



Federation of Small Businesses
Ffederasiwn y Busnesau Bach
The UK's Leading Business Organisation
Mudiad Busnes Arweiniol y DU

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19th December 2013

Nick Ramsay AM
Chair, Enterprise and Business Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Dear Nick

RE: Inquiry into the Welsh Government's approach to the promotion of trade and inward investment

The Federation of Small Businesses Wales welcomes the opportunity to present its views to the Enterprise and Business Committee on the Welsh Government's approach to the promotion of trade and inward investment. FSB Wales is the authoritative voice of small businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with small businesses at a grassroots level. It undertakes a monthly online survey of its members as well as an annual membership survey on a wide range of issues and concerns facing small business.

Unfortunately, FSB Wales is not at present in a position to provide a detailed response to the Committee on the questions contained in the Committee's inquiry. FSB Wales has not undertaken any recent work that would be of direct relevance to trade and inward investment on a Wales-only basis.

FSB recently produced a UK report on exporting and small businesses that the Committee may find of interest entitled *Enabling small businesses in the drive for more UK exports* (attached). Key themes in this report include the role of UKTI and awareness among businesses of its support functions. The report also provides an analysis of export strategies in Germany, Ireland, Netherlands, Denmark and the USA that will provide useful insight to the Committee.

FSB Wales has previously worked with Cardiff Business School on an analysis of the Welsh Government's Economic Renewal Programme and would suggest that the Committee ask Professor Max Munday and Dr Andrew Crawley to provide evidence, both of whom have written extensively on inward investment in Wales.

Finally, it is worth noting that the role of the former Welsh Development Agency (WDA) is still a contentious issue among many members in Wales. There can be little doubt that its successor organisations, including International Business Wales, failed to command the strength of brand that the WDA had achieved. FSB Wales hopes the Committee will be able to examine this issue further, as well as the visibility and acceptability of other Welsh Government support schemes such as Business Wales.

I hope you find the comments of FSB Wales of interest.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'JK Jones'.

Janet Jones
Wales Policy Chair
Federation of Small Businesses Wales

Attached

- FSB 2013 - *Enabling small businesses in the drive for more UK exports*



Federation of Small Businesses
The UK's Leading Business Organisation

Enabling small businesses in the drive for more UK exports

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Foreword

Exports have a crucial role to play to drive forward economic growth and many small and micro businesses need more help and support to export. Too often small firms have a 'fear of the unknown'. The key from my point of view is getting a clear focus on generating solid business leads for small businesses with wider export support falling-in behind that.

If the Government is serious about driving growth then there has to be a fundamental shift in the way that UK Trade & Investment (UKTI) offers support to small business exporters¹. Small businesses have a crucial role to play through realising their export potential. From our own membership, six per cent of businesses not currently exporting want to do so in the future. This potential alone would mean an additional £792 million to the UK economy.

The Government has set challenging targets to double the value of exports and increase the number of new exporters by 2020. To reach these targets, UKTI needs to focus more on first time exporters and those at pre-export stage. To say that UKTI is 'SME' focused does not go far enough and what is really needed is greater focus on small and micro businesses to attract and assist more businesses to become potential exporters. Worryingly, only 50 per cent of small business exporters are aware that UKTI exists and it is not obvious enough that it is an organisation focused on exports and small businesses.

In the longer term the FSB has called for a UK Small Business Administration, similar to the US, which would have a UK Small Business Export Department. This would focus on small and micro business to drive growth. This would ensure that Government can fully deliver a shift in the way UKTI approaches small and medium-sized enterprises (SMEs), and specifically tailor and market products and services relevant to small and micro businesses. In the short term, a 'micro desk' with a named contact in every region would help achieve this and finally shake off the perception that exporting is 'just for big business'.

The FSB is also keen to stress that we should not be solely focussed on support to businesses exporting to the emerging markets. The proximity of Europe and the importance of the opportunities in the Single Market mean that export support should still be offered to small and micro businesses in this space. There is more to do in terms of signposting export finance support with more formal referral mechanisms put in place for businesses through the banks. Those businesses that cannot access finance and support should automatically be signposted to UKTI and UK Export Finance (UKEF) in particular.

We believe that the Government plays an important role in helping encourage and facilitate private sector mentoring and networking schemes. The FSB will continue to play its role in providing guidance to members on exporting and working in a constructive way with UKTI at a local level through FSB regional contacts to help boost the numbers of potential new exporters.

This report gives insights into the current experience of small businesses and puts forward a number of recommendations to help drive this agenda forward.

Mike Cherry LIWSc FRSA
FSB National Policy Chairman

¹ This is a report focused on UKTI support in England but some of the recommendations may be applicable to Scottish Development International, Business Wales and Invest NI

Executive Summary

- Exporting is a vital source of **economic growth** for the UK, with small businesses an important potential source of increased export activity. SMEs account for over half the value of UK exports (53 per cent goods exports and a higher proportion of services exports). A greater focus on the export potential among small and micro businesses, that make up the vast majority of the SME community, would help meet Government export growth targets.
- FSB surveys show that **small business exporting** levels have largely remained stable around 21 per cent since our last research in 2010. However, members not currently exporting that say they intend to export in the future has fallen from 12 per cent to six per cent over the last two years. Currently, the majority of small businesses are targeting Europe then the USA, Australasia and Canada. Future export intentions show that businesses are looking wider and diversifying beyond these more traditional markets.
- Small businesses report a number of **barriers** to exporting but the main issues are: fluctuating exchange rates, finance and payment issues, dealing with regulation and difficulty in getting the product to market. Access to finance has become more of a problem compared with two years ago. These barriers highlight where advice and support should be prioritised to help small businesses.
- Small business exporter awareness levels of **UKTI** are low at 50 per cent, with levels of usage even lower at just 20 per cent. Businesses raise concerns about the variation in quality of UKTI support around the country, in addition to products only set to deliver targets and revenue, rather than being tailored to small and micro businesses. The UKTI's Strategy in 2011 aimed to target more support to SMEs but the FSB believes a step-change specifically towards small and micro businesses with the potential to export is a better way forward.
- Awareness and take up of **UKEF** among the small business community is also still far too low. There is potential for UKEF to link with UKTI, banks and business groups particularly at a local level to raise awareness of the support available. An automatic referral mechanism from the banks should be in place and better partnership working by raising awareness of products and support available at a local level. There may also be an opportunity to expand the Government's existing supply chain financing initiatives to focus on how large companies might specifically support small exporters within their supply chain. Local Enterprise Partnerships (LEPs) in England may also have a role to play going forwards.
- An analysis of international models shows the benefits of implementing a US style **SBA** in the UK to improve continuity in small business policymaking. A new Small Business Export Department and the proposed Business Bank would sit within this and provide direct support to small businesses for both export support and finance. The UK should also learn from positive pre-export support schemes in operation in other European countries.

Introduction

Exporting is an important area of economic growth for the UK and small businesses are an important source of increased export activity. Greater export activity is also important to reduce the UK's long-standing trade deficit and to help rebalance the UK economy.

Currently, SMEs² account for over half the value of UK exports (53 per cent of goods exports and a much higher proportion of services exports)³. To support SMEs to increase exports UKTI published a five-year strategy which signaled a shift towards more focus on and support for SMEs⁴.

Subsequently, the Government set challenging targets for 100,000 new exporters, and to double UK exports to £1 trillion by 2020. This equates to approximately 10,000 additional businesses per year exporting.

Targeting SMEs was a good first step in shifting UKTI's focus. However, UKTI needs to make a further step-change towards targeting support at small and micro businesses, the bulk of the SME community, to include both existing and potential new exporters. From the FSB's point of view, this step change is crucial if the Government is to meet the national export challenge to drive for growth.

Section 1 of the report sets the scene by examining the current small business export market and how this has changed since 2010⁵, drawing from FSB panel survey information on the barriers faced by exporters.

Section 2 evaluates current Government export support from UKTI and access to trade finance from UKEF.

Section 3 then looks at international comparisons, explores how a Small Business Export Department within a UK SBA could improve delivery of small business export support. Examples from Europe also demonstrate how pre-export support in the UK could be enhanced.

The report then concludes with a package of ideas for getting support for new exporters and small and micro businesses.

² SMEs are defined as businesses with fewer than 250 employees

³ HMG Trade and Investment Written Evidence to the Lords SME Exporting Committee inquiry (2012)

⁴ Britain Open for Business: Growth through international trade and investment, UKTI (2011)

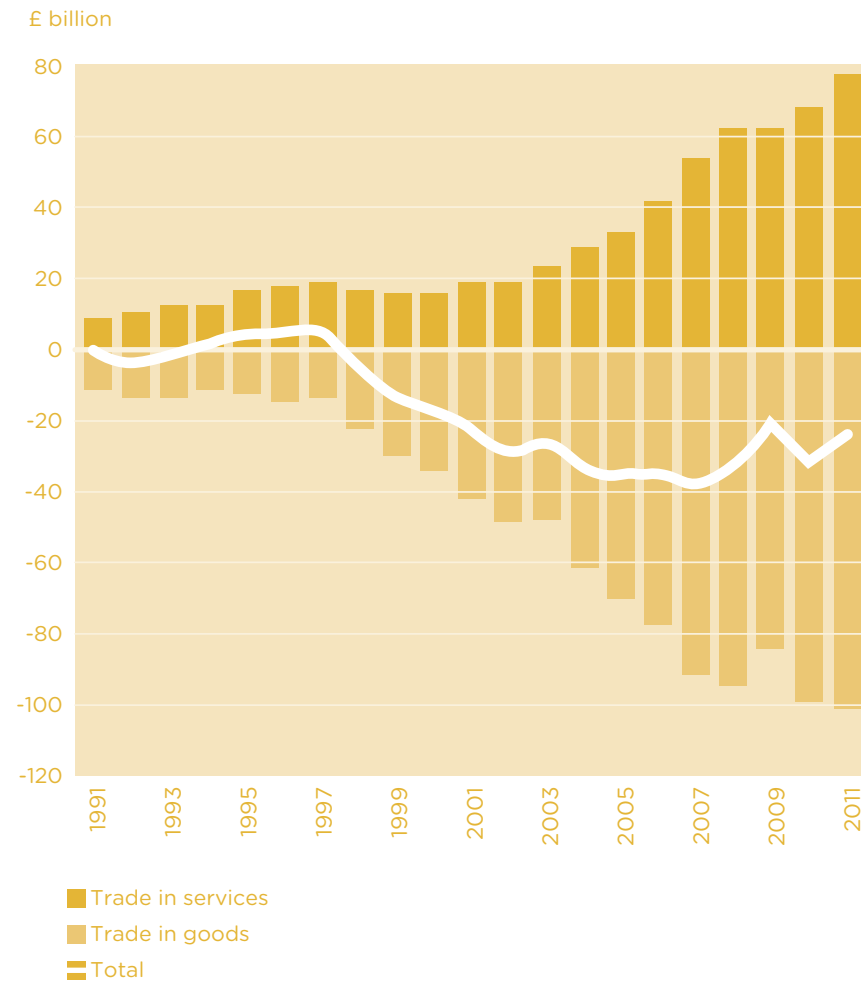
⁵ Made in the UK: Small Businesses and an export led recovery, FSB (2010)

1. Small businesses and exporting

For a long period, the UK economy has had a persistent current account deficit, largely driven by trade imbalances on goods both with EU and non-EU countries. Although the UK has enjoyed a comparative advantage in the provision of services, this has not been enough to offset the imbalances in the trade for goods (Figure 1), with the current account deficit running around £3 billion a month for 2012. This persistent and sizeable deficit lies behind the desire to rebalance the UK economy away from domestic consumption and towards investment and exports.

