

# SMB Job Generation Outlook

Q4 2013



The Lucas Group Job Generation Outlook is an innovative approach to traditional hiring and employment surveys, gauging both recent and planned activity in the United States small to mid-sized business market. This, our Q4 2013 national survey of SMB executives, examines top-level perspectives on critical issues facing the American SMB marketplace, including economic developments, employment trends, legislative initiatives, political environments, and the tangible impact these issues have on business and employment planning.

Conducted in coordination with Polaris Marketing Research and Dr. Goutam Challagalla, Associate Professor at Georgia Institute of Technology College of Business, the SMB Job Generation Outlook is the only economic and employment survey that captures timeless trends – directly from the visions and priorities of the highest executive offices.

Quantitative results and key findings from the SMB Job Generation Outlook survey were analyzed, and through a series of graphs and charts, the statistical relationship of trends in the small to mid-sized business market has been illustrated. A detailed narrative of the data analysis follows the illustration on page 8.

The Lucas Group survey is quickly becoming the outlook standard for the American SMB market, heralded in our national discourse as the jobs engine for economic revitalization. We will continue the SMB Job Generation Outlook survey on a quarterly basis via online surveys with invited top executives from a variety of SMBs around the country and across industry segments.

We encourage you to retain this report as a reference point. Consider how this information may impact you – now and throughout the following year. As always, please feel free to contact us. We welcome your questions and feedback.

Thank you for your interest in this important analysis of the SMB economic and employment outlook across major industries and around the nation.



## TITLES & COMPANY REVENUE

The Q4 2013 report reviews the fourth edition of the Lucas Group SMB Job Generation Outlook. The survey gauges current economic opinions and business plans of America's small to mid-sized businesses and provides a trending outlook on the issues and topics most pertinent to today's SMB market. From Manufacturing and Business Services to Health Care and Information Technology, these 400 SMB executives knowledgeably represent the foundation of the U.S. economy and workforce.

Most of our Q4 respondents (42 percent) reported projected 2013 corporate revenues between \$50M-\$150M. Seventeen percent represent the small business market with projected 2013 revenues between \$25M-\$49M. Another 34 percent project revenues between \$151M-\$600M, and seven percent of respondents are in the largest financial segment of the SMB with \$601M-\$1B in projected 2013 revenues.

### 2013 company revenues of responding executives:



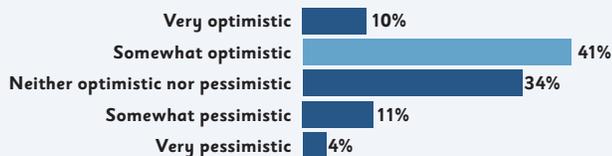
## JOB GROWTH PROSPECTS

In Q4 2013, just over half of respondents (51 percent) reported being somewhat or very optimistic about job growth prospects for their companies. While down from Q3 2013, responses were similar to executive outlook one year ago. The most significant change reported in Q4 was the percentage of respondents who migrated to the middle, with slightly more than one-third reporting neither optimism nor pessimism regarding their own company's job growth prospects for early 2014, up from 19 percent in Q3.

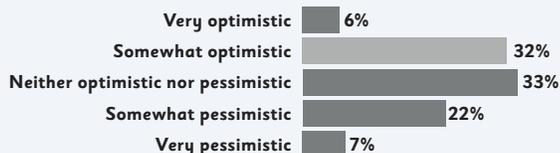
In terms of national outlook, one-third of respondents reported neither optimism nor pessimism about job growth prospects for the U.S. during the next quarter – the highest level of neutrality in the survey's five-quarter history. Whereas the majority of SMBs were optimistic about their own company's job growth prospects for Q1 2014 (51 percent), only 38 percent reported similar optimism about overall U.S. job prospects.

### Indicate your feelings about the following:

#### > JOB GROWTH PROSPECTS FOR YOUR COMPANY



#### > JOB GROWTH PROSPECTS FOR THE UNITED STATES



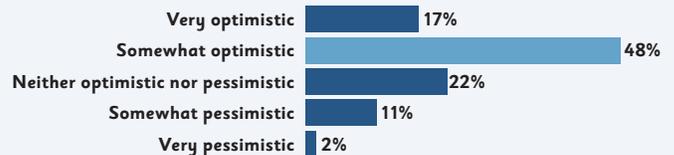
## ECONOMIC PROSPECTS FOR COMPANIES & COUNTRY

Regarding economic prospects, company-specific optimism gains made early in 2013 continued to fall from a 77 percent high in Q2 to 68 percent in Q3, finishing the year at 65 percent – exactly where it began a year ago. While economic optimism dropped, pessimism numbers also dropped slightly among the SMB, with 13 percent being somewhat or very pessimistic about their own economic prospects for Q1 2014. This is down seven points from a year ago.

