PETER ANTERIST

FAIL IN FOREIGN TRADE

Eleven sure ways to burn money

This is how your business succeeds abroad!

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Eleven ways to burn your money

For years, Meier AG has been the market leader for frozen food in Germany and anyone who thinks of frozen pizza thinks of Meier. They have everything: the product, the quality, the marketing and, of course, the price. Already a comprehensive success in the third generation.

But now the German market is finite and Meier also reads every day in the business press that there is no way around globalisation. So what could be more obvious than to offer the wonderful German frozen products abroad as well - Meier international, the recipe for success in the future.

So you quickly take action and with the help of various advisors you soon decide to go to France first: There, people know how food should taste, they appreciate quality, and the prices are not as broken as in other markets. The expectations are high and - are not fulfilled.

Meier struggles over a period of four years, sometimes trying to sell through an importer, sometimes through direct sales. They try listing talks and even have the sales department take language lessons. But all to no avail. The budget is finally used up, the market not developed, the frustration great, the withdrawal inevitable.

The way into foreign markets is not the core competence of most companies and besides technical barriers, linguistic as well as mental barriers often appear.

The purpose of this little book is to point out the ten best ways to fail grandiosely abroad and burn huge amounts of money in the process. There are many more ways to fail, but these eleven work best:

1. You leave your product as it is and don't make any adjustments to meet the needs of the target market.
2. You develop the new market "on the side".
3. You apply your local marketing and corporate communications to the target country.
4. You do your budget on a beer lid.
5. The market development abroad may take a maximum of one year, better only six months.
6. You consider the language and mentality of your customers abroad to be negligible factors.
7. Your sales force also takes care of sales abroad.
8. Even better: You take an importer as the sole distributor in the target country.
9. Everybody goes to China, you go with them.
10. We do not have a permanent establishment, we do not need a subsidiary.
11. The webshop - when the crisis pushes for change.

A few years have passed since I first published these golden rules for failure in foreign business. In the meantime, together with experienced practitioners, I have also reworked our "positive" guide to successful foreign business. There, we also considered the importance of the Corona pandemic for internationalization. Why are we now publishing a new revised edition of our "Error Book", which has long been out of print? Many readers - customers and partners alike - have repeatedly asked me for an update. Are all the mistakes mentioned still being made? The answer is, unfortunately: Yes. Therefore, it still makes sense to warn you about the drastic examples described here. The events here are all inspired by true cases - although people and products are of course fictitious.

Prof. Peter Anterist
www.intergest.com

1. You leave your product as it is and do not adapt to the requirements of the target market

For years you have had great success with your product on the German market. No one can seriously compete with you, and if they do, you're sure to come up with a new idea that makes you a little better than the competition.

This is also the case with Mr. Müller from R., ice cream manufacturer in the third generation and market leader in Germany. He dominates the German market with ice cream specialities that our grandmothers would never have dared to dream of, transforms Amaretto into melting dreams and even turns the popular Sunday cake into ice cream.

Now it's time to enrich the world with their delicious creations and what could be more obvious than to please the French, who are spoiled for taste. Whoever created such things as Crème Brulé (can you turn that into ice cream?) deserves to be spoiled with German ice cream.

So off we go, quickly looking for a distribution partner in France and providing them with enough material for the listing talks. And the best thing is: the new innovative packaging is also ready in time for the market launch – no unnecessary outer packaging, thanks to the innovative sealing of the plastic cup. And the print is now so beautifully colourful!

Thanks to a huge budget, you can also get to the frozen food shelves quickly and look forward to the local competition losing ground soon.

Finally, marzipan cake turned into ice cream and is available in French supermarkets - funny how no one had this idea before.

It came differently than expected: after a slow start to sales, things are going more bad than good, the trend is clearly downwards rather than upwards. The ice cream lies like lead in the counters, no one wants to buy the tempting “Glace parfum tarte á la pâte d’amande”. But why? Are the French so ignorant? Don’t they usually eat their sorbets? And now they finally get a dessert with lots of cream and sugar from Mr. Müller. Why don’t they buy it? Granted, there are no marzipan tarts in France, but that can hardly be the reason, can it? And the packaging has turned out so nicely, and it’s environmentally friendly, too. The French distributor also explained that in France they attach great importance to the appearance of a product, but maybe he hasn’t seen a well-designed package yet. He also said that the name “Lüdenheimer Eiskreationen” might not be optimal in France and that a French name would be better. As if Coca-Cola would change its name!

Mr. Müller and his team never thought about whether consumer habits in the neighbouring country might be different from those in their home country, and, thus, made one of the most common mistakes in exporting. Every country is different and the people living there have a different culture, different traditions and different tastes. In France, consumers place a lot of importance on appealing packaging and care less about whether it is environmentally friendly or not. France also loves yoghurts with 0 percent fat AND 0 percent sugar - a reason why, for example, a major German manufacturer of sweet cream yoghurts once failed grandly on the French market.

It’s all to no avail. If you want to be successful abroad, you have to adapt your product to the foreign requirements. That this does not only apply to taste and not only to food as shown by the case of a manufacturer of decorative stoves who wanted to go to Russia with his products. His stoves were certainly ideally suited to modern German tastes. Polished stainless steel, brushed aluminium, very modern and super styled. Unfortunately, it became clear during the market launch that Russian tastes were quite different, and that people there are more into ornate ornaments than smooth glass facades.

Fortunately, the entrepreneur of the stove factory was smart enough to correctly assess the potential of the Russian market and launch his own design line for Russia.

By the way, it's impressive to see how the big players do it - McDonalds, for example. Take some time and surf the various websites of the American fast food chain. I recommend the USA, Germany, France, India and China as examples. It is really fantastic how McDonalds has managed to internalize and serve the needs of the different markets and consumers. Not only is there no BigMac in India, because it is made of cow, there are even completely different products in France than in its neighbouring Germany. Only the French fries and various sodas are represented worldwide. In India, there are even different products in North and South India. Learning from the greats.

2. You open up the new market "on the side"

This version of market development is unfortunately one of the most common and promises guaranteed failure.