Figure 1

Trade in goods and services



Source: The Pink Book 2012

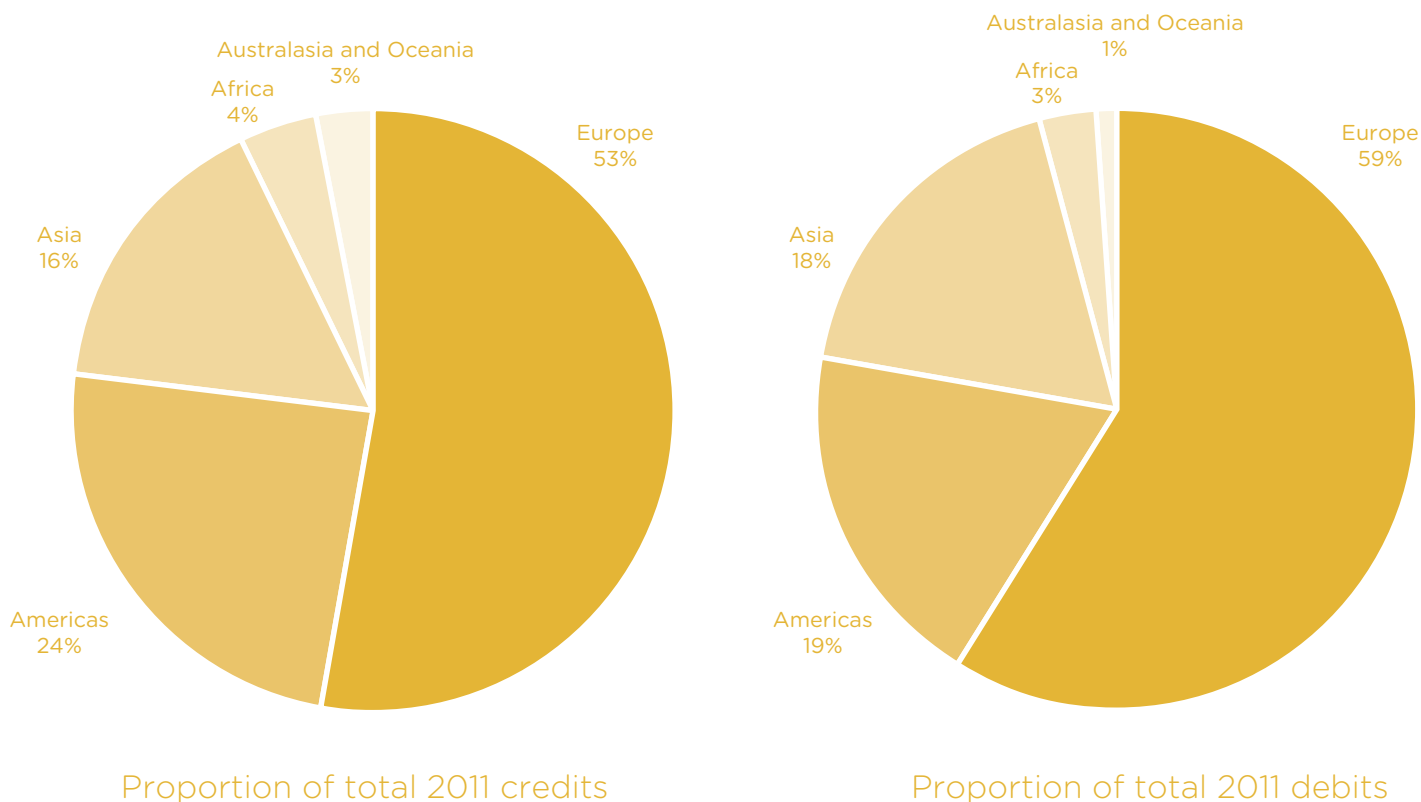
As well as being a key component in efforts to increase exports, increased export activity by small and micro businesses also brings a number of desirable ‘spillover’ effects that potentially raise growth for the UK economy. There is evidence to demonstrate that UK firms engaging in international markets improve their skills, knowledge, and management practices through a so-called export learning effect and are therefore less likely to fail⁶.

Trade patterns

With challenging conditions in the eurozone, the UK’s largest export market, data suggests exporters are turning attention to other faster growing markets. Since the autumn of 2011, there has been a shift in UK trade with EU countries compared with the rest of the world. While the EU remains the largest export market (Figure 2), the economy is refocusing exports away from the EU, to other faster-growing areas. There has been little change in the prices of exports and imports to the EU and non-EU over this period but the volume of exports to the EU has decreased (by around 5% between the latter half of 2011 and the three months to April 2013). At the same time, the volume of exports to the rest of the world has risen (an increase of 7% between the second half of 2011 and the three months to April 2013).

Figure 2

Value of exports



Source: The Pink Book 2012

⁶ BIS Trade and Investment White Paper, February 2011

FSB survey results

Value of exports

Set against the overall exporting picture, the number of FSB members exporting has largely remained stable since our last survey in 2010, an encouraging result given the high level of uncertainty exporters have faced over this period.

The FSB's research⁷ confirms the link between exporting and higher levels of innovation. Around four in five of those exporting have made innovations relating specifically to exporting. Half (51%) have redeveloped their website and two fifths (41%) have made changes in their sales and marketing strategies. The FSB's Quarterly Small Business Index⁸ shows that compared to non-exporters, exporters are generally more positive about their business prospects and are more likely to be thinking about taking on staff and wanting to grow.

Currently, more than a fifth (21%) of FSB members export, which compares with 23 per cent in 2010.

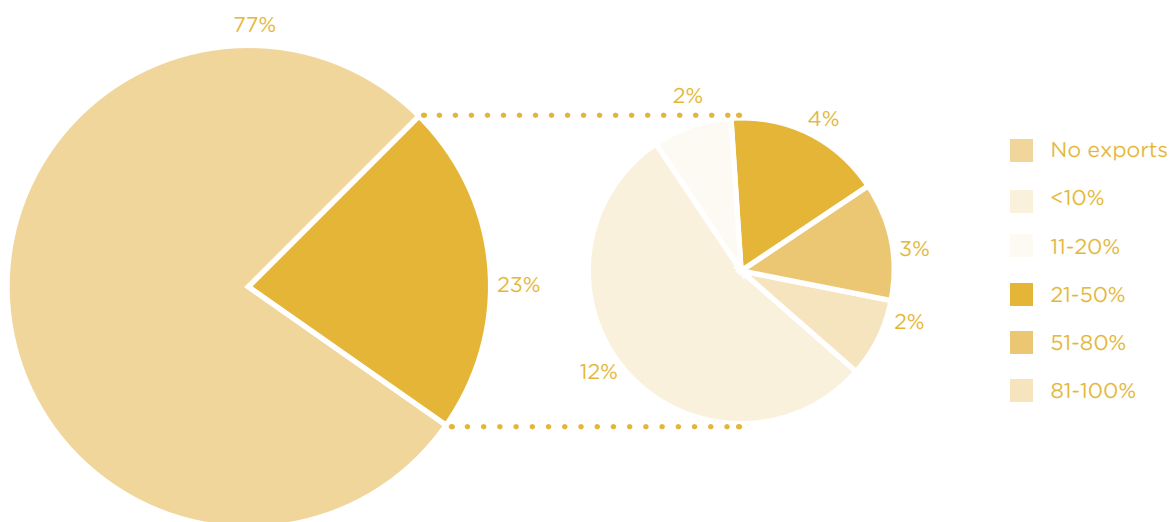
Almost two thirds (63%) export manufactured goods, 37 per cent services with seven per cent for processed goods.

Strongest export areas are in London (31%), West Midlands (26%) and the South East (23%).

The most active exporting sectors are manufacturers (51%), wholesale (49%), computing (29%), retail (23%), creative services (23%) and business services (18%).

Figure 3

Export as a proportion of revenue



Source: FSB 'Voice of Small Business' Quarterly Index Quarter 4 2012 www.fsb.org.uk/small-business-index*

* The index data is weighted differently by CEBR (Centre for Economics and Business Research) which accounts for the slight variation with the September Survey Panel data, weighted by Research by Design.

