

*International Business Indicator*

# U.S. companies bullish on international business outlook

June 2014



Together we'll go far





## About the Wells Fargo International Business Indicator

To help U.S. business leaders better understand and assess the global business environment, Wells Fargo is introducing the International Business Indicator survey. The International Business Indicator tracks the strength and direction of U.S. companies' international business outlook and activity over time. The survey also looks at where companies are planning to expand, what's driving that expansion, and the obstacles that hinder their plans.

On behalf of Wells Fargo, GfK, a global research firm, conducted 254 telephone interviews between February 19 and April 28, 2014, with executives at U.S. companies that conduct business internationally and have \$50 million or more in annual revenue. Additionally, participants had to be associate vice president/director level or above, with either direct decision-making or some influence over the company's international business plans and/or strategies. The margin of error on the total is 6.7% with a 95% confidence level.

Ten executives from the initial survey also participated in a more intensive qualitative interview for additional insights. These interviews were conducted between April 22 and May 8, 2014.

## Summary of key findings

**Outlook:** U.S. companies are bullish in outlook. 69% of companies surveyed expect their international business activity to increase over the next year.

More than half (54%) of U.S. businesses view international markets as increasingly important to their financial success.

**Focus:** U.S. companies' international business plans focus most clearly on North American and Latin American neighbors, followed by the Asia Pacific region.

**Drivers:** Competitive pressures and economic conditions are driving business focus on international markets.

**Barriers:** Concerns about regulations, labor costs, and political stability are impacting U.S. companies' ability to do business internationally.

**Guidance:** When looking for information to inform international business decisions, more than half (55%) of U.S. executives rely "a great deal" on customers and suppliers for in-country insights.

## Middle-market U.S. companies expect their international business to increase in activity over the next year

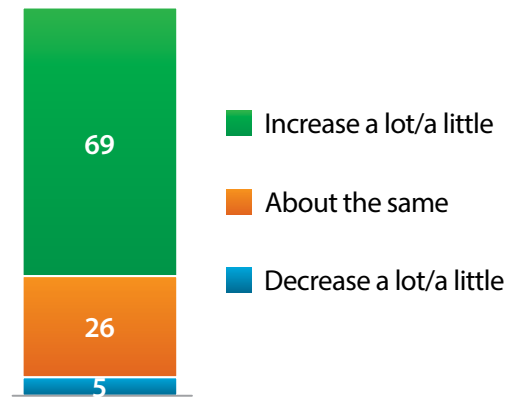
*“Our international customers are growing internationally and taking us with them.”*

– *Lodging/Personal Services/Business Services, Managing Director*

*“Our international business is driven by the interest of foreign companies to have widespread fiber communication infrastructure. There is increasing demand for that in developing regions like South America and the Middle East countries.”*

– *Technology, Vice President*

## Expected level of international business activity (%)



Source: Q3: And over the next 12 months, do you expect your company's international business activity to...?

## The majority of mid-size U.S. businesses judge international markets as increasingly important to financial success

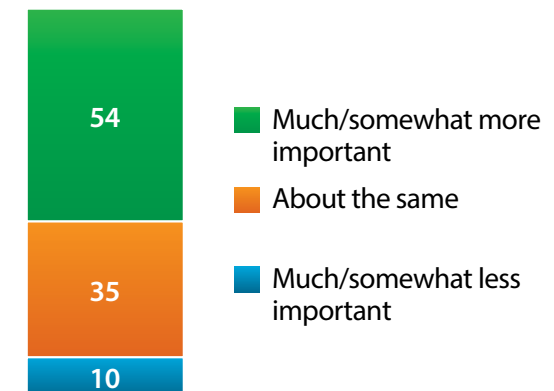
*“I think it's going to exponentially get more important for businesses to think outside of the U.S. space. The reason behind that, again, is just growing markets, especially in emerging markets areas, where populations who have never been touched before with certain products, goods and services, and certain industries — once it is seen by a specific industry that this is a capability that a business has applied, I think it's almost going to be a brushfire type of scenario.”*

