

# SMB Job Generation Outlook

Q3 2014



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 seventh 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.

The SMB Job Generation Outlook has surveyed over 1,900 SMB executives, and is conducted in coordination with Polaris Marketing Research and Dr. Goutam Challagalla, Associate Professor at the Georgia Institute of Technology Scheller College of Business. The Outlook is the only economic and employment survey that captures noteworthy trends—directly from the visions and priorities of SMB executives.

Quantitative results and key findings from the Q3 2014 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 12.

Lucas Group will continue the SMB Job Generation Outlook survey on a quarterly basis via online surveys with top executives from a variety of SMBs around the country and across industry segments.

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 encourage you to retain this report as a reference point. Consider how this information may impact you—now and in the future. 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.



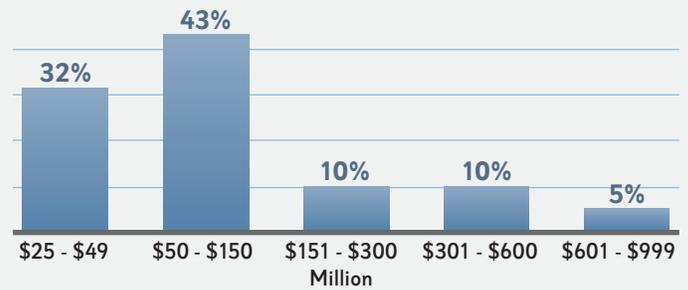
## TITLES & COMPANY REVENUE

With more than 18 months of economic and market data and over 1,900 executives surveyed, the Lucas Group SMB Job Generation Outlook is a trusted and insightful resource for gauging the current economic opinions and business plans of America's small to mid-sized businesses. This report provides a trending outlook on the issues and topics most pertinent to today's SMB market. Across industries and geographic regions, the Q3 2014 report includes responses from 400 SMB executives whom knowledgeably represent the foundation of the U.S. economy and workforce.

Three-quarters of the survey's Q3 2014 respondents reported projected 2014 corporate revenues under \$150M. One-fifth reported revenues between \$151M-\$600M and five percent of respondents are in the largest financial segment of the SMB with \$601M-\$1B in

projected 2014 revenues. The Q3 2014 report reviews the seventh edition of the Lucas Group SMB Job Generation Outlook.

### 2014 company revenues of responding executives:



## JOB GROWTH PROSPECTS FOR COMPANIES & COUNTRY

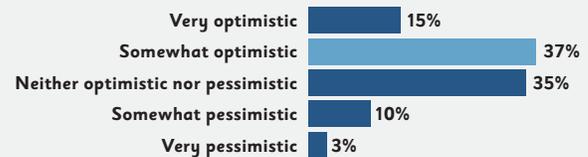
Down eight points from a survey high one year ago, 52 percent of Q3 2014 respondents reported being somewhat or very optimistic about job growth prospects for their own companies. This represents the third step down in the past three quarters. Slightly more than one-third of SMBs are in the neutral position, with 35 percent reporting neither optimism nor pessimism regarding their own company's job growth prospects for the coming months. This level of self-neutrality has remained consistent the past several quarters. After an uptick to 13 percent last quarter, the percentage of SMB leaders who express feeling somewhat or very pessimistic about their jobs growth remained unchanged in the Q3 survey.

Decreased optimism followed the same pattern when executives were asked about national jobs growth. Dropping seven points since the beginning of the year to reach 41 percent in Q3, fewer SMBs reported being somewhat or very optimistic about jobs growth nationwide. The percentage of SMBs reporting neutrality on the national landscape reached its highest level in Q3 with 34 percent, a six point increase from Q3 last year. While optimism numbers dipped in recent quarters, that dip was absorbed by those feeling neutral as opposed to increased pessimism. Looking back to Q3 2013, national optimism/pessimism

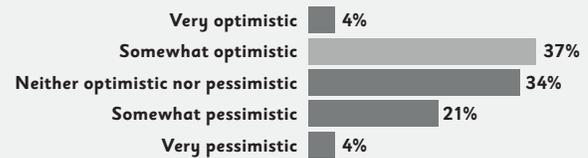
numbers were flipped (35 percent and 37 percent, respectively). In Q3 2014, those reporting being somewhat or very pessimistic about national jobs growth did not further increase and, at 25 percent, remained well below last year's 37 percent high.

### Indicate your feelings about the following:

#### > JOB GROWTH PROSPECTS FOR YOUR COMPANY



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



## ECONOMIC PROSPECTS FOR COMPANIES & COUNTRY

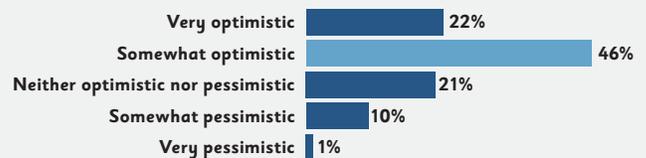
In Q3 2014, SMBs reported a similar pattern as it related to economic optimism as they did regarding jobs growth optimism. Having reached a survey high of 74 percent in Q1, optimism continued to dip during Q3, ending at 68 percent of respondents feeling somewhat or very optimistic about the economic prospects for their own companies in the coming months. With 22 percent saying they are very optimistic, Q3 remains unchanged from last quarter and maintains a small, though steady, three-quarter increase in those being very optimistic. Additionally, SMBs who report pessimism also continued to creep upward and passed the 10 percent mark for the first time since the end of last year.

Consistent with previous surveys, optimism drops among SMB leaders when considering the U.S. economy as a whole. Whereas 68 percent report optimism about their own company's economic prospects, only 48 percent of SMB leaders report being somewhat or very optimistic about prospects for the U.S. economy in the coming quarter. Down six points from Q1, optimism regarding the nation's economic prospects has lessened as the year has progressed and feelings of neutrality have increased, reaching 29 percent in Q3. After a slight uptick last quarter,

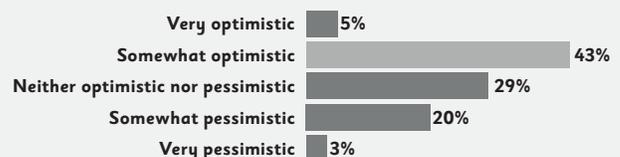
SMB pessimism about economic prospects for the U.S. remained unchanged this quarter at 23 percent.

