Digital Economy Fuels Optimism and Growth among European SMEs

SME Export Report
The world is becoming increasingly connected and digitalised, creating a wealth of opportunities for small and medium sized enterprises (SMEs) to explore. As well as making markets more accessible, this digital landscape has become key for businesses to realise their international potential.

Europe is the world’s largest single economy and a trade superpower. In fact, the European Union’s 28 member states export goods and services worth $7.1 trillion – more than China and the US put together. It’s no surprise therefore that European SMEs represent a vibrant and optimistic community, in line with what we observe around the world.

As a continent of opportunities, Europe plays a pivotal role in the development of the digital economy. Across Europe, physical and digital networks are increasingly merging, and logistics providers are helping to fuel this growth enabling faster and cheaper deliveries. As a result, the nature of our relationship with small and medium sized enterprises is evolving, with many placing greater reliance on us to support them in reaching new markets. By working with SMEs we can help them take advantage of the new opportunities presented by the digital economy.

Our SME Export Report demonstrates not only the exporting activities of European SMEs, but how closely intertwined the digital economy is with global trade. Reflecting the opinions of 4,500 senior executives across the European SME community, the study demonstrates the strength and perseverance of these businesses as they navigate evolving international landscapes. From the report, it’s clear the future’s bright for SMEs’ exporting ambitions, and not surprisingly, optimism for the next 12 months remains buoyant, in this ever-digitalised economy.

SMEs are the drivers of growth in every country. This timely report provides a wealth of invaluable insights into the development, challenges and prospects facing this key sector. It is in relation to export performance alongside the impact of innovations surrounding the digital economy, sustainability and logistics.

This report highlights the growth and significance of SMEs exporting activities across and beyond Europe.

The survey will be of great interest not only to those working within the various SME sectors themselves but also to those organisations across the entire value chain as well as to policy-makers.

*FedEx SME Export Report is a commissioned research study conducted by Harris Interactive on behalf of FedEx Express. 9,000 senior executives around the world including 4,500 across the European SME community (France, the UK, Germany, Spain, Italy, Poland, Belgium and The Netherlands) were interviewed online and by telephone. The sample was composed of SMEs from various sizes: micro (1-9 full-time employees), small (10-49 full-time employees) and medium (50-249 full-time employees). All figures refer to SMEs who currently export. September 2016.
1. UN Data for 2014, published in December 2015.
2. Data from most recent European Commission forecast.
SME Export Report

Key Findings

Exporting revenues account for

**65%** of total revenue for SMEs who are exporting

Digital economy is driving export growth through e-commerce, m-commerce and social media sales

**80%** of exporting SMEs are generating revenue from e-commerce sales, accounting for **19%** of their total revenue on average

Emboldened relationship between SME and logistics provider

**72%** of exporting SMEs acknowledge the importance of logistics providers in helping them grow from a start-up
Overview of the European Exporting Landscape

European SMEs have a lot to feel confident about. Collectively, SMEs generate over US$1.6 million from export revenue – a 14% increase in comparison to 2015’s US$1.4 million.³ This far surpasses other regions in the world, with India clinching the top spot after doubling its export revenue figure to US$2 million (from US$1 million the year before).⁴

GDP PER INTERNATIONAL MARKET

- The GDP of North America is expected to grow by 2.3% in 2017, 0.2% higher than 2016⁵
- Asia Pacific GDP growth rate is expected to remain at 5.4% in 2016, the same rate as in 2015⁶
- The European Union’s GDP is expected to grow by 1.6% in 2016, 0.1% lower than in 2015⁷
- In Latin America & the Caribbean, GDP is expected to contract 1.1% in 2016, following a 0.5% decline in 2015⁸
- GDP growth for India continues to speed up, with 7.6% forecasted for 2016, up from 7.2% in 2015⁹

“It’s clear there’s a lot of positivity ingrained with exporting but it’s important for logistics providers, government and businesses to not lose sight of the fact there are still challenges”, says David Binks. “Encouraging SME confidence to capitalise on new market trends and harness the digital economy is a necessity for central players in this space.”

⁴. “Global Trade in the Digital Economy: Opportunities for Small Businesses”, a commissioned research study conducted by Harris Interactive on behalf of FedEx, September 2016
⁵. Bloomberg, January 20, 2017
⁶. “Regional Economic Outlook”, IMF Asia Pacific Department, October 6, 2016
⁷. “Regional Economic Outlook”, IMF Asia Pacific Department, October 9, 2015
EUROPEAN SME OPTIMISM

European SMEs are clearly buoyed by the opportunities in markets around the world, especially the emerging economies. The FedEx SME Export Report identifies exporting revenue accounts for a substantial share of the total revenue amongst SMEs who export.

