



MARKETING RESOURCE GROUP, INC.

COMMUNICATIONS ♦ PUBLIC RELATIONS

PUBLIC AFFAIRS ♦ SURVEY RESEARCH

225 SOUTH WASHINGTON SQUARE ♦ LANSING, MICHIGAN 48933 ♦ 517.372.4400 ♦ WWW.MRGMI.COM



MICHIGAN FUTURE BUSINESS INDEX June 2013

FINDINGS REPORT

- *Optimism Blooms.* *After indicating a slowdown of optimism in the October 2012 survey, Michigan's small to medium-size businesses are now poised to invest and grow with new confidence in a recovering state economy.*
 - *Hiring and additional workforce investments are planned for the next six months.*
 - *Finding qualified talent is still a significant challenge.*
- *Many still adjusting to the pressure of expanded regulatory policy.* *Expanded government regulations—specifically the impending Affordable Care Act—remain a primary challenge.*

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INTRODUCTION

The Michigan Future Business Index (MFBI), commissioned semi-annually by Accident Fund Insurance Company of America, surveys owners of small to medium-sized businesses in Michigan and provides a business perspective of economic conditions in the state. The survey also measures business owners' expectations for future economic and business sector growth. Results provide data to track trends and offer insights into the small to medium-sized business sector's contribution to regional and statewide economic prosperity.

Lansing, Michigan-based Marketing Resource Group, Inc. (MRG) conducts the MFBI survey in partnership with the Accident Fund Insurance Company of America and the Michigan Business Network. MRG is a Michigan-owned public affairs and public opinion research consulting firm that advises corporate, association, education, and coalition interests. The Michigan Business Network provides perspectives on business and industry developments across Michigan.

METHODOLOGY

- MRG conducted the 2013 Spring MFBI survey primarily with owners and C-suite executives from small to medium-sized businesses across Michigan between May 14 and 31, 2013.
- The mixed-mode survey included telephone and web interviews with 1,015 business executives from Michigan companies with 500 employees or fewer. It has a margin of error of ± 3 percent within a 95 percent degree of confidence.
- Thirty-one percent (n=306) of the sampled respondents were randomly selected from the Lansing tri-county region (including Clinton, Eaton and Ingham Counties) and the remaining respondents were randomly selected from businesses across the state.
- 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 regarding doing business in Michigan.

MFBI CONCLUSIONS: JUNE 2013

There is new optimism for a full economic recovery for the state among Michigan's small and mid-sized business leaders. This MFBI survey reveals business leaders' unequalled confidence in the state business economy and a rekindled desire to reinvest in their own future. Many have seen added growth in their businesses over the past six months and now plan to increase investments into their workforce through increased wages and training.

The MFBI survey of October 2012 revealed weakened economic optimism after an incremental two-year climb. That October 2012 survey pointed to setbacks in the national economy, the fear

of the then-looming fiscal cliff, and the uncertainty of the then-unrealized presidential election as reasons for the pullback. Now, with those issues in the rearview mirror, positive investment and hiring trends appear to have restarted significantly.

With expanded reports of growing sales and profits, as well as a continued exuberance for new product and service launches, businesses are starting to envision and plan for future growth. Most view their workforce as one of their biggest assets and plan to reinvest in them through increased wages and educational and training opportunities.

While the challenges of complying with new government regulations remain—specifically the Affordable Care Act—most say they will continue to offer similar benefits to workers, albeit requiring more out-of-pocket employee contributions. In addition to government regulations, finding qualified talent to fill open positions continues to be a growing challenge that needs a long-term solution.

THE TAKEAWAY:

