Polina Laboutina, Emily Rousseau, Mark Greenfield, Tim Walsh
TEMP: Parent Company Overview

- **Name:** TEMP
- **Parent Company Location:** United States
- **Business Type:** Furniture and Home Improvement Retailer
  - Contemporary low-cost furniture (like IKEA)
  - Home improvement tools (like Home Depot)
TEMP: Parent Company Overview

• Company Annual Revenue:

• Number of Employees:

• Purpose of Business:
  – TEMP strives to facilitate the process of home improvement: From large-scale renovations to minor redecorations.
TEMP: Parent Company Plan

• **Goals:**
  - To expand
    • First to the United Kingdom
    • Potentially throughout the European Union
  - To compete with IKEA
    • Currently, IKEA does not have a large-scale competitor that is present all over the world
    • We want to be that competitor!
TEMP: Parent Company Goal

• Maximize the value of the firm for the shareholders

• Increase profitability: Reduce costs

• Increase profit growth: Enter new markets

Strategic Positioning: High quality products at a low price.
Value Creation

Primary Activities
- R&D
- Production
- Marketing and Sales
- Customer Service

Support Activities
- Information Systems
- Logistics
- Human Resources

Experience Effects
- Learning Effects
- Economies of Scale
International Strategy

Location Economies
Why the United Kingdom?

- UK is among IKEA’s Top Five Sales Countries
- Low Corporate Tax Rates
- Cultural Similarities to the United States
- Political/Economic Similarities to the United States
- Predominantly Contemporary Style
UK GDP

Gross Domestic Product
GDP in current U.S. dollars. Not adjusted for inflation.

Data source: World Bank, World Development Indicators - Last updated April 21, 2010
TEMP UK: Employees

- Expatriate Management in International Headquarters
- Other employees are UK citizens
- The Recruitment and Employment Confederation (REC) – network of professional recruitment agencies in the UK
- Sector Skills Councils – ensure that labor requirements are met
<table>
<thead>
<tr>
<th>Cultural Factors:</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Religion</td>
<td>Protestant 51.3%, Roman Catholic 23.9%, Mormon 1.7%, Jewish 1.7%</td>
<td>Christian 71.6%, Muslim 2.7%, Hindu 1%</td>
</tr>
<tr>
<td>Education</td>
<td>Literacy 99%</td>
<td>Literacy 99%</td>
</tr>
<tr>
<td>Economics</td>
<td>Labor force 154.5 million; Unemployment rate 9.4%; Population below poverty level 12%</td>
<td>Labor force 31.25 million; Unemployment rate 8%; Population below poverty level 14%</td>
</tr>
<tr>
<td>Politics</td>
<td>Constitution-based federal republic; Strong democratic tradition</td>
<td>Constitutional Monarchy</td>
</tr>
</tbody>
</table>
## Cultural Factors

<table>
<thead>
<tr>
<th>Cultural Factors:</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Family</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-14 yrs</td>
<td>20.2%</td>
<td>16.7%</td>
</tr>
<tr>
<td>15-64 yrs</td>
<td>67.0%</td>
<td>67.1%</td>
</tr>
<tr>
<td>65 and up</td>
<td>12.8%</td>
<td>16.2%</td>
</tr>
<tr>
<td><strong>Class Structure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Household Income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lowest 10%</td>
<td>2%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Highest 10%</td>
<td>30%</td>
<td>28.5%</td>
</tr>
<tr>
<td><strong>Languages</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>English</td>
<td>82.1%</td>
<td>English, Welsh, Scottish Gaelic</td>
</tr>
<tr>
<td>Spanish</td>
<td>10.7%</td>
<td></td>
</tr>
<tr>
<td><strong>History</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>19th century → ¼ of earth’s surface; Empire fell apart in early 20th century; global approach to foreign policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Natural Resources/Geography</strong></td>
<td>Urban Population 82%</td>
<td>Urban Population 90%; natural hazards: winter windstorms, floods; Nat. Res.: coal, petroleum, natural gas, iron ore, lead, zinc, gold, tin, limestone, salt, chalk, clay; ~size of Oregon</td>
</tr>
</tbody>
</table>
UK Culture: Social Etiquette

Manners are important!

- Hugging, backslapping is only for friends
- Avoid speaking loudly
- No personal questions
- Timeliness is key
- Less emotional display
- ‘Have a nice day’ – disliked
UK Labor Regulations: Minimum Wage

Three levels of minimum wage:

(1 October 2009)

1. 22 years and older → £5.80/hour
2. 18-21 years → Development rate → £4.83/hour
3. Under the age of 18 → No longer of compulsory school age → £3.57/hour

Source: http://www.hmrc.gov.uk/nmw/
UK Labor Regulations

- Max 48 hours
- 11 hours’ rest per day
- One day off per week
- 4 weeks paid leave per year
- Break during work hours
UK Labor Regulations: Contracts

• **Employment:** Written contracts are not obligatory

• **1 week’s notice in the first year, 2 weeks’ notice in the second year, etc. up to 12 weeks’ notice prior to termination**
Employer Social Security Cost

[Bar chart showing the social security costs for different countries, with France having the highest cost at 45%, followed by Italy at 35%, and so on.]
# International Corporate Taxes

