RACONTEUR

This is an independent publication by special interest media company Raconteur

_04. December. 2012

L. Toshio Kishiyama

Going Global

UHY Hacker Young
Chartered Accountants

Thinking of going global?

Expanding your business abroad is a big step. If you are looking to grow your business internationally, we can provide practical support and advice during the entire process.

Whether exporting for the first time, or entering a new international market, selling goods or services abroad is an excellent way of gaining exposure to longer term growth and high impact profits. As governments make efforts to facilitate cross-border trading, and it therefore becomes easier to do business internationally, an increasing number of dynamic companies are looking to transfer their expertise overseas.

We will walk you through the process

UHY Hacker Young has local experts in each of our 23 UK offices who are supported in providing internationalisation services across 81 countries by our colleagues in UHY's cohesive international network. We have the capability to provide you with a full range of professional audit, accounting and tax services, and with the benefit of our commercial approach, to assist you in the set-up of your international business operations.

We will walk you through the various steps involved in the internationalisation process, from establishing in-country business contacts who can help you research your potential market, to addressing operational and trading issues.

Our experts can help you carry out a risk assessment of the factors involved in doing business in your chosen market, and assist you in calculating a complex matrix of market entry factors.

Assessing your international tax position

Implementing a tax efficient structure is key to ensuring the commercial success of your overseas expansion. We will guide you through the complexities of international tax to ensure that, wherever possible, withholding taxes are minimised and profits are repatriated in a tax efficient manner.

We can also assist in tax planning for any UK employees/directors undertaking duties outside the UK, either on a temporary or permanent basis.

Early tax planning is essential for both corporates and individuals to ensure that common pitfalls are avoided and the new structure is tax efficient.

The next step

Call us to arrange an initial meeting – free of charge – to discuss your circumstances and requirements. We can then suggest the best way forward, and provide you with a quote in advance for any agreed work. To speak to a member of our international team, please contact us at:

t: +44 (0)20 7767 2659
e: goingglobal@uhy-uk.com

www.uhy-uk.com

Helping you prosper

Distributed in THE TIMES

In association with UK TRADE & INVESTMENT

Research partner HSBC Commercial Banking

Publisher Elizabeth Smith | **Editor** Joe McGrath | **Design** The Surgery | **Managing Editor** Peter Archer

CONTRIBUTORS

PETE GUEST
Launch editor of *This Is Africa* magazine, he has written for the *Financial Times*, *The Guardian*, *Wired* and *Wall Street Journal*.

CHRIS JOHNSTON
Assistant business news editor at *The Times*, he has also worked on the paper's foreign and home news desks.

JOE McGRATH
Co-founder and editor of *Index Trader* magazine, he has contributed to the *Financial Times* and *The Independent*

JASON HESSE
Business journalist, specialising in entrepreneurial issues, he has contributed to *The Kernel* and *Real Business*.

ROB LANGSTON
Associate editor of *Fund Web*, the specialist news and features service for professional investment advisers.

ELIZABETH PFEUTI
European editor of Asset International's *Chief Investment Officer* magazine, she was at *Dow Jones* and *Global Pensions*.

KATHRYN HOPKINS
Economics correspondent at *The Times*, she was with *The Guardian* and a spokeswoman at HM Treasury.

MARCEL LE GOUAIS
Editor of *Credit Today* magazine, he was editor of *Insolvency Today* and has written for *Mortgage Strategy*.

RACHAEL SINGH
Journalist for *Accountancy Age* magazine, she has written for *Financial Director* and *BusinessGreen.com*.

Justin Guariglia

Financing exports to make business pay

Britain's future trading opportunities lie with consumers in the rising economies of Asia

30% average business growth after exporting for two years
Source: Barclays

72% of UK's merchandise exports are manufactured goods
Source: World Trade Organization

9% of UK 2011 merchandise imports were from China
Source: World Trade Organization

Exporters are closing the UK's trade gap, but to continue to grow overseas British businesses need finance, as **Joe McGrath** reports

OVERVIEW

■ British companies have been embracing international exports once more in recent months, latest figures from the Office for National Statistics (ONS) suggest.

The ONS figures show that British businesses cut the trade deficit by 16 per cent in the three months to the end of September from £10.1 billion during the previous quarter to £8.5 billion.

Furthermore, the monthly deficit is also down, dropping from £4.5 billion in August to £2.7 billion in September, sparking hopes that government projections for the rebalancing of the economy are taking shape.

And while businesses new to operating on the global stage are understandably nervous, recent research published by Barclays shows that the payback is more than worthwhile.

The British banking group commissioned independent research among 1,500 UK small and medium-sized enterprises (SMEs), which were all at different stages along the exporting process.

The findings were startling. Most striking was that businesses generate an average growth of 30 per cent after exporting for just two years and that almost a third of SMEs see a positive impact on their bottom line within just six months of expanding into international markets.

The fact that SMEs see such an effect on their business within such a short time is largely down to the financial tools which are now on offer for those entering international markets for the first time.

The choice of invoice financing, and currency and international financial advisory services has improved significantly in recent years as a result of leaps in technology, making it easier for businesses to operate internationally.

Nowhere is this more evident than in invoice financing, where there are now a plethora of options for companies looking to expand their international horizons.

James Hardy, head of Europe at Alibaba.com, explains invoice finance in simple terms as "one method to gain access to money that is owed to you before it has been paid".

He says: "This instant injection of funds can be extremely beneficial to cash flow, enabling you to carry out new business while waiting for old accounts to be settled."

> **Businesses generate an average growth of 30 per cent after exporting for just two years**

The latest variant of invoice finance to develop is invoice trading. Invoice finance has been around for years, but technological advances have now made the process available on-demand and allowed sellers to auction invoices to the best bidder instantly, whenever they need funds.

Christopher Shaw, chief executive of invoice trading group Platform Black, explains that, for many ambitious companies, the plan to expand overseas can often remain just that – a plan – because cash flow is just too tight to invest.

Mr Shaw says invoice trading allows businesses to sell their unpaid invoices to raise funds straight away and free up cash that would otherwise be tied up in unpaid invoices. He explains: "Those buying the invoices – who receive a fee in return for lending the cash – include institutional and private investors."

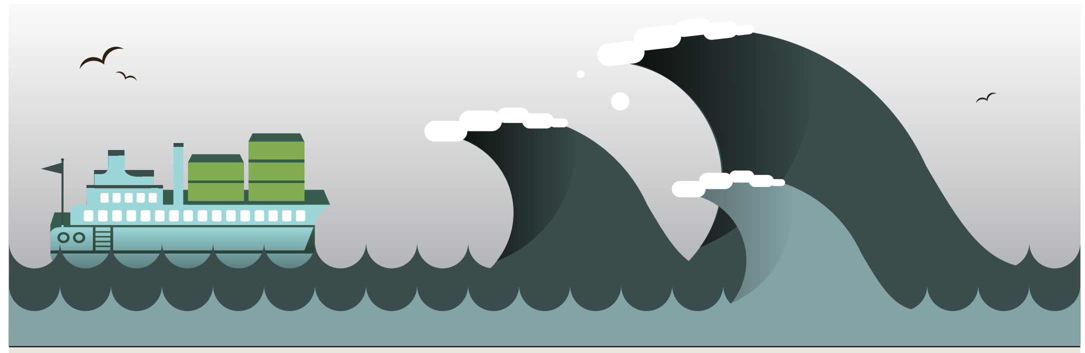
Credit is not the only hurdle facing businesses when venturing abroad. Currency is one of the most common areas where businesses misjudge the complexities. As companies get better at handling currency fluctuations, UK businesses have found ways around the potential difficulties.

Pamela Petty, managing director and finance director at The Ebac Group, based in County Durham, explains: "Mitigating the risks of trading in a foreign currency is one of the keys to successful exporting. The danger is one of falling into the trap of trying to make money from fluctuating currencies, which is a risky gamble.

"We have adopted a policy based upon forward-selling and locking the currency in at a particular rate – one which we know our business can make money from – to cover a specific trading period. It is pointless and dangerous investing on variables, particularly when the currency markets are so volatile."

Overseas trade brings home wanted business

While the global economic situation remains stormy, British companies are charting a course for new trading partners, as **Kathryn Hopkins** discovers



COMMERCIAL RISK

As policymakers fail to come up with a solution to the eurozone debt crisis and worries grow over the health of the US economy, UK businesses have to think outside the box and look towards different markets.

British companies would usually turn to the likes of Brazil and China, but as the two emerging market economies show signs of slowing down, it is now more important than ever to consider doing business with less obvious trading partners.

The opening up of markets, such as Mongolia, has presented exciting opportunities for British businesses to capitalise on new markets. The International Monetary Fund (IMF) predicts that the resource-rich country will grow by a staggering 15.7 per cent next year, while Kazakhstan, another nation not short of natural resources, will enjoy growth of 5.7 per cent.

Mongolia's ten biggest mines contain enough metal and coal to make all of its 2.7 million inhabitants millionaires and US investment bank Goldman Sachs earlier this year placed a bet on the country's growth potential, taking a 4.8 per cent stake in its oldest bank.

Kazakhstan, meanwhile, holds the Caspian Sea's largest recoverable oil reserves and produced 1.75 million barrels of oil a day in 2011.

Two other countries – Indonesia and Mexico – are also markets worth considering. The IMF predicted they will see growth of 6.3 per cent and 3.5 per cent respectively next year. Mexico has an impressive network of free trade agreements, while Indonesia has gone through a remarkable transformation from an authoritarian regime to one of the freest societies in South-East Asia.

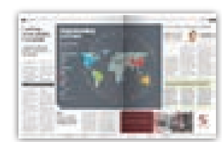
There are pros and cons of doing business with each of them, however. While there are many opportunities in Mongolia, there are concerns that it is becoming an increasingly difficult place for foreign companies to do business. This summer, its government passed a law to limit foreign investment, which means that deals now need to get special approval.

