

## HOW DOES THE EXPORT ASSISTANCE COMMUNITY HELP SMMS TO BECOME SUCCESSFUL EXPORTERS?

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Helping SMMs progress from a mindset that is reactive/ opportunistic to one that is proactive/aggressive will yield the greatest export growth. To determine how to help companies become more proactive, the export assistance world must consider what is really holding *threshold* companies back.

International business requires a new set of knowledge and skills for SMMs. This unique set of know-how represents a host of potential barriers to *threshold* companies. A 2010 U.S. International Trade Commission (USITC) study surveyed exporters on a wide variety of impediments to trade. Eighteen distinct obstacles were encountered by over 50% of the SMMs surveyed, and there was little consensus on which was the “greatest.”<sup>35</sup> Obstacles ranged from transportation costs, the ability to obtain financing, high tariffs, the difficulty of finding sales prospects, language and cultural barriers, to foreign and U.S. regulations.

We see two key needs that the export assistance community can address that will help SMMs make the leap toward aggressive, proactive exporting:

- A lack of management bandwidth or capacity, which has two components - time as well as knowledge.
- A lack of awareness of concrete foreign market opportunities.

### **Intensive Export Assistance or “Case Management”<sup>i</sup> is Required to Accelerate the Progress of *Threshold* Companies by Enhancing the Capacity and Expertise of their Leadership**

Because of their scale, SMMs are resource-constrained. Leadership is pulled in multiple directions, and a lack of management capacity - both available time and international expertise - is particularly challenging to overcome. It takes management effort to penetrate a new market, and SMM leaders face a significant learning curve in pursuing international sales. In fact, the Pennsylvania Center for Trade Development cites “lack of managerial time to focus on corporate export strategies” as one of four primary impediments to exporting for SMMs.<sup>ii</sup>

*Threshold* companies need individual guidance, tailored to their specific situation.<sup>36</sup> As one state trade office director told us, “Companies need individual attention, face time.”<sup>37</sup> While a relationship with a client often begins by responding to a specific question or resolving a specific problem (e.g. “my shipment is stuck in customs!”) that

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<sup>i</sup> Term “case management was coined by the BROOKINGS Metropolitan Policy Program, in Key Lessons and Observations from the Four Metro Export Initiative Pilots

<sup>ii</sup> The other three are: lack of corporate funds to explore new market opportunities, lack of reliable and trustworthy contacts at the international level to validate markets, and insufficient knowledge of exporting mechanics and regulations, both foreign and domestic (source: Congressional Documents and Publications, Testimony by Peter O’Neill, Executive Director, Center for Trade Development PA, House Small Business Subcommittee on Agriculture, Energy and Trade Hearing - “Impact of U.S. Trade Policies on Small Businesses and Manufacturing,” April 2, 2012).

contact can be the entry point for the development of a more intensive relationship. These in-depth relationships are how export trade specialists enhance the management capacity and knowledge of their clients and help them to move toward becoming *successful* exporters. An internal U.S. Commercial Service Focus Group study indicated that: “customers cited the importance of local Trade Specialists acting as a single point of contact for all trade related assistance and counseling... Trade Specialists were lauded for their ability to navigate multiple USG [U.S. Government] trade agencies and resources to either solve a problem or steer clients to the right resource for answers.”<sup>38</sup> Furthermore, counseling was the primary service provided in 1/4 of all “export successes” recorded by the U.S. Commercial Service (USCS) during 2008-10.<sup>39</sup> For state trade organizations, client export counseling (along with trade missions) is the most common service provided.<sup>40</sup>

In summary, U.S. Export Assistance Centers (USEACs), Small Business Development Center International Trade Centers (SBDC-ITCs) and state trade offices provide needed in-depth, individual trade counseling to a certain percentage of their clients. For these in-depth clients, trade specialists offer intensive support in navigating export markets, and clients benefit from – and value – that service.

**What We Need To Do Differently** The export assistance world must expand its capacity to provide in-depth assistance, so we can reach a greater percentage of the 25-80,000 *threshold* companies\* that are un-served. This includes the need to expand capacity to deliver individual counseling - we offer some ideas on how to do so in Section VII - and the need to explore new approaches to offer intensive assistance.

