

The Umbrella Concept – A New Internationalization Perspective

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Abstract:- The Swiss Franc has been strong for years. This has weakened the competitiveness of Swiss firms and created a pressure for Swiss companies to find innovative ways of entering foreign markets. This study introduces a new option of market entry - the “Umbrella Company Concept”. Under the Umbrella Company Concept, firms do not enter a market directly, but via a virtual subsidiary in the target market. This approach facilitates the “shared cost” principle in which many different companies share operating expenses. This study shows the result of desk research and a survey among 113 Swiss SMEs. Results show that the Umbrella Company Concept is a viable means of internationalization, has discernable advantages to traditional means of internationalization, and may serve as a valid extension to governmental internationalization aid.

I. INTRODUCTION

The Swiss Franc has been strong for years. This has weakened the competitiveness of Swiss firms and created a pressure for Swiss companies to find innovative ways of entering foreign markets. This study introduces a new option of market entry - the “Umbrella Company Concept”. Under the Umbrella Company Concept, firms do not enter a market directly, but via a virtual subsidiary in the target market. This approach facilitates the “shared cost” principle in which many different companies share operating expenses. While a foreign subsidiary can come at a cost of CHF 500,000 per year, a market entry via an Umbrella Company can cost as little as CHF 150,000 per year. Furthermore, risk is lower due to low exit costs. Thus, internationalization via an Umbrella Company may be a highly attractive, fast track option for Swiss small and medium sized enterprises (SME) or start-up companies.

The Umbrella Concept was developed and has already been implemented in the Russian Federation. This study seeks to determine whether Umbrella Company Concepts can successfully be realised and may therefore be considered as a valid next step for Swiss companies seeking to expand abroad. Additionally, the study seeks to determine whether the Umbrella Concept could be successfully adapted to start-up companies’ needs.

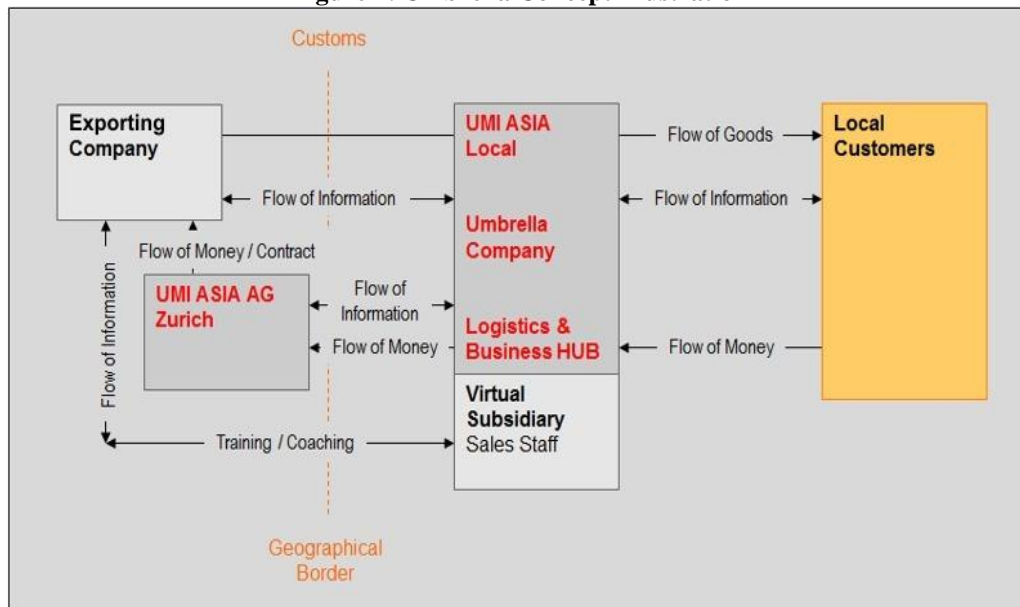
The study first introduces the Umbrella Company Concept and contrasts it to other modes of market entry and forms of internationalization support. Then results of a study among Swiss SMEs and start-up companies on the attractiveness of the virtual company approach are presented and discussed.

II. DEFINITION OF THE UMBRELLA CONCEPT

The market entry concept that forms the basis for the Umbrella Company Concept has been developed over a period of twelve years in the Russian Federation by United Machinery. At the same time the concept has been tested in cooperation with the Swiss export promotion organisation Osec. The Osec, partner in this research project, has been renamed Switzerland Global Enterprise (S-GE) and will therefore be named accordingly in this paper.

