

# RETHINKING GROWTH

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## BUILDING BLOCKS OF AN EXPORT LED RECOVERY

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*Manufacturers' global outlook will help drive rebalancing.  
But support is needed to reduce the risks for an export led recovery.*

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## Summary

Exporting is vital for the prosperity of UK-based manufacturers but the recession has been tough on both industry and exporters. As world trade flows declined sharply, companies' sales followed. Diversity has helped many manufacturers through the worst – companies that are involved in a broader range of markets have been buffered to some degree from difficult economic conditions. Growing exposure to export markets over the past decade has not only helped companies survive the recession but has also contributed to improved productivity, which has been of benefit to the wider economy.

World trade flows have turned a corner and, with markets now showing signs of recovering, manufacturers are positive about their prospects in export markets in both the short and the longer term. Some companies have changed their export strategies as a result of the recession. In some cases this has been to minimise risk in the short term, particularly against a backdrop of tighter credit conditions and increased currency volatility. Many companies, therefore, remain cautious about the future, expecting export growth to be concentrated in Europe and North America. However, these traditional export markets will face the same growth constraints as the UK, so it is important that manufacturers continue to look beyond these markets to high-growth emerging economies, as was the case before recession hit, to help an export-led recovery.

Despite the fairly positive outlook for exports, there are still issues that could throw sand in the wheels of an export-driven rebound. Manufacturers are most worried about exchange rate volatility, followed by uncertainty around the strength of demand, increased competition and lack of information about new opportunities.

Obtaining a foothold in new markets can require significant investment and commitment. For many, expert information and guidance can smooth the path to new export orders. Manufacturers can benefit from support to compete effectively in the world market and to ensure that exports remain an integral part of their business. Services offered by UKTI are well regarded and can make a tangible difference to export outcomes by increasing sales and knowledge as well as helping gain access to customers and business contacts. While the forthcoming pressure on public spending cannot be underestimated, the support available to UK exporters needs to match the best in the world. The next government must make a clear commitment to direct adequate resources to this

support as part of the Spending Review that focuses on the areas that will rebalance the economy.

The UK's emergence from this severe recession has prompted policymakers to rethink how we generate sustainable and long-term economic growth. The need to rebalance the UK economy and place a greater emphasis on tradable sectors, such as manufacturing, is not in question. Government, manufacturers and the financial sector all have a role to play in creating the right conditions for export-led growth.

In this report we look at the involvement of UK manufacturers in export trade, where they export to and how important it is. The recession has clearly been a significant obstacle and our survey examines how it has affected exports, what companies have done to adapt and what they expect to happen as the world emerges from it.

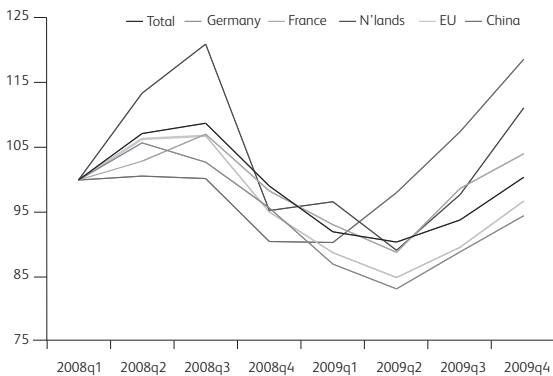
## Importance of exporting to manufacturers

For much of the last decade, global markets have been buoyant, world trade has grown at a double-digit pace and many UK companies have taken advantage to sell their goods into more markets, including new and faster-growing emerging economies. However, the recent financial crisis had an enormous direct and indirect impact on manufacturers around the world and global trade flows collapsed in 2008. Chart 1 illustrates the synchronised downturn in global trade volumes, with exports of UK-manufactured goods having followed a similar path. Towards the end of last year, trade turned a corner. With markets now showing signs of recovering from this huge jolt to growth, we examine the details of UK manufacturers' involvement in exporting and the prospects for the future.

### Chart 1

#### Trade turns a corner in 2009 Q3

goods trade index 2008q1=100



Source: National Statistics

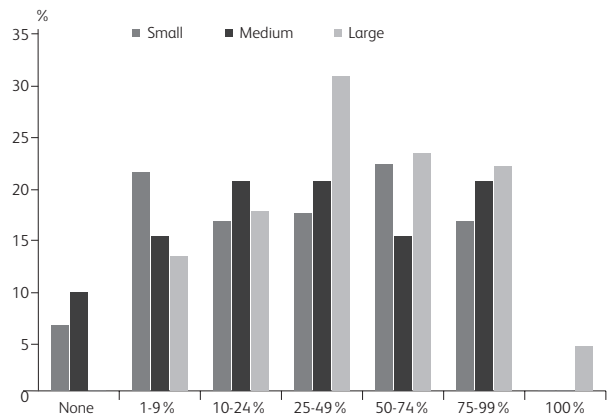
Given the small size of the domestic market relative to the expanding global one, it is unsurprising that exports are vital to UK-based manufacturers. Indeed, more than 90% of manufacturers are involved in exporting, some of whom are extremely reliant on overseas markets as nearly 40% of companies derive more than half their turnover from international sales. Even the smallest manufacturers in our survey have made some inroads into overseas markets, but all large companies (those with more than 250 employees) export some of their products (chart 2). Despite this survey coming on the heel of a severe global recession, this export profile is largely unchanged from EEF's 2006 Export Survey and shows an increase from a quarter of companies who

obtained more than half their turnover from exports in 2003<sup>1</sup>.

