



DESTINATION EXPORT

THE SMALL BUSINESS EXPORT LANDSCAPE

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Experts in Business

ACKNOWLEDGMENTS

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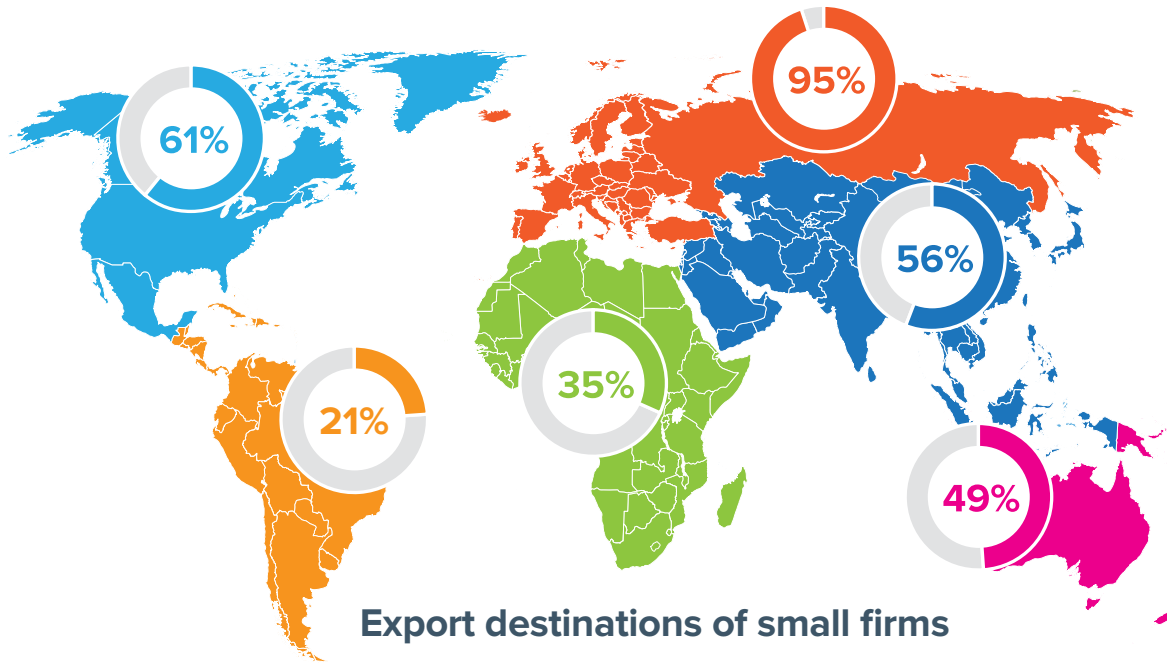
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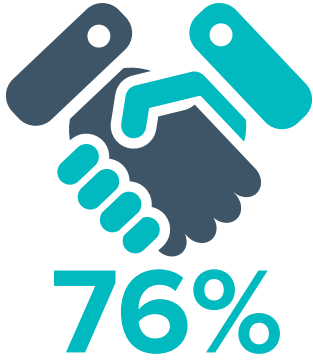
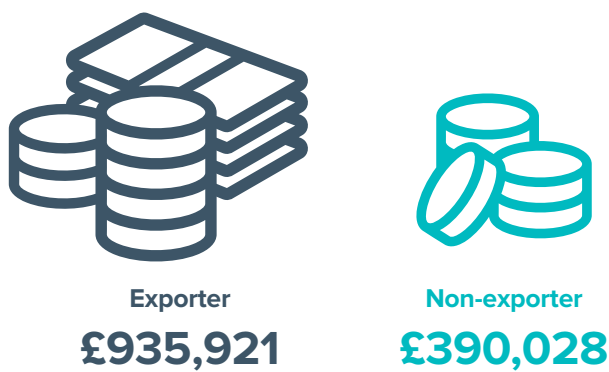
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DESTINATION EXPORT



Average annual turnover

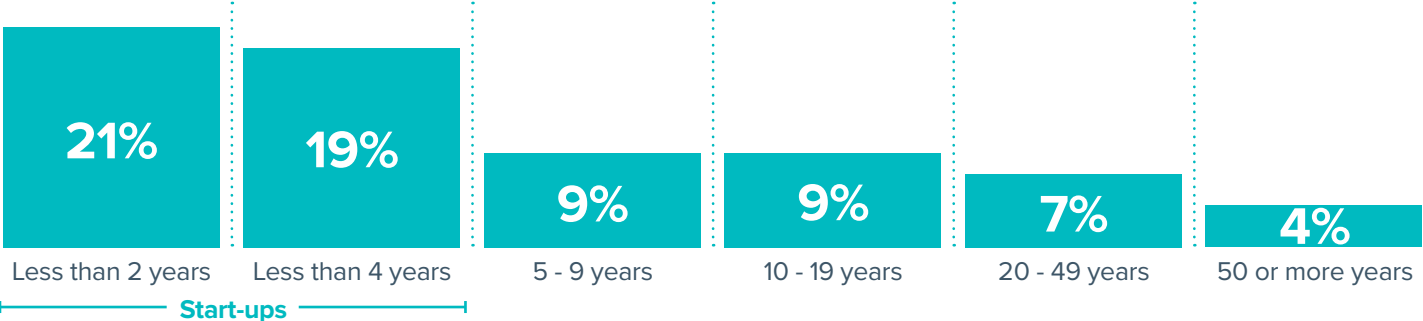


of export destination decisions are driven by a direct approach from local markets

Top export emerging markets*



Age of small firms most likely to consider exporting



CONTENTS

Foreword by Martin McTague, FSB Policy Director 5

Executive summary. 6

Export status: The Exporters, the Considerers and the Lapsers. 10

Why export?. 15

Export destinations. 18

Group profiles 28

Challenges 39

Support accessed 42

Recommendations 45

Methodology 51

FOREWORD



Martin McTague
FSB Policy Director

FSB – and many of our members – believe that exporting is good for small businesses to survive, grow and innovate. The importance of supporting more small firms to export cannot be underestimated, especially as they make up over 99 per cent of the UK business population.

Our report shows that one in five FSB members export and 16 per cent are part of exporters' supply chains. Additionally, we know from our Small Business Index that, if we include imports, this figure increases to one in three of our members that either export or import. Taken together, this clearly demonstrates the significant contribution that small businesses make to the UK's role in the global economy. However, there is huge potential for small businesses to contribute more.

Our export figures have remained static for many years now, reflecting the wider challenge of growing the UK's exports market, in terms of both volume and value. As the largest trade body representing small businesses in the UK, FSB has a pivotal role to play to help move the dial on exports.

FSB are proud to be a partner on the Government's Exporting is Great campaign. We have worked closely with UK Trade & Investment (UKTI) and other government departments to develop and provide effective support for small firms. This report gives an insight into the realities of the export landscape as experienced by a variety of small businesses. Critically, we feel it is paramount to seek the views not only of exporters, but also of the small companies that are open to the idea of exporting but, for whatever reason, aren't doing so. One of the most promising findings from this report is that the proportion of small businesses currently exporting is matched by those that would consider exporting.

This means we have the potential to double the number of small business exporters. However, getting there will not be easy. Small businesses are limited by the lack of capacity, resources and time required to invest in exporting. For many, the barriers are related to mindset and confidence – too many assume from the outset that exporting is not for them because they are a small business. Many of those interested express a lack of confidence in fully grasping the opportunities of trading overseas. More needs to be done to support smaller firms who want to export.

Our report brings home the reality that small businesses looking to export now, and in the future, will increasingly to do so in a digital age. Compared with current exporters, they are also more attracted to less familiar destinations, especially emerging markets in Asia and the Middle East. There are huge opportunities for small businesses in the global market, and it is our responsibility – shared with the Government and wider industry – to make sure that UK small businesses are ready to compete and take advantage of these.

Lastly, this report could not have been published at a more uncertain time in UK trade history. The result of the EU Referendum, which calls for the UK to leave the EU, has opened the door to potentially seismic changes to the exports landscape. The priority must be to maintain a stable and secure trading environment for small businesses. This includes ensuring that existing and potential export opportunities are safeguarded and continue to be strengthened.

At the top of our list of priorities, FSB is calling for the Government to maintain access to the European Single Market. Nine in 10 of our export members trade with EU countries and a significant proportion of small firms export to these destinations because they are in the EU. It is vital that decisions on the future of UK trade respect this, and FSB looks forward to working as a constructive partner in the new relationship with the EU.

This report is part of FSB's continuing contribution to supporting small business exports and the wider trade debate. We look forward to engaging meaningfully with this important agenda.

EXECUTIVE SUMMARY

Introduction

Small firms that export are more likely to survive, grow and innovate – contributing to the UK's productivity and position as a global trading power. As a result, exports form a major part of the Government's drive to boost the national economy, setting high aspirations to double the value of exports to £1 trillion a year by 2020 and getting 100,000 more companies to export by the same year.

However, the proportion of small firms exporting has not grown in a long time, remaining static with around one in five businesses selling overseas. This challenge has been recognised by Government, which in the 2015 Spending Review announced radical efforts to refocus UKTI and make exports a cross-departmental priority, in order to move the dial on UK exports.

Effective support requires a thorough understanding of the small business export landscape. To date, much of the body of research on small business exports has focused on those that are currently exporting. This is valuable for identifying the conditions and characteristics that lead some small firms to export, in order to develop support that enables others also to succeed. Understanding the challenges faced by exporting small firms also means that these can be better addressed.

However, it is not sufficient to focus only on current exporters. However; the business landscape has changed rapidly over the last few years against a backdrop of shifting geopolitical realities and global economic change. Small firms that would consider exporting nowadays, and in the future, reflect these evolving realities and require a different approach.

This is why the findings in this report are presented within a framework of four respondent groups, each with its own distinct profile, based on export status. The research data are examined primarily through the lens of small firms that currently export (Exporters) and those that do not export but would consider doing so. The latter category is further split into two groups: those who have exported in the past (Lapsers) and those who have never exported before (Considerers). Small firms that would not consider exporting (Non-considerers) are also included in the analysis.

The research for this report included qualitative and quantitative methods, (more detail in the methodology section). This mixed-methods approach allows the report to cover a wide breadth of issues while also delving into the more intangible aspects of exporting.

Key findings

This report highlights that small firms are exporting primarily to gain access to more customers, grow and boost their reputation and profile. And there are as many small businesses that would consider exporting as there are currently doing it. This is hugely promising.

While well-established export markets – including European and North American ones – remain as dominant as ever, less familiar destinations in emerging markets are continuing to make headway, especially with potential first-time exporters. It is clear that technology is playing a central role in facilitating access to a more diverse set of markets, as well as in the types of product being exported, with more small companies looking at exporting services and digital products.

Finding customers remains the most common challenge facing small firms that export, and those that would consider exporting. The key challenges reflect the complexity of the factors that have an impact on small businesses, ranging from practical aspects such as logistics and foreign exchange to more intangible issues to do with mindset and confidence.

This report shows that the majority of small businesses export on a reactive basis – a reality that requires careful consideration by support providers, who need to appreciate that there is no formula behind successful small business exporters. The focus must instead be on developing an enabling ecosystem of support. While it may not be possible to systematically engineer successful exporters, it is possible to provide an environment that gives potential exporters the best chance to prosper and succeed.

RECOMMENDATIONS

These recommendations are focused on improving the provision of export support for small businesses. The recommendations are broadly categorised by different aspects of support: the overarching approach to be taken; the messaging and communication that should be promoted; suggestions for how support could be delivered; particular areas or groups of small businesses that should be targeted; and what should be prioritised as the UK negotiates new trade relationships with the EU.

The recommendations are applicable to all providers of export support – the Government, the private sector, the finance industry, and business associations. Where it is felt that certain recommendations are better suited to be acted on by particular stakeholders, this will be made clear.

OVERARCHING APPROACH

Government to aim small for maximum impact

Size really matters when it comes to exporting: “I’m a small business” or “I’m too small” are common sentiments underpinning many small firms’ reluctance to consider exporting. Many small businesses are deterred by reasons ranging from false assumptions about what it means to export to more tangible challenges such as lack of resources. Export support must address these barriers or countless small businesses will fall at the first hurdle by thinking that exporting is not suitable for them.

Profile approach to export support

This report tracks the characteristics and views of three distinct groups of small businesses, based on their export status: Exporters, Considerers and Lapsers. While there are many commonalities between these three groups, each one also presents its own broad profile with a set of unique challenges and characteristics. The profiles of each group warrant individual strategies designed to support their export needs and mitigate any specific risks.

COMMUNICATION AND MESSAGING

LEPs, Growth Hubs and business support bodies to provide back-to-basics myth busting on what exporting means

For a variety of reasons, it is clear that small businesses disproportionately feel that exporting is not for them. As this report highlights, many of these reasons are myths. Worryingly, these misconceptions concern the very fundamentals of what it means to export. Export support needs to address this knowledge gap in its messaging and communication to small businesses. Business support bodies such as LEPs, Growth Hubs and those serving the devolved nations have an important role to play in informing small companies about exporting. The fundamentals of exporting also need to be embedded in wider enterprise education in order to close this knowledge gap.

Promote the softer benefits of exporting – reputation and broader horizons

The benefits of exporting are usually promoted along explicitly financial lines – how exporting will directly affect a business’s bottom line. Less commonly discussed are the softer, more intangible benefits of exporting – improved reputation, profile and shared learning. Half of all Exporters already experience these benefits. Messaging on exports should promote these more intangible benefits, showing small firms a more human side of exporting. While, in the long run, these benefits should also contribute towards a stronger bottom line, they showcase a lesser-known dimension of exporting, which many small businesses, and especially their owners, are likely to find appealing.

DELIVERY

Business associations to create a virtuous circle of peer-to-peer learning and support

One in 10 small firms, whether currently exporting or exploring the idea, have sought support informally from other businesses. Business associations and groups such as FSB are ideally placed to facilitate opportunities for informal support through networking and peer-to-peer learning. Importantly, the long-term focus of this type of support should be to create a virtuous circle of peer-to-peer learning, in which small businesses that seek support and end up exporting are then recruited to help other small firms to export.

Digital Economy Minister and Department for International Trade to grow e-exporting within an improved digital environment

Almost half of all Exporters sell their products overseas via e-commerce, and small firms considering exporting now are more likely to sell digital products. Thus there needs to be increased efforts to promote e-exporting – the opportunities presented by selling online and the support necessary for understanding how this can be done. To be truly effective, this must be accompanied by, or dovetail with, wider support to improve digital awareness, skills and infrastructure for small businesses.

Department for International Trade to build an online marketing platform for exporters

The majority of small firms, at least at the beginning of their export journey, export on a reactive basis – they sell to where the direct market demand is. Export support should work with the grain and look at ways of maximising the chances of Exporters getting approached by customers overseas. Building on existing initiatives that facilitate the brokering of export deals – UKTI's Exporting is Great website allows businesses to search for trade opportunities from local markets – the creation of a platform that small businesses can use to market their products to overseas customers would be very welcome. This should also allow overseas customers to search for UK suppliers.

AREAS AND GROUPS TO TARGET

Department for International Trade to shine a spotlight on services

The UK is a strongly service-led economy. However, this is not reflected by the UK's small business exports, where the majority tend to be goods rather than services. In order to fully exploit the strengths of the UK economy, we need to develop a much better understanding of why more services are not currently being exported. This should include looking at ways to untangle any complexities around the export of services in order to make it easier. It should also try to clarify confusion over whether certain services can be exported and provide examples of how this could be done.

Department for International Trade and business associations to encourage small firms to explore emerging markets

Considerers and Lapsers have shown that small businesses are increasingly attracted to emerging markets. Small firms exporting to these markets are more likely to use intermediaries such as distributors and agents, and tend to be more reliant on exports as a core part of their business model. Export support needs to reflect this trend. In particular, for less familiar and well-established export destinations, small firms will require access to market knowledge and practical information on logistics, delivery and translation services.

Finance providers and Department for International Trade to prevent current exporters from falling off the export wagon

The significant proportion of Lapsers demonstrates the vast majority of small firms that have exported in the past found it to be a positive enough experience to consider exporting again. Despite this, it reveals the risk that many Exporters are likely to stop selling overseas for a variety of reasons. Support for Exporters therefore needs to address the issue of sustainability within exporting.

Focus export support on start-ups and first-time exporters

As well as being potential first-time exporters, over one third of Considerers are start-ups. Small firms within this group are the most likely to take the road less travelled when it comes to exports. However, these small firms are also the most likely to face challenges to do with knowing where to go for support and which export markets they should be targeting. Start-ups and potential first-time exporters will benefit the most from obtaining export support and are likely to show the highest rate of conversion to becoming exporters. The focus on start-ups is also particularly important as a means of embedding exporting as early as possible in the psyche of entrepreneurs and first-time business owners.

GLOBAL TRADE ENVIRONMENT

Government to secure access to the Single Market

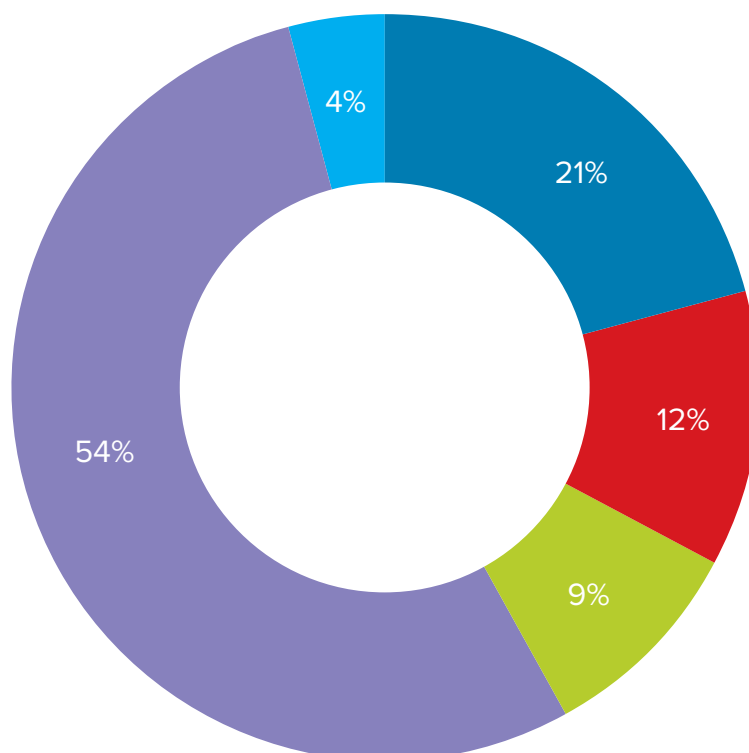
The significance of the European Single Market to small business exports is strongly highlighted in this report. This is of paramount importance in the wake of the recent EU Referendum result, where uncertainty about the future of the UK's trading relationship with the EU abounds. As a priority, the Government must ensure that small businesses have simple access to the Single Market. The Government needs to work with FSB, the voice of small businesses in the UK, to ensure that small firms have a place at the negotiating table on the UK's future relationship with the EU.

