

2015
INTERNATIONAL TRADE SURVEY OF
CONNECTICUT BUSINESSES

COHN REZNICK

CBIA
200 YEARS

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FUTURE FOR EVERYONE

Santander

Introduction

Exporting is a vital component of Connecticut's economy.

What are the issues, challenges, and prospects for companies engaged in international trade? What prevents others from entering the global marketplace?

By exploring these and other questions, the Connecticut Business & Industry Association's fifth biennial *International Trade Survey of Connecticut Businesses* provides a comprehensive understanding of the current export environment, barriers to growth, and the risks and rewards for businesses in the state.

This year's survey is sponsored by Santander and CohnReznick, two companies committed to trade support services. It was also made possible by the U.S. Department of Commerce (Middletown office) and the Connecticut Department of Economic and Community Development. Together with local business organizations, the DOC and DECD assisted in the survey's development and distribution.

The purpose of the survey is to:

- ▶ Get an accurate picture of Connecticut's exporters: what types of companies they are, their level of involvement in international trade, and the benefits and challenges exporting presents for them

- ▶ Identify trends in exporting from pre-recession levels (when we first began surveying Connecticut businesses on international trade) until today
- ▶ Determine what share of non-exporting businesses have considered entering foreign markets and what help they need to get started
- ▶ Educate the public, business community, and policymakers about the economic advantages of exporting

Overview of Connecticut Exporting

Thanks to nearly 6,000 companies exporting from within the state, Connecticut achieved record export levels in 2013, with trade in commodities reaching \$16.5 billion and contributing to an all-time high of \$2.3 trillion in U.S. exports.

With a significant concentration of service exports absent from these calculations (including financial services and insurance), Connecticut's overall export value—as well as its potential—is even higher than these numbers tell.

The vast majority (89%) of Connecticut businesses engaged in international trade are small and midsize enterprises employing fewer than 500 workers.

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About 87% of our state's exports are manufactured goods. Transportation equipment, industrial machinery, and computer and electronic equipment top the list.

Though U.S. international trade in goods and services is down slightly over the past year, the world is changing in ways that will open up greater opportunities.

By 2030, more than two billion Asian consumers are expected to join the global middle class, with many of the same tastes and appetites for consumer goods and services that have long been hallmarks of American middle-class life. The Asian market is projected to be six times larger than that of the U.S.; Mexico and several Latin American economies are not far behind.

In fact, more than 95% of the world's consumers live outside the United States, making export success vital to our economic competitiveness.

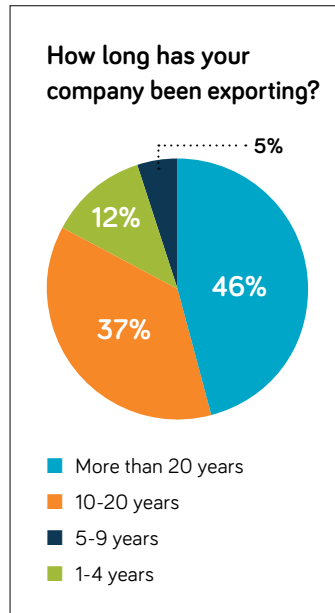
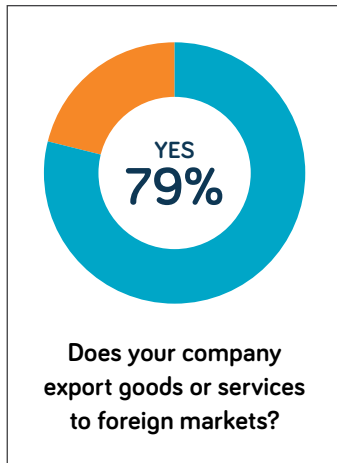
Connecticut ranks 27th for exporting among all states, and 18th per capita.

There is room to grow.

Level of Involvement

More than three-quarters of the companies we surveyed (79%)¹ are engaged in international trade, and most are veterans in the global marketplace: 37% have exported for 10–20 years, and 46% for more than 20 years.

For most respondents (52%), the main impetus for entering foreign markets was to increase company sales and profits. Nearly



a quarter (24%) entered primarily to follow their clients, and 16% entered foreign markets mostly as a way of diversifying their business.

