Just a click away

How e-commerce can boost UK exports and growth

Richard Hyde
Scott Corfe

SMF Social Market Foundation

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THE SOCIAL MARKET FOUNDATION

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CONTENTS

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- The 500 participants in the business survey and 20 small business owner-managers that we interviewed in-depth for sharing their experiences as small firms considering or currently exporting.

ABOUT THE AUTHORS

Richard Hyde

Richard joined the SMF in August 2019 as Senior Researcher. Before joining he was a Senior Policy Advisor at FSB (Federation of Small Businesses) with responsibility for a diverse range of small business policy issues including the small business regulatory environment, data and cyber security, crime and civil justice. Prior to FSB, Richard was a Policy Officer at the Law Society of England and Wales. He has also held policy and research roles at Which? and the Small Business Research Centre (SBRC) at Kingston University.

Richard has an LLM in Law from the University of London and an MA in Global Political Economy from the University of Hull.

Scott Corfe

Scott Corfe joined the Social Market Foundation in 2017 and was our Research Director. As well as managing the SMF's research team, he authored research on a wide range of topics including consumer markets, taxation, low pay, housing and technology.

Before joining the SMF, he was Head of Macroeconomics and a Director at the economics consultancy Cebr, where he led much of the consultancy's thought leadership and public policy research.

Scott's expert insights were frequently sought after in publications including the Financial Times, the Guardian, the Times and the Daily Telegraph. Scott has appeared on BBC News, Sky News, Radio 4 and a range of other broadcast media.

ABOUT THIS REPORT

This evidence presented in this report comes predominantly from three sources:

- Polling of 506 exporting and non-exporting UK small and medium-sized enterprises (SMEs). The sample was evenly divided between exporters and non-exporters in goods-producing sectors. Participant businesses ranged in size from sole-traders to medium-sized companies. Participants were asked 20 questions about exporting, and the benefits and downsides of marketplaces as tools for selling, especially selling into overseas markets. The SMF commissioned Opinium to undertake the survey of SMEs. The survey was in the field from 25th August to 21st September 2022.
- In-depth, semi-structured interviews with 20 SME owner-managers. Half of which were running exporting firms and half were operating non-exporting enterprises. Exporting participants were asked about their experiences of exporting, the challenges they faced and their motivations for being exporters. Non-exporting firms were asked about their experiences of being a domestically focused business and whether they were considering becoming exporting firms and if so, why and if not, why not. Views were also sought from interviewees on topics such as the visibility and usefulness of government efforts to support exporters and potential exporters.
- Engagement with a range of stakeholders with an interest and expertise in SMEs, e-commerce and trade related policy, including business groups, expert representative organisations, relevant officials in government, logistics firms and marketplace providers (including Amazon UK and US).

The evidence from the three sources described above was complemented by desk research, undertaken across August, September and October 2022.

FOREWORD: AMAZON UK

The recent challenges that the UK economy has faced have only underlined the importance of identifying new growth opportunities for SMEs in the months and years ahead. Boosting participation in e-commerce exporting should be an essential part of this.

A year ago, the Department for International Trade published their "Made in the World, Sold in the UK" Export Strategy, which set out an ambitious plan to do just that. With a goal of reaching £1 trillion in exports annually, the strategy rightly emphasised that delivery could be achieved faster through effective partnership with business.

Amazon agrees with this and believes that everyone has a role to play in boosting SME exporting - including us. This is also because we have a twenty-year relationship with exporting SMEs in the UK, providing us with unique insights into the challenges and opportunities that many firms face. Of the more than 85,000 SMEs currently on Amazon Marketplace, over half sell their products to customers around the world, recording more than £3 billion in export sales in 2021 alone. But given this scale we want to do much more.

The UK is already one of the leading countries in the adoption of digital marketplaces – therefore utilising our existing strengths when it comes to e-commerce exports is as exciting an opportunity as it is an obvious one for us to be capitalising on as a country. And as the SMF set out in their analysis, the prize for increasing e-commerce exports is substantial, both in terms of gains for UK SME growth, job creation and overall economic value.

However, with only 6% of UK medium-sized firms making e-commerce sales to the rest of the world, we first need to upskill businesses' digital capabilities. In 2020, Amazon launched our Small Business Accelerator programme and have since provided free digital skills training to over 600,000 SMEs across the UK. This has included working with the Department for International Trade on a programme of exports bootcamps and webinars that hundreds of businesses have benefited from. We want to build on this platform of work and scale up our educational outreach in the years ahead.

Of course, business support alone isn't sufficient for increasing exports and a number of wider barriers persist. Issues like customs, tariffs and logistics are complex for small businesses to navigate and arguably as complex for policymakers to fix. Amazon is therefore supportive of the SMF's recommendation for a time-limited e-commerce exports taskforce to be established. With the collective expertise of business leaders, online marketplaces and wider civil society, there is an excellent prospect of identifying practical solutions that could be taken and which build upon the Government's Export Strategy.

It is our hope that this report will improve the understanding of the e-commerce exports opportunity available for SMEs and the UK economy. We are now keen to work with policymakers and other business leaders in order to realise it.

John Boumphrey
UK Country Manager, Amazon

FOREWORD: INSTITUTE OF EXPORT AND INTERNATIONAL TRADE

Small and medium sized enterprises (SMEs) are central to the UK's export performance and its economy overall. For a number of small businesses, online sales are a critical component for entering new export markets, and also maintaining and growing market share. We must do all we can to support these companies.

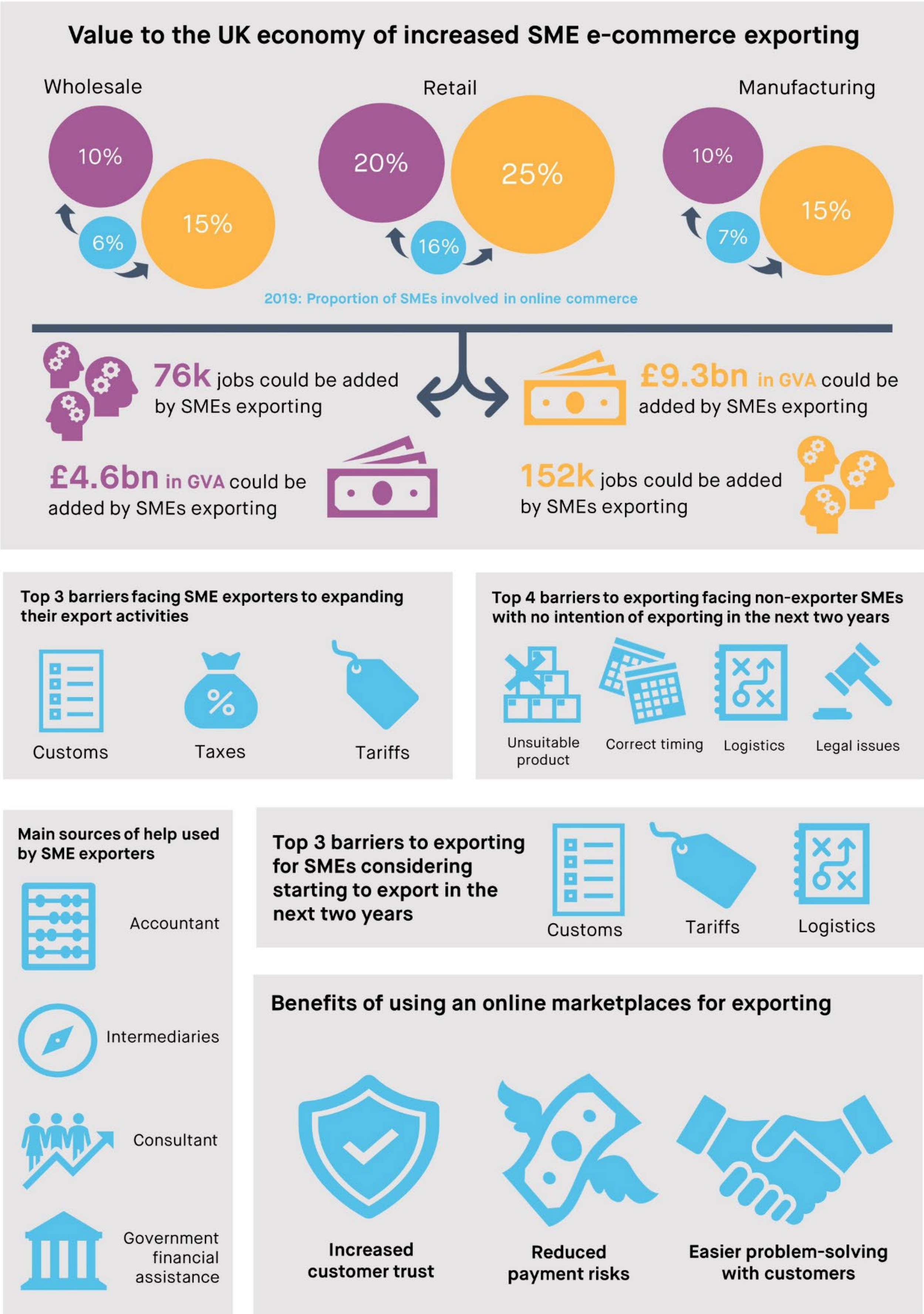
The Institute of Export and International Trade (IOE&IT) is pleased to support the Social Market Foundation and Amazon in this vital report. The research in this report is extremely informative, and the authors have provided strong recommendations for increasing SME uptake of e-commerce, including calling for the establishment of an e-commerce exports taskforce. The IOE&IT also believes that a public-private partnership will provide the opportunity for all actors and organisations in the e-commerce supply chain to support UK businesses.

Support for SMEs is critical and must be comprehensive and holistic if it is to be effective. This would include but is not limited to:

- **Education**. Increasing awareness of the role of online marketplaces would also be a positive step as part of business education. Beyond that, traders must have an understanding of the terms of trade that can apply to moving goods across borders (referred to as Incoterms) as well as an understanding of import requirements in the country (or countries) of import and the applicable threshold for low-value consignments. They also need to understand the broader scope of the trading environment, including how to maximise provisions of trade agreements and minimise exposure to currency risk and other unpredictable aspects of trading.
- **Innovation**. Many of the challenges SMEs face are systemic: codified in national legislation, regulation and international agreements. These provisions are discussed and negotiated at a governmental level, but it is important to remember that it is businesses that engage in international trade. Policymakers should adopt a more business-friendly lens when crafting new agreements. The recently signed UK-Australia and UK-New Zealand free trade agreements are good examples of this; a chapter in each agreement is dedicated to support for SMEs.
- **Funding**. As this report will outline, SMEs face significant barriers to exporting. The costs of conducting international trade vary depending on the product as well as the market, and pricing can be volatile with currency fluctuations. Support for SMEs could be direct – such as in the form of grants or zero-to-low interest loans – and indirect, such as governments working diligently to reduce the tariffs that hamper SMEs the most, as well as harmonising regulations to reduce the administrative costs of trading internationally.

There are times where we underestimate the great skills that UK businesses and their people possess. However, with the right level of support, tailored and targeted to the audience, we are confident in our ability as a nation to galvanise the talents of our SMEs and unlock their export potential. This report and its recommendations are a great starting point for this journey.

Marco Forgione
Director General, Institute of Export and International Trade


Value to the UK economy of increased SME e-commerce exporting
Wholesale
10%
6%
15%
Retail
20%
16%
25%
Manufacturing
10%
7%
15%
2019: Proportion of SMEs involved in online commerce
76k jobs could be added by SMEs exporting
£9.3bn in GVA could be added by SMEs exporting
£4.6bn in GVA could be added by SMEs exporting
152k jobs could be added by SMEs exporting
Top 3 barriers facing SME exporters to expanding their export activities
Customs
Taxes
Tariffs
Top 4 barriers to exporting facing non-exporter SMEs with no intention of exporting in the next two years
Unsuitable product
Correct timing
Logistics
Legal issues
Main sources of help used by SME exporters
Accountant
Intermediaries
Consultant
Government financial assistance
Top 3 barriers to exporting for SMEs considering starting to export in the next two years
Customs
Tariffs
Logistics
Benefits of using an online marketplaces for exporting
Increased customer trust
Reduced payment risks
Easier problem-solving with customers

EXECUTIVE SUMMARY

Overview

The UK has an exports problem. Since the 2008 financial crisis the UK's export growth has lagged behind pre-crisis trends. This historical underperformance has been compounded by the COVID-19 pandemic, where UK exports have failed to rebound after the global economy re-opened in the same way those of other countries have. As of June 2022, world goods exports for example, were 7.9% higher than at the end of 2019. In advanced economies they were 3.5% higher. In the UK, goods exports were 21% *lower.*

E-commerce can help address this problem. As one of the leading countries in the adoption of digital marketplaces along with the lower costs associated with e-commerce as a route into overseas markets compared to traditional channels, encouraging greater levels of e-commerce exports appears a sensible area of focus for UK trade policy.

Goods matter. Although services are often prioritised in policy discourse, goods and manufacturing punch well above their weight when it comes to trade. In Q2 2022, goods – not services – accounted for a majority (53%) of total UK exports.

Opportunity

UK businesses are well-placed to take advantage of cross-border e-commerce,[i] yet there is significant untapped potential.

Britain has the fifth largest e-commerce market globally, in terms of the US dollar value of sales. But many businesses are yet to embrace digital commerce. The share of retail businesses making website sales increased from 26% in 2014 to 35% in 2019.

Both small and medium-sized UK companies lag behind the best performers in Europe on exporting. Among all businesses in the UK with 10 or more employees, 8% made cross-border e-commerce sales with EU countries. This compares with 10% in Germany, 11% in Denmark, 14% in the Netherlands, and 18% in the Republic of Ireland.

Among UK businesses with 10 or more employees, 6% report making e-commerce sales to the rest of the world. This compares with 9% in Austria and 12% in Ireland.

Increasing the share of businesses selling their wares overseas via e-commerce could bring with it significant economic gains. SMF analysis shows that among retail businesses selling overseas through a website, e-commerce exports generate £100,000 a year in annual revenues on average. Among firms with 10 or more employees, the average is about £950,000.

[i] In this report the term "e-commerce" is used to denote goods-based trading online, to both consumers and other businesses.

SMF modelling shows the potential gains for UK businesses, employment and GDP from different scenarios for increasing e-commerce exports: “moderate” and “stretching” increases.

“Moderate” increases in e-commerce exports would see 29,000 additional SMEs become exporters, and generate an aggregate turnover increase of £6.2 billion. We estimate a boost to economic output (in terms of gross value added, GVA) of £4.6 billion. This would translate into about 76,000 additional full-time equivalent (FTE) jobs.

“Stretching” increases in e-commerce exports would see 70,000 more SMEs exporting with a £12.4 billion increase in aggregate business turnover. The boost to economic output would be £9.3 billion while about 152,000 additional full-time equivalent jobs could be supported.

Many exporting SMEs regard e-commerce as a useful way to reach new markets. Our survey shows that among businesses exporting goods online, just over two-fifths (43%) sold via Amazon Marketplace while a third (35%) used eBay, while 28% use Shopify and 26% sold through Facebook (including Instagram).

Among the advantages of e-commerce cited by exporting businesses in our survey were increased customer trust (33%), reduced payment risks (31%), ease of resolving problems/disputes with customers (30%) and higher general brand awareness (29%).

Obstacles

Barriers to SMEs exporting more, including via e-commerce, can be divided into barriers internal to the company, and barriers external to the company.

Internal barriers include: the nature of the product or products and their suitability for exporting; the stock of skills available to the firm and digital competence of the business; the working capital on hand and the preferences, ambitions and capabilities of the business’s owners and leaders.

External barriers include: Policy barriers such as customs processes, tariffs and taxation complexities; logistics;[ii] currency issues such as foreign exchange fluctuations; product compliance with relevant regulations in other markets; legal risks.

WTO evidence from economies around the world shows that the risks and costs associated with exporting for SMEs are persistently greater than those faced by larger companies.

[ii] The term “logistics” in this report is used broadly and denotes the organisation and execution of the movement of goods sold across-borders. Therefore, it includes postal services and the services of logistics firms and freight forwarders as well as the physical transportation of goods, across land, sea or air and all the infrastructure and stages involved in such activities.

The SMF survey identified businesses who are considering exporting but not yet doing so. They were offered a list of reasons for not exporting and were asked to identify the three obstacles that they considered the most important. For those SMEs considering exporting, the most frequently cited obstacle to doing so was customs issues (30%). The second most often selected barrier standing in the way of those considering exporting from “taking the plunge” was logistics (25%) followed jointly by tariffs (23%) and taxes (23%).

In-depth interviews with SMEs revealed that perceptions of bureaucracy associated with customs, taxes, logistics and other trade-related complexities are a major obstacle to exporting.

Firms with no intention of exporting were also asked to name their barriers. 43% said they considered their products are not suitable for export, possibly because there was no demand for those products abroad. This is consistent across businesses of all sizes in our survey.

Reflecting the centrality of leadership as to whether SMEs consider or move into exporting or stay non-exporters, we found entrenched resistance to exporting in some businesses. Several of our interviewees were uninterested in exporting, despite running successful domestic businesses. In some cases there was interest from buyers abroad, but the business owners were steadfast in their reluctance to get involved with exporting.

Encouraging existing exporters to expand is likely to prove the easiest way to increase the UK’s export volumes, but even experienced exporters report facing obstacles to doing more. We asked current exporters to pick the obstacles hindering the expansion of their exporting. The most-cited reason was customs, followed by tax issues (such as VAT); tariffs; and logistics costs.

Obstacles to exporting more vary somewhat according to a firm’s experience of exporting. Firms relatively new to goods exporting are more likely to cite customer demand, lack of suitable markets and lack of advice and support as reasons for not doing more. Firms with several years’ experience of exporting are more likely to name issues such as insurance and distribution networks as obstacles.

Among SMEs already exporting, the survey found little difference in perceptions of the top four obstacles to growing their exports between those selling overseas through online channels and firms that export through more traditional (i.e. offline) methods. The one difference in the top four barriers to greater exporting, between the firms using the two different methods of selling, was that SMEs selling through offline channels highlighted the challenge of “difficulties finding suitable export market(s)”. Among offline exporters it was the joint third most frequently selected obstacle. Five percentage points more offline SME exporters cited this as an obstacle than those selling online. A small but perhaps noteworthy difference.

Current exporters identified some downsides to selling via online marketplaces. The most-cited reason was commissions and fees (named by 26%) followed by concerns about data collection and use. Other concerns included competing with a marketplace’s own products, and fake or malicious reviews.

Not all firms see e-commerce as the best choice for their export sales. Our qualitative interviews revealed a preference among some businesses to focus on low-volume, high-value business-to-business sales, generated from establishing relationships with larger firms overseas.

National policy landscape

The UK Government's strategy "Made in Britain, Sold to the World" was published in 2021. Its ambition is increasing the UK's exports to £1 trillion a year. Since the strategy is so new, there is no clear evidence on its success so far.

In the qualitative research with exporting and non-exporting SMEs conducted to inform this report, there was little awareness of DIT or HMRC's activities to help exporting and non-exporting firms. Our survey showed that the vast majority of currently exporting SMEs have sought some sort of help with exporting but that the most frequently described sources for such assistance were private sector ones. However, notably 19% had accessed government financial assistance of some kind. And 16% had engaged with DIT or HMRC guidance to help them.

International policy landscape

Trade agreements struck between other major economies have given significant attention to questions of how to facilitate exporting by SMEs not least via e-commerce. Leading exemplars are the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the US-Mexico-Canada Agreement (USMCA).

Specific existing agreements the UK is a signatory to, where the UK can seek to do more to help SMEs to get into exporting or expand their current efforts include the UK–EU Trade and Cooperation Agreement, where the application of VAT rules, for example, is of particular concern to businesses and their representatives.

The new EU-Norway VAT agreement and the recent Digital Economy Agreement with Singapore were also cited by leading export policy stakeholders as models from which important lessons should be drawn for how future trade deals could promote SME exports.

Despite their importance, international trade deals were often unknown to the companies in our survey and interview. Only 12% of firms in our survey said they use the terms of trade agreements for exporting.

Recommendations: domestic

- Establish an Office for E-Commerce and Digital Trade (OE-CDT), sitting within the Department for International Trade, to lead on policy with respect to cross-border e-commerce.
- Bring together a time-limited e-commerce exports taskforce, with relevant industry, academic and civil society representatives on it, to help identify priority policy areas for the OE-CDT.

- Government should partner with online marketplaces to identify firms in receipt of significant "unsolicited exports"[iii] and encourage such firms to become more pro-active exporters with specific plans to expand in other markets.
- To encourage more small businesses to experiment with exporting, a "starting exporting" grant scheme for SMEs should be launched.
- The Government's Help to Grow: Digital scheme should be expanded to provide greater support around cross-border digital trade.
- Government should make collaboration with business organisations a more explicit part of DIT's Export Strategy so that such bodies are able to play a key role in helping signpost to DIT's end-to-end Export Support Service (ESS) and, as it expands, the ESS adds value to the high-quality support that is already being delivered by various organisations.
- DIT should examine the business outreach successes of the past from across government, and ensure that this best business outreach practice is central to the planning and execution of the outreach and promotion elements of the UK Export Strategy.
- DIT and HMRC should look to overhaul their digital presence as it relates to trade and consolidate their guidance into a single platform away from gov.uk, with its own distinct identity, with input from business and other relevant organisations about how best to re-design their online information provision.

