



German American
Chambers of Commerce
Deutsch-Amerikanische
Handelskammern



REPRESENTATIVE
of German Industry + Trade



German American Business Outlook 2018

**The annual survey of
German firms in the US**

Content

01	Growth Despite Concerns: Prospects for 2018	06
02	Increasing Investments: Expansions and M&A on the Rise	10
03	Big Data, Secure Data: Transatlantic Perspectives	11
04	Apprenticeships in the US: Investment in Workforce Development	13
05	Research & Development: Innovation through Cooperation	16
06	Methodology	17
07	About Us	
	GACCs	18
	RGIT	18
	KPMG	19

Foreword

Dear Reader,

German businesses in the US play an important role in the US market – as a growth motor for industries from automotive to wind energy, as an employer of almost 700,000 people, and as an investor of roughly 292 billion USD in the US.

Each year, the German American Business Outlook (GABO) offers powerful insights into the current state and future expectations of German companies in the US. What are the key challenges and opportunities for German companies based in this country?

Despite all the uncertainty, for the first time since the inception of the survey, 100% of the surveyed German companies are expecting growth for their businesses, while only 2% expect the US economy to contract. Harnessing the power of digitalization, and driving innovation in R&D through cooperation with universities and startups are key trends for German subsidiaries in the US.

However, as German companies are expanding through M&A or new manufacturing capabilities in the US, they struggle with an ever-increasing shortage of skilled labor.

The skills gap is motivating companies to take the initiative and grow their own workforce. An impressive 25% of German companies are leading the charge by establishing apprenticeship programs as a solution to keep their productivity at maximal capacity.

We would like to thank the German subsidiaries which took the time to share their views with us for the German American Business Outlook. The GACCs, RGIT and KPMG will use this valuable information to advocate on behalf of your business interests.

Yours sincerely,

Caroll Neubauer

Chairman, German American
Chambers of Commerce

Andreas Glunz

Managing Partner International Business,
KPMG in Germany

Executive Summary



100%

For the first time since the German American Business Outlook was launched, 100% of the companies surveyed expect **growth** for their business next year. Nearly one out of two expects more than 3% growth. This optimism is based on a solid US economy, with only 2% of the participants expecting contraction in 2018.



92%

Almost all companies rate attracting a **skilled workforce** as an important factor which needs to be addressed by the US administration, followed by openness of markets and digital infrastructure.



11%

Companies increasingly focus their business expansion on **mergers and acquisitions (M&A)**. 11% of the participating companies plan to expand their businesses in 2018 through M&A, up from a steady 7–8% from 2015 to 2017.



59%

59% of participants face **challenges in data analysis**. Among the most challenging issues are data security, lack of in-house know-how and data protection. However, the number of companies reporting data analysis challenges is much lower in the US than in Germany.



61%

More than half of the companies either participate in an **apprenticeship program** or are interested in joining a consortium-style apprenticeship program to train their staff.



83%

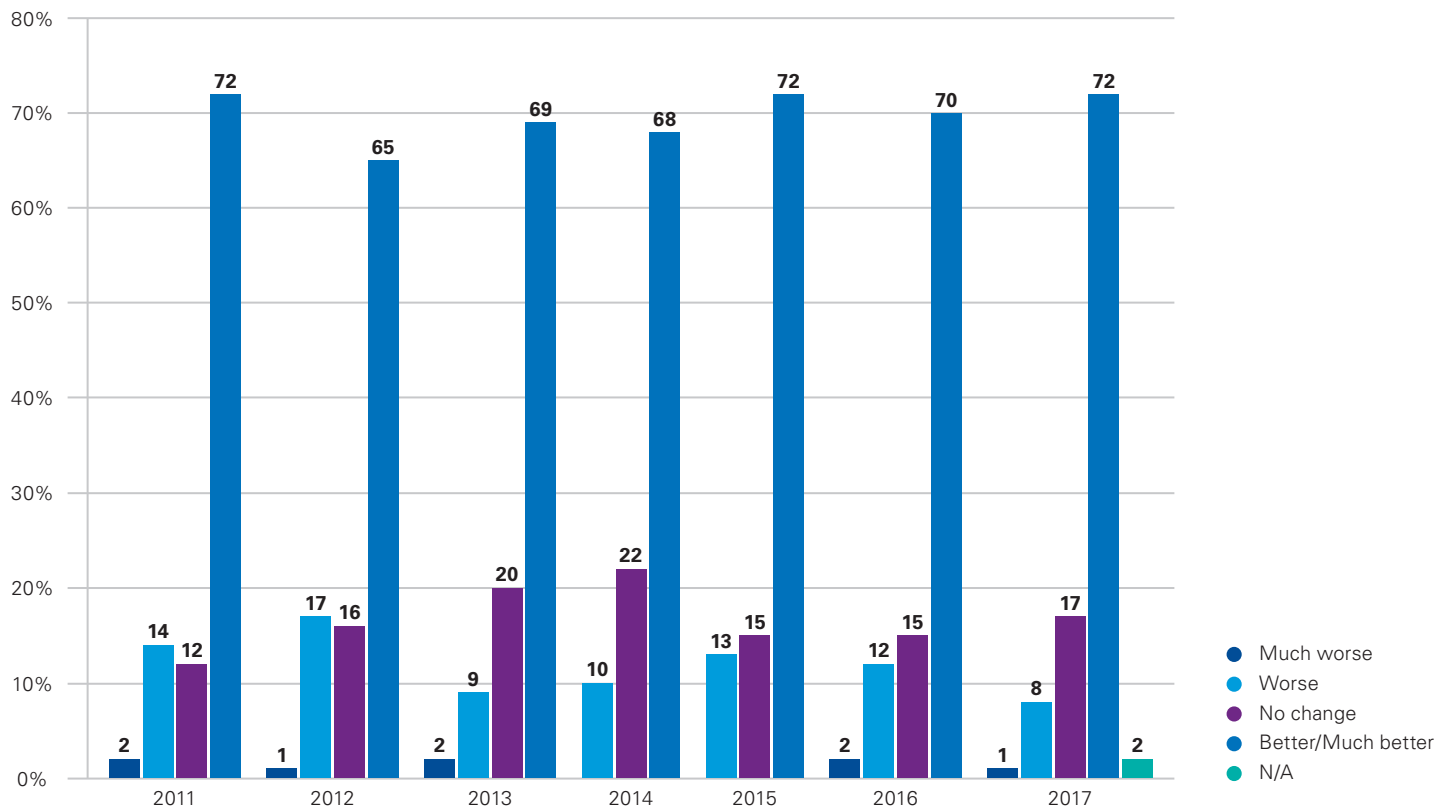
Four out of five companies conducting **research & development (R&D)** in the US are collaborating with partners to achieve their R&D goals. The most important partners are universities and community colleges, followed by startups and large tech companies.

