Small steps forward

With the threat of a “fiscal cliff” fresh in their minds and uncertainty about federal spending still unresolved, middle market business leaders across America are moving forward. But they feel like they’re battling headwinds.

The 2013 Chase Business Leaders Outlook Survey of middle market senior executives (“the survey”) revealed that the cautious optimism displayed in 2012 remains evident this year in their plans for growth, hiring and capital investment. Most say they anticipate their revenue and profits to rise this year, though they acknowledge it won’t happen without challenges. And there are strong indications that many businesses have plenty of cash on hand.

However, this optimism is tempered by uncertainty surrounding the regulatory and political environments. Looking beyond their own walls, business leaders have altered their views compared to a year ago: They are 12 percent less likely to express optimism about the national economy and 5 percent less likely to express optimism about their local economies. Meanwhile, confidence in the global economy remains low—but, conversely, the global view is the only level on which business leaders’ attitudes improved from year to year.

Middle market businesses see orders increasing, they have jobs to fill and the credit crisis of a few years ago has nearly dissipated. Yet a number of real or perceived challenges are keeping those positive indicators from translating into more robust business growth.

Taxes and regulation concern business leaders even in the best of times, and appear to worry them more now. As Congress battles over fiscal policy, some tax increases have already appeared on the books, and business leaders worry that more could be looming. With the most significant provisions of the 2010 Affordable Care Act going into effect at the end of the calendar year, employee health costs and possible shifts between full-time and part-time work are taking center stage. Few are aware of an impact from the implementation of Dodd-Frank financial reforms, and a third say they aren’t sure yet what the new rules mean for them.
Outside the regulatory arena, middle market businesses continue to experience the “talent paradox”—difficulty in hiring the skilled workers they need despite lingering high national unemployment. Some regions and industries suffer more based on the skill levels required.

Respondents to this year’s survey don’t anticipate a substantial increase in their need for credit—perhaps not surprising given the amount of liquid capital many have available. Those who don’t expect to require additional financing were most likely to cite increased revenue, economic uncertainty or concerns about taxes and regulations as the reason.

Despite the challenges they see, business leaders are moving forward—by way of both acquisition and by expanding their target markets globally and domestically. Only a handful say they have no growth plans for the year ahead. Plans to expand internationally are especially robust and are in fact accelerating from year to year. Yet overall, the 2013 survey of their perceptions, attitudes and expectations finds middle market business leaders tentative about moving into high gear. Whether it arises from Washington, global markets, or simply an echo of recent troubles, their wariness has become a recurring trend in itself.

What is your outlook on the following for the next 12 months?

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Revenue and Sales Growth
Leaders expect to grow, but not without challenges

What leaders see

The survey asked each business leader to identify the top three significant challenges he or she would face in the year ahead. Among many responses, the most common answers were revenue and sales growth, regulations, labor costs and the skilled labor pool.

While a focus on sales growth is mostly perennial, it reached new heights in this year’s survey—more companies selected this as a top challenge for 2013 than any other in the past three years. It’s possible some business leaders see growth as a challenge not because they don’t expect it to happen but because the robust growth they do expect may only take them back toward pre-recession levels. Also, because of shorter order cycles and fewer backlogs, managers in some industries may have less visibility and therefore less confidence in the revenue that awaits them 60, 90 or 120 days ahead.

Other notable year-to-year shifts in business leaders’ perceived top challenges included increased concern over taxes and regulatory requirements and decreased concern over the cost of commodities and the availability of credit.

Retail trade leaders and professional, scientific and technical services leaders were significantly more likely to see sales growth as a top challenge. Nationally, the construction industry appears to see sales growth as less of a challenge. Just under

Construction on the rise?

