The Americas: Nearby Opportunity for the Middle Market

Trade and Investment in North, Central and South America

Middle-market companies, key to the U.S. economy, may have more growth opportunities than they realize. A survey by the National Center for the Middle Market indicates there's room for expansion, particularly into new markets—even for midsize companies that are no strangers to the power of international trade. In fact, those new markets may be closer to home than expected.

The Middle Market and Global Trade

Middle-market companies, which the survey defines as those having $10 million to $1 billion in annual revenue, represent just 3 percent of all U.S. firms, yet these firms account for a third of U.S. private sector GDP and jobs. For some middle-market companies, **international trade is already fueling growth**: Importing helps them control costs, and exporting expands sales.

International trade can also reduce risk for middle-market businesses by geographically diversifying their operations and revenue, according to Susanne Keough, head of global trade solutions at SunTrust. "In other words, you're not solely dependent on revenue from one country and the economic swings that one country can be subject to," she says.

While exporters can diversify their cash flow streams, importers can reduce input costs and gain another kind of diversity, Keough adds. "Having a flexible supply chain allows for sourcing from multiple locations and efficiencies in the supply chain and sourcing capabilities."

And, according to the *Winning in the Americas: Middle Market Trade and Investment in North, Central, and South America* survey, trade diversity is correlated with business success. While 43 percent of middle-market exporters sell to one or two foreign markets, 16 percent export to more than five markets. The exporters serving the most markets are also among the most productive of the companies surveyed.[1]

Opportunities Closer to Home

To achieve that trade diversity and business success, middle-market companies can tap into global economic trends and free trade agreements (FTAs). The survey points to a somewhat-overlooked opportunity for middle-market companies: trading within the Americas. While labor costs are rising in China—cutting into savings that come from importing the country's goods—and Europe's economic growth remains flat, many countries within the Americas covered by FTAs have healthy 2017 economic growth forecasts: 3.9 percent in Central America, an average of 2.5 percent in Mexico, Colombia, Peru, and Chile and 2.2 percent in Canada.[1]

Conducting business in China can also present significant challenges due to language barriers and cultural differences.

SunTrust Bank, Member FDIC. © 2016 SunTrust Banks, Inc. SunTrust is a federally registered service mark of SunTrust Banks, Inc.

SunTrust

> "Most U.S. companies have yet to fully exploit growth opportunities in the Americas—and middle-market companies in particular are leaving money on the table by not taking sufficient advantage of opportunities to sell and buy in the Western Hemisphere."
>
> —"Winning in the Americas: Middle Market Trade and Investment in North, Central, and South America"

Certainly these challenges also exist within the Americas, but they're often less difficult to overcome. Spanish is the second-most prevalent language in 43 U.S. states[2], for example, with more than 37 million speakers, but just 2.9 million people in the States currently speak a Chinese dialect such as Cantonese or Mandarin.[3] Meanwhile, Brexit repercussions may negatively affect growth in both the U.K. and the rest of Europe, thereby potentially reducing demand for products exported by U.S. companies.

Many middle-market companies already trade heavily with some countries in the Americas; the top-two export markets are Canada and Mexico. On the import side, Canada is in second place, following China. Furthermore, 57 percent of middle-market leaders expect sales within the Americas to grow next year.[1] And, middle-market companies see the Americas as relatively easy to enter, highlighting Canada, the Caribbean and Costa Rica as some of the easiest. Together, these reasons are why 55 percent of surveyed middle-market companies say they plan to expand in the Americas compared to just 5 percent that forecast expansion into China.[1]

At the same time, any international trade **does present challenges**, including complex government regulations, increased shipping costs, potential payment and currency risk and language barriers. Therefore, it's essential for middle-market companies to have management and staff trained in the nuances of operating, buying and selling across international borders, according to Keough. That way, companies can understand where these kinds of risks lie and how to mitigate them.

An example of a type of risk that middle-market companies will face when exploring opportunities in Latin America is the fact that markets in the region tend to go through relatively steep growth and contraction cycles, Keough says.Furthermore, the more stable economies in the region, such as Chile and Costa Rica, are also among the smaller markets, adds Manny Perdomo, chairman and CEO of SunTrust's South Florida Division. Larger markets, such as Mexico and Brazil, might appear more appealing because of their size, but they come with greater risk of instability.

