

COSE 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

Customer demand - Is customer demand up for your business?

Profile - How do Northeast Ohio small businesses stack up against national peers?

Growth - What key strategies are others using to grow?



**The Big Picture for
NEO Small Businesses
Shows a Bright Future!**

SMALL BUSINESS OWNERS IN NEO BULLISH ON FUTURE

The outlook of small business owners in Northeast Ohio (NEO) continues to be more optimistic than small business peers from around the country, and for good reason.

Among the forward looking sentiments about business prospects, 8-in-10 business owners in NEO are very confident in the future of their business. Confidence in the future is reinforced by recent increases in sales growth, the feeling we are well past the challenges of 2008 to 2009, and expectations about future customer demand and sales growth.

However, declines in profit are being reported by more business owners, and profit increases are being reported by fewer businesses than a year ago. The research findings here suggest that owners should focus on

managing certain business expenses that have seen recent increases because those increases will remain for the foreseeable future.

This edition of the Council of Smaller Enterprises' (COSE) Small Business Monitor looks at: the economic outlook of business owners in the region; changes in market conditions, operating results and expenses; and identifies practices being implemented by better performing companies that are resulting in consistently solid growth.



SMALL BUSINESS CONFIDENCE LEVELS HERE CLOSE TO THAT OF CEOs

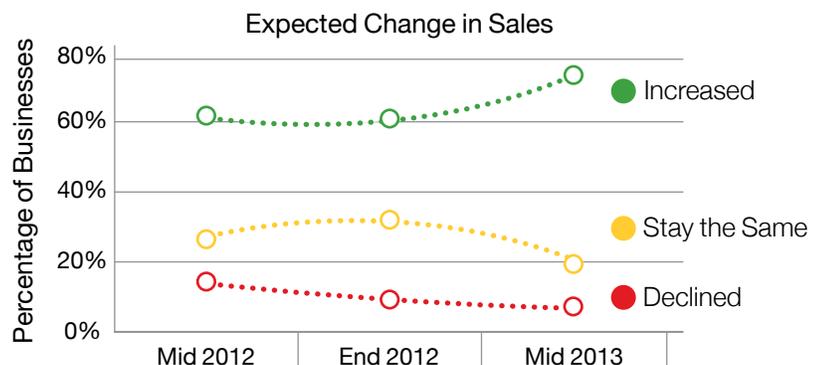
Morale is very high among the small business owners of NEO, with 82 percent saying they are confident in the future of their business and just 18 percent who say they are not. This compares with 64 percent of small business owners nationally who say they are confident in the future of their business and 36 percent who say they are not.

The high level of confidence among the business owners of NEO is accompanied by high expectations as

well, with 7-in-10 business owners who anticipate sales to increase while less than 1-in-10 owners expect sales to decline. Main street expectations in NEO should remain on the upswing if Federal government debt-funding battles become a thing of the past.

In fact, expectations for growth among NEO small business owners are much closer to that of the CEOs of large US corporations than it is to other small business owners nationwide.

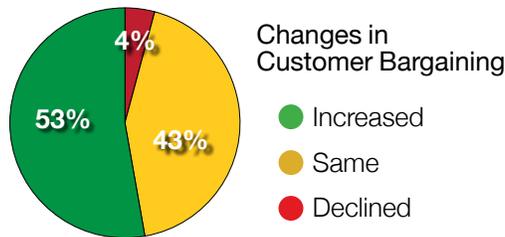
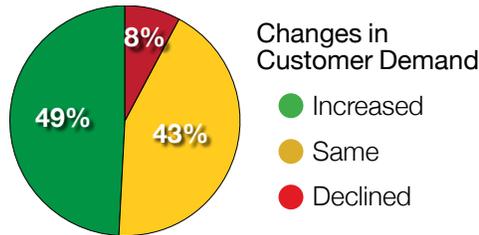
According to the Business Roundtable, 78 percent of large corporate CEOs expect sales to increase, while just 7 percent anticipate declines. By comparison, 37 percent of small business owners around the country anticipate sales to increase while 36 percent expect declines according to the National Small Business Association (NSBA).



