



Accelerating Exports in the Middle Market

Global Opportunities for U.S. Firms and Metro Areas

A REPORT FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET
AND THE BROOKINGS METROPOLITAN POLICY PROGRAM

Marek Gootman

Director of Strategic Partnerships
and Global Initiatives, Brookings
Metropolitan Policy Program

Benjamin Sio

Project Analyst, Brookings
Metropolitan Policy Program

Oded Shenkar

Professor of Management
and Human Resources,
Fisher College of Business

Thomas A. Stewart

Executive Director, National
Center for the Middle Market



NATIONAL CENTER FOR
THE MIDDLE MARKET

B | Metropolitan Policy Program
at BROOKINGS

Contents

About	3
Introduction	4
Key Takeaways	5
Global Opportunities and the Domestic Market	7
Middle Market Exports	8
Obstacles to Middle Market Exporting	12
How Middle Market Companies Can Pursue Exporting	16
How Metro Action Can Catalyze Middle Market Firm Exporting	18

About this Report

Exports in the U.S. Middle Market

THE U.S. MIDDLE MARKET

The U.S. middle market is defined by companies with annual revenues between \$10 million and \$1 billion. In addition to their geographic and industry diversity, these companies are both publicly and privately held and include family-owned businesses and sole proprietorships.

While the middle market represents approximately 3% of all U.S. companies, it accounts for a third of U.S. private-sector GDP and jobs. The U.S. middle market is the segment that drives U.S. growth and competitiveness.

HOW THE RESEARCH WAS CONDUCTED

The survey was conducted among 1,000 CEOs, CFOs, and other C-Suite executives of America's middle market companies and fielded with the 2Q 2014 MMI survey. Research for this report was designed and managed by the National Center for the Middle Market in partnership with the Brookings Metropolitan Policy Program.

THE NATIONAL CENTER FOR THE MIDDLE MARKET

Founded in 2011 in partnership with GE Capital and located at The Ohio State University Fisher College of Business, the National Center for the Middle Market is the leading source of knowledge, leadership and innovation research on the U.S. middle market economy. The Center provides critical data, analysis, insights and perspectives to help accelerate growth, increase competitiveness and create jobs for companies, policymakers and other key stakeholders in this sector. To learn more visit: www.middlemarketcenter.org.

BROOKINGS AND THE METROPOLITAN POLICY PROGRAM

The Brookings Institution is a private non-profit organization. Its mission is to conduct high quality, independent research and, based on that research, to provide innovative, practical recommendations for policymakers and the public. The conclusions and recommendations of any Brookings publication are solely those of its author(s), and do not reflect the views of the Institution, its management, or its other scholars.

Created in 1996, the Brookings Institution's Metropolitan Policy Program provides decision makers with cutting-edge research and policy ideas for improving the health and prosperity of cities and metropolitan areas including their component cities, suburbs, and rural areas. To learn more visit: www.brookings.edu/metro.

Introduction

Most American middle market companies remain solely focused on their domestic market, despite expanding global opportunities and a national campaign to promote exporting. As a result of this unrealized potential, these businesses forgo greater profitability, diversification, and other competitive advantages derived from engaging internationally. And regions lose a primary source of sustainable, high-wage job creation and economic growth.

The international demand for goods and services that U.S. middle market firms provide is being driven by rapid urbanization, an explosion in global middle class buying power, and continued globalization of large firms and their supply chains. New technologies offer selling platforms that enable mid-size businesses easier and cheaper access to foreign markets. Established and new trade agreements have lowered trade barriers. And regulatory barriers are being addressed with federal reforms like the national “electronic single-window” under development for U.S. exporters.

Despite these opportunities, just 40 percent¹ of middle market companies make exporting part of their business model.

The middle market firms that do take advantage of exporting perform better than their peers. Whether in manufacturing or services, those businesses tend to generate stronger revenues and overall growth, and report strategic and operational benefits from global engagement. Yet National Center for the Middle Market (NCMM) surveys and other research studies consistently show that mid-size firms as a group are not maximizing their exporting promise, and not even fully considering the possibilities.

The centrality of middle market firms to U.S. exporting is further validated by the practical experience of 20 diverse metropolitan areas that created tailored regional export strategies over the past two years. Economic development coalitions of business, government, and civic leaders, advised by the Brookings Institution, worked on metro export plans through the Global Cities Initiative (GCI).²

They undertook comprehensive local market assessments to identify needs and opportunities, including data analysis and hundreds of individual in-depth interviews with company leaders. They then applied that intelligence to take actions that would generate the greatest return in helping local businesses increase exporting.

Across these regions—large and small, coastal and inland, manufacturing and service economies—a consistent outcome of the metro export plans was a new, proactive focus on middle market firms. From Los Angeles to Des Moines and Atlanta to San Antonio, these plans are revealing the power of mid-size businesses in economic development and job creation, the potential and special challenges they confront in exporting, and the tailored ecosystem supports they need to succeed.

DRAWING ON THE RESEARCH AND PRACTICE, THIS REPORT:

- + Presents the business case for mid-size firms to fully consider exporting, and for policymakers to prioritize the middle market in delivering export assistance;
- + Identifies common barriers to mid-size companies pursuing exports;
- + Highlights newly emerging regional economic development approaches that support middle market exports.

This report defines middle market firms as having annual revenue between \$10 million and \$1 billion and also makes reference to mid-sized firms, which are commonly considered to employ between 100 to 500 individuals.

¹ NCMM MMI Q2 2014. ² *The Global Cities Initiative: A Joint Project of Brookings and JPMorgan Chase, is a five-year effort to help leaders in U.S. metropolitan areas reorient their economies toward greater engagement in world markets.*

Key Takeaways



FIRM-BASED



MAKE GLOBALIZATION A PRIORITY

While exporting is not a fit for every mid-sized business, the potential benefits are well established and middle market firms in traded sectors generally can take greater advantage of international possibilities.



