



Inspiring business

Going global

Trends in trade



Overview

- This paper analyses export trends among IoD members, using data from a January 2018 survey with over 750 respondents.
- The UK's impending departure from the EU puts emphasis on our trading arrangements with the rest of world, at a time when more IoD members are exporting than ever before.
- We delineate a range of trends among firms, with attitudes to exporting differing across sectors and with company size.
- Following this analysis, the paper puts forward a set of recommendations for the Department of International Trade and other government departments to help drive UK company exports.
- We also set out actions for business groups and trade associations, to spur bilateral and regional trading partnerships.

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Executive summary

More IoD members are trading internationally than ever before. A significant 64% of directors report that their businesses are currently engaged in outbound trade. This is up from 57% in 2013¹, and it outstrips the national average by a large margin². At a time when trade is particularly under the microscope as the UK prepares to leave the EU, it is encouraging to see such robust performance amongst companies large and small. It is also a reminder however that we must not become complacent, as new barriers may be imposed on exports to our largest market, and firms may need to look even further afield more often to offset their exposure if the costs of doing business with the EU rise significantly.

This paper analyses trends in exports and outbound trade generally among IoD members, based on a survey conducted in January 2018 with 791 respondents. It draws the following observations and conclusions:

- Services make up the majority of IoD members' exports overall, but, among manufacturing businesses, a notably higher proportion are engaged in overseas trade.
- Business-to-business (B2B) transactions make up the lion's share of firms' outbound trade, but firms dealing with consumers are more likely to be engaged in e-commerce.
- Firms selling goods overseas are more likely to be engaged in a higher number of markets than those only exporting services – it is easier for them to access a greater number of countries.
- The EU remains by far the largest market for businesses in terms of turnover share, but also notably where IoD members report having seen the most growth over the past 2 years, with twice more pointing to Europe than Asia or North America. However, this gap somewhat narrows in projections for market growth over the next 5 years.
- For most regional markets, including the EU, goods-only exporters have a higher presence than services-only traders. The exception to this is North America, where there is broad parity between the share exporting either goods or services. Companies selling goods together with services are most prominent in Africa.
- A majority (67%) of internationally active directors report that Brexit will not be a catalyst for stepping up non-EU market engagement. 40% say it will have no impact while 27% say they were already in the process of stepping up such engagement anyway. However, just under a quarter report that they were already in the process of further expansion as a result of EU exit.
- Firms selling goods may stand to benefit more easily from dedicated Government trade promotion initiatives, as they are much more likely to begin exporting as part of an explicit overall growth strategy compared to those trading services only. Services only firms appear more likely to begin selling overseas through contacts and other more informal enablers of international trade.
- Geography still matters. Non-exporting firms are more likely to choose the EU as their first port of call than all other regional markets combined when they decide to export. It is crucial, therefore, that the Department for International Trade prioritises the EU market alongside the rest of the world in order to tap into firms not currently exporting. The EU market can be used by these firms as a first step towards trading with the rest of the world.
- Trade agreements remain an important conduit for government action in respect of facilitating foreign market entry – IoD members considered this to be the most important type of government initiative to assist with exporting than any other. However, just 15% of exporting businesses report having ever made use of existing trade deals.

¹ Ehmann, Alexander. 2013. Ice Skates to Argentina IoD Member Export Trends 2012-13. Institute of Directors.

² ONS. 2017. Annual Business Survey importers and exporters [online]. Available at: <https://goo.gl/7Za9P7> [accessed 28 March 2018].

Introduction

For the first time in decades, the UK's trade policy is in the spotlight. Our impending withdrawal from the EU signifies a step change for Britain and, in short, trade is now trendy. An impressive two-thirds of company directors say their firm exports internationally. While this strong performance should not be overlooked, policymakers and businesses must not rest on their laurels. The potential re-imposition of trading barriers with the EU may mean companies are minded to venture further afield in order to counterbalance the risks of trading in the EU market.

Internationally-facing firms

1. The “servitisation” trend is growing

The average share of IoD members engaged in outbound international trade continues to increase – only 36% are not currently exporting.

More of these tend to focus on services, but the numbers of those selling both goods and services overseas slightly outstrips those exporting just goods – this implies that the “servitisation” trend amongst goods traders is growing.

The North East and North West regions have the highest share of internationally active IoD members, while Wales and the East Midlands are among the lowest.

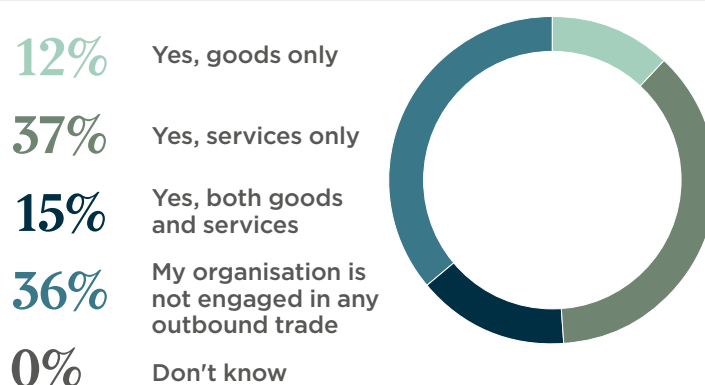
Among key sectors, manufacturing has by far and away the highest share of exporting firms (with a significant minority engaged in both goods and services trade), while financial services is surprisingly more domestic-focused.

2. Size still matters

There is a broad link between a company’s turnover and their level of international trade. 56% of businesses with a turnover of £500k or less sell overseas, while 67% of firms turning over between £500k and £50m trade abroad. For those with a company turnover of above £50m, the average is far higher at 79%.

There is a need for caution when using the “export” classification in understanding how companies

CHART A : Is your (primary) organisation currently selling to and/or operating in markets outside of the UK? (this includes having customers/clients distributors/offices overseas)



791 respondents, survey conducted in January 2018

internationalise their business. As Table 2 shows, there are various ways of classifying modes of foreign market entry –some of them overlapping. Direct-to-buyer exporting is only one category, albeit clearly the most common method of internationalisation.

