

**A Snapshot of Export Activity**

**in Western Australia's**

**SME Sector**

**July 2006**





WESTERN AUSTRALIAN  
TECHNOLOGY & INDUSTRY ADVISORY COUNCIL

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## **Foreword**

The Western Australian economy is noted for its commodity exports and its large number of *small and medium enterprises* (SMEs). The State's commodity sector has been well documented. The nature of cyclical global commodity prices requires the State to encourage the diversification of the State's exports.

This report is an attempt to understand, acknowledge and support the role of the *exporting small and medium enterprises* (SMXs) in the diversification of Western Australia's exports. This diversification role can be better facilitated by the Government recognising these exporters as a segment of the economy in their own right rather than as a part of separate industry sectors. Broadening Western Australia's exports remains one of the key strategic objectives for a stronger more resilient economy and the Western Australian SME is a key enabler of that objective.

I would like to acknowledge the support of the people who manage the SMXs listed in Appendix D who, despite business pressures, generously contributed their time, expertise and experience to the compilation of this report.

I would also like to thank my colleagues on the Steering Committee and the team of consultants from Data Analysis Australia and Economic Research Associates, in particular Dr Paul McLeod, Ms Sarah Barnes and Ms Anna Munday for the provision of consultancy services to develop this report.

**Tim Ungar**  
**Chairman, TIAC Steering Committee**

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## Executive Summary

### SMX: Critical to Western Australia's Economic Strength

Mining and agricultural exports dominate the overall export performance of Western Australia. As a result, Western Australia's view of its economy and exporters is heavily influenced by these sectors and the relatively large companies they produce.

However, Western Australia has a thriving and diverse small to medium export (SMX) sector which is large in number and encompasses a wide variety of goods and services which it exports to most parts of the world. These companies are an important element in the Western Australian economy. Their importance lies partly in the fact that they are integral to achieving diversification away from traditional reliance on mining and agriculture. Perhaps even more important, these SMXs develop and utilise a wide array of innovative technologies and labour market skills. In this way they make an important contribution to the maintenance and development of a more robust technology and labour market base in Western Australia which will be important to maintaining the strength of the Western Australian economy in the long term.

### Focus of the Report

This report looks at various aspects of the performance of SMXs in Western Australia, the challenges they face and the strategies that determine their approach to exporting and their success as exporters. The analysis is based on direct interviews with a cross section of 45 companies and examples are given of the ways in which some individual companies have addressed the various issues identified.

The companies in this study cover a range of products and services and while a significant number of companies have export activities directly aligned (at least initially) with mining and agriculture, others do not. In fact, for a significant number the inherent advantage of being in Western Australia is far less obvious. For example, *a priori*, CNC machines for signwriting, saddles, power tools or engine systems for buses may not immediately be thought of as exporting opportunities from Western Australia.

Notwithstanding the wide range of products and services covered by the companies in the study, there are significant commonalities identified across these SMXs in terms of the product and export strategies that have led to success. These commonalities provide insights into what it takes to be successful as an SMX in Western Australia. They also provide insights into the nature of the competitive advantage in Western Australia and the key factors needed for ongoing success.

The picture that emerges may be surprising to those who are not familiar with the sector, but is one which illustrates the underlying strength and resourcefulness of the SMXs and their potential to contribute to Western Australia.

### Patterns in Exporting

It might have been expected that SMXs would develop first in Western Australia, look elsewhere in Australia for new markets and then go overseas. In fact this is far from the case. Virtually all of the companies in the survey embraced the idea of exporting internationally early in their development. The major reason offered for commencing exporting early was simply insufficient local demand relative to the growth opportunities sought by the company and the sales levels needed to sustain a profitable business model.

Some companies began selling to Eastern Australia at the same time as they began international exports, however, none used the Eastern States as a stepping stone to overseas. Indeed the predominant view is that it is as easy and in some cases easier, to develop overseas markets. Whilst for most companies, international exports were the logical way to grow beyond Western Australia, it is important to recognise that for several companies there was no local market for their original innovation/product idea and sales had to have an overseas focus from the start. Perhaps surprisingly, virtually all companies indicated that the initial approach to exporting was largely opportunistic in the sense that few had a detailed strategic plan regarding exports and exporting. This meant that the exact timing of export development, the particular countries selected, marketing methods and networks developed as opportunities arose.

### **The Major Challenge is Offshore**

For the SMXs in this study the major challenges to export success are predominantly offshore. Virtually all companies nominated cultural awareness as the key to becoming successful exporters and recognised that this must embrace awareness of the cultural, political and religious environment in each country as well as the business environment. Whilst this is perhaps to be expected for companies dealing with say Asia or Africa, many companies experienced a variety of culture shock when first attempting to do business in the United States because they were unprepared for the complexity of doing business there and the particular demands that it places on suppliers. Companies have evolved and refined their business model where necessary to accommodate differences between countries and between sectors and product and service markets within countries. They recognise that a “one-size-fits-all” approach in their business planning and in the advice and assistance available to them will not lead to success for them as exporters.

Behind cultural awareness issues, companies nominated the building of relationships and sheer perseverance as keys to export success. Typically companies relied on one or a combination of:

- Forming a strategic alliance with a local company;
- Setting up local office staffed primarily by locals (especially for mining services); or
- Follow an existing large customer into a new market.

It was almost universally recognised that there is no substitute for the SMX having its own people on the ground to build relationships. In most cases this meant the founder/CEO was involved until the company grew large enough to have some dedicated marketing/business development roles. The cost in terms of resources and time is a key hurdle to initial development of export markets.

Most companies are aware of and have had to deal with issues which are commonplace practices in some countries, but have been classified as bribery, corruption and intellectual property (IP) infringement. Companies cannot easily avoid these issues and need to be well prepared to deal with them when they arise. The interviews indicated clearly that failure to be prepared and to act based on complete understanding and good planning could be potentially damaging to further business opportunities and ultimate success as an exporter.

The experience of the majority of participants was that the key to dealing with most issues was finding the right local contacts, i.e. a reliable person with local knowledge who could assist them to navigate the pitfalls.

Western Australia is an isolated State, close to Asia but distant from many of the world's major markets in Europe and North America. All companies recognised that distance was an issue but, most importantly, virtually none saw it as a barrier. The key to being a successful SMX from Western Australia is to eliminate the perception of distance as a barrier for the customer. In effect the companies in this study have made distance an issue managed by them as the supplier and not by the customer. A major element in their ability to achieve this has been their universal willingness to “jump on a plane” and deal directly with issues or have staff placed overseas who can ensure timely service and support.

### **Innovation and Quality are the Core to Success**

Virtually all companies in this study have based their export strategy on some combination of: technological innovation; high quality and flexible product manufacture or service; a focus on niche/boutique markets; and premium pricing. An important aspect of differentiation and niche market development for manufacturers is the willingness to undertake varying degrees of product customisation for clients. This is seen as giving them a competitive advantage over mass market producers who could not so readily make changes to product.

It is important to recognise that, by their nature, many of these SMX companies have no inherent comparative advantage operating from Western Australia. Their competitive position and success is rooted in innovative technology, products and services. Many were established in Western Australia based on innovations made by the company founders. The majority have no fundamental reason to remain in Western Australia but do so because they have found product strategies that allow them to be competitive in world markets operating from Western Australia whilst still maintaining lifestyle choices.

Underpinning their success in following their innovation and product/service strategies is access to a highly skilled and flexible labour force encompassing engineering, scientific, technical and trade skills. Indeed, the quality of the people available directly to them and of those available indirectly in their key suppliers is generally recognised as having been critical to their success. These companies are individually too small to influence education, training and labour markets. Yet these areas are an important element of competitive advantage in Western Australia and arguably will be the most critical factor influencing the continued development of successful SMXs in Western Australia in the longer term.

### **Beyond Mass Production**

The corollary of the success that these SMXs achieve in following their innovation and niche market strategies is that mass production of routine goods is not viable from Western Australia. The key to the success of these and future SMXs will continue to be innovation and while this is likely to result in high end manufacture (technically complex products with small production runs) continuing in Western Australia, higher volume routine product and component manufacture does now and will continue to be more competitively done offshore.

Western Australian SMXs involved in manufacturing have a view that manufacture of complex products based on mixes of materials and innovation in design is what they can do best in Western Australia. This reflects the wide range of technical skills available and the easy logistics. Taking this one step further, concentrating on R&D and prototype manufacture may be a way for some companies to remain and grow in Western Australia even if high volume routine manufacture goes offshore. Indeed the success of companies already doing this suggests that Perth may be an attractive location for overseas based companies to locate their R&D and prototype manufacturing.

## **Leveraging and Valuing IP**

Fundamentally, this is a reflection of the fact that, whether they export goods or services, the creation and exploitation of IP is at the core of the success of the SMXs studied. The challenge for these companies, and one which they clearly recognise, is to continue to innovate and create valuable IP and to be able to successfully protect, control and exploit their IP when they are providing services and manufacturing offshore.

By implication, this is a challenge for the State. Successful SMXs that grow will almost by definition have innovation, creativity and IP at their core but will grow beyond Western Australia to have successful operations overseas. The challenge is to have these core activities based in and controlled from Western Australia whilst recognising that having aspects of their manufacture and service delivery offshore is in large part a reflection of the success of these companies in moving into the global market place.

## **Experience with Government Assistance**

A wide range of assistance schemes have been made available to SMXs by both State and Commonwealth agencies. Virtually all companies had knowledge of and most had some direct experience of the range of services available. Commonly they had used in-country advisory services, trade fairs and missions. Most had knowledge of and several have benefited from Export Market Development Grants (EMDG). Several companies were recipients of the Western Australian Innovation Support Scheme (WAISS) grants when they were operating and several have or have had Research and Development (R&D) start-up and commercialisation grants.

The experiences of interviewees regarding these various services and grants were generally very positive. For many companies, grants to assist marketing and R&D were crucial in allowing product and market developments to occur. This was not just a function of quantum but also of timing with the grants being available at critical junctures in their attempts to develop new markets and products.

There were noticeable differences between companies with positive and those with less favourable views. Companies successfully using the range of services and grants available were able to ask the right questions, had systems whereby documentation, application and audit were not too onerous, and many had previous experience with grant processes. Companies using these services less successfully or not using them at all, fell into several categories. Some companies had erroneous understanding about their eligibility for export grants and R&D grants. For others the processes surrounding grants, advisory services and participation in trade fairs appear not to have been well understood in advance leading to disappointed expectations and consequent negative views. In general, these companies lacked all the relevant information for deciding on an approach and for participating in these arrangements. For some where the founder/CEO was still at the heart of all the developments in the company, the processes were perceived as too onerous and bureaucratic.

Very few companies had used consultants to assist in seeking export assistance. Similarly, very few used consultants to assist with export strategies, including in-country assistance. There is a very high propensity to develop and manage export strategies “in house” with the emphasis on the founder/CEO. Virtually none had selected independent directors based on knowledge of overseas markets.

## **Managing Growth**

Information is costly to access for SMXs and has a high opportunity cost especially for the founder/CEO who is typically leading all aspects of product and market development. There was a general view that SMXs lack the sort of informal business networks focussing on exporters and export issues which are likely to lead to better information flows (business person to business person) regarding important but quite basic business issues of direct relevance to SMXs. Business mentoring is a potentially important element of this. Mentoring is a key element in the success of many companies as they develop. Exporting for SMEs poses some unique challenges and there was a general recognition that mentoring on these issues was not common across the SMXs. Some companies in the study had specifically sought out mentors on general and specific aspects of business development but they were the exceptions.

Most companies found Western Australia a good location from which to develop their niche export markets based on innovation and quality and do not pursue things that they know cannot be done well here, such as large volume, routine manufacturing, and while this means they see the major challenges related to developing their overseas markets, local issues do arise. There is far less commonality across the companies in terms of these issues. The most commonly cited local issues related to scaling up to meet market demand. Globally, the sort of niche markets based on innovation and quality that these SMXs are targeting are large in absolute terms and are very large relative to Western Australia and the capacity of the SMXs. Long term growth requires expansion and a key issue for companies is that of determining the optimal growth path and resourcing that growth. The principal issues confronting companies scaling up in Western Australia are:

- Finding the required number of appropriately skilled staff;
- Logistics of scaling up production;
- Capital cost of scaling up production;
- General cost of production; and
- Managing the scaling up process whilst at the same time managing the export activities.

These issues apply with equal force to services and manufacturing companies.

Finding the capital to fund export growth and product development was almost universally nominated as a major local issue for companies. The common perception of companies is that the Western Australian financial sector is not well geared to dealing with small export oriented companies, especially manufacturing companies.

A list of all the key findings follows.

## **Key Findings**

### **A Snapshot of SMX Characteristics**

- Western Australian SMXs commence exporting early in their development, with approximately 78% of companies surveyed exporting within ten years of commencing operations. Insufficient local demand relative to the growth opportunities sought and the sales levels needed by the company was the prime driver of exporting, but significant numbers of companies have technologies and products that were focussed on overseas markets at the outset.
- Contrary to common perception, the initial foray into exporting was largely opportunistic in the sense that few companies had, at the outset, a detailed strategic plan regarding exports and exporting and target markets prior to making their first sale overseas.
- Distance is an issue but not a barrier. Companies have used various strategies to ensure that distance is not seen as an issue by their clients. Success requires that companies eliminate the perception of distance as a barrier for the customer.
- All companies nominated cultural awareness as the key to successful business development overseas. Within this broader framework, companies find it important to be very clearly “Australian” businesses.
- There is a consensus amongst SMXs that there is no substitute for having your own people on the ground to build the necessary relationships. In most cases this has meant the founder/CEO being extensively involved and the cost of this, in terms of resources and time, is a key hurdle to the initial development of export markets.

### **Promoting Greater Awareness and Recognition of the Role of SMXs in Western Australia**

- The export capabilities of SMEs and their achievements are not well understood locally and not well promoted. By promoting their success collectively, SMEs and the State could benefit from growing awareness and consequent sales both domestically and overseas. In particular, where successful SMXs have developed from business migrants, this could be the basis for promoting the State to other such potential migrants.
- The key to success for the SMXs is a combination of technological innovation, high quality product manufacture or service and a focus on niche/boutique markets and premium pricing.
- The range of products and services covered by the surveyed companies is extensive and is not dominated by companies exporting products that are obviously derived from the areas in which Western Australia has a recognised competitive advantage. The majority have no fundamental reason to remain in Western Australia but do so because they have found product strategies that allow them to be competitive in world markets operating from Western Australia and they prefer the Western Australian lifestyle.

### **Innovation and R&D in Manufacturing**

- There is a consensus by exporters of goods that mass production of routine goods is not viable from Western Australia and that the development of IP based, innovative exports is the key to long term exporter viability.
- The majority of manufacturers have considered moving their manufacturing offshore. The main concern that most have regarding moving into offshore production is generally that the factors that make them successful exporters, i.e. IP and high quality, are difficult to control when manufacturing overseas, particularly in China.

- SMXs involved in manufacturing have a view that manufacture of complex products based on mixes of materials and innovation in design can be done well in Western Australia because of the wide range of professional and technical skills available and easy logistics that allow specialist manufacturers to work closely together. R&D manufacture based on manufacturing prototypes is therefore a likely way for some companies to remain and grow in Western Australia even if high volume routine manufacture goes offshore.
- Many companies, especially manufacturers, regard managing growth and scaling up as a major challenge and in some cases a barrier to further export success. The principal issues arising from the need to scale up to deal with a global market are:
  - Finding the required number of appropriately skilled staff;
  - Capital cost of scaling up production; and
  - Managing the scaling up process whilst at the same time managing the export activities.

