SUBMISSION FROM FEDERATION OF SMALL BUSINESSES (FSB)

Introduction

The FSB is Scotland’s largest direct-member business organisation, representing around 20,000 members. The FSB campaigns for an economic and social environment which allows small businesses to grow and prosper.

The Scottish Government has set a priority of increasing the number of businesses exporting, as well as the value of exports. In its call for evidence, the Committee indicated that it is keen to understand why some businesses choose not to export. While we are not best placed to comment on some of the more detailed policy aspects of the Committee’s inquiry, in recent years we have gathered data about our members’ attitudes to exporting. We believe this data provides a reliable snapshot of the views of small businesses and, as such, would be a useful contribution to the Committee’s inquiry.

Small Businesses and Exporting

Overview

FSB data suggests that under a fifth of small businesses are exporting, with relatively few considering it in future plans. For the vast majority, this is because they feel exporting is not possible or relevant for their products or services. While this may be true for many businesses, the data might also suggest that if more firms are to export, far greater attention will have to be placed on demonstrating the relevance of overseas markets to a wider range of small businesses.

For most, export activity does not account for the majority of business turnover, with domestic sales still dominant. Exporting is still concentrated in manufacturing; however services are increasingly important with almost as many selling services, as sell goods, overseas. Europe is, by far, the key export market, followed by the US, with smaller numbers selling into other export regions.

Exporters face a number of challenges but bureaucracy and currency issues are at the top of the list. Most have not used government support to help them export and views are mixed about how easy it is to access such support.

Who

Our data\(^1\) consistently shows than only a minority of small businesses currently export and few see it as an option in the future, largely due to the nature of their business.

\(^1\) The data used in this response is drawn from two sources. First, our membership survey Voice of Small Business, published in early 2014 and based on a survey conducted in late 2013, attracting 899 responses. Second, our quarterly survey panel, which received around 50 responses (in relation to questions about exporting).
• In our most recent biennial survey (receiving 900 responses), only 12% of Scottish businesses were exporting, compared to 16% across the UK.\(^2\) We also survey a smaller group of members on a more regular basis. This sample shows an average of 19% of small businesses exporting over the last year. Taking both sets of data together might suggest that around a sixth of our members export.

• The most common reason to begin exporting was interest from an overseas customer (48%) but this was closely matched by the business owner proactively deciding to export (46%).

• By far the most common reason (cited by 64%) for not exporting was that it was not felt to be relevant to the business. The smaller survey sample echoed this finding with 77% reporting that the main reason for not exporting was that their product or service was not suitable. A far smaller number reported that the domestic market was sufficient (15%) or that it would be difficult to get their product to the customer (8%).

• The sectors in which exporting is most prominent are: manufacturing (35%), digital and telecoms (28%) and engineering (28%).

• The firms more likely to export in the future or actively consider it are in the creative services (23%) and the manufacturing sector (20%).

**What**

Perhaps unsurprisingly, the majority of exporters are exporting manufactured goods. However, the exporting aspect of the business tends not to account for the majority of those exporters’ sales.

• Of those who export, over half (55%) export manufactured goods. However, 36% export services.

• Processed goods are the least exported with only 9% of firms doing this.

• For most businesses, exports represent a limited amount of turnover, though 40% report that it accounts for more than 20% of their turnover.

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\(^2\) One explanation for this difference may be the smaller number of manufacturing businesses in the FSB’s Scottish membership (compared to the UK) and the higher number of tourism and hospitality members in Scotland.
Where

FSB members export to a wide range of regions, though European markets are by far the most important. In future, exporters indicate interest in India and China.

- Regions to which FSB members currently export are: the European Economic Area (84%), USA (58%) and Australasia (49%). Other European countries, Canada and the Middle East are the next most popular markets. Around a fifth currently export to Japan, South America and China. Only 13% currently export to India.

- Looking to the future, businesses who are already exporting and those considering exporting have identified India (47%) as a key market, closely followed by China (44%), South Africa (43%) and Japan (41%).

- 11% more firms are trading with the US and 10% more with Australasia than those in the rest of the UK.

Barriers and support

Views are mixed in relation to the main difficulties around exporting, but members are most likely to cite red tape and foreign currency issues. Most don’t use government support and have mixed views about how easy it is to access support.

- The main barriers to exporting reported by small businesses are: red tape and bureaucracy (32%), the fluctuating exchange rate and foreign currency (23%) and difficulties in finding customers (19%).

- Just under a fifth (19%) of FSB members received government support for exporting.

- Four out of ten believe that it is difficult to access government support for exporting.

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