Given the use of surveys by the ONS³ as part of measuring the UK’s services exports, as well as the significant share of services as both a percentage of the economy overall and its export levels, it is important to take account of the fact that many businesses trading in services routinely report not being sure whether the way in which they reach overseas customers and clients would classify as an ‘export’.

TABLE 1 - Sectoral breakdown of IoD Members’ export engagement

	Total	Administrative and support service activities	Construction	Education	Financial and insurance activities	Information and communication	Manufacturing	Professional, scientific and technical activities	Wholesale and retail trade; repair of motor vehicles and motorcycles	Other service activities
Yes, goods only	12%	6%	17%	0%	0%	2%	50%	3%	54%	4%
Yes, services only	37%	61%	23%	45%	43%	47%	4%	56%	8%	45%
Both, goods and services	15%	0%	11%	0%	7%	22%	34%	10%	8%	14%
Neither, goods/ services	36%	33%	49%	55%	50%	29%	12%	31%	31%	37%
Don't know	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

791 respondents, survey conducted in January 2018

³ ONS. [no date] Annual Survey of International Trade in Services [online]. <https://goo.gl/eMpBY9> [accessed 28 March 2018].

3. Services exporters trade along less traditional ‘export’ lines

Direct-to-buyer exporting is still the most widely-identified mode of internationalisation for services-only exporters (68%), but it is still more common for IoD members selling goods only (82%) and goods with services overseas (79%).

Services-only exporters are also significantly less likely (at just 10%) to rely on intermediaries for exporting than those trading goods only (49%) and goods and services (46%). While the nature of services naturally requires little need for a third party to manage the physical movement of delivery, it may also suggest that there is more regular direct customer/client interface amongst service providers in accessing foreign markets.

IoD members selling both goods and services overseas are also twice as likely to have an established footprint in third countries via a local branch/office (31%) or subsidiary (32%) compared to those trading services only (17% and 15%, respectively). A larger share (12%) selected the “other” category for identifying their foreign market entry mode compared to goods-only traders (5%), reinforcing the argument that services [only] exporters tend not to trade along traditional ‘export’ lines.

4. B2B is the leading export route for companies

The vast majority of IoD members selling abroad access foreign markets via the business-to-business route, although they are twice as likely to engage in both business-to-business (B2B) and business-to-consumer (B2C) transactions than solely deal with consumers overseas.

For businesses selling both goods and services abroad, a higher share (22%) reported that their foreign market engagement consisted of both B2B and B2C transactions. One reason for this may be the higher likelihood that firms engaged in both goods and services trade may have a physical footprint in foreign countries, and therefore may be more likely to deal with both companies and end-users directly. This is often true of companies fulfilling contracts of care/solutions alongside the products themselves, or highly regulated/protected sectors where a physical footprint to operate is often required to sell certain products and services.

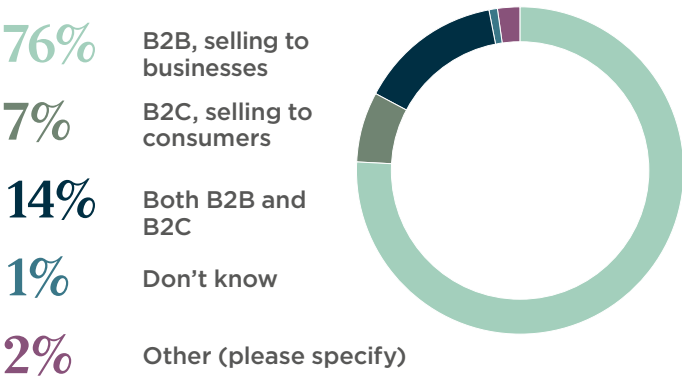
Education (31%) and real estate (29%) are sectors with the most direct business-to-consumer engagement, while admin support services (33%), construction (29%), and financial activities (24%) were the main outliers for combined B2B and B2C sales overseas.

TABLE 2 - What form does your organisation’s outbound engagement with non-UK markets take?

Direct exports (from your organisation to foreign buyer)	73%
Indirect exports (e.g. through overseas distributor or export management company)	26%
Licensing and/or franchising	10%
Local branch/office overseas	21%
Joint venture	9%
Through a subsidiary in another country	20%
Outsourced contract manufacturing (abroad)	5%
Strategic alliance	14%
Other (please specify)	9%
Don't know	1%

506 respondents, survey conducted in January 2018

CHART B: Is your (primary) organisation’s mode of outbound foreign market entry primarily in:



506 respondents, survey conducted in January 2018

5. Diffusing goods exports is easier than services

While deductive logic might suggest that once a business has 'gone global' it is likely to populate a high number of markets, Chart C illustrates that this is not an absolute given. Internationally active IoD members are much more likely to be engaged in a handful of different markets, although once a certain critical mass is reached, a notable minority trade with/in a high number as well.

A notably low number of internationally active IoD members sell to just one market (the EU was explicitly treated as one market for the purposes of this survey). While 84% export to the EU⁴, a majority of those also trade with other markets, and just 7% trade only outside the EU. This suggests that while there is still a significant reliance on trade with the European Union, it has not stopped businesses from venturing further afield.

Interestingly, firms selling goods overseas were more than twice as likely (35%) to be engaged in 15+ markets as those selling services (14%). This underlines that despite the much-vaunted potential for UK services exports and the current surplus in services trade, it remains easier for goods to access and be diffused across a greater number of markets.