Based on dramatic year-to-year changes in the way construction leaders answered the survey, it appears they feel good about where their industry is headed. Their optimism about their own local economies, increased sales and revenue, and increased capital spending all jumped by double-digit margins compared to 2011, and their optimism about their own companies’ performance—54 percent in 2011, 72 percent in 2012 and 87 percent this year—led all industries. Construction leaders are also almost 20 points less likely than the national average to identify sales growth as a top-three business challenge.
What are the top three most significant challenges facing your business in 2013?

- Revenue / sales growth: 69% (65% in 2012)
- Regulatory requirements: 40% (35% in 2012)
- Labor costs: 35% (34% in 2012)
- Talent: 28% (29% in 2012)
- Cost of commodities: 25% (36% in 2012)
- U.S. competition: 21% (23% in 2012)
- Taxes: 20% (13% in 2012)
- Consumer confidence: 19% (21% in 2012)
- Foreign competition: 11% (11% in 2012)
half of those leaders named it a top-three challenge, making construction responses one of the bright spots of our survey. These findings echo the belated but broadening recovery in the residential real estate sector. In the transportation and warehousing industry, leaders expressed comparatively little concern over consumer confidence, but they saw regulatory requirements as significantly more of a challenge than leaders in other industries did.

Businesses in the Northeast were also more likely to name sales and revenue growth as a top challenge, which may be in part because of lingering effects from Superstorm Sandy, as well as ongoing adjustments in the financial sector. Labor costs were a key challenge in the Northeast as well, which may be a more natural effect of high salaries and cost of living there. The South was more likely than average to cite talent skillsets and labor costs, which may reflect heightened needs for engineers in the oil and gas industry. Across the nation, smaller middle market companies with less than $50 million in annual revenue were especially likely to cite labor costs as a top challenge—39 percent did, which was four points higher than the national average and 10 points higher than the previous year.
What leaders expect

Middle market business leaders who anticipate sales, revenue and profit growth within their own companies continue by a wide margin to outpace those who predict static or falling numbers. Almost three out of four survey respondents said they anticipate higher revenue in 2013.

But there is a noteworthy cooling in this expectation from year to year. Fewer anticipate sales and revenue to increase substantially (13 percent in 2013 versus 18 percent in 2012), while “increase moderately” was an incrementally more common response than a year ago. Expectations for profit growth showed a similar retraction: Almost two-thirds do expect an increase, but those who expect “substantial” increases declined from 15 percent to 12 percent this year, and slightly more say profits will remain constant. Mid-sized businesses appear to be facing growing pressure on earnings, with competition fierce and costs related to health insurance rising. One potential factor in this expectation is that companies that already have high margins may have exhausted their opportunity to extract additional profit from the business they’re already doing.

Retailers were much less likely to predict sales growth (65 percent) than the nation as a whole (74 percent) and, perhaps correspondingly, were significantly more likely to see consumer confidence as a top challenge. Among regions, expectations for sales growth showed only minor variation. The phenomenon of “moderate” revenue increases (63 percent) outpacing “substantial” ones (11 percent) was strongest in the Midwest. Wholesale traders and professional, scientific and technical services leaders also reported heightened expectations for moderate sales growth.

What leaders plan to do

Almost half of all middle market businesses surveyed say their capital expenditures will remain the same in 2013, and more than half see no movement in their credit needs. In both categories, those who intend increases (35 percent for capital spending, 29 percent for borrowing) outweigh those planning decreases. But in parallel with expectations for revenue and profit growth, these numbers were less robust than in 2012.
Plans to increase capital investments were slightly more prevalent in the West (39 percent), and plans to borrow more were just above the national average in the West and Northeast (33 percent) amid extremely attractive financing conditions. It’s possible the Northeast’s larger credit needs correspond to expansion into foreign markets or growth through acquisition, both of which were also strong tendencies indicated in the survey. Rebuilding from Superstorm Sandy may be a factor in borrowing as well.

Retail trade and transportation and warehousing businesses were also more likely to increase capital spending this year, as were companies on the large end of the middle market group with more than $500 million in annual revenue.

