Unleashing UK businesses' international growth potential

Santander

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Foreword

For all UK businesses, the political backdrop to international trade has changed significantly in recent years. However, Brexit uncertainty is, for the most part, now in the rear-view mirror and the UK can look ahead to future trading opportunities.

The UK has struck three free trade agreements since leaving the European Union (with Japan, Australia and New Zealand) and in March this year, agreement was reached for the UK to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership alongside its 11 existing members. At the same time, negotiations with India continue, and the UK has announced plans to launch trade talks with Switzerland.

But while political figures set the mood music, the real driving force behind international trade is the millions of businesses in the UK. Their hunger for new opportunities, business growth and innovation drive countless transactions with overseas buyers and sellers every day.

Although political uncertainty surrounding international trade may have subsided, businesses are facing harsh economic headwinds. Rising operating costs, a tight labour market, global mobility challenges and declining consumer spending make for a volatile cocktail for companies to contend with in their ambitions to pursue trade opportunities.

For many, international horizons offer the perfect antidote and there is a greater need than ever to ensure UK firms realise the full benefits of exporting goods and services overseas, as well as reaping the rewards of harnessing international supply chains. While larger companies often have the resources, connections, and know-how to pursue growth opportunities overseas, small and medium-sized enterprises (SMEs) often lack this critical infrastructure and face considerable challenges to taking their business international.

Our latest research of more than 2,000 UK SMEs across the UK puts the topic of international trade in the spotlight. This report sets out the findings from the research - the key benefits and challenges to trading internationally as identified by the UK business community, alongside the practical steps that can be taken to overcome non-tariff barriers to trade.

By removing barriers to international trade, we estimate that SMEs could contribute an additional £93.5bn in revenue to the UK economy once trading activity is fully established. Alongside this, the subsequent increased demand and business growth could lead to an estimated additional 1.9m jobs being created in the UK. Naturally, overcoming the trade barriers that UK firms face is no easy task, but at Santander UK we proudly support them with identifying growth opportunities, navigating bureaucratic challenges, optimising logistics, and building in-market connections through our deep local networks as well as our digital platform, Santander Navigator. We've helped more than 1,000 businesses with this since 2019.





John Carroll
Head of International and Transactional Banking, Santander UK

Pursuing business growth in the face of economic headwinds

For UK businesses, the past five years have been characterised by an extraordinarily challenging and unprecedented operating environment.

These challenges include the political and economic uncertainty of Brexit, the jarring impact of the pandemic, and the escalation of the war in Ukraine. But as they look ahead and strive for future growth, the findings of our research demonstrate that businesses are now faced with a return to more familiar economic challenges.

- 31% of UK SMEs say their biggest challenge is the increasing cost of doing business, such as increased energy bills, increased raw materials costs and increased staff wages
- 25% cite the impact of customers spending less
- 24% state increased competition is making future growth prospects more challenging.

With an expanding cost base identified as a challenge by almost a third (31%) of surveyed companies, there is a pressing need for these businesses to continue to grow the top line and protect margins. Firms that stand still at this time will see their margins and market position eroded.

Likewise, the profound cost of living pressure facing the UK is having a real knock-on effect on consumer confidence and spending, with a quarter of businesses (25%) feeling the impact of this.

Collectively, this suggests there is a greater need than ever for UK companies to seek new avenues for growth, broaden their horizons and deepen relationships with international trading partners. Many are yet to realise the full benefits of exporting goods and services overseas – as well as reaping the rewards of harnessing international supply chains. By engaging with an international audience, they have much to gain.

UK firms face a challenging operating environment



31%
Increasing cost of doing business i.e.. increased bills, materials, staff wages



25%
Customers spending less



24%
Increased competition



22%
Difficult UK market trading conditions



20%
Unable to find adequately skilled staff

Q. Generally speaking, which of the following are the biggest challenges currently facing your business and the growth of your business? – Showing top 5 challenges

Case study



Michael Dolan
Chief Financial Officer,
Paralloy & Firth Vickers

With two decades of experience in the industrials sector, Michael Dolan shares his experiences of exporting quality products internationally and the positive impacts this has had on business expansion and on the local community.

