Department for Business, Energy & Industrial Strategy

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UK Export Finance

BRITISH BUSINESS BANK

# UK SME exporting trends: finance and trade

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# FOREWORD

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I'm delighted to introduce this research on UK SME exporters, finance and trade.

As the UK government's economic development Bank, the British Business Bank makes finance markets work better for smaller businesses across the UK, allowing them to prosper and grow. An important part of achieving this is undertaking regular market analysis and research, as well as working with and advising government as a centre of expertise.

I'm pleased, therefore, that we've partnered with the Department of Business, Energy and Industrial Strategy (BEIS), UK Export Finance (UKEF) and the Department for International Trade (DIT) to co-commission this timely report on a key priority for the UK economy. SME exports accounted for around 32% of UK exports in 2018, totalling some £200bn of goods and services. We also know that smaller businesses that internationalise and export tend to be more productive than their non-exporting peers.

The government expressed an ambition in its 2018 UK Export Strategy to increase the share of GDP from exports by five percentage points to 35% and, with the country due to leave the European Union this year, UK SME exporters are facing a period of change. It's therefore particularly important, at this time, that we understand the attitudes, experiences and behaviours of SME exporters towards key aspects of international sales – both opportunities and barriers – and the role that access to finance plays.

Ultimately, the evidence from this study – centred on a bespoke national survey of c.1,200 UK SMEs in 2019 – is intended to inform future policy interventions and activities to support SMEs more effectively in their exporting endeavours. Moreover, in this complex area, we know that improvement won't be achieved without collective, joined-up action. It's why the Bank has undertaken this research with all relevant central government departments, to ensure that all partners have a common body of in-depth, accurate research and insight with which to guide their decisions.

My thanks to the partnership steering group for overseeing the work, to our research partners Vivid Economics for carrying out the research and authoring the report, and to Coriolis Technologies for providing trade data support.

# EXECUTIVE SUMMARY

**The UK Export Strategy, released in 2018, sets out an ambition to increase the share of GDP from exports by 5 percentage points to 35% (UK Government, 2018).** The strategy includes a commitment to 'ensure no viable UK export fails for lack of finance or insurance from the private sector'. In order to achieve this objective, Government will need to pay special attention to the constraints faced by SMEs, which make up 99% of all registered businesses in the UK, 60% of employment, and 52% of turnover (Department for Business, Energy and Industrial Strategy, 2019a). The Export Strategy commits to 'test how we can use targeted messages to motivate small and medium enterprises (SMEs) to consider exporting at key points in their business lifecycle or when new trade agreements are introduced'. This report assesses the attitudes of, activities undertaken by, and barriers faced by SMEs at key stages in the export cycle, and to understand whether and to what extent a lack of finance or insurance is preventing viable SME exports. The evidence presented is intended to support Government in achieving its objectives in the Export Strategy by harnessing the potential of the 99% of businesses with less than 250 employees.

**There is a common assumption that limited access to finance constrains SME exports.** Globally, access to finance and sufficient working capital is often cited as a barrier to exporting (see, for example, OECD, 2009). Surveys in the UK (see, for example, BCC 2015) have also highlighted the importance of finance as a potential barrier to exporting. Some surveys have specifically probed the barriers to exporting for SMEs, but these have gaps in coverage, for example by excluding the smallest SMEs which make up the majority of businesses. Little recent research has looked in detail specifically at how and when SMEs use finance to support exporting, the types of products required, and attitudes and behaviours towards using finance to support international expansion.

**This report aims to better understand the nature and significance of the role of access to finance in influencing exporting behaviour amongst UK SMEs.** Many of the findings in this report are based on the SME Export Finance Survey of 1,198 British SMEs, conducted between July and August 2019 specifically for this report. It covered current attitudes, perceptions and behaviours of UK SMEs related to export finance products and delivering international sales more generally. Results from the SME Export Finance Survey have been combined with the results from SME Finance Monitor (SME FM) surveys.The survey results are complemented with semi-structured interviews with key stakeholders from government departments, trade associations, financial institutions and chambers of commerce.

**Survey responses are accepted at face value.** Although there may be differences in the objective barriers and opportunities SMEs face and their (self-reported) perceptions, SMEs make their decisions based on the latter. Public policy and interventions can only create behavioural change in the private sector if it is successful in changing the attitudes, beliefs and perceptions of decision makers.

## HOW MUCH DO SMES EXPORT?

Coriolis Technologies have estimated that SMEs exported £200 billion worth of goods and services in 2018. Exports accounted for 10% of SME turnover, below the 16% average across all businesses. Micro businesses (39%) and medium sized businesses (38%) account for the largest shares of SME exports, with small businesses making up 22%.

In 2018, SME exports accounted for around one-third (32%) of total UK exports. That share had fallen over the past decade, from over 50% in 2008 and 2009, and a more recent peak of 41% in 2016.

## WHO ARE THE SMES THAT ARE EXPORTING?

Results from the SME FM survey suggest that 9% of the UK's 5.9 million SMEs are exporting (around 530,000 SMEs) (BVA BDRC, 2019a; Department for Business, Energy & Industrial Strategy, 2019a). This is in line with latest ONS estimates (10%) but below estimates from the BEIS Small Business Survey (18% in 2018) and Eurobarometer (19% in 2015) (Department for International Trade, 2018; European Commission, 2015; UK Department for Business, Energy & Industrial Strategy, 2019). Some of the differences may be explained by different approaches to weighting. UK SMEs are less likely to export than their European counterparts. The ONS Annual Business Survey reports that 42% of larger businesses export (Office for National Statistics, 2019).

Results from the SME Export Finance Survey revealed that older and larger businesses, with higher turnover, based in London and operating in the Manufacturing, Wholesale and Retail, or Real Estate and Business Services make up a larger share of the exporting sample of SMEs than the representative, non-exporting (control) group. SMEs in these sectors are therefore more likely to be exporters than SMEs in other sectors. Newer, smaller (by size and turnover), businesses located in Scotland, and operating in the Agriculture, Construction, Hotels and Restaurants or Health sectors are less likely to be exporters. Some of these factors are correlated, and further statistical analysis is required to isolate the relationships between exporting and different business demographics. SMEs planning to export were more likely to be the smallest micro enterprises (with no more than 1 employee), have a turnover of less than £85,000 and be based in London.

The SME Export Finance Survey did not find a link between exporting and firm performance (measured by self-reported growth), contrary to previous research.[1] However, this should not be taken as evidence that no such link exists, as there is a lag between data gathered on growth and exporting behaviour of up to three years, and the metrics do not consider longer term performance. Those planning to export (based on SME Export Finance Survey), however, were more likely (12% vs 10%) to be high growth firms (based on SME FM Survey).

Many SMEs with a history of exporting subsequently stop, but often temporarily. The SME Export Finance Survey observed a high rate of transition between exporters and non-exporters and vice versa. Around one-fifth of SMEs who have exported between 2016 and 2018 had not done so in the past 12 months, although BEIS's Small Business Survey shows that many will restart again in future. DIT specifically recognises the need to 'sustain' current exporters, which can help achieve higher levels of consistent exporting by supporting SMEs with a proven ability to sell internationally.

## HOW DO THEY BECOME EXPORTERS?

Results from the SME Export Finance Survey revealed that few (19%) SMEs become exporters because they take deliberate steps to target international customers. Most exporting SMEs were either 'born' exporters (40%) – who operate in international markets and have been exporting from inception – or took a reactive approach because a particular opportunity presented itself (such as being approached by an international customer). Encouraging more SMEs to export may, therefore, require interventions which present more opportunities and customers to SMEs.

Exporting SMEs tend to be international in multiple dimensions. For most (73%) this means they also import goods and services from abroad.

## WHERE DO SMES EXPORT?

Results from the SME Export Finance Survey revealed that Europe is the most important destination exporting market amongst SME exporters, with 83% of SMEs listing it as one of their markets. Most of these (52% of exporting SMEs) also export to other markets, but a significant number only export to Europe (31%). Just 17% of SME exporters did not export to Europe. Europe is also the most popular market for firms planning to export in future, with 82% targeting European sales.

Beyond Europe, the anticipated export markets for planned exporters are similar to the destinations for current exporters; however, Africa appears to be high on the target list for planned exporters, with 29% hoping to export to the continent compared to the 19% of current exporters who already do.

SMEs tend to focus on markets where they either have existing contacts or where customers approach them. The single biggest factor for focusing on a particular market amongst current exporters was that SMEs had been approached by a customer from that market (61% of those currently exporting). This was followed by the pre-existence of a network in the region or that businesses had the relevant language skills and local knowledge. These findings confirm that SMEs are generally reactive and opportunistic in their approach to exporting, rather than taking deliberate steps to identify opportunities in underdeveloped markets (7%) or because there is support for UK exporters (3%). This may imply a greater role for Government support to build overseas networks, which can help SMEs identify customers and present more opportunities to more reactive SMEs.

## WHAT DO SMES EXPORT?

More SMEs export services than goods. 46% of current SME exporters only export services, followed by 37% that exclusively export goods and 17% that do both. Among service exporters, three quarters provide their services from the UK to overseas customers, but the movement of people across borders is also important: 37% of SMEs have international customers who come in person to the UK whilst 39% send employees to customers overseas.

## HOW DO THEY APPROACH EXPORTING?

Results from the SME Export Finance Survey revealed that 35% of SME exporters seek information or advice to support their international sales; 19% of SMEs planning to export have done the same. The survey found that SMEs who have accessed information are more likely (50% compared to 37% for those that have not) to have positive growth, and more likely (42% compared to 33%) to be planning for another year of positive growth. This confirms previous research, which found that SMEs who access information and advice are more likely to be experiencing growth, exporting and innovating.

The most common source of advice on exporting is the UK Government, with DIT (22%) and HMRC (15%) amongst the top sources. This differs from sources of general information: the BEIS Small Business Survey 2018 for SMEs with at least one employee found that the most common sources of advice were consultants/business advisers (40%); accountants (30%); business networks (20%) and solicitors or lawyers (11%) (Department for Business, Energy & Industrial Strategy, 2019b).

Results from the SME Export Finance Survey revealed that SMEs developing an online presence with international customers in mind was the most popular action taken (48% of SMEs). Beyond this, SMEs tended to focus on issues of compliance, such as investigating the rules of doing businesses internationally (45%) and the tax implications (40%). These results contrast with the fact that only 19% of businesses take proactive steps to transition from a focus on domestic to international markets, suggesting that many of the proactive steps businesses take occur only after they have become exporters (for example, having been approached by a potential customer or having seen a specific opportunity). Just 12% of exporting SMEs have developed an export business plan.

Vivid Economics reviewed government websites, where SMEs often turn, and found that these offer high level recommendations on how businesses can plan to export, but lack detailed guidelines and offer few in-depth resources.

## WHAT BARRIERS DO EXPORTERS FACE?

Results from the SME Export Finance Survey revealed that one in three (33%) SME exporters considered exporting to be riskier than domestic sales. Just under half (47%) felt exporting required a different approach to domestic sales, whilst one-quarter (25%) felt they lacked the time or resources to focus on internationalisation. A similar proportion of SMEs planning to export in the future considered exporting to be riskier (36%), but they were more likely to recognise the need for a different approach (57%), or to lack the time or resources to concentrate on exporting (49%).

When asked about which stage of the exporting journey presents the biggest challenge, exporters identify planning and identifying opportunities (37%) and winning and securing contracts (32%). These challenges are similar for domestically orientated SMEs when selling to the domestic market. Exporters were not significantly more likely to see the delivery of sales (13%) or receiving payment (18%) as bigger challenges than their domestic counterparts (13% and 17% respectively).

Only 2% of non-exporting SMEs cited the risks involved with exporting as a barrier without prompting. None cited access to finance as a barrier without prompting. Again, these are not directly comparable to other results. These results strongly reject the hypothesis that there is a large pool of potential SME exporters that are only constrained from selling internationally by limited access to finance or high levels of perceived risks. Retirement of business owners is more likely to constrain international expansion than these factors. For most businesses, the answer is that they just don't want to export. Whilst government advice is available, the binding constraints to SME exporting reflect the attitudes of entrepreneurs and interventions which seek to promote SME exports need to address these and target behaviour change.

## WHAT ROLE DOES ACCESS TO EXTERNAL FINANCE PLAY IN SUPPORTING EXPORTS?

When asked at which stage finance was the greatest challenge, 68% of SMEs replied, 'None of these'. This was higher than for the non-exporters (61%), who identified it as a bigger challenge when receiving payment (20%) than exporters (11%). Finance creates the least challenges in Planning and Identifying Opportunities (4%), despite this being the stage with the greatest overall challenges (37%). Winning and Securing Contracts was the second most challenging stage overall (32%), but only 10% of SMEs identify it as the stage where finance creates the biggest challenge. This was behind Receiving Payment (11%), and only marginally above Delivering Sales (7%), despite these stages creating significantly lower challenges overall (18% and 13% respectively).

32% of exporters who identified a stage where finance presented a challenge, over half (57%, or 18% of all exporters) felt that access to additional finance would have at least a modest impact in reducing these challenges. The impacts were expected to be strongest in addressing the challenges associated with Receiving Payment (66%), but least effective in addressing the financial challenges associated with Planning and Identifying Opportunities (47%). This demonstrates a negative correlation between the proportion of firms identifying a stage of the cycle as the biggest overall challenges and the proportion of firms which report that additional finance would have a positive impact for that stage. For the 18% of exporting SMEs who felt that better access to finance would have at least a moderate impact on reducing the financial challenges faced along the export cycle, just over one-third (38%, or 6% of SME exporters) felt it would have at least a marginal impact on revenues.

One in five (22%) of export orientated SMEs take a 'different' approach to financing or have different financing requirements during at least one stage of the export cycle (although this appears to remain centred on internal finance solutions). The most common stage for taking a 'different' approach was in receiving payment (60% of those who take a different approach during at least one stage), followed by delivering sales (44%) and planning and identifying opportunities or winning and securing contracts (34% each). These results show that, at the stages of the cycle where SMEs face the biggest overall challenges (Planning and Identifying Opportunities, and Winning and Securing Contracts), SMEs are least likely to take a different approach to financing. These results confirm earlier findings (discussed in Section 7) that the biggest barriers to export expansion for SMEs are largely unrelated to finance.

Results from the SME Export Finance Survey revealed that around one-third of exporting SMEs use external finance to support some part of their businesses, though only a small proportion (8%) associate their use of external finance directly with their exporting activities. The SME FM Survey has shown that in any year, only 0.2% of SMEs report a financing need to support an overseas expansion (BVA BDRC, 2019a).

Results from the SME Export Finance Survey also revealed that exporting SMEs are reluctant to take on additional external finance, and, like non-exporting SMEs, almost three-quarters (74%) would prefer to sacrifice growth than take on additional external finance. However, and somewhat contradictory, 66% of exporting SMEs report being willing to take risks in order to achieve growth, significantly higher than non-exporting SMEs (38%). Most exporting SMEs say they do not need additional finance (74%) and a further 16% say they have sufficient cash reserves.

Internal finance remains the predominant source of funding for each stage of the export cycle, with over 90% of SMEs relying on internal finance at each stage of the cycle. Only 1% of SMEs rely mainly on external finance at each stage of the cycle, with the exception of receiving payment (2%).

The SME Export Finance Survey finds that access to external finance does not directly impact the ability of SMEs to accept international opportunities. For most businesses, their ability to take on a new international opportunity is either not dependent on finance (54%) or would depend on their ability to finance it internally (36%). Only 11% of businesses would rely on external finance, either from existing sources (4%) or if it meant applying for additional external finance (7%). These results, however, assume that an opportunity can be identified and a contract secured, and so do not include consideration of the earlier stages of the cycle where SMEs face the greatest challenges.

Together, these results suggest that there is a limited role for better access to external finance to stimulate additional exporting activity. However, the results rely on SME self-reporting and SMEs may not be fully aware of the potential impact on their business. While a third of exporting SMEs questioned in the survey have access to external finance or are aware of financial services designed to support exports (so should have an understanding of the role of external finance in their businesses), many respondents do not, which may be driving limited understanding of external finance and the role it could play in an exporting business. Access to finance may be a constraint on overall growth, but SME perceptions do not point to unique characteristics of international sales which call for additional, external finance tailored towards exporters.

## WHAT IS THE AWARENESS OF EXPORT FINANCE PRODUCTS AMONGST EXPORTERS?

Awareness of finance products designed specifically to support exporting has been highlighted as a concern for SMEs since before the 2015 Cole Commission (Cole, 2015). According to WTO estimates, 80-90% of world trade relies on trade finance (World Trade Organization, n.d.). The SME Export Finance Survey asked SMEs about their awareness, consideration, application and use of different financial services designed to support exports. The survey found that awareness was highest amongst exporting SMEs for services designed to mitigate the risks of non-payment (51%), lower for services designed to mitigate foreign currency risks (44%), and lowest for products designed to increase cash flow (42%). These are higher than the results of earlier surveys, such as a 2013 BMG Research Survey which found that 31% of SMEs were aware of export finance schemes, suggesting that some progress may have been made via various initiatives, both private sector and government sponsored, on raising awareness of finance options amongst SMEs.

Despite increasing awareness, uptake remains low. The SME Export Finance Survey found that only between 7% (for working capital) and 12% (for foreign exchange) of exporting SMEs had considered using export finance products.

4% of exporting SMEs currently using products to mitigate against foreign currency risks, 2% using products to mitigate the risks of non-payment for exports, and only 1% had ever used export finance to support cash flow (with none using them currently). Overall, 6% of exporting SMEs have ever held a specialist export finance product.

Of the SMEs who have applied for export finance products, most turned to existing finance providers. For 39% of applicants, this meant their main bank, whilst 37% of applicants used another existing finance provider. For those considering export finance in the future, 48% would be most likely to apply to their main bank (48%). Yet traditional bank relationships may not be the best solution for SMEs. Previous research has suggested the application process for export finance products is too costly in the UK, but the SME Export Finance Survey found that most SMEs were satisfied with the application process (70%), with only 13% reporting they were dissatisfied.

Foreign exchange rate fluctuations can be a significant burden on SMEs. The Federation of Small Businesses 2016 survey found that foreign exchange risks were the biggest challenge to SME exporters (Federation of Small Businesses, 2016). Bibby Financial Services' recent Trading Places Report highlights that 67% of UK SME exporters have experienced negative Foreign Exchange fluctuations averaging £70,000 over the previous 12 months (Bibby Financial Services, 2017). Despite this, only 6% of SMEs would consider using products which reduced their exposure to foreign currency risks.

Most users of export finance products did not report an impact on revenues (63%). Only 31% reported at least a marginal impact on revenues (with the majority of these reporting less than a 25% increase in revenues). These numbers imply that only 2% of exporting SMEs are currently benefiting from (mostly modest) increases in export revenues thanks to export finance products, and that only marginal export gains could be achieved through more systematic use of specialist export finance products by SMEs.

Most exporting SMEs would not consider using export finance products in the next 12 months because they either do not need it or have sufficient cash reserves. Only 8% were likely to consider using products which reduced the risks of non-payment, and 9% would consider those which increased their cash flow (in addition to the 6% who would consider them for managing foreign exchange risks). SMEs who were considering export finance products either did not expect it to impact their revenues (56%) or expected only a marginal increase in revenues – of less than 25% - as a result (27%), with 16% expecting a bigger benefit. The results point to a limited, but for some businesses important role for specialist financial products supporting growth in SME exports.

# INTRODUCTION

## 1.1 RATIONALE FOR STUDY AND WIDER CONTEXT

**International trade accounts for a significant share of the UK's economy and there is an ambition to pursue further export-related growth.** The UK was the sixth largest exporter of goods and services globally in 2018 (Department for International Trade, 2019b). New opportunities include the potential to develop trade agreements with fast growing, middle income countries.

**The UK Export Strategy, released in 2018, sets out an ambition to increase the share of GDP from exports by 5 percentage points to 35%** (UK Government, 2018). The strategy includes a commitment to 'ensure no viable UK export fails for lack of finance or insurance from the private sector'. In order to achieve this objective, Government will need to pay special attention to the constraints faced by SMEs, which make up 99% of all registered businesses in the UK, 60% of employment, and 52% of turnover (Department for Business, Energy & Industrial Strategy, 2019a). The Export Strategy commits to 'test how we can use targeted messages to motivate small and medium enterprises (SMEs) to consider exporting at key points in their business lifecycle or when new trade agreements are introduced'. This report assesses the attitudes of, activities undertaken by, and barriers faced by SMEs at key stages in the export cycle, and to understand whether and to what extent a lack of finance or insurance is preventing viable SME exports. The evidence presented is intended to support Government in achieving its objectives in the Export Strategy by harnessing the potential of the 99% of businesses with less than 250 employees.

**Previous literature has identified a positive link between exporting and productivity.** A joint report by Bpifrance (France), the British Business Bank, Cassa Depositi e Prestiti Spa (CDP, Italy), Instituto de Credito Oficial (ICO, Spain) and KfW Bankengruppe (Germany) summarises the literature: Falk and Hagsten (2015) estimate that exporters are 13% more productive than non-exporters in a given industry and country based on a sample of 110,000 SMEs from 19 European countries. Delgado et al. (2002) analyse Spanish manufacturing firms and find that learning by exporting takes place especially in younger enterprises. Castellani (2002) shows that exports as a fraction of sales need to exceed a certain threshold to have positive effects on productivity for a sample of Italian manufacturing firms. He concludes that high export intensity signals a strong commitment to internationalisation and thus a larger willingness and capacity of the firm to learn from foreign operations. Also analysing Italian manufacturing firms, Serti and Tomasi (2008) observe productivity improvements only for exporters that increase their skill intensity as well as their capital endowment after entry into foreign markets (Abel-Kock et al., 2018).

**Supporting small and medium businesses to sell internationally is a shared aim of Government and the UK financial sector.** A coalition of the six largest UK banks formed a Business Finance Taskforce with Government in 2010, committed to improving access to finance, especially for small and medium businesses (BBA, 2010).

**There is a common assumption that limited access to finance constrains SME exports.** Globally, access to finance and sufficient working capital is often cited as a barrier to exporting (see, for example, OECD, 2009). Surveys in the UK (see, for example, BCC 2015) have also highlighted the importance of finance as a potential barrier to exporting. Some surveys have specifically probed the barriers to exporting for SMEs, but these have gaps in coverage, for example by excluding the smallest SMEs which make up the majority of businesses. Little recent research has looked in detail specifically at how and when SMEs use finance to support exporting, the types of products required, and attitudes and behaviours towards using finance to support international expansion.

