



MARKET Research & Insights

Budgeting your international expansion

Key Takeaways

This white paper is your launchpad designed to support ambitious businesses looking to break into new markets within the EU and the D-A-CH region. We've distilled financial insights from countless food and drink trailblazers into a practical, easy-to-implement framework.

What's Inside:

- Key budgeting considerations for your European expansion
- A 12-month financial blueprint
- Insider tips to slash risks and streamline your journey

Whether you're a craft brewery targeting European markets, a coffee roaster aiming to captivate local tastes, a specialist in healthy food supplements, or a bakery or snack company seeking to secure international shelf space, this guide equips you with the financial insight necessary for sustainable growth.

Let's turn your international ambitions into reality, one budget-savvy step at a time.

GOOD PRACTICES - Applying Startup Wisdom to International Expansion

You've probably heard of the "lean startup" methodology. It's a game-changer for new businesses, helping them validate their ideas without breaking the bank. The same principle can work wonders for your international expansion plans, whether you're in manufacturing, food processing, beverages, distribution, or retail. Here's the deal:

- Test the waters: Before diving in headfirst, dip your toes in the new market.
- Controlled investment, maximum learning: Use your resources wisely to gather crucial insights.
- Validate your approach: Make sure there's a real need for your product or service in the target country.

Why Go Lean?

- Risk mitigation: Avoid costly mistakes by starting small.
- Flexibility: Easily pivot if your initial strategy needs tweaking.
- Resource optimization: Allocate your time and money where it matters most.

Getting Started

Instead of rolling out a massive, all-or-nothing plan, we recommend taking a more measured approach by breaking your expansion into a series of well-coordinated steps and gradually increase your commitment as you gain market traction and understanding. At the CLATU Group, we've developed a structured framework to help you test and evaluate different distribution channels. This methodology enables you to:

- Gauge local interest
- Understand cultural nuances and adapt your product
- Identify potential partners and distribution channels
- Test marketing strategies

QUALITY MANAGEMENT - Legal costs for packaging, food safety, and compliance

When expanding your food or beverage business into the German or EU market, there are several key factors to consider that are associated with unavoidable costs for quality management:

Product Modifications

1. **Ingredient Adjustments:** Assess whether your product's ingredients comply with EU and German regulations. Some ingredients permitted elsewhere may be restricted or prohibited in Germany.
2. **Packaging Adaptations:** Evaluate if your current packaging meets German standards for food safety and environmental regulations.
3. **Cost Implications:** Factor in the potential impact of these modifications on your cost base and pricing strategy.

Regulatory Compliance

Product Descriptions and Labelling: Adapt your product descriptions to meet EU and German legal requirements. Key regulations include:

1. **EU Implementing Regulation No. 2018/775:** Details rules for indicating the country of origin or place of provenance of primary ingredients.
2. **Lebensmittel- und Futtermittelgesetzbuch (LFGB):** The German Food and Feed Code governing food safety, labelling, and consumer protection.
3. **Lebensmittelinformations-Durchführungsverordnung (LMIDV):** Germany's implementation of the EU Food Information Regulation (FIC 1169/2011).

Key Compliance Aspects

1. **Product Composition:** Ensure recipe control to comply with ingredient regulations.
2. **Quality and Safety:** Adhere to strict food safety standards.
3. **Traceability:** Implement systems for full product traceability throughout the supply chain.
4. **Weight and Volume Accuracy:** Ensure stated weight or volume matches the actual product.
5. **Packaging Impact:** Assess how packaging materials interact with the food product.
6. **Mandatory Labelling:** Include all required information as per German/EU regulations

Additional Considerations

- **Language Requirements:** Food products marketed in Germany must generally be labelled in German; the same language customisations apply to other countries, such as Austria, France, the Netherlands and Spain.
- **Specific Product Regulations:** For example, beer marketed in Germany must include an ingredients list, which is not required by EU law for drinks with over 1.2% alcohol content.
- **Allergen Labelling:** Pay special attention to allergen labelling, especially for non-prepackaged foods.
- **Organic and Plant-Based Trends:** Consider the growing demand for organic and plant-based products in Germany.

Our team of expert quality assurance and compliance specialists conducts thorough assessments of your packaging and products. By leveraging our expertise, you can confidently navigate the complex landscape of food safety regulations and bring your products to market efficiently and legally.

YOUR BUDGET FOR INTERNATIONAL EXPANSION - Navigating the Hidden Cost

When budgeting for international growth, it's tempting to simply extrapolate from your domestic expenses. While this approach provides a starting point, it often falls short of capturing the full financial picture. Let's dive into the less obvious costs that can make or break your expansion:

Beyond the Basics: Key Financial Factors to Consider

1. **Currency Fluctuations:** Exchange rates can significantly impact your bottom line.
2. **Interest Rate Variations:** Different markets may have vastly different borrowing costs.
3. **Inflation Dynamics:** Local economic conditions can affect your pricing strategy.
4. **Regulatory Compliance:** Factor in costs for registrations, certifications, and local business requirements.
5. **Tax Implications:** Understand the tax landscape in your target market.
6. **Travel Expenses:** Budget for face-to-face meetings with customers and partners.