**Figure 2: Main corporate tax rates - international comparison**

<table>
<thead>
<tr>
<th>Country</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>42.23%**</td>
</tr>
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<td>Spain</td>
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<tr>
<td>Luxembourg</td>
<td>28.59%</td>
</tr>
<tr>
<td>UK</td>
<td>28.00%</td>
</tr>
<tr>
<td>Sweden</td>
<td>26.30%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>25.50%</td>
</tr>
<tr>
<td>China</td>
<td>25.00%</td>
</tr>
<tr>
<td>Denmark</td>
<td>25.00%</td>
</tr>
<tr>
<td>Austria</td>
<td>25.00%</td>
</tr>
<tr>
<td>Ireland</td>
<td>12.50%</td>
</tr>
</tbody>
</table>

Source: Deloitte, 2009

*Note: Effective corporate tax rates. The rates do not reflect payroll taxes, social.*
UK Accounting Standards

- UK GAAP or IFRS (International Financial Reporting Standards)

- Companies that qualify as small under the Companies Act 1985, and other entities of similar size, are entitled to use the special accounting standard - The FRS for Smaller Entities (FRSSE)
Foreign Direct Investment (FDI) occurs when a firm invests directly in facilities to produce or market a product in a foreign country.

- Greenfield Investment
Financing For the Investment

• Borrow on the Global Market
• Borrow Locally
• Front loan
Financing: Front Loan

- Deposit $1 million
- Loan $1 million
- Parent Company
- London Bank
- London Subsidiary
- Withdraw $1 million
- Repay loan at foreign interest rate
“Good performance metrics also should reflect progress against a plan. This property allows a metric to go beyond being just a measure. Metrics with this property are vehicles for organizations to clarify, communicate, and manage strategy”

—David Norton
### Balanced Scorecard Methodology

<table>
<thead>
<tr>
<th>Financial Goals</th>
<th>Receive a positive cash flow by year 3 with a ROI at 30% at that time</th>
</tr>
</thead>
</table>
| Internal Goals  | - Reduce excess inventory by 40% by year 2  
|                 | - Develop a management team that is self sufficient by year 2       |
| Customer Goals  | - 90% error free customer order by year 2  
|                 | - Annually improve customer satisfaction by 5%                      |
| Learning and Growth Goals | - Increase employee satisfaction by 30% annually  
|                 | - 80-90% employee turnover annually by year 2                     |
What Is Success?

- In the next 24 months, success will be cutting into IKEA’s virtual monopoly in Europe — 40% of their sales
- Long term, we want to surpass IKEA, to become THE company in Europe
- Given IKEA & Home Depot’s successes, $30 billion in earnings is not unreasonable in the future (when more European branches can be opened)
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Group 4: Polina Laboutina, Emily Rousseau, Mark Greenfield, Tim Walsh
Professor Boyd
BA 336
6 April 2010

INTERNATIONAL BUSINESS PLAN

PARENT COMPANY

I. Overview

TEMP is an American company which acts as a de-facto hybrid between Home Depot and IKEA stores. Like IKEA, TEMP is a successful dealer of low priced furniture and office necessities. Like the Home Depot, TEMP also focuses on home improvement, though not necessarily as in depth as Home Depot. In combining the focuses of these two successful businesses, TEMP has established itself as one of the preeminent ‘one stop shops’ in America, with a specific focus on homes and comfort, which distinguishes TEMP from stores such as Wal-Mart, which have focuses so broad that they cannot provide much depth in any area of merchandise.

As a company, TEMP earns $10.5 billion annually in America. This figure is the sum of the profits of all of our 40 American branches. TEMP-America has a total of roughly 8,500 employees in America, which is about 200 employees per store, plus 500 employees of our central factory, which is located in Chicago, Illinois, and supplies all of our locations nationwide. To deliver the merchandise to our stores, TEMP hires independent trucking agencies, who supply us with the trucks and drivers necessary to meet our demand.

II. Organization

![Organization Chart]

Top Management

- Domestic Headquarters
  - Marketing
  - Human Resources
  - Accounting/Finance
  - Engineering
- International Headquarters
  - Marketing
  - Human Resources
  - Accounting/Finance
  - Engineering

- Design Team
- Floor Managers
- Delivery/Warehouse Personnel
- General Employees

- Floor Manager
- Design Team
- Delivery/Warehouse Personnel
- General Employees
In America, TEMP’s organizational structure is as follows:

- **Top Level Management** includes a CEO, COO, and a board of directors. Currently, the Top Level Management only oversees TEMP-America, but when TEMP-Europe opens, the Top Level Management will oversee that business unit as well.

- TEMP-America’s Domestic Headquarters report directly to the Top Level Management. This group consists of regional vice-presidents in seven different regions: northeast, southeast, Great Lakes, plains, southwest, Rocky Mountains, and west coast (consisting of California, Oregon, and Washington. Currently, TEMP-America does not have any locations in Alaska or Hawaii.

- Though they have offices that are separate from the TEMP stores in their region, each of these vice-presidents is expected to have regular visits with the stores in their region, and to be in frequent contact with the Human Resource Managers of those stores. It is the vice-presidents who make the plans on how to run the store on a day-to-day basis, while the Floor Managers are responsible for implementing those plans.

- As mentioned, the Floor Managers are the direct reporters to the vice-presidents and domestic headquarters. Each store has a Human Resource Manager to oversee the day-to-day activity of the store (in conjunction with the wishes of the regional vice-presidents). This HR manager is on the same level as the regional Marketing, Finance, and Engineering managers. Though the face-to-face interaction between those four managers may be infrequent at times, all four managers report to the VP’s, and strong communication between the four is necessary so that they can operate their stores fluently.

