



# SME EXPORTS AND TRADE FINANCE:

## What Resources are Available

By Jeff Slattery

**U.S.** goods, services and agriculture exports increased 13% and hit an all time record in 2007 totaling \$1.646 trillion and comprising 11.9% of the GDP in nominal terms. U.S. real exports grew 37.3% from 2003-2007 while GDP only grew 12.3%. In addition, 2007 exports accounted for 41.4% of the change in real GDP growth. Contrary to the average American's perception, U.S. exports actually outpaced imports, lowering the trade deficit by \$ 53.0 billion for the first time since 2001. Despite these astonishing export growth patterns and figures, still less than 1% of U.S. firms export their valuable products and services. The U.S. lags behind other G7 countries regarding the

percent of GDP exported. Figure 1 clearly depicts the large disparity of U.S. exports as a percent of GDP when compared to other G7 members. Significantly increasing exports in a relatively short period remains elusive for many but not impossible. Germany increased exports by 30% since 2001. Germany's exports now account for 49% of the economy (Trade Promotion, 2008).

The U.S. increased the number of exporting firms by 2.3% in 2006 to 245,945. Still, when compared to the 27.7 plus million firms in the U.S. only a fraction of firms actually export and the number of exporting firms lags behind the overall growth of the business community. The number of established U.S. firms expanded by 28% from 1997 while

exporting firms only grew by 15% in the same time period. In addition, small-to-medium-sized-enterprises (SME's) comprise 99% of all firms and account for 97% of all exporting firms; however the exporting SME's only produce 29% of the export value. The typical SME (90%) exports from a single location to a single location indicating a substantial need and opportunity for significant expansion for current exporters and non-exporting firms. SME's tend to struggle with limited resources, knowledge, and experience when it comes to acquiring trade leads, exporting resources and international trade finance. In order to aid SME's in expanding into international markets this overview provides essential knowledge and resources for SMEs preparing to initiate or continue

with international trade transactions (Trade Promotion, 2008).

SME's will find encouragement in knowing that research indicates that international or exporting firms outperform domestic enterprises, employ more staff, pay higher wages, benefit from increased efficiency and reduce costs, offer a more diversified product range, are more socially responsible and benefit significantly from engaging in international trade (Julien & Ramangalahy 2003; Quin, Lang, & Wang 2003). Clark (2005) highlights this fact by reporting that exporting SMEs increased revenue by 54% from 1992 to 2002. In addition, Hsu & Boggs' (2003) internationalization study confirms the existence of "a positive linear relationship between the degree of internationalization and performance" (p. 37). Slattery (2008) confirms this contention utilizing 2005 data and estimated that each exporting SME's on average gained \$734,000 from exporting activities. The dramatic benefits of international trade for SMEs clearly demonstrates that SMEs benefit and should, if at all possible, dedicate the necessary time and energy to obtain the required resources, knowledge and experience to aid and prepare them for international trade.

The U.S. government acknowledges the vital importance of providing SME's with critical resources and support to aid them in continuing or developing into strong exporters and proficient businesspersons in the realm of international trade but more could be done.

Hopefully the U.S. will follow the lead of our primary trading partners. Figure 2 illustrates and compares estimated amounts that our major trading partners spend on aid and programs to promote international trade. The vast majority of SMEs fail to utilize the many valuable services and programs that the U.S. government provides simply due to a lack of awareness. The next section of this overview describes the primary governmental resources available and provides direct links to the specific Internet sites and organizations.

The U.S. government partners with numerous governmental agencies and private businesses to provide the essential services and programs to promote the expansion of SME exports and international trade transactions. The following organizations are best prepared to serve the interest of SME's in their international trade endeavors. The focus here remains on the primary governmental agencies in order to narrow the vast array of providers down to the most cost effective, validated and productive resources.