## 1.2 THE AIM OF THIS REPORT

**The aim of the study was to better understand the nature and significance of the role of access to finance in influencing exporting behaviour amongst UK SMEs.** Sponsored by a Government arms-length body and a group of central Government departments, the analysis aims to identify areas for future policy interventions and activities to better support SMEs in their trade and export activities.

SPECIFICALLY, THE RESEARCH AIMS OF THE STUDY INCLUDE:

- assess the evidence base concerning SME exporting and access to finance, including the identification of any gaps;
- understand how UK businesses with less than 250 employees approach exporting, including the barriers faced;
- assess the relative importance of access to finance as a barrier to exporting;
- assess perceptions amongst current and potential exporting SMEs on 1) access to finance to support exports, 2) awareness of financing options to facilitate exports, 3) experience in accessing finance to support exporting and 4) impact of finance options on SME performance and competitiveness.

## 1.3 METHODOLOGY

**This report reviews findings from previous studies and summarises the results of a survey of UK SME access to finance for exporting.** Many of the findings in this report are based on the SME Export Finance Survey of 1,198 British SMEs, conducted between July and August 2019 specifically for this report. It covered current attitudes, perceptions and behaviours of UK SMEs related to export finance products and delivering international sales more generally. Respondents are drawn from the sample of SMEs that have participated in the SME Finance Monitor and agreed to be re-contacted.[2] Results from the SME Export Finance Survey have been combined with the results from the original SME Finance Monitor (SME FM) survey. SME FM surveys 4,500 businesses every quarter about past borrowing events and future borrowing intentions, the largest such survey in the UK. A stratified sample was used (instead of a random sample) to ensure high representation of exporting SMEs. In total, 800 current and would-be exporters were surveyed, as well as 398 non-exporting SMEs as a control group. Survey results have been weighted in line with SME FM weights so as to be generalisable to the national SME population.

**The survey was conducted during a time of continued uncertainty about the future of the UK's trading relationship.** At the time of the survey, 35% of SMEs considered the current political and economic situation had a negative impact on their business, whilst only 8% considered it was having a positive impact. These results are noted for future comparisons, but are not analysed further in the report, given the rapidly evolving political climate and the passage of time between the survey and publication of this report.

**The survey results are complemented with semi-structured interviews with key stakeholders from government departments, trade associations, financial institutions and chambers of commerce.** A literature review was also completed, with a particular focus on previous survey results. Where results are comparable, these have been included in the report. Statistical analysis has been undertaken to identify where SME characteristics, such as size, turnover, age, region or sector, are correlated with differences in attitudes or behaviours. Where differences are identified, they have been reported, and are statistically significant at the 5% probability level unless explicitly stated.

**Survey responses are accepted at face value.** The analysis contained in this report assumes that SMEs are informed in their answers. Where the framing of questions may have contributed to differences in results between the SME Export Finance Survey and previous work, this is acknowledged. The results rely exclusively on self-reported perceptions and performance, and interpretation should therefore keep this in mind. Performance and activity metrics, such as revenues, employment, or activities undertaken, are therefore those reported by the business. No independent verification has been undertaken. Similarly, the opportunities and barriers are the subjective opportunities and barriers from the perspective of the respondent, and it is possible these may diverge from the actual opportunities and barriers SMEs objectively face. Although there may be differences in the objective barriers and opportunities SMEs face and their (self-reported) perceptions, SMEs make their decisions based on the latter. Public policy and interventions can only create behavioural change in the private sector if it is successful in changing the attitudes, beliefs and perceptions of decision makers.

## 1.4
# THE STRUCTURE OF THIS REPORT

THE REPORT IS STRUCTURED AS FOLLOWS:

- Section 2 describes the current state of export activity from UK SMEs and the trade data underpinning this market profile;
- Section 3 describes the characteristics of SMEs which export;
- Section 4 describes how SMEs become exporters;
- Section 5 describes the importance of different SME export markets;
- Section 6 describes what and how SMEs export;
- Section 7 describes the approach that SMEs take to exporting and the barriers which they face;
- Section 8 describes the role that external finance plays in supporting SME exports;
- Section 9 describes the awareness and use of specific export finance products amongst SMEs.

BOX 1: KEY TERMS USED IN THE STUDY

- SME – small or medium enterprise is defined in this study as any for profit organisation registered in the UK with less than 250 employees
- SME Finance Monitor – a continuous survey of UK SMEs published quarterly by the Business Finance Taskforce including leadership from the UK's largest banks; SMEs surveyed for this study were previous respondents to the SME Finance Monitor survey
- Export – exporting is defined as any sale of a good or service produced by a business to an international buyer
- Exporters – SMEs that either currently export or plan to do so in the next 12 months
- Born exporters – SMEs that sell a good or service that is inherently an international market
- Deliberate exporters – SMEs that intentionally develop and implement a plan to begin exporting
- Reactive exporters – SMEs that begin exporting only in response to receiving an international order or by being approached by an international contact
- Export finance – financial products and services available specifically to support businesses who sell internationally, including 1) products to increase a business's cash flow while meeting buyers' terms of business, 2) products to mitigate risks of non-payment and 3) services to facilitate and mitigate risks related to transactions in foreign currencies



CHAPTER 2:
# HOW MUCH DO SMES EXPORT?

BOX 2: KEY FINDINGS ON THE VALUE OF SME EXPORTS

Coriolis Technologies have estimated that SMEs exported £200 billion worth of goods and services in 2018. Exports accounted for 10% of SME turnover, below the 16% average across all businesses. Micro businesses (39%) and medium sized businesses (38%) account for the largest shares of SME exports, with small businesses making up 22%.

In 2018, SME exports accounted for around one-third (32%) of total UK exports. That share had fallen over the past decade, from over 50% in 2008 and 2009, and a more recent peak of 41% in 2016.

**This section provides a summary of UK SME trade based on historical data, including national statistics and estimates of trade flows.**

The value of SME trade has been estimated by Coriolis Technologies, with further details available in the Technical Appendix.

## 2.1
# AVAILABLE DATA ON UK SME EXPORTS

### 2.1.1 STATE OF AVAILABLE TRADE DATA SOURCES

In summary:

- The OECD's Trade by Enterprise Characteristics database reports export volumes for member countries by ISIC sector and size of business, including three categories for businesses with less than 250 employees. For the UK, exports from businesses with less than 250 employees totalled USD 340 million in 2017 (OECD, n.d.-b);
- The United Nations Comtrade database includes total exports of goods and services across several product classifications at the national level for both goods and services (United Nations Statistics Division, n.d.);
- UK HMRC data includes regional trade data aggregated for all sectors and all sizes of business, though this data excludes some services data (HM Revenue & Customs, n.d.);
- UK ONS data reports total goods and services trade flows at the national level (Office for National Statistics, n.d.).

The approaches towards measuring enterprise characteristics at the ONS are largely survey-based and, while the OECD has a database of exporters by enterprise characteristic (OECD, n.d.-a), this in itself is based on estimates from National Agencies.

**Differences in numbers reported by various survey-based approaches can result in significant inconsistencies in trade data.** For example, an average estimate across trade data sources for UK exports is 6.5% different from values reported in the UN Comtrade database (Harding, 2019). To account for these inconsistencies, and produce an estimate of SME exports, trade data can be disaggregated by enterprise characteristics using OECD SME exporter proportions, and applied to official estimates of aggregate trade in goods and services derived from ONS data.

## 2.2
# HOW MUCH DO SMES EXPORT?

**Exports by SMEs represent around one-third of UK exports, but that share has been falling.** After falling sharply (by around 15%) in 2010, they gradually recovered, peaking again in 2016 at almost £240 billion, before falling back to around £200 billion by 2018. The share of SME exports in total UK exports has fallen from 41% in 2016 to 32% in 2018.

**Exports account for around 10% of SME turnover, below the average for all businesses.** SME turnover in 2018 was £1,993 billion (£2,168 billion in 2019) and accounted for 52% of all business turnover (Department for Business, Energy and Industrial Strategy, 2018b; Department for Business, Energy & Industrial Strategy, 2019a). SME exports account for 10% of SME turnover, compared to 16% for all businesses.[3]

**Micro businesses accounted for the largest share of SME exports by value in 2018.** Coriolis Technologies estimate exports by micro businesses (with 0-9 employees) amounted to £79 billion in 2018 (39% of SME exports). Medium sized businesses (50-249 employees) accounted for a further £77 billion (38%), with small businesses (10-49 employees) making up for the remaining £45 billion (22%).

FIGURE 1
EXPORTS FROM UK SMES TOTALLED £200 BILLION IN 2018
*Source: Vivid Economics based on data from Coriolis Technologies*

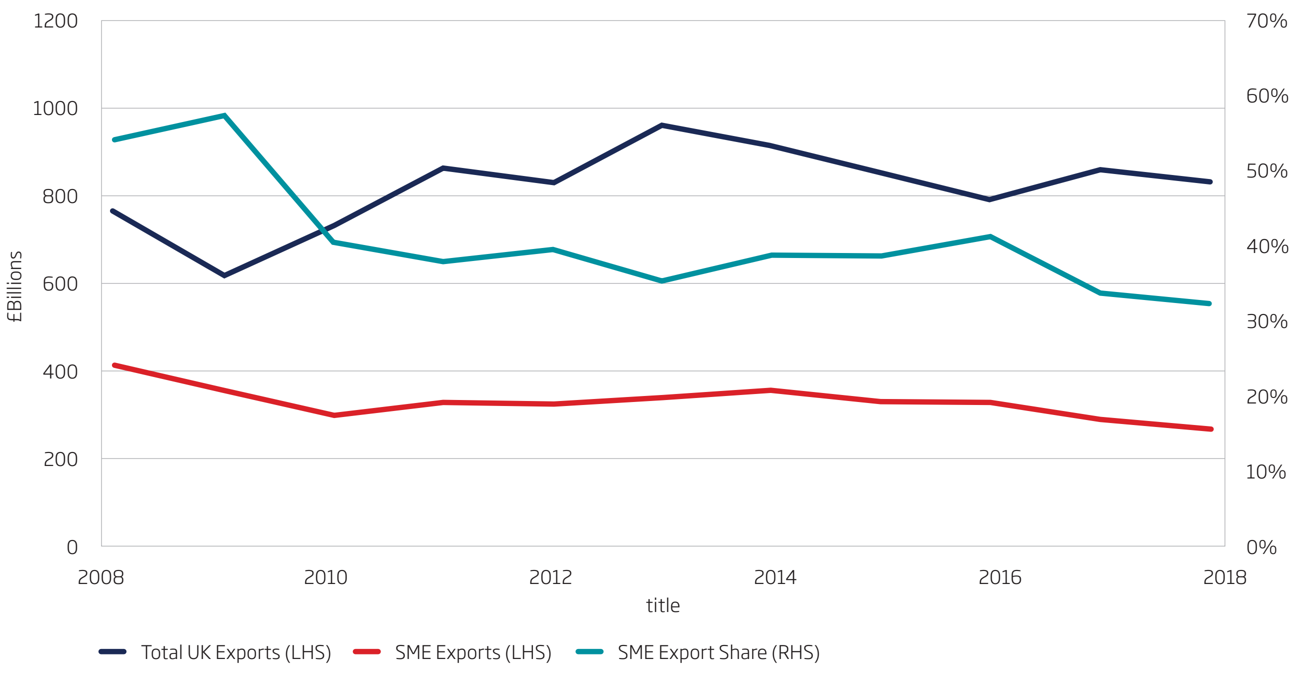
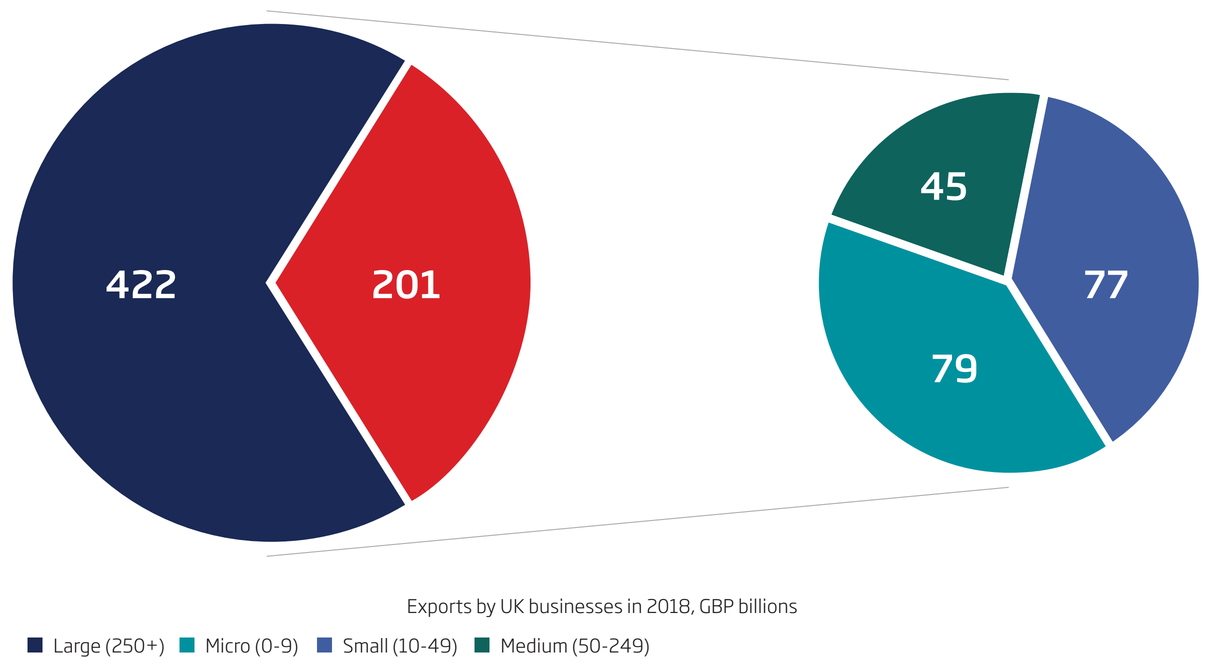



FIGURE 2
MICRO BUSINESS EXPORTS ACCOUNTED FOR THE BIGGEST SHARE (BY VALUE) OF UK SME EXPORTS IN 2018
*Source: Vivid Economics based on data from Coriolis Technologies*



# CHAPTER 3: WHO ARE THE SMES THAT ARE EXPORTING?

### BOX 3: KEY FINDINGS ON SME EXPORTER PROFILE

Results from the SME FM survey suggest that 9% of the UK's 5.9 million SMEs are exporting (around 530,000 SMEs) (BVA BDRC, 2019a; UK Department for Business, Energy & Industrial Strategy, 2019a). This is in line with latest ONS estimates (10%) but below estimates from the BEIS Small Business Survey (18% in 2018) and Eurobarometer (19% in 2015) (Department for International Trade, 2018; European Commission, 2015; UK Department for Business, Energy & Industrial Strategy, 2019b). Some of the differences may be explained by different approaches to weighting. UK SMEs are less likely to export than their European counterparts. The ONS Annual Business Survey reports that 42% of larger businesses export (Office for National Statistics, 2019).

Results from the SME Export Finance Survey revealed that older and larger businesses, with higher turnover, based in London and operating in the Manufacturing, Wholesale and Retail, or Real Estate and Business Services make up a larger share of the exporting sample of SMEs than the representative, non-exporting (control) group. SMEs in these sectors are therefore more likely to be exporters than SMEs in other sectors. Newer, smaller (by size and turnover), businesses located in Scotland, and operating in the Agriculture, Construction, Hotels and Restaurants or Health sectors are less likely to be exporters. Some of these factors are correlated, and further statistical analysis is required to isolate the relationships between exporting and different business demographics. SMEs planning to export were more likely to be the smallest micro enterprises (with no more than 1 employee), have a turnover of less than £85,000 and be based in London.

The SME Export Finance Survey did not find a link between exporting and firm performance (measured by self-reported growth), contrary to previous research. However, this should not be taken as evidence that no such link exists, as there is a lag between data gathered on growth and exporting behaviour of up to three years, and the metrics do not consider longer term performance. Those planning to export (based on SME Export Finance Survey), however, were more likely (12% vs 10%) to be high growth firms (based on SME FM Survey).

Many SMEs with a history of exporting subsequently stop, but often temporarily. The SME Export Finance Survey observed a high rate of transition between exporters and non-exporters and vice versa. Around one-fifth of SMEs who have exported between 2016 and 2018 had not done so in the past 12 months, although BEIS's Small Business Survey shows that many will restart again in future. DIT specifically recognises the need to 'sustain' current exporters, which can help achieve higher levels of consistent exporting by supporting SMEs with a proven ability to sell internationally.

Surveys conducted in recent years have estimated the number of UK SMEs which export at between 9% and 21%. Survey results can vary based on the samples used, weighting methodology, framing of questions (including the time period considered), timing of the survey and random variation, as shown in Table 1.

TABLE 1

PREVIOUS SURVEY ESTIMATES OF SHARE OF SMES WHICH EXPORT

| **Survey** | **Sample basis** | **Estimate of proportion of SMEs exporting** |
|---|---|---|
| Eurobarometer: Internationalisation of Small and Medium-Sized Enterprises (European Commission, 2015) | Previous 3 years | 19% |
| BEIS Small Business Survey (UK Department for Business Energy & Industrial Strategy, 2019) | All SMEs. Previous 12 months, weighted sample, disaggregating results for 1-4 and 5-9 employees. | 20% in 2015<br>17% in 2016<br>17% in 2017<br>18% in 2018 |
| SME Finance Monitor Q2 2019 (BVA BDRC, 2019a) | All SMEs. Agree with statement "You sell goods or services abroad". Weighted with 1-9 employees treated as one group. | 9% |
| ONS Annual Business Survey (Office for National Statistics, 2019) | Weighted with 1-9 employees treated as one group. | 10% |
| DIT National Survey of UK Registered Businesses' Exporting Behaviours, Attitudes and Needs (NSRB) 2018 (Department for International Trade, 2019a) | Past 12 months. Includes large businesses. Drawn from Inter-Departmental Business Register which includes large businesses but excludes businesses which have not VAT or PAYE. | 24% |
| British Business Bank internal research (Oliver Wyman, 2015) | All SMEs<br>SMEs with at least one employee | 13%<br>19% |
| Civitas, 2017) | 2011 – 2015 based on ONS Annual Business Survey | 11% |
| Federation of Small Business Destination Export (Federation of Small Businesses, 2016) | Weighted based on FSB membership. | 21% |

*Source: Vivid Economics and listed sources*

**UK SMEs export less than those based in other EU countries.** The Eurobarometer results found that the share of SMEs exporting in the UK was the fifth lowest in the EU-28 (above only Ireland, France, Italy and Bulgaria).

THE SME EXPORT FINANCE SURVEY FOUND THAT:

- Exporting SMEs tend to be **more mature** (longer established) than non-exporting SMEs. This aligns with SME FM, which shows the highest rate of 'international' businesses are 10-15 years old (BVA BDRC, 2019a), and with the ONS Annual Business Survey, which shows that younger businesses (less than 4 years old) are significantly less likely to export than older businesses (Office for National Statistics, 2019). SME FM also found that new starts were least likely to be international (BVA BDRC, 2019a).
- Exporting SMEs tend to **be bigger** than non-exporting SMEs. Single-employee businesses are less likely to be exporters, whilst micro and small are more likely to be exporters. These findings match the ONS Annual Business Survey, which finds exporting increases with size (Office for National Statistics, 2019). The BEIS Small Business Survey similarly shows a positive relationship between employment size and exporting (UK Department for Business, Energy & Industrial Strategy, 2019). SME FM also found that the smallest SMEs were less likely to trade internationally (BVA BDRC, 2019a). The FSB found that members without employees were less likely to export (16%) than those with employees (24%) (Federation of Small Businesses, 2016).
- Exporting SMEs tend to have a **higher turnover** than non-exporting SMEs. This aligns with the patterns seen in the NSRB 2018. Whilst 24% of all registered businesses had exported, this rose to 33% for businesses with over £500,000 turnover, and to 54% for those with over £50 million turnover (Department for International Trade, 2019a). The ONS Annual Business Survey also shows that higher turnovers are correlated with higher levels of exporting (Office for National Statistics, 2019).
- Exporting SMEs are **more likely to be in the Manufacturing, Wholesale and Retail, or Real Estate and Business Services sectors.** This confirms findings from the SME FM Survey, which shows the same three sectors are most likely to 'be international' (BVA BDRC, 2019a). It aligns with the NSRB 2018, which found exporting was highest in the Information and Communication and Manufacturing, Raw Materials and Energy sectors (Department for International Trade, 2019a). Similarly, the BEIS Small Business Survey finds exporting is highest in manufacturing, professional/scientific and retail/wholesale sectors (UK Department for Business, Energy & Industrial Strategy, 2019).[4]
- Exporting SMEs are l**ess likely to be in the Agriculture, Construction, Hotels and Restaurants or Health sectors.** This confirms findings from the SME FM Survey, which shows the same four sectors are least likely to 'be international' (BVA BDRC, 2019a). These results are similar to the NSRB 2018, which found low levels of exporting in the Construction and Real Estate and Education and Health sectors (Department for International Trade, 2019a). Similarly, the BEIS Small Business Survey finds exporting is lowest in accommodation/food service, health and construction sectors (UK Department for Business, Energy & Industrial Strategy, 2019).[5]
- SMEs are **more likely to export if they are based in London.** Again, this aligns with the NSRB 2018, which found the highest incidence of exporting amongst London based businesses (Department for International Trade, 2019a).
- **Scottish SMEs are less likely to export.** This matches with findings from the BEIS Small Business Survey (UK Department for Business, Energy & Industrial Strategy, 2019).

