Traderadar

GLOBAL TRENDS, OPPORTUNITIES AND RISKS

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California Dreamin'

OPPORTUNITIES FOR GROWTH IN THE SUNSHINE STATE

"THE PROPORTION OF MIDDLE-INCOME CONSUMERS WILL DECLINE BY 2050 AS SIGNIFICANT NUMBERS OF CITIZENS MIGRATE INTO THE HIGHER-INCOME GROUP." 5

TRADE RADAR

Trade Radar Audit: See how globally prepared your business is

HSBC Commercial Banking

"THE DAYS OF A BUSINESS BEING PURELY DOMESTIC HAVE LARGELY GONE. IF THEY HAVE A WEBSITE, BY DEFAULT THEY CAN PICK UP CUSTOMERS ANYWHERE IN THE WORLD." 10

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"WHILE ALL UK BUSINESSES ARE BEING ENCOURAGED TO INCREASE EXPORTING IT TURNS OUT THAT IMPORTING IS JUST AS IMPORTANT TO HELP KEEP UK COMPANIES COMPETITIVE."

Welcome to the ninth issue of **Trade Radar** – giving UK businesses a global perspective and insight on the key trends, threats and opportunities in world trade.

North America has dominated as an export destination for many years and represents a huge market for the UK. But it's not an easy one to penetrate. California acts as a barometer of opportunities for those looking to trade with the US and a recent trade partnership aimed at removing barriers to trade and investment between the EU and the US could help to make the sunshine state a go-to area for business. We hear about one UK company that headed, successfully, in that direction.

Latin America is an area which had slipped off the world's radar as a place to do business. Revolutions and dictatorships in the 20th century made exporters look elsewhere for markets but many of the Latin American countries are now much more stable and are contributing to the rapid expansion across the continent of a large urban middle class, ripe for attention.

The eyes of the world are on Brazil this summer but there are other good reasons to examine the country for opportunities apart from football. And while all UK businesses are being encouraged to increase exporting, it turns out that importing is just as important to help keep UK companies competitive.

The **Trade Radar** Audit in this edition looks at Power Gems, who have made diversification an art form. Our panel of experts comment on the company's challenges ranging from foreign exchange fluctuation to remaining competitive.

With our global knowledge and expertise, HSBC is able to provide you with strategic advice and practical financial support to help you expand your international horizons.

We're keen to talk to you about your international business ambitions, as well as what you'd like to see us cover in future editions of **Trade Radar**. Please enjoy reading this issue and do let us know how we can support your business more effectively in this arena.

Amanda Murphy,
Head of Business Banking,
HSBC UK Commercial Banking

ON THE COVER:
California Dreamin


Dr Jagjit Singh Srai


Stephen Haughey


Terry Scuoler


Jane Frost

Where next?

Do you face a battle to balance quality and cost?

If this has made you pause for thought, call us and see where that thinking could take you.

KEY TRENDS

2–2.5%
Brazil's expected growth 2014–2015

Latin America
– the lure of the middle class

Despite a recent slowdown of GDP growth in some of its major markets, strong opportunities still exist for UK companies in Latin America especially with the rapid expansion of the continent's consumer class, says Mark Berrisford-Smith, Head of Economics for HSBC's Commercial Banking division.

It's true that the countries of south and central America haven't always been the easiest places to do business. During the 20th century they endured their fair share of turmoil, in the form of bloody revolutions, brutal dictatorships and bouts of hyperinflation.

Yet since the middle of the 1990s Latin America's economic performance has undergone a step change improvement. Sure, it hasn't matched the blistering rates of growth seen in China, India and some other emerging economies. But that was never going to happen, given that the countries of Latin America were already further down the road of economic development. Nonetheless, in the five years leading up to the financial crisis of 2008 the region's annual GDP growth averaged more than 5%, with a strong post-crisis rebound in 2010.

As ever, GDP statistics tell only part of the story, and just as important are the improvements in political stability, economic governance and the quality of the institutional framework. The bottom line, however, is that living standards have improved dramatically, with GDP per head, measured at purchasing power parities, more than doubling in the past two decades.


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01 There has been rapid expansion in the urban middle class
02 Exports more than doubled from 2002 to 2012

STEADY GROWTH OF UK TRADE FLOWS

The importance of Latin America in Britain's trade has grown steadily over recent years, although the flow of goods and services moving in both directions still accounted for only 2.6% of the UK's total trade in 2012. In the decade from 2002 the value of exports more than doubled, from £6.3bn to £15.7bn, which was sufficient to lift the region's share of exports from 2.3% to 3.2%. Not surprisingly, Brazil is Britain's largest market in Latin America by a considerable margin, accounting for more than a quarter of the total. But no market in this region makes it into even the UK's top 20 export destinations.

Looking just at exports of goods, where figures for 2013 are now available, Brazil ranks only as the 26th largest market, coming in behind the other three BRIC economies, and also lagging behind the UAE, Turkey and South Korea. The only other Latin American countries to make it into the top 50 were Mexico in 39th place and Chile in 40th.

In common with other emerging economies the countries of Latin America are now going through a softer patch. The boost provided to economic growth from the super-cycle in commodity prices has run its course, as China's economy evolves and its pace of growth slackens. Add to this the fact that interest rates in major western economies remain at or close to zero, and it's clear that they will soon be moving up again. With the advanced economies now offering a real prospect of improving returns, investors have been redirecting some of their funds from emerging economies.

In common with many other emerging economies, the countries of Latin America are undergoing a period of retrenchment and consolidation following a period of very rapid growth. The countries which will win out are those which are able to implement structural reforms. But even though there are concerns about a return to bad habits in a few countries, in general the region is much better placed today than it was in the past to weather an economic slowdown. Many countries have built up large reserves of foreign exchange, while the climate for foreign investors is generally friendlier.

But perhaps most important of all, the past two decades have seen the rapid expansion across the continent of a large urban middle class. Across five of the region's major emerging economies (Argentina, Brazil, Colombia, Mexico and Peru) people in the middle-income group now account for nearly half the population. There are, of course, relatively large numbers of people still on much lower incomes, but research by HSBC* suggests that many of these will move to the middle-income bracket over the coming decades.

Even more striking, perhaps, is the fact that in some countries, such as Argentina, the proportion of middle-income consumers will actually decline by 2050 as significant numbers of citizens migrate into the higher-income group. Serving their needs will continue to mean that the region remains an attractive proposition for British businesses, if they can only re-focus their radars. TR

**Consumer in 2050: The rise of the emerging market middle class (HSBC Global Research, October 2012)*

But it's also true that the long period of robust economic growth has caused some economies to overheat and laid bare some neglected areas of structural reforms, whether it be inadequate infrastructure, overweening bureaucracies, or low educational attainment.

The upshot is that growth rates have eased in the past few years. Brazil, for example, is slated to achieve GDP growth in 2014 of just 1.7%, slower than in both Britain and America. For the region as a whole, with growth having come in at 2.4% last year, the out-turns for this and next are likely to remain between 2.0 and 2.5%.

It is, of course, a mistake to treat Latin America as a homogeneous grouping, and there continues to be a diverse range of performance. At one end of the spectrum, both Argentina and Venezuela are suffering the consequences of government fiscal largesse and a certain amount of back-sliding in relation to economic governance and policy-making, Argentina's spat with the IMF over the measurement of its inflation being a case in point. Both countries are now expected to undergo a period of contraction, with GDP declining in 2014.

In common with Argentina, the Brazilian economy has been allowed to run ahead of itself in the past few years, with domestic consumption running ahead of the economy's investment in productive assets. The result in both countries has been a resurgence of inflationary pressures requiring a series of interest rate hikes from the central banks. At the other end of the spectrum, growth rates of 3% plus are still anticipated for 2014 and 2015 in Mexico, Colombia, Peru and Chile.

EAST, WEST… WHO'S BEST?

Indeed, one feature of the continent's economic performance is the opening up of an east–west split. While the commodities boom of the past decade has benefited the region as a whole, the countries along the western seaboard have tended to be more open to foreign investment and have been more active in entering agreements to reduce the barriers to international trade. Chile, Mexico and Peru are all involved in the negotiations to create the new Trans-Pacific Partnership, involving a dozen nations from both sides of the ocean. Meanwhile, Mexico is a member of the North American Free Trade Area (NAFTA), while Chile and Colombia have both negotiated bilateral free trade agreements with the United States. In contrast, the eastern countries have tended towards greater protectionism while the Mercosur trade bloc has struggled to make tangible progress.

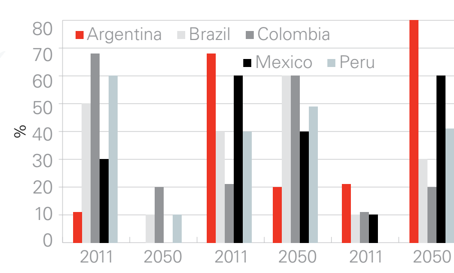
FACTS & STATS

GDP growth (%)

	2012	2013	2014	2015
Argentina	1.9	3.0	-1.0	1.5
Brazil	**1.0**	**2.3**	**1.7**	**1.2**
Chile	5.4	4.1	3.6	4.5
Colombia	**4.0**	**4.3**	**4.7**	**4.5**
Mexico	3.9	1.1	3.7	3.8
Peru	**6.3**	**5.0**	**5.5**	**6.1**
Uruguay	3.7	4.4	3.6	3.8
Venezuela	**5.6**	**1.4**	**-3.6**	**-0.6**

Source: HSBC Latin American Economics, Q2 2014

Share of low, middle and upper-income groups in total population



Source: Consumer in 2050: The rise of the emerging market middle class (HSBC Global Research, October 2012)

California:

Challenging but rewarding

California is the world's eighth largest economy. Its size and impact are such that what's happening in the state is often used as an indicator of the direction the nation as a whole might take. So is California really a "beacon of optimism"? And should UK businesses be heading for the sun?

As an export destination, the US has dominated for many years, surpassed only by Switzerland in 2013, in a change driven by gold exports. Even with this slip down the rankings, the value of exports to the US in February alone this year was more than £2.9bn, compared with £1.2bn to China.

While the US is a huge market for UK businesses, it's not necessarily an easy market to break into. Last July, however, representatives of the US and the EU began negotiations to establish the TTIP – the Transatlantic Trade and Investment Partnership – designed to "deepen the relationship between the world's two leading economies and create the world's largest free trade and investment area". The presidents of the US, European Commission and European Council, and the UK prime minister committed themselves to removing barriers to trade and investment between the US and the EU.

