

GLOBAL BUSINESS MONITOR

U.S. 2019



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SMB MARKET OVERVIEW

Small and medium-sized businesses (SMBs) are historically responsible for creating two-thirds of all new jobs in the U.S. economy. Their forecast looks good - the MetLife & U.S. Chamber of Commerce Small Business Index saw a 3.1 point rise in the second quarter of 2019 to a score of 68.7. That figure implies that almost 69 per cent of SMB owners currently have a positive outlook on their business and the larger economic environment.

While the U.S. generally offers a favorable business environment, SMBs find themselves disproportionately impacted by federal regulations. According to the U.S. Chamber of Commerce Foundation, the regulatory costs for SMBs with 50 employees or fewer are almost 20 per cent higher than the average for all businesses. Despite this figure, SMBs operating within the U.S. economy have seen vast improvements in the past three years as over a half dozen regulators, including the Treasury Department, have streamlined their policies, especially in regard to financing.

There are a number of avenues that SMBs in the U.S. can take to finance their business. The rise of financial technology has driven the popularity of alternative lenders in recent years. Traditional banking continues to be popular, with the approval percentage for SMB loan applicants hitting a record high of 27.3 per cent at big banks in March. According to the National Federation of Independent Business's (NFIB) May 2019 report, SMB owners reporting capital outlays increased 6 points to 64 per cent, the highest in a year. Together, these figures indicate that it is a good time to be in the SMB market in the U.S.



DAVID CICOLO
EVP, President and CEO,
North America,
Bibby Financial Services

ECONOMIC PERSPECTIVE

The U.S. economy has given a solid performance to date, with GDP growing at a 3.1 per cent quarter on quarter annualized rate in Q1 and 2.1 per cent in Q2, including a strong 4.3 per cent rise in consumption. Continued growth in consumption is expected to be supported by a strong labor market. The economy is tracking for a 2.5 per cent growth rate for 2019.

In addition to dwindling hiring and output, the overall (ISM) index is at a three-year low and is barely above contraction at 51.2 per cent. Manufacturing industrial production is shrinking -0.5 per cent year on year and durable goods orders are tepid, all suggesting that manufacturing is nearly in recession.

It should also be noted job growth, while solid, is slowing, the Treasury yield curve has inverted, and consumers are very concerned about the future. Combined with declines in leading transportation data, it suggests the possibility of recession in 2020.

DAN NORTH
Chief Economist,
North America
Euler Hermes

RESEARCH HIGHLIGHTS

Businesses expect growth to come mainly from increase in number of new customers (66%) and increase in demand from existing customers (59%)

66%

49%

American SMBs are optimistic about the U.S. economy and sales are strong with 49 per cent reporting sales have grown over the last 12 months

CHALLENGES AND OPPORTUNITIES

42%



39%



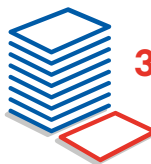
Cash flow (42%) and rising costs and overheads (39%) ranked as the top challenges SMBs face today and expect to face in the next 12 months

25%



Social Media is on the rise and tops the list for greatest growth opportunities for businesses today (25%)

INTERNATIONAL TRADE



37%

Exporters rank reduction in administrative burden (37%) as the main area in which they need support to make selling abroad easier



SMBs interested in starting to export require funding (43%) and help to connect with potential customers (38%) to get started

ACCESS TO FINANCE



15%

Just over 1 in 10 (15%) SMBs are expecting to apply for external finance in the next 12 months



The majority of SMBs feel availability of finance is adequate (29%) or good (43%); however, high interest rates are the main barrier to accessing finance

ECONOMIC ANALYSIS

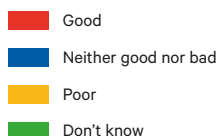
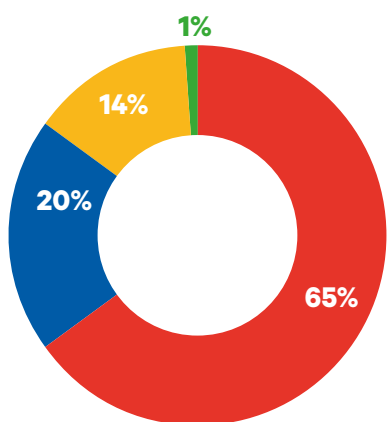
UNITED STATES ECONOMY

