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STUDY BY THE STAFF OF THE U S  
**General Accounting Office**

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**Efforts To Promote Exports By Small,  
Non-Exporting Manufacturers**

Only 12 percent of the Nation's 252,000 manufacturers market their products overseas. Available information, however, indicates that many more small U S manufacturers could begin to export if they had the right assistance to overcome impediments to doing so. Trade missions and fairs appear to be good ways of overcoming their apprehensions and unfamiliarity with exporting.



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## P R E F A C E

Export expansion is viewed as a key part of current economic recovery efforts and can have economywide benefits. Yet, only 12 percent of the Nation's approximately 252,000 manufacturers are exporters. It was recently estimated, however, that 11,000 small, export-capable firms could be induced to try to export if properly approached and assisted and that the value of exports by such firms could amount to more than \$4 billion a year.

Our study discusses the impediments preventing small firms from exporting, public and private efforts to encourage more such firms to export, and the value of trade missions and fairs in further assisting them to do so. It is intended to provide Congress, the executive branch, and other interested parties with information on the potential for expanding the U.S. export base by increasing export participation by small, non-exporting firms

We found that public and private export promotion efforts may not be contributing as much as they could because many programs and services do not single out small non-exporters. Similarly, we noted that very few small, non-exporting firms are recruited to participate in trade missions and fairs, even though such events can be particularly useful because they help these firms overcome their lack of familiarity with the export process and their apprehensions about doing business in foreign countries

In gathering this information we interviewed small manufacturers, State and regional officials responsible for export promotion efforts; representatives of commercial banks and export management companies; and officials of the Commerce Department, Small Business Administration, and Export-Import Bank. We observed trade fairs in Germany and Singapore and accompanied trade missions to Egypt, Saudi Arabia, Peru, and Chile



Frank C. Conahan  
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D I G E S T

The administration views the expansion of exports as a key component in the Nation's economic recovery program. Some of the economywide benefits that could accrue include a more productive economy, higher income, and a larger tax base at the Federal, State, and local levels. Benefits for businesses that export include the opportunity for increased profits and return on investments and greater economic stability. Yet, only 12 percent of the Nation's approximately 252,000 manufacturers are exporters. (See p.5 )

GAO made this study to determine if more small manufacturers could begin to export. It examined the potential for increasing exports of small manufacturers and the impediments preventing them from doing so. GAO also reviewed what the public and private sectors were doing to encourage more firms to export and observed several trade missions and fairs to get an indication of their value.

MORE SMALL MANUFACTURERS  
COULD EXPORT

No single definitive study identifies small manufacturing firms that are both capable of and interested in exporting. However, the Department of Commerce estimated that another 11,000 manufacturers--the vast majority of which are small--were both capable of exporting and could probably be induced to try exporting if they were properly approached and assisted. Based on data in the Commerce study, GAO estimates the value of exports that would be obtained by non-exporting firms with 250 or fewer employees at \$4.2 billion annually. A number of other studies support the conclusion of the Commerce study that the potential for increased exports does exist. (See p 5.)

Indications are that small businessmen are reluctant to export because of little or no knowledge of the export market or process, indifference toward exporting, or preoccupation

with the domestic market. Some small manufacturers view exporting as being too risky, too complex, or beyond their capabilities. (See p. 7.)

#### PUBLIC AND PRIVATE EXPORT PROMOTION PROGRAMS

A wide range of export promotion programs are offered by Federal and State governments and the private sector. In some cases these efforts have only recently begun to single out small non-exporters, while in others no such effort is made.

A variety of private sector organizations, including export management companies and banks, are involved in facilitating exports. GAO's examination of the roles of these two types of organizations showed that they generally do not try to serve small, non-exporting manufacturers, presumably because they do not see sufficient profit potential relative to other clients. (See p. 12.)

#### TRADE MISSIONS AND FAIRS CAN HELP SMALL MANUFACTURERS TO GET STARTED IN FOREIGN MARKETS

Trade missions and fairs can be particularly useful to small manufacturers with export potential because the individualized assistance provided can help them overcome their lack of familiarity with the export market and process and their apprehensions about doing business in foreign countries. (See p. 16.)

Commerce and three of the four States visited by GAO--Florida, Illinois, and Texas--have recruited few small, non-exporting manufacturers. For example, GAO estimated that in 1980 less than 1 percent of 3,433 firms that participated in Commerce trade missions and fairs were small manufacturers that had never exported before. GAO observed several trade missions and fairs and noted that the participants were personally assisted and provided with meaningful contacts with potential customers and distributors. (See p. 17.)

## OBSERVATIONS

Public and private institutions offer a range of export promotion programs and services, but many do not single out small non-exporters. As a result, these programs and services may not have contributed as much as they could to increased exports by such firms. Studies of the potential for expanding the export base offer some support for increasing the participation of small, non-exporting firms.

