



German American Business Outlook

Annual Survey among German Firms in the U.S.



AHK

German American
Chambers of Commerce
Deutsch-Amerikanische
Handelskammern



REPRESENTATIVE
of German Industry + Trade

Roland Berger
Strategy Consultants

December 2011

The Survey

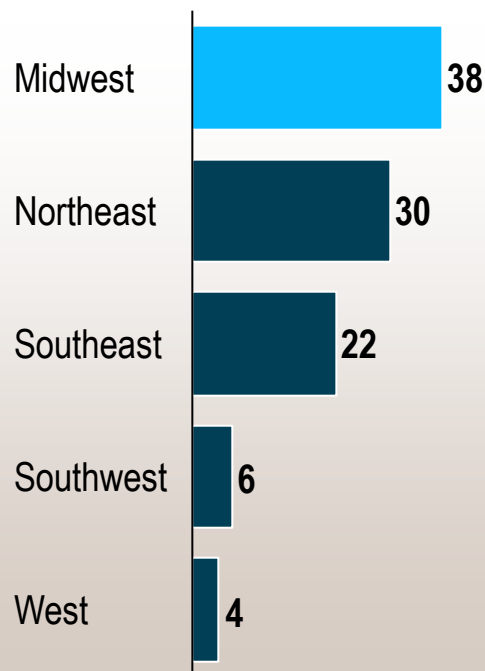
Introductory remarks

- > In October 2011, the **German American Chambers of Commerce** (GACCs – AHK USA), the **Representative of German Industry & Trade** (RGIT) and **Roland Berger Strategy Consultants**, for the third time, conducted a survey among German subsidiaries in the U.S.: The German American Business Outlook
- > We approached approximately **1,900 headquarters of German-owned subsidiaries in the US**, of which approx. **10%** of senior management from various industries responded, mainly from the classic German Mittelstand (80%)
- > The survey asked for the firms' opinions on the **state of the economy**, their expectations for the U.S. economy and the prospects for their own businesses

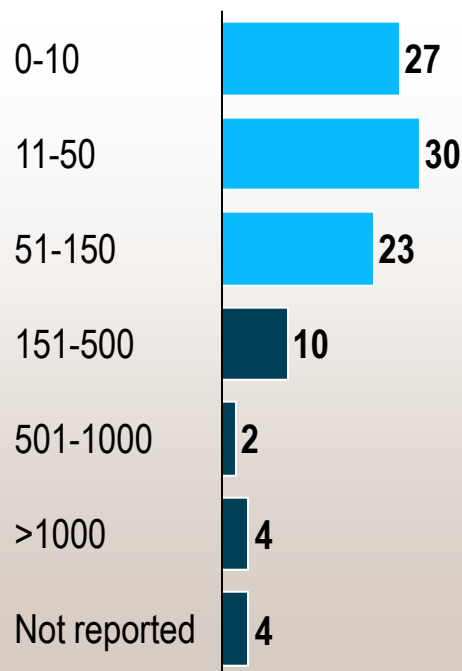
The survey covered a wide spectrum of companies, but mainly small-medium firms in Manufacturing and Automotive

Participating companies in the study

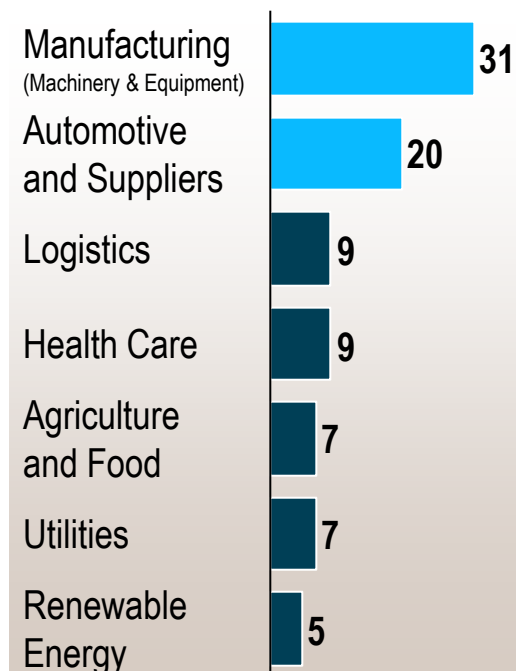
BY REGION [%]



BY COMPANY SIZE¹⁾ [%]



BY INDUSTRY²⁾ [%]



1) Based on # of employees

2) Respondents can be present in more than one industry

Overall, surveyed German-American firms have experienced a positive year and are optimistic about the year forward

Summary

1

STATE OF THE BUSINESS

German-American firms continued to **grow strongly in 2011** and once again expect to **outpace U.S. economic growth** in 2012

2

CHALLENGES FOR NEXT YEAR

There is a consensus among respondents on how to **increase U.S. economic competitiveness** – improvement of **fiscal policy and employee skill sets** are seen as critical measures