TABLE 2

DEMOGRAPHICS OF EXPORTERS AND NON-EXPORTERS

| Demographic | Share of SMEs currently or planning to export (%) | Share of non-exporting group (%) |
|---|---|---|
| **Sector** | | |
| Real Estate, Renting and Business Activities | 38.1 | 26.8 |
| Wholesale / Retail | 15.1 | 10.4 |
| Other Community, Social and Personal Service Activities | 13.4 | 11.8 |
| Transport, Storage and Communications | 12.5 | 12.2 |
| Manufacturing | 9.5 | 5.5 |
| Construction | 4.4 | 19.1 |
| Health and Social Work | 3.8 | 7.4 |
| Hotels and Restaurants | 1.8 | 3.6 |
| Agriculture, Hunting and Forestry, Fishing | 1.5 | 3.0 |
| Age of business (since establishment) | | |
| Less than 10 years | 29.2 | 32.8 |
| 10-15 years | 20.9 | 15.3 |
| More than 15 years | 49.8 | 51.9 |
| **Turnover** | | |
| Less than £85,000 | 47.1 | 56.4 |
| Between £85,000-£499,999 | 23.0 | 23.7 |
| Between £500,000-£999,999 | 8.6 | 6.1 |
| More than £1,000,000 | 13.7 | 4.5 |
| **Size (number of employees)** | | |
| 1 | 67.1 | 74.8 |
| 2-10 | 24.7 | 20.5 |
| 11-50 | 7.2 | 4.1 |
| More than 50 | 1.1 | 0.6 |
| **Region** | | |
| East Midlands | 6.6 | 7.0 |
| East of England | 9.7 | 10.0 |
| London | 26.5 | 18.0 |
| North West | 9.5 | 10.0 |
| North East | 2.2 | 3.0 |
| South East | 16.1 | 16.0 |
| South West | 8.8 | 10.0 |
| West Midlands | 6.6 | 7.0 |
| Yorkshire/Humberside | 4.1 | 7.0 |
| Scotland | 5.2 | 6.0 |
| Wales | 3.2 | 4.0 |
| Northern Ireland | 1.5 | 2.0 |

*Source: Vivid Economics SME Export Finance SurveyA7. Which of the following best describes how many people, including you, work in this business? A10. Which region does your business operate from? SME FM (industry sector).*

**Previous surveys have found that between 2% and 21% of SMEs are considering or planning to export in the future, as shown in Table 3.** The BEIS Small Business Survey found that 3% of SMEs that do not currently export plan to do so in the future, and that SMEs in information/communications sector and the professional/scientific sector were most likely to consider future exporting, as were younger SMEs (UK Department for Business, Energy & Industrial Strategy, 2019). The SME Export Finance survey found that those who are planning to export in the future:

- are more likely than current exporters to have a maximum of 1 employee
- have an annual turnover of less than £85,000, and
- were disproportionately based in London.

TABLE 3

PREVIOUS SURVEY ESTIMATES OF SHARE OF SMES WHICH PLAN TO EXPORT IN THE FUTURE

| Survey | Sample basis | Estimate of proportion of SMEs considering exporting (%) |
|---|---|---|
| Eurobarometer: Internationalisation of Small and Medium-Sized Enterprises (European Commission, 2015) | Proportion of non-exporting SMEs trying to export | 3 |
| | Proportion of non-exporting SMEs considering exporting | 6 |
| BEIS Small Business Survey (UK Department for Business, Energy & Industrial Strategy, 2019) | Proportion of SMEs which do not currently export which plan to do so in the future | 3 |
| DIT National Survey of UK Registered Businesses' Exporting Behaviours, Attitudes and Needs (NSRB) 2018 (Department for International Trade, 2019a) | Proportion of businesses which plan to start exporting | 2 |
| Federation of Small Business Destination Export (Federation of Small Businesses, 2016) | Proportion of members that have never exported before but would consider exporting in the future. | 9 |
| | Proportion of members that have lapsed their exporting but would do so again. | 12 |

*Source: Vivid Economics and listed sources*

**The SME Export Finance Survey did not find a link between exporting and self-reported growth, although the timing of the surveys may impact the results.** This contrasts with previous literature summarised in Section 1.1, which found a positive link between exporting and firm performance. Some caution must be exercised, however, as the timeframes for the two surveys may differ by up to three years, and a better approach would consider firm performance over a longer time period (especially given exporters tend to be more mature businesses). Those planning to export (based on the SME Export Finance Survey), however, were marginally more likely (12% compared to 10%) to be high growth firms (based on the SME FM Survey).

**There is significant year-to-year turnover amongst SMEs between exporting and non-exporting.** The SME Export Finance survey found similar rotations to previous surveys (summarised in Table 4 below), with 21% of firms which had reported exporting in the SME FM (from which the sample was drawn) now classed as non-exporters, with 15% of SMEs moving in the opposite direction.[6]

TABLE 4

PREVIOUS SURVEY ESTIMATES OF ROTATION OF SMES BETWEEN EXPORTING AND NON-EXPORTING

| Survey | Basis of estimate | Estimate of proportion of SMEs exporting (%) |
|---|---|---|
| BEIS Small Business Survey (UK Department for Business, Energy & Industrial Strategy, 2019) | Percentage of SMEs which exported in 2015 that did not in 2017. | 20 |
| | Percentage of SMEs which exported in 2015 and 2016 that did not in 2017. | 11 |
| | Percentage of businesses which exported in 2015 but did not export in 2016, that exported again in 2017. | 30 |
| | Percentage of firms that have been exporting for over two years, that have had some years without overseas sales. | 31 |
| DIT National Survey of UK Registered Businesses' Exporting Behaviours, Attitudes and Needs (NSRB) 2018 (Department for International Trade, 2019a) | Percentage of businesses that had previously exported that had not in the previous 12 months | 26 |
| Federation of Small Business Destination Export (Federation of Small Businesses, 2016) | Percentage of members which have exported in the past, do not currently export, but would consider exporting again in the future | 7 |

*Source: Vivid Economics and listed sources*

# CHAPTER 4: HOW DO SMES BECOME EXPORTERS?

BOX 4: KEY FINDINGS ON HOW SMES BECOME EXPORTERS

Results from the SME Export Finance Survey revealed that few (19%) SMEs become exporters because they take deliberate steps to target international customers. Most exporting SMEs were either 'born' exporters (40%) – who operate in international markets and have been exporting from inception – or took a reactive approach because a particular opportunity presented itself (such as being approached by an international customer).

Exporting SMEs tend to be international in multiple dimensions. For most (73%) this means they also import goods and services from abroad.

## 4.1 BECOMING AN EXPORTER

**To support more SMEs to export, it is vital to understand how they typically become exporters in the first place.** The NSRB 2017 found that around a quarter of all exporters (27%) in the UK 'were entirely reactive in their exporting behaviours – they did not plan to export to new countries but instead reacted when orders from new territories were placed.' Larger businesses were more likely to be proactive, with the share who were entirely reactive falling to 22% for businesses with turnover above £500,000 (Department of International Trade, 2018). The NSRB 2018 found that 66% of all businesses respond to orders from abroad when they receive them, but do not specifically target customers in other countries, with only 27% of businesses intentionally targeting customers in specific countries (Department for International Trade, 2019a). This was consistent with the views of stakeholders interviewed as part of this research; that many SMEs 'fall into exporting'. This in turn can create difficulties for SMEs that do not adequately understand the risks involved in exporting, including the potential impact on cash flows.

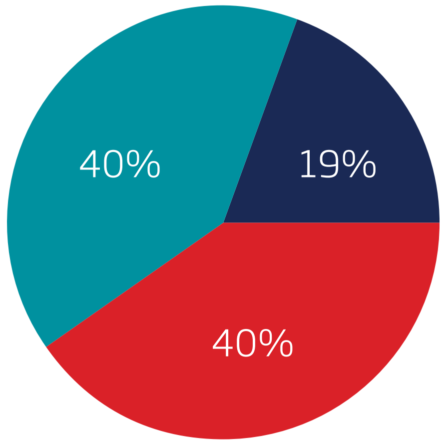
**The SME Export Finance survey found that most UK exporters are either born exporters or become exporters reactively.** When asked why their business was selling or planning to sell internationally, only 19% said they consciously identified and pursued international opportunities ('deliberate exporters'). Over 80% did not plan to do so but either took an open international opportunity which was presented to them (40% of all exporters – 'reactive exporters'), or operate in markets which are inherently international (40% - 'born exporters').

FIGURE 3

FEW SMES MAKE A DELIBERATE EFFORT TO BECOME EXPORTERS

*Weighted N = 800 (all current and planning exporters).*

*Source: Vivid Economics SME Export Finance Survey: C1 Which best describes why your business is (planning on selling) internationally (in the future)?*




- 'We deliberately identified and pursued international opportunities - it was conscious effort'
- 'We operate in an international market and always expected to have international customers - it happened naturally'
- 'We didn't plan to have international customers but were approached/ saw an international opportunity, which we took'

**The route to becoming an exporter differs across SME demographics.** The SME Export Finance survey found that larger SMEs were more likely to be deliberate exporters (30% of businesses with at least 50 employees). Conversely, companies with annual turnover of over £1 million were less likely to be deliberate exporters. Although differences for other turnover groups were not significantly different, there was a positive correlation with turnover and deliberate exporting behaviour except for this top group. It may also be that having sufficient staff capacity is a pre-requisite for pursuing an export strategy, and that the NSRB 2017 results were acting as a proxy for firm size. Regionally, exporters in Scotland and Wales were more likely to operate in international markets (born exporters), and less likely to be reactive exporters. Scottish SMEs were also significantly less likely to be deliberate exporters. The opposite was true for exporters in Northern Ireland, with over 70% of exporting SMEs reactively.

**Caution must be exercised before drawing conclusions from these findings.** The responses for businesses represent historic approaches by current exporters, but it is unclear whether the 19% of exporters that deliberately set out to pursue exports is optimal. These numbers also represent an average across all current exporters, but may not apply to potential future exporters. Government initiatives which aim to encourage SMEs to consider exporting, in line with the Export Strategy, for example, could increase the number of deliberate exporters. SMEs could have become reactive exporters had they not taken a deliberate approach, and making deliberate attempts to export is no guarantee of success. Conversely, the data does not reveal whether taking a more proactive approach would increase total export sales for those businesses which only started exporting reactively.

## 4.2
# BROADER INTERNATIONAL ACTIVITY

**Empirical evidence suggests that internationally active SMEs are more productive, introduce more innovations and grow faster.** A joint report by Bpifrance (France), British Business Bank, Cassa Depositi e Prestiti Spa (CDP, Italy), Instituto de Credito Oficial (ICO, Spain) and KfW Bankengruppe (Germany) identify the benefits associated with internationalism following a review of literature, and include higher productivity, faster growth, greater innovation, and better chances of survival (Abel-Kock et al., 2018). These benefits are not confined to SMEs which export, but those which import from abroad or invest overseas.

**UK SMEs are less international than their EU counterparts.** The 2015 Eurobarometer data showed not only that the share of UK SMEs which export ranked 24 out of the EU-28, but they were less likely to import (26), use an overseas subcontractor (23), be a subcontractor for a company based abroad (20), and invest in a company abroad (22). Only in research and development partnerships did UK SMEs rank in the top half (10) (European Commission, 2015). One possible reason for this might be the composition of UK trade, with services accounting for a much higher share of UK exports than for other EU countries. Trade liberalisation within the EU is more developed for goods than for services (Abel-Kock et al., 2018).

**The ONS Annual Business Survey shows that 57% of SMEs who export also import.** This share tends to increase with business size, with 45% of single-employee businesses who export also importing, rising to 89% of businesses with 100-249 employees (Office for National Statistics, 2019).

**The SME Export Finance Survey confirmed that exporters tend to be international in more than one dimension.** Around three-quarters (73%) of exporting SMEs reported that they had either imported goods or services from abroad, worked as a subcontractor for an overseas company, collaborated in R&D with overseas partners and invested abroad. These results were significantly higher than for non-exporting SMEs. The survey also found:

- The smallest companies (with less than 2 employees and turnover below £85,000) were much less likely to have any international activity, whilst companies with over 10 employees and £1 million turnovers were significantly more likely to import goods and services, invest, partner and subcontract internationally.
- SMEs based in London were also more likely to be international, whilst Scottish and Welsh SMEs were less likely than English or Northern Irish SMEs to undertake international activity.
- Wholesale and Retail, and Transport, Storage and Communications SMEs were most likely to undertake any type of international activity, although Manufacturing SMEs were also more likely to import from abroad. Construction and Health and Social SMEs had the lowest international activity.

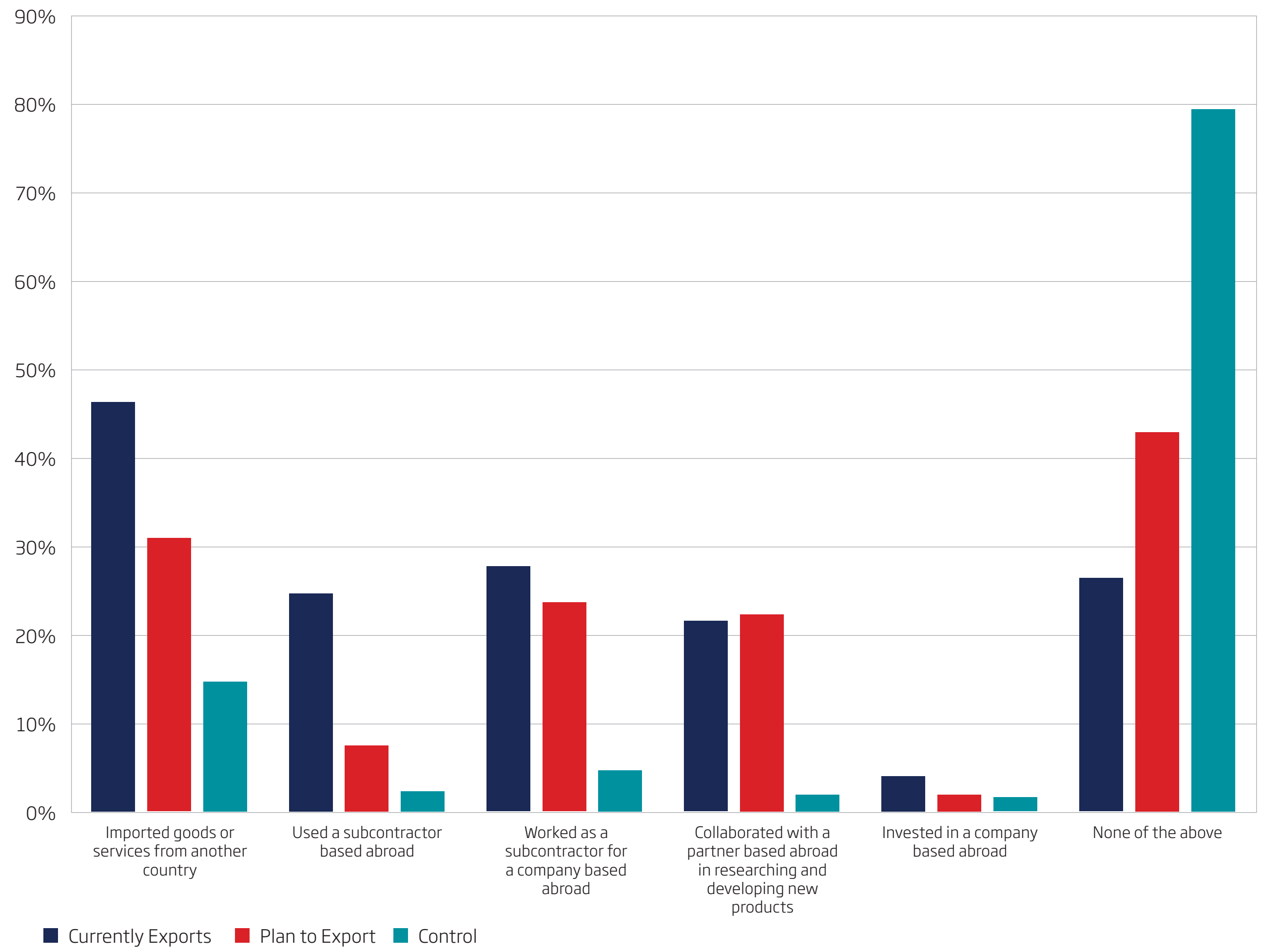
As with other survey results, the correlation between exporting and other dimensions of 'internationalism' does not imply causation. It is not possible to conclude, for example, that encouraging SMEs to import more would provide them with the exposure to international markets that would increase their exports.

FIGURE 4

EXPORTING SMES ARE MORE LIKELY TO BE MULTI-DIMENSIONAL INTERNATIONAL SMES

*Note: Weighted. N=1198 (all exporters and non-exporters).*

*Source: Vivid Economics SME Export Finance Survey*



CHAPTER 5:
# WHERE DO SMES EXPORT TO?

## BOX 5: KEY FINDINGS ON WHERE SMES EXPORT

Results from the SME Export Finance Survey revealed that Europe is the most important destination exporting market amongst SME exporters, with 83% of SMEs listing it as one of their markets. Most of these (52% of exporting SMEs) also export to other markets, but a significant number only export to Europe (31%). Just 17% of SME exporters did not export to Europe. Europe is also the most popular market for firms planning to export in future, with 82% targeting European sales.

Beyond Europe, the anticipated export markets for planned exporters are similar to the destinations for current exporters; however, Africa appears to be high on the target list for planned exporters, with 29% hoping to export to the continent compared to the 19% of current exporters who already do.

SMEs tend to focus on markets where they either have existing contacts or where customers approach them. The single biggest factor for focusing on a particular market amongst current exporters was that SMEs had been approached by a customer from that market (61% of those currently exporting). This was followed by the pre-existence of a network in the region or that businesses had the relevant language skills and local knowledge. These findings confirm that SMEs are generally reactive and opportunistic in their approach to exporting, rather than taking deliberate steps to identify opportunities in underdeveloped markets (7%) or because there is support for UK exporters (3%). Encouraging more SMEs to export may, therefore, require interventions which present SMEs with more opportunities, such as building overseas networks.

**Previous surveys have identified the EU as the most important export market for UK SMEs.** According to Eurobarometer 2015 data, 17% of UK SMEs had exported to countries within the EU and 11% had exported outside of the EU (European Commission, 2015). The BEIS Small Business Survey found that 79% of exporting SMEs exported to the EU, whilst 67% exported outside of the EU. 27% only exported to the EU, and 15% only exported to the rest of the world. SME exporters in Northern Ireland were less likely than average to have exported to non-EU countries (38%), and were more likely than average to have exported only to the EU (46%) (UK Department for Business Energy & Industrial Strategy, 2019).

**The SME Export Finance Survey confirms that Europe is the most important export market for SME exporters: 83% of SMEs currently or planning to export listed Europe as one of their destination markets.** 31% of exporting SMEs only export to Europe, with 52% selling to other markets as well. These findings are similar to those seen in the BEIS Small Business Survey. Europe is also the most popular market for firms planning to export in future with 82% targeting European sales. North America was ranked the second most important market for both current exporters (46%) and those planning to export (48%).

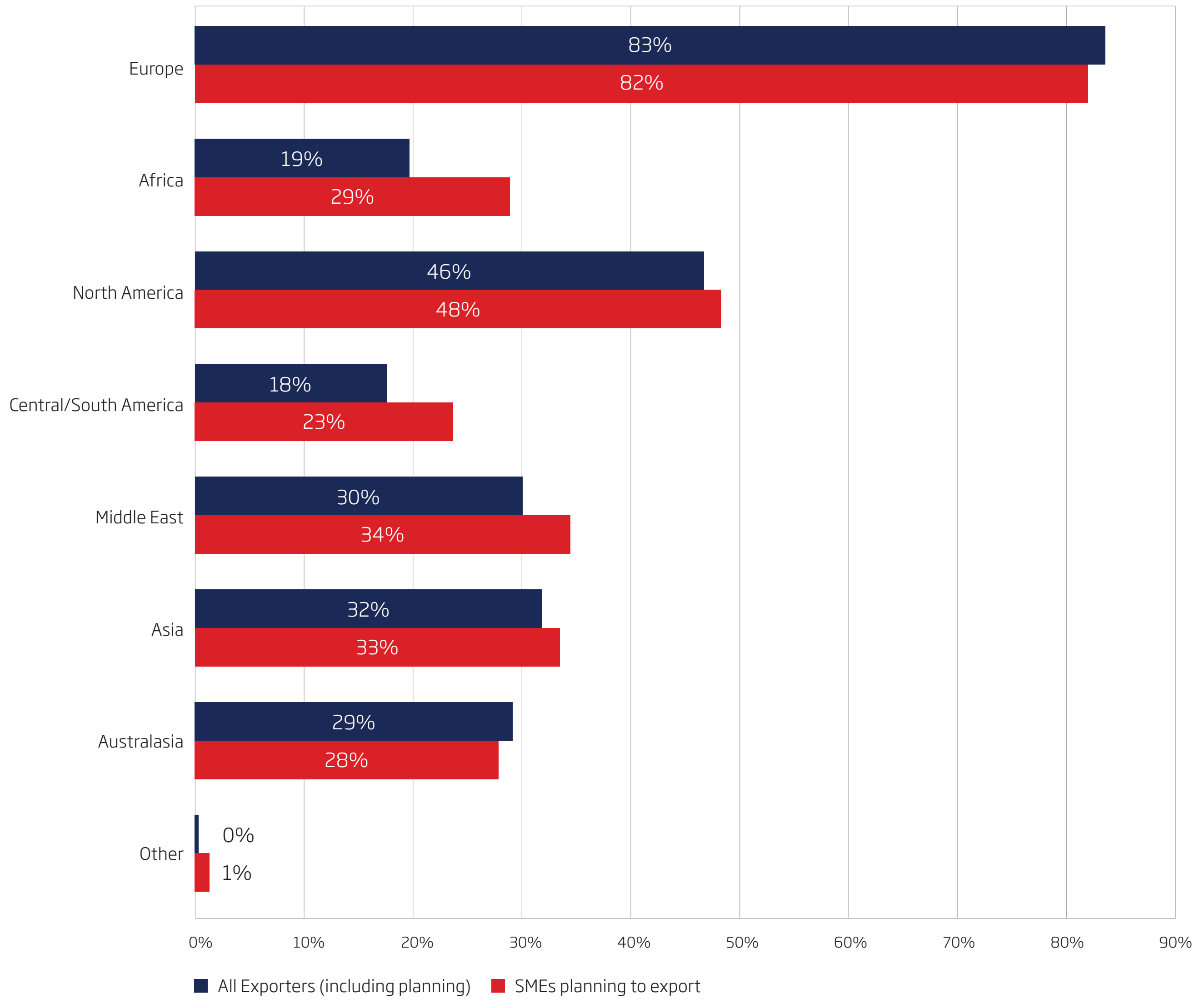
**The anticipated export markets for planned exporters are similar to the destinations for current exporters but Africa appears to be high on the target list for planned exporters.** 29% of those planning are targeting the African continent, compared to the 19% of current exporters who already do.

