., percentage of middle class citizens, percentage of skilled labour, etc.).

More widely, considerations around language, culture or the availability of direct flights from the UK all help to frame the debate.

Other areas to consider include tax arrangements and, more specifically, understanding the tax impact of cash extraction and repatriation of funds back to the UK. Similarly, legal considerations are important, for example, in relation to enforcing contracts through law.

Buenos Aires  
Argentina





Explore

Country profile

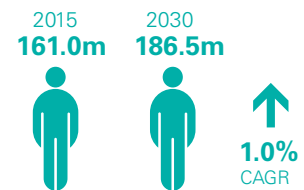
## Bangladesh



### GDP (PPP bn)



### Population



### UK trade



### Business environment



KPMG can

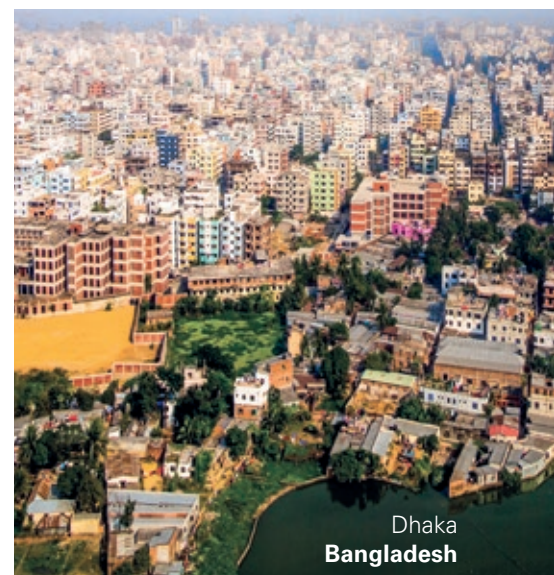
- ✓ Introduce you to local specialists across the globe to provide guidance and support in relation to local business customs, tax and other regulations, and M&A.
- ✓ Perform economic analysis and market entry evaluation into new geographies and markets.
- ✓ Perform confidential vetting procedures on overseas agents.
- ✓ Provide detailed contractual support for JVs, alliances or overseas acquisitions.
- ✓ Provide a strategic evaluation of different geographies to assess 'fit'.
- ✓ Perform projections around market size and likely price elasticity of goods and services in different geographies.

"An overseas presence can help articulate a global growth opportunity which is attractive to potential shareholders, investors and potential acquirers."

### Risk versus return

Evaluating your risk appetite is critical. Whilst developed economies largely provide less risk, and often enjoy a more established infrastructure and more developed legal system, returns may be lower as a result.

Going to a fast growing, but potentially high risk location, may create challenges for management teams and shareholders in relation to management bandwidth and governance, and may increase the likelihood of failure. There is therefore, much for management teams to consider as part of their planning process. ♦

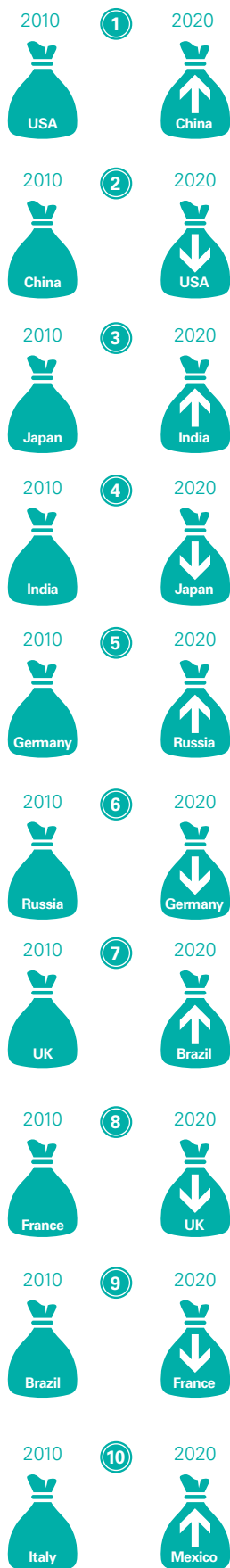


Dhaka  
Bangladesh

## Top countries by GDP\*



Explore



\* Source: International Monetary Fund

# Developing organically

For those companies who don't wish to pursue a transaction or can't find an appropriate target to acquire, an organic expansion can be an alternative route to secure a foothold in a new geography from which to develop a platform presence. This can be a more challenging route and may take more time to succeed but is potentially less risky than an acquisition.

"Proximity to transport links, a skilled workforce and customer channels are important items to consider when establishing a new factory or premises overseas."



KPMG can

- ✓ Help you model the business case, return and investment and sensitivity analysis in respect of the venture.
- ✓ Provide customer insight relating to your global target markets.
- ✓ Introduce you to local specialists to provide support with legal, construction and real estate matters.
- ✓ Leverage our international footprint to guide you through the regulatory impact you need to consider.
- ✓ Help you to define the customer and user experience tailored to the values and principles of your new markets.
- ✓ Assist you with the design, build and deployment of a new global digital platform.
- ✓ Design and deploy our Customer Experience Measurement tools to continually track how you are delivering against your new markets needs.
- ✓ Produce analysis in relation to the economic case for development e.g., proximity to rail, road, air, sea, number of chimney pots etc.





Explore

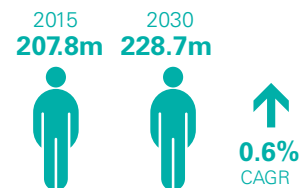
## Brazil



## GDP (PPP bn)



## Population



## UK trade



## Business environment



## Starting small

An organic development may start small, for example, with a website, a salesperson (employed or agent) and a distribution centre. This allows some time for a 'proof of concept' to be explored before more capital, resources and management time is invested in the geography. It also allows for the brand to become more recognised prior to a bigger launch at a later stage. For those companies who are pursuing overseas markets to develop their brand, assessing how this brand translates across different regions is a key consideration. Some companies create alternative brands or sub-brands to reach new customers.

## Planning and monitoring

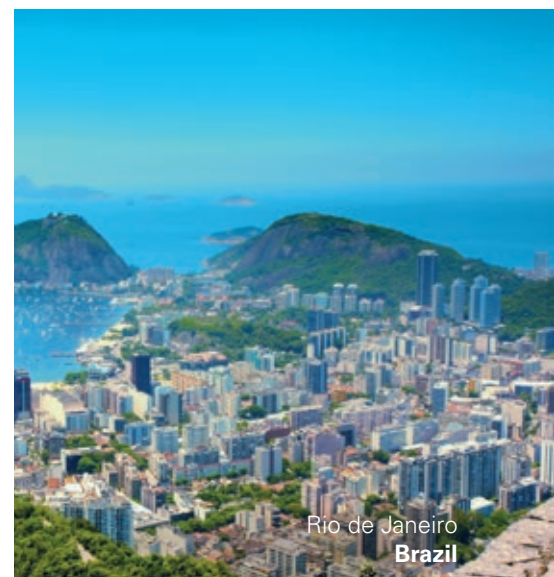
When entering a market organically, location is key. Proximity to infrastructure (notably airports if UK management are going to spend time establishing operations on the ground), skilled labour and wider transport links are important facets to consider. Being realistic about the payback is also important as it will take time to build a factory, recruit and train a workforce etc., before profits are secured.

A robust, realistic and flexible model is required when assessing an organic market entry. It is important to establish the overall payback of the project, the key milestones in respect of progress and financial and non-financial targets. Rarely do projects go smoothly so flexibility and agility are key attributes to ensure that the overall project goal remains on track. Stakeholder management with shareholders is also vital.

## Using technology

In the digital age, geographical boundaries no longer prohibit a business from reaching out and engaging with new markets, customers and partners. But there are many things to consider in order to get it right. The rapid evolution of digital has given small to medium enterprises the ability to compete with the big players on a global scale. Companies such as Deliveroo have seen sensational growth (founded in the UK in 2013 and now delivering in over 40 countries) through the power of digital.

It is important to understand the different customer types in different regions. How do they perceive value in your products and services, and what constitutes a good customer experience that will drive loyalty and advocacy? Designing your digital platform (including mobile) to create a truly excellent user experience is critical. As part of this process, do you need to understand and build in capability to cater for the different behaviours and cultures across the new markets? ♦

Rio de Janeiro  
Brazil

## Canada

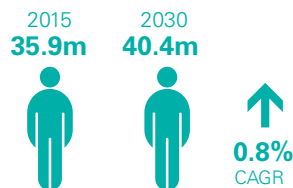


Explore

## GDP (PPP bn)



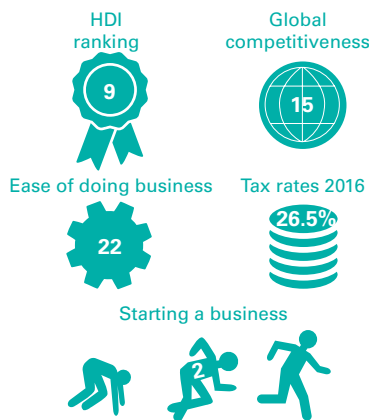
## Population



## UK trade



## Business environment



# Working with partners

Some companies want to work with a partner who fits with their cultural values or their strategic aims. The former is particularly important for those companies where they have a strong ethical stance, brand or requirement – for example those who work with government or those involved in consumer facing businesses.

Due diligence can often be performed on the partner, its business practices and quality assurance, to provide comfort before a trading relationship commences. Many companies use local referrals through their network to assist with this process and supplement this by regular meetings prior to a trading relationship. Cultural differences around building working relationships are important to consider too.

In certain geographies, there may be laws requiring you to have a local partner, particularly in the Middle East. In developing countries, there may be political requirements or incentives for

you to partner with local firms to help transfer skills or knowledge.

## Joint ventures

Joint ventures are another form of partnership which can be attractive to some companies. These may be set up for specific contracts, for example, in relation to construction or infrastructure contracts and wound down once the work is complete. They may also exist to bring two different types of expertise together which can be attractive and may be a lesser risk than acquiring new capability by other means. The contractual agreement is

Ottawa  
Canada

“Failure to adequately assess clients, agents and business partners, and to know how they operate, can expose organisations to reputational damage, operational risk & government investigations, as well as monetary penalties and potential criminal liability.”





Explore



KPMG can

- ✓ Support you in the legal, accounting and tax structuring and joint venture agreements.
- ✓ Help you understand the investment landscape, political and regulatory framework, key obstacles and strategies required for success in a new market.
- ✓ Identify the main powerbrokers in the government, private sector and local community that will impact your business.
- ✓ Help you understand how to position your organisation in a rapidly shifting political environment.
- ✓ Conduct either high volume screening or 'deep dive' investigative due diligence on your counterparties to identify issues of potential concern.
- ✓ Support in the event that you enter into a dispute with your counterparty.
- ✓ Perform confidential vetting procedures on overseas agents.
- ✓ Provide detailed contractual support for JVs, alliances or overseas acquisitions.

key when considering a joint venture to ensure risks and rewards are appropriated shared.

### Do your research

In many emerging markets, it can be difficult to access the information you need to make high quality decisions about who you work with in a new location. Traditional research methods often fail to provide the insight required to plan your next move with confidence, whether that involves negotiating with government, choosing a local partner, handling political uncertainty or managing corruption risk.

When reliable information is hard to come by businesses will be faced with a natural tension between balancing risk and assessing potential returns which can feel like a leap into the unknown.

At KPMG, we use resourceful and ethical investigative techniques to gather intelligence which enables you to fully understand the inner

workings of your new markets and the key players that form part of your new ecosystem. Our intelligence network is most often used to answer challenging questions in complex and opaque jurisdictions. We combine technology-enabled research with human intelligence from our network and hand-picked sources on the ground who are in a position to provide reliable information on relevant issues.

### Managing your risk

Another important aspect for companies to consider is around contractual protections. It is important to establish service level agreements (SLAs) when working with suppliers or partners to ensure they meet their obligations, and if they aren't, that there is sufficient flexibility either to withdraw the arrangement with minimal cost or there is the ability to enforce the contract (or both). The ability to do this may vary depending on the country a company is operating within. ♦

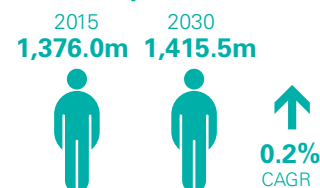
## China



### GDP (PPP bn)



### Population\*



### UK trade\*



### Business environment



\* Note: The metrics includes data for Taiwan in addition to data for China.