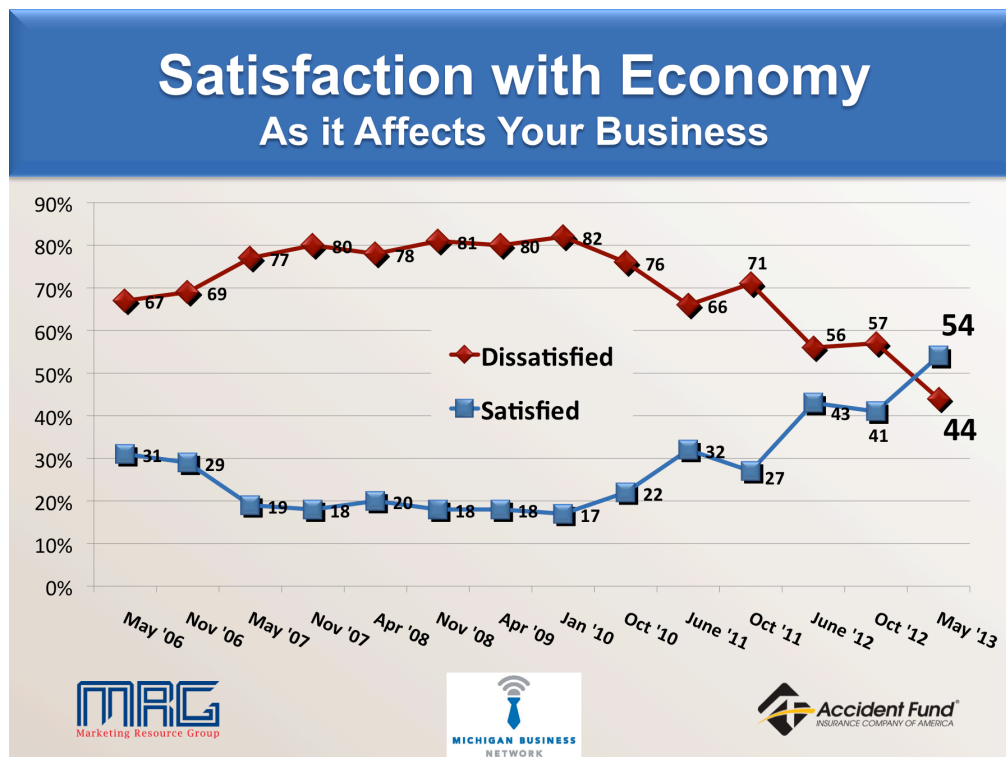
All economic recoveries are fragile and so is economic optimism. One setback can again put the brakes on growth and investment. Therefore, state and federal leaders must work together to nurture the recovery and limit uncertainty through limited regulatory policy and make investments in economic development. Educating students and preparing Michigan's workforce for the jobs of tomorrow continue to be critical goals as employers strive to find qualified candidates to fill job openings.

FINDINGS

SATISFACTION WITH ECONOMY REIGNITES SIGNIFICANT POSITIVE TREND RESUMES

After a short stall in positive momentum in October of 2012, the June 2013 MFBI survey shows leaders of small to medium-sized Michigan businesses have renewed their enthusiasm toward the state economy in a big way.

Satisfaction with the state economy has rocketed 13 points to 54 percent since October, while dissatisfaction has plummeted in equal fashion to 44 percent. This is the first time business leader satisfaction with the direction of the economy has reached a majority since the MFBI began in 2006.

