



*Winning overseas:
boosting business
export performance*

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Foreword

Our motivation for undertaking this report is simple. Business investment and exports will be the dual drivers of future growth – necessary to lift the UK from the worst economic crisis in living memory. In the CBI's *Making the UK the best place to invest* and Ernst & Young's *UK attractiveness survey*, together we have highlighted the importance of creating the right regulatory environment to attract and nurture investment. It is time now to shine the spotlight on our export performance.

Our analysis shows the scale of the challenge: the UK has lost ground in our share of global exports and is failing to compete on a level footing with some of our closest competitors. This cannot continue: we need to take action to turn the tide – and quickly. We are not alone in seeking growth through exports – other advanced economies are facing similar constraints and are looking to boost their export performance. We cannot spend another decade simply playing catch-up: we need to be bigger and bolder in our ambitions.

It is clear that many businesses already harbour such ambitions. This report has taken us up and down the country, listening to exporters and non-exporters across sectors, regions and company size. What we have heard has left us optimistic. UK businesses are innovative, driven and ambitious – but there is more that can be done to harness and share that collective drive, both in individual businesses and through their vital supply chains. We need to create the right conditions in which businesses can explore foreign opportunities.

And we all have a responsibility to make this happen. The answer lies in a partnership between business and government – the marriage of a bold business outlook and a complementary policy framework. Of course, our respective organisations also have a part to play. Both the CBI and Ernst & Young exist to help UK business improve and prosper in an increasingly global and competitive environment. It is time for us to step up our efforts too.

We want to see UK business hold its own on the global stage. This will not be an easy journey but we believe the prize – an additional £20bn boost to UK GDP by 2020 – is worth fighting for. The five point plan put forward in this report is our contribution to setting the UK on the right course.



John Cridland
Director-General, CBI



Steve Varley
UK & Ireland Managing Partner,
Ernst & Young

Executive summary

Introduction

The UK is a dynamic trading nation – our historic reputation is built upon centuries of developing trade routes, foreign investment and negotiating market access. We boast strong economic and cultural links across the globe, and share a language with a third of the world's population. We champion open markets and free trade, advocating the removal of barriers as key to unlocking global growth and increasing prosperity.

The impact of the financial crisis and global recession has brought the value of this historic trading spirit into sharp focus. As politicians talk of a structural rebalancing of the UK economy, efforts to cut the public deficit restrict government spending and the continued squeeze on household budgets renders domestic consumer demand flat. Business investment and export activity subsequently emerge as the engines to drive economic growth in the UK. The question is: have these engines got the power to deliver?

This report examines the UK's export performance against the backdrop of an increasingly integrated global economy. As the balance of economic power shifts from West to East, and the share of global trade previously dominated by developed economies is gradually eroded, we look at the extent to which the UK is performing to its current potential. Looking forward, we examine whether the UK is positioned to exploit the opportunities brought about by these global changes and identify the barriers currently restricting the export capability of UK companies.

Drawing on economic research and consultation with businesses throughout the country and beyond, we set out what business and government can do to help companies "internationalise" their ambitions by looking beyond their domestic markets and exploiting new opportunities overseas.

This report sets out four steps to unlock the UK's potential: identify the nature of the **problem**, outline the **opportunities** available, highlight the **challenges** to exploiting these opportunities and finally set out the **blueprint** for action. Meaningful, long-term progress involves all parties setting in place the right conditions

and mind-set to export our way to growth over the coming decade. The size of the prize is significant: achieving our export potential could be worth up to 1.5% of UK GDP, or an injection of £20bn to the economy by 2020.

Chapter One – The problem: the UK's declining export performance

The UK's share of global exports has declined sharply over the last decade, from 5.3% in 2000 to 4.1% in 2010 – symptomatic of a longer term trend of decline since the 1950s. We are not alone in experiencing a decline; however, some of our main competitors have fared much better. Germany, for example, grew its share of global exports from 8.9% to 9.3% over the last decade. This suggests that UK companies have been slow to react to opportunities or are unable to compete on an equal footing.

The UK's decline is primarily explained by the long-term downward trend in our goods export performance. Our share of global goods exports has dropped from 4.4% to 3.1% in the last decade, with goods exports growing by only 1% per year, compared with 5% in Germany and more than 3% in the US. By contrast, our service exports performance continues to be strong. We have been a net service exporter for the past twenty years, with an average annual growth since 2000 of 4.6%. Nevertheless, even in service exports Germany and Sweden can demonstrate higher growth.

The main explanation for the UK's relative decline has been our inability to break into and succeed in high-growth markets. This is due to both a historic reliance on advanced economies and a mismatch between the goods and services we currently sell and those demanded by high-growth economies. The last decade has seen a surge in the demand for capital goods – such as machinery, tools and equipment – to support the booming manufacturing capability of the BRICs – an export market in which Germany excels but the UK is less prolific.

Analysis by the Ernst & Young ITEM Club shows that even in sectors where the UK does well, we lag behind on the international stage:

- **Chemicals:** better geographical targeting over the last decade and a greater focus on industrial chemicals could have boosted chemical exports by 15% by 2010, equivalent to an injection of £3.5bn.

- **High-tech:** UK exports fell by 0.9% a year over the last decade compared with 5% average annual growth from France, Germany and the Netherlands. Closing this gap could have boosted UK high-tech exports by 30% by 2010, worth around £6bn.

The decline in UK goods exports is unsustainable if we want to lead an export-orientated economic recovery. The UK needs to fully maximise its opportunities over the next decade by capitalising on its strengths.

Chapter Two – The opportunity: identifying and capitalising on sectoral strengths to exploit export potential

The UK economy has significant strengths, which it must exploit. At the same time there are opportunities in overseas markets that will offer huge potential to UK exporters over the coming years. Reorienting UK exports towards high-growth economies is part of a much broader process of helping companies internationalise their business by actively seeking to establish a presence in other countries. Investment is a key part of that and the UK is already a significant investor in foreign markets; however, UK outflows are concentrated on the EU and the US, with negligible investment going to high-growth economies. A drive to shift our export focus towards high-growth markets should be pursued in tandem with a re-orientation of foreign direct investment (FDI) flows towards those economies.

While the UK has fallen behind competitors such as Germany in capturing export demand from the BRIC economies, it has the potential to catch up as those economies mature. In the coming decade, consumer spending growth in the BRICs is expected to average 13.5% per year in value terms. As living standards rise, this demand will be increasingly channelled towards goods and services more traditionally associated with consumers in more mature economies. Looking further ahead, UK businesses should be thinking about how to tap into the ‘Next Eleven’ – Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam.

The UK has a portfolio of world leading sectors that can demonstrate comparative advantage and are aligned to the needs of future high-growth economies. Using a forecast of average annual growth in various UK sectors, we can attempt to quantify the impact of UK exporters aligning goods and services to meet

demand and shifting focus towards high-growth markets. Analysis by the Ernst & Young ITEM Club has identified five sectors with the largest potential for average annual growth between now and 2020 (in brackets) if they are successful in tapping into demand from high-growth economies:

- **Construction services** (10.8%): the global construction market is projected to grow almost 70% to \$12 trillion by 2020. Markets such as Nigeria, India, China, Russia, Vietnam and Indonesia set to offer greatest opportunities.
- **Electrical, and optical & high-tech goods** (10.6% and 9.3% respectively): rising incomes and demographic change will fuel demand for technologies such as nano-electronics, life sciences technology, precision instruments and photonics.
- **Financial services** (9.4%): the UK is already the leading exporter and its long history and knowledge base will enable it to expand into markets such as the BRICs and the Gulf States.
- **Communication services** (8.7%): the UK is a global leader in digital exports and the BRIC economies are likely to offer exciting new opportunities here and in telecommunications.

The combined impact could be worth a 1.5% lift, or £20bn injection to UK GDP by 2020.

The UK must build on the positive business reputation it has across the world. Our survey of international employers’ federations shows the UK is seen as a world leader in the automotive, financial and professional services, information and communications, and chemicals sectors. The UK is also highly rated for a flexible labour market, and strong management expertise. However, some federations warned that the UK was held back by a reputation for low skills levels, poor language skills and an ageing infrastructure.

Two clear messages stand out from our international input. The first is for the UK to build the right foundations for exporting as a matter of priority – our skills level, infrastructure and foreign language capability are not sufficiently world class to support a world class export vision. This leads to the second message: be clear about what the UK is trying to achieve and where its strengths lie in order to help UK business in the global marketplace. The UK must develop a strong brand that our exporters can leverage to their own advantage.

Chapter Three – The challenge: removing the domestic barriers inhibiting our export potential

The CBI has undertaken a wide-ranging consultation with businesses to identify the barriers currently preventing UK exporters from achieving their full potential. Analysis of the findings and comments identified four main constraints on growth:

- **Without the right ‘export enablers’, many business leaders lack the confidence to export**

Where companies are not currently exporting, the ambition and confidence to break into new international markets is lower. Firms are more likely to start exporting due to a serendipitous opportunity rather than a concerted strategic push. Businesses are reluctant to take on the initial risks associated with exporting partly due to a fear of failure – only one in five SMEs currently export, compared with the EU average of one in four. There is a need to showcase the rewards that exporting can bring and to help businesses better manage risk.

- **Government policy is not providing the right framework to boost export capability**

Firms highlighted some inconsistencies in the government’s approach towards exporting: a disconnect between high-level messages and the reality on the ground. Government should present the UK as ‘open for business’, but policies such as the immigration cap and Bribery Act are undermining this objective. Firms were keen for government to do more on skills and infrastructure policy to support UK business entering new markets – in particular ensuring that the UK’s transport network and capacity was fit to link the UK with high-growth markets.

- **Firms cannot access the support services they require**

UKTI – the government’s primary export support service – provokes a ‘marmite’ effect among businesses: some firms love the service they received, but many other businesses are more critical. While there are pockets of excellence in certain markets and sectors, overall there is a perceived mismatch between the support businesses want and what the government offers. Firms called for a greater commercial approach in UKTI and embassies’ activities on the ground, a greater focus on services for medium-sized businesses, a better understanding of the role of supply chains in supporting and boosting export performance, and concentrating limited resources on helping businesses access high-growth markets. Businesses also urged government to improve the organisation and planning of political trade delegations. However, firms also acknowledged that there is more UK business could do to help itself. Sharing of market intelligence, peer-to-peer networking and showcasing regional export champions were all highlighted as useful enablers to get firms thinking about exporting and new markets.

- **Firms have difficulty accessing appropriate export finance**

With one in four mid-sized businesses consulted pointing to finance as the main constraint in accessing foreign markets, it is clear that more work needs to be done to greatly improve the way export finance products are marketed and delivered. There is a prevailing perception among CBI members consulted that the range of finance provisions available to business is limited and that the Export Credit Guarantee Department (ECGD) is not geared up to deliver for the mass market. While steps have been taken by government to improve marketing and delivery mechanisms, businesses are not yet feeling the impact on the ground.

Chapter Four – The blueprint: setting a vision and ambition to grow UK business overseas

The CBI has drawn up a five point plan to set the UK on a course to maximise its export potential. This plan requires commitment from all stakeholders – government, business, trade associations, banks and advisory bodies – to work. We will not see success overnight, but we can commit to doing things differently immediately. There is no plan B: the UK needs to move to an export-orientated economy and UK business needs to internationalise its operations and mind-set to remain competitive.

With this plan, we hope to start a dialogue between government and business about how best to make progress towards our shared aim. Each point of our plan contains a number of specific actions to be taken by government, business, the CBI and other stakeholders. While it would be impossible to quantify the impact of each action, combined we believe they bring the UK closer to that £20bn boost to GDP by 2020.

The CBI/Ernst & Young five point plan to grow UK business overseas:

1. **Government must set a high bar for export performance to be met through a 2020 national exports strategy**
2. **Government must provide the right policy framework to boost businesses’ export capability**
3. **UKTI must inject greater commercial focus into its operations to better support UK business**
4. **CBI will take the lead in supporting UK businesses entering new markets**
5. **Business and government must work together to increase the availability of export finance.**

Chapter One: The problem – the UK's declining export performance

The importance of establishing under-performance

An increasingly inter-linked global economy makes it hard to isolate the performance of one country. A decline in the UK's share of global exports reveals little on its own – a similar trend can be seen in many other developed economies. To develop a detailed understanding of the relationship between the UK's performance and wider global trends, a study was commissioned from the Ernst & Young ITEM Club. The study examined the current picture, assessing the UK's performance in goods and services against our main competitors, and highlighted the drivers of this performance.

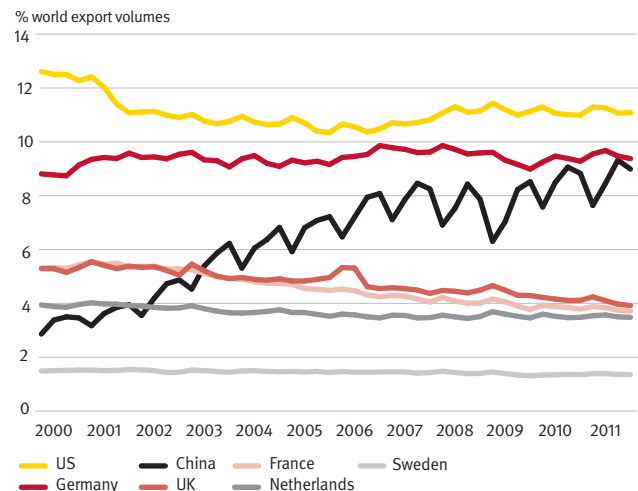
The UK's share of global exports has declined over the past decade

At a global level, the importance of exports increases by the year. At present, global exports account for 30% of global GDP – this proportion is predicted to hit 37% by 2020.¹ The removal of protectionist measures and barriers – most notably the increase in trading agreements and blocs – and the fall in transport and communication costs has facilitated this marked rise. Furthermore, the outsourcing of parts of the manufacturing process to lower cost regions has made it more profitable for businesses to sell their products across the globe.

The high-growth economies of the BRICs (Brazil, Russia, India and China) have been the main drivers of this global rise in export volume. The export activity of the BRICs comprised 14% of global exports in 2010 – their growing prominence crowding out many advanced economies. Trade between these high-growth economies is also growing in significance. In 2000, exports from advanced economies to advanced economies constituted 60% of global trade; ten years later that figure has fallen to 40%. In contrast, the inter-dependence between the BRICS is growing, with bilateral flows between China and India expected to account for one-fifth of the global total by 2020.

From 2000 to 2010, the UK's share of global exports fell from 5.3% to 4.1% – a particularly sharp fall, but symptomatic of a longer trend that has seen its market share decline since the 1950s.² We are not alone in experiencing a decline: developed economies as a whole have seen their share of global exports decline over the past two decades from almost 77% in 1990 to 57% in 2010.³ Given the speed at which the BRICs have grown – China's global market share has rocketed from 3.5% to 9.2% since 2000 – the demise of advanced economies' export power is perhaps simply explained. However, the picture becomes less clear when we consider the experience of particular advanced economies – such as Germany and Sweden – which have fared much better. **Exhibit 1** shows that Sweden's global exports market share declined only marginally over the last decade, while Germany's export prowess grew as its share increased from 8.9% to 9.3%.

Exhibit 1 A comparison of the UK's export performance with selected competitors



Source: Oxford Economics/Haver Analytics

While a strong showing from Germany does not necessarily prove that the UK is under-performing, it suggests that German companies have been broadly successful in capitalising on the opportunities presented by the growth of the BRICs and other emerging markets. The decline of the UK's market share, by contrast, suggests that UK companies have been slow to react to emerging opportunities or are unable to compete on an equal footing.

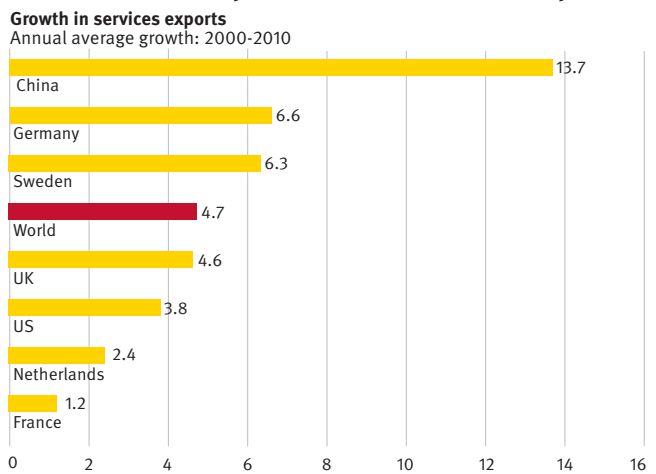
The success of services exports has buoyed the UK's performance

The changing composition of the UK economy is reflected in the growing prominence of services in the UK's export mix. Over the past two decades, the proportion of total UK exports accounted for by services has grown from 31% in 1990 to 40% in 2009. When we start to examine the UK's performance, the stark gap between goods and services is clear. In contrast to the headline figures, the UK's performance in service exports demonstrates significant success.

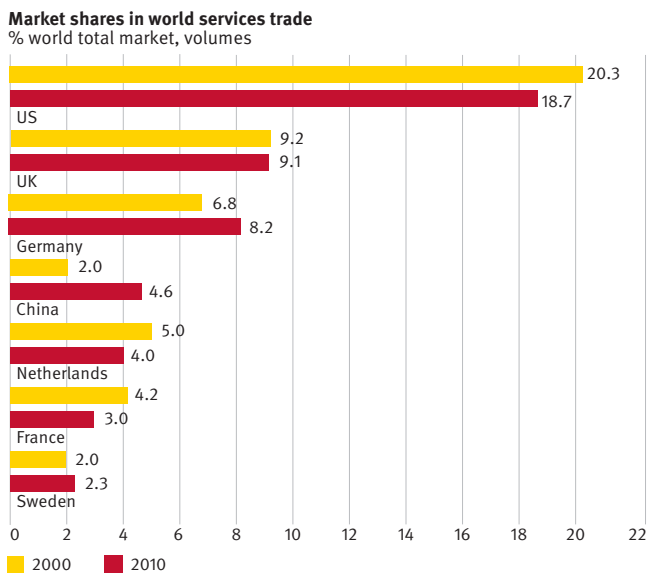
The UK has long been a net exporter of services, running a persistent surplus over time that has grown larger still from 2002 onwards. We have built a world-leading reputation across a wide range of services, showing particular strength in computer and information services (24% average annual growth in value terms since 1990), insurance services (17% average annual growth per year) and financial services (14% average annual growth per year).⁴

Even the economic turmoil in recent years has not diminished this trend. In the last decade, the UK's service exports grew by an average of 4.6% per year in real terms – a trend that reflects the world average, as shown in **Exhibit 2**. While Germany and Sweden can demonstrate higher growth rates over the decade, the UK still retains its title as second largest global services exporter behind the US. In considering the severity of the financial crisis in 2008-09 and the fact that finance and insurance services constitute almost one third of UK service exports, this success is even more impressive.

Exhibit 2 The UK's performance in services exports



Source: Ernst & Young ITEM Club



Source: Ernst & Young ITEM Club

The decline of goods exports suggests evidence of under-performance

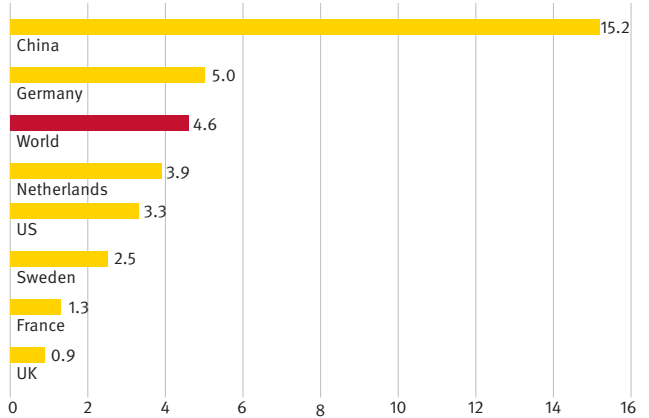
The decline in the UK’s share of global exports is primarily explained by the long-term downward trend in our goods export performance. In the last decade to 2010, UK goods exports grew around 1% per year – a figure that does not compare well to some of our main advanced competitors: Germany (5%) and the US (more than 3%).⁵ As **Exhibit 3** shows, the result has been a serious decline in the UK’s share of the world goods market, dropping from 4.4% in 2000 to 3.1% in 2010. During the same period, German goods exports largely maintained their 9% global market share.

