



Santander Trade Barometer

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Santander

Corporate & Commercial

Here to help you prosper

Foreword



John Carroll,
MD Products & International Business, Santander

The diversity, connectivity and innovation which underpins the UK economy has helped it regain a surer footing over the past ten years. However, we now face uncertainties with the potential to affect our trading relationships. Small and medium-sized businesses are at the heart of our economic resilience and Santander has made it a priority to support their international aspirations, in order to facilitate export-led growth in the UK.

As revealed in the inaugural Santander Trade Barometer, UK businesses remain confident in their international growth prospects over the next three years, but are also mindful of the need to navigate our future relationship with Europe and other key trading partners. Santander believes that if we help UK businesses expand in new markets, we can realise their innate confidence. The Santander Trade Barometer will inform and enhance our international activity; utilising our presence in ten major markets and wider global network of alliance banks to forge productive business partnerships for the millions of corporate and SME customers we serve world-wide.



Dr Rebecca Harding,
CEO Equant Analytics



Equant Analytics is delighted to support the Santander Trade Barometer. Our goal is to provide the data and analytics that demonstrates that trade matters.

The Barometer reveals acute awareness that the impact of Brexit and UK economic slowdown have the potential to affect business growth over the next twelve months. However, companies that have aspirations to go international over the next twelve months have more ambitious plans and are more confident about their growth prospects. There are opportunities around the world – Europe features strongly – but respondents also saw strong growth in the USA, the UAE, Brazil and China. International businesses have clearly focused strategies to support their growth and to overcome the challenges they face.

Executive summary

Businesses across the UK need greater support to achieve their international trading potential.

As the UK considers its future trading relationships, Santander's new Trade Barometer affords unique insight into current business attitudes. Findings reveal increasing interest and confidence in new destinations for trade, but some concerns that progress will be curtailed by skills shortages, complex bureaucracy and the failure to spot and seize opportunities. The Barometer's analysis of businesses with the size and ambition to be engaged in international trade, can help shape how businesses and policymakers support the business community in the months and years ahead.

The Santander Trade Barometer captures the attitudes of established businesses operating in the UK. All are already trading internationally, or have the size, scale and ambition to go international.

The UK's business community; confident, aspirational, outward looking

Almost three quarters (71%) of the UK's businesses are confident of growth in the next 12 months. Businesses which intend to begin trading internationally in the next year are particularly confident (74%), revealing a strong link between plans for increased international trade and increased business confidence.

Brexit joins concerns over the UK Economy and President Trump

While confidence of growth is strong, UK businesses are also mindful of an increasingly uncertain operating environment and a number of external risks outside their direct control. Brexit is one such issue with two-thirds (66%) of UK businesses expecting Brexit to negatively impact their business in the next 12 months. This is an increase of 9% since April 2017, which may reflect the lack of political clarity following the General Election and perceived uncertainty in negotiations with the EU.

More widely, three quarters (73%) of UK businesses believe a UK economic slowdown will negatively impact their business in the next year; an increase of 6% since April 2017. The same proportion of all businesses report disquiet over the priorities and commercial impact of the Trump administration. 42% of businesses overall anticipate a negative impact over the next 12 months. Tellingly, this rises to 61% for businesses with plans to begin trading internationally.

Support needed with skills, recruitment and market access

The UK's internationally trading businesses are most likely to cite recruitment (49%), navigating economic conditions in new markets (43%), access to the right skills (42%), gaining access to emerging markets (31%), and bureaucracy (40%), as the greatest challenges for international trade.

Moreover, UK businesses that are not currently trading internationally cite difficulties in securing reliable foreign representation to support sales (77%), identifying the opportunities available (77%), and contacting potential new customers (70%), alongside the need to focus on building a strong UK domestic base (86%), as barriers to trading internationally.

Businesses confident of growth in Europe, North America and Asia-Pacific

The European market is on track for strong growth over the next three years. North America and Asia-Pacific are expected to continue experiencing steady growth, but North American markets are predicted to out-perform competitors in the near future.

93% of UK trading businesses reported that Europe is their largest market. For UK companies operating in the North American region, the USA is the UK's largest single country export partner with 81% saying it is a priority market for the next three years.

