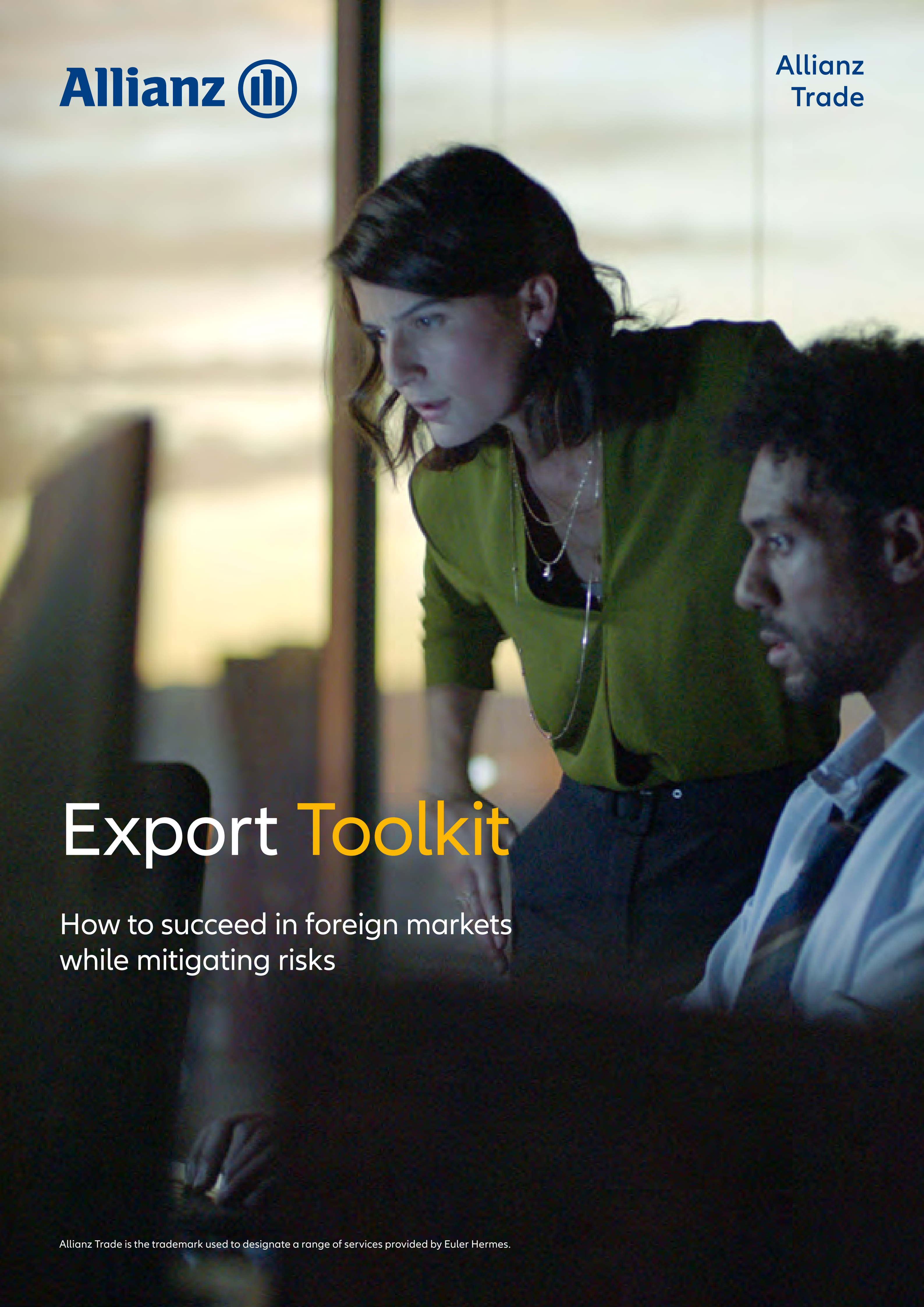


Allianz

Allianz Trade

Export Toolkit

How to succeed in foreign markets while mitigating risks

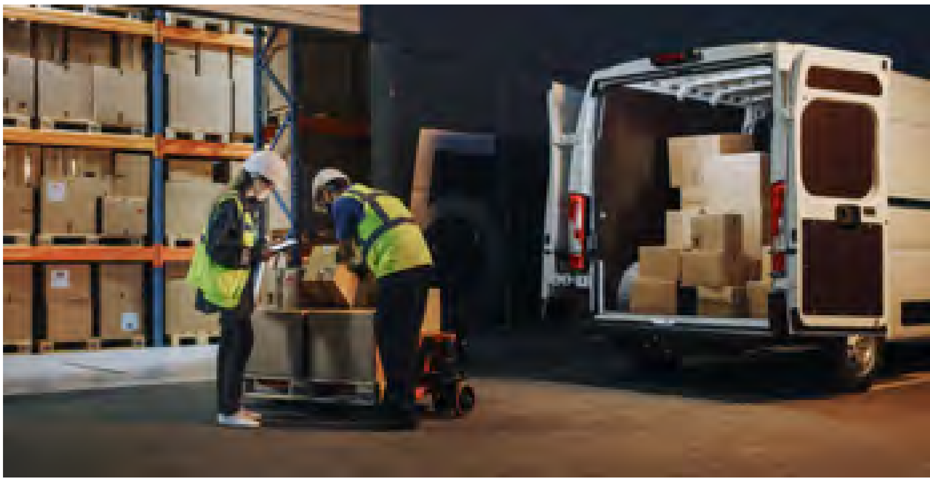
Contents

How to succeed in foreign markets: tips to build your export plan

Expanding globally is a proven strategy for driving growth. Diversifying gives you access to new customers, new opportunities for mature products and safeguards your business against domestic economic stagnation. However, international growth also involves notable risk. To enter a foreign market successfully, extensive research and thoughtful planning are prerequisites.