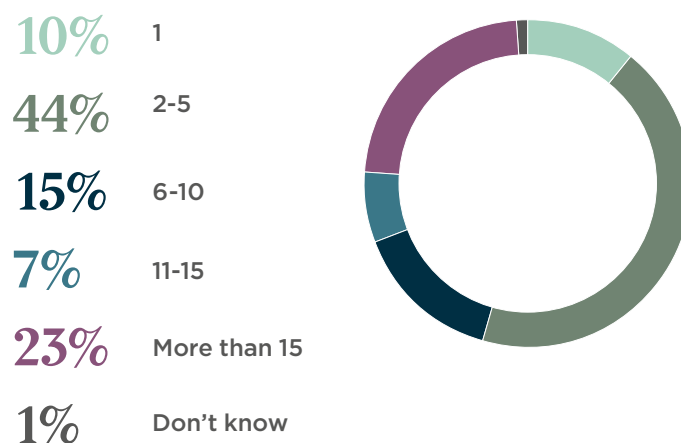
However, there is a high share of goods traders who import products for use in their exports (32%). A lower share of services traders cited this as a reason for their imports (18%)⁵. This may be one of the reasons why goods exports - despite having a higher market penetration density - are less likely to make a sizeable dent in the UK's trade balance compared to services exports.

This density pattern also somewhat dovetails with trends in business revenue from non-UK sales amongst internationally active IoD members. Those exporting both goods and services are more likely to have the highest proportion of their revenue (i.e. over 75%) coming from international sales (32%) compared to those only selling services overseas (23%).

Financial services firms are most likely to see big overseas revenue, with just over a third of directors trading internationally in this sector reporting that more than 75% of their revenue derived from overseas business. Following closely behind is manufacturing, at 31%. In general, it seems financial services firms are much less likely than those in heavy industry to trade internationally. However, it is apparent that for those who do, sales to overseas markets makes up an equally significant share of their business.

CHART C: How many non-UK markets does your (primary) organisation sell to and/or operate in?

* for the purposes of this question, please treat the EU as one market



506 respondents, survey conducted in January 2018

Market Trends

6. Goods and services exporters sell to differing markets

The EU unsurprisingly remains the largest regional market for IoD members, and North America is a distant but

TABLE 3 - Geographical Market Penetration

Europe (EU)	84%
Europe (non-EU, including Russia)	35%
Asia	46%
Middle East (inc Gulf and Turkey but not including North Africa)	36%
North America	52%
Central America and the Caribbean	12%
South America	17%
Africa	26%
Australasia/Oceania	31%
Don't know	0%

506 respondents, survey conducted in January 2018

⁴ Institute of Directors. *Policy Voice Survey* - October 2017.

⁵ Institute of Directors. *Policy Voice Survey* - February 2017.

⁶ Institute of Directors. *Policy Voice Survey* - September 2015.

growing second with 52% of trading directors engaged with this market. The EU has nudged up 2 percentage points in terms of exporter engagement since September 2015⁶, Asia by 3 and North America by 6. Africa and Australasia remain at the same levels of market penetration for IoD members trading overseas, while South America and the Middle East have each dropped down by a few. As a market, the EU is slightly more popular for those exporting goods (89%) compared to services-only traders (80%). This pattern is also particularly evident for non-EU European markets as well as Asia, the Middle East, and South America. In fact, the only non-EU regional market that is as popular for those exporting goods only as for those exporting services only is North America.

Africa is also somewhat of an outlier in this regard, although its relative parity in terms of popularity as a market between those selling goods only (26%) and services only (23%), is eclipsed by the share of IoD members engaged in it who sell both goods and services (37%). This may be a reflection of the particular type of service providers operating in Africa (e.g. infrastructure-building operations).

7. Export markets also vary by sector

The EU's international market dominance for IoD members is much less pronounced for those in education, compared to Asia and the rest of the European market. Directors in the information and communication technology (ICT) sector tend to have a more even spread across other regional markets such as Asia and North America as well.

TABLE 4 - Sectoral Breakdown of Geographical Market Penetration

Regional market	Overall	Administrative and support service activities	Construction	Education	Financial and insurance activities	Information and communication	Manufacturing	Professional, scientific and technical activities	Wholesale and retail trade; repair of motor vehicles and motorcycles	Other service activities
Europe (EU)	84%	92%	78%	46%	86%	77%	92%	87%	89%	79%
Europe (non-EU, including Russia)	35%	33%	22%	62%	38%	24%	56%	30%	33%	27%
Asia	46%	33%	39%	54%	46%	52%	65%	34%	39%	44%
Middle East (inc Gulf and Turkey but not including North Africa)	36%	42%	50%	38%	30%	36%	57%	25%	39%	32%
North America	52%	58%	22%	8%	62%	68%	56%	50%	39%	49%
Central America and the Caribbean	12%	25%	28%	8%	16%	6%	23%	6%	6%	10%
South America	17%	25%	22%	8%	16%	20%	32%	9%	6%	12%
Africa	26%	25%	44%	23%	24%	20%	38%	24%	22%	26%
Australasia/Oceania	31%	42%	22%	8%	19%	36%	47%	19%	44%	28%
Don't know	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

506 respondents, survey conducted in January 2018

Top Country Markets for Exporting IoD members

1) Germany	5) Netherlands	9) Canada	13) UAE
2) France	6) Spain	10) Sweden	14) Poland/Austria
3) USA	7) Belgium	11) Denmark	15) India
4) Ireland	8) Italy	12) China/Australia	

8. Market breakdowns

N.B. It is important to emphasise that percentages below relate to the share of IoD members exporting to a particular country within each regional market

Breaking down geographical market penetration by sector yields some interesting trends.

Amongst the EU, the top 5 export markets in descending order of priority are:

Germany (62%)

France (61%)

Ireland/Netherlands (each 52%)

Spain (44%)

Belgium (43%)

The EU countries that have seen the highest increase in market share among IoD members since February 2017 are Ireland and Belgium, each with a 6% jump in popularity. Only 2 EU countries saw a decline in market share, with a statistically insignificant differential of 1% (Italy, Slovenia & Latvia). The only EU country enjoying parity in terms of popularity amongst both services-only traders and those exporting goods is Luxembourg.



