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Doing business in the global economy. . .

Tips for executives who initiate or build international marketing, sales, operations or purchasing

by Augie Tetzlaff, atetzlaff@bkd.com

As the adage goes, "If you build a better mousetrap the world will beat a path to your door." An update could read, "If you offer a better value in your mix of product, service and total cost—*and* beat a path to the world's opportunities—you'll earn a decent or better long-run return."

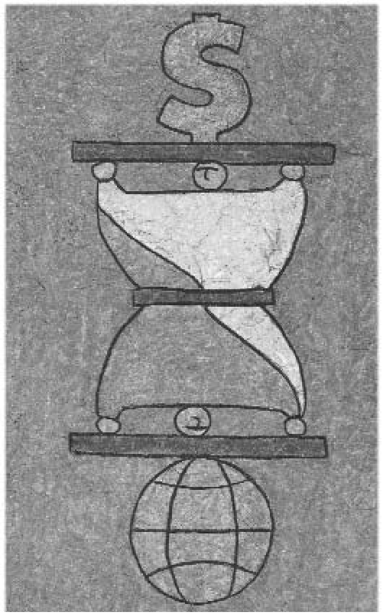
Let's take the perspective of that second version and prepare to do business in the global economy.

Pursuing global opportunities

Recognize that pursuing global opportunities often entails some cross-functional effort and coordination, whether the immediate opportunity is large or small, or it lies in sales, purchasing, production or collaboration.

Business development has been hampered when key people—maybe just one or two on the team—were not ready or able to travel internationally or were simply ineffective due to a lack of support resources, inadequate internal coordination or their own ignorance about doing business with a particular foreign country.

Doing business internationally requires multifaceted learning and adaptation. People who have difficulty with this process can quickly succumb to disorientation and culture shock, but it's possible to help them learn at a slower pace by taking one step at a time.



Be aware of worst-case scenarios

A U.S. company's sales rep and a member of its technical support staff were asked by a customer in England to attend the formal acceptance of the company's bid and finalize specifications and schedules. The meeting was scheduled in three weeks in London, where the customer was based. The worst-case scenario for this U.S. company was born of neglect: It had never asked who among its technical support personnel had a valid passport.

A "seasoned international traveler" from the human resources department said passports were unnecessary when traveling to English-speaking nations, referencing a vacation drive from the U.S. to Canada years earlier as proof. Critical time elapsed before the appropriate people learned the actual requirements.

The company assumed it didn't have time for typical passport processing and was unaware of nongovernmental passport expedite services that can process same-day requests for a nominal $180 fee.

The company told its foreign customer it could not have technical support onsite in just

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New tax act affects Section 199 deduction

by Chip Storey, gstorey@bkd.com

The Internal Revenue Code (IRC) Section 199 domestic production deduction is limited to 50% of the W-2 wages paid by the taxpayer. The *Tax Increase Prevention and Reconciliation Act of 2005* (TIPRA) makes some changes to this limitation, effective for tax years beginning after May 17, 2006.

Under pre-TIPRA law, wages don't have to be allocable to Section 199-eligible production activities: If a taxpayer engaged employees in an activity that qualified for the deduction and in another that did not, the wages of both activities counted for purposes of the 50%-of-W-2 wage limit.

However, under TIPRA, the W-2 wages taken into account must be allocable to qualifying domestic production activities.

But it's not all bad news

Under pre-TIPRA law, a partner's and an S corporation shareholder's share of W-2 wages were limited to two times the specified percentage of qualifying production activity income allocated by the partnership or S corporation to that person for the tax year.

TIPRA repeals this special limitation. Instead, each partner or shareholder is treated as having the W-2 wages for the tax year equal to his/her allocable share of the partnership's or S corporation's W-2 wages for the tax year.

Also note that final regulations about the Section 199 deduction have been issued, and additional Treasury guidance is forthcoming.

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three weeks' time. The customer suspected a possible chronic deficiency and gave a sizable, ongoing piece of the implementation project to one of the company's competitors.

This company could have easily assigned someone to research, coordinate and inform other personnel about foreign business efforts and could have posted the procedures for getting or renewing passports.

Take a moment to browse the U.S. Department of State's web site (**www.travel.state.gov**). Learn which countries require a passport and a visa for entry and how to obtain them. Information about other requirements includes proof of sufficient funds and health insurance, yellow-fever immunization, HIV testing and certificates of religious affiliation.

Check into the requirements of *every* country that could potentially be part of your itinerary. For example, some countries require visas of everyone onboard, even when aircraft simply *land* on their soil, no matter how briefly. The same requirement can hold true for those who remain seated when passengers or crew disembark or join a flight.

Effective December 31, 2006, you'll need a U.S. passport or specific equivalent documentation (not just a driver's license and copy of a birth certificate) for all air and sea travel to and from Mexico and Canada; in 2007, land border crossings also will apply.

