

# **Small Business Survey Scotland 2014**

## **Topic Report: Exporters**

Office of the Chief Economic Adviser

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## Introduction

Exporting has been linked with increased innovation and productivity and is an important driver of economic growth. This note draws on evidence from the Small Business Survey (SBS) to examine the characteristics of exporting Small and Medium Enterprises (SMEs) in Scotland. These findings are compared and contrasted with evidence from other published sources.

## Key Findings

- 12 per cent of Scottish SMEs sell goods and services abroad, although a larger percentage (38 per cent) sell goods and services to the rest of the UK.
- While the value of Scottish exports has risen since 2007/08, the proportion of firms exporting has fallen, suggesting a narrowing in the base of exporters.
- Firms are more likely to export if they are larger, plan on growing and are innovative.
- While 69 per cent of firms that currently export plan on increasing their overseas sales, only 3 per cent of other firms are planning to start exporting.
- 34 per cent of firms have never considered exporting, despite having a suitable product.
- This is not because of a lack of knowledge of how to export – only 1 per cent of firms cite this as a barrier.

### Box 1: Note on data

This note draws mainly on the Small Business Survey 2014. It is a biennial survey of SME employers (1-249 employees) and includes a section recording whether firms currently export, plan to export in the future and barriers to exporting, as well as recording detailed firm characteristics such as age and size.

The Global Connections Survey is an annual survey of firms of all sizes in Scotland which reports the value of goods and services sold abroad and to the rest of the UK.

## Proportion of Exporters

**12 per cent** of SMEs with employees sell goods and services outside of the UK. In addition, **38 per cent** of SMEs sell goods to the rest of the UK.

There is a significant overlap with most firms that sell goods and services outside of the UK also selling goods and services to the rest of the UK. Overall, **39 per cent of SMEs either sell goods outside the UK or to the rest of the UK.**

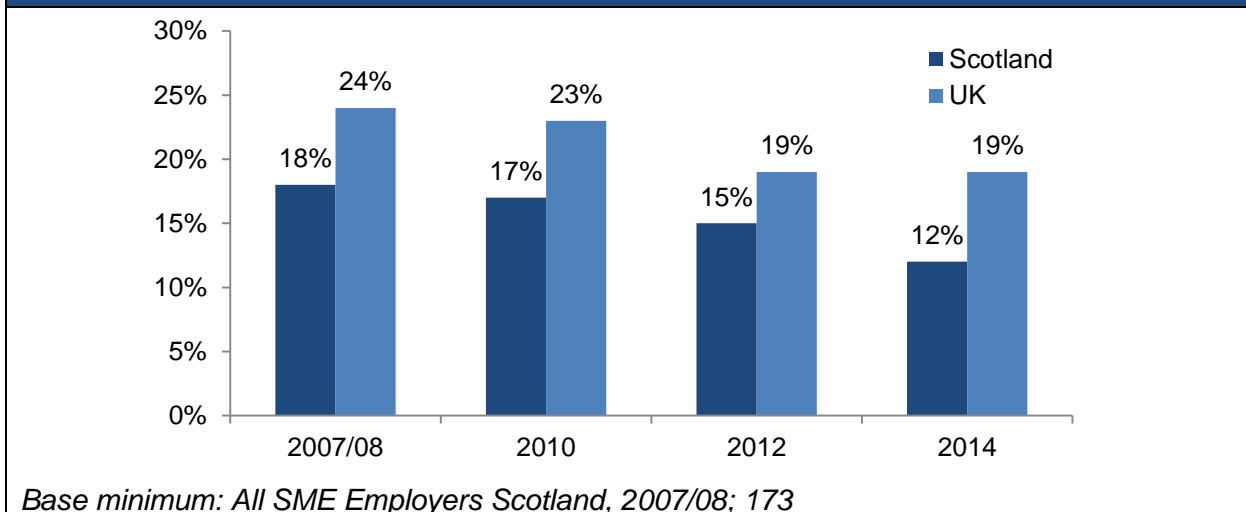
The Global Connections Survey similarly splits the analysis of exports into those that are to the rest of the UK and those which are international. In 2013, exports to the rest of the UK were worth £46 billion, almost double the value of international exports (£28 billion).

The percentage of SMEs in Scotland selling goods and services abroad is lower than in the UK (12 per cent vs. 19 per cent, figure 1 below). In addition, the proportion of SME employers selling goods and services internationally has decreased since 2007/08 in both Scotland and the UK as a whole.

