Strategic International Expansion: Doing the Right Due Diligence Will Increase Your Chances of Success

By LawVision on March 8, 2016

As the world becomes smaller and globalization in most industries is now a given, more and more firms are thinking about global expansion. Many firms are attracted to the possibility of getting a piece of what they think is a new pie (though there are many others already eating from that pie). While most firms are able to grow revenue to some extent, only a few are truly as successful as they hope to be. In the end, most firms are not getting it right. Why is this?

Have you ever found yourself in the wrong room – barging in on a meeting or wondering where everybody else is? It seems like more and more firms are finding themselves in the wrong room when expanding globally. The problem is when firms enter the wrong room, it typically means losing hundreds of thousands, if not millions, of dollars in investments. Why are the majority of firms that enter new markets not meeting the goals they set out in the beginning? Because of an insufficient due diligence process that lacks an adequate understanding of how things *really* work "on the ground".

Let's consider two purely hypothetical firms – Firm A and Firm B. Both firms are international London-headquartered firms that recently expanded into Asia.

Firm A has a successful projects and infrastructure (P&I) platform. Firm A watched the infrastructure boom in Southeast Asia and wanted to capitalize on this. In their due diligence, they researched, among other things:

- Market size for infrastructure investments;
- Flow of investments to/from Southeast Asia;
- Key infrastructure developers and investors in the region (i.e. target clients); and
- Viability of the economy in the region.

Firm A's due diligence validated their hypothesis that Singapore was the right place to open an office. The firm invested heavily, moving eight top P&I lawyers from other offices to Singapore. After arriving in Singapore, the firm learned a few key things:

- P&I clients worry about jurisdictions with prevalent corruption and evolving regulatory environments and, therefore, jurisdictional expertise is a must;
- Singapore is the commercial center of companies but influencers in other countries are closer to the issues and, therefore, drive legal buying decision; and
- Singapore is generally nationalistic and many clients have a preference for local counsel when possible.

Firm B has a strong financial services platform. The firm was asked by their top client ($20 million in annual revenues) to open an office in China to support the client's growing business in the country. To meet the client's immediate need, Firm B agreed to base two partners at the clients' Beijing office for six months. The firm then conducted a client audit program of their top 20 banking clients to understand, among other things:

- Banking clients' expansion strategies in China;
- Flows of investment clients were supporting to/from China (which jurisdictions and industries); and
- Types of investments/funding options companies were seeking from Firm B's clients.

In Firm B's due diligence, the firm learned a few key things:

- Chinese companies were investing heavily into Africa in an effort to acquire commodities;
- The Chinese and UK governments created a joint program for ease of Chinese investment in UK development projects;
- A combination of international and local counsel was preferred on large transactions; and
- Structured products were preferred over other types of investment vehicles.

Six months later, Firm B opened an office in Beijing and built a network of alliance firms in Africa. Another six months later, the firm hired two local Chinese partners.

Two years later…

Firm A completely abandoned its P&I platform. The firm has lost millions of dollars on their initial investment and also lost much of the revenue the eight lawyers generated in their home offices.

Firm B's China office is marginally profitable. However, 25% of the firm's London banking revenue now is derived from Chinese-based clients.

Firm A entered the wrong room because the firm:

- Used due diligence as a validation process rather than starting from a clean slate;
- Followed a dream rather than clients; and
- Did not have genuine knowledge about what they would find upon entering the room.

Firm B entered the right room and created corridors to another important room. Firm B succeeded because the firm:

- Conducted due diligence from an *existing* client focus – it did not simply focus on new targets;
- Started with a clean sheet of paper – it did not simply export what works in an existing market;
- Invested "boots on the ground" to understand how things work – it did not only research remotely; and
- Presented a truly international profile – did not just have a foreign lawyer base.

Firm B researched the room even when it seemed obvious from the beginning. Firm B ensured they knew who would be in the room, what they needed, and how those needs could be serviced.

Be like Firm B. Do your homework. Do the right homework. Take your time. Understand which room you should enter – if any at all.

Truda Chow, a Senior Consultant with The LawVision Group, spent the past 10 years in Asia working on strategic issues and scenarios such as this.