Winning overseas: boosting business export performance
Winning overseas: boosting business export performance – Summary

Boosting the UK’s export fortunes

The UK is a dynamic trading nation – our historic reputation is built upon centuries of developing trading 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 the balance of economic power shifts from West to East, and the share of global trade previously dominated by developed economies is gradually eroded, the question is: is the UK performing to its current potential?

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.

About this report
The CBI has analysed the challenges facing the UK’s export sector using the economic expertise of the Ernst & Young ITEM Club. Consultation with business included holding regional focus groups, conducting in-depth interviews with foreign business representatives and surveying samples of CBI members and international business federations.
Ten key facts: the need for action and the potential opportunities

Why the UK must act

- From 2000 to 2010, the UK’s share of global exports fell from 5.3% to 4.1% while Germany’s share increased from 8.9% to 9.3%
- Just 4% of the UK’s exports go to the high-growth BRIC economies (Brazil, Russia, India and China), compared with 11% of German and US exports
- The IMF predicts GDP growth to 2016 to average just 2.8% and 1.4% in the US and Germany respectively – two of our biggest export markets
- Only 1 in 5 SMEs in the UK currently exports compared with an average of 1 in 4 across the EU
- Had the UK managed to target its exports towards high-growth markets over the last decade, it could have boosted GDP by 1% or £15bn by 2010.

The potential opportunities

- Consumer spending growth in the BRIC economies is expected to average 13.5% per year in value terms in the coming decade
- The IMF predicts annual GDP growth to 2016 to average 9.4% and 8.0% in China and India respectively
- The UK is ranked 10th in the World Economic Forum’s Global Competitiveness Report
- Over the next decade, both UK exports of construction services and electronic goods could achieve over 10% average annual growth
- Re-orientating the UK’s exports towards high-growth markets could be worth a boost of 1.5% or £20bn to GDP by 2020.
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 less than 1% per year, compared with 5% in Germany and over 3% in the US. By contrast, our service exports performance continues to be strong. We have long been a net service exporter, with an average annual growth of services exports since 2000 of 4.6%.

Exhibit 1 A comparison of the UK’s global market share in goods and services exports

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<th>Market shares in world services trade</th>
<th>% world total market, volumes</th>
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<tr>
<td>US</td>
<td>9.2</td>
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<td>UK</td>
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<td>Germany</td>
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<td>China</td>
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<td>Netherlands</td>
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<td>Sweden</td>
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Source: Ernst & Young ITEM Club

<table>
<thead>
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<th>Market shares in world trade of goods</th>
<th>% world total market, volumes</th>
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<td>Germany</td>
<td>9.6</td>
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<td>US</td>
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<td>China</td>
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<td>France</td>
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<td>UK</td>
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<td>Sweden</td>
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Source: Ernst & Young ITEM Club
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 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 an average of 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.

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**View from the boardroom**

“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**
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The opportunity: identifying and capitalising on sectoral strengths to exploit export potential

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 to 2016, against just 2.8% and 1.4% in the US and Germany – our traditionally favoured markets.

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

Exhibit 2 Destination of UK exports compared with GDP growth forecasts

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.
The challenge: removing the domestic barriers inhibiting our export potential

Analysis of our extensive consultation with UK business identified four main constraints on export growth:

- **Without the right ‘export enablers’, many businesses 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 others 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

View from the boardroom

“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.”

**Stephen Odell, Chairman and CEO Ford of Europe**
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.

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**Ernst & Young’s guidance for export success**

- Senior decision-makers should make regular visits to new markets from the outset to establish strong networks and to gain a better understanding of the opportunities and risks.
- Focusing a strategy on cities rather than countries can pay dividends in high-growth markets undergoing significant urbanisation.
- Innovate around existing products to begin with and tailor them further to reflect local tastes – look to work with suppliers or acquire competitors to extend product ranges in the future.
- Take a flexible approach to market entry and tailor your business model to the local business environment.
- Attracting high-quality employees with cultural awareness and relevant language skills is critical – prioritise filling technical and operational roles early on.
- Sharing detailed plans on new market opportunities – including problems encountered – with stakeholders leads to higher levels of engagement.
- Enter with a clear long-term strategy to fully exploit opportunities: costs, time and risks of entering high-growth markets can be higher than expected.
The blueprint: setting a vision and ambition to grow UK business overseas

The CBI and Ernst & Young have 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 alternative: 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.

View from the CBI
“It is clear that the answer lies in a partnership between business and government: the marriage of a bold business outlook and a complementary policy framework.”

John Cridland, CBI Director-General
Action plan

Step 1: Government must set a high bar for export performance 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.
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CBI
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To achieve this, we campaign in the UK, the EU and internationally for a competitive business landscape.

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