



BDO AMBITION SURVEY 2010
Global opportunities

REPORT

BDO Ambition Survey: Global opportunities

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1. FOREWORD

BY JEREMY NEWMAN

For some time ambitious businesses have been challenged by the global economic situation and the perceived risks and difficulties of expanding overseas. At BDO, however, we continue to be approached by our clients with global ambitions.

With this Survey, BDO set out to understand what leaders of globally ambitious businesses perceived as the biggest constraints to growth. We also wanted to find out what they would want to share with others considering their first steps overseas – as well as where they themselves were prioritising their next moves. We expected to be able to create an index of barriers - however, what we have heard is that none of the perceived challenges are considered insurmountable: these experienced cross-border investors are telling us that what is required is thorough research, a cultural understanding of the country in which they intend to operate and a trusted local network to get things done.

The businesses interviewed were chosen because of their previous experience of expanding overseas and/or their future expansion plans and therefore they were perhaps inevitably optimistic. That said, their levels of optimism have been very encouraging. Indeed in other research conducted by BDO in the last six months, expanding overseas is one of the top priorities on CEO agendas. As my colleague Edwin Schrijver in the Netherlands said, "This is not a surprise, it is top of many of my clients' agendas when I meet with them."

Our ambitious global business leaders advise their peers on a similar journey to research and know their market in depth, to try not to impose one's own culture and to focus on developing a trusted local network. I believe this is where BDO can help. Our approach has always been to build on national expertise and enable local culture to shine through within a strong global framework. This enables our clients to work with people who readily understand their culture, advisers who know how to get things done and who can work through the red tape and other unforeseen local issues that may otherwise slow new ventures down.

We have also devised an index, taking into consideration all the questions asked, on how attractive different regions are to invest in. While the most popular destination for expansion remains China, our index shows that the EU is probably still the easiest place to do business.

I hope you enjoy the report. If you would like to speak to a BDO partner about expanding overseas please do not hesitate to contact me or your usual BDO contact.

Yours sincerely



Jeremy Newman
CEO
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JEREMY NEWMAN
CEO

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2. INTRODUCTION

BACKGROUND AND METHODOLOGY

Our clients are changing their focus. Over the last two years our conversations with them have focused on cost control but, now our ambitious clients want to talk about overseas expansion. We set out to discover if this was an emerging trend, to find out what we can do to help our clients and what they could learn from others.

The 2010 BDO AMBITION SURVEY: GLOBAL OPPORTUNITIES assesses the advantages and disadvantages of expanding into different territories, based on the experience of those who have already been there.

The Survey's basis was thought leadership research among globally aspiring companies with international expertise. The focus of the study was on identifying the strategies, critical success factors and challenges to cross-border growth encountered by those companies experienced in cross-border expansion. It explored themes around how globally ambitious mid-sized companies can maximise the business opportunities and navigate the regulatory challenges of cross-border growth.



The multi-country executive survey was designed by StrategyOne in close consultation with BDO and the research was conducted by way of semi-structured telephone interviews, including a mix of open and closed questions.

The initial ten countries in our Survey represent North America, Europe, Asia and Latin America:

- Australia
- Brazil
- Canada
- China
- Germany
- India
- Netherlands
- Russia
- UK
- USA

In future years, more countries will be added to the Survey.

237 telephone interviews were conducted across these 10 countries with 'C-suite'* executives, heads of international divisions and business leaders. This was designed to produce credible executive research to be used primarily at a global level

*Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Information Officer (CIO), Chief Marketing Officer (CMO)

Interviewees were sourced primarily from Dun & Bradstreet, augmented by Chambers of Commerce, with company details as follows:

- Size: globally aspiring small to mid-cap companies US\$50m to US\$2bn (some allowance given above this upper limit)
- International expansion: respondent companies have at least one international office and/or export internationally. They also plan to grow internationally as a percentage of their total business.
- Sector spread: respondent companies were broadly selected from the financial and professional services and manufacturing sectors, as well as other sectors selected by BDO.

3. EXECUTIVE SUMMARY

KEY POINTS

The BDO study reveals that two-thirds of the most ambitious mid-caps have more aggressive expansion plans than last year and 95 per cent are confident about international cross-border growth

These business leaders target the BRIC markets when thinking of expansion, but Europe and the USA present the most achievable prospects in the foreseeable future

The single biggest factor for successful international expansion is identifying the right people on the ground to grow the business

KEY FINDINGS

Mid-sized international companies are in expansive mood. Two-thirds are planning more aggressive growth this year compared to last, and nearly all (95%) are confident that their company's future plans for international expansion will be successful. They also show high levels of optimism for the year ahead, both for their resident country and for their own business sector.

Companies in Brazil, Russia, India, China (BRIC) have the most expansive plans, with some evidence of consolidation in North America and amongst some Europeans, although this is only relative. The European exception is Germany, where company expansion confidence is very high.

In the next one to two years the main reasons for this investment in international growth are likely to be related to 'people' and 'channels of distribution' - ahead of 'product development', 'capital' and 'acquisitions'.

The BRIC nations specifically and the Asia Pacific region more generally have been and will remain focus regions for growth. Some of the so-called 'next eleven' countries (e.g. Indonesia, Mexico, and Nigeria) were mentioned by several business leaders as specific countries for cross-border expansion. That said, North America (particularly the United States), the EU markets, former Soviet-bloc Eastern European countries, and the Middle East generally will all receive high levels of investment attention in the near future. The USA remains by far the single most important Western market for international expansion.

Whilst the BRIC markets continue to be targeted by the established Western and G8 countries, many of the BRIC market respondents interviewed are looking in contrast to other markets for growth: Africa, the Middle East, Eastern Europe, South East Asia, and 'the West' generally. The BRIC market respondents interviewed actually indicate a lower propensity to prioritise other BRIC countries, preferring new territories.

Overall, China is well ahead of all other countries in terms of business attention over the last five years and as a priority country in the next one to two years.

"Asia, China and India are attractive because of demographic conditions. They are still in parts on the brink of industrialisation: these countries even grow in times of crisis. The fact is, if you're in those markets, you're going to grow with them."

Manager, Corporate Projects, Germany

Whilst each of the BRIC markets present specific perceived challenges for Western markets (e.g. foreign ownership restrictions in India, state protectionism or trade barriers in Brazil, corruption or ethics in Russia), the West presents its own barriers to others - finding the right local management and staff in the EU and the intense local competition in the USA are just two examples.

China is a notable absentee from these generalisations. Those businesses with experience of expanding into China are generally positive, and the country certainly presents no significantly greater perceived barriers. This cannot be said of all countries into which businesses have reached: in Europe, for example, nearly as many business leaders claim the UK has been a 'less successful' than a 'more successful' market to expand into.

"South America and South East Asia, these countries will not set trade barriers against Chinese products in the foreseeable future. Furthermore, we believe these countries have more development potential than the USA and European countries."

Head of International Division, China

Growth is opportunity driven, based on past success and expectations of economic growth in priority markets, the increasing wealth of sizeable populations and, in some countries, opportunities for new market leadership.

Moreover, many of the business leaders interviewed look to a climate of more favourable geo-political environments and to underdeveloped markets and channels which can be exploited.

Other key factors in cross-border growth decisions are the willingness of management to invest time and capital to expand, and access to high quality staff. These factors help ensure that in reality EU markets are often rarely far from many business leaders' thoughts

Nevertheless, many barriers to growth remain and these are highlighted in this report. These barriers or challenges are largely driven by people issues - most notably difficulties in finding trustworthy local partners and suppliers, and finding the right local management and staff generally.

There remain significant levels of mistrust when growing abroad, and many business leaders continue to regard having their own staff 'on the ground' as necessary to ensure the business prospers.

Others recommend bringing key local staff to their headquarters so that they can be fully integrated into the culture, ethics and business objectives of the company. State protectionism and red tape remain common, particularly in some of the BRIC markets, but not insurmountable challenges.

"Be bold but cautious. Do not ignore the culture - learn about it since it greatly influences the processes. You have to open your mind to accept that there are different ways of doing things: accept differences that will happen and focus on results. There is no other way."