Achieving growth through trade

Paralloy specialises in the transformation of raw elements into world-class products that power the petrochemical, ethylene, syngas and industrial gas turbine industries. Today, Paralloy export 95% of their product line internationally to over 40 countries.

Dolan explains, under previous owners Paralloy "were a relatively small £20 - £30 million business when we came out of Doncasters Group and partnered with Nimbus as part of a management buyout. Santander were a big part of that process and helped us to cover a lot of complex financial and banking requirements."

In particular, "The biggest area in which we required support from Santander was in our guarantee and foreign currency hedging facilities. The majority of our contracts on the petrochemical side of our business are in foreign currency and have advanced payment guarantees, performance guarantees and warranty bonds. Getting that facility was a big part of what we needed to stand alone. With Santander's support, we were able to pull together a facility that worked for us, and as we've grown, that facility has grown alongside us."

High quality, specialist products

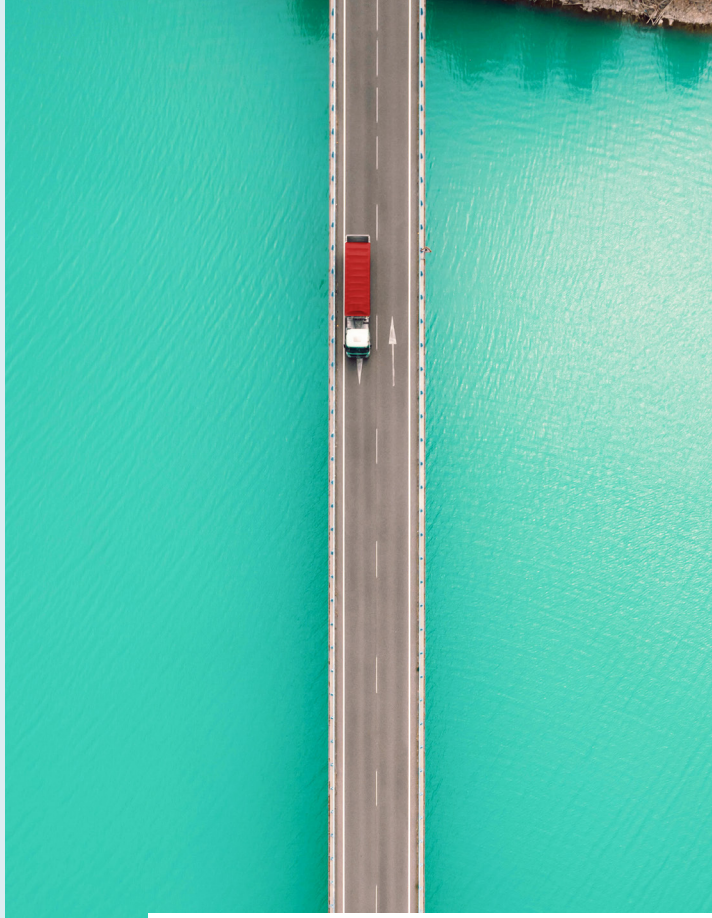
Dolan highlights that buyers look to Britain for quality products. "It is a real risk for our buyers to source their materials from an unproven, low-cost economy. If the materials used or the properties of the product are not the best they can be, it could backfire and cost more in the long-term."

"Our product's number one selling point is the quality – for our customers, it's all about the highest technical product that you can buy in the industry, and we are among the top three producers in the world. Our products have to be of the utmost integrity. Some of them go into aeroplane engines or power plants, so clearly the level of stringent inspection, and external reviews and audits that we have is huge."

Jobs creation in the North-East

Exporting internationally boosts local economies by driving job creation. "We now employ 450 people in the UK. If we weren't exporting internationally, those jobs would not be there. All the work that we win creates jobs."

Provided that there is a pool of skilled labourers in the region, Dolan concludes that "the future for North East is great; with more job prospects, the market looks like it will be better than it has been for decades."



"Our product's number one selling point is its quality. It is a world-leading technical product that comes out of the UK."

Unleashing the potential of businesses

Many businesses are aware of the benefits international trade can bring them. By reaching out to an international audience, they can rapidly expand their potential customer base, whether that be end consumers or other businesses. This naturally translates into the potential for increased revenue and profit, identified as the top benefit to trade by 44% of surveyed companies.

