

SMB Job Generation Outlook Q4 2015



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

Q4 2015 SMB Job Generation Outlook examines three years of market data

The Lucas Group SMB Job Generation Outlook provides a quarterly, trending analysis of the issues most pertinent to today's U.S. small to mid-sized business market. An innovative approach to traditional business surveys, the Outlook gauges both recent and planned activity across

"...three years of market data from more than 2,800 SMB executives..."

the SMB. Topics include economic environments, employment trends, legislative initiatives, political debates and the tangible impact these

issues have on business and employment planning across the United States.

With over three years of market data from more than 2,800 SMB executives, the Q4 2015 Outlook report evaluates responses from SMB leaders whom knowledgeable represent the SMB – a foundational sector of the U.S. economy and workforce.

This national survey of SMB presidents, CEOs and business owners culminates the third full year of quarterly Outlook reports and provides comparative analysis to previous SMB Job Generation Outlook surveys, with both quarterly and year-over-year comparisons.

From Manufacturing and Finance to Health Care and Information Technology, the Q4 2015

report includes a representative cross-selection of industries, regions and company sizes and structures. Respondents in this quarter's report are typical of past survey participants: Most have been in operation more than 10 years, report corporate revenue of less than \$600M and employ fewer than 5,000 people.

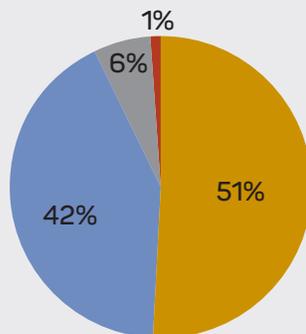
From Survival to Growth, SMBs report on company positioning

Each quarter, the SMB Job Generation Outlook asks executives a baseline question regarding each 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 currently see themselves in the marketplace.

Throughout this survey's history, most Q4 2015 respondents reported their companies to be in stable, healthy condition. Forty-two percent of Q4 respondents said their SMBs are entering 2016 with a strong outlook and are positioned for growth. More than half (51%) said their businesses remain stable, and only seven percent considered their companies in controlled retrenchment or survival mode.

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

Q4 2015



51% Maintaining stability

42% Growth

6% Controlled retrenchment

1% Survival

Data reveals year-over-year improvement in overall health and stability of America's small to mid-sized businesses.

In 2013, an average of 84% of SMB executives positioned their companies in stable or growth modes, with the market reaching its highest positive response rate of the year (88%) in Q4. Conversely, an average of 12% of SMBs in 2013 reported their businesses in either controlled retrenchment or survival positioning. Negative positioning peaked in Q2 2013, with 19% of SMB respondents saying their companies were belt-tightening in retrenchment and another seven percent reported they were fighting simply to stay afloat.

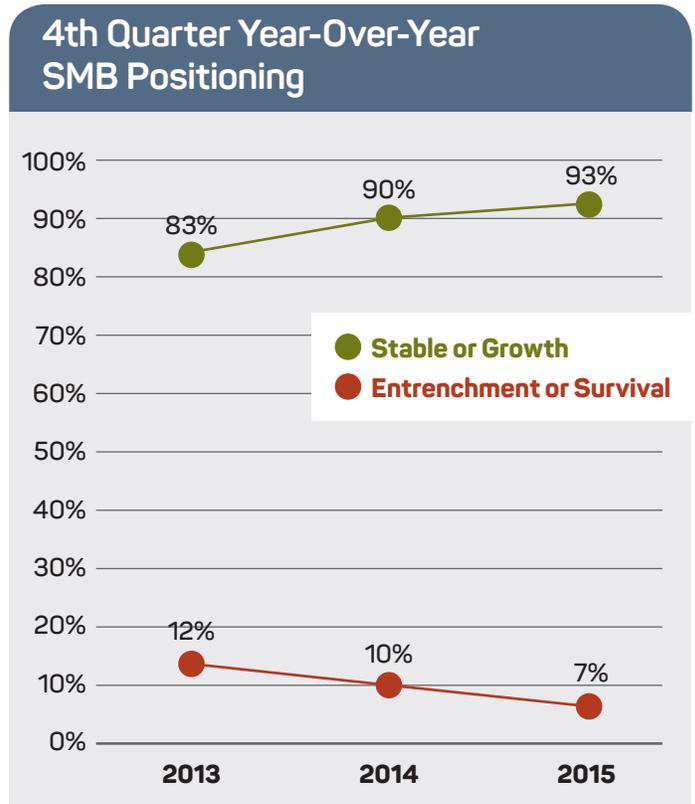
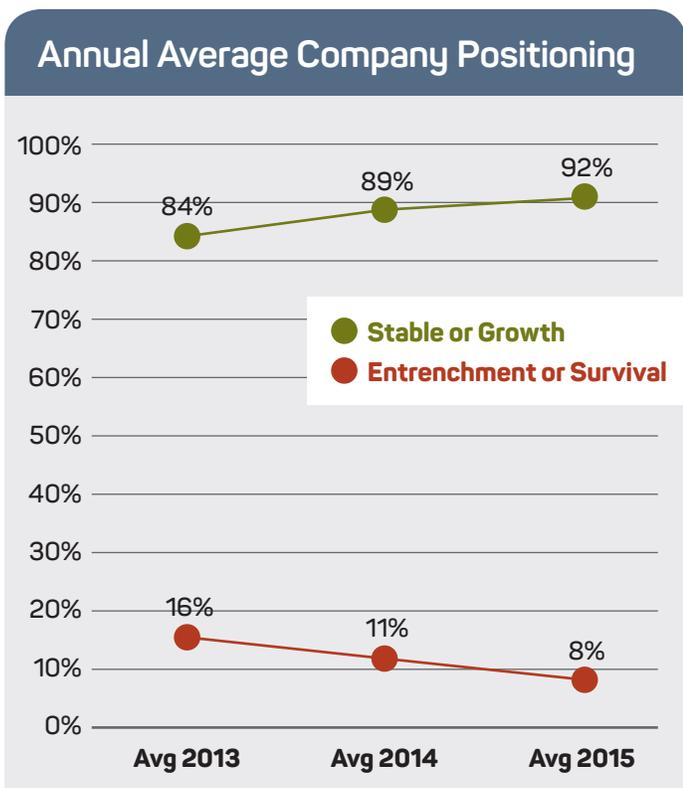
2014 saw an increase in SMB stability and growth as well as less volatility from quarter to quarter. The year's positivity rate grew with small and steady increases from 88% in Q1 to 91% in Q4. Overall, 2014 recorded an average of 90%

of SMB leaders reporting healthy positioning for their companies. This growth in positivity was balanced with a limited correlative drop in retrenchment or survival struggles, and an average of one in ten SMBs positioned themselves in a negative light during 2014.

2015 was the SMB's healthiest of the past three years, with an average of 92% of executives reporting their companies to

"2015 was the SMB's healthiest of the past three years..."

be in stable or growth modes. Whereas Q2 2013 saw a spike in negativity, Q2 2015 witnessed the survey's highest recorded rate of stable or growth positioning, with 95% of responding SMBs reporting healthy companies. Controlled retrenchment or survival positioning averaged only eight percent in 2015, and SMB health and vitality continued strong throughout the year.