### **Networking and Mentoring**

- Companies less successfully using these services or not using them at all, fell into several categories. Some companies had erroneous understanding about their eligibility for export grants and R&D grants. For others the processes surrounding grants, advisory services and participation in trade fairs appear not to have been well understood in advance leading to disappointed expectations and consequent negative views. For some where the founder/CEO was still at the heart of all the developments in the company, the processes were perceived as too onerous and bureaucratic.
- Most companies have worked largely in isolation from other exporters and in consequence, with limited knowledge of what other Western Australian companies are attempting in markets where they currently operate or are planning to operate. SMXs appear to lack the sort of informal business networks of exporters which are likely to lead to better information flows (business person to business person) regarding important but quite basic business issues of relevance to SMXs. Business mentoring is a potentially important element of this. Mentoring is a key element in the success of many companies as they develop. Exporting for SMEs poses some particular challenges and there was a general recognition that mentoring on these issues was not common across the SMXs. Some companies in the study had specifically sought out mentors on general and specific aspects of business development but they were the exceptions.
- Companies reported they had experienced a variety of bribery and IP infringement issues. Their experiences indicate that failure to be prepared and base the reaction on complete understanding and good planning could be potentially damaging to further business opportunities and ultimate success as an exporter.

### **Access to Quality Information - Case Histories, Statistics and Monitoring**

- Successful companies are flexible and adapt their business model to accommodate differences between countries and between sectors and between product and service markets within countries. They have recognised that a “one-size-fits-all” approach in their business planning and in the advice and assistance available to them, will not lead to success for them as exporters.
- Finding the capital to fund export growth and product development is a particularly important issue for most SMXs and one where most struggle to find a satisfactory solution.

### *Key Findings*

- Most SMEs need to make changes to their ownership arrangements as part of pursuing growth and making a smooth transition is important to ensure the long term success of the company. Because most SMXs have no fundamental reason to remain in Western Australia, the changes in ownership that are the logical outcome of successful growth strategies, could be triggers for relocation away from Western Australia unless conditions are conducive to companies staying based on clear competitive advantage.

Virtually all companies had experienced a range of services made available by Austrade and the State Government. Their experiences of these various services were varied and generally very positive. In particular, for many companies, the grants to assist marketing and R&D were crucial in allowing major developments to take place.

## **Recommendations**

### **Promoting Greater Awareness of the Role of SMXs in Western Australia**

#### ***Recommendation 1***

The State Government, as part of its industry policy, recognises the contribution of SMXs to the diversification of the Western Australian economy and as a key driver of regional development.

##### **Initiative 1**

The State Government subsequent to considering the key findings of this report, initiates programs under its Industry Policy which directly contribute to building the export capabilities of SMEs in Western Australia.

##### **Initiative 2**

The State Government in conjunction with relevant industry organisations such as the Chamber of Commerce and Industry of Western Australia initiate collaborative programs specifically designed to promote SMXs as a group rather than on an industry or sector basis.

These programs need to be aimed both at raising the public awareness of the role of SMXs in Western Australia and at promoting Western Australia as a supportive location for innovative SMXs.

### **Innovation and R&D in Manufacturing**

#### ***Recommendation 2***

The State Government should map the amount of R&D and prototype manufacturing currently being undertaken in Western Australia with a view to incorporating a specific element in industry policy aimed at developing and promoting Western Australia as a place where companies can base high quality R&D linked specialised product development manufacturing.

##### **Initiative 3**

Develop a component in the Centres of Excellence Program so as to encourage high quality R&D product-linked development manufacturing.

##### **Initiative 4**

Support quality applied R&D product linked development manufacturing in appropriate TAFE Colleges so as to ensure the continued development of high skills and product innovation in high value manufacturing processes and products. Initiatives such as the “Applied R&D Strategy and group” and The Advanced Manufacturing Technologies Centre (AMTC) in Central TAFE should be supported under the Industry Policy, to provide niche knowledge economy competitive advantage to Western Australia’s manufacturing sector.

## **Networking and Mentoring**

### ***Recommendation 3***

The State Government in conjunction with relevant industry organisations such as the Chamber of Commerce and Industry of Western Australia, identify ways of strengthening the export culture in small to medium enterprises (SMEs).

#### **Initiative 5**

Develop effective SMX networks where companies can focus on the particular challenges facing SMXs in a clearly business to business environment.

#### **Initiative 6**

Identify appropriate mechanisms to achieve participation of experienced SMX executives in the mentoring of both potential and junior exporters.

## **Access to Quality Information - Case Histories, Statistics and Monitoring**

### ***Recommendation 4***

The State Government collect, manage and disseminate case studies and statistics with the objective of supporting the decision making processes of SMXs.

#### **Initiative 7**

The State Government systematically documents case studies of recipients of Government export and R&D assistance consistent with developing longitudinal data to determine the extent of and reasons for their successes and failures. These case studies will then be used in program development and more importantly, for promoting the State as a place in which:

- (a) Development of successful companies with export orientation are supported;
- and
- (b) Innovative models for new and existing companies considering exporting are acknowledged and encouraged, particularly for those involved in the export of IP.

#### **Initiative 8**

The Western Australian State and Commonwealth Governments develop a “one-stop-shop” approach to export assistance based on a coordinated and integrated approach to promoting availability and provision of information and services.

#### **Initiative 9**

The State Government requests the ABS to continue its experimental work on collecting small and medium company exporter data by company, state and industry and to develop more routine detailed data collection pertaining to SMXs in Western Australia. This data should be the basis for a regular report that allows Government and industry to monitor the growth and performance of Western Australian SMXs.

# 1 Introduction

Data Analysis Australia and Economic Research Associates were commissioned by the Western Australian Technology & Industry Advisory Council (TIAC) to undertake a review of the export activities of Western Australian companies of the small to medium size category (SMEs). The broad aims of this review were:

- A clear, descriptive profile of the companies in this category that are exporting or have the potential to export and the drivers and impediments to their exporting activities; and
- Recommendations to Government targeted to facilitate growth in SME exporters (where support does not solely equate to funding alone) and recommendations to recognise the roles and responsibilities of both industry and Government.

Information was collected from 45 exporting SMEs using a consultation methodology. This methodology allowed the collection of data more detailed and qualitative in nature than would be possible using a mailout or telephone survey methodology.

Prior to the sampling process there were a number of factors that were considered relevant. These were:

- Some industries export primarily on the basis of comparative advantage connected to the quality of Western Australia's natural resources (e.g. iron ore, gold);
- A number of industries have been extensively studied (e.g. agricultural crops, mining);
- The State already has a focus on some industries (e.g. companies in shipbuilding, those in the Kwinana zone and those who use and will use Jervoise Bay);
- A number of individual companies have been studied extensively; and
- A number of activities where "export" does not fit the study objectives (e.g. franchises like Cash Converters and Dome, HR companies placing Australians overseas).

After considering the above factors with regard to the limited sample size, a decision was made to exclude companies from the following industries due to their coverage in other previous studies, however mining and agricultural services SMEs will be included:

- Mining (commodity exporters);
- Agriculture (commodity exporters);
- Education; and
- Tourism.

Despite the sample size it was necessary for the selected companies to reflect a range of attributes. After reviewing a range of databases to define some key selection criteria, selection focussed on seeking companies that met some (or all) of the following criteria:

- Seen as role model companies, those who have passed through the start-up type process and have achieved recognised export success.
- Are basing their exports and export plans on initially exporting to the country of the owner's origin or ethnic background.
- Are basing their exports and export plans on initially exporting to countries other than the country of owner's origin or ethnic background.
- Are basing their exports and plans on key local resources and are adding substantial value to these local resources (e.g. food processing).
- Are not reliant on the fundamental advantage of local resources but are basing their exports or export plans on innovation in product design, innovation in production process, creativity, selling intellectual services (e.g. architects, engineers), etc.

It was considered important to cover a range of companies from start-up to success. Furthermore, it was important that the companies selected would be open to being interviewed so that it would be possible to probe in depth the various issues that make for export success and failure and those unique issues, if any, that confront these companies in attempting to become exporters and to continue as successful exporters from Western Australia.

In addition to the consultations, a number of companies in the review filled out a basic data sheet covering the company and its export performance. Some participants were unwilling to complete the financial details for confidentiality reasons. A standard template was used to guide the consultations. The analysis of the resulting information focussed on defining the issues common across the sample of exporting SMEs. These are the basis of the various findings and recommendations in the report.

## **1.1 Report Structure**

The nature of the methodology and the structure of the consultations (outlined in Chapter 2) have resulted in the collection of a mix of qualitative information and quantitative data. The analysis of these revealed a number of emerging themes for exporters and the report is organised around them. These themes embody the issues facing exporters from the SME sector in Western Australia and it is therefore natural to structure the report around them.

Chapter 3 provides a snapshot of the exporters in the study and covers reasons for exporting, time involved in exporting, countries, products and services. Chapter 5 considers themes related to marketing and market development and exporter experiences in tackling export development in relation to the country of destination. Chapter 6 looks at themes that have emerged from exporter experiences relating to supply issues. The focus here is on issues that relate to Western Australia and Australia in general, as places from which to supply. All exporters rely heavily on having good quality information and networks to develop their export activities. Chapter 7 looks at themes that have emerged from the experiences of exporters in confronting various informational issues in setting up and growing export operations. The key issues from each theme are summarised at the end of the chapter and all key issues are summarised and linked in the Key Findings.

## 2 Methodology

A multi-stage approach was developed to conduct the review in the most comprehensive manner. The methodology was as follows:

- Review of available data including Australian Bureau of Statistics (ABS) data (see Chapter 3);
- Pre-consultations with Chamber of Commerce and Industry of Western Australia, Department of Industry and Resources, Small Business Development Corporation and Austrade;
- Construction of the consultation list with appropriate categories;
- Pre-contact letter sent by TIAC followed by phone calls from Data Analysis Australia to request involvement and, if agreeable, book an appointment;
- Consultations and data entry;
- Review and analysis; and
- Development of recommendations.

These steps are detailed in the following sections.

### 2.1 Sampling

#### 2.1.1 Pre-consultations

At the commencement of the project, consultations were sought with the following associations:

- Chamber of Commerce and Industry of Western Australia (CCIWA);
- Department of Industry and Resources (DoIR), Export and Trade section;
- Small Business Development Corporation (SBDC);
- Austrade; and
- TIAC Steering Committee

The aim of these consultations was to obtain assistance in the creation of a list of companies to be targeted for consultation. These agencies have contact with entities in the target group and it was felt that their assistance would be invaluable.

During the consultations with CCIWA, DoIR and SBDC and a telephone conversation with Austrade, criteria for the type of companies to be included were outlined. CCIWA and DoIR subsequently provided lists of companies.<sup>1</sup>

#### 2.1.2 Consultation List

Once the lists from CCIWA and DoIR had been collated and companies were added from the knowledge of the project team, the list was submitted to TIAC for review. At the end of this review a number of suggestions were made and these were incorporated into the list.

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<sup>1</sup> Unfortunately, the timing of the project coincided with Austrade's annual survey and they were unable to provide us with details of their companies. The company information held by SBDC is the property of Austrade and therefore they were also unable to assist us.

The full list (over 200 companies) was divided into groups. A decision was made regarding the appropriate number of companies from each group to be included in the sample based on the data review. The groupings were used to ensure that the consultations covered a range of companies, products and industries. They were not used in a formal sampling sense. These groupings are outlined in Table 1.

**Table 1: Groupings Used for Selection of Companies**

Group	Full List	Companies Selected
Agriculture, Forestry and Fishing	23	7
Manufacturing – Engineering	41	26
Manufacturing – Chemicals and related products	10	7
Manufacturing – Other	26	14
Professional Services	18	10
Mining related	21	8
Marine related	7	8
Information and Communications Technology (ICT)	38	12
Creative Products – Consumer oriented	26	11
Individualistic/Oppportunistic	8	3
Medical	11	6
BioMed/BioTech	6	3
<b>Total</b>	<b>235</b>	<b>115</b>

It was expected that not every company that was approached would be able to participate in the review. The original listing of over 200 was reduced to a number that would provide an adequate buffer to achieve the required number of consultations.

## 2.2 Implementation

A letter was sent by TIAC to each company in the sample. This letter outlined the project aims and methodology and requested their participation. (A copy of this letter is attached in Appendix A.) The letter advised that they would be contacted by Data Analysis Australia to set up an appropriate consultation time.

A few days were allowed between the mailing of the letters and contact being sought by Data Analysis Australia. When a successful contact was made with an individual, an appointment was set up and a questionnaire requesting some basic company information was emailed or faxed out. (A copy of this questionnaire is attached in Appendix B.)

Although the consultations were conducted in an informal style, the team members in attendance were guided by a pre-approved consultation framework (see Appendix C) to ensure that the information obtained from each participant covered the same areas.

Some of the issues experienced during the implementation of the methodology are outlined as follows:

- It was often difficult to contact the required individual and once contact had been made, it was also difficult at times to schedule an appointment. A number of willing participants had to be recorded as refusals due to their unavailability during the consultation period.
- Often, they had no memory of receiving the contact letter. It was assumed that this was due to the letter being dispensed with by their assistants.

Due to these difficulties, a second sample was selected during the consultation period to achieve the desired number of consultations.

Despite these difficulties, this methodology has provided extremely valuable information that would not have been collected with an alternate methodology. Those who did participate were enthusiastic about the project. On a number of occasions, the willingness of the participants to tell their story and discuss the issues resulted in consultations taking considerably longer than the 1½-hour time specified.

Prior to each consultation, a preliminary analysis of the company was made regarding its products and situation so that the consultation took place in an informed context.

### 3 Export Data Overview

The first stage of the review involved reviewing available data on exports, most of which came from the ABS.

Western Australia leads Australia in terms of export activity. In 2003-04, 30% of Australia's goods exports came from Western Australia followed by Queensland (18%), New South Wales (17%) and Victoria (16%).

For Australia, mining exports were valued at \$33.8 billion and manufacturing exports at \$43.3 billion. Together these account for 71% of the total value of goods exported. Combined, Western Australia and Queensland account for \$26 billion of mining exports, which is 77% of total mining exports. New South Wales, Victoria and Western Australia dominate manufacturing exports with a combined value of \$30 billion, representing 70% of total manufacturing exports.

In Western Australia, mining exports are \$16.4 billion and manufacturing exports are \$9.3 billion.

**Table 2: Industry of International Exporter by State of Origin of Commodity – 2003-04**

Industry of Exporter	NSW (\$m)	Vic (\$m)	Qld (\$m)	SA (\$m)	WA (\$m)	Tas (\$m)	NT (\$m)	Re-exports (\$m)	Total Goods Exports (a) (\$m)
Agriculture, Forestry and Fishing	300	179	252	287	252	446	41	7	1,764
Mining	3,467	668	9,594	1,150	16,358	798	1,410	372	33,816
Manufacturing	9,184	11,826	4,981	3,969	9,310	749	Np	np	43,249
Wholesale Trade	4,327	4,211	3,762	2,040	5,483	202	116	2,166	22,307
Finance and Insurance	395	262	142	43	575	38	np	np	1,790
Property and Business Services	451	216	934	65	305	17	np	np	2,345
Other	660	539	487	167	499	101	179	1,088	3,720
<b>Total Goods Exports (b)</b>	<b>18,784</b>	<b>17,901</b>	<b>20,151</b>	<b>7,721</b>	<b>32,782</b>	<b>2,350</b>	<b>1,907</b>	<b>7,396</b>	<b>108,991</b>

Data source: Australian Bureau of Statistics. International Trade in Goods and Services, Australia. International accounts and trade. Feature Article - Australia's Exporters, 2003-04 (Note. np = Not available for separate publication).