Business Impact

Exports account for a sizable share of companies' revenues. More than one in five exporters attribute at least 26% of their revenues to

exports. Another 30% attribute 11–25% of their gross revenues to exporting, and 24% attribute 6–10% of their gross revenues to exporting.

Close to two-thirds (62%) acknowledge that the global slowdown has impacted their business. About half (49%) have seen a



American-made parts and products, manufactured by a highly skilled workforce, are in demand both domestically and internationally.

Today's technological advancements and the favorable global business economy continue to provide U.S. manufacturers and distributors with significant opportunities in new markets. Given that many trails have already been blazed for foreign trade, geography should no longer be perceived as a barrier to new revenue but rather as an opportunity.

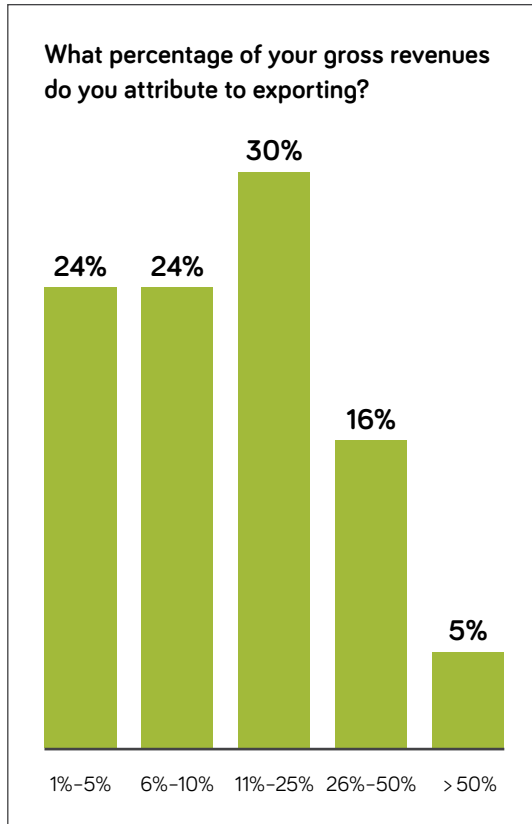
Jim Kask | Partner, CohnReznick

¹ We surveyed companies most likely to be involved in exporting, i.e., manufacturers; companies engaged in technology, research and development, or natural resource exploration; wholesalers; retailers; agricultural businesses; and larger insurance and financial services providers. A broader survey of companies of all types and sizes would have revealed a smaller proportion of Connecticut businesses engaged in exporting.

reduction in new orders for exported goods, 23% have experienced difficulty in pricing their goods because of exchange rate volatility, and 15% have had difficulty securing long-term orders.

On the other hand, one-third of exporters say the slowdown has not affected their business, and 5% have seen an increase in orders.

Sixty-one percent of respondents say exporting has helped them weather the slump.



