

What to Consider When
**Expanding a Business
Internationally**

INVEST IN
Holland



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Introduction

When expanding internationally, no matter the destination, businesses need to address a lengthy list of considerations. The investment can be hefty, but the reward would be well worth it if the move is orchestrated carefully.

The Netherlands Foreign Investment Agency has been a leader in attracting foreign businesses to the Netherlands for more than 40 years. Executive Director for the Americas Henny Jacobs stresses that it's not just about tapping into a new market. As the world economy rethinks globalization, following the recent health crisis, it's important for companies to consider a move more carefully than ever.

A straightforward strategy will be beneficial to both parties involved. For companies, it will be best to know exactly what they are looking for in a destination. And for the potential host nations and cities, it's helpful to know what companies are looking for in order to tailor their offers accordingly. By being strategic about needs and offers on hand, both sides can be sure to secure long-lasting and successful partnerships as a business expands internationally.



TOP 5 REASONS TO MOVE INTERNATIONALLY

- New markets
- Fresh talent
- Strategic risk
- Wider network
- Long-term success

“Moving abroad has proven to be a business strategy that will lead to long-term success. Companies need to realize the power of spreading their risk, while also enhancing their networks.”

Henny Jacobs
Executive Director Americas NFIA Washington DC

When Fabien Vieu was scouting locations in Europe for Google's new energy and data center, he had a laundry list of requirements. "In our search for new locations we look at the right environment, the right infrastructure, the reliability and availability of power, the possibilities of renewable energy, the right labor forces and how welcoming the community is," he said.

Like many others, Google settled on the Netherlands, but not all companies arrived in this country for the same reasons. For Netflix moving to Amsterdam, the lifestyle was important. For Monster Group, it was

the combination of English-speaking talent, logistics advantages and maintaining access to European markets with Brexit uncertainties. For UPS, the Netherlands' central location was key. There's no perfect formula for every company, but having a framework on how to find the right location is the first step. While considering if a location is the best place to relocate a business internationally, there are five main areas to consider: location, infrastructure, financial incentives, local workforce and quality of life. These considerations are key to beginning the successful move of an enterprise abroad.



Considerations

Geographic fit

When it comes to choosing a new international base of operations, it's all about location – notably its geographic placement. Remote destinations have certain appeal for certain industries – think of data centers in remote colder climates – but most need to be central and well-connected. Before zooming in on a map, planners need to decide what the priorities are for their business.

Depending on the company, close proximity to other major business hubs and markets may be a requirement. While the recent COVID-19 pandemic has made virtual business meetings more commonplace, it is unlikely, going forward, that virtual interactions will replace all business dealings and interactions that take place in conference rooms and over meals.

For a manufacturing entity, it may be important to be near to suppliers and distributors. If there are raw materials or transportation routes vital to the business, it's imperative to take this into consideration. The location needs to be one that is practical and convenient for any operation, but also for other businesses that companies may work alongside.



“With its proximity to Germany, France, Belgium and the UK, Eindhoven and the Netherlands serve as a critical node to these countries, allowing packages to flow directly in a smart way.”

Ufku Akaltan
Managing Director UPS Netherlands, Belgium, Luxembourg



Certain resource-rich destinations or lively cultural urban hubs may stand out as obvious choices, but be sure that their latitude and longitude truly mesh with the company’s objectives. The best way to know? Conduct a site visit – physically if possible, or virtually if needed – and team up with the local development agency to understand how the destination will fit your company’s needs. When Willamette Valley Company was making the move to the Netherlands, CFO Jason Cunningham met with the Netherlands Foreign Investment Agency on a “fact-finding mission,” bringing accountants and lawyers to answer his questions, which led to a successful implantation abroad.

“Base a decision on facts, not emotions. Especially when it comes to smaller and medium sized enterprises, they can let emotions factor into the selection process. Doing due diligence, looking at every aspect of the market that you would like to serve is most important.”

