Deloitte.

Mid-market perspectives
2013 report on America's economic engine

Contents

Executive summary

America's economic engine, the middle market, faces shifting headwinds in 2013 — most notably uncertainty stemming from tax and fiscal policies and health care reform — but nevertheless appears poised for growth. According to results of Deloitte's annual survey of mid-market executives, during the past year, companies have taken steps to grow their revenue, boost productivity, and fine-tune their competitive positions. And while they are deeply concerned with the macroeconomic impact of policy decisions and debates in Washington, mid-market companies are generally optimistic about their own business prospects.

For three years, Deloitte has been conducting surveys to examine the economic outlook and business plans of executives from mid-sized U.S. companies. This important and often underappreciated segment of the U.S. economy produces the equivalent of 40 percent of U.S. GDP, and historically has accounted for a larger proportion of employment growth than other sectors.[1] Understanding the expectations, challenges, and priorities of the executives who run these companies provides insight to many of the key drivers that will continue to influence the U.S. economy.

What has changed is that there are now more tempered expectations of overall economic growth, and the major causes of uncertainty are different and more narrow in focus.

Because all of our surveys over the past three years have been conducted in a challenging economic environment, some recurring themes have emerged: cautious optimism, uncertainty, and measured actions. This year is no different. What has changed is that there are now more tempered expectations of overall economic growth, and the major causes of uncertainty are different and more narrow in focus.

Over the next year, 57 percent of survey respondents expect the economy to grow less than two percent or show no growth at all. The number of respondents expecting moderate or robust growth (greater than two percent) has declined steadily over the past three years, from 58 percent in 2011 to 48 percent in 2012, to 40 percent in 2013. While mid-market executives have identified specific issues of public policy concern — tax simplification, health care reform, and government budget challenges — they nevertheless are focused on driving the growth of their own core businesses. While they may be holding back on hiring, they are investing in training. While they may be deferring certain major investments due to an uncertain business environment, they have made spending on technology a priority. While they may not aggressively be pursuing acquisitions, they are willing to consider strategic transactions with competitors and business partners. The picture that emerges is a sector that has a better sense of the challenges and opportunities of the current environment, is on firmer ground than in the past, and could become an even stronger engine for growth should the current veil of uncertainty begin to lift.

Our report identifies three overarching themes from the survey results:

Increasing optimism tempered by realism

While expressing a new realism over the growth prospects of the U.S. economy in 2013, mid-market executives say their own businesses are poised for growth. Among the key findings supporting this belief:

- The housing crisis and other economic worries such as the European debt crisis are receding as perceived obstacles to growth. For example, only 24 percent of survey respondents cited housing as a top obstacle to growth this year, compared to 59 percent who listed housing as a key obstacle in 2012.
- Key balance sheet metrics show improvement in the financial health of mid-market companies. For example, more companies are reporting higher cash balances this year, with 34 percent reporting higher balances in 2013, compared to only 15 percent reporting that cash balances have gone down.
- Access to capital is not standing in the way of most mid-market executives' investment plans, whether that capital is to be used to drive sales in existing markets — a key priority — or to make strategic acquisitions.

[1] U.S. Bureau of Labor Statistics, Employment Situation (September 2012).

Continued uncertainty

Executives continue to express a high degree of uncertainty about the economic outlook, with 59 percent of respondents ranking an uncertain outlook as the biggest obstacle to growth, compared to 50 percent in 2012. When asked to be more specific, respondents named government budget challenges, tax rates, and costs related to health care reform as the major obstacles to U.S. economic growth. Clearly, uncertainty among business executives in the middle market emanates primarily from Washington and the policy issues they believe will affect their ability to plan strategically or make investment decisions in the future. This uncertainty is having an impact on the mid-market, especially in the area of investment, where more than 40 percent of companies are deferring major investments as a result of the current uncertain business environment.

Focus on fundamentals

Executives are placing a renewed emphasis on the fundamentals of their business:

- Forty-three percent of respondents ranked sales as the area where they will be devoting the most time in 2013, far higher than any other priorities, demonstrating a strong focus on core business growth.
- More companies focused their growth in the United States this past year, a change from previous years. This is reflected in an emphasis on organic growth in existing markets and, for those expecting to engage in M&A activity, a more domestic focus on merger partners or acquisition targets.
- Training is a higher priority than hiring new employees. In fact, only two percent of respondents rank hiring as a top priority for 2013.

Taken together, our report findings paint a picture of a market in which companies continue to take prudent steps to position themselves for success. They understand (and may be frustrated by) the major challenges impacting them, but appear ready to accelerate their performance.

Tom McGee

Tom McGee
National Managing Partner
Deloitte Growth Enterprise Services
Deloitte LLP

About the survey

In March 2013, a Deloitte survey conducted by OnResearch, a market research firm, polled 525 executives at U.S. mid-sized companies about their expectations, experiences, and plans for becoming more competitive in the current economic environment. Respondents were limited to senior executives at companies with annual revenues between $50 million and $1 billion.

Eighty-one percent of the companies represented were privately held; only 19 percent were public. Of the private companies, about one-third were family-owned and another one-third were closely (non-family) held; just under one-quarter were private-equity backed, and the rest were VC-backed, employee-owned, or other structures.

Industries were diverse: the five largest represented — professional/business services, retail and distribution, consumer products, technology and health care providers — comprised 45 percent of the respondents. The other 55 percent were spread across 17 different sectors. General management contributed 21 percent of the responses; finance professionals, 19 percent; information technology, 13 percent; marketing and sales, 10 percent; and operations and production, nine percent. The other 28 percent encompassed nine different functions, from customer service to supply chain, procurement, and R&D. Almost half of the respondents were owners, board members, or C-suite executives; the remainder 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 percent due to rounding, or for questions where survey participants had the option to choose multiple responses.

Poised for growth

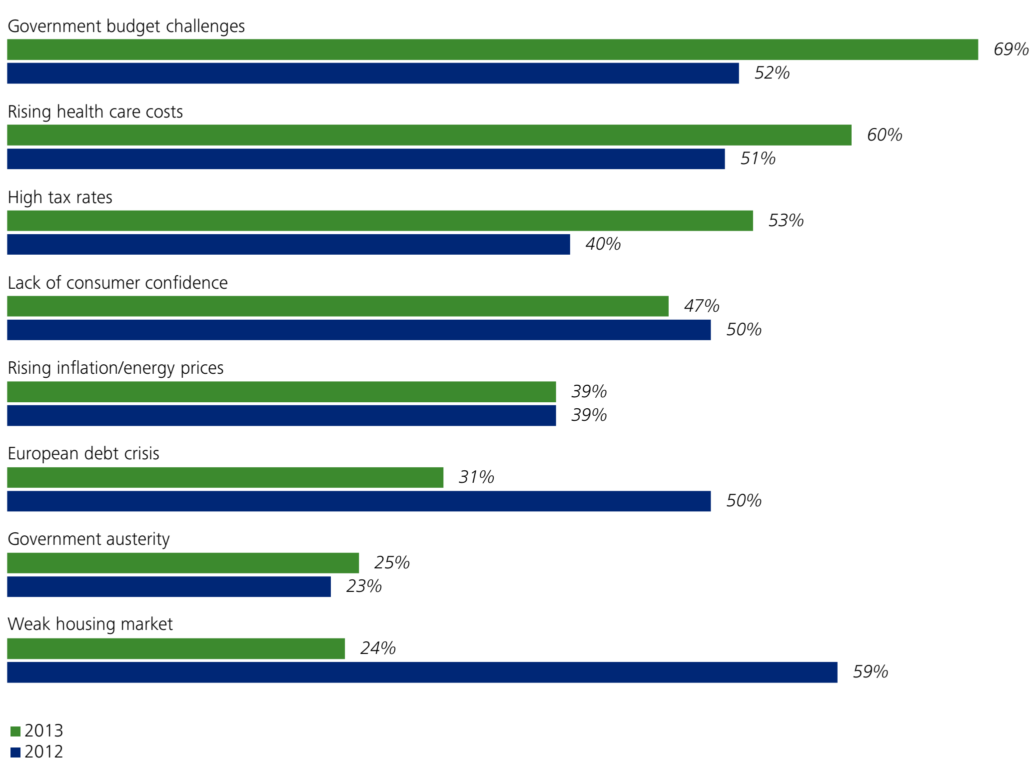
In last year's survey, respondents identified a wide variety of challenges facing the U.S. economy. More than half of the mid-market executives surveyed cited lack of consumer confidence, the European debt crisis, the weak housing market, government budget challenges, and rising health care costs as obstacles to U.S. growth — a laundry list of issues. This year, however, concerns over economic issues such as weak housing and the debt crisis in Europe have receded markedly, removing some substantial economic headwinds from the growth outlook. Executives also are generally optimistic about their own sales outlook, and balance sheets are in good shape. They report that capital is available, and that an increasing level of confidence in the economy may drive merger activity.

Economic fears recede

While the weak U.S. housing market was cited as an obstacle to U.S. growth more than any other issue by survey respondents in 2012, this year it receded dramatically in importance. As housing starts and home prices continue to climb, only 24 percent of this year's survey respondents cited housing as an obstacle in 2013, compared to the 59 percent who listed it as a key obstacle in 2012. Executives also were much less concerned that Europe's troubles would be an obstacle to U.S. growth. Only 31 percent of respondents listed the European debt crisis as a key obstacle in 2013, compared to the 50 percent of executives who cited it as a concern in 2012.

Macroeconomic indicators in general are not high on the list of mid-market executives' worries. For example, only 18 percent said the cost of raw materials is a major obstacle to their company's growth, down from 26 percent in 2012, and 28 percent in 2011. When asked about expectations for interest rates over the upcoming year, 37 percent expect them to be higher, compared to 25 percent last year. Will rising interest rates and the associated cost of credit be a major obstacle? According to survey respondents, no; rising interest rates ranked 11 out of 12 on the list, identified by only 15 percent of respondents.

Top obstacles to U.S. growth



The credit crunch also has continued to fade as a major concern for mid-market businesses over the past three years. Only 13 percent of respondents said they wanted the government to ease restrictions on bank lending to help promote growth in the coming year, a falloff from the 19 percent who suggested that as a government priority in 2012. When asked to select three obstacles to growth for their own companies in the coming year, only nine percent of respondents chose availability or cost of credit, compared to 12 percent in 2012, and 18 percent in 2011.

Revenues are higher, balance sheets are healthy

Forty-four percent of survey respondents in 2013 reported their revenues were higher during the past 12 months, a slight decrease from 2012, when half of respondents reported higher revenues. Looking ahead, executives demonstrated a new realism toward revenue growth prospects, given the steady but relatively subdued growth they have experienced over the past few years. Acknowledging an improving economic environment, 46 percent expect higher revenues over the next 12 months. That, however, is a decline from the 58 percent who were anticipating higher revenues in 2012.

Key balance sheet metrics are healthy for mid-market companies, an important indicator that the sector is prepared for growth and has the cash available to meet an upsurge in demand. Thirty-four percent of respondents in 2013 reported that their cash balances had risen during the last 12 months, up from the 28 percent who reported higher balances in 2012. Only 15 percent of respondents in 2013 reported lower cash balances. Looking ahead to the next 12 months, 27 percent of respondents expect cash balances to rise, compared to only 13 percent who expect balances to fall.

Debt ratios have stabilized, allowing for higher capital investment levels — a trend that respondents expect to continue in 2013. Reducing debt levels was far down the list of top strategic priorities for survey respondents in 2013, perhaps reflecting the efforts that have been made in that area in previous years.

Capital is available

As mid-market companies make strategic investment decisions, limited access to capital appears to be a receding worry but continues to affect one subgroup — the very smallest companies in our survey population. For the first time, the survey asked whether limitations on access to capital were restricting mid-market companies' ability to make important business investments. While 32 percent of respondents disagreed, 31 percent agreed or strongly agreed, making this a polarizing issue among mid-market firms. Responses of executives from the smallest companies, those with 50 to 99 employees, mirrored the overall responses with one important difference: while only eight percent of all respondents strongly agreed that limitations on access to capital were holding them back from making investments, 23 percent of respondents from firms with 50 to 99 employees strongly agreed with this statement.

However, for the broader group in general, limited access to capital is not cited as an impediment to investment. Almost a third of companies surveyed increased their capital investments in the last 12 months and plan to do so again in 2013. Based on survey responses, construction and engineering firms demonstrated renewed confidence in their industry's growth prospects: 44 percent of executives from that sector plan increased capital investments in 2013, a sharp rise from the 19 percent within that sector that planned to raise their investments in 2012.

Looking ahead, executives demonstrated a new realism toward revenue growth prospects, given the steady but relatively subdued growth they have experienced over the past few years.

M&A outlook — cautious, but healthy

Survey respondents displayed a bit more caution about jumping into the M&A deal market in 2013 than in 2012, when 42 percent of respondents reported that they would be very likely or quite likely to make an acquisition in the coming year. This year that number dropped to 31 percent, with a much larger percentage indicating that they are not actively looking for a merger or acquisition but would consider a deal. When asked about their perspective on M&A activity within their respective industries, 25 percent of respondents viewed activity as having increased over the past 12 months and 61 percent indicated no increase in activity.

Mid-market executives may remain cautious, but they are not stepping away from merger and acquisition opportunities entirely, and those that are engaged view deal-making as a high priority. Twenty-two percent rank M&A as one of their top three areas for capital investment in 2013, and 26 percent of companies ranked growing by acquisition as one of their top three strategic priorities for the coming year. "For stronger middle market companies, we view the next few quarters as a unique window of opportunity to capitalize on their position relative to their peers," said Kevin McFarlane, managing director, Deloitte Corporate Finance LLC. "The financing markets are actively seeking good credit stories and both larger strategic companies and private equity investors are actively looking for opportunities to deploy capital."

When it comes to drivers of merger activity, executives are more optimistic about the economy. Twenty-four percent of respondents identified renewed confidence in the economy as a factor, versus 15 percent in 2012.