Nearly one-third of respondents said their businesses do not anticipate needing more financing in 2013. Attitudes about borrowing and leverage, despite the lowest financing costs in memory, likely echo the bad memories of the past decade. Of those, 64 percent said the reason was they had more revenue and profits available and consequently no need to borrow. Economic uncertainty was a more popular reason not to borrow this year—20 percent, up from 15 percent a year ago—and so was unease about future taxes and regulation, which almost doubled from 8 percent in 2012 to 14 percent in 2013.

Only a negligible number of survey respondents said they have no growth plans for 2013. Among the rest, 59 percent said the primary focus of their growth would be attracting new customers. Almost as many, 54 percent, planned to grow by expanding and diversifying their product and service offerings. Selling more to the existing customer base was a growth focus for 46 percent.

Expansion into new global target markets was a particularly likely growth strategy among manufacturing and professional, scientific and technical services companies. It was also prevalent among larger respondents with more than $100 million in revenue—29 percent of them plan to expand overseas, up substantially from the same group’s stated intentions in 2012. Regionally, businesses in the Northeast were more likely than others to plan overseas growth. That may reflect a more international focus among Northeast businesses; it may also indicate that the region, with its decreasing population, has fewer prospects for new business close to home.

Among those who do intend to borrow money this year, 36 percent said it would be to buy capital equipment and 25 percent said the borrowing would fund an acquisition. There was a slight year-to-year drop (24 to 21 percent) in business leaders who said they would borrow for structures or facilities.
What will be the primary focus of your company's growth strategies over the next 12 months?

Respondents were allowed to choose more than one option.

- Attract new customers: 59% (2013), 59% (2012)
- Expand / diversify offerings: 54% (2013), 54% (2012)
- Up-sell / cross-sell: 43% (2013), 46% (2012)
- Expand U.S. markets: 36% (2013), 34% (2012)
- Acquisitions: 23% (2013), 23% (2012)
- Expand global markets: 20% (2013), 22% (2012)
- New channels: 9% (2013), 8% (2012)
- Mergers: 2% (2013), 2% (2012)
- No growth plans: 2% (2013), 2% (2012)
Taxes and Regulation
Amid tax changes and health reform, businesses weigh options

What leaders see

Two kinds of government intervention in business appear to weigh heavily on the minds of middle market business leaders—the taxes and regulations already in motion and the potential for new tax changes that is frequently in the headlines. Almost three out of four say the current regulatory environment makes it harder for them to expand and hire new workers, up from about two-thirds a year ago.

When asked to name their top three challenges, 40 percent of respondents included regulatory requirements—up from 35 percent in 2012—and 20 percent included corporate taxes, up from 13 percent. The regulatory concern was higher in the South and lowest in the Northeast. The Midwest was more likely than the rest of the nation to name taxes as a top challenge amid the region’s severe fiscal pressures on state and local budgets.

When the questions turned to specific elements of the general tax and regulation landscape, clearer distinctions emerged. More respondents were “very concerned” or “extremely concerned” about healthcare regulation (81 percent) than any of the 10 other categories tested. This represents a slight increase over last year, with taxes related to the Affordable Care Act going into effect at the start of the year and most of the provisions of the new law set to be implemented at the start of next year. Government spending was next on the list, more than corporate taxes or payroll taxes.

Concern about healthcare regulations was most pronounced in the Midwest and in the construction and wholesale trade industries. Midwesterners were more likely to rank environmental policy as a significant concern.

Overall, the Northeast was much less likely than other regions to express concern about the hiring effect of regulations overall, healthcare regulations, government spending and corporate taxes—possibly because leaders there are more accustomed to those phenomena.
Is the current regulatory environment making it easier or more difficult for small and mid-sized businesses to expand and hire workers?

