



KENT INTERNATIONAL BUSINESS STUDY

May 2010

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EXECUTIVE SUMMARY

Introduction and background

This is the report of the research element of the Kent International Business Study, jointly commissioned by Kent County Council and BSK CiC.

The economic health of businesses in the county is of critical importance. Kent has patchy performance, but overall, levels of GVA per capita are below the UK and regional average.

The study has been commissioned in response to a perception that the business community in Kent has, in general, not engaged in **international** activity despite the County's 'gateway' location and to suggest ways in which Kent might gain the economic benefits from a higher level of internationalisation.

Exporters contribute 60% to UK productivity growth. (UKTI)

The report is based on desk and internet research of secondary sources combined with a small number of interviews with Kent businesses.

Defining internationalisation

Many datasets and studies of internationalisation are concerned with exporting, importing or inward investment. However, this study is concerned with a much wider definition of internationalisation. A suggested working definition, for discussion between partners is:

At the level of the individual enterprise, ***internationalisation*** of a business starts when it first looks outside the UK for ideas, markets, resources, suppliers and partners. It includes collaboration, research, learning, innovation as well as the traditional activities of import, export, and investment (inward and outward).

At the macro level, ***internationalisation*** is when the stock of enterprise, businesses, GVA, trade, productivity, creative resources, ideas and intellectual property created by international links of whatever type, is greater than that which would arise from purely domestic activity.

Kent business base

There are 57,085 VAT registered businesses, of whom 95% employ less than 20 people. This predominance of small firms is a key factor in considering the internationalisation potential of Kent businesses. The business stock has been growing steadily in recent years, with increases in finance and business services, public and health services, and a decline in manufacturing employment. In terms of productivity, Kent and Medway have lower levels of GVA per capita than the UK and regional average.

Current position on internationalisation

At present only 8% of Kent businesses (4,566 firms) regularly export, compared to the regional average of 10%. However, the level of occasional exporters at 24% (13,700 firms) is the second highest in the South East region. 28% of Kent firms have received overseas enquiries, the highest in the region.

While Kent businesses are not as active as others in the South East, they do not cite different or unique barriers and they have received as many overseas queries as other sub regions.

The barriers to internationalisation

Three international and domestic reports from the OECD, EU Commission and UKTI have been studied to find generic barriers and triggers to international activity. These studies show that the key barriers are:

- Inability to contact potential overseas customers
- Lack of managerial time, knowledge and skills
- Lack of financial resources
- Lack of knowledge of foreign markets

Businesses who are successful at internationalisation have the following characteristics:

- Ability to internalise external knowledge
- Have an internationalisation strategy in place
- Good at building capacity and resources
- Good skills in organisational learning and strategy development
- A structured market strategy
- Highly targeted selection of foreign markets
- High correlation between innovation and internationalisation

One of the key characteristics of internationalised firms is the international orientation of decision makers, and this in turn appears to be related to their level of exposure to international activity. This potentially leads to a closed loop where previous experience is the key driver to future appetite for internationalisation, making it harder to encourage those with no experience to take the first steps.

The age of the business is not found to be a factor in whether is firm is likely to be involved in international activity. Some businesses are active from start-up – “born global”.

Broadband infrastructure

The study set itself the question of whether limitations in ICT connectivity were acting as a barrier to internationalisation given that effective broadband connections can be used for a range of international activity.

It does not appear that Kent is significantly worse off than other parts of the region or London. However, consumers report that there are significant not-spots and slow spots and mobile broadband coverage is patchy. Weak spots tend to be rural.

There is a policy debate to be had about whether Kent could get further up the queue for early roll-out of next generation broadband infrastructure.

Sectors, clusters and internationalisation

Some sectors have higher propensities to export than others – for example manufacturers are three times more likely to export. Kent has above average location quotients in four of the priority sectors selected by SEEDA because they are highly tradable:

- Pharmaceuticals, life sciences and healthcare
- Advanced engineering and marine
- Environment and energy
- Aerospace and defence

In addition, two further clusters with high potential have been identified:

- Food and associated technology
- Transport and distribution

There would appear to be strong grounds for sectoral and cluster approaches to promoting internationalisation.

Current business support for internationalisation

Internationalisation support programmes tend to feature:

- access to finance
- provision of information and contacts
- managerial capacity
- generic programmes for networking, acquisition of knowledge, growth and motivation

In Kent there is a mix of existing support including:

- Business Link
- UKTI
- Enterprise Europe Network (EEN)
- Locate in Kent
- Chambers of commerce, FSB, IOD
- Institute of Export
- Web tools, including E Bay and Google
- Transmanche Enterprise Network Project
- Kent International Trade Club

The pattern of existing services shows:

- **Services tend to focus on those businesses which have already made the firm decision to internationalise. There is relatively little available to those who are unsure about the international potential of their business or how to go about taking the very first steps..**
- There is a fragmented pattern of services. Business Link will make sense of the provision for those businesses who are their clients, but otherwise there is likely to be some confusion about which is the most appropriate service
- While a plurality of services is not in itself a bad thing, there is likely to be some overlap and duplication of services
- No one organisation is charged with the task of increasing internationalisation in Kent.

The views of Kent businesses

To test whether the generic views found in secondary research hold true for Kent businesses, a small number of interviews have been conducted with Kent businesses. The interviews sought information from businesses on:

- Their understanding of internationalisation

- Their reasons for internationalising/not internationalising
- What or who drives the business's internationalisation strategy
- What barriers they face or have faced in trying to internationalise
- What external advice and support they have received
- What advice or support they feel they need but have not been able to find
- What percentage of their total turnover can be attributed to internationalisation, and
- How they use the internet and e-commerce in working with businesses or organisations abroad

The key findings from the interviews are:

1. Interpretations of what is meant by "internationalisation" vary greatly and are influenced by the type of business.
2. Cultural differences play a large part in creating barriers to working outside of the UK. Many of the businesses had found this both time consuming and challenging,
3. The type of support that would be particularly useful is help in putting together practical action plans for internationalisation. Advice and information is plentiful but quality time and expert advice is unavailable.
4. Help with finding partners and distributors who are local and can offer a quality service and/or partnership is unavailable but highly desired
5. Those business that do not internationalise feel that they just do not have transferable services
6. The main reason, by far, for businesses to internationalise is responding to enquires i.e. it is reactive. Second to this is being recommended by personal contacts or businesses that they already work with. Proactive development abroad accounts for only an estimated 15-20% of internationalisation.
7. The quality of the broadband service appears to be generally good, with 60% of respondents saying that the service they receive is excellent to good.
8. Support wanted by those already involved in international activity but which they could not find (in order of frequency):
 - Help with a firm action plan
 - Links to embassies
 - Links and assistance in accessing good markets
 - Strategic help
 - Assistance with import/export documentation
 - Web and search engine optimisation
 - More support in pushing contacts and marketing
 - Good advice and contacts for relationship building
9. For non-internationalised businesses the support they would welcome (in order of frequency):
 - Help with identifying potential markets

- Advice and training in relevant language(s) and culture(s)
- Business advice and support from an expert
- Support for developing an internationalisation action plan
- Opportunity to network with other business people interested in internationalisation
- Development of management skills and capacity
- Review of the internationalization potential of the business
- Chance to see the potential of international links with their own eyes
- Opportunity to find out more about new ways of international working and the potential benefits
- Help with finding contacts and networks

Conclusions

The overall conclusions we draw from the study are:

1. The level of regular internationalisation in Kent appears to be lower than the South East average. However, the number of firms that are involved occasionally is among the highest in the region. For Kent to close the gap to the regional average would need an additional 1,141 businesses to internationalise.
2. Kent has a high proportion of smaller businesses and any this may be a feature in Kent's lower level of internationalisation. Any interventions would need to focus on support which is appropriate for smaller businesses.
3. The national figures suggest that internationalisation pays. Exporters contribute 60% to UK productivity growth (*UKTI*). Firms new to exporting on average experience a 34% increase in productivity in the first year, and are 11% more likely to survive (*UKTI*). New exporters experienced a £66,000 increase in profit over 2 years; experienced exporters, £336,000, net of internal substitution. **A Kent programme of intervention aimed at closing the gap to the regional average would be likely to generate significant additional GVA.**
4. Kent has concentrations of a number of key sectors/cluster which are likely to be fertile for increasing the level of internationalisation
5. Problems with broadband are not currently perceived as a problem by Kent businesses. However, the addressing capacity of businesses to fully exploit ICT to internationalise is potentially a low risk intervention to get firms to take the first steps.
6. From the secondary research and interviews with Kent businesses, the barriers and drivers for internationalisation can be summarised as:

Barriers	Triggers and Drivers
<ul style="list-style-type: none"> • No perceived need to internationalise – UK market is sufficient • Do not think business has international potential • Problems dealing with different cultures • Lack of managerial time knowledge and skills 	<ul style="list-style-type: none"> • Overseas enquiries • Recommendations from personal contacts • Key manager has been exposed to internationalisation • Reduced barriers due to use of the internet • Innovation and R&D focus • Sector – manufacturing/production

<ul style="list-style-type: none"> • Inability to contact potential overseas customers • Lack of finance 	<ul style="list-style-type: none"> • Higher level skills
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7. There are a range of export support services available for businesses but they only kick in after the point at which a firm has made a firm decision to internationalise, and hence may not address the highest barriers which apply in the early stages. They also are narrowly focused on exporting rather than a wider view of internationalisation. Services are fragmented. New interventions would need to focus on getting businesses who are currently not engaged in any international activity to see the potential and show them how to take the first steps. Thereafter, existing services would be able to provide support and to help businesses progress through to become fully internationalised businesses. Early stage internationalising businesses would need continuing support over a period of time.
8. International practice shows that internationalisation and innovation are often closely associated, and that interventions are often successful if they combine the two.
9. Businesses have stated that they would welcome *practical* help, which would help them develop longer term strategies and then stay with them to help see plans into implementation.
10. Interventions aimed at supporting businesses will need to address the following:
 - Raising the aspirations of Kent businesses to deal with the belief that internationalisation is not necessary
 - Leadership and management development for senior managers, with a focus on internationalisation – including exposure to international experiences
 - Support for business review to think afresh about the suitability of products and services for internationalisation
 - Finding easy first steps for businesses, including easy entry to EU markets.
 - Support for searching for new markets
 - Networking and collaboration infrastructure to allow the initiation of new personal and business relationships
 - Supporting the exploitation of the internet and e-commerce as an entry to internationalisation
 - Sectoral and cluster initiatives to work with businesses where there is a stronger potential for internationalisation
11. There appears to be potential in looking at the higher education role in internationalisation - HEIs are typically well linked to overseas institutions, and are increasingly involved in supporting business innovation

The Internationalisation customer journey

To help consider where new interventions might be most usefully made and where existing services can be brought into more focus, we have developed a three stage customer journey to internationalisation. At each stage, interventions should be aimed at helping businesses **break through** the barriers to the next stage:

	Non-internationalised businesses	Partially internationalised businesses	Fully internationalised businesses
State of mind	<p>We don't need to internationalise</p> <p>Our business isn't suitable</p> <p>We don't have the time We don't know what to do We don't know the right people</p> <p>It will be too difficult</p>	<p>We'll do it if we get asked</p> <p>We don't have a plan for internationalisation</p> <p>If we could find the contacts we would do it</p>	<p>International business is an integral part of what we do</p> <p>Our future growth is tied to more internationalisation</p>
Current population	38,819 non-internationalised businesses	13,700 occasional exporters	4,566 regular exporters
Three stage progression	STAGE 1: ENGAGE	STAGE 2: INCUBATE	STAGE 3: GROW
Target	1,141 businesses to internationalise in 5 years	1,000 occasional exporters to become fully internationalised in 5 years	Close the gap to the regional average: Total of 2141 extra internationalised firms
Transform	<p>Raise aspirations/open eyes</p> <p>Demonstrate potential</p> <p>Management development</p> <p>No-risk try-outs (toe-dipping)</p>	<p>Identify markets, contacts and customers</p> <p>Firm up intentions and create action plan</p> <p>On-going support to aid progression</p>	<p>Identification of further markets</p> <p>New style collaborations</p>
Current services	Transmanche Enterprise Network Project (Canterbury and Medway) (to Sep 2011) EEN (from Jan 2011)	EEN Chamber/IOD/FSB E Bay/Google	Business Link LIK UKTI IGT EEN Kent International Trade Club
New innovation and additional services required	<p>Awareness raising</p> <p>Exposure - See it for yourself</p> <p>International potential "audit"</p> <p>Make the first sale / First time in Europe</p> <p>International "test trading"</p> <p>Workshop programme</p> <p>Network building</p> <p>Internet and E Commerce routes</p>	<p>On-going support & Mentoring</p> <p>Leadership and management</p> <p>E-commerce</p> <p>Understanding culture, language and finance</p> <p>Sector/cluster collaboration</p>	

Recommendations

1. **Kent should set a target to close the gap to the regional average within five years**, which would require 1,141 non-internationalised firms to become internationalised, and for a further 1,000 partially active firms to become fully internationalised. Empirical evidence shows that there will be significant gains for the County in terms of increased GVA and growth in the business stock.
2. Existing services are fragmented. More coherence is required, into which new services might be integrated. It is vital that this activity is co-ordinated. It is recommended that, under the governance of the Kent International Advisory Board **an Internationalisation Forum is set up** to include all interested parties including UKTI, Enterprise Europe Network, Business Link, Chambers, IOD, HMRC, HEIs, Medway Council, BSK-CiC, LIK and clearing bank representatives. This forum, would meet twice a year to cover off all activity, co-ordinate activity across the county and monitor progress toward the five year targets.
3. New and different services are required. Existing services support those businesses which have already made the decision to internationalise. **New services are required at earlier stages to initially engage businesses and show them how to do it:**
 - To overcome initial barriers that prevent Kent businesses from considering internationalisation
 - To move businesses along a progression from early exploration to full internationalisation

New services should actively help businesses progress from a position of low aspiration and low knowledge, to first international activity, through to full internationalisation. We recommend a three stage approach:

Engage – Incubate – Grow

4. New services targeted at **Stage 1: Engage should include:**
 - Awareness and aspiration raising
 - Audit of international potential
 - Developing ideas and skills for internationalisation
 - Workshop 1: An introduction to international trade.
 - Workshop 2: An introduction to international markets.
 - Partner/programme specific Workshops
 - Low risk first steps and easy entry support – “toe dipping”
 - Network and contact formation
 - Sector specific workshops and sessions
5. New services targeted at **Stage 2: Incubate should include:**
 - Detailed sessions helping businesses refine ideas and research done in Stage 1 and to develop an internationalisation plan

- “See it with your own eyes” – mini- trade missions, focussing on near European markets
 - Continuing support: Mentoring
 - Advanced international e-commerce
 - Sectoral collaboration
 - Skills: Upskilling business owner/managers
 - Apprenticeships - a programme is established for young people to be trained in the core principles and practices of international trade documentation and administration
6. At Stage 3, the point at which businesses are committed to internationalisation, interventions should look at bringing together support for innovation with support for international activity. This plays to the existing focus of the Kent and Medway IGT.
 7. The opportunities for EU collaboration and funding should be more actively exploited, building on the success of Enterprise Europe Network (EEN) and other initiatives such as the Transmanche Enterprise Network (TEN) project.
 8. The international links of the universities should be fully exploited to help to create international contacts and networks for SMEs
 9. Exploit cultural opportunities for trade - across the county there are significant links between communities in the county and communities overseas. Mapping the breadth of the links the county already has and then developing them as business relationships between the UK and overseas partners is an exciting opportunity.
 10. Fully use the window of the London 2012 Olympic and Paralympic Games: the post Olympic period when visitor numbers are expected to rise markedly for two years or more is a key ‘window’ to develop further international trade links and get Kent companies ‘fit to compete’ in that significant time.

KENT INTERNATIONAL BUSINESS STUDY

Version: Final

Introduction

This is the report of the research element of the Kent International Business Study, jointly commissioned by Kent County Council and BSK CiC.

Background

The economic health of businesses in the county is of critical importance. Kent has patchy performance, but overall, levels of GVA per capita are below the UK and regional average.

Is the degree to which Kent businesses are internationalised a possible contributing factor to lower productivity, and/or could stimulation of higher levels of internationalisation be an effective way to increase the economic well being of Kent?

Exporters contribute 60% to UK productivity growth. (UKTI)

The study has been commissioned in response to a perception that the business community in Kent has, in general, not engaged in **international** activity despite the County's 'gateway' location. A recent figure from a BSK report suggests, for example, that only 8% of Kent companies are involved in exporting which is a lower rate than elsewhere in the South East. The reasons for this are unclear and information relating to SMEs currently involved or with the potential to be involved in international activities is far from comprehensive.

However, beyond these perceptions and headline figures, not a great deal is known about the particular barriers and opportunities faced by Kent businesses. The Study will attempt to outline the reality of the situation through identifying gaps in business support and making recommendations for how best to develop future support to Kent businesses in internationalising their activities.

The Study will include a survey of existing data and research to try and find out what hard evidence does exist, and also qualitative research with a small number of Kent businesses, both those currently involved in international activity, and those who are not.

A full list of the questions the Study set at the outset is at [Annex 1](#), summarised as:

1. To Determine current levels of internationalisation in Kent:

- What is the real scale of current international activity (trade, export etc) within Kent businesses and what is its value to the Kent economy?
- How does Kent compare to other counties in the SE (benchmarking), why are these differences occurring?
- Are there any key markets which Kent companies already working internationally are accessing? Could these (or others) be considered priority markets for Kent?

2. Kent's Export 'Gap':

- What is the Kent 'exporting gap', its measures, scale, structural nature and the reasons why it exists?

- What are the barriers to Kent businesses exporting and how can these barriers be reduced?
- Does limited broadband pose a barrier to Kent firms?

3. What support is needed?

- What support is currently available?
- What might need to be put in place to address the gaps identified?

This report is structured as follows:

Part A – Establishing a baseline position:

- A1. Definition of internationalisation
- A2. Summary of the Kent business population and its characteristics
- A3. Current position on internationalisation

Part B – Overcoming barriers to internationalisation:

- B1. Barriers to internationalisation
- B2. Broadband infrastructure
- B3. Sectors, clusters and internationalisation
- B4. Current business support for internationalisation
- B5. Views of Kent Businesses
- B6. Case Studies

Part C – Conclusions and recommendations:

- C1. Conclusions
- C2. The internationalisation journey
- C3. Recommendations

Annexes

PART A: ESTABLISHING A BASELINE POSITION

A1. Definition of internationalisation

What do we mean by internationalisation?

Many datasets and studies of internationalisation are concerned with exporting, importing or inward investment. However, this study is concerned with a much wider definition of internationalisation, recognising that in the last ten years, what is loosely described as globalisation has meant a transformation in how businesses of all types and sizes can reach out beyond their home market boundaries. This makes it difficult to assess the true state of internationalisation in Kent today.

From a Kent perspective, we are interested in much more than import, export and inward investment, though these remain important. We need a working definition to guide future work.

Academic definitions of internationalisation abound. Many earlier attempts which looked at stages of growth towards the point when a company might export its goods or services, or might “internationalise” its supply chain or sales channels have been rendered otiose by the growth of the internet. Companies no longer have to grow incrementally to reach a critical mass at which they either have the capacity and financial clout to look outside their home nation markets, or the necessity to do so in order to keep growing.

Barriers to entry to internationalisation are much reduced through internet and e-commerce trading. Any firm, large or small can reach out to any part of the globe. Personal relationships, which have been thought to be such an important aspect of international growth, can be made and maintained at much lower cost than previously. Later definitions of internationalisation do tend to give priority to the importance of networks and personal links, but are possibly still not fully aligned with the potential posed by the internet.

Other definitions focus on learning and innovation links, and how these impact on the people running the business. In many ways, these aspects come closer to recent experience of internationalisation.

