
OVERCOMING **FINANCIAL** BARRIERS TO **EXPORTING**

There are many obstacles that make exporting problematic. Here **Wayne Morris, Network Development Director** for supply chain funding specialist URICA, discusses financial obstacles and how you can overcome them.

Clearly, exports are key to the success of the UK economy. We know businesses are eager to export, but we also know there are risks and barriers involved that deter businesses. These obstacles are often financial, so if we are to achieve our export potential we need innovative financial support structures that remove these risks and barriers.

The **financial** barriers

When you decide to export you move into uncharted territory. No matter how much research you've done, how many trade shows you've attended or how extensive your network of contacts, doing business in a foreign market comes with risk. Many of the issues are financial.

Negotiating payment terms

A big problem when moving into foreign markets is you don't know who you're dealing with. Not only that, you are possibly unfamiliar with the way business is conducted and the local rules and regulations. It's often when businesses receive an order and begin to discuss payment terms that doubts begin to creep

If you don't know your customer you will wonder when, or even if, you'll get paid. You may even ask for cash up front – [research we conducted among 9,000 exporting UK SMEs](#) showed that 65% do exactly that. Straight away you're at a disadvantage if you're asking for cash and your locally based competitor is offering credit.



Lack of finance

When a business receives an order it has to finance the order until it gets paid – its suppliers and employees won't wait to be paid. Trading overseas compounds this problem as the time between receiving the order to receiving payment can become stretched.

UK banks are just as unfamiliar with overseas companies and markets as UK businesses. Consequently, they're not that keen to finance SMEs that expand overseas. If a bank does lend, to limit its risk it will demand strict covenants and personal guarantees. [Our research showed](#) that only 8% of newer and inexperienced exporters, and less than a third of experienced exporters had a bank facility in place to finance their exports. So how do businesses finance their exports? Disturbingly, 57% of experienced and heavyweight exporters fund their trading by delaying payments to their suppliers, which just creates problems in the extended supply chain.



Getting paid

Not knowing who you're dealing with means there's always a nagging doubt whether you'll get paid at all. When a business trades in the UK it can find out what it needs to know about a UK customer from a UK credit agency. The same credit agency knows little about foreign companies. When a UK business doesn't pay you'll instruct your lawyers to sue through the courts, but would you know how to do this in a foreign country? Can your business afford the legal bill? Financing a large export order that remains unpaid can jeopardise an entire business.

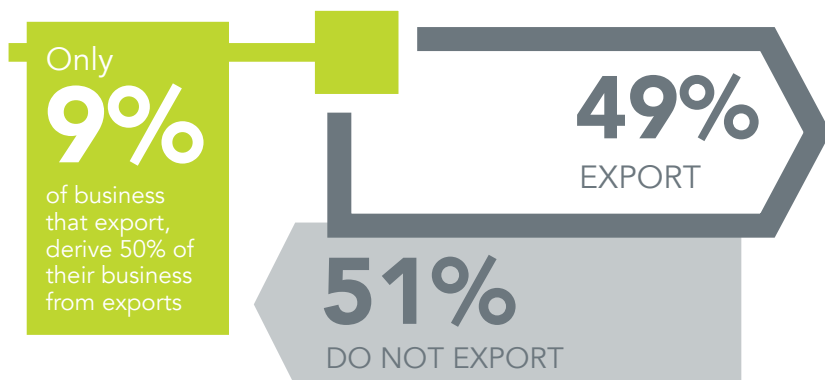
Foreign exchange risk

As soon as a business begins trading overseas it introduces currency risk in to the equation. For example, if a business wants to trade in Europe, it will price in euros. However, it will pay its UK suppliers in sterling. Exchange rates are a moving target; when a business sells in euros but buys in sterling, a currency movement in the wrong direction can turn a profit into a loss. A business can attempt to cover its currency risk by using a foreign-exchange broker to buy forward and fix the exchange rate. This is fine as long as your customer pays in the same timescales. Another option is to simply use a spot exchange rate. However, the exchange rate might not be favourable and, in addition, your FX broker (whether a bank or FX trader) will add in service and transaction fees which will increase your overall cost without you realising it. Actual experience, [suggested by our research](#), is that very few businesses attempt to manage their currency risk and the majority carry the risk themselves. Those businesses that actively manage their currency risk may end up spending a lot of money which, whilst giving piece of mind, can eat into the margins and reduce overall profit. Some funding providers, such as [URICA](#), take care of currency risk as part of their service package.