Trade missions and fairs can help small manufacturers with export potential to become familiar with the export process and overcome their apprehensions about doing business in foreign countries. These events are not being used as much as they could be.

## AGENCY COMMENTS AND OUR EVALUATION

In our draft study we proposed that Commerce direct its trade specialists to identify and counsel a specific number of small manufacturers in order to get them to start exporting. After we had prepared our draft for its review, Commerce began in September 1982 to fully implement a system for targeting small, non-exporting firms. Because Commerce reports that most of its services are directed to small firms, that it is now attempting to focus on prospective exporters, and that these efforts will be tracked via a revised management information system, we see no need at this time to retain our proposal.

We had also proposed that Commerce set a goal for recruiting small non-exporters to participate in trade missions and trade fairs because of the very low rate of participation by such firms. Commerce disagreed, stating it believes it would be more productive to select prospective small business participants on the basis of which firms can benefit from such involvement rather than to meet a quota. Commerce said that implementation of our proposal for fiscal year 1983 activities under the Small Business Export Development Assistance Program would be disruptive because participants, work schedules, etc. are committed already. Commerce also said, however, that if it is directed to continue the program after fiscal year 1983, the setting of goals could be discussed with the staff of the Senate Committee on Small Business.

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### ABBREVIATIONS

EMC	Export Management Company
FCIA	Foreign Credit Insurance Association
GAO	General Accounting Office
SBA	Small Business Administration

## CHAPTER 1

### INTRODUCTION

Providing export assistance to all businesses, including small businesses, is a Presidential and congressional objective as well as an ongoing responsibility of the Department of Commerce and other Federal agencies. The administration believes that existing foreign trade promotion efforts must be more conscientiously targeted to small businesses to help them gain access to foreign markets. In 1980, the Congress declared that it is in the national interest to systematically and consistently promote and encourage small business participation in international markets.

According to the Chairman of the President's Export Council, the Nation needs an aggressive export strategy that encourages more firms to start exporting, thereby broadening the export base. The administration views the expansion of exports as a key component in the Nation's current economic recovery program. Some of the economywide benefits that could accrue include a more productive economy, higher income, and a larger tax base at the Federal, State, and local levels. Benefits for businesses that export include the opportunity for increased profits and return on investments and greater economic stability.

This study discusses the interest in and potential for more small manufacturers 1/ to export, the impediments preventing them from exporting, what the public and private sectors are doing to encourage more firms to export, and the value of trade missions and fairs.

#### FEDERAL, STATE, AND PRIVATE EFFORTS TO ASSIST EXPORTERS

Three Federal agencies--the Department of Commerce, the Small Business Administration (SBA), and the Export-Import Bank (Eximbank)--have responsibilities relating to international trade and small businesses.

The Department of Commerce is the lead agency for promoting exports. It has budgeted \$86.4 million for fiscal year 1983 to stimulate and assist business to competitively market goods and services around the world. This mission is carried out by the International Trade Administration, which provides export assistance through its headquarters and 47 district offices located in industrial and commercial centers throughout the United States. In 1980, Commerce's Foreign Commercial Service was created to

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1/ For purposes of this study, small manufacturing firms are defined as those having 250 or fewer employees.



support and represent American trade and investment interests abroad, particularly export expansion. The Service maintains operations at 124 locations in 65 countries. The aid offered includes marketing assistance and development and support of trade missions and fairs.

SBA's export promotion activities are similar to but not nearly as extensive as those of Commerce. SBA also provides financial assistance in the form of Federal loans and loan guarantees which can be used for export purposes.

Eximbank is an independent Federal agency that helps to finance the sale of exports with direct loans and loan guarantees. It also provides information on the availability of financial assistance through commercial banks.

State development agencies and commerce departments provide assistance to exporters within most States. In 1980, 49 States had varying levels of program activities directed at enhancing international trade.

Within the private sector, about 800 export management companies (EMCs) act as export departments for a number of manufacturers. They solicit and transact business in the name of the manufacturers they represent, usually for a commission, salary, or retainer plus commission.

More than 250 banks have international departments with specialists familiar with specific foreign countries or various types of commodities and transactions. This banking network enables exporters to find export financing assistance for themselves or their foreign customers.

#### RECENT CONGRESSIONAL ACTIVITIES

In recent years, the Congress addressed certain international business policy issues, some of which affect small business manufacturers. The Small Business Export Expansion Act of 1980 (Public Law 96-481, Oct. 1980) authorized Commerce to award grants and contracts to public or private entities that demonstrate the capability to counsel small firms on all aspects of exporting. The Act authorized \$1.5 million to be appropriated in each of fiscal years 1981, 1982, and 1983 and directed that a small business international program be established within each of Commerce's 10 regions. The successful applicants must be able to provide market analyses of the export potential for small firms and to develop contacts with foreign customers. Commerce started accepting applications under the Act in April 1982 and had selected grantees by November 1982. The agency has obligated \$2 million for this program.

