



2015
SURVEY OF
CONNECTICUT
BUSINESSES

Introduction

Now in its 14th year, this annual report by CBIA and BlumShapiro examines the near-term outlook, profitability, export activities, workforce, technology investments, and legislative priorities of Connecticut’s business community.

The *2015 Survey of Connecticut Businesses* was distributed to top business executives in June and early July, a period marked by intense debate about a budget and tax package largely seen as a threat to the state’s employers and its economic competitiveness.

After a budget that included nearly \$2 billion in tax increases narrowly passed the legislature, a widespread outcry from businesses and residents led to a reopening of the budget, with lawmakers rolling back about \$178 million in business tax hikes.

“The budget debate served an important purpose,” said CBIA President and CEO Joe Brennan. “It put a spotlight on Connecticut’s economy and the ability of companies to compete in regional, national, and global markets.”



“With an unprecedented number of businesses planning to sell over the next 10 years, 76% of business owners report that

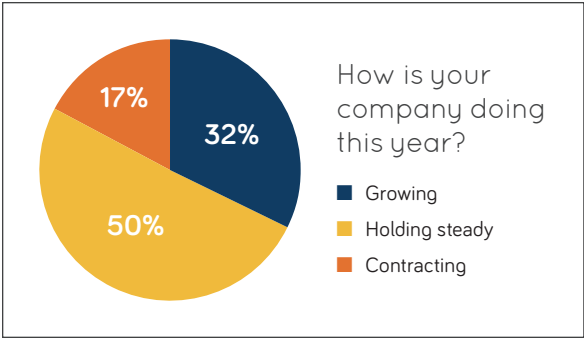
they do not have a succession plan in place as of yet. Business owners need to start this planning process years in advance to ensure continuity of the business, future profitability, and jobs.”

Carl R. Johnson | Firm Managing Partner
BlumShapiro

Many of the 584 business leaders participating in this year’s survey addressed their greatest concerns and public policy priorities at a time when everything was still on the table; some completed the survey in the days immediately after the budget was revised.

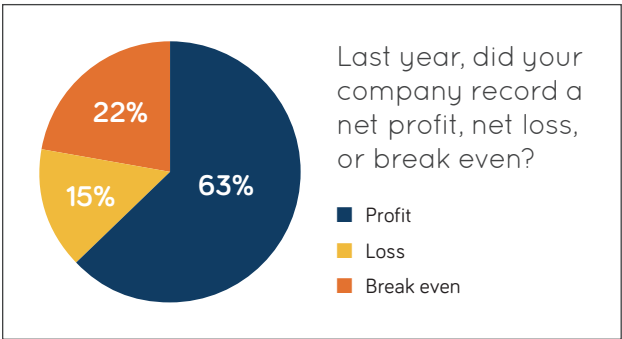
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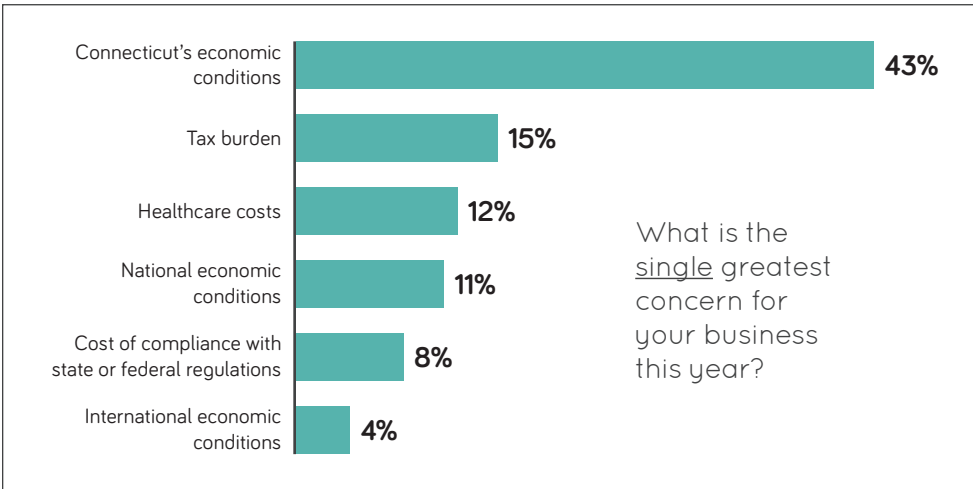
In spite of sustained, steady growth, the business outlook this year—not surprisingly—is clouded by misgivings about state fiscal responsibility and the possible outmigration of leading Connecticut employers to other states with more favorable business climates. Global economic concerns, including the Greek debt crisis, persist as well.

