

## An alternative future for British exporting



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*British export growth is still considered to be slow. But with government initiatives, the rise of alternative financiers and active efforts to support companies, this could change. Will Nagle, CEO of leading alternative global financier Falcon Group, explores the environment for British exporting, and how companies can reach their export targets*

The future for British exporting looks bright. The UK government has set a target to double exports to £1 trillion (\$1.68 trillion) by 2020 and, while this goal is certainly ambitious, it demonstrates a clear intention to explore, understand and improve both the facilities and support available to British exporters. It is also a public acknowledgment of the importance of exports for economic growth.

Certainly, the environment for British exporters is already improving. Government support has increased, banks are slowly picking up lending and the financial landscape has become more diverse – meaning exporters can access a wider variety of funding options than ever before. Through collaboration, prudence, and an active effort from the exporters themselves, companies will be able to overcome challenges and help grow the British economy.

## **Addressing the barriers to growth**

Of course, there are many challenges to overcome.

First, there is risk. Exporting is heavily exposed to the credit risk of the foreign counterparty, which may be affected by political, cultural or natural hazards, as well as by its own financial health. While this counterparty risk of course exists in any kind of trade, dealing with an unknown company outside of domestic borders exacerbate this, especially given the fragile state of the global economy. Economic fluctuations may also have an impact on the export-side. Indeed, if a company belongs to a supply chain, as almost all exporters do, it faces the risk that a global economic dip could once more force banks to withdraw funding from smaller companies and suppliers – potentially rendering the supply chain inoperative.

Then there is the challenge of competition. Due to the international nature of exporting, companies face competition not just at home, but also abroad – where regulations, restrictions, or indeed support may be different. To stand out, companies often need to compromise, offering better rates and terms than competitors. For instance, exporters are often forced to also negotiate on extended payment terms to win business – which could be detrimental, particularly for smaller companies.

So exporters face numerous challenges. And they do it almost alone. There are many forms of support and guidance that can come from export credit agencies (ECAs), organisations such as UK Trade and Investment (UKTI), embassies, banks and financial institutions. Yet many British exporters are not only unaware of how to tap these resources, but sometimes do not even know they exist.

## **Accessing capital**

The most significant challenge for exporters, however – particularly following the global financial crisis – seems to be accessing financing.

The global financial crisis exposed what was perhaps an overly-lax regulatory environment. In response, however, regulatory proposals such as Basel III have arguably gone too far the other way – imposing stringent requirements on global banks that specify how much capital they must retain on their balance sheets, therefore reducing the amount they can lend to corporates. And despite the low risk nature of trade finance – a fact which has been empirically proven by the International Chamber of Commerce's (ICC) Trade Register 2014 – it is included in these restrictions.

Given this, many exporters struggle to access funding. While often low risk, processing trade finance for a small company is just as cumbersome for the bank as that for a large company, yet the return can be smaller. As such, they are often left unfunded in favour of larger multinational companies (MNCs).



## **Alternative route**

However, where there is a will, there is a way. And Britain certainly has the will. Aware of the importance of exporting for economic growth, the environment for British exporters is growing more friendly than ever.

This has been helped by the rise of alternative financiers. Indeed, as exporters face bank funding constraints, they have instead turned their attention towards alternative financiers, who are filling the gap and providing a new sophisticated addition to the financial landscape. Indeed, global bank solutions are often less suited to the precise needs of exporters. Celebrated for taking the time and effort to understand the precise needs of their clients, however, alternative financiers, such as Falcon Group, provide companies with the sophisticated and bespoke solutions they require.

Meanwhile, many of the larger players are keen to avoid putting all their eggs in one basket – especially one proven to be more fragile than previously would have been considered possible. In this respect, alternative financiers offer diversity to funding portfolios; helped by their ability to collaborate with banks and other players within the financial landscape – offering comprehensive solutions. What's more, they are freer than banks from regulatory proposals, and able to create imaginative solutions that solve issues that banks – which are more restricted – cannot.

## **Willing change**

Meanwhile, the government and other export-related institutions are also stepping-up efforts to make the environment for companies more export-friendly. For instance, the UK's export credit agency (ECA) UK Export Finance (UKEF) is not only playing a more active role in helping exporters, but is also increasingly collaborating with UK Trade and Investment (UKTI), a government department to increase support for British exporters.

Certainly, the government is committed to ensuring the robustness of British exports. To do so requires a shift in emphasis away from the finance and services sector – instead focusing on manufacturing. Not only does this include investment in infrastructure and the support of existing manufacturers when they are overseas (using embassies to build international relationships), but also means investing in the education required to develop the skill-set required for the sector.

## **Helping themselves**

So with the combination of government support, active ECAs, and a diversified and sophisticated financial landscape, exporters have all they need to succeed.

The final push, therefore, will come from the exporters themselves. Britain has many innovative companies that could, and should, be exporting, but aren't. And those that do export, could be doing more.

Companies that have the skills and products need to dive into the new financial landscape, diversify their funding options, and embrace the innovation that exists there. And they need to use the resources available to them through ECAs and British embassies abroad – building the connections that will encourage business in new markets.

Certainly, they need to broaden the destination of their exports. Traditionally, British exporters have limited much of their business to North America and Europe. With a strong consumer base and familiar regulatory environment, this is understandable. Yet when the economic environment is volatile and growth in these regions is sluggish, export prospects reduce.

Meanwhile, the fast growing – trade friendly – emerging markets have an ever-growing consumer base and expanding middle class.

Of course, operating in an unfamiliar region – with a new, perhaps unfriendly, regulatory, cultural and political environments – can be tricky. But British exporters are no longer doing so alone. In addition to British embassies abroad, banks and other financial partners can also look at how to connect companies with the UKTI and relevant offices in new markets. What's more, some alternative financiers can help too. Falcon, for instance, has the in-depth local knowledge and global reach to help companies overcome challenges and navigate new landscapes.

It is a long journey to grow British exporting, and we are just at the start, but with support and resources becoming available to companies of all sizes – whether an MNC or the smallest SME – the future for British exporting is positive.