

November 2015

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Michigan Future Business Index

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Summary of Findings

■ Michigan's small business leaders are in a jolly and bullish mood this holiday season.

- Respondents say the second half of 2015 was the most profitable in the history of the MFBI.
- Reporting continued growth in sales, hiring and wages.
- Managing that growth remains a significant challenge.

■ With hiring and wage projections going up, demand for qualified workers continues to build.

- Nearly one-third of respondents say they have an open position that remains unfilled because they can't find the right individual for the job.
- They continue to invest in employee training and temp agencies to solve their labor challenges.

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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 2015 MFBI survey primarily with owners and C-suite executives from small to medium-sized businesses across Michigan between November 2, and December 3, 2015.
- The mixed-mode survey included telephone and web interviews with 755 business executives from Michigan companies with 500 or fewer employees. It has a margin of error of ± 3.5 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 2015

MFBI trends show that businesses in Michigan are experiencing substantial growth and are poised to reinvest in their companies in the form of hiring and wage increases:

- Seven out of ten business leaders are satisfied with the state's business economy, with fewer than three out of ten dissatisfied.
- Over the past six months, businesses have seen significant growth in profits and sustained growth in sales, hiring, wages and capital investments.
- Projections for future sales and profits remain strong.
- Projections for hiring and wage increases are very strong, recovering from the slight stall in June. Businesses plan significant investments in labor over the next six months.
- More than 20 percent continue to cite attraction and retention of quality workers as their greatest challenge to doing business. Managing growth is in second place. With the increasing demand for workers, these challenges could become more significant in 2016.

Assessing the Trends

In June of this year, expectations for increased profits and sales were strong across all business sectors. This latest survey shows that those expectations were realized, with respondents reporting strong gains in both areas over the past six months. Furthermore, their optimism continues forward as a new record percentage believes profit margins will improve over the next six months, and more respondents than ever plan to reinvest in their business and employees.

The current labor market continues to be a concern for Michigan business leaders, with one in five citing attraction and retention as their greatest challenge. The second greatest challenge to business is managing growth. With the current trends indicating a growing need for additional staff and the current challenges realized by the lack of qualified job candidates, growth projections may be difficult to attain.

That said, four in ten plan to expand their product or service offerings over the coming year and over two-thirds believe Michigan is a great market to find and retain customers. It's a great time to own or work for a small business in Michigan.