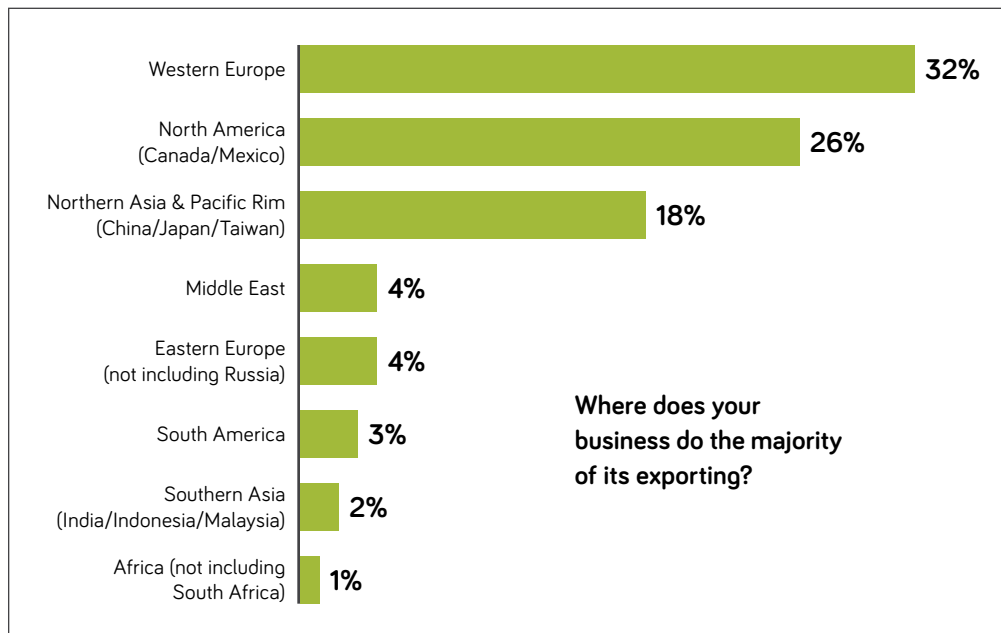
Major Markets

The largest foreign markets for Connecticut exporters surveyed are, in order, western Europe (32%), North America—Canada/Mexico (26%), and northern Asia/Pacific Rim—China, Japan, and Taiwan (18%).

That distribution is expected to shift over the next three years, putting northern Asia in the top spot.

Only 13% of Connecticut businesses surveyed anticipate doing the majority of their exporting within North America in the next three years, down from 26% currently. Similarly, while about a third of respondents do most of their exporting to western Europe now, only 24% expect that to be the case in three years.

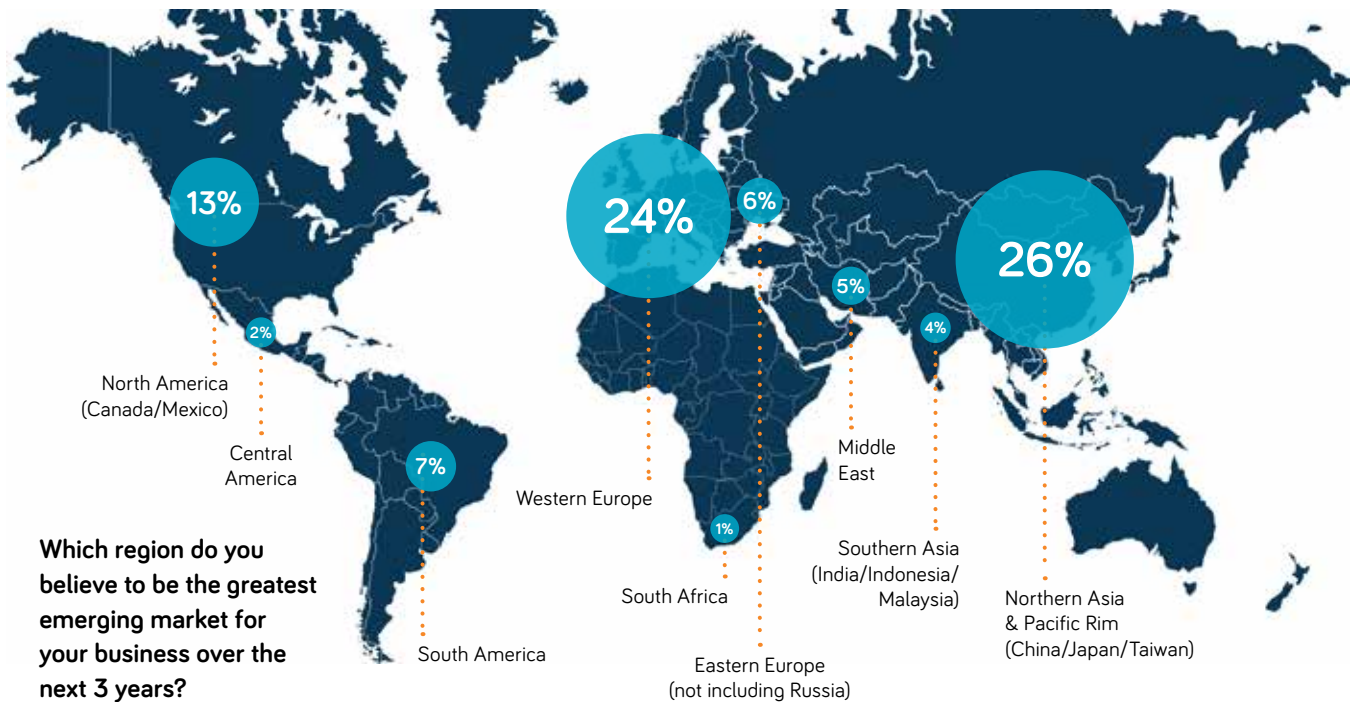
On the other hand, Connecticut companies plan to sell more of their goods and services in northern Asia: 26% of respondents in the next three years, up from 18% today.



