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## FINANCIAL MODULE



## INTERNATIONAL FINANCE

## Introduction

Start your export financial plan with a quick introduction highlighting your challenges, financial goals and objectives. It should also include a quick reminder of which markets you are focusing on and how these revenues will fit within the overall company’s projected results.

### **Understanding your financial risks for exporting**

Like in domestic markets, there are risks associated with exporting which can have a significant impact on your bottom line. Your export financial plan should assess those risks and make provision to protect your company from them.

#### **Commercial or Credit Risk**

Credit risk is a very common hurdle any business needs to assess while operating. International trade only increases the level of risk as clients fall under different jurisdictions, different laws, different cultures… You should seriously consider insuring your accounts receivable for international transaction. This can be done at a very low cost and will help you not only to place you in a more competitive position with potential clients, but also to leverage more working capital from your commercial bank.

#### **Political Risk**

Political risk is usually defined as the risk to your company resulting from political instability or political change. While people tend to think about severe situations like war, revolution, terrorism or labor strikes, the current changes in the US show clearly that political risks can happen in any market. Overnight. A change in a political environment could have a serious impact on import tariffs, international money transfers or any other regulation or policy, potentially impacting your profit margin.

#### **Currency or Foreign Exchange Risk**

Currency fluctuations are unavoidable when doing international trade. Many businesses choose no to protect themselves against this risk based on their margin levels, number of various currencies they deal in, market presence or size of the companies. Whether you decide to protect yourself against currency fluctuation or not, it is important to assess the risk you are facing so you can make an educated decision.

#### **Legal Risk**

It is important to remember that exposure to legal risk can be extremely costly, especially in an international context where your company does not have the same degree of control. Companies trading in specific sectors like health or food products can be particularly vulnerable to liability suits. Your financial plan should make provision for such eventuality.

### **Assess and** **leverage your assets and capital for your export activities**

The costs of exporting can be significant and have a real negative impact on your company’s financial situation if not evaluated correctly. Building a strong financial plan for your export ambitions will help you ensure your cashflow and operating lines of credit remain healthy.

A sound export financial plan should include:

* **Sales forecasts per each market:** All analyses and forecasts should be based on a multi-year format. They should be established based on the company’s new export goals and objectives but remain realistic. Sales forecasts typically form the top line of your cashflow analysis and will be reflected in your **Cash Budget** below.
  + Note that it is extremely unusual for any new market to display positive revenues in year 1, hence the need for the financial situation of the company to be strong enough to carry the initial investment.
  + Depending on your company’s pressure points, you might want to develop a manufacturing forecast, supply forecast, HR forecast, etc.
  + Scenario Analysis: you might want to include in an annex a “best-case” and “worst-case” scenario, clearly identifying your assumptions for using the chosen scenario in your export plan.
* **A cash budget:** following your most likely scenario estimate, build an export cash budget is an estimation of your financing requirements over the short to medium-term, so you can assess the timing and amount of your export cash expenditures.
* **A capital budget**: a capital budget coversa longer period than the cash budget and analyses the funds you'll need to succeed in your export journey. Your capital export budget will give you an operating plan against which you can measure actual expenditures and revenues. It will also tell you when your export will start generating positive cash flows.

Both your short-term and longer-term budgets should consider the financial risks highlighted previously. Also keep in mind that international payments usually take longer than domestic ones, impacting negatively your cashflow. Some countries are notoriously difficult for timely payments, sometimes taking several months to cover their debts, even with 30 days contracts.

#### **Export Cash Budget**

Please create an overall cashflow budget for your export activities. It is easier to have a separate budget for each export market and then combine them all. You can use the example below as a basis to build on.

