Evaluation of the commercial services provided by UK Trade & Investment’s overseas network

Final report to UK Trade & Investment

Prepared by

London Economics

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Glossary

Termiology abbreviations

BIS  
CV  
OMIS  
PIMS  
SA  
TIPA  
UKTI  
WTP

BIS  Department for Business, Innovation & Skills
CV  Contingent Valuation
OMIS  Overseas Market Introduction Service
PIMS  Performance and Impact Monitoring Survey
SA  Significant Assist
TIPA  Trade and Investment Promotion Agency
UKTI  UK Trade & Investment
WTP  Willingness to pay
Executive summary

Introduction

London Economics was commissioned in September 2010 by UK Trade and Investment (UKTI) to undertake an evaluation of the Commercial Services provided by UKTI’s Overseas Network.

The key issues this study sets out to explore are:

- The scope for intensifying the commercialisation of the selected services by increasing cost recovery, taking account of differences in willingness to pay across different client groups, and the potential impact on UKTI policy objectives.
- The potential scope for additional private sector involvement in delivering these services, either on behalf of UKTI, through further outsourcing, or through referring clients to alternative service providers on a fully commercial basis.

Methodology

In order to explore the issues listed above and to provide evidence-based policy recommendations to UKTI, six different strands of research were undertaken:

- assessment of the business need for UKTI’s trade and investment support;
- analysis of the role of Significant Assists;
- analysis of OMIS pricing, cost of provision and cost recovery;
- analysis of users and non-users’ willingness to pay for OMIS;
- analysis of the impact of a hypothetical price increase on demand, overall and for priority client groups;
- investigation into the activities of alternative providers and their relationship with UKTI.

The evidence in each case came from either existing evidence from past research carried out for UKTI or the results of one or more of the three surveys that were undertaken by London Economics for the purpose of this study.

Review of existing evidence

London Economics carried out a review of evidence collected by UKTI on the need for the services provided by UKTI to UK businesses and the potential for these services to be supplied in a more commercial way or with greater involvement of the private sector. Much of this evidence is based on results from UKTI’s PIMS survey, as well as the UKTI International Business Strategies, Barriers and Awareness Survey. In addition, London Economics analysed data provided by UKTI on OMIS pricing, OMIS revenues and the cost of OMIS provision. We also conducted a secondary analysis of the PIMS database.

Consultation with Overseas Posts

Qualitative interviews were carried out with UKTI representatives involved in administering OMIS – Overseas Posts. Based on consultation with UKTI, 13 Posts in 11 overseas markets (United States,
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Brazil, Germany, Poland, United Arab Emirates, South Africa, India, China, Turkey, Thailand and South Korea; and two Posts in each of India and China) were chosen to participate. These markets were chosen because they represent a sample of the biggest export markets for the UK. Moreover, they cover a range of EU, US and BRIC economies including high and medium growth countries such as India and Brazil who recorded GDP growth of 6 % and 5% in 2009 respectively. The interviews were 60 minutes in length and undertaken between 8th November and 19th November 2010, using a semi structured interview tool.

Survey of users and non-users

London Economics commissioned OMB Research to undertake a quantitative survey of firms engaged in overseas business. Based on consultations with UKTI, a targeted sample of 300 firms drawn from participants in the 2008 and 2010 UKTI Internationalisation Surveys was selected for interview. The sample covered a range of firms including 26% that were UKTI users and 85% defined as ‘innovative’. After discussions with UKTI and London Economics, and following a ‘live’ pilot of the questionnaire, the interviews were undertaken in December 2010 and lasted 13 minutes on average. The survey forms the basis of our assessment of willingness to pay using a Contingent Valuation approach. Out of the sample of 300, 120 respondents reported a maximum willingness to pay of zero.

Online survey of alternative providers

Finally, London Economics undertook an online survey of 98 alternative service providers. The sample for the survey consisted of contacts provided by Overseas Posts, a list of contacts from UKTI consisting mainly of Trade Associations and Chambers of Commerce and internet searches of a wider range of relevant providers including banks, audit firms and market research agencies. The majority of respondents from the survey were from Trade Associations (42%) and Chambers of Commerce (19%). The survey took 10 minutes to complete and was undertaken between 13th December 2010 and 18th January 2011.

Summary results

Business need for direct government involvement in the provision of support to UK businesses to access overseas markets

- The broader case for government subsidies for the provision of export support services rests on the existence of external benefits from such services, that is, benefits that do not accrue solely to the companies using the services, but also to the economy as a whole, via channels such as increased exploitation of comparative advantage, realisation of economies of scale and scope through internationalisation, greater competitiveness, knowledge transfer and innovation, etc. Since the benefits that accrue to individual businesses are fewer than the overall benefits to the UK economy, a purely market based system would lead to under-provision of services as companies would not be willing to pay for benefits they cannot appropriate.

- There are theoretical arguments suggesting that market failures exist in the provision of support services to UK exporters, which would imply that UKTI has a continued role in this market, even if there is no scope for greater commercialisation.
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Market failures that have been identified include network and intermediation failures. In transactions involving uncertainty where trust between business partners is crucial, but firms do not know whether they can trust their counterparties, the government can play the role of an impartial intermediary and has access to information and influence that cannot be easily replicated by the private sector (such as a wide range of contacts).

UKTI services are tailored to address some of the most challenging problems faced by UK exporters, especially those trying to enter new markets. In particular, research carried out for UKTI has identified the establishment of initial contacts with customers and business partners in overseas markets and the building of relationships as among the most serious barriers to export success.

Firms that use UKTI services outperform non-users in some key dimensions of business success, including growth and innovation.

Firms consider UKTI services to be more affordable than other available alternatives.

PIMS user and non-user surveys show that the average user ratings of service quality is substantially lower for services delivered by alternative providers than for UKTI delivered services, as are the reported qualitative business benefits. 53% of users of alternative service providers give high quality scores compared with 77% of UKTI clients across all trade services. However, although overall quality scores have been increasing, quality levels are still variable across UKTI Posts, averaging 74% for the charged services and 81% for the free assistance provided by Posts, compared with a corporate target of 80%.

The difference in qualitative business benefit between UKTI services and those delivered by alternative providers seems to be particularly pronounced in areas where market failures are thought to exist, i.e. access to information and establishing contacts.

Alternative providers, which include commercial and membership organisations, offer at least a partial substitute to UKTI's services, especially with respect to tailored market research, and report a willingness to expand.

However, outside certain specialist or technical services, it is unclear whether alternative providers have the capability to take over functions currently served by UKTI. Moreover, there are doubts if the cost of providing the service could be recovered.

Scope for increased private sector provision

Overall, our insight into this market continues to be limited due to the difficulty in identifying and surveying alternative providers in the private sector and their customers.

The alternative providers that have provided information for this study are primarily not-for-profit organisations such as Trade Associations and Chambers of Commerce. Their activities are often at least partly subsidised.

Theoretically, certain attributes of “government-branded” provision of services are likely to lower the cost of government provision relative to private provision: a government-backed organisation like UKTI is likely to find it easier to gain the trust of overseas businesses and intermediaries and acquire commercially valuable information than a private organisation. While the role of UKTI can theoretically be replicated by private organisations, the cost (e.g., the time it takes to build trust) might be prohibitive. This kind

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of “intermediation failure” means that UKTI provision is more efficient than private provision, even if costs could be recovered fully, and offers an additional argument in favour of subsidised provision.

However, there is some evidence for partial substitutability between UKTI and alternative providers:

- Alternative providers surveyed for this study say they have capacity and are willing to expand. However, it is not clear if this would not require ongoing government subsidy.
- Alternative providers (both commercial and not-for-profit) in general suggest they “often” and “sometimes” serve SMEs, as well as serving large firms.
- 21.7% of respondents in the user/non-user survey carried out for this study reported using alternative providers. They were used for the main types of services that are also provided by UKTI under the charged OMIS service (market overview, list of contacts, “warmed” contacts, events). All types of service seem to be provided by both for-profit and non-profit institutions.
- According to the Overseas Posts qualitative consultation exercise, on some occasions the services offered by alternative providers are similar to those offered by UKTI under OMIS.
- In one case, OMIS is largely delivered by an external, not for profit, provider under sub-contract to UKTI. However PIMS evidence shows that quality, satisfaction, and qualitative business impact are relatively low for this provider, on a par with the lowest quartile of performance ratings achieved by UKTI Posts.
- According to PIMS, UKTI’s satisfaction rankings are significantly higher than those of alternative providers. However, some alternative providers also appear to deliver good results. Our survey of users and non-users shows good or very good satisfaction ratings given to alternative providers by around 2/3 of users. However, the significance of the result is limited due to the small sample size compared with PIMS. The PIMS follow-up survey measures the perceived “usefulness” of UKTI services and alternative providers. In individual years, alternative providers are rated as useful as OMIS, although this is not consistent over time and the sample sizes are small.

However, the experience of Posts suggests that potential substitutability is only partial: some private providers offer a more bespoke service, with more in-depth market analysis or more contact with the client. In addition, in terms of broad service categories, alternative providers often specialise in only one or two service areas, for example event organisation or market analysis.

There is strong evidence that there are areas in which alternative providers provide a complement to UKTI’s service.

- In particular, the activities of professional services firms such as accountants and lawyers are clear complements and in general do not overlap with Posts’ service portfolio.
- 84.2% of the alternative providers we contacted reported they were already undertaking some activities with UKTI Overseas Posts in their market. The main activity which they undertake/would like to undertake are joint events showcasing their services. While this type of cooperation could be a sign of inefficient duplication of effort, to the extent that these alternative providers are able to
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leverage UKTI’s unique standing to access new customer groups (that are not served by UKTI already) or in other ways improve the overall service available to UK exporters, there could be a complementary relationship with UKTI in some cases, which UKTI could take advantage of commercially.

Evidence that UKTI users are six times more likely than non-users to have commissioned market research from private sector provider can also be seen as suggesting complementarity.

- The impact of relying more on unsubsidised private sector provision would impact differently on different user groups: PIMS asks OMIS clients if they “would have commissioned something similar” from an alternative provider if OMIS had not been available. 47% of PIMS respondents report they would. Regression analysis reveals that a company’s turnover is a significant predictor of the decision to use an alternative provider: companies operating in higher turnover brackets increases the probability of using an alternative provider by about 8%.

- The price respondents’ paid for their OMIS also predicts the intention to use alternative providers. A £1,000 increase in the price paid for an OMIS leads to a 7% increase in the willingness to use alternative providers if OMIS was not available. This result could suggest that companies that are more determined to invest in order to boost their chances of export success are more likely to seek out alternative providers.

- Export experience (measured by length of experience), innovation (measured by patents, the number of staff engaged in product development and the introduction of new products in the last two years) and substantial business growth are insignificant in determining the use of alternative providers. This means that innovative and growing companies and experienced exporters are not more likely than other types of companies to use alternative providers if OMIS were withdrawn.

Scope for increased cost recovery

- The existence of social benefits that exceed the sum of the private benefits realised by users of subsidised services means that full cost-recovery would be economically inefficient: at the non-subsidised price, companies would demand less than the optimal level of support, so that some benefits would remain unrealised.

- Analysis shows that price sensitivity is linked to size of firm, so this effect would be stronger among SMEs than for larger firms.

- The analysis by client profile shows that demand from innovative SMEs and companies expecting to grow substantially would be no less affected than that from other SMEs.

- Based on data on staff costs and OMIS revenues per market, we estimate the current cost recovery rate of OMIS at 34%.

- A contingent valuation approach based on a survey of users and non-users yields a statistically significant estimate of mean willingness to pay of £675 for an OMIS currently priced at £500 (+35%). We regard this as the most robust empirical estimate.

- Evidence from PIMS (based on the question whether users would be willing to pay either 25% or 50% more than what they actually paid for an OMIS) shows that:
  - over half of respondents would be willing to pay more;
  - willingness to pay more increases significantly with size of firm and with one of the indicators of innovation (measured by the introduction of new products in the last
2 years). However, this result is at odds with the fact that this innovation variable is insignificant when used to explain the willingness to use alternative provider in the absence of OMIS. Other indicators of innovation, such as R&D, are insignificant;

- willingness to pay more decreases with the actual cost of the OMIS received;
- for users who had bought an OMIS costing around £500, the responses imply an average willingness to pay of £601, which represents an increase of 20%.

The survey of alternative providers reveals that prices charged by some types of providers (such as consultancies) are significantly higher than the price of OMIS. Our respondents report day rates of up to £1,500 for services supporting UK exporters.

Our user/non-user survey shows a varied picture of the prices charged by alternative providers, with a median price of around £1,000 across all different types of service and a distribution similar to that observed for OMIS prices.

11 out of the 13 Overseas Posts believed that a 5% increase in prices will not have any effect on take-up. The answers were split regarding a 15% rise, with 5 respondents believing there will be no change, 6 a small drop and one either no change or a small drop.

Posts in high-growth markets such as China, Brazil, South Africa and Turkey expected no change in the take-up of OMIS if there were a 15% increase in prices. By contrast, Posts in developed markets such as France, where the proportion of smaller clients is somewhat greater, believe there would be a larger drop.

With a 50% price increase, again there was a split in the results, with the majority of respondents expecting a small or a large drop in take-up. The Post in Brazil anticipated that with a 50% rise in prices, clients would be more demanding about the product they were to receive, but would still accept the price increase. However, 50% was considered to be an ‘upper limit’ for price increases, any higher than this and there would be a reduction in the take-up of OMIS.

The firms who would be deterred from using the services to the greatest extent would be SMEs, including innovative and growing SMEs, who are some of the key targets for UKTI. The potential loss of benefit to these firms from OMIS, and the associated loss of wider social benefits to the UK economy, may be negated through a policy of differentiating support to SMEs aimed at minimising price increases for key client groups.

The effects of increased commercialisation and cost recovery on key target UKTI client groups

- Willingness to pay is unequally distributed across user types. SMEs are universally seen as more price-sensitive by Posts, consistent with our econometric analysis. It has been noted that the adverse economic climate has raised affordability issues for some SME users even at current prices.
- However, some Posts also expressed the view that firms that are serious about exporting would be willing to pay for a good service. In general, Posts in high-growth markets assume a higher willingness to pay than Posts in established markets (which include some of the UK’s largest trading partners);
- In the PIMS data, variables indicating positive past experience with the service as well as turnover are positively correlated with willingness to pay.
Regression analysis was used to assess the impact of a) a withdrawal of OMIS and b) higher OMIS prices on SMEs and growing and innovative firms. The analysis shows clearly that lower turnover reduces both willingness to pay and the likelihood of seeking an alternative provider in the absence of OMIS.

Our user/non-user survey reveals that firms not prepared to pay anything for an OMIS-type service most commonly see it as not relevant for their circumstances. Price and the perception that the work can be done in-house are also cited as reasons.

As OMIS is an “experience good”, meaning that only with experience of using the service do clients gain a clear understanding of what it can offer. Thus increasing the price of OMIS is more likely to deter first-time users than users with previous experience of the service.

Some Posts suggested that there is scope for price discrimination according to sector, user type (SMEs vs. larger companies) and market.

Analysis of PIMS provides some support for the view that larger companies are less price-sensitive, in particular in the lower OMIS price ranges.

Based on the user/non-user survey carried out for this study, we derive a first approximation of the price elasticity of OMIS demand of -0.7.

This suggests an increase in the cost recovery rate of 10 percentage points from its estimated current value of 34% to 44% would require an increase in the price of OMIS of just under 30% (at all price bands). This would reduce the number of OMIS deliveries by around 1,310 (21%) per year.

Given the evidence on the lower willingness to pay of smaller companies, an increase in price would invariably shift the client profile towards larger companies.

Policy recommendations

Based on the evidence gathered in this study, we propose UKTI consider the following three policy options:

- increasing in the rate of cost recovery by increasing the revenue from the OMIS service;
- increasing the price transparency of the OMIS service, thereby making it easier for clients to compare the offer with that of alternative providers; and
- exploring the opportunities for selective outsourcing to improve the coverage of UKTI and potentially enhance the overall service offered to clients.

Our reasoning behind these recommendations is set out below.

Recommendation 1: increase cost recovery

There is strong evidence that the services provided by UKTI’s Overseas Posts help businesses overcome important barriers in areas where there are market (intermediation) failures. Using UKTI services has a positive impact on firm performance.

Consequently, any move towards greater cost recovery needs to be considered in the light of the likely impact on businesses, in particular in groups that face specific barriers (such as SMEs) and other UKTI priority groups (high-growth innovative companies).
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On balance we regard a 20% price increase for OMIS as realistic without negatively affecting companies that are serious about entering overseas markets (willingness to pay for a service can be seen as indicative of the expected benefit to the business). However, it is to be expected that some companies will be priced out of the market and this effect will be concentrated among smaller companies, who might underestimate the true value of OMIS (even excluding external benefits).

Since smaller companies are also less likely to use alternative providers, a complementary policy to ensure that UKTI’s priority client groups continue to be served will be necessary.

Our analysis of the likely effect of a price increase on demand is based on survey responses relating to hypothetical price increases. We do not observe the elasticity of demand directly. Hence, the quantitative results in this study are only indicative of the effect of a price increase on demand and especially differences in the effect on specific types of firms such as SMEs and innovative firms. More detailed study of Posts’ cost structure and the price elasticities of different client groups and at different OMIS prices would be needed in order to refine the analysis. It will therefore be important for UKTI to proceed with a degree of caution and monitor the impact on take up and client profile carefully.

We note that evidence from our user/non-user survey suggests that willingness to pay for a service that comprises one specific task and is relevant to the company is in fact higher than for a broader OMIS-type service. This suggests that a clearer ex-ante view of the usefulness and convenience of UKTI’s service could improve willingness to pay.

We estimate that a 20% increase in price would lead to a 14% reduction in the quantity demanded. The cost recovery rate would be increased from 34% to 41%.

According to Posts relatively high price elasticity of demand can be expected from:

- SMEs in general;
- companies with no prior experience of OMIS;
- “born-global” companies (who might substitute internal capabilities for OMIS support).

We find quantitative evidence that being in a higher turnover bracket means being 4% more likely to be willing to pay more for OMIS.

Non-OMIS interactions, including Significant Assists should continue to be free of charge. Posts view the ability to invest time as essential to winning OMIS clients. Although only 50% of Significant Assist clients are offered OMIS, we did not find evidence that Posts use OMIS and Significant Assists as substitutes. However, we did find evidence that some Posts are under the impression that they have separate volume targets for OMIS and Significant Assists, even though we understand that this is not UKTI policy. Separate targets would be harmful for cost recovery, as Posts would have incentives to give time free to clients instead of charging through OMIS. By contrast, with a single volume target, in addition to a revenue target, Posts should have clear incentives to deliver help through OMIS wherever possible, because doing so would count towards both targets. There seems to be scope for increasing the proportion of Significant Assist clients that are offered OMIS without affecting the quality of non-OMIS interactions.
Recommendation 2: increase price transparency for users

We suggest that the presentation of OMIS prices should be simplified, to make it easier for users to assess the value for money of the service, and to compare prices with those charged by alternative providers. A charging model such as a day rate, which allows direct comparison with alternative providers, would increase transparency for users, especially if UKTI’s prices reflected costs more fully. In keeping with private sector practice, different rates could be applied to the input of staff at different levels and/or in different markets.

