



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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INTERNATIONAL DIVISION

B-172255

MAR 8 1974

The Honorable
The Secretary of Commerce



Dear Mr. Secretary:

We have reviewed the Department of Commerce's promotional efforts in increasing exports of U.S. consumer goods. This is one of a series of reviews made to identify ways to help improve the U.S. balance-of-trade position. We trust that these reviews will assist you in your role as Chairman of the President's new Interagency Committee on Export Expansion.

We recognize that many product categories are competing for promotional assistance funds and that Commerce must allocate its resources to those products which promise the greatest return for each promotional dollar spent. Therefore consumer goods have not been heavily promoted. However, with the increase in disposable income, leisure time, and recent competitiveness of U.S. products resulting from devaluing the dollar, potential for consumer goods exports appears to be increased. Also, the views expressed by industry representatives on the effectiveness of the techniques used to promote consumer goods indicates that considering new and innovative techniques is warranted.

EXPORT MARKET FOR CONSUMER GOODS

Consumer goods exports have grown from \$1.4 billion in 1960 to \$3.5 billion in 1972. As a percentage of total exports, this category has remained static for over 13 years. Such exports have made up about 6 to 7 percent of total exports since 1960.

A Commerce official believed that stimulating the American consumer goods industry could increase exports by \$1 billion and, in turn, significantly improve our balance-of-payments position.

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Economic developments tend to support the prospects for successfully promoting consumer goods exports and include:

- Increased "disposable income," generally defined as income remaining to persons after payment of personal taxes, and per capita consumption in many developed countries.
- Changes in currency parities which, combined with upward trends in inflation rates, improve the competitive position of American exports.
- Removal or reduction of some foreign import restrictions or other trade barriers.
- Concern for improved living standards and increased leisure time which create a demand for products for which U.S. manufacturers have a competitive advantage.

Individual purchasing power has increased significantly over the last decade, as shown in the table below, by the growth of disposable per capita income and personal consumption expenditures in selected developed countries.

	Per capita disposable income			Per capita personal consumption expenditures		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>
France	\$920	\$1,406	\$1,987	\$825	\$1,245	\$1,720
Germany	884	1,370	1,956	746	1,136	1,708
United Kingdom	962	1,275	1,528	902	1,182	1,340
Japan	325	627	1,233	264	507	982

Consumer goods with high export potential

A Commerce study identified the following goods as having the highest potential for promotion and further research:

1. Sporting goods and equipment.
2. Sports and leisure or casual clothing.
3. Hobbies and do-it-yourself equipment.
4. Toys and games.
5. Infants' and children's clothing and accessories.
6. Textiles (especially polyesters).

Other industry surveys, reports on overseas trade opportunities, past successful promotion efforts, and discussions with business and Government officials confirmed that these categories offer the best export potential for consumer goods.

Japanese market potential

We selected Japan as a market to test the concept of increased consumer goods exports because of its economic development and the interest Japanese businessmen expressed in obtaining U.S. goods. Further study would likely show that other developed countries offer good opportunities as well.

Japan's economy is growing dynamically in size and purchasing power. Discussions with U.S. Embassy officials in Tokyo, with Japanese businessmen, and with trade associations and exporting firms officials confirmed the potential for important increases in consumer goods demands.

Japanese Government and business have tried to reduce the trade imbalance with the United States. In May 1972 a group of Japanese officials and businessmen visited several major U.S. cities as part of a U.S. Export-to-Japan Promotion Mission to inform Americans of the growing potential of Japan's consumer market. During seminars for U.S. businessmen, mission members said the Japanese market is now ready for mass merchandising of consumer goods, including household furnishings and appliances, apparel, and sporting and leisure goods.

Other recent developments in the Japanese economy seem to offer an opportunity for successfully exporting U.S. consumer goods. For example:

- Japan liberalized its import policies to improve the well-being of consumers and to stabilize living costs.
- Liberalized trade and yen revaluations make U.S. imported goods more competitive.
- The Japanese people have increased acceptance of Western goods.
- The reduced workweek increased the opportunity for recreation and leisure activities.
- The Japanese Government intends to reduce its trade surplus with the United States.

COMMERCE EFFORTS TO PROMOTE CONSUMER PRODUCTS

Commerce emphasized its trade promotion efforts on high technology and capital goods which offer the highest incremental export return per promotional dollar spent. Efforts to expand American consumer goods exports have been minimal in Commerce promotion programs. For example, during fiscal years 1969-72, U.S. Trade Centers overseas held 209 major exhibitions. Only six exhibitions featured consumer goods as the product theme which included sporting and leisure goods and hi-fi and stereo equipment. For fiscal year 1973, the 49 major exhibitions featured high technology and capital goods. Trade centers also administer the between-show-promotion program in which space at the center is provided to firms between regularly scheduled Government-sponsored U.S. industry exhibitions. In fiscal year 1973, of the 983 interim shows held, 16 were for consumer goods compared with 8 out of the 427 held in fiscal year 1972.