### Chart 2

#### Large companies all involved in exporting

% of turnover accounted for by export trade by company size



Source: EEF Export Survey 2009

There is a well-established link between exporting and indicators of business performance such as productivity and profitability. Our 2006 survey showed that companies that were more dependent on exports and that had a higher export turnover were more likely to report superior productivity growth. This link partly reflects the fact that competitiveness and efficiency are central to success in global markets. Companies can therefore experience gains in productivity as a result of preparing to compete in a global market.

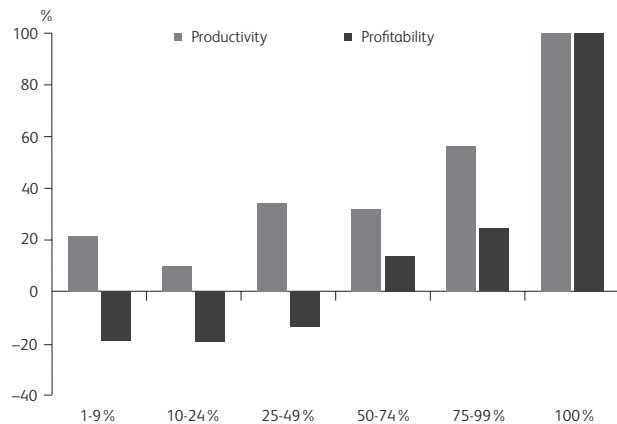
The global recession may have complicated the productivity picture as falls in output have been considerably greater than reductions to headcount throughout the downturn. However, the link with exporting still holds true in 2009; chart 3 shows that more companies with a higher export turnover reported an increase in both productivity and profitability than those who reported a decrease.

<sup>1</sup> EEF Business Trends survey

### Chart 3

#### Companies exporting more report more profitability and productivity gains

% balance of companies reporting increase by % turnover accounted for by exports



Source: EEF Export Survey 2009

### Market diversity

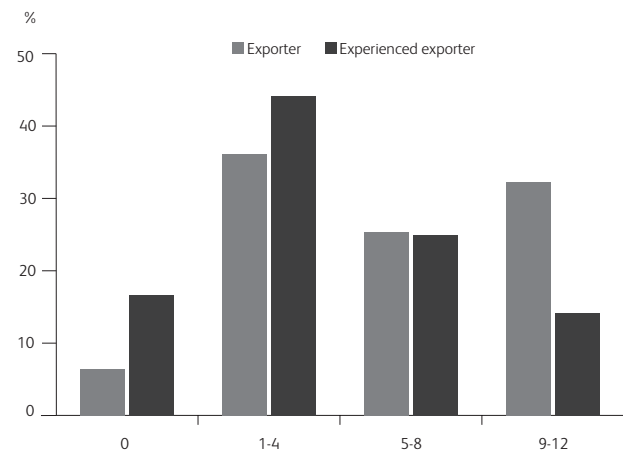
The majority of UK exporters are involved in multiple markets, whether in developed or emerging economies. Just 12% of companies export their products into only one market and over half of respondents export to six or more overseas locations. Chart 4 shows the wide range of general export experience and the number of markets in which experienced exporters are involved (experienced exporters are those who have exported to a market for more than five years).

Just over a fifth of small companies are not experienced exporters in any markets, compared with one in eight medium-sized companies and just 4% of large companies. Interestingly, for all sizes of companies, one in seven are experienced exporters in nine to twelve markets; this figure may be similar for all sizes of companies because larger companies may have more local offices in export markets rather than directly exporting from the UK as smaller companies may do.

### Chart 4

#### Wide range of export experience

number of markets companies export to by whether exporter or experienced exporter (% of companies)



Source: EEF Export Survey 2009

Developed markets continue to be the most important for manufacturers. Nine in ten companies export to the original pre-enlargement EU15 and just fewer than two-thirds sell to North America. Our findings tally with official trade data which show that around half the UK's exports are destined

for eurozone markets. Most of the companies that export to developed markets are experienced exporters, selling to those markets for five years or more. Companies that sell into only one market are most likely to be involved in the EU15 (82%) due to the proximity, size and ease of entering this market compared to others. Many large, multinational companies may see the EU as an extension of the UK domestic market.

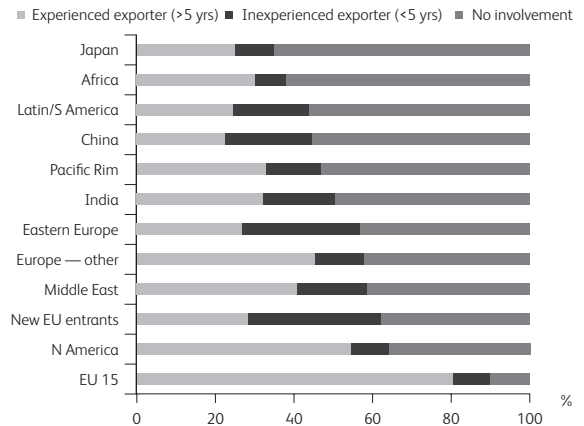
Around the same proportion of companies sell to new EU entrant countries (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Bulgaria, Romania) as sell into North America (chart 5). However, the profile of experienced versus inexperienced exporters to these markets is very different. Awareness of opportunities in Eastern Europe increased in advance of their accession to the EU in 2004. In the past five years, until the recession, the new EU entrants saw growth in terms of the domestic market, their manufacturing sectors and the quality and depth of their supply base. These factors, coupled with economic stabilisation and their relative proximity, have proven to make these countries an attractive market opportunity for UK-based manufacturers.

There continues to be more experienced exporters involved in India than China, as was the case in the 2006 survey – unsurprising given the historical links between the UK and India. Overall, whilst more companies sell their products to China than Africa and a similar number sell to Latin/South America, companies are more experienced in these two markets than in China.