Recommendations: international

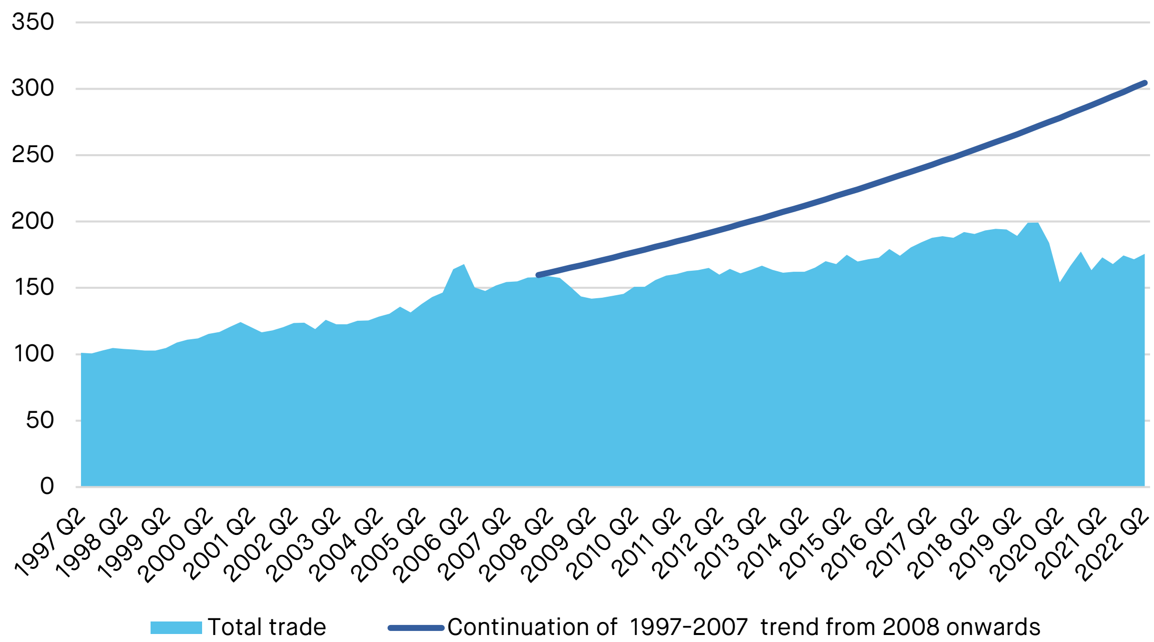
- The UK Government should push for agreement on and the ratification of the nascent e-commerce agreement under the auspices of the WTO.
- The UK Government should promote the unique needs of SMEs at the highest levels of the WTO.
- UK accession to the CPTPP should proceed so that UK SMEs can benefit from its advanced e-commerce terms in particular, in order to have better access to the economies of all the signatory states and reap a share of the expected benefits that the agreement is likely to generate.
- The UK Government should learn from the US's example and push – in all future trade negotiations – for a reciprocal *de minimis* threshold for imports into the signatory countries, of around £400. The UK Government should also learn from the US's example of an "Informal Entry" system for customs for its own trade deals.
- The UK Government should engage with the EU over ways to ease the complexities of VAT for exporters in both directions.

[iii] "Unsolicited exports" are overseas buyer-initiated exports i.e. serendipitous orders from overseas that a business may receive through its own website or an online marketplace, that the business has not deliberately sought out. See more on this issue on page 31.

CHAPTER ONE – SETTING THE SCENE: THE UK'S EXPORTS CHALLENGE

Exports have an important role to play in the country's economic prosperity.[1 2] Yet the UK's recent history on trade can only be described as troubling for those concerned with the country's long-term economic success. According to official statistics, exports to the rest of the world took a knock during the Global Financial Crisis (GFC). Figure 1 shows that since that event the growth rate in UK goods exports has not returned to their pre-crisis trend. In fact, it has remained, notably, substantially below it. As of the end of 2019 there was a 26% export shortfall (or "exports deficit") compared with what observers would have expected to see, if the pre-financial crisis trend had continued unabated.

Figure 1: Volume of exports of goods and services to the rest of the world. Q1 1997=100

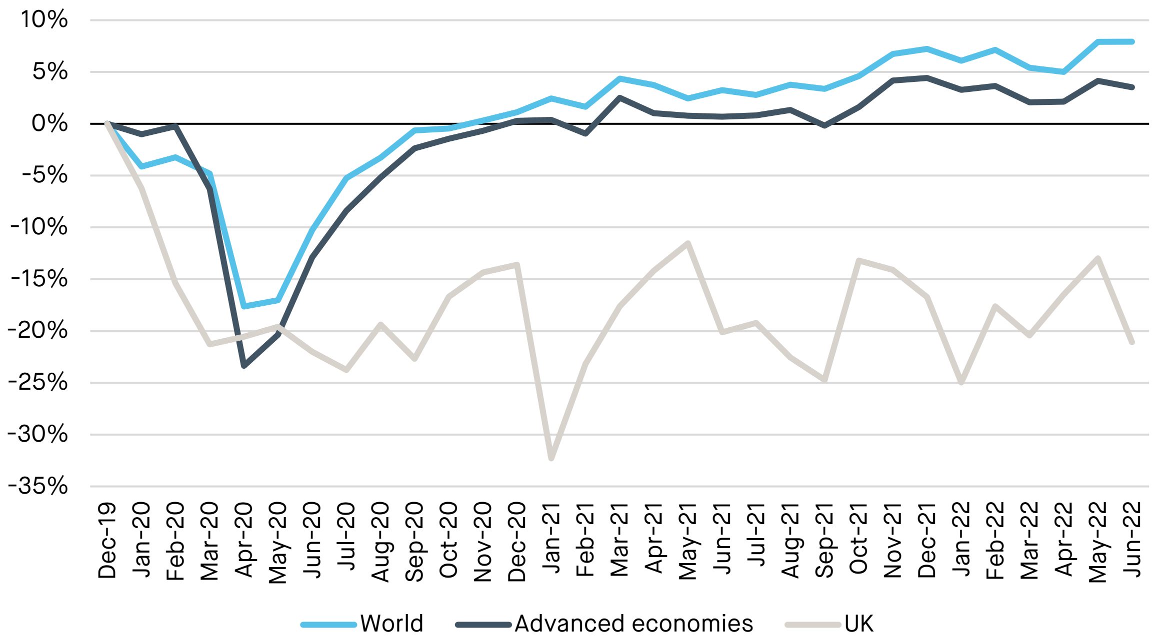


Source: SMF analysis of ONS trade data. Data exclude exports of precious metals that can distort the overall trade statistics.

More recently, the volume of UK goods exports took a significant hit during the Coronavirus pandemic and while exporting has returned to growth, by Q2 of 2022 that growth rate remained sluggish, despite the UK and much of the world having exited lockdowns and other curbs on society.

Figure 2 illustrates the difference between in the UK's post-COVID-19 export experience and that of other countries. The UK appears to have suffered from a somewhat unique decline in its exports, in contrast to the aggregate picture of both the world as a whole and the advanced economies specifically. The latter have, according to the CPB World Trade Monitor, seen a sizeable rebound in trade in recent times.

Figure 2: Export volumes, December 2019 = 100



Source: CPB World Trade Monitor

As Figure 2 shows, in mid-2022, world goods exports were 7.9% higher than at the end of 2019, while in advanced economies they were 3.5% higher. In the UK, goods exports were 21% *lower* than in December 2019. Remedying this situation must be a key policy issue over the coming years, lest our poor trade performance becomes a significant and continuous drag on economic growth.

The data in Figures 1 and 2 suggest that comparatively poor export performance by the UK is a decade and half long problem. The evidence on the value that exporting can have or an economy suggests that, if the UK's "exports deficit" could be corrected entirely or at least reduced significantly, it could yield considerable economic benefits for the country.

In this report, we focus in on a particular area of exports and a specific group of businesses, where there is the prospect for substantial export growth: e-commerce[iv] and SMEs. E-commerce offers opportunities for SMEs[v] that are already exporting to do more, those seriously considering doing so in the near future to “take the leap” and indeed, those not yet thinking about it to be persuaded to become exporters in years to come. A central reason why e-commerce can offer exporting opportunities to SMEs in all three circumstances is because many of the costs associated with exporting are

[iv] For the purposes of this report “e-commerce” refers to the sale of goods through online channels. Digital services trade, on the other hand, describes the online provision of services and the sale of intangible products.

[v] The term SME, for the purposes of this report, is defined in a conventional way. It encompasses: “sole traders” (0 employees), “microbusinesses” (1-9 employees), “small businesses" (10-49 employees) and "medium-sized businesses" (50-249 employees).

fixed,[vi] making the upfront costs facing SMEs, especially those at the smaller end of the spectrum, that want to become exporters significant and unavoidable.[vii] The e-commerce route into overseas markets reduces many of those costs. For low frequency – low value exporters or high-frequency - low value exporters, which many SMEs are, this is particularly helpful because the barriers to entry for them and the constraints on scaling-up are less than they otherwise would be i.e. only had traditional offline methods to utilise, to access overseas markets.[3]

Once businesses are exporting, the kinds of firm-level benefits that research suggests can accrue to exporting enterprises will begin to accumulate in many cases.[viii] [4] [5] This will feed through into consequent wider aggregate benefits for local and the national economy.

Further, the UK is well-placed to take advantage of online trade because of our existing strengths, including our position as one of the leading countries in the adoption of digital marketplaces. Consequently, facilitating greater levels of e-commerce exports appears a sensible area of focus for trade policy.

Unlocking the untapped gains from e-commerce exports will require action on a number of fronts. The two primary areas that policy could make a difference to are: firstly, encouraging “digital laggard” businesses to embrace the full range of e-commerce opportunities and secondly removing the frictions that are making it harder for businesses, even digitally savvy ones, to access overseas markets. There are other areas where changes could help the UK’s e-commerce exports, but which are much further away from the ambit of UK government influence, such as encouraging customers in export countries to buy more online in general or to purchase UK-sourced goods in particular. Although, it should be noted that some countries have tried to influence customer preferences in other economies.[6]

Tackling the frictions inhibiting SME exporters includes getting to grips with new barriers to trade that may have emerged following the UK’s departure from the European Union (EU) for those firms who previously or continue to trade with the EU. In addition to making it easier to trade with the Continent, policy needs to explore the scope for action in international forums such as the World Trade Organisation (WTO) alongside efforts to agree new trade deals to expand opportunities elsewhere,

[vi] Not all the costs associated with exporting fall wholly into the “fixed costs” category. Logistics for example, tend to have a fixed component but then the cost can vary with the volume and frequency of usage. See Annex 2 for more on logistics.

[vii] There are a range of costly hurdles that SMEs looking to export traditionally face such as estimating potential demand in overseas markets, setting-up and managing distribution networks, identifying, engaging and contracting with new partners, ensuring products are aligned to the requirements of new markets, understanding local languages and other cultural factors, in addition to the challenges of dealing with the process issues of customs, taxes, the challenges associated with moving goods, currency fluctuations etc. Source: Unlocking UK Productivity - Enterprise Research Centre

[viii] While the existing literature is nuanced, the balance of the evidence suggests that SMEs which get involved in exporting tend to have higher profits and productivity in the long-run and are – on the whole - more innovative than non-exporting firms. However, there is considerable heterogeneity which cannot easily be captured in generalisations. Source: World Trade Report 2016: Levelling the trading field for SMEs (wto.org)

including e-commerce and digital services trade opportunities. For example, the recently signed digital trade deal between the UK and Singapore[7] - which we discuss later - may provide a model for how to better facilitate e-commerce in future trade deals.

To understand the barriers to e-commerce exporting and the potential policy solutions for addressing these, this report draws on several strands of research. This includes a review of existing literature, a quantitative survey of 506 small-and-medium-sized enterprises (SMEs) and in-depth interviews with 20 (exporting and non-exporting) SMEs, in addition to interviews with expert stakeholders in government, business groups and trade associations, logistics firms and online marketplaces. We have also undertaken an economic analysis to estimate the potential economic gains that could be realised from greater levels of e-commerce exports.

The structure of this report is as follows:

- **Chapter Two** explores the current "lay of the land" on e-commerce exports, including an evaluation of the economic gains that could be realised from an expansion in cross-border e-commerce.
- **Chapter Three** explores the barriers to e-commerce exporting, drawing on findings from the quantitative survey and in-depth interviews.
- **Chapter Four** provides an overview of the existing domestic policy landscape affecting exports.
- **Chapter Five** sets out a series of policy recommendations for domestic policy.
- **Chapter Six** provides an overview of the international policy landscape, including trade deals and their implications for e-commerce exporting.
- **Chapter Seven** makes recommendations on international-facing policy.

In this report, we focus on e-commerce exports of *goods.* While services trade is important, goods are the category of products where the opportunities for increasing exports are easier to seize. There is an opportunity to grow their volume substantially over a relatively short time period given the right circumstances. Services can be more challenging as a category of export due to the nature of services and some of the major obstacles to services trade. Further, an exploration of services exports would have significantly lengthened the project.

We also think it is important that goods exports are not overlooked in an economic and policy discourse that often talks about the dominance of services in the modern British economy. While this is certainly true when to comes to GDP and employment, goods and manufacturing punch well above their weight when it comes to trade; according to the ONS data from Q2 2022, goods – not services – accounted for a majority (53%) of total UK exports.

CHAPTER TWO – E-COMMERCE EXPORTS AS A SOLUTION

In this chapter, we explore the case for a UK policy focus on e-commerce exports. This includes considering the UK's existing strengths in *domestic* e-commerce, the unique benefits of cross-border e-commerce (in comparison to "traditional" routes to other markets) and the gains that could be realised from unlocking the untapped potential for more businesses to engage in e-commerce exports.

This chapter also explores the role of online marketplaces in facilitating trade, both from their definitional role as a marketplace and from the complementary services they can offer – such as help with taxes such as VAT, support with logistics and access to export support services such as legal advice, regulatory compliance, currency and translation services, among others.

There is significant untapped potential for increasing UK exports through e-commerce

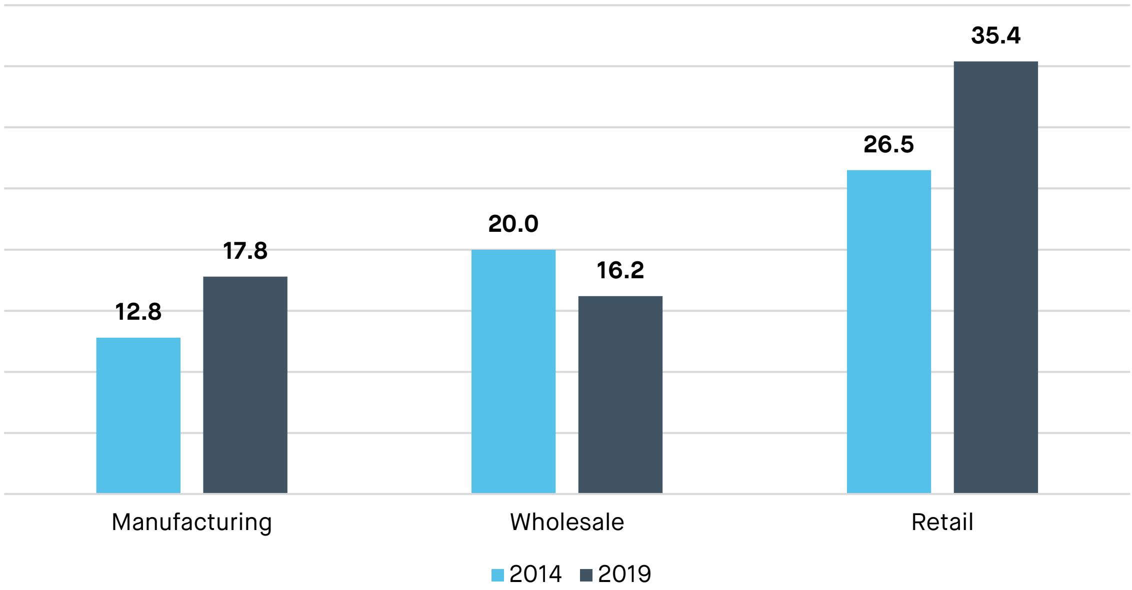
The UK has some of the most sophisticated digital markets in the world, with a population of businesses and consumers that are very comfortable with e-commerce. Indeed, Britain has the fifth largest e-commerce market globally, in terms of the US dollar value of sales, after China, the United States, Japan and Germany.[8] As of mid-2022, about a quarter of domestic retail sales in Britain are made online.[9] Among businesses with more than 10 employees, over 80% have a website.[10] [ix]

Given this, e-commerce seems like a strong channel for exporting goods and services to other countries. However, official statistics suggest there is significant untapped potential here.

Firstly, many businesses have yet to embrace digital commerce. For example, Office for National Statistics (ONS) data shows that the share of retail businesses making website sales increased from 26% in 2014 to 35% in 2019 – a number that has almost certainly increased further since then, especially as the Coronavirus pandemic and lockdowns encouraged businesses to pivot towards online sales. While this growth is promising and no doubt reflects the UK's position as the fifth largest e-commerce market in the world by value, it is nonetheless notable that a majority of retailers in the latest official data (see Figure 3) do not engage in e-commerce. This is also true of the majority of manufacturing and wholesale businesses, as also shown in the Figure 3 below.

[ix] While having a website does not necessarily mean a business engages in e-commerce, it is signifier of digital engagement by businesses and indicates there is, at least, potential for more selling online, alongside those already doing so.

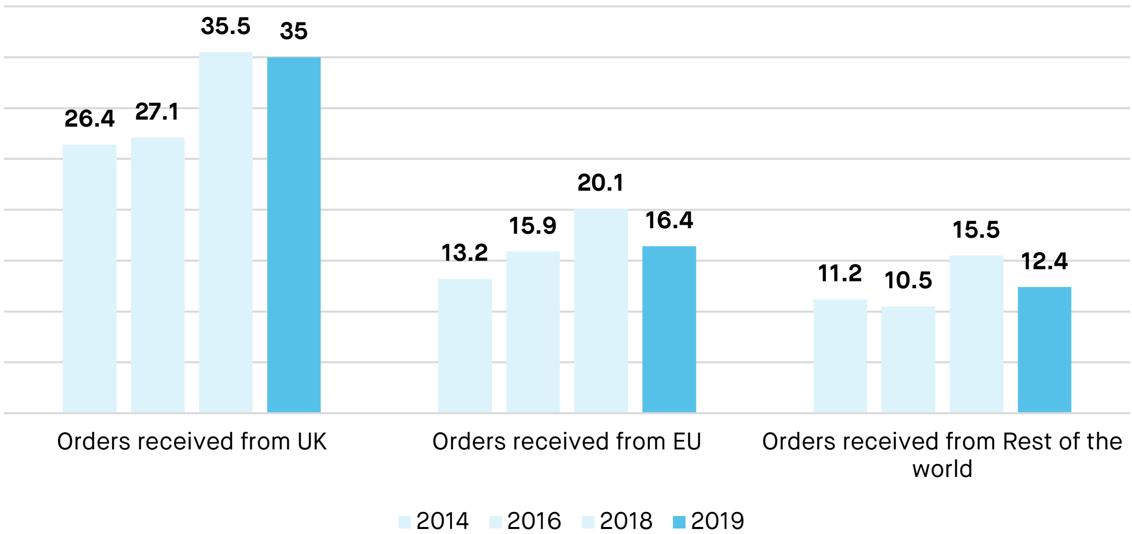
Figure 3: Proportion of UK businesses making website sales, by industry sector, %



Source: ONS E-commerce and ICT activity dataset

Secondly, even among businesses engaging in e-commerce, only a minority have made the leap from domestic to cross-border sales. For example, in 2019, just 16% of retail businesses received orders from EU countries online, while 12% received orders from the rest of the world, as shown in the graph below. These aggregate figures show retail business sales overall moving up and down across the four years of data highlighted in Figure 4. The drop back in orders rceived by retailers from overseas in 2019, from the highs observed in 2018, indicates that - in principle - there is clear scope for retailers to expand sales to both the EU and the rest of the world, by at least matching previous performance levels, if not going further.

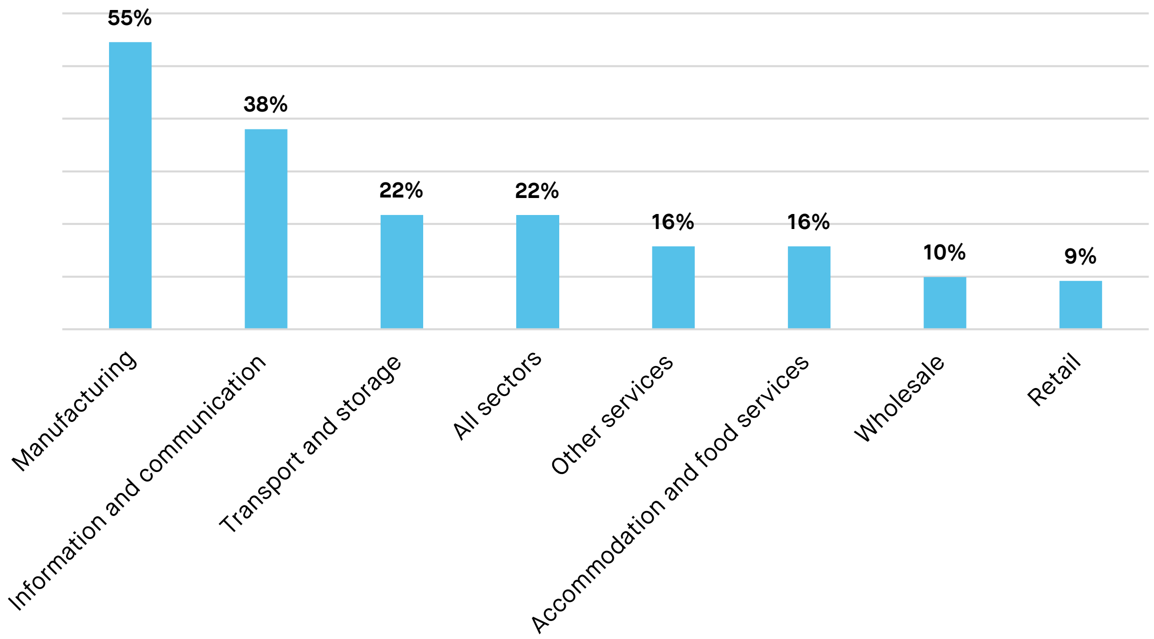
Figure 4: Proportion of UK retail businesses making website sales, by geographical area, %



Source: ONS E-commerce and ICT activity dataset

There are important sectoral differences in the proportion of website sales accounted for by cross-border e-commerce. While a majority (55%) of manufacturing business website sales by pound value are exports, among wholesale & retail businesses cross-border e-commerce accounts for only about one in ten online sales (see Figure 5).