01 Growth Despite Concerns: Prospects for 2018

One year into the new US administration, the scepticism and uncertainty demonstrated in last year's GABO results did not materialize into declining sales. In fact, in terms of sales volume, 2017 was as successful for German

subsidiaries in the US as the previous two years. This positive trend is expected to continue with 44% of German companies expecting strong growth of more than 3% in 2018.

Figure 1: **How has your sales volume changed this year?**

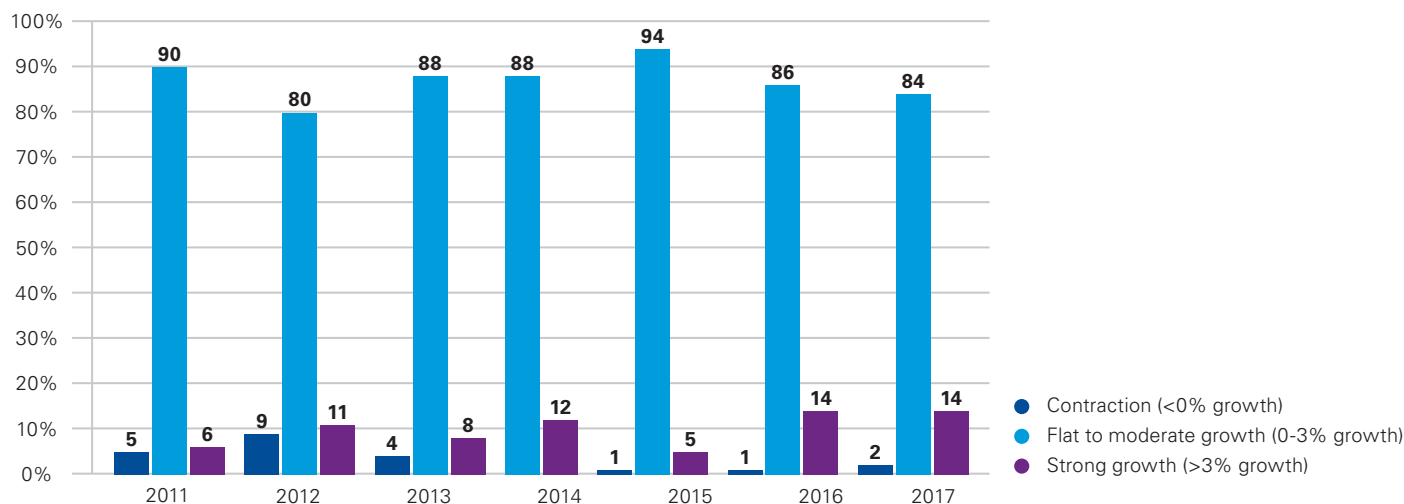


Source: KPMG in Germany and GACCs, 2017; Information in per cent; Deviations from 100 per cent are due to rounding differences

While expectations for the general US economy are slightly less positive than what companies expect for their own business, they are still close to the record high expectations

