EULER HERMES
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THE FUTURE ROADS FOR SMES

BEGIN

INTRODUCTION

SMEs play an integral role on both the local and international level, and their ability to scale up successfully is critical to a healthy global economy. From financing options and strategic export to protecting cash flow, our e-book “The future roads for SMES” provides key information and practical tips to help SMEs grow in a sustainable, secure way.

SECTION 1: SMES: THE BACKBONE OF THE GLOBAL ECONOMY

Shoring up and safeguarding resources is critical to the success of any business. When it comes to small and medium-sized enterprises (SMEs), the stakes are even higher. As significant contributors to development, SMEs have a hand in shaping the global economic landscape. Creating an environment in which they can thrive is thus mutually beneficial.

MOVING ECONOMIES FORWARD

SMEs play an integral role in the global economy, stimulating employment, productivity and competitiveness in emerging and developed markets alike. In the OECD area, SMEs account for more than half of employment and between 50% and 60% of GDP.

According to the World Bank, approximately 600 million jobs will be needed to absorb the growing workforce over the next 15 years. In emerging markets SMEs currently create four out of five new jobs.

600 million jobs needed in the next 15 years

4/5

of new jobs currently created by SMEs

99% of all European non-financial corporates are SMEs

70% of total employment in the EU-28 non-financial sector via SMEs

60% of total gross value added attributed to SMEs

PROMOTING PROGRESS

Governments around the globe are seeking to reduce inequalities, and SMEs have a pointed impact on inclusive growth.

They help reduce the income gap and improve working wages across sectors and skill levels. Thanks to their agile nature, SMEs are also uniquely positioned to respond to the growing demand for sustainable products and business practices, especially in emerging economies.

A global 2018 survey by Nielsen found that half of global respondents said they would pay more for products with high quality/safety standards, a factor often associated with strong sustainability practices.

SHAPING CULTURE

Beyond economic development and equality, SMEs also shift culture and drive innovation. From social media to e-commerce, the greatest entrepreneurial successes are of start-ups that scaled. This can be attributed in part to SMEs' knack for disruption; they are more likely to think outside of traditional business practices and challenge the status quo, tipping the needle in the direction of progress.

With such a major role to play in global development, the success of SMEs is crucial. However, the smaller the business, the larger the barriers to growth can feel.

90M PEOPLE EMPLOYED BY SMES

IN EUROPE, SMES ACCOUNT FOR APPROXIMATELY 20% OF PATENTS

IN THE FOLLOWING CHAPTERS, WE WILL LOOK AT SEVERAL KEY CHALLENGES SMES FACE AND HOW TO BEST NAVIGATE THEM.

SECTION 2: FILLING THE FINANCING GAP

Capital is key to scale-up success, yet access to financing is one of the greatest challenges for SMEs today.

The reasons are numerous: They're inherently more vulnerable investments—often not rated and with more fickle financing than larger organisations. During the 2009 economic crisis, for example, SMEs were the first to suffer. They are also more likely than larger established businesses to bootstrap their operation, or seek loans from banks.

However, on a global scale, approximately half of all SMEs lack access to credit according to the World Bank. This discrepancy between current supply and potential demand for credit is called the financing gap.

If left unreconciled, this phenomenon can lead to decreased growth, so ensuring SMEs have access to sufficient funding is essential.

70% OF SME FUNDING IN EUROPE COMES FROM TRADITIONAL BANKS

WHAT SOURCES OF FINANCING ARE AVAILABLE TO SMES?

Financing options can generally be broken down into two categories: equity and debt, raising money by selling company shares vs borrowing funds to be repaid over time with interest.

Often the best option is a healthy balance of both, depending on your stage of growth and financing needs. Equity often comes into play in the early stages of a business and provides a substantial cash injection,while debt is more tailored to a company with a track record and investment amounts can vary greatly.

EQUITY

Venture capital (VC) firms and angel investors are two common sources of equity financing. Both provide an injection of capital in exchange for equity in the company. VC and angel investors provide funding at an early stage and accommodate high levels of risk, an attractive arrangement for many SMEs. Private equity typically focuses on more mature businesses and seeks high returns and lower levels of risk than Venture Capitalists or Angel Investors.

DEBT

Bank credit lines and loans are the most common sources of debt funding for SMEs. They're familiar, straightforward, and often have low interest rates. The downside: businesses have to qualify. Banks want to ensure a return on their investment and smaller businesses pose a greater risk. As such, financial institutions often require proof of success and/or collateral, which can be a challenging requirement to meet for smaller businesses.

