OUTLOOK

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EXPORTS

In association with:

Bord Bia
Irish Food Board

IRISH exporters association

AIB

CONTENTS

SUPPORTING IRISH EXPORTERS

Welcome to the eighth in our series of reports covering key sectors within the Irish economy. The main objective of these Outlook reports is to provide a comprehensive analysis of the economic factors which can influence business decisions and stakeholder actions within each sector. Additionally the reports also provide some important insights into how AIB as a bank and an interested stakeholder, is working to support and advise SMEs within a particular sector.

We are delighted to partner with Bord Bia and the Irish Exporters Association (IEA) on the publication of this Outlook report on exports. While the report is not sector-specific, it provides detailed research, analysis and commentary, on a multi-sectoral basis, of the SMEs that are currently exporting goods or services from Ireland. An important part of this report is the specially commissioned detailed research on exporting SMEs which has been carried out independently by Ipsos MRBI, on behalf of AIB.

Exports now account for more than 100% of Irish GDP and the fortunes of the Irish economy are closely aligned to the success of our multinational and indigenous exporters in international markets.

The research highlights the important role exports play supporting growth in SMEs' revenues and employment levels, both historically and for the future. The research shows very positive sentiment and outlook with more SMEs now trading abroad than ever, with exports accounting for 39% of SMEs' turnover and the majority of Irish exporters anticipating growth in 2014 and beyond.

The research also highlights some of the key challenges facing SMEs that are exporting which include generating sales, getting paid on time, access to funding, as well as transport and distribution costs. The insights gained from the research are helping to inform AIB as to how we can improve our capability in supporting our customers' export finance needs.

AIB recognises the importance of exports to the Irish economy. With the largest market presence in Ireland, we recognise the role we have to play in supporting SMEs that are currently exporting or indeed could be exporting. While State agencies and organisations like the IEA, Enterprise Ireland, Bord Bia, the Irish Dairy Board and the Local Enterprise Offices provide an invaluable range of supports, exporters also need support from their local bank.

JOHN WHELAN, EXPORT SPECIALIST AIB, KEN BURKE, HEAD OF BUSINESS BANKING, AIB AND THE MINSTER OF STATE AT THE DEPARTMENT OF AGRICULTURE, FOOD AND MARINE, TOM HAYES TD.

In advance of commissioning this report, AIB completed an internal review of how it is servicing Irish exporters. This review supported some of the key messages coming out in the independently-commissioned research, particularly the need to ensure that AIB has a better understanding of exporters' needs and respond accordingly with the appropriate products and services.

To help us improve our service to our export customers, John Whelan, former CEO of the Irish Exporters Association is our Export Specialist and he will inform the bank as to how we can better support our export customers. In addition, we have appointed 85 Export Finance Champions nationwide who will be based in our branches, business centres and direct channels, and will complement our product specialists by providing customers with access to practical export-related information, support and guidance.

We are making changes to our processes to make the currency hedging process more customer-focused and friendly. We will continue to review how we provide all export finance products and services, with a view to improving our offering to our export customers.

We understand the huge economic benefit of a strong, vibrant and export-led economy and the substantial impact this can have on the creation of jobs throughout the country. We are committed to improving our support to exporters in every sector. The research contained in this report also tells us that the perception among exporters is that Irish banks need to do more to support exporters. With this in mind, AIB is launching a €200 million SME Export Finance Fund which will support the provision of multiple export finance products including working capital and loan finance for Irish exporters.

My thanks to our partners Bord Bia, Irish Exporters Association and Ipsos MRBI for their support of this Outlook report. I would also like to thank everybody who contributed to creating this report and took part in the surveys. I hope you find this report insightful and valuable.

Ken Burke
Head of Business Banking

THE EXPORT FACTOR

With exports from Ireland amounting to €181.3 billion in 2013, €18.6 billon of which was attributable to indigenous companies, Irish exporters will play a key role in driving future economic growth.

With many key international markets returning to growth, consumer sentiment and demand improving, many indigenous SMEs are now keen to expand their existing presence overseas as well as exploring new markets.

Research carried out by Ipsos MRBI, on behalf of AIB, shows that exports accounted for around 39% of total SME turnover in 2013.

According to the research, Irish exporters are bullish about the future and 65% of the respondents said they expect their sales in 2014 to increase while 27% said they would stay the same. Companies operating in the services sector, tended to be more confident about their prospects than those operating in the manufacturing sector.

The role exports will play in driving sales growth is clear: 46% of companies expect their exports will be up on last year, with 45% saying they would remain the same.

Because of the anticipated increase in exports this year, companies will need to hire new staff with 39% of the respondents indicating that they would be hiring in 2014. When it comes to entering new markets, however, this rises to 57%.

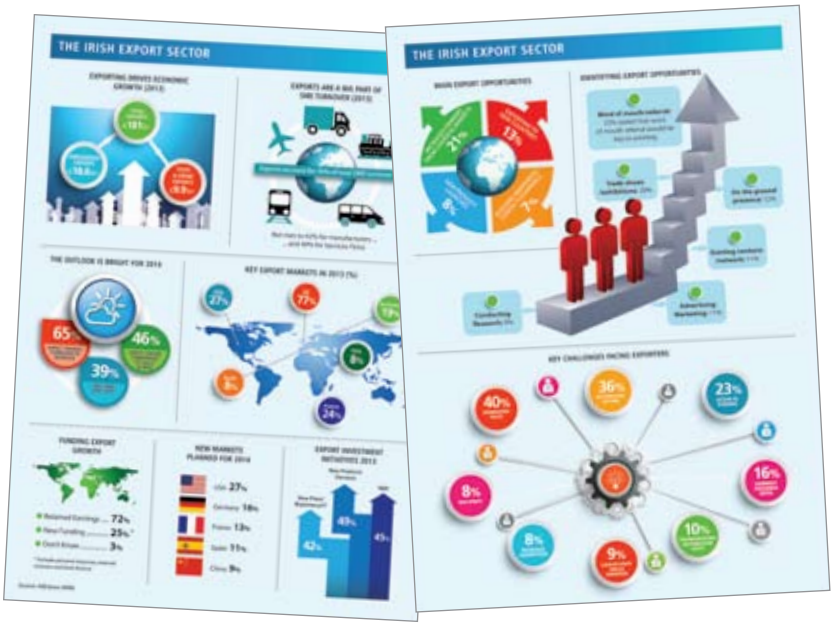
Not surprisingly, manufacturers are more likely to hire this year: some 46% indicating that they will take on new staff. This compares with 41% for the services sector.

The research also shows that while Irish SMEs are spreading their wings into newer markets in Asia and the Middle East, the UK continues to be the most important market for Irish exporters. Indeed 77% of the SMEs surveyed export to the UK with 43% of them citing it as the sole destination for their exports.

The next biggest market for indigenous exporters is the US, according to the survey. Around 27% of the SMEs surveyed export to the US while France (24%) and Germany (19%) followed closely.

Some 30% of SMEs intend to enter new markets this year with the US likely to be the top destination (27%), followed by Germany (16%), France (13%) and Spain (11%). China is also on the horizon for some 9% of Irish SME exporters.

Some of the key challenges identified by exporters included generating sales (40%), getting paid on time (36%), access to funding to support exports (23%), currency/exchange rates (16%) and transportation and distribution costs (10%). When it comes to expanding their export business, other key challenges include transportation and distribution costs in addition to a lack of staff or not having a presence on the ground in their export markets.



Some other key highlights of the AIB/Ipsos MRBI Survey and Focus Groups include:

- Of the SMEs that will increase their turnover in 2014, 72% will fund the growth from retained earnings while 25% believe they will require new finance.
- Of the SMEs that will require new funding, the top three most cited sources are external investors, personal resources, bank finance (overdraft/bank loan) or a combination of all three.
- Some 40% of SME exporters do not use any specific financial product for their export business. Of the 60% that do, foreign exchange/currency products were the most utilised.
- Some of the key issues to emerge from the independently-hosted focus groups include the need by exporters to innovate and develop new products and services that people want.
- Given the economic importance of exporting many SME exporters also feel that there needs to be a shared ambition of how to support exporters among all the key stakeholders.
- Irish exporters also believe that market knowledge is important for export success and not having access to it can hinder their business.

DRIVING ECONOMIC GROWTH

Indigenous Irish exporters are looking forward to a bright future with many firms expecting to grow their sales overseas, expand into new markets and hire staff, according to the findings of an AIB/Ipsos MRBI survey into Ireland's exporting sector.

With exports now accounting for more than 100% of Ireland's Gross Domestic Product (GDP), the future performance of the Irish economy is inextricably linked to the success of the many multinational and indigenous companies that export their goods and services around the world.

In 2013, merchandising and services exports amounted to €181.3 billion. While this was down by 0.75% on the €181.9 billion in exports that were recorded in 2012 – largely as a result of the so-called "patent cliff" experienced by a number of multinational pharmaceutical firms operating in Ireland – there were some notable performances within the indigenous manufacturing and services sectors that bode well for the future.

One of the key drivers of the economy over the coming years will be the performance of the indigenous export sector, which last year accounted for €18.6 billion in exports. The success of indigenous exporters over the last number of years is well documented. Companies like Kerry Group, Smurfit Kappa Packaging, Glanbia, Kentz, the Irish Dairy Board, Irish Distillers and Aryzta, to name but a few, have blazed a trail on the international stage to become leading global companies in their own right. And there is every reason to believe that, with the right support, vision and strategies, a whole new cohort of export-driven SMEs will follow in their path over the coming years.

The growing importance of export markets to many Irish SMEs is clearly evident from the findings of the AIB/Ipsos MRBI research. Indeed exports accounted for 39% of total SME turnover in 2013, according to the research. While this figure represents the "mean average" for all respondents, the figure rises to 42% for manufacturing companies – which tend to have a higher dependency on export markets – and to 40% for companies operating in the services sector.

METHODOLOGY

Ipsos MRBI conducted a telephone survey, on behalf of AIB, among 200 SMEs exporting goods or services out of Ireland. SME owners/finance managers were interviewed on a number of topics ranging from the current situation of their export business and their outlook for the year ahead, to issues and opportunities involved in exporting. Fieldwork took place between April 30 and May 14 2014.

A breakdown of the respondents to the survey show that 42% were manufacturers, 41% were exporters of services and the balance (17%) operated in a number of other key sectors including retail, wholesale, transportation and construction.

The survey also shows that 42% of businesses interviewed had up to five employees, 39% employ between six and 20 staff and 13% of them had between 21-50 employees. The remaining 7% employed over 50 staff.

Not surprisingly, there are wide variations within these figures, given the make up and types of SMEs that were surveyed. Some companies reported that exports made up as much as 80% of total sales, while at the lower end, they accounted for, around 10%. In addition, manufacturers were more likely to be exporters than companies operating in the services sector.

With economic conditions showing signs of improvement in most sectors within the economy, Irish exporters are also a lot more bullish about their prospects for 2014. Indeed 65% of the respondents expect to see an increase in turnover this year while just 27% of them expect it to stay the same. Only 8% said it would actually decline.

The optimism is particularly prevalent within the services sector, especially among those companies selling into multiple markets, including the newer emerging markets in Asia and the Middle East. A key factor in the anticipated increase in revenues this year will obviously be a growth in the export component of the companies surveyed. Some 46% of those companies said that the export component of their business will be up on last year while 45% are forecasting that they will remain the same.

As companies grow their export business, their staffing requirements also increase and another positive sign for Irish SMEs is that they expect staff levels to increase this year. Indeed 39% said that they will hire new staff this year and this rises to 57% of those companies that are set to target new markets. On a sectoral level, 46% of manufacturers said they would be hiring new staff this year while the comparable figure for the services sector is 41%.