The EU–US relationship already supports a combined 13 million jobs and nearly US$3.9trn in investment, and represents 45% of global GDP. The impact of the TTIP in the UK, according to a report from the Centre for Economic Policy Research, could be an increase in the UK's GDP of between £4bn and £10bn, depending on the level of tariff and non-tariff benefits in the deal.

In California, reports suggest successful implementation of the TTIP could increase exports to the EU by 26.2% and boost net employment by up to 75,000 jobs.

Jaclyn Mason, UKTI's Interim Regional Director for West USA, is confident that the Partnership will also bring positive changes for UK businesses looking for new opportunities or to expand in California.

"Provided companies have done the groundwork, have got approvals and can show due diligence, then anything that reduces the burden of regulation promises to make things easier," she says. "The 'special relationship' may be a cliché, but the TTIP shows a great connection between the UK and US."

Where other states have one or two main economic sectors, California has several nation-leading examples – high tech, biotech, agriculture, entertainment, manufacturing and tourism included.

QUALITY FIRST IN DEMANDING CALIFORNIAN MARKET

California's tourist industry offers year-round potential for UK manufacturing and service companies, providing they can guarantee the level of quality and satisfaction demanded by customers.

"The potential in the Californian market is huge," says Paul Thomas, MD of Haystack Dryers, "but the year-round nature of the market, along with the importance of visitor satisfaction, means that whatever your product or service, quality is paramount."

The company manufactures body dryers that have become standard features at theme parks, water parks, pools, spas and hospitals worldwide.

"We first entered California in 2009–10, says Thomas. "It is an important market because it is one of two states offering year-round, world-class attractions, providing a regular income stream and enabling us to spread risk and cashflow in what is a seasonal business.

"Apart from the weather and a constant flow of tourists who typically spend more, the benefits for us are the excellent transport links and the wide spread of parks along the Californian coast, which means we don't cannibalise our own sales," says Thomas.

"On the downside, tourist traffic is unpredictable and extreme and, because the parks are open year-round, it's difficult to install and service equipment. We usually have to work overnight. Park security is also much tighter and even with the correct permits, pre-alerts and permissions, we're often delayed entry."

While these challenges may be specific to a company working in the tourism sector, Haystack Dryers has also had to face an issue that tests companies across the board – that of navigating the local, city and state tax regimes and business regulations.

"Initially when considering doing business in California, we were advised by local bodies such as the California Franchise Tax Board website and the Internal Revenue Service on the various tax regimes and business regulations and it soon became clear that to aid our expansion planned in the USA, it made economic and regulatory sense to open a US corporation," says Thomas.

"This provided our US customers, many of whom are not used to dealing with overseas suppliers, with increased confidence in dealing with Haystack Dryers as it demonstrated our commitment to serving the US market.

"Any UK business considering trading in the state needs to be able to provide a top-class service and maintain strong relationships with customers, particularly if you don't have a local presence. Logistics are also fundamental. There's no substitute for efficient and effective planning." TR

After a decade and more of manufacturing job losses, California posted three consecutive years of job gains in 2011, 2012 and 2013.

"It's important for UK businesses to recognise that California is a regional economy," advises Mason. "Just as opportunities and issues vary between Manchester and London, say, there are major differences within the state. Overall, the state is the fifth highest for unemployment, but when you break those figures down, you see that the coastal areas are, in fact, doing very well. Companies need to work out where their customer base is situated rather than thinking of California as a whole."

Last year, UKTI helped 700 UK companies take their first steps in the state – introducing them to the markets, suppliers and customers and guiding them through the regulations.

"Many businesses are surprised to learn that dealing with the culture difference is one of the most important aspects of entering the Californian market. You expect that in China, for example, but just because we speak a common language, we don't share common business practices," says Mason.

Attracting investment can fail, she says, because companies lack the vision and the strong management team that US investors expect.

UKTI organises trade missions and networking events, bringing businesses together, and HSBC recently held an International Exchange in Los Angeles focusing on retail and apparel, manufacturing, healthcare and technology.

"These are valuable ways to make contacts," says Mason. "But if you go back to the day job with a hundred business cards and don't follow up, the opportunities will disappear. In the Californian market, you need to be tenacious; you need to chase those connections."

According to Mason, technology is still a booming sector and one in which smaller UK companies can find both a niche and the talent they require to maximise potential. They need to be aware, though, that partners may prefer them to have a local presence. Companies like Huddle and SwiftKey are just two examples of UK tech businesses that have successfully opened offices in the state.

"There are also a lot of infrastructure projects running at the moment, including high-speed rail, road and shipyard redevelopment in the Bay area," says Mason. "In southern California, bio-tech and pharmaceuticals are the growth areas. Media and aerospace are other areas of potential. Manufacturing offers potential too, but California is an expensive state in which to produce goods because of the multiple layers of taxation."

This year, Governor Brown enacted a new Economic Development Initiative, bringing together business leaders, labour interests and legislators from both sides to help create a more flexible, more competitive set of economic development tools for the state. These include a Sales and Use Tax Exemption for Manufacturing, Biotech and R&D Equipment; a Hiring Credit, and the CA Competes Tax Credit designed to give companies a reason to locate or expand in the state.

"We'd advise companies to look closely at these incentives to see how they might benefit from them," says Mason, "but they should bear in mind that if a grant or credit disappears, they need to be able to stand on their own feet without government support." TR

USEFUL LINKS

- **TTIP** – http://ec.europa.eu/trade/policy/in-focus/ttip/
- **Governor's Office of Business and Economic Development** – http://business.ca.gov/
- **California Franchise Tax Board** – www.ftb.ca.gov

Re-booting UK PLC

The UK emerged from 2013 having seen stronger economic growth than most of the developed world. British businesses are now capitalising on the recovery to invest in growth.

In April the IMF revised its UK growth forecast for 2014 to 2.9% – up from a January estimate of 2.4%. In the same month, employment rose to its highest level in four years and full year GDP growth clocked in at 1.7%. No wonder Amanda Murphy, Head of Business Banking for HSBC, is bullish for growth in the SME space. "British businesses will look to capitalise on the favourable climate to invest for growth, getting ahead of competitors and setting themselves up for long-term success."

In HSBC's recent *Business for Growth* report, the bank analysed 39 independent forecasts for GDP and investment growth. And they all point to one conclusion. "After a slow and painful return to growth, the UK economy is recovering," says Murphy. "Businesses report a significant uplift in confidence and intention to increase capital expenditure."

Murphy says the bank is helping more than 6,100 firms start up every month through a new fund facility. Some£6bn of new lending is being made available to SMEs through their regional network. This will help get finance directly to businesses where they need it across the UK.

"Business growth will come from all our regions and by breaking down funds to a very local level we are confident we can help make a real difference. We have put the funds into the hands of our local relationship managers to empower them to identify and work with ambitious companies in the area."

With high business confidence, low interest rates and inflation under control, UK plc looks to be riding a wave. Trade Radar spoke to two businesses using finance secured by HSBC about the challenges of growing their global proposition.

Profile

COMPANY: VERMILION SOFTWARE

Previously underestimated, client reporting is now a critical investment for asset management firms. Increased regulation and client demands for greater transparency are behind the current boom in reporting.

In turn, financial services firms receive the benefit of improved customer retention and satisfaction, derived from delivering high-quality, personalised reports, direct to the client's inbox.

Vermilion Software, founded in 2003, stands out in this market through its combination of automation and personalisation – services that were widely lacking in earlier software products.

The company's client reporting and communications solution – Vermilion Reporting Suite (VRS) – is an automated, end-to-end reporting tool. VRS acquires data from disparate systems, enhances it with market commentary and integrates client-level information into each report. This allows asset management firms, such as Ashmore and Robeco, to deliver personalised reporting to their customer base.

As the business developed traction in the global market, HSBC was on hand to help with the challenges of internationalising an SME.

"In 2013 we opened an office in Singapore to service the Asia-Pac region. We now have revenues coming from that entity, which is great in such a short space of time. The finance provided by the bank gave us the confidence to move into that market," says Stuart Mitchell, CFO at Vermilion.

Vermilion faced the kind of challenges other growing enterprises with global aspirations will recognise: how to manage that cross-border relationship and how to maintain high standards of quality as the business grows.

"You've got all these challenges of working in a different jurisdiction – whether they be legal issues, employment challenges, having to learn how you recruit and what kind of packages are acceptable in the market."

Trading internationally brought foreign

exchange exposures and issues around the control environment. HSBC's global footprint is a value-add in this respect.

"We can sit here in the UK and have visibility across the globe in all our financial affairs. We've got one point of contact at HSBC who sits two streets away from me. That person will deal with a credit card issue in Singapore or a banking issue in the US. I'm able to pull together all the disparate relationships we had into one central place and have a global view. To me that is extremely positive."

Mitchell is targeting organic growth of Vermilion's client base. Currently Vermilion has 40 asset management clients, which is a small proportion of the global cohort. Asset managers are looking to drive efficiency in their business; this means replacing manual processes – which are inherently risky – with automated solutions.

"We fit squarely in this space and have the ability to demonstrate a very strong ROI. We're not planning to diversify or do anything crazy. We know asset management, we know reporting. That's what we do. We stick to our core strengths, so there's a huge opportunity for us." TR

2.9%

IMF's revised UK growth forecast for 2014

Profile

COMPANY: 4COM

While smart phones have revolutionised personal communication, business phone systems remain locked in the past. That at least is the view of telecoms provider 4Com, which set out to bring smart phone functionality to the workplace.

The company had a vision for a tablet-style device that would be "the world's first smart desk phone". It would feature HD video calling, call recording and media streaming.

There was just one problem: funding. "We needed to buy some exchanges and equipment for data centres," says Daron Hutt, 4Com's Managing Director. "We also needed to take on software developers."

HSBC stepped in with support from its SME fund. Two years in the planning, the new product will launch in October. With advance orders worth £10m, 4Com has high hopes and is planning a US launch later in the year.

"WE DO HAVE AN EXIT STRATEGY – THAT IS, WE'RE NOT EXITING!"

Funding has been a perpetual challenge for 4Com since it was founded in 1999. Hutt and his fellow directors quickly discovered that potential investors of private equity were focused on a quick return, followed by the sale of the company.

"We do have an exit strategy – that is, we're not exiting! We're enjoying ourselves too much," Hutt declares. "But because private equity wasn't an option, we've had to fund our development out of cash flow, which can be stressful."

