

# US Mid-Market Enterprises: Confident in overseas investments in 2016



Written by The Economist Intelligence Unit

HSBC 

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## About the research

This paper is based on a survey conducted in March 2016 among 304 executives based in the US. Twenty percent were from companies with \$20m-100m in annual revenue; 60% from companies with \$100m-500m in revenue; and 20% from companies with \$500m-1bn in revenue. Eighty-three percent were from US Headquartered companies, the rest from companies with headquarters elsewhere and that earn at least 25% of their revenue in the US. Respondents were from the consumer goods and retail sector (17%); energy and natural resources (16%); healthcare, pharmaceuticals and biotechnology (16%); IT and technology (17%); manufacturing (10%); professional services (16%); and other sectors (8%). Senior vice presidents or vice presidents were 50% of respondents; C-suite executives other than CEOs were 43%; CEOs were 3%; and board members were 4%.

We would like to thank the following people for their additional insights:

- Nitin Rakesh, CEO, Syntel, Inc.
- Thomas A. Stewart, Executive Director, National Center for the Middle Market.

This report was written by David Klein and edited by Josselyn Simpson.

## About this report

This article is published by HSBC and written by The Economist Intelligence Unit, with the exception of the HSBC commentary appearing in separately labelled boxes. The views expressed by The Economist Intelligence Unit do not necessarily reflect those of HSBC.

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# Introduction

Business leaders around the world began 2016 facing a gut-churning bout of market volatility. Many financial markets fell by at least 10% between January 1st and mid-February; 2016 had the worst 10-day start to a year since 1897. No doubt remembering how quickly the contagion of the Great Recession spread and the resulting economic devastation, in early 2016 executives started making fresh assessments of how broader economic factors should affect their operational decision-making.

It turns out that middle market companies with substantial operations in the US may be anxious, but they're not pulling back. "We're expanding in both the US and other parts of the world in order to diversify our business and supply chain," says Nitin Rakesh, CEO of Syntel, Inc., a Michigan-based global provider of digital modernization services. Indeed, according to a recent survey of US executives at mid-market companies to understand their reactions to the early-year market volatility, that volatility did not, on the whole, shake most executives' confidence in investing abroad. In fact, many plan to *increase* investment in their operations abroad for the rest of 2016. The survey was conducted by The Economist Intelligence Unit (EIU) and sponsored by HSBC.

## After the Brexit vote: An EIU Perspective

This Economist Intelligence Unit survey and report were written prior to the British referendum vote to leave the UK on June 23rd 2016. The vote to leave has since jarred global markets. Business leaders globally have scrambled to contemplate the impacts of the referendum on operations and strategic plans for growth, often holding off on investments until the uncertainty clears.

The EIU, a leading source of analysis and advisory services, has conducted research into the impact of "Brexit" across industry and geography. The EIU forecasts that the vote will have lasting political and economic consequences for global markets, although the effects will be distributed unevenly. For example, in the UK the EIU expects its GDP to be 6% smaller in 2020 than it would have been without the vote; however globally the EIU expects a far more modest impact, with yearly global growth rates reduced by just 0.1% in 2016-17. As a result, with the international landscape not set to shift substantially, the results in the EIU executive survey continue to hold significance for the future of corporate overseas investment strategies.

# A snapshot of investments today

Survey respondents report that their investments abroad are spread fairly evenly across the value chain.