Figure 5: Proportion of website sales by £ value derived from cross-border trade, by sector



Source: SMF analysis of 2019 ONS E-commerce and ICT activity dataset

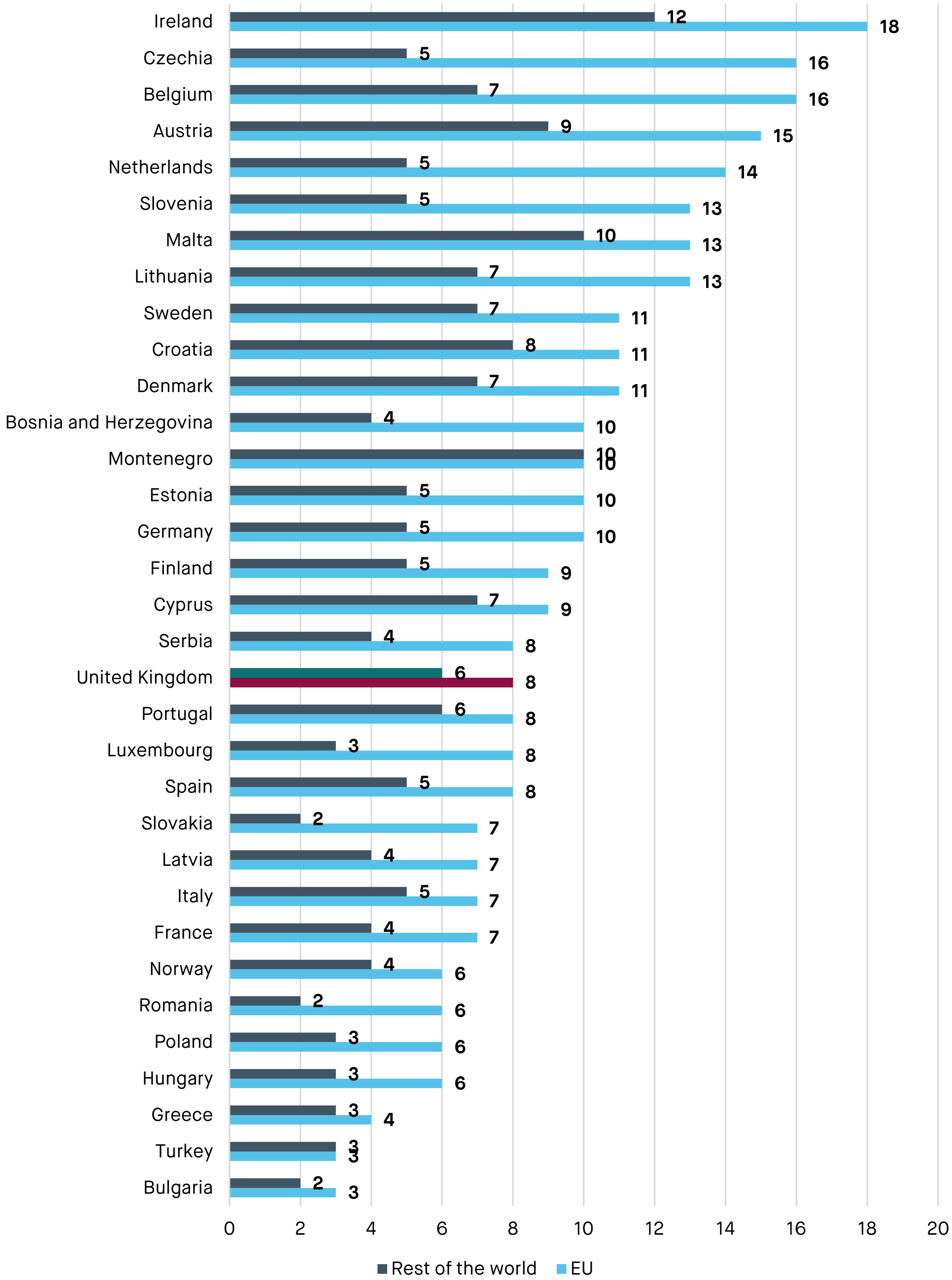
Eurostat data for 2019 suggest that UK businesses are less likely to engage in cross-border e-commerce than a range of peers – particularly when it comes to sales to customers in other European countries. This is shown in Figure 6.

Both small and medium-sized UK companies lag behind the best performers in Europe on exporting.

Among all[x] businesses in the UK with 10 or more employees, 8% made cross-border e-commerce sales with EU countries. This compares with 10% in Germany, 11% in Denmark, 14% in the Netherlands and 18% in the Republic of Ireland. Some 6% of UK businesses with 10 or more employees report making e-commerce sales to the rest of the world, compared with 9% in Austria and 12% in Ireland.

[x] The Eurostat data cannot be segmented by sector.

Figure 6: Share of businesses with 10 or more employees engaged in cross-border e-commerce, by destination, 2019, %



Source: Eurostat

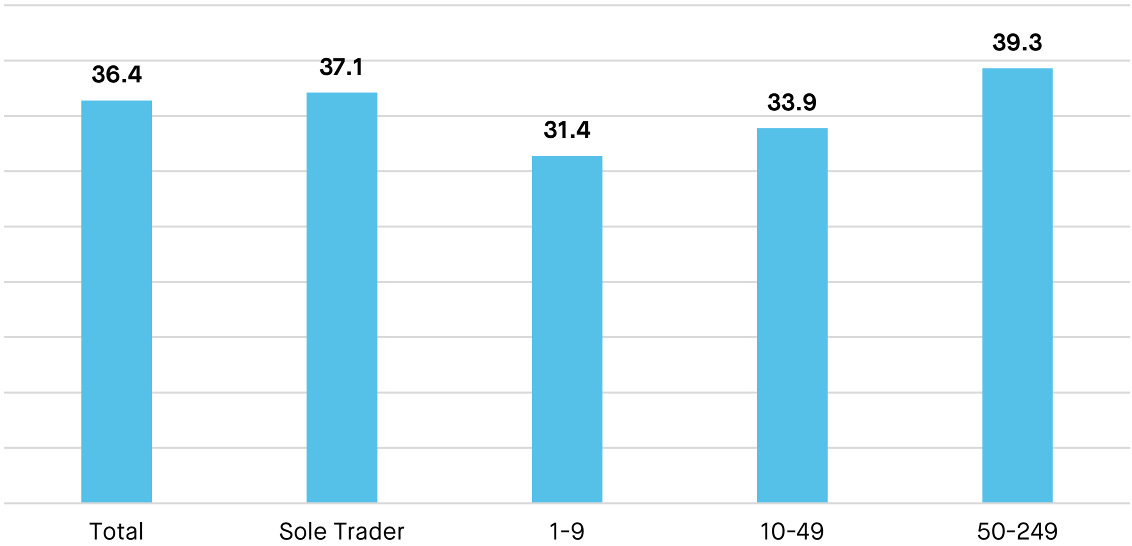
Unlocking e-commerce exports could add significantly to economic growth

Increasing the share of businesses selling their wares overseas via e-commerce could bring with it significant economic gains. Our analysis of official data suggests that, among retail businesses selling overseas through a website, e-commerce exports generate £100,000 a year in annnual revenues on average, rising to about £950,000 when we focus on non-micro businesses (i.e. businesses with 10 or more employees). For wholesale businesses, the equivalent figures are £610,000 and £2.2 million, while for manufacturing businesses they are greater still at £1.4 million and £14.7 million.

Closing the gap in cross-border web-based sales between the wider business population of the UK (which is sole trader and microbusiness dominated) and the country's smaller and medium-sized firms provides a sense of the scale of potential prize, at the firm-level, if the volume of products sold to customers in other countries could be increased or more sole traders and microbusinesses could be brought into exporting.

When businesses start to trade overseas, it can lead to a significant increase in business turnover. The Opinium survey of SMEs that we commissioned as part of this study suggests that, among exporting businesses, cross-border sales account for over a third (36%) of all business revenues.

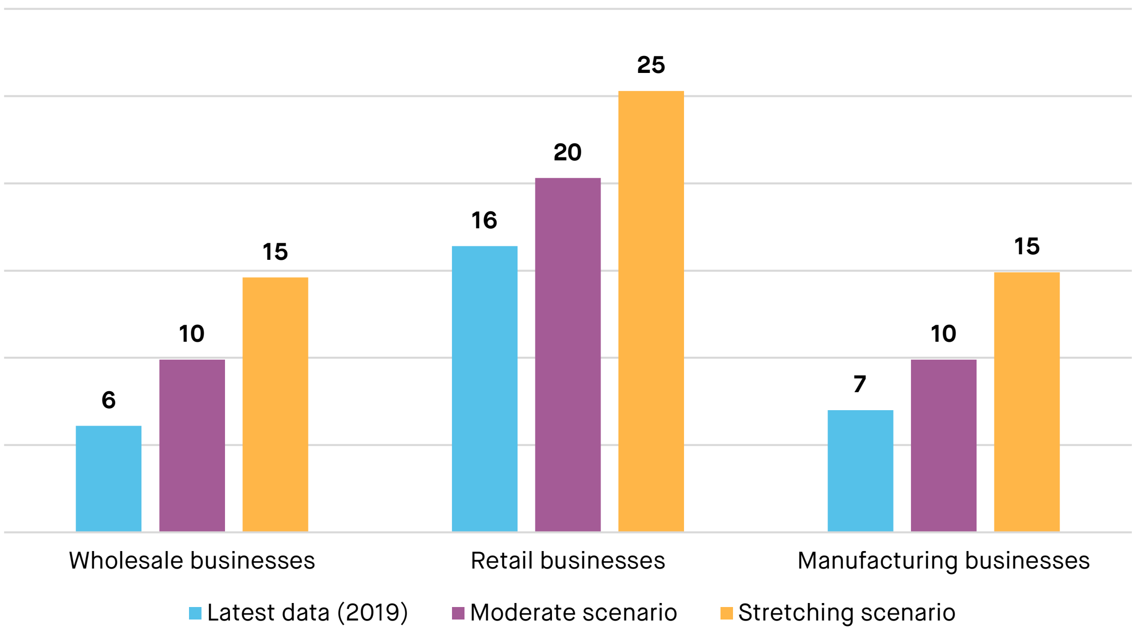
Figure 7: Proportion of business's revenues come from exports. Average by firm size, %



Source: Opinium survey. Base: all exporting businesses

To examine the potential "economic prize" from increasing the share of SMEs that are exporting goods online, we constructed what we believe to be a "moderate" scenario in which the share of SMEs in wholesale, retail and manufacturing exporting online increases from current levels. We believe this could be plausibly achieved in the medium term if, for example, the types of policy interventions outlined in Chapters Five and Seven are implemented. We also model a more ambitious "stretching" scenario, where policy interventions of the kind set out later in this report are even more successful, and the share exporting increases more significantly. These scenarios are graphed below.

Figure 8: "Moderate" and "stretching" scenario for share of SMEs engaged in e-commerce exporting, %



Source: SMF analysis

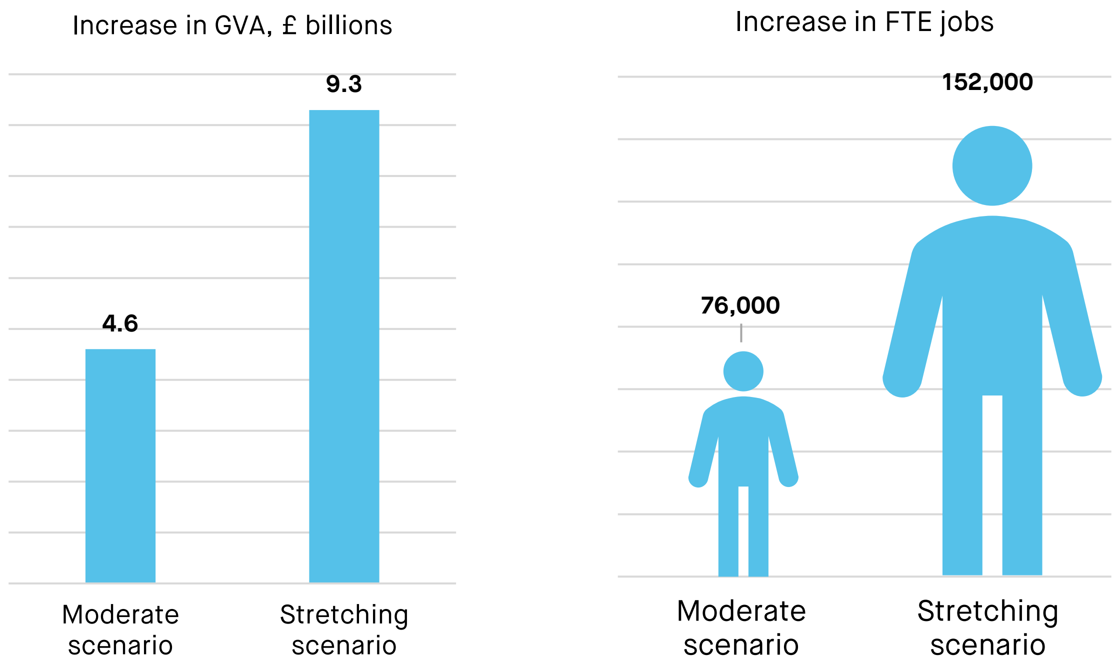
Our modelling assumes that SME sales through cross-border e-commerce would be additional to existing exports through non-digital channels, rather than a substitution away from those channels. Given the significant share of businesses that currently do not export *at all*, this seems a reasonable basis for the calculations. According to the 2020 Annual Business Survey, just 11% of British SMEs are exporters.

Our modelling also assumes that, once a business becomes an e-commerce exporter, they eventually manage to achieve average sales similar to those already doing so (and in the same sector and size category).

Based on these assumptions, under our moderate scenario about 29,000 additional SMEs would become exporters, seeing an aggregate turnover increase of £6.2 billion. We estimate a boost to economic output (in terms of gross value added, GVA) of £4.6 billion. This reflects both the direct economic benefit to wholesalers and retailers, as well as indirect economic benefits elsewhere in the economy – as increased demand for goods will stimulate economic output along supply chains. We estimate that such an economic uplift would translate into about 76,000 additional full-time equivalent (FTE) jobs.

The more stretching scenario would see 70,000 more SMEs exporting with a £12.4 billion increase in aggregate business turnover. The boost to economic output would stand at £9.3 billion while about 152,000 additional full-time equivalent jobs could be supported.

Figure 9: Economic benefits of increased e-commerce exporting under our alternative scenario



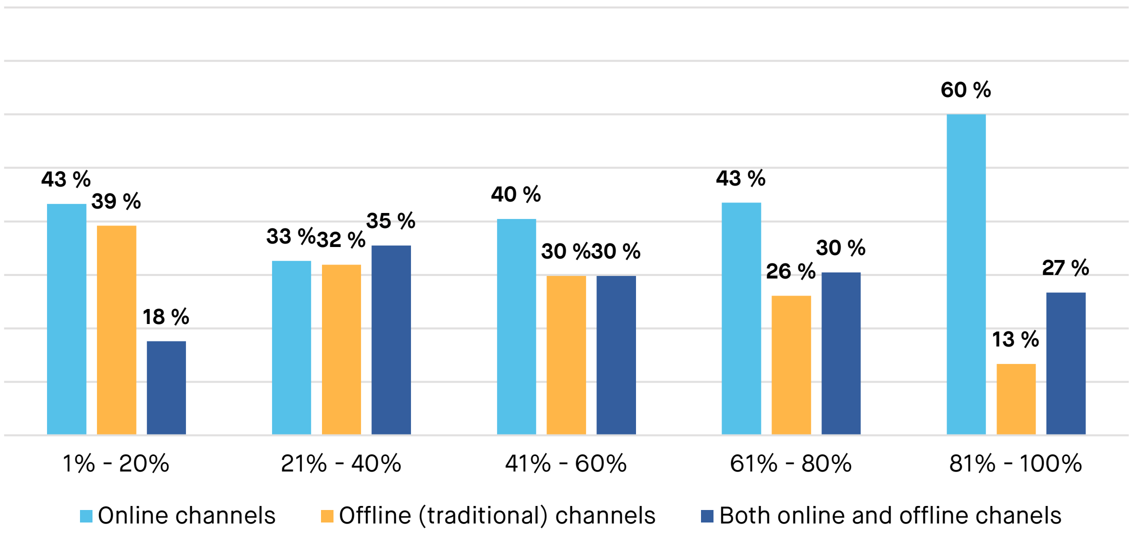
Source: SMF analysis

Benefits of e-commerce exports in particular

A boost in e-commerce exports would bring with it economic gains, but to what extent is it any different to an increase in export activity through other channels? There are a number of ways in which e-commerce brings with it unique benefits for businesses.

Firstly, and perhaps most obviously, is that internet-based commerce allows businesses access to a much wider market of potential customers, much more quickly and affordably, than other means. Retailers, for example, are no longer geographically constrained and there is less need for producers and sellers to have to engage with the complexities of finding and dealing with agents and distribution networks in other countries or developing expensive tailored marketing for different markets, among other challenges.

Figure 70: Proportion of SME turnover accounted for by goods exports using online and offline (traditional) channels for selling to overseas customers



Source: Opinium survey. Base: all exporting SMEs

Figure 10 shows that in all turnover categories the majority of goods exporting SMEs report using online channels, either wholly or in tandem with offline channels, as their route to overseas markets. Perhaps most notably, among those SMEs where exports account for 61% to 80% of their turnover, more than four in ten export using only online methods and 30% use online channels for at least some of their exports. Overall, more than 70% of firm deriving 61% to 80% of their revenues from exports do so using the internet to some degree for their overseas sales. Among firms that earn more than 80% of their revenues from exports, 60% export using online methods and more than a quarter (27%) use a mixture of both online and traditional channels. Overall, nearly nine in ten SMEs who derive such a large amount of their revenues from exporting are doing so either entirely or partially though online channels.

This indicates an advantage for firms who want to grow their exporting activities as a proportion of their turnover, that decide to use online channels. In comparison to the generally costlier traditional approaches, which requires investment in building a cross-border distribution network to supply products to overseas markets, and other such infrastructure.

The advantages of online marketplaces

Online sales' ability to rapidly reach a large audience is amplified further by the existence of digital marketplaces such as Amazon, eBay, Etsy, Facebook, Google and Shopify. Rather than having to develop a website and draw custom to it (for example through investment in advertising and search engine optimisation), businesses can list their goods on marketplaces which already have a mass audience, with many marketplaces operating in multiple countries targeted at local markets as well as being accessible to anyone around the world with an internet connection. The table below offers an idea of the scale of the reach of online marketplaces, across the world.

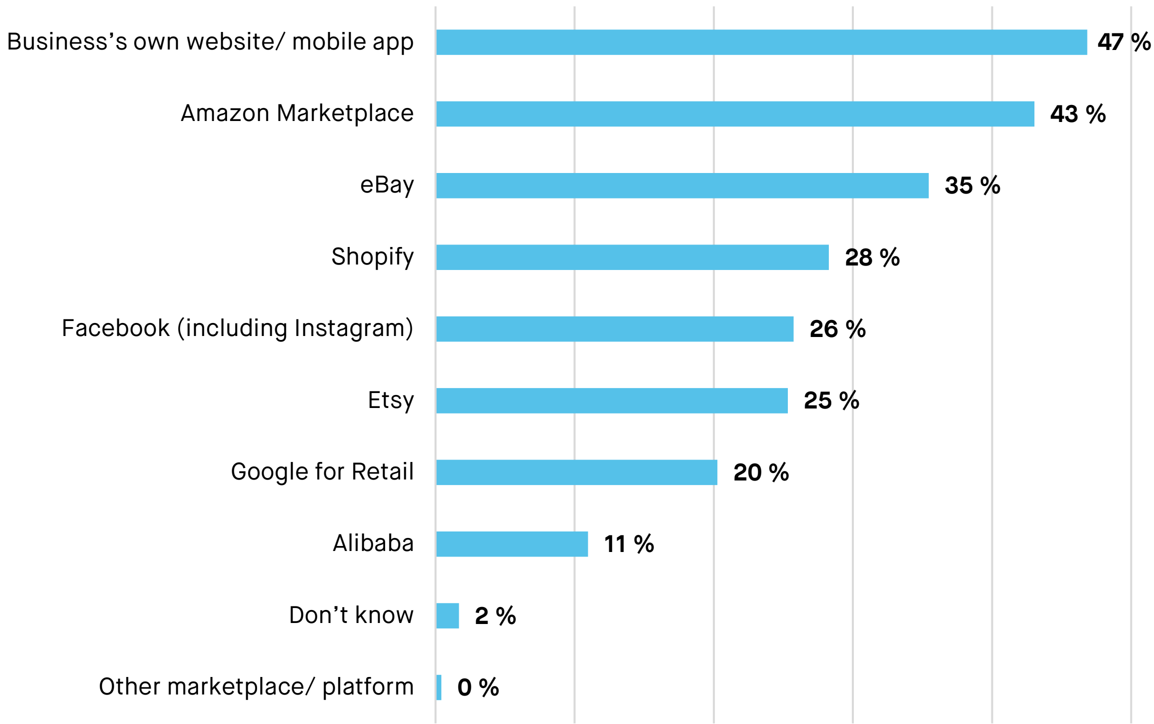
Table 1: Most visited online marketplaces and the typical number of monthly visits from consumers around the world

Online marketplace	Estimate of global monthly visits
Amazon	5,700 million
eBay	3,000 million
Shopee	631 million
Rakuten	591 million
AliExpress	526 million
Walmart	514 million
Mercado Libra	447 million
Etsy	398 million
Taobao	333 million
Wildberries	280 million

Source: Web Retailer (2022)

According to the Opinium survey of SMEs commissioned as part of this report, among businesses exporting goods online, just over two-fifths (43%) sold via Amazon Marketplace while a third (35%) used eBay.

