

## WHO ARE THE SMMs WITH THE GREATEST EXPORT GROWTH POTENTIAL: Part 1-- Not All Products Have Export Potential

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The export assistance community must first acknowledge that not all manufacturers have an exportable product. As an indication of untapped export potential, it is widely cited that fewer than 1% of U.S. small businesses export.<sup>20</sup> However, as SBA Administrator Karen Mills pointed out during a meeting of the President's Export Council, of the 28 million U.S. small businesses<sup>1</sup>, only 6 million have employees, and only 2 million have goods or services traded outside of their local markets.<sup>21</sup> (See Chart 3)



CHART 3

While a large percentage of the manufacturing sector is traded nationally and internationally (as compared to the service sector), there are some products and companies that are primarily traded regionally. In some industries, for example, customer proximity factors such as reduced transportation costs, short lead time, and face-to-face customer interaction are the foundations of local providers' value propositions (examples: fresh baked goods, oversized custom concrete products); thus they have no export potential. In addition, some companies in industries that are tradable outside the region may utilize a strategy that relies on customer-proximity advantages. Their value proposition is similar to those listed above, relying on

speed (short lead time), small lot size/customization, and/or faster new product iterations. Examples include small run, customized, high engineering change wire harnesses or printed circuit boards. These types of businesses may sell as far away as Canada or Mexico, but generally no farther. If proximity to the customer is a manufacturer's primary selling point, the company may have limited export potential.

Finally, commodity products have limited potential for U.S. exporters. It is difficult for a high-wage nation to compete solely on price in exports against products from low-wage nations or against locally produced goods which do not involve export-related logistics and marketing costs (such as freight, duties, inventory, and travel).<sup>22</sup>

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<sup>1</sup> Includes all types of firms, such as service, retail/wholesale, construction, agricultural, as well as manufacturing.

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<sup>20</sup> trade.gov fact sheet

<sup>21</sup> In her comments during a President's Export Council meeting (Transcript: The President's Export Council Holds a Meeting to Discuss the Council's Recommendations on Export Promotion - Final, March 11, 2011)

<sup>22</sup> Stone & Associates, *International Growth: Successful Export Strategies for Manufacturing CEOs*, Prepared for NIST MEP, February 2006