USE KNOWLEDGE TO REDUCE RISK

Identifying the “threshold firms” with export growth potential depends on a range of factors, beginning with the market offering and value proposition. Some products or services simply are constrained by the need for proximity to customers due to logistics or intensive on-site collaboration, or the inherent added costs of exporting that preclude competitive pricing.



DEDICATE THE RIGHT TALENT AND TIME

Companies that want to succeed in exporting need to commit internal talent dedicated to drive the exporting effort, especially identifying a responsible senior sales lead.



DO NOT GO IT ALONE

Effective mid-sized firms exploring export markets tend to leverage existing relationships with customers and business partners, as well as with banks and consultants.



METRO-BASED



ALIGN SUPPORT AMONG PROVIDERS AND PROGRAMS

Export support services—whether offered by local, state, or federal entities—get delivered at the regional level. Firms are agnostic about who provides help, as long as it is easily accessible, high quality, and meets their needs.



PROACTIVELY RECRUIT COMPANIES TO BECOME EXPORTERS

With strong company relationships as well as local market knowledge and functional scale, economic development partners at the metro level are best positioned to identify and reach individual middle market firms with export potential.



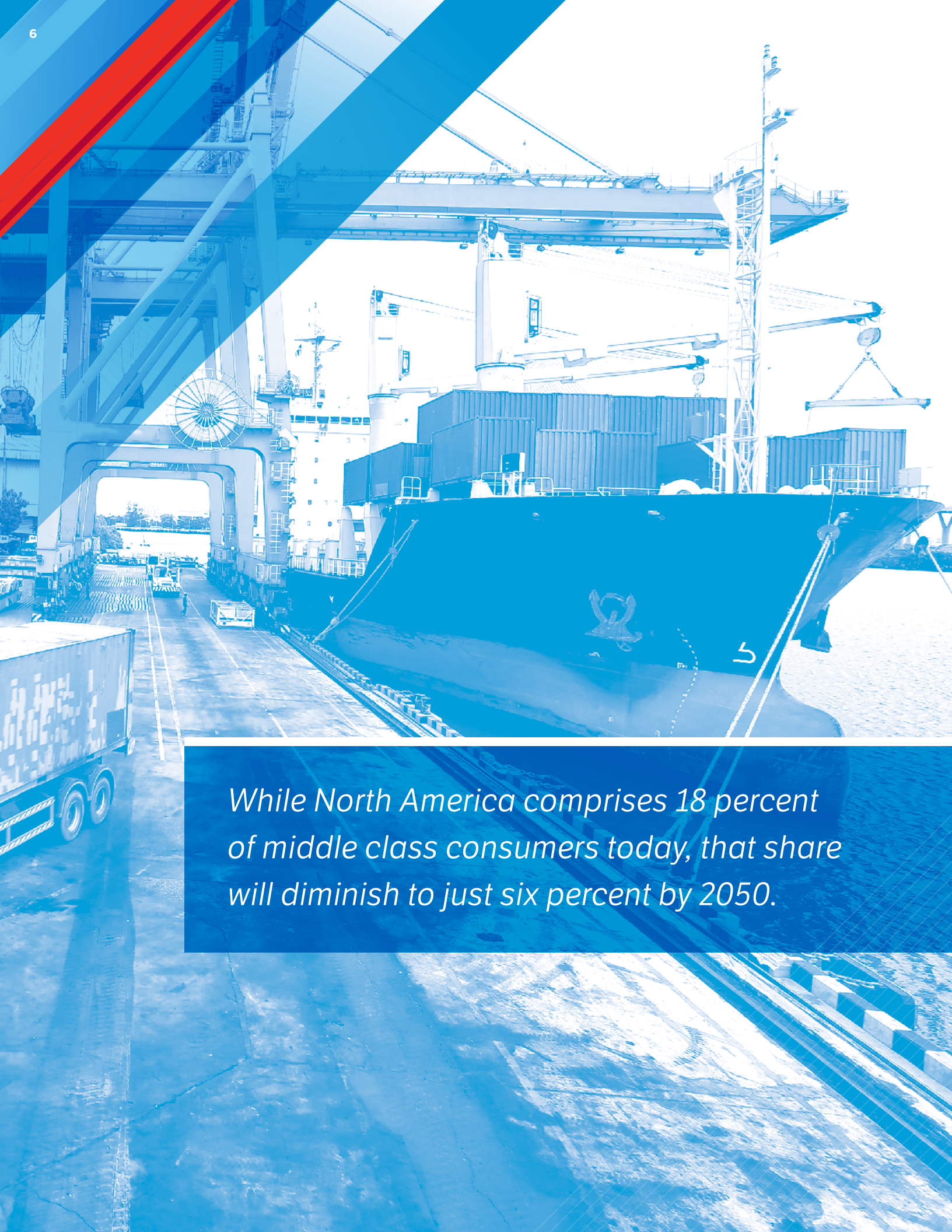
INTEGRATE EXPORTS WITH MAINSTREAM ECONOMIC DEVELOPMENT STRATEGY

Beyond actions to better reach and deliver export assistance to firms, execution of some metro export plan initiatives are beginning to integrate exporting with overall economic development plans and industry cluster development efforts.



CATALYZE A CULTURAL SHIFT TOWARD GLOBAL FLUENCY

Increasing fundamental global awareness and overcoming parochial views is required to inspire exporting, cultivate international connections, and spur regional investment in trade support activities.



While North America comprises 18 percent of middle class consumers today, that share will diminish to just six percent by 2050.