A practical example will illustrate this:

Mr. Ernst from F. builds digital control units for the so-called "Smart Home" with a focus on interfaces for controlling various household appliances. The systems are world-class technology and Mr. Ernst, a gifted engineer, is justifiably proud of his development work.

He persists in his self-confident opinion that the whole world needs his electronics and that all he really has to do is present them and people will snatch the great devices out of his hand. Active sales are unnecessary! One is already preparing to ramp up production and then only distribute.

Since Mr. Ernst. also thinks nothing of the "business of small steps", but has read the "Think Big" by Donald Trump, sales offices are founded simultaneously in France, Hong Kong, UK, the USA, Spain, Hungary and China. I emphasize simultaneously! After all, you'd think that opening up just one market would tie up enough resources and take some time. But as I said, this problem is only faced by companies that do not have such ingenious products as our graduate engineer Ernst.

So off into the big wide world. First, the subsidiaries are founded and immediately start looking for sales people. Service providers all over the world are tasked with finding the right people. These are then trained at the parent company in a rush.

Can that work well? Can you open up in seven countries at the same time in just one year and be successful?

The answer is yes, but only if you are a publicly traded company with virtually infinite resources. If you are not, then this strategy of globalization has virtually no chance of success.

A new market is too complex to be developed on the side. The belief that you only need to distribute your products and not actively sell them is an incredible but persistent hubris that is guaranteed to lead to economic disaster.

Mr Ernst could also have known that. He himself built up the company and it took years until his company was really successful on the market and further years to really reach market leadership. Why then does Mr. Ernst get the funny idea that this path is not also necessary abroad? Why do so many entrepreneurs believe that you can develop a foreign market with less commitment and effort than was necessary at home?

Mr. Ernst has more than twenty people in sales at home and more than twice as many in customer service. In France, for example, he employs only one salesperson and two technicians at the beginning - just like in the other countries where he is new on the market. France, however, is one and a half times the size of Germany in terms of surface area alone, and the manpower required would have to be at least as large as in Germany in order to successfully reach customers. With one man in sales, Mr. Ernst has no chance.

So it results differently than expected: Mr Ernst gets carried away and his efforts fail across the board. There is no success in any of the countries and the half-hearted efforts lead to an economic disaster. Within two years, all branches are liquidated again and the financial burden even brings the parent company to the brink of insolvency. All due to using wrong strategy.

But what exactly was Mr. Ernst's entrepreneurial blunder? A combination of overestimating his own capabilities and misjudging the necessities of opening up a foreign market. Both together almost meant the downfall of the entire company. If Mr. Ernst had focused on one country or at most two, he probably would have succeeded. Unfortunately, many people are not aware of it: But what applies at home also applies abroad: If I need ten people in sales in my home country, then I should send out at least the same number of people abroad. Of course, you can't do that in seven countries at the same time, and that's why the decision not to lead one country after the other to success was also wrong.

No product, no matter how good, can replace an exact analysis of the circumstances and a profound business plan.

3. You apply your local marketing and corporate communications in the target country

Do you like to travel? Haven't you ever turned on the TV in the morning in a hotel in a foreign country because your room had shockingly little entertainment value and it's better to brush your teeth when you can watch colourful pictures? Isn't it exciting to observe that products familiar to us are advertised completely differently here than at home?

Mr. Becker from G. obviously hasn't noticed that much yet, which is either because he doesn't watch foreign TV, or - if he does - always gets stuck on Deutsche Welle, where of course there are no local ads.

And so Mr. Becker makes the momentous decision to offer his products - he is a provider of IT services - in the neighboring country as well. Since the neighboring country is Austria, Mr. Becker believes that communication can run just as it does in the German home market. Why not? After all, German is also spoken in Austria and the standard of living is also the same.

No sooner said than done. Mr. Becker opens a representative office in Vienna, sends one of his German, but Austria-savvy employees and goes really far out on a limb in marketing. Of course, with a representative office you don't have to set up your own company in Austria, the liaison office is sufficient and you can handle and invoice everything via the German GmbH.

Mr. Becker is now also really going into advertising, he is placing ads, targeting trade magazines and even putting little stickers on his German flyers with the Austrian address on them. All levers are set in motion. Unfortunately, only one thing remains missing: success. Somehow, nobody wants to commission Mr. Becker's company, even though it says "Made in Germany" and German quality work is in demand all over the world. What is wrong with the Austrians?

The answer is quite simple: nothing is wrong with the Austrians, they are the way they always are. And that includes a certain distance with their big neighbor Germany. The sober realization is therefore: Do everything in Austria like you do in Germany - and you'll do everything wrong.

One of the biggest mistakes when going abroad is to believe that communication is the same everywhere. This mistake is particularly easy to make when - as in Austria - people supposedly speak the same language. Whereby, this is not even the case. Of course, at first it sounds like a German dialect and if you read the newspapers you will find only marginal differences in the wording. But it is these "little things" that one should master in order not to be immediately understood as a German and thus a foreigner.

If there is one thing Austria is not at all, it is another federal state of the German republic, and they attach particular importance to that. So why should an Austrian buy a service from a German when he can do the same from a fellow countryman? And at the same price!

Ergo: if you go abroad, you not only have to adapt your products to the other market, you also have to change your communication and marketing. It is not successful to go to a neighboring country, but to remain a foreign company that also looks foreign and communicates in a foreign way.

Imagine a Polish or Spanish company with a Polish or Spanish legal form offering you a service through a liaison office that you could also get from a German company one place away for the same price and quality. Where would you go? Exactly!

Of course, this all applies much more the further out of the known culture you go. Just a few examples: In France, for example, you not only have to communicate in French, you are actually required to do so: The so-called Loi Toubon makes communication in French mandatory. Even advertising slogans like "Just do it" by Nike have to be translated. The fact that this leads to rather silly word constellations in individual cases is irrelevant to the French legislator.

When you go to China, you don't just have to pay attention to the language and the letters, you also have to pay attention to the numbers, at least if they are important in your company communication. After all, what many people don't know: Most Chinese people firmly believe in the importance of numbers and numerology. According to this, 8 is a great number because it stands for wealth, while 4 is rather suboptimal because it is said to bring death and doom. In fact, when pronounced, the number 4 sounds similar to the word "death". Needless to say, the 4 in a company name therefore calls for a name change.