There are several arguments that could be made to account for this decline. The changing structure of the UK economy towards a more service-orientated model will inevitably play a part in determining the UK’s export potential. Research from the Department for Business, Innovation and Skills (BIS) has concluded that UK manufacturing firms are likely to demonstrate higher export intensity – the proportion of turnover accounted for by exports – than non-manufacturing firms.⁶ This suggests that while the UK has performed well in exporting services, the shift towards services as a greater proportion of the UK economy has had an impact on the UK’s overall export performance.

However, there are two reasons why this argument is not convincing. Firstly, export intensity is influenced by many different variables, including size of company, propensity to innovate and number of years exporting to name a few. Secondly, the picture of manufacturing exports is more nuanced than the headline message of decline. Some export intensive sectors – such as chemicals – have enjoyed buoyant export growth. Pharmaceuticals in particular have demonstrated a persistent trade surplus over the last decade, in contrast to the deficit in the manufacturing industry as a whole.

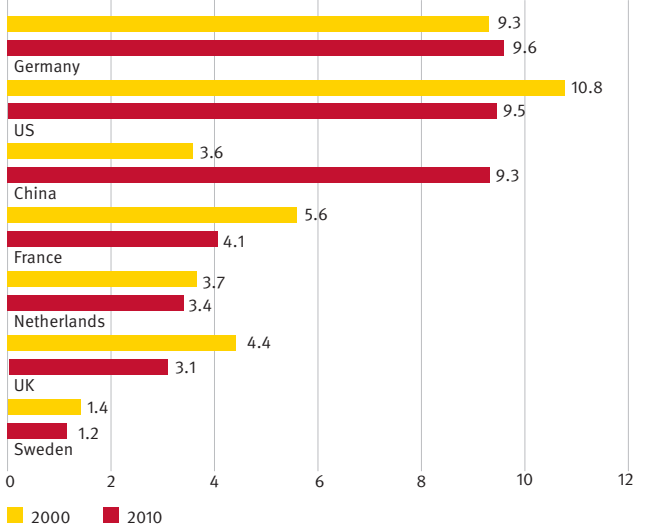
Exhibit 3 The UK’s performance in goods exports

Growth in goods exports
Annual average growth – 2000-2010



Source: Ernst & Young ITEM Club

Market shares in world trade of goods
% world total market, volumes



Source: Ernst & Young ITEM Club



To gain a clearer understanding of the drivers behind the UK's declining goods export performance, the Ernst & Young ITEM Club analysed the main factors influencing that performance and compared their impact across selected economies. The two main factors analysed were the contributions of world demand (measured by a geographically weighted average of other countries' imports) and competitiveness (measured by comparisons of unit labour costs) to each country's growth in non-fuel goods exports. The export performance of a country with a lower measurement of competitiveness could be suffering due to higher comparative increases in unit labour costs. Similarly, a country experiencing lower global demand for goods than other advanced economies could be targeting markets with slower growth.

A lack of competitiveness has hindered exports – but is not the major constraint on goods export growth

The UK's inability to penetrate high-growth markets can be partly attributed to a lack of competitiveness. The strength of the sterling exchange rate – particularly between the mid-1990s and the onset of the financial crisis in 2007 – drove up the price of UK exports abroad and contributed to the rise in imports over this period (**Exhibit 4**). Lower unit labour costs in developing and high-growth economies drew manufacture of lower skill goods away from advanced economies, resulting in a worsening trade deficit in the UK over the past twenty years.

Aesica Pharmaceutical – getting the right mix to exploit global opportunities

Aesica Pharmaceuticals demonstrates how a strategy of organic growth combined with 'buy and build' can work for UK exporters adapting to a changing global market place. Formed in 2004 following a management buy-out, in less than a decade Aesica has radically expanded its product portfolio and global footprint. This year the company's turnover is expected to be £155 million, as Sales and Marketing Director Alan Raymond explains:

"We have gone from simply manufacturing bulk drugs to providing an integrated service that covers the lifecycle of product development, commercialisation and maturation," says Dr Raymond. "As the pharmaceutical industry has consolidated we have positioned ourselves to become a product development and manufacturing partner, setting ourselves apart from competition."

Aesica has acquired the capability to provide this package to its customers through a programme of 'buy and build', both in the UK and abroad. Today, in addition to three sites in the UK, Aesica has two sites in Germany and one site in Italy. It also has permanent representative offices in the USA and China.

From its UK operation, Aesica exports to around 30 countries, with exports accounting for nearly 90% of total sales.

"North America, which is the largest market for the pharmaceutical sector, and India, which is strategically very important not only for the supply of bulk drugs but for the opportunities its growing domestic market presents, are our priorities," says Dr Raymond, "but that does not exclude us from taking opportunities elsewhere."

The company is currently developing its BRIC plus 'Next 11' strategy. *"We are in the process of gathering data," adds Dr Raymond. "A network of local knowledge is absolutely vital for us as we have to understand the political and regulatory climate. In order to get into these markets we need to know in detail the regulatory approval procedure, the treatment of intellectual property, the level of investment protection, etc. We will be looking to leverage the network of contacts that UKTI has and examine in more detail the peer-to-peer support that is available."*

However, the commissioned research suggests that while unit labour costs and the value of sterling had a negative drag on growth of the UK's goods exports, this impact was not as significant as geographical focus. Goods exports grew at an average annual rate of 2.2% between 2000 and 2008; of this, a lack of competitiveness exerted a drag on growth of -0.3 percentage points – when sterling was over-valued – compared with the positive 6.6 percentage point contribution of external demand in the same period.

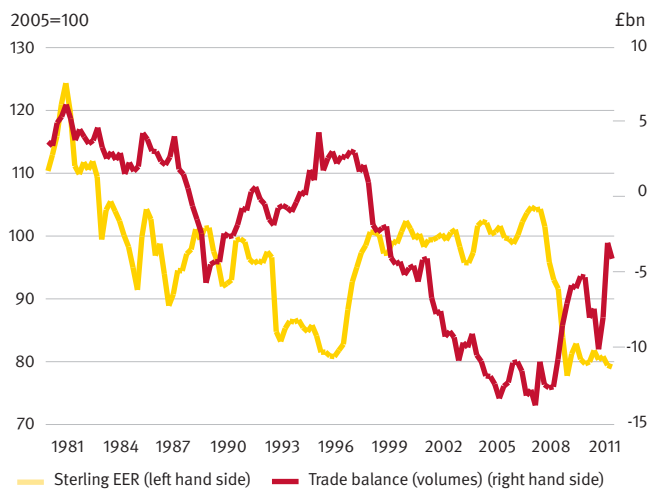
The relatively poor performance of UK goods exports since the depreciation of sterling four years ago supports this assessment. Conventional economic theory dictates that depreciation will boost the competitiveness of a country's exports and make its imports more expensive, encouraging substitution towards domestic equivalents. Over the course of 2007 and 2008, sterling depreciated by 31% and has remained low since, down by around 25% on its 2007 peak – yet this has not resulted in a consistently robust export performance. This could be due to exporters choosing to maintain margins rather than lower price and increase volume in the presence of a weak exchange rate. Either way, this suggests that businesses will not always capitalise on the value of sterling and this diminishes its impact as a variable in the UK's export performance.

UK goods exports are overly targeted at advanced economies

The analysis from Ernst & Young's ITEM Club is clear: the strongest determinant of export growth across all the countries sampled is external demand. The markets you target have a major impact on the levels of export growth attainable. Over the past decade, the UK has experienced a contribution to goods export growth of 4.5 percentage points per year due to the geographical focus of its goods exports, compared with 0.3 percentage points per year due to competitiveness. However, as **Exhibit 5** shows, the impact of geographical focus or external demand was greater over this period for other major exporters, such as the US and China. This suggests the UK is more dependent on markets with slower growth rates compared to its main competitors.

Exhibit 4 The relationship between the value of sterling and the UK's trade balance

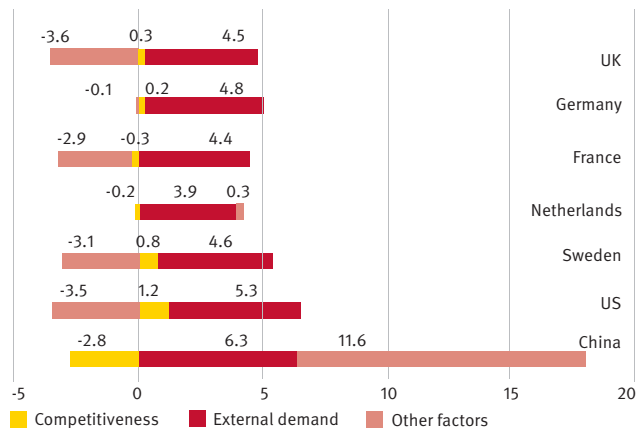
Sterling effective exchange rate vs trade balance



Source: Bank of England and ONS

Exhibit 5 Contributions to goods exports growth: 2000-2010

Real terms – average annual % change



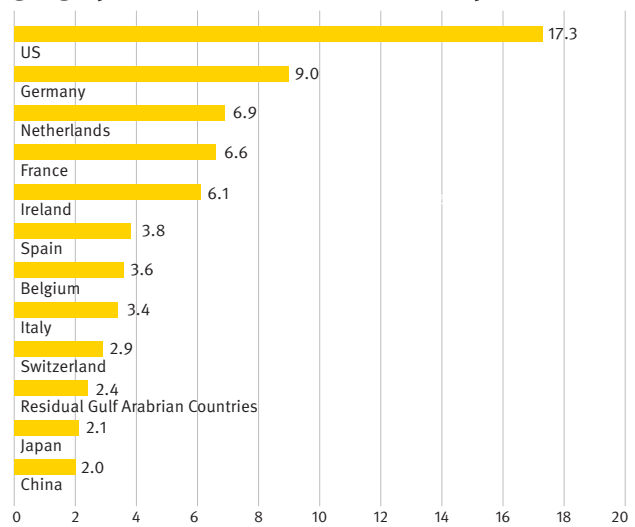
Source: Ernst & Young ITEM Club

The UK's largest export market is currently the US, accounting for 17% of total exports. **Exhibit 6** shows that the UK's other major markets lie predominantly in Western Europe – most significantly Germany, France and the Netherlands. Our membership of the EU has dictated our pattern of exports over the last decade: the bloc as a whole accounts for almost half of the UK's exports. However, these economies are facing similar problems to the UK – and in many cases, more severe: a slow and prolonged economic recovery from a severe financial crisis. They are suffering similar consumer demand constraints and deleveraging the public sector. Overall, the share of UK exports accounted for by advanced economies is far greater than their share of the global economy. The diverging growth rates between the EU and the BRICs suggest that the UK's over-dependence on exports to developed economies will have an increasingly negative impact on our ability to boost economic growth.

We are starting to see signs of a small rebalancing in UK exports towards high-growth economies. In 2010, there was a slight increase in the impact of external demand on UK exports, demonstrating a move towards faster-growing markets. With only 4% of UK exports currently destined for the BRICs, there is plenty of scope for further rebalancing towards higher growth markets.

The Ernst & Young ITEM Club calculates that had the UK managed to re-orientate its trade towards high-growth economies to the same extent as Germany over the last decade, this could have resulted in a 10% boost to goods exports by 2010. This is the equivalent of lifting GDP by around 1%, or approximately £15 billion. This lucrative gap between the UK's potential and performance is evidence of under-performance. However, addressing and halting this under-performance, as Chapter Two will show, could potentially have an even greater impact on future UK GDP.

Exhibit 6 UK exports destinations: select geographical breakdown (% of total exports value)



Source: ONS 2009

There is a current mismatch between UK exports and the needs of high-growth markets

Geographical location and competitiveness combined do not fully explain the UK's under-performance – there are other factors acting as a drag on export growth. This can be interpreted as evidence of a current misalignment between the type of goods the UK exports and the goods demanded by the BRICs and other high-growth economies. The last decade has seen a surge in the demand for capital goods – such as machinery, tools and equipment – to support the booming manufacturing capability of the BRICs – an export in which Germany excels but the UK is less prolific.

Sectors such as chemicals and high-tech goods stand out as bucking the trend of UK manufacturing exports, but further analysis shows the impact of choice of markets and products. As outlined above, the chemicals sector has enjoyed higher than average growth in exports in the last decade compared to wider UK manufacturing: 4.5% per year compared to 1.2% on average.

When this growth rate is compared to other countries, however, the performance of the sector is put into context. Between 2000 and 2010, Germany and the Netherlands increased their chemicals exports by 11% and 14% per year respectively. In addition, Sweden, France and the US all average about 7% annual growth over the same period. Had UK chemicals manufacturers achieved a better penetration of higher growth markets, similar to that of German manufacturers, by 2010 UK chemicals exports would have been 11.3% higher, equivalent to an additional average annual growth of 1.1%. In addition, the type of chemicals being exported has had a large impact. Pharmaceuticals account for a relatively high proportion of overall UK chemicals exports (41%) – and while they have persistently posted a strong trade surplus, higher demand was seen in the last decade for industrial chemicals to boost the manufacturing capability of high-growth markets. A better geographical orientation and product mix combined could have boosted UK chemicals exports by up to 15% by 2010, equivalent to £3.5bn.

An analysis of the performance of UK high-tech goods exports compared to other advanced economies reveals a similar story. During the last decade, the UK's high-tech goods exports actually decreased by around 0.9% per year on average in volume terms due to the impact of the global recession in 2008. By contrast, competitors France, Germany and the Netherlands all posted average annual growth figures of at least 5%. Had the UK managed to achieve Germany's market orientation and a more suitable product mix, high-tech export performance could have been boosted by as much as 30% by 2010, worth around £6bn to the UK economy.

It is clear that the UK needs to re-orientate its trade towards high-growth markets in order to boost its performance. Although there are signs that UK supply and BRIC demand are starting to align as the high-growth economies undergo demographic change – this is explored in the next chapter – the UK is still not ready to take full advantage of this opportunity. Even in areas where the UK is traditionally strong – such as services – we are still overly reliant on advanced economies. Despite being the second largest global services exporter, the UK still loses out to Germany in terms of the value of service exports to the BRICs: \$12.7bn for Germany compared to \$12.3bn for the UK in 2009.⁷

To address its under-performance, the UK must play to its strengths

The UK has under-performed in areas of exports over the past decade. We are not being ambitious enough with our choice of markets and our decline in goods exports is unsustainable if we want to lead an export-orientated economic recovery. Despite this assessment, there is no reason for pessimism. We have areas of exports that are buoyant and performing well. While our product mix has not met the demands of high-growth markets in the last decade, demographic changes in these markets puts us in a better position for the near future. There are signs that the UK is starting to get into gear. The depreciation of sterling has given a small but welcome buffer to boost competitiveness and the lack of domestic consumer demand is starting to force companies to look beyond their European comfort zone.

To drive economic growth, export growth needs to outstrip import growth – and this has not been seen in recent years. To achieve this rebalancing, the UK needs to fully maximise its opportunities over the next decade by identifying the right markets and capitalising on its sectoral strengths.

Chapter Two: The opportunity – identifying and capitalising on sectoral strengths to exploit export potential

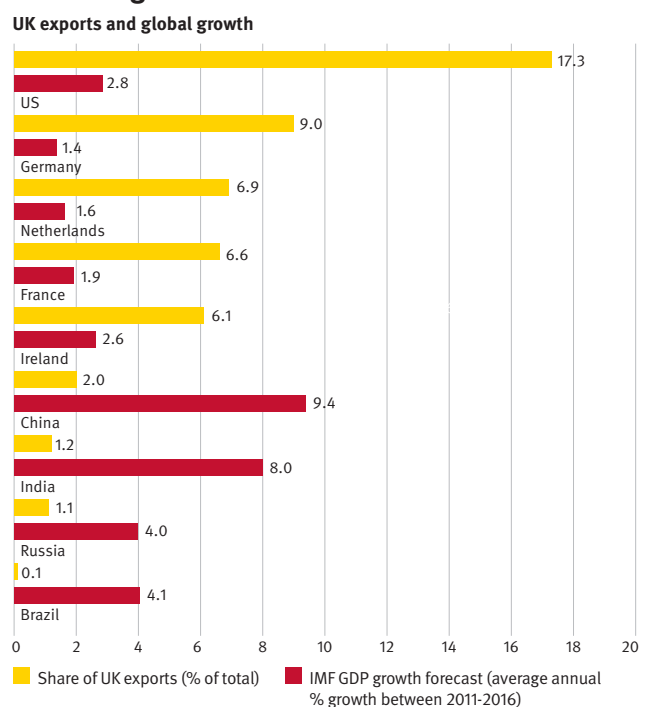
The UK must take a strategic approach to achieve its potential

Achieving a transition to a more export-orientated economy is like walking through treacle. In other words, there is no silver bullet, no quick fix to turn UK business from domestic to international mode. We must understand that exports do not operate in a vacuum: they are also indicative of the UK's success in attracting inward investment and spreading out to invest in other parts of the world. What is needed is a full understanding of the opportunities out there – the best markets to target based on our areas of comparative advantage. The UK needs to exploit its strengths – and make sure that the rest of the world understands what we have to sell. We need to identify the markets with the most opportunities over the next decade and beyond, and understand where our strengths match those opportunities to ensure the UK is as competitive and export-enabled as possible.

Significant export opportunities exist in the BRICs for the UK in the next decade

Global growth in the coming decade will be driven by continued rapid expansion in high-growth markets. The IMF predicts GDP growth to average 9.4% and 8.0% in China and India respectively up to 2016 (**Exhibit 7**), against just 2.8% and 1.4% in the US and Germany – our traditionally favoured markets. Despite recent near-term concerns about slower global growth, this overall divergence between the growth rates of the BRICs and the advanced economies is likely to remain largely unchanged. Even a downgrade in prospects for the large high-growth markets will not change the fact that they will outperform developed economies significantly and will account for a much larger proportion of global GDP by 2020.

Exhibit 7 Destination of UK exports compared with GDP growth forecasts



As outlined in Chapter One, the UK has not been able to match its export output to the demands of the BRIC economies over the last decade. A good example of this is machinery and transport equipment – which make up a large chunk of the BRICs' imports – and has been the foundation for Germany's success in penetrating these markets. In the short to medium term, it would be unrealistic to expect the UK to compete like-for-like: Germany's mixture of a strong skills base, high productivity levels and lower unit labour costs currently outstrips the UK's capabilities in this area. Nevertheless, as the BRICs evolve structurally, changes such as rising consumer incomes, a growing middle class, urbanisation and developments in infrastructure will result in changing demand for imports and will offer more accessible opportunities for UK business. The UK must up its game to ensure we are well-positioned to exploit these changes.

“My impression is that UK businesses tend to rely on the US and continental Europe as their main export markets, so maybe they don’t feel they need to go to emerging markets. Why take the risks when they have huge established markets in their own backyard?”

Indian banking executive

In the coming decade, consumer spending growth in the BRICs is expected to average 13.5% per year in value terms.⁸ As living standards rise, this demand will be increasingly channelled towards goods and services more traditionally associated with consumers in more mature economies. The increasing alignment of UK supply and BRIC demand can help the UK to re-orientate its exports towards high-growth markets, if we can capitalise on our comparative advantages.

Longer term, the UK should also look beyond the BRICs

Strong growth, rising incomes and rapid development in the BRICs mean that they clearly offer the most favourable exporting opportunities in the years ahead. However, UK business should not remain static. In trying to break into the BRICs and establish a strong foothold, we are playing catch-up – our commissioned research showed the poor penetration of the UK in these markets compared to Germany and the US. Our competitors are upping their game so we need to look even further ahead. It is important that UK business and policymakers identify the markets that will provide opportunities to exploit our comparative advantages in the future. This will enable the UK to capture new growth dynamics as they arise, rather than lagging behind. Longer term, this approach should allow for greater diversification of the UK’s global export presence across a series of high-growth markets, rather than being overly dependent on a select few.

Identification of new growth markets is a comprehensive process which should take into account several measures of competitiveness, wealth and growth that complement the UK’s main areas of export. They should have sufficient market size and depth, and ideally favourable demographics and rising productivity. Based on these criteria, Goldman Sachs has pointed to the ‘Next Eleven’ countries: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey and Vietnam as potential high-growth markets.⁹

Nichols plc – British firms are tailoring their products according to customer taste, so too must the government

With almost a century-long track record in exporting, Nichols Plc demonstrates how tailoring their products to their customers’ taste can reap long-term reward. Best known in the UK for making Vimto, Ben Shaws and Panda, Nichols Plc is a British company with a global reputation. The first bottle of Vimto was mixed in Manchester using a secret blend of fruit, herbs and spices in 1908 and the first shipment out of the UK followed in 1919 to Guyana. Since then, the company has not looked back and now exports to 65 countries, including India, China and Pakistan, and has moved into wholesale supply and dispensing.

