

## HOW DOES THE EXPORT ASSISTANCE COMMUNITY HELP SMMs FULFILL THEIR EXPORT POTENTIAL IN AN ENVIRONMENT WITH LIMITED ADDITIONAL FUNDING?

Excerpted from: ON THE THRESHOLD: REFOCUSING U.S. EXPORT ASSISTANCE STRATEGY FOR MANUFACTURERS; Stone & Associates June 2013

This section elaborates on how the export assistance world can assist SMM exporters, particularly *threshold* firms. These recommendations reflect the fact that significant additional government funding may not be available.

### **Export Assistance Providers (particularly USEACs, state trade organizations, SBDCs and MEP centers) Need to Reach a Greater Percentage of *Threshold* Companies by Coordinating Federal and State Resources and by Leveraging Partners**

If we can reach a larger number of *threshold* companies and help them become more proactive, systematic exporters, we can have a meaningful impact on manufacturing sector export performance. Because *threshold* firms are either already exporting or have received foreign customer inquiries, it is likely that they have differentiated products with export potential. Stone & Associates estimates that the export assistance community serves fewer than half of *moderate* exporters and probably a very low percentage of the export-ready new-to-export companies. Based on these percentages, we estimate that there are roughly **25-80,000 *threshold* firms<sup>i</sup> that are not served by the export assistance world**. To reach more of the right companies, the export assistance community needs to adopt the following strategies.

**We can reach more companies through increased coordination of federal and state export assistance.** With limited capacity to provide intensive services needed by *threshold* companies – such as in-depth counseling or group projects like ExporTech – it is critical that the state and federal networks coordinate to avoid duplication of effort. Under NEI, this is a priority and the STEP program has helped to accelerate progress in this area, but additional opportunity exists to coordinate client services. In some regions, federal and state export assistance organizations view each other as competitors and duplicate trade counseling efforts. In a world of limited resources, it does not make sense for USEAC, state, and SBDC trade organizations in each region to all be counseling the same companies. Instead, these organizations should coordinate (within each region) by identifying a lead trade counselor for each exporting client. This approach does not mean that, for example, a USEAC would not provide Gold Key services to a client that is working with a lead counselor from a state trade office. It simply means that one counselor would provide overall coordination and guidance to that company, allowing the export assistance community to expand its reach to additional clients. (Note that an important first step toward this coordination would be for the U.S. Commercial Service to share client data with state partners.<sup>80</sup>)

**Metro partners can also be leveraged to expand reach.** The Brookings Institution is leading the development of a series of export plans for metropolitan areas. They view

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<sup>i</sup> For explanation of size estimate see article: “Helping A Larger Number Of *Threshold* SMMs Will Move The Needle On U.S. Export Performance”

the metro region economic development community as a logical and underexploited outreach channel that can be leveraged to educate companies about the international opportunity and qualify/refer them to the appropriate export assistance organization.<sup>81</sup> Metro economic development partners can identify *threshold* companies and connect them with federal and state export assistance resources.

Export assistance organizations **should adjust their targeting strategies**. Given current resource constraints, it is understandable that *new to export* companies (*NTEs*) are lower priority for federal and state export assistance organizations. However, if we can expand capacity (through strategies outlined in this section) then *NTEs* become an important export growth opportunity. The challenge is to identify those that have potential. The most important qualifying question we can ask to determine whether *NTEs* have an exportable product is: “Do you receive foreign inquiries, particularly from outside North America?” For both *moderate* exporters and *NTEs*, we also need to prioritize companies with 20 or more employees, which represent a greater potential for significant export sales growth.

### **There is no Substitute for Intensive Forms of Support such as In-depth Counseling and Innovative Group Project Intensive Programs like ExporTech and VALET**

**Because of their scale, SMMs are resource– constrained, and a lack of management capacity is challenging to overcome. They need intensive support that expands their leadership team’s bandwidth.** As we strive to reach additional *threshold* companies, we cannot reduce our commitment to providing in-depth support. This includes a need for in-depth counseling capacity and the highly effective group project programs, such as ExporTech and VALET. These types of programs should be expanded because they create efficiencies by working with multiple companies at once.

**An expanded use of vetted intermediaries, such as export management companies (EMCs), export trading companies (ETCs), and wholesalers with international experience, could be used by export novices instead of developing in-house expertise (as well as by the export assistance community to expand capacity of the system).** This approach would require that federal and state export assistance organizations leverage programs and systems to match exporters to intermediaries. This would include the SBA Matchmaker Trade Fair and Conference program, as well as the systematic development of lists of vetted intermediaries (categorized by product and market specialty) for referrals.

**Finally, creating more programs that leverage university interns to help *threshold* companies would increase SMM management bandwidth.** Export assistance providers need to encourage business school and university internship programs to match interns with companies to do medium and long-term projects, allowing interns to develop strong relationships with the companies and to become familiar with the company’s products/ markets. This approach has the potential to truly expand management bandwidth by adding a team member that develops familiarity with the company, its products, and its technologies. Short-term projects, while helpful, do not offer the same potential to fundamentally enhance management knowledge and capacity.