3

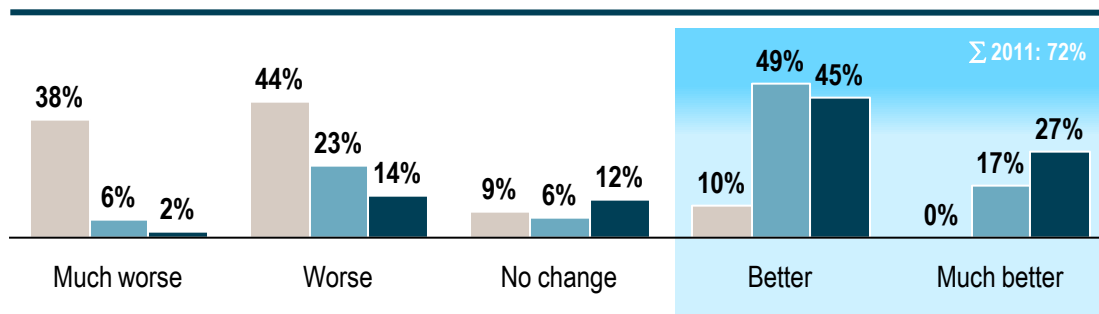
WORKFORCE DILEMMA

Availability of skilled workforce is a key issue for U.S. economic competitiveness – German-American firms are addressing it with **inhouse training and retention programs**

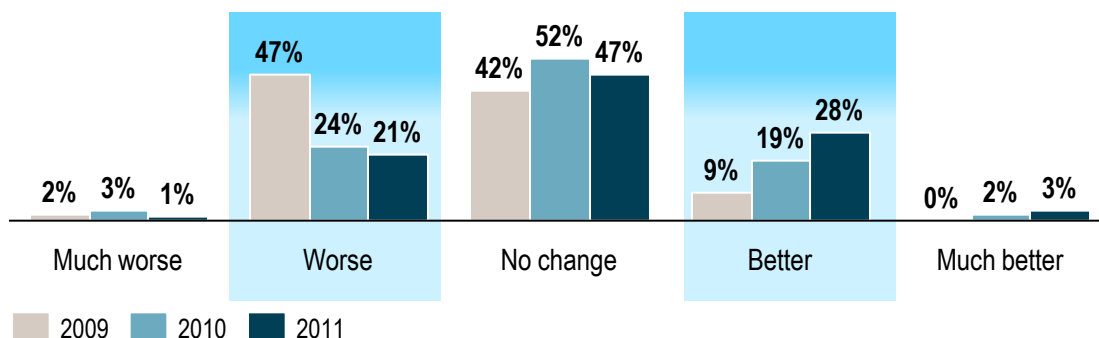
Firms experienced strong top-line growth as sales volume has continued to increase and price levels have recovered

Effects on business' sales volumes and prices in 2009-11

CHANGE IN SALES VOLUMES IN 2009-11



CHANGE IN SALES PRICES IN 2009-11



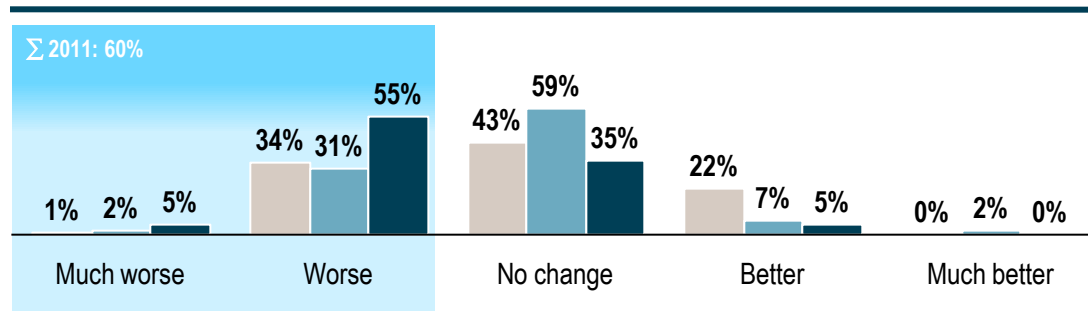
INSIGHTS

- > **REBOUND** from sales volumes drop in 2009 has further **INTENSIFIED** throughout 2011, with more firms experiencing better volumes
- > On average, firms have experienced a **NEUTRAL IMPACT ON SALES PRICES**
- > However, an ongoing trend in sales price change indicates **CONTINUING RECOVERY IN PRICES**

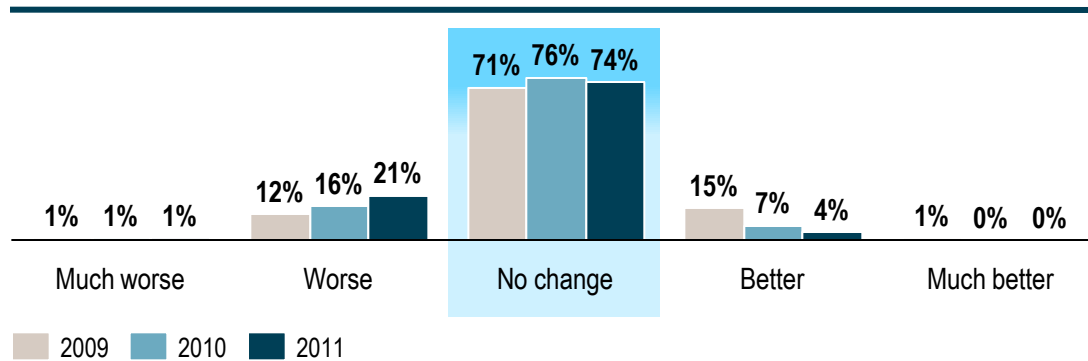
However, non-labor costs continue to exhibit an inflationary trend while labor costs have been more stable

