

Exporting for growth: the SME perspective



HSBC 
Commercial Banking

Foreword



The UK has significant advantages when it comes to succeeding at trade: the commercial, diplomatic and cultural connections, mature business models, best-in-class products and services, and the power of 'Brand Britain' all work in our favour.

But despite this, exporting is often viewed by SMEs as an overly complicated and risky endeavour, and the impact of the UK's decision to leave the EU presents new challenges to this already complicated picture.

In 2013, HSBC published a Manifesto for British Exports which proposed eight recommendations to support UK exporters. Against the backdrop of a changing landscape in trade, we have undertaken new research to better understand the experiences, views and concerns of those UK SMEs that already export, and those planning to start. We wanted to find out what motivates them, what holds them back, and what more can be done to support them in their exporting journey.

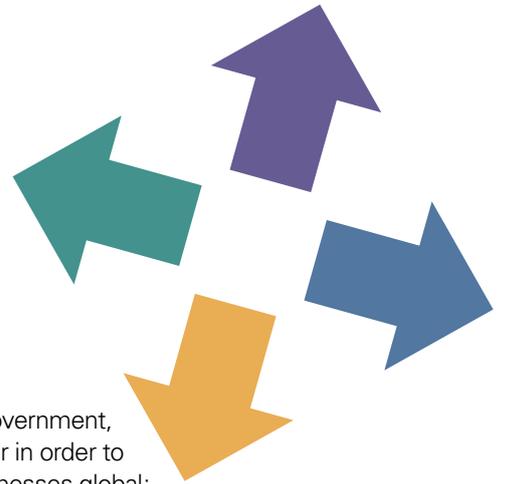
HSBC was founded more than 150 years ago to facilitate trade and connect customers to growth opportunities around the world. Our ambition remains the same today as it was then.

We will do everything we can to help UK businesses navigate the uncertainties and opportunities presented by the UK's decision to leave the EU. That is our commitment.

I hope this report will contribute to the public debate around trade and how the public and private sectors can work together to give British businesses the tools and confidence to take their businesses global.

Noel Quinn –
Chief Executive, Global Commercial Banking, HSBC

Executive summary



HSBC's qualitative and quantitative research of over 1000 UK SMEs – both those already exporting and those that are considering it - reflects a business population prepared to consider the opportunities of international trade but wary of a range of perceived barriers.

Encouraging more exports is a win-win for the UK economy and its businesses. Boosting international trade is crucial to address the country's productivity gap and current account deficit, while exporting businesses gain strength and resilience when taking their products and services abroad.

The UK government has rightly championed exporting over recent years, including setting a target of doubling the value of exports to £1 trillion between 2010 and 2020. The ambition of this target and much of the government's action to encourage exports are to be applauded.

Yet despite these efforts, our research has found that some SMEs do not try to export because they believe it will be complicated or risky. The impact of the UK's decision to leave the EU adds another potential layer of complexity for business to navigate.

SMEs know that exporting can be beneficial to them, but do not always feel they have the confidence, the know-how or the support to take the first step.

Our report identifies four areas for the government, business and financial sectors to consider in order to encourage more SMEs to take their businesses global:

1 Targeted incentives: a government feasibility study of the benefits of fiscal measures to encourage more small businesses to export, such as a tax credit for exporters.

Our 2013 Exports Manifesto made the case for an exporter tax credit and our latest research indicates that support for such a scheme is high. 75% of SMEs that are considering exporting, would be further encouraged to do so if there were fiscal incentives, such as rebates for costs related to exporting.

2 Giving small business exporters a voice in trade negotiations: an Export Advisory Committee to give practical advice to government when considering new free trade agreements.

Working in collaboration with the exporting community, government will receive valuable advice as to the business impact of trade policy discussions. It will also create advocates in the business community to then help tailor support to SMEs in transition to any new arrangements. Such a committee should build on the success of existing business advisory groups in specific countries and regions.

3 Tailoring support: existing support services must be easily accessible, consistent and clearly signposted.

While there are high levels of recognition of government support services, a clear and simplified signposting system would help to improve their take-up. More tailored support from government and agencies in priority markets would encourage 64% of SMEs to begin exporting.

4 Sharing best practice: a renewed effort by banks, business groups and support services to help potential exporters gain experience through dialogue with those already trading internationally.

