

ERC *Insights*

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GROWING GLOBAL – MOVING UP THE EXPORTING LADDER

Much has been done to support SME exporting in the UK in recent years. Only around a quarter of UK SMEs currently export, however, and a very small group - only 6 per cent of SMEs - currently export more than 50 per cent of their sales. For a very significant proportion of UK SMEs, therefore, the potential opportunities provided by exporting remain unexploited. Who are these SMEs? This question is important if we are to effectively target support and enable these firms to reap the growth benefits of exporting. ERC research helps to identify some markers of export potential which should allow more effective profile-led marketing of export support.

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Exporting matters

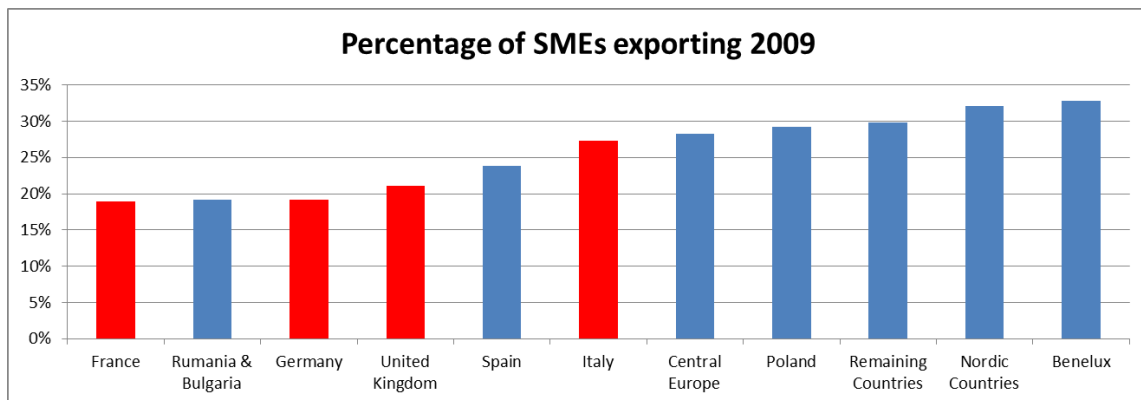
Exporting matters for SMEs, and SME exporting matters for the UK economy. SMEs that export grow more than twice as fast as those that do not, while ‘internationally active’ SMEs are three times more likely to introduce products or services that are new to their sector than those which are entirely domestic in orientation¹.

Research evidence also suggests that exposure to export markets is important in realising the potential of innovative and high growth firms². The joint effects of innovation and exporting also lead to economy-wide productivity benefits as more productive exporting and innovating firms gain market share at the expense of lower productivity firms. This generates a ‘batting average’ effect, driving up UK productivity growth as the proportion of high productivity firms increases³. There is therefore a potential rationale for policy interest in exporting and innovation at the firm level.

Where does the UK stand in terms of SME exporting?

In terms of exporting there is considerable scope for improving the performance of UK SMEs. A survey of internationalisation among 9,480 SMEs in 33 European countries in 2009 (Figure 1), for example, places UK SMEs 19th out of the EU27 in terms of the proportion of SMEs engaging in exporting activity (21 per cent against an EU average of 25 per cent).

Figure 1: Percentage of exporting SMEs



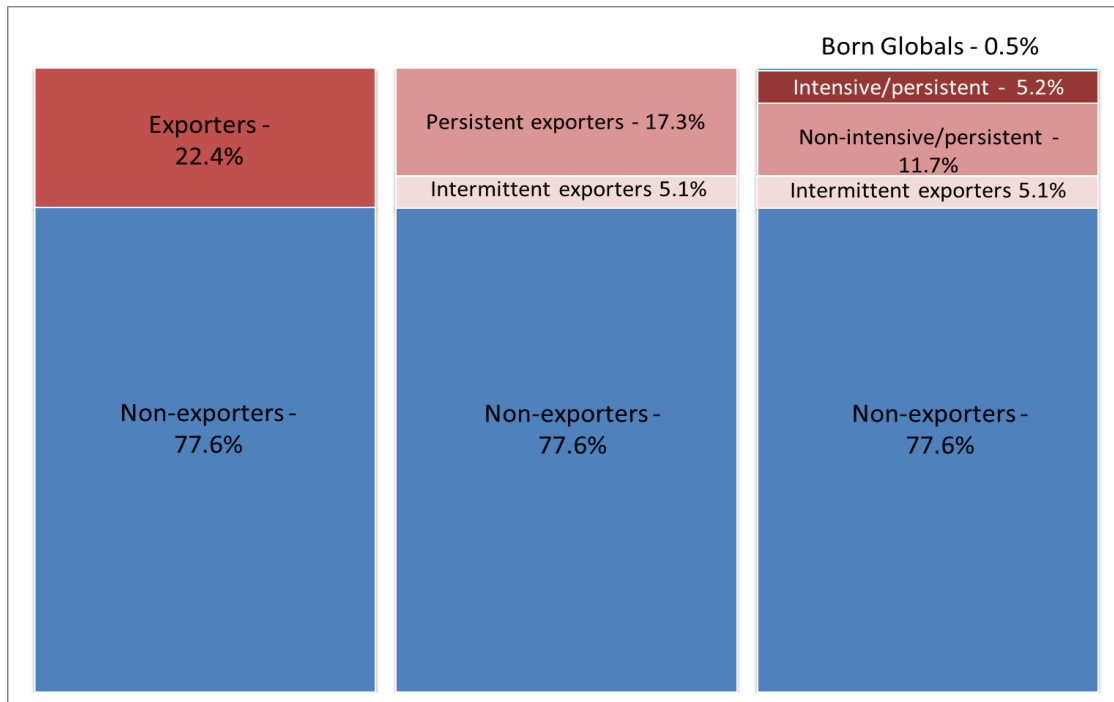
To some extent this reflects the size of countries home market – the proportion of exporting SMEs in the UK is comparable with other larger EU countries such as Germany, France and Spain – but still the figures suggest the potential for improvement⁴.

