

SUPPORTING STATEMENT: SECTION A

Commercial Service Market Segmentation Study of Moderate U.S. Exporters Focus Groups
February 2007

SECTION A. JUSTIFICATION

1. Necessity of Information Collection

Expanding U.S. exports is a national priority essential to improving U.S. trade performance. The Department of Commerce (DOC) International Trade Administration (ITA) U.S. Commercial Service (CS) serves as the key U.S. government agency responsible for promoting exports of goods and services from the United States, particularly by small and medium-sized enterprises, and assisting U.S. exporters in their dealings with foreign governments.

The CS is mandated by the Government Performance and Results Act of 1993 and the President's Management Agenda Fiscal Year 2002 to improve program performance and achieve better results for the American people. In accordance with these mandates, the CS needs to address the weaknesses and opportunities for improvement identified by the Office of Management and Budget's 2003 Program Assessment Rating Tool (PART). For example:

- **1.3: Program designed so that it is not redundant or duplicative of any Federal, state, local or private effort:** (No) Although CS continues to improve its coordination with private and public trade promotion agencies, studies indicate that businesses serviced by CS can also obtain similar services from state, local and private sector entities.
- **1.4: Is the program design free of major flaws that would limit the program's effectiveness or efficiency?** (No) Although CS has streamlined and co-located offices, the agency could increase its efficiency if the agency had a better sense of how much it costs to provide its products and services. Although CS currently charges fees for some products and services, the agency does not have a consistently applied pricing or marketing strategy for its services domestically or abroad. The infrastructure for capturing cost and customer information are inadequate for making informed decisions. Some recommendations CS should consider are: 1) Standardize the management of portfolio of products/services and customer, market, cost and price information to ensure quality and reliability. 2) Improve integration and functionality of customer management systems. 3) Perform ongoing competitor and market analysis.
- **1.5: Is the program effectively targeted, so program resources reach intended beneficiaries and/or otherwise address the program's purpose directly?** (Yes) In addition to this structure, as mandated by law, ITA/CS targets the businesses that cannot afford private sector comparable services (primarily small to medium sized businesses). CS is working on better defining its criteria for targeting assistance. Thirdly, CS is evaluating how to better account for its cost and pass along an appropriate level of cost to the customer. Lastly, ITA is reviewing its organizational structure to determine how to better deliver its services.

To address these weaknesses and opportunities and, in an effort to remain relevant to the marketplace and optimize our respective operations, the Commercial Service (CS), Manufacturing Extension Partnership (MEP), Census Bureau (Census), and Export-Import Bank (Ex-Im) have embarked on a market segmentation research study of moderate U.S. exporters. The objectives are to gain market knowledge and generate statistically valid characterizations about the needs and buying behavior of exporting companies, with a particular focus on Moderate exporters, which are defined as those U.S. firms that currently export, but on a limited or reactive basis and whose international sales comprise less than 10% of total sales or whose international sales growth is less than 10% per year. More specifically:

Ensuring the Commercial Service Does Not Encroach on the Private Sector

To ensure that the CS does not encroach on the private sector, the focus groups will provide fundamental knowledge about customer needs and preferences that will serve to underlie all of our strategic and operational decisions related to providing export assistance. For example, the groups will provide such information as where exporters receive assistance from; what services they receive from federal, state, local, and private entities; attitudes about working with government consults; and how the CS fits into the overall world of export assistance providers.

Performing Ongoing Competitor and Market Analysis

The market segmentation research will look at buying behaviors of U.S. exporters—what they need and what they are willing to pay for. It will let the CS identify and develop services that Small and Medium-sized Exporters (SMEs) need and will buy, rather than simply sell what we know; and keep our service mix relevant in a changing marketplace. It will also identify opportunities to increase fee revenue generation and develop more effective and efficient targeted selling and marketing approaches.

Better Targeting

The market segmentation research will help the CS, Ex-Im, MEP, and Census focus on the “right” customers with the highest export potential, and which maximize impact, export successes, and return on investment. It will identify opportunities to expand capacity through self-service, partnerships, and franchisees, allowing the team to service different segments of clients in different ways according to their needs.

Respondents benefit from the collection of this information because it will be used to improve services provided to the public. Without this information, the CS/MEP/Census/Ex-Im team is unable to systematically determine the needs, attitudes and behaviors of U.S. exporters. This effort will gather statistically valid market intelligence on SME attitudes and behaviors vis-à-vis making international sales and working with a government consultant.

2. Description and Practical Utility of the Information Collection Activity

ITA recognizes that U.S. small and medium-sized U.S. exporters face a rugged global landscape chalked full of pitfalls, hazards and impediments. Common pitfalls include poor market analysis, a poor understanding of competitive conditions in the foreign market, a failure to customize the product offering to the needs of foreign customers, lack of an effective distribution

program, and a poorly executed promotional campaign in the foreign market. U.S. exporters tend to underestimate the time and expertise needed to cultivate business in foreign countries. Few realize the amount of management resources that have to be dedicated to this activity. Many foreign customers require face-to-face negotiations on their home turf. An exporter may have to spend months learning about a country's trade regulations, business practices, and more before a deal can be executed and signed. U.S. exporters also often face voluminous paperwork, complex formalities, and many potential delays and errors. In addition, U.S. exporters must compete against foreign companies that often benefit from more government support, especially in terms of resources and staffing. In this foreboding environment, it is more important than ever that U.S. Government promotion efforts are tailored to fit the unique, complex and changing needs of small and medium-sized U.S. businesses.

