creditsafe

So you're thinking of trading abroad

Tips and insights to help you protect and grow your business.

Are you thinking of trading abroad?

With an increasing number of UK businesses considering trading overseas, it's important to protect your business by minimising the exposure to risk when dealing with partners who operate in Europe, the US, or the rest of the world.

Why this matters

There are three main reasons for understanding the potential risks of doing business with companies operating overseas:

- If you are dealing with a UK based company, it may have a parent, sister or affiliate operating abroad; so whilst the UK entity may be financially sound there might be significant exposure of risk with its international counterparts, which could potentially threaten the UK leg of the group structure if things start to deteriorate.

- Financial interdependency and business success relates to both customers and suppliers.

- There may be a bigger picture. When analysing a company's commercial standing remember that 1 in 4 UK companies in a group structure have a link to an overseas company or companies. The Creditsafe system shows you company linkages on company credit reports.

Drivers for international business

The growth in global commerce and the UK's export business has been driven by a number of factors including the uncertainty of the UK and EU economies, especially with Brexit looming on the horizon. The UK's public sector cuts gives an additional impetus for British companies to target emerging economies or to enter the more traditional markets in Europe or the US.

Categories of risk

There are some slight variations in the way organisations conduct business day-to-day, with the UK's economic and commercial market being relatively standardised. However, look outside the UK and businesses can expect to deal with a range of different regulations and accounting standards, as well as language barriers.

A business looking to trade internationally should take into account three main categories of risk:

- Commercial: non-payment, insolvency, contract disputes, overdue payment, intellectual property rights (IPR), brand and reputation.
- Political: Government change, war, riots, terrorism, border disputes, changes in laws.
- Country: exchange rate, high inflation, lack of hard currency.

This means that credit checking both customers and suppliers is absolutely vital in order to check the company's existence and that the details they provided are accurate. You can see how promptly the company pays its bills and how their cashflow is doing. It is also crucial to check the reported financial results are in line with the local regulation in your due diligence checks.

Using this information, companies can construct sensible terms of engagement with prospective customers including line of credit, payment in advance and shorter payment terms.

Protecting your business

Even within the UK, debt recovery can be a complex, difficult and prolonged process, so including a jurisdiction clause in contracts ensures both parties agree to apply British law and that British courts have authority in the event of any dispute when trading overseas. A clear paper trail is also important to proving claims, especially where electronic evidence is not admissible.

There are some processes to be aware of that may help businesses reclaim money, such as the European Order for Payment Procedure (EOPP), the European Small Claims Procedure (ESCP) and the European Enforcement Order (EEO). These processes are not failsafe so it remains common sense to carry out stringent credit checks in the first place before signing up to any commercial deals.

Using Company Credit Reports

The good news is that credit information providers have expanded the scope of cost-effective reports, so that UK businesses trading abroad have information on companies from across the world. Credit reports cross reference and present company information in a common format, which make the lives of Credit Managers and Controllers much easier, as they can easily analyse the risk of doing business abroad. A company can use credit reports to check, before agreeing a commercial deal, that the company is solvent and not part of a failing parent group.

Conclusion

Information is key. Companies taking the first steps to doing business overseas, or simply with organisations within a mixed group structure, will reduce their exposure to risk by being as well informed as possible about the customers and suppliers they are dealing with. Carrying out a credit check on every business before starting a relationship with them can significantly reduce the risk involved.

If you're thinking of trading abroad, why not look at how Creditsafe International Company Reports can help? Call us on 02920 886 500 or visit www.creditsafe.com