– *Pharmaceuticals, Senior Vice President*

*“If you limit yourself to the continental 48 or even the U.S. in its entirety, you've boxed yourself in.”*

– *Finance, President*

## Importance of international business (%)



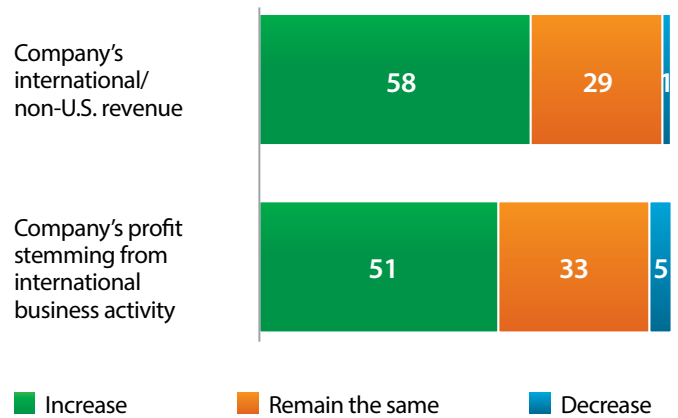
Source: Q2: Still thinking about the next 12 months, generally speaking, to what extent do you see the international component of your business becoming more or less important to your company's financial success?

Chart does not include “Don't know/refused” responses.

# International business outlook

Half or more U.S. middle-market companies expect an increase in company **revenue** and in company **profits** as an outcome of international business activity

## Financial impact of international business activity (%)



Source: Q6: Over the next 12 months, do you expect each of the following to increase, decrease, or remain about the same?

Chart does not include "Don't know/refused" responses.

## International outlook stronger for larger U.S. companies

Perhaps due to a larger and longer international presence, a higher percentage of U.S. companies with revenues of \$1 billion or more anticipate increases in aspects of their international business than lower-revenue U.S. companies.

Expect increases over the next 12 months in terms of (%):	Company annual revenue			
	\$1 billion + (n=66)	\$200 million to \$1 billion (n=63)	\$100 million to \$200 million (n=56)	\$50 million to \$100 million (n=69)
International operations	66	32	32	32
Number of employees outside the U.S.	54	26	18	21
International acquisitions	32	17	8	10

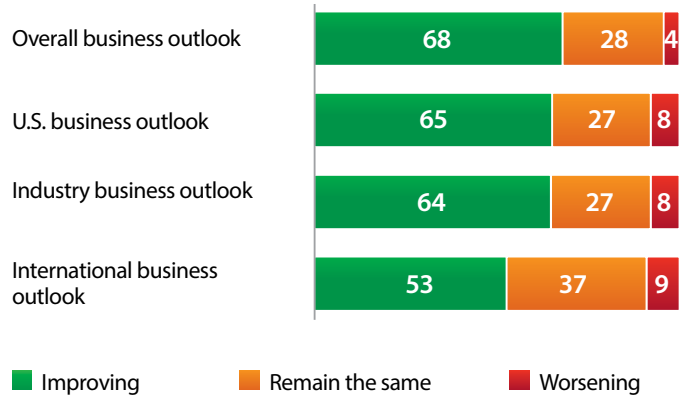
Source: Q6: Over the next 12 months, do you expect each of the following to increase, decrease, or remain about the same?

Q8: In the next 12 months, do you expect each of the following to increase, decrease, or remain the same?

