ENABLING EXPORTING

A GUIDE TO MANAGING EXPORT-RELATED BUSINESS RISK

Made possible

QBE

PROUD TO SUPPORT
EXPORTING IS GREAT
BRITAIN & NORTHERN IRELAND

About QBE

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We're big enough to make a difference, small enough to be fleet of foot. We may not be the best known, but a large part of the modern world depends on our cover. We have clients as varied as bus and coach fleet drivers and major international infrastructure consortiums. For them, we're the buffer between the best-laid plans and uncertain reality.

People who deal with us find us professional, pragmatic and reliable – this is one of the reasons we're still here after 130 years.

Our underwriters are empowered to take decisions that are important to you. (Because we know no computer can replace that human ability.)

And we don't just cover your risk. We help you manage it, meaning that you're less likely to have to make a claim in the first place.

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- Product protection
- Property
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- Scheme underwriting facility
- Specie
- Surety/bonds
- Trade credit
- Warranty and GAP

Welcome

Our motivation for creating this report was the belief that many of our business clients, small, medium and large; would like to tap into customer bases overseas, but are deterred by the risks and many financial challenges – real and perceived – involved in setting up and selling outside the UK.

This is in spite of the fact that every one of the exporters that we interviewed as part of this report spoke of the high global demand for British products and services from every region of the globe. In this area of the economy, perceived risk is holding back positive action.

A programme to build risk management and planned protection from risk are the solutions to the issues here, and as an insurer, this is, of course, our specialist area. For this reason we felt there was a real need for our guide to exporting. The report provides some general guidance about how a new exporter can best navigate their way through some of the common challenges when beginning to export a product or a service; but it also aims to help you analyse clearly the risks in exporting, assess them honestly, and understand how to protect you and your business, at least in part, from any catastrophic failures in risk management.

We are not alone in our view that more could be done to build exports from the UK. The government has built a large-scale programme to help increase export, entitled Exporting is GREAT, of which QBE has become a partner. As a result, in drafting this report we have had a great deal of support and input from the Department for International Trade (DIT), as well as access to many of the exporting businesses that they work with. I would like to thank the DIT, both for this and for all the work they do – there was universal praise from every exporter that we spoke to for the DIT's network of International Trade Advisers and the practical help that they give both fledgling and established exporting companies.

QBE itself is an international business, headquartered in Australia, and with offices in 37 countries around the globe. Because of our global presence, we also insure a great many international businesses, and have what we believe is a uniquely strong set of insurance products, designed to help protect against all types of export risk, from supply chain failure to product liability and shipping issues. If your business struggles with risk management around global supply issues, we would like to talk to you. Exporting is about partnership, and we encourage you to partner with us to help deliver the right – positive – business result.

David Hall
Managing Director – Retail
QBE European Operations

Exporting today

The UK is already a major global exporter and importer. Total trade exports for August 2016 alone were £23.3 billion. In financial and professional services in particular, the UK accounts for over 50% of exports in the EU[1].

According to the latest HMRC statistics (7 October 2016) however, UK exports have remained flat for the last two years, whilst imports have grown steadily, and overall the UK is a net importer of goods. Growth in exports has stalled. It seems our appetite to become exporters has shrunk, even while demand from the global economy has grown.

"The biggest risk is missing the opportunity. People focus too much on the potential harm that they come to when trying to export. The risk can be managed by good planning. The real risk is missing out on the good demand that is out there."

UK Export Finance

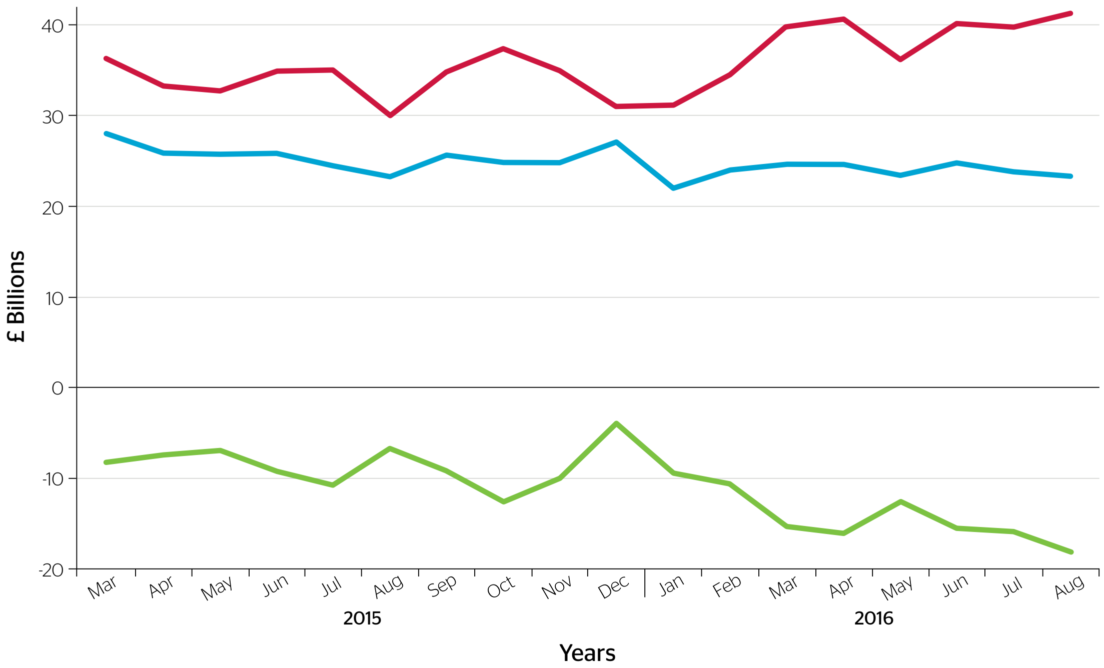
[1] TheCityUK

Barriers to export

The Department for International Trade's own statistics show that a majority of companies still do not consider themselves as possible exporters. Most are deterred by:

1. A low level of awareness of how to set out to become an exporter
2. Fear of the challenges, the risks and the costs from a variety of issues, including tax, legal and regulation
3. Not knowing where to go for information and guidance

DIT has created a suite of resources to help companies that want to export. Their message is that exporting can deliver growth, additional profit, sales and a vast pool of new customers to almost any business. Beyond this, the underlying ambition is to build the basis for a new business culture in the UK, where exporting is seen as a natural extension for every business, once it reaches a certain size.



Source: HM Revenue and Customs Overseas Trade Statistics
Note: 2016 data is provisional

Brexit and exporting

When we set out to write this report we hoped to be able to include in it some guidance for exporters on what to expect from Brexit. As it stands in late 2016, the information to write this section of our guide is not to be had. Until Article 50 is triggered and the negotiations around the UK's future relationship with the EU begin, no one is able to clearly advise on what Brexit will practically mean for UK exporters and importers.

There is uncertainty around the nature of the Brexit that we are heading for. Will it be 'soft' or 'hard' Brexit? There are some lines already in the sand. All the key EU leaders, as well as EU President Donald Tusk, have repeatedly stated that they believe the UK must either agree to all the EU's core principles[2], or benefit from none of them. In practice, this means that if the UK refuses to allow the free movement of people, it will not be able to reap the benefits of the free trade agreements that the EU offers members. This is the likely 'hard' Brexit, in which UK companies will once again need to pay some level of import tariffs to export goods into the EU, and will also be subject to a more stringent customs and regulatory regime to move goods and services around Europe.

There is still the possibility of a 'soft' Brexit. In this case, the EU might agree to give the UK some type of special status, as it does Switzerland, one in which export tariffs and paperwork remain at status quo, even when the UK is outside the EU.

One of the complications of this possible result for exporters is that there would quite likely be variations by industry. For example a special 'duty free' status might be granted to the automotive industry or to financial services, but not to other industries. The exact deals would probably have to be agreed sector by sector, particularly if the UK sought a Canadian style free-trade agreement with the EU, and no one can predict which industries might gain exemption and which might not.

