Scale-up Support

Exporting

Why exports matter?
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KAREN BIGGS

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**EXPORTING**

Why exports matter?

Successful SME exporters are important for the UK economy. SMEs that export grow more than twice as fast as those that do not, while ‘internationally active’ SMEs are three times more likely to introduce products or services that are new to their sector than those which are entirely domestic in orientation. Research evidence also suggests that exposure to export markets is important in realising the potential of innovative and high growth firms. The joint effects of innovation and exporting should also generate economy-wide productivity benefits as more productive exporting and innovating firms gain market share at the expense of lower productivity firms. This would drive up UK productivity growth as the proportion of high productivity firms increases.

Recent research has shown that just over 1 in 5 SMEs are exporters although this percentage varies hugely across sectors. Of these, only 17% can be classified as ‘persistent exporters’ and only 5% as ‘intensive persistent exporters’. It is clear that encouraging a greater share of SMEs to export goods and services could provide a much-needed boost to UK exports.

This insights paper focuses on our experience of supporting SMEs to grow and export. It identifies different types of SME exporters and non-exporters, explores the common motivations that prompt companies to consider exporting and the barriers that they face to become successful exporters. Lastly, it makes some recommendations as to how more SMEs could be encouraged and supported to become successful exporters.

Which SMEs export?

Whilst around 20% of SMEs export, the proportion varies hugely by sector.

![% of Exporters by Sector for UK SMEs in 2017](chart)

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Oxford Innovation has worked with over 10,000 SMEs to help them grow and succeed. Export can be a key element of strong business growth, but it is daunting to business owners and potentially risky. In our experience, SMEs can be split into four broad categories when it comes to export. These categories are:

1. **Strategic exporters**: for these SMEs, export is part of their strategy, and it is planned and executed as part of their overall business plan. They are not always necessarily mature or experienced exporters, but they are currently successfully exporting goods or services and are proactive in their approach. These SMEs usually have a plan which includes defined objectives around export and market research to effectively target new regions or countries. They also have methods to measure success and build on it to achieve profitable growth through export. Often they have established themselves and been successful in the UK market before exporting to grow the business further.

2. **Accidental exporters**: SMEs who have ended up exporting by accident to probably one distributor or key customer. They may have had an unsolicited approach from an overseas customer or distributor who buys their goods to supply their local market or an online order from an overseas customer which they have fulfilled individually. These SMEs are reactive - they respond to demand from new markets but do not actively seek out opportunities to increase export sales. As such they tend to also be intermittent exporters.

3. **Potential exporters**: SMEs who have exportable products or services but do not export. These SMEs include those that would like to export but perceive the barriers as too great to overcome as well as those that have never fully explored the possibilities. Consequently, these businesses operate in the domestic market only and are effectively export inactive.

4. **Non-exporters**: SMEs who currently have products or services that are not suitable for export and so do not export. These SMEs are also hard to reach in terms of providing business support or incentivising to export.

**Why do SMEs consider export?**

We have identified 5 factors that might prompt an SME to seriously consider exporting.

1. **Limited domestic market and growth**

For some SMEs, the demand for their product or service is limited in the UK market and there are more opportunities outside the UK than inside. SMEs that are successfully trading in the UK will look for growth outside the UK where they can easily adapt their existing product or service and tailor their marketing material to a new non-UK audience. In some cases, little or no product/service customisation is required. Establishing a profitable pricing structure becomes key, as maximising profit whilst minimising additional costs for internationalisation can be a delicate balance. Research to identify suitable countries or regions is critical, and many SMEs will favour seemingly easy targets such as ex-pat communities on the basis that there are no cultural or language barriers and the product or service is familiar to the consumer. However, if those consumer communities are in countries where regulatory compliance and local legislation and taxes are difficult and costly to comply with, then the additional cost and effort on compliance can outweigh the benefits of this market.
2. **Ambition**

Forward-thinking businesses with a clear vision and strategic plan who routinely horizon-scan for opportunities can build their export sales substantially and successfully; but many SMEs are reticent and lack the time or energy to be more strategic in their approach.