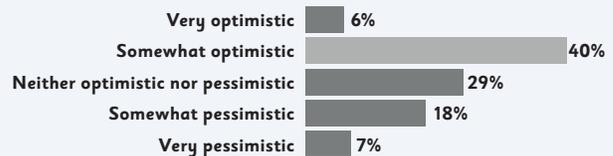
The SMB's move to neutrality continued on the national level, with 29 percent reporting neither optimism nor pessimism about U.S. economic prospects for the coming quarter. Up from its low 20s position during Q1-Q3, this represents a noteworthy move to the middle. When looking at national pessimism trends over the course of the past year, the shift seems significant, as those reporting being somewhat or very pessimistic dropped to 25 percent this quarter – half what they were in Q4 2012.

### Indicate your feelings about the following:

#### > ECONOMIC PROSPECTS FOR YOUR COMPANY



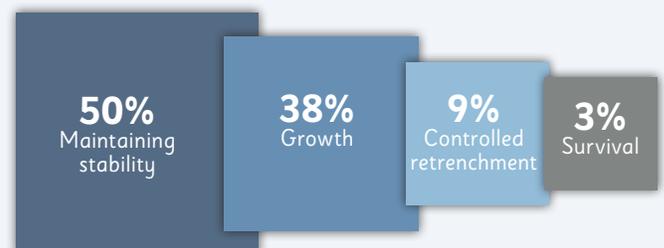
#### > ECONOMIC PROSPECTS FOR THE UNITED STATES



## COMPANY POSITION

SMB leaders who report a position of "maintaining stability" reached a five-quarter high in Q4, with half describing their companies as such. The majority of that increase, however, came at the expense of the number of SMBs who reported being in a positive position of "growth" to begin 2014, down five points to its lowest number in the survey's history, at 38 percent. While growth plans seem to have cooled slightly, those SMBs considering themselves in a position of "controlled retrenchment" or "survival" did not increase and remained similar to the past several quarters.

### Select the statement that best describes your company's position.

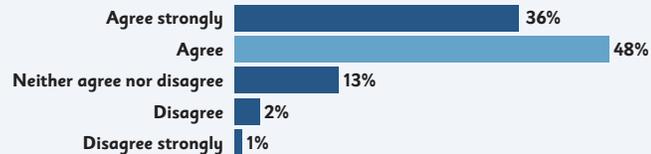


## JOB GENERATION

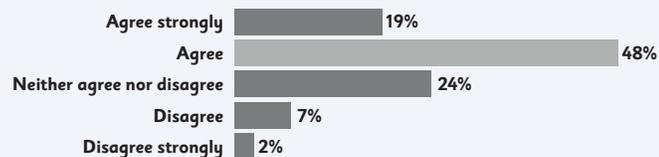
One statement continually supported by SMB leaders across the country is that small and mid-sized businesses are the job generators of the U.S. economy. Consistently remaining above 80 percent each quarter, Q4 respondents came in at 84 percent agreeing with that position, while only three percent disagreed. When asked about their own companies, the strength of conviction lessens with two-thirds (67 percent) of respondents seeing their own businesses as job generators (down 10 points from a Q1 2013 high).

**Indicate the extent to which you agree or disagree with the following statements.**

### > SMBs ARE THE JOB GENERATORS OF THE U.S. ECONOMY



### > I SEE MY COMPANY AS A JOB GENERATOR



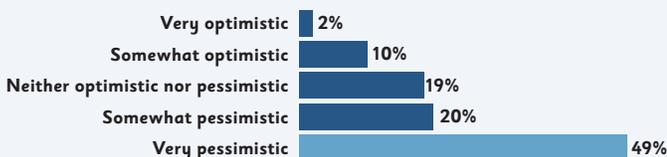
## BIPARTISANSHIP

Optimism regarding bipartisanship in the federal government continues to be lackluster as we enter the new year, with only 12 percent of SMB leaders feeling somewhat or very optimistic about national cooperation. The vast majority of respondents (69 percent) continue to report feeling pessimistic about Washington's bipartisanship, and 19 percent are neutral about the federal state of affairs.

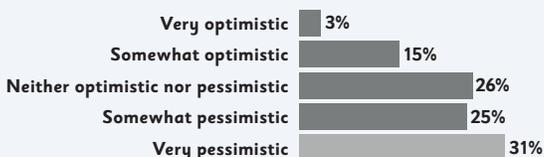
As with each previous quarter, SMB leaders were less pessimistic in Q4 regarding state-level bipartisanship (56 percent) than national cooperation. Less pessimism does not however translate into much increased optimism. SMB executives reported only 18 percent optimism about state-level bipartisanship. While higher than the 12 percent found at the federal level, optimism numbers continue to be uninspiring at all levels of government.

