Grant Thornton

Grow global:
a route to success

Maximising the international opportunity

THE SUNDAY TIMES INTERNATIONAL TRACK 100

Contents

Maximising international opportunities

The current macro-economic environment presents something of a paradox: interest rates have never been lower, offering a real incentive to invest one's way back onto a growth track, but even if you can raise new funding, the domestic economy is weak and consumption remains low.

Nevertheless, around the world there are important growth markets where a powerful new middle class is driving real demand for branded consumer products, business support services and healthcare products. Add a comparatively weak domestic currency to this equation and the potential for UK businesses to kick-start their growth abroad is clear.

Over the course of 2011, and with the support of specialist research company Fast Track, Grant Thornton UK LLP has analysed and interviewed the majority of the 100 privately-owned firms with the fastest-growing international sales to understand how they go about it, what they have learned along the way and where they may be focusing in the future.

It is clear that companies looking abroad face multiple challenges – often to do with regulation, human resources, local business culture, due diligence, or efficient financial structuring. This report helps anticipate these issues based on the real experience of others. One common finding is the importance of making use of every resource available – from government agencies such as UK Trade & Investment (UKTI) to global financial services advisory organisations with a depth of practical experience, such as Grant Thornton.

I hope you find this research to be of practical help.

David Maxwell
Partner, National Leadership Board
Grant Thornton UK LLP

Stories of global success

At a time when domestic markets are offering business few opportunities to generate growth, a natural course of action might be to expand into new geographies.

But while the allure of tapping into new global growth markets might be strong, the reality of such a move can be daunting for many businesses. In order to demystify the process, Grant Thornton has teamed up with specialist research company Fast Track to analyse the strategies of the 100 privately-owned UK firms with the fastest-growing international sales. The resulting research represents a unique insight into how these best-of-breed businesses have grown internationally, what they have learned along the way and where they may be focusing in the future.

Understanding international expansion

- There is no 'one-size-fits-all' approach to international growth strategies: some are executed according to well laid out plans, while others are undertaken on a purely opportunistic basis. The more opportunistic firms often introduce a more structured plan further down the line.
- In terms of the territories targeted, the drivers of international strategy are diverse, from the draw of existing clients to research, legislation or sector-specific issues. There are also well-defined and documented barriers to doing business in certain regions.
- There are also many different ways of breaking into foreign markets, and approaches often evolve as companies grow in scale.

Key business lessons learned

- There is a clear correlation between mode of international expansion and financial performance: companies that took a more measured strategic route have higher profit growth and margins.
- The most commonly cited challenges faced by the companies interviewed relate to HR issues, such as the demands on management time, recruitment and maintenance of company culture.
- Companies are typically conservative when funding international expansion. However, with the benefit of hindsight some admitted having been overly cautious.

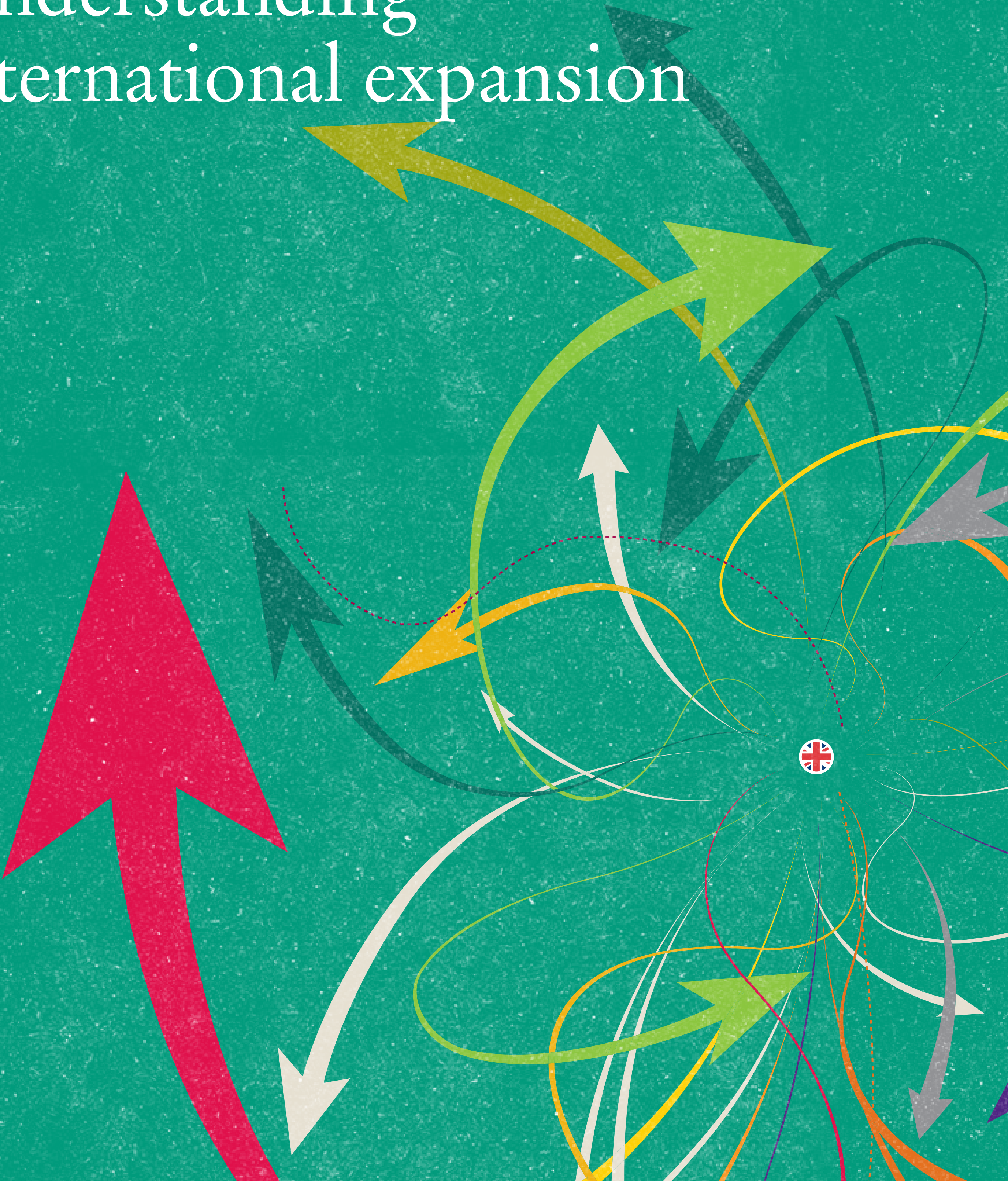
The next step

- Geographical considerations dominate future plans – both via the consolidation of operations in existing markets and expansion into new territories.
- Other strategies centre on organic growth through new product launches or roll-outs and inorganic growth through acquisition.

Conclusions

Overall, the experiences of the International Track 100 firms will provide a hugely useful reference tool for businesses looking to make a first move into export markets or to build on existing overseas growth. What's more, the key points for businesses to take away are clear: the potential to drive top- and bottom-line growth via international expansion is certainly there, whether one approaches this in a carefully planned strategic manner, via a more opportunistic route or using a combination of both. At the same time, there are obviously pitfalls to be avoided and challenges to overcome, but irrespective of whether these are geographical, cultural or financial in nature, being well-prepared and well-advised will help a business maximise the opportunities that international expansion can bring.

Section 1.
Understanding international expansion



All in the planning?

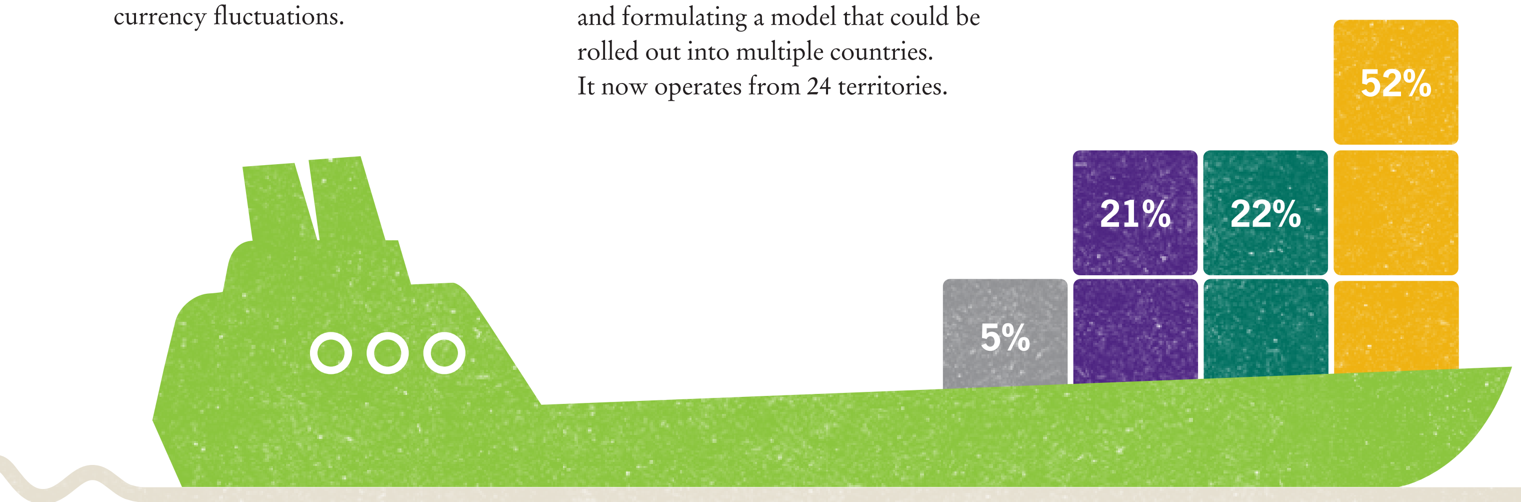
Many businesses are set up with the specific intention of operating internationally. They operate in truly global sectors such as oil and gas, shipping, international haulage, and pharmaceuticals. But for the majority, making the jump from a domestic to an international operator will be viewed as a major step. Surely it must be the subject of much strategic analysis and planning?

