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GOING GLOBAL

Finding the will and the way to export

Government export targets may be difficult to hit, but there are optimistic signs of emerging businesses boosting UK trade abroad

OVERVIEW

JAMES HURLEY

When George Osborne set his target to double the value of UK exports to £1 trillion by 2020, a glance at Britain's historic trade performance might have told him it was a plan that could prove tricky to deliver.

Since 1970, the UK has delivered a trade surplus only four times, in 1971, 1980, 1981 and 1982. If the nation's appetite to export since the Chancellor set that ambitious goal is anything to go by, we might be in for a rather long wait for the next one.

Indeed, the latest estimates from the British Chambers of Commerce predict that the £1-trillion benchmark, never mind achieving a trade surplus, will be missed by 14 years at current rates of progress. As margins of error go, it's embarrassing for the government, but also points to what a huge challenge it is to turn around the UK's anaemic showing in international trade.

With the current strength of the pound beginning to act as an additional headwind for UK exporters and continued weakness in European Union economies, which taken together are by far our largest market, encouraging British companies to do more business overseas is not about to get any easier.

Uncertainty caused by the debate over Britain's membership of the EU, as well as related issues concerning stronger immigration controls, give further cause for concern to those eager to boost trade. According to research from Zurich Insurance, a fifth of small and medium-sized businesses are worried about the impact on exports should Britain sever its ties with the EU.

China's slowdown and recent currency devaluation, means doing business with the world's second-largest economy could also be about to get harder. The Netherlands Bureau for Economic Policy Analysis, keepers of the World Trade Monitor, has already warned that the volume of global trade fell 0.5 per cent in the three months to June compared with the first quarter – its biggest contraction since the 2008 financial crisis.

So what can be done to whet companies' international appetites? Reforming the government's export support agencies, UK Trade & Investment (UKTI) and UK Export Finance (UKEF), makes for an obvious starting point.

Critics say the services have had too little financial support from the Treasury given the implications their work could have on the wider economy. Users of UKTI have reported that the quality of its services and advice has improved significantly in recent years, but still far too few businesses are aware of its existence or that of UKEF, which provides financial assistance to exporters.

And companies that are aware of the agencies' existence don't always get the right support. According to a recent Labour-commissioned report into British exports led by Graham Cole, the chairman of AgustaWestland, UKTI is too focused on "selling its products and services as a box-ticking exercise" instead of helping companies to forge relationships with overseas partners. UKEF was also criticised, with Mr Cole's report claiming it "lacked the appetite" to back smaller businesses, while those that did apply for its services were allegedly tied up in red tape.

> The process of finding a market and selling overseas for the first time has never been easier for fledgling companies

The government seems to have got the message; it says it is remodelling its delivery on exports with a "cross-Whitehall implementation taskforce" being led by Business Secretary Sajid Javid to improve public support for traders. What of the £1-trillion target? Policymakers are calling that an "aspiration" now. The new target is to "get 100,000 more companies exporting by 2020".

Improving the quality and availability of government support is only one piece of the puzzle, however. There appears to be a wider cultural issue of a lack of international ambition among many UK businesses, which is probably partly down to the fact that their domestic market is often large enough to provide a comfortable level of demand.

Many seem content to stick to their knitting, preferring self-sufficiency and domestic customers to the cut and thrust, and considerable risks, of international trade. From currency worries, getting to grips with new languages and cultures, and the age-old fear of getting paid on time, the fear of the unknown is understandable.

Yet there may be cause for cautious optimism in anecdotal evidence that suggests a new generation of businesses appear to be looking abroad much earlier in their lifespans than their older counterparts did. The process of finding a market and selling overseas for the first time has never been easier for fledgling companies, thanks to the rise of online marketplaces such as Amazon.

Encouraging an area of the economy that's often overlooked when it comes to international trade might also prove fruitful. Portrayals of successful British exporters from the media and politicians tend to focus on companies that manufacture or deal in a physical product. Yet the UK ranks as the second-largest exporter of services in the world behind the United States.

But there is the potential for far more; less than a quarter of services-based companies trade abroad, compared with more than half of manufacturers.

Learning the lessons from exporting powerhouses will also be crucial. For example, copying the German model of establishing chambers of commerce in more key overseas territories might help those willing to give exporting a go grow their sales more quickly, and help existing exporters push into new markets. Businesses would be able to access somewhere that provides expert local commercial advice, introductions to distributors, potential customers and supply chain experts, as well as a physical base from which to work while exploring opportunities.

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◆ **BRICs**

● **KATHRYN HOPKINS**

Down but are BR

What happened to the so-called BRIC nations of Brazil, that once offered such great economic promise?

When he worked as chief economist at investment bank Goldman Sachs just after the turn of the century, Lord O'Neill of Gatley, now Commercial Secretary to the Treasury, coined an acronym which became a worldwide phenomenon.

He wrote at the time that over the next ten years, the weight of the BRIC countries – Brazil, Russia, India and China – in world gross domestic product would grow, "raising important issues about the global economic impact of fiscal and monetary policy in the BRICs".

As a result, he called for world policymaking forums to be reorganised and in particular to include these fast-growing nations, beginning with the G7 incorporating BRIC representatives. South Africa was later added to the fold and BRIC became BRICS.

He was correct and the world witnessed years of rapid growth in these countries, especially in China which has become the world's second-largest economy and is poised to overtake the United States.

The focus has also switched from the G7 to the G20, which includes all four of the original BRIC nations and has grown in importance since it was founded in 1999.

However, in the past year all four of these countries have suffered serious slowdowns in growth and China, for many years the star performer out of the BRIC nations, may face more rough times ahead in the coming months.

Here, we look at what went wrong in each of these countries and ponder what the future might hold.

BRAZIL

Brazil's economy, currently the seventh largest in the world, is in pretty bad shape. Inflation is at a 12-year high of almost 10 per cent, corporate profitability has slumped and consumers' purchasing power has tumbled.

As a result, Moody's, one of the big three credit rating agencies, is expecting a sharper recession than previously forecast this year of -2 per cent. This is worse than the 1.5 per cent drop the International Monetary Fund pencilled in its latest *World Economic Outlook*.

Shweta Singh, an analyst at Lombard Street Research, says: "It typifies almost everything that can go wrong in an emerging market. It is one of the most exposed economies to the collapse in global metals prices triggered by China's slowdown. It has lost more competitiveness than most emerging markets. It is also highly exposed to a strong US dollar."

However, if this wasn't bad enough, the situation now looks likely to deteriorate further. At the time of writing, speculation was mounting that Brazil's President Dilma Rousseff could be impeached amid claims of fraud and corruption.

As well as a rapidly shrinking economy, Brazilians are also angry about the Petrobas scandal, under which several politicians and business leaders have been dragged into an investigation into corruption at the state-owned oil giant.

Ms Singh argues that if this materialises, "political uncertainty will weigh heavily on an already battered economy" and warns this development "is a severe deterioration in the political backdrop, which threatens the adjustments the economy badly needs to stage a recovery".

RUSSIA

Russia's ongoing conflict with Ukraine and the consequent barrage of sanctions imposed by the West, combined with tumbling oil prices, has resulted in a deep recession, which shows no signs of easing.

The most recent figures showed the economy contracted by 4.6 per cent in the second quarter of the year on an annualised basis, compared with a 2.2 per cent drop in the previous three months.

On top of this, the ruble has fallen by 20 per cent against the dollar since the beginning of the third quarter of the year and inflation is hovering around the eye-watering 15 per cent mark.

In a desperate attempt to prevent a further economic slump, the Bank of Russia cut interest rates at the end of last month by 0.5 per cent to 11 per cent. While this was the fifth cut so far this year, the central bank has slowed the pace of reduction due to the weakening currency.

Liza Ermolenko, emerging markets economist at Capital Economics, says: "The latest plunge in global oil prices and the associated depreciation of the ruble have added to what was already a bleak picture for the Russian economy, and reinforce our view that this year's recession will be deeper than most expect."

INDIA

While India has its problems, including dire exports and poor bank lending figures, it is fair to say that it is performing the best out of the four original BRIC nations.

Before China's economy plunged into turmoil, Lord O'Neill even joked to *Bloomberg News* at the beginning of the year that BRIC may become IC as both Brazil and Russia continue to struggle to return to growth.

Now, however, one could forecast that BRIC could become I as India increasingly looks like the last man standing, with its growth set to overtake that of China this year.

That is not to say that India doesn't have problems. In US-dollar terms, Indian exports fell by almost 20 per cent in the 12 months to June, marking the seventh consecutive month of contraction, while Narendra Modi, the new prime minister, has been slow to push through the reforms he promised.

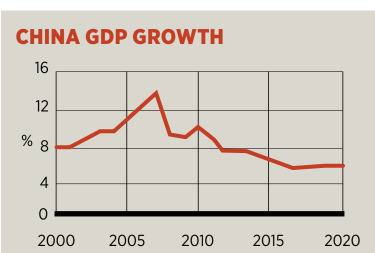
"Of the major emerging economies, India is one of the least dependent on global trade and capital flows. Therefore, it should be less vulnerable to a slowdown in China and a rise in US rates than many other countries," says Julian Mayo, co-chief information officer of Charlemagne Capital.

"India's growth model is evolving into a more balanced one, with manufacturing set to take a larger share of the economy. If the Modi reforms continue and deepen, productivity should increase markedly and India should grow at a much faster rate than China in the next decade, as it plays catch-up with its northern neighbour."

ICs out?

Russia, India and China

CHINA



After growing at an average of 10 per cent a year for three decades, China has hit a great wall. Annual growth in China, according to officials, has slowed to 7 per cent, although Capital Economics, an economic consultancy, believes it is more likely to be between 5 and 6 per cent.

Part of the problem has been that by tracking the strong dollar, the renminbi has appreciated significantly against other currencies. That has hit exports which slumped 8 per cent in the year to July, leading the government to decide the country needs greater export demand.

As a result, in the second week of August, Chinese policymakers unexpectedly devalued the renminbi. Another reason for doing so could be that it wants China's yuan – a primary unit of account – to be part of the International Monetary Fund's special drawing rights, a kind of global supra-currency. This would give it more financial and political power.

The move sent global markets into a tailspin, only to be outdone by so-called "Black Monday" later in August, when more than $1 trillion was wiped from the value of companies around the world over renewed fears of China's difficulties. Any further developments are likely to cause similar reactions as investors' nervousness over the state of the Chinese economy increases.

David Riley, head of credit strategy at BlueBay Asset Management, says: "As the world's second-biggest economy and largest trading nation, small changes in China can have big implications, and it will remain a key source of global macro uncertainty and market volatility."

Bridging the Gulf

The Gulf states hold promise for UK exporters looking for new markets following the slowdown in the BRIC economies

◆ **NEW MARKETS**

● **KATHRYN HOPKINS**

As the original BRIC nations face turbulent times, businesses will no doubt be looking at other growth opportunities around the world.

One region that a number of British businesses are increasingly considering is the Gulf. While the region has had its problems, notably Dubai's financial crisis in 2009, and there are concerns over human rights, there are opportunities for businesses.

The latest available figures from the Office for National Statistics showed the UAE is number 12 in the UK's top 50 export markets, while Saudi Arabia is in 18th place, Qatar is 31st and Kuwait is 48th. There is scope for all these countries to rise further up the list.

Although Dubai and Abu Dhabi have been talked about for years, oil-rich Saudi Arabia is also firmly on the map, with half of the population under the age of 25 and a growing private sector. What's more, more than 20,000 Britons already live and work there.

The largest economy in the Arab world, UK Trade & Investment says its benefits include growing diversification within the Saudi economy, massive government investment in transport, infrastructure, healthcare, education and energy, and a common use of English in business.

However, there are challenges, which include identifying suitable sponsors for initial entry into the market and finding an appropriate Saudi partner for joint ventures.

It also stressed that a physical presence is very important when establishing a business in Saudi Arabia. Businesses must also employ a certain quota of Saudis to comply with Saudisation rules.

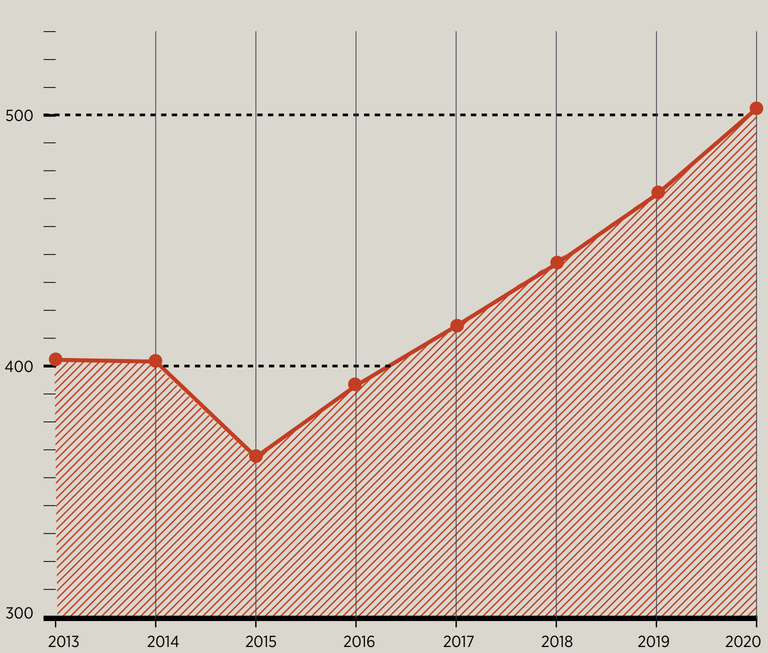
"Doing business in the Gulf remains challenging, but there is also great opportunity. Saudi is the largest market by some margin, so the Kingdom is a great place to start," says Adam Hosier, founder director of AEI Saudi, a Riyadh-based consultancy.

> **"Doing business in the Gulf remains challenging, but there is also great opportunity**

"But wherever you focus, it is important to seek sound, independent advice from people on the ground with the experience and knowledge to ensure your strategy is as low risk and low cost as possible. The key to success in the Gulf – commit don't commute."

Peter Bishop, deputy chief executive of the London Chamber of Commerce and Industry, adds: "In the Gulf, we are finding there are plenty of opportunities to excite British business interest. Our next mission to Saudi, in October, will coincide with Saudi Build, an important building and construction sector exhibition. Projects that are attracting particular attention there are the new metro lines in Riyadh, Jeddah and Mecca."

UAE GDP PROJECTIONS ($BN) 2013-2020



Source: IMF 2015

COMMERCIAL FEATURE

FIVE GOLDEN RULES FOR SUCCESSFUL INTERNATIONAL EXPANSION...