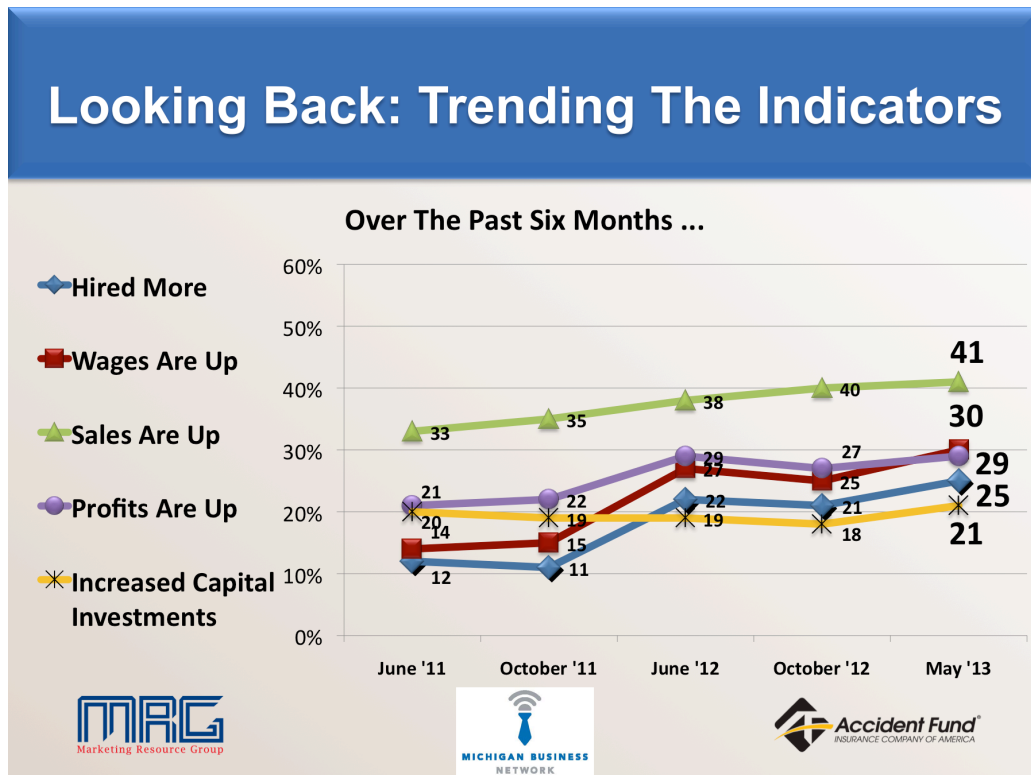


Highlights

- The positive trend that stalled in October 2012 has renewed its upward climb, setting a new record for the MFBI.
- Satisfaction with the economy is highest in West Michigan and the Lansing region and lowest in Northern Michigan.

ALL INDICATORS RENEW POSITIVE MOMENTUM SALES, HIRING, WAGES, INVESTMENTS AND PROFITS NOW ALL TRENDING UP

Restarting the positive trend that lost steam in October, Michigan's small and mid-size business leaders now say that sales and profits are on the rebound and indicate that they are again investing in an expanded workforce, increased wages and new facilities and equipment.



Highlights

- The percentage of businesses with new hires is now the highest it has been since the MFBI started in 2006. Twenty-five (25) percent now say they've hired more employees over the past six months, which is up four points since October 2012.
 - **New hiring** is strongest in Metro Detroit (27%) and the Lansing region (26%). There also is a significant increase in hiring among businesses with more than 20 employees (37%); those with revenues of \$5 million or more (40%); and within the real estate, finance and insurance industries (35%).
- Now, nearly one-third (30%) of employers say they have **increased wages**, which also is a new high. Those in Northern Michigan are most likely to have increased pay (37%), while 32 percent in Detroit and 31 percent in West Michigan also say they have increased employee wages in the last six months, which is an increase of six percentage points since October.

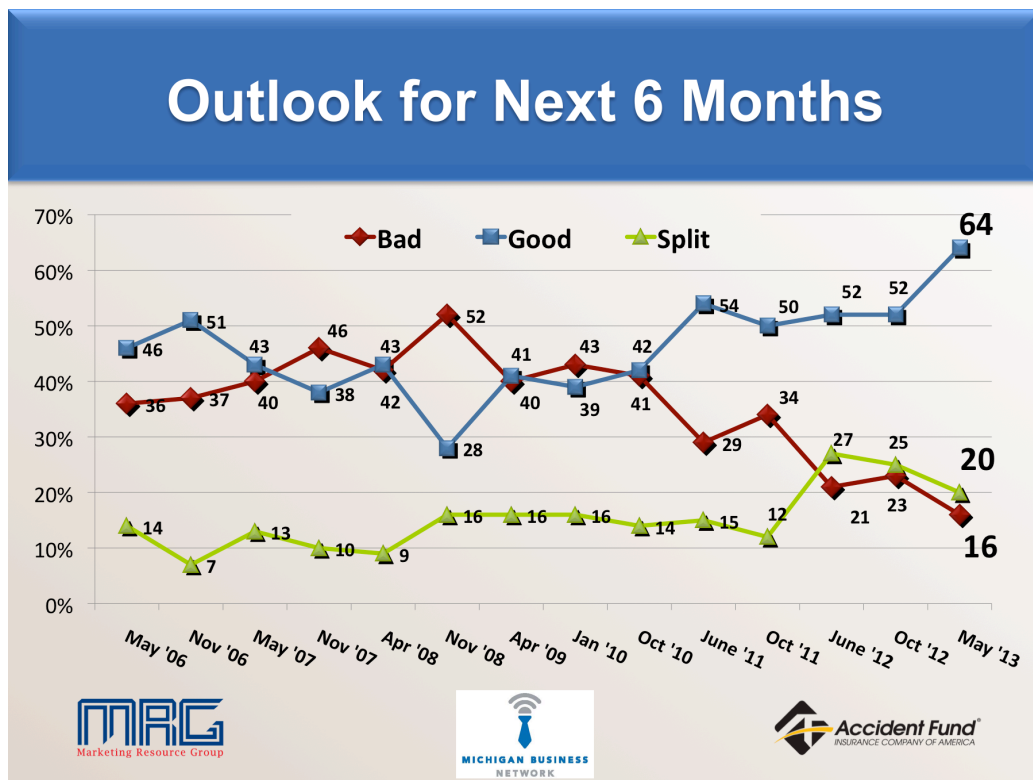
- Twenty-nine (29) percent say **profits** have increased in the last six months—a two-point increase since October 2012.
 - Reports of increased profits are most prevalent in the Lansing region (32%) and West Michigan (30%).
- Forty-one (41) percent of business owners report that **sales** have increased over the previous six months. That is a one-point increase from the October 2012 survey. Businesses in West Michigan (43%) and Metro Detroit (42%) were most likely to experience increased sales.
 - Sixty-one (61) percent in the real estate, finance and insurance industries say sales have increased. That's a jump of 21 percent since October.
- Twenty-one (21) percent of respondents said their **major investments** in facilities and equipment have increased in the past six months. This is a three-point increase, which halts a previous downward trend since June of 2011. Larger businesses with more than \$1 million in revenue are most likely to increase capital investments.