Current Business Assessment: Assessing the State Economy and Business Market

Highlights

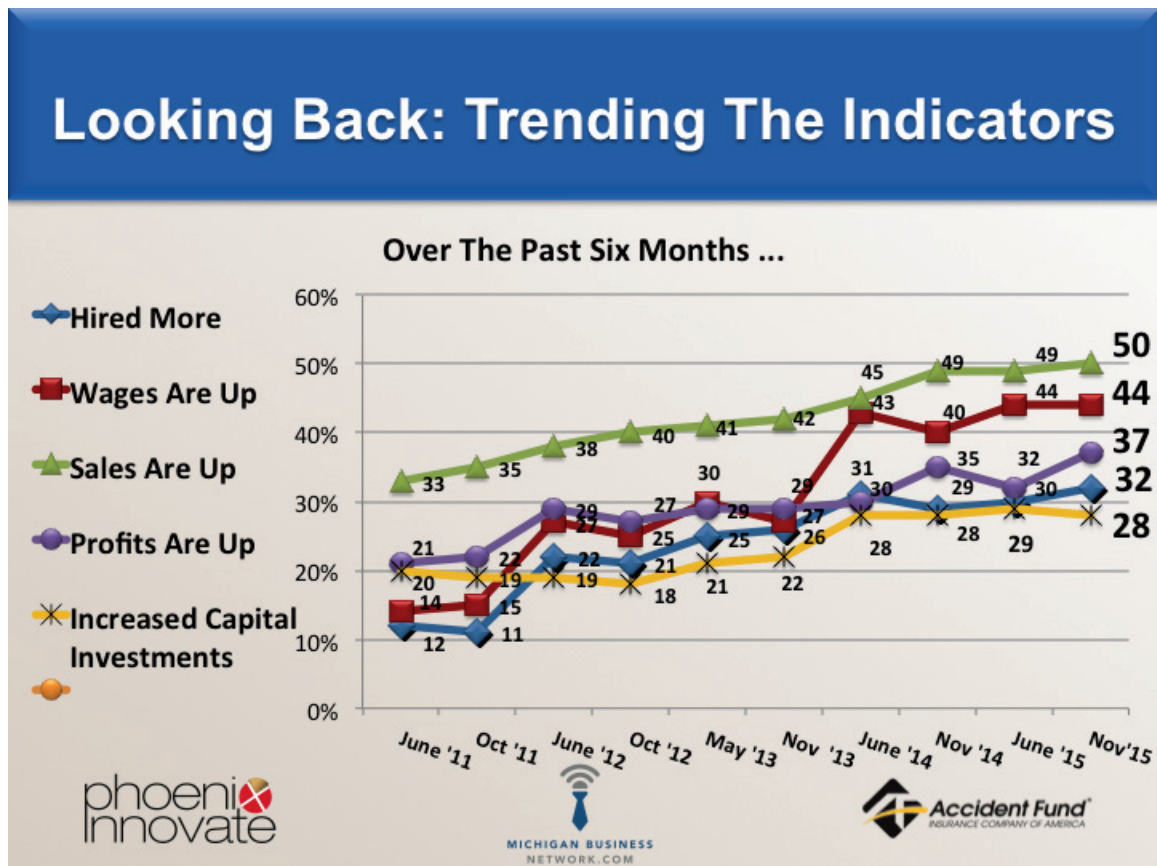
- After a short stall in optimism in June 2015, satisfaction with the state economy is back on its upward trend, setting a new MFBI record.
 - Seventy percent (70%) say they are satisfied with the economy and only 28% are dissatisfied.
- Perceptions of the Michigan market for their business are very strong, and their perceptions of the business tax system have improved.
 - More than two-thirds (67%) consider Michigan a good market for their goods and services – up two points since June 2015.
 - Two-thirds (66%) consider the state business tax system “fair” – up 5 points since June 2015.



Current Business Assessment: Profits, Sales, Wages, Hiring and Investments Over The Past Six Months

Highlights

- While trends show sustained growth for sales, hiring and wages for Michigan businesses over the past six months, trends in profits show a marked improvement since June – up five points.
 - Geographic Variances: sales increased most in Mid-Michigan (55%) and West Michigan (56%), wages have gone up most in West Michigan (51%) and hiring has increased most in West Michigan (36%). Profits increased most in Mid-Michigan (43%).
 - Business Sector Variances: Sales (65%), hiring (38%), wages (50%) and profits (51%) increased most in the Insurance, Finance and Real Estate sectors.



Current Business Assessment: Number One Challenges to Doing Business: Attraction and Retention & Growth

Highlights

- Finding, hiring and keeping qualified talent is far and away the biggest challenge to business in Michigan, with responses climbing to 22% from 16% in June.
 - Nowhere is this more evident than in the Manufacturing sector, where 31% cite this as the number one challenge to doing business.
 - It's also strongest in Northern Michigan (29%).
- When asked to rate their access to qualified personnel, 46% rated it negatively (13% poor and 32% only fair), while 48% rated it positively (39% pretty good and 9% excellent).
 - Of those hiring, nearly two-thirds (63%) continue to say they are having difficulty filling open jobs. This has essentially stayed the same since June.
 - Sixty-three percent (63%) say they are having those difficulties because of a lack of qualified applicants – dropping six points since June. However, 25% now also say the lack of applicants overall is a growing concern – up from 21% in June.

