GOING GLOBAL

The Concerns Facing Businesses Considering International Expansion and How They Are Addressing Them

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Since the global recession in 2009, the U.S. economy has made a huge comeback with the stock market reaching record highs and the national unemployment rate in May 2018 at the lowest it's been since the early 2000s.

In addition, many U.S. based companies are thriving globally, inspiring others to look to make the same move. The 2017 Wells Fargo International Business Indicator found that 81 percent of U.S. companies indicate the international component of their business is important and expect it to increase in activity during the next 12 months. A strong dollar, U.S. economic conditions, and the regulatory environment have all been major considerations in any cross-border transaction[1]. International expansion for a business can mean opening new offices internationally, acquiring international companies, or expanding its supply chain outside of the United States.

With this in mind, Tipalti sponsored a "Going Global" research study conducted by Censuswide Research. For this 2018 Going Global study, over 500 decision makers at mid-sized U.S. businesses were asked about the challenges they are experiencing in their drive for international expansion.

[1] https://wholesale.wf.com/global-focus/international-business-indicator/

With the current uncertain geopolitical climate, businesses considering going global face more challenges today beyond the usual concerns, such as knowledge of local markets and tax compliance.

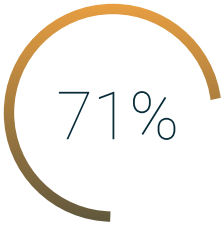
Companies now need to factor in the realities of the world such as how Brexit could change the U.K.'s relationship with Europe and the evolving U.S.-China trade relationship, including uncertainty around tariffs on specific goods.
These are just a few of the different aspects of the current global climate that are keeping executives up at night, and this research explores those macro concerns, as well as where businesses need the most help when it comes to the practicalities involved in international growth.

GLOBAL CONCERNS

When it comes to going global, top of the list for business decision makers up is uncertainty around trade. For example, 69% of respondents are concerned about trade disputes between the U.S. and China and 71% are concerned about the renegotiation of international trade agreements like the North American Free Trade Agreement (NAFTA).

Sixty-five percent of respondents are also concerned about compliance with the General Data Protection Regulation (GDPR). GDPR is a legal framework in the European Union that went into effect on May 25, 2018 that sets guidelines for the collection and processing of personal information of individuals within the European Union (E.U.). GDPR sets out the principles for data management and the rights of the individual, while also imposing fines that can be revenue-based. This regulation covers all companies that deal with data of E.U. citizens[2].

Respondents are concerned about trade disputes between the U.S. and China



Respondents are concerned about the trade renegotiation of international trade agreements (NAFTA)

[2] https://www.investopedia.com/terms/g/general-data-protection-regulation-gdpr.asp

Despite GDPR already having gone into effect, **76%** of respondents feel that their organization isn't ready to be compliant with GDPR and that it will delay their expansion into Europe.

35% are concerned about being compliant and **22%** are still deciding if it's even worth the time and money it takes to become compliant in order to enable European expansion.

GLOBAL CONCERNS

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Another source of uncertainty currently in Europe is Brexit. Although it's now been two years since the U.K. voted to leave the European Union, 61% of respondents are concerned about the impact Brexit could have on their businesses if they pursue international expansion into Europe.

The U.K. is scheduled to leave the European Union on March 29, 2019. Although the U.K. and E.U. have provisionally agreed on the three "divorce" issues of how much the U.K. owes the E.U., what happens to the Northern Ireland border and what happens to U.K. citizens living elsewhere in the E.U. and E.U. citizens living in the U.K., there are many issues that impact global business that still need to be solved. The transition period will continue until December 2020, meaning that the uncertainty for businesses will continue for the next two years[3]. As a result, almost a third of respondents **(29%)** said Brexit is negatively impacting their organization's desire to expand its operations in Europe.

[3] http://www.bbc.com/news/uk-politics-32810887

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Brexit has impacted how my company thinks about international growth and I've seen a similar impact on a lot of other business decision makers I've spoken to that are taking a "wait and see" approach when it comes to making decisions about their international business structure.

For companies that before Brexit were considering London as they're EMEA hub, it's causing a delay in that decision because of course companies want to be sure they can easily sell in to the E.U. from whatever hub city is chosen.