A suggested working definition, for discussion between partners is:

At the level of the individual enterprise, ***internationalisation*** of a business starts when it first looks outside the UK for ideas, markets, resources, suppliers and partners. It includes collaboration, research, learning, innovation as well as the traditional activities of import, export, and investment (inward and outward).

At the macro level, ***internationalisation*** is when the stock of enterprise, businesses, GVA, trade, productivity, creative resources, ideas and intellectual property created by international links of whatever type, is greater than that which would arise from purely domestic activity.

Given such a broad definition, this study is therefore interested in a wide range of activities, including:

- Exporting – the selling of goods and services of any type, by any channel, outside the UK
- Collaboration and partnership with businesses outside the UK – for the purposes of developing products and services
- Exchange of ideas and views with businesses, universities and other bodies outside the UK
- Networks of business people with links to businesses and other bodies outside the UK

A2. Summary of the Kent business population and its characteristics

According to IDBR there were 57,085 VAT registered enterprises in Kent in 2009. The characteristics of the businesses are relevant as the propensity to internationalise varies according to:

- Size – larger firms are more likely to be engaged in some form of international activity
- Sector – some sectors are more active internationally, particularly manufacturing and production.

The Kent business population is made up as follows:

Size - employees

0-4	5-9	10-19	20-49	50-99	100-249	250+	Total
43,580	7,290	3,455	1,760	505	300	195	57,085
76%	13%	6%	3%	1%	1%	0.3%	100%

Source – ONS IDBR 2009

Size - turnover

Turnover size £ thousand							
0-49	50-99	100-249	250-499	500-999	1,000-4,999	5,000+	Total
8,925	14,610	16,275	7,275	4,750	4,185	1,065	57,085
16%	26%	29%	13%	8%	7%	2%	100%

Source – ONS IDBR 2009

The Kent economy is predominantly one of smaller firms.

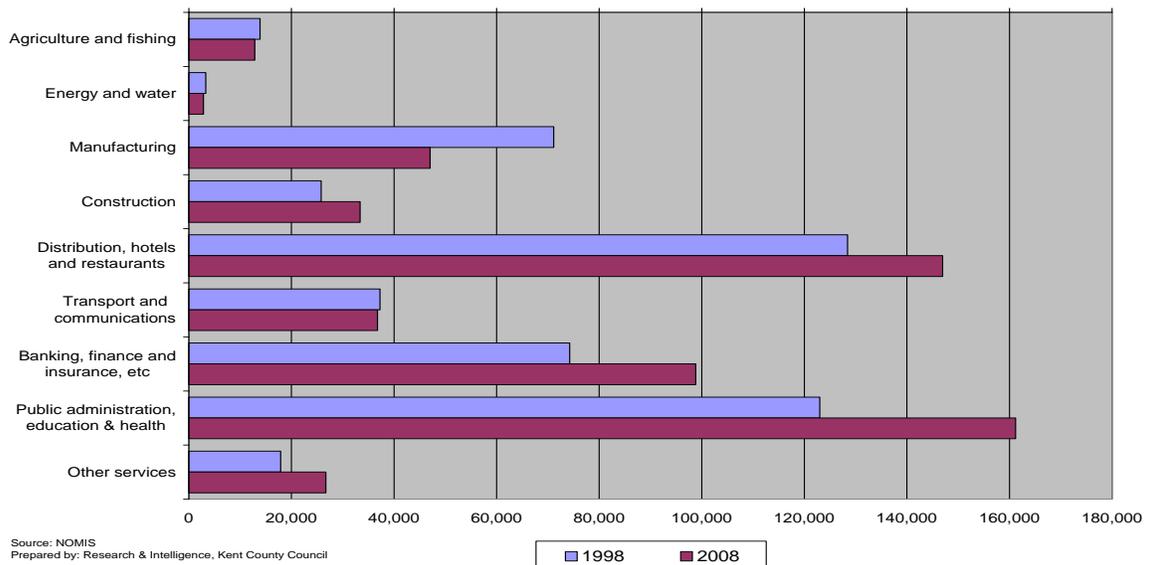
Sector

Ag. Fish, Forestry	2,160	4%
Production	3,655	6%
Construction	9,650	17%
Motor trades	1,970	3%
Wholesale	3,020	5%
Retail	4,730	8%
Transport & storage	2,165	4%
Accomm. & food services	3,600	6%
Information & comms.	3,520	6%
Finance & insurance	1,100	2%
Property	1,710	3%
Professional, scientific and technical	8,250	14%
Business admin and support services	4,415	8%
Public admin & defence	115	0.2%
Education	875	2%
Health	2,115	4%
Arts, entertainment, recreation	4,035	7%
Total	57,085	100%

Source – ONS IDBR 2009

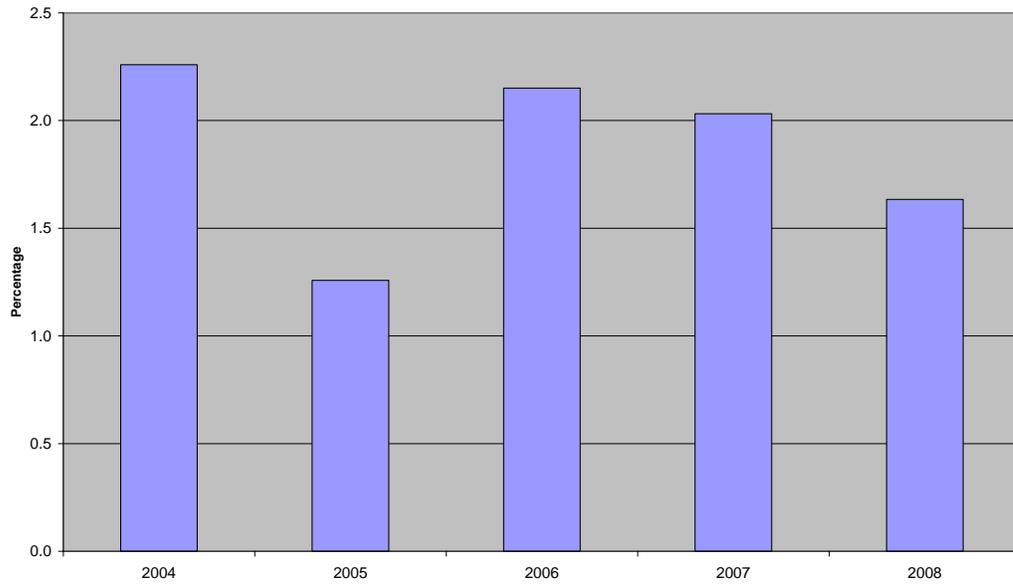
There is further analysis of the potential impact of sector on internationalisation in Section B3.

The pattern of employment across the sectors has been relatively stable over the past ten years, with the biggest increases in public administration, education & health; banking, finance & insurance and distribution, hotels and catering. Manufacturing has shown the greatest decline (source ABI/KCC).



However, the overall stock of businesses is growing steadily:

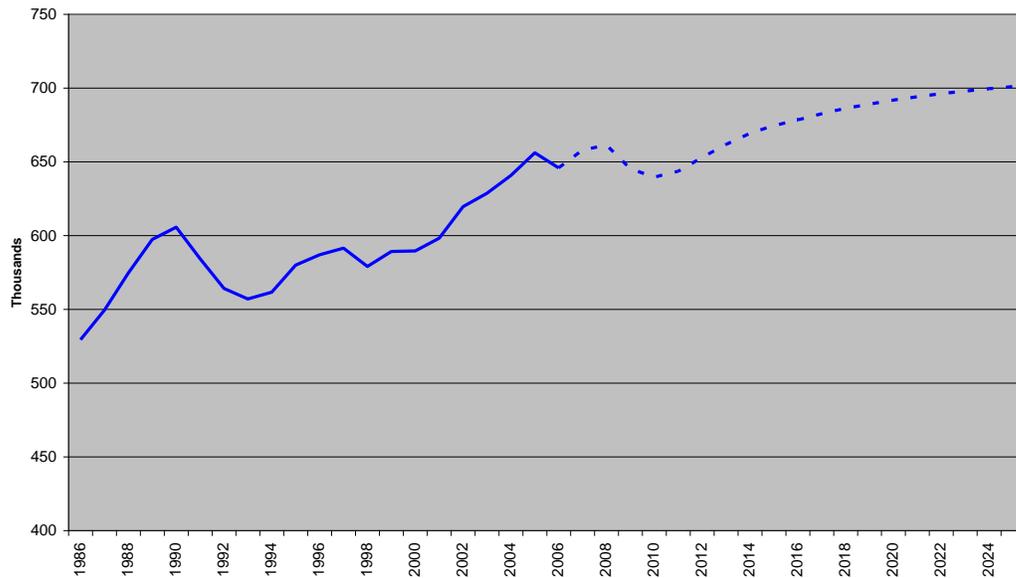
% growth in business stock 2004-2008 (Source KCC/ONS)



Source: Office for National Statistics
Prepared by: Research & Intelligence, Kent County Council

Looking ahead, employment forecast shows slower growth to 2025.

Employment Forecasts to 2025 - Experian



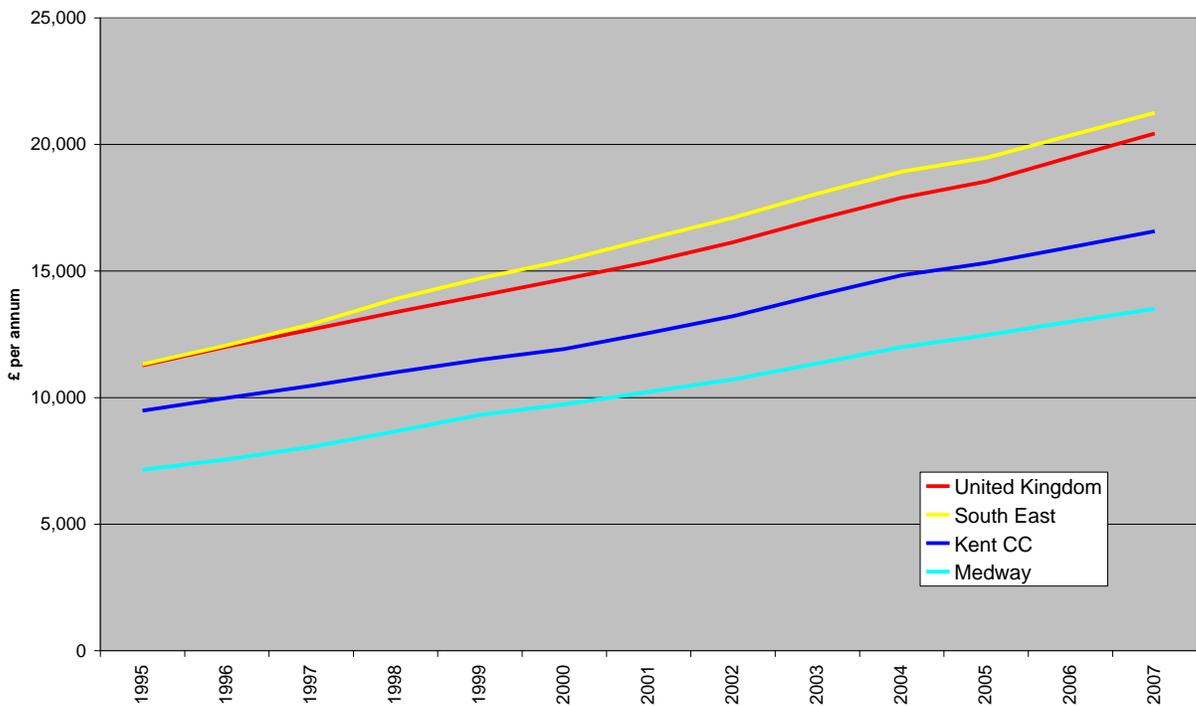
Source: Kent Economic Forecasting Model © Experian
Research & Intelligence, Kent County Council

In terms of economic performance, GVA growth in the KCC Area has been below the national average, while growth in Medway has exceeded both the national and KCC growth rates – albeit from a much smaller economic base.

GVA change 1995-2007			
UK	South East	Kent CC	Medway
591,800	88,733	10,846	1,680
90.5%	101.1%	88.4%	97.4%

Source: ONS/KCC

In terms of GVA per head of population, both Kent CC area and Medway are behind the UK and South East:



Source: Office for National Statistics
Prepared by: Research & Intelligence, Kent County Council

A3. Current position on internationalisation

As a starting point, the study has looked at **existing secondary data**. We have found there is relatively little which is available at county level. Given such a broad definition of internationalisation it is disappointing that there is a paucity of hard evidence available to allow an assessment of the Kent current situation:

- Many public data sets do not disaggregate to county level as they are based on regional samples which are too small to allow statistically valid analysis at a lower level
- Many data sets and qualitative research look only at exporting activity – which while important, only gives a partial view.
- Some national trade statistics only deal with trade in goods, omitting services, which, for a modern economy, gives a limited view.

Notwithstanding these problems, the following points have been gathered from a number of data and information sources (see [Annex 2](#) for the reference list):

National picture

- Exporters contribute 60% to UK productivity growth (UKTI)
- Firms new to exporting on average experience a 34% increase in productivity in the first year, and are 11% more likely to survive (UKTI)
- New exporters experienced a £66,000 increase in profits over 2 years; experienced exporters, £336,000, net of internal substitution (but not of UK displacement). (*OMB Telephone survey of UKTI users and non users July 05*)
- In 2000 just over 26% of UK firms (employing 10 or more employees) exported (although nearly 44% did so in the manufacturing sector and only some 15.6% in services, rising to 47% and 26% by 2004).
- The manufacturing sub-sectors with the highest propensities to export are chemicals, basic metals, machinery & equipment, textiles and medical & precision instruments.
- For non-manufacturing, the sectors with the highest propensities to export are the R&D sector, transport support, wholesale trade and computing.
- Exporting increases with firm size (more so in the manufacturing sector with over three-quarters of firms employing 250 or more workers engaged in exporting), although there is some evidence that the relationship between exporting and size has weakened over time.

Regional picture

- In 2008, the South East was the most active UK region for exports, with £40.03bn exports (UK total £248.7bn).

- However, SEEDA has data showing just 10% of all firms in the South East export regularly, the target is to raise this to 12% by 2016.
- £20.bn was to the EU from 3,329 exporters, £19.4bn was non-EU from 13,417 firms.
- In 2008, the biggest export goods sector for the South East was machinery and transport (£16.7bn), followed by chemicals (£8.9bn), mineral fuels (£5.5bn), miscellaneous manufacture (£4.8bn) and manufactured goods (£2.0bn)¹.
- Kent is well represented in production industries and motor trades which include the above categories but there is no data available on regional or sub-regional export of services.
- European Commission data shows only 8% of EU27 SMEs export and only 12% of the inputs of an average SME are purchased abroad.

Freight Movements

- In 2007 there were 2.36m freight vehicles using Dover, 0.17m using Ramsgate, and 1.41m using the Shuttle, together with 1.21m tonnes of rail freight through the Channel Tunnel.

Kent data and information

From BLO, 2007, *Spotlight on Exporting* (including new data not in public domain):

- 8% of Kent firms export regularly, some **4,566 businesses** - the lowest of all sub-regions. Sussex is the next weakest with 12%, Surrey the highest with 22%
- However 24% of Kent firms, **13,700 businesses**, export occasionally – a strong response ahead of all except Surrey with 27%
- Despite this, 64% of Kent firms don't export – the worst sub-region, alongside Berkshire. Surrey performs best with 49% non-exporters. Of the non-exporters, just 7% had considered exporting – the joint-lowest figure with Berkshire.
- Yet 28% of Kent firms had received export enquiries – the highest with Surrey
- 71% of Kent firms have exported for 3 or more years – roughly in common with all other sub-regions except Sussex (57%)
- But just 4% have 75% or more turnover from exporting – less than all other sub-regions except MKOB (4%) and Sussex (2%). Surrey is strongest with 11%
- 63% of Kent firms earn 1-24% of turnover from exporting, a stronger performance at this low banding than all other sub-regions except Sussex (71%)

¹ HMRC, 2009, UK Regional Trade in Goods Statistics
<https://www.uktradeinfo.com/pagecontent/downloads/RtsPRDataTablesQ309.pdf>

- 30% of firms in Kent deal with multinationals in the UK - less than all sub-regions except Sussex with 25%. Surrey is most active at 47%
- 27% of firms in Kent trade with overseas suppliers - less than all sub-regions except Sussex with 22%. Surrey is most active at 42%
- 5% of Kent firms have overseas operations - the lowest of all sub-regions. MKOB performs best at 12%, most sub-regions are 9%
- 4% of Kent firms outsource functions overseas - the lowest of all sub-regions alongside Sussex. Berks performs best at 12%
- Kent gives mid-range responses to whether products could be delivered overseas easily or with difficulty, or whether it would require an overseas presence

What would trigger exporting activity?

- Based on a small sample, (ie not robust data) finding customers overseas (62%) would be the biggest trigger to action, followed by information and advice (40%) – the latter is a much stronger response than in other sub-regions
- Kent's biggest trigger to export for those doing it/considering it is receiving enquiries (41%)
- Other triggers include identifying Internet leads and always have exported (both 14%)

Barriers

- For the non-exporters who aren't at all interested in exporting (small sample size), the most common reason is that product/service aren't suitable (30%)
- There is one big difference compared to other sub-regions – firms in Kent are already busy enough (28%)
- The biggest challenge to Kent exporters is finding/accessing clients (41%), but this is less of a problem than it is in MKOB (50%) and Surrey (48%)
- Language barriers (30%) and competition (29%) are problems and firms in Kent are more worried than other sub-regions except MKOB about cultural issues (14%)

From Business Link Surrey, 2010, CRC report²:

- 25% of Kent's rural SMEs sell to the EU, 20% to the rest of Europe and 19% to the rest of the world
- However, just 2% have the EU as their main market, and 3% the rest of the world

Conclusions from secondary data

From the secondary data available we can see that Kent firms are not as active internationally compared to other local sub-regions. However, they do not cite stronger, or different barriers to international trade than others, and they have received the joint-highest number of export enquiries.

The majority of non-exporters have not even considered exporting, and interestingly, over a quarter of them say they don't need to, they are busy enough. For the rest of them, finding customers and particularly support and guidance would be helpful. Finding/accessing clients for existing exporters is a problem, along side legal, cultural and language issues.

For those exporting or considering it, by far the biggest trigger is receiving enquiries.

Most existing exporters are mature, 9% have been doing it less than 12 months. Many exporters are occasional and there may be potential in getting this group to trade up to being regular exporters.

The availability of regularly collected information is a concern as there will remain a need for a better evidence base to be gathered to allow a better grip on the issues facing Kent firms in considering internationalisation – in its broader definition. This might be done cost effectively by piggy-backing on other surveys, such as that carried out by Business Link and SEEDA's business surveys, and by tapping into the network of business organisations active in Kent, such as the chambers, Locate in Kent, the universities, BSK and the new Innovation and Growth Team.

² taken from forthcoming unpublished (January 2010) Business Link Surrey, Commission for Rural Communities Report – based on 5 waves of Business Monitor surveys.

PART B: OVERCOMING BARRIERS TO INTERNATIONALISATION

B1. What are the barriers to internationalisation

This section looks at what we can learn about the barriers to internationalisation from secondary source as an essential first step to understanding what interventions might be required to increase the level of international activity.

What can we learn from elsewhere?

While Kent information is hard to find, there may be generic indicators of barriers and triggers to be found in experience elsewhere.

Three studies have been identified which may provide insight for the Study:

The **OECD** has recently published a report *Top barriers and drivers to SME internationalisation*

UKTI published a very detailed report empirically showing that the most important **factors to export are the absorptive capacity and capabilities of a firm.**

The **EU Commission** has published a series of very useful reports in 2007/08. These include a review of the barriers/enablers and case studies from SMEs.