This contrasts with the Global Connections Survey, which has shown the value of Scottish international exports of goods and services increasing every year. This suggests that a smaller number of exporters are exporting more as a group.

**Figure 1: Proportion of Exporters**

Source: Small Business Survey 2007/08, 2010, 2012, 2014

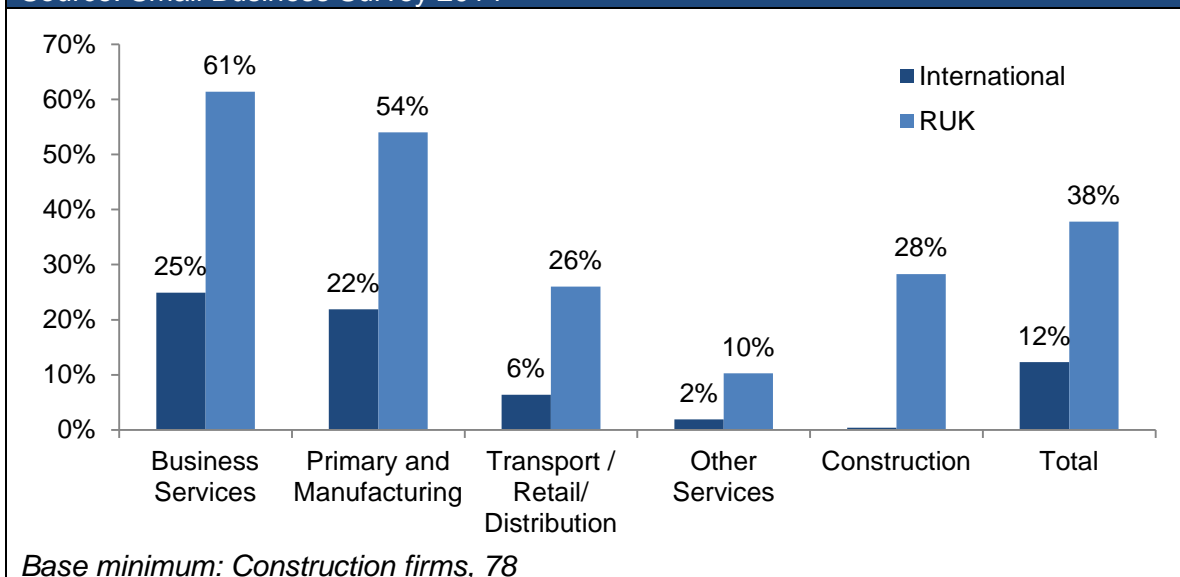


## Sectors

SMEs in the business services sector were most likely to sell goods and services internationally and to the rest of the UK. Few construction firms exported internationally, reflecting the nature of their business. However, 28 per cent of construction firms based in Scotland carried out work in the rest of the UK.

**Figure 2: Exporters by sector**

Source: Small Business Survey 2014



The top five exporting industries by value as reported by the Global Connections Survey are detailed in Figure 3 below. Although this does not seem to support the sectoral findings of the Small Business Survey, it is important to note that the Global Connections Survey measures the value of exports whereas the Small Business Survey examines the proportion of exporting firms. Since food and drink and refined petroleum exports are likely to be confined to a smaller number of larger firms than business services exports, the two results do not necessarily contradict each other.

**Figure 3: Scotland's top 5 exporting industries by value**

Source: Global Connections Survey, 2013

Food and Drink Manufacturing	18%
Refined Petroleum	13%
Legal, accounting and business services	7%
Machinery and equipment manufacturing	6%
Electronic products	6%

In addition, the Global Connections Survey also finds that exports by Scottish firms to the rest of the UK are more likely to be Services than Primary and Manufactured goods (51 per cent services to RUK vs. 33 per cent internationally).

