

WHY IS EXPORTING IMPORTANT TO SMMs?

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SMMs Play a Key Role in Manufacturing Exports

Within the manufacturing sector, large companies represent the bulk of exports, but SMMs play a critical role.⁴ SMMs represent roughly 19% of manufacturing sector export value⁵, but they also contribute indirectly to the exports of large companies as part of the supply chain. The U.S. International Trade Commission (USITC) quantified this contribution based on an analysis of 2007 data; in that period, SMMs represented 16% of manufacturing sector exports, but an estimated 32% of export value added when intermediate goods (supplied to exporting firms) were included.⁶

The value of SMMs in the supply chain is often overlooked.ⁱⁱ If domestic SMMs are not competitive, i.e. if at a given price they provide less value (in terms of innovation, quality, or service), Original Equipment Manufacturers (OEMs) will substitute imported content. This would negatively impact the U.S. trade balance. Alternatively, strong SMM suppliers help OEMs to be more competitive and thus export successfully.

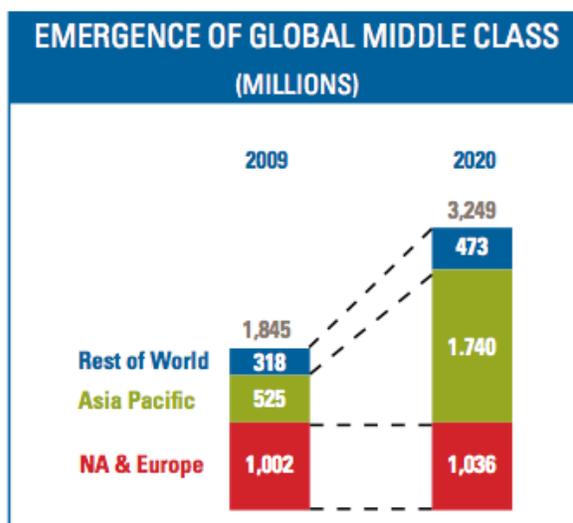
For SMMs, Exporting is Not Just About Growth, But About Survival

It is urgent that the U.S. increases the number of SMMs that enter into and expand in global markets. For many of these companies it is not just about growth, but about survival. A former export assistance provider stated in Senate testimony that many of the “very small companies” she worked with “would no longer be in business, were it not for their foreign sales.”⁷

Although the U.S. is a manufacturing powerhouse, it has traditionally underperformed in exports versus other large developed nations, because historically U.S. companies could rely on the large domestic market.⁸ But, this is no longer the case.

The U.S. market offers limited growth and intense competition, including from imports. Thus firms that only focus on the domestic market are fighting over a shrinking pie. In contrast, foreign markets represent tremendous growth opportunities: 80% of global purchasing power is outside of the U.S.⁹, and emerging markets are growing fast, particularly their burgeoning middle class sectors. (See Chart 1)

CHART 1



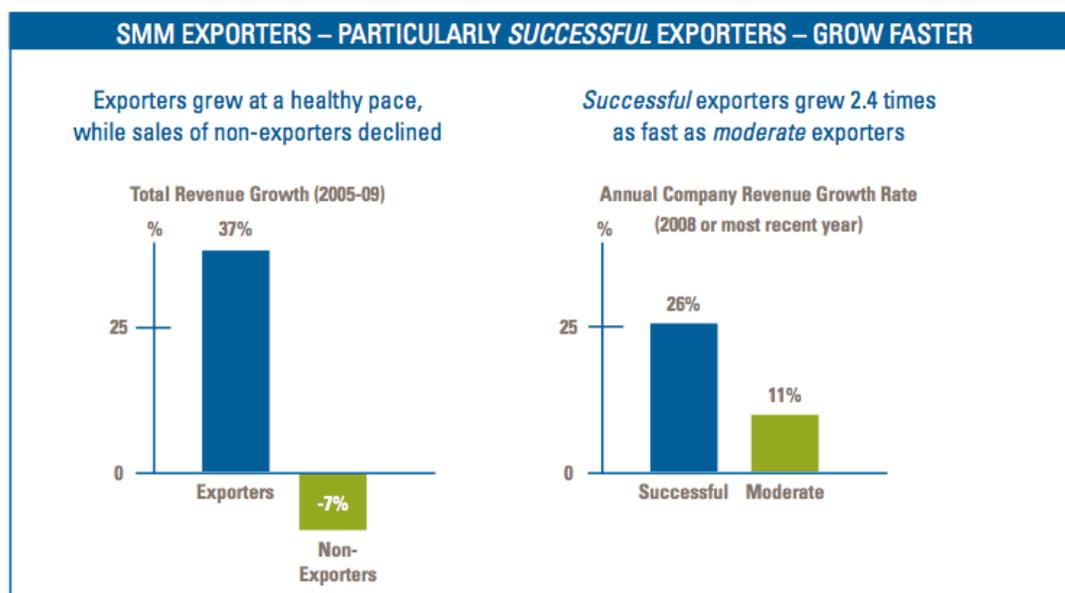
Source: The Emerging Middle Class in Developing Countries, Kharas, Jan 2010, OECD Development Center