**Indicate your feelings about the following:**

### > BIPARTISANSHIP IN FEDERAL GOVERNMENT



### > BIPARTISANSHIP IN STATE GOVERNMENTS

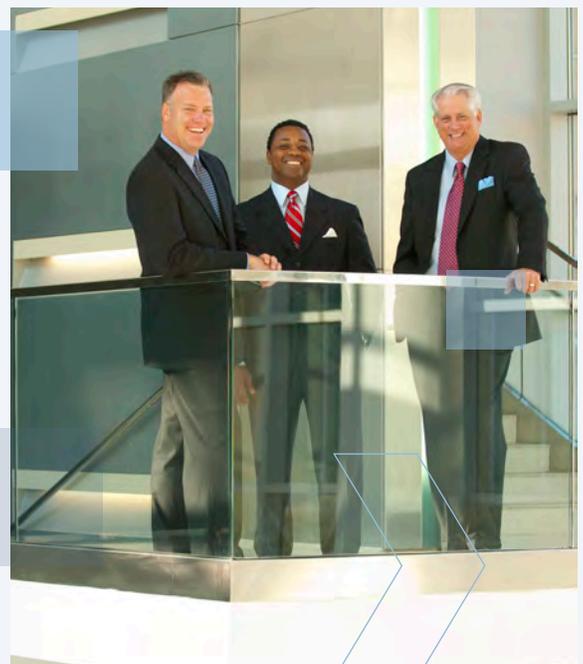
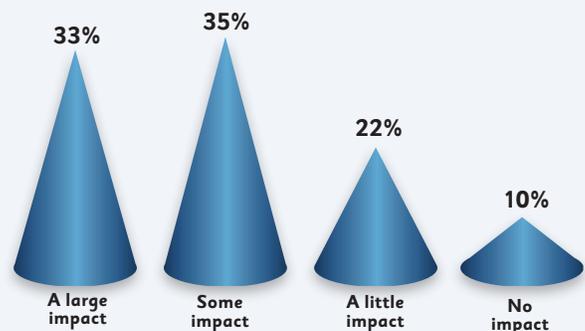


## IMPACT OF PATIENT PROTECTION AND AFFORDABLE CARE ACT

The Patient Protection and Affordable Care Act (Obamacare) dominates national discourse, particularly in terms of how it may affect small to mid-sized businesses and the employees within those companies. Despite heated debates over the past several months, SMB responses measuring expected impact of the law's implementation changed little from the previous quarter. Almost 70 percent of SMB executives surveyed anticipate the ACA will have a moderate to large impact on their businesses. Approximately one-fifth of respondents expect to see little impact, and 10 percent foresee no impact at all.

In late November, House Speaker John Boehner predicted small businesses would be "forced to bear the consequences" of the ACA. According to the Q4 SMB Job Generation Outlook, 31 percent of SMB executives reported that their companies were ready for the law's implementation. This "ready for implementation" percentage was essentially static from Q3's 29 percent. Just over half of SMB executives report continuing to work on ACA readiness. Seven percent of respondents have not yet done anything but plan to begin preparation, and 10 percent report planning to do nothing to prepare for the law's implementation.

**How much of an impact will the Patient Protection and Affordable Care Act have on your business plans?**

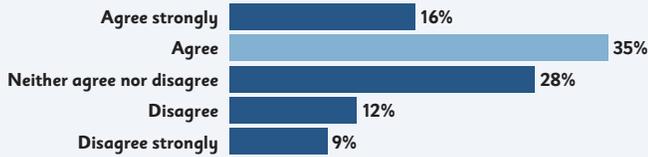


## IMMIGRATION REFORM

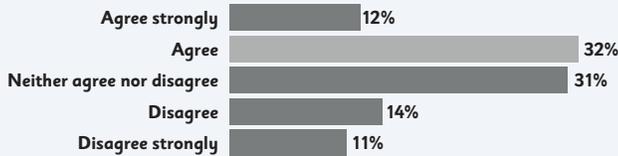
Regarding various proposals related to immigration reform, SMB executives continue to be most in favor of easing requirements specifically for skilled workers in IT, science and other high-demand fields, with just over half (51 percent) saying they agree with such proposed easements. Agreement shifts downward to 44 percent when asked about easing requirements for skilled labor in manufacturing, falls to 35 percent regarding immigrants already living in the U.S., and drops even farther to 30 percent agreeing that immigration requirements should be eased for all immigrant segments.

