

START-UP TO SCALE-UP: GLOBAL SMES

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FOREWORD

SMEs are the backbone of the global economy and are fundamental to the day-to-day provision of goods and services around the world, employing circa 70% of the global workforce.

The unprecedented crisis of Covid-19 has, however, severely disrupted supply chains around the world, with businesses of all sizes having to cope with unexpected challenges related to border closures, trade restrictions, travel bans and necessary public lockdowns. Despite the gradual reopening of many economies, formidable logistical challenges remain and are likely to become the “new normal” for businesses.

In response to these uncertain trade conditions created by Covid-19, the International Chamber of Commerce (ICC) has called upon governments and customs authorities to adopt concrete measures to help SMEs, advocating for the adoption of a risk-based approach to compliance management, and effective support for the digitalisation of trade.



As the global economy now builds back better in the wake of Covid-19, many businesses are more convinced than ever that international expansion must be at the centre of their growth plans. And the rise of global value chains (GVCs) and the digital transformation offer new opportunities for SMEs to integrate into the global economy.

While larger firms and multinationals are the driving force behind GVCs, there are a number of ways in which smaller firms are also participating in, and benefitting from, GVCs. For example, SMEs can take advantage of GVCs by specialising in specific segments of production, rather than having to master all the processes required to produce finished goods. SMEs can also benefit from greater flexibility than larger firms, and often have the capacity to customise and differentiate products and to respond rapidly to changing market conditions and shortening product life cycles.

The digital transformation has also given SMEs new avenues to join the global economy. Access to digital technologies lowers the barriers of entry into global markets, enabling SMEs to internationalise at a fraction of the cost; digital technologies can thus make it easier for small firms to participate in GVCs, to find customers abroad and to make international payments. Promoting digital connectivity, by increasing the quality of digital infrastructure and decreasing the cost of access, will empower smaller firms to take full advantage of the digital trade revolution. One of our recent studies has demonstrated that a modern digital trade ecosystem could deliver £250 billion in extra trade to the UK by 2026.

Inclusive fair trade is a force for good, and ICC United Kingdom is delighted to collaborate with Make UK and multiple other business organisations to support a conducive business environment where companies of all sizes can thrive and deliver for Global Britain.

