Global Expansion Meets Domestic and International Challenges

To understand the relative confidence around international expansion among U.S. based small and medium sized business owners, USForex has commissioned a survey with independent firm Researchscape. Researchscape surveyed 338 SMB executives using an online study fielded from May 22 to May 25, 2016. The results have not been weighted.

Based on the survey results, the following report provides insight on how U.S. SMB owners and executives have considered and responded to questions about their international business experience and goals. Findings include that they:

- Are already doing business across borders
- Are optimistic about expanding abroad for a variety of reasons
- Share concerns about domestic and international events that could disrupt the free flow of business
- Know they need a strategy for future expansion and support to help them navigate overseas commerce effectively
SMBs Bullish On Global Economy

Most businesses (96 percent) are confident in conducting business overseas, even with so much volatility in the global market. Business transactions have become smoother across borders as new financial tools and resources make e-commerce and remote working more viable. The digital economy has expanded, making international trade less risky, less expensive and less time consuming. With less risk and fees, businesses can feel comfortable expanding beyond local borders; these sentiments are reflected in the number of small businesses that expect to add international customers, suppliers/vendors and employees within the next 12 months.
Global Expansion Critical to US Small Businesses

Despite Perceived Challenges, Optimism in Global Expansion Remains Strong

Evidently going global is far from limited to big businesses, especially as the number of resources and providers available to support SMBs increases and aids their business efforts overseas. But are they using these resources effectively?

The surge toward a truly global economy slowed down after the economic crisis of 2008. Most recently, the continued surprise and questions that have arisen around “Brexit” have made many wonder how such macro trends will impact their companies. Domestically, the 2016 U.S. presidential election is raising questions among small business owners as well, with terrorism and international crises causing additional stress for U.S.-based SMBs.

In this volatile market landscape, SMBs need to prepare and better understand the nuances of conducting international business—from exchange rates to regional business best practices.
US SMBs Expanding Abroad

Most U.S. SMBs are primarily focused on customers in the U.S. Firms with international customers draw those customers from a median of just three countries. As a point of reference, the European Union alone comprises 28 countries, yet only six percent of U.S. SMBs have customers in 20 or more countries.

But SMBs are looking to expand. Already, over half of the SMB executives surveyed have customers and suppliers outside of the U.S. (58 percent and 50 percent respectively). A third have employees outside the U.S. Only 19 percent have no international business today.

In the next 12 months, nearly three quarters (72 percent) of SMB executives surveyed expect to take on new international customers, with 52 percent expecting to take on new suppliers and vendors abroad. And 41 percent expect to take on new or added overseas employees.

Where Global Customers Are Located Today

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Canada</td>
<td>38%</td>
</tr>
<tr>
<td>U.K.</td>
<td>35%</td>
</tr>
<tr>
<td>Mexico</td>
<td>28%</td>
</tr>
<tr>
<td>Japan</td>
<td>24%</td>
</tr>
<tr>
<td>China</td>
<td>22%</td>
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</tbody>
</table>
The top reasons U.S. small and medium businesses expand internationally is for access to higher quality suppliers or vendors (43 percent) and access to higher quality talent (42 percent). Next, SMBs look to expand for access to cheaper suppliers or vendors (41 percent) and access to cheaper talent (28 percent). Most are looking to increase their presences in China, the United Kingdom (U.K.), or Canada over the next 12 months (20-21 percent each).

### Motivators for International Expansion

<table>
<thead>
<tr>
<th>Motivator</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Access to higher quality suppliers/vendors</td>
<td>43%</td>
</tr>
<tr>
<td>Access to higher quality talent</td>
<td>42%</td>
</tr>
<tr>
<td>Access to cheaper suppliers/vendors</td>
<td>41%</td>
</tr>
<tr>
<td>Easier or cheaper customer acquisition</td>
<td>33%</td>
</tr>
<tr>
<td>Access to cheaper talent</td>
<td>28%</td>
</tr>
<tr>
<td>Less tax liability</td>
<td>17%</td>
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Where Do SMBs Hope To Increase Their Presence In The Next 12 Months?

Most are looking to increase their presences in China, the United Kingdom (U.K.), or Canada over the next 12 months (20-21 percent each). China is attractive for U.S. SMBs because the availability of affordable suppliers and cheaper, high-quality talent. The U.K. is the preferred destination for those seeking access to higher quality suppliers. Canada is preferred for easier customer acquisition and decreased tax liability.
Top SMB Concerns Conducting International Business

As part of the survey, SMB executives were asked to rank their biggest challenges in doing business abroad. No. 1 on the list was international market conditions, with nearly a third (27 percent) citing it as their biggest concern. A lack of understanding of best practices was ranked second overall, with the unique laws and regulations within each region representing a particular challenge for SMBs with limited resources. International commerce fees came in as the third biggest challenge. Anecdotally, respondents mentioned increased risk of fraud due to the cost and difficulty of prosecution as a specific challenge to global operations.