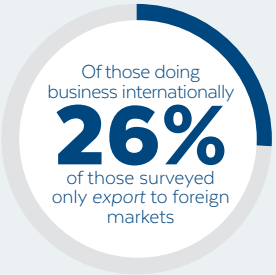
"And many middle-market companies just starting out [in global trade] would find that hard to live with," Perdomo says. Middle-market companies can address this challenge by starting out in a smaller, more stable economy and expanding from there.

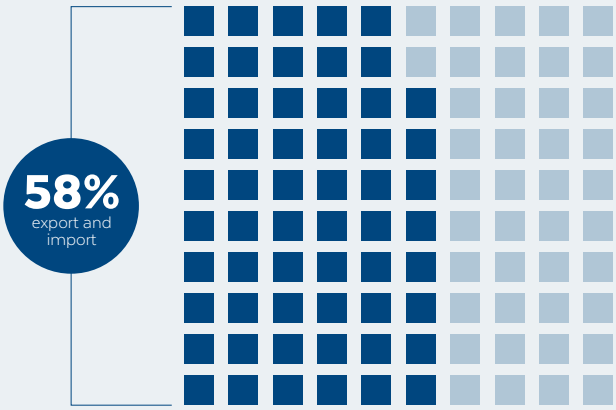
"Those things need to be understood and solved," Keough says. "I view them as challenges, but they are challenges that can be overcome."

About the Survey

400

C-level executives surveyed from middle-market companies currently engaged in international markets