Beijing  
China

## Colombia

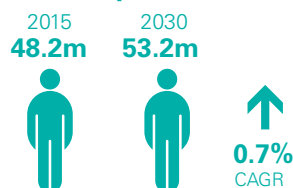


Explore

## GDP (PPP bn)



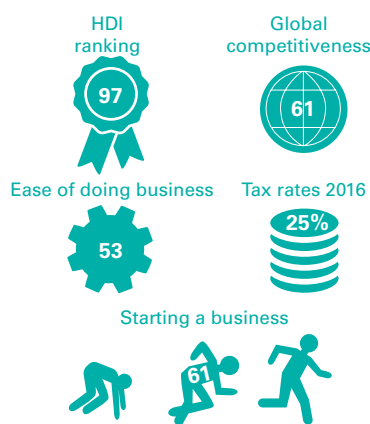
## Population



## UK trade



## Business environment



# Making an acquisition

Establishing an overseas presence through acquisition is often preferred to organic growth as it provides ready-made access to customers and suppliers. However, care must be taken in assessing, understanding and negotiating any opportunity.

## Assessment

There are many factors that need full consideration, from the financial performance of the target, its scope for growth and its operations, to other criteria that is assessed less frequently. These include how the business will be integrated, the impact of an acquisition on local management and whether central management has the skills and bandwidth to provide effective governance.

Failure to carefully consider these issues can lead to poor financial returns and excessive management time and effort to stabilise the business.

## Pricing and deal structure

An understanding of local valuation metrics, together with typical deal structures, is essential to ensuring that any acquisition is successful. Consideration needs to be given to transaction structuring approaches, for example, share purchases versus trade & assets, earn outs and deferred consideration.

## Business understanding and due diligence

Any overseas acquisition is made more challenging as it is difficult for an acquirer to carry out significant levels of due diligence in-house due to the lack of local presence. In these circumstances, a local deal team can provide expertise to:

- Review financial information and the quality of earnings.
- Review the balance sheet and identify potential liabilities.

## Acquisition rationale

The first step in any acquisition programme is to understand its purpose. This is critical as it forms the basis of a balanced approach to acquisition searches and the assessment of suitable targets.

“An acquisition can make an immediate impact to the parent group but the benefits and risks need to be assessed carefully.”

Bogota  
Colombia





Explore

## Top countries by HDI rank\*



1	Norway	
2	Australia	
3	Switzerland	
4	Denmark	
5	Netherlands	
6	Germany	
7	Ireland	
8	USA	
9	Canada	
10	New Zealand	

\* Source: United Nations

- Evaluate synergies.
- Assist in the preparation of an integration plan.
- Provide a project plan and reporting framework for management.
- Consider levels of country and foreign exchange risk when investing in developing and emerging markets.

The approach to due diligence varies around the world and many UK companies can find resistance to information requests (often due to cultural differences) during their transaction evaluation phase.

## Deal process, negotiation and close

M&A processes vary greatly by region and it is important to have access to expert advice. This includes an understanding of the legal processes, rules concerning foreign ownership and cash extraction, and also the cultural differences between different negotiating styles by region.

Specific factors relating to valuing a business overseas will also need to be considered and factored into appropriate discount rates. These include political, legislative, regulatory and tax risks. ♦



## KPMG can

- ✓ Use desktop analysis to support preliminary due diligence prior to a formal approach.
- ✓ Provide access to local M&A, valuations and due diligence specialists.
- ✓ Support in the search and selection of suitable acquisition targets.
- ✓ Provide a full range of due diligence services to evaluate the target company.
- ✓ Assist in the development of 100 day plans, including the delivery of synergies.
- ✓ Provide SPA support in relation to the transaction.
- ✓ Provide a financial model to assess sensitivities and the impact on the combined group.
- ✓ Provide advice on fundraising to support the acquisition.
- ✓ Provide buy-side M&A advice in the form of negotiations, tactics and strategy.
- ✓ Provide advice in relation to structuring options.
- ✓ Offer advice and hands-on support in relation to integrating the acquisition into business-as-usual.

Oslo  
Norway

## Egypt

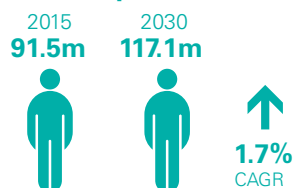


Explore

## GDP (PPP bn)



## Population



## UK trade



## Business environment



# Navigating global law

Doing business globally can provide a business with exciting new opportunities for growth. Care must be taken, however, to ensure compliance with local laws.

## The impact of internationalisation on the legal market

When conducting trade in another country, you'll want to be familiar with that country's laws. It is therefore important to have excellent international lawyers with a firm grounding in the laws of their home countries.

## Different countries have different contracting rules

The legal requirements for the formation of a contract differ from one jurisdiction to another. For example, in the UK, one of the essential elements of a valid contract is that there needs to be 'consideration', i.e., payment (in any form) under a contract, e.g., cash consideration for the payment of a property or shares. However, the concept of 'consideration' is essential in English law and is not necessarily a requirement in other jurisdictions, for example, Germany.

## Authentication of legal documents differs in different jurisdictions

Certain overseas jurisdictions require legal documents to be notarised in order to authenticate and confirm the legal validity of those documents. This requirement is rarely necessary for UK legal agreements between UK-based entities or individuals. However, there does exist a broad range of documents and transactions

that require notarisation by foreign notaries, for example, foreign documents that effect transfers of land, and foreign security documents often require notarisation in public form to be valid and enforceable.

## Market trends differ depending on the jurisdiction

For example, in relation to the disposal of shares in a company by way of a share purchase agreement (SPA), the common perception is that English law and practice favours sellers and US law and practice favours purchasers in SPAs for private share acquisitions. This market practice is having an increasing impact on M&A deals, with English law being selected as the governing law for an increasing number of international transactions (even those with little or no connection with the UK). By way of specific example, US SPAs typically attach more conditions to a purchaser's obligations to complete the transaction than UK SPAs. In the US, material adverse change (MAC) clauses are very common. Broadly speaking, MAC clauses are designed to enable a purchaser to decline to complete a transaction if the economic position of the target materially and adversely deteriorates between fixed points in time. However, in the UK, MAC clauses are much less common.

Cairo  
Egypt



"It is important to have international lawyers supporting you when undertaking international activities."



Explore

### Access to information differs between jurisdictions

In the UK we have easy access to public registers such as Companies House and the Land Registry. This aids our investigations when undertaking legal due diligence as part of an M&A transaction for example. However, things are not always as simple in other countries and equivalent public registers are not always available or accessible. By way of example, conducting legal due diligence in China is not as straightforward as in Europe or the US. To be effective, due diligence must reflect the different cultural attitudes of doing business in China, and the associated heightened risks. There is no single governmental agency to provide information and companies are often reluctant to disclose information until there is a firm deal on the table.

### Intellectual property considerations

If intellectual property (IP) is registered in one particular jurisdiction, this will not automatically register and protect that IP in another jurisdiction. It is therefore important to register and protect IP in all of the countries where business is taking place and where it is required that the IP will be protected.

By way of example, in relation to trade marks, it is possible to register trade marks in each country through the application of the trade mark office. There is also a European and international application process. For European countries, you can apply for a European Union Trade Mark through the European Unit Intellectual Property Office and internationally, you can apply to have your trade mark registered in countries who have signed up to the 'Madrid Protocol' which is controlled by the World Intellectual Property Organisation. ♦

## Country profile

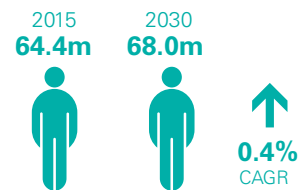
### France



#### GDP (PPP bn)



#### Population



#### UK trade



#### Business environment



### KPMG can

- ✓ Provide legal advice in respect of both domestic and cross-border M&A.
- ✓ Undertake legal due diligence.
- ✓ Draft and negotiate legal documents for acquisitions, joint ventures or other corporate transactions.
- ✓ Provide multi-jurisdictional company secretarial advice including assisting with the incorporation of new entities in overseas jurisdictions and providing ongoing entity compliance.
- ✓ Prepare and advise on multi-jurisdictional commercial contracts.
- ✓ Assist with the legal set up, establishment and compliance, for new entities, in overseas jurisdictions.



Paris  
France

## Most competitive country\*



Explore

1	Switzerland	
2	Singapore	
3	USA	
4	Netherlands	
5	Germany	
6	Sweden	
7	UK	
8	Japan	
9	Hong Kong	
10	Finland	

\* Source: World Economic Forum

# Understanding tax implications

The direct tax implications of trading overseas, whether that be through entering into cross-border transactions or establishing a local presence in another territory, should be carefully considered in planning and structuring overseas operations.

## Mitigating tax risks and maximising opportunities

Trading overseas, and how a business establishes and undertakes its operations in foreign jurisdictions, can have a significant impact on effective tax rates and overall tax costs.

Without due consideration and careful early stage planning, in particular before finalising contracts, unforeseen tax exposures and compliance costs might reduce expected margins and the commercial benefits of operating overseas. Alongside this opportunities for achieving tax efficiencies can also be missed. Cross-border trade can give rise to direct and indirect tax implications across multiple territories and, therefore, the interaction of different taxes across all relevant jurisdictions should be considered holistically when structuring overseas trading arrangements.

## 'Trading with' or 'trading in'?

A fundamental question from a direct tax perspective when a business is contemplating selling goods or services overseas into a new market, is whether the proposed operating model will mean the company is considered to be 'trading with' or 'trading in' another territory.

Where a company is considered to be 'trading in' a territory e.g., through a fixed place of business or by virtue of its employees concluding contracts in that territory, a taxable presence (referred to as a Permanent Establishment or 'PE') is created, which gives rise to a wide range of direct and indirect tax implications and filing obligations.

Where a company is trading remotely with overseas customers and simply exporting its goods and services with no physical overseas 'footprint', there is likely to be far less complexity from a direct tax perspective. However, there will still be overseas tax implications and risks to be managed, in particular around indirect taxes (including VAT and customs duties), as well as potential withholding taxes (discussed further on pages 34 and 35) deducted before money comes back to the UK.



Zurich  
Switzerland



Explore

Country profile

## Germany



Explore

### No 'one size fits all'

Different territories have different rules as to what may constitute a PE in their jurisdiction and, whilst OECD members' domestic law draws upon a common definition of a PE in the OECD model tax treaty, this should be considered on a case by case basis. Some non-OECD territories can have a very low threshold indeed for the creation of a PE.

Following recent OECD initiatives aimed at tackling perceived aggressive tax avoidance by multinational businesses, the 'threshold' beyond which activities are likely to create a PE is reducing. These changes can impact business of all sizes operating across borders. This, together with the increasingly complex and fluid nature of operating internationally and transacting across borders, means that businesses are increasingly likely to create a taxable presence by accident. This might be as a result of, for example:

- Making or facilitating sales in a territory.
- Using local agents, consultants or subcontractors.
- Employees who work from home based in other territories.
- Mobile staff/executives.
- Setting up 'representative' offices.

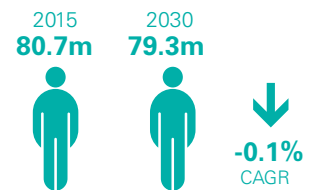
Where a taxable presence is created overseas, the appropriate legal entity structure e.g., a company or branch should be assessed from a commercial, tax and legal perspective. This in itself will give rise to further tax considerations, such as local filings, withholding taxes, transfer pricing (discussed later in this document), funding structure and FX, amongst other areas. ♦

"Tax implications of operating internationally can be wide ranging & so require careful thought in advance."

### GDP (PPP bn)



### Population



### UK trade



### Business environment



Starting a business



KPMG can

- ✓ Help you consider the potential tax implications of commercial arrangements and procedures and seek to ensure you remain tax compliant, whilst preserving or enhancing value.
- ✓ Review the risks of creating a PE and provide guidelines to manage such risks.
- ✓ Design and implement structures for overseas acquisitions or new operations.
- ✓ Access an established and integrated network of tax colleagues internationally through offices in 155 countries.