Boudewijn Barth
Director NFIA Atlanta



Infrastructure Availability

Being close to facilities, partners, suppliers and other essential entities is important, but it's equally important to be able to reach them. Understanding the infrastructure of a location will also help clarify whether or not foreign operations are worth establishing there. For example, is there effective, reliable public transit? Are airports, seaports, railways, roads and bridges all a priority for the region? Some research suggests that more proactive planning of business relocation strategies could actually help improve local transportation and land use in locations, so conversations with local authorities may help executives assess the situation and possibilities ([Balbontin and Hensher, 2018](#)).

With so many business interactions happening online, a state-of-the-art telecommunications network is also a

requirement. How is connectivity in terms of mobile and internet communications? Is the location 5G compatible? Are there governmental restrictions to internet freedom that could hinder either work functions or the quality of life that may deter talent from relocating?

These elements will be important for a business to operate and for employees to function optimally. Additionally, be sure to consider how much space the business could need. Are there warehouses, offices and other amenities available and, even more importantly, will there be space to grow? While investing in an international expansion is costly, a successful move could mean a significant growth in operations. If space is in demand or prohibitively expensive, then a long-term move to that destination may require reconsideration.

“Our selection of the Netherlands for our European production and development base and our successful collaborations with R&D institutions based here has proved advantageous.”

Yuzaburo Mogi
Honorary CEO and Chairman of the Board of Directors Kikkoman Corporation

Financial considerations



No company expands internationally without the goal of generating earnings. It is therefore essential to analyze the move from every fiscal angle possible. These are questions for an accounting or finance team to ask, but they are essential questions all the same. The last thing an expansion wants to do is operate in the red without hope of returning to the black.

HIGHLIGHTS

Companies abroad will become part of the local tax system and should be prepared to embrace local banking and other processes that may differ from the company's home country.

How much will it cost to establish and maintain operations? Renting an office or constructing a production site are substantial investments for any company, so it's pivotal to know what to expect in terms of costs and contract negotiations.

Once established in a location, a company will be intertwined in the local tax system, at both a local and national level. Will tax rates and incentives allow for adequate profit margins? Corporate tax incentives could make a destination more attractive than others, but information may not always be readily available. Contacting local officials before jumping into further research will be the best way to get clarity. The Netherlands, for example, offers a wide tax treaty network, special measures for highly skilled expats and certainty in advance of future tax positions to help multinational companies thrive. The country also actively promotes engaging in R&D activities through a favorable corporate tax structure and specific R&D incentives to stimulate innovation.

It's also crucial to assess how economic issues will affect workers. Is real estate feasible for the company and also for its workers to find housing? What sorts of labor laws are in force when it comes to onboarding new staff? All of these individual considerations will help create a larger picture of how financially viable a destination may be for an international expansion.

“NFIA supported us with a lot of good economic data. Their team was highly responsive and helped us pull together what we needed very quickly.”

Mark Bollinger
Chief Globalization Officer Smith & Associates

Establishing a workforce

When opening up an international center of operations, it's not just a place – but people – a company will be investing in with a business. Understanding the local workforce will be key to ensuring a successful launch. Are their skilled workers and laborers available to enhance the company's projects? Is hiring an easy process or does it present challenges? What sorts of training or educational facilities nearby may help business leaders tap into a pool of future employees?

For answers, it's useful to look at local universities, to understand how foreign language and digital skills rank compared to other choices. How many university graduates stay for work or do they migrate away? Are there collaborations possible with local education institutions to funnel talent into your company post-graduation? Hiring local talent is a way to integrate more fully with a city or region, and recent graduates in relevant fields bring the academic and cultural profile that could create the perfect fit. NFIA suggests finding a local in the desired market, relying on a snowball effect. Once established, local HR leadership onsite is imperative to securing and maintaining a local workforce.

In discussing their priorities in our 2020 perception study, site selectors and business owners in the U.S. identified the availability of skilled workers as their number one priority for relocation. Scott Roth of Jama Software said the hiring pool in the Netherlands was attractive for him, citing the locals' high-tech skills, entrepreneurial spirit and multilingual abilities. These were important for his company, but every business owner will have their own set of qualities to look for in local talent.

