Delivering economic growth through exports

BARCLAYS

KING'S College LONDON

The Policy Institute at King's

Barriers to export growth

Previously, we looked into the role of superstar exporters and their exporting trends and patterns. In this report, we look in more detail at some of the barriers to export growth, the support available to exporters and the journey to exporting. According to the Policy Institute at Kings, research shows that businesses can face a number of barriers to export, which can prohibit them from being interested or willing to engage in international trade.

1. Finding the right way to communicate with UK firms about exporting remains a challenge

The government has worked hard to promote exports through the "Exporting is GREAT" campaign and other mechanisms. National export aspirations, such as the ambition for the UK to raise exports such as percentage of GDP from 30% to 35%, are often disconnected from the day-to-day realities of running a business. Government efforts to reach out to non-exporting firms must be carefully calibrated and targeted, where a one-size-fits-all message is unlikely to work.

While there are several advantages to tailored sector and region specific approaches, with examples drawn from across the UK's regions, there are plenty of opportunities for a more tailored approach in the way the government communicates with UK firms about exporting.

Research shows that UK businesses still prefer face-to-face contact with export advisory and promotion services compared with self-service digital offerings, particularly for companies lacking the digital skills to engage fully with the "Exporting is GREAT" website.

2. The export support landscape is too complicated

The complexity of the export support landscape is a barrier for UK firms seeking to enter or grow their presence in international markets. The fragmentation and complexity are reflected right across the export support landscape, from the sources and delivery of funding through to national export policy right down to the organisations delivering export support services at a local level. This inhibits firms from accessing the support they need.

Moving forward, it is recommended that the government should seek to simplify the export support landscape as an urgent priority, reducing its complexity for the benefit of UK firms. Effective implementation of a "no wrong door" policy at all levels will help UK firms to access the support they need.

3. Supply chains confer both export opportunities and challenges on UK firms

The UK hosts many firms servicing both domestic and international supply chains. However the contribution to export activities made by non-exporting firms in the supply chain of exporting firms is not captured in export data. Involvement in a supply chain is also not unambiguously positive for supply chain SME's: it can influence firms' attitudes and behaviours, dis-incentivising innovation and new ways of working, including initiating or expanding export activities. Understanding this nuanced picture will necessarily influence exporting policy in relation to supply chain development. The government is right to highlight the need for policy makers to develop a deeper understanding of UK supply chains. This can help UK firms understand how involvement in a supply chain can create both opportunities and challenges for exporting, increasing their overall economic resilience.

4. Digital literacy affects the UK's export performance

Research shows that the digital literacy of the UK export community cannot be assumed, an issue which connects with broader concerns about digital literacy throughout the UK as a whole.

Government's export strategy commits to "digital by design" export support, however it must ensure all firms can access export support services and that, while a "digital by design" approach may appear attractive, there are benefits of other modes of engagement, which should not be overlooked.

Digital literacy cannot be taken for granted across the UK business community. Government should consider more carefully the balance between digital and non-digital (particularly face-to-face) export support services to ensure all UK firms can access the support they need, irrespective of digital skills.

5. The most successful export support is delivered face-to-face

Digital services are often self-service in nature: firms engage with support by contacting a generic email address or phone number, having identified an appropriate service using the "Exporting is GREAT" or other support provider's website. It is found that the most effective support is based on face-to-face relationships between advisors and firms. The Department's own International Trade Advisors were held in particularly high regard. The Export Strategy commits to ensuring that access to face-to-face services will be increasingly provided through digital channels. This may not align with firms' preferences and connects with digital literacy concerns more broadly.

Face-to-face export support is highly valued by UK business. Government should avoid over-dependence on digital, ensuring digital and non-digital export support services are properly resourced and mutually reinforcing to maximise benefits for UK firms[1].

Transitioning businesses into exporters

The initial step to move into overseas markets can seem daunting with numerous challenges to be faced. As the industry saying goes, "An export isn't an export until you've been paid", however there is plenty of support available to help you put the right foundations in place.

The government has initiated a range of export promotion and support policies in recent years, typically motivated by the identification of market failures limiting firms' export performance. The government has sought to help firms overcome these barriers through accurately estimating export benefits, helping them access appropriate social networks and facilitating entry into overseas markets[2]. Barclays' network includes many organisations which can provide additional support for your trade planning and strategy.

