Addressing the global toy market

Reaching international markets is child's play once you understand the rules

Some industries can grow by finding new applications for their products and services, others for finding new markets, but when it comes to toys, companies are mostly limited by the number of children interested in their products. This is why so many companies operate on a global scale; simply put, the broader geographical reach means more children and thus more potential consumers. Between Brexit and the ongoing US-China trade war, the international trade picture looks a little difficult, but careful planning and an understanding of all the issues relating to selling your products overseas can help you successfully reach new markets abroad.

What does Brexit mean for the British Toy Industry?

The Brexit process has had an impact on the value of the pound and there have been many fluctuations. This can make it difficult to accurately forecast a budget. Since the vote to leave the EU, sterling has dropped against the euro and the US dollar, which currently makes British exports an attractive proposition overseas as it offers great value. In contrast, imports have become more expensive, which adds to price pressures. By next year, there may be new trade tariffs and costs associated with both exports and imports. In addition, the pound may rise, eroding the value of British exports or fall, putting added pressure on importers.

What does Brexit mean for imports and exports?

It's impossible to say exactly what it will mean until the ink is dry on the signed agreement, but one issue that is likely to arise is that of quality standards. British toys will be required to meet EU standards and may need to be re-certified. Directive 2009/48/EC of the European Parliament on the safety of toys attributes certain standards to be sold in EU markets. All toys currently sold in Europe will meet these standards but may need to be recertified, which will put added pressure on toy makers. There is a hope that agreement will be reached, but the directive currently requires an EU business address for all toys sold in the territory; the change may require that manufacturers currently based in the UK set up an office in the EU. While this is an added cost, it may provide a means to achieve safety certification and a new base for wider market outreach.

Do I need to set up an office in the EU?

The current quality standards would certainly suggest that suppliers will need an office located in the EU to meet the requirements of the Directive. This may change in the final deal, but many companies have already taken the step of setting up an office in Europe in order to proceed regardless of what happens on 31st January. There are a number of advantages to setting up an office overseas, including greater control over your business activities in this area. As well as meeting the requirements of the EU Directive, a local office provides an indication to overseas customers of your commitment to their requirements and can also provide a means to deliver personalised customer support. There are a lot of issues to consider. On top of the running costs, there are local taxes, regulatory requirements and employment laws to take into account. When it comes to staffing the office, you may want to balance the team with someone from the UK office with the product and brand knowledge with local team members who can offer local market and cultural understanding. If you're looking to employ local staff, consider the availability of the skills you require in the region you wish to situate the overseas office and whether you may also need to bring in further staff from the UK or further afield.

International payroll

If you're planning on sending members of your UK team to either launch or run the overseas office, you'll need to consider the costs and benefits of paying in sterling or local currency. The key is to ensure that staff aren't losing out due to the currency exchange, but at the same time it's important to limit the costs on the company. If you're paying local staff then an international payroll will be required; using a currency specialist can help you manage those payments alongside other international running costs.

How can I manage my company's currency exposure?

There are two sides to the story of the pound since the Brexit vote. On one hand, the fact that sterling has been devalued against the euro and the US dollar has meant that British goods have been viewed as excellent value abroad, and that may help to increase market share and achieve economies of scale. On the other hand, it has made imports of toys and components more expensive, which in turn could squeeze the profit margin and potentially push up prices. The other thing to consider is that the currency exchange isn't fixed. As we can all tell from watching the Brexit drama unfold daily in the news, it's difficult to predict what is going to happen next. The same applies for currency; there's no way to accurately predict what will happen to the value of the pound in the current months because it depends on so many factors, not just relating to Brexit but also wider global issues. If you're relying on the pound remaining low so you can get sales by offering great value, you might find yourself suddenly priced out of the market. If the pound drops lower, you may find that those squeezed margins become too tight for the company to bear. The overall approach to your company's currency exposure will depend on a number of factors, but here are some key steps to take when planning ahead in uncertain times.

STEP ONE: UNDERSTAND THE NATURE OF YOUR CURRENCY EXPOSURE

Take a look at your revenue and costs; what percentage of those are received or sent as currency?

Are you running the risk of pricing yourself out of the market if the pound recovers, losing your profit margin if it falls, or is there perhaps a balance of both? It's important to look at those numbers of the balance sheet, and what fraction they are of overall incoming and outgoing funds because this will indicate your measure of risk. If it's only 10% of your business, you may think you have less to worry about than if it's currently 70% but the issue isn't quite that simple. Of course, currently the company with higher currency exposure bears more risk due to currency fluctuations, but you have to look beyond the numbers at your strategic plans. You should consider where the market may be growing or shrinking, where your products have an opportunity and in trying economic times, whatever the percentage of your overall profits and losses are consumed by currency, you should aim to make the most of every penny.