The Umbrella Company Concept is based on a “virtual” subsidiary company of the exporting company. The foreign Umbrella Companies are joint ventures between UMI ASIA company in Zurich and local partners in the respective countries. This means that the exporting company is organisationally and legally not connected to the local Umbrella Company, but can take advantage of the services that an own subsidiary would provide. The contractual relation is with UMI ASIA Zurich. Figure 1 provides a graphic overview over the concept.

Figure 1: Umbrella Concept Illustration



From an accounting perspective, the local Umbrella Company is managed separately. Also, the local sales staff is officially (contractually) employed by the Umbrella Company, but is working exclusively for the exporting company. The exporting company can fully focus on the market entry, especially the sales function, with support of the already existing local know-how. When the local sales organisation is well established in the market, the exporting company may consider setting up its own subsidiary under the country's company law. To minimise the market entry risk for the exporting company, the legal risk during inception is handled by the Umbrella Company.

A strong advantage of the concept is the amount of support services that is offered to the clients. These services are discussed in the subsequent chapter where they are contrasted to services provided by different internationalization support providers.

Although the Umbrella Company Concept is especially useful for export, it may also be considered for the initial period of other market entry modes, e.g. setting up a local production facility in the target countries. Figure 1 illustrates the different flows of information, money and goods and therefore explains the value chain of the business model.

PHASE 1: PRE-ASSESSMENT AND DESK RESEARCH

III. METHODOLOGY

Phase 1 of this study consisted of a broad literature screening ranging from scientific peer-reviewed journals, trade press articles, official governmental documents and websites to private company advertisement and websites. The goals of this phase were to discover current modes of internationalization and internationalization support, to compare the Umbrella Concept to pre-existing solutions, and to identify the concept's strengths and weaknesses.

Comparison of the Umbrella Concept to Other Types of Internationalization Support

One of the greatest strengths of the Umbrella Company Model is the support client companies receive. However, Swiss companies have access to an array of sometimes free internationalization aid programs and services. In order to become a viable model, the Umbrella Concept has to offer added value beyond that of already existing services. Desk research identified four promotion concepts, shaped explicitly to help SMEs entering new markets.

Preparatory and consulting services: For SMEs who want to enter a new market are performed mainly in the home countries and not in the targeted destinations (e.g. by S-GE for Switzerland, by Irish Enterprise for Ireland or by Aussenwirtschaft Österreich for Austria).

Foreign Trade Representation (by an international trade centre, open to all firms).

Hubs run by governmental organisations: To promote their products and provide accommodation, conference rooms, restaurants etc. (e.g. Viethaus run by Vietnam in Berlin). This is more a representative setting rather than a business hub.

Business Hub run by a country (e.g. by Switzerland – Swiss Business Hub, or by Germany – German Centre Indonesia etc.): The offered services vary, but generally include the provision of office space, installation of IT infrastructure, access to local trade fairs and help with getting in touch with local lawyers and consultants.

EU Business Centres (e.g. in Thailand): For EU chambers of commerce to promote improvement of trade and investment climate.

Table 1 outlines the services the Umbrella Company Concept offers its clients in comparison to those services offered by the above support organization.

Table 1: Comparison of Swiss Internationalization Support Service Concepts

Service	Switzerland Global Enterprise ¹	(open) Trade Representation ²	Hubs run by home countries ³	EU Business Centres ⁴	Umbrella Company Concept
Market Analysis	X	X	X	X	X
Market Entry Concept	(X)	X	X	X	X
Evaluation, Foundation and Registration		X	X	X	X
Bank Account, Finance & Controlling/Auditing			X	X	X
Partner Identification and -Evaluation					X
Recruitment of Staff, Training and Supervision			(X)		X
Development of Market Performance ⁵					X
Transport, Customs Clearance, Warehousing and IT-Systems					X

The Umbrella Concept’s advantages start at this stage where the business hubs have no offer for continuative services. The identification and evaluation of partners is a service that is hardly offered by any other concept and may only be provided as a single offer by specialised consulting firms. The recruitment and training of qualified staff, especially sales people, is also one of the services not offered by any of the other concepts. On top of that the Umbrella Company Concept offers support with the development of the market performance through its local networks and takes care of all the logistics needed for the import of the Swiss products. This summary of the literature clearly shows that the set of support services of the Umbrella Company Concept can be seen as unique as it covers the whole value chain.

