

The Export Recovery Opportunity

November 2020

An analysis of British small businesses' attitudes towards export, perceived barriers to doing business internationally, and how overcoming these will be key to boosting growth and resilience in the wake of the Covid-19 pandemic.

Introduction

Britain's 5.9 million small businesses have long been considered the foundation of our economy. As of October this year, they employ 48% of the total British workforce and account for more than a third (36.3%) of its private sector turnover.

The Covid-19 pandemic has played the nation's small businesses a particularly tough hand this year. We've seen 80% of them experience a drop in revenue [McKinsey report, June 2020: How the COVID-19 crisis is affecting UK small and medium-size enterprises], with two out of three small firms saying they expect trading to get worse still during the months ahead [Research from King's Business School & Federation of Small Businesses, Oct 2020].

If we're going to reverse this trend, we must encourage and empower small businesses to look beyond the borders of the UK - and Europe - for growth. China's retail market has already bounced back to pre-pandemic levels: consumers are spending confidently and shopping even more than they were prior to the pandemic, and China is the only major economy expected to grow this year. Chinese consumption is going to be a serious driver of the global recovery - and UK SMEs can benefit.

Our latest research, conducted in October 2020 amongst 1,000 SMEs across the UK, reveals that many small businesses are unsure about how they can tap into the overseas trading opportunity. More than a quarter are telling themselves they're 'too small to export', while a fifth think there's 'no demand for their products outside Europe'. In fact, just 21% of British small businesses we sampled said they are planning to sell their products or services overseas during the next 12 months.

When we look at China in particular, the world's largest e-commerce market, we find that just 7% of small British businesses with export plans say they will look to China as their next international market, compared to 23% who would consider Africa, 37% North America and 52% who have their sights set on Europe.

Large companies have always been good at getting their products around the world. Now, technology is making it just as easy for small businesses - who may not be recognised brand names in their home market - to tap into this opportunity and to shine on a global stage. The scale, cultural difference, and the simple fact that it's far away mean that exporting to China can feel like a daunting prospect for a smaller company. But the opportunity is easier than many realise, and too big to ignore.

Demand for products from international brands - particularly from the UK, which was again one of the top ten markets for brands selling into China during this year's 11.11 Global Shopping Festival - has remained resilient and in fact grown over the course of this year. From luxury goods to health, beauty and nutrition, Chinese consumers hold 'Brand Britain' in extremely high regard for its quality and heritage.

As we move into 2021, I would urge all small businesses to review and consider the role that export can play in their growth plans, looking beyond the UK and beyond familiar markets, to explore the opportunities that lie further afield.

This report will provide an overview of some of our key research findings. It includes opinion from expert partners, first-hand experience and insight from British businesses who have found success in China, and some data and tips to help dispel myths around exporting.

David Lloyd

General Manager UK, Netherlands & Nordics at Alibaba Group.