Global Opportunities and the Domestic Market

As U.S. business, civic, and government leaders seek to increase revenues and employment and promote overall economic competitiveness, they must adapt to rapidly changing global realities that are shifting the focus of demand for U.S. produced goods and services.

To be sure, the U.S. economy has been steadily expanding since the Great Recession, and the U.S. market will remain among the largest and most appealing in the world.

However, the most rapid economic growth—including new market opportunities for middle market firms—will take place outside of the United States. Despite some recent slowdown in global markets, leading researchers predict that international markets will outpace the U.S. in overall economic and consumer growth. For instance, over the next five years, the International Monetary Fund projects that 79 percent of global economic output growth will occur outside U.S. borders, with Brazil, India, and China alone comprising 30 percent of global growth.³

These and other emerging markets are creating tremendous demand for infrastructure, consumer products, and business services that meets the needs of an urbanizing, middle-class society. More than half of the world's population now live in cities, expanding to 66 percent by 2050, with nearly 90 percent of the increase concentrated in Asia and Africa.⁴ This rapid urbanization is generating demand for more than \$50 trillion in new infrastructure and housing investment.⁵ Living in these urban centers is a growing middle class whose buying power will reach \$35 trillion by 2030. While North America comprises 18 percent of middle class consumers today, that share will diminish to just six percent by 2050, leaving China and India with more than half of the world's middle class consumption.⁶ In other words, middle market firms that limit their business to the U.S., Canada, and Mexico will be ignoring enormous opportunities.

Given these global opportunities, the volume of total international trade grew by 26 percent between 2009 and 2013, reaching \$17.4 trillion.⁷ However, the vast majority of U.S. business executives and economic development leaders still are not participating in global markets. Just five percent of U.S. companies with employees are exporters.⁸

In addition to firm benefits, export performance has become a bellwether for the overall strength of U.S. regional economies. Metros with a higher proportion of economic output attributed to exports show comparatively stronger economic growth overall. Specifically, metros that export more aggressively average economic growth almost double that of metros with lower export intensity.⁹ Further, every \$1 billion in U.S. exports supports 5,600 jobs.¹⁰

However, economic development efforts typically do not prioritize “traded sector” industries with job multiplier effects over locally-serving retail businesses. They overemphasize business attraction and start-up support versus expansion of existing firms—the dominant source of sustained job creation—that can be propelled by exporting.

³ *World Economic Outlook, International Monetary Fund 2014.* ⁴ *United Nations, World Urbanization Prospects, 2014.* ⁵ *Boston Consulting Group, “Winning in Emerging Market Cities,” 2010.* ⁶ *Homi Kharas, “The Emerging Middle Class in Developing Countries,” OECD Development Center, 2011.* ⁷ *OECD International Trade Statistics, 2014.* ⁸ *Brookings analysis of U.S. Census Bureau data.* ⁹ *Brad McDearman, Ryan Donahue, Nicholas Marchio, “Export Nation 2013: U.S. Growth Post-Recession” Brookings Metropolitan Policy Program 2012.* ¹⁰ *U.S. Department of Commerce.*

Middle Market Exports

Unrealized Potential to Accelerate Growth

The good news is that there is increasing awareness of the opportunities and benefits presented by global trade. The value of U.S. exports reached record levels in 2013. The number of firms that are exporting climbed from 275,000 in 2009 to 302,000 in 2013.¹¹ Exports accounted for 54 percent of economic growth in the 100 largest U.S. metropolitan areas between 2009 and 2012.¹² And at least 20 U.S. metro areas have put in place new regional export initiatives to capitalize on this global momentum.

Yet more progress must be made, and middle market firms must be at the center of the next wave of export growth and overall economic progress. While multinationals and start-ups dominate both public policy and media attention, middle market firms power U.S. job creation. These nearly 200,000 firms account for only three percent of all businesses, but they created 70 percent of all jobs in 2013. Between 2007 and 2010, middle market companies added 2.2 million new jobs, while big businesses lost 3.7 million jobs.¹³ In total, they generate about one-third of all private employment, as well as national GDP.

Middle market firms have proven capacity for success by exporting a range of goods and services, but they underachieve as a whole. Though they represent about a third of U.S. output, mid-sized firms yield just nine percent of all U.S. export value.¹⁴ About 60 percent of middle market companies do not export at all. Even among the “upper” middle market firms (\$100M to \$1B revenue) that resemble multinationals in operations and sophistication, roughly half of the firms generate any international revenue.¹⁵ Only four percent of mid-sized firms are expanding overseas, and three percent regularly review international options.¹⁶

Additionally, many companies that do export appear opportunistic rather than strategic. In 2012, roughly 302,000 firms in the U.S. conducted business overseas, but one-third of those did not export in consecutive years.¹⁷ Fewer than 20 percent of middle market firms derive more than one-fifth of their revenue from outside the U.S.¹⁸ A majority of these exporters sell to just one international market, most often Canada, likely representing the “lowest hanging fruit” due to its proximity, cultural similarity, and minimal regulatory hassle thanks to the North American Free Trade Agreement.¹⁹ These data suggest many firms either do not have the capacity to steadily export year after year or they are merely reactive exporters, responding to specific, irregular inquiries from overseas, as opposed to developing a strategic long-term approach to global demand.

National survey data is echoed by individual metro export plan findings from localized research and business interviews. Whether in San Diego and Charleston or Columbus and Syracuse, the resulting core regional strategies included increasing the number and capacity of small to mid-sized exporters.