Department for International Trade (DIT)

The DIT is responsible for promoting British trade across the world, through its 'Exporting is GREAT' campaign, to ensure the UK takes advantage of the huge opportunities available to it.

Research has shown there is a gap in firms' understanding of the benefits exporting provides, which is critical for economic growth.

The 'Exporting is GREAT' campaign is the centre piece of the UK's export strategy is to help firms better understand exporting benefits with the ambition to help UK businesses starting exporting and winning contracts across the world.

The DIT provides UK businesses with tools to sell overseas and grow internationally. Its website provides access to live export opportunities, tailored support and advice, the opportunity to search for global e-marketplaces and a new 'find a buyer' service

great.gov.uk

UK Export Finance (UKEF)

UKEF is the UK's export credit agency and a government department working alongside the DIT as an integral part of its strategy and operations. UKEF exists to ensure that no viable UK export should fail for want of finance or insurance from the private market. It works alongside banks and insurers to provide finance and insurance to help exporters win, fulfil and ensure they get paid for export contracts.

gov.uk/government/organisations/uk-export-finance

Institute of Export (IOE)

The IOE is the professional body representing and supporting the interests of everyone involved in international trade. It offers a range of individual and business membership benefits, as well as a suite of qualifications and training.

export.org.uk

British Exporters Association (BExA)

The British Exporters Association is an independent national trade organisation that represents the interests of its members and all UK exporters, with a specific focus on trade finance and insurance.

bexa.co.uk

The journey to exporting

When looking to develop export strategies, it is important to look at these five areas of focus, whether exporting for the first time or planning to expand into new markets. For a business that is ready to grow, exporting offers a chance to find new markets and new customers on a much larger scale. It allows businesses to take advantage of benefits they can't find at home, such as lower costs of production and economies of scale.

Evaluate resources

Timing and preparation is crucial. Preparing to sell goods and services abroad is an intensive process therefore it is important that businesses assess whether they have the resources and capacity to take on the increased workload and complexity that invariably comes with trading overseas. Whilst there are clear benefits to expanding internationally, such as growth and diversification of sales, as well as a potential increase in sales prices, businesses need to be wary of concentrating on overseas markets at the expense of their domestic operations.

From inception of your international strategy, Barclays is able to provide help and guidance and will signpost you to the support available from professionals and external agencies dedicated to supporting UK Exporters.

Barclays works in close liaison with UK Government agencies, such as the Department for International Trade (DIT) and UK Export Finance (UKEF) in order to guide exporters along the right path early in the process. When you find a new trading partner and reach the important contract negotiation stage, we can provide guidance on how to structure payment terms in a way that can help you to mitigate the risk of non-payment.

Find the right partners

Exporting means that businesses need to find the right trading partners in the right countries. This process can be made easier by working with a UK Government agency such as DIT. For example, the DIT's website, great.gov.uk provides access to live export opportunities from overseas businesses looking for products and services from the UK. This helps firms access the right international contacts or partners, find the best way to do business in a market and achieve a successful market entry strategy. DIT-organised trade missions can also be a sensible route to meeting potential trading partners.

Once businesses decide on their target overseas market to sell goods and services, they will inevitably face local competition in these locations. Before expanding overseas, it is important to ensure that potential business partners have the financial strength, and are legitimate and reputable. For example, go through a credit record search or trade & credit information (TCI) enquiry through their bank.

Barclays can support an exporter during the due diligence process, by conducting a TCI enquiry. Barclays' in-country staff have an invaluable understanding of local territories and industry sectors.

Risk mitigation

A key part of getting ready to export is to assess and manage potential risks. Buying and selling across borders can mean navigating complex foreign exchange controls. Fluctuating currency rates of exchange can also be treacherous for the unwary. When trading margins can frequently be as thin as 4% or 5%, such margins can be wiped out by a sudden adverse currency movement. Most risks associated with currency volatility can be managed.

Foreign exchange risk can, for example, be mitigated by putting a forward exchange contract in place at the time of sale, thereby locking in the sales value and underlying profit of the export sale.

Sending goods overseas without receiving payment from buyers exposes businesses to the risk of non-payment. Although payment may be negotiated up front from your end buyer, very often winning export orders means giving an extended period of credit. It's important that businesses communicate with their bank early in the process of negotiating sales contracts, and that a due diligence method is established, so that the right terms can be agreed with the buyer – giving both the business and the buyer the comfort they are looking for.

