

COSE Small Business Monitor



Presented by: **FIRSTMERIT**[®]

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.

2012 SECOND QUARTER REPORT



Half Full or Half Empty?

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Find out what most Cleveland businesses think inside.

With the Republican and Democratic political conventions now behind us, the final leg of the 2012

presidential campaign begins. We will be showered as small business owners with rhetoric about the importance of small business and entrepreneurship to the economy and the long term success of the U.S.

As a voice for the small business community and a resource to help small business owners achieve their ideas of success, COSE has partnered with FirstMerit Bank to produce the *COSE Small Business Monitor*, designed to provide a snapshot of opinions, experiences and economic indicators that can provide insight to the economic conditions and concerns of our region's entrepreneurs.

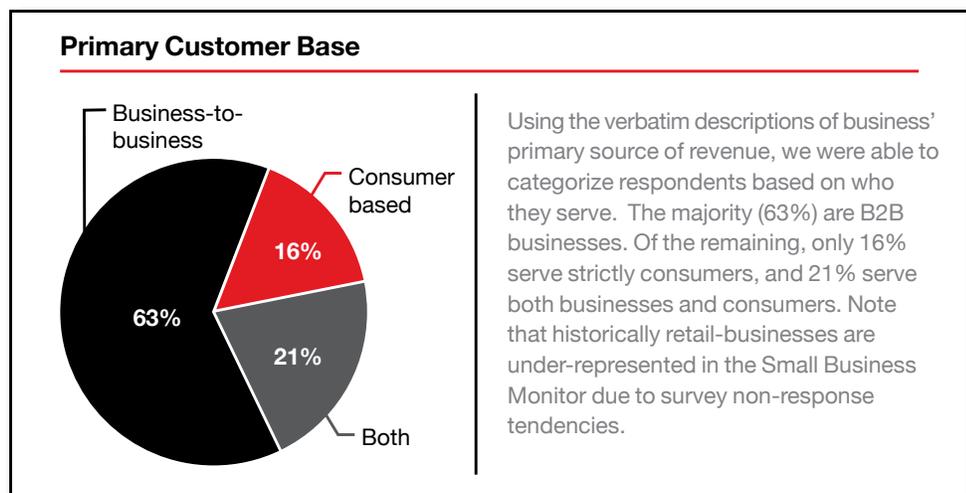
Conducted quarterly, the *Small Business Monitor* surveys northeast Ohio small business owners online to assess their experiences, opinions and attitudes.



The sample is representative of the region's small business community and the results are presented with a 95% confidence level and are representative of the conditions of our region's small business community as a whole. In addition to regular indicators queried on a quarterly basis in the region, COSE also asks questions on a variety of other topics that are tied to the quarter's key issues or current events. In this survey, we asked about health care reform and the June 25 final ruling by the Supreme Court on the Patient Protection and Affordable Care Act (PPACA).

Please contact Allegra Prewitt at aprewitt@cose.org or 216.592.2492 to request a copy of this quarter's results.

A total of 391 small business owners/professionals participated in the survey that was conducted between July 10 and July 27, 2012. The survey sample consisted of sole proprietors up to small businesses with 100 employees, with the largest group having 1-5 employees (41%). Professional Service Providers (19%) and Manufacturing (15%) were the two most common types of businesses among the respondents. The average age of the businesses responding to the



The *Small Business Monitor* is presented by FirstMerit Bank, which is both very supportive of, and very interested in understanding the business goals and situations of the region's small business owners, so they can best help them with identifying the right financial products and services. The full results of this quarter's *Small Business Monitor* are made available to participants in the survey process and are also available to small business owners, stakeholders and other interested parties upon request.

survey was 20 years. Respondents identified their customer base as "business-to-business" (63%), "consumer" (16%), and "both" (21%). As to gross sales/revenues, the biggest group of respondents fell in the "\$1 million to \$5 million" category (24%). Eight percent of the respondents reported holding WBE Certification (Women Business Enterprises) and 4% MBE Certification (Minority Business Enterprise).