Therefore, an often overlooked opportunity exists to better orient middle market firms to the global market. One recent analysis by Stone and Associates calculated there are up to 80,000 small and mid-sized manufacturing businesses in the U.S. that have the proven product and resources to expand to more markets and thus are on the “threshold” to be successful, regular exporters.²⁰



SAN DIEGO EXPORT MARKET ASSESSMENT

“SMEs offer enormous untapped growth potential...This cross-section of the business community needs an injection of global trade discourse into their business perspectives and strategies if San Diego is to achieve the desired growth in exports.”²¹

¹¹ US Census Bureau, “Preliminary Profile of U.S. Exporting Companies, 2013”, 2014. ¹² Export Nation 2013. ¹³ NCMM Market that Moves America, 2011. ¹⁴ U.S. International Trade Commission, “Small and Medium-Sized Enterprises: Characteristics and Performance,” 2010. ¹⁵ MMI Q2 2014. ¹⁶ EIU/NCMM “Should I Stay or Should I Go,” October 2012. ¹⁷ U.S. International Trade Commission, “Small and Medium-Sized Enterprises: Characteristics and Performance,” 2010. ¹⁸ Ibid. ¹⁹ U.S. Census Bureau, “A Profile of US Exporting and Importing Companies, 2010-2011”, 2013. ²⁰ Stone & Associates, “On the Threshold: Refocusing U.S. Export Assistance Strategy for Manufacturers”, 2013. ²¹ University of San Diego School of International Relations and Pacific Studies, Market Assessment Fast Facts, 2013.

Stronger Company Performance

Export activity is proven to be a key contributor to a middle market firm's growth. Through the depths of the recession in 2005 to 2009, smaller and mid-sized manufacturing firms that exported experienced over 35 percent revenue growth while firms that did not export saw revenue decline by seven percent.²¹ For professional services, 2007 data showed that exporting firms generated double the amount of sales revenues and paid 20 percent higher wages than non-exporters.²² While exports are not the only reason that these firms prospered, a global perspective, which often includes an investment in innovation and R&D, strong supply chains and logistics, and a talented staff, are all factors that contribute to enhanced revenue performance.

That historical performance is affirmed by current trends with exporting firms achieving higher sales growth. In 2014, a NCMM survey of U.S. middle market firms found that over 76 percent of exporting companies reported past year revenue increases, compared to 64 percent of non-exporting middle market firms.²³ The proportion of firms adding employees in the past year is also much higher among those generating international revenue—51 percent for exporters versus 39 percent for domestic companies. In other words, firms that exported saw a mean total employment increase of 3.8 percent compared to 2.7 for companies that sold exclusively in the U.S.²⁴

In 2005 to 2009, smaller and mid-sized manufacturing firms that exported experienced over 35 percent revenue growth while firms that did not export saw revenue decline by seven percent.

Exporting middle market companies feel more optimistic about future performance. Specifically, exporters project revenue to grow by 6.6 percent, versus 5.2 percent for non-exporters. Exporters also expect to increase payroll by four percent, compared to 2.8 percent employment growth by domestic companies.²⁵



INFICON

With exports now driving nearly 65 percent of all revenue, INFICON, a manufacturer of high-tech measurement equipment in Syracuse, NY, is investing in a \$61 million facility expansion. This recent growth, which is expected to add 50 new employees to the existing workforce of 240, is primarily driven by the growing market for high tech devices in emerging countries in the Middle East and Asia.

²¹ U.S. International Trade Commission, "Small and Medium-Sized Enterprises: Characteristics and Performance," 2010. ²² J Bradford Jensen, "Global Trade in Services: Fear, Facts, and Offshoring," Peterson Institute for International Economics, 2011. ^{23, 24, 25} NCMM MMI Q2 2014.

Improved Competitiveness, Strategic Planning and Business Processes

Selling abroad bolsters business and competitiveness at home. Nearly 25 percent of U.S. middle market executives feel that activity in a foreign market has taught them to be significantly stronger in the U.S.²⁶ The rigors of international competition require companies to develop world-class products and services, leverage economies of scale, invest in manufacturing and logistics process improvements, build a talented workforce, and perfect marketing and delivery strategies that often translate into better domestic performance as well.

Middle market firms that sell internationally expose their entire leadership teams to insights and activities that factor into both operations and planning. These efforts tend to strengthen a number of core business functions and processes:

-
- + **FINANCE** — improving capital management and risk management, such as dealing with foreign currencies
 - + **LAW** — handling compliance rules and regulations, often applicable to domestic operations and enhanced product quality
 - + **MARKETING** — strengthening customer insights and improving market research capabilities
 - + **LOGISTICS** — both inbound and outbound
 - + **TALENT** — adding leaders with the expertise and experience to help drive international efforts
-

As middle market firms become functionally more sophisticated by way of exporting, their advanced capabilities are enhanced in all areas of the organization. The Greater Milwaukee Export Plan market assessment determined that some exporting companies may also have a stronger ability to leverage required research and development by growing sales without proportional added investment. Export sales also appear to increase margins by better utilizing current capital and labor bases, and, by diversifying revenue sources, may add sustainability and predictability to a company's cash flow.²⁷

Furthermore, a good offense internationally can help defend against the entry of foreign rivals in the domestic market. If a U.S. company in a traded sector does not currently face competition from an overseas rival, the attractiveness of the market means it is only a matter of time before that manifests. Companies that go overseas learn how to compete with international rivals and can be proactive about maintaining their domestic market share.



TAYLOR GUITARS

A middle market manufacturer of acoustic guitars based in San Diego, Taylor Guitars first started exporting 20 years ago when a buyer inquiry came from overseas—the typical ad hoc and reactive approach for new to market firms. After a long-term transition to become a global business, the company now sells to 60 countries, using a range of techniques to enter new markets, including developing new partnerships and opening facilities. After initially working with distributors, Taylor Guitars began exporting directly in 2010, later opening a distribution warehouse in the Netherlands to serve the European market.

²⁶ EIU/NCMM "Should I Stay or Should I Go," October 2012. ²⁷ Milwaukee Global Cities Initiative, Market Assessment Summary, M7.