INSTITUTIONAL

In many countries, governmental and institutional financing options are another popular source of funding. These vary greatly depending on the market but generally come in the form of subsidised grants or loans. For example, the United States government created the U.S. Small Business Administration (SBA) in 1953 to aid, counsel, support and protect the interests of the nation's small businesses. In addition to providing financing options from microloans to equity investment, the SBA also provides low-cost counselling and training, access to government contracts, and coordinated advocacy efforts.

SECTION 3: GOING GLOBAL

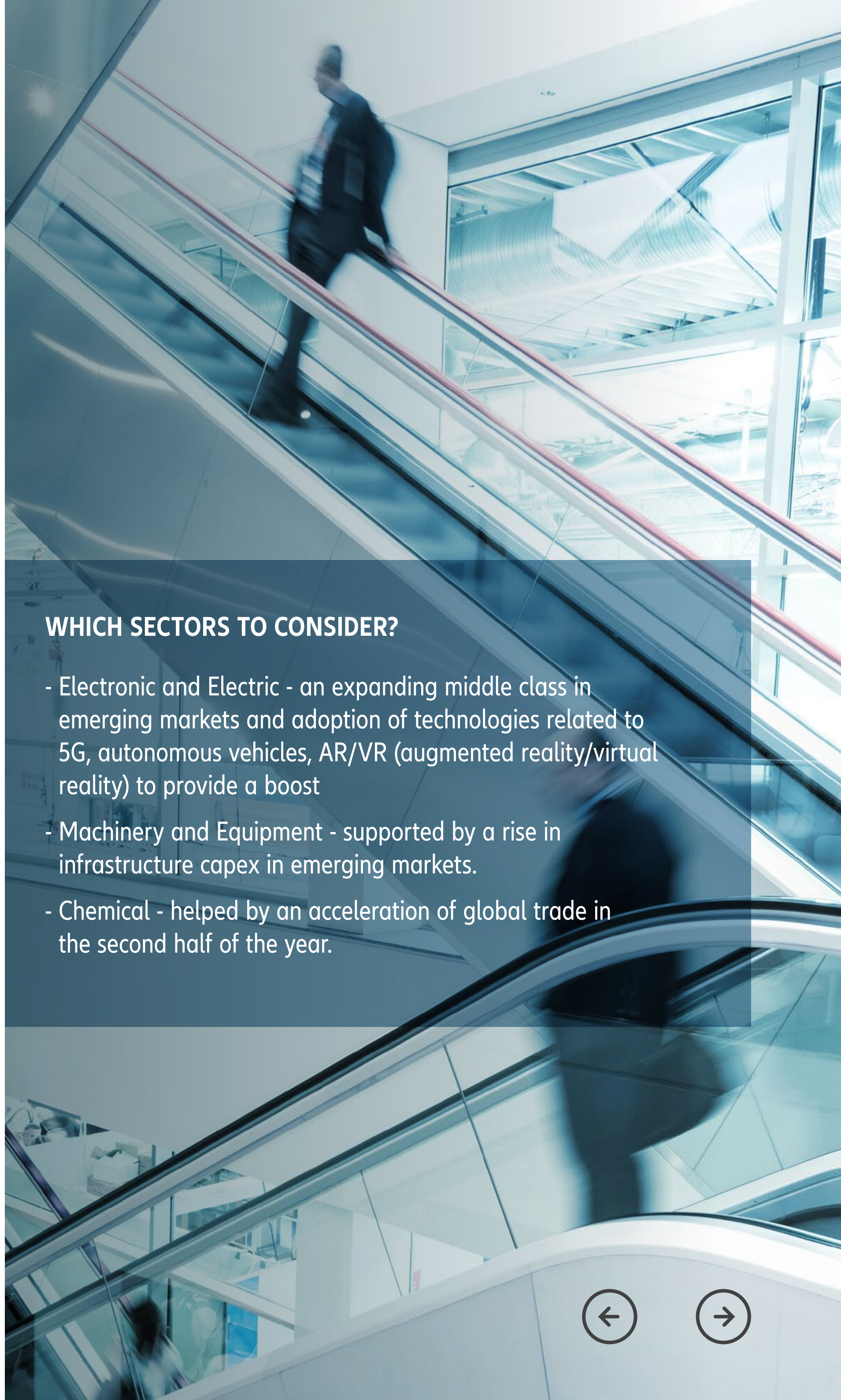
Once financing is secured, the next step is looking beyond the local. Expanding into new markets is integral to growth in the long-term. Often thought of as reserved for large, established corporations, exporting goods or services internationally has potential for all. However, the task can feel daunting for SMEs. Where do you begin? By seeking trusted strategic advice and following the data.

WHERE TO GO?

