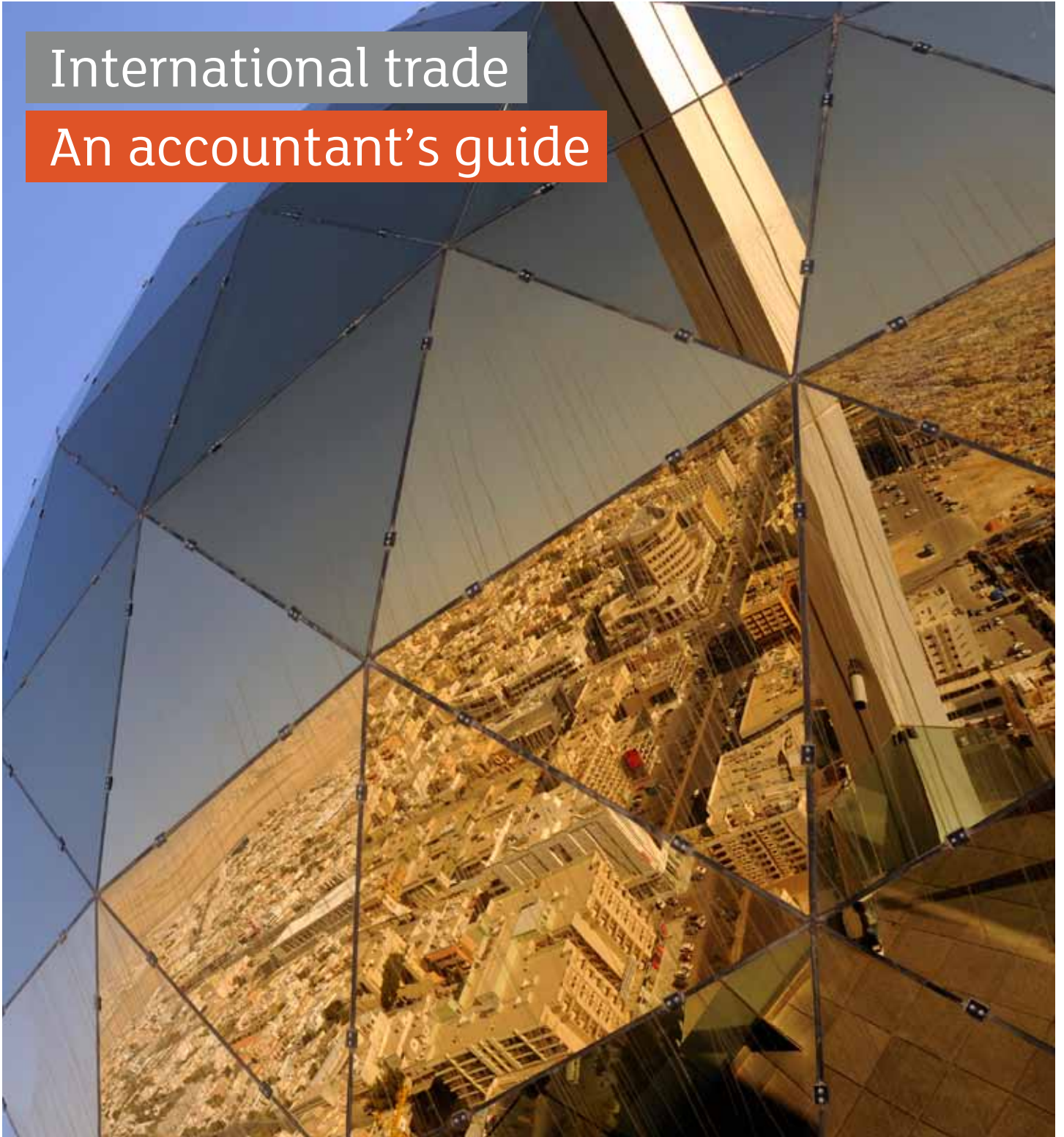


International trade

An accountant's guide



In association with:





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1

Introduction

This guide is designed to help accountants in practice advise their clients better on international issues and to help finance directors, financial controllers and other accountants in business assess the financial risk and profitability of an international project or sale.

Selling goods or services abroad is an excellent way of increasing turnover; it can be very profitable, and can reduce unit cost by increasing volumes and extending product life cycles. There is also a risk inherent in depending on a limited number of customers in any one market and finding new customers internationally can spread this risk.

That said, trading overseas can be complex, particularly for those who have not investigated fully how to go about it. But most of these problems can be managed easily and efficiently and there is a wide range of advice available through UK Trade & Investment and other bodies.

Technology now gives direct access to potential customers, speedy communication with existing customers and control over much of the process. There are also many more people who can give advice and support for any new venture; there has probably never been a better time to expand internationally.

However, as an accountant you will have plenty of questions. This booklet contains many of the questions that you should ask and some ideas as to where you can find answers. There are four sections: the first shows a typical set of accounts with key issues highlighted, each of which is considered in some detail in part three. Part two considers what questions you should be asking before you start trading internationally. Part four comprises of three appendices: a methodology for assessing exchange risks, an overview of how UK Trade & Investment can work with accountants and finally a list of sources of advice.

This brochure has been produced by UK Trade & Investment and the Institute of Chartered Accountants in England and Wales (ICAEW). It has come to you free because we are committed to improving the profitability of businesses by helping them trade effectively overseas.

