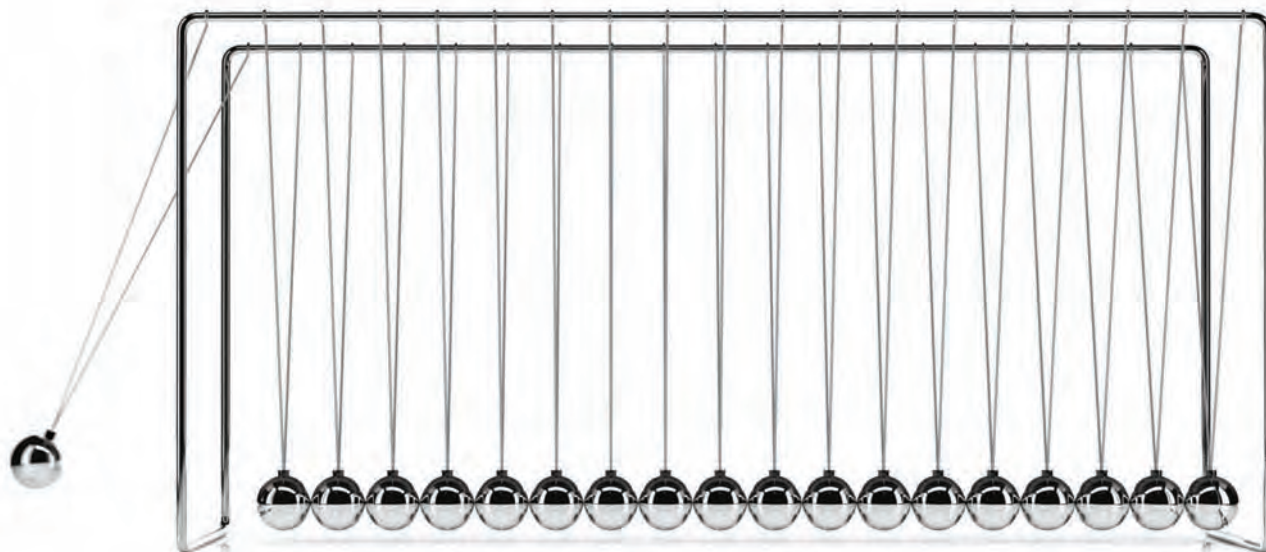


## Mid-market perspectives 2012 report on *America's economic engine*





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# Executive summary



America's mid-sized companies are far more important to the U.S. economy than most people realize. When Deloitte undertook its first "America's economic engine" report one year ago, our purpose was to provide insight into this often overlooked source of economic dynamism. As a group, this segment employs more people than the entire S&P 500 and has total revenues equivalent to 40 percent of the U.S. GDP. This is a collection of companies that punches above its weight class.

This survey and report extends the focus. Our spring 2011 report identified cautious optimism as a prevalent characteristic among mid-sized companies. In comparing the 2012 survey results to last year's, we've observed a new realism: a stronger consensus in the views of executives on economic growth, hiring, and some emerging trends. This implies a greater recognition of and more agreement on the opportunities, challenges, and actions needed to succeed in the marketplace today.

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We've observed a new realism:  
a stronger consensus in the views of  
executives on economic growth,  
hiring, and some emerging trends.

Growth and hiring expectations are more modest than they were last year. This reflects an acknowledgment of the challenges posed by an economy that is growing more slowly than in most recent recoveries. As they told us one year ago, executives are planning to grow their companies through innovation, capturing higher-value customers, boosting revenue per customer, and improving customer loyalty. More companies are also escalating efforts to sell abroad. At the same time, many executives say that productivity — sales or profitability per employee — continues to improve.

All of this is taking place in a less predictable environment. The level of overall uncertainty perceived by our 2012 respondents was even higher than in a report we issued in September, when it was already higher than normal. Political uncertainty is an additional factor. Forty-four percent of the survey respondents said that political uncertainty in anticipation of the U.S. presidential elections will have a negative effect on their businesses. As a result, it would not be surprising to see companies wait on the sidelines until a clearer picture emerges and they can move forward with greater certainty, and perhaps less risk. However, mid-market companies recognize that inaction can increase risk, and survey respondents indicate they are taking action and making business decisions despite the uncertain environment.

We examine these planned actions in three specific areas: talent, technology, and financing.

**Talent.** There is a growing consensus on the importance of leveraging existing talent within an organization, rather than dramatically increasing hiring. Overall, fewer companies expect to hire new employees. This tendency is particularly pronounced among family-owned firms. But more than half of the respondents indicate that the size of the workforce will be unchanged. The watchword of 2012 is stability.

All of the executives interviewed for this report acknowledge the difficulty of finding qualified talent, a theme that seems to prevail despite high unemployment. Compared to last year, companies are increasing their emphasis on investing in current employees through training. Better training may mitigate the need for new hiring, and is consistent with a more cautious approach to increasing the workforce.

**Technology.** Companies recognize the growing importance of technology. They continue to prioritize automation of business processes, data analytics, and business intelligence as triggers to increase productivity and areas where they are most likely to make investments in 2012. Interestingly, there seems to be a greater recognition of the benefits of cloud computing. In our September 2011 survey, it was recognized as a distant fourth as a means to increase productivity. In this survey, it nearly equaled data analytics and business intelligence in terms of likely investments.

**Financing.** Balance sheets are healthier than they were one year ago, with 35 percent of respondents predicting higher cash balances and another 55 percent predicting them to remain stable in the coming year.

While 90 percent expect capital investment to grow or at least remain stable in 2012, a substantially larger number of companies do not plan to secure financing this year (27 percent versus 14 percent in 2011). Companies appear to be more prudent by strengthening their balance sheets to take advantage of opportunities than they were in recent years.

A majority of respondents to our 2012 survey indicate no change in their ability to obtain financing. These results hold for every financing vehicle, including leasing, asset-based and secured loans, and private equity. For those who choose to secure financing, the largest number of respondents also indicated no change in the cost of credit, again in every financing class.

This year's survey also indicates the potential for more merger activity. When asked if they were "very likely" to be involved in a merger or acquisition in 2012, 18 percent responded "yes" as an acquirer (up from 11 percent last year) and 6 percent responded "yes" as a target (up from 3 percent last year). Respondents also expressed more interest in private equity investors as counterparties in mergers and acquisitions. Regarding the desire to go

public, there is almost no difference between the results this year and last; only 7 percent expect to go public in the next year, and only another 6 percent expect to go public more than a year out.

The photo on the cover, Newton's cradle, is about momentum, but it's also about the effect of energy on a system. It demonstrates how new energy — in the case of mid-sized companies, energy in the form of creative ideas, great execution, and new initiatives — builds momentum in a system. When you release the ball, its energy travels through the system and is released in the movement of the final ball, which travels in an arc almost as high as the height of the initial ball. But as with any closed system, the energy eventually dissipates and more input is needed to continue the cycle. In this report, we attempt to demonstrate how executives at mid-sized companies are adding energy and working to build momentum by investing in talent, leveraging technology, and building their respective balance sheets to power the U.S. economy through 2012 and the years to come.



*Tom McGee*

Tom McGee  
National Managing Partner,  
Deloitte Growth Enterprise Services  
Deloitte LLP

### About the survey

In March 2012, a Deloitte survey conducted by OnResearch, a market research firm, polled 528 executives at U.S. midsize companies about their expectations, experiences, and plans for becoming more competitive in today's difficult economy. Respondents were limited to senior executives at companies with annual revenues of between \$50 million and \$1 billion.

Only 23 percent of the companies represented were public; the other 77 percent were privately held. Of the private companies, about one-third were family-owned and another third were private-equity backed; one-quarter were closely (non-family) held, and the rest were VC-backed, employee-owned, or other structures.

Industries were diverse: the three largest — professional/business services, retail and distribution, and technology — comprised only 24 percent of the respondents. The other 76 percent were spread across 18 different sectors. Finance professionals contributed 23 percent of the responses; general management, 16 percent; information technology, 16 percent; operations and production, 13 percent; and sales and marketing, 11 percent. The other 25 percent were spread across ten different functions, from customer service to supply chain, procurement, and R&D. Exactly half were owners, board members, or C-suite executives; the rest were vice-presidents, department or business line heads, or managers.

The full survey results are included in the appendix; some percentages in the charts throughout this report may not add to 100% due to rounding, or for questions where survey participants had the option to choose multiple responses.

# A new realism

The mid-sized companies surveyed in the first quarter last year tended toward cautious optimism. They had emerged from a severe downturn more nimble, adaptable, and better prepared to weather economic storms and capitalize on new opportunities. What they couldn't know was that the next wave would come so soon, with the U.S. debt ceiling debate and credit rating downgrade, as well as the European debt crisis that followed in the summer and fall of 2011.

Business conditions are still far from perfect. But compared to last year, it appears that executives have a better sense of the constraints and opportunities in this economy and what they need to do to adapt and move forward. This new realism — a better understanding of changing business realities and the resolve to make forward-looking decisions — appears to span regions and industries.

Executives at mid-sized firms say that business conditions are more uncertain than they were in the first quarter of 2011. Their expectations of economic growth are lower. There's a solid consensus that commodity prices will increase, unemployment will be stable or fall, and interest rates will remain low. The presidential election matters to many executives — 42 percent say that the outcome will affect their business plans, but more than half think that clarity is more important than which party takes the White House. Interestingly, 52 percent indicated that they are not delaying significant business decisions until after the election.

## Consensus on U.S. economic growth

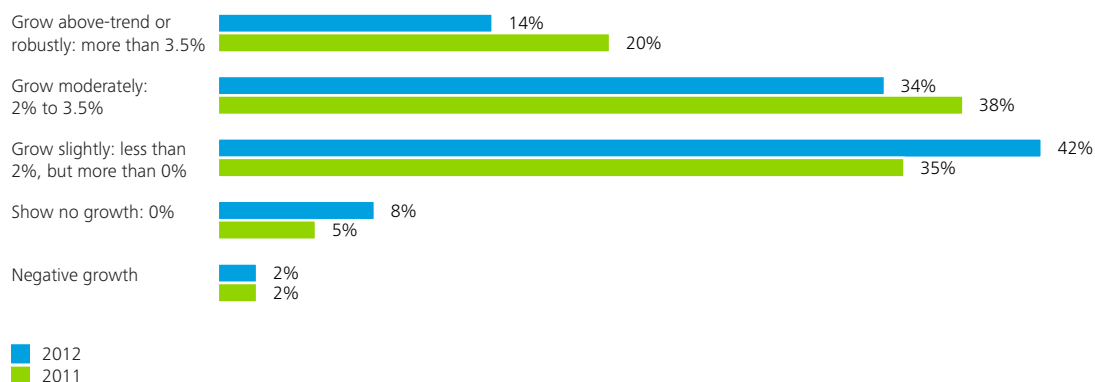
Despite the uncertainties on the political front, there is some consensus on the outlook for U.S. economic growth. Last year, the median growth forecast in the survey was 2 percent to 3.5 percent. Actual real GDP growth was only 1.7 percent<sup>1</sup>, which falls within the range of this year's median forecast of 0 percent to 2 percent. There were also fewer respondents on the high end of the range in 2012, suggesting greater consensus.

Fewer respondents expect rapid growth. This year, only 14 percent think the economy will grow faster than 3.5 percent; last year, the figure was 20 percent. Today, 34 percent of respondents anticipate growth at 2 percent to 3.5 percent; last year, the figure was 38 percent. Not surprisingly, executives who saw more uncertainty ahead also tended to forecast lower economic growth.

To some degree, there was a correlation between a respondent's economic outlook and his or her title. For example, about 48 percent of respondents said that 2012 economic growth would surpass the 0 percent to 2 percent median. Among CEOs, the figure was 60 percent; among CFOs, the figure was 44 percent.

The economic views of executives are colored by the performance of their industries, too. Although 48 percent of all survey respondents expected economic growth to exceed the median forecast of 0 percent to 2 percent, more executives hold this optimistic view in technology (57 percent), transportation (67 percent), and professional services (81 percent).

## At what pace do you expect the U.S. economy to grow over the next 12 months?



<sup>1</sup> 2011 real GDP growth: <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

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## From the 30,000 foot level, the U.S. economy may appear to be running in slow motion.

### Mid-sized companies: How they differ by industry sector

The world of mid-sized companies is nothing if not diverse. As a barometer of the current state of U.S. mid-sized firms, the survey is useful, but it is also important to remember that average responses across a range of industries often hide as much as they reveal. Different sectors have distinct characteristics, face diverse challenges, and often seek unique solutions.

For instance, most U.S. companies with annual revenues in the \$50 million to \$1 billion range — the target of the survey — are privately held and plan to remain so for the foreseeable future. But there are significant variations within this group. Compare technology to construction/engineering firms, for example. Most of the mid-sized technology companies surveyed are either public or aspire to be; among those that are privately held, more than two-thirds are backed by private equity investors who will eventually seek an exit strategy, most often through an IPO. These companies are under intense pressure to perform. On the opposite end of the spectrum is the construction/engineering sector: 84 percent of the companies surveyed expect to stay private, and over a third of those are family-owned. They face a different set of challenges. Differences like these affect a range of decisions, from financing strategies and investment plans to employee compensation and succession plans.

Here are a few highlights of the key differences across several of the sectors surveyed.

**Banking and securities.** These companies are more likely to be publicly held and looking for growth in the U.S. market. They suffer from employee churn: companies in banking and securities are more likely than those in other sectors to see high performers leave, and they are looking to invest in both talent and technology. Almost every sector has a hard time finding technology and engineering employees, but at banks and securities firms this problem appears to be more acute.

**Business and professional services.** These companies are more likely to look for growth outside the United States and Canada. Three in 10 are seeing talent go out the door, a percentage higher than in other sectors. These companies also appear to be hiring: the percentage of all respondents who say they are adding employees aggressively is 14 percent, but this rises to 21 percent at business and professional services firms.

**Construction/engineering.** These companies are overwhelmingly privately held and domestically focused. These companies seem least likely of all sectors to consider going public. As noted earlier, more than one third of privately held construction and engineering firms are family-owned companies. They are less likely to lose employees and, not coincidentally, less likely to be hiring or downsizing.

**Process and industrial products.** Process and industrial product companies are more likely to be privately held or, if public, closely held. Their focus is international; they are looking to grow through sales outside the United States and Canada. These companies seem more likely than other firms to invest in technology, and about one in five expects to increase staffing by more than 5 percent. Process and industrial product companies are most likely to be in the market for engineering talent — and to have a hard time finding it.

**Technology.** The technology sector is the most dynamic of all those surveyed. Only one-third of mid-sized tech companies are privately held with no intentions of going public. Almost none are family-owned. Although most mid-sized companies focus squarely on the U.S. market, many tech companies are looking outside North America for growth. They appear to be big acquirers of talent and they invest heavily in technology. They are often in the market for acquisitions. They are also more likely than companies in other industries to see employee defections.

**Transportation.** The transportation companies surveyed are overwhelmingly (85 percent) privately held, and almost half of those are family-owned. Of all the sectors surveyed, transportation companies are most likely to be aggressively hiring. Over a quarter of these companies (versus 14 percent of all companies surveyed) expect to boost the number of full-time employees by more than 5 percent over the next 12 months. Few of these companies are downsizing. About six in ten say that they are having trouble acquiring operations talent.

From the 30,000 foot level, the U.S. economy may appear to be running in slow motion. But there are unique constraints and challenges buried in the aggregate numbers. The better the understanding of industry-specific issues, the easier it is to devise company solutions.

In the end, the growth of the broader economy is only one factor in business success. Not all companies require overall economic growth to prosper. Many are started during economic downturns and succeed based on the value of their products. Says Dave Propupek, CEO of Smashburger: “Of course we would suffer if there was a big downturn. But we started in 2007 right at the onset of the economic malaise. Since then we’ve been able to grow very quickly. Our core service is quickly cooking a meal and bringing it to your table for \$8-\$10.” When the economy grows, there are different opportunities. “As the economy picks up, we get price-sensitive customers switching over to us from fast-food places,” says Mr. Propupek.

A similar point was made by Gene Eidelman, the president and co-founder of Mosaica Education, which operates K-12 schools in the United States, the United Arab Emirates, and India, and is planning to expand into the United Kingdom, Turkey, and China. “Our business is split 80:20 between improving poorly performing public schools under contract and starting up private schools. The former does fine in any economy, since core funding and facilities are already in place, and we generally have more flexibility to respond to cutbacks than public employers

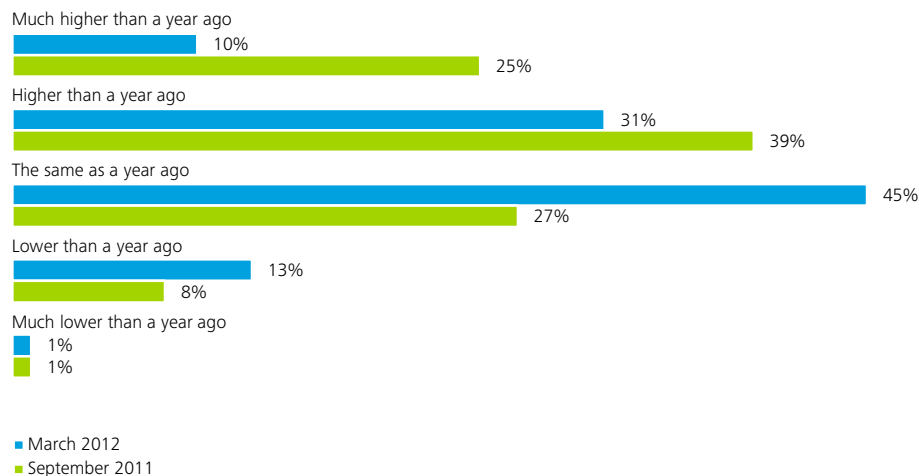
do. Private schools — which are the fastest-growing part of our business — are more sensitive to changes in discretionary incomes. That business takes off in a growing economy.”

### Uncertainty is not stopping action

Our last report confirmed that 2011 was a year of uncertainty. Executives at mid-sized companies indicate that although this uncertainty has not lifted, it is not deterring companies from making decisions and moving forward.

Last year, we asked executives to rate the level of uncertainty with respect to taxes, regulations, credit, and other factors affecting the business climate. Sixty-four percent said that the level of uncertainty was higher or much higher than normal. This year, we asked a similar question: Is the business climate more uncertain than it was a year ago? Only 13 percent said that uncertainty had declined. The rest were close to evenly split between “about the same” (45 percent) and “more uncertain” or “much more uncertain” than a year ago (41 percent), indicating that a resounding 86 percent now believe conditions of uncertainty are the same as last year — when they were already high — or even higher (see below).

### Compared to one year ago, the level of uncertainty in terms of factors that drive future business prospects (e.g., taxes, regulations, credit availability, and the economic outlook) is:





The high level of uncertainty could also be attributed to potential shifts in government policies. When asked what the government could do to help mid-sized businesses grow in the coming year, the top two answers pertained to policies squarely in the center of public debate: health care reform and corporate tax rates. “We had a record year in 2011, and we’re on track to do very well this year,” says Ron Bullock, chairman of Bison Gear and Engineering, a components manufacturer based in St. Charles, Illinois. “But we’re concerned about 2013. For one thing, there is too much uncertainty on tax policy.”

**Economic indicators: commodity prices, inflation, interest rates, and unemployment**

There is broad agreement on the future of two key economic indicators: interest rates and commodity prices. Given the Federal Reserve’s transparency on its short-term interest rate policy through 2014, it is no surprise that 70 percent of respondents expect interest rates to remain low. The fact that 70 percent expect increases in commodity prices is more surprising, especially given that only 53 percent expect higher inflation.