Companies are increasingly looking among their competitors for M&A opportunities. Forty-seven percent of executives stated that the most likely counter-party in a merger or acquisition would be a direct U.S. competitor, compared to 37 percent who named direct competitors as likely M&A counter-parties in 2012. Direct competitors look especially attractive to executives in banking, business and professional services, retailing, and transportation, where more than half expect competitors to be the most likely M&A counter-parties. Another popular place to look for M&A counter-parties is among participants in

Murphy-Hoffman Company: Cautious but still growing

You don't have to tell a truck dealer how the economy is doing — they already know. As chief financial officer of Murphy-Hoffman Company (MHC) in Kansas City, Jeff Johnson can tell if the economy is strong by how many trucks are rolling off the company's lots or into its service bays. That's because trucks deliver the products that make economic growth possible. And MHC owns a lot of trucks, with 55 dealerships operating across 11 states.

At present, Johnson credits an improving housing market that may spark increased demand for the sale and lease of trucks. "That piece of the economy has a direct impact on freight," says Johnson, who points to increasing demand for construction materials, furniture, and other housing-related products. Record-low interest rates have also contributed by helping keep financing costs down for businesses looking to buy or lease trucks.

Of course, conditions could be better. Unemployment remains a challenge because of its dampening impact on consumer confidence and retail sales. And more stringent environmental regulations have increased truck prices as manufacturers invest in new emissions technologies. But Johnson and his team still are seeing stable demand for its trucks, parts, and maintenance services.

"We are cautiously optimistic that business conditions are modestly improving," Johnson says. "Our industry has been relatively stable over the last few years. I don't think we'll see huge growth going forward, but at least it's not declining."

One thing Johnson is seeing is increased competition. That's why MHC continues to expand its geographic footprint and invest in new ways to serve customers better. The company recently expanded into North Carolina through an acquisition. It also added a new web-based service portal to help customers track repairs to their trucks and equipment, and speed up the process through faster communication.

"Avoiding equipment downtime is extremely important to our customers, and the portal helps us be more responsive to their needs," Johnson says. MHC is counting on increasing demand for parts and service to spur growth as truck sales stabilize. That means delivering better service than the next guy, Johnson says.

"We are always trying to stay ahead of the competition by giving our customers value-added solutions," he says. "We are in a very competitive marketplace, and that means we have to balance a focus on fundamentals with disciplined growth."

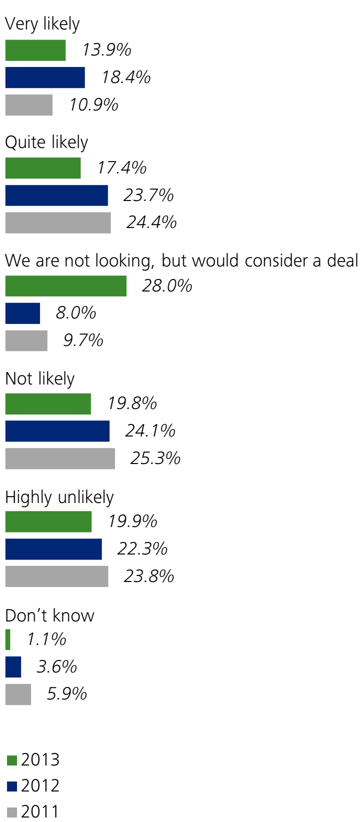
companies' own supply chains or among their current business partners. Twenty-four percent of executives cited these as the most likely counter-parties, up from 17 percent in 2012, an indication that companies are looking close to home for business development opportunities.

Private equity firms remain a smaller but significant portion of potential counter-parties named by respondents, but within some industries more than others. Fewer respondents in business and professional services firms named private equity firms as the most likely counter-parties in an acquisition: only seven percent of this group selected PE firms, compared to 28 percent in 2012. At the same time, private equity firms gained more attention as likely counter-parties for executives in banking, construction and engineering, and technology.

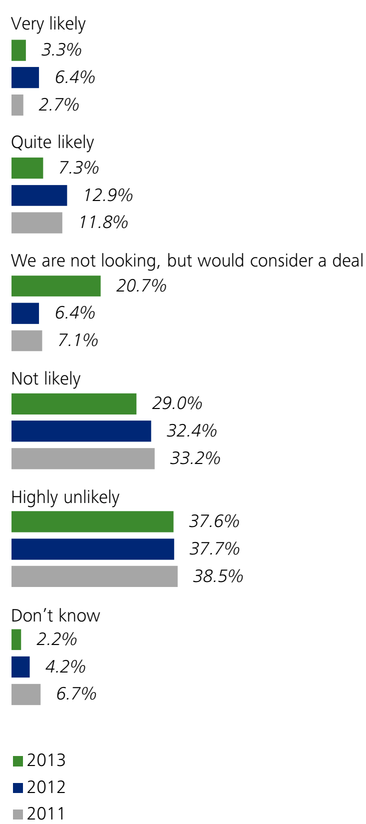
Higher market valuations also may be a factor in respondents' increased level of interest in being acquired. While fewer executives report that they are likely to be acquired, the percentage that stated they are not actively looking to be acquired but would consider it more than tripled, from six percent in 2012, to 21 percent in 2013. "Many companies can now demonstrate better historical operating results as well as bit higher visibility for the future," explained McFarlane. "A few years ago, their inability to articulate a clear story, either historically or prospectively, led most companies to defer conversations about M&A."

How likely is it that your company will participate in a merger or acquisition in the coming year...

...as an acquirer?



...as a merger target?

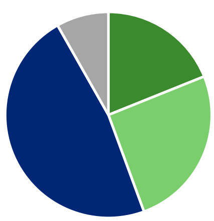


The investment horizon

As companies continue to position themselves for growth, their investment priorities appear to be focused on longer time horizons. This year, while 47 percent reported a mix of short- and long-term investment, an additional 25 percent defined their investing as focused on the longer term, indicating a majority focused on positioning their organizations for sustained returns over time.

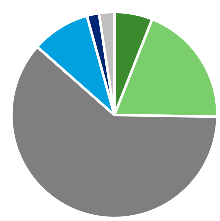
While the strategy of investing with a short-term emphasis and a more immediate ROI was identified by 19 percent of respondents, only three percent of venture-backed companies identified this as a strategy. It appears that venture-backed companies and their investors recognize the importance of taking a longer view on realizing returns from their investments. Further, while 25 percent of all respondents expect to increase their long-term investments over the next 12 months, venture capital-backed companies are much more aggressive; 49 percent are planning higher than normal long-term investments.

How would you define your company's current investment horizon? (Please select only one.)



Short-term emphasis with focus on more immediate ROI	18.9%
Long-term positioning (M&A, plant/property/equipment, etc.)	25.5%
Mix of short- and long-term investments	47.4%
We are delaying significant investments (both short and long)	8.2%

Which of the following best characterizes your plans for long-term investments in the business over the next 12 months?



Much higher than normal	6.0%
Higher than normal	19.3%
About the same as prior years	61.3%
Slightly less than normal	9.2%
Substantially less than normal	1.9%
Don't know	2.4%

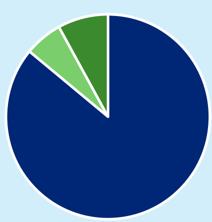
Fewer private companies expect to go public

For the third year in a row, survey results indicate that a minority of privately held companies have plans to complete an initial public offering (IPO). In 2013, only six percent of respondents expect their companies to go public in the next 12 months, and only eight percent sometime after that, for a total of 14 percent overall. This compares to a combined total of 17 percent in 2012 and 18 percent in 2011 with IPO plans.

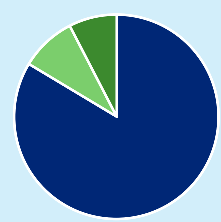
What factors influence the decision for the 86 percent of respondents who say their companies are unlikely to go public within the next 12 months? According to this group of executives, the top reason is the desire for control and/or flexibility in making decisions (75 percent), followed by the desire to keep financial information private (31 percent). Not surprisingly, respondents from family-owned businesses ranked those top two reasons even higher (85 percent and 43 percent, respectively). One notable change this year was in the perception of the burden associated with going public. Compared to last year, those citing the burden of regulatory requirements as a reason to remain private increased from 22 percent to 30 percent, and the belief that the operational requirements associated with a shift to being public are burdensome increased from 12 percent to 18 percent.

Obviously the 14 percent of this year's respondents who do believe their companies are likely to go public within the next 12 months or later have a different viewpoint. When asked what influences their desire to go public, executives cited four key factors: the cost-effectiveness of equity capital (39 percent), the need for capital to fuel growth (36 percent), the potential to broaden the exposure of brand and products (26 percent), and the desire to provide liquidity for owners (24 percent). While the key factors remain the same, a shift in the priority order of influencing factors may reflect a changing economic outlook. The cost-effectiveness of equity capital (ranked fourth last year) is now the top factor, whereas broader exposure of brand — the top factor last year — is now third.

What is your company's current ownership structure? (Calculations based only on private company responses.)



2013		2012
86%	Privately held, and unlikely to go public within the next 12 months	84%
6%	Privately held, but likely to go public within the next 12 months	9%
8%	Privately held, but likely to go public sometime after the next 12 months	8%



Top three reasons to remain private: 2013	
1	Desire for control and/or flexibility in decision-making
2	Desire to keep financial information private
3	Burden of regulatory requirements

Top three reasons to be or go public: 2013	
1	Cost-effectiveness of equity capital
2	Need capital to fuel growth
3	Being public can broaden exposure of our brand/products

A changing landscape of obstacles

Uncertainty remains a predominant theme, and a contributing obstacle to business growth. It adds risk to business decisions and therefore drives more cautious behavior. The high degree of uncertainty among respondents in 2012 was unabated in 2013. When asked to identify their company's main obstacles to growth, the uncertain economic outlook was cited by 59 percent of respondents, up from 50 percent in 2012. This response far exceeded the second highest obstacle, health care costs, which was selected by 38 percent. Additionally, 44 percent of survey respondents reported that their level of uncertainty was higher or much higher than a year ago, compared to 41 percent who felt that way in 2012.

Private company executives are more uncertain than their public counterparts, and their level of uncertainty has increased over the past year, with 16 percent reporting a much higher level this year versus last year, compared to eight percent of their public counterparts. Further, this sentiment has increased since 2012, when only 10 percent of private company executives believed uncertainty was much higher than the previous year. Sentiment among public company executives, on the other hand, remained relatively stable: in 2012, nine percent believed uncertainty was much higher than the previous year. Executives in the banking and transportation sectors reported the highest level. A striking 66 percent of transportation industry respondents stated that their uncertainty was higher this year than in 2012, while 53 percent of banking executives felt the same way.

Uncertainty is translating into deferred investments, with 43 percent of respondents indicating that they are deferring major investments due to the uncertainty in the current business environment.

Budget challenges in Washington: A focal point for uncertainty

In each of Deloitte's three annual surveys, respondents have cited government budget challenges as a major issue affecting growth. This year, 69 percent of mid-market executives chose these challenges as the clear top obstacle to U.S. growth. "People sense an inability by Congress to deal with the country's routine bookkeeping matters," said Jonathan Traub, managing principal of Deloitte's Washington National Tax Policy Group, Deloitte Tax LLP. "These matters can have a big impact on long-range business planning if you don't know whether a federal tax credit will be available when you are planning your budget." Concerns over the direction of budget and tax policy affect the corporate transaction market, in particular. "The lack of progress on fiscal issues in Washington will likely continue to impact the pace of M&A," Deloitte's McFarlane noted. "Although many companies have been hoping for more clarity, the reality is that businesses have determined that they might be best served to assume the status quo and plan their own strategy accordingly. At the end of the day, the middle market has always been the most resilient segment of the American economy and they always seem to find ways to grow."

"The lack of progress on fiscal issues in Washington will likely continue to impact the pace of M&A."

Kevin McFarlane — managing director, Deloitte Corporate Finance LLC

“This appears to be the new normal.”

Jeff Silver — CEO, Coyote Logistics

Coyote Logistics: Succeeding in a challenging economy

Coyote Logistics was launched into the teeth of a massive recession, financial crisis and a weak recovery, but for the growing full-scale logistics company, a relatively weak economy has meant a world of opportunity.

The Chicago-based company, with more than 1,200 employees, has been growing as its clients look everywhere for efficiencies and savings. Last year, it added more than 400 employees.

“We’ve done super in a very challenging time. This is an economy where every customer has to look at every opportunity for savings,” said cofounder and CEO Jeff Silver. “By the nature of what we do, where we really help companies is the ability to optimize a supply chain that comprises not only theirs, but other customers together, and find more efficient ways of doing things outside of their four walls.” The company roots its success — it’s only seven years old but has been a rapid grower — in a complete focus on execution. That way, it retains and builds a competitive advantage that persists in spite of external factors, whether it’s a weak economy or pricing pressures.

Silver says that the company continues to focus on client service — hiring talented staff and giving them full-year training to master the skills necessary to handle the often complex task of optimizing customer supply chains. Coyote also invests continuously in improvements in its software and other equipment. The key is to remain as efficient as possible, and help clients save everywhere in their supply chain — an expectation in today’s economy.

“People hold as little inventory as they possibly can. In that part of the economy, workforces have been rationalized. Generally that creates a scenario where there is less risk to the downside,” said Silver. But the onus then shifts to making sure products and commodities get where they need to go on time.

Silver said he expects that strategy to persist as long as the economy continues to bump along at less than one percent growth — something he foresees for this year. “This appears to be the new normal,” he said. What is striking, he said, is that Coyote was launched to support mostly small businesses. What happened as the company grew, he said, is that larger customers started using Coyote’s services — suggesting that up and down the economy, the need for efficiency is growing.