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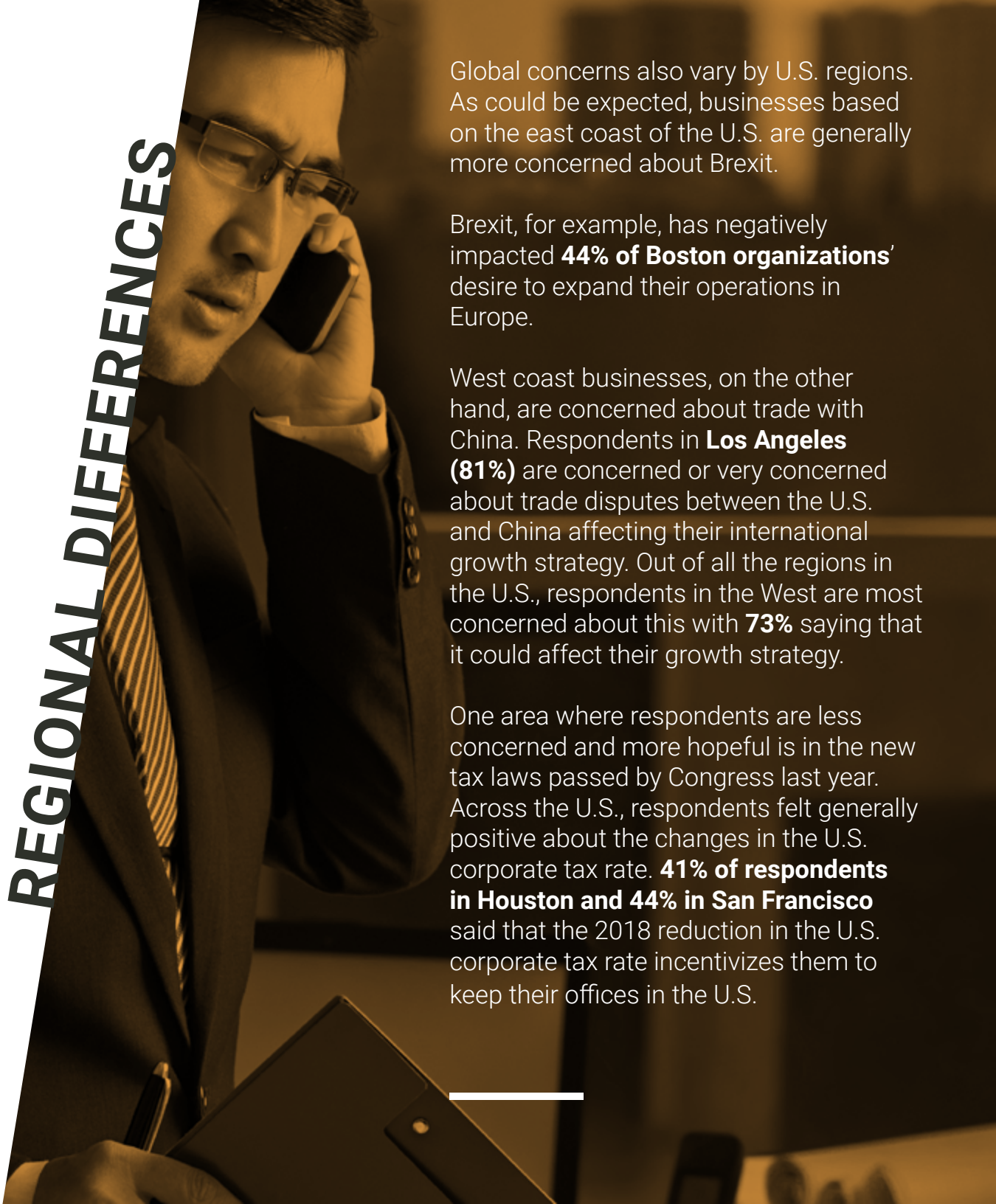
Dash Victor,
Controller
Docker

REGIONAL DIFFERENCES



Global concerns also vary by U.S. regions. As could be expected, businesses based on the east coast of the U.S. are generally more concerned about Brexit.

Brexit, for example, has negatively impacted **44% of Boston organizations**' desire to expand their operations in Europe.

West coast businesses, on the other hand, are concerned about trade with China. Respondents in **Los Angeles (81%)** are concerned or very concerned about trade disputes between the U.S. and China affecting their international growth strategy. Out of all the regions in the U.S., respondents in the West are most concerned about this with **73%** saying that it could affect their growth strategy.

One area where respondents are less concerned and more hopeful is in the new tax laws passed by Congress last year. Across the U.S., respondents felt generally positive about the changes in the U.S. corporate tax rate. **41% of respondents in Houston and 44% in San Francisco** said that the 2018 reduction in the U.S. corporate tax rate incentivizes them to keep their offices in the U.S.

44%
of San Francisco

Respondents said that the 2018 reduction in the U.S corporate tax rate incentivizes them to keep their offices in the U.S.

73%
of West Coast

Respondents are concerned about trade with China affecting their growth strategy.

81%
of Los Angeles

Respondents are concerned or very concerned about trade disputes between the U.S and China.

44%
of Boston

Organizations' desire to expand their operations in Europe have negatively been impacted by Brexit.

