

Trevor Hart, Managing Director of Franchise Focus writes about expanding in to overseas markets.

DOING THE CONTINENTAL

Last year UK businesses exported more than £100 billion worth of goods to the EU, accounting for almost 60% of this country's total overseas trade. British goods are popular right across the continent, with a growing number of customers for goods as diverse as heavy machinery and chemicals through to food, drink and agricultural supplies.

The expansion of the EU in 2004 brought greater opportunities for British trade in ten new member states, with the likes of Poland, the Czech Republic and Cyprus joining traditionally popular European markets such as France, Germany and the Netherlands.

There is still huge potential for growth in export trade between the UK and the rest of Europe, particularly in Eastern Europe and the Baltic States, where a booming domestic economy is driving demand for imported goods. British firms enjoy a good reputation across the continent, and the UK Government is actively supporting and encouraging firms to seek out new markets overseas.

However, although there are great opportunities in Europe, there are also many issues that British companies need to be aware of before they venture across the Channel or expand their businesses within the EU.

For example, although the economy in some of the new EU members is on the up, other countries like France and in particular Germany are suffering. Poland has seen huge domestic growth, yet its commercial infrastructure and legal system are riddled with problems and fraud. So you need to be careful about which markets you target and what services and products you are offering.

But there are also a number of other critical issues that UK firms need to consider: major differences in the way our European neighbours do business; a whole host of unfamiliar laws and trading practices; even rules of social etiquette that could catch out the unwary.

So the first and most important rule when planning to do business overseas, whether it is in the EU or further afield, is do your homework! It's important to get on the ground intelligence about the country you are planning to target, to find out what the differences are and plan your trading strategy appropriately.

One of the key issues is payment - how long will it take to get paid and what protection do you have if your customer won't settle their invoices? The length of time it takes companies to pay up varies widely and is often down to business culture of the country you are trading with. For example the Italians and Portuguese can take more than 90 days to pay their bills, whereas the Scandinavians often settle their invoices in less than 30 days. We in the UK, on the other hand, are pretty slow, taking around 55 days to pay our suppliers what we owe them.

It is important that you agree written payment terms with your overseas customers in advance, detailing when payment is due, in what form the money will be provided and ensuring that you retain title over the goods until your customer has settled their bill in full.

You should also always credit check a potential new customer before doing business to ensure they don't have major financial problems and a string of creditors chasing them for money. It's important to use a credit-checking agency with a global reach and preferably a presence in your chosen overseas market. Atradius, for example, has access to information on over 45 million companies, with local offices in 40 countries around the world.

If your customer is slow to pay you will need local advice on the best way to chase your debts and your options if they can't or won't pay up. Often problems are caused by local laws that are out of step with the rest of Europe. In the Czech Republic, for example, if a company is made bankrupt, insolvency can take more than nine years compared with an average of less than two years across most of the rest of Europe.

You can pretty much forget about getting any money if your customer goes bust in Hungary. Because of poor debtor control, in 95% of insolvency cases there are not enough assets left to satisfy creditors. Chasing a debt through court in Poland can be lengthy, taking five times longer than the UK at around 1,000 days, and expensive as it is bounced from one court to another with mounting legal bills.

A locally based collection agency will be able to pursue your debts in the quickest and most effective way, whether by sending out dunning letters or getting the lawyers on the case from the word go. The best protection of all against a bad debt is credit insurance because, not only does it provide you with protection against the financial impact of non-payment, it also checks your customers for credit risk. If things go wrong and you suffer a bad debt, Atradius credit insurance will pay up to 90% of the value of the original invoice.

Fluctuations in exchange rates can also cause problems for the overseas trader, particularly as sterling has become so strong against foreign currencies in recent years. According to HM Customs and Excise figures from 2002, 51 % of UK exports were paid for in Sterling, with 26% in US Dollars, 21% in Euros and the remainder in other currencies, usually the local denomination. If exchange rates shift, a Sterling sale set to make a tidy profit when the price was agreed several months ago could end up with a much smaller or no profit at all when the invoice is settled.

There are a number of ways of protecting profits against the impact of exchange rate fluctuations, such as agreeing prices in Sterling, setting up scheduled pre-payments or using a product like Tender Exchange Rate Indemnity (TERI), which protects companies against the impact of currency changes on their final invoice against their original tender price.

If you make it through the maze of business difference and legal issues, don't let bad manners cause your export deal to come a cropper. When meeting foreign clients, understanding business etiquette is not only vital to ensure that you don't inadvertently upset your guest by pointing at them or showing them the soles of your feet, it also demonstrates the efforts you have taken to understand their culture.

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