3 essential steps for entering a foreign market

Here are several key steps to ensure your bases are covered and your international expansion yields maximum results.



Step 1: Objectively self-evaluate

Before you begin planning for this next step, it's critical to take a hard look at your business to see just how prepared you are.

Your finances
It often takes up to three years for an international expansion to be effective. Can your business sustain itself financially during this time?

Your leadership
Is senior management aligned on this growth strategy? Do you have any expertise gaps to fill before proceeding?

Your teams
Do you have strong marketing, sales and business development teams? Will you need to hire and, if yes, are you prepared to do so?

Your offering
Will your products or services stand out against the local competition? Are you prepared to pivot to address new customer preferences?

Step 2: Identify your target markets

Once you've reflected on the state of your business and decided you are internally prepared to grow abroad, the next step is to explore potential markets. Just as with your business evaluation, objectivity is key.

Look at both opportunities and risks
Is the given market welcoming to foreign businesses? What is the regulatory environment like and what red tape should be accounted for? Is there a clear demand for your offering and is the price point feasible for potential customers in this market?

Consider local culture and customs
From product packaging to marketing tactics, what sells in one market does not necessarily translate to another. Local norms could also affect your business relationships. What are local cultural faux pas?

Get some face time
Before making final decisions on target markets, consider exploring the terrain for yourself. Meeting key contacts in-person is the best way to fully grasp the local competition, regulations and distribution channels. Is there an in-country trade show or industry event you could attend?

Step 3: Plan and execute

Now that you've decided which markets you'll expand into, it's time to develop your plan of attack—your market entry strategy. Much like a business plan, a successful market entry strategy looks at goals, the business landscape and potential pitfalls.

Financing tip
When it comes to funding international growth plans, it's often smarter to borrow than strain your cash flow. Building a strong expansion plan will position you to approach lenders with confidence.

What should your export plan include? This is what our next section is about.

How to create a successful export plan

An export plan is a market-specific document that helps businesses prepare to enter a foreign market. When done well, they can make the difference between increased sales and genuine growth.

An export plan can forecast anywhere from 3-10 years into the future, but it should be considered a living document that evolves as you gain more insight and experience, not a one-time exercise.

What should be included in a strong export plan?

1. Executive summary
An overview of your company's export plan: why you're exporting, what products and/or services you're exporting, where you're exporting, your local competition, logistics and distribution, financials.

2. Export policy commitment statement
A concise 'mission statement' regarding your company's policy on and commitment to exporting.

3. Company details
Background on your company, including a brief history, noteworthy achievements, products selected for export and why, operations and organisational structure.

4. Marketing
Detailed target customers, product selection and pricing, distribution methods, brand awareness and advertising strategies, terms and conditions of sale, pricing, cultural specificities.

5. Target market analysis
First- and second-tier targets, and why they were chosen; positioning in target market(s), competitor analysis.

6. Budgets and forecasts
Balance sheet, export budget forecast, sales goals (profit and loss forecast), cash-flow analysis, operating budget statement.

7. Production
Competitive advantages of our products and/or services in target market(s), adaptations to products and/or services (packaging, labelling, regulatory considerations), production capacity.

8. Schedule
An actionable calendar for achieving aforementioned goals, milestones, follow-up and review.

Six ways to grow your business using trade credit insurance

Taking out credit insurance is one of the prime ways to limit risk. It allows you to effectively evaluate prospective international customers and protect your company against non-payment from existing ones. And should anything go wrong, you can relax knowing that you are protected and your finances supported during this expansion into a new market.

1. Increase market share
Offer better terms and raise credit limits to grow sales and enhance customer relationships.

2. Boost market penetration
Evaluate credit risks, prequalify customers and have added protection to confidently add new buyers.

3. Expand to foreign markets
Make strategic credit decisions and offer competitive terms overseas, eliminating cash in advance or letters of credit.

4. Grow with a key customer
Aggressively grow sales with a key customer without the worry of concentration risk.

5. Obtain financing
Transform your accounts receivables into secured collateral. Guaranteed payment is a positive asset in the eyes of lenders, which in turn can translate working capital at more favourable rate.

6. Support acquisitions
Create coherent credit processes, take control of receivables in a secure way and understand the creditworthiness of the new customer portfolio..

The current risk factors to consider when expanding your global reach

International trade has been hit by a wave of macroeconomic and geopolitical shocks. Learn about the evolving risk factors that are challenging companies' strategies to extend their export networks.

Black swan events, so the theory goes, have three well-defined characteristics. They're exceptional and highly improbable; they have an impact that is experienced widely and deeply; and, with the benefit of hindsight, the reason they've appeared can be readily explained, and could even have been predictable. What the theory doesn't envision is the sudden appearance of multiple, unrelated black swans.