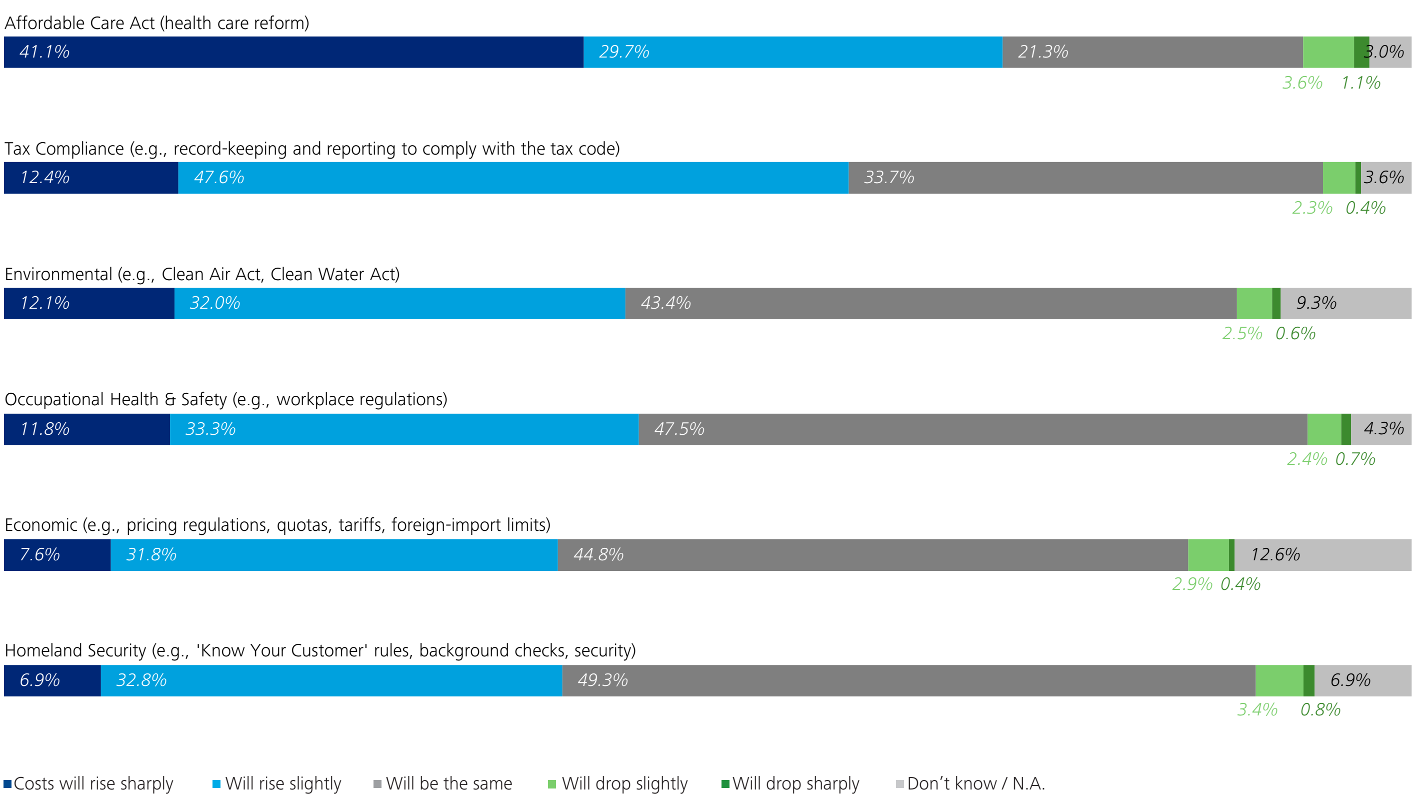
“We came into a market that was used to mediocre service, and we committed to exceptional service from day one,” said Silver. “By providing a super high service level, something nobody’s done before, that’s transformed the industry already. We’re taking out empty miles from our clients’ supply chains so they’re using their assets more effectively. That’s something customers are going to want to look at even in a good economy. But in a bad economy, it’s something that people are going to want to do even more. And that’s been really good for our business.”

Tax rates: changes on the horizon?

Concern over high tax rates moved to the top of the list of mid-market concerns in 2013, as policymakers approved a "fiscal cliff" deal in January that raised rates on U.S. taxpayers in the top two income brackets. Uncertainty over the direction of future tax policy and potential changes to the tax code may also be weighing on executives' minds. "The conversation in Washington on tax reform was more theoretical before this year, but now it has become more substantive," said Traub. "We have seen the Ways & Means Committee produce discussion drafts on key tax issues in 2013."

Survey respondents are concerned about the potential bottom-line impact of tax law changes, with 60 percent believing that the costs of tax compliance will rise in the coming year, compared to just 48 percent last year who expected tax costs would rise in 2012. Executives in the banking, construction and engineering and industrial products sectors are more likely to expect their taxes to increase. Banking and transportation executives also expect a rise in the regulatory costs of Homeland Security measures, with 58 percent of banking executives and 63 percent of transportation executives anticipating rising regulatory costs, compared to only 40 percent of total respondents.

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



Whatever the outcome of tax reform initiatives in Washington, many mid-market companies feel burdened by corporate tax rates. When asked to choose among various tax reform measures that they felt would be most beneficial to their own companies, lower rates and a simplified tax code were the top responses. Thirty-five percent of respondents chose lower corporate rates, an equal number chose simplifying the tax code, and another 26 percent chose lower individual rates.

Further, when asked to name the action the U.S. government could take that would most help U.S. mid-sized businesses to grow, 44 percent named corporate tax reductions. Among family-owned businesses, 52 percent chose lower corporate tax rates as a preferred measure, above health care reform rollback and keeping interest rates low.

Health care reform costs — and uncertainties

Executives' concerns over rising health care costs have increased in the past year. Sixty percent of respondents chose this issue as a major obstacle to U.S. growth, up from the 51 percent of respondents citing this as an obstacle in 2012, and only 33 percent who selected it in 2011. Companies of every size are concerned about health care costs: 65 percent of respondents from smaller businesses ($50 million to $99.9 million in revenues) and 63 percent of the largest firms ($500 million to $1 billion) chose this issue as a key obstacle to U.S. growth in 2013.

When asked to name their own company's obstacles to growth, executives once again cited health care costs as the second largest obstacle behind the uncertain economic outlook, with 38 percent overall selecting this issue among their top three choices. However, among executives from small companies, 46 percent named health care costs as a key issue. Their concern has risen, despite an overall slowdown in year-over-year increases in the cost of employer health benefits in 2012. According to an October 2012 report from the Kaiser Family Foundation and Health Research & Educational Trust, employer health benefit costs rose four percent in 2012, a slowdown from the nine percent gain in premium costs in 2011.[2]

Executives' concerns, however, appear to arise not just from direct experience of higher costs at their own companies, but also from increasing trepidation over the potential costs of the Affordable Care Act, and pending implementation of key provisions. This Act is the major regulatory concern of mid-market executives that participated in the survey. Seventy-one percent of all respondents believe that costs of compliance with the Affordable Care Act will rise in 2013, with 41 percent anticipating a sharp rise, compared to 28 percent of respondents who anticipated a sharp rise in 2012.

Rolling back health care reform ranked a very close second to reducing corporate tax rates as the most popular initiative the U.S. government could implement to help middle-market companies grow in the coming year. Technology companies were much less likely to rank health care reform rollback as one of their top two priorities for government action. Larger companies appear to be more resigned to implementation of the Affordable Care Act than smaller companies; only 38 percent of companies with 1,000 to 3,000 employees ranked health care rollback as one of their top two government priorities, while 53 percent of companies with 50 to 99 employees ranked it as a top priority.

When asked to name the action the U.S. government could take that would most help U.S. mid-sized businesses to grow, 44 percent named corporate tax reductions.

[2] *Employer Health Benefits 2012 Annual Survey,* Kaiser Family Foundation and Health Research & Educational Trust (September 2012).

A renewed focus on fundamentals

While survey respondents remain concerned about the ways that public policy issues may affect their ability to grow their business and plan for the future, they are focusing on areas where they can make a difference: the core fundamentals of their business. For this year's respondents, this means focusing on organic growth in their core business areas, a renewed commitment to domestic markets, and maintaining and upgrading their workforce through training. When they are making investments, they are moving prudently to invest in selected technologies that are expected to enhance productivity, and in a mix of traditional and non-traditional marketing initiatives to grow core sales.

Focus on revenue

When it comes to investing their time in the next 12 months, mid-market companies are focused on sales. Forty-three percent of executives ranked sales as the area where they will be devoting the most time in 2013 — far higher than other priorities, showing a strong focus on fundamental core business growth.

Retailers and transportation company executives expect to devote even more time to this fundamental driver of performance, with over 75 percent of respondents in those industries reporting that sales is one of their top three priorities for investing their time in 2013.

Executives made the same point when asked to name their top growth strategy for 2013. Thirty-two percent of respondents singled out domestic organic growth as their primary growth strategy, double the second-place response of development of new products and services. When asked to name their top three management priorities for the upcoming year in terms of business strategies, executives' number one response was growing organically within existing markets. The business and professional services sector is even more focused on organic growth, with 54 percent of executives from that sector ranking it as the top strategic priority for 2013.

Partnerships and alliances are another key strategy for a majority of mid-market companies. When asked if their company engaged in partnerships or alliances to achieve strategic objectives, 37 percent of respondents said they engage opportunistically, and 18 percent perceive it as part of their core business strategy. Another 24 percent state they would consider them. Among those who have engaged in partnerships and alliances, their perceived value is overwhelmingly positive: 97 percent perceive value in them, including 64 percent who perceive their value to be high or extremely high.

When compared to the emphasis on growth, increasing productivity is far down on the priority list at number seven. Executives are more skeptical this year regarding the potential to drive productivity gains in their organizations. When asked which investments offer the greatest potential for increasing productivity at their company, both talent and technology experienced substantial drops (from 59 percent to 48 percent for talent, and from 57 percent to 49 percent for technology). While always important, it appears the focus on productivity has waned — perhaps because of actions taken over the past few years — in favor of increasing sales.

When it comes to investing their time in the next 12 months, mid-market companies are focused on sales.

Marketing investment: From traditional to virtual

When it comes to marketing investments, our survey shows mid-market companies opt for an interesting mix of new and traditional methods. Internet media and advertising was ranked first in priorities among the highest number of respondents, followed by trade shows and events, promotion/market support, market research, and publicity and public relations.

These more traditional marketing methods are followed by a relative newcomer, social media, which executives ranked ahead of print advertising, direct mail, and telemarketing.

What has changed? A 2012 MIT Sloan Management Review study, produced in collaboration with Deloitte, considered the potential transformational effect of social networking on business.[3] Among their findings:

- More than half of respondents said that social media was important or somewhat important to their current business, while 86 percent said it will be important in the next three years.
- While respondents said the most important use of social software was to maintain customer relationships, the second most important use of social software was to innovate for competitive differentiation.

Those findings are supported by our 2013 survey responses, which indicate that mid-market companies recognize the potential of social media to significantly expand their reach. For many executives, social media is top-of-mind, but lacking focus: just 14 percent of respondents consider their plans to be well developed; 49 percent are executing social media plans but are unsure about ROI, and another 17 percent are planning to implement. Only one in five (20 percent) of respondents has no plans to introduce a social media strategy.

Not surprisingly, technology companies have the highest rate of engagement in social media (70 percent), but are unsure of their ROI; only 15 percent of these companies report their plans are well developed. Mid-market companies in consumer-oriented industries have the highest rate of well-developed social media plans. For example, over a quarter of banking executives reported a well-developed strategy, and transportation companies were furthest along, at 35 percent. Two exceptions are business and professional services firms (55 percent reported they are executing plans, but only 15 percent have well-developed plans), and consumer products firms (57 percent engaged, only 10 percent report a well-developed strategy).

Clearly social media is gaining importance among mid-market companies, especially those focused on business to consumer marketing, but most companies acknowledge they have more work to do before they can say with confidence that ROI is being achieved and their social media strategy is mature.

[3] *Social business: What are companies really doing?* MIT Sloan Management Review and Deloitte LLP (2012).

The U.S. as a home base for growth

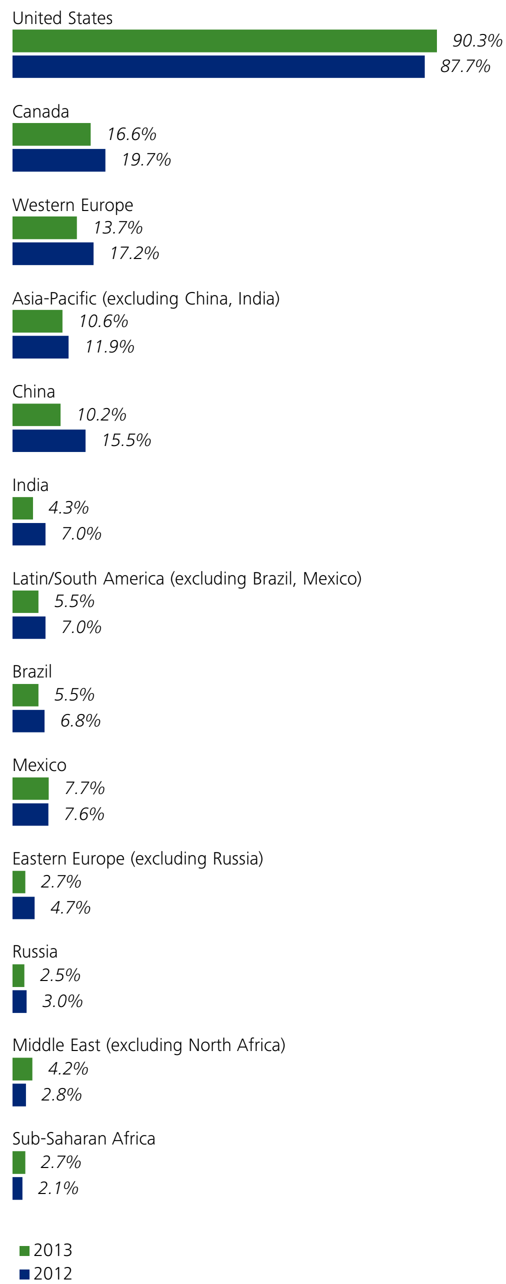
Companies overwhelmingly chose the United States as the geographic market that contributed most to their growth in the last 12 months, a slight increase from their responses in 2012. Canada remained the second most important market, while Europe, despite its economic troubles, remains the third-highest choice for respondents. Technology companies in particular depend on the European market, with 34 percent citing Europe as the market that contributed most to growth in the last 12 months, a decline from the 41 percent that named Europe as the most important market in 2012. China also receded in importance, dropping from the fourth most important market for growth in 2012 among all companies (16 percent), to the fifth most important market in 2013 (at just 10 percent).

Over the next year, survey respondents expect the United States and Canada will remain the clear sources of mid-market growth; however, China and the Asia-Pacific region, Western Europe, and Mexico will also be contributors.

The technology sector is more focused on growth in overseas markets beyond Europe than other industry sectors. Twenty-one percent of technology companies name Latin America as an important market for growth, while 20 percent look to the Middle Eastern market. These responses show the reach of the domestic technology industry and its ability to seek and find growth in a diverse array of worldwide markets. In the coming years, technology companies appear likely to lead all industry segments in looking for growth overseas, with 40 percent of technology respondents naming Asia-Pacific countries other than China as a crucial focus for growth.