EXPORT STATUS: THE EXPORTERS, THE CONSIDERERS AND THE LAPSERS

Figure one: Respondent groups/profiles based on export status

Source: FSB Exports Survey 2016

- **Exporters**
Small businesses that currently export
- **Lapsers**
Small businesses that have exported in the past and would consider exporting again
- **Considerers**
Small businesses that have never exported before but would consider exporting
- **Non-considerers**
Small businesses that would not consider exporting
- **Other/don't know**



EXPORTERS

Just over one fifth (21%) of total respondents described their business as currently exporting. This level of exporting is largely consistent with FSB's 2010 and 2012 export surveys, both of a similar scale, which reported 21 per cent¹ and 23 per cent² respectively.

Broken down into small businesses with employees and those without, the exporting figures are 24 per cent and 16 per cent respectively. Using Government figures as a broad comparison, the survey figures are slightly higher than the average for UK small businesses. Recent government figures from the Small Business Survey 2015 revealed that 19 per cent of small businesses with employees, and 10 per cent³ of those with no employees, had exported goods or services in the last 12 months (from when the survey was conducted).⁴

¹ FSB report, Enabling small businesses in the drive for more UK export, June 2013.

² FSB report, Made in the UK: Small businesses and an export-led recovery, December 2010.

³ This figure is explained in the Small Business Survey 2015 report as an average between the proportion of registered zero-employee businesses that export, 20 per cent, and the proportion of unregistered businesses that export, 7 per cent.

⁴ Department for Business, Innovation and Skills (BIS), Longitudinal Small Business Survey Year 1 (2015): SME employers, May 2016, and Longitudinal Small Business Survey Year 1 (2015): Businesses with no Employees, May 2016. Both reports available at: <https://www.gov.uk/government/publications/small-business-survey-2015-businesses-with-no-employees>.

CONSIDERERS AND LAPSERS

While 21 per cent of small businesses currently export, the same percentage of respondents would consider doing so. This is a considerable proportion of small businesses that have the potential to become exporters in the future. In this report, the 21 per cent of small firms that would consider exporting is further broken down into two respondent groups:

- 1. Lapsers** – more than half (12%) of the 21 per cent are small businesses that have exported in the past and would consider exporting again. As previous experience is likely to have an impact on how these businesses think about exporting again, it is important to separate this group out from the Considerers (below).
- 2. Considerers** – the remaining nine per cent are small businesses that have never exported before but would consider doing so. A quarter of small businesses in this group are actively starting to explore the feasibility of exporting, and so are even more likely to be potential first-time exporters in the future.

HIDDEN POTENTIAL

As part of the survey, all Non-considerers were given the opportunity to explain why they would not consider exporting. An analysis of these responses provides insight into the mindset of those small businesses and why they choose not to export (discussed further in the report). Interestingly, many small businesses highlight particular areas of misunderstanding and confusion regarding exporting. This means that there are potentially more small businesses that could or would consider exporting if these areas of confusion were clarified or corrected.

It is important to bear in mind that what is regarded as relevant or feasible will vary from business to business, and this analysis is limited by the level of detail provided in the responses. However, the frequency of presentation of the same or similar issues, by even a small proportion of the wider respondents, indicates underlying levels of misunderstanding and confusion over certain areas in exporting.

Which products count as exports?

There is a common misunderstanding about what constitutes exporting. Many small businesses believe that exporting must involve a physical product and, therefore, intangible products such as services cannot be exported or count as an export product.

“Telecoms is delivered as a service, not a tangible product”
 “We’re graphic designers, so it’s a service”
 “My business is not about selling a product, but selling a service”
 “I am a consultant. I sell know-how”
FSB members, Non-considerers

In addition, some small firms also seem to believe that these products must be made or manufactured by their business, in order to be considered as exports.

“We do not produce or manufacture goods”
FSB member, Non-considerer

This is also reflected by many small firms’ responses which suggest they do not equate working in retail with the feasibility or relevance of exporting.

Does volume or method matter?

This research suggests that certain respondents do not identify themselves as exporters because they only sell small volumes of products abroad.

“I sell to individuals online in other countries via our Etsy shops. We don’t sell in bulk”

FSB member, Non-considerer

The above response also suggests that not all methods of selling may be perceived equally as exporting. More traditional methods of selling, such as shipping products overseas, tend to be seen as proper exporting rather than certain online methods, such as via platforms like Etsy. Other respondents share this view – they are already selling abroad but do not feel like exporters because they are not physically sending anything overseas.

Other small firms that sell to customers abroad may not see themselves as exporting because their overseas trade is not the primary focus or mainstay of the business.

“I sell sheet music. While I do have occasional sales outside the UK, these are primarily of UK publications which can be hard to get outside this country. Much of what I sell is published/distributed outside the UK so is easily available to customers outside the UK. The UK is therefore my primary focus”

FSB member, Non-considerer

The perception that exports need to form a large or core part of a business in order for its owner to identify as an exporter may also explain why some respondents cite the size of their business – “I am too small” – as the reason why they cannot or will not consider exporting.

Without further probing, it cannot be known whether obtaining clarity in these areas would provide any incentive for Non-considerers to consider exporting – they may still not be able, or want, to export. However, 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.

“I never thought I could ‘export’ my knowledge... then, after I’d been advising a German transport company, I thought, hold on, I am exporting my expertise abroad”

FSB member, Considerer

NON-CONSIDERERS

Just over half of all respondents (54%) are Non-considerers – small businesses that would not consider exporting. Almost nine out of 10 of these small businesses (48% of total respondents) believe that exporting is not feasible or relevant for their business. 11 per cent (6% of total respondents) state that they have never exported and simply would not consider exporting. Only less than one per cent (less than half a per cent of total respondents) have previously exported but would not consider it again – a real contrast to the 12 per cent who would consider exporting again.

The responses of the 54 per cent of Non-considerers provide insights into why just over half of small businesses do not currently export and would not consider exporting. While the reasons provided vary widely, some common themes do emerge.

A large proportion of these responses centre on the lack of feasibility or relevance of exporting for a small business. Many small businesses operate in certain sectors, or provide products and services, that do not lend themselves easily to exporting, for example, perishable items, or services that have to be provided in situ, such as gardening, hairdressing or childcare. Many respondents also mention the bespoke nature of their services – such as working in tailoring and construction – as a reason for not considering exporting.

Another significant proportion of respondents refer to a connection with their local area or community; their business model is built around serving local customers and, therefore, they do not see a need to export.

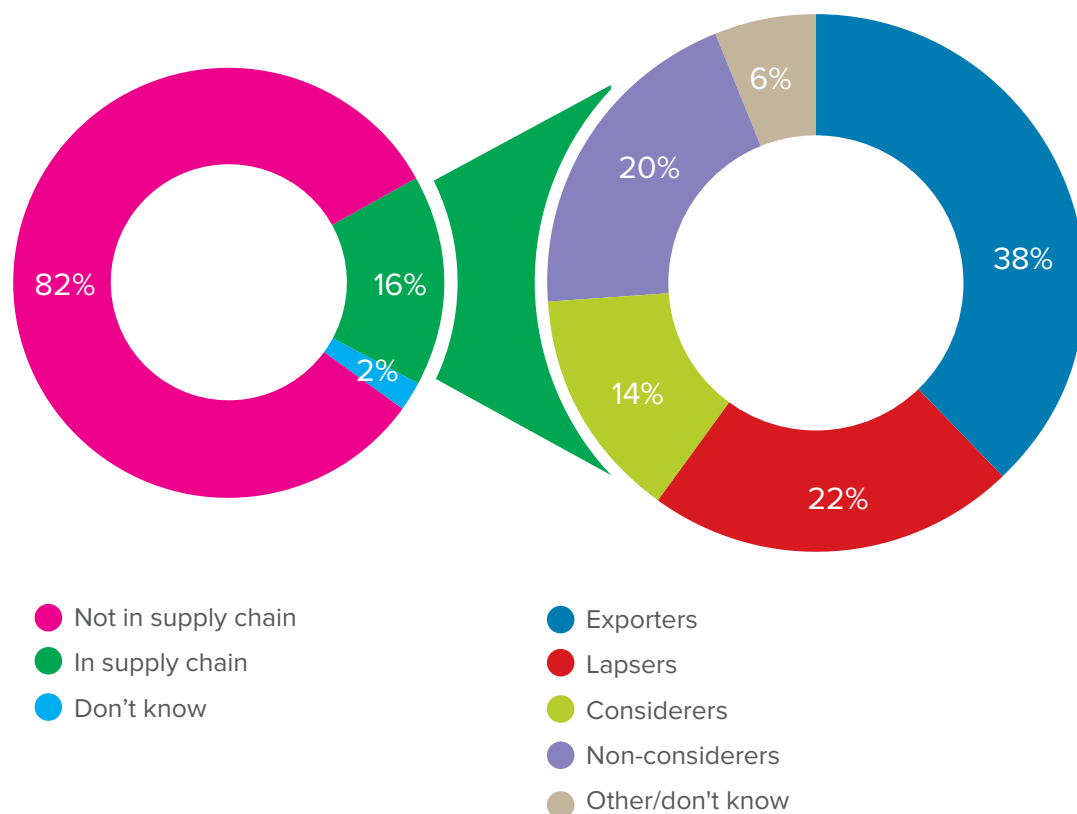
The size of the business – being small – is another commonly cited reason. Although, in most cases, it is not clear whether this implies being small as a choice, and therefore the business is not interested in exporting, or being small as to be prohibitive to exporting. It is likely that for many of these small firms limited capacity, compounded by expectations around how resource intensive exporting will be, plays an important role (discussed further in the report).

Lastly, it is clear that, for a large number of small businesses, exporting is just not something they are interested in or have thought much about.

SMALL FIRMS IN EXPORTING SUPPLY CHAINS

Figure two: Small businesses in the supply chain of exporters

Source: FSB Exports Survey 2016



Small businesses' contribution to the UK's export market is not just limited to those that sell products overseas. Of the total respondents, 16 per cent reported that their business forms part of a firm's supply chain, of which the end product is exported. This reflects the Government's estimate that 15 per cent of UK small businesses are in the supply chain of other businesses that export.⁵

As figure two illustrates, of the small businesses that are in supply chains, only 38 per cent are Exporters, while the remaining 62 per cent are small businesses that do not export. It is noteworthy that one fifth (20%) are Non-considerers, reflecting the increasingly interconnected nature of small businesses on the global stage, regardless of whether they export.

⁵ BIS, Estimate of the proportion of UK SMEs in the supply chain of exporters: methodology note, May 2016. Available at: <https://www.gov.uk/government/publications/small-and-medium-enterprises-in-the-supply-chains-of-exporters>.

WHY EXPORT?

BENEFITS OF EXPORTING

Figure three: Benefits of exporting by respondent groups – Exporters, Lapsers and Considerers
Source: FSB Exports Survey 2016

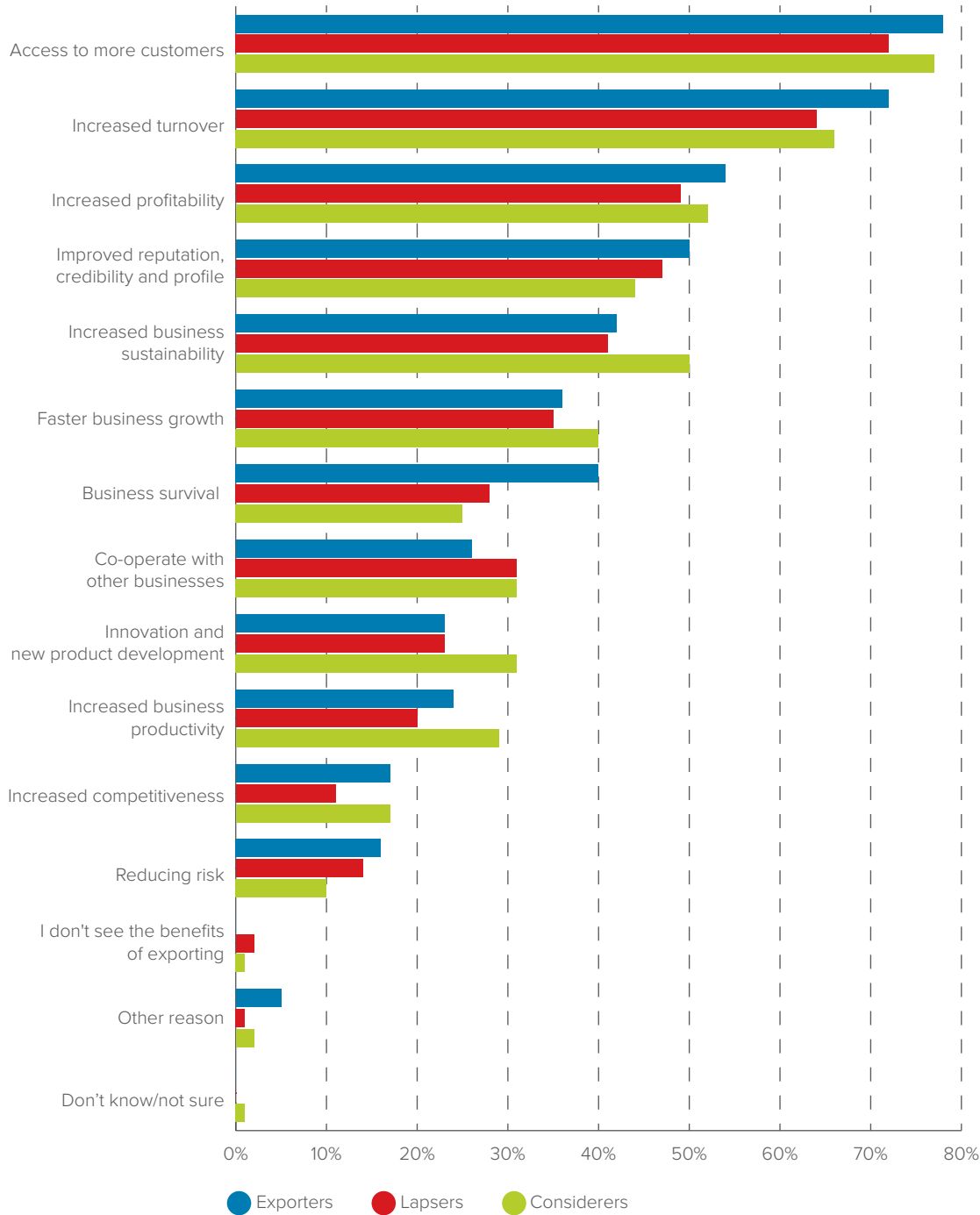


Figure three shows a clear hierarchy of the benefits that the respondent groups – Exporters, Lapsers and Considerers – believe are offered to their business by exporting. They are listed in order from the overall most commonly cited benefit – the highest total of percentages of all three groups – down to the overall least commonly cited benefit.

There is considerable consistency across the three groups regarding how the benefits are ranked. Access to more customers is the most common benefit for each group – over two thirds for both Exporters (78%) and Considerers (77%) and just under two thirds for Lapsers (72%).

Overall, increased turnover and increased profitability both rank very high in figure three, as the second and third most common benefits of exporting. Benefits linked to high growth also come out very strongly in the interviews, (see methodology for more information), as many small businesses feel that selling overseas accelerates the growth process – which businesses seek at some point in the future is brought forward by exporting.

“Exporting gives you the opportunity to grow much more quickly and be much bigger in terms of turnover. It’s as simple as that”

FSB member, Exporter

Less tangible, but highly valued, are benefits to do with improved reputation, credibility and profile, which follow benefits associated with growth; half of all Exporters benefit in this way from selling overseas.

“Exporting can expose you to what’s going on in the broader world; if you just sit in the UK doing your thing you will get caught out”

FSB member, Exporter

Nevertheless, there are some telling differences between the groups. Exporting to survive was the only benefit that was significantly more likely to be selected by one group over the other two; Exporters (40%) were more likely to see this as a benefit than both Considerers (25%) and Lapsers (28%). For a considerable proportion of businesses, exporting was likely to have been a necessity in order to survive, arguably a reality appreciated only by those who have actually experienced it.

There are also two notable differences between Considerers and both Exporters and Lapsers. Considerers were significantly more likely to see opportunities for innovation and new product development (31%) and increased business sustainability (50%) than both Exporters and Lapsers, with a difference of at least eight percentage points for both types of benefit. This may indicate some differences in the expectations and priorities of those with no exporting experience.

These differences may simply be due to Considerers having more optimistic and heightened expectations for the changes that exporting can bring to their business. Both business sustainability and opportunities for innovation and new product development speak of future-proofing the business and obtaining benefit through change.

While the drivers of all these differences may not be completely clear, they are important to note and explore further in order to direct export support effectively towards these groups of businesses.