Increased price transparency will encourage competition with alternative providers, and help to reveal information about the relative quality of the services offered, as reflected in client willingness to pay.

Our evidence on the wider market for export support services for UK businesses is limited. The market is complex and we were able to obtain relatively little information about market participants without a prior relationship with UKTI. However, we see some scope for increased private sector provision, which could be facilitated by greater price transparency.

In broad terms, a number of substitutes appear to exist for UKTI’s services. Alternative providers, including Trade Associations, Chambers of Commerce, consultants and banks are already successfully providing these services, sometimes at prices considerably higher than UKTI’s.

Evidence on the quality of alternative providers is mixed. Evidence from PIMS shows systematically lower satisfaction levels for alternative providers, although just as with UKTI’s Posts, there are likely to be marked differences between different providers. Increased competition as a result of increased price transparency is likely to lead to better quality throughout the market over time.

However, the substitutability of services is clearly not perfect. UKTI’s unique position as a government body means that some of its functions are unlikely to be replicated by alternative providers, either at all, or at a reasonable cost. The role of UKTI is most important in circumstances where trust, objectivity and access to official contacts are required to help a UK business. There is also a class of alternative providers that provide services that are complements of UKTI’s service. These are primarily professional services that require specialist knowledge that is typically not available from UKTI Posts. The main examples are legal, accounting and financial services.

In practice, the issue of complements and substitutes is not clear-cut. It appears that many services, in particular market research, contacts and event organisation, can be delivered by either UKTI or alternative providers. However, in practice, it appears many alternative providers prefer collaboration with UKTI, rather than competition. Increased price transparency for OMIS and increased cost recovery should help the market to identify more clearly which aspects of the services are substitutable and which are complementary to those offered by alternative providers.

Recommendation 3: explore the opportunities for selective outsourcing

Existing variations in the services offered by Post in response to local market conditions show that there is scope for differentiated roles for different Posts, with Posts in some markets offering a comprehensive service, while concentrating on only a few selected services in others and maintaining a range of collaborative arrangements with alternative providers to ensure that UK businesses are adequately supported everywhere.
Executive summary

We note that differentiation by market is already a reality, with Posts in different markets reporting distinct activity profiles, presumably reflecting Posts’ individual strengths as well as local market conditions. The outsourcing of certain activities to the CBBC by the Posts in China is an example of UKTI outsourcing as a result of particular historical circumstances in the Chinese market. The evidence on the capabilities of alternative providers – while limited – suggests that there is a wider scope for this type of collaborative arrangement. However, we note that CBBC performance is currently well below the average across Posts, suggesting that outsourcing per se may not lead to higher quality or business benefit. Any further outsourcing arrangements should be done through competitive tender, paying careful attention to the capability of potential providers to deliver a high quality service, as well as the compatibility of the outsourcing model with UKTI’s public service objectives so that the trust and expected impartiality of the service received by businesses from UKTI remains unaffected. Performance management arrangements should be consistent with those for Posts, as is currently the case for CBBC, in order to allow clear and robust comparison of quality, outputs, and business impact across providers.

In general, the CBBC example should not serve as the template for possible outsourcing scenarios for other Posts. On the contrary, it should serve as a reminder that outsourcing does not necessarily improve service quality. However, we see potential opportunities for outsourcing, for example in markets where UKTI is not present or where there is a clear case that an alternative provider would add value to the overall service offering available to UK companies. Outsourcing in this sense should not be taken to refer only to the wholesale handing over of activities to private sector providers. Limited forms of outsourcing of technical services (such as event organisation, which is already practiced by some Posts) or the sub-contracting of specific tasks to individual specialists (as practiced by UKTI in the High-Growth Markets Programme or the Fiscal Stimulus Initiative for example) could prove more appropriate in many settings. An important consideration for the decision on outsourcing is how well outputs can be monitored. Where monitoring is difficult (e.g., in the case of more bespoke services), greater reliance must be placed on the ethos and organisational culture of the staff delivering the service, which may make in-house provision more attractive.

An important precondition for successful outsourcing is the existence of the necessary capabilities within UKTI. UKTI should ensure that the expertise required for designing appropriate outsourcing models, selecting the most appropriate contractor(s), drafting contracts, monitoring performance, and remediating poor performance is available before outsourcing is pursued on a greater scale.

Similar considerations should underlie Posts’ decisions regarding collaboration with alternative providers. Evidence shows a strong interest on the part of alternative providers in holding joint events with UKTI. While this could result in free-riding on UKTI’s credibility and high profile, resulting in no net benefit for UK companies, there may be cases in which synergies/complementarities between UKTI and other providers could amplify UKTI’s impact.

The issue of the interaction between Posts and alternative providers deserves further study. However, we suggest that more transparency on the one hand and the judicious use of outsourcing and other forms of collaboration on the other hand could improve the efficiency of the support system for UK companies overseas. This would involve UKTI concentrating on its unique strengths (access to information, trust and impartiality), while leaving other, more contestable parts of the market (e.g., market research, event organisation) to competitive alternative providers.
In such a setup, we would expect UKTI to act as a hub/first point of contact, in particular for SMEs and new exporters that may require a high level of initial support in order to make effective use of the services on offer. We recognise that this approach is already practiced to some degree.
1 Business need for UKTI’s trade and investment support

1.1 UKTI’s policy objectives

Research carried out for UKTI has identified a need for the government to facilitate access to world markets for UK companies, especially in emerging economies. The services offered by UKTI’s overseas network are intended to help businesses overcome barriers to accessing such opportunities, in particular by:

- strengthening the social networks and institutions which underpin international trade and investment flows, and helping individual businesses to gain access to key contact networks, by serving as a trusted intermediary;
- developing the internationalisation capabilities of innovative and high-growth businesses who would not be able to fulfil their potential without being able to exploit overseas opportunities effectively; and
- providing access to information and advice that the private sector alone would not or could not provide.

Given the evident value of these services to the recipients, UKTI intends to introduce “a more developed charging regime than at present, reflecting its value to business”\(^2\). This section presents a brief review of evidence on the need for the services provided by UKTI to UK businesses and the potential for these services to be supplied in a more commercial way or with greater involvement of the private sector.

1.2 Evidence of business need

1.2.1 UKTI services address specific business needs

UKTI provides a wide range of services for businesses in the UK, some of which are provided through the Overseas Market Introduction Service (OMIS) platform. Services typically delivered within OMIS include:

- market research (market or sector overviews and market analysis),
- information on contacts (including establishing/maintaining relationships with key contacts); and
- local market introductions (support during visits to overseas markets)\(^3\).

OMIS thus targets areas in which significant business needs have been identified, namely barriers to entering new overseas markets. A study by Chaplin (2009)\(^4\) finds three main types of barriers firms face when they attempt to internationalise:

- resource barriers;

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\(^3\) Overseas Market Introduction Service (OMIS) – Maximising the return from your support, UKTI

\(^4\) An investigation of the barriers to internationalisation faced by young technology intensive firms, Hannah Chaplin, 2009
information and network barriers; and
procedural barriers.

According to a research report by UKTI (2010), Analysis of the International Business Strategies, Barriers and Awareness Monitoring Survey, the most serious barriers to international business are difficulties in establishing an initial dialogue with potential business partners overseas and building lasting relationships with overseas partners. Moreover, results from qualitative interviews suggest that firms do not generally have a strategy to overcome these barriers. Instead, they respond to barriers as they arise, for example by asking UKTI for help.

### 1.2.2 UKTI services are effective

Past research (Hart et al, Aston University, 2009) found evidence that UKTI’s trade support measures are effective in improving recipients’ performance. Evidence from UKTI’s PIMS survey cited by the author shows that over 50% of UKTI clients have reported improved business performance (in the form of profit and productivity) since using UKTI services. In addition, UKTI support generates £65,000 of additional Research and Development (R&D) expenditure per firm. There is also evidence of complementarity amongst different UKTI services. That is, the impact of R&D is stronger with multiple service use, for example if the firm receives trade support on more than one occasion.

### 1.2.3 Users of UKTI services differ from non-users in important respects

The effectiveness of the services offered by UKTI alone does not justify the subsidy to UKTI. To evaluate the efficiency of partial taxpayer funding, it is necessary to compare the performance of businesses that use UKTI services and comparable businesses that do not. Evidence on this comes from the Performance Impact and Monitoring Survey (PIMS) non-user survey.

The PIMs non-user survey looks at the rationale for UKTI trade services in terms of service provision and subsidy. Its aim is to gather knowledge on the use of non-UKTI support services and how they compare to UKTI services in terms of impact and effectiveness. Furthermore, the survey looks at the awareness of UKTI among non-users and any barriers to exporting they face.

There are two types of non-users: supported and non-supported:

- Supported non-users are firms that have received export support from a non-UKTI source.
- Unsupported non-users are those that have received no export support at all.

The organisations for whom the highest proportion of supported firms received support from are HM Revenue and Customs, Chambers of Commerce, Trade Associations and banks. Only 23% of supported non-UKTI users actually paid for this support, and often this support took less than a day to provide.

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5 PIMs non-user survey 2010 – summary results, PowerPoint, UKTI
6 PIMs non-user survey 2010 – summary results, PowerPoint, UKTI
7 PIMs non-user survey
On the whole, supported non-users are more comparable to UKTI users. They are more innovative, engage in more R&D, introduce products, more likely to be a ‘growing’ firm and have a business plan compared to unsupported users. In general, UKTI users reported a higher level of quality in the service they received than supported non-users.

Furthermore, a higher proportion of UKTI users benefited from exporting to a significant extent than non-users. Somewhat surprisingly, only one third of unsupported firms believe they would have benefited from external advice or support.

Additional evidence comes from a 2010 BIS Economics paper\(^8\) that reviews the UKTI 2009 Non-User survey (PIMS)\(^9\) of UK exporters undertaken by OMB for UKTI in 2008-09. Prominent findings were:

- 12% of non-users of UKTI services and 20% of UKTI users reported exporting to over 20 overseas markets;
- Among UKTI users, those firms that are over 10 years old were likely to be exporting to more markets, although this pattern was not evident among non-users. This difference is likely to reflect the fact that seeking help with respect to entering new overseas markets is one of the main reasons for using UKTI services;
- Firms who are seeking to grow, and are at a ‘tipping point’ associated with attempting new market entry, are more likely to seek the knowledge and advice UKTI can provide. Therefore, users of UKTI are more likely to be growing and to expect substantial growth over the next few years;
- Innovative firms are more likely to use the service because they are more likely to: seek out support, have high growth objectives and encounter barriers to exporting which give rise to the need for support.

The DTI Economics Paper no.18, *International Trade and Investment – the Economic Rationale for Government Support*, also looks at the PIMS non-user survey. Inexperienced non-users of UKTI are less likely to report strong motivations for exporting. This may mean that these businesses are able to meet their goals within the UK market, as non-users were also less likely to be growth-oriented.\(^10\) However, this could also indicate the fact that non-users were less aware of the potential benefits of overseas market opportunities.

Additionally, non-users are less aware of UKTI and the services they provide, as noted in results from the *UKTI International Business Strategies, Barriers and Awareness Survey* (2008), which assesses a telephone survey of 900 internationally active UK firms who were selected at random from a sample. The survey showed that 80% of respondents were aware of at least one of UKTI’s services, although only 51% recognised UKTI by name. Amongst non-users, only 36% were aware of UKTI by name. Overall, only 35% of respondents had used at least one of UKTI’s services.

Overall, the evidence suggests that UKTI’s services offer the greatest benefits to a distinct group of firms, and those firms likely to benefit select to use UKTI.

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\(^{8}\) BIS Economics Paper No. 5, Internationalisation of Innovative and High Growth SMEs

\(^{9}\) OMB research 2009(b) UKTI 2009 Non-User survey (PIMS) Main Report

\(^{10}\) Also noted by BIS in the paragraph above.
1.2.4 Private sector providers are a limited substitute for UKTI

Kneller and Pisu (2008) look at survey data from UKTI to assess export barriers and the gains from accessing overseas markets using an econometric analysis. They find that the most common external information source for exporting firms was UKTI. However, many firms use more than one source of information, with friends, colleagues and Trade Associations being the most common secondary information sources. The DTI Economics Paper No.18 also states that private social networks are the most commonly cited alternative information source for exporting firms.

The available evidence does not generally identify commercial private sector alternatives to UKTI information and advisory services. However, a relatively important role is played by Trade Associations and Chambers of Commerce, but the businesses using their services are usually unaware of UKTI’s role.

A previous study carried out for UKTI\(^\text{11}\) provides some evidence on the comparison of UKTI to private sector providers is the It looks at the potential scope for private sector provision and expansion of UKTI services to SMEs by surveying a sample of firms and member organisations (which include Chambers of Commerce and Trade Associations).

The study found that the current provision of trade advisory services by commercial firms is limited. Where provision does exist, it is dominated by small firms, with 90% having only one to nine employees. There is some provision in large firms, for example banks, but little information exists on these services. Market research is the most commonly provided service, whereas there is only a weak presence of private companies offering ‘technical’\(^\text{12}\) services, such as export documentation and certificates of origin.

However, membership organisations supply some ‘technical’ services, especially Chambers of Commerce. Membership organisations also refer clients to specialists, including UKTI. The authors note the difficulty in comparing membership organisations to UKTI, due to the fact that the extent to which the actual content of services delivered by UKTI is similar to those provided by member organisations is not entirely clear.

The authors also found that on the whole, UKTI is not seen as a significant competitor by private sector firms or membership organisations. Table 1 shows firms responses to the question “Thinking about the market you operate in, who would you see as your main competitors?”. It is clear that private sector firms in the UK were seen as the main competitor for over 75% of firms, whereas UKTI was only seen as a main competitor for 13% of firms. Instead, the public sector is seen as complementing the services provided by the private sector, not as a substitute.

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\(^\text{11}\) CSSC (2007). The Potential Scope for Increased Private Sector Provision of International Trade Advisory Services to SMEs.

\(^\text{12}\) ‘technical’ services tend to be highly regulated or structured.
Table 1: Firms responses in relation to the nature of competition

<table>
<thead>
<tr>
<th>Group</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Public sector UKTI</td>
<td>13</td>
</tr>
<tr>
<td>Public sector Business Links</td>
<td>7</td>
</tr>
<tr>
<td>Public sector RDAs</td>
<td>4</td>
</tr>
<tr>
<td>Membership organisations</td>
<td>13</td>
</tr>
<tr>
<td>Private sector firms UK</td>
<td>76</td>
</tr>
<tr>
<td>Private sector firms abroad</td>
<td>23</td>
</tr>
<tr>
<td>Don't have any</td>
<td>13</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2</td>
</tr>
</tbody>
</table>

Note: the base is 94 respondents and respondents were allowed multiple responses.
Source: Table 4.36, The Potential Scope for increased private sector provision of international trade advisory services to SMEs, final report, CSSC 2007

With regards to price and quality of UKTI services compared to private providers, evidence is provided in the OMIS Client Research (2010)\(^\text{13}\) and the OMB UKTI PIMS 12-15 follow-up report (2010). According to the OMIS Client Research, only one out of the 135 surveyed client firms thought that the service was expensive. Some respondents compared the service to that provided by private consultants in the UK and suggested that the services provided through OMIS were significantly cheaper.

DTI Economics Paper No.18 argues that the government may be best placed to provide such services, and this may be why there is little evidence of substitutability between private sector providers and UKTI. The paper sets out the role of government due to a number of market failures and barriers associated with exporting of which the private sector may be unwilling or unable to solve. For example, in the case of network and intermediation failures (such as a transaction involving uncertainty where trust between business partners is crucial, but firms do not know whether they can trust their counterparties), the government is impartial and has access to information and influence that cannot be easily replicated by the private sector (such as a wide range of contacts).

Casson et al (2006)\(^\text{14}\) believes that commercial service providers would not be credible because profit-based incentives to sell endorsements to the highest bidder can present conflicts of interest and compromise impartiality. On top of this, some services cannot be reasonably charged without undermining their credibility and therefore must be fully subsidised by the government. Commercial service providers are less well placed in networks and the government has significant cost advantages alongside a unique ability to provide a quality of service that the private sector cannot replicate\(^\text{15}\).

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\(^\text{15}\) DTI Economics Paper No.18
1.2.5 Scope for private sector provision

That there may be some scope for increased private sector provision is suggested by the CSSC report on The Potential Scope for Increased Private Sector Provision of International Trade Advisory Services to SMEs. In this paper, the authors assess the current provision by commercial firms and membership organisations.

While private sector provision is limited at the moment, private sector firms are in general willing to expand, especially those active in International Trade Advisor (ITA)-type services. However, one third of firms do not want to expand. Two thirds of member organisations are willing to expand, but find funding an issue, with expectations that the public sector will fund service extension.

1.3 Summary

The broader, theoretical case for government subsidies for the provision of export support services rests on the existence of external benefits from such services, that is, benefits that do not accrue just to the companies using the services, but also to the economy as a whole via channels such as increased exploitation of comparative advantage, realisation of economies of scale and scope through internationalisation, greater competitiveness, knowledge transfer and innovation, etc.. Since the benefits that accrue to individual businesses are smaller than the overall benefits to the UK economy, a purely market based system would lead to under-provision as companies would not be willing to pay for benefits they cannot appropriate.

It needs to be stressed that the existence of social benefits that exceed the sum of the private benefits realised by users of subsidised services means that full cost-recovery would be economically inefficient: at the non-subsidised price, companies would demand a sub-optimal level of support, so that some benefits remain unrealised.

In addition, certain attributes of a “government-branded” provision of services are likely to lower the cost of government provision relative to private provision: a government-backed organisation like UKTI is likely to find it easier to gain the trust of overseas businesses and intermediaries and acquire commercially valuable information than a private organisation. While the role of UKTI can theoretically be replicated by private organisations, the cost (e.g., the time it takes to build trust) might be prohibitive. This kind of “intermediation failure” means that UKTI provision is more efficient than private provision, even if costs could be recovered fully, and offers an additional argument in favour of subsidised provision.