**Chart 5**

### *Involvement of manufacturers in export markets*

*% of companies with export experience by market*



Source: EEF Export Survey 2009

The biggest change since our last survey has been the proportion of manufacturers exporting to Middle East markets. This emerging market is now the most prominent, a fair step ahead of those exporting to China. Those in the electrical and optical sector are particularly involved, with nearly three-quarters currently exporting there. UKTI named both Saudi Arabia and UAE as key emerging markets and two of seventeen high-growth markets, another of which is Qatar. The ease of doing business in these Middle Eastern countries is also improving; the UAE, for example, has risen from 47th in the rankings in 2009 to 33rd in 2010 according to the World Bank's Doing Business report.

Despite China's huge domestic market, just 37% of companies are currently exporting there with a further 13% considering it, leaving half of manufacturers uninvolved. As an emerging market well known for its huge domestic manufacturing base, many companies may think there are more barriers to exporting than opportunities, such as language barriers and getting to grips with business law and procedures.<sup>2</sup> However, some sectors are more involved than others; over half of companies in the machinery sector are already exporting to China. The country's continued growth as a manufacturing base provides good opportunities for capital goods and machinery manufacturers.

<sup>2</sup> EEF/BDO Global Challenge survey 2007

Russia is the country that has the largest number of companies considering it as a possible emerging economy export market, with nearly a quarter saying they are currently involved there and a further fifth considering it. However, the proportion of companies identifying Russia as a potential market has dropped from 35% in the 2006 survey despite its inclusion in UKTI's High Priority Markets Programme.

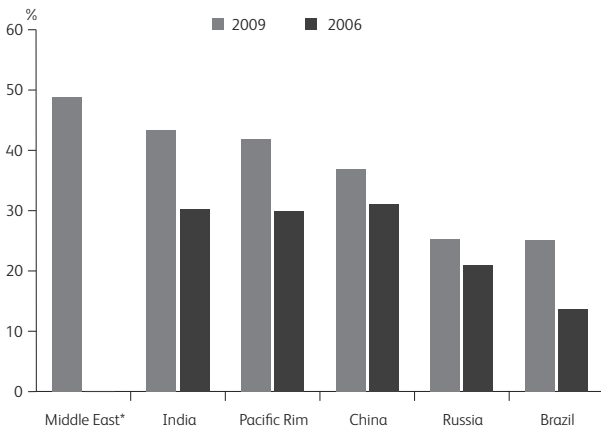
Across all emerging markets, exporters are more likely to be large companies. Large companies are often the ones more able to take risks and invest in sales capabilities in emerging markets rather than concentrating efforts on well-established ones.

Chart 6 shows growth in involvement in emerging markets. However, a large proportion (35%) of UK-based manufacturers remains uninvolved in these markets. Exploiting new opportunities in economies such as China can be risky and requires significant new investment and management time. However, our survey indicates that many manufacturers are succeeding. As these are areas that are both key emerging markets and high-growth markets identified by UKTI in its High Growth Markets Programme, work needs to continue to highlight the opportunities they present for manufacturers and to provide information and support to help companies break into them.

**Chart 6**

*Involvement in emerging markets shows growth*

% of companies involved in emerging markets



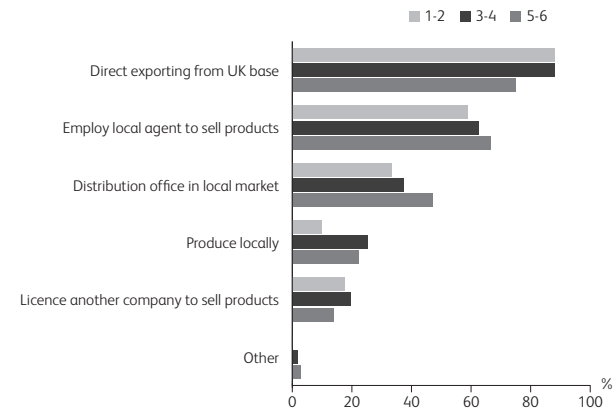
Source: EEF Export Survey 2009 & 2006 (\* No 2006 data for Middle East)

For companies who export to emerging markets, direct exporting from a UK base continues to be the most common approach. Producing locally has become a slightly less used tactic, perhaps due to known problems such as quality and intellectual property protection.<sup>3</sup> This mirrors the finding in our 2009 Manufacturing Advantage report<sup>4</sup> that around one in seven companies are bringing some activities back to the UK from lower-labour-cost economies like China. Companies who are highly experienced in emerging markets – exporting to five or six of them – are more likely than companies who are less experienced to use local solutions such as a distribution office or employing local agents.

**Chart 7**

*Direct exporting still preferred approach*

% of companies using approach to expand sales in emerging markets by number of emerging export markets



Source: EEF Export Survey 2009

<sup>3</sup> EEF/BDO Manufacturing Advantage: How manufacturers are focusing strategically in an uncertain world, November 2009

<sup>4</sup> *ibid*

## Exporting – recession to recovery

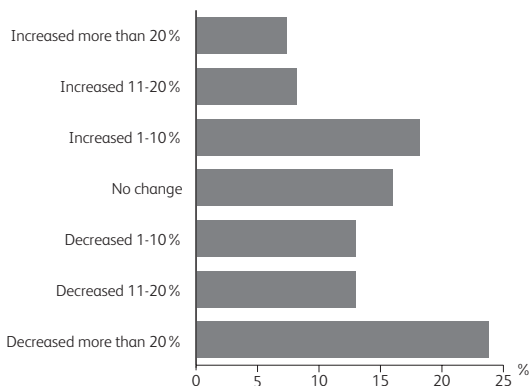
With lower worldwide consumption during the recession, UK manufacturers and exporters have inevitably felt some of the consequences. But the picture is somewhat mixed. Half of companies report a decrease in export sales over the past 12 months whilst a third report an increase. Large companies (those with 250 employees or more) report being hit the worst, with 70% reporting a decrease in export sales compared with half of small companies and 45% of medium-sized companies.

