



NATIONAL CENTER FOR
THE MIDDLE MARKET



A SPECIAL REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET

CHICAGOLAND'S MIDDLE MARKET

2018 Performance; 2019 Outlook

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS



Grant Thornton



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A Summary of 2018 Growth and 2019 Predictions for Chicago's Middle Market Businesses

EXECUTIVE SUMMARY

Chicago-area middle market businesses reported solid performance in 2018, maintaining the rate of revenue growth from the prior year. A majority say that 2018 performance was stronger than the year before, 68% experienced an increase in revenues, and 44% increased the size of their workforce. While the rate of employment growth among middle market companies slowed some from the previous year, at 4.5%, it was well above the growth rate of total nonfarm employment for all Chicago-area businesses, which was just 1% as of November 2018, according to the U.S. Bureau of Labor Statistics.¹ Like the middle market in most cities, Chicagoland's mid-sized companies continue to add the vast majority of new jobs and drive the local economy.

While healthy overall, performance lagged behind that of other Midwest regions and the nation, Chicagoland's middle market is clearly holding its ground, but it is not experiencing the same momentum seen in other areas of the country. Looking forward, however, Chicago-area mid-market leaders are just as positive as their neighbors when anticipating future revenue growth. Compared to last year, a larger percentage of Chicago-area mid-sized businesses plan to add jobs, and their predictions for the rate of employment growth are up, though not as much as in other regions of the nation.

Other indicators point to a more cautious mindset among Chicagoland's middle market executives. We see a shift in the ratio of leaders willing to invest extra capital and those who prefer to hold cash, with more executives falling into the later camp. Confidence in the national and global economies dipped too. Unlike most cities where local confidence is typically very high, in Chicagoland, it remains below national confidence, despite rising by six percentage points from a year ago.

As Chicago-area middle market businesses work to achieve their growth expectations, finding the right people will be a pressing challenge. The talent issue is not unique to Chicagoland. But with the overall population decline in the Chicago area, the city's middle market companies may be harder hit by talent woes and may need to invest additional effort to enhance their recruiting and retention efforts.

¹ https://www.bls.gov/regions/midwest/news-release/areaemployment_chicago.htm

ABOUT THIS REPORT

The Middle Market Indicator (MMI) from the National Center for the Middle Market is a quarterly business performance update and economic outlook survey conducted among 1,000 C-suite executives of companies with annual revenues between \$10 million and \$1 billion. The health of these businesses and their respective outlook serve as a solid indicator for the greater U.S. economy as a whole. (See www.middlemarketcenter.org: "The Market that Moves America," seminal research on the definition, significance, and role of the middle market, Oct. 2011.) This report is derived from the MMI, and is an analysis of data from 222 middle market companies operating in the Chicago metropolitan area.

THE CHICAGOLAND MIDDLE MARKET

The Chicago-area middle market is composed of 6,400 companies that employ 1.9 million people and generate \$373 billion in annual revenues. These Chicagoland middle market companies are more likely than companies in other states to be family owned. Firms are most concentrated in the manufacturing and wholesale trade industries. However, professional services, manufacturing, and healthcare companies provide the most jobs. Overall, the Chicago-area middle market employs 25.3% of all private-sector employees in the area.

HOW IS THE RESEARCH CONDUCTED?

The MMI surveys 1,000 CEOs, CFOs, and other C-suite executives of America's middle market companies on key indicators of past and future performance in revenues, employment, and allocation of cash. The survey also reports on middle market company confidence in the global, U.S., and local economies and identifies key business challenge areas. The survey was designed to accurately reflect the nearly 200,000 U.S. businesses with revenues between \$10MM and \$1B, the lower and upper limits on middle market annual revenue. The quarterly survey is designed and managed by the National Center for the Middle Market.

In 2018, respondents included 829 executives from the Midwest and 222 executives from the Chicago metropolitan area. We combined the quarterly data from the Chicago-area companies to provide an overview of Chicagoland's middle market performance in 2018 and a summary of the outlook for 2019. This report compares those numbers to Chicago-area numbers for 2017 as well as combined 2017 and 2018 data for the entire Midwest region and the nation.

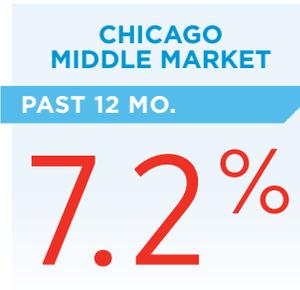
2018 Growth



REVENUE GROWTH

Revenue Growth Holds Steady

In 2018, average revenue for Chicago-area middle market businesses grew 7.2%—about the same as in 2017. The percentage of companies reporting positive year-over-year revenue growth (68%) is also similar to one year ago. While this is a healthy and stable rate of growth, companies in the Midwest as a whole and across the nation reported significant increases in growth rates for 2018.