GDP growth slowed down in late 2018 but overall has remained steady ever since and even beat expectations in Q2 thanks to a strong consumer. It's uncertain how long this trend will continue as the current growth is underpinned mainly by an increase in consumer spending, while business investment tumbled 5.5 per cent, the worst drop since Q4 2015.

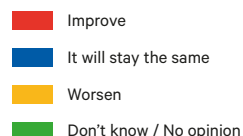
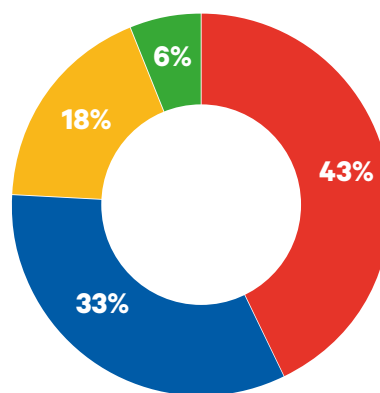
Despite signs of economic uncertainty, U.S. SMBs feel positively about the economy at home, with 65 per cent reporting the current economy as 'strong' or 'good.' Moreover, 43 per cent of businesses expect the U.S. economy to improve, while 33 per cent expect it to stay the same.

The number of U.S. SMBs who feel positively about the domestic economy has remained stable in the past two years, up from 39 per cent in 2017 to 43 per cent in 2019.

PERCEPTION OF CURRENT ECONOMIC PERFORMANCE



EXPECTATIONS FOR THE U.S. ECONOMY IN THE NEXT 12 MONTHS

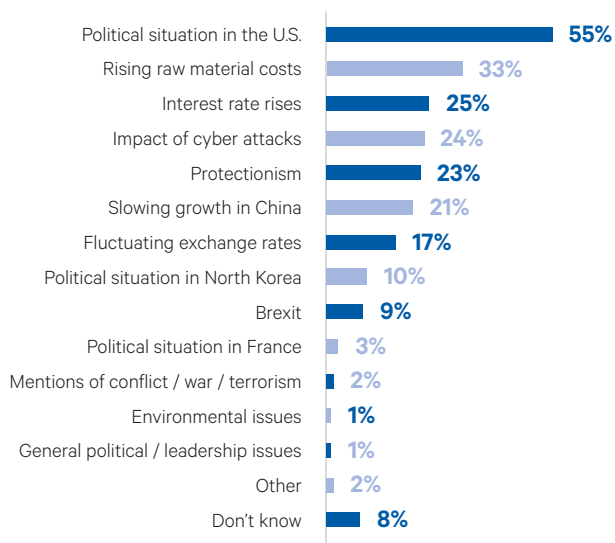


GLOBAL ECONOMY

U.S. businesses are concerned about the global picture, though the level of concern has declined since 2017 (59% in 2019 vs 73% in 2017). The decline in pessimism is a sign that businesses have become accustomed to the main political forces at play. The U.S. administration and Brexit, which at first caused uncertainty in 2016-2017, have since become part of "business as usual."

In the wake of the Trade Wars, rising raw material costs is a preoccupation of American SMBs with 1 in 3 (33%) businesses ranking it as one of the top three threats to global economic growth.