- Reporting to these people are our Floor managers, who are - more so than any other level of management - “in the trenches” with the general employees. These are the people who make work schedules for the employees in their department (such as furniture, hardware, lumber, warehouse, etc.,) as well as overseeing and facilitating “ground level” activities.

- TEMP also has a Design Team that is responsible for designing the furniture that we sell. This is a very important segment of our organizational architecture, because these are the people who create the products that we sell. Without our talented Design Team, TEMP would not be nearly as successful as we are today. For the most part, we have contracted designers with a few “guest-designers” that join for a short time to give our furniture designs an unexpected creative boost. Our Design Team is managed by the Human Resource Department and is in close contact with the Marketing department. This close relationship between Design and Marketing teams exists because the Marketing team researches to understand the products that our consumers would like to buy while the Design team creates those products with the help of the Marketing team’s findings. This close relationship is crucial to our success.

- Finally, we have the General Employees and Warehouse Personnel, who report to the Floor managers. Of these General Employees, roughly 50 per store are full-time, and about 150 are part-time employees. These employees include cashiers, custodians, etc.. Because all of our merchandise comes from our central factory, and we do not directly
employ those who deliver it, our Warehouse may differ somewhat in its uses when compared to other stores. Warehouse employees at TEMP help unload the trucks which have incoming merchandise, store inventory in the warehouse, are responsible for restocking shelves and displays in the stores, and assist customers in preparing to transport their purchases to the final destination (in other words, they help the customers load their vehicles with their purchases, when necessary).

III. International Business Strategy

The goal of our company, like all for-profit businesses, is to maximize the value of the firm for the shareholders in a legal, ethical, and socially responsible manner. The two ways that this will be accomplished are by increasing profitability of the businesses and increasing profit growth over time. “Managers can increase the profitability of a firm by pursuing strategies that lower costs or by pursuing strategies that add value to the firm’s products” (Hill, 420). We will of course be constantly researching ways that we can add value to our products; however, our main strategy to increase our profitability will be to lower costs. In other words, we will continually strive to find ways to cut our costs, but not at the expense of our products’ value. “Managers can increase the rate at which the firm’s profits grow over time by pursuing strategies to sell more products in existing markets or by pursuing strategies to enter new markets” (Hill, 420). Our main strategy for increasing profit growth will be to enter new markets.

This is a graphical representation of our strategy to increase the value of the firm.

Our strategic positioning choice is to have high quality products at a reasonable price. We do not want to operate as a luxury furniture store. Instead, we want our customers to know that they can still receive high quality furniture that is affordable.
This graph represents our strategic choice in the international furniture industry.

The value creation activities that our firm will take on can be broken down into primary activities and support activities. The primary activities that we will engage in to create value are R&D, production, marketing and sales, and customer service. Superior product design through R&D will increase the functionality of our products which will make them more attractive to consumers. R&D will also result in more efficient means of production, thereby cutting production costs (Hill, 424).

The production activities that our firm undertakes will create value by performing activities efficiently so we can obtain lower costs and by performing them in such a way that a higher quality product is produced (This will be discussed in more detail in the support activities section).

Through brand positioning and advertising, the marketing function will increase the value that consumers perceive in our firm’s products. Marketing and sales will also create value by employees learning about consumer needs and communicating that information to R&D so that they can design products that better match the needs of our consumers (Hill, 424).

The function of customer service will create a perception of superior value by helping customers solve problems and offering product support to customers after they have purchased the item.

The support activities that we will engage in are information systems, logistics, and human resources. Our information systems will allow us to manage inventory, track sales, price products, sell products, and deal with customer service inquiries. Our information systems will aid us in creating more efficient means of production. For example, when customers place an order with TEMP over our web site, the information will be transmitted immediately to suppliers (via the internet) who will then configure their production schedules to produce and ship that product so that it arrives at the right place in an orderly time (Hill, 425). This system will reduce the amount of inventory that we must hold which will be a major source of cost savings.

Our logistic function will aid our production and distribution activities so that the physical movement of our products from beginning to end will be more efficient and also reduce costs. Our information systems will tell us on a real time basis where in our global logistics
network our materials are and when they will arrive so that we can plan our production schedule most efficiently.

Our human resource department will ensure that our company has the right mix of skilled people to perform their value creation activities effectively (Hill, 425). Our human resource department will also take advantage of our international reach to identify, recruit, and develop a team of skilled managers with various nationalities to help identify political, legal, economic and social considerations of the countries we choose to enter.

Our firm plans to lower our unit costs and increase our profitability through experience effects. The experience curve refers to systems reductions in production costs that have been observed to occur over the life of a product (Hill, 429). We will obtain experience effects through learning effects and by achieving economies of scale. Learning effects refer to cost savings that come from learning by doing (Hill, 429). Labor productivity increases over time as workers learn the most efficient ways to perform particular tasks. Managers also usually learn how to manage the new operation more efficiently over time. “Hence, production costs decline due to increasing labor productivity and management efficiency, which increases the firm’s profitability” (Hill, 430).

Economies of scale will allow us the ability to spread our fixed costs over a large volume. The more quickly that our sales volume is built up, the more quickly our fixed costs can be amortized over a large production volume, and the more rapidly our unit costs will fall (Hill, 430).