Closer to home, Mexico and its improving economy remains a small but steady source of growth for U.S. mid-market companies, rising from eighth to fifth in importance among all geographic regions, now ahead of Brazil and other Latin American countries. Process and industrial products companies are showing a new interest in this market, with 32 percent of executives in that sector naming Mexico as a key contributor of growth in the next year, compared to only three percent in 2012.

Which geographic market contributed the most to your growth in the last 12 months? (Please select all that apply.)



> “You really have to focus on the long-term fundamentals, and in our business the trends are all pointing up.”
>
> Mark Dellonte — CEO, Love Funding

Love Funding: A focus on fundamentals pays off

Eight years ago, if you wanted to acquire or refinance a retail store, a warehouse, a hotel or some other kind of commercial enterprise, Love Funding was a financing option. Today, you would have to look elsewhere, due to a decision the company made in 2006 to focus on its core Federal Housing Administration (FHA) lending operation for apartment and healthcare properties. The fact that Love Funding reported record revenues in 2012 isn’t a coincidence, says President and Chief Executive Officer Mark Dellonte.

“We decided to do what we do best,” Dellonte said. “It’s a theme we continue to live by today, and it’s the reason we are poised for growth.”

Washington-based Love Funding is now one of the nation’s top FHA lenders, a position it is selectively building on by pursuing other FHA-backed lines of business. In 2011, Dellonte and his team brought in two FHA experts to head up a new hospital financing team. Last year, that investment helped Love Funding win a $361 million loan modification for the Medical University Hospital Authority in Charleston, SC — the third-largest hospital loan in FHA history.

Of course, originating loans exclusively through a federal agency comes with its share of challenges, particularly now with sequestration squeezing government budgets and putting downward pressure on the FHA’s loan commitment authority. But as Dellonte sees it, times like these lead entrenched industry leaders to persevere, as long as they invest to retain their competitive advantage.

“You really have to focus on the long-term fundamentals, and in our business the trends are all pointing up,” Dellonte says. He points to the wave of aging Baby Boomers who will soon need assisted living centers and other senior care facilities, or increasing demand for rental housing in the fallout from the housing crisis.

To help ensure Love Funding takes advantage of those trends, the company recently hired a new marketing director and invested in a customer relationship management (CRM) system to more efficiently manage pending deals and help its loan originators prospect for new ones. These investments come on top of a hiring spree that increased its headcount by nearly 50 percent over the past three years. While competition is heating up from larger lenders looking for new sources of debt, Dellonte sees the company’s spate of moves as helping it stay one step ahead.

“Focusing on what’s in your wheelhouse gets you so far,” Dellonte says. “But if you want to grow over the long haul you have to invest in your business. You have to adapt.”

Training a higher priority than hiring

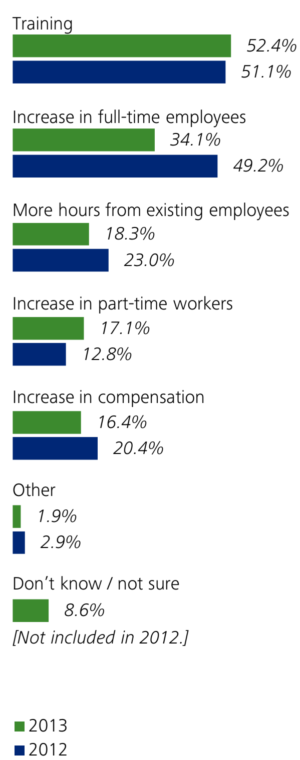
Executives ranked hiring among the lowest priorities for capital investment in 2013, with only two percent of respondents listing hiring as their top priority and just seven percent ranking it as the second highest priority. These responses, from the mid-market that has traditionally led the economy in hiring growth, may help explain why U.S. employment growth has remained relatively subdued compared to prior upturns — and may signal that this trend could continue through the year.

While companies remain reluctant to invest substantial amounts in new workers, more companies are adding than are subtracting workers. Forty percent of executives report that they expect to add to their full-time workforce in the next 12 months, with a majority of this group (28 percent) planning to increase headcount by up to five percent. This is lower than last year's expectations, when 49 percent planned to increase the size of their respective full-time workforces.

Further evidence of moderating hiring can be found in responses to the U.S. employment rate. In 2012, 44 percent expected unemployment to be lower and 21 percent expected it to be higher. In 2013, only 34 percent expect lower unemployment and 28 percent expect it to be higher. The picture we get regarding hiring is an outlook that is slightly optimistic, but hardly as optimistic as last year.

Most companies expect no change to the number of part-time employees they plan to hire in the coming year. However, among those that plan to add part-time or contract workers, concerns about increased costs resulting from health care reform ranked a close second behind lack of growth as a reason for this approach. Thirty-eight percent of companies named health care reform as a major reason for hiring part-time or contract employees, with over half of retailing executives citing health care changes as a major reason for the increase.

Which investment(s) is your company most likely to make in talent in the next 12 months? (Please choose up to three.)



Concerns over finding enough workers with the right skills and training, evident in previous surveys, remained an issue again in 2013. Fifty-six percent of respondents agree that it is difficult to find employees with the skills and education to meet their needs. The skills shortage is affecting some industries in the mid-market segment to a greater degree than others. While 14 percent of all respondents ranked the skills shortage as one of the greatest obstacles to their company's growth, 29 percent of companies in the business and professional services sector ranked the skills shortage as a critical obstacle, an increase from 23 percent of respondents in 2012.

The skills shortage is a growing issue for executives in the construction and engineering sector as well, with 28 percent listing the skills shortage as a key obstacle to their company's growth, up from only 16 percent in 2012. Transportation executives were far more concerned with skills gap issues than were executives from other industries; 72 percent named these issues as a reason for turning to contract or part-time employees, compared to only 20 percent of overall respondents.

As companies continue to report that finding skilled workers remains a challenge, investment in training may be a way for them to address their needs. When asked to choose their most likely investment in talent in 2013, over half of respondents chose training as one of their top two priorities, with an increase in full-time employees coming in a distant second.

Signs of progress on a comprehensive immigration bill in Washington are making the news in 2013, but are not seen by most executives as having a significant impact on their hiring plans. Sixty-three percent of respondents indicated that easing U.S. immigration laws to allow more work visas for skilled immigrants would have no impact on their hiring decisions. Only a quarter of executives felt it would have a marginal impact on their hiring decisions; interestingly, companies on the West Coast felt immigration law changes would affect them to a degree, with 37 percent stating that changes would have a marginal positive impact in their plans to hire.

Executives ranked hiring among the lowest priorities for capital investment in 2013, with only two percent of respondents listing hiring as their top priority.

Technology investments: Choosing carefully

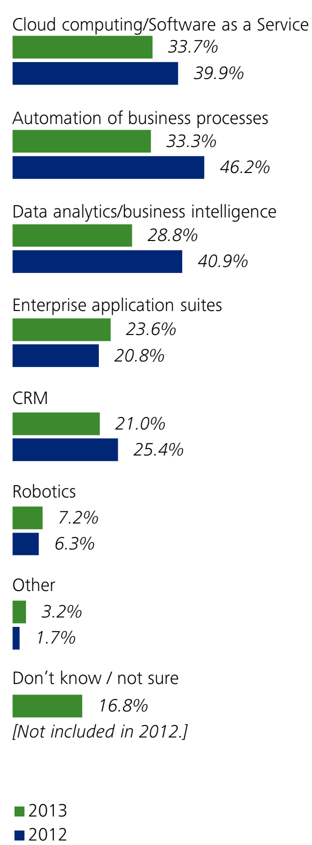
Technology remains a high priority for mid-market capital investment in 2013, with 46 percent of executives ranking technology as one of their top three investment priorities. Smaller companies place a higher priority on this area than larger firms; 48 percent of respondents from the smallest firms (revenues under $100 million) ranked technology investments among their top three capital investment priorities in 2013. This compares to 43 percent of the largest companies ($500 million to $1 billion).

Cloud computing and business automation were the most popular anticipated investments for mid-market companies, as firms look to technology solutions that could help them achieve greater efficiency and workforce productivity. Thirty-four percent of respondents chose cloud computing as one their top three investment choices in 2013.

"Cloud has become much more baked-in to business and IT strategy, and we see it changing the economics and cadence of technology investment in growing organizations," said Mike Mitchell, principal, Cloud ERP Innovation, Deloitte Consulting LLP. "We see cloud, specifically cloud ERP, as a differentiator for fast-growing mid-market firms and they seem to be investing accordingly."

Fewer companies reported that investing in data analytics was among their top three technology investment priorities in 2013: just 29 percent, compared to 41 percent in 2012. The decline came in the banking and business and professional services sectors and among larger companies, which may signal that larger mid-market firms and those within these industries are further along in the process of investing in data analytics.

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



New products, new markets

Our survey results provide some insights about growth strategies in the manufacturing industry. Fifty-three percent of executives from the process and industrial products sector named new product development as one of their top three strategic priorities over the next 12 months, compared to 29 percent of all respondents. These companies also are backing up those plans with real investment dollars. While only 11 percent of respondents in all industries ranked new product development as a top priority when making capital investment decisions, 28 percent of process and industrial products companies ranked new product development as a top priority when allocating investment capital.

New market expansion ranked behind product development as a mid-market priority, but process and industrial products companies once again are placing a high priority on market expansion. These companies are investing in new markets, with 51 percent naming new market expansion among their top three priorities for capital investment, compared to only 32 percent of all companies.

Fifty-three percent of executives from the process and industrial products sector named new product development as one of their top three strategic priorities over the next 12 months.

Conclusion

As mid-market companies continue to demonstrate their importance to the overall U.S. economy, they also are demonstrating resilience and adaptability — hallmarks of any successful enterprise. When examining this year's survey results in comparison to the results of prior years, a picture emerges of a sector that understands that the road back from the recession is longer, and perhaps a little bumpier, than originally anticipated. As a result, while mid-market executives continue to have subdued expectations for U.S. economic growth in the coming year, they also are moderating expectations for their respective companies. While certain key metrics of business performance continue to trend up, these executives appear more realistic with their projections. Their 2013 expectations for increases in revenue, profits, pricing, and gross profit margins are all higher than their 2012 actual results. However, for every one of these categories, the expectations are lower than they were in 2012. Their optimism leading to higher projections is tempered by a greater acknowledgment of current conditions. The following themes and recommendations emerge from this report:

Focus on revenue

There is an old adage that nothing happens until somebody sells something. Given the high priority that mid-market companies are placing on revenue, it appears they understand this. Interestingly, this focus is one of the primary findings in *The Three Rules: How Exceptional Companies Think,* a forthcoming book by Mumtaz Ahmed, a principal with Deloitte Consulting LLP, and Michael Raynor, a director at Deloitte Services LP. (For an overview of their findings, see the April issue of *Harvard Business Review.)*[4] Based on a large-scale statistical analysis of more than 25,000 companies and 45 years of data, coupled with the in-depth case study of dozens of companies, Ahmed and Raynor conclude that a key determinant of whether a company is profitable over the long term is its ability to focus on "revenue before cost." Faced with difficult choices, exceptional companies put increasing revenue — either through greater volume or price premiums over their competition — ahead of being lower cost than their competition. While the study focused on publicly traded companies, the findings can be instructive for privately held mid-market companies as well.

When examining this year's survey results in comparison to the results of prior years, a picture emerges of a sector that understands that the road back from the recession is longer, and perhaps a little bumpier, than originally anticipated.

[4] "Three rules for making a company truly great," *Harvard Business Review* (April 2013).

Uncertainty creates risk. Risk leads to caution.

Mid-market companies that have weathered the economic storms of the past years recognized the inherent uncertainty and acted accordingly. In previous reports it was clear that companies were working to increase productivity, holding back on hiring, improving their balance sheets, and preparing for better conditions. While it appears that conditions are now improving, the risk associated with the current levels of uncertainty is creating a drag on overall economic performance. The reality seems to be that these high levels of uncertainty may not diminish for an extended period of time. Perhaps this is a function of policy and politics emanating from Washington. Perhaps it is due to the interconnectivity of our global economy, where the economic challenges of just one small country can impact entire markets. Perhaps it is due to the speed with which business now moves. Whatever the causes, mid-market companies need to understand this new era of uncertainty and take prudent actions to improve their businesses, recognizing that existing models, processes, and strategies may not be the formula for continued growth.

Be realistic

Optimism is a powerful emotion. It creates excitement and reinforces a sense of the possible. It takes organizations (and people) to heights they might not otherwise imagine. But blind optimism can create additional and perhaps unnecessary risk. Given the current environment, mid-market companies appear to have tempered their optimism with a realism that understands that while conditions may be improving, there is still reason for caution.

Survey findings indicate mid-market companies are poised for growth. Is yours?

Appendix: full survey results

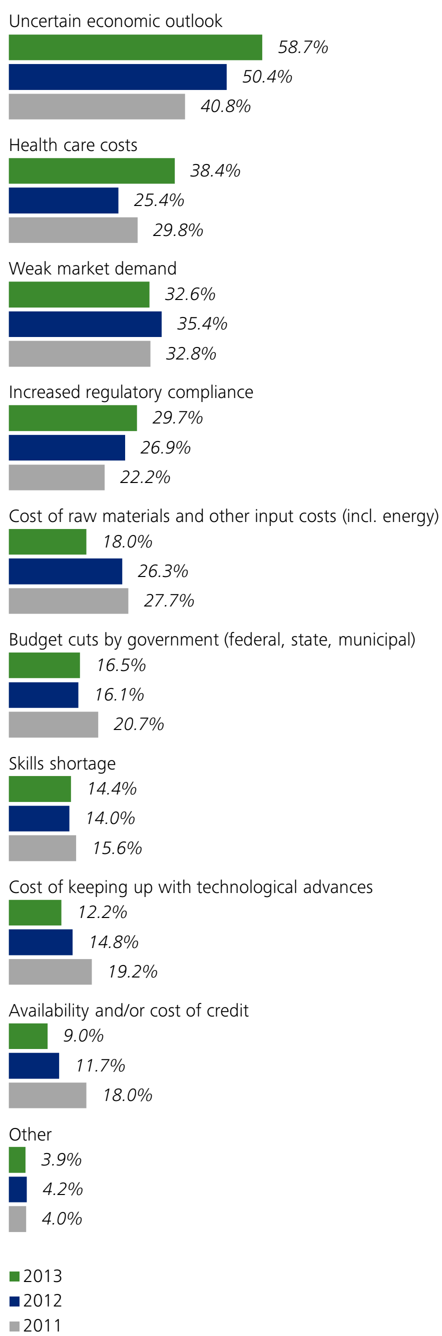
Note: some percentages in the charts throughout this report may not add to 100% due to rounding, or for questions where survey participants had the option to choose multiple responses.