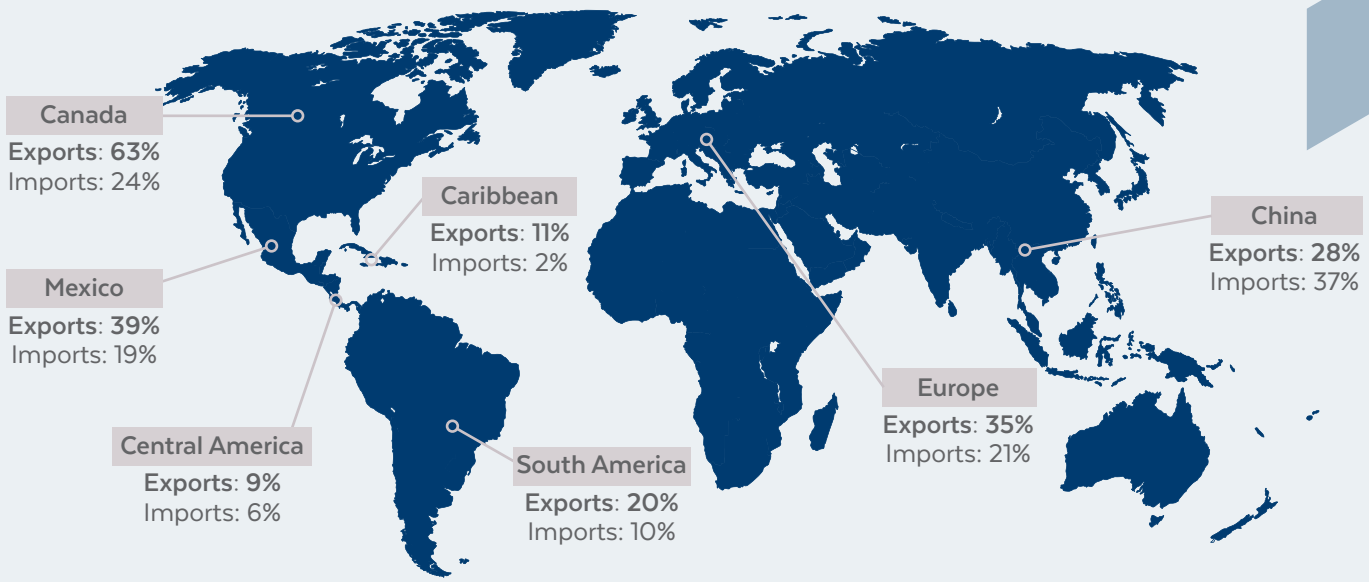




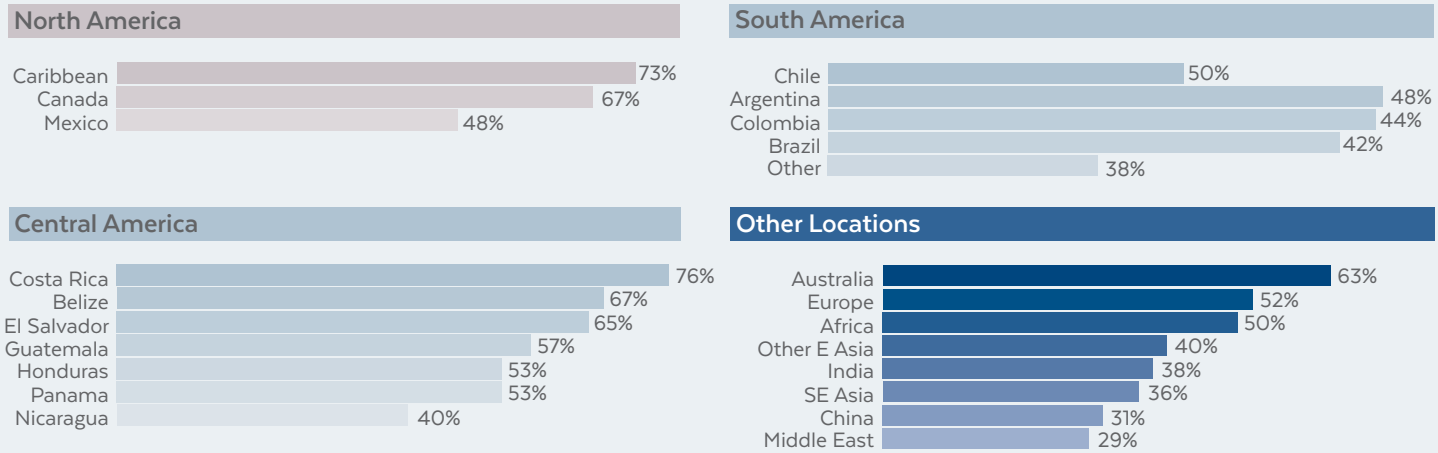
SunTrust Bank, Member FDIC. © 2016 SunTrust Banks, Inc. SunTrust is a federally registered service mark of SunTrust Banks, Inc.

SunTrust

Internationalized Middle Market Companies' Export and Import Markets



% of Middle Market Companies Reporting Ease of Market Entry, By Market



Recognizing the Need for—and Challenges of—International Expansion

Expanding internationally is not an easy decision, and middle-market leaders who responded to the survey identify many reasons for both pursuing it and avoiding it.

The No. 1 reason to go abroad is the belief—shared by 47 percent of those surveyed—that globalization will eventually require all midsize businesses to operate internationally.[1] And, more than a third of middle-market leaders see expansion into the Americas as key to short- and/or long-term growth. Specifically, 34 percent identify expansion outside the U.S. (but within the Americas) as the best short-term opportunity for their company, and 35 percent identify this type of expansion as the best long-term opportunity for their company.[1]

When it comes to reasons for staying within the U.S. borders, the ease of managing an exclusively domestic supply chain tops the list. In second place is the perception that international operations are more risky than domestic.

Among middle-market companies that don't trade internationally, the top reason they resist taking this step is a focus on expanding domestically. In second place is the perception their company is too small for expansion into a new country.

Perdomo cautions middle-market companies against trying to assess international expansion opportunities from their usual perspective. "Many times, when you look at expansion through a U.S. domestic lens, that can either blind you to relevant obstacles or highlight obstacles that may not be the road blocks they're perceived to be. Either way, you may miss out on opportunity because you are not looking at it in the right context."

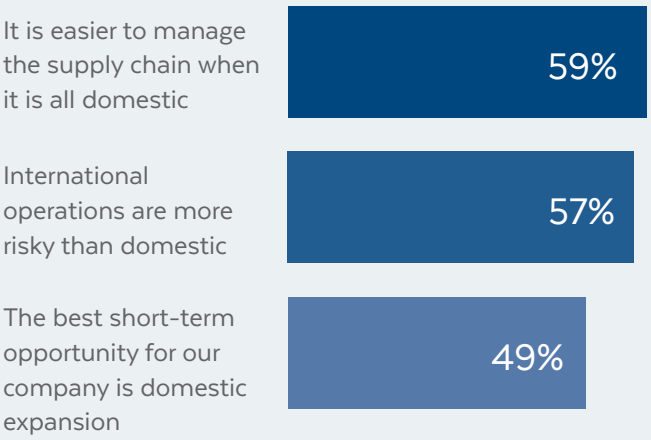
SunTrust Bank, Member FDIC. © 2016 SunTrust Banks, Inc. SunTrust is a federally registered service mark of SunTrust Banks, Inc.

