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GOING GLOBAL

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KOEN VAN WEEL / Stringer / Getty Images

Exporters battling on despite Brexit

Brexit may be among the biggest challenges the UK has faced in modern times, but there are also export opportunities waiting to be seized

OVERVIEW
CHARLES ORTON-JONES

He may be 80, but Peter Westerman still works five days a week. The chairman of welding equipment exporter Westermans International has just got back from a trade visit to Iran. "They are rich beyond belief – mind-blowing potential," he says. "But we can't do deals because our bank doesn't want to know."

His company exports to 28 destinations. There are always hiccups. "We did half a million a year to Nigeria," he explains. "Then two years ago the orders stopped."

Now the oil price is rising and the orders have returned. Tough market? "Nigeria is easy," he says. "Not like Pakistan. Now that is a nightmare. We've got containers stuck in Pakistan. The authorities won't process them."

Amid this chaos comes a fresh challenge. Brexit may end free trade with Europe. Plus the UK may forfeit all other trade deals enjoyed as part of the European Union. So how does this experienced exporter see it?

"I voted for Brexit and am happy to do so," says Mr Westerman. "But now I am realising it will be extremely difficult. As no one, I repeat no one, knows what will happen." The cost will be significant, but worth it, he says. "There's no gain without pain." Besides, he says, the European banking crisis, epitomised by Deutsche Bank's travails, may make Brexit look like a walk in the park. "I'm confident we'll be fine."

Mr Westerman isn't alone. Vacuum entrepreneur Sir James Dyson and JCB chairman Lord Bamford both campaigned to leave the EU. Sir James declared tariffs a non-event. He says if you fret about them you would be mad because currency can move 10 per cent in a couple of days. "A 3 per cent import duty is not something to worry about," he says. JCB backs Brexit so strongly it left the CBI in protest at its perceived support for Remain.

Both sides agree there will be challenges and we are starting to get a sense of what they will be. Prime minister Theresa May has indicated the UK will leave the single market and the customs union, which are distinct. Norway is a member of the single market, but not the customs union for external trade, whereas Turkey is the reverse, as a member of the customs union, but not the single market. The goal is to sign a new trading deal with the EU and then with other world economies.

The problems? It begins with potential tariffs between the UK and EU. A deal could eliminate these. Ukraine, for example, has a deal to remove more than 98 per cent of import and export tariffs. No deal? Then World Trade Organization rules may apply, which include a 10 per cent rate on cars. Also, exports will be held up in customs for certification.

Jess Penny, general manager of Penny Hydraulics, which exports vehicle-mounted cranes and lifts to 22 countries, is worried. "If there are tariffs and, if our goods get stuck in a warehouse, we will have to pass those costs on. It will make us less competitive," she says. Add on fees for imported components and it's a significant issue.

> Build contingency plans so there's a fallback position depending on each scenario

Kevin Doran, managing director at Accenture Strategy, is advising clients on how to deal with potential outcomes from Brexit. "I am old enough to remember what it was like before the Single European Act [in 1987]," he says. "I used to move product around the world and did a thing called 'tariff engineering'. That's about how you get an item to where you need it with the lowest landed cost." This juggling involves a lot of attention to working capital, factoring in delays to goods en route.

Rules of origin come into play. The UK may sign free trade agreements with China, Brazil, Australia and the other 20 or so nations who have expressed a desire – a huge plus. But the EU will want to stop UK companies benefiting unfairly from this advantage, so British exporters would need to explain the geographical composition of their finished goods. It's added paperwork.

What action can companies take? Mr Doran has a long list of ideas he's giving to clients. It includes checking the profit and loss statement to look for affected items. Reassure customers you are on top of things. Talk to staff, especially the EU nationals who may be stressed by the situation. Build contingency plans so there's a fallback position depending on each scenario. If possible, tell the government what you want. Ministers are, after all, supposed to be in listening mode.

Penny Hydraulics is responding by accelerating export plans. "We had a big marketing push to make the most of the fall in the pound," says Ms Penny. Expansion plans are continuing. "We are including photographs of the expansion work on our site and our warehouse to show clients we are still strong," she says.

Above all, keep on exporting. Japan, which has no trade deal with the European Union, still exports goods worth €60 billion a year to the EU, running a trade surplus. JCB and Dyson count umpteen markets as key export destinations built through currency swings, absence of trade deals and other obstacles.

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Manners maketh a global businessman

Knowing and showing respect for local culture can avoid causing unintentional offence, which could wreck a lucrative international business deal

CULTURE
RODRIGO AMARAL

As if the language is not enough of a barrier, anyone planning to do business in Japan should consider learning how to "read the atmosphere". The idea may make no sense for a Westerner, but the Japanese even have a catchy expression – *kuuki yomenai* – to describe the inability to perform this vital social task. In short, it means that a person is required to grasp what their Japanese interlocutors intend to do even if they do not say it aloud. Because very often they will barely utter a word.

Reluctance to express a view unless formally invited to do so is among apparently odd behaviour British entrepreneurs stumble upon when they do business with Japanese companies. And the experts warn that being aware of this kind of subtlety could decide whether a business relationship gets off to a good start.

When a Japanese or other east-Asian professional remains silent in a meeting, it does not mean they are not prepared to answer questions or are introverts. It may just be they will not engage in behaviour that at home could be considered disrespectful or even rude. Reading the atmosphere and spotting someone wants to contribute to the conversation is a must, therefore, to ensure potentially valuable contributions are not lost.

Dealing with cultural differences of this sort has become evermore important for companies as they expand their presence worldwide. Many have discovered that the old belief that, when it comes to business, money is the only language that counts often misses the target by a large margin.

Erin Meyer, associate professor of organisational behaviour at INSEAD, a Paris-based business school, says that in countries such as China business tends to run much more smoothly if a trust-based personal relationship is built before the hard numbers are discussed. When meeting Chinese businesspeople, jumping headfirst with flashy PowerPoint presentations and promises of world-beating discounts, without engaging in social niceties first, can kill off the whole negotiation process.

> The old belief that, when it comes to business, money is the only language that counts often misses the target

"It does not matter how low your price can go," Ms Meyer says, "if a Chinese businessperson does not trust they can do business with you, the deal will not happen."

In many non-Anglo Saxon cultures, building trust is a major part of business negotiations in a process that can sometimes baffle the most pragmatic sales professionals. The French and Spaniards, for example, like to take extended business meals where business is barely mentioned, if at all. They will talk about the food, the wine, football or family in leisurely lunch breaks that may sound like a waste of precious time for a Brit or American, but which in fact work as an instinctive way to assess the reliability of associates.

"In Mediterranean countries, people take time to know each other before they start talking business," says Tamiko Zablith, a consultant in business etiquette. "If you approach business subjects too quickly, other people can be turned off. They may think you are only there for the money and do not care about people."

In some Asian countries, gifts are wildly employed to help build up relationships. In this case, however, you should be careful not to fall foul of anti-bribery rules by gifting valuable items or to offend your contact by handing an inappropriate token of appreciation. For instance, giving a watch to a Chinese person could be interpreted the wrong way as a timepiece symbolises death in their culture. To make matters worse, if the watch is an expensive one, it could be construed as a bribery attempt by authorities in the UK or US.

Acting with sensibility and adding a human touch to a gift can be better and safer than being lavish. Ms Meyer mentions the example of one of her clients, a British manager who worked in Indonesia, where personal trust-building is much more of an issue than in the UK. "His team members asked about his children, and he said his daughters liked horses and also stickers," she says. "Within a week, he was presented with a beautiful package of horse stickers by his co-workers. That is the kind of gift that counts a lot in a relationship-oriented society."

Ms Meyer notes that as business become more and more globalised, businesspeople become more tolerant of faux pas committed by foreigners. "Today we recognise that people eat their food differently, handle their business cards differently or have different ways of shaking hands," she says. More to the point, however, is the effect that cultural differences can have on the productivity of companies. Failing to understand the behaviour of associates can lead to inefficiencies and even botched deals.

Ioan Panaite / Shutterstock

LEFT
Paris is the world's most travelled to location for business, with 5.4 million overnight international visitors expected in 2016 according to Mastercard

GLOBAL BUSINESS MEETING ETIQUETTE

	IS PRE-BUSINESS CHIT-CHAT CUSTOMARY?	ARE INTERRUPTIONS ALLOWED?	WHAT KIND OF COMMUNICATION STYLE IS THE NORM?
AUSTRALIA	Minimal	No	Direct
BRAZIL	Yes	Yes	Direct
DENMARK	Minimal	No	Direct
FRANCE	No	Yes	Direct
HONG KONG	Yes	No	Indirect
INDIA	Yes	Yes	Indirect
ISRAEL	Yes	Yes	Direct
JAPAN	Yes	No	Indirect
RUSSIA	No	Yes	Indirect
SOUTH KOREA	Yes	No	Indirect
SWEDEN	Minimal	No	Direct
UNITED ARAB EMIRATES	Yes	Yes	Indirect
UNITED STATES	Minimal	No	Direct

Source: CT Business Travel 2016

Michael Landers, a San Francisco-based cultural consultant, tells the tale of a British hotel group that was negotiating a large deal with a South Korean technology giant, whose executives had to reschedule a key meeting several times. When the meeting finally took place and the contract was about to be signed, the negotiator representing the British group – an American – joyfully said the process could have been finished much earlier if there had not been so many postponements of meetings. "The Korean executives did not understand why he had to mention that publicly, they felt disrespected and the deal was called off," he recalls.

Sometimes even acts that look like obvious signs of politeness can work against the good progress of a partnership. "The British often apologise," Ms Zablith points out. "In some other cultures, it could be seen as a weakness." This disconnect puzzled researchers who decided to


RayBay/Unsplash

> Giving a watch to a Chinese person could be interpreted the wrong way as a timepiece symbolises death in their culture

delve deeper by studying what "I'm sorry" means to Americans, who are not keen on apologising, and to the Japanese, who do it all the time. The researchers concluded that, while Americans view apologies as personal admissions of guilt, in Japan people are more concerned about the consequences of a particular event to the group. Thus, when they say they are sorry, they express an eagerness to repair a damaged relationship.