Not necessarily. Looking at the paths taken by the International Track 100 firms, it is clear that a good number of these highly successful businesses expanded abroad on a purely opportunistic basis. In some cases the element of opportunism would have been provided by approaches from potential overseas clients. Take the footwear retailer Dune Group: it saw overseas potential after a number of Middle Eastern retailers expressed an interest in its flagship brand. Others seized upon chance introductions with potential new clients or sudden changes in strategy brought on by macro-economic factors such as currency fluctuations.

Mode of international expansion among International Track 100 companies

But of course, a well-planned strategy should be the route of choice, and this was the path taken by just over half of the 100 businesses, including those created specifically to trade in multiple geographies. Many based their strategies on detailed due diligence into the choice of territories and route to market, and included recruitment and roll-out provisions. Electronic components broker Rebound Electronics is typical of this predetermined approach: in advance of its launch the firm's CEO spent seven months analysing the market and formulating a model that could be rolled out into multiple countries. It now operates from 24 territories.

Even for the initial opportunists, the value of planning is not lost. Of the firms that expanded into overseas markets via some element of chance, around half later sought to build on their early success by putting in place more formalised strategies. A good example is electrical engineering firm E-Tech Group: it had been opportunistically supporting the international operations of existing clients, but subsequently took the decision to target specific overseas markets by setting up local subsidiaries. Its change in approach led to significantly increased export revenues.



Mode of international expansion among International Track 100 companies

Unclear | Opportunistic first, then strategic | Opportunistic | Strategic

‘One in five of the companies in the index cite the need to boost flagging domestic revenues as a major driver of their international growth plans.’

Drivers of international expansion

To better understand how international strategies evolve, it is worth looking at the factors that drive companies to expand overseas in the first place and that influence their choice of destination. Clearly, the pursuit of growth is the primary driver. But in the current global economic conditions, it may be a defensive move rather than offensive. It is not surprising then that one in five of the companies in the index cite the need to boost flagging domestic revenues as a major driver of their international growth plans.

‘Do your homework, get specialist advice and be brave!’

Managing risk in international expansion

It is fair to say we live in somewhat uncertain times. From the Eurozone crisis to the Arab Spring and major environmental catastrophes, it may seem that there is no really safe way to expand into international territories.

Of course it will never be possible to completely eradicate risk, but there are important steps that companies can take to mitigate it. The key consideration is to ensure businesses take more care when taking this big step by performing sufficient and appropriate due diligence. While the term ‘risk’ covers a huge range of areas, the key issues to concentrate on would be:

- People and culture: do you have the right skill-set to succeed in certain markets? Do you fly people out there, manage remotely or recruit locally? Ensure employee safety? How do you cross cultural and linguistic barriers?
- Political: currency fluctuations? Regime stability? Government interference? Intellectual property management and copyright protection?
- Financial: can you afford to do this? Can you afford not to? Funding requirements? Risk v return and payback analysis? Cash extraction?
- Operational: how much management time and capital resource are being devoted to the project? Do you need to recruit specialist executives? What’s the right entry/investment strategy?

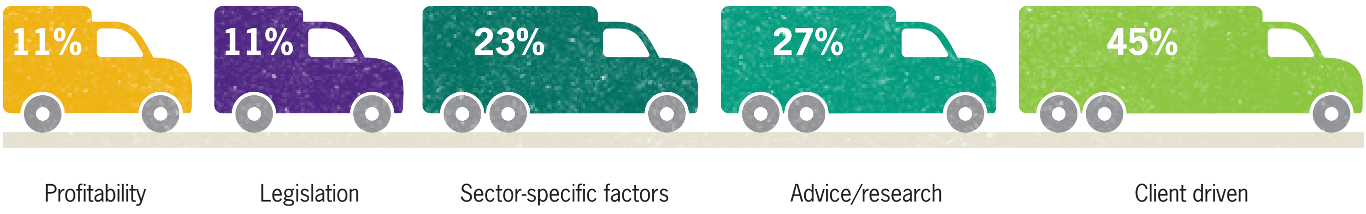
Clearly, performing this sort of analysis will demand the sort of time and expertise that are not always readily available in companies’ domestic teams, so engaging with experienced business advisers becomes critical as a means of avoiding costly mistakes. With over 30,000 people around the world, Grant Thornton member firms have a deep pool of talented professionals who have hands-on experience in advising clients to navigate the often complex technical and cultural differences in doing business overseas.

For dynamic companies that have ambition and drive, there are numerous exciting opportunities out there: do your homework, get specialist advice and be brave!

Jatin Radia, UK International Business Centre Director, Grant Thornton UK LLP

Section 1. Understanding international expansion

Choice of territories – key drivers



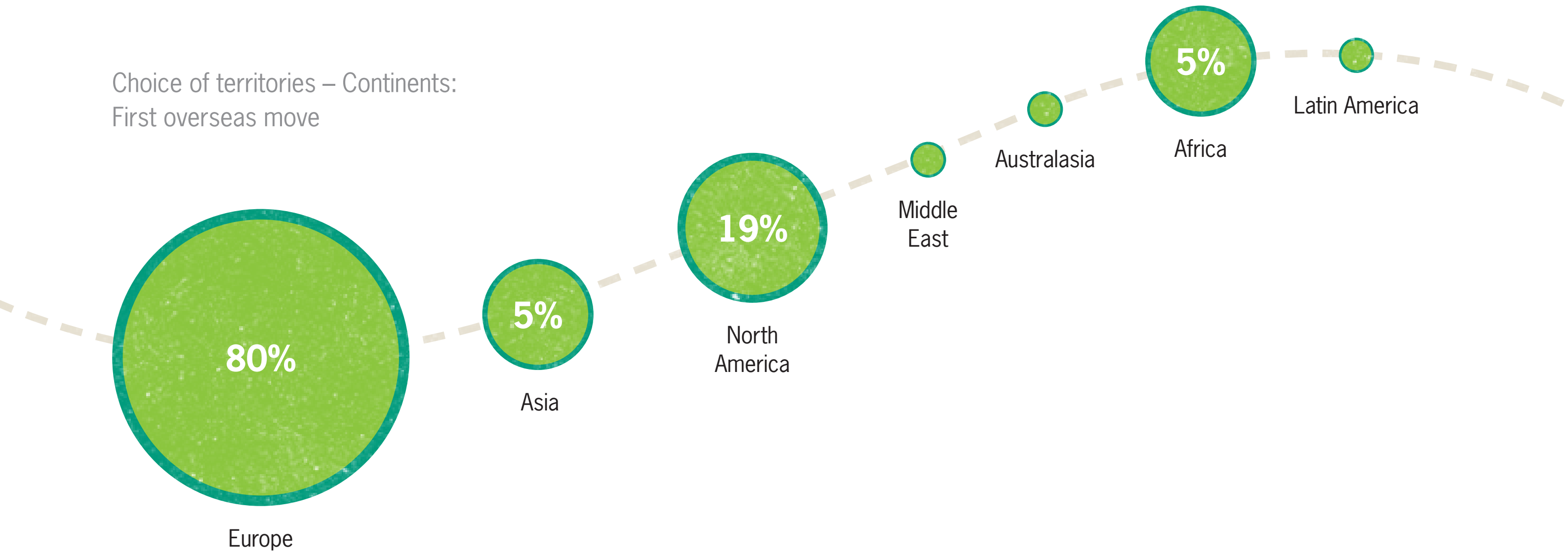
Choice of territories – key drivers

As for the choice of territories to target, the most important factor to influence strategy is the needs of clients – actual or potential. Meanwhile, around one in four of the businesses questioned base their decision to target specific regions on in-depth research. Rainbow Cosmetics, for example, analyses each of its target markets carefully via third-party research and has also drawn on advice available from the government's UKTI department – the entity specifically focused on helping UK firms to succeed in international markets and encouraging inward investment from overseas businesses.

Other important considerations are industry- or sector-specific: are particular regions centres of excellence in a given sector, or do they have market cycles that complement those at home? In other cases, the main issues are legislation and regulation. For chemicals distributor Melrob, regulatory factors were the key: it specifically targeted Japan because of the increasing expense involved in complying with EU regulations in its sector.

A further attraction offered by certain locations is the potential to drive or revive profitability, particularly seeking less competitive markets abroad to combat tightening margins at home. This was the main motivator for IT services companies Citihub and Halian, which both targeted lower competition and higher margin business abroad. Seafast Logistics takes this to another level, specifically targeting more troubled regions such as Iraq and Afghanistan to avoid the competition.

Choice of territories – Continents:
First overseas move



‘The most important factor to influence strategy is the needs of clients – actual or potential.’

Wish you were here?

Although a good number of the International Track 100 did carry out some form of detailed research into their chosen geographies, the majority did not. So, it makes perfect sense that the most common first step is to target the geographical, legal and cultural proximities of mainland Europe.
That said, looking at the geographical reach of the 100 businesses today, it is clear that these initial moves are typically followed by more aggressive expansion: more than half now sell to four or more of the world’s continents, while 11 are active in all six.

