

WHO ARE THE SMMs WITH THE GREATEST EXPORT GROWTH POTENTIAL: Part 3—Segment SMMs by a Combination of Mindset and Export Performance

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In Order to Identify Companies with the Greatest Export Growth Potential, and to Determine How Best To Serve Them, We Segment SMMs by a Combination of Mindset and Export Performance³²

Successful Exporters

- These companies are proactive and have committed resources to aggressively pursue international sales. They generally have an explicit export plan or strategy.
- Most of these companies ship to 10 or more markets, generate over 20% of sales from exports, and are experiencing growth of at least 10% in international sales (many are growing at much faster rates).
- They are easily identified in the export assistance world, and they have the highest awareness of export assistance resources.
- The assistance they need is typically focused on new market entry and finding sales channel partners.
- They are generally well-served, compared to other segments. Consequently, we focus this paper on the underserved categories below: *moderate* exporters and *new-to-export* companies.

Moderate Exporters

- Although this group has international sales, their needs and behavior are distinctly different from *successful* exporters. These exporters need help on their journey toward becoming successful. They ship to fewer than 10 markets (typically 4 or fewer) and exports represent less than 20% of sales (generally less than 10%).
- This segment includes a range of company mindsets. The purely reactive - as described by Brookings in Chart 6 - are at one end of the spectrum and they represent a large percentage of this segment. They have exported only in response to foreign customer inquiries i.e. do not actively solicit export sales, and they serve only a handful of customers and markets. On the other end of the spectrum are companies that have achieved some success in exporting. They may be somewhat proactive but are still struggling to develop systematic export processes (e.g. compliance programs, or methods for evaluating distributors) and an overall international growth strategy. (See examples of *moderate* exporters that participated in ExporTech in Chart 7.) They need help at the management level to deal with these issues, in addition to help with new market entry.
- The category of *moderate* exporters is large — it makes up roughly 85% of SMMs who already export.³³ For the purely reactive companies, every geographic market they have shipped to represents untapped potential. A customer from another part of the world found these companies and chose to buy from them, which is a clear

REACTIVE EXPORTERS

In contrast to *successful* exporters, many companies approach export sales reactively. A Brookings-led export strategy for Minneapolis/St. Paul aptly describes the reactive approach we have observed of many exporters nationwide:

"Many companies in the Minneapolis-Saint Paul region that do currently export lack a strategic, intentional approach to identifying new international market opportunities. Local companies that do export often export a particular product to a single market but have not incorporated exports into their business plan or identified other growth opportunities beyond U.S. borders. Many companies became exporters accidentally in response to direct sales opportunities or through distributors in other countries. Often, the client finds the local company and not the other way around. Trade specialists at the Minnesota Trade Office and U.S. Commercial Service office tell of company visits where an owner or sales representative opens a drawer full of unanswered international inquiries about their products"

Source: Brookings Metro Export Initiative, Minneapolis-St. Paul Export Plan

indication that the product is desirable in foreign markets and is differentiated from local suppliers.

These companies are, in a sense, pre-screened for international growth potential. In addition, for many *moderate* exporters, countless new markets may be successfully targeted, particularly for those that have shipped outside of North America because this indicates that a customer is