This is our first survey in which western Europe exceeded North America as a trade destination.

Other markets with moderate growth potential for Connecticut exporters include eastern Europe, not including Russia (6% of businesses identify this as their primary market three years from now), and southern Asia (4%).

Resources and indicators used to determine or establish new international



After the recession, most companies cut all the costs they reasonably could to maintain their bottom line. The only way left to improve the bottom line is to find new customers, and in most cases that means non-U.S. customers. These survey results show that Connecticut companies are following this path. As many have found or will discover, international expansion brings additional complexity that needs to be managed carefully.

Jim Wall | Principal and International Tax Practice Leader, CohnReznick

trade markets include web inquiries and cold calls (62% of respondents), trade shows and meetings (57%), agents/trade representatives (49%), and recommendations from business colleagues (34%).

Overseas Operations

In addition to exporting, 13% of respondents have facilities abroad, and 24% have employees outside the U.S.

Primary reasons for investing in overseas facilities and personnel are to be closer to major customers and suppliers (cited by 86% of respondents with operations abroad) and to forge stronger international relationships (62%). Lower business costs were also cited, but not by a majority of businesses.

In 2011, 30% of respondents identified lower business costs as a reason for investing in facilities or personnel outside the U.S.; in 2013, that number went up to 37%; this year it has dropped slightly, to 33%.

Barriers to International Trade

Doing business abroad is not without its risks or hurdles.

Lack of knowledge about foreign markets is the single greatest challenge for Connecticut exporters (identified by 18% of



This survey highlights the benefits for companies doing business internationally while also outlining the concerns and challenges they face. A high percentage of companies, large and small, export goods and services to foreign markets, which generates upwards of 10% to 50% of their total revenue. Nonetheless, exporters face many challenges, including trade and regulatory barriers, insufficient knowledge of foreign markets, and difficulty managing payment risk. The multimarket presence of large international banks can provide a wealth of benefits, from trade finance to foreign exchange services to help businesses grow globally.

Christopher Buchholz | Market Manager, Santander

respondents), followed by cost competition and payment delays/defaults (both 17%), and trade/regulatory barriers (15%). Other concerns include loss of intellectual property (10%), administrative costs (6%), and unfair trade practices (also 6%).

While 61% of Connecticut exporters have experienced delays in receiving payment for international sales, most (87%) have not experienced buyer defaults.

Two-thirds of respondents have established prepayment agreements with some or all of their trading partners, which limits their risk but possibly also their market. Fifty-eight percent use open accounts/letters, which carry greater exposure to nonpayment unless sellers also have export credit insurance. Thirty percent use letters of credit.

Free Trade Agreements

About three-quarters of Connecticut exporters surveyed say they benefit from NAFTA and other current free trade

agreements with countries such as Korea, Israel, Chile, Panama, and Peru.