Business Outlook, Climate



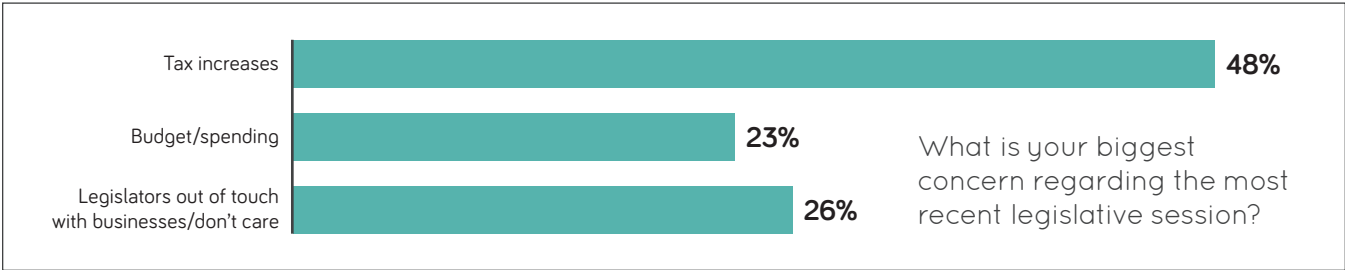
The single greatest challenge for most businesses this year is Connecticut's economy.

Fewer than two-thirds of all businesses surveyed (63%) recorded a net profit last year. Just under a quarter (22%) broke even, and 15% recorded a loss.



Half report that they are holding steady, about a third (32%) are growing, and 17% are contracting.

This year's survey asked a number of open-ended questions about Connecticut's business climate, public policy, and economic competitiveness.

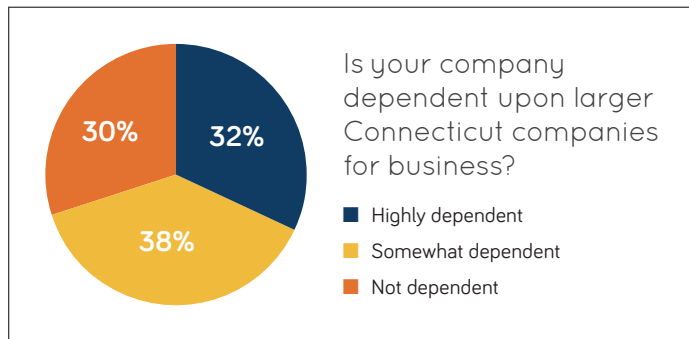


Taxes are the biggest concern stemming from the 2015 legislative session (48% of respondents). Similarly, the number-one recommendation for enhancing business competitiveness in the next two years is to reduce taxes (53% of businesses surveyed).

Respondents are overwhelmingly pessimistic about the legislature making decisions that will benefit businesses: 66% have a very pessimistic view of the state legislature, and 22% are at least somewhat pessimistic.

High costs and taxes were also cited as the primary reason businesses have considered moving (or shifting significant production) to another state.

The vast majority of companies surveyed (70%) are somewhat or highly dependent on larger Connecticut companies for business, which raises concerns when tax hikes threaten to push large companies out of state.



“The ability of Connecticut’s businesses to rise above the state’s public policy and economic shortcomings

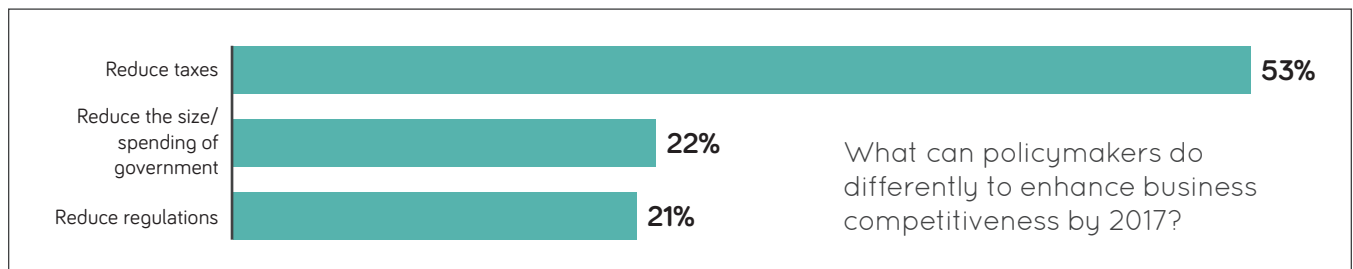
and continue to remain profitable lends optimism to this year’s survey. With 63% of businesses reporting profitability and 82% either maintaining their current size or growing, this is good news for our state, while recognizing the increasing concerns of business owners over many of Connecticut’s fiscal issues.”