⁷ FSB 'Voice of Small Business' Survey Panel (September 2012)

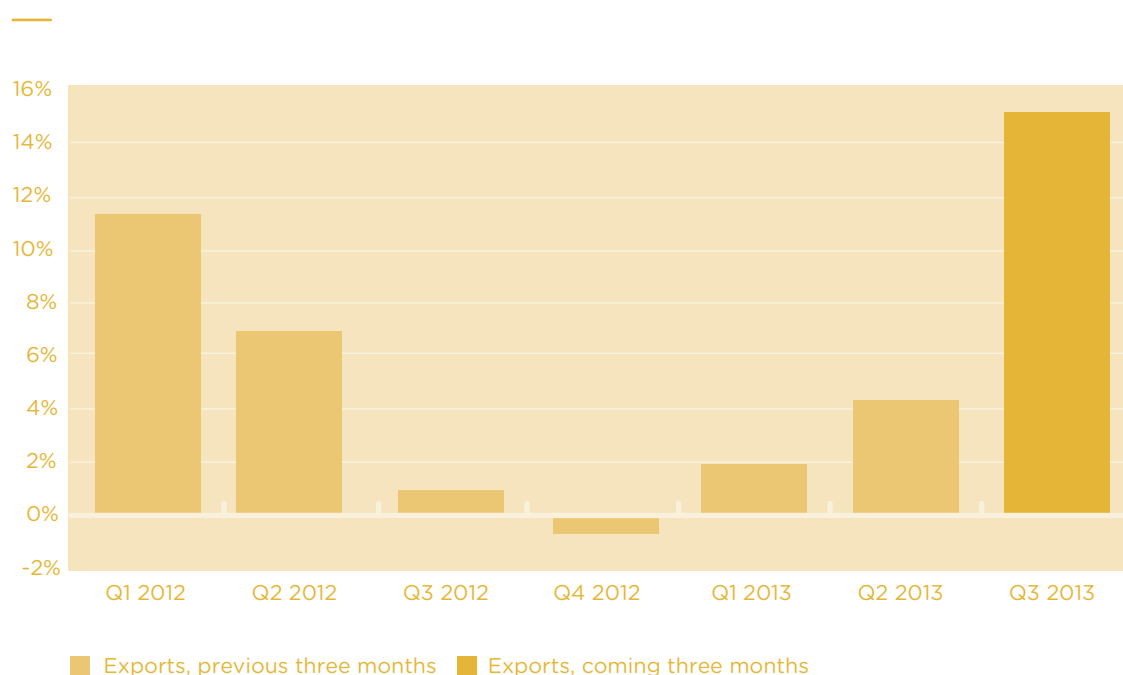
⁸ FSB 'Voice of Small Business' Index Quarter 1 and 2 2013 www.fsb.org.uk/small-business-index

Of these exporters, about half generate less than a tenth of their revenue from foreign sales and a quarter sell between 10 per cent and 50 per cent of goods and services abroad. Around a quarter derive more than half of their sales from foreign customers.

Looking forward, the survey data provides a mixed picture. Despite challenges in the eurozone, a net balance of 15 per cent of businesses expect rising sales in the next three months⁹. However, the unstable economic environment and fragile confidence has hit exporting intentions with the proportion of members actively considering exporting as an option falling to six per cent from 12 per cent in 2010. However as shown in the Q2 Index, faster growth is expected among existing exporters over the next three months (Figure 4). The challenge the Government faces in achieving its export target is still apparent.

Figure 4

Changes in exports – previous three months and expectations for coming three months; net percentage balance, share reporting increase less share reporting decrease



A changing trade pattern?

Figure 5

Regions to which businesses CURRENTLY export goods or services?

Base: 542 (Current exporters)

Current export regions

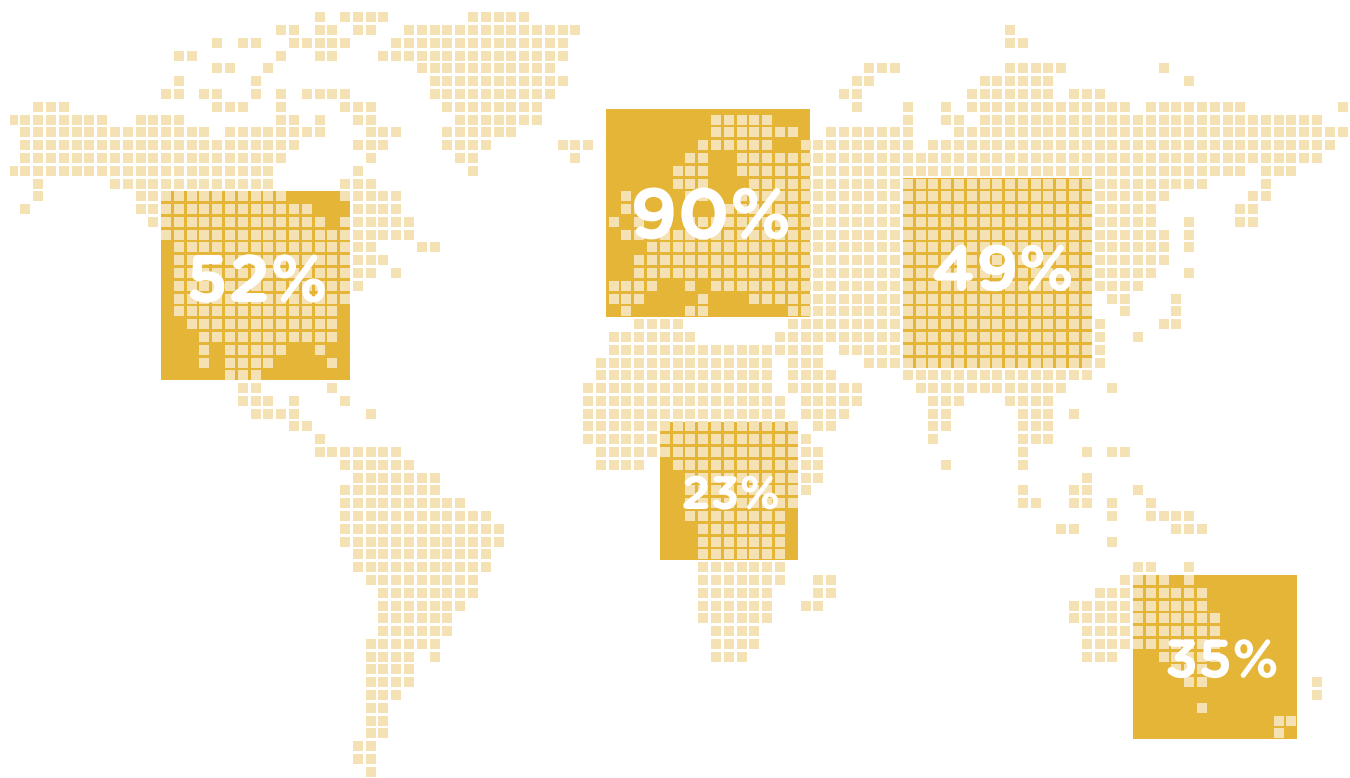
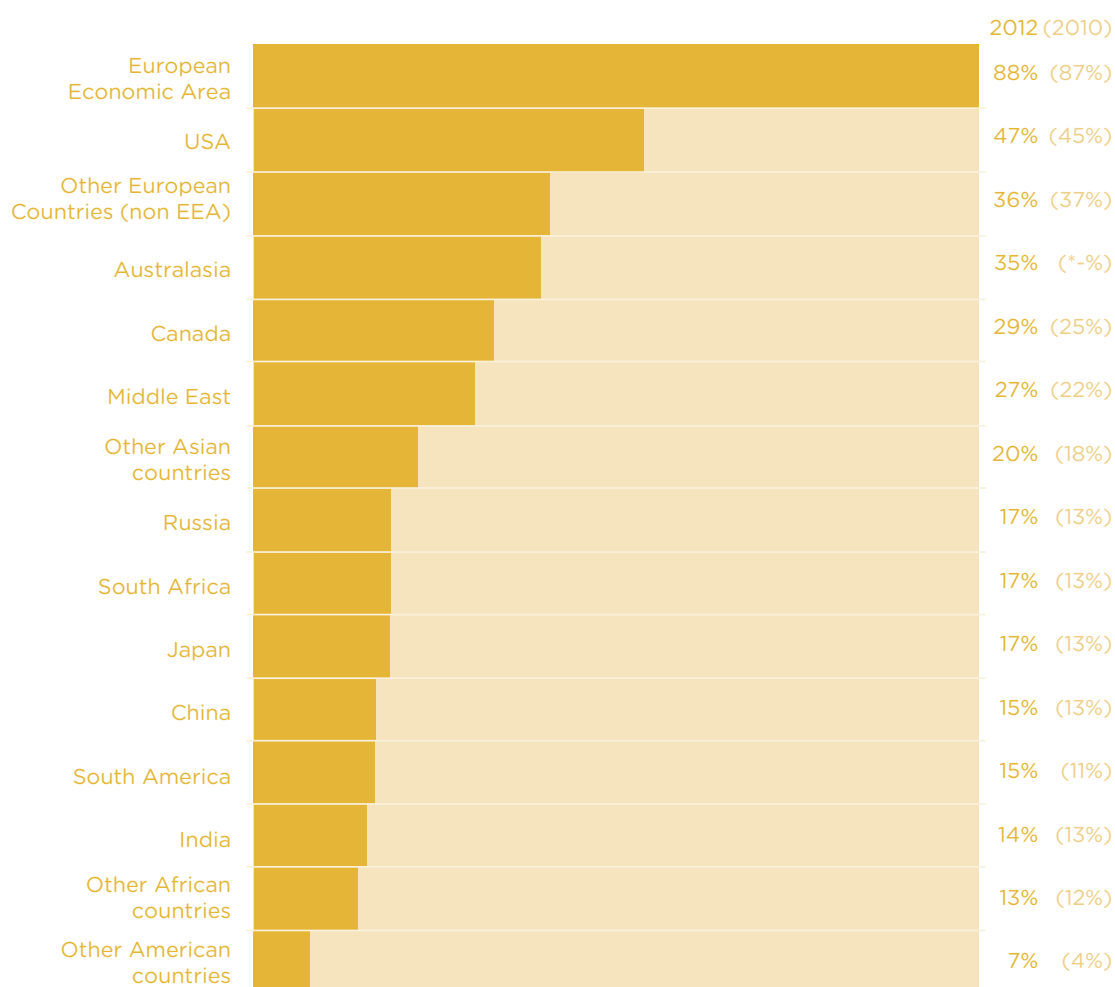


Figure 6

Regions to which businesses CURRENTLY export goods or services?

Base: 542 (Current exporters)

Current export regions

* Australasia was omitted from the pre-coded list in 2010.

In line with overall trade figures, the FSB survey results suggest the markets small firms are targeting are changing, especially when looking at exports to the European Economic Area (EEA) against the rest of the world. In terms of current export markets, the picture remains similar to that in 2010 where the overwhelming majority of members were targeting the EEA then the USA and Canada. However there is a small but perceptible change in this picture (Figures 5 and 6), with Australasia and non-EEA countries coming into the frame as well as the Middle East. This may suggest small businesses are seeking opportunities in English speaking markets such as the US, Canada and Australasia, and have taken advantage of growing markets in the Middle East.

Figure 7

Regions to which businesses are LIKELY TO export goods or services?

