



IV. WHO ARE THE SMMs WITH THE GREATEST EXPORT GROWTH POTENTIAL, AND HOW DOES THE EXPORT ASSISTANCE WORLD IDENTIFY THEM?

Not All Products Have Export Potential

The export assistance community must first acknowledge that not all manufacturers have an exportable product. As an indication of untapped export potential, it is widely cited that fewer than 1% of U.S. small businesses export.²⁰ However, as SBA Administrator Karen Mills pointed out during a meeting of the President's Export Council, of the 28 million U.S. small businessesⁱ, only 6 million have employees, and only 2 million have goods or services traded outside of their local markets.²¹ (See Chart 3)

While a large percentage of the manufacturing sector is traded nationally and internationally (as compared to the service sector), there are some products and companies that are primarily traded regionally. In some industries, for example, customer proximity factors such as reduced transportation costs, short lead time, and face-to-face customer interaction are the foundations of local providers' value propositions (examples: fresh baked goods, outsized custom concrete products); thus they have no export potential. In addition, some companies in industries that *are* tradable outside the region may utilize a strategy that relies on customer-proximity advantages. Their value proposition is similar to those listed above, relying on speed (short lead time), small lot size/customization, and/or faster new product iterations. Examples include small run, customized, high engineering change wire harnesses or printed circuit boards. These types of businesses may sell as far away as Canada or Mexico, but generally no farther. If proximity to the customer is a manufacturer's primary selling point, the company may have limited export potential.

Finally, commodity products have limited potential for U.S. exporters. It is difficult for a high-wage nation to compete solely on price in exports against products from low-wage nations or against locally produced goods which do not involve export-related logistics and marketing costs (such as freight, duties, inventory, and travel).²²

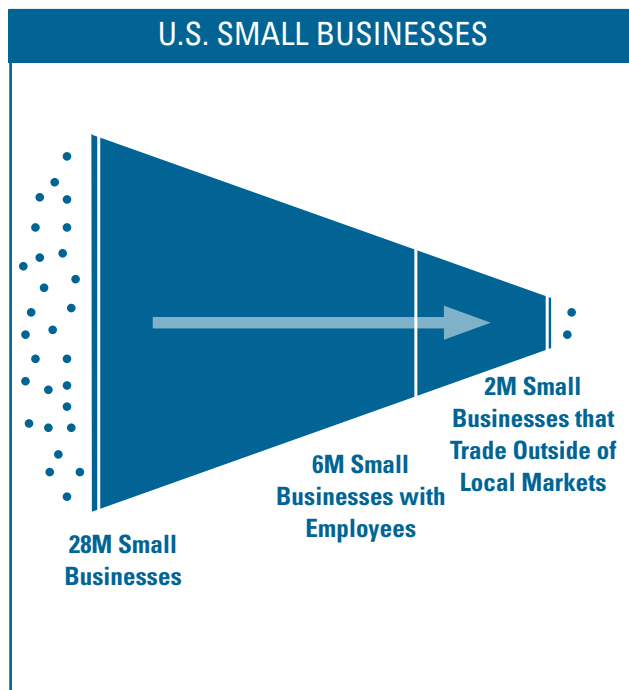


CHART 3

Source: SBA Administrator Karen Mills comments during a President's Export Council meeting (Transcript: The President's Export Council Holds a Meeting to Discuss the Council's Recommendations on Export Promotion, March 11, 2011)

ⁱ Includes all types of firms, such as service, retail/wholesale, construction, agricultural, as well as manufacturing.

Understanding What Makes SMM Exporters Successful Allows Us to Identify SMMs with the Greatest Export Growth Potential

*Successful*ⁱⁱ exporters have two key characteristics:

- They have a differentiated product
- They have committed resources to **proactively and aggressively pursue exporting**

1. Differentiated Products and Services As stated above, U.S. SMM exporters are unlikely to compete successfully solely on price. Thus, they must articulate a value proposition that differentiates their products and services. The company may offer a unique or innovative product, superior performance or quality, or specialized capabilities. Or the company may differentiate itself based on services, for example, lead time, customization or technical support.²³ **Customers in foreign markets will buy from a local supplier (or from foreign competitors) if a U.S. exporter cannot articulate a value proposition that distinguishes its products and/or services.** The box (Chart 4) on the next page illustrates sources of differentiation for *successful* exporters.