Berlin  
Germany



# Develop







Develop

Doha  
Qatar

Whether you have existing operations that you wish to expand or want to develop and mobilise your first overseas operation following your Explore strategy, managing a global business requires care and focus with new items for management teams to absorb and consider.

At one extreme, the management of the local operations may comprise seconded staff from the parent company, using the same technology platforms as the wider group, operating within the group's financing facility and working with the same suppliers as the wider group.

At the other extreme, the overseas operation may be run largely autonomously with limited parent company personnel involvement, operate their own technology platform, arrange their own local banking facilities and negotiate their own supply chain arrangements.

Different approaches yield different results and it is important to consider these types of matters as part of your planning. ♦

### Section contents

Managing global workforce movements	24
Developing a robust supply chain	26
Investing in technology	28
Navigating the international tax regime	30
Funding overseas expansion	32
Optimising global treasury arrangements	34
Intra-group funding: a tax perspective	36
Introducing shared service arrangements	38

## Hong Kong

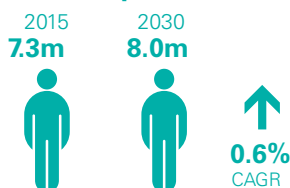


Develop

## GDP (PPP bn)



## Population



## UK trade



## Business environment



# Managing global workforce movements

Having an international business will inevitably lead to movement of your employees from one international location to another. Focus will be required on compliance obligations relating to immigration, tax and social security; getting it wrong can lead to barriers on continuing to operate internationally.

## Business travellers

This is the most challenging population of individuals to support from a compliance perspective. Tracking these individuals is typically the biggest issue for international businesses. If you are aware where this group is, what they are doing and how long they are doing it for, you will find remaining compliant in this area far easier. If you are not tracking this group, the compliance risks involved can be significant.

## Secondments

Longer term assignments primarily focus on long-term employee development or specific projects rather than short-term business performance. Employees are given an opportunity to develop new capabilities and global experience, which helps them increase their personal value to the company and internal marketability.

From the company's perspective, the priorities for global mobility are clear: get this group where it needs to be, quickly and efficiently, whilst complying with the complex rules and regulations associated with an international assignment. From

the employees' perspective, the priorities are equally clear, execute a comfortable and stress-free move that lets them focus on the job at hand, then bring them home as quickly and painlessly as possible.

## Relocation

Some employees have a strong desire to work abroad (as a matter of personal preference), even if the potential business value and development value are low. Relocation benefits and support for a role of this kind are generally less significant than for other international moves with employees expected to handle most, or all, of their moving expenses.

From a compliance perspective, companies are less likely to see significant risks as compensation is easier to track and treat appropriately.

## Compliance obligations

Whichever route is adopted to supply staff to an overseas subsidiary or branch, immigration, tax and social security will need to be considered.

Ensuring that the correct visa is obtained will be critical. Increasing enforcement by the immigration authorities and severe penalties



Hong Kong





Develop

in the case of non-compliance means that companies need to be increasingly vigilant on this front. Immigration authorities have the power to ban businesses from sending employees to their territory if there are breaches.

Global tax authorities are more focused than ever on ensuring they receive the correct amount of tax in respect of individuals working in their territory, notwithstanding whether the visit is for one week or one year.

### Policy and cost implications

Tax is typically the single biggest expense associated with international assignments. Companies and employees may be subject to taxation in several different countries, including the employee's host country, home country, and any country the employee travels to for work-related activities. These tax obligations often continue

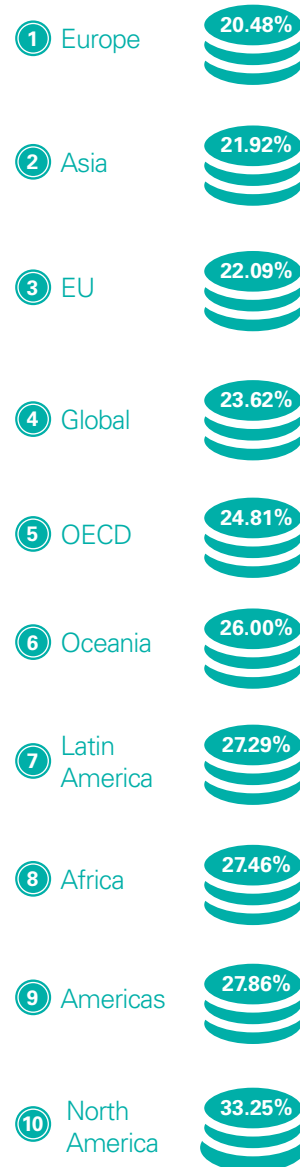
long after an assignment is complete as a result of equity awards and other forms of trailing compensation.

The costs and complexity of international tax can be a huge impediment to global mobility. Whilst these factors cannot be completely eliminated, they can usually be managed. It is important to fully understand the tax implications of global mobility, to avoid unexpected costs.

### Employee personal compliance and support

Ensuring that your employees remain personally compliant in the jurisdictions they are working in is going to be equally as important as ensuring the company is compliant. A smooth and efficient process is key to your global mobility function to make sure that your most senior individuals and brightest talents are kept happy. ♦

## Average tax rates by region



KPMG can

- ✓ Provide technology solutions to help you track your business traveller population.
- ✓ Utilise a strong global network to ensure that compliance risks are managed efficiently on a global scale.
- ✓ Provide proactive tax advice to ensure your global mobility policies are fit for purpose.
- ✓ Provide personal support to your employees from a tax, social security and immigration perspective to help ensure a smooth transition for them as they embark on their assignments.

"Global tax authorities are more focused than ever on ensuring they receive the correct amount of tax in respect of individuals working in their territory, notwithstanding whether the visit is for one week or one year."



Santiago, Chile  
OECD member country

## India

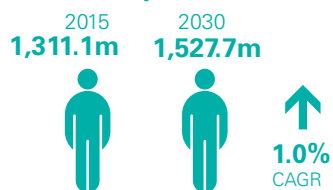


Develop

## GDP (PPP bn)



## Population



## UK trade



## Business environment



# Developing a robust supply chain

Your supply chain is only as strong as the weakest link.

International expansion can ruthlessly expose frailty in the supply chain, to the detriment of both existing markets and successful entry into new geographies.

## Assessment

Expansion into new markets will increase supply chain complexity and require changes to existing operations. The degree of complexity and change will be influenced by various factors both internally and externally. Organisations need to evaluate capability and capacity across the current supply chain to absorb planned growth.

The assessment could be relatively straightforward: does my logistics service provider operate the delivery services required in the target geography, can they manage cross border activity on my behalf? Or highly detailed: How do my 2nd and 3rd tier manufacturers need to organise themselves to provide the services I require to manufacture in a new geography?

This evaluation will identify the weak links and high risk areas that need to be addressed before expansion. The scale of change and complexity will inform the critical path and time required to ensure right product, right place, right time, first time.

Large scale expansion will have an impact across the supply chain. Providing new services and go to market offerings will require:

- Establishment of the supply chain infrastructure to support business growth.
- Collaboration with new partners and service providers in the region to reach the market.
- Additional skills and capabilities internally within the supply chain function to trade internationally.
- Potentially increased levels of inventory and working capital.
- Engagement with suppliers to ensure security of supply.
- Cross functional alignment on the expansion plan.
- Flexibility and responsiveness to actual demand.



Bangalore  
India



Develop

Country profile

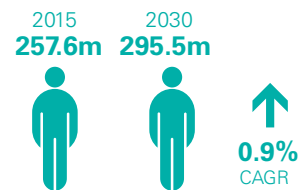
## Indonesia



### GDP (PPP bn)



### Population



### UK trade



### Business environment



“Geographical expansion of supply chains needs to be planned carefully with the choice of the right operating model.”

### Impact

A more global approach to supply chain management can yield numerous benefits such as a lower cost to serve and increased agility and responsiveness.

However, the inability to move the right items to the right place at the right time can cripple organisations, damage relationships and erode margins. Geographical expansion of supply chains needs to be planned carefully with the choice of the right operating model. There are also many risks that need to be factored in and mitigated before expanding internationally. The level of risk an organisation faces will also be dependent upon which sector it is in.

### The digital angle

Increased globalisation and more diverse customer requirements means that supply chains need to be flexible and resilient. The internet has also changed the landscape of the modern supply chain. The internet has created increasing pressure on supply chains by increasing channels to market and providing customers with different ways of placing orders. Customer expectations have therefore in turn increased significantly in terms of how and when their orders are fulfilled. The internet has also facilitated supply chain improvements through the availability of real time management information and greater transparency. The immense change brought about by increased globalisation and the internet mean that analogue supply chains will not be fit for purpose in a digital age. ♦



KPMG can

- ✓ Help you develop the right supply chain operating model to support your expansion into new markets.
- ✓ Assess capacity and capability of existing supply chain to support growth and identify key risks and opportunities.
- ✓ Assess capacity and capability of supply market in new jurisdictions to determine maturity and ability to support business expansion.
- ✓ Develop future supply chain network model to assess potential impacts on supply chain costs and inventory.
- ✓ Bring together supply chain and tax professionals to deliver a tax compliant supply chain that optimises the operational and tax costs of international trade.



Jakarta  
Indonesia



## Best for ease of doing business\*



Develop

1	New Zealand	
2	Singapore	
3	Denmark	
4	Hong Kong	
5	South Korea	
6	Norway	
7	UK	
8	USA	
9	Sweden	
10	Macedonia, FYR	

\* Source: World Bank

# Investing in technology

The rise of technology and digital in the past few decades has allowed a greater number of organisations to operate on a global basis. The great rewards provided by new cloud based/cognitive technologies also bring with them ever changing challenges and risks, which need to be carefully managed to help ensure technology provides the highest value possible.

Wellington  
New Zealand

Thanks largely to technology, expanding a business to serve global customers is easier than ever – but also results in a set of new challenges to overcome. As new technologies are adopted around the world, it has become increasingly important for organisations to understand the complexity and business transformation impact of rolling out these new products and services.

One of the key challenges we see clients face in this area is whether their existing technology (e.g., systems, websites, customer portals) can be used across other geographies (e.g., are they multi-lingual and multi-currency?); and where they can, will they scale adequately for the increased volume of users and transactions, and what is the corresponding cost? Where different systems are introduced, this also introduces other challenges including interfaces between systems, consolidation of data, having different processes and controls in place, as well as how to adequately support systems and users that are no longer just in the UK.



Develop

Country profile

Iran

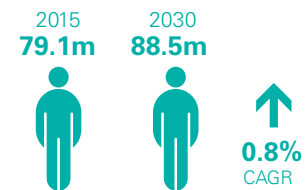


Develop

GDP (PPP bn)



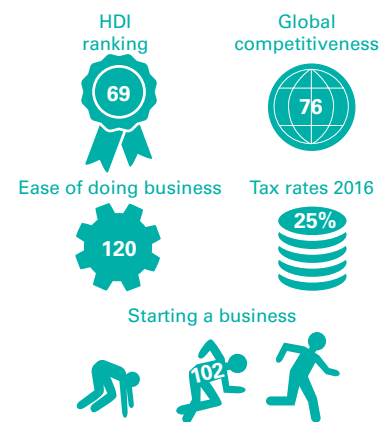
Population



UK trade



Business environment



KPMG can

- ✓ Help define and develop a global technology and digital strategy, for example, assessment of ERP versus best of breed, software-as-a-service versus cloud versus on premise, how digital can support the new global model, etc.
- ✓ Help define and establish a global IT/digital operating model.
- ✓ Help source and select, incorporate legacy systems, programme assurance.
- ✓ Perform maturity assessments for countries and design a roadmap and common templates for use.
- ✓ Assist you with the design, build and deployment of the new global digital platform.
- ✓ Help with M&A activities, including IT due diligence, design of transitional service agreements, implementation of post-deal activities.
- ✓ Design a global IT policy and standards definition.

"Technology has helped drive global trade but has created a new set of challenges to assess and overcome."