> *In the UK, SMEs are selling into a crowded, competitive marketplace. Often overseas, there is an opportunity to sell a particular service or product and attain a near-price monopoly. So the business has the ability to sell much greater units, at a much greater cost benefit to themselves, while the consumer has access to something they wouldn't have otherwise - everyone's a winner.*

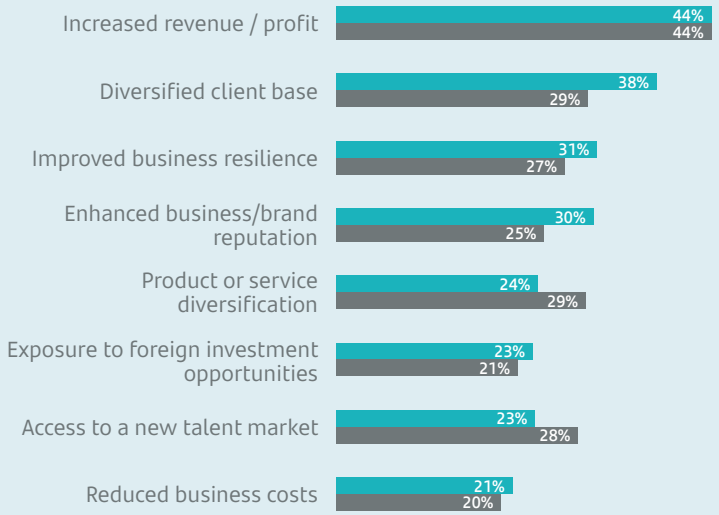
Matthew Kilcoyne
UK Government's Strategic Trade Advisory Group, Think Tank Lead

Businesses that are already internationally established are more likely to recognise the diversification benefits of doing so too. Almost two in five (38%) that are already trading internationally state that doing so has provided the benefit of having a diverse client base over the last 12 months. Given the harsh operating environment in the UK, having a range of clients across a spread of geographies can act to dampen the impact of tougher economic conditions at home and improves overall resilience.

> *Businesses that export tend to be fitter and healthier than businesses that don't, because they're open to more competitive tension in different markets. Encouraging small and medium sized businesses to export is not just for international trade, it's actually good for them domestically as well.*

Emma Jones CBE
Founder of Enterprise Nation

The realised and perceived benefits of international trade among businesses



Q. You stated earlier that you are actively trading outside the UK. What are the benefits your business has experienced in the last 12 months as a result of this?

Q. You stated earlier that you would consider / are actively considering trading outside the UK. What are the potential benefits to your business of doing this?

The barriers to trade

There is a wide range of obstacles that SMEs face when seeking to either expand their international exports or pursue them for the first time. What differentiates SMEs from larger businesses is that they quite simply lack the time, experience and initial financial capital needed to fully explore and go after overseas opportunities. For those that do already export internationally, the time spent on navigating hurdles and complications associated with exporting needs to be minimised and not detract from day-to-day operational challenges.

Our research reveals differences between the challenges that actively trading SMEs have faced in the last 12 months compared with those which are considering export activity in future, but not currently doing so. Those actively trading internationally in the last 12-months identified the key pain points as:

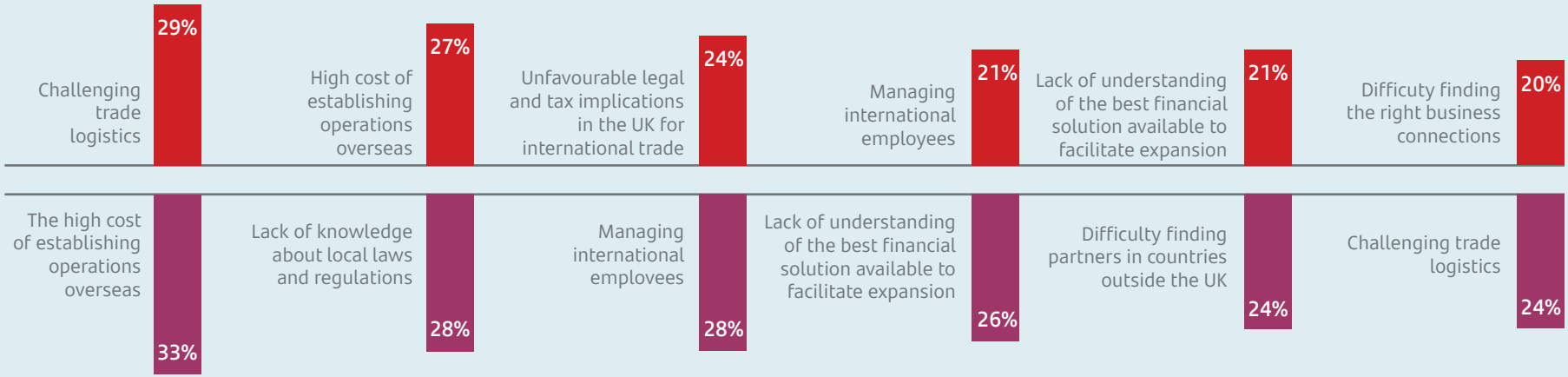
- Challenging trade logistics (29%)
- The high cost of establishing operations overseas (27%)
- Unfavourable legal and tax implications in the UK for international trade (24%)

These are all practical challenges. In terms of the perceived barriers among SMEs considering international expansion at some point in the future, the high cost of establishing operations overseas comes out top (33%).

However, beyond this, the next greatest barrier is a lack of knowledge about local laws and regulations (28%). It is only natural that those who are yet to make the foray into international expansion would feel this way, given there are many unknowns. But having the right connections and international network can serve to overcome this barrier.

The challenges facing internationally active SMEs

Q. And what are the key challenges you have faced when trading internationally over the last 12 months?



Perceived barriers among SMEs considering international expansion at some point in future

Q. What are the key barriers your business faces if it were to trade internationally in future?

Case study 2



Paul Hornby
Managing Director,
Foilco Limited

Foilco are suppliers of the world's widest range of stamping foil shades and finishes to the print industry. They provide bright metallic effects on everyday packaging found across supermarkets and on the high street. A family run business founded in 1987, Managing Director Paul Hornby shares his experiences of what international expansion has meant for business growth.



World leaders in designing and innovating

Foilco's story began in 1987, when Paul Hornby's father David began importing foils from abroad to be converted in his garage. Since then, the company have become champions of retail product design and, as Hornby describes, "We're everywhere. We're that product you'll see every day, but you'll never have thought which company supplies this?" Over the years, the company has expanded its product base to help luxury brands with their designs using bright gold, silver and holographic shiny materials for retail packaging. For Foilco, gaining clients has been a matter of earning trust; "everything we do is all about customer service and customer loyalty. If clients say they need something, we'll deliver, it doesn't matter whether they're going to give me a week's notice or six weeks."

Hornby explains that their success has largely been down to providing innovative solutions for international companies, leading to their products becoming globally recognised; "the thing that we are the best at in the world, is designing and innovating, that's what sets us apart from our competitors."

The challenges of becoming internationally established

As Hornby describes, Foilco has enjoyed success despite global economic challenges. A key trait in the company's history has been its ability to adapt to uncertain circumstances. Hornby explains, during the economic crash of 2008, their UK customer base waned. Hornby recalls it was key to expand capabilities during this period, to increase his exports and follow the movements of clients as they moved their manufacturing bases overseas. "What we found is that a lot of our customers closed or went bankrupt. Or more importantly, they'd moved overseas to Poland or Germany to be more efficient. So, we had a choice in 2008, either see our sales reducing, or follow the sales wherever they went."

Directing their business to overseas clients brought with it a host of challenges. A key issue was the language barrier; however, this was overcome through building a diverse team and an international network of agents that can market and respond quickly to issues - "When issues arise, you have got to be there to discuss a problem. You must have somebody on your team in the country to do that. It's about finding the right network of people and getting the paperwork right - we're experts at it now."

Unlocking new markets and strategising for the future

While the company can adapt to the short-term challenges Brexit has posed, Hornby also notes that strategising over a period of one, three, and five years, has helped see their client base grow globally. This includes seeking moves into new markets as Hornby explains that increasing exports is necessary to Foilco's success: "In my five-year plan, we want two new agents a year for the next five years. We are going to go further afield and look at Canada, Australia and Vietnam. So that's ten agents, probably three of them will be further afield, the rest will be closer to our shores. I keep my ears close to the market."