71% of SMEs not yet exporting said the opportunity to learn from businesses currently exporting to their target markets would encourage them to export.

Banks have a key role to play in facilitating these discussions and HSBC has been proud to sponsor a number of events this year that have showcased the best of British exports, including the International Festival for Business and Entrepreneurs Exchange series.

We are going further to support our customers' international trade ambitions with the upcoming launch of a new Connections Hub and an Export Resource Centre, giving our customers the international network and exporting know-how to grow their businesses.

The exporting landscape

“The big benefit of exporting is to increase our revenue – we’re working hard on that.”

Our research shows a complex landscape; while the commercial benefits enjoyed by exporters are clear, so too are the wide range of barriers, both actual and perceived. We also find changing attitudes to international trade partners as British businesses predict new opportunities.

Clear benefits, different challenges

As figure 1 shows the benefits of exporting to SMEs’ turnover is clear. For over a fifth (22%), exports generate more than half their total revenue.

A slightly different picture emerges for SMEs not yet exporting, however. Fewer than half (45%) of those we surveyed think overseas trade will be important to business growth. Their perceived barriers to export also differ

from the reality of the SMEs already doing it.

As figure 2 shows, a lack of international business experience, expertise, resources and contacts are of most concern to companies thinking about exporting. By contrast, for those companies already exporting, a lack of understanding of the local market and its regulatory environment, rank highest. These businesses know they have the ability

to export but are more concerned about the environment in which they will be doing it.

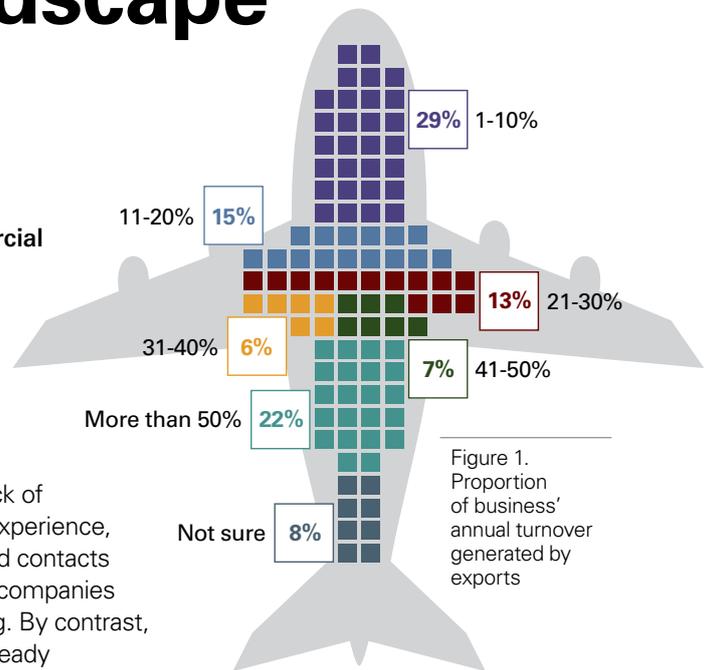


Figure 1. Proportion of business' annual turnover generated by exports



Figure 2. Barriers to exporting

Uncertainty post-Brexit

Supporting exports is even more important following the UK's decision to leave the EU. We asked SMEs for their reflections on the trading environment following the EU referendum.

Their responses revealed a wide range of concerns, from the more short-term impact on exchange rates to the longer-term uncertainty around the UK's future trading environment, and possible future increases in tariffs.

Against this backdrop, it comes as little surprise that only 16% of SMEs classed future access to the EU single market as not at all important to their exporting plans.

“We are in great danger of pulling down the shutters; we’re entering isolation policy. If we have to go through an EU tender system, how will we get on this? We are putting things, like major expansion, on hold at the moment.”

“Uncertainty is horrible – there is a lack of confidence in trade.”

Changing attitudes to international trade partners

We asked exporting SMEs which countries they expect to export to in the future. As figure 3 shows, markets in Asia are clearly on the radar, with China and India appearing in the top ten future trading destinations for current exporters, even though the current top export destinations are all established economies.

With SMEs looking increasingly to opportunities in China the importance of its ‘Belt and Road’ initiative, which includes infrastructure projects to boost trade links between 65 countries, looks set to grow.

The US meanwhile is the top current trading destination for 48% of exporting SMEs, and is expected to remain in that position in future.

