INTRODUCTION

Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE) are pleased to provide this submission in response to the Scottish Parliament’s call for written evidence on Internationalising Scotland’s Business.

This is a joint submission on behalf of Scottish Enterprise and Highlands and Islands Enterprise, recognising the close working between the two enterprise agencies on internationalisation and, in particular, the role of Scottish Development International (SDI) as the trade and investment arm of both.

SE and HIE welcome the Committee’s inquiry, particularly as we are developing the next steps required to boost Scotland’s international competitiveness and contribute towards the step change required.

We have set out our response in line with the call for evidence, taking each theme in turn.

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Strategic Context: Building Scotland’s International Competitiveness

SE and HIE’s core focus is on helping to build Scotland’s international competitiveness. Alongside our partners in industry, academia and the public sector, we can support all Scottish companies with growth ambition to succeed on an international stage.

There are a number of compelling reasons as to why SE and HIE should intensify our efforts to help Scottish companies to engage internationally.

- Evidence shows that companies that export increase their competitiveness and diversify their customer base are likely to have greater long term security and sustained growth.

- For Scotland, with its small domestic market, accessing other markets is vital to economic growth. The importance of being international is much more than just improving Scotland’s balance of trade. Companies trading internationally are generally more productive, have higher productivity growth and are more innovative than their peers and they ‘learn by exporting’ which raises productivity further.

- There is also evidence that decisions regarding technology (specifically R&D and innovation) and exporting decisions are interdependent and both in turn impact upon productivity. SMEs which have a track record of innovation are more likely to export, more likely to export successfully, and more likely to generate growth from exporting than non-innovating firms.

Achieving greater internationalisation of Scottish business depends on a complex interplay of factors, for example, how curious, ambitious, innovative and effective Scottish companies and institutions are in engaging with international partners and operating in global markets. Importantly, it’s also about Scotland’s global profile and how deeply embedded an international mind-set and culture is within Scotland. SE and HIE are currently considering the next steps required to deliver a step change in Scotland’s international competitiveness.

The capacity of Scottish firms to trade, and be successful, internationally relies strongly on factors such as:
• Leadership and their ability to deploy the skills and knowledge of their people;
• Ability to adapt to rapid technological change;
• Responsiveness to changing global markets and customer needs.

However, competitiveness is **broader than technology** and the level and stock of skills within an economy. It is also related to an economy’s ability to attract and retain mobile, global, talent and its systems of developing employable and adaptable people and talent with the **right attitudes and outlook**.

SE, HIE and SDI can play an important part in realising Scotland’s international ambitions, supporting companies over the long term to help build and deliver their growth ambition. We will work with all companies to develop their strategy for exporting, from helping potential new exporters to take first steps into a market, to supporting more experienced exporters to move into new markets.

In recognising the scale and complexity of delivering Scotland’s international competitiveness, we have set out our views (below) on the challenges and opportunities in internationalising Scottish business.

1. **The Experiences and Challenges faced by Scottish exporters;**

**Economic Context**

In a small, open economy such as Scotland, the ability of our companies to trade internationally is greatly affected by dynamics in the global economy. Growth in the next few years is forecast\(^1\) to be moderate and uneven across the main economic blocs with the more advanced economies, such as the US, which is Scotland’s top international export destination, potentially seeing stronger performance. In Europe, which accounts for 45% of Scottish exports, the picture is mixed and we may see weaker growth in important markets such as France and Germany. The rapid increase in growth in emerging economies, and important future markets, such as China and India, which currently account for a small proportion of Scottish exports, is expected to slow down.

The Global Connections Survey published by the Scottish Government (Jan 2014), with support from SDI, highlights (below) export trends across sectors and markets in 2012. Over time, the survey has shown that Scotland’s traditional exporting sectors are relatively stable and perform well on a consistent basis. The Scottish Government is due to publish the latest Global Connections Survey, with export data for year 2013, at the end of January 2015.

**Global Connections Survey – Summary of 2012 Export Data**

• Scottish international exports in 2012 (excl. oil and gas which is recorded at a UK level) are provisionally estimated at £26 billion, an increase of £1.4 billion (5.9%) since 2011.

\(^1\) World Economic Prospects; Oxford Economics (Dec 2014)
• £15.4 billion exports are attributable to manufacturing sector companies and £8.7 billion to the service sector. Manufacturing sector exports increased by £1.1 billion (7.9%) over the year and service sector exports increased by £465 million (5.6%).

• The 2 largest exporting industries in 2012, as in previous years, were manufacture of food & beverages (£4.7 billion) and manufacture of coke, refined petroleum and chemical products (£4.1 billion).

• These 2 sectors are followed by legal, accounting, management, architecture, engineering, technical testing and analysis (£1.7 billion), wholesale retail, repair of motor vehicles and motor cycles (£1.7 billion) and financial and insurance (£1.4 billion).

• The top five international export markets (USA, Netherlands, France, Germany and Norway) accounted for £10.8 billion of international exports (42 per cent of all international exports) from Scotland.

• Exports to the rest of UK (from Scotland) in 2012 (excluding oil and gas) are provisionally estimated at £47.6 billion, of which £25.3 billion is attributable to service sector companies and £12.7 billion is attributable to manufacturing sector companies.

• The combined value of international and rest of UK exports in 2012 (excluding oil and gas) are provisionally estimated at £73.6 billion, of which £34.0 billion is attributable to service sector companies and of which £28.1 billion is attributable to manufacturing sector companies.

Scottish Exporting trends are in line with the UK’s, however, numbers of SMEs exporting are below the UK average. In 2012, 15% of Scottish small businesses (figure excludes sole traders) reported that they were exporters, compared with 19% for the UK. As shown above, we also continue to rely heavily on the UK as our main market.

The dependence on too few companies, sectors and markets for our international sales also continues, as illustrated below. In 2014, just under one fifth (18%) of businesses in Scotland sold goods or services or licensed their products outside the UK. A slightly lower proportion of businesses in the Highlands and Islands (17%) were exporters compared with businesses in the rest of Scotland (19%). Table 1 below shows that 43% of larger businesses (250+ employees) were exporters in 2014 compared to 18% of micro businesses (0 to 9 employees). This pattern is fairly consistent across Scotland and highlights the difficulties in expanding the number of exporters given that the business base is dominated by micro, small and medium sized enterprises.