- **2013**
  - More difficult: 72%
  - No impact: 27%
  - Easier: 1%

- **2012**
  - More difficult: 66%
  - No impact: 33%
  - Easier: 1%

- **2011**
  - More difficult: 67%
  - No impact: 31%
  - Easier: 2%
**What leaders expect**

Slightly fewer than half the business leaders surveyed indicated their companies were likely to maintain current staffing levels or decrease them in 2013. When those respondents were asked why they were restraining their hiring plans, 42 percent cited uncertainty about healthcare costs, which was seven percentage points higher than the previous year. About one-quarter cited uncertainty about government policies and 13 percent attributed their stance to increased taxes.

Middle market leaders also had a chance to specify which three areas they would like government to focus on in the next 12 months. The most popular answer was federal deficit reduction (68 percent), followed closely by reducing regulations (66 percent) and lowering the tax rate and reducing credits and deductions (61 percent). Those results parallel last year’s, with the exception of a four-point increase in the focus on tax reduction. Among regions, the Northeast was more likely than others to favor the creation of a comprehensive jobs plan. Among industries, retailers were more likely than other sectors to seek regulatory relief, and transportation and warehousing leaders showed a keen interest in infrastructure improvement.

### Which three areas should the government focus on in the next 12 months that would best support the growth of middle market companies?

- **Reduce the federal deficit**: 68% (2013), 61% (2012)
- **Reduce regulations**: 66% (2013), 64% (2012)
- **Lower tax rates and reduce credits and deductions**: 61% (2013), 57% (2012)
- **Ensure financial stability and access to affordable capital**: 32% (2013), 38% (2012)
- **Improve infrastructure**: 26% (2013), 24% (2012)
- **Create and foster a skilled workforce**: 19% (2013), 19% (2012)
- **Create a comprehensive jobs plan**: 17% (2013), 17% (2012)
- **Protect consumers’ interests**: 3% (2013), 3% (2012)
- **Other**: 8% (2013), 9% (2012)
This year’s survey asked about two recent developments: the “fiscal cliff” tax agreement that took place at the beginning of 2013 and the rollout of the Dodd-Frank financial services industry legislation. When asked how Dodd-Frank had affected their banking relationships, leaders gave strong support to the two most noncommittal answers—“no impact” (39 percent) and “unsure” (33 percent)—suggesting it is too early to expect them to know how the new regulations may affect them. Small cohorts did say they felt the law had made credit more difficult to find or more expensive. On the outcome of the January federal tax agreement, 32 percent linked it to reduced hiring, 29 percent said it was limiting their capital investment and 17 percent said it was hampering domestic expansion.

**What leaders plan to do**

Some of the most significant portions of the 2010 Affordable Care Act go into effect at the beginning of 2014, including rules that penalize businesses that employ more than 50 full-time workers if they do not offer health insurance. Many employers are weighing strategies to use part-time and contract labor to

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*How has the recent tax agreement impacted your future business plans?*

Respondents were allowed to choose more than one option.

- Reducing hiring: 32%
- Reducing capital investment: 29%
- Reducing domestic expansion: 17%
- Reducing mergers and acquisitions: 8%
- Increasing global expansion: 5%
- Increasing capital investment: 4%
- Increasing mergers and acquisitions: 4%
- Reducing global expansion: 4%
- Increasing domestic expansion: 3%
- Increasing hiring: 2%
- Other: 20%
keep their full-time headcount below that threshold—and ever since the law was enacted, observers have speculated about whether businesses would simply drop coverage and accept the $2,000-per-employee federal penalty as the lesser of two costs.

This year’s survey finds that middle market businesses are overwhelmingly likely to offer their employees health insurance—98 percent do right now. Just under one in four say they’re considering dropping coverage, more than last year, though this move is less likely in the Northeast. Some sectors, including retail and construction, indicate they’re more likely to drop coverage. It is possible these numbers will shift in the future, because businesses may have spent the past year waiting to see how court challenges and the presidential election affected healthcare policy—and by this time next year, more ACA provisions will have transitioned from theory to reality.