### Indicate your feelings about the following:

#### > ECONOMIC PROSPECTS FOR YOUR COMPANY



#### > ECONOMIC PROSPECTS FOR THE UNITED STATES

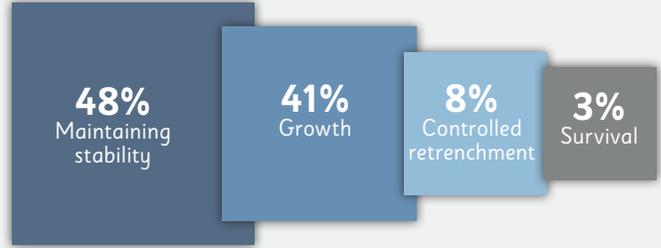




## COMPANY POSITION

Consistent with responses from the past 18 months, the majority of small and mid-sized U.S. business leaders say their companies are in a positive, healthy condition. The percentage of SMB executives who self-report a position of “maintaining stability” or “growth” has remained consistently high, near 90 percent. Of the 89 percent of SMB leaders who report positive positioning in Q3, 41 percent say they are in the most favorable position of “growth”. Fewer than one in ten SMBs consider themselves in a position of “controlled retrenchment”, and executives who reported their companies are in “survival” mode also remained low at three percent.

Select the statement that *best describes* your company’s position.



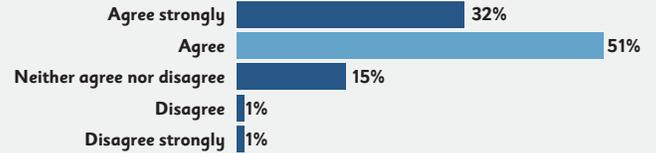
## JOB GENERATION

Eighty-three percent of small and mid-sized businesses view their market sector as the job generator for the U.S. economy. That positive response rate has remained steady throughout the survey’s history, supporting the national story that the SMB market is the vital hub of jobs growth and economic revitalization. Fifteen percent remain neutral regarding the belief, and only two percent of respondents disagree with the statement that SMBs are job generators for the economy.

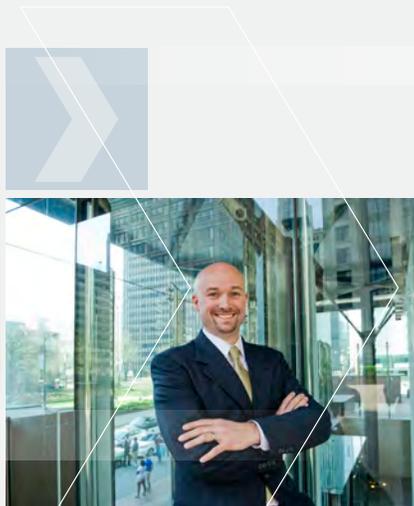
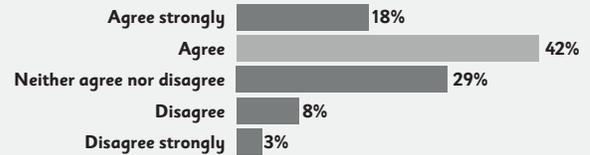
While the SMB market views its national job generation role positively, executives report less agreement to the position as a job generator when asked specifically about their own companies. This lessening of confidence dropped notably in Q3 to only six in ten executives agreeing that their own company was a job generator. This is the lowest percentage in 18 months and off eight points from last quarter alone. In addition, neutrality to the statement increased from 23 percent last quarter to reach a survey high of 29 percent, up a full 10 points from the same time last year. Eleven percent (also a survey high) of SMB leaders disagree with the individual assertion and do not view their companies as a job generator.

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



## HIRING OR DOWNSIZING IN NEXT QUARTER

In Q3 2013, the percentage of SMBs planning to hire in the coming months remained relatively steady, with 44 percent of SMBs reporting plans to hire. This response rate essentially maintains previously recorded increases, from 38 percent in Q3 2013 to 42 percent in Q4 and 45 percent in Q1 2014. After marking a survey low of nine percent last quarter, the percentage of SMBs reporting plans to downsize in the coming months ticked up slightly in Q3 to 11 percent, the average over the course of the past 18 months. Fewer than half (45 percent) of SMBs do not plan any appreciable change in their workforce over the next few months.

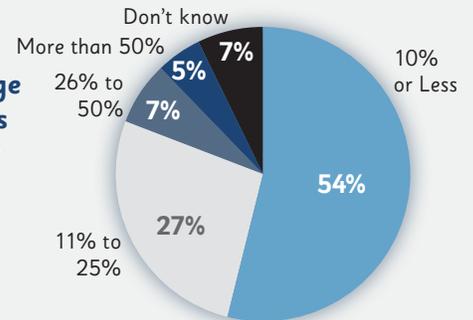
The majority of SMBs (4 out of 5) who report plans to hire in the coming months say their planned increases represent less than a quarter of their total workforce. While off from a high of 86 percent in Q1, it's a slight uptick from Q2's 78 percent and closer to the past year's average of 83 percent. Twelve percent report increases of larger than 26 percent of their total workforce and seven percent reported being unsure about future increases.

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

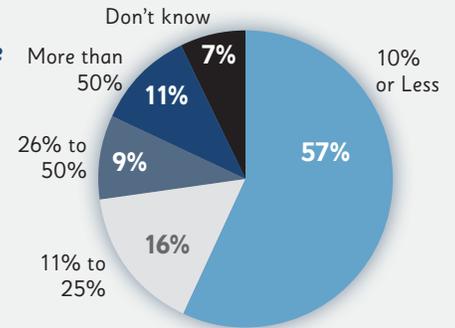


On the other side of the hiring equation, those planning to downsize in the coming months report plans to do so at a slightly higher rate than last quarter. While the majority of companies (73 percent) still report that reduction plans will affect less than 25 percent of their total workforce, one in five SMBs project greater reductions.

**Percentage change these hiring plans represent of your total workforce.**



**Percentage change these downsizing plans represent of your total workforce.**



## HIRING OR DOWNSIZING IN NEXT 12 MONTHS

Similar to past quarters, in Q3, the percent of SMBs who expect to hire during the next 12 months was solidly over half. As noted in previous Job Generation Outlook surveys, SMB executives continue to be more optimistic when considering hiring or downsizing plans for the next 12 months. This quarter, 55 percent of SMB leaders expect to hire in the coming year. Up 16 points from the survey's Q2 2013 high of 57 percent. Thirteen percent of responding SMBs reported plans to downsize in the next 12 months. While 45 percent of SMBs report no plans to hire or to downsize during Q3, those neutral numbers thinned to about one-third when considering the longer 12-month period.