The importance of different marketing and product presentation, on the other hand, has been well understood by the French car manufacturer Renault. Renault bought the Romanian car manufacturer Dacia in 1999 in order to obtain a brand in the lower price segment. This brand was largely unknown in Western Europe, and so cars are developed and sold under this brand that are priced extremely low. Nothing special as far as that goes. But what makes it so exciting is the fact that Renault sells these Dacia's in Eastern Europe under the Renault name.

So if you walk through Moscow, you'll see the "Renault Duster" sold in Germany or France as the "Dacia Duster". So two brands for the same product - not product adaptation, but adaptation in brand communication.

The question remains as to why Renault is doing this. In Eastern Europe, Dacia has a reputation for producing extremely poor and ugly cars, which is why the brand did not seem suitable for the Eastern European market (except for Romania). In Western Europe, on the other hand, Renault doesn't want to degenerate into a cheap brand and therefore uses the second brand.

And finally, it is also worth taking another look at the communication of large companies, such as the example of McDonalds mentioned above. Not only have the products been consistently adapted to market requirements here, but the associated communication is also one hundred percent local.

4. You make your budget on a beer mat

Mr. Sommer from F. is an entrepreneur from head to toe. Third generation manufacturer of welding equipment and accessories for shipbuilding. He runs a successful company. Although, of course, he has to suffer from the fact that German shipyards have come under a lot of pressure due to the strong competition in Asia. So it’s a matter of prevention, as the market is subject to constant change.

Mr. Sommer therefore decides to offer his equipment where ships are built now and in the future, namely in South Korea, where the Hyundai Heavy Industries Co. Ltd. has become the largest shipyard in the world.

Now South Korea is not around the corner, it is still a twelve hours flight to Incheon. You should book in good time, as only three planes a day fly there from Frankfurt and the flights are also quite expensive. Mr. Sommer has heard that South Korea is a pretty expensive place, but that doesn’t deter him.

So he books a flight for 4,000 euros in business class and a hotel for 300 euros - without breakfast - and has not yet eaten dinner at that point. Mr. Sommer swallows and pays. He flies to Incheon, spends three days looking around the city and then flies on to Ulsan.

Captivated by the idea of doing business here, he sets up a company with the help of an international service provider and first rents an apartment for the German technician who is to work there as an “expat”, a specialist in welding with very good sales skills.

First product presentations are successful and the plan is put into action. The technician receives a new employment contract with foreign allowance and moves permanently to Ulsan. The devices are adapted to Korean requirements, the whole machinery starts up and the costs slowly get a remarkable size in the monthly report.

As a medium-sized company, Mr. Sommer naturally does not have a CFO; like his predecessor, he uses the evaluations of his accounting department and estimates what he will have to spend. Mr. Sommer has only ever spent the money he has earned, he has few debts to the bank and his current cash flow has so far determined his expenditures. So far...

Now it becomes apparent within the next six months that it might have made sense to think about possible costs beforehand. In the meantime, the technician had to fly back and forth several times for 35,000 euros to get problems with the converted machines under control. The apartment in Ulsan costs 2,500 euros per month and the salary for the technician is actually quite low at 9,000 euros per month.

At the same time, in these six months of investment, still no order has come about because the devices are not so easy to use there and the competition does not stand idly by as the German engineers try to establish into the market here. Finally, the accounting department comes up from the second floor to tell us that we now unfortunately have to draw on the reserves, as the commitment in South Korea can no longer be paid for out of the cash flow. In the meantime, a whopping 250,000 euros in costs have been incurred in just six months - and there is no order in sight.

Mr. Sommer has no choice but to go to his local bank to ask for financing.

He would never have dreamed of this and it is not at all in line with his business policy. But he has no other choice.

Investing in and developing new markets costs money, often a lot of money. Unfortunately, the further the target market is from home, the more expensive it becomes and every entrepreneur should be aware of this at the start of their expansion plans. Of course, it is to be welcomed that entrepreneurs venture into foreign markets, especially when your clientele is dying out at home and potential customers are to be found far away. But: If you want to fly across the Atlantic, you should fill up your plane beforehand and be able to afford it.

From experience, the worst are the hidden costs that you don't expect, but which are unavoidable. Who expects that the technician has to fly home all the time and always at such short notice that there are only expensive tickets? In general, there is almost nothing more expensive than expats, because they get so many allowances in addition to their normal salary that it can really hurt. Many companies therefore forego expatriation and look for qualified employees locally, who are then brought to the parent company for training. In the medium term, this is much cheaper and by no means less successful. On the contrary, the fact that you are then on the market with a "local" has considerable sales advantages.

Therefore, a rather conservative planning is recommended, which also includes a "worst case" scenario as well as an exit strategy. If possible, sufficient experience should first be gained in a "simple market" in order to have key figures for market development. We will go into this in more detail in point 9. Anyone who has already successfully set up a sales company in London usually has an idea of what to expect in Korea.

Incidentally, this conservative planning should always be applied. Not only in the development of foreign markets, but also in the domestic market, it has been shown time and again that planning without taking into account unforeseeable (or predictable after all?) events can lead entire industries to ruin. The most recent example in Europe is solar energy, particularly affecting manufacturers of solar panels. Here an entire industry has built its business on subsidies. Governments promise high feed-in tariffs, everything runs into solar power and when there is no more money for the subsidies, the whole industry collapses. It's pretty brave to make an entire business model dependent on political subsidies and to invest vast sums in a topic that could disappear tomorrow with a change of government.

And Mr. Sommer? Well, his bank was unfortunately not available for financing. Too risky, no cost control, inadequate business plan, uncertain result, to name just a few arguments of the Stadtsparkasse.

Insert for the 2021 edition: There was hardly anyone who expected the Corona virus to paralyze the entire world for months and bring international mobility to a standstill. None of the three flights to South Korea were left for a long time. Many companies had no way to visit their offices for months. If Mr. Sommer had made it all the way to the Corona crisis with his Korea commitment, it would probably have dealt the project its final death blow.