THREATS TO GLOBAL ECONOMIC GROWTH



BUSINESS ENVIRONMENT

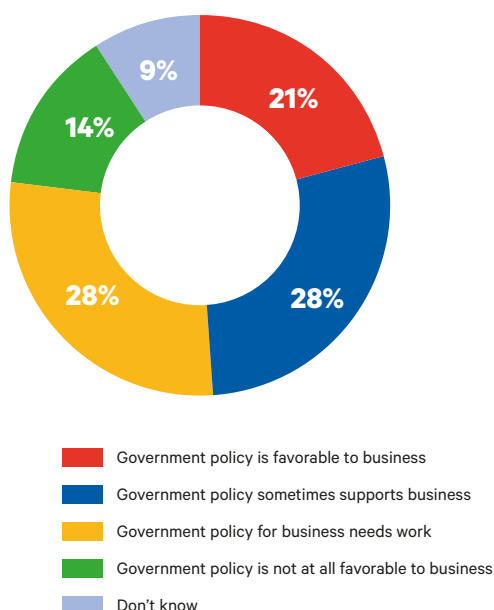
IMPACT OF GOVERNMENT POLICIES ON BUSINESS

Though U.S. SMBs are fairly evenly split in their views on government business policies, over the past two years they have grown more optimistic with 49 per cent saying that government policies are 'favorable' (21%) or 'sometimes support' (28%) their business, an increase from 44 per cent in 2017.

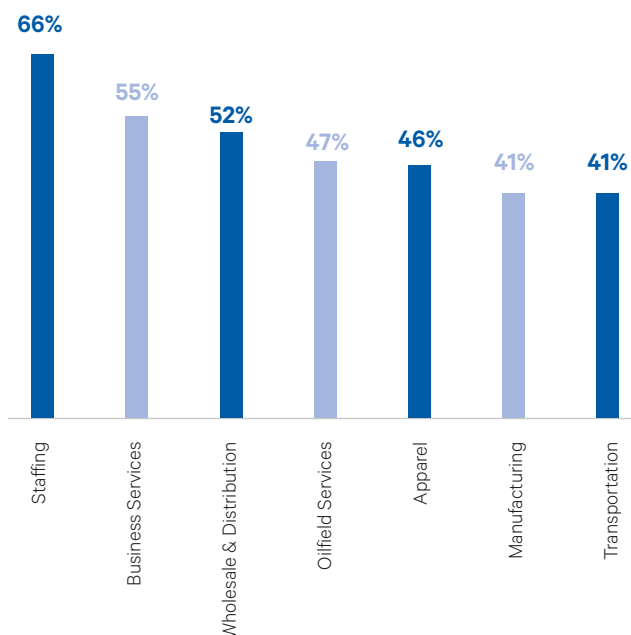
Staffing companies felt strongest that government policies are favorable to their businesses (66%), while at the other end of the spectrum are Transportation and Manufacturing businesses (41%).

Small businesses also feel at disadvantage with 42 per cent stating that government policies are favorable or somewhat favorable to their businesses compared to 60 per cent of the larger SMBs agreeing with that statement.

BUSINESS SENTIMENT REGARDING GOVERNMENT POLICY



GOVERNMENT POLICIES ARE FAVORABLE TO BUSINESS



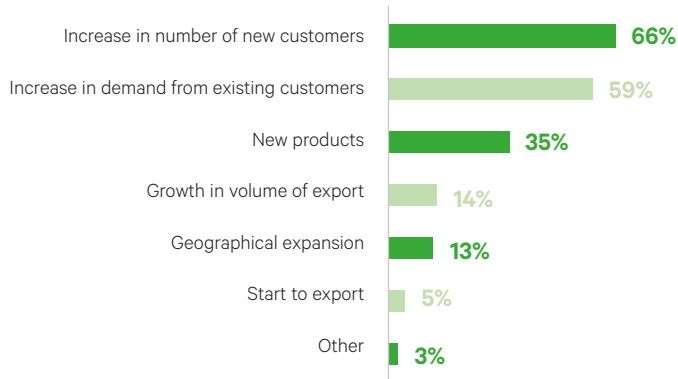
BUSINESS SENTIMENT

The stable economic growth is probably the driving force behind American SMBs' optimism. 49 per cent of respondents expressed that their sales had grown in the past 12 months and 20 per cent said that sales have remained the same as an year ago.

Despite talks of recession, the optimistic sentiment carries into businesses' expectations for the next 12 months with 59 per cent expecting their sales to grow and 25 per cent saying sales will remain the same.

