Ask the experts:

Exporting success

TWO EXPORTERS, A BANK AND A GOVERNMENT AGENCY CONSIDER THE PROBLEMS TO AVOID AND THE INGREDIENTS REQUIRED FOR EXPORT SUCCESS.

Letters of credit

Scott Barton, chief executive, Global Transaction Services, RBS

Familiarity breeds content, with Western Europe traditionally the favourite market for UK exporters. But the euro zone's outlook for economic growth is bleak.

Asia, by contrast, offers significant opportunities, with projected annual growth rates of 10% for China and 8% for India. Latin America, particularly Brazil, is another emerging powerhouse. With sterling having depreciated by 25% since early 2008, these markets should attract more UK companies.

The government's Plan for Growth aims to encourage investments and exports towards a more balanced economy. At RBS, we're keen to get the wheels of trade turning faster. It can only be good news if our customers export more and we can assist them in surmounting the many barriers.

Most FTSE 350 corporates are well-oiled machines, adept at exporting, and banks can often best assist by focusing on maximising efficiencies such as effective supply chains. By contrast, mid-market companies face a range of obstacles in attempting to sell abroad.

Last October, an RBS survey of more than 500 UK companies found that only 52% were confident of securing new customers in the euro zone. For Asia, the percentage was just 30%. Concerns included risks relating to specific countries, the method and timing of payments, socio-cultural and legal issues such as language, and compliance with local customs and regulations.

Only 55% of respondent firms recognised a correlation between exports and letters of credit (LoC), suggesting that many are unaware of such readily available trade facilities. And as a salutary warning for the banks, 64% of respondents felt the industry wasn't doing enough to assist exporters.

Macroeconomic factors further load the dice. A volatile geopolitical backdrop is curbing banks' appetite for supporting trade in many countries. Tariffs and import duties are heading upwards, with the risk of trade wars between the US and China and also Canada and the UAE, as well as uncertainty over Basel III and its implications

Yet three in four of the companies surveyed see now as the ideal time to step up their exporting activities. The

Case study: Pace

KATE SMEDLEY, TREASURER OF PACE, TALKS TO **PETER WILLIAMS**.

It is hard to find a better example of exporting success than pay TV technology company Pace. The Yorkshire-based business has won a Queen's Award – its third in succession – in recognition of its success in international markets. The finance team has played a full part in this success, which was recognised when Pace's treasurer Kate Smedley went to Buckingham Palace to collect the award from the Queen.

Pace made £104m on revenues of £1.3bn in 2010 and is now the global market leader in set-top boxes. Smedley says that Pace's attitude to financing exports has changed considerably over the last 12 months. In overseas markets its customers has always been large international companies such as Comcast and Sky. But Smedley says that Pace's customer base has diversified as the company has become bigger and moved into emerging markets with a broader mix of operators.

This has prompted Pace to focus on export letters of credit (LoC) in new territories when trading with companies it does not know and has not done business with previously. When the idea of LoC was first raised, the company experienced pushback from customers and from salespeople out in the field. At first LoC were seen as a barrier to doing business and preventing selling to potentially valuable customers, but the Pace team now highlights the benefits of LoC for the company's customers as well as Pace itself.

Smedley says treasury now starts to talk about LoC at a much earlier stage in the credit risk appraisal process and has also engaged the sales team in the need to think about LoC when working in India, South-East Asia and parts of the Middle East. Sales now asks finance early on in the negotiation process whether LoC are likely to be required.

Treasury explains to customers that LoC are negotiable – they can be paid immediately or at a later date – and can be discounted by their bank. While Pace is guaranteed payment in line with the agreed terms, Smedley says that the use of LoC has helped to "reinvent the wheel" for some customers when they appreciate that they protect the interest of both seller and buyer.

Why LoC?

A letter of credit (LoC) adds a bank's promise to pay the exporter to that of the foreign buyer provided that the exporter has complied with all the terms and conditions of the letter of credit. The foreign buyer applies for issuance of a letter of credit from the buyer's bank to the exporter's bank and is therefore called the applicant; the exporter is called the beneficiary.

government has offered timely assistance through new measures to boost trade and investment and new export credit guarantee products.