Effects on business' labor and non-labor costs in 2009-11

CHANGE IN NON-LABOR COSTS 2009-11



CHANGE IN LABOR COSTS IN 2009-11



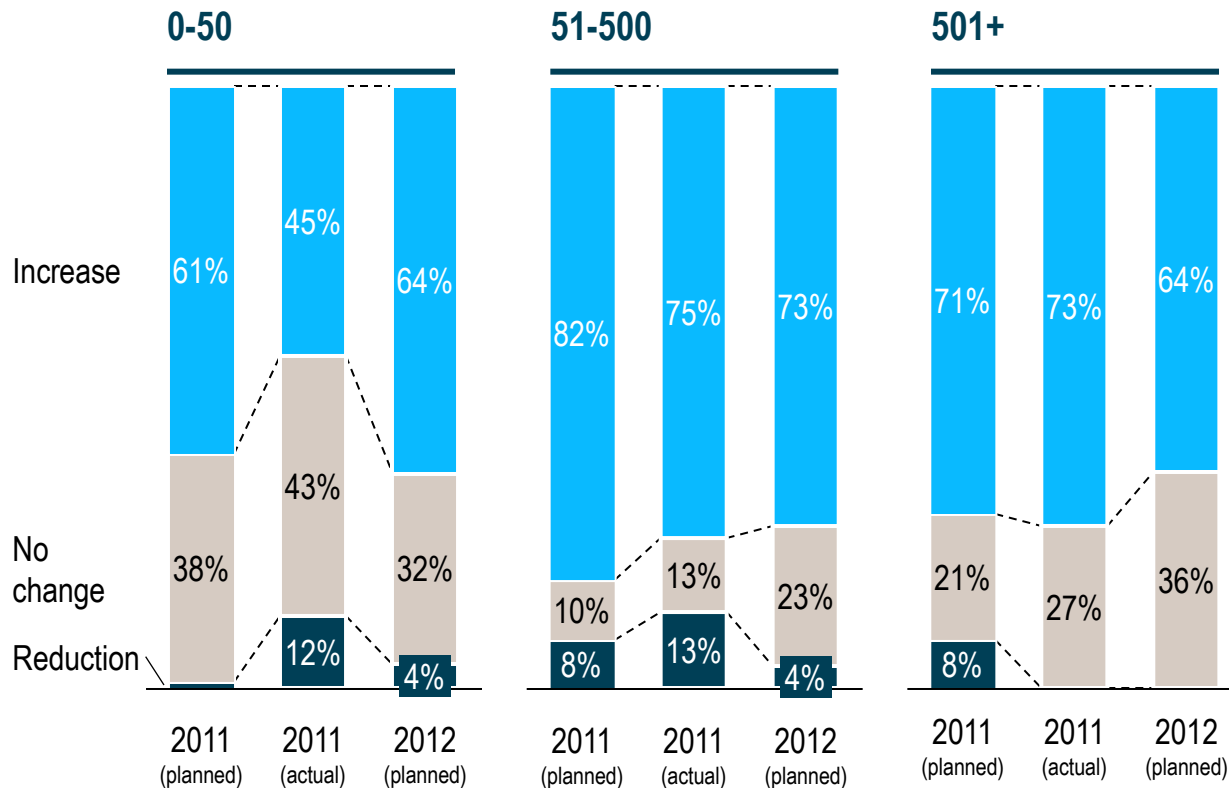
1) Non-labor costs = raw material costs and costs of semi-finished and finished goods

INSIGHTS

- > Continuous increase of commodity and material prices have impacted respondents, who reported a noticeably **WORSE NON-LABOR COST** trend
- > Large majority of respondents indicates that **LABOR COSTS HAVE REMAINED STABLE** since 2009
- > But a **SMALL PORTION SHOWS A WORSENING DEVELOPMENT** of labor costs, with a steady increase over the last three years

In response to this top-line growth, companies increased their workforce and 67% expect further headcount growth for 2012

Changes in headcount by company size [employees]



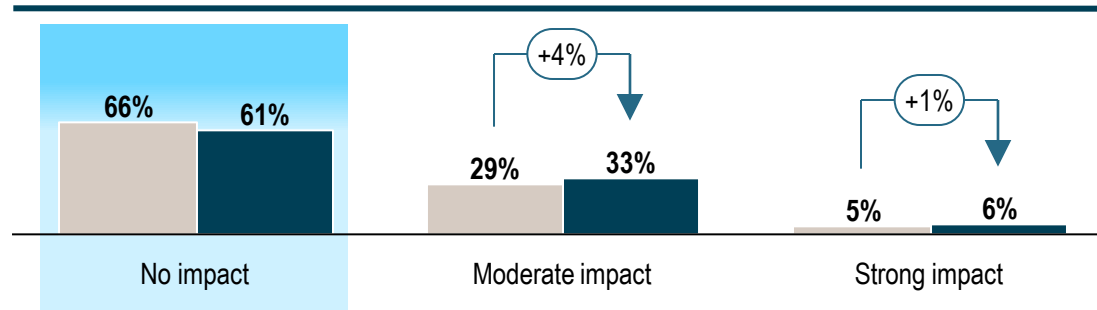
INSIGHTS

- > Workforce has increased by an **AVERAGE OF 7% IN 2011** – reaching almost 10% for Automotive and Manufacturing firms
- > Last year, **69% OF FIRMS WERE PLANNING** to increase headcount in 2011, but **ONLY 55% ACTUALLY FOLLOWED THROUGH**
- > Firms **INTEND TO RECOUP THIS HIRING DELAY** in 2012 – on average, 67% of total firms plan to increase their workforce