Diversified Options

Engaging in global markets dramatically expands a firm's strategic options for future growth. An exporting company can do the following:

- + Cultivate new business partnerships (suppliers, distributors, etc.)
- + Obtain access to new technology or process innovations
- + Become more valuable suppliers to their multinational customers
- + Become the U.S. distributor for other products made abroad
- + Enter into international joint ventures or pursue acquisitions abroad
- + Attract strategic foreign investors or even outright buyers—5.6 million people in the U.S. work in foreign-owned firms



SIMMONS MACHINE TOOL CORPORATION

Based in Albany, NY, Simmons manufactures specialized equipment for railway wheel set maintenance and production. Simmons was the first American company to acquire an East German company after the fall of the Berlin Wall in 1989. The acquisition did more than open a market; it gave Simmons access to European technology, ultimately leading to improvements in product and service quality that have enabled Simmons to compete more successfully domestically and to further expand its operations. Simmons, whose annual revenues are about \$40 million, now has a growing customer base in China and has recently founded a new company in Nanchang to better serve the Asian market.

Obstacles to Middle Market Exporting

Despite these positive opportunities, many middle market firms are not strategically focused on global growth. Feedback from regular NCMM company surveys, combined with metro export plan research findings, identified a range of factors that account for this. Some reflect internal firm issues, such as lack of awareness, resources, and risk tolerance. Others reveal flaws in the external support system for mid-sized companies and exporters generally.

FIRM-BASED CONSTRAINTS

+ **Resources Consumed By Domestic Expansion** — A focus on growth in the U.S. market is the most frequent reason for eschewing export opportunities, cited by 44 percent of non-exporting middle market firms.²⁸ While that may make strategic sense for some companies based on their product offerings and other business factors, research suggests that many firms simply give too little thought to export opportunities. Of companies that operate entirely in the U.S. and intend to maintain a purely domestic focus, 88 percent rarely or never review the possibility of international expansion, and 34 percent could not say what might lead them to change course.²⁹ For these businesses, the home market may offer the easiest path to growth; but that does not always mean it is the best. In fact, it may be riskier to compete only in the U.S. without diversifying revenue across domestic and international sources.

+ **Perceived Lack Of Demand** — Lack of demand in foreign markets is the rationale for 21 percent of middle market companies not seeking to export.³⁰ However, because few companies actually review export potential, it is likely that many non-exporting middle market executives do not see overseas demand because they have not looked. In contrast, mid-sized companies across various traded sectors that recognize growth opportunities in markets such as Europe, Asia, and South America primarily cite strong demand or a hot market as their main reason for pursuing these regions.³¹

In particular, middle market firms that sell services as opposed to products may discount their ability to sell overseas. However, the reality is that the U.S. currently runs a trade surplus in services, and thanks to digitization, services increasingly are tradable—from architecture and design to information technology and medical diagnostics to consulting and financial services. In addition, foreign spending on education, medical care, and tourism, even if delivered within the U.S., count as exports that generate international revenues.



CENTERSTATE NEW YORK EXPORT PLAN

“Many local businesses lack basic market knowledge and business acumen regarding the opportunities in selling a good or service overseas. Astoundingly, 40 percent of respondents to the export survey indicated that they did not export because they are more focused on domestic markets or they think their good or service could not be sold in foreign markets. This is partially attributed to a lack of knowledge of the best growth opportunity markets for their product or service and a relative unease with cultural and language barriers within target export markets.”

²⁸ NCMM MMI Q2 2014. ²⁹ EIU/NCMM “Should I Stay or Should I Go,” October 2012. ³⁰ NCMM MMI Q2 2014. ³¹ Ibid.

+ **Fear Of The Unknown** — Compounding the export opportunity awareness gap, mid-sized firms confront a number of real and perceived operational challenges that impact their exporting decisions. Nationally, just 14 percent of middle market firms identified exposure to risk as a reason for not exporting.³² However, a Brookings analysis of early metro export plans and market assessments found that “the main reason why local SMEs do not export is fear of the unknown, in the form of regulations, currency risks, language, and cultural differences.”³³

It is clear the middle market companies that do export tend to stay in their geographic and cultural comfort zones, even if larger export opportunities exist in international markets. Currently, NAFTA countries are the primary source of international revenue, with 81 percent of U.S. middle market exporters generating sales from North American countries, and 72 percent selling to Canada. Just 52 percent of middle market exporters make sales in European countries, 46 percent in Asian countries, and 24 percent in South American countries.³⁴