A rise in commodity prices can drive inflation higher, but commodities are only one component of inflation — albeit an important one. As New York Federal Reserve President William Dudley pointed out in 2011, food prices can rise even as the prices of computers fall. The distinction between overall inflation and the prices of specific goods and services also shows up in expectations about input and output prices. Although 70 percent of our respondents

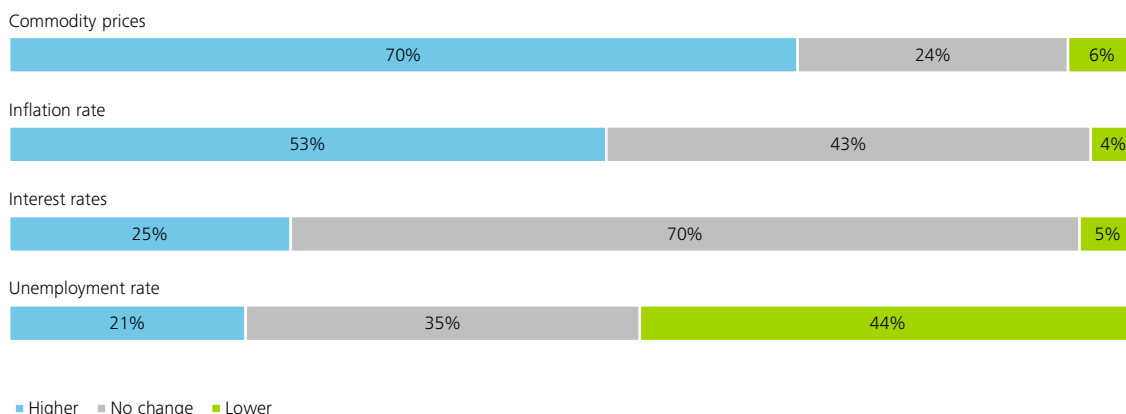
expect commodity prices to rise and 53 percent expect higher inflation, only 41 percent think that they will be able to raise their own prices. Just 34 percent think their own input prices for items such as labor, materials, and overhead will go up.

At the same time, there appears to be continuing pressure on margins. Fifty percent of respondents reported higher revenues over the past year; only 40 percent reported higher profits and 30 percent reported higher margins. When executives were asked what they expect over the next 12 months, a similar pattern surfaced: 58 percent expect higher revenues, 52 percent expect higher profits, and only 39 percent expect higher margins. This suggests that some companies may be having a difficult time passing costs along to consumers.

**Views on unemployment**

The area with the least agreement is unemployment. About one in five of our respondents said that joblessness will rise, one-third believed it will remain unchanged, and the rest — just under half — indicated that they expect unemployment to decline. These differing forecasts may be rooted in firsthand experience of hiring and productivity growth at the company level. Last year, 48 percent of respondents expected to increase their workforce, but only 31 percent actually did. This year, 40 percent of respondents reported higher productivity over the last year, and even more (45 percent) predict further gains in the year ahead.

**What is your outlook for commodity prices, inflation, interest rates, and unemployment over the next 12 months?**



### Obstacles to growth

When asked about obstacles to U.S. economic growth, respondents cited two factors not among the top five last year: the housing market and the European debt crisis.

The housing market has jumped to the top of the list as a barrier to U.S. economic growth. Analysts have cited the drop in inventory, lower unemployment, low mortgage rates, and other factors as signals of a housing recovery. But survey respondents may see the housing market in a different light. Housing prices continue to fall: the Case-Shiller Composite-20 Home Price Index has dropped every month except one since June 2010.<sup>2</sup>

The European debt crisis has also entered the top five. Even though it did not become part of the daily news cycle until the summer of 2011, it is cited as a potential barrier to U.S. growth by 50 percent of the survey respondents.

The European debt crisis and its aftermath may also represent a barrier to the growth of companies. In a tightly integrated world, problems in one economy — even one as small as Greece — quickly spread to others. Most executives at mid-sized companies recognize this, and 65 percent said that a recession in Europe would have a negative effect on their companies. There's a strong link between the expected impact and the company's percentage of foreign revenue. Those who derive more than 40 percent of their revenue from overseas were more likely to expect a severe impact; those expecting to emerge unscathed were most likely to have no foreign revenue. This pattern suggests that some executives may be discounting the spillover effects of a European downturn on the overall U.S. economy.

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<sup>2</sup> "2012 Home Prices Off to a Rocky Start According to the S&P/Case-Shiller Home Price Indices," Standard & Poor's, <http://www.standardandpoors.com/indices/articles/en/us/?articleType=PDF&assetID=1245331072500>

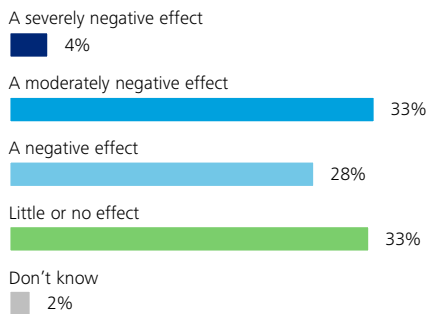
### Top five obstacles to U.S. growth: 2012

- 1 Housing market
- 2 Government budget challenges
- 3 Health care costs
- 4 Consumer confidence
- 5 European debt crisis

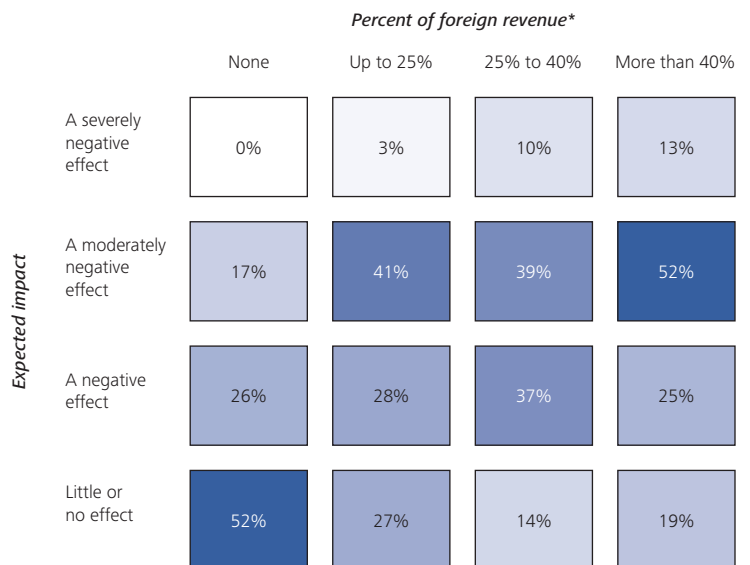
### Top five obstacles to U.S. growth: 2011

- 1 Government budget challenges
- 2 Consumer confidence
- 3 Health care costs
- 4 Tax rates
- 5 Inflation/energy prices

### What effect would a recession in European economies in 2012 have on your company?



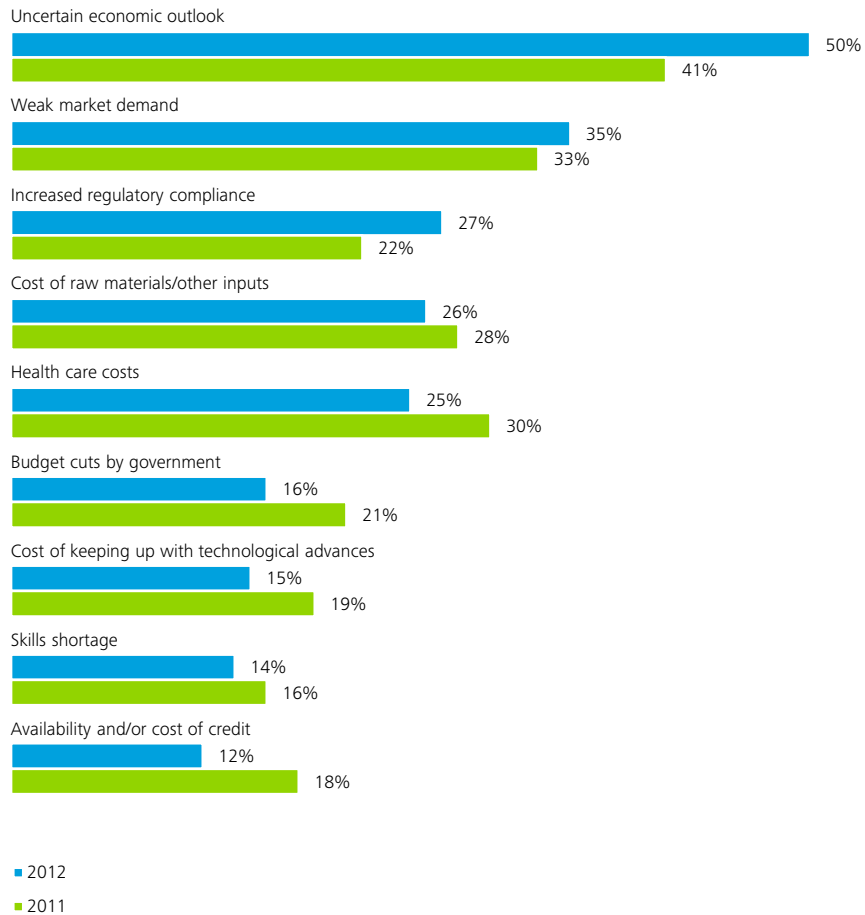
### Expected impact of European recession based on companies' foreign revenue



\* Since respondents answering "don't know" regarding foreign revenue were excluded, not all columns in the chart above sum to 100%.

Other barriers to the growth of mid-sized companies are shown in the graph below. Uncertain economic outlook (50%) and weak market demand (35%), are still considered the two largest obstacles to company growth. More executives are concerned about regulatory compliance than a year ago (27 percent versus 22 percent), and fewer see the cost of credit as a barrier (12 percent versus 18 percent).

**What are your company's main obstacles to growth?**



### Growth fueled by global sales

Most mid-sized U.S. businesses are still oriented mainly toward the domestic economy. Thirty-nine percent of those surveyed earn revenue only in the United States. Another 35 percent earn less than a quarter of their revenue from overseas. But despite a domestic orientation, many also want to compete globally. When asked about what government can do to help mid-sized companies grow, only 14 percent of respondents said they want the government to protect them from overseas competition. This reinforces the fact that mid-sized companies recognize that they are part of the global economy and are willing to compete in it, both as a source of inputs and to capitalize on foreign markets.

Where are companies looking for revenue growth overseas? Almost everywhere. In nine out of 12 non-U.S. markets, more mid-sized companies expect revenue growth in the coming year than they experienced over the previous year. Markets where companies expect the highest change in growth (all tied at 4 percent) are Asia-Pacific (excluding China and India), India, and Latin America (excluding Brazil and Mexico). China was cited by the highest number of respondents (18 percent) as a country where they expect revenue growth in the coming year, despite the reported slowing of growth in the Chinese economy. It would appear that no recession is expected in Europe; the number anticipating revenue growth remains at 17 percent. Only in the United States and Canada do fewer expect revenue growth, which may be due to higher growth expectations overseas and more effort being directed there.

What proportion of your revenues comes from outside the United States?		
	2011	2012
None	49%	39%
Up to 25%	29%	35%
Over 25%	22%	25%
Not sure	0%	2%

Which geographic markets have contributed the most to your company's growth over the last 12 months? Which will contribute the most over the next 12 months?			
Market	% seeing revenue growth: last 12 months	% expecting revenue growth: next 12 months	Change
United States	88%	78%	(10%)
China	16%	18%	2%
Western Europe	17%	17%	0%
Asia/Pacific (excluding China and India)	12%	16%	4%
Canada	20%	16%	(4%)
Latin America (excluding Brazil and Mexico)	7%	11%	4%
India	7%	11%	4%
Brazil	7%	10%	3%
Mexico	8%	10%	2%
Eastern Europe (excluding Russia)	5%	6%	1%
Russia	3%	4%	1%
Middle East	3%	6%	3%
Sub-Saharan Africa	2%	2%	0%

### Offshoring vs. reshoring: Two paths for manufacturers

Gains in manufacturing represent a big part of the U.S. economic recovery. Meanwhile, wage inflation in China has narrowed the cost difference between U.S. and China manufactured goods.\* For mid-sized U.S. manufacturers, as well as companies sourcing manufactured goods, this new dynamic has challenged the conventional wisdom of offshoring manufacturing activities. The approaches of two companies interviewed for this report — Euro-Pro and Bison Gear and Engineering — illustrate that different kinds of businesses require different strategies.

According to the Bureau of Labor Statistics, the United States has added about a half million manufacturing jobs since January 2010. The first three months of 2012 witnessed the creation of 120,000 manufacturing jobs, the biggest first-quarter increase in 28 years. Manufacturing unemployment is almost a full percentage point below the overall unemployment rate.\*\* Although average real hourly wages in the United States increased by 20 percent between 2002 and 2008, they doubled in China, albeit from a much lower absolute level.

“We used to pay 70 cents an hour for Chinese labor. Now it’s about \$4 an hour,” says Ron Bullock, chairman of Bison Gear and Engineering, an Illinois manufacturer of electrical components. “The shipping costs have gone up too.” As a result, Bison brought about a dozen component manufacturing jobs back from China last year, and plans to bring back more.

It is not just about cost — it is also about quality, control, and the ability to respond to customers quickly. “Many of our customers get deliveries every two weeks — and they can request modifications from delivery to delivery,” Mr. Bullock says. “The products are complex and orders change. If you can respond fast, that’s a big advantage.”

Bison can respond fast because it has far more control over Illinois-based production than it does over Chinese contractors. “We squeeze away all of the waste, shorten cycle times, and improve productivity. We invest in processes and equipment to make our electric motors more efficient. Special kinds of gear-making equipment. We’re building an IP portfolio that allows us to respond more effectively to our customers. Ultimately, we are paying less for higher quality, more responsiveness, and speedier production.”

Euro-Pro, a Massachusetts-based distributor of household appliances, takes a completely different approach. It starts with the fact that Euro-Pro’s core competencies are product design, marketing, and distribution, rather than manufacturing. The company designs the products in its Massachusetts facility, contracts with Chinese suppliers to manufacture them, and handles the marketing and distribution itself.

Given the company’s strengths, it is not surprising that manufacturing is fully outsourced to China. “We design the products here in the U.S. We do the engineering. Then we go out to contract manufacturing,” says Mark Barrocas, the president of Euro-Pro. “We continue to re-evaluate our sourcing decisions, but the fact is that we get so much from our Chinese partners — a better supply chain for component parts, fast deliveries, the ability to make changes quickly — that the decision isn’t just driven by prices. Steve Jobs made some famous comments about China’s advantages in sourcing consumer goods. Those comments were dead on. The same factors apply to us. Even if costs went up another 20 percent, there would have to be very compelling additional reasons to change.”

Euro-Pro and Bison have different places in the supply chain, different business models, and different supplier needs. Each has devised a sourcing strategy that suits it well. Costs are important to both companies, but their supply chain decisions go well beyond costs. “The U.S. has to continue to improve its position as a place to invest in manufacturing,” says Mr. Bullock. China will have large cost advantages for the foreseeable future, but as companies continue to re-evaluate their sourcing decisions, quality, responsiveness, and time to market may play a bigger role.

\* “International Comparisons of Hourly Compensation Costs in Manufacturing,” Bureau of Labor Statistics, December 11, 2011, <http://www.bls.gov/news.release/ichcc.toc.htm>

\*\* “The employment situation: March 2012,” Bureau of Labor Statistics, April 6, 2012, <http://www.bls.gov/news.release/emp.sit.nr0.htm>



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It is not just about cost — it is also about quality, control, and the ability to respond to customers quickly.

# Key findings: how companies adapt

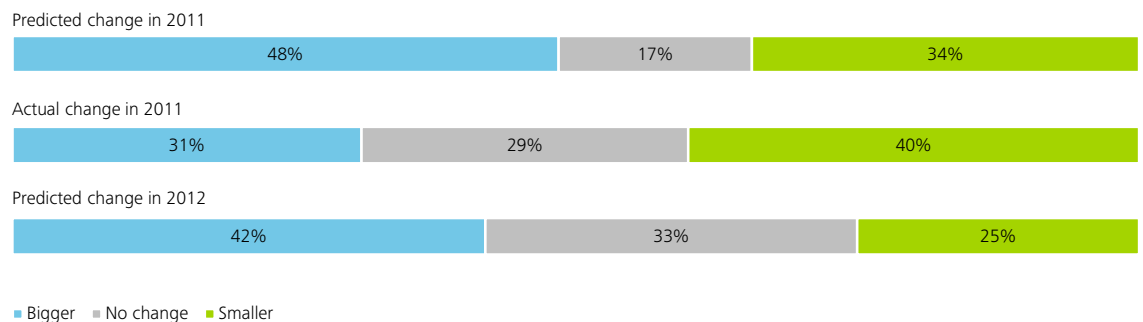
Every business has strategies to adapt to the environment, from refining its cost structure to embarking on transformative changes. This year's survey uncovered insights into three key levers: talent, technology, and financing.

## Talent

A year ago, survey respondents painted a fairly optimistic picture of planned domestic hiring over the next 12 months. Although 48 percent expected to expand their domestic workforce, only 31 percent actually did. And they didn't hire many people: most increased the size of their workforces by less than 5 percent. Their expectations were based on the business environment as they knew it at the time, coming off relatively robust real GDP growth of 3 percent in 2010.<sup>3</sup> But as the year progressed, turmoil in the European markets, the U.S. credit downgrade, and slow economic growth in the first three quarters led to actual hiring levels that were lower than expected.

While still higher than the 2011 actuals, the predictions for hiring are more conservative than last year's forecast. Forty-eight percent of respondents predicted an increase in their domestic workforce last year; this year, 42 percent did so. Last year, 17 percent expected no change; this year, that figure spiked to 33 percent. Although more respondents indicated an increase in domestic workforce than a decrease in 2012, both numbers are down from last year's predictions, with "no change" making up the difference. One reason for this may be successful efforts to increase productivity. Thirty-nine percent of the respondents said productivity increased during the past 12 months and 45 percent expect it to rise over the next 12.

**How did you predict your domestic workforce would change in 2011?**  
**How did it actually change in 2011?**  
**How do you predict your domestic workforce will change in 2012?**



<sup>3</sup> National Income and Product Accounts, Bureau of Economic Analysis, U.S. Department of Commerce, <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>



### Voluntary attrition

The U.S. Department of Labor reported in March 2012 that 1.8 million workers voluntarily quit their jobs in January, up about 330,000 from the low in September 2009. Given the size of the U.S. workforce, it is not a particularly big number, but it does suggest that more workers are seeking what they may view as better opportunities.

Voluntary attrition can be a sign of a healthier economy, as more individuals take advantage of the opportunity to change jobs than they might during downturns. The increase in attrition raises the question of whether mid-sized companies are seeing a significant number of employees leaving to take other jobs.

Close to one in five respondents reported a large or moderate rise in employee defections, and another 25 percent reported a slight increase. Skilled, productive employees are in short supply even when unemployment

is high. That suggests companies may want to re-evaluate their talent management and retention strategies.