Joseph A. Kask, CPA | Office Managing Partner
West Hartford, BlumShapiro

Exports

One-third of the companies we surveyed export goods or services. Among them, one in 10 attribute at least 40% of their sales to exports, and close to half (47%) say exports account for 10%–39% of their sales revenue.

Thirty-seven percent of companies surveyed report no real barriers to exporting—perhaps indicative of



the business community's growing level of experience and sophistication in the area of international trade. (CBIA surveys find the percentage of Connecticut companies engaged in international trade has grown steadily over the past several years.)

Export destinations include:

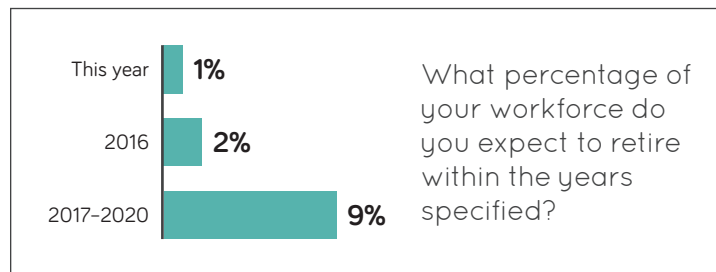
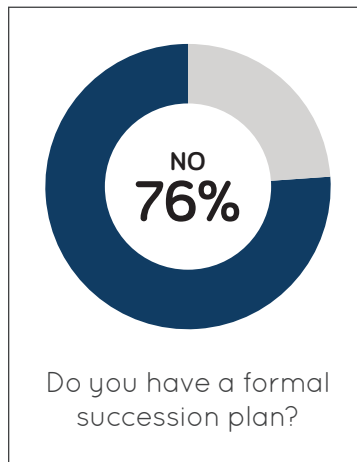
- ▶ North America (87% of respondents)
- ▶ Western Europe (51%)
- ▶ Northern Asia/Pacific Rim: China/Japan/Taiwan/Korea (43%)
- ▶ South America (30%)
- ▶ Southern Asia: India/Indonesia/Malaysia (28%)
- ▶ Central America (26%)
- ▶ Eastern Europe, excluding Russia (23%)
- ▶ Australia/New Zealand/Pacific Islands (21%)
- ▶ Middle East (21%)
- ▶ Russia (13%)
- ▶ South Africa (12%)
- ▶ Africa (11%)

Among the biggest hurdles to international trade are the costs and risks associated with expanding into new markets, lack of knowledge about foreign markets, and—a new phenomenon this year—the strong U.S. dollar.

With Europe and Japan in stimulus mode, the U.S. dollar has strengthened dramatically against the world's major currencies—going up in value 14% since the beginning of 2015—the fastest rise in 40 years. While the robust dollar has its benefits for importers, major multinationals and smaller domestic exporters may either struggle to sell their products overseas (because they are too expensive for foreign buyers) or take a hit when converting payment in foreign currencies back to U.S. dollars.

This is reflected in how businesses surveyed view foreign markets with the greatest potential as export destinations

for their products. Only 40% identified western Europe as a prime market in the future; even fewer (35%) identified China and Japan as prime markets.



Investment and Innovation

Innovation is critically important in a high-cost state such as Connecticut, as new products and services

often command premium prices.

Half of all businesses surveyed introduced a new product or service over the past year, and only slightly more (52%)

expect to in the coming year. While this is an uptick from last year's 47%, it represents a decline from five years ago,

when 59% of companies planned to introduce a new product or service.

Technology remains the greatest area of investment for most companies today and two years out, followed by property/facility upgrades and employee training. Investment in capital assets is a very distant fourth place now but nearly closes that gap in two years.