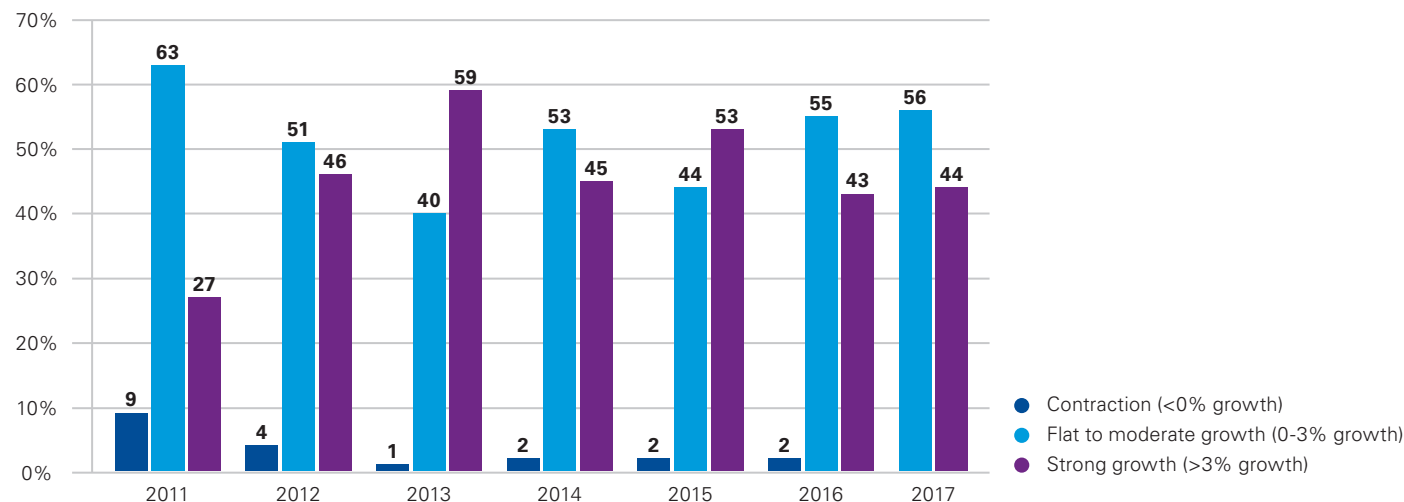
of 2016. This positive outlook is reflected by only 2% of companies expecting a contraction of the general US economy in 2018.

Figure 2: What is your general expectation for the US economy for next year?



Source: KPMG in Germany and GACCs, 2017; Information in per cent; Deviations from 100 per cent are due to rounding differences

Figure 3: What is your general expectation for your business for next year?

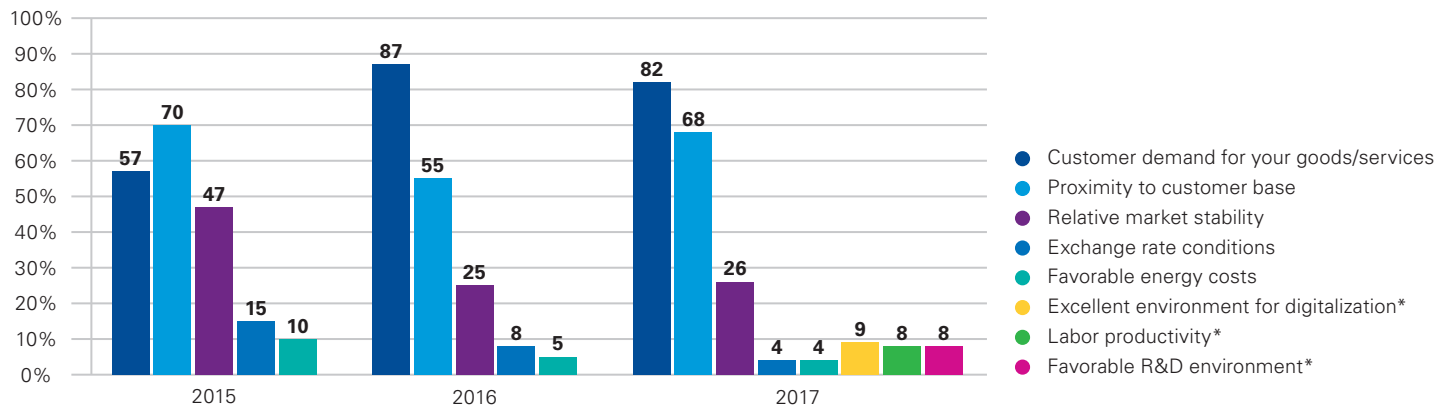


Source: KPMG in Germany and GACCs, 2017; Information in per cent; Deviations from 100 per cent are due to rounding differences

As in 2016, most companies invested and planned to invest in the US due to customer demand, which at 82% ranked as the strongest reason for their US investment. Customer proximity ranks second with 68% and is in line with prior results from 2016 and 2015. This continuous development underlines the fact that in highly competitive markets such as the US, customer-centric business models are becoming increasingly important.

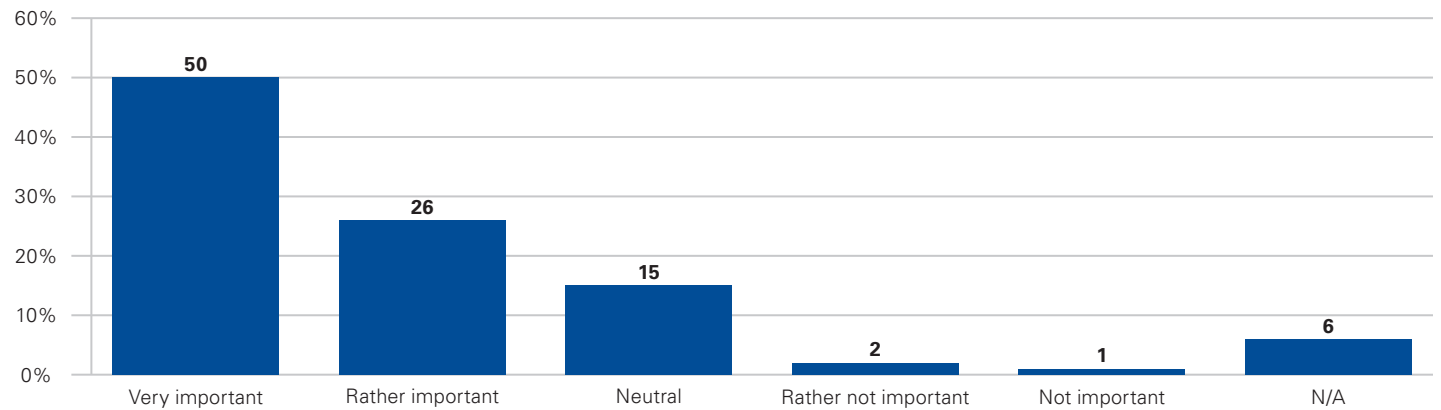
Apart from these two customer-driven reasons for investment, a clear year-on-year difference can be seen when it comes to relative market stability. This indicator decreased from 47% in 2015 to 25% in 2016 and is continuing at this low level – at 26% – in 2017. Finally, exchange rate conditions and energy costs became less important as investment reasons, declining from a combined 25% in 2015 to an almost insignificant 8% this year.