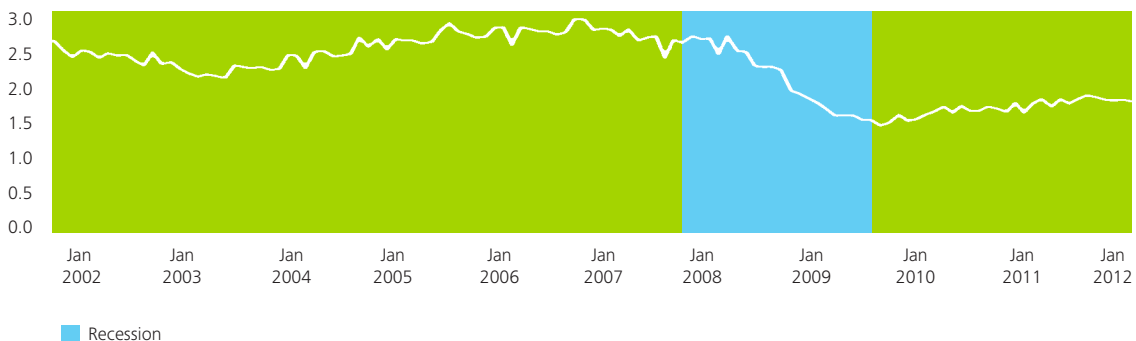
The shortage of skilled production workers is well documented. According to a report issued in November 2011 by Deloitte and the Manufacturing Institute:

*High unemployment is not making it easier to fill positions, particularly in the areas of skilled production and production support... Respondents report, on median, that 5 percent of their jobs remain unfilled simply because they can't find people with the right skills. Translated to raw numbers, this means that as many as 600,000 jobs are going unfilled, a remarkable fact when the country is facing an unemployment rate that hovers above 9 percent. Respondents separately report that the national education curriculum is not producing workers with the basic skills they need — a trend not likely to improve in the near term.<sup>4</sup>*

### Over the past year has there been a rise in the number of employees leaving your company to take jobs elsewhere?



### Quits in millions



Source: Bureau of Labor Statistics QCEW database. Quits are the number of voluntary departures in a given month.

<sup>4</sup> Boiling Point? The Skills Gap in U.S. Manufacturing, Deloitte and The Manufacturing Institute, 2011, page 4.

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## “Finding that person with the highest level of training is close to impossible.”

Pamela Kan — President, BishopWisecarver

### Amidst high unemployment, mid-sized manufacturers struggle to find workers

BishopWisecarver is a California-based company that supplies linear bearings and assemblies to manufacturers, which use the parts in their production machinery or end products. With 55 employees, the company gets about a third of its revenue from abroad, and it competes with firms in North America, Europe, Asia, and Latin America.

Demand is not a problem for BishopWisecarver. The company's success is testimony to the viability of U.S. manufacturers — even small ones — in a globalized economy. What is a problem is finding the skilled production employees needed to meet demand. Even in California, which has the third-highest unemployment rate in the country, the company has a difficult time filling open positions.\* “It's hard to find mechanical engineers,” says Pamela Kan, the president of BishopWisecarver and the second generation of Wisecarvers to run the company. “That's not the sexy side of engineering, especially here in northern California where we compete for talent with the dot-coms.”

It is even harder to find skilled labor to run the machines. Entry-level machinists are available, if not abundant. But more skilled and experienced machinists are harder to find. “We've had a senior machinist first-class position open since last summer,” says Ms. Kan. “Finding that person with the highest level of training is close to impossible.”

The scarcity of experienced machinists is an issue for BishopWisecarver, the U.S. manufacturing sector, and the overall U.S. economy. Workers with deep experience and skills are the key to efficiency, productivity, and competitiveness. U.S. workers are the most productive in the world, but first you have to find them.

“In China they can throw labor at a task,” according to Ms. Kan. “They're starting to get better production machinery. But for now most of them have single-access, single-spindle machines and one machine per worker. I need to find one person who can program multiple machines and run several of them at once.”

The alternative is to hire entry-level machinists and train them. “With entry-level people I get the desire, but not the experience,” says Ms. Kan. “It can take years to train them.” Large manufacturers have the scale to set up apprenticeship programs and develop their own workers. It is harder for mid-sized manufacturers to support that kind of initiative.

“The dropout rate in California high schools is close to 30 percent,” says Ms. Kan. “I believe that many of those kids are dropping out because they're told that they have no future unless they go to college and they can't imagine another four years of school. They drop out, get a GED, eventually go to community college, realize that there are jobs and opportunities in manufacturing, and then they come to me. There is no need to force those kids to take the long way around. Let's listen to them, give them options and honor what they choose to do.”

\* *Regional and State Unemployment Summary, Bureau of Labor Statistics, March 30, 2012, <http://www.bls.gov/news.release/laus.nr0.htm>. The top three states in terms of unemployment are Nevada (12.3%), Rhode Island (11%) and California (10.9%).*

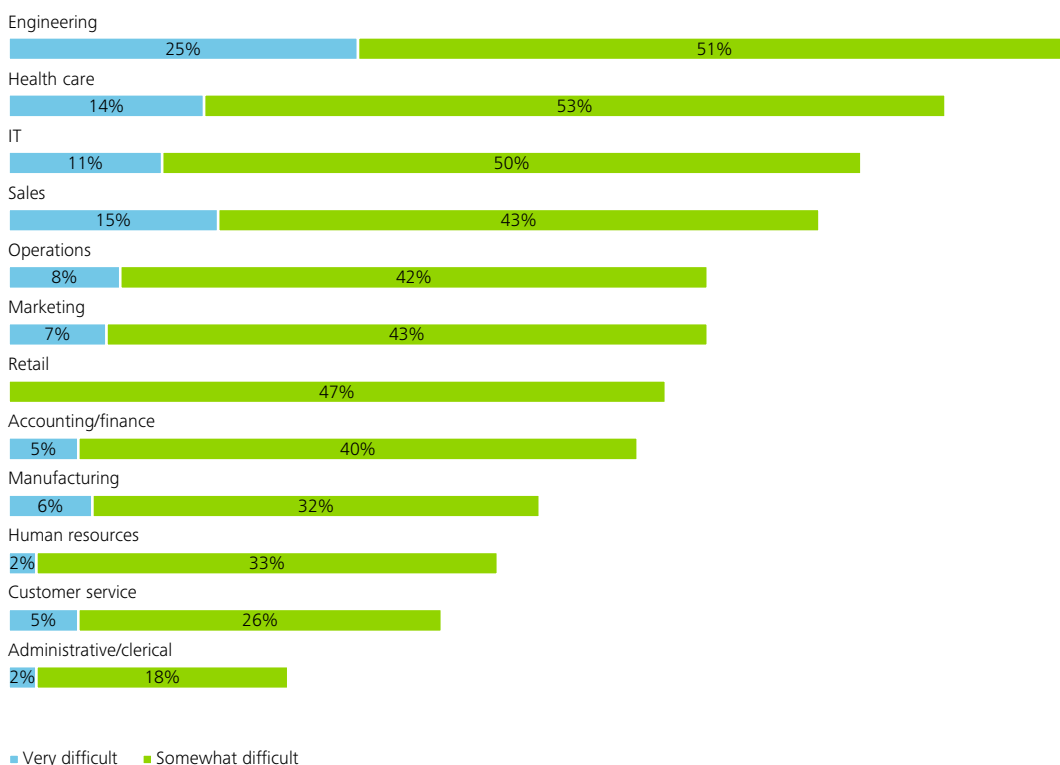
To fully understand the hiring challenges faced by manufacturers, statistics on engineering openings need to be considered. While 38 percent of manufacturing executives reported difficulty in finding qualified candidates, 76 percent of respondents said that engineering positions were tough to fill, ranking it as the highest category surveyed.

Many manufacturing companies are having trouble finding even entry-level production employees. Bison's Ron Bullock says: "As business has gotten better, we've had problems recruiting people at both the entry level and among engineers and technicians. At the entry level, we're looking for basic reading, math, and soft skills. We've been fighting that battle for a while because high schools are placing too much emphasis on college prep. A high school diploma doesn't really tell you anything about basic proficiencies. For the technical jobs, we're looking for the ability to understand statistical process control, to read blueprints, and to communicate."

"One thing we're definitely seeing," adds Mr. Bullock, "is a higher incidence of people coming in to recruit people away from us. We have an excellent training program and a high-caliber workforce. Other companies want our people. Also, salaries are rising, especially in engineering, and you've got to pay more just to stay competitive."

Confirming the shortage in engineering talent is Mark Barrocas, president of Euro-Pro. "It is so hard to get good engineering talent. Not just any engineer, either — engineers that are good at product development. Today we have about 35 openings just in Boston, of which 12 are senior-level engineering positions. It's easier to get engineers in China than here. But we need them here so they can be close to the consumer and integrate with the marketing team. Here in the U.S., we're ground zero for the consumer."

#### How difficult is it to find qualified candidates?



Companies in other sectors face their own issues.

Smashburger, which has expanded quickly since its founding in 2007, seeks several types of employees that are in short supply. CEO Dave Propupek says, "It's hard to find people with experience working in a high-growth company. Not many companies have grown at the pace we have. It's also always hard to get field operations people. At the restaurant level, we do in-depth assessments to find people who want to be in a service and hospitality business. Overall, we interview five to ten candidates for each one we hire."

Mosaica looks for talented individuals who combine educational expertise and an entrepreneurial outlook. "It's a tough skill set to find," says Gene Eidelman, the company's president. "We partner with organizations like Teach for America to find young people who are drawn to education's social purpose but majored in another field. We like people with business experience, or who have been through the military or the Peace Corps. We have been operating the Mosaica Leadership Institute, where we provide professional development, leadership training and organizational-skill development to high-performing educators who are looking to develop their skill sets and aspire to move into curriculum development, head of school, or executive positions."

At T.B. Penick & Sons, a fourth-generation family-owned construction company in San Diego, President Tim Penick suggests that now is a good time to find executive talent. "Stars are always tough to find, but it's generally a good time to find good people. We hire ahead of the need, and have had some impressive talent become available that would never be available in a stronger market. The most difficult people to find are business-unit leaders agile enough to prosper in a depressed market, craft leadership who can productively lead crews and execute high-quality work, and support personnel who execute well, learn fast and follow up."

One significant difference between our 2011 and 2012 surveys is the percentage of respondents who intended to invest more in training (51 percent in 2012, versus 34 percent in 2011). Several of the companies interviewed — including Mosaica, Smashburger, and Bison — emphasized their focus on training. Combined with the fact that fewer companies planned to increase the number of part-time workers in 2012 (only 13 percent), it appears that although fewer companies are hiring, more see new employees as a permanent investment rather than a factor of production to be added or subtracted at will.

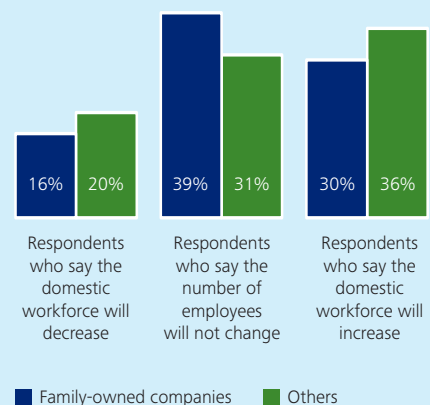
### Hiring at family-owned companies

Family-owned companies are widely thought to treat employees like family members too — that is, to avoid layoffs and reward loyalty more than other companies. The survey offers some support for this idea.

The 130 family-owned companies that responded to the survey are less likely than the others to say that they expect the number of employees to decrease over the next year (16 percent for family-owned companies versus 20 percent for others). They are also more likely to say that the number of employees will not change during this period (39 percent for family-owned firms versus 31 percent for all others).

Non-family-owned companies are more likely to increase the workforce by small increments (up to 5 percent). Thirty percent of family-owned companies said they would boost the number of employees by 5% or less, while the figure for other companies was 36%. For larger increases in staff, there was no difference between the two groups.

Hiring outlooks



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## “Not meeting the expectations of your customers can kill you at the starting line.”

Mark Barrocas — President, Euro-Pro

### **Euro-Pro generates demand to control its own destiny**

Critics say that big-box retailers can hurt suppliers by squeezing prices and transforming distinctive products into low-margin commodities. This is not a universally held view; some studies say that suppliers with one or two big retail clients outperform those with a more diverse customer base.\* Euro-Pro, which designs and distributes household appliances, has found a way to support major retail partners while protecting margins and building a strong brand.

A third-generation family-owned company, Euro-Pro has had three homes: first Europe, then Montreal, and finally the Boston area. Under its Shark brand, Euro-Pro distributes and sells household appliances for cleaning, including vacuums, steam mops, irons, and garment steamers. It also sells small kitchen appliances under the Ninja brand. The company designs the products in its Massachusetts facility, contracts with Chinese suppliers to manufacture them, and handles the marketing and distribution itself.

“The kinds of products we distribute are often sold through large retailers,” says Mark Barrocas, president and co-owner. “We sell a lot through big box stores. But it’s difficult to survive selling only through the retail channel, where you’re relying on the retailer to promote you. Promotion used to be the job of the retailer, but that’s not how it works anymore.”

Euro-Pro has responded in three ways. First, it spends heavily on R&D to create innovative products that stand out. Second, it has taken upon itself the job of creating demand for its products and brands. And finally, it has built its own channels to complement the retail distribution network.

“Our product development is focused on innovation,” says Mr. Barrocas. “We have moved away from low-end goods and concentrated on differentiated products with breakthrough features. We aren’t going to become commoditized.”

To build the brand, Euro-Pro relies largely on infomercials. The company produces five or six each year and airs them year round. The infomercials focus on innovative product features and give customers three ways to order: by phone, through the Shark or Ninja websites, or at a retailer where they can see and touch the product before buying it. The campaigns support Euro-Pro’s retail partners, driving traffic to brick-and-mortar stores as well as to the company’s own website and call center.

Like all suppliers of consumer goods and services in this age of social media, the company is vulnerable to the hyper-amplified voice of the disgruntled consumer. “Not meeting the expectations of your customers can kill you at the starting line,” says Mr. Barrocas. To guard against this reaction, the company devotes significant resources to in-home testing before product releases.

\* See “Customer-Base Concentration: Implications for Firm Performance and Capital Markets,” Panos Patatoukas, *The Accounting Review*, March 2012, <http://www2.haas.berkeley.edu/Haas/Home/News/Research%20News/2012-03-27.aspx>

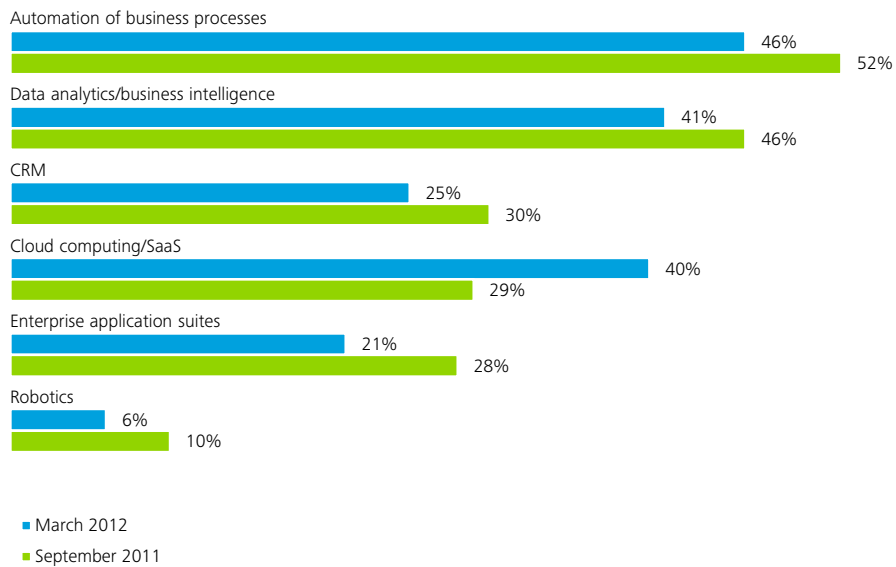
### Technology

The bigger the mid-sized company, the more likely it is to cite technology as having the greatest potential to increase productivity. In September 2011, when asked which technology had the greatest opportunity to increase productivity, automation of business processes and greater use of data analytics were the clear favorites, at 52 percent and 46 percent respectively. Cloud computing/Software as a service (SaaS) was a distant fourth, at 29 percent, ranking behind customer relationship management (CRM). Six months later, when asked what type of investments companies were likely to make in technology, cloud computing, at 40 percent, had emerged close to automation of business processes (46 percent), and data analytics (41 percent), as an investment priority.

Several interviews confirmed the survey's findings on business process automation, data analytics, and cloud computing. For instance, Tim Penick of T.B. Penick & Sons, says that "our biggest payoff to date has been virtualization of our entire datacenter. Going forward, we see software-as-a-service as the next payoff. It will help keep IT staffing/overhead to a minimum as the company continues to grow."

On SaaS and business process automation, Smashburger's Dave Propupek says that just recently the company completely automated the lead generation process for the franchise salespeople. "The leads come in over the Web or the phone. There's an online form that collects the information. The people are automatically sorted into buckets and territories and the application routes them to the appropriate salespeople. That used to be a manual process until just a few weeks ago."

**March 2012: Which tech investments are you most likely to make to increase productivity at your company in the next 12 months?**  
**September 2011: Which tech investments have the most potential to increase productivity at your company?**



But if one phrase were to sum up the technology focus of the interviewees, it would be “data-driven.” At Euro-Pro, Mark Barrocas suggests that his company is concentrating on building day-to-day analytics around business metrics. “We’re trying to improve our ability to organize the data and serve it up in way that helps us to make good business decisions. That means investing in capturing the data, building better repositories, analyzing it, and reporting it.”

“We aren’t making big ERP investments,” he adds, a point consistent with survey results showing less interest in enterprise-wide systems (down from 28 percent in the September 2011 report to 21 percent in 2012). “Instead, we’re making smaller strategic investments in data mining and analysis around the supply chain and product demand as well as product testing, quality control, and product development.”

At Mosaica, student data is collected at the classroom level and reported to the students, teacher, principal, and the corporate office. Each teacher manages his or her own data. “There’s a data wall in each classroom and third-graders can go to the wall and see how they are progressing,” says Gene Eidelman. “Our biggest bang for the buck comes from figuring out how to use data effectively to improve learning. And our biggest investment is in training teachers to understand what the data is telling them and using it to improve outcomes.”

### How data analytics help Smashburger grow

Funded with an initial \$15 million round of private equity and additional capital from management and franchise operators, Smashburger has grown from a single Denver location in 2007 to over 150 restaurants in the United States, Canada, and Kuwait.

Such rapid growth requires a high-quality customer experience. The company’s data analytics are built around this experience. Although they are still a work in progress, their purpose is clear: to help the company measure and optimize the customer experience, as close as possible to real time, in order to drive revenue and profitability.

“We’re very experience- and data-driven around our customer experience, both in the corporate stores and for franchise partners,” says Dave Propupek, the company’s chairman and CEO. “As a result, we’re trying to measure everything that matters. We have a big SQL database that is fed with all of the store-level data and external social media data. What is purchased and the product mix, of course. But also the time of day, day of the week, discounts, whether the purchases are part of loyalty programs. How long customers stand in line, how long it takes for their food to arrive. Everything that we can measure related to the customer experience, we do.”

All of these are indirect measures of customer experience. To measure it directly, Smashburger is working with Empathica, a third-party provider, to get post-visit feedback over the Web. Each receipt has a store number, date, time of day, and ticket number. When the customer enters this information into a Web form, the survey can be associated with a particular server as well as in-house data about the order, products purchased, timing, and price. The company also gets the customer’s contact information if he or she chooses to enter a drawing.

The problem that Smashburger faces is getting the analytics to store managers as fast as possible so they can address customer service issues, adapt to emerging patterns, and take advantage of spikes in demand.

“What we’re investing in is something we can’t get from the point-of-sale vendors — posting the data frequently and quickly to the field,” says Mr. Propupek. “There’s a lot of manual work in the way we do it now. We want to automatically pulse the data and reports out to a laptop or a smartphone.”

