Born Global: Rise of the Multinational SME
The statistics bear this out and anyone who chooses to ignore the business opportunity for trade and investment among SME clients is overlooking a third of the potential value of transactions. Notwithstanding, these opportunities are not evenly distributed, and there is clear concentration of demand / expansion opportunities among technology intensive companies who are scaling rapidly, and often hail from established open capital markets.

Certainly emerging markets are producing entrepreneurs, but offer fewer fully formed internationally expansive SMEs perhaps as a result of capital, regulatory constraints or informal economic conditions. At the same time emerging market entrepreneurs are also globally mobile and represent a significant target for EDOs to which few are responding well.

So why is there so little effective engagement between Economic Developers and SMEs? Our report offers some excellent perspectives on the challenges in responding to SMEs from the EDO perspective: difficult to identify, scoping and segment prospects, more demanding in respect of services, potentially high future value, longer term economic impact, limited political/PR benefit relative to established international multinationals. All valid considerations but the problem may be even more institutional than that.

The major advisory firms in tax, accounting and legal services who are an important multiplier for many EDOs are still focussed on larger companies because their fee rates for most SMEs are prohibitive and SMEs tend to be more demanding clients (not service envelope). At the same time the US site selectors who are motivated by incentives deals are unlikely to earn big fees from these minnows. And finally until very recently the banks were a very cold and forbidding place for SMEs, and were instead preoccupied with exiting their casino positions in toxic debt and property development.

In at least the last category, we see a change and as evidenced by the RB story, and indeed other examples such as Santander, where big banks are starting to wake up to the potential of export oriented SMEs. OCO is already working in partnerships with a number of Financial Services organizations to design and develop support services for expansive SME clients using our networks and tools to help evaluate trade and investment opportunities abroad.

We also see evidence of agencies waking up to the SME and Startup opportunity as a key catalyst / enabler for trade and investment. It should not be a surprise to anyone to see that there is a direct correlation between cities like Paris, Berlin and Stockholm who have developed vibrant start up scenes and their improved performance in attracting foreign capital in the form of companies, venture funds and private equity.

On the "sell" side of foreign capital attraction, SME clients definitely necessitate a new way of working which borrows heavily from traditional trade promotion approaches, in that regions must be able to identify and produce "hot lists" of technology and IP intensive companies seeking new capital and partnerships as well as the need to establish channels to funds and venture businesses abroad. On the "buy" side, agencies must be able to create a product and service offer that appeals to the more intensive requirements of a SME and may include advice on incorporation, accommodation, hiring and even business development. This is a volume business and resource needs careful consideration.

SMEs are the future in FDI, and yes the task of identifying and supporting them is much more challenging, but ultimately that is where the market need is most acute. EDOs must get more intelligent how they segment and deliver "volume" transactions to such clients, and based on the insights in this report, we anticipate further product development in the incubation, soft landing and cluster space which responds to the needs of earlier stage companies.
SECTION 1
SMEs IN CONTEXT
In a globalized world, SMEs are confronted with increasing competition arising from new players in fast growing markets. Even today, SMEs mostly rely on their domestic markets and shy away from tapping into opportunities in foreign markets even though recent studies have proved that international activities improve competitiveness and result in higher turnover and job growth.

SMEs exploring investment opportunities abroad are facing some particular challenges for implementation such as imperfect information on location opportunities, a lack of local contacts with relevant knowledge and access to networks as well as detailed information on taxes, duties and incentives. These pose as potential barriers and SMEs have limited resources to research and evaluate these factors across multiple locations.

**Bridging Information Gaps**

This is why it is of the utmost importance for EDOs to be able to provide detailed up-to-date information and to be well-prepared for handling investor enquiries quickly to help SMEs overcome possible perceived investment barriers and open gates to tap into unknown business opportunities. It is widely known that the provision of information must go far beyond general location information, specifically on account of the comprehensive preparation that investors require before visiting a country. Responding to investor enquiries - no matter of what size - requires tailor-made information from the perspective of a profit-making business which mostly includes market-specific insights from a network of local experts.

**Facilitation and Signposting**

Furthermore the EDOs ability to facilitate access to the local ecosystem of indigenous companies and relevant stakeholders is highly valued by SMEs - in view of the fact that strategic partnerships and joint ventures are an attractive vehicle to establish and grow business in a foreign country. From a host country perspective foreign SMEs embedded in the local economy and networks consequently deliver concrete sustainable development benefits to the economy. Invest Hong Kong is a good example particularly with regards to fostering the growth of start-ups and young innovative companies having built a supportive environment for entrepreneurs to use Hong Kong as a launch pad for their ventures. The EDO is placing great emphasis on connecting the local start up communities and overseas entrepreneurs to make Hong Kong the premier start up destination in Asia-Pacific.

