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SESSION 10:
Establishing a Foreign Office

This session addresses a number of the key issues and concerns in establishing a foreign office and/or developing an international practice or investment.

1. Class Discussion of VMS Asset Management Contract for Virginia's Highways

During Session 8, we did not have sufficient time to discuss the article, *VMS Asset Management Contract for Virginia's Interstate Highways*. This article offers us insight into a number of risk management issues and opportunities, including:

- Privatization
- Outsourcing, and
- Risk Management and Risk Transfer

The VMS initiative involved:

- Identifying and marketing a need in the marketplace – asset management.
- Outsourcing the maintenance of 250 miles of Interstate highways in Virginia.
- Virginia Department of Transportation was already a client of the two VMS sponsors – Sverdrup Engineering (now Jacobs) and The Louis Berger Group.
- It was an unsolicited proposal with significant risks. The bid, once submitted, was open to competition for 30 days. For the new International Terminal Concession at Manila International Airport, where the waiting period was 90 days, a second firm won the project.
- The cost of preparing the unsolicited proposal was almost $2 million.
- Local Virginia contractors fought it.

- The contract pioneered a new concept, asset management. What is it?

- The roads had to be returned to the state in their original condition (subject to independent condition audits).

- No "Acts of God", e.g., force majeure or wiggle room, hurricanes, excessive snow claims could be made and it was performance based.

- It was a new business for Virginia and became one of the 10 fastest growing companies in the U.S. according to "*Inc." Magazine.*

Critical Issues

- Prior state record keeping, including lack of detailed costs, e.g., only budgets which did <u>not</u> include state management or state police costs; inaccuracies, e.g., traffic; incidents under-counted.

- Testing new approaches.

- Essential Software/database support, and

- Innovative management practices and opportunities.

2. Is the International Market for You?

As we discussed in earlier sessions, many AEC firms, even outstanding ones, are often ill-prepared or equipped to work in international markets. The work is expensive and time-consuming to promote, margins are lower and the practice differs significantly from typical home market work. Planning or project definition is far more demanding; design commissions and construction projects are often price-sensitive; variants of turnkey or design/build are typically more common; and in the non-OECD world, public sector work still tends to predominate. In addition, U.S. engineers and contractors have to compete with firms from Europe and Asia that, as noted in previous sessions, may be more vertically integrated, offer a broader range of expertise and are better funded, with stronger partners and/or are affiliated to, part of, or supported by, conglomerates (Korea, Japan and Italy), universal banks (Germany), state pension funds (France, Italy, Quebec), etc. If, despite these admonitions, you think you <u>do</u> want to go abroad, you must be prepared to bring considerable flexibility to the effort.

- If you are not comfortable with design/build, don't go.

- If you are not prepared to accept a higher degree of uncertainty, don't go.

- If you don't like to travel or enjoy different cultures, don't go.

3. Targeting an Appropriate Country, Countries or Region

If you decide to proceed, you must carefully evaluate your own firm’s strengths and weaknesses, and focus your effort on your strongest assets.

Recognize, as we discussed in Session 4, who you are.

- Do you offer unique services or a service in growing global demand?
- Do you have a proven “in-house” champion to pursue overseas work?
- Are there demands for your services (e.g., are you already receiving overseas inquiries)?
- Do you have staff interested in and able (multi-lingual, etc.) to work abroad?
- Do you have sufficient financial resources for the effort?
- Do you have throw-weight in your domestic markets and are they transferable to international markets?

What unique or outstanding expertise and experience do you have that will attract a foreign client, add value to a prospective host country partner or increase a team's chances of winning a project?

Develop a clear strategy and decide whether:

- You will market a narrow technical skill or a single client,
- Target a specific geographic area, or
- Undertake a broad-scale marketing or investment effort, then
- Decide on the sector, project or program you propose to pursue.

Once you decide on a field, pick a promising country, countries or region and ensure the target:

- Has a tradition of employing foreign AEC firms?
- Has a stable government(s) and attractive economy?

- Has predictable legal, contract and tax systems and transparent procurement processes?