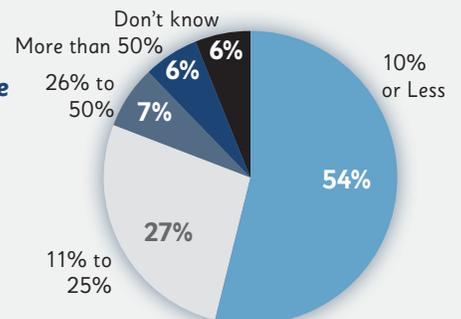
When asked about how these hiring or downsizing plans affect overall workforce numbers, more than half say their plans to hire represent less than a 10 percent increase. Twenty-seven percent say their plans affect between 11 and 25 percent, and 13 percent of respondents

**Looking ahead, share your hiring or downsizing plans for the next 12 months.**

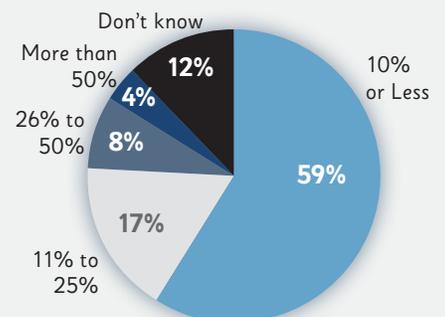


report plans to increase their workforces by more than a quarter. For those companies planning to downsize over the next year, SMBs report plans to do so with lowered intensity than in previous quarters.

**Percentage change these hiring plans represent of your total workforce.**



**Percentage change these downsizing plans represent of your total workforce.**

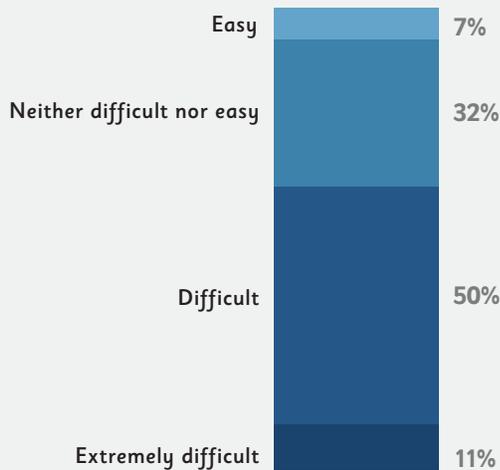


## HIRING DIFFICULTY

Over the past year and a half, 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. Since early 2013, the survey has found the available talent gap widening for SMBs. Last quarter, the percentage of executives who report that finding talent is difficult rose above 60 percent for the first time, and in Q3 it remained elevated at 61 percent. This number included the 11 percent of SMBs who reported talent acquisition as extremely difficult. This intense level of difficulty is up ten points from one year ago. Fewer than one in ten (seven percent) of SMB leaders report their businesses have no difficulty finding and hiring qualified candidates for open professional and management positions.

As has been the case for most quarters, Sales remained the most difficult to fill, with 37 percent of SMBs reporting troubles finding

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



## TOP ISSUES FACING SMBs

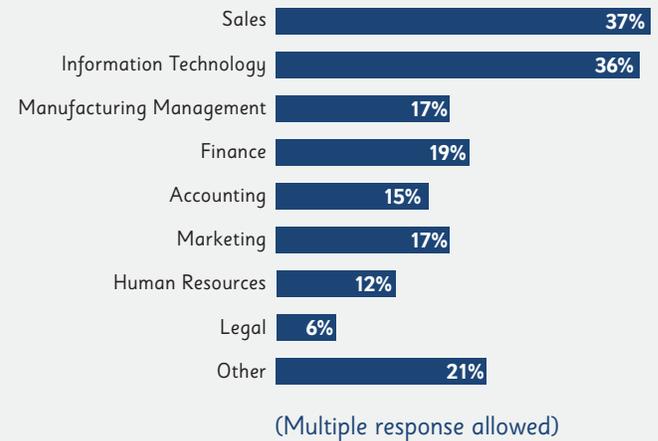
The SMB Job Generation Outlook seeks to identify and learn more about the chief challenges today's small to mid-sized businesses face in the marketplace. Since early 2013, SMB leaders have reported health care costs to be of chief concern to their businesses. That remained true in Q3, with 32 percent of SMBs citing health care costs as their #1 concern.

However, the challenge gap between health care costs and talent availability has been closing and reached its smallest difference in Q3 at only three points. Marking a survey high, 29 percent of Q3 respondents cited talent availability as their chief business concern. This narrowing is consistent with the findings that SMBs are reporting increasing difficulties in finding qualified professional talent, with 61 percent reporting hiring difficulty in Q3.

Health care costs and talent availability represent the top concerns for 61 percent of the SMBs in our survey, but several other key issues remain most important to the other 39 percent. Slightly more than one in five SMBs report that competition from domestic and international markets is their number one concern and another nine percent cite uncertainty in tax policy. Environmental regulation concerns have

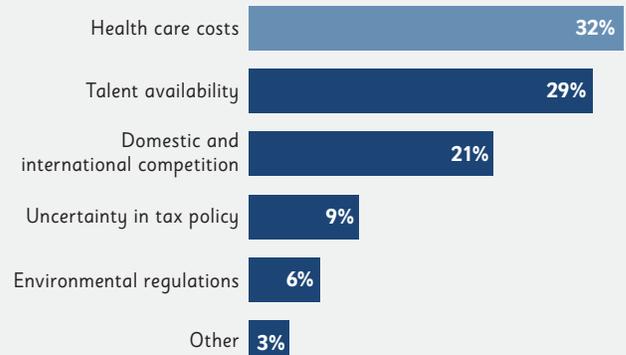
and hiring qualified Sales talent. Allowing for multiple responses, the survey found that Information Technology—which surpassed Sales only once in Q1 2014—remained in a close second place in Q3 with 36 percent citing it as difficult. Together, Accounting and Finance created difficulty for one-third of the responding executives and both Manufacturing Management and Marketing were challenges for 17 percent. Human Resources maintained last quarter's uptick to 12 percent of SMBs having difficulty finding HR talent, and Legal dropped to its lowest level of difficulty in survey history, with only six percent of businesses reporting trouble finding attorney talent. One in five SMBs responded they also have trouble in "other" areas of professional and management recruitment.