**We Must also Look for Innovative Delivery Models for this Intensive Support – such as Group Project Intensive Programs that Assist Multiple Companies at a Time**

One challenge of the counseling model is that it is costly to provide intensive one-on-one support. In recent years, programs structured as group projects have emerged to provide intensive assistance with a more efficient delivery model that brings together multiple export assistance organizations, and other expert resources, in one place to work with multiple companies at once.

Two examples include the ExporTech program, which is a national program offered by the Manufacturing Extension Partnership and the U.S. Commercial Service, and the state of Virginia’s VALET program. As shown in Chart 10, both ExporTech and VALET have strong track records of measurable results - each resulting in significant increases in export sales for participating companies. These group projects take export assistance to a whole different level by combining a number of elements, including education, individual counseling, export plan development, peer learning and networking, and connection with a wide range of local expert resources. Both programs offer a concentration of resources in an intensive assistance program, target high potential (*threshold*) companies and have generated impressive results.<sup>41</sup>

It is also important to note that both programs have application processes to ensure that participating companies are a good fit and have export potential. The VALET program eligibility criteria explicitly include company size (at least 20 employees or \$2M in annual sales) and a readiness to commit \$20K toward export business.

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

**What We Need To Do Differently** We need to identify innovative new models for efficiently providing intensive export assistance, including highly effective group project programs such as ExporTech and VALET. These programs create efficiencies and expand reach by working in-depth with multiple companies at once.

GROUP PROJECT INTENSIVE PROGRAMS		
Program	ExporTech	VALET (Virginia Leaders in Export Trade)
<b>Description</b>	<ul style="list-style-type: none"> <li>Offered jointly by the Manufacturing Extension Partnership and the US Commercial Service, in collaboration with other federal, state and regional partners.</li> <li>Assists groups of 6-8 companies to enter or expand in global markets.</li> <li>Each company develops an export plan, vetted by a panel of experienced exporters at the end of the 3 month program.</li> <li>Involves three innovative group sessions along with individual coaching/counseling</li> <li>Group session content is customized to the needs of each group of companies.</li> <li>During group sessions companies connect with a wide range of experts, who have volunteered their time</li> <li>Provides tools and resources to make export growth more systematic</li> </ul>	<ul style="list-style-type: none"> <li>Assists 25 companies each year to ramp up their global marketing efforts through a two-year program</li> <li>Group meetings are held twice a year, for the purposes of education and networking</li> <li>Program partners agree to provide professional services pro bono, in range of areas such as marketing, logistics and financial services</li> <li>Provides reimbursement of up to \$15,000 for export-related expenses; funds not dispersed unless a plan is developed and the company is adequately engaged in the program</li> <li>"These companies viewed their participation in VALET as a jumping off point for committing time, resources, and personnel to accelerating the growth of their international business." – VALET 2011 Annual report</li> </ul>
<b>Target Audience</b>	<ul style="list-style-type: none"> <li>Reactive exporters that want to become more proactive, systematic</li> <li>New-to-export companies where leadership is ready to commit resources to export growth</li> <li>Generally asked to complete application</li> </ul>	<ul style="list-style-type: none"> <li>Committed to export as an expansion strategy.</li> <li>At least 20 employees / \$2M in sales</li> <li>Established for at least 3 years</li> <li>Commitment to participate in VEDP-sponsored trade mission or independent market visit</li> <li>Commit \$20,000 toward export trade</li> <li>Completed international market research</li> <li>Required to complete an application</li> </ul>
<b># of Programs &amp; Participating Companies</b>	71 programs run in 25 states (2007 – present) 450 participating companies	22 classes (2002 – 2012) 174 participating companies
<b>Results</b>	<p>Clients where ExporTech was a stand-alone service (i.e. the only MEP center service received):</p> <ul style="list-style-type: none"> <li>Average sales increase/retention of \$164K</li> <li>Average cost savings and investment avoidance of \$10K</li> <li>Export sales often generated within 6 months of program completion</li> </ul> <p>All ExporTech clients – including those where ExporTech is combined with other MEP center services:</p> <ul style="list-style-type: none"> <li>Average sales increase/retention of \$772K</li> </ul>	<ul style="list-style-type: none"> <li>2011 VALET graduates increased international sales by 69%</li> <li>2008 Evaluation: On average, companies experienced an 88% increase in international sales during and immediately following the program.</li> </ul>

CHART 10

Sources: ExporTech Program materials and Overview Presentation 10-14-12; VALET website, VALET Program Annual Report 2011; Evaluation of the Virginia Economic Development Partnership's VALET Program: Final Report, December 2008; Interview with VALET Program Manager

## Companies Can also Supplement Management Capacity to Pursue Exports Through the Use of Interns and Export Intermediaries

Lack of management capacity can be partly circumvented with other types of outside support.