[2] The four core principles or 'freedoms' of the single market are the free movement of goods, capital, services and people.

So we are in a period of flux. Surprisingly, in spite of this, most of the exporters interviewed for this report were undeterred by the likelihood of Brexit. The key reasons for this were:

The opportunities and benefits that the current devaluation of sterling is bringing to exporters. Devalued sterling has allowed many to increase sales. They are determined to exploit this opportunity, and have not yet focused beyond it. Many exporters also pointed out that the devalued pound more than offsets any additional import duties that Brexit could bring, and so one exporter described it as **"no more than swings and roundabouts in cost terms"**.

The global nature of exporting. Almost all of the exporters we interviewed already sold to some markets outside the EU. Many of them pointed out that if we leave the EU, the import regimes that we face will be no different to the ones they already work to for North America, Asia and India; and as such the likely tariff and customs changes resulting from Brexit did not worry them seriously. Exporters are used to dealing with changing global export regimes, and they do view Brexit as just another such issue.

Growth markets. For many exporters, their expected growth markets are not in the EU. Whilst some have existing books of business within Europe, those we spoke to tended not to regard Europe as the area they would focus on for future growth. As such, they were less worried about the change Brexit will bring in Europe than they would have been had it been China or India, for example.

Overall, exporters did not see Brexit as destabilising European markets to the extent that they would no longer be able to sell to them. They tended to view Brexit as no more than a large-scale paperwork vs cost issue. It is perhaps positive to find that Britain's business owners and entrepreneurs take such a positive stance on this issue, and while some may not have fully understood the implications, it seems that mainly their 'can do' spirit makes them certain that they will find a way to work successfully through and beyond Brexit.

Who do we trade with?

The USA and the EU remain the UK's largest trading partners, but high-growth countries such as China, Brazil and India are becoming increasingly important export destinations. Characterised by rapidly rising populations and GDP levels, all expect significant import growth between now and 2018.

This is in part due to the rise of the global middle class. The Organisation for Economic Co-operation and Development (OECD) forecasts that this will double to almost five billion by 2030, presenting a major opportunity for UK firms to export the types of high-quality products and services for which we have a global reputation.

In China – where UK exports have grown by 52% since 2010 – there is an increasing demand for UK expertise in sectors such as environmental design, healthcare, professional services and many more.

Closer to home, the Central European import market is now worth £500 billion, opening up numerous possibilities for the UK's small businesses. The UK brand is widely recognised and respected there. In fact, there are 100 million consumers in the region who, in the next 15 to 20 years, will be looking for the innovation and value UK companies can provide.

The challenge for British exporters is to focus on regions such as China and Central Europe, without losing their traditional links with the USA and the EU, which have long been the UK's biggest export trade partners.

Where to begin

The first piece of good news for anyone considering exporting is that there is a huge demand for British products worldwide. Research by the DIT has found that products branded 'Made in Britain' or marked with the British flag are 64% more likely to be selected by buyers in eight of the key export markets worldwide[3].

Backing this is Exporting is Great: the Government's export campaign. It aims to inspire and support UK exporters to sell their goods and services overseas. The campaign's mission is to turn the UK into the world's greatest exporting nation, capturing the imagination of the public, boosting business confidence and national pride and empowering more UK companies to go out and succeed in global markets.

Behind this campaign sits a pool of resources, housed at **www.great.gov.uk**. From November 2016 this new resource offers a range of support for companies considering exporting, including:

- Information and advice on exporting
- Connecting UK businesses with buyers overseas
- Allowing UK businesses to search thousands of unique export opportunities from across the world
- A tool to help businesses access the best e-commerce opportunities via preferential deals with the world's largest online marketplaces

[3] Source: DIT research, September 2016.

Are you already ready to trade?

For those businesses who are ready and able to start the drive to export, the DIT can provide information and access onto trade missions to regions you wish to target, and may be able to help access funding such as TAP (Tradeshow Access Programme), which helps to fund the cost of travel for would-be exporters to attend trade fairs or visit distributors in the countries they wish to sell to.

If you need in-depth information on a particular country, or even sector in that country, it is also possible to commission the DIT's local trade advisers to deliver an Overseas Market Introduction Service – a paid-for report that gives you in-depth information about the environment and market you are targeting.

Finally, there are actual feet on the ground via the DIT's network of International Trade Advisers, of whom around 900 are based in the UK, and who act as advisers and networkers for business that are ready to export and need support in their operations. Another 1,200 staff on this team are based in over 100 countries worldwide, actively engaged in seeking out trade opportunities for British businesses, and relaying these back to the trade advisers in the UK. This network was universally praised by the exporters that we spoke to in researching this report, and many had seen their International Trade Adviser as the single most important point for information and advice during their exporting journey.

So the second piece of good news is that there are huge depths of resources available to companies that want to learn more about exporting. Many of these are free, and most companies find them hugely valuable.

"We want to show companies that the demand is there."

Department for International Trade

Case study:

Surreal working closely with the Department for International Trade

Surreal is a branding and design agency with offices in the UK and Portugal. The company pursued an international opportunity in 2007, and now gets 60% of its business from overseas. Whilst the initial impetus to export came from a direct client opportunity, Surreal has since worked closely both with the DIT and the local Portuguese Embassy team to help grow its business in Portugal.

The business found that information was readily available once they knew what they needed, but Ian Smith, founder of Surreal advises **"Know what you need first of all."**

He described the work of their International Trade Adviser as invaluable, and continues to turn to him as an ongoing resource.

In this case, where Surreal were exporting to a physical base in Portugal, they also created good links with the UK Embassy in country. Ian Smith found that the people he spoke to in the Embassy **"gave the best advice"**, and helped him piece together the jigsaw of contacts that he needed. The Embassy not only helped him build up useful local contacts, but also helped him source a development grant from the Portuguese government.

It is important to use your support in the right way. Ian advises **"that you don't see DIT as a cash cow. Instead see them as an address book."**

Surreal have found the DIT to be their most critical resource in expanding overseas. Ian Smith calls the combination of their International Trade Adviser, plus the local Embassy team **"priceless"**. However, he also says: **"it is still down to you to close the deal. They are administrators and enablers not entrepreneurs."**

Other resources

If you are considering an export strategy for your business, your first port of call is clearly the Department for International Trade (DIT). Once you are firmly in touch with DIT, you may have need for one or several of the following resources.

1. The British Embassy – if your export strategy is country or region specific, it is worth while making contact with the trade post at the British Embassy in that country. They will have many local contacts, and can help you to organise in-country. Contact should initially be made via the DIT, rather than directly, unless you are already yourself physically in the country and need help right away.
2. Your industry trade association. This varies industry by industry, but many industry bodies provide support for members who wish to export, from financial to contacts and advisory. Industries with large global footprints may well supply grants via their central industry body – for example the UK Fashion and Textile Association offers a wealth of support to would be exporters, and there is a great deal of useful information on their Association website. A list of trade associations is available via the Trade Association Forum at: **www.taforum.org/Members**
3. Intellectual Property Office (IPO) The IPO is the government body responsible for intellectual property (IP) rights including patents, designs, trademarks and copyright. The IPO operates and maintains a clear and accessible intellectual property system in the UK. The IPO can also help you protect and benefit from your ideas or inventions at home and abroad. This includes access to a range of IP events, guidance, tools and case studies to support your export ambitions.
   www.gov.uk/ipo
4. The Institute of Export (IOE) The IOE is the professional membership body representing and supporting the interests of everyone involved in importing, exporting and international trade. This includes recognised formal qualifications in international trade. It also runs a series of short training courses covering every aspect of international trade management.
   www.export.org.uk
5. British Chambers of Commerce (BCC) The BCC, and its network of affiliated Chambers, support and advise businesses in all areas of international trade. With a worldwide network of bilateral and international chambers of commerce, the BCC can provide you with expert guidance and services such as: export documentation, market research, training, translation services and letters of credit.
   www.exportbritain.org.uk

Plus, don't forget existing contacts and your investors. Many of the companies we spoke to had created informal networks, which ranged from informed investors to local contacts they had met on research trips to a region. One company had based its whole programme in China on a relationship built with the translator who accompanied their first trip there. Over time this built into a trusted relationship and the presence of a man on the ground allowed the business to finalise a distributor agreement in a complicated region and sector of the market.

