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MICHIGAN & BRAZIL: TWO MANUFACTURING POWERHOUSES

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SETTING UP SHOP

Starting a New Business or Opening a Branch Office

Overview:

Making the decision to move onto foreign territory and do business through a wholly owned US subsidiary or setting up a US owned branch office can be intimidating as well as frustrating especially for the first time. Based on our company's experience the following list of "Do's and Don'ts" may be helpful in straightening out the learning curve and hopefully avoiding some of the pitfalls or bumps and bruises you can obtain along the way.

Do's

1. **Do make a market survey** to verify to the best of your ability a market or need exists for your product or service. Check out your competition, see how they are conducting business, visit potential customers, place an ad in the appropriate publication that will generate sales leads, and hire a local consultant to help assist with the process.
2. **Find a reputable Law firm** to consult with to determine the correct way to register and set up a new business or establish a foreign branch office. The US embassy or consulate can be helpful.
3. **Find a reputable Accounting Firm** to educate you on what Federal, State, and local taxes apply to your business and products. As in the US, State laws and taxes vary from State to State; **make sure** that the firm you select is experienced in translating Brazilian GAAP (Generally Accepted Accounting Principles) to US GAAP. Do not assume any CPA firm can perform this function, **many cannot**. Your US CPA firm will require that your foreign financial statements be translated into US GAAP. I would recommend doing a bi-yearly audit for the first year or two to help verify you are getting off on the right foot. For example: Applying the local exchange rate to your statements can show a different financial picture.
4. **Establish an account/line of credit with a reputable local bank.** More so in Brazil, as in many other countries, you bank with Bankers, not with Banks. Establish a long term relationship with the bank manager and consider following or moving to a new bank if they do so. This relationship can prove to be invaluable.
5. **Use a well-known "Head Hunter"** to find key employees, if you cannot find them through networking with trusted sources, which is the recommended practice.

Do's (con't)

6. **Verify and make certain** that all applicable federal, State and local taxes are kept current.
7. **Do Have Patience**, It's a foreign country and even though there are many similarities, there are also many cultural differences. Do not fight the culture, you will loose. If things were as they are in the US, the Country would be called "the US" and not "Brazil".
8. Make sure your **sales proposals** are spelled out and clear and that your payment terms are agreed to and acknowledged by your customer with an authorized and legible signature. You can file a "protest" on delinquent accounts in order to pursue collection.

Don'ts

1. Do not start operations and invoicing **until ALL the permits** (State and Federal) have been granted. Legally, you cannot conduct business until these are in place. Be prepared to wait between anywhere from 2 to 6 months to obtain the necessary permits.
2. Make sure you are not under capitalized and set aside the necessary funds to cover expenses, ie; rent, payroll, permit fees, etc **while you are waiting** for the necessary business permits to be issued. It has been our experience that permits cannot be applied for until you have established a location to conduct business. Believe it or not, legally you cannot invoice until all your permits are granted by State and Federal authorities, ie; environmental permit , business permit, local sales tax permit, occupancy permit, fire evacuation permit , etc. to name a few.
3. If you are planning on having a local manufacturer produce your product or components, I would recommend that pricing be stated or based on the local currency and not stated or based on the US dollar, especially if the outlook is for the dollar to get stronger in comparison to the local currency which is the " Real".
4. Do not rely on one legal opinion on significant decisions requiring legal assistance. Even more so in Brazil, as in the US, many times the interpretation of the law is a moving target.
5. Do not rely on the law's protection of your Intellectual Property. The Brazilian jurisprudence generally favors a small, local enterprise versus a "large" foreign operation when it comes to protecting the Intellectual Property of the "large" foreign Company. Make sure you get good legal advice before assuming local laws protect your Intellectual Property.

Additonal Notes: MERCOSUR is The South American Customs Union made up by Argentina, Brazil, Paraguay and Uruguay. Recently, the Group invited Venezuela to join. Members of the Mercosur Customs Union benefit from reduced import/custom duties and tariffs.