

Report Card on Trade II:

Assessing the Effectiveness of U.S. Government Support to Small and Midsize Exporters

Final Report

*Submitted to the Trade Promotion Coordinating Committee
Department of Commerce*

By

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In Cooperation with

The Kenan Institute of Private Enterprise

Kenan-Flagler Business School

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Executive Summary

The most useful services provided by government continue to be the provision of essential market information to companies. Government is the leading source of such information, while private sector service providers lead in the more transaction-related services. Although the impact of such services is inherently more difficult to measure than the impact of services closer to the export transaction, information remains the government's clearest comparative advantage, relative to private providers, and deserves continued emphasis.

Government also plays an important role in helping exporters deal with overseas governments' complex regulations, a role that will become increasingly important as exporters explore more challenging markets and as smaller firms increase their export operations.

The Department of Commerce has strengthened its role as the lead provider of government services to SMEs; further consolidation of government support within the DOC rather than proliferation of services would be desirable.

Government websites are an effective way to provide the information on export markets that companies most value from government.

Export finance is, if anything, a more troublesome area for companies than it was seven years ago, when the previous survey was completed, and government should do more to strengthen its support in this critical area.

Government programs could potentially be improved by partnering more actively and creatively with three key groups of private service providers: shippers (including market leaders such as FedEx and UPS as well as traditional shippers), U.S. wholesalers/export marketing companies, and in-country distributors.

More resources should be placed overseas, to help exporters where they need it most, relying on the Web and alliances with private providers to deliver support domestically. The DOC's presence in major current markets and promising future markets alike is a unique resource for exporters, and should be strengthened. By contrast, the need for an extensive U.S. network may be declining as exporters turn to the Web. It is too early to consider phasing out the U.S. domestic network, but exporters' large and growing need for help in the global marketplace argues for shifting more resources closer to the SMEs' customers.

1. Introduction to the Report: Background and Methodology

Key Points

- The sample was based on a random sample of small and midsize manufacturers and wholesalers, structured to reflect the distribution of U.S. exporters and exports
- 3200 usable interviews were completed, including 1100 with exporters and 2100 with nonexporters, as the result of 6400 telephone interviews conducted between December 2001 and March 2002.
- The primary purpose of the survey was to determine which services exporters use, where they get them, and whether they have an impact on their success as exporters
- Additional purposes include collecting information on export finance and other exporter challenges, and determining why more firms do not export.

The Department of Commerce, on behalf of the Trade Promotion Coordinating Committee, contracted in October 2001 with Chemonics International and its partner, the Kenan Institute¹ to conduct a survey of U.S. small and midsize exporters. The purpose of the study was to determine exporters' use of government and nongovernment services in the support of their export activities. The survey instrument and methodology were modeled on an earlier survey, *The Report Card on Trade*, conducted by the Kenan Institute in 1994.

Note to readers: the remainder of this section deals with the report methodology, rather than the findings. Readers interested primarily in the latter may wish to skip this section and proceed to Section 2, which begins the presentation of the findings. Readers will find it useful to look over the lists of service providers and services shown in Boxes 1-1 and 1-2 below, however, as much of the discussion revolves around specific services and their provision by public and private service providers.

Based on the earlier instrument, a revised questionnaire was developed by Kenan and finalized in cooperation with the members of the Trade Promotion Coordinating Committee. Following receipt of OMB approval to conduct the survey in late December 2001, the Kenan Institute drew a sample of small and midsize manufacturing firms and a separate sample of export intermediaries (hereafter referred to as trading companies)². In each case, the sample was designed to mirror the distribution of exporters, based on available data on the size and industry composition of exports by small and midsize

¹ The Frank Hawkins Kenan Institute of Private Enterprise is a unit of Kenan-Flagler Business School of the University of North Carolina – Chapel Hill. Its mandate is to build bridges of cooperation and understanding among business, government, and academia.

² The term “trading companies” is meant to cover a wide range of companies who serve as intermediaries between the exporting manufacturers and their customers overseas. These include export trading companies, export marketing companies, wholesalers, and U.S.-based distributors, among others. This category is not meant to include companies that provide a supporting service, such as shippers, but are not themselves responsible for arranging or managing the export transaction on behalf of the exporter.

companies. The distribution represented a balance between a distribution based on number of exporting firms (which would be overwhelmingly composed of small firms) and one based on value of exports (which would be composed primarily of midsize firms).

Following a pretest of the questionnaire, more than 6400 firms were contacted by phone and interviewed between January and March 2002. Interviews were conducted by a team of trained enumerators supervised by the Kenan Institute, supplemented by additional interviews conducted by a team fielded by George Mason University. Interviews were conducted with an employee of the firm, generally either a sales manager or a senior executive, who described him/herself as knowledgeable regarding the company's export activities. The breakdown of firms interviewed may be summarized in Table 1-1.

In sampling the exporter community, choices must be made so as to provide data reflective of the population. In this case, the sample was drawn to reflect a compromise between two sets of characteristics in the manufacturer population:

- The exporter population as a whole is heavily weighted toward small firms, reflecting the overall distribution of manufacturers and, indeed, firms in general in the United States. A sample designed to reflect the population of exporters would be heavily weighted toward small firms.
- Exports by small and midsize firms, however, are heavily weighted toward midsize firms. Midsize firms have a higher sales volume than do small firms, by definition, and midsize firms tend to be more active exporters. A sample designed to reflect the distribution of US exports from small-midsize firms would be heavily weighted toward midsize firms.

The approach taken represents a compromise between these two approaches, in which the distribution of the sample reflects the midpoint between a distribution reflecting the population of firms (by size and by industry) and one reflecting the source of US SME exports.

The survey covers only manufacturers and wholesalers; other service firms are not included. Although service exports account for a large and growing share of US exports, estimated at one-third of the total, information on the service exporter population is virtually nonexistent. Many service exports – such as financial services, air freight, and telecommunications – are provided almost exclusively by large firms. Other services – such as accounting, engineering, health care, and education – are provided by both large and small firms (as well as by nonprofits in the latter two sectors), but are nonetheless believed to be dominated by larger firms. The percentage of small accounting firms that export, for example, is believed to be extremely low, and no listing of such exporters exists. These factors make it prohibitively expensive to identify this group with the methodology used here.

Service exports are growing in importance, however, and the Kenan Institute would strongly encourage the U.S. Government to undertake additional research in this area to understand the needs of this population, which may be very different from those of manufacturers and trading companies.

***Table 1-1. Distribution of Small and Midsize Exporters Surveyed
(includes both manufacturers and wholesalers)***

<i>Classification of Firms by Interview Status</i>	<i>Number of Firms</i>	<i>Percentage of All Firms Contacted</i>
<i>Total Usable Surveys</i>	<i>3212</i>	<i>50.1</i>
<i>Exporters</i>	<i>1121</i>	<i>17.4</i>
Firms Exporting Directly Only	507	7.9
Firms Exporting Directly and Indirectly	233	3.6
Firms Exporting Indirectly Only	381	5.9
<i>Non-Exporters</i>	<i>2091</i>	<i>32.7</i>
Never Exported	871	13.6
Once Exported, Stopped	158	2.5
<5% of Sales from Exports	955	14.9
<5% of Exports Sales to Non-American Customers	107	1.7
<i>Contacted, Without Usable Results</i>	<i>3195</i>	<i>49.8</i>
Partially Complete	17	0.3
Out of Sample (500 or more employees)	163	2.5
Out of Sample (not within correct industry)	47	0.7
Refusal	2506	39.1
Out of Business	323	5.0
Duplicate	139	2.2
<i>TOTAL</i>	<i>6407</i>	<i>100.0</i>

Altogether, 675 interviews with manufacturers who export directly (including those who export both directly and indirectly) and 65 with exporting trading companies were completed. 421 of the manufacturers were small firms (fewer than 100 employees), and 254 were midsize (100-500 employees).

Figures 1-1, 1-2, and 1-3 provide a visual representation of these data.

**Figure 1-1. Distribution of All Firms Surveyed
(includes both manufacturers and wholesalers)**

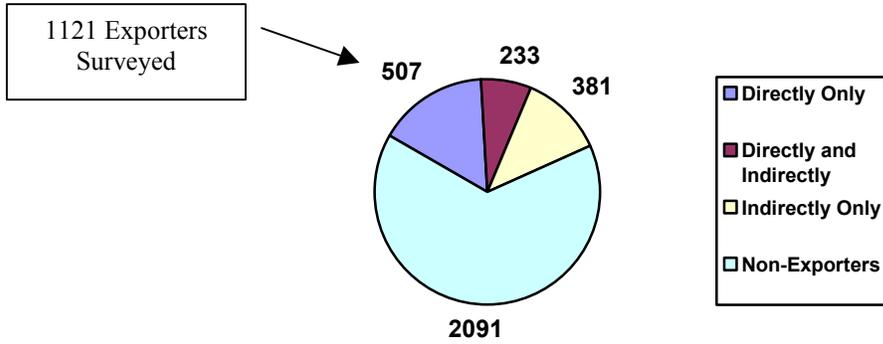


Figure 1-2. Distribution of Small and Midsize Exporters Surveyed

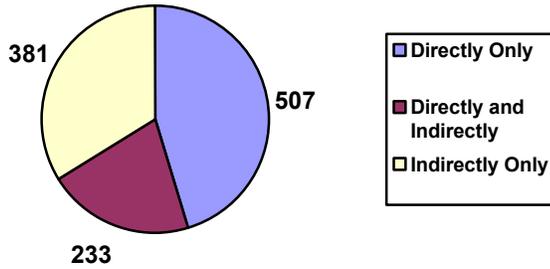
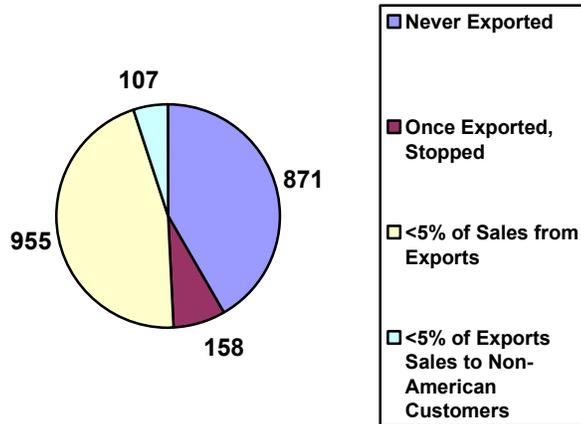


Figure 1-3. Distribution of Non-Exporters Surveyed



The survey focused in detail on exporter service use, source of services, exporter-reported impact on their success as exporters, and knowledge of government service providers. Additional elements of the questionnaire addressed export financing, explored problem areas, and collected overall information on the exporters' experience in exporting. The survey did not seek to collect detailed information on their exporting behavior (e.g., types of products exported) or other firm characteristics, but did collect certain basic information on exporter behavior to clarify service use.