NUMBER ONE CHALLENGE TO DOING BUSINESS IN MICHIGAN: ATTRACTING AND KEEPING TALENT

- **Keeping and attracting skilled employees** is now the number one challenge to doing business in Michigan (12%), supplanting **government regulatory policy** (11%) and **health care compliance challenges** (11%) which were the top challenges in October. The **slow economy** has dropped from first to fifth place at seven percent—further evidence that businesses believe Michigan is on its way back.

WITH A BURST OF NEW OPTIMISM, NEARLY TWO-THIRDS NOW BELIEVE THE OUTLOOK FOR FUTURE BUSINESS IS GOOD FOUR IN TEN EXPECT PROFITS TO GROW IN NEXT SIX MONTHS

When respondents were asked to give their expectations for the next six months, the June 2013 survey shows that a strong majority (64%) now has a positive outlook for future business—an increase of 12 percent since October 2012. This confirms previous analyses that surmised the brief stall in optimism witnessed in October 2012 would be short-lived.

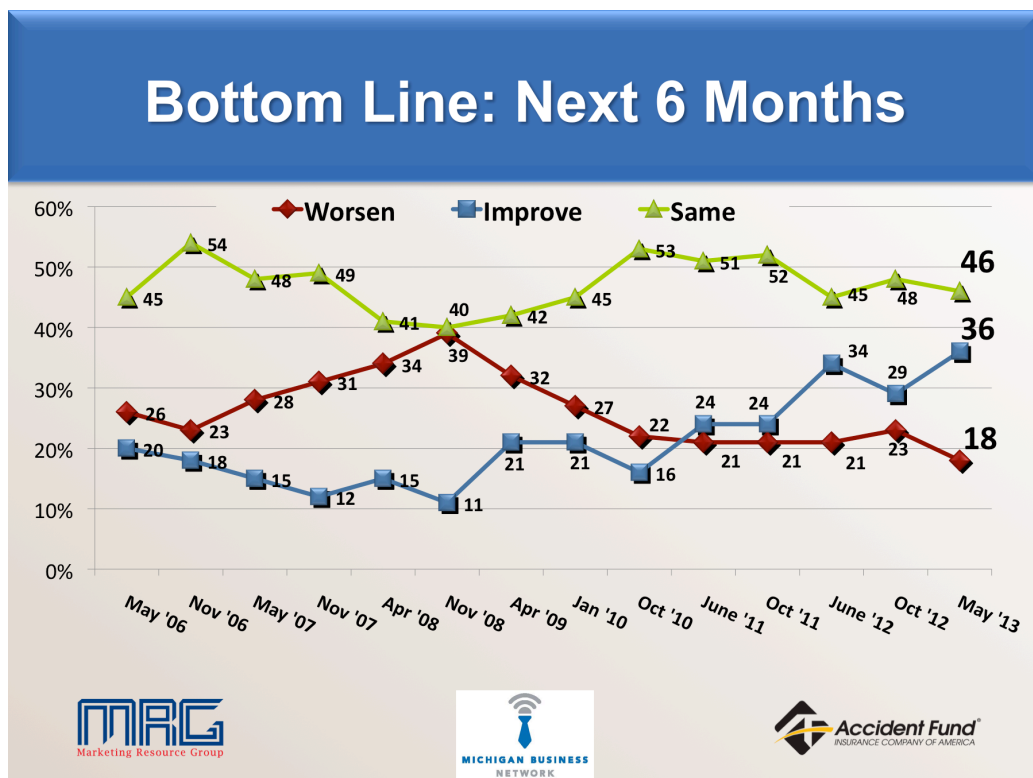


Highlights

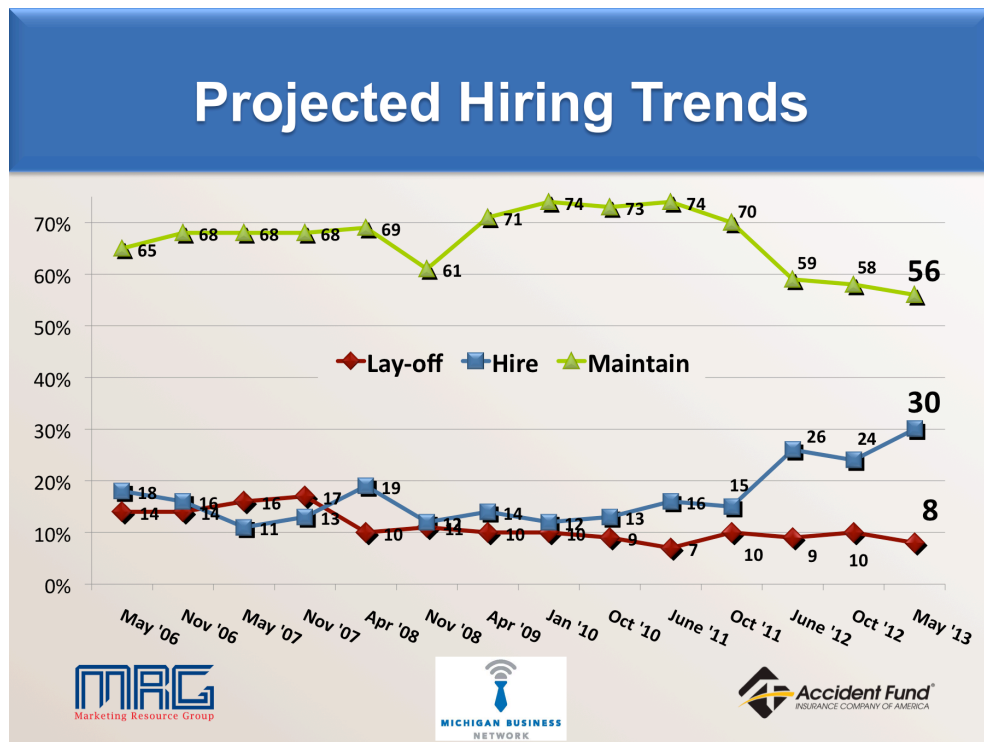
- Sixty-four (64) percent say their outlook for business over the next six months is good, with 22 percent saying “very good.” Only sixteen (16) percent said the outlook is bad—a drop of seven points since October—with only two percent saying “very bad.” Even the percentage of those who say they are unsure of the future outlook has decreased by seven points since June 2012—further indication that uncertainty is subsiding.
- Fifty (50) percent of respondents say they expect **sales** to increase in the next six months. That’s an eight percent increase since October 2012. The percentage of those who believe sales will decrease has dropped to 6 percent now from 11 percent in October 2012.
 - Expectations for increased sales are highest in the Tri-Cities (55%) and highest in the financial, insurance and real estate (58%) and retail (56%) sectors.
- Forty (40) percent now say they expect their **profits** to increase in the next six months, up eight points from October 2012 and reaching a new high. Only sixteen (16) percent now say profits will decrease, down four points from October.
 - Expectations are highest in the financial, insurance and real estate, and retail sectors

MORE THAN ONE-THIRD EXPECT BOTTOM LINE TO IMPROVE THIS YEAR

Also rebounding from October are business leaders' expectations for their **bottom line** (expenses compared to profits). Thirty-six (36) percent expect their bottom line to improve in the next six months, up from 29 percent in October 2012. Forty-one (41) percent believe it will remain the same, while only 18 percent say it will worsen—a drop of five points.



