

# The Internationalisation of Smaller Businesses

A white paper exploring the challenges  
and identifying possible solutions

**Ambition**  
ENTERPRISE

Online software including

**SAP**® Business  
**One**

# **“The internationalisation of SMEs concerns not only their export activity, but also their imports, foreign direct investment, international subcontracting and international technical cooperation”**

(EC 2010)

## **Introduction**

With the developments of marketplaces such as Amazon and ebay, and the ready supply of cheaper products from the Far East, and beyond, many entrepreneurs are exploiting opportunities which involve small ventures crossing many international borders.

This paper explains some of the risks which small business can now face when entering into these markets as purchasers or vendors, and how the diversity of laws, tax practices, and compliances can lead to having a misleading idea of profitability.

We want to explore the main issues that are now being felt by some of the smallest and newest SMEs in the UK.



## Why broaden your horizons?

The UKTI recently carried out research which shows that:

Companies that export become **34%** more productive in the first year alone

**59%** of companies that exported either developed a new product or service or modified an existing one

**85%** of companies reported that exporting led to a 'level of growth not otherwise possible'

**87%** said exporting had significantly improved their profile or credibility

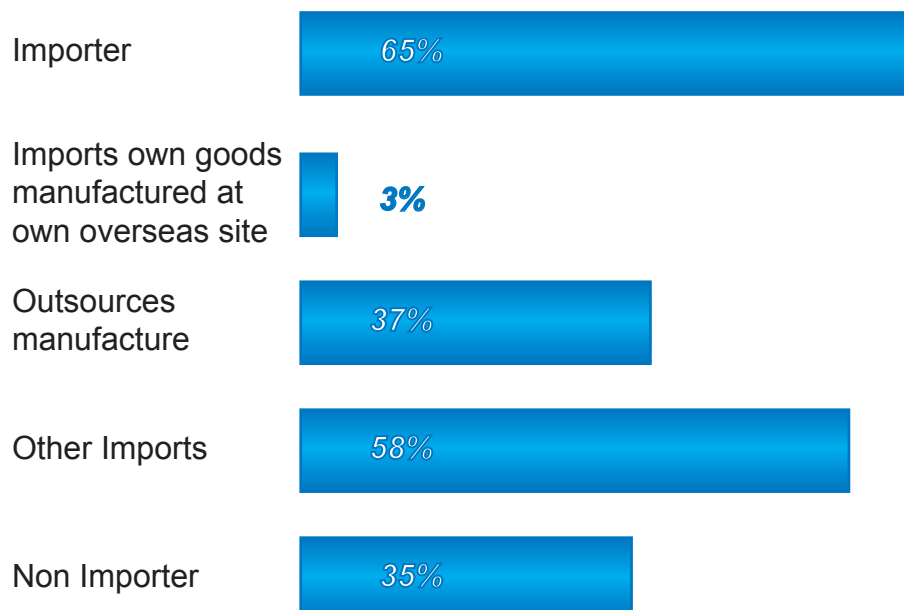
**73%** said exporting had increased the lifespan of products or services.

This shows that you can become a more efficient business simply by exposing yourself to wider markets. By increasing your sales footprint to countries outside the UK you will protect your business from any domestic economic challenges. Expanding into new territories will help increase resilience in your business.

When you export your products you're also exporting your brand, providing greater visibility. Exposure of this sort enables you to better leverage global social media platforms to spread your message wider and create a loyal brand following, both at home and overseas.

Two-thirds (65%) of exporters have also imported goods or services into the UK. This most commonly involves

## Import Activities of UK Exporters





simply purchasing goods or services from overseas suppliers. However, over a third are 'off-shoring' in the sense that they have manufactured overseas (either on their behalf or, in a minority of cases, at their own site).

UKTI (082014)

Higher-quality finished products can sometimes be sourced abroad. You may find importing is the best way to source a certain product. Every country has its specialist skills and strengths. If you want to sell the best, it could make sense to import it.

Traditional skills from some cultures are sought after worldwide, there are traditional crafts and skills that have been carried on for generations, and which would be hard to replicate elsewhere, but you may find a market for them closer to home or for exporting.

Original products, raw materials and authenticity are important in some markets if you want to keep ahead of your competitors.

Statistics revealed by UKTI (UKTI 082014) for the reasons for importing by companies are:

Better prices	<b>69%</b>
no UK supplier	<b>55%</b>
Better quality	<b>42%</b>

The spoils from getting exporting or importing right can be exciting and

significant but there are one or two administrative obligations that you really must get right to avoid any unexpected tax bills or visits from Her Majesty's Revenue and Customs. You'll want to get this right and make sure that your reporting practices are watertight.



## Barriers To Expansion

The benefits of cheaper imports are also fairly obvious, but HMRC and UKTI demand more information when collecting sales and importation data. It

is important that you have a system capable of collecting and reporting on this data to avoid unnecessary work for your back office staff.

Although there is free movement of goods within the EU, the tightening up of Distance Selling Regulations mean that you have to be more aware of the end users of your products (see “Selling to EU consumers” from Online50).