Full analysis of these three reports is at [Annex 3](#).

The key points from the three studies are set out below.

Barriers to internationalisation

The OECD study found a number of barriers to internationalisation, as shown below. In the UK, the biggest problems are factor 4 and a catch-all problem of the lack of managerial time, knowledge and skills.

Rank	Description of barrier
1	Shortage of working capital to finance exports
2	Identifying foreign business opportunities
3	Limited information to locate/analyse markets
4	Inability to contact potential overseas customers
5	Obtaining reliable foreign representation
6	Lack of managerial time to deal with internationalisation
7	Inadequate quantity of and/or untrained personnel for internationalisation
8	Difficulty in matching competitors prices
9	Lack of home government assistance/incentives
10	Excessive transportation costs

Source: OECD-APEC 2007

Limited firm resources and international contacts as well as lack of requisite managerial knowledge about internationalisation have remained critical constraints to SME internationalisation. These resource limitations, especially of a financial kind, seem particularly prevalent among smaller, newly internationalising SMEs.

The EU study reached the same conclusions about barriers:

- Insufficient managerial time and/or skills required for internationalisation
- Lack of financial resources
- Lack of knowledge of foreign markets, mostly consequence of the previous two

Successful and sustainable internationalisation requires an internationalisation strategy and the acquisition of a series of capacities, abilities and resources prior or at the first steps of internationalisation. Empirical research has associated successful small firms with greater skills in organisational learning and strategy development. Numerous studies have shown that companies with a structured market strategy are more active exporters than firms lacking formal planning. The more systematic the selection of foreign target markets, the higher the export performance will be for SMEs.

In general, the smaller the SME, the less structured the management procedures. This is coupled with a tendency to making opportunistic rather than systematic strategic decisions. This naturally results in SMEs using support services in a rather haphazard and ad hoc manner, rather than as part of a strategic approach to internationalisation.

Drivers for internationalisation

At the macro level, the EU report gives the following drivers for internationalisation:

- An unprecedented lowering of trade barriers worldwide.
- Vastly improved logistics and communications systems available to all companies.
- The information technology revolution which has opened the way for greater technology and knowledge exchanges and the advent of new types of economic transactions such as e-commerce.

This means that trade can be conducted cheaper, faster, easier and over larger distances. It also means that previously non tradable services can be bought and sold. It has also opened up less accessible markets and the large emerging global players of Brazil, China, India and Russia. In addition, foreign direct investment (FDI) flows have grown from less than 5% of global GDP in 1980 to over 15% in the late 1990's.

At the firm level, extensive literature supports that the **international orientation of decision makers** is a key determinant of the nature and extent of internationalisation. A survey of successful international UK SMEs identified the international commitment of the founders, entrepreneurial firm behaviour and pro-activity in foreign markets as key predictors of performance.

Because exposure to internationalisation is a main driver to internationalisation, it could be said that internationalisation is a "closed loop" where previous experience is the best guarantee to "future appetite": Internationalisation breeds internationalisation.

Growth ambition behaviours appear to be increasingly important to SMEs, reflecting their rising appreciation of the international pathways and associated opportunities for future

business growth. Getting more knowledge from outside the business is also increasing in importance.

Factors in the external environment of SMEs, including network and supply chain links, social ties, immigrant links, improved global trade infrastructure, and sector and region-of-origin factors also seem to stimulate firms' internationalisation.

Characteristics of businesses which internationalise

The three studies suggest the following as characteristics of businesses which internationalise:

- Absorptive capacity (internalisation of external knowledge) is much higher in those establishments that export.
- For the majority of industries there is no significant difference in the percentage that export on the basis of whether the establishment was less than 5 years old or not. One explanation for these results is that age may be less important as a factor determining exporting behaviour, given the recent importance placed on 'born global' companies alongside greater access to global markets.
- The relationship between labour productivity and the propensity to export is positive and significant in both manufacturing and non-manufacturing.
- There is a link between internationalisation and innovation. Establishments that export are significantly more likely to engage in (continuous) R&D and to be innovative (as measured by whether they produced new product and/or process innovations, whether novel or otherwise). For manufacturing, in 2000 13.5% of manufacturers engaged in both exporting and spending on R&D while in 2004 this had risen to 25.1%; in non-manufacturing the comparable increase was from 3.6 to 8.5%;
- Manufacturing establishments that exported were over 3 times more likely to co-operate with others in their innovative activities while the ratio was nearly 10:1 for those engaged in *international* cooperation on innovation.
- Establishments that exported are more likely to receive support from the public sector, particularly in manufacturing.
- Exporters in the manufacturing sector are also shown to be more capital intensive and older (in both 2000 and 2004); they also operate (on average) in more concentrated industries (i.e. those dominated by a smaller number of relatively larger firms)

There is always the question about which comes first – the characteristic (eg innovation) or the internationalisation.

Higher level skills

A recurring theme in the research into barriers is the capacity and skill of the people running the organisation. A second theme is the conflation of innovation with internationalisation, further emphasising the need for high skill levels.

The role of higher education in Kent and the retention of graduates after study may be key issues for developing a long term view of the necessary conditions for internationalisation in the County.

Some graduates will be retained in Kent to improve the labour pool/become entrepreneurs – overseas graduates may be included and/or they may move back to their original domicile but retain links with Kent. Improving both the retention and long term links with Kent could be a significant intervention to support internationalisation.

There are major international policy and programme initiatives relating to higher education - such as the European Universities Association (EUA), the Academic Cooperation Association ([ACA](#)), the Association of Commonwealth Universities ([ACU](#)), the Programme on Institutional Management in Higher Education ([IMHE/OECD](#)), the International Association of Universities ([IAU](#)) and the International Association of University Presidents ([IAUP](#)) or the US based NAFSA. UK representation is currently weak in some of these organisations. Kent HEIs may already be active in a number of these networks and initiatives, offering a valuable catalogue of international links and contacts.

B2. Broadband infrastructure

The study set itself the question of whether limitations in ICT connectivity were acting as a barrier to internationalisation, given that effective broadband connections can be used for a range of international activity:

- Researching international markets and finding customers overseas
- Researching international competitors
- Marketing and promoting across the world
- Selling to overseas customers via e-commerce
- Keeping in touch with innovation and latest developments
- Collaborations and partnerships with overseas organisations
- Links to overseas universities and research establishments

The ONS E-Commerce Survey in 2008 showed that the proportion of businesses using the Internet to sell rose from 14.4% in 2007 to 15.2% in 2008.

In 2008, the majority of sales over ICTs were to UK customers, at £281.3bn, or 83% of the total. Sales to customers in other EU countries were £36.8bn (11%) while sales to the rest of the world were £20.1bn (6%).

The availability of high speed and quality broadband to Kent businesses is therefore critical factor in their ability to internationalise.

Broadband in Kent

*Digital Britain: the final report*³ mentions 4 key barriers to be overcome before the country is truly digital – availability, affordability, capability and relevance. The latter two points are largely concerned with improving skills.

Availability (ie the very existence of the broadband infrastructure upon which to transmit content) is the perhaps the most pressing item and the report gives the following Government commitments:

- ***To ensure all can access and benefit from the network of today, we confirm our intention to deliver the Universal Service Broadband Commitment at 2Mbps by 2012. More than one in 10 households today cannot enjoy a 2Mbps connection. Improvements can be delivered through upgrades to the existing copper and wireless networks.***
- ***We also propose public support for the network of tomorrow so that consumers in the Final Third who will not be reached by the market can enjoy next generation broadband. This will be a longer project which involves what amounts to installing a new network.***

Affordability is addressed in part through the roll-out of the Government's £300m Home Access scheme for low income families. Also, the market will increasingly address this

³ BIS, June 2009

issue through the wide availability of new lower-cost devices, new schemes for recycling PCs to low-income households or new prepay mobile broadband.

The rest of this section concentrates on availability, with direct quotations from *Digital Britain: the final report*, to give the national position. Kent's position is given as a counterpoint (where known).

The Universal Service Commitment (2Mbps by 2012) will be delivered by a mix of technologies: DSL, fibre to the street cabinet, wireless and possibly satellite infill. It will be funded from £200m from direct public funding, enhanced by five other sources: commercial gain through tender contract and design, contributions in kind from private partners, contributions from other public sector organisations in the nations and regions who benefit from the increased connectivity, the consumer directly for in-home upgrading, and the value of wider coverage obligations on mobile operators arising from the wider mobile spectrum package.

National Pointers

- *63% of all UK households (75% in South East) have broadband access, rising to 90% of those with internet access (ONS, 2009)*
- *National access at home is key - 94% of adults accessed the internet at home, 43% at work*
- *National mobile internet access is growing – 40% of adults had used this*
- *In 2008, 9.8% of the value of all non-financial service sales were online, up from 7.7% in 2007*

Kent Position

- ***Choice is not a problem*** - there are 80 broadband packages available to consumers in Kent – with speeds ranging from 8Mb to 20Mb
- ***However, consumers report that there are significant not-spots in Kent where no broadband is available in rural areas including near Canterbury/Faversham, Margate, mid-way Canterbury/Sandwich***
<http://www.broadband-notspot.org.uk/map/kent-broadband-notspot.html#9,51.19915,0.74265,all,500>
- ***There are also significant slow spots (under 500Kbps) eg around Ashford, Faversham, Maidstone, Tonbridge, Tunbridge Wells, Sevenoaks, Chatham, Ramsgate, Whitstable etc***

There is also other evidence that there are isolated not-spots and slow spots throughout Kent

- ***Mobile broadband coverage is patchy. Weak spots tend to be rural.***

The proportion of broadband users with slower connection speeds for South East counties is shown in the following table:

	Households		Business	
	No. < 4mbps	% < 4mbps	No. <4mbps	% <4mbps
Berkshire	137,445	44.13%	4,630	30.86%
Buckinghamshire	127,063	47.27%	4,912	35.26%
East Sussex	104,814	33.16%	4,513	26.07%
Hampshire	251,573	34.81%	10,705	28.65%
Kent	285,309	39.47%	29,662	38.93%
Oxfordshire	88,001	36.86%	3,701	28.79%
Surrey	157,773	37.15%	5,846	26.86%
West Sussex	91,644	30.56%	4,490	26.82%
Medway (excluding Isle of Grain)	5,919	5.95%	652	16.96%

Source: KCC

For households, Kent is broadly in line with other parts of the region. For businesses, however, there is a higher proportion that have slower connection speeds.

A comparison with London shows that the Kent situation is broadly comparable.

The Next Generation Final Third project. Next generation broadband networks offer not just conventional high definition video entertainment and games, but also more revolutionary applications including tele-presence, allowing for much more flexible working patterns, e-healthcare in the home, and access to cloud computing⁴ which should substantially cuts costs and allows much more rapid product and service innovation.

By Summer 2009, speeds of 50Mbps and above were available to all households covered by the Virgin Media Ltd's national cable network: some 50% of UK homes. BT Group plc has been encouraged to respond competitively to accelerate their plans for the mix of fibre to the cabinet and fibre to the home. BT's enhanced network will cover the first 1,000,000 homes in their network.

Further information about the national objectives for Next Generation Broadband and wireless coverage can be found in [Annex 4](#).

⁴ enables businesses to use the internet to store and access software and data and share resources. Results in a lower carbon footprint, less investment in computing equipment, access to cost effective technology solutions that can be used quickly, cheaply and less disruptively.

National Pointers

- These new networks are called superfast broadband - commentators feel this should be a minimum of 25Mbps
- *The BT service is called BT Infinity and will have speeds of up to 40 Mbps*
- *Virgin already has a 50 Mbps superfast service available over its cable network*
- *There are around 3,600 next generation access (NGA) points in UK Jan 2010 (but with 30 projects using these, that's only 120 users each....)*
- *BT has brought forward its NGA plans, aiming to complete its £1.5 billion infrastructure investment by June 2012, nine months earlier than projected. BT originally said there should be 4,500 NGA street cabinets installed by March 2010, serving about 1 million premises, and 20,000 by the following March. This is an overestimate, recent figures show an estimated 80,000 lines by the end of 2010*
- *A missing link at this early stage is the lack of third party service providers for these new networks.*

Kent Position:

- ***BT has installed a 'small number' of fibre-to-the-premises (FTTP) users at its Ebbsfleet site which should give speeds up to 100Mbps, but most places cannot yet access BT Infinity***
- ***Virgin trialled its 50Mbps service in Kent (Ashford, Dover & Folkestone) before its widespread rollout in 2009 (12.6m homes have cable)***
- ***Virgin started a pilot for 100 'lead users' for a 200Mbps service in Ashford in May 2009***
- ***Superfast wireless connectivity is available in some parts of Kent (some major towns and many rural areas, enabled by KCC grants) with speeds of up to 10Mbps www.vfast.co.uk using wireless radio technology***
- ***But superfast mobile connectivity is very patchy, rural areas are poorly served***

Kent response to the Government Consultation on Next Generation Broadband

Kent Rural Board has responded to the Government consultation on Next Generation Broadband. The main points were:

- Upload and download speeds must be symmetrical. This is essential for rural businesses. Whilst 2Mbps may be sufficient for most services offered today, the growth of video services will soon make this insufficient, especially for those households with multiple Internet-connected devices. 10Mbps is a minimum requirement.
- Restricting the use of funding to fixed-line solutions would be short-sighted. Whilst this may result in the best solution long-term, implementation would be slow. The priority should be to bring a service to everyone as quickly as possible.
- Deployment should take place at a sub-regional level. Each community has different obstacles to overcome and there is, therefore, no single solution that will be applicable in every case.
- Open access should be a stated aim.

Conclusions on broadband infrastructure

It does not appear that Kent is significantly worse off than any other county in terms of regular broadband provision. Indeed it is better off than many Welsh/Scottish sub-regions, and in the sense that Ebbsfleet/Ashford are the pilot locations for Superfast Broadband for both BT and Virgin, then Kent has already gained more expertise than many other rural/shire counties.

However, there are significant parts of the county where connectivity is much lower – mainly in the east and rural areas. This may be acting as a constraint on business internationalisation in those areas.

The roll out of the Next Generation infrastructure poses some questions for Kent – if it were possible to become an early adopter, would this give the county a sustainable advantage in internationalisation, or would the benefit be transitory as other regions would catch up quickly?

These are high-level, strategic and policy-led questions. They will require inputs from experts and obviously would have to be tailored to any SEEDA regional response as well. However, this could provide an opportunity for Kent to take the lead on firstly starting, and then marshalling, a county-wide response to include business (via BSK and other BSOs), HEIs and any other telecoms research providers, local councils, large scale broadband users such as PCTs, education, major corporates, telecoms firms – regional reps and those involved in BT/Virgin local trials (including users).

By starting debate around 'real' questions, albeit high-level ones, then when the next stage comes (ie Next Generation Fund applications) the county should be ahead of others in terms of presenting a cogent and cohesive case.

Several other UK regions and sub-regions have already had years of experience in terms of gathering critical mass and creating both sophisticated arguments and real change on the ground. In the main these are the old EC Objective1 and Objective2 regions which have benefited from trans-national exchange and funding on how to create an Information Society – including the basic building of infrastructure.

Other funding for feasibility studies in support of the Digital Britain strategy will come from a £38.5m fund available to the Technology Strategy Board. This could also be investigated further, either to encourage Kent-based businesses/HEIs to participate, and/or to use parts of Kent as a testbed – perhaps rural areas.

B3. Sectors and clusters and internationalisation

The secondary data examined in Part A showed that some sectors have higher levels of internationalisation than others – particularly manufacturing and production industries. In this section we look at whether the sector or cluster structure of Kent businesses suggests that some targeting of interventions would be beneficial.

South East priority sectors in Kent

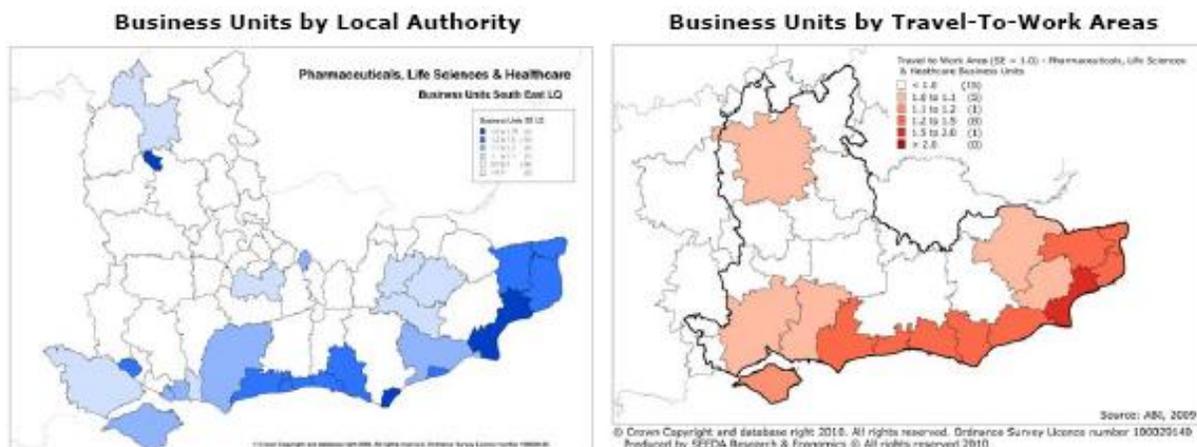
SEEDA has identified a small number of priority sectors⁵ which they believe offer the greatest potential of growth and positive impact on the South East economy. The selection has been determined by the concentration of businesses in tradable sectors:

- Financial and professional services
- ICT, Software and Digital Media
- Advanced Engineering and Marine
- Aerospace & Defence
- Pharmaceuticals, Life Sciences and Healthcare
- Environment & Energy

Of these, Kent is shown to have a higher location quotient relative to other counties in the following:

- Pharmaceuticals, life sciences and healthcare
- Advanced engineering and marine
- Environment and energy
- Aerospace and defence

Pharmaceuticals, Life Sciences & Healthcare – concentration of activity (2007)



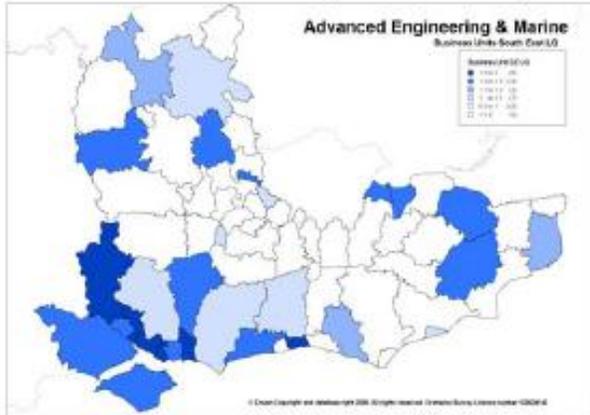
Note: The white areas have a concentration of both business units and employment below the South East average.

