

SMB Job Generation Outlook Q3 2015



The SMB Job Generation Outlook examines executive perspectives on topics facing America's small to mid-sized business market, including the economy, employment trends, political and sociological environments and the tangible impact these issues have on SMB business and employment planning.

American SMBs report general good health and stable positioning

For the past three years, Lucas Group has conducted the SMB Job Generation Outlook in an effort to compile and deliver a comprehensive, executive-level report providing both current opinions and future planning trends for America's small to mid-sized business sector. Focused intentionally on C-level execs and business owners, the Outlook addresses an array of significant topics, including the economy's health, employment trends, political issues and SMB-specific growth plans. This leadership-focused approach enables us to reliably report on business opinions and market expectations, as experienced from an SMB executive's perspective.

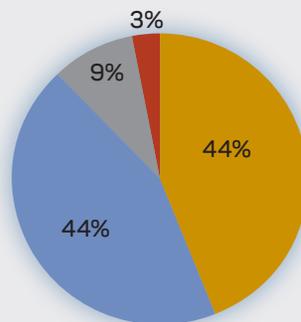
Each quarter, the SMB Job Generation Outlook asks executives a baseline question regarding their company's current overall health and standing. Are they positioned for growth, stability maintenance, controlled retrenchment or survival? This company mode question helps capture a broad-spectrum view of how SMBs see

themselves in the marketplace. From privately held businesses with a few hundred employees to mid-market public corporations employing thousands, executives generally report U.S. SMBs are on sure footing and future-focused.

"...U.S. SMBs are on sure footing and future-focused."

In Q3 2015, 88% of SMB execs were evenly split between a position of "growth" or "maintaining stability," with 44% in each category. Taken together, this near 90% outlook is consistent with Q3 positioning statements from 2013 and 2014, at 87% and 89% respectively. Likewise, similarly consistent percentages reported themselves to be in more dire straits. In Q3 of each of the past three years, companies placing themselves in "controlled retrenchment" or "survival" mode held steady between 11% and 12%.

Which statement best describes your company's position for the next quarter?



- 44% Maintaining stability
- 44% Growth
- 9% Controlled retrenchment
- 3% Survival

3rd Quarter Year-Over-Year SMB Positioning

Stable or Growth:

2013 = 88%
2014 = 89%
2015 = 88%

Retrenchment or Survival:

2013 = 12%
2014 = 11%
2015 = 12%

National SMB optimism cools in Q3; remains stronger than 2013 & 2014

In addition to overall company position, the Outlook ranks how SMB execs feel about economic and job prospects, both for the nation and their business. In Q3, U.S. small to mid-sized business leaders reported lower optimism levels heading into the final months of 2015 than earlier this year.

"...reflective of a changing national narrative."

While down from record survey highs in Q2, the findings are perhaps reflective of a changing national narrative.

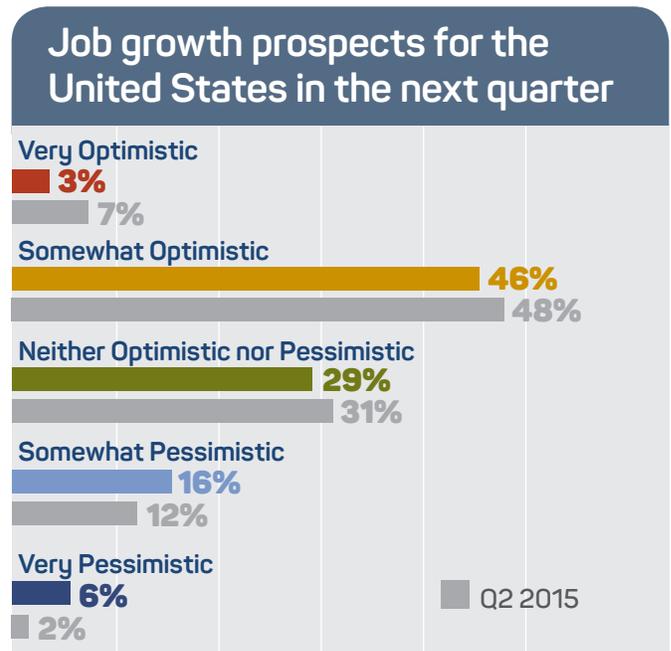
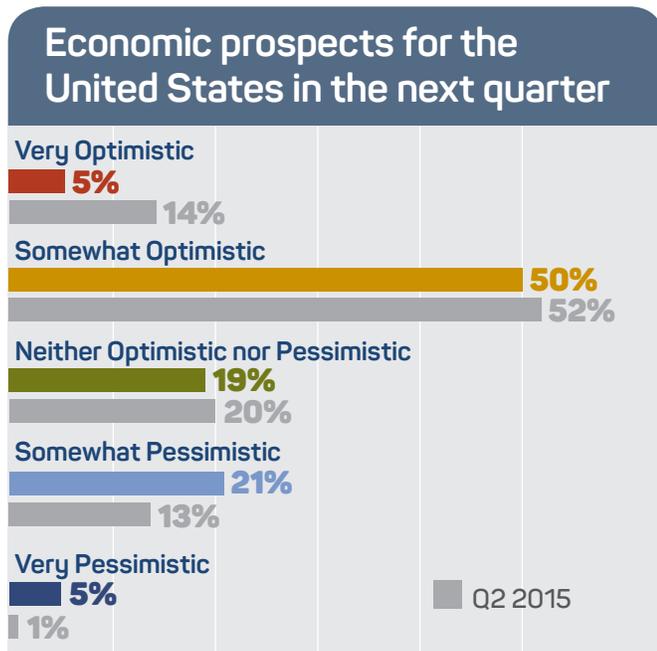
Despite national unemployment, consumer confidence, average hourly wage numbers and GDP all continuing a slow-and-steady improvement, many Q3 economic discussions centered around several ongoing concerns. The end of a near-decade interest rate freeze by the Federal Reserve, the instability of the world economy and the ramifications of a volatile and weakening stock market

all contributed to the ongoing unease of business leaders and analysts alike.

