THE WALL STREET JOURNAL.

U.S. EDITION Tuesday, March 20, 2018 As of 4:42 PM

Sourcing or selling, SMEs find the world is their oyster

by Catherine Bolgar / 7 December 2010

Call them the “accidental exporters.”

Small and medium-size businesses post their products and services on the Internet. Unexpectedly, orders come in from foreign countries, and the SMEs suddenly change from being domestic players to global ones.

“The world has changed enormously in the past 10 years,” says Stuart Nivison, head of trade and supply chain for HSBC Europe in London. “I cannot overstate how much more internationally connected the world has become. It’s been helped by the advent of the Internet.”

Many SMEs from small countries are benefiting from sales abroad made via the Internet when their home markets are saturated. SMEs whose main focus is supplying bigger companies, find they are obliged to go international when their customers do, notes Gerald I. Susman, emeritus professor of management at Pennsylvania State University in University Park, Pennsylvania, and editor of the book “Small and Medium-Size Enterprises and the Global Economy.”

Outsourcing by large companies also presents opportunities for SMEs, says Alberto Gimeno Sandig, associate professor for family business at the Escuela Superior de Administracion y Direccion de Empresas, business school in Barcelona. “Companies don’t need to have a global presence in order to have global reach.”

The most successful international SMEs find a niche, link with good local partners, tap assistance available for SMEs and learn the culture of their new markets.

Choosing a Market

Some SMEs are family businesses that have been around for generations. Others are start-ups, whose founders usually worked somewhere else before branching out alone. That previous employment can be invaluable in entering foreign markets.

Jiří Kovář and three friends started an industrial engineering firm, Unis a.s., in Brno, the Czech Republic, in May 1990, only months after Czechoslovakia abandoned communism. They saw an opportunity as changes in Eastern Europe made big companies nervous about the future.

Their first project was in another country — Austria — and they soon expanded to Iraq, where Mr. Kovář had spent five years with his previous employer. He and his partners also had worked in the former Soviet Union and the Middle East, big markets that multinational companies considered too unstable. “So it was the right market for SMEs to do business,” he says. “For SME’s it’s very difficult to penetrate a market that is already saturated.”

Being in such diverse regions as the former Soviet Union, the Middle East and Europe protected Unis from the economic crisis and currency fluctuations, he says. Unis, with its sister companies, counts about 1,000 employees today.

Carving a Niche

Pamarine Pte. Ltd., a Singapore supplier of marine safety equipment, found its niche in a new regulation by the International Maritime Organization that all ships carry voyage data recorders, like the black boxes on airplanes. Pamarine focused on research and design, making the unit small so it could be installed on all sizes of ships, and managed to succeed in the face of competition from big multinational players, says Png Cheong Boon, chief executive of SPRING Singapore, the country's enterprise development agency, and chairman of the SME working group for Asia-Pacific Economic Cooperation, or APEC.

Finding a niche that depends on technology, innovation or very strong customization is a typical formula for SMEs, one that German companies have used to great success.

"Find a specialty," advises Alexander Kritikos, vice president and head of innovation, manufacturing and service at the German Institute for Economic Research, DIW, in Berlin. "If you have no specialty, then why should a person from Brazil buy something from Germany if it's something he can get just around the corner."

Specialization also makes economies of scale less important, which helps SMEs compete with bigger companies.

In Germany, SMEs that trade internationally are concentrated in a few sectors: electrical engineering, automobile and automotive industry, mechanical engineering, pharmaceuticals and chemicals. "They have a kind of a cluster. They are very specialized, so they often produce only one single product and are the only ones in the world able to do that," Dr. Kritikos says.

Picking a Partner

How do you actually sell in a foreign market? SMEs need to assess whether they have not only the expertise to develop a new market but also the personnel and resources, says Mr. Png of SPRING Singapore. By their very nature, most SMEs lack brand recognition, especially in new markets.

Charles & Keith Pte. Ltd., a Singaporean designer, maker and manufacturer of shoes and accessories has more than 200 retail outlets in Singapore, the Asia-Pacific region, the Middle East and Eastern Europe, mostly through a franchise model. "When they enter new markets, they look for good local partners," Mr. Png says.

In other cases, you might want to find a local distributor, especially one whose local product line has a hole that your product can fill, says Dr. Susman of Penn State.

Mr. Kovář of Unis finds similar behavior among subcontractors in the company's very diverse markets. "When the company is too small, usually the price is low. And when the project is completed, sometimes the price has doubled."

In selecting a local partner, "don't choose the cheapest one," he says. "And supervise activity very, very carefully." He also suggests partnering with big companies — "at the beginning it won't be profitable, but you will learn a lot about the market and you will learn from their mistakes."

Global partners can be found either up or down the value chain, notes Dr. Gimeno of Esade. "You can be local in sales and production but global in sourcing. Or you can have local designs, global production and global service. Maybe just the finance is global," he says. "It's not the company that is globalized, but just specific activities of the value chain."

Getting Help

Embassies and chambers of commerce can help SMEs determine whether a potential partner is trustworthy, says Dr. Susman. Another indicator of reliability is whether a company has signed the United Nations Global Compact, pledging to meet requirements in 10 areas, such as providing a safe work place and refusing bribery or child labor.

Many governments have agencies, such as Singapore's SPRING, to help SMEs develop capabilities as well as get information about import or export requirements of specific markets. Some countries also have special banks for SMEs, or offer guarantees to help SMEs get better terms for financing.

Help is available in other areas as well. Banks can help arrange hedging instruments to protect against currency fluctuations. Insurance companies can mitigate risks of delays in international orders.

Thanks to technology, even small companies can control quality and logistics around the globe, says Dr. Gimeno. "You don't need to be IBM to do this."

Understanding the Culture

"Most business isn't about one transaction and one sale, it's about a relationship you're developing with a contractor or buyer," says Mr. Nivison of HSBC.

For SMEs, that's good news. Bigger companies that are quoted on the stock exchange have to meet quarterly expectations, while small, family owned businesses can take a long-term view.

Long-term doesn't mean slow. Small companies can shift gears more quickly than big corporations to adapt to exigencies of local markets. “The advantage of large corporations is their planning capabilities,” Dr. Gimeno says. “But in a world that is more uncertain, the capacity of trial and error is more of an advantage.”

Above all, in a family business, “the person you speak to is the person who makes the decisions and will make the decisions in 10 years as well. That makes for a good partner,” he says.

Mr. Nivison of HSBC says: “If you sit and think about what all these issues are, there are really very few countries in the world where you can’t trade. If you’re just selling to and sourcing from your own country, you’re missing out on a lot.”

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