Being confident of their place in the market and clear in their offering supports this, and a “can do” attitude can help to overcome barriers; real or perceived. These SMEs will recognise and mitigate risks to avoid an “at any cost” scenario. They are also ideally able to convert an opportunity quickly by being export-ready so they retain a competitive advantage in the new market. Being export-ready is an area where support is often needed, to give confidence that the tools are in place and that exporting is a logical step forward; not just a leap of faith.

3. **A known or perceived demand for the product or service in another country or region**

This also includes identification of a target market where demand has the same drivers as the existing UK market. An example of this may be the potential of food and drink exports to an ex-pat community, or the export of wet weather clothing to countries with a wet climate. For many SMEs this need is identified through attendance at a trade fair or exhibition, or by conducting market research and making an initial approach to potentially suitable distributors, wholesalers or agents.

4. **Familiarity or contacts in an overseas market**

For some SMEs having someone they know and trust ‘on the ground’, be it an employee, a partner, business support or a trusted friend, gives them confidence when considering where to export, especially when considering first exports. This trusted local contact ideally has local knowledge of language, customs, business etiquette, laws and regulations and can provide support and introductions, as well as translation if needed, when the SME representative visits that market. A risk in this situation is that the SME does not manage matters with this trusted local representative in a business-like way and without Incoterms and a distributor/agent agreement in place they are open to risks and financial losses should the arrangement go wrong.

5. **An approach from a distributor/agent or consumer in a particular country**

Many SMEs have experienced an unsolicited approach from an agent or distributor overseas, often via the “shop window” of the SME’s website. In these instances, the distributor has effectively conducted their own research which the SME can then capitalise on, providing a sensible deal can be done. This is the export route taken by many Accidental Exporters although disappointingly SMEs are often reticent to develop further export sales beyond these initial sales. In part, this may be because the agent or distributor will have done a lot of leg work to identify a sales opportunity from which they can benefit and the SME benefits too. Without support SMEs often lack the confidence or knowledge to explore and develop similar opportunities in other countries and with other distributors, viewing the sales as a happy accident rather than an opportunity to expand.

The first three of these motivations are internal factors where a business has recognised a need to expand and is actively considering non-UK markets. Whilst these SMEs are not easy to identify, once found, they are relatively receptive to export support as it is an internal

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5. [https://www.export.gov/article?id=Incoterms-Overview](https://www.export.gov/article?id=Incoterms-Overview)
area that they are already committed to explore. The last two motivations are typical of an accidental exporter; these SMEs not only require help to make a success of the export opportunities that have been presented to them, but they also require a lot of support to convince them to consider making exporting part of their overall strategic plan.

What are the barriers to exporting and solutions?

There are many external barriers to export and uncertainty around the impact that Brexit will have on export markets is currently a major barrier. However, here we consider the internal barriers that these SMEs face, and the support that they need to overcome them and become successful exporters.

1. **Insufficient time or resource to consider export**

   The management team within an SME is typically very stretched and making time to think strategically about the business is a common barrier to business growth. Business coaching has proven to be invaluable in enabling SMEs to create time to think strategically, prioritise, better manage their resources and improve productivity. Becoming a stronger and better managed business gives companies the confidence and resources to consider new activities such as export. For many SMEs, lack of experience of export means it is viewed as a whole new business direction rather than an extension of ‘business as usual’. Providing SMEs with knowledge and experience through mentoring, advice and connections to relevant and appropriate consultants is crucial to helping SMEs build the knowledge and capacity to embark on exporting.

2. **Not knowing where to start**

   This is a common message from SMEs and often they do not know what support is available. Often it is not financial support that is needed but accessing knowledge and experience through 1-1 bespoke support to enable the SME to develop and implement an export plan. Feedback from SMEs is that having more tailored support on a 1:1 basis is hugely beneficial, as knowledge about the existing business and supporting it to realise its high growth potential can hone export support to be more specific to that SME’s business.

   Business support is often an important catalyst in the latter situation, as coaching or mentoring can lead to development of a structured plan including market research, feasibility and financial assessment, and a sales pipeline. Additionally, support to make an initial approach to overseas customers is invaluable, as many SMEs do not know where to start and lack the confidence to make an unsolicited approach in the same way as they would in the UK. Interestingly, our experience is that many smaller SMEs lack confidence to make unsolicited approaches and are passive rather than active, particularly in direct B2B transactions.