"I understand we had a big recession and I hear the talk about things improving – especially from Romney and Obama – but I haven't seen big changes in my clients business from five years ago and am not sure things are going to get much better in the next year," says, *Kathy Tatman, partner at The D'Amore Tatman Group LLC.*

the last 12 months and almost as many (48%) reported an increase in profits, as well. This may be more on the strength of managing their sales increases with a more limited infrastructure and expense load than in prior years. Despite these increases in revenues and profits, only 23% have reported an increase in the size of the number of employees in their business.

employers and their intention to offer health insurance going forward is still unclear due to the level of education that small business owners have about what will actually change. "When we talk to small employers, they are still very uninformed about what (PPACA) will actually mean for their business. However, we are finding that as they learn more, small employers seem to be less likely to commit to being involved in providing insurance for their employees three to five years from now," says *Steve Millard, president and executive director of COSE.* Based on what they know today, 20% of the small employers that offer insurance to their employees today report that they are not sure if they will offer it in the future. In addition, when asked about the key determinant of whether or not they will continue to offer insurance, more than half (54%) note cost as the key driver. Less than a third of the employers (29%) indicate that their sense of obligation to provide it to employees will be the driver. And, just 15% note that the ability to attract and retain talent will be the key factor in determining whether or not to provide insurance to their employees.

"Some of the early research and support for health care reform from those that were advocating for PPACA seemed to indicate that small businesses not offering insurance would be incented to do so with tax credits and those that did offer it would continue to do so to keep their employees," explained Millard. "While the results from

ECONOMIC AND BUSINESS CONDITIONS

Ms. Tatman's peers agree. The respondents to this quarter's *Small Business Monitor* believe that the national economy is worse than it was five years ago and compared to more recent times, small business owners see the economy as "flat." And, there is not a lot of optimism about the future for the national economy. Two-thirds expect the national economy to stay the same while the rest split pretty evenly between expectations for another recession or for improvement in the next year.

"While I can't impact the national economy, nor government's impact on business directly, I am going to do everything in my power to continue to grow my business," says, *Darrin Fleming, managing director at Stratavant.*

Locally however, while most still expect a flat outlook, those expecting an increase outnumber those expecting a recession by two to one. And, when it comes to their own

businesses, nine out of 10 are either very confident or somewhat confident about the future financial health of their business with 78% experiencing or expecting growth in the next 12 months.

In addition, there seems to be enough strength in their operations to encourage some to raise prices with 19% indicating they have done so in the last year. In addition, 54% reported increased sales in

"While I am seeing good signs for my business, I am just not confident I can add back staff and costs at the same level as a few years ago. I've got to do more with less to keep my head above water—that's just today's reality," notes *Mike Stanek, chief financial officer at Hunt Imaging LLC.*

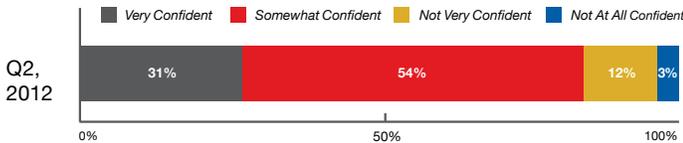
As small business owners look at their challenges, no one issue dominated their concerns with many listing access to capital, access to qualified workers, regulatory issues, tax issues, the deficit and the cost of health care as their top concerns. One in four however indicated that the cost of health care was the most important issue for government to address. Slightly fewer listed the national deficit as their top concern. Whether it's the predominance of the conversation about those issues at the moment or a specific connection these small business owners see between their success and the role of government, it's clear these are the top two issues on their mind at this time.

