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POLICY BRIEFING

CHARACTERISTICS OF SME SERVICE EXPORTERS: BUSINESS SUPPORT AND BARRIERS

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Introduction / Summary

The limited evidence base concerning the characteristics of service firms beyond firm size points to a significant knowledge gap regarding the nature of service exporters and the types of assistance most effective in supporting them. Although current studies suggest that export promotion mechanisms can positively affect export intensity, there is a lack of research on whether these effects continue beyond the intervention. Furthermore, there is no clarity on whether support mechanisms, such as export advice and finance help service SMEs exporters to reduce obstacles. Therefore, this research has three main objectives:

1. Understand **who** the exporters of services are by characteristics including gender, ethnicity, location, business size, experience, and ownership type.
2. Determine **how** business support (e.g., business advice and external finance) influences the intention and behaviour of SMEs to expand abroad.
3. Define **what** types of obstacles affect the export intensity of exporters of services and the role of export promotion services in overcoming these barriers to trade.

To tackle these objectives, this study uses the Longitudinal Small Business Survey to examine the characteristics, support experiences, business obstacles and their relationship with export intensity of UK SMEs that export services exclusively. The analysis first develops a detailed profile of service-only exporters, including their size, age, sector, ownership characteristics, export activity, finance use, support engagement and reported obstacles. It then investigates whether business advice, support and external finance are associated with service export intensity using mixed-effects regression models and lagged specifications. The study also explores the obstacles faced by service-only exporters, compares these with those experienced by other exporter groups, and assesses how business advice, finance, and reported obstacles relate to export intensity. Finally, the findings are integrated through an exploratory systems-thinking framework that maps the relationships among service exporting, business support, access to finance, business obstacles, and export intensity, providing a holistic interpretation of the factors shaping the performance of service-exporting SMEs.

Key Findings

- Service-exporting SMEs represent a distinct segment of the UK exporting population, characterised by smaller firm size, concentration in knowledge-intensive sectors, and a strong focus on the EU, USA, and Canada markets. The proportion of exporting SMEs remained relatively stable between 2015 and 2024, but service exporting declined while product exporting increased modestly.
- No significant relationship was found between advice and service export intensity (H1), suggesting that advisory support may strengthen export readiness, capabilities, and international relationships without immediately increasing export intensity.
- External finance was associated with lower service export intensity (H2), likely reflecting firms' liquidity pressures and investment needs rather than a negative effect of finance itself.
- Service-only exporters faced fewer business obstacles than product-only exporters (H3), possibly because they are less dependent on physical production, logistics, and border processes.
- Service exporters receiving advice or using external finance reported greater obstacle exposure (H4 and H5), indicating that firms facing more severe constraints are more likely to seek support. Advice and finance appear to be responses to existing challenges rather than direct causes of improved export performance, and their effectiveness may depend on firms' underlying capabilities and readiness.

- Overall, service-exporting SMEs should not be viewed as smaller versions of goods exporters, as their internationalisation depends heavily on knowledge, relationships, intangible assets, organisational capabilities, and coordinated forms of support.

Key Findings at a Glance

- Finding one: Service-exporting SMEs form a distinct exporter group, being generally smaller, knowledge-intensive firms concentrated in markets such as the EU, US and Canada.
- Finding two: Between 2015 and 2024, overall SME exporting remained stable, but service exporting declined while product exporting increased slightly.
- Finding three: Neither advice nor external finance was linked to higher service export intensity, suggesting these supports may strengthen capabilities rather than immediately increase export revenues.
- Finding four: The findings support tailored, integrated policies that combine financial, advisory, regulatory and digital support to address the specific needs of service-exporting SMEs.
- Finding five: The causal map suggests that finance and advice are most effective when they contribute to firms' capability development, but their benefits may be delayed and may not immediately translate into higher export intensity or fewer reported obstacles.

Key Insight

Service-only exporters reported fewer business obstacles than product-only exporters, yet neither business advice nor external finance was associated with higher service export intensity. Firms using finance or receiving advice reported more obstacles, suggesting that support is often directed towards businesses with greater or more complex needs. The causal map further indicates that advice and finance may operate indirectly by strengthening firms' capabilities to manage obstacles, although delays and reinforcing pressures may prevent these benefits from producing immediate improvements in export performance.