2 in 3 (66%) businesses expect growth to come by growing their customer base, while 59 per cent expect an increase in demand from existing customers.

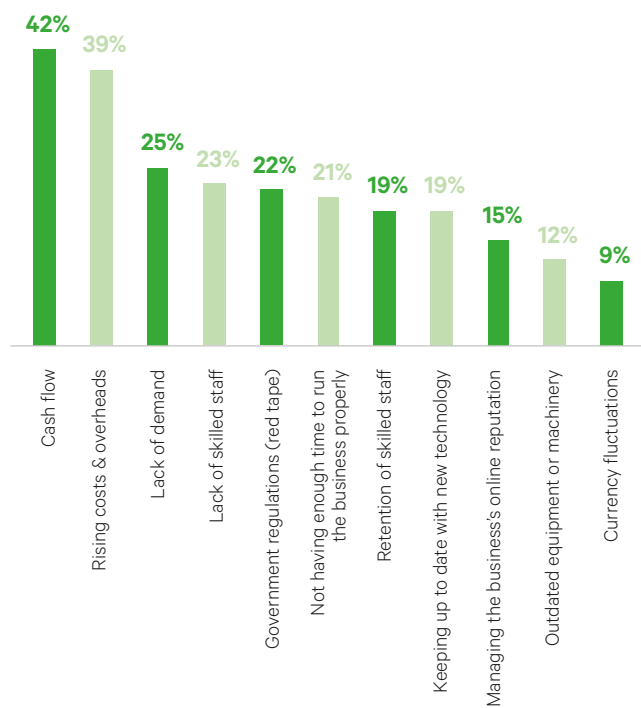
SOURCE OF GROWTH



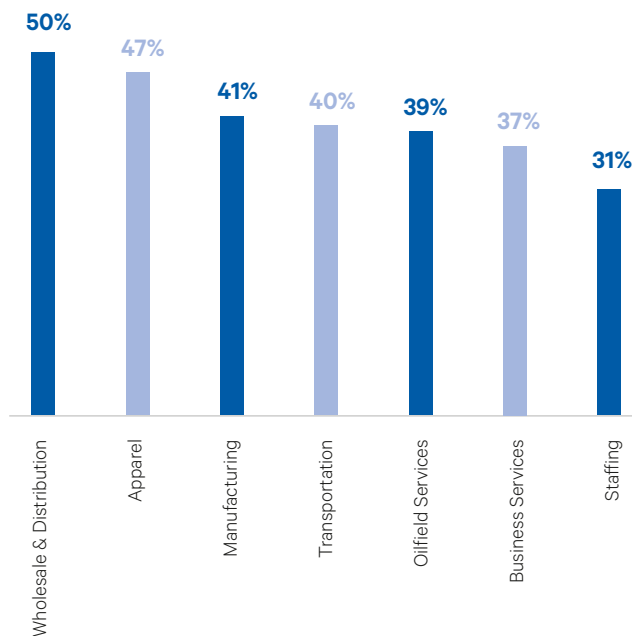
CHALLENGES

Cash flow, rising overhead, and lack of demand are top challenges for business now and over the next year. This is a big shift from 2017 when nearly half (49%) of respondents cited government regulations and red tape as the biggest current and future business challenges.

GREATEST CHALLENGES TO BUSINESS TODAY



CASH FLOW CHALLENGES BY INDUSTRY



OPPORTUNITIES

American businesses are overwhelmingly optimistic about growth but are somewhat split when it comes to identifying what the biggest growth opportunity will be in the next 12 months. 1 in 4 (25%) of the surveyed SMBs named Social Media as the biggest growth opportunity for their business, while 15 per cent believe in domestic expansion efforts, and 12 per cent think growth will be found in new market segments and developing new products and services.

One thing is certain - Social Media is on the rise to transform the way we do business. Just two years ago, SMBs ranked domestic expansion as the biggest opportunity (21%), and only 7 per cent of respondents ranked Social Media as an opportunity to grow their businesses.