***Alan Giddins**, managing partner and co-head of private equity at 3i, which focuses on internationalising mid-market businesses with an enterprise value of £100 million to £500 million, outlines his top tips for successfully accessing new markets*

Despite representing only 0.5 per cent of all firms in the UK, medium-sized businesses, with a turnover of between £25 million and £250 million as defined by UK Trade & Investment, account for 20 per cent of employment and 25 per cent of turnover in the UK.

Furthermore, estimates from the Confederation of British Industry suggest this contribution is due to grow and could be worth up to £50 billion to the UK economy by 2020.

A large part of this growth will be driven by accessing international markets, but there are a range of challenges associated with new market entry.

RULE 1: START WITH A CLEAR AND DELIBERATE STRATEGY

New markets can represent a significant opportunity for mid-market businesses, but it is important to be considered in your approach. For example, emerging markets, while attractive from a growth perspective, can be highly complex from a regulatory and employment perspective, and necessitate relevant management expertise which is often not present in mid-sized businesses.

A detailed SWOT – strengths, weaknesses, opportunities and threats – analysis of potential new markets will identify which regions should be targeted, while also clearly pinpointing the relevant skillsets required.

3i invested in Trescal in 2010 when it was the leading European specialist provider of calibration services. The management team wanted to expand its footprint outside Europe and we worked with them to identify which markets they should target.

Detailed analysis showed it made more sense for Trescal to work with its existing global clients and enter these markets where there was the greatest client-pull for its services. This led Trescal to enter the US market with the acquisition of Dynamic Technology in 2011 and only then look at emerging markets, with an organic entry strategy into Brazil.

RULE 2: SELL PRODUCTS OR SERVICES TAILORED TO THE LOCAL MARKET

A killer product in your domestic market may not necessarily translate well into a new market. Each country has its idiosyncrasies; commercial and cultural variances between regions are often more difficult to grasp than the obvious legal or regulatory differences, but they are equally important.

This is particularly key for consumer-facing businesses where it is imperative to adapt your products or services to the new market's consumer habits. The changes could be aesthetic, such as the branding or packaging to match the market's preferences, or it could require more fundamental changes to your product.

When luxury lingerie retailer Agent Provocateur entered China, it had to ensure its products were tested and labelled as per local regulations. It also had to adapt its presentation and visual merchandising strategy to keep in line with more conservative local tastes. This is where having an investor with an existing local network and deep market knowledge can be invaluable.

RULE 3: CHOOSE THE RIGHT STRUCTURE

Having defined your target countries and relevant products or services, the next step is to choose which legal structure is most appropriate. Is it best to access a new market directly by placing a new sales team in the region? Or would it be more appropriate to test the market through a third-party distributor or are you confident enough in the market's appeal to access it through a bolt-on acquisition?

On-the-ground experience is key and so it is worth comparing notes with businesses that already have a presence in your target region to find out what worked for them and what to avoid.

Rather than focusing on one roll-out method to expand Mayborn's tommee tippee brand internationally, we used our experience to see which approach would work in each target region. Mayborn has subsequently entered new markets through a balance of direct retailer and third-party distributor models across its core geographies. The company has been transformed from a UK-centric business to a truly global company with more than 60 per cent of sales coming from outside the UK.

RULE 4: ALLOCATE THE REQUISITE FINANCIAL AND HUMAN RESOURCES

Internationalisation is not a shortcut to growth; expanding with a clear and deliberate strategy takes time and can incur costs which should be viewed as an investment in the business for medium to long-term growth. These costs and the management time required for success are often underestimated and, therefore, shareholder support is critical if the company is to realise its full potential.

Private equity is well suited to help in this regard. In December 2010, 3i invested in Element Materials Technology, an international materials testing business which was previously a non-core division of Stork, a Dutch engineering conglomerate. Since our investment, we have used our testing and inspection experience to work closely with the management team to identify and complete nine bolt-on acquisitions in Europe and the United States.

As part of this expansion, Element redesigned its organisational structure moving from a geographic to a sector model. In addition, to help integrate these acquisitions, the management team has gone through an extensive process to standardise their operational and commercial practices, putting in place a clear integration plan for all new acquisitions.

RULE 5: CHOOSE A GOOD FINANCIAL PARTNER

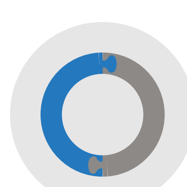
Given the time and investment needed for international expansion, mid-sized businesses succeed when they are supported by a financial partner that not only has the capital required, but also the experience and network of people in international markets.

This is what 3i can offer. We have teams in nine countries across three continents and a portfolio of companies which are present in more than 80 countries. We have significant international experience and, as a result, have the expertise and network to help our portfolio companies manage the risks and succeed in accessing new international markets.

www.3i.com
@3iplc

Medium-sized businesses account for 20% of employment in the UK

3i's portfolio of companies are present in more than 80 countries



200 bolt-on acquisitions across 3i's portfolio in the last five years

Shall we go or should we stay in EU?

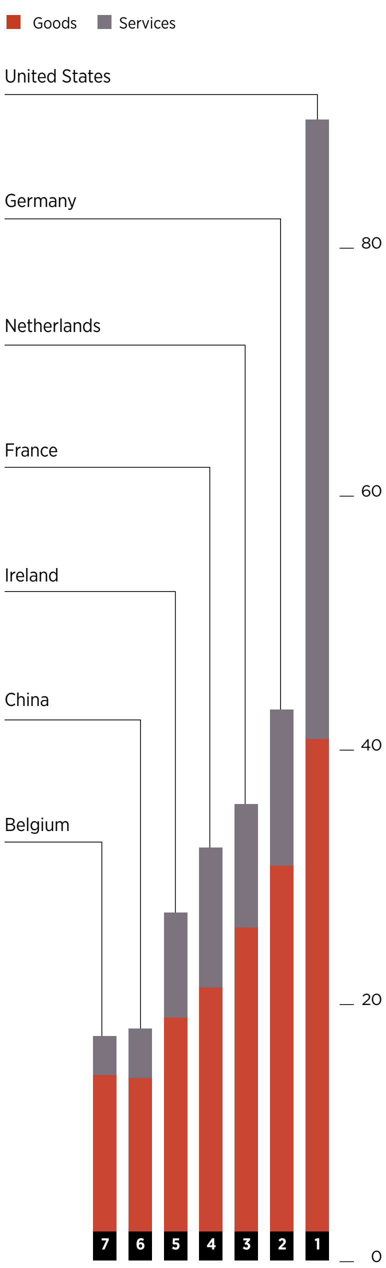
Public opinion may currently be in favour of remaining within the European Union, but the gloves will be off for the coming referendum fight

◆ **BREXIT**

● DAVID SMITH

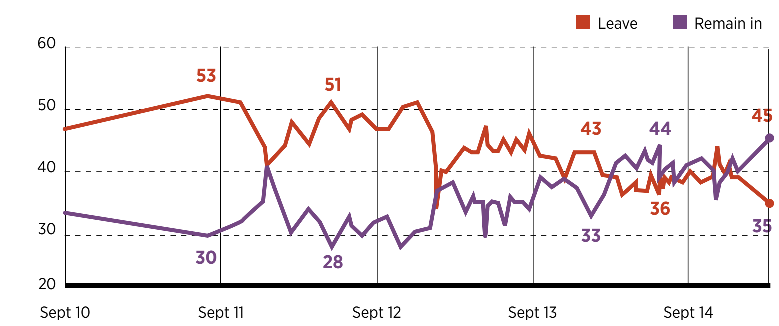
UK prime minister David Cameron speaking at an October 2014 press conference at the European Council headquarters in Brussels

UK'S TOP 7 EXPORT MARKETS (£BN)



Source: ONS 2014

POLLING FOR THE EU REFERENDUM
IF THERE WAS A REFERENDUM ON BRITAIN'S MEMBERSHIP OF THE EUROPEAN UNION, HOW WOULD YOU VOTE?



Source: YouGov 2015

It is perhaps the biggest issue facing British business in the coming years. Will Britain remain part of the European Union or will voters choose exit, leaving the country to forge new economic relationships both with Europe and with the rest of the world? It could happen sooner than people think. Though Prime Minister David Cameron's commitment is to hold an in-out referendum before the end of 2017, expectations are growing that the vote will take place during 2016.

As far as business is concerned, the battle lines are growing. Business for New Europe, which counts much of Britain's business establishment among its membership, including high-profile figures such as Virgin's Sir Richard Branson and WPP's Sir Martin Sorrell, argues that "Brexit" – British exit from the EU – would deprive business of unrestricted access to its most important market.

It says: "As a member of the European Union, our companies can sell, without barriers, to a market of 500 million people. The Single Market means that exporters only need to abide by one set of European regulations, instead of 28 national ones. Europe is our biggest trading partner – it buys 45 per cent of our exports. If we left the EU, companies would face tariffs and regulatory barriers to trade. The free movement of capital means that EU companies can invest here in Britain freely. This investment, by companies such as Siemens, creates jobs and grows our economy. Forty six per cent of all the foreign investment in Britain comes from EU countries."

While backing the Prime Minister's efforts to renegotiate Britain's membership and to make the EU "more streamlined and competitive", it says that such reform would be impossible if Britain was "outside knocking on the door". British households benefit to the tune of £3,000 a year from EU membership, Business for New Europe claims, and the UK gains from free trade deals negotiated by the EU with more than 50 other countries.

Such claims are challenged by others, most notably Business for Britain, led by its chief executive Matthew Elliott, and which includes John Mills, the Labour donor and chairman and founder of JML among its prominent supporters. Business for Britain claims to speak for "the silent majority" among British businesses, though its stance is not explicitly one of campaigning for EU exit.

It says: "Business for Britain will ensure that the British people understand that many UK business people want a better deal from Brussels and are not scared to fight to achieve that change." But it also insists: "Instead of pushing the debate to the extreme corners of In versus Out, we should be having a sensible discussion about what is right and what is wrong in our current arrangements." However, it is expected to push for exit if it deems the Prime Minister's renegotiation efforts are unsuccessful.

In contrast to Business for New Europe, Business for Britain says the UK could gain influence and prosper outside an unreformed EU. Business would escape most of the red tape imposed as a consequence of membership, new trade deals would be negotiated with the rest of the world and families would gain to the tune of £933 a year, mainly through not being subject to high food prices as a result of the Common Agricultural Policy. It has produced a 1,000-page report, *Change or Go*, to set out the case for a British future outside an unreformed EU.

Where does the truth lie? Cost-benefit assessments of EU membership assembled by the House of Commons Library do not provide a definitive answer. The Centre for European Reform suggested that the effects of staying in or leaving the EU would be relatively small, ranging from a negative 2.2 per cent of gross domestic product (GDP) to a positive 1.55 per cent by 2030.

But it concluded: "The alternatives to EU membership are unsatisfactory: they either give Britain less control over regulation than it currently enjoys, or they offer more control but less market access. In a referendum, Britain will have to choose between national sovereignty and unimpeded access to EU markets. While membership of the EU is as much about broader, political questions as economics, the economic case for staying in the Union is strong."

> One thing that is clear is the run-up to the referendum will produce some uncertainty and a decision to leave would provoke even greater uncertainty

A 2014 report by the London School of Economics' Centre for Economic Performance suggested that the trade costs of leaving the EU would range from 2.2 to 9.5 per cent of GDP, though a report from Civitas, the think tank, suggested the trade benefits of EU membership were greatly exaggerated. In a 2013 assessment, the CBI, representing employers, said the overall net benefits of membership ranged from 4 to 5 per cent of GDP.

That debate will go on and will become more intense. One thing that is clear is the run-up to the referendum will produce some uncertainty and a decision to leave would provoke even greater uncertainty. Negotiating and adjusting to new arrangements outside the EU could take a decade. The biggest threat would be to investment, particularly inward investment into Britain from outside Europe, much of it done with an eye on accessing Europe's single market. British business could also decide to invest elsewhere in the EU, however, to ensure it is within the single-market area.

The debate has a long way to run and public opinion can and probably will change before the referendum takes place. The only precedent, as far as Britain is concerned, is the 1975 referendum on Britain's continued membership of the European Economic Community (EEC), called by Harold Wilson's Labour government.

When the referendum was called, in January 1975, the public appeared on balance hostile to continued membership, by 60 to 40 per cent. In the referendum itself in June, however, the vote was two to one in favour of remaining in the EEC; 67 to 33 per cent. The parallels are not perfect. Business was strongly in favour and provided much of the funding for the "Yes" campaign. Newspapers and mainstream political opinion also campaigned to stay in.

This time will be different but, as things stand, and despite the bitter battle leading up to the latest Greek bailout and the EU's migration crisis, the debate starts with public opinion in favour of continued EU membership.

YouGov suggests public opinion on membership, which as recently as 2012 showed that the proportion of people wanting to leave the EU exceeded those supporting continued membership by 20 percentage points, has turned around. So far this year, its polls have shown voters are in favour of remaining part of the EU, the latest by 45 to 37 per cent.

The two most important drivers of public opinion on EU membership appear to be the state of the eurozone economy and UK consumer confidence. In 2012, the euro looked to be on the brink of break-up and consumer confidence in Britain was at a low ebb. People blamed the EU's woes for their own economic discomfort. This year the eurozone economy has been recovering, albeit slowly, and a messy Greek deal has been done to avert break-up. More importantly, UK consumer confidence is riding high, having recovered to pre-crisis levels and beyond.

There is a long way to go but for those who see Britain's future best served outside the EU, including business campaigners, the task will be to turn around public opinion, not ride a tide of anti-EU sentiment.

Tactics to get exporters up and running

Knowing how best to enter an export market is tricky, but there are seven core tactics which exporters can use to launch a business overseas

◆ **EXPORTING**

● **JAMES HURLEY**

Once companies have summoned up the courage to begin selling overseas, their next dilemma is choosing a market entry method. There are numerous tactics available, from simply sticking your products on a giant web platform, to finding an eager distributor, or taking the plunge and buying an overseas partner or competitor.

Most exporters will use some combination of seven core tactics, but which route to choose will depend on the size, stage and type of business trading abroad, as well as the nature of the products. A company with a unique widget they've invented may find licensing their technology to a partner is the quickest route to international growth, for example, while a manufacturer may find it's necessary to open a foreign subsidiary.

New exporters who aren't quite sure which method to use can ask UK Trade & Investment, the government's export agency for help. Its First Time Exporters scheme provides training and advice for fledgling global traders, including guidance on which market entry method might hold the key to international success.