### How much do you agree or disagree with the following proposals for immigration reform?

#### > THE U.S. SHOULD EASE REQUIREMENTS FOR SKILLED WORKERS IN IT, SCIENCE AND OTHER HIGH-DEMAND FIELDS.



#### > THE U.S. SHOULD EASE REQUIREMENTS FOR SKILLED LABORERS IN MANUFACTURING.



#### > THE U.S. SHOULD EASE REQUIREMENTS ONLY FOR IMMIGRANTS WHO ARE ALREADY LIVING IN THE U.S..



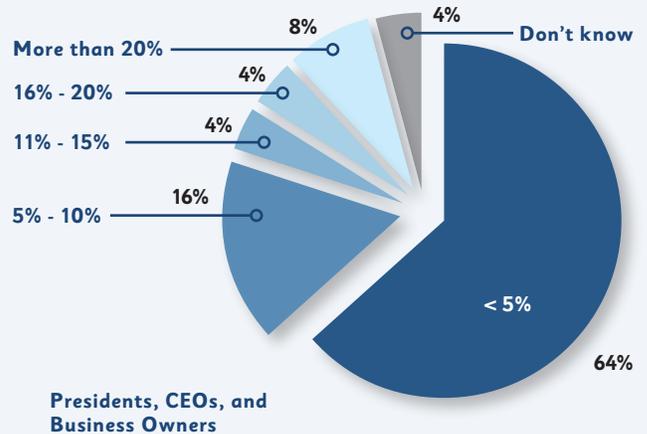
#### > THE U.S. SHOULD EASE REQUIREMENTS FOR ALL IMMIGRANTS, NOW AND IN THE FUTURE.



## WORKFORCE RETIREMENT IN 2013

For the first time in the survey's five-quarter history, a notable number of SMBs (eight percent) report expecting Baby Boomer retirements in the coming quarter to top 20 percent of their workforce. While worth mentioning, the vast majority (80 percent) of respondents continue to expect less than 10 percent retirement impact in the coming months with the largest single response (64 percent) coming in at less than five percent of total workforce.

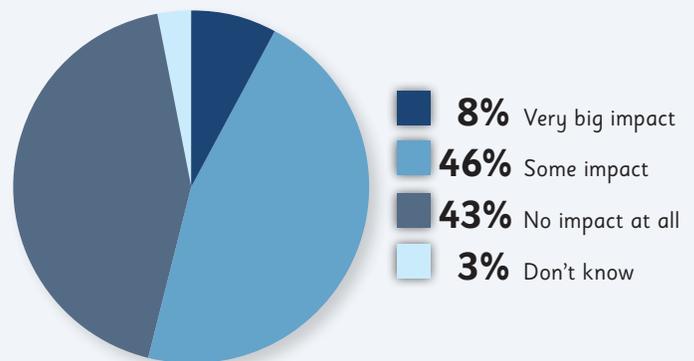
### Select the percentage of your company's workforce that will retire.



## IMPACT OF RETIRING BABY BOOMERS

Most American SMBs continue to report not being overly concerned about the impact Baby Boomer retirement will have on their companies. Nearly 90 percent of SMB leaders surveyed believe these retirements will have only moderate impact or no impact at all. Similar to previous quarters, only eight percent report an expected "very big" impact.

### Describe the level of impact that Baby Boomer retirement has on your company.

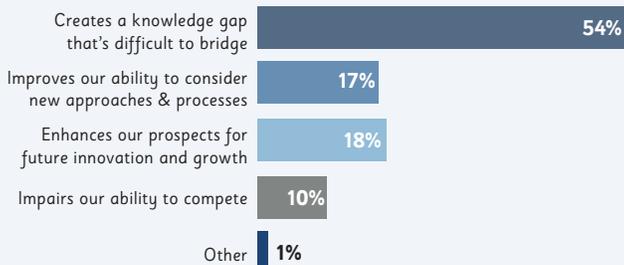


## HOW RETIREMENT IMPACTS COMPANIES

Closely related to the level of impact is the manner in which Baby Boomer retirement will impact SMBs. Continuing to lead the way, the response option receiving the highest percentage was that Baby Boomer retirement creates a knowledge gap that's difficult to bridge, with 54 percent agreeing with this statement (up from a low of 37 percent in Q1). Ten percent expect that retirements may impair their ability to compete in the marketplace, down from its Q2 high of 23 percent.

Thirty-five percent of SMB leaders report an anticipated positive impact from increased Baby Boomer retirement in the coming months, with 17 percent saying forthcoming retirements may improve their ability to consider new approaches or processes and another 18 percent foreseeing enhancements for future innovation and growth. Positive expectations have dropped dramatically, however, over the past 12 months. In each Q1 and Q2, more than 70 percent of respondents shared positive perspectives regarding Baby Boomer retirements. That number dropped in Q3 to 45 percent and fell again in Q4 to 35 percent.

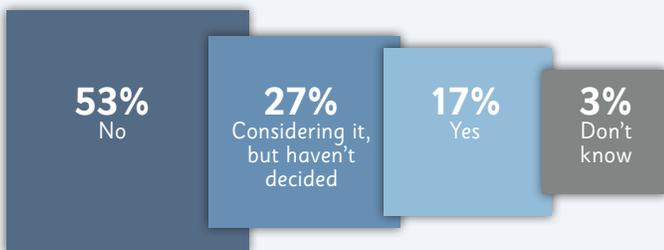
### Describe how the retirement of Baby Boomers impacts your company.



## REHIRING RETIREES

Seventeen percent of Q4 respondents plan to hire retirees back on a contract basis in an effort to bridge the 54 percent perceived knowledge gap created by their departure. This number is down 10 points from Q3 but similar to responses from previous quarters. More than half of SMB leaders say they have no plans to rehire retirees and another 27 percent report that their businesses are considering the option but have made no current decisions.