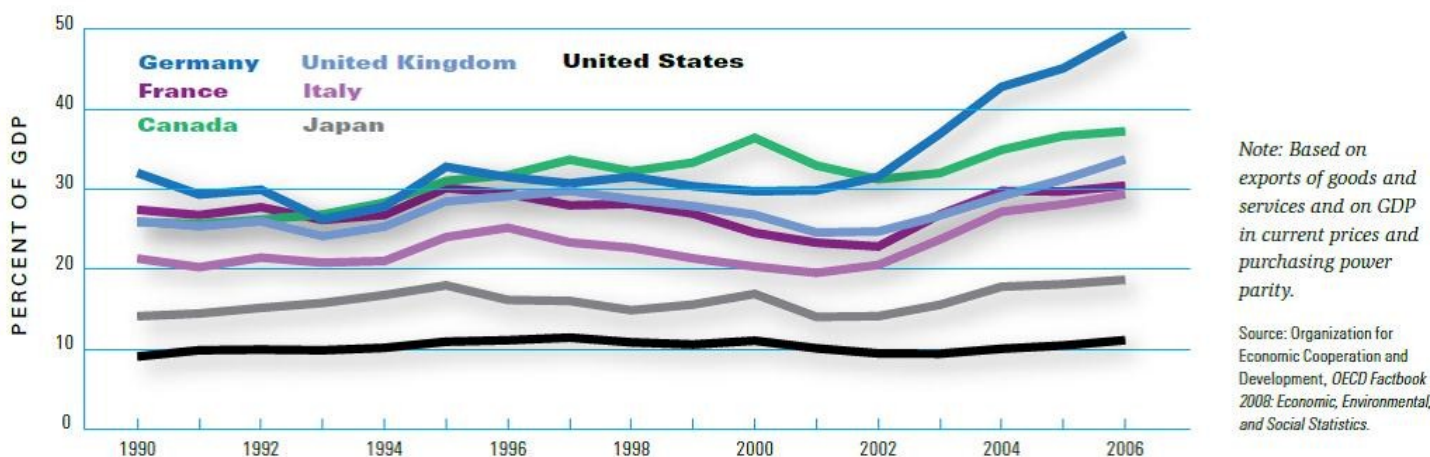
The U.S. Department of Commerce (DOC) has the primary tasks of providing and overseeing commercial services for the government and U.S. based firms both domestically and abroad. The International Trade Administration (ITA), a bureau of the DOC, acts as the main agency for all international trade related matters. The ITA's primary mission "is to create prosperity by strengthening the competitiveness of

U.S. industry, promoting trade and investment, and ensuring fair trade and compliance with trade laws and agreements" ("About the," 2008). The ITA accomplishes this mission through four agency organizations;

- US Commercial Services
- Manufacturing and Services
- Market Access and Compliance
- Import Administration

The US Commercial Services (USCS) department provides specific and targeted services for seasoned exporters but has a primary mission to develop and offer services and programs for non-exporting and novice SME exporters. The remaining ITA agency organizations provide ancillary, industry specific or foreign regulatory guidance and services and thus are only mentioned as an additional resource in this installment. The USCS offers the most comprehensive and pragmatic services of the four ITA organizations for non-exporting and new SME exporters. The USCS services are offered on-line, via webinars, live seminars and presentations around the country. In addition to the on-line services the USCS provides direct contact and consultation by trained Trade Specialists in 107 U.S. cities and 80 foreign countries. The USCS centers offer detailed country specific sales and marketing analysis and planning, international logistics services and information regarding freight forwarders, harmonization