2. Proactive Leadership Committed To Exports MEP's research collaborations with the U.S. Commercial Service and other organizations concluded that *successful* SMM exporters have a proactive approach to global sales.²⁴ This means that they commit the necessary time and resources to aggressively pursue international opportunities, and they have an explicit export game plan or strategy.²⁵

Resource Commitment Successful exporters are much more likely to dedicate staff to their international business, are willing to wait for profitability, are prepared to invest in new products and capabilities for the international market, and are prepared to travel abroad extensively.²⁶

Aggressiveness An internal USCS/MEP survey indicated that *successful* exporters were 76% more

likely than *moderate* exporters to say they want to “aggressively” grow export sales.²⁷ On the other end of the spectrum, reactive exporters export only in response to foreign inquiries; they may serve a few customers in a few countries, but are not actively soliciting export sales.²⁸

Planning Successful exporters are much more likely to have an export game plan, as shown in Chart 5. 71% of *successful* exporters have identified specific target countries for expansion, whereas only 42% of *moderates* have done so. Similarly, *successful* exporters are twice as likely to have established international revenue targets.²⁹

Research from other sources corroborates these conclusions that *successful* SMM exporters take a strategic approach³⁰ and have a “bias-for-action” or “entrepreneurial orientation” related to exporting.³¹ In addition, export assistance practitioners agree that SMMs cannot achieve export success by pursuing global sales sporadically and ignoring international whenever the domestic market gets busy.

Successful exporters may have been reactive initially, but pursuing success required a change in mindset from opportunistic to proactive.

In Order to Identify Companies with the Greatest Export Growth Potential, and to Determine How Best To Serve Them, We Segment SMMs by a Combination of Mindset and Export Performance³²

Successful Exporters

- These companies are proactive and have committed resources to aggressively pursue international sales. They generally have an explicit export plan or strategy.
- Most of these companies ship to 10 or more markets, generate over 20% of sales from exports, and are experiencing growth of at least 10% in international sales (many are growing at much faster rates).
- They are easily identified in the export assistance world, and they have the highest awareness of export

ⁱⁱ MEP and U.S. Commercial Service internal studies defined *successful* exporters as firms where: 1) international sales were at least 10% (2006 study) or at least 20% (2009 study) and ; 2) international sales were growing at a minimum of 10% per year. The category of *moderate* exporters includes all other exporters that do not meet the criteria for *successful*.

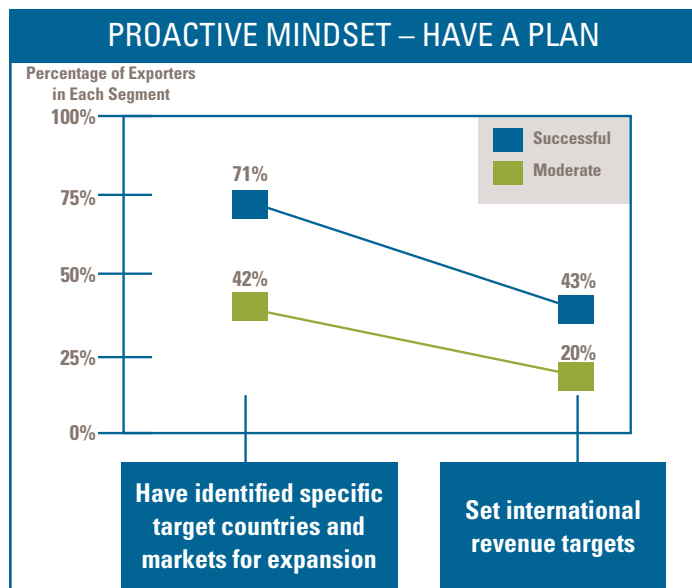
DIFFERENTIATION – COMPANY EXAMPLES (MEP AND EXPORTECH CLIENTS)		
Company Name and Location	Strategic Advantage	Product Offering and Differentiators (i.e. Why Customers Buy from them Versus Competitors)
Timberline Tool Montana	Unique, patented product	Sells patented tools used by utility operators to squeeze off the flow of natural gas through a polyethylene pipe to allow for repairs. Compared to traditional pipe repair methods, Timberline keyhole technology reduces excavation costs (including avoidance of costly under the pipe excavation) and reduces the number of operators and operations required.
Stress Indicators Maryland	Better performing product than competition	Sells tension indicating bolts for critical applications where the bolt must be tight. DTI SmartBolts® indicate whether a bolted joint is loose or tight with a clear, visible indicator that gradually darkens from bright red to black as the fastener is tightened. Their product allows for visual inspection of tightness, from several feet away, allowing maintenance people to focus on loose bolts. In a typical two week maintenance cycle, on an installation of 1000 fasteners, SmartBolts® can reduce maintenance time by 80% and costs by up to 50%.
Joint Production Technology (JPT) Michigan	Unique or specialized process capability and application knowledge	Designs and manufactures specialized cutting tools and tooling systems, mainly for the auto industry. Their differentiator is application knowledge, developed from machining a variety of specific components to tight tolerances. For example, differential cases are a focus for JPT, and they have established a “library” of 70 differential case part prints. Elements of their designs have U.S. and international patents (and patents pending).