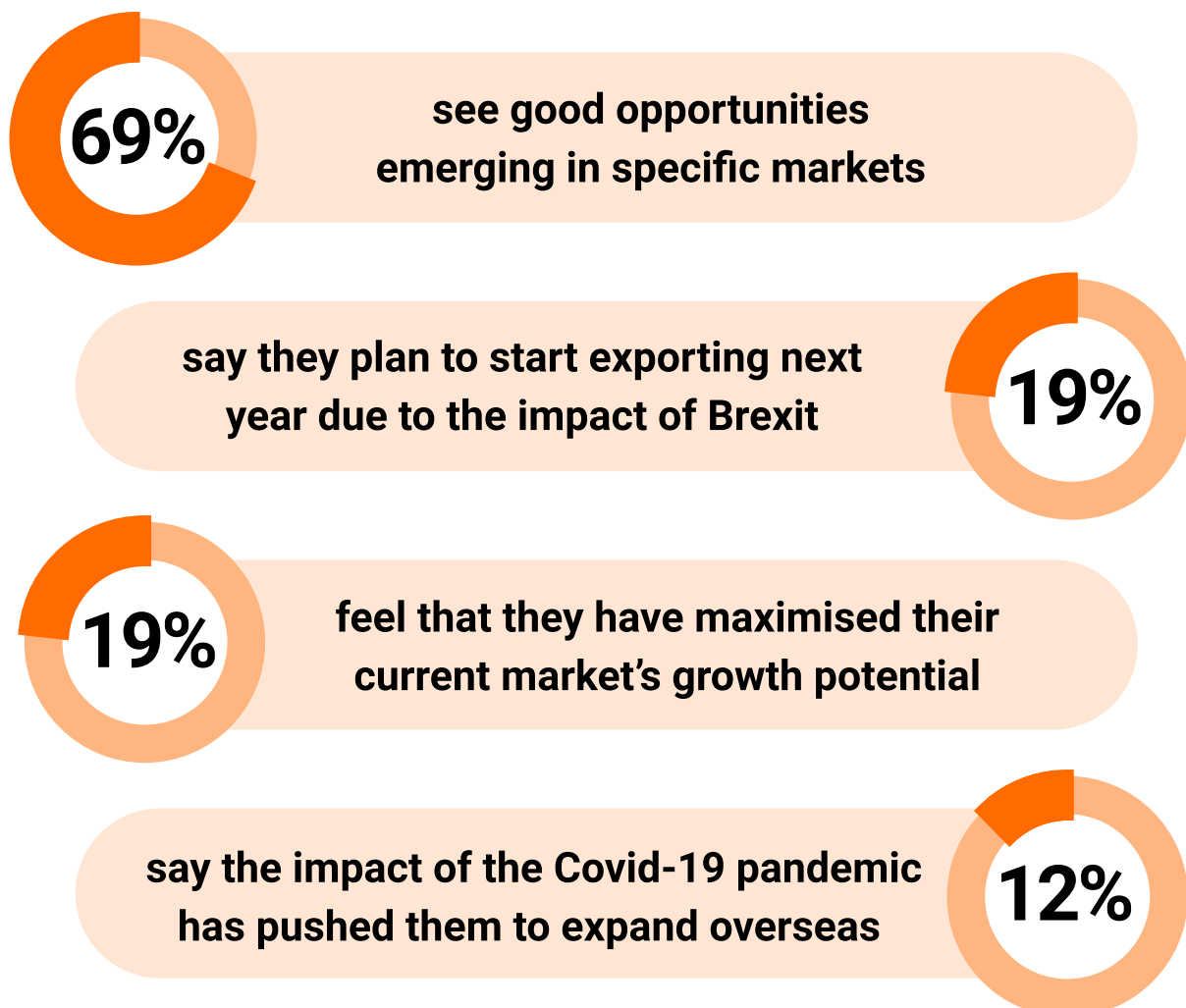
Market: global perspective

Our research shows us that, despite strong demand from international markets, just one in five small businesses in the UK are planning to do business overseas in the next year.

Export drivers

We asked small businesses who do have export plans for 2021 about the key factors which have prompted their decision to move into or expand their presence in an international market next year. It is encouraging to see that 61% of these businesses said they have already taken practical steps to begin this expansion process - a proactive step which will put them in a strong position to unlock maximum opportunity in their chosen market.