On occasions, dealing with cultural issues can prove challenging. For example, in some parts of Saudi Arabia women are expected to "dress modestly", a definition that precludes even wearing jeans, and male professionals may refuse to shake hands with their female peers. Ms Zablith advises that it is important to try and understand the culture.

"In some parts of the Middle East, there might be gender issues. If we know that in advance, we can prevent crossing a line that makes other people uncomfortable," she says. "Sometimes our social skills may take us much further than our technical skills."

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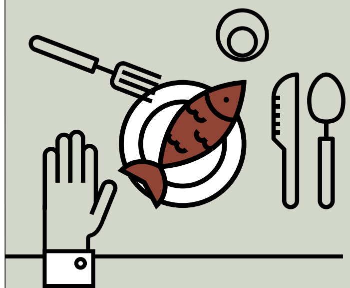
TABLE TROUBLES



One place where cultural differences between international business partners is conspicuous is the dinner table. For example, a Japanese executive may make slurping sounds while eating or a Chinese counterpart may leave food on their plate at the end of a meal.

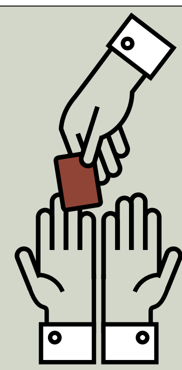
Such behaviour should not be interpreted as bad manners. In Japan, slurping indicates the food is being enjoyed and in China, if a person eats all the food on their plate, it may be interpreted that they are still hungry and would like some more.

London-based business etiquette consultant Tamiko Zablith says understanding table manners can help avoid embarrassing situations. Even some manners deemed proper at home can prove troublesome abroad. She notes, for example, that Americans are taught to leave their left hand on their lap when not holding a fork. In France, this can be considered impolite, according to etiquette dating back to the 17th century when Louis XIV declared that hands should always be visible when dining.

ART OF INTRODUCTION

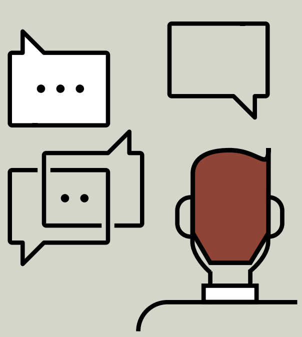
In Asian countries such as China, people take their business cards very seriously. The already well-established Western custom of referring to a LinkedIn profile, in the absence of a card, could be seen as unprofessional, according to cultural consultant Michael Landers.

The formality of introduction with the offering of a well-crafted card is represented by the Japanese habit of handing them with both hands, while bowing their heads. Distractedly fold a card that was given out with much ceremony or store it in the back pocket of your trousers and you may cause offence.



In Brazil, introductions are much less formal, Mr Landers points out. In fact, Brazilians like to touch each other and, even at initial meetings, they may offer effusive handshakes and pecks on the cheek. Often they will also bide their time before cutting to the chase in business talks.

SOUND OF SILENCE



Do you know those situations when an uncomfortable silence takes over a meeting room? Well, if this has happened in a foreign country, you may be the only one who was embarrassed by it.

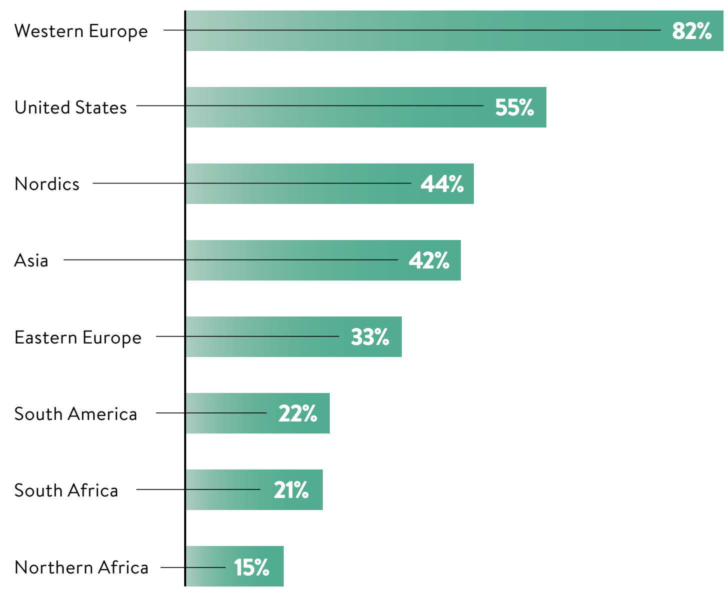
"There is a different level of comfort with silence in different cultures," says Erin Meyer, associate professor of organisational behaviour at INSEAD. "In the UK, there is a high level of discomfort with silence; if one person stops speaking, someone else will start immediately afterwards. But in many east-Asian cultures, when there is silence in the room, it may take several seconds for someone to break it off."

Another reason why silence settles in a meeting is that participants were not given enough information beforehand to feel comfortable to chip in. "If you are hosting a meeting with a group that includes east Asians, you should tell participants three days before that you are going to ask them questions and what the questions are," Ms Meyer says.


Micheal O Fiachra / EyeEm / Getty Images

MOST POPULAR MARKETS FOR THE UK'S SMALLER BUSINESSES

PERCENTAGE OF UK SMEs OPERATING INTERNATIONALLY WHO SAID THEIR BUSINESS IS CURRENTLY OR PLANNING TO TRADE IN...



Source: EE/YouGov 2016

World battle to make payments even easier

Competition to provide cross-border payments is heating up, presenting businesses with a confusing range of options

DIGITAL PAYMENTS

DAN BARNES

In March a survey of 1,000 small and medium-sized UK businesses revealed 40 per cent trade internationally and another 6 per cent are planning to do so by 2021. The survey, conducted by YouGov on behalf of mobile network provider EE, found 82 per cent are currently or plan to trade with Western Europe and 55 per cent with the United States.

This actual and potential business is underpinned by the ability of firms to make cross-border payments as efficiently as possible. In Europe this is about to change considerably under the European Commission's revised Payment Services Directive (PSD2). This regulation, due to be finalised in 2017, will force banks to allow third-party service providers to offer payment services to the bank's customers without putting up any technical barriers. A consumer could sign up to a payment app and it would be able to make transfers to and from their account on their behalf.

> "The growth of digital business removes the physical element of cross-border operations

"There are probably a couple of interesting areas for merchants; one is access to bank accounts and I think the other is the requirement for two-factor authentication to be undertaken on every transaction within the European Economic Area," says Iain McLean, head of retail development at MasterCard UK and Ireland. "I think banks are very well prepared for this, yet retailers, even large retailers, haven't quite appreciated the impact it could have for their business."

The potential this holds for financial technology (fintech) firms to disrupt the payments space is considerable. In the Capgemini/BNP Paribas *World Payments Report 2016*, 71.4 per cent of banks and 69.7 per cent of non-banks thought fintech firms were a challenge for transaction banking. If fintech firms develop new technologies to facilitate payments, they could potentially disintermediate banks from the transaction part of the payments business.

25%

SMEs believe 25 per cent of their growth will come from international trade over the next five years

Source: EE/YouGov 2016

The effect on retailers is likely primarily to be around consumer experience and protection, for example an improvement of acceptance or failure rates.

Simon Bailey, director for payments and transaction banking at technology provider CGI, says: "There are a set of technology changes going on underneath payments, some of which are slight improvements on the current arrangements, some of which are radically new approaches, but which should be invisible to a corporate because, if they are visible, frankly they are not working."

The growth of digital business removes the physical element of cross-border operations; Uber, Airbnb and Alibaba are companies that were born online, with few physical assets, and can operate across borders as long as transactions can be made. But digital is also changing the way transactions are made.

"Uber drivers needed to be paid all over the world and expect the payment to come instantly, so it's changing the demand in financial services infrastructures," says Dany Aranda, managing director of Ripple Europe. "That's what we believe our opportunity is. If you look at many innovations over the past 20 years in financial services, it's largely been at the interface level, meaning a better mobile application or a better online user experience. We really want to bring some element of the internet into the infrastructure of financial services."

Ripple builds distributed ledgers, essentially shared databases that record transactions between everyone that shares the database. Instead of two banks operating their own independent databases and then having to reconcile the figures between them, the use of a single ledger for transactions means there is no need to double-check who has what. Everyone can see what is where and transfers can only be made if the database shows that funds area available. It reduces a lot of the technical complexity that can exist between multiple payment systems and allows many stages of the process to be automated.

In May Santander announced it would be using Ripple technology to facilitate cross-border payments from the UK via an app connected to Apple Pay. Using fingerprint ID, the app will allow transfers of up to £10,000 into euros or US dollars. Standard Chartered is developing a use-case in Singapore for corporate clients.

In July Belgian bank KBC said it had developed a digital ledger with technology firm Cegeka. For use by smaller businesses, it can connect buyer, seller, KBC and the counterparty's bank using a smart contract that registers the entire trade process from order to payment with payment guaranteed when all contractual agreements have been met.

The bank is currently exploring connections with other European Union banks as 77 per cent of Belgian exports are to that region.

MasterCard's Mr McLean says certain corridors dominate from an e-commerce trade perspective, with the UK typically looking at US and then larger European markets, such as Germany, France and Italy. The corridor and scale of business will determine whether a firm can use certain transactional channels. If corporates are looking to make international payments, the number of mechanisms they can use is relatively high taken at face value.

"There are many remittance companies and foreign exchange firms in the retail to low-end commercial transfer space," says CGI's Mr Bailey. "For larger transfers, using commercial banking is easier or harder depending on the corridors they are considering. Most banks are derisking and the risk aversion caused by things like anti-money laundering regulation can make banks less comfortable dealing with certain transactions."