3-year SMB optimism higher for own company than for U.S. economy

On average over the past three years, SMB executives have expressed consistent levels of optimism regarding their own company's economic and job prospects, including business health and near-term plans to hire.

According to the inaugural SMB Job Generation Outlook in December 2012, 65% believed their economic prospects were positive, 56% reported

"...a dichotomy between how SMB leaders view their own businesses versus how they view the national environment."

themselves in growth mode and 52% planned to hire in the coming quarter. Three years

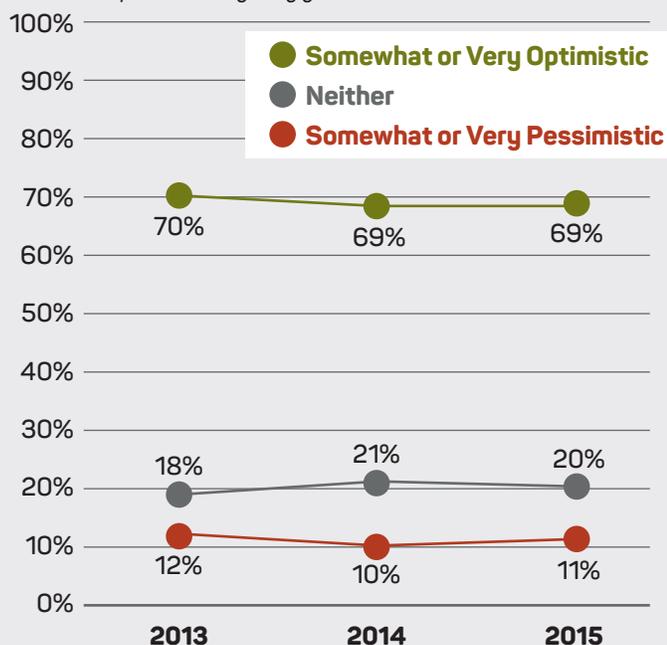
later, Q4 2015 respondents were similar in their assessments – albeit slightly less optimistic: 67% reported their economic prospects as positive, 51% saw themselves in growth mode and 46% planned to hire in the coming quarter.

The first Outlook survey in December 2012 also exposed a dichotomy between how SMB leaders view their own businesses and how they view the national environment. The initial survey revealed executives are less optimistic about the national economy as a whole. In Q4 2012, 37% of SMB leaders reported being somewhat or very optimistic about economic prospects for the United States, 28 points lower than self-described company optimism.

Over the next three years, self optimism remained fairly stable while national economic optimism grew, narrowing the gap between company-specific and national economic prospects. Annual averages of U.S. economic optimism grew from 50% in 2013 to 53% in 2014 and 56% in 2015.

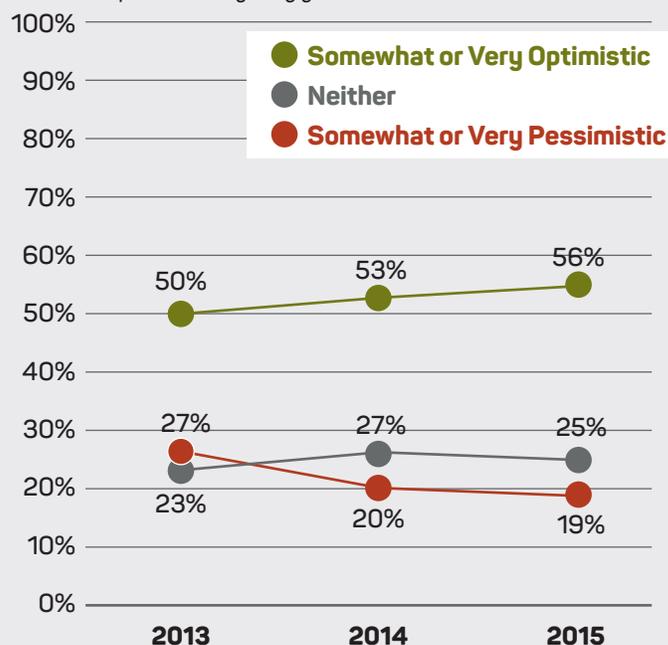
Economic prospects for your company the next quarter

*4-quarter averages by year



Economic prospects for the United States in the next quarter

*4-quarter averages by year



Slight 3-year rise in SMB job prospects; higher growth in national view

Similar to the difference in economic optimism, SMB executive confidence in job prospects is

"...SMB leaders are less optimistic about national job prospects than their own company's."

also higher for their own companies than for the overall national employment environment. In 2013, an average of 43% of SMB execs were somewhat

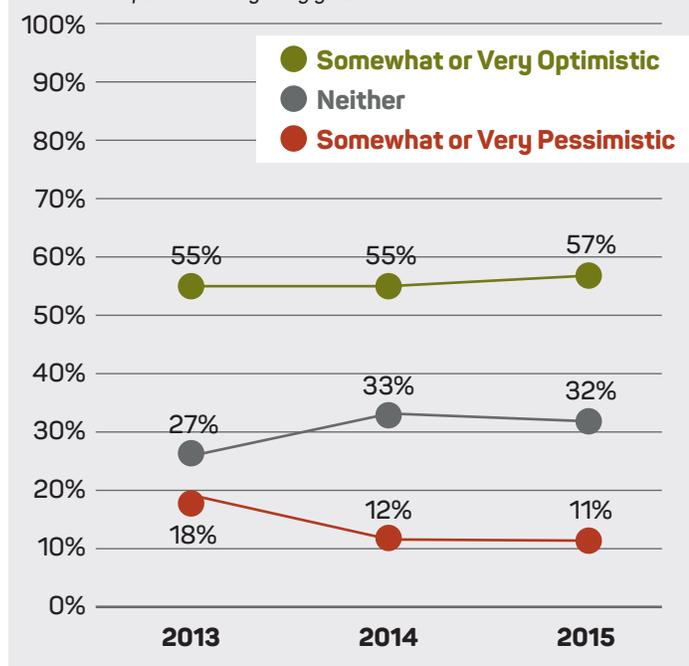
or very optimistic about job growth prospects for overall U.S. employment, 12 points off the average 55% who reported being optimistic about their own company's job prospects. Since

then, average national optimism regarding job prospects has increased eight points, while self-optimism has risen two points. By the end of 2015, the gap between national and company job prospects had narrowed to 6 points, with national optimism averaging 57% and company optimism averaging 51%.

Despite increases in overall U.S. economic and job prospects optimism, however, the separation between self and nation remains. SMBs across the country remain consistently more positive about their own company's prospects than national forecasts.