Base: 219 (Those identifying future export regions)

Future export regions

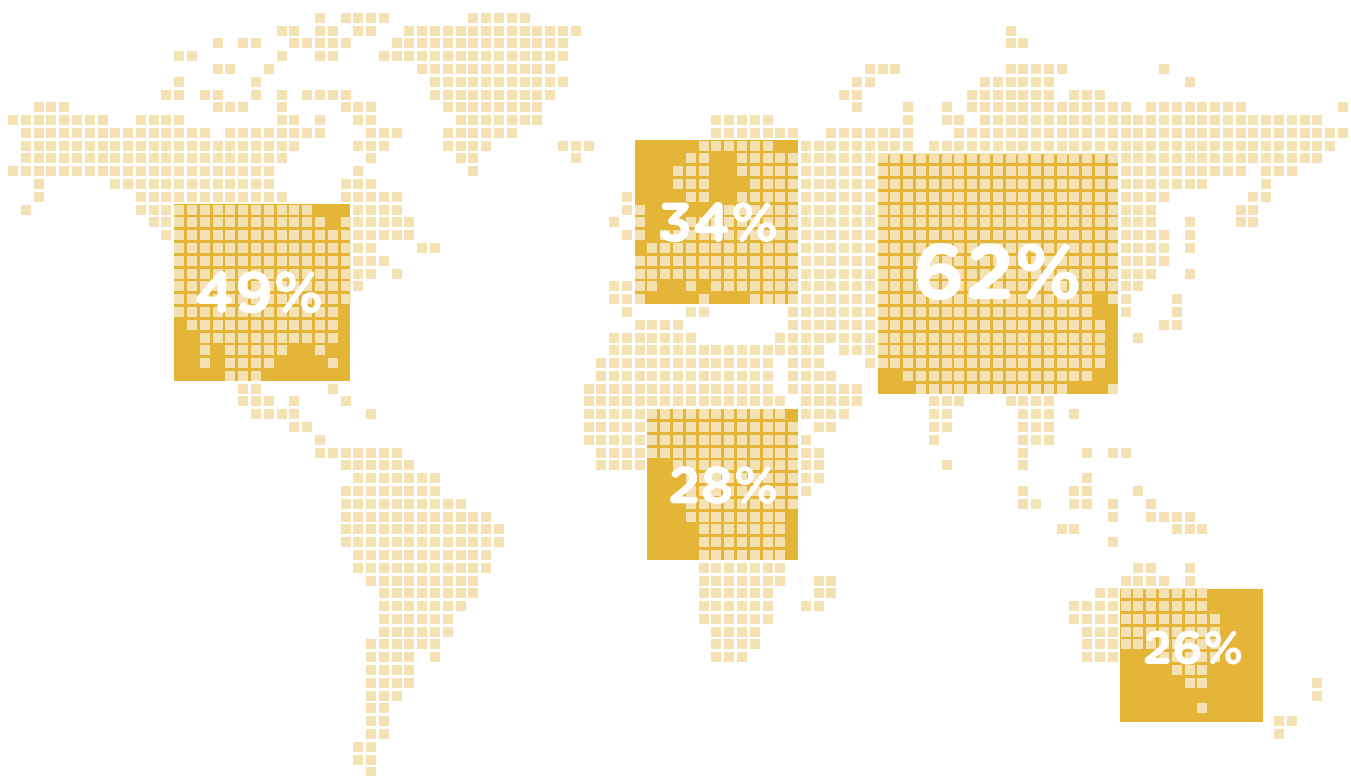
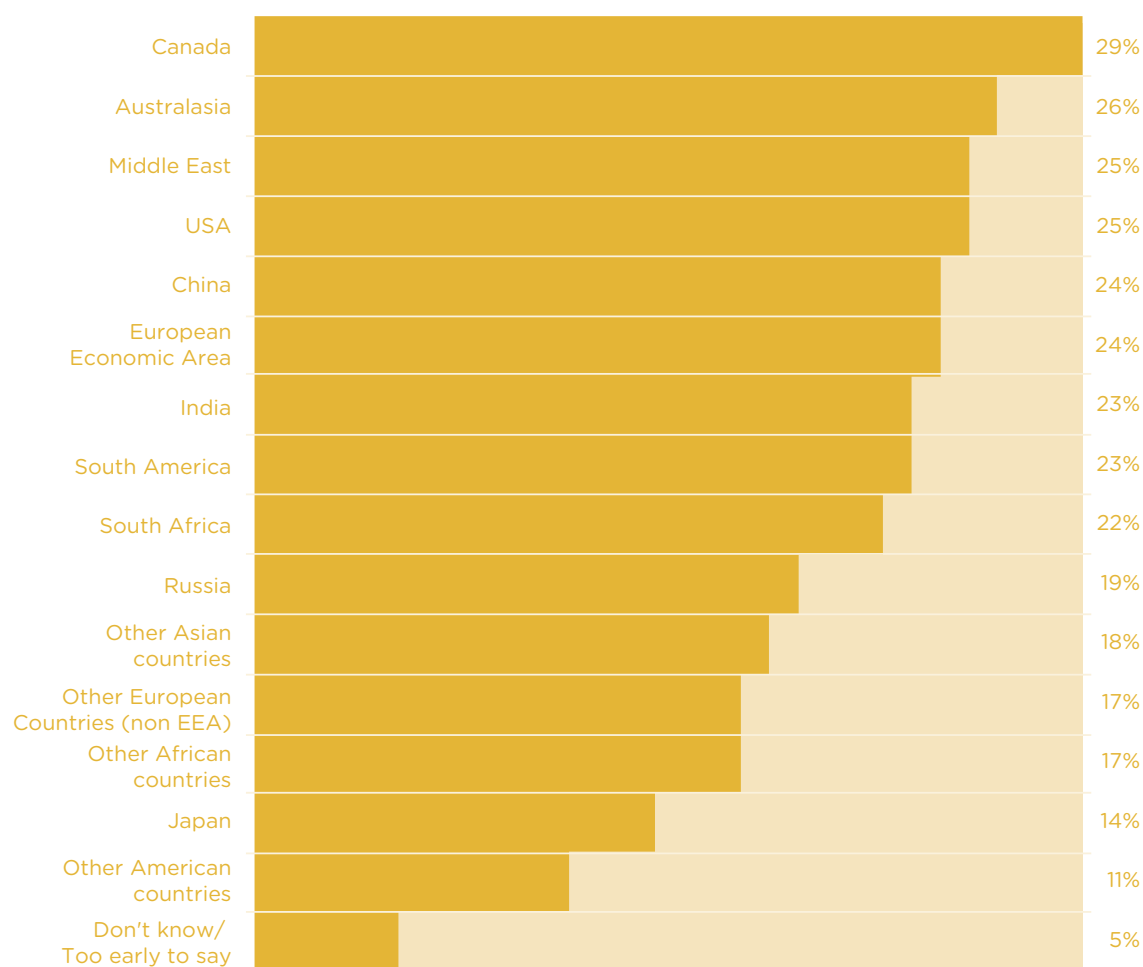


Figure 8

Regions to which businesses are LIKELY TO export goods or services

Base: 219 (Those identifying future export regions)

Future export regions

Looking ahead, members were asked about export regions in the future. These results again suggest that businesses are planning to be less reliant in the future on some countries in Europe (Figures 7 and 8). Consistent with the evidence above, more than a quarter of members plan to export to Canada, Australasia, the Middle East and the USA in the future. Businesses are ready to export to destinations such as the BRICs (Brazil, Russia, India and China) with China at 24 per cent, and India and South America at 23 per cent respectively. There has been a growth in worldwide interest from small businesses since 2010 as businesses are looking to diversify beyond Europe. Interestingly, the UK trade relationship with Germany is as strong as ever as both countries benefit from their global focus¹⁰.

¹⁰ www.telegraph.co.uk/finance/newsbysector/industry/9816643/Britain-becomes-Germanys-biggest-trade-partner-as-Berlin-London-pact-deepens.html

The conclusions drawn from this analysis are that UKTI's strategy should both focus on key emerging markets as it does at the moment but also, despite current low growth in the eurozone, it remains an important area for support. Maximising the EU Single Market of 500 million people and 23 million businesses remains an important avenue for Government to support. Small and micro businesses and particularly new exporters benefit from the easy access to lower risk markets, closer to home.

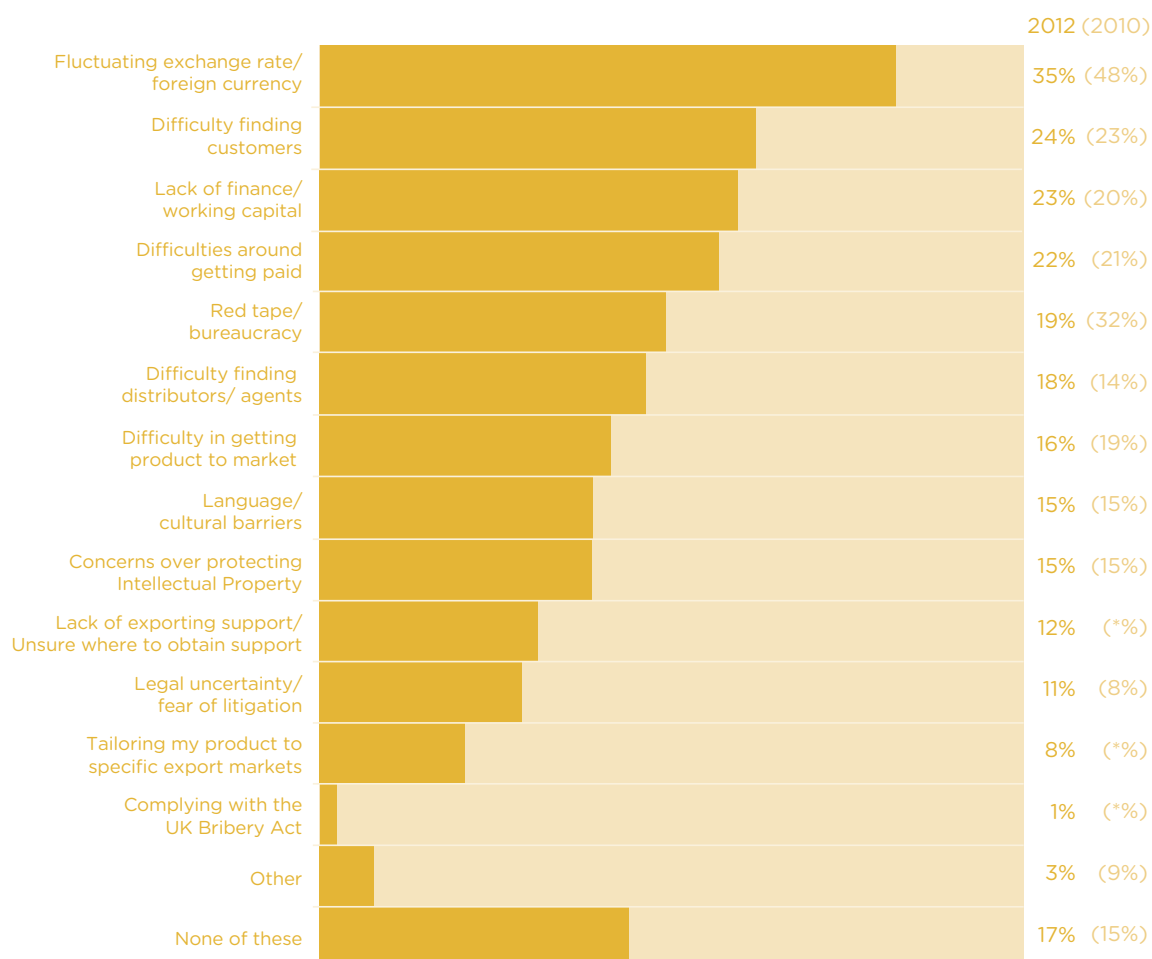
Barriers to exporting

It is clear from FSB research¹¹ there is no one single barrier to exporting for small businesses. While a wide variety of barriers are cited, fluctuating exchange rates, finance and payment issues, dealing with regulation and getting products to the market are among the most evident barriers (Figure 9)¹². Targeted signposting of support and guidance to small and micro businesses in these areas could go a long way to helping them deal with the barriers and perceived barriers of exporting.

