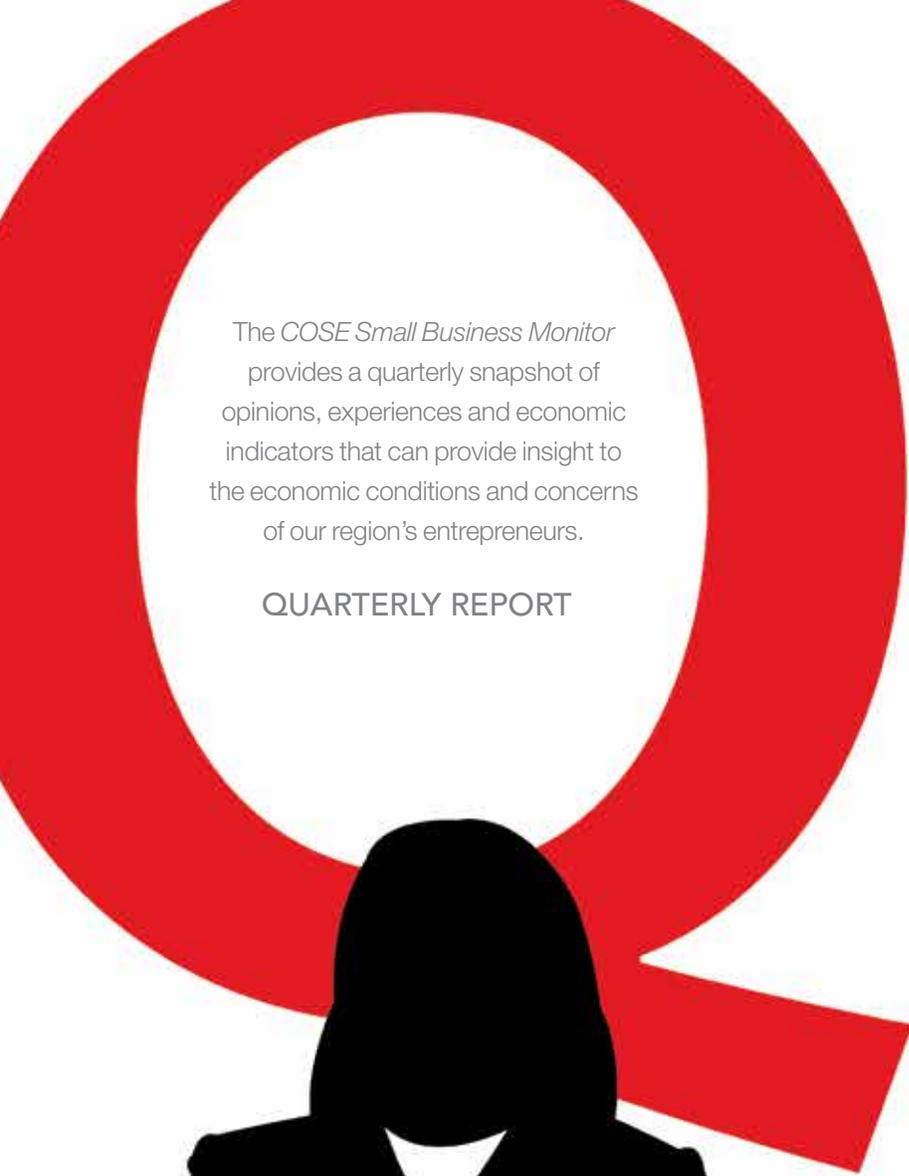




Small Business Monitor



The *COSE Small Business Monitor* provides a quarterly snapshot of opinions, experiences and economic indicators that can provide insight to the economic conditions and concerns of our region's entrepreneurs.