FIGURE 1: G7 Percent of GDP Exported





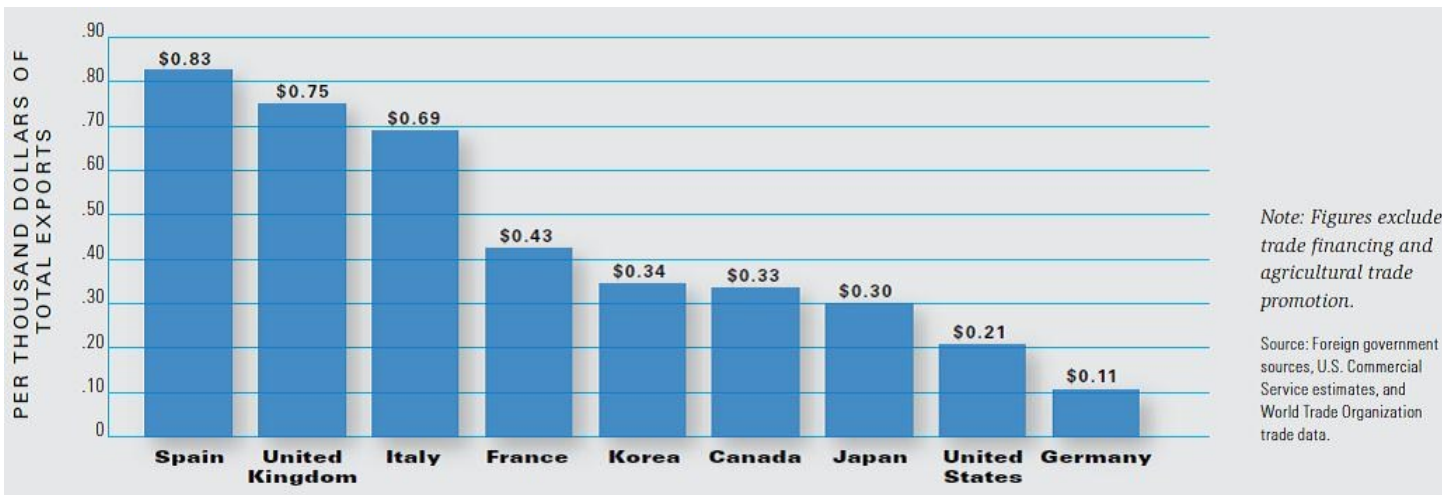


FIGURE 2: Estimated Governmental Spending to Aid in Export Promotion

codes, tariffs, fees and export documentation. In addition, the centers provide data on export regulations and licenses, trade data and analysis, international finance education, information on trade events and trade missions. The USCS's main export portal webpage Export.gov stands as the primary launching point for new and existing exporters. Export.gov provides counseling and educational services designed to provide new exporters with the basics of exporting and yet most recent export information and data. New exports should become very familiar with and utilize the Export Basics information and resources. Firms that possess a sound grasp of exports basics should then move on to the Gold Key service which matches exporters with prequalified international buyers. Gold Key provides a wealth of information and services for a very nominal fee of \$700.00 and grants are available to reduce the cost in half for first time exporters. The service aids with every aspect of establishing an export transaction. In addition, the service walks exporters through the process of obtaining trade leads, obtaining initial meetings setting the stage for a possible international trade deal. The Small Business Administration or the Ex-Im Bank takes over international financing, depending on the amount of financing required. The SBA's Export Working Capital Program (EWCP) provides guaranteed loans to a maximum of 2 million. The SBA guaranteed loans

enables commercial lenders that would not normally extend credit in risky situations to offer critical working capital loans to SME's that without the loans would lose out on exports due a lack of capital. The EWCP loans are for exports of any type and even indirect exports qualify. The major benefits of the EWCP loans includes; no application fee or restrictions regarding content or military sales, a very low funding fee of .25% of the guaranteed portion typically up to 90%, a streamline process and quick response time. The new Export Express program reduces the response time to 24 hours for some loans under \$250,000. The Vellus Product export success story provides a glimpse of the possibilities for U.S. SME exporters (U.S. Department of, 2008).

The Ex-Im bank acts as the official export credit organization for the U.S. government. Similar to the SBA EWCP the Ex-Im bank provides guaranteed loans. The Ex-Im loans are in excess of \$2 million and are without limit, but contain several limitations. The Ex-Im EWCP loans require that products contain at least 50% U.S. content and any nuclear or military products and some environmental goods and services are excluded. The Ex-Im charges a very low non-refundable application fee of \$100 and a 1.5% upfront facility fee that may be reduced to 1% if the exporter purchases export credit insurance. The primary advantage of the Ex-Im bank rests in

the fact that the U.S. government through the Ex-Im bank provides guaranteed loans to foreign purchasers of U.S. export goods and services, especially in risky foreign emerging markets. The foreign imports must prequalify and remain creditworthy but the Ex-Im provides loans when traditional commercial services and banks will not provide the necessary credit. The Ex-Im loans significantly aid SME's and U.S. firms in increasing exports that would otherwise be lost due to a lack of international financing. Ex-Im loans are applicable for medium (up to 5 years) and long-term (up to 10 years) export transactions. In addition to loans the Ex-Im bank provides export credit insurance which protects exporters from the risk of non-payment due to economic and political risk (U.S. Department of, 2008).