⁵ SEEDA – The Geography of Key Sectors in the South East; April 2010

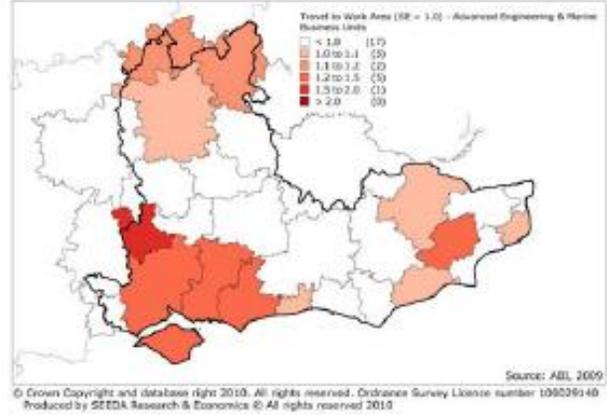
Source: SEEDA- *The Geography of key sectors in the South East: April 2010*

Advanced Engineering and Marine – concentration of activity (2007)

Business Units by Local Authority



Business Units by Travel-To-Work Areas

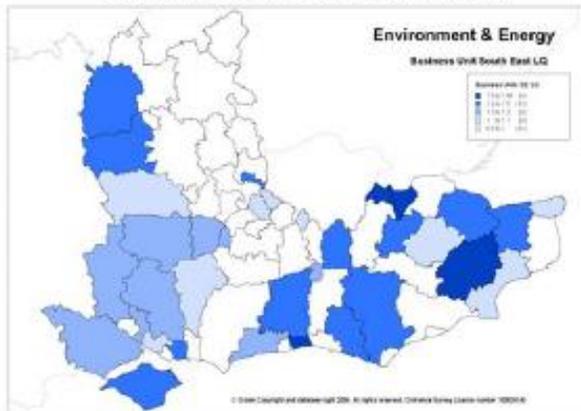


Note: The white areas have a concentration of both business units and employment below the South East average.

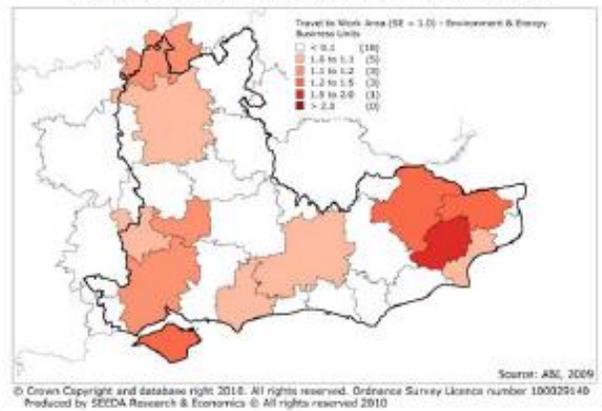
Source: SEEDA- *The Geography of key sectors in the South East: April 2010*

Environment & Energy – concentration of activity (2007)

Business Units by Local Authority



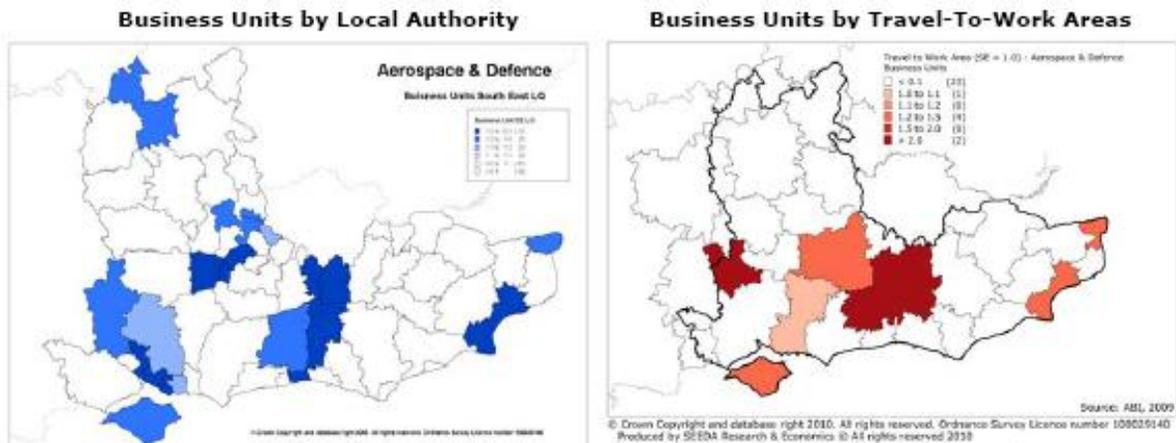
Business Units by Travel-To-Work Areas



Note: The white areas have a concentration of both business units and employment below the South East average.

Source: SEEDA- *The Geography of key sectors in the South East: April 2010*

Aerospace & Defence – concentration of activity (2007)



Note: The white areas have a concentration of both business units and employment below the South East average.

Source: SEEDA- *The Geography of key sectors in the South East: April 2010*

Clusters in Kent

Clusters were popular in national and regional economic development policies in the late 1990s, early 2000s. Since then, their popularity as a development tool has declined somewhat in the UK although many RDAs are still using them and as recently as January 2010, BIS announced £1m funding for a new UK Life Sciences Super Cluster.

Clusters could be used in several ways in internationalisation strategies:

	Weak Cluster	Strong Cluster
Weak Overseas Demand		
Strong Overseas Demand		

	Where there is strong overseas demand and a strong cluster, there is a 'win-win' situation. Clients need the product/service and the cluster provides a one-stop, experienced solution
	Where there is weak overseas demand for a product, but a strong cluster, the cluster should be able to market itself as a single 'solution' comprising all the necessary components a client needs. It can afford to stimulate demand by sharing the costs
	Where there is strong overseas demand, but a weak cluster, it is still easier to market a cluster's competencies and outputs than to do so with individual suppliers and knowledge holders, albeit possibly not as a complete 'end to end' solution. The danger here is that if the cluster under-performs, then many firms can lose reputation
	Where there is weak overseas demand and a weak cluster, endeavouring to use clusters as a route to overseas markets will be very difficult and time-consuming

NWRDA is a mature user of clusters⁶ and has now integrated clusters into an important part of its internationalisation strategy as well as in mainstream economic development. http://www.nwda.co.uk/PDF/InternationalisationStrategy_fullversion.pdf As such it will fall into the right-hand half of the table above and it is appropriate to use clusters to internationalise. Their strategy places strong emphasis on Regional Cluster Organisations (RCOs). Their role is to:

- Help companies in priority sectors to access international markets (eg by supporting/enhancing UKTI events/offers, running Meet the Buyer events, sponsoring trade missions, hold sector-based international seminars focusing on opportunities in emerging Markets, international best practice, international supply chain opportunities, research collaborations, etc; and undertaking research in emerging markets to identify opportunities for RES priority sectors)
- Help companies access global innovation (eg running promotional programmes to raise the profile of major international research projects in key sectors, e.g. ITER (a joint international research and development project that aims to demonstrate the scientific and technical feasibility of fusion power))
- Develop an international marketing business plan to promote North West (with others)
- Work with others to target priority markets which include China, India, defined inward and/or outward opportunities in country markets across a number of key RES priority sectors, and where the region has the ability to follow up on opportunities. This could be through: NWDA/NoE overseas office network; UKTI embassy/consulate network; regional partners' global networks (e.g. UNIDO); reciprocal arrangements with partner regions (e.g. State of Victoria); or overseas presence of partners that can provide advice and support, e.g. universities.

Of course, there are many other actions listed in NWRDA's internationalisation strategy, often with UKTI as the lead body. Specific cluster-led activities include:

- Employing extra FDI staff in main clusters, leading an EU network project for cluster organisations (CLUNET <http://www.proinno-europe.eu/node/1428>)⁷ which involves 16 partners in nine countries, and influencing EU policies/legislation which affect the six key clusters in the North West

Clusters in Kent

In 2001, the DTI published Business Clusters in the UK: a First Assessment' which identified 13 different sectoral clusters. Based on 1999 data, the research team identified 154 actual clusters, with the number by region varying from eight to eighteen. Some of the clusters, such as nuclear fuel processing in the northwest and ceramics in the West Midlands, were unique to one region. Others, such as motorsport and marine engineering, crossed regional boundaries.

Locate in Kent reports that Kent has two clusters – it has one of three food clusters in the UK and one of two life science clusters in the South East.

⁶ It has used the cluster concept since 2002, when it identified 14 clusters. There are now 6 key clusters.

⁷ CLUNET has a series of projects involving clustering, including internationalisation

In terms of the **food cluster**⁸ it has:

- Almost 500 food related companies employing over 18,000 people
- A significant presence of importers, wholesalers, processors, manufacturers and specialist transportation services. Most major grocery chains have a distribution presence
- Over 200 food wholesale operations; 122 companies involved in manufacturing of food and drink, 9 specialist cold storage facilities for holding or ripening fresh foods, a number of specialist road haulage and freight forwarding companies with temperature controlled facilities designed for the food industry
- 39% of all non-EU fresh produce in the UK travels via Kent. Sheerness is the top fresh fruit and vegetable port in the UK and Kent International Airport is a significant portal for perishable and high value fresh produce from outside Europe.
- Expertise within the industry includes the Natural Resources Institute, part of the University of Greenwich and a world leader in natural resources management and research, which includes food management and marketing.

Kent has several logistical and locational advantages over other counties, which cannot be easily replicated. As such, the barriers to entry in the food sector for other places are high in some respects, although Kent is not wholly self-contained as a cluster in this sector. For example, some of the transport firms and many growers are elsewhere in the South East/UK and there are other competing regions/localities (eg London); perhaps food processing and distribution is the niche.

The UKTI report indicates that agglomeration (proximity of businesses to each other) is important for successful exporters and so perhaps food is a sensible sector in which to consider building more complex internationalisation activities, based on existing successful import/export track records.

In terms of the **life-sciences cluster**⁹ Kent has:

- Almost 250 companies employing over 13,000 people with over 101 R&D and testing companies
- Manufacturing medical devices / equipment accounts for over 60% of Life Sciences activity and represents 25% of employment
- Three universities offering particular skills in areas such as cancer research, molecular biology, protein sciences, infectious diseases, environmental microbiology, immunology, genetics, plant ecology, botany and pharmaceutical sciences
- The launch of the Kent Bioscience Resource Centre in September 2007. With its newly accredited foundation degree course for Laboratory Technologists, it is the first of its kind in the UK
- The University of Kent is ranked number 1 out of all 58 biology and related sciences departments in the UK. It's internationally acclaimed Department of Biosciences has unique research expertise through collaborations with Kent and Canterbury Hospital and London-based UMDS Guy's and St Thomas' Hospitals

⁸ Locate in Kent, December 2007, Food industry in Kent and Medway factsheet

⁹ Locate in Kent, December 2007, Life sciences in Kent and Medway factsheet

- The universities also have strong links with industry, evident in the fact that 5 of the world's top 20 selling drugs were developed in Kent. Key to this work is Pfizer's European R&D HQ at Sandwich as well as leading research by innovative biotech companies in the region
- These links with industry are further enhanced by the School of Pharmacy and the Kent Biosciences Network
- Overall there is a graduate pool of 1,800 students and 400 graduates each year

Given what was revealed in the UKTI report on positive links between internationalisation and innovation, the national launch of the UK Supercluster in Life Sciences, and the contribution made to GDP in Kent by the sector, supporting the R&D intensive sector of life sciences could be a sensible move in terms of internationalisation strategy development.

There is already a body which could be described as a Regional Cluster Organisation (using NWRDA's nomenclature) - the South East Health Technologies Alliance (SEHTA). This is a membership organisation established to support businesses in the health technologies sector (pharmaceuticals, biotechnology, medical devices, and diagnostics). There is also a good deal of research and knowledge about the clusters across the Greater South East as a whole¹⁰. However, this leads on to an extra pragmatic consideration - the existence of the other Life Science cluster(s) in the South East (Guildford or Reading/Slough?) mean that a joint offer sub-regional offer might be appropriate.

Kent is also considered as an important part of the ICT cluster in the South East. However, given that Oxford, Thames Valley/M4 corridor, Surrey, and possibly Brighton (in terms of new media) contribute 'more' to this cluster (in terms of volumes of firms, employees, HEI and possibly existing specialised support) it is probably not sensible to market Kent as the SE's leading ICT sub-cluster.

Work conducted by the European Cluster Observatory indicates that Transport and Business Services are both clusters in Kent. This is based on the proportion of employees in a sector compared to Europe/rest of UK and also on innovation performance and exports. However, part of the transport sector will be the transportation of food. More work could be done to investigate transport as a cluster.

Conclusions for the use of sectors and clustering as an internationalisation strategy

Kent would appear to have strengths in the following sectors and clusters:

- Pharmaceuticals, life sciences and healthcare
- Advanced engineering and marine
- Environment and energy
- Aerospace and defence
- Food, including the underpinning technology
- Transport and distribution

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<http://www.som.surrey.ac.uk/research/groups/BCNED%20Files/GSE%20Cluster%20Report.pdf>

These would seem to offer high potential for increasing internationalisation activity. Lessons from elsewhere would suggest the following would need to be considered in taking a sector or cluster approach to boosting internationalisation:

- Firstly, there needs to be a true cluster
- Internationalisation is much more likely to work if the cluster is relatively mature and used to working together as a regional/sub-regional force. If this is not in place, then internationalisation using clusters will take much longer to achieve
- Internationalisation using clusters should be integrated with 'internal' economic development
- There is likely to be a need for a/some Regional Cluster Organisations and/or a network manager/mentor type function
- This is likely to mean (partly) working closely with SEEDA's Sector Consortia
- It is important to participate in as many activities and programmes as possible – the sub-region needs to raise its profile. These must include EU programmes, ideally across the spectrum from research to partnership and co-operation initiatives such as the InterCluster project, the European Cluster Alliance, EU Cluster Observatory and the European Cluster Policy Group
- Catalysing opinion on the ground will be an essential pre-requisite to any further work. Scenarios need to offer win/win opportunities. If there is no ground-level support for this type of approach it will not work

B4. Current business support for internationalisation

Looking at national and international practice, internationalisation support programmes tend to feature:

- access to finance
- provision of information and contacts
- managerial capacity development
- generic programmes for networking, acquisition of knowledge, growth and motivation

Innovation support requires the same general approach as internationalisation - the promotion of management skills, supporting the creation of trans-national networks, bridging the financial gap etc.

In Kent there are a range of existing services to support internationalisation. These are a mix of national services and those which are Kent focused.

National/International

Business Link (www.businesslink.gov.uk)

International trade web page offers on line guides and self assessment tools covering:

- Getting started
- Industry overviews and regulations
- Practicalities of importing and exporting
- Export and import licences
- Regulatory barriers when exporting
- Classifying your goods
- Payments and reliefs
- Declarations and notifications
- Movement of goods
- Global trading

Local business link advisers will signpost to appropriate export support services as part of 1:1 Intensive assistance meetings

UK Trade and Investment - UKTI (www.uktradeinvest.gov.uk)

Advice & Support

1. Passport to Export - A 12-18 month flexible programme of support provided by an International Trade Adviser, designed to help new and inexperienced exporters to understand and target international customers. Service offer - up to £1,500 of matched funding to develop new markets
2. International mentoring programme by an experienced Adviser – A 12-18 month programme for companies that have completed the Passport to Export. Note there is no funding with this programme
3. Gateway to Global Growth – 12-18 month programme to support those companies with more experience of International Trade to develop new markets (includes

previous Passport to Export clients. No funding but 15% discount offer on a British Airways flight.

4. Language and International Communication – Export Communications Review, a subsidised service delivered by the British Chamber to evaluate the way they present themselves and communicate with overseas customers

Information & Opportunities

1. Telephone helpdesk to answer question on international Trade
2. Online information at www.uktradeinvest.gov.uk providing sector and market reports, general country information, details of exhibitions and market visits supported by UKTI, and contacts around the world. Business Opportunities portal offers free sales leads fed into the system by Trade and Investment Offices around the world

Market Research

1. Overseas Market Introduction Service (OMIS), a chargeable but subsidised service delivered by the Overseas Commercial Teams to provide market analysis, help with identifying the best route to market entry, the identification and ‘warming up’ of potential business contacts. Can also include identifying potential suppliers of products or services. Costs start at £500, with the average cost in the region of £1000 - £1500
2. Export Marketing Research Scheme (EMRS), a more sophisticated approach to develop an entry strategy for a new overseas market. This involves the systematic and objective collection of information through an overseas visit to the market, prior to market entry, and some financial assistance is available to eligible companies. Costs start at about £3000-£4000 less subsidy if company meets qualifying criteria

Making it Happen

1. Training & events - Subjects range from country focused briefings to workshops on particular topics such as internationalising your website or successfully exhibiting overseas. Visit www.uktisoutheast.com/events.aspx
2. Exhibition support through Tradeshow Access Programme offering a grant of up to £1800 to eligible companies travelling as a UK group with an Accredited Trade Organisation (ATO)
3. Exhibition support where no ATO is taking a UK group to the specific Exhibition offering a grant to eligible companies of up to £1000.
4. Market Visits (Trade Missions) – Group visits to destinations all over the world, which includes a market briefing and Embassy/High Commission reception. The group is led by an experienced International Trade Adviser. Grants are sometimes available to companies on their return to the UK.

Enterprise Europe Network (www.enterprise-europe) Delivered in South East by BSK-CIC (www.bsk-cic.co.uk)

Enterprise Europe Network

The Enterprise Europe Network is a pan European business support network covering 44 countries and comprising over 550 partners. Specialists in facilitating European business collaboration partnerships and technology partnerships, its team of experts

offer Internationalisation and Innovation support with a specific focus on Trading in Europe. They support companies with growth aspirations working closely with the Innovation and Growth teams, the knowledge base and with UKTI complementing their export service offer.

Enquiry and Information Service

The Enterprise Europe team is multilingual with diverse experience of working in Europe. They provide:

- Information on trading in Europe provided by local experts and comprehensive information on local legislation, market intelligence and cultural insights
- Advice on European rules, compliance, documentation and licensing; local employment and tax rules

Intensive Assistance.

The expert team of European Business Advisers will help draw up an action plan to support companies to trade in Europe:

- One to one expert assistance supporting internationalisation planning and trading in Europe
- Assistance researching new market opportunities in the EU
- Hand holding bespoke services to support entry into identified market

Finding European Business Partners and Technology Partners

European Business Partners

The European Business Co-operation Database a business profiling tool, can profile a business to the 550 partner organisations in the Network; to find suppliers, distributors and agents and help:

- Find cost effective manufacturing alternatives closer to home
- Assistance to find European suppliers, distributors and agents
- Support to filter 'Expressions of interest' and be 'partnership ready'

European Technology Partners

Using the Business Bulletin Service, a technology profile and partnering tool, they can link businesses to the best European technology and research opportunities. They will:

- Help clients submit their technology for European – wide consideration. Clients can search (by keyword) for technology offers /requests in their field
- Provide a tailored e-mail alert service containing the latest technology opportunities related to specific sectors or identified fields of interest
- Help seek out technology expertise to solve problems or to complete client's own product development, through utilising the partner network.
- Companies and organisations can also join sector groups, attend regular technology-focused networking events, and benefit from support when attending international knowledge transfer events.

Support with EU Brokerage Events and Exhibitions

- Identification of sector-specific seminars and brokerage events across Europe

- Arrange and facilitate one to one meetings with prospective partners, licensees or customers.
- Liaise with local EEN offices to provide tailored support and assistance, complementing services provided by UKTI

FP7 awareness

- EEN advises on the FP7 programmes and will assist with communication with the UK FP7 National Contact Point (NCP) network and the European Commission.
- Holds FP7 awareness events in the South East to provide information and networking opportunities.

Grantfinder

- The Grantfinder service contains details of over 4000 funding programmes. Enterprise Europe provides a free of charge service to search and identify funds to suit specific projects. Tailored support from Grantfinder includes information on all the funding criteria, how the bid will be assessed, guidelines and comments to help submission preparation.