SPREADING THEIR WINGS

While some Irish firms have been dipping their toes into new markets in Asia and the Middle East in recent years, the reality is that the UK continues to be the most important market for exporters. Of those companies surveyed, 77% export to the UK and for 43% of them it represents the sole market for their entire export output. After the UK, the US is the second most popular export market,

THE IRISH EXPORT SECTOR

EXPORTING DRIVES ECONOMIC GROWTH (2013)

EXPORTS ARE A BIG PART OF SME TURNOVER (2013)

But rises to 42% for manufacturers ...
... and 40% for Services Firms

THE OUTLOOK IS BRIGHT FOR 2014

KEY EXPORT MARKETS IN 2013 (%)

FUNDING EXPORT GROWTH

- Retained Earnings 72%
- New Funding 25%*
- Don't Know 3%

** Includes personal resources, external investors and bank finance.*

NEW MARKETS PLANNED FOR 2014

USA **27%**

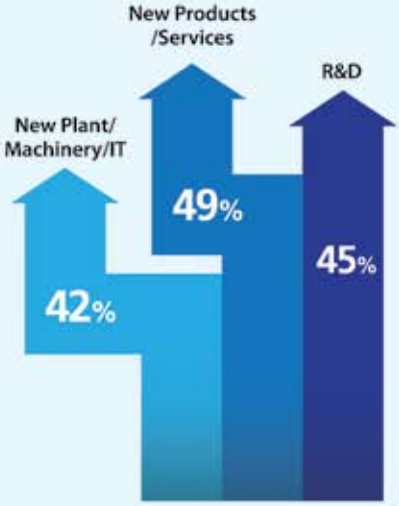
Germany **16%**

France **13%**

Spain **11%**

China **9%**

EXPORT INVESTMENT INITIATIVES 2013



Source: AIB/Ipsos MRBI.

attracting 27% of exporters, followed by the other main European economies like France (24%), Germany (19%), Italy (8%) and Spain (8%). Further afield, Asia was the next biggest market for exporters with 11% of companies targeting the region with China accounting for 6%.

Irish agencies like Bord Bia and Enterprise Ireland have been instrumental in opening up new markets overseas for many indigenous firms, many of which are now planning to expand into new territories. Indeed 30% of the SMEs surveyed are planning to enter new markets this year. While the US was cited as the top destination by 27% of those surveyed, it was followed by Germany (16%), France (13%), Spain (11%) and China (9%).

As they prepare to boost their existing exporting endeavours or embark on new ones, SMEs engage in a wide range of export-enhancing strategies, according to the survey, and 86% of the survey's respondents said they had engaged in at least one initiative that was aimed at boosting their export performance. Some of these initiatives include the launching of new products and services (49%), investing in R&D (45%) and investing in new plant/machinery/IT (42%). Somewhat surprisingly, only 7% of SMEs actually opened an office overseas during 2013.

IDENTIFYING OPPORTUNITIES

In the view of the SMEs surveyed, the main opportunities for export growth are likely to come from increased demand from overseas markets (21%), followed by exporting to new countries (13%), launching new products (8%) and from building up awareness/contacts and distribution channels (7%). However, not all SMEs believe that there are opportunities to grow their export business and 30% believe that there were limited or no opportunities available.

When it comes to identifying export opportunities, the power of word of mouth referrals would appear to be substantial with some 22% of respondents identifying it as an important consideration. Trade shows and exhibitions are another vital part of their marketing armoury with 20% identifying these as important. Having a presence on the ground in the form of sales staff, or a local distributor/agent, was deemed to be the next most important factor, with 12% of SMEs citing these as important. Other opportunities can flow from advertising and marketing (11%), existing contacts and networking (11%) and conducting online/own research (9%).

CHALLENGES FACING EXPORTERS

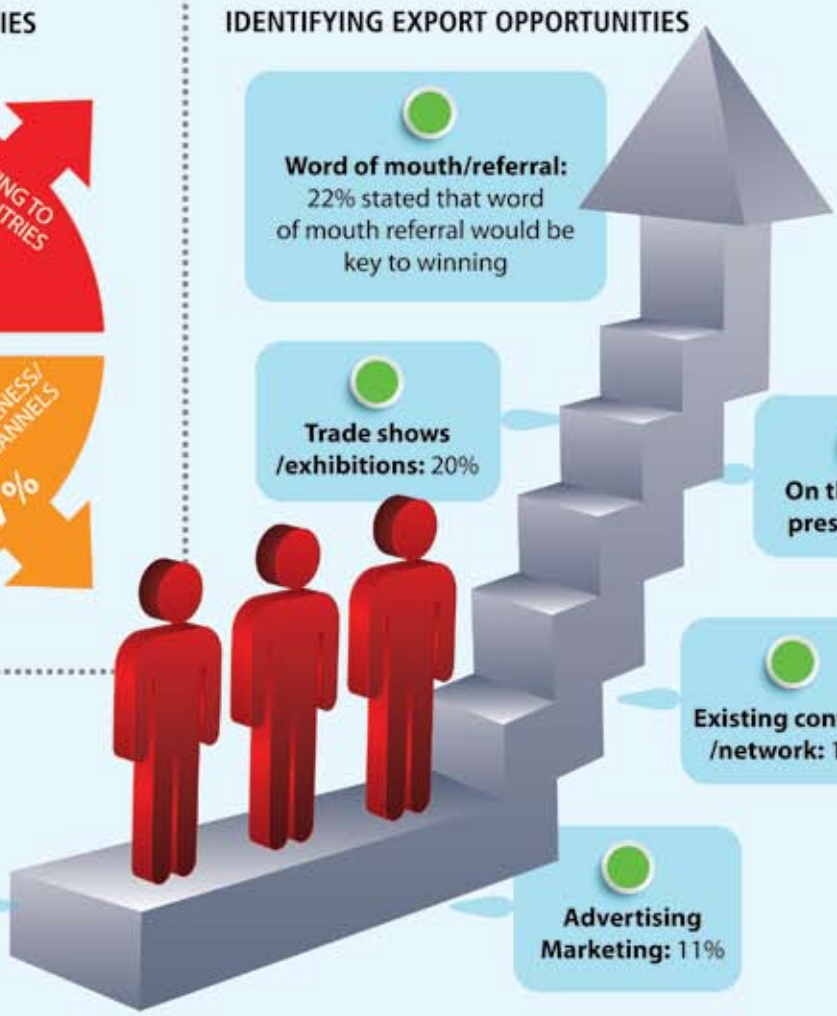
Servicing existing markets and entering new ones can be a challenge for many companies and success is by no means guaranteed. Some

"One of the key drivers of the economy over the coming years will be the performance of the indigenous export sector, which last year accounted for €18.6 billion in exports."

THE IRISH EXPORT SECTOR

MAIN EXPORT OPPORTUNITIES

IDENTIFYING EXPORT OPPORTUNITIES



Word of mouth/referral: 22% stated that word of mouth referral would be key to winning

Trade shows /exhibitions: 20%

On the ground presence: 12%

Existing contacts /network: 11%

Advertising Marketing: 11%

Conducting Research: 9%

KEY CHALLENGES FACING EXPORTERS

of the key challenges exporters faced in 2013 included generating sales (40%), getting paid on time (36%) and access to different forms of funding to support export expansion (23%). When it comes to expanding their export business, other key challenges include transportation and distribution costs, in addition to a lack of staff or not having presence on the ground in their export markets.

"When it comes to identifying export opportunities, the power of word of mouth referrals would appear to be substantial with some 22% of respondents identifying it as an important consideration."

FUNDING EXPORT GROWTH

Of the SMEs that expect to see an increase in their turnover this year, some 72% of them will use existing resources from retained earnings to fund the growth. However, another 25% of SMEs believe they will require new finance. The balance, or 3%, said they don't know. Of the 25% respondents that will require new finance, the top three most cited sources are external investors, personal resources, bank finance (overdraft/bank loan) or a combination of all three.

The survey also notes that almost one third of SMEs (31%) applied to their main bank for some form of finance in 2013 to support their export business expansion. Excluding any requests that are still pending, 80% of all requests made for export-related finance in 2013 were approved, according to the survey's respondents. In total, 20% were declined. This is broadly in line with the findings of the recent SME Credit Demand research which was conducted by Red C on behalf of the Department of Finance.

The research findings also show that 40% of SME exporters do not use any specific financial services or products related to their export business. Among the 60% of SMEs that do use them, however, the services most widely availed of are foreign exchange and hedging products (26%), invoice financing/discounting (16%), letters of credit (15%), advance payment guarantees (12%), export credit insurance (8%) and export collections services (8%).

Notwithstanding some of the unforeseen economic challenges in overseas markets, the outlook for the indigenous exporting sector is bright. It is also clear from the research that as economic conditions in Ireland continue to improve, the job creation potential of Irish SMEs is significant as companies grow and expand into new markets and blaze a trail for a new generation of Irish firms.

SHARING THE RISK

Greater collaboration and risk-sharing among the key stakeholders as well as continued support from the banking sector were just some of topics discussed at recent focus groups of exporters which were hosted by Ipsos MRBI.

As part of the research for this Outlook report on exporting, Ipsos MRBI hosted a number of focus groups among SMEs to gauge their views on the challenges and opportunities that lie ahead for Irish exporters. The focus groups took place in Dublin and Cork and a wide variety of sectors were represented including food and drink, manufacturing, construction, software and technology, entertainment and professional services.

Despite their differences, however, the participants shared similar experiences when it came to exporting and were in general agreement when it came to the approach needed to unlock their individual export potential as well as that of the wider Irish economy.

However, unlocking this potential requires a concerted effort on behalf of all stakeholders according to the participants in the focus groups, many of whom had already received some form of assistance from a Government agency. While they had found this very beneficial, they were more or less unanimous in their view that a lot more could, and needs, to be done.

AMBITIOUS TOGETHER

One of the major themes to emerge from the focus groups was the need for a shared ambition. When exporters look at Government, State agencies, representative bodies, banks and other stakeholders, they hope to see a reflection of their own entrepreneurship and determination. And because there is wide consensus on the potential for exports and exporters to drive the success of the Irish economy in years to come, they reasonably expect everyone, including State agencies, the Government and the pillar banks, to share their ambition.

For many exporters, the most immediate opportunity lies in developing and growing their existing export markets and many felt that the UK, European and US markets are of such a size and significance, that they will keep them busy for some time yet.

However, the participants also noted a growing interest in other markets, particularly in the Middle East, China and Russia. Indeed these are markets where agencies like Enterprise Ireland and Bord Bia have been working hard to develop for Irish exporters in recent years.

KNOWLEDGE IS THE KEY

Market knowledge is deemed to be critical for export success and a lack of knowledge can hinder growth and narrow horizons. For Irish exporters, knowing the right channels, distributors and partners to choose can be the difference between success and failure, according to the participants. Exporters also need to know how to adapt their product to meet local market needs in order to avoid costly mistakes.

"We took our product to the UK and it was alien to them. When you're thinking exports, you have to adapt to the local market," explained one participant.

The important role that State agencies and trade organisations like Bord Bia, Irish Dairy Board, Enterprise Ireland and the Irish Exporters Association play in export markets was also acknowledged and it is generally accepted that they provide valuable in-market support and market knowledge for Irish SMEs.

If there is a knowledge deficit, it would appear to be closer to home, particularly when it comes to businesses that are actually exploring the possibility of entering new markets. Forums where exporters can share experiences, be inspired and develop winning strategies are badly needed. This is particularly true for companies contemplating emerging markets where cultural differences and bureaucracy attract a higher quota of risk and reduce market attractiveness. Cross-sector networking and market specific events with a focus on emerging markets would be extremely valuable in this regard.

PLAYING THE IRISH CARD

The importance of being Irish in overseas markets can't be overstated. While it was generally agreed that Irish agencies like IDA Ireland, Bord Bia, Enterprise Ireland, and the Irish Exporters Association do an excellent job overseas, the role of the Irish diaspora should not be overlooked. As the participants noted, the Irish diaspora has been helpful when it comes to making introductions and connections and are broadly sympathetic to Irish exporters whenever they can.

An association with Ireland and "Irishness" is also helpful in international export markets, particularly in the food and drink sector. However, this is also having knock-on effects in other areas too, including IT and software, engineering and construction, entertainment and other services sectors where Irish companies excel.