UK Trade & Investment is the Government body responsible for helping companies trade internationally. We have offices in most major cities of the world based in our embassies overseas and we also have International Trade Advisers located across the UK. UK Trade & Investment, in conjunction with ICAEW, is planning to run a number of seminars around the country for its members, to help them advise their companies about how they can take advantage of the opportunities of trading globally.

Colin Russell:
UK Trade & Investment

Simon Bedford:
UK Trade & Investment



1

UK Services Ltd

Profit and loss account

for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Turnover	2	11,800 [•]	9,020
Raw materials and consumables		(4,779) [•]	(5,057)
Increase in finished goods and work in progress	4	395	1,178
Staff costs		(1,234) [•]	(945)
Depreciation		(466)	(450)
Other operating charges		(3,815)	(3,271)
Total operating costs	3	(9,899)	(8,545)
Operating profit		1,901	475
Interest receivable		31	7
Interest payable		(806) [•]	(738)
Profit on ordinary activities before taxation	5	1,126	(256)
Tax on profit/(loss) on ordinary activities		(583) [•]	(145)
Profit on ordinary activities after taxation		543	(401)
Dividends paid	6	—	—
Profit/(loss) for the financial year		543	(401)
Retained profit brought forward		5,596	5,997
Retained profit at 31 December		6,139	6,139

Will my product sell overseas?

See Page 8

Am I selling at the right price and can I increase volumes?

See Page 11

How should I invoice my customer?

See Page 13

Will goods I sell overseas cost me more to produce?

See Page 15

What other costs might I incur?

See Page 16

What will it cost to finance this venture?

See Page 17

Will I pay more tax?

See Page 18

The above operations all relate to continuing activities. There are no recognised gains or losses in either the current or preceding financial periods other than the profit attributable to ordinary shareholders. The reported result on ordinary activities before taxation in both the current and the previous financial periods was the historical cost result.

Balance Sheet

at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets		4,563	5,285
Tangible assets	8	20	20
Investments	9	4,583	5,285
Current assets			
Stocks	10	1,573	1,178 [•]
Debtors	11	1,181	548 [•]
Cash at bank and in hand		547	692 [•]
		3,301	2,418
Creditors:	12	(1,704)	(2,701)
amounts falling due within one year			
Net current liabilities		1,597	347
Total assets less current liabilities		6,180	5,632
Provisions for liabilities and charges	13	(38)	(33) [•]
Net assets		6,142	5,599
Capital and reserves			
Share capital	14	3	3
Profit and loss account		6,139	5,596
Shareholders' funds	15	6,142	5,599 [•]

Will I need to increase inventory levels?

See Page 19

Will I have more bad debts?

See Page 19

How quickly will I get paid?

See Page 19

Do I need to open a currency bank account?

See Page 19

How can I manage the risks?

See Page 19

How can I develop this further?

See Page 21

These financial statements were approved by the board of directors on 28 February 2011 and were signed on its behalf by A. Director.

2

How do I start to sell internationally...?

There are many reasons for trading internationally: to spread risk across a wider range of customers, to drive innovation, to maximise use of production capacity and because it is profitable. International trade is not difficult but it may well involve more issues than you have been used to dealing with. It requires careful planning and a clear understanding of the risks you and your clients may run.

Trading overseas is no longer constrained to a few companies with high profile products. In a global economy there are opportunities for most businesses. Companies in the UK sell tea to China, potatoes to Ireland and computer games to Japan, as well as providing services overseas such as education and training.

UK Trade & Investment provides the support to develop the skills to trade internationally through the 'Passport to Export' programme, which includes training, assistance with developing an action plan, help with identifying customers and support from a dedicated adviser.

Will our products sell overseas?

Whilst you can sell most things overseas, you do need to find a market for your products and a reason for people to buy them. Generally, if you can sell profitably in the UK you will be able to sell profitably overseas. However, there may be additional costs if you

have to adapt the product to meet local market regulations such as Health & Safety rules, labelling (especially in local languages), professional requirements, import duty and tariffs, proof of contents (eg GM ingredients, compliance with Halal or Kosher/Beth Din requirements) etc. Compliance can be expensive and needs to be costed in at the beginning.

There may also be a need to conform with local taste and customs – this may mean some colours or images need changing, package sizes need variation and the taste of food may need to change.

Are we committed to this?

There is no point starting any major business venture unless you are prepared to commit the time and money to see it through and master the necessary new skills throughout your organisation. You can build your commitment through developing a network of people and organisations that can give you further support.

Which countries should we look at?

Whether or not you will need to research and prioritise countries will depend on whether you already have demand from existing clients or whether you need to create a new market for your products. The easiest way to build a market is to target existing customers: if they are happy with your product in the UK they will probably be happy with it elsewhere. It is important, though, to assess the full supply cost before agreeing to anything.

Creating a market is harder. You will need to identify opportunities in countries and decide which to tackle first. There is a lot of information available from UK Trade & Investment, and other organisations referred to throughout this guide.

Whilst you can sell most things overseas, you do need to find a market for your products and a reason for people to buy them.

It is important to carry out sufficient research to allow you to make the right decisions, and to save time and money when overseas. It is not expensive to secure lists of potential contacts or get a programme of meetings organised overseas by UK Trade & Investment staff.

What can I sell my product or service for?

There are various approaches to this, perhaps the simplest being 'cost plus' by which you work out the full cost of delivering the product and the margin you need per unit and set these as the minimum. However, cost and price are not directly related; having determined a particular price does not mean that someone will pay it. As an example: a Tall Latte sells for around \$3.00 in the USA, \$4.40 in Singapore, but an expensive \$7.10 in Norway. There are differences in local costs and taxes, but most of the difference is due to local supply and demand factors, not the cost.