European Public Procurement Alert Service

- They will identify the products, services and countries that are of interest to a business and via the Tender Search Service will deliver tenders direct to your mail box, daily or weekly
- Provide help and advice to a client on bidding and also look for smaller tenders, known as “sub-threshold”

It's a chargeable service but offers a 4 week free trial: www.winningtenders.eu

British Chambers of Trade and Industry (www.britishchambers.org.uk)

Provides advice, services and information to members and non-members including:

- Export Marketing Research Scheme
- Communications Review
- Export Documentation (through local Chambers of Commerce)
- Export Training
- Export Zone Newsletter
- Combating international corruption

Federation of Small Businesses - (www.fsb.org.uk)

Provides advice, services and information to members and non-members including:

- Support Agency Directory – details of support organisations available to assist exporters
- Invoice Factoring and export finance - provided by RBS Invoice Finance and giving all the approval of customers, funding and protection needed in one simple preferential package and support is delivered locally through a dedicated relationship manager

Institute of Directors (www.iod.com)

Provides advice, services and information to members including Doing Business Abroad:

- Directors information gateway
- On-line and one-to-one specialist advice
- Business Information Service
- Law Express helpline

Export Aid (www.exportaid.co.uk)

Export consulting company, supporting individual traders and companies to add to their knowledge of international trade, to develop business in their target export countries, and to locate reputable suppliers and customers in different regions of the world. Provides free and paid for support and mentoring services to SME clients.

Institute of Export

Professional membership body representing and supporting the interests of everyone involved in importing, exporting and International trade and offering events, training, recognised qualifications and CPD to members and non-members.

Google Export Adviser (<http://www.google.co.uk/intl/en/exportadviser/>)

On-line resource providing links, resources and 5-step interactive self-help guide covering:

- Get your business ready
- Finding the right market
- The bottom line
- Reach new customers
- Payment and delivery
- Free on-line seminars and commercial export support service package offer

Ebay (http://pages.ebay.com/selling_manager_pro/)

Provides advice, resources and business services to assist those seeking to use the Ebay website to globally sell professionally

Kent focused services

Chambers of Trade (www.kentinvictachamber.co.uk),(www.tgcoc.co.uk)

Local providers of:

- Export Documentation
- Access to local UKTI specialist advisers

Kent International Trade Club (<http://kentitc.com/default.aspx>)

Provides a forum to network with people in your own sphere of trade or with those in other sectors, such as exporting manufacturers, importers, educationalists, local branches of overseas companies, linguists, financial advisers and marketing. The group meet once a quarter at different locations in Kent.

Transmanche Enterprise Network

An EU funded Interreg IVA project which aims at promoting and encouraging entrepreneurs and businesses to develop new cross-border commercial initiatives

between Medway and Canterbury in Kent and Northern France, Flanders and Belgium by offering

- a **free business audit** to help local businesses with less than 10 employees to explore the barriers that may be preventing them from trading in northern France and Belgium;
- **free workshops and seminars** for up to 100 local businesses, which cover topics such as tax advice, and language courses
- **funding** to provide French and Flemish language translations for 25 companies' websites;
- **funding** to enable a number of local businesses (to be selected by the council's Economic Development Team) to attend exhibitions in northern France, western Belgium and England.

Locate in Kent (www.locateinkent.com)

Investment promotion agency for Kent and Medway providing:

- Relocation services to inward investor and existing local businesses.
- Aftercare service to inward locating businesses
- Grant finder service for growth and R & D
- Training Assistance
- Launchpad UK
- Knowledge Transfer partnerships

Conclusions on the pattern of existing support

Looking at the pattern of business support services for internationalisation there are a number of conclusions:

- **Services tend to focus on those businesses which have already made the firm decision to internationalise.** There is relatively little available to those who are unsure about the international potential of their business or how to go about taking the first steps.
- There is a fragmented pattern of services. Business Link will make sense of the provision for those businesses who are their clients, but otherwise there is likely to be some confusion about which is the most appropriate service
- While a plurality of services is not in itself a bad thing, there is likely to be some overlap and duplication of services
- No one organisation is charged with the task of increasing internationalisation in Kent.

B5. The views of Kent businesses

To test whether the generic views found in secondary research hold true for Kent businesses, a small number of interviews have been conducted with Kent businesses. An e-mail “Survey Monkey” has also been developed and is underway. It proved difficult to find businesses to participate in interviews. Although some of this reticence can be attributed to the short timescales and pressures on their time, there appears to be low value placed on internationalisation and/or the sharing of personal experiences and thoughts.

The interviews (and e-mail survey) sought information from businesses on:

- Their understanding of internationalisation
- Their reasons for internationalising/not internationalising
- What or who drives the business to internationalisation
- The barriers they face or have faced in trying to internationalise
- The external advice and support they have received, or not received
- The advice or support they feel they need but have not been able to find
- What percentage of their total turnover can be attributed to internationalisation, and
- How they use the internet and e-commerce in working with businesses or organisations abroad

Outline profile of respondents

Although the sample was small, respondents to the telephone research represent a cross section of industries, including manufacturing, retail and service industries and in size, from sole traders to 350 employees. The geographical spread is a representation of all areas of Kent but mainly focused around the Medway area.

Key findings

Full details of the responses can be found at [Annex 5](#). The key findings are:

1. Interpretations of what is meant by “internationalisation” vary greatly and are influenced by the type of business. For example, businesses that export define the word as “the exporting of goods”; businesses that do not internationalise define it as expansion and making others aware outside of the home market. No two companies had the same definition.
2. Cultural differences play a large part in creating barriers to working outside of the UK. Many of the businesses had found this both time consuming and challenging, citing it as one of the most sought after areas for advice and support needed
3. In terms of whether there is support and advice that they needed but could not find, it is very much a case of not knowing what they don’t know. Most are too busy to stop and think what support they need
4. A recurring theme in relation to the type of support that each business would find particularly useful is help in putting together practical action plans for internationalisation. There is a wealth of support and advice about where the

business is currently and where it could head, but nothing about how to actually implement getting there. This is the area of management development that is currently missing

5. The quality of provision of support and advice from both UKTI and Business Link was reported as inconsistent. The UKTI Passport to Export provision is universally regarded as high quality but additional services vary in participant perception of their value. Again, it is felt that advice and information is plentiful but quality time and expert advice is unavailable
6. However, UKTI and BL are cited as the main sources of information for businesses thinking of internationalisation
7. Help with finding partners and distributors who are local and can offer a quality service and/or partnership is unavailable, apart from one example of where a UKTI trade mission was useful. However, in this instance, as with other initial support, follow up support is perceived to be unavailable
8. Those business that do not internationalise feel that they just do not have transferable services
9. The main reason, by far, for businesses to internationalise is them responding to enquires i.e. it is reactive. Second to this is them being recommended by personal contacts or businesses that they already work with. Proactive development abroad accounts for only an estimated 15-20% of internationalisation
10. The quality of the broadband service appears to be generally good, with 60% of respondents saying that the service they receive is excellent to good. The usage of broadband within businesses in working with non-UK business and organisations is polar – businesses appear to either use it daily as part of their operations or never. The more mature the internationalisation of the business, the more broadband and the internet are used. This is also the case with manufacturing and retail businesses. Newer and service businesses tend to use it less.

Demand for support services

The responses about the support services businesses would find helpful are worth looking at in more detail:

For businesses already involved in some international activity - Was there any support they needed but could not find? (in order of frequency)

- Help with a firm action plan
- Links to embassies
- Links and assistance in accessing good markets
- Strategic help
- Assistance with import/export documentation
- Web and search engine optimisation
- More support in pushing contacts and marketing
- Getting links into Chamber of Commerce in Turkey
- Good advice and contacts for relationship building

- Support for inward investment

For those with no international experience - What support would you welcome? (in order of frequency)

- Help with identifying potential markets
- Advice and training in relevant language(s) and culture(s)
- Business advice and support from an expert
- Support for developing an internationalisation action plan for my business
- Opportunity to network with other business people interested in internationalisation
- Development of management skills and capacity
- Review of the internationalization potential of my business
- Chance to see the potential of international links with my own eyes
- Opportunity to find out more about new ways of international working and the potential benefits
- Help with finding contacts and networks

B6. Case studies

The factors which come into play when businesses are considering internationalisation are illustrated by these Kent case studies.

Internationalisation case study: Sunray Engineering

Background:

Sunray Engineering, based in Ashford, have been in business since 1985 as a steel fabrication manufacturing business that designs, manufactures, supplies and installs security doors, fire doors and louvre systems for the military, government, utility, commercial, industrial and residential sectors, specialising in security and utility applications.

Customers include the MOD, Home Office, Tesco, EDF Energy and Sun Micro systems and the product applications range from commercial retail doors through to high security doors designed for military use. Sunray employs around 42 people, has a turnover in the range of £3 – 4m pa and has grown profits in excess of 10% in both of the last two years.

The company is proactive in developing its model, has taken advice and guidance from Business Link and the Manufacturing Advisory Service and is in the process of internal re-structuring and installing a new ERP IT system in which it has invested £200k in the last 18 months.

In this coming year, after a year of consolidation from August 2010 the company anticipates a further £1m of sales mainly from the UK energy generation industry, with the introduction of a new sales and marketing manager (a first for Sunray) whom the company believe will enable them to effectively penetrate this market with their bespoke products.

The key advantages Sunray believe they have in their market are:

- Innovation: designing and manufacturing bespoke door systems and effectively enabling the customer to 'design their own door'.
- Flexibility: Sunray can respond to customer orders and design changes speedily as required.

- Specialist inventory in stock: Sunray hold the largest range of Loss Prevention Certification Board (LPCB) steel security doors at level 3 & 4 rating in the UK.
- Customer experience: nearly 25% of Sunray's orders come from referrals.

Internationalisation:

Sunray Engineering do not currently sell for export or internationally although a number of their suppliers are overseas and they buy some products and components from across the world. The MD, David Evans is an experienced engineer who, in previous roles has been involved in export and has all the necessary skills and competencies to do so with Sunray.

However, in discussion David identified the following reasons why his company does not currently sell overseas, while recognising that the product range is ideally placed for him to do so:

- Low current penetration in the UK market place: With so many opportunities available to him David believes that his company is better served by concentrating on domestic sales than spreading its focus and expending time and effort in developing overseas markets.
- Priorities: David identified a number of competing priorities that he believes he has to focus upon before he considers expanding the company's market place beyond the UK. These include:
 - Skills shortage: the workforce is ageing and David has real concerns at the company's ability to recruit the necessary numbers of trained engineers for the future. David is very concerned about his ability to develop and train his own apprentices if he were to set up a programme as he is distinctly unimpressed by the quality of young people his business has engaged with in the recent past. David is very proactive in his local community and sits on the Ashford's Future Skills Board so he is involved and understands the local education scene.
 - Internal re-structure: David is engaged in a re-structure of his business the details of which are not available at time of writing. However, David sees this as critical to the future of the company and will create time and space for him as MD to decide upon future strategic direction in a better and more strategic way.
 - Current improvement programmes: with the installation of ERP David sees this as a key process improvement and does not want to be deflected from its successful implementation.
 - Sales and marketing capability: with the new appointment of a Sales & Marketing Manager David believes that he will expand his penetration of the UK market in his target areas (electrical generation companies and security industry), develop a better 'pipeline' (his current visibility of forward orders is around 6 weeks) and enable the company to better explore new opportunities, including export and sales overseas.

Conclusion:

Sunray Engineering is an excellent company, well run and led by the MD. Its products are well suited to overseas markets and the potential for this is unexplored. The key issues that prevent this happening are where this challenge sits within the company's current priorities.

If the company can be supported to manage these priorities in an effective manner with a stated aim of becoming 'fit to export' once the opportunities and processes to do so had been worked out then there is no reason why the company could not develop a significant income and profit stream from selling outside its home market.

Sunray have been referred to the Kent & Medway Innovation & Growth team with a view to working with the MD to develop their growth potential and deliver increased profitability.

Internationalisation case study: Net-Text Industries Ltd

Background:

Net-Text was formed in 1983 specifically geared to service the needs of the Veterinary and Agricultural Industry with innovative high technology solutions, nutrition and animal husbandry equipment products.

They sell their products and services both in the UK and to some 40+ countries worldwide and they work with many of the major overseas Wool Growers Cooperatives in North America; Mid-States, Canadian Co-op etc. They sell their Equestrian products through a French company that has a chain of some 1800 shops worldwide. Selling to this organisation requires the products to exceed the quality of any locally manufactured product. They are a well established and known business in the marketplace with new clients often generated by word of mouth.

Whilst trading outside of the UK is often more expensive, the cost savings due to bulk purchasing of products more than compensates this and ensures that the products remain competitive. Market intelligence from other countries also provides insight on competitors and competitor products that might impact on the UK market and enables Net-Text to respond accordingly.

Internationalisation:

Net-Text target new markets and clients with care; they research the culture, regulations, competitors, distribution channels and often start a new market with a local agent before developing more direct contact.

The Senior Management team look after specific countries and they have an in house export documentation specialist, as many of their products are classed as food products for which there are extensive regulations and bureaucracy. Customs regulations are also used to control trade sometimes so this has to be watched and carefully monitored.

Tony Meakin states that culture and language are very important factors to consider when trading with new markets and it is important not to rush any new relationships but to build trust with a limited number of products or services initially and then slowly expand the range offered. Ongoing communication is also very important not just to ask for a new order or payment but feedback on products, ideas for new products, competitors in the marketplace, market pricing.

Conclusion:

Net-Text has built up a great worldwide reputation and network of customers, and works hard to maintain these relationships. Development of new overseas markets and clients is done carefully and methodically ensuring they fully understand the challenges, barriers, regulations, risks and rewards before starting to sell into the market. This ensures they have the greatest chance of being successful when selling in new markets or to new clients.

They are aware of some of the support available to develop new markets through UKTI South East and the Enterprise Europe Network; however a briefing on the current services may be useful for future activities

Internationalisation case study: Citrica

Background

Citrica, based in Erith, North West Kent were established in 2001 but have over 21 years of industry experience. They provide a complete range of contract cleaning and building services for individual and blue chip clients.

This includes: -

- Daily Office Cleaning, Window Cleaning,
- Abseiling, Washroom services
- Cladding & Glass Restoration, Pest Control
- Waste Recycling, Specialist IT cleaning

They state they are the UK's Greenest Commercial Cleaning Company and their green credentials, awards and company ethos certainly seem to demonstrate this; Citrica was the first Commercial Cleaning Company to be accredited with ISO 14001, the first company in their field within the UK to hold the Carbon Trust Standard having calculated their carbon footprint against ISO 14064 and ensuring they were carbon neutral. They are winners of the Sustainable FM Eco Award, 2009 and Citrica went onto achieve the International Green Apple Award for its Environmental Success in November 2009.

They promise to "Clean your offices professionally and quickly and with pride" but also make your Corporate and Social Responsibility Policy sparkle, making you as serious about the environment as they are.

Most of their clients are currently London based and include; GVA Grimley, Thomson Reuters, Knight Frank, Deutsche Postbank (AG), Muller, Energy Savings Trust, Nordea Estates Ltd, DTZ, Price Waterhouse Cooper, Royal Courts of Justice, Royal Tunbridge Wells Borough Council and Laban Dance Centre. However they also have clients in Scotland – Glasgow and Edinburgh and Ireland – Dublin. They are accredited with ISO 9001 & 9002 Quality Standards and are registered with National Britannia, SAFEcontractor, members of the Federation of Master Window & General Cleaners & the Institute of Cleaning Science (BICSc).

Internationalisation:

They have no specific objectives at the moment but would consider International Trade if suitable and profitable opportunities were available.

They have a client in Dublin, Ireland and this is because of a UK client with an office in Dublin who asked them to undertake the work. This is typically how companies that trade in the UK find themselves undertaking work outside of England, a UK client with overseas branches or offices is happier to use existing UK suppliers than trying to find local supplies or suppliers. It could be easily argued that working in Northern Europe is as close as working in Scotland and Ireland so distance should be no barrier to undertaking contract cleaning work.

In the UK they generally find new clients through their UK Sales Team and telemarketing. They are also registered on Supply2.Gov, the South East Business portal and fully published on the London 2012 CompeteFor portal. They could easily register on Tenders Electronic Daily to view potential EU local government contracts.

They do not currently import cleaning products but purchase most of their required products from Buzl. This could be another area to investigate as regards costs of materials but this would have the potential to impact their Carbon Footprint, so would have to be researched carefully.

Conclusion:

Citrica is clearly a leader in its field, totally focused and committed to having the least impact environmentally, whilst carrying out its services. They are highly successful in the UK and willing to travel considerable distances, and over water to undertake the work. There is undoubtedly the potential to deliver their services in major cities in northern Europe and various models could be considered from direct work, to partnerships, to local offices to franchising.

Many of their existing clients have offices in Europe and asking for referrals would be an easy first route to exploring new international opportunities. New skills, knowledge and awareness of regulations in European markets will need to be acquired to ensure full compliance with local regulations and laws. But their Environmental and Quality ISO accreditations would give them a great start.

Within their existing staff they have Spanish and Columbian language skills and they could take advantage of this when looking at target EU markets

There are many free services available to provide advice and support on how to develop International Trade and should Citrica be inclined to investigate new markets in Europe the Enterprise Europe Network Team (EEN) would be a very good place to start - Details can be provided.

Internationalisation case study: Search Press

Background

Search Press, based in Tunbridge Wells, Kent was founded in 1970, when Charlotte de la Bedoyere published her first book – Basket Weaving in an attic room in Kensington. They are a leading art and craft publisher in the UK, specialising in fine art, textiles, general crafts and children's crafts. A long established family owned business with an excellent reputation in the worldwide marketplace. They employ 22 staff and have a turnover of £4.8 million. They now publish over 100 of their own titles each year which gives them and very established route to the market.

In the UK they sell to the trade majors like Hobbycraft, John Lewis etc but they also have a very active mail order service. They exhibit at two major shows a year in London and Frankfurt and this ensures on-going contact and relationships with UK and International clients. However being a long established business they are well known in the worldwide marketplace.

However this doesn't make the process of finding new international trade clients any easier as careful negotiations have to be undertaken to ensure the type of relationship and how the 'product/IPR' is translated, produced and printed in the various international markets. In some markets just the rights are sold and the buyer translates and prints the books themselves, in others the buyer translates and Search Press print the books

As to business priorities there are no specific new target markets at present, just a desire to maintain good relationships with existing buyers and reduce or maintain current costs to ensure profitability

Internationalisation

Search Press, being such a long established business trades in most major countries through representatives and has branches in the USA and Australia. Maintaining this network of International clients requires constant attention, however the company is fortunate to have many long serving staff with considerable skills and knowledge of International markets.

There are no perceived barriers in existing markets but the issue of fluctuating import duties has to be closely monitored as some markets seeking to protect their local printing industry sometimes increase significantly the customs duty on imported books

They are obviously challenges in new markets and this is where it's important to fully research the market, existing supply chains and distributors, pricing, import duties, cultural issues etc.

All printing of the publications is currently carried out in China and Malaysia, this helps to maintain costs and competitive pricing.

Conclusion:

A highly successful and long established business, trading in many countries around the world. An excellent reputation in the worldwide marketplace with a large number of 'own title' publications.

The challenge for a business so well established is new competitors who come into the marketplace with new ideas and a lower cost base. Search Press need to ensure that the business and product costs are constantly monitored and that market intelligence in the international markets is maintained so that anything that might affect the business, like new titles, competitors and the impact any new custom duty increases might make can be reacted to as quickly as possible.

Search Press are not established in all the new member states of the EU, so an update briefing on the services of the Enterprise Europe Network would be beneficial. Also the British Chamber delivered service 'Export Communication Review' would help in reviewing their website and literature.

Conclusions

The clearest message in terms of policy/programme development would seem to be that firstly, businesses need to have the aspiration and desire to internationalise, and this seems in large part to depend on their experience of it, and having sufficient grasp of the potential. Next, firms need to have enough absorptive capacity in order to internationalise. The exposure of those who run the business to internationalisation seems to be an essential first step in the process of getting businesses moving.

Further development in management and leadership, business and market strategy, and the hunger and ability to innovate would also seem to be essential.

Having built the desire and capacity, then other factors such as finance, contacts and networks come into play.