**Research in Action**

During a recent successful project implementation supported by OCO’s Europe team for the Missouri Department of Economic Development this became clearly evident. Based on extensive business intelligence on expanding companies in the European construction industry, a first contact with an Italy-based company was established in June 2014. The direct approach to the key decision maker led to a personal discussion on the opportunities to supply existing customers in the US from a central location as well as an analysis of the potential to serve a growing customer base from this location. For the site evaluation, information was provided on logistics connectivity, labour costs and labour availability as the key driving factors for the decision but it also included the support in a market assessment of the local construction industry to identify potential customers which goes beyond the traditional services EDOs provide.

Business Intelligence also played a key role in attracting a back-office operation by a UK-based financial service company to the State of Florida. Through our internal Signals Tracking Platform incorporated in VELOCITI software OCO became aware of a fast-growing FinTech start-up which was aiming at expanding in the US. Through the personal engagement with corporate decision makers by the in-market team in London the investment was successfully supported to be implemented in our client’s region.

Providing a spearhead of EDO services including comprehensive business intelligence solutions in key target markets facilitates the interaction with investors and enhances the probability for inclusion in the long list of potential locations. Throughout the evaluation process, it further facilitates relationship building with key company contacts, provides for better understanding of investors’ information needs and consequently the ability to tailor information to optimise the chances of landing the project.
With the persistently slow return of economic growth in virtually all major economies, one would assume that EDOs (Economic Development Organizations) aren’t letting opportunities to attract investors go to waste. But, my experience as a decision maker in a small but fast growing organization has taught me that SMEs are still very much considered as poor pickings by EDOs in an investment context.

Despite the fact that SMEs are the backbone of any economy and 2 out of 3 employees in Europe earn their living in small and medium enterprises, we’re still not getting the support we need.

SMEs, especially those who venture abroad for the first time, sometimes aren’t even aware of EDOs and benefits they could potentially offer. So often, it is by chance that such contact comes about – and when – as a representative of an SME – you then speak about an investment of €3.5 - 4 million and the creation of 20 - 35 jobs, you get the sense that your facilitator has lost interest before you have fully told your story.

From the perspective of EDO staff - acting within their prescribed framework – this might arguably be the correct response. Resources need to be focussed on larger opportunities, don’t they? Or is this an institutional viewpoint based on an outdated investment paradigm that is working against progressive small and medium sized foreign investors.

FDI incentive schemes are systematically stacked against small companies with thresholds usually starting above €5M or €10M investment sums and sometimes 100+ jobs in order to qualify for incentives. Consequently, one quickly and nearly invariably finds himself below the radar of the classical EDO support package.

However, this ignores in particular relation to foreign investment, that SMEs create long-term benefits for the host economy in a number of ways:

- SMEs aren’t systematically reducing their tax burden but tend to pay their taxes where they earn their money. Sophisticated tax avoidance schemes and base erosion and profit shifting problems simply aren’t discussed in the context of firms with 30, 40 or 60 jobs and a 3 or even 10 million turnover.
- SMEs invest to produce and sell, creating firms, jobs and demand for local services along the way. SMEs manufacturing locally are here to stay whereas Multinationals act on global footprint considerations and a 500 employee plant is quickly relocated to another country on account of a new strategic orientation or cost reduction opportunity. The likelihood of 10 smaller plants with 50 employees each being relocated (and having a similarly devastating effect on communities) in comparison is miniscule.

If ever there is a “raison d’être” for specialist units to guide investors through the maze of investing in another country, it is to service and support these SMEs. Big corporations usually have staff departments specialized on internationalization projects and focus primarily on how to wring the maximum amount of incentives out of a jurisdiction; SMEs need all the help and support they can get, and are eager to discuss where to outsource their tax problems to, whether to buy land or rent existing factory facilities and other pure operational questions. This is where EDOs can shine, and bring a real, tangible benefit to the table.

So, for EDOs, the next time they pick up the phone or read an e-mail, from a SME seeking help - think about if he is one of the 99% - and the 99% matter too.
SMEs in Global Trade and Investment: From Followers to Leaders

SMEs of increasing importance to the global economy

- Making up approximately 95% of global enterprises, employing around 60% of private sector workers and attributing 50% of global gross value added (GVA), SMEs serve as key drivers of innovation, social integration and employment.

- SMEs are also making their mark in international trade. Whilst a global picture of SME share is difficult to obtain, in 2014, US SMEs accounted for ~1/3 of exports compared to 20% 10 years before.

- The increasingly significant role of SMEs on the international stage is further emphasised when placed in the context of global trade overall. It now accounts for 1/3 of total global economic output, compared to 1/5 as recently as 1990. Furthermore it is expected that cross border trade will outpace GDP over the medium term.

- This increasing SME impact is also observed in global investment trends. FDI projects from SMEs accounted for 16% of total FDI in 2014 compared to just 6% in 2004, and in fact when adjusted for multiple projects from single large corporates, this figure rises to 20%.

Global Annual FDI Projects

But the influence of SMEs has not yet fully spread to the ‘parallel universe’ of developing economies.