BUSINESS CONCERNS

Beyond global uncertainties, only **12%** feel that their organization is qualified to successfully address all aspects of global expansion within their business. The aspects of global expansion that respondents feel their organization is least qualified to successfully address include: knowledge of local markets **(34%)**, different tax codes **(32%)**, foreign exchange volatility **(32%)**, hiring to support international expansion **(31%)**, compliance and regulatory risk **(30%)**, and macroeconomic and political risk **(22%)**.

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Different tax codes and compliance and regulatory risks are especially tricky areas because many businesses that are expanding internationally find themselves in situations where they are faced with a tax audit and find themselves ill-prepared to deal with the complexities of payment regulations in new markets.

Failing a tax audit or anti-money laundering audit can have severe financial repercussions, so businesses should put in guardrails within their financial operations, such as by ensuring FATCA tax compliance with tax form data validation along with withholding calculations processes, to ensure that compliance issues don't hinder their expansion.

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Chen Amit,

Co-founder and CEO

Tipalti

In addition, 41% of respondents are planning to make changes within their organizations to establish back-office operations around international realities to keep pace with international expansion.

Those organizations that don't do that are at risk of falling behind as the most effective finance teams streamline back-office operations so that they can better partner with other areas of the business to deliver more value, such as by optimizing working capital, forecasting, cash flow analysis, improving business productivity, and helping the company scale globally efficiently.

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When we first expanded outside the U.S., we quickly realized it was going to be nearly impossible for us to understand the banking systems and tax regulations in all of the countries we wanted to operate in. We now pay 20-30 countries on a regular basis thanks to a focus on getting our back-office technology ready for scale.

If we hadn't taken this approach, we would have had to choose 3-4 countries to specialize in, limiting the quality and quantity of people we could work with outside the U.S. The biggest thing a company looking to expand globally should do is put systems in place that solve problems for them, so you can know that even if India suddenly changes their financial rules and regulations, you're still covered.

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Rob Lenderman,
Founder and Chief Operations Officer
Boost Media

Organizations are making changes internally in order to successfully scale

57% **Using technology that will more easily enable their international growth**

51% **Bringing on vendors that have the capability to work smoothly in new markets**

41% **Establishing back-office operations around international realities**

Different industries also have varying priorities and concerns when it comes to going global.

For example, both the technology and retail sectors are most concerned about hiring to support international expansion **(38% and 45% respectively)**.

In the financial services sector, however, the focus of **78%** of respondents is to hire more overseas accounting team members in new geographies in order to keep up with business expansion across different geographies.

"It was surprising to me that so many organizations plan to scale their financial operations across different geographies by hiring more accounting team members. At Touch of Modern, we used technology to scale our financial operations globally without needing to add accounting headcount and saved a lot of time and money in the process. A global growth strategy that relies on doubling, tripling, then quadrupling the accounting team to keep up with demand can't remain competitive in the new age of technology-driven operations."

Jonathan Wu,
Co-Founder
Touch of Modern

THE SUPPLY CHAIN

An astonishing **97%** of those surveyed currently face significant concerns regarding their global supply chain. Top concerns when it comes to expanding supply chains internationally include maintaining quality from global vendors **(40%)**, avoiding tax and regulatory compliance penalties **(34%)**, and paying vendors in different countries and currencies **(27%)**.

Top concerns when it comes to expanding supply chains internally include

It's unsurprising that financial compliance and vendor payments ranks high as a concern as getting payments right is critical to developing a successful supply side of a business.

Partners and suppliers will stop working with a business if there are payment issues[4] – putting the supply chain at risk.

A recent Tipalti study also found that **74%** of gig workers said that they would leave a marketplace because of payment issues. For the payer, they can spend less time focusing on payment errors and more on running a back-office operation that supports locations around the world efficiently - not only managing global suppliers but also managing more streamlined financial and operations teams across regions.

[4] https://tipalti.com/gig-economy-freelance-payment-global-marketplace/

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From opening a bank account to paying taxes to reporting obligations, every new market is different. Even if you're in the Eurozone, there isn't one standard, making it more complicated to set up shop. As a result, companies need to rely on tools that can help to streamline and centralize all of this work.

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Dash Victor,
Controller
Docker

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It's a small world. Payments made to suppliers and partners in an increasingly digital economy must find their way across international borders. Businesses are faced with countless challenges in terms of payment methods, banking regulations in emerging markets, taxation, and fraud risks.

To ensure a payment lands in the intended payee's hands – while facing the prospect of making thousands of payments at a time – can be akin to shooting a basketball into the net from outside the arena.

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Chen Amit,

Co-founder and CEO

Tipalti

About the Sponsor

Tipalti, the leading cross-border payables automation solution, has a unique perspective on this topic because of the volume of payments it processes on behalf of global clients, such as Amazon, GoDaddy, and Twitter, to an international population of payees. Tipalti provides critical support for the finance team to scale back office operations as companies expand their global payable operations, processing over $4,000,000,000 in transactions annually to over 1,800,000 suppliers across 190 countries and through 120 currencies.


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