- Has attractive sponsors, an interested current client and/or sources of financing for projects in general, and for an initial assignment in particular and, if it is a region with support services available from your own government agencies.

- Establish the target, the client(s) and your competition, and

- Find out the client's historic preferences and favored consultants, contractors, and service providers.

Then, decide whether you will market with:

- Existing full or part-time staff?

- Former employees, students, etc.?

- A newly recruited experienced expatriate or national marketer?

- Agent or representative?

- Look for one or more local partners, and/or

- Buy into all of one or more local firms?

When entering a market, there are a variety of strategies you might adopt. These include:

- Accompanying an existing private client or one of your own country's military, foreign aid or diplomatic services based on the firm's prior work and reputation;

- Selection by a non-home country bi- or multi-lateral agency, e.g., the World Bank, IDB, ADB, AfDB, EBRD, EIB, EU; the Islamic, Kuwaiti and OPEC Funds; USAID, TDA, JBIC (Japan), Kreditanstalt (Germany), CIDA (Canada), SIDA (Sweden), the UNDP, etc., who use their own consultants and, if you have ideal skills, may also encourage host country clients to select you;

- Host country public and private clients - Traditionally, in most emerging countries, this meant government or parastatal clients but, as we discussed, in recent years, in a number of countries such as Korea, Taiwan, Thailand, Malaysia, India, Brazil, Argentina, Venezuela, Peru, Zimbabwe, Mozambique and The Republic of South Africa, there have also been growing opportunities in the private sectors, as well as for design/build and concession-type programs.

In addition to going on your own, in Session 4 we discussed in some detail, the advantages and disadvantages of alternate forms of international partnering. These most likely will include, as noted:

- Competitors
- Your target client
- Specialized technical firms
- International firm with a local presence
- Host country firms or investors
- Construction contractors (or if a contractor, A&E firms), suppliers and vendors
- Non-AEC firms including operators/owners/clients
- Trading or commercial houses
- Financiers, venture capitalists, banks or pension funds
- Lawyers
- Auditors
- Insurers
- Management consultants

But, in most cases for a firm seeking to enter the international market without following an existing client or offering unique skills or reputation (which would encourage partnering with another international firm), partnering with a host-country firm that can, hopefully, develop into a strategic alliance over time, is the most likely and promising prospect. Host-country partners will usually be an architect, engineer or construction firm, though increasingly, trading companies, financial institutions, public and private investors and other public and private entities are partnering with international AEC firms.

4. Knowing the Target Market

In order to increase your chance of success, learn as much as you can, in advance, about the host country procurement processes and the local and international companies active in the country, countries or region you elect to do business in so that you can, hopefully, associate with a firm that actually has a legitimate chance of winning a coveted project award. The more effort you spend researching the market, the more likely you will identify the firms that are viable contenders for the work, and the more likely you will impress these firms with your ability to help them win. Fruitful areas for in-country or region research include:

- Technical reports on projects similar in nature to ones that interest you
- Discussing the procurement process with foreign commercial service officials or other in-country representatives of your own government's agencies
- Getting copies of contract documents and Terms of Reference for projects similar to the ones that interest you
- Getting copies of successful submittals for similar projects
- Visiting prospective clients and project sites
- Discussing design and construction issues with knowledgeable target country sources (equipment manufacturers, contractors or architect-engineers, developers, owner/investors, government officials, etc.)

5. Selecting a Local Partner

As we discussed in Session 3, finding and nurturing a local partner in most cases is a critical step in penetrating a new foreign market, especially for a smaller consultancy or contractor, or one first attempting to enter the international field.

A firm initially entering the international arena will obviously lack a local office/listening post. But, equally important, it will not be part of the international network of bi- or multi-lateral lending agency consultants or contractors who are typically up-to-date on these agencies' criteria, requirements, procedures and project pipelines. Of almost equal importance, you will not be a part of the international AEC joint venture network. Thus, marketing information will prove difficult and expensive to obtain, and for the few projects you are initially invited to, you may only serve as cannon fodder.