# International business outlook

Although optimistic about the international business environment, U.S. businesses are more optimistic about the business outlook for the U.S. and their industry

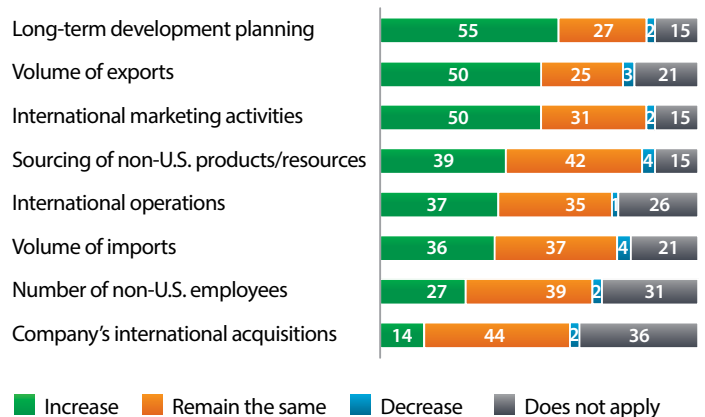
## Business outlook (%)



Source: Q1: Thinking about the next 12 months, do you see each of the following becoming much better, somewhat better, somewhat worse, much worse, or do you see things staying about the same?  
 Chart does not include "Don't know/refused" responses.

Long-term planning, exports, and international marketing are the international business activities expected to increase the most over the next year

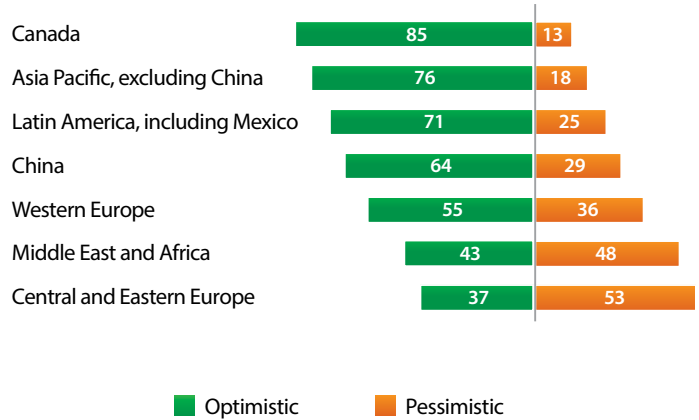
## Changes in business conditions from international business (%)



Source: Q6: Over the next 12 months, do you expect each of the following to increase, decrease, or remain about the same?  
 Q8: In the next 12 months, do you expect each of the following to increase, decrease, or remain the same?  
 Chart does not include "Don't know/refused" responses.

## U.S. businesses are most optimistic about the Americas and Asia Pacific regions

### Regional business outlook (%)



Note: the data for the United States (28% very optimistic/64% somewhat optimistic/7% somewhat pessimistic/0% very pessimistic) is excluded from this chart.

Source: Q10. Looking ahead to the next 12 months, what is your business outlook for each of the following countries or regions, regardless of whether your company currently does business there?

## International business plans similarly focused on U.S. neighbors and Asia Pacific

### Less focus on Middle East, Africa, Central Europe, and Eastern Europe

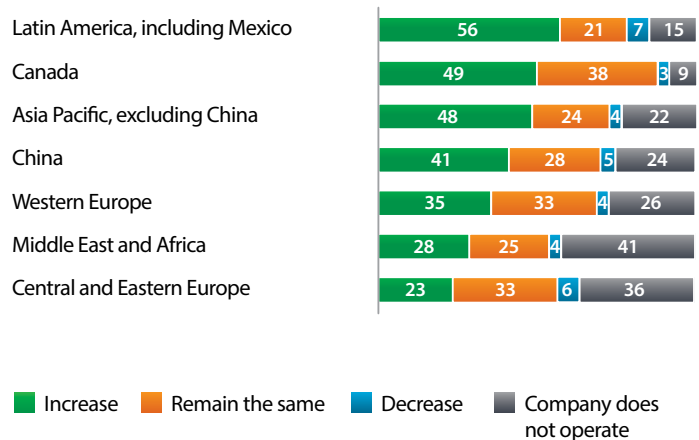
*“We’re looking to expand into South America, certainly into Brazil. It’s a huge market, especially with the World Cup and the Olympics coming there over the next couple of years. That’s really been a goal of ours for 2014. We’re also looking to find Chinese partners who might help us with some of the sourcing.”*

– Manufacturing, C-Suite

*“Asia and Africa and Latin America are where I see the most opportunities. We’re more entrenched in Latin America. That’s more of a focus for us. India, with 1.2 billion people, there’s lots of building going on there and that’s also a big opportunity market for us.”*

– Manufacturing, C-Suite

### Regional business plans (%)



Note: the data for the United States (75% increase/21% remain the same/3% decrease) is excluded from this chart.

