Department for International Trade

Analysis

Barriers of exporting businesses and the role of export promotion in addressing them

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Errors and omissions remain the responsibility of the authors alone.

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Executive Summary

This paper summarises the key findings from a programme of analytical work led by analysts from the Department for International Trade (DIT) to develop the evidence for export promotion in the UK. This work underpinned UK government 2018 Export Strategy which sets out how government will support and connect businesses to grow on the world stage.

The paper takes a fresh look at the evidence relating to the needs, attitudes and exporting behaviours of UK businesses, and the role of export support to overcome these.

What do we know about UK businesses and their exporting behaviours?

Estimates of the number of UK businesses, and the number who export, vary according to the different methodologies applied to measure them. The Department for Business, Energy and Industrial Strategy (BEIS) 'Business Population Estimate', which includes both unregistered and registered businesses, estimates that there were 5.9 million private sector businesses in the UK at the start of 2019 (BEIS, 2019), whilst the Office for National Statistics (ONS) 'UK Businesses: Activity, Size and Location' estimates that there were 2.72 million registered businesses (ONS, 2019a). The vast majority (98%) of these businesses are micro and small businesses with between 0 and 49 employees (ONS, 2019a). However, in 2018, medium and large businesses contribute proportionally more to employment (60%) (BEIS, 2018), turnover (69%) and gross value-added to the UK economy (65%) (ONS,2018).

Estimates also vary for the number of UK businesses who export, from 9.6% (ONS, 2019b) to around 24% (DIT, 2019). DIT's 'National Survey of Registered Businesses' (NSRB) further categorises businesses into four segments based on where they are in their export journey, from Sustain (current exporters who have exported in the past 12 months) through to Challenge (businesses that do not export and believe their product/service is unsuitable for export). In the most recent wave (Wave 4), approximately half (47%) of businesses were in the Sustain, Reassure (have previously exported but not in the last 12 months), and Promote (have not exported but have a product or service that could be developed for export) segments. These businesses represent a large potential for future export growth through starting to export, exporting more intensely, and/or exporting to new markets.

DIT's NSRB Wave 3 looked at how long businesses have been exporting for and found that 17% of all exporters had been exporting for three years or less, compared to 10% of businesses with a turnover of £500k or more (DIT, 2018). This suggests that smaller businesses are more likely to be new entrants to the export market.

The proportion of businesses exporting increases with business size, with a much greater proportion of large and medium-sized businesses (MSBs) exporting (42%

and 35% respectively) compared to small (20%) and micro (8%) businesses (ONS, 2019b).

Correspondingly, large businesses and MSBs account for 69% of the total value of goods exports in 2018 (HMRC, 2019). This is consistent with the fact that as businesses get larger, they are increasingly able to cater for larger export contracts.

The vast majority of exporters in Great Britain are in England (93%), with 28% in London and 20% in the South East (ONS, 2019c). Looking at the breakdown by region for each of the exporting segments gives a more nuanced picture, for example it shows that 19% of businesses with a turnover exceeding £500k are in the Midlands and 17% in the North East are in the Promote segment (DIT, 2019). This is higher than the overall UK proportion of businesses with a turnover greater than £500k in the Promote segment (13%) and indicates a potential opportunity to increase exports in these regions.

The structure of the business population in the UK is similar to that of other G7 countries – France, Italy, UK, Japan, Germany, USA and Canada - in that the vast majority are small and micro businesses. The UK is also similar to some other G7 countries in that larger businesses contribute a much larger proportion to overall turnover than micro and small businesses, however in France and notably Italy small and medium-sized enterprises (SMEs) make a larger contribution. A similar story can be seen when looking at exporters across the G7.

What barriers to exporting do UK businesses face?

Businesses face several barriers in their exporting journey, which they need to overcome to be successful exporters. DIT has developed a theoretical framework for identifying and assessing the prevalence of five barriers to exporting, using a range of national and international sources including academic and policy literature, insights from across DIT, and publications by business groups.

These barriers are:

- Attitudinal: According to existing literature and surveys of businesses, many companies do not export because they have decided that overseas sales are not for them. This is driven mainly by three factors: their product or service not being suitable for export; being less ‘globally minded’; and misperceptions about the true costs and benefits of exporting (or exporting to specific markets).
- Trade costs: Businesses need to invest both money and time to sell goods or services overseas, which will often require more investment than selling to a domestic market. These ‘trade costs’ can relate to fixed costs such as the cost of collecting information or developing an export market strategy, variable costs such as costs associated with transport and clearing customs, trade barriers such as tariffs, securing working capital to fulfil overseas contracts, and the financial risks involved in exporting. Results from Wave 3 of DIT's NSRB showed that 55% of businesses who export or for whom exporting is possible felt that cost was a moderate or strong barrier to exporting.

- Lack of knowledge**:** Businesses can lack specialist exporting knowledge, including how to develop an export plan, how to navigate the different methods of exporting, where to go for financing, how to complete the necessary paperwork, and how to comply with standards and regulations. DIT's NSRB Wave 4 shows that the majority of all registered businesses for whom exporting is possible feel they don't have a good level of knowledge about how to export (77%) or where to go for help and support (74%).
- Perceived or lack of capacity: Internal limitations of a business can limit their ability to effectively compete internationally. This is a combination of employees with the right requisite skills, specialised information, and working capital. DIT's NSRB Wave 3 found that 52% of all businesses for whom exporting is possible said that capacity to export or cater for international contracts was a strong or moderate barrier to exporting. Within this, lack of managerial time was the most frequently selected barrier (68%) while not having enough staff to expand operations was the second most widely chosen (56%).
- Limited access to contacts or the right networks: Building relationships with foreign intermediaries and customers is seen as essential to establishing export capability. Business-to-business networks are also important as businesses can learn from the exporting experience of their peers. In some cases, government-to-government relations are also essential to securing overseas contracts. Results from Wave 3 of DIT's NSRB found that 61% of all businesses for whom exporting is possible said that access to customers and contacts was a strong or moderate barrier to export.

Activities focused on influencing government and regulatory policy overlaps with all five barriers identified and varies by market and sector.

Amongst businesses in the UK, the five barriers were seen as broadly equal barriers to exporting, with each being seen as a strong barrier by around one in three businesses. However, the importance of each barrier varied by different subgroups of businesses, for example businesses in the Promote segment were more likely to see each of the five barriers as presenting a strong barrier to exporting, compared to businesses in the Sustain or Reassure segments. It is also important to recognise that the barriers are not mutually exclusive, instead they overlap and interact with each other. This means that there will not be one single intervention which can be used to address each barrier.

What do Trade Promotion Organisations (TPOs) do?

There are many determinants of a country's export performance, and as such there is also a wide range of policy mechanisms which could be used by government to influence this. Export promotion is only one of these, but nonetheless many countries have dedicated export promotion agencies which are often at least partially state-funded. These agencies undertake a range of domestic and offshore activities to address the barriers to exporting businesses experience, such as providing information and technical assistance, advocacy to promote the country abroad, and marketing activities such as trade fairs and trade missions.

Trade promotion activities are typically justified as a means of correcting market failures by offering support to businesses across the entire export journey. Market failures are those instances where the private sector alone does not or cannot provide the support businesses need to overcome the barriers to export, and so government steps in to fill this gap. The literature finds that the government is uniquely positioned to overcome a number of market failures including information failures, positive externalities, coordination failures and missing markets.

A DIT-commissioned review of trade promotion activities in other countries found that DIT services are broadly similar to comparative countries and are focussed on addressing the known barriers to export. Instead, the difference between different TPOs come largely from how much they focus on each barrier, the specific products and services they have developed to address these barriers, and the delivery mechanism adopted.

For example, in some countries the TPO competes with private sector export promotion activities with formal partnership agreements used to minimise duplication, whereas in Canada the TPO offers core services for free and then provides a referral service to private sector providers for specialist services. In terms of institutional structure, many TPOs follow an agency model where the TPO has some degree of autonomy, although it is not clear whether this is preferable to the departmental model followed by Canada and the UK, among others. The TPOs reviewed commonly linked export promotion to wider initiatives for the business community, focusing on productivity, innovation and skills. Another strategic decision in common between the TPOs reviewed was recognising the importance of capitalising on global value chains.

The Export Promotion Systems Model

There is a complex landscape for businesses to navigate to sell their goods and/or services overseas. The export support systems model helps to describe both how businesses move through each stage of the exporting journey, and how DIT can influence this export journey through the products and services offered to help businesses move to the next stage.

Businesses go through various stages of their export journey, from an initial trigger to successfully fulfilling an overseas order. After an internal or external trigger, a business will explore their options around exporting (such as researching potential opportunities) and then firmly establish their intention to export to a specific market. Following the preparation stage, they will start negotiations to win business, and then fulfil and deliver this overseas contract. After successfully fulfilling one overseas contract, some businesses may decide to expand their exporting activity whilst others may go back into the pool of potential exporters. The system model highlights the fact that businesses can circulate between various stages and can exit at any time, for example if in the discovery or development phase they decide that exporting is not for them.

Businesses can and do successfully navigate each stage of the export journey without the help of DIT. However, DIT can act as a ‘pump’ to increase the rate at which businesses move through the system and improve the success rate of businesses moving to the next stage of the exporting journey. It can do this through ‘capabilities’ which help to increase the capability of businesses to successfully export. There is one capability for each stage of the exporting journey, but each DIT product or service can target multiple capabilities and all work together to help businesses move to the next stage.

The export support systems model gives a whole systems perspective, helping to disentangle how DIT products and services interact with each other and work together to influence the export system. Using this, we can identify how different components contribute to the overall effectiveness of the system and how these might be measured, whilst at the same time acknowledging that there is a one-to-many relationship between DIT support services and the business capabilities that these are targeting (implying one product or service might address multiple capabilities). This reinforces the need to support businesses across the whole of their export journey and can help DIT to better tailor support to focus on the specific capabilities a business needs help with developing.

The export support system model can help to understand how DIT’s products and services can be optimised to address all capabilities in a targeted way, focussing on areas where DIT can add more value and have most influence on the system.

Conclusions

Exporters make up a relatively small proportion of the total UK business population, but there is also a significant proportion who are not currently exporting but have the potential to do so. Focussing on encouraging these businesses to export represents one of the biggest opportunities to impact the economy.

The exporting journey is both complex and iterative, and businesses go through various stages and face different barriers to exporting at each stage. There is a role for government to play in helping businesses overcome the barriers to exporting they face, however most businesses export without the help of government. With this in mind and with limited resource, it is important for government to take a proportional approach to service delivery to focus on where they can have the greatest additional impact.

1 Introduction

The Department for International Trade (DIT) published an Export Strategy which sets out how government will support and connect businesses to grow on the world stage (DIT, 2018). The focus is on identifying where government can help UK businesses achieve the increased growth, productivity and job creation associated with export success. The strategy sets out four core functions of government outlined below:

1. Encourage and inspire businesses that can export but have not started or are just beginning.
2. Inform businesses by providing information, advice and practical assistance on exporting.
3. Connect UK businesses to overseas buyers, markets and each other.
4. Place finance at the heart of our offer.

A series of questions or guiding principles were used to formulate the Export Strategy, those being:

- what do we know about UK businesses' exporting behaviours?
- what barriers to exporting do UK businesses face?
- what do we know about the behaviours of exporters, as they navigate through a series of stages to successfully export?
- what are the potential influences on exporting and different routes to success at different stages of the exporting journey?
- what levers are available and how effective are they in improving UK businesses' ability to generate the desired exporting outcomes?

This paper takes a fresh look at the evidence relating to the needs, attitudes and exporting behaviours of UK businesses, and the role of export support to overcome these, to help answer the above questions.

Understanding the pattern of exporting amongst UK businesses, their motivations and what holds them back are the building blocks to inform what can be done to support them in their exporting journey.

1.1 About the report

DIT analysts conducted a programme of analytical work to help answer these questions. The programme was conducted in several stages:

1. Collect the evidence to understand the pattern of exporting amongst UK businesses.

2. Review the evidence base on barriers to exporting and consolidate national and international research carried out by DIT and its predecessor UK Trade & Investment, academics, and business organisations such as the Confederation of British Industry and British Chambers of Commerce.

3. Commission and undertake primary research to:

    - understand what other countries do in terms of trade promotion activities

    - develop a logic model of DIT's export promotion products and services

    - develop an export support system model to map the exporting journey businesses take, understand what the potential influences are on this journey and what policy levers are available to DIT to help businesses to move through this journey

This paper attempts to summarise the key findings from this programme of analytical work led by DIT analysts to develop the evidence base and analysis underpinning the Export Strategy. The data has been updated to provide the latest statistics available from the Office for National Statistics and other international studies.

2 What do we know about UK businesses and their exporting behaviours?

This chapter summarises the latest evidence on UK business demographics, where UK registered businesses fall within different exporting segments, and other business characteristics such as employee size, sector and export experience. This introduces the vast opportunity and challenge for the UK's efforts to increase exports.

2.1 How many businesses are there in the UK?

There are two main data sources that provide an estimate of the number of businesses in the UK - the Department for Business, Energy and Industrial Strategy (BEIS) 'Business Population Estimates' (BPE) (BEIS, 2019a) and the Office for National Statistics (ONS) 'UK Businesses: Activity, Size and Location' (ONS, 2019a). These estimates differ in terms of the methodologies used and the business population covered (for example whether they include unregistered businesses, and geographical coverage). This means that precise figures cannot be compared directly.

BEIS
BEIS publishes the BPE, this contains statistics on both the registered business population (those meeting the threshold for VAT and PAYE) and an estimate of the unregistered business population[1], which is not included in the ONS statistics. The BPE estimates that there were 5.9 million registered and unregistered businesses in the UK at the start of 2019.

ONS
The ONS produces statistics on the number of UK registered businesses through its publication 'UK Businesses: Activity, Size and Location' which shows that there were around 2.72 million registered businesses in the UK in 2019. Breaking this down by business size (Table 2.1.1) shows that most businesses are micro and small businesses with between 0 and 49 employees (98%). The remaining 2% are comprised by 10,480 large businesses (250+ employees), and 42,000 medium-sized businesses (between 50 and 249 employees).

1 For the purposes of the latest BEIS estimates, unregistered businesses are those with a turnover of less than £85,000, meaning they fall below the threshold for a business to register with Companies House for Value Added Tax (VAT) or Pay as You Earn (PAYE). This includes very small businesses, the self-employed, and those without employees. Some non-profit making organisations are also not registered.

Table 2.1.1 Estimates of the number of registered businesses in the UK, by size of business, as of March 2019

Business size	Number of businesses	Percentage of businesses
Micro (0 to 9 employees)	2,431,995	89.5%
Small (10 to 49 employees)	233,960	8.6%
Medium (50 to 249 employees)	42,000	1.5%
Large (250+ employees)	10,480	0.4%
Total	2,718,435	100.00%

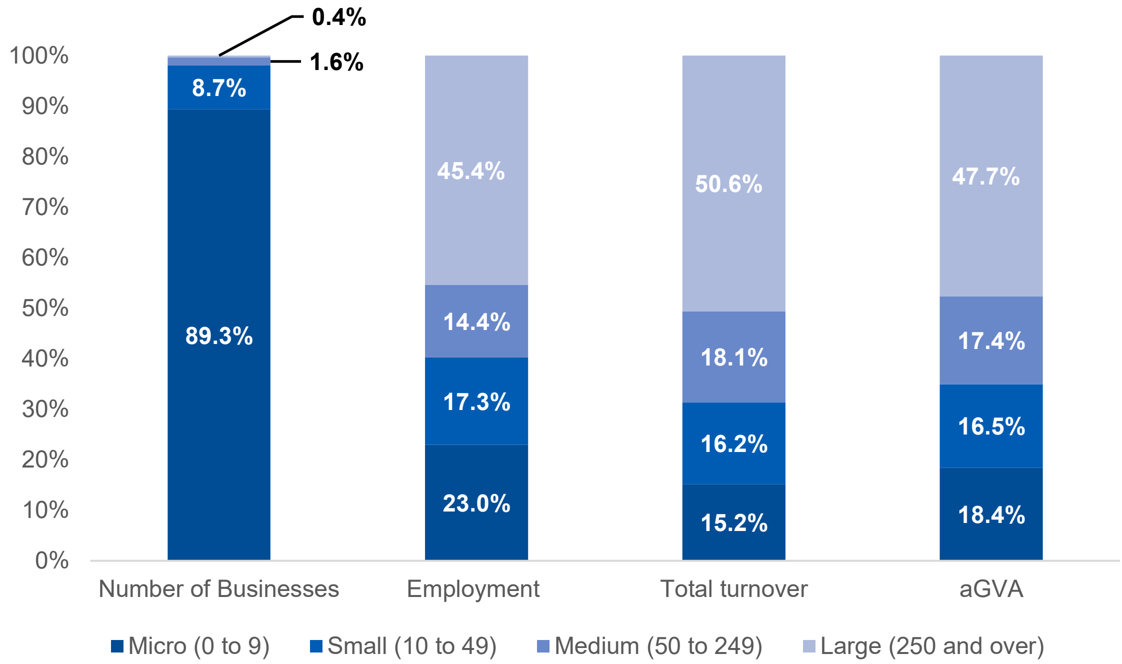
Source: ONS, (2019a), 'UK business; activity, size and location: 2019'

Due to differences in coverage and methodology, this source provides different numbers of the UK business population to other sources such as the ONS's Annual Business Survey.

2.2 What is the contribution of businesses to the UK economy by size?

There is a positive relationship between business size and contribution to the economy, in that the larger the business size, the higher the contribution. For example, as seen in Chart 2.2.1 below, in 2018, medium-sized and large businesses comprised about 2% of registered businesses but contributed significantly to employment (60%), turnover (69%), and gross value-added to the UK economy (65%).