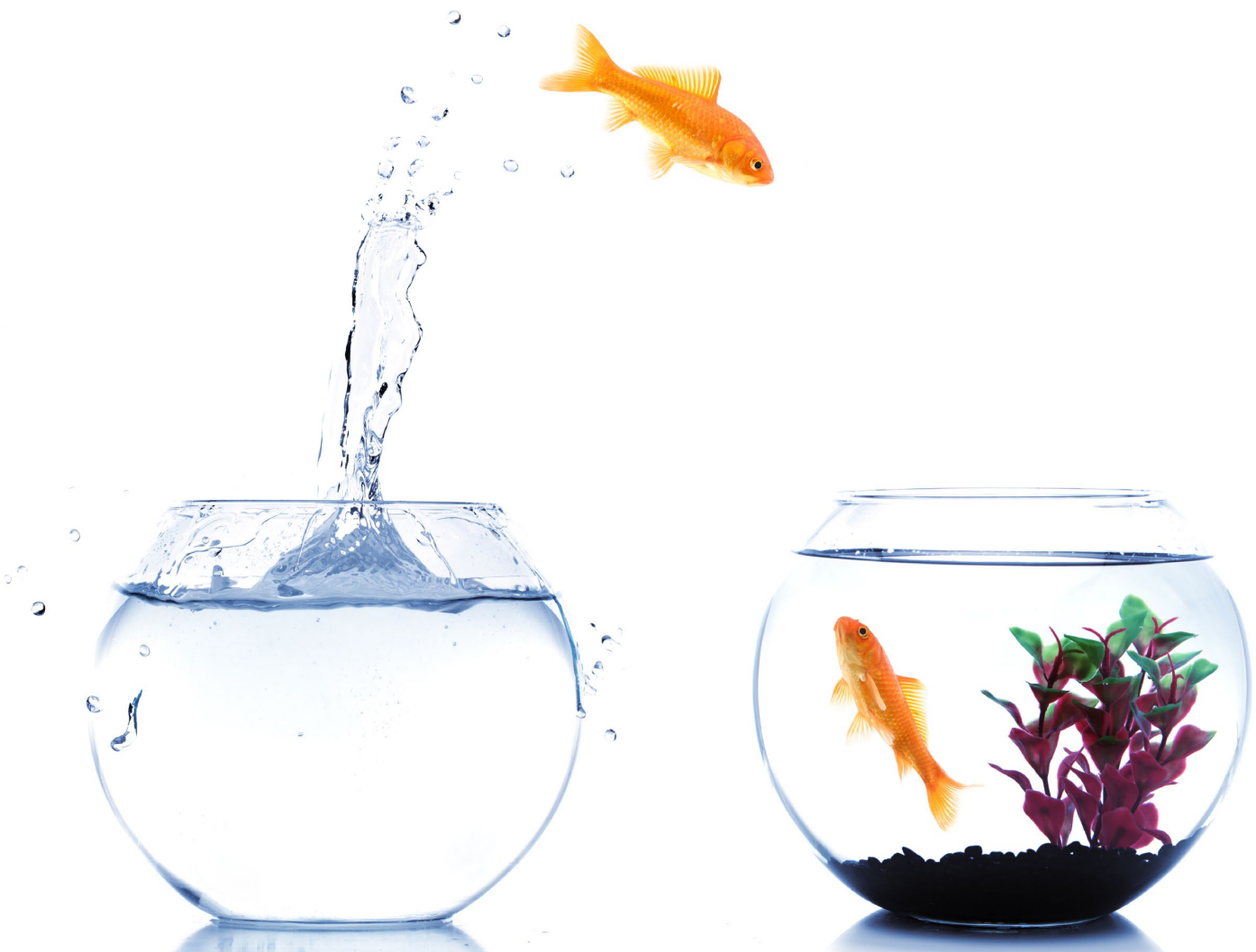
CMO, Brazil

Successful motivation of local people and securing local distribution channels are key enablers of success. In the next one to two years the main focuses of international investment are likely to be related to 'people' and 'channels of distribution', ahead of 'product development', 'capital', and 'acquisitions.'

Other barriers - state protectionism or trade barriers, geo-political country risks (including currency), and red tape and bureaucratic hurdles - remain to a greater or lesser extent, although there is little evidence that in most countries such concerns are considered insurmountable barriers.

Most business leaders state that their international expansion plans will largely concentrate on their core sector. There is considerable scope for increased consultancy advice. Two-fifths of those questioned mention management consultants, accountants, and other professional advisers as trusted sources that they turn to during a global expansion process. However, over one in four point to internal resources and their own experience when looking overseas.

There are several keys to successful cross-border expansion, based on the lessons learned so far. Top of business leaders' advice list is the need to research and understand the market and the associated risks in depth. The importance of not imposing one's own culture was also highlighted. People and distribution and network issues are usually top of mind.



4. CROSS-BORDER OPPORTUNITIES

KEY POINTS

Globally aspiring 'mid-cap' companies are in expansive mood and are very confident in their company's future plans for international expansion

Over the last five years, China has been the most important target market for expansion, and as an aspiration this position looks set to continue, at least for the next one to two years

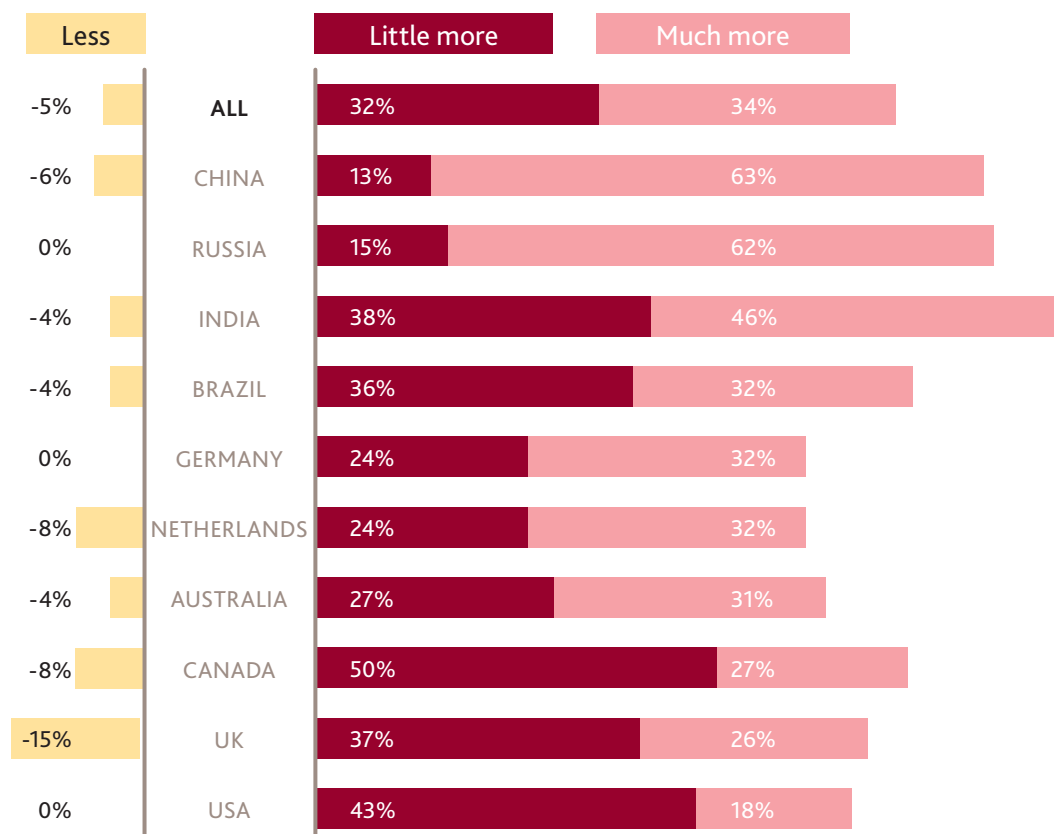
Most expansion is likely to be within businesses' core sectors, with only a small minority looking to expand entirely into new areas or products

MOOD AND CONFIDENCE

It is important to consider that this research was conducted in 2010, a year of uncertainty – although, in most countries, a year of greater levels of growth and slowly recovering economic conditions. Moreover, this research's universe of international-facing business leaders is by definition likely to be more positive in outlook.

Notwithstanding this, it is noteworthy how aggressive respondents are feeling this year compared to last. The majority (66%) are planning to be more assertive in their international expansion plans, with just limited caution coming from a minority of mainly European business leaders, most notably from the UK. Business leaders in the four BRIC markets are in the most aggressive mood.

66% OF COMPANIES PLAN TO EXPAND MORE AGGRESSIVELY INTERNATIONALLY, THIS YEAR VERSUS LAST



"Indonesia is the focus but we are expanding everywhere and we have not been unsuccessful anywhere."

Assistant Vice President - Projects, India

Perhaps unsurprisingly it is CMOs and Heads of International Development who are in the most expansive mood, whilst CFOs indicate significantly more caution. Those looking to prioritise expansion into the Americas and the Middle East and Africa show greater levels of aggression than those looking to expand into in the EU, BRIC, and Asia Pacific regions.

This mood of aggressive expansionism is supported when leaders are asked how confident they are that their company's future plans for international expansion will be successful. Confidence is near universal, with just one – Chinese - respondent showing a lack of confidence in his company's future plans for international expansion.

There is little difference by country of interview, although it should be noted that German business leaders are in particularly ebullient mood, significantly more so than their UK and North American counterparts. Again CMOs are most confident and CFOs most cautious.

"This echoes our experience in Brazil. I am regularly discussing with both clients and prospects from outside Brazil the possibility of international expansion, the challenges that may present and how to overcome them".

Marcio Peppe, Partner, BDO Brazil

Q: How much more or less aggressive is your company in its international expansion plans this year compared to last year? Percentages do not always total 100% due to rounding and a small number of 'not stated' responses

INVESTMENT OPTIMISM

Most companies (85%) are optimistic about the growth prospects for their resident country and a similar proportion (87%) are confident with respect to their own sector. In line with the broader mood and confidence measures, respondents from the BRIC markets are generally the most optimistic about their country's growth prospects in the next year, along with those from the USA and Australia. Business leaders from the three European markets surveyed remain most cautious, albeit Germany to a lesser extent than those questioned from the UK and Netherlands. In the UK one in four leaders are pessimistic about their country's growth prospects.

In line with the earlier mood measure, optimism is greatest amongst those looking to expand into South America.