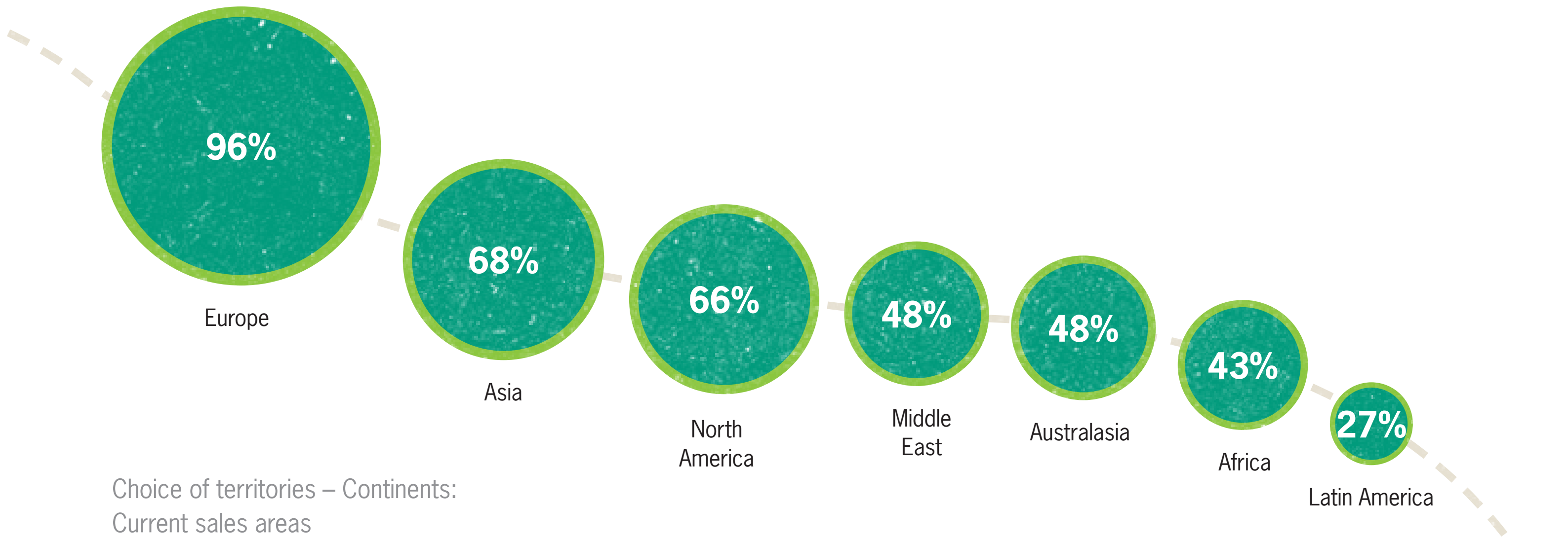
Choice of territories – Continents

But despite this fact, the research into the 100 companies in the index shows that there are well-defined and documented barriers to doing business in certain regions and that it is important to be well-informed about specific risks in advance.

The most important area of risk identified involves local regulatory or legislative hurdles. In particular these might address areas such as employment law, customs restrictions or industrial legislation. While these will occasionally present opportunities – for instance where UK legislation is more prohibitive – they more commonly create barriers. This is an area all too familiar for online poker site PKR: its plan to enter the US market was halted by a sudden shift in legislation.

Similarly, although it also has potential upsides, another risk cited is currency volatility. It can cause pricing and invoicing problems for mid-market businesses that are less likely to employ financial instruments for hedging risk. Logistics and supply chain management can also cause problems, as can the risk of IP infringement (counterfeit and copycat products).

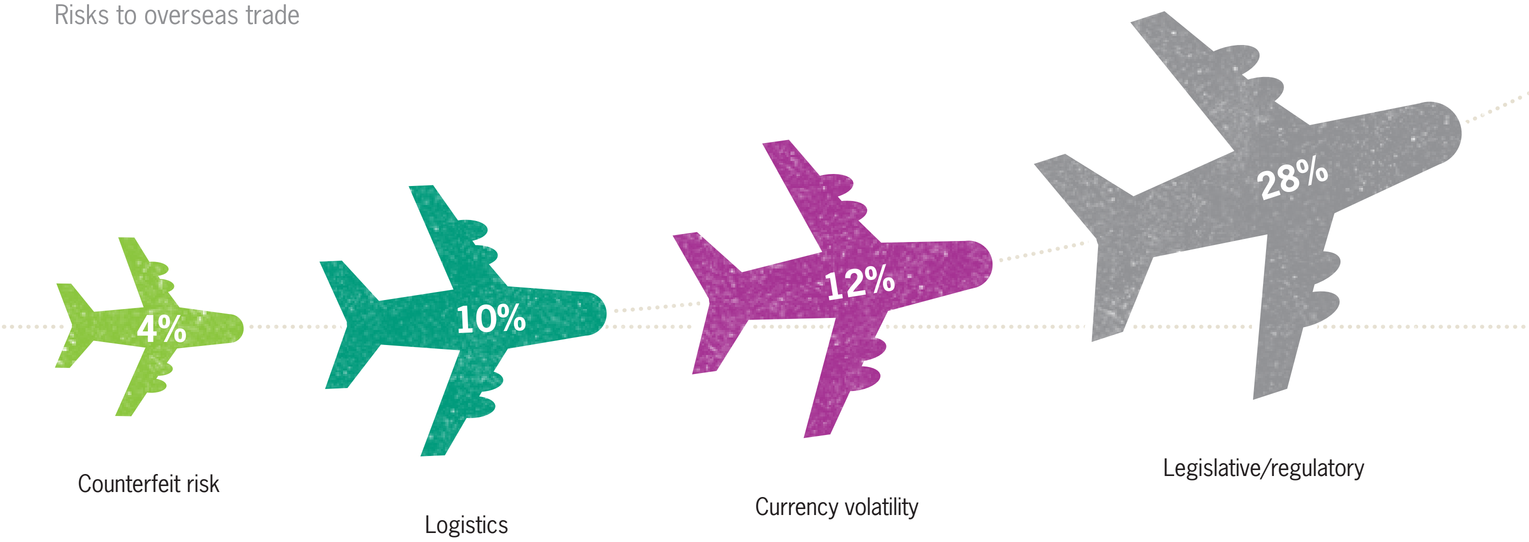
The flip side, of course, is that the heightened risk associated with operating in the more unstable global regions can create the potential to generate premium margins.



Choice of territories – Continents: Current sales areas

Section 1. Understanding international expansion

Risks to overseas trade



Routes to market

As you would expect, there are many ways of breaking into foreign markets, and approaches often evolve as companies grow in scale. Among the routes to market that involve the lowest risk and investment are those relying heavily on networking and personal contacts. For some businesses, particularly those operating in specialist fields, the reputation of founders and senior managers can go a long way to opening doors abroad. Aquaterra Energy is a good example: it won a great deal of new business on the back of the reputations of its founder and senior management. Other businesses use trade shows and government departments such as UKTI to identify potential overseas clients.

Another low-risk entry point into an export market, as is underlined earlier, is to follow an existing client. Companies that do this will often use their new presence as a platform from which to win new clients. Similarly, building international revenues via an online strategy can also lead to important gains, as is well-demonstrated by online gaming operator bet365: the business has always generated revenues from overseas customers but has been able to significantly increase these by adding separate websites for individual markets, adapting the content of each to their own specific interests and linguistic needs. The business now offers web platforms in 17 different languages. The one major downside to a significant online strategy can be the complexity of tax and VAT issues that may arise. To counter this it is vital for businesses to factor tax issues into their planning to avoid potential pitfalls and minimise any impact on revenues and margins.

A step further, but still a lower-risk route, is to establish partnership arrangements with strong local parties. Whether they are with agents, distributors or franchisees, such arrangements can offer big benefits, especially in the markets furthest away from the UK. In all, 39% of the firms in the International Track 100 have employed this method. Far less common is entering a market via formal joint ventures, for the simple reason that these can be more difficult to manage.

‘bet365: the business has always generated revenues from overseas customers but has been able to significantly increase these by adding separate websites for individual markets, adapting the content of each to their own specific interests and linguistic needs.’

Maximising efficiencies and avoiding pitfalls

When moving into overseas territories there is a common misconception that tax planning somehow drives the process – selecting the most attractive locations because of their tax advantages. The reality is that good tax planning should not drive the process, but will provide a backdrop to the commercial decisions, positively reinforcing the corporate culture. Tax advice taken at the right stage will also avoid the bear-traps that exist to catch out the unwary, and can make a company’s investment into a new territory work better for it.

Particular areas of focus include:

- Structure: determining the right entity structure, whether branch, subsidiary or joint venture, is a critical first step to establishing the most appropriate footprint
- Cashflow management: many companies encounter problems investing funds overseas and, more critically, extracting cash, both in terms of blocked funds and incremental tax costs. These can often be avoided with careful planning
- Supply chain: management of the supply chain is important not just from an operational perspective, but can result in significant tax savings and also help protect a company’s IP, a key concern when expanding overseas
- Incentivising employees: it is important to take care of the tax affairs of expats and ensure overseas employees are incentivised in line with corporate goals, another critical concern
- Tax reliefs: many territories encourage investment through generous tax reliefs, which can significantly reduce the costs of expanding overseas

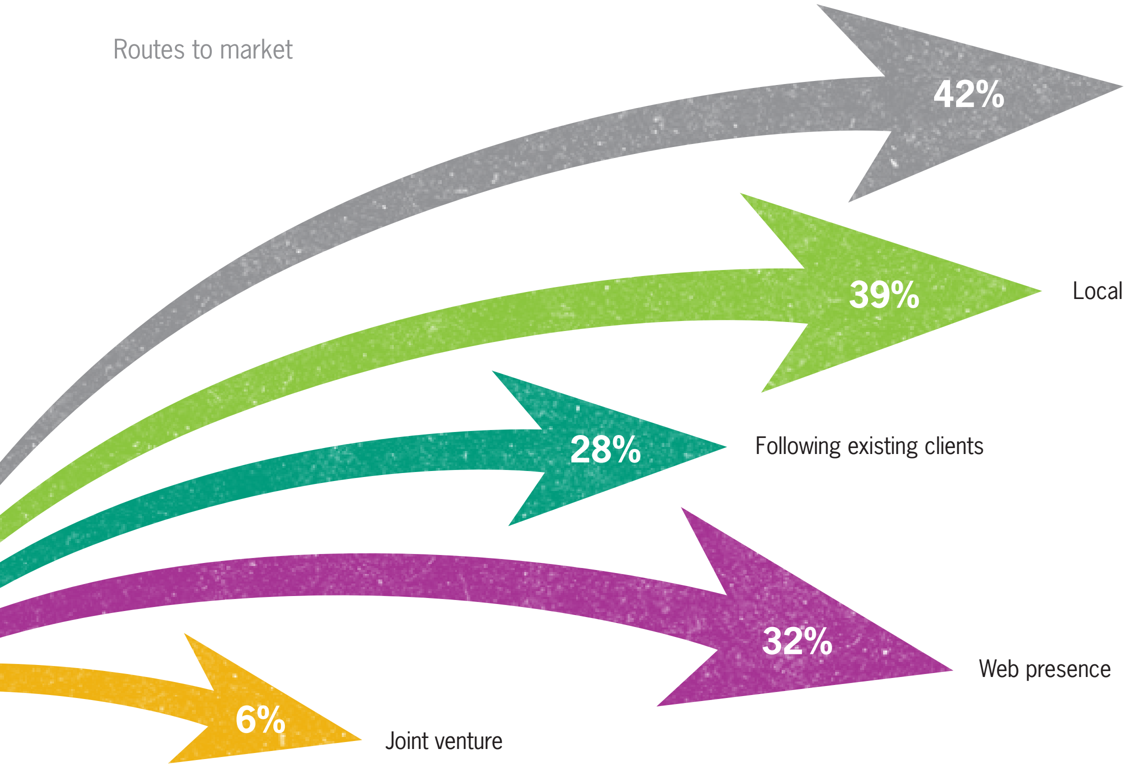
It is always far better to plan in advance, rather than deal with problems after they have arisen – this makes for a smoother route into export markets and ultimately maximises the bottom line.