ⁱ 2010 data

ⁱⁱ A discussion of supply chains appears in Section VI.

Furthermore, studies validate the growth opportunity for exporters: overall company revenue growth for SMM exporters is much higher than for non-exporters. According to a U.S. International Trade Commission (USITC) report, exporters grew by 37% over a 4-year period versus a 7% decline for non-exporters. And an internal study conducted by the U.S. Commercial Service and NIST MEP indicated that “successful” exporters grew 2.4 times faster than “moderate” exporters.ⁱⁱⁱ (See chart 2)¹⁰

CHART 2



Source: USITC, Nov 2010

Source: Internal USCS & NIST MEP 2009 Study (n=864)

Global Expansion Improves Company Performance and Reduces Risk

The economic contraction in the domestic market has made it challenging for U.S. SMMs to survive, let alone prosper. However, SMMs that export have a greater chance to do both.

Higher Labor Productivity Studies show that SMM exporters have much higher labor productivity than non-exporters: 72% higher according to a U.S. International Trade Commission (USITC) study.¹¹ Some of this can be attributed to self-selection – in other words, productive companies are more likely to export.¹² But exposure to ideas, technology, and best practices at the international level also contributes to improved productivity.¹³ In addition, diversification into international markets (discussed below) can improve productivity by increasing volume and capacity utilization.

ⁱⁱⁱ Successful exporters in this study were defined as follows: 1) at least 20% of total sales were international; and 2) international sales were growing at a minimum of 10% per year. Moderate exporters were all other exporters that did not attain the criteria for “successful.” Source: Internal U.S. Commercial Service and NIST MEP Market Segmentation Research, 2009.

Greater Innovation^{iv} As discussed in Sections IV and VI, innovative companies are more likely to export, but engagement in global markets also spurs innovation.¹⁴ For example, frontier-edge technology or features are often defined by global markets and competitors. As Mario Winterstein, Business Development Director of the Association of Manufacturing Technology (AMT), told us “if you don’t look globally ... competitors will come here [to the U.S.] and eat your lunch because the demand for faster, better, cheaper products in [in our industry] is stronger outside the U.S.”¹⁵

International markets may also reveal or spark new applications for a product. For example, an ExporTech client that manufactured a cleaning agent used in hospitals and laboratories expanded into a new market when its distributors in Asia began selling to the semiconductor industry. At first, the company did not even know how this new market used their product. Eventually, the semiconductor market became nearly a third of its business and is now one of its most attractive growth opportunities.

Niche Players Can Thrive Many *successful* SMM exporters sell in niche markets. International sales help to support niche products by allowing SMMs to leverage their operations over a much larger market thus achieving scale economies.¹⁶ In other words, if you manufacture an item for a narrow segment of customers, you are more likely to survive, grow, and prosper if you cast worldwide for those customers.

Market Diversification Reduces Risk Non-exporters are extremely vulnerable during domestic downturns, whereas exporters who proactively sell into multiple global markets are cushioned from a slowdown in any given market.

Exporting can also allow SMMs to balance seasonality, which smooths production and increases utilization. For example, Osagian Canoes (an ExporTech client) is targeting the southern hemisphere (South America and Australia) to sustain production levels during the offseason.¹⁷

An International Trade Administration (ITA) study validated the importance of diversification, finding that industries with higher exports had less overall shipment volatility.¹⁸ And — not surprisingly — reduction in revenue volatility increases survival rates.¹⁹

Lastly, and maybe most importantly, manufacturers that do not compete aggressively in international markets are vulnerable to those who do. Even in the domestic market, companies that do not sell internationally are at a disadvantage versus foreign (and domestic) competitors who gain all the advantages from selling globally discussed above.