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2 Small Business Survey 2012: SME Employers; BMG research for BIS (Apr 2013)

3 The Digital Scotland Survey 2014; IFF Research Ltd (2014)
Table 1

![Proportion of all businesses that export outwith the UK by business size, Scotland 2014](image)

Table 2 below shows that the proportion of Scottish businesses exporting varies substantially by sector. Businesses in the manufacturing sector are most likely to export (38%) followed by those in the transport and communications sector (28%), compared with 6% of businesses in the construction sector and 7% of businesses in health and social work.

Table 2

![Proportion of all businesses that export outwith the UK by sector, Scotland 2014](image)

The Importance of Inward Investment

Scotland’s track record in attracting inward investment is **exceptional** and has an important bearing on Scottish firms entering and growing in international markets. Scotland has maintained its position as the second region in the UK for attracting investment projects, with the number of projects secured hitting a **16 year high** of 82 (an 8% increase on 2012), which was **over 10% of all projects into the UK**.\(^4\) Inward investors tend to be export orientated and base themselves in Scotland, due to the

\(^4\) 2014 UK Attractiveness Survey; E\&Y (2014)
competitiveness of our inward investment proposition and the ease of access to the European market. Scotland secured 33% of all R&D projects into the UK (in 2012 it was 18.5%), and secured 5.9% of all R&D projects into Europe.

Inward investment has a positive impact on internationalisation and the productivity levels of domestic businesses. This can be driven by;

- ‘Knowledge spillovers’ where domestically owned businesses improve their products and processes, for example, as a result of staff moving between companies, through supply chain contacts;
- Increased competition and domestic companies imitating inward investors’ technology and work practices thus increasing their productivity;
- Building higher education institute capabilities and courses and developing infrastructure;
- R&D spend; inward investors contribute a highly disproportionate share of the total business expenditure on R&D in Scotland. For instance, in 2012, US owned companies investing in Scotland accounted for over 40% of Scottish business R&D expenditure.

The linkages between exporting and innovation

There is a strong link between innovative firms and increased international sales. This has been reinforced by the SE Account Management evaluation which found that 81% of the companies increasing their international sales also increased their innovation spend. Currently, around 20% of innovative Scottish SMEs are exporters, compared to less than 5% of non-innovators.

SE and HIE are addressing the challenges Scotland faces in improving its innovation performance and are working with companies looking to develop significant revenues from successful innovation and on stimulating greater demand for innovative products and services.

We are also making greater efforts to fully align our innovation support to our international support. Account Management is the key approach we adopt to achieve this. Through Account Management, we work with businesses with ambition to grow on how to achieve their specific growth aspirations and tailor our support to help them deliver that.

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5 The Community Innovation Survey (BIS, Oct 2014) definition of an “innovative SME” is; a company with less than 250 employees which is involved in new and significantly improved forms of organisation, business structures or practices aimed at raising internal efficiency or the effectiveness of approaching markets and customers.

6 Evaluation of Scottish Enterprise Engagement with Account Managed Companies 2013; Upper Quartile (2013)
Enterprise Europe Network: SE and HIE also resource the Enterprise Europe Scotland team which supports Scottish companies in various aspects relating to internationalisation and cross-border business innovation through Enterprise Europe Network, the world’s largest business support network. The aim of the Network is to boost growth and innovation by helping to increase access to EU funding and promoting the competitiveness and export capacity of European SMEs. The network engages with over 600 partner organisations in 53 countries to help companies develop innovation capabilities, commercialise new ideas and connect local business with opportunities for growth in European and international markets.

Case study: Despite fierce competition, tidal turbine project and device developer Nova Innovation was one of only three Scottish companies to secure European SME Instrument funding, thanks to the work of the Enterprise Europe Network Scotland team. Nova Innovation has also received support from SE account management through Scottish Investment Bank funding and the High Growth start-up programme.

The Importance of Digital Connectivity

The Digital Scotland Survey (2014)\(^7\) found that businesses that had a high use of digital technologies were far more likely to export than other businesses. Furthermore, 66% of businesses agreed that the use of digital technologies (such as social media, website or data analytics) had increased the number of international markets that they export to. This was higher for businesses in the Highlands and Islands (73%) than those in the rest of Scotland (65%).

This highlights the importance of capitalising on the roll out of Digital Scotland Superfast Broadband, a transformational programme bringing high speed fibre broadband to Scotland, ensuring we have the infrastructure required to help us become a world class digital country. This £410m programme will bring fibre broadband to 85% of homes and businesses in Scotland by the end of 2015, and to around 95% of premises by the end of 2017. Programmes such as HIE’s Digital Engagement Programme will be vital as part of this.

The following case studies set out the experiences of companies at different stages of exporting:

First time overseas exporter; Reids of Caithness

Family business Reids of Caithness has been producing award-winning cakes and biscuits for almost 50 years. The Managing Director received an enquiry from an international importer whilst the company was exhibiting at the Speciality & Fine Food Fair in London in 2010. The company successfully shipped their first order to the United States, which sparked their enthusiasm for the exporting process. To find out more, they sought the help of Smart Exporter via their account manager at HIE.

Through Smart Exporter, Reids of Caithness participated in the Preparing to Export training programme at Intermediate level. The six day in depth training course helped build upon their existing knowledge in the more advanced aspects of exporting. The team

\(^{7}\) The Digital Scotland Survey 2014; IFF Research Ltd (2014)
also attended Market Awareness Events on Doing Business in the USA, Canada and Japan.

The MD aims to grow the business further by working with partners to explore additional opportunities in countries that Reids of Caithness does not currently cater for. The company continues to exhibit their products at a variety of international events and have most recently featured at a large German trade fair and Gulfood in Dubai. Reids are currently exporting containers of Shortbread to Canada, Russia, and Japan and international sales are around 35% of turnover.

**Supporting an experienced exporter; MacLean Electrical**

MacLean Electrical was formed in 1974 and is now a world class distributor specialising in the supply of electrical products, lighting systems and cables for onshore, offshore and renewable energy, as well as the petrochemical, process and marine industries.

The company identified Australia as a key market back in 2005 and acquired an Australian business in Western Australia the following year. However, as the Australian market grew, it became critical to expand their presence to the East Coast where two thirds of Australia’s LNG (liquid natural gas) plants were being built.