The questionnaire used represented a balance between a strict repetition of the earlier survey and use of an updated survey instrument to reflect changes in exporter behavior or environment since the initial survey was conducted, as well as to respond to particular information requests from the export support agencies that supported the survey.

Because the changes made to the questionnaire were relatively minor, we believe that the data can reliably be compared with the earlier survey. It should be noted that the earlier survey had a much smaller sample size, however, approximately one-quarter the size of the current effort. The earlier survey did not collect information from non-exporters or from trading companies.

The heart of the survey is the "service block," which explores in detail the services used by small and midsize exporting manufacturers (hereafter, SMEs; trading companies will be referred to by that term to distinguish them from manufacturers, although most trading companies are also small and midsize firms). The survey examined 28 different services used by exporters and considered 37 different possible sources for each service, both governmental and nongovernmental, as shown in Boxes 1-1 and 1-2. For each service used, the exporters were asked to specify whether the service had an impact on their export success, using a four-point scale (useless, helpful, had an impact, was critical). Only the higher two ratings were considered to indicate impact; that is, services that were rated by the exporter as "helpful, but did not really have an impact," were not included in the measure of impact. For the sake of brevity, services that were rated as 3 or 4 will be referred to as "impact services."

The services examined are shown in the box on the following page. This listing differed slightly from the list used in 1994, to reflect changes such as the emergence of the Internet as a significant source of support to exporting.

The survey is designed to provide an unbiased picture of which services exporters use, where they get them, and what value they believe these services have on their export success. Most surveys of exporter service use begin with a client list, often from a government service provider. This approach clearly biases the results toward government service use. This survey, and the one completed in 1994 by the Kenan Institute, are unique in that they start from a random sample of manufacturers, drawn to reflect the size and industry composition of exporters, and then ask whether the firm is an exporter. For firms that are exporters, the questionnaire then proceeds to explore service use, export finance, and other characteristics.

Most of the elements of the questionnaire were completed only for manufacturers and trading companies that export at least 5% of their output, export at least partially under their own management (rather than only through intermediaries), and export to non-American customers.³ Exporters who sell only indirectly and firms that do not export significantly were not administered the service block, export finance block, or block on familiarity with federal service providers, for example. The rationale for this approach is that only those companies that are actively engaged in exporting, and therefore actually seeking and using services, are in a position to judge the utility of such services. For the same reason, firms that export less than 5% of their sales were judged insufficiently committed to or experienced in exporting to provide valid judgments on which services or service providers were most important to export success.

The survey generally did not collect answers to hypothetical questions, but instead focused on exporters' recent experience with the export process. We feel that this approach provides the best guide to which services are of greatest value both to current exporters and to those firms that may become more actively engaged in exporting in the future.

Nonetheless, this methodology also provides a unique opportunity to explore the reasons why firms do *not* export. These nonexporters are defined here to include firms that export less than 5% of their output, once exported but no longer do, or export only to American customers. Information on the nonexporter population has previously been lacking, making it difficult to determine which of the following situations most accurately reflects the highest priority for export promotion services:

- Alternative 1: Many small and midsize firms have the capacity to export, and interest in doing so, but need additional information and other services to enable them to export. The primary focus of export services should be on these “new to export” firms, to encourage them to become exporters.
- Alternative 2: Small and midsize firms have made rational decisions whether or not to export, based on their markets, capabilities, and competitive position. Export services are more productively directed to those firms that have already decided to export, and are actively developing export markets, but which face a number of problems and barriers in expanding export sales.

These two alternatives are not mutually exclusive, in theory, and, not surprisingly, this survey found the truth to lie somewhere between the two. Nonetheless, in an environment where resources for export promotion are scarce, it is critical to efficient resource use and to government impact on building exports that resources be directed

³ Many U.S. companies have U.S. customers who take full or partial delivery at their overseas locations. For example, U.S. auto manufacturers' plants in Canada receive direct delivery from U.S. suppliers at these plants. Although these deliveries are officially categorized as exports, they clearly do not require suppliers to make use of export-specific services, such as export market information or export finance. For this reason, companies exporting predominantly to U.S. customers were not classified as exporters.

where they are most needed and most likely to lead to success for the firms assisted. It should be noted, in interpreting data on nonexporters, that the sample was constructed to mirror the distribution of exporters, not that of all firms. Exporting varies widely from one industry to another, and the distribution of answers received is therefore biased toward those industries that have the highest potential for exporting.

As a final note on interpretation of the survey findings, it is important to emphasize that the survey methodology undercounts services received from each source and, in particular, undercounts government services. For practical reasons, it is not possible to ask exporters for all of the sources for each service received, but only for the primary source. For example, if an exporter received trade leads from a private service, from the DOC, and from the state trade program, only the one described as the “principal source” would be registered in the data.

DOC-provided services, particularly market information, are also underrepresented because many service providers use DOC reports as an important source for the information they provide their customers. Sometimes exporters are aware of this, and sometimes not, but in any case it was not possible in the context of a complex phone survey to collect information on such indirect use of DOC and other government-provided information or services. This unavoidable undercounting should be recognized in assessing the results of the survey.

Box 1-1. Sources of Services Used in the Survey

<i>Government</i>	<i>Nonprofit</i>	<i>Private For-Profit</i>
U.S. Department of Commerce	Small Business Development Center	Consultant (paid), incl. acctg. firm, law firm, etc.
U.S. Embassy or FCS	Other university program	Professional colleague, industry contact (unpaid)
State-level Department of Commerce	Trade, industry, or professional association	Foreign or domestic customer/buyer
Local government unit (e.g., city)	Chamber of Commerce (in US)	Foreign or domestic supplier
Small Business Administration	American Chamber of Commerce (in country)	Foreign owner or joint venture partner
Eximbank	Bilateral business council (e.g., U.S.-China)	Distributor
Department of Agriculture, USDA	World Trade Center	Export trading or marketing company
Overseas Private Investment Corp.	International trade club, e.g., World Trade Association	Bank or financial institution
USAID	Hotline (e.g., International Strategies Hotline)	Shipper, freight forwarder, etc.
Trade and Development Agency	Other nonprofit	Port/airport authority
Other federal agency	Foreign government (e.g., their embassy)	Trade show organizer
Other non-federal government agency	Other service providers not elsewhere included	Utility-run advisory program
		Other private service providers

Box 1-2. Export Support Services Studied

	1. Information
1a	Basic “how to export” information
1b	Information on markets from a website
1c	Export counseling
	2. Market Entry
2a	Trade leads (specific leads, directories of importers, etc.)
2b	Trade leads from a website or received by e-mail
2c	Finding or screening distributors, agents, or sales representatives
2d	Referrals to other service providers, such as freight forwarders or legal advisors, etc.
2e	Attending or exhibiting at a trade show overseas
2f	Trade missions with other firms, organized by an association or government agency
2g	Organizing marketing trips (other than travel, such as help with making appointments)
2h	Developing a product demonstration or preparing samples for foreign buyers
2i	Advertising overseas (in selecting media or preparing ads, etc.)
2j	Arrange foreign buyers to visit your plant or meet with you in the U.S.
2k	Developing a website to promote products to foreign buyers
2l	Qualifying buyers or screening them for creditworthiness
	3. Trade Mechanics
3a	Training your staff (e.g., in trade documentation or other new skills)
3b	Locating export financing, arranging for payment, etc.
3c	Negotiating or managing agent/distributor agreements
3d	Managing the shipping operation, freight forwarding, etc.
3e	Redesigning product or packaging, or translating information, etc.
3f	Market research or other consulting for market development
3g	Recruiting international trade staff (in the U.S. or in-country)
3h	Special assistance with customs problems beyond standard broker services
3i	Getting paid, after shipment
3j	Solving contract or other disputes with overseas customers
3k	Government procedures, regulations, etc. overseas
3l	E-commerce or online transactions internationally
3m	Lobbying on your behalf with foreign buyers, including government buyers

2. Small and Midsize Exporters: Becoming More Committed to Trade

Key Points

- Exporters are committed to exporting: a large majority have been exporting more than 10 years and half of those surveyed derive more than 20% of their sales from exports
- Exporters expect overseas sales to grow more rapidly than domestic sales
- Exporters – particularly midsize exporters – increasingly source inputs and/or products overseas, as well as exporting
- Exporters are branching out and serving a growing number of overseas markets

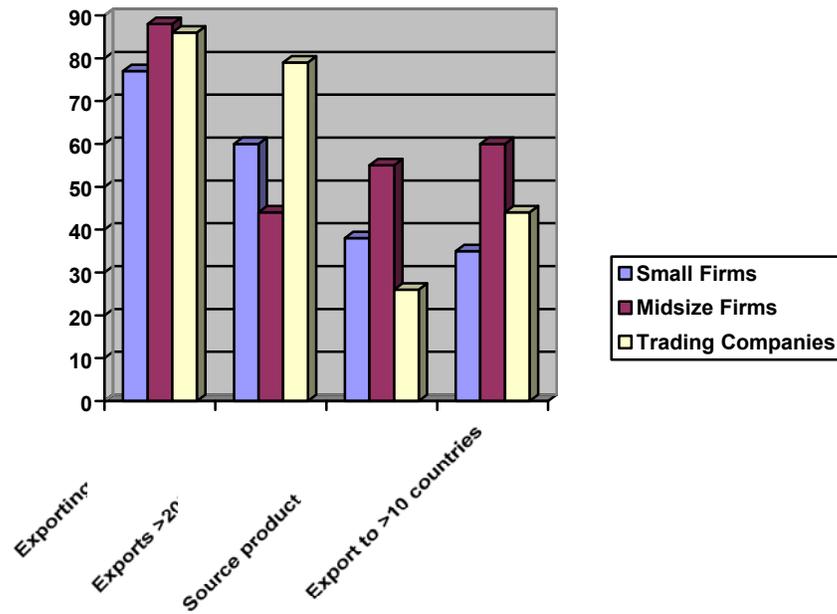
Although not designed to gather information on the exporter community, which is regularly profiled in the Department of Commerce *Exporter Database* series, the survey nonetheless provides several insights into exporter attitudes, commitment to exporting, and the changing nature of the small and midsize exporter community.