As we continue to expand our retail stores globally, we believe that we will be able to pursue a location economies strategy. Location economies are “economies that arise from performing a value creation activity in the optimal location for that activity, wherever in the world that might be (transportation and trade barriers permitting)” (Hill, 427). We believe that our firm will benefit by basing each value creation activity we perform at the location where economic, political, legal, and cultural conditions are optimal to our performance. This will lower the costs of value creation and help our firm to achieve a low-cost position.

Two types of competitive pressure that our firm will face that affect our ability to realize the experience effects mentioned above are pressures for cost reductions and pressures for local responsiveness.
As you can see by the graph, we believe that we will face high pressures for cost reductions and low pressures for local responsiveness in the U.K. We will face high pressures for cost reduction because we are marketing our products as affordable. Since we will be competing with retail furniture giant IKEA, this aspect of affordable prices is especially important. This means that we will constantly be searching for ways to cut costs so that we can charge a reasonable price for our products. We believe that in the U.K. we will face low pressures for local responsiveness because our research shows the U.S. and the U.K. to be fairly similar. This combination of high pressure for cost reduction and low pressure for local responsiveness leads to a global standardization strategy. However, this strategy will only be true for the U.K. As we continue to expand to other countries that are more different than the U.S., we believe that we will begin to face high pressure for local responsiveness. The combination of high pressures for cost reduction as well as high pressures for local responsiveness leads to a transnational strategy. In short, once we expand further globally, we will try to simultaneously achieve low costs through location economies, economies of scale, and learning effects; differentiate our product offering across geographic markets to account for local differences; and foster a multidirectional flow of skills between different subsidiaries in our firm’s global network of operations (Hill, 440).
BUSINESS UNIT

I. Organization

For the TEMP U.K. unit, we decided to retain the original Parent Company layout of organizational structure. This is because at TEMP we believe that our success in the United States is due to the way that we are managing this company. Therefore, we would like to keep the TEMP U.K. unit consistent with our United States parent company to insure future success. The minor cultural differences that exist between the United States and the United Kingdom are not significant enough to affect the company structure.

The International Headquarters is the only part of the TEMP organizational structure that will employ expatriate workers from the Parent Company. These people will be employees that have worked at TEMP in the United States for a long time and understand all of TEMP’s core values and principles. This is simply to insure that the U.K. unit operates in a manner that is consistent with the Parent Company’s goals and practices. The rest of the TEMP employees in the United Kingdom will be citizens of the U.K. TEMP decided to hire host-country locals to make sure that our products and services are in line with the common practices in the U.K..

Employing U.K. citizens is especially important for the Marketing and Design Teams, because they will be responsible for knowing what kind of furniture and home improvement products the U.K. public wants to see in our store. Therefore, these two teams are crucial to our company success in the U.K., as they will be the ones who focus on localizing our products.
II. International Business Issues (Cultural, Economic, Legal, Political, Geographic, Workforce, Diversity, etc.)

As an international business, it is important to be aware of the host country’s labor laws. To make the process of opening a business unit in the United Kingdom smoother, our research team examined some of the most relevant labor laws in the U.K.

First, like the United States, U.K. has a minimum wage law. As of October 2009, three levels of minimum wage rates exist. The first level is for workers of 22 years and older and requires a minimum wage of £5.80 per hour. The second level is for workers between the ages of 18 to 21 and requires a minimum wage of £4.83 per hour. The third level is for workers under the age of 18 years old and over the compulsory school age. This last level requires some examination of the compulsory school age laws in the United Kingdom. Among the territories of the United Kingdom, there are some minor differences in the definition of the compulsory school age. But generally, a person is not required to go to school after the age of 16. The differentiations between the territories are simply in the determination of how to finish the school year after turning 16 (“HM Revenue & Customs”). So these minimum wage laws are of great importance when calculating expected salaries of potential workers and when engaging in the hiring process.

Second, general labor laws of the U.K. are also significant: they determine length of work days, vacation times, retirement age, and company costs per employee. The average hours worked per week for full-time U.K. employees is 43 hours. Being greater than the 41.8-hour European Union average, this will allow for higher productivity at TEMP, as we will need fewer employees to cover the maximum number of hours. The following figure shows how the U.K. compares to a few major European countries:

<table>
<thead>
<tr>
<th>Country</th>
<th>Average hours worked per week*</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>43.0</td>
</tr>
<tr>
<td>Poland</td>
<td>42.7</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>42.7</td>
</tr>
<tr>
<td>Spain</td>
<td>41.9</td>
</tr>
<tr>
<td>European Union</td>
<td>41.8</td>
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<td>Germany</td>
<td>41.7</td>
</tr>
<tr>
<td>Portugal</td>
<td>41.6</td>
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<tr>
<td>Italy</td>
<td>41.1</td>
</tr>
<tr>
<td>France</td>
<td>41.0</td>
</tr>
<tr>
<td>Belgium</td>
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</tr>
<tr>
<td>Sweden</td>
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</tr>
<tr>
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<td>40.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>40.2</td>
</tr>
</tbody>
</table>

* For full-time workers

Additionally, there are several other U.K. regulations on working time that apply to full-time, part-time, and temporary workers. Some of the basic rights include: a maximum work week of 48 hours, the right to 11 hours’ rest per day, the right to one day off per week, and a right to four weeks of paid leave per year. With regards to the 48 hour work week maximum, employees can choose to consent to an “opt-out agreement,” which allows them to work more than the 48 hours
per week. However, employers may not force employees to accept the “opt-out agreement” (“Labour Environment”). The U.K. does not have an official retirement age; the government pension become available to workers at the age of 65 for men and at the age of 60 for women, but employees have the right to request to work beyond that age. Company costs per employee include social security costs, which are officially referred to as “National Insurance Contributions” or more familiarly as the “NIC.” The 2009/2010 rate for NIC is 12.8%, again being one of the lowest rates among some European countries as seen in the figure below:

(“Labour Environment”). Some of these employment regulations are part of TEMP’s decision to expand business to the U.K.. Longer work week and low employer social security costs are favorable factors that decrease company expenses.