Figure 4: Top reasons for current and future investment in the US relative to other world markets



Source: KPMG in Germany and GACCs, 2017; Information in per cent; * These answers are included for the first time this year

Figure 5: Considering your supply chain, how important are open markets?

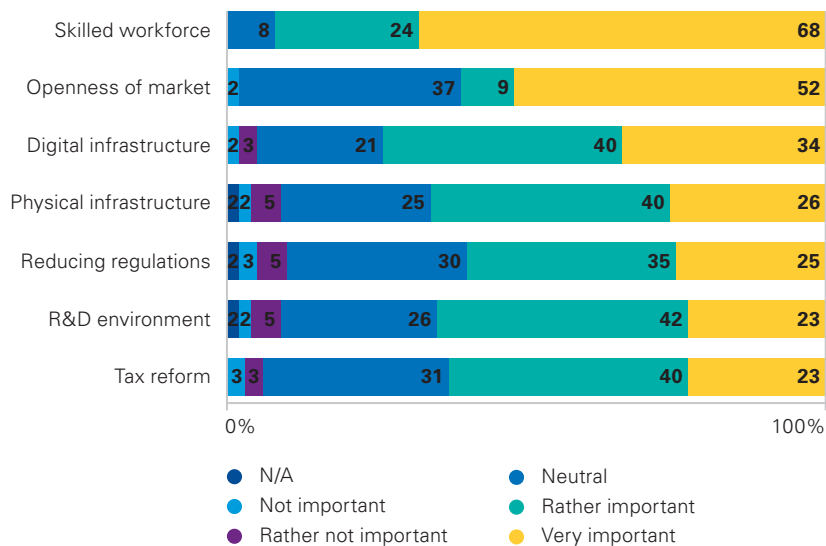


Source: KPMG in Germany and GACCs, 2017; Information in per cent

For **76%** of German companies in the US,
open markets are crucial to their supply chain.

Moving forward, German companies are looking to the US administration to prioritize investments in a skilled workforce, as well as a digital and physical infrastructure to sustain a favorable business environment.

Figure 6: **Please rate the importance of the following issues for the US administration to create a favorable business environment.**



Source: KPMG in Germany and GACCs, 2017; Information in per cent

Only 18% of the respondents indicate or believe they
would **not be harmed by a rollback of NAFTA.**

“German companies are important actors in the American market: Not only do German companies deliver important products and services for the modernization of the US economy, they also generate dynamic impulses when it comes to innovation, digitalization and skilled workforce development.”

Eric Schweitzer

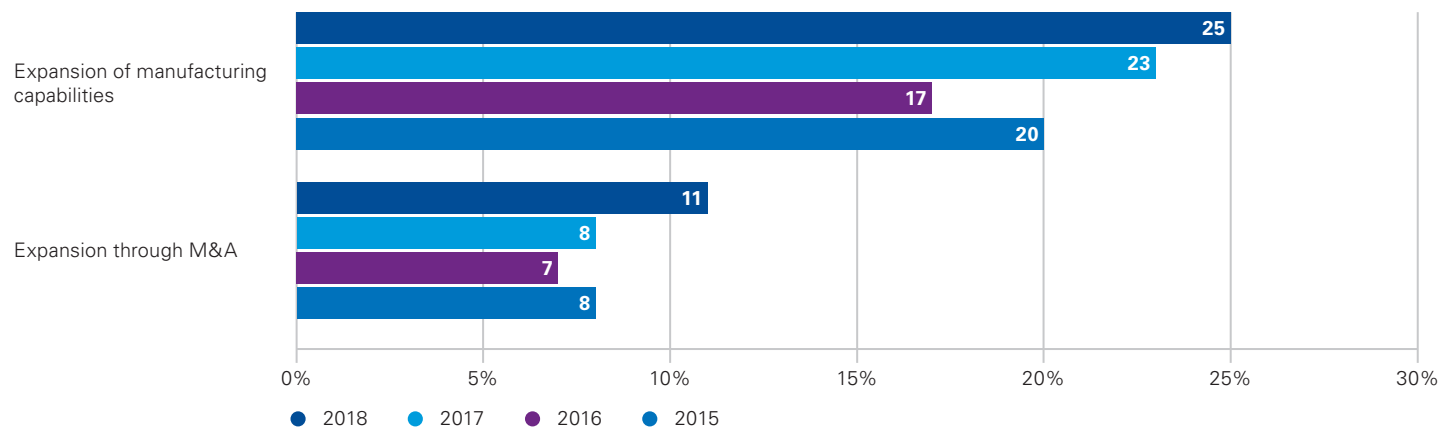
President of the Association of German Chambers of Commerce and Industry

02 Increasing Investments: Expansions and M&A on the Rise

For 2018, business expansion is expected to focus on two strategic actions. A quarter of the companies surveyed want to increase their manufacturing capabilities. This would mean three years in a row where this kind of expansion increased. Similarly, mergers and acquisitions (M&A) are expected to increase as a way to expand business and for many to enter the US market.