CHICAGO '17 **7.1%**



MIDWEST '17 **6.5%**



NATIONAL '17 **7.6%**



EMPLOYMENT GROWTH

Employment Grew, but at a Slower Rate

As with revenue, employment growth was notably slower for mid-sized businesses in the Chicago area than it was for companies in other parts of the country. Nearly half of businesses (44%) did add people. However, Chicago-area middle market leaders saw almost a full point decline in the rate of employment growth in 2018 compared to 2017 while their neighbors in the Midwest experienced a half point gain. Through November 2018, the nonfarm job growth rate for businesses of all sizes in the Chicago-Naperville-Elgin, IL-IN-WI Metropolitan Statistical Area was 1.0% over the year, according to the U.S. Bureau of Labor Statistics. The national job count increased by 1.6% during the same period.²



CHICAGO '17 **5.4%**



MIDWEST '17 **5.0%**



NATIONAL '17 **6.2%**

² https://www.bls.gov/regions/midwest/news-release/areaemployment_chicago.htm

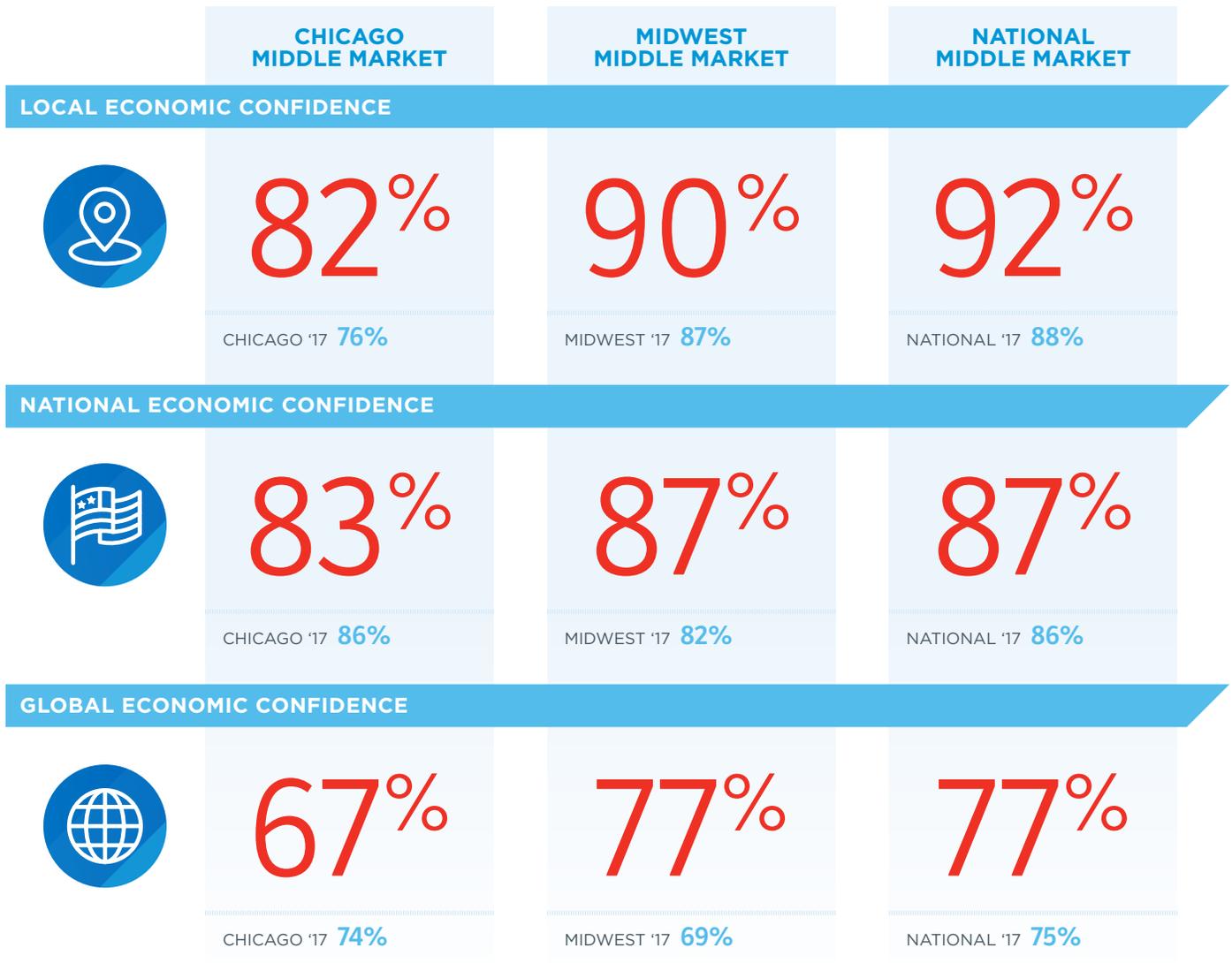


ECONOMIC CONFIDENCE

Local Confidence Increases While Global Confidence Declines

Chicagoland middle market executives have a more confident view of the local economy than they did last year—up six points from 76% in 2017 to 82% in 2018. That said, executives elsewhere in the Midwest and the nation continue to think better of their local conditions than Chicagoans do.

Interestingly, while local confidence grew in the Chicago area, confidence in the national and global economies subsided from past year, even as it went up across other areas of the nation. Chicagoans have a notably less rosy view of the global economy than others do, including their closest neighbors, and the perception gap between Chicago and the rest of the country has widened to 10 percentage points.



2019 Outlook



REVENUE GROWTH

Executives Lower Their Expectations