Asia-Pacific is ranked the third most important market by Barometer respondents, with over 48% of businesses operating in the area reporting business interests in the region. This trade is focused primarily on China.



8%

now

13%

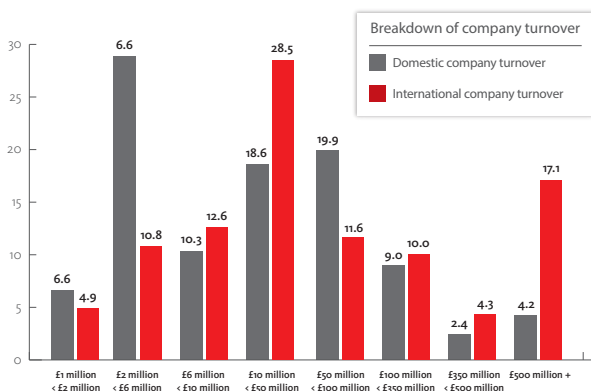
3yrs

Turnover

International companies have shown greater increases in turnover in the last three years

Size matters

The majority of UK businesses currently trading internationally are larger than average; employing more staff and generating higher annual turnover. Over the past three years, these businesses have also grown at a much faster rate than the wider business community. This reveals that businesses with greater international exposure are in a stronger position to grow and expand.



46%

3yrs ago

57%

now

57% of the UK's international businesses currently employ more than 500 people. This reveals significant growth by the UK's international businesses as employers.

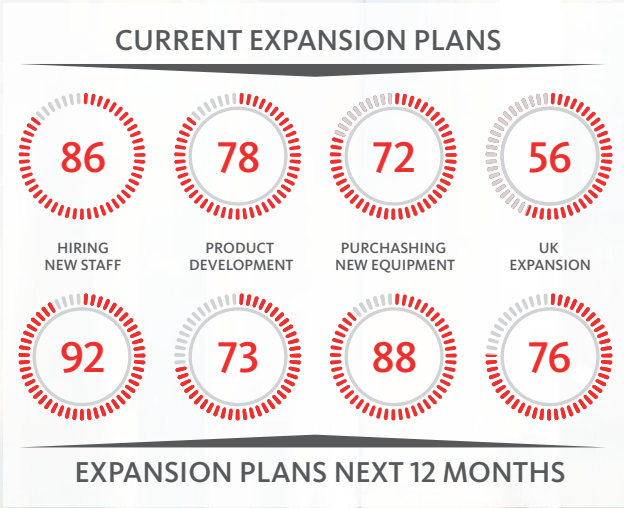
The international businesses in the Barometer are somewhat larger than their domestic counterparts. 28% of the international business sample had turnover in the £10-£50 million range compared with 19% of domestic companies.

Confident, resilient and aspiring to grow

UK businesses are confident about their growth prospects, with over 70% reporting confidence that their business will experience growth in the next 12 months.

UK businesses which intend to trade internationally in the next 12 months are the most ambitious, with three quarters (74%) expecting growth in the same period. These businesses are almost twice as likely to report that they are 'very confident' of growth, as businesses that currently trade only within the UK. This indicates a strong link between preparing for global trade and confidence in the health of an organisation.

UK businesses, as a whole, are planning considerable investment to support growth ambitions, with 86% expecting to hire new staff in the coming year (this goes up to 92% for those businesses planning to start trading internationally), and over two-thirds planning product development or the purchase of new equipment.



Global risks rise up the business agenda

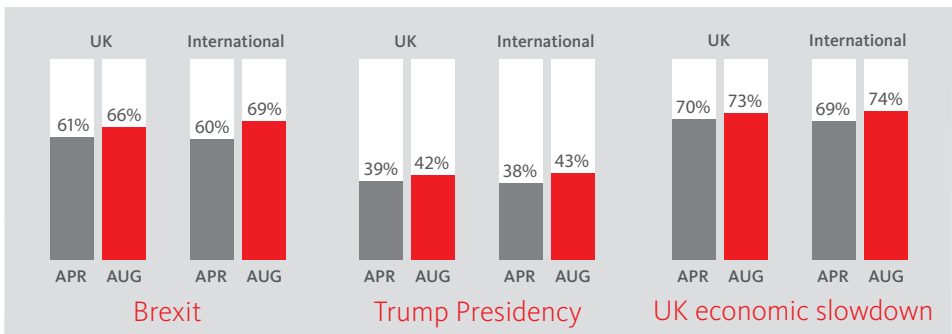
The UK's business community as a whole is confident, but concerns regarding wider geopolitical and economic influences have risen since April 2017.

