

November 2014

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Michigan Future Business Index

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Summary of Findings

- **Perceptions of Michigan's business market among small- to mid-sized business leaders are increasingly merry and bright**
 - More saying profits and sales are up
 - Optimism for continued growth on the rise

- **Businesses have continued concerns about access to skilled workers**
 - Many fill openings by investing in employee training
 - Concerns over new healthcare laws have diminished

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About the MFBI

The Michigan Future Business Index (MFBI), commissioned semi-annually by Accident Fund Insurance Company of America, surveys owners of small- to mid-sized businesses in Michigan and provides business leaders a forum to offer their perspectives of economic conditions in the state.

While results are only a snapshot in time, the trend data maps out the history of successes and challenges of small- to mid-sized businesses in Michigan, and allows us to forecast future changes in the market. Thanks to the participation of these business leaders we are able to amplify their voices and provide data for business advocacy organizations and policymakers to help Michigan businesses prosper.

Methods

- Phoenix Innovate conducted the November 2014 MFBI survey primarily with owners and C-suite executives from small- to mid-sized businesses across Michigan between November 12, and December 3, 2014.
- The mixed-mode survey included telephone and web interviews with 689 business executives from Michigan companies that employ 500 or fewer employees. It has a margin of error of ± 3.8 percent within a 95 percent degree of confidence.
- The survey gleaned business owners' assessment of business performance over the previous six months and their expectations for the next six months. In addition, the survey garnered various perceptions and personal experiences about conducting business in Michigan.

MFBI Summary : November 2014

Since June of 2010, Michigan's small- to mid-sized business owners have been increasingly satisfied with the state's economy, a trend that continued in this installment of the MFBI. Business leaders are most optimistic about their ability to make a profit and grow in the near future. While employers have pulled back slightly on hiring and wage increases over the last six months, the trends remain on a positive track. Additionally, expectations for sales and profits in the next six months are also positive, and plans for wage increases continue to improve.

Business leaders' biggest challenge continues to be their ability to attract and keep skilled employees. Fourteen (14) percent now say that keeping and attracting good employees is their single greatest challenge. Although that is down from 17% in June this year, it is 10% higher than in October of 2011. Michigan businesses want to grow and are optimistic about future expansion of their businesses, but this introduces an additional challenge: hiring the right staff to manage that expected growth. How do they plan to do this? Right now, they are looking within and retraining their current workforce to fill the skilled positions that remain open.

Our state's business leaders remain optimistic about their profits, sales, business growth and the state economy.

Significant Changes Since the Last Survey

Expectations for increased profits and growth remain strong; optimism for future continues to rise

Business owners remain optimistic about their future in Michigan. More than one third believe their bottom line will improve over the next six months, the highest it's ever been, while expectations for better profits and sales remain strong. Satisfaction with Michigan's economy is booming with 69% now saying they are satisfied with the economy and how it effects their business (up from 62% in June). Additionally, 38% report they are likely to increase employee wages over the next six months, a number that's been consistently on the rise since October of 2010.

Challenges continue: the need for further employee training increases while concerns over healthcare subsides

Each installment of the MFBI, we ask respondents to share their biggest business challenge. Concern over healthcare policies was consistently strong in the recent past and was strongest in June 2013, when 16% of respondents thought this was a big concern. However, this November only 5% were worried about this issue.

As business owners are less worried about health care policies, they are increasingly concerned about fostering a workforce that can manage growth. Years of the MFBI survey have shown that the challenge of finding qualified talent is increasingly prohibitive. In October of 2011, only 4% of respondents mentioned this was a challenge, but by June of 2014, that number had risen to 17%. This issue remains at the top of the list this November with 14% stating it is a concern. The vast majority (70%) of businesses who have had trouble filling open positions say it's because not enough of the applicants were qualified.

Unfortunately, this is a challenge for which many businesses are struggling to find a solution. Roughly one third of business leaders who struggle with access to qualified candidates say they simply haven't found anyone yet (20%) or that they just *"keep looking"* (13%).

Those who have found solutions have done so by either hiring less qualified individuals or by promoting from within, then retraining those employees to fill new roles. One respondent's company hires the *"best 'trainable' candidates"* and then *"flood[s] them with training and support."* Others go through a process where employees are *"hired, fired, hired, fired, hired, fired (repeat)."*

This is undoubtedly a frustrating process for businesses and might explain why we see a slight drop in the number of respondents who say they will hire in the next six months (33%, down from 37% in June). Not finding the right employees – or spending time and resources training those who don't end up being good matches for the company – takes away from productivity and diminishes a business' capacity. What can the business community and policymakers do to help this growing number of small businesses that need help attracting and keeping qualified individuals?