Third, another significant aspect of employment regulation in the U.K. is employment contract law. Written contract is not necessary for an existence of an employment agreement. However, employees have the right to receive a statement of terms and conditions of their employment within the first two months of employment. In the case of termination of an employment contract, the employee is required to give the employer one week’s notice, while the employer is required to give the employee one week’s notice in the first year of employment, two weeks’ notice in the second, three after three years, and up to twelve weeks for twelve years or more (“Labour Environment”).

The tax laws are also of particular interest for businesses starting international units in foreign countries. So before expanding TEMP into the United Kingdom, our research team examined the U.K. taxes. We found out that the United Kingdom has one of the lowest main corporate tax rates in the European Union and the lowest among the G7 countries (Canada, France, Germany, Italy, Japan, United Kingdom, and United States). In addition, the U.K. is involved in an extensive network of treaties to avoid double taxation as much as possible. Moreover the U.K. supports corporate Research and Development by providing tax incentives in the form of tax credits (“Tax in the U.K.”). These three factors make the United Kingdom a very
attractive place for foreign investment and were part of TEMP’s decision process in choosing host countries. The following figure shows U.K. tax rates in an international comparison:

<table>
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<tr>
<td>Australia</td>
<td>30.00%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>28.59%</td>
</tr>
<tr>
<td>UK</td>
<td>28.00%</td>
</tr>
<tr>
<td>Sweden</td>
<td>26.30%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>25.50%</td>
</tr>
<tr>
<td>China</td>
<td>25.00%</td>
</tr>
<tr>
<td>Denmark</td>
<td>25.00%</td>
</tr>
<tr>
<td>Austria</td>
<td>25.00%</td>
</tr>
<tr>
<td>Ireland</td>
<td>12.50%</td>
</tr>
</tbody>
</table>

Source: U.K. Trade & Investment, 2009

As shown in the table above, the United Kingdom has the fourth lowest tax rate among the most competitive countries in the world. The main corporate tax rate in the U.K. is 28%, however, as the following figure shows, there are other corporate tax rates, depending upon the profit level of the business:

<table>
<thead>
<tr>
<th>Rate</th>
<th>Profit (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small companies’ rate 21%</td>
<td>0–300,000</td>
</tr>
<tr>
<td>Marginal relief</td>
<td>300,001–1,500,000</td>
</tr>
<tr>
<td>Main rate 26%</td>
<td>1,500,001 or more</td>
</tr>
</tbody>
</table>

Source: HM Revenue & Customs, 2009

In the first few years of operation in the U.K., TEMP might be in the two lower brackets of profit level, because a lot of the initial operations in the U.K., such as building a production facility and organizing a store, will incur a lot of expenses.

Also, while examining U.K. laws and regulations, accounting standards are important to note. In the U.K., companies have a choice of following either the GAAP (Generally Accepted Accounting Principles) or the IFRS (International Financial Reporting Standards). Both of these reporting methods are favorable for TEMP, as both are familiar to the TEMP Parent Company in the United States (“Accounting Standards Board”).

Moreover, TEMP’s research team examined the cultural and behavioral differences, which are of great importance for TEMP’s success in the U.K. Some of the most relevant differences concern the social etiquette that may be used in the business world. Hugging and backslapping is not acceptable and only used with friends or relatives. Speaking loudly is considered impolite and unbusiness-like. Personal questions that may concern the personal life are generally avoided in business meetings. Timeliness is key. Emotional display is looked down
upon, so phrases like “Have a nice day” are disliked as they are understood as not genuine (“United Kingdom: Public Behaviour”). Even though a lot of these pointers are very small, nevertheless they can either make or break a deal. Therefore, to insure TEMP’s success in the U.K., we must abide by them when conducting business in the U.K.

For more detailed cultural, economic, legal, political, geographic, workforce, and diversity please refer to the chart below, which compares the U.S. factors with the U.K. factors.