Figure 81: Online channels used by SMEs to export goods



Source: Opinium survey. Base: all SMEs that export online

As two of the SME that took part in the in-depth interviews for this report, put it:

> *"It gives you a much greater market, without a shadow of a doubt… "*
>
> Exporting medium-sized business, Wholesaler, West Midlands

> *"[Marketplace] has been a bit of a lifesaver to be honest... before it was just our business website and word of mouth."*
>
> Small non-exporting business (considering exporting), Retailer, East Midlands

Several interviewees suggested they adopted a twin-pronged approach, selling goods on both their own website and marketplaces to cast as wide a net as possible. Some businesses did not sell their goods on marketplaces, but used digital platforms such as Facebook and Instagram to advertise their products and direct individuals to their own website (rather than using the marketplace offers of these platforms).

Additional services provided on marketplaces can also help reduce barriers to exporting, which may be particularly pertinent to smaller businesses. Examples include:

- Support with logistics, including through marketplace-operated courier services.
- Service provider networks, connecting businesses with services in other markets (e.g. compliance, storage and translation services).
- Support with cross-country VAT registrations and filings.
- Training and business accelerator programmes.

Case study: support provided by eBay's Global Shipping Programme

To sell internationally on eBay, sellers have three options.[11] Firstly, businesses can simply add international shipping to their .co.uk product listings and use their own carrier to ship the goods. Secondly, they can list directly on international eBay sites and use their own carrier.

The final option is eBay's Global Shipping Programme (GSP), where businesses add international shipping to their product listings but instead of their own carrier use the GSP.

One of the aims of the GSP is to reduce frictions to selling overseas, simplifying the process for businesses. Sellers simply post their items to an eBay Shipping Centre in the UK. eBay then takes care of duty payment, customs clearance and product tracking.

This approach also ensures that (prospective) buyers of products are not confronted with unexpected costs, as buyers will always see and pay the full postage, duties and taxes at the eBay checkout.[12]

Case study: support provided by Amazon Global Selling, Service Provider Network and Small Business Accelerator

With Amazon Global Selling, businesses can list and sell products on any of Amazon's marketplaces in the Americas, Asia-Pacific, Middle East, and Europe.[13] Fulfilment by Amazon, where a seller's products are shipped via Amazon, helps reduce administrative barriers to exporting. The European Fulfilment Network between the UK and the EU enables businesses to sell across the border without the requirement to register for VAT in the destination country. Amazon also takes care of duties and customs.[14]

Amazon provides a suite of other services aimed at making it easier for sellers to access international markets. Its Service Provider Network provides a directory of trusted service providers across the globe, helping businesses to find credible support in countries in which they are looking to establish a presence. This includes providers of accounting services, storage solutions, tax advice, translation, compliance services and advertising services.[15]

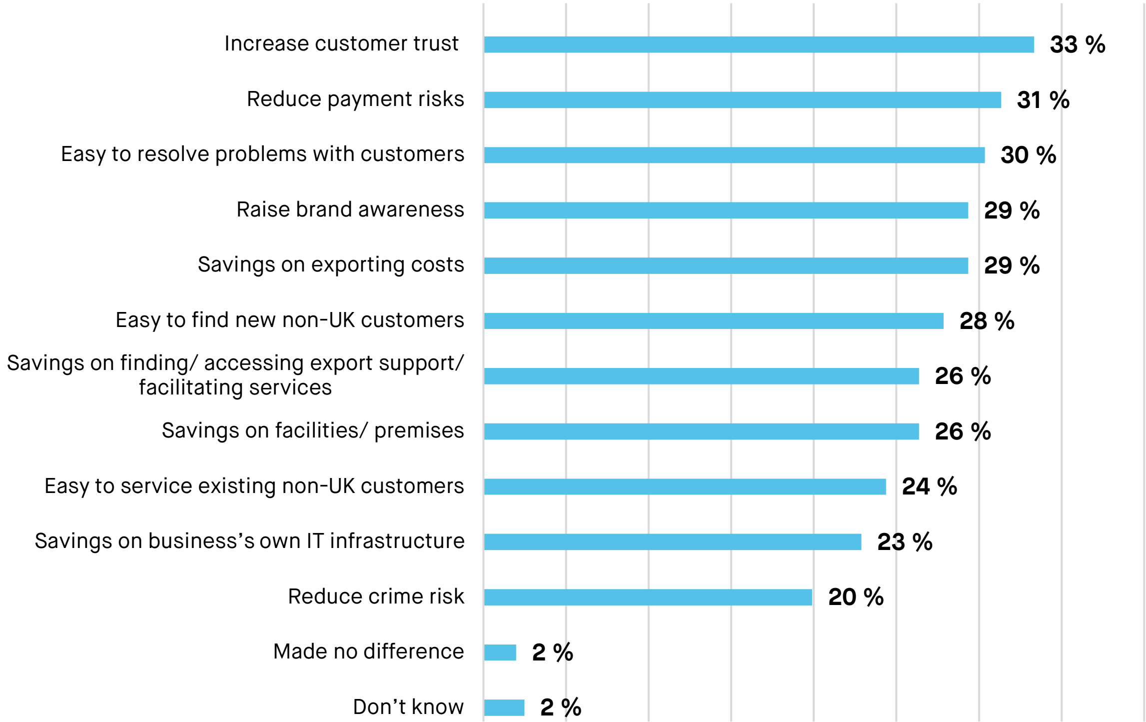
Amazon's Small Business Accelerator – a free, online educational programme for those looking to start or expand an online business – also provides advice for firms looking to grow internationally. Amazon says the scheme has supported more than 600,000 entrepreneurs since its launch in 2020[16]

A wide range of benefits of e-commerce marketplaces for exporters were cited in the Opinium survey of SMEs. A third of businesses exporting via online marketplaces said that marketplaces "increase customer trust" (33%),[xi] with a similar proportion saying that marketplaces "reduce payment risks" (31%) associated with cross-border payments. Three in ten agreed that marketplaces make it "easy to resolve problems with customers" (30%) and just under that proportion found that they helped "raise" brand awareness" (29%).[xii] Just 2% of current marketplace using exporting SME respondents said that using an e-commerce platform made "no difference".

[xi] Trust has been a challenge for e-commerce since it first emerged in the mid to late 1990s, as a result of the inherent uncertainty of distant transactions with often little-known suppliers. Therefore mechanisms – such as marketplaces, brands etc, - that can help generate trust among consumers who are a long way from the vendors is likely to encourage demand for those sellers and their products that can signal they're trustworthy through their use of "trust enhancing" mechanisms. Sources: Trust and distrust in e-commerce (2018), Trust in e-commerce (2005) and Cooperation of Cross-border E-commerce: A reputation and trust perspective: (2022)

[xii] Increasing trust among both customers and sellers also underpins – to varying degrees – these other (most frequently highlighted) benefits of marketplaces. Reducing payment risks builds confidence in what is being bought and sold and who is buying and selling. Raising brand awareness increases trust in sellers among the consumer and being easier to resolve problems with customers in other countries courtesy of the marketplaces rules and infrastructure also increases the trust levels on both sides of a transaction. This is no doubt particularly the case

Figure 12: Benefits of using (an) e-commerce marketplace(s) for exporting SMEs



Source: Opinium survey. Base: all who export using e-commerce sites

Another unique benefit of e-commerce exporting is that of "unsolicited exporting", which is a common phenomenon.[17] This term refers to overseas buyer-initiated exports i.e. serendipitous orders from overseas that a business may receive through its own website or an online marketplace, that the business has not deliberately sought out.

This phenomenon was raised in a number of interviews with key informants we undertook for this report. The scope for such "unsolicited exports" to serve as a gateway through which businesses could go on to become more "active" exporters, with developed strategies for selling their products in other markets, was highlighted.[18] In the recommendations section of this report, we return to this theme of "unsolicited exports" and explore the extent to which instances of such exporting may serve as a useful prompt point to encourage companies to think about exporting more actively.

Cases where alternatives to e-commerce may be preferred

Having said that, there may be instances where traditional exporting channels are more relevant than e-commerce via a website or marketplace. One point that came up in a few of our in-depth interviews was a preference among some businesses to focus on low-volume, high-value business-to-business sales, generated from establishing relationships with larger firms overseas. One largely wholesale business that we spoke

among the customers, who in some ways, are taking the bigger risk when buying from another country.

to was winding down their e-commerce sales expenditure as it was generating high-volume, low-value sales where marginal costs are higher and profitability lower:

> *"In last six months we have downsized the web division as we were spending so much on Google ads and online advertising. What we really want is large customers"*
>
> Occasionally exporting medium-sized business, Wholesaler, South East

This business was instead expanding its team of sales professionals with a view to establishing and building relationships with large-scale buyers.

Notably, as shown in Figure 3, a smaller share of manufacturing and wholesale businesses sell via a website comapred with retailers – perhaps reflecting a greater focus on bulk high-value B2B orders that are best achieved through more "traditional" sale routes. This may raise some questions around how the e-commerce experience – including through marketplaces – can be enhanced to better serve B2B businesses going forward.

CHAPTER THREE – BARRIERS TO E-COMMERCE EXPORTS

Barriers to exporting, including e-commerce exporting, for SMEs can be divided into two broad categories.[19] There are barriers largely "internal" to a business.[20] These include the nature of the product or products offered by a business and their suitability for exporting, competing business priorities, the stock of people and skills available and digital competence within a firm, having sufficient working capital and the preferences, intentions, ambitions and capabilities of an enterprise's owners and leaders and consequently whether they see exporting as a desirable objective for their business.[21] The other barriers which tend to dominate the debate on obstacles to trade, are (to varying degrees) "external" to the business. These can be technical in nature and interconnected. They are typically outside the ability of an exporting (or potential exporting) SME to directly influence. These will be the primary focus of this chapter. Such "external" barriers include:[22]

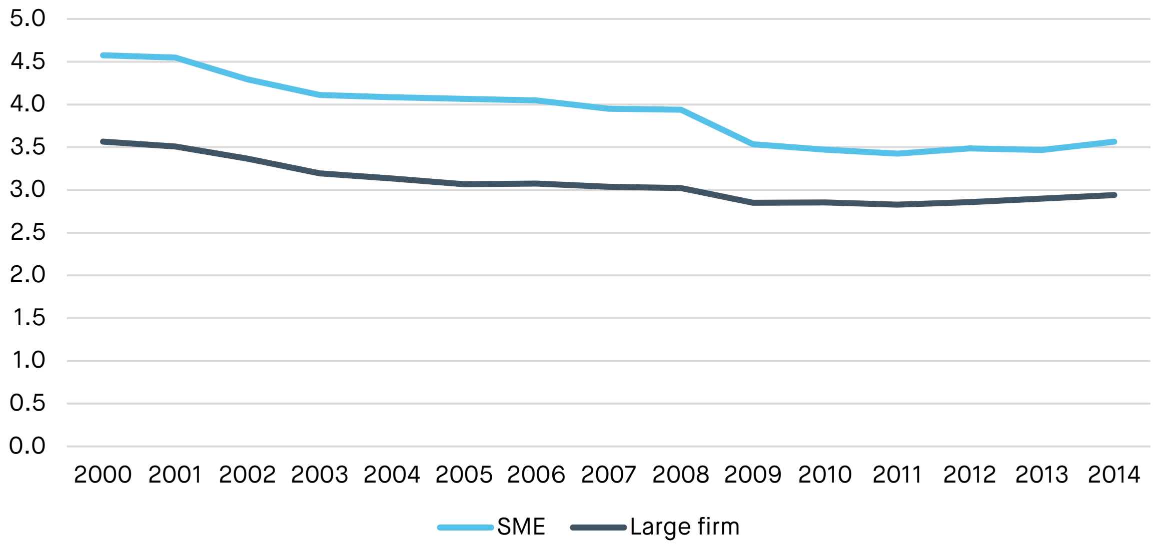
- **Policy barriers** such as the costs associated with customs processes, tariffs and taxation complexities.
- **Logistics** such as the time and money expended on organising and transporting goods across borders to their destination and risks linked to reliability.
- **Currency issues**, for example, foreign exchange fluctuations.
- **Ensuring product compliance with relevant** regulations in other markets.
- **Legal risks** like contract and liability issues, fees for advice and other legal work and the time it takes to get legal arrangements in place.
- **Lack of demand (or at least perception of a lack of demand) for the exportable product or products** and related information and search costs for both sellers and customers looking to enter or navigate a market or markets.

The comparative costs of exporting

Goods exporting is challenging for smaller firms in particular because many of the costs associated with it are fixed. Further, where they can be somewhat more variable such as those costs linked to logistics, SMEs typically don't have as much ability as bigger businesses, to negotiate about and absorb such costs. These financial costs, plus the time burdens and the inherent uncertainty related to moving into new markets or the expansion of existing operations mean heightened risks, which are less easily borne by smaller enterprises.

Figure 13 shows that the costs associated with exporting for SMEs are persistently higher than those faced by larger corporations (albeit with a narrowing of the gap around 2008-09).

Figure 13: Cost of exporting (as measured by the WTO's Trade Costs Index) for UK SMEs and large firms, 2000-2014



Source: World Trade Organisation

The pattern of higher overall export costs for SMEs is not just confined to the UK. It is evident in many of the worlds most advanced economies.[23] The World Trade Organisation's (WTO) Trade Index, which tries to quantify the costs of trade, shows there is a consistent difference across countries and across time.

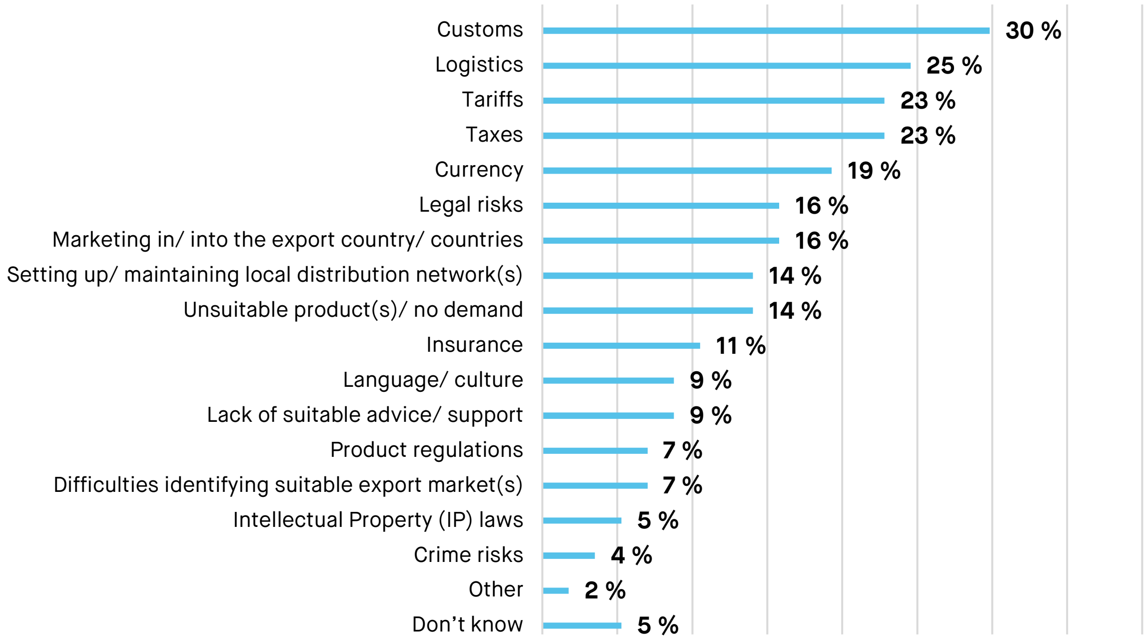
The "external" and some of the most salient "internal" barriers to starting to export and expanding existing exporting activity facing SMEs are explored below, drawing on findings from the Opinium survey commissioned as part of this research, as well as qualitative research conducted with UK SMEs.

The barriers to becoming an exporter

Businesses considering starting to export in the next two years

In our survey, we identified businesses who are considering exporting but not yet doing so. They were offered a list of reasons for not exporting and asked to identify the three obstacles that they considered the most significant to them. For those SMEs considering exporting, the most frequently cited obstacle to doing so was "customs" issues (30%). The second most-often selected barrier standing in the way of those considering exporting from "taking the plunge" was "logistics" (25%) followed jointly by "tariffs" (23%) and "taxes" (23%).

Figure 14: Barriers to exporting reported by SMEs considering starting to export in the next two years



Source: Opinium survey. Base: all non-exporting SMEs that are considering starting to export in the next two years

NB: respondents were asked to select their top three barriers.

The perspective of one of the interviewees from the in-depth interviews we conducted summed up a number of the main concerns many of those considering exporting have. The interviewee had actively thought about exporting, to the extent that they had engaged with some of the Department for International Trade's guidance on the topic, however, the business had ultimately been put-off by stories about the bureaucracy associated with customs, taxes, logistics and other trade-related complexities:

> *"…when I've looked on the government website on exporting, and the YouTube channel, the YouTube videos that they have, which are very helpful…but they don't…show the reality I think of, you know, it can damage the reputation of the company if something doesn't arrive…".*

The interviewee added:

> *"…I'm…put off with the stories I hear…a lot of people [say it is]… a lot of paperwork, a lot of hassle, expensive and time consuming… …nothing I hear is making me want to do it. It doesn't seem like an easy process".*

Summing up, the participant stated that:

> *"I think there are three things: it's the paperwork, cost and delivery…those three are up there really…"*
>
> *"I don't want to sound so negative, if it was easier, I would…But at the moment, I think my other concerns take over…".*

In the context of a small business that is "time poor" and "resource-constrained" (as overwhelmingly, they are), the comparatively large leap into the unknown of exporting can be considered, on balance, as too risky. Especially when the domestic market is growing sufficiently from a business's perspective, as it was in this case:

> *"…we are growing…I've taken on new staff this year…at the moment, we're focusing on supplying more local businesses…".*
>
> Non-exporting microbusiness, Retailer, Wales

A business-owner that we interviewed (who made and sold high-end candles), outlined how the product they manufactured was unlikely to be exportable, at least in the foreseeable future. In this instance, the reasons for the lack of interest in exporting were not that there was an absence of demand in export markets. It stemmed from his view that the products produced were unlikely to be financially viable as an export product, given the kinds of costs that are associated with exporting:

> *"…[exporting] is…quite a distant thought. How are you going to get some return… [when you]…spend £20 on charges and on…shipping…it just doesn't weigh up…"*

The interviewee elaborated with an example:

> *"…I've got a woman that's been messaging me on… [social media]… from Germany, and she's like…I really want to try your products and I'm like, what to send them to Germany? If you want to do so then.[I'm more]… than happy for you to…[but you've got to]…pay the shipping costs.".*

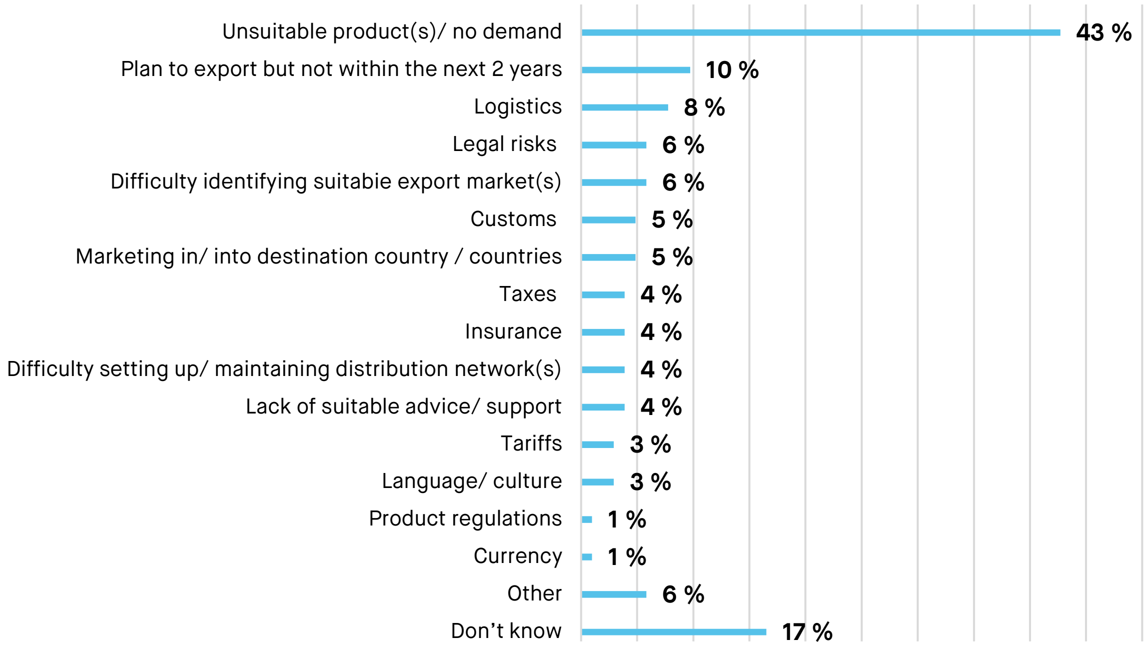
He went further, and told of another example, of how the cost of the logistics held him back:

> *"…I've shipped…a few times. And I think that was something like £90…if it was under two kilograms…[its]…just so challenging, because…you've got to make sure that the customer is not buying items that are going to be over two kilograms. And then you're charging them correct…because if they go over that, then the price like triples if you go over two kilograms. So if you've got a customer that's bought three candles, that's over two kilogram, so they're going to spend like £40 on shipping…just crazy…those prices…".*
>
> Non-exporting microbusiness, Manufacturer-Retailer, Yorkshire

SMEs not considering exporting in the next two years

Firms that do not have any intention of exporting in the next two years, report most often the barrier to them exporting – as Figure 15 demonstrates – is that their product is or products are unsuitable for export or there is little demand among customers in other countries for what they sell (43%). In some cases these two reasons are closely entwined with one another.