U.S. export agency organizations provide invaluable services and programs for U.S. exporters of all sizes and capa-





## EXPORT SUCCESS

VELLUS PRODUCTS, Columbus, Ohio

*"I love exporting because it has enabled me to meet so many people from other cultures. Exporting has made me more broad-minded, and I have developed a great appreciation for other cultures and the way others live their lives."*

—Sharon Doherty, President

Vellus Products, a small maker of pet grooming products first became an exporter in 1993, when a Taiwanese businessperson bought \$25,000 worth of the company's product to sell in Taiwan through dog shows. "I started receiving calls from people around the world who would hear of our products at dog shows and ask organizers how they could get in touch with me to buy our products," Doherty recalls. "But I needed a way to find market research and learn more about ways of doing business in these countries." By tapping the services of the Commercial Service, the U.S. Small Business Administration (SBA), and the State of Ohio, Vellus has expanded to 28 foreign markets. "As business has grown, I have gone from ordering country profiles to requesting customized export and financing strategies tailored to maximize export potential," Doherty says.

*Photo: Sharon Doherty, President of Vellus Products, with a client's pet.*

bilities but maintain a primary focus on non-exporters and novice exporting SME's. The U.S. government recognizes the necessity and significant benefits of supporting and enhancing U.S. exports and is working to create a "Culture of Exporting". Yet the question remains; are you ready to start exporting? There are ample resources available to help you get started. Here are several helpful hints:

- Top management must be very supportive and enthusiastic of an export strategy.
- Be willing to invest the required time, energy and resources to make exporting a successful endeavor: this is not a short term strategy for a poor domestic economy.
- Be in it for the long-haul; do not expect immediate results or profits, depending on the international market it may take years to establish a profitable export business.
- Be prepared for setbacks and frustration: international trade and exporting is complex and time consuming, thus the reason for less than 1% of firms engaging in exporting.
- Assign a single export or international trade manager and provide sufficient authority and resources.

- Do not simply hire an export management company: this teaches you nothing about the process and fails to advance your international experience, expertise and knowledge accumulation process.
- Expect to travel and make new long-term business relationships as many foreign countries operate on a long-term business ethic.
- Become educated on the process of internationalization and exporting; this will take some time and resources.
- Be open and respectful of cultural difference and be willing to share your experiences and culture as well.
- Most of all enjoy the experience and benefits that will come from international trade and exporting; it will open up a whole new world for you and your business.

Hopefully the U.S. will continue to expand into international markets and SME's will lead the way into new and uncharted territory. SME's must be willing to utilize and implement the numerous resources available to advance their knowledge, experience and expertise in the process of internationalization through exports. The time is now to start the process of expanding your business into the global economy.





## NOTES

- Clark, E. (2005). *Small & medium-sized exporting companies: A statistical handbook* (International Trade Administration, pp. 1-64). Washington, DC.
- Hsu, C. (2003). Internationalization and performance: Traditional measures and their decomposition. *The Multinational Business Review*, 11(3), 23-49.
- Julien, P., & Ramangalahy, C. (2003). Competitive strategy and performance of exporting SME's: An empirical investigation of the impact of their export information search and competencies. *Entrepreneurship Theory and Practice*, Spring, 227-245.
- Qian, G., Yang, L., & Wang, D. (2003). Does multinationality affect profit performance? *Journal of General Management*, 28(4), 37-46.
- Slattery, J. (2008). *Discriminant three stage analysis of the SME internationalization process*. Unpublished master's thesis, Argosy University, Sarasota, FL.
- Trade Promotion Coordination Committee. (2008). *2008 National Export Strategy: The Global Main Street* (State of Trade, pp. 1-9). Washington, DC: United States of America.
- U.S. Department of Commerce. (2008). *Trade finance guide* (A quick reference for U.S. exporters, pp. 15-24). Washington, DC: International Trade Administration.