Business school and undergraduate interns can be used by SMMs to help with export activities such as “deep dive” market research or due diligence on international partners.<sup>42</sup> We discuss this approach in more detail in section VII.\*

Export intermediaries, such as export management companies, export trading companies or wholesalers, can provide the knowledge and effort to pursue international sales for a pool of companies. “Small and new exporters benefit greatly from the services of export intermediaries, as these firms provide skills and economies of scale that are unavailable to SMMs or inefficient for them to acquire.”<sup>43</sup> However, intermediaries are often regional and specialize in markets and/or countries; thus not all products would align with existing intermediaries.<sup>44</sup>

Today, referrals by export assistance organizations do occasionally take place, but not in a systemic way.<sup>45</sup> In an attempt to make this process more systematic, the SBA has launched a new matchmaker program through which intermediaries and companies meet during SBA– hosted conference events.<sup>46</sup>

**What We Need To Do Differently** The SBA’s Matchmaker Conference events are one way to bring SMMs and intermediaries together. Export assistance providers can also maintain lists of vetted intermediaries that could be connected to small company clients when a good match is identified, i.e. when the intermediary’s specialization is appropriate and the company’s international goals fit with this indirect approach. We should note that intermediaries may be most appropriate for smaller, *new-to-export* companies that are at an early stage in their export journey. As exporters become more experienced, it often makes sense for them to control their own selling, marketing and client relationships.

## Concrete Opportunities Drive Companies to Become Proactive and Aggressive About International Sales

*Threshold* companies are driven to action after identifying concrete opportunities. Marketing campaigns about exporting are rarely sufficient to compel SMMs to pursue global growth. Business leaders want tangible evidence of a market opportunity before committing resources. In an internal U.S. Commercial Service (USCS)/MEP survey, 87% of respondents cited “strong demand from foreign customers” as the primary reason for becoming aggressive about international sales.<sup>47</sup> Furthermore, as one export consultant told us, “don’t waste time training on export mechanics until the client has a purchase order.”<sup>48</sup>

What are “concrete opportunities”?

**In-person Foreign Market Connections** These are one of the most compelling drivers of a more proactive and aggressive approach to international sales. A U.S. International Trade Commission (USITC) report on SMMs determined that “... personal connections or business contacts were the most important way for SMMs to enter foreign markets.”<sup>49</sup>

\* See article: “How Does The Export Assistance World Help SMMs Fulfill Their Export Potential In An Environment With Limited Additional Funding?”

Personal connections are so powerful that a recent internal Commercial Service Focus Group Report found that companies target foreign markets based on a “specific contact in a specific market” rather than on data.<sup>50</sup> And, we’ve heard similar comments from other export assistance providers.<sup>51</sup> The Pennsylvania Center for Trade Development cites “lack of reliable and trustworthy contacts at the international level to validate markets” as another of four primary impediments to SMM proactive exporting.<sup>iii</sup>

**Foreign Customer Inquiries** These inquiries – most commonly driven by a company’s web presence – are direct indicators of global demand.<sup>52</sup>

**Specific Market Intelligence** To prompt an exporter to see global market opportunity, market data must be highly specific. Examples of these highly specific indicators of demand include knowledge of a competitor’s foreign customers, intelligence about a particular project that might create demand for an exporter’s product, or awareness of a U.S. customer setting up foreign operations.

Given the importance of concrete opportunities, it’s not surprising that three of the most effective methods to jump- start proactive globalization are business matchmaking, trade missions and tradeshows.

**Business Matchmaking** This is the core of what most export assistance organizations offer. A recent internal Commercial Service Focus Group report found that its Gold Key Matching Service is deemed by clients to be its “most valuable” program. According to the report, “Many companies credited CS as a primary method for finding new partners.”<sup>53</sup> Most state trade organizations, and even some industry associations, provide this service as well.<sup>54</sup> For *threshold* companies, matchmaking gives them a concrete sales contact that compels action.