Because so many businesses are hiring (or promoting from within) first and then training, additional resources are needed to help them with this process. Business networking and sharing programs through advocacy organizations would certainly help with this, but continued help from the state would be useful as well. State leaders in Lansing must continue to work to make Michigan an attractive destination for new skilled talent, through improved and more efficient regulatory policy and infrastructural improvements that will give Michigan businesses the ability to compete for talent with businesses in other states.

Many business leaders have already rolled up their sleeves and found new ways of acquiring and retaining talent; making it easier for more to do this will continue improve the business climate in Michigan.

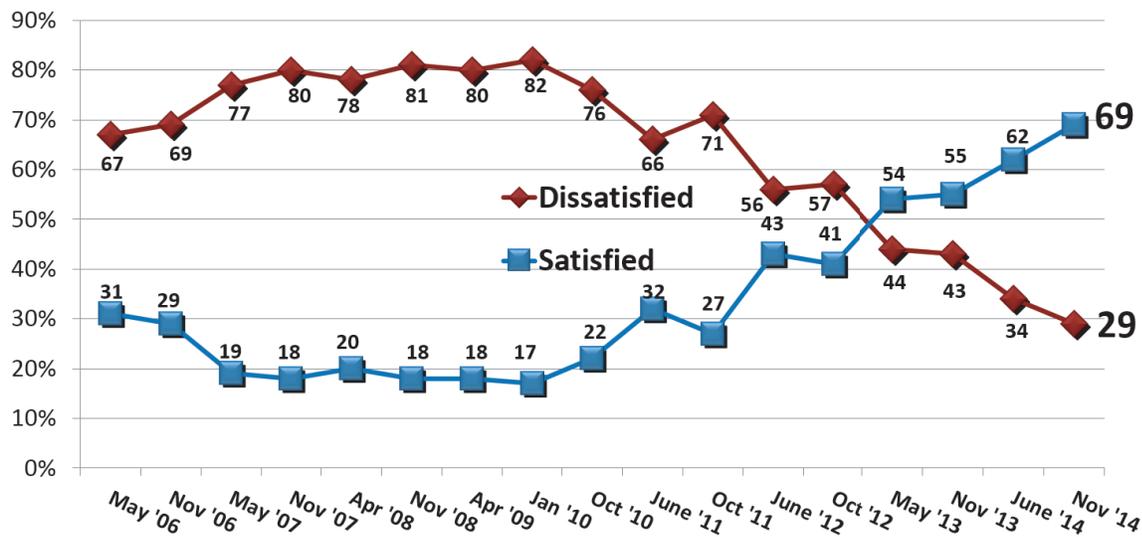
Current Business Assessment : Economic Satisfaction

Highlights

- Business leaders' satisfaction with Michigan's economy continues to improve
- For the first time, fewer than one third of respondents are dissatisfied with the state's economy
- The majority of business leaders:
 - Rate Michigan as a good market for their goods and services
 - Believe Michigan's tax system is fair to small businesses

Business leaders' satisfaction with the state economy continues to improve. For the fourth time in MFBI survey history, satisfaction (69%) outpaced dissatisfaction (29%) with Michigan's economy, jumping 7 points since the previous survey. This marks a continuation of the consistent upward climb in satisfaction since January of 2010. Satisfaction with the state's economy is highest in West Michigan (74%) and Cadillac/Traverse City/Saul Ste. Marie (69%), while dissatisfaction is highest in the Saginaw/Flint/Bay City market (where 50% are dissatisfied).

Figure 1: Satisfaction with Michigan Economy



Perceptions of Michigan's business and consumer markets continue to improve. Sixty-five (65) percent of respondents say Michigan is a good market for their goods or services. Fifty-two (52) percent says it's a "pretty good" market, and 13% say it's "excellent." Twenty-eight (28) percent rate it as "only fair," and only 6% say it's "poor." The majority of business leaders (64%) also believe Michigan's tax system is fair, which is the same number who felt this way in June of 2014. Only 23% say it's unfair.