Expect the Unexpected

First-time international expansion often comes with surprises. It's part of the learning curve. To stay ahead of the game:

- Build a buffer into your budget for unforeseen expenses.
- Stay flexible and ready to adapt your financial strategy.
- Learn from each challenge to refine your approach for future markets.

CLATU Pro Tip: The Contingency Fund

Consider setting aside 10-15% of your total expansion budget as a contingency fund. This financial cushion can be a lifesaver when unexpected costs arise, giving you the flexibility to navigate challenges without derailing your entire strategy.

WHAT TO EXPECT - Common costs of international expansion

While the allure of new markets is exciting, it's important to recognize that successful international expansion requires a realistic budget and a genuine commitment to invest; approaching global ventures without financial preparation may lead to challenges that could hinder your growth potential. The costs associated with international expansion can fluctuate significantly based on your target market and specific industry circumstances. A pragmatic approach is to anticipate a budget ranging from 1.25 to 2 times the cost of domestic expansion. Some industry experts suggest that entering a new market could require an investment of €100,000 or more for a small to midsize food or drink company during the initial year, excluding merchandise costs.

To ensure a successful venture, it's imperative to conduct comprehensive market research and develop a detailed business case. This should encompass cash flow projections and return on investment calculations, providing a solid foundation for refining your budget and securing the necessary financing. Remember, meticulous planning and financial foresight are your most valuable assets in transforming global ambitions into tangible success.

As you progress through this document, you're building a robust framework for budgeting your international expansion. The next crucial step is to compile a comprehensive list of anticipated costs throughout this process. To facilitate this task, we've prepared a concise table outlining some of the most common expenses businesses encounter when venturing abroad. This resource will serve as a valuable starting point for your financial planning, helping you stay sharp and adaptable as you navigate the intricacies of international business.

Budget Segments for Entering a New Market

Calculating a budget for a small to midsize food or drink company to enter a new market or export to a new country involves several key segments. Here's a breakdown of these segments, combined with a 12-month timeline:

1. Market Research and Analysis

- Costs: Market studies, gap analysis, competitor analysis.
- Timeline: Months 1-3.
- Budget Allocation: 10% to 15% of total budget (10,000 EUR - 15,000 EUR).
- Activities:
 - Conduct thorough market research to understand consumer preferences, market trends, and competitors.
 - Perform a gap analysis to identify opportunities and challenges.

2. Quality Management and Legal Adaptations

- Costs: Compliance with local regulations, quality certifications (e.g., HACCP, FSSC 22000), product modifications.
- Timeline: Months 4-6.
- Budget Allocation: 15% to 20% of total budget (15,000 EUR - 20,000 EUR).
- Activities:
 - Ensure compliance with local food safety and quality standards.
 - Obtain necessary certifications and permits.

3. Finding Sales Channels

- Costs: Identifying distributors, wholesalers, retailers, and e-commerce platforms.
- Timeline: Months 5-7.
- Budget Allocation: 10% of total budget (10,000 EUR).
- Activities:
 - Research and establish relationships with potential distributors and retailers.
 - Evaluate e-commerce platforms for direct-to-consumer sales.

4. Marketing and Branding

- Costs: Digital marketing, social media, trade shows, branding materials.
- Timeline: Months 6-9.
- Budget Allocation: 20% to 25% of total budget (20,000 EUR - 25,000 EUR).
- Activities:
 - Develop a strong brand identity.
 - Leverage digital marketing and social media to build brand awareness.
 - Attend trade shows to connect with industry professionals.

5. Prospecting and Sales

- Costs: Sales team salaries, travel expenses, sales materials.
- Timeline: Months 8-12.
- Budget Allocation: 20% to 25% of total budget (20,000 EUR - 25,000 EUR).
- Activities:
 - Build a sales team or partner with local sales agents.
 - Engage in active prospecting and sales activities.

6. Listing Fees and Commissions

- Costs: Slotting fees for retailers, commissions for distributors.
- Timeline: Ongoing, starting from Month 9.
- Budget Allocation: 5% to 10% of total budget (5,000 EUR - 10,000 EUR).
- Activities:
 - Negotiate listing fees with retailers.
 - Set up commission structures with distributors.

7. Budget Reserve for External Services

- Costs: Tax advisors, lawyers, warehouse rental, customs services.
- Timeline: As needed throughout the year.
- Budget Allocation: 5% to 10% of total budget (5,000 EUR - 10,000 EUR).
- Activities:
 - Engage tax advisors for compliance with local tax laws.
 - Consult lawyers for legal matters such as contracts and intellectual property.
 - Rent warehouse space if needed for inventory management.
 - Use customs services for efficient import/export operations.

