Options for Serving Clients Expanding Overseas

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Over recent years, more and more U.S.-based companies are exploring opportunities to expand internationally. Instead of managing sales and business development remotely from their headquarters in the U.S. or setting up local subsidiaries, many companies are looking at alternative methods of employment and payroll throughout their international operations and are turning to PEOs to help them manage their foreign workforces.

This trend is particularly present in countries where labor laws are somewhat antiquated, posing employment issues not usually considered when doing business domestically. Local laws often mandate benefits, processes, and taxes that are cumbersome to implement and could expose these companies to liabilities. Being able to structure contracts that address termination, vacations, healthcare, and statutory benefits—among many other issues—properly is key when working in unfamiliar locations.

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Expanding Internationally

A U.S.-based company deciding to expand its sales reach internationally—in addition to establishing a local subsidiary and employing local talent before being able to close new business—has three basic options:

- Operating from abroad;
- Working through a local partner; or
- Working with a PEO.

In the first option, the U.S. client company can develop the business from headquarters, or a conveniently located branch office, and go in-country periodically to visit customers and drum up new business. Customers are dealing directly with the company from its location in the U.S. This option can have a lower initial cost and allows the company to control the product offering and the message. However, with this option, it is difficult to overcome language and cultural barriers and develop local relationships because of periodic visits to customers rather than a local presence, and there are often some tax disadvantages.

The second option allows the company to begin to establish a local presence through a local rep or distributor, possibly gain new business faster, and let the headquarters operation concentrate on the back-office support. The downsides are that the company will have to share profits with the local representative and it leaves customer relationship development to the local partner. There may also be issues with long-distance communications between the company and the local representative.

The third option takes the PEO concept to an international level, allowing the client company to operate overseas without having to establish a local legal entity by using the "employer of record" (EOR) solution through a locally incorporated PEO (more on this in the examples below). While there are some additional costs associated with employment outsourcing, the advantages are having company staff on-site (with the employment relationship managed by the PEO) to build customer relationships, overcoming cultural and language barriers by hiring local talent through the PEO, and still controlling the business strategy as does any PEO client.

Two Examples

To illustrate the practical implementation and challenges of the international PEO concept, let us consider two case studies.

PEO Client Company A, based in Dallas, Texas, designs, produces, and sells management software that enables companies to reach individuals on mobile devices through messaging. Company A uses a PEO to manage its U.S. workforce. Its largest client, a U.S.-based company, is interested in implementing this same system with its international partners located in four different countries in Latin America. These partners are standalone companies in each country and require local sales and technical support from the software provider.

Company A wants to support its largest customer and realize the potential of growing its business with these four foreign customers, and potentially other clients in those countries. However, the prospect of simultaneously setting up four foreign subsidiaries or selling through a distributor presents a huge financial and logistical quandary. Company A's management decides to approach its current PEO to explore the possibility of hiring employees in those countries. Fortunately, by using an employer of record solution through the PEO in each country, the company is able to hire the individuals they identified, train them on their products, and direct their day-to-day activities.

The EOR solution provides a compliant framework to outsource the employment of an individual to a locally incorporated company, the international PEO. The PEO ensures compliance with all of the employee benefits and payroll taxes required by the local labor laws, manages the employment relationship, provides an expense reimbursement process, and makes all the required employer payments to the local taxing authorities. In essence, the international PEO provides Company A all of the employment functions of a local subsidiary, without having to establish a local entity.

Let's examine another case study. In this case, PEO Client Company B, a provider of specialized mining equipment based in Billings, Montana, is interested in establishing a local presence in Brazil—because of its fast-growing economy—so it can sell its equipment and train local operators. Company B uses a PEO in the U.S. to manage its presence in Brazil. Because setting up the local subsidiary will take time, significant investment, and coordination that could divert focus from its core business, the company decides to outsource the employment function. One hurdle is Company B's need to send an experienced trainer to Brazil to train the local equipment operators. It also needs to send a manager—with extensive technical knowledge of the company's operations—to initially manage the operation in Brazil, explore the local market, and determine the steps required to incorporate locally if business needs dictate that approach.

The EOR solution, as described in the first case study, is used for local workers. For expatriates, the company can use a "secondment," or expatriate, solution. Under the secondment solution, the international PEO signs an employment contract with workers according to their technical expertise and files for work permit petitions. The international PEO, as the sole sponsor of the workers' work visas, liaisons with Brazil's ministries of Labor and Foreign Affairs, consulates, and immigration authorities to process work permits for the workers. Once the visas are obtained, the expatriates will be assigned to work for Company B in Brazil as seconded employees of the international PEO's local entity. Because the expatriates' jobs are highly technical and one of the main functions of the workers will be to train local employees, the Brazilian authorities view this arrangement as beneficial for the country's economic development. Thus, using this mixed arrangement of employment outsourcing, Company B is able to meet its business objectives without having to worry about the logistical details.

Because the international PEO concept is based on employment outsourcing, instead of co-employment as with PEOs in the U.S., this requires a change in mindset for the client employer. Many things implemented by employers in the U.S. at their discretion—such as bonus and sales commission structures, vacation benefits, and retirement funds—are regulated in other countries and require local knowledge and expertise to implement properly and minimize the employer's tax liability. Applying the PEO concept at an international level can bring many of the same benefits that PEOs offer in the U.S. to U.S.-based companies that are looking to expand globally. The ability to operate locally in a foreign country in this way gives the company a major advantage without the costs of establishing, operating, and maintaining the infrastructure required for a local entity.

Doing business in foreign countries is intrinsically complex and carries risks that U.S.-based companies are not used to managing. Using an experienced and compliant international PEO for employment outsourcing will mitigate the exposure of the PEO and the client company, also allowing the client company to control its international business focus, minimize employment risks, and make informed decisions about when to establish a foreign subsidiary.●

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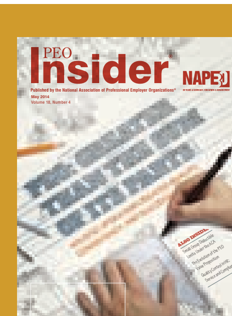
further reading



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