



NATIONAL CENTER FOR
THE MIDDLE MARKET



A SPECIAL REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET

CHICAGOLAND'S MIDDLE MARKET

2019 Performance; 2020 Outlook

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY
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CHAMBER OF COMMERCE

A Summary of 2019 Growth and 2020 Predictions for Chicago's Middle Market Businesses

EXECUTIVE SUMMARY

For most middle market companies across the country, 2019 represented a slowdown from the impressive growth experienced the year before. In the Chicago area, however, the middle market held its ground and in some areas even improved its performance. A larger proportion of the city's middle market firms reported increases in revenue compared to the year before. And while the rate of revenue growth held steady, the rate of employment growth increased. Overall, 68% of Chicago-area business leaders felt that performance improved from one year ago; just 64% of all Midwest middle market companies and 65% of middle market businesses across the nation said the same.

While Chicagoland's middle market did not experience the decreases in growth rates that other middle market firms reported in 2019, it is important to note that their 2018 performance was not as robust, either. Instead of accelerating in 2018 and pulling back in 2019, as did many middle market companies across the country, Chicago's middle market performance has remained relatively consistent for the past several years.

Like their peers across the country, Chicago-area executives said that their confidence in the economy is lower than it was a year ago. The proportion of Chicago's middle market leaders reporting confidence in local, national, and global economic conditions declined as it did all across the country. Overall investment appetites tapered off as well in Chicago.

The need for people showed up in 2020 predictions as well, as a significantly larger proportion of Chicago-area middle market leaders expressed a willingness to invest extra dollars in new talent. While the city's mid-sized business leaders see the rate of revenue growth slowing over the next 12 months and a smaller proportion of firms say revenues will increase, they expect hiring to continue at the same clip they predicted one year ago. This differentiates the Chicago middle market from others in the Midwest and across the nation, which forecasted significantly lower employment growth rates for 2020.

As Chicago's middle market businesses look to continue to build the size of the workforce in 2020, talent management issues have risen to the top of executives' list of challenges. The impact of digital transformation will compound these issues for Chicago businesses as companies need new strategies for finding and retaining workers with a higher level of digital skills in order to meet their companies' needs in the 2020s.

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 224 middle market companies operating in the Chicago metropolitan area.

THE CHICAGOLAND MIDDLE MARKET

The Chicago-area middle market is composed of more than 6,400 companies that employ nearly 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 approximately a quarter 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 2019, respondents included 858 executives from the Midwest and 224 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 2019 and a summary of the outlook for 2020. This report compares those results to Chicago-area results for 2017 and 2018 as well as combined 2017, 2018, and 2019 data for the entire Midwest region and the nation.

2019 Growth



REVENUE GROWTH

Healthy Revenue Growth Continues

For many mid-sized companies across the nation, 2019 represented a slowdown in revenue growth rates. Chicago-area middle market businesses, however, held their ground. The rate of revenue growth for the Chicago-area's mid-sized businesses (7.2%) has been steady for the past three years. While fewer companies in the Midwest and across the nation reported increases in revenue compared to 2018, in Chicagoland, the proportion increased by two points from 68% to 70%.



CHICAGO MIDDLE MARKET

PAST 12 MO.

7.2%

2018 **7.2%** | 2017 **7.1%**

MIDWEST MIDDLE MARKET

PAST 12 MO.

7.1%

2018 **7.9%** | 2017 **6.5%**

NATIONAL MIDDLE MARKET

PAST 12 MO.

7.7%

2018 **8.1%** | 2017 **7.6%**



EMPLOYMENT GROWTH

The Rate of Hiring Increases

In 2018, the employment growth rate in Chicago declined notably from the previous year, putting the metric nearly two full points below the national average. In 2019, Chicago's numbers reversed course and the employment growth rate in Chicagoland accelerated even while it decreased for the Midwest as a whole and across the nation. As with revenue growth, a slightly higher proportion of Chicago-area middle market businesses said they increased the size of their workforce in 2019, up to 46% from 44% in 2018.

CHICAGO MIDDLE MARKET

PAST 12 MO.

4.9%

2018 **4.5%** | 2017 **5.4%**

MIDWEST MIDDLE MARKET

PAST 12 MO.

5.1%

2018 **5.5%** | 2017 **5.0%**

NATIONAL MIDDLE MARKET

PAST 12 MO.

