Thinking Global

The route to UK exporting success

Research by Cebr for World First
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As we look to rebalance our economy and narrow our trade deficit in the UK, promoting exports and international trade has grown in importance for businesses and government alike. Initiatives like Exporting is GREAT have already done a great deal to encourage more small and medium-sized businesses to look beyond our island for business growth and champion those already successfully exporting – creating an exciting group of businesses we call mini-multinationals.

At World First, we are big advocates of international trade. We operate in markets right across the world and know first-hand the positive impact that a global approach has had on our business. Exporting brings with it myriad benefits including helping small businesses grow, innovate and survive in an increasingly competitive business environment. We think it also helps us attract and retain the best talent too.

Of course, one of the main motivators for exporting is improving the bottom line. Our research shows that the typical SME exporter generated £287,000 from the export of goods and services in the year to July 2016. More than half of the SMEs we interviewed for this report felt their profits had risen directly through exporting their goods and services.

Nevertheless, UK SMEs continue to trail behind our EU counterparts when it comes to exporting. The UK ranks in the bottom five across Europe when it comes to the share of all exports accounted for by SMEs despite the fact that the UK is one of the best when it comes to absolute level of exports. With SMEs accounting for over 99% of all private sector businesses in the UK, there is significant potential to boost UK exports by encouraging more SMEs to trade internationally.

Our report, ‘Thinking Global: The route to UK exporting success’, takes a look at the current UK trading environment for SMEs and identifies where opportunities lie for tomorrow’s mini-multinationals. We talked to over 1,000 SMEs to gauge attitudes to exporting and to understand the challenges and barriers that prevent a small company growing through international trade. The report reveals some sobering findings. With only 5% of SMEs planning to start exporting in the next five years, clearly more needs to be done to educate, support and inform SMEs about the opportunities that await once they begin to think global. Our report brings home the reality that our ambition to become a nation of exporters is in serious danger of being unrealised if more isn’t done. At a time of uncertainty following the UK’s decision to leave the European Union, we have an opportunity to act, but we must act now.

With this in mind, we’d ask you to join us in our calls on government and big business to support SMEs in every way possible, from ensuring SMEs are consulted throughout the Government’s negotiation with the European Union, to supporting SMEs as they enter new markets and the promotion of soft skills like languages and cultural understanding.

This report is part of World First’s own ongoing commitment to support small businesses to becoming mini-multinationals. We hope the report will help prompt the Government and other associated organisations to step-up their support and help us all move the agenda forward and get Britain exporting.

FOREWORD

Jonathan Quin
CEO & Co-founder, World First
EXECUTIVE SUMMARY

A global outlook has never been more important for the UK’s SMEs. The UK’s decision to leave the EU earlier this year has shaken economic foundations but, despite the uncertainty it has caused, it has also provided an opportunity to reassess how we generate growth. Brexit could well act as a catalyst for building stronger trading ties with the rest of the world.

Realising the full exporting potential of small and medium-sized enterprises (SMEs) needs to be central to this reassessment - they account for more than 99% of all UK firms after all.

This report, produced by The Centre for Economics and Business Research (Cebr) and commissioned by World First, examines the case for SME exports, exploring both the untapped opportunities and the existing barriers. It also makes clear the macroeconomic value that could result from an increase in SME exports.

The conclusions are drawn from a wide range of official datasets, as well transaction data from World First clients and new YouGov research which we’ve labelled the ‘Voice of SMEs’, commissioned exclusively for this report.

The mission of this report is to shine a light on the exporting potential of SMEs in the UK and in so doing, help to inspire a new generation of exporters.

The key findings of the research are as follows:

- With the value of overall exports stagnating, the UK is set to miss the target set by the Government in 2012 to raise the level of exports to £1 trillion by 2020. The share of SMEs exporting has also declined and the UK ranks in the bottom five of European nations for SME exporters.
- Following the recent Referendum result, the UK needs to concentrate on exports that reflect its comparative advantage and continue marketing its focus on the quality of the ‘Made in Britain’ brand.
- Just 5% of SMEs intend to start exporting over the next five years which, if realised, could contribute an additional £3.7 billion to UK exports. If SMEs could go further and match the exporting levels of larger businesses, UK exports could rise by £141.3 billion – a boost of 25%.
- SMEs should consider exporting to high-growth emerging markets – such as China, India and the Middle East – to maximise export returns. Policymakers should help SMEs to identify untapped opportunities around the world.
- More than half of SMEs (51%) have experienced a rise in profit as a result of exporting, with average additional revenue received per year standing at £287,000.
- The chief barriers to exporting cited by SMEs include language and cultural differences, regulatory challenges and a sense that a product or service is not suitable for a particular market.
- In the aftermath of Brexit, over two fifths of SMEs (42%) believe that the consequences of the result will have a negative impact on exporting.

