

2016/17 Knowledge Sharing Program with Bulgaria

**Strategies for Enhancing Bulgaria's SMEs Competitiveness:
Strengthening BSMEPA's Innovation and Internationalization
Supporting Programs**

**Hang Yong LEE
Hangyang University**

Mar. 9, 2017

Ministry of Strategy and Finance of Korea
Korea Development Institute (KDI)
Bulgarian Small and Medium Enterprises Promotion Agency

Introduction

- ▶ **Purpose of the study:** Policy recommendation to enhance competitiveness of Bulgarian SMEs
 - ▷ Lessons learned from Korean experiences
 - ▷ SBC(Small Business Corporation) under SMBA(Small and Medium Business Administration) and KOTRA under Ministry of Trade, Industry and Energy
- ▶ Two topics
 - ▷ Internationalization: export marketing support
 - ▷ Innovation (NIF): technology appraisal system
- ▶ Role of BSMEPA:

Internationalization of Bulgarian SMEs

Intensive Margin vs. Extensive Margin

- ▶ Exports increase at two margins
 - ▷ **Intensive margin**: an increase in the volume of export by existing exporting firms.
 - ▷ **Extensive margin**: new exporters start exporting (to new markets)
- ▶ If intensive (extensive) margin is relatively important, supporting existing (new) exporters is more effective.
- ▶ Extensive margin seems to be more important in Bulgaria
 - ▷ Only 7% (4%) of SMEs have exported to EU (non-EU) countries.
 - ▷ Bulgarian government needs to strengthen support for potential new exporters (and exports to new markets)

Recommendation 1: Tailored Services

► Customized and tailored support based on a SME's stage of exports

	Pre-export		Capacity building for export		Export (starting → expanding → global companies)	
	Test marketing	Education/ consulting	Market research	Overseas marketing	Export expansion	Localizing
Domestic test Marketing						
PPL (product placement)						
Education/ Promo. Materials						
Overseas exhibition						
Trade missions						
Antenna shops						
On-line B2B						
On-line B2C						
Global market Developer						
Export BI						

Recommendation 1: Tailored Services

[Korean experience]

▶ Stage 1: Pre-export

- ▷ SBC and KOTRA support for test marketing in the domestic markets, product placement advertisement (PPL) and entry into large distribution networks in the private sector.
- ▷ Exclusive SME shops for test sales, entries into duty free shops and private distribution channels

▶ Stage 2: Capacity building for export

- ▷ Once a SME has shown potential to export, SBC and KOTRA support SMEs to prepare overseas market entry
- ▷ Education on trade process, consulting on export strategy, producing promotional materials, and conducting overseas market research.

Recommendation 1: Tailored Services

▶ Stage 3: Export

- ▶ Support SMEs to participate in trade shows, trade missions and export consortiums for overseas market entries.
 - KBIZ(Korea Federation of SMEs) selects fairs and firms to attend with SMBA's financial support.
 - KOTRA also arranges overseas exhibitions
- ▶ SMBA designates local marketing and consulting firms as private networks to assist SMEs for advancement into global markets.
 - The role of the private networks includes establishing marketing strategy, providing market information, evaluating feasibility of foreign investment, and arranging business meeting with foreign buyers.

Recommendation 2: Bundled Services

- ▶ **Bundled services of export marketing** is likely to have greater effect on internationalization of SMEs.
 - ▷ Volpe Martincus and Carballo(2010): bundled services combining counselling, trade agenda, and trade missions and fairs are more effective than isolated, individual support.
 - ▷ Different marketing services are complementary rather than substitutional.
 - ▷ The effect is larger when information problem is more severe, implying that support programs are particularly effective for extensive margin.
 - ▷ Korea launched export voucher program in 2017, to provide bundled services to SMEs in a demand friendly way.

Recommendation 2: Bundled Services

[Korean experience: Export voucher program]

- ▶ Korea launched export voucher program in 2017 to provide bundled services.
 - ▷ SBC and KOTRA prepare for menu of export marketing services and select private and public agents that provide services.
 - ▷ SBC and KOTRA issue the export voucher to the selected SMEs.
 - ▷ Then, SMEs can choose the type of services based on their needs and the agents based on quality and price of the providing services
- ▶ Export voucher program takes SME's demand into account in providing marketing services.