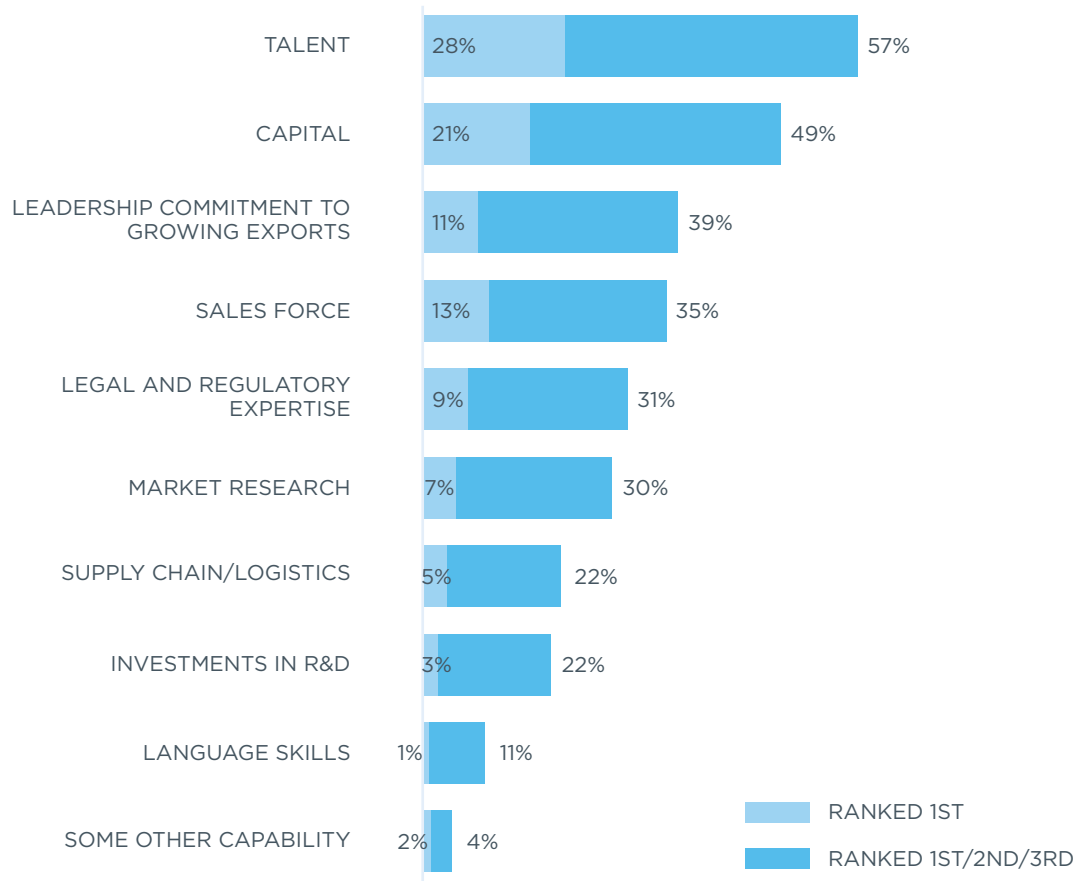
+ **Insufficient Key Firm Capabilities** — Many middle market firms do not export, or refrain from expanding or maintaining international sales initiatives, because they lack key capabilities or resources, primarily talent and capital.

Specifically, over half (57 percent) of middle market firms say they need the right talent to pursue exporting, while nearly half (49 percent) are in need of capital.³⁵ Some middle market companies may find that the local banks on which they have chiefly relied for capital themselves lack international capabilities. In addition, 39 percent say they require leadership commitment in order to grow exports.

Other capability deficiencies identified in national surveys—and affirmed by individual metro export plan assessments—include market research; supply chain resources; language skills; legal and regulatory expertise for U.S. and foreign export-import control compliance, protection of intellectual property rights, and international contracting.³⁶

³² NCMM MMI Q2 2014. ³³ Istrate, Emilia, and Nicholas Marchio. “Export Nation 2012: How U.S. Metropolitan Areas Are Driving National Growth,” Brookings Metropolitan Policy Program, 2012. ³⁴ Ibid. ^{35, 36} NCMM MMI Q2 2014.

Capabilities Needed by Middle Market Firms for International Growth



RANKED 1ST/2ND/3RD BY FIRM ANNUAL REVENUE SEGMENT³⁷

	\$10M - <\$50M (486)	\$50M - <\$100M (171)	\$100M - <\$1B (346)
TALENT	57%	61%	56%
CAPITAL	48%	54%	48%
LEADERSHIP COMMITMENT TO GROWING EXPORTS	38%	43%	40%
SALES FORCE	34%	28%	40%
LEGAL AND REGULATORY EXPERTISE	34%	27%	28%
MARKET RESEARCH	33%	26%	27%
SUPPLY CHAIN/LOGISTICS	20%	19%	26%
INVESTMENTS IN R&D	21%	23%	22%
LANGUAGE SKILLS	10%	17%	11%
SOME OTHER CAPABILITY	6%	2%	3%

³⁷ NCMM MMI Q2 2014.

SUPPORT SYSTEM SHORTCOMINGS

+ Fragmentation and Confusion in Access to Service

Delivery — No matter the size or geography of the region, metro export planners consistently have found that good quality assistance is available, but highly fragmented and disconnected, making resources difficult to access for businesses. Regions often lack a designated lead or clear entry point for export service provision. Limited coordination exists among the local public/private, state, and federal assistance expert providers that delineate roles and responsibilities, identify gaps and redundancies, enable referrals and case management, or even align events and schedules. As a result, companies have been confused about “who does what” and cannot easily track down appropriate help, and service providers are not maximizing scarce resources and are unsure about meeting market needs.

+ **Reactive Export Assistance** — Without the focus and resources of mainstream economic development actors, the current export support system at the regional level typically lacks the capacity to target and recruit non-exporting firms with the greatest likelihood of success. Most often, initiatives are either pursued at the federal or state level with little depth on local context, or are siloed within a local World Trade Center or similar organization. Rather, service provider efforts often center on generic export awareness activities and responding to indiscriminant queries. Many metro export plan assessments found that, as a result, too many companies not “export ready” are clogging core export services programs; too much effort is spent on general promotion; more one-on-one case management and research support is needed; and proactive outreach to threshold companies would be valuable.

+ Lack of Integration with Core Economic Development

Strategies — Beyond fragmentation among export service providers, export efforts generally are detached from comprehensive regional economic development plans and activities. Despite the contribution that exports can make to achieving overall economic growth objectives, export activities are siloed in policy as well as practice. Exports rarely are reported among top regional economic performance indicators. Further, export efforts seldom are reflected in mainstream economic development plans around promotion of industry clusters, in contrast to business attraction, workforce, innovation, commercialization, or financing elements. That disconnect is reflected practically in activities like annual trade missions, often based on choosing a country and extending an open call for participation, rather than driven by overall economic development plan priorities for industry sectors. Exports are missing from an integrated strategy to improve regional growth, productivity, and income.



