CASE STUDY

Should governments support domestic companies investing in foreign markets?

As well as trying to protect domestic markets, governments try to help domestic companies export to international markets. They regard this as important because companies that trade successfully on international markets tend to be more profitable and innovative. This in turn means that they generate more wealth, employ more people and pay more tax to their governments.

The UK provides support to businesses trying to trade overseas through an organisation called UK Trade and Investment (UKTI) which has offices in the UK and in embassies and Consular Offices throughout the world.

Until recently support has focused on providing subsidies to travel overseas and to attend overseas trade fairs. The staff based in UKTI offices around the world carry out market research on behalf of UK companies to identify whether there is demand in the foreign market and to provide lists of contacts, possible agents etc. They also help open doors for companies, particularly to senior politicians and senior managers in the markets being investigated.

With the advent of cheap travel, the significant amounts of information available on the internet and a rapid increase in consultants providing specialist support overseas, the focus of the support of UKTI has shifted to working with companies to build knowledge and skills so they are able to be more professional in their approach to international business and reduce the risk of costly mistakes, such as:

- A firework company in the UK won a major contract in Hong Kong. The company employed 13 staff all year and a few more at the peak sales period just prior to the British Guy Fawkes night on 5 November where traditionally there are a lot of firework displays. The Hong Kong contract was their first overseas sale and required a major up front investment in materials by the company to fulfil the order. Rather than arrange payment in advance or ensure they got paid on delivery, they dispatched the fireworks and simply waited for the money to arrive. When it didn't they ran out of cash and were closed by the bank.
- A major PLC was used to Letters of Credit (a way of ensuring prompt payment) taking 9 months to be paid. A chance conversation between the Finance Director and a bank manager led them to train the staff and reduce the payment to 1 month. They had £14 million in outstanding letters of credit – just think how much extra cash they now have.
- A sausage manufacturer sent a large consignment of sausages to the USA. Sadly they hadn't received approval from the US Food and Drink Administration which controls food quality in the USA. They had to pay to have the sausages quarantined and returned.

These kind of things happen every week, all of them hugely costly to the companies and entirely avoidable.

The role of the government support agencies is therefore primarily to ensure that companies reduce *risk* in international business by being fully prepared.

Outward investment

Traditionally governments have primarily been concerned with helping companies reduce risk when trading overseas by learning the basics of international trading. The examples outlined above are problems which could be avoided with basic training. Of course once you understand the basics and you have put them into practice by trading with one country you can do the same in another.

Another very high-risk activity is when companies make investments overseas for the first time. However, public support agencies such as UKTI provide little support for this area of activity.

Investing overseas for the first time is often far more risky than trading overseas because companies are investing a lot of time and money in developing a business presence overseas, be that setting up a factory or opening an office. Whatever the proposal, they are looking at a cost of hundreds of thousands of pounds sterling, rather than the thousands a trading mistake may cost a company.

So why is so little support given by governments?

Before you read the rest of this section think about how stories of companies making foreign-based investments have been written in the newspapers of your home country. If you are in the UK it may well look like this:

400 jobs lost as mill moves production to Hungary

Just imagine how much worse it would be for the Government if the heading said:

Government helps firm make 400 jobless by helping mill move to Hungary

There is a justified concern in government circles that negative PR from providing support to companies to outwardly invest would be detrimental. This is despite the Prime Minister saying in a speech that all international business was good. Even shifting call centre jobs overseas was a good thing as the UK wanted to create well-paid high-value jobs not poorly paid ones.

Is the concern justified? Some companies have no option but to invest overseas in order to expand internationally and develop their business. Look at the list below. For the businesses listed what trading options do they have if they wish to develop their international business?

1	2	3	4
Night Club	University	Solicitor	Clothing manufacturer
Restaurant	Hairdresser	Consultant	Steel manufacturer
Shop	Fitness instructor	Builder	Food manufacturer

The answer is that all those in column 1 will probably need premises overseas. The ones in column 2 will at least need to have a visible marketing presence. Those in column 3 will probably have to employ staff overseas and so need offices. Only the businesses in column 4 have a number of options and could deliver their products from their domestic market.

The question is, how should government support agencies direct their support to domestic companies wishing to invest in foreign markets?

The answer is not straightforward. UK Trade and Investment published a route map to outward investment, a substantial guide to the process companies need to go through to successfully invest overseas. They decided, because of possible negative PR not to publicise it widely, but put it on the UKTI website as a compromise position.

There are four reasons why UKTI does not very openly support outward investment:

- Infrequency – whilst there are an increasing number of businesses investing overseas it is still a small percentage of total businesses
- Complexity – it may be difficult to offer much help beyond talking through the process with the company to ensure they have considered all the options fully
- Negative PR risk – as mentioned above
- Unfamiliarity – it is much easier to work with companies exporting products than companies like solicitors or universities selling their services.

QUESTIONS

1. Do you think UKTI and other similar government agencies should provide more support to companies investing in foreign markets?
2. How should the government support for exporting providing services vary from that provided to exporters of manufactured products?
3. How would you use the services provided by UKTI in developing a market entry plan? (hint: look at www.uktradeinvest.gov.uk)

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