

# EXPORTING

The pound has taken a battering in recent months as investors have become increasingly jittery about the prospects of the UK economy. But does this spell good news for exporters? Business Today investigates

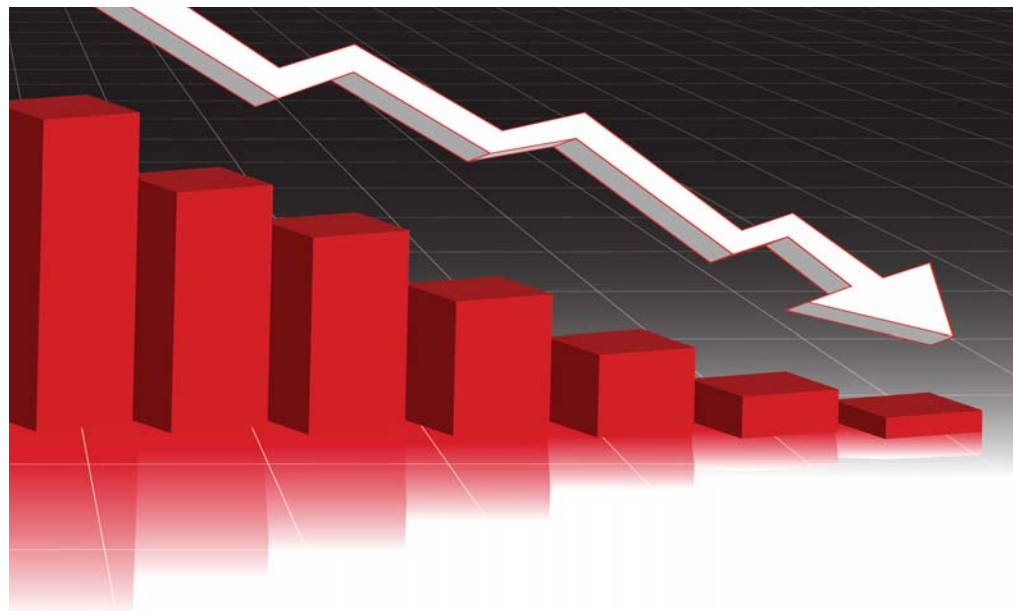
Currency devaluations have historically been viewed as an important shock absorber for those times when an economy begins to stagnate. Hence as sterling has fallen over the last few months, many commentators have pointed out that with the pound now being cheaper for foreign buyers, UK exporters' prices should look more competitive.

Whether or not this is – or will prove to be – the case, is a different matter. First of all let's look at some of the bad news (and, sadly, there seems to be plenty of it right now). Figures from the CBI's recent Monthly Industrial Trends survey showed demand for UK manufactured goods to be at its weakest in 17 years. Moreover, the same report found that despite the weakened pound, export order book levels have continued to slide, and that manufacturers again expect their domestic prices to fall in the next three months.

Explaining the seeming anomaly between a falling pound and falling export demand John Cridland, CBI deputy



director-general (left), told Business Today: "The weak pound has made UK exports more competitive, but this advantage has been outweighed by falling global demand."



Asked about their expectations for output volumes in the next three months, the same survey showed that 12 per cent of firms said they expected them to increase, while 56 per cent said they would fall. The resulting balance of -44 per cent was similar to that of the past three months, and still the lowest since September 1980 (-48 per cent).

But that's not all. There are reports of UK exporters who are losing business as a result of the lack of credit lines. Honda's UK operation has, as was well documented, entered a four month closure of its factory in Swindon. The British operation is export driven, but even the falling value of sterling compared to the Euro has not been enough to help the Japanese owned subsidiary. As mentioned above, global demand is the main problem: car manufacture in the UK fell by nearly half at the end of 2008.

Adam Soloman (left) is head trader with

currency brokers TorFX. Looking more closely at why a falling pound hasn't necessarily started to feed through into a more positive outlook for exporters, he says: "Most products manufactured in the UK are made from materials sourced abroad, which, just like the foreign

PICTURE: ROGER POPE



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"Not only raw materials, but also the energy employed to finish products. Crude oil is priced in US dollars, and the dollar has strengthened 25 per cent against the pound over the last few months, which partially offsets the benefit of the large price falls in the oil price. For US manufacturers oil has dropped around 68 per cent from its peak, whereas in sterling terms it has only dropped 54 per cent."

