

Brexit and Euro strength dominate export strategy

ENTREPRENEUR Irish SMEs are more reliant on the UK for exports than larger enterprises and so need to analyse the risk of a strong Euro and the possibility of tariffs.



Simon McKeever

Chief Executive, Irish Exporters' Association

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Currency fluctuations and Brexit are the two most dominant issues facing Irish SME exports over the next handful of years. Though business people cannot control either, they can prepare to ensure the impact on their companies is minimised.

That is the advice from Simon McKeever, Chief Executive of the Irish Exporters Association (IEA). He points out that roughly half of the country's export trade is with the EU, with about 15 per cent going to the UK. However, this proportion increases if you hone in on SMEs, for for whom nearly half will conduct a quarter or more of their export trade with the UK.

"The Euro is stronger than it's ever been and parity with the pound is now a possibility," he says.

“That’s obviously an issue for SMEs who are comparatively more reliant on trade with the UK. It’s a natural market for Irish SMEs to launch into because of the cultural similarities and there being no language barrier. So, they’ve got to consider how they prepare for currency fluctuations and that means talking to their bank about hedging.”

Hedge your bets

The process of hedging allows a company to fix an exchange rate with their bank over a certain period of time so they have a better idea of what level they are working to, rather than income and expenditure varying on the whim of the market.

“Most SMEs will say they’re not in the business of currency speculation,” McKeever reveals. “But our experience is that banks are always happy to talk to companies of all sizes about hedging; you don’t have to be a big business and it can give more predictability going forwards.”

Hedging can also bring more certainty in an SME’s supply chain, particularly if components within its finished goods are services that need to be imported from outside the Eurozone.

Opening up new markets

Changes in currency and the Brexit debate are good reasons for SMEs to consider supplementary export markets and McKeever is noticing that one market in particular is standing out. “From our discussions we’re seeing a lot of SMEs targeting America,” he says.

“It has the attraction of having no language barrier, but it’s a complex market where rules vary from one state to another. We’re also seeing a lot of interest from members in exporting to Germany, France and Italy, plus some are taking a look at China, but that’s a long term decision - it takes a lot of flying out there before you can do any business. The key factor, is that companies do the research to see if there is a demand for their product in those countries and if they can sell it at a profitable price.”

Prepare for export success

For this decision to be made on sound economic principle, rather than a gut feeling, companies need to truly understand their product and what its appeal might be for consumers in another country. They need to ascertain if it might need tailoring to specific markets and whether the product price can be supported locally. Then come the questions over whether the market is opened up through its own office in Ireland, an office in the new market, or perhaps through a

partnership with a local agent or distributor. All of this needs to be financed, so there is always a question over how expansion is paid for.

To help companies go through the process and understand how exporting works, the IEA runs export training courses for SMEs who want to take the plunge, in addition to offering day to day advice on exporting. Cultural and family links to the UK will normally mean that is the first market for consideration, with the US a close second for – often – much the same reasons. Indeed, McKeever is keen to impress on SMEs how much warmth and genuine willingness there is among American business people wanting to trade with Irish SMEs.

With both the UK and US operating outside the Euro, though, McKeever believes it makes it more important than ever that SMEs should seek to balance out the risk of currency fluctuations. Supplementing the UK with another export market is also worthwhile because of the possibility of the trading partner not being part of a customs agreement, raising the possibility of future tariffs post Brexit.