But, many successful international and local consultants and contractors, as their practice matures, become polygamous in their relations, each seeking the "perfect" temporary liaison rather than a permanent marriage. The price paid is all too often a lack of a common or shared professional culture, trust, intimacy and most important, the opportunities for obtaining critical early intelligence. Thus, a nimble newcomer that carefully markets and nurtures an attractive joint venture by offering exclusivity can often replace such temporary liaisons despite less experience by proving more faithful and reliable. This is often the case if the initial contacts are personal (a former employee, classmate, student, etc.), rather than through an agent. A smaller firm, in fact, can capitalize on its size by ensuring the principals and their wives meet frequently; children are trained, recommended to select universities and taken care of while at school; host-country staff is trained in the firm's offices; technology, professional philosophies and procedures are shared, etc. The result is a firm committed to yours, providing advanced marketing and early intelligence. It is also grand fun. Some of my best and warmest friends are current and retired overseas partners.

6. Operating in the Country, Countries or Region of Your Choice

As one would imagine, establishing a branch office abroad is costly and you may decide that it should be deferred until you actually win one or more projects or investments. This puts even more emphasis on the need for a strong alliance with a host-country partner to gain knowledge of local business customs and practices until you can decide to develop your own office. Here is a summary of some of the critical factors to be considered as you focus and build your international practice.

- Structure an agreement with your local partner, if you have one, early in your relationship that spells out specifically each party's responsibilities, liabilities, hopes, goals and objectives.

- Secure a local legal/accounting professional to advise on local, formal and equally important "ad hoc" corporate, contract and tax issues.

- Learn as much as you can about the culture, business practices and active competitors in the target country or countries you hope to work in.

- Adjust your negotiating style to fit the customs of the country or countries.

- Be certain you understand as much as you can about the host country procurement process. Research existing projects to determine the approach taken by successful firms and the selection, negotiation, bonding, surety and billing procedures.

- Commit, if possible, the time of a senior officer of your company with <u>decision-making</u> authority to nurture partners; coordinate marketing staff or agents; supervise the project proposals, negotiations and actual implementation.

- Visit the target country as often as practicable, and plan as many meetings with local officials, your country representatives, and local businessmen as you can.

7. Why a Local Office?

Once you have won a major foreign assignment, as previously discussed, you must decide the amount of technical work you need and want to undertake in your home office; the degree to which you want to rely on, train and supervise your local staff and/or partner to develop their strengths; or use the project as a vehicle to establish a permanent local joint venture or wholly-owned office, staff that office with predominantly local professionals and encourage, assist and technically develop the fledgling office or joint venture.

While the Berger Group is one of the most successful proponents of local office presence, remember:

- In the excitement of winning a choice assignment, local and senior management all too often confuse a project office with a permanent office. But, experience has shown they are quite different. A project office need only be under a project manager; the facilities are temporary and may even be in a local partner or client's office; need for large support staff is minimal; hiring or leasing space (rental payments, staff social costs and severance expenses, etc.) are all defined by the project's schedule; there is less need for expensive legal, tax and auditing advice and services; and critical elements such as local staff, vehicles, office budgets and expatriate living allowances are established by the project contract, reducing both the pressure on the project manager and the temptation for the project manager to overspend.

- A permanent office, in contrast, must address all of the above. In addition, such offices are more obvious targets for over-zealous local tax collectors and lawsuits. Permanent offices require a country director/ manager with greater skills than a project manager; he/she should typically be a well-tested permanent employee with 5-10 years of experience, some in middle to high-middle management and preferably:

    - speaking the local language if other than English;

    - Possessing both technical and managerial skills;

    - Be able to appraise, recruit and mentor talented staff;

- Understand finance, risk, local currency management, labor and tax laws;

- Be able to represent the company, both technically, and as an ambassador;

- If it is a joint office with a local partner, also represent the firm in many of its partnership dealings!

Not an easy position to fill.

But, this is only the beginning. Decisions have to be made on:

- Whether to establish a full joint venture company with your project partner, and here, such issues as intercompany billing rates, overhead charges and even use of the company name can have serious consequences (can you withdraw the name?)