assistance resources.

- The assistance they need is typically focused on new market entry and finding sales channel partners.
- They are generally well-served, compared to other segments. Consequently, we focus this paper on the underserved categories below: *moderate* exporters and *new-to-export* companies.

Moderate Exporters

- Although this group has international sales, their needs and behavior are distinctly different from *successful* exporters. These exporters need help on their journey toward becoming *successful*. They ship to fewer than 10 markets (typically 4 or fewer) and exports represent less than 20% of sales (generally less than 10%).
- This segment includes a range of company mindsets. The purely reactive - as described by



Source: Internal USCS & NIST MEP 2009 Study (n=864)

Brookings in Chart 6 - are at one end of the spectrum and they represent a large percentage of this segment. They have exported only in response to foreign customer inquiries i.e. do not actively solicit export sales, and they serve only a handful of customers and markets. On the other end of the spectrum are companies that have achieved some success in exporting. They may be somewhat proactive but are still struggling to develop systematic export processes (e.g. compliance programs, or methods for evaluating distributors) and an overall international growth strategy. (See examples of *moderate* exporters that participated in ExporTech in Chart 7.) They need help at the management level to deal with these issues, in addition to help with new market entry.

- The category of *moderate* exporters is large — it makes up roughly 85% of SMMs who already export.³³ For the purely reactive companies, every geographic market they have shipped to represents untapped potential. A customer from another part of the world found these companies and chose to buy from them, which is a clear indication that the product is desirable in foreign markets and is differentiated from local suppliers. These companies are, in a sense, pre-screened for international growth potential. In addition, for many *moderate* exporters, countless new markets may be successfully targeted, particularly for those that have shipped outside of North America because this indicates that a customer is willing to pay the additional shipping and logistics costs.
- Helping these SMMs to become *successful* exporters requires targeted assistance and will have the greatest impact on SMM export growth.

Non-exporters (also known as new-to-export or NTE)

- These SMMs have not exported — and not all have export potential. The challenge for export assistance organizations is to identify the high potential companies.
- **The best indication that a product has export potential is that the company receives inquiries from foreign entities, particularly from outside of North America.** (Again those that receive interest

REACTIVE EXPORTERS

In contrast to *successful* exporters, many companies approach export sales reactively. A Brookings-led export strategy for Minneapolis/St. Paul aptly describes the reactive approach we have observed of many exporters nationwide:

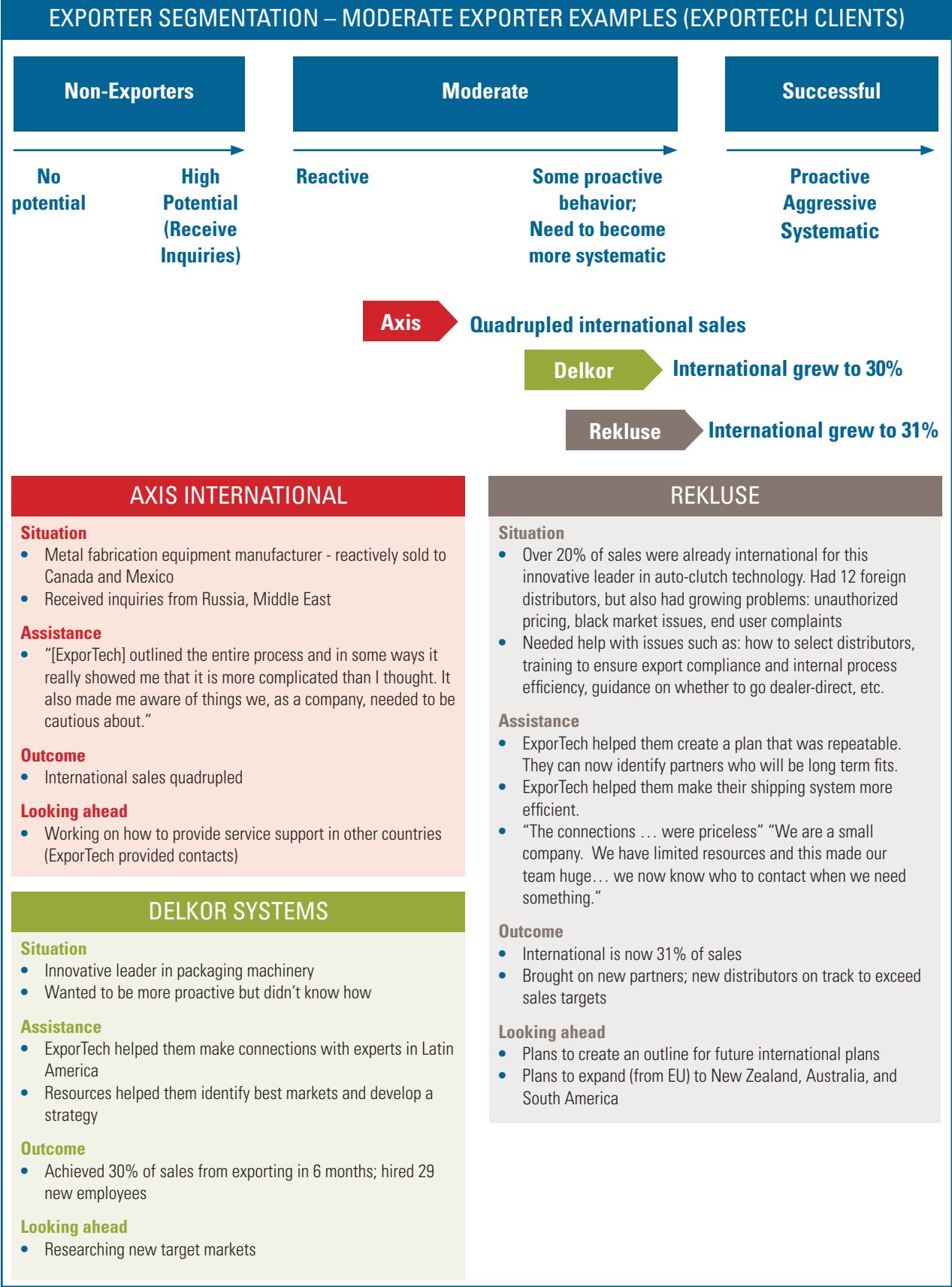
“Many companies in the Minneapolis-Saint Paul region that do currently export lack a strategic, intentional approach to identifying new international market opportunities. Local companies that do export often export a particular product to a single market but have not incorporated exports into their business plan or identified other growth opportunities beyond U.S. borders. Many companies became exporters accidentally in response to direct sales opportunities or through distributors in other countries. Often, the client finds the local company and not the other way around. Trade specialists at the Minnesota Trade Office and U.S. Commercial Service office tell of company visits where an owner or sales representative opens a drawer full of unanswered international inquiries about their products”

Source: Brookings Metro Export Initiative, Minneapolis-St. Paul Export Plan

only from Canada and/or Mexico may have more limited potential.)

