



NATIONAL CENTER FOR
THE MIDDLE MARKET



A SPECIAL REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET

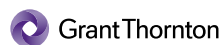
CHICAGOLAND'S MIDDLE MARKET

Past Performance; Future Outlook

IN COLLABORATION WITH



THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS



A Summary of 2017 Growth and 2018 Predictions for Chicago's Middle Market Businesses

EXECUTIVE SUMMARY

Chicago's economic health, like that of most cities, is largely driven by the middle market businesses that operate within the metropolitan area. In November 2017, the U.S. Bureau of Labor Statistics reported 0.6% total nonfarm employment growth for the Chicago area¹, including small, medium, and large businesses. However, middle market companies in the metropolitan area added jobs at a rate of 5.4% for the year. In essence, virtually all net new hiring in Chicagoland in 2017 came from its mid-sized businesses. Most of these companies also increased their revenues and reported better overall performance compared to the year before. They have plans to continue their strong growth into 2018, and most are willing to invest an extra dollar to fuel expansion. However, confidence in the local economy is low in Chicagoland compared to the national rate. Chicago leaders contend with talent challenges and concerns over government-related issues, including regulations, taxes, and general government performance, which may prove to be headwinds as executives continue to move their businesses forward.

When asked about their perception of overall business performance, 62% of Chicago middle market leaders said they felt their companies did better in 2017 than they did in 2016. Only 6% of executives felt that conditions had deteriorated over the course of the year.

From a top-line perspective, 69% of Chicago businesses saw revenues go up in 2017 compared to the year before, while 12% reported decreases in revenue. These figures were similar across the entire Midwest. Chicago area companies grew at a faster rate, however, than peers in the region, showing an average rate of revenue growth of 7.1% for the entire year, compared to 6.5% for the Midwest. They edged out their neighbors in terms of rate of employment growth, too: 5.4% growth for Chicago companies compared to 5.0% growth for the Midwest.

For 2018, Chicago middle market businesses anticipate strong revenue growth, with 60% of businesses saying revenue will increase at an expected average rate of 8.2%. To drive that growth, 43% of businesses say they will introduce a new product or service and 40% expect to expand into new domestic markets.

Hiring projections are not as strong; still about a third of companies say they will add to the workforce in 2018 at a mean rate of 3.0%. Some Chicago companies may grow through inorganic means: leaders in the metro area are more likely than those in other parts of the country to consider investing in acquisitions. In fact, 30% of Chicago businesses say an acquisition is likely in 2018; this compares to 24% for the nation as a whole.

Companies that do expect to grow are likely to face challenges finding and keeping the right people to fuel that growth. Nearly half (46%) of businesses cite talent management as a challenge going forward. They must also contend with government issues; about three-quarters of Chicago middle market firms say government-related issues have a negative impact on their business.

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

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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 236 Chicago middle market companies operating in the Chicago metropolitan area.

THE CHICAGO MIDDLE MARKET

The Chicago middle market is composed of 5,800 companies that employ 2.4 million people and generate \$554 billion in annual revenues. These Chicago 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 middle market employs 25.7% 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 2017, respondents included 904 executives from the Midwest and 236 executives specifically from the Chicago metropolitan area. We combined the quarterly data from the Chicago-area companies to provide an overview of Chicago’s middle market performance in 2017 and a summary of the outlook for 2018. This report compares those numbers to combined 2017 data for the entire Midwest region and the nation.