### Indicate which area of open positions are most difficult to find qualified candidates.



historically been the least ranked top concern, with only six percent reporting this issue as a chief concern in Q3 2014.

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



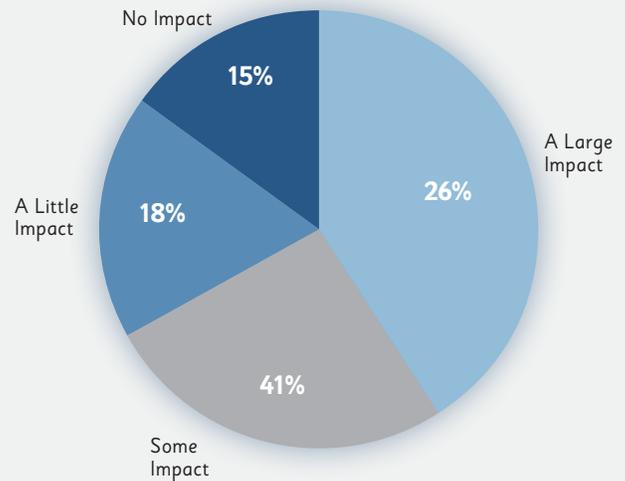
## IMPACT OF PATIENT PROTECTION AND AFFORDABLE CARE ACT

In addition to gauging top concerns in the SMB market, the Job Generation Outlook surveys executives about their planning and expectations for changes in the market. The survey asks SMB leaders about their companies' preparations toward the implementation of the Patient Protection and Affordable Care Act (Obamacare) and their projections in regard to the impact the law will have on their businesses.

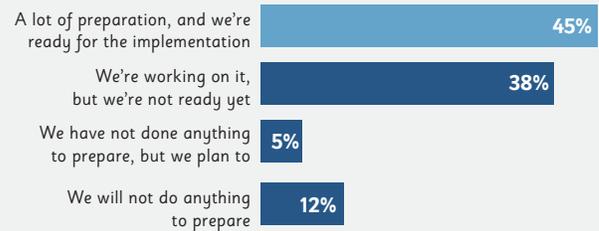
In Q3, the survey found that 85 percent of respondents predict Obamacare will have at least some level of business impact (a "little", "some" or "large" impact). While seemingly high, it represents the lowest expectation found during the survey to date. Up six points from Q2, the percentage of executives who expect the ACA to have no impact on their business plans conversely reached a survey high of 15 percent. This number is reflective of the seven point drop over last quarter, from 33 percent to 26 percent, of SMBs who predict a large impact from Obamacare.

In addition to impact, the survey asked businesses to qualify their implementation preparation levels. The impact breakdown in Q3 correlates with the survey's most recent findings regarding the amount of preparation SMBs have done ahead of the law's full implementation. The percentage of SMBs who say they have prepared and are ready for Obamacare hit a survey high in Q3 at 45 percent. This represents a 16 point increase from one year ago. Another 38 percent report they are working on preparing for the law and the fewest number yet (five percent) say they have not done any preparation but plan to in the future. Up slightly from last quarter, 12 percent of SMBs report in Q3 that they have not and will not do anything in preparation of the law's full implementation.

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



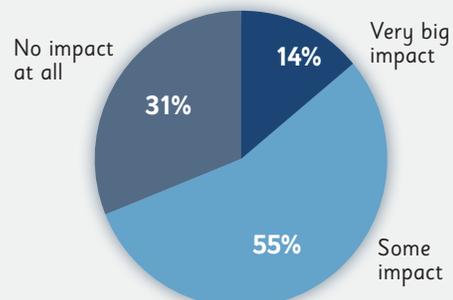
### How much preparation have you made for the implementation of the Patient Protection and Affordable Care Act in your business?



## BABY BOOMER RETIREMENT

Every month, over a quarter million Americans turn 65. As more and more members of the Baby Boomer generation continue to reach retirement age—enabling millions of professionals to leave the workforce over the next decade—the impact felt by these mass retirements will be significant to the economy. The SMB Job Generation Outlook asks leaders to qualify the impact projected Boomer retirements will have on their individual businesses. Over recent quarters, impact levels have crept upward and this quarter 69 percent of SMBs reported expecting to experience an impact from the retirements of Baby Boomers, up six points from this time one year ago. Less than one-third (31 percent) say that Baby Boomer retirement will not impact their companies.

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



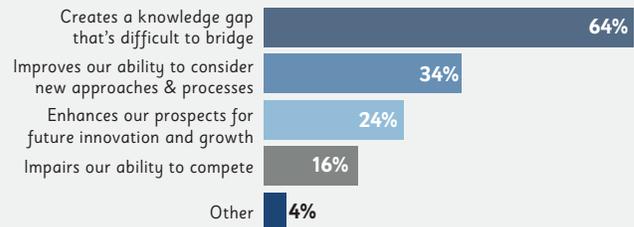
## IMPACT OF RETIRING BABY BOOMERS

With an estimated 10,000 Baby Boomers retiring from the workforce each day, SMBs are beginning to recognize the impacts that retirements are having, or will have, on their businesses—both in potentially positive and negative ways. Since Q2 2013, SMBs have reported that the creation of a knowledge gap, or “brain drain”, was the chief effect felt by or expected from retirements. This retirement consequence has far outpaced others for nearly a year, reaching a survey high of 64 percent in Q3 2014. SMBs are much more concerned about the knowledge gap created by retirements than any perceived loss of competitiveness in the marketplace. Only 16 percent of SMBs report that Boomer retirements impair their ability to compete.

Allowing for multiple responses, SMBs also note several positively perceived effects. Twenty-four percent reported that retirements enhance their prospects for future innovation and growth (up from

a survey low of 17 percent in Q3 2013) and 34 percent predict that retirements will improve their ability to consider new approaches or processes.