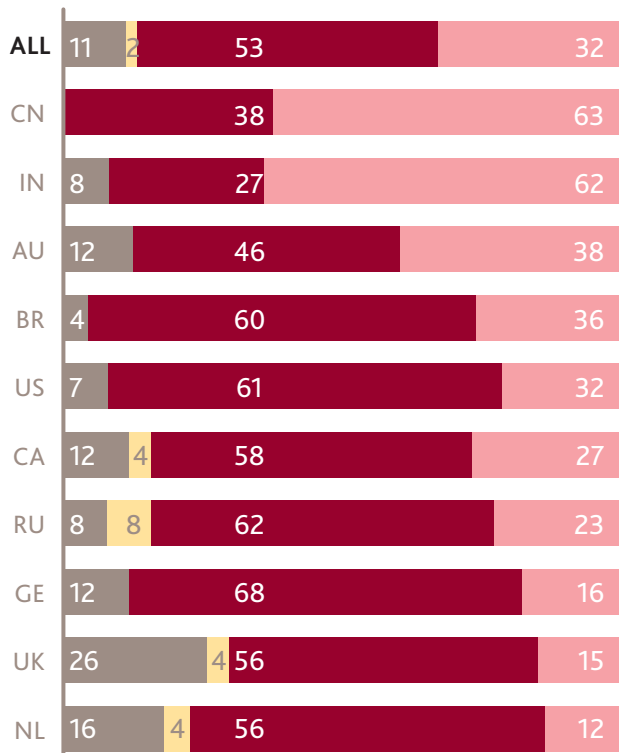
Turning to their own sector's international growth prospects, leaders are in similarly optimistic mood, with the BRIC market business leaders again generally most positive (Russia excepted). Similarly, US respondents expect strong international growth in their own sector. The Dutch respondents interviewed showed the greatest levels of sector pessimism (one in four are not optimistic). Businesses looking to expand into South America are significantly more optimistic about their own sector than those looking to expand in the other main regions.

Uniquely, all the Chinese respondents interviewed are optimistic about both their country and own sector international growth prospects.

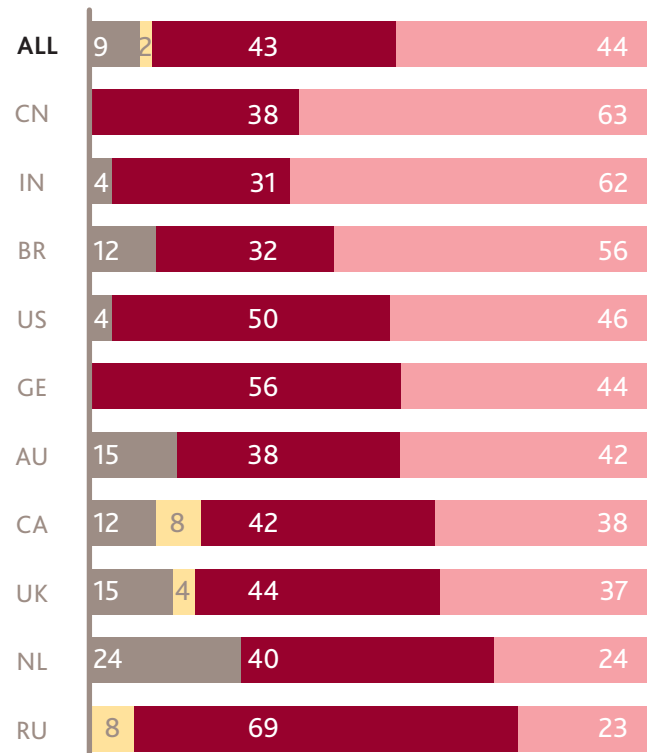


RESIDENT COUNTRY

Pessimistic | Neutral | Somewhat optimistic | Very optimistic



OWN SECTOR



Q: How optimistic or pessimistic do you feel about your [RESIDENT COUNTRY / OWN SECTOR] international growth prospects in the next year?

Percentages do not always total 100% due to rounding and a small number of 'not stated' responses

COUNTRY EXPANSION - LAST FIVE YEARS

Over the last five years China has been the single most important market for expansion. Of all those businesses surveyed, 30% have expanded into China during this time. Other countries and regions mentioned which have been expanded into during this period include: India (16%), USA (15%), Russia (11%), UK (11%), the Middle East (10%), Germany (9%), Mexico (8%) and Brazil (7%).

At a regional level, Asia Pacific countries account for 26% of mentions (expansion in the last five years), ahead of BRIC (24%), EU (15%), North America (12%), Middle East & Africa (12%), and South America (11%).

China has been a particular target for businesses from the Western markets surveyed, most notably those interviewed from Australia, the US and the UK.

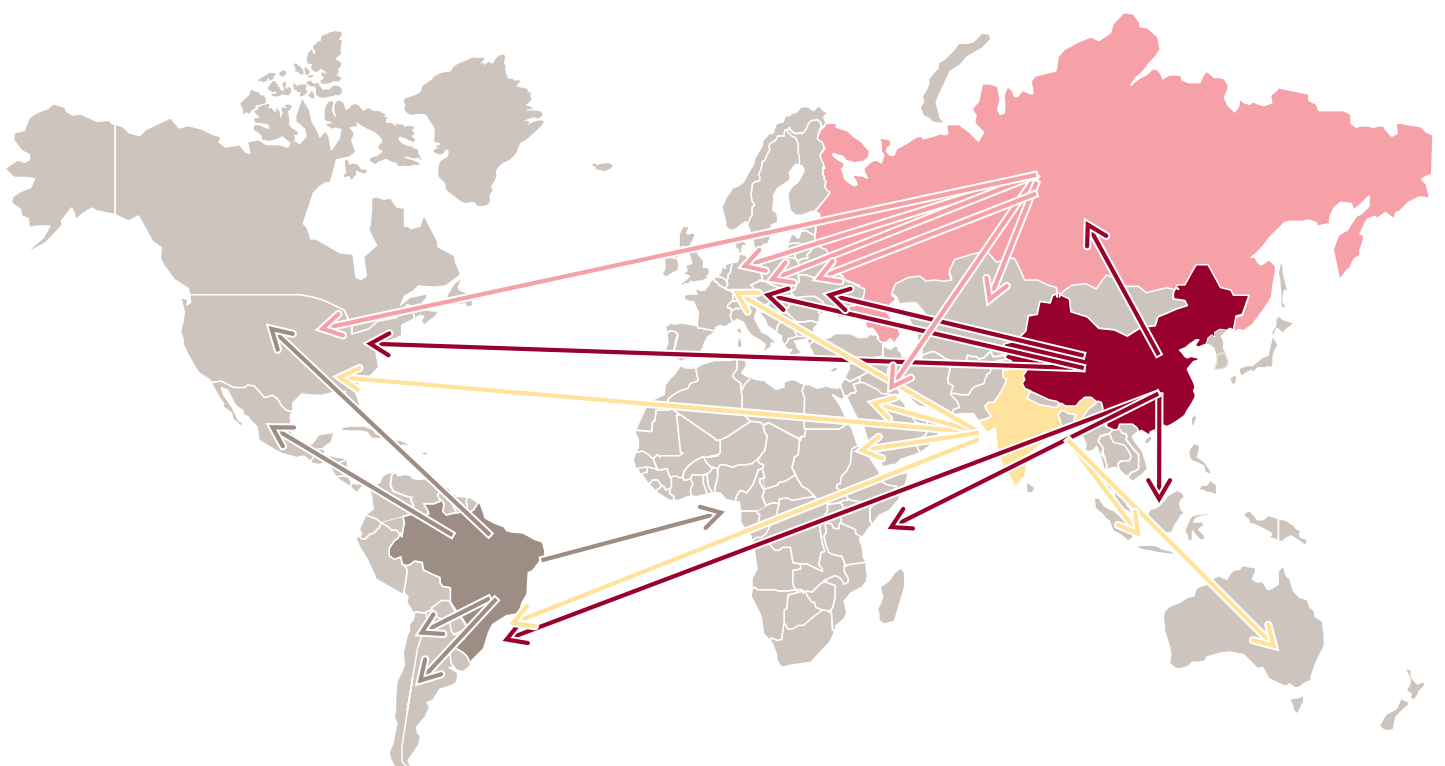
Relatively few of the other BRIC market respondents interviewed have made China a particular expansion target over the last five years. Similarly, in general fewer than average BRIC businesses have targeted other BRIC countries in the last five years.

The exception has been the Chinese businesses surveyed - these have shown a greater propensity to have targeted India and Russia.

"The European and American markets are easier to develop. Firstly, because there is a big difference regarding manufacturing cost between our products and the western ones: this is a competitive advantage. Secondly because of the western market regulation, equity is one of the specificities. Because the market is well regulated there is less risk. The ability to acquire information is quite high and the game rules are also very transparent. That's why I think business in European and American countries is easier. The more difficult areas are the developing countries, especially Africa, because of issues like civil wars and instability of society. Moreover, transportation can also be a problem. In some Asian countries the problem is also the local protectionism."

Managing Director, China

BRIC IS CROSS-SELLING TO BRIC BUT IS PARTICULARLY LOOKING TO OTHER REGIONS, OFTEN CLOSER TO HOME



PRIORITY REGIONS FOR EXPANSION

In the next one to two years it is expected that the BRIC markets specifically and Asia Pacific generally will receive the most attention from companies looking to set priorities for their international expansion. The BRIC markets account for 26% of all mentions (priority focus for the next one to two years), ahead of Asia Pacific (23%), South America (16%), EU (13%), Middle East and Africa (12%), and North America (10%). Of all BRIC market country mentions, China is most prominent (43% of mentions), well ahead of India (27%), Brazil (18%), and Russia (12%).

Turning to specific countries, 32% have prioritised China as a focus for international expansion in the next one to two years, ahead of India (20%), USA (14%), Brazil (14%), Russia (9%), the Middle East (6%), and South East Asia, Germany, Africa, Eastern Europe, Mexico, and the UK (5% each).

In line with recent past expansion plans, Western businesses are most likely to prioritise China, with businesses from the other BRIC markets more likely to be focusing on other areas, e.g. Brazilian businesses will be focusing elsewhere in South America, Russian businesses in Europe and the Middle East, and Indian businesses in the USA and the Middle East. The Chinese businesses surveyed are more global in outlook, claiming that they will be concentrating on Europe, South America, Africa, and closer to home (including India, Russia and South East Asia).