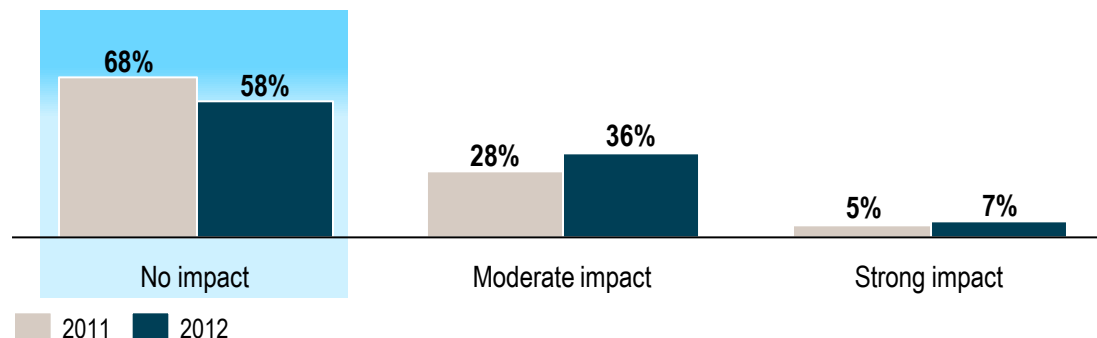
The majority of respondents have not yet been impacted by discussions on U.S. debt and European sovereign debt crises

U.S. debt and European sovereign debt crisis

U.S. debt crisis impact on business investment decisions



European sovereign debt issues impact on U.S. operations



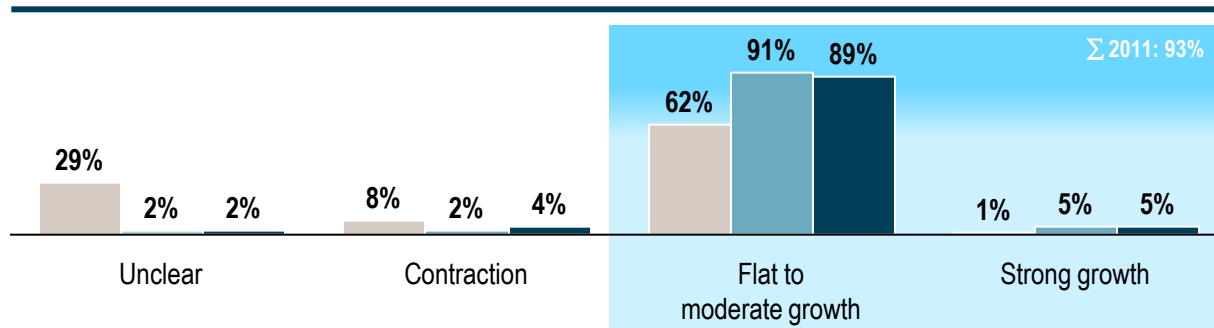
INSIGHTS

- > Majority indicated that both **U.S. AND EUROPEAN DEBT CRISIS HAVE NOT IMPACTED THEIR BUSINESSES** in 2011 and do not expect impact in 2012 either
- > Small difference between 2011 and 2012 figures could indicate greater **CONCERN ABOUT POTENTIAL RISKS FOR 2012**
 - "...uncertainty relates to hesitation on the part of our customers..."
 - "...caused an oversupply of equipment, which has driven costs down..."

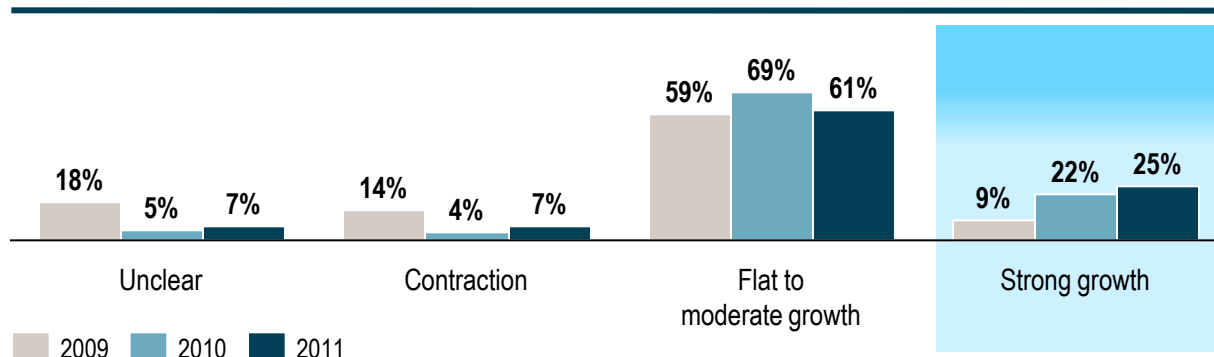
Looking forward, surveyed firms are very optimistic about their own businesses and confident about the U.S. economy