Currently, there is very little empirical literature on the scope for commercialisation of UKTI services and increased private sector provision. The evidence collected for UKTI so far is not conclusive, but points to a number of salient facts:

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16 CSSC (2007) Op cit
17 CSSC (2007) Op cit
18 CSSC (2007) Op cit
19 On the concept of intermediation failure see also London Economics (2010).
UKTI services are tailored to address some of the most key challenges faced by UK exporters, especially those trying to enter new markets. In particular, UKTI research identified the establishment of initial contacts with customers and business partners in overseas markets and the building of relationships as the most serious barriers to export success. Firms that use UKTI services outperform non-users in some key dimensions of business success, including growth and innovation. However, the possibility that the difference in performance is due to underlying firm characteristics, rather than the service received, cannot be ruled out. Firms consider UKTI services to be cheaper than other available alternatives. Independent research shows that the average service quality rating is higher for services delivered by UKTI than for services by alternative providers.

Alternative providers, which include commercial and membership organisations, offer at least a partial substitute to UKTI services and report a willingness to expand. However, outside certain specialist or technical services, it is unclear whether alternative providers have the capability to take over functions currently served by UKTI. Moreover, there are doubts if the cost of providing the service could be recovered.

There are theoretical arguments that market failures exist in the provision of support services to UK exporters, which would suggest that UKTI has a continued role in this market, even if there is no scope for greater commercialisation. Market failures that have been identified include network and intermediation failures. In transactions involving uncertainty where trust between business partners is crucial but firms do not know whether they can trust their counterparts, the government can play the role of an impartial intermediary and has access to information and influence that cannot be easily replicated by the private sector (such as a wide range of contacts).

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21 See OMB UKTI PIMS 12-15 follow-up report, UKTI (2010). The evidence on perceived “usefulness” of UKTI relative to private sector providers is somewhat mixed: in 2010, 12% of supported firms had also commissioned assistance from a private sector consultant and that 57% of the firms accessing this type of assistance gave it four or five out of five possible points in a usefulness rating. However, only 49% of those using OMIS gave a score of four or five, as compared with 65% other users of the UKTI services provided by embassies and consulates. However, the usefulness scores of alternative providers vary widely over the 3 years for which this metric is available (2009 = 33%, 2008 = 59%) and the sample sizes are very small compared with PIMS.
2 UKTI commercial services: OMIS and Significant Assists

2.1 Taxonomy of services provided by UKTI’s overseas network

2.1.1 Significant Assists

Significant Assists form a very important part of the service offering of UKTI’s Overseas Posts. Currently Significant Assists delivered by Posts account for some 11,543 businesses helped by UKTI, as compared with 4,342 helped via OMIS. Benefits reported by Significant Assist clients amounted to £4.132 billion in the year (reported in the December 2010 PIMS results), which represents a substantial proportion of the more than £5 billion generated by UKTI overall. This compares to just over £1 billion in economic benefits generated for OMIS clients\(^{22}\). The PIMS results also show that 63% of clients interviewed as Posts’ Significant Assists currently report significant business benefit. In particular, 43% of respondents report that the Significant Assist they received “improved business performance” in the medium term.

In our telephone survey with Overseas Posts, we found that for the majority of markets, Significant Assists are seen as an introductory service for clients and take up to 2 hours to complete. Generally, Overseas Posts allocate between 10% and 30% of their time to Significant Assists and they can include services such as a brief market analysis, an off the shelf list of contacts, undertaking preparatory activities and scheduling meetings with contacts. Specific examples of Significant Assists include helping a firm understand the regulatory environment in Turkey and an Overseas Post sending goods packaged in the client’s packaging material to potential customers.

Some Posts did not offer any services under Significant Assists because they are only seen as a ‘hook’ for potential OMIS customers. This is especially the case in Bangkok, where 70-80% of OMIS customers had previously received a Significant Assist. In many other markets, this is between 20% and 50%. However, in Düsseldorf the proportion stands at only 5%, with the majority of OMIS customers recruited via other ‘interactions’.

According to PIMS, only 50% of clients who got a Significant Assist were offered OMIS and only 13% went on to use OMIS. This fact could be interpreted as evidence that Posts invest a disproportionate amount of time in achieving Significance Assists at the expense of greater OMIS sales. However, the evidence suggests that this is not the case.

The graph below shows an inverse relationship between the likelihood of being offered an OMIS after/while receiving a Significant Assist and the time clients thought the Significant Assist took to deliver. This suggests that Significant Assists are not used to as substitutes for OMIS by Posts (i.e., they do not use Significant Assists to provide a free service in lieu OMIS).

\(^{22}\) These two services do not account for the total, because there is some client duplication across services, and the total estimates for UKTI only count each client once, irrespective of the number of different markets in which they may have received help.
Interestingly, clients assume Significant Assists to take considerably more time to deliver than that which Posts report as the actual delivery times. This could reflect a problem in PIMS reporting (respondents do not distinguish between Significant Assists and other services they received, e.g. OMIS); however, this is an unsatisfactory explanation as only 13% of OMIS users had received a Significant Assist. 23

Firms with a higher quality rating for the Significant Assist they received are also more likely to be offered an OMIS, which does support the view that Posts use Significant Assists to “advertise” their skills to potential OMIS clients. We show the correlation between the “being offered an OMIS” and clients’ impression about Posts knowledge and competence in Figure 2. A similar pattern emerges when we look at other quality dimensions such as professionalism, objectivity and communication skills.
2.1.2 OMIS

According to the results of our interviews with Overseas Posts, OMIS can encompass a wide range of services, including the provision of a market analysis, lists of contacts, warmed contacts, meetings with contacts, event organisation, preparatory and follow-up activities and other services. The combination of services included in OMIS differs by market; with event organisation being demanded by a high proportion of OMIS users in Istanbul and Johannesburg whereas market analysis and initiating a relationship with contacts (via a contact list or a meeting) are more common in other markets.

Some markets seem to specialise in certain kinds of OMIS. The Overseas Post in New York noted that their largest source of revenue was from trade missions. In China, Posts often use call-off contracts, where the client can buy a block of time (as opposed to a service) in advance that can be drawn down across different areas in China. For example, a client can pay £2,000 for 50 hours and if they want a list of contacts that takes 10 hours to prepare, they have 40 hours remaining. Call-off contracts take up 15-20% of the Posts time in Beijing. In China, UKTI also has a contract with China-Britain Business Council (CBBC) whereby CBBC provide ‘business-to-business’ OMISs and UKTI supply ‘business to Chinese government’ OMISs.

OMIS users show greater uniformity than the diversity of services offered as OMIS might suggest. In most of the Posts we contacted, the majority of OMIS users are SMEs. In Warsaw and Dubai in particular, many of the SMEs are new-to-market. These companies may be attracted to the UAE
and Poland specifically because the average annual growth rate of exports to these countries is very high, at 10.4% and 9.4% respectively.

However, in São Paulo, OMIS users are usually medium sized companies with a high percentage of exports in other markets. This may be because of geographical distance and language barriers, with many UK exporters choosing to export in Europe or the United States before they begin exporting in other markets. Moreover, of the countries that were interviewed, Brazil had the second lowest ranking for the ease of doing business index\(^24\). This may explain why exporters seek to gain experience in other markets before they go to Brazil, and why even larger businesses seek help from UKTI. In Thailand and India, UKTI clients are attracted to specific sectors, such as agriculture or advanced engineering. These clients include SMEs in bio-tech and Pharmaceuticals in India and medium sized corporations in the agri-business sector in Thailand.

Opinions were split amongst Overseas Posts when asked who is offered an OMIS. In some markets, OMIS is offered to all Significant Assist clients, whereas in others it is offered to customers who are the most likely to derive benefit from the UKTI service or are the most willing to pay for OMIS. This points to a role of Significant Assists as a screening device for identifying the most promising customers for OMIS. There are a number of other ways that clients are recruited by UKTI. The two most common ways to recruit clients are via an International Trade Advisor (ITA) in the UK or companies directly contacting a Post via walk-ins, those firms already receiving a service from UKTI and through social media.

When comparing Significant Assists and OMIS, all Posts agreed that the time involved was the major distinguishing factor and that Significant Assists take less time to complete than OMIS. In most cases, Posts stated that Significant Assists take 2 hours to complete at a maximum, while OMIS takes longer. In general, Posts allocate as much or more time on OMIS than on Significant Assists. Some Posts reported that they might spend as much as 70% to 80% of their time on OMIS. Other differences between Significant Assists and OMIS include:

- The value of the service provided.
- There is no formal agreement with a Significant Assist.
- A Significant Assist is perceived by Posts to be about output because they see the significance as determined ex post by the client, whereas OMIS is perceived to be about input.\(^25\)

### 2.1.3 OMIS pricing and cost recovery

The price of the OMIS service is based on the number of hours UKTI staff spend on delivering it. The price function \(p(h)\) approximates a linear function of time with a gradient of £40 per hour,

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\(^24\) The ease of doing business index ranks countries from 1 to 183 and is calculated as the ranking on the simple average of its percentile rankings on each of the 10 indicators of doing business. For more information, see: http://www.doingbusiness.org/~/media/FPDKM/Doing%20business/Documents/Reforms/DB10Easeofdoingbusinessrankmethod.pdf

\(^25\) This reflects the fact that there are no specific activities which define delivery of a ‘Significant Assist’ in order to record delivery of a ‘Significant Assist’, Posts are required to make a judgement as to whether they have provided help which the client will perceive as ‘significant’. Clients who are logged as having received a ‘Significant Assist’ are then included in UKTI’s Performance and Impact Monitoring Survey. Only when thus logged can the client be counted as having received a ‘service delivery’ which can count against the Posts’ targets. By contrast, delivery of an OMIS is a clearly identified activity, which can always be counted against ‘service delivery’ targets. All OMIS clients are included in PIMS.
however, seemingly for administrative ease, is in fact a step function of time, with a minimum price of £75 and price intervals of £250 over the range £250 to £3,000, followed by price intervals of £1,000 for more expensive OMIS deliveries up to the maximum price of £10,000.26 Because prices are constant over a certain number of hours, the implied hourly rate of an OMIS varies slightly within each price interval. For example, an OMIS taking 100 hours to deliver costs £4,000, or exactly £40 per hour, while an OMIS taking 124 hours (i.e., still within the same interval) also costs £4,000, but only £32.30 per hour.

**Figure 3: The OMIS price function (as of 01/04/2010)**

![OMIS Price Function](image)

*Source: UKTI*

In practice over 70% of OMIS deliveries cost £1,000 or less. As Figure 4 shows, the modal price of an OMIS in 2009/10 was £500, followed by £1,000 as the second most common price.

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26 According to UKTI figures, more expensive OMIS deliveries are sometimes recorded, but they are exceedingly rare (only one was recorded across the entire UKTI network between 01/10/2009 to 30/09/2010).
Figure 4: Total UKTI OMIS deliveries by service level (01/10/2009 to 30/09/2010)

Note: the intervals in Figure 4 do not exactly coincide with those shown in Figure 3; we assume this is because the pricing system shown in Figure 3 only came into effect in April 2010.

Source: UKTI

Asked about this pattern, one of the Posts we interviewed offered the explanation that a £500 OMIS, i.e. 12.5 to 18 hours of work, was what was needed to prepare and support a week-long visit from a UK firm to a prospective export market, and that this type of visit was a common part of firms’ strategy for entry into a new market. While this is unlikely to account for all or even the majority of service deliveries in this price category, it does suggest that certain patterns of typical firm behaviour are behind the observed distribution of OMIS prices.

Across the 108 overseas markets in which UKTI delivered OMIS in 2009/10, the average (mean) revenue from OMIS sales was approximately £60,000. However, as Figure 5 shows, the distribution is highly skewed, with a number of markets (including Brazil, France, Germany, India, China and the US) achieving revenues of several hundred thousand pounds per year, while the majority of markets see revenues of less than £50,000 per year, resulting in a median value of £32,000.
Figure 5: Distribution of OMIS revenues across 108 markets (01/10/2009 to 30/09/2010)

Note: The figure shows a summary of the distribution of OMIS revenues across 108 markets. It displays the median of the distribution (the white dot in the centre); the inter-quartile range (the dark rectangle in the centre); the “adjacent value range” (the protruding lines, 1.5 x IQR), all enclosed by the estimated density of the distribution.

Source: UKTI

Looking at OMIS revenues and export volumes (overall UK exports), we find a significant positive relationship: generally, the greater the volume of UK exports to a market, the higher the OMIS revenues. Strikingly, however the OMIS revenues achieved by Posts in Brazil, India and China (and to a lesser extent in Japan, Saudi Arabia and Australia) are proportionately much higher than in more established markets such as the United States, Germany and France, even though these account for a higher share of UK exports. This suggests that OMIS is in demand particularly in markets that are geographically and/or culturally distant and supports the view that exporters to such markets face substantial barriers that UKTI is helping to overcome.
Interestingly, we also see a positive relationship between OMIS cost recovery rates and the barriers to doing business in overseas markets. The relationship is shown in Figure 7 and suggests that Posts in “difficult” markets are better able to convert the value of their service into revenue.
Figure 7: OMIS cost recovery rate and ease of doing business

Note: The ease-of-doing-business index ranks economies from 1 to 183, with first place being the best. A high ranking means that the regulatory environment is conducive to business operation. The index ranks the simple average of the country’s percentile rankings on 10 topics covered in the World Bank’s “Doing Business”.

Source: London Economics, World Bank, Doing Business project (http://www.doingbusiness.org/)

Under the assumption that the mid-point of the number of hours that define each price interval (i.e. the average of the lowest and the highest possible number of hours in an OMIS of the same price) is the number of hours an OMIS took to deliver, we can calculate hours spent by Posts on OMIS work per market. UKTI also provided us with figures on annual staff costs per Post, which we can use to derive an estimate of hourly labour cost per Post. Multiplying the hours spent on OMIS with the estimated hourly labour costs gives us an estimate of the cost of OMIS provision (ignoring all non-labour inputs). Finally, dividing the cost estimates by the OMIS revenues of each Post we can calculate an indicative cost recovery rate for the OMIS service.

The result of this exercise is shown in Figure 8. The relatively symmetrical distribution (ignoring some outliers with cost recovery rates below 20%) has a mean cost recovery rate of approximately 36%.

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27 At the upper end of the scale, we assume the 450 hours for an £18,000 OMIS represent the maximum number of hours that can be spent on a single OMIS.
28 For this, we assume 1,584 work hours per year: a 36hr per week (7hr 12mins per day) and 220 days in a year [260 working days in a year minus annual leave entitlement (30 days) and public holidays (up to 10)].
2.2 Willingness to pay

This section of the study presents a variety of estimates of willingness to pay based on the information collected from Posts and through our surveys and secondary analysis of PIMS data. It also explores the determinants of willingness to pay, the impact of an increase of the OMIS price on demand and the implications for cost recovery.

2.2.1 Estimates of willingness to pay

*Posts’ views*

Overseas Posts’ were asked their views on the effects of a price rise on the take-up of OMIS. Respondents in 11 out of the 13 markets surveyed believed that a 5% increase in prices will not have any effect on take-up. The answers were split regarding a 15% rise, with 5 respondents believing there will be no change, 6 a small drop and one either no change or a small drop. Overseas Posts in China (Beijing and Guangzhou) expected no change in the take-up of OMIS if there was a 15% increase in prices, as did those in Brazil, South Africa and Istanbul.

With a 50% price increase, again there was a split in the results, with the majority of respondents expecting a small or a large drop in take-up. The Post in Brazil anticipated that with a 50% rise in
prices, clients would be more demanding about the product they were to receive, but would still accept the price increase. However, 50% would be an ‘upper limit’ for price increases, any higher than this and there would be a reduction in the take-up of OMIS. Similarly, the Posts in China thought that any price increase of up to 45% (Guangzhou) or up to 30% (Beijing) would lead to no change in take-up. This relative insensitivity to price changes may be because the average annual growth rate in exports to China is relatively high, at 16.6%.

<table>
<thead>
<tr>
<th>Price Rise</th>
<th>Take-up of OMIS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No change</td>
</tr>
<tr>
<td>5%</td>
<td>11</td>
</tr>
<tr>
<td>15%</td>
<td>½</td>
</tr>
<tr>
<td>50%</td>
<td>½</td>
</tr>
</tbody>
</table>

Note: Dubai is in the ‘Don’t know’ column. ½ means that the Post selected two of the options for the drop in take-up. MNC is multinational corporation and SME is Small and medium sized enterprise.

Source: London Economics Survey of Overseas Posts

Figure 9 illustrates the implications for users’ willingness to pay for a generic OMIS currently priced at £500. The bars show the implied willingness to pay intervals, i.e. the price range where demand begins to fall.29 The lower limit is set at the price increase that is expected to leave demand unchanged, whereas the upper limit is set where Posts expect a small drop in demand. The true willingness to pay can be expected to lie somewhere between the two points. In São Paulo, the price would have to be raised to £750 before any change in demand would occur, whereas in Düsseldorf, any change in price is expected to lead to a decrease in the take-up of OMIS. Thus, while Posts agree that increasing the price of OMIS would be feasible, the effect of an increase on demand can be expected to vary across Posts.

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29 Note that the estimates of the expected demand reduction following a price increase are qualitative. Respondents were not asked to quantify what they understood by a ‘small’ or ‘large’ drop.
Evidence from PIMS

UKTI’s user satisfaction survey PIMS contains observations on the price OMIS users paid for the service as well as evidence regarding the hypothetical willingness to pay more than the actual amount. The distribution of prices paid by PIMS respondents is shown overleaf.
The questions in PIMS that elicit information on willingness to pay ask whether respondents would have purchased the service they received if the charge had been either 25% or 50% higher. Of the sample of 934 OMIS users, 507 answered “yes” to one of the options. This means that, regardless of the actual prices paid, more than half of the OMIS users responding to PIMS would have been prepared to pay at least 25% more than the actual cost of the OMIS they received.

Table 3: Willingness to pay in the PIMS sample of OMIS users

| Range of prices paid | No. of observations | WTP = price + 25%* WTP = price + 50% WTP > charge** |
|----------------------|---------------------|---------------------------------|---------------------------------|---------------------------------|
| 0-400                | 93                  | 17.2%                           | 40.9%                           | 58.1%                           |
| 401-800              | 309                 | 20.7%                           | 35.0%                           | 55.7%                           |
| 801-1,200            | 321                 | 17.1%                           | 35.8%                           | 53.0%                           |
| 1,201-1,600          | 101                 | 20.8%                           | 35.6%                           | 56.4%                           |
| 1,601-2,000          | 89                  | 21.3%                           | 28.1%                           | 49.4%                           |
| 2,001+               | 21                  | 9.5%                            | 33.3%                           | 42.8%                           |
| **Average (total)** | **(934)**           | **17.8%**                       | **35.2%**                       | **52.6%**                       |

Note: * i.e., respondents willing to pay only 25%, not including respondents who would also pay 50% more; ** respondents willing to pay either 25% more (only) or 50% more than the true price of the OMIS.