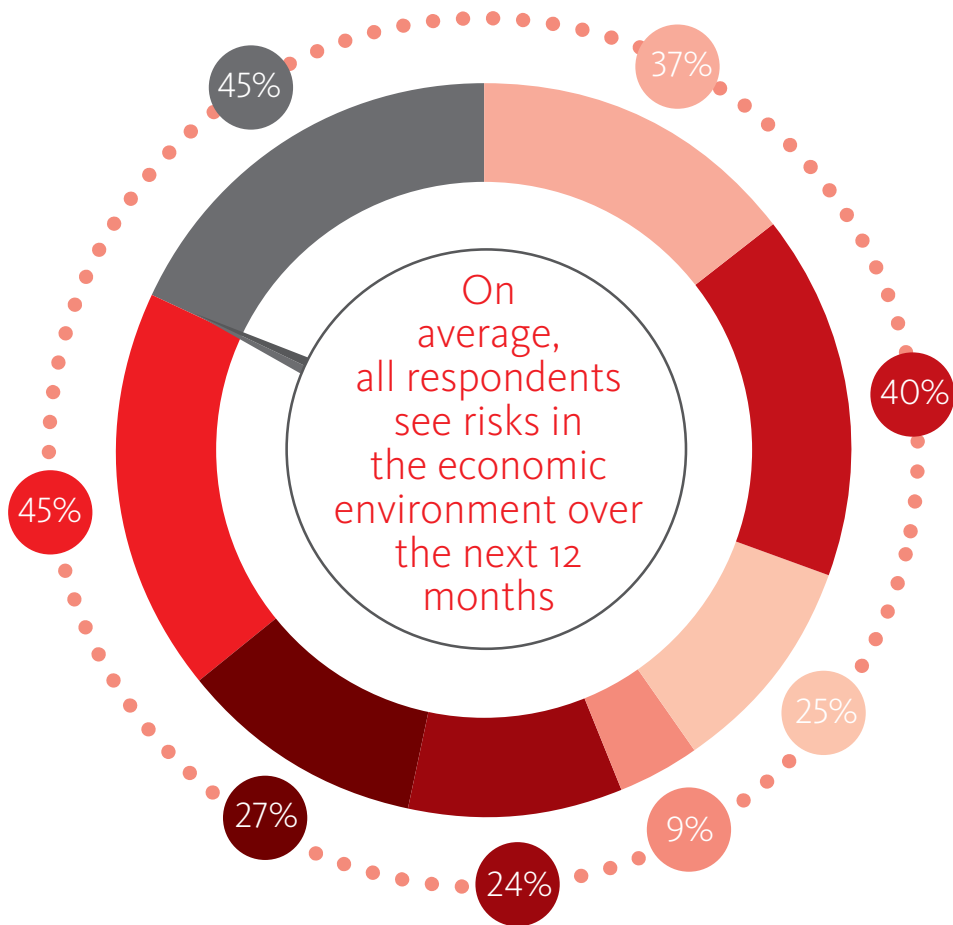
Foremost among these concerns is the economic slowdown in the UK and the potentially destabilising impact of Brexit. The Barometer also captures a range of other perceived challenges for business; from the impact of President Trump's administration in the USA, to exchange rate conditions. The UK's business community is sending a clear message to policymakers; stability and certainty are of paramount importance for the business environment.

Brexit

The Barometer indicates that the UK's business community is increasingly sensitive about Brexit negotiations. Two-thirds (66%) expect Brexit to negatively impact their business in the next 12 months. This is an increase of 9% since April 2017, suggesting that businesses believe their prospects have deteriorated following the General Election and the lack of progress in EU negotiations.