Amongst non-EU European markets (including Russia, various EU accession candidates and the EEA/EFTA countries), the top 5 countries in descending order of priority for exporting IoD members are:

Switzerland (61%)

Norway/Russia (each 54%)

Ukraine (22%)

Iceland (17%)

Serbia (12%)

The country seeing the biggest differential swing since February 2017 was Norway with a 5% drop in popularity, while Russia saw the biggest jump with a 3% pickup in popularity.



Within Asia, the most popular export markets for IoD members are:

China (61%)

India (50%)

Singapore (48%)

Japan (39%)

Malaysia (34%)

Nearly all countries within Asia saw a marginal drop-off in IoD member engagement, with the biggest drop being Singapore (-7%), and no country saw an uptick in popularity. Unsurprisingly, Singapore is the only country that is as popular for services-only traders as for goods exporters, but interestingly China and India are not too far behind in respect of this parity. This may be a reflection of maturing economic demand in these countries.



Within the Middle East, the most popular export markets for IoD members are:

United Arab Emirates (UAE) (75%)

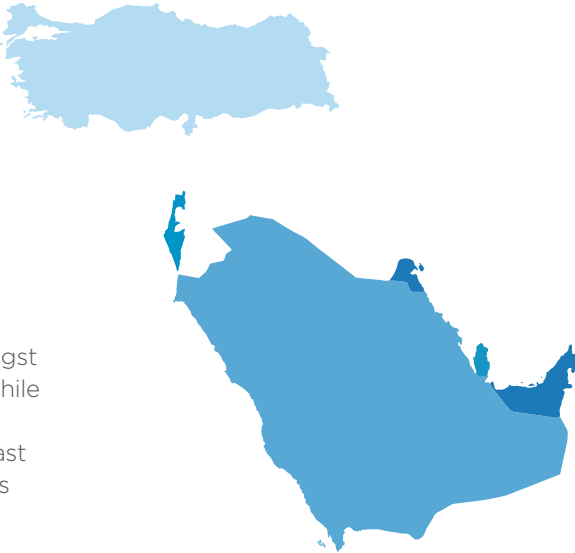
Saudi Arabia (54%)

Turkey (38%)

Qatar (34%)

Israel/Kuwait (each 30%)

The majority of countries in this region saw an uptick in engagement amongst directors, with Saudi Arabia seeing the biggest jump in popularity (+8%), while Pakistan saw a drop-off of 4 percentage points. There is a higher level of parity between goods and services exporters trading with/in the Middle East (compared to Europe and Asia), notably in higher median-income countries such as Bahrain, Iran, Oman and the UAE.



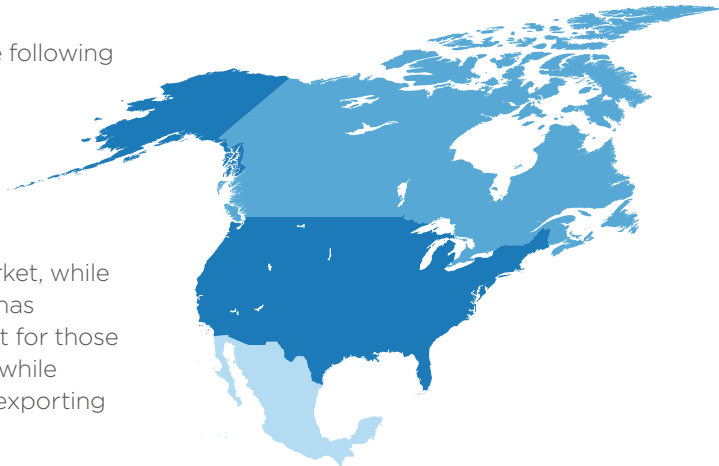
For IoD members engaged in North America, it breaks down in the following descending order of priority:

USA (94%)

Canada (57%)

Mexico (20%)

Compared to a year ago, this level has proved static for the US market, while Canada's share is marginally down by 2%, and Mexico's popularity has dropped 5 percentage points. The US market is nearly as important for those selling services (92% engagement) as goods (100% engagement), while Canada and Mexico remain by far more relevant for IoD members exporting products compared to services.



Within Central America and the Caribbean, the most popular markets for IoD members are:

Barbados (26%)

Bahamas/Jamaica/Trinidad & Tobago (21% each)

Costa Rica (20%)

In contrast to all other regions, IoD member engagement is diffused across a number of different countries, with no significant shares across any one single country. This may be reflection of the small size of the individual markets.



Amongst South American markets, the top 5 most popular countries for IoD members are:

Brazil (64%)

Chile (53%)

Argentina (51%)

Columbia (28%)

Peru/Uruguay (26% each)

Of all the regional markets, South America appears most volatile in terms of business engagement. Brazil, Columbia and Ecuador have all dropped off in terms of market popularity by at least ten percentage points, while Uruguay and Chile have both seen an uptick of 7% each. Political stability (or the lack thereof) may play a role in the change in attractiveness for some of these markets. Interestingly, those selling services rival and sometimes outstrip goods exporters in their market penetration, although this is more often true of the small and medium sized markets in this region.



Within the African continent, the top 5 countries with the most IoD member engagement are:

South Africa (67%)

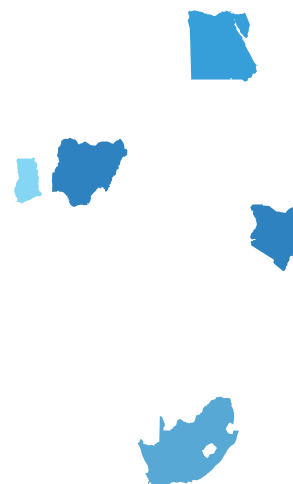
Nigeria (40%)

Egypt (34%)

Kenya (31%)

Ghana (23%)

There has been a marginal drop-off in business engagement across most countries, the biggest changes coming in Algeria/Morocco (-6% each) and Kenya (+6%). In descending order, the sectors most represented amongst those trading in/with Africa are: manufacturing (27%), professional/science/technical activities (22%), other service activities (15%), ICT (9%) and financial activities (7%).