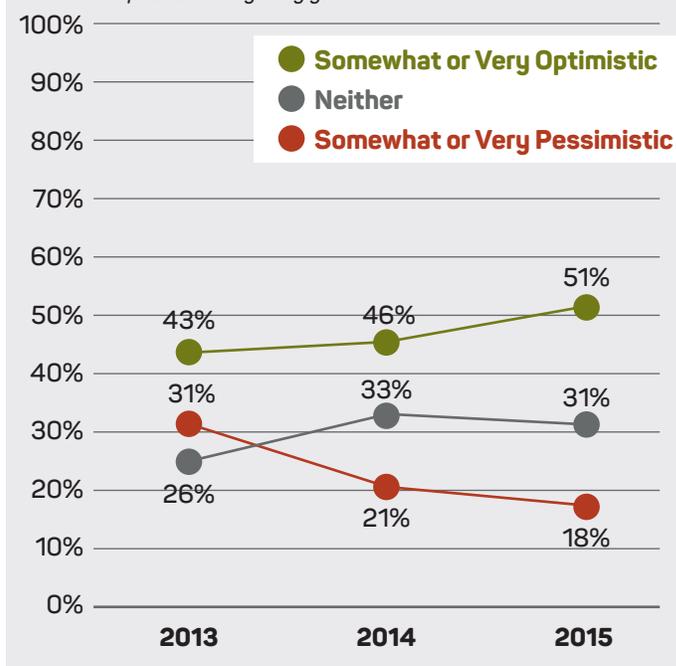
Jobs prospects for your company in the next quarter

*4-quarter averages by year



Jobs prospects for the U.S. in the next quarter

*4-quarter averages by year



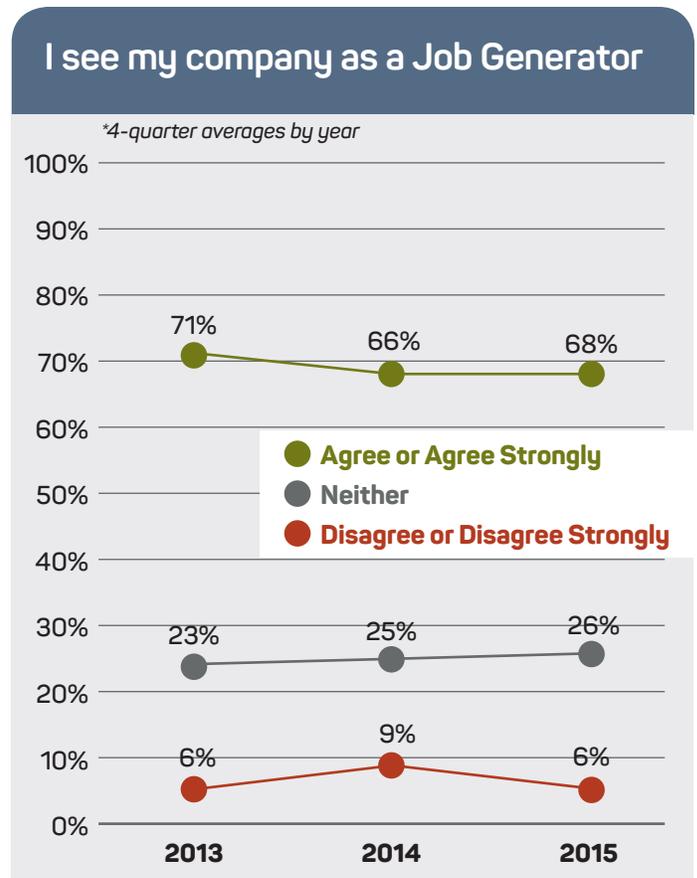
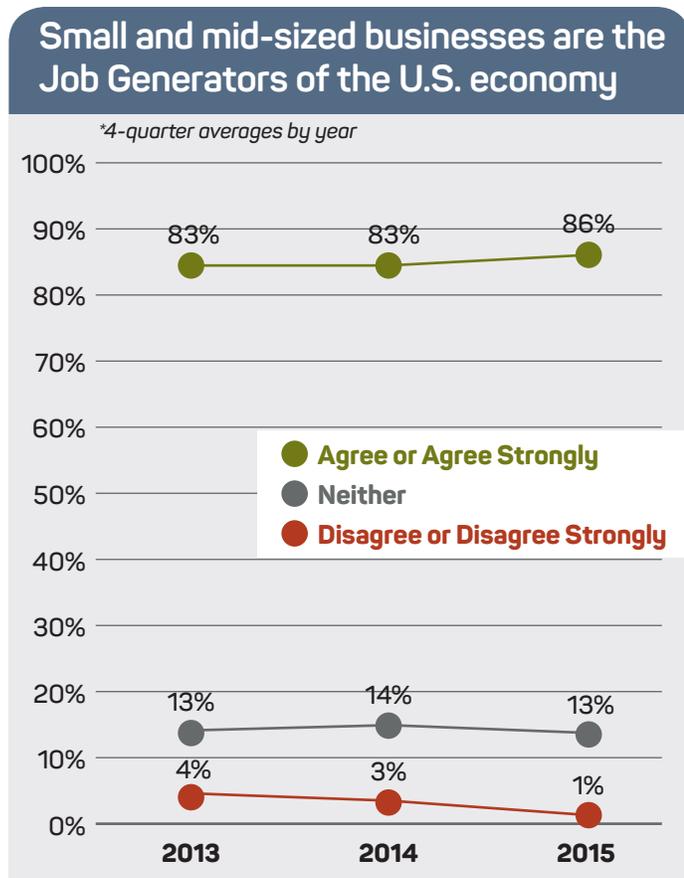
SMB views sector as Job Generator; fewer execs see own business as same

Throughout the Outlook's three-year survey history, SMB leaders have consistently embraced the oft-repeated adage that – on the national stage – SMBs are job generators for the U.S. economy. From 2013-2015, agreement with the statement averaged 84%. Q4 2015 responses were slightly more positive than the three-year average. Eighty-seven percent agreed with the statement, 12% said they neither agreed nor disagreed and only 1% of respondents disagreed.

When asked specifically about seeing their own companies as a job generator, however, SMB executives have historically expressed less optimism, lowering statement agreement levels an average of 16 points off the national

outlook. In Q4 2015, 69% of executives saw their own companies as job generators. More than one in four leaders took a neutral response and four percent disagreed.

In addition to being less optimistic in assessments of their own businesses as job generators, executives have also been more sporadic. Overall SMB sector agreement has varied across a seven-point range of 81%-88%, for a three-year average of 85%. The percentage of SMB execs who see their own companies as job generators, however, has fluctuated nearly 20 points, irregularly shifting between 60%-78% during the 2013-2015 timeframe and resulting in a three-year average of 68%.



SMB's Job Generator perceptions stronger than actual hiring plans

As survey questions narrow in scope and become more focused on actual company-specific plans, optimism drops. Quarter after quarter, the difference between theoretical job prospect optimism and actual near-term hiring plans has been at least 20 points.

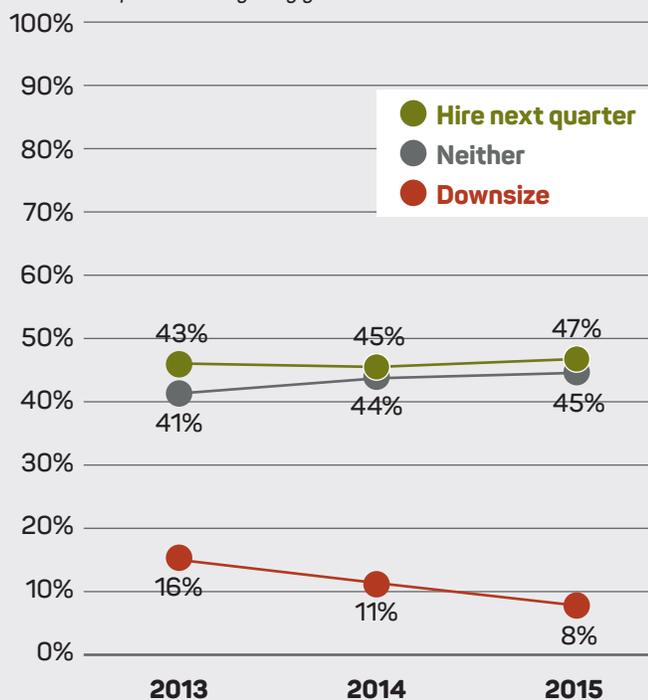
As noted, at both a national and company-specific level, SMB executives have consistently agreed with the assertion that small to mid-sized businesses serve as the job creators of the U.S. economy. Nationally, agreement has remained steady since 2013, averaging 84% over the past three years. A majority of the survey's 2,800+ respondents have also viewed their own companies as employment engines, averaging between 66% and 71% agreement since 2013.