Generally, if you want to develop a long term business, you should aim to sell at a price that will give you the highest volume of business over the medium term.

From the research you have done by now you should have some idea of the answer to this vital question.

How do I start to sell internationally...? continued



What will it cost me to make this product or deliver this service?

The extra volumes that you produce to sell overseas can be cheaper than your existing products if you have spare capacity to produce more goods (or services) without adding to your overheads. But you will need to bear in mind that, in addition to the 'normal' costs of your UK operation, there will be other costs of trading internationally. You may need to develop a specialist product to meet the market taste or regulations, pay for additional labelling and packaging, freight, duty, marketing costs, expand your sales force, borrow more money etc.

What are the sales costs?

There will probably be additional costs associated with selling such as flights, hotels and translation costs. It is worth factoring these in.

Is this project worthwhile?

You will now have an idea (these calculations are rarely definitive) of how much income you can generate, how much it will cost you and what risks are involved. Once you have calculated the profitability you can judge whether that profit is worthwhile – for example, you may show a profit, but only a small one with large risks attached, making the venture impractical. You will probably want to consider a range of options such as different sales volumes, exchange rates and prices.

So, how do I make a start?

Look at the questions on the next few pages and see how the answers fit your business – then you can decide how to proceed. There are plenty of agencies who can help you at different stages of the process (see Appendix 3). For the most part this booklet assumes that you will start with a simple exporting operation, but it may be appropriate to use an agent or distributor or even be more ambitious. There is a whole spectrum of options available from simply sending goods overseas (or providing services in the UK for overseas customers) to setting up your own company locally. This is discussed in more detail on page 21 ('How can I develop this further?').

Good luck!

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Issues to consider



Deciding on the right price is perhaps the hardest decision to make in any market.

Will my product sell overseas?

Trading internationally can boost your sales or income from services, but you still have to make sure you can trade profitably and, in this respect, trading overseas is no different from trading in the UK. However, in exporting there are some different common practices that may result in different or additional costs that you need to consider when negotiating prices and deciding how to operate. Many of these are highlighted below. If you read this and go through the points on pages 8 to 10, you will have a reasonable idea if trading overseas will be worthwhile for you.

Am I selling at the right price and can I increase volumes?

These are really two separate questions but the price you decide to sell at will directly impact the volumes you can sell.

Deciding on the right price is perhaps the hardest decision to make in any market. You should set a price that will give you the highest income over the period that you want to invest in (which could be three months, one year or ten). But the answer may not be obvious, because, generally, the lower your price the more units you can expect to sell (although, if you choose to produce an exclusive, premium product you may find that a higher price will give you a higher volume). To identify the range of variables, you will need to do some research to assess the interest in your product, what competitors charge and what alternatives there are.

You will also need to know about local factors, such as how local sales taxes (eg VAT) are applied and what discounts may be expected. This sounds daunting, but visiting the market and talking to potential customers (perhaps at a trade fair) will give you a good idea of what to expect.

Deciding on the best price you can get is just part of getting the right price – because the price is only right if you can get a reasonable return on your investment. However once you decide on your best price you should have a fair idea of the quantity you can sell. Then you can determine the costs of producing and selling that quantity and put the whole picture together:

- The selling price and volume assumptions give you your expected turnover (perhaps a range of possible turnovers).
- The volume lets you identify your variable costs.
- You should also include the additional costs incurred eg overseas travel, additional marketing etc.

Issues to consider continued

Together this gives you an estimate of profitability from which you can decide whether the venture is worthwhile.

It will probably be worth considering a range of volumes and more than one selling price, each with a different expectation of the sales quantity. The volume sold is crucial to deciding the cost: clearly a large part of any cost will change as the volume changes – the more you sell, the more materials you will need and maybe more labour and power. Equally important are the costs that you already incur which are less likely to change, such as building costs or management time. When you expand you can often sell more without increasing these 'fixed' costs and may be able to improve profitability significantly.

You also have a basis for analysing what if some of the key factors change.

It is important to consider these, to see what happens if things do not go according to plan and if you can improve profitability by taking a different approach. You might consider:

- A lower selling price that will increase the volumes sold, allowing your 'fixed' costs to work harder and produce more.
- Improving the product (or the services that go with it), which will add some costs but create a 'premium' product for which you can charge a price higher than the value added.
- Modify both local and export products to simplify manufacture and generate higher volumes of the simpler product.

Equally important are the costs that you already incur which are less likely to change, such as building costs or management time.





How should I invoice my customer?

There are four aspects to consider:

- Paperwork
- Currency
- Trading Terms
- VAT

Paperwork – Invoicing can use the same paperwork you raise normally from your accounting system. With a computerised system, you will probably need to create this invoice in every case to ensure your accounts have a full record. However, exporting often requires some specific but standard paperwork, which is available on a number of software packages. For advice on these contact the Institute of Export or your local Chamber of Commerce. These packages usually include an invoice, which you may prefer to send to your customer in place of the one your system normally raises. Just be careful that both the ‘internal’ invoice and the one sent to your customer are for the same amount and do not send both to the customer!

Currency – There are no fixed rules about which currency you should use, but your customers will usually prefer you to invoice in their local currency (or there may be a local ‘hard’ currency – perhaps US dollars – that is frequently used).

International trade usually involves some exposure to changes in exchange rates. This can have a very significant impact on your business. It may also influence how you choose to trade internationally.