A range of solutions are available, from Letters of Credit and Documentary Collections through to Credit Insurance cover, all designed to safeguard against the risk of non-payment by an end buyer. The UK Government has also ensured that assistance is available through UK Export Finance (UKEF). UKEF provide a range of structures to support exports. For example, if you have decided that you wish to protect your debtor book through credit insurance but this is not available from a private underwriter, then UKEF will seek to provide cover to enable the export to proceed.

Concentrate on cashflow

Global trade takes time and inevitably comes with cashflow risk. Cashflow can be a major concern for an exporter. Exporters are usually required to manage a longer trade cycle than those businesses that are focused solely on the domestic market. This generates cashflow challenges as an exporter's cash conversion cycle becomes extended. This is often underlined by the need for earlier purchases of raw materials through to offering longer credit terms to end buyers.

The often-seen higher working capital requirement usually means that increased financial support is needed. A range of working capital solutions are available to meet the needs of the extended trade cycle, such as a Trade Loan facility. This provides a valuable source of cashflow to bridge the gap between an exporter's purchase of supplies, conversion into the end product and receipt of sales proceeds from the end buyer.

One solution to consider is Letters of Credit (LCs), which are often used to guarantee payment of an exporter's goods and services, as long as the correct documentation is provided by the exporter. There may be an option to provide pre-shipment finance, which can be raised upon the submission of an export LoC opened by a reputable financial institution.

A further way of providing finance is to provide payment early in instances where an export LC has a usance term, i.e. it is not payable at sight but only after a number of days after shipment. Your bank can look to accept the risk of the LC issuing bank and discount the LC which can mitigate payment risk. This allows a business to receive sales proceeds earlier and so finance growth.

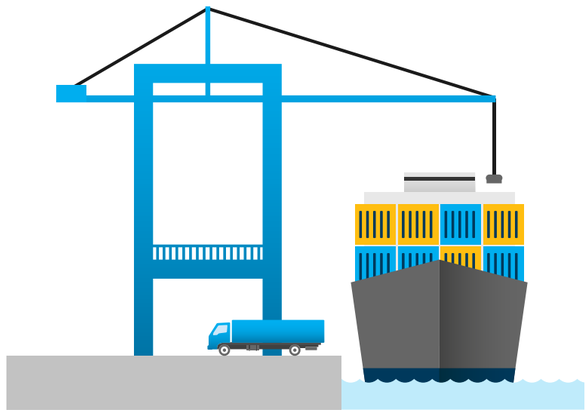
Logical logistics

Logistics remains a key issue for both buyers and sellers; the process of moving goods between the two parties has strong implications for risk, cost and insurance. For example, if buyers decide they no longer want to accept a shipment of your goods or services that have already been despatched, it may result in managing a complex logistical situation in a country they are unfamiliar with. Logistics should therefore also be part of the initial export planning process. Issues to consider during planning include:

- When exactly will the title of the goods be transferred
- Customs and excise requirements in the UK and destination countries
- The types of transport required and the companies to be appointed
- Details of documentation required by authorities in the UK and in those countries where an exporter is shipping goods
- How to ensure carriers' comply with local port regulations
- Ensuring sanctions or embargoes are in place when goods are in transition.

From traditional trade products to bespoke finance solutions we can assist your, logistical import and export activity and help maximise your international and domestic trading potential while improving cashflow.

You can benefit from the expertise of our experienced Trade specialists based in the UK and overseas. We understand the importance of Trade Finance in both reducing pressure on your cashflow and in enhancing your ability to trade globally or domestically. Our products can help achieve both these aims



To discuss your trade ambitions in more detail, please speak to your Relationship Director or call 0800 015 4242*

PROUD TO SUPPORT EXPORTING IS GREAT BRITAIN & NORTHERN IRELAND

Business Money Receivables 2018 Awards

Best Clearing Bank
Barclays Trade & Working Capital

Business Money

GTR LEADERS IN TRADE 2018

Barclayscorporate.com

@BarclaysCorp

Barclays Corporate Banking

1.Downes, Kleinman, Wilkinson, Hesketh, "Delivering economic growth through exports," The Policy Institute at King's (2018)
2.Hesketh, Downes, Kleinman and Wilkinson, "Developing 'superstar' exporters in the UK: A review of the evidence," The Policy Institute at King's (2018)

*Calls to 0800 numbers are free from UK land lines and personal mobiles, otherwise call charges may apply. Please check with your service provider. To maintain a quality service we may monitor or record phone calls.