Common difficulties/barriers identified from the case study companies included:

- Circumstances: - Awareness of the opportunities, Desire (and support from Directors/SMT) to trade internationally, capacity in manufacture, resources – time, staff and financial
- Challenges: - Changes required to product/service due to 'local legislation', knowledge of the market(s), language & cultural differences, payment terms, exchange risk and risk of not being paid, routes to market and legal contracting, increased finance requirements
- Skills requirement: - Research, transport & logistics, export documentation, languages, culture, INCO Terms (Internationally recognised code used in mport and export transactions)
- Resources: - staff and management, finance, manufacturing capacity,

However the companies interviewed also identified the following benefits of trading internationally:

- Bigger marketplace (spreads the risk), exposure to new ideas/products, new distribution channels, opportunity to meet potential new partners with a wider product range or new services that you could sell in the UK, reduced costs (either because of cheaper suppliers or increased purchasing power). Trading overseas grows your business and challenges your thinking.

PART C: CONCLUSIONS AND RECOMMENDATIONS

C1. Conclusions

The overall conclusions we draw from the study are:

1. The level of regular internationalisation in Kent appears to be lower than the South East average. However, the number of firms that are involved occasionally is among the highest in the region, and Kent businesses receive a high number of enquiries from overseas in relation to other counties. For Kent to close the gap to the regional average would need an additional 1,141 businesses to internationalise.
2. Kent has a high proportion of smaller businesses and any this may be a feature in Kent's lower level of internationalisation. Any interventions would need to focus on support which is appropriate for smaller businesses.
3. The national figures suggest that internationalisation pays. Exporters contribute 60% to UK productivity growth (*UKTI*). Firms new to exporting on average experience a 34% increase in productivity in the first year, and are 11% more likely to survive (*UKTI*). New exporters experienced a £66,000 increase in profits over 2 years; experienced exporters £336,000, net of internal substitution (but not of UK displacement). (*OMB Telephone survey of UKTI users and non users July 05*). **A Kent programme of intervention aimed at closing the gap to the regional average would be likely to generate significant additional GVA.**
4. Kent has concentrations of a number of key sectors/cluster which are likely to be fertile for increasing the level of internationalisation:
 - Pharmaceuticals, life sciences and healthcare
 - Advanced engineering and marine
 - Environment and energy
 - Aerospace and defence
 - Food, including the underpinning technology
 - Transport and distribution

Other sectors where there is not such a strong concentration but where there is also scope for further international activity include film, digital media and creative industries.

5. Problems with broadband are not currently perceived as a problem by Kent businesses and at present the infrastructure seems broadly comparable with other parts of the South East and London. However, the addressing capacity of businesses to fully exploit ICT to internationalise is potentially a low risk intervention to getting firms to take the first steps.

6. From the secondary research and interviews with Kent businesses, the barriers and drivers for internationalisation can be summarised as:

Barriers	Drivers
<ul style="list-style-type: none"> • No perceived need to internationalise – UK market is sufficient • Do not think business has international potential • Problems dealing with different cultures • Lack of managerial time knowledge and skills • Inability to contact potential overseas customers • Lack of finance 	<ul style="list-style-type: none"> • Overseas enquiries • Recommendations from personal contacts • Key manager has been exposed to internationalisation • Reduced barriers due to use of the internet • Innovation and R&D focus • Sector – manufacturing/production • Higher level skills

Of the barriers, lack of aspiration, low belief in international potential and managerial expertise is by far the highest. The age of the business is not found to be a factor in whether a firm is likely to be involved in international activity. Some businesses are active from start-up – “born global”.

7. There are a range of export support services available for businesses but they only kick in after the point at which a firm has made a firm decision to internationalise, and hence may not address the highest barriers which apply in the early stages. They also are narrowly focused on exporting rather than a wider view of internationalisation. Services are fragmented. New interventions would need to focus on getting businesses who are currently not engaged in any international activity to see the potential and show them how to take the first steps. Thereafter, existing services would be able to provide support and to help businesses progress through to become fully internationalised businesses. Early stage internationalising businesses would need continuing support over a period of time.
8. International practice shows that internationalisation and innovation are often closely associated, and that interventions are often successful if they combine the two,
9. Businesses have stated that they would welcome *practical* help, which would help them develop longer term strategies and then stay with them to help see plans into implementation.
10. Interventions aimed at supporting businesses will need to address the following:
- Raising the aspirations raising of Kent businesses to deal with the belief that internationalisation is not necessary
 - Leadership and management development for senior managers, with a focus on internationalisation – including exposure to international experiences
 - Support for business review to think afresh about the suitability of products and services for internationalisation
 - Finding easy first steps for businesses, including easy entry to EU markets.
 - Support for searching for new markets

- Networking and collaboration infrastructure to allow the initiation of new personal and business relationships
- Demonstration of new types of international business to overcome the fact that most exporters are mature businesses and may be perpetuating an older model of how it is done
- Supporting the exploitation of the internet and e-commerce as an entry to internationalisation
- Providing better and targeted information and advice to address the expressed need for external help
- Sectoral and cluster initiatives to work with businesses where there is a stronger potential for internationalisation

11. There appears to be potential in looking at the higher education role in internationalisation:

- HEIs are typically well linked to overseas institutions, and are increasingly involved in supporting business innovation
- Retention of graduates in Kent after they complete their studies may be important for the longer term capability of the County to internationalise
- Maintaining lifelong links between overseas students and Kent may be important in building the network of international contacts and relationships.

C2. The internationalisation journey

To help consider where new interventions might be most usefully be made and where existing services can be brought into more focus, we have developed a **three stage customer journey to internationalisation**, based on the responses we received from businesses. At each stage, interventions should be aimed at helping businesses **break through the barriers** to the next stage:

	Non-internationalised businesses	Partially internationalised businesses	Fully internationalised businesses
State of mind	<p>We don't need to internationalise</p> <p>Our business isn't suitable</p> <p>We don't have the time We don't know what to do We don't know the right people</p> <p>It will be too difficult</p>	<p>We'll do it if we get asked</p> <p>We don't have a plan for internationalisation</p> <p>If we could find the contacts we would do it</p>	<p>International business is an integral part of what we do</p> <p>Our future growth is tied to more internationalisation</p>
Current population	38,819 non-internationalised businesses	13,700 occasional exporters	4,566 regular exporters
Three stage progression	STAGE 1: ENGAGE	STAGE 2: INCUBATE	STAGE 3: GROW
Target	1,141 businesses to internationalise in 5 years	1,000 occasional exporters to become fully internationalised in 5 years	Close the gap to the regional average: Total of 2141 extra internationalised firms
Transform	<p>Raise aspirations/open eyes</p> <p>Demonstrate potential</p> <p>Management development</p> <p>No-risk try-outs (toe-dipping)</p>	<p>Identify markets, contacts and customers</p> <p>Firm up intentions and create action plan</p> <p>On-going support to aid progression</p>	<p>Identification of further markets</p> <p>New style collaborations</p>
Current services	Transmanche Enterprise Network Project (Canterbury and Medway) (to Sep 2011) EEN (from Jan. 2011)	EEN Chamber/IOD/FSB E Bay/Google	Business Link LIK UKTI IGT EEN Kent International Trade Club
New innovation and additional services required	<p>Awareness raising</p> <p>Exposure - See it for yourself</p> <p>International potential "audit"</p> <p>Make the first sale / First time in Europe</p> <p>International "test trading"</p> <p>Workshop programme</p> <p>Network building</p> <p>Internet and E Commerce routes</p>	<p>On-going support & Mentoring</p> <p>Leadership and management</p> <p>E-commerce</p> <p>Understanding culture, language and finance</p> <p>Sector/cluster collaboration</p>	

C.3. Recommendations

1. Kent businesses have as much potential for internationalisation as other areas. Except for a predominance of smaller firms, there appear to be no inherent reasons why the level of internationalisation cannot be at least the same as the regional average. **Kent should set a target to close the gap to the regional average within five years**, which would require 1,141 non-internationalised firms to become internationalised, and for a further 1,000 partially active firms to become fully internationalised. Empirical evidence shows that there will be significant gains for the County in terms of increased GVA and growth in the business stock.
2. Existing services are fragmented. More coherence is required, into which new services might be integrated. It is vital that this activity is co-ordinated to ensure high quality impact for the businesses and sub-regional economy as well as eradication of duplication and waste. It is recommended that, under the governance of the Kent International Advisory Board **an Internationalisation Forum ('Backing Kent Global Trade?') is set up** to include all interested parties including UKTI, Enterprise Europe Network, Business Link, Chambers, IOD, HMRC, HEIs, Medway Council, BSK-CiC, LIK, and clearing bank representatives. This forum, would meet twice a year to cover off all activity, co-ordinate activity across the county and monitor progress toward the five year targets.
3. New and different services are required. Existing services support those businesses which have already made the decision to internationalise. **New services are required at earlier stages to initially engage businesses and show them how to do it:**
 - To overcome initial barriers that prevent Kent businesses from considering internationalisation
 - To move businesses along a progression from early exploration to full internationalisation

New services should actively help businesses progress from a position of low aspiration and low knowledge, to first international activity, through to full internationalisation. We recommend a three stage approach:

Engage – Incubate – Grow

New services for Stages 1 & 2 would need to be targeted at smaller businesses and be suitable for the needs of SME owner/managers as well as those businesses with more sophisticated management infrastructure.

Existing services would cover Stage 3.

4. New services targeted at Stage 1: Engage should include:

Awareness and aspiration raising: making business people aware of the opportunities and bottom line benefits of internationalising their business or starting a business that is international at inception is the first step in 'raising the game' across Kent & Medway. While additional activity will help, there is a large amount that can be done by leveraging existing activity in a co-ordinated way using existing event and media such as Kent 2020 and KM Business; Partner activity can all be used to promote an active engagement with international trade.

(Examples: KM Business wrap around on internationalisation: circa £4,000 per copy; Publication of a quarterly Kent Bulletin for businesses collating all partner information on international trade and activity: circa £10,000 pa)

Helping businesses identify the international potential of their businesses – many Kent businesses contacted did not believe their business was suitable for internationalisation. An "international" health check or audit will be offered to help identify potential markets.

Developing ideas and skills for internationalisation: primarily this will be at the early stages of a customer journey as they begin to develop an 'inkling' that this is something they want to investigate. The gap is in 'qualifying' a business for international activity and in equipping them to manage this process themselves. The recommendation is for a workshop programme, with leads referrals coming from the support organisations across the county and direct 'calls to action' from the Awareness Raising activity:

Workshop 1: An introduction to international trade. This will 'qualify' businesses as suitable/ready to trade internationally and give them a practical overview of how to move their business or their idea forward in an international trade environment. Areas covered will include the support available; the potential investment required; processes and procedures that will be encountered; a broad 'how to' guide.

Workshop 2: An introduction to international markets. This workshop programme can be supplemented by other programmes like EEN that will provide specific information on a market (Europe) but will itself cover: Europe (including Ireland), USA, India and China. It will cover a 'how to' guide to exploring markets; some 'dos and don'ts'; a top level guide to the areas specified; sign posting to ongoing opportunities to explore specific topics.

Partner/programme specific Workshops: partners and funded programmes run workshops on a variety of topics relating to

international trade. These must be part of the ongoing customer journey from the first two Workshops.

First steps easy entry support : this would help take the perceived risk out of the first steps and would include workshops and sessions on using websites, the internet and e-commerce as ways to get started with international trade; and opportunities for “**test trading**” and “**First time in Europe**”, to show how businesses can get involved in our closest overseas markets. Enterprise Europe Network (EEN) will be providing a comprehensive Fit to Trade (in Europe) workshop programme, utilising the benefits of their Business and Technology Matching Tools service from January 2011, which will offer an excellent seedbed for International activity

Network and contact formation: showing businesses how to go about building networks with potential overseas collaborators and customers and providing access to contacts, tapping into the EEN information service and their new free service the Automatic Matching Tool.

Sector specific workshops and sessions: any of the workshops and other activities can and should be tailored for specific sectors, specifically those identified as having greatest potential in Kent:

- Pharmaceuticals, life sciences and healthcare
- Advanced engineering and marine
- Environment and energy
- Aerospace and defence
- Food, including the underpinning technology
- Transport and distribution

5. New services targeted at Stage 2: Incubate should include:

Workshop 3: detailed sessions helping businesses refine ideas and research done in Stage 1 and to develop an internationalisation plan which is fully integrated into the businesses long term business plan, with input on how to form networks, contacts, operating in overseas markets, etc

“**See it with your own eyes**” – mini- trade missions, focussing on near European markets; visits to and presentations from other firms already engaged in international activity

Continuing support: Mentoring: once a business person/company has undertaken the Workshops programme and makes a commitment to trading internationally they then require an International trade business

mentor. The data-base should be created from existing support organisations who are members of the Internationalisation Forum and be brokered by them on an ongoing basis. Ideally, a data-base and client matching service would be set up to deliver this across the county on the Forum's behalf, hosted by one of the partner organisations.

Advanced international e-commerce: in partnership with the IGT, this would look at the most advanced digital methods for creating international links and turning them into selling opportunities.

Sectoral collaboration: collaboration in the target sectors and clusters specifically aimed at moving occasional exporters into full fledged internationalised businesses. The aim would be to work with trade and professional bodies and chambers of commerce.

Skills: Up-skilling business owner/managers is central to increasing activity in this area. Building confidence and capability are vital and linking up to existing provision in a co-ordinated way will be both cost effective and relatively simple. For example, the Leadership and Management Service currently operated by Skills South East (in which BSK-CiC is a shareholder) offers a £500 grant to training and development with funding up to £1,000 if the company matches the second £500, total of £2,000. If a programme was available locally in International Trade Management this would be subsidised up to 50% and would stimulate understanding and activity across the county.

Apprenticeships: the availability of skilled administrative staff will also ensure that the capability of businesses to internationalise is strengthened. It is recommended that an Apprenticeship programme is established for young people to be trained in the core principles and practices of international trade documentation and administration.

6. At Stage 3 – Grow - the point at which businesses are committed to internationalisation, interventions should look at **bringing together support for innovation with support for international activity**. This plays to the existing focus of the Kent and Medway IGT.
7. Building on the EEN programme and TEN project in Canterbury and Medway, **the opportunities for EU collaboration and funding should be more actively exploited**. The forthcoming 2 Seas Trade project bid is a good example of how EU funding, and as importantly, EU links could be used to deliver a number of the services set out in these recommendations. The CIP and INTERREG programmes and other programmes highlighting the EU 'Lead Market Initiatives' should be fully explored. This will be important at a time when UK public funding will be in short supply.

8. The international links of the **universities should be fully exploited to help to create international contacts and networks for SMEs**, working closely with the IGT but not exclusively with IGT type clients.
9. **Exploit cultural opportunities for trade:** across the county there are significant links between communities in the county and communities overseas. For instance the 'twinning relationship' between Canterbury District and Certaldo in Italy has resulted in a trade mission to Kent with a reciprocal mission planned to Italy later this year. Communities in Medway will have cultural links with communities in India and Pakistan. Finally the links with Virginia and Kent County Council have resulted in ongoing business activity. Mapping the breadth of the links the county already has and then developing them as business relationships between the UK and overseas partners is an exciting opportunity.
10. **Fully use the window of the London 2012 Olympic and Paralympic Games:** the post Olympic period when visitor numbers are expected to rise markedly for two years or more is a key 'window' to develop further international trade links and get Kent companies 'fit to compete' in that significant time, setting a timescale to anything that is planned currently. The Fit To Supply workshops have been very successful, and the momentum could be maintained by following up with a "Fit to Trade" offering, possibly augmenting/piggy backing on the programme being launched by Enterprise Europe Network across the South East from January 2011.

Annex 1: Kent international Business Study - Questions to be answered

The study will address the following objectives and provide answers to the following questions.

1. To Determine current levels of internationalisation in Kent:

- What is the real scale of current international activity (trade, export etc) within Kent businesses and what is its value to the Kent economy?
- Which sectors (and key companies) are already engaged in international activity? What is the balance between the exporting of goods and services?
- How does Kent compare to other counties in the SE (benchmarking), why are these differences occurring?
- Are there any key markets which Kent companies already working internationally are accessing? Could these (or others) be considered priority markets for Kent?

2. Business Support in Kent for Internationalisation:

- What are the current business support activities which aim to raise the potential and capacity of Kent businesses to export (inc. Jigsaw and Business Link), and what is their impact? What is the role of the different agencies (UKTI, Chambers, Universities etc.) and how effective are their services?
- What opportunities exist to increase the export potential of Kent businesses, and to realise that potential?
- How could the Kent business support structures provide ongoing support to Kent businesses in this area?
- Is there an existing mechanism in Kent to identify “export-ready” companies in Kent and if not, could there be and how might this best operate?

3. Kent’s Export ‘Gap’:

- What is the Kent ‘exporting gap’, its measures, scale, structural nature and the reasons why it exists.
- Can the ‘exporting gap’ be closed or reduced? If so what actions are required by whom and with what resources? What is the value to the Kent economy of closing the gap?
- What are the barriers to Kent businesses exporting and how can these barriers be reduced?

4. Developing business internationalisation in Kent:

- What is the profile of businesses in Kent which have the potential to ‘internationalise’ (export, trade with international partners, expansion overseas)?
- How can the Business Support structures in Kent identify “internationalisation-ready” businesses on an ongoing basis

- How would progress in closing the 'exporting gap' be most effectively managed and measured
- What is the role of trade missions and trade fairs/shows in taking the internationalisation agenda forward with Kent businesses?

Annex 2: Sources searched for internationalisation data

The following data sources have been consulted (directly by phone in most cases)

- **ONS, Regional Statistics - Regional only**

http://www.statistics.gov.uk/downloads/theme_compendia/RegionalSnapshot/Directory.pdf

- **HMRC, UK Regional Trade in Goods Statistics – Regional only**

<https://www.uktradeinfo.com/pagecontent/downloads/RtsPRDataTablesQ309.pdf>

- **Enterprise Europe Network – Local/Regional** 01732 878588
- **UKTI SE – regional only** . Tel 08452 789 600
- **UKTI in London – regional/national** Tel: +44 (0)20 7215 4991
- **South East Business Monitor – local and regional**
- **SEEDA, National Business Survey – Local, Regional and National.**
- **SEEDA, RES Annual Monitoring Report November 2009 – Regional only**

http://www.seeda.co.uk/documentbank/RES_AMR_Exec_Summary_281009.pdf

- **SEEDA, Regional Intelligence Snapshot – Regional only**
- **FSB Snap Poll – regional only**
- **EEF Business Trends survey (quarterly) - regional only**
- **CBI survey of SE Manufacturers (quarterly) – regional only**
- **Community Innovation Survey (every 2 years) – regional/national**
- **BCC quarterly economic survey – regional only**
- **SEE-IN** <http://www.see-in.co.uk/welcome.html>

Eurostat data – national only

Locate in Kent, KCC & Chambers - telecons

European Commission, December 2007, Supporting the internationalisation of SMEs. Final report of the expert group.

http://ec.europa.eu/enterprise/newsroom/cf/document.cfm?action=display&doc_id=3433&userservice_id=1&request.id=0

UKTI, September 2006, Establishment level empirical study of links between exporting, innovation and productivity – CIS4

<https://www.uktradeinvest.gov.uk/ukti/fileDownload/ExportingProductivity2006.pdf?cid=422472>

Annex 3: Analysis of OECD, EU and UKTI studies

The annex contains an overview of recent global (OECD), European (European Commission) and national (UKTI) views on major enablers of, and barriers to, internationalisation. The first two reports are analysed according to context, followed by a discussion of the drivers and barriers to internationalisation, the support needed/offered and then the conclusions arising. Many extracts are direct and verbatim, overlaid where appropriate with original comment. The final report is different in that it considers the characteristics of exporters to determine, empirically, links between internationalisation, productivity and innovation.

OECD, (2009), *Top barriers and drivers to SME internationalisation*.