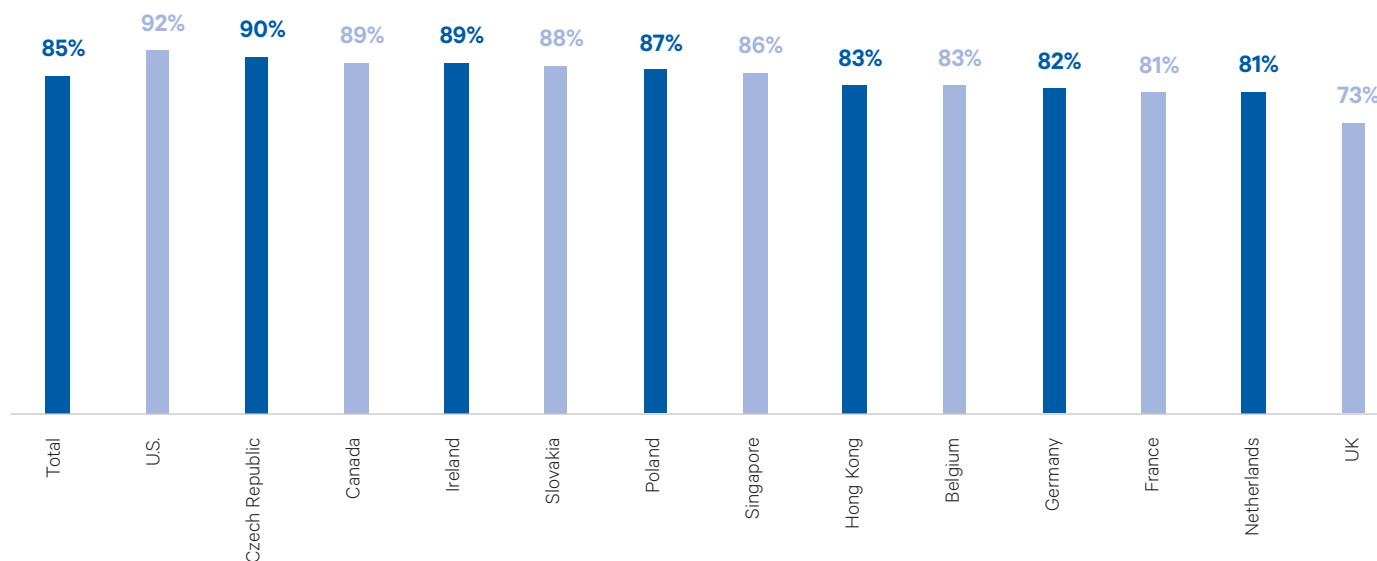
GREATEST GROWTH OPPORTUNITY FOR BUSINESS TODAY



INVESTMENT

The vast majority (92%) of American SMBs surveyed plan to invest in their businesses in 2019, probably driven by the stable economy and optimism toward business growth. Compared to their counterparts in Europe and Asia, American SMBs are at the top of the list when it comes to business investment.

BUSINESSES PLANNING TO INVEST



AREAS FOR INVESTMENT

Similar to 2017, sales and marketing topped the list for investment again this year. However, there is a notable shift in recruiting and retaining talent. Two years ago, training and development of existing staff and recruitment ranked higher on the investment priority list of SMBs. As growth slows, businesses focus less on hiring and more on maintaining revenue and saving cost by gaining efficiency through technology.

AREAS OF INVESTMENT 2019		AREAS OF INVESTMENT 2017	
Sales and marketing	50%	Sales and marketing	61%
Machinery and equipment (non-digital)	34%	Training and development of existing staff	55%
IT or digital technology	32%	IT or digital technology	54%
New product development	32%	Recruitment of new staff	50%
Training and development of existing staff	30%	Machinery and equipment (non-digital)	40%
Recruitment of new staff	30%	New product development	39%
Other	4%	Other	3%