TYPES OF EXPORTER

Figure four: Spectrum of types of Exporter

Source: FSB Exports Interviews, 2016

Strategic	Opportunistic	Reactive
Exporting always part of the business strategy – seen as a necessity for growth and stability.	Exporting suggested via a relationship with existing customer, staff or a partner already operating abroad.	Directly approached by foreign customers, usually via a B2C website (business-to-consumer).
Investment of time and money is a priority to build export capability.	Investment likely to be limited to single export opportunity.	Choose approach with minimal risk or set-up costs involved.
Destinations likely to be pre-planned.	Destinations likely to be led by circumstance/opportunity.	All destinations welcome!

As part of the research for this report, 30 in-depth interviews with small businesses were also conducted. The mix of small firms interviewed consisted of respondents from the three primary respondent groups: 20 Exporters, five Considerers and five Lapsers. The interviews clearly reveal that there is no typical export journey – an assumption that FSB has long held on the basis of anecdotal evidence obtained from its members. The journeys small businesses describe vary widely. One finding that emerges in the majority of the interviews is that for every planned export activity, there is also one that happened by chance.

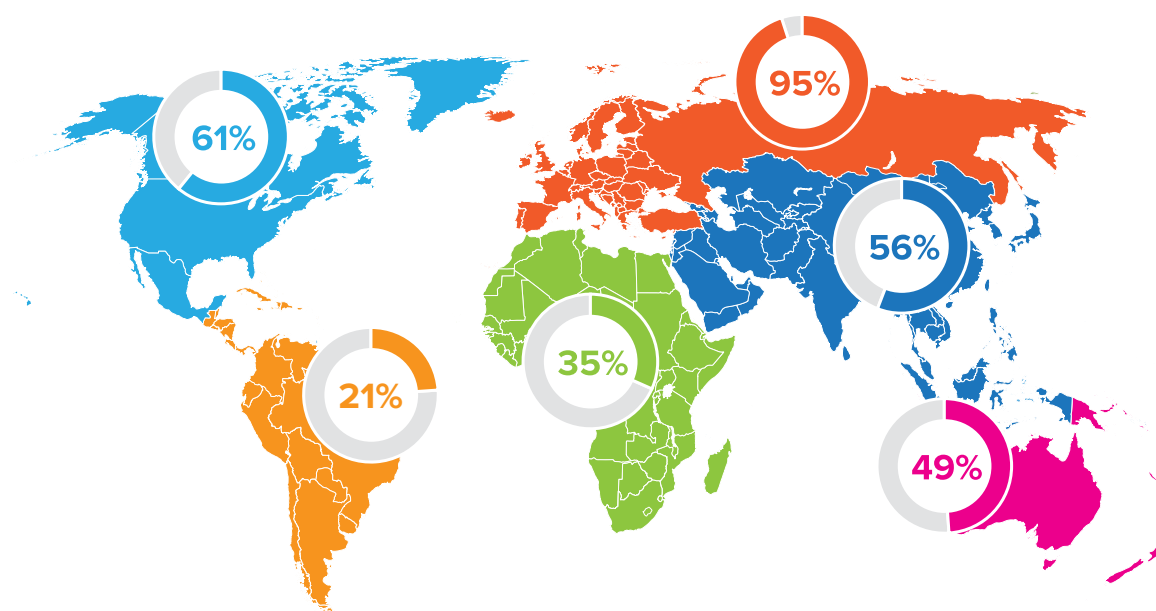
From the interviews, it is possible to map out a broad spectrum that the majority of exporting small firms are likely to sit along. Figure four highlights three overarching types of exporter, presenting a profile based on: motivation for how exporting started; approach and behaviour; and, as a consequence, likely export destinations. While these profiles are far from exhaustive, they form a basic framework within which the variety of exporters can be better appreciated.

Over three quarters of decisions (76%) made by Exporters on where to export to resulted, at least in part, from a direct approach from someone (local customer, agent, importer, etc.) in that market (see figure nine). This suggests that being reactive, at least at the start of the export journey, is likely to be the primary approach of the majority of small business exporters.

EXPORT DESTINATIONS

Figure five: Global export destinations of small firms

Source: FSB Exports Survey 2016



EXPORTERS

The largest export market for small businesses in the UK is the European Economic Area (EEA),⁶ with 93 per cent of Exporters exporting there. This finding shows an increase in small businesses exporting to the EEA from previous FSB export surveys, which reported 87 per cent in 2010⁷ and 88 per cent in 2012⁸.

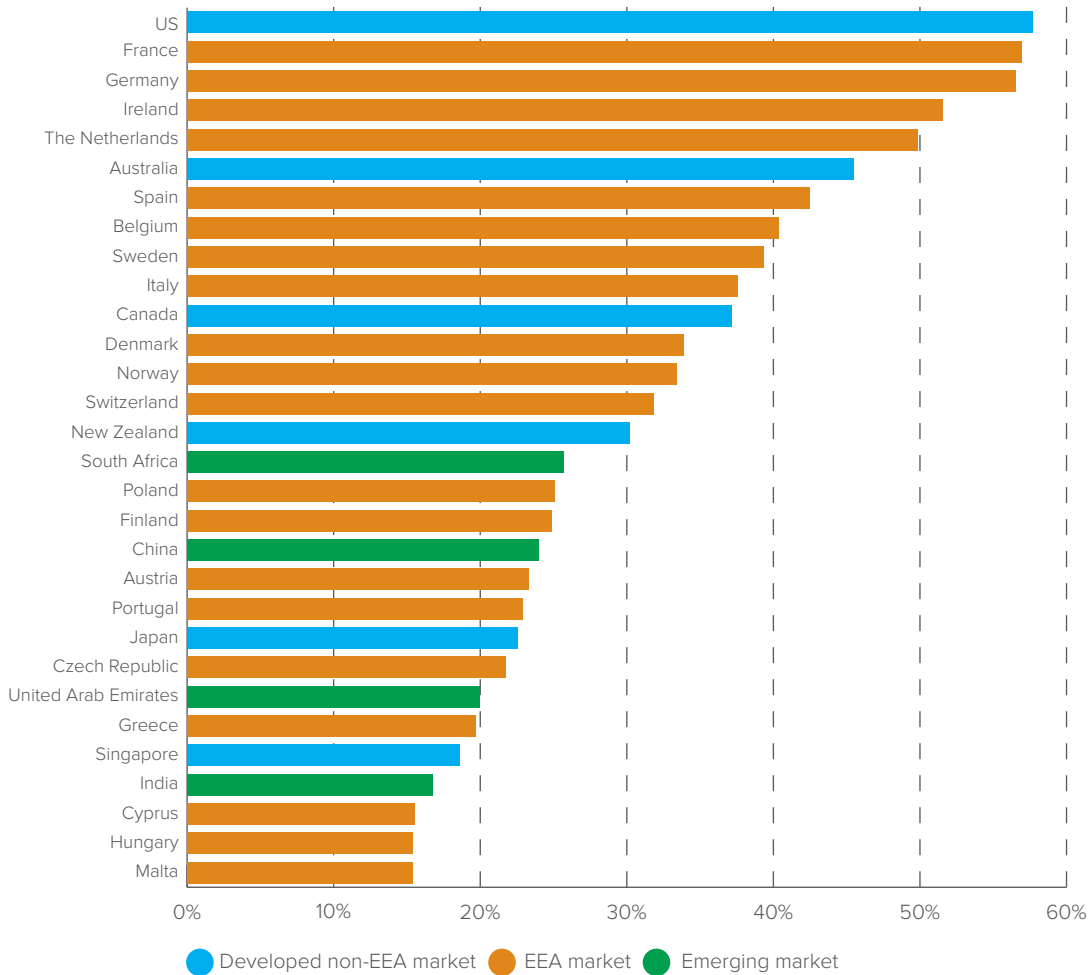
Broken down by region, after Europe (95%), North America is the second region most commonly exported to, with 61 per cent of respondents selling their products there. This is closely followed by Asia (56%) and Australasia (49%).

⁶ The European Economic Area (EEA) unites the EU member states and the three EEA EFTA states (Iceland, Liechtenstein and Norway) into an internal market governed by the same basic rules.

⁷ FSB report, Made in the UK: Small businesses and an export-led recovery, December 2010.

⁸ FSB report, Enabling small businesses in the drive for more UK export, June 2013.

Figure six: Exporter destinations
Source: FSB Exports Survey 2016



As regards countries, figure six shows that the US tops the chart as the most common export destination, with 58 per cent exporting there. This is swiftly followed by France (57%), Germany (57%) and Ireland (52%) – the only exporting destination with which the UK has a land border. These are the only four countries exported to by over half of the Exporters.

The dominance of Europe as an export destination indicates that proximity to other countries plays a considerable role in where small businesses export to. In addition, there is a trend for more exports to developed and relatively stronger market economies, as is illustrated by the top EEA countries.

Countries within the EEA and European Union (EU) dominate the list of the top 30 export destinations, occupying 20⁹ of the spots. The UK being a member of the EU plays a role in driving UK exports to EU and EEA markets (This may change due to the outcome of the June 2016 Referendum, which resulted in a majority vote for the UK to leave the EU). In fact, one in five decisions to export to a country in the EU is, at least in part, driven by whether the country is in the EU. It appears that efforts to make trading between EU countries easier through the European Single Market¹⁰ have a real impact on which countries small businesses choose to trade with.

It is important to recognise the impact that being part of a trade bloc – as demonstrated by the EU – has on UK exports. The reassurance of standardised trading rules and practices and the stability provided by the Single Market have a real influence on where small businesses decide to export. This is supported by the findings from the export interviews, which revealed there is a perception that the EU is easier to export to.

“The great thing with the EU is that, once your product complies with the rules in your home country, it’s the same in every other EU country”

FSB member, Considerer

Importantly, this means that future decisions on the UK’s trade relationship with the EU must respect the impact the Single Market has on small business exports.

Six countries, developed markets¹¹ which are not members of the EEA or the EU, appear in the top 30 export destinations. Aside from being leading global economies, perhaps not surprisingly, the top four – the US, Australia, Canada and New Zealand – are all countries where English is the predominantly spoken language. A compounding factor may also be that all four countries are part of the Anglosphere – English-speaking nations with a similar cultural heritage. Sharing a language and a more familiar culture – both factors that contribute to the ease of doing business and trade – probably go some way to explain why Japan and Singapore are further down the graph, (discussed further in the report).

It is clear, however, that the key factors that direct exports to destinations in Europe and other non-EU developed markets are not the only factors at play. There are four countries in figure six that do not belong to either camp – South Africa, China, the United Arab Emirates and India. As regards economic development, these countries are commonly referred to as emerging markets. While there is no single definition of this term, the prevailing view is that these countries are more likely to present higher and more rapid growth opportunities. However, there are also higher risks associated with these markets, which often means higher levels of investment are required to trade and conduct business with them.¹²

On a regional basis, small businesses exporting to emerging markets are likely to be more reliant on exporting than those exporting to markets in Europe, North America and Australasia.

While the average exporter earns 35 per cent of their turnover from exporting, small firms selling products to Central and South America, South Asia, South East Asia, Africa and the Middle East all have averages of more than 40 per cent. Those exporting to Central and South America have the highest average, 50 per cent, followed closely by firms exporting to South Asia (49%) and South East Asia (46%). Representing emerging markets with high growth potential, the average small firm exporting to MINT (Mexico, Indonesia, Nigeria and Turkey) or BRIC (Brazil, Russia, India and China) countries¹³ also earn more than 40 per cent of their turnover from exporting. Small firms exporting to Europe, North America and Australasia all have averages of under 40 per cent.

⁹ Switzerland is neither an EU nor an EEA member but is part of the Single Market through trade agreements with the EU.

¹⁰ Small businesses have benefited from the single market as a tariff-free area where they can trade freely.

¹¹ While there is no fixed definition, a developed market typically refers to a country that is relatively highly developed in terms of its economy, capital markets and economic security.

¹² Financial Times, Definition of emerging markets, accessed 1 July 2016. Available at: <http://lexicon.ft.com/Term?term=emerging-markets>. Emerging markets are based on MSCI Emerging Markets Index, accessed on 5 June 2016. Available at: <https://www.msci.com/market-classification>

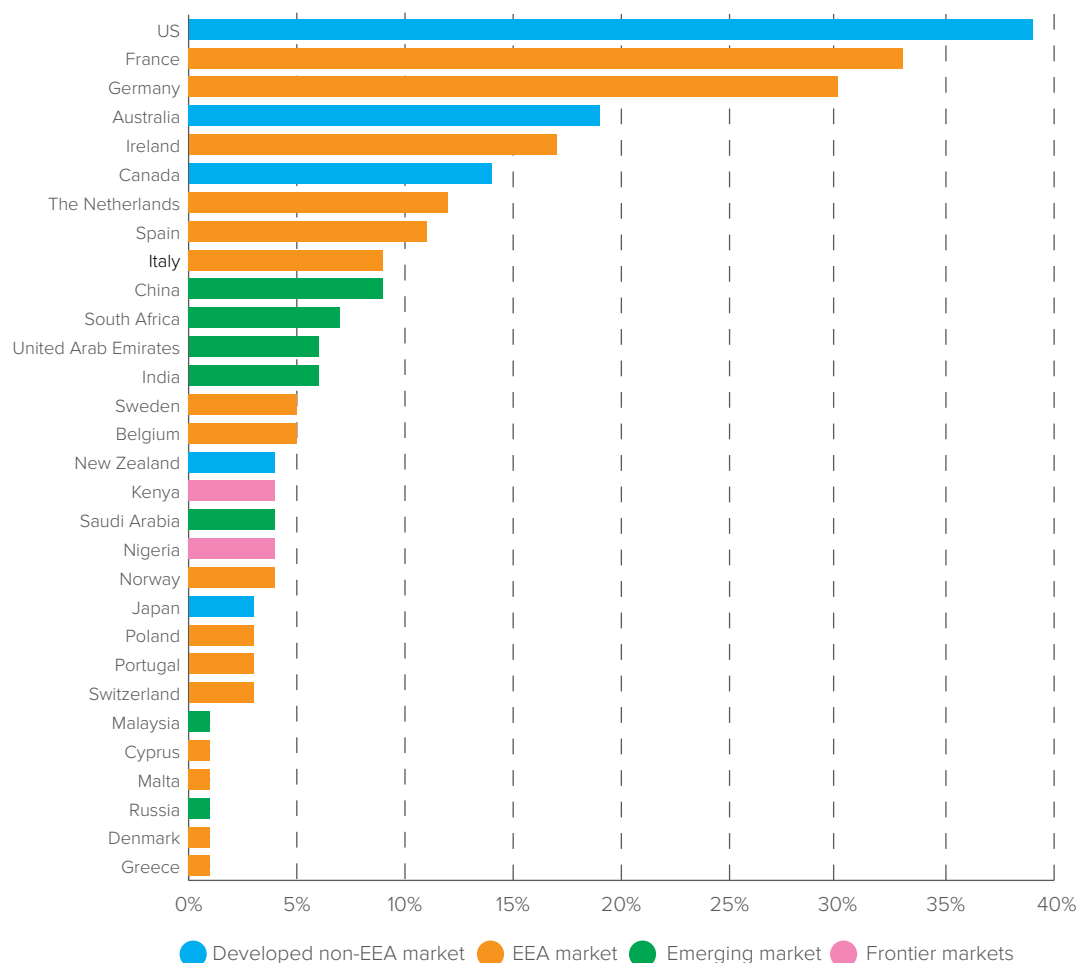
¹³ The background to the emergence of these country groups is explained later in the report.

This seems to support the view, noted above, that emerging markets are more likely to offer higher returns and growth to companies. However, it also speaks to the view that exporting to these markets may require a higher level of resource and investment. In this respect, being more reliant on exports can be an indication of the emphasis these small firms place on selling overseas, as a strategic part of their business model.

CONSIDERERS AND LAPSEERS

Figure seven: Considerer destinations

Source: FSB Exports Survey 2016



Considerers were asked which countries they would be most likely to consider if they started exporting,¹⁴ and the findings are shown in figure seven. The top three destinations, including their ranking order – US (39%), France (33%) and Germany (30%) – are the same as those selected by Exporters.

¹⁴ Respondents were restricted to selecting up to three countries to ensure that the chosen countries reflected their priority export destinations.

However, the prominence of emerging markets – and even of a couple of frontier markets¹⁵ (Kenya and Nigeria), which are considered less developed than emerging markets but present similar growth potential – is noteworthy. In addition to the four emerging markets in figure six (China, South Africa, UAE and India), there are an additional five emerging/frontier markets in figure seven. While the smaller sample size of Considerers means the countries near the tail of the graph may not be as representative (including Malaysia and Russia), this nonetheless suggests the growing likelihood and importance of emerging markets as export destinations.

The attraction of emerging markets started to become a serious consideration globally, among financiers and large corporations, in the early years of the 21st century. Their potential was encapsulated by a seminal report from Goldman Sachs Asset Management in November 2001, in which their former chairman, Jim O'Neill, coined the acronym 'BRIC' (Brazil, Russia, India and China). In 2011, South Africa was added to this group of countries, believed to have the potential to become the most influential economies in the 21st century.

Since then, newer groups have been created – from HSBC's 'CIVETS' (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa)¹⁶ to 'MINT' (Mexico, Indonesia, Nigeria and Turkey)¹⁷ – keeping the spotlight on emerging markets and building awareness among the business community.

"I know nothing about trading with countries like (Kenya) but as an experiment we'll try and help this customer out ... these countries are all expanding; they are the future"

FSB member, Exporter

The hierarchy of export destinations selected by Lapsers broadly mirrors that of the Considerers. Of the top 30 destinations, five are emerging markets (China, UAE, South Africa, India and Saudi Arabia) and one is a frontier market (Nigeria). Compared to the Exporters, emerging markets are, on balance, ranked higher by Lapsers; China, UAE, South Africa and India are essentially in the same positions as those presented in figure seven.

The average number of years an Exporter has been selling overseas for is 13 years, which helps to explain the increased interest by Considerers and Lapsers to export to emerging markets. The benefits that most Considerers associate with exporting – access to more customers and increased turnover and profit – reflect the opportunities offered by emerging markets. Essentially, many emerging markets present higher levels of new consumer demand, as significant proportions of their growing populations enjoy increased spending power.

