



EXPORTING EXCELLENCE

MAXIMISING INTERNATIONAL
GROWTH OPPORTUNITIES

Enabling growth, managing risk

Medium sized UK companies are well placed to drive export sales to deliver growth

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Medium sized businesses have the potential to be economic powerhouses for the UK economy, creating jobs and growth for all regions of the UK.

Lord Livingston, Former trade minister

DELIVERING GROWTH

As an island nation, the UK has always looked beyond its borders and has been a world leader in driving international trade.

CIL is excited about how UK businesses can use export as a way to drive growth and company value. In a recent study, CEBR estimates that if UK SMEs were encouraged to enter new international markets it could deliver £140bn a year in overseas sales.

For management teams of medium sized businesses, developing a well thought through export strategy is crucial, either to tackle a market for the first time or to refocus efforts.

CIL worked with over one hundred businesses in 2016, 38% of which were focused on growing internationally. In this document we explore how management teams and investors should focus resource to ensure maximum success.

Medium sized companies are the powerhouse of the UK. The celebrated German Mittelstand makes up only 16.3% of economic activity, whereas comparable businesses in Britain account for 17.2%.

Within manufacturing, many British medium sized businesses offer real technical excellence and product differentiation. The UK leads the world in high-tech areas such as scientific, satellite and aerospace technologies.

The UK has a well-deserved reputation for 'exporting excellence', as 85% of UK manufacturing exports are medium or high-tech.

Medium sized businesses have enough scale to invest in resources to develop export strategies and should be ideally positioned to capitalise on overseas opportunities.

In the UK, one third of medium sized businesses export their products and services currently – suggesting plenty of room for growth.

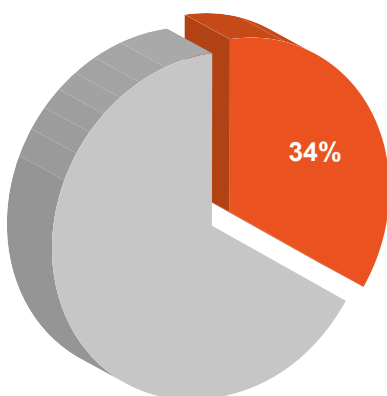
According to a recent study only 7% of manufacturing companies are considering exporting for the first time, CIL thinks there is a great opportunity for many more businesses to benefit from exporting.

There are a number of reasons why we think UK medium sized industrial businesses should explore export opportunities:

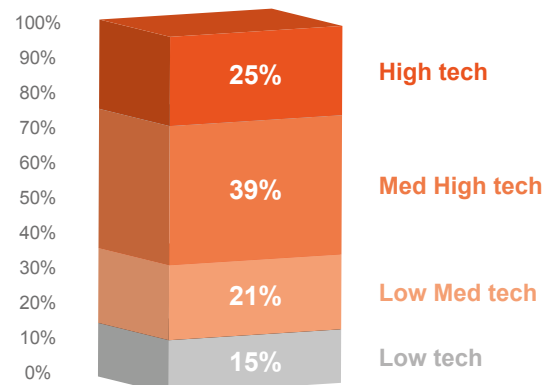
- As supply chains push for efficiency on a global basis, a client's customer base will be changing
- Despite recent political developments, globalisation is here to stay
- Having international capability can be a decisive factor when targeting multinational customers at home
- The devaluation of sterling post-referendum means the UK has become more cost-competitive versus foreign players

MAXIMISING THE OPPORTUNITY

Share of UK medium sized businesses exporting



UK manufacturing export, by technology



Taking a disciplined approach to identifying the most attractive geographies will aid success.

Over half (53%) of exporting SMEs sell into the US and the size of the market is compelling. However, delivering success is a combination

of the scale of opportunity and its suitability. One has to consider a range of factors to identify the best opportunities. This requires research and analysis but leads to sensible decisions and focused allocation of resources as well as the best chance of maximising returns.

GEOGRAPHICAL REACH

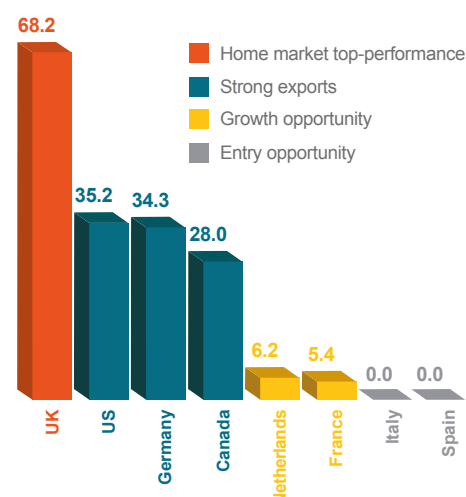
Current restrictions of trade into the EU

	UK current	Norway	Switzerland	Canada	Turkey	WTO
Free trade in goods	Yes	Yes (some tariffs)	Yes (some tariffs)	Yes (some tariffs)	Yes (some tariffs)	No
Free trade in services	Yes	Yes	Yes (ex. FS)	Yes (ex. FS)	No	No

Share of UK exported goods, by value

2016	% of Total
Commonwealth	9%
European Union	52%
US	16%
Other	23%

Example company revenue per capita



Europe remains important

- UK exports are heavily weighted to the EU
- While this balance may shift post-Brexit, Europe will not completely turn its back on UK exports
- If a company's exports are limited or non-existent, there is only upside
- Many non-EU countries have established free trade agreements with the EU
- The worst case scenario will be adoption of WTO tariffs which, for many industrial products, are set at 2-5%

The Commonwealth

- Commonwealth countries can often provide relatively easy opportunities due to similarities with the UK. Language, culture, legal systems and the Commonwealth link itself can all work in favour of UK exporters
- In CIL's experience, UK companies have done well when focussing on these markets

Performance analysis

- Demand can sometimes be concentrated in a specific country (eg auto in Germany, aero in France)
- But in many developed geographies, demand is evenly distributed – either as a proportion of GDP or spend per capita
- Analysis of a client company's export sales can highlight areas of underperformance that provide growth opportunities

Opting for the right entry channel can be as important as choosing which geography to focus on.