HIRING REBOUNDS! NEARLY ONE-THIRD NOW SAY THEY ARE ADDING EMPLOYEES *STILL MORE HAVING DIFFICULTY FILLING POSITIONS*



Highlights

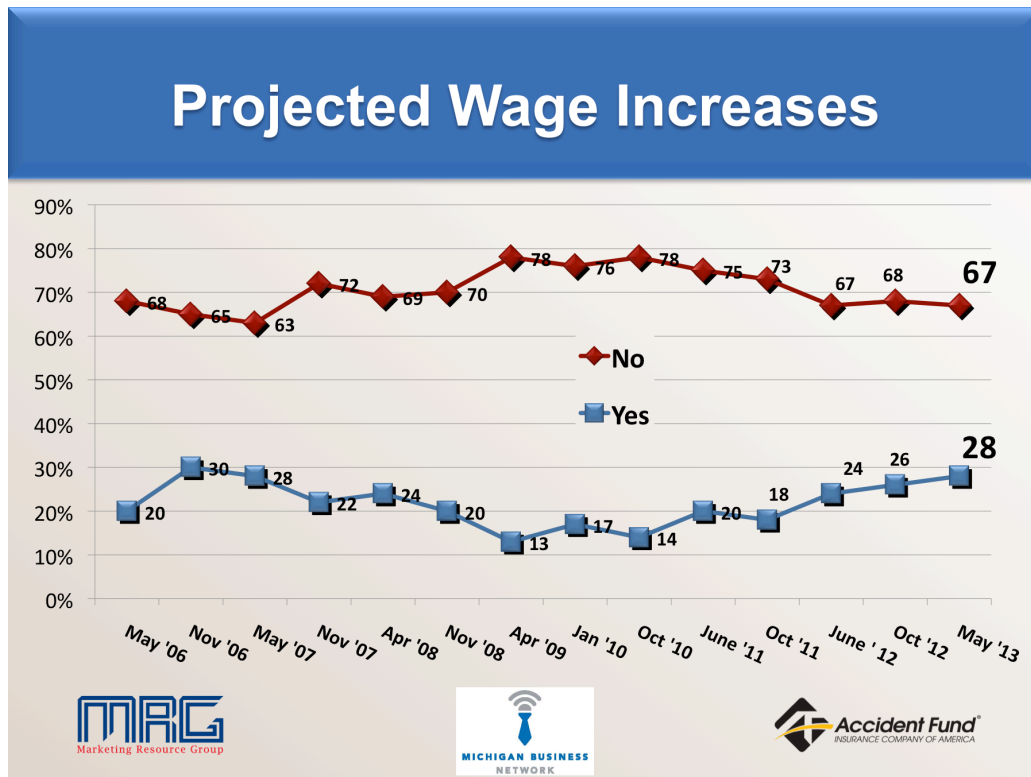
- Thirty (30) percent of respondents say they plan to **hire** more employees in the next six months. This is a six-point increase since October 2012 and a fourteen-point increase since June 2011.
 - New job opportunities remain most prevalent in Metro Detroit (34%).
 - New startup businesses (37%) and those with five employees or more are most likely to be hiring.
 - Sectors most likely to be hiring: financial, insurance and real estate (37%) and manufacturing and construction (36%).
- Respondents continue to give Michigan's skilled labor pool lower than average ratings. Thirty-nine (39) percent give Michigan a poor (10%) or only fair (29%) rating for access to qualified personnel. Noteworthy, that rating remains thirteen points higher than June 2011.
 - The percentage of businesses having difficulties filling open positions continues to climb. Thirty-six (36) percent say they are having difficulties, which represents

a four-point increase since October 2012.

- Among those who have had difficulties, nearly eight in ten say the reason for those difficulties is because they can't find qualified applicants to fill the open positions.