It is also likely that access to these markets are facilitated by advancements in technology; it has never been easier for small businesses to communicate, market and sell their products on a global scale.

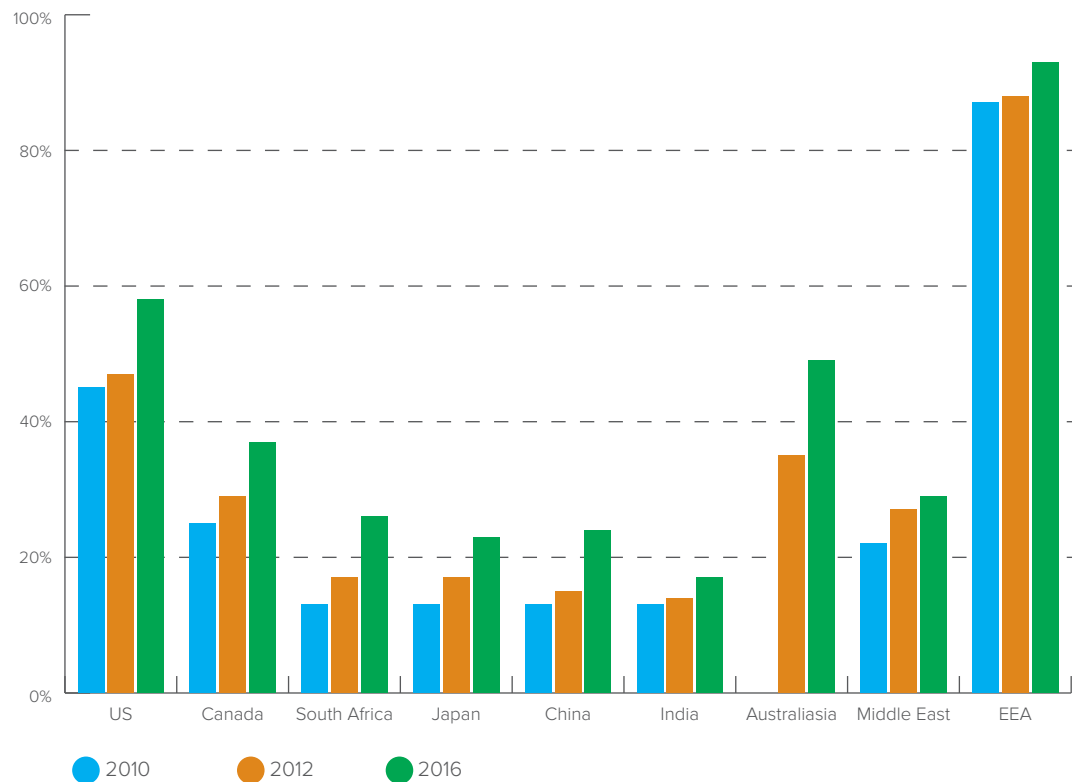
¹⁵ Financial Times, Definition of frontier market, accessed 1 July 2016. Available at: <http://lexicon.ft.com/Term?term=frontier-markets>. Frontier markets are based on MSCI Frontier Markets Index, accessed on 5 June 2016. Available at: <https://www.msci.com/market-classification>.

¹⁶ Lambert, S., HSBC fund aims at 'Civets' exotic stock markets, May 2011. Available at: <http://www.thisismoney.co.uk/money/investing/article-1724350/HSBC-fund-aims-Civets-exotic-stock-markets.html>.

¹⁷ BBC, The Mint countries: Next economic giants? January 2014. Available: <http://www.bbc.co.uk/news/magazine-25548060>.

DIVERSIFYING EXPORT DESTINATIONS

Figure eight: Key export markets compared over three periods: 2010, 2012 and 2016
Source: FSB Exports Survey 2016; FSB Exports Survey 2012¹⁸; FSB Exports Survey 2010¹⁹



While the proportion of small businesses that export has remained stable, at around one in five, over the past few years the diversity of destinations that small firms export to appears to have grown. The majority of Exporters sell their products to multiple destinations. Of those that export to regions outside Europe – Africa, the Americas, Asia and Australasia – two per cent or fewer export exclusively to any one region. Of those exporting to Europe, only 18 per cent export exclusively to Europe.

This suggests that while there has not been an increase in the proportion of small businesses that export, those that do export are increasingly selling to more markets. This more diversified export portfolio is supported by figure eight. All the common export markets featured – a mix of EEA markets, developed markets and emerging markets – have seen an increase in the percentage of small businesses exporting to them, not only between 2012 and 2016 but also between 2010 and 2012. Australasia, the US, China and South Africa have seen the biggest increase in the past four years.

One factor that could be contributing to small businesses having a more diversified export portfolio is the growth of e-commerce markets, opening up digital marketing channels to access bigger customer bases. It is noteworthy that many of the export markets in figure eight are the biggest or fastest-growing e-commerce markets globally.²⁰ In particular, Asia-Pacific is considered the largest e-commerce market in the world, especially for B2C transactions.²¹

¹⁸ FSB report, Enabling small businesses in the drive for more UK export, June 2013.

¹⁹ FSB report, Made in the UK: Small businesses and an export-led recovery, December 2010.

²⁰ Bollinger, I., Top 10 eCommerce Markets by Country, accessed 5 June 2016. Available at: <http://growwithtrellis.com/blog/top-10-e-commerce-markets-by-country/>. Keith, M., Global eCommerce Sales, Trends and Statistics 2015, September 2015. Available at: <http://www.remarkety.com/global-e-commerce-sales-trends-and-statistics-2015>.

²¹ Asendia, Asia-Pacific: the world's largest e-commerce market, accessed 10 June 2016. Available at: <http://www.asendia.com/en/blog/asia-pacific-the-worlds-largest-e-commerce-market/>. Forrester, Asia Pacific ecommerce market to reach US\$1.4 trillion in 2020, March 2016. Available at: <https://www.forrester.com/Asia+Pacific+eCommerce+Market+To+Reach+US14+Trillion+In+2020/-/E-PRE8924>.

WHY EXPORT THERE?

In addition to looking at the export destinations, the survey also asked respondents to select reasons why these markets were chosen or for Considerers and Lapsers, would likely to be chosen. This section builds on the discussion above to provide further insight into what influences a small firms decisions regarding export destinations. In particular, these findings highlight the mindset and approach underpinning these decisions.

EXPORTERS

Figure nine: Reasons for exporting to chosen markets (Exporters)

Source: FSB Exports Survey 2016

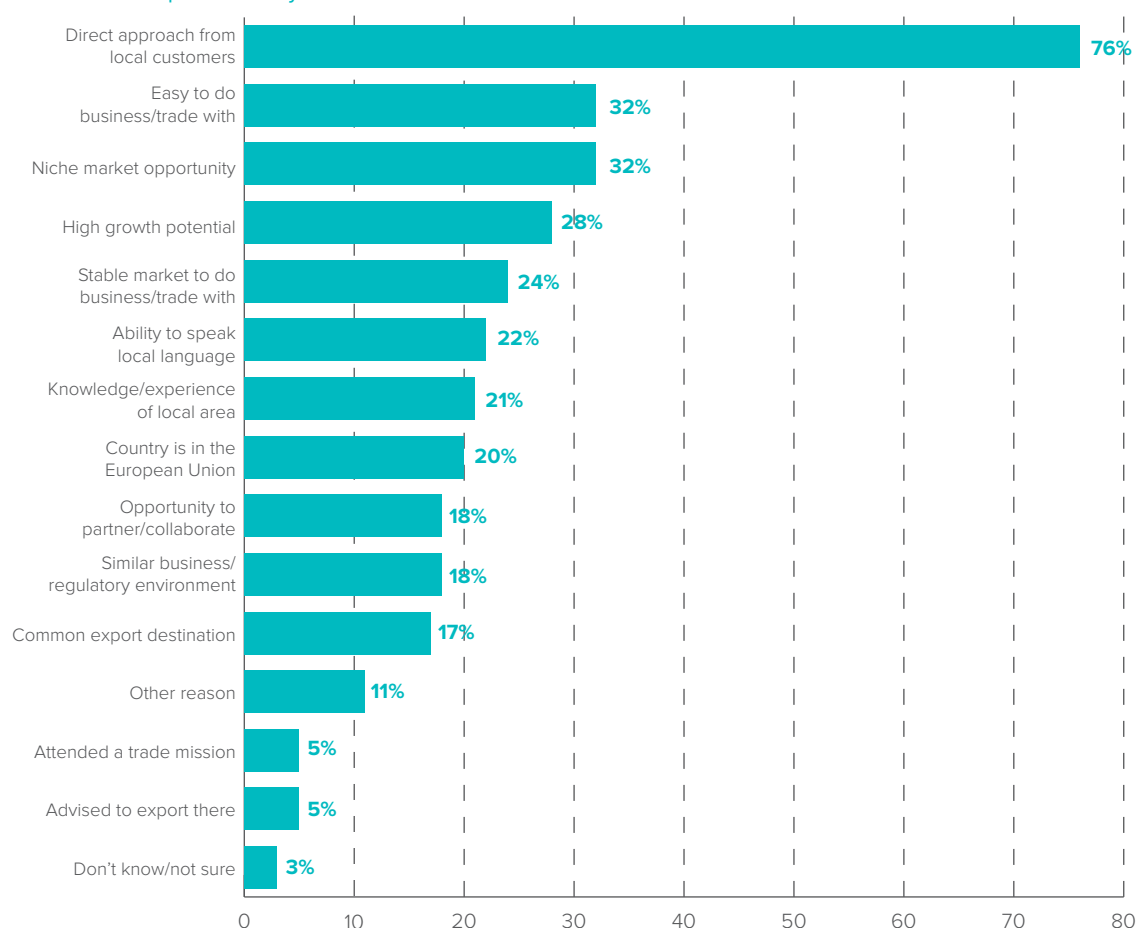


Figure nine shows that over three quarters (76%) of decisions to export to a particular market are driven by a direct approach from that local market, be it customers, importers, agents, etc. This is, by far, the most frequent reason chosen by Exporters, more than twice as common as the next most popular reasons (both at 32%): the market is easy to do business/trade with and the destination offers a niche market opportunity for their product. Following closely behind are the market's high growth potential (28%), the stability of the market (24%) and the respondent's ability to speak the local language (22%).

Ease of exporting emerges as a strong underlying theme in why respondents chose their export destinations. This reflects the dominance of countries, as discussed previously in the report, with relatively strong and stable market economies, geographic proximity and straightforward business environments; in their own way, each of these markets offers paths of least resistance when it comes to exporting. Europe is a market that is seen by many as an easier option for exports because the countries within it are perceived to have a fair degree of commonality.

“Europe is reasonably homogenous, with certain country stereotypes”

FSB member, Exporter

Following the path of least resistance by responding to direct approaches from a particular market also helps explain why certain destinations, which are generally not seen as easy to do business/trade with, are also commonly exported to. Looking at a selection of comparable top export destinations²² from figure six, and the reasons behind exports to these countries, both the UAE and Japan fit this scenario. Neither are ranked particularly high as countries that respondents who export to them find easy to do business/trade with. However, a direct approach is more likely to be a driver for exports to Japan and the UAE than to other popular destinations such as the US, Australia or Germany. Four out of five respondents who export to Japan, and 72 per cent who export to the UAE, were, at least in part, driven to do so because of a direct response from that local market.

While reasons associated with the pursuit of high growth and opportunities to exploit niche markets favour well-developed countries – the US tops the former (29% of Exporters) and Australia tops the latter (28%) – emerging markets also fare well, especially when compared with their relatively low rankings for reasons linked to ease of exporting. Respondents exporting to India and China were more likely to select the reason of high growth and niche market opportunities than those exporting to Germany or France. High growth, in particular, is a driver for exports to India and China, ranking just second and third respectively after the US.

²² A selection of the top countries, with big-enough sample bases, from the EEA, developed markets (not in the EEA) and emerging markets were compared against each other by the reasons Exporters chose to export to those destinations.

CONSIDERERS AND LAPSERS

Figure 10: Reasons for considering exporting to chosen markets (Lapsers and Considerers)

Source: FSB Exports Survey 2016

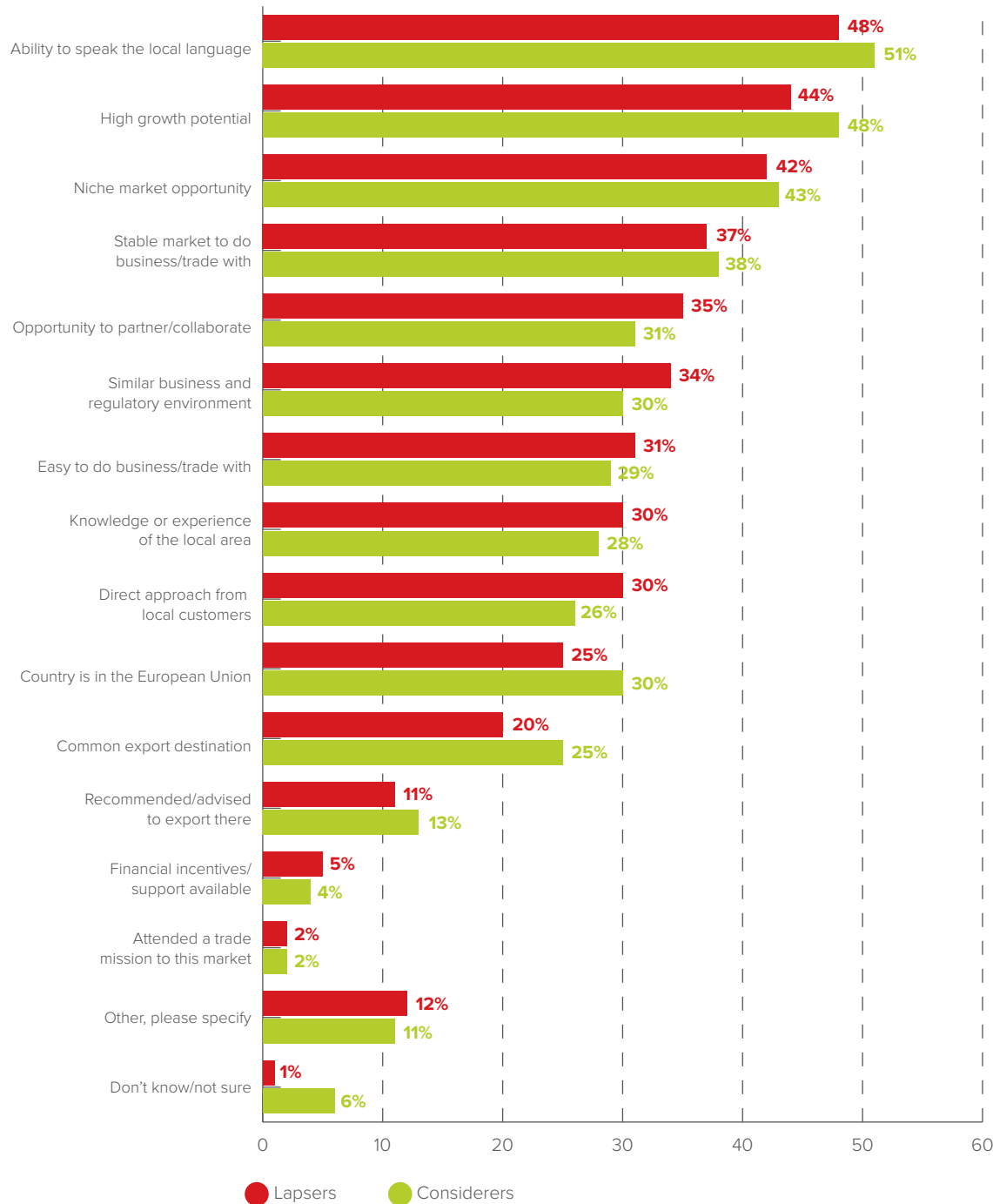


Figure 10 illustrates some key differences between the reasons driving Exporters to sell to certain destinations and the reasons that would influence Considerers and Lapsers to consider certain markets, if they started exporting. Overall, Considerers and Lapsers are likely to base their decisions regarding export destinations on a similar hierarchy of reasons.

While some reasons are given similar levels of importance by all three groups – namely, high growth potential, niche market opportunities and stable trading/business environment – there are some notable differences. The top two reasons for Exporters – direct approach from local customers and the destination is easy to do business/trade with – feature much lower down in figure 10.

The appeal of a destination being in the EU has even more of an impact on Considerers and Lapsers than with Exporters. In particular, around one in three Considerers are likely to export to a country because it is in the EU. This reinforces the need for the UK to maintain its access to the Single Market following the EU Referendum result.

Overall, only about a quarter (28%) of Considerers and Lapsers would consider selling to a particular market because of a direct approach from the local market – Exporters are almost three times more likely to export owing to a direct approach. While both Considerers and Lapsers are as likely to consider exporting somewhere based on how easy the market is to do business/trade with – an average of 30 per cent compared to 32 per cent of Exporters – both groups prioritise other reasons above this.

The most common reason selected by both Considerers and Lapsers is the ability to speak the local language – overall around, half of the respondents from both groups would consider exporting to a certain destination because of this. This is a stark difference from the 22 per cent of exporters who currently export based on this reason. The growth of exports to emerging markets goes some way to explain the increase in the value attached to language. However, the continued dominance of long-standing export destinations means that this is unlikely to be the primary explanation.

These differences are quite telling about the realities of what drives exporting compared to what small firms may believe will be the drivers from the outset. While the ability to speak the local language might seem like one of the most important factors to consider when choosing an export destination, in reality this may not be the case. Decisions are more likely to be influenced by external sources such as direct customer demand. The importance of how easy a market is to do business/trade with, for Exporters, also suggests that most small firms end up following the path of least resistance when it comes to selling overseas.