The practicalities: first steps

The following section is used with acknowledgements and thanks to the DIT.

PREPARE THE WAY

1 Research your market

- Find out if a demand exists for your product or service in your target market.
- Analyse your competition. How do you compare?
- Draw up a detailed list of the things you need to consider when operating in this market, e.g. legal, financial and cultural differences.

2 Check if you're ready

- Identify the benefits of this opportunity for your business.
- Review your business capabilities.
- Clarify those areas, if any, where extra advice, finance and support would be useful.

MAKE YOUR PLAN

3 Be customs savvy

- Contact your accountant and HM Revenue & Customs.
- Talk to the Embassy, High Commission and other UK networks in your target market.
- Give yourself time to get it right.

4 Protect yourself

- Speak to your solicitor.
- Know your legal obligations when exporting.
- Talk to the Intellectual Property Office.

5 Write your export plan

- Set out how you plan to launch your product or service.
- Think capital, resources, logistics, distribution and customer support.
- Do you have what you need to succeed?

CLOSE THE DEAL

6 Sort your finances

- Talk to your bank, accountant and UK Export Finance.
- Review the extra finance you may need to fund your move overseas.
- Always think long-term.

7 Take a fresh look at your product/service and marketing

- As required, adapt your product/service and marketing to your new market.
- Look at what others are doing.
- Recognise what works and, if appropriate, copy it.

8 Secure the best sales and transport routes for you

- Decide if you want to sell direct, online or through an agent or distributor.
- Plan your routes and choose the most efficient transport method.
- Ensure that you or your importer insures your goods.

DO BUSINESS AND GROW

9 Get paid on time

- Keep a close eye on your cashflow.
- Make sure you have the necessary credit in place to underwrite your investments and sales.
- Always protect your business with insurance.

10 Support your customers

- Check in with customers, export agents, banks and other partners regularly.
- Provide the same standard of service to your overseas customers as you do in the UK.
- Keep an eye on what is happening in your market – economically, politically and socially – that might impact on your business.

Case study:

Well-planned exporter

Paul Adrian launched MOJO Skin and Hair Care Limited on the back of a career in international sales and marketing in the male grooming and advertising industries. As a result, he says, **“I launched my business with a global vision. My whole plan in setting up was to have all the key international sales elements done beforehand, contracts, trademarks and distribution agreements.”**

His vision was always global. For his industry **“Europe is a very difficult market, geographically and politically. Whereas in the US or India you are pushing against an open door, because buyers there want premium British products.”**

His advice is positive **“First of all, have a vision that you want to do it. Because it is hard work – this is not like a holiday abroad! But the positives outweigh the negatives in my view, because there is a demand for premium British products and services, and people are welcoming.”**

He advises any company to start thinking globally from day one. His advice is: **“a lot of companies don’t export, and think they should build their brand here for five years first. But exporting from day one improves cash flow, and helps to fund the business.”**

In fact, he sees the risks as being lower with export sales. **“I only release export products when I have been paid. For UK clients, I generally wait for 90-120 days before I am paid.” In addition he says “Exporting offers multiple revenue streams from different distributors, and helps to balance the cash flow. Everyone should look to export for this reason. Yes it is hard work, but there are some big rewards.”**

Adrian says you have to be cautious in setting up distribution agreements. **“Protect yourself. Know that you can meet a lot of potential distributors, but you have got to trust your gut and know which are the right ones for your brand.”** Adrian attended a two-day DIT course on distribution agreements and recommends that as a starting point for working with distributors. He also recommends using a lawyer to draft the agreement, and insisting on it being subject to English law.

The MOJO strategy was pre-planned region by region on an economic basis, with the USA targeted first, as the biggest market in the world. MOJO has looked to India next, as **“it is the newest and fastest growing market in the world and they love brands, with demand coming from their emerging middle class”**. He does have room to flex, and has ended up with distribution in South Africa because of **“a surprise contact”**.

MOJO is also taking a phased approach. Adrian’s next target is Korea and China, but he knows he needs to build cashflow before tackling any more markets. His next aim is to build the brand, and he says **“I am raising money now to do the marketing to support the business in those countries that I have already distributed into. I wanted to establish distribution. Now the next phase is to drive awareness of those brands. The key is partnership with your distributors.”**

Adrian is an enthusiast for the human side of exporting too. **“I really like meeting people and love different cultures. I like doing deals, and seeing your own brand that you have created in a shop in another country is a huge wow. I find it so exciting.”**

Paul Adrian,
Founder and CEO, MOJO Skin and Hair Care Ltd

Financing export

The costs of becoming an exporter come in many shapes and forms, ranging from the travel involved with setting up distribution deals and attending trade shows, to the cash flow issues around creating that first big order before payment has been received.

Most businesses expect and plan for some costs during the set-up phase, but in some cases the capital outlay costs can be so high they can form a barrier to entry for the business involved.

Worse, SMEs researching ways to finance these costs seem to consider their options somewhat limited. As UK Export Finance (UKEF) points out, research indicates that SMEs spend an average of one hour considering their export financing options. They are most likely to approach only one bank – most often their own – and often with less than one week of needing finance[4]. There is no doubt that exporters could benefit from exploring their financing options earlier and casting their net wider when looking for the best financial support for their new export ventures.

It is here that UKEF, and its network of private partners come in. UKEF is the UK's export credit agency and works with exporters of all sizes to make sure they can access finance or credit insurance to win, fulfil and get paid for export contracts. UKEF has a long history – it has been in existence since the First World War, and is a unique public/private collaboration. As UKEF put it *"We don't compete with private market suppliers of insurance or finance, we complement them."* Most of the companies they support are SMEs, travelling up to include some of the larger corporations such as GE, whose financing needs are global and complex.

UKEF can help businesses in the following ways:

- Arranging trade credit insurance where none is available, either by providing the insurance themselves, or by helping to find someone who can offer the cover privately
- Financing. UKEF is able to support working capital for exports, usually by sharing a risk with a bank or private lender to increase capacity by up to 80%
- Sharing risk with banks on guaranteed contract bonds, such as advance payment bonds or performance bonds, removing the need for cash security and freeing up working capital for the exporter
- On large exports or overseas projects UKEF also helps UK suppliers by providing competitive finance packages for their buyers, either through direct loans or loan guarantees.

They have a team of 24 specialist export finance managers regionally in the UK, who are there to help guide companies around access to finance or insurance. In many cases their role is simply to help businesses find a different provider, whether insurer or lender.

Financing for SMEs and service businesses

UKEF can support firms of all sizes and in all sectors, but for many companies this will mean signposting them to one of the many commercial lenders, insurers or brokers. You can access many of these via **www.great.gov.uk**. On this site UKEF, with the Department of International Trade, has assembled a range of private finance partners, giving you a menu of companies to talk to when seeking financial services for exporting, and the opportunity to talk to an interested party beyond your existing bank.

Find out more about UK Export Finance at www.gov.uk/uk-export-finance.

Find out more about financial services partners for export at www.great.gov.uk.

"In this business we are forever fighting the cash flow demons."

Ian Simon, Managing Director, Surreal

[4] Source: OMG for British Business Bank

Case study:

Financing growth[5]

Wyedean Weaving is a 160-year-old supplier of uniforms and accessories that already exports to 60 countries worldwide. Founded by David Wright and now involving the fourth generation of the Wright family, Wyedean exports to 60 countries and is famed for supplying uniforms and a wide range of accessories for the UK Army, the Royal Navy, the Royal Air Force, other uniformed services abroad, the United Nations, the Metropolitan Police and the London Fire Brigade.

When the company won contracts to supply textile badges for United Nations (UN) peacekeepers' uniforms, it was asked to provide a performance guarantee from its bank. In return, the bank asked for a cash deposit which would have reduced the funding available for other business activities. With the benefit of a guarantee under UK Export Finance Bond Support Scheme Natwest was able to issue the performance bond without restricting the funding available to the business.