- Tax exposure of expatriate staff, as Union Carbide found in Bhopal, can encourage expatriate management withdrawal (e.g., Coke & IBM vs. Union Carbide & Goodyear in India) and the practical loss of technical and financial control, while retaining legal obligations and responsibilities.[*]

- Procedures to monitor staff downtime and provide "permanent" in-country staff with alternate overseas work during such downtimes

- Obtaining needed technical support staff from other offices – at what cost or billing rate, who will pay per diems, housing, travel, local taxes, etc. - a problem compounded if you have a partner

Such decisions are not easy to make and can have long-range consequences for a firm's future in that country or region[†] and, even more importantly, for overseas work in general.

Thus, your decision framework should include:

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[*] In Brazil and, until recently, India, for example, high taxes and other restrictions on salaries, licensing and royalty agreements, dividends, etc., serve to minimize foreign staff and transfer effective control to the host country staff, while the foreign company often continues to retain the liability and risk.

[†] The Berger Group set up a joint venture with a local structural engineer in the early 1960s in Singapore. We agreed that our local partner would independently execute all small assignments defined as under $250,000 (US). Not surprisingly, all our subsequent assignments were under $250,000, including work in Indonesia where we had a second partner who became increasingly alarmed by our arrangements.

- Size of the market – will it justify a permanent office?

- Range of services in demand – specialized, general engineering, etc.

- Technical and quality concerns – are the likely assignments too demanding technically to be undertaken solely with local staff and, if so, can a phased turnover be introduced, and if specialized skills are required, will repetitive projects be available for the newly trained specialized staff? Alternately, can such staff, once trained, be transferred to assignments in other countries?

- The need to institute and maintain proper technical, administrative, financial and managerial controls.

- Whether your current local partner is an appropriate long-term partner. If not, can or should you go on your own or with another firm?

- Whether you can control your name, e.g., DeLeuw Cather lost control of their name in Thailand, Ireland, Canada, etc.[‡]; and quality, e.g., will major current clients be disappointed with the quality of the work produced by a local start-up?

- Where can the work be done most profitably in the short-term? Long-term?

The local office once established must, hopefully, prove competitive and successful in their own markets while, at the same time, provide the presence, core resources and platform for winning and executing other significant commissions. In other words, you "*go global by going local.*"

In summary, remember that staffing up for <u>project</u> offices in a foreign country is one thing, but building a successful self-sustaining local office and integrating it into your global organization is quite another. Berger typically has 70-80 local overseas offices at any given time but only 20-30 stand the test of time (10 years or more).

8. Opening a Foreign Office

In Session 12, you will present your analysis, findings and recommendations for opening a foreign office. As you prepare your papers, you will develop your own approaches, check lists and outlines. The following is only meant as guide.

a. Outline

[‡] In fact, Deleuw Cather, now part of the Parsons Transportation Group, frequently found themselves competing under the same name with their former affiliates.

- Identify and properly define your company's field
- Target the country, countries or region
- Assess the prospects, advantages and risks of opening a foreign office
- Define your company's strategy, target the specific market or markets and elaborate a plan for the future
- Define your entry, and even more important, your exit options and selected strategy
- Describe the initial marketing plans
- Plans, if any, for future expansion;

b. The Full Service Design or Construction Office

Once you decide to open a permanent office and decide whether or not to have a local partner[§] (often a legal requirement but declining in importance with growing WTO membership), you must also consider two other issues.

If it is an engineering or architecture office:

- Will it focus on program management, planning or design, and if design, will the office provide full or specialized services including:
    - Architectural
    - Structural
    - Mechanical or electrical, or
    - Rely on subcontractors?

If it is a construction office, similar decisions must be made:

- Will it be a construction management office?
- A general contractor?
- EPC, and

[§] See more detailed discussion in Session 4, section 5.

- Will the office rely on a network of subcontractors or provide its own field staff, etc.?

In both cases, you must address issues of balancing work (e.g., architectural, mechanical and structural), and transferring work or staff to and from other offices to meet shortfalls.