Source: PIMS
To see what the reported willingness to pay would mean, consider the case of an OMIS priced at £500\(^{30}\), which is the most frequently demanded price category (Figure 10). Adding 25% and 50% respectively to the sum actually paid for those users who said they would have paid the higher amount gives the implied price at which these respondents would have purchased the OMIS they in fact received for £500.

Taking the average of all prices (i.e. the prices actually paid for those who are not prepared to pay more and the increased prices for those who are) gives a measure of mean willingness to pay. This calculation suggests that the average price that OMIS users would be prepared to pay for a £500 OMIS is in fact £601, which is 20% more than the current price. Note that this is a conservative estimate as the willingness to pay of respondents could be higher than the discrete 25% and 50% price increases they were asked about. However, also note that these results rely on the willingness to pay stated \textit{ex post} and thus refer to people who have already experienced the service. The nature of OMIS as an experience good means that the willingness to pay of non-users is likely to be lower.

\textit{Prices charged by alternative providers}

In the survey of alternative providers, respondents were asked what their typical day rate for an assignment to help a client do business outside his home market would be. On average, the lowest prices were for services provided by Chambers of Commerce and Trade Associations, at £198 and £232 per day respectively (Table 4). However, some of these organisations said they did not charge members, who instead paid an annual subscription fee. However we did not gather information on how much the membership fee is. Consultancies and “other” organisations charged rates up to 8 times higher than those offered by Chambers of Commerce and Trade Associations, at £1,582 and £875 per day on average.

<table>
<thead>
<tr>
<th>Type of provider</th>
<th>No. of respondents</th>
<th>Lowest rate</th>
<th>Highest rate</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chambers of Commerce</td>
<td>13</td>
<td>0</td>
<td>£500</td>
<td>£198</td>
</tr>
<tr>
<td>Trade Associations</td>
<td>16</td>
<td>0</td>
<td>£1,207</td>
<td>£232</td>
</tr>
<tr>
<td>Banks</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Market Research companies</td>
<td>2</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Consultancy</td>
<td>8</td>
<td>£64</td>
<td>£3772</td>
<td>£1,582</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
<td>£95</td>
<td>£3,093</td>
<td>£875</td>
</tr>
</tbody>
</table>

Note: When Chambers of Commerce and Trade Associations say £0, this may include some services that are provided to members who pay an annual subscription fee. However, we do not know what this fee is.

\textit{Source: London Economics}

The following table presents the total cost of certain services as incurred by respondents. Interestingly, the prices charged by alternative providers for the different services show a distribution that is broadly similar to the distribution of OMIS prices, with a median price across all services of £1,000.

\(^{30}\) To boost the sample, we included the interval 450 ≤ price ≤ 500 in this category. The total sample then consists of 297 observations.
Table 5: Prices charged by alternative providers by type of service

<table>
<thead>
<tr>
<th>Package of services (£)</th>
<th>Market overview (£)</th>
<th>List of contacts (£)</th>
<th>“Warmed up” contacts (£)</th>
<th>Event organisation (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000</td>
<td>70</td>
<td>100</td>
<td>250</td>
<td>100</td>
</tr>
<tr>
<td>1,000</td>
<td>80</td>
<td>200</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>1,500</td>
<td>200</td>
<td>500</td>
<td>500</td>
<td>400</td>
</tr>
<tr>
<td>1,500</td>
<td>300</td>
<td>700</td>
<td>2,000</td>
<td>500</td>
</tr>
<tr>
<td>2,000</td>
<td>500</td>
<td>1,000</td>
<td>3,000</td>
<td>700</td>
</tr>
<tr>
<td>2,500</td>
<td>600</td>
<td>1,500</td>
<td>3,500</td>
<td>700</td>
</tr>
<tr>
<td>8,000</td>
<td>700</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16,000</td>
<td>1,000</td>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>average 4,188</td>
<td>606</td>
<td>667</td>
<td>1,592</td>
<td>2,045</td>
</tr>
</tbody>
</table>

Note: the table shows the individual observations of prices paid as reported in the user/non-user survey.

Source: London Economics survey of alternative providers

None of the information on the prices of alternative providers offers a direct comparison with OMIS. However, there is evidence that OMIS is priced in a range similar to that of alternative products. When we look at day rates, we find that Chambers of Commerce seem to be considerably cheaper than UKTI, although the picture might be distorted by the pricing model that includes membership fees. Consultancies and other providers (e.g. accountancy firms) have day rates of several multiples of comparable OMIS charges.

The contingent valuation approach

To add to the evidence cited above, we produced our own estimates of WTP based on a dedicated survey of 300 UK companies. The sample of companies was drawn from participants of UKTI’s 2010 Internationalisation Survey that had given permission to be contacted for further research.

The Internationalisation survey used a representative sample of 900 firms that were involved in overseas business and includes both users and non-users of UKTI services. In the final sample of 300 companies, 78 (26%) had used UKTI services in the past and 255 (85%) were innovative firms as defined in the original Internationalisation Survey. The survey was carried out on behalf of London Economics by OMB Research32 by means of computer-assisted telephone interviews (CATI) during December 2010.

To estimate WTP, we adopted a contingent valuation (CV) approach. CV is a method that uses stated preferences to estimate WTP for goods for which actual market prices are not available. In essence, the CV method consists of two elements.33

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32 These are respondents who said they had used a) ‘any of UKTI’s services’ or b) ‘the commercial services services provided by UK embassies/consulates or c) OMIS.
33 [http://www.ombresearch.co.uk](http://www.ombresearch.co.uk)
34 For a detailed overview of stated-preference techniques for economic valuation see Pearce et al. (2002).
First, respondents are presented with a valuation scenario, i.e. a detailed description of the good or – as in this case – service they are asked to value.

Secondly, information is elicited about individuals’ WTP for the good or service thus described.

We use CV to examine WTP for a stylised version of the OMIS, which is appropriate as 96% of respondents never used OMIS before, which means their valuation of the service is hypothetical. To ensure that the CV approach is valid also for respondents with past experience of OMIS, the valuation scenario aimed to create in respondents’ mind a clear image of a service that they can evaluate independently of their past experience with OMIS. Given its crucial importance for the success of the CV survey, the valuation scenario was extensively tested and piloted to ensure that it is clear, economical and an accurate description of the service offered by UKTI. The text of the valuation scenario is reproduced in the box below.

**Box 1: The valuation scenario**

“\[I’m now going to read out a description of a service offered by UKTI to support UK firms that want to sell into overseas markets. \textbf{[If the respondent has used OMIS before]:} This is a version of the OMIS service, but please answer the subsequent questions based on the service I’m about to describe and not based on your own experiences of the OMIS service.\]

The service is an introduction to an overseas market. Depending on your requirements, it typically includes some or all of the following 3 elements:

- An overview of the market that you are planning to enter that is specific to your sector and your needs
- A list of validated contacts for potential customers or business partners
- Support in connection with a market visit, such as organising meetings with overseas contacts or help with interpretation, business etiquette and culture.

The service is delivered by the staff at UK embassies and consulates overseas, and typically takes around 12 hours of their time. This service is often used by businesses to prepare for and support a week-long visit to a new market.”

After presenting them with the valuation scenario, respondents were screened on the basis of how well they could picture the service that had been described. Respondents stating they had “no real idea of what this service involves” were excluded from the WTP estimation.

WTP elicitation was implemented using a double-bounded dichotomous choice format. With double-bounded dichotomous choice, respondents are first asked to reply “yes” or “no” to the question whether they would pay a stated sum for the service. Respondents are then asked a second dichotomous choice question which depends on the previous response:

- if the first response is “yes”, the second bid is greater than the first bid;
- if the first response is “no”, the second bid is smaller.

This approach allows us to construct intervals around respondents’ true WTP, thereby increasing the amount of information that can be used to estimate mean WTP relative to the single-bounded
(only one yes/no question) approach. The efficiency gains associated with the double-bounded approach have been shown to be substantial\textsuperscript{34}.

In a final step, respondents were asked to state their maximum WTP for the service. This was done to ensure the consistency of responses and to place upper bounds on the WTP intervals. A graphical summary of the elicitation approach is shown in Figure 11.

**Figure 11: WTP elicitation approach**

![Diagram of WTP elicitation approach]

Source: London Economics

The success of the CV approach in eliciting accurate information on WTP and thus permitting the estimation of mean WTP across the sample depends on:

- the quality of the valuation scenario; and
- the choice of price points (bids).

Great care was taken to ensure that both conditions were met. The design of the valuation scenario was based on the results of the Posts consultations and extensive discussions with UKTI staff as well as a number of pilot interviews with exporters. The screening question asking about respondents’ ability to picture the service revealed that over 90% of respondents had at least a “fairly clear picture” of the service after listening to the valuation scenario.

On the crucial issue of the choice of price points, two requirements are paramount. Price points:

- have to show enough variation – given the constraints imposed by the sample size – to allow meaningful statistical analysis; and
- must cover the range of WTP values across the sample.

\textsuperscript{34} See Hanemann et al. (1991).
The two issues are interrelated, as a wrong price range will result in a low variation in responses (e.g. if the chosen price points are substantially below maximum WTP, we would expect a preponderance of “yes” responses at higher price points and thus a lower variation in observations than if the price points coincided with the true distribution of WTP). In practice, the choice of price points thus requires a good prior understanding of the likely WTP distribution.

We used consultations with UKTI staff as well as information about current pricing by UKTI and other providers to select a total of six price points35, which were organised into four triplets consisting of an initial bid and associated lower and higher bids. An approximately equal number of respondents were randomly assigned to each of the four bid groups to achieve the desired variation in valuation intervals. On top of this, the additional open-ended question about maximum WTP acts as an insurance against missing price points.

<table>
<thead>
<tr>
<th>Table 6: Bid groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
</tbody>
</table>

*Source: London Economics*

Based on this, the next step is to construct a WTP interval for each respondent. This is done according to the following rules:

<table>
<thead>
<tr>
<th>Table 7: Constructing the WTP intervals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Initial bid</td>
</tr>
<tr>
<td>YES</td>
</tr>
<tr>
<td>YES</td>
</tr>
<tr>
<td>NO</td>
</tr>
<tr>
<td>NO</td>
</tr>
</tbody>
</table>

*Note: * lower bid, where maximum WTP is not observed.

*Source: London Economics*

The resulting intervals represented in the sample are shown in Figure 12. Around 120 respondents reported a maximum WTP of zero, while the rest show positive valuations that lie within intervals of varying width. The distribution of both OMIS users’ and non-users’ valuation across the valuation spectrum is further proof that the selected price points represent an adequate approximation of the true WTP distribution.

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35 The number of price points was chosen based on the range of prices deemed feasible by UKTI. For a CV study with similar sample size (N = 283) that uses the same number of price points, see Ortiz et al. (2004).
Figure 12: WTP intervals in respondent sample

Note: Four observations with WTP upper bounds > £2,500 were omitted from the figure to highlight the dispersion of intervals at lower values. The complete graphic is shown in Annex 3. The red line at £500 represents the assumed current price of the service.

Source: London Economics

After ascertaining that the data collected in the user/non-user survey contains usable information on WTP, we adopted a two-stage approach to:

- determine whether UKTI could charge a higher price for a generic OMIS; and to
- provide numeric estimates of mean WTP.

The first task is to establish a lower-bound estimate for WTP. As we have seen in Table 21, the pattern of WTP responses observed in our sample is well-behaved, i.e. it does not violate any assumptions needed to successfully apply the proposed analysis. In other words, there is no reason to suspect that WTP estimates will depend strongly on the choice of the distribution of the unobserved random component of individuals’ preferences or the functional form of the preference function.

However, we can ensure against the potential sensitivity of WTP estimates to restrictions on functional form and distribution assumptions by estimating a baseline for WTP using the non-parametric Turnbull estimator. The Turnbull estimator uses only the responses to the initial bid to compute the relative frequencies of the WTP intervals in the sample:

\[ E_{LB}(WTP) = \sum_{j=0}^{M} t_f f_{j+1}, \]
where \( t_j, j = 1, 2, ..., M; \)

\( M \) is the number of distinct prices or bids offered; and

\( f_j = f_{j-1} \) is the weight of the distribution falling between price \( (j) \) and the previous price. In this form, the vector of probabilities \( (f = f_1, f_2, ..., f_M) \) represents a discrete form of the density function.

\( E_{lb}(WTP) \) is calculated by multiplying each bid by the probability that WTP falls between that bid and the next higher bid, so that, if WTP falls between any two bids, it is assumed that WTP is equal to the lower of the two bids. Thus \( E_{lb}(WTP) \) represents the minimum expected WTP for all non-negative distributions of WTP.\(^{36}\)

For our lower-bound estimate we only use observations on businesses that are “in the market”, i.e., those whose maximum WTP is strictly greater than zero. This leaves 175 observations for which WTP information is available. Based on this sample, the estimate of the lower bound for WTP is \( \£570.37 \).\(^{37}\)

In a second step, we use all the information revealed by the double-bounded dichotomous choice approach, i.e., the full WTP intervals for all businesses whose upper bound WTP is greater than zero. Mean WTP is estimated using a constant-only interval regression model. “Constant-only” means that the model estimates mean WTP without including any predictors. Because of our chosen elicitation format, WTP is observed only in intervals, rather than exact values. Hence, mean WTP is not simply the mean of the observed values, but is calculated iteratively by maximising the log likelihood of the data given a mean predicted value. The constant-only model predicts a mean WTP of \( \£675 \), with a standard error of 34.5 and a 95% confidence interval that ranges from \( \£607 \) to \( \£742.38 \).\(^{38}\)

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\(^{37}\) Detailed estimation results in Annex 3.

\(^{38}\) Detailed regression results in Annex 3.
Analysis of the survey data shows that WTP among “in-the-market” businesses for a generic OMIS that is currently priced at £500 is at least 14% higher (£570). A highly significant estimate based on 175 WTP intervals shows WTP to be as much as 35% higher, at £675. Although the limited sample size means that there is a relatively wide confidence interval at the 95% level around the point estimate of mean WTP, even at the lower bound of the confidence interval WTP would be 24% higher than the current price.

Besides the high statistical significance of these results, we note that they coincide with the judgement expressed by staff at UKTI’ Overseas Posts during consultations.

**Willingness to pay for specific UKTI services**

In a separate question, respondents were asked to state which of the three main types of services offered under OMIS was the most valuable to them (market overview, validated contacts, support in connection with a visit to an overseas market).

Respondents were then asked to state the amount they would be willing to pay for an instance of their preferred service that took UKTI staff no more than three hours to complete. The following histogram shows the distribution of the 239 non-zero responses.
While around a third of respondents would not pay for this service, the majority of respondents report a positive willingness to pay, with WTP values clustered in the interval between zero and £500, with a marked spike at £500. While a bias towards round numbers is evident in the answers, the spike at £500 could be interpreted to mean that a significant number of respondents assume a £500 OMIS takes just three hours to deliver, considerably underestimating the true effort involved.

The average value given to the three-hour mini-OMIS by respondents is £304 (£242 if missing observations are treated as zeros). These figures seem high when compared with the WTP reported for the £500 OMIS that respondents were told took 12 hours to deliver.

While this indicates that the figures should be treated with some caution, it might suggest that some customers place a disproportionately high value on services that they know will be of value to them and can be delivered very quickly.

2.2.2 Determinants of willingness to pay

Posts’ views

The Overseas Posts identified a number of determinants of willingness to pay for services provided by UKTI. These include:

- Type of service;
- Firm type;
Status as “repeat-user” of the UKTI overseas network; and

Type of service

The majority of Posts believed that it would be not be feasible to charge for Significant Assists, mainly because it would have a negative impact on the number of customers working with UKTI and going on to request an OMIS. Only one Post thought that it may be feasible to charge for Significant Assists, as long as interactions were still free of charge.

Firm type

According to the Posts interviewed, SMEs were most likely to be affected by a change in the price of OMIS. Additionally, in Istanbul, two types of company were identified as being most affected by a potential increase in the price: low value end companies and “born global” companies. Low value end companies will decrease demand for OMIS because it becomes too expensive, while “born global companies” will decrease take-up because they believe they can do it better on their own. In some other markets, large companies were willing to pay more, due to higher marketing budgets. In Dubai, companies with experience in the Middle East were considered to be prepared to pay more.

Use of service

Repeat clients are more willing to pay for OMIS than new customers. This is evidence that OMIS is an experience good: it is only with experience of the service that users become fully aware of its value. Firms with little prior experience of OMIS are thus less likely to be able to judge the true benefit of OMIS and thus are less prepared to pay higher prices. It can also be assumed that demand from new users falls more sharply than demand from experienced users for a given price increase.

Sector type

In New Delhi, willingness to pay was higher for companies in well-established sectors, because more in-depth market intelligence is required in order to compete. This is backed up by the Post in South Africa, who believes that firms interested in market research or intelligence are likely to pay more.

Evidence from PIMS

A quantitative exploration of the determinants of willingness to pay was undertaken based on the results of the PIMS survey. To do this, we looked at the relationship between users’ stated willingness to pay either 25% of 50% more for OMIS than they were actually charged and 35 variables that included indicators of:

- overall satisfaction with the service received;

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39 A table showing the full list of variables is included in Annex 2.
firm characteristics (size, age, sector of activity, export experience, membership of Trade Associations, etc.)

- firm-level outcomes (barriers overcome, increased productivity, increased skills, entry into new market, etc.)
- motivation for exporting (geographic diversifications, personal overseas connections, pursuit of growth, demand from overseas, etc.); and
- macro/environmental factors (export market for which OMIS was used, impact of exchange rate, economic downturn in the home market)

Overall, the partial correlations (measured by Cramér’s V, a correlation measure particularly suited to the analysis of categorical variables) are rather weak. However, in cases where there is an expected direction for the correlation, this is borne out by the data: the factors relate to WTP that common sense (and economic theory) would predict, e.g., higher satisfaction levels are associated with a higher propensity to be willing to pay more than the actual cost of the OMIS received.

The weakness of the correlations suggests that the causal relationship between WTP and the explanatory factors found in PIMS is weak. We present below the five variables that are at the same time relatively strongly correlated with WTP and that plausibly are likely to influence WTP, even though their explanatory power for the PIMS sample is low.