FIGURE 5

EUROPE IS THE MOST IMPORTANT MARKET FOR SMES (CURRENT AND PLANNING EXPORTERS)

*Note: Weighted N = 800 (all current and planning exporters).*

*Source: Vivid Economics SME Export Finance Survey: B5 – B8. Which regions have you sold, or do you plan to sell, to?*



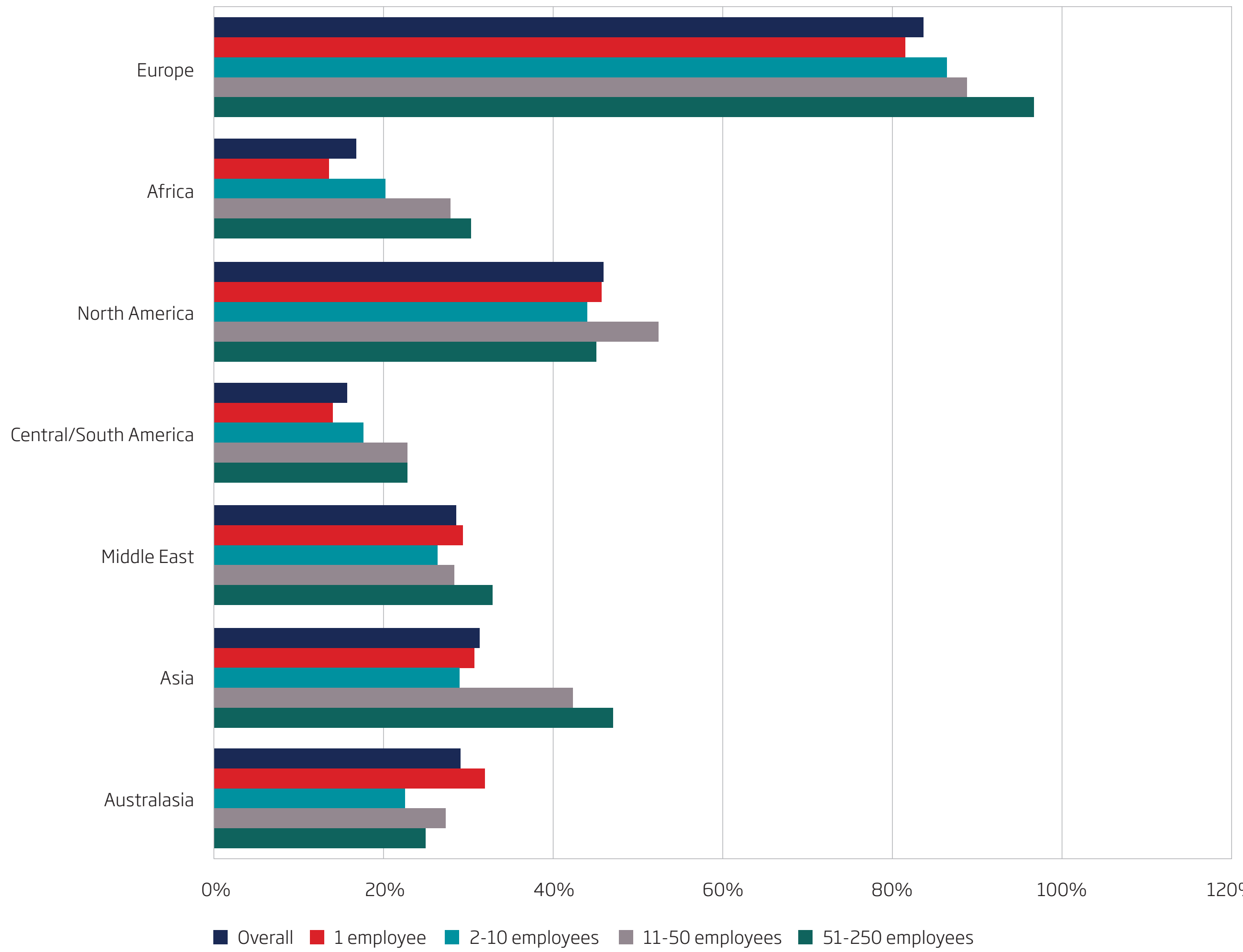
**There was little variation in export markets between goods and services, although amongst those planning to export, the Middle East was a greater focus for service sector businesses.** Asia is a more important market to larger firms (ranked second according to number of 51 – 250 employee businesses exporting there, compared to fourth for 1 person businesses), whilst Australia is a more common market for smaller firms (ranked third for 1 person businesses but sixth for 51 – 250 employee businesses).[7]

FIGURE 6

EUROPE IS THE MOST IMPORTANT MARKET FOR SMES (SIZE OF FIRM - NO. OF EMPLOYEES)

*Note: Weighted N = 800 (all current and planning exporters).*

*Source: Vivid Economics SME Export Finance Survey: B5 – B8. Which regions have you sold, or do you plan to sell, to?*




**SMEs tend to focus on markets where they either have existing contacts or where customers approach them.** The single biggest factor for focusing on a particular market amongst current exporters identified in the SME Export Finance Survey was that SMEs had been approached by a customer (61% of those currently exporting). This was followed by the pre-existence of a network in the region or that businesses had the relevant language skills and local knowledge. These findings confirm that SMEs are generally reactive and opportunistic in their approach to exporting, rather than taking deliberate steps to identify opportunities in underdeveloped markets (7%) or because there is support for UK exporters (3%). This aligns with findings from the FSB Survey of members, which found that 76% of respondents exported to a particular market because of a direct approach from local customers (Federation of Small Businesses, 2016). The results for those planning to export were similar, with reliance on being approached by a customer, and a greater emphasis on existing network and support to UK exporters.

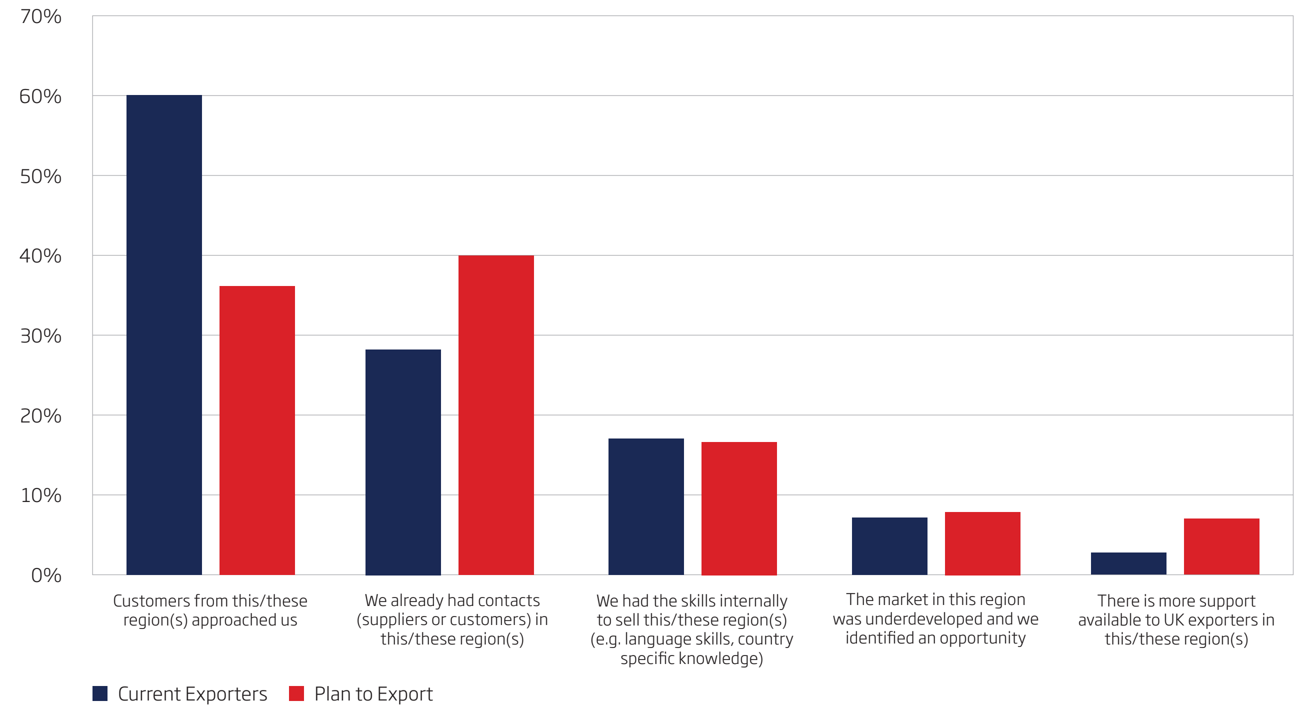
**The emphasis placed on Africa by those planning to export suggests it is likely to be a growth market for UK SMEs.** Although those planning to export to Africa were also planning to export to other countries as well (and therefore it is not possible to isolate the attractiveness of Africa), they were more likely to report the market being underdeveloped as the reason for choosing their markets (24% compared to 8% amongst all planners), or because they have the skills (28% compared to 17%) and less likely because of approaches from customers (12% compared to 36%) or because they have existing clients (23% compared to 40%).

FIGURE 7

BUSINESSES EXPORT TO REGIONS WHERE THEY HAVE NETWORKS OR BECAUSE CUSTOMERS APPROACH THEM

*Note: Weighted N = 800 (all current and planning exporters).*

*Source: Vivid Economics SME Export Finance Survey: B9. Why did you decide to sell to these region(s)?*



CHAPTER 6:

# WHAT DO SMES EXPORT?

## BOX 6: KEY FINDINGS FOR TYPES OF EXPORTS

More SMEs export services than goods. 46% of current SME exporters only export services, followed by 37% that exclusively export goods and 17% that do both. Among service exporters, three quarters provide their services from the UK to overseas customers, but the movement of people across borders is also important: 37% of SMEs have international customers come in person to the UK whilst 39% send employees to customers overseas.

**ONS data shows there are more SMEs exporting services than goods.** In 2017, 62% of exporting SMEs exported services, and 49% exported goods, with around 11% exporting both goods and services (Office for National Statistics, 2019). This contrasts with findings of the 2016 FSB Survey, which found three-quarters (76%) of its members sold goods abroad, compared to 38% that sold services (Federation of Small Businesses, 2016).

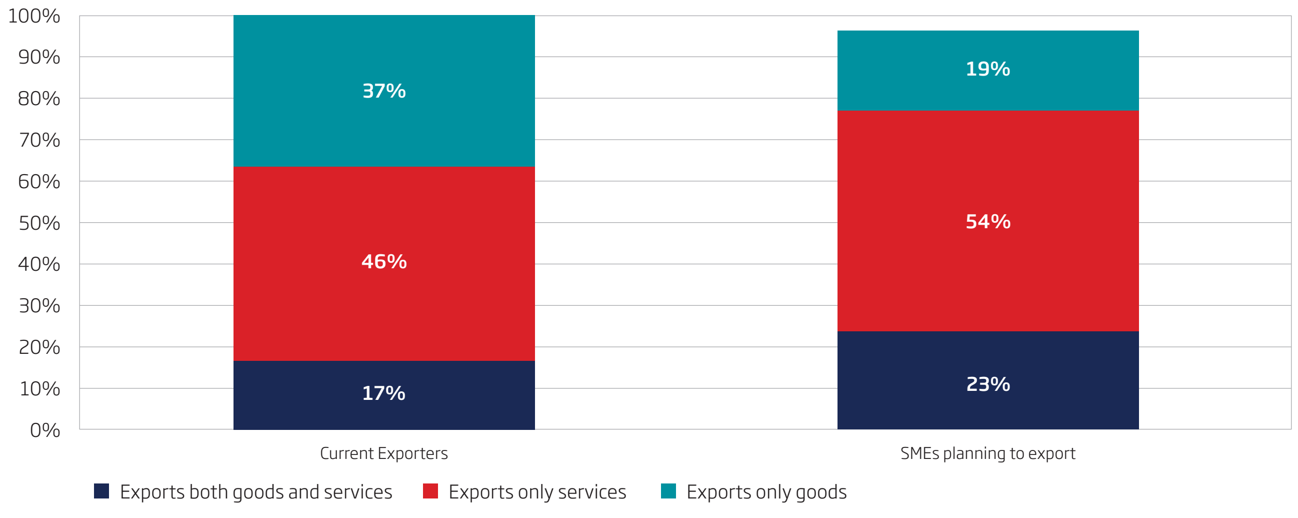
**The SME Export Finance survey found that most SMEs exported services, primarily from their base in the UK to customers abroad.** 63% of currently exporting SMEs export services (46% export only services whilst 17% export goods and services), and 54% export goods. This skew towards service sectors is even greater amongst those planning to export in the future.

FIG 8

SMES ARE MOST LIKELY TO EXPORT SERVICES

*Note: Weighted N = 796.*

*Source: Vivid Economics SME Export Finance Survey: B1, B3, B6. Which of the following is your business (intending on) selling to individuals or organisations based outside the UK?*




**Little data is available about how SMEs deliver services to international customers.** The SME Export Finance Survey revealed that around three-quarters of SMEs that export services usually do so from the UK to a customer overseas. However, over 30% of service exporters also rely on the movement of staff to deliver services overseas, or the movement of customers to come to the UK. Less than 10% of SMEs had overseas offices or subsidiaries from which they deliver services.

FIGURE 9

SERVICES ARE USUALLY EXPORTED FROM THE UK TO CUSTOMERS OVERSEAS, ALTHOUGH THE MOVEMENT OF STAFF AND CUSTOMERS IS IMPORTANT

| Type of international activity | Goods and Services (%) | Services(%) |
|---|---|---|
| Your business supplies services from the UK to a customer who is located outside the UK | 72 | 78 |
| Your business supplies services in the UK to an international customer that has come to the UK | 37 | 31 |
| Your business has one or more offices or subsidiaries outside the UK from which your business provides services | 5 | 9 |
| Your business sends individuals outside the UK to provide the services | 39 | 31 |
| Your business provides services that are included in goods that are sold internationally | 45 | 14 |

*Note: Respondents could choose more than one answer so percentages do not add to 100%. Weighted N = 531.*

*Source: Vivid Economics SME Export Finance Survey: B2 B7. For the SERVICES you (intend to) sell internationally, which of the following describes how your business (intends to) provide(s) these services to individuals or organisations based outside the UK?*

CHAPTER 7:

# HOW DO THEY APPROACH EXPORTING AND WHAT BARRIERS DO THEY FACE?

BOX 7: KEY FINDINGS ON APPROACH TO EXPORTING

Results from the SME Export Finance Survey revealed that 35% of SME exporters seek information or advice to support their international sales; 19% of SMEs planning to export have done the same. The survey found that SMEs who have accessed information are more likely (50% compared to 37% for those that have not) to have positive growth, and more likely (42% compared to 33%) to be planning for another year of positive growth. This confirms previous research, which found that SMEs who access information and advice are more likely to be experiencing growth, exporting and innovating.

The most common source of advice on exporting is the UK Government, with DIT (22%) and HMRC (15%) amongst the top sources. This differs from sources of general information: the BEIS Small Business Survey 2018 for SMEs with at least one employee found that the most common sources of advice were consultants/business advisers (40%); accountants (30%); business networks (20%) and solicitors or lawyers (11%) (UK Department for Business, Energy & Industrial Strategy, 2019c).

Results from the SME Export Finance Survey revealed that SMEs developing an online presence with international customers in mind was the most popular action taken (48% of SMEs). Beyond this, SMEs tended to focus on issues of compliance, such as investigating the rules of doing businesses internationally (45%) and the tax implications (40%). These results contrast with the fact that only 19% of businesses take proactive steps to transition from a focus on domestic to international markets, suggesting that many of the proactive steps businesses take occur only after they have become exporters (for example, having been approached by a potential customer or having seen a specific opportunity). Just 12% of exporting SMEs have developed an export business plan.

Vivid Economics reviewed government websites, where SMEs often turn, and found that these offer high level recommendations on how businesses can plan to export, but lack detailed guidelines and offer few in-depth resources.

Results from the SME Export Finance Survey revealed that one in three (33%) SME exporters considered exporting to be riskier than domestic sales. Just under half (47%) felt exporting required a different approach to domestic sales, whilst one-quarter (25%) felt they lacked the time or resources to focus on internationalisation. A similar proportion of SMEs planning to export in the future considered exporting to be riskier (36%), but they were more likely to recognise the need for a different approach (57%), or to lack the time or resources to concentrate on exporting (49%).

When asked about which stage of the exporting journey presents the biggest challenge, exporters identify planning and identifying opportunities (37%) and winning and securing contracts (32%). These challenges are similar for domestically orientated SMEs when selling to the domestic market. Exporters were not significantly more likely to see the delivery of sales (13%) or receiving payment (18%) as bigger challenges than their domestic counterparts (13% and 17% respectively).

Only 2% of non-exporting SMEs cited the risks involved with exporting as a barrier without prompting. None cited access to finance as a barrier without prompting. Again, these are not directly comparable to other results. These results strongly reject the hypothesis that there is a large pool of potential SME exporters that are only constrained from selling internationally by limited access to finance or high levels of perceived risks. Retirement of business owners is more likely to constrain international expansion than these factors. For most businesses, the answer is that they just don't want to export. Whilst government advice is available, the binding constraints to SME exporting reflect the attitudes of entrepreneurs and interventions which seek to promote SME exports need to address these and target behaviour change.

# 7.1 SOURCES OF INFORMATION ON EXPORTING

**Previous surveys have looked into how and where SMEs access information in general and (for larger SMEs) export specific advice.** Understanding the channels through which SMEs access information is a vital component in designing information campaigns aimed at increasing the capacity for exporting. The BEIS Small Business Survey 2018 found that 26% of SMEs had sought information or advice (in general) in the previous twelve months. This share increased with the size of the business, with 40% of medium sized businesses (50-249 employees) seeking information, compared to 25% of micro businesses (1-9 employees) (Department for Business, Energy & Industrial Strategy, 2019b). The DIT NSRB 2018 found that 28% of all businesses had sought advice about exporting, increasing with both business size and turnover (Department for International Trade, 2019a).

**The BEIS Small Business Survey 2018 provided a sectoral and regional breakdown of SMEs most and least likely to seek advice.** It found business which sought information and advice were most likely to be in the education (40%), primary, finance and real estate (both 37%), health (34%), information and communication (31%), professional and scientific (30%), and administration and support (29%) sectors. They were least likely to be in the accommodation and food service (18%), transport and construction (both 20%), and retail and wholesale (21%) sectors. Use of external information or advice was slightly lower in Wales (23%) than in Northern Ireland (25%), England (26%) and Scotland (28%) (Department for Business Energy & Industrial Strategy, 2019b).

**The BEIS Small Business Survey 2017 found a correlation between seeking information and exporting, innovation and growth intention.** It found 40% of exporters sought information or advice, compared with 26% of non-exporters; 40% of SMEs that had innovated had sought information or advice, compared with 21% that had not; and 34% of SMEs that plan to grow sales had sought information or advice, compared with 21% that did not (Department for Business, Energy and Industrial Strategy, 2018).

**The SME Export Finance survey found that a significant minority of businesses seek information or advice to support their international sales, and more of these turn to the UK government sources for advice than other sources.** Only 35% of current exporters and 19% of potential exporters seek advice to support their international sales, similar (but slightly lower) to the results found by the BEIS Small Business Survey 2018 (which looked at general, rather than export specific advice), but higher than the results of the DIT NSRB 2018 (which focused on export specific advice).

**The SME Export Finance survey confirmed a link between seeking information and advice, and growth.** SMEs that have accessed information are more likely (50% compared to 37% for those that have not) to have positive growth, and more likely (42% compared to 33%) to be planning for another year of positive growth. As with other analysis which links the SME Export Finance Survey (2019) to original SME FM results (2016-18), caution must be exercised in interpreting the results because of different time frames. More accurately, firms which were previously experiencing growth or expecting future growth, are currently more likely to have accessed information.

**The most common source of advice on exporting is the UK Government, with DIT (22%) and HMRC (15%) amongst the top sources.** UK Government sources were more important for SME Export Finance Survey respondents than for the DIT NSRB 2018 respondents. For example, 22% of SME Export Finance Survey respondents rely on DIT or UKTI, compared with 9% of NSRB respondents. SME Export Finance Survey results also favoured other UK Government departments or agencies (18% compared with 10%) and Chambers of Commerce (13% compared with 9%). Both surveys found similar reliance on Google and online searches (18% compared with 16%) (Department for International Trade, 2019a). Although some of these differences may be due to survey design and coding, but may also be because the NSRB omits some of the smallest businesses below the tax thresholds. This would imply that Government sources are relatively more important for the smallest businesses when it comes to information on exporting.

**SMEs rely on different sources for information on exporting and general information.** The BEIS Small Business Survey 2018 for SMEs with at least one employee found that the most common sources of advice were consultants/business advisers (40%); accountants (30%); business networks (20%), and solicitors or lawyers (11%) (UK Department for Business, Energy & Industrial Strategy, 2019c).

FIGURE 10

SMES RELY HEAVILY ON GOVERNMENT FOR INFORMATION ON EXPORTING

*Note: Respondents could choose more than one answer so percentages do not add to 100%. Weighted N = 284.*

*Source: Vivid Economics SME Export Finance Survey: C4. Who / where do you seek information and advice from?*

## 7.2
# EXPORT SUPPORTING ACTIVITIES

**The SME Export Finance Survey included a focus on the activities which businesses may undertake to support exports.** The most common action taken was to develop an online presence with international customers in mind (48% of SMEs). This is significantly lower than the 71% of SMEs who reported having a website which presents products and services according to Eurobarometer 2015, although that survey did not ask about websites specifically for international customers (European Commission, 2015). Beyond this, SMEs tended to focus on issues of compliance, such as investigating the rules of doing businesses internationally (45%) and the tax implications (40%). A good proportion of SMEs took additional, proactive steps in assessing international opportunities, such as researching international markets, assessing their ability to sell internationally, submitting proposals and researching payment forms and methods. These results contrast with the fact that only 19% of businesses take proactive steps to transition from a focus on domestic to international markets, suggesting that many of the proactive steps businesses take occur only after they have become exporters or have a contract in place (for example, having been approached by a potential customer or having seen a specific opportunity). Just 12% of exporting SMEs have developed an export business plan. Those who had were more likely to have experienced growth in the past 12 months, but also less likely to be expecting growth over the next 12 months.