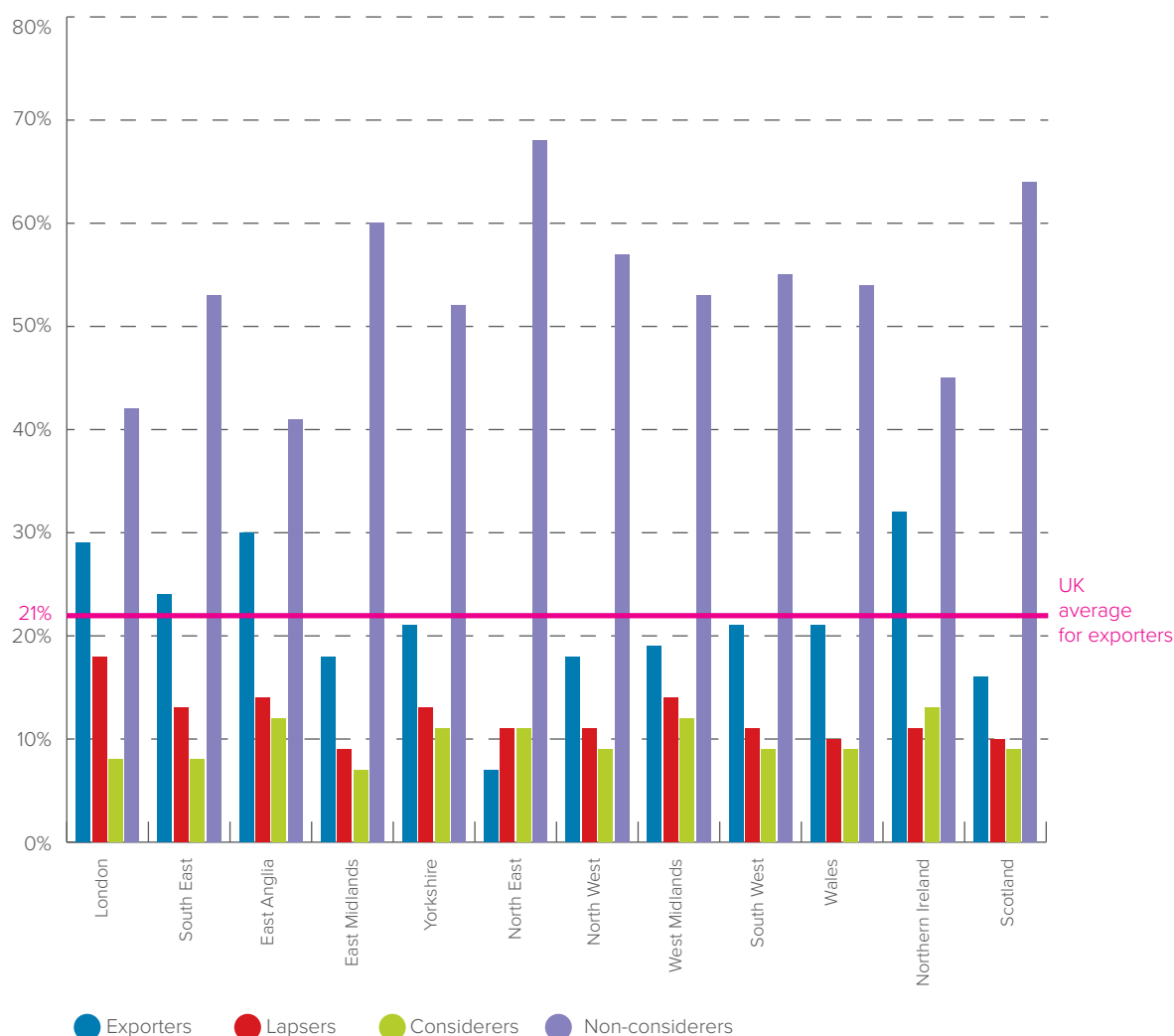
This leaves Considerers and Lapsers in a bit of a ‘chicken or egg’ situation. As with all businesses, Exporters will be driven or motivated by external factors and market demand, much of which may be out of their control to foresee or plan for from the outset. However, small firms interested in exporting need to be in a position – both mentally and operationally – ready to exploit these opportunities. Without actually starting their export journey, and promoting their businesses to overseas markets, many small businesses will limit their exposure to these opportunities.

GROUP PROFILES

WHERE THEY WORK

Figure 11: UK nations and regions by respondent groups – Exporters, Lapsers, Considerers, and Non-considerers

Source: FSB Export Survey 2016



Small businesses are significantly more likely to export if they are based in London, the South East, East Anglia or Northern Ireland. Lapsers or Considerers are more or less evenly spread between the nations and regions.

In general, with the exception of Northern Ireland, small firms based in any other region or nation are more likely to be Non-considerers than firms based in London and East Anglia. However, firms based in the North East and Scotland are the most likely to be Non-considerers compared to other regions.

WHAT SECTORS THEY WORK IN

Small businesses that export are most likely to be active in manufacturing; then wholesale and retail; professional, scientific and technical activities; and information and communication.²³ This is broadly similar for Lapsers and Considerers.

While manufacturing is the sector most likely to produce Exporters – almost one in two small firms working in manufacturing currently export (47%) – this is not entirely the case for Lapsers or Considerers. Interestingly, firms working in the arts, entertainment and recreation are as likely to be Lapsers (20%) as those working in manufacturing (19%). Small businesses working in the education sector (22%) are as likely to be Considerers as those working in the manufacturing sector (13%).

This suggests that while manufacturing continues to dominate as the most prevalent sector in exporting, other sectors are becoming increasingly export-focused.

These findings contrast with the UK being a predominantly service-led economy, accounting for around 74 per cent of businesses.²⁴ Putting this into perspective, manufacturing accounts for only five per cent of UK businesses.²⁵

The confusion over what products constitute exports (discussed previously in this report) may partly contribute to this; many small firms falsely assume that services either cannot be exported or do not count as exports.

Additionally, there are generally greater levels of complexity in exporting services compared with goods, and, in turn, services are widely perceived to be more difficult to export. The intangibility of services makes them more difficult to standardise, market and finance.

Certain services also operate in highly regulated environments; this is particularly true for financial services, adding an additional layer of complexity to exporting. Many Non-considerers refer specifically to a profession in financial services, such as accountancy, as the reason why they do not export. While, for some, it is clear that their decision is based on an assumption that they cannot export this service, for others it may be due to the difficulties involved in exporting it.

Further findings in this report, on what types of product are exported, reinforce the suggestion that services are a growing export sector. Yet interviews with Exporters revealed that some small firms feel that export support is too focused on manufacturers, with not enough information relevant to service industries.

“All the messaging around exporting is focused on jam makers; there’s nothing relevant for software, service or environmental providers”

FSB member, Exporter

²³ The survey used the current UK Standard Industrial Classification of Economic Activities.

²⁴ Rhodes, C., Commons Briefing papers SN06152 Business statistics, December 2015. Available at: <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06152>.

²⁵ Ibid.

AGE OF BUSINESS

Figure 12: Age of business by respondent groups – Exporters, Lapsers, Considerers and Non-considerers

Source: FSB Export Survey 2016

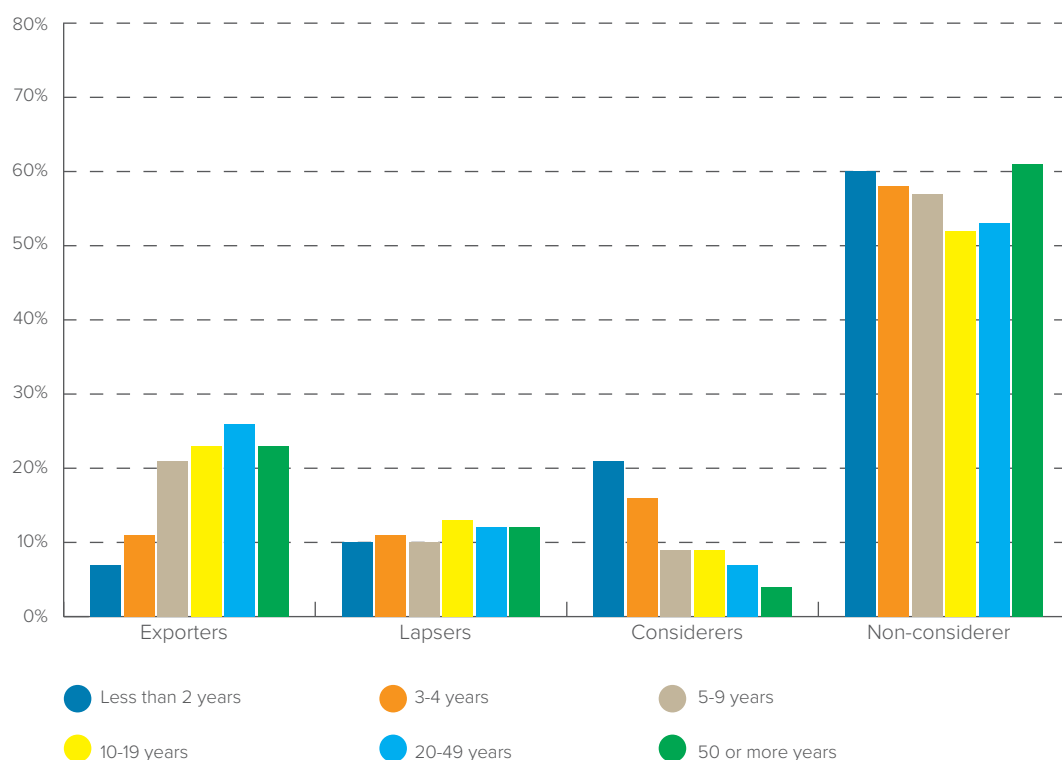


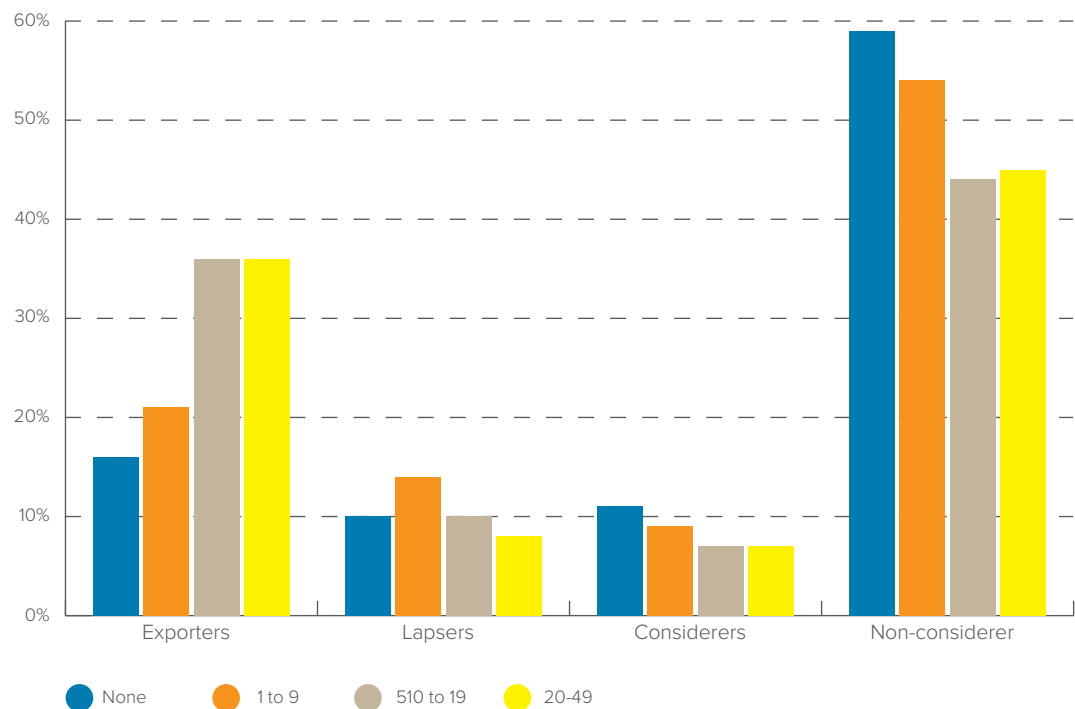
Figure 12 clearly illustrates a positive correlation between the age of a business and its likelihood of exporting. Firms older than four years are more than twice as likely to export as start-ups (defined in this report as businesses up to and including four years old). The most likely group to export are small businesses aged between 20 and 49 years old, with one in four of these small firms currently exporting.

While more mature businesses are likely to export, start-ups with no exporting experience are significantly more likely to consider exporting than small businesses in any age group. Although it is promising that the inclination to consider exporting is more likely to start at the beginning of a business's life cycle, this contrasts with the low percentage of start-up exporters. This may indicate particular challenges faced by start-ups wishing to export. On the other hand, it may also suggest that while start-ups are more open to the idea of exporting, for many, this is not by itself enough of a factor to trigger exporting. This reinforces the idea that the trigger for the majority of Exporters to start exporting is a reaction to a direct opportunity to sell abroad.

NUMBER OF EMPLOYEES

Figure 13: Number of employees²⁶ by respondent groups – Exporters, Lapsers Considerers and Non-considerers

Source: FSB Exports Survey 2016



Reinforcing the profile of Exporters as generally being more mature businesses, figure 13 shows a positive correlation between the likelihood of being an Exporter and employee number. Small businesses with 10 or more employees (36%) are almost more than twice as likely to export than micro businesses (19%), firms with fewer than 10 employees.

However, micro businesses – especially those with zero employees – are also more likely not to consider exporting. This reinforces the idea that, for many small firms, being small is a reason in itself for not considering exporting – a common reason given by Non-considerers (as discussed previously). For many small firms, this reaction to exporting probably hints at a resource implication.

From the interviews, it is clear that some Considerers expect the first steps towards exporting to be complicated and time-consuming, for example, requiring the acquisition of new knowledge or skills in order to export. For many small firms this can be seen as a burden that they don't have time to deal with while managing the business.

“Small businesses are very busy, doing as much as they can on a day-to-day basis. Owing to lack of knowledge, they might be categorising exporting as ‘hard’ or ‘difficult’ or ‘something to look at tomorrow’”

FSB member, Exporter

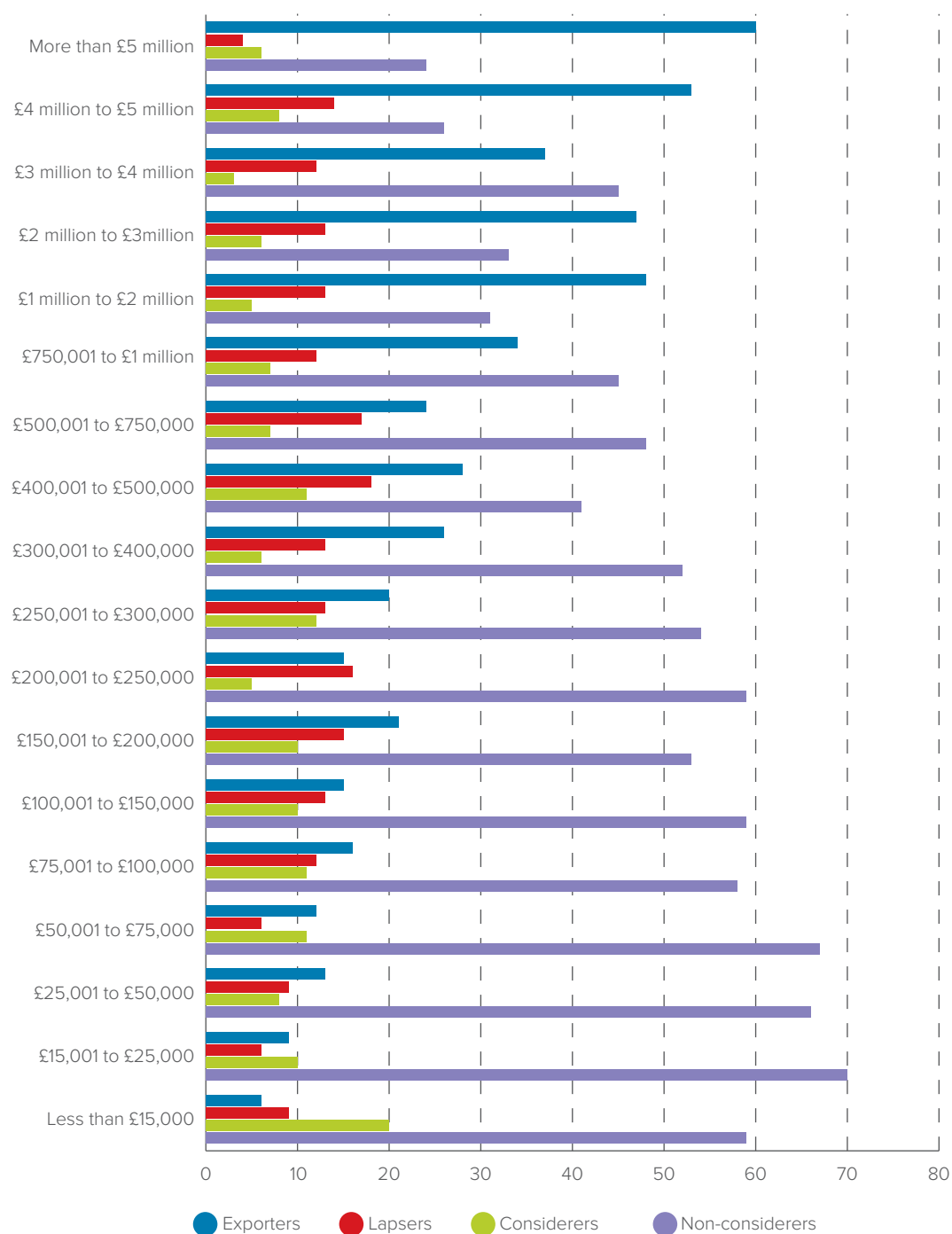
Micro businesses with at least one employee are significantly more likely to be Lapsers, compared to those with zero employees and those with more than 10 employees.