### Share whether your company is hiring retirees back on a contract basis.



## CONTRACT OR PERMANENT EMPLOYEES?

Despite discourse related to the implementation of the Affordable Care Act and the suggested drop in employers' willingness to hire permanent employees due to health care costs, plans to hire permanent employees continue to far outpace contract employee plans. Of those SMBs considering adding employees over the next quarter, 37 percent are hiring only permanent employees while another 28 percent are considering a combination of permanent and contract employees. Only 8 percent (the lowest in a year) report plans to solely add contract employees. Twenty-seven percent of respondents say their SMBs will add neither in the coming months, the highest reported "no change" number in the past five quarters.

### Describe the type of employees your company is considering adding in the next quarter.



## CONTRACT WORKERS: MORE OR LESS ATTRACTIVE

While the appeal of hiring contract employees increased across several quarters in 2013 to a Q3 high of 42 percent, that number dropped again in Q4, to less than one-third (29 percent) reporting that hiring contract workers was more attractive now than a year ago. Most SMBs (43 percent) continue to rate the attractiveness of contract employees at about the same as this time last year. Sixteen percent find the prospect less attractive and 12 percent report that they do not hire contract workers.

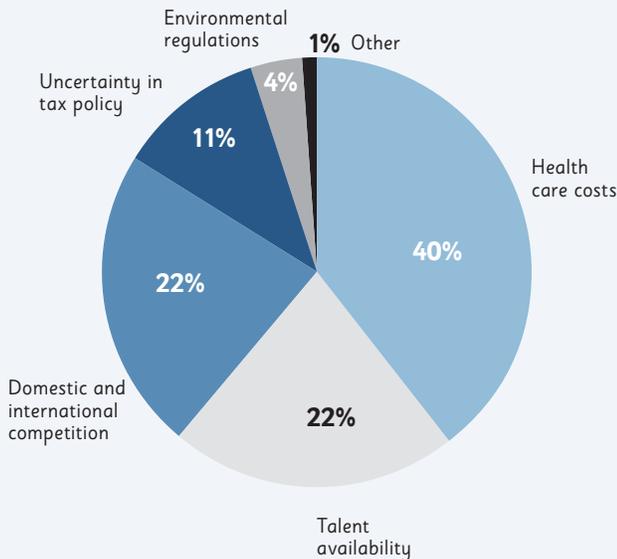
### Is hiring contract workers more or less attractive to you now than last year?



## TOP ISSUES FACING SMBs

When asked about top business challenges SMBs expect to face in the coming months, 40 percent rank health care costs as their chief concern. This #1 ranking is up 15 points from the same time last year, whereas uncertainty in tax policy has dropped significantly. While 23 percent of SMBs reported tax concerns as their top challenge in Q4 2012, only 11 percent ranked it #1 in the current survey. Talent availability and market competition both represent top challenges for slightly more than 20 percent each, and fewer than five percent cite environmental regulations as a principal concern.

**Please rank the following issues from top to bottom based on the challenge they represent to your company:**



## HIRING OR DOWNSIZING

The number of SMBs planning to hire in the coming quarter ticked up slightly from Q3 to 41 percent. Nearly half of reporting SMBs, however, do not plan any change in their workforce over the next few months and 10 percent say they will downsize during Q1 2014. For companies planning some change in workforce, the vast majority of those changes represent less than 25 percent of their total workforce. Five percent each of SMBs preparing to either hire or downsize their current workforce reported plans to do so by more than half.

**Looking ahead, share your hiring or downsizing plans for the the next quarter.**

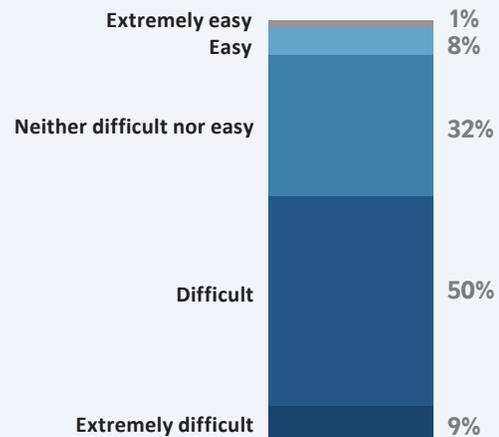


## HIRING DIFFICULTY

Heading into 2014, the challenge of finding suitable professional talent continues to plague SMB leaders. Nearly 60 percent of all respondents report difficulty or extreme difficulty in finding qualified professional and management talent for open positions. About one-third of SMBs report finding it neither easy nor difficult, and only 9 percent say identifying qualified talent is easy. These responses are similar in structure to the past several quarters.