The introduction of cloud based technologies often help alleviate a number of the challenges above, in particular those around scalability and support. Furthermore, a number of Software as a Service (SaaS) offerings have multi-currency and multi-language functionality, therefore allowing a single system to be used globally, which allows for standard processes and controls to be followed, and simpler reporting and consolidation.

Technological solutions are growing at a rapid rate and need to be on a Board's agenda. For example, a decision to move into a low-cost labour market now competes with a business case for AI or a cognitive solution. This trade off will increase as technology becomes cheaper and more mainstream.

At the present time, access to data, big or otherwise, is a critical component in evaluating business performance and this thirst for knowledge and insight is only going to increase. Therefore companies need the tools to collect data from a range of geographies on a timely and consistent basis. ♦



Tehran  
Iran

## Italy

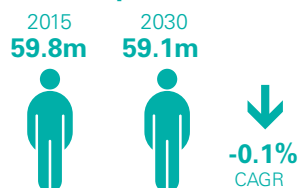


Develop

## GDP (PPP bn)



## Population



## UK trade



## Business environment



# Navigating the international tax regime

In establishing overseas operations, businesses may be entering the world of transfer pricing for the first time. This is fast becoming a key area of focus for local and international tax authorities and consequently global companies.

## What is transfer pricing?

Transfer pricing is about setting prices for transactions or arrangements between controlled entities within a group or other related parties. Typically this covers goods and service transactions but can also cover financing transactions and the use of intellectual property.

In a nutshell, the rules require parties to transact on arm's length terms. This means pricing transactions as you would with independent parties. However, this does not necessarily mean the prices which you transact at directly with customers/suppliers.

These rules equally apply to dealings between UK companies and their overseas branches.

## Why is transfer pricing important?

Transfer pricing is a high profile issue because it directly affects income and expenses, and therefore profits. Tax authorities are subsequently concerned as it directly impacts the tax base in each territory and for example can lead to profits being taxed in a low tax territory rather than a high tax territory.

Tax authorities are therefore putting a lot more focus on transfer pricing arrangements and undertaking detailed reviews of businesses, both small and large.

When tax authorities ask for information, they typically expect it within 30 days, sometimes sooner. A robust compliance file in place to support your transfer pricing policies is therefore important.

Some countries now mandate a 'self certification' on tax returns that transfer pricing is in order. Large penalties may be imposed if an investigation finds this is not the case.

Rome  
Italy





Develop

## Best for starting a business\*



“Transfer pricing is especially important if you are expanding overseas and trying to manage start-up losses or higher overseas tax rates.”


### What can transfer pricing mean for my business?

In the absence of a well implemented transfer pricing policy, or a sub-standard one, tax authorities can effectively determine their own position on your business, leading to increased tax, alongside interest and penalties.

Given its global application and the potential reputational fallout if ignored, it is crucial to understand your business's transfer pricing obligations.

Transfer pricing is also important if you are expanding overseas and trying to manage start-up losses or higher overseas tax rates.

Of course this isn't all about compliance. Aligning transfer pricing arrangements to operations can also be an effective tax optimisation tool. There is often a range of acceptable results – the approach taken to determine the arm's length position can have a big impact on overall tax cost. ♦

 ①	New Zealand	
 ②	Canada	
 ③	Hong Kong	
 ④	Macedonia, FYR	
 ⑤	Azerbaijan	
 ⑥	Singapore	
 ⑦	Australia	
 ⑧	Georgia	
 ⑨	Armenia	
 ⑩	Ireland	

\* Source: World Bank



KPMG can

- ✓ *Help define transfer pricing policies to manage risks and balance costs.*
- ✓ *Help implement transfer pricing policies and adapt these as the business and its operations evolve.*
- ✓ *Support businesses in meeting their documentation obligations and meet the myriad of compliance rules across different territories.*
- ✓ *Assist with defending transfer pricing policies with tax authorities.*



Skopje  
Macedonia

## Japan

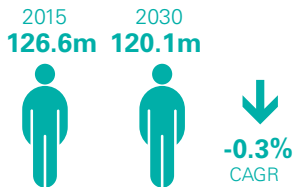


Develop

### GDP (PPP bn)



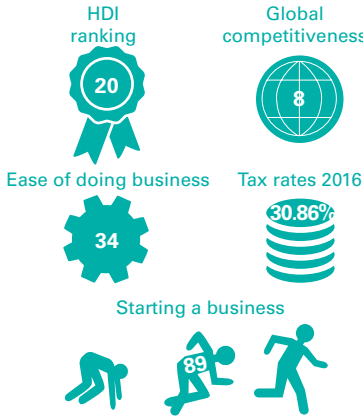
### Population



### UK trade



### Business environment



# Funding overseas expansion

The heightened perceived risks around operating internationally need careful explanation to potential lenders to satisfy credit processes.

## Potential new lender pools

Lessons from the financial crisis are being manifested through increased regulation, impacting banks with the introduction of Basel III and enhanced stress testing. This is creating a different environment for banks resulting in reductions in certain activities and, in many cases, their geographical footprint. This means companies need to navigate the international lending environment.

When pursuing growth overseas, many companies are faced with the dilemma of either securing local facilities in the geographies they are operating from, or securing a central facility, usually sourced from their domestic market, and using their own treasury management procedures to provide funding across the company's different geographical operations.

## Increased complexity

From a borrower perspective, assessing potential lending partners is an important part of the planning process for raising finance or refinancing existing debt. Borrowers will want to understand the extent to which potential lenders are able to support with the provision of international aspects, for example,

bonding lines, foreign currency, letters of credit etc.

In supporting companies overseas, there is naturally a heightened risk to lenders as they are exposing themselves to, inter alia, political risks. On a simple level, a UK lender may not understand the local operating environment of the company and this lack of familiarity will need to be overcome through clear explanations in support of the credit process.

Another area to be aware of is around sanctions. Stipulations about operating in geographies will exist in most, if not all, facility agreements. Therefore companies may need to maintain a watchful eye on political developments to ensure they are adhering to their banking conditions.

The specifics of the financing structure is important, for example companies that typically use asset based lending (including invoice discounting) facilities can find overseas funding challenging. This is due to different rules impacting insolvency law and the ability for lenders to recover assets in an insolvency scenario. As a result, it is harder to establish a multi-jurisdictional ABL facility and therefore companies may consider alternative



Tokyo Japan



Develop

Country profile

## Malaysia

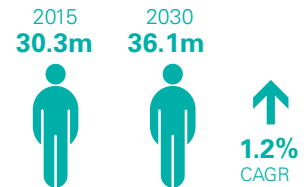


Develop

### GDP (PPP bn)



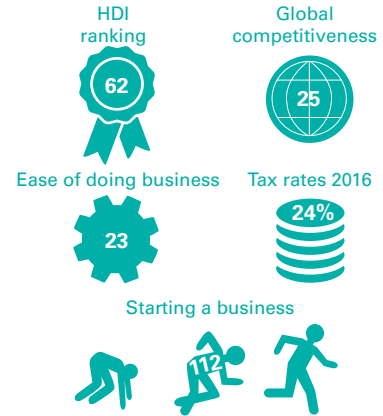
### Population



### UK trade



### Business environment



KPMG can

- ✓ Keep you abreast of debt market conditions on a regular basis.
- ✓ Help in introducing you to new lenders from across the full spectrum of debt markets.
- ✓ Run a competitive refinancing process for you.
- ✓ Provide ad hoc advice and support on financing queries.
- ✓ Advise on your strategic financing options.
- ✓ Advise on domestic versus overseas financing options.
- ✓ Help you consider the availability and appropriateness of different forms of debt.
- ✓ Help you in learning how to raise finance to pursue overseas investment, including acquisitions.

financing structures if practicable and appropriate.

### Trade and export finance

Trade finance is an area where many UK banks offer solutions, such as import loans, letters of credit and bank guarantees. Some lenders will provide a structured facility that interfaces with an asset based facility in the UK to provide a full financing solution.

The UK Government is encouraging of exporters and may offer a solution through its export finance arm.

### Cash management

When operating overseas, companies should consider to what extent cash management or pooling can be undertaken with assistance from their lender. In certain geographies (e.g., Middle East and South America) cash may be 'trapped' due to local

laws which can create inefficiencies. Therefore, planning around these areas and getting the right partner is important. ♦

"Companies often have a choice between sourcing local facilities or operating a central facility and managing treasury matters on a group basis."













Kuala Lumpur  
Malaysia



## Best for construction permits\*



Develop

- 1 New Zealand 
- 2 Australia 
- 3 Taiwan 
- 4 United Arab Emirates 
- 5 Hong Kong 
- 6 Denmark 
- 7 Luxembourg 
- 8 Georgia 
- 9 Estonia 
- 10 Singapore 

\* Source: World Bank

# Optimising global treasury arrangements

When operating globally, the complexity of working capital, cash and treasury management can rapidly increase. If not appropriately managed, this can impact growth and sustainability and place funding pressure on the company.

## Increased complexity...

Treasury and global cash and working capital management are important factors to consider when taking your business global. When moving to a global business, these aspects can quickly increase in complexity and introduce different dynamics into the way a business needs to manage its day to day operations.

## ...yet a back to basic approach is effective

The majority of issues are commonplace and can be managed through planning and appropriate governance and controls. Just simple matters such as buying and selling in different currencies will give rise to increased exposure to foreign

currencies and the potential need for your business to start hedging to provide a level of certainty to the profit and loss account.

Good cashflow forecasting, in particular using a three month weekly forecast, will allow your business to better manage its cash by having increased visibility of the day to day requirements that overseas subsidiaries require. This then allows businesses to explore the need to improve their treasury operations, identify where cash gets trapped and look at solutions such as cash pooling.

Currency restrictions in countries like China, Brazil and Nigeria can make it very difficult for businesses to repatriate any profits made in those jurisdictions as well as being aware of local tax issues (such as withholding taxes) and, of course, transfer pricing.

## Impact on working capital cycles

Operating overseas can have a significant impact on a company's usual working capital cycles. Supply chains can get longer with products



Sydney  
Australia



Develop

Country profile

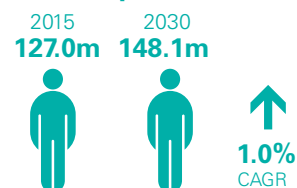
## Mexico



### GDP (PPP bn)



### Population



### UK trade



### Business environment



being moved around for longer periods of time and invoices being raised later in the cycle. Some jurisdictions pay promptly while in others it is culturally difficult to obtain payment. Businesses may need to operate using letters of credit to secure supply from their key suppliers as standard credit terms may not be granted. This may impact on local or group banking facilities or there may need to be parent company guarantees put in place to support local banking arrangements.

In terms of customers, companies may want to explore using credit insurance locally or adapt customer acceptance processes to reflect local practices and credit habits. Credit control and local debt enforcement procedures may not be as effective as those in the UK. Combine potential delays in receiving customer receipts together with the need to pay your own suppliers promptly and there can be significant impacts on the liquidity of a business. ♦

"International trading will increase working capital cycles and increase exposure to foreign currency and cash repatriation risks."



## KPMG can

- ✓ Review existing treasury processes including cash flow forecasts.
- ✓ Work with management to design and implement robust cash management processes and systems.
- ✓ Assess existing working capital profile and benchmark to best practice.
- ✓ Advise on how to improve working capital through application of KPMG's hypotheses and sustainability framework.
- ✓ Review cash and working capital processes for acquired businesses or JV partners.
- ✓ Provide enhanced visibility of overseas operations through robust cashflow forecasting.



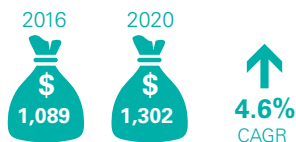
Mexico City  
Mexico

## Nigeria

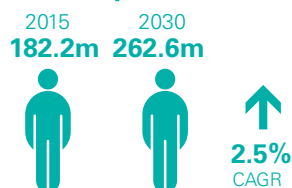


Develop

## GDP (PPP bn)



## Population



## UK trade



## Business environment



# Intra-group funding: a tax perspective

There can be significant tax implications throughout the entire funding cycle, from the form of funding arrangement and investment entered into, how cash is managed and deployed on an ongoing basis in an overseas territory, and in seeking to repatriate cash.