In April, 60% of the UK's established international traders reported belief that Brexit would have a negative impact on their business in the coming year. By August, that figure had climbed to 69%. It is clear that those businesses perceive themselves to be more exposed to the potential risks associated with Brexit, and have driven the overall rise in concern.

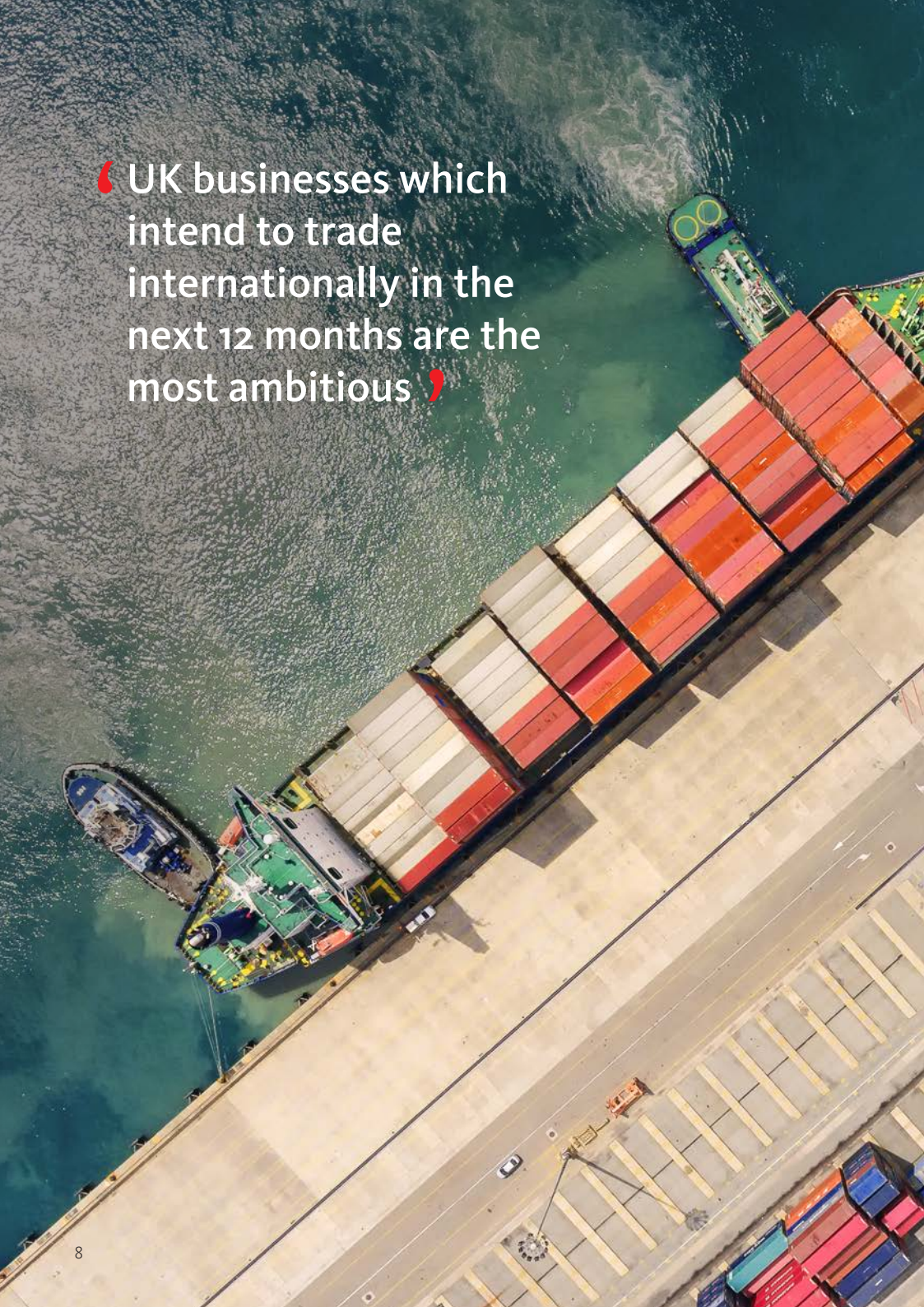




Current market challenges of international businesses

- | | |
|--|---------------------------------------|
| Sluggish growth in core markets | Regulations in core market |
| Sluggish global economic growth | Costs of trading internationally |
| Geopolitical risks in core market | Market uncertainties caused by Brexit |
| Access to appropriate forms of finance | Exchange rate conditions |