- Developed country SME projects have grown three-fold since 2004 to ~20% of the total, mirroring the overall trend. However the proportion of SMEs engaging in FDI in developing countries is much lower, at ~5% of the total.

- The notion of a ‘parallel universe’ persists when considering global trade. The figure to the right shows, that whilst developing economies represent an increasingly larger piece of global trade, we note that they trade heavily among themselves with >50% of merchandise exports to other developing nations, vs 30% to developing nations from developed economies.

Developing Economies Proportion of World Merchandise Exports

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SME Proportion of Total FDI
So, why the difference?

There are various possible reasons:

- Developing countries are constrained by limited resources to access markets and restrictions in trade agreements.
- Developed countries provide an infrastructure that allows for greater innovation, thus a more enabling environment for SMEs.
- SMEs are more flexible and can better target SMES.
- As a consequence, trading activity within many sectors remains in discrete “corridors”.
- Increased levels of FDI into developing countries could potentially “unlock” further trade expansion.

Increasingly, innovation defines global growth in FDI and Trade, and so the role of SMEs as a source of innovation becomes ever more significant.

- EDOs in developed markets are often more sophisticated and can better target SMEs.
- As a consequence, trading activity within many sectors remains in discrete “corridors”.
- Increased levels of FDI into developing countries could potentially “unlock” further trade expansion.

Innovation at the core of increasing levels of Global Trade and SME Investment

But beware of ignoring other innovative sectors with low SME presence today, and the historic large and growing sectors.

- The sectors in which SMEs have achieved the highest growth are primarily service based. So, whilst this is consistent with the picture observed in global trade between 2008 and 2013, where services have also grown ahead of merchandise based trade, beware of ignoring other sectors.
- But there still exists innovative sectors that do not feature as top SME FDI sectors (Transport Technologies, Automotive, Pharmaceuticals and Aerospace) but yet exhibit strong global growth. Here, higher barriers to entry linked to high levels of capital intensity mean they are less penetrable for SME investment but as supply chains become ever more dispersed in these sectors, SMEs may identify ways to gain greater share of volumes in these sectors.
- Equally so, there are large sectors where innovation is less prevalent, and SME presence is lower. Amongst these Food and Mining are the most significant, and with increasing global population trends, and industrialisation of the developing world these will continue to be important engines of growth.

SMEs are increasingly visible in growing sectors, and contributing materially to global FDI and Trade.

The global economy is returning to growth, which is creating opportunity for both FDI targeting and trade development.

SME innovation is at the heart of this growth story, where they play the biggest role in innovative and high growth sectors.

SMEs contribution to the global economy a most prevalent in the developed world; however as where ‘trade starts, investment follows’, and so we would expect increased levels of investment and innovation in economies as they mature, resources are increased and trade agreements enable.

Considerations for Success

- For investment and trade promotion agencies, SMEs will be an increasingly important hunting ground. Effective targeting of SMEs though must take place within the correct sectors and within the right countries. As we observe to this point, that remains the historically innovative countries in the table above, which will continue to be the starting point.
- However, progressive agencies should also consider developing economies. As sectors develop, resources increase, and as changes to trade agreements occur we expect trade activity to increase and spread more globally than today. As this happens they will become the obvious net frontier in targeting future export and investment growth.
Addressing the SME Opportunity

SECTION TWO

Support in Action Stakeholder Perspectives

Born Global: Rise of the Multinational SME
Today’s reality. It wasn’t that long ago that exporting was a right of passage, reserved for those who had outgrown their domestic market, built up a healthy balance sheet and had secured board approval to take on the risk of exporting. Not any more. Not in Europe, not in emerging economies.

Everything. The internet has broken down borders and bred entrepreneurs. Products have been outsourced by services. Distribution means downloads as much as it does DHL. Social media fuels ideas, forges networks, globalizes trends. It makes it easy to engage with millions in Mexico as it does to target Michael in Manchester. Today’s SME is born to think global not local. The world is their oyster. Easy, right?

Wrong. The changing landscape brings challenges as much as it does opportunity. Challenges that must be overcome by the entrepreneur and addressed by Economic Development Organisations to drive export growth. Throw out the manual, the game has changed. Today’s conundrum looks like this:

- More SMEs, more export markets, more aggressive targets achieved with less experienced exporters, Less resources and less time
- Less physical barriers to internationalization but more intangible barriers including regulation, culture, language and time zones.
- More global competition means greater choice and less margin which means that companies and EDOs cannot continue to play it safe in their backyard but rather take on the challenge of new ‘enemies’ in new territories.

So what’s the answer? It’s a tough question but what we know for certain is the following:

- Companies must have a clear international growth strategy. They must identify markets and then define and execute on their market entry strategy with a singular focus. Because we operate in a truly global marketplace, deciding where to export to is an increasingly difficult challenge. Over the last 7 years, the lure of emerging markets has enticed many with high growth estimates and large populations, but only a handful succeed. HSBC has recently announced a plan to withdraw from emerging markets to become ‘simpler and smaller.’
- Nintendo pulled out of Brazil due to the high taxes and HTC withdrew from the same market because its products were simply not loved by the Brazilian consumer. These large companies can (just about) afford to get it wrong, but SMEs cannot.