Q3 responses reflect lessened enthusiasm. Fifty-five percent of execs reported feeling somewhat or very optimistic about the nation's economic prospects in Q3, down from 66% in Q2. This lower Q3 'feel good' number still remains higher than 2013's 43% and 2014's 48%. The Q3 survey also noted the lowest number of impartiality in Outlook history, with 19% reporting neutral opinions. After three quarters of below-20% negativity numbers, 26% of respondents in Q3 reported feeling somewhat or very negative about the nation's near-term economic prospects.

In terms of national job prospects, the Q3 pattern is similar. In Q3, 49% said they're optimistic about U.S. job prospects, down six points from Q2. Even with this drop, Q3 optimism numbers remain higher than they were in 2014 and 2013, 41% and 35% respectively.

Indicate your feelings about the following prospects. *Comparing Q2 2015 to Q3 2015 statistics.*



SMB self-confidence drops in Q3; narrows gap with national outlook

Since early 2013, SMB executives have consistently expressed more optimism about their own companies—both in terms of economic and job prospects—than about the national landscape as a whole. While Q3 2015 results followed a similar pattern, they also marked the narrowest gap in

"...record low confidence difference of only 7 points."

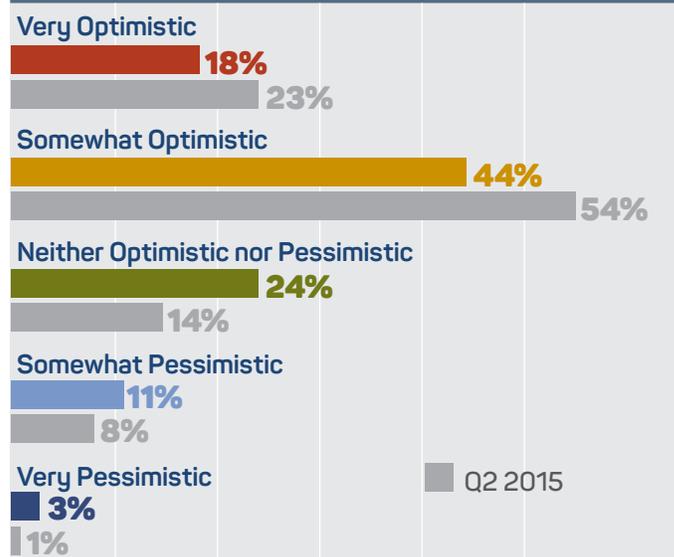
Outlook history between national and company-specific optimism. Having vacillated between 18 and 21 points since 2013, the variance dropped to

11 points in Q2 and fell again in Q3, to a survey record low confidence difference of only 7 points.

After reaching a survey high in Q2, with 77% of respondents reporting they felt somewhat or very optimistic about their own company's short-term economic prospects, SMB self-confidence took a hit in Q3 and dropped to 62%—15 points off Q2 and the lowest recorded optimism in Outlook history. This shift didn't translate to significantly higher pessimism numbers, however, but rather a notable move to the emotional middle, with 24% expressing a neutral opinion regarding their own economic opportunities.

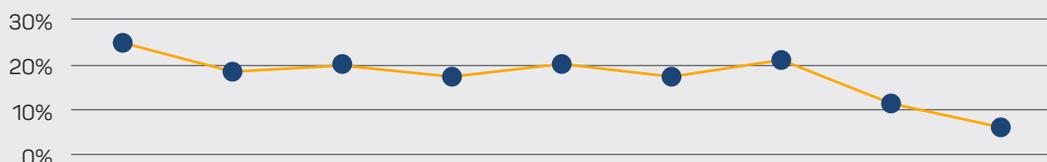
Consistent with previous survey results, this significant drop in individual company confidence from Q2 to Q3 did not change the relational trend between company self-confidence and optimism for the nation's economy. At 62%, SMB self-optimism remains 7 points higher than the 55% national metric. Similarly, while 26% of SMB execs report feeling pessimistic about the country's near-term economic prospects, only 14% felt negatively about their own opportunities.

Economic prospects for your company in the next quarter



Confidence Gap between Company and National Economic Optimism

	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015
National	43%	46%	54%	51%	48%	57%	50%	66%	55%
Company	68%	65%	74%	69%	68%	75%	71%	77%	62%
Gap	25pts	19pts	20pts	18pts	20pts	18pts	21pts	11pts	7pts



SMB's view as "Job Generators" not reflected in near-term hiring plans

The heart of the SMB Job Generation Outlook is in its very name. Each quarter, SMB executives are asked a variety of economic and political questions designed to understand the SMB's near- and long-term outlook and plans regarding

"...small to mid-sized businesses serve as a vital hub of American job growth and economic revitalization."

job generation and employment trends.

In every Outlook quarterly survey, SMBs consistently agree with the general assertion small to mid-

sized businesses serve as a vital hub of American job growth and economic revitalization. That assertion persisted in Q3, with 84% of responding executives viewing their SMB market sector as the job generator for the U.S. economy.