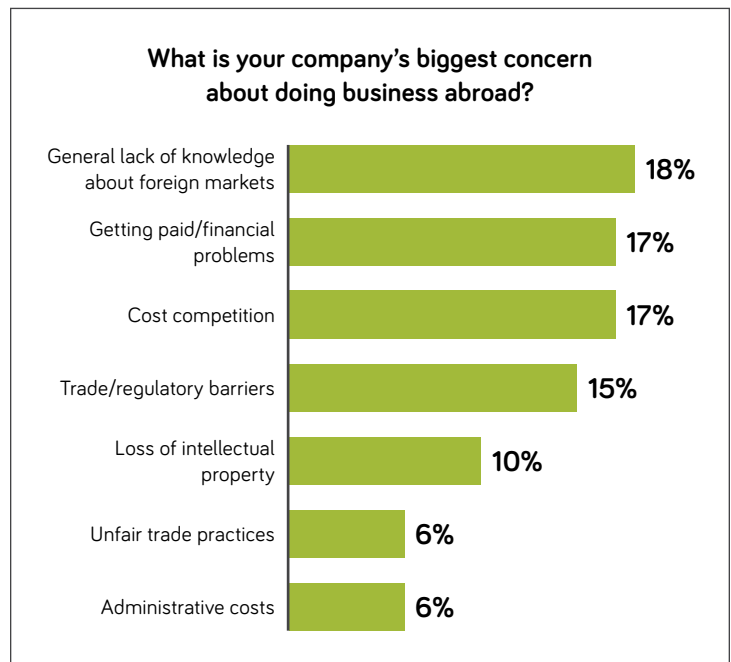
Seventy-nine percent believe the Trans-Pacific Partnership (TPP) agreement and the Transatlantic Trade and Investment Partnership (TTIP) with the European Union, both of which are under negotiation, would prove beneficial to their businesses.

Given the anticipated pivot to Asian markets, support for TPP is not surprising. Whether the agreement crosses the congressional finish line this year, however, remains to be seen.

Similarly, progress on TTIP negotiations has stalled amid uncertainties about environmental and safety standards and financial regulations.

Support Systems

Successful exporting efforts require a mix of financial, logistical, technological, and legal resources. We asked Connecticut businesses what types of tools and services they use, and to what effect. We also asked them what was lacking, and where government and the private sector could do better to support their efforts.





I applaud CBIA and the work they do putting this survey together. Not only does this study provide information for policymakers on how best to offer support to potential exporters, it also helps peer companies understand the trends in their industry and options for growth. One trend is clear: the number of companies doing business abroad is increasing. With the financial and technical assistance offered by the state and our public and private partners, I fully expect those numbers to keep climbing.

Catherine Smith | Commissioner, Department of Economic and Community Development

Companies cited areas where they could use help strengthening their export activities. The top three areas were making connections with customers (62%), acquiring better market research (40%), finding foreign representatives (32%), and getting assistance with export documentation (26%).

Useful tools include industry reports (identified by 20% of respondents), trade consultants (12%), and web seminars (7%).

Banks. While half of Connecticut business owners who have sought export financing describe banks and other financial institutions as friendly or somewhat friendly to their needs (52%), one-third say banks are not friendly.

By way of comparison, CBIA's *Quarterly Economic & Credit*



Survey conducted in the fourth quarter of 2014 found that 30% of Connecticut businesses (not limited to exporters) considered the current lending climate good or excellent, 50% called it average, and 15% characterized it as fair. Only 5% said it was poor.

This may point to the need for exporters to work with banks whose expertise includes foreign trade financing solutions and risk mitigation.

Trade shows. When it comes to finding new customers or marketing a product or service, participation in domestic and international trade shows often delivers results.

A majority of respondents are involved in domestic trade shows—72% in 2015, up from 68% in 2009—and 48% participate in international trade shows today, roughly the same as in 2009 (47%).

The greatest barriers to participating in international trade shows are cost (identified by 67% of respondents), time/resource constraints (47%), and staffing (38%).

Lack of knowledge about international trade shows (27%) and lack of interest (27%) were also identified, uncovering an area where more focused outreach and marketing could make a difference.

Trade intermediaries. About half of Connecticut exporters surveyed in 2015 (49%) use the services of trade representatives to establish new markets, up considerably from 2013 (36%). Sixty-five percent use international freight forwarders, down from 77% two years ago. Eleven percent use lawyers, accountants, or banks specifically to establish new export markets; a greater share (30%) use legal advisors for general international trade support.

Internet. Connecticut businesses are not using the Internet to its fullest potential to support their international trade efforts, and Internet readiness and capability among the state's exporters has not statistically improved over the past two surveys.

Despite widespread use of the web to communicate with international customers/clients and market their goods or services globally, a majority of respondents (63%) acknowledge that their company website is not capable of processing international orders. While that's improved from 77% in the last survey, it

shows a continuing weakness. Only 16% have their online content translated into foreign languages.

Government assistance. Not every company with an exportable product or service has entered the global marketplace, and over a quarter of those not engaged in foreign trade (27%) would like to be.