Conclusions and Policy Recommendations

Summary of Key Findings

Overall Conclusion

Service-exporting SMEs should not be treated simply as smaller versions of goods exporters. Their internationalisation depends on a distinctive combination of knowledge, relationships, intangible assets, and organisational capabilities. The findings therefore support coordinated, service-specific assistance that combines appropriate finance, specialised advice, regulatory guidance and capability development, while recognising that firms receiving support may begin with greater needs and constraints than non-recipients.

Policy Recommendations

Policy Recommendation 1: Policymakers should recognise service-exporting SMEs as a distinct and strategically important segment of the UK export base by implementing targeted support measures that reflect their smaller size, concentration in knowledge-intensive sectors, and reliance on international markets for intangible and digitally delivered services. Policy interventions should prioritise building trade capabilities and skills development while also promoting inclusive export growth among women-led and ethnic minority-owned businesses.

Policy Recommendation 2: Export support policies should prioritise long-term capability building rather than short-term export intensity outcomes, recognising that service exporters often rely on knowledge, reputation, and relationship-based assets that develop gradually. Support programmes should focus on strengthening export readiness, market knowledge, regulatory preparedness, international networks, and export persistence, while differentiating between generic business advice and tailored export assistance that responds to firms' changing needs throughout the internationalisation process.

Policy Recommendation 3: Export support should adopt an integrated and needs-based approach that recognises that firms seeking finance and advice are often those facing the greatest constraints. Rather than treating finance and advisory services as standalone interventions, support providers should assess firms' financial, managerial, regulatory, digital, and workforce needs and deliver coordinated packages of assistance tailored to their stage of internationalisation. These packages may include export-specific advice, appropriate financial instruments, professional regulation guidance, digital capability development, market intelligence, and international networking opportunities.

Practical Recommendations

Practical Recommendation 1: Support organisations should help service exporters strengthen cash-flow management and reduce payment-related risks by providing guidance on contract design, client due diligence, payment-risk assessment, and international invoicing practices. Encouraging the use of deposits, staged payments, digital invoicing, and effective dispute-resolution mechanisms can help firms minimise late-payment risks and improve financial resilience.

Practical Recommendation 2: Programme evaluation and monitoring should account for firms' starting conditions and measure improvements in capabilities, export readiness, obstacle management, market entry, and export persistence over time, rather than relying solely on short-term changes in export intensity.

Directions for Future Research

Several avenues for future research emerge from this study:

- Future survey and research would benefit from collecting data on firms' stage of internationalisation. Including this information would enable a more dynamic examination of how access to finance and support evolves throughout the internationalisation process and across different contextual conditions over time. Given the absence of information on firms' internationalisation stages, future studies could explore how support requirements evolve over time and whether particular combinations of finance and advice are more effective at specific stages of export development.
- Future studies could examine the timing and sequencing of support. Further research should investigate when SMEs access finance and advisory services during the internationalisation process. Understanding how support needs vary across initiation, market entry, expansion, and consolidation stages would provide a more nuanced understanding of the effectiveness of different interventions.
- Future research should understand direct measures of export capabilities, digital capabilities, investment capacity, managerial readiness, financial literacy, and international networks to better understand the pathways through which advice and finance influence export outcomes.
- Rather than focusing solely on whether firms receive support, future studies should examine the type, intensity, duration, frequency, and quality of advisory and financial assistance. This would help identify which forms of support generate the greatest benefits for service exporters.
- The exploratory causal map should be treated as a set of testable hypotheses. Future research could use longitudinal data, structural equation modelling, system dynamics modelling, or panel-based causal methods to validate the proposed feedback loops and examine how finance, advice, capabilities, and obstacles interact over time.

Overall, future research should move beyond examining whether support works and focus on how, when, for whom, and under what conditions finance and advice contribute to the internationalisation and long-term success of service-exporting SMEs.

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