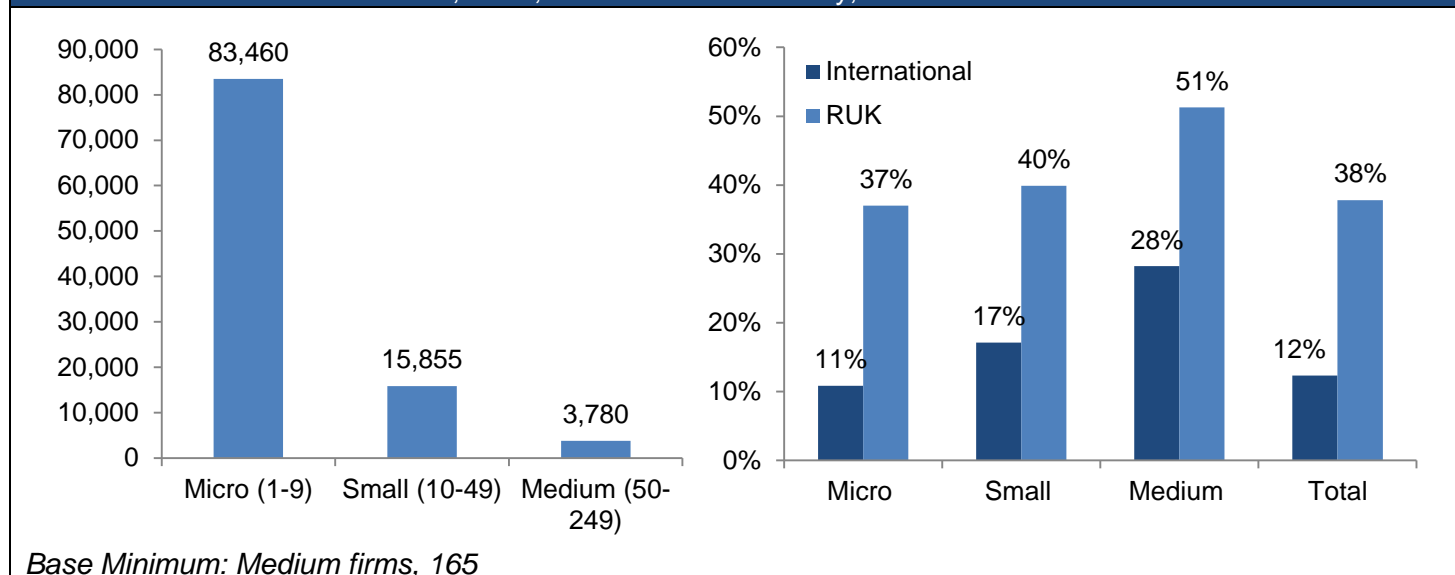
## Size

The chart on the left of figure 4 below shows the number of SMEs in Scotland in each size-band. The majority of SMEs have between 1 and 9 employees, with only 4 per cent of SMEs having between 50 and 249 employees.

However, the Small Business Survey shows that larger firms were both more likely to export internationally and sell goods to the rest of the UK, with over half of medium firms (with 50-249 employees) selling goods and services in the rest of the UK.

**Figure 4: Exporters by Size**

Sources: Businesses in Scotland, 2013; Small Business Survey, 2014



## Age

The majority of SMEs in Scotland have been trading for more than 10 years (64 per cent), 20 per cent have been trading for 5-10 years and 15 per cent have been established for less than 4 years.

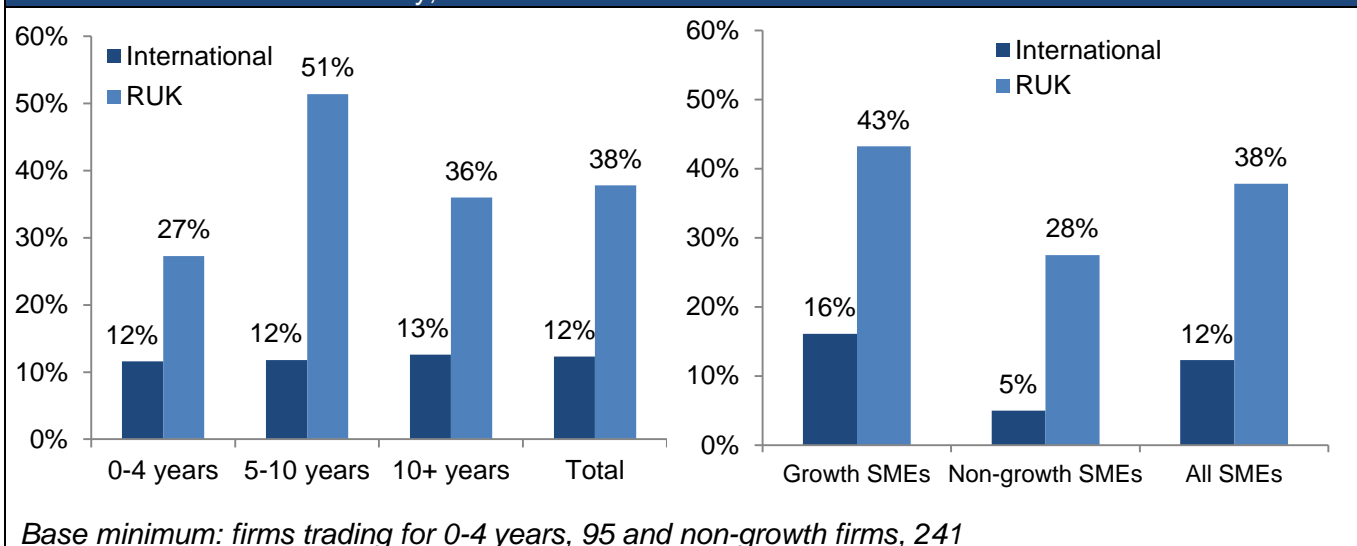
There does not seem to be an association between the age of a firm and exporting internationally, as the percentage exporting is around 12 per cent across all age groups. However, more firms aged 5-10 sell goods and services to the rest of the UK than older or younger firms (Figure 5, left).