When asked which functional roles are most difficult to fill with qualified candidates, Sales led the way in Q4 with 41 percent of SMBs saying they had difficulty finding qualified Sales talent, and Information Technology was second at 31 percent. During the Q4 survey SMBs reported the least difficulty in finding Human Resources and Legal talent, with nine percent of responding SMBs reporting recruitment difficulty in each of these functions. Manufacturing Management, Finance, Marketing, and Accounting bundled in the middle. Twenty percent of SMBs responded they had trouble in "other" areas of professional and management recruitment.

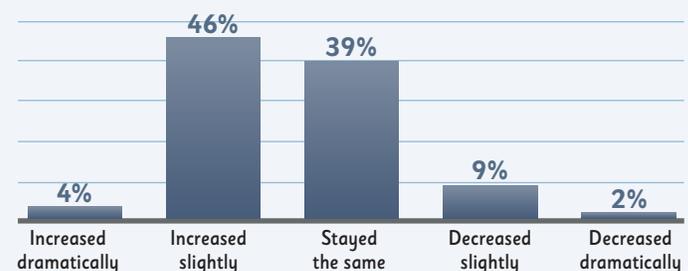
**Rate the level of difficulty your company faces in finding qualified candidates for professional and management positions.**



## CHANGE IN WORKFORCE AND FULLY-BURDENED EXPENSES

As part of the Q4 SMB Job Generation Outlook survey, SMB executives shared how their companies' workforce and fully-burdened expenses changed over the past several months. Nearly half reported increases, and of those, most consider the increases slight rather than dramatic. Almost 40 percent reported no change, and 11 percent of SMBs said their expenses decreased last quarter.

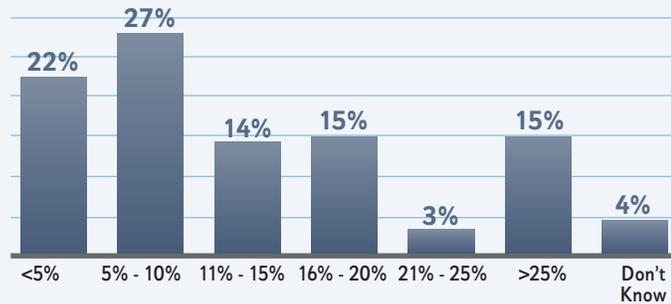
**Describe how your workforce and fully-burdened expenses changed last quarter.**



## WORKFORCE (IN FTEs) INCREASES OVER LAST QUARTER

Of the Q4 companies reporting quarterly increases in workforce and fully-burdened expenses, nearly half reported that those expenses rose less than 10 percent. Another 29 percent of SMB executives witnessed increases that were between eleven and 20 percent, and 15 percent of respondents reported increases greater than 25 percent.

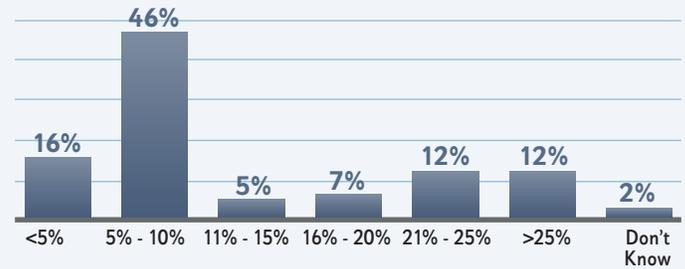
**For those expenses that increased, select the percent they increased.**



## WORKFORCE (IN FTEs) DECREASES OVER LAST QUARTER

The majority of Q4 SMB respondents (62 percent) who experienced a decrease in workforce and fully-burdened expenses in the last quarter saw a reduction of less than 10 percent. Another 12 percent witnessed decreases between 11 and 20 percent. Whereas in Q3 no participating SMB reported decreases greater than 20 percent, in Q4 almost one-fourth of all SMBs reporting reductions saw decreases higher than 20 percent.

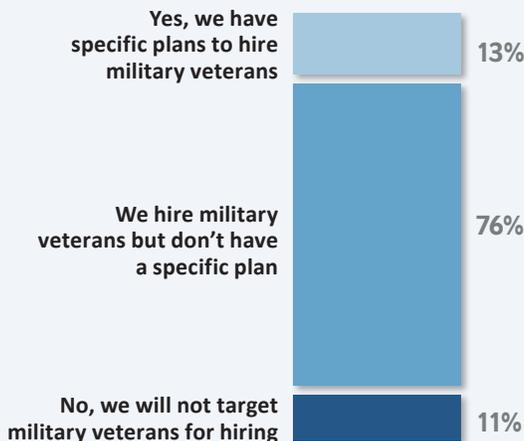
**For those expenses that decreased, select the percent they decreased.**



## HIRING VETERANS

With unemployment rates among veterans continuing to outpace the general population, workforce issues and job programs remain a topic of national, state, and local discourse. Despite estimates that 3 million veterans have returned from service over the past decade and another million are expected to return to civilian life in the next five years, the majority of surveyed SMBs report having no specific plan to recruit or hire military veterans. Seventy-six percent of SMBs are open to hiring vets, yet take no specific actions. Only 13 percent of responding SMBs (the lowest among the past five quarters) say their companies have a specific plan in place to hire veterans. An almost equal number of SMBs (11 percent) say they do not and will not target veterans for hire in the coming months.