**Example of a cash-flow analysis for 1 year:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Market X | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| Sales |  |  |  |  |  |  |  |  |  |  |  |  |
| Cost |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross Profit |  |  |  |  |  |  |  |  |  |  |  |  |
| Payment timing |  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses |  |  |  |  |  |  |  |  |  |  |  |  |
| Trade shows (incl. booth) |  |  |  |  |  |  |  |  |  |  |  |  |
| Air travel  & hotel |  |  |  |  |  |  |  |  |  |  |  |  |
| Food & Entertainment |  |  |  |  |  |  |  |  |  |  |  |  |
| Transportation |  |  |  |  |  |  |  |  |  |  |  |  |
| Shipping/ Freight |  |  |  |  |  |  |  |  |  |  |  |  |
| Promotional |  |  |  |  |  |  |  |  |  |  |  |  |
| Insurance |  |  |  |  |  |  |  |  |  |  |  |  |
| Translation |  |  |  |  |  |  |  |  |  |  |  |  |
| Website |  |  |  |  |  |  |  |  |  |  |  |  |
| Export Manager |  |  |  |  |  |  |  |  |  |  |  |  |
| Consultant |  |  |  |  |  |  |  |  |  |  |  |  |
| Legal |  |  |  |  |  |  |  |  |  |  |  |  |
| Commissions |  |  |  |  |  |  |  |  |  |  |  |  |
| EDC |  |  |  |  |  |  |  |  |  |  |  |  |
| Total expenses |  |  |  |  |  |  | ­ |  |  |  |  |  |
| Cash flow |  |  |  |  |  |  |  |  |  |  |  |  |
| Cumulative cashflow |  |  |  |  |  |  |  |  |  |  |  |  |
| Financing needed |  |  |  |  |  |  |  |  |  |  |  |  |

#### **Export Capital Budget**

Your Export Capital Budget will integrate your Export Cash Budget (see above) and all the company’s necessary costs to reach the desired bottom line for your export plan.

Once your export capital budget is drawn, you will be able to clearly assess how your international (future) presence will fit within your overall company’s strategy, from both a cost and revenue perspective.

You can use the example below as a basis to build your export capital budget.

**Example of a foreign market P & L:**

|  |  |  |  |
| --- | --- | --- | --- |
| Market X | Year 1 | Year 2 | Year 3 |
| Projected Gross Sales (Revenue) |  |  |  |
| Sales discounts, returns |  |  |  |
| Net Sales |  |  |  |
| Cost of Goods Sold |  |  |  |
| Operational Profit |  |  |  |
| Operating Profit Margin |  |  |  |
| Salaries and Overtime |  |  |  |
| Sales and Marketing |  |  |  |
| General Administration |  |  |  |
| EBITDA |  |  |  |
| Taxes |  |  |  |
| Depreciation / Amortization |  |  |  |
| NET PROFIT / LOSS |  |  |  |

### **Financial Support**

There are many export financial support programs you can access to boost your international expansion. Your export financial plan should research:

* which government loans and grants you can access,
* which tax credits you can access depending on your services/products and markets
* how you can leverage government services to get financial information on potential new clients, and
* how you can negotiate competitive payment terms with new customers, and

These programs are run by all levels of government and require various levels of paperwork and requirement. One common thread though, is the need for planning to write applications, submit and get reviewed.

In this part of your financial plan, you will describe which program you could apply for, when you should apply and how it would impact your cashflow.

|  |
| --- |
|  |

### **Method Payment**

Whether you decide to use Letters of Credit, ask for Cash in Advance, or use Documentary Collection, you should be aware of the many existing payment methods and which is best for you and your clients. All markets are different and while some methods like Letters of Credit are extremely popular in Asia, they can be rarely used in other parts of the world, making it sometimes difficult to impose them during negotiations.

Each of those method will have a different impact on your cashflow and should therefore be planned.

## CONCLUSION

Your conclusion is an important part of your financial analysis. It should give any reader a strong summary of your overall financial situation and how exports will fit within the company’s general strategy. It should state how you are planning to grow your markets and general export over the short, medium, and long term. It should include a summary of your projected sales, three-year profit loss, and twelve-month cash flow including a summary of how you will fund your expansion. Once written, it could become a part of your overall executive summary at the beginning of your export plan.