In addition to picking the right market, companies that operate through a channel must pick the right partner. OCO has seen equally strong companies succeed and fail due to the selection of the wrong partner. Like interviewing a candidate for a job, it is not always easy to get it right, but too many companies fail to apply proper qualification and process to selecting the partner. Motivation is everything and money talks loud. When looking for partners, it’s imperative to understand what their business will do for you AND what yours will do for them. Only if there is a win-win will there be grounds for a successful partnership.

OCO works closely with companies to validate the market opportunity, to shape the entry strategy and to help execute locally so that companies focus on the right customers and the right partners.

EDOs must ‘pick winners’ in order to focus their limited resources on the right SMEs and they must define where their internal service offering finishes and where they need to engage the services of third parties to deliver support to companies throughout the export journey. It is often difficult for EDOs to identify the companies within their region who are the most likely next key exporters. OCO’s proprietary business intelligence platform was developed to address this challenge and scores companies on their propensity to export and invest internationally.

Enterprise Ireland’s latest three year strategy is centered around differentiated service offerings for clients, with the core high growth exporters receiving personalized attention from internal resources and non-core exporters or low growth companies being serviced by third parties or group initiatives. Similarly, UKTI has shifted its export focus to High Value Opportunities (HVOs) which are serviced internally and the traditional Overseas Market Intelligence Service for SMEs trade requests are now outsourced to third parties or chambers of commerce. This is the right approach in terms of Return on Investment, but EDOs must now evolve the services to the key companies need and how to deliver them. OCO has been working with EDOs to complement their service offer with physical presence and expertise in core and emerging markets, offering companies consistent support from market qualification to market entry.

The world may have gotten smaller but not less complex. That’s why OCO created the Global Trade Hub. We provide services from market research to company representation across 4 continents in 14 countries and offer the opportunity to learn from our experiences on a pay-for-service basis. OCO Global Trade Hub - Exporting made easy.

Excluding Global Trade Hub
Almost everyone will have encountered the age-old scenario of when at a dinner party, being introduced to someone for the first time, and soon being asked the question “What is it that you do?”

For those of us working in the area of International Trade and Investment, the answer has never been entirely straightforward and certainly not as obvious as the doctor, the teacher or the fire marshal. In an ever-changing global economy with a shift away from large corporates towards SMEs and start-ups, we might ask ourselves the same question.

So, what are the services that this changing potential customer base actually needs? It’s unlikely to be large Greenfield investment, with the complexities of site selection support, multi-million $ incentive packages and the swirl of accompanying professional services competing for their business. Building relationships is more likely to be via VC/PE vs the dull but necessary mingling at the conferences, and once you’ve engaged there’s a need for a concrete offer. If you don’t have one, the SME, in a hurry to grow their business, savvy enough to understand all the options available to them, and not burdened with the bureaucracy of a large corporate will quickly go to someone who does.

We have to think like SMEs and for them, internationalisation invariably means export before investment, partner as opposed to going it alone, crowd funding in place of bank finance, flexible working space vs long term lease, skills in social media vs finding a team of travelling salespeople.

And so the service model needs to evolve. Historically, EDOs have run investment ‘In’ and export ‘Out’ functions for their jurisdiction, often as quite separate organisations. Perhaps it’s time to think of ‘Trade In’ as a potential first step in winning foreign investment. Companies are increasingly likely to expand operations from their original trading bases.

The organization model could look different: might the Trade & Investment split make way for a ‘life cycle’ or functional model? The client is first managed by the Trade Manager before handing off to the HQ expert as an example, with transparency and clear hand-offs (facilitated by effective CRM technology) at each stage ensuring the client’s needs are serviced. This model is increasingly adopted in other consumer and B2B companies as relationships evolve and become more valuable - how a bank manages the newly minted MBA as he moves to be the Fortune 500 CEO, or how a Telco provider manages the garage start-up as it evolves to be the next Google.

The measures will also have to change. The blunt short term view of measuring overall $ exports or jobs created around SME trade and investment activities indicating that as these companies grow, they will bring additional opportunities for the EDO in the future.

Different skill-sets may be required to succeed. Think through how additional resources you bring on board complement those already in place. Again, think like they do - how much stronger might your team be for the presence of someone who’s been down this road as a successful entrepreneur, who’s perhaps grown and exited an SME, who might want to give something back as opposed to play golf and count their money all day? This might even come for free, and certainly won’t be a full time employee on pay-roll.