In October 1982, legislation was enacted to encourage exports by facilitating the formation and operation of export trading companies. This new law, the Export Trading Company Act of 1982 (Public Law 97-290, Oct. 1982), may help the small manufacturer because trading companies will handle all international aspects of exporting, including selling the firm's product and handling related legal, financial, and shipping matters. The law permits U.S. commercial banks to own equity shares of trading companies and provides greater assurance that the activities of those entities will not make them liable to antitrust actions.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

This study was made to determine if more small manufacturers could begin exporting. We reviewed the potential for increasing exports of small manufacturers and the impediments preventing them from doing so. We looked at what the public and private sectors were doing to facilitate exports and we observed several trade missions and fairs to get an indication of their value for small manufacturers. We did not make a cost-benefit analysis of Federal programs designed to promote exports.

To determine the number of export-capable firms, we reviewed an estimate, prepared by a Commerce task force in March 1978, which addressed the Government's role in promoting exports.<sup>1/</sup> We also examined data developed by other studies.

We assessed the impediments to exporting by reviewing numerous studies, surveys, and research reports about export motivation and behavior prepared by academicians, Government agencies, and others interested in export promotion. We supplemented this review by personally interviewing 75 U.S. small manufacturers, concentrating on those doing business in Florida, Illinois, Massachusetts, and Texas. Many of these firms had done only limited exporting. We also contacted State officials who have responsibility for export promotion programs in these four States as well as representatives of commercial banks and export management companies.

We reviewed reports and records and interviewed officials from Commerce, SBA, and Eximbank. This included visits to Commerce's district offices in Boston, Chicago, Houston, and Miami.

We interviewed officials of the Small Business Development Centers at the Universities of Georgia and Wisconsin and representatives of the Massachusetts Port Authority and the Port Authority of New York/New Jersey. We also reviewed congressional

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<sup>1/</sup> "A Survey of Business Needs in Export Marketing--Federal and Non-Federal Sources of Assistance."

testimony and reports prepared by the U.S. Chamber of Commerce and other groups.

We observed international trade fairs in Cologne and Munich, Federal Republic of Germany, and in Singapore. We also accompanied trade missions to Cairo, Egypt; Jidda and Riyadh, Saudi Arabia; Lima, Peru; and Santiago, Chile. We interviewed participants of these events as well as officials of the Commerce and State Departments who assisted the participating American firms.

## CHAPTER 2

### MORE SMALL MANUFACTURERS COULD EXPORT

No single definitive study identifies small manufacturing firms that are both capable of and interested in exporting. Relevant surveys, studies, and other similar data, however, indicate that there is a potential for many more small manufacturers to begin exporting. Small manufacturers appear to refrain from exporting because they are preoccupied with the domestic market, have little or no knowledge of the export market or process, or view exporting as too risky.

#### ESTIMATES OF NUMBER OF FIRMS THAT COULD BE EXPORTING

The March 1978 Commerce study 1/ estimated that approximately 30,000 (12 percent) of the Nation's 252,000 manufacturing companies were involved in exporting and an additional 18,000 (7 percent) were capable of exporting. Of these 18,000 firms--the vast majority of which are small--Commerce estimated that 11,000 (61 percent) could probably be induced to try exporting if properly approached and assisted, while the other 7,000 (39 percent) would remain indifferent to exporting. Based on data in the Commerce study, we estimate the value of exports that could be attained by non-exporting firms with 250 or fewer employees at \$4.2 billion annually. 2/

The Commerce study's methodology consisted primarily of an analysis of data in the U.S. Census Bureau's 1972 Census of Manufacturers and related Survey of the Origin of Exports of Manufacturing Establishments in 1972. The Commerce study also included an analysis of the type of export assistance needed by U.S. industry. This was accomplished by sending questionnaires to 4,900 firms selected randomly.

We considered studies prepared by the Port Authority of New York/New Jersey and surveys by the State of Illinois and the University of Wisconsin. We also reviewed data compiled by Commerce and SBA which identifies small manufacturing firms that have expressed interest in exporting.

Although the response rates in some studies were somewhat low and measuring export interest was difficult, there is a consensus that many small manufacturing firms not now exporting are both capable of and interested in exporting.

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1/ See footnote 1 on p. 3.

2/ This figure was derived from data expressed in 1972 dollars, which we updated to 1981 dollars by using Commerce's implicit price deflator for merchandise exports.

### New York/New Jersey Port Authority study

In 1980, as part of a program designed to bring smaller firms into the export market, the Port Authority identified export-capable firms in the New York and New Jersey area by screening computer lists obtained from a private industrial directory publisher. These lists were divided into exporters and non-exporters and contained the names, numbers of employees, and products of 27,000 companies. After matching the products of the non-exporting firms with those of known exporters of similar size, the Authority identified approximately 2,600 small manufacturing firms considered to be capable of exporting.