Of course, it is almost impossible to anticipate and budget for something like the global pandemic. Fortunately, something like this only happens once every hundred years. But if you stick to conservative planning and include the necessary reserves, then you are prepared for most eventualities.

5. The market development may take a maximum of one year, preferably only six months

Mr. Anton from B. is a specialist for sausages and his factory in the heart of Germany is known for good ham. Already in the second generation, specialities are produced here and distributed throughout Germany.

Mr. Anton wonders every time he goes to the supermarket why the imported goods are so successful here and whether he could not also succeed in selling his products abroad.

If the Italians are so successful with Parma ham and the Spaniards have got their Serrano into every chiller cabinet, why not sell German ham in London? Mr. Anton calls his people together and presents his idea of investing in the British market in the future, since the English have a certain backlog demand in culinary matters anyway. The employees basically like the idea. It is unanimously decided to take action as soon as possible.

The very next day, things get underway. The first thing to do is to conduct a market study to determine the competitive situation. A team flies to London to make test purchases and taste the products on offer there. They also think about the logistics, check the possible margins and bring the packaging to the British taste, in short: everything is going great and is heading for success.

Mr Anton is extremely motivated. In the meantime, he has founded his own sales office so that his customers do not have to import from Germany and now even organizes with the help of his newly hired English employee tastings in the main supermarkets. People taste it, are very taken, and the first listings are as good as certain.

Now, however, things are getting a bit tougher and Mr Anton is getting impatient when he is told by his English employee that Tesco, for example, does not envisage a listing for another year because the Christmas business is just getting underway and other products that are already better known have priority. Mr Anton's business plan states that ROI will be achieved after 18 months at the latest and therefore sales should be in full swing after 6 to 10 months. After all, Booths has already put the goods on the shelves, but unfortunately they are selling rather slowly.

Mr. Anton looks at the process for four weeks and then has the entire sales team, including the sales representative working in England, come to announce to everyone that he intends to discontinue his involvement in view of the failure on the island. It can't be true that the sales figures are so low - presumably the sales department is completely incompetent.

All the shouting is to no avail though, sales are increasing but far too slowly for Mr Anton. He has long since closed with Great Britain, although he has not even tried in the parts like Wales and Scotland. The distribution company is liquidated after only 18 months and Mr. Anton concentrates exclusively on Germany again.

A few numbers should explain the phenomenon:

Number of Anton sales employees in Germany:	20
Number of Anton's sales staff in England:	1
Products listed in Germany:	15
Products in listing in England:	2

Number of years Anton's company has been successful in Germany:	50
Number of years until abandonment in England:	1,5
Years from foundation to first supermarket listing in Germany:	8

It is a common phenomenon that companies abandon their internationalization after a short time because they have an unrealistic idea of how long it will take to achieve success. Behind this is often the belief that the work done in the home market has a certain impact on the target market, which is not the case.

Mr Anton's company was founded by his father and was initially a small butcher's shop producing high-quality ham specialities by traditional handicraft. Father Anton knew that he also had the potential to sell on a larger scale through supermarkets. He therefore made an early effort to be listed there. After all, eight years after founding his trading company, which was set up alongside the butcher's shop, he was listed in more than one supermarket and thus established in the trade.

The question that should be asked of Mr. Anton is why he believes that after 18 months of working the market he will be successful with only one sales representative abroad? To put it bluntly: foreign markets are not waiting for us like a junkie for the latest dope. There is already ham in England and chocolate in South Africa. In this day and age where you can buy almost anything anywhere, it hasn't necessarily gotten easier to get your products to market. It has become more difficult. In most cases, the products are even so comparable that their success depends on other factors rather than just the product quality itself.

Here, for example, the brand image becomes a success factor, but this cannot be built up in 18 months.

Whatever you've done so far in your home market - unless you're Apple or BMW - you can expect to have to repeat those efforts when entering a foreign market.

6. You consider the language and mentality of your customers abroad to be negligible factors

Mr Schulz from R. has always been a person with a great affinity for Great Britain. He especially liked London a lot. Whenever he can, he flies across the channel to spend a few free days there.

Mr. Schulz is also an entrepreneur and manufactures all kinds of locks. Cylinder locks and padlocks from Schulz GmbH are known for their quality and multifunctional usability.

One fine day back in London, Mr. Schulz notices in a locksmith's shop that his locks would actually also be suitable for the British market. He wonders why he hasn't noticed this before, and at the same time begins to develop a strategy for entering the market.

Back in R., where locks have been built so successfully for years, Mr. Schulz gets his team together to present the new strategy of expansion into the United Kingdom. A working group is immediately set up and the ladies and gentlemen assign the various tasks internally - a powerful team of German specialists plans the market entry in the UK.

In one of the following strategy discussions, colleague Karsten speaks up and asks whether it would not make sense to contact a consultant from England in order to adapt the planned marketing and sales documents to English tastes.

Mr Schulz reacts almost aggressively to this suggestion and makes it clear to Mr Karsten that he himself has been travelling to London for years, speaks the language almost like his mother tongue and knows the English mentality by heart. Mr Schulz also brushes aside the reference to the fact that Great Britain does not only consist of England.

Mr. Schulz has always taken things into his own hands. The website of his company, for example, was made by his son-in-law, who knows HTML and "costs an arm and a leg". Except for Mr. Schulz (and the son-in-law), everyone in the company is of the opinion that the website is a disaster, but whoever publicly notices this risks a rejection that is quite severe.

So there you have it, the people responsible for the UK are already determined:

- Mr. Müller had English as an advanced course at school, he writes the texts
- Mr. Fritz, who likes to design photo albums in his spare time, designs the brochure
- The son-in-law is responsible for the English website
- Mr. Schulz personally keeps the overview

After a few weeks, one travels to London, where one has identified some potential sales partners by means of a German agency and various associations and has also already identified possible customers. Beforehand, colleague Karsten had thought about whether he should point out that it might be an idea to look for an English sales representative. But he preferred to remain silent so as not to get another reprimand.