The continued appreciation of the dollar, however, threatens to dampen businesses' capital spending and hiring plans. Indeed, though investment and innovation this year are on par with 2013 levels, that could easily change for Connecticut manufacturers and other exporters.

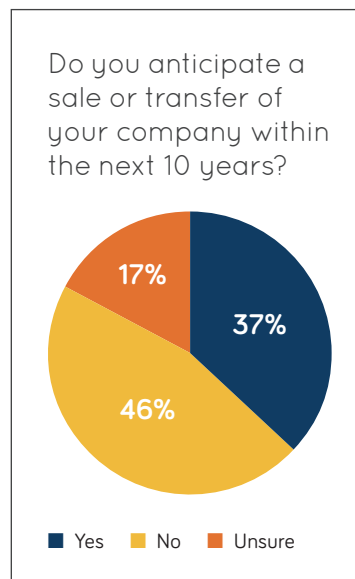
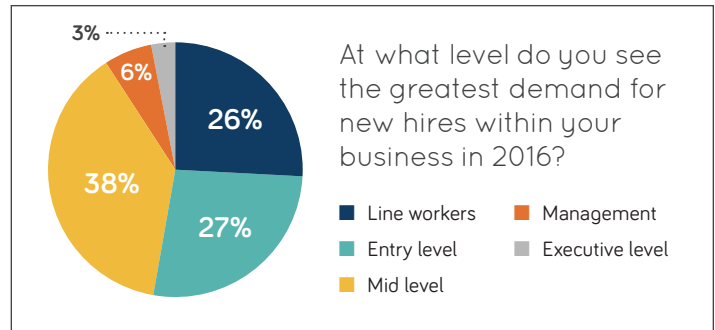
Workforce & Succession

Three out of four executives surveyed have no formal succession plan. Of those without a succession plan, 33% are age 60 or older, and 40% are between the ages of 45 and 59.

About half of all businesses surveyed said that baby boomers account for at least 40% of their current workforce. By 2020, executives see their employee retirements increasing nearly tenfold over the current year, from 1% of their current workforce to 9%.

The greatest demand for new hires in 2016 will be mid-level workers.

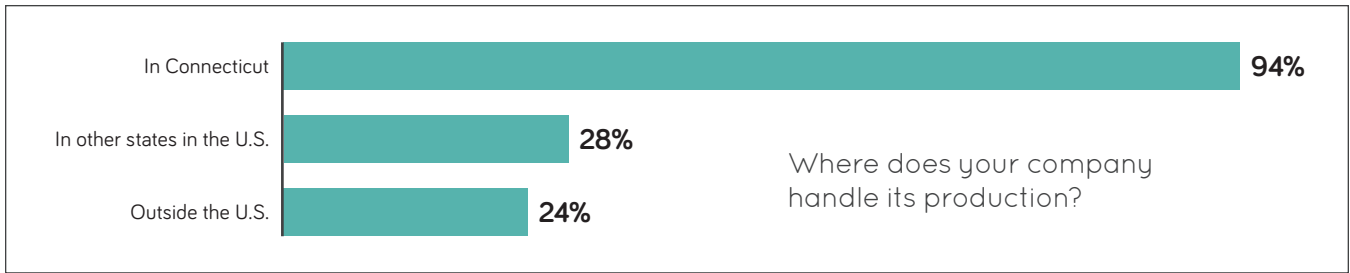
In an open-ended question, businesses were asked how the state could address the shortage of skilled



workers. Common responses included greater investment in technical education, better infrastructure and housing, and tax incentives for employee training. Many business leaders blamed recent policy decisions, such as tax hikes and other cost increases, for driving young workers out of the state.

Nearly one in four anticipate a sale or transfer of their business over the next five years; another 13% expect a sale or transfer within 10 years. Seventeen percent are unsure or undecided.

Most (70%) expect to sell their company for \$1 million or more. Among those who anticipate a sale or transfer, 79% do not plan on staying in Connecticut.



Location

Among manufacturers, 94% handle their production in Connecticut. While this is encouraging, 28% also have production facilities in other parts of the U.S., and 24% in other countries—which means they may be more likely to consider expanding or shifting more of their production elsewhere.

The factors that drive site location include access to key inputs; proximity to suppliers and customers; access to skilled labor; cost of labor; occupancy costs; affordable

energy; and where companies are in their life cycle (e.g., mature companies are often likely to disperse geographically to reduce costs). CBIA's surveys consistently find that personal reasons also factor significantly in location decisions, especially among smaller companies and those that are family-owned. Many business leaders point to Connecticut's quality of life and the desire to work close to where they live as the main reason for locating and/or staying in-state. However, we are slipping here.