CEO Brendan Hynes says the importance of exports to the company’s bottom line cannot be underestimated. Representing around 20% of Nichols Plc’s total sales by value, exports are a key part of the company’s strategy to expand. *“In certain parts of Africa we have up to 25% market share,”* says Mr Hynes. *“But we’re always looking for new opportunities in existing markets and new ones. Indonesia and Malaysia present opportunities, so too do South Africa, and the Americas. Nearer to home we have been expanding our exports within Europe with great success.”*

Markets are chosen carefully. *“We focus a lot on alcohol-free countries, hence we have big presence in the Middle East, and countries where the population has a sweet palate, such as Sierra Leone,”* says Mr Hynes. *“Local market knowledge is therefore very important for us. We use Office of National Statistics (ONS) data and UKTI for the broad picture and work with local partners to build up an informal network of contacts, but we do more detailed research independently. We need to know who the main players are, their market share and the possible barriers to entry.”*

Nor does the research stop there. *“We need to understand the ‘taste’ of the country so that we can tailor the drink and make it as appealing as possible. The drink will always have the ‘magic’ taste, but we might need to add more or less of a particular ingredient to make it just right for that population.”*

Nichols Plc understands that in a highly competitive market place, preparation and an ability to react to customer preferences is vital. Government must show a similar tenacity in providing services to UK firms that go the extra mile.

“In my view, [Africa] is a competitive environment and [UK companies] shouldn’t expect to be able to compete successfully in every area. But they should decide which areas they can compete in and which they can’t, and target those areas in a more focused way.”

Senior African banking executive

Looking more widely at emerging regions, the African continent as a whole offers tremendous potential. Africa is starting to capitalise on its large and expanding workforce, abundant natural resources and, in many countries, growing political stability. Strong investment from other high-growth economies – China in particular – is also boosting the rise of the continent. Natural resources have so far led this boom, with China now sourcing almost half its imports of alumina, copper, iron ore and oil from Africa.¹⁰

As well as growth in consumer demand, trade is also increasingly driven by the location of production. With supply chains having become increasingly global, businesses seek to increase efficiency by relocating production to low-cost regions. To date, this reorientation has concentrated in countries such as China, due to their low labour costs and specialisation in low-end manufacturing. But this set-up will come under increasing pressure as China moves up the value chain and labour costs rise. As this happens, competition will intensify from lower-cost areas like Bangladesh, Vietnam and parts of Africa – possibly pointing to future clusters of trade around these locations.

The emergence of new growth markets is, like all the forecasts in this report, subject to developments in the wider global economy. However, these predictions do give the UK an idea of the opportunities that lie beyond the BRIC economies. At the moment, the UK’s export market share destined to these potential future high-growth areas is extremely low: exports to Mexico, South Korea, Indonesia and Turkey combined amounted to just 2% of total exports in 2009. Likewise, the proportion of exports captured by Africa as a whole stood at just 4%. It will not be sufficient to concentrate on the BRICs to boost the UK’s export performance in the long-term – business and government need to stay ahead of the curve.

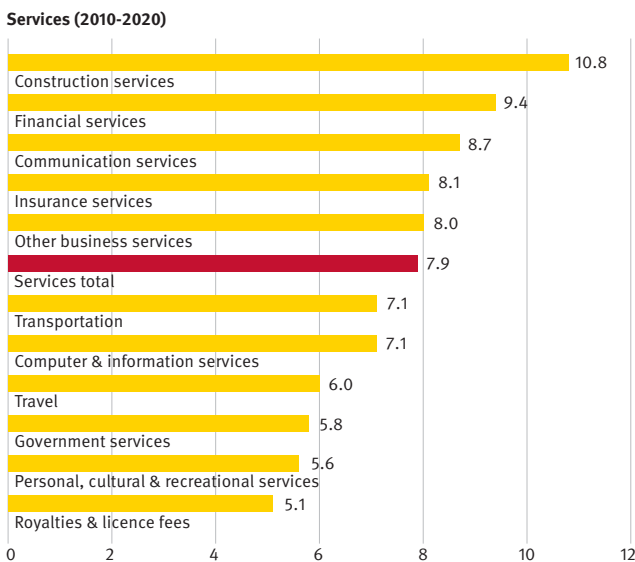
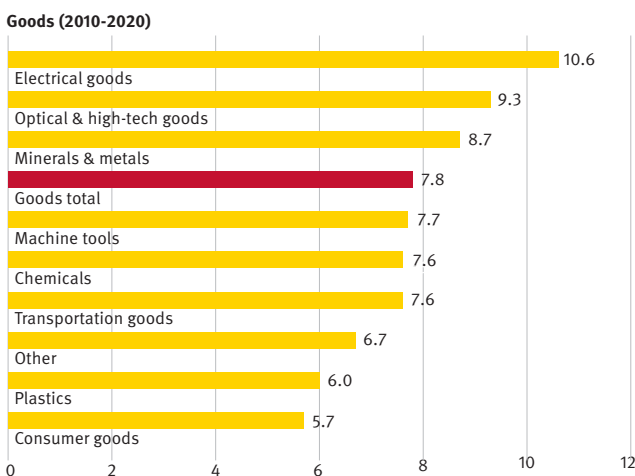
Areas of comparative advantage should be exploited to access high-growth markets

The UK has a portfolio of world leading sectors that can demonstrate comparative advantage and are aligned to the future needs of high-growth economies. Chemicals and financial services are two that have already been highlighted as export beacons, consistently posting a trade surplus and accounting for a larger share of export growth than the size of their domestic sector would suggest. However, sectors such as electrical and optical and high-tech goods can also demonstrate strong export performance and will play a key role in future growth. The challenge is to build on these front-runners and to identify other areas where the UK could build competitive positions.

If UK business can move quickly and establish an early market presence, there is much to be gained. Forecasts for our leading sectors predict a positive trend. In total goods exports, the share made up by chemicals is set to increase from 23.3% in 2005 to 26% in 2020, while the share of optical and high-tech goods should increase from 4.1% to 4.7% in the same period. In services exports, the forecasts predict the areas of particular strength for the UK will maintain or even increase their exports share. Financial services exports in particular are expected to hit just under 30% by 2020 – although this forecast could be downgraded subject to future difficult market conditions.

Exhibit 8 Predicted export growth rates by sector

Export growth by sector
Value terms, average annual % change



Source: Ernst & Young ITEM Club

Using a forecast of the average annual percentage change in growth of various sectors, the Ernst & Young ITEM Club has calculated where the areas of growth sit in the next decade and has quantified the impact of UK exporters shifting supply to meet emerging demand by boosting the share of exports accounted for by high-demand goods and services. If the UK is successful in this realignment, it could be worth a 1.2% rise in GDP, or £18bn, on baseline 2020 forecasts.

According to these forecasts, illustrated in **Exhibit 8** the top five fastest predicted growth areas for the UK are construction services, electrical goods, financial services, optical and high-tech goods, and communication services. To capitalise on this growth potential, we must ensure that these sectors can attract sufficient investment to meet external demand and that the rest of the world knows that the UK is a leader in these areas. We cannot afford to be complacent: current success does not guarantee future wins.

“In the financial services sector I have seen a degree of complacency among UK companies, some of which have started to believe that London being an international financial centre is a given. That’s a fairly risky attitude.”

Russian Professor of Economics

Sources of future growth

Construction services: 10.8% projected average annual growth to 2020 and currently account for 0.4% of UK exports in value terms

The construction sector in the UK faces many challenges in the domestic market. A planning system that provides certainty, appropriate and timely access to finance and an adequately skilled workforce are necessary for the sector to operate efficiently, competitively and contribute to national economic growth. In spite of these domestic barriers, the sector saw average annual growth between 2000 and 2008 of 35% – even managing to maintain a positive trend during the recession. UK firms through the construction supply chain have seized on opportunities – in particular, on the government’s low carbon policy agenda – to specialise and diversify their portfolio of services to reach a much wider market and decrease their dependence on domestic demand.

The global opportunities are certainly there for the taking. Global construction is projected to grow by almost 70% from \$7.5 trillion today to \$12.7 trillion in 2020, and will account for 13.4% of global output.¹¹ UK construction firms that have the ability to work overseas benefit from diversifying their risk profile from their home markets whilst at the same time enjoying a rich pipeline of new-build projects in high-growth areas, where population and tourism growth are fuelling development from housing to public works and transport infrastructure. Furthermore, internationally recognised standards in the UK mean that UK firms can hit the ground running in many new foreign markets. Markets such as Nigeria, India, China, Russia, Vietnam and Indonesia look set to post the highest growth opportunities, demonstrating the importance of UK firms consolidating their presence in the BRICs but also looking beyond to the second tier of high-growth markets.

Electrical and optical & high-tech goods: 10.6% and 9.3% projected average annual growth to 2020 respectively and together currently account for 15% of UK manufacturing exports

As emerging markets have developed their manufacturing capacity, lower value chain activities have tended to shift towards markets where the cost of production is cheaper. In areas of manufacturing requiring cutting edge technology however, BIS data indicates that the UK continues to offer considerable advantages over the BRICs due to the UK’s strong science and R&D base.

Export growth in high-tech manufacturing sectors including optical and electrical goods over the next decade is likely to be around 10% per year. Driven by rising incomes in emerging markets combined with demographic changes, technologies in this grouping such as nanotechnology and nano-electronics, life sciences technology, precision instruments and photonics will become increasingly in demand in advanced and new markets alike.

This offers a real opportunity for the UK. The Ernst & Young ITEM Club analysis indicates that in both manufacturing of electrical apparatus as well as precision and optical goods, the UK holds a comparative advantage, comparing favourably in cost-terms over production elsewhere. Furthermore, the 2009 Innovation Survey indicates that these sectors continue to invest in new innovation in the UK.

Financial services: 9.4% projected average annual growth to 2020 and currently account for 11.3% of UK exports in value terms

The UK's financial services industry contributed £126bn to the UK economy in 2009, accounting for 10% of total economic output, and provided over one million people with jobs.¹² UK companies raised funding of more than £360 billion from financial markets in the past five years, allowing them to create jobs and invest in training and developing their staff. The UK is the world's leading exporter of financial services, earning more than 10 times US exports of financial services in 2008. Our financial services sector generated a trade surplus of £36bn in 2010, thus helping offset the £98bn deficit in trade in goods.

The UK's long history of financial services stands it in good stead for the coming decade: the wealth of knowledge we hold in our financial services cluster, foundations of a strong regulatory system, and the skills unmatched overseas point towards a bright future. But the wider environment is also crucial – the UK's political stability, world-class education system, and our position as the bridge between East and West can all allow our financial services sector to continue to grow.

The nature of the services being offered means that financial services exports will follow global growth and trade flows as they develop. On current evidence, the BRIC countries offer exciting new opportunities. Yet other markets are developing quickly, such as the Gulf States, which are fertile grounds for exploration.

Communication services: 8.7% projected average annual growth to 2020 and currently account for 1.2% of UK exports in value terms

The UK's communications sector forms a significant component of the domestic economy, contributing over £50bn to UK output and employing 530,000 people.¹³

The sector accounted for 7% of total R&D invested by UK businesses in 2009 and is intrinsically linked to a wide range of other sectors, driving the speed and quality of information flows, business efficiency, access to markets, managing people and diffusion of innovation. Within the communications sector, the creative industries – a particular jewel in the UK's crown – has been forecast to grow by 4% per annum between 2008 and 2013. In terms of digital exports, the UK is a global leader, and second only to the US in terms of international content sales.

In the UK, the sector's success stems from its self-reliance, with innovation at the core. It is market-driven and predominantly reliant upon private sector investment and innovation rather than government support. The sector is ripe for both exports and attracting inward investment. The Ernst & Young UK attractiveness survey 2011 demonstrated that companies consider technology infrastructure their number one priority when considering where to invest – highlighting the opportunities for communication services to break into other markets, all trying to attract foreign capital.

Due to shared language, the US will continue to be a vital market for digital exports; however, the wider communications sector will look towards the BRIC economies for exciting new opportunities in telecommunications and digital content exports.

Pearce Signs – building up experience step by step

Established in 1791 on the banks of the River Thames, Pearce Signs did not seriously move into the export market until five years ago. Now, with more than 60% of its turnover in the last year coming from overseas work, its reach extends across the Channel, Atlantic and Pacific. Branching out from sign manufacturing and installation into energy conservation, electrical engineering and contracting, the company today exports to more than 50 countries, including the USA, Australia, New Zealand, India, the Philippines, Taiwan and Hong Kong. Chairman Harry Everington puts the success of the firm's export strategy down to a commitment to the personal touch and careful planning:

"We moved into exports when a UK client asked us to take on a major contract in the States," says Mr Everington. "From there we were introduced to and started working with a worldwide design consortium. At the same time we started working with a firm in Taiwan to make circuitry, who said in return, "We have a contract in Ireland, could you take it on?" It's often a matter of word of mouth, building a good reputation with clients and partners, and knowing the right people. Being a member of the CBI has provided us with contacts that have been especially helpful."

The impetus for Pearce Sign's move into exports was simple: the opportunities were too good to miss. *"One needs to look at where the money is," says Mr Everington. "Countries like China have cash and they want to spend it on improving the standard of living. Western firms like us have the expertise and management know-how to help them do this."* And the opportunities look set to continue. *"In the future we feel that carefully planned expansion nationally and internationally will*



be the way to move forward, as we can offer the technology and services in all of our three divisions which is required for international UK clients."

Pearce Signs has adapted to survive and expand – a lesson, Mr Everington believes, that the UK government could learn from. *"We need to be, as a country, smarter in selling what we have to offer. Whether we are training international students in our universities or selling a product on the international market, it all helps the UK economy."*

The impact of the UK re-orientating towards high-growth markets could be significant to UK GDP

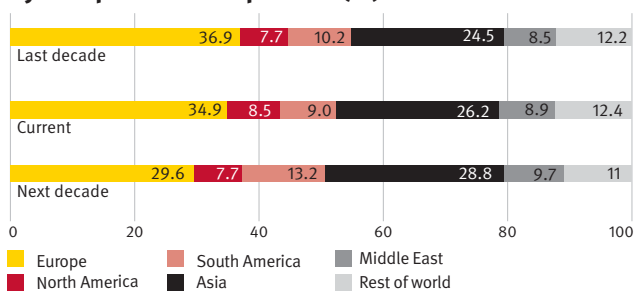
On top of the alignment of UK goods and services with demand, a more pronounced shift towards the BRICs could be beneficial to the UK. Forecasts show a gradual increase in the share of exports to these economies, simply continuing the slow trend of the last couple of years. This translates to an 11% per year UK export growth forecast to the BRICs in nominal terms compared with less than 7% growth in exports to the EU.¹⁴ A more pronounced swing towards high-growth economies would have an even more positive economic effect – on top of the 1.2% rise in GDP predicted through realignment. A greater shift of geographical re-orientation could result in an additional 0.7% lift to GDP by 2020. Taking into account overlap between the two effects, the combined impact of realigning goods and services and re-orientating to high-growth markets could be worth a 1.5% or £20bn lift to GDP by 2020.

This re-orientation is not going to happen overnight, and nor should it. High-growth markets typically trade higher returns for higher risk – it will take time for businesses to adjust to new ways of doing business and different commercial environments. In the meantime, maintaining export growth in advanced economies, such as the EU and the US, will be vital in supporting the UK's economic recovery now. Breaking into these more mature markets is often a helpful stepping stone for new exporters before gaining the confidence to set their sights further afield.

We can already see evidence of this changing mind-set. While the current trend towards geographical re-orientation is slow, UK businesses have ambition to look further afield in the next decade. We took a sample group of CBI members and asked them to outline details of their market coverage over the last decade and their target strategy for the next decade – the results can be seen in

Exhibit 9.¹⁵ There is a clear shift towards high-growth economies in Asia and South America over the next decade and a reduction in the share of exports destined for the EU and North America. This suggests that UK business has the vision to know where the broad opportunities lie – what matters is ensuring that they are given the right framework and support in order to bring that strategy to fruition.

Exhibit 9 Changing market destinations targeted by sample of CBI exporters (%)



Source: CBI sample of UK exporters

Impact of the Eurozone crisis

Many UK exporters will be anxiously watching developments in the Eurozone. An acceleration of the debt crisis could cause some EU economies to fall back into recession, putting the UK’s projected export growth in jeopardy for two main reasons. Firstly, the prominence of financial services in our export mix will leave the UK particularly vulnerable to further shocks on the financial markets. Secondly, a depreciation of the euro against sterling would have a negative drag on the UK’s competitiveness. This crisis could damage business confidence in the Eurozone for many years to come, giving a further impetus to UK exporters to re-orientate their focus towards economies with strong predicted growth over the next decade.

We have to think beyond exports and extend the international reach of UK business

Reorienting UK exports towards high-growth economies is part of a much broader process of extending the international reach of UK business. In an increasingly global economy, it is vital for firms to develop a more international mind-set by actively seeking to establish a presence in other countries. While many firms choose to export to these markets, others will choose to invest there, perhaps forming partnerships with local firms or setting up offices. These modes of market entry are not directly reflected in the UK’s export figures but they are equally valuable in terms of making global connections and boosting the UK’s reputation abroad.

The UK is already a significant investor in foreign markets: in 2010 we had the largest stock of outward FDI behind the US. Nevertheless, the flow of outward FDI has been slowing consistently since 2007, failing to make any meaningful recovery following the onset of the global financial crisis. This is a trend echoed across most advanced nations with large outward FDI stocks – notably the US, France and Germany – and contrasts sharply with the BRIC economies. An analysis of the destination of the UK’s outward flows by region in 2009 echoes the trends seen in our export destinations: a pattern predominantly concentrated in Europe, with the largest individual partner being the US (**Exhibit 10**, page 24). Flows to high-growth economies were negligible by comparison.

“In a world that is increasingly built on partnerships and alliances, flexibility and adaptability are key and I believe that the UK needs to think differently about its approach to supply chains in order to bring down costs and drive margins.”
Executive Chairman, Middle Eastern international franchise operator

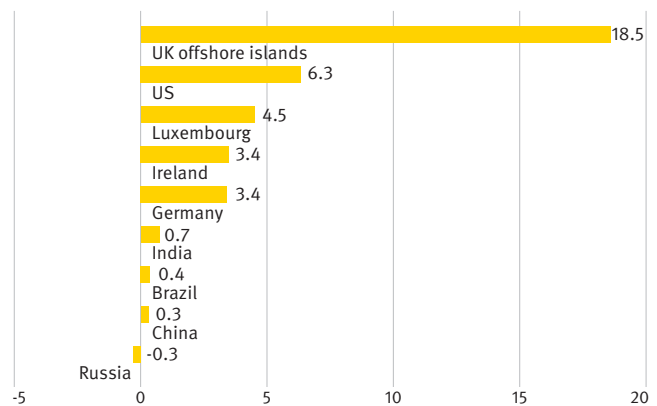
An attempt to re-orientate our exports towards high-growth markets should be pursued in tandem with a re-orientation of FDI flows to capture the major growth opportunities offered by these markets. Both can help to cement relationships between the UK and high-growth economies and to diversify the UK’s investment portfolio.

These relationships can also be forged by attracting investment into the UK. Once again, inward investment is drawn mostly from the US and Western Europe, as shown in **Exhibit 11**. As with the UK, these economies are facing fragile business confidence and significant risks to their growth trajectory – both of which pose threats to further investment in the future. To draw more investment from emerging markets, it is important to evaluate the factors that high-growth economies look towards when investing abroad. The World Economic Forum’s Global Competitiveness Report ranks the UK favourably on most counts; however, we are not making the most of this ranking to attract investment and forge links with the economies of the future.¹⁶

What matters is flexibility of approach: to take full advantage of the future opportunities outlined in this chapter, UK firms must be prepared to adapt to the needs of both foreign investors and foreign markets. The UK must make itself attractive to investment in order to secure an improved export performance in the coming decade.