²⁶ The sample base for the '50 employees or more' category was too small to be representative and is therefore not included in Figure 13.

TURNOVER

Figure 14: Annual turnover by respondent groups: Exporters, Considerers, Lapsers and Non-Considerers

Source: FSB Exports Survey 2016



The turnover of the four respondent groups in figure 14 reveals a strong positive correlation between the likelihood of being an Exporter and average turnover. This is mirrored by a strong negative correlation between the likelihood of being a Non-considerer and average turnover.

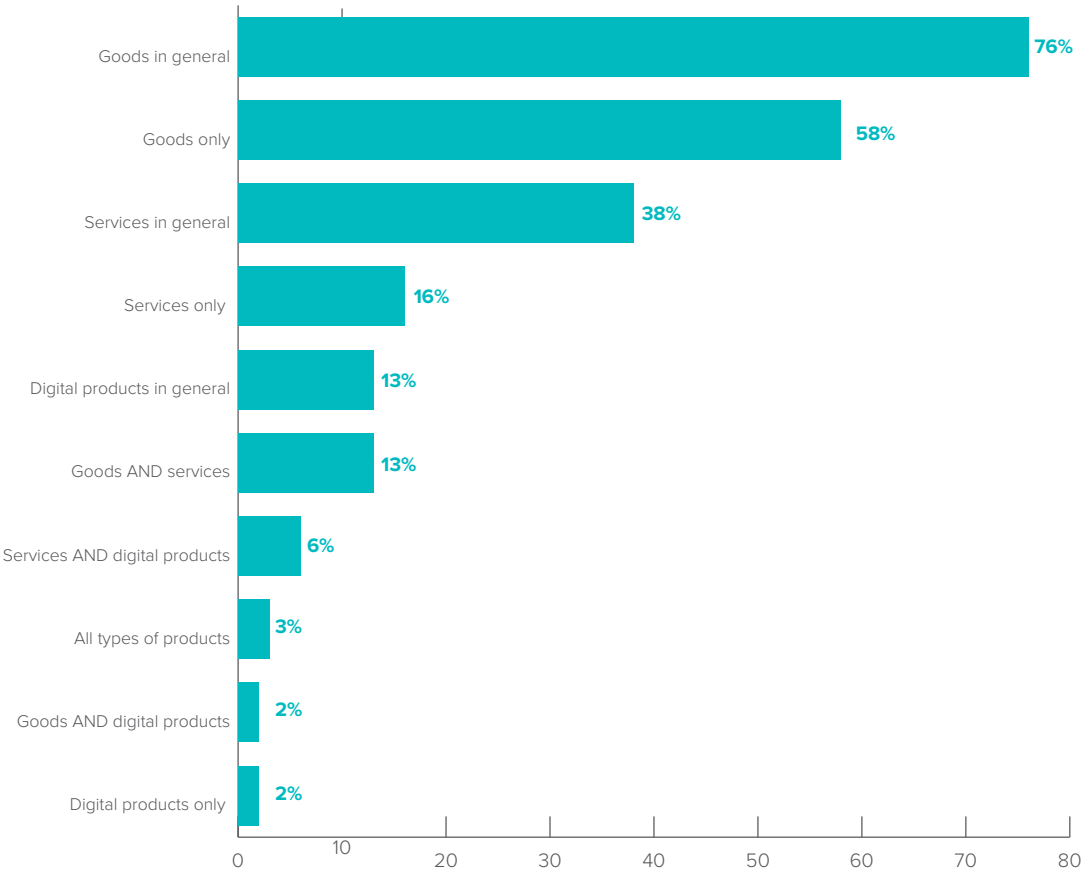
The average turnover for an Exporter is £935,921, more than double that of the average small business not exporting, which is £390,028. This is a powerful testament to the growth benefits that are associated with exporting.

Small firms earning less than £15,000 are significantly more likely to be Considerers compared to those earning higher turnovers. This again, as previously noted, suggest that small businesses are most likely to consider exporting at the beginning of their business life cycle.

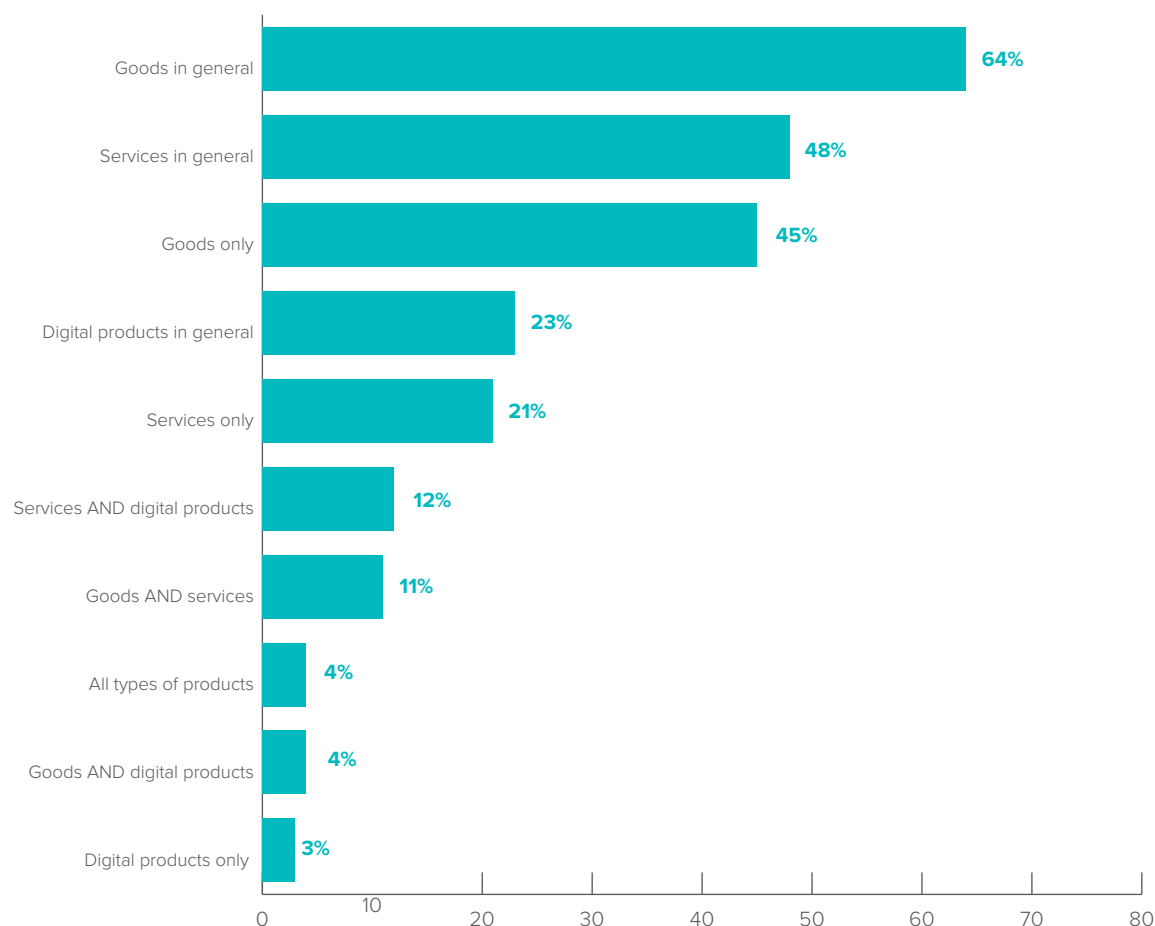
Small businesses earning between £75,000 and £2 million are markedly more likely to be Lapsers than those earning lower turnovers. This points to the likelihood of exporting increasing with firm size (Lapsers unlike considerers have already exported in the past) and also alludes to the benefits linked with exporting. Arguably, Lapsers did not all manage to capitalise on the growth benefits associated with exporting previously and are, therefore, open to considering exporting again.

WHAT THEY EXPORT

Figure 15: Types of product being exported
Source: FSB Exports Survey 2016



The most common type of product exported by small firms are goods – three quarters (76%) of all Exporters sell a good overseas. This is twice as many as small businesses selling services (38%). In fact, there are more small firms that sell goods only (53%) compared to those that sell services in general. Small businesses are least likely to be selling a digital product overseas – around one in eight Exporters sell them overseas (13%).

Figure 16: Types of product likely to be considered for export (Considerers)**Source:** FSB Exports Survey 2016

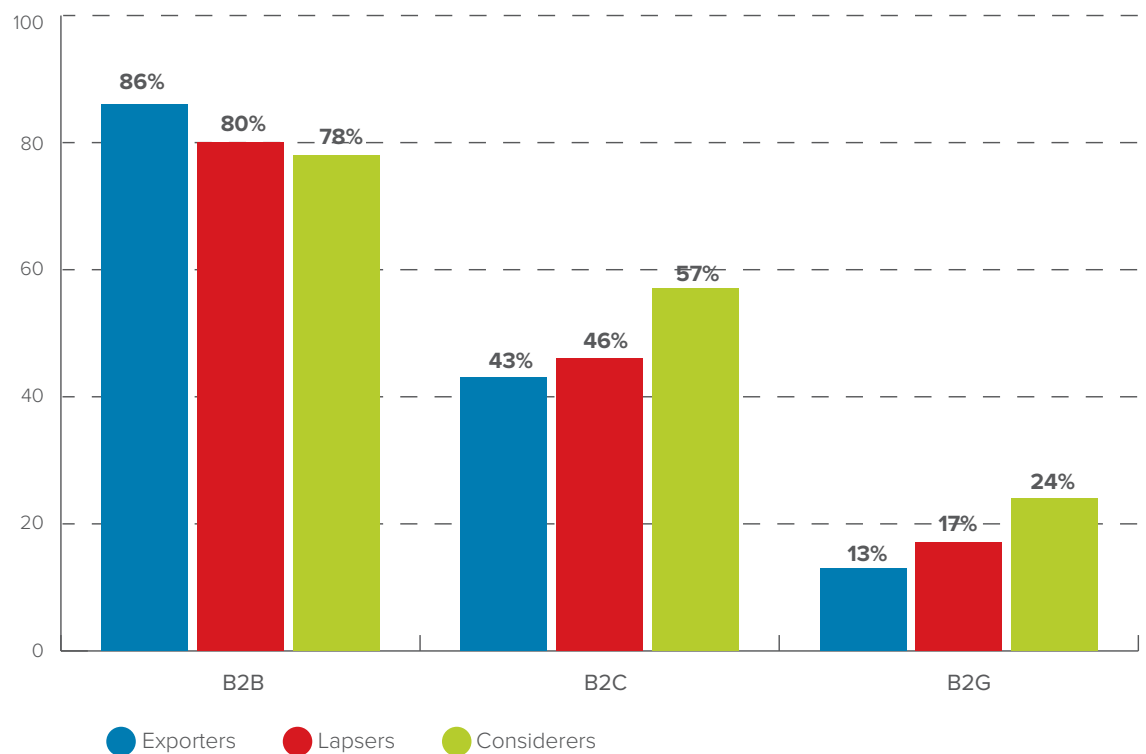
For Considerers, while goods are still the most likely type of product (64%) that small firms would sell overseas, if they started exporting, figure 16 shows that both services and digital products play a much bigger role. Almost half of all Considerers (48%) are likely to export a service, and almost a quarter (23%) are likely to sell a digital product. The hierarchy of the types of product that Lapsers are likely to sell if they start exporting is similar to that of Considerers. The differences between Exporters and Considerers reflect the growing impact of technology on exporting, likely to be facilitating more trade in services and digital products via e-commerce.

What this means with regard to export destinations

In general, there are very few significant differences between the types of product small businesses export and the destinations they sell them to. The only stand-out difference is that Exporters are significantly more likely to export goods than services to Australasia. The reason for this is not clear; however, the unique logistical challenges presented by Australia with regard to distance and time zones may play a role. Services are often more time-dependent than products and can only be offered or delivered during a specific period. Many services also require direct involvement with the customer, for example, consultancy services.

WHO THEY EXPORT TO

Figure 17: Respondent groups – Exporters, Lapsers and Considerers – by types of customer
Source: FSB Exports Survey 2016



Almost nine out of 10 Exporters (86%) sell their products to businesses (B2B). Almost half (44%) sell their products to consumers (B2C) and only 13 per cent sell their products to government (B2G). While the hierarchy of B2B, B2C and B2G is the same for both Lapsers and Considerers, the latter are more likely to sell B2C (57%) and B2G (24%) than the other two groups. This is perhaps not surprising in today's trading economy, which is much more heavily facilitated by and dependent on technology, enabling small firms to sell more easily to customers all over the world via e-commerce.

What this means with regard to export destinations

With the exception of North America, small businesses exporting to any region are more likely to export B2B than those exporting to Australasia. In addition to this, Exporters to South Asia and the Middle East are also more likely to export B2B than those exporting to North America.

Small firms exporting to Australasia are significantly more likely to export B2C than those exporting to almost all other region – including Europe and North America – with the exception of Central and South America and South East Asia.

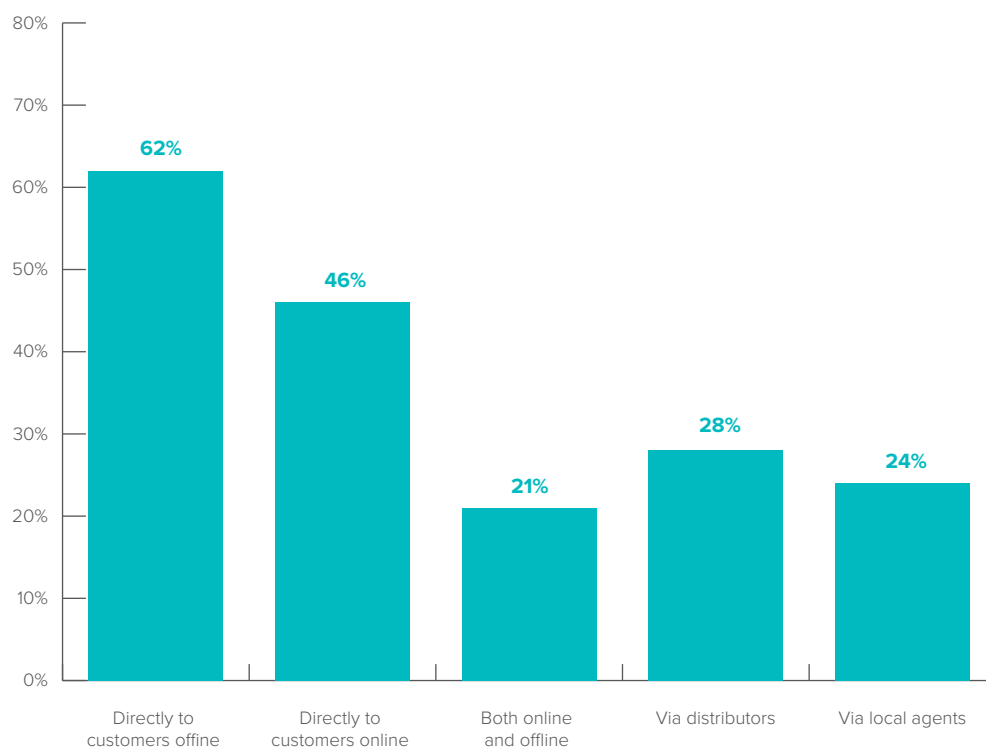
In general, those exporting B2G are more likely to be exporting to emerging markets. In particular, those exporting to South East Asia, South Asia, Central and South America and the Middle East are considerably more likely to be exporting to governments than those exporting to Europe, Australasia and, for the latter three, North America.

EXPORTER FOCUS

How they export

Figure 18: How Exporters sell their products overseas²⁷

Source: FSB Exports Survey 2016



The most common method of exporting for small businesses is selling directly to customers offline – accounting for more than six out of 10 Exporters (62%). While around one in two Exporters (46%) sell directly online to customers, almost half of all Exporters (48%) use more than one method to sell their products overseas (from the individual methods presented in figure 18). One in five Exporters (21%) sell directly using both online and offline methods.

What this means with regard to destinations

Small businesses exporting to Australasia are the most likely to sell their products online, with 63 per cent doing so. These small businesses are significantly more likely to sell their products online compared to small firms exporting to any other market. Small businesses exporting to North America are also more likely sell their products online compared to those exporting to markets in Europe.

This high level of e-exporting (exporting via e-commerce) could help explain the jump in exports to the US and Australia, as demonstrated by figure eight. Both the US and Australia were frequently ranked as top 10 e-commerce countries in 2015.²⁸ In particular, the logistical challenges of exporting to Australia, in terms of time and travel distance, could explain why selling online is the most common way for small firms to export there.²⁹ This is supported by the finding that the proportion of small firms that export directly to Australasian customers offline only (compared with selling online) is significantly lower compared to other regions, with the exception of North America and East Asia.

²⁷ Respondents were allowed to select all applicable methods. The methods are not exclusive in relation to each other.

²⁸ Linder, M., Global e-commerce sales set to grow 25% in 2015, July 2015. Available at: <https://www.internetretailer.com/2015/07/29/global-e-commerce-set-grow-25-2015>.

