“Life Beyond Export”

Alternative routes to Global Markets

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From SME to Multinational Company (MNC)

The Multinational Definition – “Having operations, subsidiaries or investments in more than two countries”

UK Parent Company → Manufacturing deal in China → Subsidiary or JV in India

Domestic Exporter → Multinational Transition → Multinational Company

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New Market Development Strategies

Increasing Risk and Complexity

- Mergers & Acquisitions
- Wholly Owned Subsidiaries
- Joint Ventures
- Licensing
- RO’s and Branches
- Direct Export

Principle Stages of Internationalisation

Overview

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Direct (Simple) Export Trading with China

Buyer Orders from UK factory

Products Shipped direct to buyer

Buyer pays UK factory

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Characteristics of Direct Export

- First step of international market development
- Existing products in new markets
- Products made in UK and shipped to foreign markets
- Direct to buyers or via resellers (distributors)
- Direct selling from UK or via foreign sales agent
- Extended time to market
- Attracts margin pressure – shipment costs, reseller margins etc
- First time and early stage exporters assisted by UK Trade and Investment (UKTI) services
UKTI : Government support for Exporters

- International Trade Advisors (ITA’s)
- Passport To Export
- Market Visits to meet the buyers
- Overseas Market Introduction Scheme (OMIS)
- Export Market Research Assistance (EMRA)
- Export Communications Review Scheme (ECRS)
- Trade Fairs and Exhibitions
- Business Opportunity Alerts
- International trade support “with” a country
The Exporters Dilemma – Diminishing Export Returns Over Time

Market Revenue £’s

Time/Market Development

UKTI Export Support

The Exporters Conundrum

Falling Market Share

RTC North Support
Next Stage International Growth Strategy

Return to Growth

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What Causes the Exporters Dilemma?

- Increased competition within foreign markets adds price pressure
- Markets become more “sophisticated” over time
- Price pressure reduces margins
- Buyers expectations – Won’t wait six weeks to receive Shipped product from UK
- Increased costs – of shipping, resellers stocking charges to hold product “in market”, foreign government import tariffs
- Buyers demand more physical presence – sales, servicing, warranty..
- Need to develop a new approach to stop erosion of market share –
Representative Offices / Branches
Trading with China

Buyer Orders from UK factory

RO promotes UK factory products to buyers

Buyer pays UK factory

Products Shipped direct to buyer
Characteristics of ROs and Branches

- Manufacturing remains in the UK
- Still 6 week delivery time frame to international buyers
- **RO’s (Representative Offices) non-legal organised entity to market and promote UK factory in international market**
- Cannot take customers orders, trade directly or make a profit
- Must refer international buyers to UK factory to place orders
- **Branches may take customers orders, negotiate prices and place on the UK factory**
- Can create a cross-border taxable presence (PE)
- Additional market development costs without overcoming the “Exporters Conundrum”
Licensing – Trading in China

UK Licensor supplies IPR

Buyer orders from PRC licensee

Products made in PRC and delivered to buyer

Buyer pays PRC Licensee

Royalty payments on sales paid to the UK Licensor

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Characteristics of Outward Licensing -

- Products produced in foreign markets by local manufacturers
- **No 6 week shipping time – overcome buyer purchasing concerns**
- Reduce costs – shipping and transportation, foreign government import tariffs, reseller stocking charges
- Reduce price pressure
- **Possible loss of product/process control**
- Increased IPR infringement risk
- Increasing risk of quality failure
- Profit made through Royalty payments but profit return small
- Minimum capital investment required
Joint Venture – Trading in China

- UK investor supplies IPR / production parts, capital & management
- PRC investor supplies assets, staff and capital
- Buyer orders from PRC JV
- Products made in PRC and delivered to buyer
- Buyer pays PRC JV
- Share of profits repatriated back to the UK and PRC investor

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Characteristics of Joint Ventures

- First step towards MNC status by establishing foreign legal presence
- High investment requirement in capital, management time, production resources but overall investment cost is shared with other investor(s)
- Controlled exposure of IPR
- Foreground IPR ownership rights can be challenging
- Terms of investment can be complex and needs an exit plan
- No 6 week delivery for buyers as product manufactured in PRC
- Tax optimized structuring of profit repatriation can be complex with regards capitalization issues, transfer pricing rules, compliance etc
- Incorporation procedures can be long and complex
- Can’t be done from behind a desk in the UK!
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Wholly Owned Subsidiary Trading in China

UK investor supplies IPR / production parts, capital & management

Buyer orders from PRC Subsidiary

Products made in PRC and delivered to buyer

Buyer pays PRC Subsidiary

Profits repatriated back to the UK investor on PRC subsidiary operations
Characteristics of Whole Owned Foreign Subsidiary

- Full MNC status and legal presence without joint venture
- **High investment cost as new company is 100% owned**
- **Total control over IPR**
- No 6 week delivery for buyers as product manufactured in PRC
- Tax optimized structuring of profit repatriation can be complex with regards capitalization issues, transfer pricing rules, compliance etc
- **Control over 100% of the profits but take 100% of the risk of market development failure**
- Incorporation procedures can be long and complex
- No foreign investment into company may preclude it from bidding for government contracts in some countries
RTC North provides “one stop shop” to help SMEs take the next step on their international development; Services include:

- International Operations Planning,
- Foreign Company Registration, Incorporation and Operational Set Up, (RO’s, Branches, Joint Ventures, Subsidiaries)
- Setting up International Licensing Arrangements
- Protection of IPR in Foreign Countries
- Foreign Government Registrations Service
- Due Diligence on assets and investors
- International Legal Support and Contract Drafting
- Tax Optimization of Foreign Company Structures
- Foreign Banking Support – Business Account Opening
1. Licensing Agreement with USA

Market research led to licensing agreement with a US company to sell their space-saving parking system outside the UK.

“The team at RTC North has brokered the perfect partnership by bringing an industry leader to us. Thanks to them, our idea has gone from concept to production in less than two years”  
Ken Riley, Inventor
“Park and Slide” Case Study

Product development
By UK company

✓ protect technology
✓ support for design

Manufacturing license in China
✓ research suppliers

Product License for sales in USA
✓ Exported direct from PRC to USA
✓ identify partner

RTC North assists inexperienced SME client in all aspects

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2. Joint Venture with Japan

A new platform for remote hand-held medical diagnosis

The assistance provided by RTC North through UKTI’s R&D Globalisation Programme has been invaluable to us and will likely benefit many more SMEs like us in the region.

Dale Athey, CEO

The OJ Bio Joint Venture

Japan Radio Company

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<table>
<thead>
<tr>
<th>Existing Customer</th>
<th>New Market Territory</th>
<th>New Market Segment</th>
<th>Totally New Market</th>
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<tbody>
<tr>
<td>Existing Product</td>
<td>1</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Improved Product</td>
<td>2</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>New/Related</td>
<td>5</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Totally New</td>
<td>9</td>
<td>12</td>
<td>14</td>
</tr>
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Adding value to a product
Adding penetration to a market

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SME high-growth matrix

Clean room Technology (global)