Developing Superstar Exporters

BARCLAYS

KING'S College LONDON

The Policy Institute at King's

Developing Superstar Exporters

Superstar exporters are the engines of national exports in many countries. While businesses look to expand operations internationally, there is much to be gained through analysing patterns of global exporters and the barriers for diversification.

As the UK's economic recovery continues, many UK businesses are taking advantage of global opportunities and continuing to expand internationally[1]. By 2026, the total value of UK goods and services exports is predicted to increase from an estimated £536bn in 2016 to £880bn in 2026.

Superstar exporters are organisations that export 10 or more products in 10 or more overseas markets. These firms are the engines of national exports for many countries and today world trade is dominated by 'superstar' firms exporting products to multiple destinations. Superstar exporters are typically larger in nature, productive and more-likely to be foreign-owned than other firms. These exporters are usually more diversified and also benefit from economies of scope, which gives them a cost advantage over other firms and the ability to enter more markets and sell to more customers.

Superstar exporters are likely to start off exporting a variety of products to a few markets and expand over time, though most successful firms seem to be born large.

Firms do not need to be born global or exceptionally large in order to attain a superstar status unless they want to be the biggest exporters in the country. Small, domestic firms have the potential to grow and diversify to become superstars if provided with the appropriate support.

> "Looking at both the UK commercial landscape and the opportunity that international trade affords, it is no surprise that a key focus is placed on understanding that businesses require a more strategic outlook when seeking to expand locally and overseas. The approach may seem simple, however many organisations miss the opportunity to evaluate their own position within their existing market, as well as their core competences and financial capabilities, before committing to develop new products or target different international territories. When this is done businesses can establish robust local business models, positioning them well to optimise their human and financial capital, and providing the foundations to strategically and safely increase trade at home and in their chosen international markets."
>
> Russ Grazier,
>
> Head of Barclays ECA and London Trade & Working Capital

This report sheds light into how UK corporates can scale up and diversify their export operations internationally, the barriers to diversification and how Barclays can support their journey in becoming superstar exporters.

[1] UK trade outlook 2016 – 2026: what to expect in the next decade for UK exports

Exporting patterns of superstars

To become a diversified exporter, it is import to analyse exporting behaviours and patterns.

1. Multi-product firms' exports tend to be dominated by a single product

   Despite exporting a range of different products, studies have shown that a single product tends to dominate their superstar's export sales. One study showed that 70% of firms' export sales to a destination are of their best-selling products[2].

2. Exporters are more competent at producing and exporting some of their products than others

   Firms have an aptitude for the production of a certain variety and while they are able to produce a wider range of products, the further they are from this core competence, the less efficient they are at producing them resulting in higher costs of production.

3. The set of products exported by superstars differs across markets, although a 'common' core of exports does exist

   Superstar exporters don't necessarily sell the same set of products in each of their overseas markets. An example of French and Italian manufacturing firms revealed a high level of variation in product mix exported to different destinations. However, it was identified that a key sub-set of products were exported across all markets and accounted for a significant proportion of export revenues. These core products are more likely to be sold in markets with higher demand, where competition is more intense and not all the products are sold in large quantities.

4. The product mix exported by superstars changes frequently, with new products added and existing ones dropped

   Products that are more important to the firm's export revenues are less likely to be dropped while products further away from the firm's core competency are more likely to be dropped. Data from Slovenia indicates that the average exporter adds 7.9 products each year and drops 7.5, while in Hungary, almost 90% of manufacturing exporters added one or more products to their export mix in 2000 and a similarly dropped one or more products as well. Superstar exporters are highly responsive to their export markets, selling subtly different product ranges in each market and frequently churning their exported product mix emphasising the importance of market-specific knowledge and awareness of customer preferences.

5. Not all firm's exported product mix is produced by the firm itself

   Some exporters outsource their product mix to smaller firms as this leads to increased productivity and enables these exporters become more responsive in meeting customer demand and supplying products that complement their own-produced goods. This reveals how diversified exporters have the potential to deliver positive spillovers in their local area and nationally. This encourages existing exporters to expand thus drawing smaller firms into their supply chains and enabling these businesses the opportunity to also sell overseas and export indirectly.

[2] Developing 'superstar' exporters in the UK: A review of the evidence (September 2018)

Barriers to Diversification for UK Corporates

Historically, there have been certain barriers to diversification for business seeking to export internationally.

1. Export taxes influence the range of products exported

   One example into the Chinese government's decision to reduce the level of their export tax rebate (ETR), which concluded that firms reduced their product scope in response to the change. Products experiencing greater ETR reductions and those accounting for a smaller share of export revenues were found to be more likely to be dropped.

2. Heightened competition forces exporters to focus on their top products

   More intense competition in overseas markets can cause firms to skew their export sales towards their best-performing products, though they may not necessarily narrow their product range. The extent of competition is proxied by size of the destination market and its geographic location, with more foreign firms likely to be competing in larger and more centrally-located destination markets.