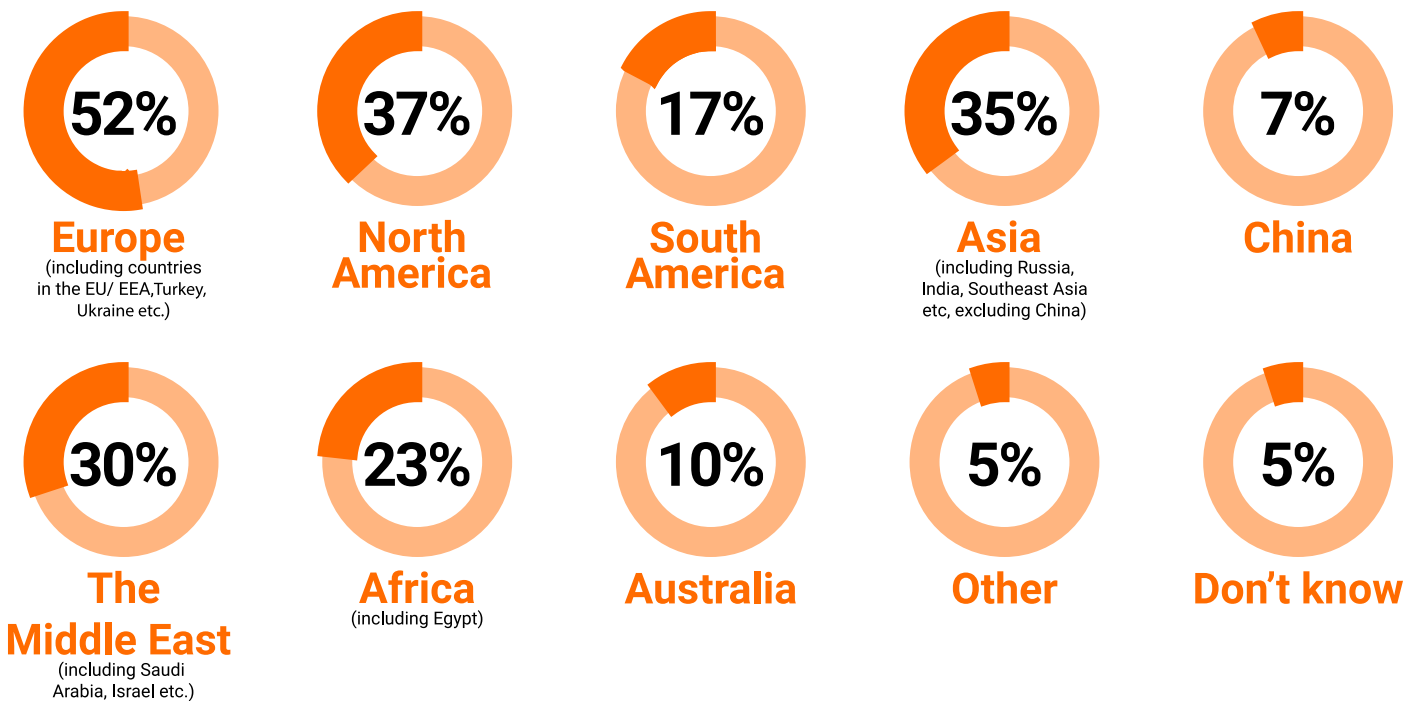
What is driving small businesses to consider exporting in the coming year?



Planned expansion

Of the businesses who said they are planning to start exporting in the next twelve months, the data uncovers a clear preference towards Europe as their next market for expansion.

Which of the following markets are small businesses planning to start exporting to, or expand presence within in the next 12 months?



Market selection

The table below gives an overview of the factors which are driving SMEs' export decisions, and how they are thinking strategically about expanding their international footprint. Although market size and belief in demand dominate, it is interesting to see the comparative strength of cultural familiarity, and the ability to communicate in English. The success and testimonials of peers continues to be an extremely important boost for SME confidence, with a combined total of 38% noting that their market selection is driven by having seen businesses of a similar size, or within a similar sector, succeed in a particular country.

What factors are driving small business decisions to choose their next market for expansion?

65%	We believe there is demand for our product in this market
40%	The large size of the market
36%	We believe this market offers high profitability
31%	Because we can communicate in English for this market
28%	We feel that this market is culturally familiar (e.g. to the UK, to those who work within our business etc.)
26%	We have seen businesses of a similar size to us have success in this market
25%	We believe it will be cost effective to expand into this market
21%	Our business understands the regulatory requirements to expand into this market
12%	We have seen businesses of a similar size to us have success in this market
8%	Brexit has prompted our business to look beyond Europe
8%	Someone that I/ a colleague knows (e.g. my/ their peer, colleague, friend etc.) has had success there

Percieved barriers

For small and growing businesses, whose leaders are already juggling a full and wide-ranging set of priorities, setting time aside to consider an export strategy can feel like an overwhelming task. From IP and regulatory concerns, to worries about cost and fulfilment, our research reveals a range of perceived barriers which are holding many small companies back from exploring international markets. However, these practical concerns are overshadowed by concerns which point to a confidence gap:

20% don't believe there is a strong enough demand for their product overseas



19% believe it's either too complicated or they don't know where to begin

27% believe they're too small to export





Market: China focus

Although China is the world's largest e-commerce market, we find that just 7% of small businesses with export ambitions say they will look to China as their next export market. There is a huge disconnect here between perception and reality, particularly when it comes to the importance of business size, and product demand. Demand for goods from international brands and businesses has remained resilient in China through the pandemic and continues to grow.

Analysis of the UK's trade data for the first eight months of the year, conducted by the China Britain Business Council, shows that British goods exported to China rose by 10.7% compared with the same period in 2019, with exports to China up by £837 million year to date.

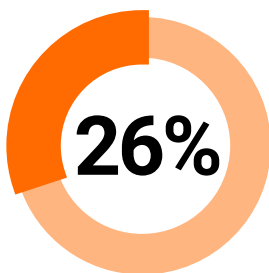
31,000 of the 250,000 brands from around the world that took part in this year's 11.11 Global Shopping Festival were from international markets, with more than 1,304 British brands participating.