"India and China - because of the two billion people, a third of the world's population! They have an absolute population base and an emerging and evolving consumer demand driven by higher GDP per consumer. As markets develop they start to develop different tastes and demand more convenience goods and, as markets develop, the class that can afford our products also expands."

Regional CEO, Canada

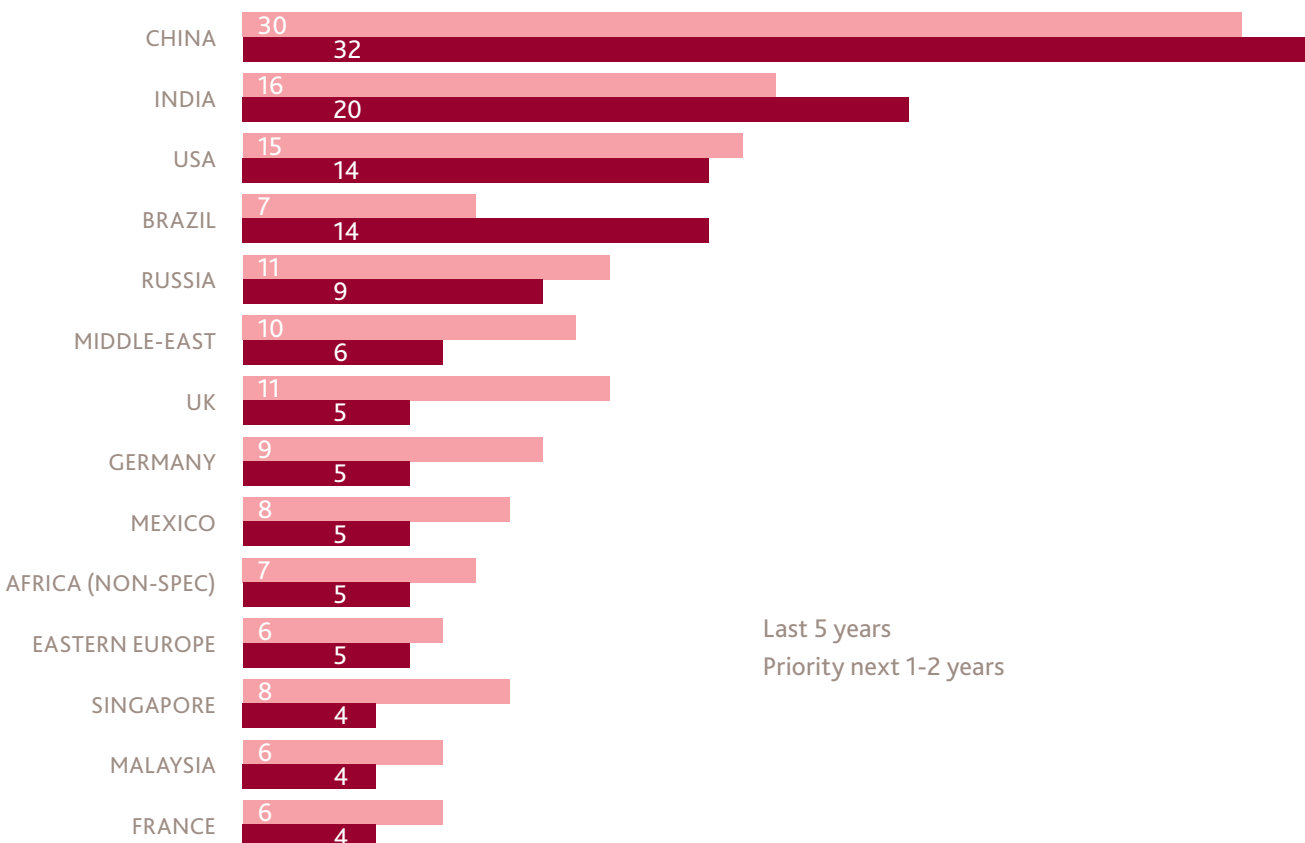
India is a particular focus of UK and German businesses, with the latter also highlighting Russia and Brazil. US businesses too are eyeing Brazil in the near future. Australian businesses are unsurprisingly looking to South East Asia.

"Our focus is on South East Asia. It is physically close to Australia and has demographic factors such as increasing wealth, increasing population growth and an increasingly westernised culture that is technically adapted, as well as high internet usage and the same interests and likes as us."

CFO, Australia

Leaders from financial and professional services are more likely than average to be focusing on China, and less likely to be targeting the other BRIC markets.

BRIC MARKETS AND THE USA HAVE BEEN AND WILL REMAIN CENTRAL TO INTERNATIONAL EXPANSION



Q: Which international markets outside your home country have you expanded into over the last five years?

Q: In the next 1 – 2 years, what are the priority countries that you will be focusing your international expansion on?

Percentages do not always total 100% due to rounding and a small number of 'not stated' responses

SUCCESSFUL INTERNATIONAL EXPANSION

Past experiences of international expansion have generally been positive, particularly in the BRIC markets. Of those businesses with experience of Russia, just over half claim it to be one of their "more successful" markets, just ahead of Brazil and China. Less success has been reported in India - just one in three business leaders who have expanded there in the last five years say it was one of their more successful forays. Of the Western markets expanded into Germany has been a relative success, the UK less so.

"China was very successful for two reasons. They offered improvements on existing services and developed a new distribution centre for web advertising. Thereafter it has mainly been the case of natural growth. They have also been able to hire very talented people."

Vice President & Executive Director, Canada

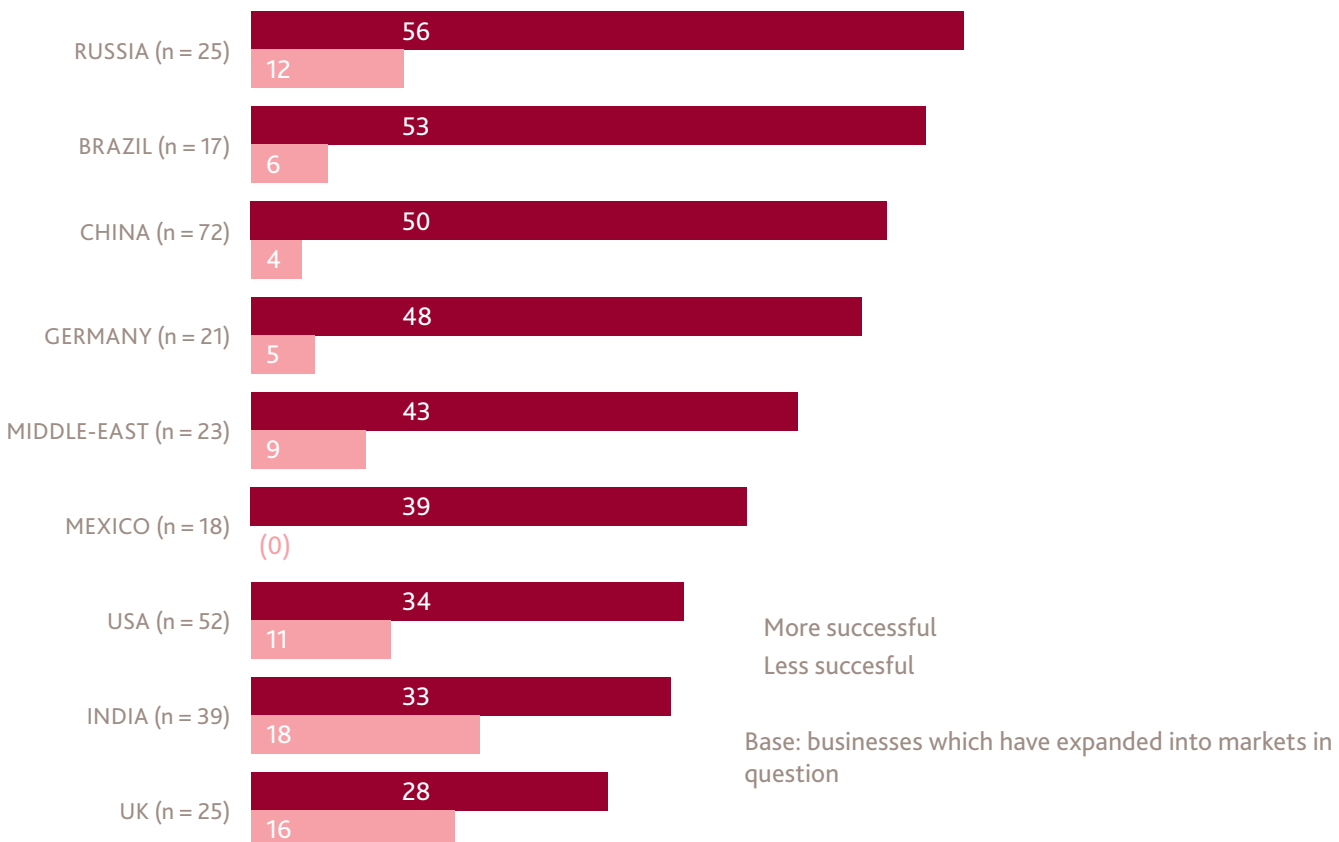
"India and Russia are more difficult because their commercial regulations and game rules are very different from Chinese culture. The local legal system, for example: the legal system of Russia is not well established and the policy is not transparent. I think Britain, Australia and South Africa have been quite successful as they have clear market entry regulations and sales channels are clear. In some countries the sales systems are chaotic. In countries with well-established sales systems like Britain and Australia, contractors know where to buy products."