Maybe not all employees will be hired locally. There are factors beyond relocation when it comes to hiring expatriate workers and those factors vary by country. Take into account local immigration procedures, costs, waiting times and other processes that a company may not anticipate. Resources like the Netherlands' network of Expat Centers can give new international employees their softest landing possible.

“We have access to a very educated and English-conversant workforce. The UK and Ireland are of course attractive in that area as well, but the second factor was that we wanted to be on the continent.”

David Hyman
General Council Netflix



“We are a relatively small company of about 500 employees and did \$1.66 billion in revenue last year. That kind of success requires people with a can-do attitude who are focused and energetic.”

Mark Bollinger
Chief Globalization Officer Smith & Associates

Quality of life

In order to create a viable business relocation plan that is also sustainable in the long-term, it is important to choose a location with a quality of life that will attract new talent and partnerships. In a recent NFIA perception study, Canadian site selectors and business owners identified the quality of life as their main priority when considering locations. It ranked second for U.S. responses.





HIGHLIGHTS

Families, both local and relocating, want the best schools for their families. Make sure there are options, both solid public schools and international schools for expatriates, which NFIA suggests is often an overlooked factor.

Elements of daily life, including cost of living, childcare and social services, alongside bigger issues like green space and environmental issues, should be taken into consideration. For families, what sorts of schools and universities will help attract workers? Are there cultural and recreational offerings that will appeal to the type of workforce that the company is attempting to construct? Studies show that the top considerations for quality of life include housing quality, safety, healthcare and air quality among others (Kim and Cocks, 2017).

If attracting expatriate workers, consider the role of culture shock, or more specifically, how foreign individuals might deal with the challenges presented by the location (Fitzpatrick, 2017). Such issues may seem secondary for European workers within the EU or to North America, where cultures are relatively compatible. International expansions in Asia or Africa, however, could present some workers with insurmountable challenges that limit pools for talent attraction. Language barriers and new customs are one thing, but there are also realities related to the treatment of women and minority groups, healthcare availability, vacation time, maternity or paternity leave, and other social standards that may require reflection.

Going forward

These are just the first steps in considering an international relocation – the ones that will at least help create a shortlist of possibilities. They are the core, vital needs for a business to land someplace new and be successful.

Going forward, however, any business owner or site selector will want to analyze other less-obvious factors of a destination to make sure they are choosing the right place for them.

There are issues of human rights, ecological values, and further cultural compatibility that need to be raised before settling on a relocation plan. What role, for example, does an authoritarian regime play in relocation on both the company and its workers (Fitzpatrick, 2019)?

A region may tick all of the boxes above, but relocating there may require facing certain ethical or moral questions that could, ultimately, make the choice not ideal.

Furthermore, geopolitical considerations will be larger than they may have been prior to COVID-19, especially for manufacturing and distribution operations. “COVID-19 has certainly added a new dimension to international expansion,” said NFIA Executive Director for the Americas Henny Jacobs. “As a result, country leaders are urging their companies to produce more things in their home countries and even relocate back home.”



HIGHLIGHTS

While timelines will vary based on the company and the location, companies typically take 18 months to decide on an international move.



HIGHLIGHTS

Current events, like COVID-19, have opened the international community's eyes to issues of globalization. Temporary reactions, however, are not signs that international business in every sector will slow down, but instead present opportunities to strengthen international value chains.

“In today’s globally connected world, it makes more sense than ever for companies to have international operations for market access and business success.”

Henny Jacobs
Executive Director Americas NFIA Washington DC

What's clear is that, in an increasingly connected world, having an international presence is a positive strategy for any business looking to spread globally. Finding the right location to establish this presence is just one of many challenges that such enterprises will need to face on the path to success.



Your one-stop shop for success in the Netherlands

For more than 40 years, the Netherlands Foreign Investment Agency (NFIA) has served as a one-stop-shop for successful European expansion. NFIA maintains offices around the world, including six North America locations in Atlanta, Chicago, New York, San Francisco, Toronto and Washington DC.

If you are based in North America and would like to get in touch, contact Henny Jacobs or visit investinholland.com/contact-us to find one of our directors in your local market.



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