Joe Blenkinsopp, deputy global head of political risk at XL Group, says while there is value to be had in looking further afield at countries like Mongolia, businesses much keep their wits about them.

"UK companies need to be astute when seeking opportunities in Mongolia," he says. "Engineering services are required, but companies need to be aware that resource nationalism poses a considerable risk to UK companies operating there. It is essential to have well-structured and defined contracts in place."

In Kazakhstan, the government's plans for significant infrastructure development offer key opportunities for UK businesses too, but the country continues to face a number of challenges. These include increasing wealth gaps and a vulnerable banking sector, which was hit hard during the global financial crisis. It has also slid to 120 out of 182 countries in Transparency International's *Corruption Perception Index (CPI)*, down from 105 in 2010.

There are many opportunities in Indonesia, especially after its government last month signed a bilateral trade and investment agreement with the UK, focusing on the infrastructure, defence and education sectors. The ambition is to double bilateral trade between the UK and Indonesia from just under \$3 billion in 2010 to \$6 billion in 2015, and UK companies are being encouraged by the British government to look at this market.



Global trading partners
Pages 08 and 09

However, companies should be aware that there are high rates of informality and some Indonesian companies often start operations without being formally registered. UK Trade & Investment advises British companies to deal only with formally registered businesses and says its team in Jakarta can help to check. It also warns that, while Indonesia rose to 100 in Transparency International's *CPI* last year from 110, corruption remains a regular feature of business life.

Elsewhere, Mexico's economy is driven by oil and gas. It has a large consumer market and a growing middle class, which presents opportunities for British companies.

Its strategic location, between the United States and Latin America, also gives it the potential to act as a springboard into the region. All this, however, is set against a backdrop of the fight against organised crime, drug trafficking and politically motivated violence.

"Mexico is certainly pro-business and this, coupled with an improving legal and investment framework, is promising. However, the trading environment is challenged by drug cartels and criminal activity," says Mr Blenkinsopp of XL Group.

> It is now more important than ever to consider doing business with less obvious trading partners

Delivering better ways of making payments abroad

Technology is nurturing more methods of international payment and financial services than ever before, which is aiding global business expansion, writes **Elizabeth Pfeuti**

INTERNATIONAL PAYMENTS

■ Buying and selling goods used to be as simple as money changing hands. In today's global marketplace this simplicity has been replaced by layers of complexity as consumers are offered a wider range of goods from increasingly diverse sources.

Mike Laven, chief executive of The Currency Cloud, says progress in international payments is long overdue. "The methods available for paying suppliers overseas or receiving funds from overseas buyers have been antiquated and riddled with inefficiency, " he says. "Their roots are in the 1970s and the correspondent banking model. It is ludicrous that a business can't be told exactly how much money will arrive at the beneficiary bank account and when exactly it will arrive.

"There are very few service providers that really provide a complete solution for a business, optimising currency conversion as well as the process of cross border payment and receipt. This is now changing, and quickly, as a result of technology.

"International payment solutions should be an enabler for growing business, not a headache and a barrier."

Microsoft, whose customers cover the globe, recently reorganised its payments system with outsourcing specialist Avarto.

Debra Maxwell, global business process outsourcing (BPO) director at Arvato, says: "Through our $200-million global BPO partnership with Microsoft, we have streamlined its previously fragmented 'contract-to-invoice' processes, which were shared between seven different vendors in five locations worldwide."

The companies set up a managed service model that manages the risk, complexity and scale of the relationship. "Now handling 90 per cent of Microsoft's global revenues, the partnership has achieved cost savings in excess of 20 per cent," Ms Maxwell says.

Technological developments have allowed businesses to manage cash balances in different currencies, and to manage their receipts and invoices more efficiently.

Technology is also making it possible to manage the inherent oscillations in currency markets. "Managing foreign exchange is so important to hedge payment risk," says Marcus Treacher, global head of e-commerce for payments and cash management at HSBC. "People running businesses want to manage fluctuations in their currency exposure."

The next step in international payments is to make these services mobile, and available to company bosses whenever and wherever they choose. "The generation that is moving into the workforce expects this level of immediacy and convenience, but moving money around the world securely, efficiently and reliably remains an expert job. This will pose challenges for banks and payment providers in the future," adds Mr Treacher.

> **International payment solutions should be an enabler for growing business, not a headache and a barrier**

30% of China's annual trade will be settled in RMB by 2015

10% of China's annual trade settled in RMB in 2012

9% of China's annual trade settled in RMB in 2011

50% of mainland Chinese companies offer discount for payment in RMB

Source: HSBC

CASE STUDY

Opening up renminbi to international trade

China is the world's second largest economy and largest exporter, yet its currency sits beside the Danish kroner in the league table representing global trade volumes.

This inconsistency is due to currency controls that were in place until relatively recently when the Chinese authorities saw a potential advantage for its manufacturers. Until July 2009, businesses operating in China were unable to trade in renminbi (RMB) with overseas partners.

Now, Chinese mainland companies can trade and settle in RMB and restrictions on foreign trading partners have been scrapped. Over the past two years the pedal has been firmly pressed and deregulation has been the key to opening up the RMB.

"The Chinese authorities are looking to internationalise the currency and are in the process of relaxing controls on the use of RMB across borders and outside China," says Paul Gooding, head of European RMB business development at HSBC.

"Once the currency is used more widely in trading, it will lead to more investment by countries, corporations and individuals, and ultimately be used as a reserve currency."

HSBC was behind the first offshore receivables finance agreement denominated in RMB, finalised in August this year. The contract allowed UK high street retailer Debenhams to bill and settle payments with a Hong Kong-based supplier in RMB. This means the seller can pay local invoices and staff costs without the distraction of currency fluctuations.

"The push over the past year has been phenomenal," says Mr Gooding, who moved into this role at HSBC a year ago in a part-time capacity. After two weeks he realised the growth and potential of this initiative would actually require full-time dedication.

In April, the City of London and Hong Kong Monetary Authority announced closer collaboration as the City looks to create a RMB trading hub.

HSBC Global Research estimates that approximately $2 trillion, or a third of China's annual trade, will be settled in RMB by 2015. In the first quarter of this year, 10 per cent of China's trade was settled in the currency. HSBC also forecasts the European share of global RMB payments will double to about 14 per cent by 2014.

"The growth of the Chinese middle class will also be a large driver to open up the RMB," adds Mr Gooding. "Estimates put this group nearly doubling to 700 million in five years' time and they will all be importing Western goods."

A world of difference

Where in the world should far-sighted businesses look for customers in the next decade and beyond?

If the trade world hasn't quite tipped upside-down in the past five years, it's certainly become a highly volatile place to operate, with a slowdown in established markets, swift – if unsteady – rise of new powerhouses and the forging of strong new trading partnerships between emerging countries.

But the rise of so-called "south-south" trade, which sees the fastest-growing economies supplying each other, supported by fresh trade agreements, needn't lock out businesses in the stagnating markets of the developed world.

Billions of people are poised to enjoy new levels of disposable income over the next two decades. Their tastes and habits are not yet as firmly set as in other societies. That signals opportunities for businesses to reposition their brands and build entirely new markets.

According to *The HSBC Global Connections Trade Forecast* report, this will be a great outcome not just for businesses facing sluggish economic growth in developed economies, but for the global economy itself.

Developed economies and emerging markets could switch roles. Emerging markets could become importers to satisfy new middle-class consumers, while exports from developed economies could meet the demand.

The rise of the new middle classes in the emerging countries has been heralded almost *ad nauseam*, but the sheer numbers behind the cliché remain mind-boggling.

Economists have noted how the biggest changes in spending patterns occur when individuals move from a very low income, classed as spending less than US$10 a day in purchasing parity terms, to a lower-middle income bracket of $10 to $100.

There could be nearly five billion middle-class consumers by 2030 from around 1.8 billion today, according to the Organisation for Economic Co-operation and Development (OECD), the majority of the growth coming from China, India and other Asian nations.

China and India are the clear leaders. By 2030, more than 70 per cent of China's population could be middle class, consuming nearly $10 trillion in goods and services, Brookings Institute research suggests. India could add as many as a billion middle-class consumers to the world by 2039.

Population trends will magnify the economic and political consequences of this shift in trade and consumption. Europe's rapidly ageing population will enhance its economic woes, with Italy, Germany and Spain facing particularly gloomy demographics, according to Harvard researchers.

There are worrying trends too for Japan and Korea, but much of Asia will "stay young". The median age in the Philippines, which was 22 in 2010, will still be only 32 by the middle of the century, UN statistics show. Its rapidly growing population will compound the effect of massive income growth to support a huge rise in consumer spending.

Famously, China's one-child policy – now modified – may not make it as vulnerable as it seems. The median age today in China is 35 and in 2050 it will have risen to 49. However, any rise in China's labour productivity could help take up the slack caused by an aging population and keep the country on its wealth trajectory.

What will people do with their new-found disposable income? Clothing and footwear brands are already seeing the benefit. Asia Pacific is Prada's biggest market; Gucci expects Chinese buyers to become its top consumers in the next five years.

Furnishings and technology are set to be among the other winners of the new consumption patterns. IKEA will open its first outlet in Cairo in 2013 and is planning 25 stores for India. The emerging markets also have a huge appetite for smartphones and tablets. Asia Pacific accounted for 21 per cent of Apple's sales in 2011 compared with 7 per cent two years earlier.

Spending on tourism, eating out and personal care, all big markets among the middle-classes in developed countries, could rocket too. And there will be a spike in demand for financial services.

At present 40 per cent of India's population, for instance, has no formal channel for savings, the Reserve Bank of India says. Vast amounts of money are held in cash, under the charpoy. Similarly, an estimated 26 million people will be keen to buy their own homes if mortgage availability improves, according to the country's housing finance regulator.

Emerging-market giants Brazil, China, India and Russia consume just 24 per cent of the world's financial services today, measured by global banking assets, but already this will have risen to 35 per cent by 2016, according to Economist Intelligence Unit (EIU) forecasts.