Chart 2.2.1. Estimates of the contribution of registered businesses to the economy, by business size, 2018



Sources:

Number of businesses: ONS, (2018), 'UK business: activity, size and location of 2018'

Employment: BEIS, (2018), 'Business Population Estimates: 2018'

Turnover and approximate Global Value Added a(GVA): ONS, (2019b), 'Annual Business Survey, 2018'

2.3 How many UK businesses export?

As with the overall business population, there are many sources of statistics on the number of exporters in the UK. Differences in methodologies and coverage prevent direct comparisons. Three studies stand out as providing largely stable estimates, having had consistent methodologies over time.

ONS Annual Business Survey

The ONS's publication 'Exporters and Importers in Great Britain' summarises findings on exporting from the Annual Business Survey (ABS), a survey with a large annual sample size of around 62,000 registered businesses. It is compulsory for businesses to respond to this survey, which may result in a lower response bias than other sources. However, the survey does not cover Northern Ireland and only covers sectors which account for around two thirds of the UK economy[2].

2 The ABS only covers the UK non-financial business economy. Sectors excluded are financial and insurance, public administration and defence, public provision of education and health, and all medical and dental practice activities. Some parts of agriculture including crop and animal production are also excluded.

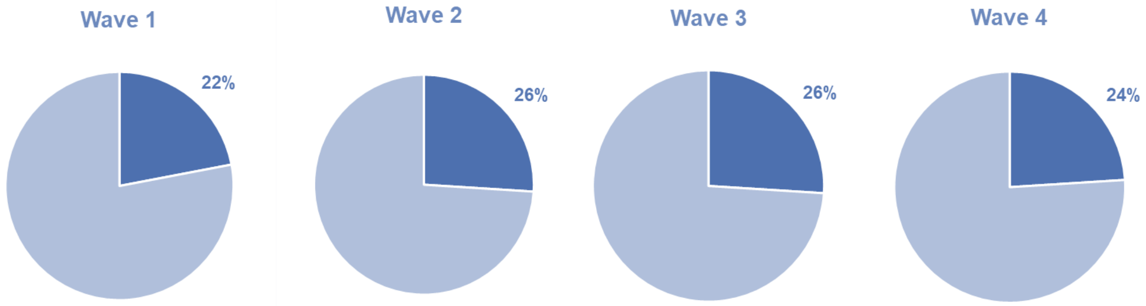
For businesses surveyed in 2018, 9.6% of registered businesses in Great Britain exported goods and/or services in the last 12 months, which equates to roughly 233,900 businesses (ONS, 2019c).[3]

Department for International Trade 'National Survey of UK Registered Businesses' Exporting Behaviours, Attitudes and Needs'

The Department for International Trade (DIT) 'National Survey of Registered Businesses' Exporting Behaviours, Attitudes and Needs' (NSRB) is a telephone survey with a sample size of approximately 3,000 respondents in waves 3 and 4 and around 1,400 respondents in waves 1 and 2[4]. Data from Wave 4 of the National Survey (DIT, 2019), collected between October 2018 and January 2019, estimates that 24% of registered businesses in the UK exported in the last 12 months representing an estimated 631,989 businesses who said they exported in the past 12 months.[5]

As seen in Chart 2.3.1, the proportion of registered businesses in the UK who have exported in the past 12 months has remained fairly consistent across waves 1 to 4, estimating the proportion to be 22%, 26%, 26% and 24% respectively.

Chart 2.3.1. Estimates of the proportion of businesses who exported in the past 12 months, Waves 1 to 4



Source: DIT, (2019), ['National Survey of Registered Businesses' Exporting Behaviours, Attitudes and Needs']

3 These figures are derived from a survey and therefore have confidence intervals around them, which are not published by the ONS.

4 Wave 3 of the NSRB was published in June 2018 and collected survey data between 26 July to 7 September 2017, wave 2 collected survey data between 1 April and 4 May 2016, and wave 1 ran from 20 October to 6 November 2015.

5 Estimated by multiplying the total number of registered businesses in 2018 by the proportion exporting in the past 12 months based on Wave 4 survey data, that is, approximately 2,670,000 * 23.67% = 631,989.

However, there is a margin of error of ±3.3% associated with the survey estimate at the 95% confidence interval. The proportion of businesses exporting in the last 12 months is therefore estimated to lie between 20.37% (23.67% – 3.3%) and 26.97% (23.67% + 3.3%). The lower estimate is therefore 543,879 and the upper estimate is 720,099.

Sources:

Number of registered businesses: ONS, (2018), 'UK business: activity, size and location of 2018'

Proportion exporting in the last 12 months: DIT, (2019), 'National Survey of Registered Businesses' Exporting Behaviours, Attitudes and Needs'

BEIS Longitudinal Small Business Survey

The ‘Longitudinal Small Business Survey’ (LSBS) (BEIS, 2019b) is a telephone survey of 15,015 UK small to medium-sized (SMEs) business owners and managers, commissioned by BEIS to understand their growth, performance, and capabilities. The businesses sampled in the LSBS are weighted to reflect the proportions of businesses by size and sector in the BEIS BPE.

The data on percentage of exporters is based on businesses with between 1 to 249 employees[6]. The latest available data from the LSBS estimates that in 2018, 20% of SMEs with employees were exporting, estimated to represent around 280,453 businesses with between 1 and 249 employees in the UK[7].

It is important to note that while these surveys have some shared content, figures reported in them will differ due to the surveys employing different methodologies (Table 2.3.1). Differences include:

- survey mode: whether conducted over the phone or on paper
- geographical coverage: whether covers businesses in Great Britain or UK
- estimated number and proportion of businesses exporting goods and/or services: the NSRB survey has a markedly larger sample population of 631,989 registered businesses compared to the ONS and LSBS of 233,900 and 280,453, respectively

6 Excludes sole proprietorships and partnerships with only the self-employed owner-managers, and companies with a single employee, who are assumed to be directors.

7 Calculated by multiplying the 1,402,265 businesses with 1 to 249 employees at the start of 2019 (from BEIS Business Population Estimates 2019) by 20% (exported goods or services). Note that of the 5.9 million businesses in the UK estimated by BEIS, 4.5 million are estimated to be non-employers.

Sources: Number of UK businesses: BEIS, (2019a), ’Business Population Estimates: 2019’

Proportion that export: BEIS, (2019b), ‘Longitudinal Small Business Survey, 2018’

Table 2.3.1. Summary of the methodological differences between the three surveys estimating the number of exporters in the UK, 2018

	Exporters and Importers in Great Britain	National Survey of Registered Businesses	Longitudinal Small Business Survey
Source	ONS ABS	DIT NSRB	BEIS LSBS
Survey Mode	Paper	Phone	Phone
Latest year covered	2018	2018	2018
Geographical coverage	Great Britain	UK	UK
Estimate of number of businesses exporting	Yes (by calculation)	Yes (by calculation)	Yes (by calculation)
Estimated number of businesses exporting good and/or services	233,900 (Registered only)	631,989 (Registered only)	280,453 (Employer SMEs with 1-249 employees)
Proportion of businesses exporting goods and/or services	9.6%	23.7%	20.0% (SMEs with employees)
Other coverage	Excludes most of finance, parts of agriculture and government. Excludes the very smallest businesses not on the IDBR sample frame	Excludes public sector and charities. Excludes the very smallest businesses not on the IDBR sample frame.	Excludes large businesses (over 250 employees). The results are usually reported for SMEs with employees only, excluding zero employee enterprises.

	Exporters and Importers in Great Britain	National Survey of Registered Businesses	Longitudinal Small Business Survey
Business Unit Sampled/reference point	Enterprise unit only	Whole business across all sites	Whole business across all sites
Sampling Frame	Registered businesses, excluding Northern Ireland	Registered businesses, all UK	Registered and unregistered micro, small and medium businesses.

Sources:

ONS, (2019c) 'Annual Business Survey, Exporter and Importers, 2018'

DIT, (2019), 'National Survey of Registered Businesses' Exporting Behaviours, Attitudes and Needs'

BEIS, (2019b), 'Longitudinal Small Business Survey, 2018'

2.4 Where are businesses in their exporting journey?

It is useful to understand where businesses are in their exporting journey to help tailor DIT's support offer. The recent DIT NSRB segments businesses as follows:

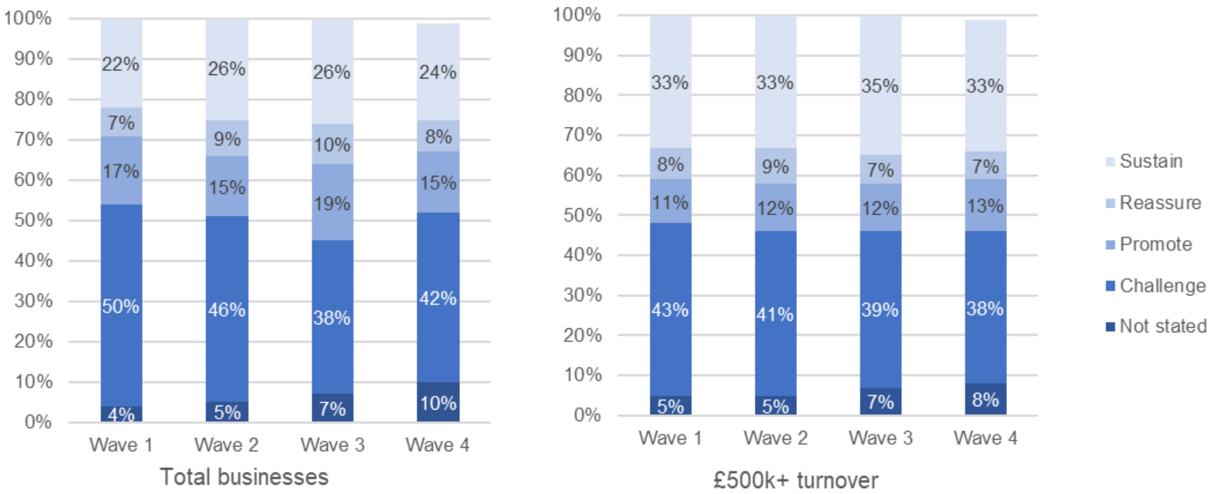
- Sustain: current exporters that have exported goods or services in the past 12 months
- Reassure: businesses that have not exported in the past 12 months but have exported previously
- Promote: businesses that have never exported but which self-identify as having goods or services which could potentially be exported or developed for export
- Challenge: companies that have never exported and do not currently see their goods or services as suitable for export

Chart 2.4.1 shows the proportion of businesses in each exporting segment over the four waves of the NSRB. It is significant that in Wave 4, approximately half (47%) of all businesses are in the Sustain, Reassure and Promote segments. For businesses with a turnover of £500k+ this proportion rises to 53%. These businesses represent a large potential for future export growth through starting to export, exporting more intensely, and/or exporting to more destinations.

The Promote segment is of particular interest because it represents the number of businesses that do not currently export but could be encouraged to do so. Wave 3 results estimate that the number of registered businesses in the Promote segment in 2017 was between 428,000 and 604,000 (DIT, 2018). However, it is important to bear in mind that:

- most new businesses are likely to start in the Challenge or Promote segment before they begin exporting and move to Sustain
- these statistics are estimates for the entire business population derived from a sample and are therefore unlikely to show precisely the number of businesses, instead they are more useful as ranges

Chart 2.4.1. Estimates of export segments by business type, Wave 4



Source: DIT (2019), '[National Survey of Registered Businesses' Exporting Behaviours, attitudes and needs 2018']

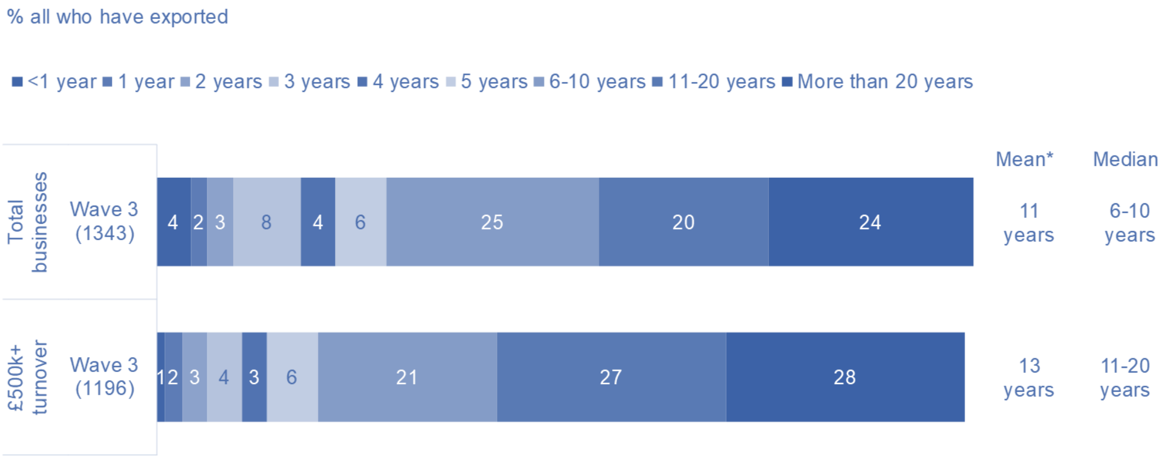
Experience levels of exporters

We can also look at the profile of UK exporters in terms of how long they have been exporting. Findings from Wave 3 of the NSRB[8], as seen in Chart 2.4.2, show that 4% of all UK exporters reported having started exporting in the past year compared to 1% of those with a £500k+ turnover. When using a slightly broader timeframe to identify new entrants to the export market, 17% of all exporters had been exporting for three years or less, compared to 10% of £500k+ businesses. This suggests that smaller companies are more likely to be new entrants to the export market in comparison to larger, more established businesses.

Conversely, a substantial proportion of exporters had a well-established history of selling overseas. 55% of exporters with a £500k+ turnover had been exporting for 11 years or more, compared to 44% of all exporters.

8 This question was not asked in the most recent wave, so the latest available figures are from Wave 3

Chart 2.4.2 Estimates of the number of years UK exporters have been exporting goods or services, Wave 3



Source: DIT (2019), '[National Survey of Registered Businesses' Exporting Behaviours, attitudes and needs 2018](#)'

1. Covers all businesses that have exported in the last 12 months

What do we know about the incidence of exporter persistence over time?

Each year relatively new exporters may stop exporting, for example because they come across barriers or decide it is not worth their while. This is to some extent offset by the volume of businesses who start exporting each year. A study looking at the export growth of non-EU goods exporters in the UK concluded that, over a six-year period, the total number of exporters hardly changed but the number of new exporters offset the number who stopped exporting (UKTI, 2015).

It is difficult to understand why some businesses stop exporting because of challenges with tracking individual businesses using the available data. Some businesses may cease to exist all together and others may merge with another business, so it is not always the case that businesses decide that exporting is not for them. Businesses ceasing to export is a common form of market dynamism.

2.5 Exporting businesses by size, sector and region

Size

The proportion of businesses exporting increases with business size, with a much greater proportion of large and medium-sized businesses exporting (42% and 35% respectively) compared to small (20%) and micro (8%) businesses (Table 2.5.1).

Table 2.5.1. Estimates of the number and proportions of goods and services exporters in Great Britain, by business size, 2018

Business size	Number of businesses	Number of exporters	Proportion exporting
Micro (0 to 9 employees)	2,167,000	174,400	8.0%
Small (10 to 49 employees)	212,400	43,300	20.4%
Medium (50 to 249 employees)	36,700	12,700	34.6%
Large (250+ employees)	8,600	3,600	41.9%
Total	2,424,700	233,900	9.6%

Source: ONS, (2019c) 'Annual Business Survey, Exporter and Importers, 2018'

1. Excludes Insurance and Reinsurance industries, which accounts for under two thirds of the economy in terms of GVA.
2. GB coverage only (excludes Northern Ireland)
3. Percentages in figure may not match published percentages as they are calculated from rounded data (to the nearest 100) whereas published percentages are calculated from unrounded data.

Table 2.5.2 below shows the value of goods exports and the number of businesses exporting goods, from HMRC, broken down by size. The table highlights that although MSBs and large businesses make up 10% of all goods exporters, they accounted for 69% of the total value of goods exports in 2018. This is consistent with the fact that as businesses get bigger, they are increasingly able to cater for larger export contracts. Conversely, micro businesses represent 60% of goods exporters but contribute to 6% of the total goods export value.

Table 2.5.2. Estimates of the number of UK registered businesses exporting goods and value of goods exports, by business size, 2018

Business Size	Number of businesses exporting goods	Percentage of total number of businesses	Value of goods exports (£ millions)	Percentage of total goods export value
Micro (0 to 9 employees)	92,798	59.9%	20,476	5.6%
Small (10 to 49 employees)	34,694	22.4%	30,455	8.4%
Medium (50 to 249 employees)	11,347	7.3%	52,178	14.4%
Large (250+ employees)	3,812	2.5%	200,424	55.1%
Unknown	12,370	8.0%	60,064	16.5%
Total	155,021	100%	363,596	100%

Source: HMRC, (2019), 'UK trade in goods by business characteristics 2018'

Sector
A sector analysis of exporting businesses broken down by business size is limited to trade in goods only and is provided in HMRC's 'Trade in Goods by Business Characteristics publication'[9].

Table 2.5.3 below shows the number of goods exporters by sector and the corresponding value of UK trade in good accounted for by the sector (in millions). Most goods exporters (74%) and the greatest goods export value (45% of total value) is created by businesses in the services industry who carry out trade in

9 Measuring and reporting on exports in services faces methodological and data limitations. The ONS 'UK trade in services by partner country' is the most granular, nationally representative publication. This publication provides a breakdown by business characteristics but not by sector of the economy.

goods[10]. Comparably, the second largest total value of goods exports is produced by the Motor vehicles, transport equipment (excluding Aerospace) sector (9%) whilst the pharmaceuticals sector produces the smallest amount of total value of goods exports (3%).