### Describe how the retirement of Baby Boomers impacts your company. (multiple responses allowed)



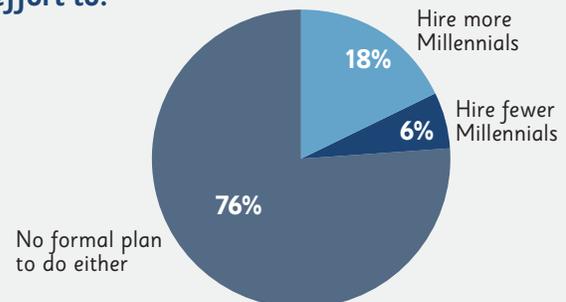
## HIRING MILLENNIALS

Moving into business as Baby Boomers move out, America's estimated 80 million Millennials are quickly becoming the largest workforce generational pool. Despite predictions that nearly half of the American workforce will be comprised of Millennials by 2020 and the sociological acknowledgement that this next generation has professional goals and expectations different from their elders, the majority of SMBs continue to hire Millennials into their teams without formalizing plans to recruit, develop or retain.

The SMB Job Generation Outlook asks business leaders what—if any—plans their companies have in place related to Millennial hiring. According to Q3 2014 data results, three-quarters of SMBs surveyed do not have any formal plans to specifically recruit Millennial candidates over the next several months. Only 18 percent of SMBs report that they plan to specifically target Millennials in the coming quarter for hire, and six percent report a planned effort to actually hire fewer candidates from this growing workforce population. The SMB

Job Generation Outlook will continue to survey leaders regarding this topic and consider the effects that Baby Boomer retirements and new Millennial candidates exert upon one another.

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



## HIRING VETERANS

Workforce issues and job programs for veterans remain a topic of national, state and local discourse and unemployment rates among veterans continue to outpace the general population. Despite estimates that three 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, SMBs do not appear to be focused on or prepared for this influx of talent into the corporate market.

While saying they are open to the idea of hiring veterans, the majority of surveyed SMBs continue to report having no specific plan to recruit or hire post military. Eighty-four percent of SMBs are open to hiring vets, yet take no specific actions. Only eight percent of responding SMBs say their companies have a specific plan in place to hire veterans, the lowest percentage in 18 months. Another eight percent of SMBs say they do not plan to hire veterans in the in the coming months.

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



## MINIMUM WAGE

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 SMB Job Generation Outlook seeks to unveil what business executives believe. In Q3 2014, the Outlook once again asked SMB executives about the potential impacts that a federal minimum wage increase to \$10.10 per hour would have on their companies. Nearly six in 10 executives reported that an increase to \$10.10 would have no impact—neither positive nor negative—on its business. This represented a 10 point jump over last quarter and an eight point increase from Q1.

Of those SMBs citing some level of impact, one in five reported that a wage raise would result in an increase of pricing to their end customers. Allowing for multiple responses, the Q3 2014 survey also revealed that a \$10.10 minimum wage would create some level of negative hiring effect for 38 percent of SMBs. Seventeen percent would reduce current hiring plans (down five points from last quarter) and six percent would eliminate all new hiring. Fifteen percent of respondents report that a \$10.10 minimum wage increase would lead them to reduce current workforce numbers; this number has remained the past three quarters.

To a business, the most drastic consequence of a minimum wage increase would be if wage adjustments led to the business having to

shut its doors. Over a three-quarter history of asking this question, the survey revealed that two percent of the more than 1,200 SMB leaders surveyed predict that their businesses would close should the proposed \$10.10 per hour minimum wage become law. Based on data from past four quarters, the mean workforce for SMB respondents is approximately 2,500 people per business. At a two percent fail rate for those companies, the jobs loss from business closings alone could near 60,000.

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



\*Multiple Responses Allowed

## Ideal Minimum Wage

Over the course of the past several quarters, SMB executive responses appear to show an appetite—to some extent—among the small to mid-sized business market for increasing the minimum wage, with an ideal mean minimum wage of approximately \$9.20 an hour. The question “How much is the right amount?” plays a critical part in a complicated and multi-faceted economic issue.

Survey respondents were asked to use a sliding scale to provide an opinion on where they would ideally like to see the minimum hourly wage set. While 27 percent wished to keep the rate between its current \$7.25 per hour and \$8.20 per hour, that option was down seven points from Q2's high. At 49 percent, nearly half of the Q3 respondents felt that the \$8.21–\$10.10 (the rate proposed by the White House) range was most ideal. Another 24 percent of SMB leaders chose answers in the rate range of \$10.11–12.00 as most ideal—going beyond the proposed \$10.10 increase.

### Using the sliding scale below, where would you ideally like to see the minimum hourly wage set?



## CONTRACT OR PERMANENT EMPLOYEES?

American SMBs continue to demonstrate a desire to hire permanent employees into their companies. Thirty-eight percent of SMB leaders say their companies will hire only permanent employees in the coming months and another 26 percent report planning to hire a combination of permanent and contract workers. Seven percent are looking to hire contract workers only. This survey low (off six points from the Q3 2013 high of 13 percent) has remained consistent for the past three quarters. Twenty-nine percent of respondents don't specifically plan to hire either next quarter, the highest reported “neither” number in the past year.

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



## IMMIGRATION REFORM

While Congress broke for midterm elections without voting on comprehensive immigration reform and the White House has subdued the subject in its talking points, immigration continues to be a divisive and hotly debated topic across America. Despite congressional and White House inaction, SMB executives have consistently reported moderate support—of at least some action—for restructuring the U.S. immigration system.

Slightly over half (51 percent) of SMBs surveyed agree with the statement that the U.S. should ease immigration requirements for skilled workers in IT, science, and other high-demand fields. This number is up six points from last quarter's low and on par with the average rate over the past 18 months. One in five SMB leaders maintain a neutral position regarding immigration for this skilled professional set, and 29 percent disagree with the proposal to ease requirements. Remaining stable from last quarter, this is the highest

reported disagreement in the Outlook's history.

Support for immigration reform drops when considering other population sets, and in Q3 2014, runs only five points apart between agreement and disagreement when considering skilled laborers for manufacturing. This quarter, 40 percent of respondents agree with the statement that the U.S. should ease requirements for manufacturing talent, down five points from its Q1 2014 high. In relation, 35 percent disagreed with the idea of easing manufacturing talent immigration requirements, up 12 points from one year ago and the same as last quarter.

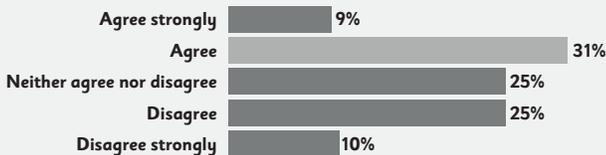
SMB support for easing immigration requirements plummets when considering either immigrants already living in the U.S. or all immigrants, now and in the future. In both instances, more SMB leaders disagree with easing requirements (48 percent and 60 percent, respectively) than agree.