The differences are mainly due to the impact of the recession on particular industries. Companies in the transport sector report being the hardest hit, with over three-quarters seeing a decrease in export sales. Nearly half of them (45%) report a decrease of more than a fifth. The impact of the recession on the car industry was significant across the world as finance dried up and a number of governments in Europe and the US stepped in with car scrappage schemes to stem the decline. In contrast, the food and drink sector has been fairly steady during the recession, both in terms of output and export demand. The sector reports growth in exports of just over 10% in the first half of 2009.<sup>5</sup>

### Chart 8

#### Mixed picture for export sales over past 12 months

% of companies reporting change in export sales



Source: EEF Export Survey 2009

Despite the recession, a third of manufacturers have increased their export sales. Diversity appears to have provided something of a cushion from the worst effects of the global downturn. The number

of markets to which a manufacturer is exposed appears to have a positive effect on sales; 43% of companies exporting to nine markets or more show an increase in sales compared with 26% involved in one to four markets.

Looking ahead to the recovery, manufacturers are fairly positive about export prospects – nearly three in five expect sales to increase in the next 12 months, a quarter expect them to stay the same, and just one in seven anticipates a further decline. In addition, looking longer term, the ambition of UK manufacturers to extend their reach into global markets remains, with four in five companies reporting that they are seeking to expand their company's presence in export markets.

The extent to which manufacturers can grow their export base will have implications beyond the firm level. Over the past two years, all sectors of the UK economy have seen some contraction in output. The fallout from the financial crisis will linger for some time after the economy has returned to growth, and households will be unable to engage in the same level of debt-financed consumption as was the case over the previous decade. International trade will therefore have to fill the gap that weaker households and government consumption will leave in the UK economy.

While manufacturers have become more confident about export demand, the market profile is mixed. Of those companies that expect to see sales increase, the main markets for this growth are expected to be the eurozone and North America – both well-established export markets – rather than emerging economies. More companies in the machinery sector expect to see growth in China (35%) than those in other sectors (average 19%) because of their significant, and growing, manufacturing base. However, the reality may well be that the traditional export markets for UK manufacturers will face the same constraints as those facing the UK, holding back growth and ultimately restricting the opportunities in these markets for UK exporters. This increases the importance to UK manufacturers of looking beyond these markets if we are to see a sustained export-led recovery.

Companies have therefore been looking at whether their current strategies are fit for purpose and whether it is necessary to change and adapt them. Three in five UK manufacturers report changing their export strategies as a result of the recession. The most popular tactics are those that appear to minimise risk in the short term; companies have put

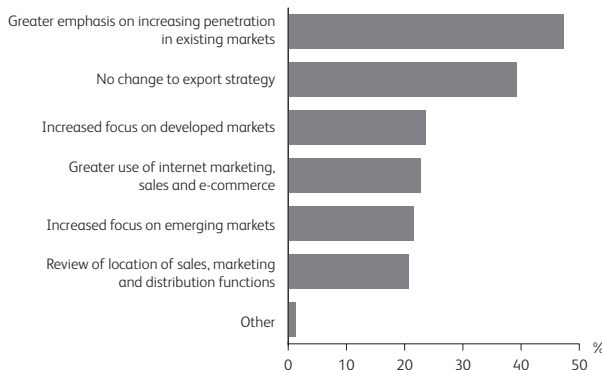
<sup>5</sup> Food and Drink Federation, UK Food & Drink Export Performance First Half 2009, Oct 2009

greater emphasis on increasing penetration in existing markets and have increased their focus on developed markets rather than going for the more risky options of increasing their focus on emerging markets. Firms going for the emerging markets option tended to be more experienced exporters; 37% of those involved in nine to twelve markets took this option compared with just 8% of companies involved in one to four markets. Large companies were more likely to make changes, perhaps due to the resources they have available to realise changes.

### Chart 9

#### *Companies make changes to export strategies as a result of the recession*

% of companies citing each change



Source: EEF Export Survey 2009

While the more cautious approach of increased focus on existing markets might have its merits in the short term, manufacturers will need to explore new markets and take a more adventurous approach if the UK is to see a more significant expansion in exports. Economies such as China, India, Brazil and Vietnam were amongst the strongest performers before the global downturn struck. Over the next few years, growth in these markets will certainly continue to outperform significantly that in Europe and North America.

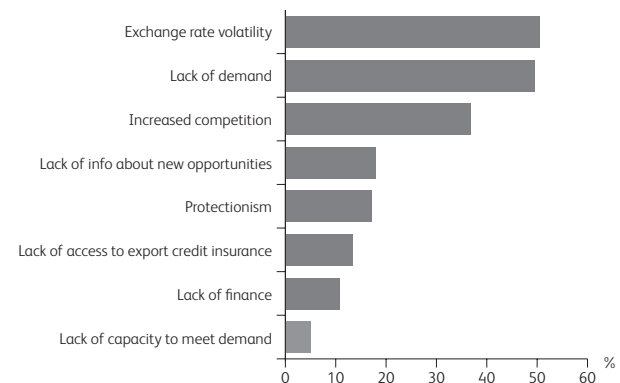
### *Risks to an export-led recovery remain*

Despite being fairly positive about the outlook for exports in the next 12 months, manufacturers still see some barriers which could hold them back (chart 10). Since the survey was carried out, fears that lack of demand will hinder the recovery process may have eased as world trade continues to grow. Global manufacturing appears to be in better shape as activity indicators have shown expansion in activity since the turn of the year. That said, concerns around sovereign default in Europe continue to linger, and China may face the challenge of managing the soft landing of an economy which could be very close to overheating.