Table 2.5.3. Estimates of the number of UK registered businesses exporting goods and value of UK goods exports, by sector, 2018

Industry Group	Number of businesses exporting goods	Percentage of total number of businesses	Value of UK goods exports (£ millions)	Percentage of total goods export value
Group 1: Agriculture and Food	7,471	4.8%	18,008	5.0%
Group 2: Mining, petroleum products and waste	1,725	1.1%	23,523	6.5%
Group 3: Chemicals	1,543	1.0%	12,037	3.3%
Group 4: Pharmaceuticals	239	0.2%	10,837	3.0%
Group 5: Electronic and Electrical Equipment	4,059	2.6%	13,716	3.8%
Group 6: Machinery and equipment not elsewhere specified	3,309	2.1%	23,153	6.4%

10 This publication does not include any data on services traded by businesses. However, a breakdown is provided of industry type, which includes group 10: Services. The figures within this group include only the value of goods traded by those businesses who are classified as a Services industry, the number of businesses in the Services industry who are trading in goods and the employee counts for these businesses. The figures do not contain any data on the services these businesses provide, or the values related to this.

Industry Group	Number of businesses exporting goods	Percentage of total number of businesses	Value of UK goods exports (£ millions)	Percentage of total goods export value
Group 7: Motor vehicles, transport equipment (excluding aerospace)	1,341	0.9%	33,363	9.2%
Group 8: Aerospace and related machinery	182	0.1%	33,119	9.1%
Group 9: Other manufacturing	13,080	8.4%	17,543	4.85%
Group 10: Services	114,095	73.6%	164,606	45.3%
Unknown	7,977	5.1%	13,689	3.8%
Total	155,021	100%	363,596	100%

Source: HMRC, (2019), 'UK trade in goods by business characteristics 2018'

Region
Table 2.5.4 shows the regional breakdown of exporters of goods and services in Great Britain, along with the percentage of exporters in each region. The regions with the top three proportions of exporters are London (28%), the South East (20%) and East of England (11%). Overall, exporters in England make up the vast majority (93%) of exporters in Great Britain, with 5% in Scotland and 2% in Wales.

Table 2.5.4. Estimates the number and proportion of goods and services exporters in Great Britain, by region, 2018

Region	Number of exporters	Percentage of total number of exporters
North East	4,300	1.8%
North West	18,500	7.9%
Yorkshire and the Humber	12,300	5.3%
East Midlands	16,500	7.1%
West Midlands	13,700	5.9%
East of England	26,600	11.4%
London	64,800	27.7%
South East	47,600	20.4%
South West	13,300	5.7%
England	217,600	93.0%
Wales	4,300	1.9%
Scotland	12,100	5.2%
Great Britain	233,900	100.0%

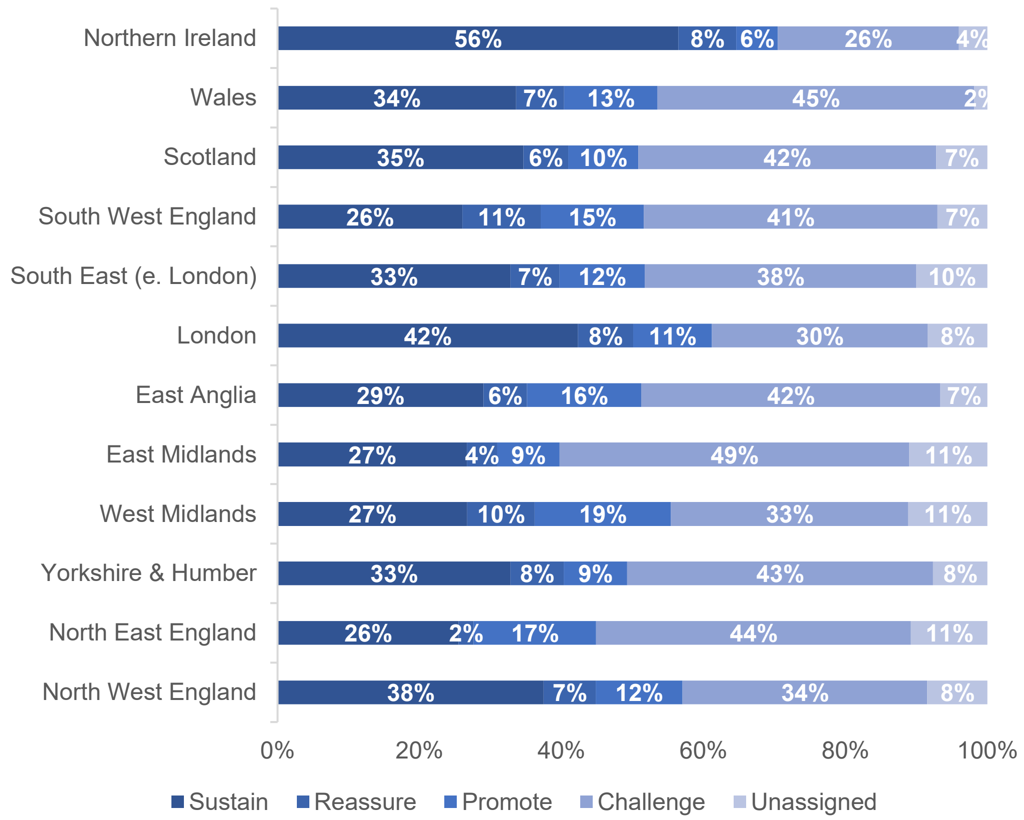
Source: ONS, (2019d) 'Annual Business Survey, Exporter and Importers by regional breakdown, 2018'

1. Excludes Insurance and Reinsurance industries, which accounts for just under two thirds of the economy in terms of GVA.
2. GB coverage only (excludes Northern Ireland.)

Using Wave 4 data from the DIT NSRB, Chart 2.5.1 shows how the exporting segments outlined in Section 2.4 break down by region, for businesses with a turnover exceeding £500,000. The greatest proportion of businesses in London and

Northern Ireland are current exporters (42% and 56% respectively). In contrast, the West Midlands and North East have the highest proportion of businesses in the Promote segment compared to their total business population (19% and 17% respectively). This is higher than the overall UK proportion for businesses with a turnover of greater than £500,000 (13%) and indicates a potential target to increase exports in these regions. Almost half of businesses in the East Midlands (49%) fall into the Challenge segment closely followed by Wales (45%) and North East England (44%).

Chart 2.5.1. Estimates of exporting segments in the UK, by region, Wave 4 (Sample of £500k+ businesses)

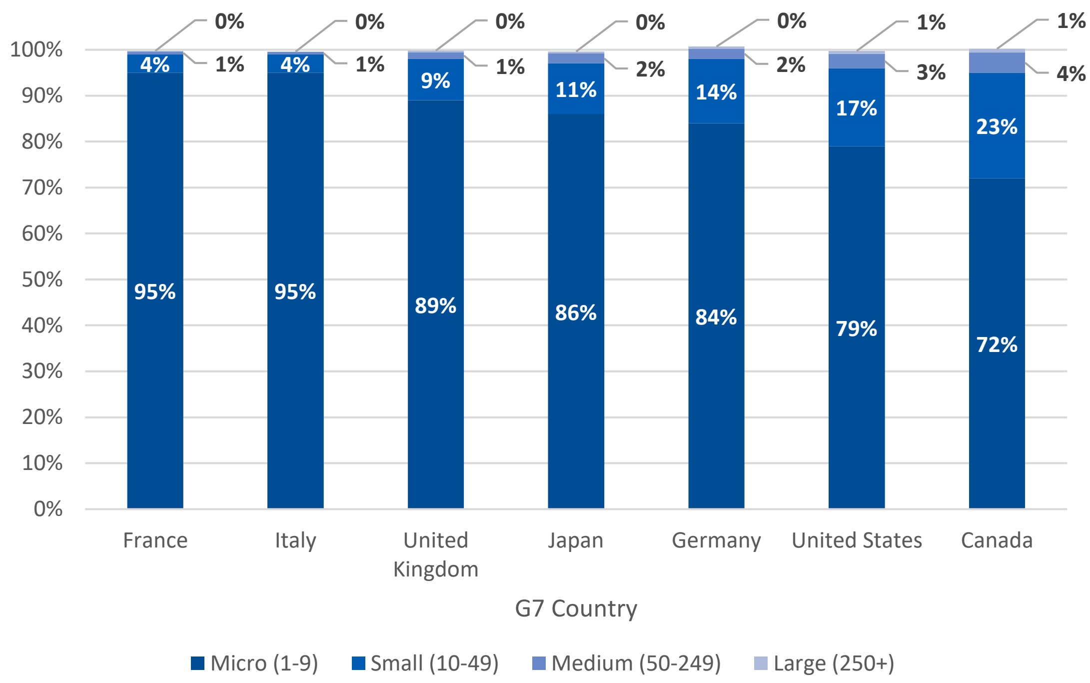


Source: DIT (2019), '[National Survey of Registered Businesses' Exporting Behaviours, attitudes and needs 2018](#)'

2.6 International Comparisons

We can compare the UK business population by size to that of other countries. Such comparisons provide useful context but should be made carefully because differences in methodologies and the definition of businesses prevent direct comparisons of figures. Chart 2.6.1 shows the composition of different business populations of the G7 economies by business size. From the chart we see that the makeup of the UK business population is similar to other G7 countries, specifically that the majority of businesses are micro and small businesses with a much smaller proportion of medium and large businesses. The lowest proportion of micro businesses is recorded in Canada (72%) whilst the highest is reported in France (95%) compared to 89% in the UK.

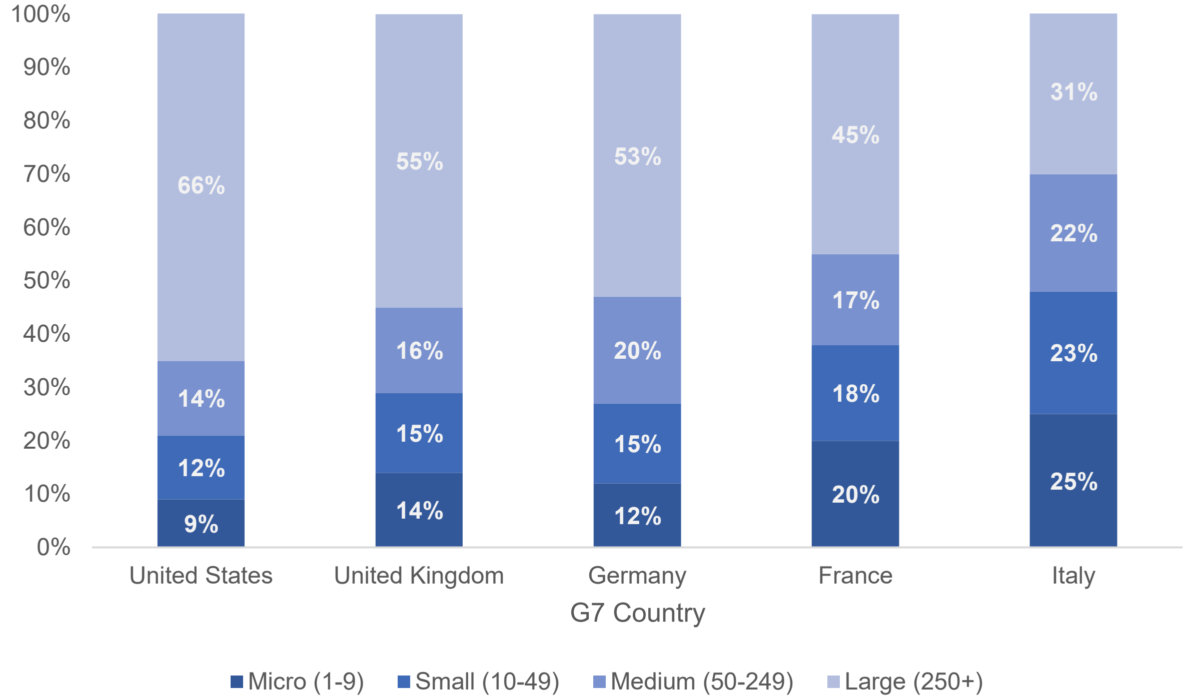
Chart 2.6.1. Estimates of the proportions of different business sizes, by G7 country, 2017



Source: OECD, (2017), '[Entrepreneurship at a glance 2017](#)'

However, in terms of contribution to turnover by business size (Chart 2.6.2), medium and large businesses in the UK contribute a much larger proportion to turnover (71%) than the micro and small businesses (approximately 29%). This is despite making up a much smaller proportion of the overall number of businesses. This is similar to the USA (79%) and Germany (73%), whereas in France and notably Italy, SMEs make a larger contribution to overall turnover (38% and 48% respectively).

Chart 2.6.2. Estimates the contribution of businesses to total turnover for selected G7 countries, by business size, 2014 or latest available year[11]



Source: OECD, (2017), 'Entrepreneurship at a glance 2017'

Focus on Medium Sized Businesses

The proportion of the total business population comprised of Medium Sized Businesses (MSBs) varies across the G7 (Table 2.6.1), from less than 1% in Italy to 4% in Canada (OECD, 2017). At just over 1%, the proportion of MSBs in the UK puts it 5th amongst the G7. However, UK MSBs contribute disproportionately to overall employment in the UK (16%) relative to their proportion of the total business population. This places the UK 4th amongst G7 countries, indicating that the lower proportion of MSBs compared to other businesses sizes, when compared to other countries, does not result in a lower contribution to the economy on a key economic factor (employment). In fact, UK MSBs perform relatively well compared to MSBs in other G7 member states in terms of employment contribution. The three G7 countries with the largest MSB contribution to employment are Canada (22%), Japan (21%) and Germany (20%).

[11] Data for USA refers to 2012, all others refer to 2014 data

Table 2.6.1. Estimates of the number of MSBs and their contribution to employment, by G7 country, 2014

Country	Number of MSBs	MSBs as percentage of business population	Number of people employed by MSBs	MSB employment as percentage of total employment
Canada	35,666	4.4%	2,320,477	22.1%
Japan	66,296	2.2%	7,297,740	20.7%
Germany	54,591	2.3%	5,516,994	19.9%
United Kingdom[12]	26,692	1.5%	2,920,352	15.8%
United States	135,581	3.1%	13,305,796	14.7%
France	18,933	0.6%	2,206,025	14.3%
Italy	17,902	0.5%	1,799,667	12.8%

Source: OECD, (2017), 'Entrepreneurship at a glance 2017'

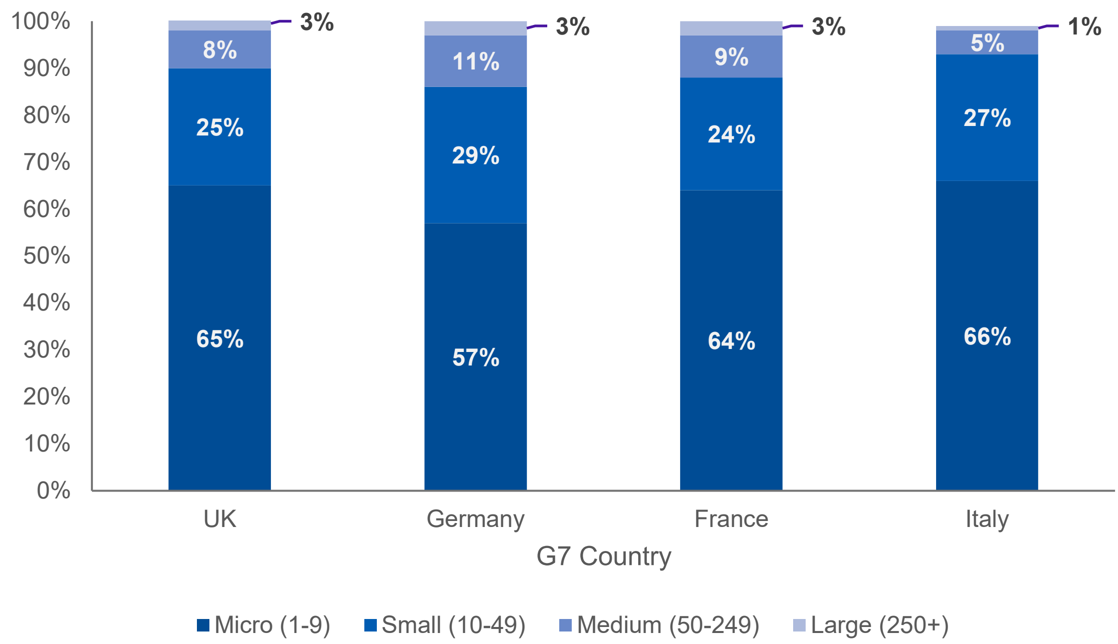
Eurostat provides information on the characteristics of businesses involved in exporting goods by EU country. Chart 2.6.3 shows the proportion of businesses who export goods by business size whilst Chart 2.6.4 shows the value of goods exports by business size. As with all businesses, the proportion of exporting businesses in each size band is broadly similar across countries in that there is a higher percentage of goods exporters in the micro and small businesses groups as a percentage of the total number of goods exporters. However, when looking at the value of goods exports by business size, medium and large businesses contribute disproportionately more than their fraction of the exporting business population might suggest. MSBs in the UK contribute a similar proportion (15%) in the value of goods exports to those in France (10%) and Germany (13%)[13].

Chart 2.6.3.

