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THE FINANCE PROFESSIONAL'S GUIDE TO GLOBAL EXPANSION

How to reduce costs and mitigate risk when taking your business abroad

Table of Contents

Is Your Company Ready to Go Global? 02

Why Should Companies Go Global? 03

Options for Global Expansion—Which One Is Most Cost-Effective? 06

Mitigate the Risks of Hiring Around the World and Avoid Serious Financial Consequences 09

How to Create a Cost-Effective Global Growth Strategy 12

How Global Expansion Changes Your Daily Operations 14

Learn More About How International PEO Saves You Money and Time 17

Is Your Company **Ready to Go Global?**

Global expansion is a necessity for companies looking to grow their revenue streams and stay competitive, and it is top of mind for finance executives around the world. **According to Velocity Global's 2020 State of Global Expansion™ Report: Technology Industry, 95% of finance leaders at U.S. and UK tech companies plan to expand their operations into new countries in 2020.**

Companies that aren't considering global expansion risk losing new customers, market share, and profits to the competition.

Global expansion offers extensive benefits for revenue growth. But, before your company starts hiring around the globe, there are important financial decisions to make.

This eBook explores the steps financial professionals must consider before tackling global expansion, including:

- *Weighing the benefits and challenges*
- *Analyzing and mitigating risk while overseas*
- *Choosing a compliant hiring option*
- *Preparing teams for foreign operational changes*

Why Should Companies Go Global?

There are numerous benefits of globalization. However, certain cost-related benefits appeal most to finance professionals. Based on data from Velocity Global's **2020 State of Global Expansion Report: Technology Industry,** new customers are the primary reason why many companies want to explore foreign markets. However, new prospects and revenue are certainly not the only benefits of global expansion. There are additional perks that directly and indirectly enable your company to grow and diversify income streams.

Uncover More Customers—and More Revenue

According to the 2020 State of Global Expansion Report, 64% of finance leaders at tech companies want to go global because it offers the potential to grow their customer base. New customers lead to more revenue, and global expansion is a great way to boost your bottom line, and access customers that are much harder to reach by staying in your headquarters country. **This global expansion trend is taking off, as 70% of tech companies plan to be in five or more global markets by 2025.**

Capitalizing on Available Government Incentives

Many governments around the globe provide incentives to attract foreign businesses to their markets, which improves local economies.

Ireland, the #3 market for global expansion named on Velocity Global's Global Expansion Tech Index™, has one of the lowest corporate tax rates in the world at 12%. Europe as a whole has an average corporate tax rate of only 18.38%, lower than the 21% rate in the U.S. Incentives are not limited to tax breaks. Other benefits include:

- *Low-interest grants and loans for private companies*
- *Free-trade zones*
- *Subsidized infrastructure development*
- *Regulatory concessions*

Corporate tax rates in Ireland vs. U.S.

Improving Global Market Perception

Global expansion is an opportunity to market your firm as an international brand, not just a successful domestic player. Firms must do the following to drive revenue in foreign markets successfully:

- ***Understand their target market's wants, needs, and nuances***
- ***Develop a marketing strategy that communicates the brand and value you bring to new customers***
- ***Adapt to market and cultural shifts***

If potential customers are aware that you operate in multiple markets, they view you as an established company dedicated to providing products or services in diverse markets.

Increase Access to Qualified Talent

Globalization helps companies to find new, specialized talent that may not be available in their current market. For example, globalization gives companies the opportunity to explore tech talent in booming markets such as Berlin or Stockholm, rather than Silicon Valley. International PEO (Professional Employer Organization) is a global employment solution that enables companies to hire employees anywhere in the world quickly, compliantly, and without the burden of establishing a foreign legal entity.

