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SCOTTISH BUSINESSES MISSING A TRICK IN EXPORT MARKETS

- Only one-third (34 per cent) of small and medium-sized enterprises (SMEs) in Scotland currently export
- 36 per cent of SME exporters in the country have experienced growth in foreign markets in the last 12 month
- 41 per cent of businesses say fearing a lack of demand is the main reason for not doing so
- 20 per cent of businesses say concerns about the language barrier is the biggest barrier to exporting

Only one in three (34 per cent) of Scotland's SMEs have caught on to the potential benefits of global export markets, despite evidence that overseas demand is helping to fuel growth amongst many Scottish firms, according to the latest study from Bank of Scotland Commercial.

Amongst the two-thirds (66 per cent) of businesses that are not currently exporting, only two per cent have plans to do so – and it is feared that the disruptions caused by the volcanic ash cloud could reduce this further still.

Barriers to exports

Many Scottish firms are put off by worries that an export strategy would not succeed. By far the biggest concern amongst all SMEs questioned is that there would not be demand for their product or service overseas - 41 per cent say this is a barrier. However there are a number of other concerns, including:

- Worries about potential bad debts – 20 per cent
- Language barriers – 20 per cent
- Fears about possible late payments – 19 per cent
- Foreign currency fluctuations – 19 per cent
- Lack of resources to explore new markets – 17 per cent
- Perceived lack of expertise – 11 per cent

Across Britain, the recent volcanic ash cloud has also impacted SMEs' views on exporting – 16 per cent say they have been put off overseas trading by the recent disruption, and 71 per cent believe there should be more contingency arrangements in place to avoid similar disruption in the future.

Exporting as a growth strategy

While many firms in the country appear to have been deterred by fears about overseas demand, over half of those businesses that are actively exporting (59 per cent) now say foreign trade is central to their growth strategies. Eight out of ten (82 per cent) say they have been spurred on by strong overseas demand, and 23 per cent report that external advice has helped them to target foreign trade.

Over one-third (36 per cent) of Scottish SMEs that export recorded growth in these markets in the last 12 months. The same number (36 per cent) said exports remained static over the same period.

In spite of the fears many firms have about currency fluctuations, 18 per cent of exporting businesses say the current relative weakness of sterling has encouraged them to trade overseas.

Boosting turnover

Amongst those firms that are exporting, overseas trade is contributing to a growing proportion of company turnover. Over three-quarters of businesses (77 per cent) now say that exports account for more than 20 per cent of their current turnover and 36 per cent say this proportion has increased during the past year. Almost 82 per cent believe that exports as a percentage of turnover will increase this year, or at least stay at current levels.

Future export markets

Businesses in Scotland are also looking to tap into export markets further afield. Although the vast majority of firms say the EU and North America are their main markets at the moment (68 per cent and 59 per cent respectively), many see real potential elsewhere in the world. Some 23 per cent have their eye on China and the Far East, and 18 per cent see huge opportunities across Africa and the Middle East.

Strategies for exporters

Exporting businesses are successfully using technology to reach their target markets. Almost three-quarters (73 per cent) say they now use the internet to target customers directly, while 14 per cent use agents and brokers and the same number again (14 per cent) use a distribution firm overseas.

Donald Kerr, Commercial Banking Director, Bank of Scotland, said: “There really is a world of opportunity out there for small businesses in Scotland. Many firms are turning overseas demand and a weaker Sterling to their advantage as they seek to grow. Others are clearly missing a trick.

“While exporting may have traditionally been seen as only suitable to companies in industries such as manufacturing, firms operating in other sectors have the opportunity to explore new markets and assess international demand for their products.

“Despite the recent disruptions and associated drop in confidence caused by the volcanic ash cloud, at a time when domestic demand is subdued, thousands of small firms could still benefit from markets overseas. Although traditional markets in Europe and the US will remain the main targets for most firms, there is real potential across the Middle East and Asia which is as yet untapped.”

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EDITORS' NOTES:

Research based on a survey of 525 SMEs (April 2010). Volcanic ash cloud statistics based on follow up research with 311 of the initial participants.

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