The picture of small and midsize exporters that emerges from the survey is one of companies that increasingly see exporting as a core element of their business, expect it to serve as a source of growth, and export to multiple markets. Table 2-1 and Figure 2-1 provide data on these overall findings in more detail.

Table 2-1. A Portrait of U.S. Small and Midsize Exporters

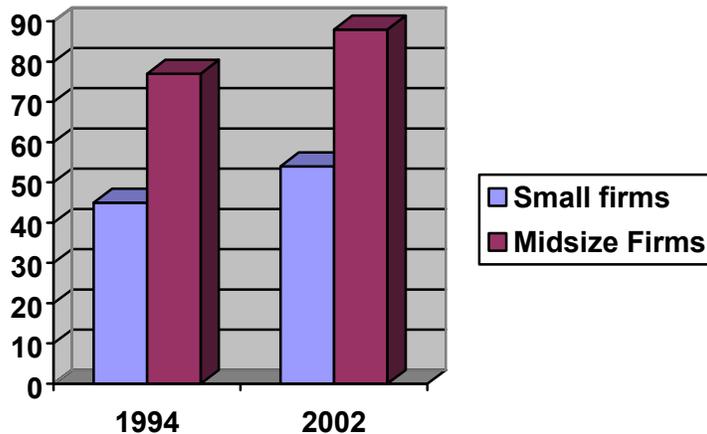
<i>Percentage of Firms That:</i>	<i>Small Firms</i>	<i>Midsize Firms</i>	<i>Trading companies</i>
Have been exporting more than 10 years	77	88	86
Derive more than 20% of sales from exports	60	44	79
Have experienced annual export growth of more than 5% in past three years	69	73	61
Expect export sales growth of more than 5% annually in next three years	77	83	75
Manufacture overseas	11	27	NA
Source components/products overseas	38	55	26
Exported continuously in each of past three years	98	99	100
Export to more than 10 countries	35	60	44
Export to markets outside North America	90	93	92

Figure 2-1. A Portrait of U.S. Small and Midsize Exporters



Comparison of these figures to those collected in 1994 confirm that exporters have increased their level of commitment. Figure 2-2 shows the increase in two key variables: the number of firms that have been exporting for 10 years or more and the percentage that derive more than 20% of their sales from exports.

Figure 2-2. Increasing Experience as Exporters; Increasing Reliance on Exports



In interpreting these numbers, it is important to emphasize that these refer to companies that are actively involved in exporting, not to all small or all midsize firms.

3. Service Use by Small and Midsize Firms

Key Points

- Basic information on market opportunities abroad remains among the most important service to exporters, accounting for three of the top ten services.
- Exporters rely on the government for market information more than they do for any other service.
- Across all services, government providers account for about 30% of all services used by exporters.
- The Department of Commerce and its offices in embassies abroad account for nearly half of all government-provided services.
- About two-thirds of government-provided services (64%) are rated by exporters as having an impact on their export success; this figure is somewhat lower than that for private sector or nonprofit providers (72% and 79% respectively), but still respectable.

The survey provides valuable insights into the key role that export services – both public and private – play in enabling U.S. small and midsize exporters to succeed in overseas markets. This section examines three aspects of service provision:

- What services do exporters use?
- What services do exporters receive from the government?
- How do exporters rate the impact of the services they receive from public and private sources?

A great deal has changed in the conduct of world trade since the 1994 survey was completed, and this section therefore gives particular attention to two areas where the increased use of information technology and the exporters' increased commitment to exporting have led to changes in the services they seek and make use of to reach international markets.:

- Use of Internet services
- Use of services after a sale has been made

3.1 What Services Do Exporters Use?

Small and midsize exporters report using an average of five different services as part of their export operation. This number remains essentially unchanged from the previous survey.

The ten most commonly used services are shown in the table below. As the table indicates, these services account for about 60% of all services used.

Table 3-1. The Ten Services Most Used by Small and Midsize Exporters

<i>Service</i>	<i>Percent of All Services Used</i>	<i>Percent of All Impact Services Used</i>
Basic “how to export” information	8.5	8.3
Managing shipping operation	7.2	8.4
Export counseling	7.0	7.9
Trade leads	6.9	6.1
Information on markets from a website	6.3	5.7
Referrals to service providers	6.0	6.8
Government procedures overseas	4.7	5.5
Trade show support	4.9	4.9
Screening distributors and agents	4.2	4.1
Training staff in exporting	4.1	4.8
<i>Top ten services as % of all services used</i>	59.8	62.5

With the exception of the use of Web-based information, this picture has not changed substantially from the previous survey. Website information replaced assistance in product design among the top ten services, but they are otherwise unchanged.

3.2 What Services Do Exporters Receive from the Government?

Government was the leading source of four of the top ten services:

- basic “how to export” information
- information on markets from a website
- export counseling
- government procedures overseas

The first three services are very much in line with the previous 1994 survey, which also found that exporters look to the government for basic exporting information. Although the Web was not, of course, a source of such information in 1994, it has become a major channel through which both public and private service providers reach their clients.

Looking across all services used, the Department of Commerce emerged as the clear leader among the government service providers, accounting for more than a third of all government-provided services (13.0% out of the total 30.3% of all services obtained from government, with an additional 1.1% specified as coming from embassy-based support, which would generally mean the DOC Commercial Officers). State trade programs and

unspecified “federal” programs were each cited as important sources among government providers, as well, as shown in the following table.

Table 3-2. Government Service Providers: Share of All Services Received by SME Exporters

<i>Government Service Provider</i>	<i>Percent of All Services Provided by This Source</i>	<i>Percent of All Government-Provided Services</i>
U.S. Department of Commerce	13.0	42.9
U.S. Embassy or FCS	1.1	3.7
State-level Department of Commerce	5.0	16.4
Local government unit (e.g., city)	1.3	4.4
Small Business Administration (SBA)	2.0	6.4
Eximbank	1.8	5.6
Department of Agriculture, USDA	0.9	2.9
Overseas Private Investment Corp.	0.2	0.8
U.S. Agency for International Development (USAID)	0.1	0.5
Trade and Development Agency (TDA)	0.4	1.4
Other federal agency	1.1	3.6
Other non-federal government agency	3.4	11.1
<i>Total from all government sources</i>	<i>30.3</i>	<i>100.0</i>

Private service providers continued to account for the overwhelming majority of all services provided, with nongovernment nonprofit providers (university-based programs, for example) a distant third. More than half of all services reported were obtained from the private sector, with freight forwarders and consultants emerging as the leading providers.

Government’s role remained strongest in the provision of basic information to exporters. Government sources provided more than half of all services used in this area (48.3%), which accounted for about a fifth (21.7%) of all services used. Government services in this area accounted for about a third (36.8%) of all services obtained from government. In other words, more than one out of ten services received (11.1%) consisted of basic market information from a government source.

Although non-Web sources continue to predominate as a source of information, accounting for more than two-thirds of reported information services received, government Web sites are clearly emerging as an important source of information to exporters. More than a quarter of all exporters reported using the Web to get information on overseas markets (26.2%), and DOC websites were the most commonly-used source for this support (accounting for half of all government Web site use and 32% of all such use).

The data indicate that the government’s significant efforts to transfer information to the Web have paid off. Across the entire manufacturers’ survey, 58% of exporters who received this service from any source got it from a government site, easily the largest proportion of government provision. One third of these users cited a DOC website as the primary source of web-based market information.

Nonetheless, the results also show a need to improve promotion of DOC information services to small firms. Although these firms would be expected to have a greater need for market information, compared to the more sophisticated midsize firms, they are also less experienced in using the Web to source information, resulting in a lower usage of this service. When they do use it, however, they typically rely on government (and DOC) sources to a greater extent than do midsize firms (see Table 3-3).

Table 3-3. Comparing Small and Midsize Manufacturer Use of DOC and Government Websites for Export Market Information

	<i>Small Firms</i>	<i>Midsize Firms</i>
Percentage of All Firms That:		
Use a Website from any source for basic market information	22.1	34.6
Use a government Website for basic market information	12.6	19.7
Percentage of All Firms Using Web Market Information That:		
Cited any government Website as their primary source	57.0	56.8
Cited the DOC Website as their primary source	34.4	28.4
Cited SBA Website as their primary source	3.2	1.0
Cited a private or nonprofit Website	43.0	43.2

Although both small and midsize firms were equally likely to cite a government provider as their primary source for Web-based market information (about 60% in both cases), small firms were relatively more likely to use a state Department of Commerce or the SBA site, and to use nonprofit sites, while midsize firms were relatively more likely to use the DOC and private sector Websites.

Looking at all three information services, it is noteworthy that private shippers were second only to the DOC as a source of information, especially for small firms. Across all three services, small firms received 30% of their information services from the DOC (including embassy-based sources) and 35% from private sector sources, with half of these coming from shippers. (Web use across all three service areas – market information, market entry support, and trade mechanics – is further discussed below.)

The fourth most important service received from government – help with in-country regulations – represents a slight but important shift from the earlier survey, which found private service providers to be the principle source of help dealing with regulations. Although the survey does not provide direct evidence as to why exporters are turning to

government for this service, the Kenan Institute's ongoing discussions with exporters and service providers, as well as other findings from the survey suggest several possible reasons. First, this shift reflects the greater sophistication in government export services and the increasing emphasis on services that are more closely linked to a successful transaction. The DOC, in particular, is giving more attention to helping exporters with post-shipment problems, including regulatory issues, such as customs, and payment.