Stockholm, **Sweden**

Stockholm has one of the fastest-growing tech startup scenes in the world, and **is home to more billion-dollar firms per capita than any region outside Silicon Valley.**

Berlin, **Germany**

In the last year alone, 500 startups launched in Berlin. Raconteur reported that German startups earned 2.6 billion Euros in funding in 2018, as well as **1.6 billion Euros invested in the e-commerce sector.**

Gain a Competitive Edge

Global expansion is essential to escape market plateaus and outpace the competition. Expanding overseas means you:

- ***Gain greater exposure for your company***
- ***Earn the trust of new customers***
- ***Capitalize on new market opportunities that are unavailable domestically***
- ***Establish the foundation for a long-term global presence***

Domestic success sets you apart from your competition, and global expansion only widens that gap. Establishing a presence in a worldwide market enables you to develop relationships with potential and new consumers, and doing so quickly allows you to outpace your competition in that market. When a competitor moves into the new foreign market after your firm, you have the advantage of brand recognition, earlier access to talent pools, and an expanded customer base. No matter when you grow overseas, breaking into new international markets is a proven method to distinguish your firm from others in your space.

Options for Global Expansion—Which One Is Most Cost-Effective?

While global expansion is appealing for a variety of reasons, most CFOs and other high-level finance professionals worry about one key element: **cost.** Setting up an entity is the traditional path to globalization, but now there are faster, more cost-effective options available.

Entity Setup: Financial Benefits and Challenges

Choosing entity setup as a global expansion method ensures compliance, but it is also an expensive option. **The average setup fee for a compliant legal entity is $15,000 to $20,000. The average ongoing maintenance fees for an entity, depending on the market, is up to $200,000.** Legally dissolving an entity can cost between $45,000 and $60,000 and take six months to two years, depending on the country. Entity establishment comes with a myriad of financial decisions, and finance teams must weigh several commitments before undertaking the legal entity establishment process, such as:

1. **Researching Local Laws and Regulations**

   This step takes money, time, and staffing dedicated to researching all local laws and regulations in the new market to ensure compliance. On average, it takes 160 hours to research and complete the necessary tasks to set up an entity—but that is just the beginning of the required time investment.

2. **Finding a Registered Office Address**

   This is an additional cost, but it is necessary as some countries require a registered office address and a resident director (or a third-party company that acts as your legal representative in the country) to receive a tax ID.

3. **Stocking a New Office**

   If you choose to have a physical office, it is necessary to establish a budget for all of the technology, machinery, and other supplies needed to run the new location.

4. **Paying Entity Dissolution Fees**

   Should a company find they need to dissolve an entity, this process comes with time delays and steep financial commitments. Dissolving an entity typically takes three times longer and costs three times more than the amount required to establish the entity.

5. **Losing New Opportunities**

   Companies must consider the opportunity costs, or what they could lose during the time it takes to set up an entity such as revenue. During this time frame, their competition could gain traction in a market and take away valuable customers and market share.

These numbers might be a turn-off for price-conscious finance professionals, but there are more cost-effective expansion options to consider.

International PEO: Financial Benefits and Challenges

If entity establishment isn't in the budget, there are other ways to save money and still make global expansion a reality. An International Professional Employment Organization (PEO) is typically 60% more cost-effective than entity establishment.

International PEO is a global hiring solution that enables businesses to expand into almost any country. **An International PEO partner hires employees on a company's behalf, and handles all payroll, benefits, and compliance—without needing a legal entity.** Firms use this solution when they want to hire in international markets, but don't have the time or funding necessary to establish an entity.

International PEO increases the speed-to-market, which enables your firm to start operating and bringing in new revenue faster, compared to entity establishment. The process of entity establishment often takes at least 3-4 months. **However, depending on the market, our International PEO solution is able to get your firm up and running in a matter of days.** This speed allows your business to set up quicker in a new market and expand your company's revenue stream. Comparatively, the extensive time it takes to set up an entity results in lost revenue.

International PEO gives companies the flexibility to quickly enter or leave any market, without having to pay the expensive teardown costs.