The EDO’s role changes from attempting to provide all of the solutions to becoming the match-maker. Those organizations that pro-actively spot opportunities with other client companies and partners within their regions, understand complimentary services are likely the ones that will succeed. It’s not necessary to go it alone. Be like them - the best companies focus relentlessly on what they’re best at and look to partners to provide products and services where they don’t have expertise. Think of Amazon, a mono-line book retailer, but now a marketplace with thousands of partners operating under their brand. In the Economic Development space, this ‘umbrella’ concept of providing all of the services required to successfully land a project can also apply with EDOs managing the client relationship alongside strong rosters of commercial partners.

In line with client needs, OCO Global have expanded their services to partner effectively with EDOs via their Trade Hub export support offer, and are also increasingly assisting EDO private company clients in landing their market entry aspirations. This complimentary service offering is ensuring that the ultimate outcome that we all desire, namely successful growing companies, is delivered time and time again.
Fast Track SME Segmentation with Velociti

Judith Walker
Chief Operating Officer, OCO

There is much evidence to support the trend that SMEs are internationalising faster. The drivers for SMEs to invest overseas are similar to those of large corporates which can be broadly summarised as cost savings, access to markets and access to labour or IP. These drivers can be mutually exclusive for a large corporate but a SME is looking for return on all fronts from their decision to expand overseas, albeit in a more linear fashion. The priority driver for a SME is often around access to markets to facilitate growth, followed by access to labour or IP, and then cost savings.

The decision to expand overseas is rarely a cost saving initiative in the early stages of internationalisation, even if incentives are available or the demand from the new market no longer makes exporting from the home market commercially sensible. The decision to open another office or facility also has a disproportionately bigger impact in terms of finance, risk and management for the SME compared to a large corporate. In addition, there is often no fanfare to welcome the SME who is likely to be bringing only a handful of jobs at the outset. It’s worth remembering however, that all companies were small once and the younger internationalising SMEs could provide attractive returns into the future.

SO HOW TO SPOT THESE COMPANIES?

The task of picking winners from SMEs is a much more difficult process than researching and identifying interesting mid cap or MNCs. This is primarily due to the two most common factors that we consult to provide a comfort level on any organization - namely their scale and financial performance - which are areas that are not readily available for small private companies.

Addressing this challenge led OCO to develop the Velociti platform. This tool provides scores for companies whatever their size, indicating their readiness for export - the first stage in the internationalisation journey - as well as their innovation and investment propensity which are all inevitably linked.

In Velociti, scores for large companies are generated automatically, with data being fed in from multiple best in class industry sources and applied through an algorithm based on OCO's extensive experience. Hundreds of companies can therefore be scored and prioritized very quickly. The approach for SMEs however is different and our team of analysts make an assessment based on 25 weighted factors that they research and validate in order to score a company.

There are currently thousands of high potential SMEs listed on Velociti and that number is increasing daily. The top companies on Velociti are not always the biggest ones - interesting companies come in all shapes and sizes and we are uncovering high potential opportunities for investment among smaller organisations on a daily basis. The chart demonstrates the breakdown of the current top FDI prospects on Velociti.

Targeting SMEs of course will only be one strand and every region should have a portfolio of opportunities in their pipeline relative to their own supply side offer and scale. SMEs however bring an efficiency gain as it can be quicker, easier and often more productive to talk to them given their larger counterparts tend to be over-shopped. The table above highlights some of the interesting SMEs we have uncovered in the last year - not the usual suspects but all have the potential to become game changers.

IT and Software Companies to Watch

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<th>Name</th>
<th>Country</th>
<th>FDI Rating</th>
<th>Trade Rating</th>
<th>Innovation Rating</th>
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<tr>
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<td>China</td>
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<td>Estonia</td>
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<table>
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<th>Split of all companies on Velociti with high investment propensity by scale</th>
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<tr>
<td>32% Large Corporates</td>
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<tr>
<td>35% SME</td>
</tr>
<tr>
<td>33% Mid-Gap</td>
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</tbody>
</table>
How SMEs are using Business Intelligence to Accelerate Internationalisation

Naomi Byrne  
Director, Business Intelligence, OCO

The Internet has revolutionised our research techniques. At the click of a mouse we are now able to find information on any sector, market and trend (business intelligence) at any time of the day or night. We can view opinion or fact and also consult a variety of sources in order to decipher the right answer to our question. Best of all access to this business intelligence is free!

This means that all sizes of business can now be informed about new markets or trends and information is no longer reserved solely for those with big research budgets. At a very basic level companies have access to information on a sector’s buoyancy, cost, political and cultural challenges in markets. This is important information for any company to research but for SME’s the ability to conduct this type of pre-market validation will allow them to be taken more seriously by potential partners and suppliers.

There are however challenges and as US Sociologist Robert S. Lynd said “Knowledge is power only if man knows what facts not to bother with.” In a recent OECD study one of the top barriers cited by SME’s for internationalization was “Limited information to locate and analyse markets” this included the difficulty in knowing what national and international sources of information is available and the problems associated with the source, quality, and comparability of available information used to attempt to increase understanding of foreign markets.