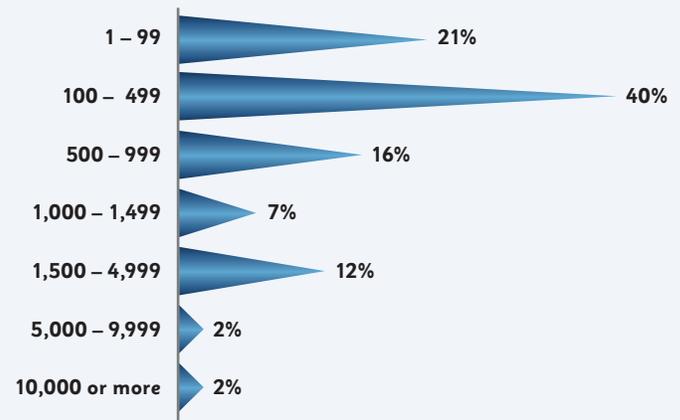
**Share whether your company has specific plans to recruit and/or hire military veterans.**



## COMPANY SIZE

Seventy-seven percent of Q4 respondents were small businesses with fewer than 1,000 employees each and approximately 21 percent report mid-sized workforces between 1,000 and 10,000 employees.

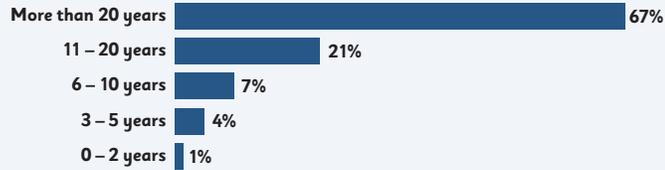
**Select the number of workers your company currently employs.**



## LENGTH OF TIME IN BUSINESS

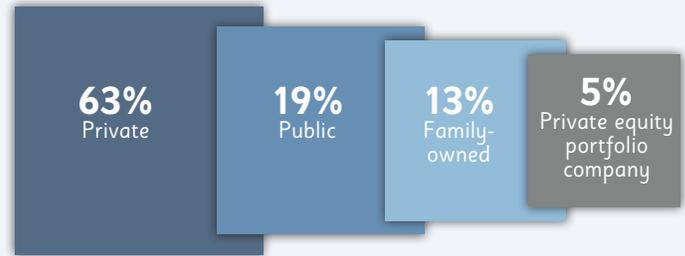
The SMB Job Generation Outlook survey group continues to be composed of long-standing businesses with 67 percent of Q4 respondents in business for more than 20 years. Another 28 percent have been in business for 6-20 years.

### How long has your company been in business?



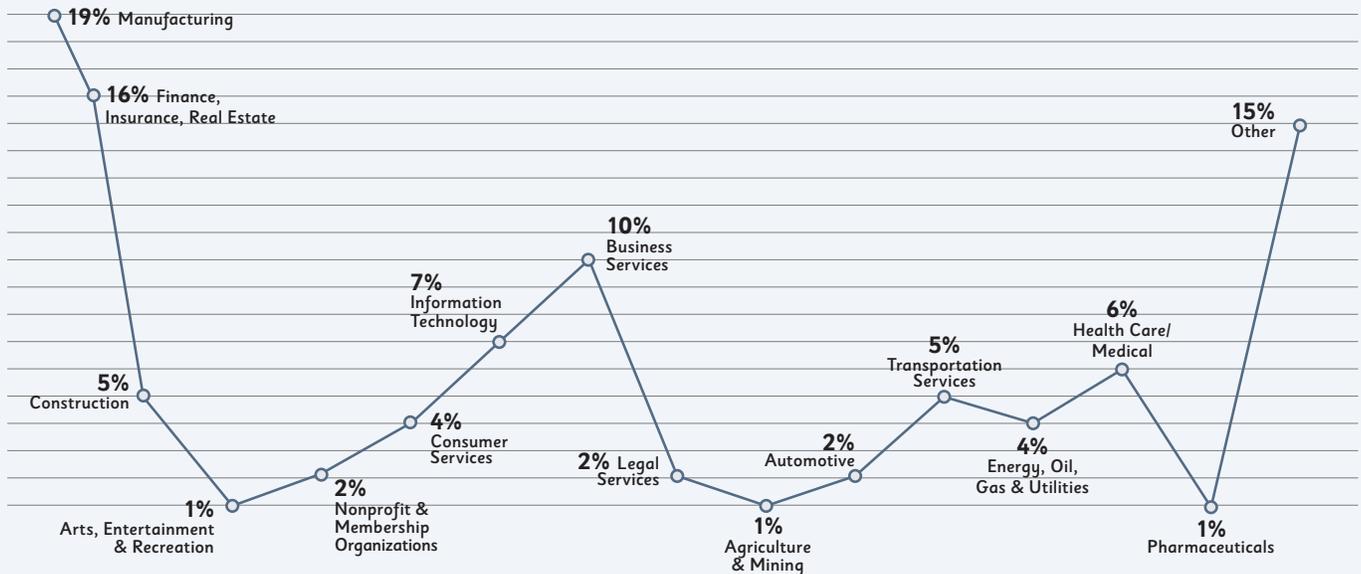
## TYPE OF COMPANY

Describe your company's ownership structure.