The following chapter will set this scene, highlighting the recent trajectory of overall UK trade that has been a drag on our economic growth. Nevertheless, current performance indicates opportunities ahead if the UK is able to adopt a more focused approach towards exporting.

In order to assess the potential for UK SMEs at a global level, it is important to first understand the wider macroeconomic landscape in which the UK currently trades.

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If UK exports had grown at the same rate as the world’s average, they would have brought an additional $78 billion in 2014

1. THE UK’S TRADING POSITION

1.1 A health check on UK exporting

Following a muted recovery after the financial crisis, the UK economy has since enjoyed steady growth, growing faster than other advanced economies in 2014 and 2015. However, whilst growth has been balanced across different sectors of the economy, with household spending a strong driver, net trade has consistently weighed on growth.

As shown in Figure 1 below, between 2008 and 2015 UK exports grew from $473 billion to $486 billion – an increase of around 3%. Had they grown at the average rate at which world exports grew, they would have been 19% higher or $564 billion in 2014. Had they grown at the rate of Germany, the EU’s leading exporter, UK exports would have been 7% higher or $508 billion. Even when compared to the developed economies of Europe as a whole, UK exports would still stand 2% higher at $497 billion.

Figure 1: UK goods exports under actual and alternative scenario1, SUS billion at current prices and current exchange rates

Source: United Nations Conference on Trade and Development (UNCTAD), Cebr analysis

1 ‘Counterfactual scenario defined as the one under which UK exports’ growth between 2008 and 2014 happens at the rate at which world exports grew on average over the same period.'
This is not a new phenomenon. The UK has been losing market share to the rest of the world for decades, having seen its exports grow at a slower pace.

An obvious contributor towards the UK’s export performance has been weak overseas demand. Although this is partly driven by external factors, the influence of policy and a targeted approach can still make a difference in the face of weak global demand.

The European Single Market – still the UK’s single biggest trading partner – has suffered from weak growth since the Eurozone crisis of 2011 and despite the efforts of the European Central Bank, the region has failed to fully recover. At present 44% of total UK exports are headed to the EU alone. The geographical distribution of our exports matters greatly for the performance of UK exports. As Figure 3 below shows, the growth rate of UK exports correlates closely with the economic performance of the destination markets.

In the face of weak growth in Europe UK SMEs could, and perhaps should, seek to identify opportunities in other, faster-growing markets, thus reducing European exposure. It is important that the UK focuses its exports on fast-growing emerging economies and sectors, as export performance is closely related to the economic performance of the markets the UK exports to.

To an extent, there is some evidence that this is happening but it needs to happen quicker. As shown in Figure 4 below, Europe’s share of UK export destinations has fallen from over 60% in the pre-financial crisis period to 55% in 2015. Asia has seen the strongest growth, with UK exports of goods and services to the region having more than doubled over the past decade.

Some progress has certainly been made but there is still room to expand this focus further. In particular, the UK lags behind other comparable advanced economies such as Germany in terms of export performance. For example, whilst the relatively weak value of the euro has helped boost German exports, SMEs, often referred to as ‘hidden champions’ across Germany, have also carved out niche markets around the globe creating products that are often leaders in each market. Although rarely the cheapest producers, the superior quality of their products enables them to command higher prices and still boost exports.
1.2 The regional picture for UK reports

Unsurprisingly, London and the South East of England lead the way in the total value of exported goods, with the devolved nations of Wales and Northern Ireland – as well as the North East of England – at the bottom of the pile. London and the South East have been the regions driving the economy in general, while Wales, Northern Ireland and the North East have performed less well.

Perhaps surprisingly, many relatively less economically powerful UK regions are punching above their weight, enjoying a bigger share of UK exports than their share of the UK economy. Therefore, there is a need for the UK to support exporters more in different regions of the country so such regions can increase their export share further, boosting regional economies in the process.

![Figure 5: Value of goods exports in 2015, by region and destination, current GBP billions & EU share of total goods exports](image)

1.3 The UK trade balance

Recent trends in UK exports appear even more alarming if we take a broader view of the UK’s trading relationship with the rest of the world. While exports have at least been on an upward trend, so have imports, supported by the UK’s consumer-led recovery. This has kept the trade balance (the difference between exports and imports) on a downward trend, leading to a widening of the trade deficit.