Australasia/Oceania sees IoD member engagement predominantly in:

Australia (90%)

New Zealand (58%)

Fiji (5%)

Papua New Guinea (4%)

Australia has dropped off slightly in terms of market engagement (-5%), while the share of directors trading with/in New Zealand has increased by 9 percentage points. While there is near-parity amongst those selling goods and services to Australia, 75% of those trading with/in New Zealand are selling goods only (57% both goods and services), while 45% are exporting only services. Sectors with the highest market density among IoD member exports are manufacturing (30% for Australia and 32% for New Zealand) and ICT (16% for both Australia and New Zealand).



9. Despite Brexit, EU still the biggest growth market

As illustrated below, the EU is not only the most important market for IoD members now, it is also where they have seen the most growth of any regional market over the past 2 years and where they expect to see the most growth over the next 5 years.

It is routinely noted by politicians and economists that the vast majority of global growth is expected to come from outside Europe over the next 10-15 years^{7,8}. However, this does not automatically translate to those markets being most relevant for all UK businesses.

It may be unsurprising that the EU is the largest regional market generating revenue overseas for internationally active IoD members (two and a half times the size of North America, at a distant second). Yet, given the oft-cited sluggishness of EU growth, it is notable that more than twice as many trading directors report it as delivering more growth for their business than report Asia or North America.

As a source of international turnover, the EU polling as the top regional market is particularly pronounced among businesses in manufacturing, professional services and retail. Amongst firms in education, Asia and the Middle East were notable bright spots, and in construction, the Middle East was a particular outlier as a top generator of overseas revenue.

Our members' predictions for market growth over the next 5 years do show a partial narrowing of these gaps, although previous IoD surveys indicate that members' predictions are not always borne out by reality. For example, in a November

2012 IoD survey, 50% of directors anticipated that Asia would generate the most growth for their business over the following 5 years, compared to the 43% predicting the EU would be in the top spot¹⁰. 5 years on, buoyed perhaps by an unpredictably strong Eurozone recovery, the EU is outstripping its nearest competitors – among them Asia – by more than two to one as the biggest growth market for IoD members.

Linking with a trend identified earlier, goods-only exporters are more likely to have the EU as the biggest regional source of overseas revenue for their business, compared to those selling either services only, or goods and services together. This contrast is particularly pronounced in the Middle East, although as noted previously, the UAE is the only Middle Eastern market where services exporters are more present than those selling goods. Africa is again the lone regional market where there are more IoD members exporting both goods and services identifying it as the highest generator of overseas revenue than those selling goods or services only.

With respect to markets where IoD members have seen the most growth over the past 2 years, Asia, North America and the Middle East have performed better for goods exporters generally than for services-only traders.

Predictions for market growth over the next 5 years seem to favour the EU most among goods-only exporters (49%), while those selling services overseas have a more mixed set of predictions (35% say EU will be their top growth market, compared to 30% choosing Asia and 24% opting for North America).

TABLE 5 - Which markets are most important overall for your business now, where has your business seen the most growth over the past 2 years, and which do you expect to see the most growth in for your business over the next 5 years?

	Most revenue now	Most growth in past 2 years	Expected growth next 5 years
EU	63%	43%	39%
Europe (non EU, including Russia)	12%	9%	12%
North America	25%	21%	29%
Asia	17%	21%	31%
South America, Central America	3%	4%	6%
Middle East (including Gulf and Turkey)	10%	10%	17%
Africa (including North Africa)	6%	7%	11%
Don't know	5%	12%	14%

506 respondents, survey conducted in January 2018

⁷ Fox, Liam. 2018. Speech: Britain's Trading Future [online]. Available at: <https://goo.gl/Nn8MHm> [accessed 28 March 2018].

⁸ European Commission. 2013. Trade, Growth and Jobs [online]. Available at <https://goo.gl/usNGuf> [accessed 28 March 2018].

Market Expansion

10. Brexit not yet a catalyst for widespread market expansion

Much has been made of the putative impact of the UK's impending exit from the EU – and sterling's depreciation – on business operations further afield. For some firms, this may become an opportunity to reach new markets – even if by necessity, if new barriers to trading with the EU reduce our customer base there.

However, the anticipation of this has not yet had a widespread impact on how most firms are thinking about their international footprint. While the largest group of IoD members say Brexit will not make them consider seeking new markets outside the EU, others are roughly split between those who say they were already expanding anyway and the marginally smaller share who say they are in the process of doing so as a result of EU exit.

While it can be difficult to concisely track business expansion decisions to a single event, it is welcome news regardless that nearly a quarter of internationally active IoD members are focused on using Brexit as an opportunity to redouble their efforts in other global markets.

It is also interesting to note that in manufacturing, the highest share of firms reported Brexit as having no bearing on their international expansion, on account of it already being underway. Financial services businesses are less likely to plan on using Brexit as an opportunity to further expand overseas, while education businesses are more likely to do so.

11. Enabling international e-commerce

The rise of online platforms like Etsy, Amazon and Ebay as a facilitator of cross-border trade is one of the biggest advances in enabling international trade, especially for micro-firms who previously would not have been able to sell abroad. Yet there is lots of still untapped potential. Harnessing the power of e-commerce to drive trade has become one of the focal points of the EU's Digital Single Market agenda, a reflection of its concern that Europe may be left behind as e-commerce growth takes off in North America and Asia⁹.

The UK has always been a European leader in this field. However, while desirable, it is unlikely that we will continue to formally be part of the EU's Digital Single

CHART D: Does your (primary) organisation sell or make purchases internationally online (i.e. is e-commerce part of your foreign market engagement)?



Market project. The Government must look to act as a facilitator to further encourage the use of digital marketplaces as part of its overall trade promotion strategy for businesses, as well as putting the free flow of data at the heart of its future trade policy priorities.