Second, as exporters move more into emerging market and developing country markets, they inevitably encounter greater difficulties with local regulations than they would in OECD country markets. Finally, smaller exporters may be less able to rely on private providers for this assistance, and therefore turn to the government. The data show that small firms relied on the DOC or embassy 32% of the time, when they sought help in this area, while midsize firms cited DOC as the primary source in 22% of the cases where they used help with regulations.

3.3 How Do Exporters Rate the Impact of the Services They Receive from Public and Private Sources?

Turning to service impact on exports, we find a very similar pattern. The top ten services reported as having an impact were the same as the top ten listed above. Across the full range of services, about two-thirds (68.5%) were cited as having an impact. Service effectiveness (the percent of all services cited as having an impact) varied from a low of 36.4% (for assistance with e-commerce, possibly reflecting inexperience in this area on the part of both exporters and their service providers) to a high of 78.0% for staff training support and 83.3% for assistance with solving shipping problems. Most services fell into the 55-75% range, however, indicating that the full range of services is of potentially of value to exporters.

Government providers emerged as reliable suppliers of services, if somewhat less valued than private providers. Overall, 64.2% of government services were cited as having an impact, compared to 76.3 for university-based providers, 79.2 for nonprofit providers, and 71.7% for private sector providers.

Government performed well in a number of areas, notably assistance resolving customs problems, where exporters credited 85.7% of all such services received for having an impact on their export success. Government sources also did well in providing basic market information, especially counseling (78.9% of such services rated as having an impact). In general, government providers performed equally well with private sector sources of assistance in the basic information category, but were bested in this category by the nonprofit service providers (trade associations, etc.), possibly because of the more specialized and targeted nature of the latter's information.

Conversely, government providers did not stand up to either nonprofit or private sector service providers in the other two categories of assistance, market entry and trade mechanics, as shown in the following table.

Table 3-4. Effectiveness of Service Providers, as Rated by Exporters

<i>Source of Service</i>	<i>Percent of Services Received Rated as Having an Impact by Exporters in Primary Service Categories</i>			
	Information	Market Entry	Trade Mechanics	All Services
Government	68.7	58.3	65.5	64.2
Nonprofit	85.7	74.9	84.3	79.2
Private sector	67.9	69.8	75.1	71.7

3.4 Web-based Services and Post-Sale Services

Two service areas deserve special attention as a result of the changing nature of the export operation. *Web-based services*, which did not exist at the time of the previous survey, have been the focus of special government attention over the past several years, as well as the target of intensive innovation by private sector and nonprofit providers. The second area, post-sale services, emerges as an increasingly important area as exporters become more sophisticated and venture into more difficult markets. Anecdotal evidence suggests that sophisticated exporters view “getting paid” as their most serious problem, and one that constrains both their ability and their willingness to expand overseas sales.

The following table summarizes the findings regarding four web-related services.

Table 3-5. Web-Based Services

<i>Service</i>	<i>Percentage of Firms Using and Percentage Receiving the Service from a Government Source</i>					
	<i>Small Firms</i>		<i>Midsized Firms</i>		<i>All Firms</i>	
	<i>Use</i>	<i>Gov't</i>	<i>Use</i>	<i>Gov't</i>	<i>Use</i>	<i>Gov't</i>
Information on markets from a website	22	13	35	20	26	15
Trade leads from a website or received by e-mail	14	3	11	2	13	3
Developing a website to promote products to foreign buyers	14	1	13	0	14	0
E-commerce or online transactions internationally	4	1	2	0	3	1

Here again, the dominance of the government in basic information and the much greater importance of private sector providers later on in the transaction are both evident. Whereas government provided more than half of the basic market information gleaned from websites, it provided only a third of trade leads and a very small share of help in developing firms’ own websites or in e-commerce.

Although the use of e-commerce for international transactions was not a subject of the study as such, the data shown in the final row of the table above are nonetheless intriguing. They indicate that firms are making a serious effort to use the Web for the promotion of their products, but that a much smaller share are taking this involvement the next step and trying to move their transactions online. Whereas about one in eight firms reported seeking professional assistance in developing a website for marketing purposes, only one in 33 reported receiving assistance to complete transactions online. Since both areas are ones where SME firms would typically seek professional assistance, these figures give a good indication of the relative use of these two aspects of e-commerce by exporting firms. The bottom line: companies are using the Web to market, but not yet using it for transactions.

Eight services were included in the survey that typically are received after a sale has been made. These services and the percent of each sourced from the government are shown in Table 3-6.

Table 3-6. Post-Sale Services

<i>Service</i>	<i>Percentage of Firms Using and Percentage Receiving the Service from a Government Source</i>					
	<i>Small Firms</i>		<i>Midsize Firms</i>		<i>All Firms</i>	
	<i>Use</i>	<i>Gov't</i>	<i>Use</i>	<i>Gov't</i>	<i>Use</i>	<i>Gov't</i>
Locating export financing, arranging for payment, etc.	15	5	18	7	16	6
Managing the shipping operation, freight forwarding, etc.	30	1	35	2	32	1
Special assistance with customs problems beyond standard broker services	10	3	14	4	12	4
Getting paid, after shipment	8	2	9	3	8	2
Solving contract or other disputes with overseas customers	7	2	6	1	7	2
Government procedures, regulations, etc. overseas	18	9	25	11	20	9
E-commerce or online transactions internationally	4	1	2	0	3	1
Lobbying on your behalf with foreign buyers, including government buyers	4	2	7	1	5	2

As companies export more, enter more difficult markets in emerging markets and developing countries, and find themselves coping with an increasingly complex regulatory and security environment, their need for assistance in navigating the thickets of trade regulations is clearly increasing.

Many of the exporters' specific comments to the open-ended question at the end of the survey call attention to their frustration with procedures, both in the United States and in their target markets. Inability to find out what the regulations are, to get explanations helping them comply correctly, and to overcome non-tariff trade barriers are particular sources of problems for exporters. Complex provisions such as the NAFTA rules of origin are vexing for SMEs. It is not clear which group suffers more – experienced exporters, who must deal with complex and changing regulations constantly, or inexperienced exporters, who just need help understanding what to do – but it is clear that regulations are a problem for both groups.

The relatively low usage of DOC advocacy or lobbying services also deserves mention. In the past several years, DOC has made a concerted effort to expand and improve its ability to advocate for U.S. exporters, responding to requests for assistance. This service is open to all firms, but, in the experience of the authors, is used primarily by larger firms that are engaged in major government or donor-funded procurements. The survey (and our own experience) indicates that small and midsize firms do have a need for advocacy, particularly in dispute resolution, and this may be an area where better DOC marketing of its services, development of services aimed at helping firms with collection and dispute issues, and/or a sliding fee scale for SMEs and larger firms would enable DOC to improve its support to committed exporters.

4. Service Use by Export Trading Companies and Intermediaries

Key Points

- Trading companies use slightly fewer services than do manufacturers, but their overall pattern of service use is very similar.
- Trading companies rely more on the government and in particular on the DOC and embassies abroad than do manufacturers.
- Trading companies seek help with export financing more often than do manufacturers, and rely less on training support for their staff.
- They are heavier users of Exim, but find the help they get from that agency to have a positive impact on their export operation only 50% of the time, compared to 85% of the time from private sector providers (banks and consultants).
- Trading companies are also heavier users of trade leads from both traditional and Web-based sources than are manufacturers and find them more useful, as well as being more likely to get them from government sources, particularly in the case of electronic leads.

U.S. small and midsize firms make heavy use of export intermediaries to carry out their export operations. The most important categories of intermediaries include:

- export trading companies (which typically represent the buyer and take title to the goods)
- export marketing companies (which typically sell services to the manufacturer, and do not take title to the goods)
- trading companies and distributors who export as well as handling domestic sales

For simplicity, this category will generally be referred to as ***trading companies***.

Approximately 69% of U.S. SME exports are recorded as being handled by a trading company, rather than directly by the manufacturer. Although there are no statistics linking firm size to use of trading companies, it is generally assumed that small and midsize firms use such services to a greater extent than do large manufacturers. This survey provides an indication of the prevalence of indirect versus direct exporting. One third of the exporters surveyed exported entirely through trading companies, while an additional 21% used trading companies for at least some of their exports.

Use of trading companies is not limited to small and midsize firms, however. Large firms regularly use trading companies to handle small markets or less important product lines, despite having well-established overseas sales operations of their own. In addition, export trading companies often source products from major manufacturers to meet the needs of their overseas clients. Nonetheless, trading companies are generally regarded as playing a particularly important role for small and midsize firms, and their ability to gain access to export services is therefore of particular importance.

US export service suppliers, particularly government service providers, have historically paid less attention to trading companies, preferring to deal directly with manufacturers. This preference has changed noticeably over the past decade, however, as export service providers have come to recognize the important role that trading companies play in the export process. Reflecting this importance, the Kenan Institute made a special effort to include trading companies, which had not been initially requested by the TPCC. Due to time constraints, only a relatively small number of full trading company surveys were completed (a total of 65 such surveys were completed), but this effort nonetheless represents one of the only formal surveys of this important group.

The survey found that trading companies do not differ significantly from manufacturers in *which* services they use, but they do differ in the *source* of these services. Like manufacturers, trading companies use services from each of the three areas studied – basic market information, market entry support, and trade mechanics. (See Table 4-1 below.)

As might be expected from this highly focused and experienced group, they are more targeted in their service use. Whereas the average manufacturer uses 4.3 services, and midsize firms use somewhat more (an average of 5.1 services), trading companies use only 3.4 services.

The distribution of service use across the three areas is very similar, however, and the top ten services are also nearly identical. For trading companies, help arranging export financing edges out training for staff as a top service, but the list is otherwise identical.

Despite their lower service use overall, trading companies use as many services from government sources as do manufacturers: an average of 1.3 services per firm in each case. As this suggests, trading companies are relatively more likely to use government, which accounts for 38% of all their service use, compared to 30% for manufacturers. Moreover, they are much more likely to use DOC as a source than are manufacturers, turning to the Department or the embassy for 21% of all services used, compared to 14% for manufacturers.

Overall, trading companies find government services to be approximately as useful as do their manufacturing colleagues, rating two-thirds of all services as having an impact on their export operations.