<table>
<thead>
<tr>
<th>No.</th>
<th>Variable</th>
<th>Cramér's V</th>
<th>Obs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Overall satisfaction with service</td>
<td>0.21</td>
<td>775</td>
</tr>
<tr>
<td>2</td>
<td>Profile: past attempts to do business overseas</td>
<td>0.17</td>
<td>75</td>
</tr>
<tr>
<td>3</td>
<td>Profile: turnover</td>
<td>0.17</td>
<td>652</td>
</tr>
<tr>
<td>4</td>
<td>Analytic: improved productivity &amp; competitiveness</td>
<td>0.17</td>
<td>776</td>
</tr>
<tr>
<td>5</td>
<td>Analytic: barriers to entry overcome</td>
<td>0.16</td>
<td>776</td>
</tr>
</tbody>
</table>

*Source: London Economics*

Unsurprisingly, past experience of OMIS seems to affect WTP. The more satisfied respondents were with the OMIS they received in the past, the higher the proportion willing to pay more. However, 42% of “very satisfied” OMIS clients would not be willing to pay more for the service. Similarly, improvements in firm performance, especially with respect to overcoming barriers to entry into foreign markets and improved productivity and competitiveness following the use of OMIS seem to positively affect WTP.

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40 See Table 20, Annex 2.

41 Note that some variables with similarly strong correlations have been not been included here as closer inspection revealed the correlations to be spurious or artefacts of implausible observations.
Figure 15: Determinants of WTP: satisfaction and firm-level outcomes

Source: London Economics
In terms of firm profile on WTP, we find that respondents with no past experience of exporting are more likely to be willing to pay more, which could suggest that OMIS is particularly beneficial to first time exporters. This could be seen as confirmation for the validity of UKTIs approach to help businesses overcome initial barriers to exporting such as establishing contacts with business partners overseas. The relationship between WTP and turnover suggested by the PIMS data confirms the view of some Posts, namely that larger companies tend to be more insensitive to the price of OMIS.

Figure 16: Determinants of WTP: firm profile

Source: London Economics

WTP of priority client groups

Given the importance for UKTI to reach companies that have been shown to face particular barriers to entering overseas markets (thereby ensuring net additionality), we carried out a separate regression analysis of the influence of relevant factors on WTP. Specifically, we looked at how firm size, export experience and innovation performance affect WTP, while controlling for the price that respondents’ had paid for their OMIS.

- A logit regression of the four variables on WTP (with WTP included as a binary index) shows that turnover and innovation (measured as the introduction of new products in the last 2 years) are significant positive predictors of WTP. However, the validity of the innovation variable as a predictor of WTP is doubtful as the other innovation variables in PIMS (patents and number of staff engaged in R&D and product development) are insignificant.
- Export experience and cost of the OMIS received have negative effect on WTP, although export experience is a relatively insignificant predictor.

Several variables measuring firms’ innovation performance are included in PIMS. We use the most significant variable, which indicates whether a company introduced new products over the last two years.
The table below shows the predicted marginal effects of the four explanatory variables on the 0/1 index of WTP and their significance level (the regression output is shown in Annex 4).

Table 9: WTP explanatory factors (PIMS)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Marginal effect</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of OMIS received (£’000)</td>
<td>-0.09***</td>
<td>0.01</td>
</tr>
<tr>
<td>Company turnover (index)</td>
<td>0.04***</td>
<td>0.01</td>
</tr>
<tr>
<td>Export experience (index)</td>
<td>-0.01</td>
<td>0.11</td>
</tr>
<tr>
<td>Innovation - new products (index)</td>
<td>0.05**</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Note: based on 577 observations. *** significant at the 1% significance level; ** significant at the 5% significance level; * significant at the 10% significance level.

Source: London Economics

Evidence from the user/non-user survey

Survey respondents not willing to pay any amount for the service were asked for their reasons. The responses are shown in Figure 17. The most important reason reported (37% of observations) is having no need for this type of service or the service not being relevant for the respondent’s business. The next most important reasons are the price of the service (19%) and companies thinking they can perform the necessary activities in-house (16%).

Interestingly, while 39 of the 50 respondents who cited price as the reason for not wanting to pay for the service had heard of UKTI, only 16 had heard of OMIS and only 3 had used it. This underlines that OMIS is an “experience good”43 and suggests that perceptions are an important obstacle for non-users to using a service that isn’t free.

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43 In the sense that its value is only known to consumers after having used it.
Figure 17: Reported reasons for WTP = 0

<table>
<thead>
<tr>
<th>Reason</th>
<th>Number of Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>The service should be free</td>
<td></td>
</tr>
<tr>
<td>We're a small business</td>
<td></td>
</tr>
<tr>
<td>Would use a different (non-UKTI) provider</td>
<td></td>
</tr>
<tr>
<td>Don’t have enough information about the services offered</td>
<td></td>
</tr>
<tr>
<td>Previous bad experience of UKTI / concerns about quality of service</td>
<td></td>
</tr>
<tr>
<td>No guarantee of sales/success</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Have capacity to do this sort of thing ourselves / in-house</td>
<td></td>
</tr>
<tr>
<td>Service is too expensive</td>
<td></td>
</tr>
<tr>
<td>Don’t need this type of service / not relevant to our business</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** London Economics

The small sample prevented us from carrying out a detailed analysis of the influence of respondent characteristics on WTP. Specifically, the nature of the data (relatively little variation in the WTP intervals due to limited number of price points in the survey design) precludes us from drawing strong quantitative conclusions. However, some interesting results are suggested by the data, as the Table 10 shows:

- The correlation between a positive willingness to pay and various indicators of firms’ export experience is negative (if quite low).
- Familiarity with UKTI in general and the OMIS service are positively correlated with non-zero willingness to pay.
Table 10: Correlation of firm characteristics with positive willingness to pay

<table>
<thead>
<tr>
<th>Variable (1 = TRUE, 0 = FALSE)</th>
<th>Correlation with WTP (1 = WTP &gt; 0, 0 = WTP = 0)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Successfully started doing business in any new overseas In the last 2 years</td>
<td>-0.04</td>
</tr>
<tr>
<td>Selling directly to overseas customers</td>
<td>-0.07</td>
</tr>
<tr>
<td>Selling to overseas customers through agents or distributors</td>
<td>-0.02</td>
</tr>
<tr>
<td>Licensing or franchising overseas, or other contractual arrangements such as joint ventures</td>
<td>0.11</td>
</tr>
<tr>
<td>Operating your own overseas site or office</td>
<td>0.17</td>
</tr>
<tr>
<td>Heard of UKTI</td>
<td>0.21</td>
</tr>
<tr>
<td>Heard of OMIS</td>
<td>0.15</td>
</tr>
<tr>
<td>Used UKTI service</td>
<td>0.14</td>
</tr>
<tr>
<td>Used OMIS</td>
<td>0.13</td>
</tr>
</tbody>
</table>

Source: London Economics

2.3 The effect of higher OMIS charges on demand

Under normal assumptions of economically rational behaviour, any increase in the price of OMIS would be expected to reduce the quantity demanded to some degree. Below, we present evidence of the extent of demand reduction based on the consultation with selected Overseas Posts as well as evidence from PIMS and the user/non-user survey. It should be noted that the quantitative evidence is limited (especially in relation to PIMS data), so that we regard the views of UKTI Posts as potentially indicative of the possible impact of increased prices on OMIS demand. In addition, it is very important to note that we only gathered information on the possible impact of changes in OMIS prices on the quantity demand from two Overseas Posts, and as such these responses may reflect the price impacts in particular regions or exporting sectors.

2.3.1 Posts’ views

The two Posts (located in the Middle East and the Far East) that provided quantitative estimates of the level at which an increase in the OMIS price would affect demand stated that:

- large companies would not reduce demand even with a 50% price increase; and that
- the breaking point would be a 30% rise in prices. If the rise was any higher than this, then ‘most’ of the SME’s would be affected.

As outlined in the previous section, factors such as firm type, sector of activity and previous experience with OMIS/UKTI do affect companies’ willingness to pay and hence their expected reaction to an increase in the price of OMIS. The Posts generally agree that larger companies would accept higher prices while SMEs would be more likely to reduce demand. However, it was also reported that some large companies (for example in the defence sector) thought they had a “right to a free service” even at the current price level.

A point made by several Posts more generally is that people do not know the quality of the service they are buying in advance, which means that the experience of the service can change their willingness to pay. This supports the point made above, that OMIS is an “experience good”. Two Posts reported that the positive experience of first-time users often lead to higher willingness to pay on subsequent occasions. Posts also commented that general export experience also increases
willingness to pay, although in our data analysis (see below) we did not find evidence of any significant correlation between export experience and WTP.

Differences between sectors were also mentioned by a number of Posts. One Post cited the media sector as particularly price sensitive; while another pointed out that well-established export sectors had a higher tolerance for price increases as higher levels of investment in market intelligence were required to stay competitive.

One Post highlighted regional differences in willingness to pay: companies in London and the South East are more “used to paying for services”. Even large companies from other regions are less likely to be willing to pay more for OMIS.

2.3.2 Evidence from PIMS

The extent of the reduction in the quantity demanded for a given price increase (the price elasticity of demand) can be inferred from the information collected on willingness to pay by observing the proportion of companies’ willingness to pay more at consecutive price levels.

Assuming that the sample under consideration is representative of the population, this approach is equivalent to reading off the slope of the demand curve at discrete points. Due to the large number of price points in the PIMS data, we use price ranges rather than individual price points as the level of observation. The approach is illustrated in Figure 18 where several individual price points are aggregated into price ranges (points a, b, and c in the diagram). However, it should be noted that PIMS can only be used to gain a qualitative understanding of the effect of a price increase, as the responses to the WTP questions in PIMS are likely to overstate the demand reductions. This last point is explained in greater detail in the next section.
Figure 18: The price elasticity of OMIS demand

Note: Since the number of observations in our sample is limited, each “point” on our demand schedule (a, b, c) is in fact aggregated from a number of observations within a range around this point. Note also that the actual observations (see inset example) do not add up to a strictly monotonic demand curve. \( \Delta Q \) is the % reduction in demand under the assumption that each company is using one “unit” of OMIS.

Source: London Economics

Table 11 and Table 12 show the percentage reduction in demand following hypothetical price increases of 25% and 50% for eight aggregated price ranges and across four company size classes. Note the significance of the cut-off points at 25% and 50%: respondents stating they would not be prepared to pay 25% more might still be prepared more, albeit less than 25% more. The percentage reductions reported in Table 11 thus represent the worst case scenario of what might happen in the event of a price increase of the indicated magnitude.

As an illustration, if we consider an increase of 25% in the price of a £500 OMIS (i.e., an increase from £500 to £625). The evidence from PIMS suggests that at most 45% of users who were prepared to buy at £500 would not buy at the higher price. If the price were increased by 50% (to £650), 66% of users would stop using the service. The fact that there is no particularly pronounced increase in the drop-off rate at increasingly higher price levels could suggest that users may treat OMIS as a different product at different price levels.
Table 11: Percentage reduction in OMIS demand following price increases of 25% and 50%

<table>
<thead>
<tr>
<th>OMIS price range</th>
<th>25% price increase</th>
<th>50% price increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1-£300</td>
<td>41.3%</td>
<td>58.7%</td>
</tr>
<tr>
<td>£301-£600</td>
<td>44.9%</td>
<td>65.8%</td>
</tr>
<tr>
<td>£601-£900</td>
<td>37.1%</td>
<td>51.4%</td>
</tr>
<tr>
<td>£901-£1,200</td>
<td>47.8%</td>
<td>65.1%</td>
</tr>
<tr>
<td>£1,201-£1,500</td>
<td>43.6%</td>
<td>64.4%</td>
</tr>
<tr>
<td>£1,501-£1,800</td>
<td>54.5%</td>
<td>54.5%</td>
</tr>
<tr>
<td>£1,801-£2,100</td>
<td>50.0%</td>
<td>74.4%</td>
</tr>
<tr>
<td>£2,100+</td>
<td>57.1%</td>
<td>66.7%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>47.0%</strong></td>
<td><strong>62.6%</strong></td>
</tr>
</tbody>
</table>

Source: London Economics, PIMS

However, as presented in Table 12, there is evidence that larger businesses are markedly less price sensitive than smaller ones, in particular in the lower price categories. Looking at the percentage quantity demanded reductions across company size classes for the £301-£600 price range, we see that businesses with an annual turnover of over £50 million reduce their demand only half as much as companies with less than £2 million turnover following a price increase of 25%.

Table 12: Percentage reduction in OMIS demand by company size classes

<table>
<thead>
<tr>
<th>Annual turnover</th>
<th>&lt;2m</th>
<th>2m-10m</th>
<th>10m-50m</th>
<th>50m+</th>
</tr>
</thead>
<tbody>
<tr>
<td>25% price increase</td>
<td>48.2%</td>
<td>42.3%</td>
<td>37.9%</td>
<td>25.0%</td>
</tr>
<tr>
<td>50% price increase</td>
<td>66.2%</td>
<td>65.4%</td>
<td>65.5%</td>
<td>40.0%</td>
</tr>
</tbody>
</table>

Source: London Economics, PIMS

2.3.3 Evidence from the user/non-user survey

More reliable quantitative estimates of the price elasticity of OMIS demand can be obtained from the results of the user/non-user survey carried out for this study. The survey is useful because it allows us to observe the (stated) demand reactions at different price levels for the same product. The shape of the demand curve implied by the survey responses is shown in Figure 19. The average elasticity of demand across all four segments is -0.89. This means that a price increase of 10% causes demand to drop by 8.9%.

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44 A table showing all size classes is included in Annex 6.
Figure 19: Indicative demand curve based on the user/non-user survey

Note: the curves were constructed by taken the number of “yes” responses at each initial bid (£500, £650, £800, £1,000) as the base demand (the start point of each segment), assuming each respondent represents one unit of demand. Within each segment, the number of respondents saying “yes” at higher price points is added to the demand. The end point of the segments (i.e., the drop in demand in reaction to the second, higher bid) is fixed by the second bid and the number of “yes” responses to that bid plus the “yes” responses at higher bids.

Source: London Economics

However, a closer look reveals lower elasticities at lower price levels (i.e., less responsive). For price increases around the estimated mean willingness to pay (around 35%), the price elasticity of demand is less than -0.8 (in absolute terms), which means that the change in demand expected following from such an increase is less in percentage terms than the price increase (i.e., between -0.3 and -0.8). Note that the calculations presented here ignore the fact that some individuals have a maximum willingness to pay above the bid level. This means that the price elasticity at the higher end of the price range is likely to be somewhat overstated in our calculation.

Table 13: Price elasticities along the demand curve for a £500 OMIS

<table>
<thead>
<tr>
<th>Base price</th>
<th>Price increase</th>
<th>Elasticity</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>30.0%</td>
<td>-0.3</td>
</tr>
<tr>
<td>650</td>
<td>23.1%</td>
<td>-0.8</td>
</tr>
<tr>
<td>800</td>
<td>25.0%</td>
<td>-0.8</td>
</tr>
<tr>
<td>1,000</td>
<td>25.0%</td>
<td>-1.5</td>
</tr>
</tbody>
</table>

Source: London Economics

In further refinement of the analysis, we can look at the elasticity at specific points along the underlying linear demand curve which is implied by the data shown in Figure 19 and Table 13 (with the figure and the non-constant elasticities at different price points both typifying a linear demand schedule, at least over the relevant price range). As Figure 20 shows, the straight line fits the data very well ($R^2 = 0.9$).
To illustrate the approach, consider a 35% price increase, from £500 to £675 (i.e., the price that represents mean willingness to pay). The demand reduction that is triggered by the increase in price can be read directly off the demand curve. We can use these values to calculate the exact price elasticity of demand for a £500 OMIS with the following formula:

\[ \varepsilon = \frac{P}{Q} \times \frac{\Delta Q}{\Delta P}, \quad \text{i.e.,} \quad \frac{500}{96} \times -\frac{24}{175} = -0.7 \]

The elasticities for smaller price increases from a start point of £500 are of similar magnitude, so that we can conclude that demand for a standard (£500) OMIS is somewhat inelastic over a realistic range of prices. UKTI can assume that price increase of 35% will be met by a reduction in the quantity demanded of up to around 25% (and a 20% increase by a 14% reduction, a 10% increase by a 7% reduction etc.)

2.4 Implications for cost recovery

Based on the elasticity estimates reported above we can look at the implication of a price increase for cost recovery. However, the following caveats should be noted: As we derive our price elasticity estimates from hypothetical purchasing decisions, we do not have quantitative information on elasticity differences across different markets. In addition, while the survey data suggests that elasticity is increasing with price, comments by Posts (and the limited evidence from PIMS) suggest a more constant elasticity. Since the survey used for the elasticity estimates only covers prices up to £1,250 (and implicitly assumes a base price of £500), the behaviour of users at higher price levels cannot be easily predicted. We use an elasticity of -0.7 for an illustrative calculation, noting that over 70% of OMIS sales were in the price category of £1,000 and less in the 2009/10 period. We make the simplifying assumption that a given percentage reduction in OMIS demand translates one to one into a percentage reduction of staff hours spent on OMIS delivery. We also assume that there are no economies (or diseconomies) of scale associated with OMIS
provision. Finally, we do not investigate any second-order effects of demand reduction such as a reduction in Posts’ staff (which would reduce the cost of provision).

Based on these assumptions, we can calculate the effect of an increase in the price of OMIS on:

- the system-wide cost recovery rate (system-wide OMIS revenue / system-wide OMIS-related staff cost\textsuperscript{45}); and
- the number of annual OMIS deliveries.

The results are displayed in Figure 21. It shows that an increase in the cost recovery rate of 10 percentage points from its estimated current value of 34% to 44% would require a just under 30% increase in the price of OMIS (at all price bands) and would reduce the number of OMIS deliveries by around 1,310 (21%) per year.

![Figure 21: Hypothetical cost recovery rates](image)

Source: London Economics

### 2.5 Implications for policy objectives

Evidence from different sources, including PIMS, interviews with Overseas Posts and the two surveys that were undertaken specifically for this study, suggests that the value of the OMIS service to business warrants charges that are on average higher than at present. The quantitative evidence indicates that an increase in the price of OMIS of around 20% can serve as a reference point for developing the charging regime for OMIS.

However, a price increase would reduce the quantity of OMISs demanded. The demand effect would be particularly strong among smaller companies. The analysis reported above shows that this is equally true of smaller firms who are experienced exporters but using OMIS to help them

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\textsuperscript{45} Salaries only.
enter new markets and innovative and growing firms, for whom entry into new markets is likely to be particularly important. This means an increase in the price of OMIS could create conflicts with UKTI policy on priority client groups including SMEs and innovative and growing companies.

The existence of a differential demand effect that is stronger for certain priority client groups suggests that any further development of the charging regime needs to include measures to ensure that a price increase does not conflict with other UKTI objectives regarding key client groups. Possible options that would counteract the adverse effects on key client groups include differential pricing and targeted discounts.