Source: Q11: Next, please let me know whether your company plans to increase or decrease business activity in each of the following countries or regions. Or, will activity in this region stay the same?

Although Latin America is the top focus for increasing business, Canada and China rank higher in terms of business importance, followed by Asia Pacific

## Importance of regions/countries to U.S. business (%)

Ranking		First most important	Second most important	Combined importance
1	Canada	1	27	28
2	China	7	17	24
3	Asia Pacific, excluding China	7	13	20
4	Latin America, including Mexico	3	16	19
5	Western Europe	5	11	17
6	Middle East and Africa	2	3	5
7	Central and Eastern Europe	1	2	3

Note: the data for the United States (73% first most important/9% second most important/82% combined importance) is excluded from this chart.

Source: Q12a/b: Which of the following countries or regions is the most/second-most important to your business?

# International growth drivers and barriers

## Competitive pressures and economic conditions are driving mid-size businesses to focus on international markets, looking for more customers and more margin

*“As we continue to struggle through an evolving economy... there’s sharper competition and it’s evolving every day...it’s critically important that companies continue to build upon existing relationships so that they don’t lose market share.”*

– Technology, Vice President

*“It’s going to become increasingly important for companies to have operations overseas...there’s not a lot of growth left in the United States. And, there’s tremendous growth opportunities overseas...we’re seeing the margins are a lot higher overseas as well.”*

– Food Production, Vice President

## Concerns about regulations, labor costs, and political stability are impacting U.S. middle-market companies’ ability to do business internationally

*“We made one very, very small mistake on some tiny, esoteric tax rule in some country where we’re operating that has just cost us tremendous headaches that nobody could’ve envisioned. When we later on went and did our due diligence to understand exactly how it worked – it all made sense. It’s just that we didn’t do that work up front.”*

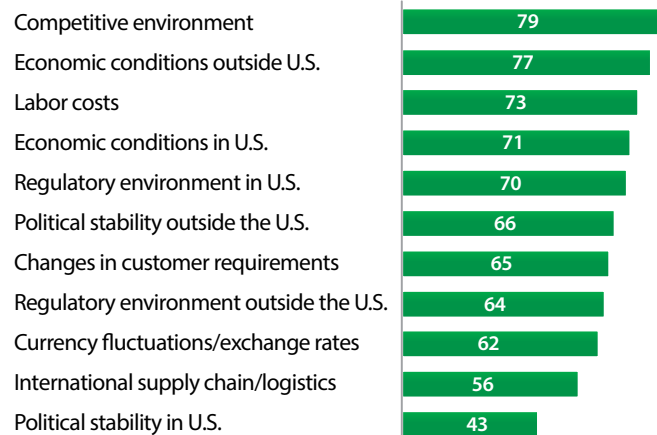
– Food Production, Vice President

*“Having to deal with local laws and regulations and being equipped to handle that. That’s a huge implication in what I do. There’s laws that change from country to country. So your legal costs, your potential for litigation, things like that, all increase.”*

– Finance, Vice President

## Factors impacting plans for international business (%)

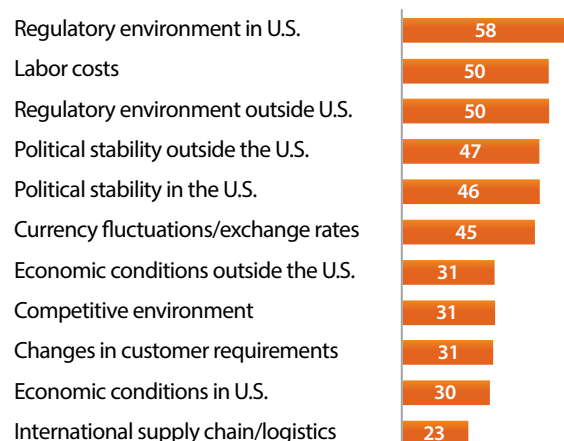
(% saying “a great deal” or “somewhat”)



Source: Q7a: Please let me know to what extent each of the following impacts your company’s plans for international business.