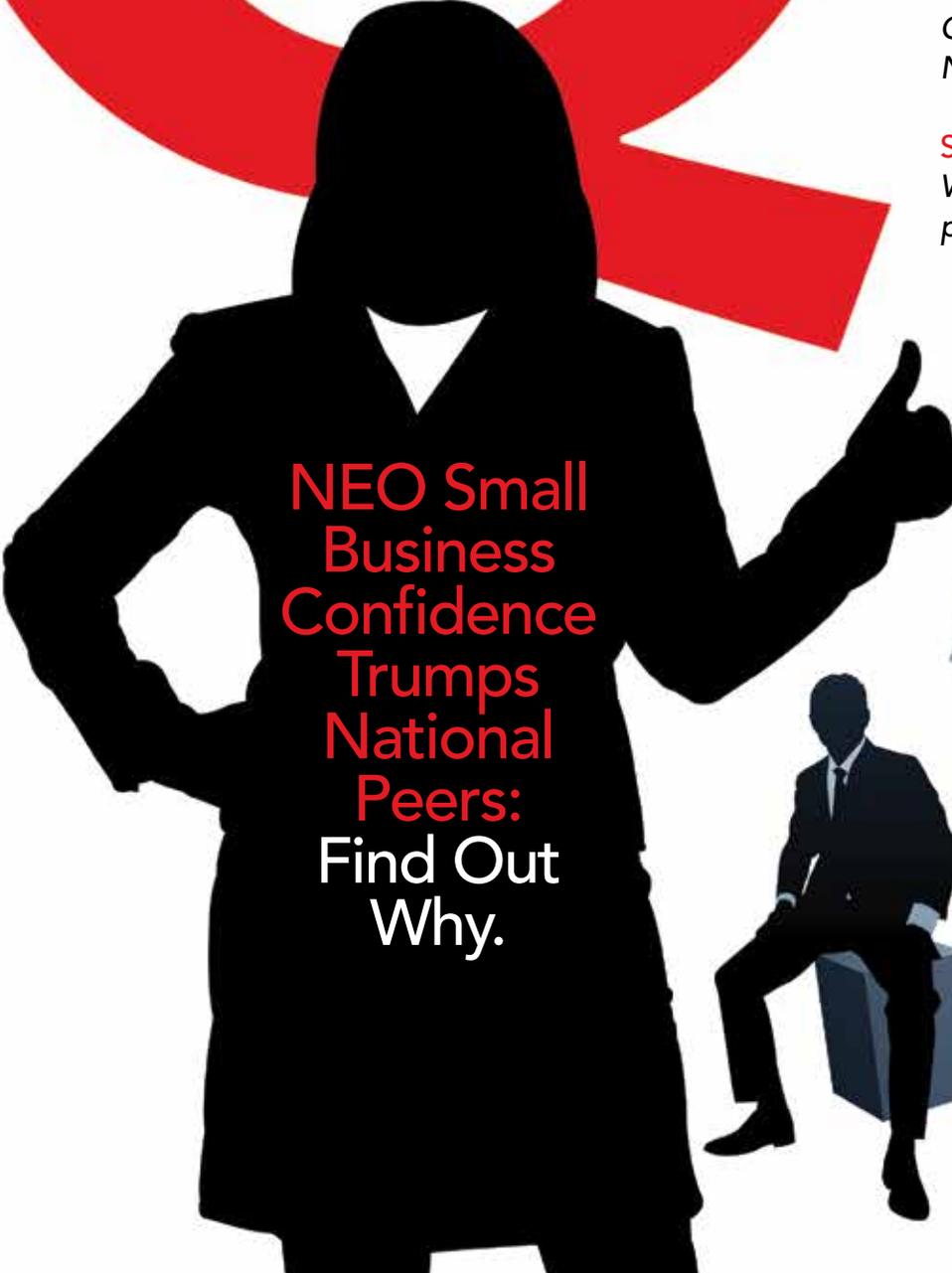
QUARTERLY REPORT

IN THIS ISSUE

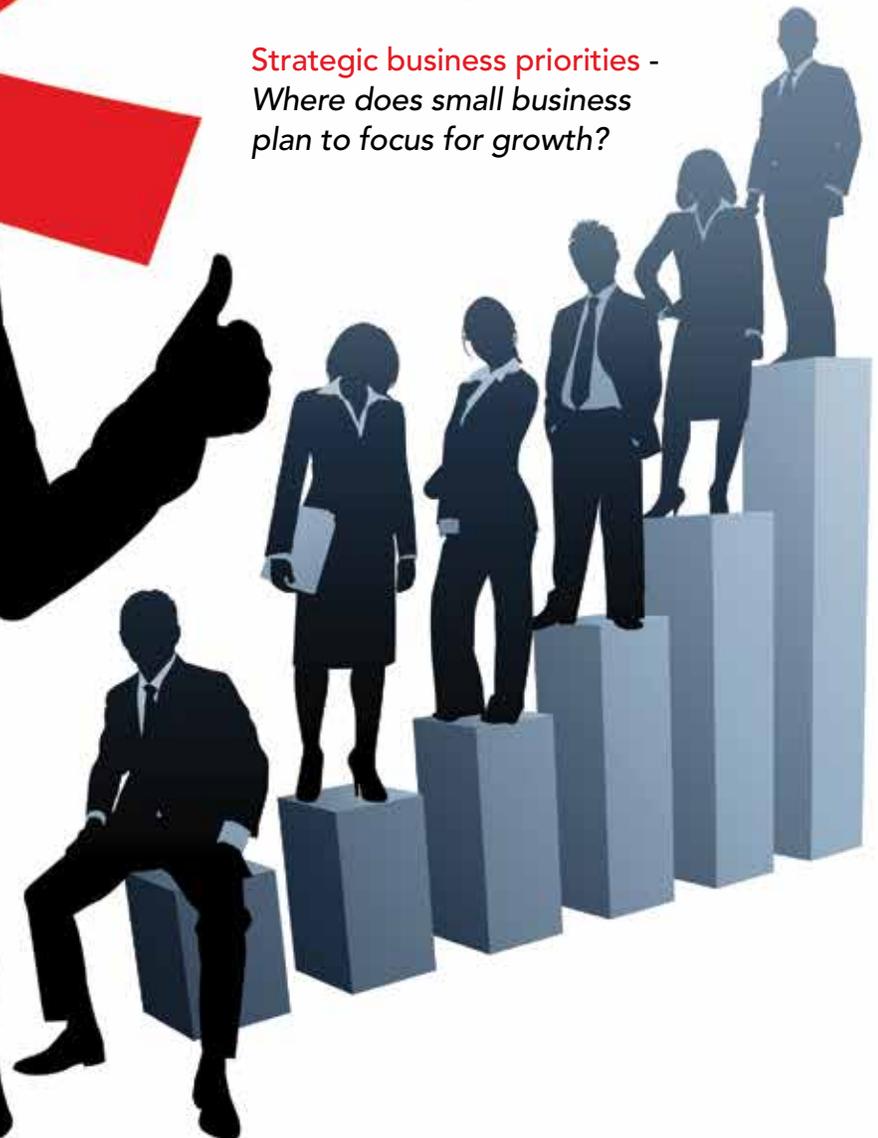
Geographic reach and customer acquisition - Are you looking beyond your own backyard for business?

Profitability - How does Northeast Ohio business stand against the National Average?

Strategic business priorities - Where does small business plan to focus for growth?



NEO Small Business Confidence Trumps National Peers: Find Out Why.



ECONOMIC AND BUSINESS CONDITIONS

The country is thawing out — in fits and starts — from the largest and deepest recession since the great depression, and recent economic research is showing gains for a number of states including Ohio. In fact, North Dakota, Minnesota, Ohio, Washington and Montana are now the fastest growing areas of the country where personal income growth tops all others according to the US Bureau of Economic Analysis.

We know that increases in personal income don't magically appear; rather, they result from increases in economic exchange, earnings and profits that can be turned into dividends, new expansion, new products and

services, wages, commissions and bonuses for employees. And, with half of the country's employees working for small businesses, the rise in personal income is greatly impacted by the successes and challenges of the nation's small businesses.