A large number of exporters are involved in exporting these goods. ABS data indicates that in 2003-04 there were 29,555 exporters in Australia. Large companies dominate goods exports, with 2003-04 data indicating that 192 large companies (defined as goods exports of \$100m or more) accounted for two-thirds of the total value of goods exports.

Most exporters are not frequent exporters. Based on customs entry data, companies that exported 10 times or less accounted for 62% of total exporter numbers. However, the 192 large companies typically exported more than 50 times per year.

Average export size varies significantly across industries. Mining typically has high export value companies with 489 exporters exporting \$33.8 billion, an average of \$69 million per company. By contrast, manufacturing has \$43.3 billion in exports and some 9,117 exporters, for an average export value of \$4.7 million. Across all exporters, the average export value was \$3.7 million.

SMXs make up most of the exporting company numbers in Australia. The number of small companies (less than 20 employees) exporting is around 12,400 these and account for 42% of the total number of exporting companies. Medium companies with 20-200 employees total 13,300 companies, accounting for 45% of exporting companies. Small to medium companies account for only 10% of exports by value.

At a state level, Western Australia had 3,892 goods exporters in 2003-04, and, with exports of \$32.7 billion, this is an average of \$8.4 million per company. This average is skewed by mining exports. Although the numbers are not available to make an actual determination, it is likely that the average per company would be significantly lower if mining companies were excluded.

The participation of small to medium companies in export can be considered by comparing export company numbers with total company numbers. A useful perspective on small to medium companies as exporters is available from the Sensis small business survey. In the 2005 July quarter survey, 12% of SMEs had some exports. For Western Australia, 15% indicated that they exported. These figures vary from quarter to quarter with Western Australia reporting 10% in the 2004 July quarter.

#### **What Sort of Exporters Do We Want? Small Nature of SMXs Poses Policy Challenges**

Australia and Western Australia have a large and growing number of exporters. ABS data indicates that in 2003-04 there were 29,555 exporters in Australia. Western Australia had 3,892 goods exporters.

Large companies dominate goods exports, with 2003-04 data for Australia indicating that 192 large companies (defined as goods exports of \$100m or more) accounted for two-thirds of the total value of goods exports. Most exporters are not frequent exporters. Based on customs entry data, companies that exported 10 times or less accounted for 62% of total exporter numbers. However, the 192 large companies typically exported more than 50 times per year.

SMXs make up most of the exporting company numbers in Australia. The number of small companies (less than 20 employees) exporting is around 12,400 and account for 42% of the total number of exporting companies. Medium companies with 20-200 employees total 13,300 companies, accounting for 45% of exporting companies. Small to medium companies account for only 10% of exports by value.

Across all exporters, the average export value was \$3.7 million.

Western Australia is therefore having success at growing numbers of exporters but they are not large. As with the companies in this study, SMXs in Australia are small by world standards. An important challenge for policy is to ensure settings, including advice and grants, are consistent with maximising the opportunities for these companies to grow as exporters.

The following tables indicate the extent to which Western Australian manufacturing is export oriented. For the manufacturing sector as a whole, 28% of sales for 1999-2000 in Western Australia were exports compared to 17% for Australia.

**Table 3: Financial Year by ASGC for Exports as a Proportion of Sales of Goods Produced (%), Total Manufacturing**

	Total %	WA %
1994-95	14	20
1995-96	15	23
1996-97	15	22
1997-98	16	24
1998-99	16	26
1999-2000	17	28

Data source: Australian Bureau of Statistics. Manufacturing Establishments, Exports by Broad Employment Size and ANZSIC Subdivision, Australia and States, 1994-95 to 1999-2000.

Considering companies with more than 50% of sales as exports, Western Australia has a higher proportion of activity in larger companies compared with Australia. In Western Australia this accounts for 25% of turnover in manufacturing. For Australia, companies with more than 50% of sales as exports count for 13% of turnover (Table 4 and Table 5).

**Table 4: ASGC and Export Range by Financial Year for Total Manufacturing, Western Australia**

<b>Western Australian Exports more than 50% of sales</b>	<b>1994-95</b>	<b>1995-96</b>	<b>1996-97</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>
Employment at end of June (%)	11.3	10.5	11.4	13.0	11.6	14.2
Wages and Salaries (%)	15.5	13.6	15.9	16.7	15.2	18.2
Turnover (%)	18.9	19.7	19.7	24.6	22.4	24.9
Industry Gross Product (%)	-	19.5	17.0	-	-	-
Industry Value Added (%)	-	-	-	22.4	17.0	16.1

Data source: Australian Bureau of Statistics. Manufacturing Establishments, Summary of Operations by Proportion of Exports by ANZSIC Subdivision, Australia and States, 1994-1995 to 1999-2000.

**Table 5: ASGC and Export Range by Financial Year for Total Manufacturing, Australia**

<b>Total Exports more than 50% of sales</b>	<b>1994-95</b>	<b>1995-96</b>	<b>1996-97</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-2000</b>
Employment at end of June (%)	5.4	5.5	6.4	6.9	6.7	8.0
Wages and Salaries (%)	6.2	6.0	7.4	7.9	7.9	9.4
Turnover (%)	9.6	10.6	10.2	11.2	11.3	13.1
Industry Gross Product (%)	-	11.2	8.9	-	-	-
Industry Value Added (%)	-	-	-	9.6	9.3	11.1

Data source: Australian Bureau of Statistics. Manufacturing Establishments, Summary of Operations by Proportion of Exports by ANZSIC Subdivision, Australia and States, 1994-1995 to 1999-2000.

### 3.1 Data Overview Summary

The data review shows clearly that there are significant numbers of small to medium exporters in Australia and Western Australia. For manufacturing, where available data is more detailed, Western Australian companies are more export oriented than the rest of Australia.

The reasons for this have become clear during the course of the consultations. Similarly, the challenges in having an export orientation from Western Australia have also become clear and are discussed in detail in subsequent chapters.

## 4 Snapshot

### 4.1 Reasons for Exporting

The exporters in the study were asked why they commenced exporting and to indicate the motive for their initial export attempts between strategy and opportunistic response.

Despite the diversity of the products and services exported by the companies interviewed, export motivations clearly fell into one or more of three major categories:

- Local market demand (52%);
- Company orientation (20%); and
- Opportunity (25%).

The major reason offered for commencing exporting was insufficient local demand relative to the growth opportunities sought and the sales levels needed to sustain a profitable business. For several companies, the lack of a local market was absolute and all their sales have been overseas from the start of operations. For others, the lack of a large enough local market was recognised early on and export efforts began almost immediately. For still others (primarily manufacturing companies), the natural growth of the company led to a point where the company needed to achieve a critical mass to maintain profitability and this critical mass left spare capacity after servicing the local market.

A particular aspect of the local market that influenced export focus was diversification. Several companies indicated that they needed to guard against the risks associated with the cyclical nature of local demand. While foreign markets are also subject to cycles, the timing of these cycles differs from the local cycles. Taking advantage of these differences allows a company to flatten out their sales, better manage capacity and stabilise cash flow.

The bulk (59%) of the SMXs covered in the study have been founded in Western Australia by the current management. That is, they are first generation businesses. The networks and global orientation of the company principal (CEOP) has been a major influence on their export orientation, especially for those that moved quickly into exporting or had planned to export at the time of setting up the company. This influence stemmed variously from the CEOP having worked overseas in the same or a related industry (taking advantage of overseas business networks, international experience), being originally from overseas (cultural and family network), or having studied or lived overseas for a period of time (technical and education network). In several cases all of the above factors were evident.

Although companies had a basic desire to export, the initial balance was more opportunistic than strategic. The initial approach to exporting was almost always opportunistic in the sense that few companies had a detailed strategic plan regarding exports and exporting. This meant that the exact timing of export development, the particular countries selected, marketing methods and networks evolved as opportunities arose.

The focus shifted from opportunistic to strategic once initial success had been proved and further growth opportunities were sought. Initial success and experiences allowed for a refinement of the strategy. For example, one of the food processors, after initial forays in several countries, with varying degrees of success, was able to build on one successful activity to refine their strategy to work with a particular industry globally and to concentrate on one country at a time in developing exports away from that industry. The refined strategy allowed product development to be targeted to the needs of the focus industry.

A consequence of initial opportunism in approaches to exporting was that most companies used a “trial and error” approach and few would be afraid to admit that they got it wrong on occasions. Companies commonly pointed out that the “business” of running a business (including product development, financing, management, local operations, etc) precluded resourcing the development of a conscious strategy until after a number of successful exports had been achieved.

Despite the initial opportunistic nature of exporting, the most common region initially focussed on was Asia (38%) – Singapore, Malaysia and Indonesia. Proximity seemed to be an important reason for this.

Going cold to a market place was the most common approach for exporters developing their business overseas. For most, no other approach was possible. Links to other exporting companies, local customers and as one put it, “word of mouth”, did play a role for some. Perhaps the best example of this are mining services companies (software, consulting and risk management and training) which have been able to develop exports by following local mining companies overseas as well as trading on the recognised international reputation of Western Australia’s mining and mining services industry. This has also been true for those mining equipment manufacturers interviewed whose experience was that mining managers experienced with their products in Australia continued to use their equipment after relocation overseas.

In a couple of cases the product or service was a component of a larger product or service delivery giving the company indirect exposure to the overseas market. Rarely, some were approached directly by overseas companies who had seen the website or heard about the company or product through an industry-related contact.

## 4.2 Time in Business Before Exporting

Most companies embraced the idea of exporting early in their development. The group is broken down as follows:

- Day 1 (within two years of operation), 36%;
- 3-10 years, 40%; or
- Greater than 10 years, 24%.

The limited size of the local demand was the most common reason (41%) for exporting amongst the companies who started exporting within the first 10 years of operation. This can be contrasted against companies exporting after 10 years, only two of which gave this reason.

Of the companies who listed global orientation as their reason for exporting, 71% started exporting within the first 10 years of operation. One of those that did not had spent many years travelling overseas developing networks within the industry and the advent of the EMDG gave them an opportunity to capitalise on existing networks.

There also appears to be a slight correlation between the time in business and how long a company took to start exporting. Table 6 indicates that those businesses which started exporting early tend to be younger businesses overall.

**Table 6: Comparison between Time in Business and Time in Business before Exporting**

Time before Exporting	Time in Business		
	Less than 10 years (%)	Between 10 and 20 years (%)	More than 20 years (%)
Less than 2 years	50	59	6
From 2 to 10 years	50	41	33
More than 10 years	0	0	61
	<b>100</b>	<b>100</b>	<b>100</b>

### 4.3 Countries

The products and services exported by Western Australia's SMEs can be found on all continents. The following list contains the countries specified during interviews. This list is not exhaustive as a number of companies listed continents rather than countries (due to the high number of countries).

Argentina	Mexico
Azerbaijan	New Caledonia
Bangladesh	New Zealand
Brazil	Oman
Canada	Papua New Guinea
Chile	Peru
China	Philippines
Egypt	Qatar
France	Saudi Arabia
Georgia	Singapore
Germany	South Africa
Holland	Sri Lanka
India	Sweden
Indonesia	Taiwan
Iran	Thailand
Ireland	Turkey
Italy	Ukraine
Japan	United Arab Emirates
Jordan	United Kingdom
Korea	United States of America
Kuwait	Vietnam
Malaysia	Yemen

The opportunistic nature of their initial involvement in exporting meant that few companies made decisions about which countries they initially exported to using a conscious strategy. The initial motivation was often either:

- The CEO or other key staff member was either from the country or had lived in the country;
- The CEO or other key staff member had visited the country numerous times and/or liked visiting the country;
- They had been part of a trade mission or had attended a Government-sponsored trade show in that country; or
- They were brought in to a country by an established contact or client; and
- Proximity.

The formulation of a conscious strategy for targeting countries did not generally make it easier to get a foothold in a market. Indeed in some cases there can be a mismatch between the countries that are the logical focus for export and the networks and knowledge base of the founders. For example, for some companies the logical export market was always Africa and the Middle East although this was not the background of the founders/managers.

#### 4.4 Products and Services

The following table shows the range of products and services that are exported from Western Australia by the respondents.

<b>Products</b>
3D spatial information management products
Coils for bending heat hoses
Contact lenses
Digital repository system for reusable knowledge objects
Drilling equipment
Electronic fuel injection and engine management technologies
Electronic motion controllers and CNC machinery
Fire panels and emergency evacuation systems
Gaskets
Healthcare and medical products
Heat bending coils
Honey
Industrial batteries
Lures
Manufacturing enzyme deodoriser
Marine seating
Nursing home and hospital equipment
Plaster
Power tools
Precision seeding machinery
Pressure vessels, heat exchanges and pipe spools
Protective coatings
Saddles
Shadow boxes
Shaftless screw conveying and compacting products
Silicon
Tactical communications equipment
Thermo reflective insulation
Tracking solutions, satellite communications
Wind and solar pumps
Eggs and egg products

**Services**

Emergency response training  
Business matching  
GIS consulting  
Branding  
Landscape regeneration  
Oil & Gas engineers  
Structural engineering and shipbuilding software  
Waste water management (products and services)

The list above covers a wide range of products and services. Many are relatively obvious export activities from Western Australia. For example, heavy equipment and intellectual services connected to mining or products and services connected to shipbuilding. For many others, the immediate connection to Western Australia is less obvious. Indeed in some cases it might not be expected, *a priori*, to find these exports or companies in Western Australia. For example, CNC machines for sign writing, saddles, power tools or engine systems for buses might not be immediately obvious as exporting opportunities.

## 5 Product Development, Marketing and In-country Factors

The interviews revealed that building initial connections to overseas markets and establishing a market presence in overseas countries sufficient to be a basis for achieving exports was considered the biggest challenge for exporters. These factors have been referred to as demand or in-country factors.

Most exporters were confident, at least initially, that they had the product and production systems to be successful. Hence these demand or in-country factors came to the fore.

The fact that these issues were clearly the most important for our exporters places these issues higher than in some other studies. In a recent study by Dowling et al (2000) looking at issues facing exporters to Asia, respondents listed Federal Government issues as the major impediment to exports while cultural awareness was listed as the seventh most significant barrier. Reasons for this difference are suggested below.

### 5.1 Marketing and Product Development

One aspect that clearly emerges from the interviews is that to be successful operating from Western Australia, virtually all companies have evolved a strategy based on:

- Technological innovation;
- High quality manufacture and service; and
- A focus on niche/boutique markets; leading to
- Premium price.

Companies all expressed a conscious commitment to some combination of the above in explaining their success as exporters.

Consistent to their commitment to an innovative niche strategy, virtually all manufacturer interviewees highlighted the inability to “mass produce” from Perth. Competing with places such as China in routine processes, where labour costs are so low, is simply not viable for them. One interviewee quoted a rule of thumb that, if labour costs are approaching 30%, then manufacturing overseas is the way to think.

Having a point of differentiation for a product was generally considered to be one of the keys to export success. The level of advantage gained by this factor varied according to the country depending, primarily, on the culture of the country as it pertains to their attitude to price *versus* quality. An important aspect of differentiation and niche market development for several manufacturers was willingness to undertake varying degrees of product customisation for clients. They saw this as giving them a competitive advantage over mass market producers who could not so readily make changes to products.

An important aspect of the high quality approach is to ensure that it encompasses all aspects of product and support services including advice, transport and backup support. In this regard, all companies recognised that distance was an issue but virtually none saw it as a barrier. The key to being successful from Western Australia was to eliminate the perception of distance as a barrier for the customer. In effect the companies in this study have made distance an issue to be managed by them as the supplier rather than by the customer. A major element in local companies’ ability to do this is willingness to “jump on a plane” and deal directly with issues or have staff placed overseas who can ensure timely service and support.