## Forms of funding

Treasury tax issues can be complex and give rise to a number of pitfalls, especially when entering into cross-border financing transactions. However, getting the funding mix right from the outset can be a useful tool in managing the overall effective tax rate.

Many territories will require a minimum registered capital equity investment; otherwise debt finance may provide an opportunity to generate greater tax efficiencies through securing interest deductions against profits to be generated from the overseas investment, as well as the ability to repatriate funds more easily.

Certain developing economies may also impose foreign exchange controls and restrictions, for example, on the amount of currency that may be imported or exported.

## Ongoing management and repatriation of cash

The structuring and funding of overseas operations will clearly influence where profits and cash reserves are going to arise, and the ability of an overseas entity to repatriate cash to the UK.

Lagos  
Nigeria





Develop

“When considering how best to fund your expansion into new markets, it is critical to understand the tax impact of the funding options available at the outset.”

There are a number of potential routes to extract profits and cash from overseas subsidiaries. This could be managed by a combination of debt and interest payments, dividends or indeed via the transfer pricing of intercompany trading transactions or payments of royalties for the use of IP, for example.

The tax implications of each route can vary depending on the territory involved – for example, whether withholding taxes apply to a particular type of payment, the extent to which the rate may be reduced or whether the overall tax cost may otherwise be mitigated.

The UK tax position relating to the various forms of income and receipts should be carefully considered. For example, interest receivable is generally taxable on an accruals basis, whereas dividends received may benefit from the ‘distribution exemption’ provisions in the UK and be exempt from UK corporation tax.

In addition to the competitive tax regime the UK has for the taxation of foreign profits, the UK also has provisions which can provide for an exemption from corporation tax on gains arising upon disposals of ‘substantial shareholdings’ in trading companies, no matter where they are located, which can apply where certain conditions are met. ♦

## Best for getting electricity\*



1	South Korea	
2	Taiwan	
3	Hong Kong	
4	United Arab Emirates	
5	Germany	
6	Sweden	
7	Switzerland	
8	Malaysia	
9	Iceland	
10	Singapore	

\* Source: World Bank



## KPMG can

- ✓ Identify and advise on navigating the various tax provisions relevant to your proposed funding arrangements to help understand the overall tax cost.
- ✓ Assist in modelling the post-tax returns from investing in your overseas operations.
- ✓ Helping you to understand your global effective tax rate and how this is impacted by various funding arrangements.
- ✓ Help ensure that all relevant tax filing and compliance obligations are met and assist you in securing available tax clearances, reliefs and incentives.



Dubai  
UAE

## Pakistan

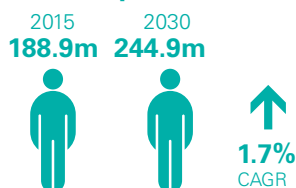


Develop

## GDP (PPP bn)



## Population



## UK trade



## Business environment



# Introducing shared service arrangements

Many companies have implemented shared services and significantly reduced operating costs whilst delivering enhanced levels of service to the business. Quite often a shared services operation will involve some form of expansion into international territories.

Many shared services operations have failed to deliver on their original promise due to poor planning or execution. To avoid this KPMG can support you in making the right decision in relation to your shared services strategy.

Some of these benefits achieved include improvements to organisation structures, lower costs, improved management information, better controls, efficiencies with IT systems and enhanced service quality.

The location of your shared services centre will depend on a number of business criteria. This will include such factors around the type of people required, their skills and associated costs. This will need to be considered against the size of local talent pools. The range of language skills will need to meet requirements. The location also needs to be accessible from your organisation's existing footprint. Office space and local infrastructure needs to be available, stable and capable. Political stability will also need to be taken into consideration.

## Why do companies implement shared services?

Companies do not just implement shared services to realise costs savings. The implementation of shared services is often part of a wider transformation programme to free up finance to become a better business partner.

Other functions, such as HR or supply chain, may be part of the same transformation programme and also drive significant benefits.

Whilst cost reduction remains a key driver for establishing shared services, there are many other benefits.



Islamabad  
Pakistan



Develop

Country profile

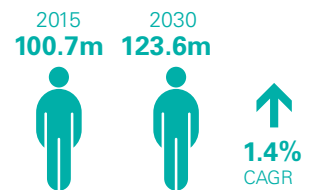
## Philippines



### GDP (PPP bn)



### Population



### UK trade



### Business environment



KPMG can

- ✓ Conduct a shared services feasibility study to determine the right operating model.
- ✓ Assist with major focus areas, e.g., the process scope and optimum location for shared services.
- ✓ Help understand the organisation and define a shared services process scope to fit.
- ✓ Assess and rank locations to determine where the optimum location for the shared service centre can be located.

“Companies do not just implement shared services to realise costs savings. Shared services are often part of a wider transformation programme to free up finance departments to become better business partners.”

### Ten golden rules for shared services success

- 1 Ensure visible sponsorship, active participation and buy-in from the top.
- 2 Establish a clear baseline for existing costs and service levels before implementing.
- 3 Gain functional and business buy-in to the vision and guiding principles. Get the design right – do the right things early and the right outcomes will follow.
- 4 Be bold when deciding on potential scope for shared services, but find the right balance for your organisation between cost savings and risk.
- 5 Invest time to design a robust shared service centre operating model appropriate for your organisation – there is no ‘one size fits all’.
- 6 Ensure rigorous location assessment and ‘future proofing’ of the preferred site. Be disciplined in implementing – you only have one chance to get this right.
- 7 Develop early retention plans, comprehensive change management and open and honest communications.
- 8 Challenge the business case benefits and ensure rigorous benefits tracking, including driving the required savings from the retained organisation.
- 9 Develop transition sequence that de-risks potential impact from other transformational initiatives e.g., ERP rollout.
- 10 Appoint shared service centre leadership roles early, over-staff and over-engineer the first transitions in the sequence. ♦



Manila  
Philippines



# Govern





Govern



Mount Rushmore, South Dakota  
USA

An overseas presence potentially creates exposure to a new regulatory regime involving legal and tax issues which may require awareness of local, as well as international, laws and practices.

Operating a global business increases the level of risk for management teams and their companies. UK management can adopt a variety of ways to create stronger governance over their overseas operations. This can include the establishment of an internal audit function or an extended scope for external auditors. More simply, it can include regular site visits from UK management.

Managing risk and compliance matters is vital to ensure an overseas expansion does not impact the wider group, create brand damage and reputational risk issues. Whilst local practices may exist, relatively recent legislation in the UK such as the UK Bribery Act 2010 and the Modern Slavery Act 2015 ensure that UK companies need to ensure they meet a higher standard.

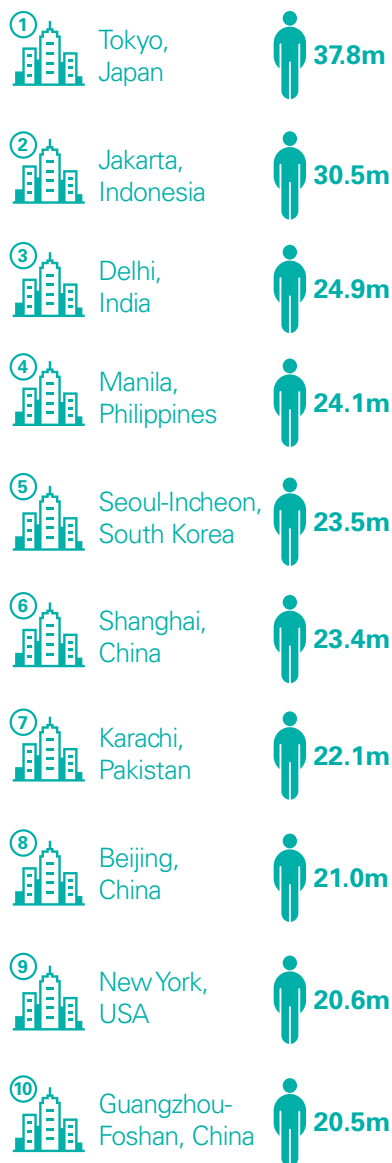
An increasing area of focus for many companies is in relation to Cyber risks. As this is still a relatively new area for many regulators and policy setters worldwide, there is a range of approaches that exist around the globe. This highlights the need to be aware of compliance requirements, local practices and ongoing developments in these type of matters. ♦

### Section contents

Protecting your organisation	42
VAT & customs duty	44
Getting assurance overseas	46
Establishing risk management procedures	48
Operating with global cyber risks	50



## Largest megacities by population



\* Source: Demographia World Urban Areas



Govern

# Protecting your organisation

It is important to understand how you can protect your organisation and ensure compliance with relevant UK and international regulatory requirements.

Entering into a new market or undertaking overseas investments and collaborations can leave organisations vulnerable to increased risk of fraud, bribery, corruption, and money laundering. These in turn can result in organisations receiving adverse media and press attention and cause serious commercial and reputational damage, as their failure to comply with UK regulatory requirements leads to investigations from regulatory bodies and law enforcement agencies as well as potential prosecution for staff/board members.

Organisations therefore need to identify and understand their exposure to the risks outlined in this section in order to develop adequate procedures.

## The UK Bribery Act 2010

This Act imposes tough rules on UK organisations, including the corporate offence of 'failure to prevent bribery'. This provision can be violated even when there is no corrupt intent.

## The Proceeds of Crime Act 2002, The Terrorism Act 2002 and The Money Laundering Regulations 2007

These Acts all impose obligations on organisations in respect of money laundering and associated activities.

The nature of international operations are often such that:

- Disparate corporate and reporting structures exist across jurisdictions; and
- Cultural differences arise in how businesses are operated and managed.

These can lead to an increased propensity for fraud, money laundering and other illicit acts.



Delhi  
India

"Entering a new market can heighten the risk of fraud, bribery or corruption and an assessment of risks is key to planning a successful market entry."





Govern

Country profile

Russia

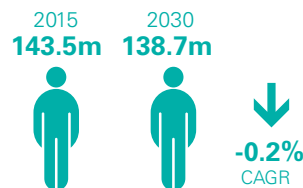


Govern

GDP (PPP bn)



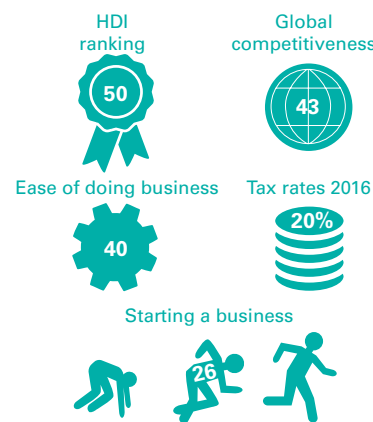
Population



UK trade



Business environment



### The Modern Slavery Act 2015

This applies to all organisations with an annual turnover of more than £36m which supply goods or services and where any part of their business is in the UK. Organisations need to publish an annual statement on their website stating the steps that they have taken during the current financial year to ensure that slavery and human trafficking is not taking place in their business or in their supply chains.

### Competition law

The competition authorities can have a material impact upon an organisation's ability to move into an overseas market. Competition authorities can block mergers, ban anti-competitive behaviour and subject takeovers to specific remedies (such as divestiture of assets). Organisations therefore need to understand whether the activity they are considering will lead to interaction with competition authorities and regulators. ◆



KPMG can

- ✓ Assist with performing market entry risk assessments including the extent of exposure to external and internal risks of bribery and corruption, fraud, money laundering, modern slavery and anti-competitive behaviour.
- ✓ Review policies, procedures, systems, and controls that are currently in place to address identified risks and benchmark against best practice.
- ✓ Conduct awareness training to relevant staff.
- ✓ Investigate reported instances of bribery and corruption, fraud, money laundering, modern slavery and anti-competitive behaviour to confirm facts, minimise losses and make best practice recommendations.
- ✓ Assist organisations in dealing with regulatory reviews and responding to regulatory investigations.