> “The internet really informs the way we expect services to be delivered

There are three issues for companies to consider, advises Mr McLean. "Firstly, it is about the technology, understanding consumers in these markets and how they like to pay, then adopting the right technology to serve that," he says. "Secondly, understand any barriers to payments – authorisation and authentication, for example. The third point would be understanding consumers and how to gain traction within those markets. Places like the US are large and attractive, but they are very challenging."

Many payment mechanisms have relied upon banks to cover a payment during a transaction, using money on their balance sheet. Where banks are pulling back from offering this, as part of the derisking process, firms can look for technology and service providers that can step in.

URICA is one example, using the resources of insurer RSA and credit-related insurance provider Euler Hermes to provide firms with payment for invoices that customers have not yet paid in export markets. This can replace bank services, such as letters of credit and increasingly rare bank-guaranteed bills of exchange, or taking credit risk by invoicing with terms of payment.

The extent to which banks or non-banks will provide payment services to corporates in the future will depend upon their ability to match both the needs and expectations of their customers.

"Consumers' and businesses' expectations of how payments should be conducted have changed," says Ripple's Mr Aranda. "That's largely informed by the internet; if I send a text or an e-mail to someone, I expect them to receive it immediately. If I send a package to Cambridge, I expect to be able to track it online for visibility. The internet really informs the way we expect services to be delivered."

CASE STUDY: URICA


James Jones Jr/Shutterstock

URICA is a digital platform that takes an invoice from a user, has it electronically signed by the customer and then pays out within 24 hours. It takes on the role of collecting payment from the customer.

This has supported its customer base in working overseas by providing a simple mechanism for arranging cross-border payments that requires limited integration between systems.

Interpower, a British manufacturer, builds generators for operations ranging from oil companies to hospitals. The time from order to completion for manufacturing businesses is considerable and requires many transactions of components and cash between suppliers. The methods that banks offered for tackling cash flow were expensive.

Roland Hudson, Interpower's chief executive, notes that bank charges on a letter of credit for Dubai could be around 1.75 per cent for Interpower with the customer paying 2 per cent at their end. Using deposits and 30-day payment on account creates credit risk.

It was truly a eureka moment when Mr Hudson began working with URICA. "When goods come in, I can afford to pay them. With URICA we can also offer a scheme whereby I put a progress payment into URICA and URICA then get it from the customer," he says.

Payment is almost immediate and the firm sees costs from the traditional options are also reduced. A small percentage fee can be applied to extend 30-day payment terms.

"For smaller companies, it's a massive boost and I really couldn't understand somebody not wanting it," says Mr Hudson. "It should put a lot of companies on to the export ladder."

COMMERCIAL FEATURE

MONEY TALKS, BUT IN WHICH LANGUAGE?

Achieving global success with translation and localisation

language connect

The online marketplace with more than three billion active users has unlocked immense opportunity for brands to become global with or without a physical presence in the target markets. With effective translation, brands can appeal to global customers and grow their business in a way they never could before.

But there are distinct barriers that can prevent penetrating markets in some parts of the world, and getting translation and localisation right is essential to break down these barriers.

LOCALISATION AND COMPLIANCE

Different customer demographics and cultural nuances such as tone of voice and buyer habits mean content can lose its effectiveness if simply translated. For success in globalisation, it is important to ensure that not only the product is specifically localised for each nation's demographic, but also marketed with local flair and deep cultural understanding.

While English remains the number-one business language in the world, it is limiting to think that one single language is suited to working overseas. The multifaceted system that underpins international trade is inherently complex and brands must consider the translation of all legal and operational documentation.

More specifically, in terms of legal compliance, there is a need to go beyond multilingualism. There are, for example, ample risks with the ambiguity of language, especially regarding the law. From a vague phrase to the wrong word, to a wandering comma, seemingly simple mistakes can have a disastrous impact. They can nullify contracts, jeopardise deals and result in litigation.

E-commerce compliance is equally essential as the wrong approach with online content, both written and visual, can result in a brand being banned or blocked in some countries.

> “While English remains the number-one business language in the world, it is limiting to think that one single language is suited to working overseas

INTERNET ECONOMY IN ASIA AND THE MIDDLE EAST

For those looking to globalise, it can be prudent to consider emerging markets where penetration of e-commerce is still far below the world average, but there is a distinct growth in the net worth of individuals and an appetite for branded goods. Similarly, markets underserviced in local languages present an untapped resource of potential.

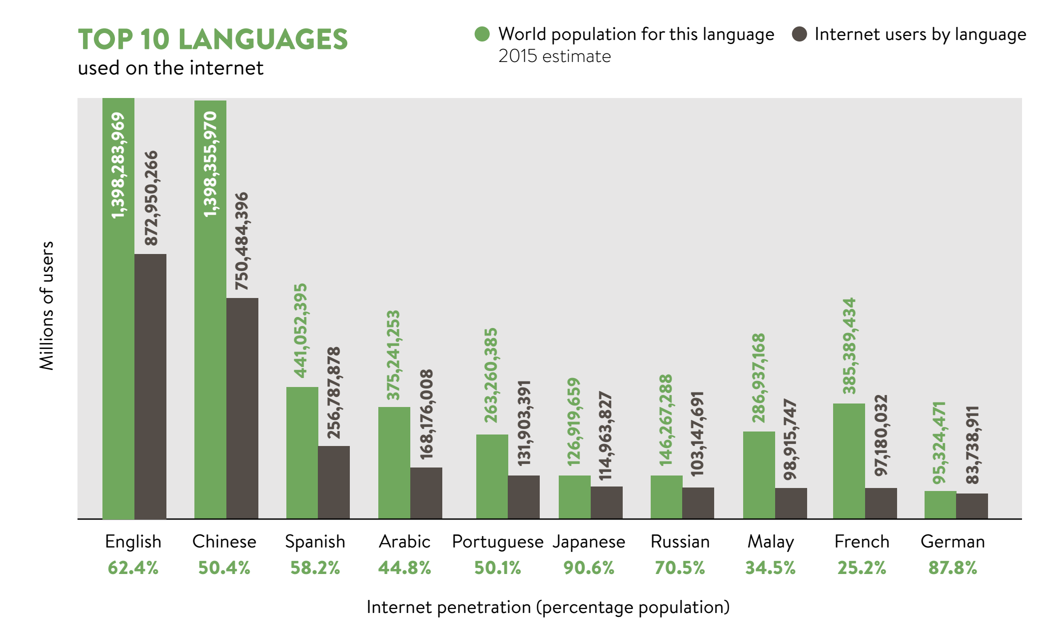
Research shows a disparity in the numbers of online speakers in local languages compared with content available in these languages. Languages such as Chinese, Arabic and Japanese have some of the widest online reaches; 90 per cent of the population in Japan, for example, is connected to the web. Although almost half (48 per cent) of all internet users are situated in Asia, they are not, however, well served by content in their native languages. As many as 20.9 per cent of users of the web primarily speak Chinese. However, only 2.1 per cent of all content is in Chinese.

With more than 176 million users online, and rapidly growing, Arabic represents the fourth widest spoken language online. Despite 4.9 per cent of internet users speaking Arabic, the internet provides just 0.8 per cent of all its content in this language.

According to figures from Go-Gulf, the last three years have seen serious growth in e-commerce in the region. In 2012, sales figures for e-commerce sat at $9 billion. By 2015 this had grown significantly, reaching $15 billion and 72 per cent of online shoppers made their first purchase in the last two years.

Common Sense Advisory figures show that as many as 55 per cent of users only buy from websites in their native language rather than those presented in a foreign language. Considering the spending power of the Chinese, Japanese and Arabic-speaking markets, there is an immediate commercial opportunity for business-to-consumer brands to penetrate these markets with translated content.

Full infographic and data available via Language Connect's website www.languageconnect.net Twitter @lconnect



Estonia is haven for e-residents

Brexit and possible trade barriers thrown up against UK companies is a vexing problem which could be solved by becoming an e-resident of the Republic of Estonia in the Baltic states

TRADE BARRIERS

CHARLES ORTON-JONES

The advert on Twitter reads: "Worried about Brexit? Estonian e-residency is your gateway to the EU company." It's a tantalising offer. Escape the uncertainty of Brexit and become Estonian. And as no ordinary citizen, but an e-resident – a cyber Estonian.

Keep your eyes peeled and you'll see other ads for the scheme popping up online. ... man chancellor A... e-resident of Estor... prime minister Sh...