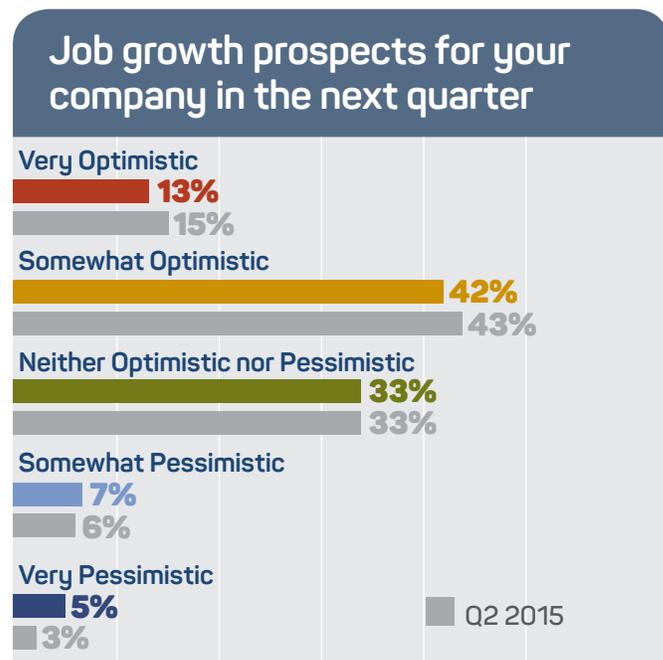
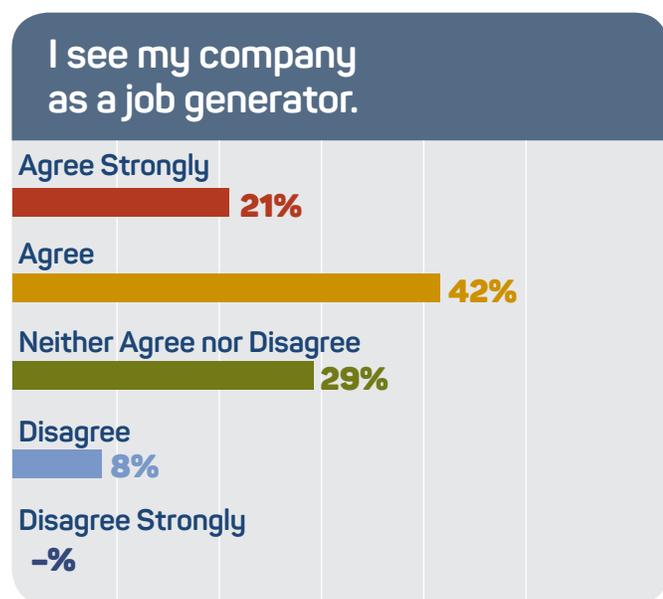
Confidence in the overall SMB sector doesn't directly transfer to an individual's company outlook. When asked specifically about their own businesses, 63% of SMB execs see their

own company as a job generator, a near 20-point drop from the national perspective. This double-digit lowered rate of agreement has been consistent throughout the survey's history.

When questioning becomes more specific, SMB confidence lowers even further. While more than 6 in 10 SMBs see themselves in theory as a job generator, only 55% are optimistic about their specific company's job growth prospects in the quarter ahead. In terms of actual hiring plans, confidence drops another 11 points to 44% of execs saying they have specific plans to hire in the coming quarter.

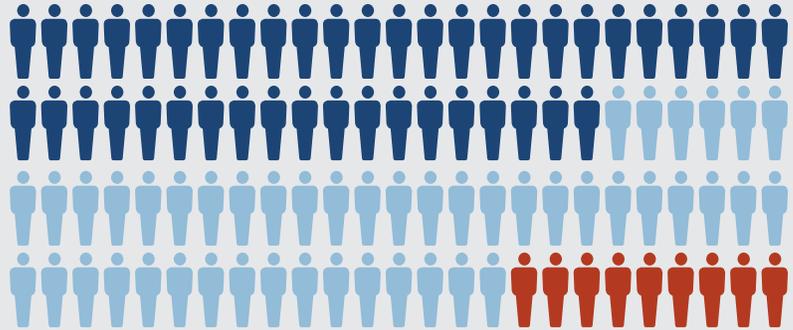
"When questioning becomes more specific, SMB confidence lowers..."

This near 20-point three-tiered drop from broad job generator to near-term prospects and outlook to actual company-specific hiring plans has been a consistent pattern throughout the survey's history.