### Illinois survey

In 1975, the State of Illinois sent questionnaires to 14,800 manufacturers listed in Thomas Register, the Illinois Directory of Manufacturers, or in certain Commerce documents. The objective of the survey was to determine the manufacturer's involvement or interest in exporting. Responses were received from a little more than 5,000 firms (34 percent) and about 2,000 of these firms (40 percent) were already exporting. Of 1,699 small, non-exporting manufacturers that responded to a question concerning their export interest, 1,408 (83 percent) indicated they were interested in exporting.

### University of Wisconsin survey of export potential

In 1979-80, the University's Small Business Development Center made an informal combined telephone and door-to-door survey of Wisconsin's 8,200 manufacturers--7,800 of which are small-sized. Using U.S. Government standard product codes and trade account data, the Center's staff initially identified 6,800 firms that "might be" capable of exporting. Further screening showed that 900 of these small manufacturers (13 percent) were exporting and another 3,600 (53 percent) could be considered export-capable because of the type of products they manufactured. Half of these 3,600 firms also expressed an interest in exporting. The Center's staff estimated conservatively that about 360 (20 percent) of the 1,800 firms possess the right mix of capability and interest to be good prospects for the University's export promotion programs and services.

### Commerce data

In 1980, Commerce attempted to establish a computerized source of up-to-date information on foreign markets, customers, and other trade leads. Applications to participate in this effort were sent to about 387,000 U.S. firms selected from a Dun and Bradstreet data base, State development agency sources, trade association membership rosters, and Commerce's Trade Opportunity Program subscriber list. Some 19,000 (5 percent)

responded. At GAO's request, Commerce analyzed applications from 9,200 of these firms and found that 1,900 (21 percent) were small manufacturing firms interested in becoming exporters. About 10,000 applications were not analyzed because the data was not processed before the program was discontinued.

#### SBA data

In 1978, SBA distributed applications to about 350,000 firms, selected from various SBA sources, U.S. Government vendor lists, and Commerce Business Daily subscribers, inviting them to register as potential suppliers of materials and supplies for Government contracts. Nineteen percent (64,800) of those invited to register did so. Approximately 35,150 small manufacturers responded, of which 15,700 (45 percent) said they were not exporting currently but were interested in doing so.

#### WHY SMALL BUSINESSMEN ARE RELUCTANT TO EXPORT

The major impediments to be overcome for more small businesses to enter the export market can be put into three distinct but related categories. First, there is clear evidence that many small businessmen have little or no knowledge of the export market or the export process. Second, small firm managers are preoccupied with the large domestic market and do not need to export to make profits; therefore, they lack strong motivation to export. Lastly, some small manufacturers refrain from getting involved in exporting because it is perceived as being too risky, too complex, or beyond their capabilities.

#### Lack of awareness

In 1980, Commerce identified and cataloged over 100 research reports dealing primarily with export behavior and motivation. The studies were prepared by academicians, government agencies, and others interested in export promotion. After reviewing 35 of these reports as well as the results of other documented investigations, we noted that many small manufacturing firms reported they were not exporting because they had little or no knowledge of the export market.

Surveys by the National Federation of Independent Business <sup>1/</sup> and the University of Georgia <sup>2/</sup> prominently illustrate this lack of awareness. The Federation study shows that 69 percent of the

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<sup>1/</sup> Export Information Survey, prepared for the SPA, Oct. 1974.

<sup>2/</sup> A. G. Kefalas, Export Involvement by Smaller Firms: A Survey of Exporters and Non-Exporters, Small Business Development Center, Athens, Ga., 1979.

respondents surveyed were not aware of export assistance provided by Commerce and 76 to 89 percent were not aware of export assistance available through other Federal agencies and the private sector. Significantly, the Georgia survey, made 5 years later, addressed the same issue and resulted in similar findings; the vast majority of respondents in this survey were small manufacturing firms without prior export experience. In the Federation study, the vast majority of respondents were small non-exporters and a sizable percentage were also manufacturers. The results of these studies are summarized below.

#### Awareness of Available Export Assistance

<u>Source of export assistance</u>	<u>Independent Business Survey</u>				<u>Survey</u>			
	<u>No. of respondents</u>				<u>No. of respondents</u>			
	<u>Aware</u>	<u>%</u>	<u>Unaware</u>	<u>%</u>	<u>Aware</u>	<u>%</u>	<u>Unaware</u>	<u>%</u>
Department of Commerce	250	31	562	69	51	27	140	73
Eximbank	122	16	645	84	25	13	161	87
Foreign Credit Insurance Association	82	11	675	89	23	12	162	88
Export management companies	84	11	659	89	21	11	180	89
Large banks	183	24	575	76	47	25	138	75

Commerce research also shows that small businessmen are not aware of the export assistance the Department provides. Its 1978 evaluation of export needs 1/ showed that more than 70 percent of 4,900 small firms surveyed were unaware of four of Commerce's low client-cost programs. These programs provide specific market information and direct leads on overseas customers.