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: 2013 report on America's economic engine*.

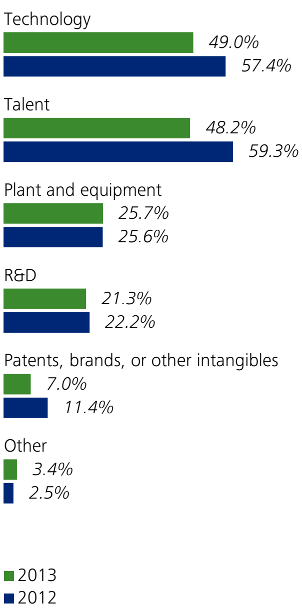
Success and growth

What is your company's main growth strategy over the next 12 months? (Please select only one.)

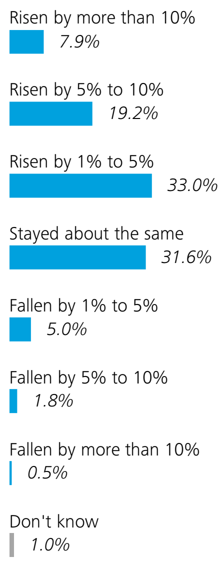
What are your company's main obstacles to growth? (Please choose up to three.)



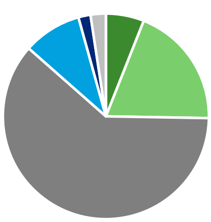
Which investments offer the greatest potential for increasing productivity at your company? (Please select all that apply.)



In the past year, productivity at my company has:

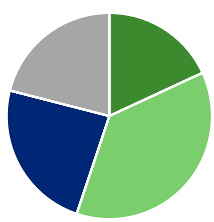


Which of the following best characterizes your plans for long-term investments in the business over the next 12 months?



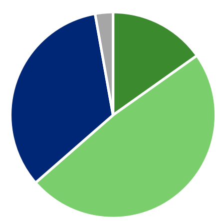
Much higher than normal	6.0%
Higher than normal	19.3%
About the same as prior years	61.3%
Slightly less than normal	9.2%
Substantially less than normal	1.9%
Don’t know	2.4%

Has your company engaged in partnerships/ alliances to achieve strategic objectives?



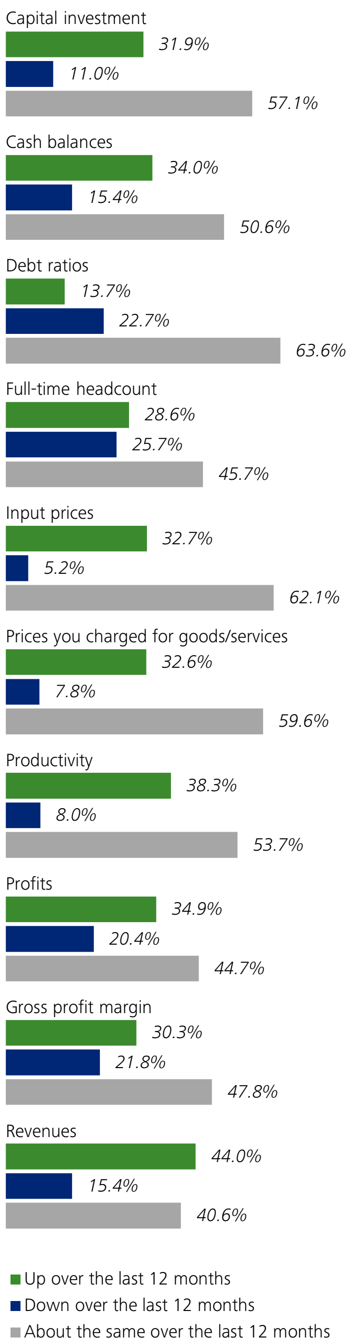
Yes, core part of strategy	18.1%
Have engaged opportunistically	37.0%
Not part of strategy, but would consider.	23.8%
No interest	21.0%

How you would assess the value of engaging in partnerships/alliances

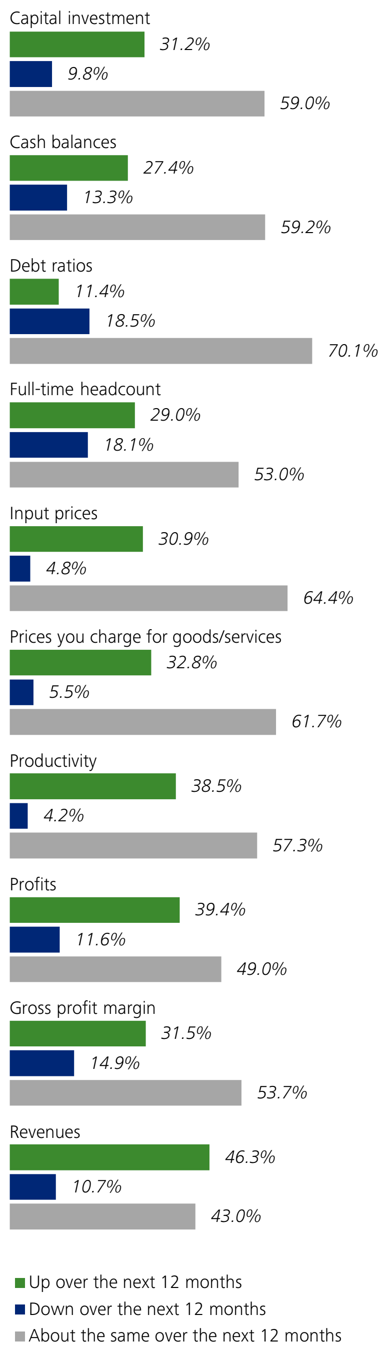


Extremely high	15.2%
High	48.4%
Average	33.6%
Disappointing	2.8%

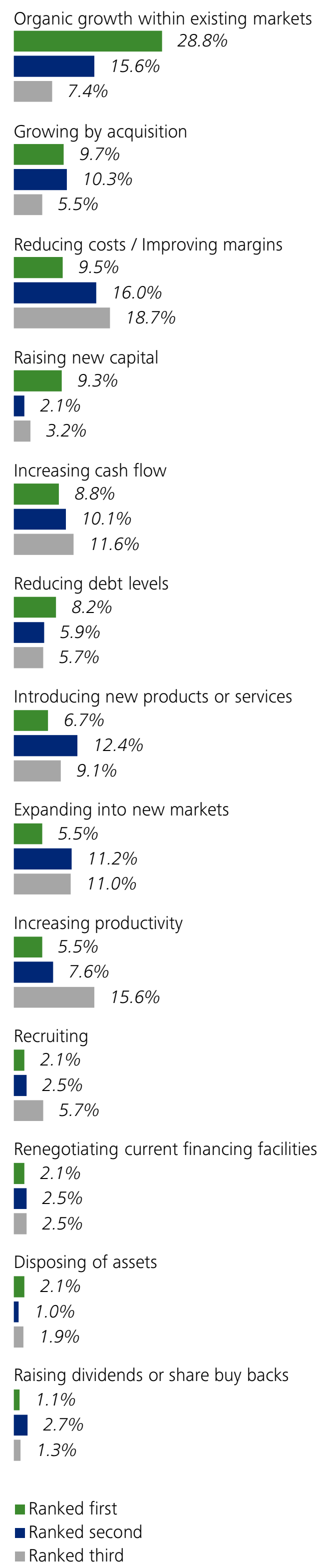
Are the following key metrics of your business up, down, or about the same over the last 12 months?



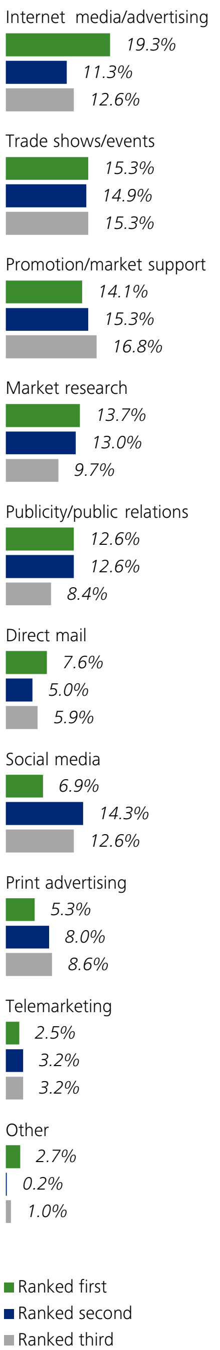
Do you expect these same key metrics of your business to go up, go down, or stay about the same over the next 12 months?



Please rank (in order of importance) your top three priorities for the next 12 months in terms of business strategies.

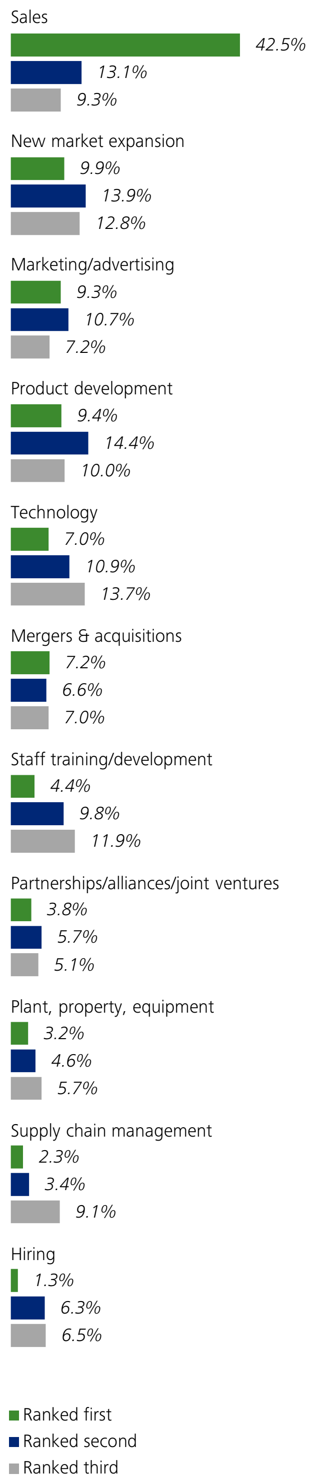


Please rank (in order of importance) your management's top three priorities in terms of marketing investments.

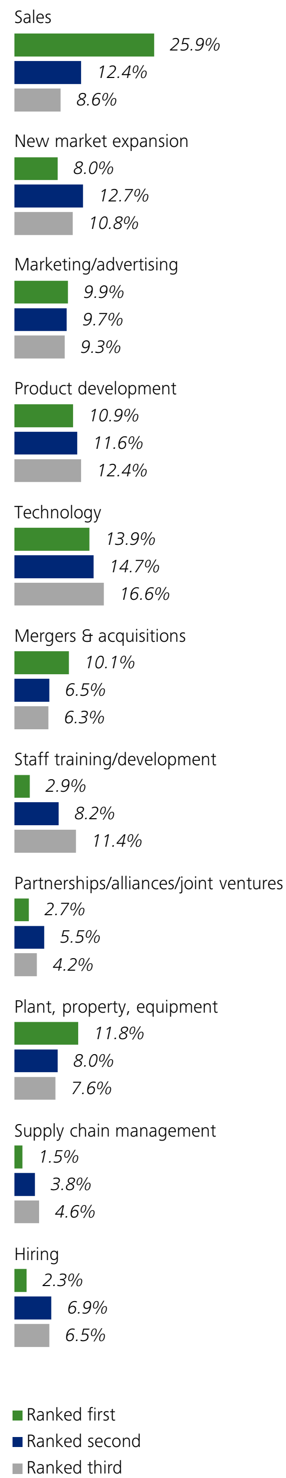


Please rank (in order of importance) your management's top three priorities for the upcoming year in terms of...

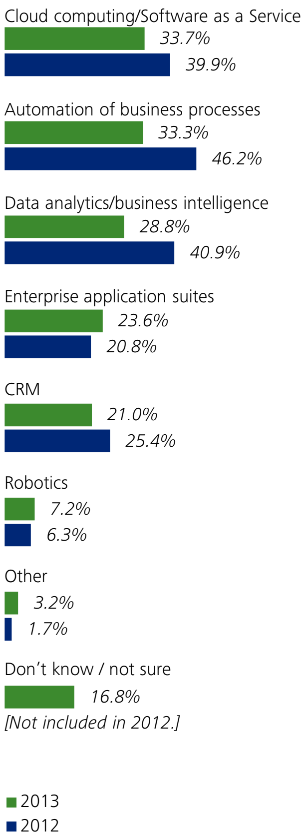
...time invested.



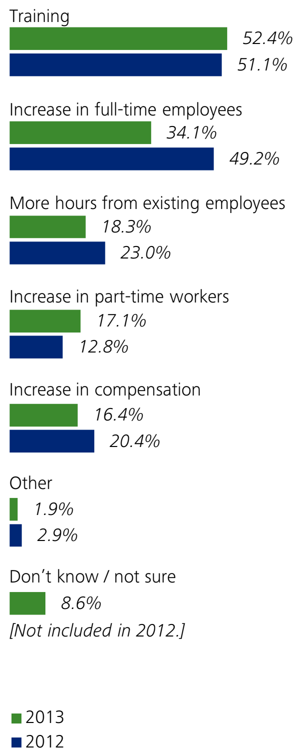
...capital invested.



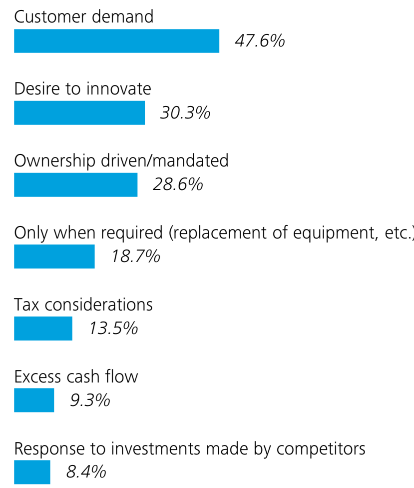
Which investment(s) in technology is your company most likely to make in the next 12 months? (Please choose up to three.)