MARKET DEMAND HAS REBOUNDED

Market conditions for the business owners of NEO are very healthy, led by strong levels of customer demand; which is being matched by customers who are increasingly bargaining for better terms, prices and conditions.

Half of the business owners in NEO say customer demand for their products and services has increased, whereas just 12 percent are citing declines in customer demand. Similarly, half of the business owners say customers are increasingly bargaining about terms, conditions or prices while just 5 percent are citing declines in customers bargaining about terms and prices. "Market conditions are much better now compared with 2008 and 2009 when everyone was hurting," said Pat Geiger of Artemis Polymer in Akron.



While customer demand and bargaining over prices, terms and conditions are up, other market conditions are largely staying about the same for the business owners of NEO. For example, 6-in-10 small business owners say that competition; customers seeking and using substitute products and services; and suppliers

bargaining for better terms, conditions or prices are largely the same and are not having a material impact.



SALES STEADY BUT INCREASED COSTS EATING AT PROFITS

Sales growth continues its strong pace for many small businesses in the area, with 51 percent of the business owners in NEO citing increases in sales revenue. The change in year-over-year sales growth is very close to changes in sales growth posted by business owners in the region a year ago.

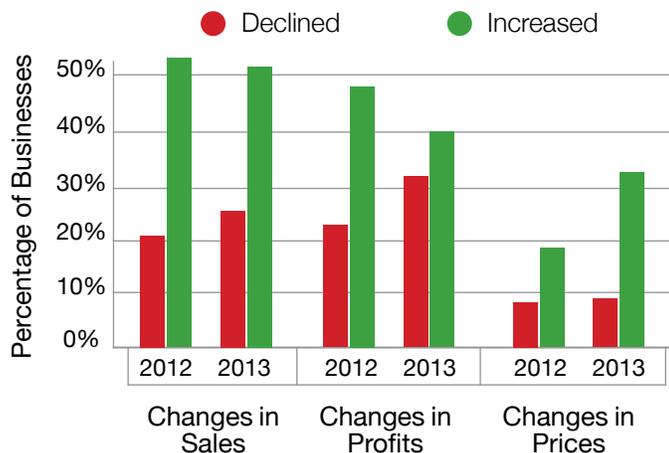
However, year over year changes in profit among the business owners of NEO tells a very different story. More businesses are reporting profit declines this year than last (48 percent this year versus 42 percent last year) and fewer owners are citing profit increases this year than last (24 percent this year versus 32 percent last year).

More business owners in NEO might have reported profit declines had it not been for their ability to increase prices and fees. The number of businesses that increased prices jumped from 20 percent in mid-2012, to 33 percent in mid-2013.

Some of the key expense increases that are putting downward pressure on profits, and cited by 6-in-10 business

owners of NEO include: payroll, cost of goods sold and material costs, employee benefits, utilities, insurance and real estate. "We experienced increases in some costs that we have to recover," said Fernando Bertero of EmbroidMe in North Olmstead. "Some increased costs have to be spread over many customers." Payroll expenses are increasing due to new employees

being added and increases in compensation, while increases in health insurance costs are being cited for the increases in employee benefit expenses.



SMALL BUSINESSES FINDING WAYS TO FUND CAPITAL IMPROVEMENTS

Sixty percent of small businesses in Northeast Ohio are using some type of financing, including bank loans, lines of credit, credit cards, credit terms extended by vendors, and private loans from friends and family.

The purpose of the financing differs, depending on the type of business. For many, the primary purposes were for working capital and lines of credit, while for others the purposes were dominated by line expansions and capital projects.

Many business owners are focusing capital spending on process and efficiency improvements to drive down costs, while others are focusing on new opportunity. "We're seeing increased interest in working capital and capital expenditure products," said

Wesley Gillespie, Senior Vice President of Business Banking with FirstMerit Bank.