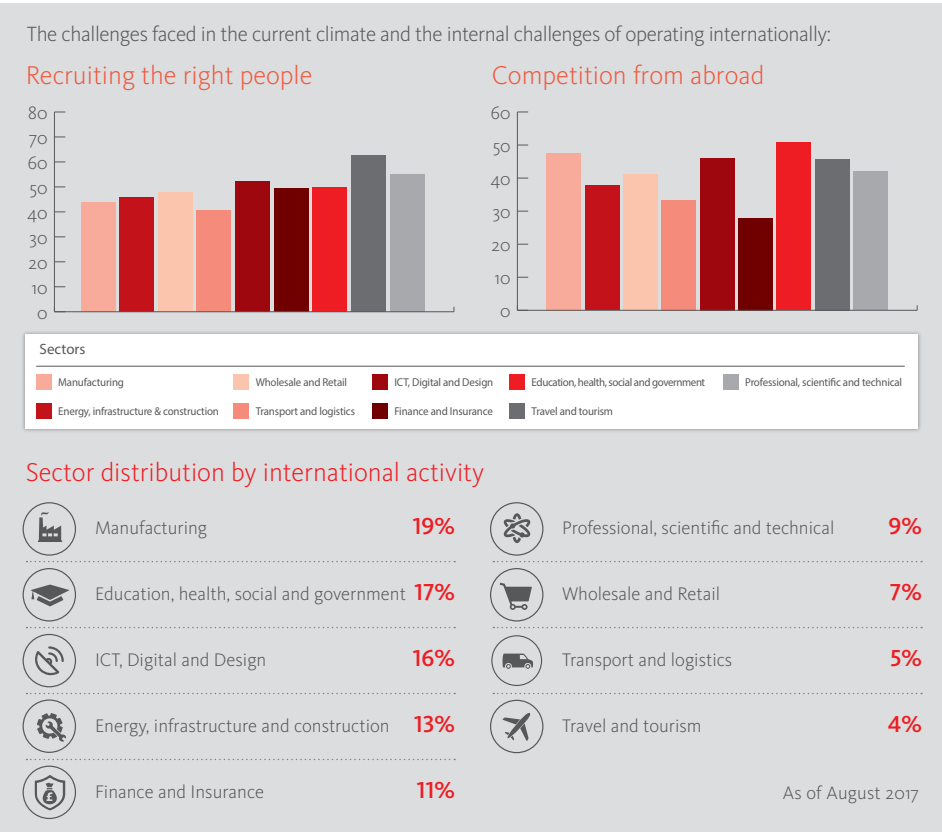
UK businesses which intend to trade internationally in the next 12 months are the most ambitious



No one size fits all – sectors and regions matter

There are no one-size-fits-all solutions, and the challenges of operating internationally vary by sector. The Barometer reveals:

- Recruiting the right people is considered the greatest challenge facing international business in the current climate; reported by over 49% of businesses in every sector in August 2017.
- Bureaucracy is cited as the challenge that has increased the most (40%) since April 2017. The perceived weight of bureaucratic burdens in education, health, social and government saw the biggest rise, from 28% to 53%.
- Maintaining profitability is the operational challenge that saw the biggest increase amongst businesses between April and August, with an increase seen in all sectors except Information and Communications Technology (ICT), Digital and Design.
- Competition from abroad remains the greatest perceived operational challenge; increasing further in the period from April to August 2017.



Regional perspectives

The Barometer reveals that while businesses, as a whole, across the UK share similar ambitions and challenges, there are important variations. As of August 2017 confidence of growth in the next 12 months is high among all businesses, but those based in the Midlands (76%) and London (73%) are more confident than the national average (70%).

External risks

Businesses, as a whole, based in London (76%) and the South East and East of England (66%) are significantly more likely to expect a negative impact from the Brexit negotiations than businesses based in Scotland (52%) or the Midlands (57%).