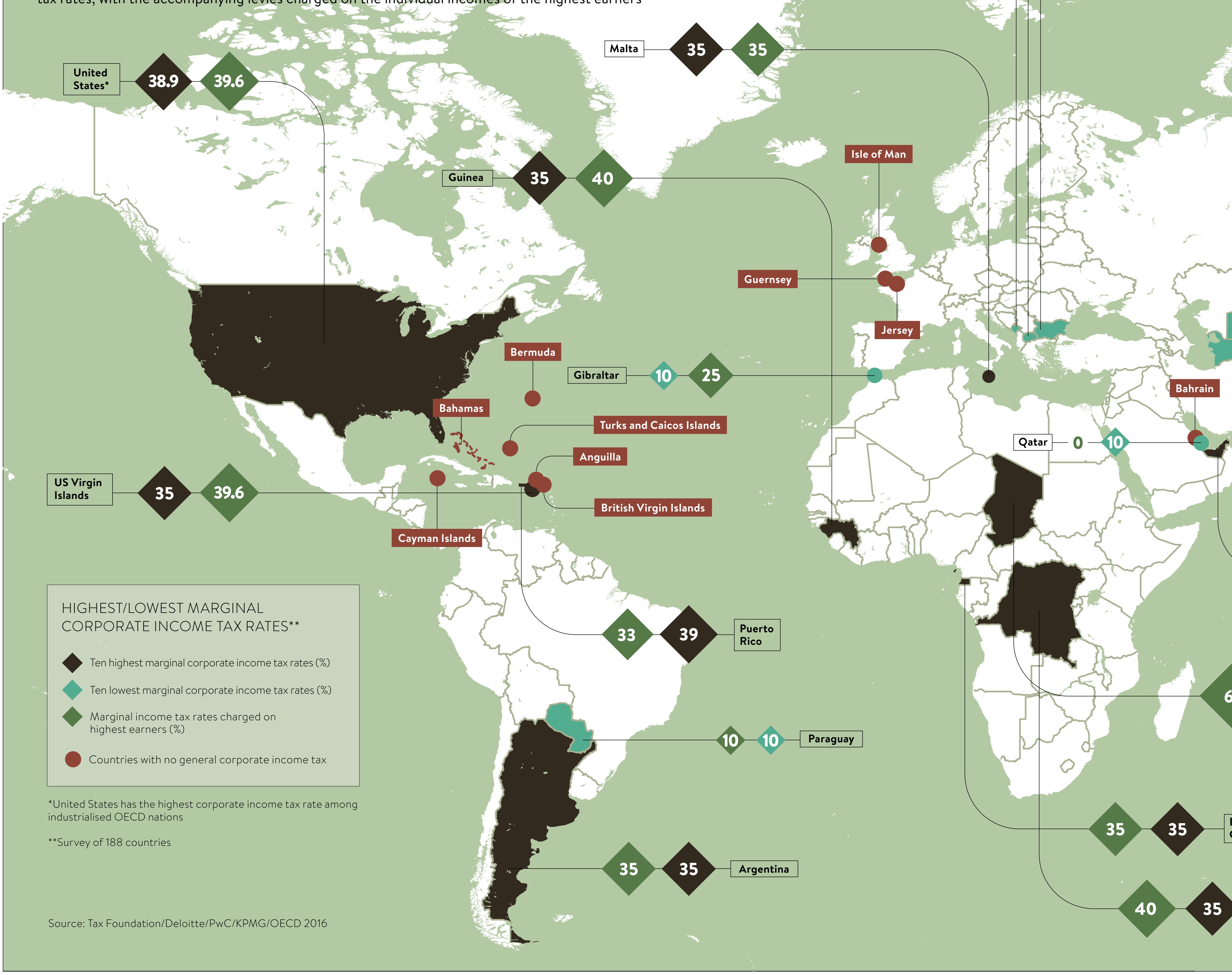
But what does it ... an e-resident? An... fer an escape for B... life after Brexit?

The man to tal... ka, Estonia's c... officer and co-... scheme. Arrangi... spookily simple.

Estonians love ... government, so ... list their persona...

TAXING TIMES

Corporate income tax rates differ widely across the world, from 55 per cent in the United Arab Emirates to just 7.5 per cent in Uzbekistan, while 14 countries – mostly small islands – charge no general corporate tax at all. The data highlights these tax havens and the ten countries with the highest and lowest corporate tax rates, with the accompanying levies charged on the individual incomes of the highest earners



HIGHEST/LOWEST MARGINAL CORPORATE INCOME TAX RATES**

- Ten highest marginal corporate income tax rates (%)
- Ten lowest marginal corporate income tax rates (%)
- Marginal income tax rates charged on highest earners (%)
- Countries with no general corporate income tax

*United States has the highest corporate income tax rate among industrialised OECD nations

**Survey of 188 countries

Source: Tax Foundation/Deloitte/PwC/KPMG/OECD 2016

It turns out Ger- ngela Merkel is an nia. So is Japanese inzo Abe.

all mean? What is d does it really of- Brits fretting about

k to is Taavi Kot- hief information architect of the ng an interview is

transparency in much so ministers l e-mails and telephone numbers online. It takes 30 seconds to find Mr Kotka's, ping an e-mail and 11 minutes later our interview is arranged. It can be harder to book a table in the local pub.

He explains the gist. An e-resident can use all the services open to ordinary Estonians. E-residents get a card and digital ID, making it possible to form a company, transmit documents, administer a company and conduct e-banking (a visit to a bank in person will be necessary to open an account). “The beauty of the whole programme is that it costs zero to us,” says Mr Kotka. “It's the same processes and the same functions as Estonians use.”

The one thing missing is travel and residency rights. This is not a passport. Forming a company is the big attraction. Estonia is famously free market and anti-bureaucratic. “You can do the same in Luxembourg for €10,000 a year,” concedes Mr Kotka. “In Estonia it's €1,000.”

To apply for e-residency, head online to apply.e-estonia.com. If approved, a trip to the Estonian embassy is mandatory – a security precaution which prevents mass applications and other abuses. And that's it. The welcoming kit includes a chip-and-PIN card, a USB card reader and codes to access Estonian public services.

Already some clever Brits will be thinking this could be the ideal way to lower their tax bill. Estonia indeed has the most competitive tax system in the developed world, according to the *International Tax Competitiveness Index*. It ranks number one on corporation tax and second on individual taxes. Alas, no, says Mr Kotka.

“We are not selling it on tax. OECD [Organisation for Economic Co-operation and Development] countries already share information and tax, and they agree that taxes should be paid where value is created,” he says. “You are not physically in Estonia and you don't use our roads or schools, so we don't tax you. But if you are, for example, in the United States, you use those things there, so you need to contribute to US taxes.”

He emphasises the point again: “We are not a tax haven. If you want that you have several other choices.”

Tax experts agree with this assessment. Carl Bayley, author of the *Taxcafe* guides, says it would be necessary to move to Estonia to take advantage of their low rates. “If you are in the UK, you'd pay tax where you run the company. So in this case you'd need to move to Estonia, and hold board meetings and run the company out there,” he says.

> Brits may yet find Estonian e-residency offers the quickest way to dodge trade barriers

Even then, repatriating profits to the UK while retaining British residency status wouldn't be easy as dividends are payable to HMRC. Mr Bayley says: “Offshore companies work for people who can afford to tick all the right boxes and make sure the company trades abroad for ten years, accumulates profits, builds up reserves and then they emigrate to collect it.” Not easy. Nor is finding a tax lawyer who understands Estonian tax laws.

This issue demonstrates the problem with shopping around for low tax rates. The European Commission is fanatical about reducing tax competition. For example, Ireland built its Celtic Tiger economy by luring multinationals with a low corporation tax rate. In September, the Commission ruled that Ireland must recover €13 billion in taxes from Apple.

The low tax paid by Apple, effectively a corporation tax, was no more than 1 per cent and constituted unfair state aid, according to the Commission. The Irish government exploded with indignation at this intervention into its internal affairs. Tax is supposed to be a sovereign matter for nations. Estonia, clearly, has no intention of invoking the ire of the Commission by selling this scheme as a tax ruse.

Naturally, there is a benefit to Estonia. “Just having more customers makes our country richer,” says Mr Kotka. “If you become a bank customer, the bank has higher revenues so pays more taxes.” It will generate great public relations for this small nation. And it may encourage e-residents to make other interactions with Estonia, doing deals with Estonian companies or visiting their new “homeland”.

It pays to visit. Estonia is a modern marvel. Since becoming independent in 1991, the country has developed a unique sense of purpose. It wants to be the world's most digitally advanced state. Even before smartphones existed Estonians were paying for car parking by text. The government invested in free wi-fi to cover urban conurbations. There was even an idea to rename the country Estonia.com.

It's a society, like Hong Kong or Singapore, where innovation rules. Skype and the foreign exchange giant TransferWise came from Estonia. *WIRED* magazine ran a feature called *Welcome to E-stonia, the world's most digitally advanced society*. By contrast, in Italy one in three people don't use the internet. In Estonia the internet is classed as a human right. The country is already trialling 5G mobile phone networks, years ahead of the UK.

This attitude has shaped the government. Everything is digital. A third of citizens vote online. When US president Barack Obama visited the capital Tallinn in 2014, he declared: “You've become a model for how citizens can interact with their government in the 21st century.”

The e-residency scheme demonstrates this ethos. There's an online dashboard displaying the details in real time. It's all listed: the number of applicants (14,478), the waiting list (421), under review (766), positive applications (13,278) and negative (155). Motivation is listed; the top one being to create a location-independent international business.

So is Estonian e-residency a solution to Brexit for Brits doing business in the EU? It will, of course, depend on the trade deal negotiated. So far the best use is for Brits who live in the EU. Forming a company this way is simple and cheap. A website Mr Kotka recommends is leapIN.eu, which offers e-residents a one-stop shop. It manages company formation, setting up a bank account, accounts and taxes, from €49 a month.

The goal is to sign up ten million e-residents by 2025. Not bad for a country of 1.3 million citizens. Mr Kotka believes the theoretical limit is vast. “There are 680 million jobs that can be done independent of their location. And the number is growing. Estonia is the first e-residence.”

With this potential market there will be rivals. “You will see Canadian e-residency, in Singapore and so on. It's a huge market of hundreds of millions of people,” he says.