2.6 Summary

There is strong evidence that mean willingness to pay exceeds the current OMIS price by a substantial margin. However, a price increase would reduce the quantity of OMISs demanded. The demand effect would be particularly strong among smaller companies. This means an increase in the price of OMIS could create conflicts with UKTI policy on priority client groups such as SMEs and growing companies. The evidence in this section can be summarised as follows:

- Evidence from PIMS (based on the question whether users would be willing to pay either 25% or 50% more than what they actually paid for an OMIS) show that:
  - over half of respondents would be willing to pay more; and
  - for users who had bought an OMIS costing around £500, the responses imply an average willingness to pay of £601, 20% more.

- The survey of alternative providers reveals that prices charged by some types of providers (such as consultancies) are significantly higher than the price of OMIS. Our respondents report day rates of up to £1,500 for services supporting UK exporters.

- Our user/non-user survey shows a varied picture of the prices charged by alternative providers, with a median price of around £1,000 across all different types of service and a distribution similar to that observed for OMIS prices.

- A contingent valuation approach based on a survey of users and non-users yields a statistically significant estimate of mean willingness to pay of £675 for an OMIS currently priced at £500 (+35%).

- Willingness to pay is unequally distributed across user types. SMEs are universally seen as more price sensitive by Posts. It has been noted that the adverse economic climate has raised affordability issues for some SME users even at current prices.

- However, some Posts also expressed the view that firms that are serious about exporting would be willing to pay for a good service.

- PIMS data provides weak evidence on the determinants of willingness to pay, but variables indicating positive past experience with the service as well as turnover are positively correlated with willingness to pay.

- The user/non-user survey reveals that firms not prepared to pay for an OMIS-type service most commonly see it as not relevant for their circumstances. Price and the perception that the work can be done in-house are also cited as reasons.
The survey also provides some (weak) indication that companies that are already active in overseas business are less likely to be willing to pay for OMIS, while in general awareness of UKTI and OMIS has a positive effect on willingness to pay.

On the effect of an increase in the price of OMIS on demand, 11 (out of 13) Posts believed a 5% increase in price would not affect demand, while 5 thought 15% would not affect demand. Half the Posts expect only a "small drop" in demand from a 50% price rise. Larger companies are generally expected to accept even quite large price increases.

A problem with increasing the price of OMIS is that it is more likely to deter first-time users than users with previous experience of the service.

Some Posts suggested that there is scope for price discrimination according to sector, user type (SMEs vs. larger companies) and market.

Analysis of PIMS provides some support for the view that larger companies are less price-sensitive, in particular in the lower OMIS price ranges.

Based on the user/non-user survey, we derive a first approximation of the price elasticity of OMIS demand of -0.7.

This suggests an increase in the cost recovery rate of 10 percentage points from its estimated current value of 34% to 44% would require a just under 30% increase in the price of OMIS (at all price bands) and reduce the number of OMIS deliveries by around 1,310 (21%) per year.

3 Alternative providers of commercial services

3.1 Market overview

The results of the online survey of alternative providers show that there exists a variety of providers in the market for commercial services like those supplied in OMIS. These providers include commercial as well as not-for-profit organisations and range from banks, market research agencies and consultancies to Chambers of Commerce and Trade Associations. The majority of respondents from the survey were from Trade Associations and Chambers of Commerce: there were 19 Chambers of Commerce (19% of the 98 responses) and 41 Trade Associations (42%), i.e., 61% of the total responses were from either Chambers of Commerce or Trade Associations (Figure 22). Other providers include legal and accountancy firms, which often provide highly specialised services that UKTI cannot offer.
3.1.1 Size of providers

Based on results from the online survey of alternative providers, Figure 23 shows how the number of employees varies by type of alternative provider (the blue dots show the number of observations for each size class and organisation type). Chambers of Commerce and Trade
Associations are relatively small in size compared to banks, market research agencies and consultancies, which sometimes exceed 500 employees in size.

**Figure 23:** Size of alternative provider by number of employees

Source: London Economics

### 3.1.2 Markets

The range of markets where services are offered is an important factor when comparing UKTI and alternative providers. The analysis in Figure 24 uses an index of geographic reach, with a range from zero (no markets) to one (all markets) based on results from the online survey of alternative providers⁴⁶. Respondents from banks reported the shortest geographic reach, although this is likely to reflect the fact that they answered only with respect to their own area of expertise, and perhaps not the institution as a whole. Chambers of Commerce also had a geographic reach that was shorter relative to other providers. This is mainly because they are typically country specific, and so do not extend their service provision to more than one geographic region. On the other hand, other alternative providers, Trade Associations and market research agencies had the furthest geographic reach, of just less than 0.6 and 0.7 respectively. This means they were proactive in 6 and 7 out of the 11 markets. It is important to note that banks and market research agencies had a very small sample size, with only one and two respondents respectively.

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⁴⁶ In the survey, 10 markets were included. These were Europe (excluding UK), Russia or Central Asia (including Turkey), North America, Middle East and North Africa, Indian Subcontinent (including India, Pakistan & Sri Lanka), China, Japan and South East Asia (including Taiwan & Hong Kong), Australia and the Pacific, South America and Africa.
3.2 User perspective on alternative providers

Evidence on alternative providers from the user side is provided by the survey of users and non-users of UKTI services. Respondents, most of whom are not OMIS users (96%), made limited use of alternative providers. In fact, only 65 (21.7%) of the 300 surveyed companies reported using alternative providers. The following table shows the number of respondents who used alternative providers for the main types of services that are also provided by UKTI under OMIS.

<table>
<thead>
<tr>
<th>Type of service</th>
<th>Number of users</th>
</tr>
</thead>
<tbody>
<tr>
<td>An overview of a particular overseas market that was specific to your sector and needs</td>
<td>36</td>
</tr>
<tr>
<td>Lists of contacts for potential customers or business partners overseas</td>
<td>34</td>
</tr>
<tr>
<td>Introductions to ‘warmed up’ contacts or meetings arranged on your behalf with overseas contacts</td>
<td>28</td>
</tr>
<tr>
<td>Having an event organised for you in an overseas country</td>
<td>23</td>
</tr>
</tbody>
</table>

Note that the sum of numbers in the right-hand column of the table above is larger than the number of companies that reported having used alternative providers. This means that some companies used more than one service offered by alternative providers.
The questionnaire acknowledges this fact and collects separate information about uses of these services as a package or as individual services. Twenty respondents reported that they obtained two or more of the services in the table above as a package, and other respondents obtained more than one service but did so individually. There were 5 respondents who obtained such services both individually and in package.

Firms that use the services of alternative providers tend to use them more than once, in particular when using service packages and lists of contacts.

**Table 16: Number of users using certain services**

<table>
<thead>
<tr>
<th>Frequency of using the services</th>
<th>Package of services</th>
<th>Market overview</th>
<th>List of contacts</th>
<th>“Warmed up” contacts</th>
<th>Event organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Just once</td>
<td>4</td>
<td>9</td>
<td>7</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Several occasions</td>
<td>10</td>
<td>14</td>
<td>16</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>Don’t know</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
<td><strong>24</strong></td>
<td><strong>24</strong></td>
<td><strong>20</strong></td>
<td><strong>17</strong></td>
</tr>
</tbody>
</table>

*Source: London Economics survey of alternative providers*

The survey indicates that all of the services we looked at were provided by a large variety of alternative institutions including Chambers of Commerce, Trade Associations, banks, market research agencies, consultants and other organisations in overseas countries.

Moreover, there is no strong connection between the type of the service and the type of organisation providing it. Table 17 shows the split between for-profit and non-profit institutions providing these services.

**Table 17: Providers of alternative services**

<table>
<thead>
<tr>
<th>Frequency of using the services</th>
<th>Package of services</th>
<th>Market overview</th>
<th>List of contacts</th>
<th>“Warmed up” contacts</th>
<th>Event organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>For-profit institutions</td>
<td>9</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Not-for-profit institutions</td>
<td>3</td>
<td>7</td>
<td>10</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Other/don’t know</td>
<td>2</td>
<td>10</td>
<td>10</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14</strong></td>
<td><strong>24</strong></td>
<td><strong>24</strong></td>
<td><strong>20</strong></td>
<td><strong>17</strong></td>
</tr>
</tbody>
</table>

*Source: London Economics survey of alternative providers*

In terms of geographic coverage, the services were mainly (more than 60%) provided in relation to markets in Europe and Asia (mostly China and India), as shown in Table 18.

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47 For this classification, for-profit services include banks, market research agencies and consultants, whereas the other institutions belong classify as not-for-profit institutions.
Table 18: The geographic distribution of using the alternative services

<table>
<thead>
<tr>
<th>Geographic area</th>
<th>Package of services</th>
<th>Market overview</th>
<th>List of contacts</th>
<th>“Warmed up” contacts</th>
<th>Event organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>6</td>
<td>4</td>
<td>9</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Asia</td>
<td>5</td>
<td>7</td>
<td>9</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>13</td>
<td>6</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>24</td>
<td>24</td>
<td>20</td>
<td>17</td>
</tr>
</tbody>
</table>

*Source: London Economics survey of alternative providers*

The survey also asked about the level of satisfaction of the companies that used these alternatives services. The survey used a scale between 1 and 5 to measure satisfaction (with ‘1’ denoting complete dissatisfaction). The answers given by respondents suggests that there were very few bad experiences (corresponding to level of satisfaction of 1 or 2) and that about 2/3 of users (80 out of 123) of alternative services were highly satisfied (levels 4 and 5) with the service obtained.

### 3.3 UKTI and alternative providers

In this section we look at the current relationship between UKTI and alternative providers and the appetite for increased cooperation with UKTI.

#### 3.3.1 Partnerships with UKTI

Currently, there is a high level of awareness of UKTI according to the survey of alternative providers, with 93.4% of respondents being aware of the services offered by UKTI. Of those that were aware of the services offered by UKTI, 84.2% were already undertaking some activities with UKTI Overseas Posts in their market. Figure 25 shows the partnering activities that different alternative providers engage in with UKTI. Chambers of Commerce and Trade Associations partner with UKTI on a range of activities, with a high proportion taking part in jointly sponsored events or contributing/co-branding events. Both of the market research consultancy respondents had partnered with UKTI via jointly sponsored events and sponsoring missions. Among the other respondents, 50% had partnered with UKTI in at least one of these activities.
Of the 9 respondents that had not partnered with UKTI, 5 said they would be interested in partnering with UKTI in at least one of the activities listed. Furthermore, one respondent said they would be interested in networking more with UKTI. Only 3 respondents were not interested in partnering with UKTI.

Of those that had not partnered with UKTI but exhibited an interest in partnering, almost 40% of providers wanted opportunities to showcase or present their services, as shown in Figure 26. This suggests that many respondents see leveraging UKTI as a way to increase their impact. Similarly there was a relatively high level of demand for opportunities to showcase or present services for those that had already partnered with UKTI and were interested in more partnering (Figure 27). This suggests that there is some appetite for increased cooperation with UKTI, independent of whether alternative providers have partnered with UKTI previously.
Figure 26: Alternative providers not partnered with UKTI but interested in partnering, by service

Source: London Economics

Figure 27: Alternative providers partnered with UKTI and interested in extending partnerships

Source: London Economics
3.3.2 Outsourcing/referrals

In most cases UKTI refer clients to alternative service providers when they cannot provide the service themselves, for example for tax or legal issues, according to the results from the survey of Overseas Posts. However, in the case of China, UKTI refer clients to CBBC on a regular basis, since CBBC work on all the OMIS’s that are business-to-business.

The survey of alternative providers asked a question on how providers recruited clients. Of those that recruited customers from UKTI, the majority felt that this channel was of some importance to them (Figure 28). This suggests that it may not be the primary way in which clients are recruited; otherwise they would see this route as ‘very important’.

![Figure 28: Recruitment from UKTI](image)

Source: London Economics

On the other hand, a large number of respondents saw recruitment from previous clients as very important to them (Figure 29). Consequently, this may be their primary way of recruiting customers, suggesting that customers are unlikely to switch to another provider if their first service was of good quality.

Other ways in which alternative providers recruited clients include:

- Other public sector organisations
- Industry organisations
- Recruitment from marketing in the UK
3.4 Scope for an increased role for alternative providers

In general, UKTI offers UK businesses a variety of services under OMIS in many markets across the world, and they have a particular focus on SMEs. Services offered by alternative providers may be substitutes or complements to UKTI’s services.

3.4.1 Evidence of substitutability

There are two main factors that need to be considered when discussing the substitutability of the services provided by UKTI and those by alternative providers: the taxonomy of services offered and the clients served.

Services

In the online survey of alternative providers, the respondents were asked about the different types of services that they provide. Event organisation appears to be one of the most commonly supplied services, especially among Chambers of Commerce and Trade Associations. In other organisations, there seems to be a variety of services available, except in the respondents from the bank and the two market research agencies, who only provide market analyses and other support for market visits respectively.
To further assess the range of services offered, we use an index where the greater the range of services offered by the alternative provider, the closer the index is to one. Figure 31 shows the index for each alternative provider. Chambers of Commerce and Trade Associations offer the greatest array of services to their clients. Ignoring UKTI’s special standing as a government-backed organisation and assuming no differences in the services offered, they are likely to be better substitutes for UKTI’s OMIS, while banks and market research agencies lean more towards partial substitutes since they only offer a subset of the services encompassed in OMIS.

According to the Overseas Posts interviewed by London Economics, on some occasions the services offered by alternative providers are similar to those offered by UKTI under OMIS. Some private providers offer a more bespoke service, with more in-depth market analysis or more contact with the client. However, in many cases the alternative provider offers a range of services that is limited compared with OMIS. In terms of broad service categories, alternative providers often specialise in only one or two, for example event organisation or market analysis. Providers of professional services such as accountants and lawyers are even more specialised and often do not overlap with Posts’ service portfolio at all.

Source: London Economics

The types of services provided include market analysis, contact lists, warmed-up contacts, meetings with contacts, event organisation, other support in connection with visit and other.
Figure 31: Breadth of services offered by alternative providers

Source: London Economics

**Clients**

Of the Posts that responded to the section on alternative providers in London Economics’ telephone survey, many believed that alternative providers had similar clients to UKTI. However, the Post in Johannesburg believed that alternative providers had a focus on larger organisations, such as companies with greater than 250 employees.

Using results from the alternative provider’s survey, Figure 32 looks at the extent to which providers serve SMEs. In general, they serve SMEs either sometimes or often, and only one respondent that was a bank ‘mostly’ served SMEs.
In comparison, findings from the survey of Posts indicate that UKTI serves mostly SMEs in many markets, such as Dubai, Johannesburg, Seoul, New York, Düsseldorf and Warsaw. However, in São Paulo, OMIS users are usually medium sized companies with a high percentage of exports in other markets. PIMS data show that the proportion of large companies is highest for Posts in Latin America (22%), followed by Middle East and North Africa (17%) and Asia Pacific (15%), and lowest in North America (11%) and Europe (9%).

The user/non-user survey reveals limited evidence of substitutability between services offered by alternative providers and by UKTI. As Table 19 shows, some respondents either consider using or actually use UKTI instead of or in addition to alternative providers. However, significantly more respondents (70 out of 93) report they did not consider UKTI when choosing external providers of export support services (the number includes 10 companies who were not aware of UKTI). Those companies could fall into two categories:

- those that require specialist services that they believe UKTI could not provide; and

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49 Defined as firms with 250+ employees
50 PIMS 19-22, breakdown of OMIS client profile by overseas region.
those that believe UKTI to offer lower quality service, to be too slow or difficult to use, or to be too expensive.

In the former case, if the beliefs about UKTI capability are correct, alternative providers would be complementary to UKTI’s services; in the latter they would be substitutes. In either case the views of some respondents may be based on incomplete or out of date information about what the UKTI services could offer, especially if they had not used them before, or had not done so recently. Our survey does not reveal the nature of the services consumed in any greater detail than is shown in Table 19, so we cannot decide whether complementarity is the main reason for not choosing UKTI (see below for a discussion of the evidence on complementarity from the Posts interviews). Overall, the evidence on substitutability is inconclusive.

<table>
<thead>
<tr>
<th>Table 19: Considering UKTI for the alternative services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Package of services</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Yes – considered it but didn’t use</td>
</tr>
<tr>
<td>Yes – used them as well</td>
</tr>
<tr>
<td>No – did not consider them*</td>
</tr>
<tr>
<td>Don’t know</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Note: figures include 3 respondents who had not heard of UKTI.
Source: London Economics survey of alternative providers

Substitution behaviour in the absence of OMIS

PIMS asks OMIS clients if they “would have commissioned something similar” from an alternative provider (“someone external to their business”) if OMIS had not been available. About 47% of respondents replied they would, either probably (34%) or definitely (13%).

Regression analysis reveals that a company’s turnover is a significant predictor of the probability of expressing the intention to use alternative provider. The regression results are shown in Annex 4. Due to the nature of the data (turnover is recorded in seven asymmetric bands51), the interpretation of the regression coefficient is slightly awkward: being in the next higher turnover bracket increases a company’s likelihood of expressing the intention to use alternative providers in the absence of OMIS by about 8%.

The price respondents paid for their OMIS also predicts the intention to use alternative providers, although the effect is neither strong nor very significant. A £1,000 increase in the price paid leads to a 7% increase in the willingness to use alternative providers if OMIS was not available. This result, albeit weak, could suggest that companies that are more determined to invest in order to boost their chances of export success are more likely to seek out alternative providers.

Other factors that were analysed included export experience (measured by length of experience), innovation (measured by patents, the number of staff engaged in product development and the

51 1. £100,000 or less, 2. £100,001 - £500,000, 3. £500,001 - £2million, 4. £2million - £10million, 5. £10million - £50million, 6. More than £50million
introduction of new products in the last two years) and substantial business growth, all of which turn out to be insignificant.

3.4.2 Evidence of complementarity

Some alternative service providers are viewed as complements to UKTI rather than substitutes by the Overseas Posts interviewed by London Economics. This is because they are providing a very specialised service, such as accountancy and law firms. Another example was cited by the Post in Poland, where the services provided by UKTI complemented the services provided by the British Polish Chamber of Commerce, which is heavily orientated towards service provision, such as finance, HR and translation.

These views are supported by the results from the alternative provider’s survey, where some of the firms that self-selected themselves as ‘other type’ described themselves as accountancy, audit, tax or export services firms. Similarly, the accountancy, audit and tax firms offer services that UKTI cannot and therefore are complementary. However, export services firms offered a similar set of services to their clients as UKTI.

3.5 Summary

Evidence on alternative providers is limited. No comprehensive picture of the market and its participants exists, which is likely to reflect a wide variation in business needs and resulting complexity of the market. Our evidence is based on PIMS as well as our survey of UKTI users and non-users and a dedicated survey of alternative providers. The latter survey uses sample of 98 alternative providers, many of whom were identified through their previous contacts with UKTI. Consequently, Chambers of Commerce and Trade Associations are overrepresented compared with the independent commercial sector.