Cost savings from International PEO include:

- ***No need to spend time and money*** *researching local labor laws. With our International PEO solution, you get local experts who handle payroll and compliance for your internal teams.*
- ***No need to hire a local director*** *or another third party to act as your local, legal representative and your firm saves money on that salary.*
- ***No additional costs*** *to leave a market.*

Potential downsides of International PEO include:

- ***Companies cannot hold*** *fixed assets in their new market, such as warehouses or manufacturing facilities.*
- ***It is most cost effective*** *for companies looking to hire a lower headcount in a market.*
- ***If your foreign presence grows****, you may be legally required to establish an entity in the future due to tax laws and obligations in specific markets.*

Mitigate the Risks of Hiring Around the World and Avoid Serious Financial Consequences

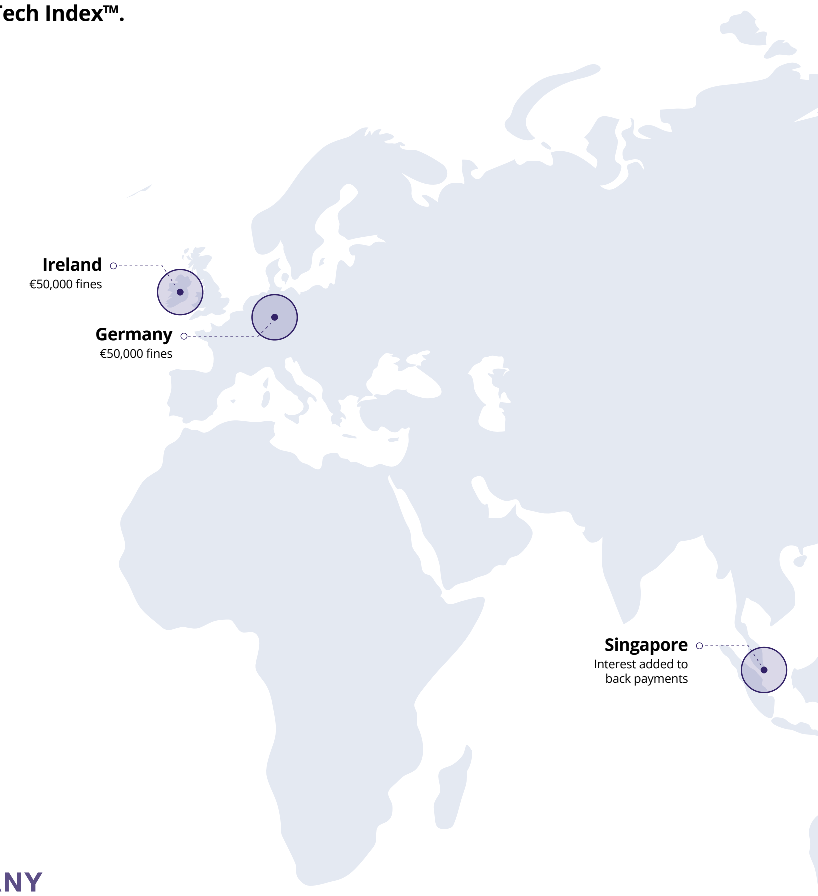
Hiring foreign workers is often complicated and time consuming. To save time and money, companies often classify their foreign workers as independent contractors. While this classification does work for some businesses and their needs, worker misclassification is common with this method. Misclassification ends up costing companies thousands of dollars in noncompliance fees and creates legal headaches.

The Hidden Dangers of Foreign Independent Contractors

95% of foreign independent contractor relationships around the world are noncompliant. One misclassified contractor can cost up to $500,000 in fines. The business faces serious consequences, such as owing back taxes and the cost of benefits the employee would have received with full-time status. As a financial team, the fines are a severe hit to your company and strain your internal teams. Here are examples of penalties from some of the **top markets for growing tech firms, identified in Velocity Global's Global Expansion Tech Index™.**