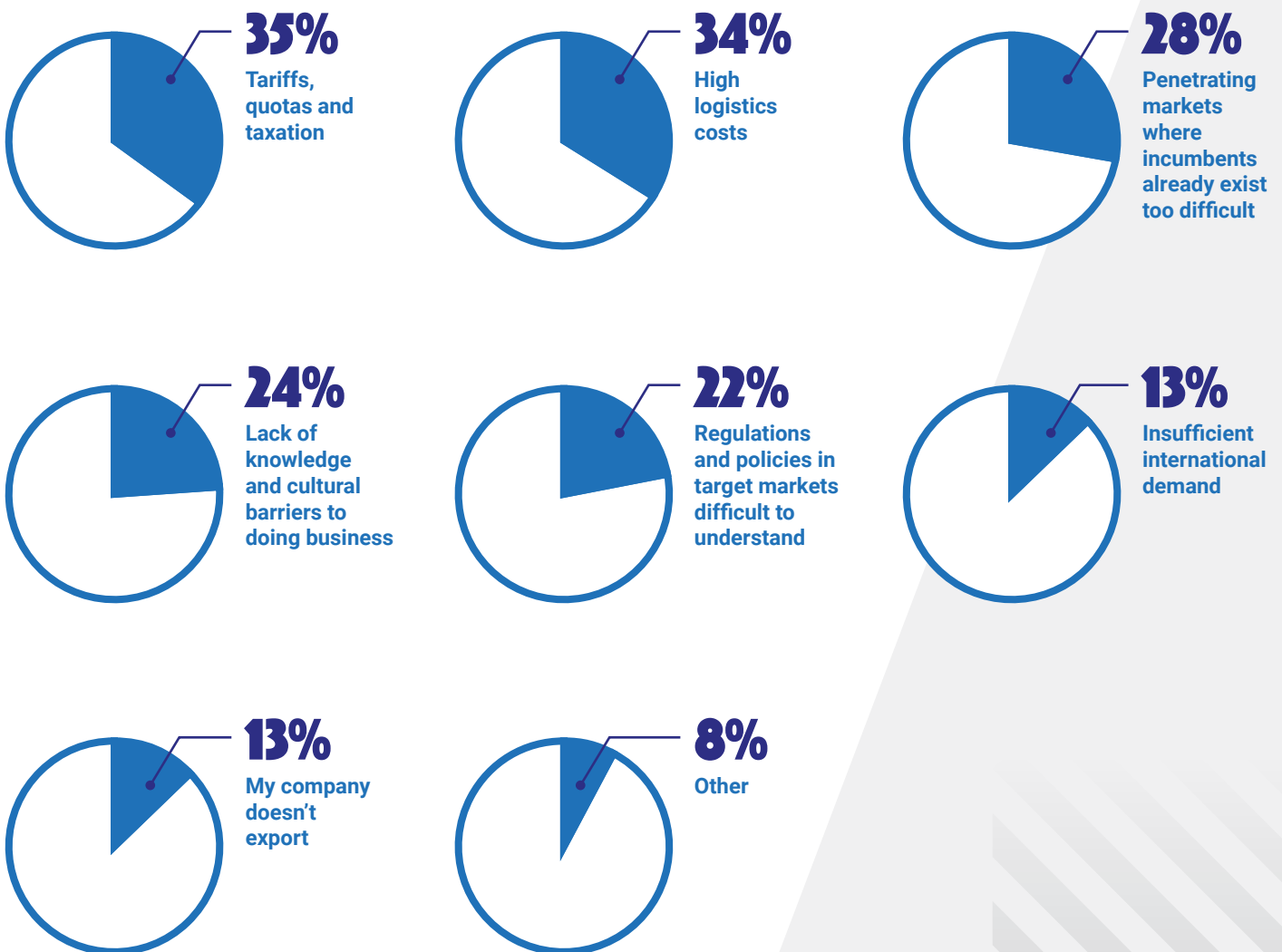
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GLOBAL SMES

In the new trading environment for UK manufacturers, there is a massive opportunity for SMEs to scale up through exporting. Access to overseas markets and challenges when growing domestically were cited as the second and third biggest barriers to growth for SMEs that aspire to expand. Both issues could be solved by reducing barriers to trade and encouraging domestic producers to seek new markets abroad. This section explores the issues cited by SME manufacturers on the barriers to trade and what could be done to support manufacturers.

UK manufacturers, big and small, can achieve significant growth through exporting. Exports of manufactured goods accounted for 54% of total UK exports,¹⁵ totalling more £311 billion, in 2020.¹⁶ The global market presents almost limitless opportunities for SME manufacturers with ambitions to grow, but unfortunately barriers do exist, such as tariffs, quotas, differing regulations and many others. However, it is not so simple to ease the barriers to exporting for business – for example, introducing additional support domestically can result in destination countries increasing barriers to protect their own industries. From their perspective, this may be a rational decision, and Free Trade Agreements (FTAs) can help ease those barriers by improving trade in both directions and allowing countries to focus on building a comparative, or relatively comparative, advantage.

Barriers preventing export growth



¹⁵ ONS, UK Trade Tables, 2020. (UK total trade: all countries, non-seasonally adjusted - Office for National Statistics (ons.gov.uk))

¹⁶ UKtradeinfo, 2021.

Main export barriers correlate with recent events

Only 13% of SME manufacturers believe there is insufficient demand to expand through exports, which first indicates that few SMEs believe no opportunities to grow exist outside our borders. Second, the reasons that those that do not believe there is enough demand may be either a lack of knowledge of the value of exporting or that these manufacturers produce specialist products for a niche market.