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

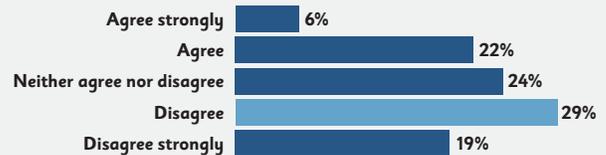
#### > THE U.S. SHOULD EASE REQUIREMENTS FOR SKILLED WORKERS IN IT, SCIENCE AND OTHER HIGH-DEMAND FIELDS.



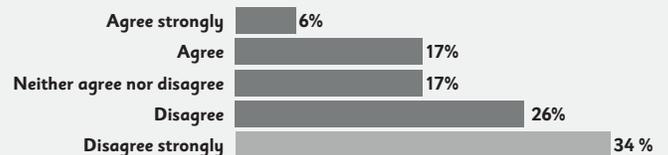
#### > THE U.S. SHOULD EASE REQUIREMENTS FOR SKILLED LABORERS IN MANUFACTURING.



#### > 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.



## BIPARTISANSHIP

With a variety of political and market concerns affecting the SMB, including minimum wage, health care costs, immigration and jobs growth, the survey seeks to gauge the market's feelings on politicians' abilities to work cooperatively. While pessimism regarding federal bipartisanship has consistently been in the mid to upper 60 percent range, SMB pessimism reached an all-time high in Q3, with 78 percent of executives saying they were somewhat or very pessimistic about national lawmakers and governmental officials being able to demonstrate bipartisanship.

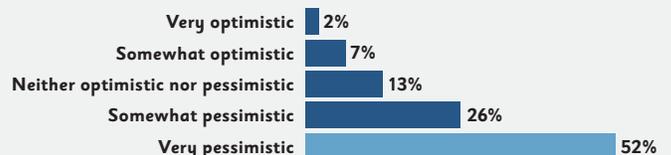
Whereas 16 percent of SMB executives felt either somewhat or very optimistic back in Q3 2013, respondents reporting positivity hit its lowest number to date. At nine percent, less than one in ten SMB leaders feel optimistic about Washington. Also marking a survey low, the fewest executives stayed on the sidelines, with only 13 percent reporting neither optimism nor pessimism.

For the past several quarters SMBs reporting to be somewhat or very pessimistic about state politics remained in the upper 50th percentile. In Q3, that number jumped 11 points to reveal that 67 percent of SMB executives are now pessimistic about state bipartisanship. While still 11 points below the national negativity of 78 percent, this represents a distinct change in response rate from previous quarters.

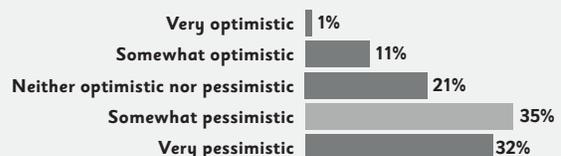
In correlation, the percentage of SMB leaders who report feeling somewhat or very optimistic about cooperation at the state level dropped six points from this time last year to only 12 percent. Unlike last quarter when 32 percent said they were neutral on the subject, in Q3 only one in five remained impartial.

### Indicate your feelings about the following:

#### > BIPARTISANSHIP IN FEDERAL GOVERNMENT



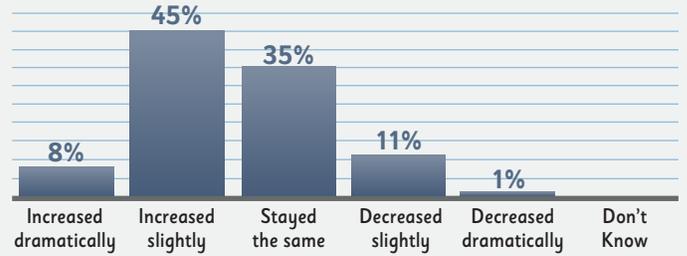
#### > BIPARTISANSHIP IN STATE GOVERNMENTS



## CHANGE IN WORKFORCE AND FULLY-BURDENED EXPENSES

SMBs reported similar ratios in changes to workforce and fully-burdened expenses in Q3 and as they had the past several quarters. Slightly over half (53 percent) of responding SMBs reported that their company's workforce related expenses increased, with 45 percent of SMB leaders reporting a slight increase and eight percent reporting a dramatic increase. Thirty-five percent reported no change, and 12 percent reported decreases, with one percent citing those decreases as dramatic.

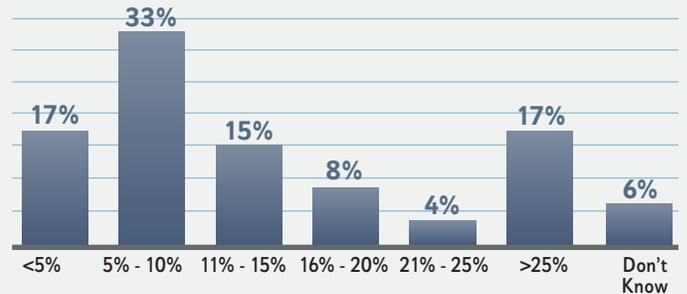
**Describe how your workforce and fully-burdened expenses changed last quarter.**



## WORKFORCE (IN FTES) INCREASES OVER LAST QUARTER

Of the SMBs reporting increases to their workforce and fully burdened expenses last quarter, half saw increases of less than 10 percent to their total costs. Twenty-three percent reported greater increases between 11 and 20 percent, and one out of five SMBs reported significant increases (greater than 21 percent) to their workforce and fully-burdened expenses.

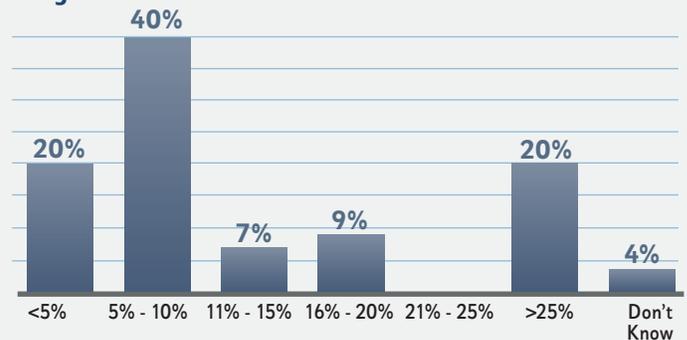
**For those expenses that increased, select the percent they increased.**



## WORKFORCE (IN FTES) DECREASES OVER LAST QUARTER

While 88 percent of SMBs reported either no change or an increase in workforce and fully-burdened expenses, 12 percent of survey respondents reported decreases to their expenses. That overall percentage has changed only slightly over the past four quarters. Three out of five SMBs who report decreases identify them at less than 10 percent of their total costs. Sixteen percent reported an 11 to 20 percent decrease, and one-fifth of SMB expense decreases represented greater than 25 percent of overall expenses.