With the on-going global pandemic and war in Ukraine, the world is reeling from back-to-back exceptional events. These have forced a **reset of economic outlooks** and banished any thoughts of a **renormalization of international trade** in the near-term. The impact is simply everywhere: escalating inflation and energy prices, commodity shortages and raw material price surges, and sclerotic supply chains.

As a result, companies find themselves exposed to new levels of economic risk right across their trading networks. And to ride the storm, you need to arm yourself with clear visibility into the **scale and scope of the economic and political risks** so you can judge how the fast-evolving landscape will impact your organization's opportunities for exports.

But the situation also demands action – **agile responses to the changing conditions** that might mean, for example, finding workarounds for interrupted supply chain routes. Or it might involve reducing exposure to suppliers who are showing signs they're struggling to pay invoices or are in danger of insolvency. Whatever the action, the ultimate goal is clear: to safeguard trade in the face of uncertainty so your company emerges from the current upheaval unscathed, or even with a stronger export profile.

Nature and scale of today's economic and political risk

The macroeconomic and geopolitical shockwaves that are impacting global trade will reach far into 2022 and beyond. Some countries and sectors will be profoundly affected; others, thankfully, less so. At the very least, your company needs to ensure it has **access to reliable insights** that will help you and colleagues understand the scale and scope of the economic and political risk that might impact your business.

The events have prompted **a sharp reduction in many economic forecasts**. Our economists, who only a few months ago had good reason to predict a widespread economic recovery as the negative influence of Covid-19 tapered off, have now cut their expectations for global economic growth to +3.3% in 2022 (after +5.9% in 2021). And they're predicting a further slowdown during 2023, to +2.8%.[1] That picture will be accompanied by **an erosion in trade volumes**, as slowing global economic growth hits business confidence and demand. For 2022, our Economic Research team expects global trade growth in volume at +4% (2 percentage points lower than what was expected before the war), a little below its long-term average.[1]
But it is the different dimensions behind those headline numbers that will inform many crucial business decisions.

"**The macroeconomic risk is multi-faceted**. Analyzing the issues that are arising from that and impacting trade – and finding the best solutions to tackle them – needs a truly holistic approach," says İlker Gürsoy, Head of Credit Underwriting at Allianz Trade in Turkey, a country whose geographical proximity to both Ukraine and Russia makes it well-placed to appreciate the nature of the trading risks.

Specter of inflation

One of the **biggest impacts will come from runaway inflation**. Russia's invasion of Ukraine has added to the already-steep rise in global prices that many economies were experiencing at the beginning of 2022. Energy prices, already up +70% over the 2021 average,[2] and the combination of supply chain disruptions, higher transport costs, and interrupted access to key commodities will continue to drive up prices further as those are built into the costs of goods and services.

At the global level, businesses should **anticipate inflation at 6%** during 2022.[1] But in some major economies, that will climb a lot higher. The UK, for example, expects inflation to rise to +8.7% by the fourth quarter, a 40-year high and in sharp contrast to the Bank of England's target of +2%.[3] Indeed, several economies (including Europe's largest, Germany) are adopting strategies designed to stave off the growing prospect of an extended period of stagflation – anemic growth coupled with high inflation.[4]

1. Economic Outlook: Energy, trade and financial shockwaves, 2. Russian dolls: unwrapping corporate (commodity) dependencies, 3. UK OBR March 2022 Economic and fiscal outlook, 4. German fiscal policy to stave off stagflation, finance minister says.

Trade executives' growing concerns

Even before the latest macro risk level was raised, international trading companies were viewing inflation as a major headache, and one that was denting their confidence. Our 2022 Allianz Trade Global Survey[5], involving around 3,000 businesses across the USA, UK, China, Germany, France, and Italy, showed many were already experiencing inflationary pressures.In the USA, UK and Italy, around 40% of respondents reported the high cost of energy was **impacting the effectiveness of their global trade**.

Those concerns about inflation were reinforced by higher transport costs, with two thirds of the survey group discounting any prospect of an improvement in inflation till 2023 at the earliest. Inflationary pressures were also clear in the **increased cost of inputs** they were coping with. Two thirds were anticipating that shortages or higher costs of the raw materials required to produce their goods and services would have either a moderate or significant impact on their export capabilities during 2022.

But those levels of concern have been raised considerably following Russia's invasion of Ukraine. Our survey data from March 2022 shows around 80% of companies in France, Italy, UK, and Germany expect shortages and the high cost of inputs to become more of a challenge or remain at the current high levels over this year.[5]

5. 2022 Allianz Trade Global Survey.

How the conflict in Ukraine impacts trade

Our Economic Research team sees contrasting pictures for the war's direct and indirect impacts on trade – and its **potential to trigger a wave of non-payments and bankruptcies**. At the global level, the trade exposure to the Russian and Ukrainian economies is relatively limited, with trade in goods and services representing just 2.1% and less than 0.4% of global trade value, respectively. That will restrict the direct impact of the war to certain neighboring countries such as Belarus, Moldova, Poland and Turkey.[2] However, **the indirect impact on global trade will be massive, global and immediate**. Our experts estimate that the entire global economy will suffer from spillover effects due to the surge in energy and commodity prices. Russia accounts for about 10% of global oil, and Russia and Ukraine combined account for a quarter of global wheat exports. Additional disruptions in supply chains will also likely be felt in Europe, as Russia is a key player in many industrial metals.