<table>
<thead>
<tr>
<th>Cultural Factors:</th>
<th>US</th>
<th>U.K.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Religion</strong></td>
<td>Protestant 51.3%, Roman Catholic 23.9%, Mormon 1.7%, Jewish 1.7%</td>
<td>Christian 71.6%, Muslim 2.7%, Hindu 1%</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td>Literacy 99%</td>
<td>Literacy 99%</td>
</tr>
<tr>
<td><strong>Economics</strong></td>
<td>Labor force 154.5 million; Unemployment rate 9.4%; Population below poverty level 12%</td>
<td>Labor force 31.25 million; Unemployment rate 8%; Population below poverty level 14%</td>
</tr>
<tr>
<td><strong>Politics</strong></td>
<td>Constitution-based federal republic; Strong democratic tradition</td>
<td>Constitutional Monarchy</td>
</tr>
<tr>
<td><strong>Family</strong></td>
<td>0-14 yrs 20.2% 15-64 yrs 67.0% 65 and up 12.8%</td>
<td>0-14 yrs 16.7% 15-64 yrs 67.1% 65 and up 16.2%</td>
</tr>
<tr>
<td><strong>Class Structure</strong></td>
<td>Household Income: Lowest 10% → 2% Highest 10% → 30%</td>
<td>Household Income: Lowest 10% → 2.1% Highest 10% → 28.5%</td>
</tr>
<tr>
<td><strong>Languages</strong></td>
<td>English 82.1%, Spanish 10.7%</td>
<td>English, Welsh, Scottish Gaelic</td>
</tr>
<tr>
<td><strong>History</strong></td>
<td>19th century → ¼ of earth’s surface; Empire fell apart in early 20th century; global approach to foreign policy</td>
<td></td>
</tr>
<tr>
<td><strong>Natural Resources/Geography</strong></td>
<td>Urban Population 82% Plains</td>
<td>Urban Population 90%; natural hazards: winter windstorms, floods; Nat. Res.: coal, petroleum, natural gas, iron ore, lead, zinc, gold, tin, limestone, salt, chalk, clay; ~size of Oregon</td>
</tr>
</tbody>
</table>
III. Impact of Parent Company’s International Business Policies

First of all, for the U.K. TEMP unit and for all future foreign units, we would like to retain U.S. TEMP employees who have been a part of the company for years and who understand exactly what our company is all about. However we are retaining U.S. expatriates only in the International Headquarters, to insure that international business is in compliance with already existing company strategies and goals. The International Headquarters will insure that all of the departments that consist of host-country employees are working with the Parent Company mission in mind.

Secondly, we will be retaining approximately the same strategy for our products worldwide. We will continue to produce affordable furniture. We would also like to continue with our “Go Green” initiative and ensure that the furniture that we are selling is made in a way that conserves natural resources. In addition, TEMP will continue to make compact packaging to ease the process of transportation of products from our store to the homes of our customers.

IV. Financial Plan

Foreign Direct Investment (FDI) occurs when a firm invests directly in facilities to produce or market a product in a foreign country. The U.S. Department of commerce claims that when more than 10% of a company is owned by a U.S. entity it qualifies as a FDI. As a result of our company’s FDI in European locations, specifically London, England, the company is now categorized by definition as a multinational enterprise. Although recently companies have participated in FDI’s to avoid future trade barriers and reduce costs by implementing manufacturing to locations with low labor costs in developing countries; our company is currently concerned with our world market share and by expanding our company to developed and prosperous countries we hope to further increase awareness of the company and gain more customers and in return, market share.

Our company is going to establish a Greenfield investment in the U.K. We have chosen a Greenfield investment as opposed to exporting to the U.K. because we believe that we can expand our market further by establishing an operation in the U.K. rather than simply shipping our products overseas. Our customer service center at the U.K. location will allow us to hear opinions of customers so that we can obtain a better understanding of how we need to serve our market. Establishing a firm in Europe is also a good stepping stone for further global expansion. We plan to export from the U.K. to other European countries initially. Once we determine that there is a viable market in other parts of Europe, we will then make other Greenfield investments into the countries we believe will be profitable.

We have chosen a Greenfield investment as opposed to forming a joint venture with a current firm in the U.K. because we believe that the U.S. and the U.K. are similar enough that we will be able to handle the political, legal, economic, and cultural considerations ourselves. However, as we continue to expand into other countries that are not as similar to the U.S., i.e. China, Japan, and India, we will most likely form joint ventures with existing firms. Joint ventures are attractive to our firm because established foreign firms have valuable strategic
assets, such as brand loyalty, customer relationships, trademarks and patents, distribution systems, production systems, etc.

We have also chosen a Greenfield as opposed to licensing because of some of the drawbacks associated with licensing. The first drawback to our firm is that licensing would not give our firm the tight control over manufacturing, marketing, and strategy in a foreign country that may be required to maximize our profitability (Hill, 250). The other drawback arises when a firm’s competitive advantage is based not as much on its products as on the management, marketing, and manufacturing capabilities that produce those products (Hill, 250). Our personnel will be trained extensively in all areas so that we can offer the best product possible. Our management will initially be employees from our parent company who will go to the U.K. to get the firm up and running. Once everything is in place, we will train new managers to run the foreign subsidiary.

Budgeting and Finance

When our company opted to invest in London we looked at the economic, political, cultural and strategic variables when choosing our location. In order to begin work on our foreign investment we needed to focus on budgeting. For our capital budgeting we needed to estimate cash flows both for the present and the future. As a company we recognize that most investments in fact have negative cash flows in the first years but this is why our financial goals aim to have positive returns on investment within three years. In order to hedge against our risks it is best to understand what capital budgeting entails and what we must understand to implement it successfully. These things include:

- The distinction between cash flows for the London project and our parent company
- Understand the foreign exchange risk, as well as economic and political factors
- The connection between cash flows to the parent company and the source of financing must be recognized

Although focusing our project investment in London allows money to be transferred between countries through an exchange rate it was important for our company to look at not just the cash flows for the London location was but what the cash flow would be for our parent company. The reason for this is that it is the parent company that is responsible to stock holders and investments, it is most important to make sure they receive a positive cash flow from the FDI. Although there is political and economical risk that we also looked at these were minimal and is part of the reason we located the company in London because it is a developed, prosperous and sound economy.