If most companies intend to continue offering health insurance to employees, that leaves them exposed to the mounting costs that go with it. Survey respondents said most of their strategies for offsetting these costs involve some way of passing the burden on to employees: higher deductibles (68 percent), more costs paid by employees (55 percent) and the use of medical savings accounts (40 percent) in place of traditional copay-based plans. That echoes a national trend that is confirmed by the steady and moderate rise in overall hourly labor compensation. Businesses in the Northeast and West also reported an above-average likelihood that they would reduce the quality or scope of benefits.
What actions have you taken to offset the higher costs of healthcare?

Respondents were allowed to choose more than one option.

- **Impose higher deductibles**: 68% in 2013, 72% in 2012, 74% in 2011
- **Employees pay greater percentage of costs**: 55% in 2013, 60% in 2012, 69% in 2011
- **Offer medical savings accounts**: 40% in 2013, 41% in 2012, 33% in 2011
- **Decreased quality or breadth of benefits offered**: 21% in 2013, 23% in 2012, 31% in 2011
- **Limit employer sponsored coverage to the minimum permissible under the legislation**: 6% in 2013, 5% in 2012, 14% in 2011
- **Other**: 12% in 2013, 11% in 2012, 12% in 2011
- **None**: 10% in 2013, 9% in 2012

"None" was not listed as a potential answer choice in the 2011 survey.
Talent
Businesses struggle to find qualified workers—and consider new workforce models

What leaders see

More than one in four middle market respondents said finding candidates with the right skills was a top-three business challenge for 2013, a concern that was most acute in the construction, transportation and warehousing, and professional services industries. Looking into that issue on its own terms, almost three-quarters say they are “somewhat,” “very” or “extremely” concerned about a skilled talent shortfall. Among construction businesses, that three-quarters “concerned” total soared to 92 percent.

What skills are these employers looking for? Technical, managerial and engineering skills were mentioned often, but analytical and communication skills appeared frequently as well.

The West reported an especially keen need for skilled managers. Manufacturers had the highest need for engineering and machinist skills, and two-thirds of construction companies are having trouble finding enough people with technical and trade skills. The wholesale trades have the greatest unmet demand for analytical, math and communication skills.
What are the primary reasons for increasing your hiring plans?
Respondents were allowed to choose more than one option.

- Expected sales growth: 88% (2013), 89% (2012)
- Need skills not possessed by current workforce: 32% (2013), 34% (2012)
- Current workforce overworked: 29% (2013), 36% (2012)
- Order flows increasing: 26% (2013)
- Company’s financial position has improved: 14% (2013), 17% (2012)
- Decreased economic uncertainty: 2% (2013), 5% (2012)
- Labor costs have decreased: 0% (2013), 1% (2012)
- Other: 6% (2013), 5% (2012)

“Order flows increasing” was not listed as a potential answer choice in the 2012 survey.
What are the primary reasons for restraining your hiring plans?

Respondents were allowed to choose more than one option.

- Increased efficiency / productivity: 46% (2013), 47% (2012)
- Worries about the sustainability of the economic recovery: 42% (2013), 40% (2012)
- Uncertainties about higher healthcare / insurance costs: 42% (2013), 35% (2012)
- Insufficient demand: 40% (2013), 45% (2012)
- Uncertainties about regulations or government policies: 26% (2013), 23% (2012)
- Increased taxes: 13% (2013)
- "Increased taxes" was not listed as a potential answer choice in the 2012 survey.
- Company’s financial position has deteriorated: 8% (2013), 6% (2012)
- Other: 6% (2013), 6% (2012)
What leaders expect

Employers’ expectations for hiring mirror their expectations for revenue and profit growth: Those who think they will increase hiring outnumber those who expect to cut back or stand still, but incrementally less so than in 2012.