Just over half of IoD members who trade overseas report not using any form of e-commerce. 27% indicate their business makes sales online to international markets, while 31% make purchases online from international markets¹⁰.

Services-only traders are less likely to be making international e-sales (24%) than those exporting goods only (31%) and those exporting both goods and services together (34%). Feedback from IoD members indicates that this may reflect the fact that some services are more complex to provide and require more interpersonal engagement in selling to customers – particularly for sales to countries where certain sectors are highly regulated and/or the nature of the service requires a physical presence in the country.

In contrast, selling and purchasing online has long been the domain of physical goods. While digital services trade is on the rise, it clearly still has some catching up to do – particularly in respect of distance selling – because it is harder from some services to be delivered without person-to-person interaction between the business and client.

⁹ European Commission. [no date]. Digital Single Market [online]. <https://goo.gl/dnmXgr> [accessed 28 March 2018].

¹⁰ It is naturally difficult to ascertain just from this survey what share of purchases online are business-critical ones, as opposed to those of marginal value-add. Coupled with the fact this paper deals chiefly with outbound trade, any conclusions drawn about trends is more relevant for those relating to international e-sales.

However, it appears that in terms of general dispensation towards international e-commerce, businesses which only export either goods or services are notably less likely to be engaged at all. The share of each group who make neither e-sales nor e-purchases as part of their outbound trade stands at 57%, whereas only 42% occupy this category among firms selling both goods and services overseas.

Interestingly, international businesses whose transactions involve consumers are much more likely to be engaged with e-commerce. Of those IoD members whose overseas business consists only of B2B transactions, 60% don't use the digital marketplace at all for their exports, while 22% make sales online. By contrast, just 35% of firms engaged only in B2C transactions abroad don't use e-commerce to do so, and 47% use it for making sales overseas. Similarly, amongst companies dealing with both B2B and B2C engagement in foreign markets, only 31% don't make use of e-commerce at all, while 49% make online sales to foreign customers¹¹.

Looking across sectors, some of the more notable deviations from the overall trend were in ICT and retail trade, where a higher share was generally more likely to have used e-commerce as part of their foreign market engagement.

Starting the International Journey

Governments seeking to adopt measures to improve a country's export performance, whether relating to trade promotion or trade policy, often run into the same challenges. Many companies make their first foray into international markets for very different reasons. Some are underpinned by a dedicated and well-researched market expansion strategy. Others can do so by accident; a chance meeting, a contact passing along an idea or name, or an unsolicited inbound request – these can act as a catalyst that no policy measure could hope to recreate.

TABLE 6 - How did your (primary) organisation begin exporting/trading internationally?	
Part of an explicit overall growth strategy	22%
Realisation of market potential abroad to increase profits/turnover	11%
Purely by accident	2%
Unsolicited inquiries from overseas	12%
Contacts	28%
Overseas parent	4%
Advertising/marketing overseas/trade shows	3%
Help/suggestions from government agencies	1%
Help/suggestions from my bank or similar business intermediary	0%
Historical reasons/bought company that was already doing so	8%
Other (please specify)	7%
Don't know	2%

506 respondents, survey conducted in January 2018

¹¹ It should be noted that the sample sizes for the latter two groups are relatively small, and therefore may be more prone to greater swings in differentials.

12. Better targeting of companies for export help is needed

It is unsurprising that the most common reason that exporting IoD members began their international journey was through the use of individual contacts. While this may come down to a mix of personal and professional networks, the implication is clear – informal channels are an essential building block in the success of global companies.

Perhaps more heartening for Government is the use of explicit overall growth strategies to reach new markets, the second most frequent reason for businesses' first expansions outside the UK. Those companies who are clear in their ambitions for market expansion may be better placed to benefit from the Department for International Trade's (DIT) trade promotion programmes/services. They may also be more aware of what barriers they face in target markets (although long-time exporters are likely to be more attuned to these) which can assist the Government as it starts to develop a UK-tailored trade policy agenda.

The role of contacts in enabling IoD members' first international move is particularly strong. For services-only exporters, 35% cited it as the predominant reason for entering new markets compared to 13% for goods-only traders. It is therefore unsurprising that services-only exporters are also less likely to put their first expansion abroad down to an explicit growth strategy (18%) compared to goods exporters (28%).

This distinction is also reflected across various sectors. While 28% of exporting IoD members in manufacturing chalk their first market expansion up to being part of a dedicated overall growth strategy, only 18% of those in ICT and 19% in financial activities selected this option.

TABLE 7 - What do you consider to be the top 3 disincentives to trading overseas?

Challenge of researching new markets	18%
Lack of information about support available	6%
Lacking in internal (organisational) expertise	10%
Difficulties identifying a suitable business partner	20%
Finding the time to devote to business overseas	29%
Protecting intellectual property overseas	16%
Overall cost of exporting/challenge of raising funds to export to new markets	10%
Overseas regulation/legislation	26%
Transport difficulties/costs	8%
Difficulty getting export trade guarantees and/or trade credit insurance	3%
Currency fluctuations	19%
Concern about securing payment from international customers/bad debtors	20%
Concern about the language barrier and/or unfamiliarity with informal/cultural business practices abroad	18%
Need to invest in alteration to products/services for new export markets	6%
Lack of demand for products/services	11%
Strength of the competition overseas	15%
Organisation is too small	29%
Other (please specify)	10%
Don't know	9%

CHART E: What are your reasons for not exporting?

* for the purposes of this question, please treat the EU as one market



13. The Non-Exporters' story

The approach taken by domestically-focused businesses is as integral to understanding the trade puzzle as tracking the journeys of internationally-facing firms. The reasons that British companies choose to focus only on the UK market are equally varied and complex. Successive governments have focused on this grouping as a key part of the equation to unlocking UK exports.

While there are a number of causes behind the decision of non-exporters to stay away from foreign markets, there is an emphatic majority who clearly have no plans or interest in exporting anytime soon. They may be the hardest category for the Department for International Trade (DIT) to reach, but it is important to peel back the layers as to why they take this view.