Vice President, China

"The least successful is the UK. The reason is the stagnant point of view of the regulating governmental body."

Vice President of International Development, Russia

EXPANSION INTO RUSSIA, BRAZIL, AND CHINA HAS GENERALLY MET WITH SUCCESS



Q: Which of these markets were more or less successful in growing your business?
 Percentages do not always total 100% due to rounding and a small number of 'not stated' responses

Separately, leaders were also asked in which countries they have had the most positive and negative experiences when growing internationally. On this measure Germany (57% positive mentions) is ahead of China (53%), Mexico (44%), India (41%), the USA (37%), Russia (36%), Brazil (35%), and the UK (32%). On this measure, 20% of Russian and UK experiences have been negative, just ahead of India (18%).

"We have expanded into Germany and France. France was tough. If you're not French, they're not interested. Germany was much better. The market is far more open to foreigners. They are far more transparent and open to new possibilities. The mindset of the younger generation is more international."

Director, Netherlands

When asked for reasons behind their success in specific countries, business leaders spontaneously pointed to the 'high level of growth in demand through population/ economic growth' as a key reason for market success. Moreover, many mention partnerships, joint ventures, and mergers and acquisitions as important reasons for success. These underlying reasons vary little by country of interview or market being targeted for expansion. When asked about the reasons why some markets have proved less successful, few point to specific country issues - 3% mentioned 'strength of competition or market maturity', and the same number mentioned 'legal and regulatory difficulties.' The most common spontaneous response given was the recent global recession (5%).

CORE SECTOR VERSUS NEW AREA OR PRODUCT GROWTH

Most international expansion is likely to be within businesses' core sectors, with only a small minority looking to expand entirely into new areas or products. Of those surveyed, 69% will expand within their core sector, 15% into new products or areas, and 16% claim that both will be a feature of their expansion.

"You have to stay in your core business. You have to understand the market opportunity and, within that market opportunity, you have to understand the opportunity for your company. You have to have as much leverage of the home company as possible - don't try to re-invent things. You need the right product and the right service to sell abroad without changing it. Nike products sell all over the world. Don't change the shoes just because the Chinese are different to the Scandinavians."

Chairman, Australia

CEOs and CFOs are predominantly focused on expanding within their company's core sector, whilst one in three CMOs questioned are looking to expand into new areas or products. There is some slight evidence that manufacturers are more likely to restrict expansion to within their core sector.

Businesses looking to expand into new areas do so for a number of reasons:

- Always developing new products, 8%
- Renewable energy/ green, 4%
- Moving into new markets/ diversifying, 4%
- Different products, 4%
- Vertical development, 4%
- Core business declining, 3%
- More profitable, 3%
- Geographical and product portfolio, 3%
- New product lines within the same industry, 3%

MAIN FOCUS OF INVESTMENT STRATEGIES

In the next one to two years 'people' (26%) and 'channels of distribution' (25%) will be the main focus of international investment, ahead of 'product development' (16%), 'capital' (14%), and 'acquisitions' (13%). A focus on 'time' or 'outsourcing' was mentioned by very few business leaders.

By country of interview:

- People are viewed as key by German and USA businesses
- Channels of distribution was mentioned as the main focus by Chinese, Brazilian, and Russian businesses
- Product development is a main focus for Indian businesses
- Capital is most mentioned by Canadian and Australian businesses
- Acquisitions are a main focus for Canadian and Dutch businesses

5. GROWTH FACTORS & CHALLENGES

KEY POINTS

When expanding internationally, the main opportunities are to increase demand for one's own product and to take advantage of economic growth rates and increasing wealth

The most important factors contributing to cross-border growth can broadly be categorised as economic factors and factors relating to infrastructure and business environment

The major barriers and challenges can be broadly categorised as 'people' and 'geo-political factors'

MAIN OPPORTUNITIES AND REASONS FOR COUNTRY ATTRACTIVENESS

When expanding internationally, businesses are presented with a number of expansion factors - as well as being faced with a number of barriers. Asked for their spontaneous thoughts as to what makes priority countries attractive for expansion and why these countries offer good growth opportunities, the most mentioned spontaneous responses were:

- Increasing demand/ growing market (for our product), 23%
- Economic growth rates/ increasing wealth, 22%
- Size of market (population), 20%
- Underdeveloped opportunity/ expansion, 11%
- Proximity to other markets/ locations, 7%
- Favourable geo-political environment, 6%

A number of recurring factors are important in making specific regions and countries attractive for expansion. The combination of absolute market size (population), growth rates and, in some countries, the increasing wealth of large numbers of consumers drives the way in which most markets are viewed.

"ASPAC Territories: we're going to use Australasia as a platform. They are attractive because their growth is expected to launch them into world status in the next few years. It's purely down to the market size. The amount of people that live there provides opportunities. Our products are linked to peoples' health which is very much linked to population size."

Controller, UK

By country of interview, the German businesses questioned are most likely to stress the increasing demand for their products, whilst North American and European businesses generally look at the size

of the market. By way of contrast, Chinese and Indian businesses are significantly more likely to view priority markets as an underdeveloped opportunity.

By priority market for expansion, there are some noteworthy country differences. Whilst 'increasing demand/ growing market (for our product)' is widely regarded as important, 'economic growth rates/ increasing wealth' are a particular motivation for those businesses looking to target BRIC and Asia Pacific markets. Nearly one in three businesses spontaneously mentioned this as a reason for expansion into BRIC and Asia Pacific markets. In contrast, just 7% mentioned this in relation to EU expansion. The relative appeal of the EU lies in its proximity to other markets that appeal (within Europe and further afield), its infrastructures being established, the buying power of its consumers, and the relationships that are already in place. BRIC and Asia Pacific expansion is also guided primarily by generally increasing demand and the size of the market (population). North America holds particular appeal because of the established local suppliers and efficient distribution networks. The Middle East and Africa are seen as an underdeveloped opportunity with the potential for expansion.

As well as giving reasons for expansion, business leaders were also asked what have been the biggest opportunities presented to them. The two most commonly quoted opportunities were: 'exploiting a new demand in a growing market' (26%) and 'access and employ high-quality staff in the new market' (15%).

"In Asia there is an opportunity due to the skilled people available. In India the opportunity lies with skilled IT engineers. There is opportunity in China and India with sales growth potential"

President, Canada

When given free rein to describe the biggest barriers that they have faced when expanding internationally, responses relating to 'regulatory issues and restrictive legislation' were mentioned by one in four business leaders (23%). Other frequent spontaneous responses given were:

- Getting high quality staff within the target market, 15%
- Business culture opposed to external investment, 11%
- Cultural barriers/ differences, 9%
- Trade restrictions, tariffs, foreign ownership restrictions, 8%
- Languages barriers, 7%
- Tax issues/ compliance with tax schemes, 7%
- Getting existing staff to move out to the new market, 6%

By country of interview, regulatory issues and restrictive legislation are seen as a particular barrier by UK and US companies. BRIC market business leaders are more likely to highlight business culture opposed to external investment. The Brazilian business leaders interviewed in particular highlighted language barriers and the reluctance of existing staff to move out to a new market.

"We have our eye on areas with fewer trade barriers and with more opportunities and potential. These areas are mainly in South America and Southeast Asia."

Head of International Division, China

By priority market for expansion, regulatory issues and restrictive legislation is seen as a major barrier, irrespective of region. There is some evidence, although not significant, that the major EU markets are seen as more restrictive. However, this is also true of businesses prioritising India. Getting high quality staff is a particular issue for businesses prioritising the BRIC and Asia Pacific regions, whilst the North American business culture is viewed by some as opposed to external investment.

FACTORS CONTRIBUTING TO SUCCESSFUL CROSS-BORDER GROWTH

The most important factors contributing to successful cross-border growth can broadly be categorised as either economic factors or factors relating to infrastructure and business environment. The single most important factor contributing to cross-border growth is the 'size of market (population)'. This was given as the number one factor by more than one in four of those surveyed. Other important factors include: 'willingness of management to invest time/ capital to expand', 'favourable geo-political environment', and 'opportunity to be a market leader.'