Example Budget Allocation Over 12 Months, assuming a total budget of 100,000 EUR for the year:

This strategic overview is designed to be adaptable, allowing for real-time adjustments based on market feedback and performance metrics. It's important to emphasise that this represents a high-level perspective rather than a definitive plan.

Segment	Budget Allocation	Timeline
Market Research and Analysis 10% to 15%	10,000 - 15,000 EUR	Months 1-3
QM and Legal Adaptations 15% to 20%	15,000 - 20,000 EUR	Months 4-6
Identifying Sales Channels / SWOT 10%	10,000 EUR	Months 5-7
Marketing and Branding 20% to 25%	20,000 - 25,000 EUR	Months 6-9
Prospecting and Sales 20% to 25%	20,000 - 25,000 EUR	Months 8-12
Listing Fees and Commissions 5% to 10%	5,000 - 10,000 EUR	Ongoing
Budget Reserve for External Services 5% to 10%	5,000 - 10,000 EUR	As needed

Timeline Overview

- Months 1-3: Conduct market research and gap analysis.
- Months 4-6: Focus on quality management and legal compliance.
- Months 5-7: Identify and establish relationships with sales channels.
- Months 6-9: Develop and execute marketing strategies.
- Months 8-12: Engage in active sales prospecting and manage ongoing operations.
- Throughout the year: Utilize the budget reserve as needed for external services.

At CLATU Group, we recognise that each business has unique needs and objectives. That's why we're committed to providing you with a bespoke offer and project proposal. This personalised approach ensures that all financial projections and strategic recommendations are precisely aligned with:

- Your specific business goals
- The current market conditions for your product
- The nuances of your target international markets

By tailoring our services to your individual circumstances, we aim to maximise the effectiveness of your international expansion efforts while minimising potential risks. Our team of experts is ready to work closely with you to develop a comprehensive, data-driven strategy that positions your business for global success.

Maximizing Your International Expansion Budget

To optimize your budget allocation for a 100,000 EUR budget over one year, consider these strategic approaches:

1. **Prioritize High-Impact Activities**
 - Conduct comprehensive market research and analysis to inform decision-making
 - Ensure quality management and legal compliance for smooth market entry and to avoid disputes with competitors or written warnings
 - Develop targeted marketing and branding initiatives
2. **Implement Cost-Effective Strategies**
 - Leverage digital marketing for better ROI, focusing on social media and content marketing
 - Optimize your supply chain to reduce costs and improve efficiency
 - Implement dynamic pricing strategies, such as volume-based discounts
3. **Maintain Flexibility and Regular Review**
 - Continuously monitor budget performance and adjust allocations as needed
 - Be prepared to pivot and reallocate funds based on real-time market feedback
4. **Plan for Contingencies**
 - Set aside a reserve fund for unexpected expenses or opportunities
 - Factor in economic fluctuations and geopolitical risks when planning expenditures
5. **Leverage Local Partnerships**
 - Collaborate with local partners or agents to reduce initial investment
 - Consider joint ventures or strategic alliances to share costs and risks
6. **Invest in Technology**
 - Utilize cloud-based solutions, project management tools and automation to reduce operational costs
 - Implement data analytics tools for better decision-making and resource allocation
7. **Focus on Scalability**
 - Prioritize investments that can easily scale as your presence in the market grows
 - Consider modular approaches to expansion that allow for gradual, controlled growth
8. **Optimize Human Resources**
 - Utilize a mix of local talent and remote teams to balance expertise and cost
 - Invest in training programs to enhance team capabilities and reduce long-term costs

By implementing these strategies, you can maximize the impact of your budget and create a solid foundation for sustainable international growth.

Further Information

There are several resources and books that cover aspects of international expansion, including budgeting and cost management. Here are a few recommendations:

- "International Marketing" by Philip R. Cateora, Mary C. Gilly, and John L. Graham: This book covers various aspects of international marketing, including market entry strategies and budget considerations.
- "Export/Import Procedures and Documentation" by Donna L. Bade: Although not exclusively focused on budgeting, this book provides insights into the costs associated with international trade, such as logistics and compliance.
- "Global Marketing Management" by Warren J. Keegan and Mark C. Green: This book discusses global marketing strategies, including budget allocation for international expansion.

As you wrap up this guide, we hope you feel more empowered to tackle the exciting journey of international expansion. We've covered everything from lean startup principles to budget optimization strategies, all aimed at helping you plan your finances and get a grip on the real costs, when expanding into a new market.

Our goal is to make your global ambitions feel achievable and exciting. We hope this information has been your go-to resource for turning your vision into a reality, and we stand by your side to support your expansion every step of the way.

FOOD AND WINE CULTURE Consulting

CLATU Group

www.foodandwineculture.com/uk

www.clatu.com