When planning and reviewing the impact of exchange rates, do consider what impact fluctuations could have on your customer’s business as well as your own. If you invoice in foreign exchange you bear the currency risk. You can protect yourself from fluctuating rates by arranging to sell currency to a bank at a future date at a fixed rate (‘hedging’ or using ‘forward contracts’), when you are confident that you will have been paid. However, do remember that if the funds are not available when the agreed payment date is reached, then you will have to buy the currency at the current rates and so incurring additional cost.

If you invoice in sterling then your customer bears the currency risk. This may be good for you, but if exchange rates change to your customer’s disadvantage you may need to be flexible on pricing, or risk losing the business.

Issues to consider continued

Trading terms – This is a matter for agreement between you and your customer, just as in the UK. There are a number of factors you need to take into account when discussing terms:

- Goods generally take longer to get to your customer. A shipment to New Zealand may take over six weeks to arrive. Payment thirty days from invoice date would mean your customer paying for the goods at least two weeks before they arrive.
- The longer the payment takes to arrive, the bigger the exposure you are likely to have: you may need to send several orders before being paid for the first.
- Local practice may mean that your customer expects to get a long credit period – perhaps 180 days from delivery – but this is all part of negotiating the right price.
- Distance and language issues mean that collecting debts from customers in other countries can be more difficult.

You will naturally want to get payment as early as possible. You could consider offering a discount for early (or even up-front) payment to achieve this.

Industry jargon refers to special terms of payment. These can be used anywhere but are most common when exporting.



Letters of credit (LC) are a form of payment guaranteed by a bank, and you may be able to get your money early by allowing the bank to take a discount from what it pays you. These can be useful on large contracts but they are more complex - you have to be very sure of complying with all the terms, and that the banks involved are reliable. This is certainly one case when you should obtain specialist advice. Bank drafts are a simpler method of using the banking system to organise payment. The idea is that the paperwork required by your customer to get the goods through customs is only made available (through the banking system) when the customer has given payment instructions to the bank. The payment might be immediate (a sight draft) or after, say, 60 days. The principle is sound, but practices in some parts of the world mean that it does not always work exactly as planned.

Open account means trusting your customer to pay, usually at a specified time from either delivery or invoice date. It is in fact how most business inside the UK is done. There are obvious risks but you can still take the usual steps to minimise them – obtain credit reports (and follow up periodically), references (an overseas customer may well be dealing with other UK businesses), build up a relationship with the customer by finding out about their business, asking for copies of brochures, accounts, etc. A reputable customer will understand your need to be confident in their business.

Whatever the terms, you can consider credit insurance if you can obtain it. The credit insurance companies are very risk averse in the current economic climate and are generally not taking on new clients. You can also look at the Government's Export Credits Guarantee Department which will consider insuring single export transactions to emerging markets from £20,000.



Customer Helpline –
+44 (0)20 7512 7887
www.ecgd.gov.uk

The insurance may come with restrictions as to what terms you can use and how much credit you can give.

VAT – VAT is not chargeable (it is 'zero-rated') on exported goods, as long as you can prove that you have exported the goods. However, services are chargeable at the place of supply. For example, a design agency in the UK should charge VAT assuming the design work is principally done in the UK. On the other hand, charging for an engineer to travel to Rotterdam to overhaul a pump would be zero rated.

On a related point, you will also need to provide information to HM Revenue & Customs about what you are exporting within Europe (a system called Intrastat). For information about this, go to www.uktradeinfo.com or contact your HM Revenue & Customs office.

Will goods I sell overseas cost me more to produce?

As well as boosting your income, products or services sold overseas will often cost more to produce. The following are the main areas that may arise:

- Can I just sell what I produce in the UK?
- What costs will my customer expect me to bear?
- Do I have to get the goods to my customer and how do I do this?
- Do I have to pay duty?

Can I just sell what I produce in the UK?

You may be able to, especially within the EU, where, in principle, regulations in the UK should conform with regulations in Germany, for example. There are exceptions, however, and there is a wide range of interpretation of regulations. A lot depends on the product. To find out what requirements exist, the best places to start are your trade association, your local Chamber of Commerce or the British Standards Institute.

You may be able to use necessary changes positively. For example, you may well find that, both to comply with local regulations and to market your product most effectively, you have to have labelling in the local language so that it works best in the market you

are selling to. In many cases this is the only change you have to make, so you may be able to maximise efficiency and keep inventory lower by having a basic product that is just labelled for each market. Sometimes it is better to have standard English labels and simply affix your local label over this.

What costs will my customer expect me to bear?

You and your customer must agree who is paying duty, insurance and other delivery costs. Prices are sometimes quoted ex-works, meaning that no shipping costs are included, or sometimes cif (carriage, insurance and freight) meaning that this is a delivered price. There are numerous options, for example, arranging the shipping but simply recharging your customer for the direct costs you incurred.

Local practice means that your customer may expect any price given to also be subject to a discount and/or that they get free-of-charge goods as well. It may also be useful, sometimes necessary, to pay a commission to a third party who plays some part in the whole process. Such expenses, which relate directly to the sale, are usually deducted from income in arriving at turnover and are certainly costs you need to take into account in assessing profitability.

Issues to consider continued

Do I have to get the goods to my customer and how do I do this?

This is something you must agree with your customer, but generally speaking customers want the goods delivered to them. There may also be advantages to you in making the arrangements, although this is another job to be done.

You will need a shipping agent and you can find one through your trade association or your local Chamber of Commerce. It may pay to use someone who specialises in the area you are exporting to or the type of goods you are selling. A useful tip is to ask your customer if they import other goods, especially from the UK, and who they use. If you can combine shipments you may get a better price.