M&A transactions enable a company to exploit market potential through a local presence and the provision of mandatory licenses. Furthermore, market regulation requirements should already be in place, and an established customer base and existing equipment can both ease market entry into the US.

Figure 7: **Strategic actions taken in 2017 and planned for 2018**



Source: KPMG in Germany and GACCs, 2017; Information in per cent

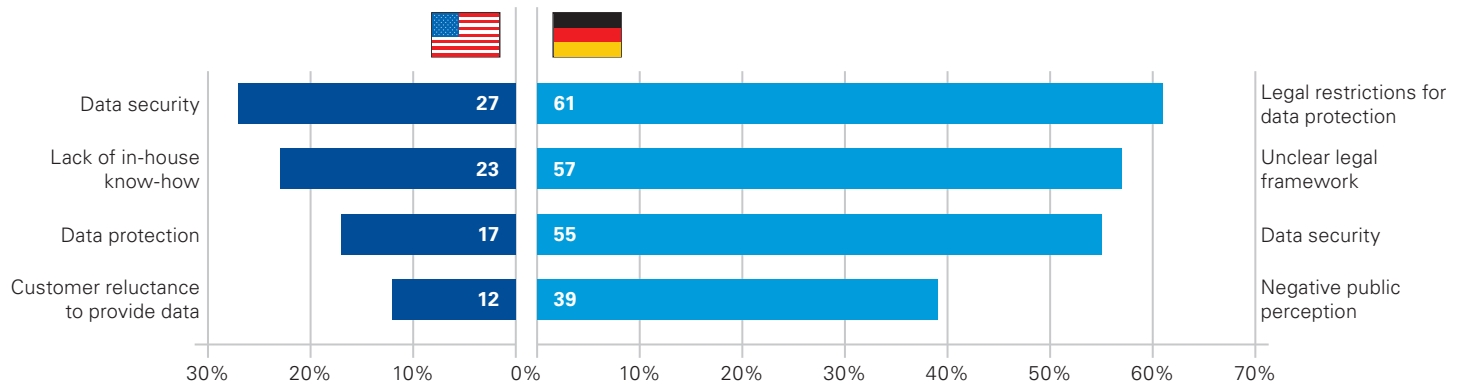
03 Big Data, Secure Data: Transatlantic Perspectives

The primary concerns for German subsidiaries in the US with regard to data analysis are: data security, lack of in-house know-how, data protection, and customer reluctance to provide data. Comparing these results to the most recent KPMG study “Mit Daten Werte schaffen 2017”, companies face significantly fewer challenges in the US than in Germany with regard to data analysis. While more than half of companies in Germany face data security and data protection issues, and struggle with unclear legal framework, only 11% to 27% of companies in the US report these topics as a challenge.

By far the largest discrepancy between the US and Germany is found in the negative public perception of data use and analysis. This result may be a reflection of the differing public perception in the use of private and personal data in each country. The public discussion about data analysis is often about misuse of personal data, leading to 39% of companies being concerned about their image in Germany, whereas only 4% of German companies in the US share this unease.

These results could indicate that the legal and social environment in the US regarding data use is more flexible than in Germany.

Figure 8: Which challenges does your company experience with regard to data analysis? (Top 4 answers in the US and Germany)



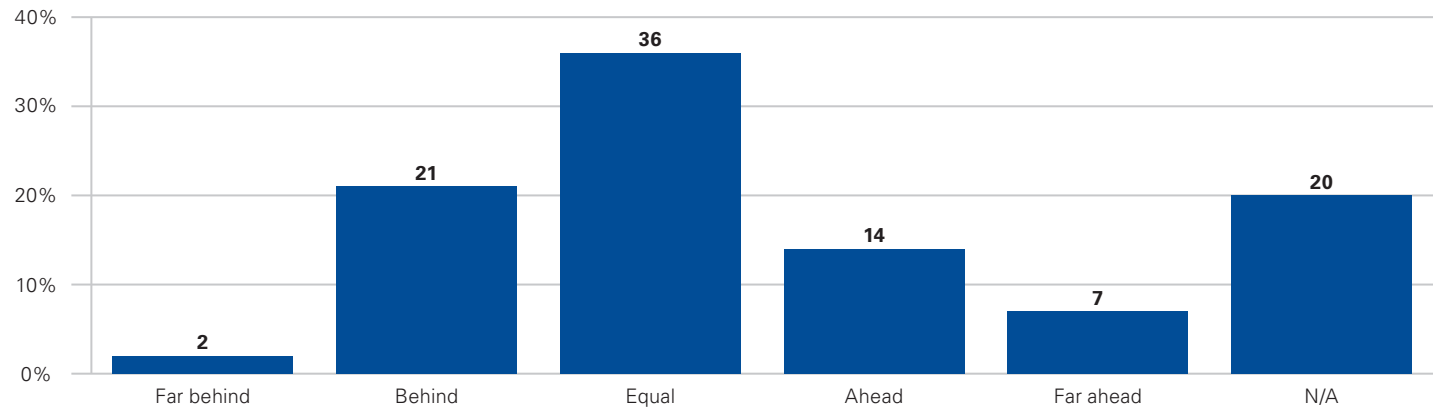
Source: German Companies in the US: KPMG in Germany and GACCs, 2017;