When asked specifically about hiring plans, however, SMB leaders are less optimistic. Those reporting longer-term hiring plans (next 12 months) averaged in the mid-50s the past two years – decidedly lower than the mid to high 60s recorded with the theoretical question of U.S. job generation.

While still more than half report confidence in their long-term hiring plans, optimism distinctly lowers again when executives are asked about near-term hiring plans (next quarter). In Q4 2015, 56% of SMB respondents reported plans to hire sometime during 2016. When asked specifically about Q1, hiring plans dropped 10 points to 46% reporting actual plans to in the hire near-term.

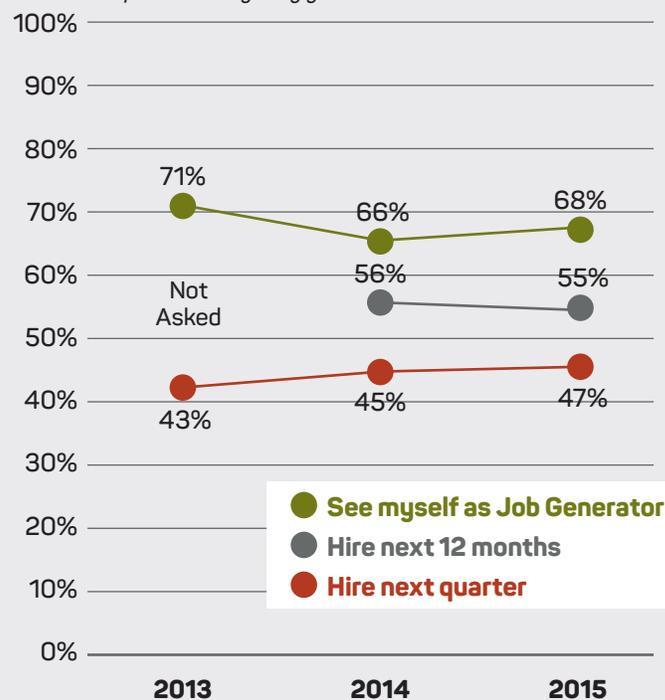
What are your hiring or downsizing plans for the next quarter?

*4-quarter averages by year



Self-perceived Job Generation role vs actual hiring plans

*4-quarter averages by year



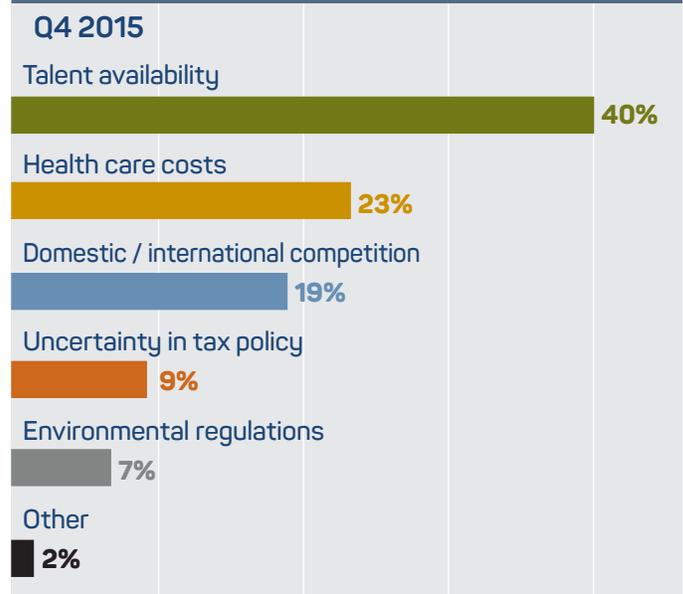
Talent & Competition worries rise; concerns on Health Care costs fall

For the first time in the SMB Job Generation Outlook's survey history, respondents named Talent Availability above Health Care costs as their #1 business challenge. In Q4 2015, four in ten SMB execs placed Talent Availability in the top spot – a 20-point increase from Q4 2012. In comparison, Q4 2015 also saw the fewest executives in Outlook history citing Health Care costs as their chief business challenge. Having led the field for the past three years, concerns about Health Care costs fell from a survey high of 40% in Q4 2013 to 23% in Q4 2015.

In addition, survey respondents have increasingly cited Competition as their chief business concern. While an average of 19% ranked Competition #1 during 2013, top ranking of Competition rose to an average of 24% in 2015. These quarterly responses are representative of trends seen in the yearly

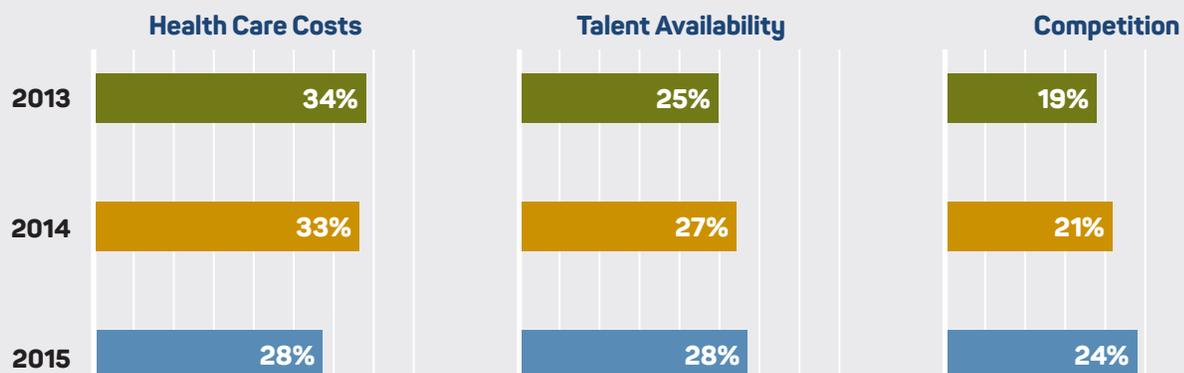
averages. Health Care costs have declined as a top business concern while Talent Availability and Competition worries have increased.

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



SMBs report on #1 business challenges. Three-year data shows Health Care cost concerns decrease while Talent Availability and Competition concerns increase.

4-Quarter Averages



Talent Availability: #1 challenge for SMBs in Q4; difficulty increasing

For the first time in over three years of quarterly reporting, SMB Job Generation Outlook respondents named Talent Availability as their company's chief business challenge. With 40% of Q4 execs saying talent was their #1 concern, the SMB's struggle to find and hire qualified professionals reached a survey high, surpassing the consistently leading challenge of managing Health Care costs.