The company rode out the recession by marrying efficient sales processes with a strong focus on customer service. A motivated workforce helps too: this year 4Com was ranked 16th in the *Sunday Times'* list of the top 100 places to work.

4Com was briefly caught out, however, when its leasing company almost went under during the downturn, leaving "a £2m hole" in 4Com's cash flow, according to Hutt.

Help was at hand: "HSBC extended our overdraft so we could make our salary payment. The bank could see that our business was healthy and that finding another leasing partner would be quite straightforward."

This confidence was not misplaced. Today 4Com is one of the UK's fastest growing telecoms providers. It has installed more than 9,000 phone systems in SMEs.

Hutt reckons that even discounting the impact of the new "smart desk phone", the business would be on course to double its current £30m turnover within three to four years.

And the innovation won't stop with this year's launch, Hutt promises. "During testing, lots of people have said, 'Wow, can I have one of these in my house?' So now we're designing a range of domestic products." TR

"WITH HIGH BUSINESS CONFIDENCE, LOW INTEREST RATES AND INFLATION UNDER CONTROL, UK PLC LOOKS TO BE RIDING A WAVE."

A MAP FOR THE *global risk journey*

As a business globalises, inevitably the risk parameters widen. Trade Radar tracks the global risk journey – and explores precautionary measures – with HSBC Commercial Insurance specialist Peter Simpson.

Today's global connectivity has provided more and more companies with routes to growth and opportunities to engage new markets, target new consumers/buyers and expand a company's brand reach. However, expansion of any kind comes with some degree of risk and, in many cases, that risk is higher when trading internationally. Indeed going global, in the first instance, is not always a strategic decision.

"The days of a business being purely domestic have largely gone," says Peter Simpson, Senior Proposition Manager within Commercial Insurance and Investments at HSBC. "Today businesses increasingly find themselves becoming international and that can be a deliberate strategy or it can be accidental. If they have a website, by default they can pick up customers anywhere in the world."

Knowing exactly who you are dealing with is the first risk consideration. Do they have a track record, will they settle invoices within agreed terms? Secondly, evaluate the common terms of trade. What are the common issues exporters should be alert to in different territories – are there import/export tariffs? When you export goods, what happens between the goods leaving your factory and arriving at your customer's door? "You may also want to consider the political risks if you are trading with certain countries – might there be risks in the country you are exporting to with government frustration or repudiation of contracts, inconvertibility of foreign currency or the inability to repatriate funds?" says Simpson.

THE INCOTERMS

The incoterms rules are the recognised standard for international and domestic contracts for the sale of goods. While UK businesses should become familiar with the full guidelines, the three main incoterms are ex works, cost insurance and freight (CIF), and free on board.

Ex works requires the seller to deliver goods at his or her own place of business (or supplier's premises/logistics company premises – not all goods come into the possession of the seller). All other transportation costs

TRADE CREDIT INSURANCE

When you supply goods or services on credit terms you run the risk that you might not get paid due to your buyer's business failure or if they are late to pay. This is a particular concern when exporting where it can be difficult to establish the credentials of a buyer and trying to sort out problems can be an enormous headache. And yet being able to offer your goods or services on credit terms is often an essential requirement to compete effectively for new customers.

Trade Credit Insurance is a financial management tool that provides protection against unexpected bad debts but also enables access to professional expertise in the form of credit management information services. "There are a number of key benefits," Simpson says:

- **IMPROVED CASH FLOW**
  Trade credit insurers will often assist you in the collection of business overdue accounts to improve the speed and success with which you can collect money owed to your business. Very useful if you don't speak the language or know the local business customs.

- **CREDIT INFORMATION**
  The trade credit insurers monitor millions of buyers worldwide and are able to supply up-to-date information from around the globe.

- **AVOIDANCE OF BAD DEBT**
  Purchasers are able to use the credit intelligence from their insurer to review existing and new trading relationships and thus reduce bad debt exposure.

- Potentially buyers of Trade Credit Insurance may be able to negotiate more favourable terms from suppliers who may be comforted that the business has taken steps to protect its assets and balance sheet.

- **BUSINESS GROWTH**
  Businesses may be more comfortable with offering credit terms to expand their business when there is a trade credit insurance policy in place.

"Don't forget," says Simpson, "Trade Credit Insurance can cover both domestic and international buyers and is an important tool in the risk management armoury of any business". TR

"WHEN YOU EXPORT GOODS, WHAT HAPPENS BETWEEN THE GOODS LEAVING YOUR FACTORY AND ARRIVING AT YOUR CUSTOMER'S DOOR?"

and risks will be assumed by the buyer. "This method says to the customer: 'We're not arranging any insurance.' There are pros and cons to this," Simpson explains.

"If the seller is paid up front then as soon as the goods are made available for collection by the customer or agent then it's not the exporter's problem any more. If it goes missing or falls off the ship, that's the buyer's problem. However, if the seller isn't getting paid until 30 or 60 days after arrival, there's a risk that nobody insures it because the goods could fail to arrive or they'll be damaged; the seller may still have an insurable interest on those goods until they get paid."

The upshot being that if you're exporting ex works and you're not getting paid up front, you have some risk. So you need to consider managing that risk.

Cost insurance and freight (CIF) is another option. This covers the goods until they're unloaded at the destination port. "You generally tend to use CIF when you've not been paid for the goods and you have a responsibility to arrange insurance, in other words you have a financial exposure until the goods arrive safely," says Simpson.

Finally, there is free on board. This is where the seller is responsible until the goods are safely loaded aboard the vessel or delivered to the port of shipment.

MARINE INSURANCE

In terms of marine insurance arrangements, there are a number of options. The seller can arrange the insurance via the freight forwarder but the cover could be inadequate or too expensive.

"You could rely on the haulier but the trouble with that is that they only insure their liability which is limited in accordance to the weight of the goods. If the haulier is a member of the RHA (Road Haulage Association) for example then their liability is set by the RHA 2009 conditions which provide cover at £1,300 a tonne," says Simpson. "So if you're exporting sand then it's probably OK, but if you're exporting high value electrical goods it would be inappropriate."

Haulier's liability often has exclusions such as defective packaging or circumstances beyond the haulier's control. So if there's a strike and your goods perish while they're sat in the lorry by the dockside, it's beyond the haulier's control.

EXPORTING TO THE US (AND CANADA)

The US is an important and valuable market for UK businesses but it is not necessarily an easy market to trade with. Sellers need to be mindful of certain areas. The fundamental challenge in the US and Canada, but the US in particular, is that claims costs are higher and that's because the US tends to award higher damages which potentially include punitive damages as well.

"There are also higher costs in investigating defending legal action in the States. And the US legal system is also different to the UK system because there's stricter liability, so that makes an impact. And compensation is often at a higher level," Simpson says.

Further, the amount of the award can be influenced by the state in which the action is brought. Juries also tend to be more sympathetic to the claimant and generally the environment is more litigious. TR

FROM CONDUCTING EFFECTIVE MARKET RESEARCH TO MAKING EXPERIENCE COUNT, OUR EXPERT PANEL TACKLE QUESTIONS POSED BY POWER GEMS

Profile

- **COMPANY:** POWER GEMS
- **DIRECTORS:** PHIL ELLAMS AND PATRICK McGUANE
- **LOCATION:** IRLAM, MANCHESTER

DIVERSIFY **TO SUCCEED**

An industrial estate in the suburbs of Manchester is the unlikely home of one of the main providers of location lighting to Hollywood. For over 20 years the largest rental companies and motion picture studios worldwide have chosen Power Gems to supply one key element in the lighting system used in film and TV production – the electronic ballast.

Founded in 1991, Power Gems is the biggest independent designer and manufacturer of HMI ballasts. The equipment uses the latest silicon carbide technology to control the arc in HMI lights, to provide the "flicker-free" light required for location filming. For many original equipment manufacturers, Power Gems is the preferred supplier to help bring their products to market.

The company has seen a 15% year-on-year increase in turnover to £4m. Steady growth has been achieved thanks to a decision not to depend entirely on the entertainment market. Spotting the opportunity to adapt the product to meet the requirements of new sectors has led to expansion into events, solar simulation and high speed photography.

A reliable unbroken power supply is crucial when covering live events. Power Gems keeps the lights on for sporting activities and enables filming at extremely high frame rates for super-slow motion. An athlete suspended in time, a car crumpling on impact, both captured in incredible freeze frame made possible by high speed photography. "The future lies in lighting for arenas, responding to the demands of international HDTV broadcasting. We're also seeing growth from the scientific and industrial market such as vehicle crash testing for major car manufacturers," says Dr Phil Ellams, who heads a team of 24 people responsible for the product design and manufacturing. It's his task to develop new products while co-director Patrick McGuane heads up the sales division, travelling extensively to maintain strong relationships with customers worldwide. Overseas sales represent 95% of turnover.

Back in Manchester, the Power Gems corporate headquarters, located in Fairhills Trade Centre, Irlam is the primary location for R&D, sales, customer support and all stages of production through to final assembly, testing and packaging. TR

01

How do we make experience count but size not matter?

"Not a year goes by without a new addition to the Power Gems family or a refresh of the core 20 product lines – many are regarded as the workhorses of the industry. We continue to invest in research and development, in order to bring to market products that are based on the latest technology and techniques. We keep specialist jobs in-house but to cope with peaks and troughs in demand we routinely use subcontractors – a job equivalent of 60 people. To us, small and flexible is beautiful – just like our ballasts – but the flipside is we're trying to win business from global multinationals who may judge our light head count negatively. How do we convince bigger clients to look beyond our size and trust our ability to deliver?"

03

How do we keep manufacturing in the UK whilst remaining competitive?

"We manufacture in the UK and export 95% of our orders – for sale and rental worldwide. We keep costs down by harnessing technology to improve processes. We want to maintain our position as a world-class designer by continuing to access the talent pool here in the UK. What else can we do to ensure our UK manufacturing operation remains competitive in the global market?"

02

What's the most efficient way to bring money back to the UK?

"Our Hollywood office is a wholly owned subsidiary, providing sales and technical support for customers based in North and South America. It's staffed by factory-trained engineers and carries a large stock of finished product, and original spares for servicing. How best do we repatriate the profits to the UK? We don't want to lose out on currency fluctuations, especially with the pound growing stronger, but often need to wait before transferring funds."

"WE WANT TO MAINTAIN OUR POSITION AS A WORLD-CLASS DESIGNER BY CONTINUING TO ACCESS THE TALENT POOL HERE IN THE UK."