<http://www.oecd.org/dataoecd/16/26/43357832.pdf>

Context

In 2009, the OECD conducted a research study, using results from a 2007 OECD/APEC survey of internationalisation barriers for SMEs, and updating them with more recent evidence. The resulting report is truly global, written from a very high-level perspective – which largely discusses national behaviours rather than regional ones. Nevertheless, the quality and reach of the study are important, and its conclusions, whilst not perhaps surprising, do confirm certain presumed SME behaviours and problems.

Findings - Drivers

The motivations for internationalising are wide ranging. In some countries, less obvious motivations seem to be important (eg networking, improving national image) but in the UK the motivations are clearly business-focused – ie growth, profits, growing market size or reducing dependency on a single/small number of markets.

Findings - Barriers

There are a number of barriers to internationalisation, as shown below. In the UK, the biggest problems are factor 4¹¹ and a catch-all problem of lack of managerial time, knowledge and skills.

Table 1. Barriers ranked by SMEs using the top ten ranking method

Rank Weighted factor	Description of barrier
1	Shortage of working capital to finance exports
2	Identifying foreign business opportunities
3	Limited information to locate/analyse markets
4	Inability to contact potential overseas customers
5	Obtaining reliable foreign representation
6	Lack of managerial time to deal with internationalisation
7	Inadequate quantity of and/or untrained personnel for internationalisation
8	Difficulty in matching competitors prices

¹¹ Remember that Factor 2 is closely linked to Factor 4.

9	Lack of home government assistance/incentives
10	Excessive transportation costs

Source: OECD-APEC 2007

Findings - Support

Internationalisation support programmes tend to feature:

- access to finance (eg Export Credit Guarantee in UK)
- provision of information and contacts (eg UKTI's Passport to Export)
- managerial capacity (eg Scottish Enterprise's Global Company Development programme, a 6 month intervention for CEOs/SMTs of international SMEs)
- generic programmes for networking, acquisition of knowledge, growth motivation

Conclusions

The report concludes:

Drivers - Growth and knowledge-related motives are very influential in driving SME internationalisation. Growth-related factors appear to be increasingly important to SMEs, reflecting their rising appreciation of the international pathways and associated opportunities for future business growth. SMEs' stock of knowledge resources and quest to leverage knowledge assets residing in external actors also seem to respectively push and pull them into international markets.

Factors within the external environment of SMEs, including network and supply chain links, social ties, immigrant links, improved global trade infrastructure, and sector and region-of-origin factors also seem to stimulate firms' internationalisation. These 'soft' factors are inter-related and they reflect recently emerging trends, including, for example, the increasing importance of linkages within the lucrative supply systems and value chain network of larger global players. Such internationalisation-boosting links are more likely to be developed in sectors or regions/clusters with greater export intensity or a foreign buyers' presence, which suggests the importance of the firms sector and regional location. However, there is also some preliminary evidence in some European countries that growth-focused firms are also squeezed out of their domestic markets by foreign competitors entering the market.

Barriers - Limited firm resources and international contacts as well as lack of requisite managerial knowledge about internationalisation have remained critical constraints to SME internationalisation. These resource limitations, especially of a financial kind, seem particularly prevalent among smaller, newly internationalising SMEs. These barriers are essentially endogenous as they reflect the limitations of the investigated firms in regard to the key resources and capabilities they need to internationalise.

Support - The support provision of the reviewed economies generally include a range of measures for redressing observed financial, information, contact and managerial knowledge-related barriers to SME internationalisation. Some overlap was observed regarding assistance provision for barriers to/motivations for internationalisation, which is understandable given that support measures targeted at redressing internationalisation barriers may also serve to stimulate internationalisation among SMEs. There is an increasing tendency to take a sub-national approach to promoting SME internationalisation.

The OECD concludes that there is still much awareness raising to be done, that public/private partnerships could be a useful way forward (the example of a regional bank providing support in Finland is given), and regions should take note of good practice schemes (UKTI is one of these).

European Commission, December 2007, Supporting the internationalisation of SMEs. Final report of the expert group.

http://ec.europa.eu/enterprise/newsroom/cf/document.cfm?action=display&doc_id=3433&userservice_id=1&request.id=0

Context

This report begins by setting the scene - only 8% of EU27 SMEs export and only 12% of the inputs of an average SME are purchased abroad.

At the macro level, the report gives the following drivers¹² for internationalisation:

- An unprecedented lowering of trade barriers worldwide.
- Vastly improved logistics and communications systems available to all companies.
- The information technology revolution which has opened the way for greater technology and knowledge exchanges and the advent of new types of economic transactions such as e-commerce.

This means that trade can be conducted cheaper, faster, easier and over larger distances. It also means that previously non tradable services can be bought and sold. It has also opened up less accessible markets and the large emerging global players of Brazil, China, India and Russia. In addition, FDI flows have grown from less than 5% of global GDP in 1980 to over 15% in the late 1990's.

At the meso-level, the following evidence is presented for internationalisation. Internationalised companies are shown to have better capacity to innovate and grow. The 2002 OECD study *High-Growth SMEs and Employment* demonstrates that exporting is a precursor of strong growth. The link between exports and enhanced productivity/competitiveness is clearly established by numerous studies¹³ and specifically, firms with international sales have higher sales growth than firms that sell only domestically¹⁴.

Findings - Drivers

Extensive literature supports that **international orientation of decision makers** is a key determinant of the nature and extent of internationalisation. A survey of successful international UK SMEs identified the international commitment of the founders, entrepreneurial firm behaviour and pro-activity in foreign markets as key predictors of performance¹⁵. The firm age and the CEO age are the main predictors for becoming an internationally committed company¹⁶.

¹² Although in fact, it can be argued that Factor 2 and Factor 3 are facets of the same thing

¹³ As an example: Establishment level empirical study of links between exporting, innovation and productivity-CIS4⁷ Richard Harris and Q Cher Li, September 2006 [*this is based on UKTI data*]

¹⁴ Internationalisation of High-Tech Start-Ups and Fast Growth - Evidence for UK and Germany, Burgel, O.; Fier, A.; Licht, G. and Murray G.C.; ZEW discussion paper No. 00-35, 2000

¹⁵ Micromultinational research project, Report for Scottish Enterprise, Glasgow May 2003

Because exposure to internationalisation is a main driver to internationalisation, it could be said that internationalisation is a “closed loop” where previous experience is the best guarantee to “future appetite”: internationalisation breeds internationalisation.¹⁷

Findings - Barriers

This report uses the OECD barriers previously illustrated, believing them to be supported by other literature/surveys as well. It goes on to analyse the 3 catch-all barriers in some depth.

- Insufficient managerial time and/or skills required for internationalisation
- Lack of financial resources
- Lack of knowledge of foreign markets, mostly consequence of the previous two

Successful and sustainable internationalisation requires an internationalisation strategy and the acquisition of a series of capacities, abilities and resources prior or at the first steps of internationalisation. This is probably the explanation for the proven relationship between competitiveness and internationalisation¹⁸. Interestingly this relationship between internationalisation and productivity at firm level is valid both for exports and imports - the latter being consistent with knowledge and technology acquisition through imports of intermediates and capital goods.

Empirical research has associated successful small firms with greater skills in organisational learning¹⁹ and strategy development²⁰. Numerous studies have shown that companies with a structured market strategy are more active exporters than firms lacking formal planning²¹. The more systematic the selection of foreign target markets, the higher the export performance will be for SMEs. Regardless of the specific name

¹⁶ “International activities in small firms: examining factors influencing the internationalisation and export growth of small firms” Andersson, S.; Gabrielsson, J. and Wictor, I.; Canadian journal of administrative sciences,; Mar 2004; 21,1

¹⁷ The internationalization of small and medium sized firms: the role of organizational learning effort and entrepreneurial orientation” De Clercq, D., Sapienza, H.J. and Crijns, H., Vlerick Leuven Gent Working paper series 2003/19

¹⁸ A list of relevant literature can be found in “SMEs, FDI and financial constraints” by De Maeseeneire, W. and Claeys, T.

¹⁹ Chaston, I., B. Badger, T. Mangles, and E. Sadler-Smith (2001). “Organizational Learning Style,

Competencies, and Learning Systems in Small, UK Manufacturing Firms,” *International Journal of Operations and Production Management* 21(11), 1417–1432.

²⁰ Julien, P. A., and C. Ramangalahy (2003). “Competitive Strategy and Performance of Exporting SMEs: An Empirical Investigation of the Impact of Their Export Information Search and Competencies,” *Entrepreneurship Theory and Practice* 27(3), 227

²¹ Diamantopoulos and Inglis 1988; Burton and Schlegelmilch 1987; Denis and Depelteau 1985; Cavusgil 1984; Cavusgil and Nevin 1981

being used, organisational capabilities are consistently found to be important in explaining sustainable growth within the small business development literature²².

However, there is a severe general SME lack of international strategy - this is closely related to firm size. In general, the smaller the SME, the less structured the management procedures. This is coupled with a tendency to making opportunistic rather than systematic strategic decisions. This naturally results in SMEs using support services in a rather haphazard and ad hoc manner, rather than as part of a strategic approach to internationalisation.

Findings - Support

There are commonalities between all competitiveness policies. For example, innovation support requires the same general approach as internationalisation - the promotion of management skills, supporting the creation of trans-national networks, bridging the financial gap etc.

In addition to sharing common drivers, SME innovation and internationalisation are inversely related to the size of the company and share the same main barriers: lack of financial resources and lack of management skills. Another area of potential synergy between innovation and internationalisation is in the management of support programmes to “born globals”. These are companies usually associated with a new technological development that internationalise extensively shortly after inception and in a very short period of time.

Building on this and on the proven relationship between technology, knowledge, productivity and exports²³ a trend is starting to appear in the most advanced countries towards integrating policies for competitiveness and growth. Internationalisation is starting to be merged with the other (particularly innovation) policies and they are starting to be seen as part of the same issue: policies to enhance sustainable long term competitiveness. Interestingly, in Norway, innovation, internationalisation and regional development are considered as being interlinked.

The graph below²⁴ shows that there is a direct relationship between wealth and export of high value added production. As sectors and progressively countries move up the value chain the rationale for the integration of internationalisation and innovation into a single set of competitiveness policies becomes more evident.

²² The 2 previously cited and Dickson, P.,W. Schneier, P. Lawrence, and R. Hytry (1995). “Managing Design in Small High-Growth Companies,” *The Journal of Product Innovation Management* 12(5), 406–415

²³ “Exports and economic performance”, Aart Kray and “Lessons from empirical research on international technology diffusion through trade and foreign direct investment”, B. Hoekman and B.

Smarzynska Javorcik, both in “Global integration and Technology transfer” edited by B. Hoekman and B.Smarzynska Javorcik (2006). Also “Review of the Literature: the role of international trade and investment in business growth and development” Harris, R. and Cher Li, Q., September 2005, UKTI, DTIref:UKTILITREV 05/01

²⁴ Extracted from « Global benchmark report 2006. Ready for globalisation ? », p.77, Dansk Industri

Wealth through upmarket product exports

GDP per capita, adjusted for purchasing power (2004)



A range of support mechanisms are considered:

- Individual one to one programmes – expensive but with high added value. These range from ‘internationalisation-ready checks’ to more complex issues
- Finance programmes – mostly these offer export-credit insurance, international credit rating, factoring, venture capital, payment habits, leasing and checklists. However, there is a lack of debt/equity finance to enable SMEs to consider/implement internationalisation
- Networks – either the support agency has a network of offices or sometimes SMEs are encouraged to network together across borders – the latter is more likely to happen in mainland Europe than the UK.
- Sectors – some sectors (eg high tech, advanced manufacturing, knowledge based industries) are more likely to internationalise than others. This means support needs to be specialised and focused geographically

Conclusions

This report does not draw many conclusions regarding internationalisation drivers beyond stating that the Internal Market (either cross-border, within the widest EU, and/or to New Member States) is still vastly under-exploited. If it was utilised more it would satisfy the internationalisation aspirations of many/most SMEs. This is less true of SMEs in the UK as they have historical trading links with other blocs – English speaking ones in particular.

The key barriers have been identified already. The report focuses on support mechanisms as solutions.

Support

The report states that effective policies still need to raise awareness, but self-evidently it will be better to introduce/enhance internal capabilities in firms, rather than just subsidising them. In the longer term, the EC believes that promoting an international entrepreneurial environment via language education and the academic curricula is a key way forward – because it will instil an international outlook in entrepreneurs – thus helping to embed the theory that ‘internationalisation breeds internationalisation’.

In the medium term, internationalisation strategies need to:

- Involve all direct stakeholders in developing both policies and programmes, eg national and regional governments, business associations, business support associations and banks
- Consider internationalisation as part of a suite of policies to enhance competitiveness. As countries progress up the value-added ladder this may lead to merging internationalisation and innovation programme. Inside Europe this is already starting to happen, particularly in Ireland, Finland and Norway
- Have a main effort directed towards having more internationalised companies rather than focusing on those companies with the largest potential [*controversial!*]
- In order to be able to support the largest number of SMEs, programmes and policies must focus on the main barriers to SME internationalisation: lack of financial resources, lack of skills and lack of information.
- Raise awareness of internationalisation (still)
- Provide individualised SME support. Effective long term support must be based on the creation of capacities inside the SME. The report states that this type of intervention has the greatest additionality²⁵ [*UK business support policy follows a mixed approach*]
- Filter and analyse companies prior to providing any support and adapting the mix of (usually) standardised support programmes to create a company specific plan
- Internationalisation agencies have to become customer led and customer centred and, where possible within the national context, consider merging FDI with export with other business support. Examples include Malta, Ireland and the Netherlands

UKTI, September 2006, Establishment level empirical study of links between exporting, innovation and productivity – CIS4

<https://www.uktradeinvest.gov.uk/ukti/fileDownload/ExportingProductivity2006.pdf?cid=422472>

Context

Although this report is slightly old, it is still the most detailed investigation available using empirical data. Indeed it is cited for this very reason in other works, including the EC report discussed above. Unlike the previous 2 reports, it is UK specific. Much of this section is taken verbatim from the report.

The aim of the report is to use merged data from the 2005 Community Innovation Survey (CIS4) and the Annual Respondents database (ARD), covering both manufacturing and services, to both update and extend the earlier analysis using CIS3 data in order to:

- provide summary data on the characteristics of establishments that export vis-à-vis those that do not, including innovation behaviour. The analysis also includes information which captures the growth pattern of the establishment;
- undertake appropriate formal modelling and statistical analysis to (a) investigate the determinants of exporting; and (b) consider whether the existence or otherwise of barriers to exporting or to export expansion can be established;

²⁵ In the case of the UK almost 10,000 SMEs have passed through or are on the programme Passport to export since November 2001. The results for April/June 2007 indicate an estimated benefit of £244,000 per SME and a satisfaction level of 87%.

- undertake appropriate formal modelling and statistical analysis to investigate the role of exporting and international linkages in (a) innovation performance, both in terms of R&D investment and in terms of other innovation variables; and (b) productivity, taking account of possible export-innovation linkages;
- Where possible, replicate the methodology used in the previous study based on CIS3 data, to allow comparison of results between CIS3 and CIS4, and identify and comment on any differences found;
- extend the analysis using both CIS3 and CIS4, in particular to shed further light on (a) causality of links between exporting, innovation, and productivity; (b) possible links between establishment growth, exporting, and innovation, also considering any implications of such links for endogeneity of relationships found between size and export and innovation performance; (c) the extent to which there may be distinct characteristics of early internationalising companies, as suggested by literature references to 'born global' companies; and (d) whether size or age bands can be identified which may indicate threshold barriers to exporting, or within which links between establishment growth and exporting, or between exporting, innovation, and productivity, seem to be particularly strong and may have relevance to policy targeting.

Numbers exporting by sector/region/size

CIS3 data shows that in 2000 just over 26 % of UK firms (employing 10 or more employees) exported (although nearly 44 % did so in the manufacturing sector and only some 15.6 % in services). In 2004, approximately the same proportion of firms exported, but there are important differences across industry groups. In manufacturing, the proportion that exported increased from nearly 44 % to some 47 %; for those non-manufacturing industries covered in both surveys (i.e. excluding the sale and repair of vehicles; retailing; and hotels and restaurants), the proportion involved in exporting increased from 15.6 % to some 26 %. The increase in both manufacturing and non-manufacturing exporter percentages in 2004, whilst the overall percentage of exporters remains the same between 2000 and 2004 is explained by the fact there are more firms in existence in 2004.

The manufacturing sub-sectors with the highest propensities to export in 2004 are chemicals, basic metals, and machinery & equipment. In 2000 textiles and medical & precision instruments have the highest likelihood of exporting. For non-manufacturing, the sectors with the highest propensities to export in 2004 are the R&D sector, transport support, wholesale trade and computing. In 2000 the R&D sector, wholesale trade, and computing have the highest likelihood of exporting²⁶.

In terms of differences across Government Office regions, Northern Ireland has the highest percentage of *manufacturing* establishments that export in both 2000 and 2004 while London has the fewest proportion of its manufacturing establishments engaged in exporting. However, the differences across regions have narrowed between 2000 and 2004. When non-manufacturing is considered, regional rankings are very different with London and the South East having a higher percentage of establishments that export in both years, while the South West and North East have the lowest proportion.

²⁶ NB if this research exercise was conducted now, with changes to SIC codes, it is likely that one could be a lot more accurate in pinpointing sub-sectors.

Exporting increases with firm size (more so in the manufacturing sector with over three-quarters of firms employing 250 or more workers engaged in exporting), although there is some evidence that the relationship between exporting and size weakened over time. It is also shown that for manufacturing the largest difference between 2000 and 2004 is the increase in export propensities in the smallest size-band. This either suggests that this sub-group have become much more involved in exporting (which is likely the case), and/or the doubling of the sample-size between the CIS3 and CIS4 surveys has produced better information for the smallest firms (which is also likely to be true).

Exporter characteristics

Absorptive capacity is much higher in those establishments that export. In 2004 exporters in both manufacturing and non-manufacturing have overall similar average values for this variable while in 2000 exporting establishments in non-manufacturing have overall much lower average levels of absorptive capacity. This suggests that there has been a significant increase in the use of external knowledge for innovation related activities in those non-manufacturing establishments that exported in 2004, compared to 2000.

There is no statistically significant difference in the mean value of the labour productivity variable when considering those that exported and those that did not, irrespective of sector. Part of the reason is shown to be the influence of large outlier values in this variable. In 2004, the relationship between labour productivity and the propensity to export is positive and significant in both manufacturing and non-manufacturing.

Establishments that export are significantly more likely to engage in (continuous) R&D and to be innovative (as measured by whether they produced new product and/or process innovations, whether novel or otherwise). We also find that (i) the strength of the relationships increased between 2000 and 2004 with exporters much more likely to be engaged in R&D and innovating; and (ii) the importance of R&D and innovation for exporters in services increased significantly between 2000 and 2004. For manufacturing, in 2000 13.5 % of manufacturers engaged in both exporting and spending on R&D while in 2004 this had risen to 25.1 %; in non-manufacturing the comparable increase was from 3.6 to 8.5 %;

In 2000, manufacturing establishments that exported were over 3 times more likely to co-operate with others in their innovative activities while the ratio was nearly 10:1 for those engaged in *international* cooperation on innovation. Such cooperation is also important in the non-manufacturing sector, but to a significantly lesser extent. In 2004, the difference in the proportion that engaged in co-operation activities between exporters and non-exporters is slightly less stark, but it seems mainly because such co-operation has increased for all establishments (whether they exported or not).

'High cost of innovation' as a barrier to innovative activities does not seem to be related to whether an establishment exports or not, based upon a comparison of mean values in 2000. However, in 2004, establishments that exported (in both the manufacturing and non-manufacturing sectors) are more likely to report that the high cost of innovation was a barrier to innovation.

Establishments that exported are more likely to receive support from the public sector, particularly in manufacturing and even more so by 2004.