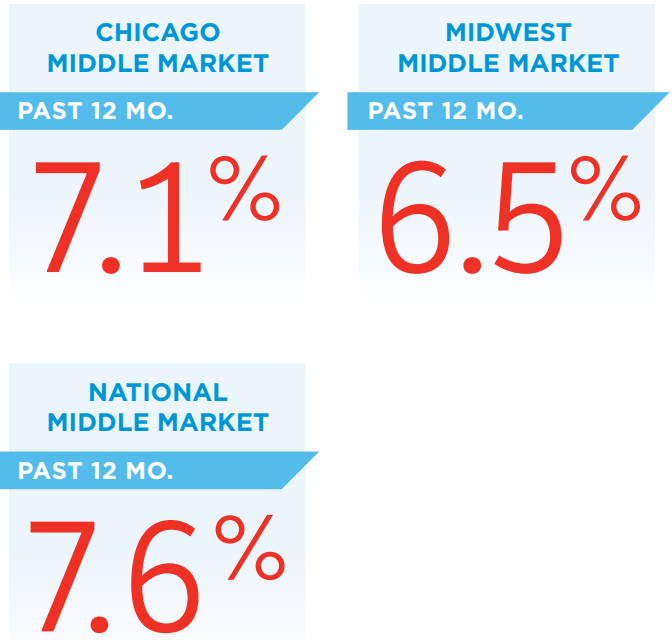
2017 Growth



REVENUE GROWTH

Revenue Growth Was Strong

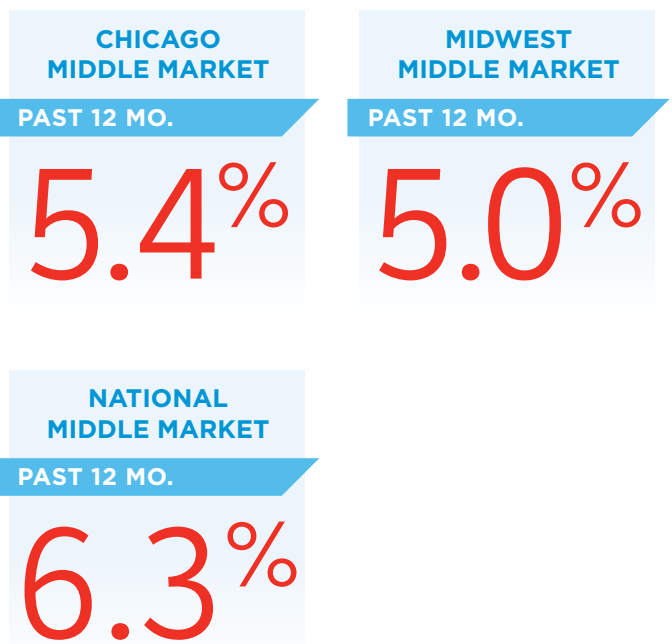
Over the course of 2017, Chicago-area middle market businesses grew their revenue by 7.1%. Seven out of 10 of these companies reported that revenues had increased compared to one year ago, which is on par with both regional and national data. While the rate of growth is below national numbers for the year (7.6%), Chicago companies outperformed the Midwest region, which reported a mean total revenue growth rate of 6.5% for 2017.



EMPLOYMENT GROWTH

Employment Grew, but Slowed to Close the Year

Chicago employers added new jobs at a rate of 5.4% in 2017. Overall, they added workers faster than other companies throughout the Midwest. However, the rate of year-over-year employment growth slowed considerably for Chicago-area businesses during the fourth quarter of 2017. Similar slowdowns were seen in middle market companies across the Midwest and the nation.