04

Where do we aim to hit our target market?

"We are working hard to expand our range into new market areas. However, due to the specialist nature of our product these are niche markets thinly spread around the globe. Identifying new customers can be difficult when operating with a restricted marketing budget. Commissioning a global market survey by a specialist company is beyond our means, but we need something more systematic than Google searching. How can we do better market research with our limited resources?"

01

How do we make experience count but size not matter?

Be part of a network

If I were making a pitch to a global multinational about "network-based manufacturing" I would perhaps start by saying "that phone you've got in your hand runs on a processor-chip made by ARM".

ARM Holdings is a leading UK semiconductor and software design company employing more than 2,000 people. The chips that ARM designs are found in 95% of the world's smartphones, as well as in computers, digital TVs and tablet devices, yet many people won't have heard of it. The technology giant is an example of a manufacturer that doesn't manufacture. It is a company of processor-chip engineers. It has found success by licensing its designs and letting others make its products as part of an international manufacturing network.

DR JAGJIT SINGH SRAI
is Head of the Centre for International Manufacturing, University of Cambridge

Today more and more companies are turning to "network-based manufacturing" involving complex partnering arrangements to compete in today's global business environment.

Outsourcing and subcontracting are now the norm as companies seek to focus on core capabilities to become more competitive by enhancing areas of expertise. Non-core tasks are undertaken by firms specialising in other elements of the manufacturing value chain, or are offshored to exploit low labour costs in developing economies.

Within the UK a growing number of businesses are servicing the manufacturing sector. The supply chain for Power Gems, for example, is equivalent to some 60 people who are employed in various stages of production. The nature of the business requires keeping the core knowledge and capabilities such as R&D and design in-house, but outsourcing the production. Many suppliers will be looking to cultivate a strong working relationship with such companies, with a view beyond short-term contracts.

Operating within a network of organisations is often perceived as risky by companies that have never outsourced. Most multinationals will operate as complex networks but when engaging with them it's always worth drawing on examples from their sector. The benefit of a networked organisation, where the fixed resource may involve a small core, requires one to accentuate that "small is beautiful". So, for example, if the schedule needs to be extended, a small organisation can often respond without a cost impact, something the large organisation perhaps isn't able to. Power Gems has flexibility in terms of headcount, ramp-up and scale-down, but they also have a level of continuity in terms of expertise. They have a highly skilled workforce but are also agile enough to keep pace with demand by drawing on a network of subcontracting organisations.

Many smaller businesses will be able to offer the benefits of more flexible production, faster time to market and the ability to harness specialists on a project basis. They may also be able to boast greater innovation through working with their network of suppliers, each exposed to new technologies and a natural source for replenishing talent gaps.

Finally, every business has key people who it would be difficult to replace. Small firms may be more exposed than larger organisations. Multinationals may be nervous about their ability to deliver if they become overstretched or unavailable. It is therefore important to build in redundancy – members of your team with the same skills, who can step in should there be an unexpected resource loss. Demonstrate that you have the expertise, experience and substance to manage these network-based organisations to deliver reliable and quality products and services. TR

TRADE **RADAR**

Would you like to put your business on the trade radar?

Speak to your Relationship Manager who can provide the expertise you need.

What's the most efficient way to bring money back to the UK?

02

Manage currency fluctuations

The pound has been strengthening against the US dollar for most of the last 12 months. While sterling's performance is good news for UK importers and holidaymakers travelling abroad, it's not so good for Power Gems and other companies looking to bring profits back to the UK in dollars.

Many businesses are uncertain about what to do, and about the impact of foreign exchange fluctuations. The first step for Power Gems is to understand their exposures and work out how sensitive the business is to movements in foreign exchange. Fluctuating rates may affect profit margins and profitability, and make it difficult to forecast cash flow.

For example, a \$500,000 profit when the GBP/USD exchange rate is £1.00=\$1.60 would be worth £312,500. If the pound strengthens to £1.00=\$1.75, say, the US dollar profit would be converted to a much lower sterling rate of £285,715. Such adverse foreign currency fluctuations could wipe out a profit or worse.

Businesses need to understand exactly what their choices are to protect against adverse currency fluctuations, and what types of products are available that may suit their business. The good news is that, in simple terms, there are only three options to consider:

1. Do nothing and accept the foreign exchange rate at the time you repatriate funds. This is a high risk strategy leaving the business exposed to exchange rate moves against you. Provided you are comfortable with the level of risk and uncertainty, you could enjoy all of the gains if rates move in your favour. If Power Gems want to wait and see, they should consider opening a US dollar currency account in the UK. Keeping a reserve of US dollars allows greater control of managing the timing of any US dollar conversions to sterling and can smooth out sharp fluctuations in cash flow. However, the underlying foreign exchange risk remains.

2. A forward contract offers the chance to fix the foreign exchange rate in advance. This is a simple arrangement with the bank to sell (or buy) an agreed amount of currency at a rate of exchange agreed today, effectively locking in your profit margin. This provides certainty but you also have to be comfortable with foregoing any potential gains if the exchange rate were to move in your favour.

3. There are also ways to take advantage of a move in your favour, whilst protecting against any adverse move. A currency option lets you specify the worst rate you would accept and the currency exchange is protected at that level. If the rate moves against you, you can still deal at the protected rate, but if rates move in your favour, you can deal at the more advantageous spot rate. An up-front premium is usually payable for a currency option.

Many companies use a blend of all three approaches to balance the risks depending on what is right for their business. Developing a strategy is good business planning, giving your business time to change its pricing, costs or underlying business operations.

Whether you are looking at one-off overseas transactions or scheduling regular transfers, can you afford to do nothing about your foreign exchange exposures and leave everything to chance?

HSBC has experts available to help businesses understand the risks and assist them in developing strategies to help protect their profits. TR

STEPHEN HAUGHEY
is Director of Business Development, HSBC Corporate and Commercial Sales Global Markets

03

How do we keep manufacturing in the UK whilst remaining competitive?

It's no longer just about price

TERRY SCUOLER
is Chief Executive of EEF, the manufacturers' organisation
www.eef.org.uk

UK manufacturing has undergone substantial transition over the last decade as the global winds of international competition have forced companies to focus on driving down costs, whilst becoming more innovative and productive. A decade ago the focus was on ever lower costs as the UK sought to compete on price with the low cost emerging economies, losing a significant amount of its supply chain and productive capacity in the process. But now, we are increasingly seeing the opposite phenomenon as companies seek to re-shore some or all of their production back to the UK.

Looking across the whole economy, the UK can in many respects regard its business environment as internationally competitive. We have underlying strengths of a broadly pro-business policy environment, a stable institutional and legal framework, a historically welcoming attitude to foreign investment and a flexible labour market. Companies also have access to a pool of increasingly skilled labour and a supportive tax regime at a corporate level and encouraging incentives in areas such as the R&D tax credit. Furthermore, long gone are the days when UK manufacturers competed exclusively on price alone. Now companies such as Power Gems are far more likely to compete on how innovative they are, the quality of their products, how responsive they are to customers, their relationships up and down the supply chain and the potential value they add through their service, as well as manufacturing offering.

> "ADD IN THE INCREASING CACHET OF UK BRANDING AND DESIGN AND YOU HAVE OUTSTANDING PROSPECTS OF SUCCESS."

In EEF's latest survey on re-shoring, published in March this year, manufacturers rated price as only ninth in the list as an area of competitive advantage, with only 17% of companies looking to compete on cost. Top of the list was the quality of their product, followed by customer service and consistently on-time delivery, emphasising the extent to which just-in-time production has become an increasingly important factor. These three factors were closely followed by brand and reputation. A separate question about "What's Great about Britain?" saw the quality and brand reputation of UK-made goods come top of the list for 84% of companies, closely followed by the quality of suppliers.

So it's clear that it is possible to manufacture in the UK whilst remaining internationally competitive, a factor being recognised by the 1 in 6 companies that are bringing some or all of their production back. A company that places a premium on the quality of its goods, has excellent customer service and high quality suppliers, and is able to consistently deliver on time can achieve success manufacturing here.
Add in the increasing cachet of UK branding and design and you have outstanding prospects of success. For companies choosing to do this there are clear benefits: as EEF's survey shows 40% of companies have seen their turnover increase as a direct result. Furthermore 60% of companies had seen profits and employment increase.

EEF has launched a campaign, "Make it Britain", to encourage more companies to manufacture in Britain: www.eef.org.uk/makeitbritain, follow EEF at EEF_Press

04

Where do we aim to hit our target market?

Plan your research carefully

Companies that haven't undertaken market research before often fear it will cost a fortune. This is largely the result of an overly complicated brief and unrealistic expectation. For every company complaining of the cost there's a counterbalancing tale from a researcher about ridiculous requirements. Research is seen as an opportunity to ask about every aspect of the product and service. This complexity increases the cost while the greater the clarity, the cheaper it becomes.

An SME is unlikely to be able to justify commissioning a large-scale study, and may be tempted to either try to do it themselves or skip straight to market testing. However, there are several ways companies such as Power Gems can do research on a limited budget. Technological advances have made it possible to supplement traditional survey-based approaches with faster and cheaper methods of market research.

JANE FROST
is CEO of the Market Research Society www.mrs.org.uk

For example, you can grow your niche by using social media to find new markets. Social media is an opportunity to run polls, ask questions about products, test new ideas and get feedback in real time. Tools such as Facebook, Twitter and LinkedIn are a way to extend your reach and assess market potential worldwide – and are free apart from the time cost.

Previously conducting a survey would have meant hiring a market research agency. It's now relatively easy to create a survey online. However, you still need to get the fundamentals right. For surveys to be useful you need to ask the right questions. This is where it pays to invest in professional help to formulate the questions. Consider the question "Do we provide value for money?" Your idea of what is "value" may be very different to mine. Words are loaded with different meanings – value rarely means price, and the word frequently comes loaded with emotional baggage. When you can't see the person face to face or speak to them by phone it's no longer possible to question their response or go back later to seek confirmation or ask secondary questions.

With a limited budget it is important to prepare carefully at the start of the project. Hiring an expert to design a survey has the spin-off benefit of also helping to define your goals. Even when you can go big and spend millions of pounds conducting the research it's always worth starting off using a small amount of money to determine the objectives – and the questions that need to be asked.

> "WITH A LIMITED BUDGET IT IS IMPORTANT TO PREPARE CAREFULLY AT THE START OF THE PROJECT."

