

IMPORTANT ASPECTS OF CREATING A BUSINESS ABROAD ON THE EXAMPLE OF FRANCE

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Abstract

The article examines practical aspects of starting a small or medium-sized business abroad that are not obvious at first glance, considering the specific case of French legislation. This paper provides insights into a number of hidden aspects that may critically impact a company's performance by analyzing behavioral and cultural dimensions that determine the way companies embark on a foreign market. The following conclusions are made: 1) physical presence in the host country has a positive effect on companies; 2) the choice of the right strategy directly depends on the depth of preliminary marketing research, which should have an extended scope and greater engagement of resources (when entering a market with a different culture, smooth adaptation is required to successfully implement a strategy); 3) to enter and operate successfully in foreign markets, companies should seek assistance from local financial and marketing consultants, but at the same time have sufficient knowledge about potential pitfalls and challenges; 4) it is important to factor in nationally oriented interests and political risks.

Keywords

Entrepreneurship, business, foreign experience, foreign markets, strategy.

At first glance, it may seem almost the same thing: you find a niche, perform market and customer surveys, and identify the target audience. Next, you draft a business plan: the initial costs of setting up a business in the host country, whether as a new venture, merger or acquisition, plus current management costs. What comes first is the local specifics of taxation, salaries and applicable contributions, terms of employment and dismissal. That is already more of an effort compared to your home country.

At the next stage, you may experience fears associated with a language barrier. However, let's assume that you have a good command of the local language or are fluent in English. Apart from that, you have studied the legal grounds for your stay abroad. A business visa or business residence permit is still a solid basis for a long stay and business activities in the country.

However, most of the pitfalls of doing business abroad are associated with other aspects you are not familiar with in your home country, which may become serious challenges in the host country. Though having a ready-made business plan, an entrepreneur who is just starting out may encounter a number of circumstances and factors that set them back to square one despite the fact that the calculations made say that all the numbers add up, contingency allowances are made, and they show profit.

When starting a business abroad, you should be well versed in two areas: firstly, country-specific business costs and regulations that do not exist in your home country and, secondly, the local mindset. Country-specific business costs and regulations are very difficult to foresee precisely because you are unlikely to inquire about them, while for local consultants they are absolutely obvious, and it may never occur to them to inform you accordingly.

The local mindset may even make your idea unprofitable and unattractive, even though a similar product or service is extremely popular in your home country.

It is also worth mentioning the accepted standards of business communication and negotiations, as a number of communication mistakes may become fatal when dealing with customers or local partners.

Let's take a closer look at each of these aspects by considering several cases.

LOCAL REGULATIONS AND COST OF DOING BUSINESS

Let's suppose you open a restaurant in France. Though this is quite unfamiliar, it is a good idea to inquire about items on your menu which prices are regulated by the state. For example, in France, the pricing of alcoholic drinks in a cocktail menu is relatively regulated. Prices may be set only within the allowed range.

France has an official schedule of prices updated annually that determines the allowed price range of drinks depending on their alcoholic content [1], and drinks are broken down into several categories with specific rules applying to each [2]. When stifled by a complex tax system, manipulating the end price of a cocktail is unlikely to increase your margin.

France has a tough rule for businesses that requires them to make advance payments of VAT for a future period. The tax amount is calculated based on the current period with another 50% of the VAT added to the amount payable by the company to the budget. Thus, in its first year of operation, a new business is supposed to pay 150% of VAT for the period.

Another surprising and unexpected expense which is hard to account for in a business plan in advance is the quarterly fee for a certificate with the tax registration number of your business. A number of institutions, both public and

private, want to check whether your business is actually operating by requiring you to produce an official certificate issued no later than 3 months ago. The one-time issuance fee for such a certificate may reach €60. To save some money, you may want to pay for a monthly subscription offering automatic issuance of such a certificate 4 times a year.