## **Concrete Opportunities Drive Companies to Become Proactive and Aggressive About International. Therefore the U.S. must not Fall Behind Foreign Competitors in Our Support of Business Matchmaking or Tradeshows that Help Create These Opportunities**

Concrete international opportunities – personal connections in foreign markets, foreign customer inquiries, or specific market intelligence – can help open the eyes of company leadership and drive action. For that reason, business matchmaking services and trade missions, as well as support for participating in tradeshows, are critical to helping companies become more proactive.

**The Foreign Commercial Service and state trade offices must expand overseas delivery capacity by leveraging partners/subcontractors and voluntary representatives (and through staff increases when feasible).** As is already happening, federal and state organizations should continue to aggressively leverage subcontractors and partners to overcome bottlenecks in overseas delivery of business matchmaking and other services. This includes the use of American Chambers of Commerce overseas and industry associations, as well as voluntary rep programs used by state trade organizations. This requires services to be fee-based so there is revenue that can be provided to these partners to support delivery. Also, the U.S. Commercial Service is shifting resources to countries with high demand. Additional foreign staff (at the federal and state level) would also be valuable, budget permitting.

**The U.S. must reduce or eliminate its disadvantage versus foreign competitors on tradeshow incentives.** The situation will worsen if STEP funds are discontinued. This puts the U.S. in a vulnerable position, as tradeshow and trade mission participation is one of the most effective ways to encourage companies to become more proactive and committed to international. The U.S. government should provide incentives that offset the cost of participation by SMMs in tradeshows.

## **Export Assistance Organizations — USEACs, SBDCs, state trade organizations and MEP centers — Need to Take Their Services to the Next Level**

Export assistance organizations do a great job of business matchmaking, and their in-depth counseling is highly valued. However *threshold* companies need more if we're going to help them reach their export potential.

Market data is often at too high a level to be useful for niche players. Over time, export assistance providers need to hire domestic (and foreign) staff who are experienced in market research and have enough business expertise to help companies find market data that is useful and relevant to their product, needs, and value proposition. We also need to train staff on research techniques useful for niche markets. Finally, we should also consider working with outside partners who are skilled and efficient at market research, as one of the key challenges is providing valuable information in a cost-effective manner.

**Clients will benefit if export assistance providers hire more trade specialists / export counselors that have private industry experience in international sales and in specific industries.** *Threshold* companies need international business coaches, not just technicians on export mechanics (documentation, payment terms, shipping, etc.).

We know it is feasible to hire these types of staff because a number of them exist in the export assistance community today.

**Deepening partnerships with industry associations that have international assistance programs (e.g. Association for Manufacturing Technology, PMMI) can augment industry expertise and expand delivery capacity.** Some industry associations provide value added services to members related to international business development and market intelligence. Federal export assistance organizations should develop or deepen partnerships with these associations (possibly with overall coordination by the TPCC) to gain access to their expertise and market intelligence for clients. In some cases it will be best to refer clients to these associations, allowing government/non-profits to focus on the many un-served companies in sectors that do not have associations that can support global business. Furthermore, the Commercial Service and state trade organizations can refer or subcontract business matchmaking to these associations in foreign markets where they have offices. In these ways, associations can expand the capacity of the export assistance network.

**Innovation = Exports. Innovation Programs Help Manufacturers to Develop New Products, Processes and Technologies, Enabling Them to Be Differentiated in Global Markets**

**The U.S. needs to expand programs that help established companies differentiate themselves,** such as MEP's Innovation Engineering Management System and Lean Product Development, as well as technology related programs such as the Advanced Manufacturing Partnership. We also need to facilitate connections between current exporters and sources of technology, so these companies can continue innovating, such as through the MEP National Innovation Marketplace.

**The export assistance world needs to be better integrated with the innovation eco-system – to better support both innovative established manufacturers and technology-based start-up firms.** USEACs, SBDCs and state trade organizations need to be better integrated with networks of companies that are working to innovate, such as cluster initiatives, executive peer learning groups, and university–industry collaborations such as research parks. This would put export organizations in a position to work with clients that have a greater chance of success in global markets. Export assistance organizations should also more closely coordinate with the innovation services programs offered through MEP centers. Rather than being separate activities, export assistance and innovation services should be coordinated as part of an overall global growth strategy for SMM clients. We also want to make sure that startups are fully exploiting global market opportunities. Because of the high failure rate of startups, the ROI of new export programs to assist startups has not yet been determined, but it is worth exploring the economic benefit of this approach. If the export assistance community can determine how to provide help to these companies in a targeted way that generates long-term results (as they won't happen overnight) and avoid wasting too much effort on companies that fail, we may be able to make a significant contribution toward export growth.