The State Department updates its site two or three times a year and has current contact information for U.S. consulates.

Other things to consider

What additional areas would an executive preparing a team for international business development want people to know and share?

Know credit, treasury functions - Analyze the range of options and specify the mechanics for letters of credit and other bank instruments that have solid international experience. Develop processes for adapting credit policies to reflect long-term relationships or work with foreign subsidiaries of U.S. countries.

Tax concerns - Before initiating foreign business plans, discuss tax concerns with an advisor experienced in international tax and arrange regular follow-up meetings to keep abreast of developments.

Cost accounting - Determine how to capture and attribute costs of developing and distributing products sold internationally to the country or geographic region buying them.

Marketing, branding, market channel management and customer service - Discuss and document goals, marketing plans, market intelligence gathering, data and assumptions, as well as intended and achieved results. An advisor can help identify strengths and weaknesses in your plans and activities.

Regulatory concerns - Know and adhere to the foreign country's regulatory requirements and to U.S. laws that apply to American companies doing international business.

Just as the U.S. has federal *and* state regulations, similar situations may exist in other countries. One U.S. company had a product load returned from Canada because the destination province required English *and* French translations for all significant text on labels.

Product design and service - Know how the product will perform when used in different environments, at different temperatures and with varying operator skills and maintenance practices. Will it be exposed to different or varying inputs of raw materials, lubricants, electricity, pneumatic pressure, water, etc.? Will it need additional or different services?

Specifications of purchased products or components - Be prepared to invest time discussing and clarifying specifications for bought-and-sold products and containerization. Even if you bought industrial equipment or large metal parts, you may still run afoul of agricultural or environmental concerns.

If wood pallets are used to ship products, they must either be treated and certified to

Tips for sourcing in China provide insight

by Greg Cislak, gcislak@bkd.com

Doing business in China can be very different from doing business in the U.S. Cultural norms and values influence how it's conducted, and the following tips provide insight:

- An old Chinese proverb serves as a metaphor for the country's traditional perception of time and action: "If you go to the stream in the morning, you observe a rock in the stream has the power to part the waters rushing over it. But if you return to the same stream in 100 years, you see the water has washed away the rock."
- Patience and trust are very important if your Chinese associates are to perceive you as someone with a long-term view.
- Wages and most fringe benefits are taxable in China. Foreign nationals working there longer than a brief period must generally obtain employment visas and pay Chinese income taxes. Housing costs paid by an employer are usually not taxable in China.
- The Chinese income tax is calculated monthly on compensation received during the month. The top tax rate is 45% for monthly income exceeding 100,000 RMB or renminbi, which means "people's currency," worth approximately $12,500.
- Income is not accumulated for purposes of calculating monthly tax liabilities. Therefore, if you receive a large bonus, commission or other payment in one month, it may result in a much higher tax rate for the month's overall compensation.
- As a U.S. citizen, you'll continue to pay U.S. taxes on worldwide income, even while you live and work in China. Provided certain requirements are satisfied, the U.S. tax code allows up to $80,000 of wages earned in a foreign country to be excluded from U.S. taxes. You also may be able to obtain a credit on your U.S. taxes for some of the Chinese taxes paid.
- Planning for the U.S. and Chinese tax impact before doing business in China can help reduce or eliminate income being taxed by both countries.

With numerous details to address, sending employees to work in a foreign country can be overwhelming. Pitfalls and opportunities abound, but how do you deal with them?

BKD Expatriate Assignment Solutions (EAS) can help with issues that arise from international assignments. EAS can help you avoid risks and guide you in how to take advantage of opportunities, allowing your employees time to focus on their jobs, not assignment-related tax and administrative issues.

Contact your BKD advisor for more information.

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ward against insect infestation, or the treatment must be done at the port of entry by an approved service provider if one is available, and they're very expensive. Be sure to clarify shipment mode and duration.

Travel light - Suggested carry-on items include water, a snack and toilet paper. The toilet facilities in some parts of Asia, Africa and the Middle East don't provide paper *or* fixtures.

Adopt negotiating style - Understand the general cultural context and typical style for negotiation in a foreign country's organization, as well as within your team.

Respect cultural customs - You may find typical local customs unusual but don't stare if you see them publicly exercised and don't attract attention yourself.

Let's say you're invited to a function featuring Western-style ballroom dancing. In some countries, you rarely, if ever, will see two women dancing together at such a gathering, but you might see two men dancing together, possibly in military uniform.

This custom, based on the belief men are the *initiators*, allows unaccompanied males to dance together, often as a way to pass time as they wait to ask permission to dance with an unaccompanied female guest.

In other parts of the world, an adult male eating an ice cream cone in public is considered a spectacle, a shocking display that invites stares and mockery.

Dress the part - In general, it's best to dress in a manner that helps you to blend in with the crowd. It's unwise to be identified on city streets as a foreigner or tourist.