For any company the importance of knowing the correct sources is the first step. It is vital that the gathering of business intelligence is concentrated and focused on the identification of relevant information. There is a challenge around the correct interpretation of data. SMEs often do not have the bandwidth or expertise to conduct research independently and will rely upon third parties, such as trade and investment promotion agencies or their appointed partners to assist.

Verifying the quality of information from new markets can be challenging. There can be a language barrier cited and it is about finding reliable local information. Despite the availability of business intelligence, for any export or investment decision, the role of local navigators remains important in foreign markets who can both translate the material and also the cultural nuances of doing business in the local marketplace.

For SME’s this is vital as it provides some security when entering new markets.

Acknowledging that there is support out there to assist businesses - in OCO’s experience the services offered for SME’s from Economic Development Organisations can vary enormously. To name a few best practice examples; Invest in Finland is supporting Finnish SME’s to advertise their expertise to potential investors in Finland - thus demonstrating local capability by sector. The US Economic Development Administration offer a cluster mapping tool built in conjunction with Harvard Business School to help navigate sector clusters and specialisms in the US market. Increasingly, we are also witnessing that the financial services companies such as Santander, are supporting their customers by providing information on exporting to overseas markets and hosting and arranging information events by market.

No matter how a SME decides to grow internationally, it is clear that international expansion relies on being equipped with the right business intelligence. Despite the availability of information for all companies the correct interpretation and use of this research is vital.
SECTION 3

SMEs in Context

Addressing the SME Opportunity

Support in Action

SMEs Support in Action

BORN GLOBAL: RISE OF THE MULTINATIONAL SME
Attracting FDI from SMEs - The US Case

Joe Phillips
Associate Director, OCO

Like virtually every other country in the world, the US has Economic Development Organizations (EDOs) at various levels of geography with a mandate to attract FDI to their locations. This means they are open to attracting companies both large and small, from almost any industry sector. But SMEs are not always aware that such services exist, as they do not have the developed network of a larger company. For example, it has been suggested that weak penetration of Indian SMEs in the US is in part due to EDOs’ services remaining a “little known secret”. Hence, those larger companies often tend to gain the most EDO support, despite needing it the least.

Nevertheless, despite imperfect information “the vast majority of greenfield investments [in the US] come in the form of SMEs, for example San Diego found that the average greenfield operation at the time of investment had 27 employees”. This is a trend that is likely to continue, projects are getting smaller globally, in part due to initial caution, but also as they are being more technology intensive, such that job creation revolves around high quality, rather than quantity.

Moreover, the US does not have a monopoly on innovation, so a future Skype or Spotify that started out as a foreign micro enterprise, will still need support to invest and thrive in the US market. Hence, while domestic SME support is well covered, (including a mature venture capital environment), it is important that the country’s EDOs are also able to provide a visible service to overseas SMEs, or there is a risk of missing out.

To suggest that the US is not supporting SMEs in their international activities, would however be disingenuous. Certainly on the export side for US companies, support is extensive. Furthermore, there are examples of FDI support: Aaron Brickman of the Organization for International Investment (OFII) cites both the work of Maryland and Massachusetts for their work with overseas startups in life sciences, albeit those companies will often have connections to globally recognized entrepreneurs, or some other such ‘hook’ to reach the EDO’s radar.

Another approach that Brickman points to has been to develop mutually beneficial tie-ins with overseas industry clusters, and the nascant Seattle - Finnro relationship in healthcare is a good example of this. The advantage of such an approach is that the EDO is not attempting to target SMEs individually where it will be difficult to pick ‘winners’, but instead has access to a pool of firms, whereby the chances of nurturing successes are greater.

North of the border, Invest Toronto have also previously organized a series of seminars to specifically engage with SMEs in India. Organized jointly by the Ontario International Marketing Centre in India and Invest Toronto, these seminars in 2013 aimed to guide these companies in how to “set up operations in Toronto, access facilities and incentives, and also establish networks that will enable them to capitalize on local business opportunities from Toronto”.

**SO WHAT MAKES THE US DIFFERENT?**

At the federal level, SelectUSA is the FDI attraction body, while the Small Business Administration (SBA) supports SMEs. As the SBA aims to “help Americans start, build and grow businesses”, there is no clear initiative that combines the two aspects of FDI and SMEs. Also for many EDOs, winning projects is focused on attracting domestic companies, by competing with other US locations. This is often heavily focused on incentives to large companies, with SMEs having limited focus. So while SMEs can and do receive some support, typically there are not programs or incentive rules explicitly aimed at attracting foreign SME companies.

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**HOW MIGHT SME FDI SUPPORT CHANGE?**

EB-5 is a program that provides an investor with permanent residency. Peter Joseph, executive director of IIUSA said “…small businesses participating in the program …are having an incredible impact on their community”. However, such companies often tend to promote investment either in retail and restaurants, or take the form of a financial investment (i.e. fundraising), so it can be argued that EB-5 is not really intended to meet an SME FDI gap. Instead EB-5 is essentially acting here as a vehicle for entrepreneurs - supporting FDI up to a point, but it is not truly meeting the need to support foreign SMEs.

