

Operating in low cost jurisdictions: addressing and mitigating the risks

Doing business in low cost, high risk jurisdictions?

Many companies operating in the retail environment are considering or are currently:

- sourcing their products from high risk but low cost jurisdictions such as China, Africa and the Indian Subcontinent
- entering into joint ventures or consortia with overseas companies to manufacture or supply their products
- franchising their products or brand into new markets
- establishing stand alone operations.

However, operating in low cost markets brings with it significant risks. It is important for companies considering any of the above to make a careful analysis of the additional risks that they may face by operating in low cost jurisdictions and consider what action they can take to address and mitigate such risks.

Some of the major risks that concern our clients are:

- damage to their brand or reputation
- exposure to actions arising from the introduction of tough new bribery laws in the UK, together with recent enforcement actions and large fines imposed by the US under its anti-bribery law
- quality control problems, in particular product recalls and product liability claims
- financial losses whether caused by fraud or by the actions of unscrupulous business partners in foreign jurisdictions
- lack of knowledge of local business practices and customs.

Grant Thornton has extensive experience in helping its clients understand the risks of doing business in overseas jurisdictions. The services set out below are just a few of the ways that Grant Thornton can help you mitigate your risk and protect your overseas investments.

Brand and reputation

One of the key risks faced by companies doing business abroad is damage to their brand and reputation due to misuse of their brand and logo. Grant Thornton has a

specialist unit which harnesses the power of the internet to assist companies in monitoring the use or misuse of their brand or logo around the world. By using sophisticated image recognition technologies they are able to identify and track where a company's brand or logo is being inappropriately used enabling swift intervention.

Anti-bribery and corruption

There have been numerous cases where retailers, in order to ensure their supply chains operate effectively, have had to:

- induce freight forwarders to ensure shipment
- pay brokers to induce public officials to get delivery from factory to port
- induce manufacturers to alter production schedules.

These examples illustrate how retailers potential exposure to external and internal risks of bribery is high. By the very nature of ensuring the smooth running of their supply chains, retailers risk breaching the new UK Bribery Act. In the case of most retailers, there are sufficient checks in place, but when dealing with joint ventures or outsourced third parties, often in countries where bribery and corruption is perceived as high - do retailers really know what goes on?

However the new law provides companies charged with the new corporate bribery offence, with a defence if they can prove they have in place 'Adequate Procedures' to prevent bribery. Grant Thornton has extensive experience of advising companies who operate in China, Africa and the Indian Subcontinent on how to



design and implement such an 'Adequate Procedures' framework. For further information download 'Navigating the anti-corruption maze - decision time for retailers' - www.grantthornton.co.uk/sectors/consumer_markets/retail.aspx

Quality control

Quality control issues are a key risk facing companies in overseas markets. In addition to giving general advice on quality control, through our offices in China and the Indian Subcontinent, we are also able to help companies deal with a range of claims that arise due to the recall of manufactured products, issues with suppliers, or claims resulting from disasters overseas (eg fires, hurricanes).

Our extensive experience of assisting our clients in dealing with claims, whether or not covered by insurance policies, include preparing claims for losses suffered, reviewing claims received from affected customers and project managing entire product recalls. We have worked on behalf of retailers on some of the UK's largest product recalls, such as Sudan dye contamination, Tilda rice, Coca Cola Schweppes and Lucozade.

Business partner due diligence

Companies operating overseas are often concerned that they may have suffered financial losses arising from fraud, corruption or the actions of unscrupulous business partners.

Knowing who you are doing business with when setting up franchises or joint ventures in low cost jurisdictions can often mean surprises and expensive mistakes are avoided. When carrying out due diligence on potential or existing business partners, off balance sheet due diligence can play an important role. Commentary and activity on the web can support or discredit an individual or company as a reputable partner, information not obtainable from the traditional due diligence process. This helps to mitigate against possible financial losses arising from unscrupulous behaviour.

Grant Thornton's Internet Intelligence professionals are recognised experts and have unique proprietary tools to locate, categorise and analyse intelligence often unavailable through conventional processes.

Fraud and financial loss

Even the best run companies who have conducted all the appropriate due diligence sometimes become the victim of fraud. Grant Thornton has extensive experience of conducting investigations and guiding

companies through the challenges that investigations invariably raise.

Our team has a global presence, with forensic staff in offices across Asia (including India and mainland China), Europe, Middle East, Africa and the Americas and are able to react quickly to meet client needs. We have in-house technology specialists who can preserve data and interrogate computer systems, and offer a choice of platforms to manage subsequent dispute resolution, arbitration or litigation. We believe that this leads to cost savings for our clients and delivers the information that boards need to make those challenging decisions.

Summary

Careful analysis of the additional risks that retailers face by operating in low cost jurisdictions is important in order to avoid costly surprises. Grant Thornton is committed to working with its clients to mitigate these risks and overcoming the challenges faced by operating in low cost, high risk markets.

Who should I contact for assistance?

If you would like to discuss any of our services please contact:

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