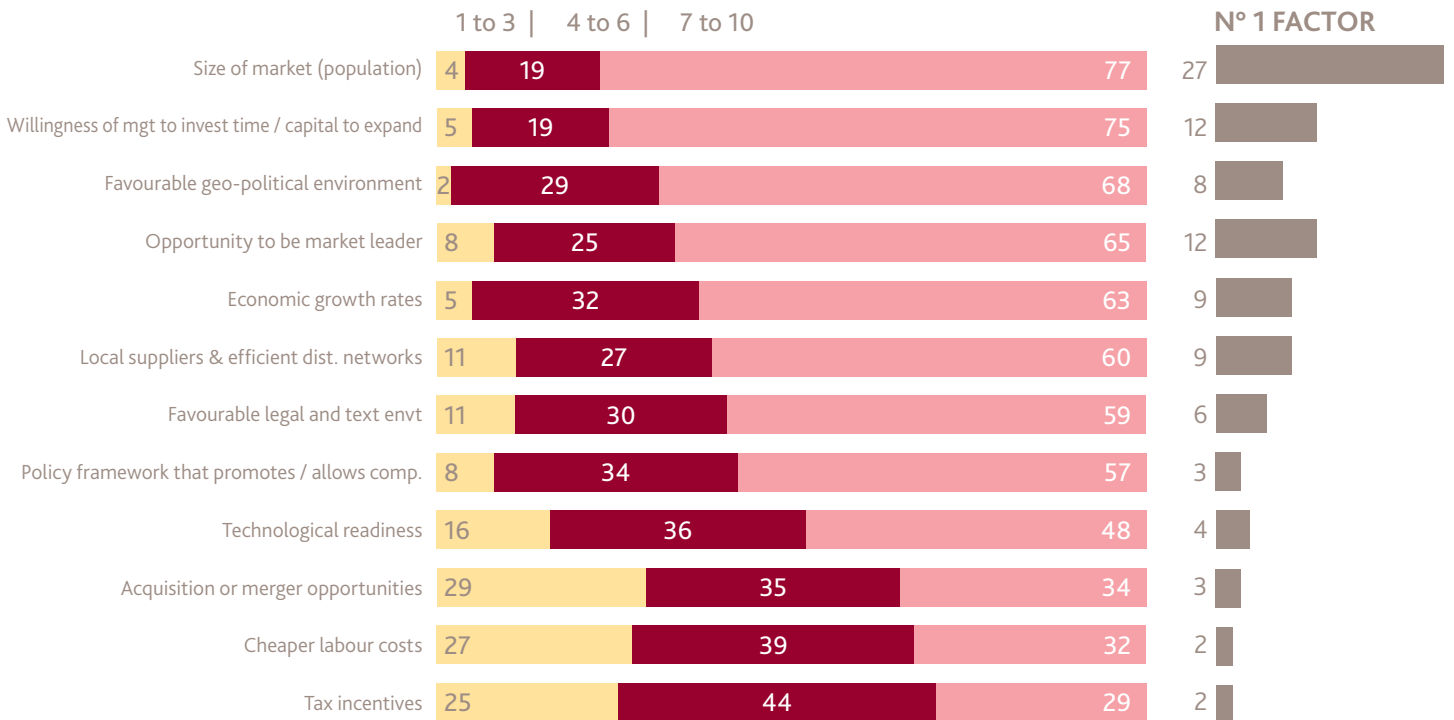
There are some noteworthy differences by priority markets, although economic factors remain important, regardless of the market being considered for international expansion. In line with the findings elsewhere, 'economic growth rates' are viewed as particularly important by businesses prioritising BRIC and Asia Pacific markets. Those favouring North America highlight the 'favourable legal and tax environment' and 'local suppliers and efficient distribution networks' as important. The latter factor is also important for those prioritising South America, as is the 'opportunity to be a market leader'. Businesses focusing on the Middle East are more likely to highlight 'cheaper labour costs.'

By specific priority region or country, the following relatively important growth factors were noted as reasons for growing there:

EU	Acquisition or merger opportunities
BRIC	Economic growth rates
North America	Acquisition or merger opportunities, favourable legal and tax environment, local suppliers and efficient distribution networks
South America	Technological readiness, local suppliers and efficient distribution networks, tax incentives, willingness of management to invest time and capital to expand, opportunity to be market leader
Asia Pacific	Policy framework that promotes or allows competition
Middle East / Africa	Opportunity to be market leader
China	Economic growth rates, policy framework that promotes or allows competition
India	Economic growth rates, technological readiness, policy framework that promotes or allows competition, cheaper labour costs, opportunity to be market leader
Russia	Size of market (population), technological readiness, policy framework that promotes or allows competition, willingness of management to invest time and capital to expand, opportunity to be market leader
Brazil	Acquisition or merger opportunities, technological readiness, policy framework that promotes or allows competition, local suppliers and efficient distribution networks, cheaper labour costs, willingness of management to invest time and capital to expand, opportunity to be market leader
USA	Acquisition or merger opportunities, favourable legal and tax environment, local suppliers and efficient distribution networks

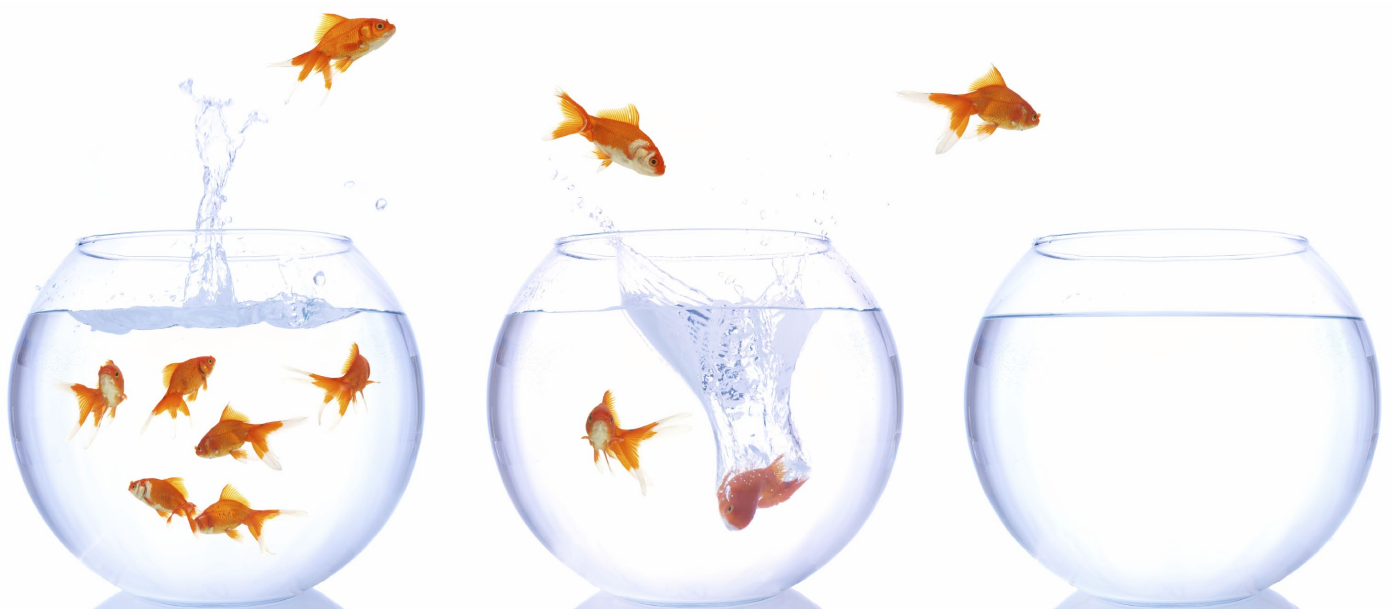


FACTORS CONTRIBUTING TO CROSS BORDER GROWTH



Q: For each factor that may contribute to successful cross border growth, please indicate how important or not important each of these are to your decision where and how to grow internationally, where 1 is not at all important and 10 is extremely important.

Percentages do not always total 100% due to rounding and a small number of 'not stated' responses



BARRIERS AND CHALLENGES IMPACTING ON INTERNATIONAL EXPANSION

If the most important factors contributing to cross-border growth can broadly be categorised as either economic factors or factors relating to infrastructure and business environment, then the biggest barriers and challenges can be broadly characterised as 'people' and 'geo-political' factors. The two biggest challenges were given as: 'finding trustworthy local partners and suppliers' (the number one challenge for 17% of businesses), and 'finding the right local management and staff' (the number one challenge for 15%). Other major barriers include: 'state protectionism/ trade barriers', 'geo-political country risks (including currency)', and 'red tape and bureaucratic hurdles.'

Whilst the most commonly quoted challenges are viewed as important in all markets, in line with the opportunities, the strength of each challenge often varies considerably by the market being prioritised for international expansion. By country:

EU	Finding the right local management and staff
BRIC	Foreign ownership restrictions
North America	Intensity of local competition, lack of brand awareness
South America	State protectionism or trade barriers, corruption or ethics, insufficient legal and financial infrastructures, finding the right local management and staff, finding trustworthy local partners and suppliers
Asia Pacific	Foreign ownership restrictions
Middle East / Africa	Corruption or ethics, lack of brand awareness, ability to manage environmental risks
China	Red tape and bureaucratic hurdles, foreign ownership restrictions
India	Red tape and bureaucratic hurdles, corruption or ethics, finding trustworthy local partners and suppliers, foreign ownership restrictions
Russia	Corruption or ethics, insufficient legal and financial infrastructures, finding the right local management and staff
Brazil	State protectionism or trade barriers, corruption or ethics, finding the right local management and staff, finding trustworthy local partners and suppliers, not enough internal company resources
USA	Intensity of local competition, state protectionism or trade barriers, finding the right local management and staff, lack of brand awareness

The USA's position is different to most of the other markets considered because of the perceived intensity of local competition creating challenges. Because the USA is seen as a highly sophisticated consumer market, 'lack of brand awareness' is seen as a particular barrier for companies looking to expand there. Interestingly, concerns over finding the right local management and staff and trustworthy local partners and suppliers are also highlighted for the USA, although not to such a notable extent.

Those looking to expand into the Middle East and / or Africa believe they are presented with a multitude of issues to overcome. Most of the barriers listed are more likely than average to be mentioned by those looking to expand there. Most notably these are: corruption or ethics, lack of brand awareness, and ability to manage environmental risks.

"If you find a good partner you will have solved the majority of challenges. Ideally this partner will have financial foundations, qualified staff, an organisation based on ethics, will be against corruption issues and will be concerned with the environmental issue."

CMO, Brazil

"Your operations abroad require your maximum attention. You need good control, allowing you to make the right decisions. There's a German saying that 'the master's eye makes the cattle grow'. Our operations abroad benefit if German management stays local and supervising the staff. Local presence is crucial. It is necessary to integrate foreign cultures into the domestic company culture - and furthermore it is important to communicate the company's culture abroad."