#### Indifference toward exporting

Fewer firms are involved in exporting than could be because of indifference on the part of their owners and managers. For example, 41 percent of the manufacturing firms in the Federation survey did not export because they were not interested and 34 percent in the Georgia survey were not interested. Overall, more than 50 percent of the firms that responded to these surveys said they were not interested in receiving information about exporting.

A former Director of Commerce's Office of Market Planning once stated that indifference to exporting on the part of small businesses was one of the primary reasons many firms did not export. According to that Director, this attitude has prevailed among many firms with exportable products because they are too

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1/ See footnote 1, p. 3.

occupied with U.S. markets. Similar views were expressed by trade specialists assigned to the Commerce district offices we visited in Boston, Chicago, Houston, and Miami. Moreover, the administrator of the Small Business Development Center Trade Program at the University of Wisconsin told us that the vast majority of small manufacturers in Wisconsin are indifferent to exporting.

### Perception of risk

Many small manufacturers regard exporting as too risky, too complex, or beyond their capabilities. The small businessmen we interviewed mentioned numerous concerns in this regard, particularly

- fear of not being paid;
- differences in culture and languages of foreign market-places;
- benefits not being worth the risk; and
- mechanics of exporting--documentation, packaging, financing, shipping, etc.--are not known.

In one of the studies <sup>1/</sup> we reviewed, the risks and fears associated with exporting that were identified involved the collectibility of debt, understanding of foreign business practices, and the compatibility of the product with foreign consumer standards. Responses received from 423 of the 816 manufacturers that completed questionnaires mentioned one or more of these factors.

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<sup>1/</sup> Warren J. Bilkey and George Tesar, "The Export Behavior of Smaller-Sized Wisconsin Manufacturing Firms," Journal of International Business Studies, Spring/Summer 1977.



## CHAPTER 3

### PUBLIC AND PRIVATE EXPORT PROMOTION PROGRAMS

The Federal Government, State governments, and the private sector offer a wide range of export promotion programs and services. In some cases these efforts have only recently begun to single out small non-exporters, while in others no such effort is made. According to a report, "Export Promotion Functions and Potential Export Disincentives," submitted by the President to the Congress in September 1980, the efforts of the Federal agencies have not been sufficient to attract more small firms into the exporting business. The report states that many American companies are not taking full advantage of export opportunities. Some of the impediments identified include a lack of knowledge about how to export and uncertainties about business practices abroad.

Commerce, the lead Federal agency, recently began to single out small, non-exporting firms in order to get them to start exporting. In most cases, the programs run by State agencies are directed at all types of firms, regardless of their size or experience in international trade. Private sector organizations, such as export management companies and banks with international trade capabilities, also do not single out small, non-exporting manufacturers.

#### GOVERNMENT EFFORTS TO ENCOURAGE SMALL MANUFACTURERS TO START EXPORTING

##### Commerce Department

The objective of Commerce's trade development activity is to provide marketing services to help businesses--principally small and medium-sized businesses--increase their exports or begin to export. To accomplish this goal, Commerce provides businessmen with export outreach assistance through its district offices and with support and program services, including trade missions and fairs, through its Washington headquarters and Foreign Commercial Service posts.

In the past, Commerce programs and services focused on small and medium-sized firms; however, they did not differentiate between exporters and non-exporters. As a result, efforts by Commerce trade specialists (who perform day-to-day counseling and other export-related services) tended to be directed primarily toward companies with some export experience. Trade specialists we spoke to explained that the reason for this is that larger firms or firms with previous export experience offer a potentially better return on invested time and energy.

Beginning in October 1981, Commerce started to make a number of changes in the way it identified firms for export promotion activities. Foremost among these is a requirement that each of the 47 district offices contact a specific number of firms that have not previously sold their products or services in any foreign country. This is a positive step toward expanding the nation's export base.

#### Small Business Administration

SBA, as a part of its overall mission to assist small businesses, provides export-related services to interested firms, including financial assistance and counseling for current and prospective exporters. Counseling is provided by SBA staff or by volunteers--the Service Corps of Retired Executives and the Active Corps of Executives--many of whom have international trade experience.

Information on exporting is disseminated through seminars and workshops, many of which are jointly sponsored with Commerce's district office personnel. SBA also provides various export counseling services through its network of field offices and through cooperative efforts with colleges and universities; for example, the Small Business Institute program uses international business students to gather overseas market information. Similarly, students under the supervision of faculty of international trade development centers situated within Small Business Development Centers prepare export market feasibility studies.