If Mr. K. had had the opportunity to voice his concerns and had been listened to, it might have been possible to prevent what has now transpired after only a few discussions with potential business partners:

- “I had English as an advanced course in school” does not mean that you can formulate texts that are “tolerable” for a native speaker.
- “I like to create photo albums in my spare time” doesn’t mean you can also design a brochure - certainly not if you don’t know what the English mean by good advertising.
- “I know HTML” doesn’t mean you can build a good website. Especially not in English.

“Business is local” - three words that have lost none of their accuracy, even when we live in a globalized world with unlimited transparency. Anyone who goes to a foreign country (even if it is in nearby Europe) must adapt to the language and mentality there in order to be regarded as a local supplier.

Mr. Schmidt took no notice of this. He had the opinion that with his certainly good English and the help of his top student in English, he could translate his prospectus into English. He also had the opinion that no external help would be needed to adapt the prospectus to the taste of the English clientele. Both, unfortunately, gross errors that also lead to significant communication problems down the road.

In the end, of course, it would have been much more expensive if Mr Schmidt had done everything right from the start. The brochure, which contained a lot of errors, was kicked into the bin, the English website was switched off again and the trips to London were also completely unsuccessful because Mr Schmidt’s appearance was perceived as completely unprofessional.

7. The field sales force also takes over foreign sales

Oh how beautiful Switzerland is. The mountains are impressive, the chocolate unique and the Swiss German somehow likeable. And as if that weren't enough, the citizens of this Alpine country also have plenty of money and are big consumers.

So what could be more obvious than to conquer at least the German-speaking part of Switzerland from southern Germany and to sell the universally appreciated products of Pfleiderer GmbH there as well.

Mr. Pfleiderer junior is the third generation of his family to manufacture high-quality fitted kitchens in Constance on Lake Constance, a town on the border with Switzerland.

His kitchens - quality from Germany - are very popular, but expensive, which makes them virtually predestined for the Swiss market.

Up to now, no major sales activities had been directed to Switzerland, but it was obvious that more and more Swiss people wanted a Pfleiderer kitchen and were therefore preparing to travel to Germany and order their kitchens there - a lucrative business with high growth potential.

Mr. Pfleiderer now wanted to get down to business and envisaged supplying the whole of Switzerland with his high-quality kitchens in future. He already had a tax representative in the country, because he needed one due to his assembly activities in kitchen construction. The next step, namely setting up his own Swiss branch, could therefore be carried out without any problems by the well-known local tax consultant.

For reasons of cost, Mr. Pfleiderer wanted to proceed without a showroom for the time being and opted for sales via local trade fairs and exhibitions as well as a direct sales system he had developed himself based on the "Vorwerk" model, which he operated very successfully in Germany. All his skilled and well-trained sales staff had to do was gain access to the potential customer's house or apartment, and then virtually assemble the new kitchen directly on site for the astonished customer using a computer simulation he had developed himself. Once this had been achieved, the order was within reach.

His advantage was also that he could live well with only a few orders thanks to quite high margins.

So now this was to be transferred to Switzerland and there was nothing to be said against a complete success.

The catalogue was left largely as it was. Only the prices were shown in Swiss francs and the German sales staff received something like intercultural training - from Mrs. Pfleiderer, who always liked to go shopping in Zurich and, therefore, understood the Swiss very well.

Now the individual German sales representatives were assigned to certain areas, so that a wide triangle between Basel, Bern and Lucerne was created, which was easy to develop.

Everyone went to work fully motivated: After one week there was already an order, after three weeks another one. But once that was the end of it, the good mood gradually disappeared.

In the first crisis meeting of the sales department with the management, it became clear what the problem was: the sales employees were simply not let into their houses and apartments by the Swiss. They did come to the door when you rang the bell, but at the latest after the often somewhat awkward “Gruezi”, the sales people of Pfleiderer GmbH were turned away in a friendly but firm manner.

A language course in Swiss German was considered. But it still didn’t help, the kitchens could not be sold this way. Many hours of ringing doors in vain and many kilometers driven on Swiss roads became more and more a burden on the budget.

What happened?

The management of Pfleiderer GmbH had wrongly assumed that German sales could simply be transferred one-on-one to Switzerland, with German sales representatives at that. It is often seen that German companies, especially those close to the border, make the crucial mistake of confusing two very different things: One is the popularity of German products abroad and the other is the (in)popularity of Germans themselves abroad - two things that could not be more different.

The appearance of the German sales representative at the front door of the potential Swiss customer meant that he had already lost. The Swiss did not want to let this representative from abroad, who could not even say “Gruezi” without an accent, into their home - and why should they? They were already skeptical and reserved with their own countrymen, how then with foreigners! If Mr. Pfleiderer had not spared the investment of hiring Swiss employees and training them, the success would probably have occurred.

By the way, this is not a typical German-Swiss problem. There is a saying that describes the relationship between Germans and French very well: “The Germans like the French, but don’t take them seriously. The French, on the other hand, take the Germans seriously, but don’t like them. “

8. An importer takes over the entire distribution in the target country

Mr. Schmidt from F. produces wonderful furniture from rattan and other wicker materials. His company relies on real handicraft and exclusively “Made in Germany”. This quality feature is sacred to him, but above all it justifies the rather high prices, because compared to the competition, which comes mainly from Indonesia, the Schmidt furniture is more than twice as expensive.

Now Mr. Schmidt visited the furniture fair in Paris last year and exhibited his precious furniture there. He knows that there is a big market for his products in France - especially the south coast of France promises fantastic potential.

The fair began and Mr. Schmidt’s optimism was indeed not disappointing. Already on the first day, many interested dealers were at his stand, marveled at the great quality, talked shop about the excellent craftsmanship and showed a high buying interest. The interested parties also agreed that the prices were in the upper segment, but that the target region of the south coast in particular had the right target group.

Mr. Schmidt was now faced with the dilemma that he had to deal with a large number of potential customers who wanted to buy relatively small quantities. There was a furniture store from Cannes that wanted to take a few armchairs - preferably on consignment - and another store from St. Tropez was interested in two sofas.

