

ON THE THRESHOLD: REFOCUSING U.S. EXPORT ASSISTANCE STRATEGY FOR MANUFACTURERS

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I. EXECUTIVE SUMMARY

Without significant growth in exports, the U.S. cannot hope to decrease its trade deficit, reduce its reliance on domestic consumption, or offset sluggish job creation. Manufacturing represents a large portion of the traded sector and without significant expansion of manufactured exports, the U.S. will not make appreciable improvements to the trade deficit or to its broader economic objectives. Within the manufacturing sector, large companies represent the bulk of exports, but small and mid-sized manufacturers (SMMs) play a critical role.

FINDINGS

Why is exporting important to SMMs?

- U.S. manufacturers underperform in exports versus other developed nations because historically they have been able to rely on the large domestic market. But this is no longer the case: the U.S. market offers limited growth and intense competition, including from imports.
- Global markets offer growth opportunities and help to improve company performance. Exporters grow faster than non-exporters, have higher productivity, and are exposed to new ideas that stimulate innovation.
- Moreover, it is not just about growth, but survival. International sales reduce vulnerability to domestic demand volatility, and manufacturers that do not reap the benefits of competing in international markets are vulnerable to those that do.

Who are the SMMs with the greatest export growth potential, and how do export assistance providers identify them?

- Given limited resources, export assistance organizations must focus on those companies and products with the greatest export potential. The reality is that not all SMMs have global opportunities.
- Based on what is known about *successful* exporters, firms with the greatest export growth potential - which we call *threshold* firms - have two key characteristics:
 1. They have a differentiated product/service, i.e. there is something unique, superior or specialized about an exporter's product, service or capabilities;
 2. They are ready to commit resources to become more proactive, aggressive, and systematic about exporting.
- *Threshold* firms have not fully realized their export potential, but are positioned for rapid international growth. If these firms can commit resources to export sales and become more proactive, they can realize their full potential.
- The *threshold* segment is comprised of two distinct categories of SMMs: *moderate* exporters that export to a few foreign markets but are often reactive in their approach to exports; and *new-to-export* companies that have received foreign inquiries. Because both groups of companies already sell to, or receive inquiries from, foreign markets, there is evidence of global demand and differentiation from competition.

- Export assistance resources should be focused on *threshold* companies (among manufacturers). The oft-cited statistic that only 1% of U.S. small businesses export is misleading, as it implies that the other 99% have export potential. The reality is that only a limited percentage of companies that do not export have a tradable, differentiated product with export potential.
- But there remains a huge opportunity. The export assistance community serves fewer than half of the *moderate exporters*, and probably a low percentage of the export-ready *new-to-export* companies.ⁱ Based on these numbers (and assumptions about how many companies are ready to commit resources to export growth) we roughly estimate that 25-80,000ⁱ *threshold* SMMs are not being served by the export assistance world. This is a large but manageable number. If export assistance providers can reach more of these *threshold* firms (particularly those with 20 or more employees) and help them to become *successful* exporters, export assistance organizations will help move the needle on U.S. export performance.
- A straightforward way to identify *new-to-export* companies with export potential is to determine whether they have received inquiries from foreign customers.

What type of assistance do exporters — particularly *threshold* companies — need?

- Helping *threshold* firms progress from a reactive mindset to a proactive one will unlock their full export growth potential. Because of their scale, SMMs are resource-constrained, and a lack of management capacity for export — both expertise and bandwidth — is a key barrier to overcome. SMMs need support and programs that help them expand their leadership team's capacity to manage export sales.
- Marketing campaigns about exporting rarely compel SMMs to act. Concrete export sales opportunities, such as those that come from personal connections in

foreign markets, foreign customer inquiries, or specific market intelligence, help to open the eyes of company leadership to international prospects and thus drive action. Consequently, business matchmaking services and trade missions, as well as funding support for participating in tradeshow, are invaluable to helping companies see opportunities and trigger a more proactive mindset.

- SMM exporters are often niche players and thus need market data that is far more in-depth and specific, relative to their products and value propositions, than broad data at the country or Harmonized System (HS)/NAICS code level.
- To reach their full potential, *threshold* firms need international business coaches, not just “technicians” on export mechanics. Trade counselors must be able to “go deeper” with clients, providing guidance on more advanced topics, such as how to manage distributor and rep relationships, or international marketing.

Why are innovation and the supply chain important for growing exports?

- Promoting innovation programs will help established manufacturers in particular, but startups as well, to develop new products, processes and technologies, enabling them to become or remain differentiated in global markets.
- The role of SMMs is often in the supply chain of OEMs, and that role is critical to export performance: large manufacturers may represent the bulk of exports, but suppliers contribute indirectly to a significant portion of export value added. This indirect contribution by SMMs is as important to the U.S. economy as direct exports. The U.S. needs a strong, innovative and diversified supply base that collaborates with OEMs on innovation, that can defend itself against competition from imports, and that also exports directly to customers worldwide.

ⁱSee page 20 and Appendix I for an explanation of these estimates.

RECOMMENDATIONS

How does the export assistance community help SMMs fulfill their export potential in an environment with limited additional funding?

- We can identify and reach a greater percentage of *threshold* companies by expanding export assistance capacity in several ways. First, in a world of limited resources, USEACs, state trade organizations and SBDCs should coordinate to avoid duplication of effort. Each organization may provide different sets of services to a particular SMM, but identifying one lead trade counselor will allow the export assistance world to serve a greater number of companies. Second, overseas federal and state networks should leverage partners/subcontractors and voluntary representatives to augment Foreign Commercial Service staff and paid state trade office foreign representatives. Third, metro area economic development communities can also be assets in identifying *threshold* companies. In sum, the U.S. should not allow capacity constraints in export assistance organizations to limit U.S. export opportunities.
- We can help companies expand top management capacity – both time and expertise – through *intensive* forms of support, including *in-depth* counseling and innovative group project delivery models (such as ExporTech and VALET), as well as through university internship programs and connections to intermediaries (such as export management companies). There is no substitute for in-depth services.
- We must avoid losing ground to competitor nations in in-country and tradeshow support. This support provides concrete leads and contacts that “open the eyes” of SMMs to global opportunities and drives them to become more proactive exporters.
- We need to take export assistance services to the next level by employing more counselors with private industry experience, who can be true international business

coaches and not simply technicians on export mechanics. We also need to provide the in-depth market intelligence that exporters need. This will require hiring staff with market research skills and deepening partnerships with industry associations that can help furnish in-depth market intelligence and global industry knowledge.

- Innovation programs contribute to exports. Although there is a national emphasis on spurring innovation — and a parallel emphasis on exporting — the two efforts often fail to intersect in a meaningful way. The export assistance community needs to support the expansion of programs that help *established* companies differentiate themselves, and we need to better integrate export assistance resources with the innovation eco-system (e.g. cluster initiatives, executive peer learning groups, and university-industry collaborations such as research parks), which will put us in a position to work with clients that have a greater chance of success in global markets.
- We need to support programs that help SMM suppliers develop innovative capacity and specialized capabilities, so they can help their OEM customers innovate for global markets.
- We also suggest establishing an “ambassador” program that would enlist multinational U.S. OEMs and Tier 1 suppliers to open doors abroad for SMM suppliers.

If the export assistance community can adopt some or all of these strategies, we can unlock the export potential of tens of thousands of small and mid-size manufacturers. The payoff could be tens of billions of dollars in manufactured exports and hundreds of thousands of manufacturing jobs.