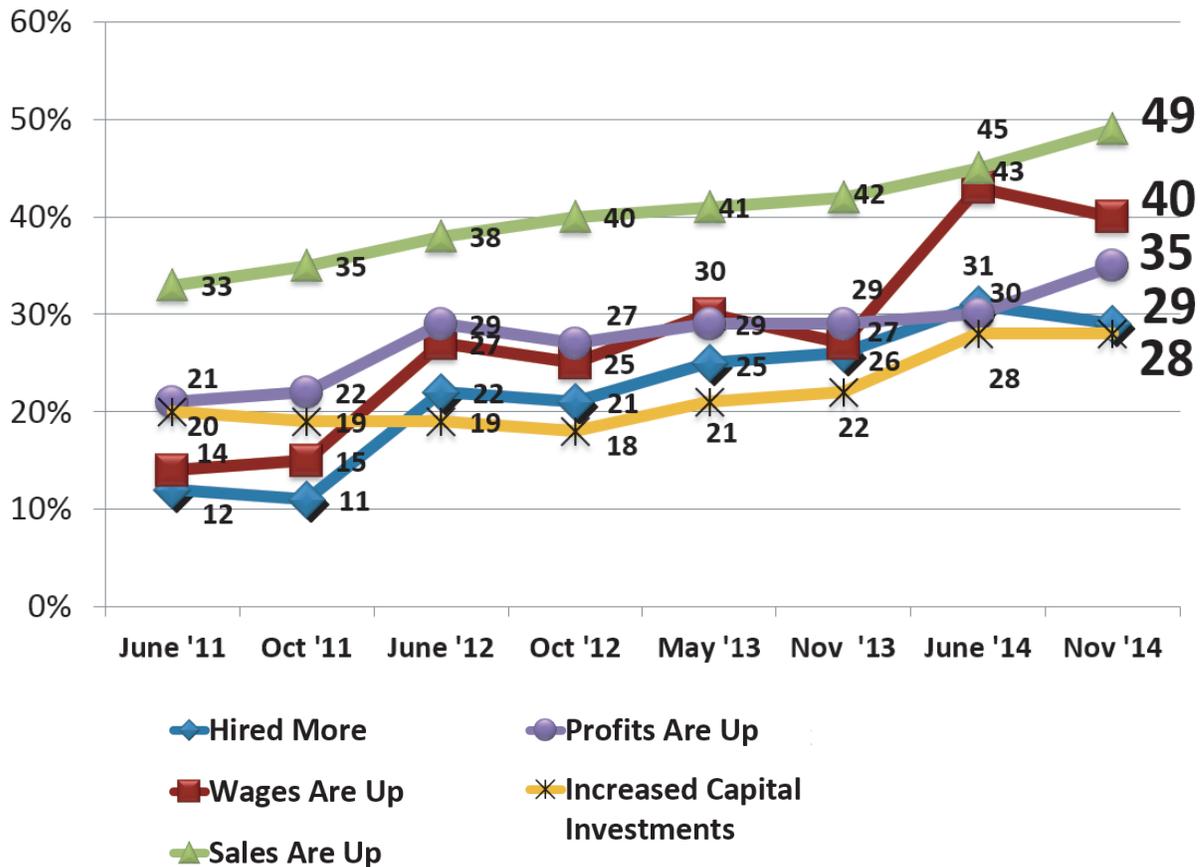
Current Business Assessment : Economic Indicators

Highlights

- Most economic indicators have held within margin of error over the past six months
- Percentage of business leaders who reported increased profits is up 5% from June

Figure 2: Economic Indicator Trends

Over The Past Six Months ...