Once you have well-defined goals you may find the tools to carry out the research are less expensive than you anticipated. A cost-effective starting point is to use the focus group or brainstorming methodologies. There's real value in getting a group of people with diverse backgrounds together with a moderator, to talk in general terms. When people from different sectors clash they can often come up with the kernel of a good idea. For the cost of a lunch you could discover parallel markets and new applications for your products or services. On a larger scale it is important to ensure all data collected is done so transparently and appropriately – get professional help here – it could avoid legal trouble and other problems later on!

Access market research advice from the UKTI's Export Marketing Research Scheme at: www.gov.uk/export-marketing-research-scheme

INNOVATIVE THINKING...

He broke the mould with pay-as-you-go cars. Now he's taking on the self-storage market. But Brett Akker is well aware that being a disruptive upstart only takes you so far in business…

Disruptive behaviour

Early summer. While many businesses anticipated a holiday lull, LoveSpace was going into overdrive.

All over the country, students were preparing to move out of their digs – and thinking about somewhere to store their notes, sofa-beds and other gear until the new term. Thousands of them turned to the self-storage start-up founded by Brett Akker.

This was no accident. LoveSpace had been targeting the student market since its trial launch a year earlier, reckoning that this was one of several key segments that would value the firm's business model.

LoveSpace customers pack up their own items for storage, using either boxes supplied by the company or their own packaging. The goods are then collected from their address free of charge.

Unlike traditional self-storage models, there's no need to pay for a whole unit – prices start from £1.95 per month for a single box or item. And when the customer wants the items back, they go online and request a next-day delivery.

It's not just students who have cottoned on to the convenience of the service, says Akker: small businesses are also hungry for convenient storage space.

"There are document storage businesses out there, but most of them are targeted towards the large corporates," he points out.

"Some smaller businesses just need to store their tax records for the required six years – they will ask us to keep them for that length of time, then destroy them. Others might want to store promotional material until they need it for an event.

"And quite a few businesses have used us when their office move hasn't gone quite as planned, and they've found themselves with a three-week gap between leases."

LoveSpace is on course to turn over more than half a million pounds in its first full calendar year. Proof of its success in breaking the mould is the rash of new competitors which have adapted its business model.

It's not the first time Akker has succeeded in disrupting an established industry. Streetcar, the car club he set up with Andrew Valentine in 2004, struck a chord with city dwellers who didn't have the time, space or daily requirement for their own vehicle.

After growing to 80,000 members across eight cities, Streetcar was sold to US firm Zipcar in 2010 for £31m.

"Streetcar and LoveSpace are remarkably similar businesses – I'm not clever enough to come up with two completely different ideas," Akker says. "What Streetcar was looking to do in the car rental market is what LoveSpace is doing to traditional self-storage."

But lessons have been learned. "One thing that I was quite keen to do with LoveSpace was to make it slightly easier to scale than Streetcar. To set up a car club, you need car after car after car – so launching in new cities required an awful lot of infrastructure to be in place, and with that comes cost.

"With LoveSpace, using third parties in the first instance for our collection and delivery service gives us the ability to expand nationally."

While courier CityLink takes on the company's collection and delivery outside London, the growing LoveSpace fleet focuses on the capital. Gradually, Akker plans to construct a hub-and-spoke model across the country.

"We're just moving in to our first big warehouse in Berkshire," he says. "The idea is to have a network of big warehouses which needn't be in particularly central locations, together with smaller spaces in and around city centres.

"When somebody wants to store their goods for 10 months, say, it doesn't really matter where that storage space is, as long as it is safe and secure. But as soon as they want it back, we can move it from one of our large out-of-town warehouses to the city centre location for delivery."

According to Akker, the biggest challenge has been discovering the right marketing channels for the right target audiences. "Partnerships are working exceptionally well for us," he reports.

Partners include the student media business helloU. By teaming up, LoveSpace got its empty boxes into halls of residence and established its name with freshers.

To reach expectant parents – another key segment – Mothercare is the strategic partner of choice. The retailer offers customers the option of storing the toys, clothes and equipment they buy until they're needed, using LoveSpace.

Similarly, LoveSpace is working with the likes of Workspace to provide storage solutions for SMEs.

With Streetcar, Akker and Valentine laboured alone to build the business in the early days. This time round, Akker has appointed an MD, Steve Folwell, and has the benefit of a board with strong international experience in the storage business.

That will be useful as LoveSpace seeks to expand overseas, which Akker plans to do during 2015. He hasn't yet settled on the first international target: "There are lots of places with high-density populations and space constraints where we think this would work exceptionally well."

Akker is acutely aware that the disruptive element of a business gives it an edge that is short-lived. A ground-breaking product or service isn't enough in itself once it starts to be copied. He sets out to differentiate LoveSpace in the long term through painstaking customer service.

"Picking the right people is crucial," he emphasises. "Even when Streetcar grew to 250 people, Andy and I would always meet new recruits at the point of interview."

Business is all-consuming for Akker. He was still working at Zipcar while he was developing the LoveSpace idea. Today, he is involved as a director or angel investor with several other businesses – each of them a disruptive newcomer in sectors as diverse as food, recruitment, wireless charging and male grooming.

He believes the willingness to immerse yourself in the business is what sets a successful entrepreneur apart. "Friends have come to me and said they were thinking of starting a business, and that they meet up once a month to chat through ideas. I know they're never going to get to the launch stage.

"Andy and I used to meet three evenings a week and at weekends, even though we both had corporate jobs then. Our social lives just went out of the window – and that was before we came up with the idea for Streetcar. Once we set up, things got even more manic.

"You need to believe in your idea and have that passion for whatever it is you do. You really have to go for it." TR

> “ PICKING THE RIGHT PEOPLE IS CRUCIAL. EVEN WHEN STREETCAR GREW TO 250 PEOPLE, ANDY AND I WOULD ALWAYS MEET NEW RECRUITS AT THE POINT OF INTERVIEW.”

Take a healthy approach to risk

Fear of failure is holding us back from international growth, says Jim Houghton.

Why are you in business? When I ask this at the first meeting with a company, many of them will start to define their answers around their revenue objectives, or perhaps a specific client brief they're working on.

In my view, they're missing the point. You were inspired to set up in business; you may have shareholders who've invested risk capital. What return are you both looking for, in terms of dividend, status or career opportunity?

The answer to this question is where business planning should start. Only when you know your business objectives can you measure your risk and return equation.

That last point might sound obvious. But in fact not every business is aiming for the largest growth they can achieve. Many are content to allow themselves to drift with the current. I think that's a misguided approach – and it's one I find to be particularly prevalent among UK businesses.

The strong fear of failure in our society is something that limits our enterprise. There is a bias towards safety: businesses deliberately plan to settle for the 5% growth, the 10% margin as the best route to avoid the risks of aiming high. They may not be setting the world alight, but no one's ever going to repossess their house.

In the wake of recession, that attitude might be understandable. But I think

"There is a bias towards safety: businesses deliberately plan to settle for the 5% growth, the 10% margin as the best route to avoid the risks of aiming high."

Jim Houghton is a Partner with corporate finance advisers Results International. He was previously a Director with BDO LLP, and before that led European M&A activity for marketing services at Omnicom.

entrepreneurs need to understand that failure is sometimes a necessary price for growth.

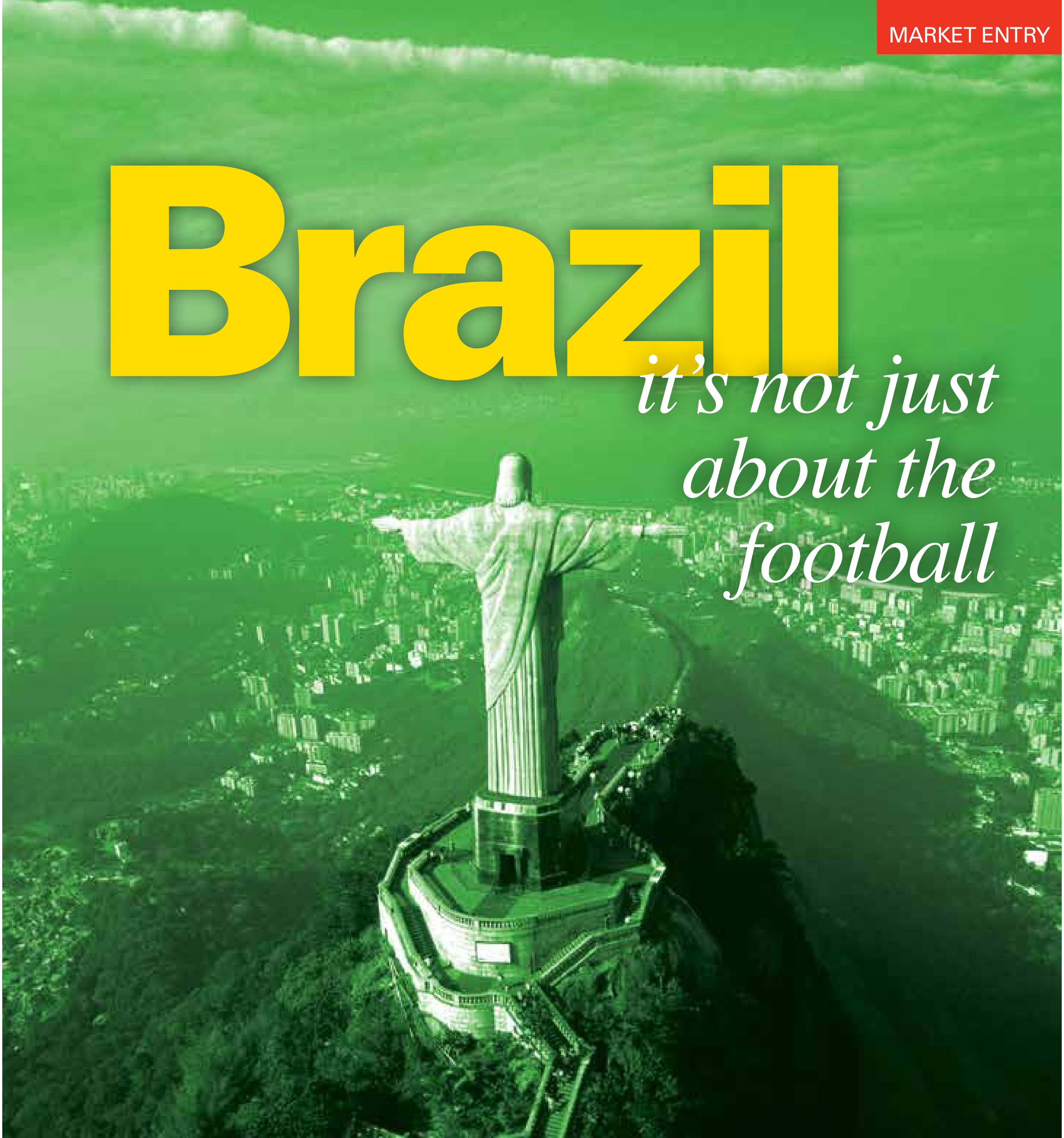
The business world should be about success; it should not be comfortable with mediocrity. If we settle for just getting by, that may work in the short term. Beyond that, it represents a threat – not just to individual businesses, but for the UK economy.