United States
Mexico
Chile
Germany
Netherlands
United Arab Emirates
Morocco
China
Japan
Australia
New Zealand

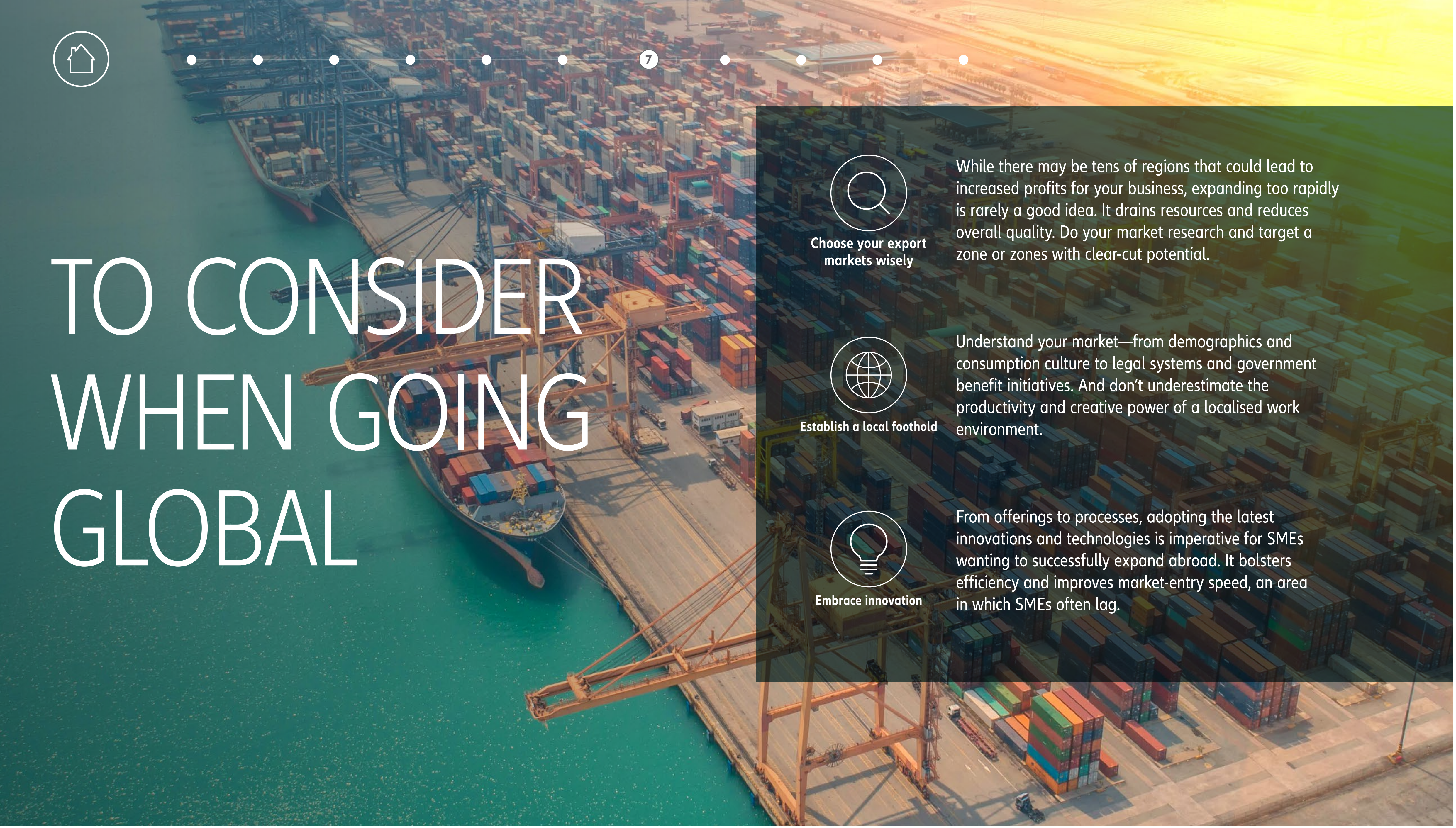
WHERE NOT TO GO?

Venezuela
Turkey
Tunisia
Sri Lanka
Papua New Guinea



WHICH SECTORS TO CONSIDER?

- Electronic and Electric - an expanding middle class in emerging markets and adoption of technologies related to 5G, autonomous vehicles, AR/VR (augmented reality/virtual reality) to provide a boost
- Machinery and Equipment - supported by a rise in infrastructure capex in emerging markets.
- Chemical - helped by an acceleration of global trade in the second half of the year.



TO CONSIDER WHEN GOING GLOBAL

Choose your export markets wisely

While there may be tens of regions that could lead to increased profits for your business, expanding too rapidly is rarely a good idea. It drains resources and reduces overall quality. Do your market research and target a zone or zones with clear-cut potential.