Outlook for the coming year

U.S. GROWTH OUTLOOK



OWN BUSINESS GROWTH OUTLOOK

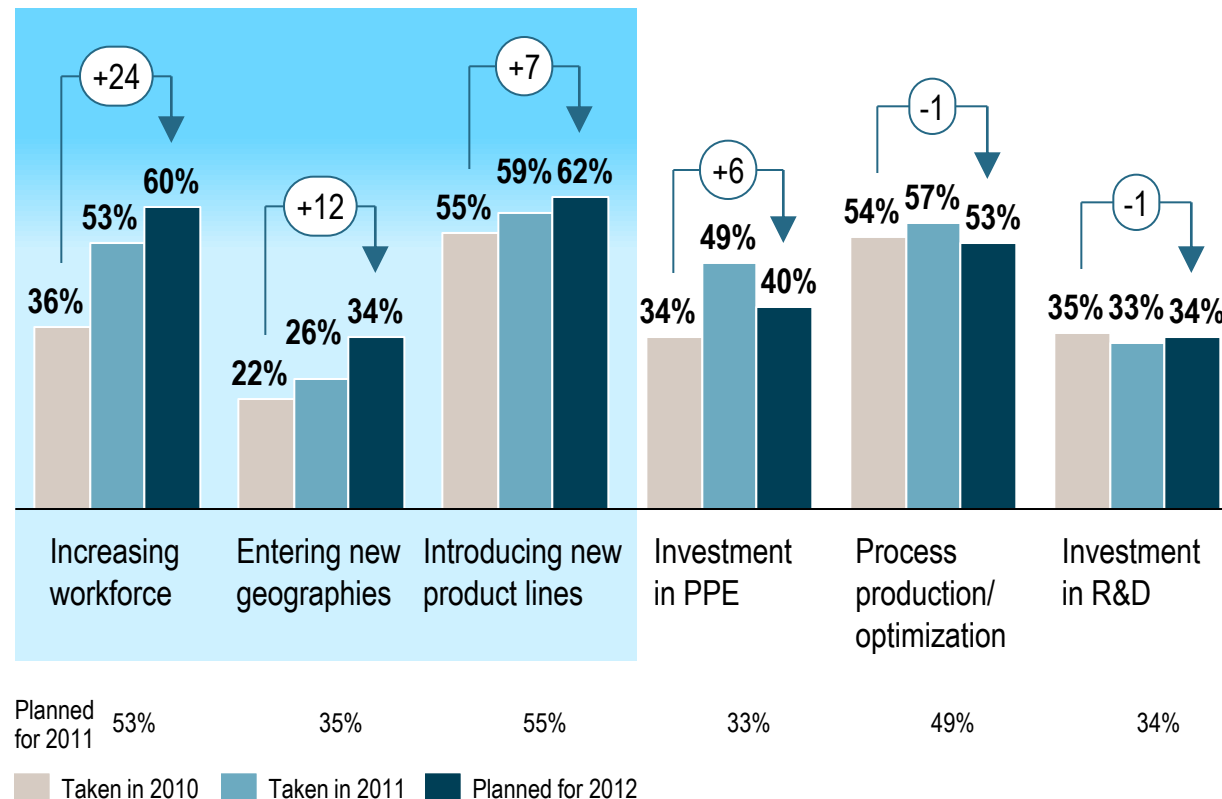


INSIGHTS

- > **96% DO NOT** foresee a double-dip recession
- > Overall, 48% of respondents are expecting the **ECONOMY TO GROW** moderately (43%) or strongly (5%)
- > Firms are even **MORE OPTIMISTIC ABOUT THEIR OWN OUTLOOK** compared to U.S. economy
- > 86% expect moderate to strong growth **FOR THEIR OWN BUSINESS**

Following this optimism, firms expect to keep their focus on growth-oriented initiatives and increasing workforce