3. Financial constraints on the firm do not appear to have a big effect on the decision to enter new export markets

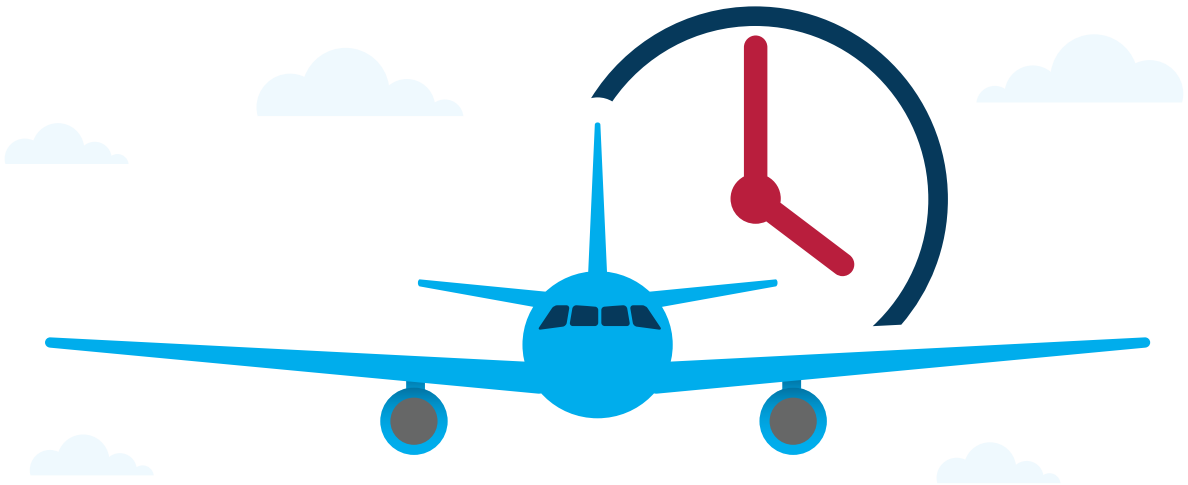
   Financial constraints on the firm reduce the probability of entering new export markets and increase the probability of exiting existing ones. However, the observed effect is only small, implying financial or credit constraints are not a major determinant of the choice of multi-product exporters.

4. Trade policy allowing increased access to export markets does not clearly encourage firms to export more or a higher volumes of products, though access to imports may be important

   Trade policy changes on the numbers of products exported is mixed. Research conducted in Belgium showed lower trade costs in a given market leads to more firms exporting to that market and each firm exporting a wider range of products. Trade policy also increases access to imported inputs that help firms expand their range of exported products.

5. Shifts in the real exchange rate motivate firms to reallocate exports across products and markets

   Destination exporters respond to exchange rate volatility in one market by reallocating exports away from that market and towards ones offering greater currency stability. It is fundamental for organisations to manage their own exposure to exchange rate risk and mitigate the effects of currency shifts in destination markets on aggregate export volumes.



How can exporters achieve Superstar status?

To encourage the growth of new superstars, specifically to support existing exports, it is important for UK corporates to make these important first steps:

Understand your business

Before considering expansion, businesses need to evaluate and understand their positioning in their current market, core competences and financial capabilities before committing to developing new product lines and targeting different regions.

Stay agile

Digital and sharing economies are dramatically changing production and consumption patterns across the globe, creating new business models and blurring the traditional division between manufacturer and service providers. With all this frequent change, businesses need to remain agile, develop new processes and broaden their range of export markets in order to become more resilient and to become more responsive to shifting consumer demand[1].

Broaden your horizons

With established ties, geographical location and cultural familiarity, the US and major EU countries will remain the dominant export destinations for many UK companies over the next decade. However, given the subdued growth prospects for most advanced economies, it would be wise to look further afield where expanding consumer markets and services industries in countries as diverse as India, Vietnam, the Philippines, Poland, Indonesia and the Baltics all hold major growth potential[1].

Keep informed on potential opportunities

Free-trade agreements (FTA) with other countries tend to result in lower tariffs and reduced barriers to trade, such as the harmonisation of product standards and simplified customs procedures. The potential for trade agreements to reduce barriers to trade will be particularly important for the UK, given its highly competitive position in services trade. Only a small proportion of UK services firms currently export overseas – around 10%, compared with some 40% of manufacturers – due in part to still significant barriers to trade in many services sectors, including within the EU. Many UK companies, including high-value manufacturers, would stand to gain over the next decade from more open and competitive international trade in services[1].

Take advantage of support available

The UK government has initiated a range of export promotion and support policies in recent years, typically motivated by the identification of market failures limiting firms' export performance. The government has sought to help firms overcome barriers to diversification through accurately estimating export benefits, helping them access appropriate social networks and facilitating entry into overseas markets. Some of the most popular export support and promotion services include: Department of International Trade (DIT), Post Significant Assists, UKEF, English Region Trade Advisors and Overseas Market Introduction Service (OMIS)[2].