This edition of the Council of Smaller Enterprises' (COSE) Small Business Monitor measures the optimism and confidence among owners of small businesses in Northeast Ohio (NEO) against their national peers, and provides insight into what's working for these businesses and their economic expectations for the coming year.

GROWTH, CURRENT AND FUTURE

Confidence in the future among small business owners in NEO is higher than their peers around the country. In fact, eighty five percent of small business owners in NEO are confident about the future of their business, whereas sixty five percent of small business owners from across the nation share the same level of confidence in the future of their business.

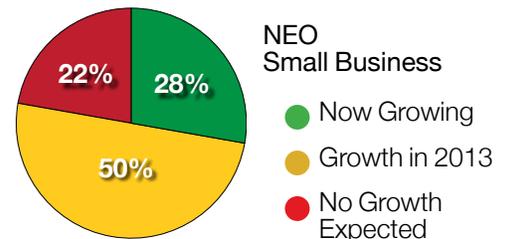
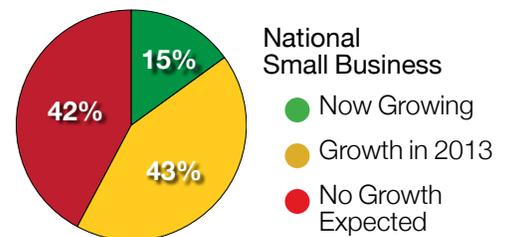
"The resurgence in manufacturing is one of the reasons NEO is seeing better growth than other areas of the country" says Tim Reynolds of Tribute, Inc. of Hudson, Ohio. But this is not the sole reason for improved business confidence in the region because growth is being reported across different sectors in NEO, not just manufacturing.



Further analysis reveals the uptick in business confidence in NEO is related to whether business is growing now or is anticipated to grow in the near-term. For example, 28 percent of small businesses in NEO report their business is already growing compared with just 15 percent of small businesses across the nation, while 50 percent of small businesses in NEO expect growth in 2013 and 43 percent nationally anticipate business growth in 2013.

"Our good news is we have a backlog that we have to fill" says Chris Finney of TrellisPoint, located in Brecksville, Ohio.

Negative sentiments about growth prospects differ as well. Businesses owners in NEO who do not expect growth to occur in 2013 ring in at about one in five — 22 percent — whereas



the outlook is much grimmer around the country where two in five small business owners — 42 percent — do not expect growth during 2013. For a majority of business owners in NEO, the swoons of the recession are being modulated by more predictable and stable revenue growth. "Customers are now buying more" says Cindy Balon Harder of Visual Data Group located in Parma, Ohio.

GEOGRAPHIC REACH AND CUSTOMER ACQUISITION

The growth and confidence we are seeing among small business owners in NEO results in part from looking beyond their backyards to acquire and service customers to generate revenue and profit. NEO small business owners are doing this at a higher rate than are other small business owners from around the nation. “Our growth is primarily coming from activity occurring across the country and not from a local market” says Allen Crowley of Cor Services and Eden, Inc. of Findlay, Ohio. “We now have customers from all over the United States due to changes in business procedures and conditions that are contributing to our business opportunity” says Don Nicholson of Advanced Secondaries located in Cleveland, Ohio.

In NEO, 56 percent of small businesses acquire and service clients from around the country. This compares with just 31 percent of small businesses nationwide using a diverse customer sourcing strategy beyond the local geography. “We have new opportunity resulting from new offices we’ve opened around the country” says

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Shayna Sharpe of Regional Reps located in Independence, Ohio.

Interestingly, small businesses are also holding their own when it comes to international business. The number of small businesses with revenue from international operations and exports hovers around 20 percent whether the business is headquartered in NEO or around the country. “Our international business has expanded significantly over the past eight years, much of it due to our ability to reach customers and prospects through international trade shows, the Web, and a product line acquisition”, says Lisa Logan of Logan Clutch located in Westlake, Ohio.