The number of small businesses in NEO that are increasing spending on capital projects is 25 percent. This is much higher than those reported in 2009, just after the recession took hold, but slightly lower than those reported in 2011. "Banks are working hard to maintain solid credit standards while getting needed capital into the market," said Gillespie. "The good news is that more small businesses owners are finding they qualify for credit, and as more look to increase spending, more owners are in a position to obtain the needed funding."



SMALL BUSINESSES CREATIVE IN DRIVING CUSTOMER DEMAND

The big reason any business expands or contracts is due to customer demand: this is the linchpin of success for any business and the numbers prove it. Small businesses that are experiencing the largest revenue gains – 12 percent of all small businesses – attribute these gains largely to increases in customer demand. "Everything falls into place with customer demand, it's a basic for any business," said Michael Stanek of Hunt Imaging in Berea.

The business owners with consistently high levels of sales growth are focusing on several key practices to achieve results. After paying close attention to customer demand, many of the successful businesses are instituting

changes in marketing and sales practices to grow customers. In fact, four times as many business owners citing healthy growth say changes they made to marketing, sales and promotional practices are a major contributor to their growth. "We grew by reaching new customers with new Internet-based marketing, sales and advertising techniques," said Rich Gent of Gent Machine Company in South Euclid.

In addition to changes in marketing and sales to gain new customers, the more successful small business are focusing on service to grow and retain customers, expanding customers through geographic and partnership additions,

and solving similar or same customer problems across different industries.

Of the businesses that reported higher revenue and profit gains, twice as many of those confirmed making customer service a special focus in their business. "Service is the key to growing and keeping customers," said Fernando Bertero of EmbroidMe.

Almost five times as many business with healthy revenue and profit growth cite the expansion of geographic coverage and partnerships as factors for growth, while twice as many say changes in the industries they cover is a key reason for their growth.

FINAL THOUGHT: NEO SMALL BUSINESSES AHEAD OF THE REST

The small businesses owners of Northeast Ohio are continuing to achieve more success than their peers around the country. Revenues and profits are up for more of these business owners and their economic outlook is robust based on recent experience.

But for some business owners, the future looks rosier than recent results. The discrepancy between a robust outlook and recently posted results among some

business owners may be due to sales order pipelines that are confirmed, or that are ahead of where they were at this time last year.

The lessons of the better performing small businesses in the region indicate that if forecasts are achieved, it will likely be from additional businesses in NEO implementing the basics of gaining and keeping customers, including: consistently assessing customer demand; modifying

marketing and sales practices to gain customers; using service to gain and then keep customers returning; extending partnerships and geographic coverage; reigning in rising expenses for employee benefits, insurance, and utilities; and leveraging capital to pursue growth.

Balancing profit pressures with growth, the business owners of NEO should continue to stand as beacons for their peers around the country.



ABOUT THE RESEARCH

Findings for large corporate CEOs are from primary research conducted by the Business Roundtable, which can be found at www.businessroundtable.org. Findings for small businesses nationally are from primary research conducted by the National Small Business Association (NSBA) which be found at www.nsba.biz.

Findings for the most recent results for Northeast Ohio are from primary research that was conducted by COSE with more than 445 small business owners in the region in August of 2013. Participating partners include Chambers of Commerce from Cuyahoga Falls, Euclid, Heights Hillcrest, Lakewood, Madison Perry, Mentor, Parma, and Painesville. The error in the findings is +/- 4.6 percent at the 95th percent confidence level.

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



Presented by:



FirstMerit is committed to providing great service to owner-operated businesses in all of its markets, combining the strength and capabilities of a national bank with local, personalized service. An active lender, FirstMerit's experienced bankers spend the time necessary to get to know their customers' business and provide customized solutions to meet the changing needs of small businesses.

The opinions and information contained in this article have been derived from sources believed to be accurate and are reflective of judgments made on the date of publication, but FirstMerit Bank, N.A. makes no representation as to their timeliness or completeness. The article does not constitute investment or tax advice.