

1.11: US Small Business in the Global Environment

Learning Objectives

1. Understand and appreciate the role of small businesses in the global environment.
2. Learn about the global growth opportunities for small businesses.
3. Understand the advantages and the disadvantages of a small business going global.

Although small businesses make up a disproportionately large share of the number of companies that export and import, this represents only about 1 percent of the total number of small businesses. Thus many small businesses have yet to compete globally. The opportunities are there. “So much of what America makes is in great demand,” said US Commerce Secretary Gary Locke in an interview, adding further that the growth potential for small companies is outside the United States. Dale Hayes, vice president of US marketing for UPS concurs, observing that the demand for high-quality American products is huge. Paul Davidson, “Small Businesses Look Across Borders to Add Markets,” *USA Today*, April 12, 2011, accessed February 7, 2012, www.usatoday.com/money/economy/2011-04-06-small-businesses-go-international.htm; Rieva Lesonsky, “Increased Opportunities for Small-Business Exports,” *Small Business Trends*, June 27, 2010, accessed February 7, 2012, smallbiztrends.com/2010/06/opportunities-small-business-exports.html. It may be that a small business is already competing globally because foreign-owned companies are competing in our own backyards. “Breaking into the Trade Game: A Small Business Guide to Exporting,” *US Small Business Administration*, 2005, accessed February 7, 2012, archive.sba.gov/idc/groups/public/documents/sba_homepage/serv_entire.pdf.

According to the U.S. Census Bureau in 2015, “Small- and medium-sized companies (those employing fewer than 500 workers, including number of employees unknown) comprised 97.6 percent of all identified exporters and 97.2 percent of all identified importers.” (<https://sbecouncil.org/about-us/facts-and-data/>). Manufacturing and wholesalers represent a smaller portion of global trade revenue in the U.S. If a small business is considering entering the international marketplace, it must undertake careful analyses before jumping into the global arena.

The Small Business Global Presence

It may seem to many that the global market is the domain of the large corporations, but the statistics tell a very different story.

- Small businesses account for 96.4 percent of all manufacturing exporters, which is 17.2 percent of the sector’s \$562 billion in exports.
- Nearly 100 percent (99.2 percent) of exporting wholesalers were small businesses, which is 61.1 percent of the sector’s \$218 billion in exports.
- Of other companies with exports, 96.9 percent were small businesses. These companies include manufacturing companies of prepackaged software and books, freight forwarders and other transportation service firms, business services, engineering and management services, gas and oil extraction companies, coal mining companies, and communication services, to name a few.
- Small businesses account for 93.6 percent of all manufacturing importers, which is 12.9 percent of the sector’s \$602 billion in imports.
- Nearly 100 percent (99.2 percent) of wholesaler importers were small businesses, contributing 56.8 percent of the sector’s \$451 billion in imports.
- Small businesses accounted for 94.3 percent of the companies that both exported and imported, accounting for 29 percent of the export value and 27 percent of the import value.

This tells us that small businesses are very active in the global marketplace, and small business success in international markets is extremely important to the welfare of the United States. “Breaking into the Trade Game: A Small Business Guide to Exporting,” *US Small Business Administration*, 2005, accessed February 7, 2012, archive.sba.gov/idc/groups/public/documents/sba_homepage/serv_entire.pdf. Although it is true that small businesses are major users of imported goods, the focus of this chapter is on small business exporting because exporting can be an effective way to diversify the customer base, manage market fluctuations, grow, and become more competitive. US Department of Commerce, *A Basic Guide to Exporting*, 10th ed. (Washington, DC: International Trade Association, 2008), i.

Small businesses are limited in the products and the services that they export. Small business exports are concentrated in four main product categories: computers and electronic products, chemicals, machinery, and transportation equipment. However, the leading product categories in terms of market share were wood products, apparel and accessories, tobacco products, beverages, and leather

products. “Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports,” *US International Trade Commission*, January 2010, accessed February 7, 2012, www.usitc.gov/publications/332/pub4125.pdf.