## Factors likely to negatively impact international business plans (%)

(% saying “very/somewhat negative” among those who rate each factor as impacting business “a great deal” or “somewhat”)



Source: Q7b: And what type of impact do you expect each of the following to have on your company’s international business plans?

Base: Those who consider each factor to be at least somewhat of an impact on their international business plans; base varies.



# Key information sources

## When looking for information to guide international business decisions, mid-size U.S. companies rely most heavily on customers and suppliers for in-country insights

*“One of the greatest means of building opportunities is to create synergistic relationships with complementary organizations. So, it’s synergistic relationships that I think are key. Finding the right partners internationally takes a little bit more effort. But, it’s certainly doable.”*

– Technology, VP

*“The networking opportunities...perhaps you work with a partner in Dubai or Abu Dhabi...and they have an associate who is in South America...looking to open up a boutique. So, the world has become a smaller place...if you’re going to run a business properly, to make those connections.”*

– Manufacturing, C-Suite

## Sources relied on for international business decisions

(% saying “a great deal”)



Source: Q9. To what extent does each of the following sources of information, or resources, guide your international business decisions?

## Survey population firmographics

Company size (# employees)	%	Company revenue	%	Industry	%
1-100	17	\$50M to less than \$100M	43	Consumer goods	10
101-500	39	\$100M to less than \$150M	14	Energy	2
501-1,000	11	\$150M to less than \$200M	7	Food/agriculture	13
1,001-10,000	23	\$200M to less than \$500M	16	Finance/insurance/real estate	8
More than 10,000	8	\$500M to less than \$1B	5	Healthcare/pharmaceuticals	5
Don't know/refused	1	\$1B to less than \$5B	8	Lodging/personal services/business services	4
		\$5B or more	7	Manufacturing	27
				Mining/construction	3
				Technology	4
				Transportation/communications/utilities	4
				Retail trade	4
				Other	14

Position/title	%	Nature of international business	%	# countries with operations	%
Owner	6	Suppliers located outside the U.S.	82	1	50
C-Suite: CEO, CFO, CIO, CCO	11	Customers located outside the U.S.	81	2	3
President	9	Import	69	3-5	15
Managing Director	12	Export	69	6-10	7
Executive Vice President	4	Offices/operations outside the U.S.	52	11-20	7
Senior Vice President	6			More than 20	18
Vice President	16				
Director	35				
Associate Vice President	2				

## Annotated questionnaire

All figures are percentages unless indicated otherwise  
 Base = Total respondents unless otherwise noted (n=254)  
 - = 0%; \* = less than 0.5%

Q1. Thinking about the next 12 months, do you see each of the following becoming much better, somewhat better, somewhat worse, much worse, or do you see things staying about the same? First...next...

	Much better	Somewhat better	About the same	Somewhat worse	Much worse	Don't know/refused
Overall business outlook	10	58	28	4	–	–
International business outlook	13	40	37	8	1	2
U.S. business outlook	12	53	27	8	–	1
Your industry's outlook	14	50	27	8	–	–

Q2. Still thinking about the next 12 months, generally speaking, to what extent do you see the international component of your business becoming more or less important to your company's financial success? Will it be..

Much more important	17
Somewhat more important	37
About the same	35
Somewhat less important	7
Much less important	3
Don't know/refused	1

Q3. And over the next 12 months, do you expect your company's international business activity to...?