Figure 95: Barriers to exporting facing non-exporters SMEs with no intention of exporting in the next two years



Source: Opinium survey. Base: all non-exporting SMEs that are not considering starting to export in the next two years

NB: respondents were asked to select their top three barriers.

An SME owner spoken to as part of the in-depth interviews, who was running a high-end chocolatier business, highlighted how exporting had passed through her mind not least because she had been encouraged to try it by a local business organisation. However, she remained sceptical that her product would be suitable for the kind of export markets where it would "fit best" because of the nature of the competition her products would face there. Consequently, exporting was not an avenue the business was pursuing or likely to:

> *"…I have been you know approached by the… [local business organisation]… they have said that they would try to help me…give me information, give me…help…[but]…with my, with my product, you know, I was trained by a…French master chocolatier. So, you know, you're up with big, big companies up there within Belgium, France, so, you know, little tiny old me and the two girls would be kind of lost in that kind of area, you know, exporting to them kinds of countries".*

In contrast, in Northern Ireland, where the business operates, the interviewee described how the business was growing steadily, with the distribution networks for her chocolate expanding at a pace the business could cope with:

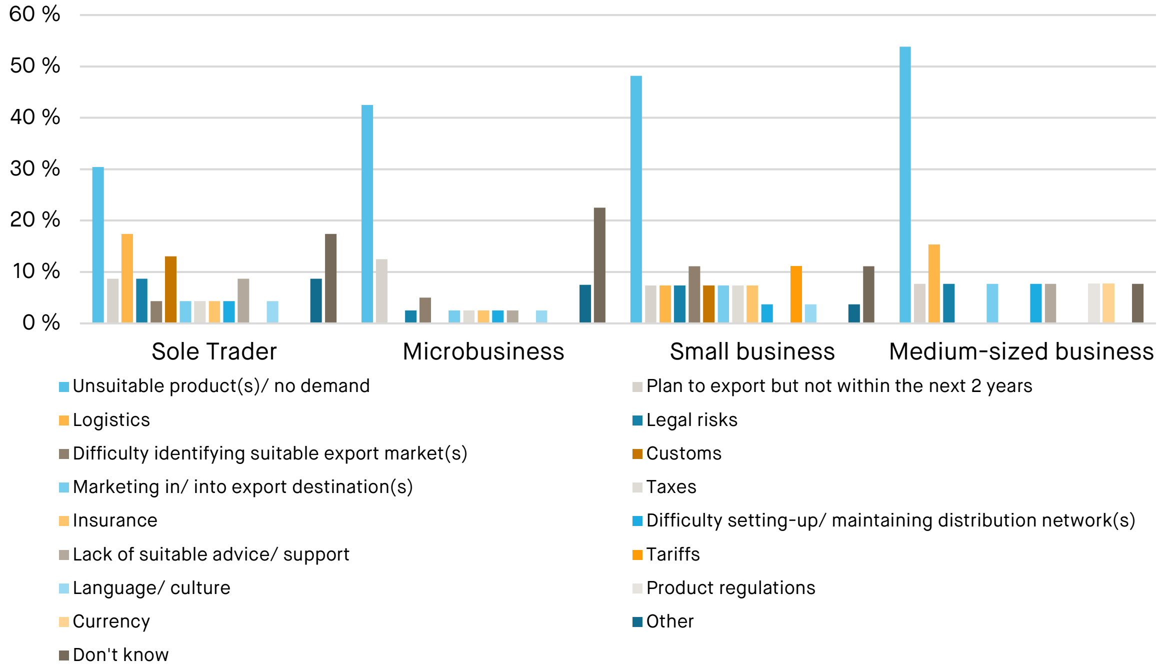
> *"…I…sell to local companies…my product is…within some of the local shops, and I sell to the local Spar…which distributes through the whole of Northern Ireland…and then it's part of Henderson's…and…it's basically… [social media platforms]…and the website…".*

Non-exporting microbusiness, Manufacturer-Retailer, Northern Ireland

Levels of disinterest in exporting vary by firm size

Figure 16 shows that the key role of the perceptions, by owner-managers, of the suitability of the product or likely demand in overseas markets, remains the most frequently cited obstacle cross-border selling for SMEs, no matter their size. However, there is some variability in the proportion of respondents in each category citing it.

Figure 16: The barriers to exporting, facing non-exporting SMEs with no intention of exporting in the next two years – business size



Source: Opinium survey. Base: all non-exporting SMEs that are not considering starting to export in the next two years

NB: respondents were asked to select their top three barriers.

Among sole traders 30% reported "unsuitable product(s)/ no demand" as a top three reason why they were not contemplating exporting. For microbusinesses this increased to 43%. Nearly one in two (48%) small enterprises said it was one of the three main reasons they have not tried to go down the exporting route. Over half (54%) of medium-sized business gave this reason for not contemplating exporting.

Leadership is key in turning a business toward exporting

As noted at the beginning of this chapter a central determinant of whether a firm becomes an exporting business or not are the motivations, ambitions and capabilities of the owner-manager or the leadership team of an enterprise.[24] [25] [26] Many micro and small businesses have limited growth ambitions and are more focused upon stability. Others may have "steady growth" ambitions.[27] For such businesses, the upfront costs and risks that exporting can involve are not part of their plans and they are unlikely to see exporting as a risk worth taking. Consequently, it is unsurprising that a proportion of SMEs will see their business model and what they produce as unsuited to exporting.

Among the interviewees spoken to as part of the research for this report, several fell into this category of disinterest. This was despite them all being successful domestic businesses. In some cases there was interest from buyers abroad, but the business owners were steadfast in their reluctance to get involved with exporting. One such business was a clothes retailer, who along with her husband was running the business at "just the right speed" and saw no need to move into exporting:

> *"…it's enough for what we need. I don't want to be, like, you know, a bike. I just want to do it at this pace…We need to aim…[to]…walk through it…it's just getting a work life balance…".*
>
> Non-exporting microbusiness, Retailer, Scotland

While some SMEs may be tempted to move into exporting more fully as a result of engaging in "unsolicited exports" – demonstrating to themselves that they can export successfully, despite the obstacles – others will remain reluctant to take such a step.

The challenges to export growth faced by current SME exporters

There are broad range of barriers hindering the ability of existing exporting SMEs to increase their exports

Encouraging existing SME exporters to expand is likely to prove the easiest way to increase the UK's export volumes. Those who have had the opportunity to go through the learning curve that all exporters face,[28] [29] have acquired sufficient knowledge about exporting that will tend to make expanding into new markets or finding more customers in existing export destinations easier than for the less experienced "considerer" businesses that are contemplating moving into selling overseas.

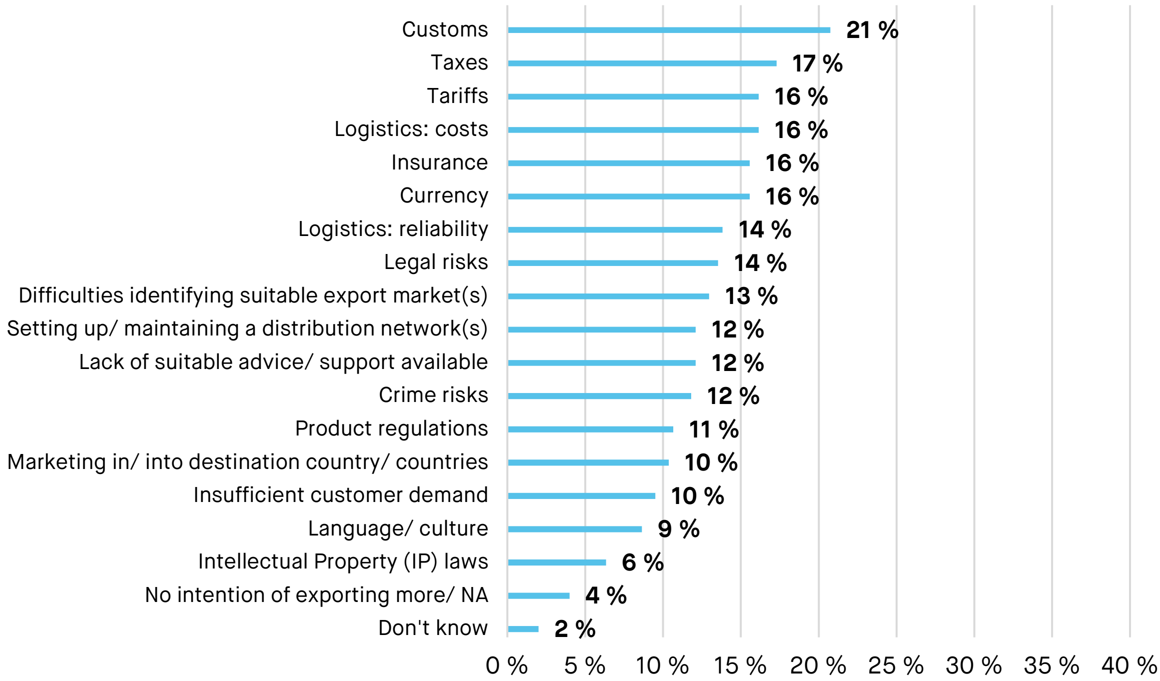
Nevertheless, as Figure 17 demonstrates, "seasoned" exporters still face a range of hurdles to increasing their exports. When already-goods exporting firms were asked about the three most significant barriers to expanding their exporting activity further, "customs" (21%) was the most frequently provided answer, followed by the challenges linked to dealing with "taxes" such as VAT (17%), closely trailed by "tariffs" (16%), the costs associated with "logistics" (16%) and "insurance" (16%).

Comparing the results in Figure 17 with those highlighted in Figures 14, shows the similarity in the barriers facing existing exporters and those "considerers". The four most frequently cited barriers in both instances are "customs", "tax", "tariffs" and "logistics". Suggesting these are the most persistent problems for SME exporting and worthy of much of policymakers focus.

However, there are small but notable differences in the proportions of "considerers" reporting these four barriers compared to the proportion of already exporting SMEs.[xiii] This difference is likely evidence of the impact of experience, as noted above.

[xiii] For example, "customs" is the barrier most often highlighted by both existing SME exporters and "considerers". More specifically, 21% of SMEs currently exporting firms saw this as a barrier to them growing their exports, while 30% of "considerers" believed "customs" to be an obstacle to them starting to export – a 9 percentage point gap. Such gaps are evident on the issue of taxes too, where 17% of existing exporters cited taxes as a problem, in contrast to 23% of "considerers". In relation to tariffs there is a 7 percentage point gap (16% compared to 23%).

Figure 17: Barriers to export expansion reported by SME exporters



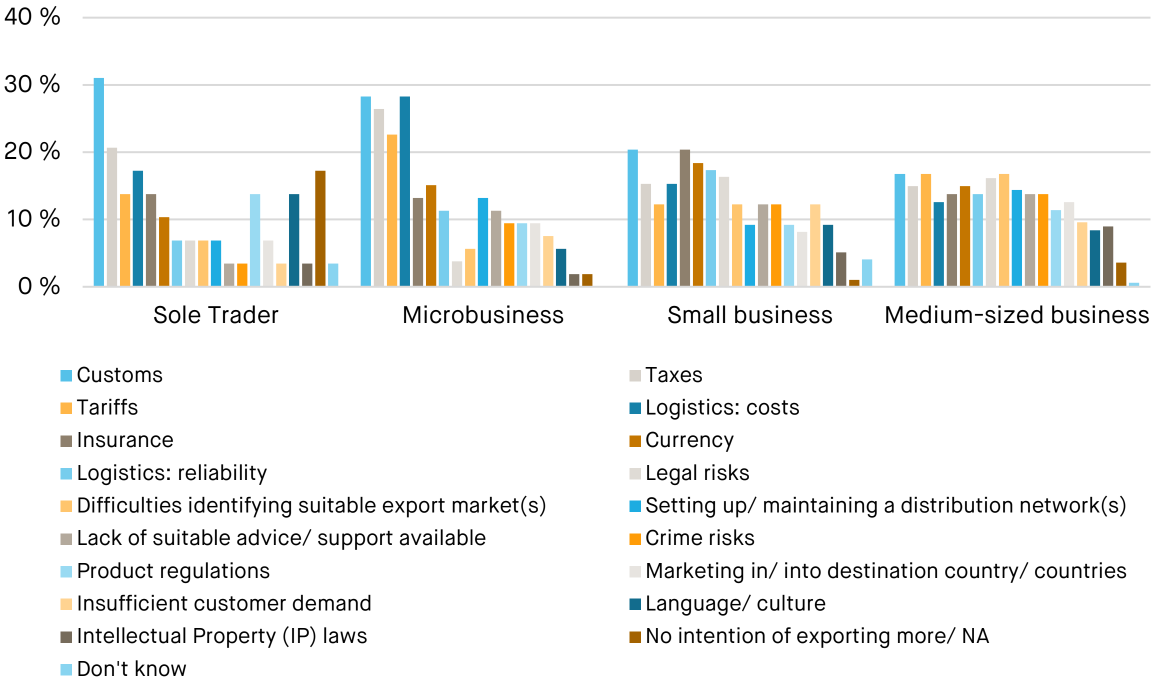
Source: Opinium survey. Base: all exporting SMEs

Business size and constraints on export growth

When the barriers faced by current exporters are broken down across different business sizes (Figure 18) the salience of customs issues as obstacles to export growth diminishes somewhat as firms get larger.

On the issue of logistics, the experienced exporters highlighted the "cost" in particular as a challenge (16%), while among "considerers" 25% said that logistics more broadly were a hinderance to their starting exporting.

Figure 18: Barriers to export expansion reported by SME exporters – business size



Source: Opinium survey. Base: all exporting SMEs

The decline in the relative prominence of customs issues among SMEs as they get larger is because the many of the costs associated with customs are fixed.[30] Therefore, as the volume of exports grows in absolute terms the burden of customs as a proportion of turnover falls. Learning and routinising relevant processes – which are strongly linked to the experience of exporting more – are an important part of reducing the costs of customs processes because they lead to efficiencies in dealing with customs. Therefore, the more exporting a firm can do, the less of an issue key barriers such as customs will be, creating a virtuous circle.

While e-commerce per se doesn't reduce the fixed cost of customs issue,[31] it can reduce some of the other costs associated with exporting, especially some of the upfront investments required. Further, it often provides the opportunity to scale-up exporting activity at lower cost, too, compared to those that would be incurred if an exporter used more traditional approaches to overseas markets. This factor is evident in Figure 10, which shows that the more an exporting firms turnover derives from exports, the higher the proportion using online channels for exporting.

Reflecting the survey data, customs issues came up regularly in the interviews we undertook with business owners. The story of one microbusiness making bespoke jewellery and other accessories typified a number of experiences that interviewees reported about dealing with customs issues.[xiv] In this case the business had pared back its exporting activities for a number of reasons, but customs was a key one:[xv]

> *"I get a few [overseas orders]… but you've got to fill out the [customs] declaration… there's the codes… the EORI number…I found it all confusing, absolutely confusing".*
>
> Occasionally exporting microbusiness, Manufacturer-Retailer, South West

Another interviewee who made designer bags, noted that the interaction of customs and tariffs made her products price uncompetitive in many markets, which had resulted in her not pursuing more export opportunities beyond the handful of "unsolicited sales" she makes abroad:

> *"I mean, we…get an order here and there. But…because of customs and duties…if [customers] can get it for a similar cost somewhere else around the world, then why would they pay customs and duties for something from the UK and have to faff around with that? It's just not worthwhile for them…And this is feedback that we've had from the customers…So, I've just left it…I've just not pushed it anymore…".*
>
> Exporting microbusiness, Manufacturer-Retailer, Yorkshire

A third participant described how the complexity of customs bureaucracy meant extra business risk for them, such as products not reaching customers:

> *"I've had a few parcels which have…been sent back to me and then rejected as having a mistake on the customs form. And I've just sat there and looked at this form and I'm thinking, well, hang on, I followed the step-by-step guide. I have put in everything I've been told to put in on this form. Everything is as far as I can tell correct! And there's no way of knowing so it feels like a bit of a lottery as to whether or not I'm going to get things to their intended destination…".*
>
> Occasionally exporting microbusiness, Manufacturer-Retailer, South West

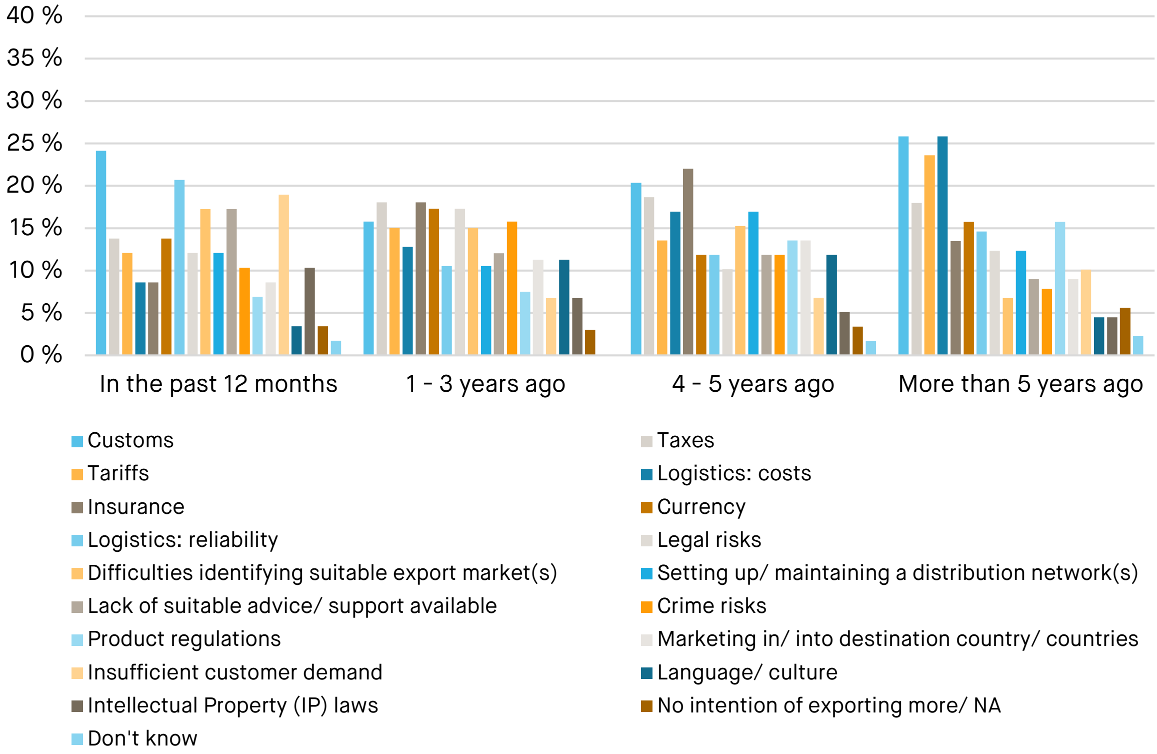
Export experience and constraints on export growth

Figure 19 shows that, as experience of exporting grows over time, while customs still remains an important barrier for a plurality of SME exporters, the mix of the most prominent obstacles to growing exports changes.

[xiv] There are myriad challenges with customs processes (e.g. declarations and checking common transit rules, classifications, invoices, duty payment, proofs of origin, possible licences and certificates) for SMEs, especially those less practiced in dealing with them. Ensuring accurate descriptions of the goods being shipped is a recurring challenge. Accessing, understanding and complying with Harmonised System (HS) codes is not a straightforward process, especially for those newest to exporting. In our stakeholder engagement it was noted in a couple of the interviews that some couriers offer a service to exporters where the logistics providers take-on some of the responsibility (and therefore the liability) for customs compliance. Source: Finding commodity codes for imports into or exports out of the UK - GOV.UK (www.gov.uk)

[xv] The EORI number is the Economic Operators Registration and Identification (EORI) numbers required of firms that want to export into the EU.