## TAKING ADVANTAGE OF STERLING'S WOES

Not much to cheer about where sterling is concerned so far, it would seem. However, there are actions exporters can take to take advantage of sterling's woes and ensure that they capitalise on what global demand is out there. Asked about how exporters can get around the problems of shifting oil and raw energy prices, Adam says: "Firstly, by trying to source materials and product from inside the UK, which carries a minimum of cost priced in foreign currency. Secondly by taking advantage of the low exchange rate now, while it remains at depressed levels. Sterling has been rightly punished for its exposure to the toxic sub prime debt that led to the current financial downturn, but with negative sentiment now at extreme levels it seems likely that we are nearing a major long term low for the pound.

# G and the weak pound

"In fact, sterling has now fallen further against the US dollar than it did during the ERM debacle in 1992. UK exporters who share the view that sterling will rise in the next few months can "lock in" the current exchange rate against future anticipated sales. That involves taking out a forward contract agreeing to sell Euros/other currency and buy sterling at a future date."

There are other things exporters can do to ensure they benefit from advantageous trading circumstances now which may begin to disappear if – as some forecasters are anticipating – the Euro begins its own sharp descent.



Greig Holbrook (left) is managing director of Multilingual search engine optimisation company, Oban multilingual. Looking generally at the weak pound issue, he says:

"Continental Europeans are much keener to buy up what have now become much more affordable British goods. For example [at the time of writing], an iPod nano on France's Amazon.fr costs €138.31 (which converts to £125.49), but the same product on Amazon.co.uk is listed for just £97.65 (€107.64, with only €4.40 in delivery charges).

"With price differences like this, consumers across the channel have more incentive than ever to support our fledgling economy. And with the growing cost of travel, it's likely that many of these purchases will take place online. This could mean big business for British e-commerce."

## BRITISH E-COMMERCE

Greig brings in an interesting issue here: the world wide web. In many ways, e-commerce is allowing British businesses to dip their toe in the waters of exporting - and take advantage of a weak sterling - without necessarily getting too deep.

But British businesses need to be ready, warns Greig Holbrook, and that means having a top-notch website that appeals to

European consumers. "If you want to capture this ready-to-spend European market," he says, "you need to make your overseas consumers feel at home. Don't just translate your website but optimise it. You can do so by looking at local keyphrase behaviour, you can tap into local demand and see how your offering can fit that demand. Each target country is likely to be interested in different aspects of your business so to be fully effective, adjust your marketing appropriately.

"But for now, with prices as they are, and the pound set to fall even further, Europeans would be crazy not to unload their heavy Euros for some well-made, discounted British goods."



One UK export company that is finding a definite ring of truth in the above sentiments is Tong Peal, a vegetable handling machinery company. Demand for its

products is reaching record levels, with one order in three going abroad and interest for the first time in the United States.

Following the company's largest export order worth more than £1m to Stavropol in south western Russia, sales have been completed to South America, Australia and increasingly to central and eastern European countries.

"With the modernisation and expansion of agriculture in the newer EU countries, producers are looking to improve the quality of their output, often taking advantage of EU grants," says Tong Peal managing director Charles Tong. "Coupled with the very competitive value of the pound, this makes our UK machinery an attractive proposition."

The latest interest is from the USA where the company's potato washing and grading lines are attracting producers in Georgia, helped by the tumbling value of the pound against the US dollar.

All in all, it would seem we have a mixed picture for exporters. On the one hand, a devalued currency is making British exports more competitive; on the other, global demand is taking a nose-dive. The overall message from the experts - and exporters -

we spoke to, however, was that now is as good a time as any to give exporting a try.

## DO YOUR HOMEWORK

John Dunsmure, managing director of the British Chambers of Commerce pointed out, however, businesses looking into foreign markets really need to do their homework. He told us: "There is so much economic and political uncertainty at the moment. Many companies are very concerned about their future. Whilst we are not celebrating the falling rate of the UK pound there could be some competitive advantages to be gained by companies wishing to export at the moment. However the whole area of exporting exposes business to new risks they should work hard to mitigate."

Bob Collier deputy director, regional directorate, UK Trade & Investment was similarly cautious in his advice, adding: "While growth projections for many of the UK's traditional export markets may not be as strong as in the past, opportunities do exist in these markets and further afield. The emerging economies continue to show great promise for businesses of all sizes."

To find out Andy Meadwell's (sales director at Bibby Financial Services) top tips to overcome payment problems click on his image below