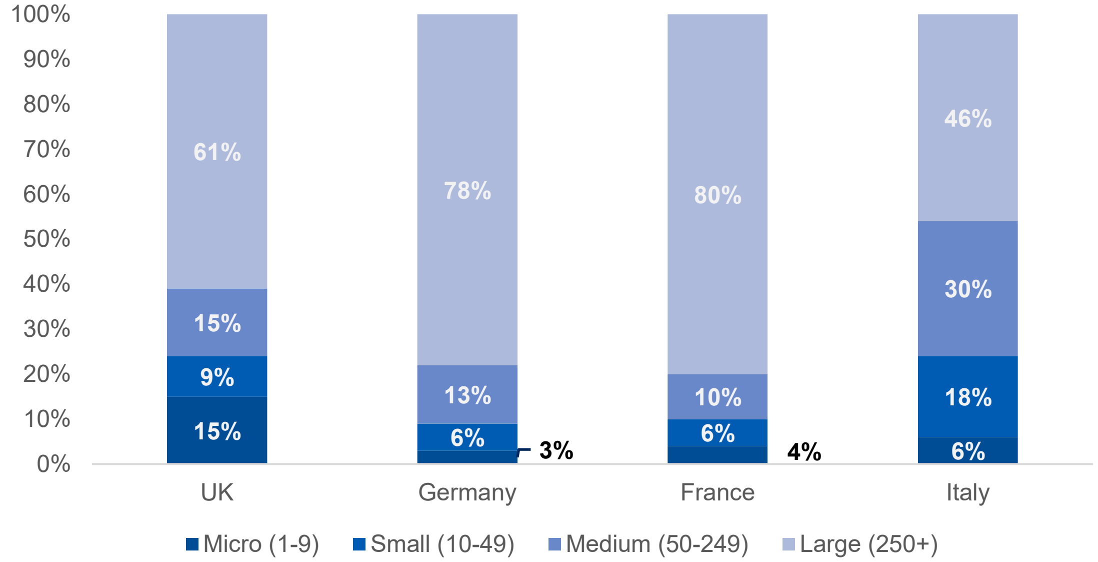
12 Figures for the number of MSBs in the United Kingdom differ from those published by the ONS due to differences in coverage and methodology with Eurostat publications. However, the proportion of MSBs relative to other business sizes in the population of businesses, and their contribution to employment, is small enough to allow meaningful comparisons to be made (1.46% reported by Eurostat compared to 1.50% reported by "UK Business: Activity, Size and Location 2017," 13.2% compared to 15.8% for employment.)

13 The numbers for the UK are different from those reported in section 2.5 because these statistics come from different sources and therefore use a different methodology and have different time periods. The statistics reported in section 2.5 are preferable to use when just looking at the UK. However, for international comparisons it is more relevant to use a dataset which has been compiled for multiple countries.

(a) Proportion of businesses exporting goods by business size in selected G7 countries, 2015



(b) Value of goods exports by business size in selected G7 countries, 2015



Source:

Eurostat, (2018), 'Exporting enterprises share in value of exports and share in number of enterprises, 2015 (update August 2018)'

2.7 Conclusions

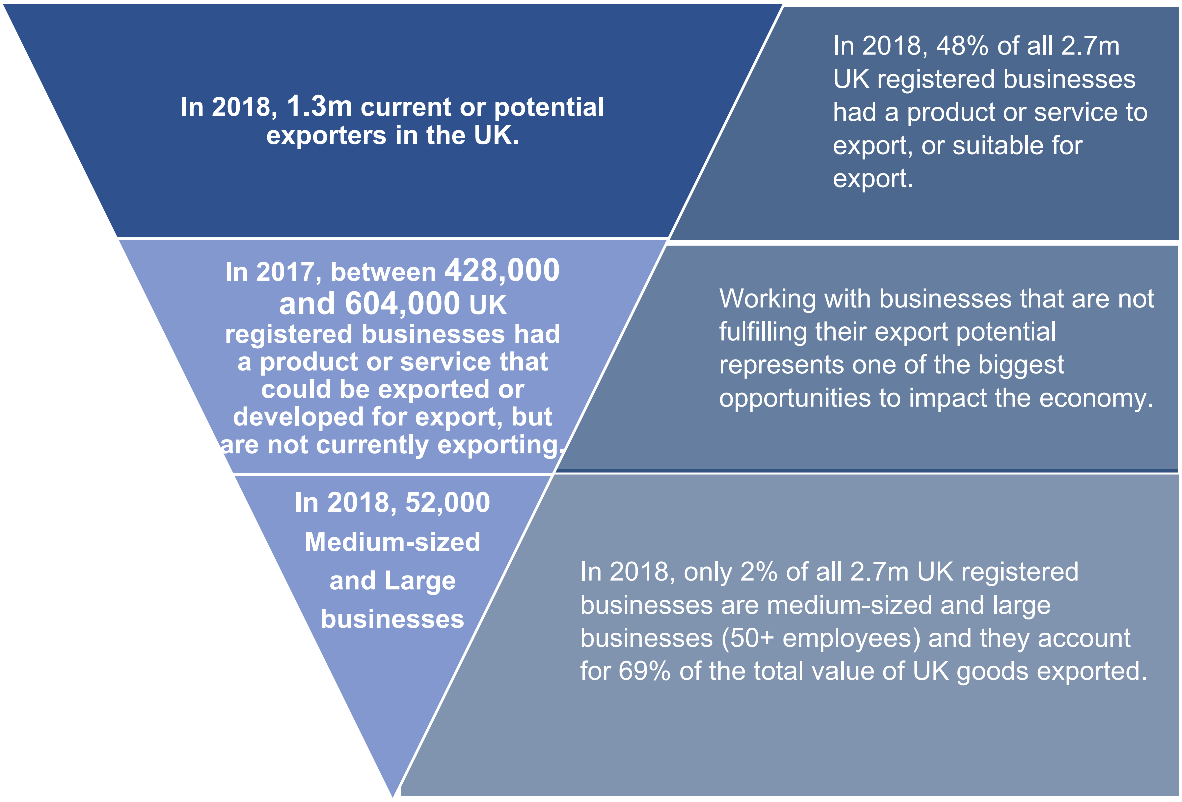
This chapter has set out the context for the vast opportunity and challenge for the UK's efforts to increase exports (Chart 2.6.5). One of the sources, the ONS indicates that 9.6% of registered businesses in Great Britain exported goods and / or services in 2018, equating to 233,900 businesses (ONS, 2019c). DIT's NSRB quantifies the size of the opportunity in terms of the proportion of UK businesses who are not currently exporting but have a product or service which could be developed for export (Promote segment). Wave 3 results showed that in 2017 this represented between 428,000 and 604,000 registered businesses (DIT, 2018).

All business size groups make an important contribution to exporting and some sectors and regions have a larger percentage of exporters. However, a striking finding is that medium-sized and larger businesses, which account for 2% of the UK registered business population and 10% of all goods exporters, account for 69% of the total value of UK goods exports.

International comparisons show that MSBs in the UK contribute equivalent proportions to overall employment and export value compared to MSBs in France and Germany.

It is important to understand the needs and behaviours of different businesses in terms of exporting, as there are marked differences between them.

Chart 2.6.5. The pipeline of current and potential exporters



Sources: ONS, (2019a), 'UK business; activity, size and location: 2019'

DIT (2018), 'National Survey of Registered Businesses' Exporting Behaviours, attitudes and needs 2018'

3 DIT Framework of Barriers to Exporting

Businesses face various barriers in their exporting journey, which they need to overcome to become successful exporters. This chapter introduces a theoretical framework for identifying and assessing the prevalence of these barriers to exporting. It presents five broad categories identified by a wide range of national and international sources including academic and policy literature, insights from across the Department for International Trade (DIT), and publications by business groups. Some of the barriers identified extend to internationalisation in general.

Quantifying the incidence and prevalence of the different barriers nationally and internationally is challenging given the differences in methodologies used, particularly sampling and questionnaire design. In addition, there are few representative studies of businesses around the world. However, despite differences in methodologies there is much agreement on the key issues that affect businesses. DIT (2019) is a bespoke national survey of registered UK businesses on exporting and is key to our evidence base on UK businesses. This is the most comprehensive and representative survey to date, and was designed to provide insights on the behaviours, attitudes and needs of businesses towards exporting based on survey data collected between 23 October 2018 and 4 January 2019[14].

3.1 DIT Barriers to Exporting Framework

The analysis of national and international academic literature provides consistent themes on the barrier's businesses face when selling into overseas markets and what businesses need to overcome these barriers. Literature shows the exporting journey is a complex and iterative process and businesses face different barriers at different points of their exporting journey (DIT, 2019; Leonidou and others, 2011; UKTI, 2015). The exporting segments used in DIT (2019) and referred to in Chapter 2 illustrate how different businesses are affected by different barriers differently, depending on where they are in their exporting journey.

In summary, the evidence suggests businesses of all sizes face a range of barriers they must overcome when they either embark on exporting for the first time or seek to expand or restart their export activity. These barriers vary in frequency, intensity and importance depending on the following:

- the characteristics of the business (size and export history)
- the maturity of the destination market (the size of the specific sector/market, the degree of contestability and competition, and the policy framework in place)

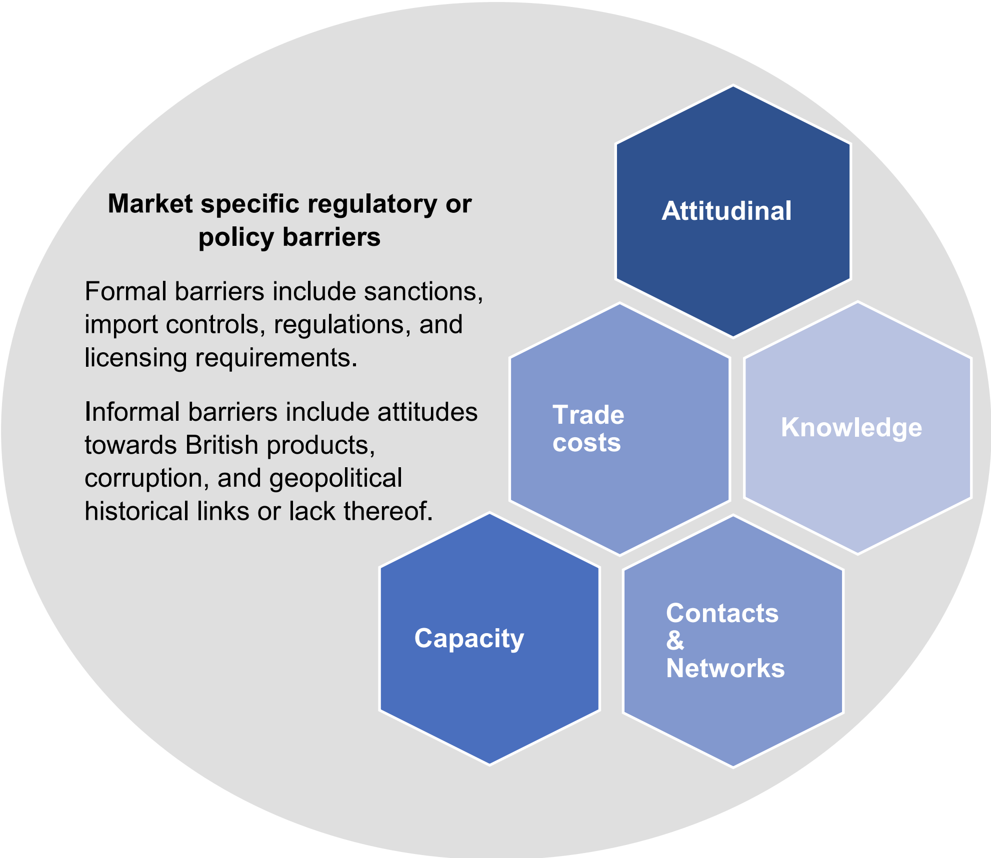
14 Wave 4 of the NSRB, published in July 2019. There were three previous waves, Wave 3 collected survey data between 26 July and 7 September 2017, Wave 2 collected survey data between 1 April and 4 May 2016, and Wave 1 ran from 20 October to 6 November 2015.

The DIT Barriers to Exporting Framework, depicted in Chart 3.1.1 groups exporting barriers faced by businesses into five distinct groups, namely:

1. Attitudinal: Businesses may be less ‘globally minded’ or have misperceptions of the benefits or costs to exporting.
2. Trade costs: Businesses face financial costs and need to invest in selling goods or services overseas. Export finance and insurance considerations can also play a role in improving competitiveness of UK businesses when they are trying to export.
3. Lack of knowledge: Businesses can lack specialist exporting knowledge, including how to develop an export plan, how to navigate the different methods of exporting, where to go for financing, how to complete the necessary paperwork, and how to comply with standards and regulations.
4. Perceived or lack of capacity: Internal limitations of a business can limit their ability to effectively compete internationally. This is a combination of employees with the right requisite skills, specialised information, and working capital.
5. Limited access to contacts or the right networks: This includes government-to-government and business-to-business networks.

Activities focused on influencing government and regulatory policy overlaps with all five barriers identified and varies by market and sector. There are both formal and informal barriers to market access. Formal barriers include sanctions, import controls, regulations and licensing requirements. Informal barriers include attitudes towards British products, corruption, and geopolitical historical links or lack thereof.

Chart 3.1.1. DIT Barriers to Exporting Framework



Source: DIT Analysis - Barriers to Exporting Framework

The rest of the chapter explores each of the five barriers in more detail. It firstly describes these barriers based on triangulation of academic evidence, expertise from within the department and available national and international surveys. It then quantifies the significance of these barriers for UK businesses using evidence from the DIT 'National Survey of Registered Businesses' (NSRB)[15].

3.2 Attitudinal barriers

What are attitudinal barriers?
Individual attitudes shape ambitions and behaviours, especially towards international growth. A positive attitude to growth in general is necessary if businesses are to take steps into new markets. According to existing literature and surveys of businesses

15 The latest wave (Wave 4) is used where possible, however due to changes in the phrasing of the questions sometimes the report will refer to findings from Wave 3.

many companies do not export because they have decided that overseas sales are not for them. This is mainly driven by three factors listed below:

- not having a product or service to export or that is suitable for export (DIT, 2019)
- being less globally minded, either because they feel they have enough business nationally or because they prefer to export on a reactive basis
- perceptions around the costs and benefits of exporting (or exporting to specific markets)

In terms of businesses being less globally minded, some businesses feel they already have enough business by focusing solely on the domestic market and so may not yet be considering exporting to diversify, survive or grow (DIT, 2017)[16.] Others do not perceive exporting as a natural part of their growth strategy but as a 'nice to have', which is in stark contrast to 'born global' businesses (DIT, 2016a; HSBC, 2016). Several studies suggest businesses often enter foreign markets reactively, for example in response to unsolicited orders from abroad, rather than planning to start exporting (Leonidou and others, 2011; Mion and Novy, 2013; Lederman and others, 2006; FSB, 2016; Broocks and others, 2017; Fliess and Busquets, 2006).

Harris and Li (2007; 2009; 2010) showed that there was a positive relationship between attitudes to growth and internationalisation, specifically that businesses not actively seeking to grow are less likely to grow internationally. This suggests that the attitudes of businesses to international growth, and whether they export proactively or reactively, can influence how successful they are (OMB Research, 2007). It also indicates that businesses which show growth resistant dispositions are less likely to want to grow internationally (UKTI, 2013).

Perceptions around the costs and benefits of exporting can manifest in several ways, an example is that regulation and information costs and perceived risks can deter businesses from exporting (Boston Consultancy Group, 2004; UKTI, 2013). Some exporters think that export control regulations are more stringent in the UK than other countries (DIT, 2017), while there is a perception that it is easier to export to English-speaking markets than EU markets that are geographically closer (UKTI, 2013).

Prevalence of attitudinal barriers for UK businesses

DIT's NSRB Wave 4 shows that exporting is not possible for all businesses. 42% of all UK registered businesses have never exported and felt that their product was unsuitable for export. The two most common reasons for this were that it was a local

16 Technical Note: Interviewed an average of 13 users every week and have identified overarching common topics - 140 people were interviewed, or usability tested from late January to the end of March 2017. Targeted participants vary from team to team but were almost entirely micro to medium sized businesses with an export appropriate product or service.

service or business (27%) and that the product or service was not transportable (18%).

On the flip side, the survey estimated that exporting is possible for just under half (48%) of all UK registered businesses (those in the Sustain, Reassure and Promote segments). As detailed above, the literature identified that a positive attitude towards growth is necessary if businesses are to take steps into new markets. Therefore, it is important to understand the motivations and attitudes towards business growth and innovation in general, as well as future export growth.

Business growth and innovation
In total, 62% of all UK registered businesses surveyed in Wave 4 said they were aiming to grow. This was higher among businesses with an annual turnover exceeding £500,000 (73%). Around half of businesses had introduced new or significantly improved products or services in the past 12 months (43% of all businesses and 53% of those with a turnover of £500k+).

Growth ambitions and innovation both increased as business size increased and did not vary greatly across the Sustain, Reassure and Promote segments.

Future export growth ambitions
Although most businesses surveyed in Wave 4 agreed that there is 'a lot of demand for British products and services around the world' (73%), a substantial proportion (26%) of businesses believed 'there would not be enough demand for their specific goods or services to make exporting worthwhile'. Given that perceptions of international demand for British products have remained strong from previous survey waves, there is a suggestion that any negative trends in attitudes towards exporting are more related to the process and challenges involved or to external factors such as uncertainty.

Of those with a turnover of £500k+, businesses in the Promote segment were less positive about exporting compared to the wider business population. For example, only 39% felt that 'international growth is an exciting prospect for my business', compared to 62% of all businesses with a turnover of £500k+ for whom exporting is possible. They were also more likely to report there are too many risks in taking a business internationally (43% compared to 31% of all businesses with a turnover of £500k+ for whom exporting was possible). Only 15% of businesses with a turnover of 500k+ in the Promote segment reported having plans to export in the future.

There is evidence to suggest many businesses (especially small businesses) struggle to assess the relative costs and risks to benefits of exporting in order to establish their export intent. In the Wave 4 survey, 34% of all businesses for whom exporting is possible reported not having the capability to assess the cost of internationalisation (compared to 27% of £500k+ businesses). This could lead to them misperceiving the costs and benefits associated with exporting, for example by not pursuing exporting when it could have a net benefit to their business.

Active and passive exporting
Two-thirds (66%) of current or past exporters surveyed in Wave 4 with a turnover of greater than £500k said that they were effectively passive in their exporting behaviours, responding to orders from abroad when they were received but not necessarily targeting customers in other countries. Larger businesses were more likely to be ‘active’ exporters compared to smaller businesses (54% of those with more than 250 employees, compared to 20% of those with 0 to 9 employees), suggesting that resource limitations are a likely driver of passive exporting behaviours.