As a result, the company is creating a home-grown solution. “We’re now working on rolling out dashboards,” Mr. Propupek says. “We want to have people be able to pull the data and see what they need to see when they need to see it. We’re trying to pulse that data all around the company.”

### Financing

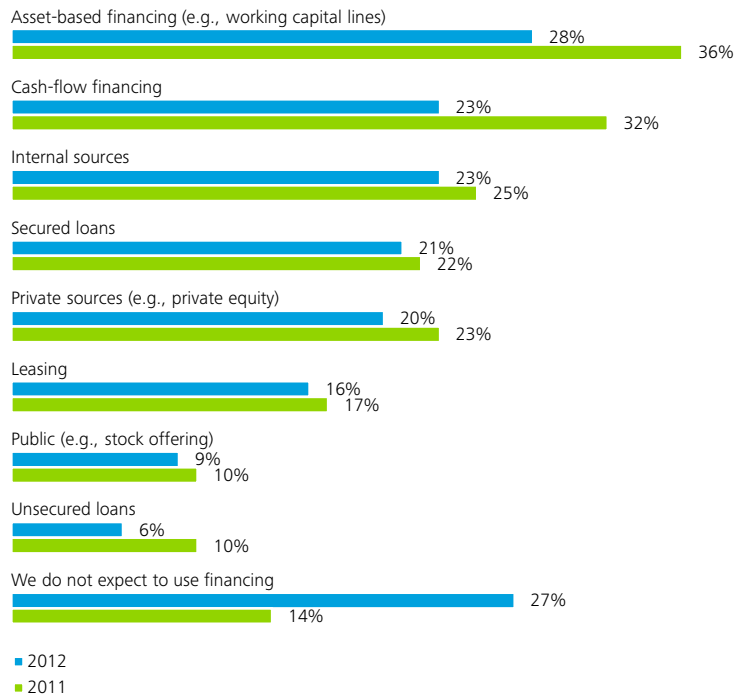
Few tools are as fundamental to company growth as financing, from short-term working capital lines to the long-term, flexible funding needed to support expansion. According to survey respondents, the biggest financing-related change over the past year is that many of their companies do not plan to access external financing. Last year, only 14 percent said they did not expect to use external financing; this year, the figure is 27 percent.

One reason for the lower reliance on financing is that for many companies, balance sheets have become stronger. Executives expect this trend to continue. Twenty-eight percent reported higher cash balances in the past year; only 16 percent said they were lower. It only gets better.

For the year to come, the figures are comparable; 35 percent expect higher cash balances, and only 10 percent expect them to fall. The pattern is repeated in capital investment (33 percent expect a rise, 10 percent a decline), profits (52 percent up, 11 percent down), and profit margins (39 percent higher, 13 percent lower).

The improvement in balance sheets among large corporations has received a great deal of media attention, with S&P 500 companies holding more than \$1 trillion in cash. The same underlying trend is apparent among mid-sized companies; consequently, the drop in demand for external financing may not equate to more modest expansion plans. Companies still plan to expand, including in overseas markets. The difference is in how the expansion is funded — internally, not from external sources.

#### What types of financing do you expect your company to pursue in the next year?





In terms of how they will use financing, the only categories that show increases are working capital and trade finance. Other reasons to tap external financing—to fund expansion, investment in plant and equipment, acquisitions, and restructurings—are cited less often, and, in some cases, the change was dramatic:

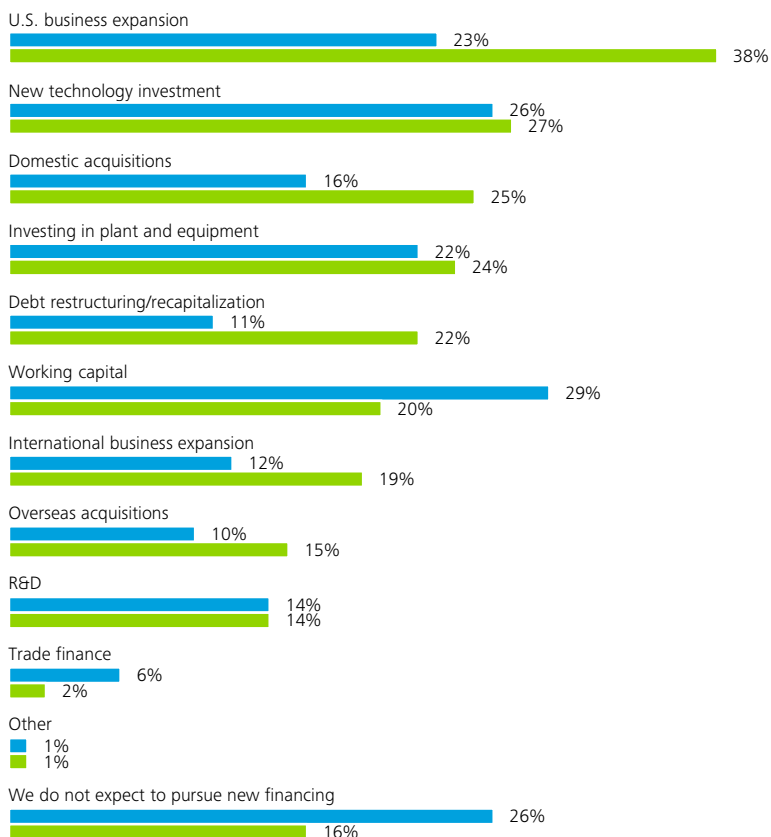
- Last year, 38 percent said that they would borrow to fund U.S. business expansion; this year, the figure is only 23 percent.
- Last year, 25 percent said that they would borrow to finance domestic acquisitions; this year, the percentage stands at 16 percent.

- Last year, 22 percent said that they would borrow to facilitate debt refinancing; this year, the figure is only 11 percent.

The decline in borrowing does not appear to result from less access to credit or higher costs. The largest proportion of respondents indicated that their access to financing remained unchanged from 2011.

“We have an asset-based lending line for our working capital,” says Euro-Pro’s Mark Barrocas. “We can borrow up to \$150 million off of our inventories and receivables. There’s no issue with cost or access. In fact, the cost has come down a bit over the last few years.”

#### For what purposes will your company pursue new financing in the next year?

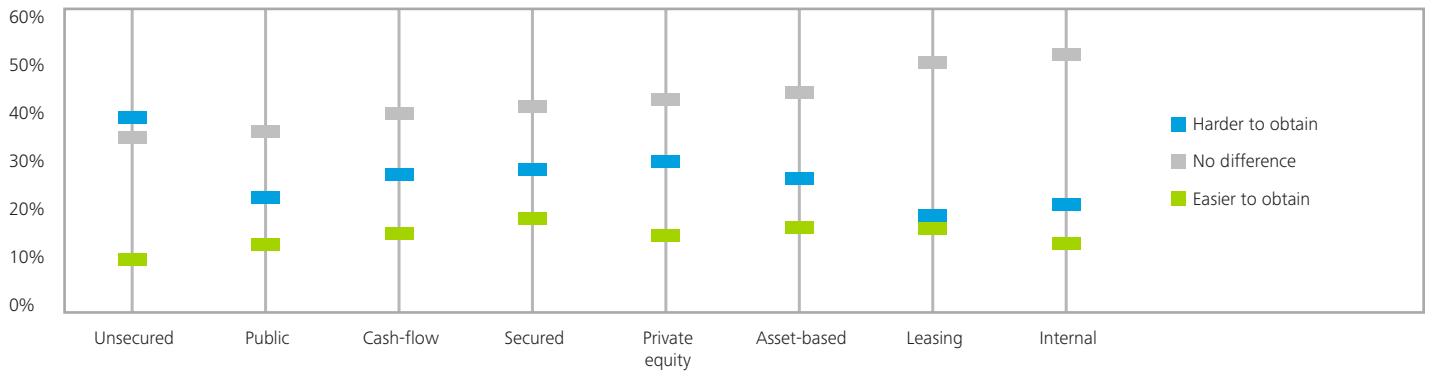


■ 2012  
■ 2011

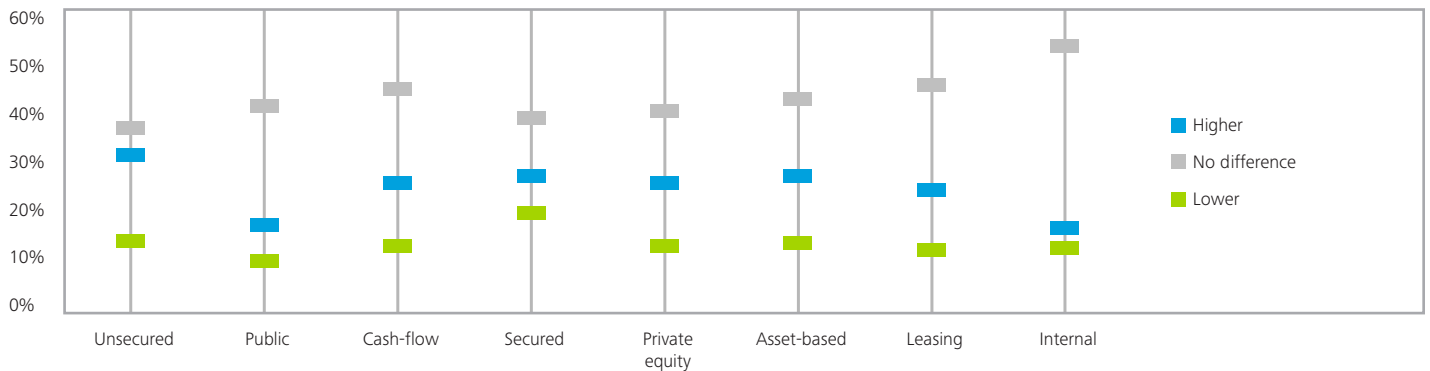
Of all the sources of funding, internal financing was number one in respondents saying access was unchanged, and second to last in the number of respondents saying it has become more difficult to obtain. Tim Penick, of T.B. Penick & Sons, explains: "We keep enough cash on hand to grow the business and fund our way through financial difficulties experienced by our clients and subcontractors. Although we do have access to sufficient funds through lines of credit, we haven't borrowed for over eight years, and our long-term debt is zero. We simply make sure that we accumulate enough cash for operating capital and bonding capacity."

The cost of financing follows a similar pattern. The largest group of respondents — between 37 percent and 53 percent, depending on the instrument — thinks that borrowing costs have not changed. The next biggest group, between one-fifth and one-third, believes that financing costs have risen over the past year. The smallest group represents mid-sized companies that have experienced lower financing costs.

#### Ease of obtaining financing: how it changed



#### Cost of financing: how it changed



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## “It’s also hard to get working capital; it’s a tough lending environment.”

Gene Eidelman — President, Mosaica Education

As demonstrated by the survey results, every company is different. Some obtain access to growth capital easily; some find it difficult. “We’re private equity funded, but we haven’t accessed a new round in 11 years,” says Mosaica’s Gene Eidelman. “It’s also hard to get working capital; it’s a tough lending environment.” The company has reduced its need for long-term capital by relying on local partners to provide or finance school facilities — the equivalent of plant and equipment for an industrial company. Instead, Mosaica provides intellectual capital in the form of teaching methods, data-driven instruction, and online curricula.

### The lure of acquisitions

Acquisitions have long been a tool to accelerate growth, even in stagnant markets. When they were asked whether their firm planned to acquire another company in 2012, respondents’ answers were almost unchanged from last year. The one notable exception was that those who considered their companies “very likely” to engage in an acquisition jumped from 11 percent to 18 percent. There was also a sharp increase, from 3 percent to 6 percent, in the number of respondents who considered their companies “very likely” to be a target of an acquisition.

The companies saying they are very likely to make an acquisition during the next year tend to have distinct characteristics. They are larger, with over \$200 million in annual revenue. They are also more likely to be growing in terms of both revenues and workforce. They are more internationally focused, drawing over 25 percent of their revenues from markets outside the United States, and they are more likely to be funded with private equity.

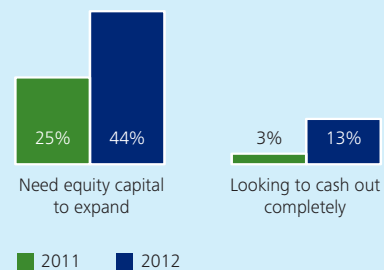
Mid-sized companies also view private equity funds as more likely to be their M&A counterparties than last year. The availability of private equity funds has reached a historical high; at the start of 2012, approximately \$425 billion in time-limited private equity funds stood fallow, ready to be invested. Although many lenders are still cautious about funding megadeals, the economics of financing buyouts of mid-sized companies may be more attractive. This may be one reason that, when asked what kind of organization was most likely to be an M&A counterparty, the percentage of respondents choosing private equity firms rose to 14 percent from 9 percent in 2011. The percentage of companies citing the increased availability of capital as a driver of M&A activity also rose from 9 percent to 16 percent.

### What about capital in the form of public equity?

In terms of plans to go public, there is no difference between last year and this year. The vast majority of private firms surveyed intended to stay private. Only 7 percent intend to go public in the next 12 months, and only 6 percent expect to go public sometime in the future.

Nevertheless, among the 67 respondents from companies that intend to make the transition, the reasons for going public have changed. A large proportion (44 percent, versus 25 percent in 2011) say that they need equity capital to expand. And a sizable number (13 percent, up from 3 percent in 2011) say that they are looking to cash out completely.

#### Reasons for going public



# Moving forward

The new realism implies a flexible and adaptable approach to moving forward in an uncertain environment. It encompasses areas ranging from financing to technology, talent management, and growth strategies.

An important theme of the new realism is financial self-sufficiency. It is manifested in actions like paying down debt, building up cash reserves, and engaging in self-financing. About one-quarter of the companies surveyed do not plan to tap external financing at all. Working capital, yes; but long-term capital for expansion is more the exception than the rule. At the same time, there is more interest in M&A, and if there is a need for long-term capital, it is more likely than last year to come from private equity investment.

Another theme is the search for ways to reduce overhead while expanding access to technology resources. Interest in cloud computing and SaaS has risen sharply among mid-sized companies. Cloud computing enables companies to scale up while spending less on IT overhead. Although the largest mid-sized companies are most likely to make technology investments, cloud computing levels the playing field for smaller companies.

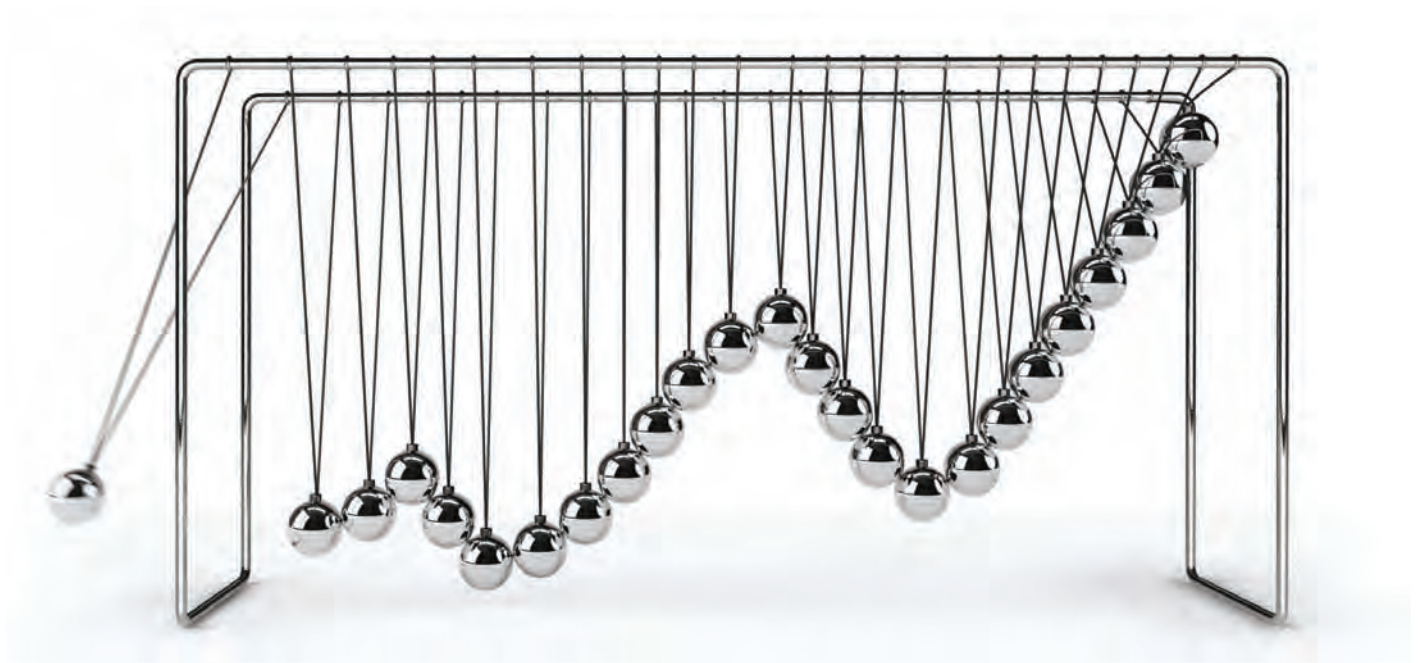
The new realism also extends to talent management. Despite high unemployment, every executive interviewed for this report acknowledged that it is difficult to find certain categories of skilled employees. There is a skills shortage, and companies are finding ways to address it, including investment in training initiatives. The fact that fewer survey respondents are inclined to add part-time workers reinforces the long-term investment they plan to make in their employee base.

A final aspect of the new realism is the strategy for growth. Executives at mid-sized companies — even those focused on the domestic market — realize that globalization is the path to long-term growth. In almost every overseas market, more companies are taking steps to sell their products.

Political and economic uncertainties continue to dominate the landscape, and mid-sized companies need to adapt to them as they move forward. A new sense of realism will help; so will an awareness of what other companies are doing to adapt. Future Deloitte reports will aim to help mid-sized companies evaluate this landscape, consider the approaches their peers are taking, and choose alternatives for moving forward.

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A new sense of realism will help;  
so will an awareness of what other  
companies are doing to adapt.



# Appendix: full survey results

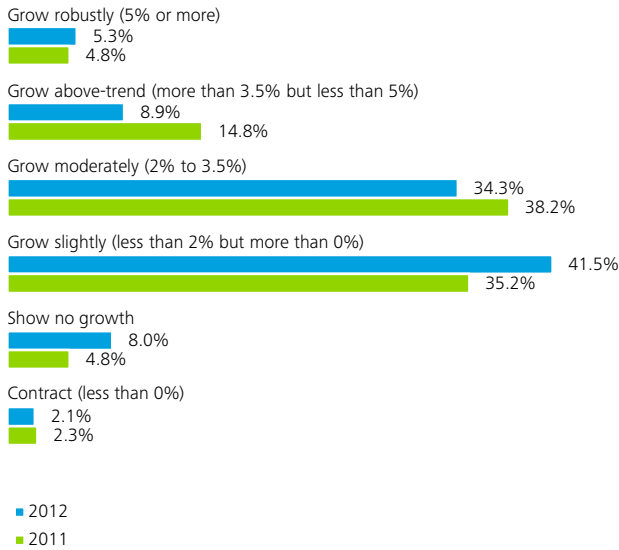
Note: some percentages in the charts throughout this report may not add to 100% due to rounding, or for questions where survey participants had the option to choose multiple responses.