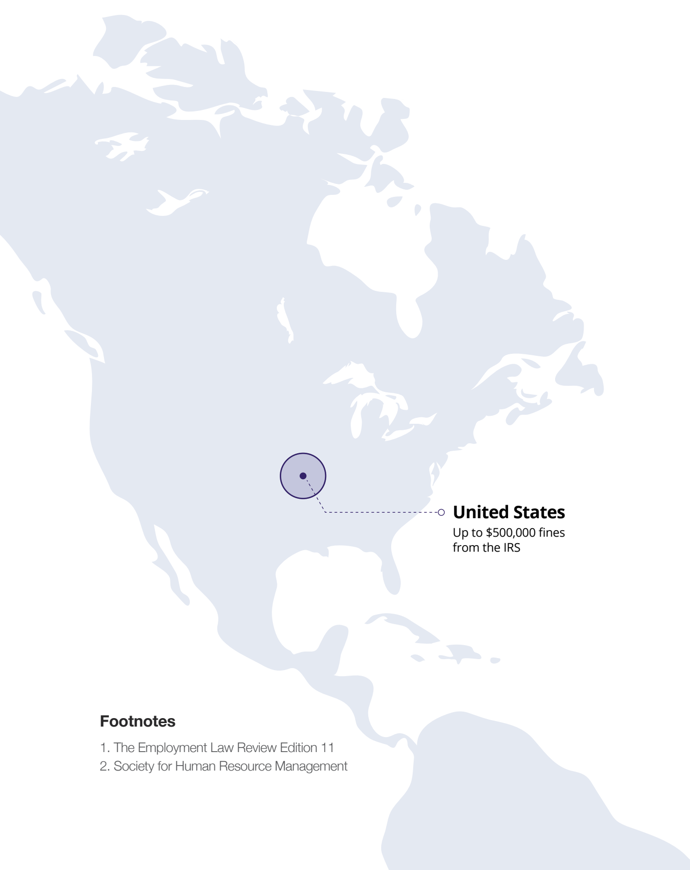
SINGAPORE

Employers must make retroactive payments to comply with all labor laws that protect employees. This includes contribution arrears to the Central Provident Fund, Singapore's comprehensive savings plan for retirement, health care, and housing. The government often adds interest to these back payments.[1]



UNITED STATES

If the IRS finds that you intentionally misclassified workers, then they can seek a criminal conviction with up to one year in jail and a fine as high as $500,000 for a corporation.[2]



GERMANY

Independent contractors who do not correctly register themselves and their operations can be subject to €50,000 in fines. Employers are held liable for up to four years' worth of social security contribution arrears, in addition to 1% interest on the amount due per month.

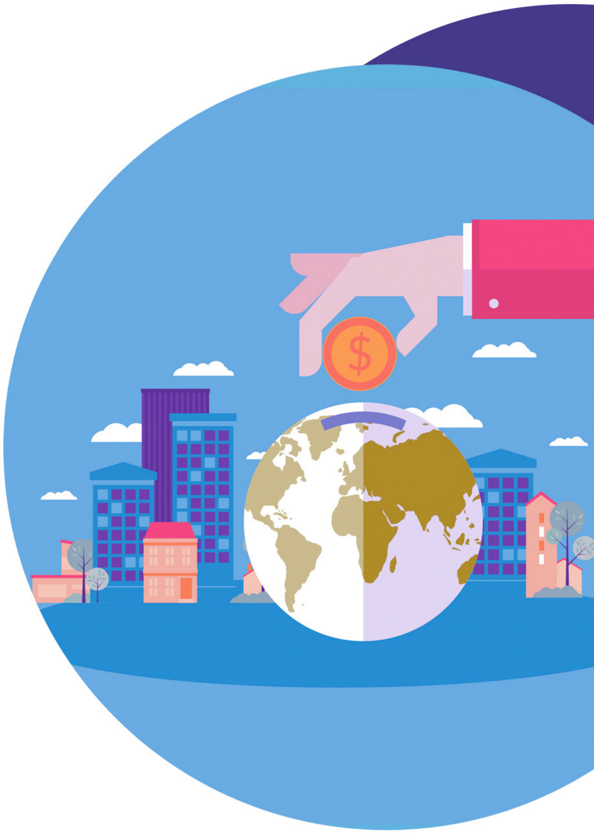
IRELAND

The employer of a misclassified employee is liable for unpaid taxes, interest on said taxes, and other penalties, including the possible revocation of employee permits. €50,000 fines are common. Some fines go above this.

Footnotes

1. The Employment Law Review Edition 11
2. Society for Human Resource Management

Compliant Hiring **Options That Save You Money**



To avoid misclassification risks, take the time to determine your needs, and choose a different hiring method if you can't ensure compliance. Compliant hiring options include:

1 Establishing a Legal Entity

Entity establishment is a long and expensive process. But if you plan to hire a significant headcount, it is the best way to ensure compliance and mitigate the risks of government action for noncompliance.

