



## **Most SMEs expect to generate up to 50% of revenues internationally by 2019, says EIU report**

- **EIU research highlights key issues that SMEs face as they expand internationally, including cultural barriers and inefficiency**
- **China identified as a priority market, while Africa as a growth opportunity still not recognized by many SMEs**

**Bonn, October 10, 2014** – The majority of small and medium-sized enterprises (SMEs) see growth opportunities internationally and expect to derive up to 50 percent of their revenues internationally in five years' time. This is one of the main findings of an in-depth study conducted by the Economist Intelligence Unit (EIU) on behalf of DHL Express. However, the survey of 480 SME executives and experts from business lobbying groups around the world<sup>1</sup> also reveals that severe obstacles still remain for smaller businesses with global aspirations.

International trade is seen as vital to long-term success by SMEs, but challenges, such as political instability, cultural factors and inadequate infrastructure, still cause concern and often outweigh the raw growth potential of overseas markets, decision makers say. The survey also shows a gap in international activity between SMEs in developed and developing markets: nearly 69 percent of the G7<sup>2</sup> respondents currently trade internationally whereas only 46 percent of the BRICM<sup>3</sup> respondents do.

### **Overcoming different market environments is the biggest hurdle**

Many SMEs see barriers to trading internationally. The quality of a target market's infrastructure, the stability of its politics, administrative costs for establishing a local presence and cultural differences in doing business were all cited by the executives surveyed as factors that deterred them from entering new markets. The unfamiliarity of foreign markets received particular attention: 84% of respondents described understanding a target market's culture or language as important or very important in



determining its attractiveness. This also explains why most SMEs expand into markets that resemble their own. The report shows that SMEs from BRICM markets are more likely to seek growth opportunities in other developing countries, while SMEs from the G7 economies are more active in other developed markets. For example, 15 percent of the surveyed BRICM SMEs operate in Russia, China, India and South America, whereas only 3.6 percent of G7 SMEs do.

“BRICM SMEs are better positioned in other developing markets thanks to their superior ability to navigate the challenges that these markets present. They are also taking advantage of lower costs and smaller pools of competitors. If you consider these countries as the growth markets of the future, then SMEs in industrialized economies need to review their approaches to emerging markets and identify new strategies that will help them to compete internationally in the future,” said Ken Allen, CEO DHL Express. “From DHL’s own experience, we know that partners and service providers, particularly in the field of logistics and transportation, can provide critical support in overcoming cultural barriers and infrastructure challenges while managing costs in order to compete.”

In terms of expansion tactics, the survey shows that partnerships are an important consideration for SMEs. The majority of ambitious G7 SMEs prefer to work with distributors, resellers and other companies with established networks to keep their costs down as they fight to gain traction in a new market. The study identified a number of innovative approaches in this area, such as piggybacking on another company’s existing retail network to enter the sub-Saharan market in Africa.

### **Smaller businesses long on China, short on Africa**

Despite the high-growth story being touted by international media, Africa is still viewed with some reservation by SMEs. Roughly 40 percent of G7 and BRICM survey respondents see no growth opportunities in the region at all. An unstable political environment and underdeveloped infrastructure mean that many SMEs back down, leaving the field open to multi-national and state-owned companies with more financial and political resources at their disposal. China, on the other hand, remains the most



attractive growth market for SMEs with a global mindset. The pure size of the market and the Chinese government's focused economic policy have created favorable conditions for growth. However, these same factors, as well as the cultural differences many SMEs will face when trading with China, also mean that careful planning and the right entry strategy are critical considerations.

“Tapping into new markets is clearly still not easy for many small enterprises with growth ambitions, particularly for regions such as Africa that offer great promise for the future. Our aspiration, as the world's most international company and a global leader in logistics, is to help them connect with potential customers anywhere in the world and to demonstrate to them that they don't need to be big to compete in the global village. With meticulous planning, a well-designed supply chain, a clear understanding of their competitive strengths and the right mindset, SMEs can break through any border and make the world their market,” added Ken Allen.

The full EIU and DHL Express report, *Breaking borders: From Canada to China, barriers overshadow growth for expanding SMEs*, can be accessed at [www.dhl.com/smestudy](http://www.dhl.com/smestudy)

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<sup>1</sup> For the study, 480 SMEs across 12 countries and 20 industries were surveyed and detailed follow-up interviews conducted with selected senior SME executives and officials from business lobbying groups

<sup>2</sup> Germany, France, Italy, Japan, Canada, USA, UK

<sup>3</sup> Brazil, Russia, India, China and Mexico

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DHL is part of Deutsche Post DHL. The Group generated revenues of more than 55 billion euros in 2013.