What can banks offer? RBS Group supports exporters with help and advice, working with the British Chambers of Commerce, UK Trade & Investment (UKTI) and the British Exporters Association. Last year we partnered UKTI in delivering the Asia Task Force, a series of events helping UK companies seeking to expand into the region. We are also launching the Finding New International Markets Award with the British Chambers of Commerce to encourage companies to expand abroad, and we are a major supporter of the Institute of Exports' Certified International Trade Advisor (CITA) qualification.

The Asia Task Force demonstrates how we support customers breaking into new markets. We simplify the process through technology such as MaxTrad, our straight-through processing tool for trade.

We recognise that SMEs don't have a huge workforce to handle administration, so our services can ease this load.

We also invest in our own people. We ensure our front-line staff recognise and respond to customers' requirements. We ensure they have access to the right skill sets and we utilise many different ways to deliver our expertise, from face-to-face meetings to text messaging.

Passport to Export

Susan Haird, acting chief executive, UK Trade & Investment

The defining feature of the world economy is global trade. The brands of global companies are now recognised all over the world and supply chains can stretch from South-East Asia to North-East England.

The world economy has never been more open. There are fewer trade barriers than ever and all major cities of the world are reachable within 24 hours by airplane.

Thinking internationally has many advantages for companies. Research has shown they are more likely to survive a recession, are more efficient, and become more efficient as they continue expansion into overseas markets.

Exporting is no longer just for big companies with global brands. About 90% of the companies UKTI helps are SMEs and our programmes such as Passport to Export are all about helping the first-time exporter take their business abroad.

Formulating an international trade strategy is a vital part of a company's ability to identify the risks and rewards. They need to think carefully about what market they wish to enter. Research is vital and that is where UKTI can help. A company may well be better off thinking about exporting to markets in Europe first of all but it should look at each country carefully. One Yorkshire-based company we helped is doing extremely well in China selling tea, and we have helped UK food companies export naan bread to India. The moral is that there are niche markets all over the world, even in the unlikeliest places.

The secret is preparation. UKTI's Passport to Export scheme includes free capability assessments and mentoring and support to visit a chosen market. Our trade experts will help a company build an action plan. When a company is ready to set out its export strategy, it is time to talk to the bank. Provided the target market is not very high risk and there is a strong export plan in place, standard 90-day trade credit insurance (which is a must) should not be a problem to get.

The recent trade and investment white paper also outlined more export credits guarantee support for companies.

Once a company is exporting successfully, it may want to break into new markets. It will have the experience and the track record of success to help it do so.

It may sound daunting to the first-time exporter, but the rewards really do outweigh the benefits.

Case study: Lindstrand

THE COMPANY'S FOUNDER TALKS TO **PETER WILLIAMS**.

Lindstrand Technologies is a company that knows all about exports. According to its founder, aeronautical engineer and pilot Per Lindstrand, 90% of what the company produces goes to countries all over the world. He says: "The export market is the most important one to us. We basically sell everywhere."

The company makes high-tech inflatable buildings, aerostats, airships, gas balloons and tethered balloons. At the opening ceremony of the Delhi Commonwealth Games, a huge Lindstrand-made aerostat emerged from the darkness of the Jawaharlal Nehru stadium (pictured), showcasing India's culture and history.

While the company has significant export experience, Lindstrand is open about the difficulties of securing payments. He says it is "always the issue of concern" and singles out China as the country presenting most difficulties. Following a recent sale to China, Lindstrand had to wait three months after the due date for payment before securing his money. This has a major impact on business cashflow.

It was after one customer cancelled its order just days before a substantial stage payment was due that Lindstrand took the advice of RBS and started using letters of credit (LoC) to ensure payment.

Lindstrand says the company is prepared to say no to orders if it believes there is a real risk it will never get paid. The company faces two particular exporting problems: the high value of its products (the average order is £500k) and a very high number of one-off clients (there's not much repeat business in selling an aerostat to the 2010 Commonwealth Games), so it cannot build up knowledge of the good, the poor and the dreadful payers. That means the company can't buy insurance nor sell its sales invoices to secure the cash sooner.

In terms of currency the company is prepared to take the risk. Lindstrand says he talks to RBS on a regular basis to see where its currency experts think that the dollar, for instance, may be in the next eight months. But, as with hot air balloons, he thinks that currencies rise and fall on a pretty regular basis: "What you lose one year, you win back the next."