However, this can be a challenge when relying on external partners and differing market dynamics.

Typically, a business should serve export markets in a way that reflects its domestic proposition.

There are four main options to consider, each with their own advantages.

ROUTE TO MARKET

Evolve and adapt the proposition and business model as learning increases

Remote sales

- Having a UK-based sales team managing exports limits risk in the early phases of export
- While this can create language, distance and time-zone challenges, technology is making it easier to sell from a client's home country

Channel partners

- Use of channel partners (agents or distributors) is a quick and low-risk way to have local presence
- Ensure the product is important to them and a commercially attractive area of focus
- Ensure they are incentivised appropriately and invest in their success

In-country sales team

- Having a sales team in-country provides multiple benefits from greater control to improved margins
- Hiring a local is often essential to help navigate local market dynamics

Local production

- Investing in manufacturing facilities abroad is a big decision but delivers additional capacity and the ability to serve local customers better

Best practice includes:

- Understand local demand, locals etc
- Develop language capabilities
- Websites with local domains or with language options
- Local telephone numbers that reroute to the UK
- Be prepared to travel to customers when required – especially if the product is highly technical or high cost

Best practice includes:

- Clear sales targets
- Marketing support, tailored to each country
- Funding promotions to drive sales uplift
- Technical support
- Training
- Sales support and lead generation
- Setting a commercial framework that works for both parties as sales develop

Best practice includes:

- A sales person who has spent time with the company serving its domestic market. This delivers:
 - Strong understanding of company proposition
 - Adoption of company culture and practices
 - A 'one team' attitude
 - Loyalty and longevity

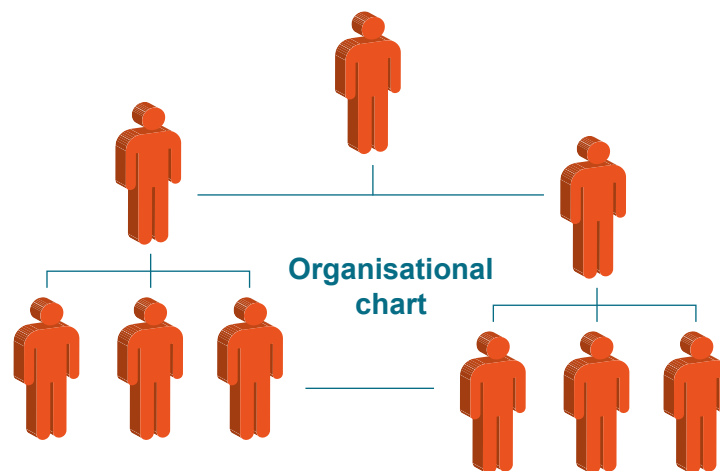
Best practice includes:

- Choose a location with access to key markets and room for growth
- Do not solely depend on one customer unless there is a long-term commitment
- Relocate UK operational management as new site gets established
- Time in UK for foreign team to see best practice operations
- Treat as a single team with the UK operations

Ongoing export success requires significant time and focus from across the management team.

Lack of attention can lead to inertia so continual monitoring of market dynamics, sales activities and channel partners is required to keep moving forward and growing sales abroad.

EXPORT ORIENTED MANAGEMENT



Best practice

Chairman

- A Chairman with past experience of managing export sales is a valuable asset when a management team has limited knowledge of operating internationally

MD

- An MD needs export somewhere near the top of their priority list to ensure close management
- This includes regular trips overseas to meet key channel partners / customers
- Ensuring employees and agents act in line with the Bribery Act 2010 is also critical

FD

- Constant tracking of FX and managing stock requirements is needed on an ongoing basis

Sales and marketing

- A dedicated export manager is ideal
- Tight management of distributors is needed through clear KPI tracking
- Active support to drive sales through pricing support and marketing materials is also important

Operations / technical

- Regular communication with export countries is needed to understand demand requirements and to effectively manage supply given transportation lead times
- Expertise with establishing foreign manufacturing sites can also be important in time

Top 15 export countries for UK goods, 2016



United States	45.4bn	Italy	£9.7bn	Singapore	£4.6bn
Germany	32.3bn	Spain	£9.6bn	Sweden	£4.6bn
France	19.4bn	UAE	£6.7bn	South Korea	£4.4bn
Netherlands	18.9bn	Hong Kong	£6.7bn	Poland	£4.2bn
Irish Republic	£16.9bn	Saudi Arabia	£4.9bn	Australia	£3.9bn
China	£13.4bn	Japan	£4.7bn	India	£3.3bn
Belgium	£11.6bn	Canada	£4.6bn		

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