The lesson for small businesses is that adding customers from beyond the local neighborhood — from in-State, adjacent States, neighboring countries and from overseas is improving opportunity, outlook for growth and profits.

PROFITABILITY

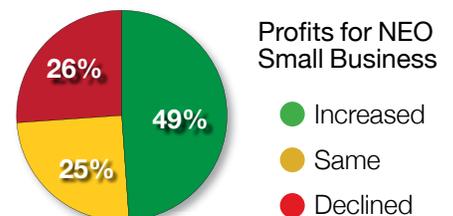
If it's true that profits drive success in business, then Northeast Ohio small businesses are seeing success beyond that of national peers.

Revenue trends are nearly identical between businesses in NEO and those nationally. Nationally, 50 percent of small businesses are seeing revenue growth while 52 percent of NEO small businesses are also reporting revenue growth. Declines in revenue are being reported by 19 percent of small businesses across the country, while 22 percent of NEO small business report declines in revenue. The numbers show that changes in revenue are very similar for small firms nationally and in NEO.

However, change in profit levels reveals a very different picture between national and NEO small businesses. Increases in profit are reported by almost half — 49 percent — of all NEO small businesses, whereas just one-third — 33 percent — of small businesses across the country report the same. Declines in profit underlie a considerably bleaker outlook among small businesses across the country where 44 percent of these firms report such declines, while declines in profitability are reported by just 26 percent of small businesses in NEO.

The uptick in profits is an important factor driving increased optimism and confidence among small business owners

of Northeast Ohio. Profit delivers the ability to invest in acquiring new customers, expand products and services, expand operations and hire employees.



STRATEGIC BUSINESS PRIORITIES

The top priority for stimulating business growth among almost half of all small business owners across the country is advertising, sales, and marketing. The emphasis on spending on marketing and sales for future growth is identical around the country, whether a small business is headquartered in Florida, Alaska, Arizona, New Jersey, Ohio or any of the fifty states.

The significant differences in business priorities for 2013 between NEO and national small businesses include hiring,

e-commerce and strategic alliances. Hiring of employees is rated a priority by 30 percent of small businesses in NEO whereas it is rated a priority by just 17 percent of peers from around the country. Across the country, 31 percent of small businesses rate strategic alliances and e-commerce improvements to be a priority for 2013. Strategic alliances is rated a priority by just single-digits of NEO small businesses, while 15 percent of these firms rate IT improvements to be a top priority in 2013.

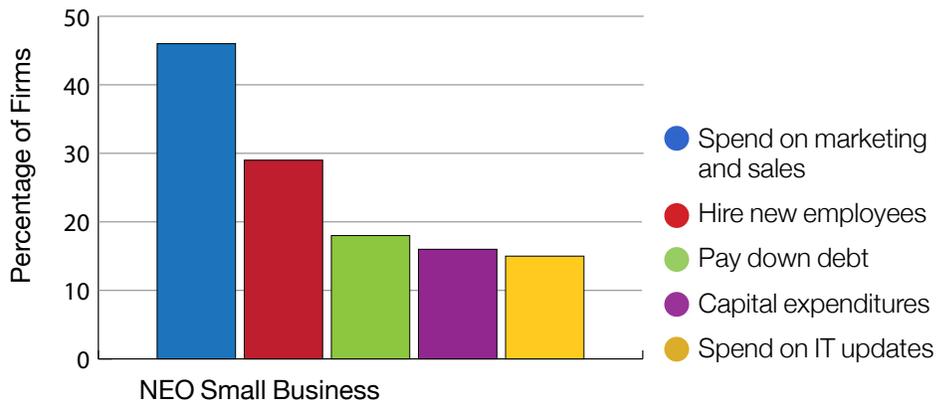
After advertising, marketing and sales priorities, small businesses in NEO are emphasizing:

- 1) more hiring,**
- 2) paying off or down debt,**
- 3) increased spending on capital improvements,**
- and 4) improving IT capabilities.**

In comparison, small businesses around the country are emphasizing:

- 1) an expansion of e-commerce,**
- 2) strategic alliances,**
- 3) more hiring and**
- 4) spending on R&D.**

NEO small business spending priorities and strategies



FINANCING, CREDIT AND DEBT LEVELS

Taking advantage of business opportunity takes capital, the sources of which commonly include earnings, bank loans and other forms of credit. The research reveals that half as many NEO small businesses are using bank loans (18 percent) compared to national peers (46 percent).