From their perspective, the greatest barriers to exporting are a lack of knowledge about foreign markets and licensing concerns.

Fifty-nine percent of export-capable businesses in Connecticut are aware of federal or state government services to help smaller businesses get into international trade. More outreach efforts could yield better results.

We asked businesses, in an open-ended question, how the state could facilitate their exporting activities. Most recommended reducing the costs, taxes, and regulatory burden on businesses and adopting more business-friendly policies. Recommendations also included assistance with targeted market research, maintaining the U.S. Department of Commerce office in Middletown, and trade show support and financing.

Seventy-nine percent of businesses said current state taxes are a disincentive to doing business in Connecticut. Improving tax policy—including preserving tax incentives that not only offset

some of the costs of doing business in Connecticut but also encourage companies to invest here—could go a long way toward making Connecticut a better state for exporters.

Seventy-three percent of Connecticut exporters surveyed take advantage of the state's R&D tax credit, 33% take the domestic production deduction, 24% take advantage of IC-DISC, and 24% benefit from other Connecticut tax incentives.

Conclusion

An integral part of doing business for a growing number of Connecticut companies, exporting is vital to the state's economy and its long-term prosperity.

Since the release of our first international trade survey in 2007, we have seen a steady (and at times steep) increase in the number of Connecticut companies doing business abroad—from 53% to 79% over an eight-year period.

The role that exporting played in buoying Connecticut companies during a deep recession and slow recovery is not lost on the business community and should help guide state and federal public policy and regulatory decisions. Despite the rising U.S. dollar versus major foreign currencies and the economic slowdown in some areas of the world, exporters are successful and bullish.

While most of Connecticut's exporters are not newcomers to international trade, our survey shows that both veterans and export-capable businesses would benefit from targeted help either entering the global marketplace or expanding their reach.

In the near term, the economic slowdown in Europe and Asia poses challenges for exporters but also underscores the need for Connecticut's business community to expand access to growing markets and marshal the full resources of state and federal government export assistance programs.

Indeed, there remains tremendous untapped potential for the state's chief job creators—small and midsize businesses—to enter new markets, increase their share of U.S. exports, and compete for the 95% of customers in the world who live outside our nation's borders.



The health and well-being of a state's economy is driven by the sustainability and expansion of its businesses. This expansion is often driven by exports. As exports increase, businesses have to grow their workforce in order to satisfy greater demands in both domestic and international markets. This survey demonstrates our region's commitment to global trade and the sustainability of our state's economy.

Anne S. Evans | District Director, U.S. Department of Commerce Connecticut District Office

ABOUT THE SURVEY

Methodology

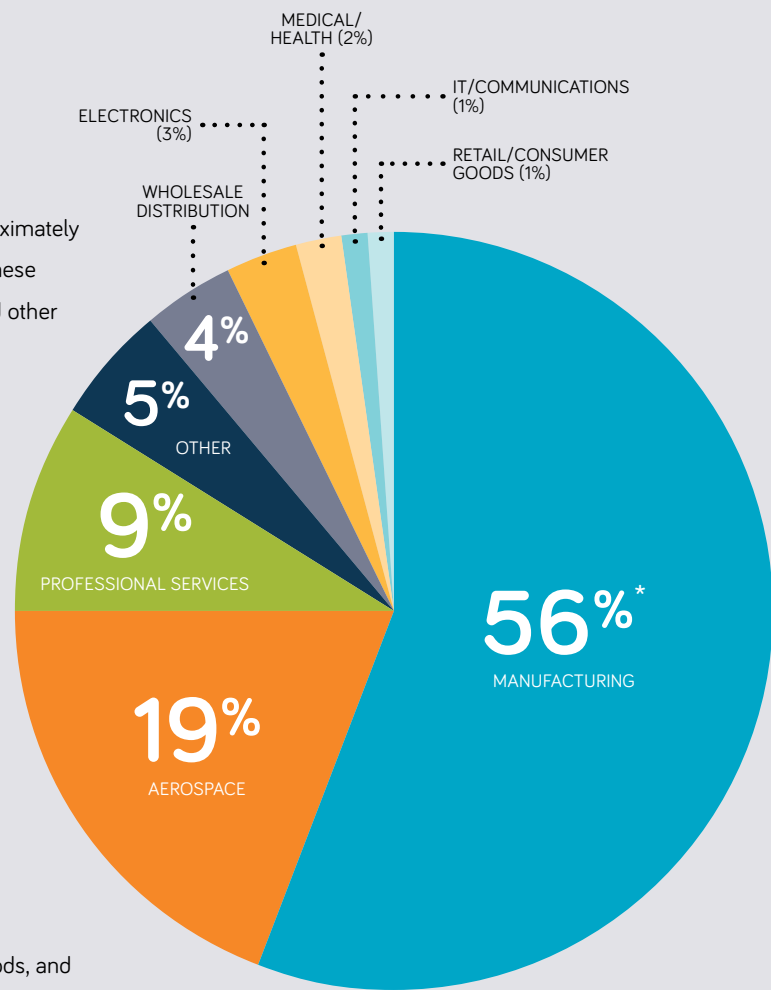
In March and April 2015, we emailed a survey to approximately 1,300 Connecticut businesses with export potential. These were chiefly manufacturers; however, service firms and other businesses with export potential were included as well. We received 140 responses, for a response rate of 10.8%. The margin of error was +/- 8.45%.