5.3%

2018 **6.3%** | 2017 **6.2%**

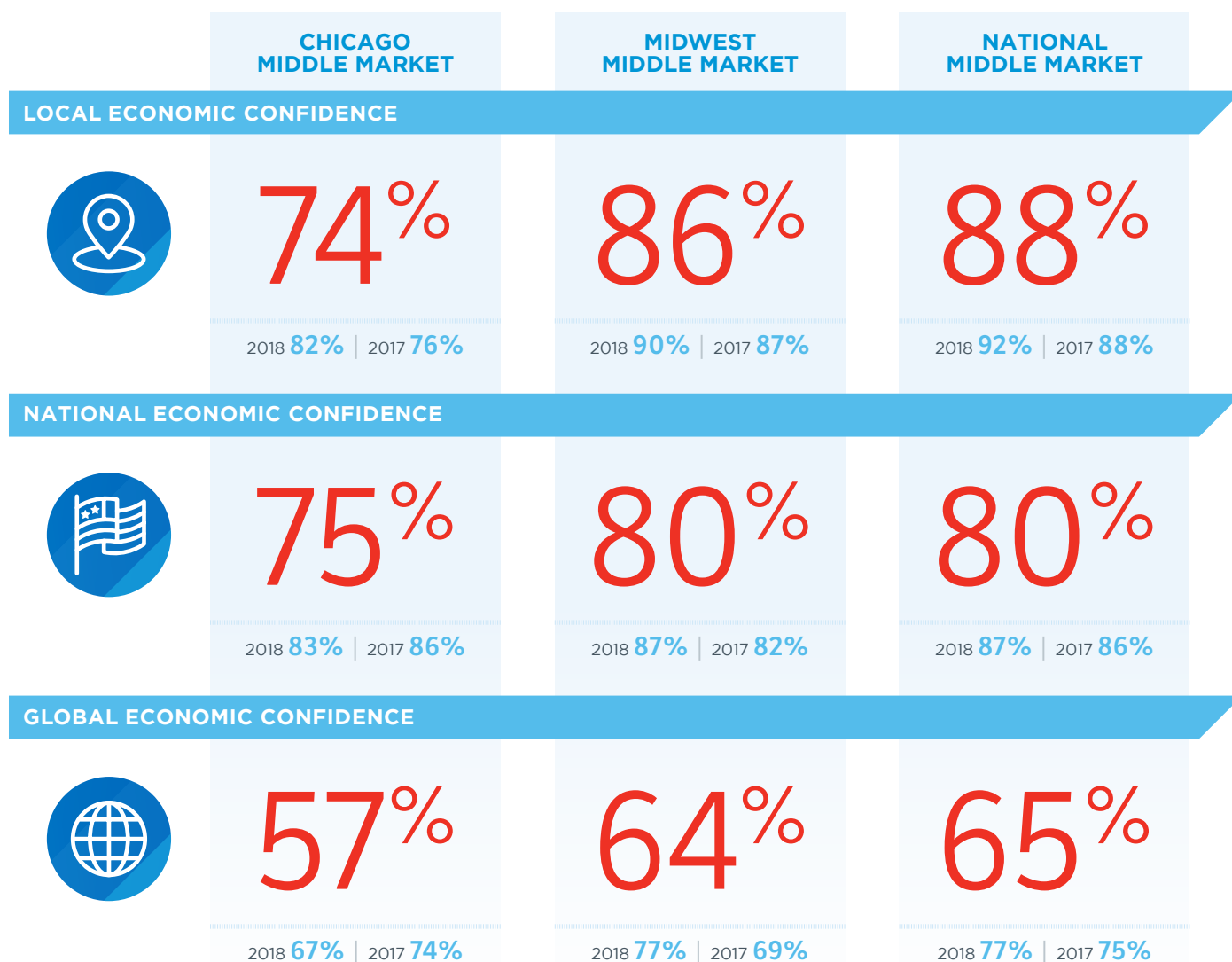


ECONOMIC CONFIDENCE

Confidence Levels Remain Lower in Chicago

Middle market executives in Chicagoland have historically had a less optimistic outlook on the economy than their neighbors in other parts of Midwest and across the country. This trend continued in 2019. Local, national, and global confidence levels fell nationwide, and Chicago's middle market leaders shared in the declining sentiment.

After rising notably in 2018, local confidence in Chicago plummeted back to 74% for the year, two points below the rate recorded in 2017. National confidence declined among the city's leaders as well, but global confidence fell the furthest, down 10 points from 2018 and 17 full points from two years ago. Just 57% of Chicago's middle market executives reported confidence in the global state of affairs in 2019 compared to 64% for the entire Midwest and 65% for the nation.