Future Business Forecast: Profit Margin Projections For Next Six Months Optimistic

Highlights

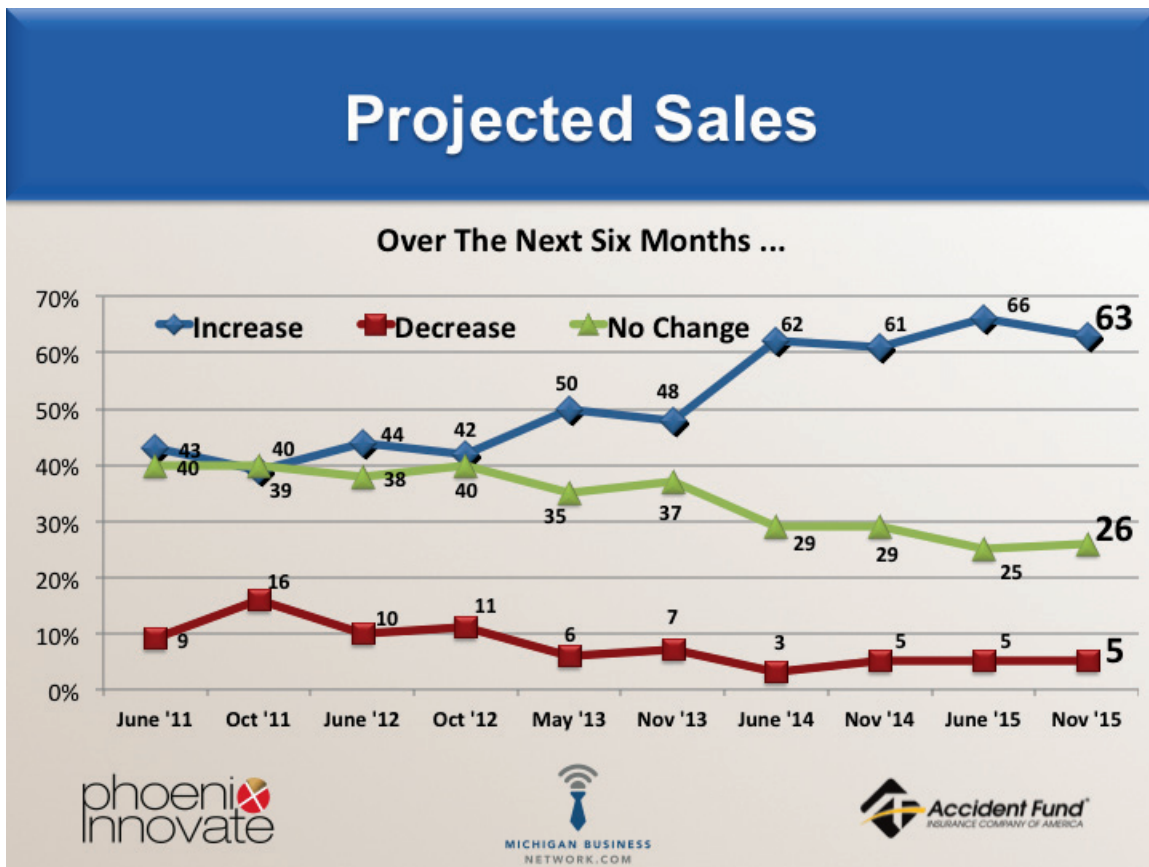
- For the first time in the history of the MFBI, positive expectations for the bottom line are nearly at a plurality.
 - Expectations are most optimistic in Mid-Michigan – where 42% expect their bottom line to improve – and in the Insurance, Finance and Real Estate sectors (56% improve).