Demographics

Most companies surveyed—85%—employ fewer than 100 workers, and manufacturers account for the greatest share of respondents.

Nineteen percent of respondents are in the aerospace industry specifically. Other industries represented—both manufacturing and nonmanufacturing—include medical/health, environmental, construction, professional services, wholesale distribution, electronics, retail/consumer goods, and IT/communications.

The majority of businesses (92%) reported less than \$50 million in gross sales or revenues for the most recent fiscal year.



INDUSTRIES REPRESENTED

*A total of 81% of survey respondents self-identified as manufacturers. In a separate question, many identified specific sectors, such as aerospace.

ABOUT CBIA

Connecticut Business & Industry Association

CBIA is Connecticut's leading business organization. Our public policy staff works with state government to help shape specific laws and regulations to support job creation and make Connecticut's business climate competitive. Our councils, committees, and roundtables give our members forums for influencing the legislative and regulatory processes.

CBIA is dedicated to improving Connecticut's economic competitiveness through the CT20x17

campaign. With the support of more than 75 leading business and professional organizations from across the state, CT20x17 is a broad-based, multiyear campaign aimed at moving Connecticut into the top 20 states for business by 2017. Learn more at ct20x17.org.

One of CBIA's most important functions is to provide our members with information to help them better manage their businesses. We conduct training seminars and workshops; arrange for consulting services; and hold conferences on environmental regulations, safety and health, human resources, compensation and benefits, taxes, energy, economic conditions, and healthcare. Our free telephone consulting service gives members access to our experienced staff of professionals on a wide range of business topics.



Many CBIA members take advantage of our employee benefits plans, discount programs, and group purchasing opportunities. These include innovative health and dental insurance programs through CBIA Health Connections—CBIA's private-sector health insurance exchange—as well as other insurance lines, retirement plans, a COBRA continuation program, group energy purchasing, and member discounts on everything from packaging materials to background checks.

Learn more at cbia.com.



ABOUT THE SPONSOR

CohnReznick

CohnReznick LLP is one of the top accounting, tax, and advisory firms in the United States, combining the resources and technical expertise of a national firm with the hands-on, entrepreneurial approach that today's dynamic business environment demands. Headquartered in New York, NY, and with offices nationwide, CohnReznick serves a large number of diverse industries and offers specialized services for middle market and Fortune 1000 companies, private equity and financial services firms, government contractors, government agencies, and not-for-profit organizations. The firm, with origins dating back to 1919, has more than 2,700 employees including nearly 300 partners.

Since 1919, the professionals at CohnReznick have faithfully served clients, employees, and the community with integrity and honesty. As CohnReznick has continued to grow and expand into new markets, its philosophy remains constant: A highly personalized approach to each client, with intelligent guidance and solutions that positively affect profitability and growth.