I've had the absolute privilege of working with entrepreneurs in Beijing, Mumbai and New York – the three most interesting cities to work in outside London. And people in those markets are anything but British in their approach.

If you're not blazing a trail, maybe your rival at home isn't going to steal a march on you – but you can bet that someone in one of those global cities will do so. It might not happen in the next year, but come the next two or three years you might find you don't have an industry in your country any more.

I'm not advocating recklessness. By all means plan, be disciplined about it, and take the best advice you can find – but then go for it. And if it doesn't work out, acknowledge that and face up to painful decisions: wind it up quickly, and move on to the next idea.

Britain is already being left behind. We can no longer afford to be risk-averse. Aim for international growth, and make it the most spectacular kind. You can be sure that's what your peers on other continents are doing right now.



Brazil

it's not just about the football

After reaching a GDP growth rate of 7.5% in 2010, Brazil's impressive rise has slowed recently with a slated growth rate of 1.7% in 2014.

Despite the slowdown, it remains a market of significant opportunity for British businesses and is by some way the UK's largest market in the Latin American region. Two major sporting events – the football World Cup this year and the Olympics in 2016 – have raised British interest in what is an undoubtedly challenging market.

But it is not just sporting events that offer exciting opportunities, there is significant potential in a range of sectors, from the burgeoning oil and gas industry to the growing consumer market.

In this market entry special, we hear from two companies that have enjoyed success and overcome challenges in Brazil – one through the FIFA World Cup, the other in Brazil's significant cosmetics market. >>

>>

LASERING IN **ON BRAZIL**

For medical devices firm Chromogenex, it was a shift in focus to Brazil and other emerging markets that signalled a turnaround in its fortunes.

Established in 1986, Llanelli-based Chromogenex is the UK's leading developer and manufacturer of advanced laser technology systems for use in medical and cosmetic procedures.

Among its key products is i-Lipo, a laser lipolysis system that uses low-level lasers for fat reduction, cellulite smoothing and body-shaping treatments.

Since its inception, R&D has been at the heart of the company's success, applying ground-breaking innovations in the laser industry to respond to dermatological and cosmetic challenges facing medical professionals.

After being hit hard by the financial crisis in 2008, the company made significant changes, from how it marketed itself to its strategy of international expansion.

"Prior to 2008 we were focused very much on Europe and the UK: at that stage we decided to go further afield to markets that weren't as affected by the economic crisis," says CEO Peter McGuinness, who joined the company in 2003.

"I got on a plane and visited markets like Brazil, the Far East, Russia and South Africa."

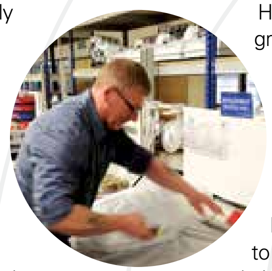
It's been a very successful strategy for the company, with sales going from £2m per year prior to 2008 to £12.5m last year and a forecasted £15m for 2014.

While South Africa and Russia were star performers early on, it is Brazil that is leading the way as Chromogenex's number one market.

"When we first looked at Brazil, the economy was booming and, even now, it is still the second biggest cosmetics market in the world," says McGuinness.

"Even with the slowdown in Brazil's economy, the cosmetics market is still buoyant and our sales have really taken off there."

For McGuinness, a key to the company's success in Brazil has been the decision to sell direct to the market through a wholly owned subsidiary in São Paolo.



"Selling direct gives us control over our marketing in that territory, whereas going through a distributor, as we do in other markets, we're relying on them to invest in marketing, which doesn't always happen."

The decision to sell direct into Brazil was also a financial one driven by the high import duties, as McGuinness explains.

"The import duties, landing cost and the margin a distributor adds would have made the cost prohibitive for the end user. By setting up our own operation, we can keep all the margin ourselves and so price the product competitively and get the volume of sales that we need."

Despite the company's success in Brazil, McGuinness acknowledges that it does present some unique challenges, from regulatory demands to a complex tax system.

"The regulation in Brazil is possibly the strictest in the world and it took us two years to get clearance for i-Lipo," he says.

"However, once you have the regulation it gives you a great level of protection from cheaper imports."

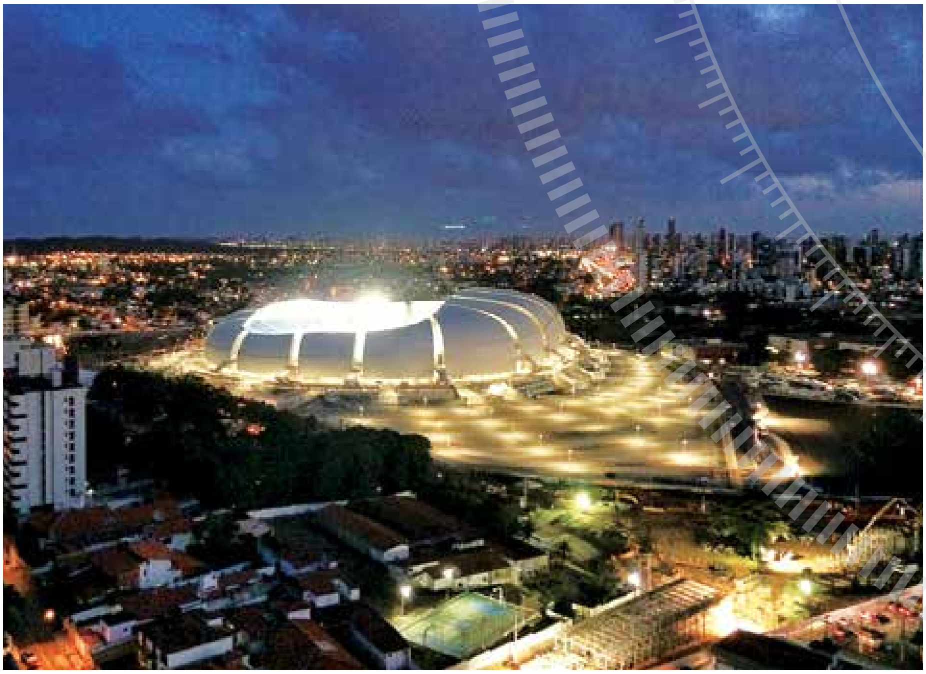
In terms of the tax system, McGuinness advises rigorous research before entering the market to have a clear idea of the potential impact on profitability.

"In hindsight, we didn't fully understand the implications of the tax system and we're not as profitable as we might have hoped, although the business is still doing very well there," he explains.

Having good people on the ground is vital and a recent addition to the team in Brazil has helped Chromogenex tackle the tax maze. A local senior accountant has joined the regional CEO and given the company the necessary knowledge and information to make the best decisions relating to tax and regulation.

Despite the challenges, McGuinness sees a bright future in Brazil with sales of US$5.5m forecast for this year, and plans to get the company's full product range into the market well under way.

"You have to do your research with Brazil, maybe more so than many markets, but don't be put off by what you find. It's a huge market that is growing still and absolutely can't be ignored," concludes McGuinness. TR



SITTING PRETTY

The World Cup brought seating company Bluecube to Brazil – but it won't be leaving now the football's over.

When staff of Bluecube watch the World Cup in Brazil, their eyes will be trained as much on the crowds as on the pitch action.

The London-based company provided seating for four of the stadiums that were built or remodelled to host the big matches in this year's competition.

And the game is far from over for Bluecube's Brazil operation. Such is the appetite for new venues of all kinds that the country currently provides around half the company's business, according to Commercial Director Steve Bartlett.

"Our aim was never to go to Brazil just for the World Cup and Rio," he says. "We set out to build Bluecube in Brazil off the back of that, because it's the fastest

emerging economy in the world."

The World Cup projects were the latest in a series of high-profile contracts for Bluecube.

It made its name by producing 20,000 seats at short notice for the rebuilding of Wembley Stadium, after the initial seating contractor went bust. Since then, it has produced seats for the 2010 World Cup in Johannesburg as well as the London Olympic Stadium.

Founded in 2003 by Managing Director Russell Plant, Bluecube designs its own products in-house. That allows it to offer versatility to customers.

"These days, stadiums are not just built for one sport or event – they are multi-purpose venues," explains Bartlett. "Our products are designed to allow organisers to reconfigure their venues for different events."

The company's track record brought it to the attention of a Brazilian software company, eicon, which contacted Bluecube with a view to a partnership.

That provided the London firm with the route it needed into the market – despite, or even because of, the lack of an obvious synergy between the companies' activities.

"What we didn't want to do was partner with a Brazilian seating company, because they would be competitors," says Bartlett. "We just needed to find the right people with an ability to deal with the local market.

"Many businesses try to enter Brazil alone and fail miserably. Eicon have helped us towards our goals, in particular by guiding us through Brazil's complex import and taxation rules."

Largely in response to import regulations, Bluecube has established a production unit in São Paolo. There it employs 10 staff to develop some of the moulds it uses to produce its seats. "Unless you have local production, success is virtually impossible," says Bartlett.