SHARING THE RISK
All the participants in the focus groups agreed that the costs of expanding into new markets can be quite significant and there is no guarantee of success. However, there is absolute confidence that the sum of all efforts to develop exports will ultimately deliver a return for the Irish economy. The issue SME exporters want to see agreement on is how this risk can be shared collectively. In the opinion of exporting businesses, Government and State agencies are sharing some of this risk, but not enough.

"As entrepreneurs, we've taken a lot of risk. We've given up a lot to get where we are. Let's share that risk somehow," opined one exporter.

For businesses, the export risks are diverse and, consequently, a range of solutions are needed. Building new markets takes time, and time is money. It was almost universally accepted that having a presence on the ground is critical to making an impression.

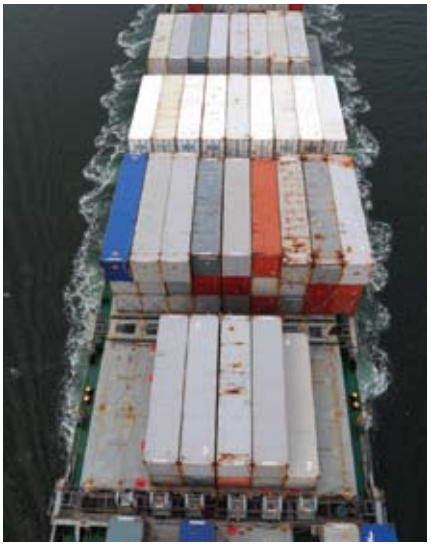
"It requires that we spend a lot of time building those relationships. They are not going to embrace you in a few months. You have to prove you have the legs. It just takes time," according to another SME exporter.

Enterprise Ireland's Market Access Grant Scheme, which covers 50% of the salary of an employee sent to develop a new market, is a good example of risk sharing, according to the participants.

Other development costs are less tangible, and require a different form of risk sharing. For example, economies of scale will be slow to emerge and senior management may have to invest time in the initiative. New technologies or capacity could be required. Mistakes will be made, and these can be expensive.

To cover these risks, a partnership approach is needed. Once again, Enterprise Ireland was acknowledged for its willingness to take a stake in a venture and thereby share in both the risk and any potential reward.

RESEARCH AND DEVELOPMENT
"Innovation is a big challenge for us. We're having to invest a lot in technology, in apps and websites. We have to do it to survive," noted another participant.



Investment is needed in research and development (R&D) to drive export growth, and this type of investment perhaps attracts the highest risk profile of all, according to the participants. R&D grants and tax credits were cited as valuable risk-sharing initiatives. Naturally there is a desire to get R&D money up front to help with working capital requirements, which diminishes the attractiveness of the tax credit scheme.

Collaboration with third-level institutions emerged as another form of risk sharing by some SMEs. The more exploratory nature of this collaboration means a higher risk for SMEs and care needs to be taken to ensure these collaborations do not turn into expensive "fishing expeditions."

BANKING SUPPORT
All the participants agreed that they needed the support of their respective banks but they also believe that the banking sector needs to do more if they wanted to understand their businesses. Rebuilding an understanding of the diverse and individual needs of exporters was identified as a first step for banks to take. A greater understanding will lead to trust and with trust comes improved confidence, co-operation and risk sharing.

Exporting is often very low risk for some companies. Some businesses are pulled into new markets by their customers, so the risks are low and the costs of building that revenue or relationship are nil. Financing these opportunities is often the only barrier and banks have not only a role, but a responsibility, to facilitate SMEs in these transactions according to many of the focus group participants.

For the Irish banking sector, the second step will be to change the perception among exporters that banks are not currently best positioned to finance export initiatives.

A change in perception also needs to be followed by a change in the reality. Naturally, SMEs accept that the experience of recent years has required a change in how banks manage risk, but the view of many SME exporters in that they would like to see a change in the attitude towards elements of export finance risk.

A solution to this could be greater collaboration. One participant in the research pointed to a guarantee scheme operating in the UK as the ideal solution. UK Export Finance (also known as the Export Credits Guarantee Department) is the UK's official export credit agency and it helps exporters by 'underwriting' bank loans offered to overseas buyers of UK products and services. This means it takes on the risk of the loan from the bank, so that the bank is more likely to offer it.

It can also help exporters to raise tender and contract bonds, access working capital finance and secure confirmations of letters of credit. In his view, Government and banks need to work together, with banks providing the finance and the Government insuring the risk of export finance.

For some exporters, the longer supply chain means taking longer to get paid and pressures on working capital, or exports represent such a large percentage of their revenue that credit insurance, invoice discounting and similar solutions are necessary. Banks have the products and facilities that exporting SMEs need, and SMEs would like to see these tools deployed more eagerly.

"Cash flow is the number one concern for us all the time. So invoice discounting is the best thing that ever came along," according to one SME exporter.

THE FUTURE ASSURED
The past few years have been challenging for many of the businesses that took part in the discussions. However, it is the resourcefulness with which they met these challenges that will underpin their continued success. If all stakeholders can show similar resourcefulness and vision, the success of Irish exporters and the wider economy is assured. ●

CHAMPIONING IRISH EXPORTERS

The appointment of 85 Export Champions within AIB is an integral part of a much wider Export Finance Development Programme at the bank that will deliver a customer-focused export offering, writes Mags Brennan, Head of Sectoral Strategy at AIB.

Exports have played an important role in helping to drive economic recovery and it is important for companies to look outside the Irish market for growth opportunities. While State agencies like Enterprise Ireland and Bord Bia provide a wide range of valuable and important supports, Irish exporters also need banking support for working capital and trade finance management, business expansion as well as exchange rate management. More importantly, an exporter, or indeed an SME, looking at potentially exporting, needs to know that they can go into their local bank and get the appropriate information and financial advice needed to export.

The research completed by Ipsos MRBI for this Outlook report would suggest that the Irish banks do not fully understand the needs of Irish exporters and that a lot more could be done to help them grow their businesses overseas.

At the end of 2013, AIB completed its own internal review of how the bank was servicing export customers. A number of key points emerged from that review. First of all, the bank does not have a product gap in this space. Secondly, the bank established that while it has plenty of product knowledge within the specialist units such as Trade Finance, Treasury and Commercial Finance in its head office, there were knowledge gaps at the front line, in AIB's network of branches and its business centres. The bank acknowledged that it needed to communicate with its export customers, or indeed customers who could be potential exporters, in a better way, by providing useful and more focused information about how we can support them and how they can manage the financial risk associated with exporting. Finally, the bank also acknowledged that some of the financial products that it offers, need to be more customer-friendly.

THE AIB EXPORT CHAMPIONS GATHERED TOGETHER RECENTLY FOR THE FIRST MODULE OF AN INTENSIVE EXPORT TRAINING PROGRAMME THAT WAS FACILITATED BY JOHN WHELAN AND SOME OF THE BANK'S PRODUCT SPECIALISTS FROM TREASURY, TRADE FINANCE AND COMMERCIAL FINANCE.

To better service our export customers, AIB engaged John Whelan, the former CEO of the Irish Exporters Association as the bank's Export Specialist in January 2014. John is using his many years of experience and knowledge on the customer side, to help AIB be better informed and ensure that the bank has a market-leading Export Finance Customer proposition.

AIB has also appointed 85 Export Finance Champions who will be situated across its network, in its branches, its regional business centres and available through the bank's direct channels.

These Champions will provide export customers, or customers looking to export, with a local contact who will provide practical export information. They will also enable access to the teams of product specialists within Treasury, Trade Finance and Commercial Finance, who can provide specialist advice and guidance around the various products and services which support an exporter's business.

Export Finance Champions are an integral part of a much-wider and ongoing Export Finance Development Programme that is being rolled out across the bank's network to all its staff at the front line. The champions will be supported by product specialists and John Whelan as our Export Specialist. The end goal for AIB is that we will have Export Finance expertise across our network that will support our customers.

Our customers will also benefit from some changes we are making to processes supporting provision of currency hedging products which will ensure the process is more customer-focused and timely.

As a bank, AIB understands the huge economic benefit of a strong, vibrant and export-led economy and the substantial impact this can have on the creation of jobs throughout the country. The launch of the €200 million AIB SME Export Finance Fund should also support exporters and help them manage and expand their business into the future.

It is also important that AIB fully understands its customers' needs, no matter what sector they operate in and to ensure that the bank has the relevant in-house sectoral expertise to support all of our customers. While exporting is not a sector in itself and spans multiple sectors, we believe that it is important to ensure we have a knowledgeable and customer-focused team in place that will support Irish exporters. We will continue to review how we are providing products and services to customers so that we are best in class. ●

THE EXPORTERS' VIEW

Ireland's competitiveness is now the single biggest issue weighing on the minds of exporters, according to Simon McKeever, Chief Executive of the Irish Exporters Association.


SIMON McKEEVER

As the CEO of the Irish Exporters Association, the organisation that represents exporters across a wide spectrum of sectors, Simon McKeever has a bird's eye view of the day-to-day issues that impact on his members.

Over the past 12 months, two issues in particular have come to the fore above everything else in terms of their urgency: Ireland's competitiveness and access to finance for SMEs.

"Finance, and access to it, has been the biggest concern for a number of years. It remains a huge problem, but in the most recent survey of our members, competitiveness has become an even bigger issue and labour costs in particular," says McKeever.

"Around 50% of our members singled out Ireland's competitiveness in the survey. The reality is that the cost of doing business in Ireland has become high again and it is near prohibitive in some sectors. A large part of it (35%) has to do with wages. Right now, most businesses can't afford wage increases. While I do agree that people should have more money in their pockets, it should really come from tax cuts rather than wage increases," he says.

> "Another thorny issue that threatens to undermine Ireland's competitiveness is upward-only rent reviews."

Another thorny issue that threatens to undermine Ireland's competitiveness is upward-only rent reviews, according to McKeever who points out that the Irish Exporters Association recently joined up with a dozen other business organisations to voice their opposition to upward-only rents to the Government.

The group has called for legislation, tabled and passed by the Seanad, to be given the green light by Government. The Bill, introduced by Independent Senator Feargal Quinn, needs to be enacted urgently, he believes.

"We fully support this initiative and the Government must do all it can to maintain our competitiveness. Upward-only rents are an unnecessary burden on the Irish exporter and adversely affect our ability to compete on the world stage."

Another major issue in relation to Ireland's competitiveness, and one unfortunately entirely outside our control, he adds, is the movement in exchange rates, particularly when export sales are outside the Eurozone. The UK and US are currently Ireland's two biggest single country markets and they accounted for around 16% and 22%, respectively, of our exports in 2013. By reducing their effective exchange rate against other currencies, the UK and the US were able to strengthen the competitiveness of their exporters through quantitative easing during the last few years. When pitched against a basket of 21 other currencies, the nominal effective exchange rate of the euro rose by 5.1% during the year.

"If you look at the volatility in the exchange rates, particularly around the Euro and Sterling, it has typical high-low volatility of somewhere between 5%-10%. So if you are not hedging correctly, you could have anything between 5% and 10% of your export income from the UK at risk. For the Euro/Dollar high-low volatility, it has been as high as 20% in 2010 but typically around 12%. That can have a significant impact on a company, if you get it wrong," he adds.

"Foreign Exchange hedging is important, however, I think from the banks' point of view, they need to understand that this is not the number one issue for SME exporters in relation to banking services. For exporters, when it comes to services they require from the bank, it's general day-to-day credit."

Competitive issues aside, finance issues have been singled out as the next biggest concerns that the Irish Exporters Association's members are concerned about.

"The next big issue is access to finance and cash flow management affecting around 31% of our members. It's actually day-to-day finance to keep the business ticking over, whether it's cash flow or working capital. While the situation has improved a bit, there are still some issues with finance not getting to SME exporters and that's a worry. We would also like to see the banks actually getting out of the branches and into their customers' premises to meet and engage with them and get an understanding of the businesses. It's a simple thing but it doesn't appear to be happening. One of the main reasons companies are turned down for finance, according to our members, is because the banks don't understand the nature of the business involved. Hopefully this will change as the economy improves and our export momentum gathers pace. The reality is the economy is export driven and, as well as supporting the multinationals, we need to develop the indigenous export sector. We cannot do this without a proper functioning lending market," he concludes.