Do I have to pay duty?

Whether duty is payable depends on the local rules. Who bears the cost is between you and your customer. He or she will normally pay, but you need to be aware that your customer is incurring these costs. You can find out from www.uktradeinfo.com or your local HM Revenue & Customs office. You may be able to minimise the impact by using a bonded warehouse; you should talk to your shipping agent about this.

What other costs might I incur?

As well as considering higher production costs for your products, you may also need to allow for additional items. These include:

- Insurance for goods
- Marketing overseas

Insurance for goods – You should be clear whether you or your customer are responsible for insuring the goods in case of loss or damage in transit. Your customer is not going to pay for goods that do not arrive safely. Talk to your insurance broker and your shipping agent about who to use.

Marketing overseas – You can continue to use your UK marketing agency but there may be a benefit in using a good marketing company in the overseas country with local knowledge and experience. There may be local regulations and cultural issues which demand that you use a different approach to that in the UK. An agency with staff who speak good English could be an enormous help. A useful way to check out your readiness in this area is to undertake an Export Communications Review; your UK Trade & Investment adviser will be able to provide details.

The Bribery Act 2010 – The Bribery Act 2010 creates four offences:

- Bribing another person;
- Receiving a bribe;
- Bribing a foreign public official
- The new offence for commercial organisations of failing to prevent bribery taking place.

A defence to the offence for commercial organisations is to show that adequate procedures were in place designed to prevent people associated with that organisation from being involved in acts of bribery.

The Ministry of Justice has issued guidance for companies about the Act and the procedures that can be put in place to prevent bribery.

The guidance suggests six key principles for businesses to follow to try to determine what their procedures should be depending on the organisation's areas of exposure and risk. These are:

- Proportionate procedures
- Top-level commitment
- Risk assessment
- Due diligence
- Communication (including training)
- Monitoring and review



You can use your normal means of funding, from overdrafts through to long term loans or additional share capital – but you should try to match the time frame of additional funding to the time frame of your requirements. In other words, if your cash requirements go up and down every few months as orders come and go then short-term financing such as overdrafts may be best for you. If you have a long-term contract, look for a loan that matches the period of the contract, and if you believe you are increasing the capacity of your business as a whole then more permanent funding such as an increase in share capital may be needed. Your bank or accountant will be able to advise you and the strength of your international business will be a factor in their recommendations.



Further information including a helpful 'Quick Start Guide' can be found at: <http://www.justice.gov.uk/guidance/making-and-reviewing-the-law/bribery.htm>

What will it cost to finance this venture?

Expanding your business to trade internationally may require additional working capital. You may well need more stocks and you will probably have to wait longer than normal for payment. At the same time you may have other expenses to pay and you may want to invest in additional machinery.

Exporting does have some specific opportunities for financing: if you are trading using Letters of Credit you can usually get these paid early by a bank for a fee or 'discount'. The discount depends on the risk of the LC, especially of the issuing bank, which may not be based in the UK. Discounting can be expensive but it may match your requirements very effectively. If you want to do this, talk to your bank and/or specialist adviser beforehand.

Issues to consider continued

There are also loans available for specific export business especially large contracts. Contact your UK Trade & Investment adviser about this.

Will I pay more tax?

You will generally pay tax in the UK on any profits you make but, depending on your arrangements (see below), you may have to pay corporate taxes and VAT on sales locally. However, you may be able to reclaim some or all of any corporate taxes against your UK tax liability. You will probably pay VAT on local expenses but you may be able to reclaim this as well. If you directly employ anyone locally, then you will probably need to pay employment taxes locally. Do not forget that you might have to pay local property taxes if you use property overseas.

If you are simply sending goods abroad, doing work in the UK for someone else in another country, or sending out personnel to do specific work, then you should not be paying any business taxes. However, if you set up a local office or hold stock in a country, the authorities there may consider that you are trading locally and should be subject to local income taxes and sales taxes such as VAT. How much will depend on the local regulations, and complying with local VAT requirements, for example, may involve complex administration. Regarding income taxes, if there is a double taxation treaty with the UK you will usually be able to reduce your UK tax bill (but only up to the normal UK tax rate) by the amount of income tax paid, but the rules are complex and you may pay a higher rate of tax than in the UK. HM Revenue & Customs or your tax accountant should be able to give you an idea of the broad tax rules applying in any country as well as specific advice on your proposals. They may be able to suggest ways of minimising tax payments, especially if you also need to borrow funds to finance your venture.

If you buy anything while you are abroad you may well incur VAT or local sales tax costs. If these are significant you may be able to reclaim them, at least within the EU. This involves completing a form in the local language and having some understanding of the local rules. However, you should bear in mind that in most EU countries travel costs such as hotels are not reclaimable.

If you are paying directly for services such as advertising you will almost certainly be paying VAT or similar taxes, and it will be worthwhile investigating if and how you can reclaim these costs. HM Revenue & Customs Notice 723 regarding refunds of VAT in the EU gives further information. There are a number of organisations that will prepare and process claims for you for a fee.

If you set up an office or other establishment abroad you may also become liable to pay local property taxes – the equivalent of our rates. Your UK Trade & Investment adviser will be able to provide access to further information about this.



Will I need to increase inventory levels?

Probably, as you are likely to be selling products specifically tailored to market requirements, especially if they are consumer goods. Depending on local regulations you may be able to sell your UK product just as it is, but local labelling and leafleting (where necessary) are often required, and your product may be more marketable if the local language is on the pack. With careful design you can minimise increased inventory by using common components wherever possible and perhaps by partially assembling the product, only adding the local labelling when you have an order.