Businesses in all regions are concerned about the impact of a potential UK economic slowdown, although concern in the Midlands (68%) and Scotland (65%) is notably below the UK average (73%). Businesses based in London are nearly twice (50%) as likely to be concerned about the impact of President Trump's administration than businesses in Scotland (28%).

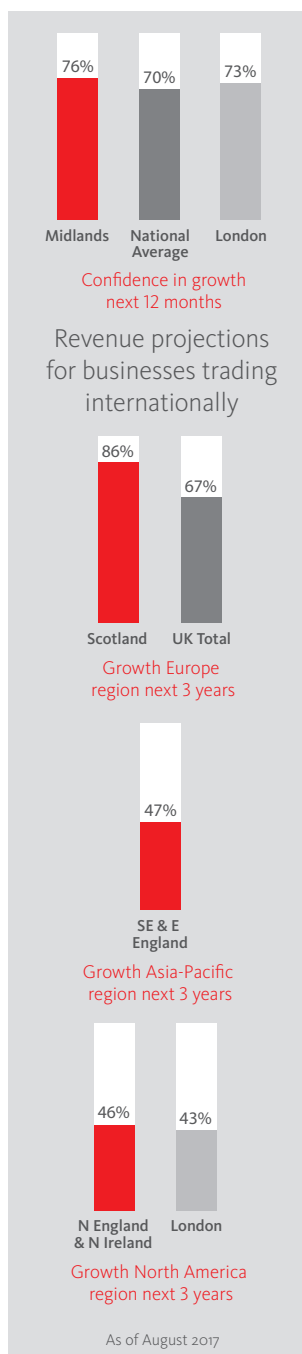
Trade corridors


Among businesses currently trading in the region, those based in Scotland are significantly more likely (86%) to expect growth in Europe than the UK as a whole (67%).

Similarly, nearly half (47%) of businesses in the South East and East of England that are currently trading in the Asia-Pacific region expect further expansion in the next three years, and businesses in London (43%) and Northern England and Northern Ireland (46%) expect the North American market to further expand in size.

Skills and support

International businesses with operations in Scotland are significantly more likely (59%) to cite difficulties with recruitment than businesses based in the South West and Wales (47%). Nearly half of all businesses in the South West and Wales (47%) cite the burden of bureaucracy as a significant challenge to their international business, compared to a third (30%) of businesses in the Midlands.





Europe is the most important region for growth in the next three years for all businesses