Admittedly, this trend has been prevalent throughout most advanced economies, though the UK still fares badly in comparison to other developed nations.

With a deficit of 5.2% of GDP, the UK is at the bottom of the G7 when it comes to its current account deficit (a wider definition of the trade deficit that includes some additional payments). The equivalent figure in the US and Canada is around 2% while France, Japan, and Italy are close to a balanced current account. Meanwhile, Germany is running a current account surplus equivalent to 7.5% of GDP. The UK’s widening trade deficit has been a drag on growth and, looking ahead, the unbalanced nature of the UK’s economic model remains a risk to the sustainability of the UK recovery.

![Figure 6: UK trade balance (exports minus imports), current GBP billions](image)

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1 Latest data for 2015
1.4 The impact of Brexit on UK trade

Such risk has been further heightened by uncertainty caused by the UK’s decision to leave the EU that could lead to sudden stops in the flow of capital as investors lose confidence, leading to a sharp correction in the trade deficit, with exports as well as imports falling. Sterling lost around 10% of its value in the first two weeks following the referendum and even after stabilising, it stands at a 30-year low against the dollar.

Despite such a fall, the weakening of the pound could in principle act as a catalyst for UK exports by improving price competitiveness.

Yet, given the ultra-globalised nature of the UK’s product supply chains, a weakening of the pound also implies higher costs for exporters as some of the inputs used to produce exports will be imported. This, together with the potential for a rise in the cost of imports through increased tariffs, could mean that despite the weakening of the pound, exporters still end up losing competitiveness.

Additionally, estimates from the UK Department for Business, Innovation and Skills on the price sensitivity of UK exports suggest that many of the goods and services the UK focuses on are ‘price inelastic’ – meaning that a reduction in price does not generally tend to bring about an increase in demand. The implication is that product differentiation, quality and “brand” are more crucial.

The ‘what’ and ‘how’ are vital as Brexit looms: the UK needs to concentrate on exports that reflect its comparative advantage, that is, goods and services that it produces more efficiently relative to the rest of the world. It also needs to continue marketing its focus on quality - global consumers are still prepared to pay a premium for the ‘Made in Britain’ brand.

In the medium to longer term, the nature of the impact of the decision to leave the EU will also depend on which rules end up governing the UK’s new trade relationships. Table 1 below provides an overview of the possible trade arrangements for the UK following Brexit.

Table 1: Possible outcomes for UK-EU trade arrangements following Brexit

<table>
<thead>
<tr>
<th>Status Quo</th>
<th>Norway</th>
<th>Switzerland</th>
<th>Canada</th>
<th>Turkey</th>
<th>WTO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remain in the EU</td>
<td>European Economic Area (EEA)</td>
<td>European Free Trade Area (EFTA)</td>
<td>Bilateral Free Trade Agreement</td>
<td>Customs Union</td>
<td>Rely on existing WTO rules</td>
</tr>
<tr>
<td>Free trade in goods?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Tariffs on agriculture &amp; fishing plus customs costs</td>
<td>Tariffs on agriculture &amp; fishing plus customs costs</td>
<td>As per EFTA plus some tariffs on manufactured goods</td>
<td>As per EFTA plus some tariffs on manufactured goods</td>
<td>Subject to EU common external tariffs</td>
<td></td>
</tr>
<tr>
<td>Free trade in services?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Free movement of people?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Switzerland is part of Schengen zone</td>
<td>Switzerland is part of Schengen zone</td>
<td>Switzerland is part of Schengen zone</td>
<td>Switzerland is part of Schengen zone</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Regulatory Independence</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Must comply with EU rules</td>
<td>Must comply with EU rules</td>
<td>Needs to comply with EU rules to access single market</td>
<td>Needs to comply with EU rules to access single market</td>
<td>Needs to comply with EU rules to access single market</td>
<td></td>
</tr>
<tr>
<td>Contributions to EU budget?</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>But smaller than EU numbers</td>
<td>But smaller than EU numbers</td>
<td>But smaller than EU numbers</td>
<td>But smaller than EU numbers</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

Source: Absolute Strategy Research

In the event of an exit from the Single Market (quite likely given the central role played by the issue of restricting free movement of labour in the referendum debate), the impact of Brexit on trade could be highly negative, at least in the medium term until new potential free trade agreements are drafted and ratified. This is due to a multitude of factors, such as the expected increase in trade protection (taking the form, for example, of higher tariffs), the loss of passporting rights and the delay, complications, and uncertainties associated with the process of drafting new trade agreements. Such negative impacts will mainly be felt by those businesses exporting to the Single Market, or other markets where the EU has a free trade agreement, for example South Africa, as they will be directly hit by higher tariffs that will make exports less competitive.