How quickly will I get paid?

You will want to agree appropriate terms with your customers, but you do have to take into account that, when sending goods overseas, delivery usually takes longer than in the UK and most customers will not consider payment until the goods have arrived. Also, 'normal' payment terms vary from culture to culture. You might want to consider offering a discount for (part) payment in advance, especially if you do not know too much about your customer.

Will I have more bad debts?

Not necessarily, but there are obviously some bigger barriers and some additional problems in dealing with customers overseas. Keeping in touch with your customers and understanding their business is perhaps more important than in the UK. You can also consider insuring debts. See the section below on managing risks.

Do I need to open a currency bank account?

If you are invoicing in, say Euros, and especially if you are also making some payments in the same currency, a UK bank account in Euros would be a good idea. Make sure it is an interest-bearing account, or open a second, interest-bearing account, so that you get some return if you are sitting on funds before you have to pay them out. This will allow you to minimise transaction costs and will help reduce the risk from fluctuating exchange rates. You can also open a bank account in the country you are selling to, but this is unlikely to be worthwhile unless you need to make a lot of payments locally. Talk to your own bank (and maybe a more specialist bank if this is an important issue for you) to find out the implications.

How can I manage the risks?

There are a number of things you can do to manage the risks involved in international trading. These work best when you think about them well in advance, even though they may seem like unnecessary fuss. The main areas are:

- Make sure you have an appropriate contract.
- Keep in touch as part of your after-sales service.
- Insure against bad debts.
- Reduce currency risks.
- Consider using an agent.
- Consider whether you have any intellectual property (IP), such as trademarks and brand names, that are worth trying to protect.

Contracts

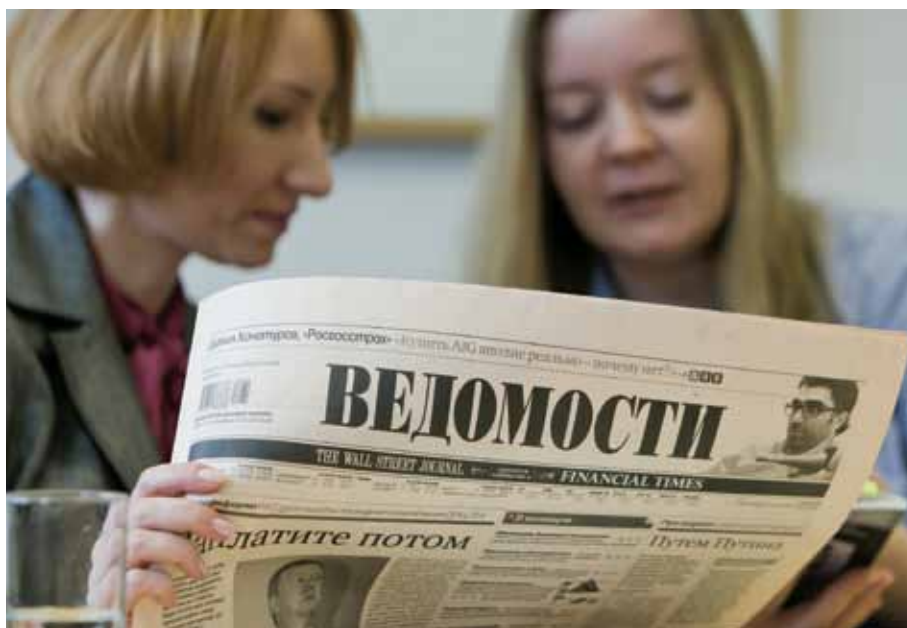
What sort of contract you need is a matter of judgment: as with any business, a formal contract makes little difference and usually adds more complications, except when something goes wrong. If you are trading with someone overseas then there are more risks and, without a contract, your trading may not be subject to UK law and the rules you normally expect. For example, without a written contract it may be much more difficult to get payment from a customer in some countries.

Issues to consider continued

You should set out as much as possible in writing and make sure your customer receives and understands it. The larger the deal, the longer time period it runs for and the more complex the rights and obligations involved, the more seriously you should consider using a formal contract. If you are providing services in another country, you need to have an understanding of the local legal obligations both in general and in relation to the specific services you plan to supply. Talk to your legal adviser about this.

After-sales service

That your customer is a long distance away does not imply that after-sales service is not required or worthwhile. This keeps you in touch with your customers, giving you a better understanding of what they do and want, and possibly giving you early warning of any problems that may arise. Your customers will also appreciate the efforts you make to ensure that they can be successful with your products and services. This will in turn mean your own business grows as customers trust you more.



Bad debt insurance

Credit insurance, as it is more properly known, is available in various forms but as stated earlier can be difficult to obtain particularly for any companies or countries considered to be high or even medium risk.

Using an agent

Unless you have in-depth local knowledge, you might consider using someone who understands the market, lives there or visits regularly, speaks the local language(s) of the area and can help to support and develop your business. These agents will involve an extra cost (a commission),

possibly linked to the level of business but this can be worthwhile in the long run. It can be invaluable to have someone who can provide some or all of the following services: finding business for you, providing advice about local regulations, getting approval from local authorities, ensuring that payment is received, providing or advising on local marketing, translating etc. You have to judge whether the services provided are worth the commissions paid, but you may save time and money with less frequent visits (not a problem if you sell in Belgium but this could be a factor for sales in Brazil!) and dealing with unfamiliar languages and cultures.