Expanding Trade Horizons

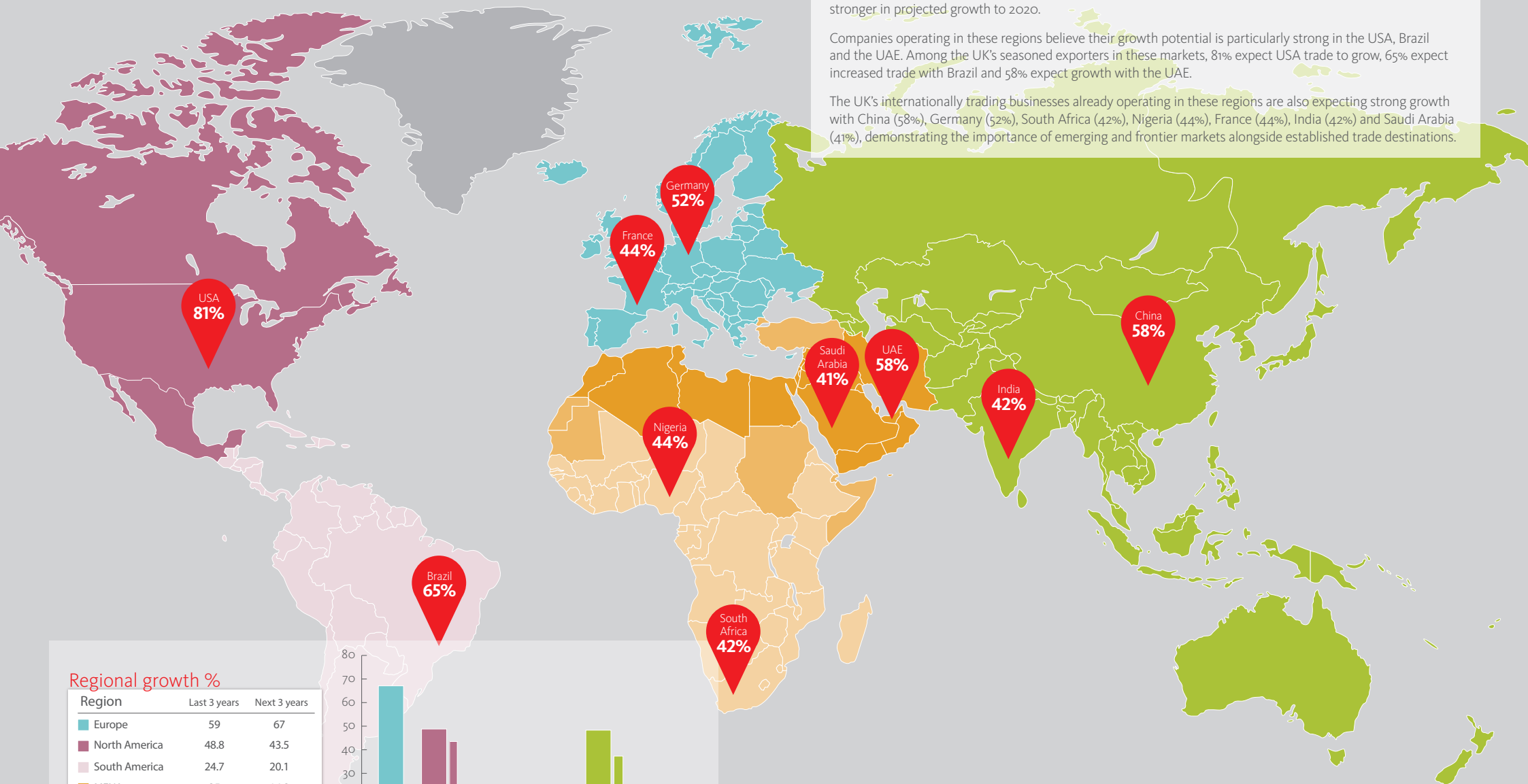
UK trade is truly global with British businesses forging links the world-over.

Trade in 2020

Europe has experienced the strongest growth for respondents and is set to grow the most over the next three years. North America and Asia Pacific are similar in terms of historical growth but North American markets look stronger in projected growth to 2020.

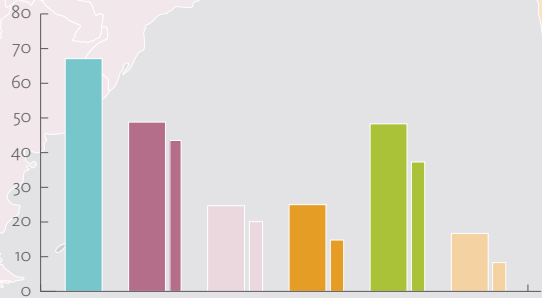
Companies operating in these regions believe their growth potential is particularly strong in the USA, Brazil and the UAE. Among the UK's seasoned exporters in these markets, 81% expect USA trade to grow, 65% expect increased trade with Brazil and 58% expect growth with the UAE.

The UK's internationally trading businesses already operating in these regions are also expecting strong growth with China (58%), Germany (52%), South Africa (42%), Nigeria (44%), France (44%), India (42%) and Saudi Arabia (41%), demonstrating the importance of emerging and frontier markets alongside established trade destinations.



Regional growth %

Region	Last 3 years	Next 3 years
Europe	59	67
North America	48.8	43.5
South America	24.7	20.1
MENA	25	14.8
APAC	48.3	37.3
Sub-Saharan Africa	16.7	8.3



The study confirms the importance of the EU-27 trading relationship, with over two-thirds (71%) of traders reporting that Europe as a region is the largest market for revenues and 67% expecting growth over the next three years.