Unsurprisingly, the top barrier cited by SME manufacturers is tariffs, quotas and taxation, which affects 35% of the sample. And a close second to this are logistics costs. Both areas have witnessed an incredible intensification following the UK's exit from the EU, and the post-pandemic boom resulted in significant worsening of lead times, reduced access to space on shipping containers and rising prices for freight, leading to greater challenges when exporting. Given that many of these issues are very recent presents additional challenges to start-ups and young SMEs that already have less experience of exporting. If we do not tread carefully, the UK risks a generation of businesses that struggle to scale up through exporting. Successful scaling, levelling up and meeting our net zero goals will be simpler if we place the right incentives for UK SME manufacturers to think globally, which will enable a global Britain too.

Make UK's "Trade and Cooperation with the EU: Six Months On"¹⁷ report found that only 4% of manufacturers faced no difficulties in trading following the start of the Trade Cooperation Agreement (TCA). The report highlighted that SMEs were more likely to face difficulties accessing logistics services than larger companies. Additionally, 31% of manufacturers reported difficulties arising from customs procedures, such as understanding rules of origin, identifying correct commodity codes and completing commercial invoices.

Make UK recommended that the Government should broaden support for SMEs by removing limitations on the SME fund and extending the deadline for applications. Also, the Government should consider further support if new customs controls are applied this year and in 2022.

Access to knowledge and information on how to manoeuvre in new environments could solve many of the issues SMEs face when exporting

Additional areas where industry and Government can work together to address the non-tariff barriers SME manufacturers face should focus on knowledge and education. The next three biggest challenges for SMEs include:

- difficulties in penetrating new markets, where an incumbent competitor is already established (28%);
- cultural barriers (24%);
- differing regulations or policies within target markets (22%).

Each of these barriers could be eased to an extent with clear access to and support to obtain information that enables SMEs to understand the markets to which they desire to export. The Department for International Trade (DIT) already produces and publishes a plethora of information on export guidance, foreign country profiles and general advice for UK businesses. However, SME manufacturers rarely have the in-house expertise to take advantage of that information and cannot easily allocate the resources necessary to conduct in-depth research.

There is no simple solution to increasing our access to markets that are already saturated, but a focus on incentivising innovation in new and existing products can help UK SME manufacturers gain a competitive advantage to enter new markets. Access to information about and research into these

markets can support SMEs to target new markets more effectively and improve decision-making regarding the allocation of R&D spend.

Solving the informational gap on cultural barriers should be a higher priority for the Government to improve the rate at which UK manufacturers increase their trade with non-EU countries.

On regulation, though, cooperation with foreign governments can lead to commonalities. This should certainly be one of the UK's long-term goals to minimising barriers to exporting. But in the short term, access to information that makes it as simple as possible for SME manufacturers to understand regulations and policies in new markets may enable them to act more independently and pursue their own exporting goals.

Scale-ups with fast turnover growth see market penetration as the top barrier to exporting

Breaking down the survey data to inspect only those SME manufacturers that have been identified as either scale-ups or modest-growth manufacturers finds a slightly different set of priorities for exports. Interestingly, manufacturers with fast-turnover growth identified market penetration in countries with existing incumbents (42%) to be the greatest barrier to growth. The rest of their priorities followed as normal, with tariffs, logistics costs, regulations, differing regulations, cultural barriers and insufficient demand.

However, scale-up and modest-growth manufacturers, based on fast employment growth, identified a list of main barriers that mirror the average view of the sample.

¹⁷ "Trade and Cooperation with the EU: Six Months On", Make UK, 2021. (Trade and cooperation with the EU: Six Months on | Make UK)



Make UK is backing manufacturing – helping our sector to engineer a digital, global and green future. From the First Industrial Revolution to the emergence of the Fourth, the manufacturing sector has been the UK’s economic engine and the world’s workshop. The 20,000 manufacturers we represent have created the new technologies of today and are designing the innovations of tomorrow. By investing in their people, they continue to compete on a global stage, providing the solutions to the world’s biggest challenges. Together, manufacturing is changing, adapting and transforming to meet the future needs of the UK economy. A forward-thinking, bold and versatile sector, manufacturers are engineering their own future.

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