2020 Outlook



REVENUE GROWTH

Expectations Continue to Decline

Chicago-area middle market businesses have muted prospects for 2020. Compared to one year ago, a significantly smaller proportion of firms expect positive revenue growth in the year ahead. And the rate at which these leaders expect revenue to grow declined for the second straight year. Chicago leaders are not alone in their less enthusiastic predictions. Across the Midwest and the country, middle market executives have lowered their forecasts for future growth. Chicagoland's predictions, however, are some of the least optimistic.

49%

of Chicago middle market companies expect positive revenue growth.

MIDWEST 52%

NATIONAL 54%

| | | |
|-----------------|-----------------|------------------|
| CHICAGO '19 63% | MIDWEST '19 67% | NATIONAL '19 64% |
| CHICAGO '18 60% | MIDWEST '18 61% | NATIONAL '18 59% |

CHICAGO MIDDLE MARKET

NEXT 12 MO.

3.7%

2019 5.5% | 2018 8.2%

MIDWEST MIDDLE MARKET

NEXT 12 MO.

4.6%

2019 5.6% | 2018 6.7%

NATIONAL MIDDLE MARKET

NEXT 12 MO.

5.1%

2019 5.8% | 2018 6.4%

These figures represent the anticipated rate of revenue growth in the year ahead.



EMPLOYMENT GROWTH

Companies Will Continue to Hire

Even as revenue growth expectations tapered off, expectations for future employment growth have held steady. Compared to one year ago, approximately the same proportion of Chicago-area middle market firms (36%) say they will grow the size of the workforce over the next 12 months. The rate of expected growth (3.4%) has not changed from one year ago. In the entire Midwest and the nation, both of these metrics fell notably; however, they also had farther to fall. Chicagoland's expectations for future employment growth are now on par with the rest of the Midwest and the nation.

36%

of Chicago middle market companies expect to add more jobs.

MIDWEST 35%

NATIONAL 39%

| | | |
|-----------------|-----------------|------------------|
| CHICAGO '19 38% | MIDWEST '19 46% | NATIONAL '19 44% |
| CHICAGO '18 32% | MIDWEST '18 41% | NATIONAL '18 42% |

CHICAGO MIDDLE MARKET

NEXT 12 MO.

3.4%

2019 3.4% | 2018 3.0%

MIDWEST MIDDLE MARKET

NEXT 12 MO.

3.3%

2019 4.1% | 2018 3.9%

NATIONAL MIDDLE MARKET

NEXT 12 MO.

3.6%

2019 4.5% | 2018 4.8%

These figures represent the anticipated rate of employment growth in the year ahead.



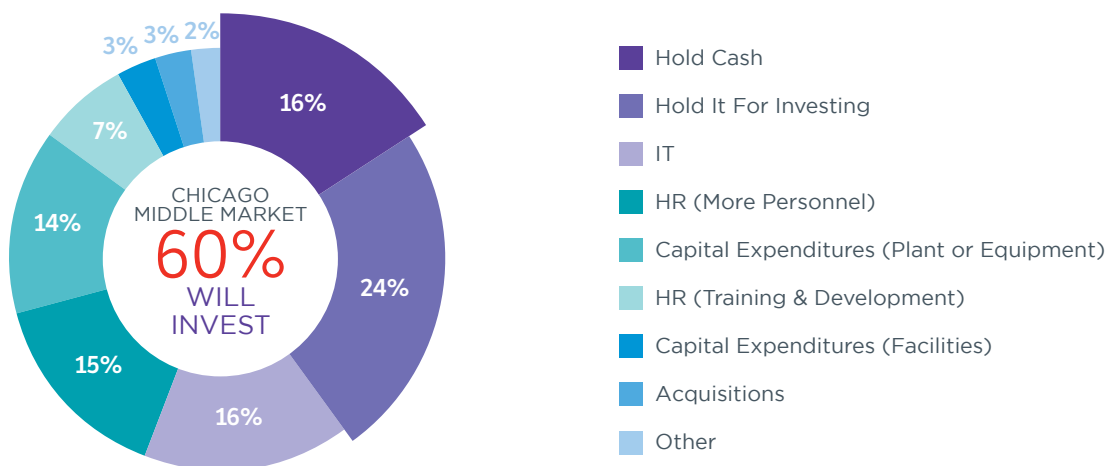
CAPITAL INVESTMENT

IT and Human Resources Are the Most Popular Areas for Investment

Compared to 2018, a slightly smaller proportion of Chicago's middle market leaders say they would put an extra dollar to work immediately as opposed to save it. However, it appears that among the 40% of firms that fall into the "savers" category, many would not put off investing indefinitely. Instead, more than half of this group say they would specifically earmark the funds for a future investment.