Although the United States is one of the world’s largest participants in global services trade, very little information exists with respect to services exports by small businesses. What is known is that it is increasingly common for most US services firms to establish a **foreign affiliate**—a branch or a subsidiary of the parent company established outside the national boundaries of the parent company’s home market—because most services are better supplied in close proximity to the principal or final customers. “Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports,” *US International Trade Commission*, January 2010, accessed February 7, 2012, www.usitc.gov/publications/332/pub4125.pdf. Additionally, in some business sectors, foreign regulations may restrict the delivery of some services to affiliates only. For example, to comply with domestic solvency requirements, some countries require that personal lines of insurance be carried out only by affiliates. Another example is the protection of intellectual property rights. This is often accomplished through the services of affiliates, thus intellectual property is kept in-house. “Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports,” *US International Trade Commission*, January 2010, accessed February 7, 2012, www.usitc.gov/publications/332/pub4125.pdf.

What is particularly interesting is that most of the service exporting occurs in businesses with 0–19 employees, with the least service exporting done by small businesses with 300–499 employees. This may be the exact opposite of what you would expect.

The Advantages of Going Global

The flexibility of a smaller company may make it possible to meet the demands of global markets and redefine a company’s programs more quickly than might occur in the larger **multinational corporation**. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 312. A multinational corporation is a company that operates on a worldwide scale without ties to any specific nation or region; it is organized under the laws of its own country. William M. Pride, Robert J. Hughes, and Jack R. Kapoor, *Business* (Boston: Houghton Mifflin, 2007), 94. This flexibility of the smaller company is particularly true of the **micromultinationals**, a relatively new category of tiny companies that operate globally, having a presence and people in multiple countries. Anita Campbell, “The Trend of the Micro-Multinationals,” *Small Business Trends*, February 20, 2007, accessed February 7, 2012, smallbiztrends.com/2007/02/the-trend-of-the-micro-multinationals.html; Bernard Lunn, “Introducing the Tales of Micro-Nationals,” *Small Business Trends*, July 7, 2010, accessed February 7, 2012, smallbiztrends.com/2010/07/introducing-the-theses-of-micro-multinationals.html.

These micromultinationals outsource virtually everything to specialists all over the world and sell to people all over the world through the Internet. Bernard Lunn, “Introducing the Tales of Micro-Nationals,” *Small Business Trends*, July 7, 2010, accessed February 7, 2012, smallbiztrends.com/2010/07/introducing-the-theses-of-micro-multinationals.html. The Internet is inexpensive technology, and the services designed to help small businesses make it possible for the small company to operate across borders with the same effectiveness and efficiencies as large businesses. Anita Campbell, “Preparing Your Business to Go Global,” *Small Business Trends*, November 19, 2010, accessed February 7, 2012, smallbiztrends.com/2010/11/preparing-your-business-to-go-global.html.

Micromultinationals

[Generation Alliance](#) is a branding and design firm that provides services to clients all over the world. They have core employees in Australia and specialist contractors in New Zealand, the United Kingdom, Germany, Switzerland, Jamaica, Dubai, and Singapore. One of their more interesting projects was to rebrand the country of Botswana for the global market. Bernard Lunn, “Tales of Micro-Multinationals: Generation Alliance,” *Small Business Trends*, July 7, 2010, accessed February 7, 2012, smallbiztrends.com/2010/07/tales-of-micro-multinationals-generation-alliance.html.

[Jadience](#) sells a line of health and skincare products that has its roots in traditional oriental medicine. Their physical products are sent to customers, mostly spas, in the United States, Canada, and Mexico. Bernard Lunn, “Tales of Micro-Multinationals: Jadience,” *Small Business Trends*, July 15, 2010, accessed February 7, 2012, smallbiztrends.com/2010/07/tales-of-micro-multinationals-jadience.html.

[Worketc](#) operates in the large and competitive business software market. Their focus is small businesses, selling web-based customer relationship management (CRM), project management, billing, shared calendars, help desk, and document management software. The company is headquartered in Sydney, Australia, and it claims happy customers in sixteen countries. The United States accounts for 86 percent of its customers. Bernard Lunn, “Tales of Micro-Multinationals: Worketc,” *Small Business Trends*,

July 21, 2010, accessed February 7, 2012, smallbiztrends.com/2010/07/micro-multinationals-worketc.html; “The Why of What We’re About,” *Worketc*, accessed February 7, 2012, www.worketc.com/about_us.