The small size of the trading company sample (65 completed questionnaires) makes it somewhat difficult to draw conclusions about differences at the level of individual service providers or services, but the data suggest that trading companies are especially heavy consumers of DOC services abroad. Whereas the embassy provided less than 2% of all services used by manufacturers (equating to 7% of all government-provided services), commercial offices abroad provided 11% of all services to trading companies (equaling 31% of all services received from government). While trading companies were generally as satisfied as manufacturers with government services, their responses in this area register dissatisfaction. In particular, they reported that only ¼ of embassy services in the important government-regulation area had an impact, compared to 2/3 for manufacturers. Although it must be emphasized that this conclusion rests on a small sample, it nonetheless suggests that embassy offices abroad are less able to help this more sophisticated exporter population with their regulatory problems.

Table 4-1. Top Ten Services Used by Trading Companies

<i>Service</i>	<i>Percent of All Services Used</i>	<i>Percent of All Impact Services Used</i>
Basic “how to export” information	9	9
Information on markets from a website	9	7
Government procedures overseas	7	7
Export counseling	6	7
Export finance assistance	6	6
Managing shipping operation	5	5
Referrals to service providers	5	7
Screening distributors and agents	5	4
Trade leads	4	7
Training staff in exporting	4	5
Top ten services as % of all services used	60	64

Table 4-2. Effectiveness of Service Providers, as Rated by Trading Companies

<i>Source of Service</i>	<i>Percent of Services Received Rated as Having an Impact by Exporters in Primary Service Categories</i>			
	Information	Market Entry	Trade Mechanics	All Services
Government	67.7	57.1	57.7	61.2
Nonprofit	75.0	42.9	50.0	53.8
Private sector	52.9	78.4	81.8	75.9

Comparing these figures to the previous table for manufacturers, it is evident that the two groups are about equally satisfied with the support they receive from government. With the exception of support in dealing trade mechanics, where trading companies are less satisfied (rating 58% of all services received as having an impact, compared to 65% for manufacturers), the two rated services received about the same. By contrast, trading companies feel they derive much less benefit from the services they receive from nonprofits, such as trade associations, and somewhat less benefit than do manufacturers from private sector services.

5. Export Finance: Doing Better But Still a Problem

Key Points

- As exporters have become more committed to exporting, they have recognized, and responded to, the need to offer more attractive terms to buyers.
- Banks are responding to exporters' credit needs more aggressively than they were in the previous survey, and are serving small and midsize firms about equally.
- Despite these improvements, midsize firms report a much higher rate of finance-related problems than they did in 1994; intriguingly, small firms do not report a similar deterioration.
- Between half and two-thirds of exporters have heard of Exim and SBA credit services, but fewer than 5% have used them.
- The most-cited barriers to using federal programs are cost, paperwork, and failure to match program criteria.
- Private export credit has emerged as an important source of support to SME exporters

The 1995 *Report Card on Trade* called attention to the importance of improving credit services to small and midsize exporters. Seven years later, the report card in this area is decidedly mixed. On the one hand, exporters clearly have greater access to credit than they reported having in the earlier survey, and they are taking advantage of this availability to offer better terms to their buyers.

On the other hand, SMEs are still reporting lost sales and other credit-related problems. Importantly, midsize companies are the ones feeling this problem most acutely. These companies form the core of the U.S. export sector. The survey indicates that their to finance their exports and offer attractive terms to their buyers has not kept pace with their growing commitment to exporting.

Table 5-1 summarizes the main findings with regard to terms offered to buyers, one of the most important determinants of export competitiveness. The nature of this data requires clarification. To collect this information, firms were asked to allocate 100% of their sales across the various categories offered. A single firm might have answered this question by saying 50% of their sales are financed cash-in-advance and 50% open account. These answers are then averaged across all firms to give the estimates shown.

Table 5-1. Terms Offered to Buyers

	Terms Offered to Buyers (average across firms)			
	1995		2002	
	Small	Midsize	Small	Midsize
No credit offered, firm requires payment in full before shipment	37	27	29	25
Letter of credit	36	44	17	15
Open account (0-90 days)	24	32	27	33
Short-term finance (90-360 days)	2	1	8	7
Long term financing	0	0	1	3
Other	2	2	18	17
Total	100	100	100	100

Several noteworthy changes are evident from these data. First, small exporters have greatly reduced their use of “cash in advance” terms. Both groups have also greatly cut their use of letters of credit, a cumbersome tool that is often expensive to buyers. Open account terms have remained essentially unchanged, but short-term finance (less than a year), which was hardly noticeable in 1994, is not becoming more common.

The high percentage of firms citing “other” terms offered deserves special mention. Exporters citing “other terms” were asked to provide an explanation, recorded by the enumerator. Although only about a third of those asked provided a more detailed explanation, the overwhelming majority of these answers indicate some form of payment that requires full payment in advance of delivery – in other words, these are more sophisticated forms of “cash in advance.” Examples of these payment terms include payment by credit card, payment by wire transfer, documentary collection (release of the goods to the buyer upon payment following arrival of the goods in country, for example), or similar forms. All of these mechanisms enable the exporter to reduce the risk of non-payment, a major problem for small exporters, but none of them offer credit terms to the buyers.

These mechanisms also reflect increasing sophistication on the part of exporters, increasing competition in global markets, and, to a lesser extent, increasing willingness of U.S. banks to work with small and midsize exporters. Companies are more familiar with the ins-and-outs of trade procedures, more able to work with customers to come up with a way to make the deal work, and more conscious of the need to move away from cumbersome, expensive mechanisms, such as letters of credit. Their banks are also somewhat more willing to work with them, as shown by the small, but important, increase in short-term credit offered.

This evolution may be due in part to changes in the U.S. financial system. Since the first *Report Card on Trade*, a number of more specialized trade finance institutions have emerged, including trade finance brokers and small trade banks; the continuing consolidation of U.S. banks has brought “money center” services to cities around the country; international banks, such as ABN Amro, have begun to offer trade services to U.S. clients.

Despite these improvements, as shown in Table 5-2, companies continue to report a number of problems with their export finance operations. Overall, these problems have remained about the same for small exporters, but they have worsened in nearly every category for midsize exporters. Although further analysis is needed to explore the link between a manufacturer’s commitment to exporting (i.e., the percent of sales derives from exports) and credit problems, this finding would appear to confirm the emergence of the problem predicted in the earlier study: as exporting becomes a more important part of a firm’s operations, the weakness of U.S. export finance systems becomes a greater problem.

Table 5-2. Credit-Related Problems: Growing Worse for Midsize Firms

	Percent of Exporters Citing Credit-Related Problems			
	1995		2002	
	Small	Midsize	Small	Midsize
Have lost specific sale due to inability to finance	17	13	12	22
Have had serious difficulty collecting from buyer	28	32	30	39
Have lost specific sale due to inability to offer competitive terms	15	22	18	30
Have limited export activity due to difficulty financing exports	11	5	9	10
Bank not willing to extend financing for export sales	8	4	6	7
Average number of problems cited per firm	0.79	0.76	0.75	1.08
Percent of all firms that report suffering one or more credit problems	45	49	35	50

The final two rows of this table offer intriguing and somewhat contradictory evidence of who is having the greatest problem with credit. On the one hand, the average number of problems cited by small companies has stayed the same: of a group of four small exporters, one would expect to find three of the credit problems cited. Midsize firms are reporting many more problems per firm, however, an average of more than one problem cited per firm interviewed. Conversely, the proportion of midsize firms citing *any* credit problem has stayed the same, and this proportion has actually fallen for small firms.

One possible interpretation for these findings is that, in both cases, a core group of committed exporters are having a lot of problems. This is particularly worrisome because midsize firms are suffering more problems than small firms, and because we know that a large share of exports are concentrated within a relatively small share of the firms. If these firms are suffering a worsening of credit availability, we are crippling our most productive exporters.

In addition to having trouble offering attractive terms to buyers, exporters also experience continuing difficulties in financing their own export operations. Here the picture is somewhat more optimistic, however, due to the increased willingness on the part of U.S. commercial banks to finance exports. Table 5-3 summarizes the findings in this area, which shows increased diversity of funding, increased use of commercial bank funding, and a decreased reliance on the exporters' own funds to finance exports.

Table 5-3. Sources of Export Financing: Doing Better

	Sources of Export Financing (average percentage cited by firms)			
	1995		2002	
	Small	Midsize	Small	Midsize
Financed from own sources, including credit cards, home equity	90	90	43	44
Existing bank line of credit	7	8	30	28
Special bank loan for exporting	3	0	5	7
Federal government program, such as SBA or Exim Working Capital	0	1	3	2
Receivables financing (forfait/factoring)	(not asked)	(not asked)	4	5
State export finance programs	0	0	3	2
Export credit insurance	(not asked)	(not asked)	4	9
Other	(not asked)	(not asked)	8	4

Totals may not add to 100 due to rounding error.

One of the surprising conclusions from these data is that the pattern of financing for small and midsize firms is so similar. In 1995, both small and midsize firms relied primarily on their own sources; they were not able even to gain access to established lines of credit to finance exports. Firms still rely on their own resources for the lion's share of export financing, but they now have access to bank lines of credit (the primary source of financing for most SMEs) and are making increasing use of export-specific loans, government programs, and other instruments. Export credit insurance has emerged as an important factor, especially for midsize firms (although this question was not asked in the earlier survey, anecdotal evidence suggests that such insurance has become a factor only

in recent years). Use of government programs has increased, but is still not a major factor in SME export finance.

The barrier to the use of government funding for exports is not a lack of awareness of these programs, as such. Both small and midsize exporters are generally familiar with programs such as those of SBA and Exim: 42% of small firms and 50% of midsize firms report that they have heard of federal programs. Among these firms, 50% of small exporters and 59% of midsize exporters say they have heard of SBA and Exim programs, respectively, which rises to 59% and 68% for midsize firms. Even though this suggests a continuing need to promote federal finance programs, a much smaller share of firms have actually used federal export finance, compared to the number who have at least some familiarity with these programs, as discussed above.