Increase a lot	20
Increase a little	49
Stay about the same	26
Decrease a little	4
Decrease a lot	1
Don't know/refused	–

## Annotated questionnaire continued

Q4. What would you say is the key factor driving your company's international business activity to (increase a lot, increase a little, stay about the same, decrease a little, decrease a lot)?

(Open-ended)

Q5. You just told us that you expect the international component of your business to become (much more important, somewhat more important, about as important, somewhat less important, much less important) to your company's financial success in the next 12 months. At the same time, you expect your company's international business activity to (increase a lot, increase a little, stay about the same, decrease a little, decrease a lot). Can you please explain why you feel this way?

(Open-ended)

Q6. And over the next 12 months, do you expect each of the following to increase, decrease, or remain about the same? First...next...

	Increase	Decrease	Remain the same	Does not apply	Don't know/refused
Your company's international, or non-U.S., revenue	58	1	29	9	3
The share of company profits stemming from international business activity	51	5	33	7	3
The number of employees located outside of the U.S.	27	2	39	31	1
Sourcing of products and/or resources outside of the U.S.	39	4	42	15	1
Your company's international acquisitions	14	2	44	36	3

## Annotated questionnaire continued

Q7a. Next I'm going to read a list of factors that may or may not impact a company's plans for international business. Please let me know to what extent each of the following impacts your company's plans for international business. Would you say a great deal, somewhat, not too much, or not at all? First...next...

	A great deal	Somewhat	Not too much	Not at all	Don't know/ refused
Economic conditions here in the U.S.	29	42	17	11	–
Economic conditions outside of the U.S.	28	49	14	9	–
Level of political stability here in the U.S.	18	26	30	25	1
Level of political stability outside of the U.S.	28	37	21	12	2
The regulatory environment here in the U.S.	32	39	15	14	–
The regulatory environment outside of the U.S.	22	42	19	16	1
Currency fluctuations or exchange rates	20	42	19	18	*
Managing an international supply chain and logistics	19	36	21	20	3
Labor costs, including healthcare and availability of a skilled workforce	31	42	13	13	1
Competitive environment or industry trends	35	45	13	7	1
Changes in customer requirements	25	40	19	15	1

## Annotated questionnaire continued

Q7b. And what type of impact do you expect each of the following to have on your company's international business plans? Would you say a very positive, somewhat positive, somewhat negative, or very negative impact? First...next...

Base: Has at least somewhat of an impact (base varies)	Very positive	Somewhat positive	Somewhat negative	Very negative	Don't know/refused
Economic conditions here in the U.S. (N=188)	12	57	28	3	1
Economic conditions outside of the U.S. (N=203)	6	62	29	2	1
Level of political stability here in the U.S. (N=113)	10	44	40	5	1
Level of political stability outside of the U.S. (N=171)	2	45	41	6	5
The regulatory environment here in the U.S. (N=180)	8	34	43	15	1
The regulatory environment outside of the U.S. (N=169)	4	42	44	6	4
Currency fluctuations or exchange rates (n=158)	5	45	40	5	4
Managing an international supply chain and logistics (n=143)	8	66	22	2	2
Labor costs, including healthcare and availability of a skilled workforce (n=183)	10	35	40	10	5
Competitive environment or industry trends (n=203)	11	56	27	4	1
Changes in customer requirements (n=163)	9	58	26	5	2

Q8. In the next 12 months, do you expect each of the following to increase, decrease, or remain the same? First, your company's... next, your company's...

	Increase	Decrease	Remain the same	Does not apply	Don't know/refused
Volume of imports	36	4	37	21	2
Volume of exports	50	3	25	21	1
International operations (e.g., non-U.S. staff or facilities, direct foreign investment)	37	1	35	26	1
International marketing activities	50	2	31	15	1
Long-term international business development planning (e.g., supply sources, potential partnerships, licensing deals, or acquisitions)	55	2	27	15	1

## Annotated questionnaire continued

Q9. To what extent does each of the following sources of information, or resources, guide your international business decisions? First...next...

