

WHY ARE SUPPLIERS IMPORTANT TO EXPORTS AND HOW CAN THE ECONOMIC DEVELOPMENT WORLD SUPPORT THEM?

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The role of SMMs is often in the supply chain of Original Equipment Manufacturers (OEMs). And that role is critical: "...the health of an economy's large manufacturers depends on the strength of the SME suppliers in their value chain..."⁷² In terms of exports, large manufacturers may represent the bulk of shipments, but suppliers contribute indirectly to a significant portion of value added. Based on an analysis by the U.S. International Trade Commission (USITC) in 2007, 16% of manufacturing sector exports were shipped by SMMs, but SMMs represented an estimated 32% of export value added when intermediate goods (supplied to exporting firms) were included.⁷³

OEMs select supply chain partners based on value. If domestic SMMs provide less value (in terms of innovation, quality, or service) at a given price than foreign competitors, OEMs will substitute imported content (thereby reducing domestic value added of their export shipments) or risk becoming less competitive themselves, thus losing market share to global competitors. Our opportunity is to strengthen the competitive position of the supply base – in other words, to maintain and grow its value added. The U.S. needs a strong, innovative and diversified supply base that supports OEM innovation globally and can defend itself against imported competition.

In addition to indirect exporting through OEMs, suppliers also export directly. In many respects, these companies have the same needs as finished product exporters discussed throughout this report. However, suppliers also face unique opportunities and threats.

First, suppliers often have opportunities to expand by exporting to overseas affiliates of their U.S. multinational customers. 45% of SMBs, in a 2010 survey by CompTIA (a non-profit trade association), reported that they sold products/services to U.S. subsidiaries of foreign companies.⁷⁴ Second, suppliers should also strive to expand and diversify their customer and market base by exporting to other international supply chains. At a global conference on SMEs, the Organisation for Economic Co-operation and Development said... "the smart enterprise is (a)lways seeking ways of spreading its involvement across two or more global value chains... it looks to expand its options and capabilities. This leverages skills, enhances capabilities and reduces the risk of being tied to a single global value chain."⁷⁵

It is also worth noting that for companies with finished products, supply chain participation itself (i.e. adding OEM sales to their mix of business) can make SMMs stronger – it increases stability, growth, and productivity,⁷⁶ and spurs globalization.⁷⁷

MEP helps suppliers to be stronger supply chain partners through services such as Lean, quality system certifications, and operational improvements. Other programs that target suppliers include: an Export-Import Bank financing program to support supplier

cash flowⁱⁱ, and the Michigan Manufacturing Technology Center's Market Diversification program that encourages suppliers to diversify to avoid being too dependent on one or a few OEM chains.

What We Need To Do Differently As a nation, we need to encourage suppliers to develop innovative capacity and specialized capabilities to collaborate with OEMs on innovation. (As mentioned in the section on innovation, this might include Lean Product Development services or affordable access to modeling and simulation tools.) Also, we need more programs like MMTC's Market Diversification program that assist suppliers with diversification. The MEP program should expand initiatives like these that help suppliers innovate, access new technology, or diversify.

In terms of direct export assistance, Stone & Associates suggests an "ambassador" program where U.S. companies open doors (i.e. make introductions, not twist arms) for their domestic suppliers with their foreign affiliates.ⁱⁱⁱ Many suppliers ship to foreign affiliates of their U.S. customers (OEM), but rarely get help from the U.S. parent. Gregory Tasse, Senior NIST economist, opined that U.S. OEMs put profit-maximization ahead of supplier health, not recognizing that, "...effective supply-chain integration... requires an understanding by large manufacturers that smaller suppliers need both adequate profits and some minimum level of orders during down portions of the business cycle to sustain R&D and update productive capacity."⁷⁸ He contrasted this attitude to Japanese companies as well as to some German firms that are known to maintain their supplier relationships in offshored products to standardize their products worldwide.^{iv} In a 2010 discussion on exports, Grant Aldonas (former undersecretary, DOC, International Trade), suggested that it may be more productive for the government to focus increased attention on supplier capabilities and linkages in supply chains, because "the new commercial gate keepers in the global economy, are actually the companies themselves and who they bring on as suppliers."⁷⁹ We suggest that the benefit to OEMs of an ambassador program is a supply base that – through the benefits of global scale and activity – is more stable, innovative, and cost competitive.

ⁱⁱ The Ex-Im Bank's Supply Chain Finance Guarantee program is "designed to inject liquidity in the marketplace and provide U.S.-based suppliers — particularly small businesses — with access to capital faster and at a lower cost." (source: Ex-Im Bank, Report To The U.S. Congress On Export Credit Competition And The Export-Import Bank Of The United States: For The Period January 1, 2011 Through December 31, 2011, June 2012.)

ⁱⁱⁱ A foreign branch, subsidiary, joint venture or licensee of a U.S. parent company

^{iv} Ford also has a preferred suppliers program (Aligned Business Framework) that allows it to standardize across global markets; but Ford's program has no U.S. bias, in other words, its preferred suppliers may or may not be American.

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- ⁷² Stephen Ezell, "Revitalizing U.S. Manufacturing," *Issues in Science & Technology*, Volume 28 Issue 2, January 2012
- ⁷³ USITC, *Small and Medium- Sized Enterprises: Characteristics and Performance*, November 2010
- ⁷⁴ CompTIA, *Small and Medium Size Business Export Insights and Opportunities*, January 2010
- ⁷⁵ UN Industrial Development Organization, *Competing Through Innovation and Learning, 2002 with OECD Global Conference in Tokyo, Enhancing the Role of SMMs in Global Value Chains*, Tokyo, May 31 - June 1, 2007
- ⁷⁶ Ibid
- ⁷⁷ UN Industrial Development Organization, *Competing Through Innovation and Learning, 2002*; OECD Trade Policy Working Paper No. 72, Trade and Innovation Project- A Synthesis Paper, August 2008
- ⁷⁸ Gregory Tassef (NIST), "Rationales and Mechanisms for Revitalizing U.S. Manufacturing R&D Strategies," *Journal of Technology Transfer*, January 2010 (online)
- ⁷⁹ Transcript: The American Enterprise Institute for Public Policy Research Holds a Discussion on U.S. Exports, *Financial Market Regulatory Wire*, December 9, 2010