The service use element of the survey provides additional confirmation of this. Overall, 16% of SME exporters received assistance in arranging export finance, of which less than 6% received this help from government sources, and Exim providing about half of such aid, reaching less than 3% of all firms. An additional 3% got help with finance from DOC in the U.S. or in the embassies, while SBA was identified as a source of help arranging finance by less than 1% of firms. The leading source of assistance arranging credit, as might be expected, was commercial banks. Together with other private sources (consultants, colleagues, and foreign buyers), private sources provided 57% of all help arranging credit and reached 9% of all firms.

The survey provides several important additional insights into the critical export financing operation. First, the survey confirms that small firms tend to bank with local or regional banks, while midsize firms tend to use national or “money center” banks. The following table compares small and midsize exporters on this and other key characteristics of export finance relationships.

Table 5-4. The Exporter Banking Relationship

	<i>Percentage of Firms Responding</i>	
	<i>Small</i>	<i>Midsize</i>
Primary banking relationship for exporting		
Local bank	17	8
Regional bank	31	20
National bank	52	68
Non-bank financial source	1	4
Have tried but failed to get financing from their bank for exports	6	5
Have had to switch banks within past two years to obtain export financing	4	5

Although only 5% report shifting banks over a two-year period, if this trend continued it would lead a quarter of all firms to shift over a decade.

Since major regional banks and national banks are more sophisticated in international transactions, they are in a better position to provide customized services to exporters.

6. Government Services: Do Exporters Know What Is Available?

Small and midsize exporters are generally aware of government programs that can help them export, but there is still room for improvement. Tables 6-1 and 6-2 show the results of the questions regarding basic familiarity with export services for small and midsize exporting firms.

Table 6-1. Small Exporter Familiarity with Government Service Providers

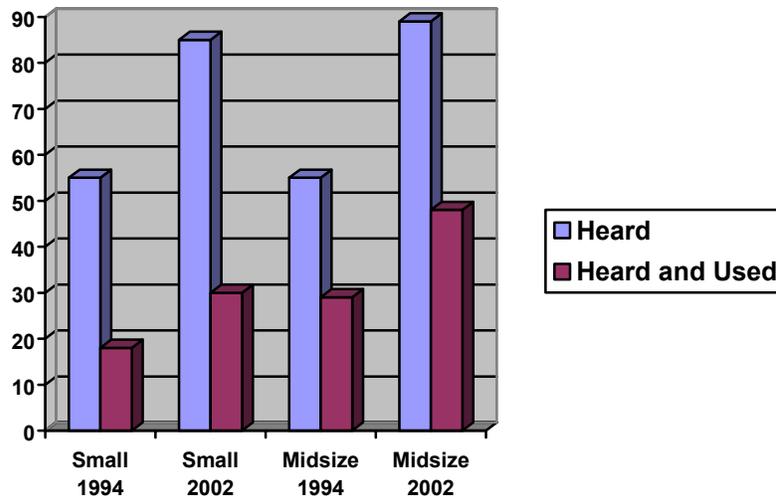
	<i>Percentage of firms that:</i>			
	<i>Has not heard of or used</i>	<i>Have heard of</i>		
		<i>And used</i>	<i>But not used</i>	<i>Total</i>
Department of Commerce	15	30	55	85
State trade office	44	15	41	56
SBA	34	10	56	66
Export-Import Bank (Eximbank)	48	10	42	52
Commercial office overseas in U.S. Embassies	53	12	36	48
Department of Agriculture (federal)	40	6	54	60

Table 6-2. Midsize Exporter Familiarity with Government Service Providers

	<i>Percentage of firms that:</i>			
	<i>Has not heard of or used</i>	<i>Have heard of</i>		
		<i>And used</i>	<i>But not used</i>	<i>Total</i>
Department of Commerce	12	48	41	89
State trade office	39	25	36	61
SBA	46	8	45	54
Export-Import Bank (Eximbank)	46	17	37	54
Commercial office overseas in U.S. Embassies	49	15	36	51
Department of Agriculture (federal)	43	10	47	57

In particular, exporters appear to be broadly familiar with the Department of Commerce, and a majority (or near majority) have at least heard of all of the federal programs cited. These numbers are much higher than the numbers generated by the 1994 survey, particularly for DOC. Figure 6-1 compares the 1994 figures with those from the current survey.

Figure 6-1. Growing Familiarity with and Use of Department of Commerce Services



These figures demonstrate that the DOC has emerged as the dominant source of services for small and midsize companies. Whereas the state trade services were the main source of assistance to small firms in the previous survey period, that is no longer the case. Although this evolution can be attributed to many causes, our experience working with exporters and service providers alike over the past decade suggests that the main reasons are the following:

- The creation of the US Export Assistance Centers (USEACs), which have greatly raised the visibility of federal programs
- Improved quality of services provided, particularly by embassy personnel
- Emergence of the Web as a primary vehicle for delivering services, particularly information – the government’s most useful product
- A decline in state export promotion programs, due to resource scarcity and difficulty defining a mission separate from the federal mission
- Growing sophistication of exporters, who have “found” the DOC, overcoming the government’s limited ability to advertise

On the other hand, the figures above suggest that a near-majority of exporters have *not* heard of many of the federal programs designed to assist them. The gap between those who have heard of a service and those who have actually used it is quite large, especially for the small firms. The smaller federal programs show a particularly large gap between awareness and use. Eximbank, for example, is less well known to exporters than are the programs of the Department of Agriculture, even though the vast majority of firms cannot use the latter programs, because they are not in the agricultural sector.

It is also evident that too few exporters are aware of the support available to them in the embassies overseas. Given the high percentage citing problems with documentary procedures and simply getting paid, this lack of awareness is costly to U.S. SME exporters.

Greater attention should be given to promoting government services, ensuring that all active exporters, as well as potential exporters, know that the government is providing services that many of their colleagues find useful or critical to export success.

The survey gives two somewhat different answers to the important question of how many exporters actually use and value government services. The familiarity questions, as detailed above, suggest that about a third (30%) of small exporters and almost half of midsize exporters (48%) report having used the Department of Commerce. A much smaller share, around 10% report having used the services of embassies overseas.

These figures are somewhat higher than the estimates provided by the detailed discussion of services, discussed in a previous section. When exporters are asked service-by-service which services they used, where they got them, and whether the service received had an impact on their exports, they cite the DOC somewhat less often than they do in the familiarity question block, reported above. The following table presents the estimates of cumulative service use based on the service block. For the convenience of the readers, the estimates for use of any service cited as having an impact are also given.

Table 6-3. How Many Exporters Cite DOC as a Service Source?

<i>Percentage of firms stating that:</i>	<i>Small exporters</i>	<i>Midsize exporters</i>	<i>All SME exporters</i>	<i>Trading companies</i>
DOC was the primary source of at least one service	23	22	22	35
DOC provided one or more services that had an impact	17	18	17	23

These two estimates are not as inconsistent as they might at first appear, because the questions underlying them are different. Whereas the results reported above reflect any use of DOC, the results in the table above report only answers indicating that the DOC was the most important source for that particular service. These results suggest that, overall:

- About one-third of small exporters and half of midsize exporters are using the Department of Commerce to help them export.
- About one quarter of SME exporters, and a third of trading companies, cite the DOC as the main source of one or more services they use to export.

- About one in six SME exporters, and one in four trading companies, received support from the DOC that they cited as having had a positive impact on their exports, or being critical to their success.

Overall, this is a solid record of progress in delivering needed and valued services to small and midsize exporters, a record that reflects favorably on the combined efforts of hundreds of Department of Commerce staff who work to promote exports both in the United States and overseas.

7. Attribution: Whom Do Exporters Credit for Their Success?

Key Points

- Overall, exporters credit themselves for the lion's share of their export success.
- They give outside sources about 30% of the credit for their success.
- Government sources are viewed by exporters as accounting for about one-quarter of the credit due to efforts other than the exporters' own, allocating the other three-quarters to nongovernment sources of assistance.
- DOC was given credit for part of the exporter's success by about one in seven exporters, and all government sources were credited about one-third of the time, compared to more than 80% citing a nongovernment source and one in four giving credit to their shipper for part of their success.
- The level of credit "points" given to government sources by firms that cited them was well below the average number of such points assigned to private sources, with DOC ranking at the top of the exporter's point scale for government providers, SBA at the bottom, and other sources clustered in between.

One of the most difficult challenges in measuring the impact of any government support program is determining the proportion of the beneficiaries' success that is attributable to the government's efforts. Does government assistance account for a large share of exporter success or do the firms really do it all themselves? How much credit do government services deserve compared to private and nonprofit sources?

To get at this difficult question, which is inevitably judgmental, the Kenan Institute has developed a simple but effective methodology. After questioning exporters extensively on their use of individual services, survey staff ask them to divide up the credit for their success among those who have assisted them, including their own efforts. To do this, they are given 100 "points" and asked to divide them up among the different service providers and their own efforts. An exporter who feels that, all things considered, they really deserve all of the credit for whatever success they have achieved can assign all 100 points to his company. Although exporters are reminded of all of the sources they used, they do not have to assign points to anyone they do not wish to credit for their success.

As might be expected of U.S. SMEs, they give themselves most of the credit for their success. More than 90% gave themselves at least some of the credit, but one-third credited government agencies and three-quarters credited non-government sources. Tables 7-1 and 7-2 show the distribution of the exporter's theoretical 100 points across the 18 different service providers that received credit. The first table shows who the exporters gave credit, while the second shows how much credit they gave to each player.

The relative ranking of government sources and private sector shippers using this methodology is intriguing. Overall, exporters gave shippers about as much credit for

their success as they awarded to all government sources combined. Given that exporters were asked not to include the shipping service itself in assessing the value of support from this source, it is evident that shipping services are playing a major role in advising exporters. The emergence in the past several years of major integrated shippers, such as FedEx and UPS, is clearly transforming the export operation for small and midsize exporters. As one firm commented, “UPS is the way to go. Booklets, info – they offer it all as far as regulations.”

Foreign buyers, consultants, and distributors also received a larger share of the credit than did any government agency other than DOC. The emergence of these strategic partners -- particularly shippers – as a key source of export support suggests that government export assistance programs should consider partnering more effectively with intermediaries in the private sector.

The exporters’ assignment of credit to their public and private partners and to themselves remained essentially unchanged from the earlier, 1994 survey.

Table 7-1. Who Gets the Credit for Exporters' Success?