Many larger AEC firms have followed the strategy of opening a local design/general construction office with some success where:

- A local market is especially robust like Hong Kong, Singapore, China, Indonesia, Australia, Brazil, Sweden and Eastern Europe;

- The work can be done largely with local professionals while supporting the office initially with management and specialist resources from other offices, or a pool of low cost qualified staff can be used to support work, often as a global or regional design center, in higher cost labor arenas (e.g., India, the Philippines). Such centers are becoming increasingly popular. But, if the flow of assignments is either uneven or lower than expected such offices can prove a significant burden.

c. Critical Decisions

In establishing the office, *you must consider trade-offs between*:

- Using your own permanent staff or hiring experienced international staff,

- Recruiting specialists vs. generalists,

- Finding expatriate staff willing to relocate,

- Deciding how critical language ability will be (essential in Latin America and francophone nations and important in Asia/Middle East),

- Offering comparable or overlapping services in both your home and international markets or only more cost-competitive, often price-sensitive services locally, and the impact of this strategy on your brand and reputation.

Recognize the high cost of maintaining expatriates abroad including:

- Salary

- Incentive compensation, holidays and local and foreign leave

- Relocation, education, automobile and housing allowances
- The duration of expatriate assignments (long- and short-term assignments)
- Who will pay local taxes
- Reimbursement, if any, for 48-hour, or more, weeks
- For short-term assignments, will you provide
    - Overseas differentials, if any
    - Hotel and other allowances at what level (e.g., luxury, medium, moderate) or maintain staff housing, and
    - How will you establish, monitor and update the allowances and benefits

What Government assistance can you expect?

- Is the target country a favored/strategic nation to your government
- Are USAID and comparable bilateral donors in-country
- Are multi-lateral lending banks (IFIs) active

Can or have you developed relationships?

- With an existing domestic or international client(s) in your target country
- At one or more bi- or multi-lateral lending or grant agencies
- With host government agencies
- With public or private investor, or
- One or more local private sponsors

Do you properly understand the target country or countries?

- Legal and professional registration requirements
- Project cycles
- Timing

- Competitive process
- Document submittal format(s)
- Current and likely competitors

Have you pre-prepared (in required format)?

- Resumes
- Experience statements – Latin American requirements often seem unreasonable and serve as a barrier to new entries
- Required company and individual registration forms and certificates

Are your firm's expectations reasonable?

- Will your firm accept higher costs/lower profit margins and the need to provide only senior staff with all or much of the work performed in-country?
- Does the firm recognize that local engineers and/or partners must be trained, empowered and properly supervised?

d. Increasing your Chances for Success

Once you have made the decision to open the office, there are a number of tried and tested strategies policies and procedures you should put into place to increase your odds. These include:

- Recognizing that the toughest jobs to fill will be management posts.
- Using your in-house domestic staff who were born in your target nations. They may have interesting contacts. Identify such employees for each country of interest to your firm and make them your mentors on local issues.
- Making full use of foreign-born engineering graduates of your national institutions. For example, some 60% of U.S. engineering Ph.D.s awarded in recent years were from abroad. They can form the nucleus of your international practice.
- Encouraging and assisting your host-country workers to grow technically.

- Quickly and efficiently supporting the office with specialists from other offices.

- Recognizing the accomplishments of your host country workers and publicizing these accomplishments throughout the entire company. The Berger Group, for example, brought two of our Swedish engineers to Boston to work on the Central Artery designs; our Indonesian, Indian and Philippine engineers to work in Cambodia, Afghanistan and the former Soviet Union; our Panamanian, Argentinean, Peruvian and Costa Rican engineers work throughout Latin American and Africa; and our Chinese and Canadian engineers to work on the Korean High Speed Rail Program and projects throughout Africa.

- Making permanent foreign employees eligible for company-wide benefits and, whenever practical, treating foreign coworkers as equals.

- Making maximum use of counterparts assigned to the job by your overseas client.

- Spreading the word abroad about how your firm and its local partners, staff and client counterparts are working together in new, innovative ways. Encourage the partners to co-author papers; present speeches and seminars, etc., stressing their collaboration and access to international expertise. This gives the firm local credibility, improving its chances of winning coveted future assignments and recruiting outstanding staff.