01

E-COMMERCE

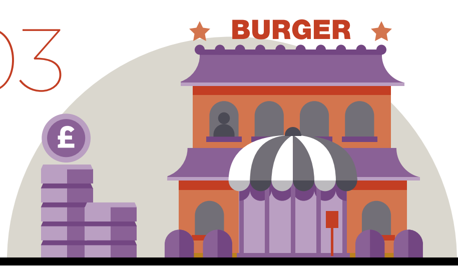
Often the simplest and most common starting point for small exporters is to make products and services available online. Selling through your own website, or a giant online platform such as Amazon, eBay or Etsy, allows small businesses to access a global audience instantly without leaving their office, kitchen or bedroom. Those choosing Amazon, for example, can also simplify things even further by using the web giant's own payments system, warehousing and distribution network. Callum Bush started his electronic accessories business, called Mediadevil, in his bedroom in 2009 with £3,000 capital. He has used Amazon's distribution services to sell more than one million of his products in markets including Italy, Germany and the United States, and has won an award from UK Trade & Investment for his exporting prowess.

02

LICENSING TO A PARTNER

This is a relatively low-risk, low-cost method of selling products overseas without having to worry about the hassle of managing the everyday details of exporting or investing a significant amount of your own capital upfront. You choose a partner who will often be given a licence to sell your products exclusively in one or more territories for a fixed term and will pay you a royalty fee in return based on a percentage of sales. It can be a way to test the water in a market and pave the way for further investments, but involves choosing your partner very carefully. You won't have much control, so they'll need to be doing a good job if your brand isn't to be damaged. You'll normally need high sales volumes to see a decent return.

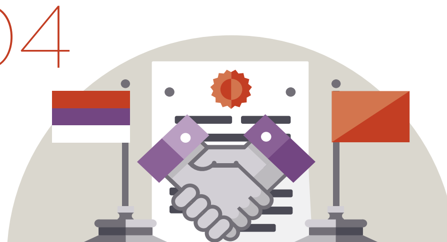
03



FRANCHISING

Similar to licensing, franchising can also be a low-cost way of expanding into a number of markets simultaneously. However, it involves formally "packaging up" the brand, know-how and processes of your business so a partner can easily buy a localised version of your brand "off the shelf". More than 80 per cent of McDonald's restaurants are owned by franchisees, allowing small business owners all over the world to operate with the power of a famous brand behind them. While there are various complexities involved, not least the common risk of disagreements and legal disputes with franchisees, smaller, less well-known companies have also used this method to enter markets they couldn't have tackled on their own.

04



JOINT VENTURE

Where there is political risk or government controls on foreign ownership, or you simply need the expertise of an established local player to get off the ground, a formal partnership with a third party may be necessary. China and the Middle East are both markets where a joint venture is often required. Risks include loss of control and your partner becoming a competitor, but you do stand to benefit from the combined resources of two organisations and local expertise.

05

OPEN A SUBSIDIARY

Opening an entirely new, separate business entity in a key export market sits at the other end of the commitment scale from simply using an online platform to begin selling a few products overseas. Many smaller businesses will shy away from this, at least in their early days, due to the cost, risk and complexity involved. However, where regular close contact with customers and detailed control is required, a wholly owned subsidiary can be a sensible approach, especially in markets expected to contribute a significant chunk of overall sales. It's common for manufacturers to set up an overseas plant. For example, Direct Healthcare Services, a Welsh maker of pressure care products including specialist mattresses and cushions, has used local subsidiaries to allow it to expand in 20 countries across Europe, Asia-Pacific, Australasia and Latin America.

06

REMOTE DISTRIBUTION

A very common way to tap local knowledge and contacts, but without the expense or commitment of a more formal joint venture or acquisition, is to find local distributors in each market you target. As well as physically picking up and moving your product, the distributor will also knock on doors on your behalf to build your order book. The Lakes Distillery, a young English whisky, vodka and gin distillery, is using this method to supply France, Spain, Germany and Taiwan. Founder Paul Currie says he generally picks small distributors because emerging companies of a similar size to yourself are often more eager to do a good job than big-name local resellers, where your product risks merely being one of many they are pushing.

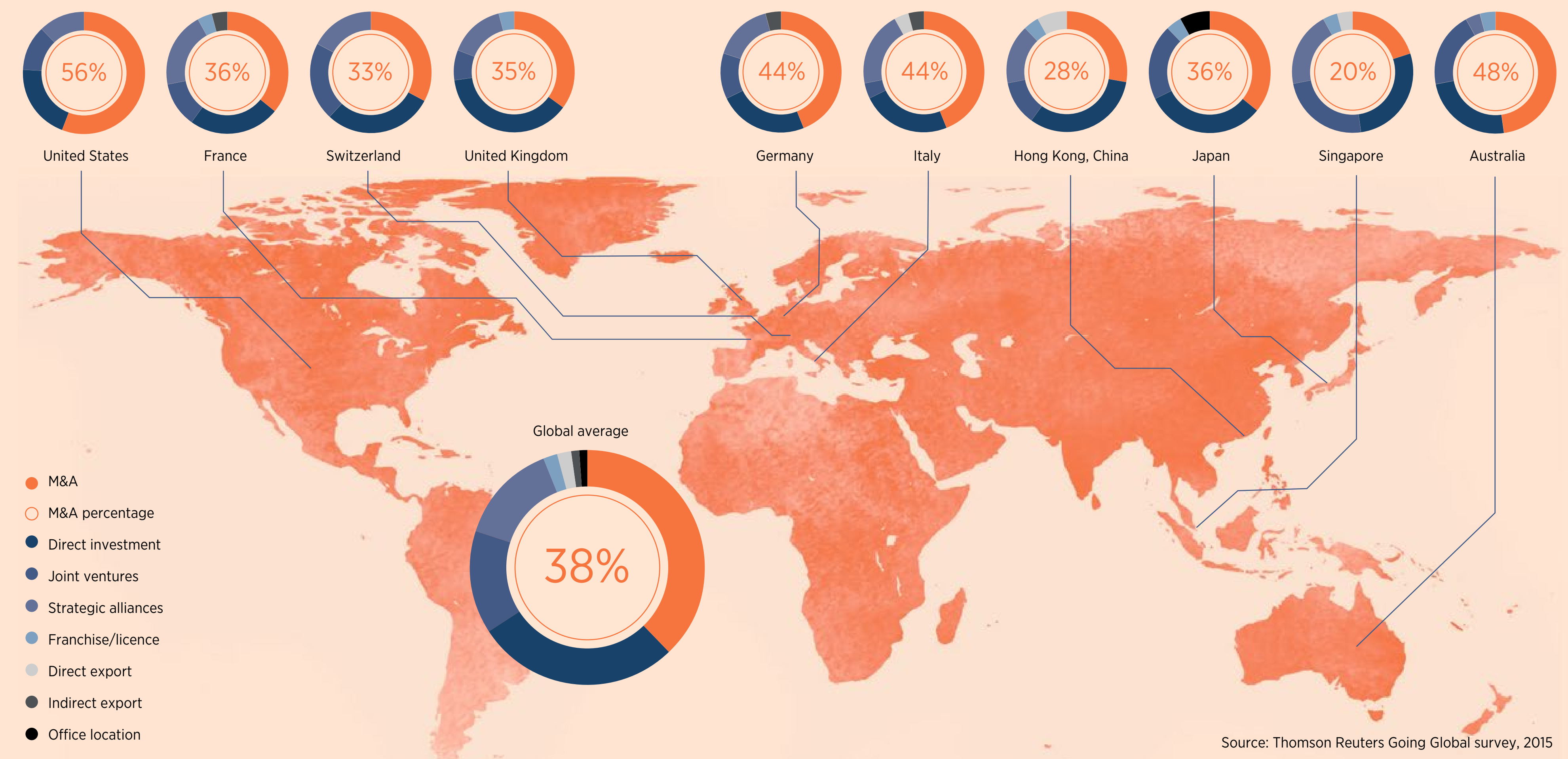
07

MERGER/ ACQUISITION

Why start from scratch if you can afford to buy local skills, market share and knowledge by acquiring a company in your target market? Having a presence on the ground that already has customers as well as expertise proves you're committed for the long term and provides a running start in a new territory. Solar power business Bboxx used this method in order to build sales in a tricky region. In 2013, the company bought out its distribution partners in Kenya and Uganda with a view to establishing a base for expansion. Chris Baker-Brian, the company's co-founder, says: "This helped us enter a relatively difficult market in a controlled way, balancing the need to control the entire supply chain with the difficulty of operating a business in East Africa by using our distributors' experience." Bboxx now has 10,000 customers in the region.

COMMERCIAL FEATURE

Primary mechanism for international expansion by country of origin



Source: Thomson Reuters Going Global survey, 2015

KNOWLEDGE IS POWER IN M&A

Before deciding on a merger or acquisition, make sure you are the best-informed executive in the room

THOMSON REUTERS

Like countries or political systems, every M&A deal is different from the next. Some are groundbreaking – note the $80.3-billion 1999 merger of Exxon and Mobil, still the biggest deal in the history of the oil and gas sector. Others barely make a ripple, but appear considered and strategically robust – the $32-billion August 2015 acquisition of Precision Castparts by Berkshire Hathaway springs to mind.

Each deal contains a measure of risk that ranges from moderate to off the chart. Deals can make or break companies. Sometimes, the best deal is the biggest – witness the 2008 merger of brewers InBev and Anheuser-Busch. With others, it's sometimes the worst. As the property mogul Donald Trump observed: "Sometimes your best investments are the ones you don't make."

"Undertaking corporate expansion using the M&A route involves risk," says Leon Saunders Calvert, global head of Capital Markets and Advisory at Thomson Reuters. "It's expensive and it is probably one of the largest strategic undertakings companies undertake." Yet risk and reward have always gone hand in hand. There will always be those who dream big, and others who believe the best way to double your money is to fold it and put it in your pocket.

For this reason you cannot underplay the importance of being the best-informed individual in the room if you're eyeing up an acquisition and scrutinising the value inherent in (or absent from) a potential deal. Thomson Reuters Eikon, a single, centralised source of information and financial analysis, allows you to be that person, as does the firm's 160 years of knowledge and data accumulated by the world's best journalists and analysts.

The M&A space will also always have innate cycles and rhythms – it's the natural way of things. In the wake of the financial crisis, the megadeal went into hibernation. Corporates and their shareholders struggled to value assets, as markets tumbled and economies swooned. In 2008, Mr Saunders Calvert notes, fewer than 20 per cent of US-based companies saw their stock prices jump after revealing their intention to buy or merge with a rival.

But as corporates stockpiled cash and the Western world stepped back from the brink, the mood shifted again. As the United States recovered and China boomed, risk was placed back on the table. The number of US corporates whose shares rise on news of a transaction is now pushing towards 70 per cent and has increased every year since 2010.

This attitude is reflected in Thomson Reuters *Going Global* survey of more than 250 C-suite executives, employed by corporates ranging from genuine multinationals to thriving mid-sized firms. In the United States, still the world's biggest and most influential M&A market, 56 per cent of respondents said they would opt to expand into new markets, or broaden their reach and appeal across existing markets, by buying a rival corporate.

That number remained above the 40 per cent mark when corporate leaders in Italy, Germany and Australia were questioned. In Britain, C-suite executives favoured a less acquisitive approach, with 38 per cent proclaiming their intent to invest directly in a new market, rather than buy the shares of a peer. In total, 38 per cent of those surveyed opted for the M&A route with 28 per cent preferring the direct investment route and 14 per cent minded to saddle up with a joint-venture partner.

Mergers and acquisitions tend to be cyclical, with deals either crowding a marketplace or disappearing entirely, for a good reason. They thrive during the good times, when global economic conditions are golden and tail off when the skies cloud over.

"Expansion through acquisition typically tends to happen when a company and its CEO have a high degree of market confidence," says Mr Saunders Calvert. This is particularly pertinent, he adds, when corporates are considering "going global" – expanding into new arenas and territories. "These outbound transactions tend to involve an additional layer of risk," he says. "You have added legal and governance complexities to deal with, along with significant cultural challenges."

Human nature, which is founded on confidence and aspiration (otherwise we would not get up in the morning) also conspires to undermine the M&A cycle during recessions and slumps. In theory, this would be a great time to buy good assets on the cheap. Yet this is a misperception. "Just because an economy is struggling, it doesn't mean that a seller wants to divest an asset at a knock-down rate," says Mr Saunders Calvert. The same thinking is at work in the mind of a homeowner hoping to sell, but happy to wait for a good offer.

> "Thomson Reuters Eikon, a single, centralised source of information and financial analysis, allows you to be the best informed, as does the firm's 160 years of knowledge and data accumulated by the world's best journalists and analysts

Buyers also need to ask why they like a potential target. Is it because a market is underexploited, as many are? In the *Going Global* survey, India was deemed to be the most underexploited major market in the world, according to 10 per cent of respondents, followed by Indonesia and South Africa.

Or is it because C-suite executives see synergy in a deal – an alignment with another corporate whose aims and ambitions may chime with theirs. If they do, and they are right, such transactions "tend to do well, adding significant value to both parties", says Mr Saunders Calvert.

Deals that are more opportunistic and defensive in nature have a higher tendency to struggle, proving to be value-diluting events. In the survey, 23 per cent of corporate leaders said the primary reason for expanding into a new economy was to keep pace with competitors, which is interesting as organisations that are undertaking acquisitions just because their competitors are doing so might not get the optimal results.

The well-timed and thoughtful deal can also help a company gain greater control of resources or assets that may be key to its future success – the more of an operating system or supply chain you own, the easier it is, in theory, to cut out mistakes and to reduce third-party risk. "I do not think that anyone would advocate buying their entire supply chain, but the more dependence you have on assets or parties that you don't own or control, the more extraneous risk there is to you being able to deliver quality goods and services to your customers," says Mr Saunders Calvert.

Ultimately, there are no right or wrong answers. You might plan an M&A deal scrupulously, yet see it blow up at the last minute. A good deal in one quarter might look bad in the next. Economies might contract or currencies depreciate. Sanctions or political upheaval may stymie a country's short-term growth, if not its long-term potential. Yet the fact that M&A remains overwhelmingly the favoured way to expand further into new or existing markets, among corporates of all sizes, according to the *Going Global* survey, attests to its continuing allure.

"The lifecycle of an M&A transaction is long," Mr Saunders Calvert concludes. "A deal may take months to be completed and during that period anything might happen to disrupt it. Post-merger market changes and other corporate actions make it very hard to define, in hindsight, whether a deal was 'good' or 'bad'."

Mergers and acquisitions will always retain both risk and reward. They typically work well in the good times and struggle in the bad. But the best way to ensure M&A succeed, whatever the prevailing economic environment, is to have the best data, information and market knowledge on your side. With this there is perhaps no better way to grow your business and to realise your company's ambitions of becoming truly global.