FOOD FOR THOUGHT

With food and drinks exports accounting for nearly 50% of indigenous exports, the outlook for the industry is bright and Irish firms are well positioned to take advantage of favourable demographic trends in a number of key markets in Asia and the Middle East, according to Bord Bia's Chief Executive Aidan Cotter.

Exports of Irish food and drink have grown substantially over the past few years and now Irish firms are well positioned to benefit from favourable demographic trends in regions like Asia and Africa. Closer to home, the imminent abolition of the milk quotas in 2015 will be accompanied by a significant increase in output that will pave the way for significant growth in the sector.

Last year the value of Irish food and drinks exports amounted to €9.9 billion, a 9% increase on the figure achieved in 2012 and an impressive 40% – or €3 billion – increase on the figure for 2009. Now the sector is well on course to meet the target of €12 billion in annual sales which was set out in Harvest 2020, the Government's blueprint for the development and growth of the sector which was published back in 2010.

Leading the charge on the export front is Bord Bia, the State agency that assists Irish food and drink companies in the overseas marketing of their products. With a central role to play in achieving the targets set out in Harvest 2020, Bord Bia is reasonably optimistic that these targets will not only be met but exceeded.

"With six years to go, there's another €2 billion to be made up and one would have to conclude that the industry is well on track when it comes to reaching those targets," says Aidan Cotter, Chief Executive of Bord Bia.

AIDAN COTTER

The largest component of Ireland's food and drink exports is dairy products and ingredients. Last year exports of these products rose by 15% to just over €3 billion (not including fat-filled milk powders, classified as 'prepared foods'). Helped along by strong global dairy prices, a changing product mix and a strong performance in newer markets like China, the longer-term outlook for dairy products and ingredients is strong. With the imminent abolition of milk quotas in March 2015, output from the dairy sector alone will play a considerable part in meeting the 2020 target.

"In volume terms, the dairy sector is expected to grow by about 50% in the five-year period leading up to 2020 and that alone could add up to another €2 billion in exports without anything else happening in other sectors," says Cotter.

He points out that a number of the dairy processing firms and manufacturers like Kerry Group, Dairygold and Glanbia have been scaling up their capacity in anticipation of the increased output post-March 2015.

"The scaling-up has been ongoing at both the farm and dairy processing levels and they will be very well positioned to grow their businesses over the coming years. While the dairy and ingredients sector will be a major driver of growth for the foreseeable future, it would be important to see balanced growth coming across all sectors," he adds. "The market opportunity for beef, prepared foods, seafood and of course beverages is also good, so we want to see that all of these sectors experience solid growth in the years to come."

> "Last year the value of Irish food and drinks exports amounted to €9.9 billion, a 9% increase on the figure achieved in 2012."

Apart from dairy products and ingredients, a breakdown of the 2013 export figures shows that meat and livestock (including pigmeat, poultry, sheepmeat, beef etc.) amounted to €3.3 billion while prepared foods added another €1.64 billion. Exports of beverages, mainly whiskey, beer and liqueurs, meanwhile, amounted to €1.25 billion while seafood exports notched up sales of €520 million.

Since 2009, Bord Bia has also been looking after the overseas marketing of Irish seafood products, a role it assumed from Bord Iascaigh Mhara (BIM). Between 2009 and 2012, seafood exports rose by 65% to €534 million although last year there was a decline of around 3% to €520 million.

"Demand is strong for Irish seafood and there are endless opportunities for the sector although it has to live within the context of quotas and the constraints that it puts on supply. I suppose the big challenge is to add

value and build scale and that's something BIM has been doing great work on at the moment."

In terms of Ireland's export markets, last year the UK accounted for approximately €4.1 billion, or 42%, of Irish food and drink exports, making it the largest single market for Irish exporters. Exports of food and drink to other EU markets also increased last year by 11% to €3.2 billion with strong performances in Germany, France and the Netherlands. Asia is also rapidly becoming a key destination for Irish exporters and last year Bord Bia reported a 6% growth in the exports to the region, worth approximately €2.6 billion during the year. The star performer, however, was China, a market which recorded a 40% growth in 2013 to reach €390 million, making it the sixth largest overall market, the second largest dairy and third largest pork market for exporters, according to Cotter.

"China has become a very important market for Irish exports and companies like Kerry Group and Glanbia have made significant inroads. The sheer size of the market means there's enormous opportunities for Irish companies, not just in China but the wider Asian market. The world's population is growing by 80 million people a year and by 2050 around 80% of the global population will be living in either Asia or Africa. So, we see huge opportunities for Irish firms in these regions, particularly amongst the rapidly-growing middle classes," he adds.

"At the same time, however, we can't overlook the established markets on our own doorstep and I would never understate the importance of the UK market in particular. The UK's population is set to grow by 10 million people over the next 25 years and this is at a time when Europe's population, in general, will peak in 2020 and then start to decline. So an expansion in the population by 10 million, in a market that is not producing enough food to meet its own needs, is very significant for us. It's almost like creating another market twice the size of Ireland. So we are uniquely positioned to capitalise on this and it will present Irish food and drink manufacturers with all kinds of opportunities," says Cotter.

To help Irish food and drink companies achieve their potential in overseas markets and ultimately achieve the targets set out in Harvest 2020, Bord Bia invests heavily in a wide range of marketing and support-related initiatives every year. These include overseas trade fairs, graduate marketing and fellowship programmes, supplier development programmes with the large retail multiples, market research and consumer insights, digital marketing training and sustainability initiatives that involve the entire supply chain.

The main sustainability initiative underway is Origin Green, the only national and industry-wide sustainability programme of its kind in the world. Origin Green enables Ireland's farmers and producers to set and achieve measurable sustainability targets that include the reduction of any environmental impacts associated with food production right through from the farm gate to the manufacturing of the end product.

There are also compelling commercial reasons why Origin Green is an important initiative for the industry. Recent research carried out by the international research firm Nielsen noted that 50% of global consumers are willing to pay more for goods and services from socially-responsible companies that have implemented programmes to give back to society by putting sustainability at the heart of their strategies.

"Since we launched it in June 2012 we have over 320 food and drink manufacturing firms that have signed up and 55 of them have become full members in that they have submitted plans which have been signed off by SGS, a world leader in inspection, verification and certification services. We estimate that they account for around 65% of our total exports but we aim to have over 100 companies as full members by the end of this year," he says.

"It's not a simple process to get across the line with your plan, many companies find it quite rigorous and then progress compared to plans needs to be certified on an annual basis. But we are very happy with the progress we've been making to date," he concludes. ●

OPPORTUNITY KNOCKS

While the US, the UK and mainland Europe are strong export markets for many Irish companies, markets in Asia, the Middle East and Africa are rapidly becoming popular as Irish exporters spread their wings, according to John Whelan, AIB's Export Specialist.

Exports from Ireland last year contracted to €181 billion, *(Source: CSO)* as the pharmaceutical industry, which accounts for 28% of total Irish exports, came under increased competition from major generics abroad, with patents ending and Governments around the world pushing to reduce healthcare costs. However, putting the woes of the life sciences exporters to one side, 2013 was a very good year for indigenous Irish exporters who increased their exports by approximately 14%. They are now looking forward to strong growth over the coming years as favourable economic conditions are expected to return to many key markets like the UK and US, as well as growing consumer demand in regions like Asia, Africa and the Middle East.

Because of Ireland's location, Europe has traditionally accounted for the lion's share of Irish exports. According to CSO figures, Irish exporters, both indigenous and multinational, exported €101 billion worth of goods and services last year to European countries, including our second largest trading partner, the UK, which accounted for €32 billion. These figures are down on the previous two years. The stagnant and slow growth across the EU-28 has acted as a significant drag on Irish exports generally and will be a key factor in the rate of Ireland's export and economic growth over the coming year.

While newer and emerging markets are becoming increasingly attractive to Irish exporters, the EU will still remain the largest destination for Irish exports for the foreseeable future.

"Despite the growth in newer markets in Asia, the Middle East and Africa, there are still huge opportunities on our doorstep," says John Whelan, AIB's Export Specialist and a former CEO of the Irish Exporters Association.

He cites the Benelux countries as a good example of the opportunities available to Irish exporters. Comprising of Belgium, the Netherlands and Luxembourg, the region has a combined population of 27.8 million and accounted for €1.03 billion in Irish indigenous exports in 2013. The strength of the economies can be seen in 2013 GDP estimates of €585.6 billion for the Netherlands, €371.2 billion for Belgium and €44.2 billion for Luxembourg. Together, the Benelux countries were the third largest export market for Enterprise Ireland client companies in 2013. Between 2012 and 2013, exports to Belgium grew by 33% while exports to the Netherlands were up by 17% over the same period *(Source: Eurostat and Enterprise Ireland).*

"What we are seeing is a wide range of Irish companies in food and drink, software and


JOHN WHELAN

mobile technology, and while the markets are mature and stable, there is still plenty of room for growth as their economies continue to strengthen. By going in through the Benelux countries, or any other Eurozone country for that matter, you are also taking out the exchange rate factor which has been a difficulty for exporters to the UK in the past," he says.

"Despite the difficulties in UK, it is still a huge market for Irish exporters, particularly in the food and drink sector, Bord Bia has done a great job helping companies grow their exports there. Last year, the UK imported around €36 billion worth of food and drink and while we are getting a small proportion of that, it has been growing significantly and there are still major opportunities for Irish companies. In the Greater London area alone, for example, the demand from the food service sector is in the order of €75 billion a year. That's a huge market and some Irish companies, like Greencore, have been making substantial inroads into the food service marketplace there. But there are other opportunities for Irish companies that manufacture speciality niche food products and there is big demand in the UK for these. The drinks market in the UK also provides plenty of opportunities. The UK currently imports around €2 billion worth of beverages each year. Ireland is already exporting around €313 million worth of product and that can only grow as companies, like Irish Distillers, continue to grow the market share for Irish whiskey into one which is dominated by Scotch whisky." *(Source: Office of National Statistics, UK Gov).*

Ireland's largest single export market is the US says John Whelan who goes on to say: ''While the export figures of €26 billion in 2013 includes a sizeable amount of pharmaceutical exports dominated by multinationals who manufacture here and ship them back to the US, in addition there are exports from large medical devices corporations. But when you move away from these, Ireland has developed a batch of its own bio-tech and life science firms that are doing really well in the US. Overall it is a strong sector and it does generate and keep a big volume of high-quality graduates working in Ireland. Science Foundation Ireland has been trying to pull in more people to do basic research in

Ireland, and again that does usually spin off into additional companies who commercialise it and go onto export. A challenge for us is to find the right financial solutions to keep supporting these research companies and retain ownership of them in Ireland as they expand. If we can achieve this we can build up the indigenous pharmaceutical and medical device side to the kind of sizes that we've got in the multinational sector."

With a growing number of Irish SMEs operating in the ICT space, in areas like software, gaming, social media and analytics, many of them are making successful inroads into the American market, says Whelan.

"We have a very strong cluster of them here exporting to the US. Usually for ICT companies their first market tends to be the US rather than, say, the UK. And it's proving a very good route to market for a lot of them. By focusing on the US, they are launching into a huge early ICT adopters market and it's also where many of the big venture capital companies are located. It helps to be on their radar when it comes to funding. Market presence is not as critical in the digital space, which is not constrained by physical or geographical boundaries and hence supplying from Ireland is not an issue."

Further afield, the Chinese market is one which many Irish exporters would like to get into given the sheer size of the opportunities. Not only is it the second biggest economy in the world but it also imported $1.3 trillion worth of goods and services in 2013. *(Source: Ministry of Commerce, People's Republic of China).* However, John Whelan sounds a note of caution for companies looking at the Chinese market.