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



## INDUSTRY

Representing a cross-section of U.S. industries, Q3 2014 Outlook respondents reported working in close to 20 different business sectors. Manufacturing, Financial/Insurance/Real Estate, Business Services and Health Care showed the greatest representation, with Information Technology, Construction and Consumer Services in the second tier.

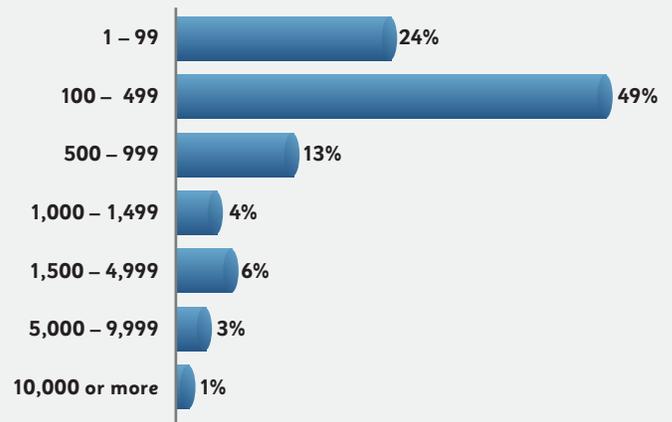
### Select your company's industry.

1% Agriculture & Mining	3% Information Technology
2% Arts, Entertainment & Recreation	1% Legal Services
2% Automotive	18% Manufacturing
8% Business Services	6% Nonprofit & Membership Organizations
8% Construction	2% Telecommunications
3% Consumer Services	4% Transportation Services
5% Energy, Oil, Gas & Utilities	1% Pharmaceuticals
12% Finance, Insurance, Real Estate	15% Other
9% Health Care / Medical	

## COMPANY SIZE

Seventy-three percent of Q3 respondents were from small businesses with fewer than 500 employees. Twenty-three percent of respondents reported mid-sized workforces, employing between 500 and 4,999 people. Four percent represented the largest sector of the SMB with more than 5,000 employees.

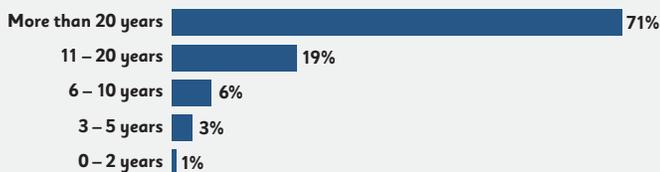
### Select the number of workers your company currently employs.



## LENGTH OF TIME IN BUSINESS

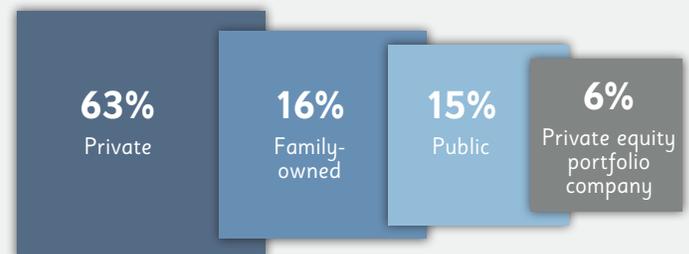
The SMB Job Generation Outlook survey group continues to be composed of long-standing businesses with 71 percent of Q3 respondents having been in business for more than 20 years. Another 25 percent have been in business from 6-20 years and only four percent have been newly founded within the past five years.