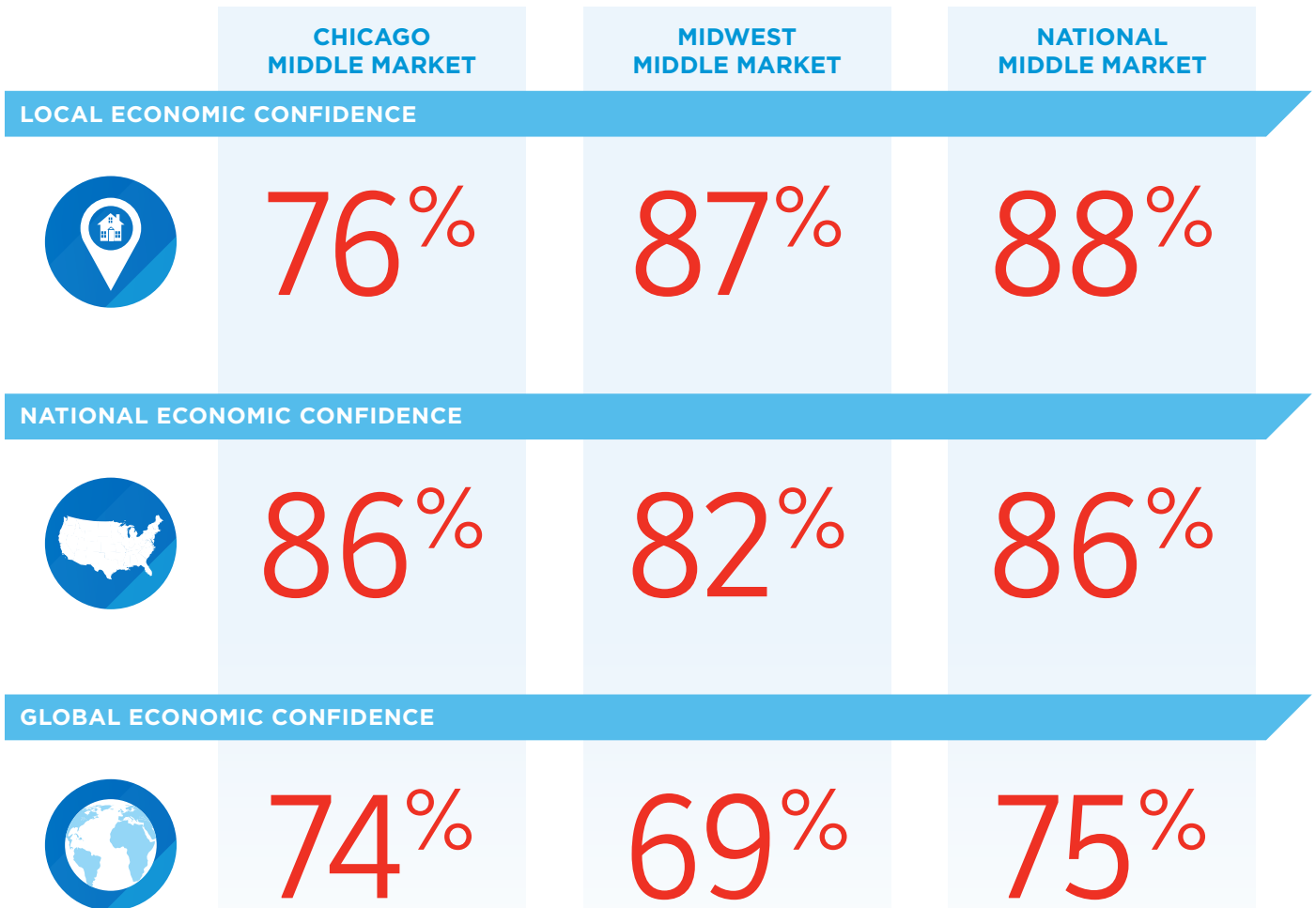


ECONOMIC CONFIDENCE

Local Confidence Is Lacking

Chicagoland companies diverge from the national pattern when it comes to confidence in their local economy. Nationally, middle market companies are more confident in local economies than in national or global. Companies in Chicago express much lower confidence in local conditions.

Like their peers in the Midwest and throughout the nation, Chicago-area executives believe in the health of the U.S. economy. Most—86%—say they are extremely or very confident about national circumstances. At 74%, Chicago’s confidence in global economic circumstances also mirrors perceptions of middle market leaders nearby and from coast to coast.