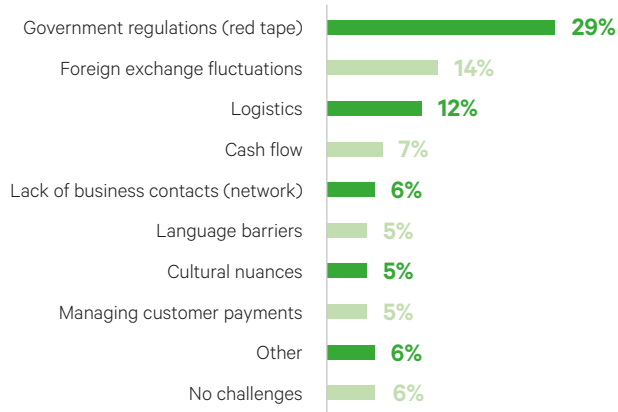
INTERNATIONAL TRADE

EXPORT

Almost 1 in 4 (23%) of the U.S. SMBs surveyed are exporting internationally and 1 in 3 (34%) export less than 10 per cent of their annual sales. The low exposure of U.S. SMBs to international trade means that many haven't been directly impacted by the Trade War - 1 in 3 businesses said they have seen no change and another 23 per cent stated that their businesses are doing better than expected.

U.S. businesses ranked Canada as the market that currently represents the most value (43%) and offers the greatest opportunity (22%).

GREATEST CHALLENGES FOR EXPORTERS TODAY



SUPPORT REQUIRED TO MAKE EXPORTING EASIER



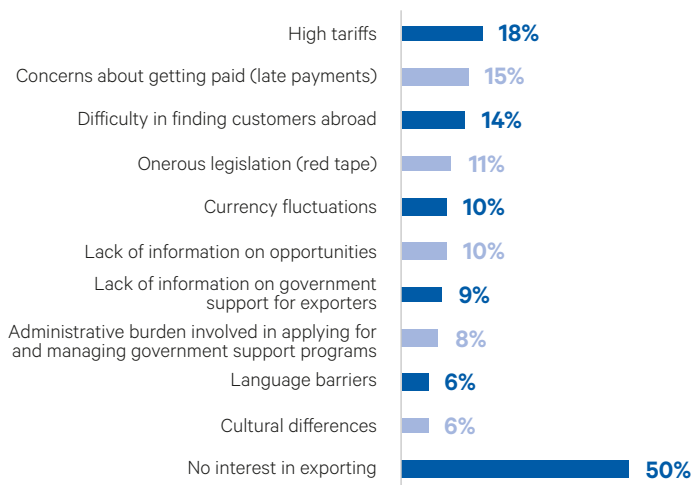
CHALLENGES EXPORTERS FACE

When asked about the greatest challenge to doing business internationally, 29 per cent of the businesses who trade internationally cited major obstacles created by government regulation (29%) followed by foreign exchange fluctuations (14%) and logistics (12%). Government regulation and red tape was also the greatest concern of exporters in 2017.

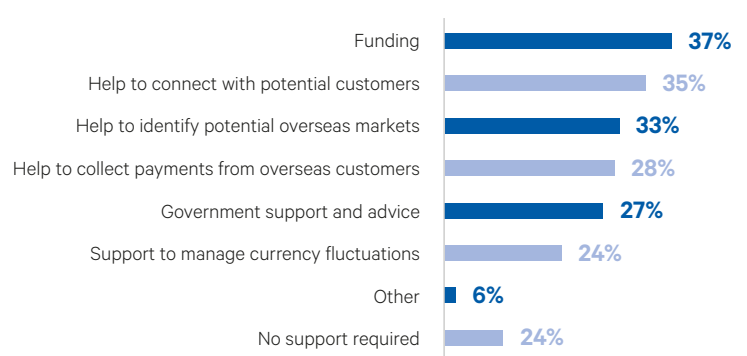
ROADBLOCKS STOPPING BUSINESSES FROM EXPORTING

There isn't a single answer as to why many businesses currently do not engage in international trade; rather, it's a multitude of reasons - high tariffs (18%), concerns about getting paid (15%), and difficulty finding customers abroad (14%). American SMBs who are interested in getting started in exporting rate funding support and help connecting to potential customers as their biggest needs.