**Government websites offer high level recommendations on how businesses can plan to export, but these lack detailed guidelines and offer few resources.** One stakeholder interviewed for this research highlighted that Government messages are that exporting is straightforward, which can have the counterproductive impact that businesses fail to properly plan.

FIGURE 11

FEW SMES HAVE DEVELOPED AN EXPORT PLAN

*Note: Respondents could choose more than one answer so percentages do not add to 100%. Weighted N = 800 (all exporters).*

*Source: Vivid Economics SME Export Finance Survey: C2. What, if any, of the following have you done within your business to support your (intended) international sales? Have you......*


**Deliberate exporters were, unsurprisingly, more likely to have researched international markets or developed export plans.** They were, however, less likely to have investigated the rules of doing businesses with other countries. Born exporters were more likely to have developed websites with international customers in mind. Reactive exporters took fewer actions overall, but were more likely to investigate the tax implications of doing international business.

**Some statistically significant variance was observed across business demographics.** Younger SMEs and larger SMEs (with more than 10 employees) are more likely to have assessed their potential for international sales, researched international markets, developed an online presence and investigated the rules of operating internationally and the tax implications. Taken together, these suggest that there are two phases when SMEs take proactive steps: when they are relatively new, or once they reach a certain size. Larger SMEs were also more likely to develop an export business plan.

# 7.3 BARRIERS TO EXPORTING

### 7.3.1 PERCEPTIONS OF EXPORTING

**The SME Export Finance Survey asked SMEs for their perceptions of international sales to determine whether financial products could address some of the challenges or concerns businesses face.** It found that the biggest challenge for those planning to export is finding the time or the resources to expand internationally.

- Financial products can reduce the risks associated with exporting. One in three (32%) current exporters sees international sales as more risky than domestic sales. Older SMEs (established at least 15 years ago), the smallest (up to one employee and less than £85,000 turnover), and Scottish SMEs were less likely to see international sales as risky. Those planning to export were marginally more likely to agree that international sales were riskier (36%).[8] These are similar to DIT NSRB 2018 results, which found 31% of businesses that could export agreed that there were too many risks in taking a business international (Department for International Trade, 2019a).
- SMEs are more likely to require financial products specifically designed for exporting, rather than existing or core finance used for domestic sales, if they consider exporting requires a different approach to domestic sales. Under half (44%) of current exporters agreed that selling internationally required a different approach. Those planning to export were significantly more likely to consider exporting required a different approach (58%).
- Finance can also support businesses to increase their capacity to consider exports. One in four (25%) of existing exporters agreed that they lack the time or the resources to sell domestically, let alone internationally, but this increased to 49% amongst those planning to export. This finding may reflect that those planning to export are typically smaller businesses with lower turnover and headcount.

**These results imply that core financing, which supports SMEs to invest and grow their capacity, is the biggest requirement for businesses which plan to export.** This may be through internal (such as personal funds) or external (such as bank loans to the business) finance. Given that such financing is unlikely to be explicitly linked to export sales, it suggests the need is for general, rather than export specific finance.

### 7.3.2 CHALLENGES THROUGH THE EXPORT CYCLE

**The SME Export Finance Survey asked SMEs about challenges faced at different stages of the export cycle.** These were 'Planning and identifying opportunities', 'Winning and securing contracts', 'Delivery of sales' and 'Receiving Payment'. Each of these stages is likely to require different mixes of financial products. For example:

- Planning and identifying opportunities requires investment, unlinked to specific opportunities or contracts.
- Winning and securing contracts also needs investment (for example in tendering) but may require SMEs to offer competitive payment terms, before the SME has a contract in place.
- Delivering sales requires working capital, and may be linked to specific orders.
- Receiving payment may require businesses to manage risks or non-payment, and facilitate foreign exchange payments.

**Planning and identifying opportunities, and winning and securing contracts are the biggest challenges for international expansion.** When asked about which stage of the exporting journey presents the biggest challenge, exporters identify planning and identifying opportunities (37%), and winning and securing contracts (32%). These challenges are similar for domestically orientated SMEs, although they placed a greater emphasis on winning and securing contracts (39%) and less on planning and identification of opportunities (30%). Exporters were not significantly more likely to see the delivery of sales (13%) or receiving payment (18%) as bigger challenges than their domestic counterparts (13% and 17% respectively).

**Stakeholders interviewed for this research have different perceptions about the biggest challenges.** They identified investing in winning work as a challenge, planning to export as a way of reducing the risks involved (including the potential cash flow impacts), and the risks of getting paid and currency fluctuations.

**The results support the conclusion that general, rather than export specific financial products, may be key to supporting exports.** The stages which presented the most significant challenges are pre-contract, meaning that tying financial products to specific export sales is significantly harder.

### 7.3.3 SPECIFIC BARRIERS TO EXPORTING

**A significant amount of research has been undertaken into the barriers which SMEs face in exporting.**

**UK SME exporters cite capacity and networks as barriers to exporting more than their European peers.** Compared to peers in the EU, UK SMEs without export experience are more likely to cite a lack of specialised staff (including language skills), business partner networks or overly complicated foreign tax systems as obstacles to exporting. Financial investment, risk of not getting paid and administrative procedures/rules are cited as an obstacle by UK SMEs less than by firms in other EU countries (Abel-Kock et al., 2018).

The DIT NSRB 2017 found that access to contacts, customers and networks was the biggest barrier (with 33% of SMEs rating this as a strong barrier), followed by capacity to export and cater for international contracts (31%), lack of knowledge (30%), and cost (28%). Follow up questions probed these answers amongst a subset of businesses:

- Under *contacts* and customers, the most significant issues were understanding who to contact, developing relationships, finding customers, identifying opportunities and improving your profile.
- Under *cost*, businesses identified transport costs, exchange rate fluctuations, high prices, upfront investment, border costs, and financial risk, as the most significant specific barriers.
- Under *knowledge*, the most significant barriers were around legal issues, understanding of language or culture, customs and tariffs, tax issues, competitors, international standards and licences.
- Under *capacity*, the most significant barriers were insufficient managerial time to focus on internationalisation, insufficient staff to expand operations, insufficient capacity to assess the costs, not having enough suitably trained staff, insufficient capacity to undertake market research and insufficient capacity to assess competition (Department of International Trade, 2018).

The Eurobarometer (2015) survey identified the top obstacles to exporting for SME exporters as administrative procedures (15%), language (15%), costs of cross border disputes (12%), and delivery costs (12%). For SMEs that hadn't exported, the top barriers were lack of specialised staff (42%), financial investment (40%), costs of cross border disputes (40%), and language skills (40%) (European Commission, 2015).

**The FSB 2016 survey of its members found that exchange rates posed the biggest challenge to exporters (35%).** Current exporters also identified finding customers and marketing and product promotion their biggest challenges. These were also the top two challenges for those that had exported in the past and would consider it in future, followed by the overall costs involved. For those that were considering exporting, but had not yet done so, finding customers, marketing and promotion, and market knowledge were the top three challenges. Availability and/or affordability of finance was the lowest specific barrier cited overall (Federation of Small Businesses, 2016).

**The SME Export Finance Survey found that businesses which do not currently export either lack goods or services that can be sold internationally or the desire to expand internationally.** 48% of SMEs that do not currently and do not plan to sell internationally did not agree that their business model or the goods and services they produce would make them suitable for selling internationally. This differs from a similar, but not directly comparable, figure implied by DIT NSRB 2018 classifications (64% of SMEs above £500,000 turnover that have not exported in the past twelve months see their product as unsuitable for exporting (Department for International Trade, 2019a), compared to 52% of SMEs who are neither exporting nor planning to export, and who see their product as unsuitable in the SME Export Finance Survey). The Eurobarometer 2015 Survey found that 68% of SMEs who have not exported in the past three years will probably never export (European Commission, 2015), which matched a British Chamber of Commerce (BCC) 2014 Survey that found 68% of non-exporting businesses did not have suitable export products or services (British Chambers of Commerce, 2014).

**SMEs may be under the misapprehension that their products are unsuitable for export, especially in the service sector.** The FSB 2016 Survey of members reveal that many small businesses believe that exporting must involve a physical product. Some of the reasons given for not considering exports included 'my business is not about selling a product, but selling a service' and 'we do not produce or manufacture goods'. FSB conclude 'these insights certainly indicate a need for greater clarity on and understanding of what exporting means and looks like, in all its various forms and approaches. A real understanding of what exporting means can open the door for more small firms to start their export journey' (Federation of Small Businesses, 2016). Similarly, the DIT NSRB 2018 found that 11% of businesses who thought their product was unsuitable for export did so because it was a service (Department for International Trade, 2019a).

**The SME Export Finance Survey suggests that 2.6 million potential SME exporters are not currently considering international opportunities.**[9] Figure 12, below, provides the main reasons that businesses do not export across all non-exporters. Focusing on just those who saw some potential to export (i.e. who did not think their business model or goods and services provided were unsuitable for exporting), the main reason given is that they prefer to concentrate on the UK market (43%), whilst a further 16% said they did not want or need to export.

**Only 2% of non-exporting SMEs cited the risks involved with exporting as a barrier without prompting.** There is large variation in the extent to which risks have been identified as a barrier in previous studies, which largely depend on the framing of the question:

- DIT NSRB 2017 assessed barriers to exporting and found 16% of businesses identify exchange rate fluctuations and 12% increased financial risk as a barrier (Department of International Trade, 2018).
- DIT NSRB 2018 found that 31% of current and potential exporters agreed there were too many risks with taking a business international (Department for International Trade, 2019a).
- Eurobarometer 2015 results found 31% of those not currently exporting saw the security of payments from other countries as a major obstacle, and 40% the costs of cross border disputes too high, but only with prompting (European Commission, 2015).
- A 2014 BCC Survey, which found only 3% of non-exporting businesses listed concerns about risk exposure as the principal reason for not exporting. However, the Survey did identify risk as a potential deterrent from entering a market, with 40% of firms saying not being paid in full, and 36% of firms saying political or economic insecurity could deter them (British Chambers of Commerce, 2014).
- The FSB 2016 Survey, that ranked availability and/or affordability of finance as the lowest cited challenge for exporting amongst its members (Federation of Small Businesses, 2016).

**No non-exporting SMEs cited access to finance as a barrier without prompting.** Again, there is mixed evidence from previous surveys based upon the framing of questions.

- DIT NSRB 2017 found that 15% of SMEs consider the upfront investment a barrier (Department of International Trade, 2018).
- 40% of SMEs considered the financial investment as a major problem in Eurobarometer 2015 when prompted (European Commission, 2015).
- Internationally, a shortage of working capital was the top ranked barrier by SMEs in OECD and APEC member countries in surveys conducted between 2005 and 2006 (OECD, 2009).
- A 2014 BCC Survey found only 1% of businesses did not export principally because of difficulties accessing trade finance or credit insurance, although, that survey did identify financial resources and access to finance to expand as influential for 64% of businesses (British Chambers of Commerce, 2014).
- The results also aligned with the perspectives of stakeholders who were interviewed for this research that SMEs generally do not think about finance.

**The results of the SME Export Finance Survey strongly reject the hypothesis that there is a large pool of potential exporters that are only constrained from selling internationally by limited access to finance or high levels of perceived risks.** Retirement is more likely to constrain international expansion than these factors. For most businesses, the answer is that they just don't want to export. This suggests that the binding constraints to SME exporting are deep rooted and reflect the behaviours and attitudes of entrepreneurs. These may, in turn, be driven by economic, market regulatory factors – for example, SMEs may prefer to concentrate on the UK market because the risks of exporting are too high – and indeed it seems apparent that better access to finance and risk mitigation products are likely to encourage exporting, but they are not the first issues identified by SMEs. The underlying drivers of these attitudes require further research before concluding whether pro-SME export policies should tackle market conditions or attitudes and behaviours.

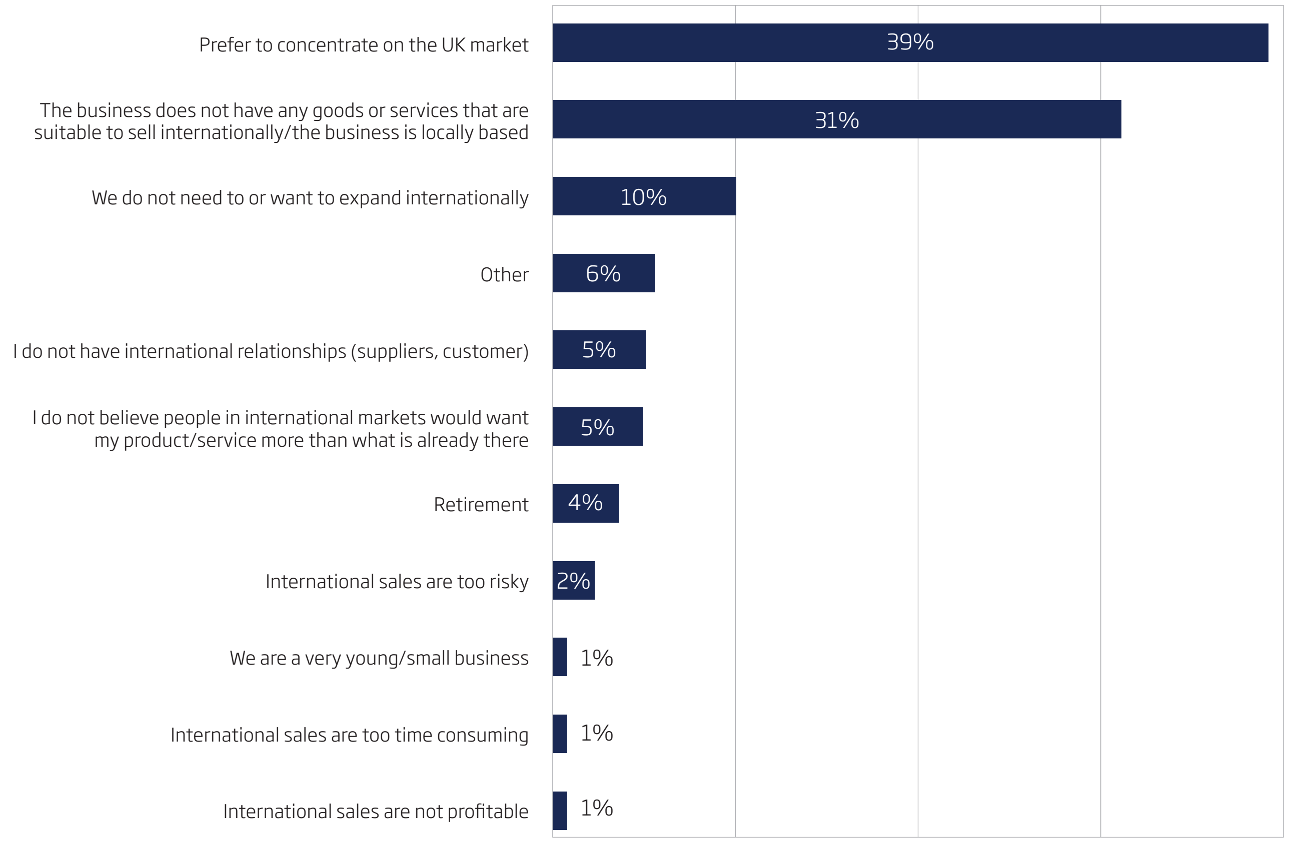
**Looking specifically at SMEs which had previously reported exporting but no longer did suggested a similar set of barriers.** These 'ex-exporters' were (unsurprisingly) less likely to view their goods or services as unsuitable for export and more likely to identify international sales as too risky or unprofitable, to lack the resources or relationships, or to cite retirement as the reason they did not export.

FIGURE 12

SMES DON'T EXPORT BECAUSE THEY DON'T WANT TO

*Note: Unprompted. Respondents could provide more than one answer so percentages do not add to 100%. Weighted N = 398 (non-exporters only).*

*Source: Vivid Economics SME Export Finance Survey: B10. You mentioned that you have not sold any SERVICES or GOODS outside the UK in the last 12 months and do not intend to in the future. Why is this?*



# CHAPTER 8: WHAT ROLE DOES ACCESS TO EXTERNAL FINANCE PLAY IN SUPPORTING EXPORTS?

## BOX 8: KEY FINDINGS ON APPROACH TO EXPORTING

When asked at which stage finance was the greatest challenge, 68% of SMEs replied, 'None of these'. This was higher than for the non-exporters (61%), who identified it as a bigger challenge when Receiving Payment (20%) than exporters (11%). Finance creates the least challenges in Planning and Identifying Opportunities (4%), despite this being the stage with the greatest overall challenges (37%). Winning and Securing Contracts was the second most challenging stage overall (32%), but only 10% of SMEs identify it as the stage where finance creates the biggest challenge. This was behind Receiving Payment (11%), and only marginally above Delivering Sales (7%), despite these stages creating significantly lower challenges overall (18% and 13% respectively).

Of the 32% of exporters who identified a stage where finance presented a challenge, over half (57%, or 18% of all exporters) felt that access to additional finance would have at least a modest impact in reducing these challenges.The impacts were expected to be strongest in addressing the challenges associated with Receiving Payment (66%), but least effective in addressing the financial challenges associated with Planning and Identifying Opportunities (47%). This demonstrates a negative correlation between the proportion of firms identifying a stage of the cycle as the biggest overall challenges and the proportion of firms which report that additional finance would have a positive impact for that stage. For the 18% of exporting SMEs who felt that better access to finance would have at least a moderate impact on reducing the financial challenges faced along the export cycle, just over one-third (38%, or 6% of SME exporters) felt it would have at least a marginal impact on revenues.

One in five (22%) of export orientated SMEs take a 'different' approach to financing or have different financing requirements during at least one stage of the export cycle (although this appears to remain centred on internal finance solutions). The most common stage for taking a 'different' approach was in Receiving Payment (60% of those who take a different approach during at least one stage), followed by delivering sales (44%) and Planning and Identifying Opportunities or winning and Securing Contracts (34% each). These results show that, at the stages of the cycle where SMEs face the biggest overall challenges (Planning and Identifying Opportunities, and Winning and Securing Contracts), SMEs are least likely to take a different approach to financing. These results confirm earlier findings (discussed in Section 7) that the biggest barriers to export expansion for SMEs are largely unrelated to finance.

Results from the SME Export Finance Survey revealed that around one-third of exporting SMEs use external finance to support some part of their businesses, though only a small proportion (8%) associate their use of external finance directly with their exporting activities. The SME FM Survey has shown that in any year, only 0.2% of SMEs report a financing need to support an overseas expansion (BVA BDRC, 2019a).

Results from the SME Export Finance Survey also revealed that exporting SMEs are reluctant to take on additional external finance, and, like non-exporting SMEs, almost three-quarters (74%) would prefer to sacrifice growth than take on additional external finance. However, and somewhat contradictory, 66% of exporting SMEs report being willing to take risks in order to achieve growth, significantly higher than non-exporting SMEs (38%). Most exporting SMEs say they do not need additional finance (74%) and a further 16% say they have sufficient cash reserves.

Internal finance remains the predominant source of funding for each stage of the export cycle, with over 90% of SMEs relying on internal finance at each stage of the cycle. Only 1% of SMEs rely mainly on external finance at each stage of the cycle, with the exception of receiving payment (2%).

The SME Export Finance Survey finds that access to external finance does not directly impact the ability of SMEs to accept international opportunities. For most businesses, their ability to take on a new international opportunity is either not dependent on finance (54%) or would depend on their ability to finance it internally (36%). Only 11% of businesses would rely on external finance, either from existing sources (4%) or if it meant applying for additional external finance (7%). These results, however, assume that an opportunity can be identified and a contract secured, and so do not include consideration of the earlier stages of the cycle where SMEs face the greatest challenges.

Together, these results suggest that there is a limited role for better access to external finance to stimulate additional exporting activity. However, the results rely on SME self-reporting and SMEs may not be fully aware of the potential impact on their business. While a third of exporting SMEs questioned in the survey have access to external finance or are aware of financial services designed to support exports (so should have an understanding of the role of external finance in their businesses), many respondents do not, which may be driving limited understanding of external finance and the role it could play in an exporting business. Access to finance may be a constraint on overall growth, but SME perceptions do not point to unique characteristics of international sales which call for additional, external finance tailored towards exporters.

**A significant majority of SMEs with 10+ employees use finance including credit balances to support their business.** For SMEs with 10-49 employees, 75% held credit balances of £10,000 or more, as did 91% of SMEs with 50-249 employees (BVA BDRC, 2019b). Trade credit (for both domestic and international sales) was also used by a significant share of SMEs: 34% of all SMEs and 67% of SMEs with 50-249 employees. 32% of SMEs in 2018 used a 'core' form of external finance including loans, overdraft or credit card.

**Small firms across the country face increasing hurdles in access to traditional finance but also have less appetite for external finance.** Stakeholders interviewed for this research generally agreed that traditional banks were withdrawing from the SME segment, only providing relationship managers for larger businesses. Although the UK government has ramped up support for SME trade in recent years through initiatives including UK Export Finance and British Business Bank schemes, figures from UK Finance show that the amount of loans and credit outstanding to small businesses has fallen by nearly £6 billion in the past five years (UK Finance, 2018). The British Business Bank Small Business Finance Markets 2018/19 shows the stock of lending to SMEs has been fairly static since 2013, with private equity investment falling in 2018 after several years of growth. Peer-to-peer lending to SMEs has been growing steadily, but remains small. The overall growth in funding, however, has been held back by SME demand rather than constrained supply – one stakeholder referred to a widespread 'credit apathy' amongst SMEs.

**SME FM has found that only a small share of SMEs consider access to external finance as a major obstacle for the next 12 months.** This was one of the lowest challenges faced, ranked only above availability of relevant advice. Although in Q2 2019 only 8% of firms scored the impact on their business as over 8 (out of 10), down since 2012 (11%), it had increased above the average of the previous two years (5%). 41% of SMEs agreed that 'it is quite difficult for businesses like ours to get external finance'.