At the moment when Mr. Schmidt’s mood slowly began to dampen, Monsieur Dujardin appeared on the stand and explained that he had the ultimate concept for business success in France for him. He - Monsieur Dujardin - was a successful importer of high-quality garden furniture and the wicker furniture from Schmidt would complement his product portfolio in an excellent way.

Mr. Schmidt's eyes started to light up, because secretly he had wished that he would find someone in France who would do all the work for him there. In Mr. Schmidt's mind, the importer was something like the Swiss army knife: a single customer for the entire market, only one invoice to one address, marketing and customer communication directly on site from Frenchmen for Frenchmen, including French charm. Voilà!

After a joint dinner in Paris, the two agreed on a deal. A contract was signed in which it was agreed, among other things, that Monsieur Dujardin would receive the sole distribution rights for France and that he would be allowed to calculate the margins himself in line with the market. In addition, he also achieved that Mr. Schmidt would supply him free of charge with furniture for a showroom to be set up near Nice and would also pay for its costs in full. For Mr. Schmidt, this was a small matter, as he had learned from the discussions with Dujardin what incredible potential existed and that this investment would pay off in no time.

Now everything was set in motion. Schmidt supplied the pieces for the showroom, rented a great and expensive shop for and with the help of Dujardin, and of course provided all his brochures in translated form. The expectations were now even higher than at the beginning. But above all, there was the conviction that in Dujardin they had found the ultimate solution for opening up the French market.

The weeks went by, but not much happened in the French shop. Now and then an order came in, a small side table, a few chairs, sometimes a bench. Dujardin was able to calm the first signs of nervousness in Mr. Schmidt. The main season is still around the corner and the sales will probably come in by then.

June, July and August came, but sales did not increase nearly as quickly and steadily as would have been necessary to recoup the considerable initial investment. Mr. Schmidt continued to remit the store rent each month and pumped money into advertising materials. The summer months passed slowly without any significant increase in sales in France. In the end, the calendar showed October 15 and the original budget was used up.

Mr. Schmidt decided very quickly to pull the emergency brake and close the shop. To save at least the expensive exhibits, he took a truck and drove to Nice to load everything. When he arrived there, he surprised Mr Dujardin, who was just in the shop. Schmidt could not believe his eyes: The store was full of wicker furniture that looked confusingly like his, but were definitely not his originals. Quite obviously, Dujardin took the exhibits as product samples, had them reproduced in Indonesia, and sold them on his own account to interested customers.

What do we learn from this?

At first, the importer seems like an easy and reliable way to enter a foreign market. Above all, the possibility of only having to write an invoice to one customer abroad and having someone to take care of everything locally is naturally tempting.

What at first glance solves all problems at once, often turns out to be a fatal trap afterwards. If you look at the matter without the rose-colored glasses of the optimist who believes in the honesty of people, the problem quickly becomes clear. Only one customer then also means that the entire risk is attached to a single person. If the importer does not deliver what he promises, the entire commitment tips into the red. Even if it works out at the beginning, the risk always remains, because the entire market knowledge and that about the customers lies solely with the importer.

And it doesn't even have to be bad will that leads to the importer's failure. Even importers who think and act honestly have been forced to go out of business due to various circumstances.

An example from southern Germany, where a company exported chemical products for water treatment to Spain via an importer, shows how fragile such a constellation can be and often is.

In this case, the importer was no longer able to supply the Spanish customers for economic reasons, and at the same time he was no longer able to pay the German entrepreneur for the goods already imported. As a result, the customer in Spain no longer received any goods and our entrepreneur from southern Germany was left sitting on his claims.

9. Everyone's going to China, you are going with them

Altmeier makes windows. He makes good windows, ones that really save energy and look great, too. Altmeier also supports the local football club in the large county town of S. and is the county's model entrepreneur. He's innovative, environmentally friendly, a local patriot who creates jobs, and is a sweetheart anyway.

At the end of 2005, an ambitious politician from the district was able to interest some potential investors in his location during a trip to China organized by his party. He had found a group of interested Chinese who wanted to go on a delegation trip to Germany to see on site what investments were possible in China or Germany with cooperation.

When the Chinese visit was being prepared, Altmeier came into play. He was to be introduced to the Chinese delegation, present his factory and his products and thus represent German entrepreneurship. No one else seemed so suitable, no one could do it better.

In the days before the delegation's visit, Altmeier's factory was polished up, everything was beautifully prepared and three flags of the People's Republic of China finally flew in front of the factory. The delegation could come.

When the time finally came, everything happened very quickly. The Chinese arrived, were indeed taken with Altmeier's factory and immediately took the entrepreneur in hand. Altmeier became part of the delegation, was allowed to sit next to the Chinese delegation leader and a few "乾杯" (Ganbei "cheers") later, of course, there was Altmeier's invitation to China. He simply had to see what incredible opportunities China meant for his company, he said. An investment in China was meant to be, he said.

Just three months later, Altmeier flew to China, warmly welcomed by the members of the delegation at the time. He was shown around everywhere, was shown the rapidly growing industrial zones and was more than impressed by the growth figures, which one would not even dare to dream of in “good old Germany”.

And there was a lot of talking, and a lot of discussing. After three days it was clear to Altmeier that he would have to invest here in China, build a factory to sell his windows in the Cathay. For him, this was the longed-for breakthrough, the necessary step towards “Altmeier International”, the quantum leap into globalisation. China, here we come!

Over the next few months, everything was meticulously planned. Altmeier tried to get loans, talked a lot with banks and even more with his new Chinese partners. He traveled to China once a month, found a building site, hired a construction company and finally ordered the machines that would then be needed in China to produce the windows. All of this cost a great deal of money, the thousands of dollars were almost seamlessly strung together, the many trips alone had already consumed 30,000 euros after six months, which, however, could almost be described as peanuts in relation to the other amounts from the factory construction.

After one year, the time had finally come. The factory was up and running, the machines were connected, and the ceremonial act of opening the company was celebrated with a lot of emotion and hope. Even the mayor of S. had travelled there specially, because Altmeier, who had in the meantime been made an honorary citizen of the town, was something of an ambassador for the German community.

The investments made by Mr. Altmeier up to that point amounted to an amount of 5.5 million euros, and these now had to be generated in the shortest possible time in order to at least achieve the ROI (return on investment) as quickly as possible.