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



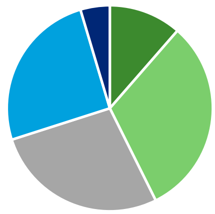
What are the leading drivers of your capital investment decisions? (Please choose up to two.)



Please indicate your level of agreement with the following: Limitations on access to capital are restricting our ability to make important investments in our business.

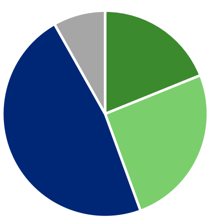
Strongly agree	8.2%
Agree	22.6%
Neither agree nor disagree	36.9%
Disagree	24.1%
Strongly disagree	8.2%

Please indicate your level of agreement with the following: We are deferring major investments due to the uncertainty in the current business environment.



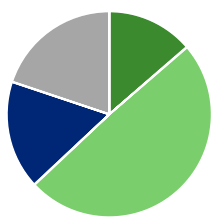
Strongly agree	11.4%
Agree	31.2%
Neither agree nor disagree	27.4%
Disagree	25.3%
Strongly disagree	4.6%

How would you define your company's current investment horizon? (Please select only one.)



Short-term emphasis with focus on more immediate ROI	18.9%
Long-term positioning (M&A, plant/property/equipment, etc.)	25.5%
Mix of short- and long-term investments	47.4%
We are delaying significant investments (both short and long)	8.2%

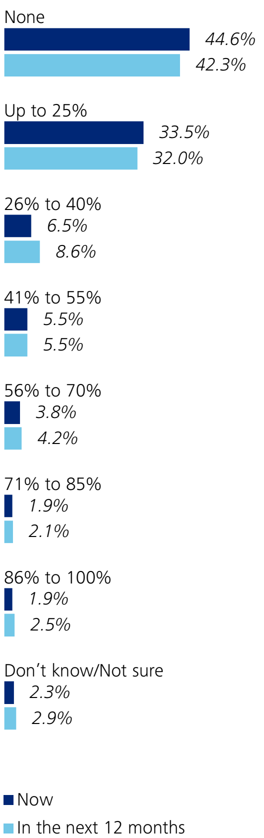
How would you describe the status of your company's social media strategy?



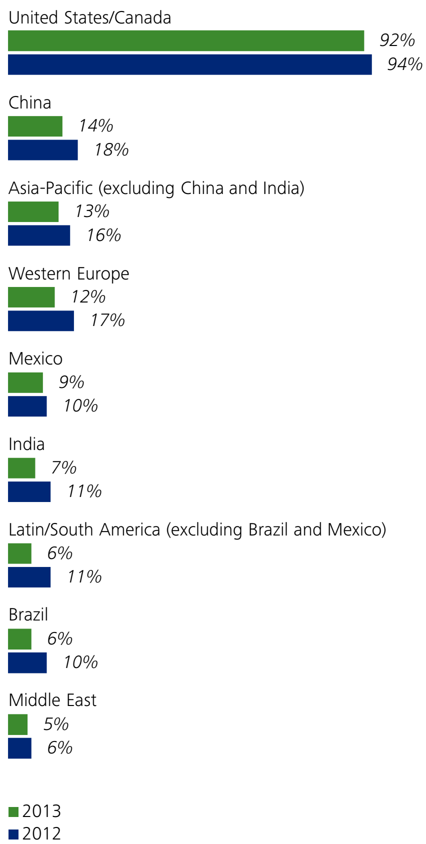
Well developed	13.7%
Executing, but not sure about ROI	49.4%
Planning to implement	17.1%
No plans	19.9%

Emerging markets

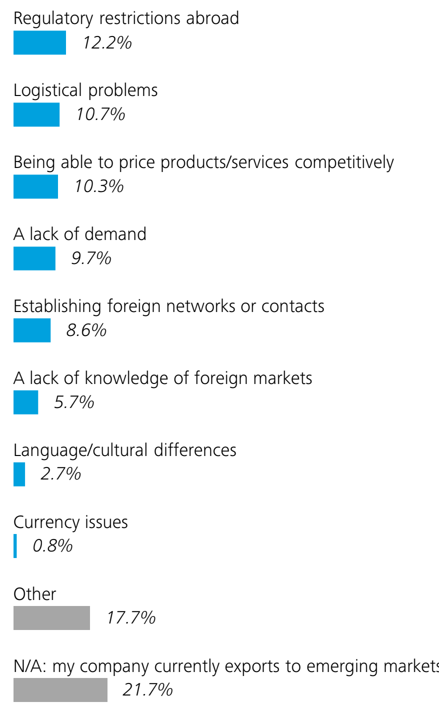
What proportion of your revenues comes from outside the United States now and in the next 12 months?



Which geographic market will contribute the most to your growth in the next 12 months? (Please select all that apply.)



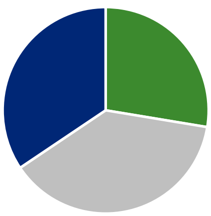
If your company does not currently export to emerging markets, what is the single greatest deterrent to doing so? (Please select only one.)



The business environment

What do you believe is the most likely 2013 outlook for the following?

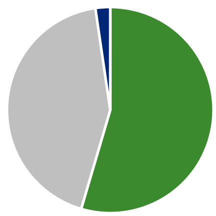
U.S. unemployment rate



Higher	27.6%
No change	38.0%
Lower	34.4%

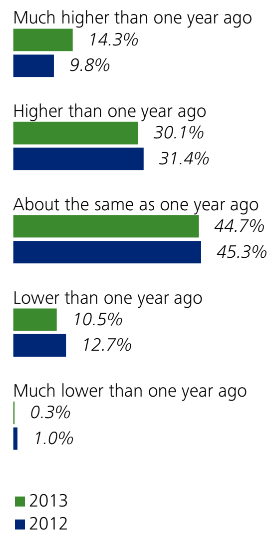
What do you believe is the most likely 2013 outlook for the following?

U.S. inflation rate



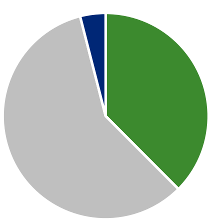
Higher	54.5%
No change	43.1%
Lower	2.3%

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 2013 outlook for the following?

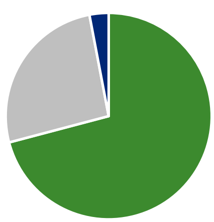
U.S. interest rates



Higher	37.5%
No change	58.5%
Lower	4.0%

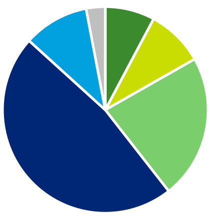
What do you believe is the most likely 2013 outlook for the following?

Commodity prices



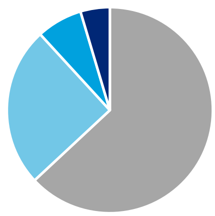
Higher	70.9%
No change	26.1%
Lower	3.0%

At what pace do you expect the U.S. economy to grow in 2013?



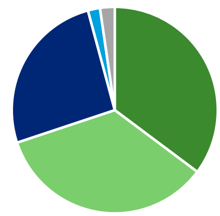
Grow robustly: More than 5%	7.8%
Grow above-trend: More than 3.5%, but less than 5%	9.0%
Grow moderately: 2% to 3.5%	22.6%
Grow slightly: Less than 2%, but more than 0%	47.3%
Show no growth: 0%	10.3%
Negative growth	3.0%

How would a change in U.S. immigration law easing issuance of work visas to skilled immigrants affect your ability and willingness to hire?



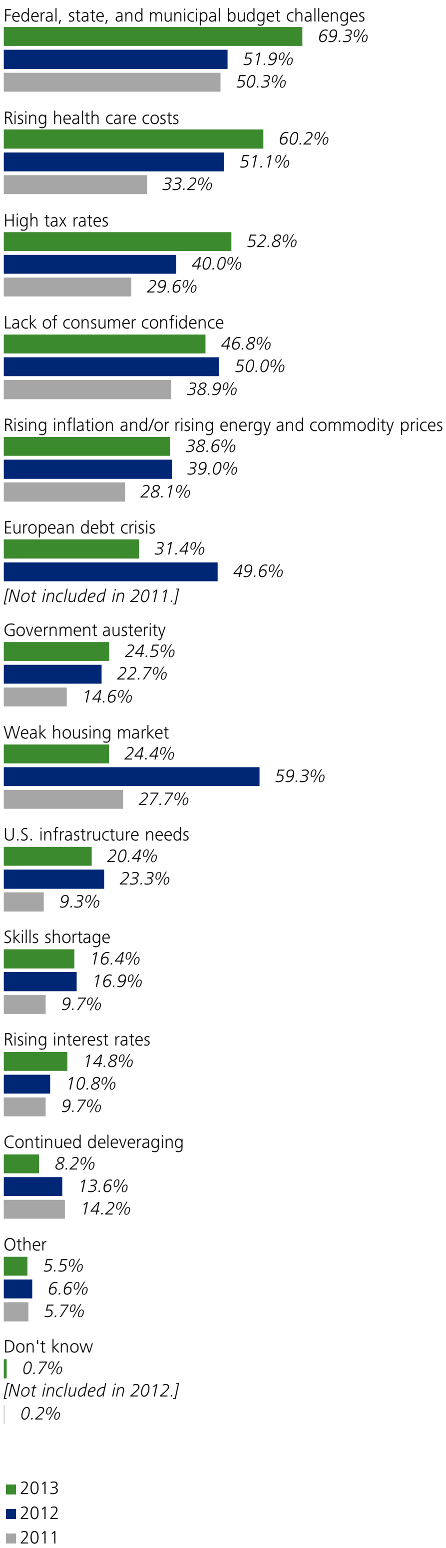
Not at all	63.0%
Marginal impact/ Would consider adding staff	25.1%
Moderate impact/ I would hire people right away	7.2%
Substantial impact/It would change my business for the better	4.6%

There is a possibility that tax reform discussions will occur this year. Which type of reform would be most beneficial to your business? (Please select only one.)



Lower corporate tax rates	35.2%
Simplify the tax code	34.7%
Lower individual tax rates	25.9%
Eliminate deductions	1.9%
Other	2.3%

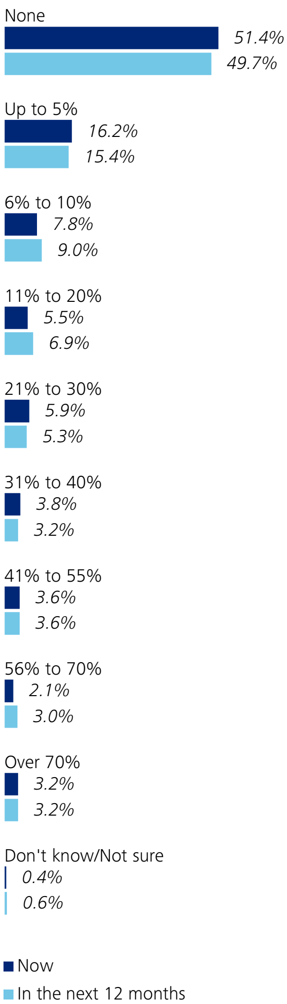
Which of the following issues present the greatest obstacles to U.S. growth in the coming year? (Please select all that apply.)



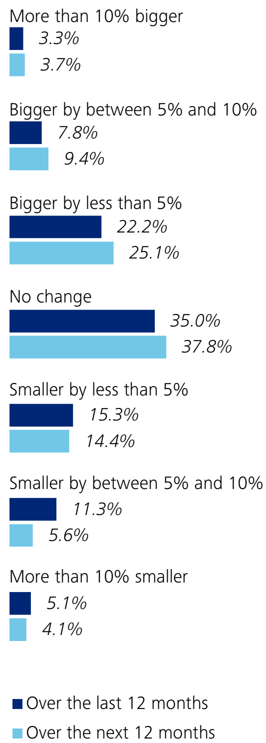
Which of the following measures by the U.S. government would most help U.S. mid-sized businesses to grow in the next year? (Please choose up to two.)

Workforce / hiring

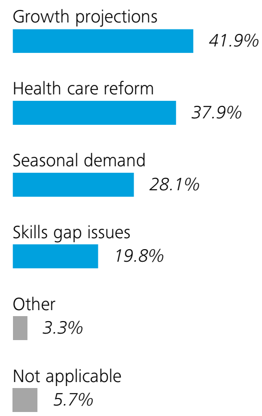
Please specify the percentage of your workforce based outside the United States now and in the next 12 months?



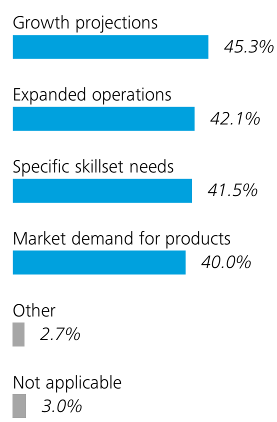
How has the size of your full-time domestic workforce changed over the last 12 months? How do you expect it to change over the next 12 months?



If you expect to hire more part-time or contract employees in 2013, is this due to: (Please select all that apply.)

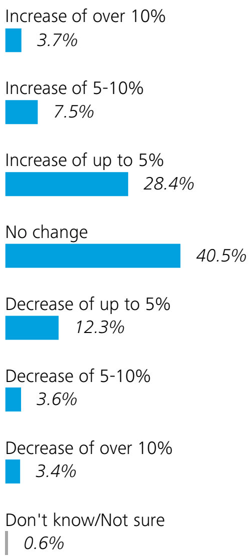


Which of the following factors influence your plans to hire more employees? (Please select all that apply.)



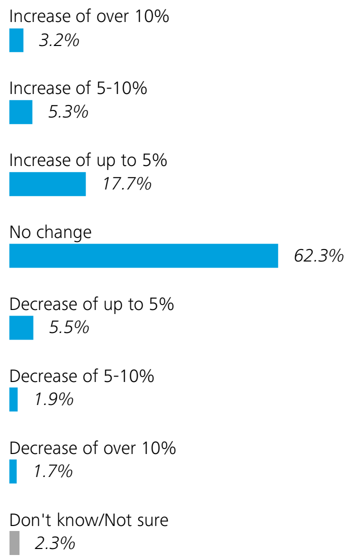
What is likely to be the main focus of your company's domestic employment strategy in the coming year?