Differentiation of the Umbrella Concept Toward Other Means of Internationalization

¹ And comparable other international organisations like Irish Enterprise for Ireland or Aussenwirtschaft Österreich for Austria.

² Run by an international trade centre, open to all firms.

³ E.g. by Switzerland – Swiss Business Hub, or by Germany – German Centre Indonesia.

⁴ Normally for companies from EU countries only.

⁵ This may for example include the application for import licences.

Most literature on internationalization focuses on the different steps of the Uppsala Process. The Uppsala Model explains how organisations intensify their international activities (Johanson & Vahlne, 2009). In the first step they focus on the domestic market, and then they move to simple export activities what is later developed into hiring an agent, opening up a sales subsidiary or produce internationally. The literature focuses exclusively on Multi National Enterprises (MNEs) or generally larger organisations - SMEs and start-ups are considered comparatively sparsely. However, recent research studies show that the choice of the entry mode follows the degree of commitment to the targeted market (e.g. Sharma, 2002). Also, entry into a new market is possible by many different means.

Table 2: Comparison Modes of Internationalization

	Agency	Representative Office	Umbrella Concept	Subsidiary	Mergers & Acquisition
Equity Requirements	++	-	+	--	--
Operational Costs	++	+	++	--	--
Risk	--	++	++	--	--
Time to market	+	+	++	--	-
Direct Market Access	-	+	++	--	+
Suitability for startups	+	+	+	-	--
Market Exit	++	-	++	--	--

Desk research into internationalization approaches found four approaches to be particularly popular: Agencies, Representative Office, Subsidiaries and Mergers & Acquisitions. In course of this study, these market entry modes have been compared with the Umbrella Company concept in terms of their financial dimension (equity requirements; operation costs), the market dimension (time to market, direct market success, market exit), the related risks and the suitability for start-up companies. Assessments were made based on literature research and expert information. The results of this assessment are shown in Table 2.

Although some of the noted grading may be challenged, the table provides an interesting overview and comparison. It becomes clear that the Umbrella Company Concept brings together the advantages of most of the other named ways of going international and by doing this prevents most of the potential risks to endanger the business of a company.

Financial Aspects

To adapt the Umbrella Company Concept to the local situation at the destination countries, finding out about the financial aspects of other concepts is potentially valuable to compare planned costs with alternative offers. A comparison of the financial aspects should consider the entire value creation chain and compare the services in the previous paragraph. As most of these services are charged individually, only by pricing all service offers financial comparisons can be made.

Some of the counselling services offered by national export promotion organisations like S-GE are free of charge. However, this often only includes counselling and no further guidance. Normally between 5,000 and 10,000 Swiss Francs are charged for market studies. Umbrella Companies can offer market studies at a comparable price level of around 4,000 to 10,000 Swiss Francs. Also when having a look at the prices charged by several forms of business hubs, the prices charged by Umbrella Companies are neither cheaper nor more

expensive. This means that for those services no large difference between Umbrella Company Concept and other concepts exists.

However, differences emerge if downstream support services are also considered. As those services are not offered by other concepts, a direct comparison is not practical - but a more general financial comparison is possible. Experiences from the Umbrella Company in the Russian Federation have shown that the market entry costs can be decreased significantly via the Umbrella Company Concept. This is mainly due to the cost sharing aspect of the concept. As five, six or seven companies share most of the fixed costs, the individual costs per company decline. On the basis of that, the market entry costs for a company via the Umbrella Company Concepts are about CHF 100,000 to CHF 150,000 per year. A representative office would in comparison cause fixed costs of around CHF 250,000 per year, a subsidiary would even cost CHF 500,000 annually. This shows a strong advantage of the Umbrella Company Concept in comparison to other concepts and forms of market entry.

PHASE 2: SURVEY STUDY

Participants and Procedure

Two different online surveys have been conducted. The first survey was explicitly constructed to fit the needs of Small and Medium-Sized Enterprises (SMEs). The second survey was created for the needs of the start-ups. S-GE, as a cooperation partner in this research project, allowed us to send the survey out to about 900 of their registered members. For the start-up survey, companies have been invited to participate, who have been listed in an internal database of the Competence Centre Entrepreneurship within the Institute of Management FHNW. Here, about 500 start-ups have been invited. After several days, the participants received a reminder.