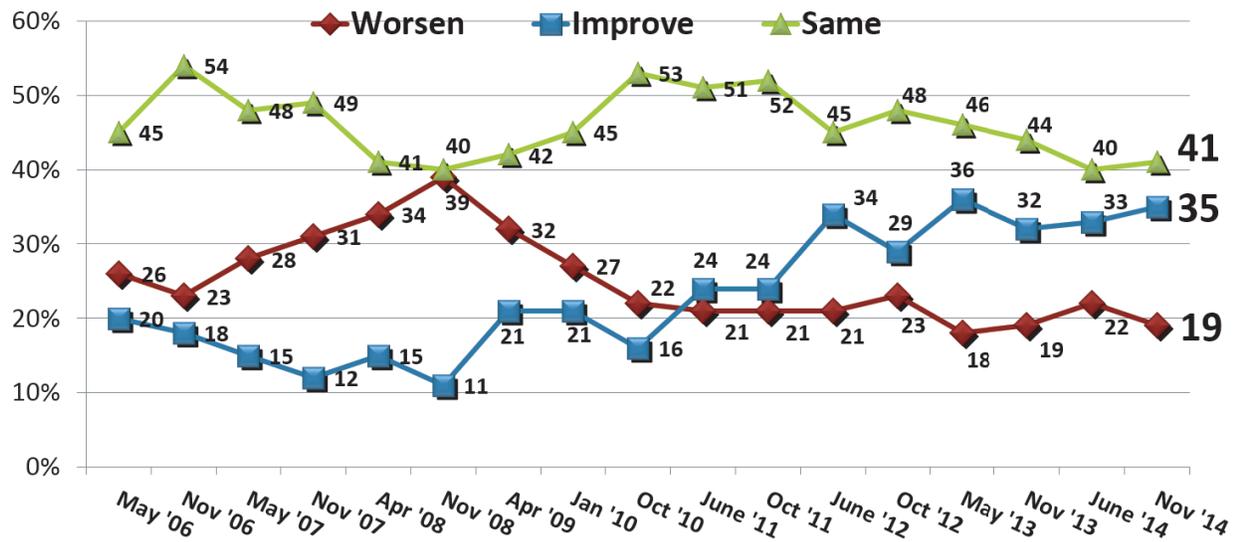
The largest change since the June 2014 survey was from those who said profits increased in the past six months (35%, up from 30% in June). Other economic indicators have held steady since the June 2014 MFBI survey. There was a slight decrease in the number of people who reported increased wages – down 3 points to 40%.

Future Business Forecast : Profit Margins

Highlights

- Optimism for improved profit margins is holding steady and continues to outpace pessimism

Figure 3: Projected Profit Margins



About one third (35%) of Michigan’s business leaders say their bottom lines will improve over the next six months. This number has been holding steady over the past two years and continues to outpace pessimism. Optimism is most notable among respondents from companies that have been in business 5 or fewer years, 51% of whom believe their bottom lines will improve. Only 19% of respondents are pessimistic about their bottom lines in the near future.

Future Business Forecast : Projected Sales and Profits

Highlights

- Number of respondents who believe profits and sales will increase remains steady
 - 61% believe sales will increase
 - 50% believe profits will increase

Figure 4: Projected Sales

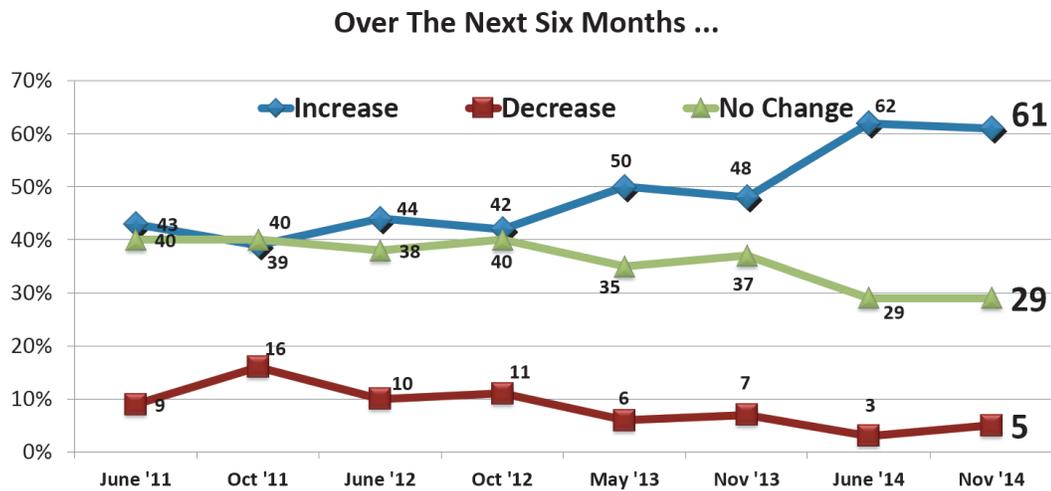
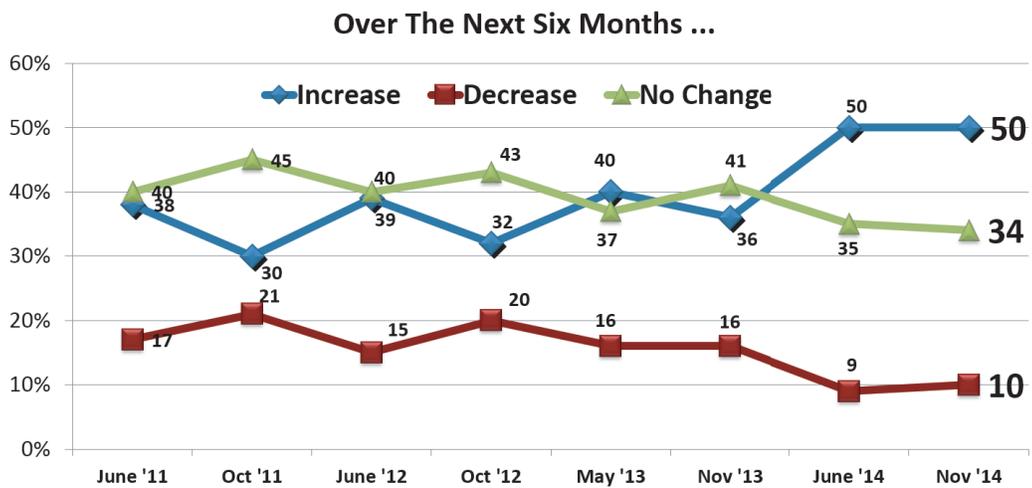