“The biggest challenge is being able to provide a uniform service across several different regions, while also keeping our product and service in line with different cultures.”

– Survey Respondent

<table>
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<tr>
<th>Biggest Challenges in Rank Order</th>
<th>Overall Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>International market conditions</td>
<td>1</td>
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<tr>
<td>Lack of understanding/guidance about best practices (e.g. challenges of local compliance)</td>
<td>2</td>
</tr>
<tr>
<td>Fees charged to sell overseas</td>
<td>3</td>
</tr>
<tr>
<td>Exchange rates affecting pay rates for overseas talent</td>
<td>4</td>
</tr>
<tr>
<td>Customer service/language barriers</td>
<td>5</td>
</tr>
</tbody>
</table>
While respondents said that many of them are already doing business in Canada, U.K., Mexico and China, some regional markets prove to be more challenging to enter than others. The top three regions SMB executives cite as being difficult to break into are Asia (37 percent), the EU (30 percent) and Latin America (24 percent). China in particular has regulations and policies that can be difficult to navigate if SMBs don’t have an understanding of domestic business mindsets or take the right strategic positioning.

**Most Difficult Markets For SMBs To Break Into**

**By Group:**

- Asia: 37%
- European Union: 30%
- Latin America: 24%
- Rest of Europe: 11%
- Africa: 10%
- Middle East: 6%
- North America: 6%
- Oceania: 6%

**By Country:**

- China: 16%
- United Kingdom: 10%
- Mexico: 9%
- Canada: 6%
- Japan: 6%
- Greece: 6%
- Germany: 5%
- Russia: 5%
- Australia: 4%
- North Korea: 4%

Respondents listed a range of considerations for business operations in foreign countries, pointing to some less obvious factors inherent to operating at a global level. For instance, a survey respondent commented on how small businesses need to make sure to translate how their business operations in the U.S. fit into international business models. Even practices as standard as employee training can be crucial, as another survey respondent noted that market dynamics and wholesaler onboarding can vary from market to market. Taking on the cost and effort of building a small and relatively unknown brand in a new market should be done with intent.

Upcoming Events’ Potential Impact On International Business

When it comes to projecting how upcoming events may impact international business, senior SMB executives cited the U.S. presidential election as the top concern by a large margin: 31 percent rank the upcoming elections as the No. 1 event to keep track of. The threat of global terrorism and its impact on supply chain, international market conditions, and the Federal Reserve increasing interest rates trailed the election in importance. Zika ranked last despite all the media coverage.

The reason the domestic political climate ranks as a top concern is due to candidates’ proposed policies. According to respondents, who America elects as its new president is expected to have a huge impact on the wellbeing of companies doing business globally. Respondents felt that should the Republicans take the White House, small businesses could suffer, with export volume dropping as the global community adapts to proposed economic policies.

Uncertainty has also left some businesses on hold. They are neither aggressively planning for growth nor downsizing, as they wait and see what the results imply for them. According to a recent Bank of America report, only half (51 percent) expect to grow over the next 12 months, lower by 12 percentage points from last year. A large number (40 percent) expect revenue to remain flat in the same time period. In all, it seems that despite optimism, concrete plans for global expansion are being carefully considered.

“Global events like Brexit, falling oil prices, climate change, interest rate changes, and currency fluctuations will have an impact on international business—even domestic events like the current U.S. presidential election will affect behavior. But armed with the right tools, small and medium business can be successful in the international market.”

– Richard Kimber, CEO & Managing Director, OFX Group

SMBs Planning for Successful Entry

While remaining characteristically optimistic, SMBs still need to be strategic about how they conduct business overseas. For instance, 89 percent of SMBs aren’t aware of the price advantages of using foreign exchange specialists to help them navigate volatile market conditions. In the case of online sellers, exchange rates and associated fees can account for up to four percent in additional cost, which can mean the difference between growth and stagnation for small and medium businesses. By enabling secure transfers and collection in domestically held accounts, businesses seek out OFX services to save up to 60 percent in exchange rates.

Survey Methodology: USForex commissioned this survey with the independent firm Researchscape. Researchscape surveyed 338 SMB executives using an online study fielded over a two week period. The survey results were not weighted. Respondents were recruited from a third-party panel. Each has had their identity validated and only one response was permitted per respondent. Each respondent was offered points towards rewards in exchange for their participation.

About USForex

USForex is becoming OFX. OFX gives consumers and businesses a smarter, online and mobile alternative to existing currency exchange services. Since its launch in 1998, OFX has transferred more than $100B in 55 currencies across the globe. Drawing from two decades of experience, OFX Group is a leading global money transfer business, with over 300 employees and offices in San Francisco, Sydney, Toronto, London, Hong Kong and Auckland.

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