MORE EMPLOYERS PLAN WAGE INCREASES

MORE WORKFORCE INVESTMENTS, LIMITED CAPITAL INVESTMENTS



Highlights

- The outlook for increased **wages** continues to improve. Now, 28 percent of all respondents say they plan to increase wages for their employees within the next six months. That's up another two points from 26 percent in October 2012 and up eight points from June 2011.
 - Employers in West Michigan are most likely to increase wages for workers, with 32 percent indicating they will do so.
 - Wages are most likely to climb within the manufacturing and construction (32%) and financial, insurance and real estate (31%) sectors.
- Fifty-seven (57) percent plan to invest in **employee education or training** over the next six months. That's an increase of five (5) percent since October 2012 and an increase of 31 percent since June of 2011.

- More expect to **travel** for business. Sixty-seven (67) percent indicate an increase in business travel, up from sixty-one percent in October.
- One area where businesses indicate a slight retraction is in the purchase of new office equipment or facilities. Twenty-one (21) percent expect to **invest in office equipment** in the next six months, which is down four points from October 2012. Fifty-one (51) percent say they will invest in **advertising**—holding steady since October 2012. Internet advertising continues to be the preferred advertising investment (62%) with direct mail coming in second at 35 percent and magazine advertising coming in third at 25 percent.

WITH LESS UNCERTAINTY, BUSINESSES WILL OFFER SIMILAR BENEFITS BUT WILL REQUIRE EMPLOYEES TO SHARE HEALTH CARE COSTS

This latest MFBI survey indicates that uncertainty over the Affordable Care Act may be easing as employers become better informed about its implementation and most employers say they will continue to offer similar benefits to their employees, including health care coverage. However, nearly one-third (29%) say they will likely ask employees to pay for all or some of their own health insurance premiums.

Highlights

- Sixty-one (61) percent expect to **keep benefits** the same in the next six months—up nine points from October 2012.
- Regarding **health care benefits**: 17 percent say they will decrease health care benefits—up from 10 percent in June 2012 and nearly equal to last October.
 - Twenty-nine (29) percent say they will increase employee health insurance premiums in the next six months, which is up from 28 percent in October and 23 percent in June 2012.
 - Only ten (10) percent say they don't expect increased health care costs over the next six months.

BUSINESSES CONTINUE TO FIND REASONS TO BE ENCOURAGED & EXPAND MARKET AND STATE TAX STRUCTURE CONTINUE TO IMPROVE

Perceptions of Michigan's consumer market continue to improve, while a growing majority of business owners statewide continue to say the business tax structure is fair.

Highlights

- A plurality (46 percent) of small business owners in this survey says that Michigan is a "pretty good" market for goods and services. That's up from 42 percent in October 2012. Thirty-five percent rate it as "only fair," similar to October. The percentage of those

giving it a “poor” rating has dropped to nine (9) percent now from 12 percent in October. The rating of “excellent” has remained the same (10%) over that same time period.

- Fifty-six (56) percent rate Michigan’s business tax system as “fair,” up two points from October 2012. Only 33 percent now say it’s unfair, down four points from October.
- Seven (7) percent say they will add a new business location within the next six months.
- Eighteen (18) percent say they will add a new product line and 23 percent now say they will add a new service, both remaining unchanged since October when we saw a jump in these indicators.
 - These data are also once again supported by responses to the earlier question soliciting reasons for optimism. The largest single response, 14 percent, pinpointed an expansion of business as the primary reason for being optimistic. In addition, one of the top challenges is managing growth and expansion (8%).

EXPECTATIONS FOR BUSINESS IN TEN YEARS: MORE ARE ENCOURAGED ***GOVERNMENT REGULATORY POLICY STILL SEEN AS IMPEDIMENT***

- Forty-two (42) percent said they are encouraged—16 percent very encouraged—for their business ten years down the road. That’s a six percent increase since October 2012. Thirty-two (32) percent said they are concerned—15 percent very concerned—a four-point drop since October 2012. Twenty-four (24) percent remain uncertain—down two points since October.
- Business leaders indicate that added government regulations and changes to health insurance policy are feeding uncertainty. Twenty-two (22) percent cite government regulations or the ACA as their greatest challenge to doing business in Michigan.