	A great deal	Somewhat	Not too much	Not at all	Don't know/refused
News media, including national and international	2	36	28	33	1
Industry or trade resources, including print and online	17	52	16	15	–
Accounting, tax, or consulting firms	10	35	29	24	2
Financial institutions	11	40	21	27	2
Customer and supplier feedback	55	35	5	5	–
U.S. and international government agencies	20	38	16	24	1
Academics or think tanks	1	17	25	54	2
Economists	5	38	23	32	2

Q10. Looking ahead to the next 12 months, what is your business outlook for each of the following countries or regions, regardless of whether your company currently does business there? Is it very optimistic, somewhat optimistic, somewhat pessimistic, or very pessimistic?

	Very optimistic	Somewhat optimistic	Somewhat pessimistic	Very pessimistic	Don't know/refused
United States	28	64	7	*	–
Canada	16	69	11	2	2
Latin America, including Mexico	19	52	18	7	4
Western Europe	10	45	32	4	9
Central and Eastern Europe	4	33	45	9	9
Middle East and Africa	7	36	34	14	10
Asia Pacific countries, excluding China	17	59	14	4	6
China	18	46	20	8	7

## Annotated questionnaire continued

Q11. Next please let me know whether your company plans to increase or decrease business activity in each of the following countries or regions. Or, will activity in this region stay the same? First...Next...

	Increase	Decrease	Remain the same	Does not apply	Don't know/refused
United States	75	3	21	*	1
Canada	49	3	38	9	2
Latin America, including Mexico	56	7	21	15	1
Western Europe	35	4	33	26	1
Central and Eastern Europe	23	6	33	36	2
Middle East and Africa	28	4	25	41	2
Asia Pacific countries, excluding China	48	4	24	22	2
China	41	5	28	24	3

Q12a. Which of the following countries or regions is most important to your business?

Q12b. And which of the following countries or regions is second most important to your business?

	First most	Second most
United States	79	9
Canada	1	27
Latin America, including Mexico	3	16
Western Europe	5	11
Central and Eastern Europe	1	2
Middle East and Africa	2	3
Asia Pacific countries, excluding China	7	13
China	7	17
Don't know/refused	1	2



## About Wells Fargo's International Group

Wells Fargo's International Group operates from 36 countries, including branches in the Cayman Islands, Dubai International Financial Center (DIFC), Hong Kong, London, Seoul, Shanghai, Singapore, Taipei, Tokyo, and Toronto. The company provides middle-market businesses, corporations, financial institutions, and multilateral organizations with a wide range of international solutions.

## About Wells Fargo & Company

Wells Fargo & Company (NYSE: WFC) is a nationwide, diversified, community-based financial services company with \$1.5 trillion in assets. Founded in 1852 and headquartered in San Francisco, Wells Fargo provides banking, insurance, investments, mortgage, and consumer and commercial finance through more than 9,000 locations, 12,500 ATMs, and the internet ([wellsfargo.com](http://wellsfargo.com)), and has offices in 36 countries to support customers who conduct business in the global economy. With more than 265,000 team members, Wells Fargo serves one in three households in the United States. Wells Fargo & Company was ranked #25 on Fortune's 2013 rankings of America's largest corporations. Wells Fargo's vision is to satisfy all our customers' financial needs and help them succeed financially. Visit [wellsfargo.com](http://wellsfargo.com) for more information.

## About GfK

GfK is one of the world's largest research companies, with more than 13,000 experts working to discover new insights into the way people live, think, and shop, in over 100 markets, every day. GfK is constantly innovating and using the latest technologies and the smartest methodologies to give its clients the clearest understanding of the most important people in the world – their customers. In 2012, GfK's sales amounted to € 1.1 billion. To find out more, visit [www.gfk.com](http://www.gfk.com).

## For more information

For questions regarding the Wells Fargo International Business Indicator, or inquiries about our international solutions, please contact [Indicator@wellsfargo.com](mailto:Indicator@wellsfargo.com).

To learn more about our international products and services, visit [wellsfargo.com/international](http://wellsfargo.com/international).