The financing picture also reveals three of every four (73 percent) small businesses nationally use credit cards to finance business pursuits. This compares with just two in five (40 percent) small businesses in NEO using credit cards finance business investment activities.

The numbers reveal more small businesses in NEO are obtaining needed

financing for business growth (88 percent) than are peers nationally (68 percent); whether the source is earnings, bank loans, credit cards or other sources. “We invested in CNC tooling to respond to customer needs and reduce costs” says John Kerek of Kerek Industries of Mayfield Village, Ohio. “In the past year, we’ve seen increases in Small Business Administration (SBA) loan volume”, says Wesley Gillespie, a Senior Vice President of Business Banking at FirstMerit Bank. “Our expertise with SBA helps businesses to meet customer needs by

providing financing to companies that might not otherwise qualify.”

The debt picture reveals small businesses in NEO are more conservative about taking on debt than are their national counterparts. Among small businesses in NEO those without debt number two in five (38 percent) while those holding debt on the balance sheet accounts for three in five (62 percent) businesses nationally. “We’re responsible for the lives of families, which is

one of the reasons we’re very conservative financially”, says Eileen Ashton, owner of Quality Ribbons and Supplies located in Cleveland, Ohio.

88 percent of small businesses in NEO are able to obtain financing, compared to only sixty eight percent nationally.



GOVERNMENT'S ROLE

Nationally, many small business owners identify the national debt as the most pressing concern government should address, but for small businesses in NEO the national debt is not the most pressing problem for government to solve.

Nationally, the top priorities where government can assist small businesses include reducing the deficit among four in ten (40 percent), fixing the tax code among one in eight (13 percent), reducing regulatory burdens among one in ten (9 percent) and

curbing healthcare costs (6 percent). In contrast, the top priorities among small businesses in NEO are fixing the tax code among three in ten (28 percent), reducing healthcare costs among one in four (26 percent), increasing access to capital among one in eight (13 percent) and reducing the national deficit (16 percent).

FINAL THOUGHTS

The experience of small businesses in NEO indicates that expanding the geographic footprint of customer acquisition is an important strategy for adaptability and growth: it's also a lesson from childhood about not keeping all your eggs in one basket. These business owners also reveal profit is driving survival and growth, whether achieved through smart paring of expenses, reducing cost of goods sold, cost sharing and larger purchasing pool associations, acquisitions, new customer sourcing strategies, or new channels, partnerships and geographies to service.

The optimism about growth among NEO small business appears to be driven by sourcing new customers from beyond the local neighborhood, a focus on profitability, hiring employees for customer sales and service, paring down debt, and spending on capital equipment to achieve new business growth.

The recent survey results indicate small business owners have some reasons to be optimistic through 2013 and into 2014, even among the rocky shoals that remain to be navigated including customer sourcing, unknowns regarding healthcare strategies and expenses, a complex tax picture and a continued lack of consensus in Washington. Despite these problems, small business owners are continuing to make sizeable contributions to the health, welfare and growth of their communities and the country.

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ABOUT THE RESEARCH

Findings for small businesses nationally are from primary research conducted by the National Small Business Association (NSBA) with more than 1,600 members during 2011 and 2012. The error in these findings is +/- 5.2 percent at the 95th percent confidence level. NSBA reports can be obtained at www.nsba.biz.

Findings for small businesses in NEO are from primary research conducted by the Council of Smaller Enterprises (COSE) with more than 1,000 members during 2012. The error in these findings is +/-5.9 percent at the 95th percent confidence level.

COSE reports can be obtained at www.cose.org.



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