SunTrust

Essential to successful international expansion is a team with international experience, one that can clearly see opportunities and obstacles and articulate value propositions. And, when it comes to pursuing international markets, value propositions and solid partnerships are far more important than company size, Perdomo adds.

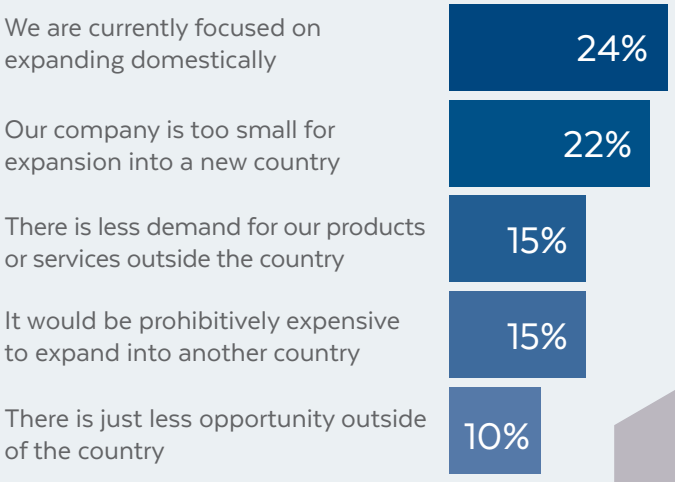
According to the survey, companies already trading internationally but looking to expand in overseas markets have different issues to handle. The biggest barriers these businesses note are the high cost of transport; political, environmental or legal risks in target markets; and difficulties finding the right partner.

Why Stay at Home?



Why Go Abroad?

Barriers to Domestic Middle-Market Companies' International Expansion



Logistics to Support International Trade

Addressing the top barrier to increasing trade (high cost of transport) requires on-the-ground expertise, says Taylor Howerton, Senior Vice President, Ports and Logistics Industry Manager for SunTrust. Transporting goods safely and efficiently is essential to making trade work for a middle-market company. "One of the main issues involved is the increased cost of transportation related to lagging infrastructure development in emerging markets relative to increased demand from consumers and manufacturers in these markets," he adds. "In less-developed countries, there's more friction in the supply chain with respect to congested ports, and underinvestment in surface transportation and warehousing, not to mention heightened security concerns in many emerging and frontier markets."

Underdeveloped infrastructure can lead to customs bottlenecks, delivery delays and fewer choices among different transportation modes, such as rail, truck and ocean. Indeed, the survey revealed 41 percent of exporters are dissatisfied with the infrastructure in the regions where their products are being delivered.[1]

Howerton suggests middle-market companies consider working with third-party logistics providers (3PLs), which can offer insights into the nuances of individual countries, both in terms of infrastructure and customs procedures. A number of 3PLs can handle all aspects of importing or exporting goods, including advising clients on the optimal mode or modes of transport. 3PLs can directly handle the procurement of carriers, warehousing, and customs needs that can be extremely complex and varied from country to country. Many 3PLs are **leveraging technology**, particularly IoT (Internet

SunTrust Bank, Member FDIC. © 2016 SunTrust Banks, Inc. SunTrust is a federally registered service mark of SunTrust Banks, Inc.

SunTrust

of Things) and predictive analytics, to show importers and exporters exactly where their goods are in the supply chain. They're also extracting trends from the data received to help predict bottlenecks and further enhance efficiency.

How the Middle Market Can Expand Efficiently

Expertise from 3PLs is only one piece of a successful strategy for middle-market companies looking to begin or expand trade within the Americas. The survey found that most middle-market executives don't use government or local resources when they're looking to internationalize. Instead, they reach out to immediate contacts like suppliers and customers, an approach that may be costly. In fact, the survey revealed that the top-performing internationalized middle-market companies are more likely to reach outside their immediate network for support.

Available resources include a host of federal, state and local agencies, as well as nonprofits and service providers such as the Small Business Administration (SBA), chambers of commerce and law firms.

Many countries have commercial attachés in the U.S. who can assist companies looking to expand trade, says Perdomo. "They, along with trade organizations and international chambers of commerce, are just invaluable because you're not reinventing the wheel. And, you've got to keep up with changes and potential changes. You can only do that through the association of other people who are involved in those markets."

Connections with experienced people are also essential to finding the right trading partner, Perdomo adds, and making those connections is best done in person, not virtually.