Inquiring about the relative ease and/or difficulty SMBs face regarding talent acquisition, the survey reveals the available talent gap is widening for SMBs. In 2013, 58% said talent acquisition was somewhat or very difficult. Rising five points in two years, an average of 63% reported hiring difficulty in 2015 and the response rate reached a high of 67% in Q4. Hiring challenges are further reflected in the Q4 survey with 56% of execs reporting that talent acquisition is more difficult now than one year ago.

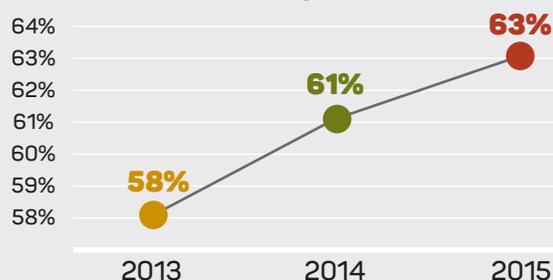
Indicate your company's current positions regarding talent.

SMBs citing Talent Availability as #1 business concern continues to increase and hits survey high in Q4 2015

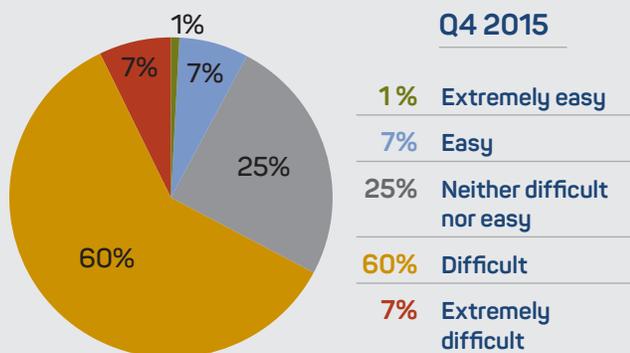


Difficulty in finding qualified professional talent increases year over year

Average percentage of SMBs that reported finding qualified professional talent as "somewhat" or "very difficult" has risen each year.



How difficult is it for your company to find qualified candidates for open professional and management positions?



Finding and hiring qualified professional talent is:



Sales & IT jobs most difficult to fill; SMBs increasing wages to compete

In 2015, SMBs were consistently challenged to find and hire qualified professionals in the fields of Sales and Information Technology. Forty percent of small to mid-sized businesses said Sales jobs were difficult to fill and 36% agreed IT roles were challenging. In their efforts to attract and retain quality talent, 30% of SMB execs surveyed in 2015 reported reevaluating and increasing their compensation packages, salary bands, bonus plans and benefits. In addition, about one-fourth of executives said they utilized professional recruiters to find top candidates.

Despite growing concerns around Talent Availability, SMBs continue to report lackluster hiring plans related to two potential workforce pools: Millennials and U.S. Military veterans. The majority of SMBs surveyed in 2015 reported no specific or formal plans to target either segment in their talent acquisition efforts.

Indicate your company's current positions regarding talent.

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

2015 averages

Sales	40%	Finance	16%
Information Technology	36%	Human Resources	11%
Marketing	18%	Legal	6%
Manufacturing Management	18%	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?

2015 averages

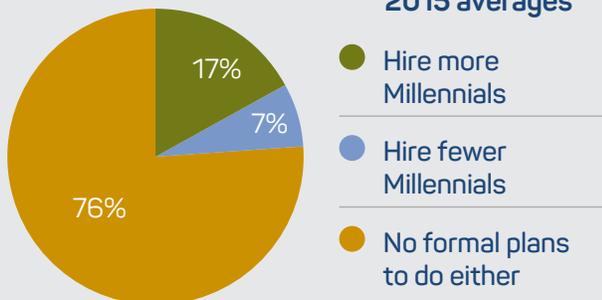
Increase/offer competitive salaries/bonuses/compensation packages/benefits	30%
Recruiters	26%
Networking/word of mouth	14%
Online postings/social media	14%
Advertising	12%
College recruiting/work with universities	8%
Job fairs/industry conferences	5%

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

*Multiple responses allowed.

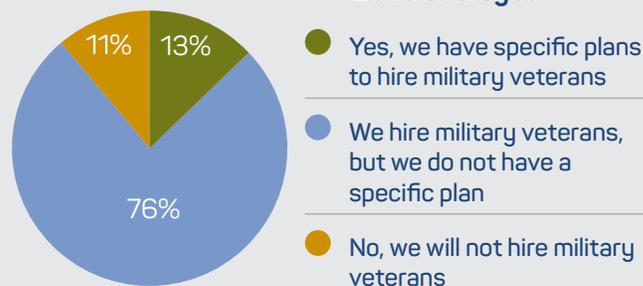
In the next quarter, are you going to make an effort to:

2015 averages



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

2015 averages



SMBs report increasing impacts from Baby Boomer Retirements

Discussions and predictions around Baby Boomer retirements are not new. For years, multiple organizations and surveys have focused on the financial impacts and challenges individual retirees face or on the strain retirements create on Social Security solvency. The SMB Job Generation Outlook shifts emphasis on this topic to the business sector and examines retirement effects from the perspective of America's small to mid-sized companies.

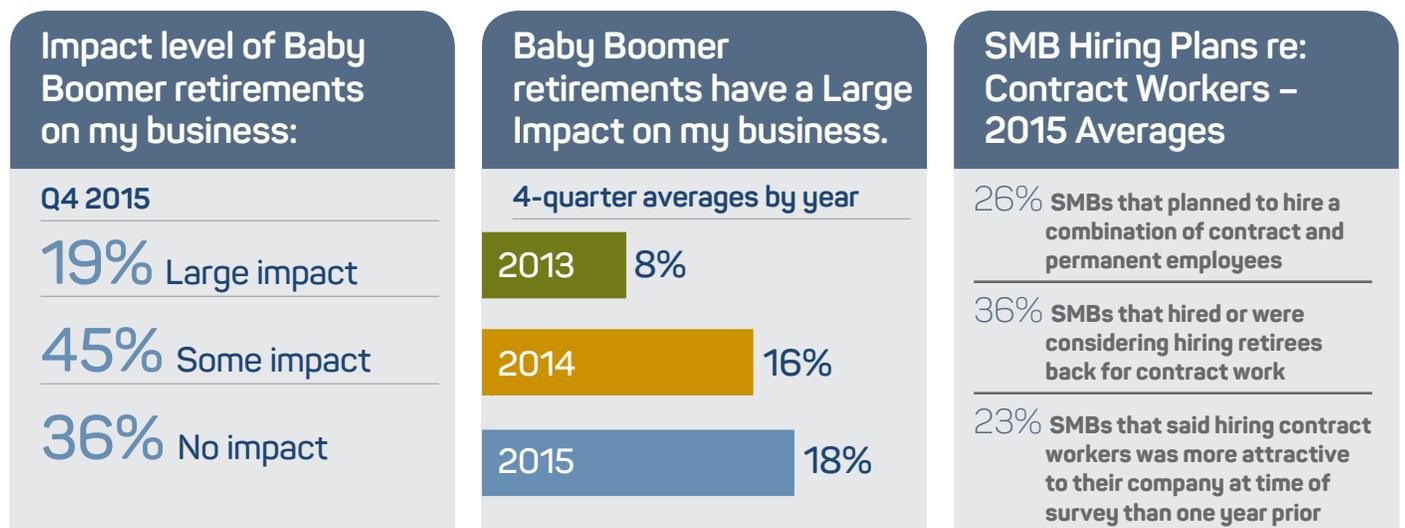
During the past three years, approximately 11 million Americans have reached the benchmark retirement age of 65. Previous Census Bureau reports have estimated that about 65% of workers retire by their 65th birthday. Of those who remain working past 65, over a third are employed only part-time and many of those are employed in jobs outside their original profession.