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1.5 UK trade: where are we headed?

Looking ahead, under our central scenario the UK’s trade deficit looks set to narrow. This will be due to growth in exports, which we expect to see rising in absolute terms as the global economy continues to recover, but also as a share of GDP as the UK achieves a stronger focus on exports.

Still, this growth in exports will be relatively modest and will result in the UK missing the target of £1 trillion by 2020, set by former Chancellor George Osborne, by over £378 million. In fact, Cebr forecasts still stand below the £1 trillion level in 2035. This is based on the assumption of only a very gradual rebalancing towards faster-growing destinations, but is also driven by the expectation of a continuation in the current trend of weak global trade.

Specifically, while we expect to see a cyclical recovery in global trade volumes as political uncertainty subsides and as economies around the world find the path towards more stable and sustainable growth, some structural constraints will keep growth subdued.

These include rising labour costs in China as it develops, something that is expected to strengthen incentives for Western companies to ‘reshore’ activity from Asia, effectively reversing some of the process of globalisation. Other structural constraints on global trade may come from technology, with new practices such as 3D printing reducing the cost of producing goods at home and weakening the benefits and incentives for trade.

Looking back at the UK’s trade deficit, on top of the weak growth in exports, imports are also expected to rise. Consequently, the trade deficit is expected to narrow only slightly by 2035. (see Figure 9).

2. SMEs’ ROLE IN UK EXPORTS

With overall UK trade faltering, what role could SMEs play in turning this tide? The following chapter will assess the current outlook specifically for SME exports, including current export destinations and the state of exporting across UK regions, before examining the opportunities that could exist if SMEs were able to break into high growth emerging markets.

2.1 The current state of SME exports

One issue that is important yet often overlooked when appraising the broad economy-wide figures is that of the role of SMEs in exporting. By contrast it ranks in the top five in Europe for absolute level of exports. Furthermore, recent data from the UK’s Department for Business, Innovation and Skills (BIS), as shown in Figure 11, suggests that the share of SMEs exporting has deteriorated further in more recent years, falling from 36% in 2013 to 34% in 2015 in the case of medium enterprises and from 26% in 2013 to 25% in 2015 in the case of small enterprises.

Given that SMEs account for around 60% of all private sector employment in the UK and just under half of the overall turnover in the UK’s private sector, there is considerable scope to boost the number of SMEs selling goods and services overseas and, as a result, raise the overall level of exports across the UK economy.

The UK ranks in the bottom five across European economies when it comes to the share of SMEs among exporters

Figure 10: Exports value, top 5 European economies (LHS) and SME share of total exports, bottom 5 European economies (RHS)

Source: OECD Quarterly International Trade Statistics 2013, Cebr analysis

Figure 8: UK exports, chained volume measure, GBP trillion (LHS) and as a share of GDP (RHS)

Source: Cebr forecasts

Figure 9: UK net trade, share of GDP

Source: Cebr forecasts
Despite this decline, our ‘Voice of SMEs’ research highlights that SMEs do export to an array of different countries and regions. As shown in Figure 12, a healthy share of SMEs export to each of the UK’s current key trading partners. For example, more than half (53%) of SMEs that export currently sell goods and services to the US market, whilst slightly less than half export to Germany (48%) and France (47%).

Less than a fifth currently sell goods or services to key emerging markets such as China (18%), South Africa (17%) and India (16%). This under-representation mirrors the picture seen across the UK as a whole and, alongside boosting the numbers of SMEs choosing to sell goods and services overseas, it could be a key area to address in order to help boost the volume of exports from the SME community.

2.2 Regional picture for SME exports

Across the regions, SMEs based in London are most likely to have exported goods and services, with more than half of respondents having previously exported to overseas markets. In contrast, SMEs in Scotland and the North of England have had less exposure to export markets, with just 39% in the North and 36% in Scotland having previously sold goods or services overseas.

Less than a fifth currently sell goods or services to key emerging markets such as China (18%), South Africa (17%) and India (16%). This under-representation mirrors the picture seen across the UK as a whole and, alongside boosting the numbers of SMEs choosing to sell goods and services overseas, it could be a key area to address in order to help boost the volume of exports from the SME community.