Robin Wright, Managing Director of Wyedean commented that **"without UKEF's support, we would have had difficulty fulfilling these contracts, and may have turned away a customer. Working with Natwest and UKEF meant that we were able to access the finance we needed to sell to the UN and increase our revenue by £1.2m over the next 3 years."**

[5] Source: UK Export Finance, September 2016.

Choosing a local partner

There are two main ways in which you can sell your products in a new country. Surprisingly the two are not mutually exclusive of one another, and in fact, some of the most successful exporters that we met in writing this report had created double or even triple distribution structures, which worked well for them.

The first option is to sell direct. This is possible where you already have contacts locally in an industry, or where there is a well-established marketing route, such as a trade fair. It is also possible to build contacts by going on a trade mission, many of which are organised by the DIT. Some businesses we spoke to had simply begun exporting after receiving interest via their websites and via social media, and fulfilling some overseas orders directly is a completely legitimate organic way to test the waters for international demand.

Crafting kit company Craft Yourself Silly built its US distribution directly, after attending a trade fair in the US (and being subsidised to do so by the 'Passport to Export' scheme). They now have a number of relationships directly with stores in the US, and ship / deal directly with them.

However, more commonly, especially for firms without local contacts into retailers, exporters appoint an in-country distributor. This can be an anxious process. Ross McMahon, CEO of Kendal Nutricare told us *"before you appoint a distributor, you get a lot of people coming to you who are actually only brokers, and want to resell your product at a higher price and keep the contacts themselves.*

The distributor you [actually] want to do business with may not take the time to visit your factory." Ross believes it is essential to visit the country and meet the distributor several times before making a decision.

At this time, it is worthwhile using the resources of the trade team at the local Embassy (who may be able to give some insight into your prospective partner), and also of DIT, who may be able to advise you, or can – for a fee – also conduct a preliminary report into a prospective distributor or region (known as an OMIS or Overseas Market Introduction Service). Their support can help you make judgements about which distributor to proceed with and which is wasting your time.

This is also an area where individual judgement counts for much, and your judgement will be better if you:

- Find a way to communicate clearly with your prospective partner – language barriers can be a major hindrance to clear understanding of a deal
- Spend time on the ground – you will get to understand the market and where your distributor is coming from
- Invest upfront in legal and trademark advice, so that you know what you want from your distributor. The founder of MOJO Skin and Haircare Ltd had invested money in creating his own distributor agreement, and in trademarking his brand before he even launched. This gave him a very clear footing from which to negotiate agreements, as he had already worked out his priorities when finalising the agreement. (Be warned however, you will need funding to pay for this.)
- Understand how much marketing the distributor will do on your behalf, and how much support (financial or otherwise) they will want from you. Know what you are prepared to put into help them grow the channel – this is still a two-way street, not a one-way chute down which you can funnel pallets full of products.

Once you do choose a distributor, the key is to mitigate the risk. Having spent much time, money and energy getting a distribution deal in place, the temptation is to try and monetise it rapidly and on a large scale. But be wary of overwhelming both yourself and your distributor. You need to be sure you are going to be paid, and while this is where taking out trade credit insurance can help provide certainty QBE's Trade Credit underwriter, Ian Bocca, also advises exporters: *"don't do huge shipments to start off with. Build up your trading pattern."* This helps you to manage your costs, understand the pattern of payments from the export destination, and get to know how this new part of your business will function.

UKEF say that they quite often see companies start to export, and then stop again after a short period, sometime discouraged by local partner teething troubles or cashflow issues. To avoid this, don't open yourself up to excess risk by pushing for an overpowering sales target from your local sellers – if they don't get paid, you won't either.

Appointing a distributor is probably the biggest risk that an exporter takes and this is also an area where protection is critical to help mitigate that risk. Taking out Trade Credit insurance is an important first step, and in some industries, such as construction, Advance Payment Bonds can also help secure your financial position.

"You have to pick one country and understand the culture and get to know the culture yourself personally, or get someone who can communicate clearly in English who knows the market and who you can trust. It is all about doing that research without taking on a huge overhead."

Ross McMahon, Kendal Nutricare

Case study:

Organic growth overseas

Lucia Victoria Interior Design was a UK-based business. But when the company launched a range of furniture sold on its website, it instantly received overseas interest online.

Owner Tracy Cooper says **"I was very naïve and got no advice. One day a guy from Chicago wanted to order some items. I googled a shipping company, read up on them and went with my gut feeling".** Most advice on practical matters came from her shipping company, who helped guide her through the maze of problems involved in shipping large furniture items around the world. She says **"the shipping companies… are amazing."**

Lucia Victoria now has 30% of its business from overseas and Cooper wants to continue to grow, saying **"there is so much business there to take, but I am doing it carefully."** Her next step is to target growth in Dubai, where she already knows there is demand for her style of product. Her plan is to use social media to drive awareness in the region.

Cooper does not necessarily advise businesses to start out on quite such an ad hoc basis, but she sees herself as living proof that determination can make things work, even when they are unplanned. She says **"I believe in hard work. If you want it you have to go out and get it."** Her advice for other exporters is that **"maybe look to get more factual information than I had. I have been lucky, but life is not always like that."**

With that said, she loves the export aspect of her business **"I would do it all again. I think it is wonderful. I have met so many nice people along the way. But next time, I would try to make myself a bit more clued up."**

Setting up, investing your time

One of the biggest 'soft' risks to every exporter is lack of time. You can't insure against it, but it's important and it cuts two ways. Firstly there is the potential neglect of your existing UK clients while you build up knowledge and relationships in your new export market. Secondly there is the risk of not investing enough time in the new market to fully understand it, and the people you are planning to work with there.

Every business we interviewed in writing this report told us that there was no substitute for investing time in a new market. Time is needed to understand the culture and the buyers, and time is also needed to get to know your buyers and distributors, and understand how they prefer / need to do business. Only actual visits to the region can help establish the answers to some of the questions that you will have. It is important to be prepared for this. The first rule is, don't try to target too many export territories at once – each one deserves your undivided attention while you are making critical decisions about who to sell to, what terms to sell on, and what the nature of your local agreement should be.

At the same time, expect to be stretched, unless you can find someone to delegate parts of the 'day job' to, while you spend time on developing export clients. Exporting involves travel. Every business we spoke to drove export negotiations from the most senior level, and this left them with a gap at the day-to-day running of the firm, so expect this, prepare for it, and if you can't mitigate it or delegate in some way, warn your colleagues (and family) to expect a period of absenteeism while the distribution deal is set up.

Planning to manage currency and banking

This section was drafted with help from Matt Antoniou, European Operations Regional Treasurer, QBE European Operations.

Foreign exchange risk is almost impossible to avoid for any business involved in international trade. Many UK exporters try to avoid it by invoicing their buyers in pounds sterling, thus locking in a net profit and fixing the cashflow. This seems like a straightforward and sensible approach, especially if you are a small business without a lot of financial transaction experience. But this approach does not remove foreign exchange risk. It only transfers it to the other party. Rapidly changing exchange rates can also obscure the true cost of your products, and some buyers will expect you to lower your prices considerably to account for that.

Biting the bullet and invoicing in local currency can give you the advantage in sales price negotiations and the opportunity to increase your margins, because all the foreign exchange risk has been absorbed and is no longer your customer's concern. If you take this approach it's important to ensure you have a foreign exchange risk strategy in place.

As every exporter knows, exchange rate movements make your profits vulnerable. Any rate change in the time between invoicing your sales in a foreign currency and converting the revenue into your domestic currency can significantly increase or decrease the amount you will actually receive. You need to consider hedging against this volatility so that you can protect your cash flow if the markets move against you.

Each business needs to find their own answer to this conundrum, but to do so you need to take into account, the business type, the business model and the underlying cashflow generation of your company.