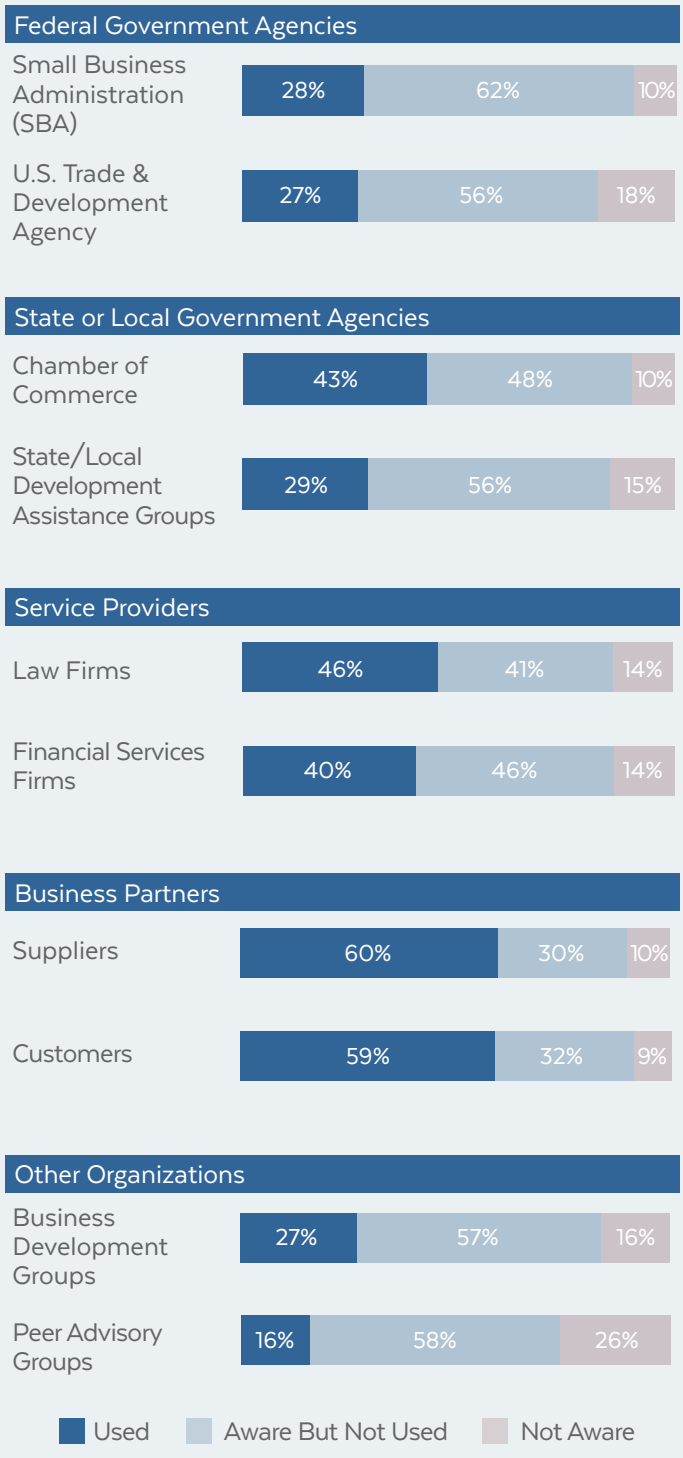
Financial institutions can also provide support, like insured foreign receivables financing or online access to letters of credit. It's important to note, however, that not all banks offer the expertise necessary to be strong partners.

"There are ways for companies that are interested in selling abroad to do so very effectively," Keough says. "The key is understanding who your partners are and how you can leverage the kind of information and tools you need to be successful in selling abroad."

When middle-market companies look for a bank to support international expansion, Howerton suggests one important criterion: Whether the bank can serve all the needs trade creates. These include not just foreign exchange services, global trade, and credit solutions, but at a higher level, adapting a thorough understanding of the client's industry and vision for growth, and then tailoring advice and solutions to meet those needs.

Contact SunTrust today to learn more about how your organization can turn the power of international trade into growth.

Resources for Addiditional Information



Sources:

1 "Winning in the Americas: Middle Market Trade and Investment in North, Central, and South America," 2016, National Center for the Middle Market

2 "The Most Common Languages Spoken in the U.S. After English and Spanish," May 13, 2014, Gizmodo Media Group

3 "The 10 Most Popular Languages in the US," Sept. 13, 2016, Accredited Language Services

SunTrust Bank, Member FDIC. © 2016 SunTrust Banks, Inc. SunTrust is a federally registered service mark of SunTrust Banks, Inc.

SunTrust