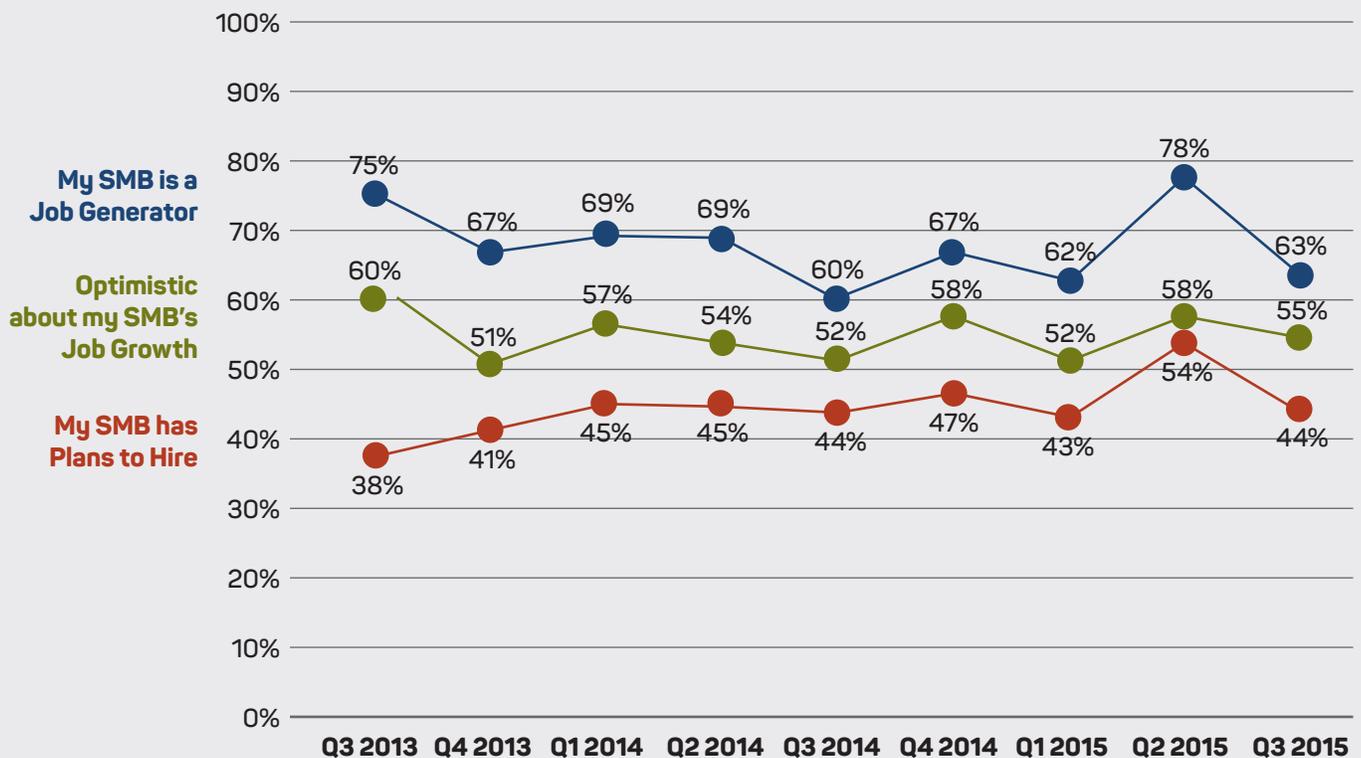


What are your hiring or downsizing plans for the next quarter?

-  = Hire additional employees **44%**
-  = No change in workforce **47%**
-  = Downsize workforce **9%**



SMBs – Job Generators, Job Prospects and Hiring Plans



Talent availability concerns leading SMBs to alter recruitment practices

For several years, the SMB Job Generation Outlook has surveyed executives to learn more about the ease and/or difficulty SMBs face when seeking to hire qualified professional talent. The survey has consistently found the available talent gap challenging for SMBs. The majority of SMB execs surveyed in Q3 (58%) said finding qualified talent for open professional and management positions was either difficult or extremely difficult. About a third were neutral and only 8% said talent availability didn't pose a concern to their business.

Compared to a year ago, the hiring market has tightened for many SMBs across the country. In

"...hiring market has tightened for many SMBs across the country..."

Q3, 44% said finding qualified talent is harder now than it was one year ago. Half say hiring difficulty is about

the same as one year ago, and 6% say it's easier than in late 2014.

As has been the case for most quarters, Sales remained the most difficult functionality to fill, with 45% of SMBs reporting troubles finding and hiring qualified Sales talent. Allowing for multiple responses, the survey also found Information Technology—which surpassed Sales only twice in the past 2 years—remained in a close second in Q3 with 43% citing IT as difficult.

Together, Accounting and Finance created difficulty for 26% of the responding executives and both Manufacturing Management and Marketing were challenges for 19%. While not a survey-provided answer, Engineering was also cited by a notable number of respondents as a challenging function to satisfy with qualified talent.

Indicate your company's current positions regarding talent.



Ongoing talent availability challenges are leading many SMBs to alter their recruitment and retention practices. Seventy-two percent of SMBs report employee take-home wages rose last year, and 27% of responding execs say they are actively increasing salaries, bonuses and benefits to better attract and recruit qualified talent.

Many companies also report engaging recruiters, placing advertising for open positions, and leveraging online job postings to increase hiring effectiveness. Additionally, SMBs cited plans to improve company culture, add paid internships and increase outsourcing and offshoring.

What areas of open professional and management positions are most difficult for your company to find qualified candidates?

Sales 45%	Human Resources 14%
Information Technology 43%	Finance 9%
Marketing 19%	Legal 7%
Manufacturing Management 19%	Engineering positions were also cited by some SMBs as difficult.
Accounting 17%	

**Multiple responses allowed.*

What is your company doing to attract/recruit qualified professional talent?

Recruiters	25%
Increase/offer competitive salaries/bonuses/compensation packages/benefits	27%
Networking/word of mouth	20%
Advertising	14%
Online postings/social media	7%
College recruiting/work with universities	7%
Job fairs/industry conferences	4%

SMBs also cited plans to improve company culture, add paid internships, and increase outsourcing and offshoring.

**Multiple responses allowed.*



Generational workforce changes impact SMB hiring strategies

As Baby Boomers continue to reach retirement age—enabling tens of millions of professionals to leave the workforce—the impact of their departure may be significant, both to the businesses they leave and the economy as a whole. Many companies face transition challenges, including the “Brain Drain” knowledge gap experienced when long-tenured, senior professionals retire. From rehiring retirees back as contractors to shifting company culture norms and training programs in an effort to better attract, train and retain younger Millennial talent, SMBs are addressing the changing workforce in a variety of ways.

How does the retirement of Baby Boomers impact your business?

- 60%** Creates a knowledge gap that’s difficult to bridge
- 22%** Improves our ability to consider new approaches/processes
- 19%** Enhances our prospects for future innovation and growth
- 16%** Impairs our ability to compete in the market

**Multiple responses allowed.*

How much impact does the retirement of Baby Boomers have on your business?