A rise in banking will itself fuel further economic growth through banking's traditional role of putting savings to work to fund business growth. Wider availability of consumer credit tends to spur purchases of goods and services.

All this future-gazing could be derailed by obstacles, such as food and energy constraints. But if a vision of abundant trade in the future seems too hazy to inspire confidence, there are positive shorter-term signs too.

The HSBC Global Connections Trade Forecast report projects that world trade growth is set to rise to around 5 per cent in 2013. It will continue to pick up in the following years, hitting 6 to 7 per cent a year in 2014-16.

In this period too, the emerging markets dominate. Trade growth in other regions will be slower, but it should be accelerating steadily

> **Emerging-market giants Brazil, China, India and Russia consume just 24 per cent of the world's financial services today, but already this will have risen to 35 per cent by 2016**

New world order

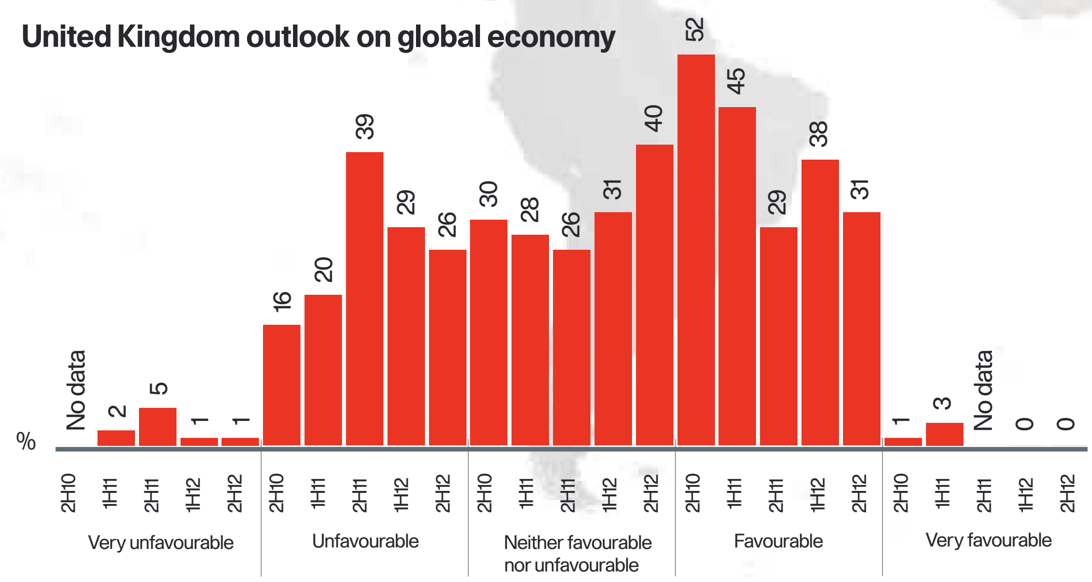
Trade flows during the remainder of the decade will be driven by the emerging markets, led by Asia and influenced by heavyweights China and India, according to *The HSBC Global Connections Trade Forecast* report. Export growth to Britain's biggest markets in Europe and the US will be slower, but is expected to pick up from the depressed levels seen in 2012. The graphic shows some of the key numbers

Top five export destinations

Rank	2011	Rank	2030
01	Germany	01	United States
02	United States	02	Germany
03	France	03	Ireland
04	Ireland	04	France
05	China	05	China

Source: Oxford Economics

United Kingdom outlook on global economy



Source: TNS

1H - First half of year
2H - Second half of year

China
■ UK exports to China are expected to grow at least 9 per cent every year though to 2030, raising the Middle Kingdom to Britain's fifth largest export partner

India
■ One of the strongest-growing UK export destinations, India is expected to buy 13 per cent more British exports yearly between 2013 and 2015; 11 per cent more over 2016–20; and 9 per cent a year between 2021 and 2030

Vietnam
■ Vietnam is expected to become one of the UK's fastest-growing export markets with 10 per cent or more growth every year to 2030

Brazil
■ Brazil is likely to be the fastest-growing destination for UK exports in 2012 at 42 per cent, with strong growth of 9 per cent or more per annum projected through to 2020

Turkey
■ Turkey is a rising destination for British exports which are expected to grow 11 per cent a year over 2013-15 and 9 per cent every year between 2016 and 2020

Germany
■ The UK's top export destination today is a slow-growing market with annual British sales rising just 2 per cent in 2011. Even so, Germany is expected to remain one the best-performing export markets for Britain in Europe through to 2030

Ireland
■ The Emerald Isle is currently the UK's fourth largest export destination and, even at modest growth levels, could become our third biggest market by 2030

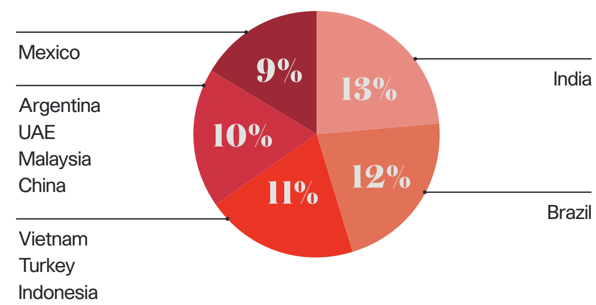
United Kingdom
■ British exports are expected to grow at around 6 per cent a year until 2020 and 5 per cent a year in the following decade

United States
■ Our second biggest export destination today, the US could overtake Germany to become the UK's top export market by 2030. British exports to America are expected to grow 6 per cent in 2012

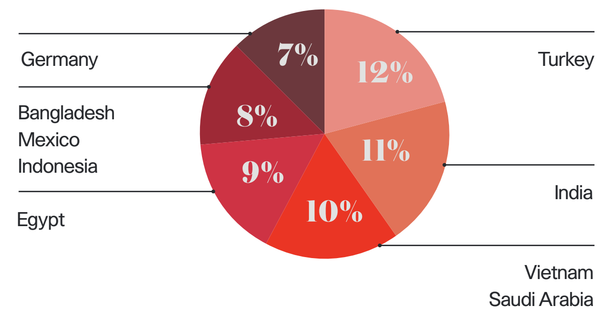
Latin America
■ British exports to Latin America as a whole are expected to grow 9 per cent a year between 2013 and 2015, and then 7 per cent between 2016 and 2020

Middle East and North Africa
■ Countries in the Middle East and North Africa region are expected to buy 9 per cent more British exports yearly between 2013 and 2015, and 7 per cent more over 2016–20

Fastest growing exports (% year CAGR) 2013-15



Fastest growing imports (% year CAGR) 2013-15



Source: *The HSBC Global Connections Trade Forecast*

from the current depressed levels to 2020, when internationalisation will intensify as businesses optimise their global supply chains.

The UK is predicted to see annual export growth of around 6 per cent from 2013 to the end of the decade, a growth rate ahead of France and Germany, and similar to Ireland.

But these modest headline figures hide a dynamic projection for rates of supply to the emerging markets.

Growth in exports to these new markets is likely to be particularly rapid over the next three years as they recover from the current "soft patch" in the global economy, driving an associated rebound in demand for imports.

UK exports to Asia, excluding Japan, are forecast to grow by around 9 to 10 per cent annually until 2020, before moderating to 8 per cent a year in the following decade.

Exporters will also be able to take advantage of more buoyant demand in Eastern Europe. UK exports to Turkey, for example, are expected to grow by around 11 per cent a year between now and 2015.

Established trading partners will also remain important in the next few years. Despite the eurozone woes, an expansion of exports is forecast, especially to a still-buoyant Germany. And by 2030, the United States will overtake Germany as Britain's top export market.

James Emmett, global head of Trade and Receivables Finance for HSBC, takes heart from the forecasts. "The fact that the pace of export growth from the US and UK to China is expected to accelerate reflects the continued – and growing – appetite for the high-value, high-end range of goods made in Britain and the US, from FMCG [fast-moving consumer goods] to specialist products in sectors such as technology and pharmaceutical," he says.

> **Developed economies and emerging markets could switch roles. Emerging markets could become importers to satisfy new middle-class consumers, while exports from developed economies could meet the demand**

Backing Britain's trade ambitions

Multinationals are already established on the world's most promising trade routes. Now there's growing support for smaller businesses to follow in their footsteps.

Export master classes, networking sessions and a food delegation to China were among the elements of the UK's first "Export Week" this November. But few in business or government are in any doubt: for a sustainable recovery, every week must be export week.

Acutely aware of Britain's untapped export potential, the Department for Business, Innovation and Skills has set out to help 10,000 more UK firms to take their products overseas. The emphasis is on small and medium-sized enterprises (SMEs), which have most potential to grow.

Among the expert speakers at the 100 regional Export Week events, organised by UK Trade & Investment (UKTI), was a variety of senior figures from HSBC – part of the bank's commitment to support business and promote an export-led recovery.

This followed a strong start for the HSBC's International SME Fund, which offers lending to firms with a turnover of up to £25 million, which have ambitions to trade overseas or to expand their export activity.

The appetite for export support was proved when the fund hit its initial £4-billion target in the first nine months of 2012. The total available has now been raised by a further £1 billion.

But as Jacques-Emmanuel-Blanchet, deputy head of commercial banking Europe and head of Commercial Bank UK, points out that the bank's commitment to supporting international trade is far from new.

"With our roots in Hong Kong and Shanghai, and an unrivalled presence in the fastest-growing markets across the globe, we're well positioned to support businesses looking to these territories," he says. "That includes practical help with cultural issues, contacts and market intelligence, besides the full range of trade finance products."

The HSBC Global Connections Trade Forecast initiative aims to share the fruits of its worldwide research teams with businesses. And selected firms gain insight and opportunities through the bank's International Exchanges, held in key markets alongside some of the world's top business minds.

Dubai was the setting for the latest gathering in November. UK-based geological consultancy Badley Ashton has been considering a presence in the Middle East. The firm's Meriem Bertouche says: "The Exchange has been really helpful to understand the risks and give us confidence in making that step."