When appointing an agent (or distributor) there should be a formal agreement in writing covering matters such as the territory, payment, termination etc – a formal agent has rights under EU law similar to an employee. You may also want to make paying your agent conditional, eg on full payment received from your customer. As mentioned earlier, money laundering regulations state that you must verify the identity of the people you are dealing with. If you are not paying an individual directly you must make sure you know who you are paying and that you have clear instructions to make payment this way.

Protecting Intellectual Property

You may be using intellectual property, such as trademarks, brand names etc, that you have developed in the UK. You should consider protecting any Intellectual Property used overseas so that another business cannot easily trade on the goodwill that you generate. You will need to take professional advice in this area.

How can I develop this further?

Once you have made a start you will probably want to develop your business further. Assuming that you have started by simply exporting from the UK, there are a number of things that you can do.

These include:

- Build an international salesforce. This might be a team operating from the UK or you might hire a salesforce in a particular country or region.
- Hold stock locally (often through a third party, described as holding stock on consignment).
- Appoint a local distributor who can support you by purchasing product and holding local stock, sales and marketing, collect debts etc.
- Set up a local representative or sales office. This can be a branch of your business rather than a separate company (which keeps it simple) but you will need to find out more about local employment laws, and tax implications. There will be more local costs such as office rental, utilities, car rental and other overheads.
- Licence a local business to manufacture your product or sell your service, usually in return for a payment – also known as a royalty.
- Establish your own wholly owned operation in the market.



You might want to consider several options and compare the profitability of each. For example you could compare recruiting your own salesforce (ie paying out a large fixed cost but getting a high selling price and having more direct influence) with appointing a distributor (ie getting a lower price, better market knowledge but less control). An example is given in Appendix 1.

There are lots of possibilities and lots of advice available. What can you achieve for your business?

4

Appendix 1

Evaluating exchange risks and different routes to market

Company A has identified two alternative routes to market: using a UK based salesman on a salary or an overseas distributor for a smaller contribution to their salesforce plus a 25 per cent commission.

An important factor is the exchange rate can vary.

The model below shows the profitability for each option at three different exchange rates.

	Option 1 UK based salesman			Option 2 Distributor		
Exchange rate US\$	\$1.5	\$1.55	\$1.60	\$1.5	\$1.55	\$1.60
Sales in US\$	175000	175000	175000	175000	175000	175000
	£	£	£	£	£	£
Sales in £	116666	112903	109375	116666	112903	109375
Less cost of goods	61250	61250	61250	61250	61250	61250
Less commission				29166	28225	27343
Less Salary	35000	35000	35000			
Less travel	7000	7000	7000	3500	3500	3500
Less share of sales force				10000	10000	10000
Profit before tax & interest	13416	9653	6125	12750	9928	7282

In this example the two options produce a similar profit at the mid exchange rate, but if sterling is likely to be stronger the distributor option is better. Against this there may be less control and flexibility in developing sales. If sterling is weaker then employing a salesperson is better, but here you have less flexibility on costs.

Appendix 2



How can UK Trade & Investment help?

UK Trade & Investment can offer a wide range of support to businesses, including accountancy firms and their clients, wanting to trade internationally either for the first time or in order to develop new markets. We work with small businesses and the largest PLCs to help them find contacts and overcome barriers.

UK Trade & Investment also works with accountancy practices wanting to deliver seminars and events to clients. There can be charges made for these services, though there may be subsidies available. We have provided speakers for events on India and China and collaborated to deliver a training programme for clients wanting to expand their international business activity.



What do we offer?

Our services include:

Overseas Market Introduction Service (OMIS)

A tailored service to access market and industry information, identify potential contacts or assist in planning an event.

Passport to Export

Provides new and inexperienced exporters with the training, planning advice and ongoing support they need to succeed overseas.

Gateway to Global Growth

A service for experienced exporters. It offers a strategic review, planning advice and support to help companies to build on their previous success and develop new overseas markets.

Events and Seminars

Held across the UK and the world. They include specific sector and marketbased activities.

Trade missions

Organised to help UK companies visit the marketplace they're interested in and talk face to face with prospective business partners. UKTI also organises missions into the UK to allow overseas delegates to meet with potential partners or investors.

Business opportunities

News emailed directly into your in-box, highlighting hot leads in your chosen overseas market. Companies can sign up for this free service by visiting www.ukti.gov.uk

High-value opportunities programme

Proactively identifies global supply chain opportunities, coupled with an online service giving access to several hundred sales leads around the world each month.

Appendix 3

Where to go for advice and support

UK Trade & Investment is the Government organisation that supports both companies in the UK trading internationally and overseas enterprises seeking to locate in the UK. Our role is to help companies realise their international business potential through knowledge transfer and ongoing partnership support. Our position within Government, in-depth knowledge of UK regional business and global network make us a unique strategic resource.

So if you or your clients are considering developing an international business, talk to the experts:



UK Trade & Investment

1 Victoria Street
London, SW1H 0ET
Tel: +44 (0)20 7215 8000
Extensive information on all UK Trade & Investment services is available on www.ukti.gov.uk

Institute of Chartered Accountants in England & Wales

Chartered Accountants' Hall
Moorgate Place
London
EC2R 6EA
Tel +44(0)20 7920 8100
www.icaew.com

The Institute of Chartered Accountants in England & Wales has over 136,000 members worldwide.

The Institute was established by Royal Charter in 1880. It is now a key influencer on the international stage and the leading UK body of finance professionals offering world class qualifications. Because of them, people can do business with confidence.