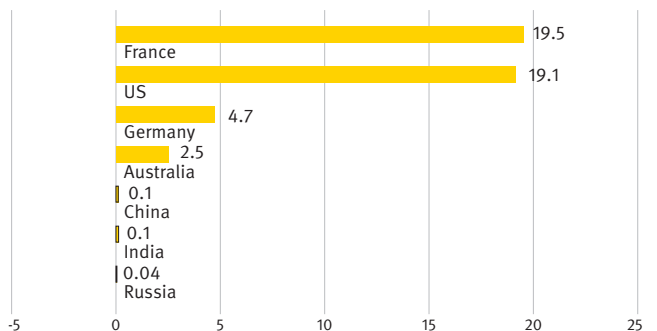
Creating attractive conditions for inward investment can ensure that not only do multinational companies base their operations in the UK, but that the UK captures the full value of the presence of large-scale exporters. While the UK has a number of attractive qualities that may bring specific businesses here – such as our science and R&D base, flexible labour market or legal system – broader investment conditions can often mean that supply chains remain abroad. It is vital to attract inward investment to produce the goods and services that can then be exported, but the overall value to the UK depends on our ability to build up clusters and

Exhibit 10 Destinations of outward UK FDI flows (£bn) – selected countries



Source: ONS

Exhibit 11 Inward UK FDI flows (£bn) – selected countries



Source: ONS

attract supply chains to relocate. Anecdotal evidence from the automotive sector provides an insight into this issue. CBI members in this industry have suggested that exporting from the UK brings only 25-40% of the potential wider value to the country, compared to exporting from Germany, which manages to create wider industry clusters and attracts supply chains to exploit 80-90% of the total potential value of these exports. The right investment conditions could drastically improve the UK's ability to leverage further value from exports.

We should build on foreign perceptions of our ability to move into new markets

Assessing the UK's export performance gives us a clear indication of the UK's past under-performance and the potential for future growth. What it does not reveal is the extent to which this under-performance has affected foreign perceptions of the UK and its international brand. Reputation at both the company and country level is crucial in creating and developing trading partnerships. Think of Germany, and many people will think of high quality manufacturing – a reputation that will have a positive impact on the ability of German manufacturing firms to do business around the world. One could make a similar argument with Japan and electronics. The reputation of UK plc and the goods and services it produces has an impact on how UK exporters are viewed by international customers and their propensity and/or ability to exploit trading opportunities.

By ascertaining how an international audience perceives UK exports in comparison to our main competitors, we can more accurately identify areas for improvement. The areas of comparative advantage outlined above should be the UK's calling card: these are the sectors our international customers should associate with the UK brand. For a qualitative assessment of our international standing, we surveyed a range of international employers' federations in both advanced and emerging economies, asking them to rate the UK's strengths and weaknesses as an exporter. We followed up this work with a series of in-depth interviews with a selection of key international business figures and officials in the UK's target markets.

Many of the UK's sectors of comparative advantage topped the table when we asked business federations to name the UK's top exports: automotive, financial and professional services, information and communications services, and chemicals stood out from the rest (**Exhibit 12**). Tourism, machinery, sustainable energy, electronics and oil were also highlighted as top exports. Looking back to ITEM's predicted growth rates, there is much alignment between the forecasts and these perceptions of the UK's sectoral strengths. Nevertheless, there was no mention by the international business federations of construction services or optical and high-tech goods. To attract investment to build our capability in these sectors, it is imperative that the UK promotes itself as a world leader in these areas.

Exhibit 12 Comparison of perceived sectoral strengths with UK's top exports in 2009

Perception	Reality (2009 ranking by export value)
1 Automotive	1 Finished manufactured goods
2 Financial and professional services	2 Semi-manufactured goods
3 Information and communication services	3 Financial services
4 Chemicals	4 Other business services
5 Machinery	5 Oil
6 Tourism	6 Transportation services
7 Sustainable energy	7 Travel services
8 Electronics	8 Food, beverages & tobacco
9 Oil	9 Insurance services

Source: CBI survey of international employer federations and ONS Pink Book 2010



“In general, the market perception of UK businesses is positive. They care about business reputation. They run business with a good efficiency within their established systems. Their services are of higher quality. For a global company we look for business reputation and efficiency and I do believe UK firms possess above average qualities.”

Executive, Chinese chemicals industry

When we move from sectoral strengths to national characteristics, the UK once again fares relatively positively. Respondents listed eleven in total – the most mentioned include the UK's skilled and flexible labour market, a positive approach to risk-taking and strong management expertise. These three characteristics combined are essential foundations for a successful export strategy and look to stand UK business in good stead to meet the potential outlined above. The advantage of English as the language of business was also highlighted, as was the UK's good business reputation.

The UK's export brand and strengths are not being sufficiently championed

International perceptions seem to suggest that the UK is well-positioned to take advantage of future export opportunities; however, respondents were clear that success depended on the UK being able to leverage these characteristics in a strategic way.

While the UK can demonstrate its economic diversity, it does not seem to have the same sort of brand identity as Germany. Many respondents suggested that the UK's brand was actually quite weak and pointed to a lack of strategic direction in selling the country's strengths and supporting business. Several respondents could not pinpoint what made UK goods and services distinct from other countries. Of those respondents that could, they pointed to reliability, quality and high-added value as making the UK distinct.

However, many of the characteristics outlined above were actually raised in both a positive and a negative light. Language is especially viewed as a double-edged sword: English might be the language of business, to the advantage of UK exporters, but our broader foreign language skills are deemed to be poor by international standards. Many federations highlighted the prevailing assumption in the UK that everyone will learn English and therefore businesses do not need to make an extra effort. Our perceived ambivalence towards foreign languages is seen increasingly as a limitation in a global marketplace where local knowledge and customs count. Mexico, for example, with a population of 112m and a growing middle class represents a real opportunity for UK firms. Although many Mexicans speak English, an exporter who can speak Spanish will find it much easier to develop contacts and secure business.

Similarly, the flexible labour force previously described as such a strength is being undermined by weak skills levels. The recent CBI education and skills survey found employers increasingly demand language skills – a fifth (21%) saw languages as important in building relationships with overseas contacts, rising to almost half (47%) in the manufacturing sector. Employers look for people who can not only converse in foreign languages but who have an awareness of the culture and customs of particular markets in order to get a job done. Our survey found employers are having difficulties hiring employees with these skills: 60% of employers were dissatisfied with graduates' foreign language skills and 43% with their international cultural awareness.¹⁷

“In terms of their international reputation, I don't think UK businesses have a problem. But as regards marketing themselves outside the UK, there must be a reason why they haven't been as successful as companies from other European countries, such as Germany and France.”

Indian banking executive

The overall impression is that the UK is not sufficiently prepared to leverage the value of its comparative advantages. It is no good having an ambitious automotive sector wanting to export to new and exciting markets, if the UK's ageing infrastructure cannot provide the distribution channels to bring those goods to market. Failure to rectify these weaknesses could have long-term implications for UK exporters.

Foreign commentators are broadly optimistic about the UK's competitiveness

Respondents from foreign business federations were more optimistic about the UK's competitiveness (**Exhibit 13**). When asked to rank the UK's competitiveness on a scale of 1 to 10 – 10 being the highest – the average score was 6.8. This ranking gives the UK a mid-table position when compared with the scores of other countries.

In the face of stiffer competition from the export activity of high-growth economies – China, viewed as highly competitive, scored 8.4 – the need for UK to sell its strengths can only increase. The World Economic Forum's latest Global Competitiveness Report calculates the UK as the 10th most competitive economy in the world, still behind advanced competitors including Switzerland at number one, Germany, the US, Denmark and the Netherlands, but ahead of China and Brazil.¹⁸ This suggests a gap between perception and reality that must be addressed.

Exhibit 13 Perceptions and reality of the UK's competitiveness

Country	Average score by perception	World ranking
Germany	8.4	6
China	8.4	26
USA	8	5
Denmark	7.8	8
Japan	7.5	9
Netherlands	7.2	7
Brazil	7.2	53
UK	6.8	10
Canada	6.4	12
France	6.2	18
Mexico	6	58
Turkey	5.6	59
Australia	5.4	20
South Africa	5.4	50
India	5.2	56
Russia	4.6	66
Spain	4.4	36
Indonesia	3.8	46
Portugal	2.8	45
Average	6.2	n/a

Source: CBI survey of international employer federations and the World Economic Forum Global Competitiveness Report 2011-2012

While being viewed as fairly competitive, comments were made about the UK's inability or slowness to adapt to global opportunities. Several respondents cited the UK's over-reliance on competitive currency devaluation as the means to boosting export performance as "not a good policy choice". This assessment reflects the commissioned research, which pointed more to geographical focus than competitiveness in explaining the UK's export performance in the last decade.

The consensus is that the UK is missing a trick

The UK has many areas of comparative advantage that will become increasingly aligned with the demands of the BRIC countries; yet it will be unable to exploit that potential to the full without a more holistic approach. Foreign perception is that while the UK is facing increasing competition, it is also missing a trick to boost its export profile. Two clear messages stand out from our international input. The first is for the UK to put its house in order as a matter of priority – our skills level, infrastructure and foreign language capability are not sufficiently world class to support a world class export vision. This leads to the second message: be clear about what the UK is trying to achieve and where its strengths lie in order to help UK business in the global marketplace. The UK must develop a clear brand that our exporters can leverage to their own advantage.

"When I'm working with a company I look for three things: advanced technology, a flexible organisation enabling quick decision-making and competitive pricing. I don't think UK businesses are in the top ranks on any of these."

Chairman, Mexican automotive parts manufacturer

"Overall, I think the UK and its companies should pick the right battles and the right countries, and focus on specific sectors within those markets. There's a lot of goodwill out there that's not being exploited."

Senior African banking executive

Chapter Three: The challenge – removing the domestic barriers inhibiting our export potential

UK business currently faces many ‘export disablers’ that undermine ambition and capability

To move towards a more export-orientated economy, the UK needs to display the hallmarks of a successful exporting nation – the right combination of export enablers. Here, both government and business have a stake. An export-orientated government provides the right policy framework and infrastructure to enable and encourage businesses to export, while an export-orientated business leverages this political and economic framework to the full, bringing ambition and an international mind-set to the table. The question posed by this report is: to what extent does the UK demonstrate this combination and are we domestically positioned to secure export success?

The CBI undertook a wide-ranging consultation with business, including surveying a sample of CBI members to ascertain the main export enablers and disablers in the UK, and a series of regional, in-depth focus groups and one-to-one interviews to drill down into how these barriers prevented the UK from achieving its export potential. Analysis of the findings and comments identifies four main areas of constraint:

- **Without the right ‘export enablers’, many business leaders lack the confidence to export**
- **Government policy is not providing the right framework to boost export capability**
- **Firms cannot access the support services they require**
- **Firms have difficulty accessing appropriate export finance.**

These barriers are not concentrated at one point in the export cycle but rather at key junctures. Businesses identified areas of constraint affecting the initial decision to look at moving from domestic to foreign markets, the gathering of intelligence and building of in-market contacts, concluding deals and getting the goods and services to market. Our various consultations did identify some clear areas where government, business and other stakeholders are taking concrete steps to encourage exporting, but quite often these positives are being undermined by a lack of action in other areas.

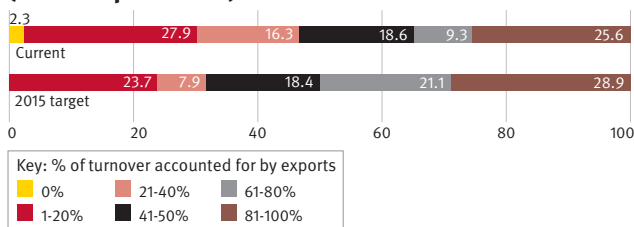
While in many instances exporting to foreign markets can be impeded by tariffs or regulatory barriers in the destination economy – and the UK government has a role to play through its lobbying on trade policy at EU level – this report focuses on barriers specific to the UK and UK businesses. Businesses from Germany and Sweden may face the same tariff barriers as UK firms in exporting to the BRICs, but we are interested in understanding what boosts the performance of German and Swedish companies beyond UK firms when facing the same external obstacles.

Without the right ‘export enablers’, many business leaders lack the confidence to export

The UK undoubtedly has a great number of successful exporting firms of all sizes. Despite the barriers outlined later in this chapter, many exporters simply roll up their sleeves and knock down the obstacles in their path to deliver their strategy. The ambition among existing exporters to break into new markets and increase their export intensity – the proportion of turnover accounted for by exports – came out strongly in our consultation. We asked a sample of CBI exporters to provide detail of their current export intensity and their target for 2015 – the results in **Exhibit 14** show a clear aggregate shift towards higher export intensity targets in the coming years. In a third of the exporters we talked to, over 60% of their turnover was accounted for by goods and services exports – by 2015, half aimed to hit that ratio.

We saw similar ambition in terms of target markets, with the exporters we spoke to aiming to shift focus to higher growth economies in the next decade. In the last decade, 24.5% of responding exporters had targeted Asia; this looks set to increase to 28.8% in the next ten years. The proportion of exporters looking to target Europe showed a corresponding decline from 36.9% in the previous decade to only 29.6% looking forward.

Exhibit 14 Current export intensity and projected export intensity of sample of CBI exporters (% of respondents)



Source: CBI sample of UK exporters

The biggest hurdle for business is making the first push into foreign markets

Getting a swimmer to try a different stroke is a lot easier than persuading them to dip their toe in the water for the first time. The qualitative feedback from our regional focus groups suggested that where companies are not currently exporting, the ambition to make the move from domestic to foreign market is far lower. The conclusion expressed by many businesses was that the desire to export is not hard-wired into our national DNA, unlike many of our main competitors. Only one in five SMEs currently export – compared with the EU average of one in four: for too long UK businesses have not been compelled to be proactive in finding foreign opportunities.¹⁹

Research conducted for UKTI suggests a partial explanation for this situation. The analysis shows that for the majority of existing exporters, their market choice is driven by reactive or circumstantial reasons. Almost two thirds (63%) of firms surveyed in the study revealed that their target markets had been selected due to an approach from someone in that market.²⁰ It is right that businesses should seize a serendipitous opportunity, but the firms that succeed to the next order will be those that have the right business strategy to back up their new direction. Businesses increase the chance of being approached for orders if they attend the right trade shows and make the right international contacts – there is still work to be done in creating these chances. If non-exporting businesses are not being proactive about internationalising their strategy, we need to understand what needs to change to buck the trend.

“Appropriate risk management is a good thing as long as entrepreneurialism is not stifled. The UK’s high levels of governance, by default, encourage a risk-averse culture and British businesses need to find the right balance between setting the pace and doing business ‘right’.”

Executive Chairman, Middle Eastern international franchise operator

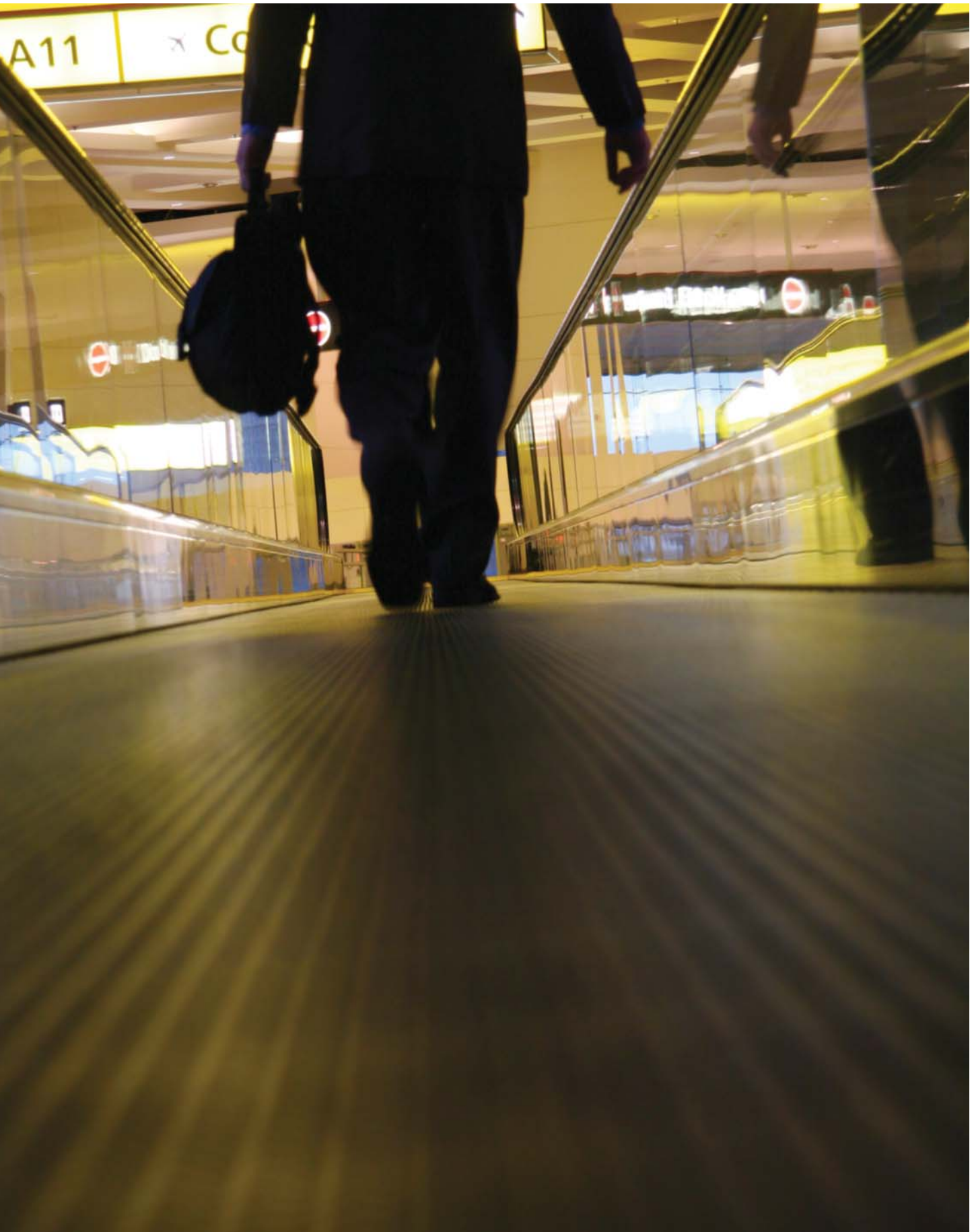
A large number of the businesses we consulted attributed the difficulties in making the leap to export as an issue of risk management. Businesses – especially SMEs – are unwilling to take on the initial risks associated with exporting, preferring to expand, where possible, in domestic markets. Fear of failure dominates – especially in tough economic times – and many companies pointed to the need to dispel prevailing myths about the difficulty of exporting, but also the need to provide businesses with opportunities to realise what exporting can do for them. Some businesses expand beyond their means and fail as a result: this is not evidence of an insurmountable export barrier but a lack of planning and long-term strategy.

There are two sides of the same coin to tackle here: firstly, there is a need to showcase the rewards that exporting can bring – businesses need to have the ambition to reach out beyond their domestic markets. Without it, it is difficult to reach them to address the second issue: managing risk. There is more that can be done to help companies understand what it takes to start exporting and the planning and mind-set that can help bring success. The more businesses come into contact with their export-orientated peers, the more likely it is that the mind-set will be shared.

Confidence comes from knowing the next step to take, and the process and support in place to help take that step. The next three areas of constraint identified by businesses focus on government action, business support and access to finance – all three need to be addressed in order to boost and consolidate the confidence to export in UK business.

Government policy is not providing the right framework to boost business export capability

The message from our focus groups and interviews was clear: the government is not providing the right policy framework to encourage export activity. While the messages at the very top of government reference the importance of securing an export-led economic recovery, the impact has been chipped away by the lack of accompanying action.



Making the UK the best place to invest

As described in Chapter Two, inward investment has a critical role to play in helping the UK realise its export potential. To fully understand the barriers to export, we have to keep in mind the barriers to investment. Much export activity will be made possible by investment into the UK by foreign-owned businesses, which will then export products produced here, delivering both economic growth and jobs. The CBI's 2011 report, *Making the UK the best place to invest*, highlighted the key blockers and facilitators to investment in the UK. Based on a CBI/Ipsos MORI survey of 121 senior leaders in FTSE 100 and 250 companies and large overseas firms in the UK, we found that the UK's attractiveness for investment had declined over the last decade on a number of fronts. Compared with ten years ago, the attractiveness of the UK for business investment has changed relative to other countries.

The report highlighted that making the UK the primary Western location for investment requires action in three key areas; however, since publication the government's record has been mixed:

1. Tax

Tax is an inflammatory issue for businesses and particularly for multinational companies that have the choice of where to invest. The government must ensure the tax regime is designed to make the UK competitive.

