

EXPORT CONSORTIA

A tool to increase SME exports



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

What is an export consortium?

Small and medium enterprises (SMEs) usually have difficulty exporting to foreign markets: they may lack the necessary knowledge and financing, may not meet foreign regulatory requirements, or may produce products in quantities or quality that are not adequate for foreign buyers, among many other potential problems. However, these problems can often be overcome through cooperation among SMEs.

By combining their knowledge, financial resources and contacts within an export consortium, SMEs can significantly improve their export potential and reduce the costs and risks involved in penetrating foreign markets.

An export consortium is a voluntary alliance of firms with the objective of promoting the export of goods and services of its members through joint actions. An export consortium is a formal organization to promote medium- to long-term strategic cooperation among firms, and it organizes joint activities to facilitate access to foreign markets. Most consortia are non-profit entities, and members retain their financial, legal, managerial, and commercial autonomy. So, despite their participation in the export consortia, member firms do not give up any control over their business to others. This is the main difference between consortia and other types of strategic alliances.

Benefits of export consortia

By cooperating with other firms within an export consortium, SMEs can effectively penetrate and increase their share of foreign markets, at reduced cost and risk. At the same time, members can improve their profitability, achieve productivity gains and accumulate knowledge through various types of joint action that are not directly related to export marketing, such as joint management training programmes, joint ISO 9000 certification programmes, improve shop floor procedures, and the like.

Risk reductions. By improving firms' access to information on foreign



markets and by leading to a greater diversification of exports, consortia can significantly reduce the risk of exporting and of exploring new business opportunities abroad. Diversification is achieved, for example, through an increase in the number of markets targeted as well as through a reduction of seasonal fluctuations in exports, especially when markets are geographically dispersed.

Cost reductions. Within export consortia, members share administrative and promotional costs and thus avoid the expenses of establishing their own export department. By jointly using transportation and other export facilities, additional time and cost savings can be achieved

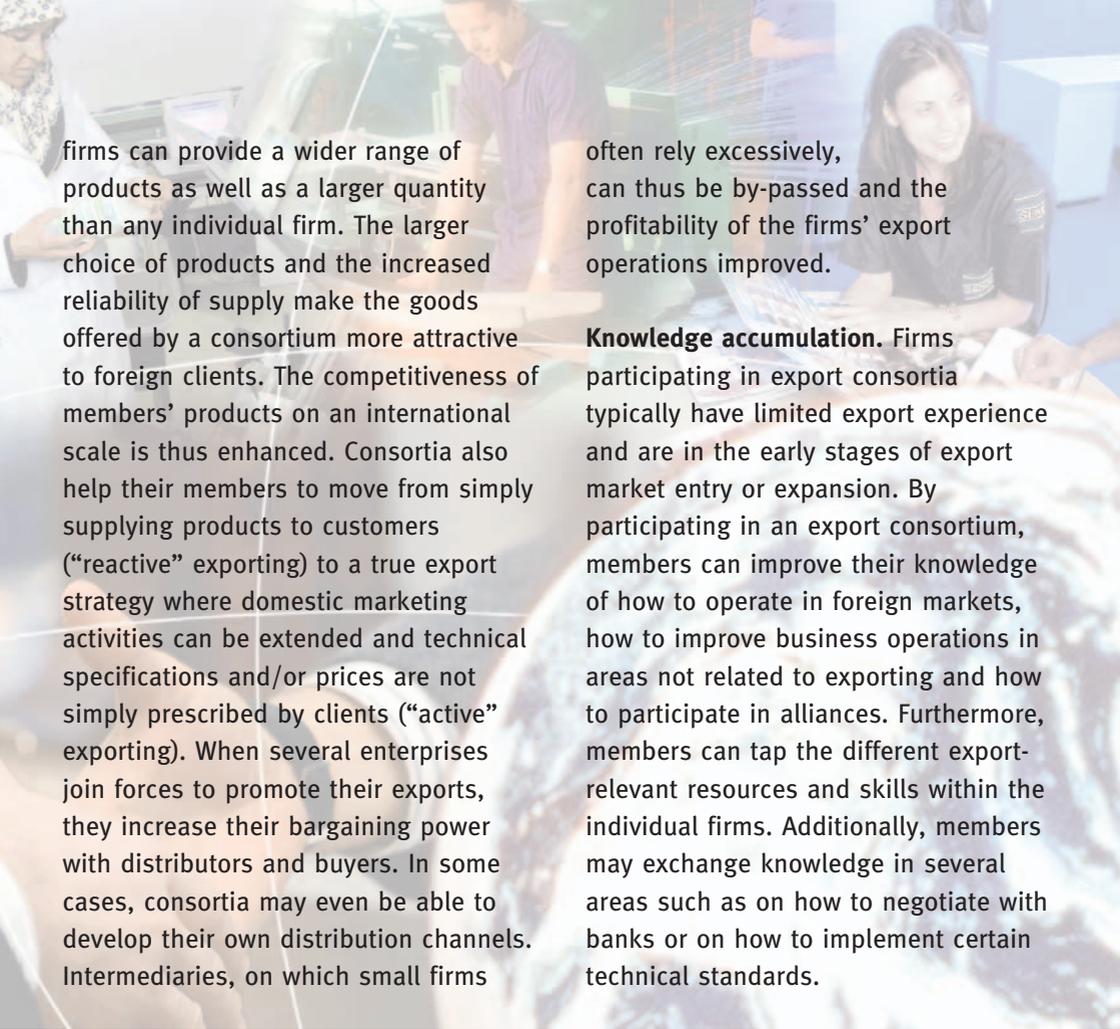
Access to larger markets and larger orders. By joining together, member