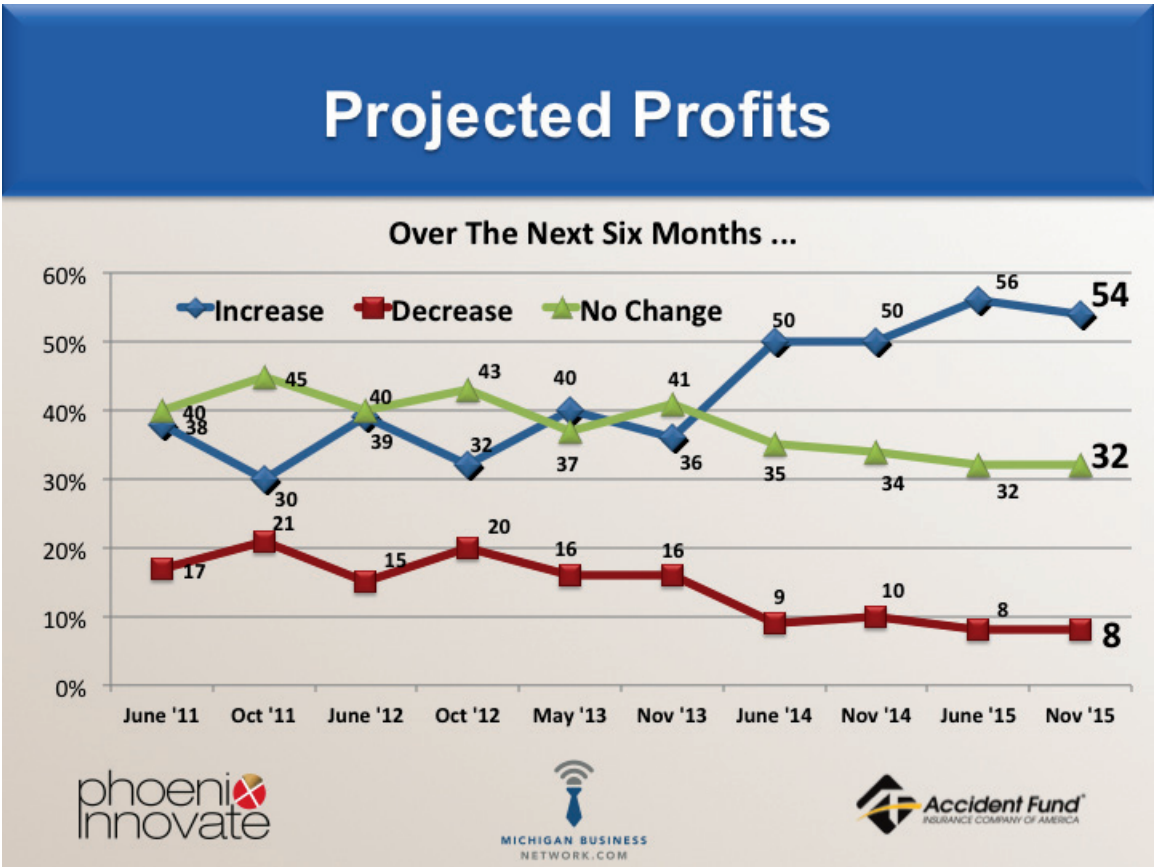
Future Business Forecast: Projections for Sales and Profits Remain Strong

Highlights

- Nearly two-thirds (63%) believe sales will increase in the next six months, which is down from its 66% peak in June, but up from 61% last November.
 - Expectations for increased sales are highest in Mid-Michigan (68%), in Metro Detroit (66%) and in the insurance, Finance and Real Estate sectors (81%).