Figure 9

Challenges to overcome when exporting goods and services overseas?
Base: 507 (Currently, previously or actively considering exporting)

Challenges to overcome when exporting



* These options were not included in the 2010 research.

¹¹ Including evidence from focus group sessions with FSB members in Great Malvern, Coventry, London and North East

¹² Lack of clarity over VAT payments is the most common challenge (36%) for service exporters in particular

Fluctuating exchange rates remain a problem for members and was at the top of the barrier list for the research in 2010. Those trading between currency areas face currency conversion costs and exchange rate volatility that can affect margins. There are products provided by banks and UKEF to protect against strong fluctuations in exchange rates that need to be signposted to business¹³. Members also continue to face problems around **accessing export finance**, even worryingly, well established businesses.

In terms of **regulation**, exporting involves additional regulatory and administrative requirements compared to domestic trade. Some examples are provided in Box A and particularly relate to customs legislation. The FSB calls on HMRC to simplify forms and make advice more consistent and straightforward. The FSB is also working with the European Commission on simplification of rules and a more simplified VAT system across Europe.

Box A: FSB members that cited regulation as an issue gave more information about the specific issues they have:

‘Complexity and time consuming European Community Sales Lists and Intrastat. There is much confusion (even at HMRC) between accounting for VAT and reporting for Intrastat - especially if your customer is in one country and he wants the goods sent to another. We spend hours trying to sort this out and prepare reports’

‘Completing the relevant paperwork e.g. EUR1 (movement certificate) etc can be extremely time consuming’

‘Customs Declarations, IPR’s (Inward Processing Relief), NIRU (National Imports Relief Unit), ATR’s, Certificate of Origin - procedure and costs’

Finally, businesses cite a number of issues with the **logistics of getting the product to market**, cost of shipping and fear of items being returned if declared faulty or damaged. Giving businesses advice on logistics and delivery within Europe is important in order to give them knowledge and skills to negotiate shipping options so they can get their products to market in a cost effective way.

Members also cite issues around language barriers and the cost of translation in addition to the need for support in securing intellectual property rights. This is where UKTI could offer additional help or the presence of a mentor to go to for advice which could help smaller businesses overcome the issues.

¹³ <http://www.ukexportfinance.gov.uk/products-and-services/foreign-exchange-credit-support-scheme>

2. Export support

This section evaluates the current export support provision from UKTI and the Foreign and Commonwealth Office (FCO), and current financial provision through UKEF and the banks. It assesses where progress and weaknesses lie. It also looks at the role the UK banks and LEPs, along with the private sector, can have in promoting exports.

The importance of making sure Government intervention is effective is underscored by the ambition to boost the UK's export performance. The 'National Export Challenge', sets a target for UKTI to increase the number of firms it assists from 25,000 to 50,000 by 2015, and for 100,000 more companies to be exporting by 2020. Currently, around 960,000 SMEs export¹⁴ making this a challenging target.

In the FSB's view, the Government's focus should be on small and micro businesses in order to achieve this. The Lords SME Exports Committee report agrees that raising awareness of UKTI and UKEF products for small businesses should be a 'key priority'¹⁵.

FSB members were asked what more they thought that the Government could do to encourage exporting and the following ideas emerged:

'A department set up to find out what opportunities are abroad for small companies. Small companies do not have the time to pursue overseas opportunities without a clear lead'

'Better access to finance. More detailed help. UKTI is overstretched and specific hand holding is difficult to access'

'Enable businesses to help each other - enable existing SMEs to help others export. Actively promote relationship building among exporters in a local area'

'It is very costly to exhibit overseas and we need more help to fund the shows such as 50 per cent matched funding'

¹⁴ 20% of 4.8m SMEs in the UK

¹⁵ Roads to Success: SME Exports, Lords SME Export Committee report (March 2013)

UKTI's 'Britain Open for Business' Strategy

In May 2011, UKTI launched its five-year strategy setting out the practical support it would provide to both exporters and investors. The strategy makes UKTI more SME-focused than was previously the case however the FSB would like to see a fundamental shift in the way that UKTI approaches its communications and relationship with small and micro businesses. Small businesses need products and services tailored better to their individual needs.

The FSB is concerned too about the over-emphasis on 'high growth' sectors, arguing instead for a wider approach given that there is growth potential across a range of sectors. The focus on growth economies should also not be exaggerated. Despite strong rates of growth, countries such as China or Brazil may not be suitable for smaller, first time exporters. UKTI support focused on Europe and English speaking countries such as US, Canada and Australasia with their developed markets is equally important despite the lower growth in these areas.

The FCO published its 'Charter for Business' alongside the UKTI strategy setting out where it is refocusing its operations to be more commercially driven. The FSB would like to see a small business element to the training that FCO staff receive so they can give support to small businesses overseas. Some, for example, report putting in a market research query to a commercial section and not receiving a reply. Others are crying out for realistic and reliable advice around the type of visas actually needed when travelling overseas, particularly to Africa. If the Government is to meet its new export targets UKTI and FCO must work together to combine their strengths: UKTI providing market knowledge and FCO providing the political context and contacts network for potential leads.

Export support schemes

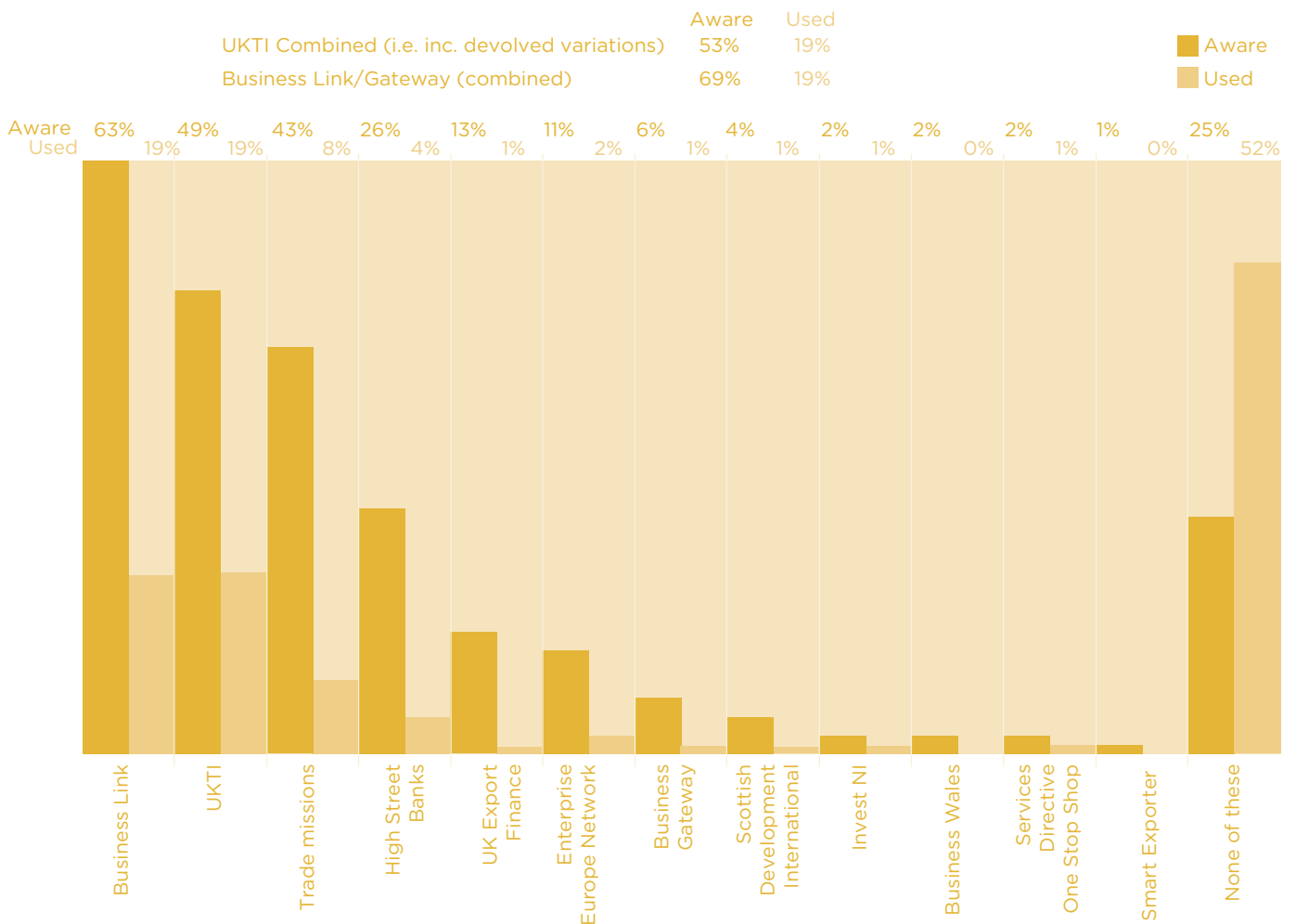
Since the last FSB research in 2010¹⁶, overall awareness and use of UKTI services has increased slightly, however there is some way to go. It is worrying still that only half of small business exporters are even aware of UKTI and only 19 per cent have accessed its services (Figure 10). In 2010, awareness amongst exporters was at 37% and usage at 18%. There is scope (see Annex Charts B and C) to target other sectors such as retailers and business services, where awareness is lower, to promote engagement.