Throughout the country, middle market leaders have less exuberant prospects for future growth than they did one year ago, and Chicago-area leaders are no exception. Still, a healthy majority of the city's executives (63%—up 3% from one year ago) expect revenues to continue their upward trajectory throughout 2019, albeit at a more moderate pace. The projections coming out of Chicagoland area are in line with the 12-month growth expectations of middle market leaders from all regions of the country.



CHICAGO '18 **8.2%**



MIDWEST '18 **6.7%**



NATIONAL '18 **6.4%**



EMPLOYMENT GROWTH

Companies Look to Continue Building the Workforce

While expectations for the rate of revenue growth over the next 12 months are muted, Chicago-area middle market executives have higher projections for employment in 2019 compared to one year ago. A larger percentage (nearly two out of five) of Chicagoland companies expect to add more jobs this year, and they plan to do so at a slightly faster clip than they projected last year. However, the anticipated 2019 employment growth rate is lower in the Chicago area than it is in other areas of the Midwest and across the country.



CHICAGO '18 **3.0%**



MIDWEST '18 **3.9%**



NATIONAL '18 **4.8%**



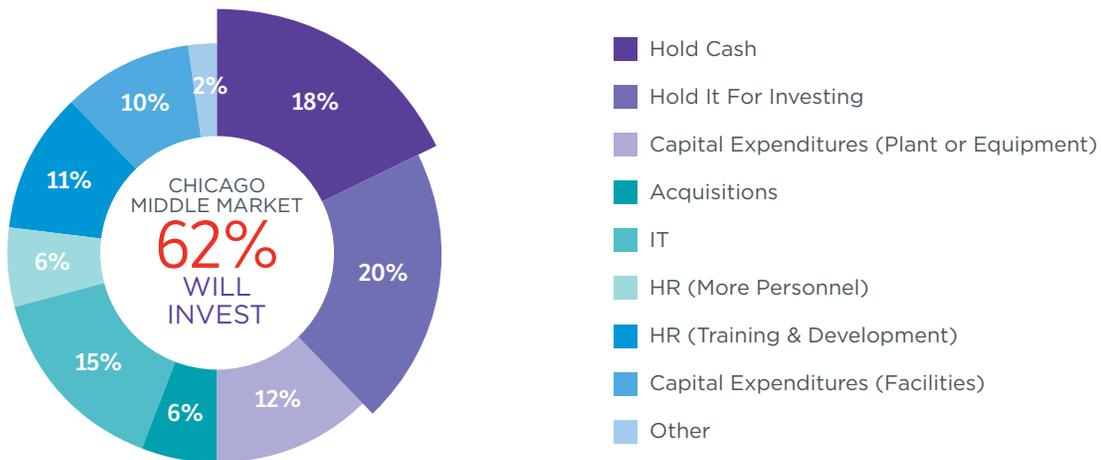
CAPITAL INVESTMENT

More Companies Will Save

Investment appetites have tapered off slightly among Chicagoland middle market leaders. Compared to last year, a smaller percentage of the city’s executives indicate a willingness to put extra dollars to work in the form of investments, and more companies say they will hold cash long-term or save it up for investments down the road.

The 62% of leaders that say they would put extra money to work immediately are primarily interested in IT. In fact, IT has edged out capital expenditures as the number one investment priority of Chicagoland mid-market leaders. The percentage of companies indicating interest in acquisitions fell notably from 15% at the end of 2017 to just 6% in 2018.