Companies in Germany: KPMG in Germany, 2017 (study Mit Daten Werte schaffen 2017); Information in per cent

In terms of digitalization, however, US subsidiaries are neither ahead of nor behind their German counterparts when it comes to applying new digital processes such as big data, machine learning, and predictive analytics.

There could be a great potential benefit for German subsidiaries to increase investments in digitalization and data analysis based on the more positive perception of these measures in the US market. Such an investment could lead to significant expertise that could later be leveraged throughout the headquarters and within subsidiaries in other markets.

Figure 9: Compared to your parent company, do you consider yourself ahead or behind in applying digitalization processes like big data, machine learning and predictive analytics?



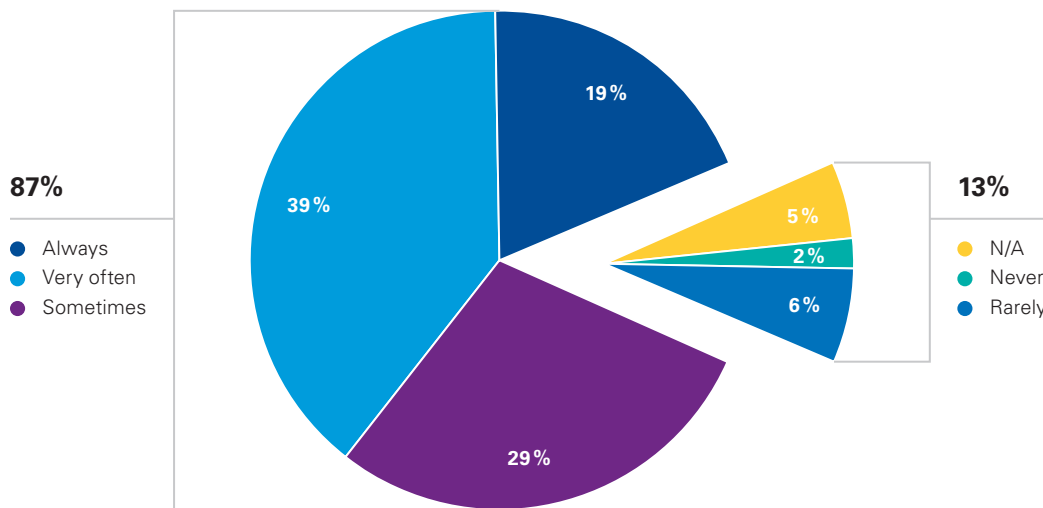
Source: KPMG in Germany and GACCs, 2017; Information in per cent

04 Apprenticeships in the US: Investment in Workforce Development

As sales volumes increase, German products and technologies continue to enjoy high demand in the US. However, companies are facing an increasingly challenging reality: Hiring the skilled workforce they need to match their production capabilities. Currently, there are a record 6 million jobs open in the US. As a consequence, 87% of German

companies experience difficulties in attracting qualified US talent to fill their vacancies – a dramatic 21% increase since 2016. Based on the shortage of available talent, the share of German companies expecting to expand the size of their workforce actually decreased from 80% in 2016 to 62% in 2017.

Figure 10: **To what degree do you experience difficulty in attracting skilled labor in the US?**



Source: KPMG in Germany and GACCs, 2017

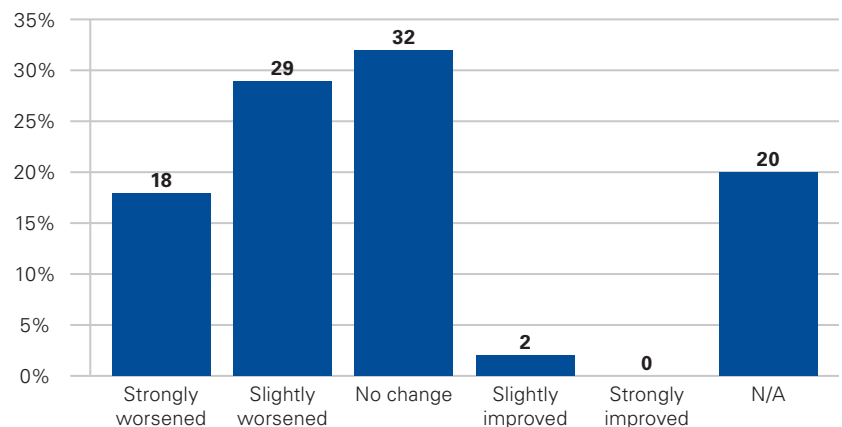
“Apprenticeships built on industry standards work – not just in Germany but also in the United States. Structured partnerships with companies, educational institutions and industry associations are the right way for workforce development in the US.”