Be a good host - If your group or facility hosts an event, consider using signage with international symbols for entrances, exits, hazards, bathrooms, etc. Awareness of holidays and significant events in the countries you do business with also has a positive effect.

Simple tools have impact

The bulletin board, intranet and brown-bag lunch discussions are helpful tools in preparing your organization to go global.

If your strategic marketing plan includes establishing or expanding your company's presence in a foreign country, organize an informal meeting where different team members can present some ideas mentioned here to help you and your associates go global smoothly.

Ten ways to increase value:

Part II in a series focused on building your company's value

by Pat Hayes, BKD Corporate Finance, phayes@bkd.com

Many business owners neglect to adequately prepare for the sale of their companies, which can cost them a great deal at the closing table. As with any important decision, preparation is vital to generating the desired result.

If you're considering selling in the next 10 years, the time to prepare is now, long before the sale. Though there are many ways to develop and implement a strategic plan for increasing your company's value, the 10 tips that follow—which aren't listed in order of importance—can help you get started.

Mold a strong management team - If buyers view your involvement as vital to the success of the business, you'll either be forced to stay on after the sale, or the value of your company may be reduced.

Identify key employees and groom them to take over the business when you depart. In the buyer's eyes, this will lessen the risk of the company being negatively affected by your departure. You should be able to seamlessly exit the company, and a buyer should feel your departure won't create a leadership void.

Have audited financial statements - In light of recent accounting scandals and increased scrutiny from Sarbanes-Oxley legislation, audited financial statements are almost a necessity in a transaction.

On the contrary, *not* having audited statements will increase the due diligence costs of a potential buyer, thus decreasing what the buyer may be willing to pay. Not having audited financial statements also may create delays in closing the sale, which can be costly and perhaps fatal to a transaction.

Invest in the future - With most transactions priced on a multiple of earnings, many owners believe decreasing certain expenses will pay off in a higher purchase price.

However, bypassing needed improvements, upgraded IT systems or new equipment purchases can negatively affect value. Also, appearances *do* matter in a transaction, and having dilapidated equipment or facilities in need of maintenance or replacement will only diminish your company's overall impression.

Assess customer concentration - Many companies rely on a few significant customers, and buyers may view this as risky: How will losing just one key customer affect the company as a whole?

If diversifying is too difficult or not possible, obtaining sales contracts or agreements with key customers can help mitigate the risk a potential buyer might perceive. If contracts aren't feasible, find another way to demonstrate how much your most valuable customers depend on your products or services.

Clean up your balance sheet - Remove items such as:

- Excess working capital
- Investment properties, personal vehicles
- Obsolete inventory
- Excess property or equipment
- Loans to shareholders

Cleaning up the balance will reduce confusion and disagreement about which assets and liabilities the transaction will include.

Consider controlled ownership - Buyers prefer to purchase 100% of a company from a small number of like-minded owners; howev-

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er, in many cases, there may be minority owners who don't share the majority owners' objectives. Buying back minority-owner shares well in advance of a sale may help ensure a smoother transaction and may increase value.

If such a buy-out isn't feasible, then obtain their agreement to sell along with the majority owners. Trying to sell a closely held company with unwieldy minority shareholders is not only difficult but may not be practical in some instances.

Prune unprofitable clients from your customer base - While diversifying your customer base is important, consider "pruning" unprofitable customers or products. Because most transactions are priced on a multiple of earnings, eliminating anything that might decrease earnings can pay off multiple times.

Think like your buyers - Put yourself in the buyer's shoes and imagine buying your company. What would concern you? Looking in the mirror can be enlightening.

Many company owners are focused on the day-to-day operations and may not take time to think objectively about their company's selling points.

Be realistic. Don't turn down a good offer because you think it's too low; the result could be a lifetime of regret.

Time your sale carefully - Timing has a significant impact on value. An underperforming company may sell for more in an up market than a well-performing company may sell for in a down market.

Too many company owners decide to sell based on their age or an unexpected event, rather than the overall business climate. Having an experienced intermediary can keep you informed about industry and market conditions and when it is the right time to sell.

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Form a multidisciplinary team of advisors - Choosing the right investment banker is an important decision in enhancing the value of your company. One with transactional experience can educate and prepare your company for every aspect of the sale process.

This individual will manage the transaction from start to finish to ensure the process runs smoothly, thereby allowing the owner to focus his/her efforts on managing the business.

Selling a company is a team effort. In addition to an investment banker, members of a solid team include:

- Certified public accountant
- Financial advisor
- Merger and acquisition attorney
- Estate planner

It's important for each team member to have the right training, experience and a high degree of integrity and professionalism.

Your sale of a lifetime: take time to prepare, build value

For most owners, selling the company they've built is a once-in-a-lifetime opportunity. Being fully prepared when the day comes to sell can help you receive top dollar.

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