Moscow  
Russia

## Best share of UK imports 2015\*



Govern

1	Germany	Share of UK imports <b>15%</b>	Trade value of imports <b>US\$94bn</b>	
2	China	Share of UK imports <b>10%</b>	Trade value of imports <b>US\$63bn</b>	
3	USA	Share of UK imports <b>9%</b>	Trade value of imports <b>US\$58bn</b>	
4	Netherlands	Share of UK imports <b>8%</b>	Trade value of imports <b>US\$48bn</b>	
5	France	Share of UK imports <b>6%</b>	Trade value of imports <b>US\$39bn</b>	
6	Belgium	Share of UK imports <b>5%</b>	Trade value of imports <b>US\$31bn</b>	
7	Italy	Share of UK imports <b>4%</b>	Trade value of imports <b>US\$25bn</b>	
8	Spain	Share of UK imports <b>3%</b>	Trade value of imports <b>US\$22bn</b>	
9	Ireland	Share of UK imports <b>3%</b>	Trade value of imports <b>US\$19bn</b>	
10	Norway	Share of UK imports <b>3%</b>	Trade value of imports <b>US\$19bn</b>	

\* Source: UN Comtrade

# VAT & customs duty

The treatment of VAT and Customs Duty on goods within a supply chain requires careful consideration at the earliest possible stage as it will impact upon the pricing and profit margins at stake.

The cash impact of both VAT and Customs Duty, together with the administrative and logistics angles, should be assessed on a case by case basis. The mapping out of transaction flows and goods movements to ascertain the territories in which supplies are being made will be important to understanding the indirect tax consequences. There may be opportunities to achieve efficiencies and savings, for example, by use of available reliefs, such as those applicable to supplies within customs warehouses.

## Goods

There are many possibilities for fulfilling supplies of products (goods) to customers in other territories. For example, transactions could be fulfilled from multiple locations or involve goods being sent for initial processing in another country.

An immediate issue to address will be to consider if a transaction is taking place for VAT (or similar sales tax) purposes where responsibility for accounting for such VAT (or similar tax) rests with you as the supplier and whether a local VAT registration obligation arises. Not only can this

result in a financial impact, i.e., the addition of VAT, which may or may not be funded by the customer (VAT clauses in contracts will be key), but also an administrative burden from a compliance angle, e.g., ensuring VAT invoices are compliant with local rules and that VAT returns and payments are made on time.

A review of the specific transactions contemplated, the potential supply chains involved, the Incoterms applicable, whether goods will be warehoused, sold on a call-off basis or as consignment stock, etc. will all be fundamental factors to review in order to ascertain the VAT (or similar tax) implications. This process of analysis should also allow the opportunity to consider alternative options in order to pursue the most efficient approach.

Since customs & excise duties represent an irrecoverable and often substantial cost of doing business and moving goods across borders it is vital that goods are imported and exported in the most efficient way possible.

70% of companies do not fully utilise the existing Free Trade Agreements that they currently have access to, which



Govern

## Best share of UK exports 2015\*



1	USA	Share of UK exports <b>15%</b>	Trade value of exports <b>US\$69bn</b>	
2	Germany	Share of UK exports <b>10%</b>	Trade value of exports <b>US\$47bn</b>	
3	Switzerland	Share of UK exports <b>7%</b>	Trade value of exports <b>US\$34bn</b>	
4	China	Share of UK imports <b>6%</b>	Trade value of exports <b>US\$28bn</b>	
5	France	Share of UK exports <b>6%</b>	Trade value of exports <b>US\$27bn</b>	
6	Netherlands	Share of UK exports <b>6%</b>	Trade value of exports <b>US\$26bn</b>	
7	Ireland	Share of UK exports <b>5%</b>	Trade value of exports <b>US\$25bn</b>	
8	Belgium	Share of UK exports <b>4%</b>	Trade value of exports <b>US\$18bn</b>	
9	Spain	Share of UK exports <b>3%</b>	Trade value of exports <b>US\$14bn</b>	
10	Italy	Share of UK exports <b>3%</b>	Trade value of exports <b>US\$13bn</b>	

\* Source: UN Comtrade



### KPMG can

- ✓ Work with you to help navigate the common VAT and duty challenges which arise from international trade and help keep you compliant.
- ✓ Help review supply chains with a view to advising on the VAT aspects of efficient trading operations including duty minimisation, supply chain efficiencies and all aspects of compliance.
- ✓ Offer foresight regarding the potential impact of Brexit using our Duty and VAT Brexit App.

means that they are likely to be paying more duty than is otherwise necessary.

The VAT and customs duty aspects of the entire supply chain (including any post-Brexit implications) will need to be considered to ensure compliance in each respective location. For example, if goods are moved from the UK to a destination outside of the UK, are the evidence requirements to support zero rating for VAT purposes from a UK VAT perspective satisfied and who is responsible for the entry of the goods into the destination country and does this give rise to acquisition VAT or import VAT and what mechanism applies (if any) for reclamation of such VAT?

#### Services

Cross border supplies of services can be complex depending upon the nature of the services being provided and the determination of the place of supply for VAT purposes. The main difficulty being, who is responsible for accounting for any VAT (or similar) tax which may fall due: the supplier or the customer and how is this addressed in the contractual documentation? ♦

“VAT, Customs duty and excise duty should be considered early on in any expansion plans. All too often we see cases where VAT in particular is an afterthought and earlier assessment of the tax implications could have led to significant efficiencies.”



## Singapore

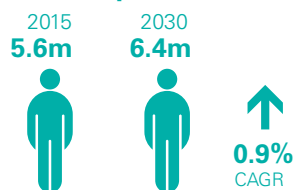


Govern

## GDP (PPP bn)



## Population



## UK trade



## Business environment



## Getting assurance overseas

The evolution of your UK finance function into a global centre of finance provides an opportunity to set the approach and standard that you want all locations to follow.

“Asking local management to sign off accounts can focus their minds and provide clear direction of where their responsibilities lie.”

## Audits only go so far

Any audit should provide a degree of ‘hygiene check’ and aligning with a strong audit firm will undoubtedly improve your comfort levels. But you still need to consider what other controls you need?

Your first line of defence should be the group’s own culture and style, implemented by a strong local management team that you can trust. Second, consider what controls you use in the UK and whether these can be replicated or mirrored overseas? If not, consider what will work. You may need to be alive to cultural differences – in the UK we would consider it ‘good practice’ to have numerous sign-off authorisations for large payments. In other cultures, this would imply a shameful lack of trust and might be counter-productive. Finally, assess how internal or external audit can assist in providing you the comfort you need.

## Mind the GAAP

Unfortunately international business connectivity is well ahead of accounting standards. Despite the recent proliferation of International Financial Reporting Standards (IFRS) globally, not every location will permit these to be used. Even the UK has just introduced new rules which permit subtle departures from IFRS.

In the same way, many countries still have their own local accounting rules – which are likely to differ from your own or indeed from IFRS – permitting depreciation rates or bad debt provisions for example that are often closely aligned with local tax treatments instead. This will create a need to periodically reconcile between the two bases (the dreaded ‘two sets of books’). You will need clear communication with any local auditors and strong technical skills in your finance department to track these differences.



Singapore



Govern

### And the tax?

As already noted, much local accounting is driven by tax rules. Even if you are below audit thresholds in a country, you will still very likely need to draw up and submit some accounts to determine your tax position. It is not unusual for tax to be determined without reference to 'materiality' so, almost irrespective of the need for an audit, you will need to prepare and report accurate and fair accounts on a timely basis.

### A sign off

At some stage your local and group auditor will put pen to paper and sign off.

It is worth considering asking your local senior management team to do the same. Many groups do this on a six-month or annual basis and find that it focuses minds and makes very clear where responsibilities lie.

### The power of a visit

Finally, don't underestimate the importance of taking the time to visit your locations. Whilst time spent travelling and in airports can seem inefficient, a visit provides a strong message and a visible sign that you are interested and inclusive. If there are significant physical operations overseas, then only a visit will give you the insight and understanding of local issues or challenges. ♦

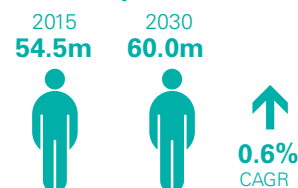
## South Africa



### GDP (PPP bn)



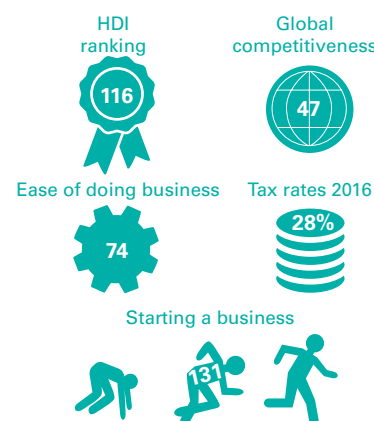
### Population



### UK trade



### Business environment



### KPMG can

- ✓ Provide a local audit opinion in 155 countries worldwide.
- ✓ Deliver the services of a truly global audit firm. This means that all audits are done to a common standard, with the same audit approach and methodology.
- ✓ If KPMG are also your group auditors, they can instruct and then rely on the work of overseas auditors, without costly and inefficient re-review, top-up or repetition.
- ✓ Provide technical guidance on local GAAPs, common reconciliation differences to IFRS (or any other GAAP) and detailed reconciliation or restatement work.
- ✓ Guide you in finding a fit-for-purpose approach to governance by reference to accounting manuals, delegation of authorities and approaches to internal controls and internal audit.
- ✓ Provide practical joined-up explanations on the interaction with local tax.







Johannesburg  
South Africa

### Best for registering properties\*



Govern

- 1 New Zealand 
- 2 Lithuania 
- 3 Georgia 
- 4 Rwanda 
- 5 Belarus 
- 6 Estonia 
- 7 Slovak Republic 
- 8 Kyrgyz Republic 
- 9 Russian Federation 
- 10 Sweden 

\* Source: World Bank

# Establishing risk management procedures

“Managing risk and implementing robust controls are important when businesses expand overseas and have remote locations.”

Operating internationally requires businesses to manage the increased risks and ensure robust controls are in place for overseas locations.

There is naturally a higher risk to a business when expanding overseas as in many cases the control environment has not always been sufficiently designed for the impacts of differing political changes, operations, currencies, trading and business cultures.

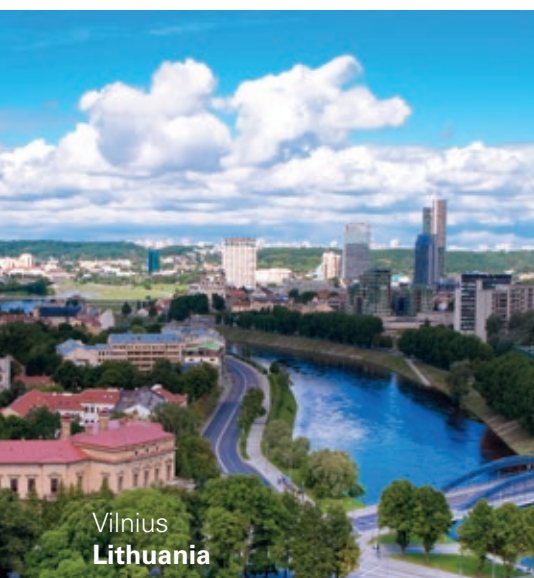
Where there is a lack of knowledge or understanding in the areas of investment, with regards to overseas regulations and culture, this could lead to a lack of local operating controls, which over time may result in potential gaps, financial errors or fraud.

In recent years, a number of businesses have taken their shared service centre (SSC) offshore. This has led to a lack of control over critical core processing and financial transactions. Professional advisors can assist in ensuring the controls

in place within the SSC are effective and robust to enable the business to operate effectively across all locations, maximising process efficiency.

Organisations can also face issues in complying with local/global regulations when operating overseas. Compliance against Sarbanes Oxley (SOx) is an added requirement over and above internal compliance for those businesses listed in the US. Any non-compliance with SOx and local regulations can often result in fines and potential trade or operating sanctions affecting the business operations.

In reviewing, or preparing a risk register, the business can determine where their key risks are and how these are mapped across locations/departments. The main shareholder concern is ensuring their key risks are mitigated. In performing a risk review/mapping the business can



Vilnius Lithuania





Govern

identify early warning issues and as a result, reduce the level of adverse financial implications, litigation or reputational loss. Operating overseas can lead to a number of additional risks such as the impact of Brexit, foreign exchange, freedom and movement of goods, tax implications, such as transfer pricing and country by country reporting.

Standardising business operating procedures and processes when going global is important and the organisation should strive to ensure controls in place are appropriately aligned and consistent to maximise business efficiency and compliance.