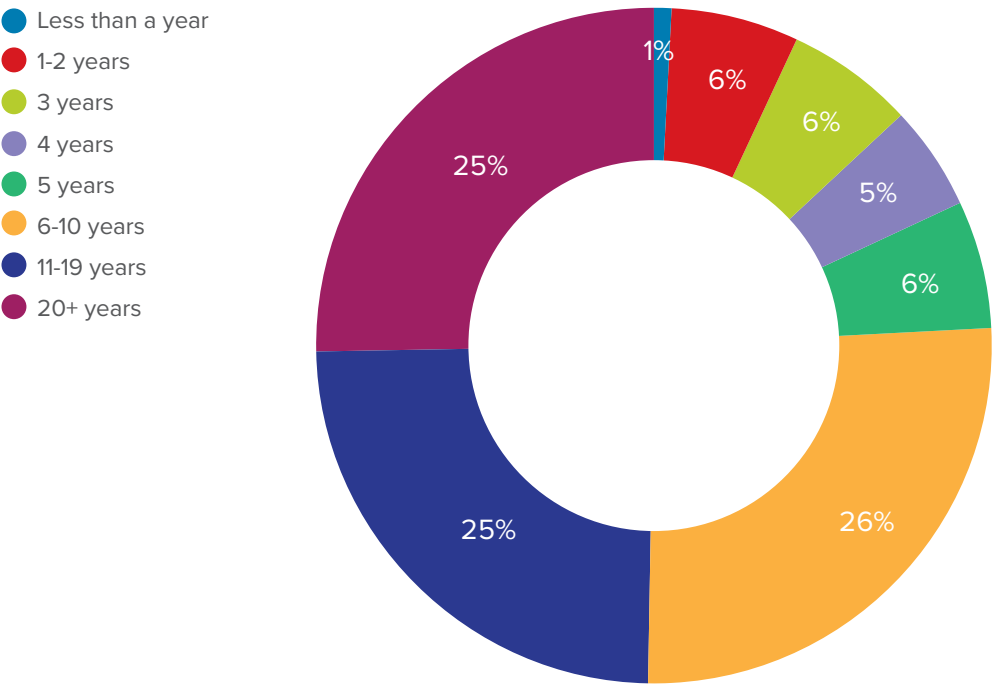
²⁹ UK Trade and Investment (UKTI), Doing business in Australia: Australia trade and export guide, April 2014. Available at: <https://www.gov.uk/government/publications/exporting-to-australia>.

Around a quarter of Exporters sell their products overseas via distributors (28%) and/or local agents (24%). The use of both distributors and local agents can be an indication of the level of difficulty of exporting to certain markets. This is particularly true for local agents who are often used to help negotiate contracts with customers or are utilising their established trade connections in the local market.³⁰

In general, small businesses exporting to emerging markets are considerably more likely to use local agents than those exporting to Europe and North America. In addition, those exporting to Central and South America and South Asia are also more likely to use local agents than small firms exporting to Australasia.

Years of exporting

Figure 19: Number of years selling overseas (Exporters)



Source: FSB Exports Survey 2016

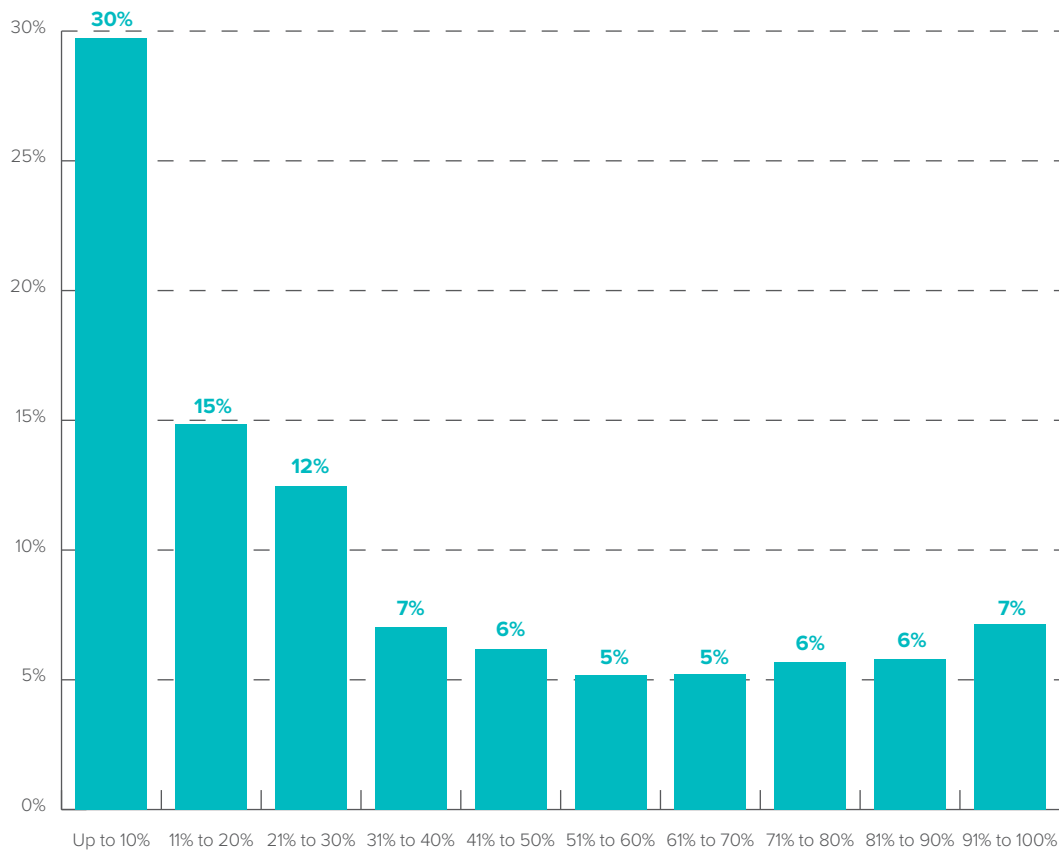
Reflecting the average maturity of small businesses that export, figure 19 shows that around one quarter of small businesses have been exporting for fewer than six years. Almost half of them (49%) have been exporting for more than a decade; the average Exporter has been selling overseas for 13 years.

30 Mullett, R., Open to Export. What is the difference between an agent and a distributor?, May 2015. Available at: <http://opentoexport.com/article/what-is-the-difference-between-an-agent-and-a-distributor/>.

Turnover from exporting

Figure 20: Proportion of turnover from exports (Exporters)

Source: FSB Exports Survey 2016



Almost one third (30%) of Exporters earn less than 10 per cent of their turnover from exporting. Just over another third (34%) earn between 11 per cent and 40 per cent, leaving the remaining third (35%) earning more than 40 per cent of their turnover from exporting. The average Exporter earns 35 per cent of their turnover from exporting.

CHALLENGES

Figure 21: Respondent groups – Exporters, Lapsers and Considerers – by main challenges³¹
Source: FSB Exports Survey 2016

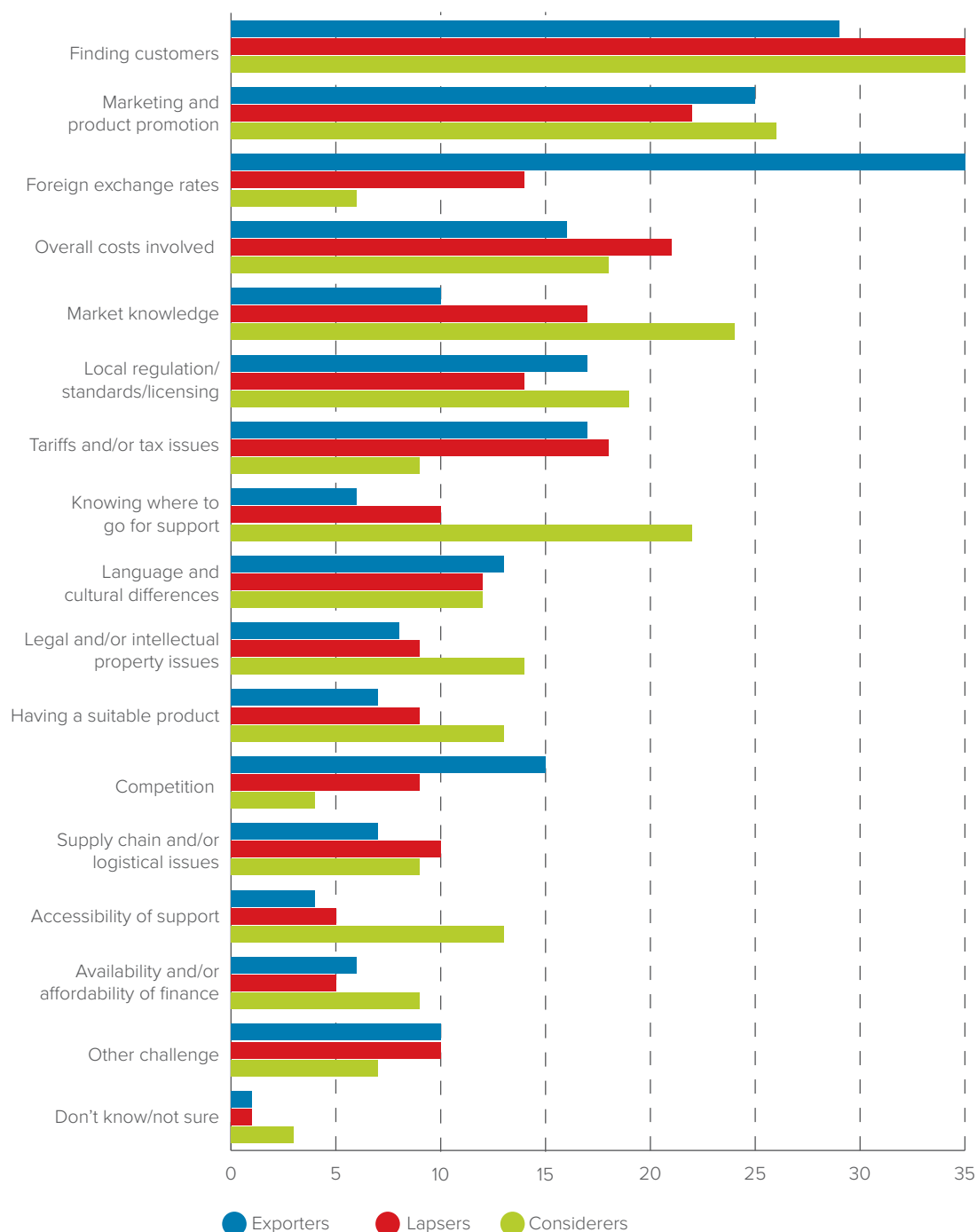


Figure 21 shows the types of challenges experienced by Exporters, Lapsers and Considerers; for the latter two groups, these are the challenges that are preventing them from exporting. Respondents were asked to select up to three main challenges.

The graph lists the challenges in order of the overall most cited challenge – the highest total of percentages of all three groups – down to the overall least cited challenge.

³¹ In the survey, Exporters were asked: 'What, if anything, are the main challenges to exporting for your business?' while Lapsers and Considerers were asked: 'What, if anything, are the main challenges preventing your business from currently exporting?' All respondents were restricted to selecting up to three challenges.

While certain challenges are experienced at a similar level across all three groups, there are also some significant differences; each group presents a unique profile, finding certain challenges more prevalent than others.

One of the most commonly experienced challenges across all three groups is **finding customers**; this is the most frequently experienced challenge for Lapsers and Considerers and the second most commonly experienced for Exporters. Marketing and promoting your product also features as one of the most commonly experienced challenges across all three groups.

Other challenges that seem to be experienced at a similar level by all three groups include overall costs involved in exporting, language and cultural differences, local regulatory environment, standards and licensing, supply chain and/or logistical issues, and the availability and affordability of finance.

There are, however, a number of challenges that are not experienced at a similar level. Most notable is the challenge of **foreign exchange rates**, which, while topping the list for Exporters, feature as the sixth most commonly cited challenge for Lapsers, and, most markedly, only the fourteenth for Considerers. Similarly, the findings on how challenging respondents find **market knowledge** (in relation to knowing which markets to target for exporting) and **competition** show significant differences between all three groups. Market knowledge is more likely to be a challenge for Considerers, and businesses are more likely to cite competition as a challenge if they are Exporters or Lapsers.

The sizable gap between Considerers and not only Exporters but also Lapsers suggests a complex set of reasons for why certain challenges are either perceived or experienced differently by the three groups; it is not simply a result of differences between businesses that currently export and those that do not. It also suggests a considerable difference between businesses with experience in exporting – either current or previous – and those with no such experience.

Indeed, an analysis of how other challenges fared across the three groups shows that experience of exporting is a primary reason why many issues are more challenging to some businesses than to others. There are significant gaps between Considerers and both Lapsers and Exporters with regard to **knowing where to go for support** and **accessibility of support** – over one in five Considerers do not know where to go for support. The challenges of **legal and/or intellectual property (IP)** matters and **having a suitable product to export** are, again, challenges that Considerers are significantly more likely to highlight than the other two groups.

The challenge of **tariffs and/or tax issues** is reported by both Exporters and Lapsers at a similar level (17% and 18% respectively), but is significantly higher than the nine per cent recorded by Considerers. This difference suggests that there are certain issues that do not register, or are underestimated, as challenges for businesses owing to their lack of export experience; this reinforces the suggestion that there is a pervasive knowledge gap in businesses about what exporting involves, particularly export-specific issues such as foreign exchange rates, tariffs and cross-border tax issues.

It is noteworthy that most of the challenges that Considerers are more likely to mention can be classified as issues contributing to a wider knowledge gap barrier. This is not surprising with Considerers, given their lack of export experience, and suggests that certain matters pose more important challenges for businesses in the early stages of their export journey, becoming less persistent or impactful later on in the journey.

The considerable differences between Considerers and both Lapsers and Exporters suggests it may also be the case that certain aspects are more perceived as challenges, than actually experienced as a challenges. Arguably, this is supported by the finding that while seven per cent of both Exporters and Lapsers state that there are no challenges to exporting for their business, not one single Considerer reports this.

“It’s the fear of unknown; people perceive that it’s going to be a lot of trouble, paperwork, cost...”

FSB member, Exporter

This suggests that confidence plays an important role in whether a small business decides to export or not; the previous exporting experience enjoyed by Lapsers is likely to make them more confident about exporting again and, in turn, about the challenges they may face. However, even Lapsers, who have experienced getting over the first hurdles to exporting, may face challenges in sustaining the effort required to sell overseas.

“We’ve given up on it a bit ... we’d love the idea of working for clients abroad ... but I haven’t got the time to research it and I’d still be nervous at the end of the day that I’ve not completed something correctly ... we are very cautious, maybe too cautious”

FSB member, Lapser

A note on finance

It is noteworthy that the availability and/or affordability of finance does not feature in the top 10 most encountered challenges listed by either current exporters or those considering exporting. Considerers who have never exported before were more likely to mention finance as a challenge – almost one in 10 (9%) Considerers identified finance as a main factor preventing them from currently exporting. For Exporters and Lapsers, this figure was lower, at six per cent and five per cent respectively. This highlights the possibility of finance being more of a perceived challenge for those with no export experience, or perhaps shows that finance is a bigger challenge in the early stage of the export journey.

SUPPORT ACCESSED

Figure 22: Support accessed by Exporters

Source: FSB Exports Survey 2016

Government support	37%
Informal advice/support from other businesses	11%
Online support	7%
Professional body/trade body	7%
Formal peer-to-peer networks	4%
Private-sector support	2%
Accelerator or incubator programme	2%
Mentor	2%
Other support	5%
I have not accessed any support	52%

Figure 23: Breakdown of government support accessed by Exporters

Source: FSB Exports Survey 2016

	Percentage of government support	Percentage of all support
UKTI (UK Trade and Investment)	84%	31%
Other UK government service (not UKTI)	19%	7%
Open to Export website	6%	3%
UKEF (UK Export Finance)	5%	2%
Local Enterprise Partnership (LEP)	5%	3%
Growth Hub	3%	1%
Enterprise Europe Network	3%	2%

Around half of all Exporters (48%) have accessed some form of export support. The majority of these small firms (37%) obtained support from some form of government service, primarily from UKTI – making up 84 per cent of government support.

Around one in 10 small businesses (11%) have sought advice or support from other businesses. This is followed by seven per cent of small firms that have accessed some form of online support, including export websites such as Exporting is Great, Export Savvy and Open to Export.

Figure 24: Support accessed by Considerers and Lapsers (combined)**Source:** FSB Exports Survey 2016

Government support	29%
Informal advice/support from other businesses	10%
Online support	9%
Professional body/trade body	8%
Mentor	4%
Private sector support	3%
Formal peer-to-peer networks	2%
Accelerator or incubator programme	1%
Other support	3%
I have not accessed any support	59%

Figure 25: Breakdown of government support accessed by Considerers and Lapsers (combined)**Source:** FSB Exports Survey 2016

	Percentage of government support	Percentage of all support
UKTI (UK Trade and Investment)	83%	24%
Growth Hub	11%	3%
Other UK government service (not UKTI)	19%	6%
Local Enterprise Partnership (LEP)	9%	3%
Open to Export website	9%	3%
Enterprise Europe Network	5%	2%
UKEF (UK Export Finance)	4%	1%

The hierarchy of support accessed by Considerers and Lapsers is broadly similar. On the whole, Considerers are marginally less likely to access any type of support, government support or UKTI support.

Considerers and Lapsers are less likely to access support than Exporters – around six in 10 (59%) do not obtain any support. They are also less likely to access support from government services – 29 per cent compared to 37 per cent of Exporters.

However, those that do access government support are as likely as Exporters to seek support from UKTI (83% compared to 84% of Exporters).

For many small firms, obtaining support from external bodies makes a real difference to increasing the likelihood of them becoming exporters.

“I don’t think exporting would be on our horizon [if UKTI hadn’t approached]; we could have bumbled along but it wouldn’t have been a conscious effort to expand; it has been the catalyst”

FSB member, Considerer

They are also marginally more likely to access support from local bodies such as LEPs (9%) and Growth Hubs (11%) – reflecting the changing business support landscape in England over the past few years, which has become increasingly devolved.

After government support, informal advice/support from other businesses was the second most popular type of support accessed; similar to Exporters one in 10 small firms that would consider exporting have accessed this type of support.

During the interviews, face-to-face networking and peer-to-peer advice emerged as a crucial enabling and inspiring exercise for small firms at all stages of the exporting journey.

“FSB should do more for small businesses in terms of networking, because you can talk to somebody with the same issue who’ll tell you how to resolve it”

FSB member, Exporter

FSB members also revealed that some small businesses are relying on more direct sources of information and advice, including their courier service and accountant.

“We get better advice on exporting from our UPS driver than from the Government!”

