

# Risks and rewards of geographic expansion

## *Innovative Solutions*



Companies often find the fastest way to accelerate profitable growth is by expanding into new geographies. It allows them to introduce their most successful product lines in other countries after they have fully developed their home markets.

Developing countries often are the geography of choice because of their relatively high population growth and unaddressed market needs, although local business practices in these countries are often not understood as well as our own.

Geographic expansion comes with both significant rewards and certain risks. Corporate executives find they need to navigate unfamiliar territory, establish business partnerships that have the right connections, and tailor their product lines to the country's culture and market dynamics.

Dow Corning offers expertise and solutions to help companies enter new geographies and anticipate and manage the complexities associated with doing business in new countries.

“Successful expansion requires in-depth knowledge and know-how in several key areas – the regulatory environment, political climate, business opportunities, potential risks, and prospective customer base, among others,” explained Jim Whitlock, global director for Dow Corning's Process Industries. “Speed to market is critical, so companies need to select channel partners and establish distribution networks that will give them access to the right markets.”

Expansion strategies range from direct importation, to contract manufacturing using another company's manufacturing capacity, to

building one's own manufacturing operation. "Companies need to be prepared to deal with risks that increase along this continuum, particularly when bricks-and-mortar capital investments are involved," he said.

Understanding geographic strategies and the critical issues involved can mean the difference between success and a problematic entry where companies get bogged down in local issues.

### **Contract manufacturing ensures speed to market**

Contract manufacturing (where another company's manufacturing capacity is utilized) offers numerous advantages as a geographic expansion strategy. It accelerates speed to market, avoids the expense of import tariffs and duties, and eliminates delays and costs often associated with long-distance shipping.

Companies can achieve the benefits of local manufacturing but at minimal risk. If a reversal in direction is required, contract manufacturing gives companies the flexibility to withdraw or downsize if necessary – an option that's considerably more costly, complex and politically sensitive after a plant has been constructed.

"One U.S.-based multinational company we work with wanted to expand into the Brazilian market in a way that would give them fast access to the market and minimize business risks," explained Whitlock.

"They found the benefits of contract manufacturing far outweighed any other expansion strategy, so we agreed to manufacture their products to their specifications in our plant at Campinas, Brazil. This gave them almost immediate access to the market, avoided a major capital expenditure, and allowed them to quickly expand their customer base."

While a strategy of utilizing a manufacturer's existing capacity to expand is helpful to large corporations, for

small and medium-sized companies it is essential. Partnering in this way gives them both a foothold in a new geography and the broad-based capabilities of a major global company.

Among the criteria used for selection of a contract manufacturer, of highest importance is the provider's ability to consistently meet internationally recognized high quality standards. For example, companies look for global ISO 9001 registration as a global standard of quality assurance. This is especially important in developing markets where quality levels may vary.

Issued by an independent third party, ISO 9001 certification provides assurance that a company operates a quality management system in accordance with an international consensus that an organization can continually deliver the product or services to meet customers' quality requirements. "Our recognition of this importance is the reason Dow Corning secured and maintains ISO 9001 global registration," Whitlock said.

### **Solutions to help companies expand**

Addressing issues associated with geographic expansion requires a significant investment of time and effort to develop the know-how, connections and resources required. Many companies choose to minimize or avoid these costs by contracting third-party experts that are well-established in the new geography.

"We quickly realized that the regulatory and global business expertise that Dow Corning has amassed for our own businesses would be helpful to companies entering countries where we operate," John Torgerson, market development manager, Service Solutions, explained. "In addition to expertise, we have the labs and scientists, so we can do the analytical testing, advise on local regulations and create necessary documentation such as material safety data sheets, labeling information, shipping documentation, and even marketing literature."

"Companies come to us for assistance in presenting their strongest case to regulatory authorities. Sometimes our

analysis indicates that the requirement can be met by shifting to another raw material or modifying the formulation,” Torgerson said.

Dow Corning’s environment, health and safety staff also provides information on industrial hygiene, occupational health, safety procedures for chemicals handling and storage, and both risk assessment and risk management. They have expertise in managing chemicals and in providing a comprehensive range of solutions including process engineering, culture training, raw material procurement, distribution channel support, product development, capacity planning, and contract manufacturing.

“We can also support the installation and implementation of SAP’s EH&S software module for companies,” he said. “What sets Dow Corning apart from consultants is that we actually work and have a track record of success in the areas where we provide counsel,” Torgerson went on. “There’s a big difference between textbook knowledge and in-depth understanding based on many years of hands-on experience in these countries. We share what we have learned from running our business and working with the local authorities in countries around the world.”

“Dow Corning’s global ISO 9001 registration and EPA-recognized Responsible Care® program are two areas of expertise that companies have turned to us for counsel and solutions to help them achieve their goals.”

Companies typically need assistance in one or more stages in their business cycle, which begins with risk assessment, formulation assistance, development of new products, and testing. The next stage involves production and shipping products and preparation of the necessary documentation to accompany them, such as material safety data sheets. A later stage involves solutions related to occupational health and safety, such as personal protective equipment. At the end of the cycle are services related to waste handling and recycling.

Because all of these services are provided by Dow Corning, companies benefit from “one-stop shopping” which accelerates response time and ensures integration of activities.

Companies that have turned to Dow Corning for geographic expansion assistance and solutions range from food manufacturers and industry consortia to consumer goods, pharmaceutical and other chemical companies.

### Understanding local regulations and requirements

“Regulatory issues can create a significant stumbling block if there isn’t a strong understanding of government expectations and local business requirements, as well as their implications for a company’s products and services,” Torgerson continued.

“Of key concern are products containing chemical ingredients or that utilize chemicals in the manufacturing process because of the stringent chemical regulations around the world. Requirements vary from country to country but increasingly, developing markets are following the example of the European Union and the United States in requiring companies to meet a very high standard of regulatory compliance.”

China is one example. While still reviewing its product registration system, China is introducing new regulations related to the use of chemicals in products and manufacturing processes. Before products can be imported or manufactured in China, any chemicals not already in the Inventory of Existing Chemical Substances in China (IECSC) must be tested and registered.

Most affected will be innovation-focused companies that regularly introduce new chemicals into their formulations and manufacturing operations. The types of businesses affected could include specialty chemicals, chemical manufacturing, dyes and paints, plastics manufacturers, photography equipment and processing,

color photocopying, small printers and major lithographic printing machines, electroplating, surface treatments, and other metal processing methods.

For example, most car manufacturers in China are multinational companies. They are likely to be affected because they use special chemicals specified by their parent companies in the U.S., Europe or Japan. Testing must be done by a lab approved by the Chinese Ministry of Environmental Protection. The regulatory changes affect both manufacturers in China and those who import products into China.

REACH (Registration, Evaluation and Authorisation of Chemicals), the most significant change in the European Union's (EU) chemical management history, went into effect in June 2007. While REACH is a EU regulation, it applies to materials coming into the region from around the world, making the law a global compliance matter.

“Among other services, Dow Corning works with companies to provide testing services, to develop material safety data sheets that provide health and safety information, and to offer counsel and support in meeting labeling requirements,” explained Torgerson.

“Shipping requirements also vary from country to country,” he continued. “Often, regulations extend to materials reformulated by suppliers, so there is always the possibility that customs officials may refuse a certain reformulation. Documentation must be in order and the authorities notified about any new chemicals or materials prior to shipping if it is to pass through customs expeditiously.”

## How to contact us

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