The impact of Supreme Court on Patient Protection and Affordable Care Act (PPACA) on small



Confidence in Financial Future of Business

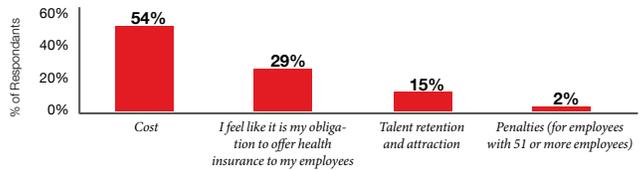
Q6: From a financial perspective, how do you feel right now about the future of your business?



Confidence about the future business for these COSE members can be best described as “moderate.” Thirty-one percent are “very confident,” but most (about 54%) are only “somewhat confident.” Those most likely to be very confident are those with at least \$5 million in annual revenues (45% “very” confident).

Most Important Factor in Decision to Offer Health Insurance After 2014

Q13: After 2014, what factors will be the most important in your decision whether or not to offer insurance?



“Cost” was deemed the most important factor in the decision of whether or not to offer employees health insurance coverage (54%) after 2014. Almost one-third (29%) felt it was their obligation to offer insurance to employees (ostensibly regardless of the cost). Only 15% deemed insurance necessary to attract or retain talent. Very few (2%) felt that avoiding penalties will compel them to offer insurance to their employees.

this survey don’t seem to back that up, it’s still too soon to draw hard conclusions on how any of this will actually work out.”

While many efforts are underway to create

new types of electronic infrastructure on the web or on state exchanges for selling insurance to small businesses and individual entrepreneurs, only 7% plan on

buying those products online. More than half (54%) still plan on using their insurance broker to access a plan, with 37% not sure how they might get help buying insurance.

ACCESS TO CAPITAL

“Banks continue to report that there is money available for small businesses and small businesses continue to say that they can’t get the money that they need, says Steve Millard. “The bottom line is that good deals seem to be getting the money they need and the challenge is in how an entrepreneur can show that their idea or operations merit the investment of funds or the risk of the debt.”

In fact, while 60% of those surveyed report they had no need for additional financing in the past 12 months, 25% of those that did seek financing were unable to secure it. In addition, credit cards and earnings of the business continue to be key sources of financing used by those surveyed with 28% of respondents indicating that they have used those sources in the last 12 months with bank loans being used by 25% of respondents. While the use of credit cards is widespread, in only 7% of the respondents were credit cards the primary source of funds. Twenty percent reported earnings of the business as their primary funding source, with another 20% reporting bank loans as the primary source.

“A study of the Cuyahoga County loan landscape revealed a \$38 million gap in

micro-financing for small businesses needing \$50,000 or less. Thanks to a public-private partnership focused on this issue, we are seeing a wave of activity by new micro-lenders like the Economic and Community Development Institute. This is providing needed resources for small business owners who previously only had friends, family, credit cards and equity lines as options.” – *Shilpa Kedar, program director for economic development for the Cleveland Foundation*, which commissioned the micro-lending study along with the Business of Good Foundation.

“FirstMerit Bank is committed to small business lending. In the last year, we have seen a significant increase in Small Business Administration (SBA) volume, ranging from express lines of credit to large 7A and 504 term loans,” says *Wesley Gillespie, senior vice president and business banking regional manager at FirstMerit Bank*.

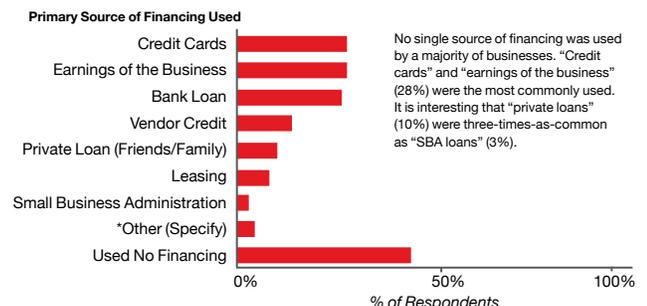
“The bank recognizes that (SBA) does not require collateral on express lines of credit up to \$25,000 (however, personal credit

and cash flow minimums are still necessary) so our branches have seen this increase in demand from small business owners desiring additional working capital financing,” says *Gillespie*. “The (SBA) program is highly valued because it allows us to offer financing to companies who wouldn’t otherwise have access to capital.”