## **Acknowledgment**

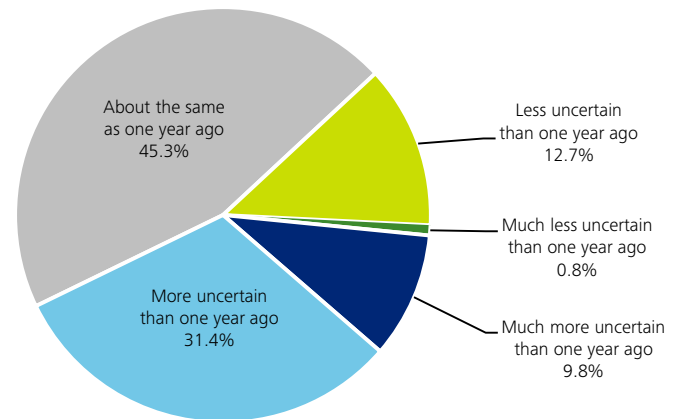
We would like to thank all survey respondents and interviewees for their time and the insights they shared for this report, *Mid-market perspectives: 2012 report on America's economic engine*.

# The economic environment

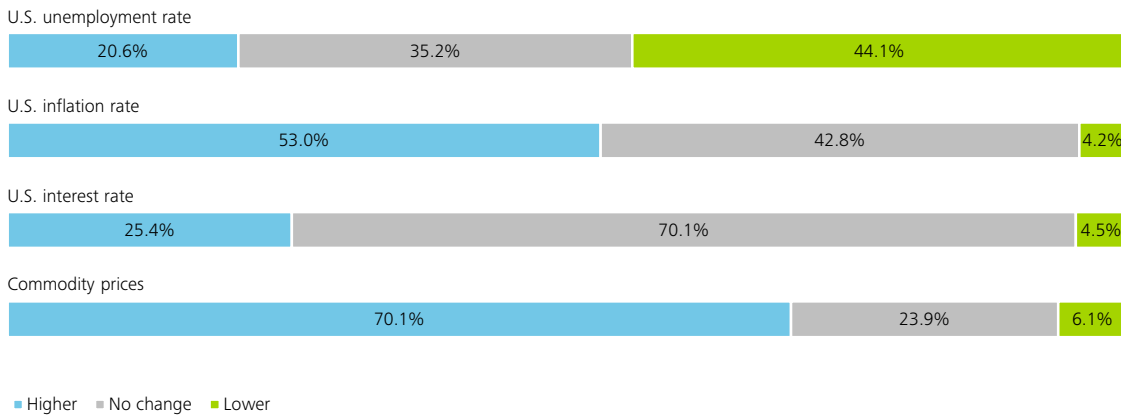
## At what pace do you expect the U.S. economy to grow over the next 12 months?



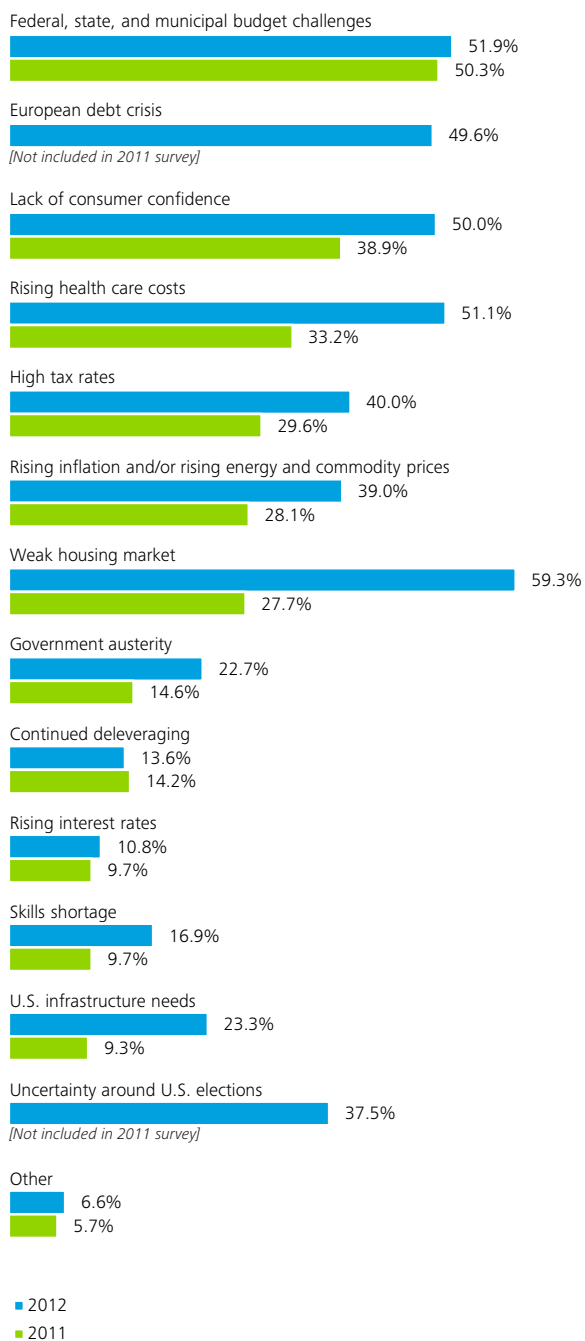
## The level of uncertainty in terms of factors that drive future business prospects (e.g., taxes, regulations, credit availability, and the economic outlook) is:



## What do you believe is the most likely 2012 outlook for the following?



**Which of the following issues present the greatest obstacles to U.S. growth in the coming year? (Please choose all that apply.)**



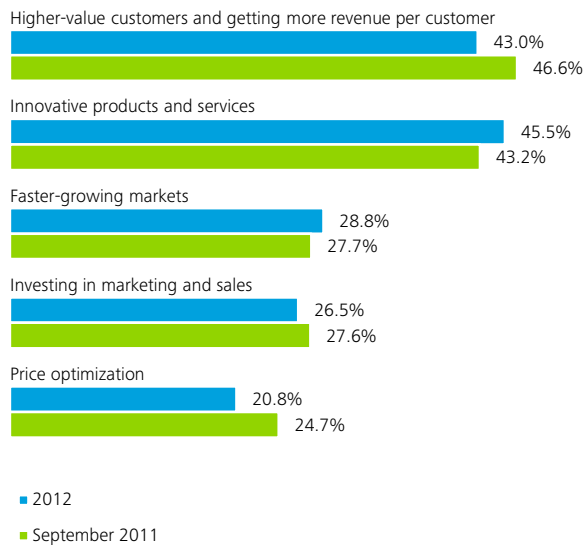
**Which of the following measures by the U.S. government would most help U.S. mid-sized businesses to grow in the next year? (Please choose up to two.)**



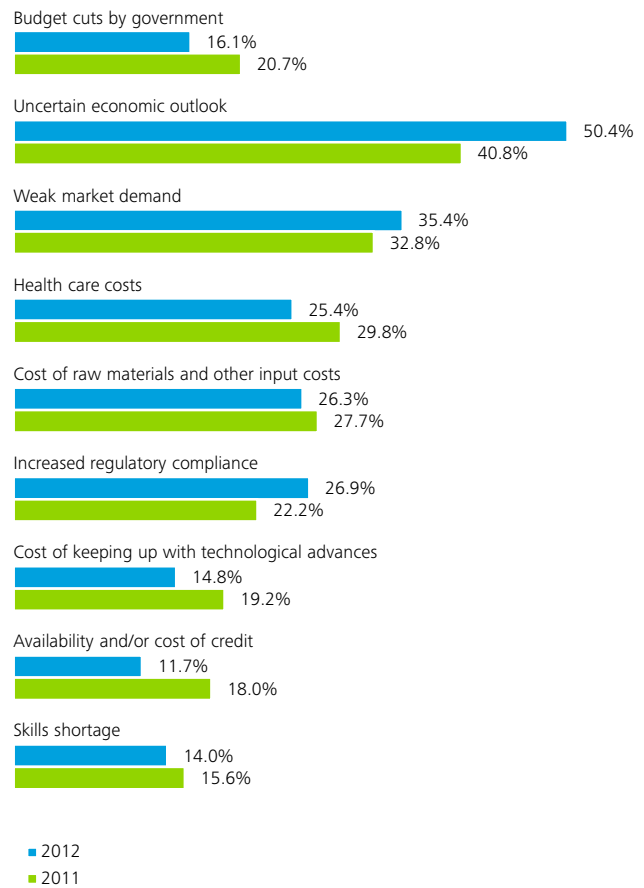


# The business environment

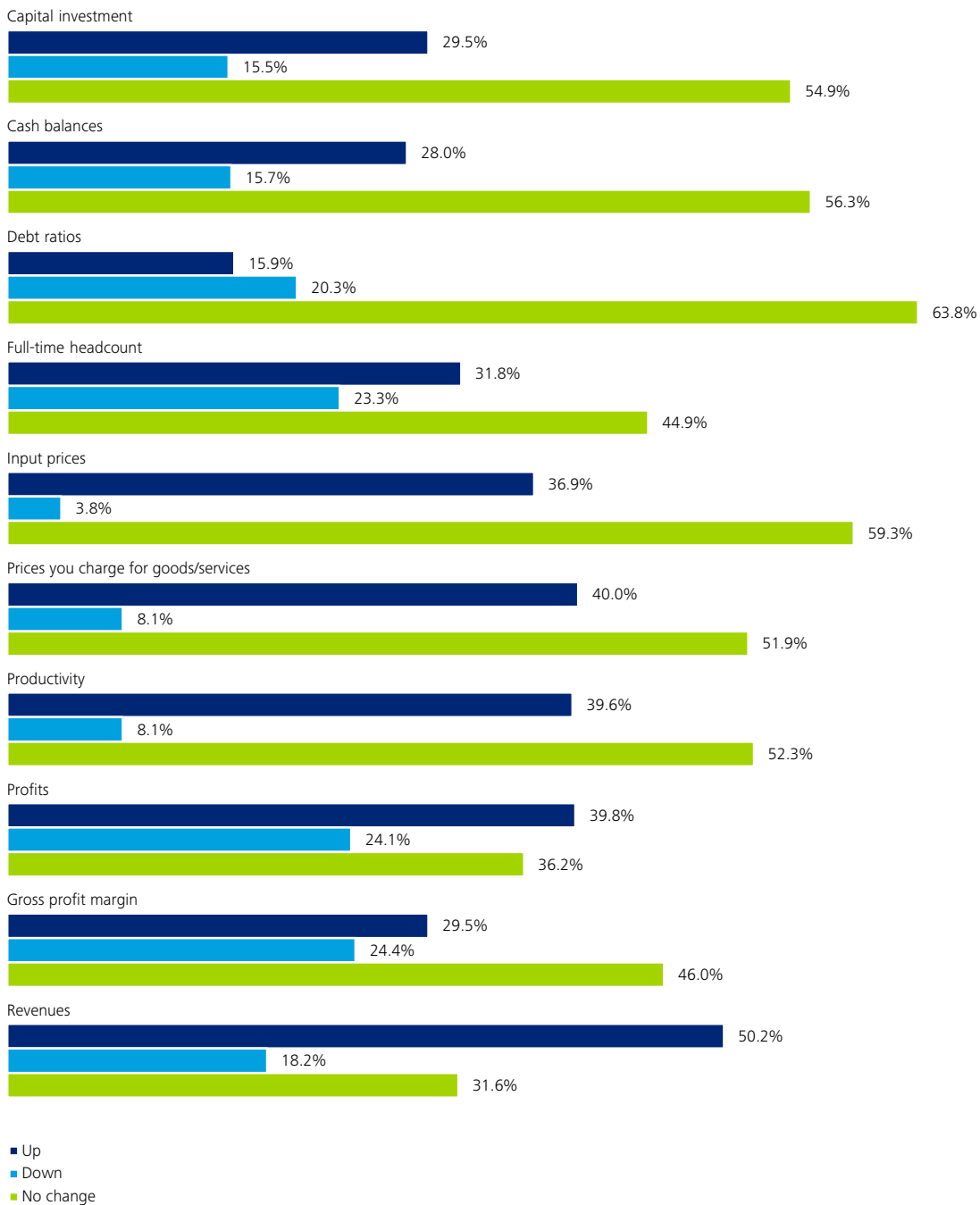
## Where is your company most focused in terms of increasing outputs (revenues)? (Choose up to two.)



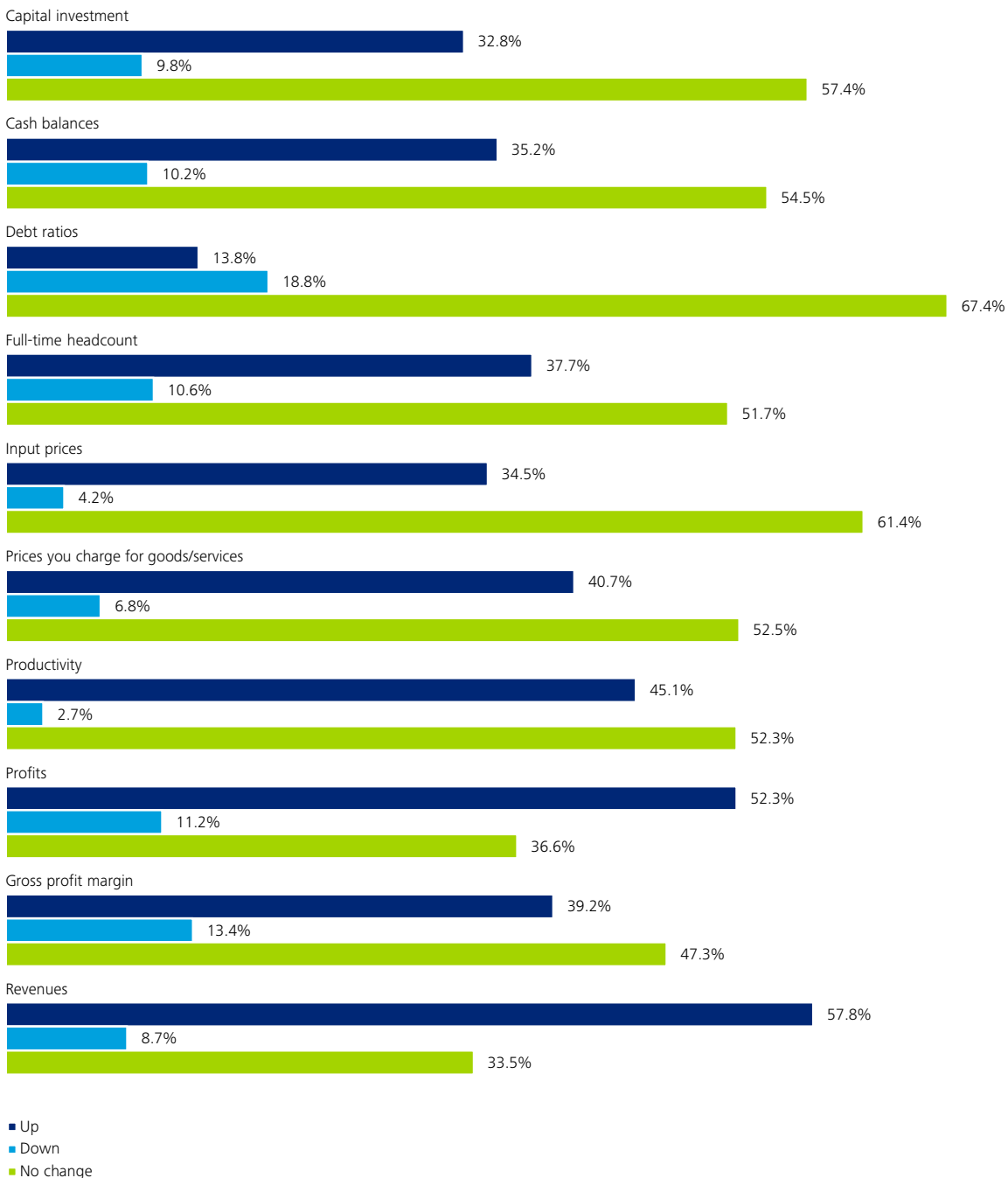
## What are your company's main obstacles to growth? (Choose up to three.)



**Over the last 12 months:  
Did the following key metrics at your company go up or down or stay the same?**

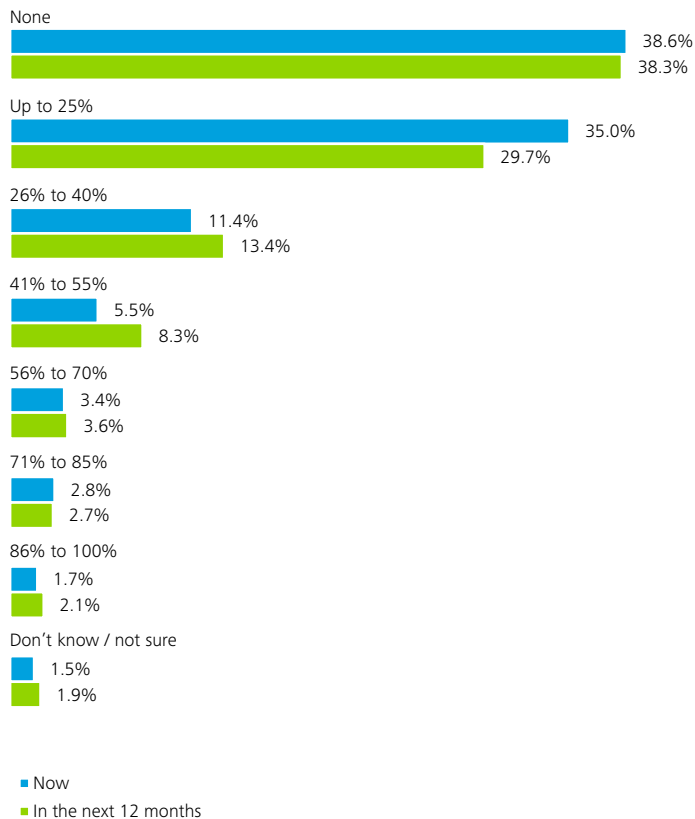


**Over the next 12 months:  
Do you expect the following key metrics at your company to go up or down or stay the same?**