The reduction in the rate of corporation tax has been a welcome development, as have improvements to the SME R&D tax credit scheme. The 50p tax rate on personal earnings however, continues to be a major blocker for attracting the best internationally mobile staff.

2. Expansion of new markets

The expansion of new markets is an effective way of galvanising business investment. To have maximum impact these should be linked to an overall vision for UK economic and industrial capability, with government's role being to stimulate activity and facilitate growth.

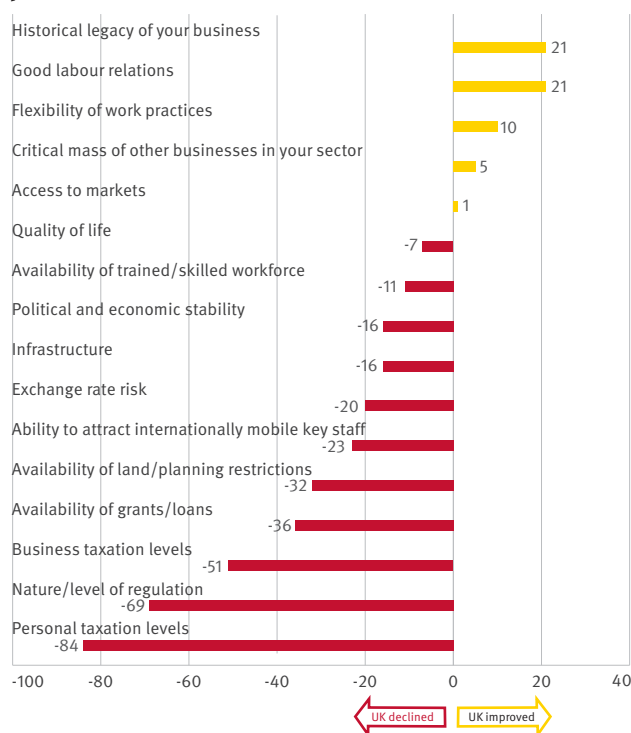
There is still much government could do to stimulate new activity. Public procurement rules still need a fundamental change of culture to assist businesses in developing long-term plans, while the Carbon Reduction Commitment is doing little to encourage UK businesses to invest in energy efficiency and lead the way in the transition to a low carbon economy.

3. Increasing UK resilience

The UK needs to ensure it has the core physical, regulatory and human capital infrastructure needed to attract and retain business investment.

Higher level apprenticeships have been a welcome step in improving the UK's human capital infrastructure, as have changes to the planning process, but our physical and regulatory infrastructure still require considerable work. Regulatory barriers still remain a considerable concern with the UK ranked 83rd of 139 countries by the World Economic Forum burden on business rankings, while details of action to unlock private investment for infrastructure projects remains light.

Exhibit 15 Changing attractiveness of the UK as a place to invest (% balance score)



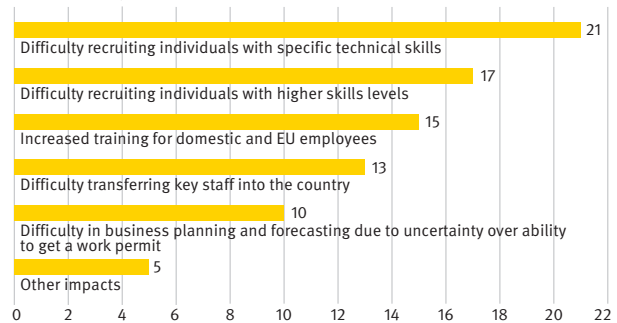
Government must present the UK as ‘open for business’

Businesses felt that the useful and timely export-related policies and initiatives being developed by the government – as outlined in this year’s Trade and Investment White Paper – were being undermined by the lack of policy consistency across Whitehall. Building on current efforts to increase the effectiveness of UKTI is a vital element in boosting exports, but government is not sufficiently targeting the fundamental building blocks necessary to give companies the confidence and the means to export in the first place.

UKTI’s new strategy declares that “Britain is open for business”; yet every single focus group we conducted cited both the immigration cap and the confusion surrounding the Bribery Act as evidence that this is not how we are perceived.

International mobility plays an important role in helping businesses grow. Exporters understand the value of on-the-ground experience and the importance of having a presence in foreign markets to gain market intelligence and explore further opportunities – to do this, firms need flexibility to transfer staff between locations. Furthermore, research conducted for UKTI suggests that a quarter of firms have been motivated to enter a market by the fact that they employed staff with experience of that market – this underlines the value of a diverse, international workforce. The government’s decision to introduce a cap on the number of non-EU work permits has stoked concern among exporters that they will be ill-placed to respond to future market opportunities. The CBI’s 2011 employment trends survey shows that one in five business leaders – both exporting and non-exporting – are already worried about the potential impact of the cap on recruiting individuals with specific technical skills (**Exhibit 16**).²¹ UK businesses recognise the political need for a work permit system that balances their needs with wider societal and public service impacts of migration, but the government cannot allow perceptions of the impact of the cap to act as a brake on export growth.

Exhibit 16 Business views on the potential impact of the cap on non-EU work permits issued (% of respondents)



Source: CBI employment trends survey, *Navigating choppy waters*, 2011

A similar message from business emerged in discussion about the Bribery Act. Although the principles underpinning the Act are absolutely right – and the government’s redrafting of its guidance earlier this year was welcomed – the feedback from companies is that there is much ambiguity remaining. There were strong feelings voiced in several focus groups that the lack of clarity was resulting in perception abroad that the UK was “difficult to deal with”. This is certainly not helpful in presenting the UK as “open for business” and should serve as a wake-up call to government about the importance of considering the impact of future legislation on export growth.

The UK’s skills base does not support business export growth

A world class exporter needs a world class skills base. To exploit the UK’s areas of comparative advantage, UK business needs access to high quality employees with the innovation, technical skill and cultural awareness to push into new markets. According to feedback from our focus groups – and backed up by the CBI’s recent education and skills survey – business leaders are not convinced that the UK’s education and training systems are producing these employees.

Employees who can communicate in two or more languages – combined with an understanding of local cultures – can make all the difference in the conduct of business, consolidating relationships with existing suppliers and customers and

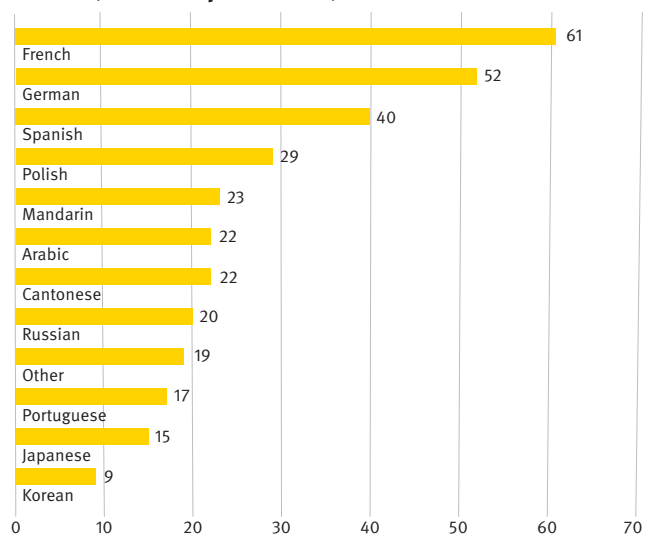
opening the way to new contacts. With only a quarter of firms suggesting they have no need for foreign language skills among their employees, the importance of this skills base to helping UK businesses grow overseas should not be under-estimated.²² The languages in demand are also changing to reflect the growing importance of the BRICs especially: almost a quarter of employers now have demand for Mandarin and Cantonese, while one in five is interested in securing employees with Russian or Portuguese language skills (**Exhibit 17**).

Take-up of foreign languages at GCSE has declined since study was made non-compulsory in 2004. In 2011 there were just over 300,000 GCSE language entries – a fall of 10% on the previous year and a 40% drop compared to 2004. Despite this trend, A level entries have remained fairly consistent, with 35,000 language entries this year and an increase in numbers taking Chinese languages.

To exploit our potential in the BRIC economies, UK exporters need employees with the right skills to produce innovative R&D concepts and to manufacture high quality, high-tech goods. For the sectors with the highest forecast growth in the next decade, as outlined in Chapter Two – electronic and high-tech goods, and communication services for example – the ability to source employees with these skills will be a critical prerequisite for success. A workforce with strong STEM skills is of paramount importance – and yet employers still struggle to fulfil their current skills needs. CBI research has found that 43% of employers currently have difficulty recruiting the right individuals with STEM skills and knowledge – and this figure is set to rise in the next three years to 52% (**Exhibit 18**).²³

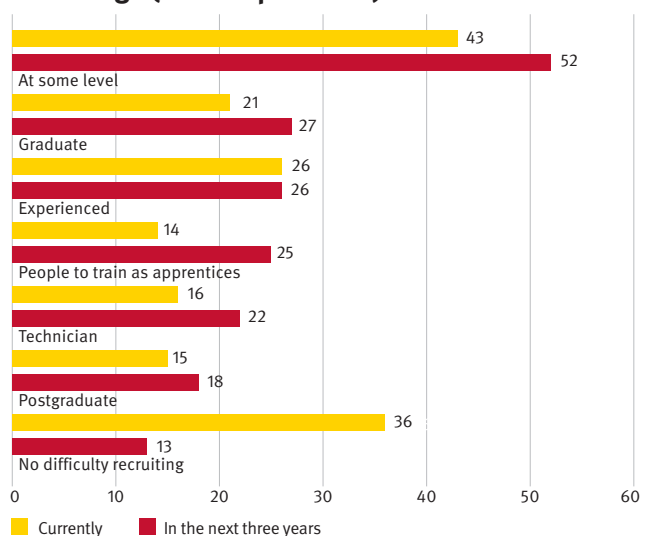
Problems are experienced at all levels, including graduates, experienced hires and apprentices. As more business look to export and require innovative and technical thinking to exploit niches and re-design goods and services for different markets, exporters will feel the effects of this skills shortage. Combined with the immigration cap and the difficulty in filling certain vacancies from outside the EU, the skills gap in the UK is set to worsen. It is vital that we address this gap to enable UK business to position itself ahead of the curve in terms of innovation and quality – important assets to break into new markets. Government needs to think carefully about the kind of workforce needed for an export-orientated economy to function and start prioritising those elements.

Exhibit 17 Employer demand for foreign language skills (% of respondents)



Source: CBI education and skills survey, *Building for growth: business priorities for education and skills, 2011*

Exhibit 18 Business views on the difficulty in recruiting individuals with STEM skills and knowledge (% of respondents)



Source: CBI education and skills survey, *Building for growth: business priorities for education and skills, 2011*

Huthwaite International – breaking new markets with a service that delivers rewards for its clients

Established in 1974, Huthwaite International is a Yorkshire-based firm with a global reputation. In just three years the company's international sales sky-rocketed by 138%, earning it the Queen's Award for Enterprise and International Trade for the second time in 2008. Working with some of the world's leading brands, Huthwaite International prides itself on delivering unique sales performance training.

MD Tony Hughes joined the company in 1990, when Huthwaite International was exporting its services to around 25 countries. The company now exports to 40 countries, with 65-70% of its sales coming from abroad. "Our key markets are still mainly in Europe," says Mr Hughes, "but we have seen strong growth in Asia, particularly China and India." The company initially followed its multinational clients into these high-growth markets, but is now set to expand.

"Initially you could only work in the Western market in China, but there are fewer opportunities there in the long-term so we are looking to see if we can move into the local market," explains Mr Hughes. "Connections are vital so we are collaborating with

the University of Nottingham's Ningbo campus to help us develop a local network and break new ground."

Every training course is adapted according to the market in which it is delivered, ensuring that while the core messages remain the same, different cultures are catered for. "Every course is delivered in the local language," says Mr Hughes. "We have 400 people working for us across the world and we are seeing an increasing number of enquiries coming from people who would like to be training distributors in high-growth economies. In ten years I expect our export percentage to rise as we increase the number of companies on our books and the number of countries we are present in."

Despite twice winning the Queen's Award, Mr Hughes says service exports are still misunderstood by government trade officials. "We've had some dealings with UKTI," says Mr Hughes, "but they've never been able to advise us too much. If you need help to find a factory or distributor that's fine, but if you need help with services it's not so easy. UKTI don't understand that for us, our export is our skills set and our intellectual property."

Government is not updating our ageing infrastructure with the same urgency as our competitors

Business and government agree that reliable, efficient and affordable infrastructure is central to fostering export growth; however, business leaders have highlighted the urgent need to upgrade our networks and connectivity to compete on the international stage. By international standards, the UK infrastructure ranks poorly at 28th in the world, far behind our main competitors of France (3rd), Germany (10th) and the United States (24th).²⁴ And we are not heading in the right direction: our ranking in 2008 was just 18th, illustrating the rate of decline in recent years.

Three infrastructure sectors were highlighted in particular during our consultation with business: digital, energy and transport. Firms' assessments of their digital infrastructure varied depending on region and size of business. Many small firms highlighted the difficulties they had attaining adequate broadband connections and speed, and reiterated the importance of their online presence

in establishing a global footprint. Research from eBay, the e-commerce site, reinforces this, showing that UK SMEs accounted for overseas sales worth £446m on the site in 2010 – an increase of 128% since the credit crunch in 2007.²⁵ Looking to the future, increasing broadband penetration should have a significant impact on economic activity. In a recent speech, Neelie Kroes, Vice-President of the European Commission responsible for the digital agenda, remarked that an increase in broadband penetration of 10 percentage points would increase the EU's annual GDP growth by between 0.9% and 1.5%.²⁶

With energy prices set to rise across the board in the coming decade and the introduction of the carbon floor price weighing heavily on energy intensive firms, many business leaders pressed the need for the government to consider the international competitiveness of UK companies. Without mitigating action, these cost rises could significantly undermine the slight competitive advantage currently enjoyed by firms through the depreciation of sterling.



Innovia Films – innovating to stay ahead of the pack

Innovia Films is a multi-award winning company employing 900 staff at its plant in Wigton, Cumbria. Formed in 2004 from a buy-out of the Belgian firm UCB Films, the company specialises in innovative packaging and labeling film. Best known for making Cellophane (TM), its products are used by some of the world's most famous brands across a huge range of consumer goods, including chocolates, perfume, beer and biscuits.

Last year, 85% of the company's £220m UK turnover came from exports. CEO David Beeby explains that from the beginning Innovia Films has seen a high proportion of its UK turnover come from export sales, but since 2005, this has increased by a further 5%. *"We currently sell to nearly 100 countries from our plant in Wigton,"* says Mr Beeby. *"Europe remains our biggest market, followed by the Americas and Asia Pacific."*

The company will always look for growth opportunities, he adds. *"Two-thirds of our global manufacturing is done in the UK, but the question is, should we expand our capacity to meet those opportunities here or do we look elsewhere? Then you have to*

look more closely at the outlook for UK manufacturing. Two key factors will be the energy environment and education.

Unfortunately the UK's energy policy is reducing the relative competitiveness of UK manufacturers – the high cost is making our goods more expensive."

"Looking at education, we work closely with the local school and several universities" he continues, "so we find we have a pool of talent available. But as a science and engineering company we do worry that there is a declining emphasis on these skills in the UK in general terms. The UK's success in the future is going to be built on brains not brawn. It's very important that we are driving science and engineering in our schools and universities."

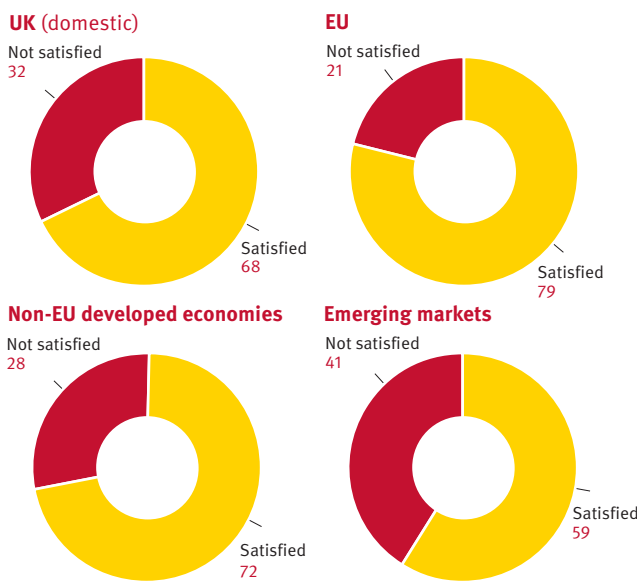
Innovia's determination to remain cutting-edge market leaders is underpinned by a strong ethos of continual innovation and determination to find solutions to even the most challenging of customer requirements. Government must create a business environment that fosters this innovation and allows UK firms to remain competitive.

On transport, business leaders are most concerned that the UK's international connections cannot support the move towards high-growth markets. While the majority of businesses are largely satisfied with their links to other developed economies, the CBI's recent infrastructure survey suggested that two-fifths of firms are dissatisfied with connections to high-growth and emerging markets (**Exhibit 19**, page 39).²⁷ It is imperative that the government acts to resolve this divergence between business ambition and infrastructure limitation. In our focus groups, business leaders

stressed how firms, especially SMEs, are swayed in their choice of markets by the transport links in their local region. In the North East, for example, the Emirates service from Newcastle to Dubai, and onwards to numerous long-haul business centres, has significantly enhanced the competitiveness of the region. Trade between the North East and Australasia has tripled from just over £100m in 2007, when the service started, to just under £300m in the last 12 months.



Exhibit 19 Business satisfaction with UK transport links to different markets (%)



Source: CBI infrastructure survey, *Making the right connections*, 2011

The CBI’s infrastructure survey explored the size of the shift towards high-growth markets and the consequences of a lack of action by the government to increase capacity and secure the UK’s port-of-call status. Between 1999 and 2009, the number of passengers flying to and from the US – which currently accounts for one-fifth of UK exports – fell by 10%, while journeys between the UK and China rose by 211% and to and from India by 175%. This enormous rise shows little sign of slowing. Given that Heathrow – the UK’s hub airport and principal international passenger gateway – is currently running at 98% capacity, there is a real risk that airlines will turn to alternative European hubs for new routes to China, India and other long-haul destinations, depriving UK businesses of direct links to their future high-growth markets. A recent report by Frontier Economics estimated that a lack of direct flights to emerging markets may already be costing the UK economy £1.2bn per year in lost trade.²⁸ The importance of these links is underlined by the stark findings of this report: the UK does 20 times more trade with countries with whom it has a direct air link. If left unresolved, this lack of capacity could end up costing £1.6bn per year by 2021. Night flight capacity is particularly important for sectors where goods are time critical or of high value. It is vital that any discussion about the future of night flights carefully considers the needs of the air freight sector and its delivery cycle.

DHL – ensuring the UK’s transport infrastructure delivers for exporters

DHL prides itself on helping UK exporters stay one step ahead of the competition, enabling them to take advantage of the opportunities that the global economy presents. With 275,000 employees in more than 220 countries and territories worldwide, DHL uses local knowledge and expertise to quickly and efficiently distribute parcels, packages, and freight to their final destination.

“To provide exporting businesses with time definite delivery services, the UK’s transport infrastructure must be world class, and operate efficiently.” explains Phil Couchman, CEO, DHL Express UK & Ireland. *“Key to accessing export markets is the provision of aviation and airport services in the UK to move international express shipments quickly, efficiently, and often at night”.*

To keep us competitive and support our exporters, the UK must invest in its airport infrastructure and ensure that aviation capacity, especially in the South East, can compete globally now and in the future.

“Investment in the UK’s transport infrastructure, including airports, will provide our exporters with the same flexibility that UK logistics firms offer them and upon which they rely,” Mr Couchman concludes.



CBI members believe that more needs to be done to address congestion on UK transport infrastructure, to optimise the use of existing infrastructure, and to encourage infrastructure investment. Failure to act risks stifling UK exporters which will damage the economy, and risks reducing the attractiveness of the UK as a place to invest.

The UK's port-of-call status is valued by UK business and must be protected. Container ships ferrying goods across the world are becoming bigger, making it unnecessary and expensive for them to stop at many ports on their way. Today, the biggest container ships stop at only three or four ports as they make their way through Europe, and as ship size increases, competition between ports will become more fierce. A £1bn investment at Felixstowe – which handles 40% of the UK's container traffic – means the port can accommodate the largest new ships. This is set to be followed by the new London Gateway development – a new port in the Thames Estuary – from 2013, but the UK needs to keep up the pace of this largely privately-financed upgrade to its port capacity to cope with the new realities and efficiencies demanded by global trade. For this to happen, investment needs to be supported by an efficient planning system and a clear strategy for developing the connecting road and rail infrastructure needed to move goods to market.