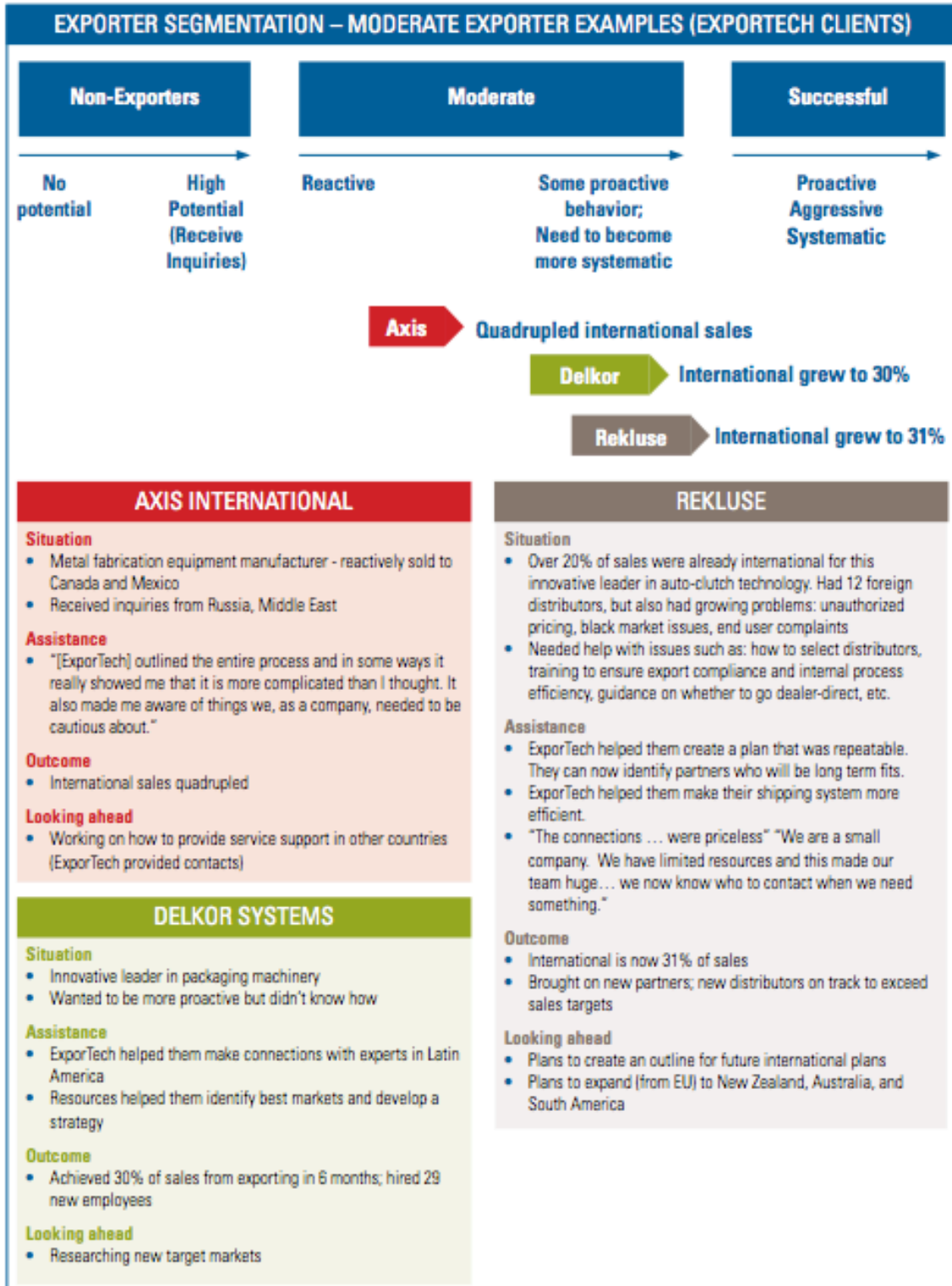
willing to pay the additional shipping and logistics costs.

- Helping these SMMs to become *successful* exporters requires targeted assistance and will have the greatest impact on SMM export growth.

Non-exporters (also known as new-to-export or NTE)

- These SMMs have not exported — and not all have export potential. The challenge for export assistance organizations is to identify the high potential companies.
- **The best indication that a product has export potential is that the company receives inquiries from foreign entities, particularly from outside of North America.** (Again those that receive interest only from Canada and/or Mexico may have more limited potential.)
- SMMs within this segment that receive inquiries and are ready to commit resources to pursuing exporting also represent high potential, and their assistance needs are similar to *moderate* exporters.

We refer to the segment that is poised for rapid international growth as **Threshold companies**, defined as SMMs who want to commit resources to expand exports and are currently *moderate* exporters or *new-to-export* companies with differentiated products.



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- ³² Stone & Associates analysis based on several sources: a) U.S. Small Business Administration, Office of Advocacy, based on data provided by the U.S. Census Bureau, Statistics of U.S. Businesses; b) RSM McGladrey Manufacturing & Distribution Monitor, Fall 2011 for data on percentage of manufacturers that export; c) Census Bureau, *Profile of U.S. Importing and Exporting Companies 2009-10*; d) Stone & Associates, *International Growth: Successful Export Strategies for Manufacturing CEOs*, Prepared for NIST MEP, February 2006; e) CS/MEP Market Segmentation Survey 2009; f) Interviews in export assistance community
- ³³ Stone & Associates analysis based on US Census Bureau, *A Profile of U.S. Importing and Exporting Companies*, 2009 - 2010, April 12, 2012 and MEP/USCS studies cited above.