However, findings from the NSRB Wave 4 also show the benefits of active versus passive exporting behaviours, with active exporters more likely to have seen a growth in exports. Around half of active exporters had seen a growth in their exports of goods (54%) or services (51%) compared to the previous year, compared to around a third of passive exporters (31% for goods and 32% for services).

3.3 Trade Cost Barriers

What are trade cost barriers?
Businesses need to invest both money and time to sell goods or services overseas. Getting a good or service from a factory or office in the UK to its final user will require more investment than doing business in the domestic market. These costs are called ‘trade costs’ and include all costs involved in getting a product to a final user other than the marginal cost of producing the good or providing the service itself. Trade costs can be related to the components below:

- fixed costs, particularly the information needed to start or continue exporting, and export marketing strategies
- variable costs such as wages, costs associated with transport or clearing customs
- trade policy barriers such as tariffs, which can occur even between apparently highly integrated economies
- the financial risks involved in exporting
- securing working capital to fulfil a large overseas contract (access to finance)

Export finance and insurance considerations in particular can play a fundamental role in enhancing the competitiveness of UK exporters.

Fixed costs
Many of the fixed costs associated with exporting are information-related (Copeland, 2008). Other up-front costs include marketing, distribution and paperwork. Businesses can incur costs because of customs barriers relating to the difficulty of following procedures to physically export goods. An Organisation for Economic Co-

operation and Development (OECD) (2005) report highlights customs rules and procedures as an area of concern for exporters, also found by ACNeilsen (2001) and Fliess and Busquets (2006). Procedural non-tariff barriers can also be detrimental to a businesses' willingness and ability to export (Fliess and Busquets, 2006), a claim supported by evidence from the NSRB Wave 3 survey which found that 35% of all businesses who perceived cost to be a barrier to exporting listed costs related to complying with standards in the destination country as a specific concern. As an example, ACNeilsen (2001), in a survey of New Zealand businesses, found that export markets did not provide clear information about their specific documentation requirements and that some businesses were required to make unexpected payments to obtain customs clearance.

Every time a business attempts to enter a new destination market they will face new fixed costs. Bernard and Jensen (2001) argue that if businesses are significantly more likely to export having exported in previous years, this is evidence of overcoming fixed costs. They find that businesses are 20% more likely to export in the current year if they exported a year ago, suggesting that they are able to some extent to overcome these fixed costs.

Variable costs

The main drivers of the cost of production are trade and local distribution costs (Bernard and Jensen, 2001). Markets with poor infrastructure (for example roads, ports, infrequent or unreliable flights and power failures) can increase trade costs for exporters due to delays (HMRC, 2014; DIT, 2016a; DIT, 2017).

Access to finance

One of the most-cited barriers to exporting in the literature is a lack of access to finance for export-associated activities (see OECD, 2009; Confederation of Business Industry, 2015; European Commission, 2007; British Chambers of Commerce, 2015; Gorg, 2008 amongst others). These barriers could be related to financing the actual export operations or marketing abroad, or financing investment in capital to improve export competitiveness. For example, OECD (2009) ranked the shortage of working capital as the top barrier to exporting for small to medium-sized businesses (SMEs), based on a survey of 978 SMEs about their trade barriers. Mion and Novy (2013) use quantitative analysis to show that there is positive and significant association between businesses credit scores (a proxy for access to finance) and exporting status, although there is no causal analysis to show which way this relationship runs.

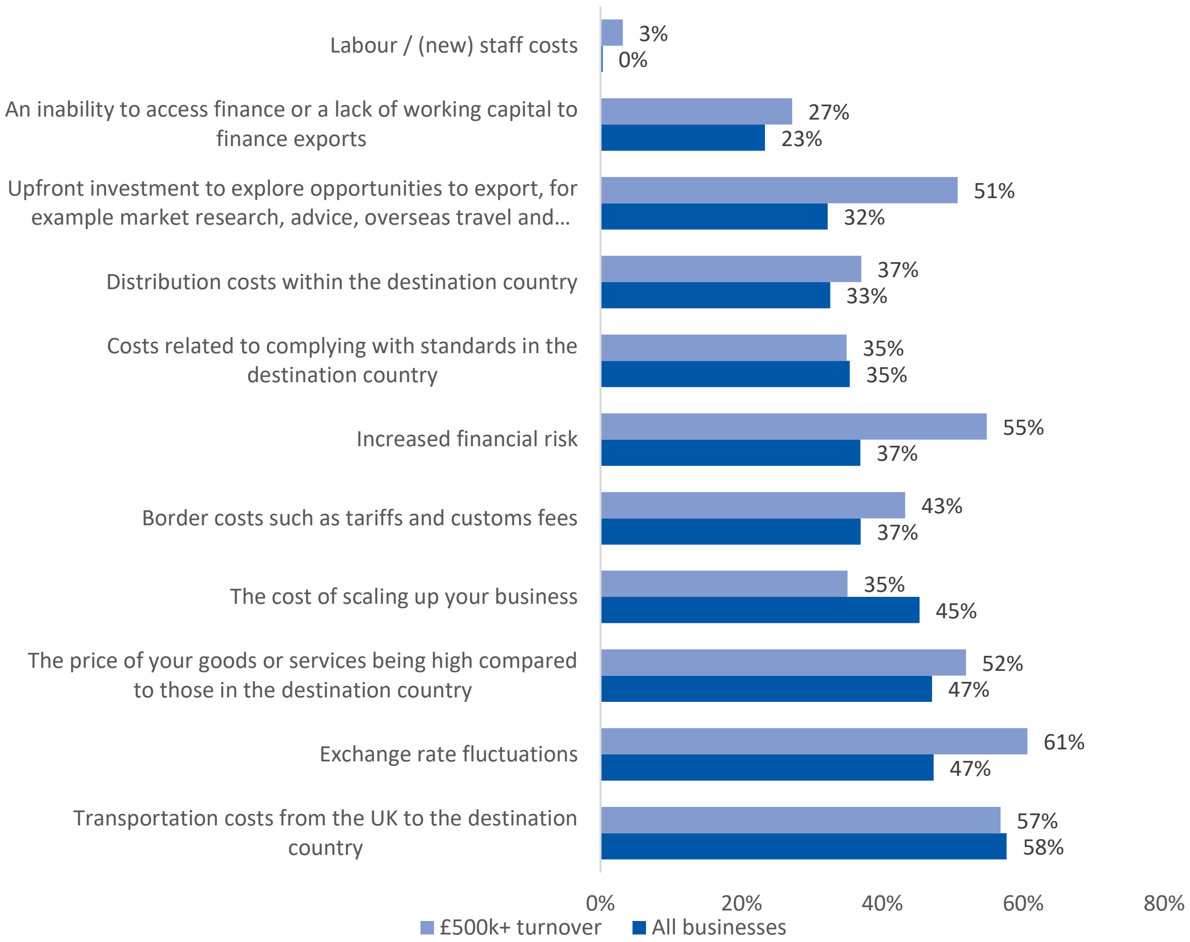
Although the British Business Bank (2015) found that a lack of external finance is not one of the most important barriers to exporting (only 9% of SMEs businesses cited this), three of the top seven barriers relate to finance more generally, including 'getting paid', 'time to get paid' and 'lack of internal funds'. The authors argue that businesses suffer not from a lack of access to external finance per se, but a lack of knowledge on which financial products are applicable to their situation. Bernini and others (2015) conclude that how businesses are financed can have an impact on how they perform in the export market. Businesses that are more reliant on debtfinancing may have lower incentives to invest in quality-enhancing activities and, therefore, may be less able to compete on quality in export markets.

Financial risk
There is evidence to suggest that businesses are deterred by the potential financial risk of exporting, such as not being paid by customers on time and exchange rate volatility (see Kneller and Pisu, 2004; UKTI, 2013; OECD, 2009; HSBC, 2016; Lloyds, 2017; FedEx, 2015 amongst others). Often, few costs appear until a business is too involved in the process of exporting to back out (Bernard and Jensen, 2001). For example, Egger and Larch (2013) argue that some businesses underestimate the trade costs by disregarding the effects of time zone difference. This is an example of trade cost barriers overlapping with knowledge barriers.

Prevalence of trade cost barriers for UK businesses
Results from Wave 3 of DIT's NSRB showed that 55% of all registered businesses who export or for whom exporting is possible felt that cost was a moderate or strong barrier to exporting. Of these businesses (as seen in Chart 3.3.1), the most cited factors were transportation costs from the UK to the destination country (58%), exchange rate fluctuations (47%), the relatively high price of their goods and/or services compared to those in the destination country (47%) and the cost of scaling up the business (45%). The least common reason was labour or (new) staff costs (0%).

Of all businesses surveyed at Wave 3 that had decided against exporting to at least one country in the last two years, cost issues were the most cited factor (30%).

Chart 3.3.1. Ways in which cost is a barrier to exporting (among those for whom cost is a barrier) (Wave 3)



Source: DIT (2018a), 'National Survey of Registered Businesses' Exporting Behaviours, attitudes and needs'

The majority (57%) of all businesses surveyed in Wave 4 were confident in their ability to assess the costs of exporting.

3.4 Knowledge barriers

What are 'knowledge barriers'?
Some businesses can face problems in understanding how to go about exporting which can hold them back from wishing to export. These can be grouped by lack of knowledge in the following instances:

- country where the business operates: this ranges from general knowledge and know-how about exporting to knowing where to get the necessary information, including navigating the processes in place around finance, complying with standard and regulations, and understanding documentation and shipping requirements.

- country the business would like to operate in: this includes the country-specific requirements on how to do business in a specific market, such as familiarisation with the unique business international standards, language and culture.
- knowledge barriers can also relate to a lack of knowledge and experience about exporting.

In terms of the country in which the business operates, evidence suggests that businesses feel they do not have a good level of knowledge about how to export, and some struggle to find the relevant information for example about intellectual property, procedure, legal and trade and customs processes (Kneller and Pisu, 2004; DIT, 2017; Broocks and van Biesebroeck, 2017; Confederation of Business Industry, 2015; Harris and Li, 2010). British businesses may also lack the knowledge to effectively exploit opportunities which in many cases leads to a failed export experience (Kneller and Pisu, 2004). This can deter businesses from trying again in another export market.

In terms of the country in which the business would like to operate, a lack of awareness of individual country requirement, ranging from the tax or regulatory regime to the business culture, can act as a barrier to exporting (Kneller and Pisu, 2004; Confederation of Business Industry, 2015; HSBC, 2016). Some markets will have more severe information barriers than others, and information barriers also tend to be more severe for more complex goods or services (Biesebroeck and others, 2015).

Empirical studies find that language skills also have a measurable, significant effect on exports for UK businesses, equivalent to a 3 to 7 per cent ‘tax’ on exports (Foreman-Peck, 2007). Foreman-Peck and Wang (2013) explored how language barriers hinder the UK’s participation in emerging economies such as BRIC countries, that is, Brazil, Russia, India and China. The gross impact was estimated at around 3.5% of national income in 2006, with language barriers treated as a ‘tax’ on exporting in that they divert trade to countries which share a common language even if there may be more effective trade opportunities with other countries. Spence (2003) uses survey data to show that the success of UK trade missions is positively affected by managerial language proficiency. On the flip side the European Commission (2007), in a survey of 600 Norwegian SMEs, found that almost 40% claimed they had lost valuable business contracts because of bad language skills. A lack of language skills can therefore be seen as a lack of knowledge which acts as a barrier to UK businesses exporting.

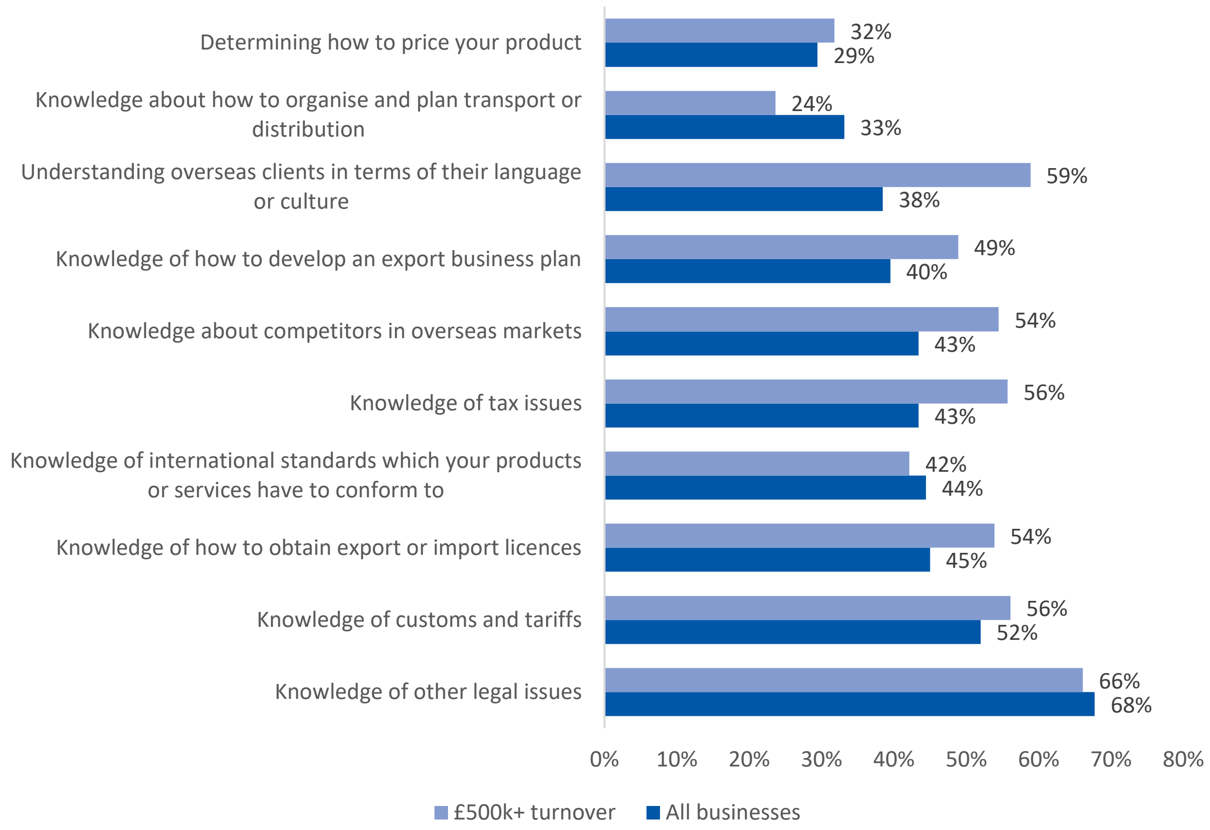
Prevalence of knowledge barriers for UK businesses

The majority of all registered businesses surveyed in Wave 4 who export or for whom exporting is possible feel they don’t have a high level of knowledge about how to export (77%) or where to go for help and support (74%). Google or relevant search engines are cited as the first port of call for many businesses (especially for those in the Promote segment with a turnover of £500k+). Relatively few businesses surveyed in Wave 4 have ever sought advice or support about exporting (28%). The number is even lower amongst the Promote segment with a turnover of more than £500k (16%).

In Wave 3 businesses who export or for whom exporting is possible were surveyed about the contributing factors to their exporting barriers. Of these businesses lack of knowledge was seen as a moderate or strong barrier to exporting by just over half (53%).

As seen in Chart 3.4.1, of those businesses who cited the lack of knowledge as an export barrier, the most cited factor was knowledge of legal issues (68%). Other process-related topics such as knowledge of customs and tariffs (52%), obtaining export or import licences (45%), international standards (44%), tax issues (43%) and competitor knowledge (43%) were also cited. Whereas issues such as how to organise and plan transport and distribution (33%) and how to price your product (29%) were chosen less often.

Chart 3.4.1. Ways in which knowledge is a barrier to exporting (among those for whom cost is a barrier) (Wave 3)



Source: DIT (2018), 'National Survey of Registered Businesses' Exporting Behaviours, attitudes and needs'

Knowledge issues were cited by 18% of all businesses surveyed at Wave 3 who said they had decided against exporting to at least one country in the last two years. Wave 3 also found that for those businesses who export or for whom exporting is possible 43% reported that they were quite or very interested in information and support services to assist them with exporting.

3.5 Perceived or lack of export capacity barriers

What are 'lack of export capacity barriers'?

To compete in foreign markets, businesses may need to adapt their goods and services to meet the new business environment requirements, for example new regulations and standards. However, their capacity to do this may be limited by resource constraints. These include lack of managerial time to consider exporting and develop an export plan, and lack of resource to expand or scale up production to meet the increased demand for products.

Alvarez (2004) presents a list of three types of obstacles to exporting: internal obstacles to the business, internal obstacles to the country, and external obstacles. Internal obstacles to the business include things such as shortage of funds, low-skilled workforce and low-scale production, all of which relate to lack of capacity barriers. Businesses may also be constrained by a lack of the right skills needed for exporting, for example language skills as discussed in the knowledge barriers section above. In this way lack of capability can be seen as a capacity issue, because the business does not have the right people to enable them to build their capacity to export.

Constraints within a business that make it hard for businesses to compete internationally include:

- limited access to the right personnel or staff to effectively do business overseas (suitably trained staff, capability to assess international competitiveness, undertake market research, develop an export plan).
- lack of capacity to scale up and meet international demand. This could range from modifying product labels to comply with overseas regulation, to major changes to product processes such as new machinery or even producing different products.

In terms of access to personnel and staff, business managers may lack sufficient time to dedicate to export activities, or adequate personnel to handle the excess work involved in starting to export (Mion and Novy, 2013; European Commission, 2007; OECD, 2009). Some businesses may also lack staff with the specialist skills to do some specific export activities in house, such as market research or designing an export marketing strategy (Leonidou and others, 2011; UKTI, 2014; CBI, 2015; Foreman-Peck and Wang, 2013; OECD, 2009; Munch and Schaur, 2015). This especially applies to small businesses and shows how some barriers overlap with each other – in this case knowledge and capacity. Relatedly, high labour turnover can lead to high costs to the employer, especially if money has been invested in staff training and education (DIT, 2016a). This overlaps with the trade costs barrier.