In a survey of Hartford-New Haven-Springfield businesses conducted earlier this year, quality of life—traditionally the number-one benefit to operating a business in this region—emerged as less of a competitive advantage today.

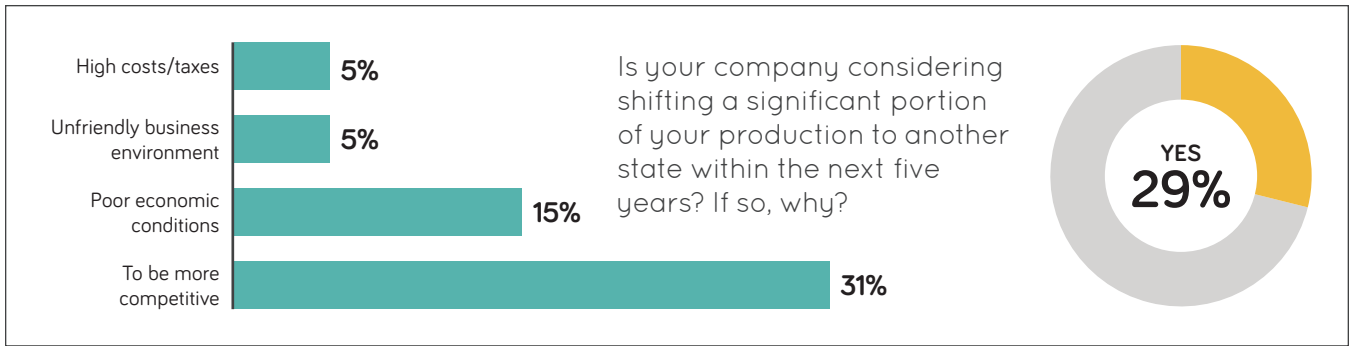
Recent years have shown a steady decline in the percentage of company leaders citing quality of life as the greatest benefit of operating a business here: 47% in 2009, 43% in 2011, 40% in 2013, and just over a third (35%) in 2015.

One in three businesses surveyed have been approached about moving or expanding their operations to another state. Of those, nearly one in four are planning on moving to that state, 29% are considering shifting significant production to another state within five years, and 31% are weighing expansion in another state within five years.

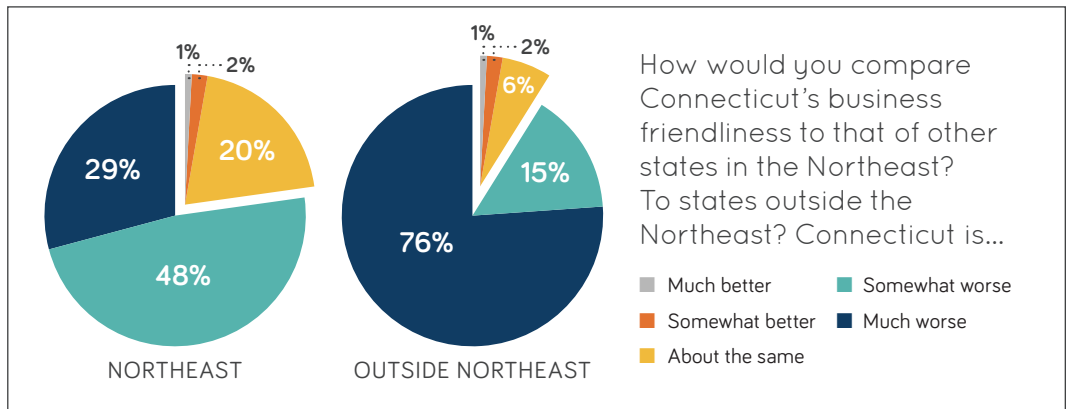


“Though this report gets at some of the state’s weaknesses—in addition to its many strengths—our purpose is to highlight for policymakers both the hopes and deep concerns businesspeople have about doing business here. The economy has gained some traction, but Connecticut still faces many challenges. For the state to reach its full economic potential, policymakers must make economic growth their top priority.”