You may need advice to understand the right answer to this question and small or medium-sized businesses trying to get into the global market for the first time may not have the in-house resources needed to fully protect themselves or accurately evaluate where the dangers may lie. In this case you need to find an adviser you trust. If it's your bank, ask to talk to a corporate banking adviser, as a local business banker may not really be aware of all the hedging strategies that are out there. Or you can engage a currency management consultant. But if you do this, make sure that you understand fully what they are planning to do, and that you have control of the decisions that are made. Putting your small business capital into the hands of the wrong currency management specialist could create a bigger risk than the one you are trying to hedge.

One approach is to look for specific moments when you should be managing risk and target those to start with. For example, if you are expecting a big order, consider whether the rate is favourable and you want to lock it in, or whether you want to allow the rate to continue to move during the payment period. As Brexit has shown, 60 days, or even 30 days is a long time in currency terms, and it could mean a 20% difference in the price you receive for your product.

UKEF suggest that *"we would generally point SME's towards good platforms, such as FX Compared. They have currency volatility tools and tons of advice, insight and case studies."* Some of the export finance providers on www.great.gov.uk may also be able help advise on this area.

Currency and Banking – dealing with uncertainty

Lisa Francis, Barclays Head of Corporate FX Sales for Europe

The currency markets have recently shown again why foreign exchange (FX) is a major concern for businesses. From June to October 2016, sterling dropped in value by around 17% against the US dollar[6]. The sterling moves are generally considered favourable for UK exporters, but many are concerned about the impact of continued currency volatility. Indeed, some have already experienced increased costs of imported raw materials from foreign currency suppliers.

So what can exporters do to better manage FX risks. A typical case occurs when a business asks the question whether it is cheaper to invoice its customers in sterling or in their customer's local currency.

Comparing the costs of sterling vs local currency invoicing is not necessarily straightforward. A number of further questions would need to be addressed before arriving at a definitive answer.

- **Availability:** Does your bank provide FX services? Would a foreign currency account be necessary? What credit lines will your bank be willing to provide? What other services (tools, reports, alerts) can your bank provide?
- **Costs:** What would a hedge cost and what are the elements of the price (e.g. trading spread, credit costs, capital charges)? Would your bank require cash collateral to be posted against the hedges as security?
- **Processes:** How robust are your business sales forecasts? What resources (personnel/systems) are required to manage foreign currency invoicing and the FX hedges? What is the accounting impact of hedging?
- **Hedging strategy:** What amount of currency should be hedged? Are there any opportunities for netting across sales and purchasing? What is the appropriate tenor of hedging? What hedge instruments are available and which is the most suitable?

All these considerations can be particularly daunting for an exporter facing the prospect of managing currency risk for the first time but support is available and the first port of call should be your bank.

[6] Source: Bloomberg

Case study:

Finding a distributor

Kendal Nutricare manufactures infant milk powder and baby cereals in Cumbria UK, and has been doing so since 1962, on a white label basis. In 2015 the firm launched its own brand, and at the same time targeted opportunity in China, where a recent scandal involving contaminated local baby milk powder meant that the Chinese tend to seek out trustworthy foreign brands.

Kendal Nutricare had already spent some time researching the market. They had initially appointed a staff member in China in 2013, and through them found and appointed a government-owned import company – a process which took over two years. This gave them the government approval and licenses that they needed to bring the product into the country. However, Kendal Nutricare then added a layer and introduced the importer directly to a sub-distributor for the baby milk products – one who had a network to sell it into mother-and-baby stores.

As Ross McMahon, CEO of Kendal Nutricare said, the approach **"allows us to put different market products into different distributors who have different expertise."** In short Kendal Nutricare can use a specialist mother-and-baby distributor for the baby milk, and in time can appoint a separate specialist with links into supermarkets for the baby cereals and health supplements that they also manufacture.

However, Ross warns that setting up such a network is not easy: **"in each market, finding a distributor, and giving one company exclusive rights to your brand is a hard decision to make."** On the road to finding their ideal distributor, Kendal Nutricare themselves tangled with some dangerous near-misses, including a potential distributor who portrayed himself as a billionaire, and then filed for bankruptcy, after they had invested time and energy in building the relationship with him.

Contract issues, including copyright and trademarks

Once you have decided on a relationship with a distributor you will need a specific contract to cover this, and for this complex negotiation, which is highly individual, we would recommend that you consult a lawyer.

Even before that point, a critical principle to consider in advance is what governing law and jurisdiction agreement will be held under (English law or local law), as this affects the lawyer you choose. The distribution agreement will also need to cover terms for copyright and trademark use, share of marketing costs, and document any pre-agreed order quantities, as well as the fundamental credit and shipping terms discussed below.

Even if you don't work via a distribution deal, there are four contractual areas that need to be agreed each time you do an export deal. These are

1. **The terms of sale.**
   This covers what the seller has agreed to buy, at what price and in what condition. This could be an individually negotiated contract for a complex sale with multiple delivery points, or it could be based on standard terms that the seller or buyer already has in place.

2. **The method of payment.**
   There are four methods of payment

   a. Open account (where the goods are shipped and delivered before payment is due, which in international sales is typically in 30, 60 or 90 days). Because of intense competition in export markets, foreign buyers often press exporters for open account terms since the extension of credit by the seller to the buyer is more common abroad. Therefore, exporters who are reluctant to extend credit may lose a sale to their competitors.

   b. Documentary credit (or letters of credit). This is one of the most secure instruments available to international traders. Documentary credit is a commitment by a bank on behalf of the buyer that payment will be made to the exporter, provided that the terms and conditions stated in the letter of credit have been met. The buyer establishes credit and pays his or her bank for the service. Documentary credit is useful when reliable credit information about a foreign buyer is difficult to obtain, but the exporter is satisfied with the creditworthiness of the buyer's foreign bank. It also protects the buyer since no payment obligation arises until the goods have been shipped as promised.

   c. Documentary collection. In documentary collection (D/C) the exporter entrusts the collection of the payment for a sale to its bank, which sends the documents that its buyer needs to the importer's bank, with instructions to release the documents to the buyer for payment. Although banks do act as facilitators for their clients, D/Cs offer no verification process and limited recourse in the event of non-payment. D/Cs are generally less expensive than letters of credit.

   d. Cash in advance. The least risky, and often favoured by small businesses

   You need to decide which of these is right for you, your cash-flow situation and your long-term relationship with the buyer. The advice of an accountant or your bank may be useful here, as the decision could have big implications for your own cash flow.

   If you are new to exporting, it is often reassuring to start on a pro forma basis or get cash up front before supplying goods. However, this, of course, limits who you can trade with, and also the size of orders you will take. If you can insure the transaction it instantly becomes possible to trade on an open credit basis, because the insurance gives you the certainty of payment. This is where Trade Credit insurance comes in.

   For a more detailed discussion of how to protect yourself from open account credit risk, see the section on Trade Credit insurance.

3. **Terms of payment.**
   Important for everything except Cash in Advance sales. Put simply this is about agreeing timing (30 days, 90 days or 120 days) and the currency of payment.

4. **Incoterms.**
   Incoterms tell the seller where they have got to deliver the goods, where risk passes from seller to buyer, how they are going to prove safe delivery (documentation) and what costs the buyer can expect to be included in the quoted price. There is a standard set of Incoterms, and more detail is given about these in the section on Shipping.

Creating and managing an international supply chain

Supply chain risk is a huge topic, and one which deserves its own in-depth study. In this paper, we will just touch on the need for a holistic approach to supply chain management.

Not all companies understand the complexity of modern global supply and 40% of British companies do not have an idea of who the second-tier supplier for their raw materials is, or sometimes even the second-tier reseller in a country of export[7]. They have limited information of what is down the chain, and this is where the risk lies.

In very general terms, disruption factors which can affect modem supply chains are defined by the PESTEL Framework. Your starting point should be to take a look at the PESTEL Framework and decide how much of it applies to you. The PESTEL factors are:

P **Political** (what is the political risk in the countries that you supply or are supplied from?)

E **Economic** (what is the biggest economic risk to your suppliers?)

S **Social** (what social change may affect your product?)