Figure 10

Awareness and use of business export support services

Base: 803 (Currently, previously or considering exporting)

Awareness and use of business support services



¹⁶ Made in the UK: Small Business and export led recovery (FSB 2010)

Where businesses do use UKTI's services, the feedback is good with 73 per cent¹⁷ finding the contact useful. Members do raise concerns however when products are not sufficiently tailored or targeted towards their individual business needs. The perception is that UKTI is geared up to meet sales and revenue targets rather than meeting the needs of small and micro businesses. Looking at the individual services offered by UKTI, good levels of satisfaction are seen across a range of services including UK based and overseas although the web and report services stand out as an area for improvement¹⁸. There is real scope for refocusing the website so advice is targeted at small and micro businesses and not just exporters generally.

The FSB is particularly concerned whether enough is being done for first time exporters and those at pre-export stage, which is heightened by ambitious growth targets. For example, the FSB would like to see a micro business or first time exporter's desk in each of the UKTI regional offices. Businesses could phone to receive initial advice and signposting and, if going ahead, a mentor could support them in the early stages of exporting. UKTI should consider boosting sectoral advice, particularly those linked to future growth in the Industrial Strategy¹⁹ in knowledge intensive professional and business services. FSB members in the North East report that UKTI is not particularly geared up to give specialised support to the creative industries. Targeted marketing and improved specialist knowledge by UKTI could engage these service sectors.

The FSB also advocates an export voucher initiative where vouchers for new exporters can be exchanged for support from UKTI or by private export support providers. This would act as an incentive for new exporters and make the current system more demand-led than is the case at the moment. We recognise the new scheme of £6.5 million worth of vouchers that business graduates of the Passport to Export Scheme can spend on export services of their choice. However, we believe this will be inadequate and not reach out sufficiently to new exporters particularly considering the scale of the challenge to meet the target of 100,000 additional businesses.

¹⁷ Similar satisfaction levels to feedback reported in UKTI Annual Report & Accounts (2011-12)

¹⁸ UKTI PIMS report January 2013 <http://www.ukti.gov.uk/uktihome/aboutukti/ourperformance/performanceimpactandmonitoringsurvey/quarterlysveys.html>

¹⁹ <http://www.bis.gov.uk/assets/BISCore/economics-and-statistics/docs/1/12-1140-industrial-strategy-uk-sector-analysis.pdf>

UKTI regional contracts

UKTI should reconsider how its regional contracts are framed and awarded. Currently, members report that no two regional UKTI contracts are delivered in the same way, resulting in variations in quality and consistency of services provided. Issues are particularly evident for UKTI South West (particularly in the Gloucester/Bristol area) where the contract is run by the private company Business West. Essentially, the regional UKTI is seeking to meet targets set by a commercial organisation with self-interest at the heart of its decision making. UKTI South West is regarded by some locally as not 'fit for purpose' however there is no alternative until a new contract is agreed. Meanwhile, South West export statistics show the region languishing in the league tables on export activity. By contrast, UKTI West Midlands is run via a not-for-profit arrangement of local business organisations and is a more positive partnership.

Individual UKTI support schemes

The FSB welcomed the recent announcements for additional funding for SME export support outlined in the Autumn Statement 2012 but as set out in its Spending Review submission, further sustained investment is required to match that of other countries.

New UKTI support includes:

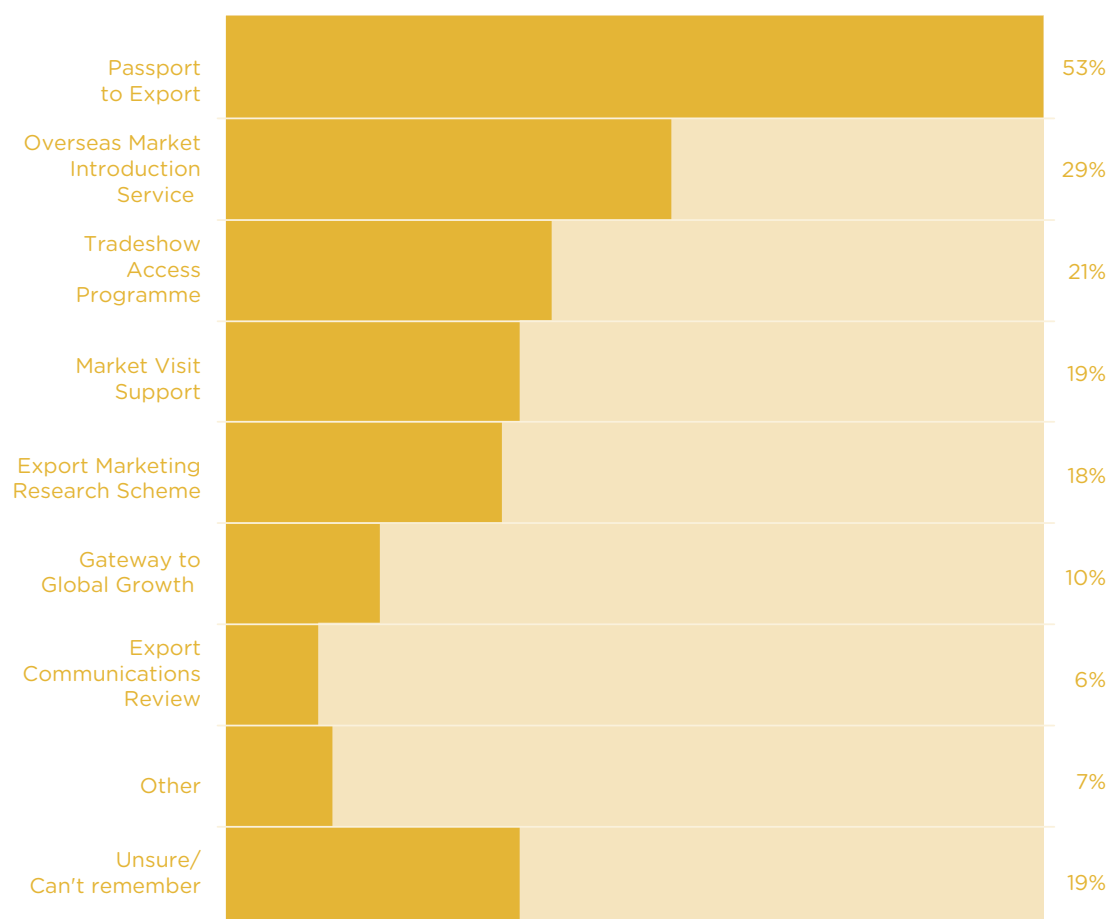
- An additional 50 international trade advisers (taking the total to 270)
- An additional £8 million per year to enable 5,000 more companies to benefit from the Tradeshow Access Programme (TAP)
- A 50 per cent discount on Overseas Market Introduction Service (OMIS) for up to 2,500 new users

Figure 11

Individual UKTI schemes accessed

Base: 134 (used UKTI services)

UKTI schemes used



The most used scheme by small businesses is the Passport to Export scheme for new exporters (Figure 11), followed by OMIS and TAP. Fewer FSB members have used the Gateway to Global Growth²⁰ programme, which reflects that FSB members tend to be newer exporters, suggesting there is more scope to signpost these schemes towards small and micro exporters.

Passport to Export is the scheme that most members access. It provides new and inexperienced exporters with market selection, market research and support for visits to potential markets. Feedback on this programme is mixed, although in general is good and the majority of businesses that access these services are micro businesses. UKTI has recently supplemented this with the Export Insight visits to Europe for a reasonable fee.

OMIS provides help at various stages in the process from initial research, to arranging a market visit and identifying possible business partners. Businesses do flag up a range of views about what they get out of OMIS. Some express concerns over value for money and others around the inconsistency and the quality of the market research. The FSB calls for more consistency around the quality of OMIS reports and above all that they result in solid lead generation - what businesses value most. One way of incentivising small and first time exporters would be for UKTI to allow them to access to OMIS and only pay for this service when they start to earn from export earnings.

An FSB member gives us their insight into the scheme:

‘Passport to Export was very good. We also had a good experience in combining an OMIS with group market support i.e. a group of companies went to the Netherlands and an expert helped them all to meet people from their OMIS. As far as I can see this group event does not happen often and an OMIS without some expert help is not worth the paper it’s written on’

The TAP is a valuable tool for small businesses. It offers grant support to attend tradeshows overseas allowing businesses to test markets, attract customers and find concrete leads. However, the FSB supports the move towards helping businesses with matched-funding to attend these shows, not only in emerging markets but established markets too with support targeted at small and micro businesses. UKTI spends around £6 million per year²¹ on its tradeshow programme, compared with several times that amount spent by the German administration.

In a similar vein, trade missions also serve a purpose for businesses to travel and learn with a group of like-minded businesses, gain an introduction to a new market and secure solid business leads as a result. Experience among members of the value of trade missions is mixed with usefulness rated at 67 per cent..

In terms of signposting businesses to new opportunities, UKTI should look again at the Business Opportunity Alerts system and provide ways of advertising opportunities to small businesses. Breaking down larger contracts into smaller lots would be useful where possible so that small businesses can engage with the process through forming consortia.

²⁰ Gateway to Global Growth is a service for experienced exporters offering a 12 month programme of strategic support involving UKTI and wider export support services

²¹ UKTI Annual Report and Accounts (2011-12)

FSB members gave further views on their contact and experience of UKTI:

‘Excellent help on a recent trip to India’

‘UKTI and its staff are incredibly knowledgeable in my experience. Their assistance has had been very, very useful to me’

‘Contacts always changing so not been particularly useful’

‘Good, however the quality of the market research can vary, some good and some very general and not market specific’

Enterprise Europe Network

Despite current low growth rates, export support in Europe is important to small businesses given the size and proximity of the market. It is disappointing that awareness of the existence and benefits of the support from Enterprise Europe Network (EEN) (Figure 10) are still lingering around the same low levels as our research in 2010 (12% in 2010, 11% in 2012). Some businesses that have used the service report its value but say that it could be more effectively signposted from UKTI. There is also scope in developing the UK’s Single Market Centre so that the website²² in particular is more positive about the benefits of exporting as well as helping businesses to trade across the EU. The FSB will continue to work with the European Commission to ensure that the Services Directive is fully implemented in all European Union (EU) countries and that businesses are aware that they licenses they hold in the UK are also valid in other countries.

Finance for exporters

The economic crisis has put pressure on the availability of trade finance. As shown, issues around access to finance have increased for small business exporters over the last two years. Lack of finance has also been cited as a major barrier to growth and increasing exports in other international trade surveys²³.