"A number of Irish companies like Glen Dimplex, Glanbia and Kerry Group have done well there and there's no doubt that the sheer size of the market and its growing population provide exporters with plenty opportunities. However, you need a partner if you are looking at China as an export market. The perceived wisdom for people who have been in the market a long time is that it's almost impossible to do it on your own and you need a joint-venture partner. The scale of the market is such that if you don't have the wherewithal financially, it's going to be difficult. So for some companies, it might prove to be a step too far."

The Middle East and North Africa (MENA) region is also proving to be a valuable hunting ground for Irish exporters. Historically Irish companies operating in construction and engineering have fared well in countries like Saudi Arabia, Libya, Kuwait, the UAE and more recently Qatar. With substantial sovereign wealth funds, massive infrastructural programmes underway in some countries and some of the highest per-capita incomes in the world, the region has also become a lot more attractive to companies operating in the food, telecommunications and software sectors.

"There's a long history of Irish diaspora in the Middle East which makes it an easy market for a lot of indigenous Irish companies to go into. What emerged in the recent focus groups that were held for this Outlook report was that the Irish connection was very positive and they have a kind of a liking for the whole Irish image. Because there's a lot of Irish in the region, they tend to help each other out and Enterprise Ireland has done great work there."

Meanwhile in the other so-called BRICS countries of Brazil, Russia, India and South Africa, the fortunes of Irish exporters have been somewhat mixed. While economically very powerful, the opportunities can be limited. With Russia, in particular, in the spotlight for all the wrong reasons, this is not going to improve.

"By going in through the Benelux countries, or any other Eurozone country for that matter, you are also taking out the exchange rate factor which has been a difficulty for exporters to the UK in the past."

"The Russian market is still a very difficult one and it's dominated by, shall we say, old-style practices and ways of doing business. Often it's difficult to do business without middlemen or agents and this can add to the whole complexity of doing business there. That said, indigenous Irish companies are exporting around €600 million a year to Russia. Most of our meat producers in Ireland are having some successes into the market, but it is extremely volatile and the rules can change fairly rapidly. As American beef, pork and poultry exporters found out last year, their meat was not of a sufficient standard in Russia because they used the feed additive ractopamine and they were out of the market virtually overnight. It also remains to be seen what the possible outcome might be if UN sanctions against Russia escalate.

"Likewise, India can be very difficult to crack and we have had several trade missions there to try and break into the market. Even the food processors have found it difficult. While Brazil is also a distant market, there's some good Irish connections and there's good niche opportunities for Irish firms and often you'll get a much higher price in that market than you might get in Europe. But you do need people on the ground because Brazil is such a huge country. Companies need to understand that they will have to spend a fair bit of money and time if they want to get into the market in any meaningful way. Finally South Africa is a very strong market and a lot of Irish companies in food and technology have done well there. It is also a good stepping stone into other African countries which are also growing in appeal although they are a slow build and companies will need to put in the necessary resources and infrastructure if they want to succeed," concludes John Whelan.

THE COMPETITIVE CHALLENGE

With exports driving Irish economic growth, Irish firms need to ensure that their competitiveness in international markets is not undermined or challenged, says Martin Shanahan, CEO of Forfás and CEO-designate of IDA Ireland.

"If Irish companies are to be successful selling abroad, well then we have to be more competitive than companies from other countries because every country, and the companies within those countries, are all trying to be as competitive as us," according to Martin Shanahan, CEO of Forfás and CEO-designate of IDA Ireland.

One of the key points we try to get across about competitiveness is that, you can never say you are done, you can never say that you have achieved competitiveness, because everybody is biting at your heels on all fronts and at all times. So it's a never-ending process," he says.

"Essentially there are two ways to be competitive at a company level, or indeed at a country level, you either reduce your costs or you add value through innovation and productivity. People might think it's complex but it's actually not."

"The reality is we lost a lot of our competitiveness through the early to mid-noughties as we

MARTIN SHANAHAN

concentrated on things which weren't adding value and which weren't hugely productive, like construction and property. These sectors sucked in resources and, in doing so, drove up the price of resources elsewhere in the economy. So we lost a lot of competitiveness during that time. Since 2008, however, we have regained a lot of it, largely because we were forced to. The National Competitiveness Council has said on a number of occasions that one of its main concerns is that this regaining of competitiveness isn't structural, nor is it ingrained. The concern would be that, once we start to see an economic recovery, costs will start rising again. So I think that's what we need to guard against most of all. We can't afford to take our eye off the ball again and it's imperative that we strive all the time to be competitive," he says.

"We have made improvements on the cost front and we have seen dramatic cost reductions in areas like property. We have also seen improvements in unit labour costs although in the last two years labour costs started to rise again. Where labour cost increases are linked to productivity, it's not an issue. Where they are not however, it is a cause for concern as it makes us less competitive. Also, at both national and company level, companies have to look at where their competitors' costs are at and see can they justify the levels that either they are at, or will be at, post adjustment relative to what others are doing. The reality is we are seeing increases which means that we are again converging with European levels. Unless we are doing better than other European countries, we are not becoming more competitive than them."

In the most recent IMD World Competitive Index for 2014, Ireland was ranked in 15th place. While this is a considerable improvement on 24th in 2011, 20th in 2012 and 17th in 2013, Ireland still trails other European countries like the Netherlands, Germany, Sweden and Denmark who are innovation leaders.

"One can argue over the accuracy of these types of measurements. There's no shortage of rankings out there but they do give an indication as to how you are doing. While the IMD rankings paint a positive picture, we still need to improve and we can never be complacent," he adds.

The issue of competitiveness is also central to the Government's Action Plan for Jobs and all the different State agencies, including Forfás, have an important role to play in getting the message across to Irish businesses.

"The overall purpose of the action plan is to ensure that enterprise and competitiveness are at the top of the Government's agenda, across the entirety of Government. A lot of

what impacts on competitiveness actually falls outside the direct remit of the Department of Jobs, Enterprise and Innovation or the other State agencies and we are depending on a lot of people to do a lot of things. There are areas in which we are strong from a competitiveness perspective. The flexible labour force that we have, the high level of education skills and a strong capability on the R&D and innovation side. We are investing over €800 million into R&D and innovation a year and the challenge is to continue to ensure that the output from that R&D and innovation system is relevant to the markets and types of products that both indigenous and the multinational companies need."

It is increasingly recognised among economists that the link between exporting and R&D and innovation are far from exogenous. Countries with high levels of R&D and innovation, taking place within industry, tend to fare a lot better in international markets than those that don't. There is also ample evidence that suggests that SMEs performing R&D demonstrate better employment retention capabilities, particularly during a downturn.

The most recent figures for Ireland, show the number of Irish SMEs that are R&D active has increased significantly since the beginning of the Government's investment in research and development back in 2003. The figures show that the number of companies that were R&D active in 2011 was 1,600, a 43% increase on the 2003 figure. According to Martin Shanahan approximately 75% of these were indigenous firms and predominantly SMEs.

"I think we are improving as innovators at all levels. From a State perspective, we started out investing in R&D about 15 years ago. From an extremely low base, that has ramped up significantly. A lot of work between the late 1990s up to 2010 was around developing an R&D base that could stand up to scrutiny internationally and a lot of money was invested – around €800 million a year. Having developed from there, I think all of the analysis shows that we have been quite successful in building up that base," says Shanahan.

"The next challenge that we faced was ensuring that the types of R&D we were investing in were the right ones for the enterprise base that we have here and aspire to in the future. Fourteen areas were prioritised that we felt were important to invest in including areas like medical devices, food for health and data analytics. The other part of the challenge was: if we have all of this on one side, how do we make the connections with businesses and how do indigenous businesses, in particular, access that? So, the setting up of the Central Technology Transfer Office, now called Knowledge Transfer Ireland, last year is another mechanism by which we hope things will move along.

"Then on the other side of the equation: how do we promote the value of R&D and innovation to Irish SMEs making them aware of what's available which will have positive impacts on their business. So, we still have a lot of work to do," he concludes. ●

"While the IMD rankings paint a positive picture, we still need to improve and we can never be complacent."

EMPOWERING IR

Enterprise Ireland plays a vital role in helping Irish companies to develop their export potential, according to Kevin Sherry of Enterprise Ireland.

With a client base of over 5,000 companies, which between them directly employ in the region of 175,800 staff, Enterprise Ireland is not only a vital component in the Government's Action Plan for Jobs but also a hugely important player in assisting Irish companies to develop their potential and expand into new overseas markets.


KEVIN SHERRY

With the vast majority of the 5,000 companies either exporting already, or preparing to export, their future success will have a major impact on the export-led economic recovery that is already well underway in Ireland.

According to Kevin Sherry, Manager, International Sales and Partnering at Enterprise Ireland, the agency is proud of the recent success and growth of Irish companies with the continuing outlook for the future of indigenous companies' exports and jobs growth promising.

"The growth in our clients' exports between 2010 and 2013, was over 20%. Growth was across virtually all sectors. In construction, for example, it was 25% while in the engineering sector it was a stunning 68%. Another example is the growth in the communications and digital media sector, which was up by 42% over the same period. Exports of food and drink have also increased substantially during that period. So, significant growth really has been achieved across the majority of sectors and indeed across the majority of the main international markets," he says.

"Our traditional established markets including the UK, the US and countries within the Eurozone, have all performed well with strong growth in most countries, particularly the US and Germany, even relative to the steady growth rates that have been seen in these markets," he says.

Outside of these traditional markets, Enterprise Ireland clients have substantially increased their presence in Asia and the Middle East and, in the process, have reduced their dependency somewhat on markets like the UK.

"There has been strong growth in the Asia-Pacific region in

ISH EXPORTERS

2012, where for example, we saw growth in Irish company exports of 17% to this region with similar levels achieved again last year. That said, these high growth markets are of course very competitive and require substantial commitment to succeed," he says.

According to Kevin Sherry, companies that tend to be the most successful in growing their export business are the ones that continued to invest in areas of R&D, innovation and marketing capability during the downturn.

"During the downturn, many Irish companies continued to invest in R&D while at the same time reducing their costs by trimming overheads in other areas. Now they are seeing the benefits of that strategy and the fruits of those investments are clearly evident," he says.

The rapid growth in the Irish services sector over the last 10 years has also played a considerable role in boosting exports, says Sherry. While manufacturing remains strong, services have outpaced it in terms of export growth. Indeed this is not a trend that is unique to Ireland.

"One of the things we are seeing is the substantial increase in the number of successful services businesses in the market and if you look underneath the total export figures and indeed the total sales figures of Irish businesses, there is a quite a revolution taking place in terms of the make-up of indigenous companies. One of the notable features, obviously, is the growth in social media and e-commerce. There's also a growing number of Irish companies that are moving away from what would have been regarded as traditional channels to market, in terms of distributors and agents, and deploying new online distribution models. These technologies are actually changing the nature of some of those industries, and indeed in the way that companies deploy resources."

While many of Enterprise Ireland's clients have been undoubtedly successful, Sherry cautions against any complacency with a strong need to continually improve competitiveness and efficiency.

"In order for Ireland to be successful and for Irish companies to be successful overseas, we have to continue to be competitive and be at the leading edge in terms of the application of new technologies. The investment that Irish companies have made, and are continuing to make in areas like lean processes, is hugely important in what is a very competitive global marketplace," he adds.

Access to finance is also another key consideration for companies looking to expand into new markets. Enterprise Ireland is already an important part of a currently healthy Seed and Venture funding ecosystem that has evolved in recent years. Typically, Enterprise Ireland invests in over 160 start-ups a year, including 60 through its competitive start-up funds. It also invests directly in a number of seed and venture capital funds to stimulate the availability of such funds for early-stage companies through a competitive call for proposals.

"To fund and fuel the growth that is forecasted over the next three years, access to finance is absolutely critical. Enterprise Ireland has been very active for many years in stimulating the availability of seed and venture capital funds. We recognise that the main Irish banks have played a vital role in these funds, and significant credit is due to them for their participation. Availability of seed and venture funds has been an essential element in the ability of entrepreneurs and High Potential Start-ups (HPSUs) to get their businesses off the ground over the last seven years. It was very important that these funds were in place at a critical period during the economic downturn. So actually Ireland was well served in terms of the availability of seed and venture capital funds during that period."