CEO, Germany

"The challenge is finding people with the right skill sets that are geographically mobile and culturally flexible. Another barrier is business regulation and market stability: can you politically get in and get your money out with having your acquisitions seized? Is the regulatory situation somewhere you are comfortable operating in? Ways of doing business are culturally different, i.e. bribes or trying to buy land that is title free – small things that are not to be taken for granted".

Regional CEO, Canada (recently expanded into India and China)



"Don't expect rapid progress. Find a trustworthy local partner to grow. Don't underestimate the time it takes to establish a credible business front"

General Manager, Australia

"The biggest barrier is undoubtedly corruption. Our company policy is 150% compliance so even grey areas are impossible for us. As a result of which, if you look at a market like Russia, it's worth around €60m for us, but the actual market that we can access is only €30m. We can bid for large projects in the cities because corruption isn't an issue there: it's something we can control. But if you go to the rural areas in Russia, there's no way around the corruption, so for us it's impossible to be present there, no way! Corruption is the single biggest hindrance to further growth for us."

Managing Director, Germany

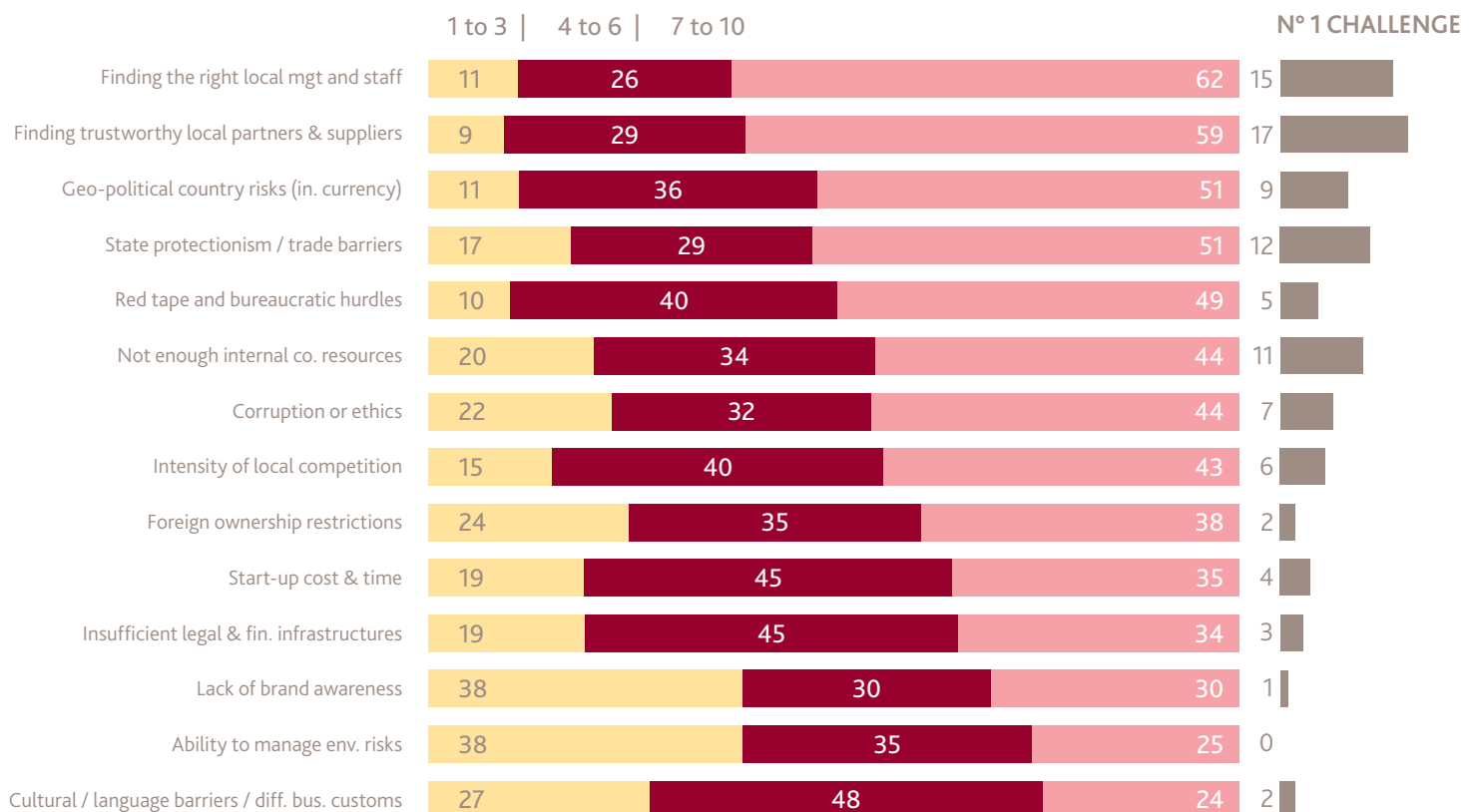
"In developing countries it is much easier, while in Europe and America it would be much harder because there are too many competitors. "

Vice Director, China

"Corruption or ethics, it's a measure of starting or non-starting. If you cannot do business in an acceptable or decent way, you just don't go there."

CEO, Netherlands

'PEOPLE' ARE THE BIGGEST CHALLENGE WHEN GROWING ABROAD



Q: Looking at these potential barriers and challenges for growing abroad, please indicate how challenging each have been in impacting your company's ability to expand internationally, where 1 is not at all challenging and 10 is extremely challenging. Percentages do not always total 100% due to rounding and a small number of 'not stated' responses

6. EXPERT ADVICE

LESSONS LEARNED FROM GROWING INTERNATIONALLY

Business leaders were asked the following question: "If you were to give the CEO of a similar sized company your top tips for growing internationally based upon your lessons learned so far, what would these be?"

By far the most mentions refer to making the effort to understand the market being prioritised for cross-border growth - its people, its culture, its politics, and its language. 'People factors' dominated the responses given. The main grouped responses given were:

- Research/ understand market/ risks in depth, 27%
- Don't try to impose your own culture, 17%
- Develop local network/ contacts/ relationships, 16%
- Get the right people/ use skilled people, 9%
- Meet people/ face-to-face/ spend time on the ground, 8%
- Strong/ right management, 7%
- Ensure right business structure/ plan, 5%
- Don't underestimate time and effort required, 5%
- Use local staff/ invest in local people, 5%
- Ensure sufficient financial resources, 5%

Businesses looking to prioritise the EU are most likely to mention 'don't try to impose your own culture' and 'get the right people/ use skilled people.' The former is also important when targeting North America. Businesses prioritising the Middle East and Africa are most likely to stress the need to 'meet people/ face-to-face/ spend time on the ground.' The advice given in reference to the BRIC and Asia Pacific markets and South America is more evenly distributed.

TRUSTED SOURCES OF ADVICE ABOUT GLOBAL EXPANSION

When asked what are their trusted sources for advice about global expansion are, 40% spontaneously mentioned either management consultants, accountants or professional advisers. A further 11% mentioned law firms or lawyers. Also of value are trade organisations, bodies, and associations (17%). Note, however, that over one in four (27%) look to their own internal resources and own experience when looking to expand.

US and Canadian companies are more likely to mention management consultants, whilst Internal sources are used more by the Canadian and Dutch businesses questioned. German businesses are more reliant on trade organisations. Law firms and lawyers are used far more by USA businesses than those from the other countries surveyed, whilst Australian businesses often seek the advice of their government.

Selected 'top tips' include:

"Understanding the market of the country you're going into, local knowledge and getting local people into the business. Talking to country representatives - for example, ambassadors."

CFO, UK

"Test the market. Take the model from home and make it work. Forming relationships with developers reduces risk. For an energy company, deal with two developers instead of just one. The challenges are clearly to seek out partners in particular locations, finding dedicated suppliers and partners and making sure you get professional advice in the market place."

Chairman, Australia

"Be very mindful of the culture, it can impact business decisions. Put the right resources behind it, make sure you have someone who understands the company well to lead it. Put your own people on site."

Senior Vice President, Canada

"People. People. People. Seek to find the local leaders who command marketing experts' respect. They will be the ones to attract the right team. Ensure you communicate effectively internally to coordinate business development."

Vice President & Executive Director, Canada

"You have to seek executives who understand the dynamic of the country in all senses - whether it's the cultural, political, or economic issue, or the way in which to do business in the country. I think it is a serious mistake to think of expanding into other countries and trying to take your culture along and do business your way. This doesn't work, so it's very important to be aware of this."

Chief of Communications, Brazil

"Focus on one market; go into that market with as much energy as possible; go local yourself to get an idea; invest a lot of time into market potential and clients"

CEO, Germany

"Don't forget to reassure your employees at the home site. Make them part of it, keep in close touch at all times not only with the works council but also when you meet people in the corridor or in the canteen, remind them that international expansion at the end of the day secures their own jobs and doesn't endanger them."

Director of International Markets, Germany

"I would advise him or her to look for a consultant or trustworthy source to get a starting point, mapping and information. All projects should be based, initially, on these trustworthy and rich sources. I think it's always a matter of raising information to develop a proposal, it's essential to get information."

CMO, Brazil

7. INDEX

In order to quantify the data that the Survey obtained in terms of current opportunity for cross-border expansion in the next one to two years, we have created an index of cross-border attractiveness, or opportunities, so as to determine which regions and countries offer the greatest opportunities in the very near future.

The results make interesting reading. Although China is the country which the greatest number of businesses aspire to prioritise in the next one to two years, when all opportunities, barriers and challenges are factored together, the EU region remains the region where cross-border expansion is easiest. With the sheer number of mergers and acquisitions occurring between North American and EU country companies and the Chinese Government's use of Chinese preferred suppliers widely reported earlier this year, the EU is seen as a safe bet - certainly in the near future timescale under consideration.