A new financial assistance program for exporters is a revolving line of credit program, which was authorized by the Small Business Export Expansion Act of 1980 but not implemented until June 1982. SBA estimates that in fiscal year 1982 about \$10 million in loans were made to small businesses wishing to penetrate and develop foreign markets.

#### Eximbank

Eximbank efforts include an export credit insurance program it operates jointly with the Foreign Credit Insurance Association (FCIA). FCIA underwrites commercial credit risks, while Eximbank covers political risks and certain excess commercial risks. A senior vice president of FCIA estimated that, from the program's inception in 1978 to June 1982, 384 policies were issued to small businesses, less than one half of which were manufacturers without prior export experience.

Eximbank also operates a small business advisory service to provide information on its programs and those available from commercial banks. The mainstay of this program is a toll-free "hot-line" to respond to questions that exporters may have about financing overseas sales.

## AGENCY COMMENTS AND OUR EVALUATION

Commerce commented that its programs and services have differentiated among small, medium, and large firms, stating that "management directives and strategic planning objectives have called for priority effort geared to small and medium sized firms. The Department's United States and Foreign Commercial Service (USFCS), in particular, is charged with working with these firms."

We agree that Commerce's export promotion efforts have been directed to serving small firms. Until recently, however, these efforts were not focused on prospective exporters. For example, its export-related reporting forms until very recently did not provide for a breakout of small, non-exporting manufacturers. Therefore, Commerce could not assess the extent to which it was serving this group. Furthermore, prior to October 1981, Commerce's operational definition of new-to-export firms was so ambiguous that businesses with prior export experience could be, and often were, counted as non-exporters in the then-existing reporting system. However, in September 1982 Commerce showed us a newly revised reporting form that might provide the kind of differentiated information on small, non-exporting manufacturers that had been unavailable previously.

## STATE PROGRAM ACTIVITIES

The States have export promotion activities similar to those of Federal agencies. According to a March 1981 survey by the National Governors' Association, 1/ 37 States provide the broad range of services offered by their Federal counterparts, including market information, general export assistance, and opportunities to participate in trade shows and missions. All but one of the 50 States allocate some funds to promote their involvement in international trade. The States spent about \$17 million in fiscal year 1980 for export promotion activities. Overall, many States provide services to firms irrespective of their export experience, size, or type of business. (See ch. 4 for additional information on selected State programs.)

## PRIVATE SECTOR ACTIVITIES--EXPORT MANAGEMENT COMPANIES AND BANKS

EMCs--companies that act as a client's export sales department--do not play as large a role in their dealings with prospective small exporters as might be expected. Prospective and actual

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1/ The Committee on International Trade and Foreign Relations, National Governors' Association, Export Development and Foreign Investment: The Role of the States and Its Linkage to Federal Action, Washington, D.C.

small business exporters we spoke with have reservations about whether EMCs can meet their needs. For example, some of these businessmen said they are not particularly fond of having a middleman promote their products and they question the EMCs' ability to effectively market highly technical products. Also, although they understand the EMCs' rights to protect their information and distribution channels, they resent the small amount of feedback they get on what was done to promote their products. Several exporters advised us that the services provided them by EMCs were relatively expensive; for example, some EMCs require startup expenses that can range from \$5,000 to as much as \$50,000, and commissions and discounts can range from 10 percent to as much as 40 percent of a product's wholesale selling price.

The somewhat limited role of EMCs in terms of small non-exporters is also explained by the fact that most of the estimated 800 of them are small enterprises with three or fewer managerial/sales employees. In many instances they are simply too small to provide the full range of services required by small non-exporters. In addition, EMCs often lack sufficient capital to deal with diverse product lines simultaneously.

The other side of the coin of small business complaints that EMCs are too expensive is the judgment that small, non-exporting manufacturers do not represent sufficient profit potential. EMCs that participated in some recent Commerce efforts to match them with prospective exporters did not show enough sustained interest to justify continuing the efforts.

Banks with the capability to support international trade generally have large, internationally experienced companies for clients. Smaller firms represent less profit potential for the banks, while at the same time possibly requiring greater time and effort to be assisted in the export process.

Given the small non-exporter's characteristic lack of knowledge about international trade, coupled with the comparatively small average transaction size, bankers find it difficult to set their fees at a reasonable level and still be adequately compensated for their time and effort. Similarly, because of the small firm's lack of experience, bank representatives are put in the position of having to handle an undue number of routine chores for which they are not adequately compensated.

#### OBSERVATIONS

Public and private institutions offer a range of export promotion programs and services, but many of their efforts do not single out small non-exporters. As a result, these programs and services may not have contributed as much as they could to increased exports by such firms. Studies on the potential for expanding the export base offer some support for increasing the participation of small, non-exporting firms.