Our research found that EU member states currently comprise seven of the top ten destinations for SMEs that are already exporting, with Germany and France the second and third most popular countries. Businesses thinking of trading abroad cite five EU member states out of ten as top exporting destinations for them, although all are expected to slip down the rankings in the future.

The findings suggest that SMEs assume the US and Asian markets will hold steady in the face of uncertainty in Europe, while Australia and Canada will continue to prove attractive markets for many UK exporters.

High awareness of support services not matched by usage

SMEs we surveyed are also increasingly aware of the organisations which can support them as they embark upon a programme of international trade.

More than 90% understand that there are government-backed trade partners which provide support. Partners identified included Chambers of Commerce, UK embassies abroad, the former UK Trade and Investment (UKTI) which sits in the newly-created Department for International Trade (DIT), Local Enterprise Partnerships and Growth Hubs and UK Export Finance.

Despite this encouraging level of awareness, fewer than half (between 42 and 48%) of SMEs already exporting actually use these agencies.

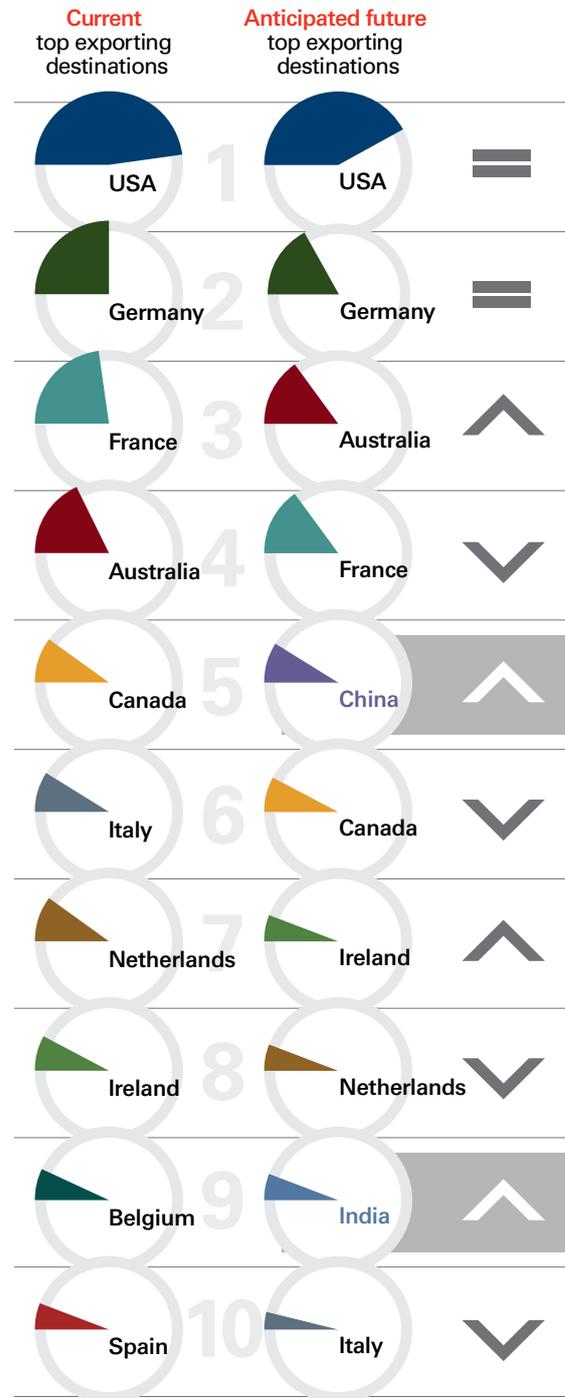


Figure 3. Current and anticipated future exporting destinations

“China is a growing market, as it is more open. I am impressed with the speed of development there.”

Supporting trade and opening up markets

Our findings suggest that perception is worse than reality, when it comes to trading abroad. Anecdotally, we understand that barriers are often overcome not because of any strategic plan but that trading begins accidentally when entrepreneurial SMEs take advantage of an opportunity. Once a small business starts to export they realise that the benefits can outweigh the challenges and grow in confidence.

As such, there is a risk that chances are missed by companies that have the capacity to export, which affects not just the business, but the economy as a whole. Giving SMEs the confidence and incentive to capitalise on trading opportunities is therefore crucial.