With the support of HIE and the company taking advantage of SDI’s International Manager for Hire programme, they were able to recruit a Business Development Manager to focus on overseas expansion giving them a presence on the East coast and connecting up their businesses in Scotland, London, Houston and Australia. This allowed projects to run seamlessly between the different international centres.

As a result, **£1.5m** of new business can be directly attributed to the appointment they made through the International Business Manager for Hire scheme and with the support of SDI, the company are now looking at a new overseas market.

**Supporting a highly innovative company to enter new markets**

NomadiX Media offers state-of-the art media-based digital technologies which are highly innovative and unique in the market. These patented systems are used to create high impact and brand stand-out in areas where other fixed media can’t. To help overcome the challenges and risks of entering new markets, SDI and SE have provided support and guidance on everything from tax and IP, to legal and contractual issues. SDI also helped on getting the prototypes into overseas events and for supplying consultative advice on exporting and marketing and developing an export model.

The company had help from SDI’s contacts at UK Trade & Investment (UKTI) and international embassies in arranging introductions with high level leads in places such as India. NomadiX Media also received technical support from Scottish Enterprise on targeting innovation and this has allowed the company to translate the value proposition, along with market research, into two new products.

From its Glasgow HQ, NomadiX Media now offers its services throughout the UK and internationally. It has successfully launched two new franchises in South Africa and Colombia and is hoping that the Colombia presence will lead to other significant opportunities for its marketing expertise in Latin America. The company has found that
new overseas markets have plenty of hungry entrepreneurs looking for products to make them money and success. They have little or no preconceptions and embrace change.

Overseas trade has created an international feel to the business, opened up additional revenue streams (exports now represent 70% of sales) and introduced some interesting challenges that drive new skills. The company has also been building a diverse team bringing together foreign language skills, management and international relations development.

2. The reasons why many Scottish firms, particularly SMEs, do not export;

Scotland’s business base remains smaller than most other UK regions and EU countries, relative to our population. On a ‘per head of population’ basis, in 2013, Scotland had 364 businesses per 10,000 adults, compared to 419 per 10,000 adults for the UK as a whole. As the average size of company in Scotland’s business base has become smaller, this affects their ability to innovate, internationalise and raise productivity.

Research into business attitudes to exporting highlights a wide range of barriers which may prevent companies from developing and pursuing opportunities to export outwith the UK:

- **Information and knowledge:** For companies taking their first steps into exporting, as well as for established exporters seeking to grow their international business through new markets, a wide range of information is required, for instance on; potential customers; regulations and; quality standards for goods and services in the targeted markets. Searching for information is costly, and when firms only have a partial knowledge about markets, they can underestimate the potential benefits of entering them. They can also overestimate the risks involved in exporting and entry into new markets.

- **Finance and payment issues:** Companies often express concerns around overstretching existing resources and fears of not getting paid, including the length of time to get paid in overseas markets. They can also face irreversible sunk costs in both entering and exiting new markets, such as in market research, setting up distribution, licensing or joint ventures agreements, and other arrangements that require up-front investment of time and money. This can be a particular issue for smaller companies that often lack specialised resources.

- **Overseas culture and networks:** Entering new overseas markets often requires the development of networks and relationships and this can be a long term process involving significant technical and cultural competencies, including language barriers, combined with high degrees of trust. For individual companies, developing networks and relationships can involve costs which may be beyond them in the short term.

- **Regulatory difficulties:** In some markets there are specific constraints to market entry, such as local taxes and tariffs, import duties and licences.

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8 Attitudes to Exporting; Ashbrook Research and Consultancy (May 2013)
- **Lack of internationalisation skills and capacity:** In particular, management skills on how to identify opportunities (including through market research) and how to sell and market effectively overseas. A company’s ability to build and sustain capacity and capability (both production and skills) is also an important barrier to export growth, particularly for micro businesses.

- **Domestic market focus:** The annual Global Connections Survey shows that many companies tend to focus solely upon domestic markets, considering their products and services as unsuitable for export. However, as highlighted in the Global Connections Survey (2012), trade with the rest of UK from Scotland is significant (estimated at £47.6 billion). As such, the wider UK market is potentially a critical growth opportunity for many Scottish companies and could provide their first step towards future international growth outwith the UK.

- **Connectivity:** Scotland’s international connectivity is also cited as a barrier. While improving, it lags behind other small European countries.

SE and HIE understand the nature and complexity of the challenges and barriers to export faced by companies. We have analysed each of the issues highlighted above and are providing specific solutions to assist companies in overcoming these barriers. Through SDI, and alongside our partners, we can provide: information; overseas networks and; a wide range of support products and services to help companies overcome these challenges, manage the risks involved in exporting and fully exploit the range of international opportunities. Two examples of this specific support to companies to help overcome the barriers highlighted are provided below:

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### Exporting and access to finance

As highlighted above, concerns over payment and access to finance are often cited by companies as a barrier to export. SE and HIE are working hard to support the finance needs of Scottish SMEs with growth and export potential. We have worked closely with UK Export Finance (a UK Government Agency) in the last two years to launch a new suite of products aimed at SMEs. As part of this, two members of UK Export Finance work with SE and HIE, alongside finance readiness advisors, to help companies to develop investable propositions, including bank finance.

In addition, through the Scottish Investment Bank, we will prioritise lending to support SMEs with international ambitions and the Export Support Initiative will continue to deliver advice and support to SMEs with significant export potential. At an industry level we also identify new EU wide initiatives aimed at increasing bank support to SMEs and ensure these are highlighted to Scottish Financial Enterprise.

### International Manager for Hire

To help companies build their international business skills and knowledge associated with going global, SDI provides support through International Manager for Hire. Under the scheme, a highly qualified business professional with extensive international expertise can work within an eligible Scottish-based company on a range of international activities including market assessment, product customisation and setting up internal systems to deal with international markets.

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3. The effectiveness of SDI and UKTI, as well as Scottish Enterprise and Highlands and Islands Enterprise, in helping Scottish firms enter and grow in international markets;

SE and HIE provide support to any Scottish companies with growth ambition to internationalise. However, stimulating this ambition and building international capacity involves more than simply support for exporting. It requires the integration of internationalisation support into the full range of SE and HIE business growth support, such as account management, innovation, entrepreneurship, organisational development and investment. In this way, SE and HIE can help to build longer-term potential in companies, as well as supporting existing exporters.