Joe Brennan | President & CEO, CBIA



Primary reasons for moving or expanding operations outside of Connecticut are the state's high costs (including taxes) and its anticompetitive business environment. More than three-quarters of business leaders (77%) say Connecticut's business climate falls short of other states in the Northeast, and 91% say we are outmatched by the rest of the country.



According to Connecticut executives, top-ranked states for business friendliness are Texas, North Carolina, Florida, and South Carolina—many of the same economic powerhouses that have been working to poach Connecticut businesses.



“One of the key takeaways from this report is that decisions made at the Capitol on state spending and taxes have a direct impact on business confidence and companies’ willingness to invest in our state.”

Bonnie Stewart | Vice President of Government Affairs & Public Affairs and General Counsel, CBIA

Conclusion

In addition to closed questions that lend themselves to year-over-year comparisons about profitability, exporting, workforce needs, and more, the *2015 Survey of Connecticut Businesses* included open-ended questions that dug deeper. Among the questions we asked:

- ▶ What can policymakers do differently to make Connecticut a top-20 state for business?

- ▶ If you had one message to send the governor and legislature about how to improve the legal and economic environment in the state, what would it be?
- ▶ What was the most important factor driving your profit or loss last year?
- ▶ If your company plans to move or shift some of its production to another state within the next five years, explain why.

From businesses as varied as small, family-owned enterprises and large, multinational corporations, certain themes emerged.

Business leaders are calling on Connecticut legislators to control state spending and balance the budget. They point out that the interests of large and small businesses are often seen as mutually exclusive in public policy discussions, as are the interests of labor and employers, when, in fact, these groups are interdependent.

Competitive tax policies for both large and small businesses, for example—including state income, corporate, property, sales, and unemployment insurance tax policies—are frequently linked to a healthier economy and lower unemployment.

Some of the hundreds of open-ended responses from this year's survey that underscore these points:

- ▶ “We do some production off-site, as some of the skilled personnel needed have left the state for states that have a growing economy.”



“The overriding theme of this year’s survey is the need for state lawmakers to further engage business leaders to create a more business-friendly climate in Connecticut. By enhancing the dialogue on taxes, competitiveness and the overall business climate, all of Connecticut will benefit.”

Andrew S. Lattimer, CPA, MST | Partner
BlumShapiro

- ▶ “Fix the economy. Workers follow jobs.”
- ▶ “Overall economic conditions in Connecticut are making it more difficult to generate a reasonable profit.”
- ▶ “The last round of budget talks was shockingly out of touch with political and economic reality in the state.”
- ▶ “Connecticut is increasingly inhospitable to small businesses in general and healthcare businesses in particular.”
- ▶ “As with any growing business, we have options. Other states are providing solid growth opportunities for us.”

About the Survey

Methodology & Demographics

The survey was mailed and emailed in June and July to approximately 5,500 top executives at businesses throughout Connecticut; 584 responded, for a return rate of approximately 10.6% and a margin of error of plus or minus 4.1%.

Company types included privately held (43%), family-owned (38%), S corporation (29%), incorporated (24%), LLC (16%), woman-owned (10%), publicly held (5%), minority-owned (3%), and foreign-owned (3%).

All figures are rounded to the nearest whole number and may not total exactly 100%.

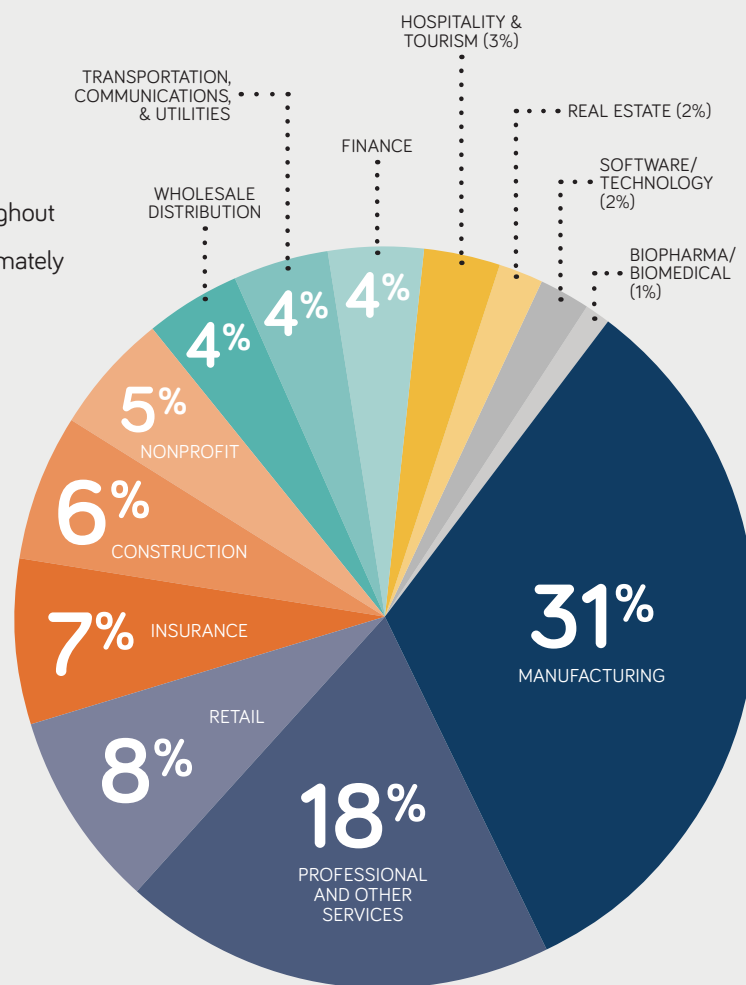
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INDUSTRIES REPRESENTED*