COLUMBUS GLOBAL CONNECT TRADE & INVESTMENT STRATEGY

“The initiative to increase exports is designed to become an integral part of the Columbus Region’s existing regional growth strategy, Columbus 2020... developed by a coalition of private and public sector leaders...[A] successful regional export effort will require a commitment to integrating international programs into traditional economic development activities.”

How Middle Market Companies Can Pursue Exporting

Given this landscape, middle market companies can take some proactive steps to begin engaging internationally. These are based on experience gathered from research on successful middle market exporting firms, as well as feedback from some metro export plan initiatives.

FIRM-BASED ACTIONS

+ **Commit to Thinking Global** — While exporting is not a fit for every mid-sized business, the potential benefits are well established and middle market firms in traded sectors generally can take greater advantage of international possibilities.

The first step simply is to shift from exporting on an opportunistic basis or overlooking the possibilities entirely, and make deliberate decisions about whether to pursue a global strategy as part of regular business planning. Successful exporters are not sporadic in their efforts, or only attentive internationally when the domestic market is soft.³⁸

Once a firm moves export considerations to the foreground, it can begin to build the capabilities required for entering international markets. Even firms not ready to fully commit significant resources still can dedicate personnel to track export market possibilities, make product decisions that take into account international market potential, and cultivate network connections that ultimately help to expand globally when the time is right.

+ **Assess Products/Services for International Potential** — Identifying the “threshold firms” with export growth potential depends on a range of factors, beginning with the market offering and value proposition. Some products or services simply are constrained by the need for proximity to customers due to logistics or intensive on-site collaboration, or the inherent added costs of exporting that preclude competitive pricing.

Analyses conducted for federal export assistance providers on characteristics of the most effective manufacturing exporters confirmed that differentiated products or services are critical for success in international markets. These distinctions compete on value advantages rather than price, often reducing overall costs or increase efficiency, including offerings that are (1) unique, featuring proprietary innovations, technologies, or intellectual property; (2) superior in quality or performance; or (3) specialized, applying higher-level process or knowledge expertise.³⁹

Of course, even world-class products or services require sales, marketing, and distribution strategies that are customized to the needs and preferences of local target markets.



GLOBAL SAN DIEGO EXPORT PLAN

“Companies must be aware and intentional about going global. Results from more than 20 one-on-one interviews with business executives reveal that initial entry into exporting was either the nature of a business model, the “born global” concept, or the result of strategic planning after experiencing limitations on business growth within domestic markets for some time. While some firms grow into foreign markets over time, others are viable for international business from the beginning as a characteristic of their initial business model.”

³⁸ Stone & Associates, “On the Threshold: Refocusing U.S. Export Assistance Strategy for Manufacturers”, 2013. ³⁹ Ibid.

+ **Dedicate the Right Talent and Time** — Companies that want to succeed in exporting need to commit internal talent dedicated to drive the exporting effort, especially identifying a responsible senior sales lead. Committing in-house resources are critical to integrating a thorough understanding of the needs and preferences of the target market, creating the strategy for meeting those needs, and executing. Firms do not necessarily need to make a large number of new hires, but should considering existing resources and supplement with international business experience in the target market. A firm also may be able to take advantage of resources from local universities, such as foreign business students with direct market knowledge, contacts, and language skills.

Additionally, mid-sized firms need patience to allow for systematic market identification and partner selection, then market penetration. Setting realistic expectations for growth and profitability is critical. Just like establishing a domestic business or introducing a new product, profitably moving from reactive overseas sales to proactive exporting is a long-term commitment.

+ **Do Not Go It Alone** — Effective mid-sized firms exploring export markets tend to leverage existing relationships with customers and business partners, as well as with banks and consultants. These relationships can provide a mode of entry into a foreign market, ranging from new customer contacts to distribution partnerships to full joint ventures. Additionally, they can afford in-country knowledge and experience to understand conditions for market selection, which international middle market firms cite as the leading factor contributing to international success.

Firms should also identify and access the export assistance resources available from regional economic development groups, state trade offices, federal entities (U.S. Export Assistance Centers and Foreign Commercial Service), chambers of commerce, cluster-based industry associations, and community colleges or universities. Even in smaller metro areas, significant expertise is available to help with everything from market research, to legal and regulatory knowledge, to supply chain and logistics, to trade missions. While these service providers still rarely operate in a seamless system and businesses often need to search out exactly the right help, metro export plan analyses across the country consistently found that firms using these services rated them highly.



GRIPNAIL

A manufacturer of niche industrial metal fasteners for insulation, Gripnail, based in Providence, RI, began to focus on foreign markets during an economic downturn that reduced domestic demand. In a Financial Times interview, the CEO described product complexity as an advantage to international opportunities, acknowledged “complacency” with the domestic market, and stated “We make mature products in a mature industry...Moving to new markets was the logical next step.” Based on its differentiated product, the company nearly tripled exports as a proportion of sales between 2006 and 2011, pursuing a “stability from diversification strategy.”⁴⁰

⁴⁰ Welsh and Kim, “Global export opportunities challenge U.S. private companies to identify niche market solutions,” *Financial Times*, September 5, 2011.

How Metro Action Can Catalyze Middle Market Firm Exporting

Given the potential for and impediments to middle market exporting, metro-level efforts by public and private economic development partners are central to success. These regional efforts can deliver stronger, more focused external support to help mid-sized firms overcome barriers to entry. Further, metro actors who are investing greater effort to address identified weaknesses in the export support system, with a focus on the middle market, can yield a high return in high-paying job creation and regional economic growth. Through the metro export plan efforts, new practices are emerging to strengthen export assistance delivery:

METRO-BASED ACTIONS

+ Align Support Among Providers and Programs — Export support services—whether offered by local, state, or federal entities—get delivered at the regional level. Firms are agnostic about who provides help, as long as it is easily accessible, high quality, and meets their needs. The fragmentation in the export assistance ecosystem among multiple layers of providers that confuses and frustrates companies, can best be resolved through collaborations managed at the regional level.