Nick Farr, Partner and Head of China Britain Services Group, Grant Thornton UK LLP

‘It is vital for businesses to factor tax issues into their planning to avoid potential pitfalls and minimise any impact on revenues and margins.’

Section 1. Understanding international expansion

Routes to market



‘Acquisitions can also provide collateral benefits such as fresh IP, new products and a new, ready-made client base, will all help to drive the bottom line.’

Building or buying a direct presence
However, for most, the obvious choice is to set up a direct presence via the creation of local subsidiaries or representative offices. It reflects the value associated with having physical footprint and being seen to be committed to the local market. In some cases businesses build their international operations from the ground up. They benefit from the full control this affords and avoid the possibility of losing margin by having to split revenues among local partners or franchise holders. Others will seek to unlock these benefits, but will bypass some of the time and energy required to build up their own local operations by entering a market via acquisition.

Inevitably, acquisitive strategies involve often complex M&A processes. While these can introduce a heightened element of risk, they can provide well-prepared and well-funded businesses with a quick and efficient means of gaining market share and expertise in a new territory. In addition, the fact that acquisitions can also provide collateral benefits such as fresh IP, new products and a new, ready-made client base, will all help to drive the bottom line.

As we’ll see in the final section of this report, the acquisitive route also offers real potential for those building on their existing international expansion and moving into a new phase of development. They can also form an integral part of a well-planned exit strategy.

ClinTec International

Strategic international growth from the outset

Founded 14 years ago by Immunologist and Entrepreneur, Dr Rabinder Buttar, ClinTec International conducts clinical research for Pharmaceutical and Biotechnology companies worldwide. Much of its work is aimed at developing drugs to fight major conditions such as diabetes and cancer as well as developing vaccinations against diseases such as malaria, influenza, meningitis and AIDS. The Glasgow-based business also conducts clinical trials for drugs designed to fight rare diseases. It grew international sales from £4.3 million in 2007 to £14.5 million in 2011.

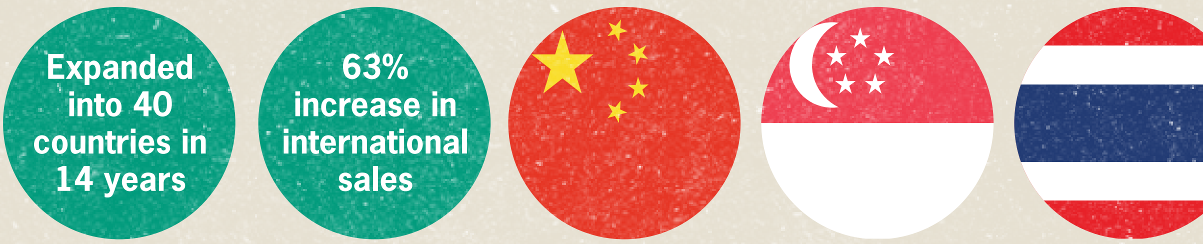
Buttar set up the company to operate internationally from day one, and 99.9% of its sales in 2011 were generated overseas. She has taken a methodical and strategic approach to foreign markets, consulting with law firms in each of the five European countries where she initially established operations to ensure the company met all regulatory requirements. However, she admits that she has had to tackle challenges as she went along, such as shortages of skilled staff in some regions.

In 2010, the pace of ClinTec's overseas expansion accelerated: it expanded into 17 countries during the year, building a presence in emerging markets such as Africa, the Middle East, Latin America and Central and Eastern Europe. During the year it also raised £8 million from Elephant Capital, a private equity house focused on opportunities in India.

ClinTec now has a presence in over 40 countries, most recently opening registered offices in China, Singapore and Thailand (June 2011). The company's approach of opening offices is in contrast to that of many others in its industry, which tend to expand through acquisition, according to Buttar. It sometimes locates itself speculatively, setting up an office and then informing its main clients that it is available to conduct trials in the region. As far as target markets are concerned Buttar sees a great deal of potential in the Middle East and Africa, where there is 'little or no competition', but one challenge is the lack of skilled workers – the main obstacle to further growth. In order to tackle this issue, ClinTec has established ACRE (Academy Clinical Research Excellence), a training academy set up to cater to the learning needs of working clinical research and medical professionals, regulatory agencies, ethics committee members and students.

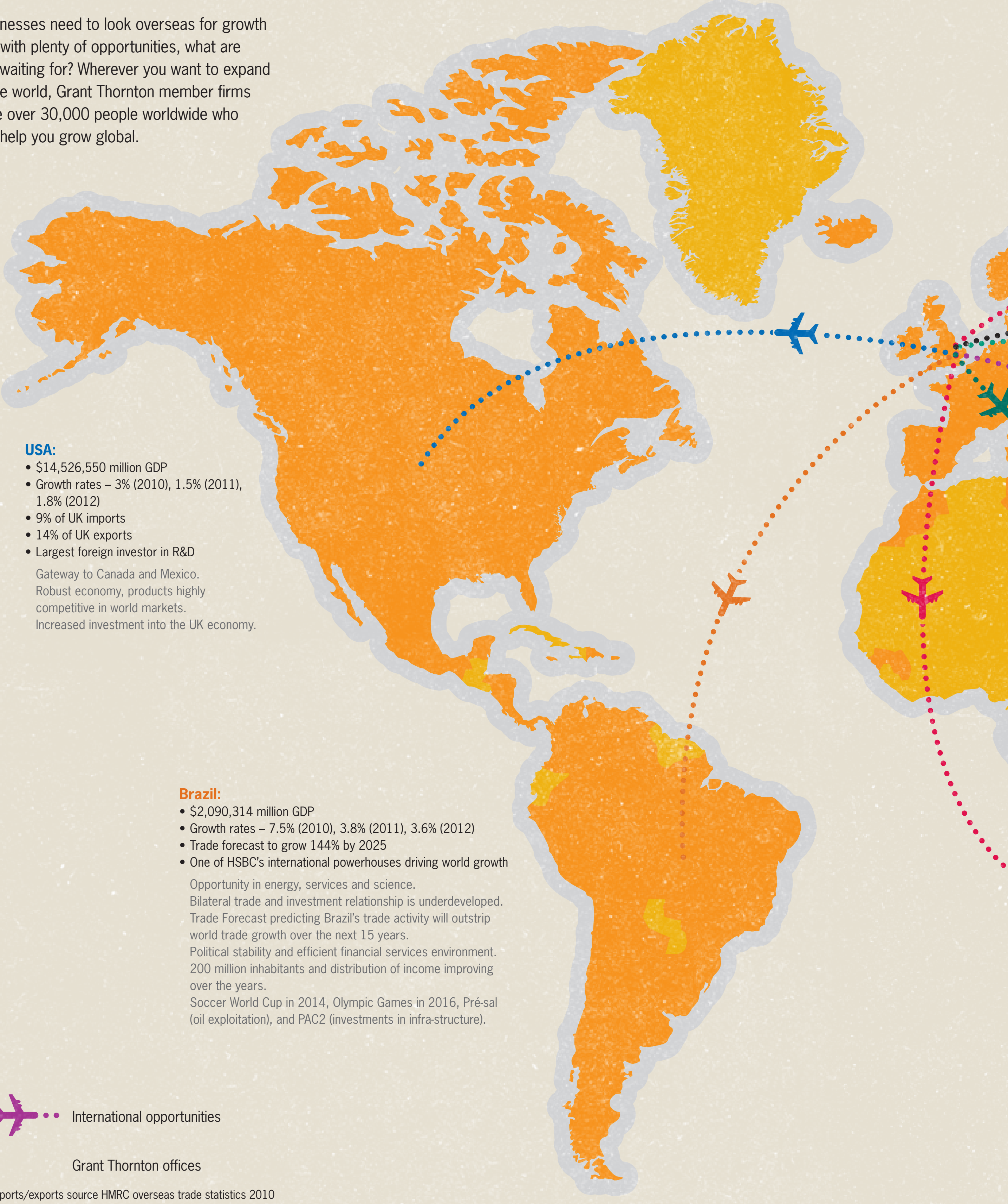
ClinTec has also significantly expanded its Glasgow-based team, which has increased from 5 to 50 staff in the past three years. Buttar says that its employees in Scotland have benefited from the company's international dimension, feeling part of a 'global team' and thus more highly motivated.

- Founder has taken a strategic approach, seeking legal advice on regulations in each market
- Expanded into 40 countries in 14 years by opening its own offices
- Main challenge: a shortage of skilled staff



Global opportunities map

Businesses need to look overseas for growth and with plenty of opportunities, what are you waiting for? Wherever you want to expand in the world, Grant Thornton member firms have over 30,000 people worldwide who can help you grow global.