Awareness of UKTI among the survey respondents is high and most Chambers of Commerce and Trade Associations as well as half the consultancies are engaged in partnering with UKTI, primarily by jointly sponsoring events and missions. Most respondents also consider UKTI referrals as a "somewhat important" channel for recruiting new clients.

In terms of service offering, we find that market overviews, lists of contacts, "warmed up" contacts and event organisation were all provided by a large variety of alternative providers including Chambers of Commerce, Trade Associations, banks, market research agencies, consultants and other organisations in overseas countries. Chambers of Commerce and Trade Associations appear to offer the greatest array of services, comparable in breadth to UKTI’s service portfolio (although this assessment is based on the broad service categories listed above).

Some alternative providers, especially providers of professional services such as lawyers and accountants, provide services that are complementary to UKTI’s. According to Posts, clients are regularly referred to those providers in areas where Posts do not have the required expertise.

According to our survey of users and non-users, exporting companies made limited use of alternative providers: only 65 (21.7%) of the 300 surveyed companies reported using alternative providers. Users of alternative providers report relatively high satisfaction levels, with 2/3 of users given scores of 4 or 5 on a 5-point scale.
4 Summary results & policy recommendations

4.1 Summary results

This study addresses the scope for increased commercialisation of the services provided by UKTI’s Overseas Posts and greater involvement of alternative providers by looking at four distinct issues:

1) The need for government involvement in the provision of support for UK companies overseas activities
2) The scope for increased private sector provision
3) The scope for increased cost recovery
4) The effect of increased cost recovery on UKTI clients

This section summarises the conclusions.

4.1.1 Business need for direct government involvement in the provision of support to UK businesses to access overseas markets

The broader case for government subsidies for the provision of export support services rests on the existence of external benefits from such services, that is, benefits that do not accrue solely to the companies using the services, but also to the economy as a whole, via channels such as increased exploitation of comparative advantage, realisation of economies of scale and scope through internationalisation, greater competitiveness, knowledge transfer and innovation, etc. Since the benefits that accrue to individual businesses are fewer than the overall benefits to the UK economy, a purely market based system would lead to under-provision of these important services as companies would not be willing to pay for benefits they cannot appropriate.

There are theoretical arguments suggesting that market failures exist in the provision of support services to UK exporters, which would suggest that UKTI has a continued role in this market, even if there is no scope for greater commercialisation.

Market failures that have been identified include network and intermediation failures. In transactions involving uncertainty where trust between business partners is crucial, but firms do not know whether they can trust their counterparts, the government can play a key role as an impartial intermediary and has access to information and influence that cannot be easily replicated by the private sector (such as a wide range of contacts).

UKTI services are tailored to address some of the most challenging problems faced by UK exporters, especially those trying to enter new markets. In particular, research carried out for UKTI has identified the establishment of initial contacts with customers and business partners in overseas markets and the building of relationships as among the most serious barriers to export success.

Firms that use UKTI services outperform non-users in some key dimensions of business success, including growth and innovation.

Firms consider UKTI services to be cheaper than other available alternatives.
PIMS user and non-user surveys show that the average user satisfaction rating is substantially lower for services delivered by alternative providers than for UKTI. This is true equally for reported qualitative business benefits. 53% of users of alternative services give high satisfaction scores compared with 77% of UKTI clients across all trade services. However, although overall satisfaction scores have been increasing, satisfaction levels are still variable across UKTI Posts, averaging 73% for the charged services and 77% for the free assistance provided by Posts.

The difference in qualitative business benefit seems to be particularly pronounced in areas where market failures are thought to exist, i.e. access to information and establishing contacts.

Alternative providers, which include commercial and membership organisations, offer at least a partial substitute to UKTI’s services, especially with respect to tailored market research, and report a willingness to expand.

However, outside certain specialist or technical services, it is unclear whether alternative providers have the capability to take over functions currently served by UKTI. Moreover, there are doubts if the cost of providing the service could be recovered.

4.1.2 Scope for increased private sector provision

Overall, our insight into this market continues to be limited due to the difficulty in identifying and surveying alternative providers in the private sector and their customers.

The alternative providers that have provided information for this study are primarily not-for-profit organisations such as Trade Associations and Chambers of Commerce. Their activities are often at least partly subsidised.

Theoretically, certain attributes of “government-branded” provision of services are likely to lower the cost of government provision relative to private provision: a government-backed organisation like UKTI is likely to find it easier to gain the trust of overseas businesses and intermediaries and acquire commercially valuable information than a private organisation. While the role of UKTI can theoretically be replicated by private organisations, the cost (e.g., the time it takes to build trust) might be prohibitive. This kind of “intermediation failure” means that UKTI provision is more efficient than private provision, even if costs could be recovered fully, and offers an additional argument in favour of subsidised provision.

However, there is some evidence for partial substitutability between UKTI and alternative providers:

- Alternative providers surveyed for this study say they have the capacity and are willing to expand. However, it is not clear if this would require ongoing government subsidy.
- Alternative providers (both commercial and not-for-profit) in general serve SMEs either sometimes or often, as well as serving large firms.
- 21.7% of respondents in the user/non-user survey carried out for this study reported using alternative providers. They were used for the main types of services that are also provided by UKTI under the charged OMIS service (market

overview, list of contacts, “warmed” contacts, events). All types of service seem to be provided by both for-profit and non-profit institutions.

- According to Posts, on some occasions the services offered by alternative providers are similar to those offered by UKTI under OMIS.

- In one case, OMIS is largely delivered by an external, not for profit, provider under sub-contract to UKTI. However PIMS evidence shows that quality, satisfaction, and qualitative business impact are relatively low for this provider, on a par with the lowest quartile of performance ratings achieved by UKTI Posts.

- According to PIMS, UKTI’s satisfaction rankings are higher than those of alternative providers. However, some alternative providers also appear to deliver good results. Our survey of users and non-users shows “good” or “very good” satisfaction ratings given to alternative providers by around 2/3 of users. However, the significance of the result is limited due to the small sample size compared with PIMS. The PIMS follow-up survey measures the perceived “usefulness” of UKTI services and alternative providers. In individual years, alternative providers are rated as useful as OMIS, although this is not consistent over time and the sample sizes are small. The usefulness of help provided by overseas Embassies and Consulates was rated more highly than for OMIS.

- However, the experience of Posts suggests that potential substitutability is only partial: some private providers offer a more bespoke service, with more in-depth market analysis or more contact with the client. In addition, in terms of broad service categories, alternative providers often specialise in only one or two service areas, for example event organisation or market analysis.

- There is strong evidence that there are areas in which alternative providers provide a complement to UKTI’s service.
  - In particular, the activities of professional services firms such as accountants and lawyers are clear complements and in general do not overlap with Posts’ service portfolio.
  - 84.2% of the alternative providers we contacted reported they were already undertaking some activities with UKTI Overseas Posts in their market. The main activity which they undertake/would like to undertake are joint events showcasing their services. While this type of cooperation could be a sign of inefficient duplication of effort, to the extent that these alternative providers are able to leverage UKTI’s unique standing to access new customer groups (that are not served by UKTI already) or in other ways improve the overall service available to UK exporters, in some cases there could be a complementary relationship with UKTI, which UKTI could take advantage of commercially.
  - Evidence that UKTI users are six times more likely than non-users to have commissioned market research from private sector provider can also be seen as suggesting complementarity.

- The impact of relying more on unsubsidised private sector provision could impact differently on different user groups; PIMS asks OMIS clients if they “would have commissioned something similar” from an alternative provider if OMIS had not been available. 47% of PIMS respondents report that they would. Regression analysis reveals that a company’s turnover is a significant predictor of the decision to use an alternative
provider; companies being in higher turnover bracket increases the probability of using an alternative provider by about 8%.

- The price respondents’ paid for their OMIS also predicts the intention to use alternative providers. A £1,000 increase in the price paid leads to a 7% increase in the willingness to use alternative providers if OMIS was not available. This result could suggest that companies that are more determined to invest in order to boost their chances of export success are more likely to seek out alternative providers.

- Export experience (measured by length of experience), innovation (measured by patents, the number of staff engaged in product development and the introduction of new products in the last two years) and substantial business growth are insignificant in determining the use of alternative providers. This means that innovative and growing companies and experienced exporters are not more likely than other types of companies to use alternative providers if OMIS were withdrawn.

4.1.3 Scope for increased cost recovery

- The existence of social benefits that exceed the sum of the private benefits realised by users of subsidised services means that full cost-recovery would be economically inefficient: at the non-subsidised price, companies would demand less than the optimal level of support, so that some benefits remain unrealised.

- Analysis shows that price sensitivity is linked to size of firm, so this effect would be stronger among SMEs than for larger firms.

- The analysis by client profile shows that demand from innovative SMEs and companies expecting to grow substantially would be no less affected than that from other SMEs.

- Based on data on staff costs and OMIS revenues per market, we estimate the current cost recovery rate of OMIS at 34%.

- A contingent valuation approach based on a survey of users and non-users yields a statistically significant estimate of mean willingness to pay of £675 for an OMIS currently priced at £500 (+35%). We regard this as the most robust empirical estimate.

- Evidence from PIMS (based on the question whether users would be willing to pay either 25% or 50% more than what they actually paid for an OMIS) shows that:
  - over half of respondents would be willing to pay more;
  - willingness to pay more increases significantly with size of firm and with one of the indicators of innovation (measured by the introduction of new products in the last 2 years). However, this result is at odds with the fact that this innovation variable is insignificant when used to explain the willingness to use alternative provider in the absence of OMIS. Other indicators of innovation, such as R&D, are insignificant;
  - willingness to pay more decreases with the actual cost of the OMIS received;
  - for users who had bought an OMIS costing around £500, the responses imply an average willingness to pay of £601, which represents an increase of 20%.

- The survey of alternative providers reveals that prices charged by some types of providers (such as consultancies) are significantly higher than the price of OMIS. Our respondents report day rates of up to £1,500 for services supporting UK exporters.
Our user/non-user survey shows a varied picture of the prices charged by alternative providers, with a median price of around £1,000 across all different types of service and a distribution similar to that observed for OMIS prices.

11 out of the 13 Overseas Posts believed that a 5% increase in prices will not have any effect on take-up. The answers were split regarding a 15% rise, with 5 respondents believing there will be no change, 6 a small drop and one either no change or a small drop.

Posts’ in high-growth markets such as China, Brazil, South Africa and Turkey expected no change in the take-up of OMIS if there were a 15% increase in prices. By contrast, Posts in developed markets such as France, where the proportion of smaller clients is somewhat greater, believe there would be a larger drop.

With a 50% price increase, again there was a split in the results, with the majority of respondents expecting a small or a large drop in take-up. The Post in Brazil anticipated that with a 50% rise in prices, clients would be more demanding about the product they were to receive, but would still accept the price change. However, 50% would be an ‘upper limit’ for price increases, any higher than this and there would be a reduction in the take-up of OMIS.

The firms who would be deterred from using the services to the greatest extent would be SMEs, including innovative and growing SMEs, who are some of the key targets for UKTI. The potential loss of benefit to these firms form OMIS, and the associated loss of social benefit to the UK, may be negated through a policy of differentiating support to SMEs aimed at minimising price increases for key client groups.

4.1.4 The effects of increased commercialisation and cost recovery on key target UKTI client groups

Willingness to pay is unequally distributed across user types. SMEs are universally seen as more price-sensitive by Posts, consistent with our econometric analysis. It has been noted that the adverse economic climate has raised affordability issues for some SME users even at current prices.

However, some Posts also expressed the view that firms that are serious about exporting would be willing to pay for a good service. In general, Posts in high-growth markets assume a higher willingness to pay than Posts in established markets (which include some of the UK’s largest trading partners);

In the PIMS data, variables indicating positive past experience with the service as well as turnover are positively correlated with willingness to pay.

Regression analysis was used to assess the impact of a) a withdrawal of OMIS and b) higher OMIS prices on SMEs and growing and innovative firms. The analysis shows clearly that lower turnover reduces both willingness to pay and the likelihood of seeking an alternative provider in the absence of OMIS.

Our user/non-user survey reveals that firms not prepared to pay for an OMIS-type service most commonly see it as not relevant for their circumstances. Price and the perception that the work can be done in-house are also cited as reasons.

As OMIS is an “experience good” whose value only becomes evident when it is used, increasing the price of OMIS is more likely to deter first-time users than users with previous experience of the service.
Some Posts suggested that there is scope for price discrimination according to sector, user type (SMEs vs. larger companies) and market.

Analysis of PIMS provides some support for the view that larger companies are less price-sensitive, in particular in the lower OMIS price ranges.

Based on the user/non-user survey carried out for this study, we derive a first approximation of the price elasticity of OMIS demand of -0.7.

This suggests an increase in the cost recovery rate of 10 percentage points from its estimated current value of 34% to 44% would require an increase in the price of OMIS of just under 30% (at all price bands). This would reduce the number of OMIS deliveries by around 1,310 (21%) per year.

Given the evidence on the lower willingness to pay of smaller companies, an increase in price would invariably shift the client profile towards larger companies.

4.2 Policy recommendations

Based on the evidence gathered in this study, we propose UKTI consider the following three policy options:

- increasing in the rate of cost recovery by increasing the revenue from the OMIS service;
- increasing the price transparency of the OMIS service, thereby making it easier for clients to compare the offer with that of alternative providers; and
- exploring the opportunities for selective outsourcing to improve the coverage of UKTI and potentially enhance the overall service offered to clients.

Our reasoning behind these recommendations is set out below.

4.2.1 Recommendation 1: increase cost recovery

There is strong evidence that the services provided by UKTI’s Overseas Posts help businesses overcome important barriers in areas where there are market (intermediation) failures. Using UKTI services has a positive impact on firm performance.

Consequently, any move towards greater cost recovery needs to be considered in the light of the likely impact on businesses, in particular in groups that face specific barriers (such as SMEs) and other UKTI priority groups (high-growth innovative companies).

On balance we regard a 20% price increase for OMIS as realistic without negatively affecting companies that are serious about entering overseas markets (willingness to pay for a service can be seen as indicative of the expected benefit to the business). However, it is to be expected that some companies will be priced out of the market and this effect will be concentrated among smaller companies, who might underestimate the true value of OMIS (even excluding external benefits).

Since smaller companies are also less likely to use alternative providers, a complementary policy to ensure that UKTI’s priority client groups continue to be served will be necessary.

Our analysis of the likely effect of a price increase on demand is based on survey responses relating to hypothetical price increases. We do not observe the elasticity of demand directly.
Hence, the quantitative results in this study are only indicative of the effect of a price increase on demand and especially differences in the effect on specific types of firms such as SMEs and innovative firms. More detailed study of Posts’ cost structure and the price elasticities of different client groups and at different OMIS prices would be needed in order to refine the analysis. It will therefore be important for UKTI to proceed with a degree of caution and monitor the impact on take up and client profile carefully.

We note that evidence from our user/non-user survey suggests that willingness to pay for a service that comprises one specific task and is relevant to the company is in fact higher than for a broader OMIS-type service. This suggests that a clearer ex-ante view of the usefulness and convenience of UKTI’s service could improve willingness to pay.

We estimate that a 20% increase in price would lead to a 14% reduction in the quantity demanded. The cost recovery rate would be increased from 34% to 41%.

According to Posts relatively high price elasticity of demand can be expected from:

- SMEs in general;
- companies with no prior experience of OMIS;
- “born-global” companies (who might substitute internal capabilities for OMIS support).

We find quantitative evidence that being in a higher turnover bracket means being 4% more likely to be willing to pay more for OMIS.

Non-OMIS interactions, including Significant Assists should continue to be free of charge. Posts view the ability to invest time as essential to winning OMIS clients. Although only 50% of Significant Assist clients are offered OMIS, we did not find evidence that Posts use OMIS and Significant Assists as substitutes. However, we did find evidence that some Posts are under the impression that they have separate volume targets for OMIS and Significant Assists, even though we understand that this is not UKTI policy. Separate targets would be harmful for cost recovery, as Posts would have incentives to give time free to clients instead of charging through OMIS. By contrast, with a single volume target, in addition to a revenue target, Posts should have clear incentives to deliver help through OMIS wherever possible, because doing so would count towards both targets. There seems to be scope for increasing the proportion of Significant Assist clients that are offered OMIS without affecting the quality of non-OMIS interactions.

4.2.2 Recommendation 2: increase price transparency for users

We suggest that the presentation of OMIS prices should be simplified, to make it easier for users to assess the value for money of the service, and to compare prices with those charged by alternative providers. A charging model such as a day rate, which allows direct comparison with alternative providers, would increase transparency for users, especially if UKTI’s prices reflected costs more fully. In keeping with private sector practice, different rates could be applied to the input of staff at different levels and/or in different markets.

Increased price transparency will encourage competition with alternative providers, and help to reveal information about the relative quality of the services offered, as reflected in client willingness to pay.
Our evidence on the wider market for export support services for UK businesses is limited. The market is complex and we were able to obtain relatively little information about market participants without a prior relationship with UKTI. However, we see some scope for increased private sector provision, which could be facilitated by greater price transparency.

In broad terms, a number of substitutes appear to exist for UKTI’s services. Alternative providers, including Trade Associations, Chambers of Commerce, consultants and banks are already successfully providing these services, sometimes at prices considerably higher than UKTI’s.

Evidence on the quality of alternative providers is mixed. Evidence from PIMS shows systematically lower satisfaction levels for alternative providers, although just as with UKTI’s Posts, there are likely to be marked differences between different providers. Increased competition as a result of increased price transparency is likely to lead to better quality throughout the market over time.

However, the substitutability of services is clearly not perfect. UKTI’s unique position as a government body means that some of its functions are unlikely to be replicated by alternative providers, either at all, or at a reasonable cost. The role of UKTI is most important in circumstances where trust, objectivity and access to official contacts are required to help a UK business. There is also a class of alternative providers that provide services that are complements of UKTI’s service. These are primarily professional services that require specialist knowledge that is typically not available from UKTI Posts. The main examples are legal, accounting and financial services.

In practice, the issue of complements and substitutes is not clear-cut. It appears that many services, in particular market research, contacts and event organisation, can be delivered by either UKTI or alternative providers. However, in practice, it appears many alternative providers prefer collaboration with UKTI, rather than competition. Increased price transparency for OMIS and increased cost recovery should help the market to identify more clearly which aspects of the services are substitutable and which are complementary to those offered by alternative providers.

4.2.3 Recommendation 3: explore the opportunities for selective outsourcing

Existing variations in the services offered by Post in response to local market conditions show that there is scope for differentiated roles for different Posts, with Posts in some markets offering a comprehensive service, while concentrating on only a few selected services in others and maintaining a range of collaborative arrangements with alternative providers to ensure that UK businesses are adequately supported everywhere.