Are these **barriers** discouraging **exporters**?

The new [Supply Chain Funding index \(SCFi\)](#), developed by URICA and YouGov to measure the health of supply chains, suggests this may well be the case. The SCFi report showed that 51% of businesses do not export at all and only 9% derive 50% or more of their business from exports. Across all businesses, the average turnover generated from exports is a mere 10%. The expectation over the following twelve months was that this picture would not change.

The UK's biggest export sectors by turnover are manufacturing (18%) followed by engineering (12%). We know already that 65% of exporters limit their potential by asking for cash up front, and more than 60% risk their profits by shouldering their own credit and currency risk. This doesn't paint a particularly inspiring picture of the UK's export potential, so what's the answer?



The role of FinTech

The Internet has created an environment for new digital players to fill the vacuum formed by the banks' reluctance to lend. We refer to this new financial technology as FinTech.

Fintech has been quick to fill the void because banks are hampered by legacy systems; indeed most of the banks' IT spend is targeted at keeping these systems running. Fintech companies do not have these legacy issues and are quickly influencing consumer behaviour and making a difference in the areas of payments, lending and foreign exchange.

The problem with banks

We know from the British Business Bank that banks are reluctant to lend to SMEs – they reject 100,000 applications for finance every year. [This is why HM Treasury recently announced the new Bank Referral Scheme](#). The scheme requires the nine largest UK banks to refer businesses they've turned down to three approved FinTech platforms. These platforms offer business owners simplicity, quickness and flexibility, attributes you don't associate with the traditional banks, and Treasury recognition shows just how far FinTech has travelled in a short space of time.

The problem with alternative finance solutions

In the past if a business looking to raise money to ease cash flow was turned down by its bank it had little choice other than to look at invoice factoring or invoice discounting. While they each have their idiosyncrasies that distinguish one from the other, they both use unpaid invoices as a source of finance. However, what they don't do is turn unpaid invoices into cash; they turn unpaid invoices into debt. And they both come with high charges, lengthy contracts, and a requirement for personal guarantees: lenders don't view an unpaid invoice as an asset; it's only worth something when it's paid.

Modern alternatives to banks and invoice financing

The Internet has enabled business finance solutions that weren't practical or viable before.

Business finance comparison sites

These sites are brokers not lenders. Businesses such as Funding Xchange operate by collecting data from a business looking for finance and then use that data to connect a business with potential sources of finance.

Peer-to-peer business finance

This is a similar approach to finance comparison sites in that these platforms act as go-betweens but with a key difference: they connect borrowers with individual investors rather than conventional lenders. Businesses such as Funding Circle create a marketplace that brings investors looking for a fair return together with businesses looking for affordable finance.

Crowdfunding

Crowdfunding is similar to peer-to-peer lending in that a platform matches investors with businesses looking to raise finance but it's also very different in that there is no lending involved. In return for investment the investor will receive a stake in the business in the form of equity, or some other incentive such as free or discounted products. Businesses such as Crowdcube offer small investors the opportunity to invest in businesses alongside major venture capitalists.

Supply chain funding

Supply chain funding aims to free-up cash flow blockages in supply chains. Unlike traditional supply chain finance solutions, supply chain funding fuels supply chains with cash not debt. Achieving this requires a technology platform that brings businesses in a supply chain together and the necessary global data to assess every business in the chain. URICA has achieved this by partnering with Euler Hermes – the world's largest credit insurer.

How Norton Motorcycles boosted its export growth

Norton is a sought after British motorcycle brand – its order book is three-times oversubscribed. It costs a lot to build a Norton motorcycle – it uses many expensive bespoke parts, mostly sourced from UK suppliers. Many suppliers are reluctant to build these parts without early, or even up-front payment.