USA:
- $14,526,550 million GDP
- Growth rates – 3% (2010), 1.5% (2011), 1.8% (2012)
- 9% of UK imports
- 14% of UK exports
- Largest foreign investor in R&D

Gateway to Canada and Mexico.
Robust economy, products highly competitive in world markets.
Increased investment into the UK economy.

Brazil:
- $2,090,314 million GDP
- Growth rates – 7.5% (2010), 3.8% (2011), 3.6% (2012)
- Trade forecast to grow 144% by 2025
- One of HSBC's international powerhouses driving world growth

Opportunity in energy, services and science.
Bilateral trade and investment relationship is underdeveloped.
Trade Forecast predicting Brazil's trade activity will outstrip world trade growth over the next 15 years.
Political stability and efficient financial services environment.
200 million inhabitants and distribution of income improving over the years.
Soccer World Cup in 2014, Olympic Games in 2016, Pré-sal (oil exploitation), and PAC2 (investments in infra-structure).

Key

International opportunities

Grant Thornton offices

UK imports/exports source HMRC overseas trade statistics 2010
Growth rates source IMF 2010
GDP figures source IMF 2010

European Union:

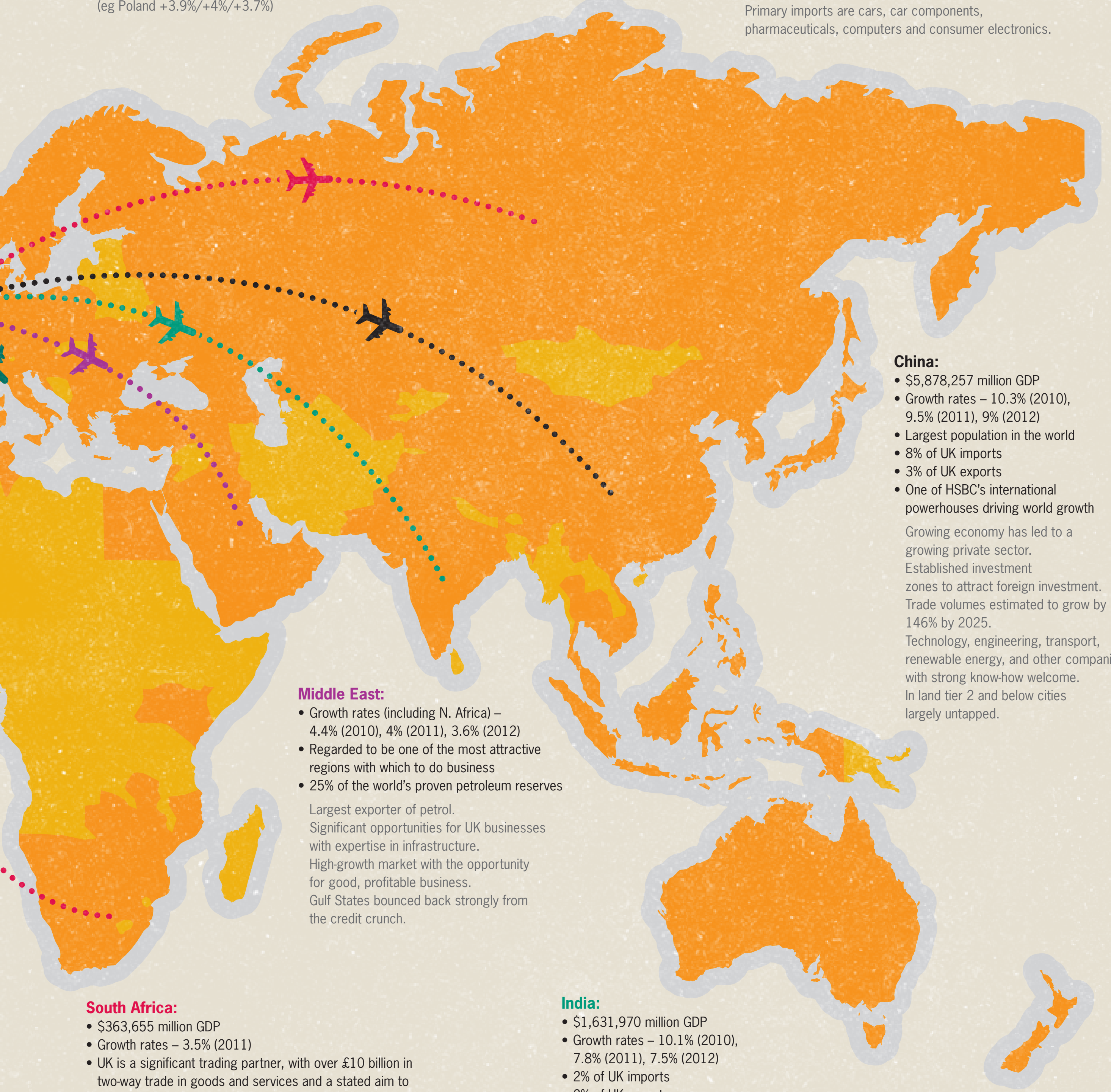
- World's biggest free trade area
- Growth rates – 1.8% (2010), 1.7% (2011), 1.4% (2012)
- $16,242,256 million GDP
- 51% of UK imports
- 54% of UK exports

Easily accessible to UK.
Single market.
Drop in value of companies gives investment opportunities in certain sectors.
Some countries in Eastern part more dynamic with better growth
(eg Poland +3.9%/+4%/+3.7%)

Russia:

- $1,479,825 million GDP
- Growth rates – 4% (2010), 4.3% (2011), 4.1% (2012)
- 1% UK imports
- 1% UK exports
- Trade to grow 129% by 2025

Perception of difficult business climate.
Legal uncertainty.
Primary imports are cars, car components,
pharmaceuticals, computers and consumer electronics.



China:

- $5,878,257 million GDP
- Growth rates – 10.3% (2010), 9.5% (2011), 9% (2012)
- Largest population in the world
- 8% of UK imports
- 3% of UK exports
- One of HSBC's international powerhouses driving world growth

Growing economy has led to a
growing private sector.
Established investment
zones to attract foreign investment.
Trade volumes estimated to grow by
146% by 2025.
Technology, engineering, transport,
renewable energy, and other companies
with strong know-how welcome.
In land tier 2 and below cities
largely untapped.

Middle East:

- Growth rates (including N. Africa) – 4.4% (2010), 4% (2011), 3.6% (2012)
- Regarded to be one of the most attractive regions with which to do business
- 25% of the world's proven petroleum reserves

Largest exporter of petrol.
Significant opportunities for UK businesses
with expertise in infrastructure.
High-growth market with the opportunity
for good, profitable business.
Gulf States bounced back strongly from
the credit crunch.

South Africa:

- $363,655 million GDP
- Growth rates – 3.5% (2011)
- UK is a significant trading partner, with over £10 billion in two-way trade in goods and services and a stated aim to double this by 2015
- European Union is South Africa's largest single trading block followed by China.

Gateway to the rest of the continent (over 1 billion consumers).
Rich in mineral resources.
Vibrant emerging market economy.
Excellent banking network.
World-class corporate governance and legal frameworks.
English as the accepted business language.

India:

- $1,631,970 million GDP
- Growth rates – 10.1% (2010), 7.8% (2011), 7.5% (2012)
- 2% of UK imports
- 2% of UK exports
- The UK is India's second largest trading partner after the US
- India is the second fastest growing economy, after China
- One of HSBC's international powerhouses driving world growth

Core and Social Infrastructure development is a priority
and thus related areas are seeing high rates of growth.
Strong consumer demand fuelling the growth in the economy.
Cost arbitrage specifically in terms of labour, assisting companies set-up
global shared services or large manufacturing hubs for India and the region.

The Dune Group

Different approaches for different territories

The Dune Group sells 'affordable luxury' shoes through 45 shops and 175 concessions in department stores, mainly in the UK and Europe, as well as franchised stores in the Middle East, Russia and Poland. It acquired the Bertie, Pied A Terre and Chelsea Cobbler brands in 2009.

Its international expansion began in the Middle East. The company's initial interest in the region was sparked when it was approached by some Middle Eastern retailers who were visiting London, and expressed an interest in the Dune brand. The company then approached various potential partners to discuss the opportunity, and selected one which also ran franchises for Aldo and Nine West, having decided that this demonstrable experience in footwear retailing was more important than the fact the partner also represented competing brands. The decision paid off, and the company now has 20 franchised stores in the Middle East.

Chairman and founder Daniel Rubin explains that the company is proactive in its approach to its franchisees: it does not simply "let them get on with it", but visits frequently to make sure the shops are looking good and that the opportunity within the market is being maximised.