Regarding sources of food commodities (notably wheat), the situation in both Russia and Ukraine will drive shortages and higher prices. Figures from Atlantic Council's GeoEconomics Center show Russia and Ukraine account for nearly a third of global wheat exports. And many countries depend on that: Egypt, for example, gets 80% of its wheat supply from Russia and Ukraine.[6]

Sectors at economic risk

In Western Europe, **the energy, metals and chemicals sectors are the ones most at risk** and, with supply impacted, many firms will inevitably suffer from high prices. As well as oil, gas and wheat, Russia is also a major player in commodities that are critical for other sectors such as electronics and automotive, with palladium, neon, xenon and krypton gas important in semiconductor manufacturing.

With these products facing supply tensions even before the war, **the current crisis is likely to increase pressure and shortages**. The automotive sector, where production is already being curbed by semiconductor shortages, will be further impacted; Russia is a key source of the aluminum, nickel and lithium needed in its manufacturing processes, including for electric vehicle batteries.

Across all those industries, **shortages and high prices mean a big hit on profitability**. Our experts estimate that if oil and energy prices – as well as non-energy commodity prices – remain at current levels, the metals and power sectors are most at risk of a profitability shock. These sectors could see EBITDA margins drop by -20 percentage points or more if they are unable to raise revenues. But scores of other industries will see profits under pressure too.

2. Russian dolls: unwrapping corporate (commodity) dependencies, 6. Putin's invasion of Ukraine threatens a global wheat crisis.

Supply chain upheaval triggered by political risk

The current macro events have exposed the **brittle nature of many supply chains**.

Supply chains, stretched in comparison with pre-pandemic standards, had been showing signs of stabilization before the start of the conflict. Our recent Allianz Trade Global Survey identified a clear message that, after two years, the pandemic was loosening its grip on the patterns of world trade. While 40% of the business leaders questioned said that Covid-19 uncertainty had impacted the success of their organization's export potential in the preceding 6-12 months, almost three-quarters (72%) believed that the influence of the pandemic was either going to become less of a challenge or remain at the same level.

That optimism will certainly have since been blunted by the invasion of Ukraine but also by observing the impact the Covid-19 omicron variant has had on key manufacturing and export hubs in China. The application of the country's zero-Covid policy in mid-March resulted in the imposition of week-long shutdowns in Shenzhen and Hong Kong. Although some of the country's rules have now been eased in an effort to reduce economic damage, the **prospect of stickier supply chains**, port congestion and higher input prices are all major concerns, given that China accounts for almost 30% of the manufactured goods worldwide,[7] with 18% of these heading for the US.[8]

According to supply chain data visibility company project44, the mid-March seven day lockdown, affecting 17.5 million people in Shenzhen, contributed to a 44% spike in the number of vessels waiting to dock at its main port of Yantian.[9] While that situation has now eased, other regions have been hit by lockdowns, including Shanghai, and the prospect of further **supply chain interruptions should remain a real consideration for exporters**.

Our Economic Research team thinks that a repeat of temporary port closures in China could have ripple effects on the already tense functioning of global logistics and supply chains. Indices suggest that **delivery times are likely to remain above the pre-pandemic average** for most of 2022, and even lengthen slightly at the start of 2023. Overall, supply chains and confidence shocks explain close to two thirds of our economists' downward revision on global GDP growth forecasts, with the remainder due to higher commodity prices.[1]

1. Economic Outlook: Energy, trade and financial shockwaves, 7. China Is the World's Manufacturing Superpower, 8. Allianz Trade Country Report: China, 9. project44: Latest Covid outbreak in China threatens global supply chains.

Insulating your business from insolvencies

What all that points to is a need for sound risk assessment. "You need to be cautious about investments and growing trade in countries and regions experiencing such uncertainties," says İlker, as there will be an **inevitable rise in the number of insolvencies**.

In such a dynamic atmosphere, it is more important than ever that you consider ways to offset the level of risk that your organization is exposed to.

Trade credit insurance, for example, can help avoid credit risk problems and the subsequent disruption to cash flow.

Indeed, trade credit insurance provides a clear picture of which clients might represent a risk to your operations through non-payment or bankruptcy, thereby acting as **a safety net to ensure you are paid in the event of a bad debt**.

Trade credit insurers such as Allianz Trade also carefully monitor the wider global trade picture, and set risk levels on the individual companies, sectors, major transactions and countries that you are engaging with. Effectively, they enable you to trade with the highest levels of confidence.

Smart strategies for mitigating risk in today's volatile global trading environment

To help fulfil your company's ambitions to grow its exports, you need to adopt strategies that offset the risks of today's dynamic trading conditions – and turn those challenges into opportunities to expand your business internationally. Here, we explore some valuable options.

At the start of 2022, the **outlook for global trade** was undeniably upbeat. With Covid-19 becoming a less impactful factor in many economies, predictions for international exports were riding at a buoyant 6% in volume terms and 7% in value.[1] But the invasion of Ukraine and renewed Covid-19 outbreaks in China's major industrial hubs quickly changed that picture.