This sub-category of non-exporters was nearly twice as likely as current exporters to choose “lacking in internal experience” as a top disincentive to expanding overseas. 36% highlighted finding time to devote to foreign markets as a key barrier to trading abroad, compared to 26% of exporters.

Issues like currency fluctuations, prompt payment, IP protection and the strength of overseas competition all polled fairly high as perceived export barriers by internationally active firms. By contrast, they were of little comparative importance to those indicating no interest in outbound trade. For this group, the small size of their organisation was by far and away the most frequently-cited barrier to export (47%), which ranked as a considerably smaller worry for those already selling outside the UK (21%). While some might see this as being related to respective company size, it is more likely to be a reflection of exporters realising size itself does not preclude winning business overseas.

Interestingly, turnover does not provide an indication of a non-exporters' appetite to begin doing so. Across directors with a company turnover up to £1 million, there is a 55% average putting their domestic focus down to having no interest in outbound trade. This rises to 62% among firms with a turnover between £1 million and £20 million, and to 67% for non-exporting businesses.

While it is a small share, it is nevertheless encouraging that nearly 1 in 10 IoD members whose companies are not internationally active plan to begin trading overseas in the next 12 months.

14. The best place to start exporting

Given that almost a tenth of non-exporting directors indicate they plan to begin exporting shortly, as well as the Government's aim to encourage domestic-facing firms to look further afield, it is important to look at which markets they would first consider.

For this group, the theory of gravity pull clearly applies, as Table 8 illustrates. Discounting those who found the question not applicable (owing to their total lack of interest in starting to export), the EU market dwarfs all other possibilities by a significant margin. In fact, as a first port of call, it easily outstrips all other regional markets combined. In light of this – and given IoD members report it as easily the largest growth market for exports over the past two years- it is essential that, regardless of Brexit, DIT put at least as much emphasis on the EU as markets further afield in its trade promotion and export strategy development.

This should not wait for Brexit to be completed and our new relationship with the EU ironed out. Despite the present uncertainty over how formal trade arrangements may change in the future, it is primarily the demand for products and services that will continue to drive trade flows, and the EU's continued closest proximity to the UK is still an important pull factor in this regard.

TABLE 8 - Which regional market would your (primary) organisation be most likely to look at first if it were to begin selling its products and/or services outside of the UK?

EU	36%
Non-EU European countries (Norway, Iceland, Switzerland, Turkey, Russia)	3%
Middle East and North Africa (including the Gulf)	3%
North America (USA, Canada, Mexico)	8%
Central + South America	0%
Africa	0%
Southeast Asia (India, Pakistan, Bangladesh, Sri Lanka etc.)	1%
Far East (China, Japan, Vietnam, Singapore, Hong Kong, South Korea, etc)	3%
Australasia/Oceania	5%
Caribbean	0%
Don't know	4%
Not applicable	36%

285 respondents, survey conducted in January 2018

15. Trade agreements an important conduit for government action

The UK's impending exit from the EU has triggered heated debate about the value of formal trade arrangements between governments in facilitating business' prospects overseas. While it remains the preserve of industry and enterprise to actually create trade, state actors do not and should not play a completely passive role. The unwinding and recalibration of the UK's trade ties with the EU will likely add to the costs of doing business between the two. Conversely however, the UK's future trade policy will be an important lever in helping to facilitate ease of access to global markets for British companies.

Table 9 reflects this. Amongst all respondents (both internationally active and not), trade agreements ranked highest among the Government initiatives aimed at

facilitating trade. This perhaps corresponds to the fact that overseas regulation/legislation was the second most widely-considered barrier to trading overseas for all IoD members. The scope for Government to directly remedy the joint top-ranked disincentives to exporting ("finding the time to devote to business overseas" and "my organisation is too small") may be limited in the near term. These pertain to more deep-seated structural issues of competitiveness generally facing all firms,

In contrast, concrete tariff and non-tariff barriers in other countries can be actively targeted through trade agreements. This would still be feasible if the Government follows the IoD's proposal for a partial customs union as part of its new trade relationship with the EU after Brexit¹². It should be noted however that only 15% of IoD members in this survey reported having made use of existing [EU] free trade agreements to date. The Government and trade associations will therefore have to work jointly to raise awareness of the UK's future trade deals in order to considerably improve business take-up of trade liberalisation efforts.

Additionally, it is important to look at other channels – including through private sector-led initiatives – for tackling these barriers. The Government should be wary of trying to tackle too many sprawling, complex barriers simultaneously through individual trade agreements. More targeted efforts can also be achieved through sectoral regulatory dialogues and other cooperative fora.

TABLE 9 - What do you think Government could do to facilitate and encourage exporting for companies?

Export-related tax incentives and/or professional advice vouchers	27%
Soft loans and grants (such as those provided by UK Export Finance)	20%
Better assistance from local embassies in identifying possible opportunities	30%
Organise better/more sector-specific trade missions	22%
Organise more inbound foreign trade missions to visit my business	10%
Trade agreements which reduce tariff and non-tariff barriers with third countries	38%
Sectoral or market-specific matchmaking via an online database	19%
Government workshops/programmes (such as the Passport to Export scheme, OMISS reports on market suitability)	12%
Online international trade training course	13%
Government trade credit insurance	16%
Other (please specify)	8%
I do not believe Government can have much impact on getting businesses to trade internationally	16%
Don't know	11%

791 respondents, survey conducted in January 2018

¹² Renison, Allie. 2018. Customising Brexit: A hybrid option for a UK-EU trade framework [online]. Institute of Directors. Available at: <https://goo.gl/zrWVMn> [accessed 28 March 2018].