SDI, as the trade and investment arm of Scotland's enterprise agencies, raises awareness of the benefits of exporting and encourages companies to learn about and take the first steps towards trading overseas and growing their international sales. SDI has doubled its international support to companies, from supporting 1,380 businesses in 2011/12 to 2,708 in 2013/14.

Companies, even those not yet in a position to engage in international markets, can access a comprehensive range of services and information about exporting via SDI and Business Gateway. This includes online self help tools, practical guides to exporting, industry overviews, regulations and a programme of services to encourage and help early stage exporters, including workshops and one to one advice, practical support and access to the support of overseas offices. Through our Digital First approach, SE and HIE will be able to facilitate and encourage exporting by providing engaging and relevant on-line content about market opportunities, as well as tools to support customers on their export journey. In doing so, this will also enhance our promotion of digital as a tool for global trade.

Support model for internationalisation

SE and HIE support companies with potential, both to innovate export, using a three stage international business growth model (below). The model can also describe an existing exporter’s journey towards accessing a new market:

1. Ambition and awareness: raises the understanding of exporting, and the opportunities, practicalities and benefits

2. Capability and capacity: increases companies’ technical knowledge and understanding of how to approach exporting from a strategic and tactical point of view

3. Expansion and extension: helps companies enter a new overseas market
The importance of partnership in delivering international success;

Partnership is vital in order to deliver Scotland’s international success. SE, HIE and SDI work closely with bodies such as Business Gateway and Local Authorities to provide trade and investment support to their clients. Referrals form an important element of this work, for example, SDI provides specialist support to Business Gateway’s Growth Pipeline companies.

**Partnership with UKTI:** SDI engages closely with UKTI and offers UKTI’s products and services to Scottish companies. SDI’s ongoing partnership with UKTI is vital to ensure that companies based in Scotland benefit from an integrated package of international support services. UKTI provides the market intelligence and, in some geographies, access to markets where SDI does not have a physical presence. UKTI staff based in UK Embassies and High Commissions overseas also offer SDI both economic and business insights, often with commercial implications.

In November 2014, 250 delegates from all over Scotland with an interest in exporting, met up for Scotland’s first ever Explore Export roadshow, hosted by Scottish Enterprise in partnership with UKTI. Delegates benefited from over 400 one-to-one meetings with 63 international trade experts from over 60 global markets to explore opportunities and make new connections. Seminars around finance, IP, ecommerce and innovating for international trade proved hugely popular with the delegates, and have reinforced the vital importance of making sure Scottish businesses with export potential are equipped with the right information, skills and resources. Given the high level of success of the
SE and HIE are working with UKTI to support an Explore Export 2015 event in Scotland in November 2015.

SDI and UKTI will continue to work together to deliver the shared ambition of increasing exports and attracting inward investment. Both bodies are considering the recommendations of the Wilson Review of Support for Scottish Exporting (2014) to ensure that firms access the support they need, regardless of the point of first engagement and that they coordinate services and products; promote pro-export messages and share good practice.

**Working with industry;** SE and HIE also work with business and industry organisations to promote a joined-up approach to company support that meets the particular needs of specific sectors and types of business.

SE and HIE are working closely with Scotland Food & Drink and key trade bodies to drive forward Scottish exports through a new Export Plan. This includes a more focused approach to export activity, concentrating combined support in 15 priority markets and the appointment of an additional ten food and drink in-market specialists in seven of the highest priority markets.

**Industry leadership** on internationalisation across Scotland’s sectors is **vital**. For instance, Global Value Chains can give access to fast growing markets at a reduced risk. We can support the private sector to identify existing links to global value chains across industry and localities amongst our companies, as well as the extent to which we currently maximise the opportunities they present to our businesses. To unlock these opportunities, we need to work with industry on greater **cross-sectoral approaches** for example ‘Premium in Asia’ bringing together the best of what we do in Food & Drink, Textiles and Tourism, building a strong reputation as ‘Premium Scotland’ to capture the imagination of the rapidly growing middle class consumers.

**Evidence of effectiveness**

Evidence from a number of evaluations demonstrates that the provision of support by SE, HIE and SDI has been effective, both on the benefits of exporting and how to export. Evidence suggests new exporters have been created and international activity amongst supported companies has increased.

- Between 2012 and Nov 2014, over **6,200** Scottish companies, both Account and non Account managed, were assisted by SDI with a range of products and services. As part of this support, SDI delivered over **1,400** Exhibitions, Missions and Learning Journeys, attended by over **1,100** Scottish companies.

- SDI has proven to be successful in starting to broaden the awareness and reach of exporting services to the Scottish business base. Through the Smart Exporter programme, SDI, SE and HIE have worked with around **4,700** companies in the period 2010-2014. A review of the programme found evidence of companies and individuals developing a better understanding of exporting, planning for exporting and actively developing export action plans. Evidence suggests that Smart Exporter has also built demand for higher value, more intensive international

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9 Smart Exporter Strategic Review; Frontline Consultants for Scottish Enterprise (Jan 2014)
support, such as the increased take up of the International Manager for Hire support which has increased substantially from 37 projects in 2010 to 133 in 2014.

• Evidence from the Account Management evaluation (2013)\(^\text{10}\) highlights the potential economic benefits from supporting exporting and international activities. The evaluation reports that “market development related interventions are the most highly valued type of product support” and reports “export activity is one of the critical success factors” in influencing impact. The evaluation also notes the **positive economic impact** demonstrated by those companies who have received more “strategic” support (i.e. to develop and implement internationalisation strategies). There are also positive linkages between market development/internationalisation support and wider SE support particularly innovation. **72%** of the companies surveyed in the evaluation were active in overseas markets. Of those, **41%** had increased sales in their existing international markets due to SE support and **49%** had entered new international markets through SE support.

• A recent in-house assessment\(^\text{11}\) of HIE’s account managed businesses revealed that **50%** were exporting outwith the UK, and a further fifth (19%) were on the export ladder, preparing to export. HIE’s extensive evaluation of support to account managed businesses in the Highlands and Islands found that those receiving assistance to internationalise reported a strongly positive impact in increasing participation and export turnover in international markets. High levels of satisfaction were evident with the support received.