Figure 5: Projected Profits



The June 2014 survey revealed a large spike in the number of people who expected an increase in profits and sales. The November 2014 installment shows these expectations have leveled off but are still very positive. Expectations for increased sales are highest in Metro Detroit (69%), while expectations for increased profits are highest in Metro Detroit (50%) and the Upper Peninsula (50%).

Future Business Forecast : Employee Healthcare and Benefits

Highlights

- Fewer businesses offer healthcare to employees than last MFBI survey
- Businesses that offer healthcare to employees are planning to:
 - Absorb rising costs
 - Increase employee premiums

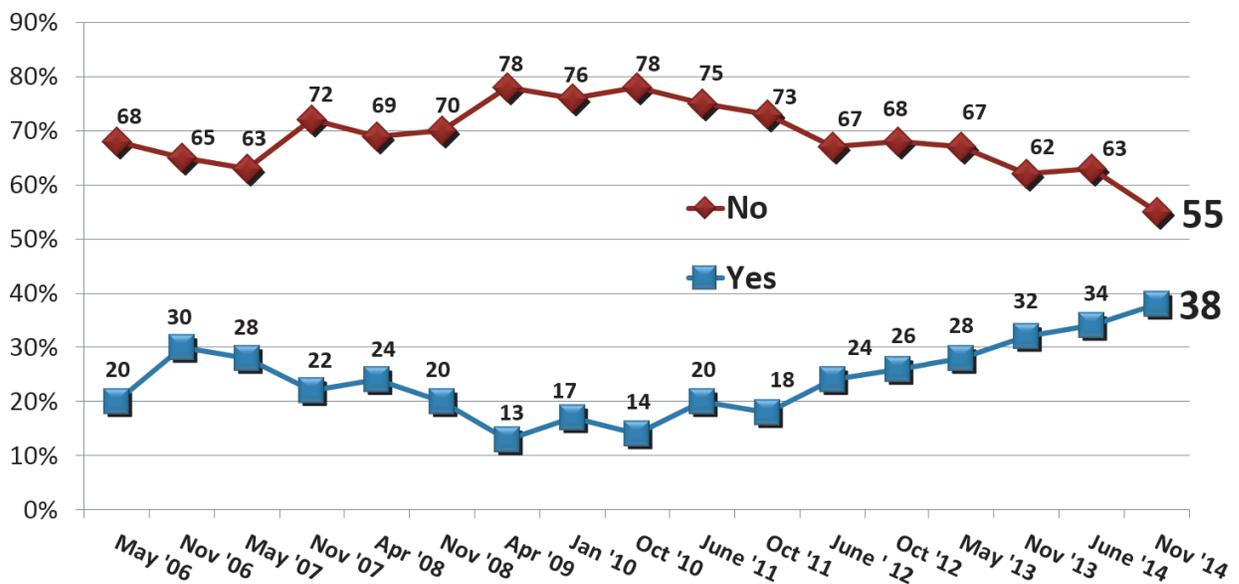
Thirty-two (32) percent of the respondents in this survey said they do not offer employee health benefits. Among the two thirds who do, 14% are not expecting healthcare costs to increase. Only 12% say they will decrease their employees' health benefits, while others plan to increase employee premiums (22%) or absorb the costs (22%). This is a large change from June of 2014, when 37% of respondents said they would absorb rising costs of healthcare.