Recommendation 3: Linked Support

- ▶ **Linked support combining different types of support** from different public institutions is more effective.
 - ▷ Finance + marketing + Human resources + Technology
 - ▷ R&D grant followed by export marketing services provides SMEs with a comprehensive support of technology development, commercialization, and overseas market entry.
 - ▷ Joint support program of export marketing services and financing

Recommendation 2: Linked Support

[Korean experience: Youth Startup Academy]

- ▶ SBC establishes a comprehensive supporting system to ensure the successful youth startup
 - ▷ 70% of the total project costs subsidized
 - ▷ Education, space for preparing starting-up, technical assistance, one-to-one coaching services by experienced professionals
 - ▷ Linked support: policy funds (loans), R&D grant, export marketing, etc.

Other export marketing support

On-line exports

- ▶ The most cost-effective tool for export marketing.
- ▶ Rapid growth in cross-border online trade
 - ▷ \$233 billion (2014) → \$304 billion (2015) → \$1 trillion (2020)
- ▶ Construct efficient on-line system to provide rich and reliable information.
 - ▷ Homepage in foreign languages
 - ▷ Supplementary services such as payment and shipping
 - ▷ Business Matching Service (BMS) and Visitor Assistance Program (VAP)
 - ▷ Screening valid inquiry.

Other Export Marketing Support

- ▶ SMBA arranges **a cooperation scheme between SMEs and large corporations** in overseas marketing.
 - ▷ SMEs can utilize large corporations' infrastructure and networks (on-line and off-line sales channels) in foreign countries.
- ▶ SMBA establishes **export supporting centers** at regional SMBA offices to provide one-stop support and solve difficulties faced by exporting SMEs.
 - ▷ The representatives from SBC, KOTRA, financial institutions as well as SMBA staffs work together.
 - ▷ In particular, SMBA hires special experts such as licensed customs agent whose advice is valuable for SMEs at the export supporting centers

National Innovation Fund and R&D support for SMEs

Recommendation 1: Tailored R&D Support

- ▶ **Tailored R&D support based on the stage of SMEs' lifecycle**
 - ▷ Startups and self-employed creative enterprises (firm age of less than seven years and number of employees less than fifty)
 - ▷ R&D support program to promote export
 - ▷ Domestic market oriented SMEs (export < \$5 million): R&D projects should be related to the 466 items selected by SMBA.
 - ▷ SMEs in growth stage with substantial export record: No restriction in the field of R&D projects
 - ▷ Technology Commercialization for SME.
 - ▷ R&D support for innovating SMEs
 - ▷ Inno-biz and venture firms
 - ▷ R&D projects of cutting-edge technology such as big data, computer, software, IoT, 3D printing and so on.

Recommendation 2: Technology Appraisal

Need to develop a sophisticated technology appraisal system

- ▶ Selecting right beneficiary SMEs for NIF and other public support
- ▶ Good reference for certification of innovating or venture firms
- ▶ Basis for further development of financial markets
 - ▷ Credible valuation of technology effectively lowers risk perceived by financial institutions and thus improves accessibility to financial markets, which ultimately leads to higher growth of SMEs.
 - ▷ Credible appraisal of technology may raise investors' confidence and contribute to further development of capital markets.

KOTEC and Technology Appraisal System

- ▶ **In Korea, KOTEC (Korea Technology Finance Corporation) launched Technology Appraisal Center (TAC) in 1997 to provide reliable technology appraisal services.**
 - ▷ TACs have appraised the value of technology owned by firms, which is critical in KOTEC's decision on credit guarantee.
 - ▷ TACs' valuation also can be a useful guideline for financial institutions in loan or investment decisions.
 - ▷ In relation to government agencies and local governments, TACs' appraisal of technology and business prospects plays an important role in selecting SMEs for public support program.