As organizations continue to study the potential and projected employment shifts of Baby Boomers, SMBs across the country are increasingly reporting several tangible impacts created by Boomers departing the workforce. In Q1 2013, 45% of SMB executives reported their companies faced

“no impact at all” from retirements, about half said they expected “some impact” and only three percent of survey respondents were concerned about a “large impact” to their businesses.

The changes to expected impact from early 2013 to late 2015 are patent. At the end of 2015, 36% of survey respondents reported “no impact at all” (nine points off Q1 2013) and 45% said “some impact.” The most noteworthy shift is last quarter’s 16-point jump in SMBs reporting Baby Boomer retirements will have a “large impact” on their businesses.

On average, 8% of SMB executives in 2013 predicted retirements would have a “large impact” on their business operations. Over the next three years, that number more than doubled, and in 2015, an average of 18% of respondents reported retirements significantly affect their company. Every year for the next decade, over 3.6 million Americans will reach potential retirement age. Considering the trends witnessed in each of the past three years, SMBs will likely continue to face increasing impacts from Baby Boomer retirements.



Growing Brain Drain: generational workforce changes challenge SMBs

Closely related to the level of impact retirements generate are the various ways in which workforce changes are actually felt or experienced by individual companies. The most commonly reported impact is business Brain Drain, the knowledge gap created when long-tenured or senior professionals retire and companies witness weakening experiential know-how and fading historical perspectives.

If a company has 25 employees retire in a given year and the average years of professional experience is 30 years, then 750 years of combined and cumulative knowledge is effectively removed from the company's workforce. For many small to mid-sized businesses, that loss can generate significant effects.

While not equal across all industries, some business sectors are particularly vulnerable to Brain Drain. Health Care, Insurance and Financial Services companies, for example, may depend on the "pass down" of professional acumen and earned experience

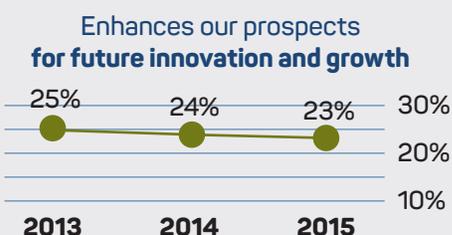
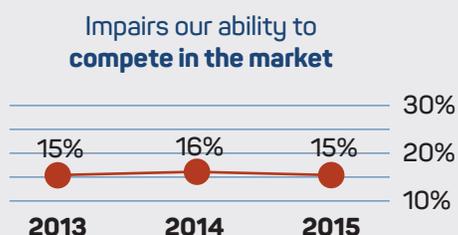
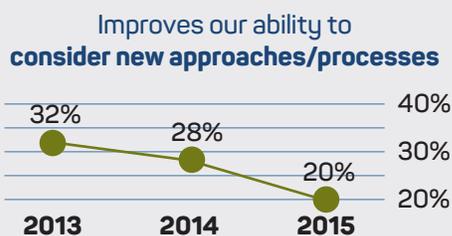
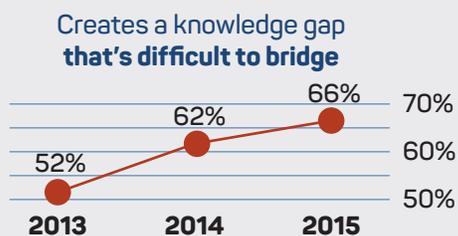
from its senior ranks to its younger workers.

The loss of human capital and first-hand knowledge is becoming increasingly challenging to SMBs. Slightly over half of all 2013 survey respondents (52%) reported Brain Drain as a perceptible retirement impact on their business. In 2014, over 60% named Brain Drain as a chief impact, and by 2015, two-thirds of SMB executives said Baby Boomer retirements create knowledge gaps in their business that are difficult to bridge.

Not all business impacts related to retirements are negative, and the SMB Job Generation Outlook also tracks several commonly shared positive effects. In 2013, about one-third of executive respondents felt retirements improved their company's ability to consider new approaches and new processes. Perhaps modified through the challenges of actual experience, that optimistic outlook dropped to a 2014 average of 28%, and in 2015, only 20% of SMB execs viewed retirements as a positive opportunity to improve business processes.

How does the retirement of Baby Boomers impact your business?

4-Quarter Yearly Averages



**Multiple responses allowed.*

Health Care costs remain persistent challenge to American SMBs

Since 2013, three in ten SMB executives have cited Health Care costs as their company's primary business challenge. To further examine the issue, the Outlook surveys executives about actions their companies are taking in response to rising Health Care costs as well as impacts their businesses might feel from the implementation and ongoing regulations of the Affordable Care Act.

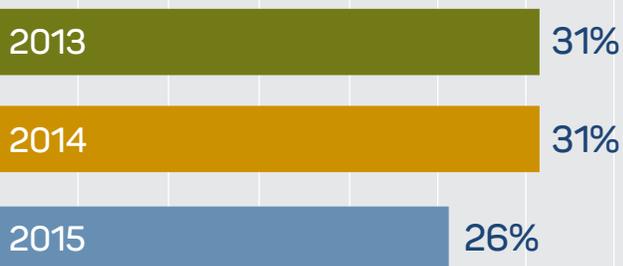
While 11% fewer SMBs reported significant impacts from the ACA in 2015 than in 2013, the costs and complexities of Health Care continue to be a top concern for American SMBs. More than one-third of small to mid-sized businesses surveyed in 2015 reported their companies regularly evaluate and/or change Health Care plans and providers in an effort to address costs. About 20% reported they

have increased employee contributions and another 15% have implemented employee health education and wellness programs.

Some analysts predicted small to mid-sized businesses would respond to the ACA by cutting full-time employees (FTE) and hourly schedules in order to avoid having to provide Health Care benefits to at least some portion of their workforce. According to SMB Job Generation Outlook data, few SMBs have responded in this manner. In the past two years, three percent of SMBs have reported cutting FTEs or hourly schedules as a means to save on Health Care costs. Additionally, since mid-2014 almost 11% of SMBs say their businesses are making a strategic decision to address rising costs through budget absorption.