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



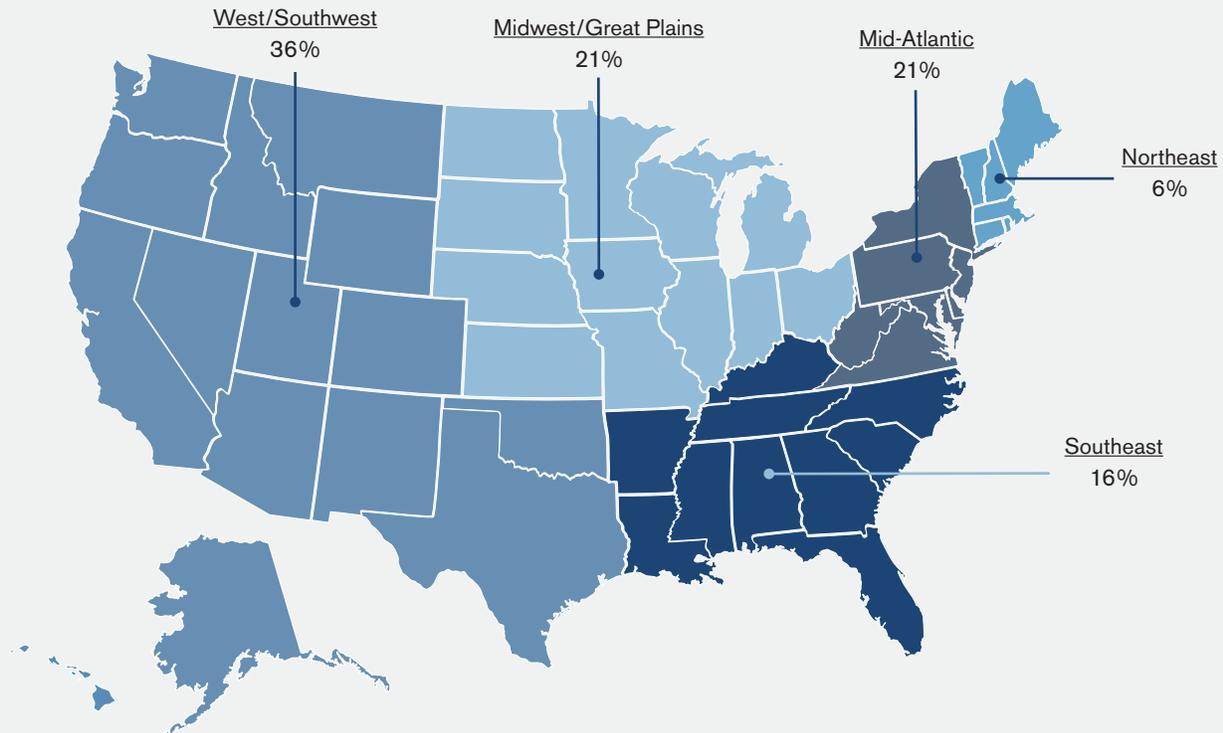
## TYPE OF COMPANY

### Describe your company's ownership structure.



## LOCATION OF COMPANY

Diverse and wide-ranging, the Q3 2014 SMB Job Generation Outlook surveyed business leaders from 48 states, with the strongest concentrations of respondents from California, New York, Texas, Florida and Illinois.



## Lucas Group SMB Job Generation Outlook Survey Q3 2014 Closing Remarks

Since early 2013, Lucas Group has surveyed more than 1,900 top executives from small and mid-sized businesses across the United States via the SMB Job Generation Outlook. Published quarterly, the Outlook seeks to uncover and report upon the business opinions and market expectations of the SMB's highest offices. Focused intentionally on C-level executives 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.

Q3 2014 Outlook respondents represented 48 states and 20 different industry sectors. From Manufacturing and Business Services to Health Care and Information Technology, these SMB executives knowledgeably characterize the foundation of the U.S. economy and workforce. The majority of reporting SMBs are long-standing businesses with more than a decade in operation, employee workforces under 1,000 people and 2013 corporate revenues between \$25M-\$150M.

Overall, the survey revealed that small to mid-sized business leaders are generally optimistic about opportunities in the U.S. economy and the SMB sector. They express positivity regarding job creation, economic growth, and the health of their own companies. For those SMBs who report plans to hire, four out of five say their plans will increase their total workforce by 25 percent or less – demonstrating moderate, sustainable growth on pace with national employment growth numbers.

### Political Pessimism Reaches Survey High

As with past quarters, SMBs do not, however, reveal similar optimism about the U.S. political landscape or bipartisan efforts. Only weeks ahead of midterm elections, the SMB Job Generation Outlook asked executive about their opinions regarding bipartisanship at both the federal and state levels.

While pessimism regarding federal bipartisanship has consistently been in the mid to upper 60 percent range, SMB pessimism reached an all-time high this quarter, with 78 percent of executives saying they were somewhat or very pessimistic. Only nine percent of respondents shared optimism about the federal cooperation, presenting a bleak look for Washington's near future effectiveness.

SMB leaders have historically been more positive about political collaboration at the state level. However, as gubernatorial races and congressional seat battles have reached a fever pitch in many places across the country, SMB executives also reported a spike in pessimism in Q3 regarding bipartisanship at the state level. Many reports predict that the 2014 midterm elections will be the most expensive in history for advertising money spent at the state and local district level, with many of those ads thick with "attack" messages. In relation, the Q3 SMB survey revealed that state-level pessimism spiked, reaching a survey high of 67 percent – up 11 points from only a few months ago.

*Continued next page...*

## Changing Dynamics in American Workforce and SMB Hiring Challenges

Census data reveals that for the next fifteen years, Baby Boomers will reach retirement age at the rate of 10,000 people each day. Essentially, the entire populations of New York, Texas, Florida and Georgia are leaving the workforce, and Millennials will replace them. By 2020, half of the American workforce will be Millennials, born early 1980s through early 2000s. The SMB Job Generation Outlook seeks to report upon how the changing generational workforce affects U.S. SMBs.

Each quarter, we have asked SMB leaders about the impact they believe retirements will have on their organizations, and we have witnessed a steady rise in the percentage of SMBs who expect some level of impact from the workforce changes created by retirements. This quarter, 69 percent of SMBs reported an expected impact, up six points from this time one year ago, and of those respondents expecting an effect, one in five predict that impact will be “very big.”

Noting that the majority of SMBs surveyed each quarter are long-standing businesses – with 71 percent having been in business more than 20 years – we also asked Q3 respondents about their plans for hiring from the Millennial talent pool. Despite 64 percent of SMBs expressing concern about the “brain drain” effect of impending Baby Boomer retirements, the survey revealed that three out of four SMBs have no formal plans to recruit or hire Millennials.

They do, however, report consistent and increasing challenges in finding qualified professional talent. Only seven percent of SMB leaders report that talent acquisition is currently “easy” for their company, with Sales and IT talent presenting the greatest challenge. Sixty-one percent (up 10 points from the same quarter last year) report some level of difficulty in hiring, with 11 percent saying that qualified professional talent acquisition has become “extremely difficult” for their company.

The SMB Job Generation Outlook will continue to monitor the business impacts of retirement, talent availability, and candidate-focused hiring plans that may affect the sector’s ability to find, hire, and retain qualified professional talent. Future surveys will continue to gauge how the sector plans to manage these challenges as well as the changing economic, political, and workforce landscape.

## SMBs Considering Multiple Options to Combat Increasing Health Care Costs

In Q3, survey respondents also shared insight on their company’s plans regarding the Affordable Care Act (ACA). As businesses across the country prepare for the employer mandate, which is set to begin in 2015 and requires businesses with more than 50 employees to provide health care coverage or pay fines, 45 percent of respondents report they have prepared and are ready for implementation.

In addition, SMB leaders ranked health care costs the number one challenge affecting their company, over talent availability, uncertainty in tax policy, domestic and international competition and environmental regulations. This chief concern is consistent with previous survey findings, and in Q3 respondents had the opportunity to share specifics about how their companies are managing these increase costs.

Allowing for multiple responses, about 30 percent say they will review their plans periodically, changing plans or providers as necessary. One in four SMBs expect they will increase employee contribution and one in ten will implement employee health education and wellness programs in an attempt to stem rising costs. Fourteen percent of respondents say their companies will not take any deliberate actions to offset the rise in health care costs and their businesses will absorb the increases.

The SMB Job Generation Outlook will continue to monitor trending economic opinions, hiring plans and business challenges experienced by the small to mid-sized business market. The survey will also continue to gauge and report on how SMB leaders plan for and manage changing financial, political and workforce landscapes.



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