A significant breakthrough for Enterprise Ireland came last year when it worked with several Government departments to plug a gap in the market for development capital.

"One of the key gaps in the funding landscape identified in the Government's Action Plan for Jobs was the area of development capital, particularly for companies seeking to raise between €2-€10 million and operating in what might be considered the more traditional sectors such as engineering, electronics and food. Enterprise Ireland, with support from Government, went out seeking to encourage the establishment of three funds in the development capital space totalling €225 million. Two of these funds have already been announced – MML Capital, which was supported by AIB, and the BDO Development Capital Fund. A further fund is expected to be announced in the near future. These funds are an important boost to the existing funding available to Irish companies looking to secure development capital to support the expansion of their business and the creation of new jobs in Ireland" he adds.

"Enterprise Ireland itself, with Government support, will continue to play an important role in the provision and stimulation of the availability of early stage seed and venture capital funds, working with Government and industry to ensure that the scale of available development capital that has being put in place grows and is fully utilised. Getting this right will greatly assist Irish exporters and the economy to fully reap the benefits in terms of increased exports and jobs" he concludes. ●

AN EXPORT-LED RECOVERY

Medium-sized exporters, mainly indigenous companies, have been outperforming the larger foreign-owned multinational exporters and are one of the overlooked success stories of the economic recovery in recent years, writes John Whelan, AIB's Export Specialist.


JOHN WHELAN

Over the past four years indigenous exports of both goods and services have increased by 33% to €18.6 billion whereas, in the same period the multinational sector exports have grown by 12.5% to €163 billion in 2013. The growth in indigenous exports has exceeded the targets set for Enterprise Ireland and Bord Bia in the Government's Trade, Tourism and Investment Strategy 2010 to 2015. Because of this success, these agencies are currently in the process of setting new targets for the sector for 2014 to 2016. It is also worth pointing out that all indigenous sectors have expanded their exports substantially since 2010 and in the process created 42,600 new full-time jobs.

Several factors contributed to the growth of indigenous export trade since 2010. The primary factor is undoubtedly the surge in global demand for agri-food and, in particular, dairy products which has put real long-term growth prospects into the sector. Agri-food – processing dairy products into butter, cheese and added value baby nutritionals as well as beef, pork, lamb, poultry, cereals, seafood, prepared food, health drinks and other products – is Ireland's largest indigenous industry, The industry is dominated by the indigenous businesses and employs more than 160,000 and exported nearly €10 billion worth of goods to more than 170 countries in 2013.

The second significant factor, has been the fall-off in demand on the home market which, afflicted by high unemployment and austerity, fell from €20 billion to €13 billion since the start of the recession in 2009. This brought about a new urgency to building sales internationally for many business owners and is reflected in the rise in the percentage of total goods and services sold on foreign markets – rising from 37% in 2009 to 46% in 2010 and last year to 52%. This is a very significant change in the strategy of Irish business and heralds a new dynamic for the economy if the trend continues.

The third factor has been the increase in venture capital available to the technology sector, particularly the investment in start-up software companies. Irish businesses raised €285 million from investors in 2013, up 6% from the €269 million raised the previous year. This is almost double the availability of funds in the 2007-2010 period when €150 million a year on average was invested.

The fourth identified factor is the rise in the number of engineering, construction and business consultancy firms selling their services abroad, which reached approximately €3 billion in exports in 2013.

Banks, despite the concern over access to funds, provided approximately 80% of debt financing in Ireland in 2013 to fund the growth, according to the Department of Finance's Strategy for Growth 2014-2020.

It is interesting to compare this to the average across the EU which is 75%, according to the European Commission. And it does beg the question of whether we need alternative sources of funding that our European competitors are sourcing.

GLOBAL OUTLOOK

Recent business surveys and industrial production data point to a firming up of the recovery in the US and UK in early 2014, the two biggest markets for Irish exports. The gradual improvement of US employment data has allowed the Federal Reserve to proceed with its planned "tapering" of its third round of quantitative easing.

The recent release of UK growth figures of 0.9% for the first quarter of 2014, and the expectation of a 3% GDP growth for 2014 turns the UK into one of the fastest growing countries in the OECD. The outlook for the European Union has also improved, although growth there will remain uneven, with the IMF forecasting 1% GDP growth on average for 2014, rising to 1.4% in 2015.

Meanwhile, the World Trade Organisation (WTO) is forecasting global trade growth of 4.7% in the goods and services sector in 2014, double the level of last year and rising to 5.5% in 2015. Breaking out the commercial services global trade, the WTO points to a 5.5% growth in services trade in 2013.

Against this backdrop, it is reasonable to assume that total exports from Ireland will grow at approximately 5% next year. With the faster growth continuing to come from services exporters. But, following the trend in Irish indigenous export growth in recent years, we can expect Irish medium-sized export businesses to increase their exports by close to 10% year-on-year. However, they will need support to maintain the potential growth pattern. ●

SERVICING THE NEEDS OF EXPORTERS

AIB has a wide range of financial products and services that help Irish exporters grow their business overseas, writes Mags Brennan, Head of Sectoral Strategy, AIB.

In a small open economy like Ireland, export sales play an important role in the day-to-day operations of many SMEs around the country. As the Ipsos MRBI research for this Outlook report shows, export sales account for a growing component of many SMEs' turnover.

When it comes to managing the financial risks associated with exporting, AIB can provide the necessary products and services that will support exporters' trade successfully in overseas markets.

AIB has appointed 85 Export Finance Champions across its network to provide customers with access to practical export-related information as well as access to the teams of product specialists from the bank's Treasury, Trade Finance and Commercial Finance units (See Page 11). This "One Bank" approach to our customers' needs will ensure that the appropriate product information and services are delivered in a timely and efficient manner.

AIB's range of expertise and product offerings is extensive and covers all the day-to-day needs of exporters and includes support for the following exporter activities:

Helping an exporter get business overseas: AIB can issue Guarantees and Bonds on behalf of its export customers to new prospective overseas clients to support the winning of new supply contracts or performance obligations under new contracts.

Helping an exporter with its cash flow management: AIB can provide working capital finance support by way of overdraft facilities or invoice discounting which enables exporters convert up to 80% of its debtor book into cash.

Helping an exporter manage foreign currencies: AIB can provide foreign currency accounts to make it easier for an exporter to make and receive payments in foreign currencies. These accounts can be accessed online though AIB's iBusiness Banking platform (www/aib.ie/ibb) which can also be used for making domestic and international payments. AIB can also help an exporter manage foreign exchange rate risk.

Helping an exporter to get paid: AIB can collect and confirm payments made by the customers of an exporter using Documentary Collections or Letters of Credit. This ensures that an exporter gets paid before shipment. AIB can also process card payments via its merchant services.

Helping an exporter finance the expansion of its business: AIB can provide loan or asset finance packages to fund expansion of production


MAGS BRENNAN

facilities or additional equipment requirements supporting the exporter's move into new markets overseas.

Exporters need to be cognisant of the risks when entering new markets and one of these risks is that of bad debts/non-payment. An exporter can use non-bank products such as credit insurance to provide protection but they should also look for debtors to provide letters of credit, which AIB can confirm, which should also ensure an exporter is paid.

AIB also provides customers with valuable market information and analysis as well as weekly economic commentary online via www.aibeconomiceresearch.com. In addition, the bank also provides customers with information on market updates, interest rate and exchange rate movements through www.fxcentre.com.

Trade Finance: Guarantees, Bonds, Letters of Credit
Kieran O'Byrne: Tel: 01 641 7336; Aisling Walsh: Tel: 01 641 7908
Email: aib.trade.finance@aib.ie
Customer Treasury Services, Foreign Currency Accounts & Hedging Facilities
Dublin Dealing Room: Gavin O'Carroll, Robert Keeling, Jane Kavanagh:
Tel: 01 772 4003
Cork Dealing Room: Kieran Ferguson, Catherine Murphy,
Martina Harrington: Tel: 021 427 1383
Commercial Finance/Invoice Discounting
David Avery: Tel 01 641 4807 / 086 778 2546 or david.g.avery@aib.ie
Helen O'Callaghan: helen.m.o'callaghan@aib.ie

In conjunction with the launch of this Outlook report, the bank will also be launching a €200 million SME Export Finance Fund which will support the provision of products and services to Irish Exporters.

AIB also has a competitive funding package available to all SMEs including Exporters. Specifically, AIB is currently the only Irish bank making discounted European Investment Bank (EIB) funding available to our customers through the €200 million EIB III Fund, which supports five-year term financing at a discount of 1.25% below our standard variable business rate. For further details of our EIB III fund, visit www.aib.ie/business. We also provide discounted funding to SMEs engaged in innovative activities through a similar partnership with the European Investment Fund.

AIB is also the largest bank provider of seed capital to SMEs through a range of VC funds and is a co-investor in the MML Growth Capital Fund.

Exporters, or potential exporters, who would like more information about the products and services available through AIB can contact their local relationship manager who will introduce them to the local Export Finance Champion. Alternatively they can contact any of the product specialists below.

Lending criteria, terms and conditions apply.

Invoice Discounting
Please note that the provision of this product or service does not require licensing, authorisation or registration with the Central Bank of Ireland and, as a result, it is not covered by the Central Bank's requirements designed to protect consumers or by a statutory compensation scheme.

▶ **CASE STUDY – ROCKABILL SEAFOOD**

FISHING FOR GROWTH

Seafood Exporter of the Year, Rockabill Seafood, is casting its net wide to capitalise on the export knowledge it has built up over three generations.

Rockabill Seafood is a family-run company with four decades of experience in the fishing industry, operating its own fleet of trawlers and refrigerated trucks and with processing plants located in Dublin and Cork.

The business was established in 1983 by Bill Price, who had followed his father onto the fishing boats. In the late 1990s, Bill decided to invest in a processing plant and in 2000 the company's shellfish factory opened in Balbriggan. This site has been expanded this year to five acres and the company is investing more than €3 million in a major extension to the factory, a new freezing line and another large cold store.

The company's white fish factory is located on a 12-acre site at Skibbereen, where 60 people are employed in addition to the 65 who work in Balbriggan. The company also maintains a fleet of 12 modern trawlers – all equipped with on-board refrigeration – and also buys a portion of its supply from carefully selected and monitored Irish trawlers. Through direct ownership of all logistics, the company is able to control the entire product cycle. This has enabled it to win a number of industry accolades, including the Seafood Exporter of the Year category at the 2013 Export Industry Awards.

Rockabill Seafood turns over around €20 million and is part of the wider Rockabill group of companies. This group includes Rockabill NI, which was opened in 2013 as a sourcing company for the seafood business and has revenues of €10 million. Fishermen from up to 120 trawlers supply the company, which general manager Alan Price says helps to create a good working relationship with the people who catch the product.


ALAN PRICE

"We also have a company in China called Royal Atlantic Gold Seafood, which was established 18 months ago to gain a greater insight into the Chinese market. We do a lot of live exports to Hong Kong and Beijing, but the frozen market is rather more complex as you need to understand how the product has to be packaged and delivered. This market research is part of a longer-term plan for the Chinese market and the business is developing steadily."

Rockabill has received support for this venture from Bord Bia and Bord Iascaigh Mhara, although it rejected an initial proposal to go to China as part of a group of four Irish companies in favour of partnering with Donegal-based Atlanfish.

"This has worked well because we don't have competing products. We are currently in the process of setting up a new company – Rockabill Atlan – and are taking over a processing plant in Scarborough in the UK that will process crab for export. This factory will be run through our Dublin office."

Until this year, Rockabill has been an exclusively export business, explains Price. "We have started looking at doing some business in our domestic markets (Ireland and the UK) under the Taste of the Sea brand but our main markets are France, Spain, Italy, Germany and the US, as well as China. In total, we ship product to 22 countries. Supermarkets are a major customer base for our frozen products and we also work with food services companies, while in the live market we supply a number of restaurant groups in China."