“I’m very reliant on my accountant”

FSB members, Exporters

For the six in 10 small firms that have never accessed any type of support, for some, this may be because they assume there is no support out there for them.

“Small business don’t expect that there’s help out there; if you’re looking around, you’ll find advice and help, but businesses might not be looking as they feel that Government is not going to help”

FSB member, Exporter

There is also an assumption and feeling that the support provided, particular by Government, is aimed at large companies and there is little interest in supporting small businesses in exporting. This is a long-held view on the part of many small businesses, and one that previous FSB export research also highlights: ‘The perception is that UKTI is geared up to meet sales and revenue targets rather than meeting the needs of small and micro businesses.’³²

³² FSB report, Enabling small businesses in the drive for more UK exports, June 2013.

RECOMMENDATIONS

These recommendations are focused on improving the provision of export support for small businesses. The recommendations are broadly categorised by different aspects of support. They include: the overarching approach to be taken; the messaging and communication that should be promoted; suggestions for how support could be delivered; particular areas or groups of small businesses that should be targeted; and what should be prioritised as the UK negotiates new trade relationships with the EU.

The recommendations are applicable to all providers of export support – the Government, the private sector, the finance industry, and business associations. Where it is felt that certain recommendations are better suited to be acted on by particular stakeholders, this will be made clear.

OVERARCHING APPROACH

Recommendation one: Government to aim small for maximum impact

One overall finding that is consistently reinforced by this report is that size really matters when it comes to exporting. Across a range of business characteristics – turnover, size and age – there is a clear correlation demonstrating that the smaller the business, the less likely it is to export. This contrasts with another general trend, which shows that smaller businesses are more likely to consider exporting. The gulf between these two trends needs to be addressed in order to materially increase the number of businesses exporting, and achieve the Government's 2020 ambitions.

Tapping into these small businesses' potential can yield significant results for UK exports, as over 95 per cent of the UK business population is made up of micro businesses (fewer than 10 employees).

In addition to targeting support towards smaller businesses, the message that exporting is for businesses of any and all sizes needs to be marketed directly to smaller businesses. "I'm a small business" or "I'm too small" are common sentiments underpinning many small firms' reluctance to consider exporting.

A considerable proportion of these businesses genuinely do not have an interest in, or the suitability for, exporting. However, many small businesses are deterred by other factors. These range from false assumptions about what it means to export and believing that there is no support available for them, to more tangible challenges to do with resources. Export support must address these barriers or countless small businesses will fall at the first hurdle by thinking that exports are not for them.

Recommendation two: Use a profile approach to export support

This report has tracked the characteristics and views of three distinct groups of small businesses, based on their export status: Exporters, Considerers and Lapsers. These profiles are not exhaustive or definitive; they represent one interpretation of how to use a profile approach in analysing, designing and delivering export support.

While there are many commonalities between these three groups, each one also presents its own broad profile with a unique set of challenges and characteristics. Support and, crucially, the messaging to encourage small firms to seek support, needs to reflect the different drivers, mindsets and capabilities underpinning these three groups. The differences exist not only between small businesses that currently export and those that do not, but also between small firms that have export experience and those with no export experience.

In some ways, Exporters and Considerers are experiencing the export landscape quite differently. A majority of the former started exporting more than a decade ago, when the norms and possibilities of selling products overseas looked quite different from those shaping exporting now. While well-established export destinations and types of product still prevail, there are growing trends towards exporting to emerging markets, selling more services and digital products, and being more business-to-consumer focused. All in all, this creates a more complex export landscape where it cannot be assumed that the modern-day exporter will look the same as former exporters.

The unique profiles of each group warrant individual strategies designed to support their export needs and mitigate any specific risks.

COMMUNICATION AND MESSAGING

Recommendation three: LEPs, Growth Hubs and business support bodies to provide back-to-basics myth busting on what exporting means

For a variety of reasons, it is clear that small businesses disproportionately feel that exporting is not for them – as this report highlights, many of these reasons are myths. Worryingly, these misconceptions concern the very fundamentals of what it means to export.

In the main, these misconceptions seem basic in nature – for example, the types of product that count as exports – however, they form a significant barrier for many small businesses that are considering exporting. This could be contributing to the prevalence of goods being exported as opposed to services, despite the UK having a strongly service-led economy.

While this confusion may be affecting a relatively low proportion of firms, given the sheer size of the small business population, this could make a significant difference to the UK realising the Government's 2020 ambitions, for an additional 100,000 companies exporting.

Export support needs to address this knowledge gap in its messaging and communication to small businesses. Many small firms assume from the outset that exporting is not for them. There is a limited opportunity for such companies to come across export support via a website or any other medium. It is therefore critical, that any support provided corrects these common misconceptions and promotes the benefits of selling overseas.

Business support bodies, such as LEPs, Growth Hubs and those serving the devolved nations, have an important role to play in informing small companies about exporting and being on the lookout for missed opportunities based on misconceptions. As business support becomes more devolved, the onus on LEPs and Growth Hubs to provide export support will increase.

The fundamentals of exporting also need to be embedded in wider enterprise education to close this knowledge gap. For example, an introduction to exporting could be designed as a stand-alone module to accompany existing entrepreneurship or business courses. Funding programmes or schemes that support small businesses should also consider offering an export element in their support packages.

Recommendation four: Promote the softer benefits of exporting – reputation and broader horizons

The benefits of exporting are usually promoted along explicitly financial lines – how exporting will directly affect a business's bottom line. This view is reflected by the findings in this report: small businesses most commonly associate exporting with benefits from access to more customers and increased turnover and profitability.

Less commonly discussed are the softer, more intangible benefits of exporting – improved reputation, credibility and profile. However, half of all Exporters have experienced these benefits. These more intangible benefits also came out strongly in the interviews. Exporting gave small businesses a real sense of reputational pride and they pointed to the benefits of having a broader outlook, such as mutual learning from working in overseas markets.

Messaging about exports should promote these more intangible benefits, showing small firms a more human side of exporting. While, at the end of the day, these benefits should also contribute towards a stronger bottom line, they showcase a lesser-known dimension of exporting, which many small businesses, and especially their owners, are likely to find appealing.

DELIVERY

Recommendation five: Business associations to create a virtuous circle of peer-to-peer learning and support

One in 10 small firms, whether currently exporting or exploring the idea, have sought support informally from other businesses. There are many benefits from seeking support in this manner, ranging from troubleshooting specific problems to more general information gathering, and all in a cost-effective manner.

Many small businesses understandably trust other small businesses to offer information and advice that is relevant and practical to them. This means that this type of support will be particularly effective in myth busting common misconceptions about exporting. Such support could also address challenges related to limited resources – small businesses could assist each other in crowdsourcing market knowledge and advice. Listening to how other similar small businesses have managed to export will also be an authentic source of inspiration for those thinking about exploring exporting, providing a boost to their confidence.

This type of support will be particularly useful for Lapsers who may have had their confidence knocked by earlier experiences of exporting. It would also be a safe forum to discuss their previous experiences, perhaps analysing what went wrong and sharing learning with a view to exporting again.

Business associations and groups such as FSB are ideally placed to facilitate opportunities for informal support through networking and peer-to-peer learning. These could be delivered as physical events or via online platforms such as open forums.

Importantly, the long-term focus of this type of support should be to create a virtuous circle of peer-to-peer learning in which small businesses that seek support and end up exporting are then recruited to help other small firms to export.

Recommendation six: Digital Economy Minister and Department for International Trade to grow e-exporting within an improved digital environment

Overall, technological advancements have made the world a smaller and easier place to trade in. Almost half of all Exporters sell their products overseas via e-commerce and small firms considering exporting now are more likely to sell digital products. As businesses become more digital in the way they operate, e-exporting will continue to grow apace.

E-export capability is also linked to access to key growth markets such as the US and Australia, as well as emerging markets, including China, India and Brazil. The top export destinations in Europe, France and Germany, also boast world-leading e-commerce markets.

The opportunities associated with e-exporting are likely to be particularly attractive to small businesses, first-time exporters and start-ups. E-commerce offers a cost-effective and, in many cases, a low-risk way to sell overseas. However, there is a well-recognised digital skills gap affecting small businesses, and FSB research shows that a significant proportion of small firms do not prioritise embracing technology or digital skills for their business.³³ FSB research has also uncovered several key barriers preventing small businesses from fully integrating digital technology into their business, notably the patchy provision of superfast broadband.³⁴

There needs to be increased efforts to promote e-exporting – the opportunities presented by selling online and the support necessary for understanding how this can be done. To be truly effective, however, this must be accompanied by, or dovetail with, wider support to improve digital awareness, skills and infrastructure for small businesses.

³³ FSB submission to the Science and Technology Committee Inquiry into the digital skills gap.

³⁴ FSB Report, Reassured, Optimised, Transformed: Driving Digital Demand Among Small Businesses [http://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-telecoms-report---september-2015\(2\).pdf?sfvrsn=0](http://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-telecoms-report---september-2015(2).pdf?sfvrsn=0)

Recommendation seven: Department for International Trade to build an online marketing platform for Exporters

The majority of small firms, at least at the beginning of their export journey, export on a reactive basis – they sell directly to locations where there is market demand. This is broadly true even for Exporters that sell overseas more strategically.

It is very likely that many small firms can export more strategically, to become more persistent in their exporting behaviour and increase the value of their exports. However, it is important to recognise the reality that the majority of small firms export with a more reactive mindset. Compared with larger companies, small firms are typically run with tighter margins and limited capacity. Therefore, smaller firms are likely to be less able or willing to take on the bigger risks, or invest in the more proactive export strategies, associated with rapid growth. Additionally, a significant proportion of small businesses are not necessarily looking to grow and are happy to export primarily on a reactive basis.

In respect of this, export support should work with the grain and look at ways of maximising the chances of Exporters being approached by customers overseas. Building on existing initiatives that facilitate the brokering of export deals – the Government's Exporting is Great website allows businesses to search for trade opportunities from local markets – the creation of a platform that small businesses can use to market their products to overseas customers would be very welcome. This should also allow overseas customers to search for UK suppliers.

As an established and trusted brand, such a platform would benefit from being hosted and run by the Department for International Trade as part of its existing Exporting is Great website. To drive traffic to the website and encourage small firms to engage with this initiative, organisations such as FSB and local business support agents, including LEPs and Growth Hubs, will also need to be involved.

AREAS AND GROUPS TO TARGET

Recommendation eight: Department for International Trade to shine a spotlight on services

The UK is a strongly service-led economy. However, this is not reflected by the UK's small business exports, where the majority tend to be goods rather than services. While Considerers and Lapsers are shown to be more likely to export a service than an Exporter, they too are on the whole still more likely to sell a good.

In order to fully exploit the strengths of the UK economy, there needs to be a much better understanding of why more services are not being exported. This should look at ways of untangling any complexities involved to make exporting services easier. It should also try to clarify any confusion about whether certain services can be exported and provide examples of how this could be done.

As trade continues to move into a digital environment, with more digital products being exported, the conventional distinction between a good and a service is becoming increasingly blurred. These new areas of product innovation and growth also require distinct frameworks to operate within. For example, new VAT rules have been issued for cross-border sales of digital services within the EU.³⁵

In all, this continues to add layers of complexity to exporting services, digital or otherwise. Support for exports must recognise the challenge this represents for small firms. Many are already at a disadvantage when it comes to having the time, resources and ability to investigate what is required of them in order to sell their services overseas. As the report findings highlight, many small firms already feel that existing support for services is lacking; therefore, efforts must be made to prioritise support specifically for this sector.

35 HM revenue & Customs Guidance: VAT: businesses supplying digital services to private consumers, <https://www.gov.uk/government/publications/vat-supplying-digital-services-to-private-consumers/vat-businesses-supplying-digital-services-to-private-consumers>.

Recommendation nine: Department for International Trade and business associations to encourage small firms to explore emerging markets

One of the key differences between small firms that would consider exporting now and current exporters are the destinations they trade with. Considerers and Lapsers have shown that small businesses are increasingly attracted to emerging markets and even frontier markets. While these markets are perceived as offering higher growth opportunities, the benefits are countered by the likelihood of higher risks and required levels of investment to make the export effort worthwhile.

Small firms exporting to these markets are more likely to use intermediaries such as distributors and agents, and tend to be more reliant on exports as a core part of their business model.

Export support needs to reflect this trend. In particular, for less familiar and well-established export destinations, small firms will require access to market knowledge and practical information on logistics, delivery and translation services.

As the role of intermediaries seems to be particularly important for exporters to emerging markets, export support should enhance awareness among small businesses of the benefits of using distributors, agents and other types of intermediary service. A brokering service helping small firms to find suitable intermediaries may also prove very useful. This could be another element of the online platform, discussed in another recommendation, to help exporters market themselves better. The Government's trade team based around the world in British Embassies, High Commissions or Consulates are ideally placed to gather intelligence and contacts to build a database of local intermediaries. They can also vet any local intermediaries before making them available for consideration by UK small firms.

Importantly, it is crucial that any focus on exporting to emerging markets is not pitched to small firms as a zero-sum game in respect of other export markets such as Europe or North America. As this report demonstrates, over the past few years Exporters appear to have diversified their export portfolio and are selling to more markets; only a relatively small minority of small companies export solely to a single region.

In business, operating in a more diversified manner usually works to a company's advantage. This is particularly the case in a rapidly changing geopolitical environment and global economy. It could be a valuable exercise for the Department for International Trade to investigate the impact of having a portfolio-based approach to exporting; that is, exploring the benefits for a small business from selling to a more diverse set of markets.

Recommendation ten: Finance providers and the Government to prevent current exporters from falling off the export wagon

The significant proportion of Lapsers demonstrates that the vast majority of small firms that have exported in the past found it to be a positive enough experience to consider exporting again. Despite this, they reveal the risk that many Exporters are likely to stop selling overseas for a variety of reasons.

The notable differences between Exporters and Considerers may provide some clues to some of reasons why some small firms stop exporting. The growing opportunities provided by emerging markets and exporting in a more digital environment may be missed by current exporters if they simply continue with business as usual. There is a danger that they will be outcompeted by a newer generation of small businesses that are more likely to take advantage of modern trading methods and go where the higher growth markets are.

Support for exporters, therefore, needs to address the issue of sustainability within exporting. One idea could be to develop mechanisms that identify red flags signalling that a business is at risk of stopping exporting. In these situations, it is probable that the business as a whole is experiencing distress and certain stakeholders, such as banks, are likely to be aware of this. The Government could work with the banks to identify specific challenges most likely to put exporting small firms at risk, and to develop support specifically to address this.

It may also be worth exploring whether there is value in setting up a specific team tasked with supporting current exporters when they encounter particularly difficult problems. This service could even be delivered by stakeholders, such as banks and other finance providers, as they will already have direct access to these firms.

Recommendation eleven: Focus export support on start-ups and first-time exporters

As well as being potential first-time exporters, over one third of Considerers are start-ups. This group of small businesses faces a double whammy of connected challenges. Small firms within this group are the most likely to take the road less travelled when it comes to exports. They are more likely to consider exporting to emerging and frontier markets, which, while they have their upsides, in terms of higher growth opportunities, also have downsides, as riskier environments to do business in. Small firms within this group are also the most likely to consider exporting services and digital products, which, as discussed, tend to present greater levels of complexity.

This group is also the most likely to suffer from a knowledge gap when it comes to exporting. These small firms are the most likely to face challenges to do with knowing where to go for support and which export markets they should be targeting.

The gap between the proportion of start-ups that would consider exporting and older companies that don't, suggests that there is a limited window in which small businesses are most receptive to the idea of exporting. The gap between these Considerer start-ups and those that are currently exporting also suggests that only a fraction of these small firms make it across the line to become exporters.

There is a strong argument, therefore, that start-ups and potential first-time exporters will benefit the most from export support and are likely to provide the highest conversion rate to becoming exporters. The focus on start-ups is also particularly important as a means of embedding exporting as early as possible in the psyche of entrepreneurs and first-time business owners. Without this focus, the small business community will continue to perpetuate a culture where exporting is seen as a 'nice to do' at some point in their business life cycle, as opposed to a core feature of doing business.

GLOBAL TRADE ENVIRONMENT

Recommendation twelve: Government to secure access to the single market

The significance of the European Single Market to small business exports has been strongly highlighted in this report. This is of paramount importance in the wake of the recent EU Referendum result, where uncertainty about the future of the UK's trade relationship with the EU abounds.

As a priority, the Government must ensure that small businesses have simple access to the Single Market. Building strong trading relationships with overseas markets will, for many small firms, also involve other aspects, such as the ability to hire the right people or access to relevant EU funding and support for exporting. There must also be clarity on the future regulatory framework.

In order to support small firms to continue to prosper through trading with the EU, it is crucial that a holistic approach is taken. The Government needs to work with FSB, the voice of small businesses in the UK, to ensure that small firms have a place at the negotiating table on the UK's future relationship with the EU.

METHODOLOGY

This report is based on FSB members' views, experiences and characteristics in relation to exports. The sampling frame was the UK-wide FSB membership database. Members were invited to participate in the research via email and social media channels. The research took a mixed-method approach – a quantitative online survey followed by a series of qualitative in-depth interviews, conducted face to face or over the telephone. The survey was in the field for one month from 21 March 2016.

The call for participants resulted in a sample of 2,414 small businesses that completed the survey. Of these, there were 518 small firms that currently export and 509 that do not currently export but would consider doing so. Participants in the survey were then invited to join in the interview phase, for which 30 small businesses were chosen. These 30 FSB members were carefully selected on the basis of a sample matrix that reflected the mix of small firms the report sought to cover – export status, location, size, sector, export experience and export destinations.

The survey findings are all weighted according to FSB membership weighting (to reflect the demographic balance of FSB members throughout the UK). Only comparative differences between sample groups which are truly significant are presented in the report (significance testing was used to ensure that the difference is real and not down to sampling error). All percentages were rounded to the nearest whole number, which is why in certain figures in this report, the percentages do not add up to 100 per cent.



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