Our Economic Research team now believes that trade in volume will grow at +4% for the year, as the global economic context has shaken **business confidence** and demand expectations. Putting a hard number on that, the confidence and demand shocks from the war will result in a loss of almost half a trillion US dollars (USD480bn) in exports across the Eurozone and Russia alone in 2022.[1]

That outlook contrasts sharply with business thinking only a few months earlier. Our Allianz Trade Global Survey[2] of trade executives across the USA, UK, China, Germany, France, and Italy, showed an almost universally positive outlook for exports before the war in Ukraine. A full 80% of respondents had **set their sights on exporting to new markets in 2022**, driven by high optimism among US and Chinese companies; a mere 6% suggested their revenue from exports would decrease.

And following the war in Ukraine, companies are adapting their strategies further to focus on new export routes. That was the perspective at almost 60% of companies we surveyed in Germany, 50% in the UK and 40% in France and Italy.

1 . Global trade: Battling out of demand and price shocks, 2. 2022 Allianz Trade Global Survey.

Overcoming global trade risk to expand your business

Those export goals should still not be out of reach. Indeed, the new market conditions have forced some innovative thinking as to **how companies can best protect their trade prospects** from the impact of macroeconomic and geopolitical shocks, and even turn the current situation into one of opportunity.

And that has translated into creative strategies that seek to deal with the new lined-up of supply chain constraints, acute resource shortages, threats of further political risk, new environmental, social, and governance (ESG) obligations, and other challenges. "The dynamic events of recent years just underline the fact that you now have to be much more agile and to **prepare in advance for macroeconomic shocks**," says İlker Gürsoy, Head of Credit Underwriting at Allianz Trade in Turkey.

So what approaches are organizations taking to mitigate the risks and enable them to **confidently pursue their export goals**?

Strategy 1: Reconfigure your supply chain

To minimize supply chain disruption and protect your business's capability to expand internationally, you could shift from **'just-in-time' to 'just-in-case'** production.

For several decades, many businesses have sought to keep their costs low by having resources on hand only when needed to produce their goods and services. With inventories lean and processes, supply contracts and flexible workforce utilization, they could **react quickly and cost-effectively to shifts in market demand**.

However, the pandemic, the war in Ukraine, Brexit, the Suez Canal blockage, and other disruptive events of the past two years have exposed the fragility of many supply chains. Factory shut downs, commodity inflation, acute labor shortages and unforeseen embargos have all made companies rethink – or at least reconfigure – that just-in-time model to something more akin to 'just-in-case,' with a **goal of instilling greater business resilience**.

Characteristics of 'just-in-case' supply chains include:

- Increasing the use of suppliers who are geographically closer to production facilities
- Building up and holding larger inventories of critical products
- Making supply chains more self-sufficient and regional
- Spreading inventory across different points in the supply chain
- Ensuring the business has two or more suppliers for all the raw materials it requires.

That shift already showed in a 2021 survey by management consultancy McKinsey, which concluded that over 90% of multinationals had moved to improve their business resilience during 2021 through physical changes to their supply-chain footprints.[3]

3. How COVID-19 is reshaping supply chains.

Strategy 2: Grow your business's talent pool

One way your company can support the expansion of its international trade is to increase its total addressable talent pool. And that can be achieved by **taking advantage of new workforce models.**

Our recent Allianz Trade Global Survey[2] of around 3,000 trade executives found they had **major concerns about securing access to the right skills**. Two thirds of the respondents said they expected labor shortages to either remain high in 2022 or to rise, and that the situation was setting limits on their confidence and ability to expand exports.

But some permanent changes in the patterns of work may be easing those pressures. The requirement for remote working introduced for many roles during the pandemic has broken the link between skills and location. That has opened up the opportunity to **draw on a much more dispersed workforce** that does not now have to be within commuting distance of major centers (e.g. technology, pharma or financial services hubs). In fact, companies have found they can build a distributed workforce that isn't subject to the same acute skills shortages, wage inflation and retention issues.

The adoption of hybrid and remote working models can also be a **catalyst for a more diverse workforce**, encouraging the participation of people who may have been excluded from certain work opportunities because of a lack of employment flexibility or the distance of the workplace from their homes.

Increasingly, many businesses and government authorities demand that their commercial partners **show a clear commitment to ESG**. For instance, all public authorities in the UK are now required by law to show the positive social and environmental impact of any contract they issue, on top of the economic benefit.

2. 2022 Allianz Trade GlobalSurvey.

Strategy 3: Learn from the industries that are built for disruption

Companies can insulate themselves better from macro shocks by appreciating the dynamics of more volatile sectors, such as cyclical industries.

Cyclical industries, as defined by the Corporate Finance Institute, are industries that typically perform well during periods of economic expansion and poorly during periods of economic downturn. By their nature, they have to be structured and run in ways that allow them to **respond to volatility when it inevitably comes along**.

Learning how cyclical industries such as airlines, luxury goods or real estate manage and plan for periods of expansion and contraction can be highly instructive. "Company managements in cyclical industries have more experience in shifting tactics or bringing in new measures to tackle such changes. Those are the dynamics of their sector," observes İlker. Not all industries will have that kind of room to maneuver, but they should look at the **models, practices and in-build resilience** that enable an ability to ride both peaks and troughs.

One example of a **company applying this reactive model** in recent times is German truckmaker MAN. In late March, it furloughed 11,000 workers as a result of a massive shortage of wiring harnesses (the electrical frameworks used to transmit power throughout vehicles) after several of its suppliers in Ukraine were forced to halt production.