Strategic initiatives

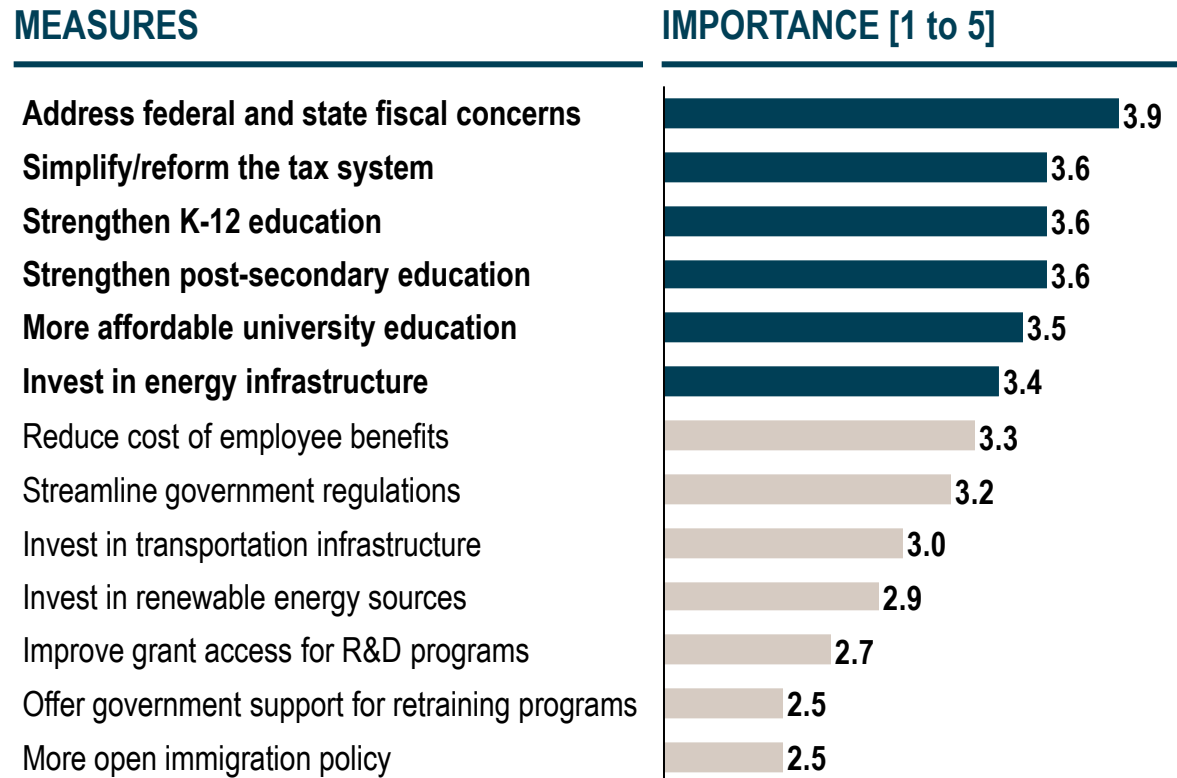


INSIGHTS

- > German-American firms are **GROWTH-ORIENTED** and plan to engage both in short-term and long-term strategic initiatives
- > Focus remains on introducing new product lines, but **INCREASING WORKFORCE** has seen the biggest jump - firms plan to add more employees in 2012 – an average growth of 10% vs. 7% in 2011
- > Interestingly, all firms implemented their **STRATEGIC INITIATIVES AS PLANNED LAST YEAR**

Suggestions to increase U.S. economic competitiveness have mainly centered around fiscal policy and workforce skills

Political/Economic Measures

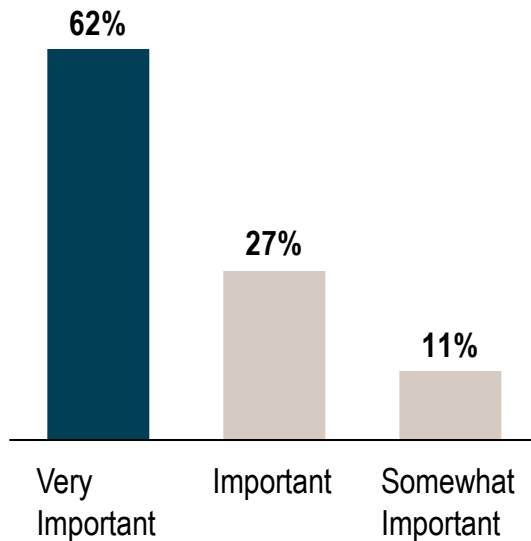


- ### INSIGHTS
- > German-American firms see economic value by **INVESTING IN EDUCATION**
 - > Among an extensive group of political and economic measures, respondents' priorities are centered on **U.S. TAX SYSTEM AND EDUCATION SYSTEM**
 - > Interestingly, some issues sometimes dominating social and political discourse, such as **IMMIGRATION POLICY AND INFRASTRUCTURE**, were not given a high importance by respondents

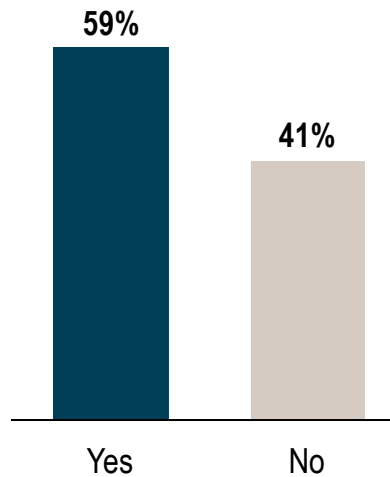
Workforce skill is a double-edged sword – it is a key success factor as well as an operational hurdle for respondents

Importance of skilled/specialized workforce availability [%]

AVAILABILITY OF SKILLED/
SPECIALIZED WORKFORCE [%]



DIFFICULTIES TO RECRUIT
CANDIDATES IN U.S. [%]