The Institute has offices in Beijing, Brussels, Hong Kong, Kuala Lumpur, Dubai and Singapore.

HM Revenue & Customs

HM Revenue & Customs provide a wide range of information and guides to help businesses importing and exporting goods, together with general business information and support guides.

There are a number of Customs reliefs and regimes which you may be able to take advantage of and save you money in connection with imports into and exports out of the EU. Some of the most common are:

- Export preference
- Import preference
- Outward processing relief
- Inward processing relief
- Customs warehousing

Information is also available on double taxation agreements. These are agreements between the UK and other governments to give relief against taxation being charged both in the UK and abroad on the same business. The UK has double taxation agreements with over 100 countries.

For further information please visit their website www.hmrc.gov.uk



Export Credits Guarantee Department

Until 2011 ECGD mainly provided support to big UK companies for capital goods exports and related services (e.g. ships, planes, factories and bridges or project management). ECGD helps these exporters by providing guarantees to banks that make loans to buyers (the importer) to purchase the goods from the UK company. Because of their size, the loans are typically repayable over more than two years. The loan is used to pay the UK exporter at the time the goods are shipped so the exporter doesn't have to wait a long time for his money. These ECGD products are known as the Buyer and Supplier Credit Guarantees. Support for these types of exports is still a big part of ECGD's role.

However, ECGD this year launched new products, particularly to help SMEs and mid-sized exporters, who could not get sufficient finance and insurance from their bank or trade credit insurer. These products help exporters with their cash-flow and protect them against not being paid, or help exporters with their finance needs in the case of the "Export Working Capital" and contract "Bond Support" schemes.

As its name suggests, the Export Working Capital scheme enables exporters to get access to finance from UK banks so that they have the cash they need to fulfil export orders before being paid by the buyer. ECGD works with the lending bank to share the risk on the exporter (i.e. that the exporter will repay the working capital loan when it supplies the goods and is then paid by the buyer).

The contract Bond Support scheme helps exporters who have to give contract bonds to their buyers. For example, a buyer may be willing to pay an exporter 20% of the contract price at the time it places the order to provide funds to the exporter to make the goods or provide the services. But the buyer will be worried that the exporter may not deliver the order so it will ask the exporter to arrange for a bank to issue a guarantee, known as a bond, so that the buyer can get his money back on demand. But the bank then usually requires the exporter to give it security for issuing this bond; this can negate the cash flow benefit to the exporter of getting its down payment. Under the scheme, ECGD steps in to provide the bank with a guarantee, which can reduce the amount of security the bank demands from the exporter.

ECGD has also revamped its credit insurance product known as the Export Insurance policy (EXIP) to protect an exporter against not being paid by the buyer. So, if a buyer can't pay because it has gone insolvent or a political event such as a revolution prevents payment, the exporter can claim the money from ECGD. Other ECGD products include a Line of Credit which enables an overseas buyer to purchase goods or services from several UK exporters simultaneously under one loan from a bank and Bond Insurance Cover which protects the exporter's contract bonds where there is unfair calling of the bond by the buyer, particularly in politically unpredictable countries.

For further information please contact the ECGD customer service team on:

Helpline: +44 (0)20 7512 7887

Email:

customerservice@ecgd.gsi.gov.uk

For more information about other ECGD products visit:

www.ecgd.gov.uk

Appendix 3 continued



Export Control Organisation

The Export Control Organisation (ECO) is part of the Export Control and Non-Proliferation Directorate (XNP) which, in turn, is part of the Department for Business, Innovation and Skills (BIS). Its chief task is to process applications for licences to export strategic goods from the UK.

It also oversees what are known as Trade Controls which were introduced as a result of the Export Control Act 2002 which made the trading (commonly referred to as trafficking and brokering) of goods from one overseas destination to another a licensable activity. As well as the core job of processing licence applications ECO does the following:

- Provides help for exporters, via a helpline, a website, a DVD and video, and programmes of seminars and workshops. There are also several industry liaison groups.
- Runs a Rating Service which advises exporters on whether or not a licence is required in a particular instance.

For further information contact Export Control Organisation on:

Fax: +44 (0)20 7215 0531

Email: eco.help@dti.gsi.gov.uk

www.bis.gov.uk/exportcontrol

Institute of Export

The Institute's mission is to enhance the export performance of the United Kingdom by setting and raising professional standards in international trade management and export practice. This is achieved principally by the provision of education and training programmes.

The Institute of Export has a number of Regional Branches around the UK, providing a local focus point for members to meet and discuss matters of mutual interest with fellow professionals. Non-members are cordially invited to the majority of local events where you can meet international trade professionals from different business areas with a rich mix of experience.

For further information contact the Institute of Export on:

Tel: +44 (0)1733 404400

Email: institute@export.org.uk

www.export.org.uk

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UK Trade & Investment is the Government Department that helps UK-based companies succeed in the global economy. We also help overseas companies bring their high-quality investment to the UK's dynamic economy acknowledged as Europe's best place from which to succeed in global business.

UK Trade & Investment offers expertise and contacts through its extensive network of specialists in the UK, and in British embassies and other diplomatic offices around the world. We provide companies with the tools they require to be competitive on the world stage.

UK Trade & Investment is responsible for the delivery of the Solutions for Business product "Helping Your Business Grow Internationally." These "solutions" are available to qualifying businesses, and cover everything from investment and grants through to specialist advice, collaborations and partnerships.



2010 winner Best Trade Promotion Organisation in the developed world.