Exporting is much more common among UK mid-market companies, but even here the evidence suggests that UK firms have been losing market share to their EU competitors⁵. The UK's persistent trade deficit also emphasises the importance of strengthening export competitiveness in the UK to take advantage of international market opportunities.

The landscape of SME exporting in the UK

We get a clear picture of the landscape of SME exporting in the UK from looking at the annual Small Business Survey (SBS)⁶. Data from the 2012 survey suggests a pattern consistent with the European survey data but provides more detail about the extent and intensity of exporting by UK SMEs (Figure 2).

Figure 2: The landscape of SME exporting in the UK



Source: Small Business Survey 2012

Just under one-quarter of SMEs (with employees) indicated that they were exporters in 2012. Of these exporters around a quarter – 5.1% of all SMEs – are intermittent exporters, dipping in and out of exporting in response to one-off opportunities or customer requests. A larger proportion of exporters - 17.3% of all SMEs - are persistent exporters (defined as continuously selling to overseas market for more than two years). Among the persistent exporters we can identify three sub-groups:

- Non-intensive exporters - SMEs of all ages for which exports account for less than 50% of sales – 11.7% of all SMEs;
- Intensive exporters – mature firms more than 5 years old for which exports account for more than 50% of sales); and,
- ‘Born globals’ a small group of export intensive SMEs no more than 5 years old.

Unsurprisingly, export-intensive and born global firms are few in number, together making up less than 6% of all firms.

How many SMEs can move up the exporting ladder?

If exporting is associated with other positive features such as innovation, growth and productivity, it is interesting to have some idea of how many SMEs might have the potential to move up the exporting ladder - to switch from being non-exporters to being exporters, or from being intermittent to persistent exporters.

Or in other words, to explore whether there are 'markers' for export potential. Of course, we cannot say with certainty that any specific firm with these markers would or should become an exporter – this will depend on the firms' own ambition and circumstances –but we can give an indication of the potential for SMEs to move up the exporting ladder⁷.

Based on a statistical analysis of the 2012 Small Business Survey, ERC identified firms which had the typical characteristics of exporters (in terms of size, innovation, formal business planning, location etc.) but which did not currently export. We describe these as 'potential exporters'. On this basis we estimate that between 9% and 12% of non-exporting SMEs with employees are potential exporters.

One of the key markers distinguishing potential exporters is that they are innovating (but not exporting). Overall, we find that SMEs that innovate are around 7 percentage points more likely to export than a non-innovator, rising to 10 percentage points where the firms are introducing new to the market innovations.

We also performed a similar analysis of persistent and intermittent exporters, and identified a group of 'potential persistent exporters'. Following a similar technique, we also predict the percentage of potential persistent exporters to be between 54% and 59% of intermittent exporters. It proves more difficult to distinguish markers for potential persistent exporters but other ERC research using different data sources suggests that previous international experience and having a clear overseas plan is important.

We must be clear that the identification of these markers is based on the observable characteristics of firms: we don't have information on the attitudes of the owners or directors or detailed knowledge of the specific barriers the firms face, precisely the things that might determine whether an individual firm is able to – or wants to – become an exporter or a persistent exporter.

How does this help?

The UK has a range of support schemes for exporting and internationalisation operated through UKTI. The evidence from earlier research studies also suggests that where SMEs do take advantage of such external support the results are generally positive. Repeated surveys have shown, however, that the awareness of UKTI services among many SMEs is limited, reducing the potential take-up of export support. Effectively targeting export support is also difficult given the large size of the SME population.

ERC research identifies and suggests the scale of two groups of firms – those with export potential and those with persistent export potential – which are support-ready and may benefit most from being offered UKTI support. These two groups could also form a focus for more targeted marketing of export support services to SMEs. Innovation seems a key marker – particularly where this is new to the market; prior international experience also seems a key indicator for persistent exporters. In future ERC research we aim to further develop this profiling approach and also to seek to identify the key markers for intensive exporters.

¹ European Commission (2010) 'Internationalisation of European SMEs', Directorate-General for Enterprise and Industry, Brussels. , http://ec.europa.eu/enterprise/policies/sme/market-access/files/internationalisation_of_european_smes_final_en.pdf.

² BIS (2010) 'Internationalisation of Innovative and High Growth Firms', Economics Paper No 5.

³ BIS (2011) 'International Trade and Investment – the Economic Rational for Government Support', Economics Paper No 13.

⁴ European Commission (2010), op. cit.

⁵ Roper, S. and A. Malshe (2012) 'Leading from the middle: the untold story of British Business', London, GE Capital.

⁶ The Small Business Survey (SBS) is a regular large scale telephone survey commissioned by the Department for Business, Innovation and Skills (BIS) on businesses employing fewer than 250 employees. The 2012 survey covers 5,715 SMEs whose internationalisation activity could be identified.

⁷ For a discussion of the relationship between exporting, innovation and productivity see the recent ERC White paper No. 5 'SME Innovation, Exporting and Growth' (2013).