

Look before you leap:

How technology companies can anticipate and reduce the impact of unexpected overseas events

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Technology companies are generally quicker to take their operations global than companies in many other industries. Whether it's subcontracting with component suppliers in China or Ireland or hiring software programmers in India or Russia, technology companies are eager to tap into the cost benefits of using global supply chains and knowledge workers.

But leaping into the overseas waters before looking – and careful planning – can put a company at risk for unexpected and business-threatening events. A technology company's decision to offshore some or all of its operations can leave it vulnerable to such perils as supply chain disruption, subcontractor financial instability, intellectual property breaches, tax and regulatory complexities, labor issues, just to name a few. And don't be fooled into thinking only technology companies with first-time global operations might overlook these types of risks. Even experienced companies can have unpleasant surprises when moving operations into a new market, as regulatory laws and insurance practices vary widely from country to country.

Protect the delicate global supply chain

Consider a well-established U.S. electronics company that is going into production on a new version of its MP3 player. The design may originate in the U.S., but all the components are sourced overseas, as well as the final assembly of the unit. The company uses one supplier for the storage/memory chip, one for the unit body, another for the power supply, and another for the faceplate, and so on. Like most successful technology companies, this electronics maker is critically dependent on its subcontractors for specialized parts and components. Managing a dozen or more subcontractors across different countries presents a plethora of challenges, from maintaining quality control to coordinating the on-time transport of components to the assembly line. At any point in this highly sophisticated process, business-damaging events can suddenly occur, disrupting the company's critical go-to-market timeline. In the ever-changing world of technology, companies are dealing with very short product cycle periods where even days or weeks of downtime

can mean the difference between a successful product launch and a missed opportunity.

So what can a technology company do to protect itself from the ever-present risks of global sourcing and manufacturing? Just as the company consulted with its lawyers and financial advisors before entering into business contracts and ventures overseas, it is just as critical for the company to work with a savvy international broker or agent and insurance carrier who can help identify potential breaks in the supply chain process – someone who has a deep understanding of best practices in technology production and insurance coverage across multiple countries.

Tread carefully in the overseas legal and regulatory environment

Did you know that in China, insurance is only licensed on a regional basis? So the insurance carrier you might choose in Beijing may not be able to work with you in Shanghai. In most countries, regulations prevent unlicensed carriers from seeking damages in their courts. So if your global insurance program is written in the U.S., but the carrier is not licensed in the country, your carrier can't defend you in court in that country. When technology companies expand globally with their operations, knowing upfront what the insurance requirements for each country is critical to that decision. What may be standard practice in the United States may not be routine elsewhere.

Protect your most valuable asset: your employees

After a careful review of how to identify hazards and risks associated with balance sheet assets, any good risk management program should take care of a technology company's most valuable asset — its intellectual capital, also known as employees. What is the contingency for overseas accidents, health issues or political turmoil? If the Senior Vice President of Global Sales has a gall stone attack in the Republic of Georgia on a Sunday night, what plans are in place to get this person treated properly? If hospitalization is required, how do you find a competent facility available nearby? In the event surgery is required, who will make the critical decision to repatriate the

key employee to the United States? A smart risk management program will have already addressed these questions – and dozens of others – before the event takes place.

Take a proactive approach to risk management.

An internationally experienced risk management consultant will take a proactive approach in identifying potential risks specific to each technology company's overseas operations and traveling employees. This upfront thinking is focused on preventing any loss in the first place through a careful analysis of each company's supply chain management and other international operations. Here's a sample of some common issues and recommendations that come out of this type of analysis:

- Instead of having one supplier for the component, you may want two or three to avoid coming to a dead stop in production
- For just-in-time manufacturing, consider a longer lead time for storage for materials of parts – even up to 30 days
- If your big data center is in a country with an undeveloped energy infrastructure like Vietnam, consider managing for a power supply back-up as well as backup for the information being worked on
- Determine which controls are in place to protect the storage and transmission of confidential corporate and personally identifiable information
- Confirm legal counsel has signed off on compliance with the country specific regulatory requirements for storage and transmission of personal information.
- Prepare for travel and protection of employees while overseas

The opportunities and efficiencies in overseas markets are too tempting to ignore. In the rush to go global, smart technology companies will call upon a seasoned international team – financial, legal and risk management – before making any leaps into the unknown and unprotected.