Given that budgets at the federal and state level are unlikely to increase significantly in the near term, **the export assistance community must laser focus on SMMs with the greatest export growth potential, help create more of these firms and provide the highest value assistance.**

^{iv} Innovation has multiple definitions. In some cases, it means frontier-edge, science-based discoveries. In this paper we are employing a broader definition of innovation to include the development of unique or superior products, even if they use existing technology, as well as adapting products and technologies for new applications and new markets, and adopting new or innovative business models.

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- ⁴ Stephen Ezell, "Revitalizing U.S. Manufacturing," *Issues in Science & Technology*, Volume 28 Issue 2, January 2012
- ⁵ US Census Bureau, *A Profile of U.S. Importing and Exporting Companies, 2009 - 2010*, April 12, 2012
- ⁶ USITC, *Small and Medium-Sized Enterprises: Characteristics and Performance, November 2010*
- ⁷ Dawn Wivell, Former Director, Office of International Commerce/ International Trade Resource Center, State of New Hampshire, in testimony to the Senate Small Business and Entrepreneurship Committee Hearing - "The Role of Exports in Small Business Growth and Job Creation," August 2011
- ⁸ USITC, *Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms*, July 2010; Brookings Metropolitan Policy Program, *Export Nation: How U.S. Metros Lead National Export Growth and Boost Competitiveness*, July 2010
- ⁹ U.S. Chamber of Commerce website and IMF, World Economic Outlook Database
- ¹⁰ USCS and NIST MEP, Market Segmentation (internal) Research Initiative, December 2009, Prepared by the Pacific Consulting Group (Stone & Associates was project advisor)
- ¹¹ USITC, *Small and Medium-Sized Enterprises: Characteristics and Performance, November 2010*
- ¹² ITA Manufacturing and Services Economic Brief, "Do Jobs In Export Industries Still Pay More? And Why?," July 2010; Wagner A. Kamakura & María A. Ramón-Jerónimo & Julio D. Vecino Gravel, "A dynamic perspective to the internationalization of small-medium enterprises", *Journal of the Academy of Marketing Science*, (2012) 40:236–251; Heinz Hollenstein, "Determinants of International Activities: Are SMMs Different?," *Small Business Economics*, (2005) 24: 431-450
- ¹³ USITC, *Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms*, July 2010; OECD Global Conference in Tokyo, *Enhancing the Role of SMMs in Global Value Chains*, Tokyo, May 31 - June 1, 2007; ITIF and the Kauffman Foundation, *The Global Innovation Policy Index*, March 2012
- ¹⁴ Govindarajan and Trimble, *Reverse Innovation: Create Farfrom Home, Win Everywhere*, (Harvard Business Review Press, 2012); Brookings Metropolitan Policy Program, *Export Nation: How U.S. Metros Lead National Export Growth and Boost Competitiveness*, July 2010; OECD Trade Policy Working Paper No. 72, *Trade and Innovation Project - A Synthesis Paper*, August 2008; NBER, *Global Engagement and the Innovation Activities of Firms (of UK firms)*, June 2005; Rosanna Pittiglio, Edgardo Sica & Stefania Villa, "Innovation and internationalization: The case of Italy," *Journal of Technology Transfer*, (2009) 34:588–602
- ¹⁵ Interview with AMT, 9-6-12
- ¹⁶ ITIF and the Kauffman Foundation, *The Global Innovation Policy Index*, March 2012
- ¹⁷ USA Today, "Small businesses look across borders to add markets", April 7, 2011
- ¹⁸ ITA Office of Competition and Economic Analysis, *The Impact of Exporting on the Stability of U.S. Manufacturing Industries*, March 2011
- ¹⁹ Andrew B. Bernarda, J. Bradford Jensen, "Exceptional exporter performance: cause, effect, or both?," *Journal of International Economics*, 47 (1999) 1–25; ITA Office of Competition and Economic Analysis, *The Impact of Exporting on the Stability of U.S. Manufacturing Industries*, March 2011; OECD Global Conference in Tokyo, *Enhancing the Role of SMMs in Global Value Chains*, Tokyo, May 31 - June 1, 2007