2.3 Breaking through in emerging markets

Part of the reason for the UK’s weak export performance has been its inability to gain market share in fast-growing markets. But where do the global opportunities lie that our SMEs could capitalise on?

The projections in Cebr’s 2016 World Economic League Table suggest that 39 countries will enjoy annual growth of above 5% between 2010-2031. Whilst some represent growth in surprising destinations such as Rwanda and Sierra Leone, the list contains a range of developing economies that could provide fertile markets for the range of goods and services offered by UK businesses.
At present, the outlook for the number of SMEs exporting does not look overly encouraging. In the BIS Small Business Survey, when asked whether they had plans to export in the future, only 2% of SMEs said they planned to start exporting or licensing their goods or services outside of the UK within the next 12 months. An additional 2% said that they had plans to do so further out in the future, leaving 95% of non-exporting businesses who do not have any plans whatsoever to export in the future.

Admittedly, this average figure masks important cross-industry differences. As Figure 13 below shows, SMEs in the IT and Communications sectors are much more likely to have plans to export (23% had such plans). Similarly, across the Professional and Scientific Service industries, 11% of SMEs said that they have such plans. This still leaves a considerable number of businesses across the UK with no intention to export.

Likewise, when asked as part of the SMEs’ research about exporting intentions to new markets over the next five years, only a relatively small number of businesses had plans to export into faster growing emerging markets such as China (7%) and India (8%). More broadly, over half of exporting SMEs were either unsure as to the markets they would target over the next five years or had no plans to expand into new countries.

Although only a small share have plans to target high-growth markets, the picture amongst SMEs already exporting is not one of stagnation. This suggests that there is huge untapped potential in the UK’s SME community that could help strengthen our economic trade position, both in terms of stimulating more businesses within the community to export and encouraging those that do to look at diversifying into new markets.

Over two fifths (43%) of SME exporters said they expected to increase revenue from exports over the course of the next 12 months despite concerns about the growth potential of the UK economy in the aftermath of the EU Referendum.
2.5 Economic benefits from boosting SME exports

As underlined earlier, little progress has been made towards achieving the ambitious target set in 2012 of increasing the value of UK exports to £1 trillion by 2020. The target means almost doubling the current value of exports at the time, yet the current value of exports is only marginally above levels seen in 2012.

In part, the lack of progress reflects a failure to get more companies to export. It is nevertheless clear that there are prospective economic gains that could be made if more SMEs were to become engaged in seeking opportunities to sell goods and service overseas.

Such gains could come from a modest increase in the number of SMEs exporting. Our research suggests that 5% of SMEs across the UK expect to start exporting over the next five years. Although only a small share, achieving this could contribute around £13.7 billion in additional exports based on current average export revenues for SMEs – equating to a 6% boost to the overall level of exports from the UK economy in 2015.

If achieved though, the share of SMEs exporting would still remain well below the equivalent share seen across larger businesses, which stands at over 40% according to the Annual Business Survey. If UK SMEs were able to match the level of 40% achieved by larger businesses, UK exports could potentially rise by £141.3 billion based on the same methodology – a hike of over 25%.

It is clear that encouraging a greater share of SMEs to sell goods and services would provide a much needed boost to UK exports and go quite some way towards raising the total value of UK exports to £1 trillion. The engine room of the economy could also become the driver of UK trade.

2.6 Business benefits from exporting

The wider economic case for boosting exports is clear but what are the benefits and rewards to be achieved on an individual level for SMEs?

Overseas demand is the lead factor for SMEs deciding to start their export journey, as reported by more than half of businesses (54%). One fifth of businesses emphasised the need for diversification of their business as a key factor in expanding overseas, with a similar number also indicating that expansion has come about as a natural progression due to the growth of their business. Whilst globalisation has led to some convergence across economies, business cycles still differ across the globe. As such, exporting goods and services into other markets can also help lessen reliance on demand within the UK market.

"We first started exporting 12 years ago, back when we couldn’t even make enough bikes for the domestic market. We didn’t like the idea we were so reliant on one country, so we actually upset quite a lot of our UK customers back then, who we couldn’t supply because we were opening up new markets. But it paid off because the time we needed those sales, those export markets had matured.

Now, over 80% of our sales are to customers outside the UK and the opportunity to grow further lies in emerging cities across the world. Just one per cent of the world’s population lives in the UK. If you’re not exporting you’re not communicating with 99% of the opportunity. Exporting is such a no-brainer from a business sense for us but more than that, it can be a good laugh.”