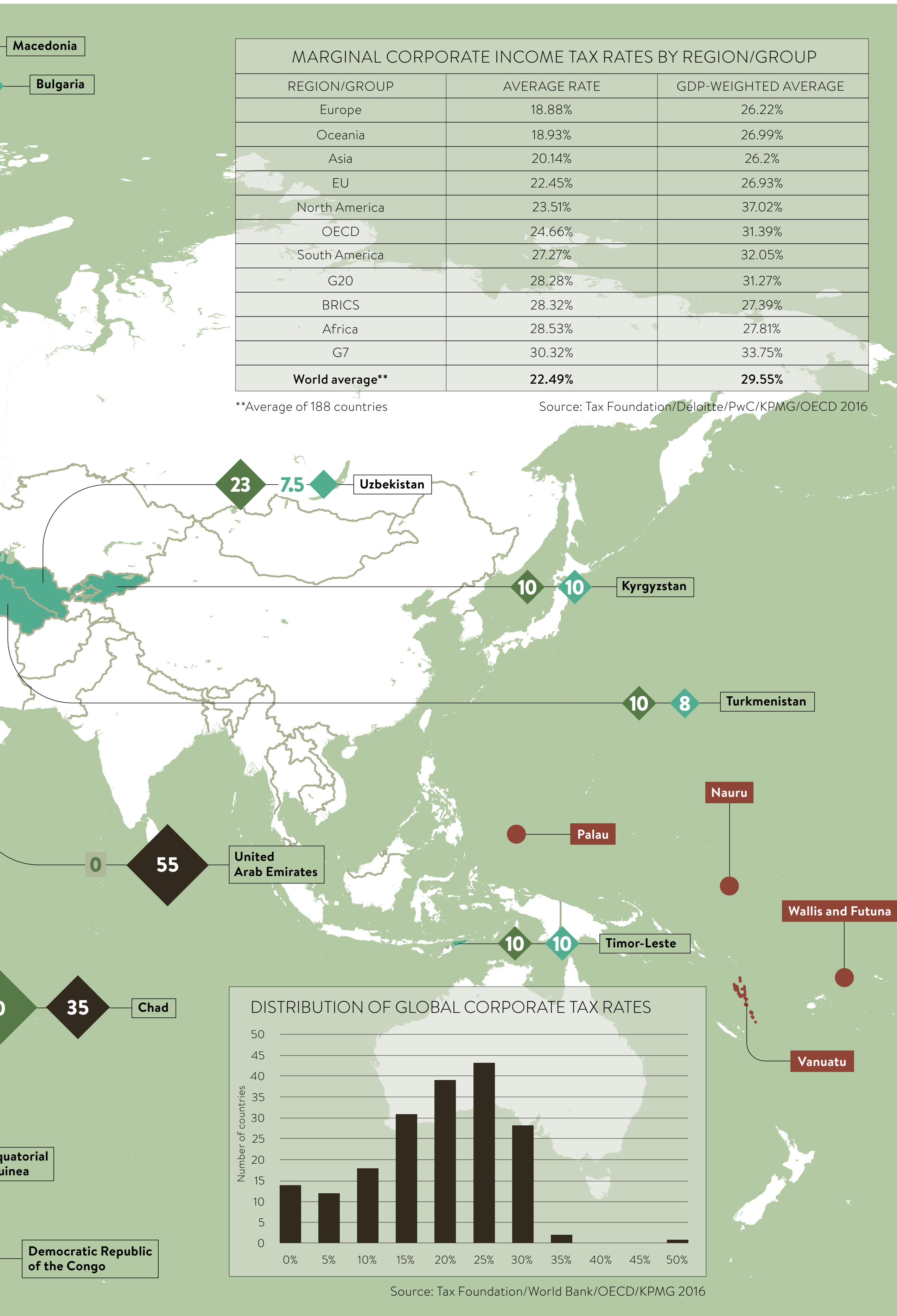
EU citizens ought to love this simple and low-cost scheme. Brits may yet find it offers the quickest way to dodge trade barriers. Other nations may well follow suit. And it's no surprise to see this small, but boundlessly ambitious, nation leading the way.

MARGINAL CORPORATE INCOME TAX RATES BY REGION/GROUP

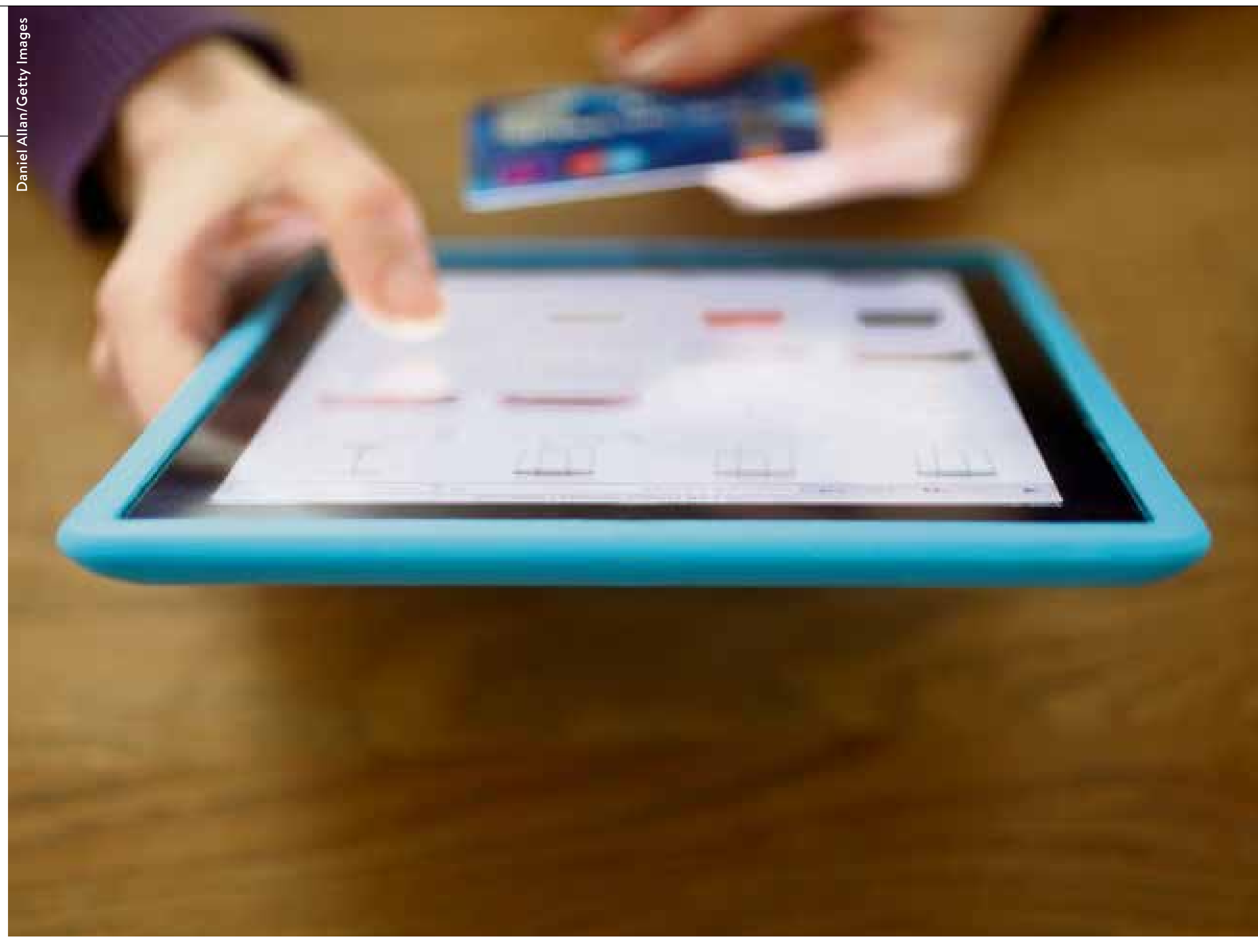
REGION/GROUP	AVERAGE RATE	GDP-WEIGHTED AVERAGE
Europe	18.88%	26.22%
Oceania	18.93%	26.99%
Asia	20.14%	26.2%
EU	22.45%	26.93%
North America	23.51%	37.02%
OECD	24.66%	31.39%
South America	27.27%	32.05%
G20	28.28%	31.27%
BRICS	28.32%	27.39%
Africa	28.53%	27.81%
G7	30.32%	33.75%
World average**	**22.49%**	**29.55%**

**Average of 188 countries

Source: Tax Foundation/Deloitte/PwC/KPMG/OECD 2016



Source: Tax Foundation/World Bank/OECD/KPMG 2016



Daniel Allan/Getty Images

Online is a booming way to sell abroad

Selling online is a relatively cheap and safe way to expand a business overseas, rather than investing in expensive local infrastructure

E-COMMERCE

GIDEON SPANIER

Every company can sell to the world thanks to the power of e-commerce. It means businesses that might once have focused only on their domestic market can now think globally.

Newer companies, in particular, can expand cheaply overseas with a test-and-learn strategy that uses digital technology and data analytics to gauge the market, without significant capital expenditure or risk.

British companies have a history of exporting goods and services because of the country's imperial past, long before the rise of the internet and online shopping. But the UK has become a leader in e-commerce more recently, thanks to some of the world's highest rates of smartphone adoption and broadband penetration, and an ultra-competitive retail sector.

"Your ability to internationalise your business is dramatically easier as an online business," says Anthony Fletcher, chief executive of Graze, the healthy-snacks-by-post business, which has expanded to America. "Being an online business gives you access to much more data and allows you to understand what's going on. You can flex your product range much more quickly, and innovate and localise."

That ability to sell online, not just at home, but also abroad, could prove vital in a post-Brexit business environment. A near-20 per cent plunge in sterling since the EU referendum in June has already made UK exports cheaper, opening up new opportunities for British companies at a time when the domestic economy is expected to slow.

E-commerce is booming, particularly on mobile. Worldwide e-commerce sales are estimated to be $1.9 trillion (£1.5 trillion) or about 10 per cent of the global market for retail in 2016 and growing at about $500 billion a year, according to eMarketer. E-commerce should more than double in value to $4.1 trillion by 2020 when it is forecast to be around 15 per cent of global retail sales as the wider sector also keeps growing, albeit at a slower pace.

The UK is one of the most advanced markets with e-commerce set to generate about £60 billion or 15 per cent of retail sales in 2016 – close to £1,000 per head annually – and this is set to rise to £95 billion or nearly 23 per cent by 2020.