Mario Kratsch

Vice President, GACC Midwest
& Head of ICATT Apprenticeship Program

In line with these experiences, 92% of respondents rate the topic of a skilled workforce as important for the US administration in order to create a favorable business environment (see figure 6). This multi-faceted topic also includes the ease of obtaining visas for international employees. According to the companies surveyed, the visa situation has worsened for almost half of our respondents under the current administration.

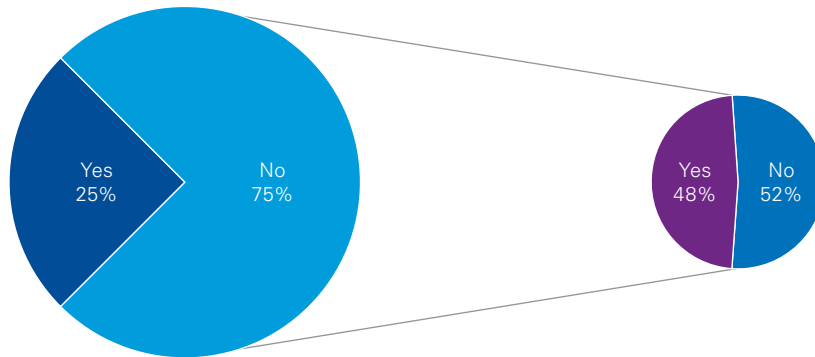
Figure 11: How has the ease of receiving work visas for company employees from abroad changed under the current administration?



Source: KPMG in Germany and GACCs, 2017; Information in per cent; Deviations from 100 per cent are due to rounding differences

As companies struggle to fill open positions, the German business community has established itself as the driver of an industry-led solution: Apprenticeships. 25% of respondents are already training their employees through dual education programs, which is a high percentage compared to US companies. Additionally, half of German companies currently not offering apprenticeship programs are interested in joining a consortium-style program. Therefore, 61% of companies surveyed are either enrolled in an apprenticeship program or are interested in joining one. Consortium-style programs are in particularly high demand since they remove the financial and bureaucratic hurdles associated with the adoption of such a program.

Figure 12: **(Left graph) Does your business currently participate in/ offer any dual education or apprenticeship programs in the US? If no: (Right graph) Are you interested in joining a consortium-style program?**



Source: KPMG in Germany and GACCs, 2017; Left graph: n=113 (20 participants answered "N/A"); Right graph: n=61 (25 participants answered "N/A").

The benefits of apprenticeship programs

Many firms, especially SMEs, do not have the resources to implement their own apprenticeship programs. Company-driven, consortium-style programs modeled on the German dual educational model, such as the Industry Consortium for Advanced Technical Training (ICATT), are non-cost-prohibitive ways for all businesses, regardless of national ownership or size, to grow their own workforce. Investing in apprenticeship programs which partner with local community colleges allows companies to equip their apprentices with company-specific skills tailored to their workforce needs, while ensuring training to international standards. Additionally, apprenticeships help companies to save on recruiting costs and to increase employee retention.

"Entering into a consortium-style apprenticeship program is an effective way to grow our own workforce. It takes care of the bureaucratic framework and certification of a rigorous dual training system. We at NAL are happy to invest in our apprentices to become high-quality, loyal employees through the ICATT program."

James E. Jamrozek

Training and Development Manager,
North American Lighting, Inc.

“Since most startups are small entities, they don’t have large hierarchies, which means their decision-making process is much more streamlined, and they can respond faster to the needs of SMEs. Startups also offer SME’s unbridled innovation and creativity, which is a major benefit.”

Achim Leder

Managing Partner of jetlite, GmbH

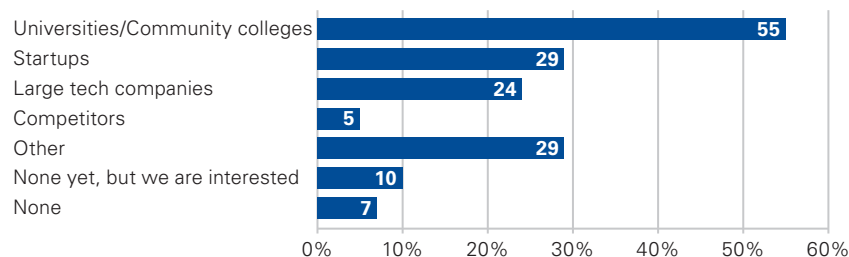
05 Research & Development: Innovation through Cooperation

One in every three companies conducts R&D in the US. While part of this activity within US subsidiaries must be attributed to market adaptation, this percentage is nonetheless significantly high. In general, R&D is a key competency at company headquarters.

Among the companies that conduct R&D in the US, 83% collaborate with partners, most of which are universities or community colleges. More interestingly, over half of the companies which do not currently conduct R&D in the US, are interested in cooperative partnerships.

Only 7% of all companies which conduct R&D do not collaborate with any partners. This result demonstrates the extent to which R&D has become dependent on partners, which in addition to universities and colleges, also includes startups, large tech companies, and competitors.

Figure 13: If you conduct R&D in the US: Which partners do you collaborate with for your R&D activities?