He describes getting paid as the key challenge to exporting successfully. "Our main objective is making sure that before we commit to, or deliver, an order that we have insurance cover in place. Our sales staff know that each customer has a credit limit. In recent years, a number of customers have had their cover revoked or reduced, which can make for difficult conversations with companies that we might have worked with for 20 years or more."

In these situations, Rockabill works hard with the customer to either secure payment in advance to ensure the credit limit is not breached or obtain some form of guarantee. Price says this approach offers peace of mind for both the business and its bank.

The company has banked with AIB from day one and Price says access to a flexible overdraft facility has been crucial. "Fishing is a seasonal activity – the product is not always in the same place, the weather can change and the tides can be unfavourable – so a substantial overdraft is necessary to run the business. Without the assistance of AIB we wouldn't be where we are today."

Over the next three years he hopes to increase Rockabill Seafood's turnover by up to 50%. "We are always looking at new markets," he concludes. "In addition to China, we are looking to develop the Irish and UK markets even more," he concludes. ●

▶ **CASE STUDY – IRISH YOGURTS**

CHURNING IT OUT

Knowing what customers want and working with the right banking partner, have been central to the success of Irish Yogurts in all the markets it operates.

If the thriving Irish artisan food manufacturing scene ever needs a role model, it can be found in Irish Yogurts in Clonakilty in West Cork, a town renowned for its food output.

The company was established by Diarmuid O'Sullivan in 1994 with the aim of producing traditional churn-made yogurt. The appeal of this production method lay in both its texture and taste and its commercial potential was underlined by early market research carried out by the agri-food research agency Teagasc on prototype products.

Since setting up as a one-man artisan operation 20 years ago, it has evolved into a highly successful Irish and internationally recognised business with 150 employees. With annual sales now in excess of €18 million a year, the company churns out more than 50 million pots of yogurt a year.

Such has been the growth in the company, it opened a second plant in Clonakilty in 2008 to deal with increased sales and the development of new products. The Irish Yogurts brand consists of 37 different products while it also manufactures a wide range of own-label yogurts for all the major retailers in Ireland, including Dunnes Stores, Aldi, SuperValu, Lidl and Tesco. In the UK, Irish Yogurts' products can also be found on the shelves of Tesco, Sainsbury's and Morrisons.

DIARMUID O'SULLIVAN

The company now exports around a third of its output, most of which goes to the UK, although its products can be found as far afield as Saudi Arabia, Bahrain and Dubai.

Arguably one of the most significant milestones in the company's 20-year history was when the UK retail giant Tesco bought Quinnsworth from Associated British Foods in May 1997.

"Tesco made a commitment to support Irish suppliers and has followed through on this promise over the last decade and a half," explains Diarmuid O'Sullivan. "In 2012 we won the inaugural Tesco SME Exporter Award, but we were first recognised in 1998 when we won the Dairy Category and Supreme Award at the Tesco Ireland Irish Food and Drinks Awards. Part of this award was that our products were listed in 200 of the leading Tesco stores across the UK."

While this was a significant boost for the company, O'Sullivan recognised that more needed to be done to fully exploit the business opportunity and he committed a substantial investment in increasing production capacity. Within six months, sales had risen significantly.

The company's growing reputation quickly came to the attention of other UK retailers and, within 12 months, an agreement was in place with Sainsbury's and a similar deal with Morrisons quickly followed. All the company's UK sales are branded products, which is a significant factor in a market where the cost of doing business in Ireland creates competitive issues.

"The biggest challenge we face is maintaining a competitive cost base," says O'Sullivan. "Over the last few years we have worked hard to take costs out of the business through investment in new equipment and automation.

With annual sales now in excess of €18 million a year, the company churns out more than 50 million pots of yogurt a year.

Our products are very well received across Europe and market research indicates that we have a point of difference, but we have to be competitive on costs."

He attributes part of the company's success to actually listening to customers, knowing what they want and meeting their expectations. A strong business plan and an even stronger partnership with its bank has also been central to the company's growth.

"We have been with AIB since the very start of the business 20 years ago and it has been very much a partnership," he says.

"I believe the financial supports the bank has made available to us are the best on the market in Ireland. We have looked at what was on offer from other banking providers, over the years, but AIB has shown an appetite for our business that has lasted more than two decades. We also appreciate the fact that they actually take the time to come and see us at our premises."

All going well, Irish Yogurts aims to be exporting to more than 20 countries by the end of next year. "We estimate that there is a market opportunity worth between €12 and €15 million in Europe alone over the next 12 months, which would enable us to almost double our revenues," O'Sullivan concludes. ●

OPENING DOORS IN EXPORT MARKETS

The support of AIB has opened doors across the world for one Wicklow-based manufacturer.

Over the last five decades, some of the most sensitive environments on the planet have been protected by doors manufactured in Wicklow. Indeed the advanced door solutions for hygienic and sterile environments produced by Dortek are used by 18 of the world's top 20 pharmaceutical companies and by the top five global nutritional and food companies. Since it was set up, the company's products have also been deployed extensively in major retail chains across the globe and can now be found in 50 different countries.

Dortek employs 120 people, of whom just over one third are based in Ireland at the company's headquarters in Wicklow town. The remainder of the staff are split between its UK office, its largest export market and its operations in Asia, including Singapore and Malaysia, where it also has a manufacturing plant which has been operational since 2008. According to company Chief Executive, Alan O'Keane, the group's turnover is in the order of €14 million and rising.

"Most of our executive team have 20-plus years experience in the door industry and we also employ many experienced designers, engineers and project managers," he says.

"We have been an export-focused company from the outset. The UK has always been our largest market, but over the last five years we have put a lot of time and investment into developing new markets and increasing the number of countries we export to."

ALAN O'KEANE

Dortek now supplies clients across Asia, Africa, the Middle East and Australasia and has started to gain traction in North America. The company's manufacturing plant in Malaysia supplies all its Asian clients, so shipping and logistics costs are kept to a minimum.

"Our doors are used in pharmaceutical cleanrooms, research labs and food (particularly infant formula) manufacturing facilities, all of which require a controlled environment where contamination would be a major issue," he says. "For example, in April 2014 we secured the cleanroom door package for the Crick Institute, a major new research facility in central London."

Getting involved with a project from an early stage differentiates it from competitors, he says. "This means we understand what each door is required for, which means it can be designed specifically for its environment."

Product is supplied on a turnkey basis and Dortek installs every door it produces and manages any automation and/or interlocking requirements.

"In every market we supply to, there is at least one local door manufacturer and the easy decision for the client is to use the local supplier, so we have to prove that we can do the job better," O'Keane continues.

"This means we have to understand cultural differences and make ourselves available in the customer's time zone to respond to phone calls or emails and travel to meet them at their location. We have to present ourselves as a local company, which extends to details such as language (the company has launched four mini websites in German, French, Malay and Arabic). Information flows around the world so quickly that there is no point even trying to 'learn on the job' – you have to get it right first time because you won't get a second chance."

He is complimentary of the help the company has received from Enterprise Ireland. "Enterprise Ireland has been extremely helpful, particularly in terms of introductions. There is a lot to be learned from the experiences of other Irish exporters – who are usually forthcoming in terms of supplier referrals and we have made good use of the agency's international connections."

> "We have been an export-focused company from the outset. The UK has always been our largest market, but over the last five years we have put a lot of time and investment into developing new markets."

Dortek is a long time customer of AIB and O'Keane says the bank's commitment to his company never wavered during the global financial crisis.

"At that time we may not have looked like an obvious business to support – a door manufacturer based in Ireland at a time when the construction industry was in turmoil. However, AIB stuck with us and took the time to really understand the business and our potential. The key to our relationship is the quality of the people we deal with and we have excellent relationship managers in both AIB and Enterprise Ireland."

In addition to access to finance, Dortek leverages AIB's international expertise to improve its currency management and facilitate access to credit insurance in countries where it can be difficult to secure cover.

Looking ahead, O'Keane says his ambitions for Dortek over the next five years are to see the company established in more locations. "Our strategy in recent years has been to have a plan for multiple markets, so we are consolidating in Asia, looking to increase our presence in the Middle East and making initial sales in North America."

▶ **CASE STUDY – ASTEC GLOBAL CONSULTANCY**

A GLOBAL PLAYER

Having worked in over 100 markets around the world, few Irish companies can claim to be as truly international as ASTEC Global Consultancy.

The Dublin-based ASTEC is a global ICT consultancy that has over the last three decades provided a wide range of services to both the public and private sectors worldwide, spanning from training to project management, from the drafting of IT specifications to the implementation of information systems. Past and present clients have included Governments, global telecommunications companies, environmental, educational and transportation agencies as well as international banks.

The firm is the only Irish lead contractor for the EC External Services Frameworks, which finance projects in countries beyond the current 28 EU member states. It has consistently been the top performer in the ICT Framework over more than a decade, both in terms of value and volume of projects, outperforming some of the major global ICT players.

ASTEC also actively works in the EC internal markets, engaging in various projects including consumer education as well as knowledge management for the European Investment Bank (EIB).

The firm has a strong and diverse partner network around the world. This network of over 150 organisations includes specialist service companies and regional associate companies that are qualified to work on international projects.

Management and IT consulting and software consulting services include monitoring and evaluating the efficiency and sustainability of existing IT systems; designing and developing management information systems, portals and data warehousing, designing ICT policies, ICT capacity building and skills development; telecommunications regulation; border security; and eLearning.

ASTEC evolved from a management buy-out in 2001, and was formerly part of the Eircom Group, explains Chairman Séamus McCann. "Most of our business is in the emerging markets and we have worked in well over 100 of these countries. We are currently engaged in Angola, Colombia, Ecuador, Mauritius, Northern Cyprus, Jamaica, Kenya, Macedonia, Armenia, Tunisia, Kosovo and South Africa."

ASTEC works primarily for the major international financing institutions (known as IFIs) such as the EC, World Bank, EIB, European Bank for Reconstruction and Development (EBRD) and the Islamic Development Bank as well as some bilateral funds.

"Much of our work involves developing strategy and writing tender specifications for these IFIs. We have a small team based in Ireland mainly involved in project management, while we contract international experts and partner companies to work on our international assignments."

The markets in which ASTEC operates – and the type of project work – are not the main focus of Enterprise Ireland or the Irish embassies, but the firm has built up a strong database of partners (both local and international) in these countries. This means it is able to identify the international tenders through its internal public procurement tracking system and identify the main competitors and tender winners in a wide range of sectors.

ASTEC has been banking with AIB for the last 13 years. "When we completed the management buy-out from Eircom, we also inherited the relationship with AIB. Since then we have used the bank for processing payments to contractors and receipt of funds from the IFIs. AIB also provides us with bank guarantees and bid/performance bonds for international assignments," he says.

In addition to his role at ASTEC, McCann is also the chairman of ConsultingIreland, an initiative to help other Irish companies win business in emerging markets. ConsultingIreland was established in late 2010 with the support of Enterprise Ireland and has run a number of seminars throughout Ireland and also presented at international events.

He is clearly enthusiastic about the opportunities that exist not just for his own company, but for many other Irish businesses that are keen to export their service

SÉAMUS McCANN

offerings into overseas markets. "These IFI-funded markets are virtually untapped by Irish companies – Ireland currently ranks 24th in terms of activity among the 28 EU member states. When you realise that most of the tenders are in English and that payments are guaranteed by the IFI (as well as offering advances of up to 60%) these should be attractive markets for many Irish companies."

He adds that ConsultingIreland is currently finalising a nine-month training and mentoring course for 40 companies interested in these markets. It is also providing an international tender tracking system, profiled for the individual companies, to enable them to keep tabs on the 200,000 public sector tenders available daily.