STEP TWO: UNDERSTAND THE CHOICES AVAILABLE

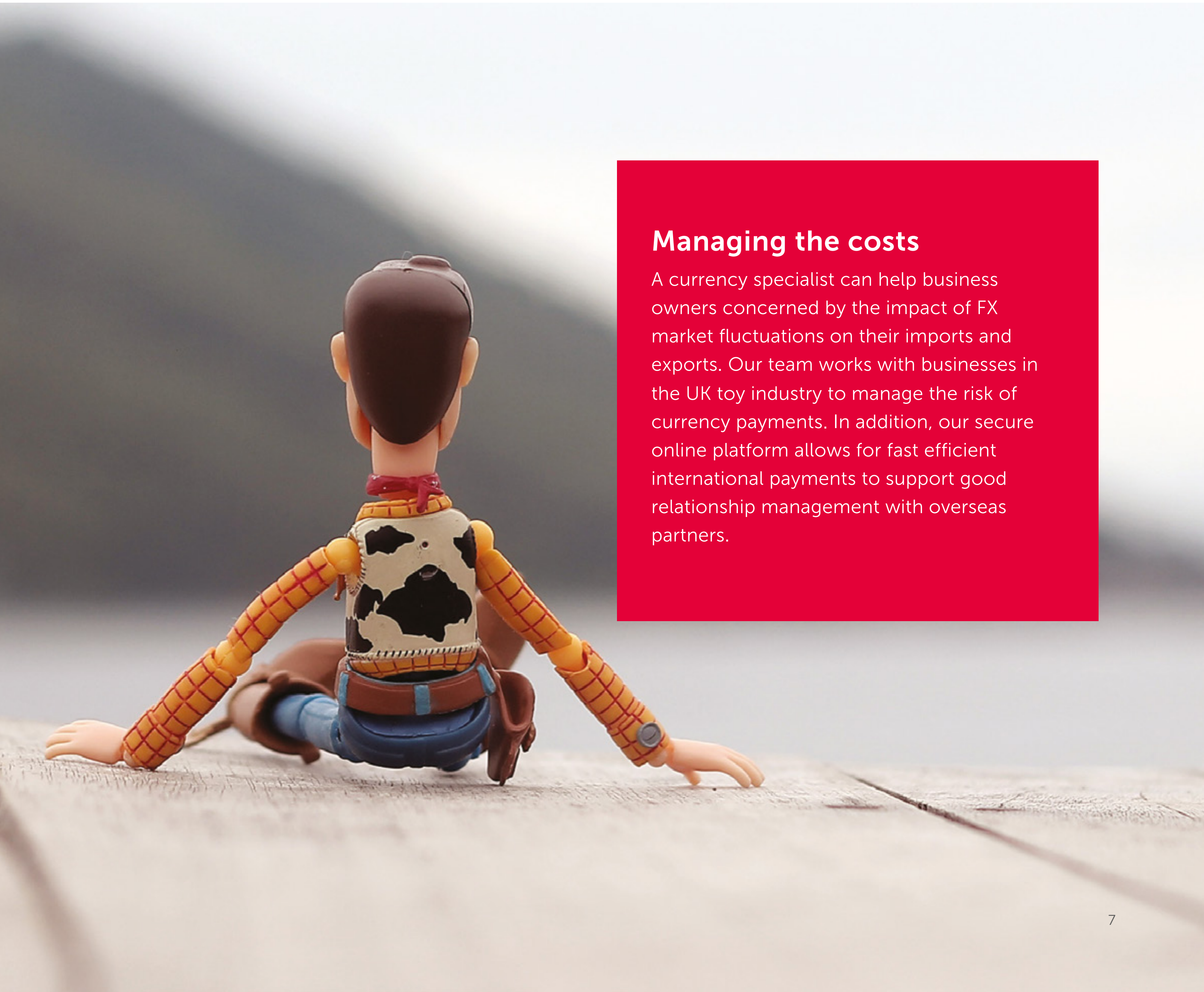
While you can no more control the value of the pound than the overall progress of Brexit, there are a number of currency tools which can help you make the most of your company's resources and still expand into overseas markets.

A forward contract allows you to lock in a prevailing rate of exchange for up to two years. (Please note, a forward contract may require a deposit.) This can help with forward planning and provide some certainty but it carries its own risk – currency can go up as well as down, and it depends on what is going to work best for you. In addition, there's the fact that this works best when you have a clear pipeline. If you have definite commitments then a forward contract may be the best approach. However, you can also set up a market order; this allows you to specify your target rate and the funds are transferred if that rate is reached. There are no guarantees with a market order but you can pair this with a stop-loss order which specifies the lowest limit you are willing to accept. This allows you to protect your profit margin while also having the opportunity to take advantage of movements in the market. These are both longer term strategies that require some planning, but if you operate a more agile business, you may feel like the best approach is to wait and see what the market brings and adapt accordingly. This does carry some risk, but if you work with a specialist who can keep you updated on the latest changes in the market then it could allow you to maximise your profit margin and still protect against too severe losses.

STEP THREE: SPEAK TO A SPECIALIST

All of the above products and services are available via a currency specialist but that isn't the only advantage.

Currency specialists typically offer better rates and lower fees than high street banks. You also get the benefit of expert guidance from someone who not only understands the foreign exchange market but also your industry. Whether you're just starting to consider your currency exposure or are simply looking to review your current approach, the additional expertise can shed light on the opportunities and risks of different approaches – and you can get all this extra help for free when organising your international payments through a specialist.