**Trade Missions and Tradeshows** According to export assistance participants interviewed, tradeshows and trade missions are also extremely effective ways for companies to capture market intelligence, generate leads, and make contact with potential partners. According to the 2011 National Export Strategy report, “For export-ready companies, participating in a major foreign tradeshow is one of the fastest ways to increase exports.”<sup>55</sup> It also appears to be an excellent way to deepen a company’s international experience and commitment.

In 2011, the U.S. Commercial Service organized or certified 39 overseas trade missions with 527 U.S. company participants, and hosted 2,700 U.S. company exhibitors at 95 certified overseas tradeshows.<sup>56</sup> In addition, many states are funding participation in tradeshows, trade missions and the Gold Key business matchmaking service, as part of the SBA-funded STEP (State Trade and Export Promotion) grant programs.

**What We Need To Do Differently** Capacity constraints have resulted in delays in service from the Foreign Commercial Service in many regions around the world. Despite the budgetary environment, we cannot allow these delays to continue. The

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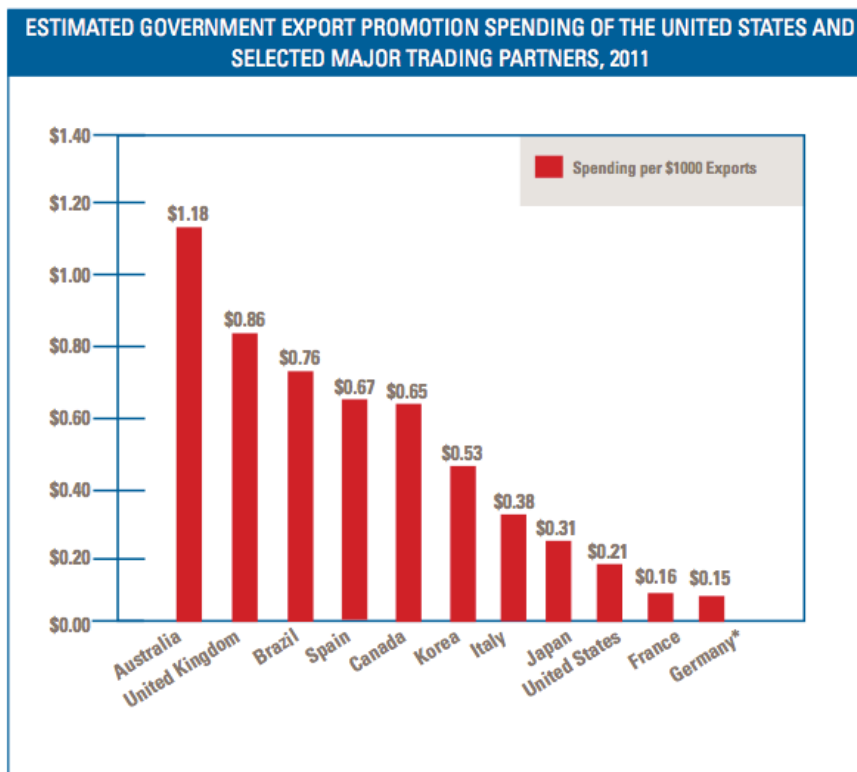
<sup>iii</sup> The other three are: lack of corporate funds to explore new market opportunities, lack of managerial time to focus on corporate export strategies, and insufficient knowledge of exporting mechanics and regulations, both foreign and domestic (source: Congressional Documents and Publications, Testimony by Peter O’Neill, Executive Director, Center for Trade Development PA, House Small Business Subcommittee on Agriculture, Energy and Trade Hearing - “Impact of U.S. Trade Policies on Small Businesses and Manufacturing,” April 2, 2012).



Commercial Service is already shifting staff to high demand areas and looking for other ways to expand capacity to meet demand, including partnering with, or subcontracting to, other organizations. Nevada (and other states) is using a voluntary foreign representative program, which is another way to expand foreign delivery capacity without requiring additional government investment.

