Boost Capital

Is Exporting A Passport To Success In A Brexit World?

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26 JULY 2016 - Is Exporting A Passport To Success In A Brexit World?
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BREXIT isolates Britain, diminishes its presence on the world stage, and has destabilised the economy – or so those who voted for the UK to remain in the European Union would have us believe. Supporters of the referendum outcome counter this is a new beginning, with British businesses able to forge new trading relationships in markets beyond Europe. What is certain is that one area has seen a surge in business since June 23 - UK exporting. And the Government now plans to get even more enterprises selling their goods and services internationally. How can existing exporters make the most of the opportunities created by recent political developments? And might a post-Brexit world provide the incentive other British business owners need to move into foreign markets?

Lacklustre performance

Sterling's fall in value since the June poll has suddenly made British exporters' goods look better value to foreign customers. But new research indicates the UK is still hugely under-powered in its exporting efforts. Just one in five UK SMEs currently exports. Compare this to Germany, the world's third largest exporter, where one in four firms sells overseas. And those that limit themselves to domestic trade are unquestionably losing out – the average annual turnover of British businesses that export is almost £936,000, according to recent data from the Federation of Small Businesses (FSB) (http://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-destination-export-report-2016.pdf?sfvrsn=0). The equivalent for those that only operate at home is £390,000.

On the positive side, just over 20 per cent of British firms that don't currently export might yet consider doing so. And the Government is keen to encourage them. Since Theresa May took over as Prime Minister, a brand new Department of International Trade has been established, and the creation of a digital export directory (https://www.gov.uk/government/news/landmark-collaboration-between-government-and-banks-to-create-the-uks-biggest-export-directory) announced. The latter has just gone live, and will soon allow SMEs to showcase their wares globally. This adds to a previous commitment to double exports to a value of £1 trillion by 2020, bringing 100,000 UK enterprises into the exporting fold. The weakened pound has created an exporting opportunity, as accountant EY confirmed in its latest Item Club forecast (http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections), predicting a marked growth in UK exports next year directly linked to the Brexit aftermath. Exporting has never seemed so relevant or propitious.

Brave new world

While existing exporters may be rubbing their hands at a surge in orders since the EU decision, this has to be balanced against the fact that Europe accounts for more than half of all UK exports. What will this mean for these firms' ability to trade in the future, given the probable removal of access to the single market? This precarious position has caused many British exporting businesses to consider other options, with further-flung markets proving increasingly attractive. Even before the vote, Asia and the Middle East were recognised as being rich in opportunity, and ripe for fast growth, while Norway and Canada have also seen greater levels of interest from UK firms. Europe is most certainly not closed for business to UK entrepreneurs, but with the European sands shifting beneath British business owners' feet as Brexit negotiations rumble on with Brussels, looking further afield makes sound business sense. And for those contemplating foreign trade for the first time, emerging markets may offer a more enticing opportunity for the short and medium term.

Barriers to business

But what is holding back so many UK firms from branching out into overseas trade? Finding customers is the number one concern, according to the FSB, plus how to market to foreign consumers. There is help for entrepreneurs with these areas, notably via UK Trade & Investment (https://www.gov.uk/government/organisations/uk-trade-investment), the Government department with responsibility for building and promoting UK exports. It can help build bosses' confidence to take the leap into exporting, offering practical advice on language and cultural barriers, logistics and delivery issues, information about potential markets, and introducing would-be exporters to valuable contacts.

But business owners also have legitimate concerns about exposure to foreign exchange rates. Sterling's fall is a mixed blessing for exporters, since sales may be up, but so will the price of any materials bought abroad. While exporting firms are already pushing their goods harder internationally to exploit the advantage a weaker pound confers, they'll also be seeking to rein in their costs overseas. British businesses rushed to lock in rates of exchange on June 24, World First's most recent Global Trade Barometer (https://www.worldfirst.com/downloads/GlobalBarometer2ndEdition.pdf) found. Hedging exposure to further fluctuations via forward contracts and currency options is wise, but smart exporters will be going further. Having a low pound for the foreseeable future presents an opportunity for greater investment and potential business growth. It may take guts to act in this way in the current uncertain economic climate, but, as history often proves, fortune rewards the brave.

Investment intentions

Ahead of the referendum, Boost Capital saw many of its customers applying for loans to ensure smooth cashflow, whichever way the vote went. Now that the decision has been made, demands from SMEs for bridging finance continue, but we're also seeing some companies seeking funds for expansion, with exporters strongly in evidence. Many firms want finance to invest in digital infrastructure, as they recognise the potential to increase their customer base in foreign territories on the back of the continued growth in online shopping. The internet, social media, and innovative transactional technology have opened up a vast array of business possibilities, and these digital developments are allowing small firms based in Britain to punch well above their weight in the global marketplace. However, they need money to implement these business plans, and reap the rewards.

We have yet to see whether the banks will withdraw credit lines for SMEs in the wake of the EU referendum – though some anecdotal evidence (http://www.cityam.com/245052/smes-and-brexit-seeing-through-uncertainty) suggests this is already happening. But alternative lenders have grown up over the last decade to serve the small business community's funding needs in new, flexible, and exciting ways. The challenge is letting business owners know the range of financing options now available to them. We need to make it plain that we remain open for business post the Brexit vote, just as Britain does. We're ready to fund enterprises with ambitious plans for growth, as we always have been (http://www.boostcapital.co.uk/small-business-loans-uk/). And I hope more entrepreneurs realise great opportunities exist outside British shores. The UK need not become cut off from the world due to the referendum decision. In fact, the opposite could be true. This may be the time that exporting finally comes into its own in Britain, and is recognised as the passport to global success that so many companies here desire and deserve.
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