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Births, deaths, investments a

Population growth or an ageing workforce can impact global business, but demographics and spending power are a complicated

◆ DEMOGRAPHICS

● ELLIOT WILSON

Once upon a time there was a clean, clear link between a country's wealth and a company's desire to tap into its consumer base. Whether you were McDonald's or GSK, Volkswagen or Marks & Spencer, a new market offered access to a large group of people who would, at some point, want to buy a burger, medicine, a sturdy hatchback and a dressing gown.

Then corporates started becoming sophisticated. No two markets, they realised, were the same. Wealth might be concentrated in the hands of young people in one region – say, Africa – but reside in the wallets of the middle aged or elderly in Japan or northern Europe. In yet other markets, the United States being a classic example, consumption was and is spread across a broad demographic and geographic range.

To corporations that package and sell goods and services, and to the investors who own shares in them, having a solid understanding of demographics in a target market is of paramount importance. Getting it right can define whether that company rises and grows, or fails and falls. Whether you enter market A or market B – or both, plus markets C, D and E – may depend on a welter of hellishly complex variables.

For one thing, what are "good" demographics? To some economists, this is all that matters. Germany's "economic miracle", which revived a shattered economy in the 1950s, was built on the shoulders of driven group of young entrepreneurs desperate for a better life. The same factors later put a rocket under growth in Japan, South Korea and China.

To Brian Pallas, the founder of Opportunity Network, a global match-making service for investors, demographics are becoming evermore relevant for decision-makers at corporations. "When deploying capital, you are looking for growth. It doesn't matter where an economy's baseline is, so much as how fast it's growing," he says.

Yet demographics are often only part of the picture. Having a bustling young population helps, but not if it would rather be engaged in embezzlement rather than job creation.

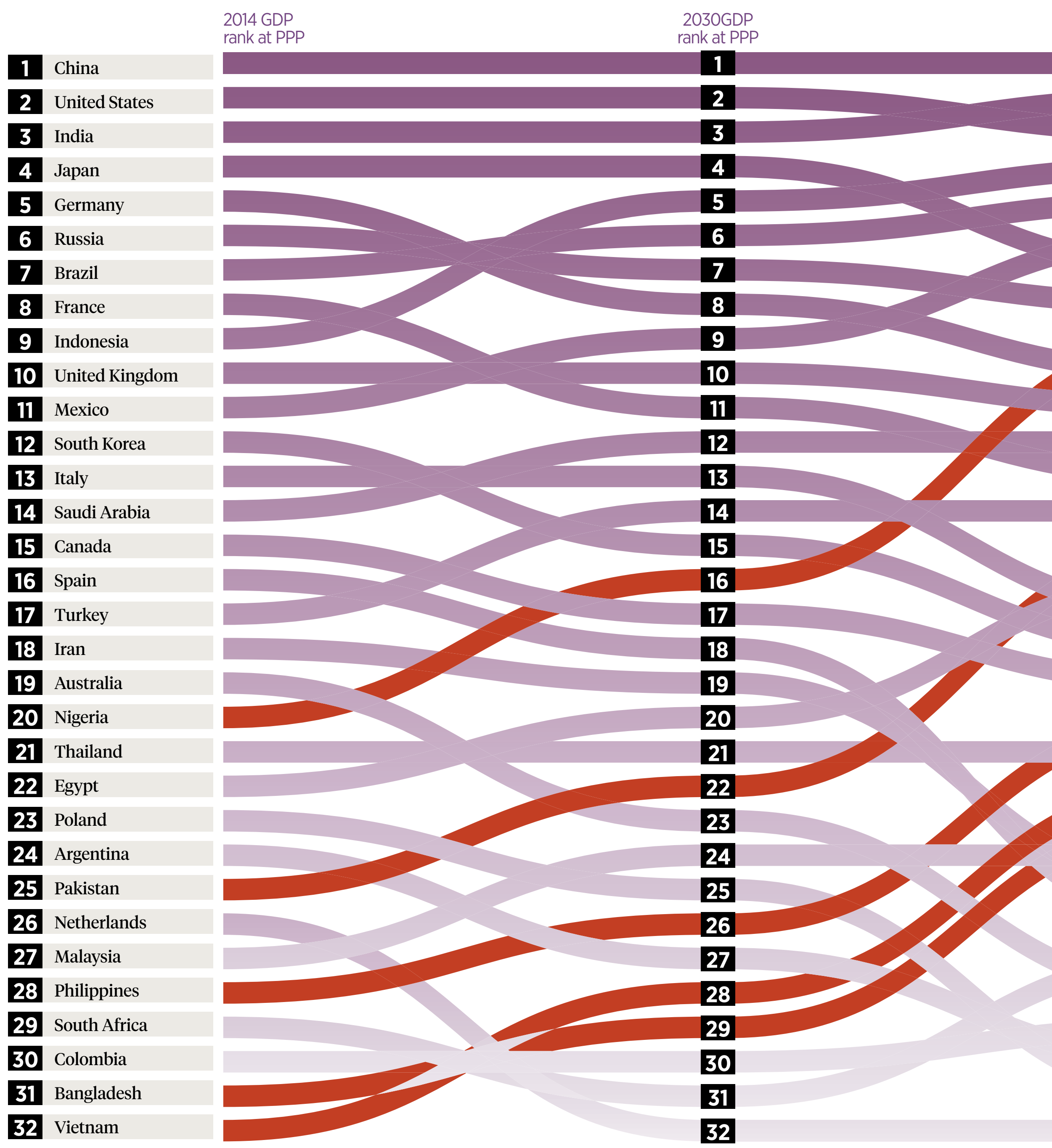
Bad government, corruption, shoddy infrastructure and incomplete legal or judicial systems can all hamper a country's potential, or hinder its rise. "Good demographics are certainly a plus, but they aren't a guarantee of success," says David McIlroy, who manages the Africa fund at London-based Alquity Investment Fund, with £65 million in assets under management.

Marcus Svedberg, chief economist at emerging-market investment manager East Capital, adds: "You can fail with good demographics, just as you can succeed if your demographics look bad."

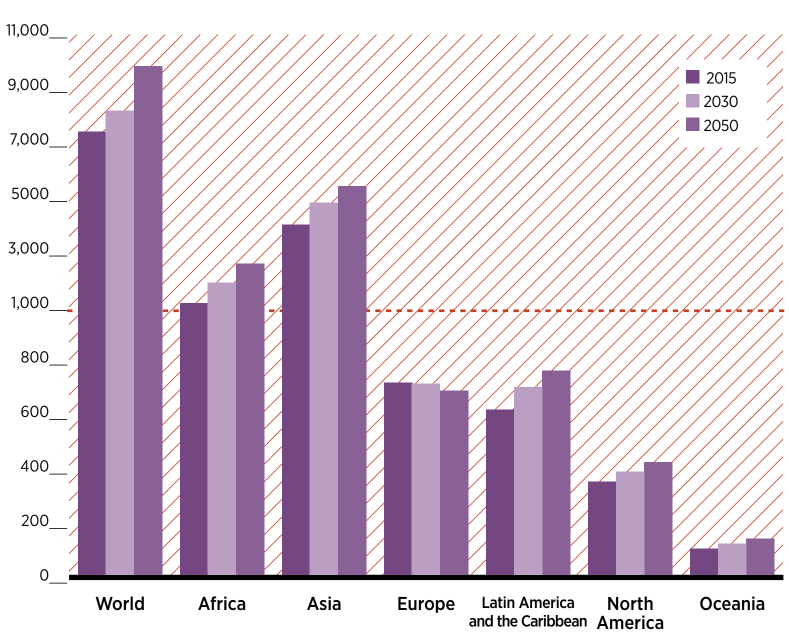
A classic example here is sub-Saharan Africa, which by any measure has the world's best demographics. The region boasts 11 of the world's 20 fastest-growing economies, and a wealth of human and natural resources. By mid-century, Nigeria is on track to become the world's third most populous nation after India and China, with Kenya, Tanzania and Uganda all set to pass the 100-million mark.

Urbanisation is rising across the region, a process that raises growth and employment, and boosts disposable income and consumption, factors that act as fly-paper to investors and corporates. Alquity's Mr McIlroy says his fund is investing in corporates that produce goods ranging from soft food to telecoms to cement. Included in its Africa fund are major corpo-

GDP PROJECTIONS AT PURCHASING POWER PARITY (PPP) RANKINGS, HIGHLIGHTING FIVE KEY EMERGING MARKET



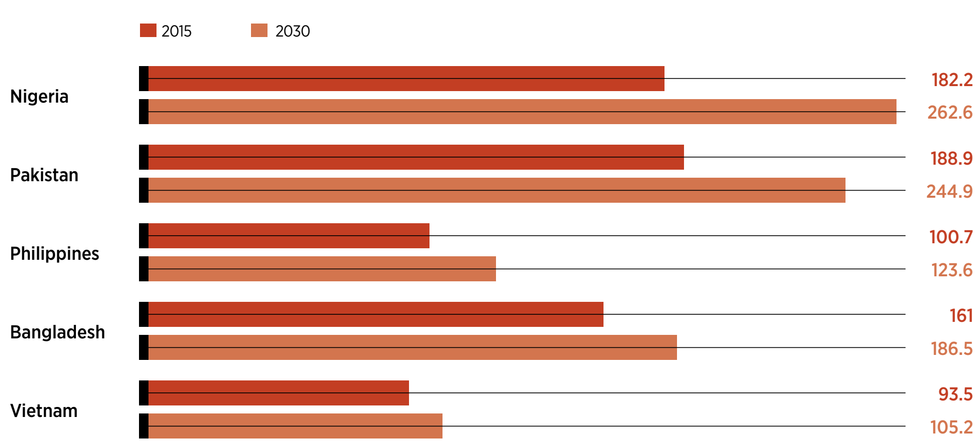
GDP AT MARKET EXCHANGE RATES ($BN)



Source: United Nations 2015

PROJECTED POPULATIONS OF ULTRA-HIGH-NET-WORTH INDIVIDUALS (UHNWI)

UHNWIS ARE DEFINED AS SOMEONE WITH A NET WORTH OF OVER $30 MILLION



Source: Knight Frank 2015

WHEN WILL EMERG THEIR 'SWEET SPO

The "sweet spot" of growt when the size of the midd portional to the rate of ec the sweet-spot level accel turn, adds more people to

- Vietnam
- Philippines
- Pakistan
- Nigeria
- Bangladesh

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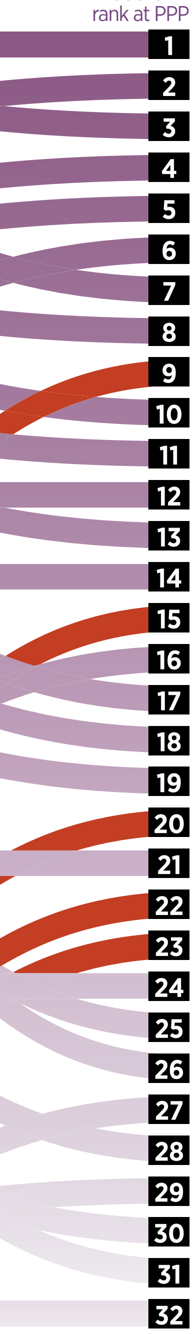

Source: IMF 2014

GING MARKETS HIT TS'?

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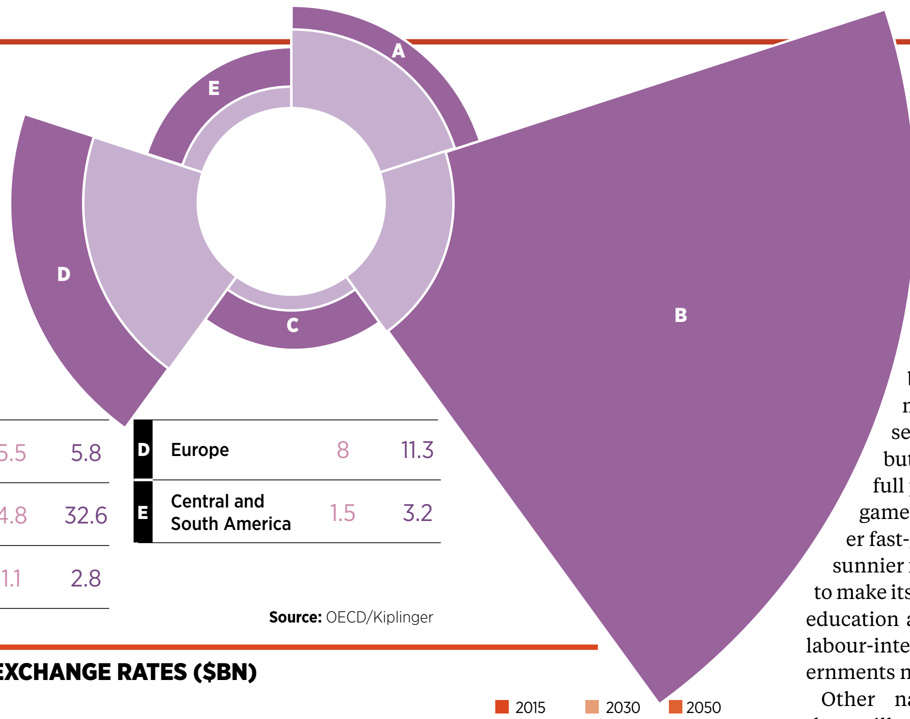
Source: EY 2013

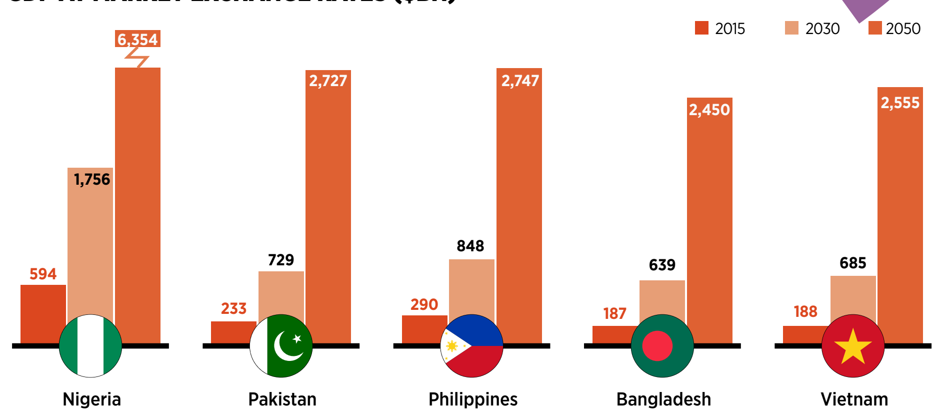
PROJECTED MIDDLE-CLASS SPENDING ($TRN)