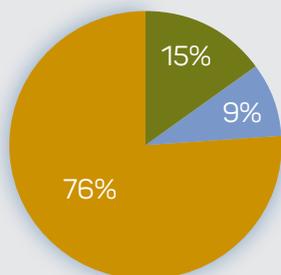


- 13%**
A large impact
- 55%**
Some impact
- 32%**
No impact at all

SMB Hiring Plans re: Contract Workers

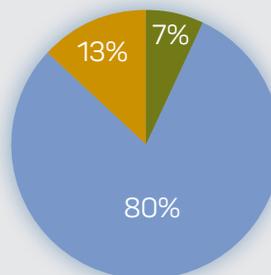
- 27%** Say hiring contract workers is more attractive to their company now than 1 year ago
- 23%** Plan to hire a combination of contract and permanent employees
- 33%** Are currently hiring or considering hiring retirees back for contract work

In the next quarter, are you going to make an effort to:



- Hire more Millennials
- Hire fewer Millennials
- No formal plans to do either

Do you have specific plans to recruit and/or hire military veterans in the next quarter?

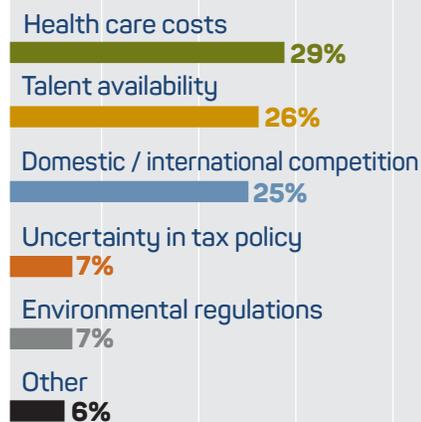


- Yes, we have specific plans to hire military veterans in the next quarter
- We hire military veterans, but we do not have a specific plan for the next quarter
- No, we will not hire military veterans in the next quarter

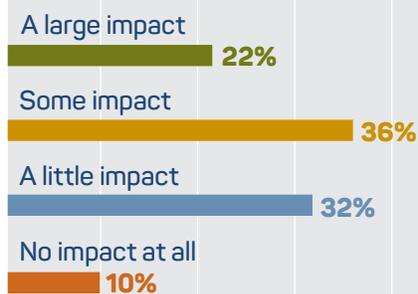
Top business challenges for SMBs— Health Care, Talent & Competition

Several important economic and political issues currently dominate the U.S. business and media landscapes. Discussions on these topics are inescapable, and uncertainty around governmental actions and legislation heighten concerns in the SMB. While fewer SMBs report significant financial impacts from the Affordable Care Act in 2015 than in 2013, the overall costs of health care to American businesses continues to be of chief concern, followed closely by talent availability and domestic/international competition.

Please rank the following issues on the challenge they represent to your company in the next quarter.



How much of an impact does the Patient Protection and Affordable Care Act (aka Obamacare) have on your business plans?

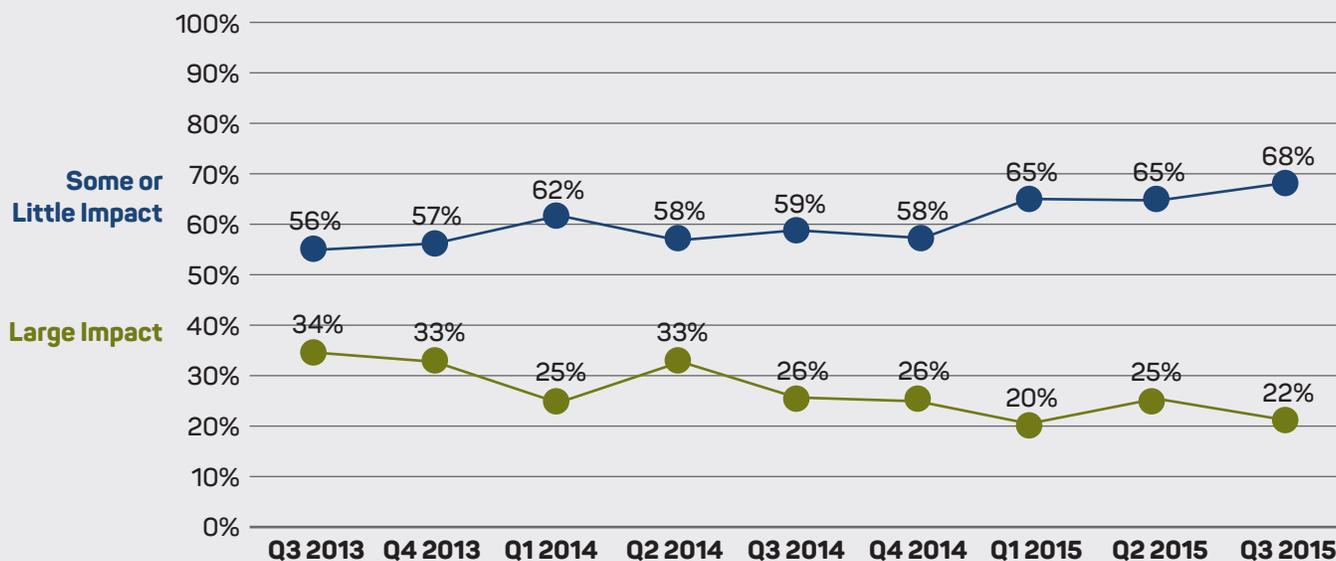


What is your company doing to address health care costs?