Future Business Forecast : Wages

Highlights

- 38% of respondents plan to increase wages in the next six months
- Industries that report likely wage increases:
 - Manufacturing and construction
 - Insurance, finance, and real estate
 - Childcare, recreation, and 'other'

Figure 6: Projected Wage Increases



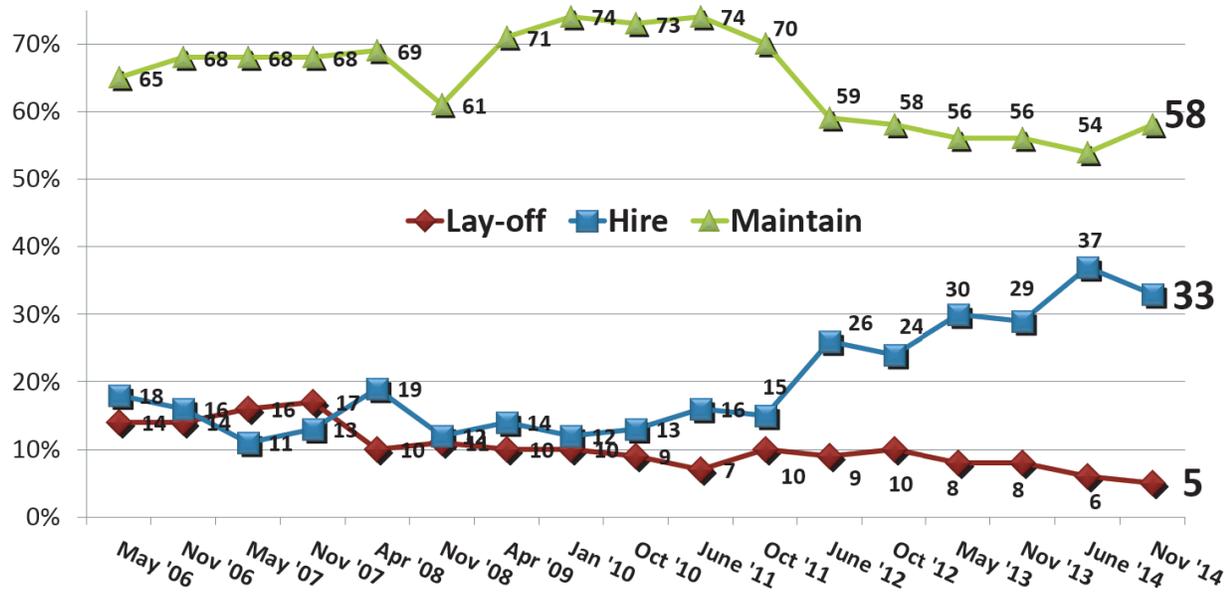
The number of businesses that report potential wage increases continues to rise: 38% now say they expect to increase wages in the next six months, up six points from a year ago. This continues an upward trend that dates back to October 2010. The most prevalent changes in skilled laborers' wages will be in the construction and manufacturing sector, along with the insurance, finance, and real estate sector. 44% of respondents from each sector report potential wage increases.

Future Business Forecast : Hiring Trends

Highlights

- The number of people looking to hire has decreased slightly to about one third of the respondents
- Demand for jobs highest in the following sectors:
 - Manufacturing and construction
 - Business and professional services
- Nearly half of all businesses have difficulty filling open jobs

Figure 7: Projected Hiring Trends



The number of respondents planning to hire additional employees in the next six months has dropped slightly since the last survey but remains around one third. Businesses in Metro Detroit and the Upper Peninsula were most likely to say they plan to hire new employees in the next six months (38% and 36%, respectively). The number of businesses that expect to lay off employees remains in the single digits. Sectors with the most demand for skilled workers are manufacturing and constructions and business and professional services, where 43% and 33% of respondents, respectively, plan to hire in the next six months.

Continued Optimism for Future Business

The data show that business leaders are generally happy with Michigan as a market for their goods and services and are optimistic about what the future holds. The number one reason business leaders are optimistic (stated by 18% of respondents) is because they are excited about growing their businesses. Some of this is external: as one respondent stated, *"We have tons of potential for new clients."* Another cited internal structure as integral to new growth, saying there is a lot of *"potential for growth under my current business model."*

Challenges remain for small business leaders when it comes to hiring talent to help manage and maintain growth. Despite these concerns, there is much reason for optimism among Michigan's small business leaders. They expect a rise in sales and profits, are increasingly positive about Michigan's business market, and are encouraged by the steady growth and stability of the state's economy.

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