## AGENCY COMMENTS AND OUR EVALUATION

In our draft study we proposed that Commerce direct its trade specialists to identify and counsel a specific number of small manufacturers in order to get them to start exporting. After we had prepared our draft for its review, Commerce began in September 1982 to fully implement a system for targeting small, non-exporting firms. Because Commerce reports that most of its services are directed to small firms, that it is now attempting to focus on prospective exporters, and that these efforts will be tracked via a revised management information system, we see no need at this time to retain our proposal.

## CHAPTER 4

### TRADE MISSIONS AND FAIRS CAN HELP SMALL MANUFACTURERS TO GET STARTED IN FOREIGN MARKETS

For over two decades, Commerce has organized and sponsored trade missions, trade fairs, and other marketing events which are available to U.S. businesses interested in entering foreign markets. It is Commerce's policy to fully recover costs associated with the events. Many States and private businesses also sponsor trade missions and buy booth space from trade fair organizers. To varying degrees, 47 of the 50 States encourage businesses to participate in these events. The costs to attend are set by the sponsor. Because of the potential profits involved, private fair organizers are becoming interested in international trade fairs and related export promotion events. Commerce is implementing ways to get the private sector more involved in recruiting and managing these events.

#### LIMITED PARTICIPATION BY SMALL MANUFACTURERS

Our review showed that Commerce's promotional programs do not specifically focus on or target small manufacturers that have never exported before. Instead they are used principally by firms that are already engaged in exporting. Our analysis of Commerce's records for fiscal year 1980 <sup>1/</sup> showed that 171, or about 5 percent, of 3,433 firms participating in trade missions and fairs had no prior export experience. We randomly selected 35 of the 171 firms and determined that actually only 4 were small manufacturers that had never exported before; overall, we estimate that less than 1 percent of the 3,433 firms are in this category.

Florida, Illinois, and Texas recruited few small, non-exporting manufacturers for trade missions and fairs during October 1978 through September 1980, as shown below.

--Florida recruited 93 participants and our review of records available on 75 of them and our discussions with Florida officials showed that none were small manufacturers that had never exported before.

--Illinois recruited 62 participants and our review of records available on 49 of these showed that none were small manufacturers that had never exported before.

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<sup>1/</sup> According to Commerce, the information we received may contain some errors or omissions.

--Texas recruited 64 participants and our review of records available on 41 of these showed that only 1 was a small manufacturer that had never exported before.

In contrast, the Small Business Export Program of the Massachusetts Port Authority was more effective in recruiting small prospective exporters. The Authority reported that, from November 1977 through December 1979, 31 small manufacturers participated in five trade missions to Western Europe. Ten of the participants were small manufacturers that had never exported before. The others were primarily small manufacturers that had done only limited exporting prior to going on the trade missions. The 31 firms reported export sales of about \$5 million. The Authority's success in getting these firms to start exporting is due mainly to its focus on small businesses that have not engaged in any significant export activity. The Massachusetts Port Authority Program's apparent success demonstrates that small manufacturers with little or no export experience can be recruited for trade missions.

#### USEFULNESS OF TRADE MISSIONS AND FAIRS

The trade mission and trade fair programs sponsored by Commerce and the four States provide participants with good opportunities to make export sales and to sign sales representatives and distributors for their products. The Small Business Export Expansion Act of 1980 recognizes the usefulness of these events. Under the terms of the Act, small business international marketing organizations are being formed which, among other things, will sponsor or promote such trade missions and fairs.

Commerce's Assistant Secretary for Trade Development told us that trade missions and fairs are the best and quickest ways to get small manufacturers to start exporting. Also, many of the firms we contacted commented favorably on the appropriateness of trade missions and fairs as a way to get small firms to start exporting.

Commerce tracks and reports on sales made during trade missions and trade fairs. Available Commerce records for fiscal years 1980 and 1981 showed that 149 trade mission participants reported a total of 2,227 sales leads as a result of the missions. Immediate sales reported by the participants averaged about \$60,000. During the same period, Commerce sponsored 103 trade fairs which resulted in immediate sales of about \$200 million. These data were not analyzed to assess the extent of incremental sales.

Our on-the-spot observations of trade missions and fairs confirm that these events can be particularly useful to small manufacturers because participants are personally assisted and provided with meaningful contacts with potential buyers and distributors.

These events also familiarize the participants with the export process and help overcome apprehensions about doing business in foreign marketplaces. Some of the events we observed are discussed below.

#### Commerce trade mission to Egypt and Saudi Arabia

Commerce sponsored a telecommunications trade mission to Egypt and Saudi Arabia in November and December 1981. The eight participants were escorted through customs and accompanied to their hotel, where Embassy and Commerce personnel briefed them on the local business environment and economic outlook. Later, they attended private meetings with potential customers, agents, and distributors. A typical participant had about 10 to 15 meetings scheduled over 3 to 4 days at each post.