Commerce's efforts for promoting consumer goods exports have been small, but it indicated it will give more attention

to such promotions in the future. In fiscal year 1973, Commerce allocated 1.3 percent, or about \$82,000, of its promotional resources for consumer goods. Commerce plans to devote an increased amount, or about 5 percent (\$400,000), of its promotional resources for a variety of consumer goods events in fiscal year 1974. Most of these increased resources will be used to fund in-store promotions and trade center shows in Japan featuring U.S. housewares and in Paris featuring leisure items.

Commerce officials recognize that departmental efforts to promote consumer goods with the conventional promotional methods, such as commercial exhibitions and trade missions, have not been as successful as similar promotions of capital goods. For this reason, Commerce's consumer goods promotions are planned to incorporate merchandising techniques peculiar to the industry and suitable for the product involved. The basic promotion technique is the in-store program, under which Commerce provides technical assistance and financial support to foreign retail stores for in-store displays of American-consumer goods. According to Commerce, this promotional activity has long been used in the consumer goods trade and is considered a suitable technique.

The in-store program will expand from 3 events in fiscal year 1973 to 12 events in fiscal year 1974 at a cost of about \$220,000. For fiscal year 1975, 12 in-store promotions have been proposed at a cost of about \$300,000.

INDUSTRY VIEWS

To solicit industry views on ways the U.S. Government could assist in expanding the exports of consumer goods, we asked Commerce officials to give us listings of American business firms, trade associations, buying offices, and American and Japanese export managers in the consumer goods industry. From these listings, we contacted representatives of about 30 firms within the various categories of the consumer goods industry.

Most representatives said (1) current Commerce promotional programs are designed for and emphasize the export of technological goods and (2) new and innovative promotional techniques would be required for successfully promoting consumer goods. They did not feel that in-store promotions and trade center shows were useful in promoting consumer goods. In their view, in-store promotions were handicapped by the lack of a means for aggressive followup, by their shortrun, hit-or-miss basis rather than a continuous sustained effort, and by the American manufacturers' lack of education. The representatives felt that inadequate knowledge of the local market for consumer goods and insufficient and ineffective Department of State assistance to participants before the shows, the failure of the shows to attract enough buyers, and the location of the trade centers hindered the trade center shows.

Some companies and trade association officials said assistance is needed in such areas as marketing information and the mechanics of exporting. Our report on small business needs (B-172255, June 22, 1973), pointed out the types of personalized export services small businesses need. Because Commerce already offers many of these services, we suggested that it reemphasize these efforts. Commerce could do this with little or no additional expense.

Commerce officials acknowledged that, in some instances industry representatives were disappointed with their consumer goods export efforts but believed that overall the industry was satisfied with its activities. They said many firms within the industry do not want to be helped and many lack the interest to export goods which retards the industry's export growth.

SUGGESTED PROMOTIONAL TECHNIQUES

Businessmen involved with international trade said such promotion techniques as group associations and reverse-buying missions are more promising than the in-store program. Commerce officials said Commerce tried these latter

techniques but curtailed them because of a lack of funds and/or higher priorities.

Because of the potential benefits, Commerce should carefully consider testing these methods again, at least as a pilot program in selected developed countries. When using these techniques, Commerce should guard against working continually with the same firms and should consider arrangements with new-to-market, new-to-export companies and trade associations interested in and capable of exporting consumer goods.

Commerce has general authority to increase foreign commerce and as described previously devotes some promotional resources to sharing with industry some of the trade missions', exhibitions', and centers' costs.

Group association effort

This technique involves Commerce's contracting with groups or firms, on a cost-sharing basis, if necessary, to systematically develop specific export markets over a sustained period by stationing representatives abroad. These groups could be one or several trade associations, association members, or firms operating under the leadership of export management companies. The program requires both domestic and foreign promotional effort, such as providing exporting know-how, encouraging associated small- and medium-size firms, foreign advertising, market research, and aiding distribution.

Most American and Japanese businessmen whom we contacted indicated that a group association program to promote consumer goods exports would have considerable merit. Also, of the 19 trade associations made up of small firms inexperienced in exporting, 10 supported initiating a Government-industry group association program. Trade associations which consist of large firms already heavily engaged in exporting generally were not interested in the program.

In early 1972 the Secretary of State asked overseas posts for new and imaginative ways to help U.S. businesses increase exports. The posts suggested cooperating with industrial trade associations in jointly financed programs for trade promotion.

Commerce officials agreed with the group association approach, but said the consumer goods industry, in general, had no interest in it. They said large firms which are already engaged in overseas sales controlled most associations and tend to discourage the competition and interest of small firms who might hurt their markets abroad. They believed that group association efforts made up of only certain associations and small firms within an association could be successfully employed.