Geographic boundaries are no longer barriers to doing business. More and more enterprises—in their pursuit of new markets, better supply chains, and cost-efficient back-office support—are finding themselves with operations or sales in foreign countries. This brings with it the need for reliable and experienced accounting, tax, and business advice from practitioners on the ground in the relevant jurisdictions.



To access international markets and achieve their growth potential, organizations need access to exceptional accounting, tax, and consulting expertise throughout the world. Through its membership in Nexia International, the tenth largest provider of audit and advisory services in the world, CohnReznick provides clients with the necessary resources to help them effectively compete in a global environment. The Nexia network includes more than 20,000 professionals in 590 offices operating in over 100 countries. CohnReznick's involvement with Nexia includes serving on its board of directors and regularly meeting with and training member firms around the world. Working as a team with other Nexia firms, CohnReznick provides our clients with a unified, consistent approach to their accounting, tax, and business issues wherever they arise, and local expertise and connections where they are needed.

Whether you are an American business owner considering international transactions or an international company preparing to establish a presence, create an alliance, or form a subsidiary in the United States, CohnReznick can help. Its background in serving American companies with foreign investments and U.S. subsidiaries of foreign businesses provides clients with valuable and practical help that will enable them to adapt and function in a different commercial environment.

These services include but are not limited to:

- ▶ M&A planning and due diligence
- ▶ Foreign tax credit planning
- ▶ Transfer pricing studies
- ▶ Offshore deferral planning
- ▶ Understanding and applying federal, state, and local tax regulations
- ▶ Repatriation planning
- ▶ Global supply chain analysis
- ▶ International tax compliance
- ▶ Foreign tax provisions

For more information, visit cohnreznick.com or contact **Jim Kask, partner**, at james.kask@cohnreznick.com or **Jim Wall, principal and international tax practice leader**, at james.wall@cohnreznick.com.

Santander

Santander Bank, N.A., is one of the largest commercial banks in the United States. Its main corporate offices are in Boston, and it operates principally in Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, and Rhode Island.



Santander's 9,703 employees serve its 1.8 million customers through the Bank's 703 branches, 2,092 ATMs, call centers, website, and mobile app.

Supervised by the Office of the Comptroller of the Currency and a member of the Federal Deposit Insurance Corporation, Santander in the United States is a wholly-owned, financially autonomous subsidiary of Banco Santander (NYSE: SAN), a global commercial and retail bank.

Santander is a local bank with a global parent, and the Santander Group is an industry leader in international banking. We are uniquely positioned to help commercial clients gain access to markets all around the world.

We offer trade finance and foreign exchange products and resources to help businesses grow globally. Our International Desk connects businesses with Santander banking representatives to help them with their local banking needs in any of our 10 core markets.

The Bank's trade portal is an online tool that provides country- and industry-specific information, international trade trends, market reports and other useful information on international business.

For more information about Santander, visit santanderbank.com or call 877.768.2265.

ABOUT THE SPONSORS

Connecticut Department of Economic and Community Development

The Department of Economic and Community Development (DECD) supports Connecticut companies as they compete in the global marketplace, whether it be helping them reach new markets or raising awareness of the many export opportunities that can fuel growth. Through its concierge service, DECD acts as the one point of contact to help businesses access the wide array of technical assistance and financial resources available to help them grow, innovate, or relocate to the state. The department works with partners such as the U.S. Department of Commerce Export Assistance Center, the U.S. Small Business Administration, the Connecticut Small Business Development Center, and the Connecticut Center for Advanced Technology.

For more information about DECD's concierge service or international programs, visit decd.org.

U.S. Department of Commerce

The U.S. Department of Commerce District Office in Middletown, Connecticut, assists and advocates for U.S. businesses in international markets to foster U.S. economic prosperity. Utilizing our network of trade promotion and policy professionals located in over 70 countries and 100 U.S. locations, the U.S. Department of Commerce promotes U.S. exports, especially among small and medium-sized enterprises, by providing them with market intelligence, trade counseling, business matchmaking, and advocacy/commercial diplomacy support. The Connecticut district office also runs local training seminars and webinars as well as multiple trade missions throughout the year.

The U.S. Department of Commerce provides the most effective and efficient government assistance to Connecticut businesses and partners seeking opportunities and facing challenges in a dynamic global marketplace.

For more information, visit commerce.gov.



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