Unfortunately, there was quite a gap between desire and reality, because the sale of the windows turned out to be extremely difficult. Somehow sales did not really want to take off and the actually unbeatable arguments in favour of buying the great energy-saving windows with German technology did not seem to really take hold. The salespeople at Altmeier China often had to watch as their products were judged to be innovative, but the building owners still bought the cheaper windows from the competition. The main argument of energy savings of up to forty percent simply did not seem to be the deciding factor in the decision-makers' purchasing decisions.

One year after the opening, Altmeier had to draw the sad balance that he had obviously thoroughly miscalculated. He had been swept along by the storm of enthusiasm for China without having questioned his commitment critically enough. He had indeed made a market study, but had really only wanted it to back up his already existing opinion. He had then naturally interpreted its result to fit his investment decision - according to the motto: “I have my firm opinion, now don't confuse me with facts.”

But that was not enough. On the day that Altmeier had to admit to himself that his China investment had failed and that it was now only a matter of damage limitation, the tax office reported to his home in S. for a tax audit.

All expenses for China had gone through the German company, but unfortunately the German tax office did not share the opinion that these investments and the subsequent losses could or could not be borne by the parent company. The office demanded additional tax payments, which ultimately led to the insolvency of the company - the model entrepreneur and honorary citizen was at the end ...

Conclusion:

It is not a good idea to let external influences and motivations guide your engagement abroad, even if the temptation to do so is omnipresent.

The hype surrounding the so-called BRICS countries not so long ago has made this more than clear. How highly these markets were praised! The entire business press overflowed with ever wilder forecasts about the development of these markets.

It is unforgettable how the then Brazilian President Lula was celebrated as the guarantor of a prosperous economy of the largest country in Latin America and what great growth was predicted.

Or the fueled “run” on South Africa, the new super country south of the equator and savior for the entire African continent. And Russia, China, India: gold rush atmosphere everywhere.

Now it is 2021 and what has become of it? Lula went to jail and Bolsonaro rode Brazil into the abyss. The future is uncertain. India continues to suffer from significant structural problems. Russia’s economy is still blocked by sanctions. South Africa is arguably in its deepest crisis in years. China is becoming more and more expensive and politically questionable.

Every entrepreneur would be well advised to base his foreign commitment exclusively on strategy and on individual assessments of his own industry. In addition, the Corona crisis has shown how difficult it can be to be able to control a distant branch at all if you can no longer even drive there. It therefore seems to be a good idea to first successfully shoot the markets in neighboring countries before following the forecasts of self-proclaimed specialists and seeking success in faraway China for a lot of money.

10. Permanent establishment or subsidiary? We don't need it!

Ms Diener from Z. runs a building cleaning company on the German-Dutch border and employs around 200 people there. In Germany she has important customers such as Deutsche Bahn or large hotels. Her employees come from all kinds of countries, especially Eastern European countries, but they always have a valid German employment contract and are of course properly registered.

Now, at a business association event, Ms Diener comes into contact with a Dutch entrepreneur who has a hotel with over 200 beds in the Netherlands and is looking for a company to do the necessary cleaning work there. Until now, the hotel had its own cleaners and chambermaids, but the costs for staff and social security have now become so high that outsourcing this activity could well make sense.

After some negotiations, an agreement is reached and Mrs. Diener will provide the cleaning staff for the hotel from now on. About 15 people drive every day the approx. 30 km from Germany to their workplace in the neighbouring country.

Some time passes and both business partners are very satisfied with the connection made. Mrs. Diener earns good money in the Netherlands and the hotel operator is satisfied with the service provided. Everything runs perfectly.

All of it? Well, apart from the fact that Mrs Diener is providing a service abroad and pretending that this has no tax consequences. It has not even occurred to Ms Diener that she could establish a permanent establishment in the Netherlands through her activities. She therefore diligently invoices her company's services with German VAT and also pays tax on the income in Germany.

Perhaps no one would have noticed or complained if the Dutch tax office had not carried out a tax audit at the hotel and found out about Mrs. Diener's company. The hotel's purchase invoices for cleaning services were sorted out by the auditors. The following list showed a turnover of approximately 1.6 million euros for the last 24 months.

In contrast to Ms Diener, the Dutch tax authorities now assumed that the activity on Dutch soil constituted a permanent establishment pursuant to Art. 5 OECD-MA (Model Tax Convention) and determined a tax liability of 120,000 euros. Various penalties and default surcharges were then added, which in the end increased the amount to around 250,000 euros.

The following mail from Amsterdam hit Mrs. Diener like a grenade, especially because the amount was due in full and already in two weeks. And as if all this wasn't bad enough, Ms Diener was also informed that the Netherlands was investigating whether she had also committed tax evasion.

Time and again, companies conduct cross-border business and are not aware that these legal transactions give rise to a tax liability. Art.5 of the OECD Model Tax Convention regulates under which circumstances a permanent establishment arises and these regulations are becoming increasingly strict. The idea behind this is even plausible: anyone who uses the infrastructure created with taxpayers' money in a country to conduct business must also pay tax there on the resulting income.

Ms Diener's employees generate the turnover and the resulting profit on Dutch soil. The place of performance is undoubtedly the Netherlands, with all its infrastructure financed by taxpayers' money, such as roads on which Ms Diener's employees travel to their place of work. On that view, it must seem appropriate that the corporation tax is also due there.

But what happened next for Ms Diener? Of course, the path led her immediately to her tax advisor and then to the responsible tax office in Germany. For the past two years, Ms Diener had declared the income from the Netherlands in Germany and also paid the corporation tax and VAT due there. Unfortunately, the German tax office did not at all agree that the tax liability had been calculated correctly and refused to refund the tax payments made.

If Ms Diener were now to pay the taxes in the Netherlands as well, this would be tantamount to double taxation, which should actually be excluded by an existing double taxation agreement (DTA) between Germany and the Netherlands. She therefore had no choice but to initiate arbitration proceedings, the outcome of which, however, may take some time. Until then, the loss of liquidity can quickly become an existential threat.