The UK's domestic transport links are equally important in getting freight and people to the UK's international hubs. The CBI's infrastructure survey showed that more than three quarters (77%) of firms see domestic transport networks as a crucial or significant factor in considering their future investment decisions.²⁹ It is worrying then that around half of firms are not currently satisfied with freight road and rail networks that transport their goods to UK markets and international hubs – 44% and 55% respectively. This concern is particularly acute among manufacturers and is brought into sharper focus by the 70% increase in goods traffic carried by road to neighbouring markets in Europe over the past two decades. The UK's road and rail networks are getting busier – both are in vital need of investment to support businesses' export ambitions.

There are many aspects of the current UK policy environment that do not encourage businesses to export. While businesses can see the wider problems, government remains segregated in its approach and does not sufficiently champion exports across all departments. At a time when securing private sector growth is the government's first priority, we need a strategy for boosting export performance that can articulate how the necessary building blocks of skills, infrastructure and other areas of regulation should align to achieve this common goal.

Firms cannot access the support services they require

The majority of firms need some form of external assistance to turn their international ambition into reality. While the private sector can offer tailored support and assistance to companies looking at specific markets, the government offers unique advantages capable of unlocking businesses' significant export potential at scale. Exporting brings with it a number of market failures – prohibitive levels of risk, imperfect information and informal barriers to market access – and the government has a role to play in intervening at the right times to jumpstart the process.

Our consultation brought two key questions to the fore: firstly, is the government support currently offered fit for purpose and, secondly, where can businesses help themselves? Government cannot and should not be expected to hand hold business through its entire export journey. Furthermore, during this period of government spending austerity it is vital that the support that can be offered is highly targeted at the areas business values most and will elicit the highest return on investment. UKTI states that for every pound spent on funding its operations, it generates £22 for UK plc. While this is an impressive figure, our research shows that there are areas of potential improvement.

Businesses rate the UKTI's performance as 'hit and miss'

Assessing the performance of UKTI and the services delivered through the government's embassy network has uncovered some wildly differing views among businesses. Indeed, UKTI seems to suffer from the 'marmite' effect: some businesses love the service they received, but many other businesses are more critical. These diverging views were also brought out in our sample survey of CBI exporters: while 12.8% of respondents cited UKTI as excellent, a similar number – 10.3% – returned a verdict of poor (**Exhibit 20**). The outcome was repeated in assessments of the commercial work of the government's embassy network: just over 11% of respondents thought the service was excellent, and an equal proportion considered it poor.

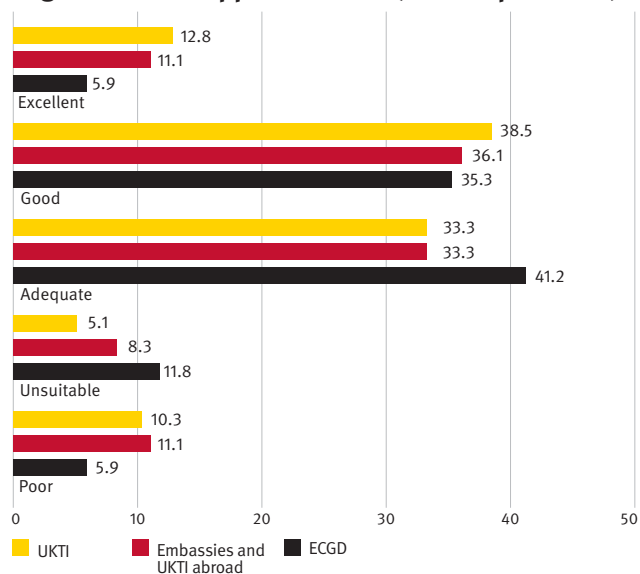
Business leaders explained these opposing views in focus groups by suggesting that there are pockets of excellence in certain markets and in certain sectors, but an overall lack of commercial focus and tailored support. There is a mismatch between the support that businesses need from the government and the support that is being offered.

When describing the services available from UKTI, many businesses cite basic market information, limited funding support and consultancy services focused on early stage exporting skills. While some of these services are received positively, they are mostly restricted to first-time exporters and marketed to small firms. The risk in taking this approach is that UKTI excludes or underplays many areas where support can make a real difference to the UK’s export output, whether the company is a first-time exporter or not. In contrast, businesses tell us that if the UK is to gain maximum value from UKTI services, the focus must be providing the kinds of services required by those best placed to deliver future export growth. While small companies undoubtedly have a key role to play in boosting the UK’s export performance, UKTI must also support high-growth, mid-sized businesses, which may already be exporting, to break into new markets. To do this, businesses identified three main areas where UKTI and the UK’s embassy network can add real value: opening up key markets, selling the UK abroad and providing in-country support. These services link to the need for the UK to shift its focus towards high-growth economies – areas where the UK has not been particularly dominant economically or politically in the recent past but must enhance its position to exploit the opportunities available.

UKTI should start focusing more attention on the ‘M’ in SME

The CBI’s recent report on boosting growth in UK medium-sized businesses (MSBs), *Future Champions*, described the difficulties that these firms experience in trying to access the right support.³⁰ While many share similar challenges to small firms as first-time exporters, some of the UKTI services available and its delivery

Exhibit 20 Business views on the performance of government support services (% of respondents)



Source: CBI sample of UK exporters

mechanisms are deemed unsuitable. Many services, for example, are accessible through Business Link as a primary portal – a website that mid-sized firms are less likely to use than smaller firms. *Future Champions* describes the importance of MSBs’ performance to boosting the UK’s growth – not just as exporters themselves but as part of larger exporters’ UK supply chains – and highlights the key role that exporting will play in growing these businesses. For the UK’s overall export performance to improve, it is not sufficient to simply encourage the largest exporters to up their game. We also need to develop the supply chain capacity within the UK to support these primary exporters – and here MSBs play a key role. More than one in three MSBs interviewed for the report cited the ability to improve export

“The UK has the potential to build upon its world-class design, engineering and manufacturing expertise to compete in markets around the world. This can only be achieved if the UK government aligns its trade and industrial strategies, recognising the opportunities and risks on the competitiveness of its industry when removing barriers to trade. The UK government should support multi- and bilateral free trade agreements only if they are fair, provide real market access to UK goods and are based on the principle of reciprocity.”

Stephen Odell, Chairman and CEO Ford of Europe

capability as a critical factor in their growth. We need to get these businesses thinking about how they can leverage their position in UK supply chains to access international networks. If UKTI wants to improve its return on investment, it needs to pay more attention to these future powerhouses of the UK economy.

A prerequisite for providing an effective support service is ensuring that businesses know where to go to find that support. However, our research found that many firms – especially smaller and mid-sized firms – were unaware of the range of support services available from the government and how to access them. When our survey asked what more government could do to facilitate UK exports, the second most popular answer from business leaders (13.7%) was greater publicity of services available. This suggests that while UKTI are providing these services, they are not being properly signposted. The demise of the regional development agencies (RDAs) was frequently cited in focus groups as a reason for this confusion: for many smaller firms, the local RDA would be the portal through which they could access many government services. In the transition from RDAs to local enterprise partnerships (LEPs), there is great concern that the local link to national and international support mechanisms will be lost.

Government can be smarter in using its resources to open up key markets for business

In seeking to open up new markets, the government’s White Paper on Trade and Growth identified a number of key markets around which to concentrate political resources, focusing substantially on the BRIC countries as well as a select few ‘tier two’ countries, such as Mexico, South Africa and Turkey. This concentration also extends to UKTI resources on the ground: the Foreign Secretary announced over the summer an additional 50 staff for China and 30 staff for India. Furthermore, the FCO has promised an increase in staff in Brazil, Turkey, Mexico, Indonesia and a small change to numbers in other countries – although the actual commitment is unclear. The choice of countries broadly reflects the analysis in Chapter Two, which suggested that the UK needed to build its presence in the BRICs and look ahead to capitalise on the next tier to gain early market share. Placed in a comparative context, however, the UK’s competitors appear to be either ahead or expanding operations,

The government must push for the best deal in trade negotiations for UK business

While international trade policy is now an EU competence, the UK has a strong role in negotiating free trade agreements (FTAs) that affect UK business in the short, medium and long term. The UK should be a leading voice in setting a negotiating mandate and holding EU officials to that mandate. Trade policy will have an important impact on firms’ ability to break new high-growth markets. To encourage flexibility in the way UK firms enter markets, businesses must be allowed to repatriate profits as they see fit to ensure that both the UK and foreign market feel the benefit of outward investment.

including in second tier markets. Germany has some 1700 posts abroad focused exclusively on trade and investment, compared with the UK’s 1300. France has opened new offices in Argentina and Chile in 2011 and will open a further 17 offices around the world in 2012. Even the US has increased funding for trade promotion by 23%.

The means available to the government to work towards opening up new markets must be reconciled with domestic spending restrictions. An increase in funding across the board would not guarantee success – the UK government must be smart about how it uses its resources. While concentrating funding on opening up trade opportunities in the BRICs appears to be wise based on our analysis about opportunities for areas of UK comparative advantage, we must not run the risk of history repeating itself. As the UK moves further into China and India, our competitors are concentrating their efforts on a host of new markets to establish strong relationships. UKTI has already started identifying future markets, but we must have a longer-term strategy for moving beyond the BRICs. Government needs to think more creatively about how it can leverage its resources and avoid duplication. Given that many trade associations (TAs) and other business groups have members and representatives already present in the markets most lucrative for their sector, there are obvious synergies to exploit if UKTI and diplomatic staff can work more closely with TA experts to help target what we produce at the markets with the greatest demand.



British Allied Trades Federation – linking up UKTI with trade associations (TAs) to exploit specialist knowledge

Access to detailed market intelligence and specialist knowledge can make the difference between success and failure for a company when entering a new market. Expert assistance can be critical in building confidence and taking some of the risk out of exploring market opportunities, especially for SMEs and first-time exporters. The British Allied Trades Federation (formerly known as the British Jewellery, Giftware and Finishing Federation) provide precisely this in-depth information and expertise to a diverse range of companies for whom exporting is a critical part of their business model.

The BATF has over 40 years of experience in helping members internationalise their businesses. Their dedicated international division has over this time developed an in-depth knowledge of the key markets for their sector, providing this invaluable information to members along with organising overseas visits and exhibitions, assisting product promotion abroad and helping link members to buyers.

Exporting is critical to businesses within the sector, as International Services Manager Mike Josypenko explains: *“Exporting should be a natural progression for our businesses. Those with cutting-edge designs can significantly increase the lifecycle of a product by exporting”*. More than this, internationalising provides clear opportunities for UK business:

“Our businesses have a unique selling point through the UK’s strength and reputation in creating design and high quality manufacturing traditions, which means that our members’ products remain in high demand around the world.”

For their members, it is often the in-depth sectoral information that is essential in managing the transition to new markets: *“Around 95% of our members are very small businesses. Because of their small size and limited resources, they need not only general information about how to export, but also highly specialised advice, so they rely upon us.”* TAs are often in a unique position in offering this support: *“UKTI do have very good people, but it is difficult for them to reproduce what we do here with our specialist knowledge.”*

For TAs like BATF, there remain important synergies that could be exploited through closer engagement by UKTI, improving service in the most cost-effective way possible. Mr Josypenko explains: *“If UKTI are to provide a better service on a limited budget, partnership with TAs is a real must. TAs could play a key role in delivering market research with the advantage that we are member-led, and so we know what our sector wants and needs. TAs can’t afford to provide this service alone, but a constructive co-operation between TAs and government could have clear benefits for UK exporters.”*

Government must learn how best to help businesses sell themselves abroad

The importance of selling the UK abroad has already been highlighted in the context of boosting our areas of comparative advantage. Here, our consultation returned a rather lacklustre assessment of the government’s performance, as well as UKTI support. High level political trade delegations were characterised as failing to maximise impact and many business leaders

complained that political staff are taking a hands-off approach to helping companies win contracts. Furthermore, businesses indicated that government needs to prioritise support for getting UK businesses out into the world, exploring their options and showing what we can do. On these fronts, there are lessons to be learnt from our competitors.

Political trade delegations are an area of extreme frustration for businesses. Companies see the huge potential in visiting new markets with political support – one in ten respondents to our survey had participated in a delegation – but the way in which they are organised and implemented lacks commercial understanding or focus. Business involvement in political trade delegations remains haphazard – visits are often arranged at short notice and often get cancelled. For businesses to get the best from high-profile political support and media attention, they need to be able to plan their activities around the delegation in advance but also be closely involved in the organisation of the agenda. Without this advanced planning, the value and potential outcomes of the delegation are undermined – particularly for first-time exporters building new relationships. Close involvement of businesses currently in that market in organising and briefing for visits would allow the delegation to ensure they are hitting the key issues necessary to support UK businesses.

“Diageo sees tremendous potential for growth in a number of emerging markets, such as Brazil, India and Russia. These markets also tend to be where we face significant market access challenges, including high tariffs, complicated regulatory regimes and discriminatory tax practices. In these markets, and elsewhere, support from UK embassies is essential in helping us to level the playing field. Historically we have received strong support from British embassies and we welcome the new, increased emphasis on commercial diplomacy, which we have already witnessed in our relationships with a number of key embassies around the world.”

Paul Walsh, CEO, Diageo

By contrast, many of the UK’s competitors take a far more consistent and targeted approach to building relationships through delegation activity. Angela Merkel has made four visits to China in five years. Spain has a rotating system of 12 monthly priority countries – currently Russia – during which the trade minister visits four or five times, the prime minister visits one or two times and a number of ministerial and ambassadorial interaction also takes place. It is clear that the UK needs a more targeted and long-term approach. Pre- and post-delegation planning is haphazard and limited. There appears to be no link-up activity between trade delegations and UKTI funding for trade show access, for example, making it extremely difficult for smaller and mid-sized firms to participate. In Denmark, partial funding is available for businesses to conduct pre-delegation scoping visits and to follow-up after the delegation, increasing levels of participation and sustainable benefits of the investment.

Businesses prioritise on-the-ground support as vital to export success

The final vital area of support for businesses is on-the-ground, in markets. Local market constraints were highlighted as the biggest barrier by almost one in three of the exporters in our member sample (**Exhibit 22**, page 46), while ‘improve support services in foreign markets’ was in the top three actions government could take to facilitate UK exports.

While there are some pockets of excellence, UKTI staff in all local markets should be providing intelligence on high-value opportunities for UK businesses – sectoral expertise and local analysis are cited as vital to this process – and be on-hand to help overcome local market constraints. In our consultation, businesses reported an extremely hit-and-miss approach, with some embassies proactively targeting businesses and connecting them with networks and intelligence, and others doing the bare minimum. These discrepancies need to change if UK business is to take full advantage of future opportunities. The government is uniquely placed to collect and co-ordinate this intelligence and companies rely on UKTI’s services. If limited sectoral expertise is an issue, more could be done to link UKTI and embassy staff to the plethora of trade associations operating in local markets.

Exhibit 21 Snapshot comparison of government activities to support exporters in the UK, France and Germany

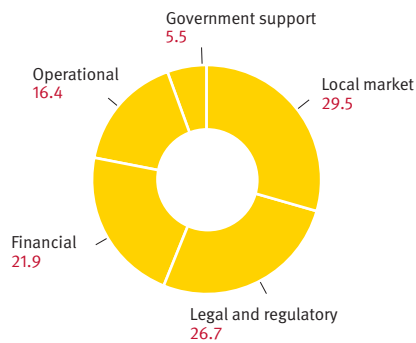
UK	France	Germany
Export overview		
<p>In 2010 exports were worth £428.6 billion to the UK economy, more than a quarter of GDP. The UK's share of world trade is just shy of 4% and 1 in 5 SMEs export.</p>	<p>In 2010, exports were worth \$517.3 billion to the French economy, just over a quarter of GDP. France's share of world trade is a little under 4% and 1 in 5 SMEs export.</p>	<p>In 2010 exports were worth €1,159.8 billion to its economy or around one third of GDP. Germany's share of world trade is 9% and 1 in 4 SMEs export.</p>
Government policy framework		
<p>In February 2011 the government published the "Trade and Investment for Growth" White Paper. The paper sets out the case for open markets, outlines opportunities for trade and investment and sketches the UK's strategy for exploiting them. Marking the beginning of a process, it has been followed by the government's Growth Review and 18 additional analytical papers to inform the 'trade and investment challenge'.</p>	<p>The French government has identified seven global challenges that offer opportunities for French firms, including energy supply and security, combating climate change and improving healthcare. Its strategy is to support historically important sectors, including nuclear power, space, aeronautics, transportation, and biotechnology in exporting the solutions to meet these challenges. Each sector is supported in developing its own unique plan to export, focusing on around 20 countries.</p>	<p>In its most recent long-term trade and investment strategy, Germany sets out a clear external economic policy. The strategy focuses on four key areas: providing political support, tapping the full potential of existing instruments, cutting red tape and shaping an effective policy framework for trade and investment. It identifies electric mobility, healthcare, security and defence, aerospace, energy, cultural and creative industries, and knowledge-intensive industries as areas of growth.</p>
Trade promotion and support services		
<p>Drawn primarily from BIS and the FCO, UKTI has a network of 2,400 staff based in the UK and over 90 countries across the globe. Approximately 1,300 staff are based overseas, but concerns have been raised about lack of commercial acumen, with six out of eight positions on the executive team held by career civil servants.</p>	<p>A trade and investment agency devolved from the French Enterprise and Trade Ministries, UBI France, is staffed by 1,400 employees in 63 offices in 44 countries. It plans to open a further 17 offices around the world next year, with the objective of doubling the number of companies it supports, with a strong focus on SMEs.</p>	<p>Germany's trade promotion model is based on three pillars, with the government and business working together. It includes: 229 diplomatic missions, 120 posts of the German Chamber Network (AHKs), delegations and representative offices of the German economy in 80 countries.</p>
<p>UKTI offers a range of services aimed at supporting exporters and attracting foreign investors. In 2010, more than 23,000 UK businesses benefited, reaping around £6 billion in additional profit. Services include participation at trade fairs, outward missions and bespoke market intelligence. However, its budget for the next four years has been cut by 17%. Its budget for 2010-2011 dropped to £85 million from £94 million the previous year.</p>	<p>UBI France provides intelligence and support adjusted to the needs of individual companies. Its budget for 2011 was €104,398,000, a 14.2% increase on 2010. Through a network of regional, national and international contacts and by working with industry, it provides market expertise, peer-to-peer support and helps coordinate trade delegations and fairs. In 2010 it assisted 22,000 companies, with 830 events solely for SMEs, and saw a 26% increase in website activity.</p>	<p>Germany Trade and Invest was formed in 2009 following a merger of the German Foreign Trade and Investment Ministries. It provides information to German businesses on how to tap into foreign trade opportunities and advises foreign firms looking to invest in Germany. In 2010 Germany Trade and Invest dealt with 1.4 million queries and held or was represented at 117 events. Its budget for 2010 was increased by 9%.</p>
Trade delegations		
<p>Political trade delegations have started to target emerging markets but are often arranged and cancelled at short notice. In November 2010, David Cameron's visit to China secured £1.4 billion of trade deals.</p>	<p>Around 200 high-level trade missions with senior politicians are co-ordinated annually, focused on 20 countries, primarily high-growth, and are well-publicised in advance. In November 2010, a visit to China led by President Sarkozy secured €15 billion in new deals.</p>	<p>Delegations are coordinated by Germany Trade and Invest together with AHKs to target high-growth emerging markets that are judged to present the best opportunities for sectors identified as German strengths. Chancellor Merkel's last visit to China saw her oversee approximately \$5bn in new deals.</p>

“Government support is at its most useful when it is on the ground in the markets you are exporting to. Finding relevant information is extremely difficult, and surprisingly the internet age has made this harder in some ways. Having a commercially-minded contact within the embassy that can provide you with often the simplest information can be invaluable.”

Mike Plaut, MD, Northmace & Hendon

A world class exporter deserves world class export services. UK business needs to be promoted by ministers and all diplomats in an active manner. Political staff need to be much less coy about providing support for specific export opportunities and all ministers need to act as national champions. Recent government support for Diageo’s acquisition of Shuijingfang and the Scottish Whisky Association’s success in gaining approval for geographical indication of origin status for Scotch whisky from the Chinese government are excellent examples of the kind of political support that can make a real impact on the fortunes of UK business. Despite the accolades the UKTI has won in recent years, it is clear that there are improvements urgently required. While UKTI can point to success based on its current quantitative targets, questions need to be asked about whether these are the right targets to pursue. We need a shift in focus towards assessing success in terms of business won. A greater commercial approach is needed across the board.