Another firm, Evolution Power Tools, is also taking a fresh look at the Middle East. "I was initially unconvinced that the UAE should be a priority for us," says managing director Matthew Gavins. "Then I came out here and saw the energy and passion of the guys keen to help us do business – and I was hooked."

Cashing in on quality UK goods

UK firms must exploit strong demand in emerging markets for British-made products, writes **Chris Johnston**

HIGH-GROWTH MARKETS

■ As the economy in Britain and much of Europe looks set to stay in the doldrums for some years to come, businesses are questioning how to stimulate demand for their products in an age of austerity and uncertain demand.

Some are bound to domestic or regional markets, but an increasing number are considering how to exploit the rapid growth being enjoyed in countries in Asia, Africa, the Middle East and other emerging markets.

Alex Lambeth, Middle East and Asia director of British Expertise, a non-profit organisation that supports UK companies internationally, says it aims to help its members make reasoned decisions so they can enter new markets in the best state possible. "We encourage companies to go in with their eyes wide open," he says.

There is an increasing amount of interest from British companies in emerging markets, Mr Lambeth says, but he warns they should not assume easy, quick profits will result.

Share and discuss online at theraconteur.co.uk

Some of the most prominent are the BRIC countries – Brazil, Russia, India and China – to which UK exports are expected to increase by an average of 11.7 per cent a year, according to the Ernst & Young ITEM Club.

While China's growth rate has slowed in recent months, it is still running at 7.4 per cent a year – vastly higher than the 1 per cent managed by the UK in the third quarter of 2012.

The rapidly expanding middle classes in emerging markets – which now includes about one billion people – presents a golden opportunity for British companies, according to Chris Gentle, a partner at Deloitte and its head of insight.

Some 65 per cent of middle-class consumers in India and China surveyed by Deloitte earlier this year indicated a desire to buy more British-made products. That compares to a figure of just 33 per cent among consumers in France and Germany.

While companies need to be very considered about the markets they decide to enter, Mr Gentle points out that about half of emerging markets are members of the Commonwealth, where English is widely spoken.

Ensuring that businesses comply with laws, such as recently introduced UK anti-bribery legislation, as well as overcoming regulatory and language barriers, are among the many factors to take into consideration. However, the long-term opportunities are clear, particularly for companies that have unique products which already sell well in more established markets.

As well as the more established markets in Southern Africa and the Middle East, British Expertise works with UK Trade & Investment (UKTI) and the Foreign Office to run missions to countries, such as Angola and Libya, which both have fast-growing oil and gas exploration sectors.

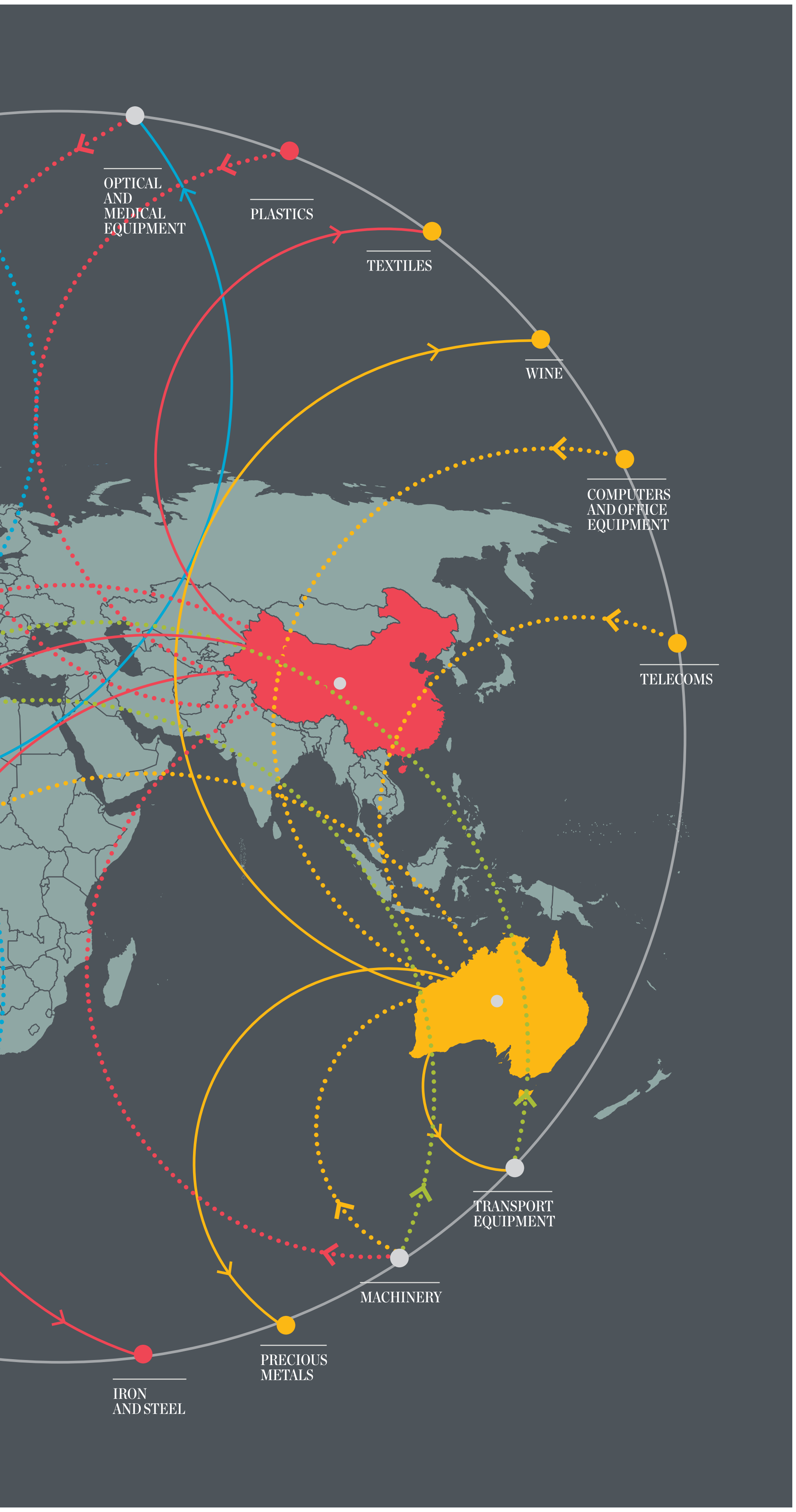
UKTI, the government's trade promotion body, operates in almost 100 countries, but is targeting 17 of the fastest-growing. They include Indonesia – the world's fourth most populous country with 240 million people, where UK exports rose 25 per cent to almost £440 million in 2010 – as well as Malaysia, Thailand, Turkey, Mexico, Saudi Arabia and Nigeria, among others.

> **Some 65 per cent of middle-class consumers in India and China indicated a desire to buy more British-made products**

Steve Box, head of global trade and receivable finance for Europe at HSBC, says UKTI support for companies entering emerging markets is very important given the issues that must be overcome, such as late payment of invoices and legal problems. Being able to find out how other organisations have coped with these challenges can make the process much simpler, he says.

The World Bank's *Ease of Doing Business* rankings indicate Thailand and Malaysia are the countries with fast-growing economies that are the easiest to do business with, ranked at 17 and 18. In contrast, China is at 91, Brazil is 126, Indonesia three places lower and India brings up the rear at 132, reflecting its myriad red tape and bureaucracy.

Access to finance is another major issue for companies. Earlier this year, HSBC set up a £4-billion fund to lend to UK small and medium-sized enterprises (SMEs) to help them grow exports. Mr Box says demand was so great that by September another £1 billion was added to the total. To date the bank has lent to 9,000 businesses, with 81 per cent of applications approved.



Accessing emerging markets

UK Trade & Investment Minister **Lord Green** urges British businesses to venture abroad to build new export markets

Lord Green of Hurstpierpoint is Minister of State for Trade and Investment, and was formerly group chairman of HSBC Holdings, chairman of the British Bankers' Association and chairman of the Prime Minister's Business Council for Britain

OPINION

■ This time of year, many companies are taking stock and planning ahead for the next 12 months. It's a time to look back on the successes of the past year, and to work out where growth is going to be found in the coming months and beyond.

While no business should ignore its main clients, and Europe remains a market of half a billion people, my hope is that as we emerge from the holiday season into January, business people will ask themselves one question: "why don't we diversify the markets we trade with?"

In a difficult economic climate, with slow growth and uncertainty throughout Europe, this may seem like an unlikely option. When I travel around the country meeting businesses, they are worried about over-stretching their resources, investing in activity that has no sure return and whether now is the right time to expand.

These are legitimate concerns. Whether you are selling at home or overseas, there is always an equation of risk versus return, and a wrong decision can be the difference between success and failure.

The lesson here is that it's vital to get your research done. My department, UK Trade & Investment (UKTI), can help your firm identify new markets through programmes like Gateway to Global Growth, which is targeted specifically at experienced exporters.

It is in the UK's long-term interest we start building relationships with countries that are growing fast, such as China, India, Brazil, Indonesia, Nigeria, and states in the Middle East.

UKTI has identified high-value opportunities – contracts worth over £1 billion – that UK firms can band together to bid for. From airport contracts in Malaysia, Oman and China; oil and gas projects in Kazakhstan; hospital projects in Saudi Arabia or South Africa; global sports contracts around the Sochi and Rio Olympic and Paralympic Games, and the FIFA World Cups in Brazil, Russia and Qatar.

Some firms worry that no one will want their products overseas. I constantly travel to the 100 or so markets in which UKTI operates. I was in Russia just a few weeks ago and the Middle East before that. I know that there is a huge demand for British products and services around the world, particularly in areas where the fast-growing middle classes want to spend on the things that the UK is so good at producing.

By December 2013, you may be asking yourself which market should I sell to next?

FINANCIAL EXPANSION

Government and business initiatives

Opportunities are opening up for British exporters thanks to a new political mood at Westminster, writes **Marcel Le Gouais**. A government under acute pressure to lay solid foundations for economic growth has created several policies either to fund exports directly or increase options for export credit.