The UK was once again one of the top ten markets for brands selling into China during the Festival, selling US \$ 494 million goods to Chinese consumers through Alibaba's platforms during the 11 days of the Festival.

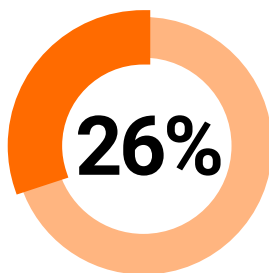
In fact, growing Welsh beauty tech company SmoothSkin featured alongside British tech giant Dyson in the top ten list of brands globally selling into China on Alibaba's cross border platforms during this period. In just one festival, those two brands showcase the breadth of opportunity available to British businesses in China - from large, to small.

China export: perceived barriers

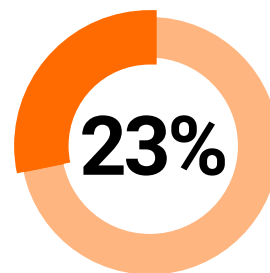
What is holding small businesses back from considering exporting to China?



26% think it's either too complicated or they don't know where to begin when it comes to exporting to China



More than a quarter assume there isn't demand for their product in China



23% think their business is too small to export to China



Antoaneta Becker, Director, Consumer Economy, China Britain Business Council

“China is undoubtedly one of the most exciting markets for UK consumer brands to focus on in 2021 post-pandemic and beyond Brexit. Few other major economies will emerge from this year of lockdowns and economic setbacks with brighter prospects for consumer recovery than China. Thanks to a combination of Chinese government policies seeking to boost domestic consumption post-Covid and “revenge spending” of Chinese consumers that have been denied the chances to travel internationally this year, we expect 2021 to be a year of demand and opportunity for quality UK consumer goods.

And yes, it is a different consumer market compared to anywhere else – with a unique business culture and completely autonomous digital and e-commerce systems. But the rewards are worth the investment in learning the market rules. At the China-Britain Business Council we can support UK consumer brands at every stage, from exploring potential market entry points, analysing brand performance in-market and optimising brand presence online, to directly engaging with Chinese consumers.”

For more information: <http://www.cbcc.org/consumers/>

Small business success stories

Supporting small businesses is in Alibaba's DNA, and we're extremely proud to work with thousands of SMEs across the UK to help them spot and unlock the potential to do business in China.

Below are some first-hand views from just a few of the brands we work with, sharing their insights and personal experience on their export journey in China, as well as tips for small businesses who may be starting to explore this market.



"There is a huge opportunity out there for small businesses"

Simon Boyd, Sales Director, Smoothskin:

"Selling our products in China has completely transformed our business. From employing fewer than 50 people back in 2017, we've now got more than 300 staff members and China is one of our largest markets globally. There is a huge opportunity out there for small businesses, you just need to make sure you go about it the right way.

"My advice for any small business considering entering China, is to spend time researching the market prior to the launch and find great partners to work with. You can then launch, test and learn quickly as you grow. China operates at a rapid pace and the quicker you can understand what the key trends are in your product category, the quicker you'll be able to adapt and grow your business in the market."



"Don't let your perceptions put you off"

Benji Lamb, Director of China Business Development, Vitabiotics:

"It's understandable why small businesses see China as a complicated market to trade with but the reality couldn't be further from the truth. By working with Alibaba, we're able to navigate all the challenges that often put small businesses off. From helping you understand how products are taxed and navigating customs, to helping you develop new products and market them, Alibaba provides a full end to end solution, that's set-up for small, as well as large, businesses. Don't let your perceptions put you off."



"It's sometimes easier to sell our products in China, than it is in the UK"

Stephen Shortt, Founder, Hawkins & Brimble:

"Small businesses can't let their size limit their expectations; you must have global expectations from the get-go. At Hawkins and Brimble, we employ fewer than ten people, yet we are on track to sell more than two million pounds worth of our stock to China in this calendar year alone. We even had to charter two freight planes to transport our products to China ahead of the 11.11 Global Shopping Festival, to ensure we were able to meet demand.

"In many ways, with the UK market being so dominated by the big four supermarkets, it's sometimes easier to sell our products in China, than it is in the UK."