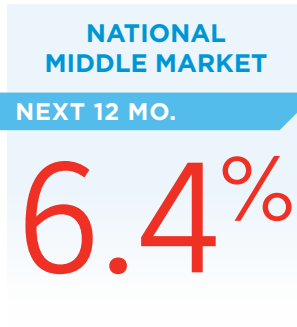
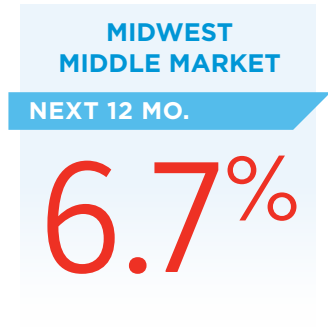
2018 Outlook



REVENUE GROWTH

Revenue Growth Will Strengthen

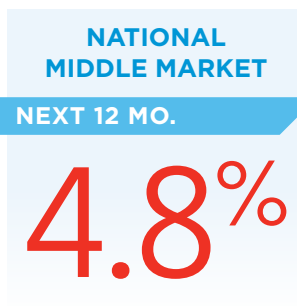
Chicago companies expect to grow aggressively in 2018. Six out of 10 companies say their revenues will increase over the course of the year, and companies in that group predict mean total growth of 8.2% for 2018, which is well above both Midwest and national expectations (6.7% and 6.4% respectively). Like middle market businesses across the country, Chicago firms lowered their outlook somewhat to close out 2017. But overall, Chicago executives maintain healthy expectations for the year ahead.



EMPLOYMENT GROWTH

Employment Growth May Slow

About a third of Chicago middle market companies have plans to increase the size of their workforces in 2018. While these businesses expect to put more Chicagoans to work in the months ahead—specifically in the areas of operations, marketing, and sales—the rate of employment growth is likely to slow. Chicago companies predict a 3.0% expansion in the size of the current workforce for the year ahead. Other businesses in the Midwest region and across the nation anticipate considerably higher rates of growth in 2018: 4.8% for the country and 3.9% for the Midwest.





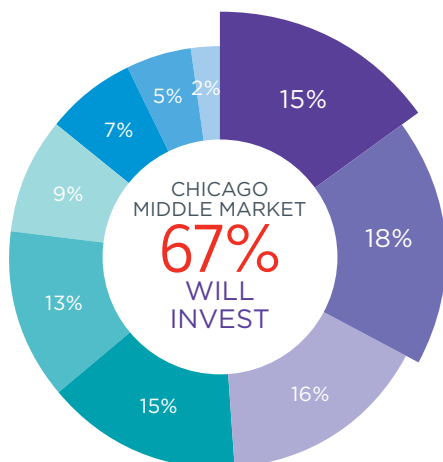
CAPITAL INVESTMENT

Companies Will Invest

About two-thirds (67%) of Chicago executives say they would invest extra dollars as opposed to save them. Among the 33% that prefer to keep their cash, more than half would save for future investments. Only 15% of companies would hold more cash long-term. These statistics mirror the national and regional numbers. Like their peers in other areas, investment-inclined

Chicago leaders are most interested in putting their money toward new plants, new equipment, or IT. Leaders in the Chicago area show much more interest in investing in acquiring other businesses than their counterparts in the Midwest region or in other areas of the country.

ADDITIONAL INVESTMENT ALLOCATION



- Hold Cash
- Hold It For Investing
- Capital Expenditures (Plant or Equipment)
- Acquisitions
- IT
- HR (More Personnel)
- HR (Training & Development)
- Capital Expenditures (Facilities)
- Other



KEY CHALLENGES

Talent and Government-Related Issues May Pose Headwinds

Like middle market leaders everywhere, the executives who head up Chicago's mid-size companies worry about the market, how to maintain growth, and how to manage capital. Beyond these core business issues, the biggest challenge from an internal perspective is talent. Chicago businesses share the same woes as middle market companies in other

key cities related to how to acquire, retain, and train the best people. Outside their four walls, leaders view the government as a challenge. Chicago executives are more concerned with regulations, taxes, and other government-related issues than leaders in other regions of the country.

LONG TERM CHALLENGES (Next 12 Months)

INTERNAL CHALLENGES:

1. CORE BUSINESS ISSUES **52%**
2. TALENT MANAGEMENT **46%**
3. COSTS **19%**

EXTERNAL CHALLENGES:

1. CORE BUSINESS ISSUES **32%**
2. GOVERNMENT **25%**
3. COMPETITION **22%**
4. ECONOMY **19%**
5. COSTS **13%**
6. TALENT MANAGEMENT **10%**



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.