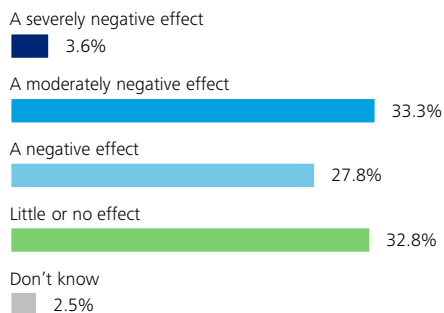


**What proportion of revenues comes from outside of the United States?**

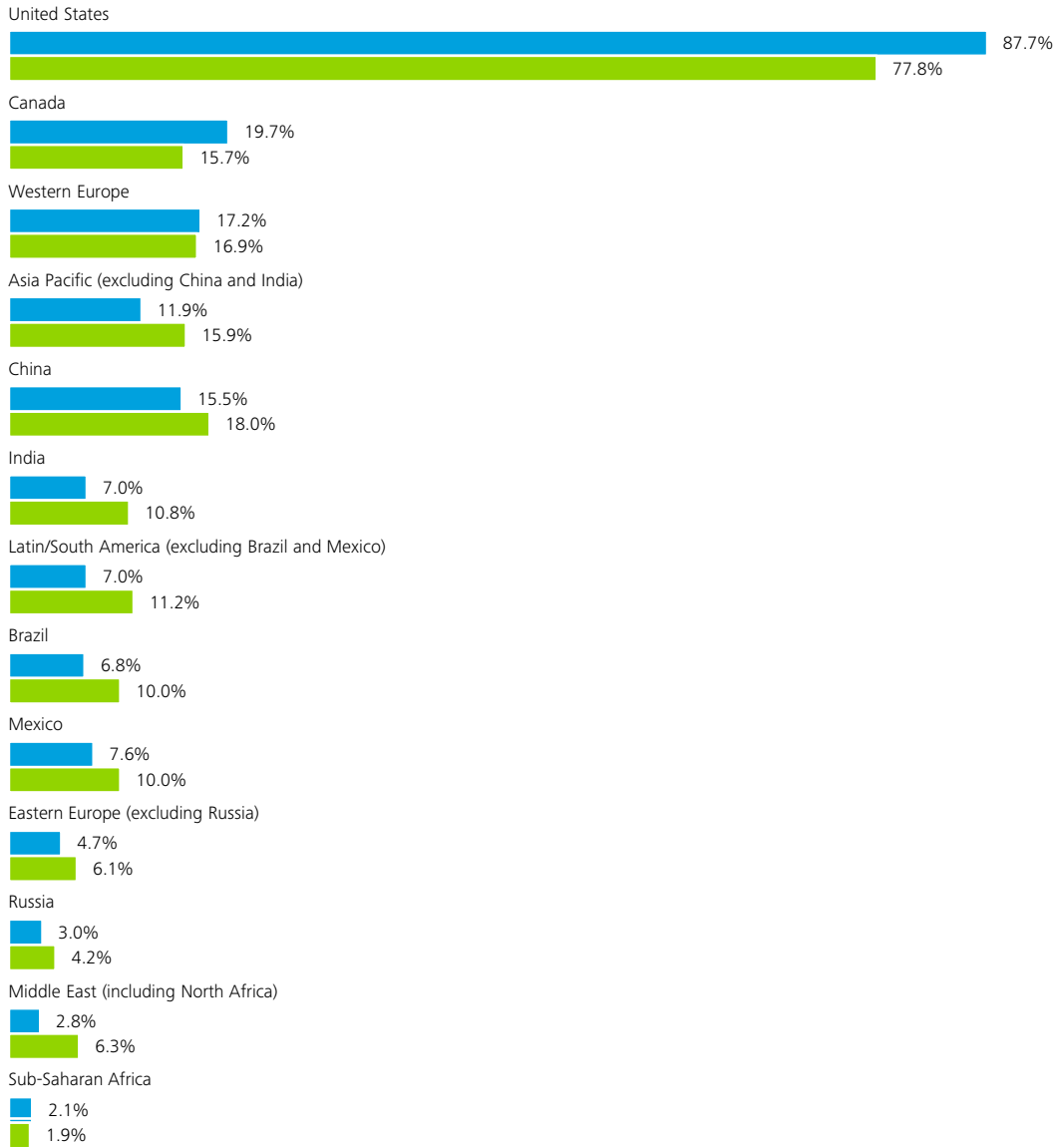
**What proportion do you expect will come from outside of the United States in the next 12 months?**



**What effect would a recession in European economies in 2012 have on your company?**

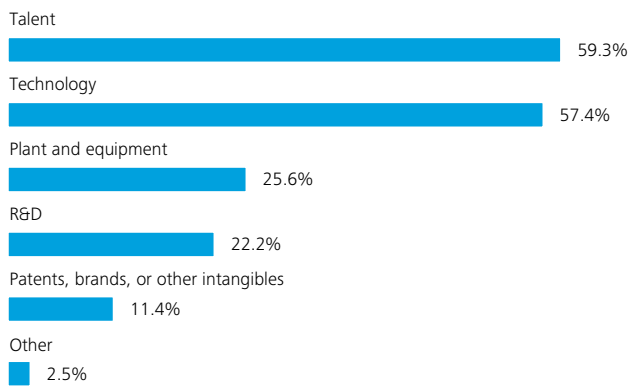


**Which geographic markets have contributed the most to your company's growth over the last 12 months?  
Which geographic markets will contribute the most over the next 12 months?**

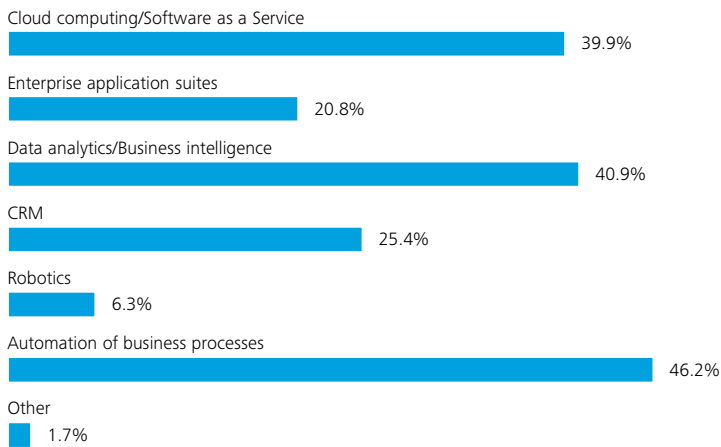


- In the last 12 months
- In the next 12 months

**Which investments offer the greatest potential for increasing productivity at your company? (Select all that apply.)**

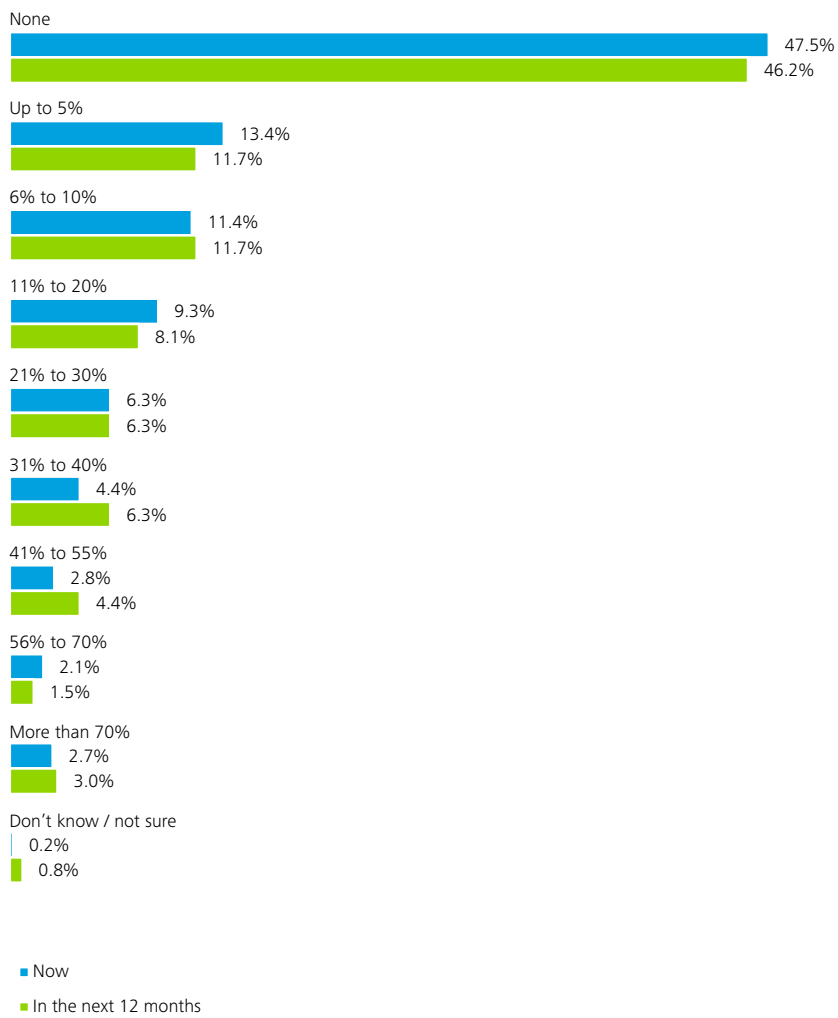


**Which investment(s) in technology is your company most likely to make in the next 12 months? (Choose up to three.)**

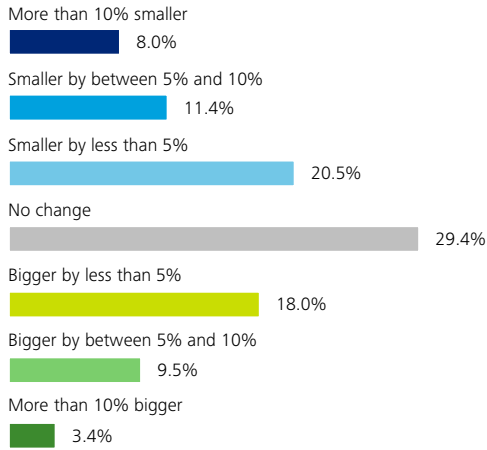


## Workforce / hiring

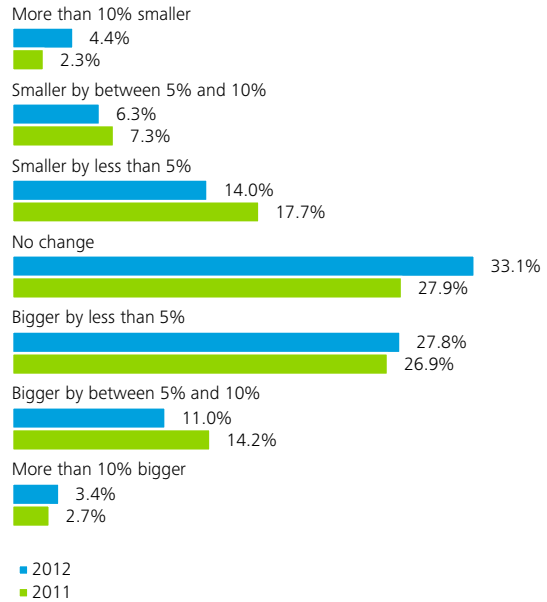
**What percentage of your workforce is based outside the United States?  
What percentage do you expect to be based outside the United States in the next 12 months?**



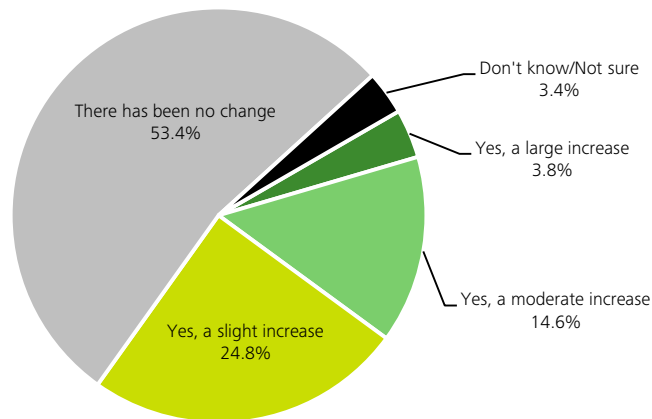
**How has the size of your full-time domestic workforce changed over the last 12 months?**



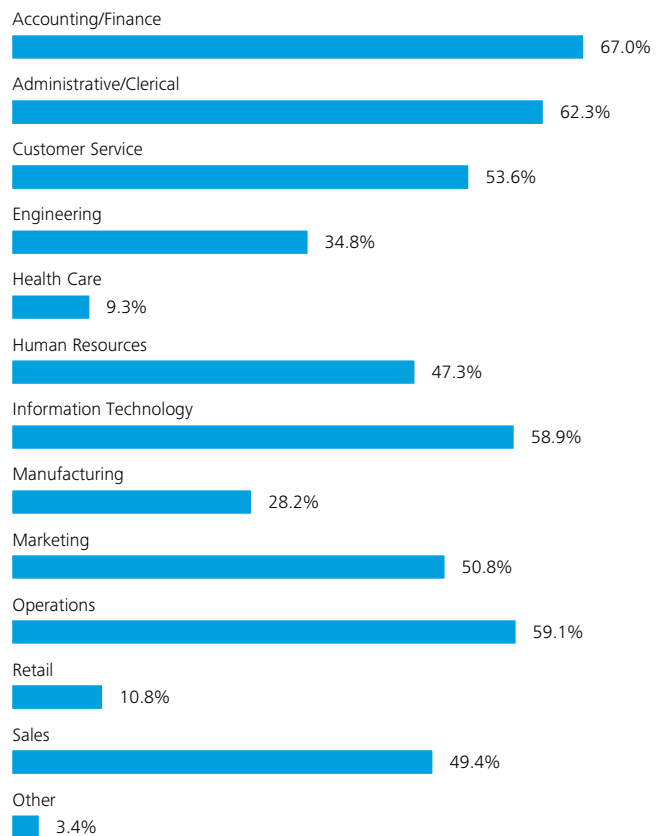
**How do you expect the size of your full-time domestic workforce to change over the next 12 months?**



**At your company, over the past year, has there been an increase in the number of employees voluntarily leaving their jobs at your company to take positions at other organizations?**

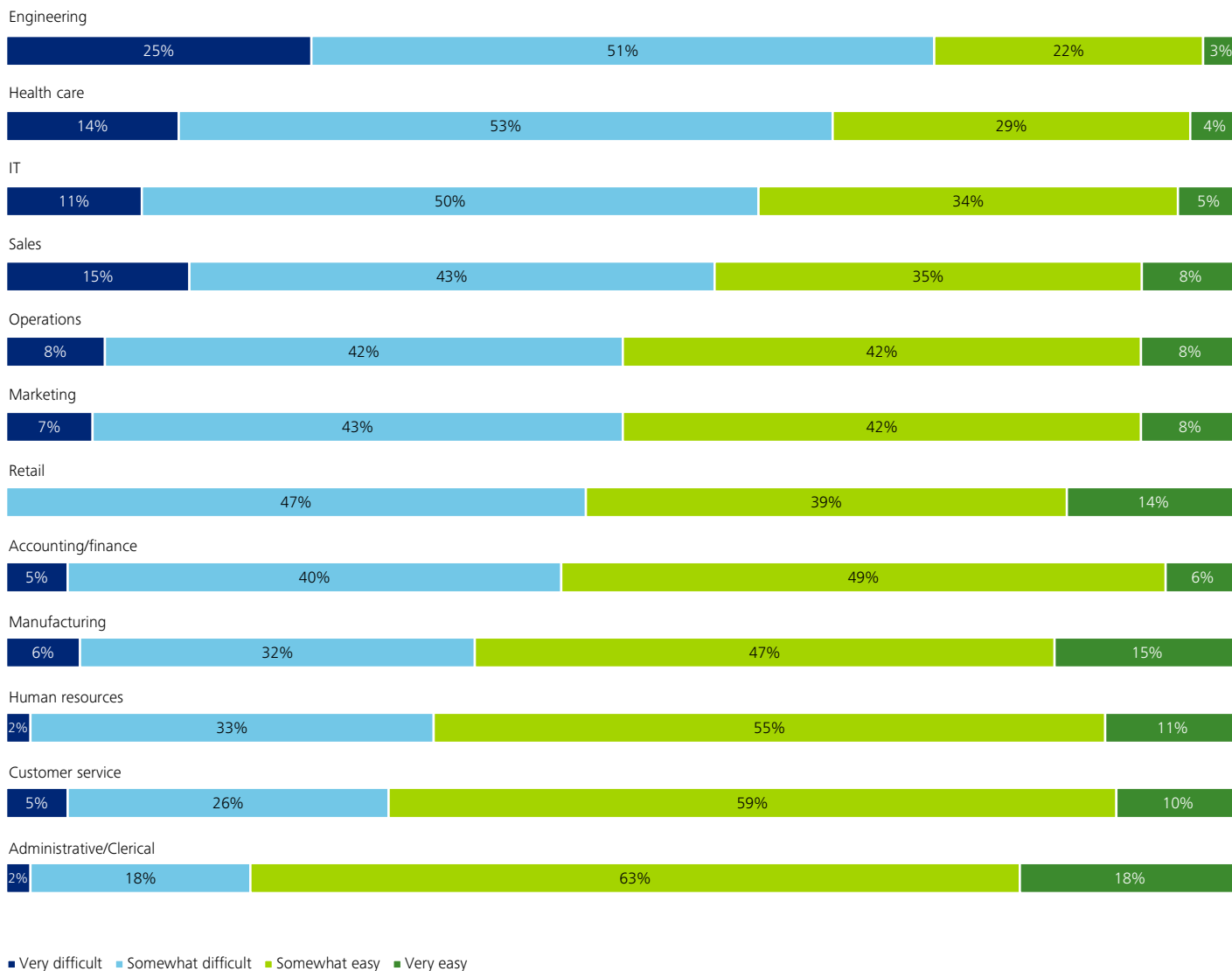


**Please indicate the job categories for which your company hires.**

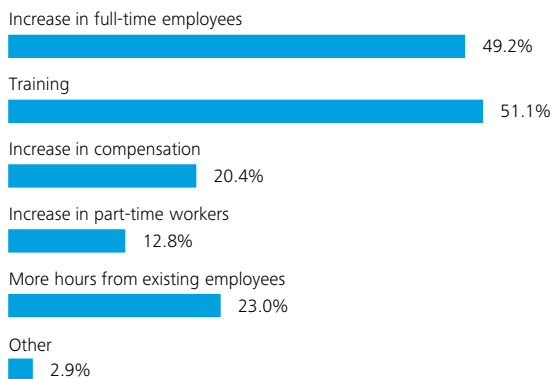




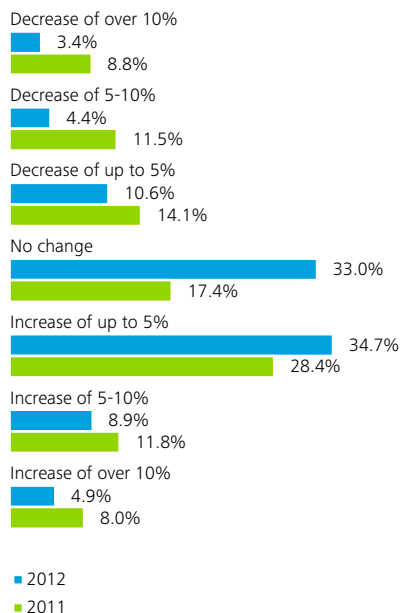
For each of the categories in which your company hires, please indicate the level of difficulty in finding qualified candidates.