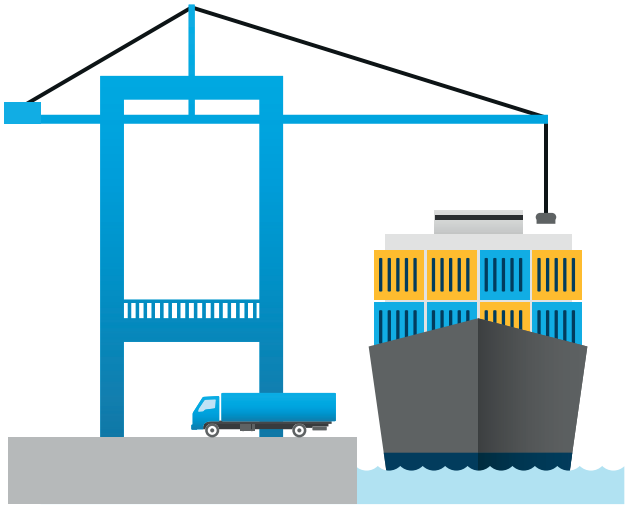
[1] UK trade outlook 2016 – 2026: what to expect in the next decade for UK exports

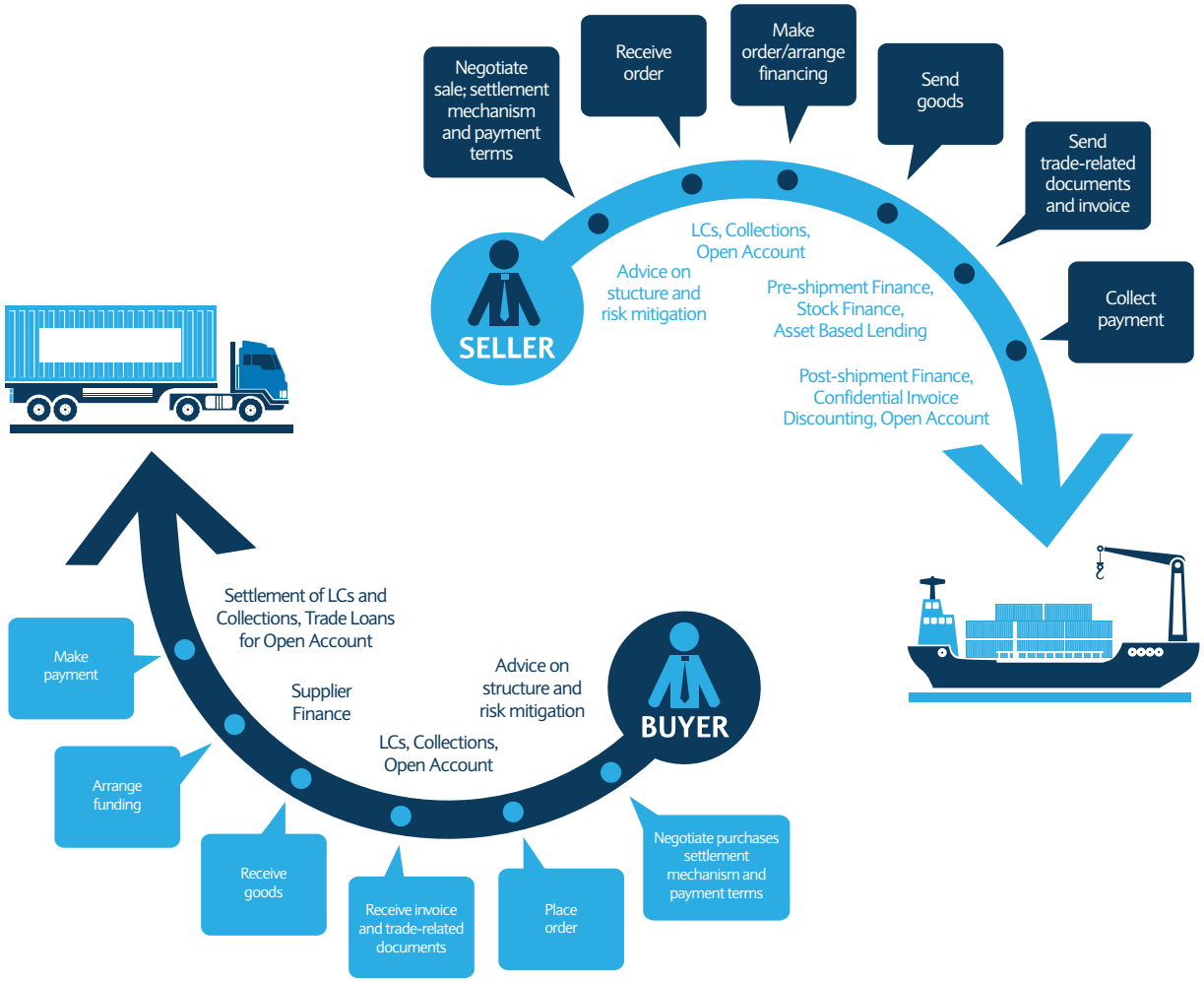
[2] Developing 'superstar' exporters in the UK: A review of the evidence (September 2018)

How can Barclays support your business' exporting needs

Barclays is committed to providing support and guidance to exporters and to signpost them where and when needed so you get the right support from the right people at the right time.

Through discussions with your bank and professionals and agencies such as DIT, UKEF, The Institute of Export, and the Chambers of Commerce, importers and exports can move into the world of international trade with genuine confidence.





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