Financing

When considering how we were going to finance our FDI we looked at two main factors; how it would be funded and what the company’s financial structure would be. In looking at the source of our investments we considered using external financing in the global market as well as borrowing from the host country. We do not believe the parent company’s revenue stream is strong enough to fund such a large project and have opted to use the global market strategy. We chose this strategy because the cost of capital is typically lower in the global capital market
simply due to its large size and liquidity. We felt that borrowing the money in the U.S. and using the exchange rates would cause us to lose money in the long run due to the high exchange rate for the pound. We also have considered borrow locally in an effort to receive tax incentives, and possible low interest rates. Also by borrowing locally in reduces our transaction costs and exchange costs. In doing do we hope to minimize our transfer fees and other exchange related costs through fluctuations in currency. Although it’s hard to determine whether the pound will depreciate or appreciate we think that by borrowing some of the funds locally the pound will experience a slight depreciation as the U.S. economy rises out of the recession and will in return benefit our company.

In order to finance the company as mentioned before we looked into external financing. In order to reduce our overall debt our parent company will also use a front a loan. To do so our parent company will support the subsidiary in London financially through an intermediary. Our parent company will lend money directly to the foreign subsidiary and the subsidiary will repay the loan later. In order to do so the parent company deposits funds into an international bank and then the bank in return lends out the same amount to the subsidiary. The following chart shows how this concept works:

We used this technique for one main reason. By doing so we can circumvent any restrictions by the host country on the remittance of funds from a foreign subsidiary to our parent company. The host country may restrict the repayment of a loan to the parent company but not to an international bank because that would hurt the overall economy. Although companies also use this technique for tax advantages and incase of economic or political turmoil in a country, this is not true for our situation.
Our company has also used a number of other techniques in order to increase efficiency and decrease risk. Because our company intends to expand throughout Europe we are going to use centralized depositories. In doing so our subsidiaries will hold their respective cash flows at one central location. We have opted to do this because 1. By pooling the money together we can earn higher interest rates in the overnight money market. 2. Because it is located in London, a major financial center it will have access to short term investment information which our subsidiaries may not have. 3 by grouping all the cash together we can increase the overall size of the cash pool in order to invest. It does so because each subsidiary must hold its own cash flow plus a precautionary amount, by grouping the money together it reduces the amount of cash needed thus leaving more to invest.

V. International Metrics Reports

“Business Metrics is designed for the purposes of accountability and should be constantly reviewed based on the changing standards of accountability” (Askar). In addition, “[g]ood performance metrics also should reflect progress against a plan. This property allows a metric to go beyond being just a measure. Metrics with this property are vehicles for organizations to clarify, communicate, and manage strategy” (Askar). For these reasons, as a company we believe it is important to have goals and to accurately be able to measure our progress as we grow. By expanding our company to a foreign country it proposes new risks as well as new goals. As a company, we have goals as a whole, goals regionally, and individually including a separate strategy and metrics for our newest location in England.

Our company has focused on implementing what is known as the balanced scorecard methodology which is used to create goals and monitor a company’s performance. The goals reflect a company’s mission statement and business strategy in order to maximize the potential of a company. The concept was developed by Robert Kaplan and David Norton in 1992 and they described the balanced scorecard methodology as a method that analyzes an organization's overall performance by judging performance of the company on four different levels. The idea behind the method is that assessing performance through financial returns and only looking at the bottom line does not provide and overall progress report on the company.

The balanced scorecard approach to management has gained popularity worldwide since the 1996 release of Norton and Kaplan's text, *The Balanced Scorecard: Translating Strategy into Action*. The Gartner Group estimates that at least forty percent of all Fortune 1000 companies are now using the methodology ("What is balanced scorecard methodology?").

The advantage of using the balanced scorecard methodology allows us as a company to create an array of goals that do not just measure our financial performance. By looking at our company’s mission we can reach for goals that enhance our company in many different areas. The method examines performance in four areas: financial analysis, customer analysis, internal analysis, and a learning and growth analysis. The method allows the company to turn customer opinions and qualitative date into and quantitative data to be measured. In doing so we are able to make our goals to be S.M.A.R.T., Specific, measurable, Attainable, Realistic and Time specific. The following chart shows our company goals in relation to the facility in London in a score card methodology.
<table>
<thead>
<tr>
<th>Category</th>
<th>Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Gain positive profits over first 3 years with a return on investment of 5% annually</td>
</tr>
<tr>
<td></td>
<td>Reach 40% of IKEA -in -London’s profit within the first 3 years</td>
</tr>
<tr>
<td>Internal Business Processes</td>
<td>Develop management within the London location to function independently within 1 year</td>
</tr>
<tr>
<td></td>
<td>Reduce excess inventory from years 1 and 2 by 20% by year three using the JIT method.</td>
</tr>
<tr>
<td></td>
<td>Eliminate all (100%) clerical errors by year 2.</td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>Maintain 70-80% employee turnover from year 1 to 2.</td>
</tr>
<tr>
<td></td>
<td>Train employee’s on customer satisfaction to reduce customer complaints to 5% of sales or less.</td>
</tr>
<tr>
<td></td>
<td>Survey employees to measure job satisfaction and improve overall attitude by 30%</td>
</tr>
<tr>
<td>Customer</td>
<td>Gain 30% of market in respect to London competition by year 3.</td>
</tr>
<tr>
<td></td>
<td>Have 100% error free customer delivery after year 1.</td>
</tr>
<tr>
<td></td>
<td>Improve customer satisfaction by 5%</td>
</tr>
</tbody>
</table>

By focusing on both customer and employee satisfaction we believe that we will be more able to reach our goals. By developing a strong management and work force we look to eliminate errors to reduce excess costs of both money and time. Our financial goals look for realistic goals that measure the progress of the company within itself and against the competition. By capitalizing on the Greenfield invest we hope to grow the company to a very competitive level.