²² <https://www.gov.uk/uk-single-market-centre>

²³ International Trade Survey, Institute of Export & Trade & Export Finance Ltd (2012)

UK Export Finance

An FSB member and manufacturer from the North East told us about his experience of seeking finance as a successful business:

'We don't use UKEF as it's an expensive route to cover risk and the time period they work to is too long. We work to contracts along shorter timescales. Banks too can be quite slow in giving advice, for example on publishing opinions on currency exchange (i.e. more than one month). They also try and sell you extra services that you don't need in the process. We hold bank accounts instead in Norway and in the UK in pounds and dollars to speed up and reduce costs in the payment process'

UKEF is reported to have increased its focus on the small business community, providing new short-term products for SMEs²⁴ since 2011. To the end of March 2013, its short-term products had supported 60 SMEs to the value of up to £600 million in contracts²⁵. The Lords Committee on SME exports was 'taken aback' by how few small businesses UKEF actually supports²⁶. That said, UKEF only operates where the market fails, largely with more risky contracts to non-OECD countries.

In the 2012 Autumn Statement, the Government announced further export finance support, providing up to £1.5 billion worth of loans to finance small business exports. This will be operated by UKEF and run for three years, focusing mainly on transactions below £50 million. By offering finance at lower levels of transaction, export finance is now available to a greater range of business and is a positive step.

However, for most small firms these levels of transaction remain too large for them to consider applying for finance. In addition, awareness of UKEF is still woefully low among small business exporters at 13 per cent with usage at just one per cent. UKEF claims that they are making steps to improve staff training, diversify their expertise and simplify application procedures; useful recommendations have been made in this regard²⁷ which the FSB supports.

An integrated awareness raising campaign is needed involving actors in the export process—banks, finance providers, UKTI and other business groups – to work together to raise awareness of the products that UKEF has to offer. This was echoed by a Parliamentary Inquiry into UKEF²⁸. The FSB wants an automatic referral mechanism between the banks and UKEF along a similar model to the Community Development Finance Association (CDFA). Where banks are unable to provide funding, the business would then be automatically referred to contacts at UKEF and other providers for advice and potential support.

24 Bond Support Scheme, Exporting Working Capital Scheme and Foreign Exchange Credit Support Scheme <http://www.ukexportfinance.gov.uk/products-and-services>

25 Government response to the House of Lords SME Committee Report: 'Roads to Success' (May 2013)

26 Roads to Success: SME Exports, Lords SME exports Committee report (March 2013)

27 UK Export Finance: A key role in the National Export Challenge, BExA (September 2012)

28 Exploring the tension between trade and responsibility, APPG on International Corporate Responsibility Inquiry into UK Export Finance, (Dec 2012)

There is work to be done to improve the capacity of banks and the way they interact with UKEF. The FSB is pleased with the roll out of UKEF Regional Trade Finance Advisers. Although we understand that one individual cannot change an entire landscape, advisers will play an important role in facilitating more localised advice on trade finance for businesses both direct and via the banks.

Business-to-business support

UKTI plays an important role in facilitating private sector support through mentoring initiatives and information exchange. The FSB recognises the value of initiatives to improve export support to businesses in the supply chain. Big businesses can assist small firms in the supply chain, particularly through practical support. This may be big businesses ability to 'bulk buy' support services at a better rate, such as airport meet-and-greet services particularly in emerging markets and better rates on local hotels. There may also be an opportunity to expand the Government's existing supply chain financing initiatives to focus on how large companies might specifically support small exporters within their supply chain.

The FSB is supportive of more support to businesses overseas in general and we are keen to make sure that the support goes to the smallest businesses rather than an existing club of big business. There is potential that the current overseas business networks project, to be led by the private sector, will free up UKTI to develop its offering to first time exporters and signposting in the UK.

Networking and mentoring initiatives such as seminars, online forums and webinars are important in offering a platform for businesses to give advice and support to each other. The Open to Export portal²⁹ is a positive initiative where businesses can access advice from UKTI but also private providers and other businesses. Many businesses raised the value of a 'one stop shop' portal in focus groups. The FSB hopes that the portal will develop over time and that it will be clearer to businesses what's on offer. UKTI will need to think creatively about how it signposts the portal to businesses beyond its existing networks.

The British Bankers Association is playing its role in the arena by promoting Export Mentoring Clubs, signposting businesses to finance and support by the banks, private providers and UKTI. These initiatives give businesses thinking about exporting access to an individual or organisation to help them and 'hand hold' through the process.

²⁹ www.opentoexport.com

Using LEPs to identify potential exporters

There are also opportunities through the LEP networks in England to identify potential new exporters and signpost them to UKTI to promote the support available to small businesses. The Gloucestershire LEP for example has a Business Membership Group made up of the FSB and other key national and local business organisations. Through its networks, including banks and accountants, the Group has set up an 'exporting steering group' aimed specifically at identifying potential exporters among local businesses and finding ways to encourage and support them. Once identified, they are passed to the LEP to signpost them towards other appropriate sources of help that includes support from UKTI. These structures could well be emulated among other LEPs in England and the Lords SME Exports Committee report recognises the potential role of LEPs in this regard³⁰.

³⁰ Roads to Success: SME Exports, Lords SME Exports Committee report (March 2013)

3. International Comparisons

To enable small businesses to drive UK exports, in this section we argue the benefits in the longer term of implementing a separate Small Business Exports Support Department that would help the Government shift its focus towards small and micro businesses and make the department the obvious port of call for small businesses. The Department would reside in a UK SBA based on the US model designed to bring coherence to small business policymaking and support across the board.

Germany in particular has a strong presence in emerging markets such as Brazil and is a good example of how increased investment could support small and micro businesses. A range of export support schemes are currently in operation across Europe³¹ but these are a number of examples which demonstrate how pre-export support could be developed in the UK. UKTI has a good range of schemes for new and existing exporters, however there is scope to supplement this with more mentoring, hand holding and one-to-one contact through a micro business desk in UKTI regional offices as well as enhanced support to businesses at pre-export stage.

Germany

The export support and finance provided by the German system is often hailed as a good practice example. It is clear that Germany has benefited from an earlier and stronger presence in the emerging markets, for example, Brazil than the UK has to date. The German system is a lot more resource intensive however and this may be a route for the UK to follow if challenging new exporter targets are to be met. Its network of diplomatic missions, chambers' posts and 1,700 trade advisers worldwide certainly has impact but there are also accusations of the system being more bureaucratic and less flexible.

In terms of the German Export Credit Agency, the Federal Government's ECA 'Hermes' cover is well known and respected internationally. Since 1949, the Federal Export Credit Guarantees (Hermes Cover) has been an important instrument of state export promotion in Germany. Comparing Hermes performance with UK Export Finance: 'In 2010, Hermes administered €32.5 billion, 73 per cent of which went to SMEs. By comparison, UK Export Finance administered a total of €3.3 billion (£2.9 billion) with almost no SME coverage and dominated by the aerospace sector³²'. It is clear that UKTI and UKEF have a long way to go if they are to match the current level of support currently offered to exporters.

31 http://ec.europa.eu/enterprise/policies/sme/market-access/files/bd_2a_overview_of_310_policy_support_measures_identified_in_the_eu_member_states_en.pdf

32 Winning overseas: boosting export performance, CBI (2011)

Example of support from European countries to first time exporters

Many countries in Europe have positive export support schemes in operation to support first time exporters that are worth considering to fill gaps in pre-export support. This could involve a partnership between UKTI and private providers offering better support to small and micro businesses.

Denmark Export Start³³

Under this scheme, firms have access to a number of specific services e.g. market surveys, partner search, advertising, and competitor analyses. Sector specific promotion campaigns and conferences are also included. Counselling is provided by specialist consultants e.g. IT, communication technologies, electronics and games, health, or energy and environment. This one-to-one contact and handholding at an early stage is important to encourage first time small business exporters. Export preparation is free for participating firms, while export start is subsidised by the Trade Council of Denmark so that firms only have to pay 50 per cent of the hourly charge. The yearly cost of the support is €2.67 million and its positive effects were confirmed by an evaluation in 2008 showing that firms, which have received export preparation assistance, have on average increased their exports by 36 per cent.

Ireland – ‘First Flight’

This Irish initiative assists first-time Irish small business exporters to target major export markets such as the UK. First time exporting SMEs face issues such as: understanding who their customers are, their needs, identifying the most appropriate routes to market, determining their competitive advantage; and establishing the financial resources needed to enter foreign markets. First Flight provides opportunities for self-assessment, mentoring and a training process. Managers can develop awareness of areas of strength and risk for their enterprise in exporting as well as being supported in taking action to prepare to enter a new export market. Capturing businesses at an early stage in the process and taking them through the first basic steps helps them on the route to exporting.

Netherlands Prepare2start

This Dutch programme supports small businesses with little or no international experience who want to make a first start in exporting to a foreign market. The idea of making a plan to enter a new export market is actively promoted using chambers of commerce and trade associations. If the plan made by the entrepreneur in co-operation with a subsidised international business advisor is approved, a range of services incorporated in the plan can be subsidised up to 50 per cent, e.g. foreign market research, participation in trade fairs, legal advice for example.

³³ Exploring the barriers to SME exporting: Recommendations Report (October 2012)

US Small Business Administration

The US SBA was set up in 1953 and given legislative teeth and influence from the start, to lead on enterprise policy and support. Its portfolio of assistance to small firms covered three main areas including access to finance programs, accessing government procurement and business advice and assistance.

The FSB has been advocating a US-style SBA in the UK over the past year to give more coherence to small business policymaking and support. An SBA in the UK would more effectively co-ordinate and lead small business policymaking in Whitehall particularly in the three core areas as outlined³⁴. It would also offer a single platform for the delivery of small business support rather than the multitude of schemes via different departments and agencies that exists currently.

A UK SBA would, like the US version, offer both 'hard' (finance) and 'soft' (business advice) support to businesses. The effectiveness of the US SBA in providing hard support is illustrated by the fact that it has made more finance available to small businesses since 2008 than the UK. Over the last four years the SBA has supported more than \$106 billion of lending to more than 193,000 small businesses³⁵. By the end of 2012, EXIM (US Export-Import Bank) had added 1,900 new small businesses as customers in total authorising over six billion³⁶ in support.

The SBA does not make loans itself but guarantees loans made to small businesses by EXIM and private institutions. The International Trade Loan Programme, for example, offers term loans for fixed assets and working capital to businesses that plan to start or continue exporting. The program provides the lender with a 90 per cent guarantee on loans up to \$5 million. UKEF by contrast provides up to 50 per cent guarantee through their Working Capital Loan Scheme and 50-90 per cent through their letter of credit guarantee scheme.

EXIM does a good job of setting out its products in a straightforward and accessible way and UKEF should take this lead. UKEF launched a package of more SME friendly products in 2011³⁷ but there is more proactive work to be done in explaining and selling these to the small business export community. The FSB would reiterate the points made in Section 2 about the importance of cross signposting and awareness raising of the support and finance available.