Conclusion:

Anyone doing business abroad that involves the deployment of personnel and a certain degree of regularity is well advised to register at least one permanent establishment in the target country. Since this permanent establishment is roughly equivalent to a dependent branch, it should be examined whether this is sufficient or whether it even makes more sense to establish a subsidiary as a separate corporation and thus create clear demarcations from the domestic activity. Clearly defined and documented transfer prices are a helpful necessity here and prevent unpleasant discussions at the next tax audit.

11. The webshop – when the crisis pushes for change

Mrs Schlau from L. runs a flourishing trade in office supplies of all kinds. From printer paper to high-quality office furniture, she has everything in her assortment. Since last year she has even employed an interior designer who specialises in office planning and design.

Your company is located in the middle of the border triangle of Germany, France and Switzerland. Her business activities have been extending into neighbouring countries for a number of years. Somehow it was always clear to her that she should probably set up representative offices in the foreign markets, but where there is no judge...

Although Ms. Schlau offers an impressive assortment of goods, her distribution is organized rather conservative. In 2019, sales representatives will still travel daily from Germany to major companies in the region, auditioning for purchases and taking orders on a large pad. The company also prints a thick catalogue every year, in which over a thousand items are printed with numbers, prices and pictures.

And so the business goes on without any great ups and downs until - yes until - a tiny coronavirus paralyzes the entire world and pretty much throws all the efforts down that were previously considered normal and functional.

Like the rest of the world, Mrs. Clever is caught completely off guard by this new situation, which doesn't save her and her trade from being immediately and violently hit: The borders are closed in the first lockdown and her business brutally collapses immediately and without warning. Her customers in France and Switzerland are unable and unwilling to receive the German sales representatives. And since Mrs. Schlau has not established any branches in France and Switzerland, the sales force cannot identify themselves as commuters to enforce the corresponding right to cross the border. At this point, therefore, the previous practice is already taking its revenge.

Now, Ms. Schlau would not be a successful entrepreneur if she was not able to react quickly to changes and look for solutions: she rounds up her senior employees and proudly declares that the company will now quickly create its own web shop. After all, it's clear to everyone that Jeff Bezos is a successful man and you don't have to emulate Amazon, but you should go in that direction.

The workforce is anything but enthusiastic. The sales people are in a mild panic, as they already see themselves as victims of digitalization. The employees in merchandise management have a rough idea of what's in store for them and are already mentally saying goodbye to their annual vacation. The IT department - consisting of only one employee - is gasping for breath.

It takes a little while for everyone to come to terms with this new strategy, but eventually they all get to work, sighing.

What follows is a string of disasters, bad luck and mishaps: The merchandise management system doesn't want to connect to the webshop, the webshop refuses to accept orders, and the latest invoices are consistently incorrect, especially those to foreign customers, thanks to constant programming. No one can explain why the technology doesn't do what it's supposed to. The interfaces "actually" all correspond to the usual standard, and the troubleshooting is correspondingly tedious and grates on the nerves of everyone involved. In this situation, no one dares to ask the question of mapping internal transfer prices.

In the meantime, the customers of the striving company are annoyed both on this side and on the other side of the border, because the shipment of the ordered itmes has come to a standstill due to the internally tied up resources and the faulty invoices are indignantly complained about in rows.

In the face of adversity, the web shop initially becomes the most expensive order pad in the company's history. The product range has been successfully and completely digitized and can be accessed via the website, so that the sales force - banished to the home office by Corona decree - is at least busy manually noting down incoming orders on the familiar order pad.

This story is a prime example of how - not only in international business - developments can be slept through and then reacted to in a hectic manner instead of acting in advance with "change management".

Companies make the biggest mistakes when they are doing well. Ms. Schlau's company was very comfortable in its comfort zone until the crisis rudely jolted it out of its usual course and forced the boss to act. Of course, there was then no time left for a planned, considered and strategic approach that would convince and involve the employees.

Again, no one can foresee the really big events in world history, neither the Corona crisis nor the attacks of September 11, 2001, or similarly profound upheavals that affect each and every one of us. This is precisely why it is sensible and important to keep a close eye on the changes in the market and in the world and to consider the possible consequences for one's own company. This is the only way to adapt one's own strategy in time, if necessary, and to implement it advantageously.

About the author

Prof. Peter Anterist is the CEO of the international trust company InterGest, which supports export-oriented companies at more than 50 locations worldwide. He is a lawyer and studied business administration in Saarbrücken before moving to the law faculty of the Johann Wolfgang Goethe University in Frankfurt/Main, where he completed his law degree in 1999.

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InterGest: The Art of Being Local Worldwide

Since 1972, the trust company Intergest has been providing a comprehensive range of services to support internationally active companies in establishing and managing a foreign branch or subsidiary.

The umbrella company InterGest Worldwide currently coordinates a worldwide network of 52 independent partner organizations that are present in a total of 55 country markets.

The InterGest organization offers small and medium-sized companies in particular an up-to-date, cost-effective and efficient method of entering foreign markets and of gradually developing their business abroad.

InterGest's global partners all have extensive knowledge of their country's commercial and legal environment, as well as a clear understanding of the requirements and complexities of international trade. It was and is important for the dynamic development of the InterGest network that all partners are personally familiar with the corporate culture of medium-sized exporters from Germany.

A global infrastructure enables close and effective cooperation between the individual partner offices, which can thus also contribute their respective local expertise to cross-border solutions for InterGest customers. The InterGest partners seek close exchange with their customers on the Internet and via communities in social networks.

www.intergest.com

Fail in Foreign Trade

Peter Anterist

Abroad, medium-sized businesses are not always spoilt by success. Peter Anterist describes „eleven of the most popular business failures of SME's to lose money abroad" - wrong tracks one would rather avoid in times of difficult markets. Anterist, whose company has been lending support to medium-sized businesses for fifty years now, does not make up or satirize anything. Usually, it is not entrepreneurial negligence that leads down the garden path. Mostly, it is the absolute success on the home market which prompts isolated and unquestioned decisions in foreign trade. „Every described incident is based on true stories. People and products portrayed in the case studies are, however, completely fictional."

local global