4. Changes SDI has implemented since the previous EET Committee inquiry in 2010. For example, the Committee stated in its inquiry report that SDI’s primary focus should be on achieving ‘a step change in the number of Scottish companies that see exports and international trade as a route to future success’;

Following the EET Committee inquiry in 2010, the Scottish Government, SE, HIE and SDI published Scotland’s International Trade and Investment Strategy for 2011-15. The strategy sets out strategic objectives, opportunities and priorities for partners and provides a framework for better coordination of activity.

The Committee’s current inquiry is timely as partners are starting to address the next steps required to further boost Scotland’s international competitiveness and ramp up delivery of the ‘step change’ highlighted in the question above. This future strategic approach beyond 2015 will be set out in a revised International Trade and Investment Strategy.

**Increased focus on internationalisation**

SE and HIE are intensifying our focus on internationalisation. We are working with our partners, not only to help increase both the scale and value of Scotland’s international trade and investment, but also to increase number of companies seeking to operate

\(^{10}\) Evaluation of Scottish Enterprise Engagement with Account Managed Companies 2013; Upper Quartile (2013)

\(^{11}\) Internal HIE Review of Account Managed Companies’ Export Ladder Stages, August 2014
internationally. This requires a “deeper and broader” approach with the Scottish company base, supporting existing exporters (the competitive core) to do more, as well as encouraging more companies to develop their international aspirations and their capacity to trade in markets outwith Scotland. This approach recognises the shift in mindset and business culture needed to encourage non-exporters to start exporting and, crucially, encouraging and helping small scale exporters to grow their overseas sales.

To demonstrate our increased level and intensity of support for exporting between 2010-2014;

- The total number of SDI interventions delivered annually has more than doubled (from 2,194 in 2010 to 5,388 in 2014) and the unique number of companies supported annually has risen from 1,070 in 2010 to 4,003 in 2014.

- International Manager for Hire has increased from 37 to 133.

- Our International Specialist Engagement support has increased almost 10 fold.

SDI will increase its focus on market entry support, offering a range of additional services, such as courses to help companies finesse their overseas selling propositions for specific market places, support to adapt products and packaging for overseas customers, support on sourcing and managing supply chains for new markets and specific advice, working alongside UKTI, on access to the Export Finance Programme.

SDI can reach out to any company from any sector, however, export advisors have a sector focus enabling them to operate in the context of sector initiatives, for example, from the food & drink or oil & gas sectors.

From October 2014, SE and SDI no longer use the Smart Exporter brand. Instead, all existing and proposed international support services will come under the banner of SDI. This support is either free or heavily subsidised and available to any company based in Scotland. The Smart Exporter brand will continue to exist in the Highlands & Islands (HIE) area until June 2015 as it continues to project completion.

Partnership working is crucial to the success of our new approach. Close working with Business Gateway and Local Authorities is essential, as are relationships with bodies such as Chambers of Commerce, UKTI and other relevant providers.

**Building Scotland’s international presence**

Through the considerable expertise of staff based in SDI field offices, Scottish companies can benefit hugely from bespoke advice and support to trade in specific markets. Field offices also play a vital role in identifying and delivering inward investment opportunities to Scotland. The number of staff in SDI field offices is 113 (including Foreign Commonwealth staff), an increase of 22 (24.17%) since 2012. Since 2012 SDI field offices, including London, have increased by 32% from 22 to 29 in 2014, providing a footprint in the following regions:

- Europe, Middle East & Africa; with 9 offices in 8 countries

- America; with 8 offices in 3 countries
Asia Pacific; with 12 offices in 6 countries

Since 2012, SDI has opened new offices in; Norway; Saudi Arabia; Ghana; Canada; Brazil; China and India.

Development of the GlobalScot initiative forms an important part of building Scotland’s internationalisation. GlobalScot seeks to harness the powerful Scottish business diaspora that can be found across the world. There are 651 GlobalScot members who are committed to giving their time, expertise, knowledge and access to their contacts to support Scottish companies and help them connect with new global marketplaces. This assistance can range from market advice and interactions to much deeper levels of engagement including advisory roles on industry bodies and non executive roles within Scotland’s most ambitious companies.

**GlobalScot helps to translate a great business idea into international success**

Headquartered in Edinburgh, Lingo24 is one of the world’s fastest growing translation service agencies with 60% of sales coming through export markets. It has over 4,000 language experts around the globe and offices in 18 countries including Panama, New Zealand, the Philippines, Romania and Germany. Until recently, becoming a global business was out of reach for many smaller companies due to the high costs; however, the rapid growth of the internet has changed this. It’s now relatively easy and affordable for companies to become “micro-multinationals” by setting up international websites and selling their products and services overseas.

The company has had a range of support from SE and SDI, from advice on marketing to organising networking events. The GlobalScot network also helped to successfully launch in the United States, leading to the company winning a first million-dollar contract with a major US technology company.

With a clear vision for future export growth, Lingo24 won two accolades at the first ever BQ Scottish Export Awards – Scottish Exporter of the Year and the International Trade Best Professional Service Advisor award. In the last year, the company’s revenues climbed by 12% to £7.5 million thanks to demand from European markets including Switzerland, Belgium and France.

5. Whether the Scottish Government is likely to meet the Government’s Economic Strategy target of increasing the value of exports by 50% by 2017 (and the usefulness of this target);

SE and HIE believe that setting an ambitious target has helped partners to focus on the importance of building Scotland’s international competitiveness.

As reflected in the Economy, Energy and Tourism Committee’s Report on the 2015/16 budget; “ambition can provide focus, inform direction and demonstrate leadership and drive.” This focus on internationalisation will bring long term benefits to the competitiveness of the Scottish economy.

Good progress has been made on deepening Scottish exports in recent years (14% growth from 2010-2012), however this has been achieved mainly through increased sales by existing exporters, with the number of exporters staying flat, despite some
success in building ambition, awareness and capacity in the Scottish business. Early indicators, such as export confidence, suggest that 2013 and 2014 were tough years for exporters, in particular due to slow growth in our single biggest market, Europe. The recent fall in oil prices also causes challenges.

To meet the 50% target, an average of 7.0% growth annually is required from the 2010 baseline, equating to 14.5% over two years. Exports have increased by 14% from £22.8bn, putting Scotland broadly on track to meet this target through international sales from existing exporters. However there is no room for complacency. Our international competitors are also increasing their focus on, and prioritising, trade and investment to boost their own economic performance.