### Internal audit – fit for purpose

The challenge of disparate international operations may mean that now is the time to think about an internal audit function of some shape or form? You may consider that you are too small to justify a full internal audit department, and although that might be true, don't let that narrow your thinking about what can be done.

Internal audit can be delivered in a range of different ways to build assurance for you as a management team. For example:

- Use existing members of the central finance team to visit locations and perform procedures. This can be a great way of building their understanding and internal networks. It can help you provide interesting and fulfilling work for your staff.
- Consider peer reviews – where finance staff from different locations review each others' operations. A good way of spreading best practice and instilling a common group approach to matters.
- Outsource or co-source internal audit work to a specialist provider. This will bring the benefits of flexibility in terms of resource, avoid overheads and also allow you to access best practice procedures and thinking. ♦

Country profile

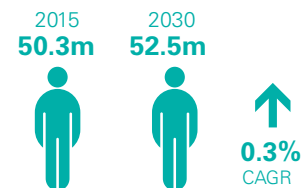
## South Korea



### GDP (PPP bn)



### Population



### UK trade



### Business environment



KPMG can

- ✓ Help in delivery and design of risk management approaches, mapping across functions and countries.
- ✓ Help provide assurance approaches, such as internal audit delivery, risk assurance mapping, audit effectiveness.
- ✓ Perform audits of overseas locations utilising local resource.
- ✓ Assessment against compliance in legislation such as Sarbanes Oxley.
- ✓ Assist you in understanding the requirements and controls for IPO listing.
- ✓ Work with other KPMG functions and service lines to assist businesses in mitigating complex risks.



Seoul  
South Korea

Taiwan

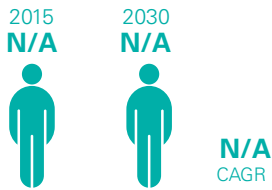


Govern

GDP (PPP bn)



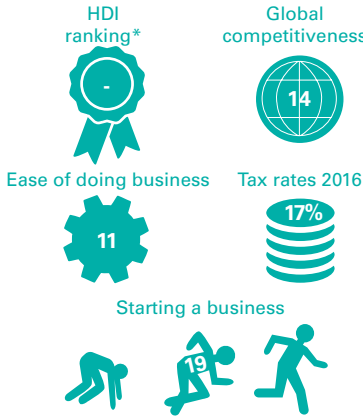
Population\*



UK trade\*



Business environment



# Operating with global cyber risks

Protecting your 'Crown Jewels' and identifying your risks has never been more essential for cyber security when operating overseas.

## New regulation announced...

Cyber security is a 'hot topic' for governments and with this the cyber security requirements placed on organisations operating globally has never been higher, and is set to increase. The introduction of legislation such as the EU General Data Protection Regulation (EU GDPR) and EU/US Privacy Shield has put in place much greater cyber security obligations, along with increasing the impact for both financial and brand of breaching such regulations.

## ...but not globally consistent

Unfortunately the individual cyber security regulations for separate countries are becoming more and more disparate. For example California alone has 25 separate state privacy and data security laws, whereas China doesn't have a comprehensive data protection law. With this contrast in regulation, knowing what data is being processed and where it is stored, along with what level of privacy to expect, is vital to assessing risk and protecting your data overseas.

## The practicalities

Cloud storage and processing is becoming increasingly popular when handling large amounts of data. When operating overseas, knowing what data is held and where it is being held becomes crucial to ensuring adequate protection and compliance with individual state laws. Russia has recently passed legislation mandating that all online

"You need to look beyond the technical controls, and assess how prepared your organisation is to face the cyber risks when operating globally."



Taipei  
Taiwan

\* Note: The data for Taiwan on these metrics is not available separately and is instead included in the data for China (shown on page 15).



Govern

Key facts

## Best for enforcing contracts\*



Govern

submitted data on Russian nationals must be stored within a Russian Data Centre.

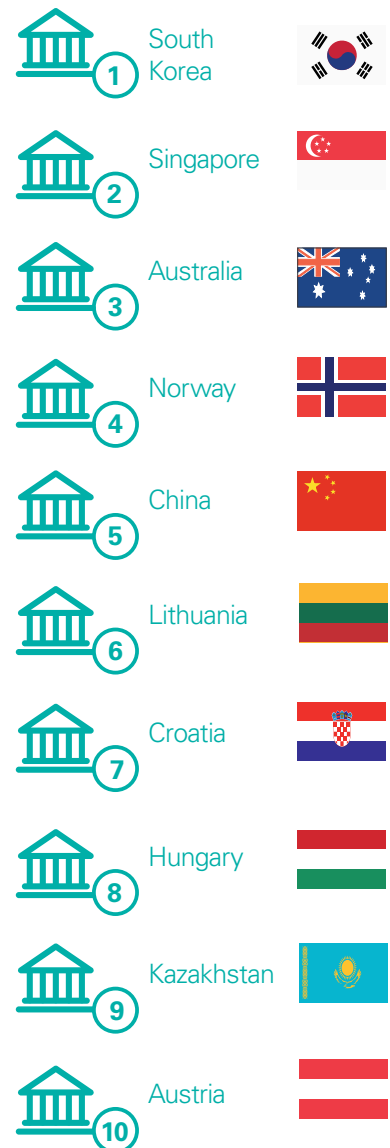
'Protect the perimeter' is a term used widely within cyber security. Operating overseas gives this phrase a very different meaning. By branching out, defining the perimeter and knowing how to protect it becomes increasingly complex and as exposure grows, so does the inherent risk of a cyber breach.

From a risk perspective, knowing your 'Crown Jewels' and where they are becomes increasingly important when operating overseas. With each country comes different inherent risk, covering all aspects of the usual threat factors, corporate espionage, organised crime, hacktivists etc.

In the Middle East there are much higher rates of malware infection, so more significant investment into providing adequate protection is required.

### Supplier risk

Supplier capability is another area that can generate an increased amount of risk to an organisation's data when operating overseas. Due to the, sometimes limited, enforcement of cyber security regulations, the capabilities of suppliers' cyber security controls may not be within that of the buying organisation's risk appetite. Gaining assurance from these suppliers is essential when looking to mitigate the risk of holding and processing data overseas. ♦



\* Source: World Bank



### KPMG can

- ✓ *Assess your cyber risk and design, test and implement controls required to protect you from security breaches, including accidents and cyber-attack.*
- ✓ *Help you identify the gaps in your approach to privacy, and assist you in meeting the requirements of GDPR.*
- ✓ *Development of a security target operating model to help manage the risks of global operation.*
- ✓ *Provision of threat awareness and threat intelligence to inform internal vulnerabilities and controls reviews.*
- ✓ *Help you to make sound decisions and plans with regard to technology and business transformation initiatives involving personal information.*
- ✓ *Help you to develop a cyber security roadmap to manage the cyber risks and threats in a proportional and risk informed way.*



Zagreb  
Croatia



# Evaluate





## Evaluate

Knowing how to exit your overseas operations at the outset gives you the requisite insight to enter a country forearmed and forewarned and better able to balance risks and reward.

Overseas operations can become non-core, may under-perform and may ultimately need to be closed down. Evaluating your options is a key part of protecting value and mitigating the downside.

As companies grow their ability to influence matters on the ground can wane and whilst a regular flow of site visits, management information, conference calls and auditors all help, performance challenges may still ensue. Should underperformance be an issue, a turnaround plan is likely to be required, binding in group and local management to focus on the key drivers of value to stabilise, and then grow, the business.

Overseas operations may become non-core due to their location, a requirement from the parent company to retrench to domestic markets or may even be part of a wider group reorganisation (e.g., a separate division that is being sold). Management of key internal stakeholders is one of the main matters to be considered in this scenario as their ongoing support is key to protect value.

In the eventuality that a turnaround doesn't work and a solvent sale is not possible, an insolvency process may be the most appropriate exit route. Laws around insolvency vary from country to country and therefore professional advice is needed to pursue this option both in the country itself and also domestically to ensure that any liabilities are ringfenced. ♦

### Section contents

Fixing an overseas entity	54
Selling your business	56
Closing down your operation	58

Rio de Janeiro  
Brazil

## Thailand

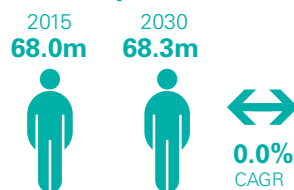


Evaluate

## GDP (PPP bn)



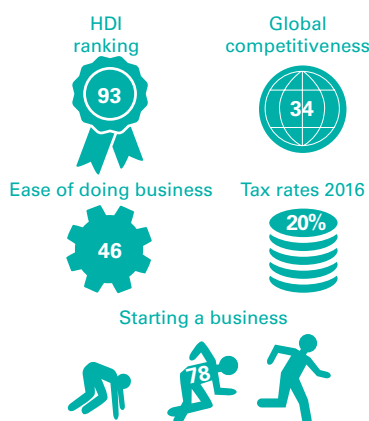
## Population



## UK trade



## Business environment



# Fixing an overseas entity

Original investments overseas do not always work out as planned and sometimes it is essential to take corrective action to get the business back on track.

It is commonplace for companies to expand beyond their core markets either organically or through acquisitions to support the corporate strategy, growing into new markets or reducing the cost of its supply chain through off-shoring of its operations into lower cost economies. But these investments do not always go according to plan with operations underperforming against budget and taking up significant human and capital resources – far greater than originally anticipated.

## Diagnosing the problem

It may not just be a result of one single entity not living up to your expectations, but there could also have been fundamental shifts in the company's markets and operations. You may need to consider making structural changes to your operational footprint in order to keep your overseas units relevant and profitable in a changing global market.

And this underperformance can stretch the capacity management teams have in fixing these situations. They need to understand the key drivers of underperformance and what can be done to change these. Obtaining clear, concise data to make these decisions can often be challenging itself. A plan of corrective measures needs to be formulated setting out timelines, responsibilities, inter-dependencies and costs. A financial baseline should be created to provide the benchmark enabling the benefits of the fix programme to be monitored.

Stakeholders such as lenders, shareholders, suppliers, customers and employees may be concerned about deteriorating performance and therefore communication is key.

Having independent and objective advisors, with specialised local knowledge, can greatly reduce the burden on management teams to stabilise a situation, reduce value-destructive activities and create a turnaround platform to allow the business to grow or be sold. A well-constructed plan to fix the underlying business will give visibility and clarity to senior management, that the business can be fundamentally improved in a manner where the benefits outweigh the costs.

Bangkok  
Thailand





Evaluate

"It is about understanding the true drivers of underperformance, and then taking decisive action to correct them."

**Key triggers to look out for include:**

- History of operational improvements with little or no financial impact.
- Have acquisitions and mergers created duplication or excess capacity within a company's operations?
- Under delivery against budget or plan (cash and profit).
- A challenging competitive environment (pricing challenges, evaporating cost competitiveness).
- Significant changes within short timescales such as losses of key customers/contracts.
- Strategy review undertaken but practical implementation is still in question. ♦

Country profile

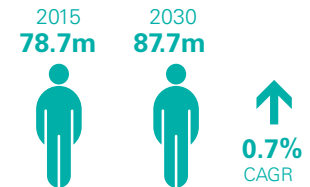
Turkey



GDP (PPP bn)



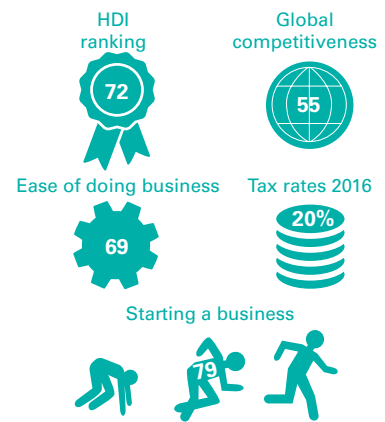
Population



UK trade



Business environment



KPMG can

- ✓ Prepare strategic options assessments.
- ✓ Assist companies to transform under-performing businesses (or business units) by assessing strategic options and helping develop/implement profit and cash improvement plans.
- ✓ Prepare turnaround and transformation plans.
- ✓ Pragmatically identify and assist with delivery of performance improvement initiatives (profit and cash).
- ✓ Deliver on quick win to stabilise a situation.