Market segmentation is a systematic approach for identifying clusters of companies with similar needs and behavior, and developing service offerings and sales/marketing approaches targeted at segments with the greatest Return on Investment (ROI). More specifically, the results of this work will help CS/MEP/Census/Ex-Im to:

- Identify and develop services that SMEs need and will buy, rather than simply sell what we know; and keep our service mix relevant in a changing marketplace;
- Focus on the “right” customers with the highest export potential, and which maximize impact, export successes, and ROI for all of our organizations;
- Identify opportunities to increase fee revenue generation;
- Develop more effective and efficient targeted selling and marketing approaches;
- Identify opportunities to expand capacity through self-service, partnerships, and franchisees; and
- Provide fundamental knowledge about customer needs and preferences that should underlie all of our strategic and operational decisions related to providing export assistance.

Clients benefit because the information will be used to improve and better target services provided to the public. Without this information, the CS is unable to systematically determine the needs and benefits desired of U.S. companies and how best to meet these needs.

Please see attached Market Segmentation Focus Group Discussion Guide.

3. Use of Automated Technology

The information can only be supplied by current and potential clients and cannot be economically or effectively obtained through electronic transmissions.

4. Non-Duplication

The moderated focus groups offer the CS the opportunity to harvest qualitative data from customers and non-customers to understand how customers think about the services they use, the potential export services they might need, how they become aware of and access those services (if they have used them), and their perceptions of the CS/Census/Ex-Im/MEP as potential export

service providers. Each of the focus groups will develop information on participant needs for and benefits derived from export services and what the CS team should do to better market export services to their potential customers. The qualitative information about needs and benefits desired gained in these groups will directly inform the content and wording of the quantitative questionnaire for the market segmentation initiative. No similar information is available and the survey cannot be designed without this information.

5. Minimizing the Burden for Small Business

Focus group questions are opinion-oriented, and there is no need for clients to maintain additional records, or incur extra expense to develop data not readily available. Focus groups will be done by telephone to increase convenience and further minimize the burden for small business. The simplicity of client focus groups also minimizes the burden on small business.

6. Consideration of Alternatives

Research reviewed includes the Report Card on Trade II by ITA and Dr. Jennifer Bremer of the Kenan Institute; National Export Strategy; 2006 ITA Customer Satisfaction Survey; Census Bureau's *Profile of Exporting Companies*; SBA's *Small Business Guide*; ITA's *Small and Medium-Sized Exporting Companies: A Statistical Handbook 2003*; and CS customer satisfaction surveys. Consultations were also conducted with MEP, Ex-Im, Census, TPCC, MAS, and Dr. Jennifer Bremer. No similar information is available.

7. Paperwork Reduction Act Guidelines

The information will be collected consistent with Paperwork Reduction Act guidelines.

8. Consultants

CS/MEP/Census/Ex-Im contracted with Pacific Consulting Group (PCG) based out of Palo Alto, California to perform the market segmentation research. Dr. Jennifer Bremer of the Kenan Institute is part of the PCG team. MEP is also providing a consultant, Mike Stone of Stone & Associates.

In addition, a 60-day request for comments from the public was published in Federal Register December 15, 2006 (Volume 71, Number 241). No comments from the public were generated from this announcement. And, a 30-day notice was published in Federal Register February 28, 2007 (Volume 71, Number 39).

9. Incentives to Respondents

None. ITA makes no payments or gifts to U.S. companies who complete the focus group.

10. Assurance of Confidentiality

U.S. companies are informed that the information is for internal U.S. Government use only and will be considered business confidential. The moderators' opening script for the focus groups contains the following statement, "Your comments are confidential. No names will be included in the final report. We will be tape recording the focus group because we do not want to miss any of your comments". (Tape recordings from the focus groups will only be used for the purpose of accuracy and only if the group grants permission.)

11. Justification for Sensitive Information

No questions of a sensitive nature are asked.

12. Estimation of Burden Hours and Costs

Eight client focus groups consisting of five participants will be convened. This estimate is based on the research facilities confirming 9 participants to ensure that at least 5 participants attend each group, and that 10 contacts will need to be made to secure one confirmation.

Estimated Number of Respondents: 72
[estimated clients contacted] x [average focus group response rate]

720 clients contacted x 10% response rate = 72 respondents

Estimated Time Per Response: 90 minutes

Estimated Total Annual Burden Hours: 108 hours
[estimated number of respondents] x [estimated time per response]

72 respondents x 1.5 hours (90 minutes) = 108 hours

Estimated Total Annual Costs: \$3,780
[average hourly private sector salary]x [estimated total annual burden hours]

\$35 x 108 hours = \$3,780

13. Estimation of Respondent's Costs

None

14. Estimation of Government's Costs

The government cost of conducting the Market Segmentation Study is \$38,388 (Pacific Consulting Group's fee)

15. Rationale for Program Change or Adjustments

No similar information is available.

16. Uses of Analytical Methodology

The moderated focus group discussions will be used to understand how customers think about the services they use; the potential export services they might need; how they become aware of and access those services (if they have used them); and their perceptions of the CS/Census/EX-Im/MEP as potential export service providers. Each of the focus groups will develop information on participant needs for and benefits derived from export services. The focus groups will also serve to discover what the CS team should do to better market export services to their potential customers. The information gained in these groups will directly inform the content and wording of the quantitative questionnaire.

The CS recognizes that participants in these focus groups are not a representative sample of the identified populations and that the results will therefore not be used to make inferences about the opinions or characteristics of these populations. These results should not be used as the basis for performance measures or significant policy changes.

17. Reasons for not Displaying Expiration Data

N/A

18. Rationale for Exceptions to Certification Statement

N/A