<i>Source of Assistance</i>	<i>Percentage of Firms That Gave <u>Any</u> Points to This Source</i>	<i>Points Assigned as Percentage of All Non-Company Points</i>
Government Sources		
DOC	15.0	12.9
Other Gov't	8.2	5.3
State DOC	4.5	3.0
Exim	3.2	2.1
Foreign Gov't	1.3	0.7
SBA	1.6	0.4
Gov't Subtotal	33.9	24.4
Company Itself	91.5	
Non-Government Sources		
Shipper	24.4	26.1
Foreign Customer	10.8	12.8
Consultant	9.0	8.5
Distributor	4.7	5.7
Other Private	5.2	5.4
Trade Ass'n	6.0	5.3
Bank	5.5	3.3
Colleague	2.7	2.6
Wholesaler	1.6	2.1
Nonprofit Service Provider	2.1	1.5
Trade Show	1.8	1.1
University	1.3	1.1
Nongov't Subtotal	75.0	75.4

Table 7-2. Giving Credit Where Credit Is Due

<i>Source of Assistance</i>	<i>Average Points Assigned Out of 100</i>	
	<i>By Firms That Assigned Points to This Source</i>	<i>By All Firms on Average</i>
Government Sources		
DOC	25.3	3.8
Other Gov't	18.9	1.6
State DOC	19.8	0.9
Exim	19.2	0.6
Foreign Gov't	15.5	0.2
SBA	7.6	0.1
Gov't Subtotal	17.7	7.2
Company Itself	77.1	70.5
Non-Government Sources		
Shipper	31.6	7.7
Foreign Customer	34.9	3.8
Consultant	27.8	2.5
Distributor	35.6	1.7
Other Private	30.6	1.6
Trade Ass'n	26.4	1.6
Bank	17.5	1.0
Colleague	28.2	0.8
Wholesaler	24.6	0.6
Nonprofit Service Provider	22.7	0.4
Trade Show	18.7	0.3
University	23.8	0.3
Nongov't Subtotal	26.9	22.2

Figures 7-1 and 7-2 show the allocation of credit to the top five “vote getters,” again excluding the exporters themselves, and the top five government service providers.

Figure 7-1. Top Five Service Providers

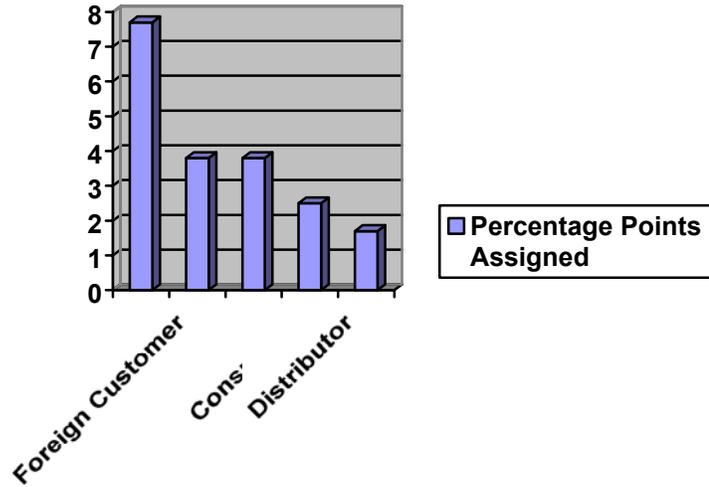
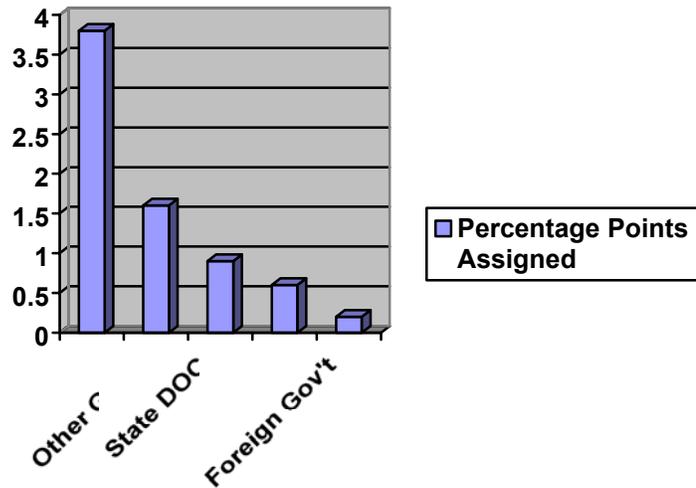


Figure 7-2. Top Five Government Providers



An interesting feature of this analysis is the role played by overseas partners. Among government partners, foreign governments made it into the top five, actually outscoring SBA and other U.S. Government agencies. Overall, two of the top five partners were non-U.S. – distributors and foreign customers – while only one – the Department of Commerce – was a U.S. Government agency.

We believe that this also reflects the increasing sophistication and presence of U.S. SMEs in export markets, as well as the growth of more skilled partners abroad. In dealing with exporters, we often find that they place a heavy emphasis on finding and building distributor relationships overseas. Particularly for sophisticated products that require after-sales service, technical support, and specialized sales expertise, the role of the distributor is vital; indeed, many overseas governments will not accept a bid from a supplier who does not have a local distributor in place to provide support. Sales efforts in the absence of a distributor are therefore often futile, and therefore the potential exporter cannot productively use market information, or other services. Conversely, once an exporter has a distributor, the firm tends to rely heavily on this partner for market information, trade leads, assistance with completing the transaction, etc.

Recognizing the importance of this role, the Department of Commerce has long provided assistance with finding and screening distributors, a service that appears to be highly valued by exporters. The Department could perhaps make greater use of distributors in place, however, working to help them promote their U.S. clients' products, to resolve disputes, and even perhaps to find financing. Working at the nexus of collaboration between the shipper on the U.S. side and the distributor in-country could also perhaps provide a new and valuable way to support U.S. exporters and their overseas customers.

8. Why Don't More Firms Export?

Key Points

- Most SME manufacturers that choose not to export are not acting out of ignorance, in most cases, but instead are making a considered decision that export markets are not as attractive or profitable as domestic markets.
- Nonetheless, about 30% of nonexporters are interested in exporting, and cite the lack of information about export markets, customers, and export procedures as areas where they most need help.
- Export riskiness and export finance are cited by only a small share of non-exporters as reasons for avoiding overseas markets.
- Most nonexporters with a potential interest in exporting have a good idea where to begin to find information, and cite government and nongovernment sources about equally. About 30% of small firms and 20% of midsize firms aren't sure where to start, however.
- About 20% of nonexporters have exported in the past, but abandoned it as unprofitable.

This survey is the first systematic effort to answer the important question, “Why don't more U.S. manufacturers export?” This a critical question for the formulation of government export assistance strategy, for several reasons:

- If most nonexporters have made a conscious and well-reasoned decision not to export, then assistance should be devoted to helping companies that are already exporting.
- If, conversely, the decision not to export reflects lack of knowledge about export opportunities or misinformation about exporting, then it makes sense to devote attention to recruiting nonexporters, as well as continuing to help the current crop of exporters do better.
- If nonexporters need different services and/or information than do exporters, then program design should reflect this difference.

Tables 8-1 – 8-4 present the information collected on why firms do not export, how many would potentially be interested in exporting, what services would be most useful to them, and where they would expect to find such services.

Table 8-1. Reasons Cited for Non-Exporting

Percentage of Firms Citing as a Reason for Not Exporting;	Small	Midsize	All SMEs
We have better market prospects here in the U.S.	34%	44%	36%
Exporting would not be profitable for us	21%	20%	21%
We are just too small to export, exporting is for larger firms, etc.	17%	6%	15%
We don't have enough information about export markets	8%	9%	8%
Exporting is too risky for small firms like ours	7%	3%	6%
We don't know how to handle the paperwork, shipping, etc.	6%	4%	6%
Don't know, not sure	5%	7%	4%
Dollar is too strong	4%	2%	4%
We cannot finance export sales	4%	4%	4%
Other*	29%	27%	29%

*The most common reasons cited were:

- Our capacity is only sufficient to supply domestic demand
- The transportation costs are too high
- We had bad experience in receiving payment

Table 8-2. Change in the Firm's Current Situation That Would Motivate Them to Explore Exporting

Percentage of Firms Citing the Following Changes;

	Small		Midsize		All
If we had fewer U.S. customers	3%		6%		4%
If we could get financing	10%		2%		8%
If we heard of other companies succeeding	5%		6%		5%
If we had more information on overseas markets or customers	19%	} 36%	27%	} 45%	21%
If we got more inquiries or leads from overseas	17%		18%		18%
If we got help with the paperwork and procedures	9%		8%		9%
If we could get insurance against commercial risks, like nonpayment	0%		2%		1%
If our firm were larger	9%		4%		8%
Other*	19%		20%		20%
Don't know, not sure	9%		6%		9%

*The most common reasons cited were:

- If the shipping costs were lower
- If our capacity exceeded domestic demand
- If the intellectual property rights were protected overseas

Table 8-3. Assistance That Would Be Most Useful to New-to-Export Firms

	Small		Midsize		All	
Information on specific customers	22%	} 41%	29%	} 46%	23%	} 41%
Information on export markets	19%		17%		18%	
Information on the exporting procedures, how to export, etc.	14%		9%		13%	
Export financing	10%		9%		10%	
Referrals to service providers (consultants, shippers, agents, etc.)	11%		15%		12%	
General counseling (product, packaging, etc.)	7%		3%		6%	
Other	9%		9%		9%	
Don't know, not sure	9%		8%		9%	

Table 8-4 Source Cited by Potential New-to-Export Firms as "Where They Would Go First"

	Small		Midsize		All	
Federal government	15%	} 25%	21%	} 30%	16%	} 26%
State government	10%		9%		10%	
Trade association or chamber	18%		21%		19%	
Other companies like yours	8%		13%		9%	
Consultants	8%		4%		7%	
University or other nonprofit	1%		0%		1%	
Other	12%		13%		12%	
Don't know, not sure	28%		19%		26%	

9. Implications for Federal Programming

Key Points

Government Services Are Needed and Valued by SME Exporters

- The most useful services provided by government continue to be in the area of providing essential market information to companies.
- Government is the leading source of such information, while private sector service providers lead in the more transaction-related services.
- Although the impact of such services is inherently more difficult to measure than the impact of services closer to the export transaction, information remains the government's clearest comparative advantage, relative to private providers.
- Government also plays an important role in helping exporters deal with overseas governments' complex regulations, a role that will become increasingly important as exporters explore more challenging markets and as smaller firms increase their export operations.