Across all metros executing regional export initiatives, institutional coordination is at the center of their strategies. For example, in Los Angeles, public and private economic development stakeholders formed the Los Angeles Regional Export Council to organize existing export services and providers into a network with a central entry point, serving as a clearinghouse to align activities and events; facilitate joint research and information dissemination; manage a universal website; and identify and organize supplemental efforts to existing programs. In other metros, regional economic development organizations, chambers of commerce, and trade associations have taken the lead to quarterback collaboration, depending on local structures. To support this coordination, many groups have identified and tracked shared metrics for success in case management and regional exporting outcomes.

+ Proactively Recruit Companies to Become Exporters — With strong company relationships as well as local market knowledge and functional scale, economic development partners at the metro level are best positioned to identify and reach individual middle market firms with export potential. Federal or state export programs lack the one-on-one company connections that regional economic development actors—public-private partnerships, business associations, cities and counties, colleges—have through daily interactions across a range of topics, and through professional and social networks. This familiarity is proving to be critical to encouraging firms to access the export assistance ecosystem.

In regions executing metro export plans, particular programs and practices vary dramatically based on market priorities and institutional capacity. Most metros have incorporated exports into ongoing, mainstream business retention and expansion activities conducted by regional economic development organizations, including export training for staff making those business contacts. Others have created a new staff position dedicated to lead generation, identifying and visiting companies specifically to assess export options. In Syracuse, that initiative now generates about 50 percent of new contacts into the local U.S. Export Assistance Center. In many metros, trade associations not previously involved with exporting have been enlisted to conduct proactive outreach in specific clusters and firms with high potential to export.

New support programs are also being implemented in response to identified exporter needs. In Los Angeles, an “Export Champions” program was established with university partners to provide faculty and student assistance on business planning for expansions into new international markets, primarily targeting mid-size firms already exporting. Other metros are tapping CEOs of exporting firms to link with peers not yet exporting, encouraging consideration, and facilitating mentoring relationships.

+ Integrate Exports with Mainstream Economic

Development Strategy — Beyond actions to better reach and deliver export assistance to firms, execution of some metro export plan initiatives are beginning to integrate exporting with overall economic development plans and industry cluster development efforts.

For example, Portland stakeholders identified the opportunity to advance growth in the “green economy,” one of the five clusters prioritized in the overall five-year economic development strategy. Recognizing that the Portland region’s primary international reputation is around sustainability, leaders designed an export support effort branded *We Build Green Cities* specifically designed to advance the development of that industry cluster. Portland undertook sectoral outreach, organizing related businesses across goods and services, particularly smaller and mid-size companies not maximizing export opportunities. Then, the program identified the strongest growth markets and undertook a targeted entry strategy to connect those businesses. This integrated and targeted approach generated early results in Japan, particularly for urban design, architecture, and engineering services, yielding both sales and new joint venture partnerships with a major developer in Asia.

+ Catalyze a Cultural Shift Toward Global Fluency —

Increasing fundamental global awareness and overcoming parochial views is required to inspire exporting, cultivate international connections, and spur regional investment in trade support activities. This culture change extends across sectors and audiences, by promoting the metro’s global assets to the local market, communicating the importance of exports and investment, and celebrating successes. International trade should become part of everyday business discussions. Mayors and other elected officials—proven essential in other countries to opening doors and securing agreements with business and government counterparts—must commit to join more trade missions, and the public must be convinced that these are not veiled vacations at taxpayer expense.

Metros are executing on culture change using a variety of tools. In Louisville, competitions for small export support grants that underwrite trade missions are motivating individual firms to consider exporting and craft business plans, which can be implemented whether or not they win. In San Diego, industry cluster associations are proactively making the case in the media for government officials to travel internationally. In Columbus, the World Affairs Council released a catalog of the region’s international assets. In all the metros, public-private coalitions are undertaking new marketing, event, and media outreach that define and promote the international brand to local audiences. Instead of niche export advocates, messengers now are elected officials and mainstream business leaders seeking to foster a more “globally fluent” public and self-identification as a competitive trading region.



MINNEAPOLIS—ST. PAUL EXPORT PLAN

“Create a Clear Export ‘Road Map’ – To be truly effective, the region must identify coordinate, and streamline all core export programs and services, including the mission, role definition and resources of each. The result should be a clear road map of all existing export resources and strengths at the federal, state and metro levels that would enable a company to easily navigate its way through the system, from Export 101 training to identifying a foreign distributor or making a sale overseas.”

“Target the intersection of local products and global demand...proactively and intelligently defining, targeting, and organizing regional export efforts...based on what is now known about the intersection of economic sectors representing the region’s greatest opportunities for export growth and the markets that demonstrate the greatest potential demand for locally-produced products and services.”



**NATIONAL CENTER FOR
THE MIDDLE MARKET**

The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused on the U.S. Middle Market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. Stay connected to the Center by contacting middlemarketcenter@fisher.osu.edu.

B | Metropolitan Policy Program
at BROOKINGS

The Brookings Institution is a private non-profit organization. Its mission is to conduct high quality, independent research and, based on that research, to provide innovative, practical recommendations for policymakers and the public. The conclusions and recommendations of any Brookings publication are solely those of its author(s), and do not reflect the views of the Institution, its management, or its other scholars.

Created in 1996, the Brookings Institution's Metropolitan Policy Program provides decision makers with cutting-edge research and policy ideas for improving the health and prosperity of cities and metropolitan areas including their component cities, suburbs, and rural areas. To learn more visit: www.brookings.edu/metro.