These resources could be good options for the one in five respondents that indicated they were very or somewhat likely to be seeking funds in the third quarter of 2012. For the vast majority (69%), they plan to start with a more traditional resource like a commercial bank to get those funds. Helping connect those potential borrowers with the range of options they have will be key to getting them financed.

Types of Financing Used Within Last Year to Meet Capital Needs

Q16: What types of financing has your company used within the last twelve months to meet your capital needs?



EMPLOYMENT OUTLOOK

When it comes to hiring, 32% of the businesses surveyed report making a hire in the second quarter with 43% of those hires being for new positions and based on our sample represent a growth of 10% in the workforce for these companies.

“So much of the hiring activity we are hearing about is based on the entrepreneurs’ confidence in what the future environment may look like,” says Steve Millard, president and executive director of COSE.

Twenty-eight percent of the respondents report plans to make additional hires in the next six months, which could result in an anticipated growth of about 4% in jobs for small employers.

It is not surprising that growth estimates for the third and fourth quarter are smaller than

what was reported earlier in the year,” says Millard. “The combination of the uncertain politics of the election, negativity about the

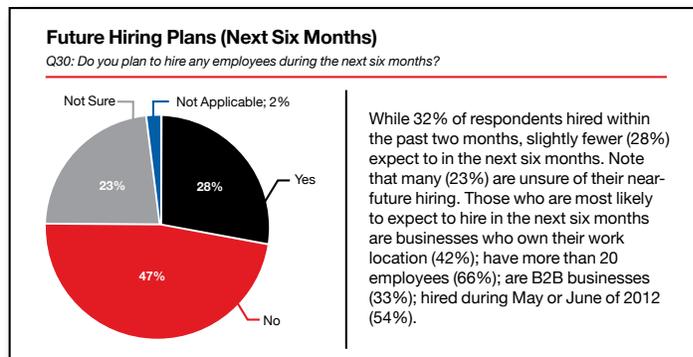
broader economy and the focus on maintaining what seems to be improving profitability based on leaner firm infrastructures all weigh heavily on the mind of the small business owner contemplating a new hire.”

True to that sentiment, 66% of the small business owners surveyed indicated that economic uncertainty was the biggest issue they faced looking ahead to the next quarter. Only the cost of health insurance came close at 59% with regulations, taxes

and “other issues” rated half as much as a concern by small business owners surveyed. Maybe related to that, only a third are very or somewhat likely to make a capital expenditure in the next quarter.

“With accelerated depreciation options still available and the ability to expense a higher amount of capital expenditures, it’s important for small business owners to realize that getting those purchases in this year could be a big advantage for them,” says Gillespie. “There is a lot of

uncertainty about what congress and the White House will do related to those tax advantages in 2013.”



A FINAL THOUGHT

“Small businesses are the backbone of our economy and the cornerstones of our communities. They create two of every three new jobs in America, spur economic growth, and spark new industries across the country. We will continue to create new incentives to help small business owners hire new workers, promote growth and do what America does best—invest in the creativity and imagination of our people.”

— President Barack Obama



No matter what our politicians say or how much they commit to the importance of the small business community in our recovery, it’s going to take a more supportive business environment, higher confidence in the economy, a more fluid capital market and action by small business owners themselves in terms of hiring and expansion of their revenues to create the growth and success we need in our region. COSE is committed to helping every small business achieve their idea of success and will continue to monitor the economic indicators, attitudes and opinions of our region’s small companies to measure the progress we are making over the years to come.

“Our campaign is about making it easier for entrepreneurs, women and men to start businesses, to grow businesses. We will champion small business because we know that’s where our jobs come from.”

— Presidential candidate Mitt Romney





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.

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