The Transatlantic Trade and Investment Partnership may also make a difference to the SME ecosystem, as it will support investment development for both US and EU firms, and this in itself is a stepping stone to FDI. Equally, in a world where technology has reduced the obstacle of borders to doing business, foreign companies may feel less compelled to expand to America, if indeed they put boots on the ground overseas at all.

Hence in an increasingly challenging marketplace, to get ahead of the game, EDOs need to grasp the initiative. This means more consideration of SME-specific FDI frameworks: they need not be vastly different from targeting larger companies whereby industry strengths are identified, and matched to overseas clusters. But at its heart, identifying and developing the right relationships, as with each of the examples above, is ultimately the path to success.

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1 Source: National Bureau of Asian Research - An Interview with Vinod K. Jain, President and CEO of the India-U.S. World Affairs Institute, 2014
3 Source: Invest Toronto, 2013
5 Source: SelectUSA, 2015: EB-5 Visa - Everything You Need to Know, 2013
National, Regional and City Agency Perspectives

Andrea Napoletano
Director, Investment Division, Italian Trade Agency

Provide a brief overview of your agency and its remit.

The Italian Trade agency was established more than 90 years ago and recently, its remit has evolved to cover both FDI and Trade promotion in line with other national agencies. We are currently in the process of strengthening our overseas teams to address both trade and investment opportunities. We opened a new office in Istanbul recently and a further 9 offices will be opened across key markets in coming months to help accelerate inward investment attraction.

Describe the services SMEs can avail of from your organization.

SMEs can avail of a broad range of services including market assessment, market introduction, facilitation and access to existing investors (supply chain / R&D potential) and access to export finance. We have spent a lot of resource implementing an advanced CRM system which allows us to better understand the characteristics of our SME base so we can provide the appropriate level of service to our SME clients.

What’s been your best success story in terms of SME support?

We have many specific case studies but our overall recent numbers highlight our success. In the last year, our exports have grown by 5% - higher than the EU average. The demand for Italian luxury products is growing in developed markets like Japan and the US and we assist many companies promoting high end consumer goods. A lesser known fact about Italy is that we are also very strong in the production of mechanical goods - we’re 2nd in Europe in fact - and we’ve worked with companies to provide support for them to enter into new markets. Developing markets with burgeoning middle classes presents an exciting opportunity but we’re also seeing really strong growth in established markets like the US as well with an amazing 28% yoy growth.

Are there any barriers to providing more effective support for SMEs? What initiative do you intend to put in place to overcome these?

We are working to better inform companies, especially outside of the main industrial cities, about the services that we have to offer and how we can connect them into a broader ecosystem with MNCS. We’re currently in the process of an extensive market study across Italy to address this challenge and we’re actively working on a number of initiatives to ensure there is consistent and widespread messaging for small businesses who need export assistance.

What can broader industry and other stakeholders do to support needs of SMEs more effectively?

There is still need for better access to finance and there are specific growth programmes by sector. We’re more concerned about identifying companies with “high potential” across all sectors to best utilize our limited resources and accelerate economic growth.

What’s top of the to-do list to evolve and improve the offer from your organization?

Establish the 10 new overseas locations in the short term vision means we can provide better services for high potential companies across these key markets.

Does your organization adapt the needs of SMEs on a sector basis?

How important is this in your view?

We have completed a comprehensive matrix analysis of both the demand and supply side by sector and market. The services for SMEs are adapted according to their growth potential across all sectors. We have some specific growth programmes by sector. We’re more concerned about identifying companies with “high potential” across all sectors to best utilize our limited resources and accelerate economic growth.

SMEs in Context

Addressing the SME Opportunity

Support in Action

Stakeholder Perspectives
Provide a brief overview of your agency and its services.

Riviera, Team Côte d’Azur, helps new, local area. The purpose of our agency is to promote the region in international markets. We work to benefit our stakeholders by initiating projects to stimulate the local economy. We strive to unite public authorities, private companies, and representatives of the rich local ecosystem (universities, research institutes, fablabs, accelerators, and professional organizations) in the common goal of successful territorial marketing.

Describe how SMEs can benefit from your organization.

We help investors access a comprehensive range of services to discover that Côte d’Azur and turn the set-up process into a success. That includes assistance for:
- Connecting to the ecosystem
- Finding the best site for their business
- Recruiting their teams
- Accessing public incentives
- Channeling effective communication.

What’s been your best success story in terms of SME support?

In your opinion, how important is this to you?

Does your organization adapt the needs of SMEs on a sector basis?

What’s at the top of your to-do list to evolve and improve the offer from your organization?

What can broader industry and other stakeholders do to support needs of SMEs more effectively?

What’s next for the French Riviera?