As set out in Scotland’s International Trade and Investment Strategy for 2011-15, SE and HIE are committed to playing our full part in meeting the headline target of 50% export growth, alongside our partners in industry, academia and the public sector. This can be achieved through extending the international reach of existing exporters and increasing the number of small and medium-sized Scottish businesses exporting.

6. Why international exports of manufactured goods have reduced so dramatically since 1999 and what can be done to reverse the trend;

Scotland’s manufacturing capability is a vital contributor to balanced economic growth and in particular, to exports. Sectors such as engineering and food and drink manufacture high value products in niche areas where Scotland has a competitive advantage such as sub-sea services. Manufacturing companies have a higher propensity to export (60% of total Scottish exports).

However, in line with trends in other advanced European economies, Scottish manufacturing’s share of the economy declined from 19% in 1998 to 11% in 2013, below that of other OECD countries such as Germany (24%), Austria (18%), Finland (15%) and Sweden (15%).

This decline is partly due to under-investment in Scottish manufacturing in drivers such as R&D and innovation, as well as investment in assets, especially property, over long term business opportunities. The manufacturing industry has also suffered from a poor image among young people entering the labour market, leading to fewer choosing qualifications relevant for manufacturing and fewer still of these actually entering the industry.

As seen in Table 4, the relatively poor performance of international exports of Scottish manufactured goods since 2002 has largely been due to decline in the electronics industry. However, export of manufactured goods has performed relatively well over the period due to strong performance in sectors such as Food and Drink and Chemicals. The Scottish Chemicals sector accounts for 28% of Scottish manufacturing by turnover and shares and has revenues of £9bn, of which £4.5bn is from exports. At Grangemouth, the largest cluster in Scotland, support in the form of cohesive master planning, energy and utilities management could realise increases in manufacturing, efficiencies, exports and jobs.

**Table 4**
The Scottish Index of Manufactured Exports fell by 4.0 per cent in real terms during the fourth quarter of 2013. This could be attributed to the muted recovery of the euro area and volatility in the emerging markets. However, on a rolling-annual basis, comparing the most recent four quarters to the previous four (4Q-on-4Q), the volume of manufactured exports increased by 1.9%. (National Statistics Publication for Scotland, April 2014)

To build on Scotland’s current position, greater focus is needed on R&D, innovation, productivity, technical and leadership skills and collaboration. SE and HIE support manufacturing in a number of areas across sector and company growth activities and we will seek to increase our impact on manufacturing by building more integrated supply chains and networks and enhancing capability within Scotland. Working with our partners, our aim is to help consistently grow manufacturing’s share of the Scottish economy year-on-year, primarily through export growth.

7. Scotland’s most successful exporting sectors and what can be learned from them;

Building on Premium and Provenance

The Scottish Food & Drink sector includes over 1,100 manufacturing food and drink businesses. This includes strong indigenous players with key brands, such as AG Barr, to global players with significant inward investment such as Diageo. The sector is also vital to many associated supply chain companies such as packagers, labellers and bottlers such as Ardagh Glass.

Despite tough trading conditions, Food and Drink remains a major exporting sector with £5.3bn international sales in 2012, accounting for 20% of Scottish exports. Whisky accounts for 81% of food and drink exports, with international exports worth £4.3bn. However, the Scottish Whisky Association has reported first half export figures for 2014 that show an 11% reduction compared to the same period in 2013.
As whisky and seafood account for the majority of current Food and Drink exports, there’s a need and opportunity to widen the range of food products sold overseas and to a wider base of overseas markets. The recently launched Food and Drink Export Plan seeks to learn from the experience gained in the whisky sector, especially in gaining presence in new and emerging markets. The Plan was developed in partnership with the Scottish Government, Scotland Food & Drink, Scottish Bakers, Scottish Salmon Producers Organisation, Seafood Scotland, Scotch Whisky Association, and Quality Meats Scotland.

Collaborative Export Solutions is a new approach in supporting relatively small food and drink businesses with the ambition to export, but who currently lack capacity to enter overseas markets and sustain international trade. SDI led the pilot project which began in September 2014 with ten Scottish Premium Grocery companies and ten HIE Food and Drink businesses in a pilot collaborative arrangement. Businesses were asked to commit and to provide basic product information. Market opportunities were identified, samples were sent out and SDI led visits to Canada, Japan, China, Hong Kong, Singapore and the Middle East over the six month period maximising SDI Field support in these countries. Opportunities and leads have been identified for the participating businesses and a large amount of in-country intelligence has been collated which will inform the way forward.

Through the Premium Scotland project, there are considerable opportunities to combine the premium brand strengths of Scotland’s offering in Tourism, Food and Drink and Textiles to develop Scotland’s presence in emerging international markets.

Building our International Niche Energy Strengths

Scotland has internationally competitive strengths in many areas of oil and gas such as subsea, deepwater drilling, remote operated vehicles, reservoir management, project management, health and safety and training services. As such, the sector can play an important role in internationalising Scottish business. Our international activity is focused around a number of key markets that comprise two thirds of current total international activity, including; North America (32% of current international supply chain sales), West Africa (10%), Australia (9%), Norway (8%) and Brazil (3%).

8. Where growth is likely to be seen over the next few decades and how these businesses/sectors can best be supported;

The dynamics of world trade are changing, with a shift of trade towards emerging markets, particularly in the East. We are also seeing new patterns emerging in the structure of trade with interesting alliances being constructed to establish new global value chains. For instance, we are seeing the growth of the “CHIMEA” trade dynamic, where CHinese and Indian companies are providing the know-how; Middle Eastern countries provide the money and African countries the raw materials. These shifts in global trade offer opportunities for Scottish companies to expand their international reach. They also offer a threat, if we are not able to respond.