### Chart 10

#### *Concerns around volatility and the recovery*

% of companies citing risk to export sales growth in next 12 months



Source: EEF Export Survey 2009

The biggest challenge for UK exporters is managing exchange rate volatility. The UK remains a small open economy and sterling has been subject to crosswinds from the euro, dollar and renminbi. In the two years from January 2007, the pound fell by more than a quarter against the euro and by a similar amount against the dollar. While there has been some appreciation of sterling in the past year, it has been subject to some fairly aggressive daily movements. Manufacturing is extremely sensitive to shifts in costs and exchange rates and, at this point in the cycle, significant exchange rate movements just add to an already uncertain outlook. If sharp movements in sterling continue, an export-led recovery on the back of a weak pound may not be assured.

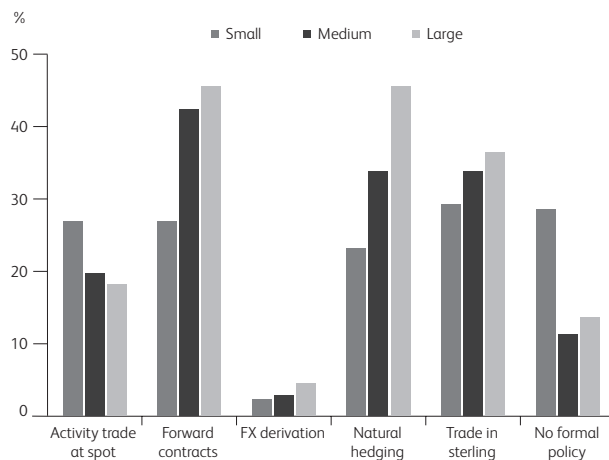
In addition, as chart 11 shows, many smaller companies have limited opportunities to manage foreign exchange risk. Nearly 30% of small companies have no formal policy on foreign exchange management and a similar proportion trade only in sterling. Discussions with manufacturers have revealed how significant the exposure to currency fluctuations can be, with some reporting a substantial impact on their bottom line. Larger companies, as might be expected, use a broader range of strategies to mitigate exchange rate risks.

Our survey results suggest that smaller companies are less able to manage exchange rate risks. In some instances this may be because their relatively small volumes of currency transactions make approaches such as hedging uneconomic. This has been exacerbated by a more uncertain demand outlook, in the short term. A number of companies have commented that they are unable to access some of the options that are available to larger companies, or can only do so at a sizeable cost. Therefore there is some scope for banks and other finance providers to work more closely with exporters to develop and promote a range of FX risk management products for companies to reduce the risk of currency volatility.

#### Chart 11

### *Smaller companies have limited opportunities to manage foreign exchange risk*

% of companies using FX management strategy by company size



Source: EEF Export Survey 2009

Also linked to this has been an issue with the availability of credit insurance – this has been a notable feature of this recession for both domestic

and export markets. Only around half of companies use export credit insurance, with the smallest companies the least likely to use it. Of those that do, one in seven companies has potential concerns over a lack of access to export credit insurance and the risk it poses to export sales growth.

Over the past year, nearly three in five companies have seen a reduction or a complete withdrawal of cover in the past twelve months. Unsurprisingly, this has led the majority of companies (72%) making changes to the way customers pay them, although, interestingly, a quarter said that they have not made any changes despite seeing a change in insurance arrangements. Some 13% of companies that use credit insurance have stopped exporting to countries which are no longer covered, which translates as a relatively small number of companies. Whilst this clearly is an issue for some manufacturers, it remains only one of a number of factors that may hinder the chances of an export-led recovery, causing manufacturers to remain cautious.

## Business support

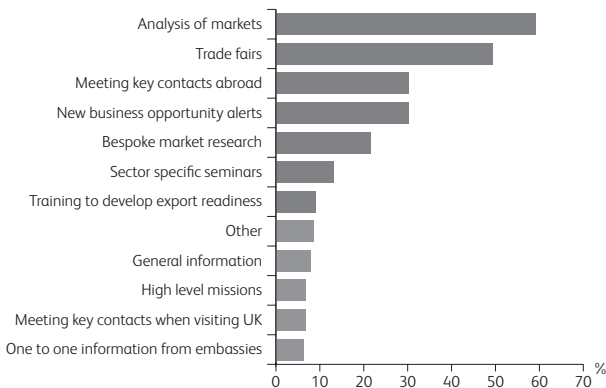
Selling goods and services into new markets, creating new jobs and improving efficiency all contribute to raising economic performance. All of these require not only management ambition but also the right outside support to get it right, whether that is help to cut the administrative burden, drawing on others' expertise or obtaining advice and guidance on specific topics. Business support helps not only companies just starting out but also those wanting to grow – and that includes exporting.

What do manufacturers see as their priorities for support when exporting? Three-fifths of companies indicate that analysis of particular markets is a priority. This helps them with decisions as to which markets to try and break into or which markets they could further penetrate, who might provide competition and how best to go about gaining market entry.

Chart 12

### Priorities for exporting manufacturers,

% of companies



Source: EEF Export Survey 2009

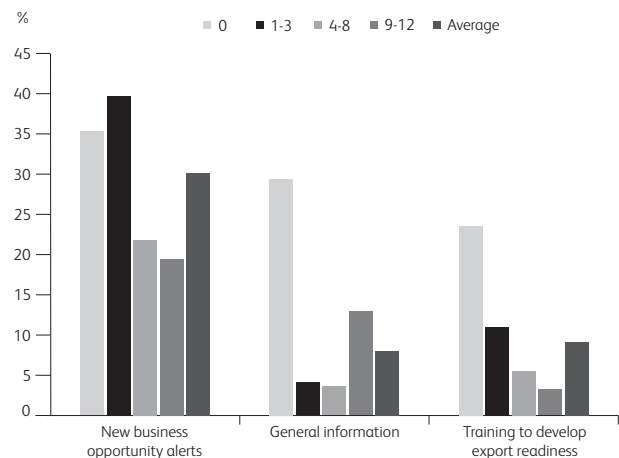
Getting new business dominates many of the top priorities for support; three in ten companies want to receive alerts about new business opportunities and the same amount want assistance to meet with key contacts in target markets. Less-experienced exporters, in particular, are looking for new business opportunity alerts; two-fifths of companies who are experienced exporters in one to three overseas markets see this as a priority for support compared with one fifth of companies who are experienced exporters in nine to twelve markets.