**The Nation Needs a Strong, Innovative and Diversified Supply Base that Supports OEM Innovation Globally and Exports Directly to Customers Worldwide**

**Indirect exports of SMM suppliers are as important to the U.S. economy as direct exports of SMM finished goods. We need to encourage suppliers to develop innovative capacity and specialized capabilities to collaborate with OEMs on innovation.** For example, this might include expanding MEP program services to suppliers, such as Lean Product Development, or facilitating access to affordable, shared modeling and simulation tools as suggested in the PCAST report on Advanced Manufacturing.

**We should consider an “ambassador” program** (implemented through the MEP network) that would enlist large, multinational U.S. OEMs and Tier 1 suppliers to open doors overseas for SMM suppliers, i.e. facilitate opportunities with their foreign affiliates and subsidiaries. While they could not be expected to require their foreign subsidiaries to do business with their U.S. suppliers, they could at least open the door.

**These recommendations are summarized for each export assistance organization in Chart 16.**

**If the Export Assistance World 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.**

## SUMMARY OF RECOMMENDATIONS BY ORGANIZATION

**U.S. Federal and State  
Export Assistance  
Offices - USEACs, state  
trade offices, SBDCs,  
MEP Centers**

- Focus resources on *threshold* SMMs:
  - o Continue to focus resources on *moderate* exporters that export to a few countries, and have the potential to expand to many more;
  - o Adjust targeting strategies by prioritizing *new-to-export* companies that have received foreign customer inquiries from outside North America;
  - o Prioritize *threshold* SMMs with 20 or more employees, as they are more likely to have the scale necessary to be successful globally.
- Find ways to expand capacity (without budgetary increases) to provide in-depth assistance to the 25-80,000 un-served *threshold* SMMs:
  - o Trade organizations in each region should coordinate (and thereby reduce duplication of effort) by identifying a lead trade counselor for each exporting client;
  - o Expand group programs like ExporTech and VALET to efficiently work in-depth with multiple companies at the same time (versus individual counseling);
  - o Systematically connect exporters with vetted intermediaries (EMCs, wholesalers) and university intern programs.
- Take export assistance services to the next level:
  - o Enhance market research to go beyond HS-code based trade data and offer more specific and in-depth information by: a) hiring staff with experience in gathering market intelligence; b) training staff on research techniques for niche markets; c) hiring staff that have sufficient business expertise to help companies find market data that is useful and relevant to their product, needs, and value proposition; d) consider working with outside partners who are skilled and efficient at market research;
  - o Hire trade specialists / export counselors with private sector experience in international trade that can serve as business coaches and not just as technicians in export mechanics;
  - o Deepen partnerships with industry associations that have international assistance programs (e.g. Association for Manufacturing Technology, PMMI) that can augment industry expertise and expand delivery capacity.
- Better integrate with the innovation eco-system – such as cluster initiatives, university-industry collaborations and MEP Innovation programs – to better support both innovative established manufacturers, and technology-based start-up firms.

SUMMARY OF RECOMMENDATIONS BY ORGANIZATION	
<b>Foreign posts/offices of the Commercial Service and state trade organizations</b>	<ul style="list-style-type: none"> <li>• Avoid falling behind foreign competitors in our ability to offer concrete sales and market opportunities for U.S. exporters through business matchmaking and support for participation in tradeshow:               <ul style="list-style-type: none"> <li>o Continue to expand capacity through partnerships/subcontractors (Foreign Commercial Service) and voluntary reps (state trade offices/orgs) and charge fees for matchmaking services to fund these activities;</li> <li>o Partner with industry associations that have international assistance programs and foreign offices.</li> </ul> </li> </ul>
<b>NIST MEP and MEP Centers</b>	<ul style="list-style-type: none"> <li>• Expand programs that assist SMMs to differentiate themselves in global markets, such as Innovation Engineering and Lean Product Development:               <ul style="list-style-type: none"> <li>o Offer these programs specifically to suppliers to help them develop new technologies and specialized capabilities so they can collaborate with their OEM and upper tier customers on innovation.</li> </ul> </li> <li>• Offer programs to help suppliers diversify and reduce reliance on a small number of customers (as well as stimulate product innovation).</li> <li>• Establish an "ambassador" program that would enlist multinational U.S. OEMs and Tier 1 suppliers to open doors overseas for SMM suppliers, i.e. facilitate opportunities with their foreign affiliates and subsidiaries.</li> </ul>
<b>U.S. Government (in general)</b>	<ul style="list-style-type: none"> <li>• Reduce or eliminate the U.S. disadvantage versus foreign competitors on tradeshow incentives.</li> <li>• Continue to support and expand programs that foster innovation and the commercialization of new technology, since "innovation = exports."</li> <li>• Encourage federally funded innovation programs – such as cluster initiatives – to more closely collaborate with export assistance organizations.</li> </ul>
<b>Metro area economic development organizations</b>	<ul style="list-style-type: none"> <li>• Identify <i>threshold</i> (high potential) exporters and connect them with federal and state export assistance resources.</li> </ul>

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<sup>80</sup> Input from multiple state export assistance organizations

<sup>81</sup> Brookings Metropolitan Policy Program, *Export Nation: How U.S. Metros Lead National Export Growth and Boost Competitiveness*, July 2010