Managing the costs

A currency specialist can help business owners concerned by the impact of FX market fluctuations on their imports and exports. Our team works with businesses in the UK toy industry to manage the risk of currency payments. In addition, our secure online platform allows for fast efficient international payments to support good relationship management with overseas partners.

What about the US-China Trade War?

This is an issue that more directly impacts US companies, but it has had a ripple effect on the global market. According to the US Toy Association, around 85% of toys sold in the US are made in China. So far, the list of goods that will have tariffs applied by the US and China has not included toys, but the trade war is likely to impact the toy industry. From rising component costs to households squeezed by higher prices on other items.

Are toys likely to fall under the remit of the trade war?

The trade war has cooled somewhat in recent months as a détente has been reached. However, neither side is showing signs of backing down. If the trade war continues to escalate then toys may fall into the remit of any future tariffs on goods from China. The trade war may not directly impact the cost of toys in terms of tariffs, but electronic components are within the remit of the current dispute. This may mean that the current value of the greenback may be offset by the tariffs on components including microchips and motors; electronic toys are very popular and found in many interactive toys and games. It's not just high tech toys that will feel the pinch from the trade war; toys that require fabric are another example of how current tariffs indirectly contribute to higher costs in toy manufacture.

Squeezing the costs

The US dollar has been strong this year; this is great news for importers but has made American exports more expensive. Toy producers may find themselves under pressure to rein in their prices, or find that competitors for elsewhere may start to build market share in territories overseas. The US toy industry is currently still reeling from the closure of Toys R Us, and the addition of what could be up to 25% on the cost of production is likely to translate into higher prices for consumers. Cost is an issue across the world, not just in the US. Even if toy manufacturers can navigate the current situation and avoid falling into the remit of a future round of tariffs and the vagaries of the Brexit process, families are facing higher costs. There are some suggestions that the current economic situation may lead to a shift in buying patterns which means it's worth keeping a close eye on what's happening at home as well as what's happening abroad

Are there opportunities further afield?

British goods have an excellent reputation in the global market.

Of course, trends are difficult to predict but crazes that attract children are often global and manufacturers should address a worldwide market to tap the full potential of a product and recoup the cost of any innovations. Many businesses are looking beyond the US and the EU for countries which not only have clear, established rules of trade but also provide opportunities for growth. Survey data collected over the last ten years show that UK SME's are exporting to Canada, South Africa, US and China at a faster rate than anywhere else in the world. In addition, research from Capital Economics highlights that SMEs grow faster when focused on markets outside the EU. Businesses organisations such as the CBI and Chambers of Commerce are calling for more government support for businesses looking to connect with international opportunities. The opportunity for global growth has been presented and many businesses are gearing up to ensure that they grasp it, government support or not.

How do we know which markets to address?

Businesses should undertake research to discover which growing economies present the best opportunities for their industry. Australia and New Zealand both have positive economies, large expatriate communities, and share similar legal and regulatory environments as well as a common language. While some businesses may find the logistics a challenge given the distance, the extra effort may be worth it. Japan is the world's third largest economy; many SMEs have previously been daunted by the language and cultural barriers, many have found that engaging local partners has delivered results. The UAE is another attractive prospect with thriving economies and a reliance on imported products. Brand Britain is strong in countries such as Dubai and Abu Dhabi, and businesses may be able to leverage this reputation to export here

Practical considerations

If you're working on an international scale, you'll need to pay international invoices – and possibly payroll – sometimes in a range of currencies.

Poor rates and high fees will quickly eat into the bottom line, but that isn't the only factor. A less visible cost of these transactions is your time. If you want to maintain a good reputation overseas, you'll want to track any international payments and confirm that they have been received. All of this checking, chasing up and gaining confirmation takes time that would be better spent on your business goals. Working with a specialist will give you access to a secure online international payments account where you can track the progress of your payments. If you're managing payments across a lot of different countries, or simply want a report of all your overseas business, the online statements will also serve as a useful report for your accounts. You even have the option of automated regular payments which may be useful if you have overseas service providers on a retainer, for example.

Take control of your global opportunities

The toy industry as a whole is facing significant change, from the geo-political landscape to the challenge of technology such as tablet computers to replace more traditional toys.

For many, a global approach can help to offset some of the challenges of shrinking domestic markets. Wherever the business is expanding, whether that's allowing for European requirements post-Brexit, breaking into the US market or going further afield, the cost of international payments and the risk of currency exposure are likely to be a key factor in whether your plans succeed. After all, there is no point in tripling your sales through overseas markets if you find that you didn't make a penny of profit. moneycorp offers a corporate foreign exchange service that helps companies to manage their foreign exchange risk. Our expert team works directly with companies across the toy industry. We provide guidance on the foreign exchange market and insight into market developments and how they might impact individual businesses. In addition, they can provide more information on a range of tools for everything from paying international invoices to a range of tools to help companies identify and manage foreign exchange risk.

Contact us

To find out more about how a customised foreign exchange strategy can help you save money:

Email: corporate@moneycorp.com
T: +44 (0) 207 823 7800 and quote the white paper.