A further extension of this is the way companies package their products. Interviewees with specialised equipment indicated that as much as possible they ship product fully assembled, not flat packed. This avoids assembly issues at the destination that could be difficult to deal with from Perth. It reduces the significance of distance and is an important aspect of product quality. Taken together, the above factors appear to be crucial in convincing clients that they should do business with a Western Australian supplier.

The marketing strategies used have all evolved around this product view. In many ways this has also conditioned the experiences that exporters report in relation to developing networks, appointing agents and negotiating sales in overseas countries.

All interviewees have had to address this issue and a wide range of approaches is evident as set out below.

#### **Minimise the Effects of Distance**

Perth is one of the most isolated modern cities in the world. Its closeness to parts of Asia and the fact that it is on the same time zone is a distinct advantage. Nevertheless, it is very far from many traditional markets in Europe and the USA (especially the east coast). Most interviewees recognised that distance was an issue. The key was to reduce its significance to the customer and most companies took this as a key to success. At its most elemental, doing this is based on the willingness of Western Australian based executives to “jump on a plane” and deal with issues face-to-face. Across the board, CEOs of the SMXs interviewed have been willing to do this and found it to be an essential element in success. Beyond this, each company has to find the right approach based on its product or service and market.

**Harvest Road Pty Ltd** is a software company that has developed a large-scale digital repository system and has clients all over the world. They ensure that customers have “24/7” support by having a representative/office in each major area they sell to and organising Australian working hours so that the Australian support staff are at work when major overseas markets/clients are at work.

**Simcoa Operations Pty Ltd** produces Silicon at its factory near Bunbury. Silicon is a homogeneous industrial product and buyers are price sensitive. Simcoa offers a very high level of purity and this positions it well in many markets. However, in many markets, most notably the USA, buyers are used to getting supply locally and their tolerance of and even knowledge of international freight issues is low. Simcoa eliminates this as an impediment and overcomes the issue of distance by organising transport so that it is “door-to-door”.

**Tommotek Pty Ltd** develops and manufactures electronic motion controllers and CNC machinery that cut and router a range of materials to very high levels of accuracy. Initially with export success to Asia, it has found markets in the UK, especially in the sign writing industry. Tommotek machines are shipped fully assembled which means that issues of installation are minimised at the customer end. Quite early on it recognised the need to have technical advice available to customers close to them and set up a UK facility for just this purpose.

**Spirac Engineers Pty Ltd** manufactures shaftless screw conveyer systems and sells them around the world. By shipping their products fully assembled so that minimal work has to be done to get them operational, they minimise the issues of installation and for the customer, this reduces the significance of Perth as the supply location.

## **5.2 Culture and Politics**

Cultural awareness is seen as the key to export success. Conversely successfully negotiating your way through other cultures was seen as the most significant barrier.

Almost universally, participants indicated that the most significant issue they faced in developing export markets was the complexity of navigating the cultural and political environment in each country. This in turn interacted with the need for the founder/CEO to be heavily involved in overseas market development, which in turn impacted on costs.

The most commonly raised issues fell into the following categories:

- Differing business practices;
- The impact of government on business operation;
- General cultural issues; and
- Corruption.

Dealing with these issues has been critical to success. Companies have used a variety of individual approaches and each company is clear that tradeoffs are involved and need to be assessed clearly. In general, the two most common approaches have been based on:

- Forming a strategic alliance with an in-country company; or
- Setting up a local office staffed primarily by in-country personnel.

The choice reflects the particular circumstances of each company, the nature of the product or service and individual country cultures.

Each method has been employed with varying levels of success. Some companies have successfully developed and maintained strategic alliances over an extended period, others have found that it is better to have more control over the process by setting up a local branch.

The success of a particular method does not seem to be related to the country or the industry. Where one company has successfully set up a local branch in a country, another has found that this approach did not work. Similarly, a single approach by a company may have varying success in different countries.

Each company has to consider a variety of issues in deciding an approach and all interviewees stressed the need to have significant personal involvement and to develop an approach that “works for you”. A good example of the variation of approach arises in respect of the extent to which companies try to “blend” into a local culture. Some companies have found this to be a key to success based around involving local persons in many aspects of the business. Other companies have found that using a local alliance or branch to form the appearance of being a local has been unsuccessful. The reason for this is that trying to appear to be a local or using a local to do business can lead to less understanding when a cultural mistake is made. Rather they find it better to be focussed on making every effort to accommodate local practices while still being very clearly “Australian” businesses. They argue that this results in a situation where allowances are more likely to be made for not knowing all the “ins and outs” of local business practices.

In dealing with both different business practices and local government influences, a significant number of interviewees indicated that bribery and other forms of corruption is an issue that companies have had to be able to deal with. The extent to which this is an issue varies considerably between countries, but it is clear that companies need to be clear on their approach rather than be “caught out” in the event. The same is true for IP and copyright issues. Most companies indicated an awareness of these risks and several had direct experience. It is clear that companies need to be well prepared for how they will deal with these practices when they experience them.

Very few of the participants have engaged in these practices. In some cases this has not affected the outcome (i.e. the company still got the job or made the sale) although for others the outcome was not positive. Generally the companies simply refused to become involved in the process, but other companies completely avoid those countries where this is likely to be an issue.

From experiences recounted in interviews, it is clear that companies need to be well prepared for how they will deal with these issues when they experience them. Failure to be prepared and to act based on complete understanding and good planning could be potentially damaging to further business opportunities and ultimate success as an exporter.

One exporter was introduced to a university group in China that had been recommended to him. While visiting this group he realised that the project they were working on (and wanted his involvement in) involved copying the IP of an Australian associate of his. As he was unprepared for this situation his reaction was emotionally charged and in retrospect he feels that, had he been better prepared for the possibility of such a situation, he may have reacted differently and the opportunity of working in China might have been preserved.

Some companies also reported on having to adjust their views to various “in-country” business practices. In some countries this is often a natural part of doing business, and although Australia views such practices as unethical, this stance may be perceived as “judgemental” of the culture of another country. For those who had been in a position where bribery or corruption issues had arisen it was felt that the Government could take a more flexible stance on this issue.

The above discussion centres on foreign business practices but consideration also needs to be given to the general cultural, political and religious issues. In many cases these can be just as relevant. For example, in Malaysia it is necessary to seek out alliances with a Bumiputera Malay as all companies, by law, need to be 51% owned by a Bumiputera Malay. Therefore dealing with one of the other Malaysian races will not result in successful exports to Malaysia.

#### **Service Companies and Local Presence**

All companies reported that cultural awareness was a key issue in developing export markets and that developing a presence on the ground was one of the more significant barriers to export. This is especially true for service companies where the export is based on continuously working with locally based companies and their employees. All the service companies interviewed have been acutely aware of the need to develop good structures for working with locals. In some cases, local rules require that local personnel be hired.

**GHEMS Holdings Pty Ltd** specialises in revegetation and rehabilitation of land after mine closures or large-scale construction projects, work that typically involves long term projects. The company works extensively in Indonesia with local staff. Commitment to the projects in Indonesia is demonstrated by acquiring real property that can act as a branch providing a base for employees (both Australian and Indonesian) and which encourages good interaction between Australian and Indonesian staff.

**Risktec Australasia Pty Ltd** delivers emergency management and safety critical training services based on the ability to simulate onshore and offshore events using its own process simulation software. Risktec operates training centres in Perth, Jakarta, Azerbaijan and Singapore. The company employs a mix of its own Western Australian based staff and locals at its training centres which allows development of well founded local relationships and ensures that cultural issues are well understood.

Whilst the existence of these issues is explicable for companies dealing with say Asia or Africa, many companies experienced a variety of culture shock when first attempting to do business in the United States. They were unprepared for the complexity of doing business there and the particular demands that it places on suppliers, especially the strong preference for local suppliers and the unwillingness to deal with international transport issues.

Most people have learnt how to deal with these factors through trial and error, making many mistakes along the way. Some of these mistakes they have recovered from, others have resulted in a country being closed to them as a potential market. Most have felt that the information available on navigating these issues is inconsistent and not necessarily easily available, but all have agreed that the key is having the right people and perseverance.

The conclusion reached by most is that it is necessary to reassess your business model for each country and not to necessarily adhere to the same business model everywhere.

### 5.3 In-country Networks

The majority of participants felt that the critical factor in overcoming the issues raised was finding the right local contacts, i.e. a person with local knowledge who could assist them to navigate the issues raised previously.

Finding the right person(s), then developing and maintaining a relationship with them was generally held to be the most difficult thing to accomplish. Finding initial contacts generally involved a combination of:

- Government advisory services (generally either Austrade or State Government);
- Trade fairs/missions;
- Employing a consultant with local knowledge; and
- Do it yourself (DIY).

Each of these methods has its advantages and disadvantages and none was found to be universally successful.

What was most universally recognised was that there was no substitute for the company having its people on the ground to build the relationship. In most cases this required the involvement of the founder/CEO until the company grew large enough to have some dedicated marketing/business development roles.

### 5.4 Perseverance

When the issues discussed above are considered in combination, one message is clear. In all cases companies indicated that there was a need to have absolute perseverance. Whilst it may sound trivial, there is clearly no substitute for executives from the company itself making the necessary initial and follow up trips to develop the key relationship(s) and promote the product. Being on the ground to support the product marketing, letting the locals know that you support your product and attending sufficient trade shows to have an impact are all seen as essential actions. Trade shows are a good example of the basic level of effort required. Several interviewees indicated that they had not initially realised that getting a meaningful sale/contract/distributor after the first trade show is a rarity. In fact the real experience is usually that several are required to make progress.

The corollary of this is that such perseverance costs time and money. Both costs are very significant for small to medium exporters. Many companies had understated these costs when they set out to develop export markets and several indicated that significant issues arose from the founder/CEO being forced to, in a sense, leave the “baby unattended” while committed to the overseas selling effort.

## 6 Supply and Local Factors

### 6.1 Planning and Managing Demand Expansion

Even when Western Australian SMXs focus on specialised products and services in niche markets, the absolute size of the global market is potentially huge relative to the base in Western Australia. Planning for and managing growth in this context is a key issue. Virtually all companies nominated “scaling up” as a significant local supply issue.

In this context, it needs to be noted that under the definition used in Australia (Dowling et al, 2000), a business must have less than 500 employees to fit into the SME category. This aligns the Australian definition with that used in Europe and North America. However, in global terms the Australian population is small, approximately the same as some of the larger European and North American cities. Because of this, most Australian small to medium exporters fall into the small end of the spectrum. Recall that the average turnover of Australian exporters is only A\$3.7 million.

Having an Australian market base is not necessarily a solution. While the Australian market for a particular product or service may be proportionately comparable to the relevant overseas market, in absolute terms the size of the market is significantly smaller. Businesses can be significant in the local market environment but virtually insignificant in terms of a major international market like the United States or Japan. Moreover, this issue is not alleviated by the focus that most have on niche markets because these are still a multiple of any comparable market in Australia.

Companies noted that it is easy to be unprepared for the scale of orders that might arise once they begin exporting, especially if they tackle these larger markets. This poses the challenge to scale up rapidly and the evidence is that companies can do damage to their reputation and their ongoing export efforts if they cannot successfully supply the products and services offered once orders flow.

Most companies interviewed now recognise the need to plan production expansion as an integral part of export growth planning. One company has instigated a move to lean manufacturing principles to achieve greater efficiencies. Another has had to resist moving to new markets/countries, even though demand exists, until it has successfully resolved the reconfiguration of its operation to allow production to scale up by the quantum increase in demand likely to come from these new markets. Sponsoring toolmakers from India was the step taken by another company to access the skills needed to ramp up production.

While these issues were of a particular concern to those in manufacturing, some service companies are facing similar issues, especially where scaling up means gaining access to high calibre technical people in tight markets and/or placing staff in overseas locations to service clients.

The main concerns regarding managing growth at the local/supply level revolve around:

- Finding the required number of appropriately skilled staff;
- Logistics of scaling up production;
- Capital cost of scaling up production;
- General cost of production; and
- Managing the scaling up process whilst at the same time managing the export activities.

The optimal solution for any company involves solving these issues while simultaneously remaining competitive in the market, a complex problem for any organisation.

At first, the obvious solution to this issue for manufacturers would appear to be to move to manufacturing offshore and 61% of the interviewees have actively considered this option. Very few have actually made the decision to do so in any major way. The interviews have highlighted the fact that for SMXs, with most at the small end, the decision to manufacture offshore is not one that is taken lightly. It is seen as a major decision that opens up a whole set of management and planning issues.

Central to this is the fact that many companies have built their successful strategies for export on a combination of innovation, product differentiation, customisation, niche marketing and premium pricing. Most have married this to a high level of service and support.

For these companies, although they have an export growth objective, their current volume requirements, whilst too much for their current manufacturing configuration, may not be high enough for offshore manufacturing. In addition they have to consider whether the unique combination of factors that assist in achieving premium pricing can be sustained if they manufacture offshore, a real concern being ability to manage quality. This arises because the companies are focussing on technological innovation and trade to some extent on the reputation of Australia and Western Australia. The exception appears to be products such as medical products. In Europe for instance, once certification by the relevant regulatory authority is achieved, buyers are less interested in the country of manufacture.

Other companies base a key part of their product differentiation on specific IP and/or the innovative quality of their product and manufacturing. Both of these can be difficult to control and protect when manufacturing offshore.

Each company has had to address these issues in a way consistent with their own position, product and business strategy. Most are still looking for a solution that will allow them to continue manufacturing onshore, many mentioning their desire to remain living in Western Australia and driving their business from here as a major motivation.

A variety of approaches have emerged including:

- A combined approach where components are made overseas and the assembling of the finished product is done in Western Australia;
- Manufacturing the customised product(s) in Western Australia but getting bulk runs done overseas;
- Expanding their Australian factory and employing leaner manufacturing practices; and
- Doing R&D or prototype manufacturing in Western Australia and perfecting product for manufacture before assigning it for production overseas.

A number of specialist electronic equipment companies fall into the first two groups. They are companies where the focus is on niche markets for very high quality and specialised products, where production runs are unlikely to be large enough to allow efficient manufacture overseas. However, components such as casings, switches and fasteners are relatively standard and can readily be sourced overseas and used in local assembly. The local assembly allows complete control over the quality of the final product.

### Manufacture of Components Offshore with Local Assembly of Products

Several companies have looked at overseas for manufacture but found that a combination of small production runs, and the need for high levels of quality control on complex products combined with IP protection issues make it more appropriate to get components made overseas and assemble/manufacture in Western Australia.

**QMac Electronics Pty Ltd** manufactures HF Transceivers for use around the world in situations where robust communications are needed by field workers, military, policing and aid agencies. Product must be made to the highest standards of reliability and robustness. Production runs are not huge and manufacture of standardised component products such as cases and switches overseas, with assembly and manufacture of more specialised parts in Western Australia, facilitates competitive manufacture whilst keeping key activities like design and quality control firmly based in Western Australia.

**Halco Tackle Pty Ltd** design and make a wide range of fishing lures for sale all over the world with product going to over 60 countries. Design is critical and needs to be controlled and protected. Skilled toolmakers are needed to craft the specialist lures in small production runs. Halco keeps all design and testing work in Western Australia and has a limited range of components such as hooks, screws and packaging made overseas. These can be sourced competitively from companies doing very high volumes of these products and married with the core design and product manufacture in Fremantle.