In terms of capacity limitations, some businesses may be unaware of their own (lack of) capacity and only discover this when they encounter a blocker or issue in their exporting journey (HSBC, 2016). Other lack of capacity barriers may particularly effect SMEs, one of which is managerial know-how. Brouthers and Nakos (2005) show that structured management systems are fundamental to the success of SME internationalization, in particular by helping with more systematic selection of export markets, which in turn drives export performance. Sousa and Bradley (2009) similarly show that managerial experience abroad is associated with a significant positive increase in export performance. Independently, they also show that export assistance has a positive impact on export performance. This implies that export promotion services can help SMEs with inexperienced managers export and thereby increase their export experience and improve future export performance.

Kneller and Pisu (2004) link exporting experience with success, showing that once businesses enter export markets, their continuing experience enables them to overcome further barriers to export much more easily. However, the authors are not as clear on the causal link. It could be that as businesses' exports increase, the managerial experience increases and the ease of overcoming further barriers increase. On the other hand, it could be that as businesses' exports increase, the business has more revenue to spend on resources devoted to overcoming more export barriers.

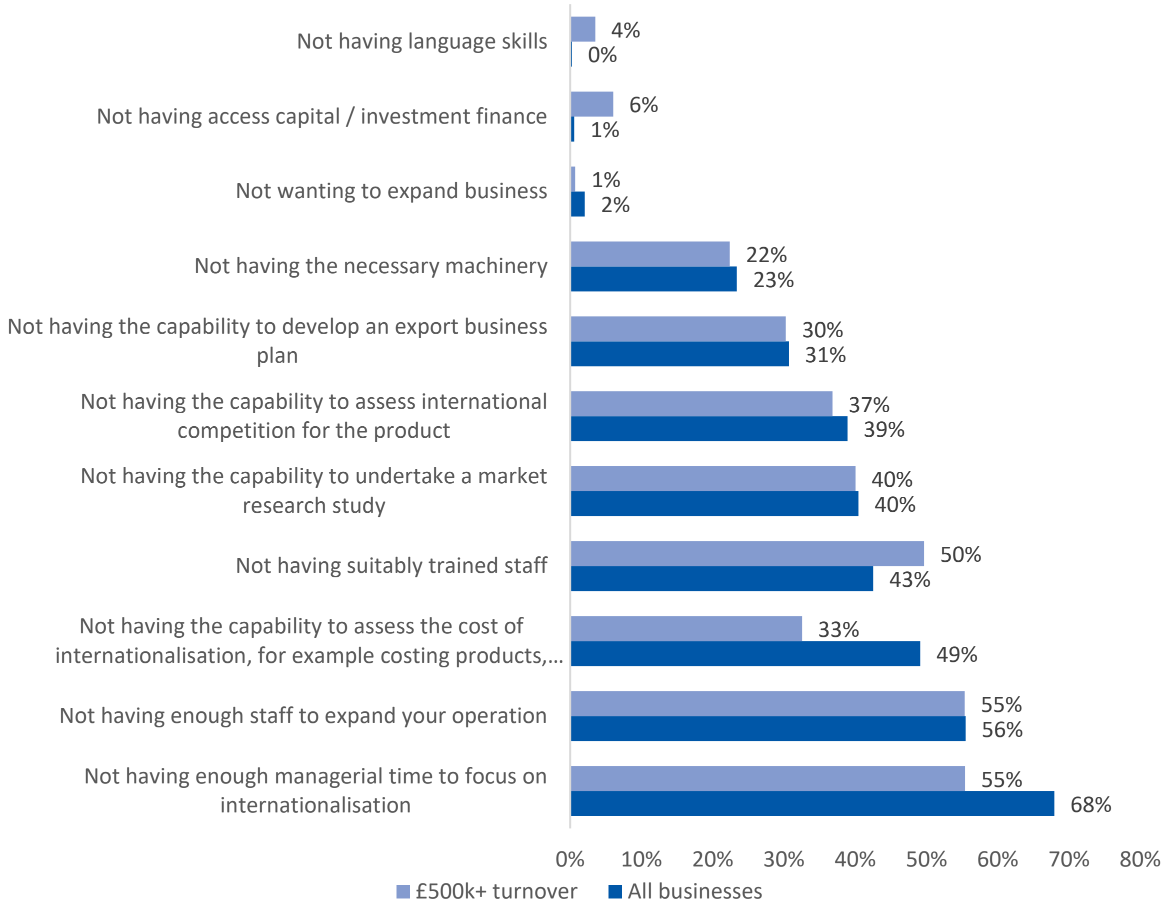
Non-exporting businesses do not always know how to access support and tackle the legal barriers necessary to export (FSB, 2016). Fischer and Reuber (2003) link this to managerial experience, showing that managers with less international experience will be less aware of export support services. This highlights the need for DIT to raise awareness of the available services to this group in particular.

Prevalence of lack of capacity and capability barriers for UK businesses
The Wave 3 survey found that 52% of all registered businesses who export or for whom exporting is possible reported capacity to export or cater for international contracts was a strong or moderate barrier to exporting. Of these businesses (as seen in Chart 2.5.1), the most cited factor was the lack of managerial time (68%) while not having enough staff to expand operations was the second most widely chosen (56%). Other specific issues cited by businesses tended to concern specific skills, including the capability to develop an export business plan (31%) and the capability to international competition for the product (39%).

Businesses with a turnover greater than £500k surveyed in Wave 3 were less likely to see managerial time (55%) and their ability to assess the cost of internationalisation (33%) as being problematic compared to all businesses facing capacity barriers, however these differences are not statistically significant.

Of all business surveyed at Wave 3, those in the Sustain and Reassure segments were more confident in their capacity and capability to export compared to those in the Promote segment. Businesses in the Promote segment were particularly likely to identify capacity issues as a strong barrier to exporting (46%), this fell to 24% businesses in the Promote segment with a turnover greater than £500k.

Chart 3.5.1. Ways in which capacity is a barrier to exporting (among those for whom cost is a barrier) (Wave 3)



Source: DIT (2018a), 'National Survey of Registered Businesses' Exporting Behaviours, attitudes and needs'

In the Wave 4 survey, of all UK businesses who export or for whom exporting is possible[17], only around half of businesses felt they had enough managerial time (48%) or staff capacity (40%) to focus on exporting.

3.6 Lack of access to contacts and networks barriers

What are 'lack of access to contacts and networks barriers'?
Building relationships with foreign intermediaries and customers is seen as essential to establishing export capability. Establishing and building up such relationships can be cumbersome because of communication problems arising from the geographical distance separating sellers and buyers in international markets. These can be grouped into three main factors outlined below:

[17] Not limited to those who reported capacity as a barrier to exporting.

- businesses need access to reliable contacts, including customers, distributors and agents. If a business does not have a contact it can leave them without a ‘hook’ on which to begin their exporting journey (UKTI, 2014)
- businesses learn from the experience of their peers through business-to-business networking
- government-to-government relations are in some cases essential to securing business overseas

Businesses who export report barriers in identifying opportunities abroad and initiating contact with potential customers due to communication problems and geographical distance (see Kneller and Pisu, 2004; Copeland, 2008; CBI, 2015; Belloc and Di Maio, 2011, among others). Businesses also face barriers in finding key contacts to help them export, such as reliable and accessible partners, distributors and customers (Copeland, 2008; Mion and Novy, 2013; Munch and Schaur, 2015; Haddoud, Jones and Newbery, 2017). This can be especially true for intermittent and potential SME exporters. In particular, in some markets local law requires an exporter to be registered within that country, meaning businesses need good in-market relationships with a supplier, partner or agent. These may take a long time to cultivate to a sufficient level and may exclude small businesses from these markets if they lack the resources needed (DIT, 2016a; 2017).

As well as networks with reliable contacts, business-to-business relationships are also proven to be critical to a business’ internationalisation (OECD, 2009; UKTI, 2013). These are typically developed through long-term relationships with peer businesses (DIT, 2016; DIT, 2017; Munch and Schaur, 2015; Haddoud, Jones and Newbery, 2017).

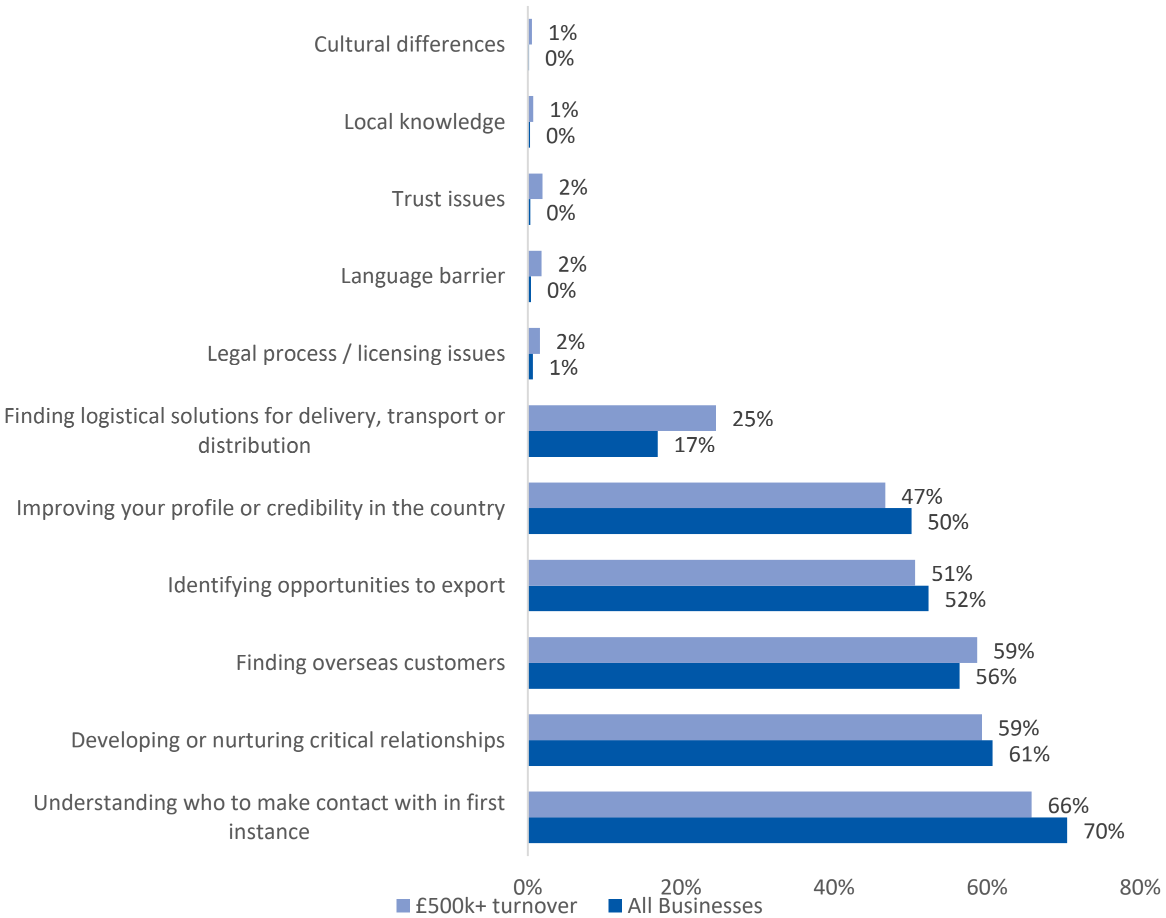
Alexander and Warwick (2007) cite the difficulty in forming international networks as a key barrier to exporting based on a review of studies and underline the importance of government to help form these networks. It can also be helpful for an exporter if their government has a trade presence in the destination country. This is particularly true for more unfamiliar destination countries, those with more rudimentary institutions, or those where the government plays a greater role in the economy (Boston Consultancy Group 2004; HMRC, 2004; DIT, 2016).

Other studies have shown that the experience of managers is also important in forming networking to help with exporting. Fischer and Reuber (2003) surveyed 188 Chief Executive Officers in Canada and found that those with less international experience are less aware of networks as a barrier and so are less likely to form appropriate networks. A smaller study of UK businesses (Hutchinson et al, 2006) found that management’s ability to network has a positive influence on the motivation to expand and develop exporting strategies. Spence and Crick (2005) similarly found that these exporting strategies tend to be unique to individual businesses, however the one thing they had in common was the need for a strong network.

Prevalence of access to customers and contacts barriers for UK businesses
The Wave 3 survey found that overall, 61% of all registered businesses for whom exporting is possible said access to customers and contacts was a strong or moderate barrier to export. Of these businesses (as outlined in Chart 2.6.1 below), understanding who to make contact with in the first instance was the most widespread issue (70%). Sixty-one per cent felt that developing or nurturing these critical relationships once they had been established was an issue. Over half of businesses saw finding overseas customers (56%) and identifying opportunities to export (52%) as a challenge. Access to trusted contacts for logistical solutions for delivery, transport or distribution does not appear to be a prominent challenge for UK businesses (17%).

Thirteen per cent of all registered businesses surveyed in Wave 3 stated that they had decided against exporting to at least one country in the last two years, and of these, 13% cited access issues as the reason why.

Chart 3.6.1. Ways in which access to contacts and customers is a barrier to exporting (among those for whom cost is a barrier) (Wave 3)



Source: DIT (2018a), 'National Survey of Registered Businesses' Exporting Behaviours, attitudes and needs'

Business to business networks

In the Wave 4 survey, businesses were asked where they would go for advice and support about exporting; 4% of businesses said they would speak to other businesses with exporting experience. This was a less frequent response than online search engines (16%), UK government departments or agencies (10%), Chambers of Commerce (9%), or DIT (8%), which could suggest that business-to-business networks are not the preferred source of information for UK businesses (or that businesses do not have readily available networks they could utilise). Among businesses with a turnover of greater than £500,000, those in the Promote (6%), Sustain (5%) and Reassure (7%) segments were more likely than those in the Challenge segment (2%) to say they would go to other businesses with exporting experience for advice.

Commercial diplomacy

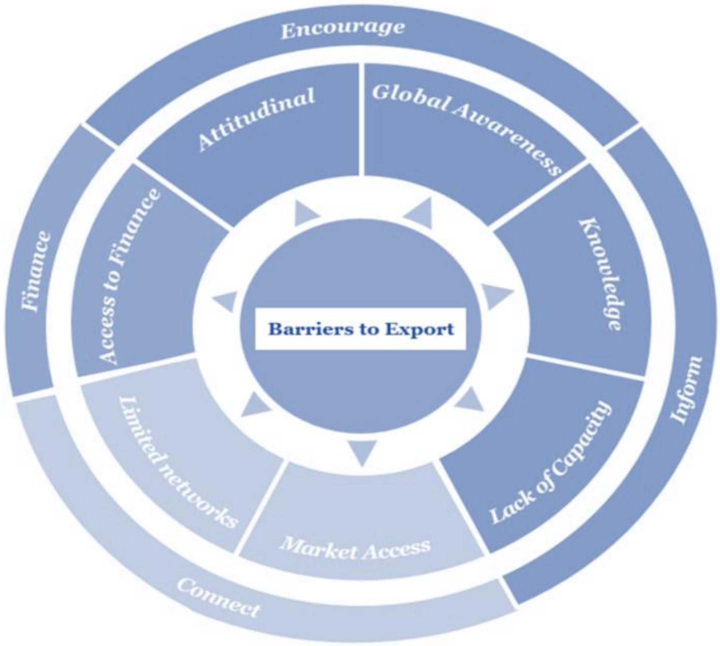
Of all businesses who reported in the Wave 3 survey that access to contacts and networks was a barrier to export, six in ten (61%) felt that developing or nurturing relationships was a barrier and half (50%) felt that improving their profile or credibility was an issue (Chart 2.6.1). These are both areas where commercial diplomacy could help. The DIT NSRB (2019) does not break the findings down by sector or export market, but this may be something worth exploring.

Of the 13% of businesses in Wave 3 that had decided against exporting to at least one country in the last two years, businesses cited other reasons in addition to access such as legislation and red tape (9%), political instability (7%), corruption and fraud (6%) and staff safety (3%). These are also areas in which commercial diplomacy could help.

3.7 Conclusions

The barriers businesses face when trying to export, that is, attitudes, cost, lack of knowledge, lack of capacity and capability and access to contacts and customers (Chart 3.7.1), are well-evidenced and are the same around the world. Amongst businesses in the UK, these were all seen as broadly equal barriers to exporting among the total business population; each was seen as a strong barrier by around one in three businesses. Around one in five (22%) of businesses with a turnover of £500k+ in the Promote segment surveyed in Wave 3 had seriously investigated exporting in the past two years but been dissuaded from doing so. As such, barriers are deterring a significant number of businesses which are actively interested in exporting from doing so.

Chart 3.7.1. Diagram of the barriers to exporting facing UK businesses



Source: DIT, (2018b), '[Export Strategy: supporting and connecting businesses to grow on the world stage]'

However, the importance of each barrier varied by different subgroups of businesses. For example, for businesses surveyed in Wave 3, capacity was less likely to be seen as a strong barrier by businesses with a turnover of £500k+ (24%) compared to all businesses (31%). Furthermore, businesses in the Promote segment were more likely to see each of the five barriers as presenting a strong barrier compared to businesses in the Sustain or Reassure segments. This supports evidence from the literature which indicates that small businesses have a heightened vulnerability to export barriers and these are more important for businesses with less exporting experience. This suggests that these businesses may require more assistance or support from either government or the private sector to help overcome these barriers. However, established exporters more familiar with the general process may still face market-specific barriers such as building contacts and networks when they break into a new market or expand in an existing market.

It is also important to note that the barriers are not mutually exclusive, instead they overlap and interact with each other. For example, a lack of staff with appropriate language skills within an organisation can act as both a knowledge and capacity barrier, whilst a lack of knowledge can lead to trade cost barriers if the costs are not fully understood at the outset. This highlights the fact that the barriers are complex, as shown by the fact that when asked to cite what had dissuaded businesses from exporting or what specific aspects of each barrier they found problematic, a very broad range of factors was flagged up. This complicates matters from a policy perspective as it means that there is not one single policy lever which can be used to address each barrier.