## Growth Firms

65 per cent of SMEs with employees plan to grow over the next 2-3 years. SMEs planning on growing in the future were both more likely to sell goods and services outside of the UK and to the rest of the UK. (Figure 5, right).

**Figure 5: Exporters by Age and Growth Intentions**

Source: Small Business Survey, 2014

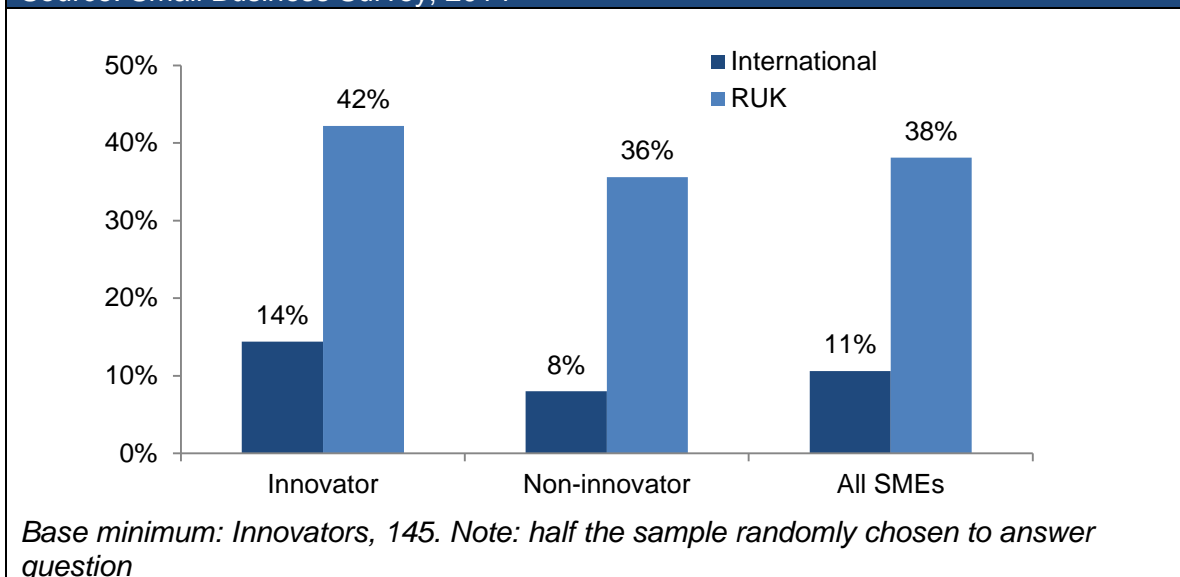


## Innovators

43 per cent of SME employers introduced a new or significantly improved product or service in the past 12 months. SMEs which had introduced a new product or service were more likely to sell goods and services internationally and in the rest of the UK.

**Figure 6: Innovator Firms**

Source: Small Business Survey, 2014



**Box 2: Statistical Analysis of Exporter Characteristics**

The above descriptive analysis of the Small Business Survey suggested that a range of firm characteristics (such as operating in the business services sector, being larger etc.) increased the likelihood of a firm exporting. However, many SMEs fall into more than one category, so for example, business services firms may be more likely to export because they tend to be large firms, or large firms may tend to export because they are more likely to be in a certain sector.

To address this, statistical analysis is undertaken, to investigate which factors increase the likelihood of exporting internationally, whilst controlling for other factors.