Unsurprisingly, less-experienced exporters require more general information about doing business overseas. They also consider training to develop their company's readiness for exporting a priority (chart 13).

Chart 13

### Different experience of exporting means different priorities

% of companies seeing area as priority for support by number of markets in which an experienced exporter



Source: EEF Export Survey 2009

Small and medium-sized enterprises (SMEs) – more likely to be less-experienced exporters – is the main group looking for alerts about new businesses opportunities; around a third count this as a priority compared with just 10% of large companies. Trade fairs continue to be a popular area where support is wanted, but again mainly by SMEs; 57% of small companies see them as a priority for support compared with 30% of large companies.

Most priorities for support have seen a decrease in demand since 2006. This is potentially a reflection of the economic conditions over the past twelve months. The proportion of companies wanting general exporting information has fallen by 9%; however, this is tempered somewhat by a rise in the number wanting more specific information in terms of analysis of markets. This is a sign of the increasing focus of companies on niche markets and products, raising their need for specialised rather than general information.

There are some substantial differences between sectors when looking at export support priorities. For rubber and chemicals companies, the priority for most companies (78%) is analysis of particular markets, compared with just over half of those in the machinery sector. Forty-six percent of companies in the transport sector would like assistance to meet with key contacts in target markets compared with 30% on average. There may be more barriers and institutional factors at play in transport sub-sectors such as aerospace or motor vehicles – these are often seen as strategically important industries to a country. Whatever the reasons may be, it shows that there are clearly differences in sector circumstances and needs and that a one-size-fits-all or even a regional approach to export support will not reflect the diversity of sector requirements.

### Accessing support

Just under half of respondents have accessed some type of export support service from UKTI in the past two years, virtually unchanged from our 2006 survey. All sizes of companies show the same proportion accessing some type of support. However, there are again slight differences when looking at sectors; those in the transport, machinery and other manufacturing sectors show a below average number of companies accessing support. We reiterate the point made in our recommendations in the 2006 survey, and the point raised in the BIS Committee report,<sup>6</sup> that UKTI should raise awareness of their services amongst businesses and that this should be done in a targeted way.

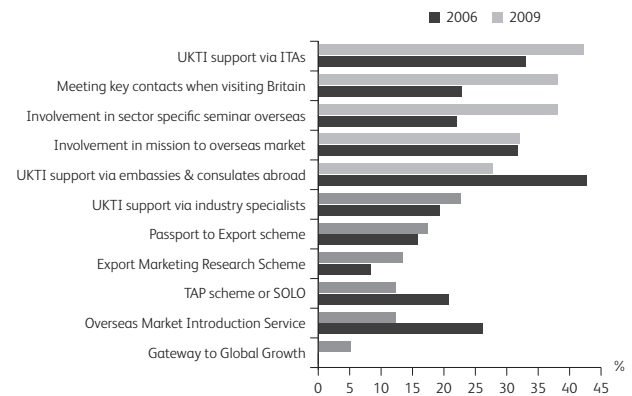
Looking at companies who have accessed export support services, there have been considerable changes since 2006 in what they use, as chart 14 illustrates. Three in ten companies have accessed just one type of export support service in the past two years, and only a quarter have used more than three.

The most used service, by 42% of UK-based manufacturers, was the support UKTI provides via International Trade Advisors, with involvement in sector-specific seminars overseas and meeting key contacts visiting Britain on inward missions both accessed by 38% of companies. All three of these services have seen an increase in usage since 2006.

Chart 14

### Changing patterns of export support service accessed by manufacturers

% of companies accessing type of support service in past two years



Source: EEF Export Survey 2009 & 2006

The survey data shows a large drop in the number of companies accessing the Overseas Market Introduction Service (OMIS) since 2006. OMIS is a charged service and the recession may have impacted on companies' willingness to pay for it. There have also been reports of mixed opinions on the value of OMIS reports as well as their variable quality.<sup>7</sup> In our 2006 survey we recommended that UKTI should take steps to raise the quality and awareness of both OMIS and the Export Marketing Research Scheme (EMRS), and whilst there has been a decline in the number of companies using OMIS, the EMRS has seen an increase of 5% of companies using it since the 2006 survey. However, there is clearly still a need to make progress on our previous recommendation.

The percentage of companies using the TAP scheme has also fallen, reflecting the reduction in funding for this service from £10.5 million in 2006/07 to £7.7 million in 2008/09. The TAP scheme 'supports UK SMEs to exhibit at overseas trade fairs, funds promotional activity to enhance UK exhibitor groups at those events and can provide assistance for businesses who buy speaker time at international conferences to promote their goods or services.'<sup>8</sup>

Meeting key contacts visiting Britain on inward missions is one of the most accessed support areas,

<sup>7</sup> *ibid*

<sup>8</sup> TAP – Frequently asked questions. UKTI website

<sup>6</sup> BIS Committee report, Exporting out of recession, Jan 2010

yet only 7% of companies see this as one of their priorities for support. This is probably because companies using the service are satisfied with the support they currently receive and therefore do not see it as an area where they need more support and help. Indeed, nearly a fifth of companies said that this was the support area that was most effective. In 2006, two-fifths of companies said this was a priority for support and UKTI have clearly worked to ensure that this need is being met.