ADDITIONAL INVESTMENT ALLOCATION



KEY CHALLENGES

Talent Issues Escalate

Compared to 2017, the percentage of Chicago-area businesses citing talent management as both an internal and external challenge has jumped. More than half (52%) of leaders now say they struggle with talent issues including how to find, keep, and develop the best people, and talent management comes in just one percentage point below the top internal challenge of maintaining growth and competitiveness.

From an external perspective, talent issues are lower on the list of key concerns, but the percentage of companies citing talent as an external problem rose to 17% from 10% last year. Cost is also becoming an increasingly challenging issue for Chicagoland middle market leaders, perhaps in part due to the expense of financing a top-tier team.

LONG TERM CHALLENGES (Next 12 Months)

INTERNAL CHALLENGES:

- 1. CORE BUSINESS ISSUES **53%**
- 2. TALENT MANAGEMENT **52%**
- 3. COSTS **24%**

EXTERNAL CHALLENGES:

- 1. CORE BUSINESS ISSUES **38%**
- 2. COSTS **22%**
- 3. GOVERNMENT **21%**
- 4. COMPETITION **21%**
- 5. TALENT MANAGEMENT **17%**
- 6. ECONOMY **15%**



SPOTLIGHT ON TALENT

How Chicagoland Companies View and Manage Talent Issues

Within the realm of talent management, finding the right people to fill jobs appears to be the most challenging issue for Chicago-area middle market leaders. Indeed, only about a third of businesses rate themselves as very good or excellent when it comes to having the recruiting power to attract employees with the right set of skills, including top managerial talent. Only two out of five companies believe they are very good at accessing a workforce that is affordable.

The picture is more positive for retention: half of businesses believe they do well at keeping talented employees on board and almost as many (47%) believe they have a high-performing management team. But with 38% of organizations expecting to add more jobs in 2019—primarily in operations and marketing/sales roles—Chicagoland businesses need ways to bolster their recruiting power.

These executives believe company reputation is the number one reason people come to work for their businesses, followed by benefits (healthcare, vacation time, and maternity policy, for example). Salary is third. Yet, leaders put salary first among the areas they are considering improving in order to keep people on board. Flexible work arrangements and training/education are the next most cited areas for improvement. Just 29% of businesses are reevaluating health insurance and 22% are considering changes to vacation policies.

As middle market leaders in the Chicago area continue to compete with both their larger and smaller peers for good people, they may want to consider upping their recruiting efforts and focusing on building and promoting their unique employee value propositions and corporate culture. Tapping into existing employees as a source of referrals and developing stronger partnerships with local universities, technical schools, and workforce development boards may be cost-effective ways companies can increase awareness of their organizations and establish the reputation they need to succeed in their talent quests.

CHICAGO MIDDLE MARKET

COMPANY PERFORMANCE IN KEY TALENT—MANAGEMENT AREAS

(PERCENT SAYING "EXCELLENT/VERY GOOD")

| | |
|---|-----|
| Workforce issues/motivating employees | 74% |
| Keeping talented employees | 50% |
| Having a high performing management team | 47% |
| Ability to access a workforce that is affordable to our company | 39% |
| Attracting top managerial talent | 36% |
| Providing career pathing for employees | 35% |
| Having recruiting power to attract employees with the right set of skills | 33% |

REASONS PEOPLE COME TO WORK FOR THE COMPANY (CITED FIRST OR SECOND)

| | |
|---|-----|
| Company reputation | 49% |
| Benefits/perks | 41% |
| Salary | 39% |
| Industry reputation | 27% |
| Flexible working arrangements | 27% |
| Limited employment options in this region | 7% |
| Training/education | 7% |
| Some other reason | 3% |

ACTIONS EXECUTIVES ARE CONSIDERING TO INCREASE TALENT RETENTION

| | |
|-------------------------------------|-----|
| Salaries | 49% |
| Flexible work arrangements | 45% |
| Training/education | 42% |
| Additional incentive compensation | 32% |
| Health insurance | 29% |
| Vacation time | 22% |
| Employee financial wellness | 22% |
| None of these | 9% |
| Maternity and/or paternity policies | 7% |
| Some other area | 1% |



NATIONAL CENTER FOR
THE MIDDLE MARKET

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THE OHIO STATE UNIVERSITY
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Grant Thornton

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The Chicagoland Chamber of Commerce represents more than 1,100 member organizations that employ 400,000 people and create more than \$24 billion in annual revenue that is cycled through the local economy. We combine the power of our membership with a legacy of leadership and business advocacy to drive a dynamic economy. The Chicagoland Chamber focuses on delivering value for its members, making Chicagoland a world-class place to live and work.