Companies must be careful not to rush global expansion because it is not always easy to transfer what has worked at home to another market with its own local demands, as Tesco and Marks & Spencer have discovered. Although Silicon Valley has a "try fast, fail fast" mentality, it can pay to move carefully, which is why Amazon, the world's biggest online retailer, has taken its time to export its grocery offering, Amazon Fresh, from the US to the UK to ensure it gets the logistics right.

Mark Jackson, managing director of MC&C, a media-buying agency that specialises in helping "fast-growth" companies, says technology now allows a business to launch with a lean digital footprint, collect data analytics and see what works. He advises: "It's best to practise this in one territory, figure out what success looks like for the brand and then roll it out, otherwise there's a huge risk of getting the wrong strategy out there, which can be costly across multiple territories."

The rise of predictive analytics is also important because it means a company can test an idea and use the results to model outcomes in other markets. Mr Jackson adds: "This way validity is established before setting up in a new territory. There's simply more confidence in global expansion when it's rules-based and proven."

Mr Fletcher of Graze is an admirer of how fashion retailer Asos expanded to America, keeping costs low by initially exporting its wares from the UK, rather than investing in US infrastructure. Graze followed a similar route, selling to American customers through online for three years. Only this autumn has Graze now expanded into distribution in bricks-and-mortar stores – a reminder that e-commerce is still only a fraction of the retail market.

Close to half of Graze's sales now come from the US in a sign of how the company has scaled up, according to Mr Fletcher. He is hopeful the business can avoid the worst of Brexit because it is relatively unexposed to Europe, but he warns that currency fluctuations and the prospect of trade tariffs "will create a lot of difficulties for other businesses".

A strategic acquisition is another way to expand internationally. Jim Lewcock, the founder of The Specialist Works, a media agency that works with e-commerce brands such as Boden and The White Company, bought a small US agency, Elarbee Media, in the first half of this year to help his UK clients grow in America. It's a move that looks smarter in the wake of Brexit and the rise in the dollar. "One of my clients said to me, 'If I can make the US work, I don't need Europe'," Mr Lewcock says.

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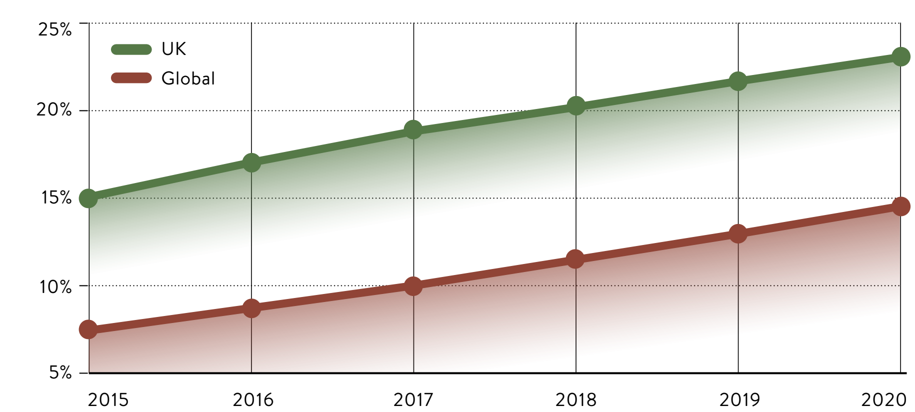
E-COMMERCE SALES AS A PERCENTAGE OF TOTAL RETAIL SALES*

THE UK IS ONE OF THE MOST ADVANCED MARKETS FOR E-COMMERCE, THANKS TO HIGH RATES OF SMARTPHONE ADOPTION AND BROADBAND PENETRATION



*Includes products and services ordered using the internet, excluding travel and event tickets

Source: eMarketer 2016

ASOS TESTS AND LEARNS

Asos, the online fashion retailer for twenty-somethings and teenagers, has expanded internationally with a test-and-learn approach. Rather than launch physical stores or set up a distribution centre in a local market as a traditional retailer might have done, it initially sent items to overseas customers from the UK.

"Asos went to America and shipped from Barnsley," says Anthony Fletcher, chief executive of Graze, the healthy-snacks-by-post business. "They got into local delivery once they had tested and learnt, and knew there was a market there."

The strategy has paid off as Asos has nearly doubled international sales to £800 million in three years. It now operates eight local language websites and claims to deliver to almost every country in the world from its fulfilment centres in the UK, US and Europe. But Asos has had setbacks and pulled out of China earlier this year – proof that smart e-commerce companies keep testing and learning in a fast-changing market.

M&S MIXES CLICKS WITH BRICKS

Marks & Spencer, the FTSE 100 food and clothing giant, adopted a clicks-and-mortar approach to drive international expansion through a mixture of online sales and physical stores. But its UK website overhaul took the best part of two years and suffered from major design flaws when it launched in 2014, with a knock-on effect on other parts of the business.

"It was an incredibly complex and slow-moving process, when a more nimble approach with smaller redesigns tested more frequently to assess customer response would have been more viable," says Mark Jackson, managing director of MC&C, a media-buying agency.

Marks & Spencer said in April 2014 that it hoped to increase international sales by 25 per cent and profits by 40 per cent in three years. But overseas sales have stagnated during the past two years. The retailer has now proposed focusing its international division on a franchise model, exiting its loss-making operations across ten markets.

HOW TO SELL TO THE WORLD

*Exporting can transform the profits of small firms. In a Q&A, **Emma Jones**, founder of Enterprise Nation, the campaigning body for entrepreneurs and small firms, explains how a website can be the key to cracking those lucrative overseas markets*

Q Can all small firms be exporters?

A Definitely. Technology has made it simple for even very small firms to get their products to the world. They can start by selling on platforms such as Etsy, which specialises in craft and handmade goods, or Amazon and Alibaba. We often call these small firms "accidental exporters". They find their first orders are from overseas and then they think, ah OK, we'll service that customer and carry on from there.

Q You run trade missions. What goes on?

A My organisation, Enterprise Nation, has run its own trade missions since 2014. We've been to New York, Shanghai, Berlin, Amsterdam and Dublin. This year we have five trips. We take around 25 companies per mission. Some are doing early-stage research. Others are trading, sometimes through the platforms I just mentioned, and want to meet potential clients. This year we are sector focused. We've done food to Dublin, fashion to Berlin, homewares to Amsterdam; we've just been to New York with general retailers and met more than 100 people in three days. Soon we are going back to China with people looking to make inroads into that huge market. Sometimes people look to overseas markets to find business partners and suppliers. It's not always about selling directly.

Q What's the first step to exporting?

A Before you do anything else, build a website. Do you know that more than 45 per cent of British firms don't have a website?[1] It's vital to create one. If you have a website you may find that you are already attracting international customers. Google Analytics is a really good tool to show the origin of sales. A software company I know used Google Analytics for their site, noticed an American visitor, put prices in dollars and sales went up 25 per cent.

Q How can it be tailored for international markets?

A You want customers to feel as confident as possible about your brand. Do some research into what is culturally appropriate for overseas markets. If you are selling to Japan, your imagery should not show the soles of people's feet or chopsticks sat up in a rice bowl. Those images are considered rude in that culture. You'll also want a domain name that suits a global audience.

Q What's the best domain?

A Absolutely a .com. Enterprise Nation has been a .com since the beginning. It means you can trade in any territory. Second is trust. Consumers may not know your brand, but the .com conveys that trust factor. And third is search engine optimisation or SEO. In my opinion, using a domain name on a global extension such as .com, rather than multiple country extensions, stops you diluting SEO between your multiple sites and helps concentrate SEO. All links and traffic are coming into one site. You can create tailored versions of your website for different language markets within your .com.

Q Are payments hard to add?

A They used to be. Ten years ago it was hard to sell to Germany, as they only used cheques, and other markets had their own unique payment type. Today we have PayPal, Stripe and Worldpay, which are used by consumers worldwide. Plug these into your website and you can immediately take payments from 120 major economies. You don't need a global bank account. One issue is foreign exchange. You might want to consider currency factoring. An FX account will help temper currency fluctuations. Caxton FX and World First can do this for you.

> "It's why a .com is so great – you open the door to a world of opportunistic sales from consumers in countries you hadn't even thought about

Q Customer service for international markets sounds hard. What tips have you?

A Languages are an issue. At first I recommend Google Translate. It's free and quite useful when sending e-mails and you want to say things like: "Is the sun shining in Berlin?" When communications become more detailed, you'll want to pay people. If you have the budget, a localisation specialist like Lingo24.com can help with technical translations. It's all about making consumers feel comfortable and that they can trust you. Skype and Vonage can help. They let you buy international numbers. So you can have a Manhattan number for US customers to ring. It's reassuring and as cheap as chips.

Q Do multiple languages really pay?

A Remember you aren't just targeting one country this way. If you have a Spanish version of your website, you can attract customers from across South America, Mexico and the southern United States. French gives you the chance to sell to Switzerland, Belgium, Quebec and the rest of the francophone world. It's why a .com is so great. You open the door to a world of opportunistic sales from consumers in countries you hadn't even thought about.

Q Are time zones tricky?

A You need to be 24/7 to reach consumers in Asia and the US. Social media scheduling is great for this. If a UK business only tweets during office hours, they'll miss half the day. Tools like Buffer and Hootsuite allow you to schedule tweets at times which suit your customers.

Q Brexit has exporters worried. Are you really sure this is a good time for small firms to start?

RIGHT
Emma Jones
Founder
Enterprise Nation

A In light of Brexit, it's more important than ever to sell overseas. The falling pound means the cost of your goods in export markets is suddenly much better. We need a big export push by the government. We should be looking far afield, to the US, China, Australia, New Zealand and Singapore. Those are big markets and there could be attractive trade agreements in the future. Above all, we need the confidence to go to those markets and start selling. Technology makes it incredibly cheap to begin.