Commerce officials mentioned that in fiscal year 1969 Commerce initiated and sponsored a similar industry-Government cost-sharing concept (the Joint Export Association program) but, because of budgetary cutbacks, limited funds, and higher priorities, the program was eliminated in fiscal year 1973.

Reverse-buying missions

The reverse-buying mission concept is similar to the New York Regional Export Expansion Council's Visit-Investigate-Purchase program and to programs major U.S. trade competitors sponsor. These competitors operate business visitor programs designed specifically to encourage key, high-level foreign businessmen or Government officials in specific fields to visit their countries. Under the program, Commerce shares the cost, if necessary, with industry for selected foreign buyers to visit U.S.-sponsored trade shows in this country. Commerce and trade show promoters would invite the foreign buyers to major domestic trade shows that displayed products of an entire industry interested in expanding its international trade. Such shows would be the National Housewares Exposition or the National Sporting Goods Association Convention and Show. By working with Commerce, trade show promoters would assist foreign buyers to provide special facilities and

services, such as translators, separate registration, and reception lounges, and American buying offices and export management companies would provide export knowledge and expertise to the show participants and help bring an American seller and an overseas buyer together.

According to representatives of American business firms, trade associations, buying offices, and American and Japanese export managers, this technique could be worthwhile and could increase attendance at major U.S. exhibitions which currently is minimal. They believed that significant immediate and follow-on sales should result.

Commerce officials said there are few U.S. trade shows. These shows are scattered and limited in the range of goods shown. Therefore foreign buyers must be taken to manufacturers throughout the country.

Commerce officials said that, in prior years, the Subcommittee on State, Justice, Commerce, and Judiciary, House Committee on Appropriations, turned down their request for funds to directly support such missions which would include payments for travel and accommodations. Therefore Commerce provides only indirect support for such buying missions by arranging schedules and contacts with U.S. businesses and providing interpreters, among other things.

Commerce officials pointed out that they have helped arrange reverse-buying missions from Korea, Japan, and Taiwan. For example, they confirmed that a South Korean group visiting the United States recently was prepared to spend over \$100 million. However, the group was interested in capital goods rather than in consumer goods.

Program characteristics for
consumer goods promotion

Commerce's studies of consumer goods and competitor country programs and discussions with officials involved with

international trade indicated that the new programs Commerce adopts for promoting consumer goods exports should consider:

- Longer term export return potential.
- Efforts toward small- and medium-size companies, especially those which are either new to market or new to export.
- New and innovative promotion techniques.
- Selection of products for promotion on the basis of potential rather than historical export growth.
- Market research, promotion, and group activity of related product categories.
- Practical exporting "know-how."
- Greater public-private cooperation.

CONCLUSIONS

A potential market exists for selected U.S. consumer goods in certain countries, but greater promotional efforts are needed to increase such exports. Commerce officials agree on and recognize the growing consumer markets in many countries resulting from increased disposable income, leisure time and the improved competitive position of U.S. products because of the changes in currency parities.

Commerce has taken initial steps to take advantage of this market potential by expanding its small consumer goods program in fiscal years 1973 and 1974. However, the increases will be mainly used to fund in-store promotions and some trade center shows. Additional resources for promoting consumer goods can be made available from a promotional resource reserve that Commerce maintains for items which represent special export targets of opportunity.

Commerce should consider allocating resources to other promotional techniques, such as group association efforts and reverse-buying mission techniques, which businessmen and Government officials suggested. Because these techniques offer potential export benefits, Commerce should reconsider using them as pilot programs in selected developed countries. Their success could determine the appropriateness of Commerce's requesting additional resources to establish a more comprehensive consumer goods promotion effort.

The Japanese market is especially appropriate for testing consumer goods export promotion techniques because of the growing affluence of the Japanese people, Japan's liberalized import policies, and the increased purchasing power resulting from changes in currency parities.

RECOMMENDATIONS

We recommend that the Secretary of Commerce:

- Institute in Japan, or other promising developed countries, a pilot program for increasing consumer goods exports. Such a program could include reverse-buying missions and group association efforts.
- Enter into cost-sharing arrangements, where needed, with new-to-market, new-to-export companies and trade associations interested in, and capable of, exporting consumer goods.
- Contact companies to identify their needs for assistance in exporting. Work with them in providing governmental assistance needed to increase consumer goods exports with consideration toward
 - promoting additional U.S. trade shows on a more comprehensive basis and
 - assisting in developing U.S. business representation and distribution abroad.

B-172255

We are sending copies of this report to the House and Senate Committees on Appropriations and Government Operations; the Senate Committee on Commerce; the House Committee on Interstate and Foreign Commerce; the Foreign Operations and Government Information Subcommittee, House Committee on Government Operations; and the Director, Office of Management and Budget.

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Thank you for the cooperation and assistance given to our representatives during this review. We shall appreciate receiving your views on this matter and information on any actions taken or contemplated.

Sincerely yours,



J. K. Fasick
Director