Figure 19: Barriers to export expansion reported by SME exporters – length of time exporting



Source: Opinium survey. Base: all exporting SMEs

For firms that are the newest to exporting, in addition to "customs" (24%), the "reliability of logistics" (21%), "customer demand" (19%), "difficulties identifying suitable export market(s)" (17%) and "lack of suitable advice and support" (17%) were raised as barriers to expanding exporting activity further.

Among the somewhat more experienced firms (i.e. those exporting for between one and three years) the range of obstacles become somewhat more evenly distributed across the full range of challenges. However, issues of "taxes" (18%), "insurance" (18%), "currency" (17%) and "legal risks" (17%) were most commonly selected as obstacles to more exporting, with "logistics" (16%) and "crime" (16%) close behind in frequency.

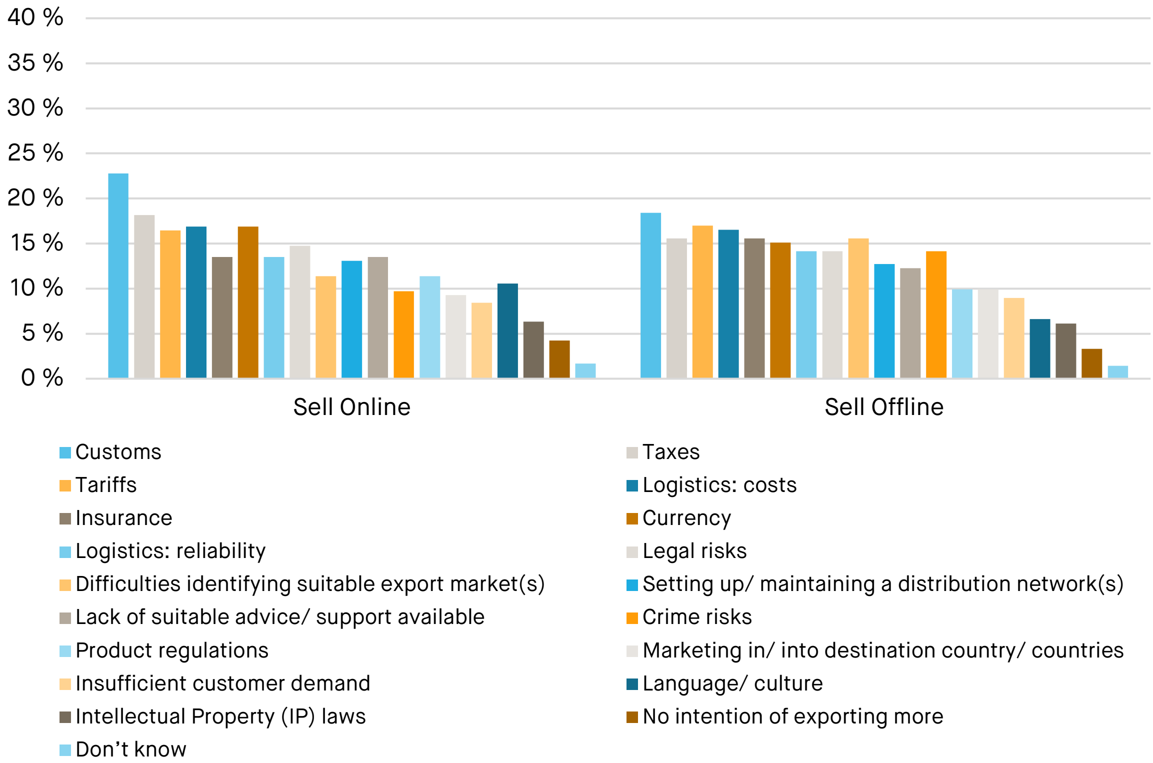
As SMEs become more experienced i.e. move into their fourth or fifth year of exporting, Figure 19 shows that issues of "insurance" (22%) and "setting up distribution networks" (17%) become more salient, along with the persistent challenges of "customs" (20%) and "tax" (19%).

The most experienced goods-exporting businesses report "customs" (26%), the "cost of logistics" (26%), "tariffs" (24%) and "taxes" (18%) most often, as the barriers that stand in the way of expanding their export activities.

Little difference between the obstacles to export growth identified by those SMEs exporting through online channels and those offline

Figure 20 reveals that there is not a great deal of difference in the distribution of obstacles to growing exports facing already exporting SMEs, between those who are selling through online channels and firms that export through more traditional (i.e. offline) methods.

Figure 20: Barriers to export expansion reported by SME exporters – selling channels



Source: Opinium survey. Base: all exporting SMEs

The respondent answers presented in Figure 20 show that among those SME's using online channels to sell their goods, the most frequently described obstacles were "customs" (23%), "taxes" (18%), the "cost of logistics" (17%) and "currency" (17%).

For SMEs that are already exporting goods but do so through offline methods i.e. more traditional routes, the most cited obstacles to further exports were "customs" (18%), "tariffs" (17%) "cost of logistics" (17%), "taxes" (16%) and "difficulties finding suitable export market(s)" (16%).

There is perhaps one notable difference among the most prominent barriers to currently exporting SMEs expanding their exports, cited by those enterprises that are exporting online and those using more traditional methods. Among the latter the problem of "difficulties finding suitable export market(s)" was more salient (by five percentage points) than among respondents selling digitally. This indicates there is a slim but notable advantage for more of those businesses exporting online who are looking to expand their export activities further. On the other hand, it is worth highlighting the five percentage point difference between the proportion of SMEs selling online that report customs as a barrier to export expansion and firms selling overseas offline. Suggesting that, while customs remains the most salient hinderance for some, it is not important for marginally fewer traditional exporters.

In summary: the key external barriers constraining SME exporting in general

The main obstacles holding back already exporting firms and businesses considering exporting

The survey and qualitative evidence (described in this chapter) exploring the key barriers to increasing exports among UK SMEs, suggests that – in broad terms – customs, tax issues, tariffs and the cost of logistics tend to be the predominant constraints on existing exporters expanding their export activities. The most important barriers hindering those SMEs considering exporting are largely the same, albeit a higher proportion of "considerers" cite these four as barriers and for "considerers" the logistics barrier is broader than cost. This suggest that policy interventions which could help tackle these issues are likely to drive increased exports by UK SMEs.

Beyond the "quadrumvirate" of the most salient issues, there is a second tier of re-occurring factors, which some exporters and potential exporting businesses highlighted as barriers to future exporting. These include: currency, the reliability of logistics services, the difficulties in identifying suitable additional customers/ markets, insurance, legal risks and product regulations.

The implications of this second tier of barriers are that – while tackling the first-tier challenges will make the biggest difference to the largest proportion of SME exporters and those considering becoming exporters – ameliorating some of the second tier issues through policy measures where possible. will also help a substantial, albeit smaller, proportion of SMEs to expand or begin exporting.

The challenges of encouraging enterprises not interested in exporting

For those who have not considered becoming exporters, the main challenge is more fundamental than the first and second tier barriers to exporting, descried above. Rather, it is for those much less interested in exporting, the extent to which their product offer is suitable for exporting in the first place or whether there is likely to be any demand for them is the "stand out" obstacle.

This indicates that encouraging the many SMEs that are not already considering exporting in the medium or long-term, will require significant changes in the mindset of those business owners, to take the risks associated with attempting to become an exporting enterprise.

Other "internal" constraints on e-commerce exporting

So far, this chapter has focused on the "external" barriers to exporting, that cut across both those exporting through online and offline channels. However, there are "internal" challenges that negatively impact on a SMEs ability for engaging in e-commerce successfully and by extension e-commerce exporting.

As identified at the start of this chapter, these "internal" factors are largely (although not necessarily wholly) under the influence of SMEs themselves. A key one is the digital competence of businesses. Another is the nature of the leadership of a business i.e. the preferences, ambitions and capabilities of the owner-manager or leadership team. The interaction of both these "internal" factors is briefly explored in Box 1.

Box 1: digital capability as a barrier to e-ommerce exporting success

The adoption and optimal use of information and communication technologies (ICT) has been a longstanding challenge for SMEs in many countries,[32] compared to their larger counterparts.[33] Yet, as noted at the beginning of this chapter, digital capabilities are a key "internal" factor linked to a business's competitiveness, in general and in-turn their export – or potential for export – success in particular.

Recent Open University analysis found that over 70% of surveyed SMEs had awareness of a range of "digital tools and services".[34] However, the same work showed that there was a lack of in-depth to the knowledge of SME leaders about the range of technologies they were aware of.[35] For example, the research found that just under four in ten SMEs (39%) saw technology as likely to increase efficiency, while slightly below a third (31%) considered the adoption of technology to be linked to increasing business revenues and fewer still (27%) believed technology investment would result in higher profits (27%) for them.[36]

The reasons behind the digital capability deficit in many SMEs are complex. They start with the leadership in a business and a leader's decision-making, which are bound up with the inherent challenges of being small e.g. sole traders, micro and small businesses in particular have less internal capacity and limited liquidity and are time and information constrained, among other factors.[37]

The digital capability challenge cannot be entirely divorced from the wider business environment either. For example, smaller enterprises can struggle to access external investment which could ameliorate some of the financial constraints they face. The nature of the competition a business confronts and the prevalent culture in an industry and the behaviour of peers also play a role and crucially, so too does the digital infrastructure of countries. The UK still lags behind some countries, for example, on access to high quality internet.[38]

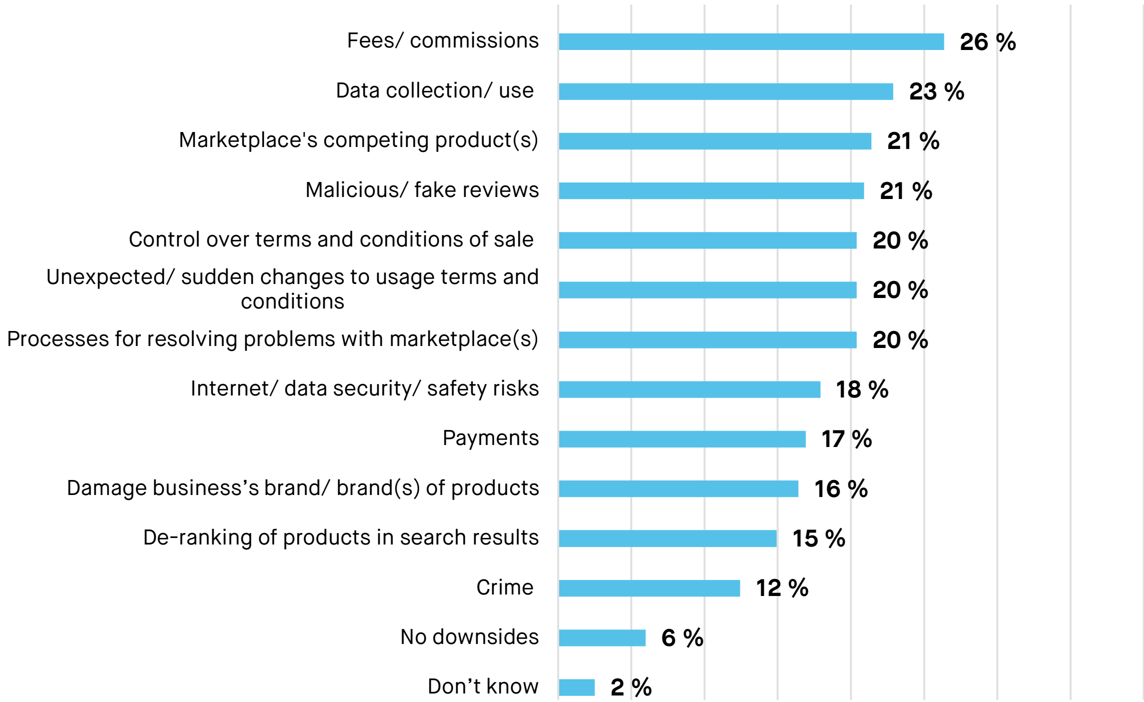
Specific challenges associated with exporting via online marketplaces

Returning to “external” challenges to SME e-commerce exporting, as Chapter Two illustrated, online marketplaces offer a number of distinct advantages to SME exporters that can help mitigate some of the hurdles faced by exporters and “considerers”. Consequently many thousands of UK businesses choose to use them as a route to overseas markets.

Despite the benefits they can offer, our research suggests that marketplaces can have their downsides for SMEs – indicating some scope for improvement.

We asked exporting SMEs to identify the three most significant downsides to operating through online marketplaces. The most often-cited factor was the “fees/ commissions” which sellers pay, to operate on a marketplace (or marketplaces). This was cited by 26% of exporters that use them.

Figure 21: Reported downsides for UK SME exporters of using online marketplaces



Source: Opinium survey. Base: all SMEs that export using e-commerce marketplaces

The second most frequently proffered downside was “data collection/ use” by marketplaces (23%). Just over a fifth (21%) of exporting respondents that use marketplaces said that the sale of the “marketplace’s competing products” in direct competition with those of SME sellers was a downside of using such platforms (21%). An equally frequently reported downside was the (perceived or actual) prevalence of “malicious/ fake reviews” (21%).

The comments of one microbusiness retailer in the in-depth interviews that we conducted suggested some frustration about a lack of autonomy for marketplace uses to have more autonomy over setting terms and conditions of sale. Specifically, rules around customer returns had proven to be detrimental to the interviewees business:

> *"...the other downside to this, which really infuriates us, is when a customer returns an item to us, and it's put down as...our fault. ...If we get a certain amount of returns back, and the customer has blamed us, then...[the marketplace]...punishes us by...fees....not only do we get customers who, you know, tell 'porky pies', send goods back, we have to pay for that return, you have to give them a full refund, that then...[the marketplace]...punishes [us]".*
>
> Exporting microbusiness, Retailer, North West

Another made a similar point, not only about returns but other terms and conditions that sellers have to adhere to on some marketplaces:

> *"...[the marketplace]...are very quick to refund customers, they'll refund first and ask questions later... Well, hang on. How is that fair? I've done all of the things that I should be doing that...I fulfilled my legal responsibilities, this customer isn't actually entitled to a refund...so, it just damages trust... [in addition]...you have to be responding to customer communication within a certain timeframe. And it's hours, not days or weeks, or you have to dispatch your items within a certain timeframe. And it has to be ahead of whatever stated dispatch times you have. And it is quite a difficult thing...there are an awful lot of hoops to jump through...".*
>
> Occasionally exporting microbusiness, Manufacturer-Retailer, South West

Balancing the downsides against the upsides

As this chapter has shown, most e-commerce exporting businesses using marketplaces consider there to be downsides – with 6% reporting "no downsides" to using them, and 2% of "don't know". However, as Figure 12 demonstrated only 2% of SMEs using marketplaces said being on a marketplace "made no difference" to their business, with a further 2% saying "don't know".

For almost every seller exporting goods using online methods or considering becoming an e-commerce exporter, there is a balance of upsides and downsides to consider when deciding on the best channels to market, whether they be developing and using a firm's own website or utilising an online marketplace, or some combination of the two. The data in Figure 11 suggested that both are widely used by SMEs selling online. The qualitative research for this report found that many SMEs used both routes to market in tandem, complemented in many instances by an active social media presence, all to maximise their online presence as much as possible.

CHAPTER FOUR – THE NATIONAL POLICY LANDSCAPE

The previous chapters explored the benefits and barriers to e-commerce exporting. Ultimately, maximising the gains from additional e-commerce trade – so the UK can benefit from the kinds of economic returns modelled in Chapter Two – will require a conducive policy environment. Before setting out our recommendations (Chapter Five) on how we believe policy can further help support both more UK SMEs (through e-commerce) to become exporters and existing SME e-commerce exporters to increase their volume of exports, we first provide an overview of some of the current policy landscape and data on the use of support with exports by currently exporting SMEs.

The UK's trade strategy

In 2021 the Department for International Trade (DIT) published its export strategy: "*Made in Britain, Sold to the World*". The ambition of increasing the UK's exports to £1 trillion a year is to be achieved through the implementation of a 12-point plan (see Box 2).

Box 2: DIT's 12-point plan for supporting UK exporters

- The launch of the Export Support Service (ESS), aimed at providing an "end-to-end" support offer for firms exporting to European countries initially. Ultimately the goal is to support firms exporting to all markets around the world.
- The opening of new DIT offices around the nations and regions of the UK to have a presence closer to exporters.
- Financial support for exporters, with 7,500 firms helped with the financing to "internationalise".
- An expansion in export credit finance through UK Export Finance.
- Government-to-government arrangements which aim to open to UK firms, public sector contract opportunities in other countries.
- The delivery of bespoke training and tools for potential exporters through the UK Export Academy, aimed at helping firms better understand the requirements associated with exporting and identifying exporting opportunities.
- Extending business-to-business networks and encourage more peer-to-peer learning among enterprises, through the creation of more Export Champions.
- Implement an export marketing campaign, with a focus on "priority sectors".
- Starting-up a UK tradeshow programme (UKTP).
- Reforming regulation to help make exporting easier.
- Utilise the UK's existing presence in other countries e.g. in embassies and missions, etc, more effectively to provide market specific support for UK exporters and potential exporters.
- Continue to sign trade deals with other countries and aim to have arrangements that cover 80% of the UK's current trade in place by the end of 2022.

Source: Department for International Trade

The strategy is approximately a year old. Consequently, there is – as yet – no clear evidence as to its impact on exporting. There may be indications as to whether policymakers can expect it to be successful in the longer run, from other examples of export support provided in the past.

The international evidence suggests export promotion agencies can make a difference, not least in encouraging non-exporters to begin exporting.[39] The UK picture is somewhat more equivocal but on balance there are signs that export support has worked in the past for at least some UK businesses:[xvi] [40]

[xvi] It should be noted that there is some lingering ambiguity as to the exact mechanisms through which support works. Source: SME innovation, exporting and growth: A review of existing evidence

- One analysis of the GREAT campaign – a previous attempt by governments to encourage exporting – suggested that its overall impact on exporting by UK firms was ambiguous.[41]
- A study of the influence of UK Trade and Investment (UKTI) on exporting firms suggested that it was positive, with increases in turnover, labour productivity and in the survival rates of those firms that engaged with UKTI's services.[42]
- Analysis of specific aspects of export support such as marketing grants,[43] efforts to increase general exporting knowledge,[44] assistance to enter specific overseas markets, [45] [46] found positive effects from these kinds of initiatives on exports. The latter appears to have benefits for firms trying to enter specific markets as well as on broader export performance.[47]
- UK Export Finance argued that their export support efforts alone, added more than £4 billion (gross) to the national economy in 2021-22.[48]

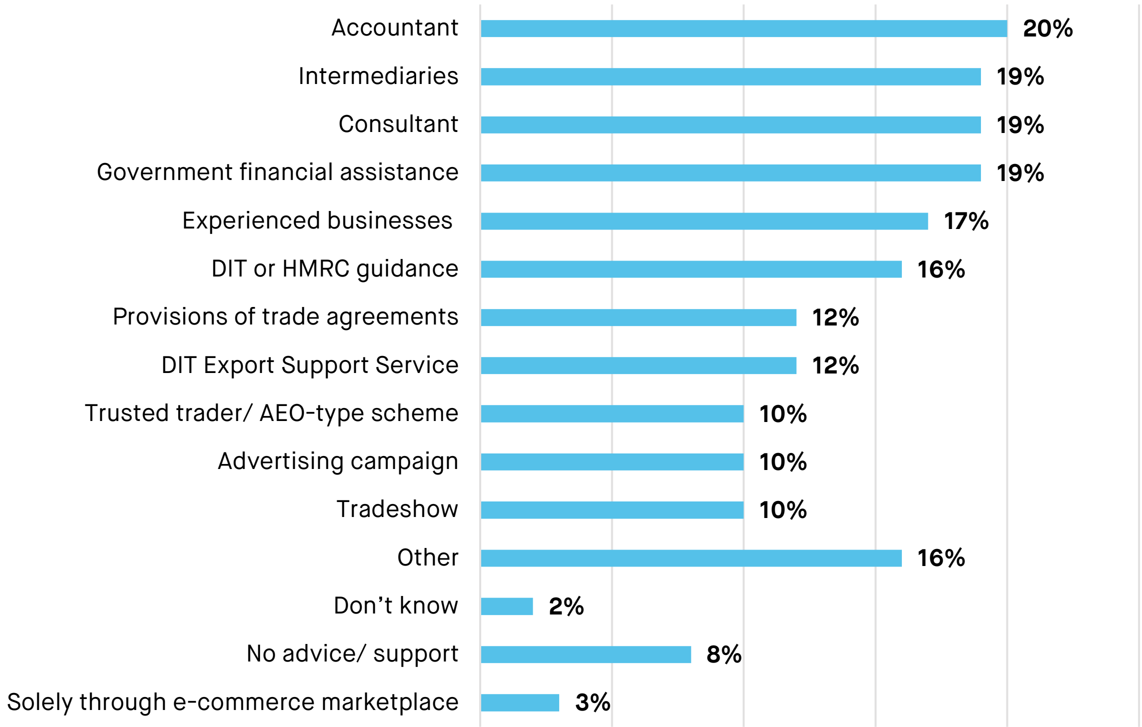
Previous support efforts have failed in a number of areas however.[49] For example, the users of such support tended to be self-selecting, with a bias towards manufacturing firms among those helped by UKTI in the past. Further, participant businesses have tended to be larger, older and already more productive and involved in internationally focused and intellectual property producing activities.