Recommendation

Targeted incentives: A government feasibility study of the benefits of fiscal measures to encourage more small businesses to export, such as a tax credit for exporters.

All businesses must balance risk with potential reward whenever making a strategic decision about their business activity. This trade-off is particularly acute for smaller businesses which tend to have less resource. By offsetting a fraction of the initial costs of entering a new market, our research indicates that more businesses would seriously consider going international. This support could take the form of rebates for SMEs for their costs related to exporting – which 75% of future exporters say would encourage the practice.

There are international examples of successful fiscal incentive schemes established with the aim of increasing export revenues. Michigan's State Trade Expansion Programme for example rebates companies for costs of up to \$12,000 associated with participating in trade missions, undertaking market research and other export-related activities. This scheme connected local companies with 126 international markets last year, and has contributed to the \$1.1bn dollars in exports facilitated by the state development corporation since 2012.

In addition, while travelling to target markets to undertake research and build networks can be crucial to successful exporting, the costs attached can be prohibitive for many SMEs. 56% of current exporters and 73% of those planning to trade abroad believe financial support for foreign visits would boost their levels of exports.

"We started exporting over 25 years ago. Our motivation was to export to our customer base – we went after them."

Recommendation

Giving exporters a voice in trade negotiations: an Export Advisory Committee to give practical advice to government when considering new free trade agreements.

SMEs are aware that the lines of international trade will be redrawn once the UK leaves the EU, and, for many, this is a cause for concern. In particular, they are worried about the impact of Brexit on their costs.

Our research found that SMEs are concerned about whether the UK's new trading relationships following Brexit will boost exporting opportunities. A lack of experience in trade negotiation within the UK was a concern for 60% of exporting SMEs and 55% fear delays to the introduction of new trade deals. Qualitative research also indicated that SMEs are concerned about the day-to-day impact and whether their voice would be heard in negotiations.

Collaboration with exporters will be vital to securing trading relationships with the EU and the rest of the world that allow British businesses to succeed on the world stage. It is encouraging that the government has sought the views

of many trade associations and business groups since the referendum. However, given the vital importance of trade to the UK economy, we believe policymakers would benefit from taking counsel from an advisory group of SME exporters, on how to tailor trading arrangements to get the best out of British exports.

As figure 4 indicates exporting SMEs are roughly as concerned with non-tariff barriers such as legal and regulatory requirements (53%) as they are with tariff increases (58%). Other non-tariff barriers identified include customs cooperation, pre-shipment inspections and licensing requirements. These are areas of specific concern for exporters, including those in our world-class services and high-tech manufacturing sectors. As the UK begins to negotiate a new trading relationship with the EU, we believe businesses would welcome further dialogue with government on these specific barriers.

On the similar theme, findings show that business welcomes government’s efforts to proactively create trade working groups with certain countries, including Australia.

“It’s an excellent initiative, it sounds like a negotiation that has been set up quickly. The Australian government has said that Britain can expect obstacles so I don’t know how successful it will be – but the fact is the drive is there and they want to do business with us...”

The experience of such country-specific working groups and business councils should also feed into discussions between government and an Export Advisory Committee to ensure that the voice of SMEs is heard throughout negotiations.