Finance Remains a Major Problem and Needs Increased Attention

- Export finance is, if anything, a more troublesome area for companies than it was seven years ago, when the previous survey was completed, and government should do more to strengthen its support in this critical area.

The Lead Role of the Department of Commerce Has Become Stronger

- The Department of Commerce has strengthened its role as the lead provider of government services to SMEs; consolidation of government support within the DOC rather than proliferation of services would be desirable.
- Government websites are an effective way to provide the information on export markets that companies most value from government.
- DOC's overseas network is unique and valuable, and should be given priority for growth and resource allocation over the domestic services.

Partnering with Intermediaries, Especially on Procedures, Disputes, and Collections, Would Improve Overall Services to Exporters

- Government programs could potentially be improved by partnering more actively and creatively with three key groups of private service providers: shippers (including market leaders such as FedEx and UPS as well as traditional shippers), U.S. wholesalers/export marketing companies, and in-country distributors.
- As exporters increase the level of exporting, the "nitty gritty" of export procedures – critical details such as NAFTA rules of origin – have become an increasing problem; government-provided information could be very helpful in this area, especially coupled with specialized counseling offered through shippers and other knowledgeable intermediaries.
- New-to-export companies expressed a need for a simple, step-by-step guide to the export process, covering where to find information with pointers to service providers and assistance with trade documentation.

9.1 The most useful services provided by government continue to be in the area of providing essential market information to companies.

Good information on markets, potential customers, and export requirements is essential to export success. Companies look to the government as a source of current, unbiased, and inexpensive information that permits them to identify concrete opportunities to pursue. The very high economies of scale in collecting and disseminating information make this an area where the government can excel, but one where the market has a great deal of difficulty performing effectively.

9.2 Government is the leading source of such information, while private sector service providers lead in the more transaction-related services.

The Internet and the strengthening of the Department of Commerce information-generating programs make the DOC a natural leader in filling the need for information. The DOC is particularly well-suited to generating basic information on country markets, broad-based market surveys, information on local service providers or buyers, and other market research.

The DOC is less well-suited to generating detailed, company specific market research, which small firms are rarely willing to pay for, in any case. The DOC is also not as well positioned as private providers to provide the intensive hand-holding that transaction-related services may require. DOC does have a role in supporting SME export transactions, however, particularly through the provision of up-to-date, clear information on procedures and regulations, both U.S. Government regulations and those of the target country markets. DOC can also provide valuable trouble-shooting assistance, especially where the problem is with the local government.

9.3 Although the impact of such services is inherently more difficult to measure than the impact of services closer to the export transaction, information remains the government's clearest comparative advantage, relative to private providers.

Congress and senior administration officials quite rightly are demanding greater accountability for taxpayer-funded services. They are seeking to measure results and, wherever possible, to recover part of the cost through user fees. These measures generally represent sound ways to improve government services and provide U.S. taxpayers with value for their money.

These premises break down when applied to export market information. It is inherently very difficult to measure the value of information, particularly when a single study may be used by thousands of SME exporters or, conversely, by no one at all. Information tends to be used primarily in the early stages of the export process, when neither the

government official providing the information nor the exporters themselves know whether their efforts will yield success. This makes the impact difficult to capture, without spending a great deal of resources to stay in touch with SME service users.

The Web makes this difficulty worse, of course, since exporters do not even need to contact the DOC to obtain information. Whereas information always has had a high upfront (fixed) cost and a low marginal cost, information on the Web has, for all intents and purposes, a zero marginal cost. This is a recipe for market failure, and a sound economic rationale for government provision of information.

This measurement difficulty should not be interpreted, therefore, as evidence that the DOC should move away from its basic information delivery function and start competing with private service providers operating closer to the transaction. On the contrary, providing information is the single most useful thing that the DOC can do.

9.4 Government also plays an important role in helping exporters deal with overseas governments' complex regulations, a role that will become increasingly important as exporters explore more challenging markets and as smaller firms increase their export operations.

Information is the single most useful service, but it is not the *only* useful service. Exporters value DOC's assistance in dealing with regulations – partly an extension of the information provision function and partly a different, more specialized service. Regulations in developing country markets are often more complex and difficult to determine than those in Europe or Canada, and exporters generally have less experience in operating in these countries. Help with procedures is therefore of special value to SME exporters, as long as DOC itself can remain current and accurate in providing it.

9.5 Export finance is, if anything, a more troublesome area for companies than it was seven years ago, when the previous survey was completed, and government should do more to strengthen its support in this critical area.

Despite continual efforts to upgrade the services and performance of Exim, the need for assistance in financing SME exports has if anything grown more rapidly than Exim's ability to meet it. Much more work is needed to meet SME needs, especially the complex needs of midsize firms that are now committing themselves much more fully to exporting. Although this study did not develop a detailed analysis of alternatives for improving finance services, it does underscore the need to identify and implement further improvements to U.S. export finance support. The scale of this need and the evident reduction in U.S. export efficiency argue that such solutions should involve greater collaboration with bank and non-bank intermediaries, in order to reach larger numbers of exporters with a broader range of services.

Other agencies examined, including SBA, remain relatively insignificant sources of assistance in this area. SBA, in particular, has yet to carve out a niche where its services deliver value. This situation stands in contrast to SBA's continued performance as a valued source of overall financing support for small businesses, and should not be interpreted as implying poor performance of SBA overall. Export programs, however, appear to be such a specialized niche that it may well make more sense to concentrate expertise for these services in Exim, and encourage SBA to work on supporting other aspects of SME development where its expertise is both more needed and more appropriate.

9.6 The Department of Commerce has strengthened its role as the lead provider of government services to SMEs; consolidation of government support within the DOC rather than proliferation of services would be desirable.

As with credit, the increasing sophistication of exporters suggests that U.S. Government services must be increasingly sophisticated and targeted, as well. The Internet and better internal program management have improved DOC's ability to reach out to the exporter community, reducing the need for niche players to complement DOC programs. Over the past seven years, since the first study was completed, DOC's leadership position has been significantly consolidated. Given a need for concentrated collection and dissemination of market data, clear communication of complex procedural and country-market information, and the worldwide availability of DOC support, consolidation around DOC's effort would appear to be an appropriate strategy for meeting SME exporter needs.

9.7 Government websites are an effective way to provide the information on export markets that companies most value from government.

Government websites are finding a high degree of acceptance from SME exporters. This trend can be expected to continue as SMEs become more regular and sophisticated consumers of Web-based services. Although DOC and other USG websites are clearly recognized by SMEs as a useful source of information, more development of these sites is needed to realize their potential. In particular, the effort should continue to build sites with cleaner and more consistent presentations of information, as well as to incorporate greater depth of information on trade procedures and mechanics.

SMEs face great difficulty in developing and maintaining trained trade management staff. This offers an opportunity for DOC to develop online tutorials in such routine but complex issues as trade documentation, to assist companies in meeting procedural requirements.

9.8 *DOC's overseas network is unique and valuable, and should be given priority for growth and resource allocation over the domestic services.*

The emergence of the Web as a primary tool for communicating information to exporters raises important resource allocation issues for the DOC. Whereas in the past exporters relied heavily on DOC's network of domestic offices to gain access to DOC's information products and support, exporters are increasingly able to the Web and, of course, email to reach DOC's overseas offices. On the other hand, SME exporters find DOC services overseas of greater value as they expand their operations. They need more and more sophisticated assistance in-country – helping them to resolve disputes, handle complex regulations, collect unpaid bills, and find reliable partners. Together, these two factors suggest a need to shift resources overseas. This is not to say that DOC's domestic network is not valuable, or that it is not performing a useful service at this point; nonetheless, the handwriting is on the wall, or more accurately on the screen. In the future, serving SME exporters' needs will increasingly mean serving them in the export marketplace, rather than in the United States. Planning to manage an orderly and effective rebalancing of resources should begin now, so that DOC's capacity overseas can grow as exporters needs expand.

9.9 *Government programs could potentially be improved by partnering more actively and creatively with three key groups of private service providers: shippers (including market leaders such as FedEx and UPS as well as traditional shippers), U.S. wholesalers/export marketing companies, and in-country distributors.*

The study underscores the central role that intermediaries play in supporting SME exports. Whereas these groups have long been the “Rodney Dangerfields” of trade – failing to get much respect from government trade service providers – they are in fact the key to success for many SME exporters. These groups include not only the trading companies themselves, but also shipping companies and in-country partners. Particularly in developing countries, local partners are key to success and, by working with them, DOC's embassy-based personnel can form a tighter partnership with U.S.-based SMEs and the shippers that link them all together. The emergence of major third-party logistics companies, such as FedEx and UPS, is another change that, together with the Web, is transforming the export operation. These major companies, as well as the smaller, specialized companies that have long played a role in facilitating SME exports, can be useful partners for the DOC. They are also developing exceptional expertise in Web-based transactions, and could assist the DOC in developing its own information-dissemination programs. The extensive field presence of both DOC and the third-party logistics firms also provides a number of opportunities for collaboration, both in the United States and in target markets.

9.10 *As exporters increase the level of exporting, the “nitty gritty” of export procedures – critical details such as NAFTA rules of origin –*

have become an increasing problem; government-provided information could be very helpful in this area, especially coupled with specialized counseling offered through shippers and other knowledgeable intermediaries.

The survey highlights the need to help the increasingly sophisticated and committed exporter population master this frustrating but important element of the export process. As government is responsible for creating most of these procedures, it is appropriate to look to government to make its rules more comprehensible to companies.

9.11 New-to-export companies expressed a need for a simple, step-by-step guide to the export process, covering where to find information with pointers to service providers and assistance with trade documentation.

Here again, a Web-based tutorial or other routinized Web-based information could go a long way to meeting a critical exporter need. Backed up with counseling to deal with special cases, Web-based information for export “newbies” could eventually replace many if not all existing seminar-based programs for potential exporters.