Establish a local foothold

Understand your market—from demographics and consumption culture to legal systems and government benefit initiatives. And don't underestimate the productivity and creative power of a localised work environment.

Embrace innovation

From offerings to processes, adopting the latest innovations and technologies is imperative for SMEs wanting to successfully expand abroad. It bolsters efficiency and improves market-entry speed, an area in which SMEs often lag.

SECTION 4: PROTECTING YOUR CASH FLOW

Once you've secured financing and defined a development strategy, it is important to balance risk and reward, and secure your bottom line. When it comes to cash flow, it's wise to hope for the best while preparing for anything less. How can SMEs safeguard their businesses?

1. CHOOSING GOOD CUSTOMERS

We often think of new business in terms of getting new customers to choose us as their goods or services provider, but, when it comes to protecting your cash flow, it's also important to choose the right customers. To do so, ensuring local visibility and knowledge in the long-term is key. Call on local partners to gain insight and build relationships. It's also important to evaluate potential clients using alternative intelligence. Dig beyond their financial ratings and look into whether their strategy and culture are in line with your own. Also consider whether they have risk coverage, like credit insurance, themselves. This usually indicates strong corporate governance, the ability to take smart risks and an avenue to manage potential exposure.

2. LIMITING BAD DEBT

Carrying bad debt can quickly become burdensome. Not only does it monopolise resources, but it can also hinder forecasting and the bottom line. By adopting a forward-looking strategy for minimising debt, you can also open potential business opportunities. How can SMEs a limit bad debt?

It all boils down to ensuring you have to—and provide your customers with—the right information. First, set yourself up for success in two ways: implement standard terms and conditions. Every client should be aware of this agreement, including any penalties for late payment, from the onset of the relationship. Next, proactively decide when it makes financial sense to chase down bad debt.

The burden of proof is on you and there are considerable costs associated, so knowing your 'tipping point' will save resources in the long-term.

Once you've put the proper measures in place, build a relationship with your principal contact within your customer's organization. Instead of waiting for a bill to become overdue, initiate a transparent dialogue around objectives and issues management. Ensure you understand your market by equipping yourself with data on, business contexts, collection practices, and the legal system. And finally, assess your customers' creditworthiness and define credit limits and payment structure accordingly.

3. GETTING AHEAD OF INSOLVENCY

With interest rates and complex trading conditions on the rise, debt is becoming more difficult for companies to manage. On a global level, insolvency rates are expected to continue to rise by 4% in 2019. Corporate collapses can prove catastrophic for unprepared SMEs in particular.

HERE ARE FOUR STEPS TO PROTECT YOUR BUSINESS AGAINST CUSTOMER INSOLVENCY:

1. **Analyse continuously.** Ensure you have the data to make informed credit line decisions.

2. **Exercise caution.** Know how to identify early warning signs so you can manage customer debt proactively.

3. **Understand your customer.** Become familiar with the political and legal systems in your market and ensure you adhere to local regulations.

4. **Have a plan b.** Contingency planning is key. This is most effective at the local level and should discuss insolvency risk.

BETTER CUSTOMER CREDIT CHECKLIST

- ☑ RESEARCH EVERY CLIENT PRIOR TO SIGNING A CONTRACT
- ☑ CLEARLY DOCUMENT AND SHARE TERMS AND CONDITIONS
- ☑ ENSURE EVERY CUSTOMER SHARES SIGNED RECEIPTS FOR PRODUCTS AND SERVICES
- ☑ BILL IMMEDIATELY UPON DELIVERY
- ☑ CALL CUSTOMERS ON OR BEFORE INVOICE DUE DATES
- ☑ ESTABLISH AN AUTOMATED REMINDER PROCESS
- ☑ DOCUMENT AND COMMUNICATE YOUR PROCESS TO YOUR ENTIRE ORGANIZATION
- ☑ REGULARLY REVIEW UNDATED FINANCIAL INFORMATION WITHOUT BIAS

TO KNOW MORE...

EULER HERMES REPORT

European SMEs: Filling the bank financing gap

DISCOVER OUR POSCAST: FIVE-MINUTE TIPS

The podcast that gives concrete business advise in five minutes.

CASH FLOW BEST PRACTICES

HOW TO DETECT SIGNS OF NON-PAYMENT TO PROTECT YOUR BUSINESS

HOW TO MAINTAIN GOOD RELATIONSHIPS WITH YOUR CUSTOMERS IN CASE OF LATE PAYMENTS

HOW TO EXPORT WITH CONFIDENCE: TIPS AND BEST PRACTICES

SOURCES AND DISCLAIMER

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DISCLAIMER