### Overseas Manufacture when the Product is Standardised and Price is the Main or Only Issue

For companies where the product can be designed with mass manufacture in mind and where the product is required to be supplied in sufficiently high volumes, overseas manufacture appears the optimal choice. The key is that the customisation component has been removed. IP is not an issue or is well protected.

**Bates Australia** has manufactured saddles in Western Australia for 70 years. A highly export oriented company, over 90% of its product is sold overseas. Bates has always faced serious competition from low labour costs countries like India and Romania. It has competed through innovation and flexibility. It was the first to perfect manufacture of synthetic saddles. Once this product was proven via export from Perth and design had been perfected for volume manufacturing, manufacture was allocated to contract manufacture in Vietnam. High-end leather saddles, customised products and R&D prototypes all require a highly skilled and flexible workforce and their manufacture remains in Perth.

**Unicoil** designs and manufactures a range of steel coils for shaping heater hoses. The device is relatively simple to make in stainless steel, requiring no unique steel skills. It needs to be competitively priced for mass distribution. Manufacture by contract manufacturers in India allows costs to be kept low whilst control and the all-important design aspect remains in Western Australia.

These approaches allow companies to take advantage of the range of workforce skills available to them in Perth while still addressing the reality that higher volume, more routine production is best done overseas. These companies face key strategic decisions to strike the balance between being R&D and product development focussed and being a more conventional manufacturer.

Other companies approaching their manufacturing using prototype and customised manufacture are made viable by a unique combination of highly trained and competent workers and the existence of many companies capable of manufacturing specialised parts in small volumes in a range of materials within close proximity. For example within a single industrial estate, companies are able to have a variety of specialised metal, plastic and electronic fabrication done in relatively short periods of time. When linked to quality design, computing and engineering services, this creates an environment that is not easy to find in many overseas countries. Several interviewees raised the question as to whether R&D encouragement strategies should also encompass R&D manufacturing. One interviewee put the view that, the comparative advantage for companies in Perth was as R&D centres and product developers, not fully fledged manufacturers. This company is evolving from a manufacturer to a company focussed on R&D and the continuous development of new products based on the view that the key is to create IP that can be exported. It sees a situation where once its products are proven, larger established manufacturers will produce them under licence.

### R&D Product Manufacture Trades on Our Local Strengths

The corollary of not being able to mass manufacture locally in Western Australia for some companies has been to concentrate on R&D product development, which takes advantage of the wide range of manufacturing in Perth. Interviewees noted that Perth has excellent engineering skill based and other skilled workers. They can source a wide variety of plastic, metal and electronics products locally, and local logistics make real time supply and product changes feasible.

**Arbotech Ltd** began as an innovator in accessories for power tools to enable wood craftsmen better access and use of these tools. While this has grown, the company has found that Perth is well suited to new product development in power tools because of the complete range of materials manufacture and high quality manufacturing skills. The Perth based operation is now an R&D facility and has developed several advanced power tools that it has brought to market, manufacturing prototypes and product until such time as product volumes allow established products to be made overseas.

**Advanced Engine Components Ltd** has been developing gas conversion technology for diesel engines for over 20 years and its technology is in use in bus fleets in France and Australia and is being adopted elsewhere. The technology needs to be installed at the time of engine manufacture. The Malaga based company develops systems in Perth, manufactures prototypes, fits them to nominated engines, tests and proves their performance before these system components are taken to engine manufacturing plants for integration into new engines. Once fleets are using the engines, they can monitor performance and refine operations based on the work in Perth.

**Nautronix Pty Ltd** develops and manufactures advanced undersea technology solutions for defence and offshore oil and gas. Manufacture in Perth is of advanced systems in small volumes and is cheaper than elsewhere because Perth can provide high standards of engineering, design and manufacture including working with different materials and designing and manufacturing specialised motherboards. Once products become routine high volume, manufacture can generally be done elsewhere and closer to the final market.

Obviously the solution is unique for each company but lessons can be learned by looking at what other companies have done, even if the companies are in unrelated industries. It was suggested in interviews that the production of a series of case studies of the solutions reached by companies in a variety of industries could provide a useful learning tool for companies facing this problem now and in the future.

## 6.2 Offshoring as the Logical Consequence of a Global Focus

Australia has produced few global companies but increasingly successful companies are attempting to become global operators. Arguably, companies reliant on international exports must adopt a global focus in their business planning or risk failure. The SMXs interviewed in this study are by definition in this situation, albeit on relatively small scales at this stage. Their contribution to Western Australia is to be able to develop innovative products and services and take them to global markets.

In this context, several companies in the study expressed the view that operating offshore or “offshoring” was perceived negatively in Western Australia. Indeed some had the perception, wrongly as it turns out, that manufacturing offshore made them ineligible for a range of grants and export assistance.

The discussion in the previous section and the examples indicate that it is not correct to say that companies are simply “moving offshore”. The evidence from the SMXs surveyed is that they are integrating offshore operations into their operations while maintaining a focus on retaining the R&D, innovation and high end manufacture (technically complex products with small production runs and prototypes) in Western Australia, with the higher volume routine product and component manufacture moving overseas.

For those manufacturing, this is a clear reflection of their view that manufacture of complex products based on mixes of materials, innovation in design, efficient small production runs and customisation is what they can do best in Western Australia. This reflects the wide range of technical skills available and the easy logistics. For service companies their advantage is even more clearly dependent on their knowledge creation and their innovation in service delivery.

Fundamentally, this is a reflection of the fact that, whether they export goods or services, the creation and exploitation of IP is at the core of the success of the SMXs studied, not their ability to out compete low cost locations. The challenge for these companies, and one which they clearly recognise, is to continue to innovate and create valuable IP in Western Australia and to be able to successfully control and exploit that IP when they are providing services and manufacturing offshore.

By implication this sets a challenge for the State. By definition successful SMXs will grow based on a core of innovation, creativity and IP and will need to grow beyond Western Australia to have successful operations overseas. The challenge is to have these core activities growing in and controlled from Western Australia whilst recognising that having aspects of their manufacture and service delivery offshore is in large part simply a logical consequence of the success of these companies in their attempt to be successful in the global market place.

### **6.3 Access to Skilled Staff**

Underpinning their success in following their innovation and product/service strategies is access to a highly skilled and flexible labour force encompassing engineering, scientific, technical and trade skills. Indeed, the quality of the people available directly to them and of those available indirectly in their key suppliers is generally recognised as having been critical to their success. These companies are too small individually to influence education, training and labour markets. Yet these areas are an important element of competitive advantage in Western Australia and arguably will be the most critical factor influencing the continued development of successful SMXs in Western Australia in the longer term.

### **6.4 Financing Growth**

Issues relating to funding growth came to the fore in most interviews. This covered everything from funding product development and related R&D to funding overseas marketing campaigns and funding working capital for major equipment construction. While grants for marketing and R&D were highly valuable assistance, they still require matching funds from the company.

Most SMEs have a tightly managed cash flow and although financing export growth from internally generated funds is what most companies have done, this places tight upper limits on expansion. The question for many is how can financing of growth be managed without compromising the involvement of the initial founders/owners?

Most companies are aware of and have considered the usual options for funding:

- Loan from a financial institution;
- Venture Capital Trust (VCT);
- Private investor; or
- Initial Public Offering (IPO).

The perception of interviewees is that local capital markets are not particularly well disposed to SMX type businesses and are in general not geared for it.

Companies noted that obtaining a loan from a financial institution to finance product development and overseas sales could be difficult. Financial institutions traditionally require the loan to be backed by sufficient collateral, often personal assets. In most cases an SME looking for finance will not have the required collateral.

A VCT will not require the company to have the same levels of collateral. However, the perception, and the experience for some interviewees, was that they require a return on their investment in a relatively short period of time, generally a few years. This poses problems for some SMXs where product development, marketing to overseas customers and then setting up production at the required scale, may take several years. Setbacks at the R&D or product development stage compound the problem.

Several interviewees pointed to the importance of Government R&D grants and commercialisation grants in this context as they allowed development activities that would not readily have been fully funded through more conventional sources.

Several interviewees indicated that using an IPO could be a difficult and challenging experience for an SMX. Their experience was that shareholders are primarily interested in financial returns on their investment and sometimes have little patience with the R&D and product development process. Perhaps the more significant issue was the regulatory burden that arises once a company is publicly listed. Regulatory compliance is costly in terms of resource and time and while this adds to overheads, the experience for some was that its main impact was that it reduced the ability of the company and the CEO to be fully focussed on R&D and product and market development.

One of the companies that had been in the R&D product development stages for nearly 20 years had been publicly listed in its earlier years and now has a single majority shareholder. It indicated that public listing has proved very difficult to manage and that meeting the demands of the market and regulators had proved near impossible for a company struggling to get its product innovations accepted in the global market place. Once the company was effectively privatised with a new private majority owner who had a direct interest in the core technology, longer time frames for planning and product development were possible and more successful outcomes emerged.

Much the same story was given by others. One of the more successful companies had grown from its local origins to become a listed company and had expanded successfully via acquisitions in the US and Europe that enabled its technology to be sold worldwide. It then became unlisted and 100% owned by a private business investor with a strong connection to the product and the industry it serves. The feedback was that, as with the previous case, this had made a noticeable difference allowing a greater focus on R&D and product development with more appropriate lead times than had been the case as a listed company when the demands of the market were not easily met.

There are several issues that emerge from these experiences for SMXs. Of note, the majority of interviewees face the problem of funding expansion and several indicated nervousness about embracing the above strategies based on potential loss of control and, more importantly, loss of focus if they cannot successfully manage the relationship with the market, the VCT or the regulators. This is perhaps the most significant and difficult decision facing many of the SMXs interviewed in the near to medium future and one which will simultaneously have a major bearing on the ultimate success of the company and, for the various reasons discussed elsewhere in the report, on its continued presence in Western Australia.

One of the important factors to emerge in this regard is timing. Interviewees with experience of VCT and IPO strategies indicated that they might have moved in these directions too early in the product and market development cycle that ultimately made it difficult to satisfy the demands of the shareholders/financiers. Juggling the demands of a VCT, the market and of regulators is not an easy environment for founder/owners whose whole focus is R&D, product and market development and some interviewees indicated that this transition was an issue for the ultimate success of these growth strategies.

Whilst the issue is real and significant for many, some have successfully managed to use the IPO strategy. Even those with reservations about their own experiences indicated that the process had brought a level of discipline to their business planning (for example in cash flow planning) that had previously not been in place.

Perhaps the most interesting outcome on financing is the experience of companies that have secured or were started with a single substantial private investor. In each case the investors have been multinational operations – family controlled finance and industrial conglomerates. The experience for these companies, some of whom had previously been listed, was very positive. They indicated that tight controls were still the norm but that longer planning time frames had been made possible increasing the chance of successful outcomes in complex product and market development where innovation was a key issue.

One company in this category had actually been attracted to Perth in the 1950s. Notwithstanding several lean periods and changes of direction, the overseas private industrial company that established it had supported the business in Perth and it was now headquarters for a product range for Asia and was exporting to virtually all countries in Asia, with particular inroads being made in major Japanese markets.

There are risks for many SMXs in the growth financing area. One risk is that the company will not achieve critical mass, with the worst-case scenario being that the business will close. Another is the company will be bought by an overseas or Eastern States company, at which point the company may cease to be based in Western Australia. There are no certainties in this regard. One company indicated that after a ten-year successful development of products and export markets, potential buyers had all indicated that manufacture would be relocated to their location. On the other hand an equally successful company that had been sold indicated that Perth continued to be the largest office and the base for R&D, product development, testing and small production runs of complex new products with production going overseas only when greater volumes were needed.

While at a company level this may not appear to be a big issue, it has the potential to affect a large number of small companies, the flow-on effects of which can have a considerable impact on the State's economy and our ability to grow larger export entities.

## **6.5 Succession Planning**

Most companies in the study have been founded in Western Australia based on innovative technical or service concepts. Ultimately to capitalise on their success, founders look to mechanisms like trade sales or IPOs. The interview results indicate that the overwhelming majority of SMXs have no fundamental reason to remain in Western Australia. The product they make or service they provide could be done as easily elsewhere. Hence, future changes to ownership arrangements as companies grow could be triggers for relocations unless conditions, including policy settings, are conducive to the company staying in Western Australia based on well-defined competitive advantage.

This process poses some risks that “home grown” successful exporters will move away when export success dictates a change of ownership to manage growth to the next level.

At another level, even before SMXs reach the point of major changes to ownership, succession planning is a challenge to growth. While some companies have plans in place or planning underway to manage the transition to new ownership structures, for most this is not the case. The issue of succession planning along with the planning, managing and financing of growth represents a key direct risk to the ability of some companies to pursue export markets and growth and perhaps even to the ultimate existence of some companies.

## 7 Advice and Information Sources

A key issue for SMEs pursuing the export market is access to relevant information and advice at various major decision points in the export development process.

At the initial point of setting up an export operation, information and advice is needed for such things as:

- Making contacts in countries of interest with potential customers, agents, distributors and relevant Government officials;
- Acquiring basics in country market information;
- Understanding Government regulations, both specific to the market and industry of interest and more generally for business;
- Understanding cultural issues and related business practice issues; and
- Understanding of those “grey” areas of business practice that are not easily learned about via formal channels.

As exporters grow their businesses, further decisions such as selecting agents, setting up branch offices, setting up manufacturing facilities and hiring local staff also become relevant.

Within these broader decisions a variety of very specific issues can arise relating to such things as transport regulations and product liability insurance. Local regulations and standards (including environmental standards) or lack thereof may also need to be addressed.

Clearly information and advice is needed at a variety of levels from the general to the very specific and at all stages of the export development process. Interviewees provided examples across all levels where access to the right information and advice was critical and was the difference between ultimate success and failure. Good examples include:

- A company not being well enough prepared for what it would do when confronted by a blatant case of IP infringement and losing business because of it.
- Not receiving follow up orders even though no product/pricing/service issues were evident and finally learning, after a considerable period, of industry regulatory issues in the city concerned that needed to be addressed and of which the Western Australian company had not been informed.

The key is always to have the information well matched to the issue and the decision that needs to be made. In pursuit of this outcome, interviewees have accessed most available sources.

### 7.1 Information and Advisory Services

#### 7.1.1 Sources Accessed

A number of different information and advisory sources have been accessed by the companies interviewed. These are outlined below.

- Austrade – in-country networks and assistance;
- State Government services (through DoIR) – in-country networks and assistance;
- Consultants – market research, in-country networks and assistance and grant applications;
- External Directors – independent business advice.

The primary sources of information and advice were Austrade and the State Government. Some companies had used consultants but very few have appointed external directors specifically with a view to adding to their export or country experience.

### 7.1.2 Experiences

The feedback on the Government advisory services varied considerably. Some recipients were very happy with the services received while others were not. The evidence suggests that one or more of the following factors could affect a company's experience with an agency:

- The personal interest and enthusiasm of a particular individual at the advisory service;
- The policy and operational constraints on the service; and
- The perceptions and expectations that the company has prior to approaching the Government advisory service or consultancy.

One of the main criticisms was that the information was not adequately tailored toward their business, but this appears to be partly a function of unrealistic expectations of the company. For example, if a company approaches an advisory service expressing a desire to export to Indonesia and expects to receive all the required information to successfully export there, they are likely to be disappointed.

The quantity of information required to undertake successful exporting makes it almost impossible for a single organisation to be able to collect, maintain and appropriately disseminate it all. To simplify the information gathering process for companies, it may be advantageous for each organisation to clarify what information and services it provides and also provide links to complementary organisations.

A criticism of those advisory services that incur a cost was that the cost was not linked to success, i.e. the company received no guarantee that the information would be of use to them. The difficulty with charging a fee on success is that the successful response to a query is very subjective. If the company is not aware of their specific requirements they will ask a general query and may be disappointed when they receive a general response, even though their query was answered appropriately.