3. **Perceived financial difficulties**

   SMEs recognise that export needs investment and they often don’t have sufficient finance to invest in the feasibility and implementation stages of exports until sales income is generated. SMEs also have concerns over currency fluctuations resulting in reduced profits and do not always allow for this as a contingency in their pricing. The weak pound is an opportunity resulting in more competitively priced goods and services abroad, but SMEs worry that this will also reduce profits. Financial support packages can be helpful, not just grants to enable SMEs to invest in proper export execution, but also favourable rates for
borrowing and specialist financial products for exporters so that investing in export does not negatively impact cashflow.

4. **Lack of understanding of language, culture and business etiquette in the chosen export territory**

SMEs say that differences in language and culture are barriers when considering exporting their goods or services. SMEs believe it will not be possible to make contact or have discussions due to a lack of common language and have concerns that they will commit a blunder and unwittingly cause offence due to cultural differences and etiquette. These businesses often say that they have thus not explored the options to overcome language, culture and etiquette challenges, preferring instead to avoid these issues.

Additionally, there is the effort required to internationalise marketing material, operation manuals and such like, not just by translation in to the destination country’s language but also by ensuring that the pitch and tone are appropriate. Whilst there are training courses available in these areas and consultants with in-market and cultural expertise that can provide specialist advice, often SMEs are unaware that they exist or cannot identify relevant expertise if they seek it out.

5. **Previous historical bad experience**

Some SMEs have voiced concerns over a previous bad experience with exporting their goods or services, with the result that they have subsequently avoided export altogether. Examples include shipments going missing or being damaged, resulting in financial loss or lack of recourse for financial recompense. Breakdown of a relationship with a distributor is another example, resulting in no further exports to that country and a reticence to find an alternative distributor or to export further in future. Some SMEs view doing business abroad as very different to doing business in the UK, not recognising the commonalities and replicable core activities. Nothing can change past experiences but support to help SMEs build robust export plans that learn from previous mistakes will give the SME confidence that they can succeed with new and stronger export plans.

6. **Additional administrative burden**

SMEs find the prospect of the necessary paperwork for export daunting and too time consuming to undertake. This includes customs, tariff and duty paperwork as well as local compliance paperwork to demonstrate their products or services meet the required standards and legal requirements in that country. SMEs do not know what support is available for this or the role that key partners (such as freight forwarders) could play in supporting their export activity. Connecting SMEs with an experienced export professional as an advisor or consultant who can help them navigate this complex administrative landscape and connect them to specialist export service providers can make a real boost to the confidence and efficiency with which an SME approaches exporting.
How do we support SMEs to export?

We have set out a typology of SME exporters as well as identifying the barriers to exporting and areas where support is essential to overcome these barriers. Below are our key recommendations for policymakers wishing to encourage SMEs to begin exporting and support existing exporters to increase the ambition of their export plans.

1. Bespoke and specialist business support is vital to increase SME exports - SMEs need and value support that is designed around them, their needs and helps them address specific gaps in their capabilities.

2. Converting Accidental and Potential Exporters into Strategic Exporters requires a step change in confidence and strong motivation to incorporate exporting into ‘business as usual’. Coaching and mentoring by experienced export professionals to the SME over an extended period is essential to building SME confidence that they can and should export successfully.

3. To a new exporter, export introduces complex new administrative, financial and commercial activities to the firm which often require specialist products and services. An impartial source of advice to help SMEs identify and select relevant specialist service providers can help navigate a confusing landscape of support.

4. Highly successful Strategic Exporters have an important role to play as exemplars to inspire and motivate new exporters as well as sharing their successes and failures to build better awareness of export good practice.

5. Lastly, exporting requires significant financial investment which often cannot be funded through normal cashflows. Financial support in the form of grants to risk share with SMEs beginning new exports and loans to enable investment in new exporting activities remove some of the financial hurdles. Combining financial support with 1:1 coaching or mentoring support increases the likelihood of the SME achieving self-sustaining export sales thereafter.
OXFORD INNOVATION

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