Supporting the trading ambitions of UK business

The Barometer identifies a number of current barriers to the trade potential of UK businesses. For the UK's established internationally trading businesses, the three greatest challenges in global markets are recruitment, access to the right skills and dealing with bureaucratic requirements. This suggests that a targeted focus on skills and helping businesses to tackle red tape would make a significant difference for the UK's established traders.

The Barometer reports that the biggest barriers for those not currently trading internationally include: challenges in identifying opportunities in international markets, securing the right type of international representation and a need to focus on building a strong domestic customer base. Perhaps as a consequence, interest in trading internationally has declined amongst these businesses.

Nearly half (47%) of those not currently trading internationally report that they had considered doing so in the past three years. However, only 12% are continuing their plans to do so. Given the link between aspirations to trade internationally and business confidence in future growth and increased resilience, it is important that this interest is restored.

What do UK domestic businesses see as barriers to internationalisation?



86% of respondents cited the need to focus on building a strong UK business base as the greatest challenge, followed by the need to identify international business opportunities (77%) and obtain foreign representation for the business (77%).

Challenges faced by UK businesses in international markets



Recruiting the right people was seen as the greatest challenge faced by respondents (49%), followed by having access to the right skills (42%) and bureaucracy (40%).

Conclusion

The UK's internationally trading businesses are resilient, confident and committed to growth but are becoming more aware of risks on the horizon; including a slowdown in the UK economy and the impact of Brexit. These particular challenges reinforce the need for a stable business environment, as the UK seeks to develop new and existing trade links.

Despite increased concern that Brexit will negatively impact UK trading businesses in the next 12 months, the Barometer reveals that Europe will continue to be a major trading partner for the UK and key contributor to the growth and expansion of British businesses. North America and Asia Pacific are also important markets for trading relations and growth, which confirms the increasingly international outlook of UK businesses. These areas of business focus are particularly important in contemplating the UK's future trading relationships.

Lack of ambition is rarely the obstacle to exporting. The Barometer identifies a number of common challenges, which businesses need support to overcome and mitigate. Businesses which desire to begin or increase exports require a certain, stable and welcoming business environment. This means efficient bureaucracy, access to the right skills, good connections in different markets and relevant regional knowledge. Government, trade bodies and the private sector have an important role to play in facilitating the right environment for international trade. Significant support is readily available for businesses; it is essential that it is clearly communicated to aspirational businesses in order to realise their trading potential. This will help reorientate the UK economy to an export-led model, with a transformative impact on the growth and prosperity of the UK as a whole.



About the Santander Trade Barometer

The Santander Trade Barometer surveys the trade ambitions and considerations of UK businesses; focused on those with an international outlook. The first tranche of research was conducted between 19 April 2017 and 2 May 2017.

Out of the 1,004 companies surveyed online, 627 are international businesses, 293 are domestic businesses and 84 are domestic businesses with plans to go international over the next 12 months. Additional turnover quotas ensured that both domestic and international businesses were represented in each of the turnover categories from £1 million per year to above £500 million per year.

An additional survey of 1,000 companies was conducted between 8 August and 26 August 2017, in order to ensure responses reflected the current business climate.

About Santander Corporate and Commercial

Whether you're taking your first steps towards international growth or looking to expand internationally, we're here to help. At Santander Corporate and Commercial, we have solutions that give you access to diverse sources of global information, contacts, and the expertise you need to help fulfil your ambitions.

We've created a package of tools that takes you through every step of international trade and export, from initial research to global success. Our range of services go above and beyond traditional banking services and can help you on a path to successful international growth. Accessibility of finance and effective risk management are essential considerations for any business trading internationally and there are different organisations out there that can help, including Santander.

But where Santander is making a real difference is possibly beyond what you would normally expect from a bank. On our website www.santandercb.co.uk/international you will find details of our award-winning International proposition which has been built around the needs of businesses to support them through each stage of creating, executing and managing international trade and investment.

We have a strong international presence thanks to our extensive global network in 10 major markets. By using our network and alliance partners, we can actively support you throughout your international journey, helping you to set up efficiently overseas and access new markets and trading partners.

If your next step is to invest in a new growth area, consider an acquisition or break into an overseas market, we have the knowledge and experience to help you get ahead.

visit santandercb.co.uk/tradebarometer

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