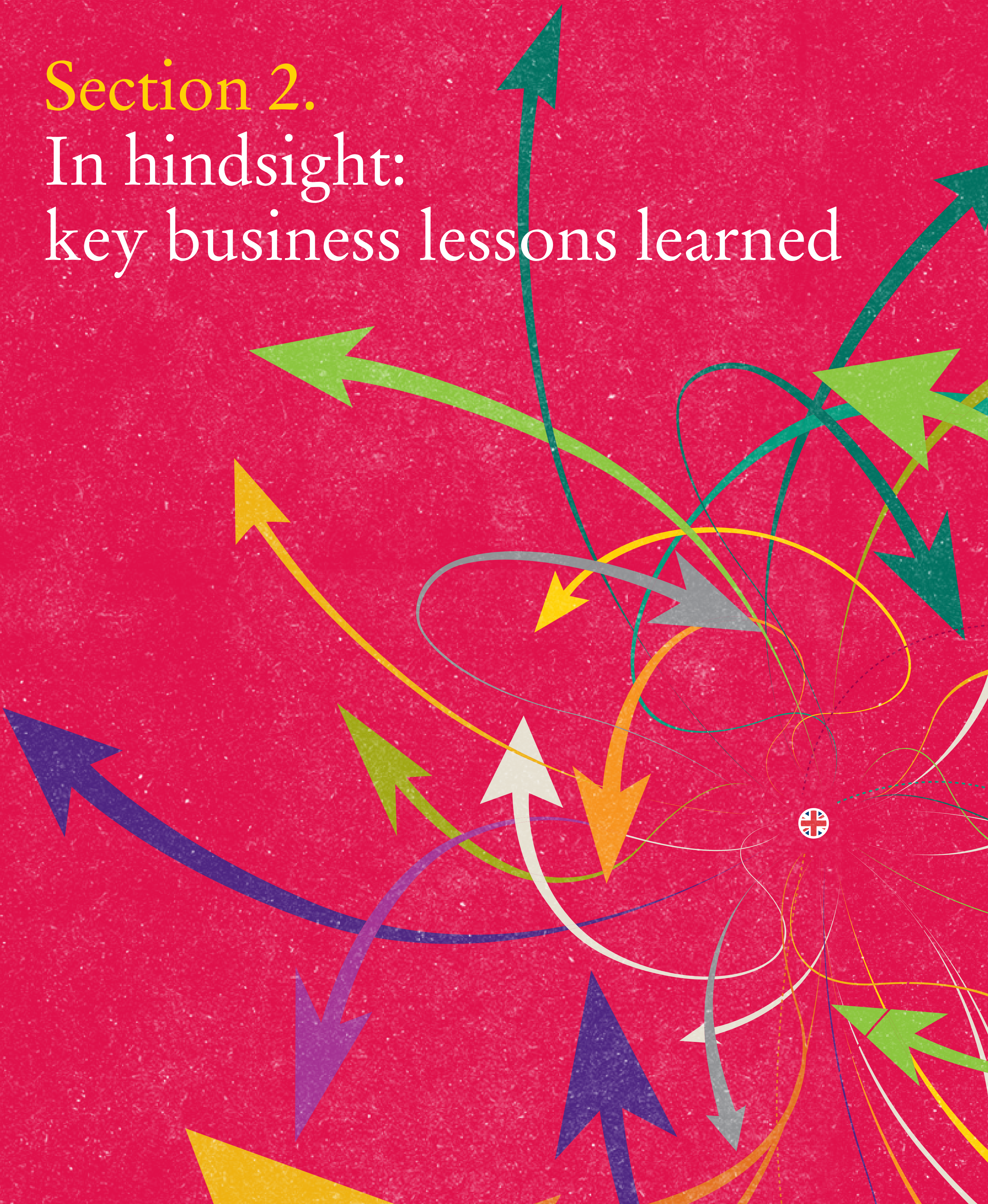
The other side to the company's international business is its concessions in department stores. In the UK it is represented in stores such as House of Fraser, Selfridges and John Lewis. Operations in overseas concessions began in 2009 when The Dune Group took over concessions in department stores in Denmark and Holland. It has recently had a successful trial in a major German department store which has been successful and further concessions are being rolled out in 2012.

The company also appreciates the need for flexibility when targeting various international markets. Initially focused on the US, the focus has now shifted to building a significant presence in Germany, as well as looking at India, Morocco and North Africa.

The company's international sales have grown 56% a year, from an annualised £6.2 million in 2008 to £15 million in 2010.

- Uses franchise model in the Middle East, and concessions in department stores in Europe
- Tackling territories further afield including India, Morrcco and North Africa
- Believes that it is better to choose a foreign partner with credible experience in your sector, even if they stock competing products

Section 2.
In hindsight: key business lessons learned



Driving the top and bottom lines

There is no doubting that the International Track 100 are a profitable bunch: on average they generated a profit before tax (PBT) of £3 million in the latest trading year and their combined profits had almost doubled from £150 million to £279 million over the last two years. The average PBT margin among the group was 8.5% in the latest year, up from 6.8% two years previously.

However, what is more revealing about the group's financial performance is the way it has been affected by their method of international expansion. The analysis clearly points to a correlation between a strategic approach to international growth and higher profits, however there are many other variables that also influence the margins. Companies that took the more measured, strategic route from the outset have higher average profit margins of 10%, versus those that took a more opportunistic approach (6%). What's more they have also grown their profits more quickly than the opportunists – 176% per annum over the last two years, compared with 59%. Even businesses that only developed a more structured approach after having dipped their toe in opportunistically have both a greater average PBT margin and superior two-year profit growth.

An interesting qualification, though, is that those pursuing a more opportunistic track tended to grow their top line sales more quickly. This suggests that companies that have invested more time and effort in developing a more formal international growth strategy have done so in the pursuit of profitability, and may have missed or shunned some opportunities for pure revenue growth.

The financial impact of international strategy

	Sample %	Average 2 year international growth	Average 2 year PBT growth	Average % of international sales	Average PBT margin
Strategic	52%	87%	176%	56%	10%
Opportunistic	22%	107%	59%	36%	6%
Opportunistic, then strategic	21%	108%	88%	38%	7%
Unclear	5%	95%	125%	47%	8%

> ‘The analysis clearly points to a correlation between a strategic approach to international growth and higher profits.’

But, targeting a new territory will not automatically bring greater profits than at home: only 14% of the businesses examined in depth are more profitable abroad. In fact, 16% of them are actually less profitable than at home. It is clear that many businesses are prepared to play the long game and tolerate lower profits or even losses to begin with.

The management challenge

Of course, the sort of financial growth demonstrated by the International Track 100 businesses does not come easily, and there are always hurdles to overcome. But for a management team, understanding the kind of challenges they are likely to face will go a long way towards maximising their firm’s international potential.

Beyond the region-specific risks mentioned above, the most commonly cited challenges faced by members of the International Track 100 are related to HR issues. To begin with, for the majority the process of expanding internationally diverts senior management time away from core responsibilities. While this can be absorbed initially, it often proves unsustainable in the longer term and can negatively affect overall performance. As is demonstrated by The Dune Group, one common solution to the problem is to take on new senior executives to oversee international operations. Another tactic – especially among those that have the potential to generate the majority of their revenues abroad – would be to install an entire second line of management at home to free up the top tier to drive international expansion.

Meanwhile, others choose to give their international operations a degree of autonomy, perhaps following an initial settling-in period. But there is plenty of evidence to suggest that allowing overseas operations to function more independently can lead to problems. It has the potential to dilute the company culture and its service levels, which ultimately may impact upon financial performance. In an effort to combat such issues, some of the companies surveyed chose to send trusted domestic managers to the international operations as a means of maintaining day-to-day control and preserving the essence of the firm’s core culture.

Recruitment problems

Very much tied up within the overall HR challenge, is the problem of recruitment. As the CEO of Travel Counsellors highlights, the success of a business in each country can almost entirely come down to hiring the right person. Overall, nearly one in five of the 100 firms stated that the difficulty of recruiting a skilled workforce into international operations is a barrier to growth. Consequently, many would typically look to man international operations with trained staff from the UK. But this can be both difficult and costly to achieve. Other options are to recruit from within the expat community overseas, or from the foreign community in the UK.

Nevertheless, despite the difficulties involved, most businesses seek to recruit locally for their overseas units and this tactic is important. Not only can it help overcome cultural hurdles, but it provides a crucial grasp of the local market and competitive environment. It can also bring in new local customers. But it is important to proceed with caution in local recruitment: wherever possible look for referrals or recommendations, or consider recruiting directly from local competitors.

> 'The success of a business in each country can almost entirely come down to hiring the right person.'

Travel Counsellors

The recruitment challenge: seeking the right local managers

Founded in 1994, Travel Counsellors provides holiday and corporate travel packages to 450,000 customers a year. Its 1,200 self-employed 'travel counsellors' (TCs) work from home as franchisees, and each attracts clients by offering a concierge-style service to create a personalised package. These travel counsellors are supported in all areas of their businesses by a global network of experienced support staff so that agents are able to focus purely on building invaluable relationships with their customers and providing the very best service possible.

In 2005, the Bolton company exported its model to Ireland, and since then has moved into The Netherlands, Australia, South Africa and Canada. Travel Counsellors has subsidiary offices in each country in which it operates, which are responsible for licensing, recruiting, local commercial relationships, and day-to-day support for the TCs. It has considered joint ventures and 'master franchise' arrangements, but managing director Steve Byrne says up to now these have been rejected as they would not be compatible with the culture and ethos of the company, or offer sufficient control.

As Byrne sees it, the company's success in each territory relies heavily on choosing the right country manager, who will in turn hire the right TCs. In Ireland, the first overseas territory into which the company expanded in 2005, Travel Counsellors consulted its network of Irish suppliers to get a sense of the key players in the market, and held a press lunch for industry journalists. After interviewing six people, they selected Cathy Burke, who is still running the territory: it has the highest sales and profits of all its overseas markets.

Byrne comments; "Continuity of management is essential in giving a business stability, credibility and confidence. When management changes happen they can be expensive to fix and require much effort from the centre of the business that can impact on the whole organisation. Therefore it is essential that a business makes the right management choices and recruits people that share the same vision, values and ethos to drive the business forward."

Travel Counsellors' international sales grew by 66% a year, from £3.5 million in 2008 to £9.6 million in 2010.

- 1,200 home-based 'franchisees' operating in the UK, Ireland, The Netherlands, Australia, South Africa and Canada
- Success depends largely on finding the right country manager
- Has used wholly-owned subsidiaries as a route to overseas markets

Section 2. In hindsight: key business lessons learned

Financing international expansion

For such a group of high achievers, it is interesting that International Track 100 businesses have been so conservative about funding their international expansion. Only 21% of the firms on the league table have sought to raise external development capital or long-term leverage. Instead, most have preferred to fund their plans organically, using balance sheet capital, reinvesting profits, or in some cases via short-term borrowing.

Where external funding has been sought, the league table firms have typically used banks, both at home and abroad, as well as regional development agencies. One business – sporting events manager Byrom – has concluded that raising money from international banks in their home markets can actually be the most satisfactory route, as they are often more accommodating than their UK counterparts. Raising money in local currencies can also help to protect against exchange and interest rate fluctuations.