To learn more about how to start and grow online visit GrowOnlineWith.com

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[1] https://resources.lloydsbank.com/insight/uk-business-digital-index-2015-report.pdf

Pound's plunge prompts

With some forecasters predicting continuing volatility on the need to assess their FX risk and hedge against possible losses

FX RISK

ROB LANGSTON

Compared with the relative stability of recent years, the past few months have been a challenging time for the British pound. The outcome of the UK's referendum on continued European Union membership has seen confidence in the currency slide as uncertainty has built over the future of the British economy.

Since June, company finance executives have found themselves dealing with the fallout from the referendum result and its impact on markets.

The fall of sterling against major currencies has been one of the most perceptible consequences of the result ahead of actual Brexit.

Sterling's devaluation has been among the biggest documented across global currencies since the start of the year and has affected businesses throughout the country.

"The situation that UK companies are in at the moment is not unique," says Ranko Berich, head of market analysis at foreign exchange company Monex Europe. "FX volatility in general has increased over the past two years.

"What is specific to the UK is just how dramatic the fall has been over the past couple of months.

"We've seen businesses that would never have considered hedging their long-term cash flows or their capital expenditure and have now seen the kind of moves that can happen and are thinking they should hedge [currencies]."

Mr Berich says the drop in sterling had seen margins narrow since the result and forced chief financial officers (CFOs) to reconsider how they tackle currency risk.

"Given that we're seeing bouts of volatility that are more pronounced than they have been for the past ten years, it has become more of a pressing issue," says Monex Europe head of treasury Neil Maffey.

"We are now seeing a marked change in the need for CFOs to have a specialist focus on the implications of currency across the board," says Mr Maffey. "As opposed to it being a functionality that has to be done, it now seems to be something that is being approached in a far more considered way."

Some companies have been slow to adapt, however. Following years as one of the global financial system's more robust currencies, the scale of the fall in sterling will have caught some people underprepared.

Indeed, a survey in August by cross-border payments specialist EarthportFX of 75 small and medium-sized enterprises with foreign exchange turnover of less than £10 million found many smaller businesses had yet to address the issue.

While 77 per cent acknowledged the need to change their approach to foreign currency hedging, 80 per cent admitted they had made no changes following the referendum result.

Yet, while 40 per cent of respondents suggested the result would have a negative impact on their business in the long term, just over half were unsure how the result would affect them.

> The scale of the fall in sterling will have caught some people underprepared

"The referendum result has increased FX costs by 30 per cent immediately after the referendum announcement and corporates are in a very difficult position where their costs are higher than they were," says Peter Theuninck, head of FX market strategy at EarthportFX.

Signs have been mixed so far, however. For those exporting business abroad, the potential for expanding their overseas sales may be tempting.

Recent data from Markit and the Chartered Institute of Procurement and Supply (CIPS) revealed that *UK Manufacturing Purchasing Managers' Index* (PMI) hit its highest level since mid-2014 in September, showing the sector has continued to expand despite existing concerns.

While the domestic market was a prime driver of new business wins,

the weakened sterling exchange rate had driven up new orders from abroad, according to Markit and CIPS. Similarly, the Markit/CIPS *UK Services PMI*, which measures the strength of the services sector, also picked up in September following a referendum-inspired drop earlier in the year.

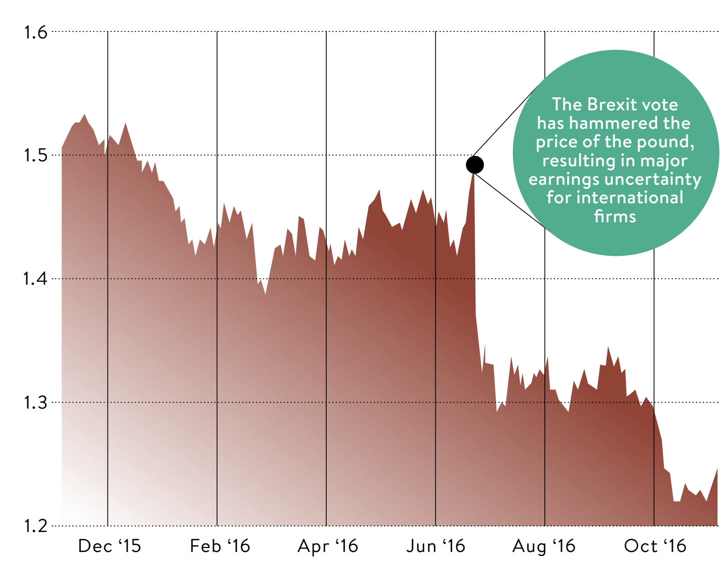
Michael Teixeira, CFO at UK-based customer acquisition company MVF, says the fall in sterling has affected many UK companies who import costs in different currencies.

"If you have any part of your activities overseas, whether that is clients, revenues, staff or purchases, then you have a foreign exchange risk," he explains. "It's very hard to try to hedge or manage that away."

Mr Teixeira says larger companies may be better placed to manage currency risk through their banks, but smaller or fast-growing companies face a different situation.

"Our business is digital customer generation; we spend a lot of money online with companies like Google and Facebook and we spend that money to generate more clients for our customers. In some cases, we're

GBP-USD EXCHANGE RATE



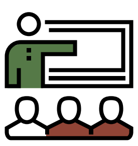
more hedging

foreign exchange markets, UK businesses

Richard Baker / Getty Images

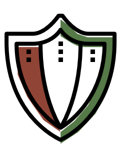
IMPACT OF THE BREXIT VOTE*

MANY COMPANIES REMAIN EXPOSED AND UNPREPARED FOR THE IMPACT OF THE BREXIT VOTE ON THEIR FOREIGN EXCHANGE (FX) COSTS



77%

of UK SMEs acknowledged the need to change their approach towards FX hedging in the face of volatile current markets



80%

admitted they have made no changes to their hedging strategy

*Survey of 75 small and medium-sized enterprises

Source: EarthportFX 2016

spending money in one currency and we bill our clients in a different currency," he says.

"The devaluation of sterling is a great opportunity for exporters, you have a sterling cost-base and can bill clients in dollars or other currencies; it's a great opportunity to undercut your competitors in terms of cost.

"If you're looking to expand abroad, as we are with our operation in the US, it makes great sense to us to invest and grow."

While economic indicators suggest that much of the initial concern over the economy may have been overdone, lower sterling valuations may be something businesses will have to live with for some time.

Jonathan Loynes, chief European economist at London-based consultancy Capital Economics, forecasts a further fall against the US dollar over the next year, fuelled by a rise in US interest rates. However, Mr Loynes says the decline in sterling is likely to soften the economic impact of Brexit.

"Of the outcomes of the EU referendum, the one most imminently felt by UK businesses is the impact of the weakening pound," says David Whitehouse, managing director and co-head of UK restructuring at global valuation and corporate finance advisory firm Duff & Phelps.

With Brexit Article 50 expected to be triggered at the end of the first quarter of 2017, CFOs have little time to prepare for any further currency shocks.

"While uncertainty over the UK's trade relationship with the EU post-Brexit lingers, companies need to start putting in place plans that will help them navigate a more volatile currency environment or review measures they had taken before the vote to leave, such as currency hedging," says Mr Whitehouse.

"However, as a volatile or weaker pound could be a reality for the long or at least mid-term, businesses with international operations and suppliers will need to look beyond currency hedging and review the way they select or negotiate with suppliers, or consider passing on higher costs to customers both domestically and internationally."

EarthportFX's Mr Theuninck says: "Until Article 50 [is activated] and we start understanding exactly how Europe intends to engage in negotiations, we can't really say with much certainty how the market will play out."

Monex Europe's Mr Berich adds: "Nobody has a crystal ball. It's probably more important to identify potential moves and how they affect the business as opposed to forecasting. That's quite an important distinction. Investors should be identifying quantified market risk as it affects the business and not attempting to make a call."

While costs for imported items are likely to increase, there may be opportunities for those with more export-focused business. Others still may prefer to take a more proactive approach to currency risk.

"The key thing for a company exposed to foreign exchange risk is to understand it very well," says Mr Teixeira at MVF. "Oftentimes companies will only have a vague understanding of what foreign currency risk; it's important to analyse it numerically in some detail.

"You might not even remember or know what currency a contract is denominated in and what proportion of clients you are billing in sterling or dollars. Ideally you want to have a natural hedging in place; if you're buying in dollars you should be selling in dollars."

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COMMERCIAL FEATURE

GLOBAL EXPANSION: DON'T GO IT ALONE

In an increasingly complex and uncertain world, working closely with a third-party logistics provider is essential for effective global expansion

C.H. ROBINSON
»Accelerate Your Advantage®

With fast-developing emerging markets as well as growth among some established customers, there are more opportunities for global expansion than ever before. But laws, customs, tariffs, political considerations and economic factors vary from one country to the next and they're constantly changing. Taking all these factors into account, maintaining a seamless, lean and reliable global supply chain presents companies with an enormous challenge.

"Our world is increasingly connected by digital and physical networks," says Jeroen Eijsink, European president at C.H. Robinson, a third-party logistics provider (3PL) that helps companies to simplify their global supply chains. "But there are still significant political, economic and cultural differences between territories, on top of which we live in a fast-changing, unpredictable global environment. This means companies have to be able to adapt to change quickly and efficiently in order to manage every aspect of their supply chain."

This is why, he argues, global transport operators require a robust single global technology platform and reporting tools, which can handle the various interactions that comprise global supply chains. By working closely with a 3PL that has global reach and state-of-the-art technology, organisations have access to transportation management systems (TMS), which automate day-to-day processes, providing them with greater efficiencies in their supply chains as well as greater levels of optimisation.

> Companies have to be able to adapt to change quickly and efficiently in order to manage every aspect of their supply chain

C.H. Robinson's single global TMS, Navisphere®, is available through licensing agreements or cloud computing. "It can provide shippers with global visibility into the details of every shipment," explains Mr Eijsink. "It can help manage bids for any method of transport, anywhere in the world and co-ordinate contracts, procurement, rates, tenders and schedules. If a TMS is used effectively it can identify and tackle inefficiencies."