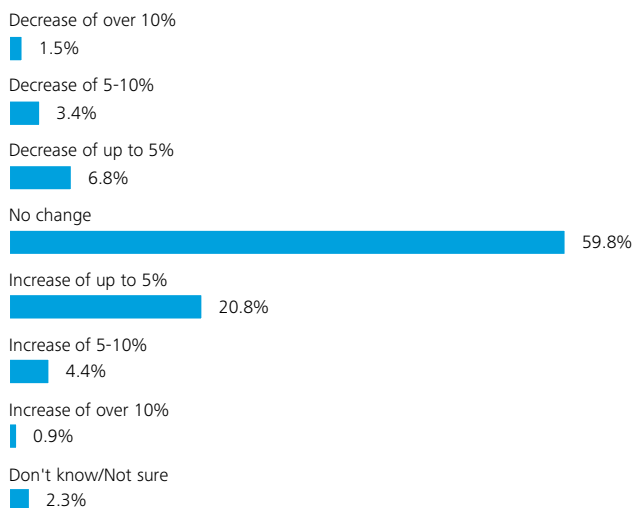
**Which investment(s) in talent is your company most likely to make in the next 12 months? (Choose up to two.)**



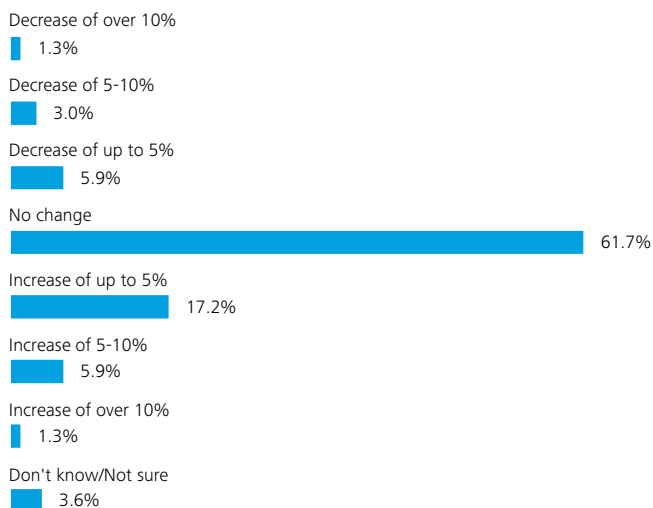
**What is likely to be the main focus of your company's domestic employment strategy in the coming year? (Full-time employees)**



**What is likely to be the main focus of your company's domestic employment strategy in the coming year? (Part-time employees)**

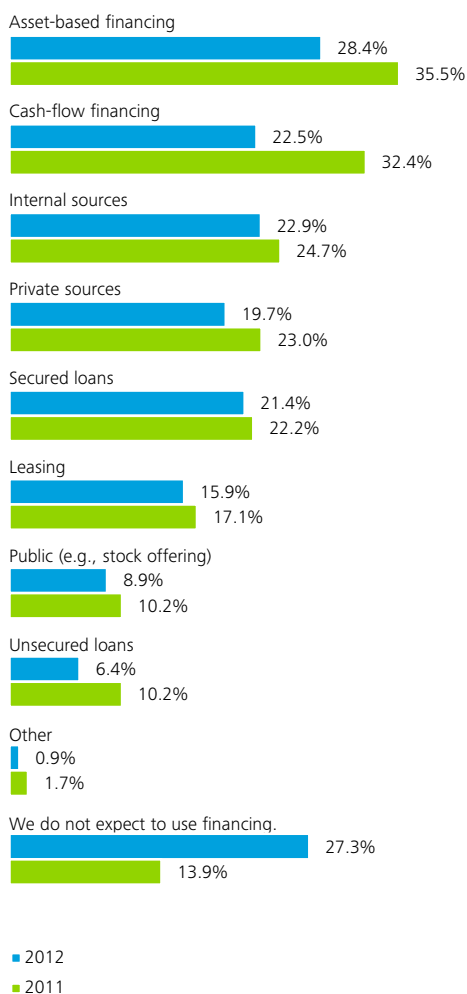


**What is likely to be the main focus of your company's domestic employment strategy in the coming year? (Freelance, agency, or contract staff)**



# Financing

## What types of financing do you expect your company to pursue in the next year?



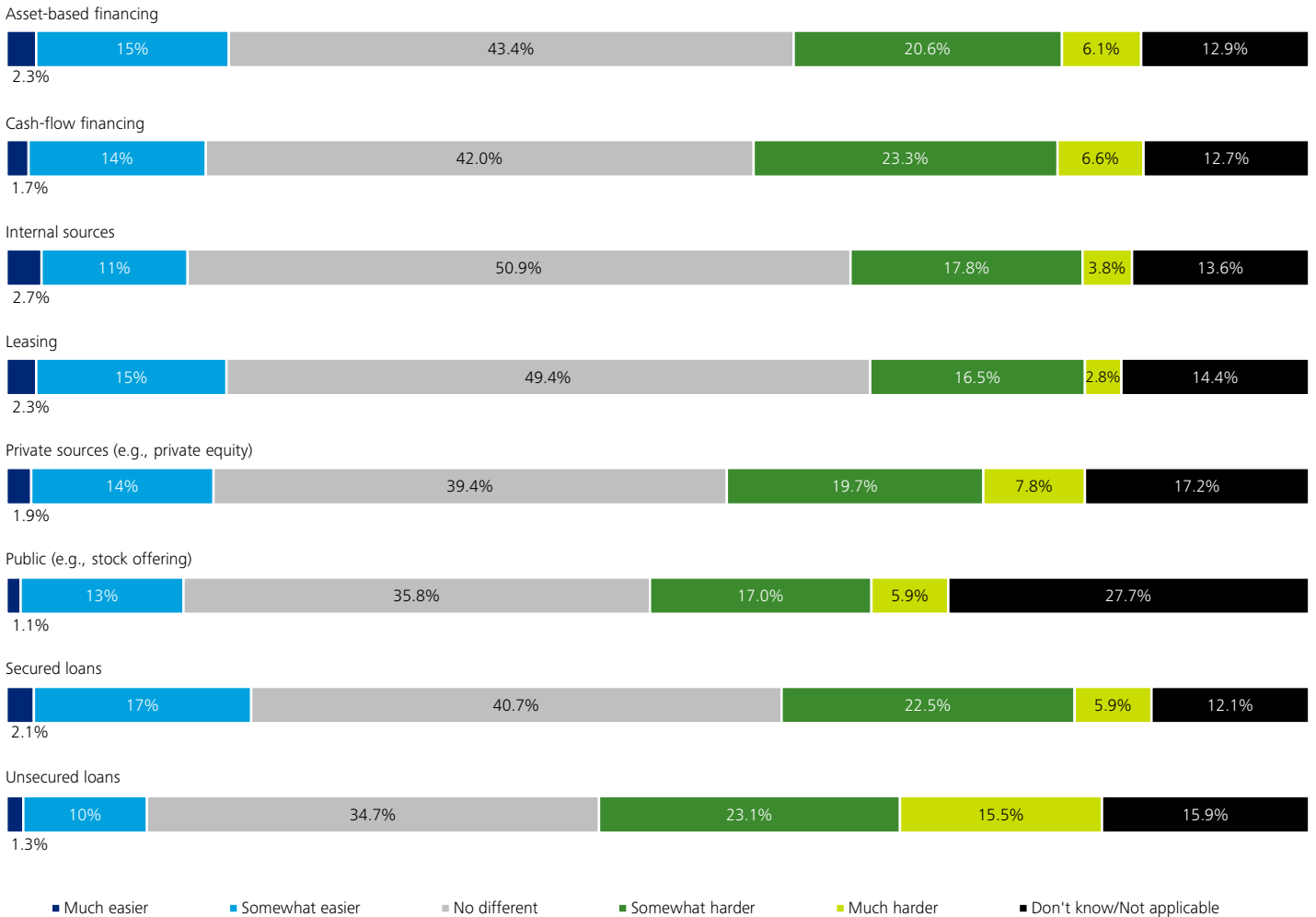
## For what purposes will your company pursue new financing in the next year?



**Access to credit:**

Is it easier or more difficult for mid-market companies to secure credit now than it was a year ago?

Spring 2012



Spring 2011

Asset-based financing



Cash-flow financing



Internal sources



Leasing



Private sources (e.g., private equity)



Public (e.g., stock offering)



Secured loans



Unsecured loans



■ Much easier   ■ Somewhat easier   ■ No different   ■ Somewhat harder   ■ Much harder   ■ Don't know   ■ Not applicable

**Costs of credit:**

**Do you believe that the costs of credit are higher or lower now than they were a year ago?**

**Spring 2012**

Asset-based financing



Cash-flow financing



Internal sources



Leasing



Private sources (e.g., private equity)



Public (e.g., stock offering)



Secured loans



Unsecured loans



■ Much lower    
 ■ Somewhat lower    
 ■ No different    
 ■ Somewhat higher    
 ■ Much higher    
 ■ Don't know/Not applicable

Spring 2011

Asset-based financing



Cash-flow financing



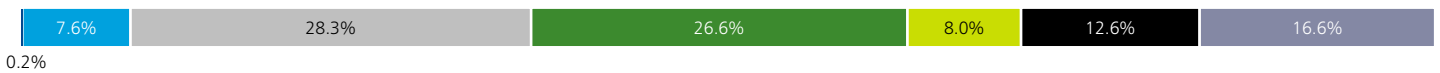
Internal sources



Leasing



Private sources (e.g., private equity)



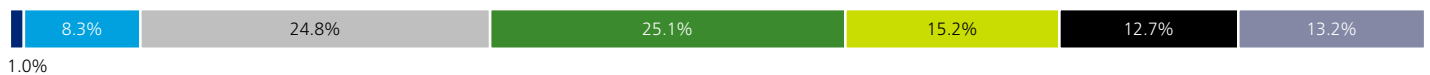
Public (e.g., stock offering)



Secured loans



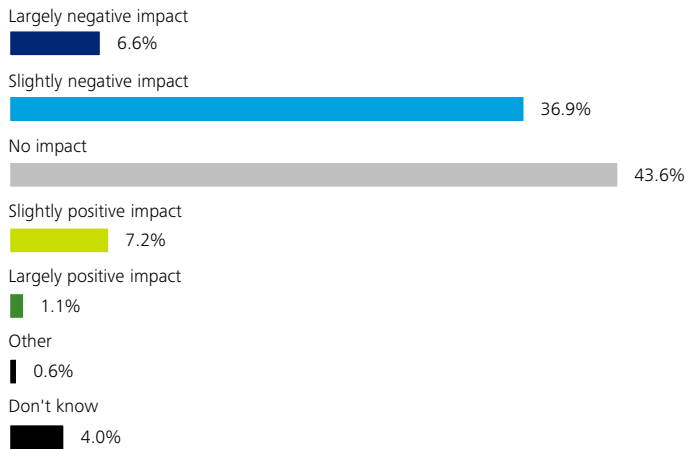
Unsecured loans



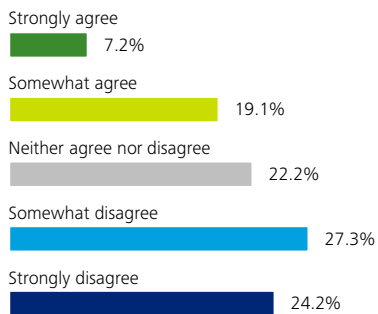
■ Much lower   
 ■ Somewhat lower   
 ■ No different   
 ■ Somewhat higher   
 ■ Much higher   
 ■ Don't know   
 ■ Not applicable

# The presidential election

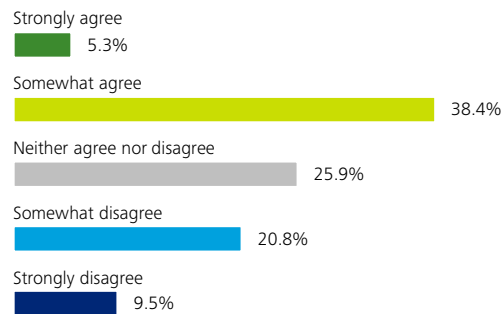
## How will the uncertainty surrounding the 2012 presidential election affect your business?



## Please indicate your level of agreement with this statement: "We are putting off significant business decisions until after the election."

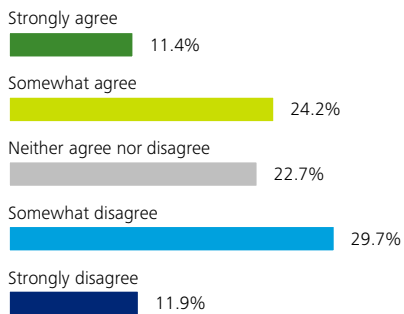


## Please indicate your level of agreement with this statement: "Regardless of the winner, the U.S. economy will probably improve after the uncertainty surrounding the election ends."

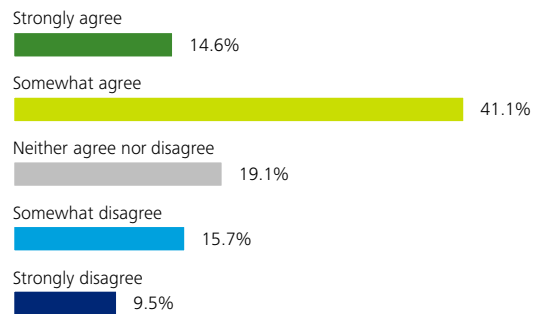




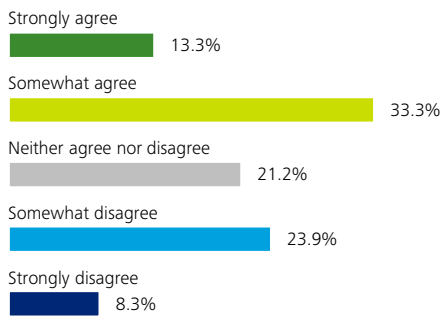
**Please indicate your level of agreement with this statement:  
"The outcome of the election will have no impact on our business plans."**



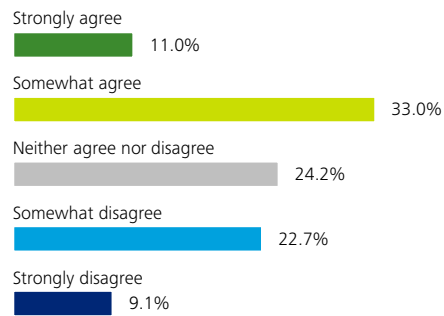
**Please indicate your level of agreement with this statement:  
"Clarity and certainty are more important than which party captures the White House."**



**Please indicate your level of agreement with this statement:  
"In terms of demand for our products, the outcome of the election will have little or no effect."**



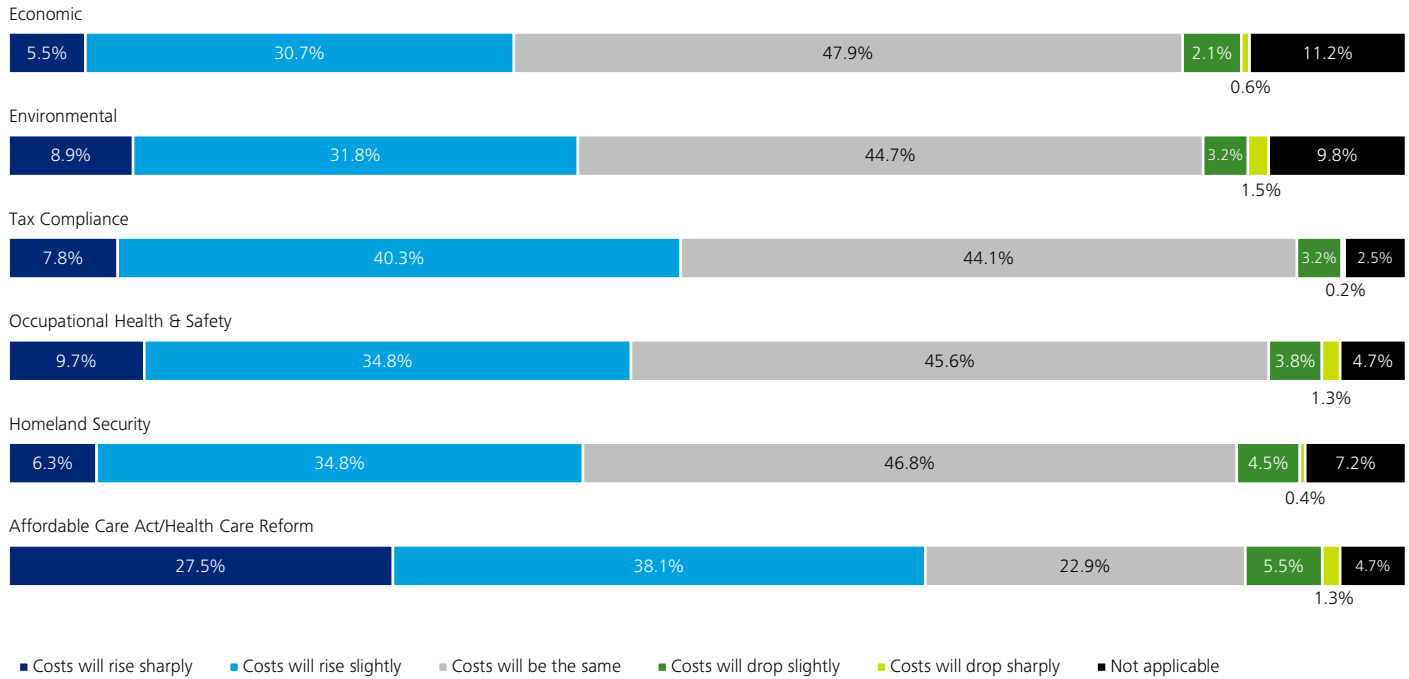
**Please indicate your level of agreement with this statement:  
"In terms of the cost of producing our products, the outcome of the election will have little or no effect."**



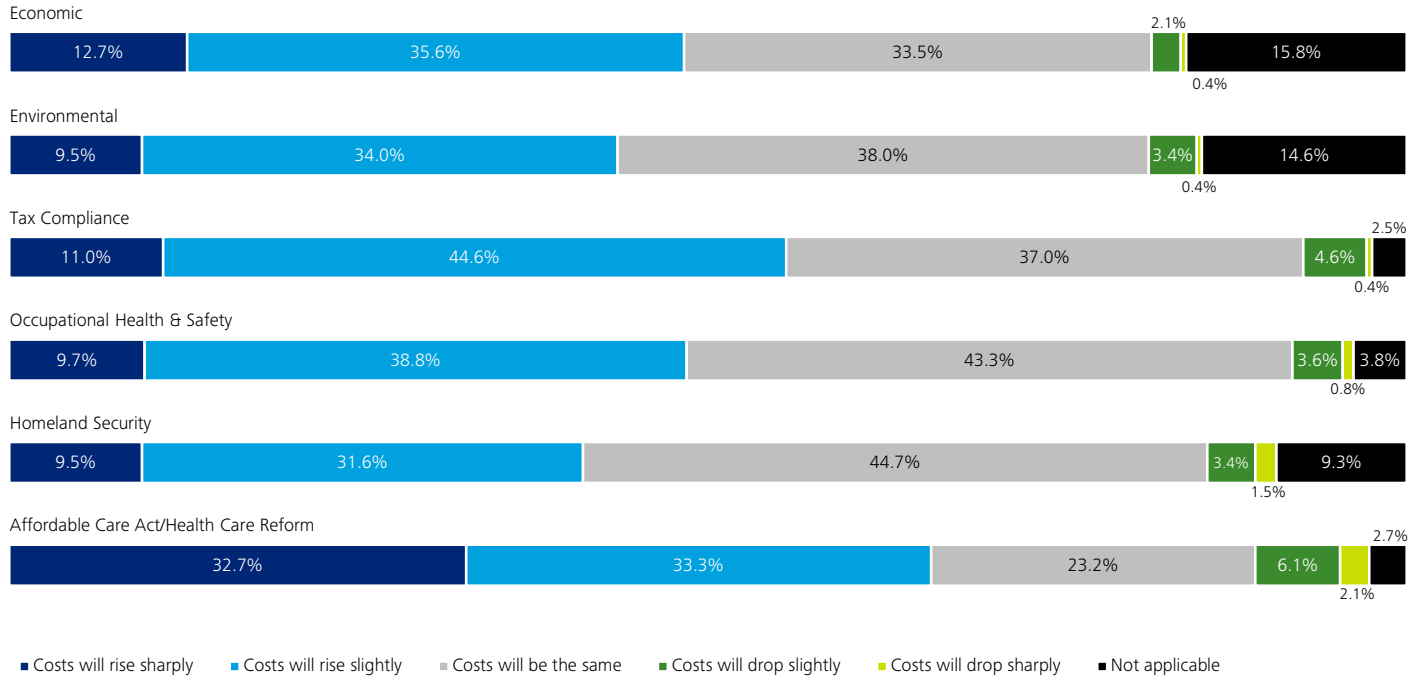
# Regulatory compliance

For each of the following, please indicate how the costs of regulatory compliance will change for your business in the next year.