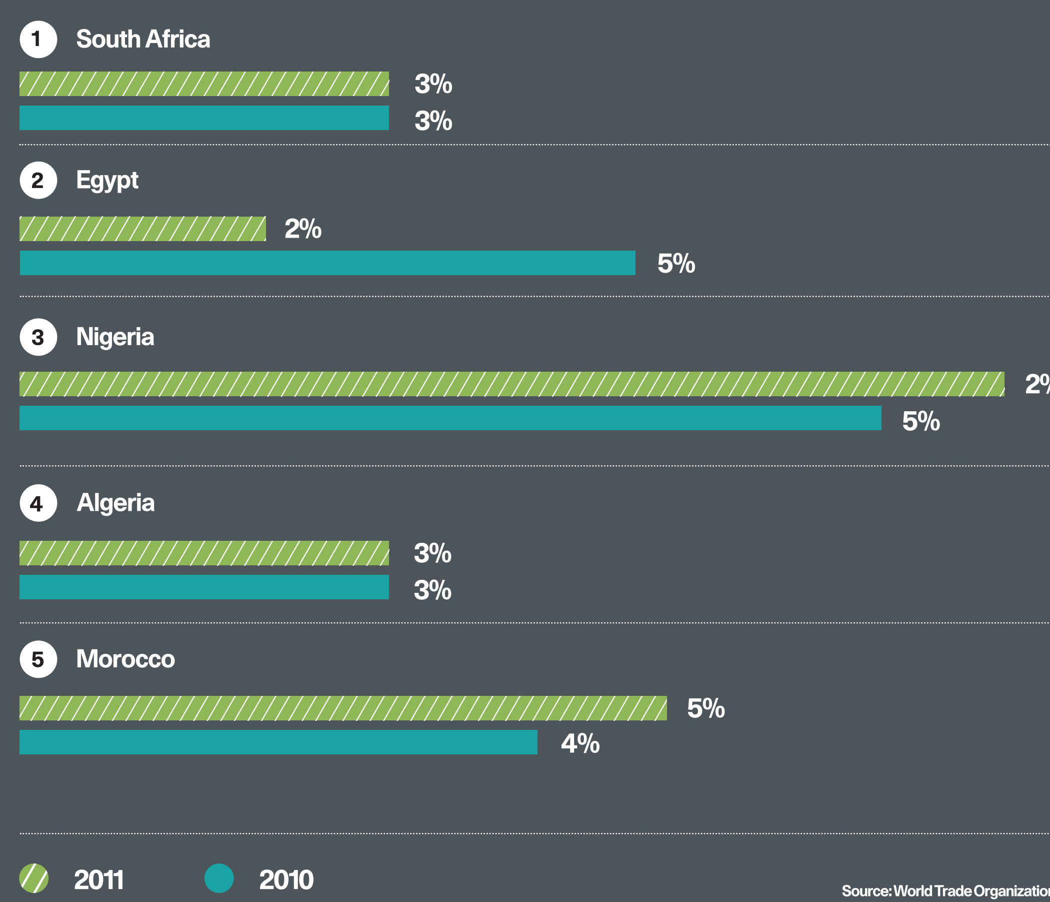
State-backed schemes include export insurance and a bond support scheme, as well as a working capital arrangement to ensure exporters can finance products if business is growing rapidly.

Government schemes are often "welcomed" by trade bodies, but subsequently lack participation. However, the private sector offers many other options. Factoring remains popular where lenders offer exporters an advance of up to 85 per cent of the value of an invoice. The factoring firm will then collect the invoice themselves and take a fee.

Trace credit insurance policies can also be useful. Aside from paying out when an exporter's customer becomes insolvent and therefore fails to pay invoices, a credit insurance policy will involve advice on trading risks. Insurers such as Atradius also offer global debt collection under the policy. It's not right for everyone, but policies can move the credit risk from exporters to insurers.

Letters of credit are another option. This is effectively a bank guarantee of payment, subject to the correct presentation of documents by the vendor. Letters of credit aren't widely used in Europe – more than 90 per cent of transactions are on open account – and they need to suit businesses' trading patterns.

Africa's top five economies: % change in real GDP



Fast-growing economies are attracting UK business and investment

As investors wake up to untapped potential in Africa, **Pete Guest** looks at opportunities for British businesses south of the Sahara

AFRICAN INSIGHT

■ African businesspeople and veteran investors often complain that the continent's problem is mainly one of perception.

But, as more companies seek out opportunities south of the Sahara, it seems the prevailing sentiment around Africa has changed, despite flare-ups of instability in key economies, including South Africa, Kenya and Nigeria.

With the eurozone entering a second recession in three years, exporters and investors alike are looking for growth in more "frontier" geographies, tapping into demographic expansion, urbanisation and the creation of an educated, acquisitive middle class that is emerging in many African countries.

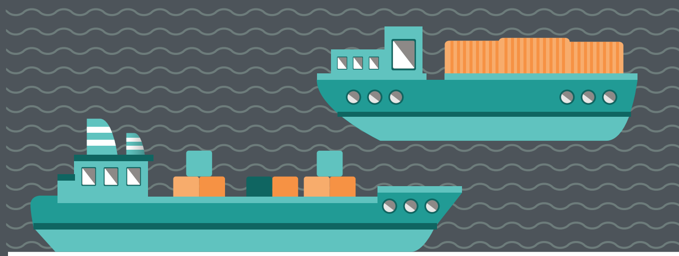
"We're not pretending that in the space of a decade, someone has waved a magic wand and all of Africa's challenges have gone away," says Michael Lalor, lead partner in Ernst & Young's Africa Business Centre.

"But there's no doubt that Africa has made remarkable progress, not only on economic terms, but also on social and political terms, and it's been sustained and consistent progress."

From 2000 to 2010, six of the ten fastest growing economies in the world were in sub-Saharan Africa. Between 2011 and 2015, the International Monetary Fund (IMF) forecasts it will be seven of the top ten.

Hydro-carbons and minerals have, in some cases, driven that growth, with the petro-economies of Angola and Nigeria among the leaders, but that is only part of the story.

In 2011, sub-Saharan Africa's total population was estimated to be around 900 million. Including the Maghreb, it puts the continent at more than one billion people. That population is growing at a greater rate than any other region and is forecast to reach two billion by 2050. It is also increasingly urbanising.



Trading risks with Africa: country risk assessments

ACCEPTABLE

Namibia
South Africa

QUITE ACCEPTABLE

Algeria
Botswana
Morocco
Tunisia

SIGNIFICANT

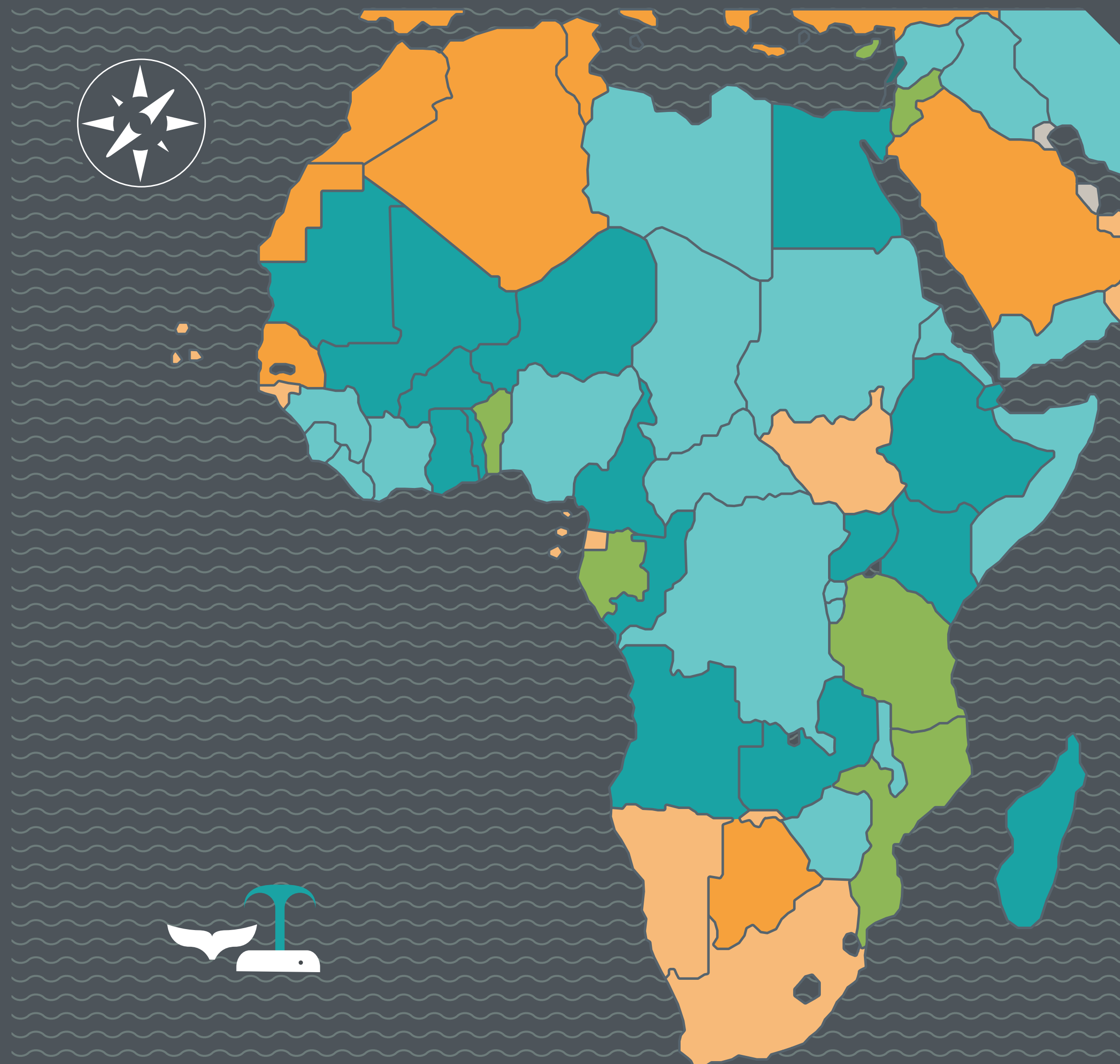
Gabon
Ghana
Tanzania
Senegal

HIGH

Egypt
Mauritania
Niger
Burkina Faso
Cameroon
Sierra Leone
Ethiopia
Kenya
Uganda
Republic of Congo
Angola
Zambia
Madagascar

VERY HIGH

Libya
Sudan
Chad
Eritrea
Mali
Central African Republic
Nigeria
Ivory Coast
Liberia
Democratic Republic of Congo
Zimbabwe



Source: Coface

In 2010, the United Nations' Human Settlement Programme forecast that by 2030 more than half of all Africans will live in cities, from around 40 per cent in 2009. By the early-2040s there will be more than one billion people living in urban centres.