Will Butler-Adams, CEO, Brompton Bicycles

In terms of revenue, our Voice of SMEs survey suggests that the typical SME exporter earned just over £287,000 in the year to July 2016, providing a sizeable boost to domestic revenues. In a separate study conducted by UKTI, 85% of businesses said that exporting led to a ‘level of growth not otherwise possible’ and a similar sentiment is pinpointed in our survey, where 13% had turned to exporting after feeling the domestic market had become saturated.

Importantly, the findings also suggest that exporting is having a positive impact on the profits of SMEs. Though some revenue will inevitably cover the investment of expansion, more than half said their profits had risen as a result of exporting, with just 5% stating exporting had had a negative impact.

Aside from financial benefits, businesses have also drawn attention to how exporting has added value in other ways. Findings from the UKTI point out that 87% of their members stated exporting significantly improved their profile and credibility. It also cites how exporting has fostered innovation, with 78% indicating international expansion has provided exposure to new ideas that have enhanced the quality of the product or service they offer.

Making the decision to export is not one that should be taken lightly. And yet it is clear that for businesses who do, the benefits far outweigh the risks.
3. THE VOICE OF SMEs:
UNDERSTANDING THE BARRIERS AND OPPORTUNITIES FOR EXPORTING

Given the opportunity that exists to increase exports across SMEs, it is important to understand some of the factors that are currently holding businesses back from looking to expand overseas. As a result, in addition to assessing the current state of exporting across the SME community, the ‘Voice of SMEs’ survey sought to expose the barriers that exist.

3.1 General barriers to exporting

The evidence clearly shows that the majority of SMEs are entirely focused on the domestic market. Although there are a range of operational challenges, one of the major challenges that policy makers face in enhancing the share of SMEs exporting is simply encouraging more businesses to consider selling their products or services overseas. A recent Leeds LEP study of 970 local businesses found that 85% of non-exporters had not even considered exporting. Such attitudes may have been built up over time and it’s likely they reflect a lack of understanding of the potential benefits exporting can offer.

Campaigns such as Exporting is GREAT have made inroads in raising awareness over recent years and new campaigns must build on this momentum. These efforts will be vital in the post-Brexit environment in order to help businesses not be dissuaded by the uncertain landscape and to also take advantage of changing economic circumstances such as the value of sterling that followed the vote.

Overall, there is a need to change the attitudes of many SMEs towards exporting. Selling overseas should not be viewed as impossible, but rather as something that all businesses could do in the future with the right support and preparation.

3.2 Regional obstacles around the world

The work does not stop either at simply encouraging and inspiring businesses to consider exporting for the first time. Businesses in the process of planning to export may face a multitude of challenges that can vary depending on geographical location and regulatory processes.

With this in mind, businesses were asked to consider the biggest barriers to exporting in each region of the world.

EUROPE

Given the free trade relationship and geographic proximity of the UK and Europe, the region forms one of the key markets for businesses of all sizes. Still, SMEs face a range of barriers to trade with other European markets.

Excluding Brexit, which we will explore later in this section, the share of businesses reporting challenges trading with Europe is relatively low. Nonetheless, as shown in Figure 16, language barriers and an unsuitable range of products and services are two of the most prevalent challenges for UK SMEs looking to trade with the region.

Figure 17: SMEs potential barriers to exporting to Europe

Clearly, barriers relating to unsuitable product offerings may be difficult for businesses to address. That said, there may be some scope to encourage businesses to adapt or invest in products more suited to the region. Similarly, whilst language barriers can make doing business with other countries difficult, there are a range of solutions and support mechanisms that businesses can turn to for help with expanding into new markets within Europe.
NORTH AMERICA

Given historic links and cultural ties, North America currently forms another key region for exports from the UK. As noted earlier, more than half of SMEs have previously sold goods and/or services to the US, beating the shares seen in every other market including large European economies.

Although culture is not a significant barrier in exporting to North America, differences in regulatory requirements and standards provide the largest single barrier, highlighted by a fifth of UK SMEs, with the impact felt particularly by those operating in industries such as manufacturing, finance and IT & telecoms.

Businesses considering exporting to North America could be offered more support in establishing the regulatory requirements to operate within market. Given the high percentage of businesses who haven’t considered exporting as yet, this support should also be proactive and help to break down some of the innate concerns businesses have about expanding.

ASIA-PACIFIC

Compared with mature regions such as North America, the Asia-Pacific region is home to a host of countries that have undergone a prolonged period of relatively rapid growth. For instance, the world’s second largest economy, China, has enjoyed economic growth of over 6% year-on-year for over two decades. However, not only has this region seen economic success in recent years, its central outlook also remains bright.