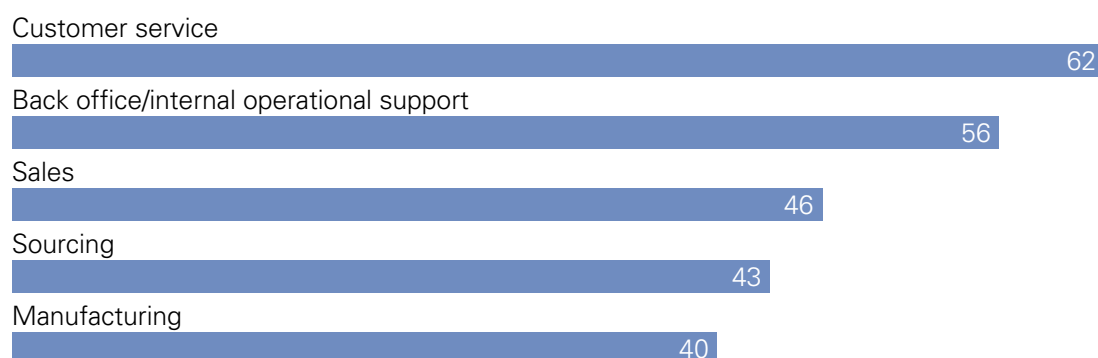
However, executives from the smallest companies surveyed, those with revenues of \$20m-100m, typically report fewer operations abroad compared with executives from the larger companies. When they do, they most often cite sales (42%) and customer service (52%) operations.

## Operations abroad

For which of the purposes below does your company currently have operations outside the US?

Select all that apply.

(% respondents)



Responses may not add to 100% because of rounding and because "other" responses are not shown.

Source: Economist Intelligence Unit, 2016.

### HSBC POINT OF VIEW

**"As their confidence grows, mid-market companies are investing more in Eastern Europe for both business service and back office/operational investment."**

**Martin Richards, Executive Vice President and US Head of Corporate Banking**

And where are these companies investing? China and Canada are the most often cited destinations for most purposes, with Western and Eastern Europe often close behind.

Canada and Western and Eastern Europe may well stand out to US middle-market companies because, as Thomas A. Stewart, executive director of the National Center for the Middle Market says, these companies prefer international markets where they can still play a “home game,” given their relative resource constraints and inexperience abroad compared with larger firms.

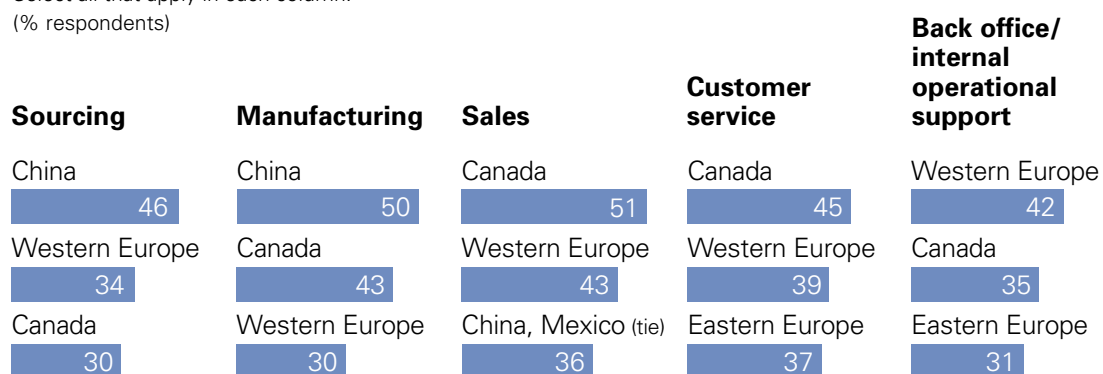
Western Europe remains a huge market with favorable regulatory and cultural barriers. Rakesh notes that it’s important to recognize that countries there are diverse with respect to the types of industries that dominate them. The “overlap between our services and the client business operating environment is a critical factor in deciding our investment and growth strategies in a new geography,” he says.

### What’s happening where

In which of the regions or countries below does your company conduct each of your current types of overseas operations?

Select all that apply in each column.

(% respondents)



Responses may not add to 100% because of rounding and because “other” responses are not shown.

Source: Economist Intelligence Unit, 2016.