These demographic trends have contributed to booming markets for consumer goods, everything from tomato paste to white goods to four-by-fours and, of course, beer. Heineken, SABMiller and Diageo have all built strong businesses across the continent. The McKinsey Global Institute estimates that Africa's consumer spending will reach $1.4 trillion by 2020. The boom has also increased interest in infrastructure, and commercial and residential property, driving demand for construction materials. Nigeria's Aliko Dangote, the richest man in Africa, is due to list his $11-billion cement business in London in 2013.

> **Six of the ten fastest growing economies in the world were in sub-Saharan Africa**

British and European exporters have woken up to the potential too. Export credit insurer Coface has seen a 24 per cent increase in its business in Africa in the first nine months of this year, much of it related to the engineering and construction sector.

"The metals sector, both in terms of metals trade and precision engineering, I always find is a good barometer to the way that countries are developing," says Grant Williams, risk underwriting director at the company.

"If you go back a couple of years ago and look at China buying steel... I wouldn't say that Africa is in quite the same explosive growth cycle, but the sales of capital-related products, metal for buildings, railways and so on, are increasing."

Investors are also alive to the potential. Nearly $700 million of private equity deals have been announced in sub-Saharan Africa so far this year, according to the Emerging Markets Private Equity Association.

Private equity is buying in because as well as immediate growth, multinationals will be looking to make acquisitions in Africa further down the line. Foreign direct investment into sub-Saharan Africa has increased with a compound rate of 30 per cent since 2007, Ernst & Young says, despite the financial crisis limiting the availability of capital for businesses.

"Three years ago, if ten of our multinational clients had engaged us on opportunities for growth in Africa, it would have been a lot," Mr Lalor says. "In the last year alone, we've engaged with 200-plus clients' growth opportunities in Africa. We've got no doubt the numbers are growing."

British bosses must adapt to profit offshore

Chancellor George Osborne is keen for UK companies to jump on the export conveyor belt to faster growing economies and, as **Rob Langston** reports, there are a number of routes open to intrepid British businesses

EXPANDING ABROAD

Expansion overseas has become increasingly important for British companies in recent years as low growth and global economic uncertainty weighs heavily on consumer sentiment, and dampens the UK economy's recovery.

It has become a political point too, as Chancellor George Osborne has called for greater exports to fast-growing, emerging market economies that have continued to grow. However, numerous factors have made life difficult for British companies to expand overseas.

The Bank of England noted the challenges facing British companies abroad in its November *Inflation Report*, with the eurozone difficulties contributing to a "gradual appreciation" of sterling earlier in the year, making it difficult for UK companies to compete in world markets.

With the UK remaining in what the National Institute for Economic and Social Research (NIESR) terms a "depression", expanding overseas can look like an extremely attractive proposition for British businesses.

Indeed, the Office for National Statistics revealed mergers and acquisitions (M&A) activity involving UK companies had increased between the first and second quarters of the year, with 36 foreign acquisitions by UK companies in the second quarter. However, year-on-year comparisons reveal that the number of transactions has fallen approximately 50 per cent, down from 75 deals to 36.

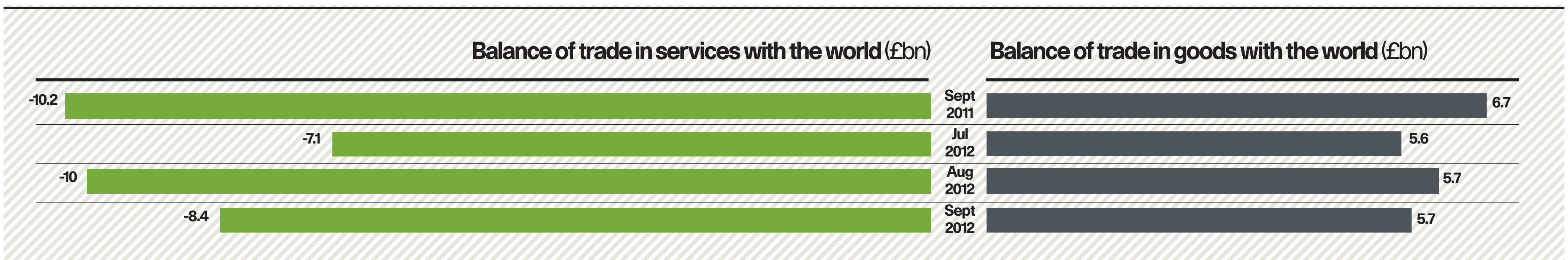
"The days when UK companies could be purely nationalistic in their business strategies are almost over," says David Robinson, UK and Ireland regional president at ACE Group. "Even many of the smallest companies now operate across multiple jurisdictions. Indeed, some companies are today 'born global' and derive a high proportion of their revenues from overseas customers from their inception."

> There is still a reluctance from the government to offshore public sector work, particularly if one consequence is a loss of UK jobs

Polly Owen, partner at DLA Piper, says overseas governments have welcomed outside investment. "One size does not fit all for overseas expansion," she says. "It is important that companies fully understand the local legislation, red tape and business culture they may face

Balance of UK trade in goods and services

Source: Office for National Statistics



Commercial Feature

International tax planning is key to success

Whether you are a UK business thinking of engaging in overseas markets or a foreign business considering setting up in the UK, the importance of carefully analysing the taxation implications of your plans before proceeding cannot be underestimated, says **Paul Belsman** of RSM's International Tax Committee

RSM
Audit • Tax • Advisory

Paul Belsman
RSM International Tax Committee

One of the first things to consider is whether a business is trading with, or more significantly, within a given jurisdiction. The latter presents a much greater challenge and risk, and accordingly it is recognition of this distinction at the outset which is critical.

Typically problems can arise relating to where contracts are agreed – whether in one location or another. Similarly, issues can arise if employees are spending increasing amounts of time in a jurisdiction or, through a combination of factors, it can be established that an entity has unwittingly acquired "a place of business".

The more these issues are prevalent, the greater the risk the tax authorities will assess tax on any relevant profit, impose a withholding tax on a proportion of an employee's remuneration or levy a sales-based tax on any relevant transactions.

Where a business has a definitive intention to set up in new territory it is a priority to analyse properly the taxation consequences of all aspects of the commercial arrangements that are contemplated.

Areas of greatest importance include the financing of the new entity, its structure, the trading relationships with other entities within the worldwide group, the determination of the basis of intergroup transactions, the repatriation of profits to the parent entity and dealing with the transfer of employees from the host country to the new jurisdiction that may be deemed appropriate to facilitate the set up.

The relative significance of each of these will depend on the commercial objectives and, in particular, the business plan. Most businesses will want to retain as much flexibility as possible, but typically will want to ensure they minimise the impact of double taxation between relevant jurisdictions, ensure that if the venture is successful they can expand without incurring unanticipated tax cost and, above all, avoid overcomplicating any structure.

Many jurisdictions will impose detailed processes for dealing with these issues. Failure to recognise regulatory and administrative requirements at the outset can cause significant problems, not only in consequence of a higher compliance cost than might otherwise be necessary, but more importantly many tax jurisdictions impose penalties for failure to comply and deliver appropriate documentation within defined time limits.

Compliance is now a heavy burden to business. Given the increasing use of electronic reporting by jurisdictions around the world, the requirement to deliver timely information to relevant jurisdictions must be assessed carefully and planned as part of the process in any set-up.

Businesses need to ensure their professional advisers are appropriately linked so that the set-up is consistent with the parent company's own profile, as well as dealing with the issues referred.

The challenge for professionals in advising internationally active businesses is to ensure they can deliver this co-ordination so that their clients' objectives are fully achieved, enabling them to concentrate on business priorities rather than their tax obligations. Global networks work well here as teams have historical experience of working with each other and can deliver advice efficiently and at sensible cost. Frequently they will have established co-branded systems that serve their clients seamlessly.

As ever, proper planning at the outset by any business seeking to expand abroad will always pay rewards.

in their target countries, and adapt their model accordingly."

Ms Owen says there are a number of ways companies can expand abroad, either through joint ventures, acquisitions or by franchising.

Tristan Rogers, chief executive of Concrete Platform, says franchising can be a low-cost, low-risk option for retail brands to expand abroad, adding: "Brands travel – shopkeepers don't."

"Many believe that brand control is lost when using this method, as you lose 'control' of staff, store environment and customer service," he says. "It is all too evident that many 'shopkeepers' blame their franchise partners for poor performance, when the reality is that the shopkeepers have not provided any consistent brand support to their foreign markets."

Russell-Cooke partner Jeremy Sivyer says foreign countries have made many changes in order to attract business from overseas. India, for example, has relaxed foreign investment controls and setting up business there has become easier.

"In recent times many more countries have come to appreciate that, in order to attract foreign investment, they need to lower bureaucratic barriers in addition to creating a favourable economic environment," he says.

Mr Sivyer warns, however, that acquiring or investing in an existing company or taking part in a joint venture can be a time-consuming and demanding process. Others highlight the political risk that can be involved in setting up offshore, particularly during periods of civil instability, as seen during the Arab Spring of 2010.