Specifically from an export point of view, the FSB envisages in the future a Small Business Exports Department to sit within the SBA to be a clear point of access for small businesses for export support and finance. The proposed Business Bank would have a presence within the SBA and promote UKEF products through these channels.

To conclude this section, the FSB supports the idea of approaching businesses earlier in the export process and for UKTI to be more proactive in mapping new potential exporters in the supply chain and working with businesses that are thinking about exporting. This would seek to address UKTI awareness among the business community, as already identified, and increase the number of new exporters to meet Government targets. This may be through enhancing existing UKTI schemes, as well as more effective partnership working and signposting from the banks, private sector suppliers and LEPs.

34 Enterprise 2050: Getting UK enterprise policy right, FSB (2013)

35 Ibid

36 US EXIM Annual Report 2012 <http://www.exim.gov/about/library/reports/annualreports/2012/globalaccess.html>

37 <http://www.ukexportfinance.gov.uk/products-and-services>

Summary of recommendations

UK export support

- Deliver a fundamental shift in the way UKTI approaches SMEs specifically tailoring and promoting products and services to small and micro businesses; these should no longer be seen as off the shelf products sold for raising revenue and meeting targets
- Ensure the UKTI strategy gives support to both businesses entering emerging markets, including Africa, and closer to home in Europe given the importance and proximity of the Single Market
- Proactively map supply chains, among other initiatives, to find new exporters and set up a 'micro desk' in every region so that an accessible and named contact is available to take them through the first steps and direct them towards appropriate advice and support
- Make the key focus and outcome of UKTI schemes such as Passport to Export and OMIS to generate solid business leads for exporters to pursue
- Offer export vouchers as an incentive to new exporters that they can exchange these for support from UKTI or private export support providers
- Reconsider regional UKTI contracts in order to improve consistency and quality and ensure they are focused on delivering the needs of businesses rather than the targets of commercial organisations
- Establish a UK Small Business Exports Department, in the longer term, to reside in a UK SBA to deliver export support.

Export finance

- Develop a referral mechanism from the high street banks so that businesses are forwarded to financial support from UKEF and other providers
- Raise awareness of the export support and finance available from UKEF through UKTI, banks and local business groups
- Examine whether the Government's existing supply chain financing initiatives could focus on how large companies might specifically support small exporters within their supply chain.
- Promote British Banking Association export mentoring clubs so that businesses thinking about exporting can link effectively to the banks and other providers

Export support in Europe

- Raise awareness of the services offered by the Enterprise Europe Network (EEN) to small businesses effectively and proactively signpost from UKTI
- Fully implement the Services Directive in all EU countries with a push from the European Commission to ensure effective marketing to businesses
- Maximise the Single Market through dealing with VAT and payment issues
- Replicate and develop good practice examples of pre-export support from European countries in the UK

Business-to-business

- Maximise business-to-business mentoring for small business exporters and provide more practical support in the supply chain from big business
- Develop the role of LEPs to identify new potential exporters and provide a bridge to signposting to advice and support from UKTI

Conclusions

There is important export growth potential among small and micro businesses that the Government needs to harness. The Government's challenging target of doubling exports and increasing the number of new exporters can only be met through a proactive and concerted drive to engage with small and micro businesses.

The FSB proposes an intervention package to help secure a drive towards growth. This includes a fundamental shift in the way that UKTI approaches SMEs; to tailor and promote their products and services to small and micro businesses. In the longer term this would involve a move towards a Small Business Export Support Department within a UK SBA.

In the meantime, we would like to see funding targeted where it is most needed: more trade advisers on the ground, overseas markets reports with solid leads attached and match funding for tradeshows. UKTI should be concentrating on emerging markets and also support in Europe where markets are closer to home and arguably less risky. The FSB wants to see a shift from UKTI to making it clear that it is an organisation absolutely geared up to help small and micro businesses.

Annex – further breakdowns by sector and region from FSB research

The research findings in this report are based on results from the FSB ‘Voice of Small Business’ Survey Panel from September 2012. Results are based on an online survey carried out by 2,667 FSB members and surveys were completed between 20 September and 3 October 2012. The national data has been weighted to the FSB membership profile and the study was undertaken by Research by Design on behalf of the FSB.

Small business views on Government measures to encourage exporting

Base: 2.359

Export encouragement for small business

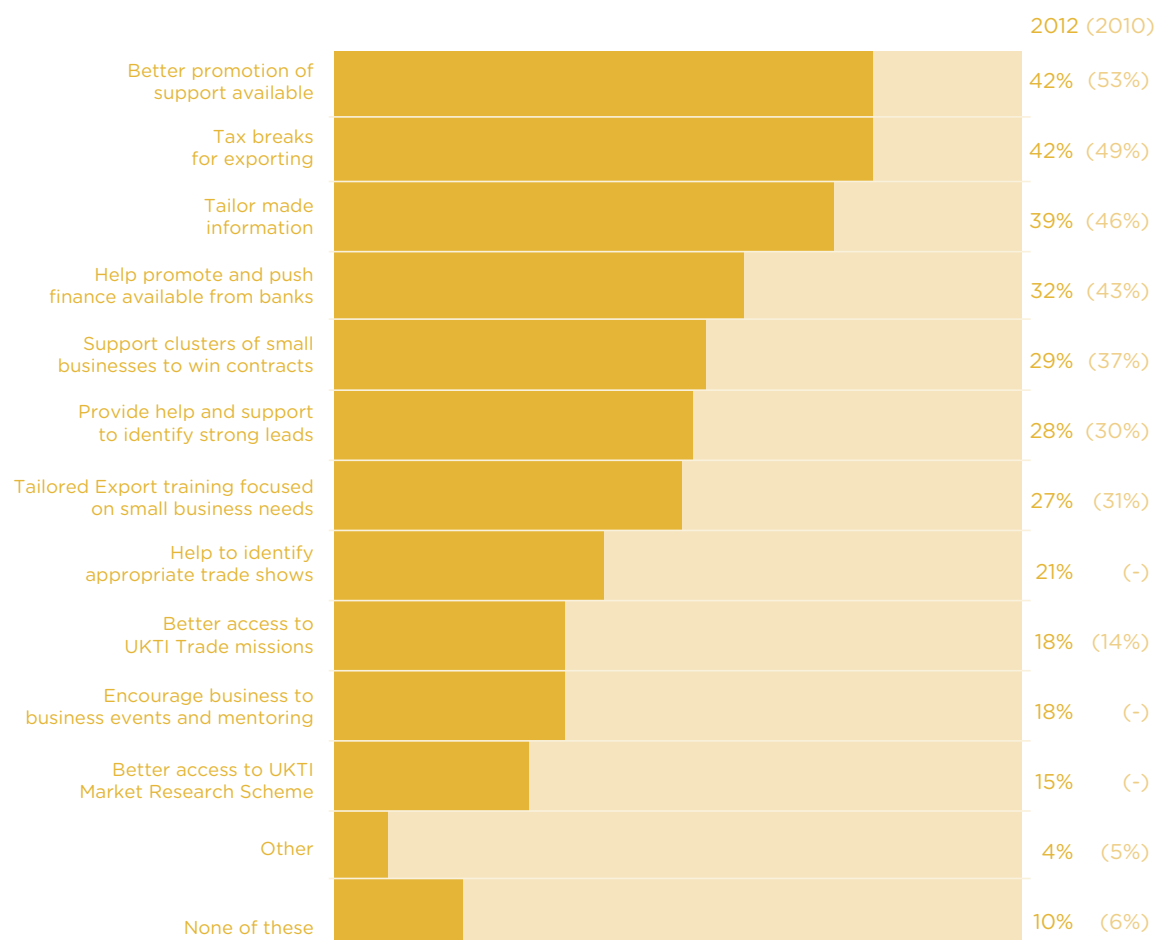


Chart A: Which of the following business support services are you aware of? – region

Awareness	Business Link/ Gateway	UKTI (Inc. devolved variations)	Trade missions	High street bank	UK Export Finance	Enterprise Europe Network	Services Directive	Base
Overall	69%	53%	43%	26%	13%	11%	2%	803
East Midlands	74%	59%	52%	26%	10%	8%	3%	61
Eastern	78%	51%	39%	19%	13%	13%	4%	99
London	78%	46%	54%	24%	22%	4%	2%	46
North East	80%	50%	30%	40%	0	0	0	10
North West	70%	54%	43%	23%	13%	13%	4%	69
Northern Ireland	0	86%	46%	11%	7%	7%	0	28
Scotland	73%	50%	39%	16%	6%	9%	0	64
South East	74%	54%	41%	33%	12%	13%	4%	166
South West	74%	50%	42%	31%	16%	13%	3%	125
Wales	0%	46%	36%	32%	18%	7%	0	28
West Midlands	61%	47%	37%	27%	11%	8%	0	62
Yorkshire and Humber	80%	60%	49%	22%	13%	11%	0	45

Statistically significant differences: >average highlighted in gold; <average highlighted in slate grey.

Chart B: Which of the following business support services are you aware of? - sector

Awareness	Business Link/ Gateway	UKTI (Inc. devolved variations)	Trade missions	High Street Bank	UK Export finance	Enterprise Europe Network	Services Directive	Base
Overall	69%	53%	43%	26%	13%	11%	2%	803
Manufacturing	68%	63%	50%	28%	15%	10%	1%	155
Business services	76%	68%	53%	30%	16%	17%	2%	129
Retailing	64%	31%	35%	24%	7%	6%	2%	96
Computer and related activities	80%	56%	39%	27%	16%	14%	3%	58
Wholesale trade	70%	47%	34%	26%	6%	2%	0	51
Construction and related activities	54%	48%	42%	24%	12%	6%	3%	38

Statistically significant differences: >average highlighted in gold; <average highlighted in slate grey.

Chart C: Which of the following business support services have you used? - sector

Usage	Business Link/ Gateway	UKTI (Inc. devolved variations)	Trade missions	High Street Bank	Enterprise Europe Network	Services Directive	UK Export finance	Base
Overall	19%	19%	8%	4%	2%	1%	1%	803
Manufacturing	22%	32%	15%	4%	2%	0	0	155
Business services	15%	20%	9%	4%	2%	0	0	129
Retailing	14%	4%	2%	1%	1%	1%	1%	96
Computer and related activities	24%	18%	6%	5%	2%	2%	4%	58
Wholesale trade	17%	17%	4%	2%	0	0	0	51
Construction and related activities	15%	15%	14%	3%	0	3%	5%	38

Statistically significant differences: >average highlighted in gold; <average highlighted in slate grey.



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