Success for the new strategy would seem, in-part at least, to lay in recognising that firm-level characteristics and circumstances are important variables as to whether export support will "cut through" and be helpful.[50] Therefore, efforts which are too general and do not work with the grain of the diversity of businesses are less likely succeed.[51]

Sources of help sought out by current SME exporters

Results from our survey, set out in Figure 22, show that most currently exporting SMEs engaged with at least one source of help over the issue of starting, maintaining or growing their export activity. However, support seems to be predominantly from private sources.

Figure 22: Use of selected sources of help by SME exporters to start, maintain or grow exporting activity



Source: Opinium survey. Base: all exporting SMEs

Nevertheless, it is noteworthy that just under one in five (19%) had accessed government financial assistance of some kind. Around one in seven (16%) had engaged with DIT or HMRC guidance to help them. This suggests that for a minority of exporting SMEs, aspects of the government's support offer cut through.

In the qualitative research with exporting and non-exporting SMEs conducted to inform this report, there was little awareness of DIT or HMRC's activities to help exporters.

A microbusiness that had once been exporting more but whose exports had declined to "a trickle", and could perhaps begin to increase their exporting again in the right circumstances, described how government websites and guidance failed to reach her business and expressed scepticism about how usable any such support would be to smaller enterprises:

> *"...how many people actually know it's there and how well tailored is it to actual businesses? It needs to be...in the eyeline of the small business...like the eyeline for me...would be on [social media]...all the small businesses that are on...[social media platform]...they need to get in the eyeline, they need to advertise...they need to get in the eyeline on these...places...I don't have time to go look...I'm so busy just trying to keep up with what I'm doing at the moment...".*
>
> Occasionally exporting microbusiness, Manufacturer-Retailer, South West

A start-up exporter interviewed in-depth for this report described his experience - as a co-owner-manager of a business "finding its feet" – of trying to utilise government guidance online:

> *"...when you're looking for information, they lump in all businesses...and all businesses are very, very different. And I sometimes think we get lumped in, and it doesn't really work... like, what is for us? I just find it that these websites, they don't do that very well".*
>
> Exporting microbusiness, Manufacturer-Wholesaler, London

Business groups, such as the British Chambers of Commerce have outlined the need for specific improvements in the export-related guidance provided by government. Particularly on the topics of selling into the EU and more specifically around information about how to navigate the complexities of VAT.[xvii] They have specifically asked for the production of:[52]

> *"...clearer, simpler guidance for SMEs on exporting goods and services to individual EU member states...ensuring they have the information they need to avoid duplication of costs in areas such as VAT registration in the EU".*

Another business spoken to for this report confessed to having taken part in a DIT online course about how to make a business's website "export ready" and had found it helpful. They said that:

> *"I've been on one of the...I think it was a DIT course...and I think it was to do with websites, right? A few years ago...it was getting...your website ready for export...it was actually really helpful. I did pick up a lot of things. The...trainer I thought was really good. I got a lot from it...".*

However, it is notable that awareness of the existence of this course had not come through any proactive efforts by the business owner or efforts by government to raise awareness of the government support offer reaching this particular entrepreneur. Rather, they had become aware of it because of their regular job, which they kept up at the same time as running their business part-time from their home:

> *"I was only aware because through my work...I heard someone talking about it. I asked them to forward me an email. I've not had any kind of outreach from DIT, like, regarding the business...".*
>
> Exporting microbusiness, Manufacturer-Retailer, Yorkshire

[xvii] The complexities of VAT for SME sellers into the EU are multiple. For example, rates vary across different countries as the VAT rate that has to be paid is the one prevailing in the destination country. The EU recently abolished its VAT *de minimis* of €150, drawing more low-value trade into the VAT system. Further, exporters need to have a fiscal representative in the EU to sell into it and some member states require one in their individual country, too. Schemes such as the Import One-Stop-Shop (IOSS) – which are designed to make VAT compliance somewhat easier – are costly add to the fixed costs of exporting and not as easy to sign-up to as they might be.

This suggests, in this instance at least, that networks in which the relevant entrepreneur is embedded, can play an important role in both bringing support opportunities to the attention of SME owner-managers and getting business to subsequently take up the support on offer.

Use of different types of help for exporting by SME exporters

The above evidence suggests there is scope for the new Export Strategy to help SMEs with their exporting ambitions and plans and, in-turn, ultimately increase the UK's exports. Optimising the impact of the support offer contained within the strategy will require the right messaging and effective outreach efforts, to reach an audience notoriously difficult to get to.

Over the years, governments have tried to reach out to and deliver support to different parts of the small business community, with varying degrees of success. Lessons could be learnt from those past examples.[53] [54] [55] [56] The lessons include:

- Ensuring support is of good quality and relevant i.e. tailored to reflect the characteristics and circumstance of the recipients, and genuinely helps businesses manage or overcome a challenge or set of challenges they face. In addition, the case for the business benefits of the support needs to be made clearly and repeatedly.
- Outreach can be maximised by utilising trusted networks as routes to effective awareness raising among the target SME audience and also as a channel for delivering support e.g. leveraging "trusted advisors" such as accountants and intermediaries (see Figure 22) as well as business groups.
- Efforts need to be sustained over long periods of time to build credibility and penetrate the business community. Flexibility has to be built into the programmes so that information and advice and methods of outreach can be adjusted and improved in light of experience.

CHAPTER FIVE – RECOMMENDATIONS FOR DOMESTIC POLICY

The previous chapters have explored the economic prize of increased internet-driven goods exporting by UK firms, as well as the barriers to achieving this. How best can UK domestic policy eliminate the barriers we have identified to unlock a new tranche of trade-driven growth? It is to this question that we now turn, setting out a range of policy recommendations.

Establishing an Office for E-Commerce and Digital Trade

First, we need to ensure that e-commerce is given sufficient priority within central government. We suggest establishing a new Office for E-commerce and Digital Trade (OE-CDT) and that would lead the policy agenda in this space.

This OE-CDT sitting within the Department for International Trade, would have a coordinating role between the "parent" department that is DIT and other departments with an interest in e-commerce and digital services trade, such as the Department for Business Energy and Industrial Strategy (BEIS), Department for Digital, Culture, Media and Sport (DCMS), Department for Transport, the Treasury (in particular HMRC) as well as relevant regulators (e.g. Ofcom and the CMA). This kind of arrangement would help ensure joined-up thinking across government on all policy related to e-commerce and digital trade.

It should also lead on liaising with relevant stakeholders in business, academia and civil society and take steps to ensure that outside expertise informs government thinking on e-commerce and digital services trade issues.

The OE-CDT will take time to set-up. It will have to establish the necessary cross-government relationships so that it can coordinate the work of multiple departments. Therefore, in an early example of utilising the outside expertise of business, academia and civil society, it's genesis should be complemented by the establishment of an expert taskforce to advise on the issues the OE-CDT should look at it as part of its first work programme. We believe that one of the OE-CDT's first priorities should be to examine the case for a detailed review of the UK's logistics landscape, with the aim of helping it to become world-leading by 2030, such that it is able to support UK e-commerce exports as best as possible (see Annex 2 for more on logistics and its centrality to trade costs).

Recommendations

1. Establish an OE-CDT, sitting within the Department for International Trade, to lead on policy with respect to cross-border e-commerce.
2. Bring together a time-limited e-commerce exports taskforce, with relevant industry and academic and civil society representatives on it, to help identify the priority policy areas that the OE-CDT can target and take forward in its first workplan. The main work of the taskforce should be limited to this “policy pump-priming”. It will help provide some initial impetus to the establishment and work of the OE-CDT. However, after its main role is fulfilled, the taskforce should retain the ability to reconstitute occasionally to hold the work of OE-CDT to account and measure progress.
3. One area the OE-CDT should consider focusing upon in its first workplan is a strategy for helping make the UK’s logistics infrastructure world-leading by 2030, to reduce the barrier to more SME e-commerce that logistics plays.

Identifying prompt points for encouraging businesses to actively export

As part of the OE-CDT’s collaboration with business, it should work with online marketplaces where practical to do so. Specifically, efforts should be made to put in place a system that can identify key “prompt points” in which businesses are likely to be particularly receptive to advice and financial support to expand further into existing overseas markets or new ones, and for offers of such support to then be made.

Given that many firms, particularly smaller firms, are resource-constrained in terms of their capacity and capabilities and the costs and the risks of exporting are greater for them, it is crucial that policy interventions engage with businesses at the right point in time.

Marketplaces might be particularly well-placed to identify ideal prompt points, especially insofar as they relate to “unsolicited exports”. A business receiving a significant number of “unsolicited purchases” via an online marketplace from overseas customers could be a good target for support, to help them develop a more active exporting strategy – for example through being exposed to focused advice about exporting and its potential benefits, the development of overseas advertising campaigns and a information on the potential customs and other cost savings associated with holding of inventory in other countries to allow more rapid delivery to customers.

A UK government-marketplace collaboration could be modelled on recent Italian government policy, which has seen the development of a partnership between the Italian Trade Agency (ITA) and Amazon. As part of the agreement Amazon provides access to online materials on how to best develop e-commerce sales paths, and the ITA funds digital advertising campaigns on Amazon.co.uk, Amazon.de, Amazon.fr, Amazon.es and Amazon.com.[57] The partnership has recently seen Amazon announce a commitment to supporting over 18,000 SMEs that sell in its store to reach €1.2 billion per year in export sales by 2025 – more than double the value of exports in 2020.[58]

A similar approach could be adopted in the UK, with for example our proposed OE-CDT forming partnership agreements with a range of online marketplaces.

In addition to government and marketplace-provided advice on becoming a more active exporter, prompt points may also be an opportunity for providing well-targeted financial support for businesses looking to enter other markets. Perceptions of there being no demand for their product(s) or the costs of customs and logistics, the complexity of taxes, insufficient in-house digital competence - among others factors – are contributing to deterring SMEs from selling overseas. Given this, a "starting exporting" grant for SMEs looking to expand to overseas markets could be a useful means of encouraging more businesses to experiment with selling overseas, by reducing some of the upfront financial costs and associated risks linked to exporting.

Consideration should be given to the linkages with the government's "Help to Grow" scheme, with identified businesses signposted towards it. Thought should be given to how to better "bake" e-commerce into the digital component of "Help-to-Grow". The latter currently provides a 50% discount on approved software solutions up to a maximum of £5,000, including a range of e-commerce solutions such as EKM (an online shop provider), Gob2b (an e-commerce website designed for B2B) and Kentico (a provider of website and content management solutions). "Help to Grow: Digital" also provides businesses with guidance and tools on digital technology, software comparisons, checklists and case studies of steps taken by other businesses.

The government should explore the extent to which there is scope to integrate a wider range of e-commerce export-oriented solutions into the "Help to Grow: Digital" service. This includes through discounts for software and online services supporting e-commerce exporting, and e-commerce guidance specifically focused on cross-border trade.

Recommendations

4. Government should partner with online marketplaces to identify firms in receipt of significant "unsolicited exports", and encourage such firms to become more active exporters with specific plans to expand in other markets.
5. To encourage more small businesses to experiment with exporting, a "starting exporting" grant scheme for SMEs to help cover some of the upfront costs of exporting, should be launched.
6. The Government's "Help to Grow: Digital" scheme should be expanded to provide greater access to tools that can help facilitate SMEs getting involved with more cross-border digital trade, including discounts on software and online services supporting e-commerce exporting.

A defined role for business groups and industry associations on exports

As part of DIT's 12 point Export Strategy, a new ESS was launched, aiming to provide the "first ever end-to-end service to support businesses exporting to Europe" – with a longer term ambition to expand the service to support firms exporting to anywhere in the world.[59] The ESS has three aims: to simplify guidance and access to support for business, to target specific difficulties businesses are having in exporting to Europe and to promote the opportunities and support government offers.

Businesses can contact the government's export team both online and by phone, with staff providing guidance on exporting to new markets, paperwork needed to sell goods abroad and rules for a specific country where you want to sell services.[60]

The Export Strategy notes an intention to align the ESS to other DIT initiatives to create an export system that supports business at all stages of their journey. Thought should also be given to how to align to other government initiatives such as "Help to Grow: Digital", which we discussed above.

We would also like to see a greater, more defined role for chambers of commerce, Local Enterprise Partnerships (LEP) and industry associations in providing export support, including e-commerce exporting. Currently, these channels of business support are underutilised in the UK, despite the greater role they could play in directing businesses to and directly providing export support. As Lord Heseltine's 2012 review of how to increase UK economic growth, "No Stone Unturned" noted:[61]

> *"In other countries, the private sector and government have co-invested in [chambers of commerce] over a long period of time. We are behind in this regard having chosen a more laissez-faire approach. As a result, businesses in these countries seem to be at an advantage in having simpler and better understood routes to business support and overseas export markets. In the UK, by contrast, we have a plethora of business support organisations. Many of these organisations provide high quality services but overall, we lack the cohesiveness of business support provided in other countries."*

Certainly one of the SME owner-managers we spoke to as part of this project expressed the view that chambers of commerce in the UK could be doing more with respect to exports, with the interviewee believing that chambers in other countries such as the Netherlands seemed more active in this regard:

> *"The Federation of Small Businesses, chambers of commerce etc… they've been helpful, but they need to be pushing exports more"*

> *"What they are doing to get business in the Netherlands is very good … they are coming to Coventry [where I am based] and making contact with local businesses"*

> *"It has been portrayed as doom and gloom since we had Brexit… but it is not as if we were in the European Market since World War Two … government and chambers of commerce could do more to alleviate people's fears."*

Despite the arguments set out in Lord Heseltine's Review, in its 2013 response to the Review the Government rejected the idea of an enhanced legal status with statutory functions for chambers of commerce. However, the Government partially accepted the recommendation for greater collaboration between government and such entities.[62]

A clear role for chambers of commerce and other similar bodies in the trade facilitation community is absent from the Export Strategy. In our view, this is a missed opportunity to maximise the likelihood that businesses can find and receive easy-to-understand, suitably tailored support on exporting related issues.

Recommendations

7. Government should make collaborating with business organisations such as local chambers of commerce as well as relevant trade groups, businesses and expert bodies a clearer strand of the new strategy. As the ESS grows and looks to continually improve its offer over time, a key goal should be to intensify the collaboration with private and third sector entities providing high-quality support for exporting firms or potential exporters. More specifically, such collaboration could:

    - Help ensure more extensive awareness raising among SMEs about the ESS and greater signposting of businesses to it.
    - Maximise the impact of export support by ensuring complementarity between the ESS and the efforts of others in the trade facilitation eco-system.[xviii]

Improving messaging, information and the delivery of support

If the "Made in the UK, Sold to the World" strategy is to succeed and "move the dial" on getting more SMEs to export, it will need to "cut through" beyond the self-selecting firms that have tended to previously access export support to a much greater proportion of the UK's more than five million strong SME community. Such penetration will be unusual for a government programme. The strategy has the best opportunity to maximise its success if:

- The messaging around the strategy, the efforts at outreach and the nature and the delivery of information and other help to businesses, reflects lessons from other business support efforts.
- Programmes are sustained over a long time period, but evolve in light of experience.

[xviii] The British Chambers of Commerce and its local affiliates, the Institute of Export, many logistical services providers and some of the online marketplaces such as Amazon and e-Bay offer a slew of support for firms at various stages of the exporting journey or routes to accessing such support. There is a diverse and wide-ranging eco-system of potential support available that DIT and the ESS would benefit from taking a more strategic view of and how the more can work with those in the trade facilitation community more systematically to maximise long-term impact.

Recommendations

8. DIT should systematically examine the business messaging and outreach successes of the past from across government and ensure that best business messaging and outreach practice informs the planning and execution of the messaging and outreach elements of the 12-point strategy. This will undoubtedly involve utilising existing trusted networks and partnering with those organisations that are part of those networks such as business groups and accountants, to reach into local business communities with credibility. Further, the outreach work will need to be a sustained endeavour over a prolonged period of time. Therefore the Export Champions need sufficient resourcing with dedicated support staff to help them effectively build links with the business communities across their localities, regions and nations of the UK.
9. A key element of helping SMEs export is providing the right guidance in the optimal way. The evidence from the SME's interviewed for this report, that knew about DIT and HMRC's guidance about exporting and looked to utilise it, found it wanting. In addition, the need for improvements in the available guidance has also been highlighted by organisations such as the British Chambers of Commerce and the Institute for Export and International Trade. To deliver the step-change in the usefulness of government guidance needed, DIT and HMRC should look to overhaul their digital presence as it relates to trade, consolidate their export information and other into a single platform away from .gov.uk with its own distinct identity, and redesign guidance through a "thinking small first" lens. The development process should be done with the advice and oversight from SMEs, with user-testing by small businesses, in order to deliver a platform that smaller businesses can get the most from. Two particular areas for improvement include making it more user-friendly on the new platform for SMEs to identify the relevant HS (Harmonised System) codes for their products than it is currently, and better facilitating access the EU's IOSS system. The latter should be automatically flagged to all SMEs when they apply for and receive their EORI numbers.

CHAPTER SIX – THE EXISTING INTERNATIONAL POLICY LANDSCAPE

The International policy landscape

At the international level there is a dense patchwork of bodies and agreements that provide the context for international trade between most countries, and which have particular relevance to e-commerce and the kinds of barriers the research for this report has found are hinderances to exporting for SMEs. This chapter offers a brief summary of them and their relevance to the agenda to encourage more exports by UK SMEs.

The World Trade Organisation (WTO)

At the WTO, both SMEs and e-commerce have been issues of prominence for some time. The WTO established The Informal Working Group on MSMEs, in 2017, which involves 95 WTO member countries. It examines the international trade landscape for obstacles to higher SME participation in international trade.[63] SMEs are also relevant to a number of other initiatives at the WTO, such as those around intellectual property and procurement.

In 1998, members of the WTO agreed and published a declaration on e-commerce.[64] In 2017, WTO states stepped-up their efforts on e-commerce and reinvigorated the existing initiative.[65] This took a significant step forward in early 2019, when 76 WTO members formally launched negotiations on an e-commerce treaty, led by Australia, Japan and Singapore.[66] The number of participating countries has subsequently risen to 86.

In addition, key "trade supporting" WTO outputs in recent decades have included international agreements to reduce some of the barriers to trade. For example, the 1995 Agreement on Technical Barriers to Trade (TBT) aimed to tackle discriminatory standards, technical rules and conformity processes that hinder the flow of goods across borders.[67] More recently the WTO members have agreed the Trade Facilitation Agreement, the provisions of which started to come into force in 2017.[68] This agreement aimed to speed-up the movement of goods across borders, encourage more and better cooperation between WTO members over customs issues and help develop the customs capacities of the least developed nations. One analysis suggested full implementation of its requirements by the signatories could see the world goods trade grow by up to a $1 trillion.[69]

Plurilateral arrangements important for goods-based e-commerce

In addition to the international trade "ground rules" set by the WTO and the efforts of various other global entities, the international trade landscape also consists of a multiplicity of plurilateral arrangements. These are enhanced trade agreements between multiple countries – often (but not always) geographically close. These are typically signed with the expectation that such treaties will intensify trade between the signatory states.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the US-Mexico-Canada Agreement (USMCA)

Two of the most significant plurilateral agreements of recent years are the CPTPP and the USMCA. The former came into force in late 2018 and is seen as a model for other agreements on issues such as SMEs, e-commerce and rules of origin requirements. The latter came into force in 2020 and contains advanced elements which could provide lessons for other trade agreements, especially ones that seek to deliberately encourage cross-border e-commerce by smaller enterprises.

The CPTPP and its provisions on SMEs and e-commerce

The CPTPP is a regional trade agreement focused on Pacific Ocean adjacent countries, that the UK is currently seeking to join. The arguments in favour revolve around its potential to increase access to the markets of the 11 signatories to the treaty.

The CPTPP lowers or eliminates tariffs and non-tariff barriers like quotas, just like many conventional trade agreements. However, the CPTPP is world leading in relation to its liberal approach to customs and "rules of origin". For example, the CPTPP has a strong focus on customs simplification and the use of procedures such as pre-clearance. It takes a "regional cumulation" approach to the issue of "rules of origin".[xix] [70] This is in contrast to the stricter "rules of origin" requirements in the UK – EU Trade and Cooperation Agreement (TCA), which are more conventional. Further, CPTPP allows self-certification of the origin of products and allows this to be waived altogether if the value of the product is below $1,000 (or equivalent in local currency) or the importer has agreed to waive the requirement.

CPTPP is also seen as being "at the frontier" in its approach to e-commerce and digital services trade. It contains specific provisions on these issues to encourage more of both between the signatory countries. It places a particularly strong emphasis on rules that will facilitate the flow of data across borders, an indispensable corollary of international e-commerce and digital services trading.

The CPTPP's digital provisions in particular, are expected to deliver positive economic benefits over the coming years, for those states that are part of it. Albeit it is too early to tell the ultimate scale of those benefits.[71] More broadly, estimates of the kinds of economic gains from the intensification of trade that is expected to occur across the CPTPP countries suggest there will be substantial welfare gains, for those involved.[72] If the UK joined the CPTPP, it would be reasonable expect the UK to enjoy welfare gains as well.

[xix] In most trade arrangements a significant proportion of the inputs into a product exported from one country to another (with which it has a trade agreement) have to be from that same exporting country. These thresholds are termed the "rules of origin" requirements. Only when these are met can an exporting firm benefit from the easements in that treaty. In contrast, under CPTPP, products sold from one CPTPP state, but made from components sourced mostly from other CPTPP economies, will still be able to benefit from the preferential trading terms of the CPTPP if the product is then exported to another CPTPP country.