T **Technological** (is your technology up to scratch to ensure a smooth supply, but not oversupply, of your product?)

E **Environmental** (are extreme weather patterns likely to affect you, are there any concerns around pollution, are you exposed to ethical issues)

L **Legal** (how strong is your legal protection? What country are your contracts enforceable in?)

In an ideal world, you need to think about supply chain risk management as part of your planning process, not as a mitigation post-event.

The companies involved in import/export operations often have very little understanding of how extended logistics chains are. Depending on company size and your preference, you need to draw a boundary of your visible supply chain. Or you can take an alternative strategic view – if you rely on a select view of very strong first tier suppliers you can potentially outsource the responsibility.

If your product supply chain or stocking issues are complex, there are external resources out there that you can turn to. There are consultants, such as Thomson Reuters, who can provide advice.

If you are working alone and planning how to safeguard your supply chain, consider the theory of *"space ship construction"*. NASA always have a parallel system, and you also need a back-up plan for the supply of your product. This clashes with lean thinking and just-in-time delivery, but you may need some planned inefficiency if the demand cycle for your product fluctuates heavily. Building in slack allows you to cope with the unexpected fluctuations that will always occur. In simple terms, if you have a need for eight people, but you recruit or have a plan to access ten people, this allows you to stabilise operations, as there will always be illness. Super-lean structures are always vulnerable.

Successful supply chain management is about the recognition that things will not go according to plan. Instead of plan a and plan b, know that plans a, b and c are part of one big plan, and make sure all are thought through.

Shipping

Much of the risk in export comes when the goods are physically transported. It is here that many of the costs are incurred, let alone the physical risks involved in transporting goods overseas, through ports, loading and unloading, and in delivery to a new warehouse.

Understandably, most exporters begin shipping with a basic level of understanding. Some may even simply make up an order and then realise that they require a company to help them transport it to its destination. Anecdotally most small companies rely on shipping agents to advise and support them on organising their shipping, rather than concentrating on learning some of the skills in-house. To be fair, most of the companies that we spoke to had nothing but praise for the role their forwarding agents played in terms of helping them to understand customs paperwork, facilitating shipping times, and sorting out issues.

But working in reverse (*"I need to ship something. Who can do this for me?"*) can have huge implications for costs, risk and insurance. In addition, during negotiation of terms you may already have missed an opportunity to specify the allocation of shipping responsibilities and costs between yourself and your buyer, and may not be properly prepared to cover the risks involved in physical shipment. It is worth taking time to understand how international shipping can work for – and against – you.

In this section our focus is on managing the costs and risks of shipping physical goods.

[7] Source: Leeds Trinity University, September 2016.

There are essentially four modes of transport available to all exporters, which are:

1. Sea-freight, including
   - a. Containerised, Full Container Load (FCL) / Less-than-full Container Load (LCL)
   - b. Conventional (general cargo)
   - c. Charter Shipping (bulk)
   - d. Roll on (RO)/Roll off (RO) Vessels and LASHING
2. Airfreight
3. Overland / Truck / Rail
4. Post

Which of these you use will be decided by the size and quantity of goods that you wish to ship, and their destination. Almost anywhere outside Europe will require either sea or air freight, and the difference between these is quite simply cost (with air freight being much faster, but considerably more expensive).

But who pays for the shipping, and who organises it? More importantly, who is responsible for the safety of the products whilst in transit, and at what point does responsibility for any damage pass over to the buyer? The first point of principle here is: prepare before you contract. Know what shipping costs and risks you are prepared to assume, and how this should affect the price of your contract. This needs to be built into your agreement with your buyer.

“We try to design supply chains that will tick like a Swiss watch.”

Professor Denis Kobzev, Leeds Trinity University
(in partnership with Supply Chain Academy)

"Incoterms is that part of the contract that tells the seller where they have got to deliver the goods, where risk passes from seller to buyer, how they are going to prove safe delivery (documentation) and what costs the buyer can expect to be included in the quoted price."

Janet Phillips,
Export-import trainer and trade consultant

The Incoterms

There are 11 globally agreed ways to allocate shipping costs and risks, and these are known as the 'Incoterms'. You can see from the table opposite that each allocates the buyer and seller a different part of the cost and responsibility for the cargo.

Your buyer is likely to have an opinion about which option they prefer, and you should too. For example, if you want to remain low risk, consider an 'Ex Works' sale, in which the goods become the responsibility of the buyer from the moment they leave your premises. But be prepared to take a hit on price if you do opt for this route, as you are asking the buyer to assume all the cost and effort of organising transportation.

Similarly, if you want the freight forwarding agent who is moving the cargo to be working for and loyal to your interests, you need to choose an option which allows you to specify and employ the agent. This can be critical if there are timing issues, as the freight forwarding agent will keep their customer updated, but if you are not the customer, that person may not be you. In fact you may not even know who the forwarding agent is, which gives you no power to affect delayed deliveries, or even find out what is happening so you can tell the end client.

It is also worth noting that VAT is not specified by the Incoterms. You will need to specify who is responsible for VAT on both imports and exports. This is particularly important if you are shipping Ex Works, as in theory this is not an export sale (the goods leave your possession in the UK). To retain the zero rating for the sale, you must be able to provide proof of export, preferably within one month. Plausible proofs of export include the international carrier's receipt and bills of lading.

Finally bear in mind that the right Incoterm has a cash flow implication as well. Incoterms specify where delivery takes place, and 'delivery' in legal terms creates an amount owing. In short, when the goods are delivered, the clock starts ticking on your payment terms.

Incoterms

Group E
Under the E term, the seller minimises his risk by making the goods available at his own premises, not loaded.

EXW	Ex Works

Group F
Under F terms the seller arranges and pays for pre-carriage in the country of export, including export clearance.

FCA	Free Carrier
FAS	Free Alongside Ship
FOB	Free on Board

Group C
Under C terms the seller arranges and pays for the main carriage but without assuming the risk of the main carriage.

CFR	Cost and Freight
CIF	Cost, Insurance & Freight
CPT	Carriage Paid to
CIP	Carriage and Insurance Paid to

Group D
Under D terms the seller's cost/risk is maximised because he must make the goods available upon arrival at the agreed destination, including import clearance.

DAF	Delivered at Frontier
DES	Delivered ex-Ship
DEQ	Delivered ex-Quay
DDU	Delivered Duty Unpaid
DDP	Delivered Duty Paid

The most commonly employed Inco arrangements are Ex-Works (EXW), Free On Board (FOB) and Cost, Insurance and Freight (CIF).

Allocation of costs according to different Incoterms[8]

Incoterm 2010	Export customs declaration	Carriage to port of export	Unloading of truck in port of export	Loading on vessel/ airplane in port of export	Carriage (Sea/Air) to port of import	Insurance	Unloading in port of import	Loading on truck in port of import	Carriage to place of destination	Import customs clearance	Import duties and taxes
EXW	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FCA	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FAS	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FOB	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CPT	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer/Seller	Buyer/Seller	Seller	Buyer	Buyer
CFR	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer/Seller	Buyer	Buyer	Buyer	Buyer
CIF	Seller	Seller	Seller	Seller	Seller	Seller	Buyer/Seller	Buyer	Buyer	Buyer	Buyer
CIP	Seller	Seller	Seller	Seller	Seller	Seller	Buyer/Seller	Buyer/Seller	Seller	Buyer	Buyer
DAT	Seller	Seller	Seller	Seller	Seller	Seller/Buyer	Seller	Buyer	Buyer	Buyer	Buyer
DAP	Seller	Seller	Seller	Seller	Seller	Seller/Buyer	Seller	Seller	Seller	Buyer	Buyer
DDP	Seller	Seller	Seller	Seller	Seller	Seller/Buyer	Seller	Seller	Seller	Seller	Seller

However, it is worth noting that the allocation of risk is slightly different to the allocation of costs, and works as the table below. Most importantly, risk on board remains the responsibility of the seller, even though the buyer has paid for carriage under the commonly used FOB Incoterm.