Tapping into the China opportunity

Category trends

From luxury goods to health, beauty and nutrition, Chinese consumers hold 'Brand Britain' in extremely high regard for its quality and heritage. There is significant opportunity for British brands in all categories, when considering the size of the Chinese consumer and e-commerce market.

One category notable for its standout performance during 11.11 this year was **Health & Wellbeing**.

This category took \$15m USD in the first 10 minutes of the 11th day of 11:11 and was one of the highest-ranking categories for Tmall Global during the Festival this year - with overall sales up 50% year on year from 2019. With a focus on 'usefulness', some of the top selling categories included beauty supplements, with a focus on anti-aging, slimming and hydration - as well as preventative supplements.

Vitabiotics is just one example of a British brand which successfully tapped into this demand and saw 25% year on year sales growth from last year. The business launched its second store on Tmall Global to expand its audience in China just in time for the 2020 11.11 Global Shopping Festival. The second store aims to plug into the millennial consumers who are looking for premium products from overseas.

With a consumer base that is near 90% lactose intolerant, and a rising trend toward veganism, small British brands such as **Minor Figures**, also performed extremely well.

Also tapping in to this trend was **TensCare** - this year was the brand's second time taking part in 11.11. It sold £2.8 million worth of goods across the course of the eleven-day event, near tripling its year on year 11.11 sales from 2019.

Tools and technologies to connect

The pandemic has had a lasting impact on the relationship between consumers and brands across the globe, and most notably in China, where it has accelerated innovation in digital tools and technologies to engage consumers, who continue to look for unique experiences.

Innovation lies at the heart of the 11.11 Global Shopping Festival, which focuses not only on transactions, but on empowering businesses to take the opportunity to boost their bond with consumers and turn 'shoppers' into 'fans'.

Key technologies, shaping the future of shopping in China, that we can expect to see reach increasingly mainstream adoption across the globe, include:



Livestreaming

Once new and “nice to have,” livestreaming to educate consumers and sell products has taken centre stage in China’s online shopping, as consumers seek a fully immersive experience. As Alibaba founder and Executive Vice-Chairman Joe Tsai explains “shopping is a sport and entertainment.”

Over the course of the official 11.11 sales period, over 400 company executives and 300 celebrities stepped in front of the camera to interact with their customers and fans.

Case Study: Whittard of Chelsea

According to industry publication World Tea News, China accounts for 40% of the world’s tea consumption. The country’s younger generations, known for their curiosity and love for anything novel, are also fuelling new patterns of consumption and growing a thirst for overseas teas and tea-inspired products.

Whittard’s Tippy Assam black tea has become an instant favourite among young Chinese shoppers, since its malty and bold flavour profile is so well-suited for milk teas – a beverage that has stirred up a craze with Gen Z and Millennials in China.

“Our Tippy Assam has always been a staple in the UK,” said Lexie Morris, former China GM for Whittard of Chelsea. “But we were still surprised at how well it has performed in China. It took a little while for us to really understand why it was so popular.”

To further promote this tea to China’s young audience, Alibaba recommended Whittard host a livestreaming session with one of the country’s top Key Opinion Leaders, Viya.

The livestreamed session was a huge success. The brand went on to launch its own channel on Taobao Live on Oct. 21, in time for the pre-sales period of Alibaba’s 2020 11.11 Global Shopping Festival – the world’s largest single-day retail event.

“It has been a steep learning curve, but as a team, we have loved the opportunity to engage real time with our customers. Livestreaming has been the perfect opportunity to share all the wonderful stories behind our tea, coffee and cocoa,” Morris said.

Augmented Reality

AR technology has become increasingly important following the pandemic – particularly for brands in the fashion and beauty sectors. There is a huge opportunity for premium brands to tap into the power of technology in a post-Covid landscape, as consumers mark their return to spending confidence with a hunt for higher-quality products. With young luxury consumers driving the recovery of the sector, it's even more important that brands can engage with consumers online and leverage social commerce for brand discovery as well as sales.

Gamification

Part of brands' creativity in engaging fans can be seen through the use of AR-powered mobile games – the 'gamification' of the shopping experience. For merchants on Tmall, there are what are known as 'brand-loyalty scores', where consumers collect points for any and all actions that are made in a flagship store, from browsing products and adding items to their shopping carts to playing an interactive game and leaving a review. The higher the score, the more benefits they earn in the brand's "Fan Club," where they can also read branded posts, watch videos and see other options to interact with the brand to earn more points.