Full-time employees



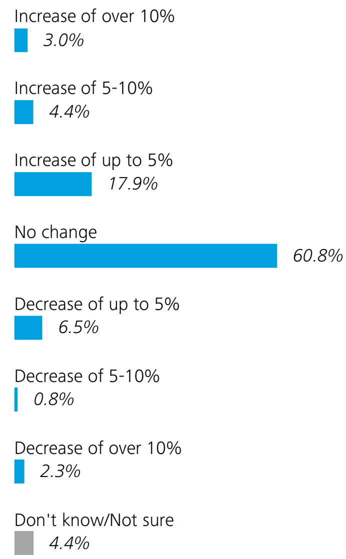
What is likely to be the main focus of your company's domestic employment strategy in the coming year?

Part-time employees

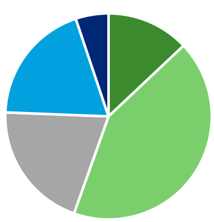


What is likely to be the main focus of your company's domestic employment strategy in the coming year?

Freelance, agency, or contract staff



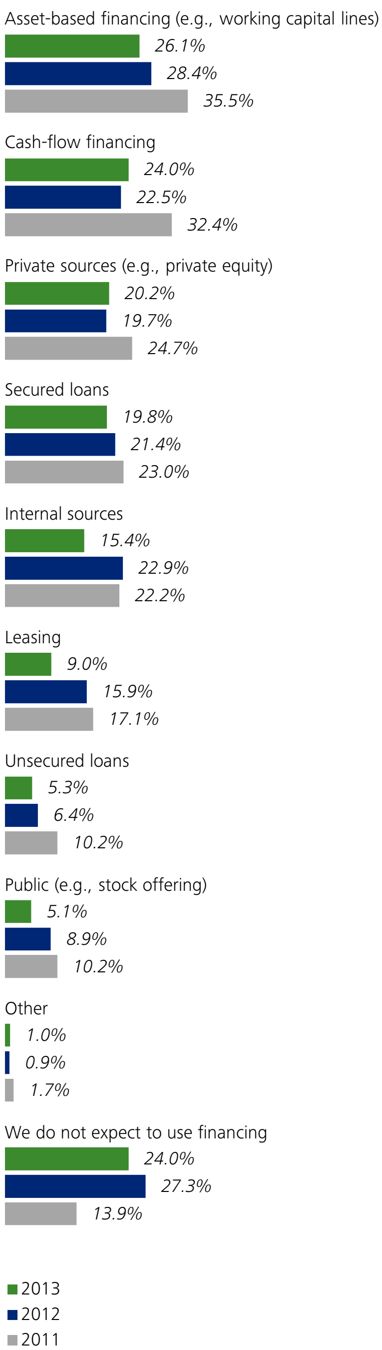
Please indicate your level of agreement with this statement: It is difficult for us to find new employees with the skills and education to meet the needs of our business.



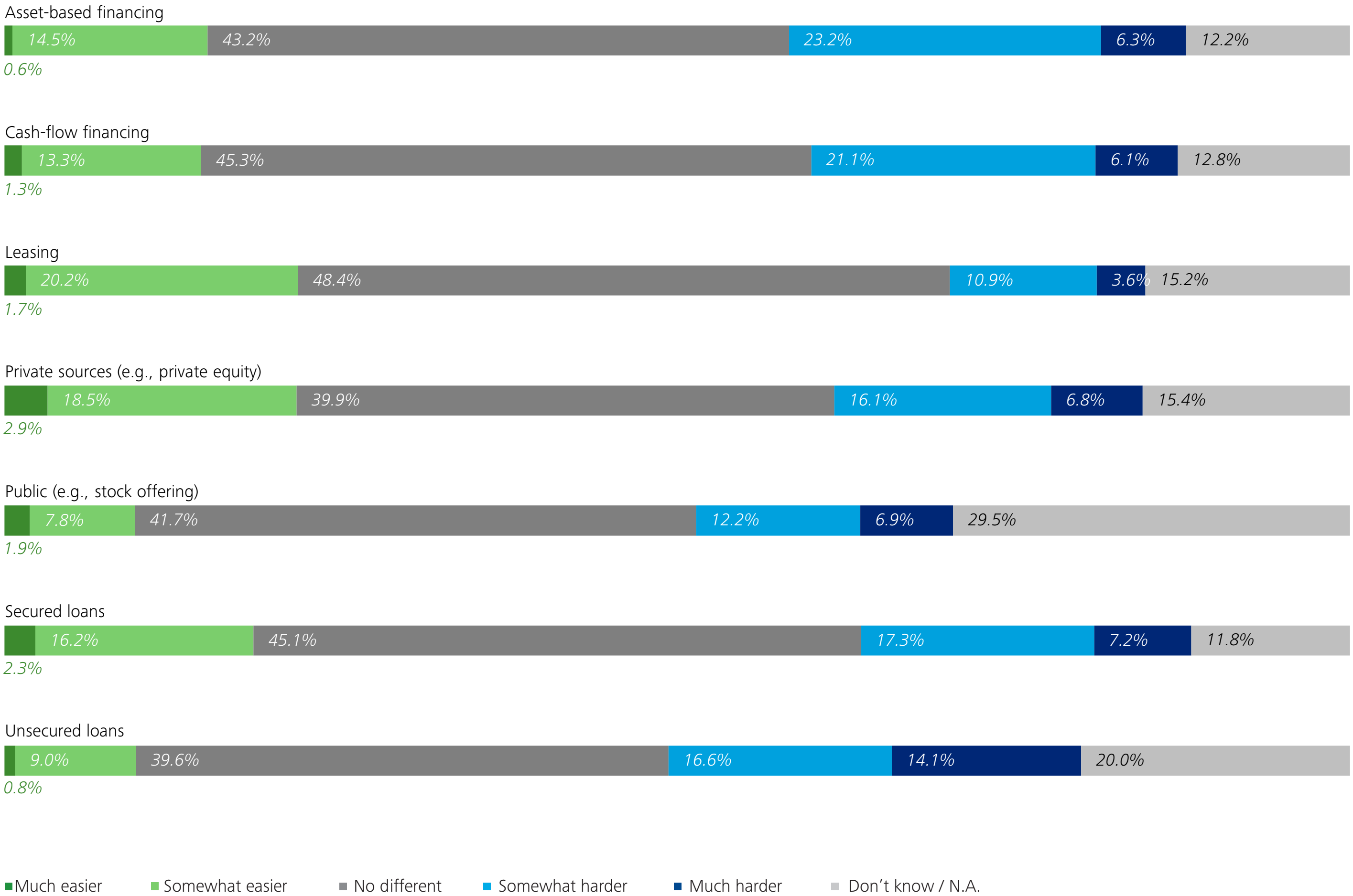
- Strongly agree 13.0%
- Agree 42.5%
- Neither agree nor disagree 20.2%
- Disagree 19.2%
- Strongly disagree 5.1%

Financing

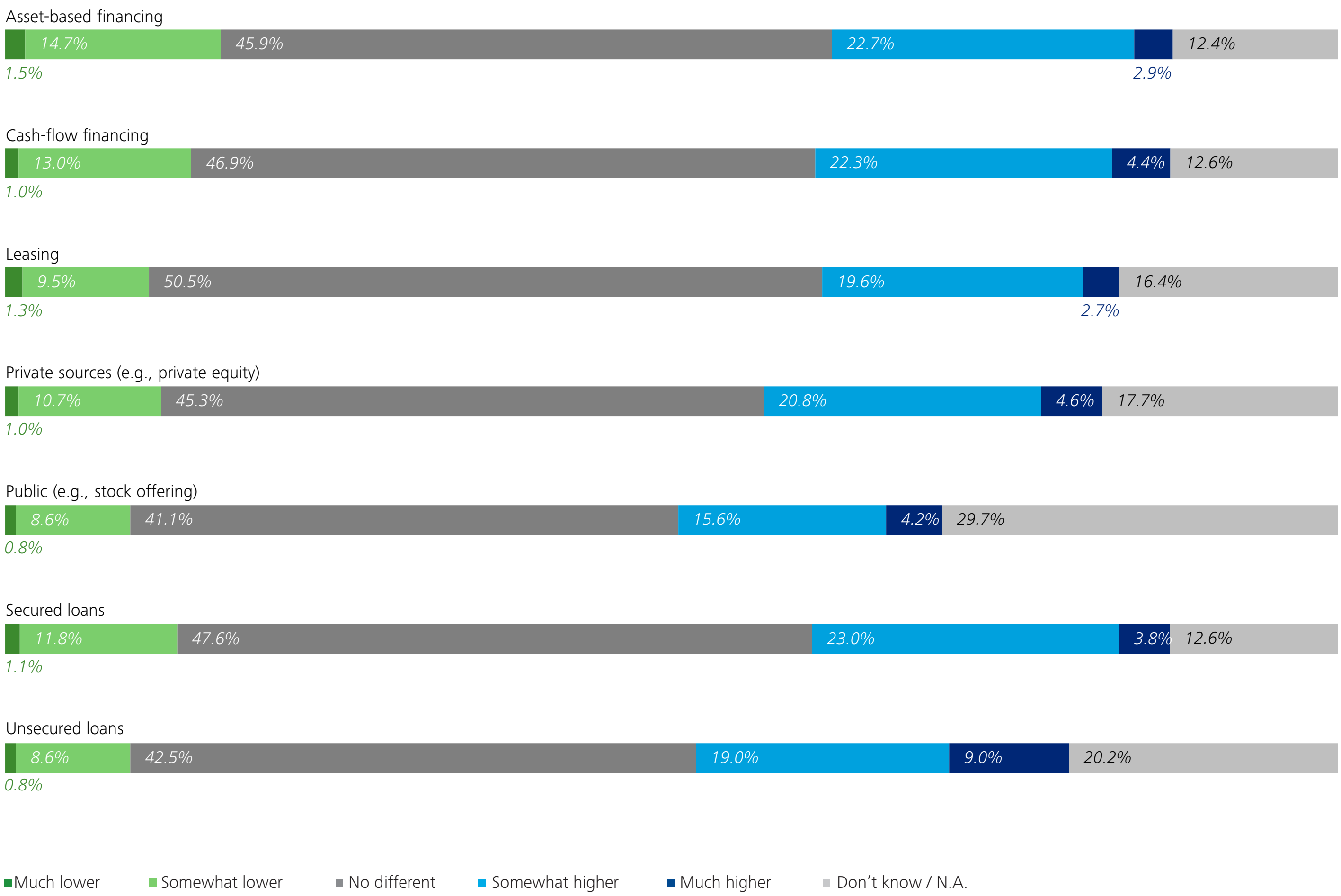
What types of financing do you expect your company to pursue in the next year? (Please select all that apply.)



Do you believe it is easier or more difficult for mid-market companies in your industry to secure credit now than it was a year ago?

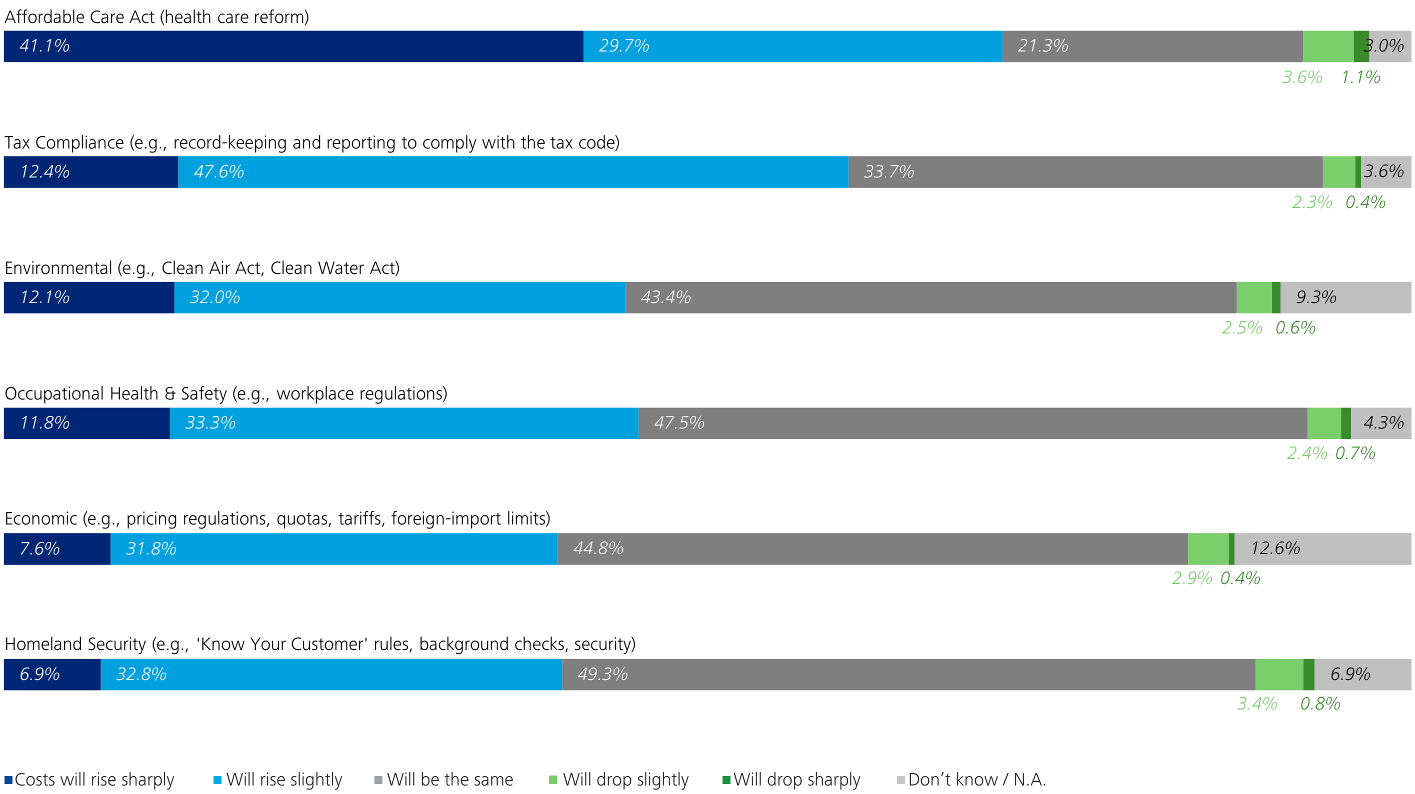


Do you believe that the costs of credit are higher or lower now than they were a year ago?