Allocation of risks for sea freight[8]

Incoterm 2010	Seller	Carrier	Port/ Terminal	On board	Port/ Terminal	Buyer
FOB	Seller	Seller	Seller	Seller	Buyer	Buyer
FAS	Seller	Seller	Seller	Buyer	Buyer	Buyer
CFR	Seller	Seller	Seller	Seller	Buyer	Buyer
CIF	Seller	Seller	Seller	Seller	Buyer	Buyer

Allocation of risk for other modes of transport[8]

Incoterm 2010	Seller	Carrier	Port	Ship	Port	Terminal	Named Place	Buyer
EXW	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FCA	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CPT	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CIP	Seller	Seller	Insurance	Insurance	Insurance	Insurance	Insurance	Buyer
DAT	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer
DAP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer
DDP	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller

Further resources:

HM Revenue and Customs. HMRC can give you expert assistance on a number of matters relating to the importing and exporting of goods. This includes information and guides covering topics such as the classification of goods, trading in the EU, imports from outside the EU, duty relief on imports and exports, import and export controls and procedures, VAT, export licences, export taxes and exchange rates.

www.gov.uk/business-tax/import-export

[8] Source: Incoterms 2010

Case study:

Responsibility for risk during shipping

Kendal Nutricare make baby milk powder, baby cereals and powdered nutritional supplements. When shipping overseas they initially relied on the insurance cover provided by the shipping company. But their first shipment of milk powder to China proved that their packaging was not proof against tropical temperatures, leaving much of the product damaged. The damage was not covered by the shipping insurance under the principle of 'inherent vice', which is the natural tendency of things to destroy themselves if not correctly stored. Instead, the fault lay with the design of the packaging itself.

Ross McMahon, CEO of Kendal Nutricare commented. **"We are hoping that a big packaging supplier will pay for some of the costs, but this is not yet certain."**

Now the company is reassessing both the level and quality of its insurance cover for shipping, and also its quality control for packaging. Whilst previously they had focused on QA for the product, they have now realised the QA for packaging in an export environment is equally critical.

Mitigating risk

Exporting is about growth and finding new customers. But selling overseas does bring costs, and with these risks, mainly financial ones. These can be mitigated, and this section looks at how to build adequate protection into your export programme. It is not possible to remove all risks. But it is certainly possible to manage them, to build in some elements of protection, and to arm yourself with the knowledge that can give you the best possible level of security as you grow overseas.

Export risk can be broken down into two main types:

- Supply chain or product-related risk
- Financial and credit risk (already covered on page 11)

"We sometimes wonder if companies focus too much on the risks and the dangers and that puts them off, rather than having the confidence that they can mitigate risk – credit insurance is a primary example of how you can do that. Mitigating risks can be done. There is a huge range of people in the City of London in the UK competing to help you manage those risks and a growing number of lenders."

UK Export Finance

Supply chain and product-related risk

Global supply chains are now integrated. This means that raw materials, parts of products and the products themselves move around the globe with remarkable ease, and this can present challenges for consumers, purchasers, and manufacturers, in identifying their position in this complex inter-connected business environment.

As an exporter, you need to consider two important aspects of product risk. The first is the financial risk if your product causes harm and you are held liable for claims by consumers, as its producer. The second is brand risk, where your company is seen to be responsible for a poor product, even when you did not produce the part, and your brand is damaged as a result.

For exporters, these risks may be enhanced. If your product is not stored or used properly by an overseas third party (such as a distributor), your brand can be damaged, and worse, you may not be able to control or stop the damage happening. This is where a well-worded distribution agreement that you have originated, may be of use in protecting you and your brand.

Product risk from supply chain failure is also something that it is possible to manage. A starting point is to be aware of your responsibilities. For example, if you have purchased parts from China, and your assembled product turns out to be faulty or, worse, causes harm to someone, you need to know how to protect yourself against the financial consequences. The ability to enforce rights of subrogation varies considerably depending on whether you are involved with suppliers and producers in the UK, Europe, Asia, or the United States. For instance, it is unlikely that it will be possible to pursue this type of issue in the Chinese courts (QBE's Tom Taylor describes the likelihood of pursuing a successful subrogated claim against a Chinese producer as "extremely difficult"). In this case the liability for the problem, and the costs of fixing or redressing it may fall on you, leaving you no option but to deal with the claim, which could be a potentially catastrophic event for your business.

Here product liability insurance is key (see section overleaf). You also need to take some fundamental precautions when formatting your product. Ensure the parts you have received are fit for purpose. What processes do you have in place to ensure they are safe? What is the quality assurance (QA) regime? More importantly, as an exporter, you will also need to have a regime in place which ensures your product complies with the destination country's regulatory regime around that product, whether for chemicals, cars, financial services, or children's toys.

Assuming that you already have a good QA regime in place for the UK market, let's focus on the countries you export to. Firstly you will need to gather information about the rules in any new markets that you enter. The best source for this will probably be your local distributor, so make sure that you talk to them about this at the earliest possible stage to allow time for adjustments to labelling, systems or product formulation. Talk to as many people as possible and gather a consensus. Check how your competitors manage the issue, but don't rely 100% on them to be getting it right.

A double combination of a good product liability insurance policy, plus arming yourself with as much local knowledge as you can, is likely to be an effective protective armoury against product risk, and this brings us neatly on to the question of financial protection via insurance.

"Supply chain risk is real."

Tom Taylor, Underwriting Manager, UK & Ireland Liability, QBE European Operations.

Insurance

A key theme of this report is how best to protect a business from risk whilst becoming an exporter. It is our hope that this report has already given you some improved clarity on risk management – the art of setting up and running your export business in a way that minimises risk.

There are also some positive steps you can take, and one of the most critical of these is, of course, insurance. There are three key classes of insurance that every exporter needs. Each protects a different part of your business, as follows:

Product liability
protecting you against claims from your buyers

Cargo (shipping)
protecting your physical product against damage in transit

Trade credit
protecting you against non-payment by creditors

Each is dealt with in detail overleaf.

Case study:

Protection from international credit default

Not getting paid is the biggest danger if you decide to export goods on credit terms rather than ask for cash in advance. A recent case for a QBE Trade Credit client involved a Madeira-based trading house. Trading houses pair buyers with suppliers around Europe – perfect for companies wanting export growth in a range of European territories, but who have little knowledge of buyers in different countries. The trading house contracts directly with the UK exporter, and also usually collects payment on their behalf, so the supplier is confident of receiving payment.

For many exporters this looks like a great approach, and certainly dealing with the trading house may be a better credit risk than working directly with an end buyer. However, in this particular example, an issue arose not with the end buyer but with the trading house, which defaulted and disappeared, leaving large amounts owing to many UK suppliers. In some instances the trading house had been paid by the buyers and had not passed payment on to the UK exporters

QBE's Trade Credit insurance was the key for several buyers caught up in this situation. Without this insurance cover one UK supplier involved in this case would not have received payment for their £250,000 of computer peripherals, and there were several other claims from this big default.

Trade Credit helps to mitigate credit risk, and if the worst happens you will have knowledgeable support, as the insurer will also place you in the best position to obtain help from local debt collection companies and enforce retention of title from the local insolvency practitioners.

Product liability

With thanks to Tom Taylor, Underwriting Manager, UK & Ireland Liability, QBE European Operations.

Product Liability insurance is something that every business manufacturing, selling, or supplying a "product" should already have. It is an integral part of a company liability policy and is usually provided either along with Employer's Liability and/or Public liability. Product liability insurance provides cover for third party injury or damage occasioned as a result of a faulty product. A product liability policy can help to mitigate some of the issues outlined in the section on supply chain risk.

It should be relatively easy to extend your product liability insurance to a global rather than UK basis. If you tell your insurer that you are planning to export, they can extend the policy, although this may affect the costs, particularly if your export area includes the USA, where the litigious environment creates a higher risk of product-related litigation. Be aware that the coverage supplied by your insurer may be impacted by whether you have fully-declared your export markets and the destination of your products.

As a new exporter, you should also consider whether to extend your product liability cover to include product recall. This may be a useful additional coverage in the event of one of your products needing to be withdrawn as a result of an identified issue with product quality or safety.