> *"When issues arise, you have got to be there to discuss a problem. You must have somebody on your team in the country to do that. It's about finding the right network of people and getting the paperwork right - we're experts at it now."*

The size of the prize

We identified three distinctive groups of companies within our research:

- **Internationally established**: already undertake commercial activity or trade outside the UK
- **Internationally ambitious**: plan to go international with their business activity in the next 12 months
- **Inactive but open to trade**: do not currently have any commercial activity or trade outside the UK but would be open to considering it in the future.

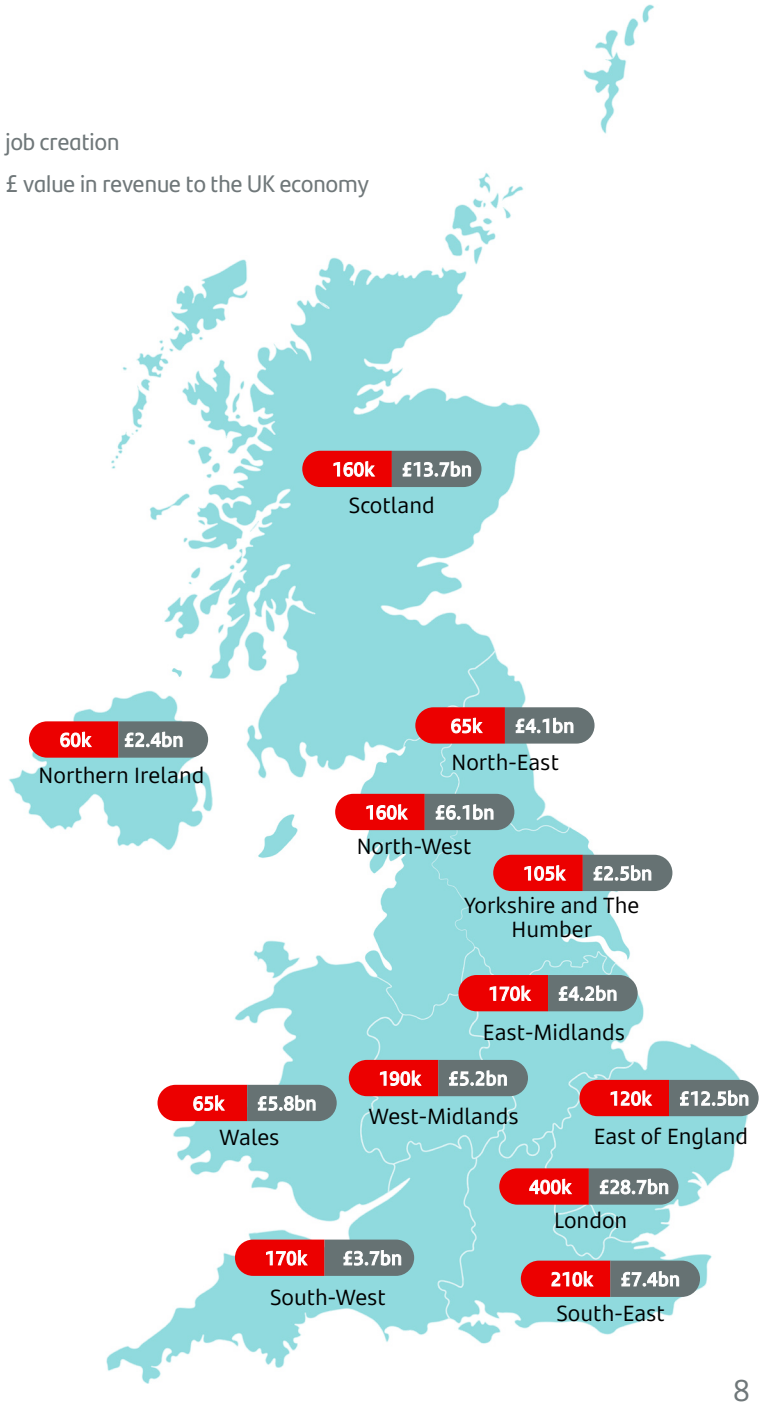
The internationally ambitious group report that they have plans to expand their business activity beyond the domestic landscape. But there are many barriers to doing so which could prevent this from becoming a reality. On the assumption that barriers to trade are effectively overcome and all of those internationally ambitious SMEs can make a successful transition to becoming internationally established, we estimate this could be worth an additional contribution of £93.5bn to the UK economy and help to generate a potential 1.9 million new jobs.