Most of the companies interviewed were sceptical about the ability of consultants to provide the required advice or assistance. Very few had used consultants. The general view was that employing a consultant to develop a marketing plan for example, did not make sense as the consultant would not be as familiar with the business as the owners themselves. This scepticism tended to be validated by those who had used consultants. As with the Government advisory services, many felt that the information received was not tailored specifically enough to their needs.

Those companies that had used external directors found them to be a valuable addition to their management structure, providing useful independent advice. This is a source of advice that is currently underutilised by SMEs.

Despite all the information and advisory sources available, the message from all companies was that there is no substitute for experience when it comes to learning the best way for their company to target and work in a foreign market. This usually means that the CEOP spends a considerable amount of time (and money) making visits to a country gaining the information, contacts and experience they need to develop a market.

One perceived characteristic of advisory organisations is that they provide good summary information and excellent general advice. In general, for companies who seek the information and assistance at the right time in their decision making process, the experiences are positive. This encompasses a variety of in-country services, trade fairs, etc.

Despite this, and reflecting the full range of macro and micro business decisions that they have to make, a significant number of companies indicated that they had experienced difficulty in securing information at the more detailed levels.

In effect, once the macro decision is made and a company is committed to a market and fully in the process of developing and working a network, attending fairs, negotiating with Government officials and appointing agents, etc, a host of specific issues arise. Many interviewees felt that at this level they lacked good information and advice which led to the very commonly expressed view that there is no alternative to just plunging in and learning while you are doing.

In general, the view was expressed that information and advice of this nature is too detailed to be held by one of the organised advisory services. This is information that can only be gained by having survived the need for it, i.e. from other business people with similar experiences. It seems to also be the sort of information and advice that is best received from other business people.

There are a number of networking programs administered by agencies such as SBDC, CCIWA and DoIR, a full list of which is contained in Appendix E. These programs are designed to put businesses in touch with each other and do not all have an export focus. Most participants were aware that agencies offered these networking opportunities but few had participated more than once or twice. Most felt that these programs did not offer the opportunities that they were seeking.

The consequence of this is that many expressed the view that mentoring and networks where exporters could genuinely learn from each other did not exist in Western Australia. Some participate in informal networks they can access to discuss issues that they are dealing with. Others have had mentors with relevant experience. Most though have worked largely in isolation from other exporters and in consequence with limited knowledge of what other Western Australian companies are attempting in markets where they currently operate or are planning to operate.

Often the networks that do exist are based on a particular industry group and there is some reluctance to discuss issues with a competitor or related company that might take advantage of the information.

One fact that has clearly arisen across all the interviews is that companies in completely unrelated industries and activities might be able to share their experiences for mutual benefit.

This raises a number of issues, namely:

- Is there scope to develop more useful exporter associations/forums for Western Australian SMEs?
- Could more experienced SME exporters play a role in mentoring junior exporters?
- What role could Government and organisations like the CCIWA play in this?

As one interviewee noted, at one level he would not like to see a Western Australian competitor win an export contract. At another level, the more companies from Western Australia that do, the better the overall reputation of Western Australian based companies from his industry and therefore the better it is for him in terms of future business. In a sense what is good for the individual company in the short run may not be the best course for the industry in the long run. Hence, participating in forums and mentoring may pay off in terms of growing the overall market for Western Australian based companies.

A related issue to mentoring and networks is that of the wider promotion of Western Australia's SME capacity and its quality in overseas markets. Many interviewees indicated that collectively they were more significant than was generally recognised and that wider promotion of their success and capabilities would be helpful.

## 7.2 Grants

Almost all participants have received some form of grant assistance. The following table summarises the grant programs accessed.

**Table 7: Grant Programs Accessed by Participants**

Grant Program	%
Export Market Development Grant	56
Western Australian Innovation Support Scheme	13
AusIndustry Grant	27
Other	4
Have accessed at least one grant program	73

Almost all participants who had received a grant were positive about the schemes although differing opinions were reported on the application and auditing process. Some participants felt that they were too onerous. In some cases the level of reporting required discouraged a CEOP from applying. Others felt that the process was appropriate. Those who had no issue with the application process typically had either experience in grants applications in an academic environment or had a consultant complete the applications on their behalf. A similar divergence of opinions was given in relation to the auditing of the grants received (i.e. those who found the application process appropriate expressed similar views on the audit process and vice versa).

The time needed to collate the required information and complete the application forms was also mentioned by a number of companies. Those who had engaged consultants also mentioned that they still had to dedicate time to collating the information.

Another factor that was raised by a number of companies was their ineligibility for a grant (this was generally raised with specific reference to the EMDG) due to offshore manufacturing. This information has been independently found to be inaccurate. A company who manufactures offshore is eligible for the EMDG if the company can demonstrate that there is a significant net benefit to Australia.

This raises the question of what information is available to exporters and how this information is disseminated.

## 8 Key Findings and Recommendations

### 8.1 Key Findings

#### A Snapshot of SMX Characteristics

- Western Australian SMXs commence exporting early in their development, with approximately 78% of companies surveyed exporting within ten years of commencing operations. Insufficient local demand relative to the growth opportunities sought and the sales levels needed by the company was the prime driver of exporting, but significant numbers of companies have technologies and products that were focussed on overseas markets at the outset.
- Contrary to common perception, the initial foray into exporting was largely opportunistic in the sense that few companies had, at the outset, a detailed strategic plan regarding exports and exporting and target markets prior to making their first sale overseas.
- Distance is an issue but not a barrier. Companies have used various strategies to ensure that distance is not seen as an issue by their clients. Success requires that companies eliminate the perception of distance as a barrier for the customer.
- All companies nominated cultural awareness as the key to successful business development overseas. Within this broader framework, companies find it important to be very clearly “Australian” businesses.
- There is a consensus amongst SMXs that there is no substitute for having your own people on the ground to build the necessary relationships. In most cases this has meant the founder/CEO being extensively involved and the cost of this, in terms of resources and time, is a key hurdle to the initial development of export markets.

#### Promoting Greater Awareness and Recognition of the Role of SMXs in Western Australia

- The export capabilities of SMEs and their achievements are not well understood locally and not well promoted. By promoting their success collectively, SMEs and the State could benefit from growing awareness and consequent sales both domestically and overseas. In particular, where successful SMXs have developed from business migrants, this could be the basis for promoting the State to other such potential migrants.
- The key to success for the SMXs is a combination of technological innovation, high quality product manufacture or service and a focus on niche/boutique markets and premium pricing.
- The range of products and services covered by the surveyed companies is extensive and is not dominated by companies exporting products that are obviously derived from the areas in which Western Australia has a recognised competitive advantage. The majority have no fundamental reason to remain in Western Australia but do so because they have found product strategies that allow them to be competitive in world markets operating from Western Australia and they prefer the Western Australian lifestyle.

#### Innovation and R&D in Manufacturing

- There is a consensus by exporters of goods that mass production of routine goods is not viable from Western Australia and that the development of IP based, innovative exports is the key to long term exporter viability.
- The majority of manufacturers have considered moving their manufacturing offshore. The main concern that most have regarding moving into offshore production is generally that the factors that make them successful exporters, i.e. IP and high quality, are difficult to control when manufacturing overseas, particularly in China.

- SMXs involved in manufacturing have a view that manufacture of complex products based on mixes of materials and innovation in design can be done well in Western Australia because of the wide range of professional and technical skills available and easy logistics that allow specialist manufacturers to work closely together. R&D manufacture based on manufacturing prototypes is therefore a likely way for some companies to remain and grow in Western Australia even if high volume routine manufacture goes offshore.
- Many companies, especially manufacturers, regard managing growth and scaling up as a major challenge and in some cases a barrier to further success. The principal issues arising from the need to scale up to deal with a global market are:
  - Finding the required number of appropriately skilled staff;
  - Capital cost of scaling up production; and
  - Managing the scaling up process whilst at the same time managing the export activities.

### **Networking and Mentoring**

- Companies less successfully using these services or not using them at all fell, into several categories. Some companies had erroneous understanding about their eligibility for export grants and R&D grants. For others the processes surrounding grants, advisory services and participation in trade fairs appear not to have been well understood in advance leading to disappointed expectations and consequent negative views. For some where the founder/CEO was still at the heart of all the developments in the company, the processes were perceived as too onerous and bureaucratic.
- Most companies have worked largely in isolation from other exporters and in consequence, with limited knowledge of what other Western Australian companies are attempting in markets where they currently operate or are planning to operate. SMXs appear to lack the sort of informal business networks of exporters which are likely to lead to better information flows (business person to business person) regarding important but quite basic business issues of relevance to SMXs. Business mentoring is a potentially important element of this. Mentoring is a key element in the success of many companies as they develop. Exporting for SMEs poses some particular challenges and there was a general recognition that mentoring on these issues was not common across the SMXs. Some companies in the study had specifically sought out mentors on general and specific aspects of business development but they were the exceptions.
- Companies had experienced a variety of bribery and IP infringement issues. Their experiences indicate that failure to be prepared and to act based on complete understanding and good planning could be potentially damaging to further business opportunities and ultimate success as an exporter.

### **Access to Quality Information - Case Histories, Statistics and Monitoring**

- Successful companies are flexible and adapt their business model to accommodate differences between countries and between sectors and between product and service markets within countries. They have recognised that a “one-size-fits-all” approach in their business planning and in the advice and assistance available to them, will not lead to success for them as exporters.
- Finding the capital to fund export growth and product development is a particularly important issue for most SMXs and one where most struggle to find a satisfactory solution.

- Most SMEs need to make changes to their ownership arrangements as part of pursuing growth and making a smooth transition is important to ensure the long term success of the company. Because most SMXs have no fundamental reason to remain in Western Australia, the changes in ownership that are the logical outcome of successful growth strategies, could be triggers for relocation away from Western Australia unless conditions are conducive to companies staying based on clear competitive advantage.
- Virtually all companies had experienced a range of services made available by Austrade and the State Government. Their experiences of these various services were varied and generally very positive. In particular, for many companies the grants to assist marketing and R&D were crucial in allowing major developments to take place.

## **8.2 Recommendations**

### **Promoting Greater Awareness and Recognition of the Role of SMXs in Western Australia**

#### ***Recommendation 1***

The State Government, as part of its industry policy, recognises the contribution of SMXs to the diversification of the Western Australian economy and as a key driver of regional development.

##### **Initiative 1**

The State Government subsequent to considering the key findings of this report, initiates programs under its Industry Policy which directly contribute to building the export capabilities of SMEs in Western Australia.

##### **Initiative 2**

The State Government in conjunction with relevant industry organisations such as the Chamber of Commerce and Industry of Western Australia initiate collaborative programs specifically designed to promote SMXs as a group rather than on an industry or sector basis.

These programs need to be aimed both at raising the public awareness of the role of SMXs in Western Australia and at promoting Western Australia as a supportive location for innovative SMXs.

### **Innovation and R&D in Manufacturing**

#### ***Recommendation 2***

The State Government should map the amount of R&D and prototype manufacturing currently being undertaken in Western Australia with a view to incorporating a specific element in industry policy aimed at developing and promoting Western Australia as a place where companies can base high quality R&D linked specialised product development manufacturing.

##### **Initiative 3**

Develop a component in the Centres of Excellence Program so as to encourage high quality R&D product-linked development manufacturing.

**Initiative 4**

Support quality applied R&D product linked development manufacturing in appropriate TAFE Colleges so as to ensure the continued development of high skills and product innovation in high value manufacturing processes and products. Initiatives such as the “Applied R&D Strategy and group” and The Advanced Manufacturing Technologies Centre (AMTC) in Central TAFE should be supported under the Industry Policy, to provide niche knowledge economy competitive advantage to Western Australia’s manufacturing sector.

**Networking and Mentoring****Recommendation 3**

The State Government in conjunction with relevant industry organisations such as the Chamber of Commerce and Industry of Western Australia, identify ways of strengthening the export culture in small to medium enterprises (SMEs).

**Initiative 5**

Develop effective SMX networks where companies can focus on the particular challenges facing SMXs in a business to business environment.

**Initiative 6**

Identify appropriate mechanisms to achieve participation of experienced SMX executives in the mentoring of both potential and junior exporters.

**Access to Quality Information - Case Histories, Statistics and Monitoring****Recommendation 4**

The State Government collect, manage and disseminate case studies and statistics with the objective of supporting the decision making processes of SMXs.

**Initiative 7**

The State Government systematically documents case studies of recipients of Government export and R&D assistance consistent with developing longitudinal data to determine the extent of and reasons for their successes and failures. These case studies will then be used in program development and more importantly, for promoting the State as a place in which:

- (a) Development of successful companies with export orientation are supported;
- and
- (b) Innovative models for new and existing companies considering exporting are acknowledged and encouraged, particularly for those involved in the export of IP.

**Initiative 8**

The Western Australian State and Commonwealth Governments develop a “one-stop-shop” approach to export assistance based on a coordinated and integrated approach to promoting availability and provision of information and services.

**Initiative 9**

The State Government requests the ABS to continue its experimental work on collecting small and medium company exporter data by company, state and industry and to develop more routine detailed data collection pertaining to SMXs in Western Australia. This data should be the basis for a regular report that allows Government and industry to monitor the growth and performance of Western Australian SMXs.

## Glossary

ABS	Australian Bureau of Statistics
ANZSIC	Australian and New Zealand Standard Industrial Classification
ASGC	Australian Standard Geographical Classification
CCIWA	Chamber of Commerce and Industry of Western Australia
CEOP	Company Principal
DoIR	Department of Industry and Resources
EMDG	Export Market Development Grant
IP	Intellectual Property
IPO	Initial Public Offering
np	Not available for separate publication
R&D	Research and Development
SBDC	Small Business Development Corporation
SME	Small to Medium Size Enterprise
SMX	Small to Medium Size Exporter
TIAC	Western Australian Technology & Industry Advisory Council
VCT	Venture Capital Trust
WAISS	Western Australian Innovation Support Scheme

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## A Pre-contact Letter

30 June 2005

Dear Name

### **Review of the Export Activities of Western Australia's Small and Medium Enterprises**

The Western Australian Technology & Industry Advisory Council (TIAC) has recently commissioned Data Analysis Australia and Economic Research Associates to undertake a review of the exporting activities and experiences of Western Australian small to medium sized companies (SMEs).

As part of this review, the consultants seek the views of local SMEs to obtain an in-depth understanding of the success factors, barriers and other issues which companies of this size experience when exporting from Western Australia. The outcome of these consultations and the review will be policy recommendations to State Government to facilitate growth in exports from Western Australian SMEs.

Companies have been selected for interview so that a range of company sizes, export experiences, destinations and product types can be covered.

Your company has been selected as one which we believe meets these criteria and which can add value to the study. Within a week you will be contacted by a consultant from Data Analysis Australia requesting your participation. If you are willing to participate, an appointment will be made to conduct the interview.

When you agree to participate, a short questionnaire will be sent to you by your preferred method (mail, facsimile, email). This questionnaire will seek some general company information such as number of employees, company structure and countries exported to, which will be used as background data to ensure the interview focuses on your views relating to exporting from Western Australia. The interview will take approximately 1½ hours and will cover issues such as:

- How and why you became an exporter;
- The barriers encountered when exporting and in particular, any barriers which you experienced as a result of exporting from Western Australia;
- Strategies used to develop your export market (both successful and unsuccessful); and
- The future of your export business.

All individual responses received in this review will remain confidential and will be reported in aggregate form only. If you have any questions regarding this review please contact Deanna Fleming at TIAC on 9470 3666 or Sarah Barnes at Data Analysis Australia on 9386 3304.