## Spring 2012

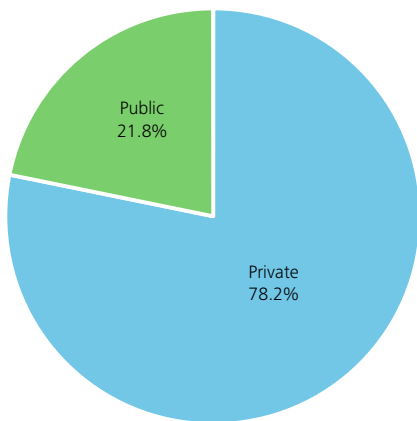


Spring 2011

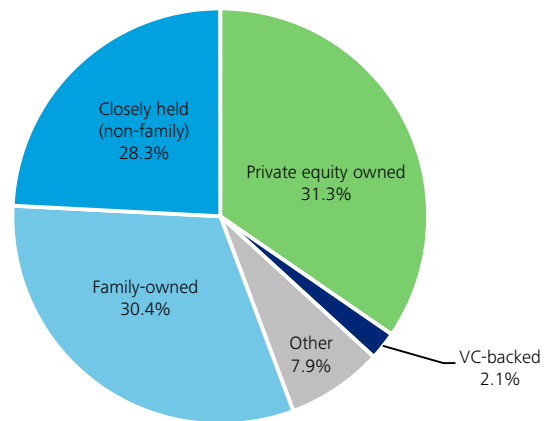


# Public versus private

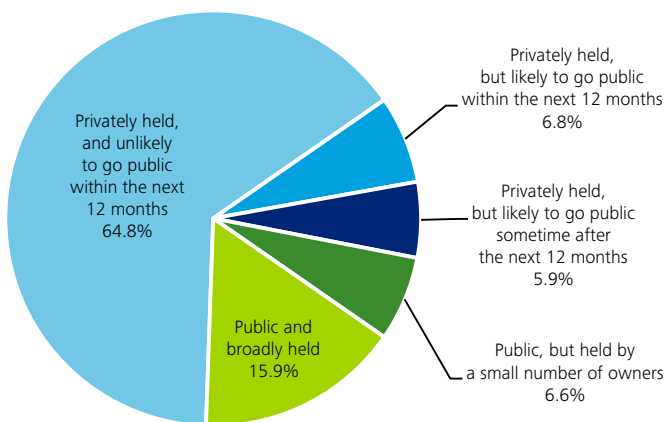
Is your company public or private?



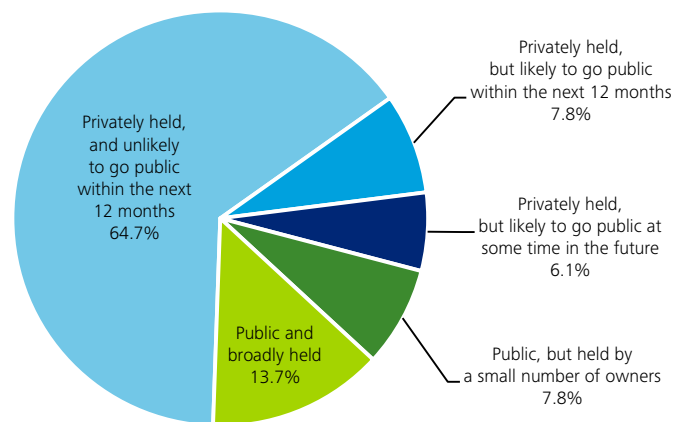
Is your company family-owned, closely held (non-family), private equity owned, VC-backed, or other? Select one response only.



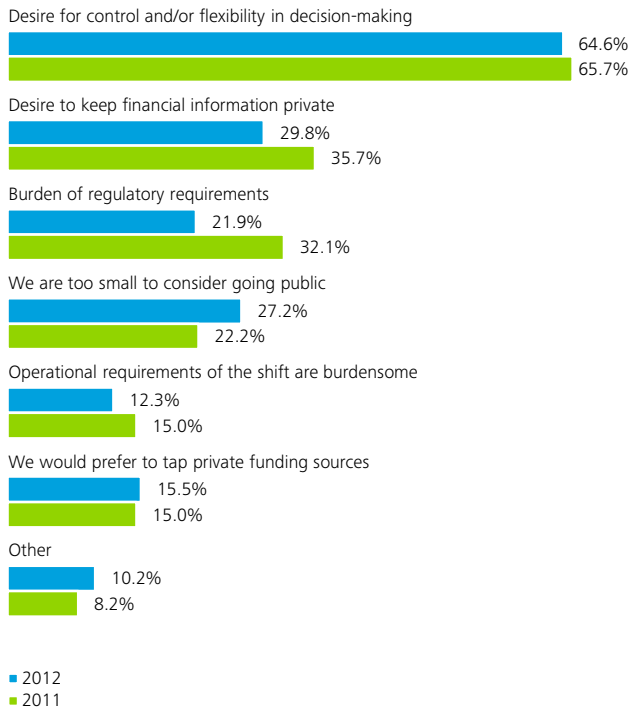
Which of the following best describes your company's ownership status?



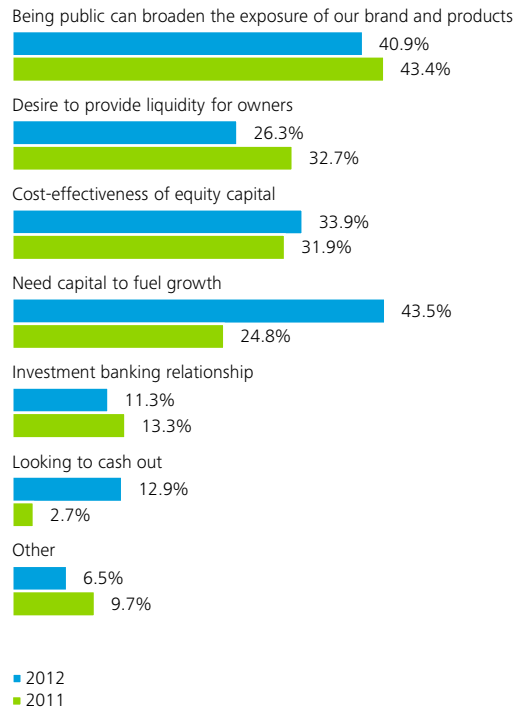
2011 survey: What is your company's current ownership structure?



**What factors influence your company's decision to remain private for now? (Please select all that apply.)**

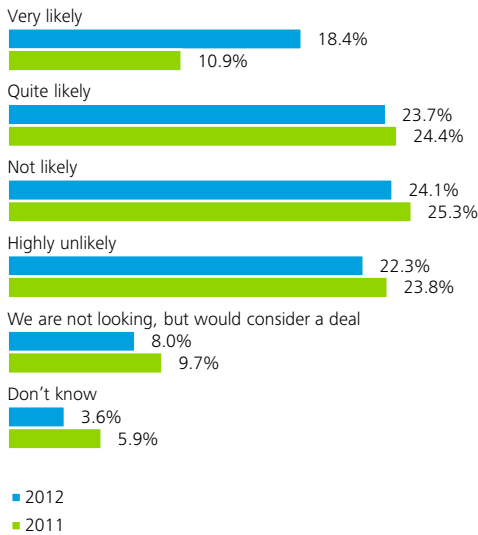


**What factors influence your company's decision to be or go public? (Please select all that apply.)**

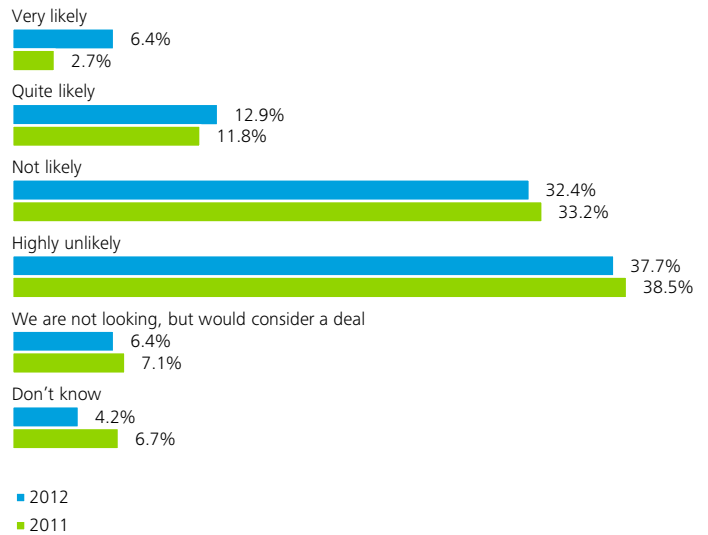


# Mergers and acquisitions

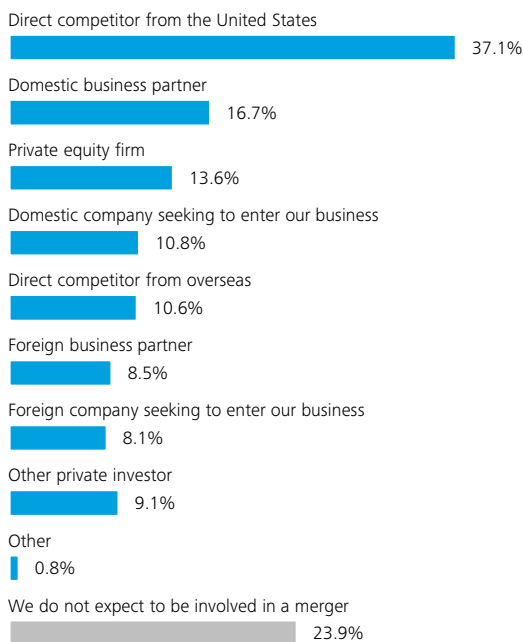
**How likely is it that your company will participate in a merger or acquisition in the coming year? (As an acquirer)**



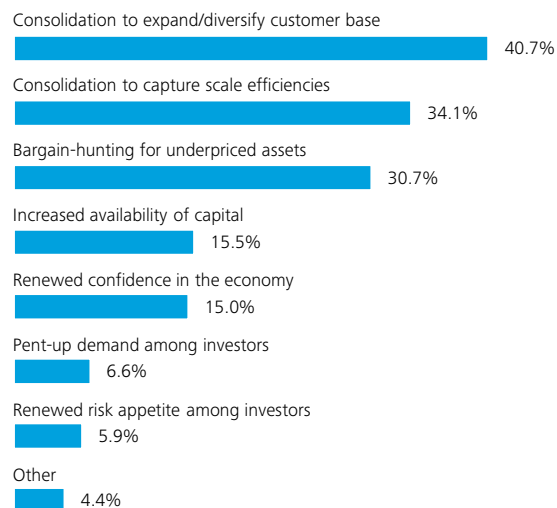
**How likely is it that your company will participate in a merger or acquisition in the coming year? (As a merger target)**



**If you participate in a merger or acquisition, which of the following entities is most likely to be the counter-party?**

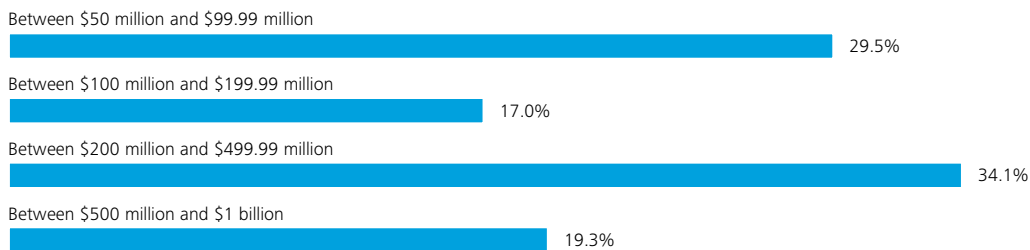


**What will be the main drivers of merger activity in your industry in 2012?**

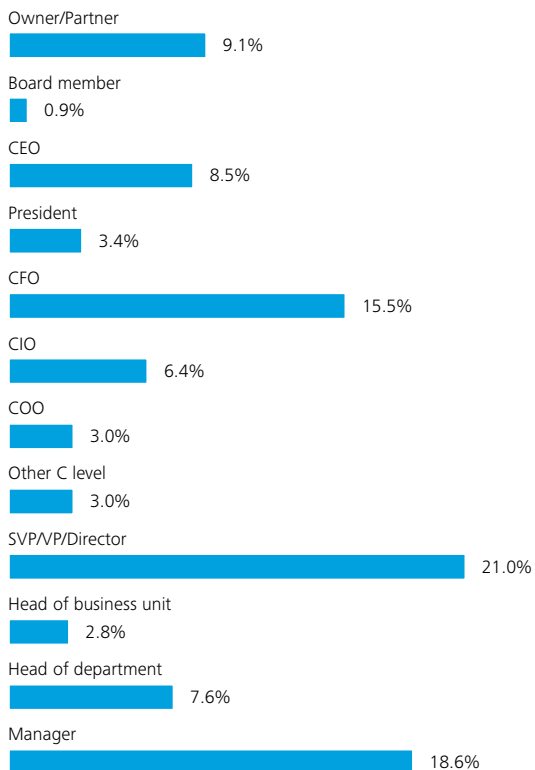


# Survey respondent demographics

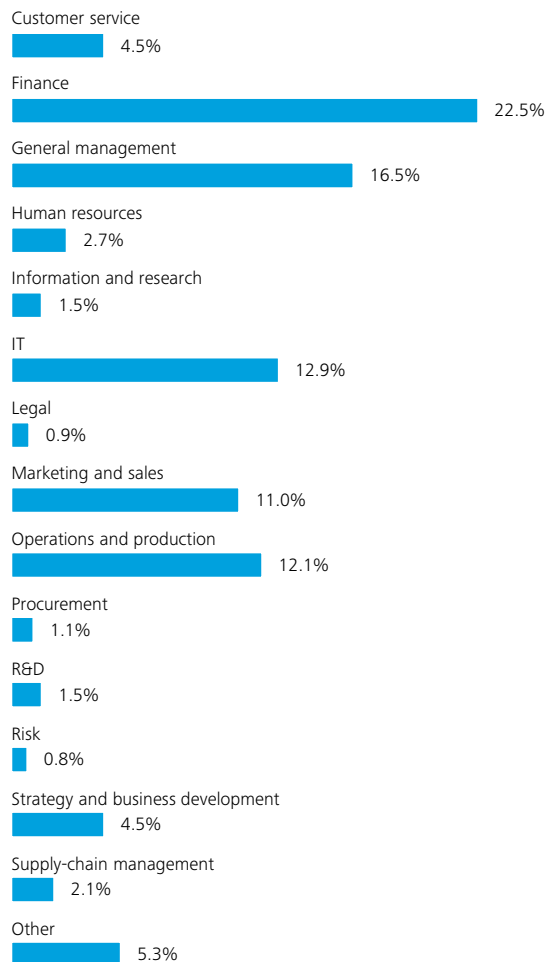
## What was your company's 2011 annual revenue in U.S. dollars?



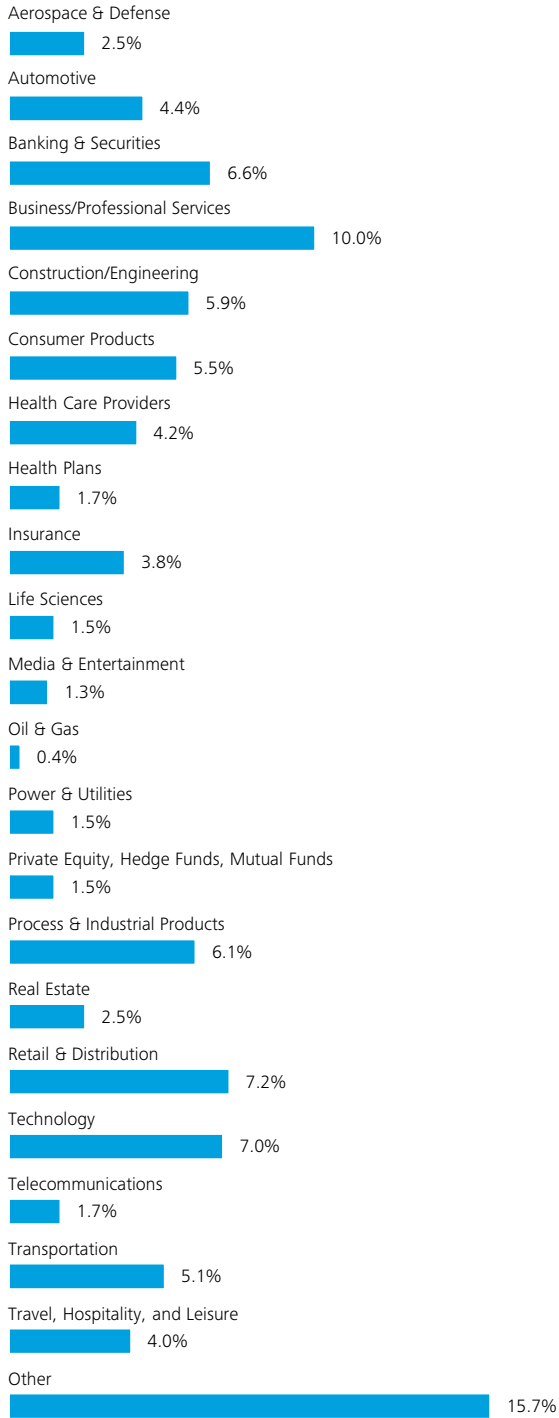
## Which of the following best describes your title?



## What is your main functional role?

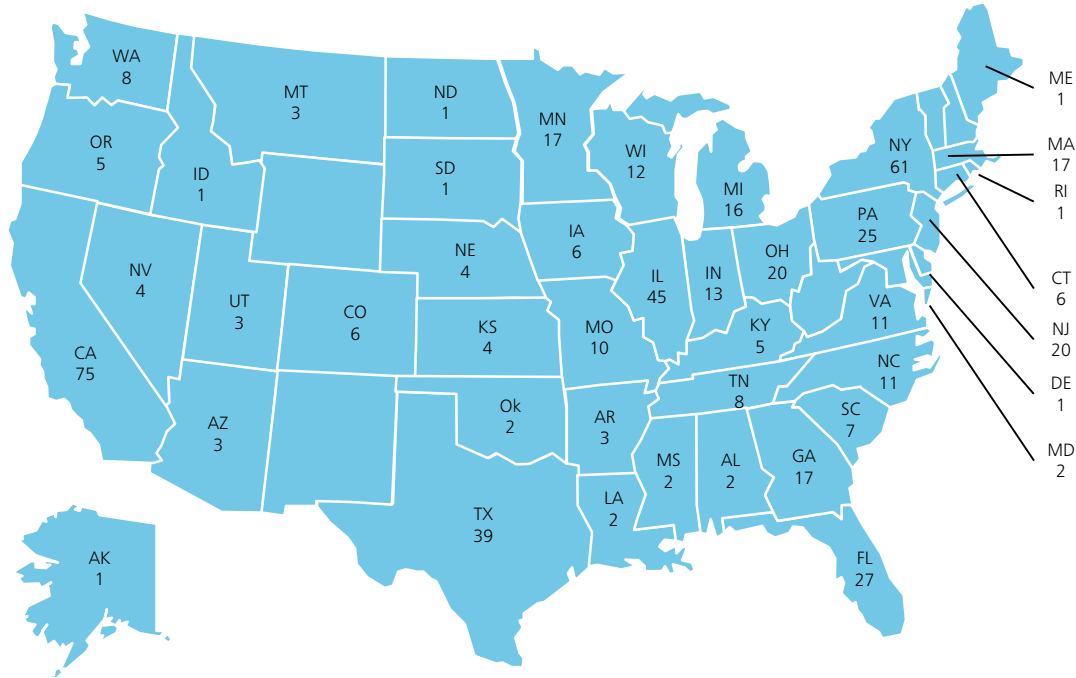


### In which sector does your company belong?





**In which state is your company's headquarters located?  
(Number of respondents shown)**



**In which state is your company's headquarters located?  
(Top respondent percentages by state)**