"In addition, ConsultingIreland has signed co-operation agreements with other regional and national associations (all Government agencies) to promote international co-operation on projects. We have also presented a strategy paper to Government on the way forward and await their comments. Conservatively these markets are worth close to €800 billion per annum. Typically, Ireland only focuses on research projects such as the European Commission's Horizon 2020, but this only represents about 8% of available EC funding," McCann concludes. ●

▶ **CASE STUDY – FIRST IRELAND SPIRITS**

CREAM RISES TO THE TOP

First Ireland Spirits aims to continue its impressive growth in international markets by leveraging the expertise of its new owner.

Established in 1993, First Ireland Spirits produces and sells a range of branded and own-label Irish cream liqueurs and whiskey liqueurs across more than 40 markets worldwide across all five continents for some of the world's largest retailers and drinks companies.

In a global market that was first pioneered by the Diageo-owned Bailey's Irish Cream, First Ireland has carved out a valuable global niche for itself as a leading producer of branded and private-label Irish country cream liqueurs. Now the company exports over 95% of its annual production, generating sales revenue in excess of €20 million.

Based in Abbeyleix, the company employs 40 people and produces and sells in excess of 700,000 cases of Irish cream liqueurs every year. The US is the largest market for Irish Cream and one where First Ireland Spirits has established its flagship brand O'Mara's. Outside of the US, both Feeneys and Brogans have become established brands with a concentration on emerging markets.

A significant element of First Ireland Spirits' turnover comes from the supply of private-label creams to giant retailers like Tesco, ASDA, Walmart, Costco, Intermarché, Kaufland and Woolworths. In recent years First Ireland Spirits has expanded its portfolio with the introduction of the Dubliner Irish Whiskey Liqueur, which is growing


AIDAN TALLON

rapidly and is now distributed in over 12 markets across three continents. This development is particularly exciting for the company and allows it to tap in to the increasingly global popularity of Irish Whiskey. It also manufactures a brand of schnapps called Olsen's Peach Liquor.

The management team boasts considerable experience of the drinks industry. Chief Operations Officer and CFO Aidan Tallon has worked with R&J Emmet and Gilbey and Operations Director Dan Collier also worked for R&J Emmet, while John Harte worked for Tyrconnell Whiskey Company and Cooley Distillery before joining First Ireland Spirits as Sales and Marketing Director in 2002.

Both Collier and Tallon have been with the company since it was founded and the latter says the key to creating a successful drinks export brand from Ireland is to have a strong partner in your target markets who believes in your brand and will spend the requisite time growing it.

"Unless you are a major company there will be a limit to the amount of money you have to invest in a brand, so you need to get a disproportionately greater share of 'hearts and minds. The right partner is essential to achieving this." says Aidan Tallon.

First Ireland Spirits was recently acquired by the Quintessential Brands Group, one of the independent spirits groups in Europe and Tallon describes the acquisition will open up considerable opportunities for the company in export markets.

"It allows First Ireland Spirits to benefit from being part of a larger international group with a broader brand portfolio, which means we are able to exploit opportunities that would not have been achievable otherwise. An example would be the recent contract for Irish Cream secured from Tesco based on the strength of Quintessential Brands, which supplies own-label vodka and gin to Tesco."

Enterprise Ireland has been a shareholder and strong supporter of the company since its inception, providing it with capital to invest in fixed assets and grant aid that served to underpin the company's capability building within its R&D department. This has delivered new products, product and packaging innovation and allowed the company to build expertise in ancillary areas.

Bord Bia's trade support in key areas such as attendance at overseas trade fairs has also been fundamental to First Ireland Spirits being able to build up to a position where it is represented in dozens of countries across the world. Bord Bia has also provided significant support in brand marketing and design and lends credibility in new markets where customers see the support of the State agency as a positive endorsement of the company, says Tallon.

First Ireland Spirits is one of AIB's newer customers, having transferred its business banking to AIB following the acquisition by Quintessential Brands Group.

"AIB has provided a turnkey solution for the business needs through a combination of term finance, invoice discounting, foreign exchange and day-to-day banking facilities," explains Tallon. "The export market is complex and demanding. We need our bank to be able to provide for payment methods from customers that help our business. Companies rely on their banks to provide a world-class, seamless service to such an extent that they are rarely noticed."

First Ireland Spirits has ambitious growth plans for the next five years, he concludes. "We have plans to expand into other products of Irish heritage such as whiskey and poitín and to use the strength of the Quintessential Brands Group to take advantage of additional opportunities worldwide for leverage and growth." ●

▶ **CASE STUDY – ATHLONE EXTRUSIONS**

OVERCOMING CHALLENGES

Athlone Extrusions is a good example of an Irish company that has overcome difficult market conditions to become one of Ireland's most successful exporters.

Operating from a 14,000 square metre manufacturing facility in Athlone, that has a manufacturing capacity of 28,000 tonnes, Athlone Extrusions is one of the leading thermoplastic polymer sheet extruders and compounders in Europe. The company, which employs 155 people, supplies a range of industry sectors including building, sanitary ware, automotive, screen printing, packaging, white goods, electronics and point of sale and display.

The company was founded in 1971, but in some ways the most important event in the company's history took place 12 years later when several members of the management team took over the business after it went into receivership.

CEO James McGee was a member of that team and was also a key participant in the management buy-out (MBO) of the company in 1990. Several further changes of ownership followed before a second management buy-out created the current ownership structure.

Commercial Director Jackie Browne, who was part of the MBO team, explains that 95% of the company's output is exported, with the UK accounting for half of this volume. "A significant percentage of the remainder is exported within the EU, but we have developed other international markets including Turkey, Russia, Egypt, South Africa, Australia and New Zealand."

Turnover is approximately €60 million and a growth rate of 5-6% per annum has been maintained over the last decade. The company supplies many leading sanitary ware manufacturers – producing plastic sheets for moulding into baths and shower trays – while in the automotive space its products are used in a wide variety of off-road vehicles including tractors and earth moving equipment.

Athlone Extrusions produces laminates for high gloss kitchen units and materials for domestic and commercial doors. "We are probably the biggest supplier to the European caravan industry," adds Browne. "However, the major change in our business in the last few years has been developing laminates for the furniture industry in Turkey."

McGee explains that during the recent economic downturn in Europe there was approximately 35% over-capacity across Europe, which illustrates the competitive nature of the market.

"We have had to be innovative in terms of product development and sourcing new markets. For example, manufacturers of off-road vehicles are looking for products with the lowest possible environmental impact and the best finish, so our in-house colour matching and compounding facility has helped us reduce lead times from colour assessment to order delivery, as well as lowering costs."

JACKIE BROWNE AND JAMES McGEE

The company takes a proactive approach to currency management, he adds. "We purchase most of our raw materials in sterling, which gives us something of a natural edge." In other markets, Athlone Extrusions deals in euro wherever possible. One of the major challenges for an Irish firm, in this sector, is the cost of doing business, says Browne.

"We are supplying clients in Central and Eastern Europe or Africa where labour costs are much lower and the cost of shipping materials can be considerable. Energy costs in Ireland are also relatively high, which means the plant has to operate as efficiently as possible."

In addition, potential clients sometimes assume that the business is more geographically remote than it actually is. "There is an assumption that we are almost operating from an island off an island. How we tackle that issue is to bring customers and prospects to Athlone to see the plant and the location. We also use Enterprise Ireland trade missions to promote the business."

The company has banked with AIB since the most recent management buy-out and McGee says the support it has received from the bank over the last decade has been important in its development.

"The recession was a challenging time for the business and AIB worked with us through that difficult period, making sure it understands the challenges we face as well as the opportunities."

Having stabilised the business during the downturn, he is now setting his sights on creating a business with a turnover in excess of €100 million.

"We are exploring our options for how this growth might be achieved. We are focused on achieving more organic growth, but we are also looking at possible acquisitions and joint ventures in markets that are closer to our main export area, such as Central Europe. We also have plans to look west," concludes Browne. "We are starting to receive enquiries from Brazil and we will be looking at other new markets over the next few years."

PREPARING TO EXPORT

As more and more Irish businesses contemplate taking that first step into the export marketplace, Bernard McCarthy, Managing Director of DHL Express in Ireland, underlines the importance of a well prepared export plan.

Having come through a difficult number of years, the outlook for the economy is a lot brighter and companies that may have battened down the hatches during the downturn are now looking to expand and possibly enter new overseas markets. If your business is contemplating taking the plunge and entering the export marketplace for the first time, it is important to gauge whether or not it is actually ready to export.

This is the quandary facing many Irish SMEs. The conventional wisdom is that by entering the international market you can secure the long-term, sustainable growth of your business. But equally you are concerned that by doing so there is a risk that you may over-extend your company both in terms of your financial and human resources, so is it really worth taking that chance?

There is no stock answer to this key question and each company must invest the necessary time and effort to research their target market and prepare a detailed export plan. A well prepared export plan will help to identify and ultimately reduce the key risks associated with first-time entry to an export market. The export plan needs to address some key considerations, in particular:

- Are your clear about your product positioning within the export market?
- What is your unique selling point? Are you seeking to undercut competitor products from a price perspective, or can you justify a price premium based upon clear quality or service advantages?
- Have you identified your target market and, if so, how will you promote your product to your target customers?
- Are you planning to sell directly to these customers or have you identified sales partners or distributors?
- Do you have the necessary staff resources and capability within your business to develop and execute your export plan?
- Do you have the required financial resources and necessary working capital?
- Have you planned your export finance and have you clearly identified the costs involved in setting up and running an export operation and the approach you need to take to managing payment risk?
- Have you chosen a reliable logistics partner who can deliver your goods to your export customer?
- Have you considered whether there are any customs or regulatory restrictions pertaining to your product?

These are just some of the key points that you need to consider and is not intended to be an exhaustive list. In terms of the logistics and customs aspects, it's worth looking at some of the very fundamental questions:

Transport mode: Are you planning to ship your goods by air express, air freight, road freight or sea freight? In making this decision you need to balance the transit time (speed of delivery) required by your customer with the cost associated. The weight and volume of your shipment is also a key consideration given that this is a key driver of the cost associated.


BERNARD McCARTHY

Exports to the EU: There is free movement of goods across the 28 member states of the EU so there are no customs formalities required for the vast majority of goods. In simple terms, this means that there will be no import duties or taxes charged to your customer (the importer).

Exports outside of the EU: The shipper must provide a Commercial Invoice (goods for re-sale) or a Pro-Forma Invoice (samples or other goods not for re-sale) with the shipment for export. On importation in the destination country, any duties or taxes to be paid will be calculated with reference to the declared value on the invoice provided, the Harmonised Tariff Code and the Incoterms (terms of trade) applied.

Customs formalities: Rates of Duties and Taxes vary from country to country. To support exporters, DHL provides a free, easy-to-use Trade Automated Services web application which allows users to calculate the total landed cost of a shipment (including local duties and taxes) before it is sent, thus avoiding any nasty surprises or difficult conversations with your new export customer.

So while entering a new market for the first time might appear daunting, with good preparation many Irish companies have shown that they can reap significant financial rewards and business benefits.

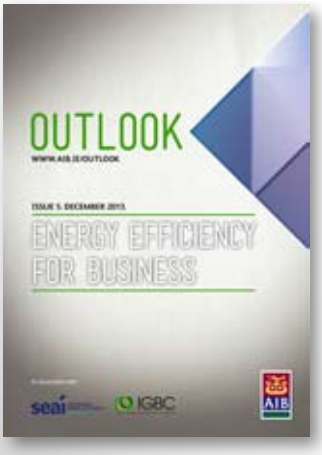
DHL's international research has shown that firms that export internationally are twice as likely to be successful than those only operating in their domestic market. This is a very significant finding but in truth it's hardly surprising.

Entry into new export markets isn't a guaranteed route to success for every business but there are undoubtedly big opportunities for companies with the right products and services. For these companies, carefully managed and planned expansion into new export markets makes perfect business sense and can be the route to longer-term growth and success.

OUTLOOK

Outlook is a series of AIB reports that examine and analyse the key issues affecting particular sectors and sub-sectors within the Irish economy.

To download the reports and view videos with industry experts visit **www.aib.ie/outlook**



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