Yours sincerely

**JOHN THOMPSON**  
**CHAIRMAN**

## B Company Information Questionnaire

### COMPANY INFORMATION

*Please return completed form to Data Analysis Australia by facsimile on 9386 3202  
or by email to dir2@daa.com.au prior to your interview date.*

*If you have any questions regarding the questionnaire, please contact Sarah Barnes  
at Data Analysis Australia on 9386 3304.*

#### **Basic Details**

Company name: \_\_\_\_\_

Date started: \_\_\_\_\_

Main business activity: \_\_\_\_\_

Ownership structure (e.g. partnership, company): \_\_\_\_\_

Do you have operations outside Western Australia? Y/N

If yes, please describe: \_\_\_\_\_

Where are these operations located? \_\_\_\_\_

Number of employees: \_\_\_\_\_

#### **Product Information**

Please list products and/or services sold:

\_\_\_\_\_

Of these, which do you export overseas?

\_\_\_\_\_

#### **Financial Information**

For the most recent financial year, please give the following information:

Annual turnover: \$ \_\_\_\_\_

% of turnover from: WA \_\_\_\_\_ %

Interstate \_\_\_\_\_ %

Overseas exports \_\_\_\_\_ %

Percentage of turnover from exports in the following financial years:

2000/01 \_\_\_\_\_ %

2001/02 \_\_\_\_\_ %

2002/03 \_\_\_\_\_ %

2003/04 \_\_\_\_\_ %

## **C Consultation Guidelines**

1. Why did you begin exporting?
2. How did you begin exporting?
3. How long were you in business before you began exporting?
4. How long were you in the business you are exporting in before you began exporting?
5. (If they export to the Eastern States) Did you export to the Eastern States before overseas?
6. (If they do not export to the Eastern States) Did you consider exporting to the Eastern States prior to overseas? If not, why did you export directly overseas?
7. What countries/markets do you export to?
8. Why these countries/markets?
9. What barriers did you encounter when developing your export business?
10. What barriers did you encounter as a result of exporting from Western Australia?
11. What were your key strategies in overcoming these barriers?
12. What factors do you feel were critical to your success as an exporter?
13. Did you receive any Government assistance? If so, when and from whom?
14. Have you considered relocating your base from Western Australia?
15. Why have you chosen not to relocate?
16. What strategies do you have in place to maintain and/or grow your export business?
17. Are there any forums that you use to inform yourself or keep abreast of current trends and issues in exporting?
18. Do you use consultants or have you appointed external directors?

## D List of Companies

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Ausplow Pty Ltd	Klinger Pty Ltd
Advanced Well Technologies Pty Ltd	Magellan Power Pty Ltd
Advanced Engine Components	MediChill Pty Ltd
Aircell Insulation Pty Ltd	Metzke Engineering Pty Ltd
Ampac Technologies Pty Ltd	Micromine Pty Ltd
Arbortech Ltd	Minemap Pty Ltd
Australian Fine China Pty Ltd	Nautronix Pty Ltd
Barrett Communications Limited	NGIS Pty Ltd
Barry Crommelin Nominees Pty Ltd t/a Crommelin Chemicals	Pelican Manufacturing Pty Ltd
Bates Australia Pty Ltd	Q-Mac Electronics Pty Ltd
Benra Pty Ltd t/a Gelflex Laboratories	QED Occtech Pty Ltd
Beurteaux Australia Pty Ltd	Rojan Advanced Ceramics
Brand Courage	Risktec Australasia
Cards With A View	RTD Steeltest Pty Ltd
Eastland Medical Systems	Simcoa Operations Pty Ltd
Export Solutions	Specialised Welding
Formation Design Systems	Spirac Engineering
Fractal Technologies Pty Ltd	Tommotek Pty Ltd
GHEMS Pty Ltd	Unicoil International Pty Ltd
Golden Eggs Pty Ltd	W.D. Moore & Company Pty Ltd
Halco Tackle Pty Ltd	Wescobee Limited
HB Brady Pty Ltd	World Waste Solutions
Harvest Road Pty Ltd	

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## **E Some Industry and Government Sponsored Programs**

### **Small Business Development Corporation (SBDC)**

The SBDC offers a number of programs including:

- Young Business Network – providing business information and support for young entrepreneurs 18-25 years.
- Home Based Business Network – targeted towards persons operating a business from home.
- Business Migration Program – facilitates a network for those who have entered the country on a Business Migrant Visa since 2003.
- Small Business Exporters Network – provides an Internet-based forum for small businesses that are looking to export or are currently doing so.

### **Department of Industry and Resources (DoIR)**

DoIR offers a series of SMX oriented support and assistance services which support both existing and new exporters. The major assistance provided includes:

- Support in international marketing through DoIR arranged promotional activities.
- Business-to-business matching where companies are considered capable.
- Participation in DoIR arranged international trade missions, expos and exhibitions.
- Provision of international marketing intelligence and advice.
- In-country support in arranging introductory meetings and organising networking opportunities.
- Inclusion in DoIR published trade related Capability Directories.
- Web site providing information on international market profiles and information about exporting.

### **Chamber of Commerce and Industry of Western Australia (CCIWA)**

CCIWA offers a trade advice service of which SMXs are the main users. This service is generally a telephone advisory service although a Trade Centre and Trade Library are also available. The following training courses are aimed mainly at SMX companies and are held regularly every year as structured CCIWA Training Services:

- Exporting Successfully – basics about exporting.
- Importing Successfully – basics about importing.
- Understanding Incoterms – learning the globally recognised terms for trade.
- International Trade Documentation – fundamental documents needed in international trade transactions.
- Dealing with Documentary Credits – a credit instrument and a means of securing and processing payments.
- Getting Paid for Your Exports – usual methods of ensuring payment in export transactions.
- Regular workshops and seminars on various aspects of international business.

## **F Steering Committee and Consultation Team**

**The membership of the Technology & Industry Advisory Council (TIAC) Steering Committee for this project is listed below:**

Mr Tim Ungar	Chairman of Steering Committee, TIAC Member
Ms Sharon Brown	TIAC Member
Mr Rob Meecham	TIAC Member
Ms Wendy Newman	TIAC Member
Ms Vivienne Snowden	TIAC Member
Professor Lance Twomey	TIAC Member
Mr Brian Carew-Hopkins	Department of Industry and Resources (DoIR)
Mr Christopher Cottam	Department of Industry and Resources (DoIR)
Ms Nicky Cusworth	Department of Treasury & Finance
Ms Juliet Gisbourne	Small Business Development Corporation (SBDC)
Mr John Nicolaou	Chamber of Commerce & Industry of Western Australia (CCIWA)
Mr Bob Muirhead	Chair, Small and Medium Enterprise Council, CCIWA

**The Steering Committee was assisted in its task by Data Analysis Australia and Economic Research Associates (ERA):**

Dr Paul McLeod  
Ms Sarah Barnes  
Ms Anna Munday

### **TIAC Executive Staff:**

Mr Earl White	Executive Officer
Ms Deanna Fleming	Senior Policy Adviser
Ms Shelley Rush	Executive Assistant

## **G Western Australian Technology & Industry Advisory Council**

### **Background**

The Western Australian Technology & Industry Advisory Council (TIAC) was created by legislation in 1987 (Technology Development Amendment Act - No. 32 of 1987) and was continued under Section 20 of the Industry and Technology Development Act 1998.

TIAC was preceded by the Technology Review Group 1978-83, and the Science, Industry and Technology Council (SITCO) 1983-87.

Council is made up of representatives from various sectors of the State's economy who, in terms of the relevant Act, use their varied background and experience to provide independent policy advice to the Minister so as to make a significant contribution to the development of strategies relating to the State's economic development.

Members of the Council are appointed by the Minister, under Section 22 of the Industry and Technology Development Act 1998 so as to be representative of the interests of the people of the State.

TIAC reports through the Minister to Parliament under Section 26(1) and Section 26(2) of the Industry and Technology Act 1998.

TIAC reports under the Financial Administration and Audit Act 1985 through the Department of Industry and Resources under Section 26(3) of the Industry and Technology Development Act 1998.

### **Objectives of the Industry and Technology Development Act 1998**

The objectives of the Industry and Technology Development Act 1998 under Section 3 are to:

- (a) Promote and foster the growth and development of industry, trade, science, technology and research in the State;
- (b) Improve the efficiency of State industry and its ability to compete internationally;
- (c) Encourage the establishment of new industry in the State;
- (d) Encourage the broadening of the industrial base of the State; and
- (e) Promote an environment which supports the development of industry, science and technology and the emergence of internationally competitive industries in the State.

### **Functions of the Council**

The Council, under Section 21 of the Act is required to:

- (a) Provide advice to the Minister, at the initiative of the Council or at the request of the Minister, on any matter relating to the objects of the Industry and Technology Development Act 1998.

- (b) Carry out, collaborate in or produce research, studies or investigations on any matter relating to the objects of this Act, including matters relating to the:
  - (i) Role of industry, science and technology in the policies of Government;
  - (ii) Social and economic impact of industrial and technological change;
  - (iii) Employment and training needs and opportunities relating to industrial, scientific and technological activities in the State;
  - (iv) Adequacy of, priorities among and coordination of, scientific, industrial and technological activities in the State;
  - (v) Methods of stimulating desirable industrial and technological advances in the State;
  - (vi) Application of industrial, scientific and technological advances to the services of the Government; and
  - (vii) Promotion of public awareness and understanding of development in industry, science and technology.

The Ministerial advice takes the form of reports and discussion papers which undergo a public consultation phase before submission to the Minister.

### **Participation on State Advisory and Funding Committees and Councils**

Council has accepted invitations for representation and participated in:

- (a) The Federal Government's Commonwealth, State and Territory Advisory Council on Innovation;
- (b) The Federal Government's Innovation Festival Committee;
- (c) The Ministerial Education Export Advisory Committee;
- (d) The Centres of Excellence State Funding Advisory Committee of the Office of Science and Innovation.

### **Promotion and Public Awareness Raising Activities**

Council's promotional and public awareness raising programs consist of two main types:

- (a) The 2020 Breakfast Seminars, commenced in 1990, are short, economic development focussed, information dissemination events.
- (b) TIAC's Internet website, to promote and increase the public awareness of its reports and encourage school students to participate in TIAC's virtual Science and Technology Forum. This activity is managed in conjunction with the Science Teachers' Association (STAWA) Talent Search Organisation.

## **Financial Provisions**

The expenses of Council are provided for under Section 15 of the Industry and Technology Development Act 1998 via the Western Australian Industry and Technology Development Account.

## **Present Membership**

***Mr John Thompson***  
*TIAC Chairman*

***Ms Sharon Brown***  
Strategic Business Manager  
AlphaWest Services Pty Ltd

***Dr Jim Limerick***  
Director General  
Department of Industry and Resources

***Mr Rob Meecham***  
Director of the Business Development Unit  
Challenger TAFE

***Ms Wendy Newman***  
Principal Consultant  
Quintessence Consultancy

***Mr Graeme Rowley AM***  
Executive Director Operations  
Fortescue Metals Group Limited

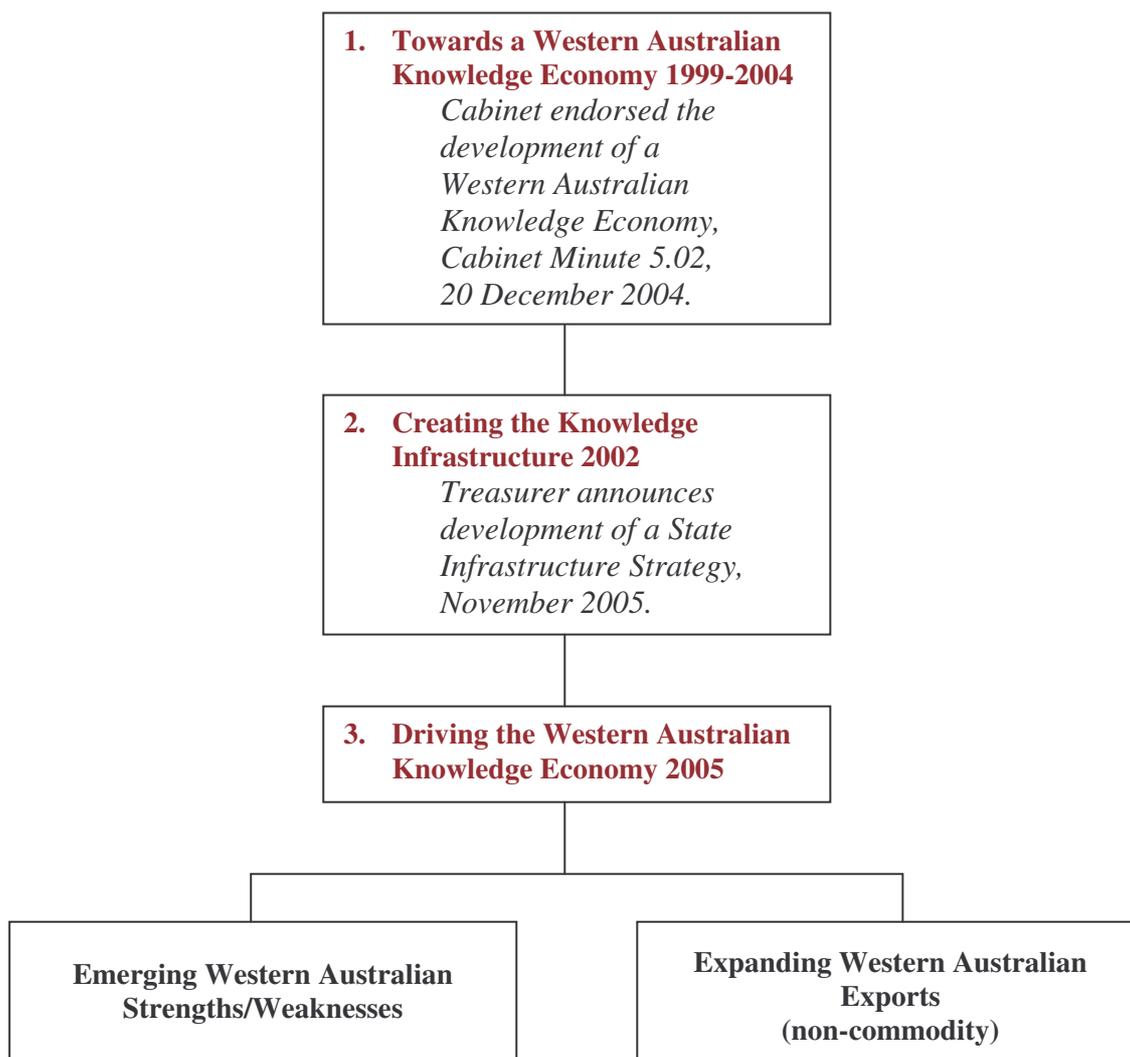
***Mr David Singleton***  
CEO and Managing Director  
Clough Limited