**Multiple responses allowed.*

Changing Impact of Affordable Care Act (aka Obamacare) on SMBs



SMB wages on the rise nationwide; minimum wage of marginal concern

During the first three quarters of 2015, an average 77% of SMBs reported companywide increases in take-home wages. The majority of SMB workers experienced wage increases between 1% and 5%, and fewer than 1 in 10 had their wages increase by more than 5%. An average of 18% reported no net change in take-home wages in the past 12 months.

American SMBs are regularly cited as a critical business sector that could be negatively affected by a potential federal mandate to raise the minimum wage. As business leaders, politicians, and economic experts continue to debate the topic, the Outlook seeks to unveil what business executives believe. In Q3 2015, the Outlook once again asked SMB executives about the potential impacts a federal minimum wage increase to \$10.10 per hour would have on their companies.

Fifty-six percent of executives reported a \$10.10 minimum wage requirement would have no impact—neither positive nor negative—on their businesses. Allowing for multiple responses, other leaders predicted varying impacts, including reductions in both current workforces and hiring plans as well as increased end customer prices.

“...‘How much is the right amount?’ plays a critical part in the complicated and multi-faceted minimum wage issue.”

In addition, the continued question of “How much is the right amount?” plays a critical part in the complicated and multi-faceted minimum wage issue. SMB executives appear to show an appetite—to some extent—for increasing the minimum wage, with an ideal mean minimum wage over the past four quarters of \$9.40 an hour.

Collectively and companywide, how did your employees’ take-home wages change in the last 12 months?

- 8% Increased more than 5%
- 69% Increased between 1-5%
- 18% No change
- 3% Decreased between 1-5%
- 2% Decreased more than 5%

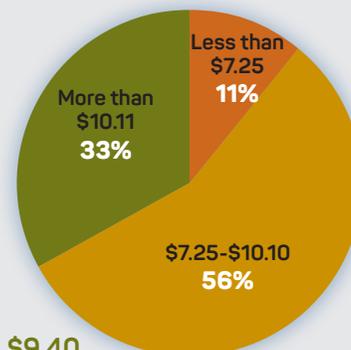
**Average responses for Q1-Q3 2015*

If the minimum wage was to increase to \$10.10 per hour, what impact would that have on your business?

- 21% We will increase prices to our end customers
- 13% We will reduce our new hiring plans
- 22% We will reduce our current work force
- 6% We will eliminate all new hiring
- 3% We will not stay in business
- 56% Increasing the minimum wage will not impact my business.

**Multiple responses allowed.*

Where would you ideally like to see the minimum hourly wage?

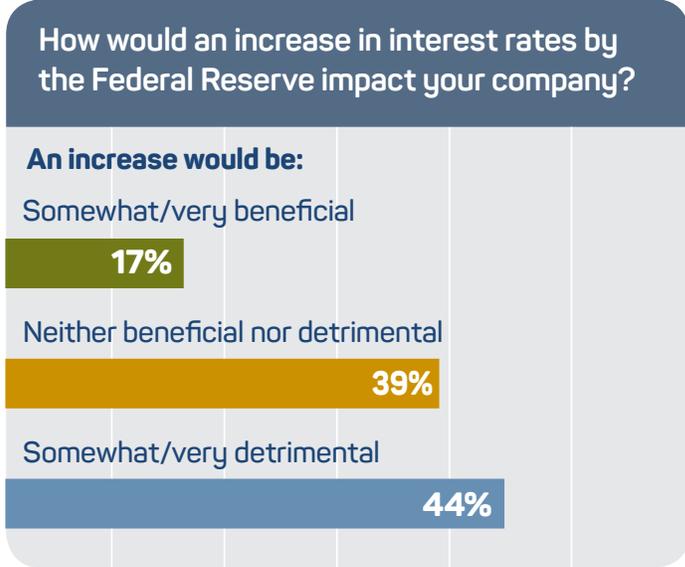
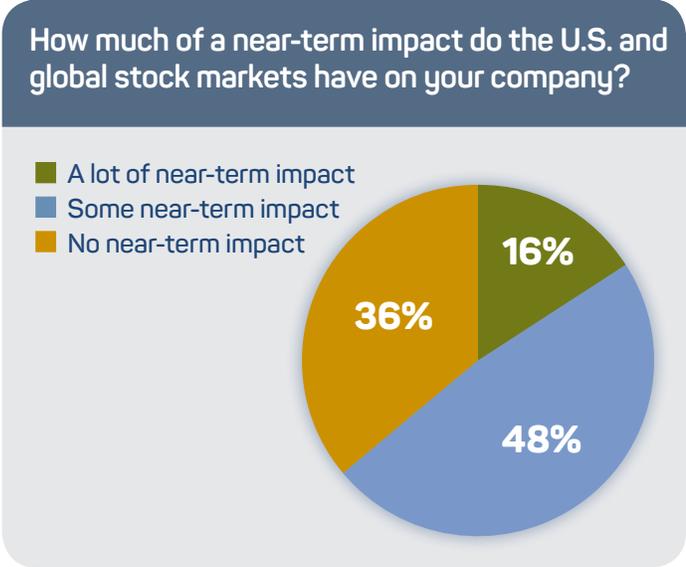
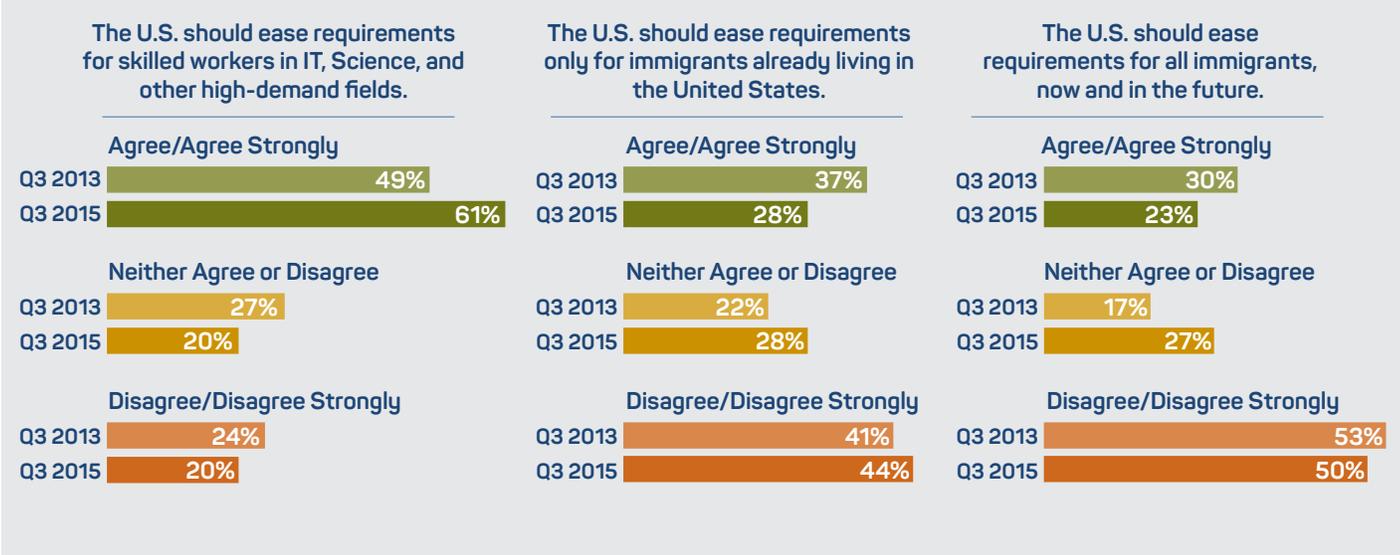