PROCESS

A four-stage process was adopted in order to create the Index:

- Factor analysis of those elements which describe an opinion or point of view
- Correlation of these factors against specific outcomes (an outcome is a consequence of perception, i.e. there is a causal chain) - company international expansion aggression (this year compared with last), confidence that company's future international expansion plans will be successful, and optimism in resident country/ own sector international growth prospects in the next year
- Adding together the relevant factor scores weighted by share of thought (percentage variance) to achieve a derived score (this was undertaken because there was no measure of actual activity, i.e. a true causal model cannot be produced)
- Rebase to centre the derived score around 100

FACTORS

The above process identified seven factors:

BARRIERS: red tape and bureaucratic hurdles, corruption or ethics, foreign ownership restrictions, state protectionism or trade barriers, insufficient legal and financial infrastructures

COST: cheaper labour costs, tax incentives, ability to manage environmental risks

WORKING ENVIRONMENT: policy framework that promotes or allows competition, favourable legal and tax environment, favourable geo-political environment

LOCAL RELATIONS: finding trustworthy local partners and suppliers, local suppliers and efficient distribution networks, acquisition or merger opportunities

INVESTMENT: economic growth rates, willingness of management to invest time and capital to expand

TECHNICAL: technical readiness, geo-political country risks (including currency)

OPPORTUNITY: the opportunity to be market leader, size of market (population)



BDO CROSS-BORDER GROWTH INDEX

From the table on the facing page (Table 1*), the following index of cross-border growth has emerged overall (taking 100 as the base, by country or region being prioritised in the next one to two years):

*reveals the rank order on each of these factors individually, with the most positive at top.

1. EU	138
2. Asia Pacific	111
3. North America	101
4. USA	101
5. Brazil	99
6. Russia*	97
7. China	97
8. BRIC	96
9. South America	94
10. India	92
11. Middle East & Africa	88
12. South East Asia	85

* (inc. former Soviet Union)



TABLE 1 (rank order observed on individual factors)

Once the 7 factors were established, the countries and regions were ranked on each of them. For example, where barriers are concerned, Asia Pacific is the best performing region, ahead of EU and North America. On costs, Middle East & Africa come out top, ahead of EU and Brazil, while China performs best on opportunity, ahead of EU and Russia.

Barriers	Cost	Working environment	Local relations	Investment	Technical	Opportunity
Asia Pacific	Middle East & Africa	South East Asia	Asia Pacific	Russia (inc. Former Soviet Union)	EU	China
EU	EU	EU	India	Brazil	Asia Pacific	EU
North America	Brazil	China	China	EU	Brazil	Russia (inc. Former Soviet Union)
USA	South East Asia	USA	BRIC	USA	Russia (inc. Former Soviet Union)	BRIC
South America	India	North America	USA	North America	BRIC	Middle East & Africa
Brazil	South America	Brazil	Middle East & Africa	BRIC	India	South America
China	BRIC	BRIC	North America	South America	USA	Brazil
Russia (inc. Former Soviet Union)	USA	India	South East Asia	South East Asia	North America	India
BRIC	Russia (inc. Former Soviet Union)	Russia (inc. Former Soviet Union)	Russia (inc. Former Soviet Union)	China	China	Brazil
India	China	South America	Brazil	India	Middle East & Africa	North America
Middle East & Africa	North America	Middle East & Africa	South America	Middle East & Africa	South America	Asia Pacific
South East Asia	Asia Pacific	Asia Pacific	EU	Asia Pacific	South East Asia	South East Asia

237 companies took part in the BDO Survey, including the following:

Accel Frontline Ltd.	India	Foster & Partners	UK	Rodethko	Netherlands
Acme Tele Power Limited	India	Goltsblat BLP	Russia	Roth & Rau AG	Germany
Akzo Nobel Brasil	Brazil	Gujarat State Fertilizers & Chemicals Ltd	India	Roto Smeets Deventer	Netherlands
Alstom	Brazil	Hassell	Australia	Russian Venture Company	Russia
American Pacific Corporation	US	HeNan Tong-Da Cable Co.,Ltd.	China	Sartorius	Germany
American Vanguard Corporation	US	Hind Agro Industries Limited	India	Sauer Danfoss	Germany
Anchor PWB	Australia	Hunt & Hunt	Australia	Sea Line	UK
Ansaldo STS	Australia	HydroElectric	Australia	Sabero Organics Gujarat Ltd	India
ArboMedia AG	Germany	Impress Packaging	UK	Shandong Dongying Zhengyu Wheel Co.,Ltd	China
Arris	US	Industrea	Australia	Shanghai Electric Group	China
Artecola	Brazil	Industrial Safety Product Pvt Ltd	India	ShawCor Ltd.	Canada
Ashridge Business School	UK	Insituform Technologies, Inc.	US	Sigma CoachAir	Australia
ASR Multimetals Pvt Ltd.	India	Intercall	Australia	Sioux-Preme Packing Co.	US
Audco India Ltd	India	Intelbras S.A.	Brazil	Smit Transformatoren BV	Netherlands
Avcorp Industries	Canada	Jabs International Pvt Ltd.	India	Spectra Premium Industries Inc	Canada
Avery Dennison Materials	Netherlands	Jaeger Group	Germany	STR India Pvt	India
Bazhou City Hongsheng Steel Rolling Co., Ltd	China	Jiangsu Xinri E-Vehicle Co., Ltd.	China	Subros Ltd	India
Bendel Automotives	Canada	JLT	UK	Sundaram Finance Ltd.	India
Bharti Airtel Ltd.	India	Kassbohrer Gelaendefahrzeug AG	Germany	Super Metal	Canada
Bisalloy	Australia	Ladish Co., Inc.	US	Supremex Income Trust Fund	Canada
BKS	Russia	Lakeland Group	UK	Suzhou Hongly Hardware Co., Ltd.	China
Blaxter	Brazil	Lantor	Netherlands	Tata Steel Europe	Netherlands
Bridgestone Firestone	Brazil	Linde-htd	UK	Tata Sky	India
CAE Inc	Canada	Localiza	Brazil	Tavares de Melo Group	Brazil
Canadian Wheat Board	Canada	Lonsen Kiri Chemical Industries Ltd.	India	TCL Corporation	China
Canfor	Canada	LSI Logic	UK	Tecumseh Products India Private Limited (TPIPL)	India
Cangzhou City Sined Steel Pipe Group Co.,Ltd.	China	Lupin Ltd	India	Teijin Aramid B.V.	Netherlands
CGI Group Inc	Canada	M+W Facility Engineering GmbH	Germany	Teknor Apex Company	US
Chen Hsong Machinery (Shenzhen) Co., Ltd.	China	Marcopolo	Brazil	Tembec Industries Inc	Canada
Chunlan (Group) corporation	China	MBA UK	UK	Termopernambuco	Brazil
CJSC Eurocement Group	Russia	MET Inc	Canada	THB Group	UK
Codan	Australia	MMM GmbH	Germany	The Shaw Group Ltd	Canada
COM DEV International Ltd	Canada	MKT Moderne Kunststoff-Technik	Germany	Thermo Fisher Scientific	UK
Com Dev International Ltd	Canada	Moog Controls Ltd.	US	Thyssenkrupp AG	Brazil
Concorde Metals Recycling Ltd.	UK	Nordlam GmbH	Germany	Tianjin Baolai Industry & Business Co., Ltd.	China
Cono Kaasmakers	Netherlands	Nurun Inc	Canada	Transmashholding	Russia
CooGee Chemicals	Australia	NVC Lighting Technology Corporation	China	TRW Automotive	Brazil
Coopers Fine Ales and Stouts	Australia	OCE	Germany	Turck GmbH	Germany
Copacol	Brazil	Odgers Berndston	UK	Uniboard	Canada
Cranes Software International Limited	India	OJSC -Urals Optical-Mechanical Factory-Production Enterprise	Russia	Uralsib	Russia
CROC	Russia	Olma	Russia	Van Ameyde International B.V.	Netherlands
Croda do Brasil	Brazil	Ondal	Germany	Velan Inc	Canada
CSR Zhuzhou Electric Locomotive Co., LTD	China	Optogan	Russia	Velociti	US
Dalkia	Brazil	Osmose Holdings, Inc.	US	Villeroy & Boch	Germany
Dennis Eagle	UK	Paladin Energy	Australia	Visão Mundial	Brazil
Dharampal Satyapal Group	India	Pennar Industries Ltd	India	Viscount	Australia
DLA Piper	UK	Pepperl+Fuchs	Brazil	Wacoal America, Inc.	US
Dr.Web	Russia	PGI Nonwovens BV	Netherlands	Wagner Group	Australia
Dynametics	India	Polaris	India	WanjiaMei Co. Ltd.	China
EB Games GAMESTOP	Australia	Precision Resource	US	Wates Group Ltd	UK
Echo Enterprises B.V.	Netherlands	PSN	UK	WD-40 Company	US
Engel & Völkers It-Services GmbH	Germany	Randon	Brazil	Werner Enterprises, Inc	US
Etimex	Germany	Ranpak	Netherlands	Yangtze Optical Fibre & Cable (Shanghai) Company Ltd.	China
Eurocept	Netherlands	Reliance Infrastructure	India	Yara Brazil	Brazil
Ferris State University (inc)	US	Renk AG	Germany	YTB International	US
Finam	Russia	Renner Sayerlack	Brazil	Zippe Industrieanlagen GmbH	Germany
Fletcher International Exports	Australia	Rinchem Company, Inc	US	Zollner Elektronik AG	Germany
Foshan Korra Bath Ware Co., Ltd.	China	Riviera Marine	Australia		

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