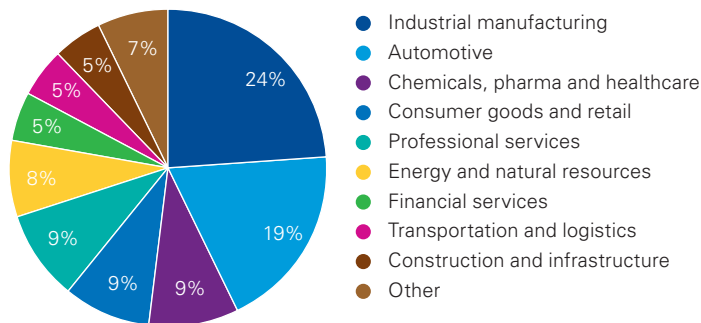


Source: KPMG in Germany and GACCs, 2017; Information in per cent

06 Methodology

The German American Chambers of Commerce (GACCs), the Representative of German Industry and Trade (RGIT), and KPMG approached German subsidiary headquarters in the US for this survey. The survey was open between September 25th and October 8th and in total, 133 companies took part. The survey focused on the economic outlook of German companies in the US as well as on the challenges they face and the growth opportunities for their businesses.

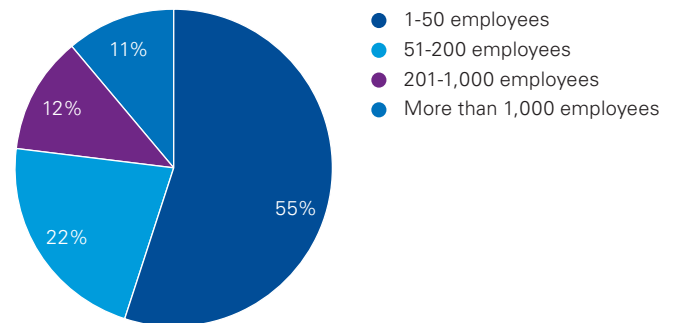
Figure 14: **Participating companies by sector**



Source: KPMG in Germany and GACCs, 2017; n=209 ; companies could select multiple sectors

The German American Business Outlook (GABO) benchmarks the success and satisfaction of German companies in the US. While the emphasis of the survey changes from year to year, a number of core questions remain the same and allow for a set of long-term comparative data to be established, thus providing a unique view and analysis of the economic success of German subsidiaries in the United States.

Figure 15: **Participating companies by number of employees**



Source: KPMG in Germany and GACCs, 2017

07 About us

GACCs



The German American Chambers of Commerce (GACCs) in Atlanta, Chicago, Detroit, Houston, New York, Philadelphia, and San Francisco all work together under the network of the GACCs. With approximately 2,500 members and an extensive national and international business network, the GACCs offer a broad spectrum of activities and services. Other German American organizations and chapters are affiliated with the GACCs.

The German Chamber Network (AHKs) is closely connected to the Chambers of Industry and Commerce (IHKs) in Germany. The umbrella organization of the IHKs is the German Association of Chambers of Industry and Commerce

(DIHK), which speaks for 3.6 million business enterprises in Germany and also coordinates and supports the AHKs.

Globally Connected

AHKs provide experience, connections, and services worldwide through 130 locations in 90 countries. The service portfolio of the AHKs is unified worldwide under the brand name DEinternational. The AHKs cooperate closely with the foreign trade and inward investment agency of the Federal Republic of Germany – Germany Trade & Invest (GTAI).

www.ahk-usa.com

RGIT



Deepening the transatlantic marketplace

The Representative of German Industry and Trade (RGIT) encourages the deepening of the US-German economic and trade relationship. RGIT represents the interests of German industry in the US on behalf of its principals, the Federation of German Industries (BDI) and the Association of German Chambers of Commerce and Industry (DIHK).

The transatlantic economic relationship is very close. The United States and Germany are important partners in shaping globalization. Deep transatlantic economic integration is based on a trusting business environment, a reliable framework, and open markets. This is what RGIT supports – on both sides of the Atlantic.

Cooperation – Partnership – Integration – Reliability – Openness

www.rgit-usa.com

KPMG



KPMG is a network of professional firms with more than 189,000 employees in 152 countries.

In Germany, KPMG is one of the leading auditing and advisory firms and has around 10,200 employees in 25 locations. Our services are divided into the following functions: Audit, Tax, Consulting and Deal Advisory. Our Audit services are focused on the auditing of consolidated and annual financial statements. The Tax function

incorporates the tax advisory services provided by KPMG. Our high level of specialist know-how on business, regulatory and transaction-related issues is brought together within our Consulting and Deal Advisory functions.

Legal services are provided in a separate legal entity.

We have implemented more than 30 Country Practices – the Country Practice USA being the biggest – for all relevant business corridors, comprising country specialists who support companies in the respective markets.

www.kpmg.de

Contact

KPMG in Germany

Andreas Glunz

Managing Partner International Business
T +49 211 475-7127
aglunz@kpmg.com

Warren Marine

Head of Country Practice USA
T +49 211 9060-41300
warrenmarine@kpmg.com

GACC Midwest

Mark Tomkins

President & CEO
T +1 312 494-2172
tomkins@gaccmidwest.org

GACC New York

Dietmar Rieg

President & CEO
T +1 212 974-8848
drieg@gaccny.com

GACC South

Stefanie Ziska

President & CEO
T +1 404 586-6815
sziska@gaccsouth.com

RGIT Washington

Daniel Andrich

President & CEO
T +1 202 659-4777
dandrich@rgit-usa.com

www.kpmg.de

www.ahk-usa.com

www.rgit-usa.com

www.kpmg.de/socialmedia



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