Exporters in the manufacturing sector are also shown to be more capital intensive and older (in both 2000 and 2004); they also operate (on average) in more concentrated industries (i.e. those dominated by a smaller number of relatively larger firms), which might suggest that in such industries there is more of a need to export to avoid oligopolistic market practices.

Locational Factors

Agglomeration economies²⁷ also seem to be more important for exporting establishments, but diversification in the local authority where they operate is not (on average) significantly higher or lower for manufacturing establishments that export (although in 2004 there is some evidence to suggest non-exporters operate in more diversified localities). In contrast, in the non-manufacturing sector, agglomeration is important (in much the same way as in manufacturing). However, non-manufacturing exporters are more likely to operate in diversified areas (especially in 2004), which is different to the results obtained for the manufacturing sector.

Firms which sell nationally are more likely to export (this is particularly true in manufacturing). They are less likely to export if they are a single plant manufacturing enterprise. They are more likely to export if they belonged to a multi-region multi-plant firm, and/or operated in more than one industry (thus gaining from economies of scope), and/or are foreign-owned.

For the majority of industries there is no significant difference in the percentage that export on the basis of whether the establishment was less than 5 years old or not. One explanation for these results is that age may be less important as a factor determining exporting behaviour, given the recent importance placed on 'born global' companies alongside greater access to global markets.

Lastly, the difference in the results for foreign ownership between 2000 and 2004 are very interesting. The growth in the proportion of exporting establishments that are foreign owned suggest that those that export have been a particular target for takeover by MNE's.

Re-enforcing the link between innovation and internationalisation

Exporters in both 2000 and 2004 generally account for larger shares of R&D than might be expected by the amount of sales they generate. By 2004, the UK-owned exporter sub-group has the highest level of R&D intensity, which coincided with over 43 % of all R&D undertaken in UK.

Those establishments with the highest turnover growth rates (i.e. above 20 %) account for the majority of all R&D spending, with a considerable amount of all R&D spending being concentrated in the highest growth *UK-owned* exporting firms. Overall, these firms have generally the highest levels of R&D intensity.

²⁷ Where firms in the same industry are located close to one another, which can be the emergence of a cluster

For manufacturing firms when we take account of the simultaneous relationship between exporting and R&D, the impact of R&D on exporting is between 7 – 11%. For non-manufacturing firms the equivalent figure is around 2%.

Conclusions from the report

The key issue is: are barriers to internationalisation due principally to market failures or are they more to do with absorptive capacity and dynamic capabilities in firms?

The empirical evidence suggests that it is the characteristics of the establishment that play the major role in determining whether it can overcome entry barriers. Government policy to improve productivity (especially through boosting R&D and other innovative activities) helps to improve capabilities and thus clearly plays a role which perhaps needs to be more fully recognised when promoting internationalisation. Thus, if firms need first to have the capabilities to enter international markets, and (strict) market failures are *relatively* less important as barriers, then this may raise some issues about the *relative* effectiveness of policy at the present.

Another significant issue is whether firms/plants that internationalise are more productive (and thus potentially achieve higher growth) than non-exporting firms.

The evidence in the literature on this is fairly unanimous that they are, and we have provided empirical evidence in this report confirming the role of productivity in determining which establishments export. We also report that there is a strong correlation between sales growth and exporting (and spending on R&D).

However, the issue then becomes one of whether this is a requirement of internationalisation and/or whether firms become more productive when they enter export markets as a result of a 'learning-by-exporting' effect.

If firms have to have certain attributes in advance that result in higher productivity, to allow them to overcome the sunk costs of entry, then 'self-selection' is likely to dominate. Unfortunately, the data is not able to provide any direct evidence on this issue of whether there is any 'learning-by-exporting' effect; however, we are able to confirm that those establishments that export do have certain characteristics that result in their being more likely to export, and that these are linked to higher productivity (e.g. size, absorptive capacity, undertaking R&D, involvement in cooperation). We are also able to show that establishments that export have higher TFP relative to non-exporters. But as to whether the factors associated with TFP (and thus productivity itself) improve post-entry (as opposed to need to be in-place pre-entry) cannot be tested - thus this is an area for future UK empirical research.

Another area where there is need for further work concerns the relationship between the age of the establishment/firm and whether exporting takes place.

We found that the percentage of establishments that export that were less than 5 years old is not very different to the percentage of older establishments that export (suggesting that 'born-global' or 'early internationalisation' of firms may be becoming more prevalent in recent years). However, when we examined the characteristics of exporters differentiating by age, there was evidence that suggests that 'younger' exporters have higher absorptive capacity levels (i.e. internalisation of external knowledge), and are

more likely to innovate (such results were strongest for non-manufacturing establishments). We also found a large relative increase in the propensity to export of the smallest establishments when comparing 2001 with 2005 CIS data. This is very likely to be linked to the age-exporting relationship, and in addition suggests that the relationship between the likelihood of exporting and employment size has weakened over the short time period of this study.

Annex 4: National roll out of next generation broadband and wireless coverage

The Next Generation Final Third project. Next generation broadband networks offer not just conventional high definition video entertainment and games, but also more revolutionary applications including tele-presence, allowing for much more flexible working patterns, e-healthcare in the home, and access to cloud computing²⁸ which should substantially cuts costs and allows much more rapid product and service innovation.

By Summer 2009, speeds of 50Mbps and above will be available to all households covered by the Virgin Media Ltd's national cable network: some 50% of UK homes. BT Group plc has been encouraged to respond competitively to accelerate their plans for the mix of fibre to the cabinet and fibre to the home. BT's enhanced network will cover the first 1,000,000 homes in their network. The £100m Yorkshire Digital Region programme approved in Budget 2009 will also provide a useful regional testbed.

The Government believes that the case is made for the desirability of such next generation networks being available to the large majority of the UK population. It is also persuaded that the economics of network deployment, whether fixed or next-generation mobile, mean that true superfast broadband will be concentrated in the first two thirds of the market in the next decade, leaving the 'final third' served only with current generation broadband. This would be undesirable.

It believes the fairest and most efficient means of ensuring that the overwhelming majority of the country has access to next generation broadband is to share some of that saving and create an independent Next Generation Fund, (payable by consumers and confirmed in the pre-Budget report) based on a supplement of 50 pence per month on all fixed copper lines. The Fund will be available on a tender basis to any operator to deliver and will provide a part subsidy for the deployment of next generation broadband to the 'final third' of homes and small businesses, bringing the cost of the initial deployment to the same level that operators face in the commercially economic parts of the market. The objectives of the Next Generation Fund are:

- To support Digital Britain's aim to roll out next generation networks to at least 90% of the UK by 2017;
- To support economic growth by incentivising market investment in communications infrastructure to meet the needs of businesses and households;
- To maximise links with the Government's Universal Service Commitment – a parallel broadband investment programme to ensure every community has access to 2Mbps broadband connection by 2012.

²⁸ enables businesses to use the internet to store and access software and data and share resources. Results in a lower carbon footprint, less investment in computing equipment, access to cost effective technology solutions that can be used quickly, cheaply and less disruptively.

The Government is now consulting on the most effective way to deploy the investment and will soon appoint a procurement team to oversee the delivery and management of Next Generation Access (NGA). The consultation considers issues that will inform the role of the procurement team. These include ensuring there is competition within new networks to drive consumer choice and drive down internet service prices; whether the Fund should be deployed nationally, regionally or locally; and the best options for procurement.

In terms of the **wireless infrastructure**, Digital Britain sets out three objectives:

- a rapid transition to next generation high-speed mobile broadband;
- progress towards universal coverage in 3G and Next Generation Mobile, reliable coverage throughout the rail network and mobile coverage on the London Underground;
- maintaining a highly competitive mobile market.

Progress towards next generation mobile networks and greater coverage had been stymied by the differing circumstances and incentives of the existing mobile operators. To address these, various proposals have been accepted and will be implemented concerning spectrum provision and licences.

The aim of these proposals is to ensure that each of the five existing operators and potential new entrants can bid with a realistic opportunity of acquiring sufficient spectrum to build out a next generation mobile network capable of broadband speeds of 50Mbps in the main urban and suburban markets going down to perhaps 4-5Mbps in the more rural areas. At the same time, the Government aims to ensure that consumers can enjoy broadly the same degree of intense competition in the market in next generation mobile from as currently exists.

Before 2012/13, this is likely to provide in-building mobile speeds of perhaps 1Mbps but this could be boosted by an external aerial to get closer to the wider Universal Service Commitment. The Government and Ofcom are open to practical proposals from the operators on network sharing, particularly to achieve near-universality.

Areas with little or no broadband provision are likely to benefit from the investment with Ministers determined to ensure that homes and businesses in hard to reach communities are not left behind.

Government consultation

The Government has launched a consultation on the £1bn Next Generation Fund. This ends on 1st April <http://www.berr.gov.uk/files/file54154.pdf>. In summary, the questions are²⁹:

- Do respondents feel that the cost analysis for fixed-line Next Generation Access is still valid, and if not, what are the latest estimates?
- What do respondents feel is the minimum bandwidth requirements, both download and upload, in order to qualify as a Next Generation broadband service? Are the requirements above regarding quality of service, including

²⁹ These are actually taken verbatim from the Institute of Engineering and Technology's website. The BIS site was down at the time of writing.

- latency and reliability sufficient? What figures should we set on the bandwidth requirements?
- Do respondents have views how the Next Generation Fund will be used and in particular the focus on fixed line solutions?
 - What minimum criteria should we be looking at, bearing in mind the need for value for money, equity and flexibility?
 - What applications and services would not be able to be run over a network that has the criteria outlined as a minimum?
 - In your opinion, would a regional or National deployment be a more efficient and appropriate use of the Next Generation Fund, and why? What other options are open to HMG in creating competition in the procurement process?
 - What do you consider to be the optimum procurement approach or commercial model that balances the public sector's need to demonstrate value for money with private sector considerations?
 - Would an "outside in" or an "inside out" approach to delivery be more effective and why? Are there other approaches that should be considered?
 - Where should the Next Generation Fund be used to intervene in the first instance, in terms of either location, or market deployment, in order to minimise the risk of distorting the market, and not chill planned investment?
 - What do you see the risks to competition from providing public support for NGA roll-out and how can these be mitigated?
 - At what stage in the deployment cycle, such as time or penetration, should the Next Generation Fund cease intervention, and why?
 - Which areas of the UK should receive intervention from the Fund, and why?
 - Should the Government consider a claw back scheme, once the return on investment reaches a certain level?
 - If so, at what level of return on investment should this begin, and how should this be determined? For example, you could implement a sliding scale that increases as the return on investment increases.
 - Are there any other options HMG should consider to minimise deadweight?
 - Do respondents feel that Government is right in insisting all networks built with the use of the Fund should be open access?
 - Do respondents believe that active line access is the right approach to achieve fixed access competition?
 - Do respondents feel that the proposed product, Generic Ethernet Access (GEA) is adequate, and if not, why not?
 - Do respondents feel that the same active access remedies should be applied in the areas that receive subsidy from the Next Generation Fund, or are there good reasons for not doing this?
 - How should compliance with any requirements to provide an active remedy be managed? For example, once you've imposed a supply obligation as part of a procurement process, what contractual provisions are necessary to ensure effective compliance, and how would these be enforced?
 - How might active remedies vary with time? For example, wavelength unbundling appears impractical now, but we expect it to become a realistic (and possibly attractive) option in 3-5 years time. How might the terms of any remedy imposed as a result of the procurement process be varied?
 - What other measures could be looked at by Government in terms of passive access, in order to introduce greater competition?

Annex 5: Interview questions and detailed responses

Each discussion was based on the following set of questions:

1. What would you say is meant by internationalisation?
{Outline what internationalisation actually means}
2. What are your reasons for internationalisation (or not)?
3. What is the stimulus – why do you internationalise?
4. If they have not done it – why not?
5. Who is/are the decision-makers behind internationalisation?
6. What are the barriers you have faced to internationalisation?
7. What countries do you currently internationalise with?
8. How did you get involved with them?
9. What would make it easier?
10. What would make you more interested?
11. With regard to exports, what do they feel about it in relation to your business?

 If yes and positive, why?

 If no, and do not see it as an option, why not?
12. If you wanted to find out about the potential of doing business in Europe, where would you go?
13. If already exporting, what percentage of total business is export?
14. What is the estimated value of exports?
15. Have they had any other external support? If yes, what?
16. What worked and what didn't work?
17. Was there any support they needed but could not find?
18. What support would you welcome?

- Opportunity to find out more about new ways of international working and the potential benefits
 - Help with finding contacts and networks
 - Review of internationalisation potential of my business
 - Support for developing an internationalisation action plan for my business
 - Opportunity to network with other business people interested in internationalisation
 - Chance to see the potential of international links with my own eyes
 - Business advice and support from an expert
 - Help with identifying potential markets
 - Development of management skills and capacity
 - Advice and training in relevant language(s) and culture(s)
19. To what extent are you using broadband and e-commerce to make contacts abroad?
20. What is your broadband connection like?

Summary of responses by individual question

1. What would you say is meant by internationalisation?
 - Expanding presence abroad, making a company more visible
 - Direct sales abroad
 - The integration of business abroad. Knowing the culture and how to work effectively within it
 - Covering the globe
 - Making people aware of the product outside of home market
 - Companies that are setting up subsidiaries
 - Poor word! UK companies expanding into other territories into cross-border organisations
 - Taking a format and transferring it/changing it to other languages for other countries
 - Selling services abroad
 - Becoming increasingly internationalised
 - Doesn't know

2. What are your reasons for internationalisation (or not)?
 - Have fallen into it by luck. There are three divisions within the company – commercial implementation, process and diving and marine – and it is the last division that internationalises. The product range is specialist with few global suppliers
 - It is one of the fundamentals of the business – to get involved with non-UK businesses to train in English business language
 - To increase client base
 - To explore new markets
 - The service is totally internet based so it is naturally a worldwide market
 - For export sales
 - Sales through overseas distributors
 - Development in conjunction with specialist universities
 - Strategic – for research
 - Exploitation of immature markets
 - Resilience for business, particularly as a result of the economic downturn
 - They have products that they know sell abroad
 - The service is not transferable and domestic markets are saturated
 - Import of materials and parts

3. What is the stimulus – why do you internationalise?
 - The UK market is shrinking so there is a need to diversify
 - As a response to enquiries from abroad
 - It is the basis of the business
 - There are no other companies in the world that provide the same service and products
 - Niche market
 - The market comes to them
 - It is a web-based service

- Partnerships linked to other websites
 - Integration of the product into other conducive services e.g. a booking service links to myTsafe as “would you like to keep a secure online copy of your personal information...”
 - Co-branding
 - It is fun!
 - Access to markets
 - To simply increase sales
 - To stop distributors competing with them
 - To get sales without having to do the groundwork in-house
 - The strategic need to research
 - To create resilience for the business, particularly as a result of the economic downturn
 - It is reactive as customers approach them
 - Attending trade exhibitions
 - Being aware of customer’s cultural differences
 - To become increasingly use dealing with other countries
4. If they have not done it – why not?
- The service is not transferable
 - The owner does not like going over the water
 - Totally focused on their current geographical location
5. Who is/are the decision-makers behind internationalisation? (in order or frequency)
- Managing Director/Owner
 - Senior Management
 - Sales Director
6. What are the barriers you have faced to internationalisation? (in order or frequency)
- Cultural and language barriers incl. different work ethics
 - Finding access to local markets and good local information
 - Exchange rate and currency fluctuations – particularly when importing spares
 - Lack of internal resources
 - Finding the right partners and distributors
 - Local bureaucracy
 - Increasingly aggressive pricing
 - Competition from the USA
 - Logistics and distance – time differences
 - Visas for businesses to come to the UK
 - The funding of travel
 - Purchasing in the UK – unreasonable pricing
 - Banking procedures
 - Money transfer
 - Costs for translation of literature
 - Time consuming
 - Saturated markets

7. What countries do you currently internationalise with? (in order or frequency)
- European Union (France, Germany, Holland, Italy, Ireland, Spain, Belgium, Greece, Slovenia)
 - Scandinavia (Denmark, Finland, Norway, Sweden)
 - India
 - USA
 - China
 - Non-EU Europe (Turkey, Slovenia)
 - Singapore
 - Malaysia
 - Philippines
 - New Zealand
 - Far East
 - Canada
 - Australia
 - Canada

8. How did you get involved with them? (in order or frequency)

- Approached by them
- They were recommended
- Through personal contacts
- Through the Transmanche Project
- Through UKTI Trade Missions
- Proactive efforts to find customers/partners
- The need to use a specialist supplier

9. What would make it easier?

- Help and advice on cultural differences
- Easier access to markets
- Having someone willing to take on products locally abroad and having help in finding them
- Help with effective marketing abroad
- Help with getting money up-front from countries that are traditionally bad payers
- Assistance on different human rights issues in other countries
- Help with finding and managing distributors – knowing how to do it
- Nothing. They just need more internal resources
- Knowing where to find information on potential customers

10. What would make you more interested?

Nothing – business is not transferable, unmanageable abroad or markets are already saturated

11. With regard to exports, what do they feel about it in relation to your business?

If yes and positive, why?

- Confident that they can provide products online and faster than any competitor so are extremely positive about building up exports
- It is the basis of the business
- It is how the business will grow
- Keeps the competition down
- Needed to grow the business further
- It is a global industry so it is an integral part of the business

If no, and do not see it as an option, why not?

- Not applicable to this business
- Simply not in the plan

12. If you wanted to find out about the potential of doing business in Europe, where would you go? (in order of frequency)

- UKTI
- Business Link
- Internet
- Local Chamber
- Start by talking to people and contacts they know already and are doing business with
- Through the EEN
- Industry group

13. If already exporting, what percentage of total business is export? (percentage of responses)

0-10%	40%
10-25%	10%
25-50%	10%
50%+	10%
Not known	10%
N/A	20%

14. What is the estimated value of exports?

Total of £752K (average of £94K per company who trades internationally)

15. Have they had any other external support? If yes, what? (in order of frequency)

- UKTI –Passport to Export
- UKTI – Other seminars and support
- Business Link – seminars and support
- Business Link – Transmarche project
- TEN Project
- Local Chamber of Commerce

- EEN support
- Local authority

16. What worked and what didn't work?

- UKTI being spread too thinly and not having enough time to spend with the business to make it quality help and support
- Passport to Export and other training was good
- EEN – good on specifics but they are not strategic
- Feels that support is targeted at companies with more than five employees
- Advice OK but does not provide real support
- Has found it hard to understand who provides what support in Kent
- Medway District Council (and others) want full business plans to be able to grant small amounts of money – the cost/benefit does not make it worth it
- All has worked so far
- It made them see the opportunities and are clearer on how to do things. They see what is happening on the ground

17. Was there any support they needed but could not find? (in order of frequency)

- Help with a firm action plan
- Links to Embassies
- Links and assistance in accessing good markets
- Strategic help
- Assistance with import/export documentation
- Web and search engine optimisation
- More support in pushing contacts and marketing
- Getting links into Chamber of Commerce in Turkey
- Good advice and contacts for relationship building
- Support for inward investment

18. What support would you welcome? (in order of frequency)

- Help with identifying potential markets
- Advice and training in relevant language(s) and culture(s)
- Business advice and support from an expert
- Support for developing an internationalisation action plan for my business
- Opportunity to network with other business people interested in internationalisation
- Development of management skills and capacity
- Review of the internationalization potential of my business
- Chance to see the potential of international links with my own eyes
- Opportunity to find out more about new ways of international working and the potential benefits
- Help with finding contacts and networks

19. To what extent are you using broadband and e-commerce to make contacts abroad? (percentage of responses)

Daily	60%
Often	0%
Sometimes	0%
Never	40%

20. What is your broadband connection like? (percentage of responses)

Excellent	20%
Very good	20%
Good	20%
OK/Average	30%
Poor/patchy	10%