

Opportunity and challenges for SME exporters

Assessing the importance of SME exports to the United Kingdom economy and the opportunities and challenges that they face

A summary report for Sage and FTI Consulting

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Summary report (1)

Capital Economics has been commissioned by Sage to produce a report on the importance of the exports of small and medium sized enterprises in the United Kingdom, the opportunity they present and the challenges ahead. In this report small and medium sized enterprises (SMEs) are defined as businesses with less than 250 employees. Within this category there are small businesses (less than 50 employees) and medium sized business (50 to 250 employees).

This summary report highlights the key messages from our research.

There are challenges and opportunities for United Kingdom exporters

The total value of exports from the United Kingdom has increased by 36 per cent in real terms since its low in 2009, reaching around £680 billion in 2019. Despite this growth, net trade has largely been a drag on economic growth since 2012. Back in 2012, then chancellor George Osborne set a target of increasing the value of United Kingdom exports to £1 trillion by 2020, which would have amounted to almost doubling the value of exports at the time. This target was abandoned due to slowing global trade and Brexit uncertainty. Meanwhile, the COVID-19 pandemic pushed the real value of exports down by fifteen per cent in the second quarter of 2020 compared to the same period a year earlier.

Brexit uncertainty and the impacts of the pandemic persist but there will be opportunities to expand exports during the recovery. Companies are already looking beyond the European Union to sell their goods and services. Since 2017 (the year after the referendum vote to leave the European Union), goods exports to destinations outside the European Union have increased by 10.9 per cent compared to a 1.3 per cent fall in exports to the European Union.

SMEs account for around 30 per cent of United Kingdom exports but have faltered recently

Data for SME exports are not as up to date as for overall exports, but totalled almost £200 billion in 2018, accounting for approximately 30 per cent of all export revenues. Businesses that are most likely to export are in the manufacturing, information and communication, retail and professional services sectors.

Propensity to export increases with business size; the share of firms that sold to international markets in 2018 was nine per cent for small businesses, 35 per cent for medium sized businesses and 42 per cent for large businesses. However, the involvement of SMEs in international trade is not limited only to those who directly sell their goods or services to foreign customers. Many small companies provide inputs to other firms which then export a final good or service. Although there are no official statistics on the extent of this activity, various estimates suggest that around fifteen per cent of SMEs are part of exporting supply chains.¹

¹ Department for Business Innovation & Skills, *Estimate of the proportion of United Kingdom SMEs in the supply chain of exporters*, 2016 and Federation of Small Businesses, *Destination Export*, 2016

Summary report (2)

However, exporting activity by SMEs has decreased in recent years. Time-series data on exports by business size are limited and patchy, but data on export values from the Office for National Statistics suggest that SMEs' share of United Kingdom exports fell from 31.2 per cent in 2017 to 29.5 per cent in 2018. The declining trend is backed up by data in a 2020 report which estimates that SMEs' share of exports has been falling over a longer time period.²

Unlocking exporting potential of SMEs can boost economic growth

Despite the challenges ahead, there is an opportunity to boost economic growth by tapping into the export potential of SMEs. Stimulating E-commerce and digitalisation opens up international markets for smaller businesses. What's more, there are opportunities for smaller businesses to focus on niche products and advanced technologies that can feed into global value chains. And although Brexit presents some challenges and uncertainty, since the referendum in 2016, the overall value of United Kingdom exports to destinations outside the European Union has increased significantly.

The potential scope for growth in exports by SMEs is substantial. Data from the 2019 Small Business Survey show that there are a significant number of SMEs that don't currently exploit international markets but believe that they have exportable goods or services. Using official data on the number of registered SMEs in each sector, we have estimated that there are a total of 375,000 small and medium sized businesses that don't currently export but do have products that they could sell abroad. If all of these SMEs were to trade internationally, we estimate that the economy would see a rise in export revenues of over £290 billion each year. The largest scope for increasing the number of exporting businesses is in the information and communication, agriculture, manufacturing and professional and scientific services sectors.

It is clear that there is potential to be unlocked, but it is not realistic to think that this is achievable immediately; an extra £290 billion in exports would be more than a doubling of the current level. However, it is reasonable to think that exports could be increased by removing some of the barriers for SMEs, despite challenges from the global economy and Brexit. If just ten per cent of those that currently do not export but have exportable goods or services were to enter the international market we estimate that this would add £29 billion per year to United Kingdom export revenues, equivalent to an increase of around four per cent in total exports.

Increasing the value of exports from British SMEs will support economic activity and job creation. Using average turnover per employee in each sector, we estimate that adding £29 billion to export revenues would support around 210,000 jobs. The scale of the additional export revenues would be equivalent to the turnover of around 50,000 SME businesses.

² British Business Bank, *UK SME exporting trends: finance and trade*, February 2010