

HELPING A LARGER NUMBER OF *THRESHOLD* SMMs WILL MOVE THE NEEDLE ON U.S. EXPORT PERFORMANCE

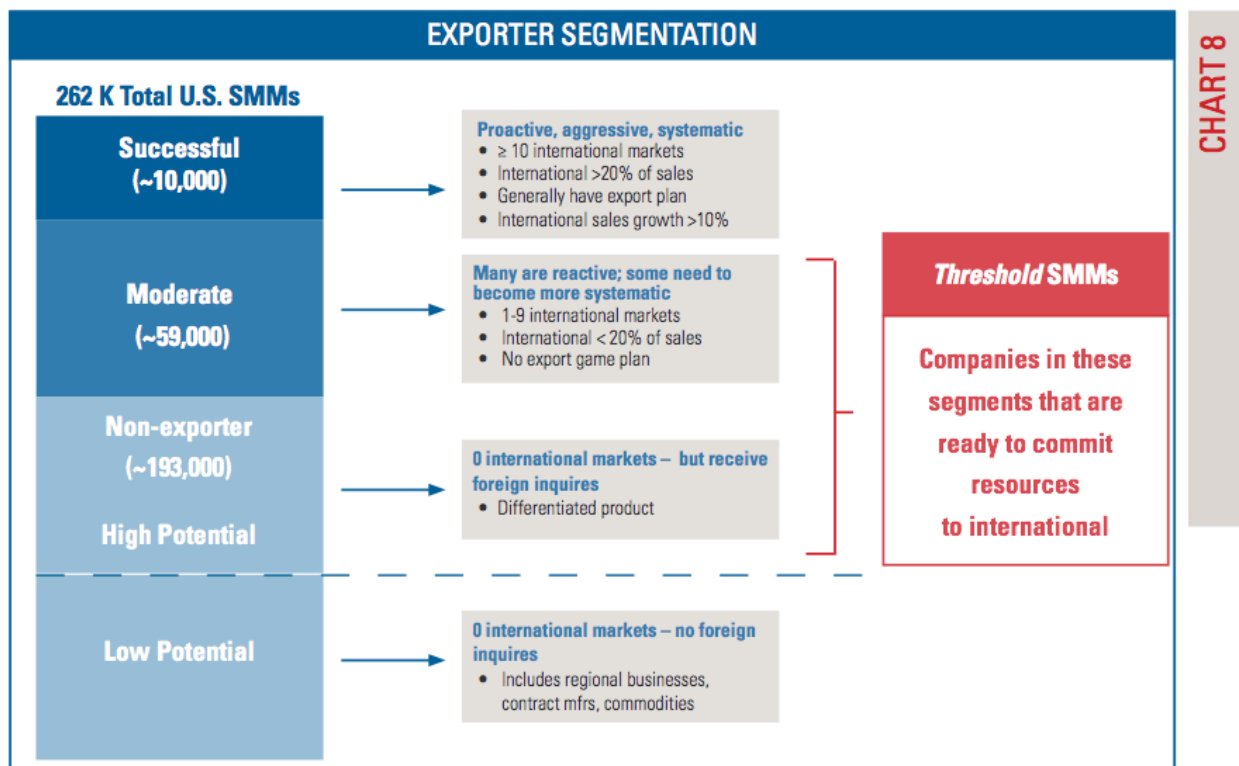
Excerpted from: ON THE THRESHOLD: REFOCUSING U.S. EXPORT ASSISTANCE STRATEGY FOR MANUFACTURERS; Stone & Associates June 2013

Helping a Larger Number of *Threshold* Companies – and Serving Their Unique Needs – Will Move the Needle on U.S. Export Performance

The export assistance community needs to assist as many *threshold* companies as possible to become *successful* exporters. We can tap the latent export potential of this group for the U.S. economy if we focus on their needs.

How Many *Threshold* Firms Are There?

There are 266,000 manufacturing companies in the U.S., of which 262,000 are small and mid-size (fewer than 500 employees). Chart 8 illustrates Stone & Associates' size estimates for SMM exporter segments. We estimate that there are 10,000 *successful* exporters, most with over 20 employees. There are 59,000 *moderate* exporters and 193,000 non-exporters, the vast majority of which are smaller companies with fewer than 20 employees. *Threshold* companies include the portion of *moderate* exporters and non-exporters (that receive foreign inquiries) that are ready to commit the necessary resources to pursue exporting more aggressively.