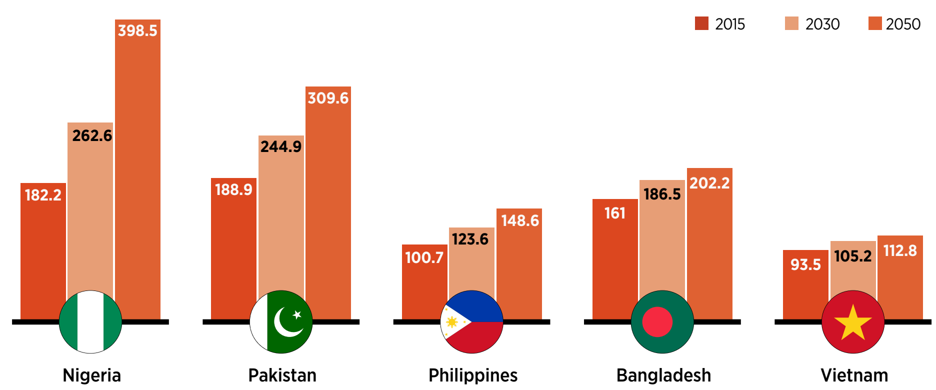
	Region	2010	2030
A	North America	5.5	5.8
B	Asia-Pacific	4.8	32.6
C	Africa and Middle East	1.1	2.8
D	Europe	8	11.3
E	Central and South America	1.5	3.2

Source: OECD/Kiplinger

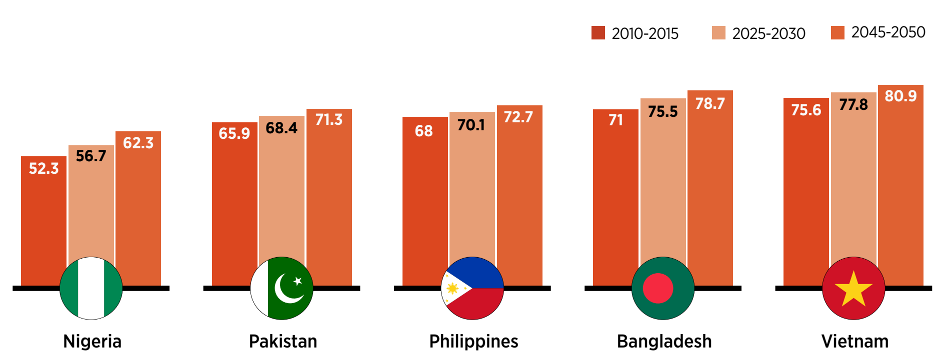
GDP AT MARKET EXCHANGE RATES ($BN)



POPULATION (M)



LIFE EXPECTANCY AT BIRTH



Source: United Nations 2015

rates, such as South African media firm Naspers, Egyptian food producer Edita and Nigerian cement giant Dangote.

Yet Africa also lags horribly. It had great demographics in the 1990s and 2000s, but progress was thwarted by corruption and war. Even now, shockingly bad infrastructure undermines growth. This can be seen as a risk or an opportunity, but if the region is to realise its full potential, it will have to up its game. Mr McIlroy points to another fast-growing region as a guide to a sunnier future. "Look at what Asia did to make itself a success," he says. "Better education and more jobs created across labour-intensive industries. African governments need to follow that playbook."

Other nations have demographics that will perhaps never be bettered. India, projected to overtake China as the world's most populous nation by 2028, "will benefit from a demographic boom for decades to come, as more people enter the workforce, becoming the consumers of tomorrow", says Mike Sell, head of Asian investments at Alquity. Much of this will depend on the current premier, Narendra Modi, succeeding in his quest to create enough manufacturing jobs to meet the needs of millions of young college graduates and blue-collar workers.

> To some companies and investors, good demographics can mean old and rich, rather than young and striving

Then there's Vietnam, a country that boasts low labour costs and 90 million young, free-spending consumers, yet which remains, adds Mr Sell, "perennially ignored by investors". To Hedi Ben Mlouka, who manages the emerging-market frontier fund at Duet Group, a £3.6-billion asset manager, Vietnam will "reap the benefits" of bullish demographics for years to come. "A burgeoning middle class is the catalyst for consumer demand," he says. "Investors should look at consumer names with strong balance sheets, good brand visibility and market knowledge, such as Vinamilk and Mobile World Group."

These are the sorts of countries East Capital's Mr Svedberg is looking at when he adds listed securities to his new £45-million Global Frontier Fund. "We look for signs of people buying things – first, a car and an apartment, then a smartphone and a trip to IKEA," he says. "This is when we know that a market is doing well." Markets in this bracket include the likes of Saudi Arabia, Colombia and Pakistan. The corollary of this is Russia, which with its ageing, unhealthy workforce has "some of the worst demographics on the planet", adds Mr Svedberg. Other nations facing negative demographics include Turkey, Brazil and China.

To some companies and investors, good demographics can mean old and rich, rather than young and striving. A host of funds and companies have sprung up in recent years, catering to ageing Western societies where wealth typically rises in lockstep with age.

Johan Utterman manages Lombard Odier's $475-million Golden Age fund, which invests in markets and opportunities dominated by senior citizens and baby boomers. A pioneer in this field, Mr Utterman's fund invests overwhelmingly in sectors such as healthcare, financials and leisure, which cater for long holidays and creaky knees. The fund generated a return of 10.78 per cent in the first seven months of 2015, against a benchmark market return of 6.37 per cent, thanks to outperforming shares in companies such as pet healthcare provider Antech and pharmaceutical firm Allergan, which makes drugs that target schizophrenia and osteoporosis.

Mr Utterman's method is to find out which markets – typically found in north-east Asia, Europe and North America – that are rich and dominated by older citizens, and then find local securities in which to invest. "Life expectancy is increasing by up to a hundred days in a single year in some markets," he says. "In others, up to three-quarters of that country's net financial worth is in the hands of baby boomers and seniors." This thinking explains the fund's decision to buy shares in Harley-Davidson, which has begun to roll out motorbikes with heated seats and a reverse gear. The reason? The average age of new hog buyers is now 52.

And the stock picking gets more nuanced. The Golden Age fund also invests in business-to-business firms. So it buys shares in, for instance, Croda International, a specialist British chemicals firm that produces complex anti-ageing creams. It owns shares in Resort Trust, a huge owner of golf courses, as well as Toro, an American maker of industrial lawnmowers, which maintain those golf courses. And longer lives don't just influence what products a company makes, they also affect how a firm is run. Opportunity Network's Mr Pallas notes that by 2050 the average German will be in their mid-50s. "That affects careers," he says. "It means that CEOs will stay at the helm for far longer."

When the world was smaller and poorer, demographics used to be easy. Markets typically offered companies wealth and growth prospects, or neither. These days, getting your product mix and your market penetration right is harder and more complex than ever before – but also far more rewarding and profitable.

In case an ill wind blows

With volatility on the foreign exchange markets, international enterprises need to protect against currency fluctuations

Eurodollar traders at the CME Group in Chicago

◆ **FOREIGN EXCHANGE**

● **JOE McGRATH**

As international governments begin to unwind post-credit crisis fiscal policies, interest rates are set to rise.

Widespread currency volatility has followed, meaning businesses have had to rethink hedging strategies and look more closely at how to protect their businesses.

For companies exposed to fluctuating foreign currencies, such as those with a particularly heavy reliance on imports or exports, keeping abreast of the likely market trends is essential.

Richard de Meo, managing director of business foreign exchange (FX) specialists Foenix Partners, says: "Any company with a core business activity that relies on currency conversion, in the form of payments to foreign suppliers or repatriating international revenue, should be concerned about FX volatility."

Mr de Meo says the movement of certain currency pairs during the past 12 months has given many of his customers particular cause for concern.

"GBP/USD has stabilised in recent weeks, but after a peak of 1.72 last July this pairing fell dramatically to 1.46 in April 2015, equivalent to 15 per cent in eight months," he says.

"Similarly, GBP/EUR has risen from 1.24 in September last year to a new seven-year high above 1.44 on the back of the Greek debt breakdown, which is an increase of over 17 per cent in ten months."

With businesses having already seen considerable volatility since the start of the year, it is perhaps no surprise that further measures are being taken to insulate corporates against the ill winds still to come.

At the time of writing, the USD index was trading at 12-year highs with the market preparing for an interest rate hike in September.

Tobias Davis, corporate hedging manager at Western Union Business Solutions, says: "This is leaving emerging market currencies and the euro/dollar most vulnerable as rising rates will lead to a halt in cheap US-dollar funding.

"Hedging strategies utilising forwards and options allow businesses actively to mitigate this volatility, while protecting their margins."

Closer to home, the pound's rise against the euro has been getting plenty of coverage. While this may be good news for holidaymakers looking for an extra ice cream, it's doing little for some businesses.

David Lamb, head of dealing at Fexco, explains: "The Greek crisis had weighed down the euro and the increasing likelihood of a rise in UK interest rates is strengthening the pound.

"With such divergent fortunes on opposite sides of the Channel, the sterling/euro pair isn't so much a tale of a two-speed Europe as one that's heading in opposite directions."

Mr Lamb notes that the contrast between the European Central Bank's loose monetary policy and the increasingly hawkish stance being adopted by central bankers in the UK and the United States, where interest rates could rise before the end of the year, is also likely to cause continued tension and exchange rate volatility.

> "
> **Any company with a core business activity that relies on currency conversion should be concerned about FX volatility**

With such stark warnings from industry experts, businesses are seeking out ways to protect themselves.

For those exposed because of the delay between contract agreement and payment, the easiest option is to offer a discount for the early payment of invoices.

Andy Scott, associate director of FX advisory services at foreign currency specialists, HiFX, says: "If you are concerned about your customers' ability to pay, try and negotiate payment up front or set up payment in stages."

Mr Scott says there are a variety of services available to ease the pressure on businesses.

He explains: "Products and services include sharing credit risks with the banks in order to assist exporters in the raising of tender and contract bonds, in accessing pre and post-shipment working capital finance and in securing confirmations of letters of credit."

Another simple solution is shopping around. Given recent events, companies are becoming much smarter at finding better exchange rates by comparing their bank's rate with that of a currency specialist.

For those looking at more sophisticated ways of managing the risk, derivatives contracts offer another way to avoid being stung.

Fexco's Mr Lamb explains: "Well-run businesses with a sound approach to risk management use forward contracts to protect their margins from currency volatility.

"These allow them to buy currency now with a small deposit – typically between 5 and 10 per cent – and lock into a specific exchange rate. They only pay the remainder when they actually need the money, but the fixed rate protects them against any sharp moves against them in the intervening period."

But even though treasury and hedging policies build in some room for judgment based on market conditions, finance directors have been testing this flexibility to the limit in recent months.

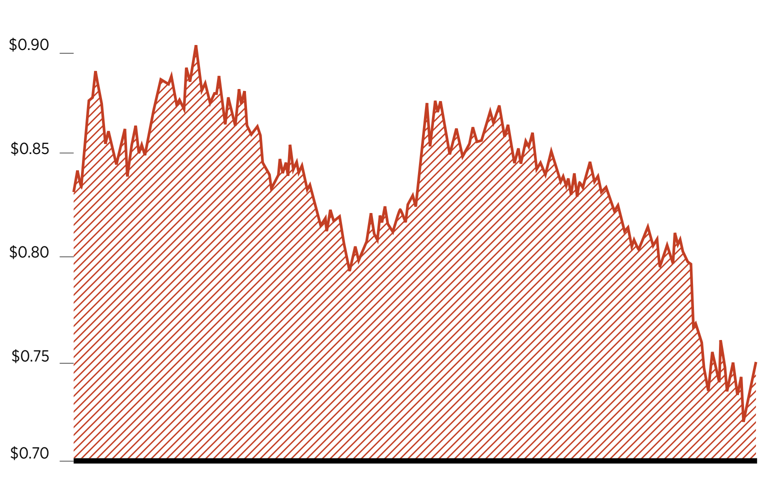
Foenix Partners' Mr de Meo adds: "Hedge ratios – the percentage of their currency exposure that they actually hedge – have been rising dramatically due to fear around volatility."

Of course, smaller companies don't always have the luxury of sophisticated hedging processes. Currency risk hedging techniques used by traditional banks can often be complex.

Some banks provide better rates to larger corporates, while smaller companies have previously had to pay more or negotiate complex pricing structures. The result is that smaller companies often choose not to hedge at all.

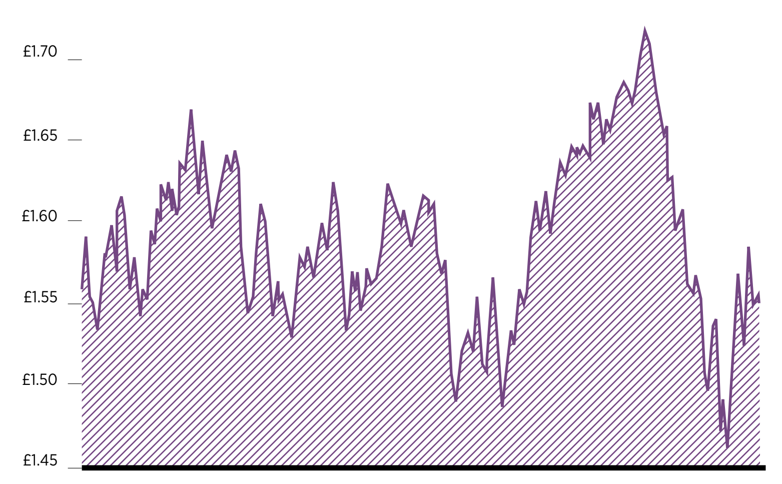
EUR/GBP EXCHANGE RATE OVER PAST FIVE YEARS

1 EUR= 0.7345 GDP



GBP/USD EXCHANGE RATE OVER PAST FIVE YEARS

1 GDP= 1.5308USD



Ensuring you get paid for exports

As market volatility resurfaces, resulting from concerns over the Greek economy and a slowdown in China, companies have been reminded of the importance of reviewing their payment policies

◆ **CREDIT MANAGEMENT**

● **JOE McGRATH**

Experts agree that the question of payments has never been more crucial. They say businesses must go to greater lengths to understand international transactions and the reputation of the firm with which they are doing business.

Roman Itskovich, vice president of Financial Products at Ebury, explains that there are a number of questions corporates should ask before agreeing payment terms.