SMBs citing Health Care costs as #1 or #2 leading business challenge:

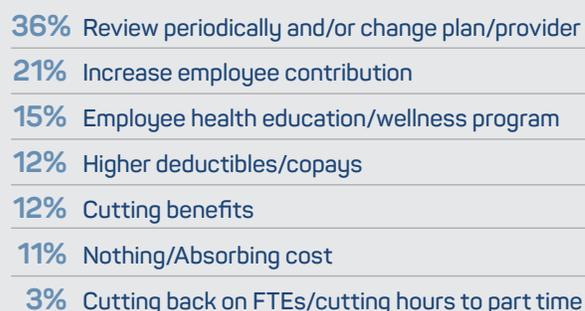
4-Quarter Averages



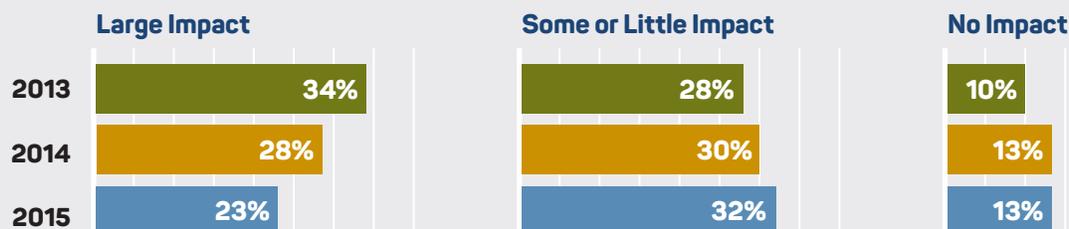
What is your company doing to address Health Care costs?

2015 averages

**Multiple responses allowed.*



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



Majority of SMBs increased wages; higher salaries part of hiring plans

Over three-fourths of small to mid-sized business employees across America experienced take-home wage growth during 2015. The majority of SMBs (71%) saw collective and companywide wage increases between 1% and 5%, and another 6% of SMBs reported wage increases higher than 5%. One in five SMBs saw no net changes to wages last year and a handful of SMBs said overall take-home wages decreased in their company.

Regularly cited as a significant sector concerning wage growth, SMB opinions regarding minimum wage debates – at the local, state and federal levels – could play meaningful roles in

how officials legislate the issue. In response to what potential impact a federal minimum wage of \$10.10 per hour would have on their particular SMBs, three out of five respondents in 2015 said such an increase would have no impact on their business operations or outlook. Allowing for multiple responses, other leaders predicted a variety of impacts, including reductions in both current workforces and hiring plans as well as increased end customer prices. Three percent of SMB execs surveyed in 2015 said a federal minimum wage of \$10.10 per hour would result in their company no longer staying in business.

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

2015 4-Quarter Averages

6% Increased more than 5%

71% Increased between 1-5%

20% No change

2% Decreased between 1-5%

1% Decreased more than 5%

SMB, Hiring and Wages in 2015

77% Saw increased worker wages in 2015

55% Planning to hire new employees in next 12 months

30% Raising salaries, bonuses and compensation packages to attract talent

61% Increasing federal minimum wage to \$10.10 would NOT affect my SMB

\$9.58 Ideal mean minimum wage preferred by SMBs

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

2015 4-Quarter Averages

61% Increasing the minimum wage will not impact my business

16% We will increase prices to our end customers

14% We will reduce our current workforce

12% We will reduce our new hiring plans

6% We will eliminate all new hiring

3% We will not stay in business

**Multiple responses allowed.*

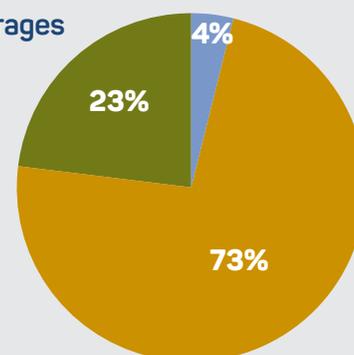
Where would you ideally like to see the minimum hourly wage?

2015 4-Quarter Averages

Less than \$7.25

\$7.25 – \$10.10

More than \$10.11



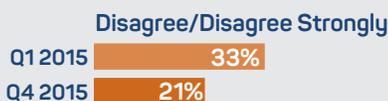
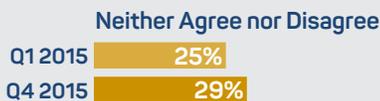
SMB execs share opinions & impacts of socio, economic & political issues

In light of ongoing national debates concerning everything from stock market fluctuations and interest rate moves to immigration policies and the influence of government in business, the SMB Job Generation Outlook seeks to gauge business leaders on the economic implications as well as executive opinions regarding issues and topics that affect their companies and business decisions.

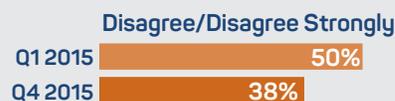
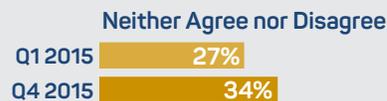
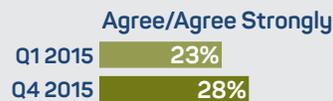
As Talent Availability continues to challenge SMBs, executive support has increased for easing requirements related to high-skill workers. Forty-two percent of Q1 2015 respondents agreed with the statement that the United States should ease requirements for skilled workers in IT, Science and other high-demand fields. In Q4, that agreement number was eight points higher at 50%.

SMBs on Immigration: Changes from Q1 to Q4 2015

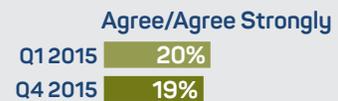
The United States should ease requirements for skilled workers in IT, Science and other high-demand fields.



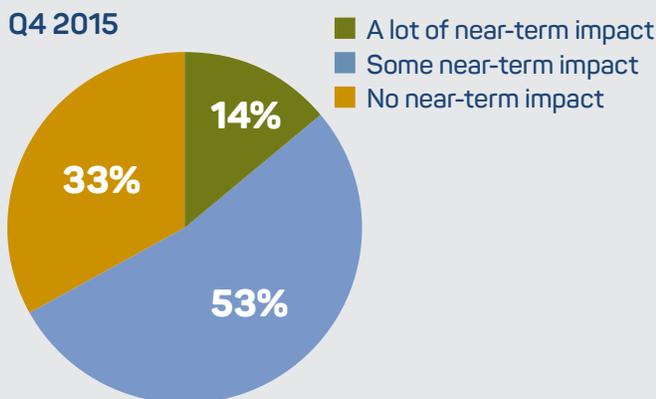
The United States should ease requirements only for immigrants already living in the United States.



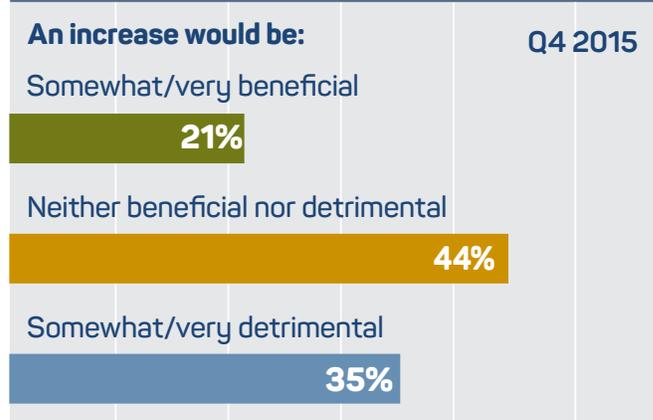
The United States should ease requirements for all immigrants, now and in the future.



How much of a near-term impact do the U.S. and global stock markets have on your company?



How would an increase in interest rates by the Federal Reserve impact your company?