£93.5bn

Additional value in revenue to the UK economy

1.9m

Potential new jobs created



Case study 3



Robert La Francesca
Global Commercial Director, Maldon Salt

For 141 years, Maldon Salt has hand harvested its world-famous product. The unique pyramid shaped flakes are loved by chefs and cooks globally and the brand has become the inspired choice for passionate and adventurous food lovers. Robert La Francesca has spearheaded the brand refresh at Maldon Salt in recent years and sets out what exporting means for the business.



> *"Maldon Salt has been in the same family for four generations. Irrespective of culture, language, or geography, it really resonates with people when we speak about our business and its family values."*

Opportunity through international expansion

Maldon Salt's exporting journey started in 1956 when their artisan sea salt was enjoyed by a Swedish foreign exchange student who took the salt home to her father, a buyer at one of the major supermarkets in Sweden. A deal was struck to export to Sweden and almost 70 years on from their first foray into international markets, they are now active in 55 countries. As La Francesca explains, export markets are a core part of the business' growth:

"Around 65% of our business is international. That is not to say the UK market is saturated, there are still opportunities for growth in our domestic market. But it is really driven by demand globally, in particular by chefs using us in their recipe books over many decades, inspiring home cooks and continues today but on social platforms. So international markets have become fundamental for our future. We have a global presence already however Southeast Asia and Latin America are fast becoming important growth areas."

Harnessing local expertise and in-market knowledge

However, entry into new markets is not plain sailing, as La Francesca outlines: "We're an SME so we can't do everything ourselves; we partner with experts to help prioritise and focus our resources effectively. We are on the cusp of launching in China, but it has taken almost three years to do so. There is a lot of regulation to overcome, alongside customs and logistics dynamics. We like to take our time and do things well, partnering for the long-term and respecting the local expertise, customs and culture in our collaborations as we extend the Maldon family globally even further".

This is why partners are invaluable. "What Santander do really well is provide local expertise and a point of contact in market, who speaks the local language in addition to perfect English and understands the local culture and norms". Above and beyond this, "Santander offer market insight and validation, they can help size the category in a particular market, outline the key players and generally give an assessment of how the market is performing."

The power of storytelling

La Francesca reflects that ultimately, international trade is about establishing trust and having an authentic story to tell. "The longevity and history of Maldon Salt and our artisan methods that remain true today has been hugely beneficial to help the brand form new relationships around the world. The business has been in the same family for four generations. Irrespective of culture, language or geography, it really resonates with people when we speak about our business and its family values."

Maldon Salt received the Royal Warrant in 2012, and that too has helped elevate the brand, across the globe as La Francesca points out following market visits this year to partners in Japan, Korea and Dubai. "It reminds us of how much importance Britishness and British brands have in the world and it how many historic British goods have earned the reputation of premium and high quality."

Facilitating a thriving environment for businesses that export

SMEs are not blessed with the same resources or networks that larger businesses have. Consequently, their bank or business lender can be a natural source of guidance and expertise to help remove obstacles to international growth.

SMEs actively trading overseas and those that envisage doing so over the next 12 months identify a range of support options that they believe would extend or enable their international activity. Practical help with the challenges of exporting goods and services are highlighted as some of the most helpful support options. Our findings show that:

- 35% of those already active internationally and 32% of those expecting to trade internationally in the next 12 months would like support with navigating customs processes
- 32% of those already active internationally and 36% of those expecting to trade internationally in the next 12 months would benefit from support with logistics, such as an established choice of providers.

What is also clear from our findings is that for firms poised to expand internationally in the next 12 months, a network, community, and place to ask questions is of more importance:

- 34% of companies considering international expansion in the next 12 months would find a community forum beneficial
- 34% of those considering international expansion in the next 12 months would find a provider directory helpful in supporting with each stage of international growth.