As mentioned earlier, the overall level of UK exports to Asia has more than doubled over the past decade and there is an opportunity for a greater share of SMEs to take advantage of the markets offered across the Asia-Pacific region. But as shown in Figure 18, SMEs indicate a range of barriers across these markets. Still, whilst more challenges are prevalent, many are also similar to those concerns highlighted for Europe and North America.

For instance, the most frequently cited barrier in the Asia-Pacific market was that of language, with almost a quarter (23%) of SMEs put off due to lack of language skills applicable to markets. This was closely followed by unsuitable products/services (21%) and transport costs (20%).

In contrast with Europe, language barriers were also accompanied by concerns about cultural differences. This can pose a range of additional challenges but, as with language barriers, there are a range of existing support services in place managed by the Department of International Trade’s overseas network designed to help businesses bridge such gaps.
AFRICA & THE MIDDLE EAST

The regions of Africa and the Middle East hold considerable potential for SMEs due to the development of an up and coming middle class across many markets that is driving growth in consumer spending.

Nevertheless, the region is another area where SMEs reported a range of barriers. Once again, cultural (24%) and language (20%) barriers were frequently highlighted as challenges, as was lack of a suitable product or service (23%).

In contrast to other regions, almost a quarter of businesses (23%) highlighted concerns over political instability as a barrier to exporting. Although little can be done to prevent troubles in different countries across the region, there may be scope to improve the information about the potential opportunities in more stable markets across the region.

SOUTH AMERICA

Whilst the growing economies of South America offer a wealth of opportunities, the value of exports to the region has declined slightly in recent years. As shown in Figure 20, SMEs highlighted a similar range of barriers across the South American region, and language and product suitability were most prominent with 21% of respondents highlighting these barriers. Transport costs, regulatory requirements and cultural barriers were also cited by a similar number of businesses.

Figure 18: SMEs potential barriers to exporting to Africa & Middle East

<table>
<thead>
<tr>
<th>Problem</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural barriers</td>
<td>24%</td>
</tr>
<tr>
<td>Products / services not suited to exporting to this region</td>
<td>21%</td>
</tr>
<tr>
<td>Political instability in Africa and Middle East region</td>
<td>20%</td>
</tr>
<tr>
<td>Language barriers</td>
<td>20%</td>
</tr>
<tr>
<td>Transport costs of goods/services</td>
<td>17%</td>
</tr>
<tr>
<td>Regulatory requirements and differences in standards</td>
<td>15%</td>
</tr>
<tr>
<td>Currency volatility in Africa and Middle East region</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
<tr>
<td>Lack of “know how” in my business around exporting</td>
<td>8%</td>
</tr>
<tr>
<td>High tariffs (taxes on exports)</td>
<td>7%</td>
</tr>
<tr>
<td>Insurance costs associated with exporting</td>
<td>6%</td>
</tr>
<tr>
<td>Difficulty accessing trade capital</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: ‘Voice of SMEs’ survey, Cebr analysis
3.3 Payment challenges

In addition to barriers that have prevented SMEs from exporting, there are further obstacles that businesses face when they are up and running overseas.

Receiving payments for products and services sold abroad is a considerable challenge for many firms, with over half of exporting businesses reporting at least some difficulty in getting paid.

It is not just the payment itself that can cause exporters issues. SMEs can face significant challenges in managing their exposure to currency risks over the course of a contract, particularly when they are operating an open account with terms. Shifts in volatile currency markets can notably alter the revenue a business receives, and past currency fluctuations have the potential to discourage some businesses considering certain markets.

In contrast to large businesses, SMEs are less likely to pay for the support of forward contracts when managing their currency risk. A popular alternative method of protection employed by SMEs is to price products and services in pounds and, in effect, place the risk on the importer. Though this approach will work for some businesses, encouraging businesses to engage with hedging options available to them could make the barrier of currency fluctuations more manageable and help businesses feel more comfortable when considering expansion.

“We started exporting due to demand for our products from overseas. We built a simple wholesale ecommerce solution and due to our offering of quality products on a simple to order platform, we were able to grow our business. Exporting now accounts for 80% of our business which is partly due to the tough UK market and partly because we made our products easily accessible globally. If you are focused purely on a domestic market outside of maybe USA and China then you really are missing a large client base.”

Stu Conroy, Founder, Activ8

3.4 SME Brexit concerns

Whilst SMEs currently report lower levels of barriers to trading across Europe than other markets, the decision of the UK electorate to withdraw from the European Union could potentially have a considerable impact on the long-term trading relationship between the UK and the EU.