Cargo insurance

If your goods are shipped you are likely to require cargo insurance. This does depend on which Incoterm you have agreed with your buyer, as they will be required to cover the insurance under some types of Inco agreement. In addition, even if you are responsible for the insurance, it is common in the UK for the shipper to hold some insurance on behalf of the client, and some companies rely on this for cover in transit.

It is also critical to ensure that your insurance matches exactly to your period of liability for the product. If you allow a gap in coverage between yourself and the buyer, there is potential for disputes to arise when goods become damaged. Therefore, you need to have negotiated the correct Incoterm, as per your understanding of the risk and also to ensure that you have the correct shipping paperwork to prove both delivery, and the condition of goods at point of delivery.

Most importantly, you and the buyer need to have the same understanding of where the point of handover of responsibility occurs. Bills of lading and carrier documentation are both commonly used to demonstrate where goods have passed between buyers and sellers. Most insurers will look to the manufacturer to supply the correct paperwork, and this is critical.

Trade credit

With thanks to Ian Bocca, John Cross and Seb Rice of QBE's Trade Credit team

A trade credit insurance policy provides protection against buyer insolvency and payment default. Part of the protection offered by trade credit insurance is a continual assessment by the insurer of your buyer risks and this can provide an effective early warning system for you about the people you are dealing with.

Trade Credit insurance allows a third party to give you reassurance about who you are trading with from the very first transaction.

The QBE team comments that Trade Credit insurance can help with more than just the individual risk: *"Trade credit insurance is not just the insurance, it is the advice as well. We will come in and meet your buyers locally to help you assess their creditworthiness, and we will do this in advance of issuing the policy. We are also globally resourced, which makes us well informed. We have a footprint in the major hubs globally. Hong Kong, Singapore, Dubai, Australia, USA. Because of our local presence we have good access to financial information and trading histories. We may even be able to provide our insureds with information on counterparties that we source via our global network."*

The process is in-depth, with the following stages. After an initial approach a QBE underwriter will assess the business you are planning to trade with. They will:

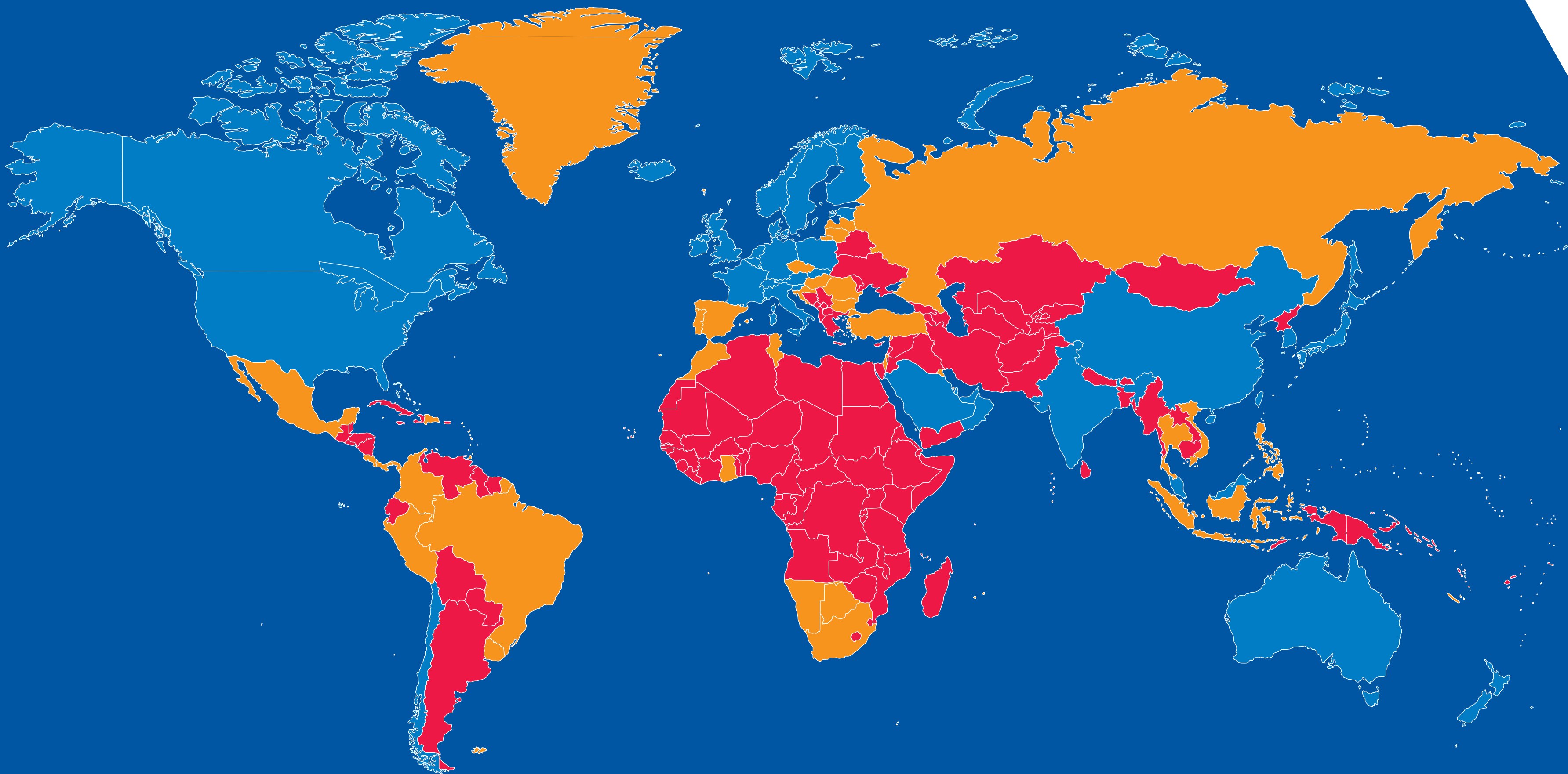
- Ask a risk underwriter to look over the buyer's company accounts (including signing an NDA with the buyer in order to ensure access to the accounts)
- Access and check any public information (eg audited accounts)
- Undertake director checks on the buyer, to see if directors have had previously been involved with companies that have gone into insolvency
- Source Paydex information – this is information from sources such as Dun and Bradstreet, including how quickly the buyer settle debts and delinquent records
- Check for any judgements against buyers
- Overlay that with country and economic information
- In some cases ask a local representative to undertake a physical buyer visit

In some cases QBE will already have direct relationships with the buyers, giving direct insight and sometimes access to management accounts.

Trade credit insurance can also extend to help you mitigate political and territorial risk. At QBE, 10% of policies include political risk cover, and the map on the next page shows the territories where you should consider adding this to your trade credit policy.

Trade credit insurance is not just for physical products, and the team at QBE regularly insure exported services such as recruitment or advertising.

Countries where political risk cover needs to be considered



Risk rating key

Low risk   Medium risk   High risk

(map current as at October 2016)

Conclusion

In this report we have tried to live up to our title and 'enable' you with the information, contacts, and examples you need to become a risk-managed and successful exporter.

We believe that good planning around financial, brand and product protection can make exporting a financially rewarding route to new customers and new revenue flows for almost any UK business, big or small. Even if you are an SME without deep pockets, the information and support is out there to enable you to start selling abroad.

If you are still put off exporting by thought of the investment in time and risks that it opens you up to, consider the case studies within this report. Nearly every exporter we spoke to had found the process of becoming an exporter rewarding and energising, and all said that they would do it all again if they could.

So take up the challenge of Exporting is Great. Can your brand become one of those British products coveted abroad? The demand is out there.

All you need to do is to:

1. Get informed
2. Make a plan
3. Mitigate the risks
4. Go and do it!

"Right now, the world wants UK goods and services. The demand is out there. You should be too."

Department for International Trade

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- Jason Knights, Managing Director of Blue Kangaroo Design
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Janet Phillips of Janet Phillips Training, export-import trainer and trade consultant

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