Cyclical industry approaches often involve:

- **Leasing capital equipment and buildings rather than buying them.** The airline industry's is a great example. Half of the world's aircraft are leased, and the pandemic just underscored the importance of that model as customer demand has ebbed and flowed.
- **Using third-party workforces, service and manufacturing partners, with contracts structured for flexibility.** Again many airlines apply this approach to the maintenance, repair, and overhaul (MRO) of their aircraft, using specialist companies such as HAECO, ST Aerospace and MRO Holdings.
- **Anticipating large waves of both recruitment and layoffs.** Cyclical companies often use short-term contracts that offer modest base salaries but which reward employee with significant bonuses in boom times, with the understanding both job security and bonuses disappear during the downturn cycle.

Strategy 4: Detect macro risk before it impacts your business

The fallout from recent geopolitical events has underscored just **how exposed international trade can be to risk** – but, above all, to political risk. It highlights how you need to consider, anticipate, and manage that risk so your business doesn't suffer because of instability or political changes within or between countries.

Pierre Lamourelle, Deputy Global Head of Specialty Credit within Allianz Trade for Multinationals, says it is often possible to **identify early warning signs of approaching political risk**.

In order to **safeguard your company's trade with customers in different countries**, you need to look out for some of those warning signals. Keep a close eye on the social, political, and economic stability of your target countries. Are their relationships with their neighbors deteriorating? Does a change of government mean the introduction of new foreign trade policies, tariffs, legal and regulatory constraints, and tax regulations that may hamper your trading capabilities? What is the state of industrial unrest?

There is more specialist information that is also worth tracking, such as restrictions on the movement of foreign currency and instances of late or non-payments on government contracts on sovereign debts.

At Allianz Trade, our customers are supported by a team of economists, sector analysts, and locally based experts who are constantly assessing risk levels associated with specific countries. That enables us to provide businesses and financial services companies with the kind of **protection they need when involved in large, multi-year trade transactions**. Essentially, when a major political event is a factor, we insure those transaction against the risk of non-payment.

Pierre gives a hypothetical example of a rail engineering company providing rolling stock for a metro-line upgrade in an Eastern European city. If political instability or a volte face in government policy in the country means the contract is halted, that leaves the company exposed to large upfront and work-in-process costs. That is the kind of situation political risk insurance is designed to cover. "In these circumstances, having people on the ground who know how to deal with the complexity of such local environments can make a big difference. In such distressed situations, you need to know you are dealing with an insurer that has the **strong capabilities to mitigate risks and minimize the financial consequences of such impact**," he says.

And in the current climate, such risks are not restricted to traditionally less-stable regions. "Instability is now much more widely distributed because there's a greater willingness for countries to protect their own interests first from an economic point of view. And that means that today you can find your company is exposed anywhere to the kind of political risk that can impact international trade," says Pierre.

Indeed, in our recent survey[2], between 75% and 80% of the companies polled across Germany, the UK, Italy and France said they expected geopolitical tensions would become more of a challenge or remain the same for exports as a result of the war in Ukraine.

2. 2022 Allianz Trade Global Survey.

Mitigating risk when expanding global trade

The list of strategic approaches outlined here is by no means exhaustive, and companies are mitigating current risk factors in many other imaginative ways, including by **accelerating their commitments to digitalization and ecommerce and by optimizing cash flow and credit management**.

As those scenarios highlight, engaging in international markets can involve **significant amounts of credit, political, and currency risk** that might result in non-payment, expropriation of your assets by a foreign government and fluctuations in the value of your currency relative to the target market's currency.[4]

To mitigate those risks, companies can **safeguard their international expansion** with trade credit insurance. Trade credit insurance can help mitigate the risk of non-payment from foreign business partners and help you secure additional working capital from your financial backers to support your international expansion.

"When companies decide to diversify internationally and are navigating through choppy seas, it's better they have a harbor pilot that has knowledge and experience in those waters. A well-run global trade credit insurance company acts as that pilot, drawing on a wide network of knowledge," says İlker.

"Even when your clients have a longstanding and good payments history with you, sometimes the only way you can get an early warning on their true financial health is knowing how well they are paying other suppliers," he says. "By coupling that with in-depth global research and country-specific knowledge of risk, trade credit insurance helps you **trade safely even when things get uncertain**."

4. How to assess country risk for international expansion.

Case studies: How to adapt rapidly to today's trading challenges

Reacting to dynamic market challenges, many businesses have been forced to make bold, strategic changes in direction to support their export opportunities. We explore some standout cases and the valuable lessons they provide.

Since the start of 2020, business leaders have had to **confront dramatic changes in the global economic environments** that have impacted their trading prospects in both home markets and internationally. The challenges – from pandemic-induced shutdowns and inflation to raw material shortages and supply chain constraints – have demanded swift and frequent adjustments in direction.

Not all businesses have had the agility to change strategies or take immediate action; but those showing they are capable of **responsiveness in the face of volatility** have not just enhanced their stability but raised their competitiveness.

Our Allianz Trade Global Survey[1] of around 3,000 global trade executives across the USA, UK, China, Germany, France, and Italy shows no shortage of readiness to **adapt strategy to confront changing market dynamics and support export opportunities**.

Almost half (43%) of those surveyed say they switched strategy to target new export opportunities in 2021. A similar number (39%) said they adjusted their strategy to find new suppliers.