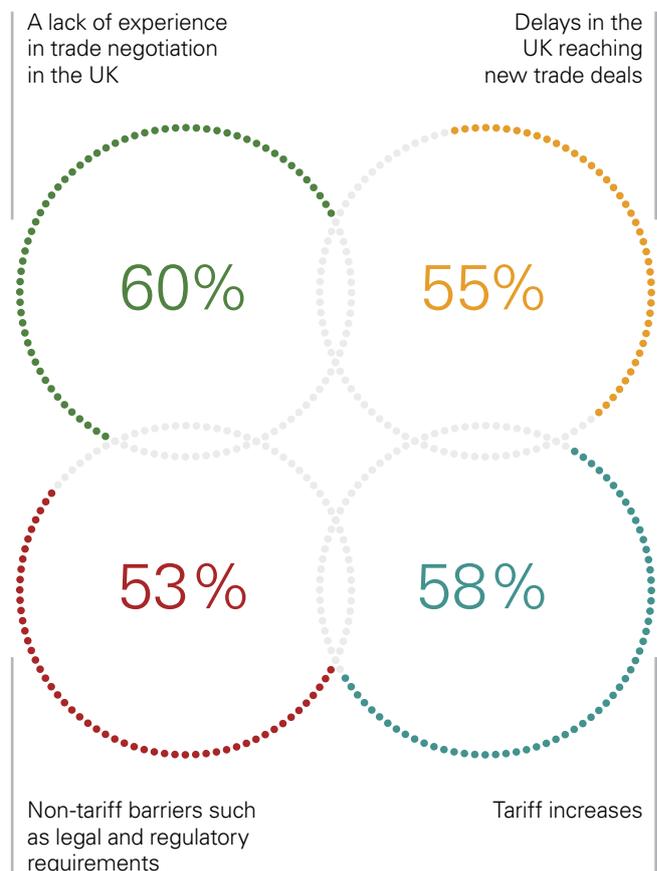


Figure 4. Concerns for exporting SMEs

Cutting complexity and changing perceptions

Our research indicates that exporting for the first time can be confusing for SMEs, with barriers ranging from a lack of confidence in the economy to a shortage of language skills.

The government has already made significant strides in boosting awareness of support sources, with 93% of the SMEs surveyed knowing that help is available from places such as DIT. But if anything there are so many support services that SMEs are often baffled by where to go for the advice they need.

This is reflected in our finding that SMEs are not engaging with export support services. Fewer than half (between 42 and 48%) of those SMEs already exporting use these agencies. And the figure for those embarking upon exporting is not much higher, between 48% and 58%.

Perception is a significant issue. A big barrier for SMEs accessing exporting help is the belief some have that they are not large enough to meet the criteria for support from government agencies.

Time is also a perceived barrier, with SMEs fearing that they are too busy running their businesses day-to-day to get involved in exporting.

"I have not received any support but to be honest, I've not really tried. We're a small company. I don't want to spend time filling out application forms and so on."

Available government backed initiatives to support exporting

- ▶ Exporting is Great
- ▶ Tradeshow Access Programme
- ▶ E-Exporting Programme
- ▶ Overseas Market Introduction Service
- ▶ UK Export Finance
- ▶ ExportSavvy
- ▶ Open to Export

"I'm not sure if support services would apply to us. They are aimed at large companies; would they have an interest in smaller businesses?"

But those who have spent the time embarking on an exporting programme recognise the benefits that it brings them, particularly when they have assistance from government agencies.

"We need one person that we can go to – a one-stop shop and expert."

SMEs often describe difficulties getting export advice – it can be contradictory, key information may be missing, and they often have to deal with more than one person, with all the complexity that entails.

“We continually have to explain ourselves every time we ring up, there is no co-ordination between different people working for the same agency.”

Recommendation

Tailoring existing support: existing support services must be easily accessible, consistent and clearly signposted.

Our research indicates that SMEs are often looking for support that is already provided, for example:

More tailored, on-the-ground support from government and agencies in priority markets would encourage 64% SMEs not already exporting to start. Half of those already exporting also agree.

- ▶ Already the Overseas Market Introduction Service (OMIS) uses the networks abroad of the Department for International Trade to provide would-be exporters with reports of different regions and sectors.

Support in other business skills is in demand too, with 59% of exporting SMEs and 70% of those thinking about it saying support with digital marketing to improve their brand overseas would encourage them to trade abroad.

- ▶ The DIT’s E-Exporting Programme, already helps UK retailers and brands export their products overseas via e-commerce, although more marketing assistance would be well-received.

Security against lack of payment is cited as a barrier by 63% of those SMEs not currently exporting.

- ▶ UK Export Finance (UKEF) provides insurance to exporters and guarantees to banks to share export finance risks. It also makes loans to overseas buyers of goods and services from the UK.

We believe a more tailored, user-centric suite of services would be of great value to SMEs. This would hinge on timely assessment of businesses’ specific requirements followed by signposting to the most appropriate government or third party service.

Recommendation

Sharing best practice: a renewed effort by banks, business groups and support services to help potential exporters gain experience through dialogue with those already trading internationally.

It is clear from our research that the direct experiences of exporters help to reassure and inspire SMEs thinking about international trade for the first time. Almost three quarters (71%) of non-exporting businesses surveyed said that speaking directly with businesses currently exporting to their target markets to learn from their experiences would encourage them to do so.