Alongside a TMS, what else should companies be doing to ensure their supply chains can support their global expansion plans? Mr Eijsink advises them to ensure letters of credit, tariffs, terms of sale and all financial documentation are in order to avoid profit-killing delays in buying, selling and sourcing. They should also adopt an integrated, co-ordinated workflow approach as well as making sure they use automated systems to comply with all security and regulatory requirements.

"Real-time, dynamic routing means you can make decisions quickly to take into account any number of different challenges as they arise," says Mr Eijsink "For example, the most efficient route in December may not be the same in January, once bad weather, political instability, fuel prices, capacity or any number of other factors come into play."

In today's uncertain world where regulations are increasingly stringent, managing risk is essential. Questions can arise about who is responsible for predicting, tracking and resolving disruptions, and for understanding international commercial terms (Incoterms®) and associated risks around contracts, liability and insurance. Awareness of risks and then clear accountability at the relevant level of the supply chain for handling them is essential.

"A risk management plan should include a visual map of all transportation routes, with identified risks called out as 'hot spots', plus detailed score cards for evaluating both in-house and contracted supply chain providers," says Mr Eijsink. "These score cards will help everyone understand which capabilities and responsibilities are most critical."

He points out that globalisation is driving transport to play a more prominent role in all organisations. "Enterprises and organisations that put a strong emphasis on growth and source from around the world will face a continuing challenge in the form of the added cost, complexity and risk that comes with moving raw materials or finished products across multiple borders," he says.

"Global transport and supply chain management is no longer an in-house operation. By working closely with a trusted 3PL to develop systems, strategies, processes and insights that make efficient use of both time and space, organisations can increase their competitiveness in the global marketplace."

FIVE BENEFITS OF OUTSOURCING TO A THIRD-PARTY LOGISTICS PROVIDER

01 Instantly acquire knowledge of taxes, cultures, currencies, regulations and more

02 Gain access to their technology and worldwide relationships

03 Obtain information about international commercial terms and negotiating contracts

04 Delegate routine tasks that have less impact on your global strategy

05 Allow internal staff to focus on strategic issues

For more information please visit www.chrobinson.com

CHEERS TO A LOGISTICS EXPERT

A US beverage producer looking to grow in Europe sourced a co-manufacturer in the Netherlands and embarked on its expansion plan. However, it faced challenges in the form of surges in demand, seasonal variations and trade-lane density. Identifying a carrier base and developing market pricing also presented problems, as did regulatory compliance.

The company chose C.H. Robinson because it realised a third-party logistics provider (3PL) typically enjoys greater scale than many carriers and asset owners. 3PLs can also connect with smaller and medium-niche carriers, which can reduce costs. On the other hand, as a 3PL, C.H. Robinson has coverage across a number of different markets, creating a seamless supply chain for the beverage company's products. It also has the capacity to provide for the company's requirements as it grows.

As well as reducing risks, a 3PL can allow a client to maintain a lean supply chain structure and react quickly to changes in demand. In this case, C.H. Robinson's single technology platform Navisphere® enabled its client to access and collect data so it could make smarter decisions.

"Our experience with our beverage client clearly demonstrates the importance of identifying a third-party logistics provider that has proven expertise and then developing a close working relationship with it," says Jeroen Eijsink, European president at C.H. Robinson.

Satisfying demands of the supply chain

Managing the supply chain while expanding into new territories presents fresh challenges in five important areas

SUPPLY CHAIN
SIMON BROOKE

Let's imagine you're the chief executive of XYZ plc, a company that makes trainers. The global market for trainers has grown by more than 40 per cent since 2004 to around $55 billion a year and so there's plenty of scope here. However, XYZ will have to rethink every link in its supply chain.

"The structure of supply chains has changed immensely. Linear supply chains – buy-make-move-store-sell-deliver – have evolved into supply chain grids, with each part in the traditional supply chain replaced by a series of sophisticated networks," says Puneet Saxena, vice president of industry strategies at JDA Software.

Trainer brands, like others, are increasingly obliged to guarantee integrity and traceability throughout the process. "One of Nike's core beliefs is that progress starts with transparency and collaboration, and that's why a decade ago, Nike became the first company in our industry to publicly disclose our factory base," says a spokesperson for Nike.

01 PROCUREMENT

As with so many products these days, trainers are surprisingly complex. For instance, the Adrenaline GTS 17 by trainer brand Brooks, which hit the market on November 1, is made up of 106 pieces.

"What's important when sourcing in the UK is critical when sourcing overseas," says Jayne Hussey, partner at law firm Mills & Reeve. "Companies need to make local connections, understand the market place, carry out numerous factory visits. References can also help to understand who your potential suppliers are."

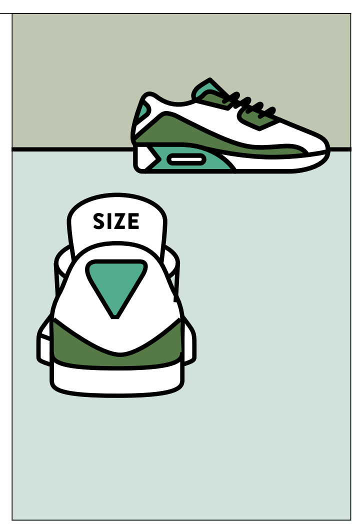
Technology can help trainers companies such as XYZ, according to Ad van der Poel, head of financing services at enterprise software provider Basware. "E-procurement enables executives to make quick and informed decisions which result in a healthy balance sheet," he says. "By providing teams with a new layer of visibility and access to actionable information, e-procurement places the user at the centre of the process. Businesses are able to source, manage and collaborate with the right suppliers, and bring spending under control."

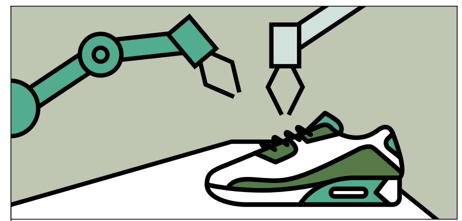
02 RULES AND REGULATIONS

The Bribery Act 2010 and the supply chain reporting requirements of the Modern Slavery Act 2015 apply to XYZ's activities both overseas and in the UK.

"The regulatory landscape is already complex and ever-changing, and the challenge is exacerbated when expanding into new markets," says Sonal Sinha, vice president of solutions at MetricStream, a provider of governance, risk and compliance software. "There needs to be a controlled, centralised supplier on-boarding, monitoring and off-boarding process to ensure they are working compliantly with laws and appropriately reviewed for any other risks."

Trainers need to have multiple size codes if they're being shipped from a home market, Andrew Blatherwick, chairman of supply chain solution provider RELEX Solutions, points out. XYZ will also need an understanding of display practices. For example, in countries such as Egypt the soles of shoes should not be displayed upwards as this is considered to be offensive.



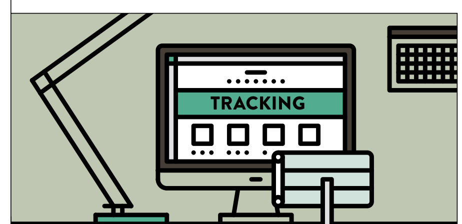


03 MANUFACTURING

XYZ might want to consider licensing its brand to companies already operating in its new territories. In 2015, manufacturing under licence grew its revenue 4.2 per cent, an increase of more than $10 billion, according to the International Licensing Industry Merchandisers' Association.

"If you're a manufacturer with a UK licence for a particular brand, you would need to add further territorial rights before you could sell these products into other countries," says the association's UK managing director Kelvyn Gardner.

Either way, ethical considerations are increasingly important. "Some brands, for example, will now only source from countries that are above a certain ranking on the *Worldwide Governance Indicators* list, published by the World Bank, which gives a macro view of factors such as rule of law, political stability and corruption," says Kosten Metreweli, chief marketing officer of Segura, a supply chain software provider.

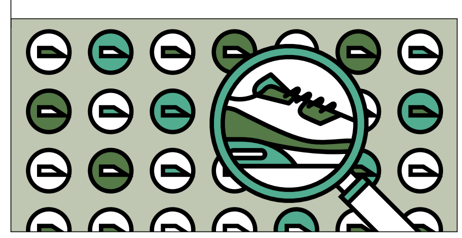


04 LOGISTICS

For trainers brands, expanding into new markets is easier today because technology is reducing development and production lead times, and promoting greater product transparency, according to Ed Gribbin, president of Alvanon, a global apparel business and product development consultancy. "3D virtual product development tools speed design and buying decision-making on the headquarters side, and simultaneously speed the pattern making and fitting assessments on the factory side," he says.

FedEx has been working with trainer retailer Sneakersnstuff to drive its international expansion. It has a store in London's Shoreditch, but 70 per cent of the Swedish brand's sales come from online customers as far afield as the United States and Asia.

"Visibility is fundamental to operations," says David Poole, managing director of UK sales for FedEx Europe. "Making use of your logistics provider's range of tracking options provides businesses with greater awareness of any potential delays, so customer updates can be given. This is an essential aspect of ensuring repeat customers."



05 MARKETING AND SALES

XYZ will have to study the competition in its new territories, advises Trish Young, UK and Ireland's head of business consulting technology provider Cognizant.

"Only then will they be able to determine their product positioning and differentiate themselves," she says. "From there, they will need to create localised assets and services through the various retail channels. Beyond this, they'll also need to ensure their product is in front of important influencers and, where possible, analysts to get the nod of approval."

For trainers producers, identifying the appropriate channels, be they wholesale, own retail, e-commerce or franchise, is also essential. "Brands and retailers that go down the wholesale or franchise route need to put in the leg work in the early days to ensure the partners they select have a clear framework within which to operate, so they can support the consistent execution of global brand values," says Sue Butler, director at management consultants Kurt Salmon.

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