## INDUSTRY

Select your company's industry.



# Lucas Group SMB Job Generation Outlook Survey Q4 2013

The SMB Job Generation Outlook survey evaluates key economic, employment, and political drivers for the small to mid-sized U.S. business market. Through detailed analysis, the quarterly Outlook provides timely insight into both recent and near-term planned employment activity.

This Q4 survey, the outlook's fourth installment, captures the visions and priorities of 400 noteworthy SMB leaders – including business owners, presidents, and C-level officers – from around the nation and across industry segments. From Manufacturing and Business Services to Health Care and Information Technology, these SMB executives knowledgeably represent the foundation of the U.S. economy and workforce.

Each quarter, the survey strives to identify trends and business plans as they occur within and act upon the marketplace. The majority of responding SMBs have been in operation for more than ten years,

report projected 2013 revenues of less than \$600M, and employ fewer than 5,000 people.

## SMB Optimism Entering 2014

Small to mid-sized businesses have long been heralded in American discourse as the "job generators" for the U.S. economy, and understanding how they view themselves provides a distinct perspective into the mood and motion of American business. Each quarter, the Outlook surveys executives' opinions on job growth and economic prospects (for both their own companies as well as the nation) and asks executives to describe their company's position in the market.

In Q4 2013 we witnessed a near reversal in responses from the same time one year prior. While 56 percent of SMBs described themselves in a position of "Growth" in Q4 2012, that number dropped

Continued next page...

## Lucas Group SMB Job Generation Outlook Survey

near 20 points in twelve months to 38 percent stating a position of “Growth” entering 2014. Relationally, the percentage of SMB leaders who reported their companies to be “Maintaining Stability” rose near twenty points to hit a five-quarter high of 50 percent in Q4 2013.

One area of optimism that remains consistently elevated relates to agreement with the statement “SMBs are the job generators of the U.S. economy.” More than 80 percent of SMB executives respond positively to this question each quarter. Yet while optimism about SMBs in the larger economy continues, the mood dampens when focus turns to individual companies. In Q4, when executives were asked if they view their own company as a job generator, the agreement percentage dropped 17 points (from 84 to 67 percent), and only 41 percent of survey respondents actually report plans to hire new employees in Q1 2014.

### Talent Acquisition Continues to Challenge

For businesses that are actively hiring, finding and recruiting qualified professional and management talent continues to challenge the SMB market. In Q4, six in ten SMB companies reported difficulty in finding qualified candidates for open positions. Despite continued elevation of national unemployment rates, this reported challenge remained steady over the course of 2013.

Plans to grow revenue and customer base are clearly on the minds of SMB executives, as cumulatively, Sales tops the 2013 list of difficult positions to fill. Yearly totals also show that 30 percent of SMBs that struggle to find qualified talent have difficulty hiring Information Technology professionals. Human Resources and Legal appear to provide the least of the troubles, with eleven percent and eight percent respectively, being named as difficult positions to fill.

Hiring Baby Boomer retirees back on a contract basis doesn't appear to be a popular solution to bridging the acquisition talent gap for SMBs. Fewer than 20 percent of SMBs say they currently hire retirees back, and while approximately a quarter of respondents say they're considering it, a full half of SMBs responded to the question with a categorical “no.”

### SMB and Industry Plans for Hiring Veterans

According to data released in November from the Council of Economic Advisors, the unemployment rate for recent veterans – those who have served since 9/11 – is near 10 percent, substantially higher than the unemployment rate for veterans of earlier periods or for non-veterans in the same demographic group. The council estimates that in Q4 2013 there were approximately 246,000 recent veterans out of work. The SMB Job Generation Outlook asked small to mid-sized business leaders about their hiring plans for U.S. veterans.

In each industry surveyed, a majority of SMBs (between 65 percent and 80 percent) reported in 2013 that their companies hire military veterans but do not host or participate in specific programs or initiatives related to veteran recruitment. Three major U.S. industries – Automotive, Manufacturing, and Information Technology – led the way in 2013 with military hiring initiatives, with slightly more than 22 percent each reporting they have specific programs in place to hire military veterans in the coming months. Health Care and Medical companies were least likely to have specific plans to hire military veterans, with only six percent reporting plans to do so.



For more information regarding the SMB Job Generation Outlook, please visit [www.lucasgroup.com/smb-job-generation](http://www.lucasgroup.com/smb-job-generation)