In addition, 70% of our exporting SMEs started to trade abroad when they were less than ten years old. Nearly two thirds (35%) of these were not yet one year old when they began exporting. This echoes the sentiment of HSBC’s report on The Rise of Micro-Multinationals, namely that some SMEs are starting out with international – rather than domestic – business plans, which enable them to be prepared to export from day one.

It is these kinds of messages – that businesses should not miss opportunities to trade abroad because they are young – that exporting SMEs are able to pass on to their non-exporting peers.



HSBC's support for international business

As a global bank with access to over 90% of the world's trade flows, HSBC has a long history of supporting small businesses export and is committed to working closely with government in this shared aim.

In the last year, we have been proud to sponsor the International Festival for Business which welcomed over 26,000 visitors as well as the Entrepreneurs Exchange, a series of events sharing best practice from some of the UK's most successful start-ups with SMEs across the country.

We constantly challenge ourselves to do more. Our research shows that this is important as many SMEs still believe that banks cannot help them with exporting; they assume any services provided apply to larger businesses only or are concerned about lack of security of payment.

"I'm not really big enough for the banks to be interested."

These perceived barriers demonstrate a lack of awareness among SMEs about the trade finance support that banks can offer businesses of all sizes when looking to export.

"It's not their role to provide SMEs with exporting support – banks are for banking services. They could guarantee them money but it's opening them up to risk."

It is clear that banks need to do more to make their products and expertise more accessible to businesses and help to educate them on how they can help mitigate risk and provide access to finance.

HSBC is responding to this demand with the creation of a one-stop-shop for SMEs to seek information on exporting – the Export Resource Centre.

Designed to give businesses clear and simple information to help make confident decisions on exporting – whether taking the first step, understanding how other countries do business or how to open an international bank account – the Export Resource Centre has all the guidance needed in one place.

It will feature HSBC's international products, exporting tools, country resources and customer case studies. Direct access will also be provided to third party organisations such as the DIT and Chambers of Commerce.

"Sometimes getting payment back from companies is tedious... I'm a small company and I don't want the time, bother and expense of going to court."

But it is not just products, finance solutions and support services that SMEs want and need from banks; building international networks and identifying opportunities are also crucial.

Connecting clients to growth opportunities has been HSBC's central mission for over 150 years and we are continuing that endeavour with the launch this autumn of a new online portal - the HSBC Connections Hub. Customers will be able to go on to the portal, raise the profile of their company and connect with HSBC customers in other markets.

The site is open for customers to register and will launch in November, initially in the UK and US, followed shortly by Canada and Hong Kong.

Exporting is crucial to the UK economy and its smaller businesses. SMEs understand the importance of trading overseas, but are often concerned about the unpredictability of international markets and their own ability to navigate a complex landscape.

The government and banks already offer a raft of support for businesses exporting, but it is often perceived as something for big business, not SMEs. When they do look for support, they are often overwhelmed by where to go and what to ask.

Government, banks and business groups need to offer better co-ordinated and tailored support to both SMEs who want to export and those already forging a path in international trade.

Despite expressing concerns about economic uncertainty, the appetite for exporting among SMEs is cause for optimism. With the right support, UK exports can flourish.

Methodology

The findings of this report are drawn from a combination of online, telephone and face-to-face research, undertaken in September 2016. YouGov conducted 1,009 online interviews with a randomly selected sample of UK-based SMEs (companies with under 250 employees). The sample was split into two groups: SMEs currently exporting (502) and SMEs considering exporting in the near future (507). Interviews with 68% of the companies currently exporting and 75% of those considering exporting were carried out with the business owner or proprietor, all other interviewees were members of businesses' senior management teams.

In addition, in-depth telephone interviews were held with 9 SMEs already exporting and focus groups were conducted with 8 SMEs either exporting already or about to start.

All images copyright © HSBC Holdings plc. All reasonable efforts have been made to obtain copyright permissions where required. Any omissions and errors of attribution are unintentional and will, if notified in writing to the publisher, be corrected in future printings.

Note: Whilst every effort has been made in the preparation of this report to ensure accuracy of the statistical and other content, the publishers and data suppliers cannot accept liability in respect of errors or omissions or for any losses or consequential losses arising from such errors or omissions. The information provided in this report is not intended as investment advice and investors should seek professional advice before making any investment decisions.

Issued by HSBC Bank plc

8 Canada Square
London E14 5HQ
United Kingdom
www.hsbc.com