There are many reasons why small businesses should consider going global: “Benefits of Exporting,” *Export.gov*, March 31, 2011, accessed February 7, 2012, export.gov/about/eg_main_016807.asp; Laurel Delaney, “A How-To on Expanding Your Business Globally,” *The Global Small Business Blog*, January 11, 2011, accessed February 7, 2012, borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html; Steve Strauss, “Globalization Is Good for (Small) Business,” *USA Today*, May 17, 2004, accessed February 7, 2012, www.usatoday.com/money/smallbusiness/columnist/strauss/2004-05-17-globalization_x.htm; “Breaking into the Trade Game: A Small Business Guide to Exporting,” *US Small Business Administration*, 2005, accessed February 7, 2012, archive.sba.gov/idc/groups/public/documents/sba_homepage/serv_entire.pdf.

- A small business that thinks and sells only domestically may be reaching only a small share of its potential customers because 95 percent of the world’s consumers live outside the United States.
- Exporting enables companies to diversify their portfolios and weather changes in the domestic economy. This stabilizes seasonal and cyclical market fluctuations.
- Exporting helps small businesses grow and become more competitive in all their markets, which reduces the dependence on existing markets.
- Exporting increases sales and profits, also extending the sales potential of existing products. Research has shown that exporting can expand total sales 0.6 percent to 1.3 percent faster than would otherwise be the case.
- Exporting companies are able to sell excess production capacity.
- Exporting companies are nearly 8.5 percent less likely to go out of business.
- There are higher worker earnings as well, which contributes to the betterment of the community.

According to the US Small Business Administration (SBA), “Breaking into the Trade Game: A Small Business Guide to Exporting,” *US Small Business Administration*, 2005, accessed February 7, 2012, archive.sba.gov/idc/groups/public/documents/sba_homepage/serv_entire.pdf. US exporting businesses experience faster annual employment growth by 2 to 4 percentage points over their nonexporting counterparts. Workers employed in exporting companies have better paying jobs and better opportunities for advancement. Research has estimated that blue-collar worker earnings in firms that export are 13 percent higher than those in nonexporting plants, 23 percent higher when comparing large plants, and 9 percent higher when comparing small plants. White-collar employees also benefit from higher salaries, 18 percent more than their nonexporting counterparts. Less skilled workers also earn more at companies that export. Lastly, the benefits that all workers receive at exporting plants are 37 percent higher and include improved medical insurance and paid leave.

Video Link 15.1

Why Export?

Why small businesses should consider entering the global marketplace.

www.inc.com/exporting/whyexport.htm

The Disadvantages of Going Global

There is no question that the benefits of going global are considerable. However, disadvantages or barriers must also be considered. For example, a small business will incur additional costs, such as modifying its product or its packaging (perhaps even changing the name of its product so that it does not convey negative meanings outside the United States), developing new promotional materials, administrative costs (such as hiring staff to launch the export expansion and dedicating personnel for traveling), traveling to foreign locations (very important), and shipping. Laurel Delaney, “A How-To on Expanding Your Business Globally,” *The Global Small Business Blog*, January 11, 2011, accessed February 7, 2012, borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html; Strategic Name Development, Inc., “Global Linguistic Analysis” (2011), accessed February 7, 2012, www.namedevelopment.com/global-linguistic-analysis.html. It may also be necessary for the owner to subordinate short-term profits to long-term gains, wait longer for payments, apply for additional financing, and obtain special export licenses. “Breaking into the Trade Game: A Small Business Guide to Exporting,” *US Small Business Administration*, 2005, accessed February 7, 2012, archive.sba.gov/idc/groups/public/documents/sba_homepage/serv_entire.pdf. There will be differences in consumer needs, wants, and usage patterns for products; differences in consumer response to the elements of the marketing mix and differences in the legal environment may conflict with those of the United States. “Global Marketing,” *SmallBusiness.com*, accessed February 7, 2012, smallbusiness.com/wiki/Global_marketing. Then, of course, there are cultural and language issues