While European SMEs have an optimistic outlook and exporting volumes are increasing, business challenges still remain. The most common include:

• Increased competition in other markets (33%)
• Increased competition within their own country (31%)
• Increased production costs (27%)

However, these challenges can be overcome. To do so, many SMEs plan on investing in new technology (33%) while a third indicate logistics providers are helping them to succeed.

“In the aftermath of the global financial crisis, the ‘green shoots of recovery’ are at last emerging across the European economy,” states Joe Nellis.

“A slow revival in activity is taking place – GDP growth of around 1.5% is expected in 2017 as fears of disinflation subside. Relaxation of fiscal austerity combined with a continuation of historically cheap money will continue to stimulate demand, taking up some of the slack in labour markets and supporting job creation in many of the hardest hit economies. But risks to sustained recovery cannot be ignored – particularly in terms of the potential for political instability as elections take place across a number of countries including Germany, France and The Netherlands during the course of this year.”

EUROPE’S DIGITALISATION

The digital economy is booming and fuelling optimism across the SME community – B2C e-commerce sales across Europe are estimated to reach €598 billion this year. Increasing the ease for SMEs to reach their target audience as well as new markets, there’s a whole host of growth opportunities for all businesses. SMEs are truly capitalising on this opportunity, becoming a central revenue maker for many. Over 80% of European exporting SMEs are generating revenue from e-commerce sales accounting for 27% of their total revenue on average.

E-commerce is the digital economy’s main driver, however SMEs are also capitalising on other platforms. Over half (55%) are generating revenue from m-commerce (mobile commerce) while 65% are generating revenue from social media.
Delving into e-commerce, m-commerce and social media sales

The digital economy encompasses three main platforms e-commerce, m-commerce and social commerce, with each presenting different opportunities and benefits for SMEs.

“This report clearly indicates just how vital the digital economy is to the future success and growth of the SME sector across the globe,” highlights Joe Nellig.

“Nearly two-thirds of SMEs use social media platforms to drive sales. This proportion is expected to grow further as more SMEs realise the potential for all forms of social media to support them in reaching target audiences more efficiently and effectively. The internet has truly killed distance for all of us – and it is essential that SMEs are able to take advantage of the opportunities that this ‘new normal’ offers them!”

E-COMMERCE

Clearly a growth area for many European SMEs with 29% reporting increased revenue in the 12 months prior to the survey and over a third predicting further growth in the 12 months following the survey. SMEs acknowledge growth in e-commerce is a result of:

- Reaching markets more easily (38%)
- Having a good online fulfilment system (36%)

Logistics also plays a huge role in supporting further revenue growth within the digital economy. SMEs require a range of improved logistics services including faster delivery (48%), flexible delivery options (39%) and the ability to handle extra work when orders spike (32%).

European SMEs and the digital economy

<table>
<thead>
<tr>
<th>E-commerce</th>
<th>M-commerce</th>
<th>Social media</th>
</tr>
</thead>
<tbody>
<tr>
<td>29% report increased revenue</td>
<td>55% generate revenue</td>
<td>@ 65% use for sales purposes</td>
</tr>
</tbody>
</table>

SMEs are more likely to generate e-commerce revenue from B2B than B2C

- 84% Business to business
- 66% Business to customer
“The digital economy has many facets to it which most SMEs can take advantage of,” states David Binks.

“By finding the right platform that works for them, these businesses can drive sales through increased engagement on social media or allow on-the-go customers to order their goods via mobile. SMEs should be seeing this as a world of opportunities which will not only allow them to grow, but also boost their global competitiveness.”

SOCIAL MEDIA
Remains an important force in the digitalised world as customers and businesses increasingly use this platform as their first point of entry to discover new products/services pre-purchase. Capitalising on this, almost two-thirds (65%) of SMEs in the report are using social media for sales purposes.