WHY SMBs DON'T EXPORT



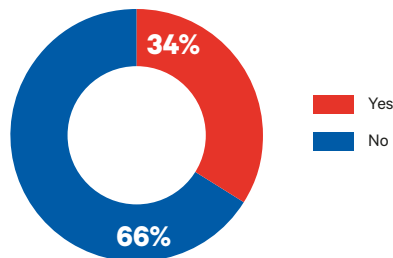
SUPPORT REQUIRED TO CONSIDER EXPORTING



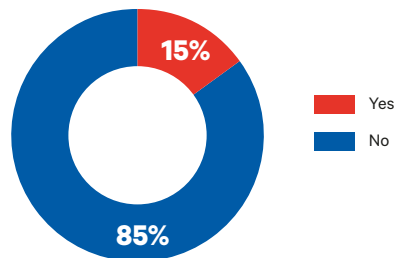
ACCESS TO FINANCE

1 in 3 (34%) of SMBs currently use external finance and another 15 per cent expect to apply within the next 12 months.

CURRENTLY USING FINANCING



EXPECT TO APPLY FOR FINANCING IN NEXT 12 MONTHS

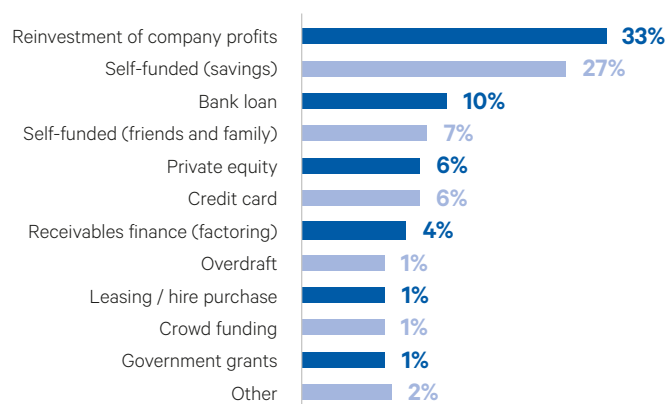


SOURCES OF FUNDING

SMBs in the U.S. are using a variety of methods to fund their businesses. 33 per cent indicated their main source of funding was the 'reinvestment of profits,' while 27 per cent reported they are 'self-funded (savings).' Bank loans were listed third at 10 per cent.

Though only 4 per cent of SMBs currently use accounts receivable finance, 44 per cent say they would consider factoring as a source of finance. This is by far the highest percentage of businesses across all the countries where the survey took place.