9. Risks and Opportunities

There are, however, many stumbling blocks and deterrents to involvement abroad as we have repeatedly noted, including:

- The fear of the unknown

- The concern over the lack of a "level playing field"

- Insufficient language skills

- Moral hazards, foreign corrupt practices, antitrust and other comparable legislation

All those concerns are real, and once they are known and understood, they can often be quantified and mitigated. How?

- Don't delegate the first reconnaissance.

- Learn in advance about available insurance and appropriate risk management tools (OPIC, COFACE, government guarantees, currency hedging, etc.).

- Develop a network of non-engineering professionals with overseas expertise (legal, banking, accounting, etc.).

Finally, in selecting your target country or countries, evaluate whether there are some subtle advantages to firms from your home country.

- <u>Colonialism</u> - Some former colonial powers enjoy special relationships with their former colonies. Others have suffered during their transition to independence, creating an advantage for new firms.

- <u>Traditional Local Enmities</u> - e.g., Singapore prefers U.S. to Japan, Morocco does not like to deal with friends of Algeria, etc.

- <u>National Interests</u> - e.g., Israel, Taiwan and Nepal need supporters; Japan, China and Korea need to blunt U.S. protectionist moves against their exports; the U.S., Japan, the EU and the Nordic states are major donors in many countries.

- <u>Preference</u> – which nations prefer or favor your country's technology and services.

Make a checklist of all the potential pitfalls and concerns.

- Local laws
  - Transparency
  - Enforceability
- National Leadership
  - Democratic
  - Hereditary
  - Oligarchic
  - Autocratic
  - Nepotistic

- Degree of Cronyism

- Currency
  - Convertibility
  - Transferability
  - Risk of devaluation

- Taxes
  - Tax treaties with your home country
  - Arbitrary interpretation
  - Reliance on VAT or import-based taxes
  - Customs procedures

- Decision Making Process
  - Consensus
  - Top down
  - Dictatorial
  - Decentralized (Federal nations like Brazil, Argentina, U.S.A, India, Nigeria, Canada and China)

- Competence and relative power of the bureaucracy

- Corruption levels

- Regional, ethnic or religious issues or concerns

- Payment history
  - Ease of collection
  - Promptness
  - Risk of arbitrary disallowances or deductions

- Rule of law

- Access to arbitration or courts

- Competitors' experience (too often overlooked)

10. Specific Guidelines for your Reports

Your own analysis should include:

- An understanding of the proposed company's strengths and position in their industry/field. If it is a new startup, focus on the anticipated need for the company's services and your plans to market these services.

- Assurances that the company and its staff wants to expand internationally. (If it is a startup, explain why it is going abroad rather than first working in domestic markets.)

- An understanding of the company's structure, services and activities (its strengths and weaknesses)

- An understanding, as discussed above, of the target country, region or field

- Proposed entry strategies

- Estimate of costs, budget and timing (see 10, "Guidelines for Pro Forma Forecasts of Office Costs")

- An assessment of the potential impact of your entry on the existing local market and sponsoring company or local partner, if any

- A forecast profits and losses (see section 10 below, "Guidelines for Pro Forma Forecasts of Office Costs")

- If appropriate, anticipated future growth and plans (e.g., continued expansion, serving as a regional office, integration into a regional network of offices, partial or total future sale of shares locally, etc.)

- An exit strategy

Drawing on these guidelines when preparing your formal reports to be submitted in Session 12, you should include:

a. Business Plan

- The Company - A brief description of the sponsoring company's strengths or weaknesses (a hypothetical company that you should describe including its domestic and foreign practice, if any [it could be a startup]), current position in their field (it need not be a U.S. firm, or even an AEC firm), volume, staff size, net worth and cash resources*, if any, and strategic goals

- The company's current structure and comparative advantages, if any

- Its global, sectorial or regional focus (describe which, if applicable)

b. The Target Country or Region#

- Name of country or region (here, the country can actually be a country you are a native of)

- Size of market

- Selection criteria, e.g., rapid growth, ease of entry, personal or company contacts, following an existing client, available partner/joint venture, good fit between company skills and market needs, local funding sources, active local investors or capital markets, etc.