He says: “Is the firm they are working with making a one-off payment? Is the foreign firm reputable? Does it have non-payment history? Is there a contractual option for non-payment because of sub-standard product quality, or an opt-out clause?

“If a business is particularly concerned about a particular payment, then a payment mechanism, such as letters of credit or guarantees, can be used to ensure the payment is made.”

> “The Chinese renminbi has scope to be one of the key currency influences over coming years

Letters of credit or guarantees usually involve a third party, typically a bank, guaranteeing the payment upon discussed conditions, greatly reducing the risk of non-payment.

However, if a business is comfortable taking payment from another organisation, then efforts should be made to ensure a payment is completed in the quickest time possible.

Mr Itskovich explains: “They should make sure the buyer is incentivised to prioritise making the payment, ensuring the relationship is strong and the buyer understands a prompt payment can lead to benefits, such as a discount or a faster turnaround time.”

Risks arising from slow payments, such as currency risk, have been underlined more recently with global markets reacting to macro-economic news.

Claire Bennison, regional director at Brooks Macdonald Asset Management, says: “For UK companies, the key export market is typically close to our shores, namely Europe, so the level of the euro to the pound is a key currency rate. Any speculation, particularly post the initial Greek crisis, that the eurozone could fall apart will be a major event and is a risk that many companies have to consider.

“That said, many of the larger global companies are both operationally and end-user geared to China. Many input costs and much production is undertaken in China, yet this is also becoming one of the main markets for finished goods and services too. Therefore, the Chinese renminbi has scope to be one of the key currency influences over coming years.”

Ms Bennison highlights the recent volatility from China as a reason that firms need to take steps to ensure prompt payment.

“The recent action by the Chinese to allow the renminbi to devalue against the dollar surprised markets, resulting in the biggest two-day fall in value since 1994, and has increased the chances of a currency war and an increase in volatility,” she says. “Further devaluation could also add concerns to businesses looking to hedge or mitigate Chinese currency risk.”

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PERCENTAGE OF YEARLY REVENUES THAT HAVE TO BE WRITTEN OFF IN EUROPE

Worst

GREECE	10.4%
LATVIA	9.9%
SERBIA	9.4%
BOSNIA AND HERZEGOVINA	7.9%
LITHUANIA	7.5%
REPUBLIC OF IRELAND	7.0%
BULGARIA	6.1%
UNITED KINGDOM	3.8%
SPAIN	2.0%
SWEDEN	1.2%
FINLAND	1.1%
DENMARK	1.0%
HUNGARY	1.0%
CROATIA	0.9%

Best

Source: Intrum Justitia 2015

Learning to grow the hard way

Tesco's solo failure to crack the Chinese market can teach other firms looking to expand abroad some valuable lessons

EXPANSION

KATHRYN HOPKINS

Sainsbury's in Egypt, Wal-Mart in Germany, Best Buy in the UK and Marks & Spencer in mainland Europe. The examples are endless and tell the cautionary tale that overseas expansion for major companies is not always a success.

As well as the launch of its Fresh & Easy brand in the United States, one of the most famous examples is Tesco's expansion in China, where it made its debut into what is now the world's second-largest economy in 2004 under its eponymous brand.

However, Tesco failed to make any significant headway in enticing Chinese shoppers through its doors, only managing to capture a very small slice of China's grocery market, causing it to report years of losses from the operation.

Even an attempt to localise its stores in China by selling live toads and turtles in Shanghai failed to drive sales significantly higher, and it eventually decided to ditch its solo strategy and team up with a major local player.

In 2013, it announced that it was pulling its solo brand out of China and would merge its 131 stores on the mainland with the 2,986 outlets of China Resources Enterprise (CRE) under the Vanguard brand, leaving Tesco with a 20 per cent stake.

At the time, Frank Lai, chairman of CRE, said the deal would allow the group to gain access to Tesco's retail expertise, while his side had relationships with the government and knowledge of the local market.

Kunal Kothari, an equity analyst at Old Mutual Global Investors, believes one of the main factors behind Tesco's failure in China is that it launched relatively late in 2004, behind rivals such as Wal-Mart, which were able to use their first mover advantage to pick better and lower-cost store locations.

According to Mr Kothari, Tesco was also mistaken in its belief that it could win over the Chinese consumer with its Clubcard, which had proved to be extremely popular in the UK.

"Tesco attempted to replicate its tried-and-tested UK hypermarket model by rolling out massive stores very quickly and hoped that Clubcard would prove to be a competitive advantage again as it had been in the UK," he says.

"This was not the case as Chinese consumers prefer to shop around and often carry multiple store cards. This misunderstanding of the market doomed the economics of these large stores from the outset."

Research carried out by Warwick Business School in an Asian market with similar demographics and purchasing power to that of China's large cities, found that consumers were ill-suited to the Clubcard approach, which Tesco described as its "secret weapon" in its bid to conquer the country.

Almost all consumers participated in at least one loyalty programme and 63 per cent of loyalty participants had cards from four or more retailers, according to the research.

They believed larger choices gave them more power of control, more motivation to make decisions, more chances to have programmes which suited their needs and a more satisfying shopping experience.

Maureen Hinton, group research director at Conlumino, a retail consultancy, agreed there were probably two main reasons for Tesco's failure in China – timing and not having a full appreciation of the market.

"It was up against strong competition from well-known local brands in the best locations, with established relationships with suppliers and a thorough understanding of the Chinese consumer's buying habits, as well as a rapid take-up by consumers of online shopping," she says.

As for the joint venture that was announced back in 2013, it has taken its toll on state-controlled CRE. It reported an underlying net loss of $102 million last year, prompting analysts to speculate it could be several years until the joint venture bears fruit.

This was its first annual loss in about 20 years and CRE has itself cautioned it may take three to five years to turn the business around. Some of Tesco's 131 supermarkets may be shut down in the process.

On whether Tesco will have another stab at China again on its own, Mr Kothari does not believe it would consider re-entering the Chinese market on its own at the current stage of its recovery, but said there are valuable lessons here for other retailers considering attempting to crack China.

"The painful lesson UK retailers have learnt is that China is large, complicated and a very capital-intensive market to crack. You can't just execute a text-book store rollout story in a market of 1.3 billion and direct it from the UK," he says. "Local knowledge is key, therefore partnering with strong local players and suppliers is the best route to success."

> Even an attempt to localise Tesco stores in China by selling live toads and turtles in Shanghai failed to drive sales significantly higher

TESCO TIMELINE IN CHINA

JULY 2004
Tesco enters China with the £140-million purchase of a 50 per cent stake in Chinese hypermarket chain Hymall

JANUARY 2006
Tesco takes its number of outlets with Hymall to 39 with its first store in Beijing

DECEMBER 2006
Tesco spends £180 million to raise holding in Hymall from 50% to 90%

JANUARY 2007
New Beijing shop – the first operating under the Tesco banner - takes store portfolio to 46

NOVEMBER 2009
Joint venture formed to develop shopping malls in north-east China, each with their own Tesco hypermarket

NOVEMBER 2010
Company unveils target to quadruple sales in China to £4 billion over the next five years

APRIL 2011
Retailer cuts Chinese store opening target after local operations failed to break even in the second half

AUGUST 2011
Tesco raises £70 million to help fund Chinese expansion

AUGUST 2012
Retailer reveals plans to close four hypermarkets in China amid "challenging" macro conditions

JUNE 2013
First-quarter results show Chinese sales fell 4.9 per cent, with the food industry being hit by the bird flu outbreak and a drop in pork demand after a food safety scare

AUGUST 2013
Company confirms rumours that it will merge its Chinese operations with China Resources Enterprise, taking a 20 per cent stake

MAY 2014
Tesco completes deal to form joint venture with China Resources Enterprise, relinquishing total control of its Chinese operations

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OPINION COLUMN

Meeting demand to buy UK exports abroad

The government is calling on businesses to back its export drive and put the UK at the forefront of global trade

LORD MAUDE
Minister for Trade and Investment

"The UK has long been a trading nation and for centuries we have introduced our creativity, craft and commodities to the furthest shores. Today, UK brands and the UK's leadership in quality of design and technological innovation are in greater international demand than ever before.

But too many UK companies are yet to grasp the world of opportunities that await, either by taking their first foray into exporting, or entering new overseas markets.

International trade is central to secure and sustainable economic growth. There should not be a UK-based business who does not export to their potential should they wish to do so. To enable this, government is mobilising all its departments behind the export drive and working with businesses to realise the benefits of international trade.

In November, we will launch Exporting is GREAT, an ambitious campaign to inspire a new generation of businesses to sell their goods and services around the world. The campaign will present real-time exporting opportunities that businesses can apply for immediately; provide advice and expertise through a year-long road show; and build the country's largest business peer-to-peer advice network. This campaign will serve to support the government's objective of 100,000 additional exporters by 2020.

We offer a range of support to enable companies to succeed overseas. UK Trade & Investment's First Time Exporters initiative provides the opportunity for businesses to participate in export insight visits to gain invaluable understanding of selling goods or services in international markets. Our online tool Export Savvy provides a short accessible module programme to get you started on the export journey whether you're sitting at your desk or on your sofa.

Our other services include expert guidance from a trade or finance adviser; advice on international e-commerce and online selling; and support to help connect UK companies to potential overseas clients.

Our recent changes to the Small Business, Enterprise and Employment Act allow greater flexibility in the export finance help we can offer UK exporters. Through UK Export Finance, the nation's export credit agency, we are helping firms to alleviate the financial risks of overseas trade and to bridge their gaps in financing, boosting export capacity.

With our private sector partners, we give companies invaluable access to vital support from local chambers, banks, lawyers, accountants and consultants.

We use digital technology to understand better the journey of businesses to export and to transform our services to meet business needs. This includes making the pathway to government export support simpler, clearer and faster, so that it bears comparison with the best examples from digital commerce.

To ensure that government is focusing our efforts on the areas where we can add most value, we are working hand in hand with business to transform the current export support landscape, including through our recent series of Export Jams.

On an international level, we are calling for an open and transparent global trade and investment culture, and the reduction of red tape and regulation.

But government cannot increase exports alone; business drives economic growth. So we need your co-operation to ensure we offer the UK services and products that are so widely in demand. It's only by working together that we can make progress towards achieving our aim of doubling UK exports to a trillion pounds to increase economic growth.

The time has never been better for UK companies to succeed overseas. So I ask you to raise your international aspirations and work with government to seize the export opportunities that await you. My commitment to you, as your Minister for Trade and Investment, is that government will support you on every step of the journey.

The UK is open for business."

> "Government is mobilising all its departments behind the export drive and working with businesses to realise the benefits of international trade"

COMMERCIAL FEATURE

HELP TO FUEL THE EXPORT DRIVE

UK Export Finance is a government department providing vital and timely support for exports. Complementing the role of commercial banks or private sector credit insurers, we make exports happen for businesses of all sizes, says ***David Godfrey****, UK Export Finance chief executive*

Last year, the deteriorating security situation in Ukraine posed a problem for Legume Technology. The Nottinghamshire-based small business was unable to find an insurer to cover payment risks for sales of its non-chemical fertilisers to this key market for them. However, UK Export Finance (UKEF) was able to step in to issue an export insurance policy, ensuring the company's export trade could continue.

UKEF has offered help in hundreds of similar situations in recent years – more than £14-billion worth over the past five years. Interventions vary from offering or guaranteeing loans to overseas buyers, to guarantees supporting working capital or export contract bonds issued by finance providers. We also offer insurance against failure by the buyer to pay. Beneficiaries include exporters of all kinds of goods and services, from educational books to undersea cable systems in the energy sector.

The government is placing a strong emphasis on help to exporters, co-ordinating support across many departments and agencies. Trade finance is a critical piece of this jigsaw and UKEF, the UK's export credit agency, is the government's dedicated support mechanism filling gaps in the private market. UKEF works alongside commercial banks and private sector insurance brokers to try and ensure where a government guarantee, loan or insurance policy might help to close a transaction and make an export happen that option is available.

UKEF seeks to complement, not compete with banks or insurers, often working with them to expand or enhance the support they can provide. In return, the government charges a premium to cover potential losses and protect the taxpayer. In the past five years, UKEF has contributed almost £800 million to the Exchequer.

While we were the world's first government export credit agency, founded in 1919, our challenge today is to offer products that work in the complex and fast-changing environment of global trade in the 21st century.

Our new direct lending facility for overseas buyers of UK exports, our first Islamic finance product and our guarantee for offshore (Chinese) renminbi loans have been hailed by banks and trade associations as proof of our agility and flexibility. Our growing support for contract bonds and export working capital has made a crucial difference for smaller exporters.

UKEF is currently partnering with the British Business Bank to review the finance challenges facing small and medium-sized enterprises that export or are looking to export. This is part of our commitment to ensure that government support best addresses their needs. With new powers available under the Small Business, Enterprise and Employment Act, UKEF is also working to widen the eligibility for our support, for example to firms which, while not exporters themselves, supply exporters.

UKEF also has a growing track record of providing assistance through its network of regional export finance advisers (EFAs) introduced in 2012. As well as introducing them to UKEF's schemes, EFAs can introduce companies to a wide range of support and work with existing trade finance and insurance providers, such as banks, to shape the best solution for the exporter. UKEF is part of the Business Growth Service – the government's one-stop shop for smaller companies with growth potential – alongside the diverse and varied support available via UK Trade & Investment.

With all our partners, we look forward to helping more firms achieve their global trade ambitions in the years ahead.

> "UKEF works alongside commercial banks and private sector insurance brokers to try and ensure where a government guarantee, loan or insurance policy might help to close a transaction and make an export happen that option is available"

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CASE STUDIES

HISTORIC DIRECT LOAN

UK Export Finance's new direct lending facility, offered in partnership with a bank, helped Wolverhampton-based multinational Carillion to win a major new £75-million construction contract in Dubai. This was the first direct loan facility in UKEF's near 100-year history and its availability gives UK exporters such as Carillion extra confidence when discussing finance with overseas buyers. It is another way UK exporters can differentiate themselves from the international competition.