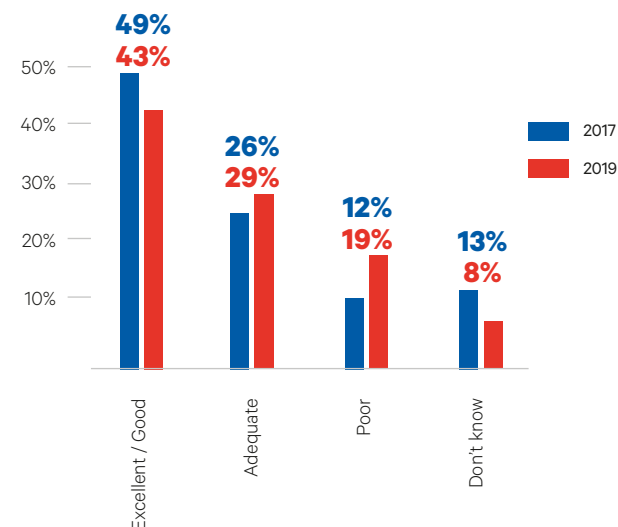
MAIN SOURCE OF FUNDING



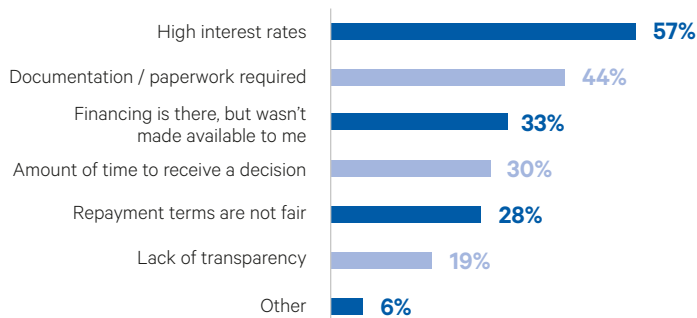
AVAILABILITY OF FINANCE

Access to finance has gotten slightly tougher in the last two years with 19 per cent currently rating availability as poor vs only 12 per cent in 2017. The proportion of respondents who have been rejected for external finance also increased to 25 per cent in 2019, from 10 per cent in 2017. SMBs state poor credit history as the main reason lenders rejected their applications for funding.

ACCESS TO FINANCE



REASONS ACCESS TO FINANCE IS DIFFICULT



PAYMENT PRACTICES

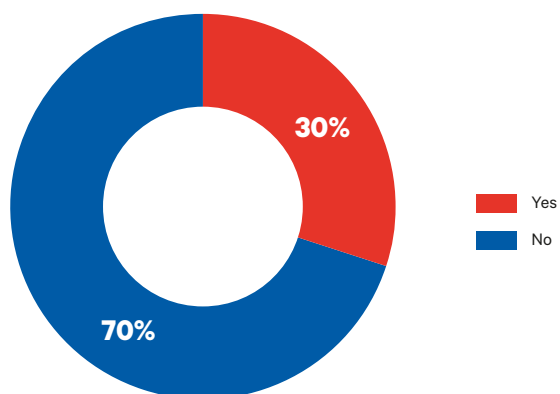
Late payment is a universal issue impacting businesses across the world and U.S. SMBs are not spared. 1 in 3 (31%) of SMBs indicated it takes over 30 days before getting paid and 30 per cent reported suffering a bad debt in the last 12 months from which they could not recover.

\$114,268
AVERAGE AMOUNT
LOST IN BAD DEBT

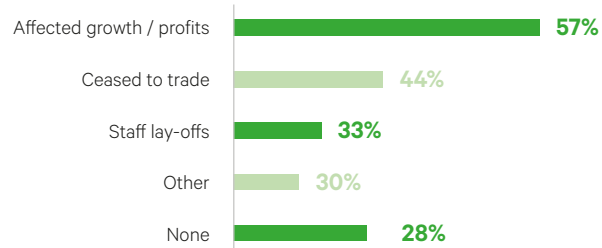
BAD DEBT

Businesses reported an average loss of \$114,268 due to bad debt. As a result, their business growth was affected (41%) and 1 in 5 (20%) even ceased to trade.

SUFFERED FROM BAD DEBT IN THE LAST 12 MONTHS



IMPACT BAD DEBT HAD ON BUSINESS



ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services is a leading independent financial services partner to more than 10,900 businesses, providing more than \$1.25 billion in funding annually and handling \$11.6 billion in annual client sales.

With over 40 operations in 14 countries spanning 3 continents, BFS provides asset-based lending and factoring solutions to help businesses grow in domestic and international markets.

To find out more about Bibby Financial Services, visit:

www.bibbyusa.com

ABOUT EULER HERMES

Euler Hermes is the global leader in trade credit insurance and a recognised specialist in the areas of surety, collections, structured trade credit and political risk. Our proprietary intelligence network analyses daily changes in corporate solvency representing 92 per cent of global GDP. We give companies the confidence to trade, and be paid. We compensate your company in the event of a bad debt, but more importantly, we help you avoid bad debt in the first place. Whenever we provide trade credit insurance or other finance solutions, our priority is predictive protection. But, when the unexpected arrives, our AA credit rating means we have the resources, backed by Allianz to provide compensation to maintain your business. Headquartered in Paris, Euler Hermes is present in 50+ countries with 5,800 employees. In 2018, our consolidated turnover was €2.7 billion and insured global business transactions represented €962 billion in exposure.

For more information, please visit:

www.eulerhermes.com

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