The main results show:

- The probability of exporting is significantly lower for micro firms relative to medium firms. Larger firms are therefore more likely to be exporters independent of other factors.
- The likelihood of exporting increases if an SME is in the Business Services, Primary and Manufacturing or Transport/Retail and Distribution sector, relative to being in the Other Services sector, independent of other factors.
- Firms planning on growing are also significantly more likely to export than those firms which are not, and while a positive relationship is found between firms introducing an innovative product and exporting, the significance is not as strong.
- Age of firm is not significantly related to the probability of exporting. However, age and firm size are highly correlated, which suggests that older firms tend to be bigger, and it is the size rather than experience that is driving the higher likelihood of exporting.

Further interpretation of the results is presented in Annex 1.



## Turnover

The Small Business Survey asks firms that sell goods and services abroad how much of their turnover that exports account for.

A fifth of businesses undertake little export activity and as a result less than 5 per cent of their turnover is accounted for by exports. In contrast, for some very export focussed businesses, exports account for more than 90 per cent of their turnover.

For one third of firms which export internationally, exports account for greater than half of their turnover. This is higher than the UK as a whole, where for just over a fifth of exporting SMEs, greater than half of their turnover is generated by exports.

<b>Figure 7: Percentage of turnover accounted for by exports</b>		
Source: Small Business Survey, 2014		
	<b>Scotland</b>	<b>UK</b>
<b>Less than 5%</b>	21	34
<b>5-10%</b>	8	12
<b>10-25%</b>	12	16
<b>25-50%</b>	26	16
<b>50-75%</b>	11	7
<b>75-90%</b>	11	5
<b>More than 90%</b>	6	6

*Base minimum; Scotland exporting SMEs, 141*

There is also some evidence that firms that export are also more likely to have increased turnover in the past 12 months than firms which do not sell goods and services internationally (Figure 8). In comparison, SMEs which do not export were more likely to report that their turnover had remained the same.

<b>Figure 8: Change in turnover in the last 12 months</b>			
Source: Small Business Survey, 2014			
	<b>Exporter (%)</b>	<b>Non-Exporter (%)</b>	<b>Total (%)</b>
<b>Increased</b>	49	32	34
<b>Decreased</b>	18	18	18
<b>Stayed the same</b>	31	43	41
<b>Unwilling to answer</b>	3	3	3

*Base minimum; Exporting SMEs, 141*

## **Future Plans and Barriers**

Of those businesses currently selling goods and services abroad, 69 per cent plan on increasing the amount that they export over the next 3 years. However, only a small percentage of those firms that do not currently export have plans to do so in the future (3 per cent).

For companies which do not currently sell goods and services abroad, there are only two things which are considered to be barrier to exporting: a lack of a suitable product or service for exporting, which is cited by 57 per cent of non-exporting SMEs, and exporting not being part of the business plan, cited by 30 per cent of non-exporters.

Lack of knowledge of how to export is only mentioned by 1 per cent of SMEs, suggesting that this may not be an important factor in SMEs deciding not to export.

## **International Exporter Segmentation**

Using all of the information from above, it is possible to classify all SMEs with employees into one of 5 categories:

<b>Figure 9: International Exporter Segmentation (%)</b>	
Source: Small Business Survey, 2014	
<b>Firm does not have product/services suitable for export</b>	48
<b>Firm has never considered exporting internationally despite having a suitable product</b>	34
<b>Firm already sell goods and services abroad</b>	12
<b>Firm has tried selling internationally in the past</b>	3
<b>Firm is planning on exporting internationally in the future</b>	3

While almost half of SMEs in Scotland do not consider themselves to have a suitable product or service for exporting, a third of firms (34 per cent) have never considered exporting, despite having a suitable product.

This group of SMEs are therefore potentially amenable to encouragement to begin exporting. Key characteristics of this group are:

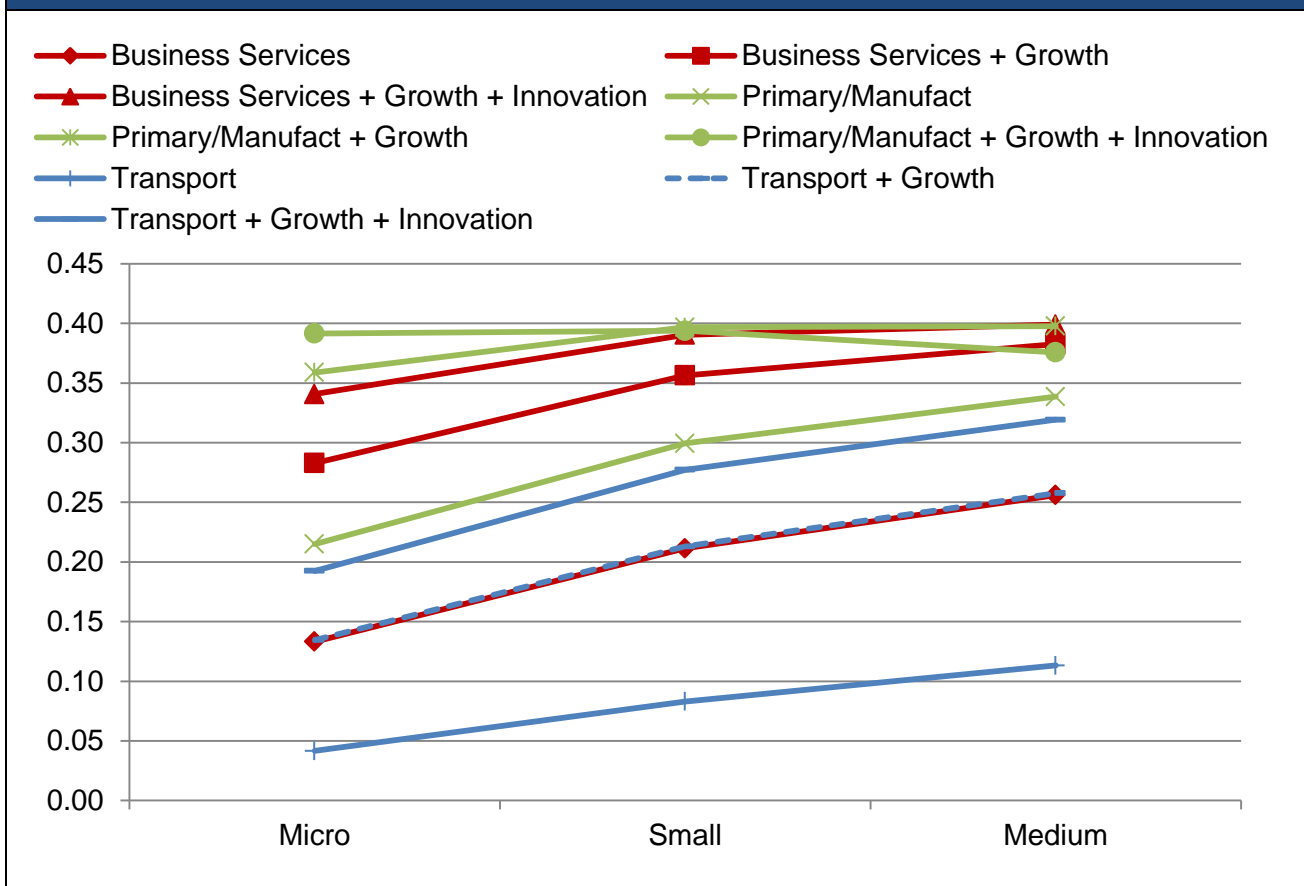
- These firms are mostly in the transport/retail/distribution sector (39 per cent) and the business services sector (24 per cent)
- The majority (86 per cent) are micro businesses (1-9 employees)
- They have mainly been established for a long time (69 per cent are over 10 years old)

### Annex 1: Further results from statistical analysis

The results in box 2 were derived by creating a statistical model relating the probability of exporting with a range of variables: firm size, sector, firm age, an indicator for if the firm is a growth firm and an indicator for if the firm has introduced an innovative product.

In order to interpret the results of the model, values for each of the variables in the model must be specified. As such, it is not possible to report the results of every combination of values, but the chart below reports the predicted probabilities for different sizes of SME in the three sectors that had statistically significantly different coefficients from the Other Services sector. The same analysis is then repeated adding in the co-efficient which indicates a firm is planning on growing, and then adding in the indicator for firms which have introduced a new product in the previous year.

**Figure 10: Predicted probability of exporting from the statistical model**



This shows that the variables do not have an equal effect across different firm types:

- In most cases increasing firm size leads to a higher probability of exporting, but the change in probability is not constant across the different sectors
- A firm indicating that it is a growth firm boosts the probability of being an exporter across all sectors and firm sizes. However, this boost is smallest for medium firms in the Primary and Manufacturing sector – they have a high probability of exporting whether they intend to grow or not.
- Having introduced a new product or service further boosts the probability of exporting, in addition to being a growth firm. This is especially marked for SMEs in the Transport/Retail and Distribution sector.

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