The next chapter outlines how governments seek to address these barriers through setting up Trade Promotion Organisations (TPOs).

4 What do Trade Promotion Organisations (TPOs) do?

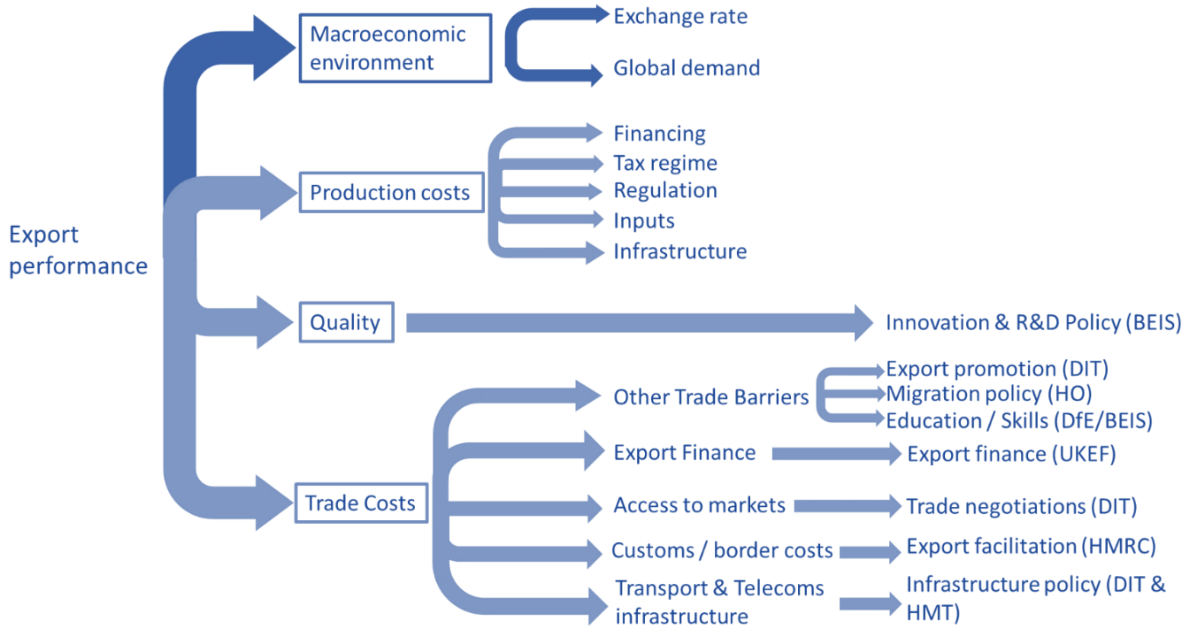
This chapter describes how the role of export promotion activities has changed over time and how the UK compares to other comparator countries with respect to their service offerings.

4.1 Context

There are many determinants of a country's export performance. On the demand side, global demand determines the overall size of the market for UK exports. On the supply side, the competitiveness of UK exports then determines the share of that global demand which can be met by UK exporters, as opposed to exports from other countries. The competitiveness of UK exporters is partly determined by the price of their products or services, which itself is influenced by exchange rates, the cost of production and the cost of international trade (for example, tariffs or transportation costs). They also compete on the quality of the product or service, by developing new products or by entering new markets. Innovation is an important driver of quality competitiveness.

Chart 4.1.1 below shows the wide range of policy mechanisms which could be used by a government to influence export performance.

Chart 4.1.1. Diagram of the policy mechanisms that influence export performance



Source: DIT Analysis (Internal)

4.2 What are trade promotion organisations and what do they do?

As shown in Chart 4.1.1, export promotion is only one of a range of policy levers available to governments looking to influence export performance. Nonetheless, many developed and developing countries have dedicated, at least partially state-funded, export promotion agencies undertaking export promotion activities. Lederman and others (2006), for example, identified and surveyed at least 88 such agencies around the world.

Export promotion activities refer to a wide range of both domestic and offshore activities which seek to address the barriers to export experienced by firms, as identified in Chapter 3. The literature suggests that trade promotion organisations (TPOs) services fall into four broad categories described in Table 4.2.1 below.

Table 4.2.1. An overview of the types of export promotion activities

Category	Examples
Country Image Building	Advertising, promotional events, advocacy
Export Support Services	Exporter training, technical assistance, capacity building, including regulatory compliance, information on trade finance, logistics, customs, packaging, pricing
Marketing	Trade fairs, exporter and importer missions, follow-up services offered by representatives abroad
Market research and publications	General, Sector and Firm level information, such as market surveys, online information on export markets, publications encouraging firms to export, importer and exporter contact databases

Source: Lederman and others, 2006: 'Export Promotion Agencies: What works and what does not'

Export promotion activities are narrowly circumscribed by the World Trade Organisation (WTO) rules and are largely related to the provision of information for exporters at below market cost. This is because direct support, such as export subsidies, fall outside the scope of permissible export promotion activities because of the WTO agreement on subsidies and countervailing measures prohibits them.

In a literature review commissioned by DIT (2021a), the report showed that Export promotion services help firms overcome barriers to trade. The literature finds that the government is uniquely positioned to overcome a number of market failures including information failures, positive externalities, coordination failures and missing markets. These market failures mean that private export promotion services are not offered at socially desirable levels.

The evidence supports the existence of information failures: a market failure where firms miscalculate or are misinformed about the costs and benefits of exporting.

The evidence supports the existence of positive externalities: a market failure where the societal benefits for exporting and export promotion services exceed the private benefits, leading to under-provision.

Information failures, externalities and lack of trust are likely to be pervasive, leading to co-ordination failures, which can undermine the incentives for businesses to cooperate with each other for collective benefit.

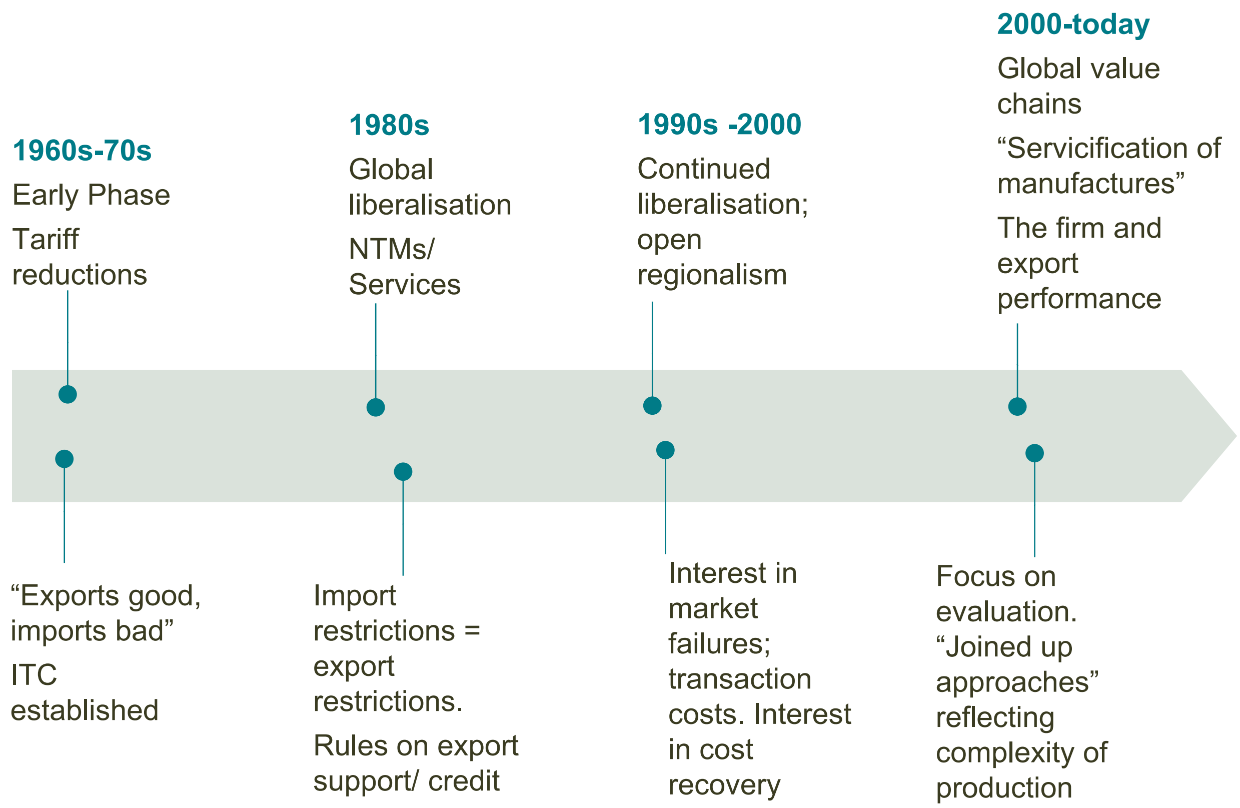
There is some evidence of missing markets: a market failure associated with the fact that the benefits of diplomatic services accrue to all firms, leaving the government uniquely placed to deliver them.

4.3 International comparisons

As shown above, export promotion activities are typically justified on the basis of correcting market failures and are undertaken by most developed and developing countries to improve their export performance. However, it is important to note that many TPOs do not explicitly operate on a market failures basis, in that they do not define the market failures they are seeking to address and then design their product and service offer around this.

In a review of trade promotion activities in other countries commissioned by DIT (2021b), of the 18 TPOs examined, only Australia and Denmark explicitly mention the concept of market failures in their published literature. However, the review found that all TPOs implicitly target market failures when one considers the specific areas of intervention in which the TPO provides products and services. The authors argue that the lack of specific reference to market failures may reflect the fact that “historically, trade promotion has been justified on a sui generis basis. The requirement to adopt value for money / market failure paradigms… is a relatively recent development” (DIT, 2021c). In other words, TPOs have always operated in this way but there has more recently been a drive to justify the additional value they add above what is provided by the private sector. Chart 4.2.1 illustrates the various waves of change which export promotion activities have undergone internationally. The most notable developments include the Global liberalisation of trade and the simultaneous transition away from tariffs commencing in the 1980’s to the servitisation of global value chains in the early 2000’s onwards.

Chart 4.2.1. Timeline of major developments in export promotion



Source: DIT, (2021c) 'Comparative Review of Trade Promotion Organisations: Phase 2 Report'

The DIT review of trade promotion activities in other countries found that DIT services are broadly similar to comparative countries and are focussed on addressing the known barriers to export identified in Chapter 3. Instead, the differences between different TPOs come largely from how much they focus on each barrier, the specific products and services they have developed to address these barriers, and the delivery mechanisms adopted. Table 4.2.1 and Table 4.2.2 below, highlight the key differences in products and delivery mechanisms between the five TPOs covered in Phase 2 of the review.

Table 4.2.1. A comparison of operating and delivery mechanisms for five international TPOs

TPOs	TPO Budget[18]	Scope of export markets targeted	Specific barriers to export that are targeted[19]	Focus on different types of business groups?	Delivery mechanisms
Canada **The Trade Commissioner's Service (TCS)**	CAD 164 million in 2015-16. Equivalent to £91.5m in 2017.	161 offices in 106 countries.	Attitudinal barriers, trade cost barriers, lack of knowledge and lack of access to contacts and networks.	Businesses supported by the TCS must have a commercial presence in Canada and have demonstrated their capacity for internationalisation (for example by undertaking market research, developing a business plan and having the necessary resources).	Core services are free of charge. The TCS offers a referral service to private sector providers for services they themselves do not offer. If no private sector providers are available in a particular market, the TCS will then provide the service themselves for a fee.
Denmark **Trade Council of Denmark**	DKK 344.8 million in 2016. Equivalent to £33m in 2017.	65 offices in 60 countries.	Lack of capacity, lack of knowledge, trade cost barriers, lack of access to contacts and networks.	SMEs receive a lot of focus for export promotion activities.	Most services are charged at a cost per hour. Payments are in proportion to business size and services are often fully or partly subsidised by the TPO through grants for eligible firms. Some services, such as market- and sector-specific information, are free to access for all firms.

18 Pound sterling equivalent values are based on OECD PPP exchange rates for 2017. Eurozone country conversions based on PPP values for Eurozone as a whole. There are a few caveats to bear in mind with budgetary information: a) the information covers different time periods and is in different currencies meaning it is not directly comparable, b) some TPOs have undergone structural changes since the latest available figures, meaning these may not reflect the current situation, c) TPO scope varies from country to country, meaning budgetary information is not directly comparable.

19 Barriers addressed with the products and services offered by the TPO. There may be other institutions in the country addressing other barriers (e.g. specialised export finance institutions addressing trade costs).

TPOs	TPO Budget[18]	Scope of export markets targeted	Specific barriers to export that are targeted[19]	Focus on different types of business groups?	Delivery mechanisms
					The TPO focuses on providing support which is not available privately. They work closely with the private sector, leading to an underlying philosophy described as "publicly funded, privately directed".
France **Business France**	€182.8 million in 2017, equivalent to £172.1m. Just over half came from the central ministerial budget, the rest from fees.	70 offices in 70 countries.	Attitudinal barriers, trade cost barriers, lack of capacity, lack of knowledge, lack of access to contacts and networks.	The focus is primarily on SMEs and "intermediate sized firms"[20].	Almost all services are charged for at commercial rates i.e. full cost recovery plus a margin. This is specified in the Performance Contract which binds Business France to its parent ministries. The Chambers of Commerce offers similar services, sometimes in direct competition with those of the TPO. A partnership agreement has been signed between the Chambers and the TPO to coordinate the relationship.
Italy **Italian Trade Agency (ICE)**	No overall budgetary information is available.	79 offices in 65 countries.	Lack of capacity, lack of knowledge, lack of access to contacts and networks.	ICE assists businesses of all sizes across all sectors, however certain sectors receive specific attention (fashion & design, food & drink, machinery). There is also a specific focus on SMEs.	ICE offers a range of free and fee-paying services. All businesses have to pay for fee-paying services, although there are some discounts available for certain businesses (for example frequent service users).

20 In France SMEs are defined as firms with up to 500 employees, and 'intermediate firms' are those between 250 and 4999 employees and turnover of less than €1.5bn.

TPOs	TPO Budget[18]	Scope of export markets targeted	Specific barriers to export that are targeted[19]	Focus on different types of business groups?	Delivery mechanisms
					In addition, ICE works in collaboration with national and regional Chambers of Commerce to deliver some services.
Singapore **Enterprise Singapore**	Operating expenditure was SGD 228 million in 2017, equivalent to £126.7m. A little over half was covered by revenue, the rest by government grants.	35 offices in 35 countries.	Lack of capacity, trade cost barriers, lack of knowledge, lack of access to contacts and networks.	Between 80% and 85% of the businesses supported by Enterprise Singapore's predecessor were SMEs[21]. Start-ups are also an area of interest.	The private sector plays a significant role in the delivery of export promotion services in Singapore. The majority of the TPO's services are fee-paying, although grants are available through various schemes. Market-specific services are provided in partnership with private consultancies. In addition, ES facilitates access to financing provided by private institutions.

Source: Compiled from information in DIT (2021c) 'Comparative Review of Trade Promotion Organisations: Phase 2 report'

21 In Singapore, SMEs are defined as businesses with less than 200 employees and a turnover of less than SGD 100 million (around £56 million, exchange rate as at 01/08/18).

Table 4.2.2. To show the comparison of key products and services for five international TPOs

TPOs	Key Products and Services
Canada **The Trade Commissioner's Service (TCS)**	The TCS offers a range of services for businesses at all stages of their export journey. This includes help preparing for international market, market intelligence and advice on export strategies, help finding qualified contacts, and a Tariff Finder tool. There are detailed country and sector guides online and information about financing, corporate social responsibility, development and humanitarian aid markets, amongst others. The TCS also runs various events and trade missions. For current exporters, the TCS offers help with resolving practical issues and registering any trade barriers encountered. There are also specialist programmes for certain types of exporters including the 'Business Women in International Trade' programme and the 'Canadian Technology Accelerators' programme.
Denmark **Trade Council of Denmark**	Programmes to support exporting include entrepreneur and innovation camps, advisory services and intensive export consultancy services. There is also a range of country- and sector-specific information. The Trade Council runs trade missions, the cost of which is shared equally between the business and the TPO. They also offer grants to part-fund businesses accessing other public and private services focussed on innovation and growth. These do not have to be directly related to exporting but will help develop skills necessary for exporting.
France **Business France**	Business France provides information services, including country business guides, sector/market studies, thematic studies of industry trends, and a tailored database of potential business partners. They organise meetings with potential partners overseas and run business-to-business events to help with prospecting. They also offer public relations services and an export presentation kit. There is also an International Business Volunteers programme run by the TPO.
Italy **Italian Trade Agency (ICE)**	ICE services are organised in three clusters: Orientation: This cluster consists of market and sector information, information on businesses proposals by foreign and Italian companies, and information on official government- and EU-funded projects. Bespoke information is available for a fee.

TPOs	Key Products and Services
	Access: Most of these services are business-to-business or business-to-customer matching services, events and visits. Taking root*:* This covers investment advice, assistance in disputes, assistance in participation in tenders, help with looking for personnel and in procurement, and advertising.
Singapore **Enterprise** **Singapore**	The TPO provides customised market entry services in collaboration with private sector partners, covering reports, finding business leads and business partnering. There are also learning and networking events including a 5-day “strategy to exporting” workshop. The TPO also offers grants, including the Market Access Readiness Grant and the Global Company Partnership Grant.

Source: Compiled from information in DIT (2021c) ‘Comparative Review of Trade Promotion Organisations: Phase 2 report’

Related to the delivery mechanisms discussed in Table 4.2.1, TPOs in other countries have adopted a range of strategies to work with the private sector. For example, in some countries where private sector export promotion activities are in competition with those of the TPO, formal partnership agreements have been struck to minimize duplication and the TPO works to ensure fee-paying services provided are priced on a commercial basis. An alternative model is followed in Canada, where the TPO offers core services for free and then provides a referral service to private sector providers for specialist services. Some have private sector representatives involved in governance, others have advisory councils or consultative bodies.