# Sticking to the plan: More confident than not about the rest of the year

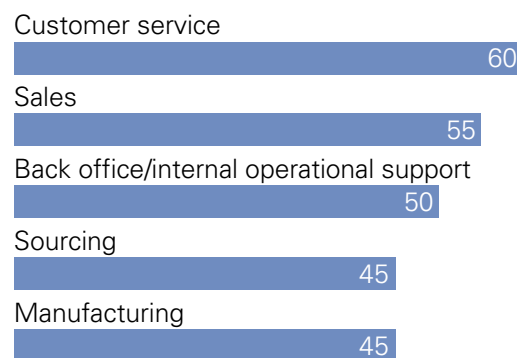
For each type of overseas operation and each location, the survey found that 60% of respondents remain bullish about their overseas operations; 40% have had some loss of confidence in at least one type of operation or location.

Concern about types of operations and concern about countries often reinforce each other. China offers the strongest example: It is the most often cited location for manufacturing operations. Manufacturing is the type of operation about which executives are most concerned. Their concerns are greatest for the manufacturing operations in China—43% of respondents say their confidence in manufacturing in China has fallen somewhat or significantly.

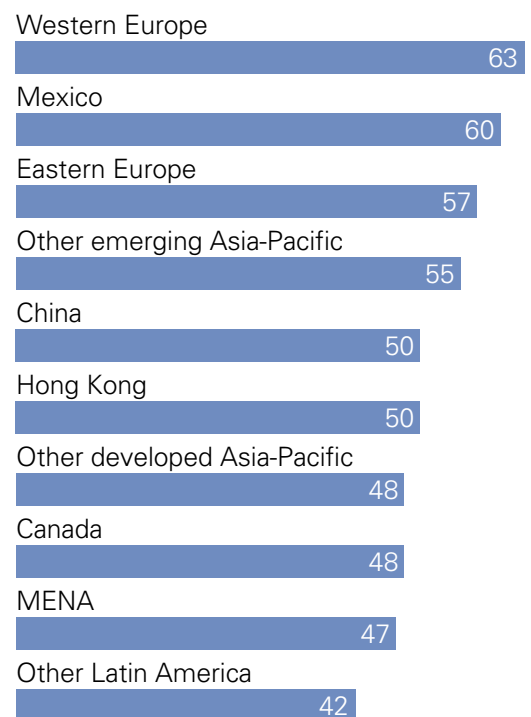
## Confidence more up than down

(% of respondents stating “risen somewhat” plus “risen significantly”)

For each of your current types of operations overseas how, if at all, has your company’s confidence in reaching the goals set for it changed since the beginning of 2016?



For each of the countries or regions below, how, if at all, has your company’s confidence in reaching the goals set for operations there changed since the beginning of 2016?



Responses may not add to 100% because of rounding and because “other” responses are not shown.

Source: Economist Intelligence Unit, 2016.

Looking across regions, the survey also shows that more companies plan to increase overseas investment for the rest of the year than reduce it.

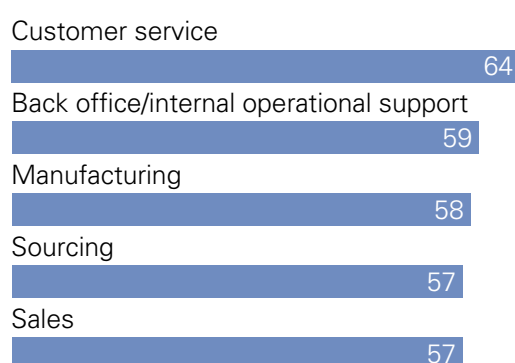
Even for manufacturing operations, a smaller share of respondents plan to decrease investment than say their confidence has fallen: 43% indicate some fall in confidence, while only 25% plan to reduce investments (7% significantly; 18% somewhat).

A majority (53%) of executives plan to increase investment in China, but some are still concerned: 31% are planning a decrease—which is by far the largest share of respondents saying they plan a reduction in any region. Overall, the largest companies are the leaders among the China bulls, with 75% of their executives saying that they plan to boost investment.