More than half say they expect to increase full-time employment, but more anticipate “moderate” increases than “substantial” ones—a disparity that widened slightly compared to last year. The Midwest shows a heightened likelihood to moderately increase full-time numbers, and the West is the only region to report a statistically significant likelihood of a substantial increase. Across industries, construction and professional, scientific and technical services lead the way in expecting moderate hiring increases, while the retail trades are the most likely to report they’ll increase hiring substantially.

This may reflect the significant concerns retailers expressed about consumer confidence, economic recovery and their own companies’ performance. Meanwhile, the number of middle market employers who anticipate moderate increases in part-time employment rose from 15 to 19 percent, led by construction companies and retailers. It is possible some companies are using part-time workers to ease their workforces back toward pre-recession levels without overcommitting to full-time staff. A shift from full-time to part-time employment is also one potential response to new health reform rules set to roll out in January.

Those who anticipate increasing hiring in 2013 say the primary reasons are expected sales growth (88 percent), the pursuit of new skillsets (32 percent), a current workforce that’s overworked (29 percent) and increased order flows (26 percent). Among businesses that anticipate restrained hiring this year, the most common reasons were increased efficiency and productivity among the people they already have (46 percent), worries about higher healthcare costs (42 percent, up from 35 percent the year before) or the sustainability of the economic recovery (42 percent) and insufficient demand (40 percent, down from 45 percent in 2012). The reported connection between healthcare worries and restrained hiring was strongest in the Midwest.

Business leaders in the Northeast report a greater likelihood that they will increase offshore employment—26 percent against a national average of 18 percent. Manufacturing (23 percent) and professional, scientific and technical services companies (27 percent) lead this trend.
Alongside hiring is compensation. Almost two-thirds say the rewards they offer employees will increase moderately in 2013, and only 3 percent anticipate decreases of any amount. Employers in the Northeast are even more likely than average to predict moderate compensation increases—and more likely than they were last year. Leaders in the professional, scientific and technical services also anticipate moderate compensation increases. But transportation and warehousing employers and construction employers are slightly less likely to follow the trend.

What leaders plan to do

Businesses report a variety of strategies to address the lingering talent shortage, beginning with efforts to develop in-house training programs (65 percent) and simply offering higher wages (46 percent)—though 8 percent fewer employers plan to use wage increases than in last year’s survey. Other common approaches include partnering with community colleges to improve skill training, changing policies to attract and retain skilled talent, and bringing new focus to recruiting and retaining older workers.
The survey also sought business leaders’ plans for their own futures. Two-thirds (68 percent) say they have no plans to sell or transfer ownership of the company. Eleven percent plan to make a transition in six to 10 years, 14 percent plan to do so in three to five years, and 7 percent intend to make their exits within the next two years. Among those who know where their companies will end up, 36 percent plan to work with a strategic industry buyer—more than twice the number who will pass ownership to a family member (14 percent) or a private equity buyer (13 percent). Only slightly more than half (56 percent) report having a formal succession plan in place.

To what extent is your company concerned about potential challenges due to a limited supply of candidates with the right skill set?

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Global Business
As confidence in global markets rises, those already doing business abroad accelerate in search of new growth opportunities

What leaders see

In a pattern that has become familiar from year to year, middle market business leaders said they were less optimistic about the global economy (18 percent) than they were about the national economy (37 percent) or their respective local economies (54 percent). The first interpretation of this is that people feel more confident about things that are closer to them—easier to understand and control.

However, the global economy was the only level on which confidence increased in 2013, reflecting fading worries about the breakup of the European monetary union. Local economy confidence saw a five-point drop and confidence in the national economy shot down by 12 points, but optimism about the global economy rose three points.

The global news this past year suggests the reason may lie in things that didn’t happen. While the U.S. economy lived on the front page through fiscal cliff deadlines, political showdowns and lingering unemployment, the European Union situation stabilized following the European Central Bank’s strong show of support for the monetary union last summer. (The turmoil over banking in Cyprus took place after this survey.) China didn’t have the “hard landing” some had predicted. And the inflation some had feared in other high-growth economies

Among the companies with no current overseas operations, almost all say they have no plans to go abroad in the next three years. Even though foreign markets promise strong growth and margins for companies that operate there, making inroads abroad can be prohibitively difficult, and some businesses are limited to the U.S. marketplace by their very natures.
such as Russia and India didn’t come to pass. As one expert in international business summarized, “The world didn’t end.”