TASK FORCE OF SMALLER FIRMS

NMS International Group, from Leicestershire, is leading a consortium of some 50 UK-based small and medium-sized enterprises to build seven district hospitals in Ghana. The firm won a $175-million (£134.1-million) contract to design, build and equip the hospitals thanks to a bank loan to the Ghanaian Ministry of Finance supported by UKEF. NMS has now established itself as a leading provider of social infrastructure projects in Ghana. The hospitals project has won deal of the year awards from respected publications *Global Trade Review*, *Trade Finance* and *The Banker*.

of UKEF support for UK exports in the past five years

companies have benefited indirectly in 2014-15 from UKEF's support which not only helps exporters but their suppliers as well

Developing a local strategy for success

Understanding local culture is essential to adapt products and services for sale in markets abroad

◆ **LOCALISATION**

● **ELLIOT WILSON**

Adapting products that work in one market, to the needs and whims of another, is rarely easy or linear. Take the transformation of the KitKat in Japan. For years it was a Western staple. But market testing revealed a unique set of taste buds. So the brand's owner, Swiss consumer goods firm Nestlé, started to experiment. It now sells 15 unusual flavours of the iconic treat in the east-Asian country, ranging from grilled potato to cherry blossom and edamame bean to blueberry cheesecake.

Understanding how consumers and businesses tick in different markets is like a sedimentary layer – it builds up over time. Few companies get everything right on day one. "Entering any market, it's safe to say that companies won't have a perfect idea of what will and won't work," says Robin Pharaoh, a self-styled social anthropologist who helps companies research new markets.

One market might look like another, but be subtly different, as Tesco found to its cost when trying to sell packaged fruit to America's touchy-feely consumers. The nuances of markets – China is a good example – may only be revealed as they become saturated, leading to a slow clear-out of weaker brands. But only by trying, and if necessary failing, can you ever get to grips with a new market.

"My advice is to feel the fear and do it anyway," says Graham Ewart, managing director of Direct Healthcare Services (DHS), a Caerphilly-based firm that exports specialty mattresses to Europe, Latin America and Asia. When entering a new country, Mr Ewart leads from the front. "It's important to take responsibility, so I had to get out there myself and sell, sell sell," he says.

Rarely does a genuinely strong brand need too much tweaking. It either works in a new market or it doesn't. It is either loved and embraced by a different set of customers or it isn't. But few brands can be replicated everywhere. The up-market crisp company Tyrrells, which generates 25 per cent of its revenue outside the UK, found that its top flavours worked everywhere. But the best sellers differed from one country to another.

"In France, our most popular flavour is lightly sea-salted; in Germany, it's sea salt and cider vinegar," says chief executive David Milner. In Australia, Mr Milner opted for a dual-track approach, exporting English crisps to "tap into Australia's penchant for goods of origin", while buying a local snack-food maker, Yarra Valley, to use as a launch pad to expand Tyrrells' reach in Asia.

Cath Kidston's warming, floral prints are now found worldwide on everything from backpacks to lunchboxes. Yet when Kenny Wilson joined as chief executive in 2011, with the aim of creating a truly global brand, the firm had only a handful of non-UK stores, mostly in Japan. "Our products are fun, bright and cheerful, and full of irony and English humour," says Mr Wilson. "Those messages resonate across all our markets, from Japan and China, to Europe and the Middle East."

But every market, and indeed every store, is different. With home help so prevalent in Thailand, tea towels proved a non-starter, as anyone with enough disposable income could afford a maid. In Japan, its lunchboxes are smaller than those sold in the UK, and come with an in-built chopsticks compartment. The firm's central London stores are more international than those in the rest of the UK, and cater for tourists keen to buy products at source.

1. KFC's Zinger burger is the most popular item in China, though localised offerings include rice congee and egg custard tarts
2. India's McDonald's stores serve a variety of vegetarian products, such as the Spicy Paneer Wrap
3. Green tea-flavoured KitKat available in Japan

Again, this takes time to discover. Terence Brake, director of learning and innovation at business training specialist TMA World, equates the process of understanding a new business culture to the pressure-cooker process of learning to sail. "You can stare at maps and charts all you want, but you can't tell what they mean until you head out to sea," he says. Thus only by operating in Germany can you truly understand the country's aversion to risk. Likewise the infectious individualism that pervades many Indian corporates or the obsessively consensual nature of Japan where team-think trumps personal opinion.

Social anthropologist Mr Pharaoh links this group-oriented Japanese ethos, which is based on the ancient concept of *wa* or societal balance, can be seen in the problems encountered by Airbnb. The home-renting service struggled to catch on in a culture still bemused by foreigners and wary of living in close quarters to them. "People still live in communities there," says Mr Pharaoh. "They didn't want to disrupt their relationships with neighbours, which could happen in little ways, such as foreigners leaving gates open."

> "Entering any market, it's safe to say that companies won't have a perfect idea of what will and won't work

Most companies can get a head start in a new market by employing the right personnel. "Hiring and retaining the best calibre of talent is paramount to global expansion," believes Cath Kidston's Mr Wilson. He points to the head of the firm's Tokyo operations, Mike Ikeda, a Japanese national who worked with him at Levi Strauss.

"You need people who know the territory and understand cultural nuance. You don't want to parachute in people who know the brand, but have never ridden the underground to work in Tokyo," says Mr Wilson. At the same time, he believes in instilling key executives with a genuine world view. "Everyone on our senior management team has lived and worked outside the UK," he adds. "You need to understand how other cultures tick in order to grow a global business."

Or take the challenge facing Marlon Sullivan, head of talent and development at healthcare firm Abbott. With 72,000 employees in 130 countries, Abbott faces a constant battle to secure and retain quality personnel. In large swathes of the developing world, such as Russia, China and India, the challenge is not talent, but experience and longevity. "High-quality managers are up to 12 years younger in emerging markets than in developed markets and with up to six years' less experience on the job," says Mr Sullivan. "So you will have leaders that have sat in fewer chairs and who cannot bring the same level of expertise to the table. That is why we are investing so heavily in securing the right personnel."

As they grow, every company seeks a solution to this perennial challenge. IT giant Infosys opted to hot-house rising stars by training them at a tailor-made educational facility in the Indian city of Mysore. Often the best companies hire and retain the best staff by being great places to work. Ultimately the best way forward, notes DHS' Mr Ewart, is to hire the best talent you can. "By appointing the most experienced people you can at local level, you reap the benefits of their knowledge and contacts," he says. "This strategy has opened up the Asian and Latin American markets far faster than we ever dared possible."

GLOBAL BUSINESS ETIQUETTE

It is not just your product which needs to go native. Refine your manners or risk irritating or insulting potential buyers

INDIA
Know your numbers: 1 rupee is 100 paise; 100,000 rupees is 1 lakh; 10 million rupees is 1 crore

JAPAN
Receive business cards called "meishi" with both hands at once. Present yours Japanese side up

SOUTH KOREA
Gifts are expected at formal introductory meetings. Office products with your logo or British foods and drinks are acceptable

IRAN
Learn the many public holidays. Business will close during two dozen festivals such as Nowruz, Eid ul-Fitr and the birth of Imam Mahdi

LIBYA
Do not show the soles of your shoes. This is an insult across the Arab world

SAUDI ARABIA
Meetings may be set by prayer times, rather than the precise hour. So between "Maghrib and Isha" is preferable to starting at a set time

7 PITFALLS TO AVOID IN OVERSEAS EXPANSION

01 Don't bet your business

02 Don't be distracted by non-strategic factors

03 Don't enter a market without knowing demographics and growth prospects

04 Don't underestimate cultural nuances

05 Don't ignore local tax and regulatory requirements

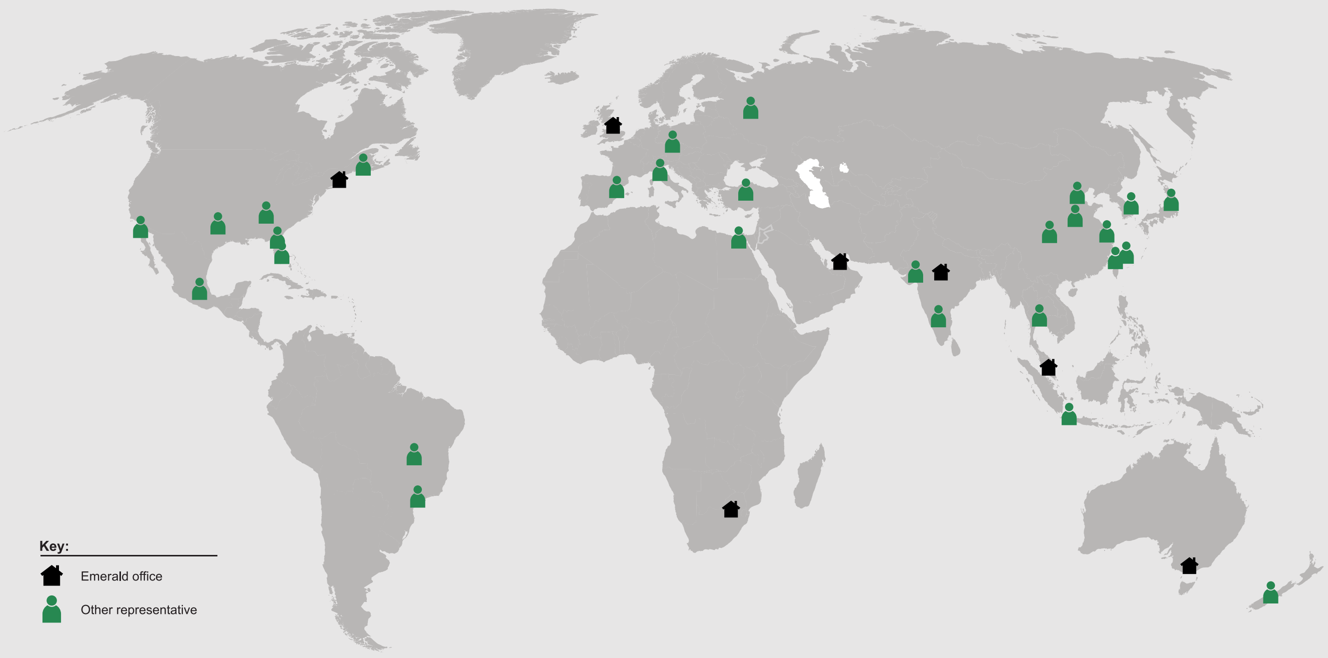
06 Don't be product or market-myopic

07 Don't mismanage local talent

Source: EY

COMMERCIAL FEATURE

Emerald's global offices and representatives



Founded in 1967, Emerald today manages a range of digital products, a portfolio of nearly 300 journals, more than 2,500 books and over 450 teaching cases

More than 3,000 Emerald articles downloaded across the world every hour of every day

12 offices worldwide serving more than 4,000 customers in 120 countries

SHARING KNOWLEDGE AND LEARNING

Employing almost 450 people worldwide, Emerald is a global publisher in scholarly research, higher education and professional development – with ambitious plans for growth

Emerald
GROUP PUBLISHING

With 12 offices in locations ranging from the United States and Brazil, across the Middle East and north and sub-Saharan Africa, to India, Malaysia, China and Australia, Emerald truly has a global reach.

The company has grown from publishing a management print journal nearly 50 years ago to where it is today, managing a range of digital products, a portfolio of nearly 300 journals, more than 2,500 books and over 450 teaching cases.

More than 3,000 Emerald articles are downloaded every hour of every day. The network of contributors includes over 100,000 advisers, authors and editors, reaching 4,000 customers in over 120 countries. Many of these are large institutions, providing thousands of students and researchers with access to Emerald content.

"Our customers include some of the most prestigious academic institutions in the world, leading public sector bodies and businesses," says Emerald chief executive Richard Bevan.

Central to Emerald's philosophy since its foundation in 1967 by Dr Keith Howard, who to this day remains actively involved with the company's strategy and direction, is an overriding passion for learning, research and sharing knowledge with the wider world. Emerald seeks to help its communities create a meaningful impact that enhances knowledge, supports teaching, advances society and the environment, and influences government policy and business practice.

"Increasingly, this means helping our communities harness rapid advances in technology to achieve research and learning outcomes more effectively," says Mr Bevan. "Our aim is to promote research and learning in the broadest sense, furthering the body of knowledge as well as demonstrating its applied value. Emerald's publications provide both the academic and practitioner communities with a full breadth and depth of knowledge."

Demonstrating "impact" and value is one of the things foremost in the minds of Emerald and all stakeholders in research and education.

Mr Bevan explains: "Academics have always written scholarly articles for one another's consumption and journals are assigned impact factors based on how many times their articles are cited. This process remains vitally important to furthering knowledge, and will continue with the support of Emerald and other publishers.

"At the same time, we are now seeing increasing desire from funding bodies and policy-makers to demonstrate the broader impact of this work in public forums, whether in the mainstream press, political debate, social media or practical application in policy-making and business.

"A growing number of academic authors and scholars are responding to this changing environment, and recognising the importance of applied value. We therefore continually seek to help our communities adapt to this changing landscape in the development of our products and services."

Impact is a hot topic of debate in the academic and scholarly publishing market, including North America, where Emerald sees future growth.

"The US is home to some of the highest profile academic institutions in the world, producing some of the highest quality research and leading advances in education," says Mr Bevan.

"It therefore represents an extremely important market to Emerald, and we will continue to expand our existing networks and relationships in North America accordingly as we develop products and services that can serve communities, both there and in the wider world."

And helping its authors, editors and the wider academic community has always played a key part in what Emerald does, whether by publishing research that helps them to develop their career, making research as discoverable and accessible as possible in the digital age or by helping with classroom teaching of the next generation.

Emerald's *Guide to Getting Published* helps new authors navigate the many stages of the publishing process through to successful publication of their work, while the company's extensive awards programme provides extra funding and recognition for the best research.

> "Our aim is to promote research and learning in the broadest sense, furthering the body of knowledge as well as demonstrating its applied value

Digital clearly has a big part to play in this and the arrival of the internet challenged existing ways of working, but overall presented a tremendous opportunity. In the early 90s, Emerald was among the first publishers to anticipate the need to adapt to the changes the internet would bring.

"The landscape is still developing at a rapid pace and continually presents new opportunities. Our goal as a publisher in this digital age is to help our communities understand the opportunities and take advantage of them," says Mr Bevan.

"This includes helping to make research more discoverable through more effective use of search, social and mobile, or making teaching and learning more engaging through the increasing possibilities of e-learning tools, whether it's to help make classroom learning more interactive and engaging through simulations or to open up more possibilities for remote and professional learning.

"As our global presence grows, Emerald will expand its product and service range across the research, higher education, and professional training and development markets. This will include a continued commitment to publishing the highest quality of peer-reviewed research as well as introducing new products and services, including through acquisition."

In 2013, Emerald acquired Research Media, the Bristol-based provider of communications and creative services to the scientific research community. This was followed in 2015 by the acquisition of GoodPractice, the Edinburgh-based provider of cutting-edge performance support tools for business leaders and senior managers. And a proactive acquisition strategy is very much key to Emerald's growth ambitions.

But while Emerald may indeed have bold ambitions, it will never lose sight of its values or the principles on which it was founded.