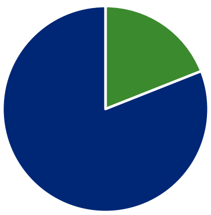
Regulatory compliance

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



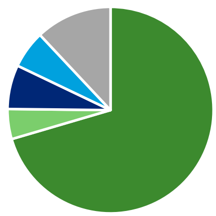
Public vs. private

Is your company public or private?



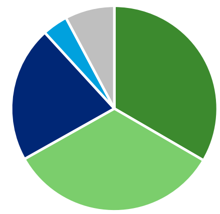
Public	19%
Private	81%

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



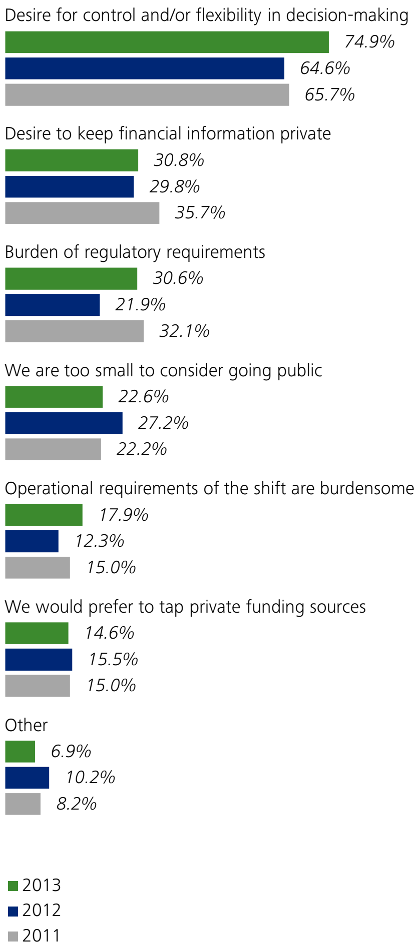
Privately held, and unlikely to go public within the next 12 months	70.4%
Privately held, but likely to go public within the next 12 month	4.7%
Privately held, but likely to go public sometime after the next 12 months	6.9%
Public, but held by a small number of owners	5.9%
Public and broadly held	12.0%

If private, which category best describes your company?

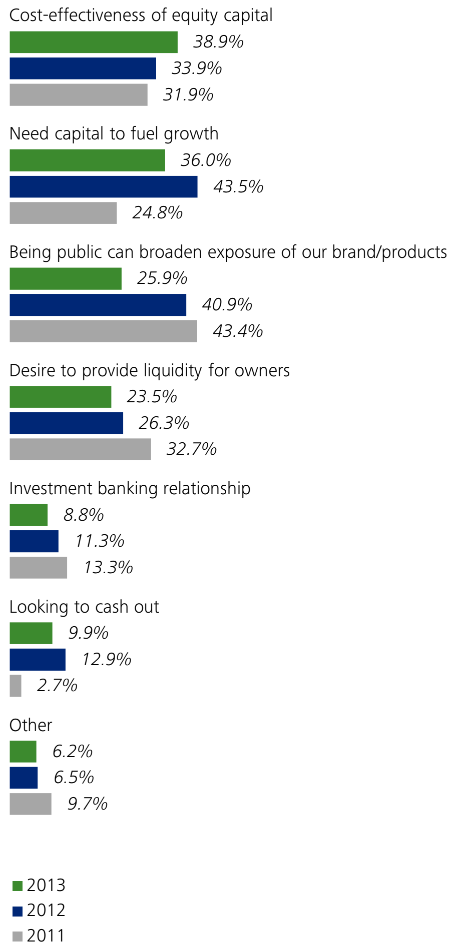


Family-owned	33.4%
Closely held (excluding family-owned)	33.4%
Private equity owned	21.4%
Venture capital backed	4.0%
Other	7.8%

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

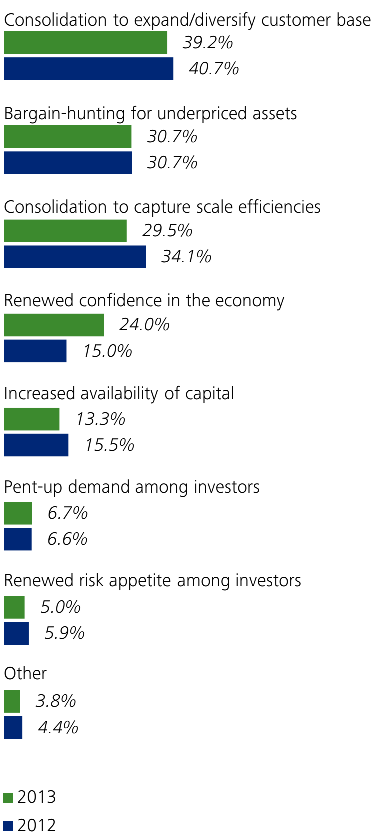


What factors influence your company's decision to be or go public? (Please select all that apply.)

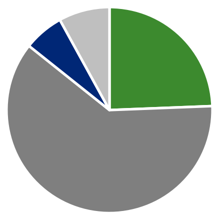


Mergers and acquisitions

What will be the main drivers of merger activity in your company's industry in 2013? (Please choose up to two.)

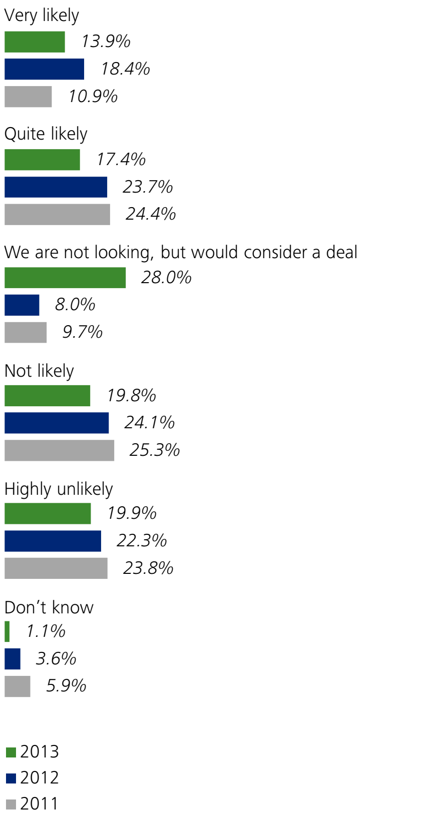


Over the past 12 months, the level of M&A activity in my company's industry has:

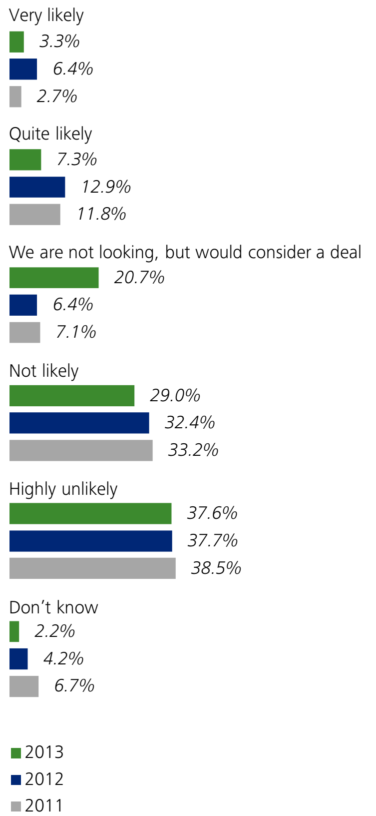


Increased	24.4%
Stayed the same	61.3%
Decreased	6.3%
Don't know	8.0%

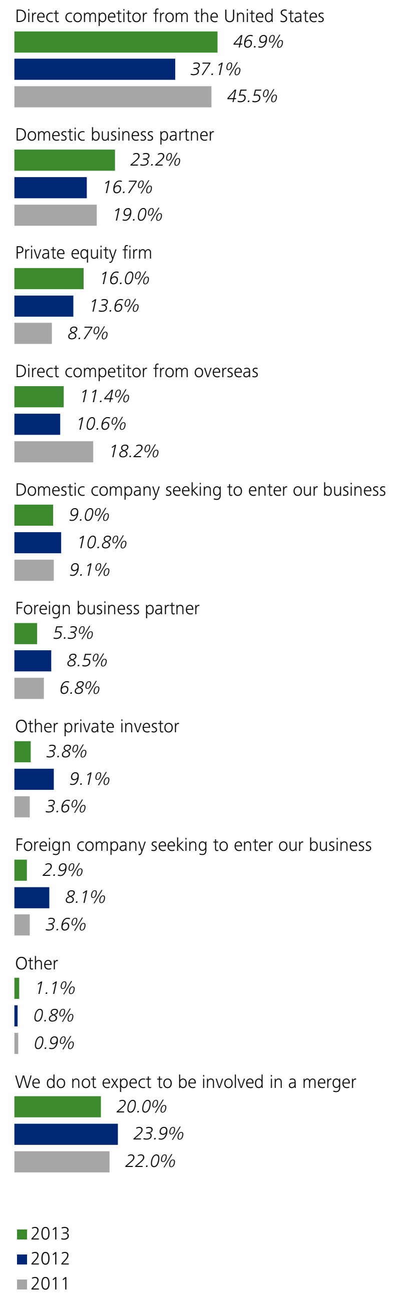
How likely is it that your company will participate in a merger or acquisition in the coming year as an acquirer?



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? (Please choose up to two.)



Survey respondent demographics

What was your company's 2012 annual revenue in U.S. dollars?

Between \$50 million and \$99.99 million	25.5%
Between \$100 million and \$199.99 million	25.0%
Between \$200 million and \$499.99 million	25.3%
Between \$500 million and \$1 billion	24.2%

Approximately how many full-time staff are employed by your business?

Fewer than 50	2.9%
50 – 99	7.0%
100 – 199	13.0%
200 – 499	25.1%
500 – 999	17.7%
1,000 – 2,999	19.0%
3,000 or more	15.2%

Which of the following best describes your title?

Owner/Partner	13.9%
Board member	0.8%
CEO	6.3%
President	2.9%
CFO	12.6%
CIO	7.0%
COO	4.6%
Other C level	1.9%
Senior Vice President/Vice President	8.0%
Head of business unit	1.7%
Head of department	7.0%
Controller	2.1%
Senior Director/Director	11.4%
Senior Manager/Manager	19.8%

What is your main functional role?

Customer service	3.4%
Finance	18.5%
General management	21.3%
Human resources	2.3%
Information and research	2.5%
IT	13.1%
Legal	2.5%
Marketing and sales	9.5%
Operations and production	9.1%
Procurement	1.5%
R&D	2.7%
Risk	0.6%
Strategy and business development	5.1%
Supply-chain management	1.9%
Other	5.9%

In what sector does your company belong?

Aerospace & Defense
2.5%

Automotive
4.4%

Banking & Securities
4.6%

Business/Professional Services
13.0%

Construction/Engineering
6.5%

Consumer Products
7.8%

Health Care Providers
6.5%

Health Plans
0.4%

Insurance
5.0%

Life Sciences
2.5%

Manufacturing
2.9%

Media & Entertainment
4.4%

Oil & Gas
1.5%

Power & Utilities
2.3%

Private Equity, Hedge Funds, Mutual Funds
1.3%

Process & Industrial Products
5.1%

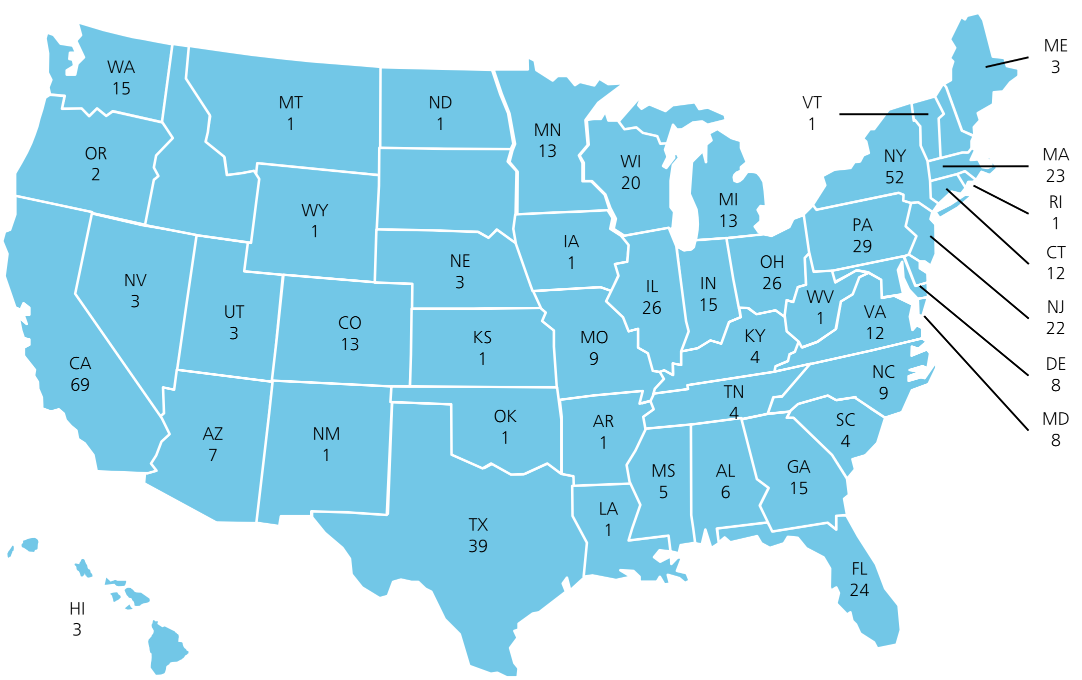
Real Estate
3.4%

Retail & Distribution
10.1%

Technology
7.0%

Telecommunications
1.1%

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



Contacts

Tom McGee
National Managing Partner
Deloitte Growth Enterprise Services
Deloitte LLP
tmcgee@deloitte.com

Bob Rosone
Director
Deloitte Growth Enterprise Services
Deloitte LLP
rrosone@deloitte.com

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