Although only 12 of the International Track 100 are private equity funded, being owned or backed by financial sponsors can provide the firepower needed to invest in international expansion. This option can also help to focus expansion plans, both via the strategic assistance of the backer and through the access to its network of financial and industry contacts. Among the sample some prominent businesses have been boosted by private equity: office equipment supplier Danwood Group recently secured £20 million from its backer Bregal Capital to fund acquisitions, while lifestyle retailer Cath Kidston is expanding rapidly into overseas markets, most notably in the Far East, with the backing of its global private equity backer TA Associates.

If only… The benefit of hindsight

Obviously, hindsight is a wonderful thing. But nevertheless, it is revealing that on reflection, a number of those interviewed admitted to having been overly cautious in their original strategies. Some believe that they could have been more aggressive in raising debt or in channelling funds into particular regions such as the Far East. Others are unrepentant: the MD of one firm, for instance, admits that it could have grown more rapidly had it raised external finance, but that it preferred to retain full control over strategic direction instead.

Tapping the networks of strong equity backers

As the findings of this research highlight, many UK businesses looking to broaden their international footprint do so under their own steam financially. However, in our view there are some compelling reasons why opting to raise external equity funding can significantly strengthen a firm's international trajectory, be it in the world's established markets or its emerging economic superpowers such as China and India. The backing of the right financial sponsor – perhaps an institutional private equity investor or one of the growing number of sophisticated family offices – can provide so much more than just financial muscle: they offer access to their highly developed networks of contacts in banking, industry and the capital markets, as well as a keen understanding of how business works in their chosen territories. Having a ready-made guide to take you through the local commercial, cultural and regulatory frameworks is really an invaluable tool in maximising penetration into new markets. With our global network, we are well-placed to offer local advice and help businesses identify the right financial backers for them.

Anuj Chande, Partner and Head of South Asia Group, Grant Thornton UK LLP

Section 3.
The next step

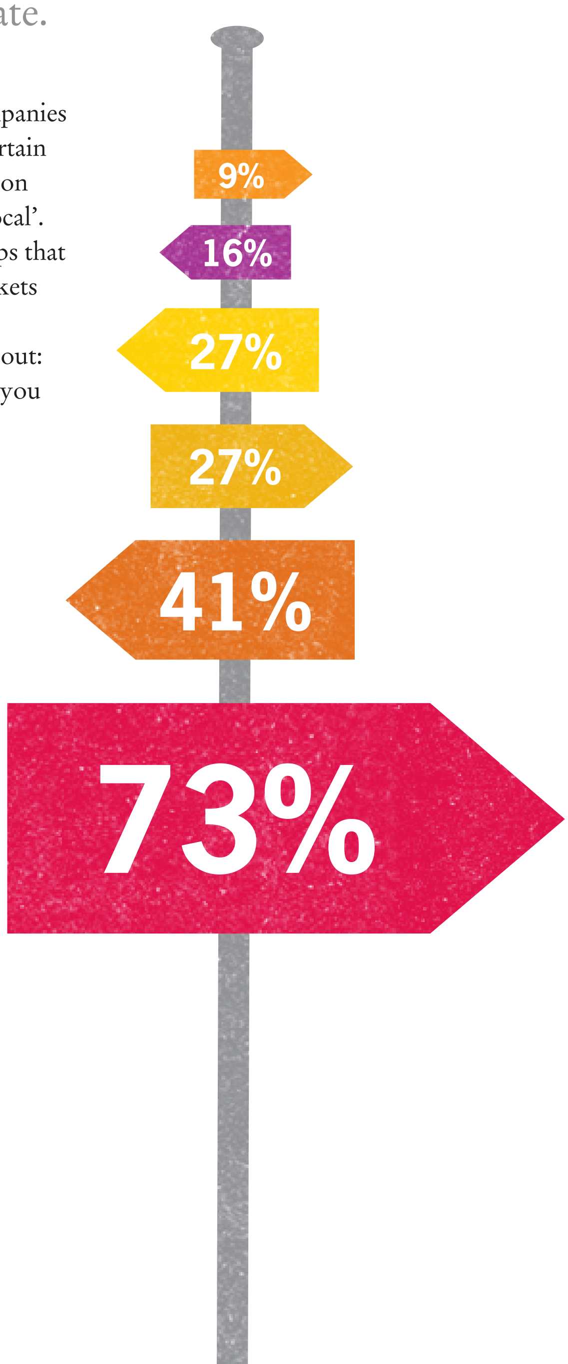
Increasing the global footprint

For many the drive into international markets is just the beginning of a long process. The earlier a business can build on the key lessons it has learned from its initial international growth, the sooner it can put in place more solid strategies to move forward. What follows is a summary of the key strategies International Track 100 businesses are contemplating to build on their successes to date.

Geographically defined strategies

For the majority, the main forward-looking priorities in their strategies to grow non-UK business are driven by geographical considerations. For some it is a case of moving beyond the 'safer' markets, in order to take on more challenging, but potentially more lucrative, regions. For the CEO of marine catering agent Garrets International, future growth depends on winning business in countries with higher barriers to entry, such as the US. For many other firms the future lies in the new global growth markets of China, India and Brazil.

Another core priority is for companies to consolidate their positions in certain regions by growing their presence on the ground and 'becoming more local'. This is especially the case for groups that had initially serviced overseas markets on more of a 'fly-in, fly-out' basis. As the MD of one business points out: "You have to be seen to be local if you want to be taken seriously."



The next step – key strategies

- Seek new funding
- Preparing for exit
- Launch new products
- Acquisitions
- Building up existing international operations
- Targeting new territories

Case study

Aedas

Plans include further acquisitions and targeting more global clients

Aedas provides architecture, interior design and urban design and landscape consultancy in Asia, Europe, the Middle East and the Americas. It was the architect on the Dubai Metro, designing 47 railway stations and two rail depots for the first metro system in the United Arab Emirates.

The company was established in 2002 through the merger of LPT Architects in Hong Kong and Abbey Holford Rowe in the UK, which were renamed Aedas LPT and Aedas AHR respectively. Both firms had experienced recession in their home markets: Abbey Holford Rowe in the early years of the last decade and LPT Architects during the Asian crisis of the late 1990s. They decided that joining forces would help protect both from the ups and downs of their domestic economies and generate business through cross securing of global clients.

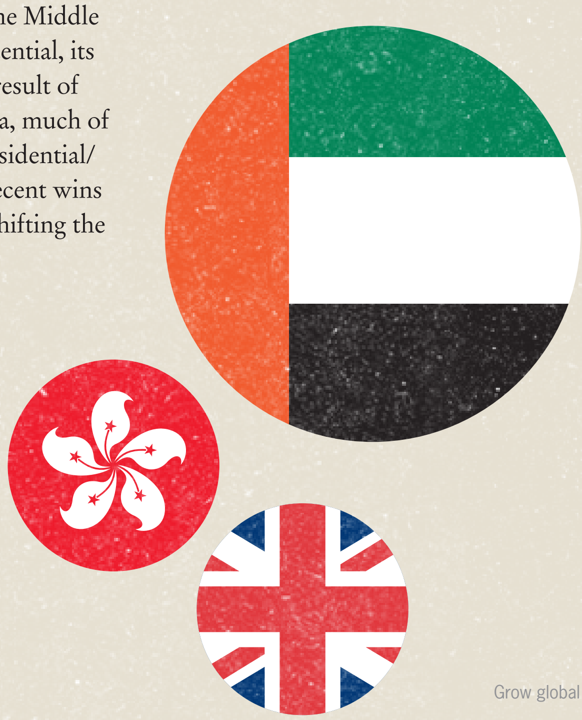
Further expansion was achieved through a combination of joint venture partnerships and organic growth, opening new offices where work was won. The practice's most recent partnership was in 2009 where it formed Aedas Ali Naqvi in Karachi.

Aedas now has a network of 31 offices across Asia, the Middle East, Europe and the Americas. International sales rose 63% a year, from £7.2 million in 2007 to £19.2 million in 2009, with growth driven particularly by winning infrastructure contracts in the Middle East.

Aedas has won significant projects in the Transport/Health/Leisure and Education sectors. It will continue to target large global clients, particularly in the transport, health, education, manufacturing and pharmaceutical industries, seeking to exploit its broad international coverage. This, in turn, will facilitate expansion into new territories.

While the company views the Middle East as a region with great potential, its clients there are cautious as a result of economic conditions. In China, much of its work has been on mixed residential/retail developments, but the recent wins for infrastructure schemes is shifting the emphasis to the public sector.

- Established in 2002 through merger of UK and Hong Kong-based architects
- Has expanded in Europe, the Middle East and the Americas through a mixture of organic growth and joint ventures
- Provides a global service at a local level for clients in a wide range of sectors



Organic versus inorganic

Beyond geographical considerations, the most important issue for companies moving into a new stage of international growth is whether to grow organically, or whether to be more aggressive and grow via acquisitions or joint ventures. On the organic side, the launch of new products is a particularly strong driver of international growth and is especially relevant for technology markets.

Meanwhile, the development of existing products can also be of central importance, particularly in consumer driven sectors, as companies look to adapt their ranges to work in new geographies.

However, while organic expansion remains the key for many businesses, others recognise the fact that they need to accelerate their growth plans overall. Some will seek to gain a head start by allying themselves with other large operators that have been established in a given region for longer. But others will look to drive the next phase of their international growth via acquisitions. Choosing this route means taking on the risks associated with potentially complex M&A processes in order to access superior returns on investment.

As well as rapidly expanding their market share and gaining critical mass, acquisitions can help to diversify companies' product and client bases and help protect them against the effects of downturns in other regions. What's more, this is arguably an increasing trend among mid-market businesses: the landscape has changed in recent years and International M&A activity is no longer the preserve of the larger businesses. Armed with the right tools, mid-market companies are much better placed to build scale via acquisition than they have ever been.

The strategy to build scale and sophistication through M&A activity can also be critical in another area, which is readying the business for sale or to go public. While a clearly mapped-out exit horizon might not be a strong motivator for every business, for some it is a necessity. And a strategy based on international growth can be critical to achieving the scale necessary to attract potential acquirers or to fulfil listing requirements of public markets at home or abroad.