- SMMs within this segment that receive inquiries and are ready to commit resources to pursuing exporting also represent high potential, and their assistance needs are similar to *moderate* exporters.

We refer to the segment that is poised for rapid international growth as *Threshold companies*, defined as SMMs who want to commit resources to expand exports and are currently *moderate* exporters or *new-to-export* companies with differentiated products.



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.

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

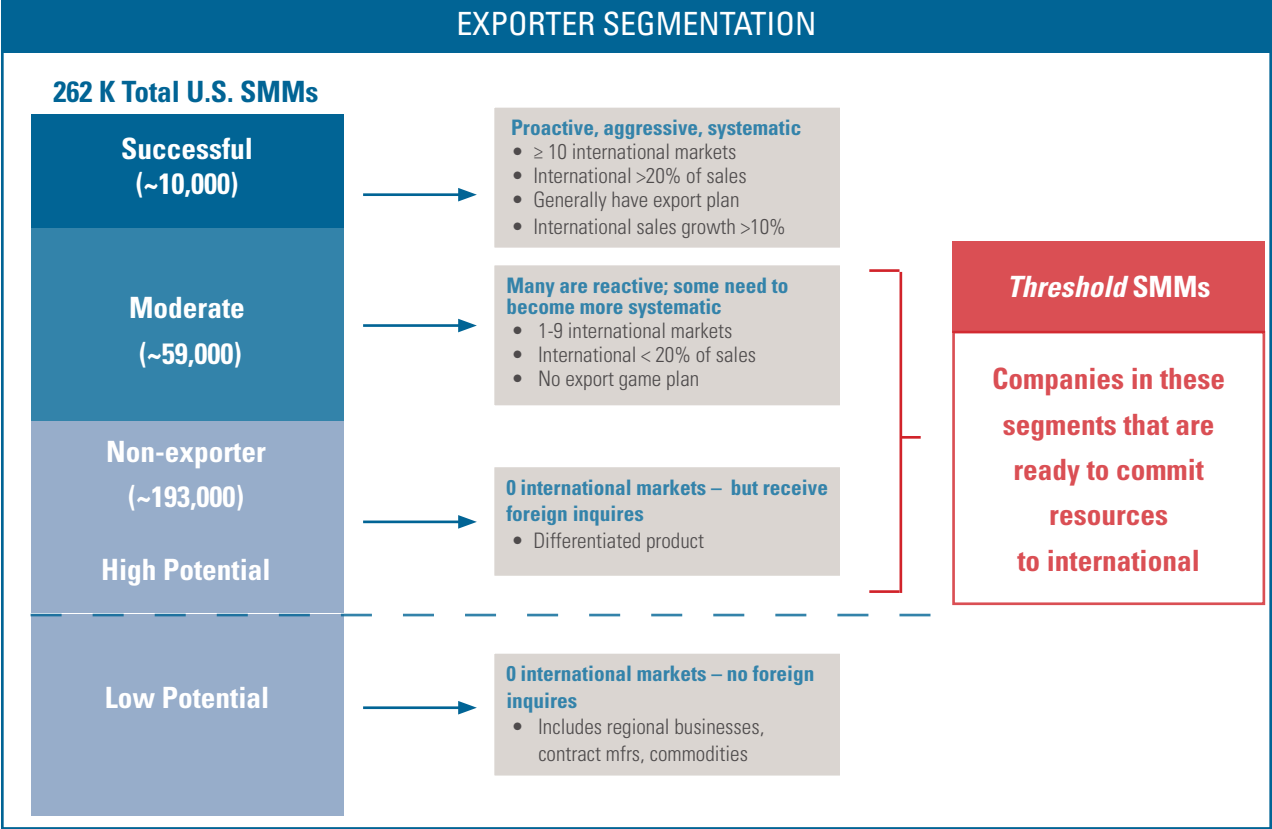
In addition, companies with 20-499 employees represent greater potential for generating export revenue for the country: SMM firms with 20+ employees account for over \$90 billion in export sales (\$3 million in exports per company) while firms with <20 account for only \$8 billion (only \$300,000 in 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 for sources, backup and methodology.

^{iv} See Appendix I 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.



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