It may still be too early to predict what the UK’s final settlement will be, but the ‘Voice of SMEs’ survey suggests that a net balance of exporting SMEs across the UK expect the referendum result to hinder their businesses’ exports. Of the 35% of businesses that expect the result to make no difference, one fifth expect Brexit to have a slightly negative impact on exports and 22% expect the result to significantly hinder exports. As a result, it is clear that some of the barriers facing businesses looking to export to markets outside of Europe should be addressed as a priority in order to help SMEs identify new opportunities in markets with greater certainty.

As the UK government plans its negotiating strategy around the future trading relations with the EU, it should also be preparing the ground work for new trading agreements with other nations. On the basis of barriers to business, the markets of North America should be attractive options for the UK to pursue, particularly given the low barriers in terms of language and culture. At the same time, the UK should do more to encourage businesses to look towards the faster growing economies of the Asia-Pacific region and ensure our future trading status with markets across this region are aligned closely to the interest of our SMEs.

WHAT NEXT FOR THE UK’S SMEs?

It is clear from this report that by increasing the value of SME exports, both by encouraging existing exporters to export more and by inspiring new exporters to export for the first time, that the UK economy will benefit. Such an economic boost would come at a critical time for the UK economy, as the Government navigates the post-Brexit landscape against the long-term backdrop of a persistent UK trading deficit.

As Prime Minister Theresa May hits the reset button on the UK’s industrial strategy, she must place SMEs at the heart of her trading ambitions for the nation. As part of this process there is a need for a greater focus on the type of industries we want to export more and where we want these exports to go. Beyond the European Single Market, there is significant untapped potential in emerging economies and SMEs should be encouraged every step of the way to explore such opportunities.

As the Government also progresses towards the formal start of negotiations around the UK’s exit from the EU in 2017, it must ensure that SMEs are consulted in the same way and to the same extent as larger businesses along each stage of the process. This will be imperative when the time comes for the UK to negotiate trade deals with the rest of the world. UK SMEs are the engine room of the UK economy and must be at the heart of its revised trading strategy.

Despite the opportunities that exist for SMEs, this report has additionally identified the leading obstacles that SMEs face when attempting to export. Although the most common factors are not surprising, they must not be ignored.

Policymakers must redouble their efforts to help SMEs meet these challenges and issues, such as language or cultural barriers and should be considered within the wider context of the UK’s skills agenda. Exporting is not easy but at the same time a generation of businesses must not be put off due to issues that could be better managed with the right support.

More broadly, campaigns such as Exporting is GREAT must continue their work in headlining the benefits that exporting can bring to businesses. As this report made clear, on average, exporting is worth £287,000 in additional revenue a year and the majority of businesses experience an increase in profit as a direct result.

There is a need to change the mindset of our SMEs from one that views international expansion as unattainable, to an awareness that such a consideration is a normal thing to do within business life in the UK.

It is clear that the rewards outweigh risks - for individual businesses and on a macroeconomic level. In such a time of change for the UK, there has never been a more important moment for SMEs to seize the opportunities offered by international trade.
By rebalancing exports towards fast-growing emerging markets, and away from poorer performing developed markets such as the Eurozone, UK businesses could see significant trade-driven growth going forward. As the chart below shows, a range of developing economies are expected to grow significantly faster than developed markets such as the US and the Eurozone.

Even though the Chinese economy is slowing, it will still grow four times as fast as the Eurozone over the next five years. In addition, the shift in China’s economy away from trade-driven growth to consumer-driven growth could provide significant opportunities for several exporting sectors in which the UK has strengths, such as luxury goods and financial services.

India’s economy will be closely watched over the coming years, as strong growth in infrastructure spending, and in key sectors such as manufacturing and services, see it vying to become the “next China” as the developing market success story. Indeed, Cebr forecasts show Indian economic growth exceeding China over the next five years. UK businesses should seize on the opportunity to gain market share in India as its relative economic importance rises.

Africa also holds potential as the region continues to develop economically. Economic growth in Ghana, for example, is expected to exceed that seen in China over the next five years. Emerging markets are expected to account for about 60% of world economic growth over the next five years, reflecting the trends highlighted below.

Figure 22: Average annual GDP growth, 2016-20, major emerging markets, plus the US and Eurozone

Figure 23: Contributions to world economic growth, %

Source: Cebr analysis

Source: Cebr analysis
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London, August 2016