Types of export consortia

Export consortia differ with respect to the services they provide. There are those that offer only basic support functions, such as providing information, organizing training programmes, assisting with translations, or providing

basic market research, among others. There are, however, those that also help members develop a complete export strategy and provide a wider range of services, including collective purchases of inputs, legal assistance, the creation of a consortium brand and other forms of marketing.

The two main types of consortia are promotional and sales consortia. Promotional consortia are created to



firms can provide a wider range of products as well as a larger quantity than any individual firm. The larger choice of products and the increased reliability of supply make the goods offered by a consortium more attractive to foreign clients. The competitiveness of members' products on an international scale is thus enhanced. Consortia also help their members to move from simply supplying products to customers ("reactive" exporting) to a true export strategy where domestic marketing activities can be extended and technical specifications and/or prices are not simply prescribed by clients ("active" exporting). When several enterprises join forces to promote their exports, they increase their bargaining power with distributors and buyers. In some cases, consortia may even be able to develop their own distribution channels. Intermediaries, on which small firms

often rely excessively, can thus be by-passed and the profitability of the firms' export operations improved.

Knowledge accumulation. Firms participating in export consortia typically have limited export experience and are in the early stages of export market entry or expansion. By participating in an export consortium, members can improve their knowledge of how to operate in foreign markets, how to improve business operations in areas not related to exporting and how to participate in alliances. Furthermore, members can tap the different export-relevant resources and skills within the individual firms. Additionally, members may exchange knowledge in several areas such as on how to negotiate with banks or on how to implement certain technical standards.

explore specific export markets by sharing promotional and logistic costs among participating firms. Actual sales, however, are the responsibility of the individual firm. Sales consortia, on the other hand, also perform business promotion activities, but they handle the sale of member firms' products, as well. In addition to the distinction between sales and promotional consortia, export consortia also vary depending on whether they are:

- Single-sector or multi-sector consortia;

- Consortia that comprise primarily competitors or those that are composed primarily of firms with complementary goods and services;

- Consortia that target exports to a specific region or those that are active worldwide.

UNIDO assistance

Although the concept of grouping firms for export is relatively straightforward, establishing successful consortia is a demanding task. Due to a lack of knowledge and preparation, attempts to establish export groups of SMEs often fail. Developing economies, in particular, lack experience with consortia and have weak institutional and regulatory frameworks for promoting SME export consortia. As a result, external assistance may be critical for developing a sound export consortia programme in a country.

UNIDO can assist developing countries by:

- Supporting the creation of export consortia in different sectors;
- Training national promoters of export consortia, in the public or private sectors;
- Promoting a favourable institutional and regulatory environment for the development of export consortia; and
- Benchmarking of international practice.

This assistance combines the lessons learned in UNIDO's long experience in SME cluster and network development, with other UNIDO areas of expertise in investment promotion, quality management, industrial upgrading, and agro-industry development. UNIDO is currently implementing export consortia projects in North Africa, Latin America and Asia.

UNIDO has also forged a strategic knowledge partnership with FEDEREXPORT, the Italian Federation of Export Consortia, which has the broadest experience in the world for developing export consortia and for promoting relevant regulatory frameworks.

Printed in Austria
V.05-81887–April 2005–1,000



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Small and Medium Enterprises Branch

Fabio Russo

Vienna International Centre, P.O. Box 300, 1400 Vienna, Austria

Telephone: (+43-1) 26026-3611, Fax: (+43-1) 21346-3611

E-mail: f.russo@unido.org, Internet: <http://www.unido.org/clusters>