Out of the companies that were approached, 69 SMEs took part in the Survey, resulting in a response rate of 7.7%. 44 start-ups participated at a response rate of 8.8%. Although the participants represented a broad range of different industries, Most SMEs were from the Machinery Building industry, start-ups were predominantly active in the industries Information Technology, Manufacturing, and Machinery Building.

Study results

The survey introduced the respondents to the Umbrella Company Concept and asked several questions regarding the concept. These particular questions gave an opportunity to challenge the existing concept by the respondents while at the same time gaining valuable feedback to potentially improve the concept.

Services offered by the Umbrella Company Concept: All of the services offered by the Umbrella Company Concept are considered at least as "average important" by the respondents. Most important to them are the following services: analysis of relevant environmental factors (market, target audience, distribution structure, competitors), human resource aspects (efficient recruitment of managers, sales staff and professionals, employee training and development), definition and establishment of strategic alliances and definition of corporate agency contracts.

Figure 2: Perception of Services offered by the Umbrella Company Concept

Frage: Please rate the importance of the following services offered by the Umbrella Concept when doing business internationally.			
	Mean		
Analysis of relevant environmental factors (markets, target audiences, distribution structures, competitors)	2.52	2.03	Important
Location choice and chances/risk analysis	2.73	2.36	Important/Average
Human Resource aspects (efficient recruitment of managers, sales staff and professionals, employee training and development)	2.58	2.48	Important/Average
Support in distribution and logistics (design, transportation, customs clearance and warehousing)	2.62	2.66	Average
Development of specific market strategy and implementation (including coaching in strategic and operational implementation steps)	2.85	2.73	Average
Definition and establishment of strategic alliances and definition of cooperation agency contracts	2.50	2.61	Important/Average
Concern about intellectual property issues and unethical foreign trade practices	2.73	2.67	Average
Taking over of all financial, legal and administrative issues	2.67	2.70	Average
N = 111 n = 53 sys-missing = 58		Startups	SME
N = 252 n = 99 sys-missing = 153			

Perception of the Umbrella Company Concept advantages: Respondents considered all named advantages of the Umbrella Company Concept are considered important. The ones perceived as being the most important include: A higher chance of success when entering new markets, substantial reduction in market entry and development costs, and rapid establishment of the sales and distribution function.

Figure 3: Perception of Competitive Advantages Offered by the Umbrella Company Concept

Frage: Based on experiences over the past ten years, the Umbrella Concept provides the following advantages. Please indicate what is most important to your organisation.

	Mean		
A higher chance of success when entering new markets	1.86	1.75	Important
Substantial reduction in market entry and development costs	2.20	1.90	Important
Risk reduction due to lower exit barriers	2.64	2.52	Important/Average
An increase in value and growth	2.18	2.23	Important
Rapid establishment of the sales and distribution function	2.19	2.02	Important
No administrative burden when dealing with local authorities	2.34	2.26	Important
Quick access to local business networks	2.70	2.40	Important/Average

N = 252 | n = 95 | sys-missing = 157 **Startups** **SME**
 N = 111 | n = 51 | sys-missing = 60

Additionally, 95% of the surveyed start-ups contemplate that nothing needs to be added to the Umbrella Company Concept. The only mentioned suggestions include: knowledge about local (governmental) tendering procedures, evaluation of potential partners, support in risk insurance, and help with local marketing.

IV. CONCLUSION

This study researched the Umbrella Company Concept of internationalization. In a first phase, the Concept was compared with traditional offers of internationalization and internationalization support. In a second step, the concept's value was assessed in a market survey among 113 Swiss SMEs and start-ups. The desk research showed that many different ways of supporting export activities exist. However, the Umbrella Concept offers a broader range of support services than are currently available.

Compared to competing means of internationalization the Umbrella Concept proves to be the overall most advantageous, outperforming most other means of internationalization in a number of financial, market, and risk dimensions. Compared to founding a foreign subsidiary, the financial advantage are striking: While a market entry via an Umbrella Company costs CHF 150,000 per year, a foreign subsidiary comes at an annual price of CHF 500,000.

During two surveys the research team has been able to generate interesting data that provides an insight into the situation of Swiss SMEs and start-ups regarding internationalisation. Overall the Umbrella Company Concept was well received by survey participants. It was rated as a valuable and promising concept. The services provided by the Umbrella Company Concept meet the needs of the surveyed companies and provide a comparably high value.

In sum it be concluded that export promotion via the Umbrella Company offers a valuable continuation of the national internationalization preparation services such as S-GE and that the concept represents a viable internationalization option for SMEs and start-ups alike.

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