Many businesses have attributed their success with social media to being able to reach their target market more effectively (48%) as well as accessing new markets around the world (44%). Events including Singles’ Day, the world’s biggest shopping event, have shown how businesses can capitalise on social media to increase sales and reach new customers.12

Social media sales

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional social media sites</td>
<td>36%</td>
</tr>
<tr>
<td>Instant messaging apps</td>
<td>29%</td>
</tr>
<tr>
<td>Business information apps</td>
<td>21%</td>
</tr>
</tbody>
</table>


In the 12 months prior to the survey, a quarter of exporting SMEs in Europe generated increased revenue. 36% anticipate further growth over the 12 months following the survey.
The Role of Logistics

The growth and changing nature of the exporting opportunities available to SMEs has had a positive impact on their relationship with logistics providers. In fact, they have become a much more influential force in supporting SMEs.

“The relationship between logistics and SMEs has never been stronger,” mentions David Binks. “Businesses wish to expand and want sufficient know-how of how to capitalise on market trends so they don’t get left behind. In addition, the rise of the digital economy has meant customers now demand their goods to be delivered more cheaply and faster than ever before. With the support of logistics providers, SMEs can better meet on these demands, increasing sales and growing as a result.”

- Over three in ten (31%) believe they have become more reliant on logistics providers
- 72% acknowledge the importance of logistics providers in helping them develop from a start-up

It’s clear European SMEs are benefiting from the changing role of logistics to support their global ambitions. As markets become more digitalised, this relationship could become even stronger. Over a third (34%) of exporting SMEs consider logistics ‘vital’ or ‘very important’ to their export growth. It’s also expected more logistics providers will offer premium services to respond to a growing and discerning customer base, with almost four in ten (39%) of European SMEs indicating they are willing to pay for a delivery service which gets goods to the customer through the quickest and cheapest means possible.

Customers in Europe:

- 39% demand faster deliveries
- 33% demand cheaper deliveries
DIGITAL ECONOMY: 
THE DRIVER BEHIND EUROPEAN SME EXPORT GROWTH

To summarise, European SMEs form part of a large and growing community, as a result of the burgeoning digital economy. Amid evolving global landscapes SMEs are proving their resilience by taking advantage of current trading conditions. This is contributing to SMEs optimism towards their export prospects. The FedEx SME Export Report emphasises the digital economy lies at the very heart of SME positivity, with e-commerce a key driver. Providing a wealth of opportunities, the digital economy has driven SME confidence to discover new markets, adopt new technologies and develop an efficient supply chain – emboldening the relationship with logistics providers.

It is encouraging to see how digitalisation has positively impacted on the European community to date and at FedEx we’re looking forward to supporting this and ensuring SMEs have the correct tools and support to continue their growth.

“This report also highlights the extent to which the future growth and success of SMEs is critically dependent on access to improved logistics services,” says Joe Nellis. “Ever faster and more flexible delivery systems must be a top priority in a world where consumers are more demanding and time is a precious commodity. The depth and quality of the relationship between SME exporters and logistics providers will be central to the future success of both.”
Spotlight on the UK

The UK is entering a new economic chapter. While many are citing a period of uncertainty, British SMEs are continuing to thrive and consequently playing their part in driving a buoyant economy. 86% export within Europe and 63% export to countries outside of Europe, while revenue generated from exports equates to 59% of total revenue.

SMEs are making impressive steps across the digital economy

- Eight in ten exporting SMEs (81%) generate revenue via e-commerce accounting for a third of revenue on average.
- M-commerce plays a strong role with 70% of these SMEs generating revenue through this avenue.
- As with e-commerce and m-commerce, social media sales are a vital revenue source for UK SMEs – accounting for 18% of total revenue for these businesses.
- In addition, 28% grew this revenue stream in the 12 months prior to the survey and 36% predict further growth in the next year.

UK exports to other countries

- North America: 40%
- Europe: 86%
- Middle East: 26%
- Asia & Pacific: 22%
- Africa: 19%
- Latin America: 15%
Ed Clarke, Managing Director Ground Operations UK and Ireland, FedEx Express & FedEx UK Ltd:

"UK SMEs are capitalising on the exporting opportunities available to them, including taking advantage of the current weakened pound and the digital economy. Social media sales have been particularly fruitful, as SMEs are able to personalise their marketing strategies and reach their target audience more effectively. As a result, this community is contributing to a strengthened British economy."13"

Revenue generated by an average SME from exports on global and UK level

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

To find out more about the FedEx SME Export Report, please visit fedex.com/gb/sme-report-2017

To find out more about FedEx solutions, call Customer Service on 03456 070809

13. BBC, UK exports 'show signs' of pound boost, January 2016