We note that differentiation by market is already a reality, with Posts in different markets reporting distinct activity profiles, presumably reflecting Posts’ individual strengths as well as local market conditions. The outsourcing of certain activities to the CBBC by the Posts in China is an example of UKTI outsourcing as a result of particular historical circumstances in the Chinese market. The evidence on the capabilities of alternative providers – while limited – suggests that there is a wider scope for this type of collaborative arrangement. However, we note that CBBC performance is currently well below the average across Posts, suggesting that outsourcing per se may not lead to higher quality or business benefit. Any further outsourcing arrangements should be done through competitive tender, paying careful attention to the capability of potential providers to deliver a high quality service, as well as the compatibility of the outsourcing model with UKTI’s public service objectives so that the trust and expected impartiality of the service received by businesses from UKTI remains unaffected. Performance management arrangements
should be consistent with those for Posts, as is currently the case for CBBC, in order to allow clear and robust comparison of quality, outputs, and business impact across providers.

In general, the CBBC example should not serve as the template for possible outsourcing scenarios for other Posts. On the contrary, it should serve as a reminder that outsourcing does not necessarily improve service quality. However, we see potential opportunities for outsourcing, for example in markets where UKTI is not present or where there is a clear case that an alternative provider would add value to the overall service offering available to UK companies. Outsourcing in this sense should not be taken to refer only to the wholesale handing over of activities to private sector providers. Limited forms of outsourcing of technical services (such as event organisation, which is already practiced by some Posts) or the sub-contracting of specific tasks to individual specialists (as practiced by UKTI in the High-Growth Markets Programme or the Fiscal Stimulus Initiative for example) could prove more appropriate in many settings. An important consideration for the decision on outsourcing is how well outputs can be monitored. Where monitoring is difficult (e.g., in the case of more bespoke services), greater reliance must be placed on the ethos and organisational culture of the staff delivering the service, which may make in-house provision more attractive.

An important precondition for successful outsourcing is the existence of the necessary capabilities within UKTI. UKTI should ensure that the expertise required for designing appropriate outsourcing models, selecting the most appropriate contractor(s), drafting contracts, monitoring performance, and remediying poor performance is available before outsourcing is pursued on a greater scale.

Similar considerations should underlie Posts’ decisions regarding collaboration with alternative providers. Evidence shows a strong interest on the part of alternative providers in holding joint events with UKTI. While this could result in free-riding on UKTI’s credibility and high profile, resulting in no net benefit for UK companies, there may be cases in which synergies/complementarities between UKTI and other providers could amplify UKTI’s impact.

The issue of the interaction between Posts and alternative providers deserves further study. However, we suggest that more transparency on the one hand and the judicious use of outsourcing and other forms of collaboration on the other hand could improve the efficiency of the support system for UK companies overseas. This would involve UKTI concentrating on its unique strengths (access to information, trust and impartiality), while leaving other, more contestable parts of the market (e.g., market research, event organisation) to competitive alternative providers.

In such a setup, we would expect UKTI to act as a hub/first point of contact, in particular for SMEs and new exporters that may require a high level of initial support in order to make effective use of the services on offer. We recognise that this approach is already practiced to some degree.
References


Annex 1  Surveys

Overseas Posts

To complement the quantitative data analysis, qualitative interviews were carried out with the UKTI representatives involved in administering OMIS – Overseas Posts. Before the telephone interviews began, UKTI sent the Overseas Posts a topic guide of the upcoming interview and information explaining the background of the study. The interviews were undertaken between 8th November and 19th November 2010, using a semi structured interview tool agreed in advance with UKTI.

Based on consultation with UKTI, 13 Posts in 11 overseas markets (USA, Brazil, Germany, Poland, United Arab Emirates, South Africa, India, China, Turkey, Thailand and South Korea; two Posts each are covered in India and China) were chosen to participate in the 60 minute telephone interview (Figure 33).

Figure 33: Coverage of UKTI overseas markets and Posts

These markets were chosen because they represent a sample of the biggest export markets for the UK. For example, the US is the destination of 14.9% of the UK’s exports, while Germany attracts 11%. Additionally, even where markets attract a relatively small absolute number of UK exports, growth in exports to these countries may be relatively high. For example in China and the United Arab Emirates, growth in UK exports stands at 16.6% and 10.4% respectively. Moreover, the countries chosen cover a range of EU, US and BRIC economies including high and medium growth countries such as India and Brazil who boast GDP growth of 6 % and 5% in 2009. The interview guide that was used in the consultations is shown below.
Appendix 1  Surveys

Alternative providers

To fully evaluate the commercial services provided by UKTI, we also undertook an online survey of alternative service providers. The sample for the survey consisted of contacts provided by Overseas Posts, a list of contacts from UKTI consisting mainly of Trade Associations and Chambers of Commerce and internet searches of a wider range of relevant providers including banks and market research agencies. In total, 98 responses were received. On average the survey took 10 minutes to complete and was undertaken between 13th December 2010 and 18th January 2011. The text of the online survey is provided overleaf.

Users and non-users

In addition to data supplied by UKTI in PIMS on the views of users and non-users of Commercial Services, London Economics commissioned OMB to undertake a quantitative survey of firms engaged in overseas business. Based on consultation with UKTI, a targeted sample of 300 firms drawn from participants in the 2008 and 2010 UKTI Internationalisation Surveys were selected for interview. The sample covered a range of firms including 26% that were UKTI users and 85% defined as ‘innovative’. After discussions with UKTI and London Economics, and following a ‘live’ pilot of the questionnaire, the interviews were undertaken in December 2010 and lasted 13 minutes on average. The questionnaire used in the CATI survey is shown on the next page.
Annex 2  Possible determinants of WTP in PIMS

Table 20: Variables for WTP correlations

<table>
<thead>
<tr>
<th>No.</th>
<th>variable</th>
<th>Cramér’s V (absolute)</th>
<th>No. of obs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>analytic: barriers to entry overcome</td>
<td>0.1623</td>
<td>776</td>
</tr>
<tr>
<td>2</td>
<td>analytic: changed behaviour</td>
<td>0.1596</td>
<td>776</td>
</tr>
<tr>
<td>3</td>
<td>analytic: entered new markets</td>
<td>0.1214</td>
<td>761</td>
</tr>
<tr>
<td>4</td>
<td>analytic: improved performance (PSA measure)</td>
<td>0.1138</td>
<td>776</td>
</tr>
<tr>
<td>5</td>
<td>analytic: improved productivity &amp; competitiveness</td>
<td>0.1664</td>
<td>776</td>
</tr>
<tr>
<td>6</td>
<td>analytic: increased innovation</td>
<td>0.0737</td>
<td>776</td>
</tr>
<tr>
<td>7</td>
<td>analytic: increased R&amp;D</td>
<td>0.0818</td>
<td>776</td>
</tr>
<tr>
<td>8</td>
<td>analytic: increased skills</td>
<td>0.1282</td>
<td>776</td>
</tr>
<tr>
<td>9</td>
<td>analytic: overall satisfaction</td>
<td>0.184</td>
<td>776</td>
</tr>
<tr>
<td>10</td>
<td>macro: area to which UKTI service relates</td>
<td>0.0437</td>
<td>776</td>
</tr>
<tr>
<td>11</td>
<td>macro: benefit through growth in overseas market</td>
<td>0.09</td>
<td>674</td>
</tr>
<tr>
<td>12</td>
<td>macro: economic downturn in EU/US</td>
<td>0.0298</td>
<td>537</td>
</tr>
<tr>
<td>13</td>
<td>macro: envisaged channels of overseas expansion</td>
<td>0.0117</td>
<td>90</td>
</tr>
<tr>
<td>14</td>
<td>macro: impact of £ exchange rate</td>
<td>0.1068</td>
<td>528</td>
</tr>
<tr>
<td>15</td>
<td>motivation: capacity utilisation (strength of agreement 1-5)</td>
<td>0.0651</td>
<td>101</td>
</tr>
<tr>
<td>16</td>
<td>motivation: geographic diversification (strength of agreement 1-5)</td>
<td>0.2153</td>
<td>102</td>
</tr>
<tr>
<td>17</td>
<td>motivation: growth (strength of agreement 1-5)</td>
<td>0.1519</td>
<td>101</td>
</tr>
<tr>
<td>18</td>
<td>motivation: improve credibility (strength of agreement 1-5)</td>
<td>0.108</td>
<td>100</td>
</tr>
<tr>
<td>19</td>
<td>motivation: overseas demand (strength of agreement 1-5)</td>
<td>0.0829</td>
<td>102</td>
</tr>
<tr>
<td>20</td>
<td>motivation: personal overseas connections (strength of agreement 1-5)</td>
<td>0.4298</td>
<td>24</td>
</tr>
<tr>
<td>21</td>
<td>overall satisfaction with service</td>
<td>0.208</td>
<td>775</td>
</tr>
<tr>
<td>22</td>
<td>profile: % overseas turnover</td>
<td>0.0645</td>
<td>641</td>
</tr>
<tr>
<td>23</td>
<td>profile: age of business (years)</td>
<td>0.0722</td>
<td>776</td>
</tr>
<tr>
<td>24</td>
<td>profile: bottom-line profits as % of turnover</td>
<td>0.1079</td>
<td>469</td>
</tr>
<tr>
<td>25</td>
<td>profile: business plan</td>
<td>0.1069</td>
<td>756</td>
</tr>
<tr>
<td>26</td>
<td>profile: export experience (years)</td>
<td>0.1353</td>
<td>762</td>
</tr>
<tr>
<td>27</td>
<td>profile: financial situation</td>
<td>0.0311</td>
<td>746</td>
</tr>
<tr>
<td>28</td>
<td>profile: growth objective</td>
<td>0.0105</td>
<td>746</td>
</tr>
<tr>
<td>29</td>
<td>profile: growth over 5 years</td>
<td>0.106</td>
<td>751</td>
</tr>
<tr>
<td>30</td>
<td>profile: overseas business anticipated in the future</td>
<td>0.1257</td>
<td>37</td>
</tr>
<tr>
<td>31</td>
<td>profile: past attempts to do business overseas</td>
<td>0.1688</td>
<td>75</td>
</tr>
<tr>
<td>32</td>
<td>profile: predicted future overseas turnover</td>
<td>0.0734</td>
<td>511</td>
</tr>
<tr>
<td>33</td>
<td>profile: sector of activity (SIC division)</td>
<td>0.1444</td>
<td>776</td>
</tr>
<tr>
<td>34</td>
<td>profile: started trading</td>
<td>0.0357</td>
<td>45</td>
</tr>
<tr>
<td>35</td>
<td>profile: trade association membership</td>
<td>0.0408</td>
<td>310</td>
</tr>
</tbody>
</table>

Source: London Economics
Annex 3  WTP estimation

A3.1  Validity test

As an elementary test of the appropriateness of the selected price points, we checked whether demand for the service described to respondents is lower at higher price points as predicted by economic theory. Table 21 confirms this: higher prices elicit consistently fewer “yes” responses, which means that respondents’ behaviour appears rational given the spacing and range of the selected price points.

Table 21: Responses to initial bids

<table>
<thead>
<tr>
<th>Bid amount (£)</th>
<th>No. of YES responses</th>
<th>Total observations</th>
<th>% of YES responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>29</td>
<td>71</td>
<td>40.8%</td>
</tr>
<tr>
<td>650</td>
<td>24</td>
<td>77</td>
<td>31.2%</td>
</tr>
<tr>
<td>800</td>
<td>22</td>
<td>75</td>
<td>29.3%</td>
</tr>
<tr>
<td>1000</td>
<td>21</td>
<td>77</td>
<td>27.3%</td>
</tr>
</tbody>
</table>

Source: London Economics
A3.2 WTP intervals

The following figure shows the complete set of WTP intervals in the sample.

Figure 34: WTP intervals in respondent sample (all observations)

Source: London Economics

A3.3 Turnbull estimate

<table>
<thead>
<tr>
<th>Bid</th>
<th>Tj</th>
<th>Elb</th>
<th>V(Elb)</th>
<th>Eub</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0.000</td>
<td>0.000</td>
<td>177.778</td>
<td></td>
</tr>
<tr>
<td>500</td>
<td>45.000</td>
<td>54.780</td>
<td>1,272.977</td>
<td>71.214</td>
</tr>
<tr>
<td>650p</td>
<td>46.000</td>
<td>37.447</td>
<td>65.089</td>
<td>57.611</td>
</tr>
<tr>
<td>800p</td>
<td>40.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1000</td>
<td></td>
<td>44.000</td>
<td>477.273</td>
<td>694.585</td>
</tr>
<tr>
<td>3000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>175.000</td>
<td>569.500</td>
<td>2,032.650</td>
<td>1,738.421</td>
</tr>
</tbody>
</table>

Note: (p) pooled category. Last bid value was arbitrarily chosen. Pval(Elb) = 0.00011.
A3.4 Interval regression

**Interval regression**
- Number of obs = 175
- LR chi2(0) = 0.00
- Log likelihood = -307.45562
- Prob > chi2 = .

| Coef.  | Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|--------|-----------|-------|------|----------------------|
| _cons  | 674.8518  | 34.548| 19.53| 0.000               |
| /lnsigma | 6.07701  | .0629777| 96.49| 0.000               |
| sigma  | 435.7243  | 27.44092| 15.53| 0.000               |

Observation summary: 0 left-censored observations, 20 right-censored observations, 155 interval observations

Annex 4 WTP explanatory factors (PIMS)

**Logistic regression**
- Number of obs = 584
- LR chi2(4) = 17.58
- Log likelihood = -395.88418
- Prob > chi2 = 0.0015
- Pseudo R2 = 0.0217

| wtp     | Coef.   | Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|---------|---------|-----------|-------|------|----------------------|
| cost    | .0003582| .0001437  | -2.56 | 0.011| -.0006326 -.0000838 |
| e1b_turn| .1743948| .0677268  | 2.57  | 0.010| .0416526 .307137 |
| e1c_inno_p-d| -.0556171| .0348873| -1.63 | 0.101|-.123995 .0127607 |
| _cons  | .4726805| .2067415  | 2.29  | 0.021| .0674826 .8778944 |

| substitute | Coef.   | Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|------------|---------|-----------|-------|------|----------------------|
| cost       | .0002654| .0001437  | 1.85  | 0.065| -.0000163 .000547 |
| e1b_turn   | .3121189| .0634849  | 4.92  | 0.000| .1876908 .436547 |
| e1c_inno_p-d| -.3140342| .2131381| -1.47 | 0.141|-.7317771 .1037088 |
| _cons     | -1.555943| .3456523  | -4.51 | 0.000| -.2.32233 -.0796532 |

Marginal effects after logit
- y = Pr(substitute) (predict) = .4735302

| variable | dy/dx   | Std. Err. | z     | P>|z|  | [95% C.I. ] |
|----------|---------|-----------|-------|------|----------------|
| cost     | .0000662| .00004    | 1.85  | 0.065| -.4.1e-06 .000136 |
| e1b_turn | .0778106| .01582    | 4.92  | 0.000| .008821 4.50484 |
| e1c_inno_p-d*| -.0783404| .053    | -1.48 | 0.139| -.182213 .025532 |

(*) dy/dx is for discrete change of dummy variable from 0 to 1

Annex 5 Intention to use alternative providers (PIMS)

**Logistic regression**
- Number of obs = 554
- LR chi2(3) = 33.03
- Log likelihood = -366.77975
- Prob > chi2 = 0.0000
- Pseudo R2 = 0.0431

| substitute | Coef.   | Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|------------|---------|-----------|-------|------|----------------------|
| cost       | .0002654| .0001437  | 1.85  | 0.065| -.0000163 .000547 |
| e1b_turn   | .3121189| .0634849  | 4.92  | 0.000| .1876908 .436547 |
| e1c_inno_p-d| -.3140342| .2131381| -1.47 | 0.141|-.7317771 .1037088 |
| _cons     | -1.555943| .3456523  | -4.51 | 0.000| -.2.32233 -.0796532 |

Marginal effects after logit
- y = Pr(substitute) (predict) = .4735302

| variable | dy/dx   | Std. Err. | z     | P>|z|  | [95% C.I. ] |
|----------|---------|-----------|-------|------|----------------|
| cost     | .0000662| .00004    | 1.85  | 0.065| -.4.1e-06 .000136 |
| e1b_turn | .0778106| .01582    | 4.92  | 0.000| .008821 4.50484 |
| e1c_inno_p-d*| -.0783404| .053    | -1.48 | 0.139| -.182213 .025532 |

(*) dy/dx is for discrete change of dummy variable from 0 to 1
Annex 6  The demand effect of price reductions in PIMS

Table 22: Percentage reduction in OMIS demand by company size classes

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>&lt;2m</th>
<th>2m-10m</th>
<th>10m-50m</th>
<th>50m+</th>
<th>50% price increase</th>
<th>Total</th>
<th>&lt;2m</th>
<th>2m-10m</th>
<th>10m-50m</th>
<th>50m+</th>
<th>Average</th>
</tr>
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<tbody>
<tr>
<td>25% price increase</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Total</td>
<td>41.3%</td>
<td>41.0%</td>
<td>28.6%</td>
<td>36.4%</td>
<td>37.5%</td>
<td></td>
<td>58.7%</td>
<td>61.5%</td>
<td>52.4%</td>
<td>36.4%</td>
<td>50.0%</td>
<td>44.4%</td>
</tr>
<tr>
<td>2m-10m</td>
<td>44.9%</td>
<td>48.2%</td>
<td>42.3%</td>
<td>37.9%</td>
<td>25.0%</td>
<td></td>
<td>65.8%</td>
<td>66.2%</td>
<td>65.4%</td>
<td>65.5%</td>
<td>40.0%</td>
<td>50.1%</td>
</tr>
<tr>
<td>10m-50m</td>
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<td>53.8%</td>
<td>11.1%</td>
<td>66.7%</td>
<td>0.0%</td>
<td></td>
<td>51.4%</td>
<td>69.2%</td>
<td>22.2%</td>
<td>83.3%</td>
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</tr>
<tr>
<td>Total</td>
<td>43.6%</td>
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<td>64.4%</td>
<td>61.8%</td>
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<td>50.0%</td>
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<td>25% price increase</td>
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</tr>
<tr>
<td>Total</td>
<td>54.5%</td>
<td>50.0%</td>
<td>66.7%</td>
<td>100.0%</td>
<td>0.0%</td>
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<td>100.0%</td>
<td>0.0%</td>
<td>54.2%</td>
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<td>100.0%</td>
<td>80.0%</td>
<td>52.2%</td>
</tr>
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</table>

Source: London Economics, PIMS