## 8.1
# ACCESS TO EXTERNAL FINANCE AMONGST EXPORTERS

**39% of SMEs who exported at the time of the SME FM survey reported using external finance.** However, when responding to this survey, which included a focus on exports, only 8% report that they are using external finance. This difference is too large to be explained by fluctuations in the use of finance and we consider it to be a framing bias. It appears that, whilst exporting SMEs do use external finance, they do not usually associate it with their exporting activities. Subsequent survey questions reveal that 33% of currently exporting SMEs do, in fact, use general external finance. This suggests that SMEs do not consider their use of external finance as specifically supporting their exports, but is used to support the business in general.

## 8.2
# ATTITUDES TO USING EXTERNAL FINANCE AMONGST EXPORTERS

**Previous studies have looked at attitudes, willingness and barriers to the use of external finance.** The BEIS Small Business Survey found that only 9% of SMEs sought external finance in 2017 (down from 14% in 2015). SME FM found that only 5% of businesses had had a funding need in the previous 12 months, with only 4% of these (i.e. 0.2% of all SMEs) requiring funding to support expansion overseas. Similarly, the BEIS Small Business Survey finds the most common reason for not seeking external funding is because SMEs do not want to take on additional risks.

**SMEs are reluctant to take on additional external finance, but this is not unique to exporters.** To understand whether attitudes towards using finance differ between exporters and domestically focused SMEs, the SME Export Finance Survey replicated a number of questions from the SME FM survey. The results show that the vast majority of SMEs prefer to make plans that do not require them to take on additional external finance (85%) and would accept a slower rate of growth to avoid borrowing further (74%). These results were almost identical to responses for the non-exporters, and in line with responses to SME FM.

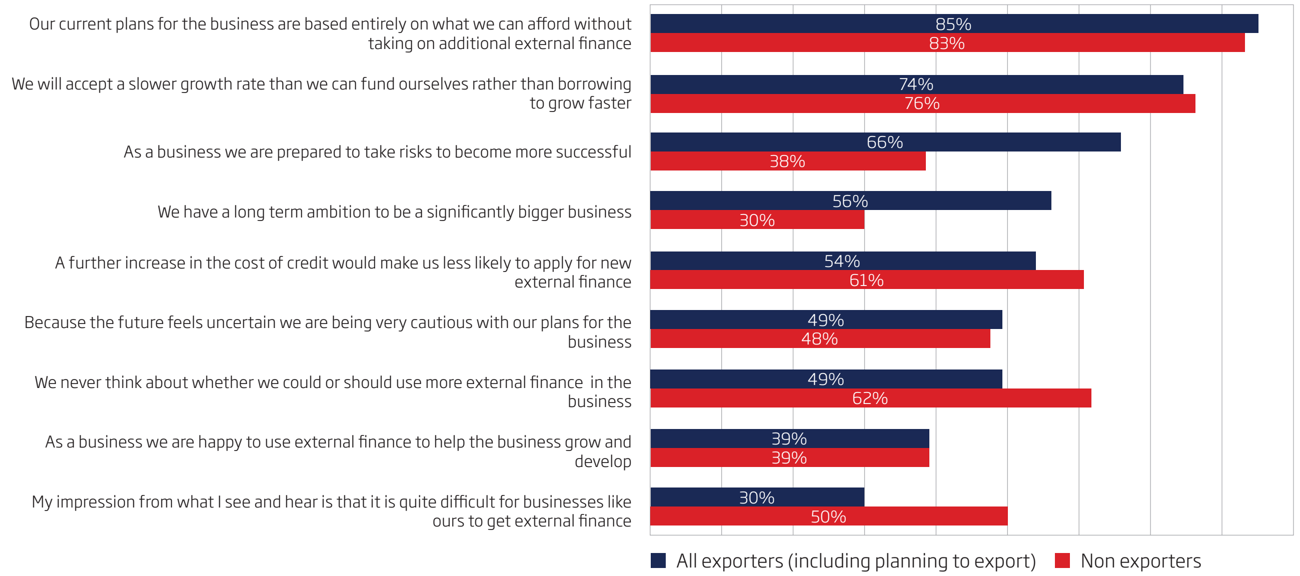
**The unwillingness to take on additional external finance makes it hard to address the challenges faced by SME exporters**. The SME Export Finance survey found that exporting SMEs have higher growth ambitions, are more willing to take risks, consider taking external finance more often, are less sensitive to costs of credit, and believe they are more likely to obtain it, as shown in Figure 13. However, as discussed in Section 7.3.2, the biggest challenges that exporters face are in planning and identifying opportunities, and in winning and securing contracts. Taking on external finance, such as a loan, at these stages of the cycle (before contracting) create higher risks for both lenders and borrowers, because there is added uncertainty that contracts can be secured, and loans repaid. Given the reluctance of SMEs to take on external finance in general, financial solutions may only play a supporting role.

FIG 13

SMES WILL ACCEPT A SLOWER GROWTH RATE TO AVOID EXTERNAL FINANCE

*Note: All exporters Weighted N=800; All non-exporters N = 398.*

*Source: Vivid Economics SME Export Finance Survey: E12. On a scale of 1 to 5, where 1 is 'Strongly Disagree' and 5 is 'Strongly Agree', to what extent do you agree or disagree with the following statements?*



## 8.3
# USE OF EXTERNAL FINANCE BY EXPORTERS

**Most exporters don't use external finance because they believe they do not need it.** The SME Export Finance Survey found that 74% of those who did not use external finance do not recognise a need for it, with a further 16% saying they have built up further cash reserves. Only 6% were reluctant to take on additional debt, and 2% respectively saw it as too expensive, too unlikely that they would be approved, or did not trust financial institutions. Exporters were more likely to report they do not need external finance (despite being more likely to think about it) than domestically orientated SMEs (59%), who were more likely to avoid external finance for other reasons.

**The results from the SME Export Finance Survey suggest that only around 8% of SME exporters use external finance specifically to support their exporting activity.** However, 33% of SMEs who currently export use some form of mainstream finance, below the 39% of SMEs who use some form of external finance in general (SME FM Q2 2019). Exporting SMEs are not more likely to use external finance than their domestically orientated counterparts.

**The gap between those who use finance specifically for exports and those who use external finance in general suggests that the majority of businesses who use external finance do so as a 'core' funding source to support general business activity and investment, but not to facilitate specific (export) sales opportunities.** This is consistent with findings from SME FM, which show that, whilst 46% of businesses use some form of external finance, the majority of this is in the form of core products (overdrafts, credit cards and loans) and leasing or hire-purchase.

**There are two results from the survey which may explain this behaviour. First, businesses do not generally believe that exporting requires a different approach to financing.** Only 22% of SMEs that currently or plan to export said that international sales require a different approach or entail different financial requirements.

**Secondly, the majority of businesses do not become exporters through a deliberate attempt to expand internationally.** They are either born into international markets (40%), implying that exporting is part of their core businesses, or otherwise became exporters reactively when they were approached by an international customer or saw a specific opportunity (40%). Only 19% said they made a deliberate effort to identify and pursue international opportunities.

## 8.4
# USE OF FINANCE DURING THE EXPORT CYCLE

**The SME Export Finance Survey finds that majority of SMEs do not identify finance as a particular challenge at any stage of the exporter cycle.** When asked at which stage finance was the greatest challenge, 68% of SMEs replied, 'None of these'. This was higher than for the non-exporters (61%), who identified it as a bigger challenge when receiving payment (20%) than exporters (11%).

**Finance is not responsible for the majority of challenges to international expansion faced by SMEs.** Finance creates the least challenges in Planning and Identifying Opportunities (4%), despite this being the stage with the greatest overall challenges (37%). Winning and Securing Contracts was the second most challenging stage overall (32%), but only 10% of SMEs identify it as the stage where finance creates the biggest challenge. This was behind Receiving Payment (11%), and only marginally above Delivering Sales (7%), despite these stages creating significantly lower challenges overall (18% and 13% respectively).

**The SME Export Finance Survey finds that one in five exporters (22%) do take a different approach or have different financial requirements for international sales.** The most common stage of the export cycle for taking a different approach was in receiving payment, with 60% of those needing a different approach identifying this stage. 44% of exporters taking a different approach to finance needed it when delivering sales, and around a third (34%) took a different approach to either planning and identifying opportunities or winning and securing contracts. These results show that, at the stages of the cycle where SMEs face the biggest overall challenges (Planning and Identifying Opportunities, and Winning and Securing Contracts), SMEs are least likely to take a different approach to financing.

**Some differences in the approach to financing different stages of the export cycle are observable across business demographics.** SMEs which took a different approach to financing one or more stages of the export cycle tend to be larger (with over 50 employees). Younger SMEs, established in the last 5 years, were more likely to take a different approach to finance. SMEs with access to mainstream finance were more likely to take a different approach, but those with access to the most credit (over £1 million) were less likely to take a different approach.

**The main reason identified across all stages for taking a different financial approach is to provide more working capital.** This was the top answer for SMEs taking different approaches to Planning and Identifying Opportunities (34% of those taking a different approach to this stage) and Winning and Securing Contracts (23%)[10] – the two stages exporters report the greatest challenges – and the second most popular reason for Delivering Sales (24%). Other top reasons for taking a different financial approach included negotiating cultural differences (25% for Planning and Identifying Opportunities), different mechanisms to manage the risks (34% for Delivering Sales), different services to facilitate payments (32% for Receiving Payment) and having a foreign bank account (27% for Receiving Payment).

**Internal finance remains the predominant source of funding for each stage of the export cycle.** Despite 22% of SMEs reporting that they take a different approach to financing at least one stage of the export cycle, over 90% of SMEs rely on internal finance at each stage of the cycle. Only 1% of SMEs rely mainly on external finance at each stage of the cycle, with the exception of receiving payment (2%).

## BOX 9: DIFFERENCES IN PAYMENT TERMS IN INTERNATIONAL SALES

Most exporters (78%) do not offer different payment terms for international and domestic customers. Providers of goods were more likely to vary their payment terms (26%) than service providers (13%). There was a slight tendency to offer less generous payment terms (11%) over more generous terms (8%).

This aligns with findings from the Atradius Payment Practices Barometer (2017 - 2019), which found that UK businesses (of all sizes) are some of the most inclined in Western Europe to sell on credit, but marginally less inclined to do so for foreign sales than for domestic sales. It found that UK exporting businesses offered significantly shorter credit payment terms than other Western European countries (20 days compared to an average of 34), but took longer to be paid once due than in other countries. Overseas sales had on average slightly less favourable payment terms, but took longer to receive payment (Atradius, 2019).

For the most part, exporters surveyed did not see this creating a problem. Although 29% of exporters agreed that payment terms were important, only 14% said that they had a negative impact on businesses, and only 9% believed that their competitors were offering more generous payment terms.

A higher proportion of SMEs said payment terms had a negative impact on business than offered more generous payment terms for exports, suggesting that at least some businesses are offering or accepting payment terms which are hurting their business even for domestic sales. A BEIS Small Business Survey found that 27% of SMEs (not specifically exporters) consider late payment a problem, with 24% saying it is a threat to their survival (Department for Business, Energy & Industrial Strategy, 2018a).

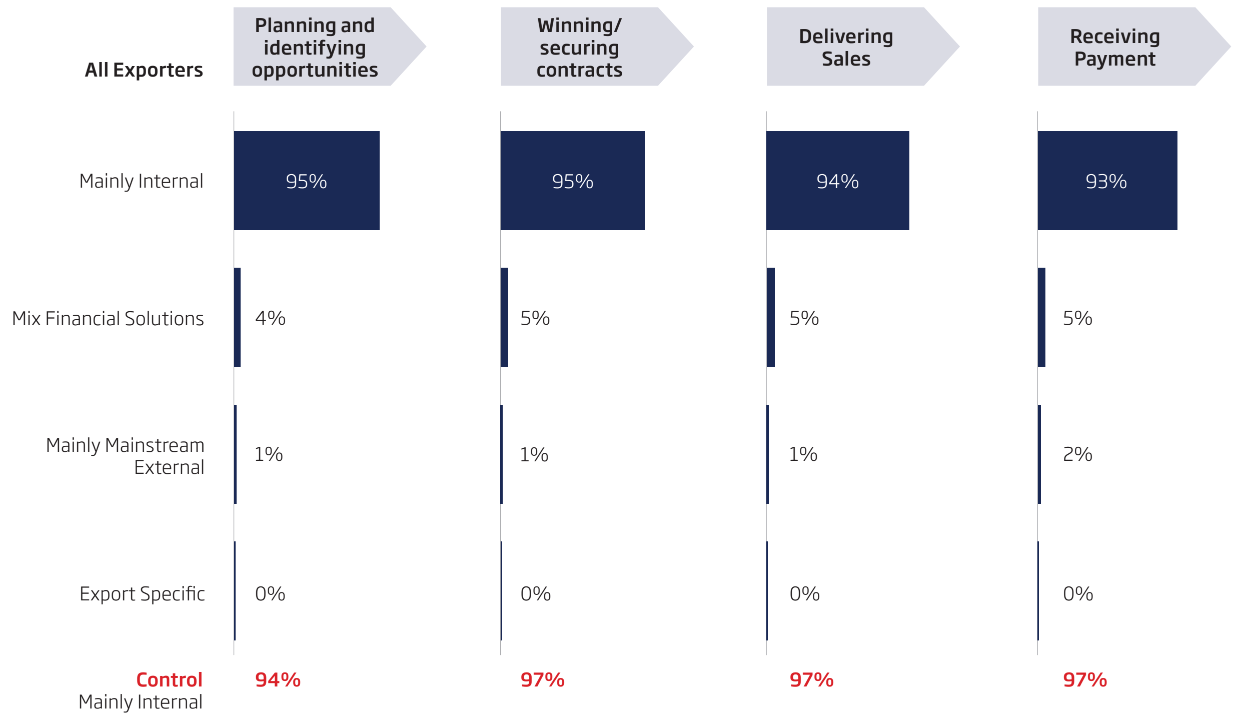
Businesses in England outside of London were more likely to offer more generous payment terms, whilst those in London were more likely to offer less generous payment terms. Larger SMEs, of over 50 employees, were more likely to vary their payment terms. SMEs selling goods, particularly in the Manufacturing, Transport, Storage and Communication, and Professional Service sectors were more likely to offer more generous payment terms, whilst Construction SMEs were more likely to vary their terms (either more generous or less generous) for international customers.

FIG 14

SMES RELY HEAVILY ON INTERNAL FINANCE TO FUND THE EXPORTING CYCLE

*Note: Those exporting without external finance were assumed to finance each stage mainly through internal finance prior to interim results. Exporters Weighted N=~785 per stage (excl. don't know); Non-exporters N~395 per stage.*

*Source: Vivid Economics SME Export Finance Survey: C7. How do you currently/ intend to finance your international / domestic business activities in each of these four stages?*




**These results confirm earlier findings that the biggest constraints to export expansion for SMEs are largely unrelated to finance.** Although 32% of SMEs identify a stage of the export cycle at which finance is a challenge, these were not the stages which businesses identified as the most challenging overall. Most businesses (68%) say finance is not a challenge at any stage of the cycle.

## 8.5 IS THERE A FINANCE GAP FOR EXPORTS?

**The evidence from our survey shows that SMEs do not typically take a different view to financing their exports compared to their overall business.** Only 21% of businesses take or plan to take a different approach to financing their exports, whilst only 6% felt better access to finance could help them overcome the challenges in the export cycle and increase their revenues. As discussed in Section 7.3.3, no SMEs raise it unprompted as a barrier to expanding international sales. This aligns with findings from the SME FM, which found only 0.2% of all SMEs had a financing need over the past 12 months to support international expansion (BVA BDRC, 2019a). Finance is less of a challenge for SMEs than implied by previous work undertaken by the British Chamber of Commerce which found that: '60% of UK firms on the cusp of exporting [stated] that securing the right funding was a key consideration in deciding if, when and where they would export to' (British Chambers of Commerce, 2015). A previous BCC survey, however, found only around 1% of businesses cite difficulties in accessing trade finance / credit insurance as the reason they have not exported (British Chambers of Commerce, 2014). Internal research commissioned by the British Business Bank conclude that access to finance is not a barrier, but that it was a potential swing factor in deciding to export (Oliver Wyman, 2015).

**The SME Export Finance Survey provides some indications that only a small minority of exporters may have an outstanding need for external finance.** For the large majority of exporters who do not use external finance, they either believe that they do not need external finance, or that they have sufficient cash reserves (84%). Only 16% of exporters had a need that they didn't act upon, either because they didn't want to take on additional debt or risk (4%), it was too expensive (2%), or because it was too complicated; unfavourable terms and conditions; it takes too long to get a decision; they did not expect to get a favourable decision; or they don't trust financial institutions (respectively 1%).[11] A lower percentage of exporting SMEs felt that better access to finance could help them to increase their revenues by mitigating the challenges they face at one or more stages of the export cycle (6%).

**The gap between those who use finance specifically for exports and those who use external finance in general suggests that the majority of businesses who use external finance do so as a 'core' funding source to support general business activity and investment, but not to facilitate specific (export) sales opportunities.** This is consistent with findings from SME FM, which show that, whilst 46% of businesses use some form of external finance, the majority of this is in the form of core products (overdrafts, credit cards and loans) and leasing or hire-purchase (BVA BDRC, 2019a).

**The evidence shows that supporting SMEs to establish and grow is more important than providing them with better access to finance specifically to support their exports.** SMEs are reluctant to take on additional external finance, even if it means accepting a slower growth rate. Yet growth is the key to exporting: exporting SMEs tend to have higher revenues and a longer history than non-exporters. Supporting SMEs to grow therefore appears to be the best way of growing SME exports. As SMEs are established, some of them will naturally operate in international markets. For others, the more they grow and the longer they survive, the more likely they are to come across the opportunities which prompt them to begin exporting reactively.

## 8.6 IMPACT OF EXTERNAL FINANCE ON EXPORTS

**The SME Export Finance Survey finds that access to external finance does not directly impact the ability of SMEs to accept international opportunities.** For most businesses, their ability to take on a new international opportunity is either not dependent on finance (54%) or would depend on their ability to finance it internally (36%). Only 11% of businesses would rely on external finance, either from existing sources (4%) or if it meant applying for additional external finance (7%). The results, however, assume that an opportunity can be identified and a contract secured, and so do not consider the stages of the cycle where SMEs face the greatest challenges.

**For the 32% of exporters who identified a stage where finance presented a challenge, over half (57%, or 18% of all exporters) felt that access to additional finance would have at least a modest impact in reducing these challenges.** The impacts were expected to be strongest in addressing the challenges associated with Receiving Payment (66%), but least effective in addressing the financial challenges associated with Planning and Identifying Opportunities (47%). There is a negative correlation between the stages of the cycle that SMEs report the biggest overall challenges and the stages where additional finance would have a positive impact. For the 18% of exporting SMEs who felt that better access to finance would have at least a moderate impact on reducing the financial challenges faced along the export cycle, just over one-third (38%, or 6% of SME exporters) felt it would have at least a marginal impact on revenues.

**Few businesses identify access to finance as a barrier to exporting without prompting, and only 6% of exporting SMEs self-reporting that having additional access to finance would have a positive impact on their international sales revenues.** Extrapolating to the whole economy suggests that around 30,000 SMEs in the UK could increase their international revenues with additional access to finance. However, this depends on SMEs being willing to take on the additional finance and associated risks. The SME Export Finance Survey shows that many SMEs are not willing to take on this risk, which explains the gap between our estimate of 30,000 SMEs that could expand international revenues with additional access to finance, and the SME FM based estimate of 11,000 SMEs that have needed finance to fund an international expansion in the past 12 months.

**Together, these results suggest that there is a limited role for better access to finance to stimulate additional exporting activity.** The results rely on SME self-reporting and SMEs may not be fully aware of the potential impact on their business. Access to finance may be a constraint on overall growth, but the majority of SMEs' perceptions do not point to unique characteristics of international sales which call for additional, specialist finance.

# CHAPTER 9: WHAT IS THE AWARENESS AND USE OF EXPORT FINANCE AMONGST EXPORTERS?

## BOX 10: KEY FINDINGS ON AWARENESS

Awareness of finance products designed specifically to support exporting has been highlighted as a concern for SMEs since before the 2015 Cole Commission (Cole, 2015). According to WTO estimates, 80-90% of world trade relies on trade finance (World Trade Organization, n.d.). The SME Export Finance Survey asked SMEs about their awareness, consideration, application and use of different financial services designed to support exports. The survey found that awareness was highest amongst exporting SMEs for services designed to mitigate the risks of non-payment (51%), lower for services designed to mitigate foreign currency risks (44%), and lowest for products designed to increase cash flow (42%). These are higher than the results of earlier surveys, such as a 2013 BMG Research Survey which found that 31% of SMEs were aware of export finance schemes, suggesting that some progress may have been made via various initiatives, both private sector and government sponsored, on raising awareness of finance options amongst SMEs.

Despite increasing awareness, uptake remains low. The SME Export Finance Survey found that only between 7% (for working capital) and 12% (for foreign exchange) of exporting SMEs had considered using export finance products. 4% of exporting SMEs currently using products to mitigate against foreign currency risks, 2% using products to mitigate the risks of non-payment for exports, and only 1% had ever used export finance to support cash flow (with none using them currently). Overall 6% of exporting SMEs had ever held an export finance product.

Of the SMEs who have applied for export finance products, most turned to existing finance providers. For 39% of applicants, this meant their main bank, whilst 37% of applicants used another existing finance provider. For those considering export finance in the future, 48% would be most likely to apply to their main bank. Yet traditional bank relationships may not be the best solution for SMEs. Previous research has suggested the application process for export finance products is too costly in the UK, but the SME Export Finance Survey found that most SMEs were satisfied with the application process (70%), with only 13% reporting they were dissatisfied.

Foreign exchange rate fluctuations can be a significant burden on SMEs. The Federation of Small Businesses 2016 survey found that foreign exchange risks were the biggest challenge to SME exporters (Federation of Small Businesses, 2016). Bibby Financial Services' recent Trading Places Report highlights that 67% of UK SME exporters have experienced negative Foreign Exchange fluctuations averaging £70,000 over the previous 12 months (Bibby Financial Services, 2017). Despite this, only 6% of SMEs would consider using products which reduced their exposure to foreign currency risks.

Most users of export finance products did not report an impact on revenues (63%). Only 31% reported at least a marginal impact on revenues (with the majority of these reporting less than a 25% increase in revenues). These numbers imply that only 2% of exporting SMEs are currently benefiting from (mostly modest) increases in export revenues thanks to export finance products, and that only marginal export gains could be achieved through more systematic use of specialist export finance products by SMEs.