Among those willing to invest an extra dollar right now, IT is the number one destination, followed closely by more personnel. Interestingly, the proportion of firms willing to spend on people more than doubled from one year ago, up from 6% in 2018 to 15% in 2019, reflecting the increases in actual and projected employment growth reported by Chicagoland's middle market businesses.

ADDITIONAL INVESTMENT ALLOCATION



KEY CHALLENGES

Talent Management Is the Strongest Headwind to Growth

In 2019, talent management surpassed core business issues as the most mentioned internal challenge for Chicago-area middle market businesses. Leaders struggle with how to find, keep, and develop the best people. As with middle market companies across the nation, this challenge may be exacerbated by the need to find people with the right digital skill sets to help advance digital transformation initiatives as organizations look to invest more dollars into IT.

The mix of external challenges also shifted somewhat compared to one year ago. Government-related concerns jumped to the number-two spot, behind core business issues. Cost, competition, and the market were also mentioned as areas of concern as Chicago-area middle market businesses look for ways to continue growing in what they anticipate will be a less robust business climate.

LONG TERM CHALLENGES (Next 12 Months)

INTERNAL CHALLENGES:

- | | |
|-------------------------|-----|
| 1. TALENT MANAGEMENT | 48% |
| 2. CORE BUSINESS ISSUES | 40% |
| 3. FINANCIAL | 15% |

EXTERNAL CHALLENGES:

- | | |
|-------------------------|-----|
| 1. CORE BUSINESS ISSUES | 35% |
| 2. GOVERNMENT | 18% |
| 3. COSTS | 18% |
| 4. COMPETITION | 15% |
| 5. MARKET | 14% |



SPOTLIGHT ON TALENT

The Increasing Need for Digital Skills May Be Compounding Talent Issues

In 2019, talent management was the number-one challenge for Chicago-area middle market businesses. Talent has always been an obstacle for middle market companies, which must find ways to compete with larger, better-known firms for the best-of-the-best people in their industries. As digital transformation changes the skills required for almost every position—70% of U.S. jobs now require medium to high levels of digital skills, up from 45% in 2002¹—the competition for qualified people will only get stiffer.

Indeed, just 34% of Chicagoland's middle market businesses say they have the recruiting power to attract employees with the right skills. They are marginally better when it comes to attracting top managerial talent—40% say they do this well, up from 36% a year ago. But keeping these people on board appears to be getting harder. A smaller proportion of firms say they excel at retention compared to 2018—not surprising in a full-employment environment.

Many are proactively working toward solutions by enhancing the mix of benefits and perks provided to the workforce. These incentives are believed to be the top reason employees come to work for a company, followed by company reputation and salary. Sweetening the deal, so to speak, could help organizations hang on to their key people longer.

The proportion of Chicago-area businesses that are considering offering unique and improved benefits—employee financial wellness services and maternity/paternity leave policies, for example—jumped from one year ago. Interestingly, fewer companies say they are looking at increasing training and education for staff, which may be a mistake as companies need to find ways to enhance the digital expertise of their workforce in order to best take advantage of the newest digital technologies transforming businesses today.

¹ Metropolitan Policy Program at Brookings; Digitalization and the American Workforce

CHICAGO MIDDLE MARKET

COMPANY PERFORMANCE IN KEY TALENT—MANAGEMENT AREAS (PERCENT SAYING "EXCELLENT/VERY GOOD")

| | |
|---|-----|
| Workforce issues/motivating employees | 65% |
| Having a high performing management team | 50% |
| Keeping talented employees | 47% |
| Ability to access a workforce that is affordable to our company | 41% |
| Attracting top managerial talent | 40% |
| Providing career pathing for employees | 34% |
| Having recruiting power to attract employees with the right set of skills | 34% |

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

| | |
|---|-----|
| Benefits/perks | 44% |
| Company reputation | 38% |
| Salary | 38% |
| Flexible working arrangements | 26% |
| Industry reputation | 21% |
| Limited employment options in this region | 14% |
| Training/education | 12% |
| Some other reason | 7% |

ACTIONS EXECUTIVES ARE CONSIDERING TO INCREASE TALENT RETENTION

| | |
|-------------------------------------|-----|
| Salaries | 43% |
| Training/education | 40% |
| Flexible work arrangements | 37% |
| Additional incentive compensation | 36% |
| Employee financial wellness | 33% |
| Health insurance | 30% |
| Vacation time | 20% |
| Maternity and/or paternity policies | 17% |
| None of these | 8% |
| Some other area | 1% |



The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused on the U.S. Middle Market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. Stay connected to the Center by contacting middlemarketcenter@fisher.osu.edu.



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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.