Despite this, overseas expansion can have a big impact on businesses, even if it may require a change in mindset. For businesses looking to expand overseas, outsourcing can prove a powerful strategic decision to help fuel growth and maximise efficiency.

Share and discuss online at theraconteur.co.uk

John Roberts, director of change at consultancy My Proteus, says: "Making outsourcing a success is no walk in the park and requires those considering it to move away from old-fashioned third-party supplier management techniques to be effective."

He adds that UK companies need to understand the risks involved in outsourcing and not just the financials. "Part of this is considering, at the outset, what will happen if it doesn't work and you need to exit any arrangements," he says.

The impact on the end-customer is also a consideration. After all, outsourcing arguably has something of a negative public image in the UK, particularly where it has been the source of job cuts. This may have made some companies wary of moving services to cheaper, foreign alternatives.

Morrison Foerster partner Alistair Maughan says offshore outsourcing has moved on from its IT and call centre image established in the early-2000s. Back then it was mostly financial services and pharmaceutical industries considering the move. Now, more niche sectors are getting involved, such as digital animation, research and development, and claims handling firms.

"Insurance is one of the big outsourcing hot spots at the moment. A lot of the work in that sector is heavily process-driven, which lends itself to outsourcing," he explains. "There is still a reluctance from the government to offshore public sector work, particularly if one consequence is a loss of UK jobs, but we are increasingly seeing public sector activity through the adoption of cloud computing models as the G-Cloud has been implemented and taken off."

If UK companies are prepared to consider outsourcing, it could provide a boon for the sector, which has not been left unscathed by the global downturn.

Head of outsourcing at Berwin Leighton Paisner, Mark Lewis, says outsourcers have been hit by the faltering global economy and by reputational damage. "Specialist domain business process outsourcing is on the rise, but staple finance and accounting isn't," he says. "Offshoring is under heavy political, economic and social pressure, which now seems to be having an impact. And there is a threat to information technology outsourcing."

Mr Roberts of My Proteus warns companies against being overly optimistic about the impact of outsourcing abroad. "Sadly, too many organisations believe outsourcing to be the panacea that will single-handedly fuel their growth or address the poor performance of people or processes. The reality is that organisations can't and mustn't expect any miracles," he says.

Of course, there are also legal and regulatory ramifications too. Ernst & Young's bribery and corruption investigations partner, Maryam Kennedy, says UK companies must remember to operate to the same standards as they would onshore.

"In the current economic environment, outsourcing, often to partners in emerging economies, is an attractive option," she says. "However, the UK Bribery Act requires that companies make it their business to know the third parties that act on their behalf - and have adequate procedures to prevent those third parties engaging in corrupt business activities on their behalf."

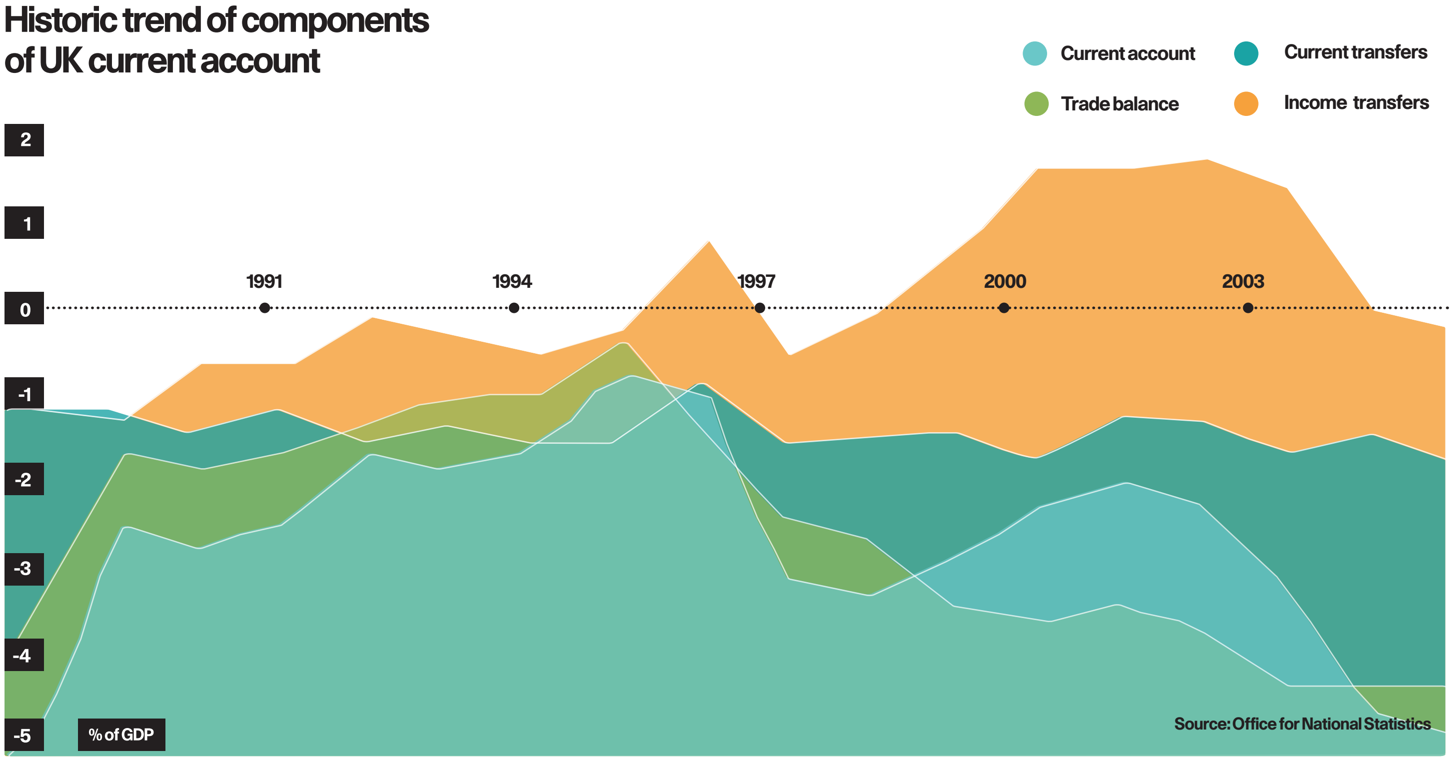
Ultimately, the fate of UK companies' hopes may lie with the global economy, with the Bank of England noting a shift in global demand away from activities, such as business and financial services, in which the UK specialises.

At the Treasury, Mr Osborne's hopes of taking advantage of the fast-growing emerging market economies could also be stifled by the inflexibility of UK companies. A recent survey by global management consultancy Hay Group revealed central rule was holding back UK-based multinationals from succeeding in emerging markets, while a lack of autonomy was preventing some from responding to local market conditions.

With this in mind, it remains to be seen whether UK businesses will be able to rise to the challenge of overseas expansion. However, one thing is certain – there are plenty of opportunities for those willing to take the plunge.

For businesses looking to expand overseas, outsourcing can prove a powerful strategic decision to help fuel growth and maximise efficiency

Historic trend of components of UK current account



Returning to tax and how much you pay abroad

Company taxation is a controversial area as global giants seek to minimise liabilities, writes Rachael Singh, who offers a guide to overseas tax strategies

TAX

■ Emerging markets constitute some of the major growth opportunities for companies, but the complex web of international tax liabilities can be an expensive mistake for those who underestimate its importance.

A company has a duty to shareholders and investors to adopt the right tax strategies to ensure it is not overpaying on liabilities.

However, adopting the right strategy in emerging markets, such as Brazil and Africa, can cause difficulties because they do not have the historical tax infrastructure of developed countries.

The UK has one of the lowest corporate tax rates in the world at 24 per cent, set to decline to 22 per cent in the next fiscal year, making it competitive when compared to emerging markets, such as India, which has a tax rate of 40 per cent, China 25 per cent, and Brazil 34 per cent.

But a company will only have to pay liabilities in those countries in which it has a permanent establishment, such as a sales office or warehouse, explains Stephen Herring, senior tax partner at international accountancy firm BDO.

The Organisation for Economic Co-operation and Development (OECD) has defined what constitutes a permanent establishment and companies must weigh up the expense of having one.

The UK has one of the lowest corporate tax rates in the world at 24 per cent, set to decline to 22 per cent

If a permanent establishment is needed, the business will pay liabilities on the difference between the UK and the foreign country.

If an establishment is set up in Russia, but the company is headquartered in the UK, it will pay the 20 per cent Russian rate, then a further 4 per cent in the UK bringing the total to 24 per cent.

Alternatively, a company can have a preparatory office, which would allow a small operation of personnel to conduct a service of the business, such as marketing, but not sales of a product or service, without having to incur extra liabilities, according to OECD discretionary rules.

A company can also choose to franchise its operation and allow local entrepreneurs to run the operation at a fee, which will incur no tax liabilities for the group. However, the local franchisee must pay royalties to the parent company as well as local tax charges.

Four steps to smooth overseas expansion

As retail revenues plateau in Western markets there have been some notable successes for British companies and brands penetrating developing markets. While this is a popular means of reaching new growth targets and boosting returns in overall portfolios, choosing a developing market is more complex than looking through the traditional bricks-and-mortar lens to determine where to locate – it also requires looking through the online lens.

Great British brands, such as Cath Kidston, Reiss, Molton Brown, Charles Tyrwhitt Shirts and Lulu Guinness, have all succeeded in growing globally. But what is the secret of their success abroad?

Step 1: know the fast growth online markets

Building an online presence is a low-risk way to test new markets or complement existing store footprints. Gaining maximum advantage from such strategies requires knowing a country's true e-commerce potential and its online market challenges.

Solution

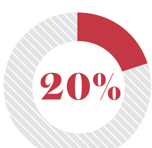
Engage one of a number of growing credible e-commerce consulting companies who provide valuable advice to retailers often helping them significantly exceed their original online growth aspirations. Ecommera (www.ecommera.com) and Javelin Consulting (www.javelin-group.com) are two such companies.