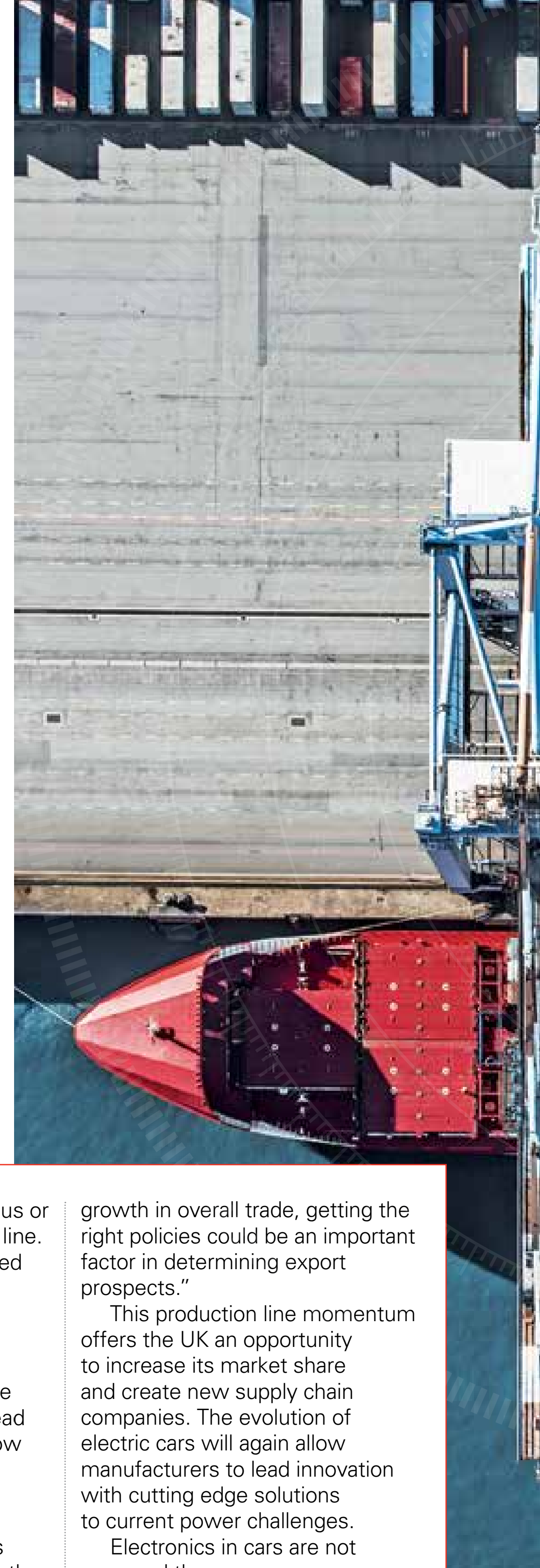
The company has achieved turnover of around $40m in Brazil over the past year, and is looking forward to more.

"The US is the world's biggest market for stadium seating. We have a partner there and there are a lot of venue refurbishments going on," Bartlett says. "But in South America, the market is primarily for new-build stadiums, arenas and performing arts venues.

"Even smaller venues that require only a couple of thousand seats can be valuable projects for us. And we also manufacture retractable platforms that offer different configurations for events – a high value product."

His tips for others seeking to enter Brazil are simple: "Know what you want to achieve in the market, and put a sound business plan together so that you have something to show a potential partner.

"We were lucky in that our partner came to us, but we knew we were looking for something more than a dealership that would sell our product alongside many others. You need to find someone who'll work with you to drive your brand within Brazil." TR



Far from damaging jobs and industry, imports are important growth drivers – boosting productivity and helping to maintain the UK's competitiveness in the global market place

OWNING *the supply chain*

As the UK aims to grow its role as a global trading nation, exports need to take centre stage. Indeed, last autumn the Chancellor set a target of doubling UK exports to £1trn by 2020. That equates to a growth in exporting of 9% a year for the next six years – no mean feat.

In a recent report HSBC researched how UK plc could generate export success. Surprisingly, imports were given headline status. Imports, said the report, are key to export success: helping keep production costs down, improving productivity, and enabling UK industry to maintain its competitive position in export markets.

Peter McIntyre, Head of Trade (UK) at HSBC, explains: "While there are concerns about the UK's trade deficit, this research shows that imports used in the right way can benefit UK businesses and the overall economy by boosting productivity and driving export growth. They are the ally of many smart businesses.

"HSBC also welcomes the changes announced recently by the Chancellor and the Bank of England providing further support to British exporters. Supporting and stimulating UK trade is key to continuing the growth we're now experiencing and the UKEF schemes can help us provide even greater support to firms trading overseas."

PHARMACEUTICALS

For the last decade, pharmaceutical imports have risen sharply. Importing basic pharmaceutical compounds, for example, frees up both capital and workers to develop more complex drug treatments with higher export potential and returns.

Productivity growth in the pharmaceutical sector depends on innovation and R&D expenditure. Increasing imports further down the value chain creates more efficient production and specialisation higher up the supply chain. In a sector where developing new medicines will be increasingly complex, this is invaluable.

Research by the OECD suggests a substantial boost, clearly benefiting the whole economy, could come from increasing the imported share of intermediate inputs by 10%, thus increasing productivity by around 3%.

Looking at R&D productivity another way, the industry success rate in bringing a drug from research to market was just 4% between 2005 and 2009. Emerging markets will be the drivers of industry growth and successful companies beyond 2020 will have in-depth local relationships including significant R&D investment, as well as the already growing manufacturing investment in these key markets.

AUTOMOTIVE

Every 20 seconds a car, van, bus or truck rolls off a UK production line. Over 80% of these are exported to more than 100 countries. The challenge is to maintain this momentum, securing the long-term future of the sector by growing the UK share of the value chain and by getting ahead of the game in R&D on ultra-low emission vehicles.

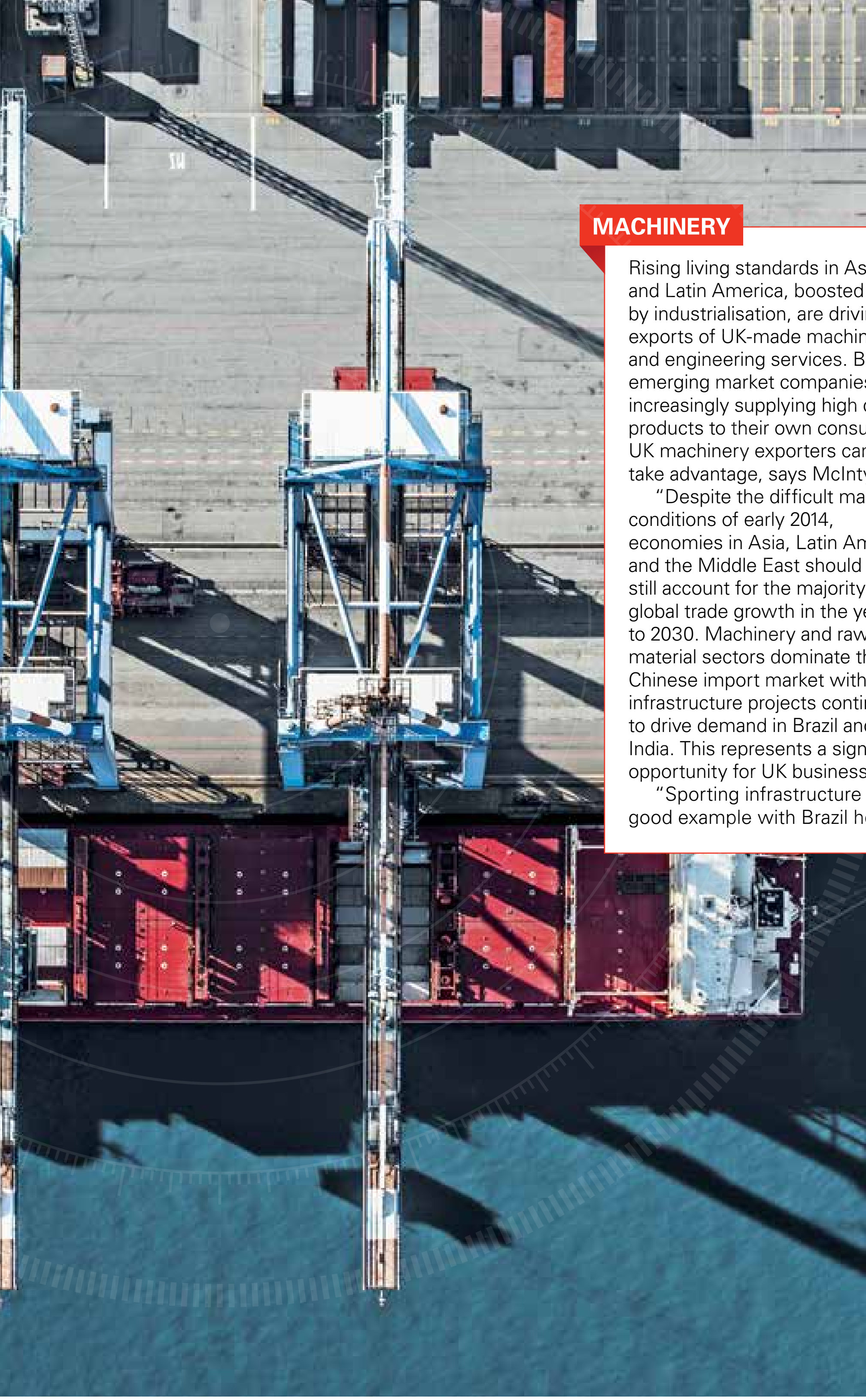
"The UK has world-class universities, but the relatively low level of patent applications suggests a need to strengthen the relationship between academia and business. In addition to world-class universities, a large share of the UK population works in knowledge-intensive industries. But it needs to raise levels of R&D investment and improve engagement between educators and businesses to maintain competitiveness in these sectors," says McIntyre.

"With the trade of high-technology goods likely to outpace growth in overall trade, getting the right policies could be an important factor in determining export prospects."

This production line momentum offers the UK an opportunity to increase its market share and create new supply chain companies. The evolution of electric cars will again allow manufacturers to lead innovation with cutting edge solutions to current power challenges.

Electronics in cars are not new, and the average car now has around 100 electronic control units for engine and transmission functions. More and more software goes into each car, affecting every aspect of the driving experience. Indeed the computer is about to take over, not only assisting the driver but actually driving the vehicle.

So the talent and supply chain in the UK needs to be comprehensive to take full advantage of this.



MACHINERY

Rising living standards in Asia and Latin America, boosted by industrialisation, are driving exports of UK-made machinery and engineering services. Because emerging market companies are increasingly supplying high quality products to their own consumers, UK machinery exporters can take advantage, says McIntyre.

"Despite the difficult market conditions of early 2014, economies in Asia, Latin America and the Middle East should still account for the majority of global trade growth in the years to 2030. Machinery and raw material sectors dominate the Chinese import market with large infrastructure projects continuing to drive demand in Brazil and India. This represents a significant opportunity for UK businesses.