Since the start of the war in Ukraine, those efforts have only intensified. Almost 60% of Germany companies and 50% of UK companies questioned in our follow-up survey said they had adapted their strategies further to target new export markets.

1. Allianz Trade Global Survey.

The transformative power of digitalization

In many cases, **digital has been the big game-changer** when it comes to responding to dynamic market conditions. Almost all (92%) respondents said they have already embarked on digitalization. And faced with higher production and labor costs in recent quarters, 42% said they had acted to accelerate that digitalization of their production.

The benefits of such a focus are very evident: digitalization has led to increased productivity for 56% of those surveyed, and in the US that was even greater at 64%. Half also said **digitalization reduced their costs**, and the same proportion said it helped them access export opportunities in new markets and improved the resilience of their supply chains (48%).

But digital is no panacea. Different sectors and companies have applied a variety of often-rapidly executed approaches across their trading networks in recent times to cope with market imbalances and evolving conditions. Let's explore some innovative approaches taken within different industries and companies to **mitigate risk and seize new growth opportunities**.

Agile responses to market shocks

Case study 1: Production as a mobile resource

Mexico is the source of two-thirds of the beer exported to the United States. But when the Mexican government responded to the first wave of the Covid-19 pandemic by closing non-essential businesses from late March to early June 2020, brewing in the country virtually came to a stop, including at suppliers of Dos Equis, a top 20 US favorite. But the brand's owner, Holland's Heineken, found a bold way to keep US fans of the Mexican beer happy by seizing a different route and **sustaining the export opportunity**.

The business switched production over 5,000 miles around the globe from its Cervecería Cuauhtémoc Moctezuma brewery in Monterrey, northern Mexico to the Netherlands. And it completed the pivot by shipping container loads of Dos Equis bottles and labels to its repurposed facility, just outside the city of Leiden. It then exported the finished products to the US market to ensure stocks were in place ahead of summertime demand.[2]

The upshot of the audacious move (which only lasted while the Mexican factory was closed) was apparent in US beer imports from the Netherlands (largely driven by Heineken) for 2020. Those rose 10.8%, in sharp contrast a drop in sales 5.3% in the previous year.[3]

Takeaway: Build contingency and spare capacity into production to ensure you can cope with market shocks. **Make production a portable, reconfigurable capability** by applying standardization across different facilities.

2. Beer Business Daily, 3. 2021 Beer Report.

Case study 2: A hard lesson in sourcing critical components

The origins of the **global semiconductor shortage in the automotive industry** are widely documented. When the Covid-19 pandemic hit in the first half of 2020, assembly lines were halted by lockdowns and car sales fell dramatically, causing automakers to cut back their orders for chips. At the same time, semiconductor demand in other sectors such as mobile phones, PCs, monitors, and servers rose sharply beyond forecasted levels, largely as a result of work-from-home requirements and home entertainment purchases.

By the time car sales bounced back in the second half of the year, the chip industry had already retargeted much of its capacity to those booming markets. The impact was immediate: faced with inadequate supplies of these key components and with no alternative sources at the start of 2021, many **automotive companies were forced to shut down production lines**. That meant a USD210 billion hit in lost production in 2021 alone, according to consulting firm AlixPartners.[3]

There have been no quick fixes. Getting new semiconductor fabrication lines up and running can take many months, even when the manufacturing set up is in place. And given the complexity of the manufacturing process, shifting to alternative sites or chipmakers can take a year or more.

In response, many automakers have now re-examined the suitability of their historical focus on efficient but **fragile just-in-time inventory models**. At least for semiconductors, many have now opted to secure orders well in advance of requirements so they can count on a consistent supply into the future. Manufacturers have also decided to hold more inventory to protect them from the impact of economic or market shocks and to ensure they can take full advantage of internal demand and export opportunities. The trend shows in recent moves by automakers to agree large deals with electronics manufacturers.

BMW, for example, which had been forced to cut its annual production by 10% or 90,000 cars because of chip shortages, signed a semiconductor supply deal

3. Shortages related to semiconductors to cost the auto industry.

in December 2021 with German chip designer INOVA Semiconductors and Silicon Valley-headquartered GlobalFoundries, the world's third largest contract semiconductor manufacturer. BMW's stated goal in forging this deal is "to improve planning reliability and transparency... and secure [semiconductor] needs in a proactive manner for the long term." [5]

In the same month, Ford also set up a supplier agreement with GlobalFoundries that will see the chip manufacturer providing solutions for driver assist, battery management and in-vehicle networking systems. As Ford's President and CEO, Jim Farley, put it: "It's critical that we create new ways of working with suppliers to give Ford greater independence in delivering technologies and features."[6]

At the same time, Stellantis, which makes Fiat, Dodge, and Jeep vehicles, lined up a deal with Taiwan's Foxconn to create four new families of chips that will cover over 80% of its semiconductor needs, again with the aim of **reducing its exposure to shocks and simplifying its supply chain** in this crucial area.[7]

Takeaway: Make supply chain risk management a top priority. Be cognizant of the fact that demand in for the same components in unrelated markets can increase your levels of risk. **Re-examine the business values and risks of lean-but-brittle inventory models** such just-in-time.