Exhibit 22 Businesses struggle most with local market constraints when exporting (% of respondents)



Source: CBI sample of UK exporters

Government must target funding at the services that add most value to business

If the government can focus its attention on the support services really valued by business and worthy of significant return for the investment of taxpayers’ money, the sense from business leaders consulted for this report was that it was up to companies to up their game and take a more collective approach to tackling new markets and encouraging export activity. Just as other European governments can offer the UK administration some ideas about how to improve their strategy, the approach that French and German businesses take to reaching new markets should encourage UK business to think more about embedding an international mind-set through their supply chains.

Businesses learn best from other businesses – UK firms can do more to support each other

UK companies should not be fully dependent on the government for support in internationalising their business. Businesses learn best from other businesses and there is more that can be done in the UK to encourage companies to support each other. There was consensus in all our focus groups that peer-to-peer support can help businesses overcome barriers and provide an operational and risk management focus that the government cannot replicate. Some businesses suggested that companies should look to pool resources and invest in greater collaboration to research new markets and opportunities and reduce risk and fear of failure. Others emphasised the benefits that could be gleaned from publicising the ‘why’, ‘how’ and ‘where’ of exports, showcasing diverse success stories across sectors and sizes of firm to reinforce the overall message: “if I can, you can”. There are many ways of moving a business towards an exporting model and businesses need to understand what works for them and their customers. Some businesses want to move their whole supply chain with them when they break into new markets – a great opportunity for SMEs to hitch a ride – while others choose to set up local operations due to the nature of the product or service they are trying to bring to market. Listening and understanding why other companies’ strategies have been successful can help to inspire and boost success in first-time exporters.

Multichem – getting out into the world and building relationships is critical

Established as a family-owned firm in the North-East in 1973, Multichem entered the exports market in the mid-1990s and never looked back. The company started out manufacturing waterproof roof coatings and protective paints, but quickly moved into the inks market, becoming specialists in providing inks for a number of large brands. Multichem are now a global ink supplier present in over 30 overseas markets including China, South America, North America, Europe and Kathmandu. 99% of their custom now comes from abroad and they have established their own global brand and reputation.

Multichem's export story began when several of their main customers relocated from the UK. CEO Rob Nirsimloo recalls: *"We've always had ambition to grow, but our main customers relocating presented a challenge to us... we either needed to establish ourselves as exporters or we were gone"*. To Multichem, this was not seen as a battle to survive but rather a clear opportunity – and one that has evidently paid off. Upon entering the exports market in the mid-1990s, Multichem had a turnover of £1m. After less than a decade, this had risen to £2.5m and just fifteen years later, now stands close to £4m.

This success has been built on hard work and sheer effort in opening new markets. *"The jewel in the crown has been China. It*

took a concerted effort to crack, but it has definitely been worth it." This means doing background research, but also most importantly, developing strong contacts within the market. *"You can't video-conference to China,"* suggests Rob, *"it won't work. You need to do the leg-work... get out there and meet people."* In particular, attendance at trade shows can be critical. *"We only have 17 staff, so we need to use our resources to reach the most people possible. Rather than heading out for a single meeting, attending trade shows allows everyone to come to us and ensures we make that important personal connection."*

Government assistance in sharing the effort and risk associated with exploring opportunities is important to businesses like Multichem. They value initial introductions into new markets provided by embassies, as well as financial support in exploring opportunities, but emphasise that businesses must be supported to explore their opportunities in their own way to maximise the use of government resources. *"Don't just give us support, give us freedom,"* notes Rob.

For Multichem, the story does not end here. Having entered many of the key new markets, the opportunities are now considerable for further expansion. *"We've only just scraped the surface in many of them... we won't rest on our laurels."*

This is not a plea for altruism: such interaction can be mutually beneficial and valuable. The message from businesses around the country is that they are ready to help play a collective role in boosting the UK's export performance through helping businesses to internationalise. What they currently lack is a mechanism through which to help. Our sample of CBI member exporters offered many ideas about the steps businesses could take to facilitate UK exports – highlighted in **Exhibit 23** (page 48) – with an emphasis on sharing knowledge. Currently, the business-to-business support being offered around the country varies greatly between regions and sectors. To be effective and to reach out to businesses above and below the radar, we need a more co-ordinated and long-term approach. This is a space that business advisory groups and trade associations could fill.

While support is available for businesses looking to internationalise, there is a mismatch between what is needed and what is offered. Government support is deemed excellent in some areas and inappropriate in others, while peer support is lacking any co-ordination or widespread involvement. If businesses can muster the ambition to export, we need to ensure that the UK can provide the support framework needed to bring these ambitions to life.



JCB – using and growing business networks to develop market knowledge

Exporting has always been an obvious choice for JCB. “The UK constitutes only 2.5% of the world construction market,” notes Chief Corporate Development Officer, David Bell.

“If you have any ambition, you can’t think about the UK alone.” Present in over 150 countries including key BRIC markets, JCB export 75% of their UK manufacturing output, employing 9,000 people across the globe and are one of the world’s top manufacturers of construction equipment.

Despite a presence in so many of the world’s established and emerging markets, Mr Bell warns that breaking into a new market requires a considerable amount of thinking:

“In choosing a market, you have to weigh up a number of factors – the size of the market, the product requirements, barriers to entry and the work you will need to put in to develop a network. Most of all, you need to know where you can add value to what is already on offer.” For JCB when entering a new market, their product’s unique selling point will often provide the key to success: “Don’t try to do too much too quickly. Move into a market with your leading product and even then, only if you are sure there is space.”

For Mr Bell, getting the level of information required to make a success of a new market requires that businesses use and develop their business network to harness experience: “Your business network is so important. We always talk to other companies present in a new market when we are considering entering to get their experiences. Often you find that those working in the same sector as you, but who are not competing directly for the same business are an ideal source of expertise.” However, local knowledge remains critical: “There really is no substitute for locally sourced expertise with experience in your sector when you are first starting out in a new market. Their background alone can remove difficult barriers.”

For now, JCB’s future plans are firmly focused on those areas of the world where growth potential is considerable. “We are in China, but there is still so much scope for further vertical market expansion. You should seek to have depth in a single market rather than breadth across many. You should add a market, train staff there, increase the product range, and only then move on.”

Exhibit 23 Types of business-to-business support most valued by sample of CBI members (% of respondents)



Source: CBI sample of UK exporters

Firms have difficulty accessing appropriate export finance

Accessing finance is not an export-specific barrier: the importance of encouraging bank lending, especially to SMEs, has been raised by government and business alike in recent months. However, financing business export activity is deemed a higher risk than financing activity in domestic markets, making it even more difficult to boost business success rates of attaining the right kind of finance during this period of low risk appetite.

It is difficult to prove the extent to which accessing export finance is a problem: no statistics are available on the number of companies that have been refused export finance from their banks. What we can draw on, however, is an array of examples from our focus groups that shows great improvement is needed in the way export finance products are delivered in the UK.

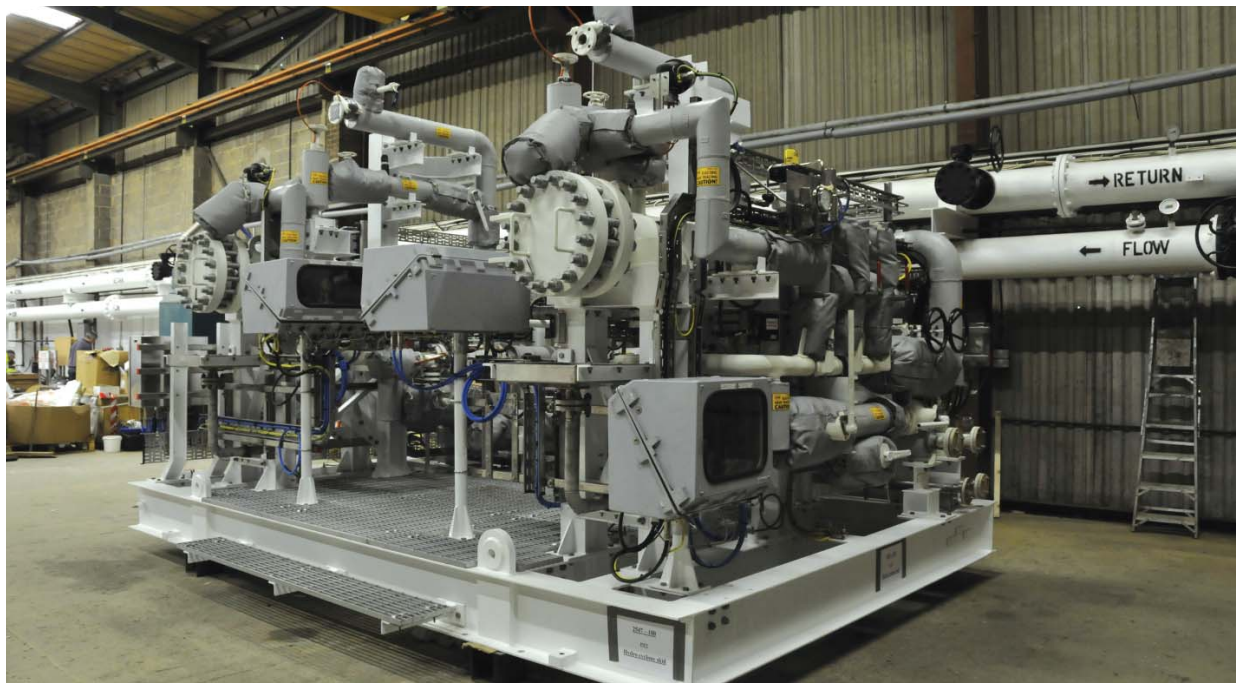
Research carried out for UKTI suggests that while there is no strong relationship between a firm's overseas experience and the likelihood of difficulty accessing export finance, there is a link between innovation and finance.³¹ Innovative firms – the businesses most likely to break into new, high-growth markets – are twice as likely to experience problems in raising the finance they need to fund their export activity than non-innovative firms. This finding represents a potential barrier to the UK's shift towards high-growth markets.

Equally concerning is the outcome from our sample of CBI exporters that one in four mid-sized firms sees finance as the main constraint in accessing foreign markets. As outlined above, exporting is key to boosting the performance of UK mid-sized firms and success is likely to have a significant impact on UK GDP. However, issues around export financing are not exclusive to mid-sized firms. In the CBI's 2011 October Industrial Trends Survey, an increasing number of manufacturers reported credit or finance to be a factor likely to limit export orders in the next three months.³² This rise was driven primarily by an increase in constraints for larger manufacturers. The citation at the headline level (18%) was the largest since October 1968, surpassing even the spikes in credit concerns seen in the aftermath of the collapse of Lehman Brothers in 2008.

The implications for the UK of not having adequate delivery channels for export finance firms that can cope with an increase in export activity are profound, affecting not only the chances of UK businesses winning contracts but also our ability to keep businesses located in the UK. We need a system that can deliver cost-effective and flexible export finance to companies willing to take on the risk of internationalising their business. It is imperative that government and business understand where the blockages lie in the system and get finance flowing to the ambitious exporters who need it. There are three players in this system to examine: exporters, banks and the Export Credit Guarantee Department (ECGD).

Feedback from our focus groups suggests that many businesses are unaware of the export finance options available to them. They do not understand the products offered by the ECGD, nor the indirect delivery mechanisms through which they may access government-backed support. There is also a lack of understanding about the requirements exporters must fulfil to be eligible for certain forms of export financing – many business leaders in our focus groups suggested that many firms were actually unprepared for the hoops they had to jump through. This suggests in some cases a lack of communication between banks and other financial service providers, and their business customers. Some businesses are not adequately prepared to articulate their internationalisation strategy to the bank, and there was a perception in many of our focus groups that some banks are not helping companies to hone and finesse their strategies.

There is also a prevailing perception that the range of finance provisions available to business – especially to small and mid-sized firms – is limited. Confidence in the banks in particular to offer appropriate products and terms was low among some businesses in the focus groups. ECGD's re-entry into the mass market for export finance should be working to address this; yet there was little evidence that the impact of this decision was being felt further down the line by businesses. The product-led communication strategy employed by ECGD has tended to deter both small and first-time exporters by providing unnecessarily complex messages or even appearing to exclude certain businesses from support. Furthermore, knowledge of the ECGD and its return to the mass market among businesses was not high: 17.5% of our sample of CBI exporters were completely unaware of the ECGD and the products it offered. Compared with the proportion unaware of UKTI and overseas embassies – 6.3% and 6.5% respectively – this statistic suggests that the ECGD has a long way to go in terms of boosting its recognition to the levels of other export support services.



Alderley – understanding export finance availability can be critical to growing small and medium-sized companies

For Alderley, export success has naturally followed from expertise and reputation developed by operating in the UK market. Formed 27 years ago primarily to provide metering and other equipment to energy companies working in the North Sea, Alderley captured 40% of the market. At the turn of the century, the company stepped up its overseas operations, leading to a rapid growth in the company's turnover. This increased from £18m in 2001 to £55m in 2011. The company has now installed its systems in over 20 of the world's key oil and gas producing countries.

Chairman Tony Shepherd believes that experience developed in the North Sea market has given Alderley a unique advantage in the exports market: *"Countries won't buy these systems from foreign businesses with no experience in their native industry."* Early in the exploration of North Sea oil, the government decided that industry services provided by British companies would be advantageous for the UK, providing support to those wishing to enter the market. While the North Sea market has slowed, the experience gained has enabled Alderley to expand operations considerably, and the company now has an in-market presence across the Middle-East and North-Africa.

Experience is not always enough, however, and further government support can be necessary to allow British firms to operate competitively. In particular, Mr Shepherd notes, export

finance can be critical to a mid-sized firm like Alderley: *"In the past the government decided it was not desirable to provide export finance support for small and medium companies. They, mistakenly, believed that the private sector would provide everything required. But at the same time, governments in all our competitor countries were assisting their businesses, particularly in relation to bonds. Alderley has been in a fortunate economic situation for a company of its size and has kept its independence. There have been many businesses in the same sector that have been sold to foreign owners because the financial terms for exporting from the UK were too onerous."* The lesson seems clear: if the UK's export potential is to be maximised, government support must enable them to take opportunities.

Alderley plan to continue their export expansion by developing a manufacturing presence in other overseas markets. Mr Shepherd notes: *"Oil producing companies want equipment that is produced in their own country, so we are interested in entering any market big enough to support an in-market assembly and customer support operation."* Developing a presence in the Middle-East, however, has meant that a huge new market is now open to the company, offering considerable future return from the effort already undertaken.

As ECGD products are delivered predominantly through banks, it is perhaps more important to assess the extent to which finance institutions are selling these products to customers. Delivering export finance through ECGD products allows banks to share the credit risk in varying degrees with the government, but businesses report that banks still lack the appetite to take on the remaining risk.

Furthermore, businesses cited examples of confusion around the purpose and eligibility of products being offered by banks to commercial customers. The perception is that banks' staff on the ground still do not fully understand either export risk or how the ECGD can help, resulting in non-referral of good contracts. On the other side, banks have suggested that while they are keen to advertise their support services for exporters, take-up among businesses remains low. This suggests a mismatch of perceptions that requires further exploration to resolve.

The impact of capital adequacy rules

While ECGD has a key role to play where access to trade finance is limited, the private sector remains the number one provider and must continue to be a competitive and flexible first option. Capital adequacy rules have a considerable effect on the availability and price of export finance, despite the levels of risk involved being relatively low.

Export finance is often short-term and self-liquidating, and legislators working on implementation of Basel 3 in Europe through the Capital Requirements Directive (CRD) IV should ensure that the calibration of the rules it introduces are proportionate to the level of risk.

The leverage and liquidity regulations included in CRD IV, in particular, could have a large impact on trade finance when implemented after the observation periods end. Ensuring the effect of these rules on export finance is properly considered through an open-minded and thorough review prior to full implementation will be critical to enabling the private sector to continue to support exporters.

The implementation of ECGD's recently announced move towards mass market provision of its services must also come under the microscope. The move was broadly welcomed by business, bringing the offering of the UK's export credit agency (ECA) closer on paper to that provided by our main EU competitors. After such a long absence from the mass market, however, a number of gaps are evident in the ECGD's strategy and delivery.

The mass market rhetoric of the ECGD is not backed up in either resources or intention. A comparison with the German ECA, Hermes, illustrates the gulf between their capacities. In 2010, Hermes administered €32.5bn worth of business, 73% of which went to SMEs; by comparison, the ECGD administered a total of €3.3bn (£2.9bn), with almost no SME coverage and dominated by the aerospace sector. Additional resources will only be made available once demand for the new products is known; however, the ECGD's lack of marketing to banks and other delivery partners means that awareness of the new products remains low. This chicken and egg situation cannot continue.

ECGD lacks an effective engagement strategy and an understanding of what it can deliver with its current resources. If this is to change, ECGD will need to take a more commercial approach. It needs to move its focus from the products and become more customer-orientated, focusing on what it can do to maximise delivery and how it can effectively, flexibly and innovatively leverage the resources of both existing and new delivery partners.

This commercial approach must extend to ECGD's broader governance. UK business needs an ECA that is prepared to be flexible and responsive to match changing circumstances and the level of competitor support. The relaxation of EU state aid rules as a result of the credit crisis resulted in a number of other ECAs plugging finance gaps; yet the ECGD remained gold-plated and inflexible. There are further questions to be answered about the extent to which the Treasury rules are acting as a constraint on ECGD's activity and how this could be resolved.

Only through a flexible, commercial approach will the ECGD be able to ensure a consistently level playing field for UK business.

The UK must break down these barriers in order to boost export performance

While this chapter has outlined many domestic barriers to export facing UK business, none is insurmountable. At our focus groups, business leaders came armed not only with problems and concerns, but also with ideas and solutions. Our survey illustrated the main constraints facing business in breaking and entering foreign markets, but it also asked companies to consider what more both government and business could do to facilitate UK exports.

Our economic analysis has given us an idea of the size of the prize: £20bn, or 1.5% of GDP by 2020. To ensure that the UK is able to re-orientate its exports towards high-growth markets and exploit our areas of comparative advantage, government and business must work together to address and remove these barriers to export. This is a prize worth fighting for.

Synergy in Trade – specialists helping exporters get the finance they need

Established in 2006 by a team of ex-bankers experienced in trade finance, Synergy in Trade assist UK-based companies with all parts of their international trade transactions, including providing letters of credit, preparing shipping documents and liaising with banks and freight companies. Primarily assisting the SME market, Synergy financed over £10 million of international trade in 2010. Specialist trading businesses like Synergy can play a key role in giving exporters the confidence to internationalise their business, as well as providing the practical tools required to complete a contract.

In linking up expertise on transaction logistics with export finance, businesses like Synergy are capable of providing export finance on contracts where through the more conventional routes, it might not be possible. Director David Slinger notes: *“Most funding providers are more interested in whether the client has the requisite security to determine whether they get the finance, but we rely on the actual trade transaction, focusing on the quality of the product and of the contract, with security only in the background. Provided the exporter has a secure means of getting paid from the buyer, like a letter of credit, then the major part of the risk is mitigated. A client may have a wide range of reasons*

why they don't have the collateral to put up against a deal, yet the deal in isolation is perfectly good - and low risk. Our expertise ensures the right reasons govern whether a deal is financed or not.” Synergy's assessment of the risk differs and finance can be made available to exporters needing pre-shipment finance – finance that other providers have been reluctant to provide.

In financing deals, Synergy in turn have facilities with major banks, which are willing to support them because of their expertise and high involvement with the trade transactions coupled with their own security. Ironically, however, Synergy are under pressure to provide additional security to cope with the level of demand. Mr Slinger notes: *“We could potentially be doing much more at the moment to support the SME market and take on a far greater number of contracts, but we are limited”*. One way in which businesses offering innovative approaches to export finance could potentially increase their reach would be through ECGD support: *“If ECGD were able to provide a guarantee to our bank, this would enable them to increase our line of credit and thus allow us to fund more trade transactions.”* In this way, diversification of ECGD's services could allow the private sector to provide its own solutions to the problem of managing export finance risk.