Commerce organized group meetings with selected foreign government agencies, and the principal American officer at each post held a reception to facilitate and further develop local business contacts. Government officials, businessmen, potential customers, agents, and distributors were invited to these meetings. Additionally, Commerce provided commercial intelligence, coordinated incountry publicity, pre-screened potential customers and agents, and handled the logistics involving language, communications, and transportation.

Each participant had to pay travel and living expenses and a \$1,900 fee for the shared promotional, operational, and hospitality costs of the trade mission. The objective of most firms was to obtain exposure to the market, develop some contacts and leads, and perhaps establish a distributorship. The firms reported 75 sales leads and contacts with 78 prospective sales representatives. One firm reported immediate sales of \$360,000. All participants believed that the mission was worthwhile.

#### Florida trade mission to Peru and Chile

Florida sponsored a trade mission to Lima, Peru, and Santiago, Chile, in August 1981 for 13 firms interested in selling transportation and construction equipment and consumer products. Embassy personnel met the participants at the airport and escorted them to their pre-registered hotel rooms, so they did not have to go through separate customs or passport checks. Prior to the trade mission, the Embassy's commercial staff mailed a brochure to about 1,200 local businessmen, trade associations, and banks identifying the mission members and describing their products.

Participants attended briefings by the American Ambassadors on political and economic conditions. More than 570 appointments were scheduled and participants considered most of these to be of the highest quality. The appointments, ground transportation, receptions, and translators were all arranged by the American



Embassies. The firms had only to keep their scheduled appointments, which were held at conference rooms in their hotels.

The participants were pleased with the way the trade mission was organized and coordinated between the State of Florida and the American Embassies. They reported immediate sales of about \$543,000, 12-month projected sales of about \$13.4 million, and four sales representatives signed. One of the participants commented that:

"\* \* \* no one from our company has ever traveled to South America to get a feel for the market and the people. Since we have had many prospects/contacts we have felt the need to develop our knowledge \* \* \* this trade mission was the easiest way to do it. I found it to be perfect for a company that had never traveled to South America previously. The trade mission coordinators provided definitive information on the economics of the countries, and also made interpreters available. Also, the commercial attaches and other residents of the country were there for consultation."

Florida assessed each trade mission participant a nominal fee of about \$100 for miscellaneous expenses. Participants also had to pay their own travel and living expenses.

#### International Trade Fair--Munich

Commerce sponsored an exhibition stand at an international trade fair in Munich in October 1981, and 61 American computer firms attended the event at the U.S. Pavilion. Commerce coordinated and handled all the logistical arrangements necessary for setting up the pavilion stand, including shipping the firms' equipment and placing it in the display area. The participants only had to set up their equipment and attend to the display booths.

Commerce and Embassy staffs were knowledgeable and helpful. The assistance provided the participants included

- placing newspaper advertisements;
- preparing a catalog listing of the participants and distributing it to prospective customers before and during the fair;
- mailing personal invitations to 150 agents and distributors and briefing them on fair activities; and
- holding a special reception for the American firms and German distributors and agents.

Commerce assessed each participant a \$3,800 fee for the display booth and the shared promotional, operational, and hospitality costs. Participants also had to pay their own travel, living, and shipping costs. Most of the firms developed sales leads, and 12 reported immediate sales totaling about \$1.1 million.

### OBSERVATIONS

Trade missions and fairs can be particularly useful to small manufacturers with export potential because the individualized assistance helps them to become familiar with the export process and overcome their apprehensions about doing business in foreign countries. Commerce and three of the four States we visited, however, recruited very few non-exporting firms for these events.

### AGENCY COMMENTS AND OUR EVALUATION

In our draft study we proposed that Commerce set a goal for recruiting small non-exporters to participate in trade missions and fairs. Commerce did not agree with our proposal. We were advised that some markets may be inappropriate and participation costs may be too high for many small firms. Commerce suggested that a more productive course of action would be to select participants on the basis of which firms can benefit rather than to establish high goals or quotas for small businesses.

We agree with Commerce's observation that participation costs may be an inhibiting factor for some firms. There are, however, many factors beyond firm size that determine appropriate participation, and we would expect that for any mission or fair only qualified participants would be selected. We suggested the idea of a program goal to Commerce because we found that in 1980 only 1 percent of the 3,433 firms that participated in Commerce-sponsored trade missions and fairs were small manufacturers that had never exported before. (See p. 15.)

Commerce also stated that setting goals for activities under the Small Business Export Development Assistance Program would cause serious delays in the 1983 program because the program is in place; for fiscal year 1984 if it is directed to continue the program, the inclusion of such goals could be discussed with the Senate Committee on Small Business.

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