Case study 3: Optimizing the timing of international expansion

In March 2022, Amazon announced it would open its first fulfillment hub in Turkey, with an investment of more than USD100 million.[8] Although, on the surface, Turkey's macroeconomic outlook is far from rosy – with a poor-performing currency in recent years, interest rates at 14%, and low international reserves – Amazon's international **expansion can be seen as both well-timed and forward-looking**.

With the Russia-Ukraine war and escalated tension in the region, Turkey's important geostrategic position makes it an unrivalled logistics base; it shares land or maritime borders with Ukraine, Russia, Bulgaria, Romania, Greece, and Georgia, among others.

Amazon only started full operations in Turkey in 2020 but has now built enough momentum and knowledge of the local market to give it the **confidence to invest at scale**. However, the weakened Turkish lira means the cost of its investment is now considerably lower (-44%) than it would have been even a year ago, while the growth prospects look high, with favorable consumer demographics and a hub in Istanbul that can serve not only Turkey but Central and Eastern Europe, and the Middle East.

Takeaway: Arm yourself with deep knowledge of local trading conditions so you can respond with agility to **seize international expansion opportunities**.

5. BMW news release,6. Ford news release, 7. Stellantis/Foxconn news release, 8. Amazon News release.

Case study 4: Accelerating the move to cloud to save energy

Swedish truck maker Scania has a fleet of around 500,000 vehicles in its customers' operations. In recent years those have effectively become mobile IT platforms, all connected to centralized vehicle management systems that allow owners to track their location, collect real-time data on performance, and run diagnostics to understand when maintenance is needed. But the growth of such data-driven services and the ever-increasing digitalization of its internal operations have meant a big rise in Scania's IT usage – with all the accompanying energy and carbon footprint implications.

In an effort to **reduce energy consumption and emissions** dramatically, Scania has accelerated its use of public cloud service providers, including AWS and Microsoft. As Jan Andries Oldenkamp, CIO at Scania, outlines: "As a company, we want to ensure that we only use what we need. An efficient IT solution is not only good for the planet, it also saves costs and is good for business."

Cloud-based tech allows Scania to experiment with different IT configurations and automate the scaling-up and -down of its IT to **optimize resource utilization**.

By implementing more rigorous lifecycle policies for data retention, Scania teams can also automatically delete data no longer needed, thereby reducing digital waste.

Such enthusiasm for cloud computing underscores how the model has the potential to **make a significant dent in energy bills**. A 2021 report on European cloud services by IT analyst 451 Research[9] showed that IT energy use can be reduced by 67% by moving applications from on-premises to public cloud data centers. That's because cloud providers are more likely to use state-of-the-art server systems that are optimized for power efficiency, run at higher utilization levels, and leverage the cloud providers' ability to share and dynamically allocate resources among multiple customers, says 451 Research. "All of this translates into considerably less energy used to perform the same unit of work," says 451.

Takeaway: To address the impact of soaring energy costs and reduce their carbon footprint, organizations need to **shift more of their IT workloads to efficient cloud services**.

Case study 5: ESG as a prerequisite for trade

To accelerate and enforce the need for action on climate change, several multinationals have started to demand commitments from their suppliers that tie them into meaningful targets on reducing greenhouse gas emissions. A good example is Mars Inc, the manufacturer of confectionery and pet food, and provider of animal care services.

In October 2021, it announced a goal of achieving net zero greenhouse gas emissions across its full value chain by 2050. Importantly, the approach focuses on absolute emission reduction across the entire greenhouse gas footprint which will include those created indirectly by its suppliers.[10]

Mars is setting five-year milestones to drive action and track progress, and **requiring an equivalent commitment from its base of 20,000-plus suppliers** around the globe, challenging them to act on climate change and demonstrate they are aiming for significant goals.[11]

Takeaway: Avoid the risk of waiting for your partners to spring environmental, social and governance (ESG) targets on you **as a condition of your trading relationship**. Pre-empt their directives on climate change, diversity and other areas of corporate responsibility by striving for your own sustainable and environmental targets.

9. Saving Energy in Europe by Using Amazon Web Services, 10. Mars news release, 11. Digital CxO Magazine.

Mitigating risk in the face of volatility

As those business and industry cases highlight, fast-changing business environments require the ability to quickly forge new trading partnerships and enter new markets. And that entails greater exposure to risk.

In today's volatile conditions, trade credit insurance plays a major role in helping to mitigate that kind of risk and bring confidence to export opportunities. When partnering with Allianz Trade, this bad debt protection solution provides:

- **Assessments of your individual clients' creditworthiness** that draws on an intelligence network analyzing daily changes in corporate solvency across more than 90% of global markets.
- **Data and insight that give you a deep understanding of the scale of the risk** you face across your trading relationships – at a client, sector and country level.
- **Guidance on dealing with late payments** by both your international and domestic clients.
- **Protection against non-payment and insolvency risk** when a client runs into business difficulties and is unable to meet payment obligations.
- **Global debt collection expertise** that can help to **recover your overdue payments** through a dedicated local presence in your target markets.

With such trade credit insurance in place, you can approach export opportunities safe in the knowledge that **your cash flow and receivables are protected.** And that means your company will have the funds available to invest in responses to today's fast-changing markets and to future-proof its operations against further upheaval.

We hope you found this toolkit useful.
Remember that Allianz Trade is on hand to support your export strategies.

Visit allianz-trade.com to contact us or get more information.