Export assistance providers told us that small monetary incentives are often highly effective for encouraging SMMs to participate in tradeshow.<sup>57</sup> But we're currently at a disadvantage versus foreign competitors on tradeshow incentives, and this will get worse if State STEP funds go away.<sup>58</sup> An analysis by the national District Export Council indicated that "several competitor countries subsidize services to small companies,

CHART 11



Source: 2012 National Export Strategy, Trade Promotion Coordinating Committee (Data is from ITA analysis of foreign trade promotion programs.)

\* Data on Germany excludes substantial indirect support funded by mandatory fees. German firms are required by law to join a domestic chamber. Mandatory membership fees are used to support the German Chambers of Commerce Abroad. Additionally, the Association of German Trade Fairs organizes trade fairs abroad on behalf of the Government. Association funding comes from a fee levied on all exhibitors at German trade fairs. (Source: National District Export Council, Foreign Competition and Trade Promotion Assistance, May 2010)

including participation on trade missions, in foreign trade shows, and to introduce SMEs to key markets.” Further, as shown in Chart 11, the International Trade Administration estimates that the U.S. spends less on export promotion than most of its competitor nations.<sup>iv</sup> (Note that “export promotion” includes spending beyond tradeshow incentives, but the data are indicative.)

**This spending disadvantage puts the U.S. in a vulnerable position, as tradeshow/ trade mission participation is one of the most effective ways to encourage companies to become more proactive and committed to international business, thus unlocking their full potential.**

<sup>iv</sup> One exception appears to be Germany, but that is misleading as considerable tradeshow support is channeled through Chambers of Commerce and industry associations.

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- <sup>35</sup> USITC, *Small and Medium- Sized Enterprises: Characteristics and Performance*, November 2010
- <sup>36</sup> ExporTech client experience; USITC, *Small and Medium- Sized Enterprises: Overview of Participation in U.S. Exports*, January 2010; SBA Office of Advocacy, *Family Firms Venturing into International Markets: A Resource Dependence Perspective*, June 2008
- <sup>37</sup> ExporTech experience; Brookings Metropolitan Policy Program's Export Plan Appendix D, "Key Lesson and Observations from the Four Metro Export Initiative Pilots"
- <sup>38</sup> USCS, *U.S. Client Focus Group Report*, June 2012 (internal report)
- <sup>39</sup> GAO report, *National Export Initiative: U.S. and Foreign Commercial Service Should Improve Performance and Resource Allocation Management*, September 2011
- <sup>40</sup> SIDO 2010 Survey: *Trends in State International Business Development*, 2010
- <sup>41</sup> ExporTech program materials; VALET website; VALET Annual report 2011; report by Transformation Systems Inc, *Evaluation of the Virginia Economic Development Partnership's Virginia Leaders in Export Trade (VALET) Program: Final Report Executive Summary*, December 2008
- <sup>42</sup> Interview with research institution, 9-20-12
- <sup>43</sup> USITC, *Small and Medium- Sized Enterprises: Characteristics and Performance*, November 2010
- <sup>44</sup> Interviews with multiple export assistance organizations in July 2012
- <sup>45</sup> Interview with export consultant, 7-18-12
- <sup>46</sup> Interview with SBA, Office of International Trade, 9-29-12, and SBA Press Release 8-29-11
- <sup>47</sup> USCS and NIST MEP, Market Segmentation (internal) Research Initiative, December 2009, Prepared by the Pacific Consulting Group (Stone & Associates was project advisor)
- <sup>48</sup> Interview with export consultant, 7-18-12
- <sup>49</sup> USITC, *Small and Medium-Sized Enterprises: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms*, July 2010
- <sup>50</sup> USCS, *U.S. Client Focus Group Report*, June 2012 (internal report)
- <sup>51</sup> Interviews with state export assistance organization, 7-19-12
- <sup>52</sup> Company interviews (July - September, 2012), ExporTech experience
- <sup>53</sup> USCS, *U.S. Client Focus Group Report*, June 2012 (internal report)
- <sup>54</sup> SIDO 2010 Survey: *Trends in State International Business Development*, 2010; and interview with trade association, 9-6-12
- <sup>55</sup> TPCC, *2011 National Export Strategy: Powering the National Export Initiative*, June 2011
- <sup>56</sup> U.S. Commercial Service 2011 Annual report
- <sup>57</sup> Interviews with multiple export assistance organizations in July 2012
- <sup>58</sup> Interviews with export consultant, 7-19-12 and federal trade agency, 9-20-12