High Growth Goods and Services

There are clearly identifiable global demand trends in each of the six high growth goods and services sectors and all have niche opportunities for Scottish capability.
• **Retail;** The demands in retail are very focussed on personal items and consumer goods, driven by luxury, or perceptions of luxury. Luxury goods don’t have to be expensive but they need to be different and recognisable. Meeting the demands of the new global middle classes offers opportunities to package “customer experiences”, such as leveraging the brand awareness from whisky pioneers to create a Scottish premium experience that brings in other products such as cashmere, seafood and tourism. *Scottish Opportunities: Whisky, Food, Textiles and Tourism.*

• **Energy;** Security and reliability of supply is a huge demand in the energy sector as well as increased capacity. Governments are not looking for simple, cheap and “old school” generation and distribution solutions. They want to build smart solutions for the 21st Century. The exploitation of oil & gas resources and new energy sources e.g. shale gas and renewables offers huge opportunities for experienced energy extraction and servicing companies. *Scottish Opportunities: Oil & Gas and Renewables*

• **Infrastructure;** Public procurement to establish 21st century transport, waste and energy systems around new and expanding cities will drive most of the demand. The focus will be on integrated smart solutions which will command premium prices. The demand for new infrastructure will drive engineering and design opportunities which travel easily: architecture, engineering services, environmental planning and ICT systems. *Scottish Opportunities: Engineering, Design Services and Enabling Technologies.*

• **Education;** The increased demand for university undergraduate and post graduate level skills across fast growing markets is well known and Scottish Universities have been taking advantage of those lucrative opportunities for a number of years to enhance their international competitive position. This trend of both international accreditation of qualifications and international campuses is set to continue as the next generation of fast growing markets emerge. *Scottish Opportunities: Universities and Colleges.*

• **Health Care and Well-Being;** The healthcare and well-being market is forecast to generate the greatest levels of demand into the 2020s. As populations expand, age and become wealthier governments are looking for cheaper health solutions which tackle mass market and high volume issues. The well-being market is looking for goods and services which will help keep more people happier, healthier and active into older age and which provide smarter and cheaper solutions to treating disease and health problems associated with old age. *Scottish Opportunities: Universities, Life Sciences and Digital Technologies.*

**Global Mega Trends**

Specific “mega trends” have also been identified which are changing the dynamics of future global trade:

• **Increased affluence;** by 2022 there will be 200m households with a salary of over $35k, with the fastest growth in China, Brazil, India, Mexico and Turkey.
• **Technology advances;** the challenge for the coming decade is to create smart, reliable integrated technology solutions which use less resources and which create quicker, safer and cheaper trading.

• **Security and Safety;** increased demand for security of energy supply and environmental issues (clean water, good air quality and the waste treatment).

• **Global value chains;** emerging nations are no longer passive recipients of these value-chains, but are active creators.

• **Innovation in everything;** rapidly expanding new markets have become more specialised and more highly skilled in a very short period of time, compared to historic development trends due to rapid and ubiquitous innovation.

**Building on Scotland’s Profile**

Since 2008, the Scottish Government has used the Anholt-GfK Roper ‘Nation Brands Index’ to conduct an annual examination Scotland’s reputation, against the reputation of 50 other nations across the globe. The 2014 findings show that Scotland continues to score highly, placed in the top 20 of nations. The index looks at a country’s image by examining six dimensions of national competence; Exports, Governance, Culture, People, Tourism and Investment and Immigration, giving an overall indication of a country’s reputation.

Tourism was seen as Scotland’s strongest point, whilst perceptions of Scotland as an exporting nation remain an area for improvement. That said Scotland’s exports performance is perceived similarly to other similarly sized Western economies. These results provide a strong platform and highlight opportunities and challenges across the six dimensions to help shape future strategic planning and focus.

**Responding to the international opportunities**

SE and HIE can support all Scottish companies with growth ambition to internationalise. We aim to increase the value of Scotland’s international trade, as well as increase the number of companies seeking to operate internationally. To deliver this, we will take a “deeper and broader” approach, supporting existing exporters to do more and encouraging more companies to develop their international aspirations and their capacity to trade in markets outwith Scotland.

**Sub Sector / Sub Market Approach**

In responding to these global trade dynamics and trends, an important feature of SE and HIE’s future approach to internationalisation is a sub sector / sub market approach, where we focus on niche Scottish capabilities within sectors and the specific markets for these. For instance, Food and Drink with its emphasis on premium brands with global reach and provenance will continue to be very important. Opportunities will also exist in high technology sectors, in areas like energy, digital media, life sciences and engineering.
In response to the shift in international economic activity towards emerging high opportunity markets, in particular, China, India and the Middle East, SDI has introduced a High Growth Market Unit as a ‘go to’ contact for companies to help realise their business potential in these markets.

Building One Scotland Partnerships

As an important part of our response to building Scotland’s international competitiveness, SE and HIE will contribute fully to development of the Scottish Government’s new One Scotland Partnership initiative, including the piloting of Innovation and Investment Hubs in important locations overseas.

9. The Committee also wishes us to comment on a parallel inquiry by the Infrastructure and Capital Investment Committee on freight infrastructure.

“To identify and understand some of the challenges facing the freight transport industry in Scotland, including domestic and international links as well as the interconnectivity of air, sea, rail and road freight services and to identify key areas for development, improvement and change.”

Internationalisation and Air Connectivity

Scotland’s air connectivity is vitally important to building our international competitiveness. SE and HIE support and develop aviation activities through a Team Scotland approach, with public and private sector partners including; Transport Scotland; VisitScotland and; the airports.

Improving our air connectivity supports internationalisation of our company base and growth sectors. It also has a vital role in attracting inward investment and supporting in-bound tourism. As a result, SE and HIE work with partners to support new long-haul air route development, new flights to hub airports and a strengthening of air services to short-haul destinations in Europe, both for passenger and cargo services.

Team Scotland partners have supported the following strategically important new routes:

- Edinburgh: Chicago, Philadelphia, Doha, Abu Dhabi
- Glasgow: Helsinki, Isle of Man
- Inverness: Amsterdam

While Scotland’s international air connectivity is dominated by passenger services, decisions on support should also consider increased or changing demand for freight movement.