"Small and medium sized businesses need the practical tools to trade such as trading platforms and clear customs documentation. But they also need the encouragement and confidence to go ahead and do it. Inspiration from other SMEs in the media or at networking events can be of vital importance. All of those touch points are what nudges behaviour and creates a thriving environment for small and medium sized businesses to export."

Emma Jones CBE
Founder of Enterprise Nation

Tapping into the exporting potential of businesses can be facilitated through practical steps



Q. If your bank or business lender was to provide you with support to overcome barriers to international trade, what type of support would be most useful – which of the following would be most helpful to overcome the barriers / challenges to trading internationally?

Conclusion: Unlocking untapped potential

Our latest research highlights the scale of ambition among companies looking to enter into international markets and expand their customer base overseas. At a time when the domestic picture does not appear favourable, looking to overseas horizons can offer avenues to growth and diversification that will serve them well in years to come, irrespective of whatever macroeconomic challenges may arise.

Yet it is clear that given the time, resource and cost pressures that many businesses face, a strategic move to begin trading internationally can appear cumbersome, daunting or even expose them to risks. There is a long list of reasons why a company may decide not to trade overseas and in the short term it may appear the more challenging pathway. But they need the right support and guidance to help them realise their ambition and potential for international growth.

In particular, for exporters of goods, there is a call for support to navigate bureaucracy and the new landscape of customs arrangements in the UK – identified as the top thing that business lenders could do to support SMEs to overcome barriers to trading internationally, followed closely by support with logistics.

But beyond these practical steps, there is also a call to foster a culture and community among exporting businesses in the UK. More than a third of those considering international expansion in the next 12 months state that access to a community where they could ask questions on all aspects of international trade and speak to other like-minded businesses would be helpful to their trade journey.

Success breeds success. For firms with a domestic heritage, inspiration can be sought by seeing first-hand how other businesses have made the journey to benefit from international growth.

At Santander UK, we believe the onus should not simply be on government to unleash the international growth potential of businesses. Naturally, as a bank we have a longstanding history of delivering trade finance. But through Santander Navigator, we deploy our global reach, networks and expertise to help our customers overcome practical barriers to trade and make the right connections along the way.





Ultimately, international growth is not a zero-sum game - both buyers and sellers often gain from a transaction. But in addition to this, by supporting companies to overcome barriers to international growth, the wider UK economy is also set to reap the benefits through increased economic output and job creation.

Research methodology

To better understand the international growth challenges facing UK businesses, Santander UK undertook a survey of 2,012 SMEs, with fieldwork conducted 23 May – 4 June 2023. SMEs are defined as businesses with a headcount of 10-249 employees. Sample quotas were set on business size and UK regions based on the Office for National Statistics (ONS) business population estimates 2022.

All respondents held a management position or higher in their business, and had influence or decision-making responsibility of company finances and operating decisions. To qualify, businesses also had to be one of the following:

- **Internationally established** (already undertaking commercial activity or trade outside the UK)
- **Internationally ambitious** (plan to go international with their business activity in the next 12 months) or
- **Inactive but open to trade (**do not currently have any commercial activity or trade outside the UK but would be open to considering it in future).

Jobs and pound value to the economy estimates are based on survey responses from UK SMEs. Estimates are calculated by using actual reported revenue figures of UK SMEs that are internationally established as a data proxy for what future trade could be worth for internationally ambitious SMEs identified in the survey. Estimates are based on potential growth once internationally ambitious businesses once trading is fully established.

To provide an additional dimension to the quantitative research, a series of in-depth interviews were undertaken with leading industry organisations and business leaders. Special thanks go to our contributors:

- **Emma Jones,** *Enterprise Nation*
- **Matthew Kilcoyne,** *Strategic Trade Advisory Group, Think Tank Lead*
- **Michael Dolan,** *Paralloy Ltd & Firth Vickers*
- **Seona Shand,** *Scottish Chambers of Commerce*
- **Paul Hornby,** *Foilco*
- **Robert La Francesca,** *Maldon Salt*
- **Paul Schaffer,** *Plum Play*





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