Mr Bevan concludes: "We are a dynamic, growing business, but one with the values you would expect of a family-owned company. This means we care for our staff and the communities we serve, including the local community here in Yorkshire, which we support through the work of the Emerald Foundation, chaired by our founder Dr Howard.

"Ultimately, Emerald is a business with a passion for sharing knowledge and learning that will benefit people, industries and society as a whole."

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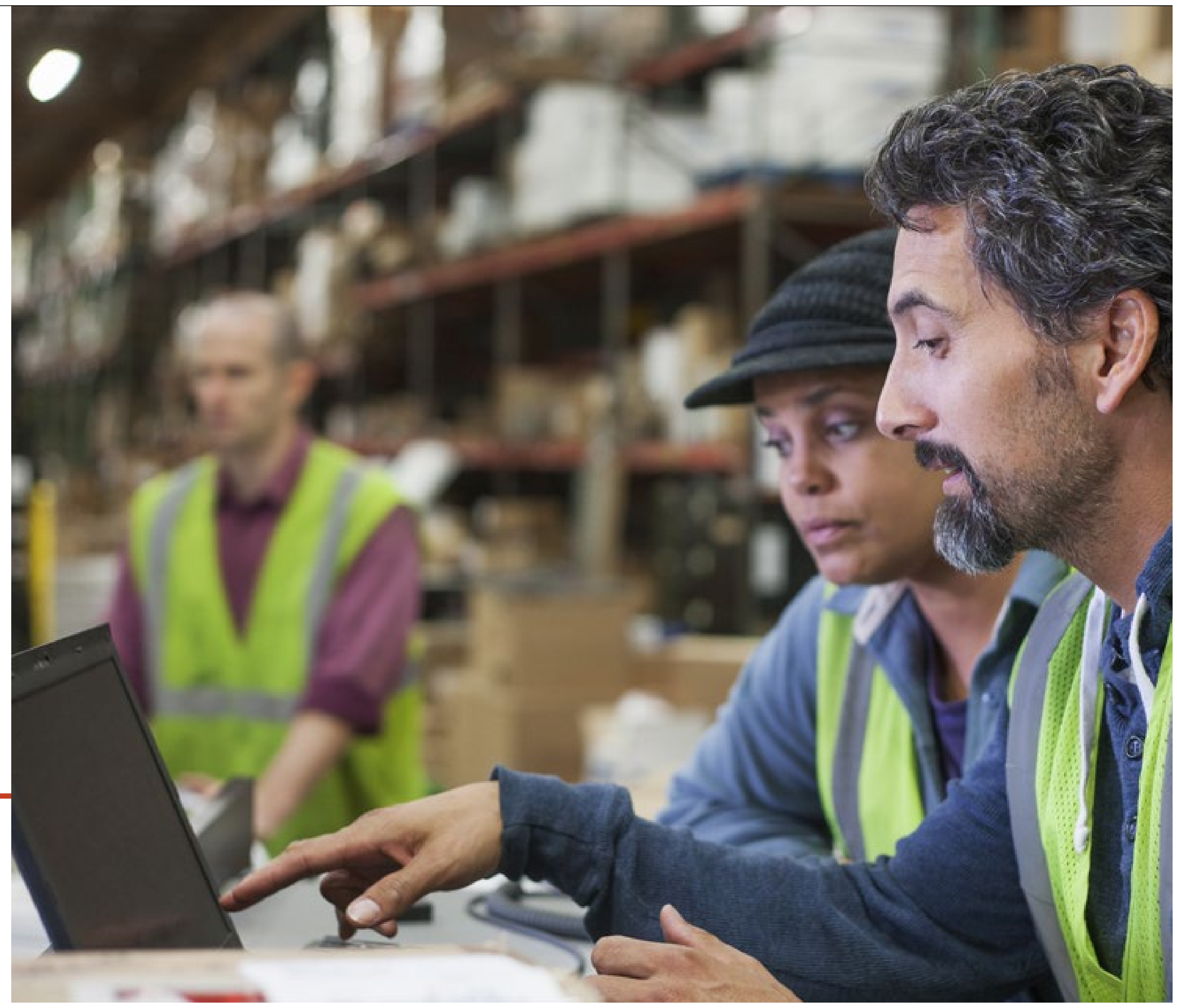
Making the exporter's life easier with technology



Companies wanting to export are spoilt for choice when it comes to technology which can ease the journey into overseas markets

◆ TECHNOLOGY

● CHARLES ORTON-JONES

Exporters are a lucky bunch. For every aspect of the job there is a torrent of new technologies to make life simpler, quicker and cheaper.

Take international payments. It is rife with innovation. Peer-to-peer money exchanges, such as CurrencyFair and TransferWise, are slashing the margins charged by high street banks. The Kantox exchange works by matching a company moving sterling to yen, for example, with a company converting the other way. Kantox claims 78 per cent of clients save 80 per cent or more than when using a bank and trades are set to pass $2 billion in total.

Managing money in multiple currencies is getting simpler. The Moneycorp online currency platform allows exporters to hold balances in up to 34 currencies. When a user wants to switch between currencies, the platform connects to nine top-tier banking partners to trawl for the best rate.

Handling currencies online is becoming effortless thanks to new bolt-on services for websites. The Stripe payments platform is used by Virgin, *The Guardian* newspaper, and personalised children's book brand Lostmy.name, which has sold 500,000 books around the world in 11 currencies using the service. An under-rated sub-service by Stripe is its tie-ins with major sales websites such as Facebook, Pinterest and Twitter. The idea is to let consumers buy products listed on these sites with a single click.

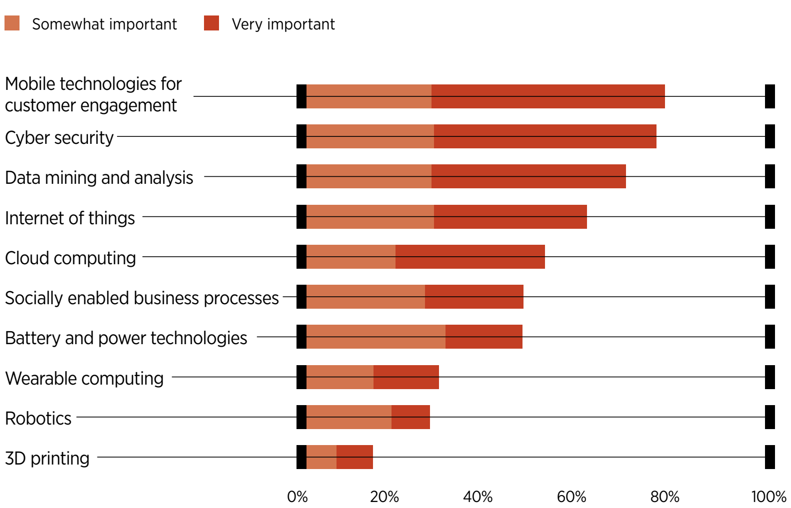
Technology makes tracking products far easier. The Neteven platform is used by the likes of Rip Curl, Le Petit Bateau and Camper. It is an inventory management tool which integrates with all the big auction and sales sites. A product can be listed on Amazon, La Redoute, Spartoo, eBay, Rakuten and many others. Neteven offers a long list of sales management tools, allowing retailers to change specifications across sites, monitor stock levels and sales figures, and consolidate finances into one comprehensible stream.

Neteven was founded by a team of former eBay executives led by Greg Zemor, who stresses that many companies waste their time building a new retail website for every new country they try and export to. He has a point as these online marketplaces are the most visited sites across Europe and Asia, and offer a low-cost entry point.

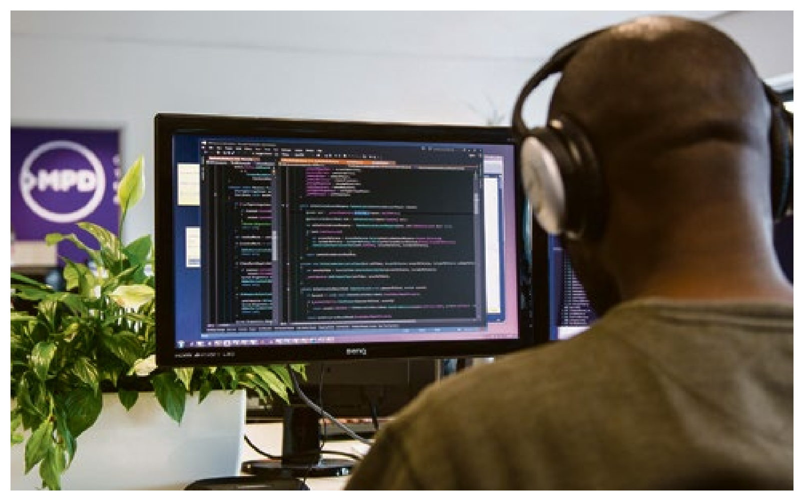
Logistics is red hot with fantastic new models right now. In order to select the best carrier services, the Electio comparison site is a godsend. Developed by MPD Group, which developed price comparison site My Parcel Delivery, Electio compares 100 delivery services from the world's leading carriers. It factors in parcel weight, the value of the shipment, speed, availability of pick-up and the size of the packaging to formulate the optimum partner rather than merely the lowest price. Electio integrates with the supply chain, printing labels and translating documents automatically.

The big carriers moan that not enough clients make use of the extra services they offer. And there are some corkers. UPS offers WorldShip, a complete shipping automation platform used by the likes of engineering exporter Gilo Industries Group. This keeps track of deliveries and allows customers to track their shipments as they move across the globe. It integrates with the UPS Billing Centre, keeping all the data in one place.

HOW STRATEGICALLY IMPORTANT ARE THE FOLLOWING DIGITAL TECHNOLOGIES FOR TRANSPORTATION AND LOGISTICS ORGANISATIONS?



Source: PwC 2015



MPD's Electio delivery management system allows retailers to compare services of multiple carriers through a single portal

CASE STUDY: IMPROVING LOGISTICS AT ZF

German car parts maker ZF sends its axles, clutches and shock absorbers around the world. Founded in 1915, it is controlled by the Zeppelin Foundation, the legacy of airship pioneer Ferdinand von Zeppelin, and today exports to 230 locations in 40 counties.

Last year ZF realised it needed to find better ways to minimise the risk of disruption to its logistics. The company identified two concerns: first, air freight presented a significant risk to its business due to cost and airport disruptions; and second, its inability to provide timely incident information when disaster strikes.

To address both issues it opted for DHL Resilience 360, a cloud-based platform which tracks goods as they move around the world. It includes a near-real-time alert system, which warns ZF of any chaos along the route.

The product comes with a consultancy service. So, in early-2014, the DHL Resilience 360 team analysed the global air freight network that ZF uses as a last resort. Every year, ZF makes more than 10,500 *ad hoc* shipments to 55 countries involving more than 650 locations through the network. The DHL Resilience 360 team provided ZF with a risk assessment study and customised supply chain incident monitoring platform.

The assessment highlighted five critical hot spots in the ZF supply chain. For each potential flashpoint, DHL and ZF jointly identified logistics alternatives just in case of disaster. At one hot spot, Moscow Airport, the alternatives were put into use almost immediately as the Ukraine crisis developed.

ZF is now better able to monitor shipments as they move via land, air and sea, and can rest easy knowing it has contingency plans in place. There are additional benefits too as the software makes it simple to conduct carbon footprint calculations, making reduction possible. Cost analysis can be done more swiftly. Clients can check the latest position of their goods. And because DHL Resilience 360 is cloud based, there is little maintenance for the IT team to worry about.

Exporting can be hazardous, with bottlenecks wreaking havoc. A solid reliability audit and contingency planning system ought to be mandatory, no matter how big or small the enterprise.

To keep track of delicate packages, AT&T offers Cargo View with FlightSafe. This fits cargo with sensors to monitor temperature, light, pressure and shock. The tracker connects to mobile phone networks worldwide to report back to HQ. For exporters of perishable goods, such as fruit and vegetables, the technology can identify moments of trauma. It is also designed to appeal to exporters of fragile high-value goods, such as works of art and electronics. The AT&T sensors are well engineered, switching to airplane mode during flights to comply with aviation laws, automatically resuming after landing. The tracker lasts up to 11 days between charges, enough for even long-haul export deliveries.

> Many companies waste their time building a new retail website for every new country they try and export to

Customs is a common sticking point for exporters. It is also something technology can help with. Electronic form software such as Tradex, made by Tate Freight Forms, offers up-to-date documentation. To meet local tax laws, Tungsten's paperless invoicing ensures the right forms are filed, covering 47 countries. The Tungsten service is now used by 180,000 suppliers and last year processed $187 billion. When trying to sell something to the Mexican government, the Tungsten service guarantees you'll be using their mandatory invoice format.

Naturally, exporting involves and lot of travel and technology contributes here too. For learning a few words of the local language, the Duolingo.com tuition service is proven to work, with 100 million users. It won the prestigious iPhone App of the Year in 2013 and now covers 22 languages – free.

To survive long flights, salespeople often turn to noise-cancelling headphones, such as the Bose QuietComfort or Plantronics BackBeat Pro ranges, which work but are bulky and need batteries to function. A low-tech but high-quality alternative are in-ear canal earphones. The buds go deep into the ear, which can be a little unsettling at first. A set such as the Etymotic Hf3 can cut outside noise by 42 decibels. You'll scarcely know the aeroplane engines are running.

And for health? The NHS still recommends wearing flight socks, which compress the calves, although the efficacy is still doubted. Professor David Gradwell, from King's College London, says the real key is to avoid alcohol mid-flight and stretch your legs. Technology can help exporters, but sometimes they've just got to get off their backsides and start moving.

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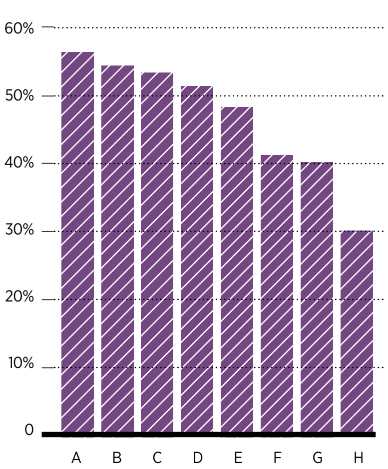
HOW TECHNOLOGIES ARE USED FOR BIG DATA SUPPLY CHAIN INITIATIVES



A	Transport management planning	56%
B	Supply chain planning	54%
C	Network modelling and optimisation	53%
D	Advanced analytics and data mining tools	51%
E	Customer order management	48%
F	Electronic data interchange	41%
G	Warehouse/distribution centre management	40%
H	Global trade management tools	30%

Source: Capgemini 2014