The North American example of trade facilitation measures for SMEs

The USMCA is also considered to be a good trade agreement for e-commerce, with its provisions around e-commerce trade estimated to deliver sizeable reductions in the costs associated with such activity.[73] It is widely seen as a significant "upgrade" on the North American Free Trade Agreement (NAFTA), to which it is the successor. The latter did not explicitly deal with e-commerce issues.[74] One widely noted SME trade focused improvement is that the new agreement saw all three signatory states lift their *de minimis* thresholds for duty free shipments of goods, to encourage more trade in low-value goods.[75] [76]

E-commerce leads to more exporters selling directly to consumers and, consequently, *de minimis* allowances can be helpful mechanisms for lowering the burden of customs barriers that hinder SMEs access to export markets.[77]

One study suggested that for every $1 the customs duty *de minimis* threshold increases, there can be as much as $5 million in extra exports by micro and small businesses. The same research estimated that an increase in the VAT *de minimis* by $1 can lead to $115 million of additional exports by micro and small enterprises.[78] A Canadian study found a net positive economic link with higher *de minimis* levels. It concluded that the optimum level for Canada was C$200.[79]

Bilateral measures relevant to boosting goods e-commerce

In addition to the patchwork of multilateral and plurilateral arrangements that contribute to the international trade landscape, there are many bilateral measures between countries, which also contribute to regulating trade. Three are particularly salient for the discussion of UK e-commerce exports.

The first is the UK-EU TCA, which sets the framework for much UK-EU trade, post the end of the transition period. It contains a number of easements that aim to facilitate goods trading in particular. For example, the TCA ensures there is a degree of mutual assistance over VAT issues.[80] A significant cost saver for exporting UK businesses will be the absence of the need to have a fiscal representative in most EU countries for VAT registrations.[81] However, UK business has suggested that more could be done to reduce the complexities around VAT. This possibility was raised by a number of organisations in the stakeholder engagement conducted as part of the background research for this report. For example, the Institute for Export and International Trade has highlighted that, at:[82]

> *"The end of the transition period…many businesses… [have been]…running up against VAT payments for the first time…[and]…more education and training is needed to help businesses understand the new rules that apply to their individual situations".*

The second is the new EU-Norway VAT agreement[83]. This was highlighted as a desirable model for the UK to follow in several of our stakeholder discussions. The EU – Norway VAT Agreement is the first of its kind signed by the EU. While chiefly focused on trying to tackle VAT fraud more effectively, it also contains provisions aimed at easing some of the difficult issues that businesses face when dealing with cross-border VAT, such as access to the EU's Import One-Stop-Shop (IOSS) system[84] without the need for a fiscal representative in the EU and easier procedures for VAT refund claims.[85]

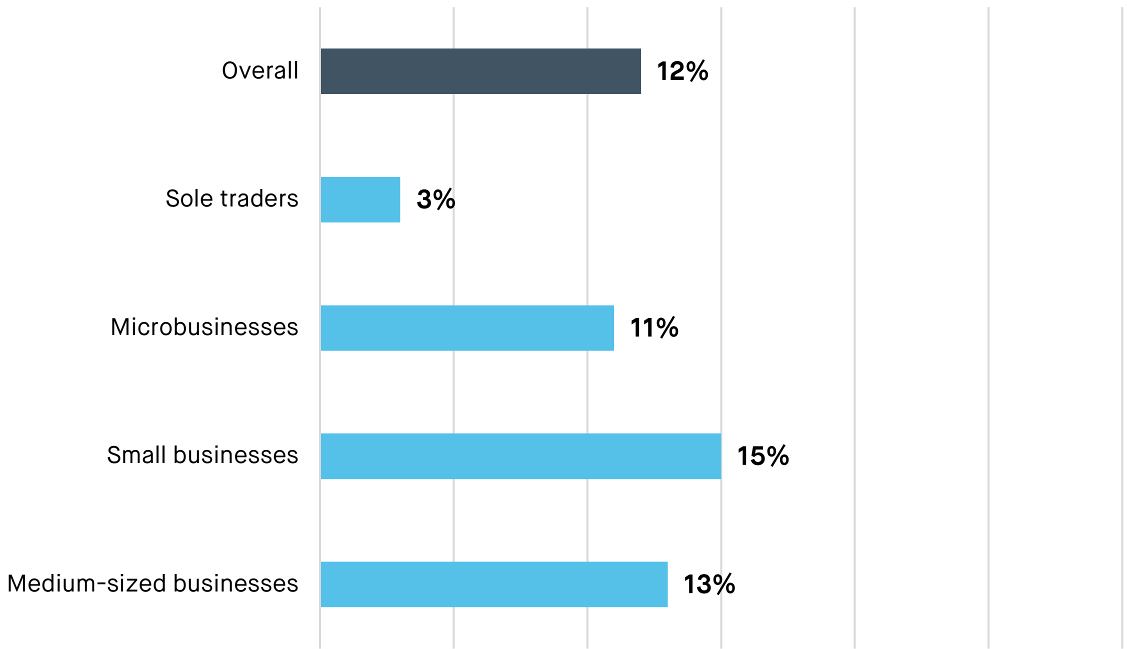
Third is the UK's recent Digital Economy Agreement with Singapore. This is a bilateral instrument aimed specifically at making it easier to undertake cross-border e-commerce and digital services trade. It follows closely other similar agreements that Singapore has signed with Australia,[86] New Zealand and Chile[87] and South Korea.[88]

While much of the UK – Singapore arrangement is focused on making services trade simpler, there are nevertheless elements of it that are intended to reduce further the frictions that can be a drag on the growth of e-commerce between the two countries.[89] Specifically, the promotion of rules that will further facilitate secure e-payments, efforts to ensure both countries accept e-versions of trade documents, guaranteeing seamless cross-border data flows and commitments to promote SME access to the digital economy, including through e-commerce platforms.[90]

Challenges with ensuring SMEs benefit from trade agreements

Despite their prevalence (as the sections above indicate), scope and importance, it should be acknowledged that the many smaller firms often fail to take advantage of bilateral and plurilateral arrangements and the easements they offer. In some cases this is because of a lack of awareness, while in others it is because some elements of the agreement (e.g. the "rules of origin" requirements in some treaties) mean it is less burdensome to trade outside the terms of agreements. Figure 23 shows the proportions of exporters that said they use the provisions of trade agreements to help them export.

Figure 23: SME exporters reporting that they use the terms of trade agreements for exporting – business size



Source: Opinium survey. Base: all exporting SMEs

The lack of relevance for small exporters of specific trade agreements was highlighted in an in-depth interview with a manufacturer of plastic products who exported around 60% of their output. Despite a high level of export intensity, the interviewee only had a vague awareness of trade agreements. The business had never considered how they might be helpful to the firm's trading efforts:

> *"…we're too small to be able to feel any, any joy from it or whatever…it's not really affected the market we're in…it's not really changed anything at the moment, for us. And to be honest, I probably need to look into the info…and see what differences that there will be…I hear about the trade treaty fields and all that. But I never really thought, okay, you know, how's that gonna help us?".*
>
> Exporting small business, Manufacturer-Retailer, London

CHAPTER SEVEN – RECOMMENDATIONS FOR INTERNATIONAL POLICY AND NEGOTIATION

To recap the findings of Chapter Three, the most frequently cited obstacles to UK SMEs exporting more are customs, the complexity of taxes, tariffs and the cost of logistics. Among “considerers” the main barriers are broadly the same.

The export policy of the UK government should be focussed primarily on dealing with these first-tier obstacles. The evidence from this report suggests these areas are likely to deliver gains to the most firms.

Further, tackling these “technical” obstacles would then allow services such as online marketplaces to concentrate on their strengths such as creating opportunities for SMEs to both reach new customers in overseas markets and more easily serve existing ones.

However, improving the customs, tax and tariffs landscapes – and also logistics to some degree (see Annex 2) – will require the UK to work with other countries to put in place an appropriate multilateral, plurilateral and bilateral set of arrangements that will bring about improvements and in-turn facilitate more e-commerce. Some suggestions for the kinds of improvements that could be effected are set out below.

Multilateral and plurilateral measures

Recommendations

8. The UK Government should push for agreement on and the ratification of the nascent e-commerce agreement under the auspices of the WTO and ensure that it reflects best practice from the leading e-commerce chapters in existing trade deals and the “best in class” digital economy agreements such as those between the UK and Singapore and Australia and Singapore.[91]
9. The UK Government should promote the unique needs of SMEs at the highest levels of the WTO. Building on the achievements so far of The Informal Working Group on Micro, Small and Medium-sized Enterprises (MSMEs), the UK should argue for the integration of a “think small first” principle into the WTO’s governance and activities and in particular in the design of any new trade-related agreements.
10. Accession to the CPTPP should proceed. The CPTPP is a high-quality trade agreement and the specific provisions for SMEs and e-commerce are likely to prove a helpful platform from which UK goods exporting SMEs can better access the growing markets of the signatory countries.

Bilateral and unilateral measures

Recommendations

11. The UK Government should learn from the US's example and push – in all future trade negotiations – for a reciprocal *de minimis* threshold for imports into the signatory countries, of around £400. While the International Chamber of Commerce (ICC) has pushed for a "global baseline *de minimis*" of somewhere in the region of $1,000, this is likely a step too far for most countries.[92] Nevertheless, a similar level of *de minimis* in all future agreements would be a significant benefit for UK-based (frequent or infrequent) low-value goods exporters like many SMEs. Ideally, the *de minimis* amount would rise with inflation on an annual basis.
12. The UK Government should also learn from the US' example of an "Informal Entry" system for customs. On the face of it, such an approach appears to reduce the bureaucracy for those exporting low-value goods to the US above the *de minimis* level but below a value of $2,500. A similar measure in future UK trade agreements could also help SMEs by reducing some of the customs costs associated with exporting to the co-signatory countries. The UK Government should, therefore, evaluate the US system and if the conclusions show it has made a difference to SME exporters into the US, it should push for such a reciprocal measure to be included in its trade agreements.
13. The UK – Singapore and Australia – Singapore Digital Economy Agreements are world leading in content.[93] They should be the template for e-commerce and digital trade chapters in all future UK trade agreements. This will ensure that e-commerce is given the best opportunity to develop to its fullest potential between the signatory countries. SME chapters in trade agreements are also important and the UK Government should learn the best practice lessons from the CPTPP and the USMCA and other relevant agreements.
14. The UK Government should engage with the EU over ways to ease the complexities of VAT for exporters in both directions. The Norway – EU VAT Agreement offers a possible model for delivering some improvements. The UK should evaluate the agreement's potential usefulness in reducing the VAT burden for SME exporters and - if the conclusions suggest there are gains to be made - it should look to emulate this agreement with the EU. Part of that discussion should also explore the possibility of a *de minimis* allowance for VAT for trade undertaken through the auspices of the UK – EU TCA.

ANNEX 1 – MODELLING

Sources

The modelling uses data from the ONS's 2019 E-commerce survey, industry input-output tables and Annual Business Survey 2019 and BEIS's Business Population Estimates 2019.

Assumptions

The modelling makes a number of assumptions:

- SME sales through cross-border e-commerce would be additional to existing exports through non-digital channels (such as distributor networks), rather than a substitution away from those channels.
- All businesses that become e-commerce exporters, would achieve average sales similar to those already doing so (and in the same sector and size category).
- Website sales are assumed to cover circumstances where businesses sell through their own website or use third party websites such as marketplaces for sales.
- SMEs selling to the EU are also likely to be selling to the rest of the world. FSB data suggests that more than 9 in 10 SME exporters export to both.[94]

Key metrics

The ONS's data indicated that among:

- Wholesaler SMEs, around 6% export to foreign markets online worth £2.8 billion.
- Retailer SMEs, just over 16% export online, making £2 billion worth of exports in 2019.
- Manufacturing SMEs, 7% sell online overseas generating £7.1 billion in sales revenues.

To estimate the direct and indirect (supply chain) effects of increased e-commerce exports, we have drawn on data in the ONS input-output tables showing the effects of increased product demand (e.g. from overseas customers) on both GVA and full-time equivalent (FTE) employment levels:

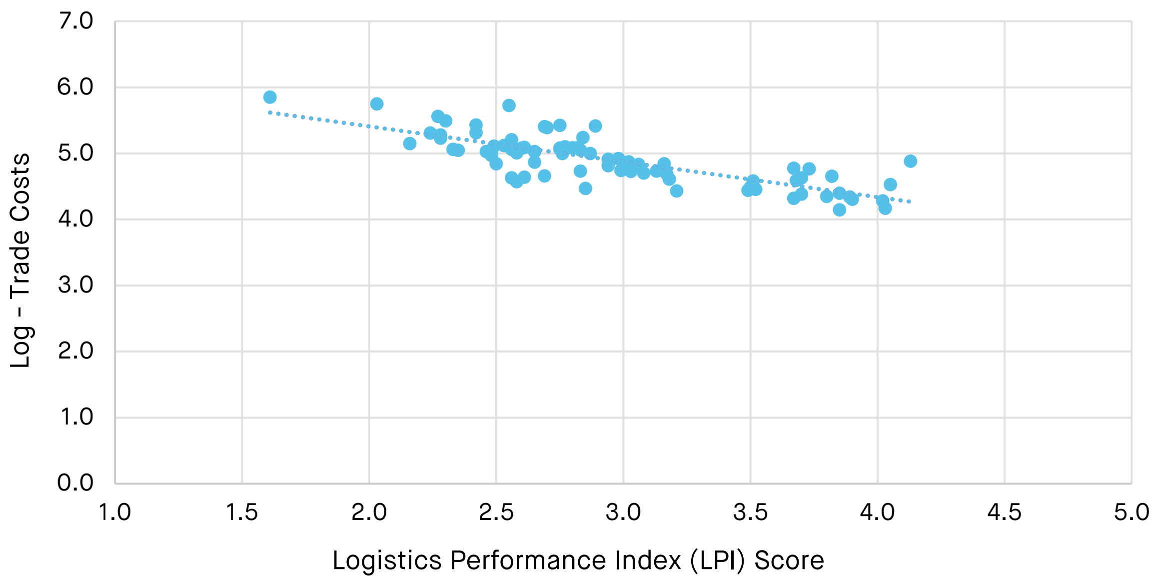
- The GVA coefficient for wholesale businesses is estimated to be 0.838 and the full-time employment coefficient (FTE jobs per £ million increase in demand) is 14.825.
- The GVA coefficient for retail businesses is estimated to be 0.913 and the full-time employment coefficient is 18.883.
- The GVA coefficient for manufacturing businesses is estimated to be 0.713 and the full-time employment coefficient is 11.021.

ANNEX 2 – LOGISTICS: A DETAILED EXAMINATION OF THIS BARRIER TO GOODS EXPORT SUCCESS

The importance of logistics

The cost and reliability of the logistics services that e-commerce goods sellers rely upon are big barriers to export success for many SMEs. Analysis reported by the WTO reinforces this picture by showing that logistics are the biggest component determining the accumulated cost of trading across a border.[95] Perhaps accounting for nearly half of the difference in export costs between countries.

Figure 24: Correlation between typical trade costs for manufacturing in developing and developed countries and World Bank's Logistics Performance Index (LPI) score



Source: WTO and OECD (2015)

Figure 24 reflects the centrality of logistics, by illustrating the correlation between trade costs for manufacturing businesses in an economy and that same country's LPI scores i.e. the lower the LPI score of a country the higher the export costs facing that same country's manufacturing industry.

The cumulative evidence pointing towards the importance of logistics to the competitiveness of exporting enterprises implies that it is essential for the competitive advantage of export-focused businesses (or those considering exporting) in general and SMEs in particular (on which the costs connected to doing business "hit hardest") that the logistics and the associated infrastructure are as capable and efficient as possible.

The vital nature of logistics to the success of an exporting business was underlined by a number of the SMEs interviewed for this report. For example, the co-owner-manager of a start-up firm that exported perishable foodstuffs recalled how their exporting plans had been thwarted by poor logistics on occasion, outlining how:

> *"…we send by air or ship… when they pick up the dates to send, it should go onto a plane, you know, in a few hours, really…but no, it's been sitting in a warehouse…yeah, very frustrating…".*
>
> Exporting microbusiness, Manufacturer-Wholesaler, London

A jeweller who took part in our in-depth interviews talked about her exporting experiences, describing how logistics failures had caused her considerable problems:

> *"I have had parcels which have gone missing…[and]…the cost really ends up being on me, because I'm…trying to ensure that I have good customer service…And it has been difficult because trying to track missing parcels through international postage…".*

In addition, the same business-owner noted that:

> *"There are one or two places where I post where things take forever. I mean, for example, Moldova…I've had a couple of orders over there. One of them I posted and it took, well, it disappeared for months. And it eventually arrived back on my doorstep. It never made it to its destination…I had to refund the customer…that ended up being a nightmare for me…And there was another…I had paid for tracked postage, it just disappeared…And then trying to navigate where it had gone was impossible. I think I tracked it as far as the UK airport that it left from…and then it disappeared".*
>
> Occasionally exporting microbusiness, Manufacturer-Retailer, South West

There is room for improvement tin the UK's logistics performance

The World Bank's Logistics Performance Index (LPI) suggests that the UK has some way to go to be world leading in the logistics environment that SME exporters operate within. The broader analysis associated with the LPI not only shows that the UK could do better on customs issues – where improvement can result in lowered export costs which particularly benefit SMEs[96] - but that there are countries ahead of the UK when it comes to logistics and infrastructure, shipping and the availability and quality of services like tracking and tracing of goods in the export process.

Table 2: Logistics Performance Index (LPI) rankings, 2018

Overall LPI ranking	Customs	Infrastructur e	International shipments	Logistics quality and competition	Tracking and tracing	Timelines
Germany	Germany	Germany	Belgium	Germany	Finland	Belgium
Sweden	Sweden	Japan	Sweden	Belgium	Germany	Denmark
Belgium	Japan	Sweden	Austria	Singapore	Denmark	Germany
Austria	Denmark	Netherlands	Germany	Japan	**UK**	UAE
Japan	Netherlands	Austria	UAE	Netherlands	Switzerland	**UK**
Netherlands	Australia	Singapore	Spain	Austria	US	Singapore
Singapore	Finland	US	Portugal	**UK**	Austria	Sweden
Denmark	Hong Kong	**UK**	Hong Kong	New Zealand	Singapore	Finland
UK	US	Switzerland	Qatar	Denmark	Belgium	New Zealand
Finland	**UK**	UAE	Czech Republic	Sweden	Japan	Japan

Source: World Bank (2018)

Table 2 highlights that the UK is just inside the top 10, in the overall rankings for logistics performance. Eight places below Germany, who are number one. If the UK's performance equalled that of the latter, Britain could provide a significant competitiveness fillip for its e-commerce exporters. This would require the UK to climb nine places in the "Customs" category, seven place in the "Infrastructure" category, six places in "Logistics quality and competition", two places in "Tracking and tracing" and "Timeliness".

Box 3: The challenges of reducing logistics costs

The salience to SMEs in particular, of logistics costs and risks around reliability are documented in the main body of this report. The costs of unreliability for example, were estimated in one study to be small but significant. The analysis suggested that each extra day of delay in the delivery, it was argued, added the equivalent of an *ad valorem* tariff of between 0.6% per cent and 2.3% to the price.[97]

Logistics are particularly difficult for governments to have much influence over, despite their importance to the competitiveness of exporting. There are a number of reasons for this:

- The nature of the industry is such that the cost of logistics services are highly variable. As the WTO has noted, logistics:[98]

  > *"…represent a per unit component that has important implications for…[a]…country's exports. Because of this component…costs are never product-neutral, bringing higher penalties for products that are more "transport intensive", not only in the sense of having low price-to-weight ratios, but also because of higher costs related to inventory-holding and depreciation…Unlike tariffs…Bringing…[such]…costs down…requires…a complex set of policy actions…".*

- Governments have little direct control over some of the key determinants of the factors which influence the costs and reliability of logistics services. For example, while the state can help improve the quality of a country's national infrastructure it obviously cannot require other countries to improve theirs. Further, in many countries, infrastructure is often privately owned and operated and so any government influence might only be in-direct. In addition, the state of logistics technology, the availability of transport capacity and the interplay of demand and supply in the logistics market are all outside the control of governments to large degrees. The recent disruption to international supply chains due to port and shipping problems linked to the COVID-19 pandemic and HGV driver shortages are good examples of how governments can at best only have a limited influence over logistics issues. Therefore, the scope for policy to drive improvements in the performance of the logistics sector – unless a country operates a state-run logistics operation – tends to be similar to its role in other areas i.e. setting the rules within which the sector operates and ensuring there is fair competition.

Sources: World Trade Organisation and OECD (2015) and World Trade Organisation (2018)

Time for a new look at how well the logistics industry serves SME exporters

In the mid-2010s, the EU Commission identified postal services of low-value goods exports within the EU's internal market as a substantial barrier to intra-EU trade.[99] There was concern that cross-border packages were over-priced, in addition to other long-standing worries over reliability of delivery, among the small business community.[100]

Further, an investigation by Ofcom into anti-competitive behaviour by some in the business parcel delivery sector found breaches of competition law,[101] while a more recent and broader probe by Ofcom into the wider industry was dropped because of insufficient resource available to the regulator.[102] Prima facie – given the importance of the logistics sector to SME exporting, the UK's comparative international logistics performance as measured in the LPI, the concerns expressed by the EU Commission and the recent Ofcom actions – a detailed look at how well the sector delivers for SME exporters might be considered by policymakers.

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