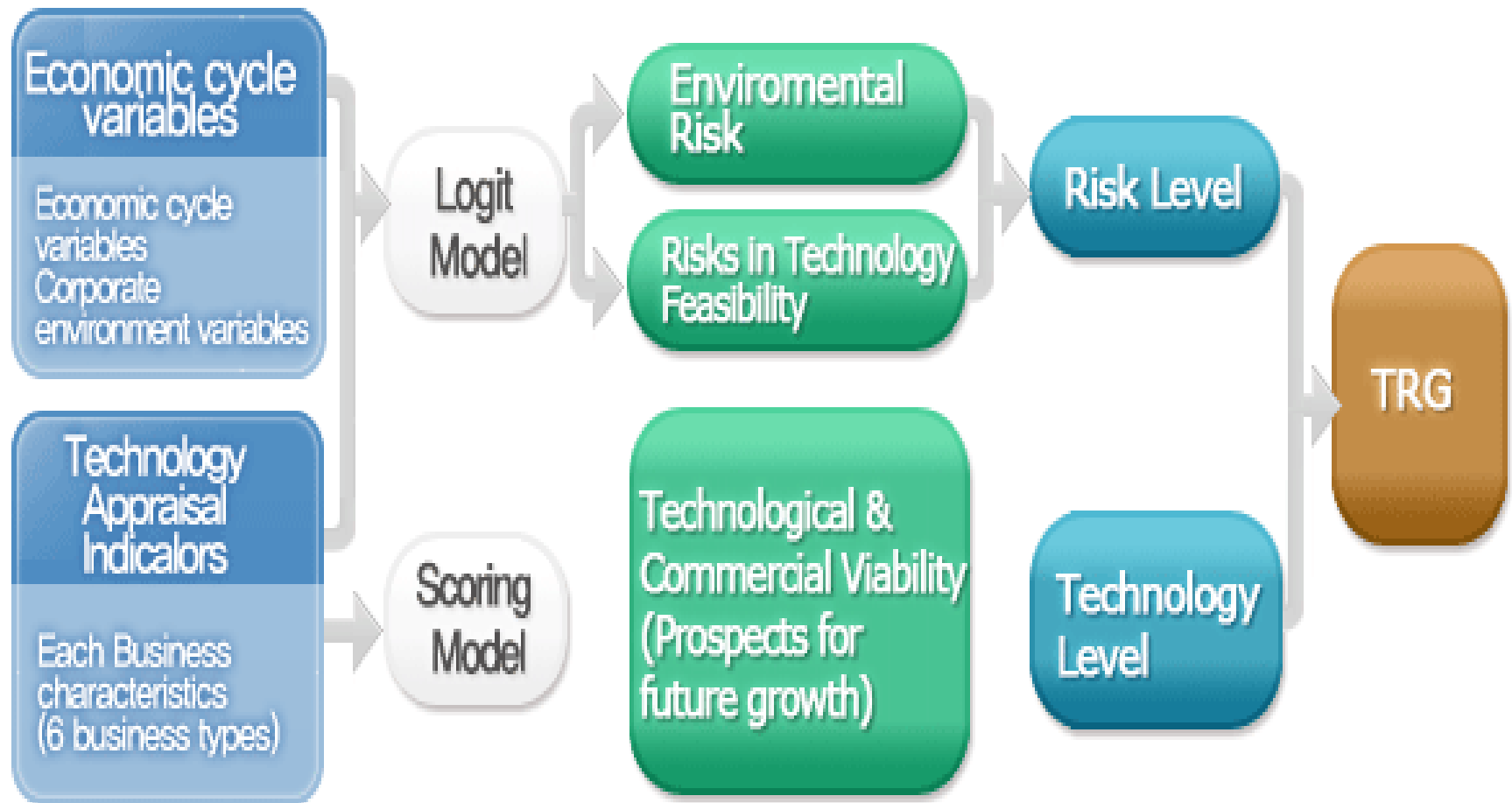
Korea Technology Rating System (KTRS)

- ▶ **KOTEC developed KTRS (Korea Technology Rating System)** to evaluate technologies of SMEs.
 - ▷ Credit rating system: corporation's insolvency
 - ▷ KTRS: more emphasis on technological excellence and the prospect of technology commercialization
- ▶ **Technology Rating Grades (TRGs):** KTRS's appraisal results on the technological capability, marketability, business prospects and other business environments of SMEs.
 - ▷ TRG is yielded through the integrated appraisal process by a combination of the technology level of the business project (possibility of business success) and the risk level (probability of default).

Korea Technology Rating System (KTRS)

- ▶ **Technology Level:** weighted scoring model
 - ▷ Technological capability, business prospects and marketability
- ▶ **Risk Level:** LOGIT model
 - ▷ Risks in technology feasibility
- ▶ **Input data on technology-related business characteristics**
 - ▷ Owner's capability (experience, knowledge, management skills)
 - ▷ technological superiority (R&D investment, manpower, degree of tech differentiation, intellectual property rights),
 - ▷ marketability (market size, growth potential of the market, market share)
 - ▷ commerciality and profitability (possibility of product development, operational capacity, profit prospect).
- ▶ **Macroeconomic factors and corporate factors**

KTRS (Korea Technology Rating System)



Role of BSMEPA

- ▶ **It is recommended that BSMEPA extends its function to promoting inbound foreign direct investment (FDI)**
 - ▷ In Korea, KOTRA works as both export promotion agency and investment promotion agency.
- ▶ **Export promotion and investment promotion would bring together a remarkable synergy effect**
 - ▷ BSMEPA's experience and knowledge from trade promotion is a valuable asset to identify potential foreign investors and to support FDI projects.