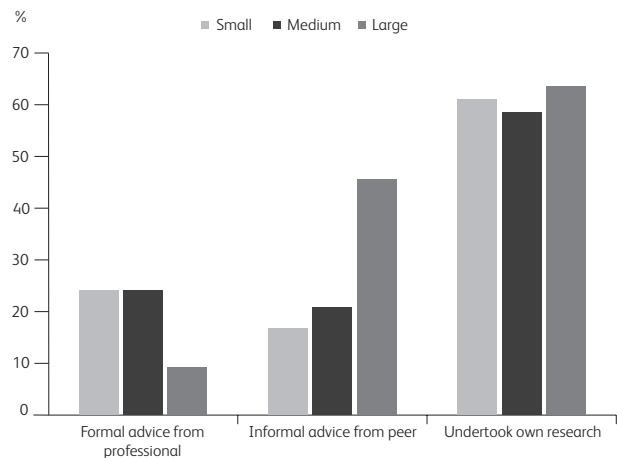
The Gateway to Global Growth is a new free service launched on 1 April 2009 for relatively experienced exporting, innovative SMEs, and therefore the relatively low take-up in our survey results is not surprising. It offers companies a strategic review as well as planning and support to help grow overseas business. UKTI aims to have over 1,200 companies use the service in 2009/10.

Interestingly, 61% of companies have undertaken their own research in order to identify which support service(s) they should access, with just over a fifth receiving formal advice from an export professional. A further fifth used business contacts and networks to receive informal advice and this was a popular choice for large companies, with 45% using their peer network for advice. SMEs were more likely to receive formal advice. This may reflect the fact that more experienced exporters are happy to rely on their own research while those new to exporting need more advice and guidance.

**Chart 15**

### *Majority of companies choosing support by informal means*

% of companies by size



Source: EEF Export Survey 2009

Our survey shows an increase since the last one in 2006 in terms of the impact of export support. In addition, just a fifth of companies reported that the export support services they used had no impact – a slight fall from 2006.

The top three impacts on companies show that the services accessed have helped companies gain access to both new information and new business contacts and customers. They have also helped to change companies' behaviours by increasing their confidence.

However, the number of companies seeing a hard impact with increased total sales has dropped by 8% since 2006, but this is unsurprising given the global recession. Just over a quarter of respondents felt that they had improved their knowledge of the competitive environment in an overseas market, down 8% since 2006, and this is also the area which was the top support priority for manufacturers.

**Chart 16**

*Increased impact of export support services since 2006*

% of companies



Source: EEF Export Survey 2009 & 2006

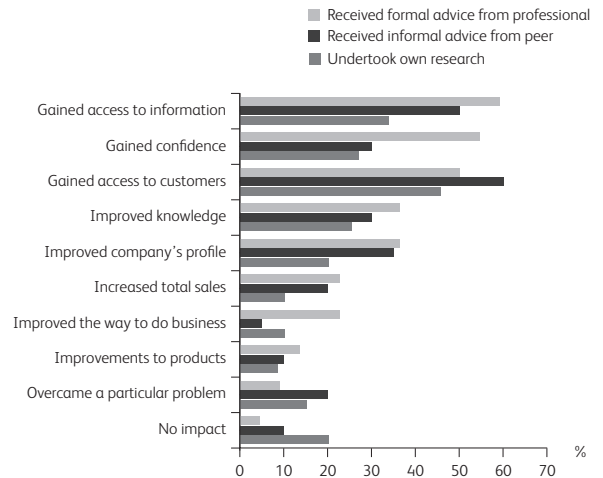
The method by which companies chose the support services they used appears to have made a difference to the outcomes. Companies who obtained formal advice on which export support services to use report more positive outcomes than those who chose their services after obtaining informal advice or after carrying out their own research (chart 17). One in five companies who did their own research to choose which export support service to use report that the service had no impact on their company, compared with just one in twenty companies who had obtained formal advice.

This is not to say that companies doing their own research should stop doing so – it is an important process to increase knowledge and it does achieve positive results. However, in some cases it would appear that professional advice can boost these positive outcomes even further; obtaining advice from an export professional on which support service to use seems especially to help companies gain confidence to either explore a new market or expand in an existing market.

**Chart 17**

*Formal advice yields better outcomes*

% of companies



Source: EEF Export Survey 2009

The UK's emergence from the severe recession has prompted policymakers to rethink how we generate sustainable and long-term economic growth. In some cases this will mean returning to the drawing board to create the right business conditions for a globally competitive private sector; in others it will mean prioritising resources in areas that have been proven to deliver tangible benefits for the economy. The need to rebalance the UK economy and place a greater emphasis on tradable sectors, such as manufacturing, is not in question. Government, manufacturers and the financial sector all have a role to play in creating the conditions for export-led growth.

## Creating the conditions for export-led growth

### *Recommendations for government*

#### *1. Supporting exporters in the next Spending Review*

Taking advantage of new market opportunities requires ambition and commitment from manufacturers. As the recession was a global one, competition in new and recovering markets is likely to intensify as the world economy returns to growth. The next Spending Review must provide sufficient resources for export services which match companies' ambitions and provide the support they need to make further inroads into gaining market share.

However, all government department budgets are likely to be under significant pressure in the forthcoming Spending Review, which will allocate funding from 2011. Spending allocations must align with a focus on economic rebalancing and supporting a sustained export-led recovery. Our survey shows that UKTI services have delivered tangible benefits for experienced exporters as well as for companies that are new to exporting through their portfolio of services and refreshed strategy. In addition, supporting a broader export base provides secondary benefits with improved productivity and profitability.