Most exporting SMEs would not consider using export finance products in the next 12 months because they either do not need it or have sufficient cash reserves. Only 8% were likely to consider using products which reduced the risks of non-payment, and 9% would consider those which increased their cash flow (in addition to the 6% who would consider them for managing foreign exchange risks). SMEs who were considering export finance products either did not expect it to impact their revenues (56%) or expected only a marginal increase in revenues – of less than 25% - as a result (27%), with 16% expecting a bigger benefit. The results point to a limited, but for some businesses important role for specialist financial products supporting growth in SME exports.

## 9.1 GLOBAL EXPERIENCE WITH TRADE FINANCE

**According to WTO estimates, 80-90% of world trade relies on trade finance (World Trade Organization, n.d.).** Trade finance takes the form of either open account trade finance or bank intermediated trade finance. Because of intense competition in export markets, foreign buyers often press exporters for open account terms, and it is now estimated that 80% of world trade is conducted on an open account basis. Traditional trade finance, including such instruments as letters of credit, loans, and loan guarantees from national export agencies, covers only about 10% of merchandise trade (International Chamber of Commerce, 2018; Lynch, n.d.)

**Open account trade, where goods are shipped in advance of payment, is essentially a form of inter-firm trade credit between importers and exporters.** This option is advantageous to the importer in terms of cash flow and cost, but it is consequently a risky option for an exporter. The 2017 International Chamber of Commerce (ICC) Banking Commission's Trade Register Report states that 'there has been a clear and decisive global shift to trade on open account terms' (International Chamber of Commerce, 2018). From the SME perspective, while open account transactions can incur lower costs, require less processing time, and improve the competitiveness of bids (Lynch, n.d.), they also create significant pressures on working capital, as payment terms are often as much as 120 days because the SME is usually at the end of a supply chain and therefore gets paid with considerable delay, with the additional risk of non-payment. SMEs' access to trade finance remains limited because they often lack collateral, a documented history of past transactions, and an understanding of available finance alternatives (International Chamber of Commerce, 2018; Lynch, n.d.).

**Bank intermediated trade finance can be separated into two types: the traditional letter of credit or loans and working capital.** Of these, loans and working capital are by far the most important and arguably most suited to the needs of small businesses, not least because of their role in global supply chains. Other mechanisms that are increasing in importance include receivables (or contract) based finance and invoice finance – both of which are appropriate for SMEs.

## 9.2 UK SME AWARENESS AND USE OF EXPORT FINANCE

**Awareness of finance products designed specifically to support exporting has been highlighted as a concern for SMEs since before the 2015 Cole Commission.** A 2013 report found that, despite great feedback from users, UKTI (DIT's predecessor) products were not widely known amongst SMEs (House of Lords Select Committtee on Small and Medium Sized Enterprises, 2013). The Cole Commission recognised that the export finance market was complex and difficult to navigate and identified a need for off-the-shelf products aimed at medium sized businesses (Cole, 2015). This has contributed to a lack of awareness amongst SMEs. Civitas concludes that SMEs often do not have the financial expertise to keep abreast of the latest financial products, including those offered or supported by UKEF and the British Business Bank. Online resources for export finance in UK are dispersed and difficult to understand in aggregate (Civitas, 2017). Historic surveys have assessed SME awareness of specialist export finance products: analysis of a 2013 BMG Research Survey found that 31% of SMEs were aware of export finance schemes, but only 14% knew who to approach (Oliver Wyman, 2015). Stakeholders agreed that SMEs – particularly those outside of London – were generally unaware of the products available, and tended to use less efficient general financial products.

**There is reasonable awareness amongst exporting SMEs of specific financial services designed to support exports.** The SME Export Finance Survey asked SMEs about their awareness, consideration, application and use of different financial services designed to support exports. The survey found that awareness was highest amongst exporting SMEs for services designed to mitigate the risks of non-payment (51%), lower for services designed to mitigate foreign currency risks (44%), and lowest for products designed to increase cash flow (42%). These are higher than the results of earlier surveys. The SME Export Finance Survey found that only between 7% (for working capital to increase cash flow) and 12% (for managing foreign exchange) of exporting SMEs had considered using export finance products.

**Despite increasing awareness, uptake remains low.** SME FM found 1% of SMEs had used invoice finance (BVA BDRC, 2019a). A 2015 Oliver Wyman SME Survey estimated that 14% of SME exporters used trade finance (2% of all SMEs), with just 130 SMEs served by UKEF finance products in 2014 (Oliver Wyman, 2015). The SME Export Finance Survey found that 4% of exporting SMEs were using products to support them mitigate foreign currency risks, 2% were using products to mitigate the risks of non-payment for exports, and only 1% of SMEs had ever used export finance to support cash flow (with none using them currently). Overall, 6% of exporting SMEs had held any of the products. One stakeholder suggested SMEs may be discouraged from trade finance because it remained largely a paper-based solution.

FIGURE 15

FEW EXPORTERS CONSIDER USING EXPORT FINANCE, AND VERY FEW ACTUALLY APPLY

*Note: Weighted N=306; Non-exporters Weighted N=398*

*Source: Vivid Economics SME Export Finance Survey: D1. There are financial products and services available specifically to support businesses who sell internationally. I'm going to read out the financial products and services that are available. For each, please let me know whether you have heard of this type of product/ service before this survey. D2. For each product you are aware of can you tell me if….*

| **All Exporters** Control | Mitigate risks of Non-Payment | Mitigate foreign currency risks | Increase Cash Flow |
|---|---|---|---|
| % Aware | **51%** 36% | **44%** 31% | **42%** 24% |
| % Considered | **9%** 2% | **12%** 0% | **7%** 3% |
| % Applied | **2%** 0% | **5%** 0% | **2%** 0% |
| % Have used/Using | **2%** 0% | **5%** 0% | **1%** 0% |
| % Currently Using | **2%** 0% | **4%** 0% | **0%** 0% |



**SMEs which had used export finance products tended to be larger, have a higher turnover, and export goods.** Whilst 33% of the SME Export Finance Survey sample had at least 2 employees, this rose to 59% amongst those who had used specific export finance products. 49% had a turnover of at least £500,000 (compared to 24% of the total exporting sample), and 60% exported goods (compared to 33% of the overall sample). 78% of SMEs used just one type of product, whilst 22% used multiple types of product.

**SMEs turn to existing providers when applying for export finance products.** For 39% this meant their main bank, and another 37% used another existing provider. For those considering export finance in the future, 48% would be most likely to apply to their main banks (48%). This is lower than for general external finance, with 62% of general external finance application made to the main bank (BVA BDRC, 2019a). In 2015, internal research commissioned by the British Business Bank estimated that 80% of trade finance products were held at the SMEs primary bank. Only 17% used a new provider and 4% used a finance platform (Oliver Wyman, 2015). Yet traditional bank relationships may not be the best solution for SMEs: BExA report that SMEs struggle to access finance through traditional bank relationships (British Exporters Association, 2018), echoing previous findings that banks are slow to offer support to SMEs: even for small projects, applications need to go through a long chain of command and local bank managers retain very little decisional power (House of Lords Select Committtee on Small and Medium Sized Enterprises, 2013).

**Previous research has suggested the application process for export finance products is too costly in the UK.** Internal research commissioned by the British Business Bank and conducted by Oliver Wyman in 2015 found that UK export finance programmes were fragmented across multiple agencies, and are harder to access than similar programmes in other countries. There was an effective deal size threshold of £50,000-100,000 for accessing existing export finance programmes in the UK (driven by Anti Money Laundering and Know Your Client compliance costs), and the average contract value was 500% of that of other export credit agencies. UKEF products required 200-300% more paperwork than Swedish and Danish Export Credit Agencies and required the review of individual transactions (Oliver Wyman, 2015). Since this research was conducted UKEF no longer reviews all transactions internally and have revised their application processes. The SME Export Finance Survey found that most SMEs were satisfied with the application process (90%), with only 13% reporting they were dissatisfied.

## 9.3
# IMPACT OF USING EXPORT FINANCE ON SMES

**Most users of export finance products did not report an impact on revenues (63%).** Only 31% reported at least a marginal impact on revenues (with the majority of these reporting less than a 25% increase in revenues). These numbers imply that only 2% of exporting SMEs (around 9,000) are currently benefiting from (mostly modest) increases in export revenues thanks to export finance products, and that only marginal export gains could be achieved through more systematic use of specialist export finance products by SMEs.

**Foreign exchange rate fluctuations can be a significant burden on SMEs.** The FSB 2016 survey found that foreign exchange risks were the biggest challenge to SME exporters (Federation of Small Businesses, 2016). Bibby Financial Services' recent Trading Places Report highlights that 67% of UK SME exporters have experienced negative Foreign Exchange fluctuations averaging £70,000 in the previous 12 months (Bibby Financial Services, 2017). According to Civitas, foreign buyers are increasing trading in local currencies to reduce their risk exposure to foreign exchange fluctuations, transferring risk to UK firms (Civitas, 2017). Despite this, only 6% of SMEs would consider using products which reduced their exposure to foreign currency risks.

**Most exporting SMEs would not consider using export finance products in the next 12 months because they either do not need it or have sufficient cash reserves.** Only 8% were likely to consider using products which reduced the risks of non-payment, and 9% would consider those which increased their cash flow (in addition to the 6% who would consider them for managing foreign exchange risks). This mirrors findings by Oliver Wyman, who also found that smaller companies were less likely to use insurance to manage risks (Oliver Wyman, 2015), although for some SMEs currently exporting this may be because they transition in and out of exporting each year. Those who were most likely to consider using export finance products had large turnovers (typically of over £1 million) and were more likely to be based in London, in the manufacturing, wholesale/retail, and transport, storage and communications sectors (which have a higher tendency to export). The main reasons for considering export finance products were to provide additional working capital (47% of those who would consider using export finance products) and insurance against non-payment (31%). SMEs who were considering export finance products either did not expect it to impact their revenues (56%) or expected only a marginal increase in revenues – of less than 25% – as a result (27%), with 16% expecting a bigger benefit.

- Larger SMEs (with at least 11 employees) are more likely to consider using export finance products.
- Those with very small (below £75,000) or very large (above £10 million) revenues were least likely to consider using export finance products.
- SMEs in the Manufacturing; Wholesale and Retail; Hotels and Restaurants; and Transport, Storage and Communications sectors were more likely to consider using export finance products, but those in Business Services were less likely to.
- SMEs in London, Wales and Northern Ireland were more likely to consider using export finance products, but those in Scotland were less likely.
- Businesses were more likely to consider using export finance products if they had previously considered using export finance products which provided working capital or mitigated the risks of non-payment. However, those who had previously considered, but not ultimately used products to mitigate foreign currency risks were less likely to consider export finance products in the future.

### BOX 11: SME AWARENESS OF OPEN BANKING

Few SME exporters have signed up to open banking. The vast majority (79%) of exporters had not heard of open banking. Only 2% of SME exporters, and 1% of domestically orientated SMEs, had already signed up.

FIGURE 16

EXPORT FINANCE IS USED TO PROVIDE WORKING CAPITAL OR REDUCE THE RISKS OF NON-PAYMENT

*Note: Weighted N = 104*

*Source: Vivid Economics SME Export Finance Survey: D16. You mentioned that you would consider one or more of these products / services in the next 12 months. What key benefits do you think it could provide your business?*

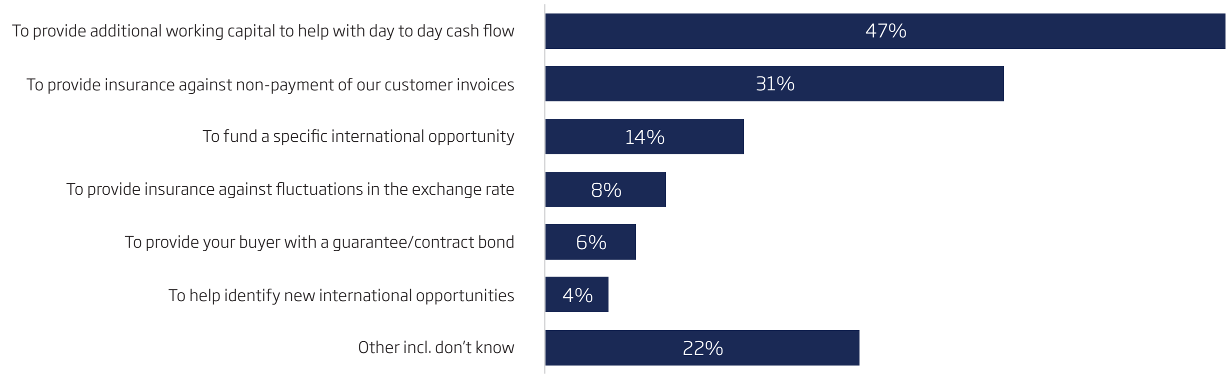
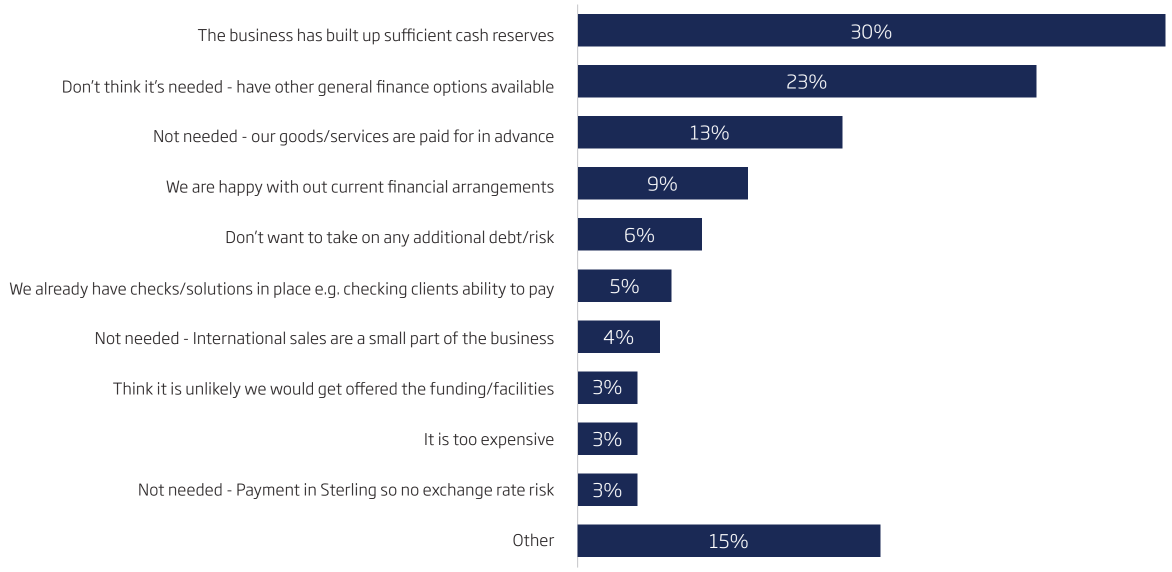



FIGURE 17

MOST SMES DO NOT CONSIDER USING EXPORT FINANCE BECAUSE THEY DON'T NEED IT OR HAVE SUFFICIENT CASH RESERVES

*Note: Unprompted. Weighted N = 763*

*Source: Vivid Economics SME Export Finance Survey: D15. You mentioned that it is unlikely you will consider one or more of these products / services in the next 12 months. Why is this?*



# APPENDICES

## 1.1 APPENDIX 1. SME EXPORT FINANCE SURVEY

### 1.1.1 SURVEY OBJECTIVES AND SAMPLE SOURCE

The objectives of the SME Export Finance survey included identifying exporter behaviour, attitudes and needs in comparison to a control group of non-exporting (UK domestic) firms. Survey questions in the SME Export Finance survey were designed to build on existing data available from the SME Finance Monitor.[1]

Firms that previously participated in the SME Finance Monitor and agreed to be re-contacted for future interviews made up the potential sample pool for the SME Export Finance survey. This potential sample pool included 4,439 firms that have previously indicated that they actively exported or planned to export in the SME FM survey in 2018, 2017 or 2016. The potential sample pool for control group firms included 12,493 firms that agreed to be re-contacted across the same survey years.

### 1.1.2 SAMPLE QUOTAS

The SME Export Finance survey aimed to interview 800 exporters (including firms planning to export in the next 12 months) and 300 control group firms. Throughout the delivery of the SME Export Finance survey, the sample profile was monitored to ensure a reasonable sample of SMEs nationally across regional, sectoral and SME size categories.

During the field research period, survey results were reported on a weekly basis and firm targeting was adjusted to ensure a sufficiently representative sample across characteristics include size of firm and region. Firms with more than 50 employees were targeted after initial results demonstrated a higher uptake of export finance products amongst these firms. Firms from Wales, Scotland and Northern Ireland were also targeted in order to provide a statistically significant sample from these regions. All results were calibrated to a representative sample for the UK population of SMEs using weightings, as described below.

The survey sought to understand the differences in the attitudes, experiences and challenges faced by firms which used external finance to support their exports. For this reason, separate 'quotas' were defined for those SMEs who had indicated in the SME Finance Monitor survey that they used external finance and those which did not.

Each survey respondent was classified into one of four export quotas:

- Export Quota 1 – firms that have exported in the last 12 months without external finance are assigned to this category
- Export Quota 2 – firms that have exported in the last 12 months and use external finance (including export finance products) to support their international sales are assigned to this category
- Export Quota 3 – firms that have not exported in the last 12 months but plan to do so in the next 12 months are assigned to this category
- Export Quota 4 – firms that have not exported in the last 12 months and do not plan to do so in the next 12 months are assigned to this category, the control group

The resulting sample included 800 exporting firms and 398 control group firms, divided across export quota categories as shown in Figure 1.

FIGURE 1

ADJUSTED SME EXPORT SURVEY SAMPLE

*Source: Vivid Economics*

| | Exporters, No Finance | Exporters, Finance | Plan to Export | Control |
|---|---|---|---|---|
| Unweighted Sample Size | 595 | 99 | 106 | 398 |
| % Exporters | 74% | 12% | 13% | |

The quotas presented in Figure 1 reflect some shifts from initial classifications of firms based on SME FM responses, as shown in Figure 2. Specifically, 21% of those firms that indicated they were exporting or plan to export in a previous SME FM survey responded that they did not currently or plan to export in the next 12 months. 18% of those firms included in the control sample pool previous stating that they did not export or plan to export now do so. This shift indicates that exporting behaviour shifts over time for UK SMEs.

FIGURE 2

BREAKDOWN BY SME EXPORT FINANCE SURVEY SUBSAMPLE ACROSS EXPORT QUOTAS

*Source: Vivid Economics*

| | Export No Finance | Export Finance | Intending to Export | Control |
|---|---|---|---|---|
| Exporters Sample | 60% | 9% | 10% | 21% |
| Control Sample | 15% | 0% | 3% | 82% |

### 1.1.3 SURVEY QUESTIONNAIRE

The survey questionnaire was designed to complement existing data for respondents available from their prior SME FM responses. A draft survey was prepared by Vivid Economics, structured to provide general information about the business and their exporting behaviour, before probing their use of finance and specialist export finance products to support their international sales. Questions were designed to provide comparability between the SME Export Finance survey and similar surveys previously undertaken. Stakeholder interviews were held with members of the steering group (comprising of the British Business Bank, UK Export Finance, Department for International Trade and the Department for Business, Energy and Industrial Strategy) to capture objectives and hypotheses to explore through the survey questionnaire. A draft survey was shared with the steering group and revised following feedback from all stakeholders. Minor changes were made to the survey following a pilot of 30 SMEs and at an interim review of results.

SECTIONS OF THE SURVEY INCLUDED:

- An initial screening section to confirm that respondents were eligible for the survey (i.e. that the business was a for-profit business majority held in the UK with 250 or less employees) and to establish the 'export quota' category for the business (e.g. exporting with external finance, exporting without external finance, planning to export in the next 12 months or not exporting)
- A section exploring what role exporting played in the business – this included questions around what the business exported (or planned to), where it exported its products and its attitudes towards exporting
- A section on the 'exporting journey' which included questions on what steps firms take to become exporters, including sources of advice and information and how businesses finance export activities across stages of making an international sale. This section also asked businesses about the impact or expected impacts of external finance on their international revenues.
- A section on export finance products, testing specific awareness, use and interest in different export finance products available to firms making international sales. This section also included questions about why firms did not use these products and the impact or anticipated impacts of using export finance products.

Results from these questions were collected and reported alongside each respondent's responses to the SME FM survey, allowing for comparison of responses to a wider set of questions without extending the length of the survey. These results were then weighted to the national SME population to provide a picture of exporting businesses across the UK.

### 1.1.4 EXPORTING WITH FINANCE

The results of the survey also revealed significant inconsistencies amongst exporters in their answers around their use of external finance. The targets for this quota were based on their response to Q15 of the SME Finance Monitor survey, which asks:

WHICH OF THE FOLLOWING FORMS OF EXTERNAL FINANCE DOES THE BUSINESS CURRENTLY USE?

- Bank Overdraft
- Bank Loan
- Commercial mortgage
- Grants
- Loans from directors or friends and family
- Equity from directors or friends and family
- Equity from other third parties such as business angels or Venture Capital funds
- Leasing or hire purchase or vehicle finance
- Credit cards
- Export/import finance eg doc credits
- Finance through crowd funding or peer to peer lending
- Invoice finance; factoring and invoice discounting - an ongoing finance facility against your whole turnover
- Asset based lending - an ongoing finance facility provided against debts and other assets such as stock, work in progress, plant and machinery etc
- Selective or single invoice finance - occasional finance provided against individual invoices
- Any other loan

Businesses which answered yes to any of the above were initially tagged as using external finance, with 46% of current exporters reporting that they currently used some form of external finance according to the SME Finance Monitor. This reduces to 34% when focusing on 'mainstream' external finance products (excluding leasing / hire vehicle finance, commercial mortgage, grants, loans / equity from directors or friends / family).