Our internal goals focus on eliminating operational and clerical errors through the store and processes. By reducing our inventory we hope to maximize the space of the store and maintain quality newer products for customer satisfaction. By applying the just-in-time method we are able receive our inventorial demands based on customer needs. This method will reduce excess operations, reduce bottlenecks, and increase overall productivity.

Our learning and growth goals focus on employee satisfaction. By creating a body of workers who appreciate the company and the management, it will increase motivation as well as productivity and moral. By increasing employee retention and improving their skills through training it will in return help our ultimate goal to maximize financial gains.
Finally, the fourth section which focuses on the customer will help increase our market share. A happy customer results in customer retention as well as new customers. By focusing on error free customer relations we hope to reach our goals of 30% of the London market share in respect to our industry within 3 years.

VI. Performance Criteria. How will it be evaluated?

Given our success in the American business sector, TEMP is now aiming to enter the European market, and ‘go into battle’, so to speak, with IKEA on their home continent.

Starting off, TEMP is opening only one European branch, located in Great Britain. By starting off with only one branch in Europe, we hope to have a sort of gauge as to whether we can sustain success in the European sector.

Over the next 24 months, TEMP’s goal for its European branch is to eat into IKEA’s virtual monopoly on similar stores in Europe. If we can usurp patronage to IKEA at a level which allows us to earn 40% of their profit (on a per store basis), which would give us earnings of just over $42 million, we think that would be a success. Certainly this is not our final goal, though. If we can continue to expand and gain market share at the level we hope to (in the long term), our goal is to eventually supplant IKEA in the European market, and to become the low cost furniture and home improvement store in Europe, as well as in America. To accomplish this, we think a short term goal of earning 40% of IKEA’s profits on a per store basis is a reasonable stepping stone.

As previously noted in the section entitled “International Business Metrics,” TEMP-Europe has a comprehensive set of goals (formatted in a chart), which are indentified on a department-by-department basis. To put it simply, we believe that to be totally successful, we must achieve all of these goals. To be clear, we believe that TEMP can still be financially viable regardless of whether or not we achieve all of these goals. With that being understood, it is still our goal to achieve each of these criteria, and failure to achieve each of them can only be considered partial success.

To measure our progress in these goals should not be a difficult process. The majority of our goals have their measurement process clearly spelled out in the aforementioned chart. Other goals (such as the goal regarding market share,) will be evaluated by simple mathematical processes which the finance department should have no problem performing. Still some others can be evaluated by the human resource managers, such as our goals regarding employee turnover. Finally, some goals may require customer surveys. The most obvious goal which requires some surveying is our aim to improve customer satisfaction by 5%.

TEMP believes that our goals are not only achievable, but also easily able to be evaluated.
EXECUTIVE SUMMARY

Temp is an American based company seeking to expand its reach globally. The company is most comparable to that of IKEA and Home Depot. Temp is a low priced furniture retailer as well as a home improvement store, making it a home restoration project’s one stop shop. In following our company’s mission and goals we seek to provide customers with an affordable, efficient, easy, and friendly way to home improvement and décor.

The company brings in an annual revenue of $10.5 billion throughout the United States, operating a total of 40 locations. The company structure is constructed of a total of 8,500 employees, roughly 200 employees for each store. Our company provides services to all individuals in need of home restoration but primarily targets individuals aged 20-60 years old and who are home owners.

Currently, we are proposing to expand TEMP to the United Kingdom and, eventually, to the other countries in the European Union. In order to do so we will implement a global standardization strategy and will focus on providing a quality product at a low cost. By using this low cost strategy we hope to enter into the market and gain market share by providing better quality at a lower price.

While preparing the proposed expansion into the UK, our research team outlined some of the most significant culture differences between the United States and the UK. For the most part, the countries are alike rather than different. However, some relevant differences constituted behavioral differences. For a business environment, social etiquette is key. Our research team also noted some relevant laws and regulations, such as tax policy, accounting standards, and labor laws. All of these factors will be playing a major role in TEMP’s process of expansion.

As we create an international business plan, TEMP hopes to retain some of its core values and principles, while adjusting ourselves to the host-country. We would like to achieve this by keeping the international organization structure the same as the organizational structure of the parent company. We will also insure that our international unit complies with the company goals and objectives by sending expatriates to the International Headquarters. However, the rest of the international unit’s employees will be hired from the host-country to encourage some degree of localization and to make sure that we are meeting the specific demands of the host-country.

Our company recognizes the presence that IKEA already has in the UK and as our main competition. However despite their presence we hope to achieve 40% of London IKEA’s profits within three years in an effort to receive an ROI of 5% annually. In order to achieve such goals we look at continuous improvement and satisfaction in every aspect of the company. The proceeding document provide an in depth analysis of our techniques, goals, and why TEMP is expected to lead the industry in home restoration.
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