Facebook: Team Côte d’Azur
Twitter: @TeamCoteAZur
LinkedIn: https://www.linkedin.com/company/team-cote-d-azur/
Website: www.investintonedazonor.com
Hard to find just a few years ago, startup accelerators and incubators are now fixtures of the global tech community, and have become embedded in so many cities it is difficult to keep count. The US, for example, has roughly 200. Spain has around 40 with half split between Madrid and Barcelona; Italy has more than 20; France and Germany more than 30 each; the Czech Republic and Slovakia around 10 apiece, many of them privately or self-funded.

So why are accelerators and incubators important to economic development? And should they become a key part of FDI strategy in the face of so many competing interests for resources?

First, there is plenty of research linking early stage companies (those less than five years old) to employment creation, particularly when they scale fast. Sceptics will point out, however, that a key characteristic of today’s innovative tech companies is their limited headcount. Apple, for example, posted almost the same 2012 revenues as General Motors but employed less than one-third of the people globally (76,000 versus 294,000). So what are the other economic benefits of focusing on startups?

Wealth creation and indirect job creation are often highlighted as positives and it is worth understanding their broader impact, such as innovation and technology transfer, third party services, talent acquisition, taxes and foreign direct investment, all of which are arguably just as important for a country’s wealth creation. In Sweden, where incubators are mostly publicly funded with money offered free or at very competitive terms, operators must provide bi-annual data that includes new employment demographics, third party subcontracting services, taxes paid, new funding received, etc. In this way, the government can calculate a rough return on investment of each incubator funded.

The inspiration, innovation, ideas, talented people and technology transfer that startups can bring to an economy also attract multinational companies (MNCs) which like to invest in them to remain competitive. MNCs often choose to be headquartered and put their research and development function in a city that has a strong cluster of innovative startups. London is a prime example of this. Home to 40% of the globe’s biggest companies according to a Deloitte study, it also has the biggest concentration of accelerators and incubators in the UK, more than half of the 60+ running, a growing number of which are corporate backed by MNCs including Barclays, Microsoft, Disney, Google and O2 Telefonica.

All of this doesn’t detract from the bleak truth that startups tend to fail: some commentators put the burn rate as high as nine out of 10. Unforgivable sins include making products that no one wants, a poor management team or failing business model, or simply running out of cash. If there is a ‘secret sauce’ to creating and building a sustainable venture, it would have to include building a product that is right for the market and paying attention to all the company’s business processes and issues not just the product.

And that’s where the accelerator or incubator model fits in. Providing a structured interface for best-in-bred startups is helping an entire generation of companies, particularly tech startups to grow, prosper and thrive. Helping them to commercialise their products and providing them with the necessary requirements and training for starting up, a successful business will only strengthen the knowledge component of a local economy and contribute to its long-term economic competitiveness.
Backing Export Growth

Richard Donnan, Managing Director of Corporate and Commercial NI, Ulster Bank, discusses the banking sector’s commitment to supporting companies’ export ambitions.

Why does any bank support export? At first glance, it seems like there’s a straightforward answer. Encouraging exporters is a part of local and national government policy. And from a bank’s perspective, a growing exporting business fits well into any customer portfolio.

But the picture is more nuanced than that - the rewards of selling goods and services abroad are balanced by the risk of needing new intermediaries to help with buying and selling ‘on the ground’. Are there more reasons for banks to support export?

The skills a bank needs to grow their own business, and to develop productive business relationships locally, building trust in a customer’s business, long-term thinking, openness to innovation - are analogous to the capabilities needed to break into export markets. Banking isn’t a purely financial business - assessing risk, reviewing business plans, and spotting an idea that can carve out a profitable niche are in part human judgments that every business needs to make. And so, sharing our know-how as well as being a good cultural fit, is really valuable to the aspiring exporter.

Moreover, to equip our customers to export successfully, it is important to have the right tools in place. Banks must deliver a suite of products to help to meet the challenges of export and support our growing businesses. Helping release money from unpaid invoices, providing payment guarantees, such as Letters of Credit and assisting with exchange rate management are practical ways of facilitating export business and helping customers better manage the particular risks of export. The banking sector is increasingly working in partnership to support export. For example, Ulster Bank is the only local bank with full membership of the International Banking Association (IBOS). This membership connects businesses with partners in IBOS, who aim to provide the service you would expect from Ulster Bank, but delivered by a local bank within your chosen market.

But, it’s not just about the menu board of banking services; banks must also invest in our people ensuring that they understand our customers and the people behind the business, and that they are accessible and located close to our customers. This helps to build mutual trust so that we can provide honest and productive advice to our customers.

We also have a role to play in promoting companies and connecting them with attractive markets and potential customers. Supporting events and activities, be it working with economic development organisations on trade missions or sponsoring industry events, are great showcases for businesses to demonstrate real ingenuity and creativity in terms of the products they are developing and the markets they are targeting.

From our organisation’s perspective, banks’ commitment to all businesses, whether a company is looking to extend their international footprint or is just starting out, should be to provide access to connections and practical customised solutions to enhance success.
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