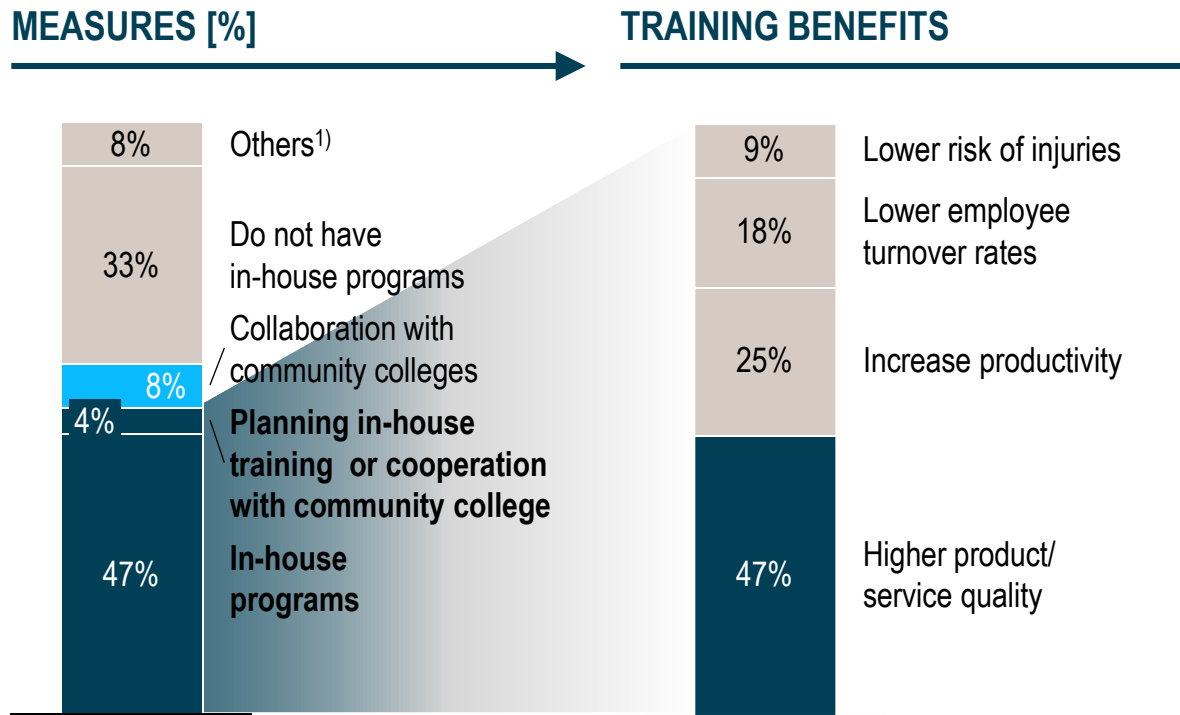


INSIGHTS

- > German-American firms believe that **WORKFORCE SPECIALIZATION IS VERY IMPORTANT** for their competitiveness
- > **ENGINEERING/TECHNICAL** is pointed out as the **MOST DIFFICULT** skillset to find in new candidates
- > Difficulties are more **COMMON AMONG SMALL BUSINESSES** – 75% highlighted difficulties in finding qualified workers

In response to a potential shortage of skilled workforce, German-American firms mostly rely on in-house training

Measures for potential skill shortages on the U.S. labor market



INSIGHTS

- > Benefits expected from training programs are mostly centered on improving **SERVICE AND PRODUCT QUALITY**
- > **TRAINING PROGRAMS THROUGH LOCAL COMMUNITY COLLEGES** are increasing – 12% have or are considering establishing this type of cooperation
- > >65% of **AUTOMOTIVE** firms use in-house training, the highest percentage among all respondents

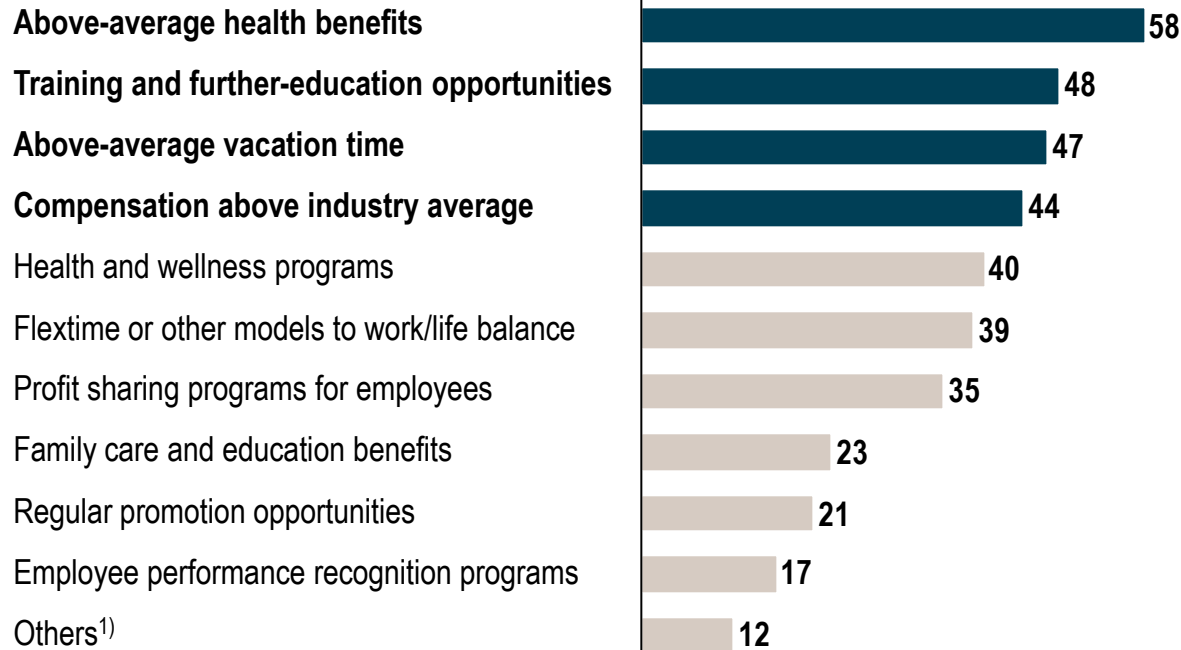
1) Example: bring technicians from Germany

To avoid losing trained and talented resources, many German-American firms offer above average benefits and compensation

Measures to retain skilled employees

MEASURES

ADOPTION [%]