Not to mention the financial statements that companies are required to submit via specialized websites to prove the transparency of their business. As you might have already guessed, the submission of financial statements also comes at a cost for companies.

Another aspect of doing business in France that may surprise foreigners is a strictly defined staffing schedule for each type of activity [3]. In France, the established business practice dictates that you do not arbitrarily invent new positions or combine multiple positions in one. There are regulations and commonly accepted types of staff schedules for everything [4]. Moreover, employees are obliged to meet the formal requirements for their position—specialized background and a diploma are a must. That is, you cannot work as a marketing director if you majored in Sports Management or if you do not have a higher education degree required for your position level. When hiring employees, you will have to factor this in.

By the way, submitting employee salary slips to the tax authority is subject to a fee. Salary slip forms are sold by the piece or in large packages. Therefore, you should not be surprised when your outsourced accountant charges you—on top of their regular fee—for a number of paper forms and special accounting software for filing financial statements. By the way, the preparation and submission of the annual balance sheet of a company is usually not included in the monthly fee of outsourced accountants and is charged for extra.

Moreover, to do business in a particular industry in France, you will have to provide proof of your qualifications. For example, you open a barbershop or a hairdresser. You as the business owner, as well as the barbers or hairdressers you hire, are required to have an industry-specific diploma. This requirement is strictly controlled [5].

Let's go back to the restaurant example. In France, businesses serving local customers are subject to a number of strict geographical rules. For example, a restaurant owner wants to sell their restaurant because they have found more profitable premises nearby and plan to reopen their restaurant there. They will not be allowed to do so even if they change the business name and concept of their restaurant. According to the terms of a non-compete agreement, you can open a similar establishment only at a certain distance from your previous location in order not to lure away existing customers.

SPECIFICS OF LOCAL MINDSET

Any company that considers entering a foreign market will start with the following question. Which foreign market to choose? Of course, entrepreneurs will pay attention in the first place to the macroeconomic situation, market size, purchasing power of the country's population, and potential future growth. Last but not least, for a foreign company, the attractiveness of a country as a market will depend on the ratio between the advantages of a given market versus potential costs, as well as the level of risk associated with project implementation.

Quite often, decision-making is driven by entrepreneurial instinct and the fact that there is an available niche to take for a particular product that offers value and a sustainable competitive advantage. However, differences in mindset may become the main source of danger.

Risks associated with an unfamiliar situation, lack of knowledge about market specifics and consumer mindset in the host country certainly put foreign businesses at a disadvantage compared to the local competition. Unfortunately, this responsibility of newcomers may result in additional costs incurred in order to achieve the same level of knowledge as a local company. The main source of such knowledge is in-depth marketing research along with possible previous experience of doing business in other countries [6].

Why is this niche still available? The answer to this question should be as detailed and clear as possible. An untapped business opportunity may remain just an idea if the specifics of the local mindset, which may be completely incomprehensible to a foreigner, prevent it from being implemented.

European concepts of practicality, comfort, and luxury are quite different from Russian ones. Europe is known for a predominantly practical approach to consuming services, which remain bare bones in their purpose with greater comfort and luxurious features added gradually as customers rise in class in terms of income and position in society, but not before [7].

Let's take for example a service such as a gym. In Europe and in France in particular, most gyms look like a tourist camp: no-frills, sometimes even austere, empty locker rooms without hangers—remember to bring your own padlock to keep your belongings safe. No hairdryers, no water cooler, no wall decorations, no towels—remember to bring a towel along with your padlock. To make things even worse, public baths or saunas are not popular in France. Therefore, if you decide to take this absolutely untapped niche, you will not succeed because the French do not like saunas and will never pay for them. The fitness equipment is old and worn out, however, to your surprise, any Frenchman will tell you that 5-kilogram dumbbells weigh the same regardless of whether they are just bare metal or have a nice and bright-colored rubber coating. In this sector, consumers are not willing to pay a penny extra for greater comfort because they simply do not need it. Therefore, there are very few luxury gyms in France and there is no demand for more.