\$9.40
Ideal Mean Minimum Wage
(4-quarter average)

Macro economic and political issues deliver varying impacts to SMBs

As global stock market worries, heightening speculation on interest rates, and intensifying immigration concerns mount in our national discourse, several policy reforms and legislative proposals continue to be divisive and hotly debated across the nation. Support for easing immigration requirements, for example, has shifted in the past two years. As talent availability continues to challenge SMBs, support has increased for easing requirements related to high-skill workers. Support for easing requirements for immigrants already in the U.S., however, has dropped in the same timeframe. Similarly, as political rhetoric rises heading into the 2016 elections, optimism and confidence in governmental bipartisanship and effective wains.

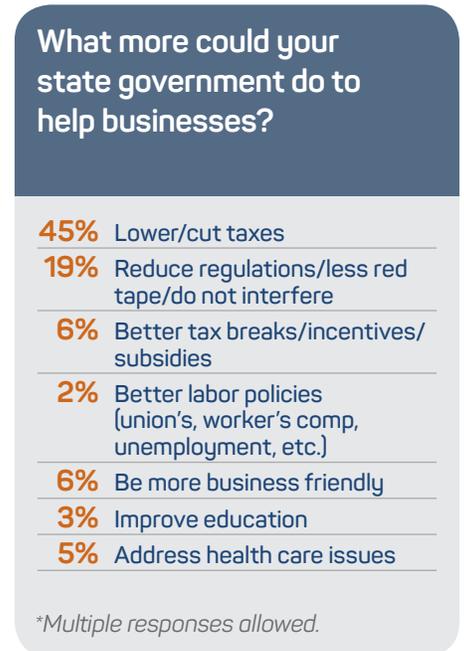
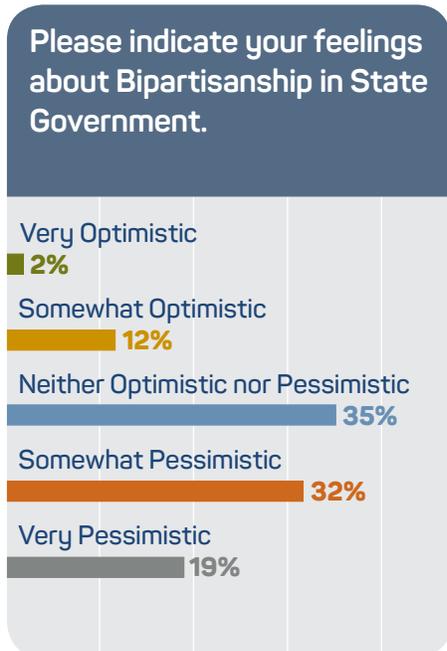
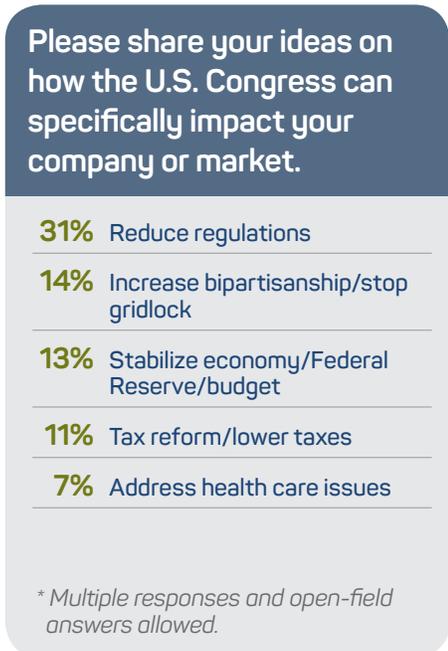
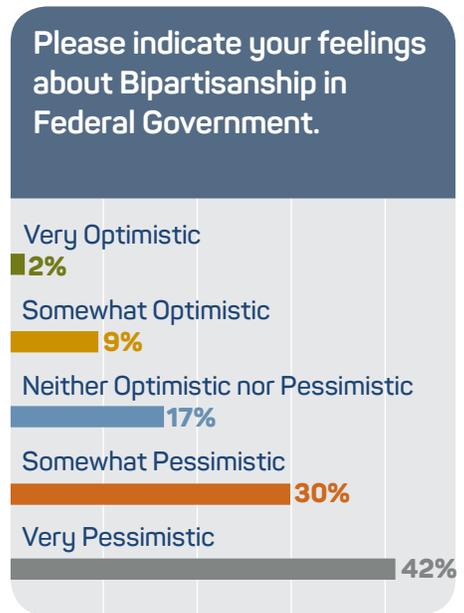
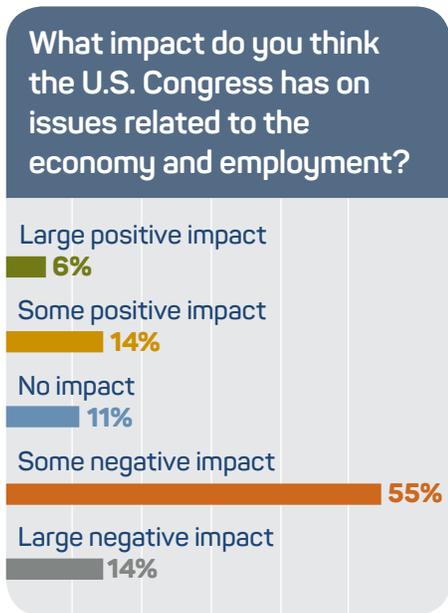
SMBs on Immigration: 2013 & Today