While in Q4 2015, 59% of SMB Job Generation Outlook respondents named the federal government as the most influential governmental body to their business, an equal percentage reported they believed the U.S. Congress had a somewhat or large negative impact on issues related to the economy and employment. Mirroring that sentiment, 61% of American SMB leaders reported being pessimistic about the prospects of effective bipartisanship in Washington. In contrast, 15% of Q4 respondents expressed optimism about bipartisan cooperation at the federal level and about one-fourth reported being neutral.

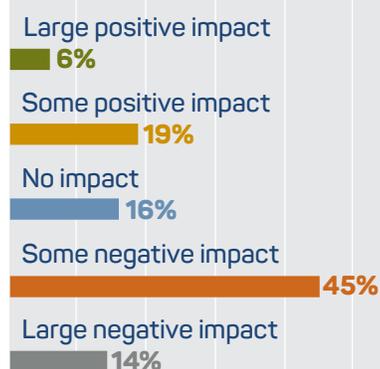
Small to mid-sized business execs have consistently been less pessimistic regarding state bipartisanship efforts (versus federal), and Q4 reflected that difference. The idea of cross-aisle cooperation at the state level was met with pessimism by 42% of Q4 respondents. Twenty-three percent expressed optimism and 35% remained neutral.

SMB leaders consistently cite lower taxes, reduced regulations and less red tape—by both federal and state governments—as potential governmental actions that could benefit their companies, support the sector and encourage business growth.

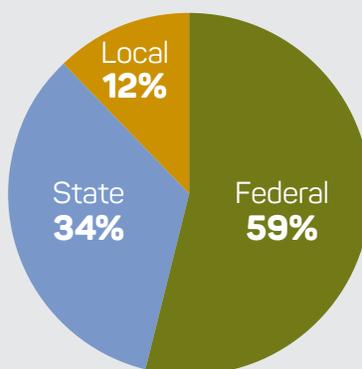
Indicate your current opinions regarding governmental impacts on your company.

Q4 2015 responses

What impact do you think the U.S. Congress has on issues related to the economy and employment?



Please indicate which level of government has the most impact on your business.

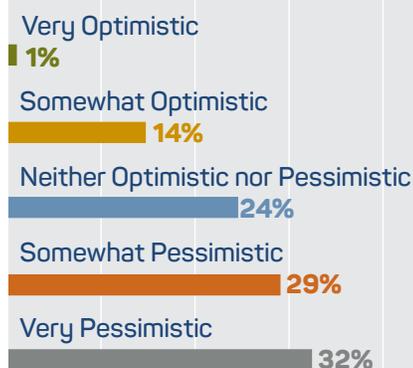


Please share your ideas on how the U.S. Congress can specifically impact your company or market.

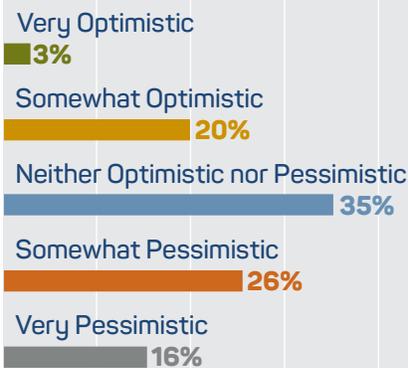
- 21% Reduce regulations
- 18% Increase bipartisanship/Get things done
- 16% Tax reform/lower taxes
- 11% Help business/More business friendly
- 10% Stabilize economy/Federal Reserve/budget

* Multiple responses and open-field answers allowed.

Please indicate your feelings about Bipartisanship in Federal Government.



Please indicate your feelings about Bipartisanship in State Government.



What more could your state government do to help businesses?

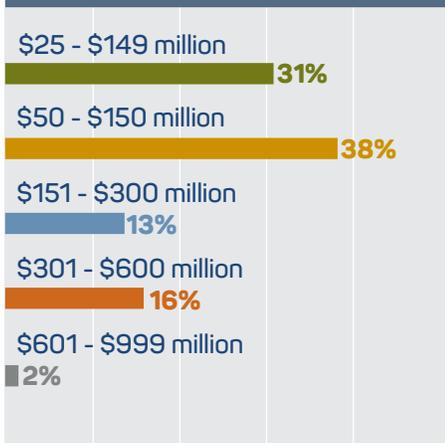
- 16% Lower/cut taxes
- 16% Reduce regulations/less red tape/do not interfere
- 15% Better tax breaks/incentives/subsidies
- 7% Better labor policies (unions, worker's comp, unemployment, etc.)
- 7% Address health care issues
- 5% Be more business friendly
- 5% Improve education

*Multiple responses allowed.

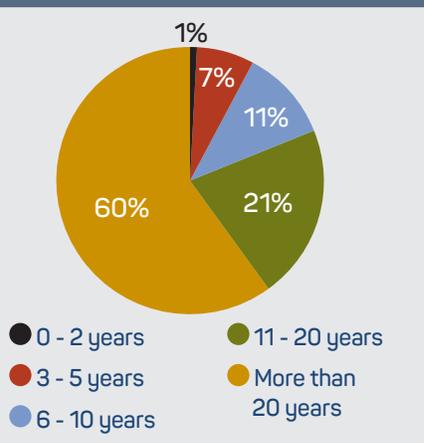
Q4 2015 SMB Job Generation Outlook Respondent Data

Over the past three years, the SMB Job Generation Outlook has surveyed more than 2,800 top executives from across the U.S. small to mid-sized business market, reporting each quarter on the business and employment activities of this vital segment of the American economy. A unique approach to traditional hiring and employment surveys, the SMB Job Generation Outlook identifies trends and captures the visions, priorities and challenges of the contemporary SMB market. Surveying leaders from a cross-section of industries and geographic regions, the Outlook examines a variety of salient topics, including the economy, workforce and employment conditions, political issues and the most pressing business challenges.

What is your projected 2015 business revenue?



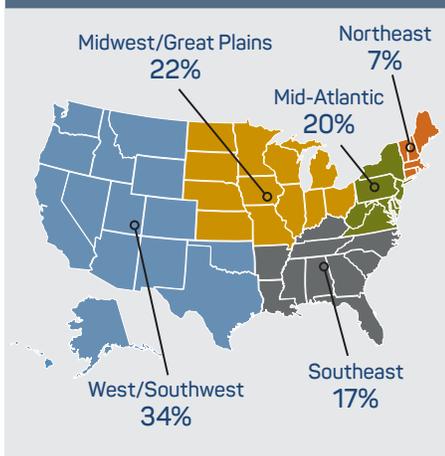
How long has your company been in business?



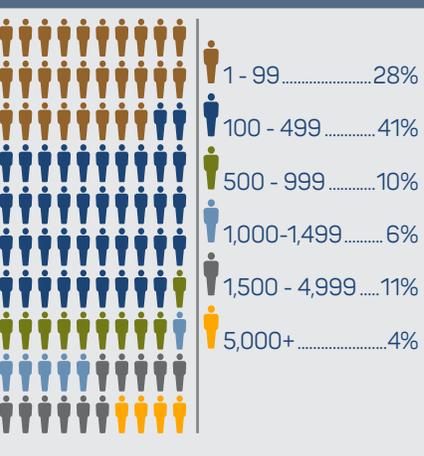
In what industry do you compete?



In what region are you located?



How many employees do you have?



**Represents most selected industries.*