"Sporting infrastructure is a good example with Brazil hosting the 2014 World Cup and Rio the 2016 Olympic and Paralympic Games. British companies with experience in the 2012 Games have a unique selling point in the Brazilian market."

Kaman UK, a manufacturer in the aerospace sector, took advantage of such opportunities. Setting up a joint venture with Kineco in India provided Kaman with local business knowledge and an attractive cost base. This has already resulted in multi-million dollar contracts on two major original equipment manufacturers' programmes. The landscape is attractive for other UK companies looking for strategic partners. Local companies in these emerging markets are building new plants with new equipment, extending their technology capability in a 50 to 60 year leap.

"RESEARCH SHOWS THAT IMPORTS USED IN THE RIGHT WAY CAN BENEFIT UK BUSINESSES AND THE OVERALL ECONOMY BY BOOSTING PRODUCTIVITY AND DRIVING EXPORT GROWTH."

OUTLOOK FOR UK EXPORTS

With a strong role in the global supply chain, UK businesses will be well placed to grow both by exporting and importing. By understanding the role emerging economies can play as import partners, as well as building a reputation for exporting the top-end products their consumers demand, UK plc can continue to boost its export capabilities.

"The need to support UK exporters both financially and with local knowledge remains vital if we are to achieve the targets set by the Chancellor, but this cannot be restricted to exports only," says McIntyre.

"By also getting the policy on imports right, the UK will benefit from embedding our businesses in the global supply chain, building deeper relationships with existing trade partners and with emerging markets. This in turn will help to drive export growth and a strong, balanced UK economy."

Country guides

From Asia to Latin America, there are both emerging and established markets that offer excellent opportunities for UK businesses. However, each country presents its own challenges and unique ways of doing business, so being aware of those can ease your move into a new market. In this series, our Heads of Global Trade & Receivables Finance in key international markets provide some top tips for doing business in their country.

BRAZIL

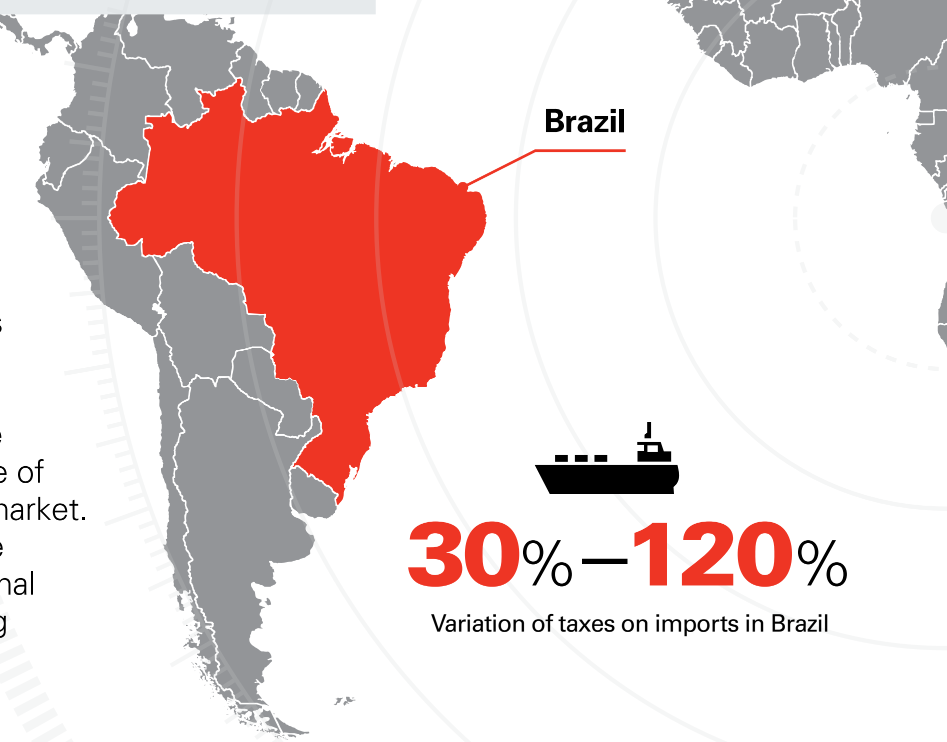
- **Working with local partners** – Brazilians are open, flexible and friendly. Face-to-face meetings are always preferred to email.

- **Understand the economic environment** – Brazilian importers have to work with high costs of importation. Taxes on imports can vary from 30% to 120% so you will need to understand your importers´ total import costs to determine your price point.

- **The right product for the right market** – Brazil is a big country; you can actually market winter-related products to the south of Brazil. In addition, states such as São Paolo (33%), Rio de Janeiro (11%) and Minas Gerais (9%) are responsible for more than 50% of Brazilian GDP.

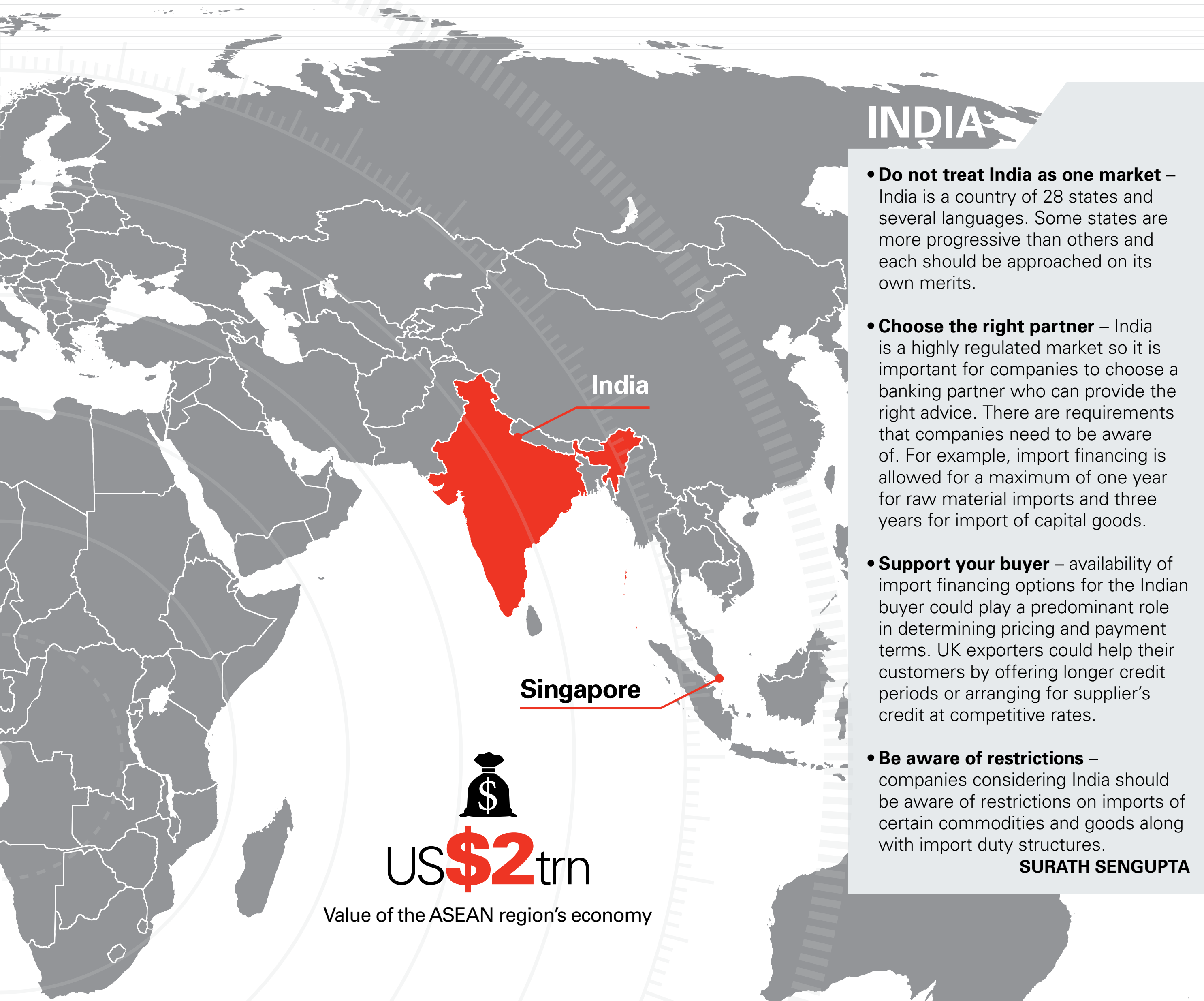
- **The right financial conditions** – offering generous credit terms will gain you competitive advantage. The local cost of financing is generally high and can range from 15% to 20%, and savings for the importers in financing costs can translate into a sale for you.

DESMOND WEE



30%–120%

Variation of taxes on imports in Brazil



INDIA

- **Do not treat India as one market** – India is a country of 28 states and several languages. Some states are more progressive than others and each should be approached on its own merits.

- **Choose the right partner** – India is a highly regulated market so it is important for companies to choose a banking partner who can provide the right advice. There are requirements that companies need to be aware of. For example, import financing is allowed for a maximum of one year for raw material imports and three years for import of capital goods.

- **Support your buyer** – availability of import financing options for the Indian buyer could play a predominant role in determining pricing and payment terms. UK exporters could help their customers by offering longer credit periods or arranging for supplier's credit at competitive rates.

- **Be aware of restrictions** – companies considering India should be aware of restrictions on imports of certain commodities and goods along with import duty structures.

SURATH SENGUPTA

SINGAPORE

- **Making payments** – Singapore is the third largest foreign exchange market in the world after New York and London and does not have any foreign exchange controls, so selling into or via Singapore is straightforward in this respect.

- **Access the wider region** – Singapore's geographic location and government incentives to attract global corporates make it an ideal hub from which to access Asia. With a population of 600m people, an economy worth US$2trn and annual GDP growth of over 6%, the ASEAN region offers great growth potential.

- **Target the key sectors** – Singapore offers great opportunities in a number of sectors, especially electronics, commodities (particularly oil), chemicals (including pharmaceuticals), telecommunications equipment, industrial machinery and transport equipment.

- **Be prepared for formality** – Singapore is rated as the easiest place in the world to do business but it is, in some ways, more conservative than the UK; good manners and more formal methods of address are essential. When making initial contact with a business, try to aim high – you may end up being passed on to a subordinate but if you start lower down the company structure it can prove difficult to gain access to senior decision makers.

JOSEPH ARENA