THE EXPORT FINANCE SURVEY USED THE FOLLOWING QUESTIONS TO CONFIRM QUOTAS:

**A11: Has your business ever sold any goods or services outside the UK? This includes sales to the Republic of Ireland.**

1. Yes – in the last 12 months
2. Yes – between 1 – 3 years ago
3. Yes – more than 3 years ago
4. No

97. Don't know

98. Refused

**A12: Thinking specifically about your activities, which involve international sales, how do you currently finance them?**

1. With internal finance e.g. cash reserves from within the business or Directors loans or loans from family / friends
2. With external finance e.g. loans from financial institutions, credit cards, specific products to support international sales, overdraft, working capital finance
3. A mixture of internal and external finance

97. Don't know

Of those who have exported in the last 12 months, only 8% use either external finance or a mixture of internal and external finance to finance their international sales.

The discrepancy between the results from the SME Finance Monitor (34% of current exporters using external finance) and the Export Finance Survey (8% of current exporters financing international sales using external finance) can be explained either by:

- SMEs taking a different approach to domestic and international sales; or
- SMEs use external finance for core activities, rather than to finance specific sales.

It should also be noted that those SMEs which reported using external finance to support international sales were only marginally more likely to have access to mainstream external finance in the SME Finance Monitor (38% compared to 34% across all exporters).

Interpretations of differences between Quota 1 and Quota 2 must be made cautiously. A significant minority (33%) of exporters who reported in the Export Finance Survey that they do not use external finance to support international sales previously reported (i.e. in response to an earlier SME Finance Monitor questionnaire) using external finance, whilst the majority (62%) of exporters who use external finance to support international sales previously reported not using external finance at all. This effect may reflect the fact that respondent firms had not been previously asked to consider whether external finance was used to support international sales separate from overall business activities. The relatively small overall share of exporters who reported using external finance to support their international sales in the Export Finance Survey should also be kept in mind when interpreting these trends.

### 1.1.5 SURVEY IMPLEMENTATION

The survey was conducted by BVA-BDRC during July and August 2019, using a computer-assisted telephone interviewing (CATI) approach.

### 1.1.6 WEIGHTING RESULTS TO MATCH THE POPULATION

The aim of weighting the data is to adjust for any sampling bias that may have occurred during the fieldwork, for example to capture views of businesses with a larger number of employees (51+) or located in Wales, Scotland or Northern Ireland. However, when weighting the data a reliable source of the population data needs to be available to ensure that the final weighted data is truly representative of the population. As the sample contains exporters and a non-exporting control group, separate weights were applied to each using the following sources for the population estimates:

- Non-exporting Control Group: Department for Business, Energy and Industrial Strategy 2016 industry figures as used in the weighting of the SME Finance Monitor
- Exporters: SME Finance Monitor 2018 Quarter 4 weighted distribution of exporters, including those who plan to export

Compared to the export quotas set out in section 1.1.2, Export Quotas 1, 2 and 3 were weighted using SME FM 2018 Q4 profile of exporters and firms planning to export. Export Quota 4 responses were weighted in line with BEIS 2016 national industry statistics.

The weights were calibrated so that the weighted sample reflected the target population by industry sector (as specified in the SME Finance Monitor), employee size and UK region. A further adjustment was also made by employee size to reflect the weighting process undertaken in the SME Finance Monitor and reflect the significant share of the SME population made up of single employee firms. In order to preserve statistical robustness of the responses, separate weights were applied for 1) sector and size of firm and 2) region of firm. This approach is in line with the weighting methodology used in the SME FM survey and the results of these calculations are shown in Tables 1 and 2.

The following tables shows the unweighted sample, the target population and the sample after it had been weighted separately for the exporters and the control group. Note for the weighting by industry sector and number of employees the control group categories reflect the categories used in the SME FM weighting; however due to small sample sizes for the exporters by industry sector for businesses with one employee these were weighted as 1-10 employees. A further check was done to ensure that no single respondent contributed disproportionally to the results.[2]

TABLE 1

OVERVIEW OF UNWEIGHTED AND WEIGHTED SAMPLE: EXPORTERS

*Note: n=800 firms exporting or planning to export*

*Source: Vivid Economics; SME FM Q4 2018*

| | | Exporters unweighted | | Exporters Target | Exporters Weighted |
|---|---|---|---|---|---|
| **Industry Sector** | **Number of Employees** | Number of response | Share of responses | Share of responses | Share of responses |
| Agriculture, Hunting and Forestry, Fishing | 1-10 employees | 16 | 2.00% | 1.31% | 1.31% |
| | 11-50 employees | 6 | 0.75% | 0.18% | 0.18% |
| | 50+ employees | 4 | 0.50% | 0.01% | 0.01% |
| Manufacturing | 1-10 employees | 78 | 9.75% | 8.00% | 8.01% |
| | 11-50 employees | 72 | 9.00% | 0.99% | 1.00% |
| | 50+ employees | 24 | 3.00% | 0.50% | 0.45% |
| Construction | 1-10 employees | 14 | 1.75% | 4.07% | 4.08% |
| | 11-50 employees | 15 | 1.88% | 0.31% | 0.32% |
| | 50+ employees | 5 | 0.63% | 0.03% | 0.03% |
| Wholesale / Retail | 1-10 employees | 65 | 8.13% | 12.99% | 13.00% |
| | 11-50 employees | 45 | 5.63% | 1.89% | 1.91% |
| | 50+ employees | 19 | 2.38% | 0.21% | 0.18% |
| Hotels and Restaurants | 1-10 employees | 4 | 0.50% | 1.53% | 1.53% |
| | 11-50 employees | 3 | 0.38% | 0.23% | 0.24% |
| | 50+ employees | 2 | 0.25% | 0.02% | 0.02% |
| Transport, Storage and Communications | 1-10 employees | 50 | 6.25% | 11.72% | 11.73% |
| | 11-50 employees | 34 | 4.25% | 0.64% | 0.65% |
| | 50+ employees | 11 | 1.38% | 0.12% | 0.11% |
| Real Estate, Renting and Business Activities | 1-10 employees | 124 | 15.50% | 35.52% | 35.54% |
| | 11-50 employees | 77 | 9.63% | 2.32% | 2.35% |
| | 50+ employees | 19 | 2.38% | 0.25% | 0.22% |
| Health and Social Work | 1-10 employees | 9 | 1.13% | 3.75% | 3.75% |
| | 11-50 employees | 4 | 0.50% | 0.00% | 0.00% |
| | 50+ employees | 1 | 0.13% | 0.00% | 0.00% |
| Other Community, Social and Personal Service Activities | 1-10 employees | 59 | 7.38% | 12.83% | 12.84% |
| | 11-50 employees | 34 | 4.25% | 0.52% | 0.53% |
| | 50+ employees | 6 | 0.75% | 0.03% | 0.03% |

| | | Exporters unweighted | | Exporters Target | Exporters Weighted |
|---|---|---|---|---|---|
| **Industry Sector** | **Number of Employees** | Number of response | Share of responses | Share of responses | Share of responses |
| Region | East Midlands | 57 | 7.1% | 6.6% | 6.6% |
| | East of England | 49 | 6.1% | 9.7% | 9.7% |
| | London | 133 | 16.6% | 26.5% | 26.5% |
| | North West | 66 | 8.3% | 9.5% | 9.5% |
| | North/North East | 28 | 3.5% | 2.2% | 2.2% |
| | South East | 132 | 16.5% | 16.1% | 16.1% |
| | South West | 62 | 7.8% | 8.8% | 8.8% |
| | West Midlands | 61 | 7.6% | 6.6% | 6.6% |
| | Yorkshire/Humberside | 61 | 7.6% | 4.1% | 4.1% |
| | Scotland | 55 | 6.9% | 5.2% | 5.2% |
| | Wales | 45 | 5.6% | 3.2% | 3.2% |
| | Northern Ireland | 50 | 6.3% | 1.5% | 1.5% |
| Number of employees | 1 employee | 107 | 13.4% | 67.1% | 67.1% |
| | 2-10 employees | 312 | 39.0% | 24.7% | 24.7% |
| | 11-50 employees | 290 | 36.3% | 7.2% | 7.2% |
| | 51+ employees | 91 | 11.4% | 1.0% | 1.1% |

*Note: Respondents could choose more than one answer so percentages do not add to 100%. Weighted N = 531.*

*Source: Vivid Economics SME Export Finance Survey: B2 B7. For the SERVICES you (intend to) sell internationally, which of the following describes how your business (intends to) provide(s) these services to individuals or organisations based outside the UK?*

TABLE 2

OVERVIEW OF UNWEIGHTED AND WEIGHTED SAMPLE: CONTROL GROUP

*Note: n=398 firms not exporting or planning to export*

*Source: Vivid Economics; BEIS 2016*

| | | Control unweighted | | Control Target | Control Weighted |
|---|---|---|---|---|---|
| **Industry Sector** | **Number of Employees** | Number of response | Share of responses | Share of responses | Share of responses |
| **Agriculture, Hunting and Forestry, Fishing** | 1 employee | 6 | 1.51% | 1.99% | 1.98% |
| | 2- 50 employees | 21 | 5.28% | 1.06% | 1.06% |
| | 51+ employees | 0 | 0.00% | 0.01% | 0.00% |
| **Manufacturing** | 1 employee | 10 | 2.51% | 3.75% | 3.74% |
| | 2- 50 employees | 30 | 7.54% | 1.61% | 1.61% |
| | 51+ employees | 2 | 0.50% | 0.12% | 0.12% |
| **Construction** | 1 employee | 12 | 3.02% | 16.04% | 16.05% |
| | 2- 50 employees | 46 | 11.56% | 3.04% | 3.04% |
| | 51+ employees | 5 | 1.26% | 0.04% | 0.05% |
| **Wholesale / Retail** | 1 employee | 6 | 1.51% | 5.59% | 5.60% |
| | 2- 50 employees | 33 | 8.29% | 4.74% | 4.75% |
| | 51+ employees | 6 | 1.51% | 0.09% | 0.10% |
| **Hotels and Restaurants** | 1 employee | 4 | 1.01% | 1.09% | 1.08% |
| | 2- 50 employees | 12 | 3.02% | 2.51% | 2.51% |
| | 51+ employees | 4 | 1.01% | 0.05% | 0.05% |
| **Transport, Storage and Communications** | 1 employee | 7 | 1.76% | 10.05% | 10.05% |
| | 2- 50 employees | 31 | 7.79% | 2.14% | 2.14% |
| | 51+ employees | 8 | 2.01% | 0.06% | 0.05% |
| **Real Estate, Renting and Business Activities** | 1 employee | 29 | 7.29% | 20.22% | 20.22% |
| | 2- 50 employees | 61 | 15.33% | 6.41% | 6.41% |
| | 51+ employees | 5 | 1.26% | 0.14% | 0.14% |
| **Health and Social Work** | 1 employee | 7 | 1.76% | 6.16% | 6.16% |
| | 2- 50 employees | 15 | 3.77% | 1.18% | 1.18% |
| | 51+ employees | 8 | 2.01% | 0.07% | 0.07% |
| **Other Community, Social and Personal Service Activities** | 1 employee | 10 | 2.51% | 9.94% | 9.95% |
| | 2- 50 employees | 19 | 4.77% | 1.86% | 1.86% |
| | 51+ employees | 1 | 0.25% | 0.02% | 0.02% |

| | | Control unweighted | | Control Target | Control Weighted |
|---|---|---|---|---|---|
| **Industry Sector** | **Number of Employees** | Number of response | Share of responses | Share of responses | Share of responses |
| **Region** | 27 | 6.8% | 7.0% | 7.0% | |
| | 36 | 9.1% | 10.0% | 10.0% | |
| | 54 | 13.6% | 16.9% | 18.0% | |
| | 37 | 9.3% | 10.1% | 10.0% | |
| | 21 | 5.3% | 3.1% | 3.0% | |
| | 49 | 12.3% | 16.0% | 16.0% | |
| | 35 | 8.8% | 10.2% | 10.0% | |
| | 25 | 6.3% | 7.1% | 7.0% | |
| | 25 | 6.3% | 7.4% | 7.0% | |
| | 35 | 8.8% | 6.1% | 6.0% | |
| | 28 | 7.1% | 4.1% | 4.0% | |
| | 25 | 6.3% | 2.1% | 2.0% | |
| **Number of employees** | 91 | 22.9% | 74.8% | 74.8% | |
| | 154 | 38.7% | 20.5% | 20.5% | |
| | 114 | 28.6% | 4.10% | 4.1% | |
| | 39 | 9.8% | 0.6% | 0.6% | |

*Note: Note: n=398 firms not exporting or planning to export*

*Source: Vivid Economics; BEIS 2016*

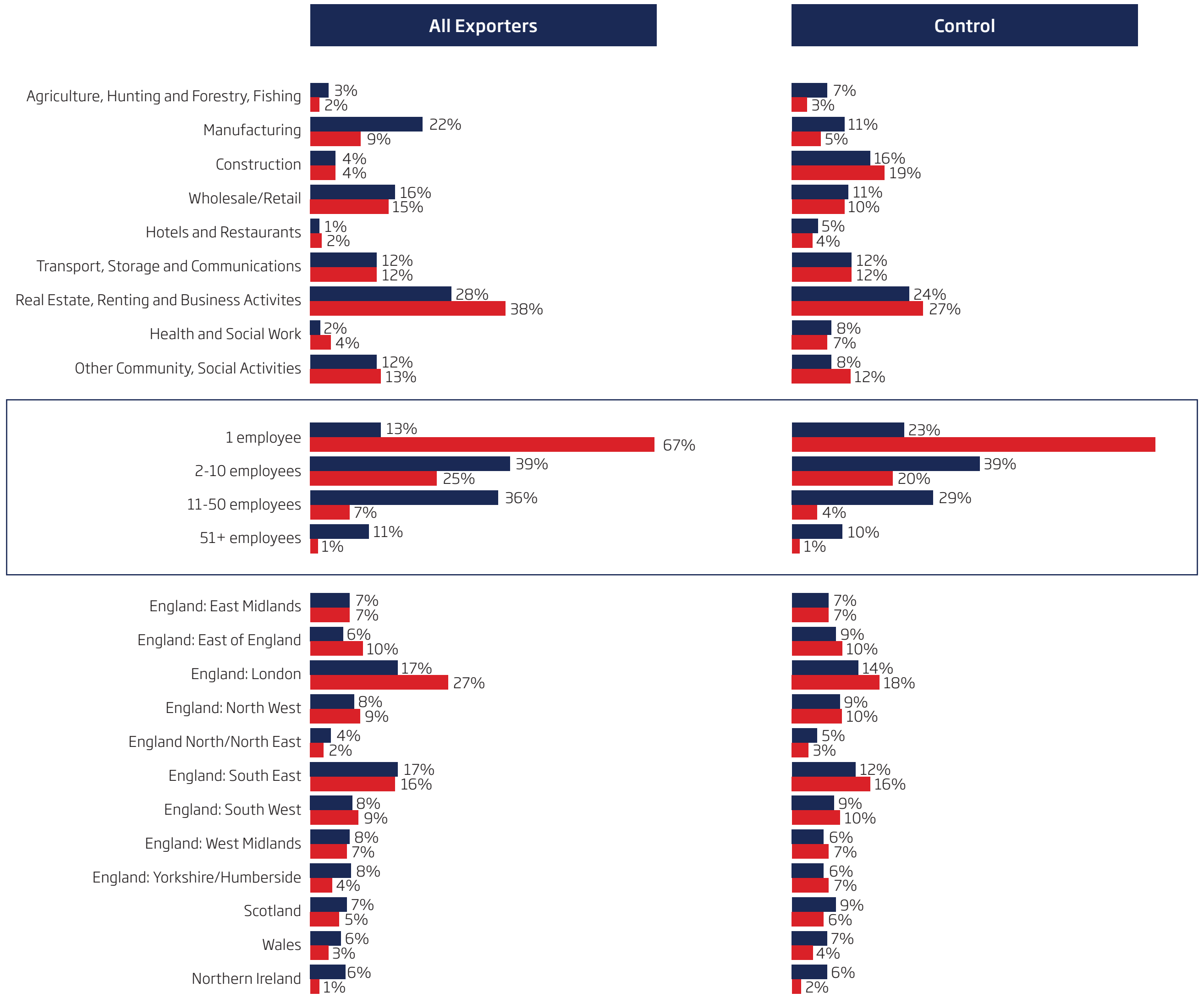
The impact of applying these weights on the raw sample results increased the explanatory power of some responses over others, as shown in Figure 3. The most significant area of impact was an increase in the role of single- or no-employee firm responses in the overall data presented, reflecting that most of the UK's SME population is made up of micro enterprises.

FIGURE 3

IMPACT OF WEIGHTINGS ON SME EXPORT FINANCE SURVEY RESULTS

*Note: The llue bars (top for each category) represent the pre-reweighting proportions, the red bars (bottom for each category) represent the post-reweighting proportions.*

*Source: Vivid Economics*








## 1.2 APPENDIX 2. TRADE DATA

The experimental approach used to estimate the size of the SME exporter market for this study is based on an interpolation from a number of data sources. This is because no one data source alone provides sufficient information to reflect the market in a timely and comprehensive way.

The approaches towards measuring enterprise characteristics at the statistical agencies at both national and international levels are largely survey-based. While the OECD has a database of exporters by enterprise characteristic,[3] this in itself is based on estimates from national statistical agencies. Survey-based data necessarily gives estimates rather than precise numbers and the accuracy of those estimates will vary depending on the sample frame and size as well as the precision of survey questions. The ideal trade data source will be based on 'bottom-up' statistics of firm transactions, but this data was not yet publicly available in the UK at the time of this study. The approach taken for this study draws on available survey-based data from multiple sources to correct for potential biases.

Differences in numbers reported by various survey-based approaches can result in significant inconsistencies in trade data. For example, an averaged estimate across trade data sources for UK exports is 6.5% different from values reported in the UN Comtrade database (Harding, 2019).

To account for these inconsistencies, one can estimate trade by enterprise characteristics (e.g. size of firm) by taking OECD SME exporter proportions and applying them to national data for total trade in goods and services.[4] Further methodological considerations around trade data include:

- The OECD SME database for the UK gives estimates of export value and volume by size of firm and sector but is lagged and based on survey estimates applied to national accounts;
- For this study, goods and services data from national and international sources including from the ONS, OECD and UN COMTRADE have been synthesised[5] which yields a value for goods and services trade as well as sector and sub-sector flows.
- The ONS has a breakdown[6] of service sector exports and imports, available by EBOPS 2010 sectors for national trade partners at the UK level.

For this study, Coriolis Technologies deployed machine-learning algorithms to match UK Standard Industrial Classification (SIC) codes[7] to Harmonised System commodity codes[8] based on the World Integrated Trade Solution (WITS) concordance systems.[9] It also has mapped services classified in the extended balance of payments system (EBOPS) from both 2002 and 2010 sector classification systems and then to the sector classification provided in the International Monetary Fund's Balance of Payments and International Investment Position Manual (BMP6) based on IMF methodologies in order to produce a cross-comparable time series of services trade.[10]

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The analysis was carried out by a team led by Vivid Economics including Dan Aylward-Mills, Peter O'Boyle, Fiona Shore and Jake Wellman (Vivid Economics); Rebecca Harding and Markus Krebsz and Eleanor Wragg (Coriolis Technologies); and, Steven Flood, Sally Li and Shiona Davies (BVA BDRC/Perspective Market Research).

The team wishes to thank all stakeholders who provided feedback and suggestions throughout the course of the work, including representatives from trade associations, financial institutions and Chambers of Commerce.

# ENDNOTES

1. See Bpifrance (France), British Business Bank, Cassa Depositi e Prestiti Spa (CDP, Italy), Instituto de Credito Oficial (ICO, Spain) and KfW Bankengruppe (Germany), 2019 for a summary of previous literature.
2. For further information on the sampling strategy of the SME FM, see https://www.bva-bdrc.com/products/sme-finance-monitor/.
3. Calculated using ONS estimates of total exports in 2018 and Coriolis Technologies' estimate of SME exports, as a share of total and SME turnover as reported in BEIS Business Population estimates.
4. Note that different sector classifications have been used across these different surveys.
5. Note that different sector classifications have been used across these different surveys.
6. This may also be partly explained by the framing of questions.
7. The SME Export Finance Survey asked respondents "how many people, including you, work in this business?" Multiple choice answers included 1; 2 - 10 people; 11 - 50 people; 51 – 100 people; 101 – 200; and 201 – 250. This was to align with the SME FM survey, and explains why here 250 employee businesses are included as SMEs whereas other definitions are based on less than 250 employees (but include 0-employee businesses).
8. Not statistically significant.
9. Based on 5.9 million SME businesses (Department for Business Energy & Industrial Strategy, 2019a), 91% of which are not currently exporting (SME Finance Monitor), and 48% of these that do not agree that their business model or the goods and services produce make them unsuitable for selling internationally.
10. Excluding 'Other'.
11. Respondents could choose multiple answers so percentages add up to more than 100%.

# APPENDICES ENDNOTES

1. The SME Finance Monitor is a continuous survey of UK SMEs published quarterly by the Business Finance Taskforce including leadership from the UK's largest banks and representatives from UK Government departments
2. The maximum weight for the exporters was 11.8.
3. OECD (2019), Exports by business size (indicator). doi: 10.1787/54d56e8b-en (Accessed on 10 September 2019); https://data.oecd.org/trade/exports-by-business-size.htm
4. In the case of UK SMEs, this data is provided by the Office of National Statistics and is regularly updated by business surveys and methodological revisions
5. Estimates from different sources were compared and, where reported differently, smoothed based on an assessment of the source reliability (i.e. a weighted average is calculated in which unreliable and consistently asymmetric data sources are weighted lower than sources with high levels of reliability based on analysis of international trade data). Where no trade was reported, it was assumed that there was no trade between the reporter and partner countries for those products in those time periods.
6. https://www.ons.gov.uk/businessindustryandtrade/internationaltrade/bulletins/internationaltradeinservices/previousReleases
7. Based on the 2007 SIC system used by the UK Office of National Statistics set out here: https://www.ons.gov.uk/methodology/classificationsandstandards/ukstandardindustrialclassificationofeconomicactivities/uksic2007
8. Based on the 'combined' HS code system available from WITS as of 1 August 2019
9. https://wits.worldbank.org/product_concordance.html
10. See for example, https://www.imf.org/external/pubs/ft/bop/2008/08-10b.pdf; https://www.ecb.europa.eu/stats/ecb_statistics/co-operation_and_standards/bpm6/html/index.en.html; https://www.imf.org/external/pubs/ft/bop/2014/pdf/guide.pdf.

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