¹³ The New Zealand Foreign Affairs and Trade Ministry's "Trade Agenda 2030" Strategy Document is a commendable example of a well-thought out, comprehensive and detailed offering in this regard. See: <https://goo.gl/U62n4A>

Recommendations

Uncertainty over when the precise details of the UK's future trading relationship with the EU will be known is certain to continue for some time. In light of this, we believe DIT's agenda for the short-to-medium term should concentrate on the following, to maximise business' international footprint and minimise the pressure on its resources:

- Continuity of existing trade agreements – avoiding a loss of existing trade [arrangements] must be the immediate priority.
- Refine its trade promotion services to focus on those offerings with proven business take-up.
- Identify and address market access barriers both within and outside of FTA parameters (particularly where EU competence is not involved for short term action) – further engagement of business and trade organisations on the details of individual DIT country working groups to inform this is vital.
- Use the next 12-18 months heading into the implementation period to consult with business and other stakeholders about geographical market priorities and policy objectives for an overarching future UK trade policy strategy as a follow-up to the initial Trade White Paper¹³. This exercise is essential before embarking on our first wave of standalone trade agreements, and is likely to be shaped by the details of the final UK-EU economic partnership.
- Deepen sectoral collaboration initiatives in key high-growth industries with third countries.
- Feed into the Home Office's forthcoming Immigration Bill to ensure that facilitating temporary labour mobility is a key cross-departmental focus of the Government's "Global Britain" narrative.
- Put trade facilitation – and a cross-governmental Single Window system to streamline import/export procedures – at the heart of its policy objectives in order to reduce costs for business at the border. This should integrate the private sector into its development to take advantage of emerging technologies and the Internet of Things to implement a more modern customs platform and ecosystem for trade.
- The Enterprise Europe Network (EEN) is an important business connector and advice centre for UK and European companies wanting to grow and expand internationally. While jointly funded by the European Commission and Innovate UK, DIT and DexEU should make it a priority to try and ensure continued UK participation.

The IoD also believes it is crucial for business groups and trade associations such as itself to step up to the plate to help facilitate the development of a comprehensive trade strategy. Private sector priorities and initiatives should include:

- Reaching out to counterparts across the globe to create bilateral and regional partnerships to help inform and complement DIT's country working group initiatives. At a sectoral level, these can also act as the impetus for creating sectoral frameworks to facilitate trade in areas such as the mutual recognition of professional qualifications.
- Partnering with wider stakeholders such as think tanks and third sector organisations to collaborate on projects to influence the development of trade policy and promotion agendas. The IoD is working with the Centre for Strategic and International Studies (CSIS) on creating a US-UK digital trade agenda.¹⁴
- Providing recommendations on frameworks and potential mechanisms for business engagement ahead of and during future trade negotiations. This should be fed in to the consultation process for DIT's new trade policy strategy. Membership organisations like the IoD are essential in ensuring the practical priorities of business and the policy focus of trade agreements are as uniform as possible, as well as being critical to improving future utilisation of trade deals.
- Maintaining links with European counterparts and putting forward proposals for continued representation of British business interests in respect of EU regulatory agencies and technical bodies, legislation and programmes that will affect the UK. In addition to its European branches, the IoD entered into a partnership with the Council of British Chambers of Commerce in Europe (COBCOE) in 2017, aimed at deepening cooperation on Brexit and future EU business/trade priorities.
- Creating geographical market interest groups within membership organisations to develop internal networks for B2B international trade/investment opportunities.

¹⁴ Center for Strategic and International Studies. 2018. The Future of Digital Trade Policy and the Role of the U.S. and UK. Available at: <https://goo.gl/pX4Xcz> [accessed 3 April 2018].

Conclusion

As the UK's exit from the EU approaches, it is entirely possible that new costs to doing business with our largest single market may impact on the UK's place in European supply chains. It is also true to say that both geographical proximity and EU membership itself have combined to concentrate businesses' global ambitions on its nearest neighbour(s). Leaving the EU and the likely arrival of a more UK-tailored trade policy may by necessity recalibrate and expand companies' horizons further afield.

However, it is clear that the EU is likely to remain the largest single market for businesses in the UK for some time. So it is crucial that the Government adopt a twin-track approach to its trade agenda, rather than prioritising non-EU markets ahead of Europe.

Equally, while services make up the majority of the UK economy and help to partially offset its trade deficit, the Government should not put all its eggs in the services trade basket. Using the trade balance as a zero-sum guide in prioritising sectors for boosting UK exports would be a mistake. Goods and services – as well as goods together with services – should be accorded equal priority by DIT, given the comparative proliferation of exporters within manufacturing.

The finalisation of the Department's Export Strategy will naturally not be the final word in adapting to business' needs as it seeks to facilitate international trade opportunities. Global trade trends and trade policy developments make these needs anything but static, and it is important that the Government remain flexible in responding to these.

However, it is welcome that DIT is looking to set some fundamental objectives for the long term. Opinion across industry and enterprise on the role of government action in driving trade is sharply divided, and this is compounded by the perception that the short-term nature of politics and elections prevents an appropriately long-term strategic outlook. Organisations like the IoD have an important role to play in ensuring that facilitating international trade unites parties across the spectrum, as a means of improving economic conditions, creating jobs and upskilling the workforce.

Trade liberalisation itself has increasingly come under siege of late, and so it is essential that the Government takes sufficient time to engage a range of stakeholders on its future objectives in this area. With Brexit, the UK has a unique opportunity to learn from the trials and tribulations of other countries in devising its own future trade policy strategy. Success will be defined by an appropriate mix of reflection, ambition and engagement.

Our first big trade negotiation will be with one of the toughest and biggest regulatory powers in the world. As IoD members have made clear, the deal with the EU is also our most important¹⁵. Avoiding a loss of trade and access is foremost on business' mind, as evidenced by reactions to recent decisions in Washington from industry both in America and worldwide. A successful Brexit outcome will be a crucial foundation for the UK's future trade prospects. But as this report highlights, there is plenty beyond Brexit that the business community and the Department of International Trade have to focus on in seizing the opportunities that international trade presents.

¹⁵ An October 2016 survey of IoD members found that 62% considered EU trade negotiations to be most important for their business, compared to 14% saying new trade deals should be prioritised

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