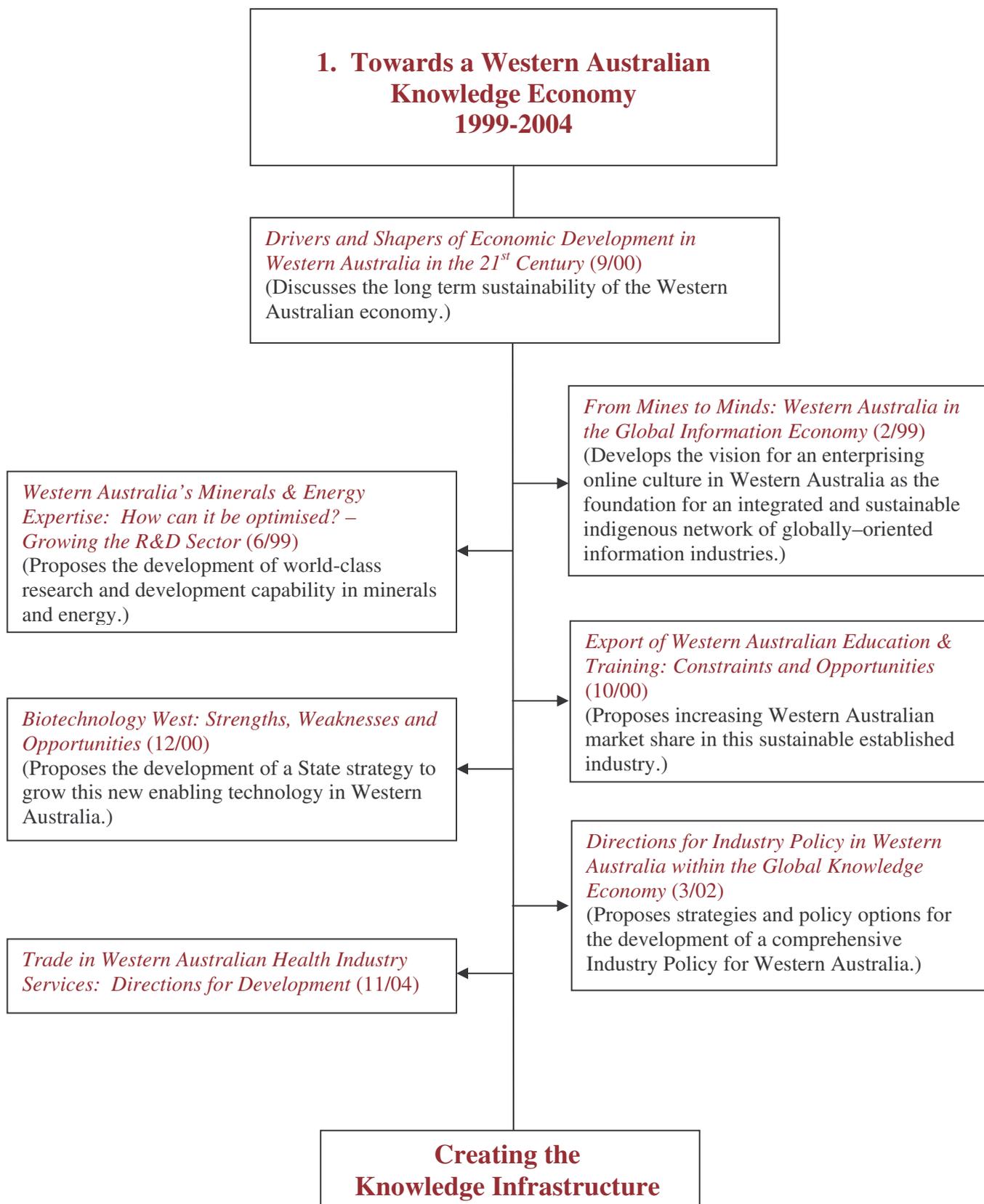
***Ms Vivienne Snowden***  
Executive Consultant  
Snowden

***Professor Lance Twomey***  
Vice Chancellor  
Curtin University of Technology

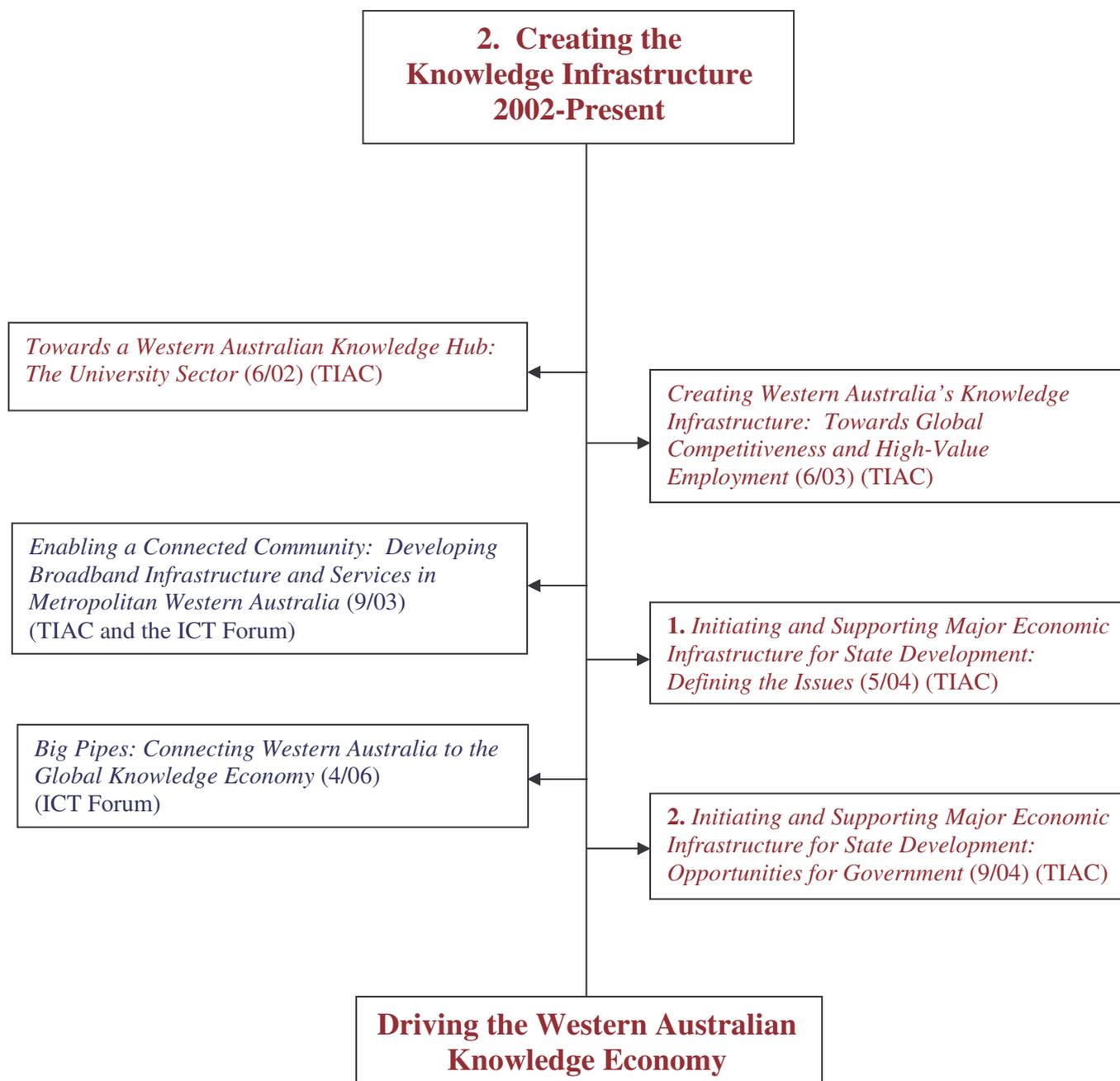
## H TIAC Themes and Published Reports

A diagrammatic summary of TIAC's series of reports under the theme, Towards a Western Australian Knowledge Economy, and details of subsequent themes, Creating the Knowledge Infrastructure 2002, and Driving the Knowledge Economy 2005, are provided on the following pages.

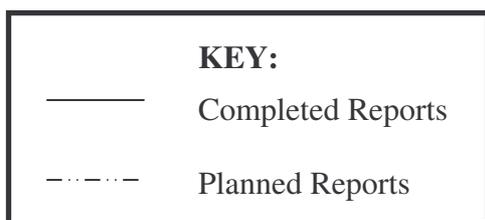
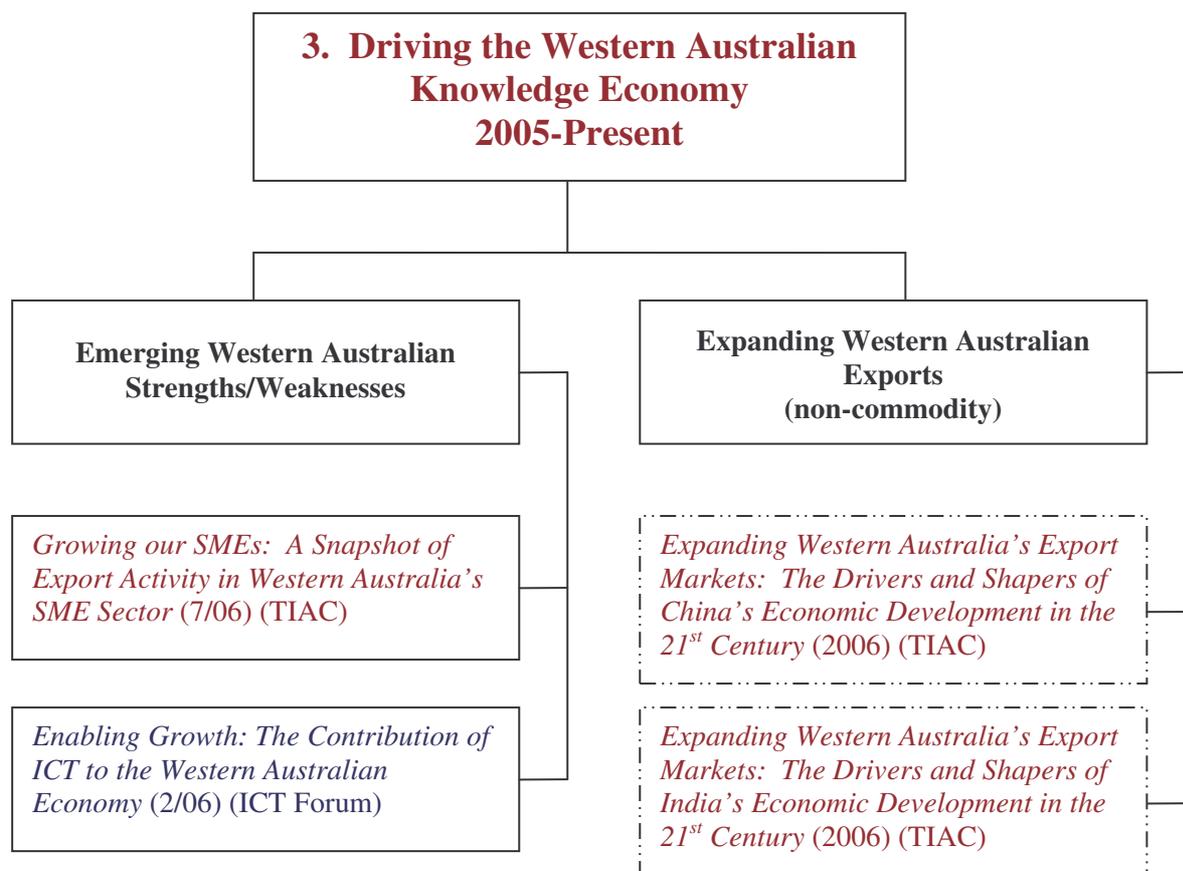




Copies of these reports can be obtained from our website: [www.wa.gov.au/tiac](http://www.wa.gov.au/tiac)



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Copies of these reports can be obtained from our website: [www.wa.gov.au/tiac](http://www.wa.gov.au/tiac)

## Publications of TIAC 1988-2006

Copies of these reports can be obtained from our website: [www.wa.gov.au/tiac](http://www.wa.gov.au/tiac)

Publication Title	Date
Support for West Australian Software Industry	July 1988
New Challenges & Opportunities	July 1988
Technology Parks	July 1988
Intelligent Buildings: What role for the WA Government?	Sept 1988
US State Government Policies Designed to Encourage the Commercialisation of New Ideas: Some Recommendations for WA	Sept 1988
WA Software Industry (Second Report)	Oct 1988
An Industrial Science Policy for Western Australia: Some Seed Ideas	Oct 1988
Towards a West Australian Science Policy for the 1990's	Nov 1988
Inquiry into Venture Capital in Western Australia	Mar 1989
The Case for a New Branch of Manufacturing to Provide <u>Smart</u> Equipment for the Mining Industry	Mar 1990
The Export Debate	May 1990
Tomorrow's People in Science & Technology	Mar 1991
Bentley Technology Precinct: An Exploratory Study	Sept 1992
The Western Australian Technology School of the Future: A Feasibility Study	Oct 1992
Capturing Opportunities in Asia with Western Australian Science & Technology	Nov 1992
Telecommuting 2000: Making the Future Work for Western Australia	Dec 1992
Telework 2000: Making the Future Work for Western Australia	July 1993
R&D and the State's Economic Development: What is the best fit?	Apr 1994
Medical Research Infrastructure Funding in Western Australia	Apr 1995
Towards an Information Infrastructure Policy for Western Australia – the Business Aspect	Feb 1996
Financing Options for Regional Infrastructure in Western Australia	Nov 1996
Telecommunications Deregulation – Is Western Australia Prepared?	Dec 1996
Western Australia's Minerals and Energy Expertise: How can it be optimised? – Defining the Issues – A Background Paper	Sept 1997

## Publications of TIAC 1988-2006 (Cont'd)

Publication Title	Date
Research & Development: Role of the State Government in attracting External Funding	May 1998
From Mines to Minds: Western Australia in the Global Information Economy	Feb 1999
Western Australia's Minerals and Energy Expertise: How can it be optimised? – <i>Growing the R&amp;D Sector</i>	Jun 1999
Technology, Skills and the Changing Nature of Work	Apr 2000
Drivers and Shapers of Economic Development in Western Australia in the 21st Century	Sept 2000
Export of Western Australian Education and Training: Constraints and Opportunities	Oct 2000
Biotechnology West: Strengths, Weaknesses and Opportunities	Dec 2000
Directions for Industry Policy in Western Australia within the Global Knowledge Economy	Mar 2002
The Organisation of Knowledge: Optimising the Role of Universities in a Western Australian Knowledge Hub	Jun 2002
Creating Western Australia's Knowledge Infrastructure: Towards Global Competitiveness and High-Value Employment	Jun 2003
Enabling a Connected Community: Developing Broadband Infrastructure and Services in Metropolitan Western Australia	Sept 2003
Initiating and Supporting Major Economic Infrastructure for State Development: Defining the Issues	May 2004
Initiating and Supporting Major Economic Infrastructure for State Development: Opportunities for Government	Sept 2004
Trade in Western Australian Health Industry Services: Directions for Development	Nov 2004
A Snapshot of Export Activity in Western Australia's SME Sector	July 2006



## PUBLIC COMMENT REPLY SHEET

**TO:** THE EXECUTIVE OFFICER  
WESTERN AUSTRALIAN TECHNOLOGY AND INDUSTRY  
ADVISORY COUNCIL

SUITE 3 ENTERPRISE UNIT 2  
11 BRODIE HALL DRIVE  
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BENTLEY WA 6102

**TEL NO:** (08) 9470 3666

**FAX NO:** (08) 9470 3558

**FROM:**

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**ADDRESS:**

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**TEL NO:** \_\_\_\_\_

**FAX NO:** \_\_\_\_\_

**EMAIL:** \_\_\_\_\_

**NUMBER OF PAGES:** \_\_\_\_\_  
(including this cover sheet)

**Comments on the Report entitled:**

**A SNAPSHOT OF EXPORT ACTIVITY IN WESTERN AUSTRALIA'S  
SME SECTOR**

**Closing Date: Tuesday, 5 September 2006**

(Please tear out and return with your comments.)