The percentage of respondents who reported that they buy from foreign markets (34 percent) or that they have operations overseas (27 percent) remained unchanged from 2012, but there was a significant increase, from 41 percent to 45 percent, in the number who report that they sell to foreign markets. Compared with last year, fewer leaders said their companies had no sales or operations at all outside the United States.

Businesses in the South showed less international engagement: 49 percent—10 points above the national average—said they had no involvement overseas. But businesses in the Northeast were 10 percent more likely than average to do business overseas. Three-quarters of businesses there either buy from, sell to or operate in foreign countries. Similarly, manufacturers are much more likely than the national average to buy from, sell to or operate in markets overseas—only 16 percent of them sit out the international game entirely.

When asked what issues on the international business scene concerned them the most, leaders named global supply chain management, currency risk and the challenge of managing risk and regulation in Asia-Pacific.
What percentage of your total sales comes from overseas?
What percentage of your total sales do you expect to come from overseas in five years?

![Bar chart showing sales distribution by percentage categories from 2011 to 2018*]

- 2011: 1-25% 76%, 26-50% 15%, 51-75% 3%, 76-100% 3%
- 2012: 1-25% 71%, 26-50% 18%, 51-75% 7%, 76-100% 6%
- 2013: 1-25% 71%, 26-50% 17%, 51-75% 7%, 76-100% 5%
- 2018*: 1-25% 49%, 26-50% 29%, 51-75% 8%, 76-100% 5%

*Respondent five-year projection
What leaders expect

There are strong signs foreign activity will increase among those already engaged in it. Most companies (87 percent) who currently report no foreign activity also predict they’ll remain fully domestic five years from now. But among those who are doing business abroad today, three-quarters say they expect overseas sales to increase over the next five years.

What makes expanded global business attractive? In many instances, foreign markets offer faster growth and larger margins than their more saturated counterparts in the United States. There are costs and challenges to establishing a market presence overseas, but once that hurdle is past, it’s often possible to grow more easily—not only within a given market, but also from country to country.

This expectation becomes clearer when respondents who are already active overseas consider various degrees of international commitment. Today, 71 percent say foreign sales account for one-quarter or less of their overall business; five years from now, only 49 percent anticipate foreign sales that low. Some of those are apparently aiming higher, because the number who estimate foreign sales of between 26 and 50 percent rises from 17 percent today to 29 percent five years down the road. The number who look overseas for more than half of their sales rises from 12 percent today to a five-year projection of 22 percent.

Predictably, all-domestic businesses feel little pressure from foreign competition, but among those active abroad, one in five said it was a top challenge. Of those already active in global markets, 40 percent said expanding their overseas operations was a focus for 2013. Only 1 percent of those not currently active abroad reported the same focus. The companies active and planning to expand overseas were also more likely to expect domestic expansion than their domestic-only counterparts. A global growth focus was especially prominent in the Northeast, where 30 percent named it a priority, up sharply from 19 percent the year before.
What leaders plan to do

Business leaders’ reasons for doing business abroad suggest they are pursuing not only new growth but “new new” growth—they are not merely following current customers overseas but going overseas to look for new customers. The year-to-year growth business leaders are reporting on the international front surpasses the anticipation for growth they reported in previous years. Whether this is because of unplanned circumstances, defensive strategies or better-than-expected trial moves, there is a clear acceleration among those businesses that have already breached the international barrier.

• Some of the acceleration is evolutionary. For example, a company might start in China by selling a small selection of products, but once there, its leaders find they can also sell the other products in the company’s portfolio. They can see the growth continuing over the long term because there is no saturation in that market.