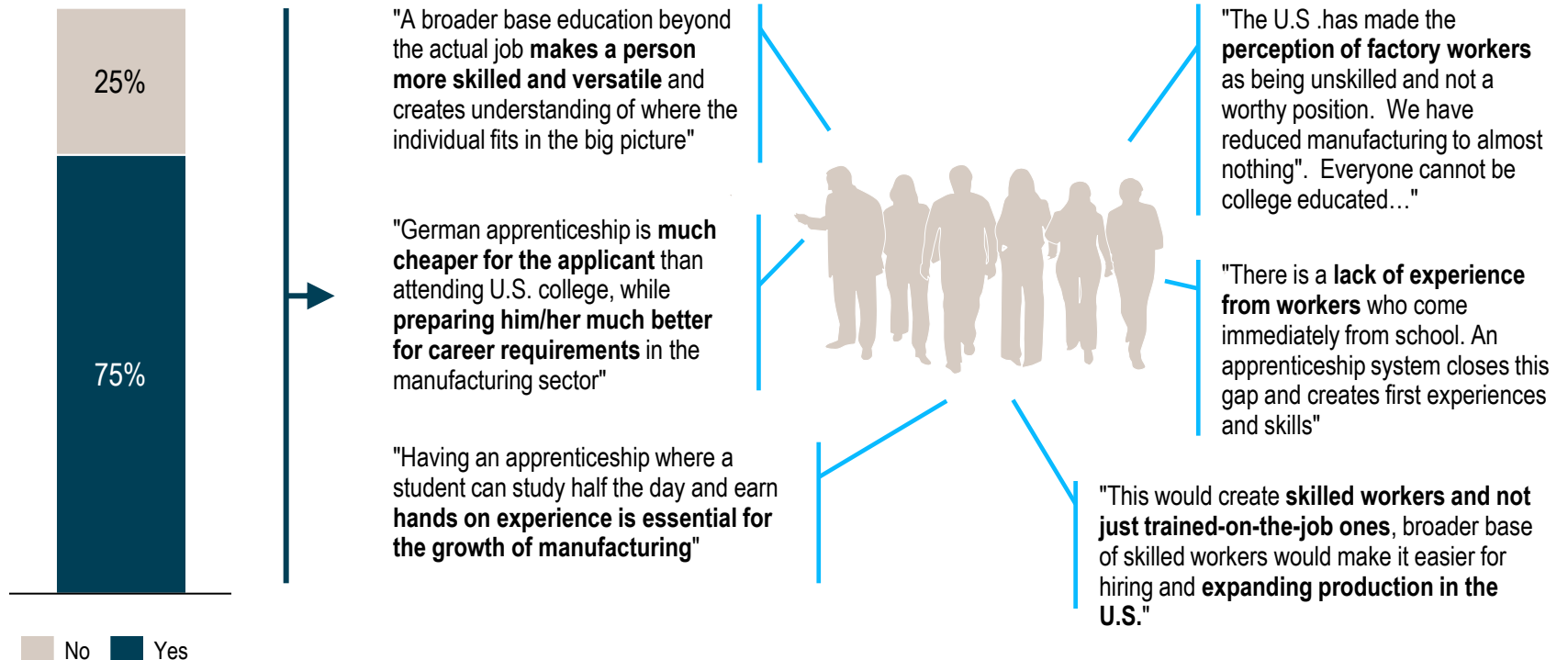
INSIGHTS

- > German-American firms are adopting **ABOVE-AVERAGE INITIATIVES** to increase retention of key employees
- > In general, they are focusing their efforts on **HEALTH BENEFITS, TRAINING PROGRAMS AND VACATION TIME** to increase retention

1) Working environment, bonus plan

The majority of respondents support an apprenticeship model in U.S., specifically for its dual-approach concept¹⁾

Applicability of German-style vocational training/apprenticeship models



1) High occurrence of respondents highlighting the importance and benefits of a dual approach based on mixing theoretical and on-the-job training

German-American firms have experienced a positive year and are optimistic about the year forward

Key take-aways

German-American firms have seen a **POSITIVE YEAR** in terms of business conditions and **CONTINUE TO BE OPTIMISTIC** going into 2012

As a reflection of this optimism, key focal initiatives planned by German-American firms are **GROWTH-ORIENTED**, such as augmenting headcount and introducing new products

To improve competitiveness of the U.S. economy, surveyed firms believe measures related to **FISCAL POLICY** and **WORKFORCE SKILLS** should be targeted

To improve worker skill levels, many firms have elected to run **IN-HOUSE TRAINING** programs and a majority support the adoption of an apprenticeship-style model in the U.S.



German American
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With offices in Atlanta, Chicago, Houston, New York, Philadelphia and San Francisco, the GACCs – AHK USA have approximately 2,500 member companies and an extensive national and international business network. We offer a broad spectrum of activities and services for the German American business community. The fostering of bilateral trade relations and investment, and the provision of consulting services to companies with business interests in the United States are among our key tasks. The GACCs, coordinated and supported by the German Association of Chambers of Industry and Commerce (DIHK), are an integral part of the network of German Chambers of Commerce Abroad with 120 offices in 80 countries around the globe.



REPRESENTATIVE
of German Industry + Trade

The Representative of German Industry and Trade (RGIT) is the liaison office of the Federation of German Industries (BDI) and the Association of German Chambers of Industry and Commerce (DIHK) in Washington. RGIT represents the interests of the German business community vis-à-vis Congress, the U.S. administration and the international organizations based in Washington, D.C. We report regularly on economically significant developments as well as legislative activities in the U.S. and provide our partners in the United States with information on German business.

Roland Berger
Strategy Consultants

Founded in 1967, Roland Berger is one of the world's leading strategy consultancies. With 45 offices in 33 countries, the company has successful operations in all major international markets. Annually, it generates about USD 900 million in revenues with 2,500 employees. The strategy consultancy is an independent partnership exclusively owned by about 180 Partners.

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