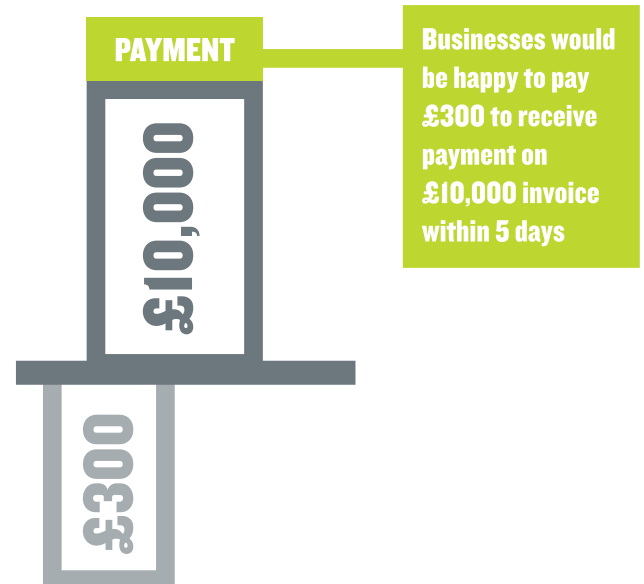
Norton exports its motorcycles all over the world but what transformed Norton's export business was the moment it found a way of connecting its US dealer network and its UK supplier network to URICA's supply chain funding platform. Norton not only receives payment for its export orders immediately, while still giving its foreign dealers credit terms, but also pays its suppliers immediately after they invoice. Because this is cash not debt, Norton removed its entire need for credit and saw a huge boost to orders.

The solution for **exporters** is **cash**

Businesses don't need finance if they have cash. Businesses don't need to worry about currency fluctuations if they receive cash for invoices quickly. Cash removes the worry of whether a business will be paid at all. It's called trading cash-neutrally. This is what Norton has achieved.

The big corporates have operated this way for years except they've done it by paying suppliers only after they've been paid themselves – this is what makes SMEs collectively one of the largest net credit providers to business.

[Our research with exporters](#) tells us that businesses would be happy to pay £300 to receive payment on a £10,000 invoice within five days and avoid the export barriers we've discussed. This is what supply chain funding offers and it enables businesses to trade cash-neutrally across global borders.



How **Interpower** balanced its **cash flow**



Interpower builds generators for the energy industry and other key industries with a need for emergency power. These are large contracts running into millions of pounds and taking up to a year to design, build and deliver. During this timeframe Interpower has to pay its suppliers and employees. This is a major drag on cash flow.

Interpower tried various financing methods with its bankers. One was letters of credit but these were expensive, both for Interpower and the customer. Interpower also considered invoice discounting but it doesn't guarantee payment of an invoice so was of no use – invoice discounting is debt not cash.

Things came to a head when Interpower received several large and complex orders at the same time. So Interpower turned to URICA's supply chain funding because it would support its cash flow with cash not debt, enabling it to get paid for projects early and pay suppliers quickly.

Looking ahead

For exporters the EU referendum result has added more uncertainty to uncertainty. We still don't know what Brexit looks like but we hope that the UK's status as an EU trading partner will carry weight when it comes to negotiating an exit.

Looking past Brexit there will continue to be opportunities for exporters although there will be a reduced choice of finance when it comes to banks. As we've seen, the UK Government has recognised this and created a referral route to alternative funding sources through [the Bank Referral Scheme](#). This in itself illustrates the role FinTech will play in the future.

About Author



As URICA's Network Development Director, Wayne Morris leads the overall development of the UK market and is responsible for the rollout of corporate supply chain initiatives. During his successful career at Grant Thornton, Wayne worked with businesses at all stages of growth, helping them solve financial challenges faced within today's complex global marketplace. At URICA, Wayne is spearheading the change in the way businesses look at finance.

About **URICA** Supply Chain Funding

URICA injects cash into supply chains to empower businesses of all sizes to pay and get paid on the terms of trade they want with zero risk and zero debt.

It was designed from the ground up, reimagining how business payments should work to address once and for all the problem of late payment within SME supply chains.

URICA's online platform and strategic partners mean that for the first time the benefits of supply chain funding can be available to every business in a supply chain, even the smallest.

Please visit urica.com for more information