• Some companies may retool to take advantage of China’s growth and then end up selling to other markets in Asia.

• In the United States, companies find they keep doing business with the same large suppliers. Overseas, there is room to grow through new relationships.

While there are many perspectives on international business, one expert noted he never heard any leaders say they have tapped out their potential overseas—and in the survey, no respondents predicted that international business would shrink in the years ahead.

Among companies active overseas, 70 percent said their main reason was to gain access to new customers and markets. Fewer than half that number, 30 percent, said they operated abroad in order to serve domestic customers better. About one-third of those active overseas said their focus was on supplies or materials from abroad. For companies working to enter new foreign markets, the most common route of entry was direct exporting (53 percent).

Involvement in foreign economies is also spreading geographically. As in past years, there is a “dumbbell” effect: Most businesses with overseas operations are either active in a handful of countries or more than 10, with very few active in six to nine countries. But 62 percent say they will operate in more countries five years from now. The Asia-Pacific region (51 percent), China (45 percent) and Western Europe (47 percent) are the locales in which most companies say they’ll expand.
What are the main objectives for your international activities?

Respondents were allowed to choose more than one option.

- Access to suppliers / materials: 34% (2013), 34% (2012)
- Better serve domestic customers with global operations: 30% (2013), 28% (2012)
- Develop and sell new products: 25% (2013), 21% (2012)
- Achieve cost savings: 25% (2013), 26% (2012)
- Manage risk: 14% (2013), 12% (2012)
- Other: 3% (2013), 4% (2012)
Summary
Waiting for a chance to grow

Four years after the National Bureau of Economic Research declared the Great Recession officially over, pundits and analysts are still at odds over the shape and pace of the nation’s recovery. For business owners, the perception of recovery varies widely according to industry, location and simple circumstance. There are places where the recession still feels like a concern, and others where it's receding into memory.

The conflicting factors that fuel this tension are evident in the ways middle market business leaders described their plans and concerns as part of the 2013 Chase Business Leaders Outlook survey. Many have cash on hand but trouble finding employees to come earn it. They see orders increasing but feel so uncertain about taxes and regulations that they aren’t confident about ramping up.

Still, the survey makes it clear that more business factors are moving forward than backward—including profit expectation, hiring plans and steps into the global marketplace. Businesses want to grow, serve more people, provide more jobs and become more important within their industries and communities. They’re waiting for a future view that will unleash this pent-up energy.

Two prospects offer the promise that this will happen. First, there appears to be a lag between the renewed availability of credit and some businesses’ awareness that the recession and the credit crunch are over. While many businesses report no need for credit thanks to ready cash, the ones that can use credit to grow will warm to the market as long as interest rates remain low.

Second, the coming years will see a lot of resolution on regulatory issues. Many business leaders say it’s the uncertainty about rules and taxes, not the hard cost, that’s hampering their future plans. Soon, people will see key provisions of the Affordable Care Act in action and know how they actually work. The impact of Dodd-Frank and the federal tax agreement will also play out.

With more knowledge of what separates fear from reality, business owners will have a basis to act. With the right partnership, they’ll have the support they need to act decisively and successfully.
About the Chase Middle Market Business Leaders Survey

The 2013 Chase Business Leaders Outlook Survey gathered the views of nearly 1,000 senior financial executives, primarily CEOs, CFOs, owners, presidents or chairmen, from mid-size companies across the United States. Most of these companies had annual revenues between $20 million and $500 million.

The purpose of this study is to gain clearer insight into the business and economic trends that influence the decision-making of business leaders from a cross-section of industries and to provide these executives with information regarding the perspectives and actions of their peers.

From February 25 through March 15, 2013, these senior financial executives responded to an online survey sponsored by Chase Commercial Banking. The results are within statistical parameters for validity, and the error rate is plus or minus 3.1 percent at the 95 percent confidence interval.
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