As part of a package of support in the 2009 Budget statement, UKTI received additional funding to showcase the UK's business strengths in international markets. Turning the funding tap off again in the next Spending Review would risk disadvantaging UK companies in an environment where global opportunities and global competition will go hand in hand. Importantly, as UKTI's strategic priorities are meeting the needs of exporters, a new government should stick with them.

UKTI must continue to support companies interested in exporting to high-growth, emerging markets with general information about markets for less experienced exporters as well as training to help companies get ready for exporting. We also reiterate our 2006 survey recommendation, and that of the BIS Select Committee, that UKTI should take steps to raise the quality and awareness of both OMIS and the Export Marketing Research Scheme, to help both new exporters and relatively experienced exporters break into new markets.

Whilst these emerging markets will be critical for future growth, there should still be some focus on established markets. Our findings show that these are still vitally important for UK manufacturers; they are often the markets to which new exporters will start exporting, and many manufacturers will

continue to concentrate on these markets during the post-recession recovery.

#### *2. Delivering value for money through a streamlined national structure*

While all department budgets will be subject to a potential squeeze, they will also be expected to deliver greater efficiency savings and demonstrate value for money. Our survey shows that, in some cases, support for exporters needs to be tailored to sector circumstances and requirements. In the past, we and the Business, Innovation and Skills Select Committee<sup>9</sup> have questioned the regional delivery of elements of UKTI's strategy. This has led to a degree of competition and duplication across the Regional Development Agency network. Moving to national sector strategies rather than a regional approach could therefore offer a more efficient and effective deployment of resources.

#### *3. Provide the stability to invest in growth*

Manufacturers and their supply chains have become increasingly global. Underpinning an export-led recovery will be a business environment that gives companies the confidence and certainty to invest in the UK and to serve growing export markets from a UK base. Around a third of UK manufacturers have some production facilities located overseas<sup>10</sup> for reasons of both cost and market opportunity. This gives the UK a greater number of options as to how to supply export markets.

A stable and competitive business environment in the UK is vital if companies are to make their next investment here. This includes a predictable tax system that reflects the greater investment in innovation and modern machinery by manufacturers, a demand-led skills system that helps UK companies compete with the best in the world and a national system of business support that provides the guidance and brokerage that helps companies to maximise the benefits of export support services.

<sup>9</sup> BIS Committee report, Exporting out of recession, Jan 2010

<sup>10</sup> EEF/BDO Manufacturing Advantage: How manufacturers are focusing strategically in an uncertain world, November 2009

## *Message to manufacturers*

### *4. Be ambitious in global markets*

The UK remains the sixth largest manufacturing base in the world and this position has been maintained because of manufacturers' focus on quality, high-value goods and services and the creation of niche markets and products. A much improved productivity performance over the past decade and growing emphasis on research, design and development has made UK companies world class.

Exports to fast-growing emerging markets have grown rapidly in recent years and have outperformed other markets as the sector has moved out of recession. However, there is more to do to capitalise on our strengths and industrial capabilities. The recent recession should be a catalyst for companies to extend their reach into global markets and to develop long-term strategies to achieve this. This includes remaining open and responsive to the opportunities that will come as emerging economies continue to industrialise, and working with policymakers to promote the UK's considerable strengths in these markets.

### *5. Utilise all the channels of information and guidance available*

Our survey shows that many companies are drawing on the support available to begin exporting or to expand beyond traditional markets. Manufacturers should take advantage of all available channels of information, guidance and brokerage. The best results, particularly for SMEs, can often come from obtaining help in navigating the broad range of support available and ensuring it is tailored to the needs and experience of the individual company. Taking advantage of new opportunities can be challenging, but the right information and intervention will help to overcome the challenges.

## *Message to finance providers*

### *6. The right finance solutions will give exporters confidence*

The credit crisis over the past two years has caused significant upheaval to both financial services and companies seeking finance. Rebalancing the UK economy is not a choice between manufacturing and financial services, rather closer cooperation between the two is required to ensure that companies can access the finance and other financial products that allow exporters to invest and minimise some of the risks of operating in international markets.

From the end of 2009 there were more signs of stabilisation in the banking sector following a sustained period when the availability of new sources of lending had diminished and the cost was increasing. The need for finance for working capital will continue to grow as demand returns. With the banking system yet to be fully tested since the financial crisis began, it will be important for banks and manufacturers to communicate and work together to ensure that opportunities are not missed because of a lack of finance.

In addition, at this point in the recovery, with orders starting to return but at lower levels than before the recession, companies need to manage the risks of significant volatility in exchange rates. A shortage of foreign exchange management options can pose a considerable threat to profitability and dissuade companies from entering new markets. Banks must work with exporters to make sure there is a well-functioning market for foreign exchange products and tools that cater for a broader range of exporters – not just the largest.





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## About us

EEF is dedicated to the future of manufacturing. Everything we do is designed to help manufacturing businesses evolve, innovate and compete in a fast-changing world. With our unique combination of business services, government representation and industry intelligence, no other organisation is better placed to provide the skills, knowledge and networks they need to thrive.

Around a quarter of the UK's manufacturing businesses are our members and many more use our services to help them work better, compete harder and innovate faster. Because we understand manufacturers so well, policy makers trust our advice and welcome our involvement in their deliberations. We work with them to create policies that are in the

best interests of manufacturing, that encourage a high growth industry and boost its ability to make a positive contribution to the UK's real economy.

Our policy work delivers real business value for our members, giving us a unique insight into the way changing legislation will affect their business. This insight, complemented by intelligence gathered through our ongoing member research and networking programmes, informs our broad portfolio of services; services that unlock business potential by creating highly productive workplaces in which innovation, creativity and competitiveness can thrive.

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