Driving shareholder value through M&A markets

Much of our work with mid-market UK clients is focused on driving shareholder value, often as part of an exit strategy. In our experience, businesses with a well-developed and executed international strategy are often more attractive in the market than companies with a purely domestic focus, both in terms of the number of potential acquirers they might attract and in the multiples they will command. However, to deliver premium value, there needs to be a clarity in structure and the ability to transfer the full benefit of international operations to the buyer. From an M&A perspective, those companies that have expanded internationally in a less structured and haphazard manner may be disadvantaged: a target with multiple joint venture, random franchising or other partnership arrangements will rarely be as attractive or deliverable in an M&A deal as those with cleaner, possibly wholly-owned operations. Such companies offer potential acquirers a distinct and highly manageable global or international footprint, for which they would be expected to pay a premium price.

Mike Hughes, Corporate Finance Director, Grant Thornton UK LLP

International Track 100

The UK's top 100 private companies with the fastest-growing international sales whose success stories have shaped this report by seizing the opportunity to grow global.

1. SMS Electronics
2. Forward Internet Group
3. Kelway
4. A1 Pharmaceuticals
5. Byrom
6. Arrowedge
7. Intamarque
8. Redwood Distribution
9. Wilton Group
10. Clipper Logistics Group
11. Halian
12. Veritek Global
13. MPM Products
14. Chain Reaction Cycles
15. Eden McCallum
16. The Book Depository
17. Bonds
18. E-Tech Group
19. Flying Music
20. Ioko
21. Datix
22. Melrob
23. Eazyfone
24. MDSL
25. Mr Tyre
26. Elmwood Design
27. Garrets International
28. Joseph Joseph
29. RSK
30. Target Group
31. Pharmarama International
32. Fever-Tree
33. Cath Kidston
34. Rainbow Cosmetics
35. Bybox
36. Pharmarama
37. Skrill
38. Divex
39. Balmoral Group
40. Bet 365
41. PKR
42. Imparta
43. Rebound Electronics
44. Danwood Group
45. Genuine Solutions
46. Nationwide Produce
47. Really Useful Products
48. JD Classics
49. JW Galloway
50. Ultimate Products
51. Start Creative
52. The Professional Darts Corp.
53. Global Infusion Group
54. The Foundry
55. Citihub
56. M2M
57. Rayburn Trading
58. DCA Design International
59. Mobica
60. Key Travel
61. RFL Communications
62. Micro Nav
63. Seafast Logistics
64. Travel Counsellors
65. Jarvis Group
66. London Fancy Box Company
67. Hydra Mining Tools Intl
68. Corinthian Marketing
69. Clintec International
70. Aedas
71. Pure Technology
72. Lock Inspection Systems
73. Natural Products
74. Interport
75. Sheffield Refractories
76. Stage One Creative Services
77. AWC Industries
78. Eurokey Recycling
79. EA Technology
80. Multiflight
81. Lingo24
82. Selby Jennings
83. Miswa Chemicals
84. Dune Group
85. The Big Word
86. Severn Glocon
87. Pricecheck Toiletries
88. Hudson
89. Corven
90. Pole Star Space Applications
91. Sapphire Systems
92. Coin Co International
93. Guidance
94. Microgard
95. Beds and Bars
96. Cope Allman Jaycare
97. Challenge Power Transmission
98. Impex Parts
99. Aquaterra Energy
100. Ancasta Group

International Track 100

Research methodology

The International Track 100 is a league table ranking of the UK private companies with the fastest-growing international sales over the last two years. All 100 businesses were originally interviewed, and the initial findings from these interviews were presented in a research report, released in 2011 alongside the International Track 100 supplement, published in The Sunday Times.

Key statistics on the International Track 100

The firms that make up the International Track 100 are active in a wide range of sectors, but can broadly be categorised as: services (45%), manufacturing (25%), wholesale (21%) and retail (9%). Between them they employ over 21,000 staff and have jointly created 6,600 jobs over the past two years, both organically and through acquisition.

The businesses on the league table have increased their overseas sales by a minimum of 50% per annum over the past two years, with a sample-wide average of 91%; combined revenues for the 100 grew from £449 million to £1.6 billion over the same period. Meanwhile, the combined profits for the 100 companies almost doubled in the two-year period from £150 million to £279 million. The average profit before tax margin was 8.5% in the most recent financial year, up from 6.8% two years earlier.

About Fast Track

Fast Track champions the UK's top-performing private companies and entrepreneurs. It is the leading networking events and research firm focusing exclusively on this sector, which is vital for job and wealth creation. Since 1997 the organisation has been identifying the most successful private companies and publishing league tables ranking them in The Sunday Times.

Fast Track's seven league table awards programmes focus on the fastest-growing to the biggest private companies. Each has its own national awards event and follow-up dinners for past companies, which has created distinct communities of entrepreneurs.

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Grant Thornton UK LLP is a leading financial and business adviser, operating out of 27 offices. Led by more than 200 partners and employing nearly 4,000 of the profession's brightest minds, we provide personalised assurance, tax and specialist advisory services to over 40,000 individuals, privately-held businesses and public interest entities.

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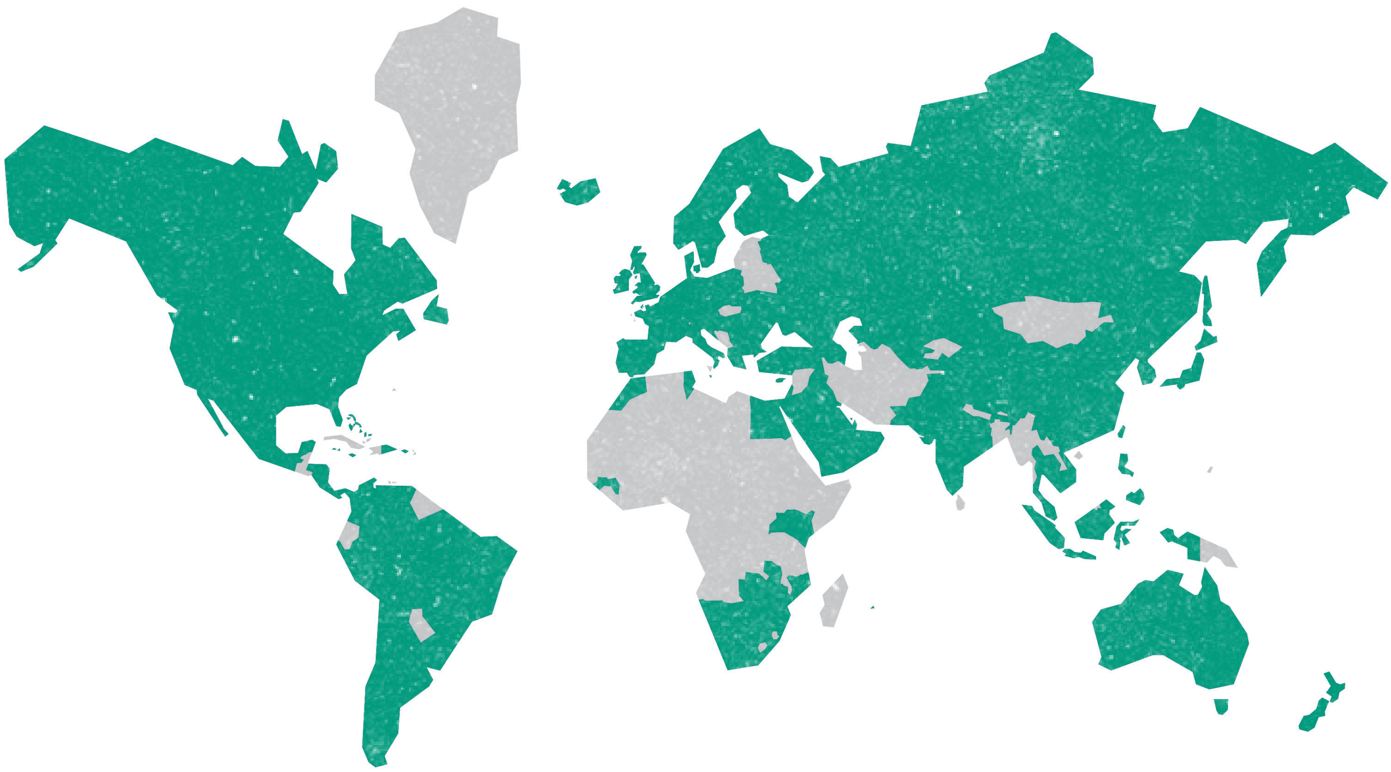

Contact us

For further information on any of the issues explored in this report contact:

David Maxwell
T: 020 7865 2109
E: david.maxwell@uk.gt.com

Anuj Chande
T: 020 728 2133
E: anuj.j.chande@uk.gt.com

Nick Farr
T: 020 7728 2691
E: nick.farr@uk.gt.com

Mike Hughes
T: 01908 359581
E: mike.hughes@uk.gt.com

Jatin Radia
T: 020 7728 2320
E: jatin.m.radia@uk.gt.com

Jo Parr
T: 0113 200 1574
E: jo.k.parr@uk.gt.com

Louise Weller
T: 020 7728 2021
E: louise.weller@uk.gt.com

For other queries please contact your local Grant Thornton office:

Belfast
T 028 9031 5500

Birmingham
T 0121 212 4000

Bristol
T 0117 305 7600

Cambridge
T 01223 225600

Cardiff
T 029 2023 5591

Edinburgh
T 0131 229 9181

Gatwick
T 0870 381 7000

Glasgow
T 0141 223 0000

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T 01536 310000

Leeds
T 0113 245 5514

Leicester
T 0116 247 1234

Liverpool
T 0151 224 7200

London
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Manchester
T 0161 953 6900

Milton Keynes
T 01908 660666

Newcastle
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Northampton
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Norwich
T 01603 620481

Oxford
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Reading
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Sheffield
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Slough
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Southampton
T 023 8038 1100

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