There were also differences in how TPOs themselves are organised in terms of their institutional structure. Many TPOs follow an agency model where the TPO has some degree of autonomy from the supervising government ministry. However, it is not clear whether this is preferable to the departmental model followed by Canada and the UK, among others. It seems, a more relevant factor is how well the export promotion agency can link to wider government initiatives.

The TPOs reviewed commonly linked export promotion to wider initiatives for the business community, focusing on productivity, innovation and skills. This is based on recent academic research which suggests that export promotion policy cannot be dissociated from in-country measures to raise business productivity (Schank, Schnabel and Wagner, 2010). Another strategic decision in common between the TPOs reviewed was recognising the importance of capitalising on global value chains.

4.4 Conclusion

This chapter has shown that many countries globally have set up trade promotion organisations to improve the performance of their exporters. Export promotion activities are designed to address the known barriers to export discussed in Chapter 3 but vary from country to country in terms of the specific offer available and how this is delivered to businesses. Different approaches can be used hence it is vital to understand the impact of export promotion activities in the context in which they operate.

The next chapter looks more closely at export promotion activities in the UK, setting out a way of thinking about how these work together to help UK businesses start exporting, export more or export to a greater number of destination markets.

5 The Export Support System Model

The key findings from the last three chapters have shown the complicated and complex landscape for businesses selling their goods and services overseas. Chapters 2 and 3 have outlined the pattern of exporting amongst UK businesses and what potential barriers there might be. This helps to inform what can be done by government to support them along their export journey, examples of which were outlined in Chapter 4.

This chapter looks more specifically at the levers available to the Department for International Trade (DIT) to help UK businesses to start exporting, grow their current exports and export to more destinations. This is done by describing the exporting journey businesses take and how DIT's export promotion services work together to influence this journey.

The 'export support system model' is a quantitative systems model describing how DIT services interact with the 'target system' - a business' export journey, to drive the business to secure an export contract. Systems models can be quantitative or qualitative. They can depict the different components of the system or go a step further and give some indication of the way in which these components are interconnected and the behaviour this gives rise to.

This chapter will first describe the export support systems model, before explaining how it was developed and what it will be used for.

5.1 The export support system model

There is a complex landscape for businesses to navigate in order to sell their goods and/or services overseas. The export support system model (Annex 1) helps to describe both how businesses move through each stage of the exporting journey, and how DIT can influence this export journey through the products and services offered to help businesses move to the next stage.

The export support system can be thought of as a connected set of tanks with pipes flowing between them. Each tank represents a different stage of the export journey, from an initial trigger to successfully fulfilling an overseas order. Businesses can, and indeed do, flow through each tank to successfully sell their products or services overseas without the help of DIT. However, DIT can act as a pump, in two distinctive ways listed below, to:

- increase the rate at which businesses move through the system
- improve the success rate of businesses moving to the next stage of the export journey

The DIT ‘pump’ can push the system to move into a new equilibrium, ideally one with more exporters exporting. The actual flow rate of businesses through the system will depend on the natural flow rate combined with the contribution from DIT and any contribution from private sector providers of export promotion support.

The target system, within the export support system, demonstrates the different stages of the export journey. These are:

1. Trigger: A business who was previously not exporting may experience an internal or external trigger that can lead them to consider exporting. For example, they may be seeking ways to grow their business, have spoken to a similar business with recent exporting success, or seen one of DIT’s GREAT advertising campaigns.

2. Discovery: In this phase the business will explore their options around exporting, for example researching potential opportunities and seeking advice to decide whether exporting is right for them.

3. Development: Businesses will look to firmly establish their intention to export, develop relationships with key players (for example agents or distributors) and decide on a route to market.

4. Preparation: Businesses will finalise their export strategy and review the market-specific requirements and resource implications of exporting. This will allow them to start the negotiation to…

5. Win Business: This marks the point when a business has successfully secured a contract to supply their goods or services overseas.

6. Fulfil and Deliver: After winning an overseas contract, a business will need to produce the product and deliver this to the customer, navigating logistics such as transportation and ensuring they get paid on time.

7. Establish and Grow: After successfully winning and fulfilling one overseas contract, businesses may take one of two options. Some businesses will decide to expand their exporting activity, either in the current export market or to a new market. Others may just fulfil the single order; in which case they will then go back into the pool of potential exporters.

The system model highlights the fact that businesses can circulate between various stages and can exit at any time, for example if at the discovery or development stage they decide that exporting is not for them.

At different stages of the exporting journey businesses can take several actions which represent potential influences on exporting and the different routes to success. For example, they might spend resource on increasing their competitiveness, or be willing to spend a certain amount of time on getting a deal.

There are several things DIT can do at each stage to influence the target system and help businesses move to the next stage more quickly than they otherwise would have done. These are known as ‘capabilities’ because they help to increase the capability of firms to successfully export. Each DIT product or service can target multiple capabilities and all work together to help businesses move to the next stage. There is one capability for each stage of the exporting journey, outlined in Chart 5.1.1 below.

Chart 5.1.1. DIT capabilities to influence the export support system

Target System	Capabilities
Trigger Exporting	The ability to encourage firms to start exporting, or export more to existing or new markets.
Provide Information and Advice	The ability to provide firms with sufficient information on foreign markets and the process of international trade to allow them to make an informed decision as to which opportunities and markets to investigate in more depth.
Build Export Capacity	The ability to provide firms with specific information to allow them to improve their export capabilities and operate effectively in particular foreign markets or sectors.
Matchmaking	The ability to put firms in contact with those they need to work with to put a deal in place – this includes buyers, agents, finance providers and intermediaries.
Enhance Competitiveness	The ability to increase the competitiveness of UK goods and services in a particular market or sector and make a successful deal more likely. This includes the reduction of barriers to export, provision of competitive export finance and encouraging foreign consumers and businesses to buy British.
Support Fulfilment	The ability to support firms in arranging for goods or services to be supplied in a particular foreign market. This includes both services such as the provision of export licenses and putting firms in contact with third party specialists in shipping, payment or regulations.

Source: Analysis by Larrainzar Consulting prepared for the Department for International Trade

5.2 What will the systems model be used for?

The export support systems model will be used by DIT in a number of ways. It helps to give a whole system perspective, rather than focussing on individual products and services. This highlights how an individual product or service may help businesses overcome different barriers at different stages of their journey. It helps us to disentangle how DIT products and services interact with each other and work together to influence the export system.

This is particularly important given that the way businesses use DIT services is complex and non-linear. They may use one service several times or use different DIT services simultaneously. They may also use different services which are complementary to each other or which overlap, hence why the model focuses on high-level capabilities rather than individual products and services.

Adopting a whole systems perspective allows us to identify how different components contribute to the overall effectiveness of the system and how these might be measured, whilst at the same time acknowledging that there is a one-to-many relationship between DIT support services and the business capabilities these are targeting, that is, one product or service might address multiple capabilities. This reinforces the need to support businesses across the whole of their export journey as every stage is important, rather than focusing solely on the later stages when businesses may be close to securing a high-value win.

Describing the export support system in this way will help to build a shared understanding across DIT of which parts of the journey different product and service owners are trying to influence, and how this contributes to the whole. It shows that all services are equally important and can help DIT to better tailor support to focus on the specific capabilities a business needs help with developing.

The fact that the model is quantified will be used by DIT to generate contribution values - for each product or service, how do they contribute to DIT's impact as whole? This will be useful in helping us to maximise the effectiveness of taxpayer's money by focusing support on where it is most beneficial for businesses.

5.3 How was the model developed, and how does it work?

The first stage of developing the export support system model was to define what the target system was - what is the typical export journey that businesses take? This was done using existing evidence and was validated with product and service owners. The stage identified the components of the export journey and the influences which determine how long a business is prepared to spend on each stage. This phase highlighted that the export journey is non-linear, as businesses can circulate between stages and/or exit the exporting journey – decide not to export - at any time. Businesses may also go through the various stages of the export journey more than once, for example they will go through each stage every time they want to export to a new market or expand their sales in an existing market. It is also important to note that the stages are necessary for any kind of export contract, even if the different parts of the underlying process have different levels of importance.

The next stage of developing the systems model was to add in DIT's influence on the target system, represented by the 'capabilities' defined in Chart 5.1.1 above. This was done using several different data sources, pieces of evidence and workshops with DIT product and service owners to learn more about which capabilities they are trying to influence. Individual products and services may be targeting multiple capabilities, for example International Trade Advisors (ITAs) can support businesses by providing information and advice, building export capacity and matchmaking. In these cases the model was adjusted to emphasis which capability product and service owners thought most relevant.

As shown in Chart 4.1.1 in Chapter 4, there are multiple regulatory and policy levers that governments can use to influence a country's export performance, and export promotion support is just one of these. However, since the impact of these will vary greatly depending on the sector and destination market, they have not been included in the export support system model.

Data sources were then used to quantify the model, for example using survey data on the relative effectiveness of each service in influencing specific capabilities. This allows us to apportion the overall impact of DIT on the export journey, such as total number of exports or total value of exports generated, to individual products and services.

Please refer to Annex 1 for the diagram of the export support system model, this is a visual representation of the process, showing how different DIT activities contribute to a set of high-level DIT capabilities to support key stages in the export journey.

5.4 Conclusion

In conclusion, the export support system model allows us to articulate the export journey businesses take, identify the business influences and the capabilities DIT can address to increase the rate at which businesses move through the system and improve the success rate of businesses moving to the next stage of the export journey.

Findings from a mapping workshop with DIT product and service owners indicate that the products and services offered do map across all the capabilities identified in the system model. It is more a matter of considering how best to balance between them, for example considering which products and services contribute to which capabilities, and which are the most effective in increasing that capability. The export support system model can therefore help to understand how DIT's products and services can be optimised to address all capabilities in a targeted way, focussing on areas where DIT can add most value and have most influence on the system.

6 Conclusion

This paper has taken a fresh look at the evidence relating to exporting behaviours and experiences of UK businesses, and how export promotion support can play a part in helping businesses to overcome the barriers to export they might face.

6.1 Understanding the exporting behaviours and experiences of UK businesses

There are various estimates of the number of exporting businesses in the UK, ranging from 9.6% (ONS, 2019a) to 24% (DIT, 2019) of all businesses in the UK. A greater proportion of large and medium-sized businesses export compared to small and micro businesses, with these businesses contributing 69% of the total UK goods export value in 2018 (HMRC, 2019). Similar trends in terms of business size and contribution to the economy can be seen in other G7 countries. Most exporters in Great Britain are in England (93%), with the greatest proportion (28%) in London (ONS, 2019c).

UK businesses face several barriers when attempting to export, in common with other businesses around the world. These include attitudinal barriers, cost barriers, lack of knowledge, lack of capacity and capability, and access to contacts and customers. Evidence from Wave 3 of the Department for International Trade's (DIT) 'National Survey of Registered Businesses' (NSRB) suggests that these barriers are deterring a very significant number of businesses which are actively interested in exporting from doing so (DIT, 2018). Evidence from the literature indicates that small firms have a heightened vulnerability to trade barriers and that export barriers are more important for firms with less exporting experience. This suggests that these firms may require more assistance or support from either government or the private sector to help overcome these barriers. However, established exporters may still face market-specific barriers such as building contacts and networks when they are trying to break into a new market or increase exports to an existing market.

Looking at where businesses are in their export journey can help to quantify the size of the opportunity for UK exports, particularly in terms of the proportion of UK businesses who are not currently exporting but have the potential to do so. Wave 3 of DIT's NSRB estimated this number to be between 428,000 and 604,000 registered businesses in 2017 (DIT, 2018). Focussing on encouraging these businesses to export represents one of the biggest opportunities to impact the economy.

6.2 Understanding the role of the UK government in providing export promotion support

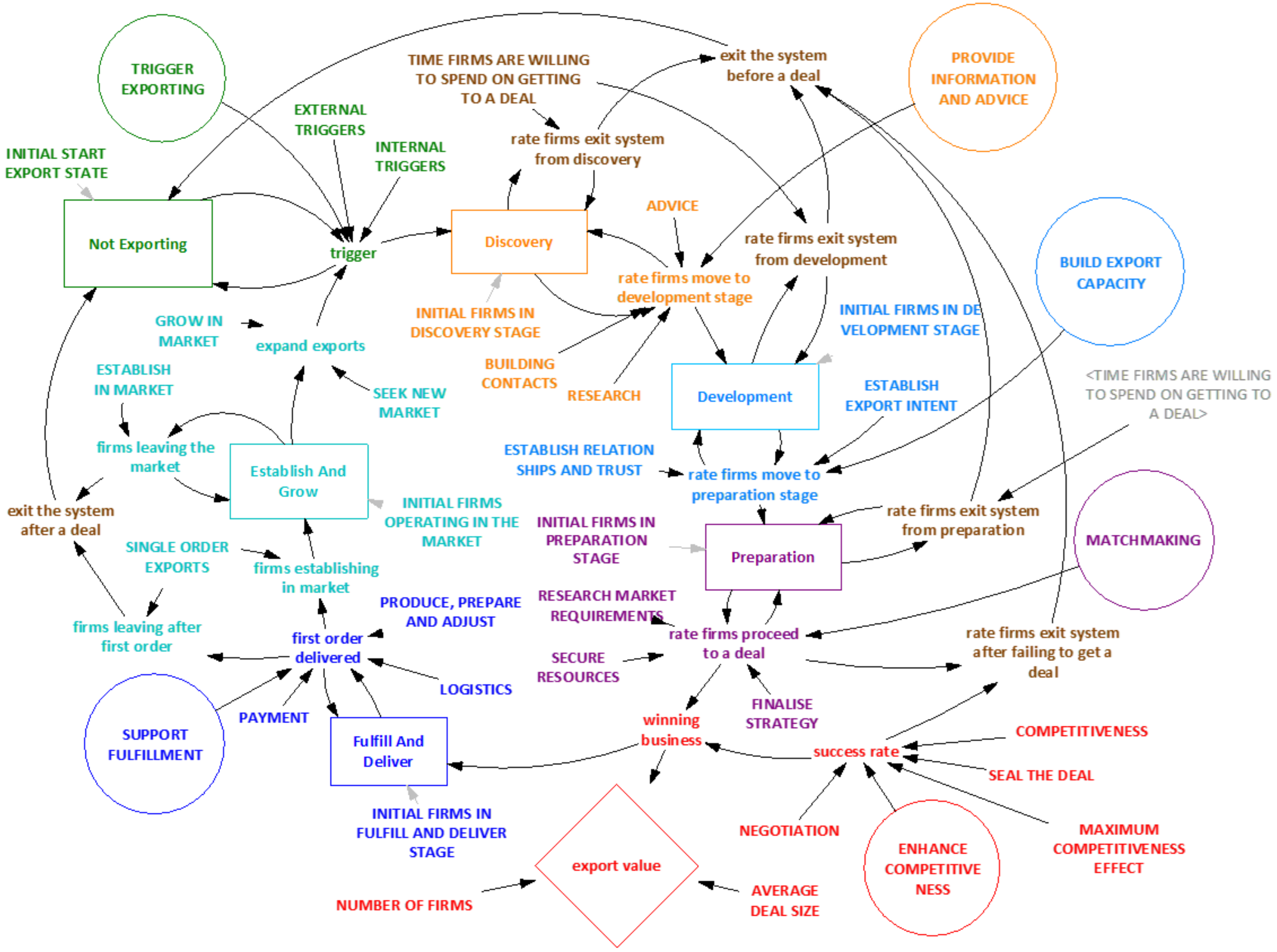
The barriers to exporting are not mutually exclusive, instead they overlap and interact with each other. This complicates matters from a policy perspective as it means there is not one single policy lever which can be used to address each barrier. The export support systems model helps in this regard as it helps us to identify the export capabilities which DIT can address to improve the success rate of businesses moving to the next stage of the export journey. It can help to understand how DIT's products and services can be optimised to address all capabilities in a targeted way, focussing on areas where DIT can add most value and have most influence on the system.

Chapter 4 has shown that export promotion activities are not solely carried out by the UK but are undertaken in many countries globally and most address the same barriers to export as the UK. Instead, export promotion activities in other countries tend to vary in terms of the specific offer available and how this is delivered to businesses. For example, countries might focus on different business groups or have different operating models, such as charging for services. Trade Promotion Organisations (TPOs) in other countries typically monitor their activities, but there is little (publicly available) evidence of evaluating the impact of specific products and services. It is therefore vital for the UK to understand the impact of export promotion activities in the context in which they operate, by having sufficient evaluation strategies in place.

Most businesses export without the help of government. With limited resources, it is important for government to take a proportional approach to service delivery to focus on where they can have the greatest additional impact. Whilst it is important to support businesses of all sizes to overcome the barriers to exporting they face and to support them in their exporting journey, data shows that medium and large businesses make up 2% (ONS, 2019a) of the registered business population but 69% of the value of UK goods exports (HMRC, 2019). This is consistent with the fact that as businesses get larger, they are increasingly able to cater for large export contracts. When deciding on the type and range of support DIT could provide, consideration should be given to the balance between impact to the business and the overall impact to the UK economy.

To support this evidence paper, DIT has also commissioned a study (DIT, 2021) to look in more detail at the economic impact of export promotion activities with the aim of better understanding the additional benefit of government support. Specifically, it examines research on the market failures that justify government provision of export promotion services, the effects of export promotion on exporting behaviour (for example, whether firms which receive export promotion support are able to export more or to a greater number of markets than firms which do not), firm level economic outcomes (such as employment, productivity and firm survival) and wider economic outcomes (taking into account spillover effects from exporting firms to others in the economy).

Annex 1 – Export Support System Model



Annex 2 – List of References

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Department for International Trade

Analysis

The UK's Department for International Trade (DIT) has overall responsibility for promoting UK trade across the world and attracting foreign investment to our economy. We are a specialised government body with responsibility for negotiating international trade policy, supporting business, as well as developing an outward looking trade diplomacy strategy.

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