- Areas of special concern, e.g., legal, taxation, economic and financial, language, culture, competition, degree of transparency, moral hazard, etc.

c. Initial Entry Strategy

- Winning a project

- "Ad Hoc" marketing arrangements in advance of winning a project

- Permanent joint venture in advance of winning a project

- Opening an office in advance of winning a project, etc.

- For the selected strategy:

    - Describe proposed arrangements

    - Skill levels required, if any

* The firm can be an actual enterprise or one (an ongoing or new startup) you have created or imagined for this initiative.
# If you are proposing a sectoral strategy, what will be your initial target country or region?

- Division of responsibilities (local/foreign partners, staff, etc.)
- Supervisory responsibilities
- Need for expatriate staff, if any
- Interdivisional or company billing procedures
- Quality control procedures
- Staff training, etc.

d. Budget

The costs you think you will incur to set up the office over a three-five year period, or longer, if you think it is going to take more time for the office to reach fruition.

e. 3-5 Year Forecast of Profit and Losses

This will include high, low and medium forecasts of likely sales; that is the actual billings you will make on the work you win and the forecast profit from such sales (see 10 below)

f. Future Plans Following Initial Success. These could include:

- Expansion plans including preliminary estimates of costs, budgets and likely timing
- Development into a larger regional office
- Stock or shares sales in local, regional or international stock exchanges or capital markets
- Ongoing staff development and training
- Supporting arrangements, if any (working in other countries, transferring work to the new office), etc.

g. Impact of the Initiative on the sponsoring firm if successful (e.g., market share, company size, growth rate, work load balance, competitiveness, share value, etc.

h. Risk Analysis

The advantages and anticipated risks in opening the office and planned protective measures, if any (see Session 8).

i. Exit Strategy

In case of failure, how costly, how long is the exit likely to take, how will you monitor the likely risks (e.g., costs)

11. Guidelines for Pro Forma Forecasts of Office, Concession or Initiative Costs

The financial forecast for the proposed office should be prepared using the following format, revised and reduced as appropriate, and include your Most Likely, Pessimistic and Optimistic projections for the next 3-5 years, accompanied notes describing the major assumptions incorporated in these forecasts.

FORECAST PROFIT AND LOSS FOR THE NEW OFFICE, CONCESSION OR INITIATIVE

	Most Likely***** Year 1	%	Year 2	%	Year 3*	%	Year 4	%	Year 5	%
Gross Revenues										
Less: Subcontracts**										
Net Revenue										
Direct Project Related Expenses:										
Direct Labor										
- Local										
- Foreign										
Project Travel										
- Local Travel, Lodging and Per Diem										
- Foreign Travel, Lodging and Per Diem										
Project Related Material and Supplies										
Project Related Outside Consultants (if needed)										
Purchased Services***										
Other Direct Costs										
Total Direct Costs										
Indirect Expenses****										
Indirect Labor										
- Local										
- Foreign										
Payroll Taxes										
Employee Benefits										
Non Project Related Travel, Lodging and Per Diem										
Non Project Related Material and Supplies										
Non Project Related Purchased Services***										
Non Project Related Utilities and Communication										
Non Project Related Miscellaneous Expenses										
Period Costs Including Rent										
Other Indirect Costs******										
Total Overhead										
Total Operating Expenses										
Pre-Tax Profit (Loss)										
Taxes										
Net Income After Taxes										

*May be 3 or 5 years, whichever most accurately depicts the anticipated office performance
**Partners' volume and profit should also be included in net sales, not as a subcontract
***Legal, advertising, marketing, agents, etc.
****Not charged to specific projects
*****Prepare separate tables for Pessimistic and Optimistic Forecasts
******May include any charges from the parent or sponsoring firm

Each team should include their critical assumptions for their Most Likely, Optimistic and Pessimistic forecasts.

12. Class Discussion

a. *"ENRON's Eight-Year Power Struggle in India"*

Everything abut ENRON was always larger than life and ENRON's experience in India was no exception.

- What India's concerns in the power field?
- What actions did the government take?
- What were the problems?
- Why was the off-take price from ENRON so high?
- What was the World Bank's view of DPC?
- Has the dispute been resolve and, if so, how?

b. *The Lexus and the Olive Tree*

Did you find the book useful?

Open discussion.