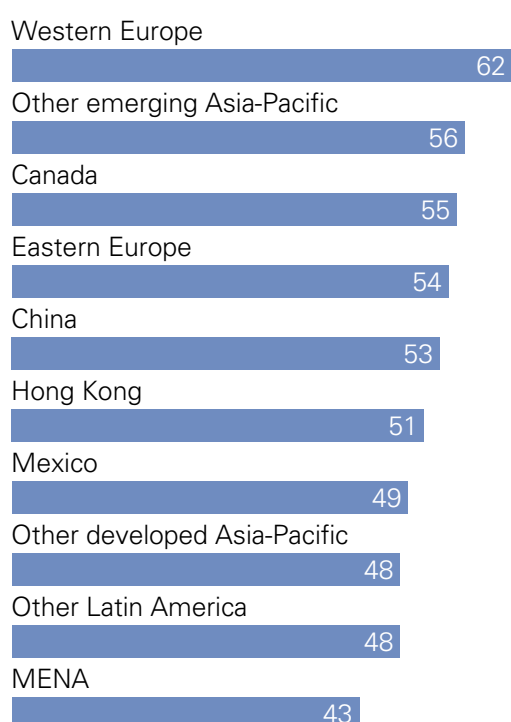
### Increasing investment

(% of respondents stating “increase somewhat” plus “increase significantly”)

How, if at all, do you expect your company to change investment in your operations abroad in each of the following areas in the rest of this calendar year?



How, if at all, do you expect your company to change investment in each of the countries or regions below in the rest of this calendar year?



Responses may not add to 100% because of rounding and because “other” responses are not shown.

Source: Economist Intelligence Unit, 2016.

# Focusing on business fundamentals for making future plans

What fundamentals do executives at mid-market companies consider most often when making decisions about investments abroad? When looking across all types of investment, survey respondents cited consumer confidence (33%), followed by overall country stability (30%) and ease of doing business (29%).<sup>1</sup>

The survey asked respondents which factors have had the most influence on their company's future plans, and, surprisingly, the findings indicate that executives weren't notably shaken out of their standard planning criteria by market volatility.

## What drives investment decisions in and out of crisis

(% respondents)

- When assessing the potential for operations in another country, which of the factors below are overall most important to your company?
- Which of these factors, if any, have had the most influence on the change in your company's interest in those countries or regions?



1. When executives were asked about the single most important factor for each type of investment they currently have, even the top choices were chosen by relatively small shares of respondents, with consumer confidence typically being low on all lists. Availability of suitable labor was top for sourcing, chosen by just 18% of respondents whose companies are sourcing abroad; market size and labor were tied for manufacturing, with 21% each; market size led for sales, chosen by 16%; and clarity and consistency of regulation led for both customer service and for back office/internal operational support, chosen by 17% for each.

Responses may not add to 100% because of rounding and because "other" responses are not shown.

Source: Economist Intelligence Unit, 2016.



# Conclusion

## Staying the course—wisely

Like all good businesspeople, mid-market executives should have the foresight to look beyond the day's business headlines to consider the medium- to long-term outlook for the countries and regions in which they are investing for their operations. Although memories of the sharp and painful retrenchment of 2008 and 2009 are still fresh in executives' minds, experts and the survey data suggest that US executives are behaving wisely.

Financial market volatility is not a primary concern in assessing their investments in operations abroad. In general, they look to less-volatile indicators such as consumer confidence, ease of doing business, overall stability and infrastructure quality as the most influential factors to guide their overall planning. When assessing specific investments, their eyes focus on practical factors such as market size and regulatory clarity.

All too often, companies shy away from an opportunity to grow abroad because they are insufficiently familiar with a market and nervous about taking risks, says Stewart. However, if they build their knowledge about potential markets and stay the course, this study suggests, most will have confidence in reaching their goals.