2 Registering as a Non-Resident Employer (NRE)

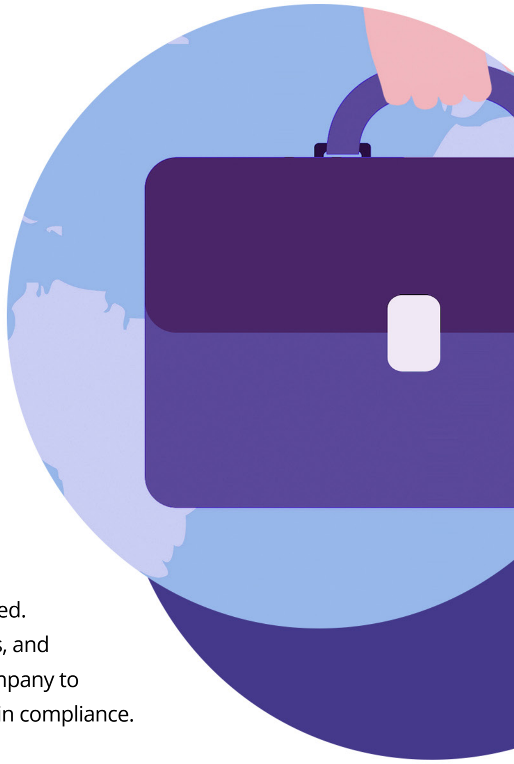
Registering as a Non-Resident Employer (NRE) gives companies an in-country tax ID that allows companies to legally onboard and pay local workers, and fulfill the necessary tax requirements. NREs are most common in the European Union, but the exact name varies from country to country, and is not available in every market. Governments often target NREs for audits, and companies using this option face fines if they are noncompliant.

3 Utilizing International PEO

International PEO is a cheaper option compared to entity establishment because there is less initial investment needed, and no additional costs to leave a market. This option also saves you money, compared to establishing a legal entity, and helps to avoid fines for misclassified workers. Partnering with an International PEO provider is a quick and compliant way to onboard employees overseas.

Creating a Cost-Effective Global Growth Strategy

Choosing a path to global expansion, as well as a compliant hiring plan, are both crucial elements of a fiscally successful global growth strategy, but there is still more to consider. In the following section, we review the information above to help you determine the best path to new markets for your organization and its financial goals.



What Global Expansion Method Is Right for Your Business?

There are a few ways to establish a compliant foreign presence. International PEO is generally more cost effective but is not the right option for every company. Entity setup is more appropriate for companies with a substantial budget that are ready to make a long-term commitment to a certain market. Evaluate your business' unique financial situation before moving forward.

What Personnel Do I Need— and How Should I Hire Them?

Depending on your global expansion method, you might need a higher headcount than anticipated. For example, to establish a legal entity, most countries require a local director, in-country address, and bank account. Because of these requirements, you need to hire an executive (or a third-party company to act as a legal representative of your business), and potentially a legal and finance team to maintain compliance.

Quick tips:

- ***By using International PEO, your company does not need to hire the roles mentioned above.***
- ***After you decide on personnel, use a compliant hiring method if you are not establishing an entity, such as International PEO.***
- ***Remember the risks of misusing foreign independent contractors and how it results in serious fines.***

Is Flexibility a High Priority?

Another benefit of using International PEO in your global growth strategy: it gives you the flexibility to enter and exit any market at any time, with no hidden costs. The flexibility to leave a market if it's not profitable is extremely valuable. For example, if it takes one year to establish an entity (sometimes longer, depending on the market), your strategy or business goals can change in that time frame, and a different market could prove to be a profitable option during that time.