Issues affecting the transport of food & drink exports

As highlighted earlier, Scotland’s international connectivity is cited as a barrier which may prevent companies across our main exporting sectors to develop and pursue opportunities to export outwith the UK. Given the importance of the Food and Drink sector to Scottish exports, SE has commissioned research into the main transport issues facing the sector in trading into UK and international markets. Many of these challenges
are experienced by other exporting sectors. The study found that the major market-based issues that are likely to affect the transport of Scottish food and drink exports up to 2017 are:

- The lack of air freight services direct from Scottish airports which adds to the transit time for seafood and fish products and therefore reduces shelf-life;
- The container imbalance between Scotland and England, so that Scottish food and drink exporters incur additional costs in obtaining containers for export loads;
- The potential impact on freight rates from Scotland of on-going consolidation in the deep sea container industry;
- Possible lack of capacity at rail freight distribution parks in Scotland and in England;
- Disruption caused by incidents on the A9/A96 route and a lack of capacity on the parallel Highland Main Line for freight services, which link food and drink production sites in the Highlands with consolidation sites in the Central Belt;
- Lack of capacity for rail freight services on the West Coast Main Line;
- Potential impact from the introduction of the Sulphur Emission Control Area (SECA) in 2015 on the direct Scotland-Continent ferry service.

**Conclusion**

As stated throughout this submission, the international competitiveness of Scottish companies is at the core of everything SE and HIE do. We have set out here that:

- The ambitious target to grow Scotland’s exports is achievable but will require continued focus on supporting those businesses with the potential to grow and expand into overseas markets.
- This support must be about more than exporting. We have highlighted previously the important link between innovation and exporting but a wide range of areas play a role in international competitiveness, e.g. leadership or access to finance.
- We know, from our evaluation evidence, that what we do works but we cannot be complacent. We must, and do, seek continuous improvement of our programmes and services in order to work towards the step change in Scotland’s export performance that is required.

We trust that this submission will be of interest to the Committee in considering their inquiry and we look forward to discussing some of these issues in more detail with the Members.
ANNEX 1

Supplementary Information Requested

1. What proportion of AM companies have seen exports increase over the past 5 years? A sector breakdown would be useful.

Please see below a sector breakdown of the proportion of SE account managed companies which have increased exports over the last five years (since 10/11). This increase has been extrapolated from the turnover growth figures that we collect in line with our performance measures.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Proportion Growing Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace, Defence and Marine</td>
<td>51%</td>
</tr>
<tr>
<td>Chemical Sciences</td>
<td>60%</td>
</tr>
<tr>
<td>Construction</td>
<td>19%</td>
</tr>
<tr>
<td>Creative Industries</td>
<td>40%</td>
</tr>
<tr>
<td>Enabling Technologies/ICT</td>
<td>48%</td>
</tr>
<tr>
<td>Energy - Low Carbon/Renewables</td>
<td>33%</td>
</tr>
<tr>
<td>Energy - Oil &amp; Gas</td>
<td>58%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>23%</td>
</tr>
<tr>
<td>Food and Drink</td>
<td>45%</td>
</tr>
<tr>
<td>Forest Industries</td>
<td>32%</td>
</tr>
<tr>
<td>Further and Higher Education</td>
<td>40%</td>
</tr>
<tr>
<td>Life Sciences</td>
<td>51%</td>
</tr>
<tr>
<td>Non Sector</td>
<td>22%</td>
</tr>
<tr>
<td>Textiles</td>
<td>70%</td>
</tr>
<tr>
<td>Tourism</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>44%</strong></td>
</tr>
</tbody>
</table>
Please see below a sector breakdown of the proportion of HIE account managed companies growing exports, from 2009 to present.\textsuperscript{12} This includes all businesses and social enterprises that are currently or have been account managed by HIE, 2009 – present.

<table>
<thead>
<tr>
<th>Growth Sector</th>
<th>Proportion growing exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance and Business Services</td>
<td>59%</td>
</tr>
<tr>
<td>Creative Industries</td>
<td>56%</td>
</tr>
<tr>
<td>Tourism</td>
<td>50%</td>
</tr>
<tr>
<td>Other Energy</td>
<td>66%</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>48%</td>
</tr>
<tr>
<td>Life Sciences</td>
<td>52%</td>
</tr>
<tr>
<td>Food and Drink</td>
<td>54%</td>
</tr>
<tr>
<td>Multiple growth sectors</td>
<td>43%</td>
</tr>
<tr>
<td>Other (includes all other sectors and universities.)</td>
<td>27%</td>
</tr>
<tr>
<td><strong>All Sectors</strong></td>
<td><strong>50%</strong></td>
</tr>
</tbody>
</table>

2. **How many companies have attended Smart Exporter training sessions and how many of these have seen an increase in international sales since completing training?**

Since its inception in 2011/12 through to the conclusion of the original programme in 14/15, staff from 4,712 companies have benefited from Smart Exporter training.

As many of these companies are not account managed (or not at the time they received training) we do not have turnover figures for them.

3. **How many AM companies received funding from SIB and how many of these have subsequently seen increases in international sales?**

Over the last five years (since 10/11) SIB has made 769 investments into 257 Account Managed companies. Given multiple investments into many of these companies over the course of the five year period, it is not possible to align this easily with increase in turnover, and therefore to international sales.

\textsuperscript{12} Review by HIE Account Managers of HIE Account Managed Companies' Stage on the Export Ladder (2014)
4. How many AM companies have attended trade missions and how many of these have seen increases in sales within the targeted markets?

Since 2010/11, 1,234 SE Account Managed companies have attended trade missions, overseas exhibitions or learning journeys. Due to the possibility of the same company attending more than one of these during the five year period, the number of unique companies in this total will be somewhat less. It is not possible to match this list against an increase in international sales.

5. How many companies have used SDI overseas offices and how many have increased sales in these markets over the following years?

9,180 companies have used the services of SDI offices over the last five years (since 2010/11), of which, 4,859 were Account Managed. For the same reasons as for (2) and (3) above, it is not possible to match this against an increase in international sales.
ANNEX 2

Data Sources

**World Economic Prospects;** Oxford Economics (Dec 2014)

**Global Connections Survey;** Scottish Government (Jan 2014)

**2014 UK attractiveness survey;** E&Y (2014)

**Research into Smart Exporter;** Ashbrook Research for Scottish Enterprise (May 2014)


**HIE Business Panel survey;** undertaken in-house by HIE Research & Economics Team (2014)


**Smart Exporter Strategic Review;** Frontline Consultants for Scottish Enterprise (Jan 2014)

**Review of Smart Exporter Highlands and Islands 2011-13;** Reference Economic Consultants in association with Ekosgen

**Evaluation of Scottish Enterprise Engagement with Account Managed Companies 2013;** Upper Quartile (2013)

**Attitudes to Exporting;** Ashbrook Research and Consultancy (May 2013).

January 2015