Step 2: extend your supply chain reach

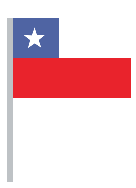
Companies need to grow quickly to respond to consumer demand, but they also need to reduce risk and lower fixed costs. Rather than establish full distribution centre capabilities in foreign countries, many companies prefer to find a logistics partner. The global partner can provide sufficient overseas warehouse space and pay-as-you-go logistics services to support them in scaling their store footprint and e-commerce sales, without the risks of fixed facilities and operations.

$400bn

estimated e-commerce sales by 2015 in China



more e-commerce sales forecast in China in 2015, compared to the United States



Chile ranks as one of the top five potential e-commerce markets Source: *A.T. Kearney's 2012 E-Commerce Index*

Solution

For those companies growing globally, it's vital to partner with a flexible worldwide logistics organisation that has the experience, know-how, facilities and resources to build a low-cost, activity-based extended supply chain strategy.

Step 3: leverage business partner expertise

Local bureaucracy and red tape, including international security, border controls, documentary requirements, Customs duty, and sales and corporation tax, all add complexity when trying to get your goods to a new store in China or Russia, for example. Despite these challenges, consumers still expect to receive their goods next day if ordered online.

Solution

Establish strong working relationships with international freight forwarders and Customs duty consultants to help build an internal reference guide and robust operating procedures for regulatory compliance and fulfilment costing by channel and market.

Step 4: use technology for control and visibility of stock

Today, consumers demand more. Shoppers prefer the convenience of products being delivered to their homes or made available for collection from a pick-up point at a time that suits them. Technology plays a vital role in satisfying the information-hungry and time-pressed consumer. If a product is not available for any reason, they expect to know at the click of a button when it will be available and be able to place a back-order.

Solution

Work with a logistics provider who can provide you with a best-in-class inventory management solution across all your global territories and has the capability to integrate seamlessly into your existing information systems.

Contact SEKO Logistics for help in navigating your path to global growth: Email mark.white@sekologistics.com Website www.sekologistics.com

Intelligence Delivered

Commercial Feature

Demanding more data to determine supply

As the global transportation market matures, **Jason Hesse** finds that customers remain at the heart of the world's most successful supply chains

SUPPLY CHAIN MANAGEMENT

■ Supply chains have become considerably more sophisticated in the past decade, yet many companies still struggle with managing costs and risk.

At the heart of an efficient supply chain is transportation. This is the key to ensuring that the supply chain is not disrupted. For UK companies, sea shipping continues to be the main international transport method, and accounts for 95 per cent of UK imports and exports by tonnage.

Firms usually rely on freight forwarders to act as agents for organising sea shipping. Yet, while freight forwarding companies have traditionally only been responsible for bringing buyers and sellers of freight together, they are increasingly taking on a larger role.

As a direct result of the economic crisis, margins for buying and selling freight have tightened, meaning many freight forwarding companies now offer value-added activities as part of a bigger package. This can include landing services at the destination, managing suppliers on a company's behalf or looking after a firm's warehouses.

Michael Storey, business development director for freight forwarder Yusen Logistics Europe, says that, while cost remains important for companies, this is no longer the only factor affecting shipping decisions.

"People are governed by price, but they also have to look at the availability of transport," he says. "The best price might not be the best solution for your needs. Freight rates move depending on demand, so the more flexible you are, the better your rate."

Of course, this can also impact on a company's delivery times. David Barron, group commercial director at freight forwarding firm Norbert Detressangle, says: "The cost of shipping depends entirely on capacity. Demand sets the market rate." It is difficult for firms to predict the cost of shipping, as there is no futures market for container shipping, unlike in other markets.

For shipping major raw materials, the *Baltic Dry Index* offers insight into future rates, as shipping brokers are asked about their daily prices for shipping dry bulk commodities, such as iron ore, coal and grain. The index is also used as an indicator of economic growth and production.

Creating a strong supply chain also means managing risk effectively, which is where the insurance industry comes in. Specialist insurers can look at a company's supply chain and advise what the potential weakest points are, though it is also possible for companies to do this themselves.

Anj Chadha, global cargo development leader at insurance firm RSA Group, tells his clients to map out their entire supply chain. "Literally sit down and map out your supply chain from start to finish," he says. "Look at where your suppliers are based. Are they near a river that is susceptible to flooding? Who is involved in the process and where? At what points do the goods change hands?"

Understanding the full life cycle of the products helps you to pinpoint the risks, he explains. "Preparation is key to managing risk, so understanding your supply chain is vital."

Charles Davis, a partner at A.T. Kearney adds that unexpected events are any supply chain's biggest risk. "Every year there is a major disruption. You don't know what it's going to be, but you can be certain that something will happen. So plan accordingly and consider a range of scenarios of where things can go wrong," he says.

Therefore, picking the right insurance partner is key. A company will want to find an insurer that does not purely offer an umbrella when it's sunny. Mr Chadha explains: "Simply put, find out whether they have a reputation for paying out when things do go wrong. And make sure they are there for the long haul, that they're financially secure."

Closer to home, gathering data from your customers is central to managing demand and, therefore, your supply chain. Traditionally, consumers don't have a great reputation for advising manufacturers when they plan on buying their goods, so an imbalance is almost inevitable.

Despite this, businesses can find it rewarding to try to mitigate this risk by extracting as much information as possible from the customer.

Dr Christos Tsinopoulos, lecturer in operations and project management at Durham University Business School, says: "From the minute you scan a pack of nappies in Tesco, this information is relayed back into the system and passed across the supply chain. You could do this in your business, too. Retailers can gather information through customer loyalty schemes, which can help forecast demand as well."

However, while supply chains become more sophisticated, A.T. Kearney's Mr Davis predicts a return to shorter supply chains. "Eastern Europe has similar cost structures to Asia, but is logistically a lot cheaper and a lot less susceptible to risk," he says. "Both the rising costs of labour in China and the cost of fuel are having a direct impact. In ten years' time, it will make sense to bring manufacturing back to Europe."

> **In ten years' time, it will make sense to bring manufacturing back to Europe**

Business beyond borders calls for local nous

As companies venture abroad to offset shrinking domestic returns, Jason Hesse learns that awareness of local business customs can go a long way

Romilly Lockyer

Being unaware of local trading conditions, practices and preferences is like sailing against the wind

LOCALISATION

■ The cost to household brand names of not getting – and applying – local knowledge is immeasurable. Yet major brands continue to fail overseas because they do not have sufficient customer insight to make their brands work outside their domestic territories.

And it is not just about product adaptation – like McDonald's launching vegan menus in India – but service adjustments too. Walmart introduced "greeters" in its German stores, which severely undermined its business there.

Poor localisation results not just in abandoned customers, but in vanishing customer loyalty, corporate reputations, disengaged distributed channels and a low chance of recovery.

However, with the UK economy in the doldrums, an increasing number of firms are ploughing ahead with plans to internationalise their businesses.

Kim Hayward, international advisory partner at accountancy group BDO, says while companies are keen to pursue growth overseas because of the turbulent conditions at home, some lack the required awareness to address the real challenges involved.

He explains: "Those investing abroad for the first time seem to lack the confidence and knowledge they need to operate overseas – they need to take things one step at a time."

One company well versed in moving into new markets is Regus, the office space provider, which was established in 1989 by entrepreneur Mark Dixon. Today, it operates more than 1,000 business centres across 95 countries.

Celia Donne, Regus vice president for global operations, describes the company's strategy as taking the "McDonald's" approach, giving its offices a consistent look and feel, rather than a unique style for each country.

"We want our customers to feel at home, no matter which Regus centre they go to," she says. Regus Business Centres follow a standard template for desk layouts and the style of the offices but, crucially, the company adapts to cultural differences in each country.

"You do have to look at each location separately. For example, in Asian countries, we staff our centres with many more people than elsewhere. The business culture in Asia expects there to be someone to open the door for you, to offer you tea and to offer you support, which is totally different to the self-service culture here in the UK and America," says Ms Donne.

It goes without saying that language can be major a barrier to companies expanding into foreign markets, but is this a particularly British problem?

Suzannah Hutton, a language and culture adviser to UK Trade & Investment (UKTI) thinks so. "As an island of English speakers, who tend not to be particularly confident at learning and speaking other languages, it does throw people in a way that it might not throw the Dutch or Germans," she says.

This is echoed by research, conducted by Regus, which found that, when setting up international operations, only 35 per cent of UK firms require managers to be fluent in the local language, compared to 45 per cent of French firms and 57 per cent of German companies.

From a marketing perspective, the trick to brands succeeding in foreign environments is to be multi-local rather than global, says Chris Talago, general manager of Waggener Edstrom Europe.

> **The trick to brands succeeding in foreign environments is to be multi-local rather than global**

"There are no successful global expansion campaigns – just multi-local ones. Each country has a different culture and language. Even among English-speaking countries, cultural references vary. Americans, British, Canadians, Australians all require their own local cultural adaptation," he says.

This is particularly salient when developing marketing campaigns. Mr Talago says that, while the idea of developing a single global campaign is seductive because it is cheaper, quicker or easier, it can easily end up becoming irrelevant to the local market.

"Consumers now expect and demand a personal connection with the products and services they buy," he says. "If that isn't personalised or localised, it makes them less willing to engage and the campaign will be less effective."

DO'S AND DON'TS

Blunders abroad

In Muslim countries, never show the soles of your shoes – this is most relevant to men who cross their legs.

In China, never finish your food – your host will continue to fill your plate until you are full as a sign of being a good host.

In Bulgaria, meetings can be very confusing as shaking your head – usually meaning "no" – means "I'm listening".

In Hungary, apricot brandy (known as Pálinka) is often served in business meetings – it is considered rude if you don't drink it.

In Japan, present your business card, holding it with both hands, to the most senior member of the Japanese party first, bowing slightly.