Quick tip:

- ***With entity establishment, you are stuck in that market, resulting in wasted spend and lost revenue.***
- ***International PEO enables you to make market changes as needed without long-term commitments and additional costs to exit.***

This agility allows you to make moves based on economic conditions and political events that impact your success in a new market, such as:

Brexit and the lack of clarity around the UK's future of business

Hong Kong unrest leaving this Asian market less attractive to foreign investors

Economic turmoil in many Latin American countries, such as Chile and Argentina

COVID-19 outbreak causing economic distress and shutting down many of the world's most prominent business hubs. Experts predict that it could take the U.S. economy three years or longer to recover from the impacts of the virus.

Quick Tips:

How Global Expansion Changes Your Daily Operations

Global expansion offers a lot of benefits, but that doesn't mean it is not without challenges. Global expansion necessitates changes in any company's daily business operations, particularly in the finance department. Before moving across borders, financial professionals need to ensure that their internal teams are adequately prepared for the challenges ahead—and have the right partners by their side to ease the burden.

Top Operational Changes to Anticipate

Anticipated Challenges

39% *Incurring tarrifs and export fees*

34% *Managing two (or more) sets of financial records*

39% *Changing internal software*

1 Incurring Tariffs and Export Fees

Over one-third (39%) of finance professionals at tech companies believe that incurring tariffs and export fees is a significant challenge of expanding into new markets. Companies that sell physical products must factor tariffs and export fees into their yearly budgets.

2 Maintaining Two (or More) Sets of Financial Records

34% of finance executives at tech companies say that managing different payroll processes is a barrier to global expansion. Running payroll and expense processing is demanding in one country, but adding multiple countries and currencies adds more layers of complexity. In addition, keeping another set of financial statements in local currency or under local accounting regulations is even more challenging.

3 Staying Compliant in Foreign Countries

Companies that have a legal entity need to consider various compliance issues:

- ***Statutory Audits:*** *These must be completed in local country currency and according to local accounting rules*
- ***Tax Filings:*** *Income, VAT, GST and other local tax filings depending on the market*
- ***Payments and Compliance Filings:*** *The necessary employer payroll-related government payments and related compliance filings*
- ***Insurance and Licenses:*** *Countries might require different insurance and licenses to operate depending on the market*
- ***Capital Requirements:*** *Some markets may require a certain capital structure*

4 Budgeting and Forecasting in Different Markets

You can't expect buyer habits and economic trends to stay consistent from country to country. Going global makes creating a budget for your company demanding, especially in terms of forecasting, and setting reasonable revenue expectations.

5 Changing Internal Software

Because of the added complexities of managing two sets (or more) of financial records, some companies must upgrade their internal systems and software. Intercompany accounting entries become much more difficult when going global, and businesses often need an additional accounting resource to manage the new processes and compliance requirements.

How International PEO **Removes Operational Obstacles**

Global expansion creates an opportunity to position your firm as a successful international brand, but it is not always simple. Firms must do the following to drive revenue in foreign markets successfully:

- ***International payroll management***
- ***Benefits administration***
- ***Compliance and proactive risk mitigation***

An International PEO partner handles all the complex finance, HR, and legal tasks necessary to run a global team, while your company still maintains day-to-day control. With Velocity Global as your International PEO partner, you have a single point of contact to answer questions and keep you up to date on any changes to local tax codes or laws that directly impact your business. **You also receive a single monthly invoice for services, no matter how many employees you hire around the world.**

Learn More About How International PEO Saves You Money and Time

Global expansion is quickly becoming a necessity for companies, both for the financial benefits it offers and to outpace your competition. Fortunately, for cost-averse finance teams, international expansion is not the same financial undertaking that it used to be.

International PEO offers finance teams a way to test new global markets with less time and financial commitment when compared to establishing an entity. With the right International PEO partner, finance leaders can quickly discover all of the benefits of global expansion—with less stress from maintaining multiple sets of financial records and trying to stay compliant in multiple markets at once.

Before International PEO, global expansion was a big gamble and financial investment for companies. Now, with proper research and the right global expansion partner, finance teams can explore any foreign market with virtually no risk. An International PEO partner like Velocity Global enables you to take your company anywhere in the world. Our teams handle international payroll, benefits, compliance, and risk mitigation to simplify your daily operations, even on a global scale.

Ready to get started? Contact us to see how International PEO helps your company capitalize on the benefits of global expansion.

Contact Us