Sources: Stone & Associates analysis based on: 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

We Estimate That There Are Roughly 25,000- 80,000 *Threshold* Firms That Are Not Served by the Export Assistance World

It is often stated that only 1% of 28 million small businesses export, which implies that there is an almost limitless opportunity to help firms become exporters. This premise is faulty (as explained above), and it causes export assistance providers to lose focus on the finite set of target firms that can meaningfully impact U.S. export performance.

Available data suggests the export assistance community serves **less than half of the moderate exporters, and probably a low percentage of the export-ready non-exporters (NTEs)**.ⁱⁱⁱ Based on this, we estimate that the number of companies that need help is an additional 25,000- 80,000 *threshold* firms^{iv} that are un-served today. This is a manageable number and the export assistance world can realistically reach these *threshold* firms over the medium and long term (recognizing that short-term budgetary constraints may not allow us to do so right away).

***Threshold* Companies with 20 or More Employees Should Receive “Extra” Attention**

We also believe that, in general, companies with 20+ employees should receive extra attention and priority. These manufacturers are more likely to have sufficient scale to make them better equipped to handle the overhead related to international activities. We recognize that “number of employees” is a very rough proxy for assumptions about capacity to invest in export (capital, time, and effort), and that there are many companies with fewer than 20 employees that are highly *successful* exporters. However, in general, companies with 20-499 employees are more likely to export: 61% of SMMs with 20-499 employees export versus only 16% with fewer than 20 employees.^v In addition, companies with 20-499 employees represent greater potential for generating export revenue for the country: SMM firms with 20+ employees account for over \$90 billion in export sales (\$3 million in exports per company) while firms with <20 account for only \$8 billion (only \$300,000 in exports per company).³⁴ Consequently, doubling the exports of the 20+ category would make a sizeable impact on trade, whereas doubling the sales of the <20 group would not.

We are not suggesting that firms with fewer than 20 employees have no export potential. We are recommending that firms with more than 20 employees receive extra attention in outreach and marketing, and that firms with fewer than 20 employees are screened to make sure they are able to make investments of time and resources in export growth.

ⁱⁱⁱ See Appendix I (in full report) for sources, backup and methodology.

^{iv} See Appendix I (in full report) for sources, backup and methodology.

^v Based on Census Profile data. It was assumed that companies with no size category identified were distributed by size category in the same proportion to those that were identified.

The Export Assistance Community Should Target High Potential *New-to-Export* Companies that have Received Foreign Customer Inquiries

Given resource constraints, much of the federal and state export assistance world is understandably less focused on

CHART 9

EXPORT PROMOTION CABINET PLANNING EFFORT

The Export Promotion Cabinet (EPC) recently led an interagency planning effort which developed an EPC Action Plan, finalized in July 2012. The EPC plan adds three important objectives to the NEI export promotion strategies: (1) increase the national base of small business exporters; (2) make it easier for U.S. businesses to access federal export assistance; and (3) improve strategic delivery of federal export assistance. An important element of the 3rd strategy is better coordination and integration of the federal field networks that work with exporters. They have also proposed a client segmentation approach and referral procedure to make sure that each company is directed to the right federal resource. Many of our recommendations are consistent with their approach. Both Stone & Associates' approach and the EPC strategy focus scarce U.S. Export Assistance Center (USEAC) and Small Business Development Center International Trade Center (SBDC-ITC) resources on either existing exporters or export-ready *new-to-export* companies (*NTEs*). *NTEs* that are not yet ready to export would be referred to SBDCs (non-ITCs) for counseling and training. The major differences in our proposed approach are to 1) screen *NTEs* based on foreign inquiries, to ensure they have an exportable, differentiated product; 2) prioritize firms with > 20 employees; and 3) recognize that the export assistance community needs to reach many more existing exporters (as well as *NTEs*) than we do today.

Sources: EPC/TPCC Interagency Communique, 9-27-12; Interview with TPCC; 2012 National Export Strategy

New-to-Export (NTEs) companies.^{vi} However, that means we are missing an important opportunity for export growth. We need to identify *NTEs* 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?"

In summary, if the export assistance world can **provide meaningful assistance to a larger percentage of *threshold* firms – and create a larger cadre of these firms (discussed in Section VI) – we will generate significant and measurable results**, well beyond the valuable contribution we make today.

Chart 9 discusses how this targeting strategy compares to the approach outlined in a recent Export Promotion Cabinet effort to strategically coordinate the services of federal export assistance organizations.

^{vi} SBDCs to some degree have taken on this role of serving *NTEs*, but only a portion of their network has expertise in trade counseling, and it is only recently (through the Jobs Act) that they have expanded their export counseling capabilities.

³⁴ Stone & Associates analysis based on data from US Census Bureau, *A Profile of U.S. Importing and Exporting Companies*, 2009 - 2010, April 12, 2012