While almost 60% of SMB execs note the federal government as the most influential governmental body to their business, the majority of American SMB leaders (72 percent) report continued pessimism regarding prospects of effective bipartisanship in Washington. This number has remained above 65% throughout the survey's history and shows no signs of lowering ahead of the 2016 elections. In contrast, 11% of Q3 respondents express optimism about bipartisan cooperation at the federal level.

SMB executives have historically been less pessimistic regarding state bipartisanship efforts (versus federal), and Q3 reflected that regular difference. About half of SMB execs are pessimistic about cross-isle cooperation at the state level, as compared to 72% at federal level.

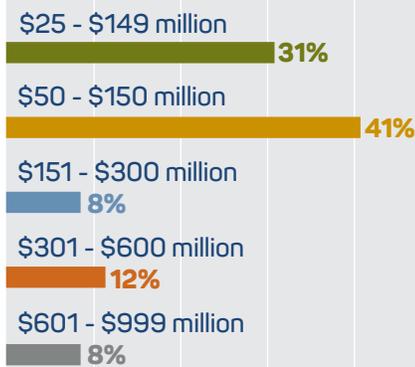
Lower taxes, reduced regulations, and less red tape—by both federal and state governments—are consistently cited by SMB leaders as potential governmental actions that could benefit their companies.



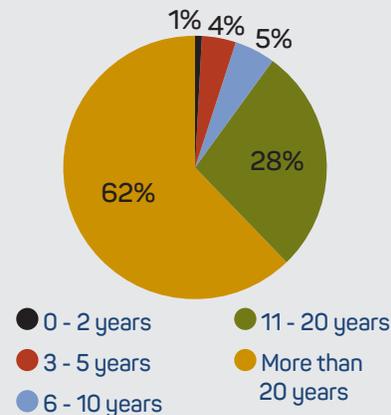
Q3 2015 SMB Job Generation Outlook Respondent Data

The SMB Job Generation Outlook is an innovative approach to traditional hiring and employment surveys designed to capture the visions and priorities of today's SMB executives. Each quarter, the Outlook reports on recent and planned business activities as well as gathers opinions related to workforce and political environments. Since early 2013, Lucas Group has polled SMB execs from across the country and a variety of industry sectors. From family-owned businesses with several hundred people to corporations that employ thousands, the Outlook seeks to uncover what the SMB market most wants, needs, worries about, and forecasts for the future—the nation's and their own.

What is your projected 2015 business revenue?



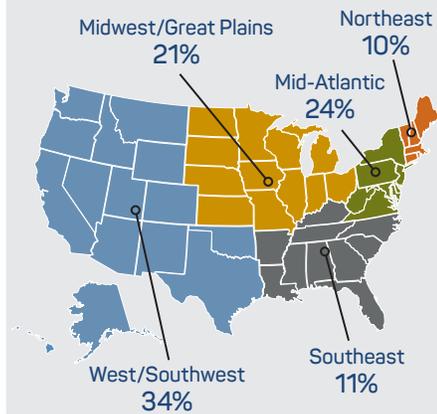
How long has your company been in business?



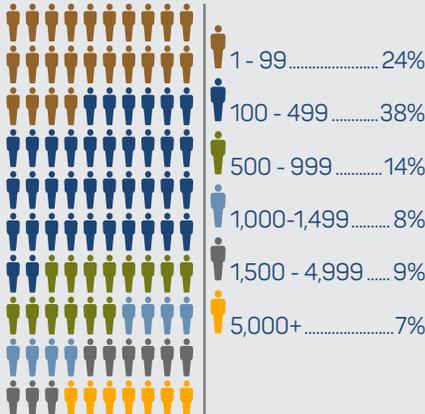
In what industry do you compete?



In what region are you located?



How many employees do you have?



*Represents most selected industries.