For example, if you trade in electronic goods, such as ebooks, video downloads, etc., you will have to register with MOSS (Mini One Stop Shop) for reporting each sale EU wide regardless of thresholds.

For all other goods and services you will have to be aware of the thresholds of each country you are exporting into, intrastate reporting and ensuring you are VAT compliant reporting with multiple currencies and tax jurisdictions.

Businesses generally feel that they lack the knowledge to enter these markets, and are reluctant to access local partners, who could, with good

contacts, accelerate the establishment of any business by helping with language and local red tape.

Some barriers are largely perceived barriers, such as confidence; cultural misunderstandings; levels of cost or loss of control of operation. The perceived cost may concern not only the direct cost of starting up business abroad, in the form of traveling costs, salaries, collecting foreign market information, purchase or hire of office space, etc., but also the costs due to changes in the organisational set-up of the firm, such as training and retraining of staff, and changes in routines, reporting systems and procedures.

All of these issues can be overcome with research and tightening of your internal controls.

## Potential Pitfalls

You should consider the implications of each method in terms of:

The **direct and indirect costs**, such as investment in an overseas operation, or the heavy discounts often demanded by distributors

**How much control** you'll retain over how your product is sold, and how much you'll need to delegate to partners or intermediaries



Which **export-related risks** you'll have to bear, such as exchange-rate movements, non-payment risks, longer trading cycles and delays due to documentation problems

An intermediary may be able to handle issues such as paperwork, shipping and warehousing. However, you will have less direct control. Selling directly may give you more control, but you will have to bear higher costs.

## How to control these issues

Any business entering a new market has to understand the data they will need to capture. Be that for retention for long term storage, or for analysis for useful management information. One

of the most common and expensive mistakes made with regard to data is to set up the data capture without fully comprehending the future requirements. Although it is never possible to foresee all possible needs, future-proofing your system is possible with proper planning and careful implementation of an expandable system.

For example, **Ambition Enterprise** is powered by SAP Business One and can over-come even the most difficult data capture and processing needs, with the ability to create as many tax codes as necessary and illustrate how they should be filed in each tax return. SAP Business One can be used to determine when VAT thresholds have been reached due to the ability to produce reports showing geographical



split of sales based on the delivery address on each sales order.

The SAP Business One component supports intercompany and business transactions in multiple currencies, with multiple companies and has the ability to produce customer and supplier documentation in local language. It is available in 27 languages, with full legislative compliance in 42 countries and installed in over 150 countries across the globe.

When a business begins trading in foreign markets the biggest risks usually involve currency exchange, as the fluctuations can mean big differences in purchase or sales prices.

SAP Business One can capture data in various ways, depending on your deployment. This includes data such as transactional level currencies so you can allocate gains and losses to projects, or by supplier, to see if they are artificially changing the price.

With the abilities of the SAP Business One Analytics component, businesses are able to see the effects of changes in an exchange rate will impact on the profitability of individual invoices or the business as a whole.

Due to differing regulations, even within the EC, companies have to capture more details for statutory reporting, such as VAT numbers, clarification of

ownership of businesses for corruption legislation and SAP Business One allows for the creation of User Defined Fields to capture and store this data.

The wide range of languages allows you to issue purchase orders, sales orders and invoices in the language of your customer without the cost of translators and paying for knowledge of local regulations for form formats.

The SAP Business One component of Ambition Enterprise complies with FASB No. 52 (SAP), and can deliver FASB No. 131 compliant reporting if used with segmented reporting, this ensures that as the business develops there is no need to change reporting systems to fit the statutory needs.

If it is necessary to open overseas offices, because Ambition Enterprise is a cloud deployment, and the SAP Business One component offers multi-site functionality, this can easily be done with our standard deployment.



Give your business an unfair advantage  
... the Ambition Advantage!



## About Online50

Online50 Have been providing Cloud services since 2001 — well before anyone called it the Cloud.

More than a decade later we provide a range of managed hosting services allowing our users to scale from a single application for a single user to a fully cloud sourced IT deployment, moving IT into the Cloud for one or more offices.

The Ambition Enterprise Suite is licensed and operated by us and provided as a fully managed “in the Cloud” service



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## Our Difference

We are a Service Provider. Our business model is based on monthly subscription revenue, and we operate on short term contracts. This means we are incentivised to give you great services so that you continue to use us.

For a business information system that's as comprehensive as Ambition Enterprise including SAP Business One most providers have a traditional business model with heavy up front costs and expensive implementation and training. This is an incentive to sell you more than you need and to generate extra chargeable work.

In contrast we normally charge a fixed low price for a Fast Track Implementation and then regular monthly fees for as long as you carry on using the system.

We think it's **simply good business** when our interests and yours are aligned.

For more information call the Online50 team on:  
(or for international and mobiles call:

**0800 195 0835**  
**+44 207 536 7736)**

<http://www.online50.net>

<http://www.ambitionadvantage.com>