along with the all-too-familiar fear of the unknown. Rieva Lesonsky, “Increased Opportunities for Small-Business Exports,” *Small Business Trends*, June 27, 2010, accessed February 7, 2012, smallbiztrends.com/2010/06/opportunities-small-business-exports.html. A recent survey of exporting and nonexporting members of the National Small Business Association (NSBA) and the Small Business Exporters Association (SBEA) reported the following main barriers to small businesses selling their goods and/or services to foreign customers: “2010 Small Business Exporting Survey,” *NSBA and SBEA*, March 11, 2010, accessed February 7, 2012, www.nsba.biz/docs/2010_small_business_exporting_survey_001.pdf.

- I do not have goods and/or services that are exportable: 49 percent.
- I do not know much about it and am not sure where to start: 38 percent.
- I would worry too much about getting paid: 29 percent.
- It is too costly: 27 percent.
- It would take too much time away from my regular, domestic sales: 17 percent.
- I cannot obtain financing to offer products or services to foreign customers: 7 percent.

Three things were identified as the single largest challenge: worrying about getting paid (26 percent), feeling that exporting is confusing and difficult to do (24 percent), and having limited goods and/or services that are exportable (18 percent).

Richard Ginsburg in the SBA’s Office of International Trade commented that most US small businesses simply do not understand the value of taking their business global, further noting that “the number-one barrier to trade is the psychological acceptance that global business is necessary.” Kevin Morris, “Small Business Owner Takes His Green Energy Business Global,” *AllBusiness.com*, April 22, 2011, accessed February 7, 2012, www.allbusiness.com/small-green-energy-business/15572754-1.html.

Small businesses also face some resource constraints that reduce their ability to export. For example, small businesses are more likely than larger firms to face scarcities of financial and human resources that limit their ability to take advantage of global opportunities. Limited personnel, the inability to meet quality standards, the lack of financial backing, and insufficient knowledge of foreign markets are important constraints affecting the ability of small businesses to export. “Breaking into the Trade Game: A Small Business Guide to Exporting,” *US Small Business Administration*, 2005, accessed February 7, 2012, archive.sba.gov/idc/groups/public/documents/sba_homepage/serv_entire.pdf. Fortunately, being proactive, innovative, and willing to take risks have helped small businesses overcome export impediments and improve export performance. “Breaking into the Trade Game: A Small Business Guide to Exporting,” *US Small Business Administration*, 2005, accessed February 7, 2012, archive.sba.gov/idc/groups/public/documents/sba_homepage/serv_entire.pdf.

The disadvantages of going global may warrant a go-slow approach, but they should not be viewed as knockout factors. If a business’s financial situation is weak, the timing may not be right for becoming an exporter...but perhaps exporting makes sense in the future. In any case, very careful thinking should precede the decision to export.

KEY TAKEAWAYS

- Small businesses make up a disproportionately large share of the number of companies that export and import. However, this is only about 1 percent of the total number of small businesses.
- The growth potential for small companies outside the United States is huge because of the demand for high-quality American products.
- Small businesses account for close to 98 percent of US exporters and 33 percent of the value of US exports.
- Small business success in international trade is extremely important to the welfare of the United States.
- There are many advantages and disadvantages of a small business going global. These must be analyzed very carefully before deciding to enter the global marketplace.
- A recent survey of small business owners revealed that the number one barrier to exporting was the feeling that their businesses did not have exportable goods and/or services. The number one challenge was worrying about getting paid.

EXERCISE

1. Go to www.trade.gov/mas/ian/statereports. Select your state and prepare a profile of small business exporting. Review additional sites as well, for example, websites sponsored by your state’s commerce and/or economic development departments. When looking at government sites, you may see the term *small- and medium-sized businesses* or something similar. They are simply referring to businesses with fewer than five hundred employees. This is the small business group for your purposes.

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