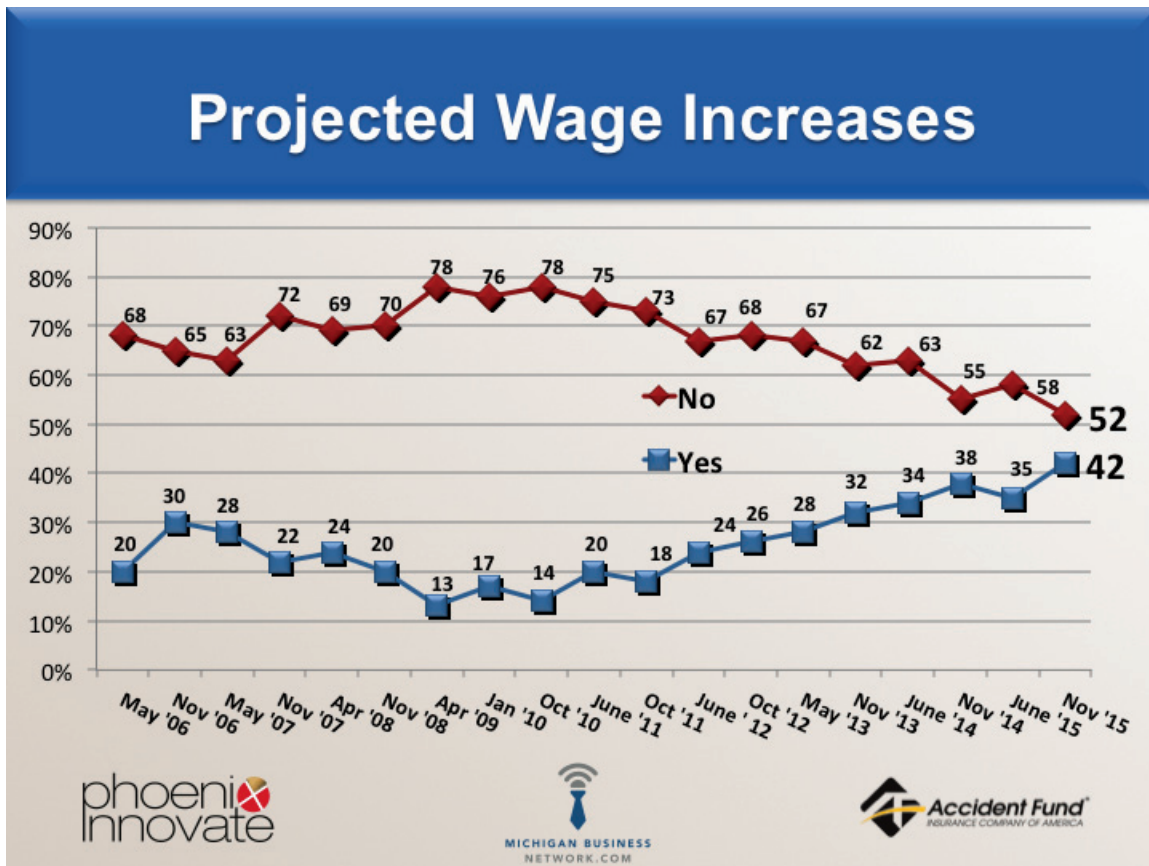
- A majority of respondents (54%) continue to believe profits will increase in the next six months, down two points from June, but up from 50% one year ago.
 - Expectations for future profits are highest in Mid-Michigan (61%) and again in the Insurance, Finance and Real Estate sectors (81%).



Future Business Forecast: Hiring & Wages: Worker Demand is Strong, Wages Going Up

Highlights

- Forty-two percent (42%) of respondents plan to increase wages in the next six months, which sets a new record for the MFBI, up seven points from June and four points from one year ago.
 - Projected wage increases are highest in Mid-Michigan (47%) and in the Insurance, Finance and Real Estate sectors (56%).



- The percentage of businesses expecting to hire more workers has hit a new high-water mark at 40%. That’s up three points since June and seven points since one year ago. The percentage of those expecting layoffs remains at its lowest point (4%).
 - The hotbeds for hiring continue to be Metro Detroit (44%) and in the Manufacturing and Construction sectors (48%).



Significant Business Investment And Growth On The Horizon

Michigan businesses are planning major investments in the coming year. Nearly 70% say they plan to invest in employee training – presumably as a solution to their attraction and retention challenges. Nearly 60% say they plan to invest in advertising and nearly 40% will invest in office equipment. All of these investment projections have increased by at least five points over the past year.

In addition, 41% say they will expand their product and/or service offerings to their customers and 10% will add a new business location over the next year. These findings have remained strong over the last two MFBI surveys, indicating business owners' renewed and sustained interest in growing their business opportunities through significant investment.

The MFBI, conducted biannually since 2006, would not be possible without the combined efforts of the following organizations:

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Summary of the