**Five percent of respondents indicated 'other.'*

About BlumShapiro

BlumShapiro is the largest regional business advisory firm based in New England with offices in Connecticut, Massachusetts, and Rhode Island. We have over 400 professional and administrative staff, making us the 53rd largest public accounting firm in the U.S. Our size has allowed us to develop specialized industry knowledge and dedicated staff who focus on a broad range of businesses in Manufacturing, Distribution, Retail, Healthcare, Education, Government, Non-Profit, Construction, Automotive, Professional Services, Hospitality, and Real Estate.



BlumShapiro Has Changed the Playing Field for Professional Service Firms

We act as personal advisors to our clients, and, as such, we are personally committed to the success of each and every client we serve. Our philosophy of establishing local offices within the markets we serve, with our people living, working and actively giving back to their communities, has been welcomed by our clients and recognized as important values we share.

Because of BlumShapiro's size, focus and client service philosophy, we have successfully attracted and retained some of the best talent in the country. Our team has the national experience and industry expertise to assist our clients in meeting their most challenging business issues.

The BlumShapiro team provides clients additional value through the continual development of turnkey solutions that address the changing needs of their businesses.

We compile best practice information through the collective knowledge of our professionals and secondary resources to build state-of-the-art solutions to serve the operational and financial needs of our clients.

By providing these solutions, we help our clients quickly and economically address many of the business issues and opportunities they face.

Resources Available Worldwide

BlumShapiro is an independent member of Baker Tilly International, a leading global network of high-quality, independent accounting and advisory firms. Baker Tilly International is represented by 154 firms in 133 countries.

Through our close affiliation with our member firms, we have the unique ability to seamlessly service the international requirements of our clients.

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- ▶ Project and Portfolio Management
- ▶ Software Solutions
- ▶ Business Process Outsourcing

For further information on how we can assist your business, please contact:



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About CBIA

Connecticut Business & Industry Association

CBIA is Connecticut's leading business organization. Our public policy staff works with state government to help shape specific laws and regulations to support job creation and make Connecticut's business climate competitive.

Our councils, committees, and roundtables give our members forums for influencing the legislative and regulatory processes.

CBIA is dedicated to improving Connecticut's economic competitiveness through the CT20x17 campaign.

With the support of more than 84 leading business and professional organizations across the state, CT20x17 is a broad-based, multiyear campaign aimed at moving Connecticut into the top 20 states for business by 2017. Learn more at ct20x17.org.

One of CBIA's most important functions is to provide our members with information to help them better manage their businesses. We conduct training seminars, workshops, and conferences on environmental regulations, safety and health,



human resources, compensation and benefits, taxes, energy, economic conditions, and healthcare. Our free telephone consulting service gives members access to our experienced staff of professionals on a wide range of business topics.

Many CBIA members take advantage of our employee benefit plans, discount programs, and group purchasing opportunities. These include innovative health and dental insurance programs through CBIA Health Connections—CBIA's private-sector health insurance exchange—as well as other insurance lines, retirement plans, a COBRA continuation program, group energy purchasing, and member discounts on everything from packaging materials to background checks.

Learn more at cbia.com.





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