Maximising the flexibility of ECGD

The impact of the global financial crisis on trade finance led to increasing demands being placed upon government support in order to facilitate trade flows. With shortages in finance developing, gaps have emerged in private sector coverage. In response, the European Commission temporarily relaxed state aid rules relating to short-term export credit insurance in 2008, allowing member state ECAs to step in to fill this gap until the private market recovered.

Sensing an opportunity to increase support for their exporters at a difficult time, a number of ECAs in Western Europe expanded their coverage. In the immediate aftermath, Germany's ECA received 20,000 additional applications for short-term credit, leading to an initial €3bn of coverage. By comparison, the ECGD did not take this opportunity, placing UK businesses at an immediate disadvantage.



Chapter Four: The blueprint – setting a vision and ambition to grow UK business overseas

Boosting the UK's export performance requires long-term commitment from all stakeholders

Chapter One of this report presented evidence that the UK is under-performing in exports. We know that to secure UK economic growth in the next decade, this trend has to be stemmed. Fortunately, the opportunities are there for us to take, as Chapter Two outlined, if the UK is well-positioned to exploit them. Chapter Three set out some of the main barriers standing in the way of success – and now this final chapter will present our five point plan to set the UK on the course to export.

Exhibit 24 The CBI/Ernst & Young five point plan to grow UK business overseas

1. **Government must set a high bar for export performance to be met through a 2020 national exports strategy**
2. **Government must provide the right policy framework to boost businesses' export capability**
3. **UKTI must inject greater commercial focus into its operations to better support UK business**
4. **CBI will take the lead in supporting UK businesses entering new markets**
5. **Government and business must work together to increase the availability of export finance.**

This five point plan requires commitment from all stakeholders – government, business, trade associations, banks and advisory bodies – to work. The UK is not alone in focusing on an export-orientated growth strategy: our main competitors will also be looking to boost their export performance, making it even more important that all stakeholders work together to make progress. We will not see success overnight, but we can commit to doing things differently immediately. There is no alternative: the UK needs to move to an export-orientated economy and UK business needs to internationalise its operations and mind-set. With this report, we hope to start a dialogue between government and business about how best to make this happen. Each of the points of our plan

contains a series of actions to be taken by government, business, the CBI and other stakeholders. While it would be impossible to estimate the quantitative impact of each action, combined we believe they bring the UK closer to that £20bn goal by 2020.

Government must set a high bar for export performance to be met through a 2020 national exports strategy

To make meaningful progress, we need a clear level of ambition. But at present, we have no sense of the government's goal for the UK: what level of export performance would boost growth? Creating the impetus and drive to take the rest of the actions described below forward is heavily dependent on setting a clear goal.

The UK needs a common objective to rally behind. This report sets out the problem: we need to boost the number of firms exporting, to shift the weight of our exports to high-growth markets and to drive an export culture through our business communities. To achieve these goals, business and government must work together to set out a long-term vision for the internationalisation of UK business.

This answers the questions of 'what do we want to achieve?', but we must not ignore the issue of 'how are we going to achieve it?' This vision must be delivered through the development of a national exports strategy. Business always says that what gets measured gets managed – the government must develop a set of key performance indicators (KPIs) to measure the UK's progress. The CBI can help to facilitate this.

Action: Government to develop and implement a 2020 national exports strategy underpinned by key performance indicators: net exports, number of SMEs exporting and nominal exports to the BRICs. These KPIs should be reviewed after five years.

The KPIs must be set according to the economic outcome the government is trying to achieve during its ten year strategy. The economic analysis in this report gives an indication of the possible boost to future GDP by 2020 if the UK re-orientates its exports to high-growth markets and maximises its competitiveness. On this basis, we suggest the following KPIs as a starting point for discussion.

Exhibit 25 Suggested KPIs for government

1. Net exports

To swing from -2.4% in 2010 to 2.5% by 2016, with exports to rise from 29% of GDP in 2010 to 36% by 2016

2. Number of SMEs exporting

To grow from 20% in 2011 (excluding non-employers) to 25% in 2020

3. Nominal exports to the BRICs

To exceed a minimum average annual growth rate of 11% by 2020. This could entail growth of around 8% a year initially, accelerating to 14% a year by 2020.

A national exports strategy should bring together the disparate export-related departments, agencies and initiatives across government under one roof. To succeed in exporting, businesses must take a holistic approach to their strategy – and now government must do the same. The government has the opportunity to create a ‘one-stop-shop’ on exports, outlining the UK’s ambition, targets and how to achieve them. It can use its unique position to bring together information and advice for business – available through both public and private channels – signposting to opportunities for peer-to-peer collaboration and knowledge sharing. Such a streamlined approach should highlight areas of duplication and allow the government to focus resources on filling the gaps that businesses value and that contribute most to achieving the national strategy.

Action: Government to introduce a single portal – [exports.gov.uk](https://www.exports.gov.uk) – through which businesses can access all government export services with clear signposting to services offered in the private sector through trade associations and advisory services.

Government must provide the right policy framework to boost businesses’ export capability

A national exports strategy must be underpinned by an export-friendly policy framework that seeks to minimise risk and encourage an international business focus. As Chapter Three outlined, at present businesses feel that a lot of their time is spent fighting inflexible and restrictive domestic legislation before they even consider local market restrictions. On legislation such as the Bribery Act and the cap on non-EU work permits, the government should have taken greater heed of their potential impact on firms’ ability to do business abroad and move their people to different markets. Future legislation should be subject to more rigorous checks and balances to ensure that the government is consistent in its priorities across Whitehall and that it does not introduce legislation that unduly inhibits the internationalisation of UK business.

Action: Government to introduce an ‘export enabling test’ for all new legislation to support growth and minimise unintended impacts on export capability.

This report outlines the challenges facing business in re-orientating their exports to high-growth markets using a transport infrastructure creaking after years of under-investment, and sourcing innovative, internationally-minded employees from a diminishing skills base. On both counts, government must act to ensure that it delivers a world-class skills policy and transport infrastructure to support UK business.

Action: Government to use skills policy to help businesses remain innovative and internationally competitive by promoting the study of STEM and language subjects at school. There should be an automatic opt-in to triple science GCSE for high-performing pupils.

Action: Government to explore all sensible ideas to resolve the need for more UK hub airport capacity to help address the lack of capacity to develop new links with markets in high-growth economies. In addition, government to explore the scope for expansion of the UK’s regional airports and support private-sector funded investment in ports development to drive economic growth.

UKTI must inject greater commercial focus into its operations to better support UK business

Promoting and supporting the internationalisation of business requires a great degree of commercial acumen. Even more is required to identify how to leverage the most out of diminishing resources and to use external partners more effectively. At present, the government agency charged with this task, UKTI, has a lack of business representation at its most senior level: six out of eight positions on the executive team are held by career civil servants. Research commissioned by the World Bank has shown that trade agencies with a higher proportion of business input operate more effectively.³³ Government must work to redress this balance.

Action: Government to ensure greater commercial focus in UKTI by rebalancing its board and senior management team towards business appointments – with the aim of reaching a 50-50 split.

There is a perception among UK businesses that their European competitors receive far greater government backing and support through commercial diplomacy, with governments willing to take a hands-on role in concluding deals and to lobby foreign governments on access to contracts for their national companies. While all EU countries operate under the same state aid rules, there was consensus across our focus groups that these rules are being applied more rigidly here than elsewhere. More work is needed to establish the reality behind this perception and how the government can amend its offering to put UK business on a level playing field.

Action: CBI to benchmark the UK's commercial diplomacy offering against our main competitors to ensure UK business operates on a level playing field – delivering the results in 2012.

When done well, with the right agenda and company profiles, trade delegations can be a highly effective way of winning business in new markets. More often than not however, as explained above, missions are revealed to be more political than commercial in their focus, with the priority to get businesses on board rather than winning contracts. There is plenty of scope to improve the organisation and operation of trade delegations, but this will require business involvement from an earlier stage.

Action: CBI to help shape future trade missions by working more closely with UKTI, trade associations and other business groups to maximise business outcomes.

A commercial mind-set is vital to pulling together and hosting a successful delegation. Many trade associations organise their own business delegations independent of government, while in some EU states businesses organise themselves into a coherent delegation and then lobby the government for funding. The CBI will take the lead in revitalising business interest in delegations and work with government to improve the scheme. In seeking to cement an ambitious agenda to high-growth markets both of the present and the future, we will look to co-host a trade mission to a high-growth market to see what can be gained from the hands-on involvement of an employer organisation.

Action: CBI to establish a pilot scheme to co-host a trade mission to a high-growth market.

Businesses must also take a leaf from the book of their EU competitors and look to use the opportunity presented by their participation in a trade delegation to embed an international focus through their supply chain.

Action: Businesses on trade delegations to encourage their suppliers and domestic customers to participate.

CBI will take the lead in supporting UK businesses entering new markets

The CBI occupies an important role as a bridge between government and business, and we can do more to help facilitate improvements both to the government's policy framework and to the way that businesses interact and collaborate. The importance of greater peer-to-peer support in helping businesses gain the ambition and confidence to start exporting or to diversify their market choice was highlighted in every focus group we held, but there is currently no nationwide mechanism through which to facilitate this support. While some regions have export-related events, there is no fully functioning, integrated export club network

that allows the sharing of experience transfer across regions and sectors. The CBI will use its regional networks to fill that gap. Our membership is diverse and rich in experience, providing excellent opportunities for knowledge sharing.

To help encourage export ambition in businesses, the CBI will look to showcase regional export champions, asking them to play a key role in chairing export clubs. Our survey participants identified the need to present a positive image of exporting and to have successful exporters offering advice to companies in their region. To increase their visibility among businesses, the CBI will also extend free CBI membership for one year to winners of the Queen's Award for Enterprise.

Action: CBI help develop regional export clubs through its office network – with regional export champions acting as chair – to help businesses share knowledge and experience about how to internationalise their business strategy.

To promote success beyond our membership, the CBI will also commit to using its revamped website to highlight case studies from all over the world. We will work with the nation's print media to channel these UK success stories to a wider audience and to emphasise the business opportunities of exporting. We want to give businesses – especially first time exporters – a helping hand to plan for the long-term and to manage their risks easily and thoroughly. Through our website and wider membership channels, we will promote Ernst and Young's checklist for first-time exporters to ensure that businesses cover all bases when looking to internationalise.

Action: CBI to celebrate export success of its members, showcase UK business abroad to dispel myths and publicise business export toolkits through the development of a CBI exports website.

Government and business must work to increase the availability of export finance

Ensuring that businesses have access to adequate export finance provision is the last piece of the puzzle. As described in Chapter Three, the current arrangement of the ECGD delivering its products

through banks to serve the mass market is not working. The ECGD lacks a workable strategy to connect its new products with its end customers through the banks. This mind-set needs to be turned on its head: the ECGD must become more customer-focused rather than product-focused. It should market and deliver its products through a wider range of intermediaries to broaden the reach of its products and connect with a greater number of businesses. The involvement of trade associations, brokers and other suitable stakeholders should be explored to increase business opportunity of access to export finance.

Action: Government to increase the availability of export credit by diversifying the ways in which firms can access ECGD products.

The role of the banks, while significant in this process, is more difficult to assess. SMEs especially claim that they are not able to access the finance they need through their high street banks; yet the same banks advertise their international credentials and how they can help support business in taking steps to export. To get to the root of the blockage in the system, the CBI will convene a taskforce of exporters and finance providers to explore the issue in more detail and formulate recommendations.

At a time when margins are tight, the cost of exploratory export-related business activity can act as a barrier to action – especially when trying to break into high-growth and potentially higher risk markets. Government could help to minimise this risk for business and seek to incentivise investment in innovation and exploration of new markets by introducing an export tax credit – the CBI will investigate the viability of such an incentive.

Action: CBI to establish an export finance taskforce, bringing together financial institutions and SMEs to explore ways of removing blocks to export finance, reducing risk and the viability of introducing an export tax credit to incentivise exploratory export activity – delivering recommendations in 2012.

Action plan

Step 1: Government must set a high bar for export performance to be met through a 2020 national exports strategy

- a. Government to develop and implement a 2020 national exports strategy underpinned by key performance indicators, to be reviewed after five years:
 - Net exports to swing from -2.4% in 2010 to 2.5% by 2016 with exports to rise from 29% of GDP in 2010 to 36% by 2016
 - Proportion of SMEs exporting to rise from one in five to one in four by 2020
 - Nominal exports to the BRIC economies to exceed 11% average annual growth in value terms by 2020
- b. Government to introduce a single portal – www.exports.gov.uk – through which businesses can access all government export services with clear signposting to services offered in the private sector through trade associations and business advisory services.

Step 2: Government must provide the right policy framework to boost businesses' export capability

- a. Government to introduce an 'export enabling test' for all new legislation to support growth and minimise unintended impacts on export capability
- b. Government to use skills policy to help businesses remain innovative and internationally competitive by promoting the study of STEM and language subjects at school. There should be an automatic opt-in to triple science GCSE for high-performing pupils
- c. Government to explore all sensible ideas to resolve the need for more UK hub airport capacity to help address the lack of capacity to develop new links with markets in high-growth economies. In addition, government to explore the scope for expansion of the UK's regional airports and support private-sector funded investment in ports development to drive economic growth.

Step 3: UKTI must inject greater commercial focus into its operations to better support UK business

- a. Government to ensure greater commercial focus in UKTI by rebalancing its board and senior management team towards business appointments – with the aim of reaching a 50-50 split
- b. CBI to benchmark the UK's commercial diplomacy offering against our main competitors to ensure UK business operates on a level playing field – delivering the results in 2012
- c. CBI to help shape future trade missions by working more closely with UKTI, trade associations and other business groups to maximise business outcomes
- d. CBI to establish a pilot scheme to co-host a trade mission to a high-growth market
- e. Businesses on trade delegations to encourage their suppliers and domestic customers to participate.

Step 4: CBI will take the lead in supporting UK businesses entering new markets

- a. CBI to help develop regional export clubs through its office network – with regional export champions acting as chair – to help firms share their knowledge and experience about how to internationalise their business strategy
- b. CBI to celebrate export success of its members, showcase UK business abroad to dispel myths and publicise business export toolkits through the development of a CBI exports website.

Step 5: Business and government must work together to increase the availability of export finance

- a. Government to increase the availability of export credit by diversifying the ways in which firms can access ECGD products
- b. CBI to establish an export finance taskforce, bringing together financial institutions and SMEs to explore ways of removing blocks to export finance, reducing risk and the viability of introducing an export tax credit to incentivise exploratory export activity – delivering recommendations in 2012.



Annexe: Ernst & Young's guidance for export success

Growing a business cross-border must be part of a sustainable long-term strategy. It is not enough to take advantage of a favourable exchange rate or to simply follow where others have had success. Yet even with a tough economic climate and competition fiercer than ever, Ernst & Young see high-performing companies focusing proactively on a number of strategies to take advantage of new market opportunities. Here are some of the lessons learnt.

Achieve real understanding of your potential customers

High-performing companies approach new markets by gaining a real understanding of their target customers.³⁴ It is like a thread that runs through their operations, determining not only what and where they sell, but where they focus their production and how they enter and operate in new markets. Going beyond the figures helps businesses develop a stronger appreciation of the real nature of the opportunities and risks – it is also the most important enabler of successful innovation in high-growth markets.

While all new geographic markets are complex to understand, this holds true in particular for today's high-growth economies, where income levels and purchaser preferences are constantly changing. To keep abreast, there is no alternative to making regular visits and really getting to know the infrastructure, people and buying styles and, of course, the competition. By embedding themselves into the environment early in the process, senior decision-makers can establish important networks with government, fiscal and regulatory authorities, embassies and local trade associations. On-the-ground help through distributors, agents and service providers who are already there cannot be over-estimated.

Look beyond the BRICs to next wave of fast growth economies

Traditional markets in the US and Europe remain important and continue to provide a useful stepping stone for many businesses embarking on an export strategy. Indeed many high-performing businesses are focusing on a regionalisation strategy where they expand from an existing successful base into adjacent markets.

However, the economic advantages in high-growth markets represent a considerable incentive. Ernst & Young has identified the top 25 rapid growing economies³⁵ in its Rapid Growth Markets

Factors that high-performing companies consider:

- Concentration of available income in regional clusters
- Social factors influencing purchasing behaviour
- Preferences based on socio-demographic factors, eg cultural and religious background
- Prevalence of local brands and customer loyalty to local products/services
- Attractiveness of their own brand in the region
- Changes in attitude and consumer behaviour
- Pricing structures adapted to local purchasing power.

Economic Forecast, which in addition to highlighting the continued significance of the BRICs shows that countries in Eastern Europe and Africa such as the Ukraine, Poland, Nigeria and Ghana have been amongst the world's fastest growing economies over the past ten years.

Many of these markets are experiencing significant urbanisation and businesses are increasingly finding that a focus on cities rather than countries is becoming a significant factor in export success. In China, for example, there are eight 'second tier' cities with an average population of 6,890m (in 2010) and forecast annual average GDP growth of 7.7% to 9.1% from now to 2020. Such cities are currently experiencing a real rise in wages and an expanding middle class, making them potentially very attractive as specific city targets for UK exports.

Companies need to reflect these changing demographics in their market strategies.

Innovate initially around your existing products

High-performing companies focus initially on innovating around their existing products. They seek to get further up the value curve and secure better prices for their efforts both by capturing better margins via product design and by increasing marketing spend to establish and protect valuable brand and customer franchises. Often their products are tailored further to reflect local tastes in a range of markets.

Increasing product ranges is also an important success factor – with 30% of high performers increasing their range by more than 20% in the past two years.³⁶ Co-developing products alongside suppliers, or acquiring competitors with complementary products, can help companies to boost their market share and also achieve substantial cost savings. Ernst & Young are increasingly seeing companies collaborate with others, sometimes even with their competitors, to develop new products and technologies.

Be flexible with your choice of business model

Businesses with a track record of exporting successfully tend to be flexible in their approach to market entry, with a focus on speed of activation and integration into the wider operation.

While some economies are putting in place better governance and security for foreign investors, others remain restrictive in the business model options. High-performing companies always ensure the underlying business model is tailored to the local business environment, recognising that each market approach may be different.

Although joint ventures between multinationals and entrepreneurs in high-growth markets can be a powerful combination, they require a more defined structure than other business arrangements. Many companies have found to their cost that having an ineffective sales or distribution partner in rapid-growth markets can easily spoil the chances of success, no matter how innovative the product. It is vital for UK businesses to be rigorous in terms of partner selection, carrying out extensive due diligence on potential partners and ensuring relationships are founded on a firm commercial basis. Other models may provide a lower risk option in the early stages.

Approach talent attraction and retention with equal intensity

To compete in high-growth markets, UK businesses need access to high-quality employees with cultural awareness and relevant language skills in addition to their technical expertise. Here, the battle for the best people is intense and wage rates are increasingly competitive.

High-performing companies focus on filling technical and operational roles early on to ensure a speedy start-up and only compromise on that speed to ensure they attract the talent they really need. They rate diversity of experience more highly than

nationality or ethnic origin and are positive about moving resources into new markets – technical experts in particular. Marketing, sales and, increasingly, finance people tend to be hired locally.

It is important to be agile in the development and deployment of staff. Using shared service centres or outsourcing key operational functions may provide additional flexibility in entering a range of markets and allow businesses to move more quickly than might otherwise be the case.

Share your detailed market plans with stakeholders

The ability to fund growth is generally determined by the confidence of stakeholders. High-performing companies take their stakeholders with them by sharing more detail on the potential of their innovation – and the progress they are making with it. They communicate more openly and frequently about their new market strategy and give much greater information on both market entry and product development, including problems that are being encountered.

Growing a business cross-border is not without risk and some of the biggest growth is to be had in some of the more high-risk markets. Working with stakeholders to identify the degree of risk that they are prepared to bear can be a pivotal aspect of market choice.

Maintain a long-term strategic view

Entering new markets can be costly and getting full pay-back may take time. For some, exporting is unlikely to reap great financial rewards in the short-term.

Ernst & Young's recent report, *What lies beneath*, revealed that almost a third of the 900 CFOs asked about their experience of entering high-growth economies said the costs, time spent or risk was higher than expected.³⁷ While CFOs need to retain oversight at every stage of the investment, a long-term vision is equally important, including strategic goals for the investment to evolve over time.

While the costs may be painful at first, with GDP growth rates consistently stronger in high-growth markets, the long-term outlook remains very positive despite the occasional bout of volatility. With the right mind-set, approach and commitment in place and a clear long-term strategy, new market entry or expansion offers exciting opportunities for growth.

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