Let's go back to the restaurant example again. In this case, the positioning is crystal clear as well. Even blindfolded, every Frenchman knows perfectly well what is on the menu, in which establishment, and how much they pay. As a rule, menu items are generally the same. Therefore, if you replace *salade niçoise* or tomatoes with mozzarella with creative menu items from a St. Petersburg gastropub at the same price or even cheaper, the locals will not risk tasting them. They know for sure that if they want something exquisite, there are Michelin Star restaurants with a set of courses at €200 per person. Therefore, in France, there is no point in opening a midrange segment restaurant distinguished for its culinary experiments. And so on and so forth. You can now see how well you need to understand local consumer preferences to build the right business model.

What packaging and advertising should look like (down to the color scheme and font), how to interact with customers, which channels to use—all this is a way too difficult task if you are not familiar with the local industry specifics. Therefore, sticking to the best available concept in the industry may be a trivial but correct solution—copy what already works [8].

INTERCULTURAL COMMUNICATION AND A MIXED BUSINESS TEAM

One of the options is to establish a joint venture, which may give you an advantage and thus better knowledge and understanding of the conditions for doing business and culture in the host country. It is worth noting that Western and Eastern management styles are fundamentally different.

Apart from management, this is also true for communication both within the company and with external counterparties. Once sent, each message goes through several stages. The sender puts a certain meaning into the message, while the recipient decodes it. Apart from the sender's identity, the message encoding also corresponds to their cultural background, ideas conveyed in the source language, symbols, and images. A number of words we know may have connotations that differ from our understanding.

For example, the way of resolving conflicts based on trust. What is trust? In Anglo-Saxon culture, it is reliance on facts and skills; in European, deepening relationships; in Asian, interaction for mutual benefit.

Time-related factors, such as deadlines, daily schedule, and punctuality, should be considered as well. For instance, in Europe, it is bad manners to make business calls during a lunch break (1.5 to 2 hours), on weekends, in the evening, or even in the afternoon. Many companies do not answer the phone after lunch, and this does not mean that they are not working. If the subscriber does not answer, you should leave a voicemail because your interlocutor must know who called them, for what purpose, whether they should worry, and when to schedule a return call [9].

In Europe, being even 5–10 minutes late is a no-no. If you are 15 minutes late, this may mean your appointment has been cancelled.

Imagine how important these aspects are for successful negotiations. Therefore, it may be worth considering some form of mentoring where a professional helps build such important communication as you start a business.

Overall, international or foreign start-ups show significantly greater flexibility than local ones, which allows them to absorb knowledge more effectively and learn from international markets.

Cross-cultural knowledge is certainly an important criterion for choosing a strategy to enter a foreign market. When entering a market with a different culture, smooth adaptation is essential. Finally, most people tend to make behavioral mistakes. Their knowledge and constant monitoring may be instrumental in successful operations.

CONCLUSION

Unfortunately, another risk that cannot be discounted is the potential for discriminatory treatment of foreign companies compared to national ones in the host country. It may be expressed in differential treatment by administrative authorities, consumers, or suppliers in the host country. These risks can be characterized as political ones or as ethnocentrism of consumers in their home country.

As practice shows, the main conclusion is the following. Considering all of the above, despite all modern means of communication, physical presence in the country is critically important for doing business. It is impossible to effectively run a business from abroad. To build a successful international business or a business in another country, deep immersion in the host country and a sincere interest in getting to know the local culture are vitally important. Expectations based on local experience that do not meet the real-life context will result in poor performance.

In conclusion, here is another piece of advice. You should not persist in doing your business no matter what. This mistake often causes entrepreneurs to lose a fortune and precious time. If you started selling goods or services in a foreign market and the demand is low, most likely this will always be the case. In Europe, people are generally willing to pay for what they want when it meets their expectations. If a product or service is not in demand, it means that the product-market fit is not there.

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