Ankara Turkey

## United Kingdom

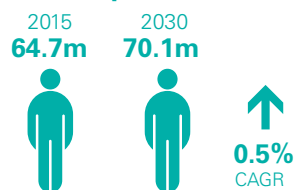


Evaluate

## GDP (PPP bn)



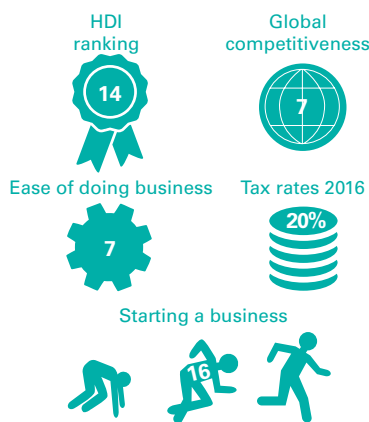
## Population



## UK trade



## Business environment



## Selling your business

Strategy is a continuous journey and your overseas operations may become non-core in order to take the wider group in a different direction.



KPMG can

- ✓ Assist with developing the business plan incorporating key growth opportunities and messaging that underpins the business and its future potential.
- ✓ Value your business using different methodologies.
- ✓ Help you consider various exit routes and their merits.
- ✓ Prepare buyer specific position papers on key issues and areas of value.
- ✓ Run a tailored sale process incorporating transaction strategy and deal tactics to deliver the optimum result.
- ✓ Help articulate core business processes and support you in managing data room requests.
- ✓ Translate financial, tax and operational considerations into inputs for key legal agreements such as the SPA and help define favourable closing mechanisms such as purchase price adjustments.
- ✓ Perform sell-side due diligence to help you retain control and get a grip on issues early.
- ✓ Provide vendor assistance to help collate data to share with interested parties.

London  
UK

"A well planned approach is critical to ensure local management remain focused and the business can be separated in a timely and effective manner."



Evaluate

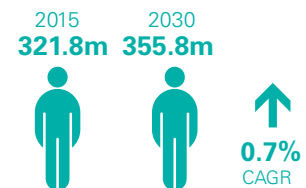
# United States of America



## GDP (PPP bn)



## Population



## UK trade



## Business environment



### Change in strategy

New management at group level, a change in strategy or direction or an unsolicited approach can all result in an existing overseas operation being sold.

The key for any group is how this process is handled as any carve out is, by implication, complicated and when operating overseas this can be heightened. Managing this risk and overall process is vital to ensure value is protected.

### Managing local management

Confidentiality is key. Choices will need to be made in relation to informing local management of any approach. This is particularly important to keep management focused on results and duly motivated. Clearly, management may sometimes be the party approaching the parent company which can complicate the situation further still.

If you decide upon a sale of the business, understanding the management position and whether there could be private equity interest to support an MBO is important and will need to be carefully planned in relation to strategy and tactics pertaining to the sale. The maturity of the private equity market and its coverage varies by geography so this needs to be understood to assess whether its a realistic and variable rate.

Resource is another key matter to consider. Depending on whether or not (and to what extent) management are in the loop on the transaction, additional resource from group and external advisers may be required. This will be to collate data for due diligence, oversee site tours and consider the legal and separation aspects of a sale.

Access to, and support from, a global advisor with a local presence provides confidence that the business is being presented to buyers appropriately, management are not being stretched (which could lead to business deterioration) and that feedback to group is independent and objective.

### Wider issues to consider

Vendor due diligence is well established in Europe but less so elsewhere. Therefore, you will need to consider whether or not this is appropriate. If not, a data package may need to be collated for interested parties to evaluate the transaction opportunity.

The wider group position will also need to be understood. Shared services, intercompany trading, group financing arrangements etc., will all need careful consideration to evaluate how they may be separated. In the first instance, transitional services agreements (TSAs) are likely to be required in order to 'soft land' a separation.











The tax aspects of any sale will need to be well understood along with how the proceeds from the sale will be taxed, and ultimately repatriated to the parent company. ♦





## Best for resolving insolvency\*



- 1 Finland 
- 2 Japan 
- 3 Germany 
- 4 South Korea 
- 5 USA 
- 6 Norway 
- 7 Portugal 
- 8 Denmark 
- 9 Puerto Rico 
- 10 Belgium 

\* Source: World Bank



Evaluate

# Closing down your operation

Sometimes it is necessary for companies to have to close down either non-core or underperforming businesses and this can be both a complex and time consuming task, especially overseas where local rules and practices can make it difficult to navigate a way through.

## Evaluating the impact

The option to close a business is never taken lightly and should only be selected if all the options to fix/turn it around or to sell all or part of it have been exhausted. The task of closing down an overseas operation is made more complex as a result of both an unfamiliarity with local laws, customs and practices and also the distance between the home and overseas operations.

Management teams often fail to grasp the time and expense involved in the process. Budgets are often set but are not adhered to as unplanned issues arise or the adverse impact on the ongoing business is underestimated. Getting a good understanding of the baseline cost to close down a business is critical and creates the benchmark to monitor against.



Helsinki  
Finland



Evaluate

### Managing people

Management teams will often not take into account the detrimental influence on the business and staff morale and how this will affect the day to day operations during the closure period. For example, we often see higher levels of absenteeism amongst staff. How does that then impact the ability to meet customer service levels on global supply agreements? Will you be hit by claims from customers for non-performance, thereby increasing the closure costs? There may be many inter-dependencies, especially if you are migrating production from one site to another, and coordinating and managing these is critical.

### A successful closure

There are usually two types of closure that are considered; either a solvent wind down of the local operations or, where it is unlikely to damage the remaining businesses elsewhere, using local insolvency processes. Each has its merits in the right circumstances but both can go wrong if not well advised and need to be carefully considered during management's assessment of the options available.

The key to any closure or exit programme is to mitigate your risk, optimise the time involved and minimise the costs to execute the plan. ♦

"We help clients exit non-core and underperforming business activities at minimum cost and risk while ensuring all material aspects are considered."

## Country profile

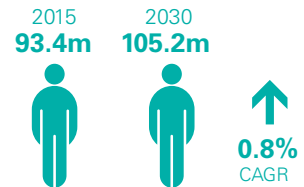
### Vietnam



#### GDP (PPP bn)



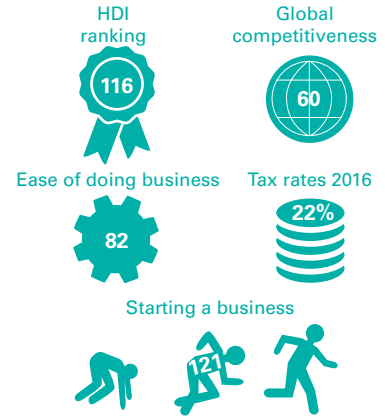
#### Population



#### UK trade



#### Business environment



KPMG can

- ✓ Help make the assessment as to whether the closure should be done in a solvent or insolvent manner.
- ✓ Prepare overarching wind-down roadmaps showing timing, costs and risks.
- ✓ Support detailed workstream and function planning.
- ✓ Understand local laws and practices using our local, in country resources.
- ✓ Use our experience to help navigate common pitfalls.



Hanoi  
Vietnam

# Glossary

## Country profiles

Country	Page	G8	G20 <sup>^</sup>	BRICS	CIVETS	MINT	N11	VISTA	Asian Tigers (AT)	Asian Tiger cubs (ATc)
<b>Argentina</b>	10		G20					VISTA		
<b>Bangladesh</b>	11						N11			
<b>Brazil</b>	13		G20	BRICS						
<b>Canada</b>	14	G8	G20							
<b>China</b>	15		G20	BRICS						
<b>Colombia</b>	16				CIVETS					
<b>Egypt</b>	18				CIVETS		N11			
<b>France</b>	19	G8	G20							
<b>Germany</b>	21	G8	G20							
<b>Hong Kong</b>	24								AT	
<b>India</b>	26		G20	BRICS						
<b>Indonesia</b>	27		G20		CIVETS	MINT	N11	VISTA		ATc
<b>Iran</b>	29						N11			
<b>Italy</b>	30	G8	G20							
<b>Japan</b>	32	G8	G20							
<b>Malaysia</b>	33									ATc
<b>Mexico</b>	35		G20			MINT	N11			
<b>Nigeria</b>	36					MINT	N11			
<b>Pakistan</b>	38						N11			
<b>Philippines</b>	39						N11			ATc
<b>Russia</b>	43	G8	G20	BRICS						
<b>Singapore</b>	46								AT	
<b>South Africa</b>	47		G20	BRICS	CIVETS			VISTA		
<b>South Korea</b>	49		G20				N11		AT	
<b>Taiwan</b>	50								AT	
<b>Thailand</b>	54									ATc
<b>Turkey</b>	55				CIVETS	MINT	N11	VISTA		
<b>UK</b>	56	G8	G20							
<b>USA</b>	57	G8	G20							
<b>Vietnam</b>	59				CIVETS		N11	VISTA		ATc

<sup>^</sup> G20 includes Australia and Saudi Arabia which are not included within this document. G20 also includes the EU as a single entity.



# KPMG global footprint

KPMG is a global network of independent member firms offering audit, tax and advisory services. The firms work closely with clients, helping them to mitigate risks and grasp opportunities.

Member firms' clients include business corporations, governments and public sector agencies and not-for-profit organisations. They look to KPMG for a consistent standard of service based on high order professional capabilities, industry insight and local knowledge.

Collectively they employ more than **189,000 people** across a range of disciplines.

Sustaining and enhancing the quality of this professional workforce is KPMG's primary objective. Wherever our firms operate, we want them to be no less than the professional employers of choice.

KPMG member firms can be found in **152 countries**.



## Americas

Partners	3,399
Professionals	40,351
Administration	10,361
<b>Total</b>	<b>54,111</b>



## EMA

Partners	4,225
Professionals	76,247
Administration	15,932
<b>Total</b>	<b>96,404</b>



## ASPAC

Partners	2,219
Professionals	30,430
Administration	5,818
<b>Total</b>	<b>38,467</b>

# Useful websites

## Population data

Source: UN Department for Economic & Social Affairs

Website: <http://www.un.org/en/development/desa/population/>

## Population data - demographics

Website: <https://www.census.gov/population/international/data/idb/informationGateway.php>

## UK trade

Source: UN Comtrade

Website: <https://comtrade.un.org>

## HDI (Human Development Index) data

Source: United Nations

Website: <http://hdr.undp.org/en/content/human-development-index-hdi>

## The Global Competitiveness Index

Source: World Economic Forum

Website: <http://reports.weforum.org/global-competitiveness-index/>

## Business competitive rankings

Source: World Bank

Website: <http://www.doingbusiness.org/rankings>

## Tax rates

Source: KPMG LLP

Website: <https://home.kpmg.com/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html>

## Risk environment

Website: [www.eurasiagroup.net](http://www.eurasiagroup.net)

# Contact us



**David Slater**  
Director, Trade

+44 (0)7780 293 283  
david.slater@kpmg.co.uk



**Miles Davies**  
Associate Director, Trade

+44 (0)7786 336 140  
miles.davies@kpmg.co.uk

or please contact your advisor at your local KPMG office.

## About KPMG Enterprise

Passion, it's what drives entrepreneurs, family businesses and fast-growing companies alike. It's also what inspires KPMG Enterprise to help you drive success.

You know KPMG, you might not know KPMG Enterprise...

We're dedicated to working with businesses like yours. It's all we do. Whether you're an entrepreneur looking to get started, an innovative, fast-growing company, or an established company looking to an exit, we understand what is important to you and can help you navigate your challenges – no matter the size and stage of your business.

You gain access to KPMG's global network of resources through a single point of contact – a trusted adviser to your company.

*It's a local touch with a global reach.*

[kpmgenterprise.co.uk](http://kpmgenterprise.co.uk)



Data: All data included in this document was correct as of 1 February 2017.

Tax rates: Headline corporate tax rates are included in this document. They do not reflect local rules which can apply in some countries to certain sectors, ownership profiles, and foreign companies. Nor do they reflect any vagaries relating to local, provincial, or state taxes.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

**CREATE.** | CRT070812Q | April 2018