EPIC ▪ MRA
4710 W. Saginaw Highway
Suite 5
Lansing, MI 48917
517/886-0860
800/545-8249
Fax 517/886-9176
e-mail: epicmra@acd.net

EPIC ▪ MRA
ACCIDENT FUND INSURANCE COMPANY OF AMERICA

Statewide Survey Of Business Plans
A random survey of business owners, operators, officers or managers in Michigan

▪ Educational
▪ Political
▪ Industrial

▪ Consumer
▪ Market
▪ Research
▪ Analysis

Executive Summary
January 2010

Introduction

Background

In the spring of 2006, Accident Fund Insurance Company of America commissioned EPIC ▪ MRA to conduct a semi-annual survey of owners, managers and operators of small to mid-size businesses in Michigan. Termed the Future Business Index, the survey is designed to assess business persons' perceptions about the general business climate and the state's economy; short-term plans regarding staffing, wages, benefits, new products or services and other operational matters; interest in and commitment to workplace safety; and other matters of interest to the business community.

This is the eighth in the series of Future Business Index surveys conducted at approximately six-month intervals, most recently in January 2010. This report presents a discussion and analysis of the major findings from this most recent survey, and the trends observed since 2006.

Methodology

Sample

The study was conducted through telephone interviews held from January 14 to 20, 2010. The sample consisted of 600 randomly selected owners, managers or operators of small to mid-size businesses located in Michigan.

Survey samples are subject to sampling error and nonsampling error. The sampling error, also called margin of error, associated with the sample is ± 4 percent to the nearest whole percent. In theory, this means that in 19 cases out of 20, the results based on such a sample will differ by no more than four percentage points in either direction from what would have been obtained by seeking out representatives of all small and mid-size businesses in Michigan. For smaller subgroups, the margin of sampling error is larger. Nonsampling error occurs as a result of factors that EPIC ▪ MRA controls for by adhering to what it has determined are best practices, such as the wording and order of questions, and other factors that cannot be controlled for, such as respondents' willingness and ability to provide accurate answers.

Data Analysis

The data were analyzed using SPSS for Windows. Descriptive statistics and tabulations, presented in graphic form, are used to describe the findings. For this analysis, the data were analyzed in the aggregate.

Analysis of Major Findings

Gloomy outlook about the state's economy – tracking since May of 2007 – persists among representatives of small and mid-size businesses.

Business people who say they are somewhat or very dissatisfied with the state's economy outnumber those who say they are somewhat or very satisfied by over four to one (82% vs. 17%) – a near identical continuance from the measurement in May of 2007. Indeed, the current figures are the most dismal assessment to date, with the intensity of dissatisfaction increasing from the previous test, as evidenced by those saying they are "Very" dissatisfied increasing by eight points from the forty-six percent recorded in April of 2009. Figure 1 below shows the trends.

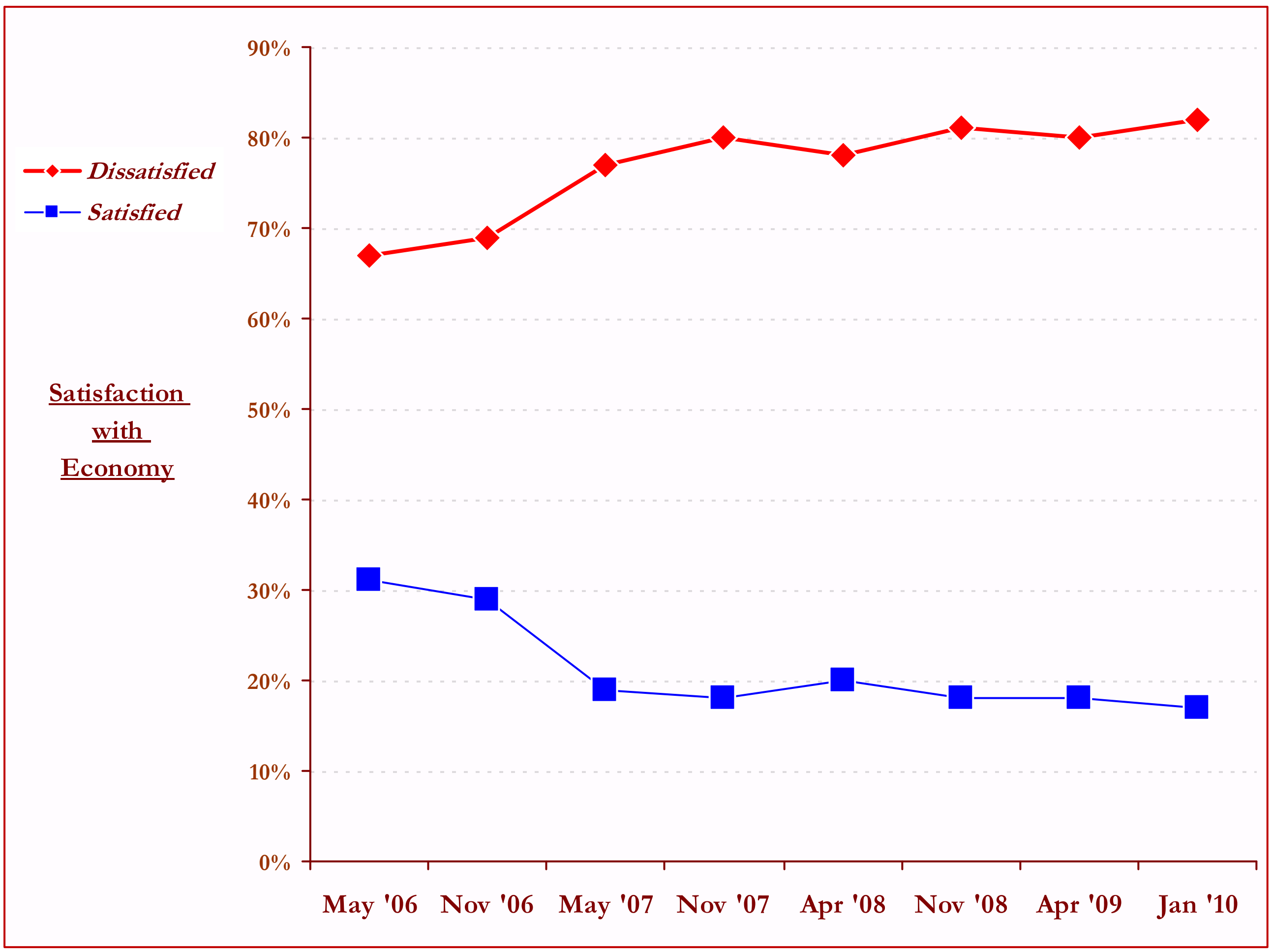
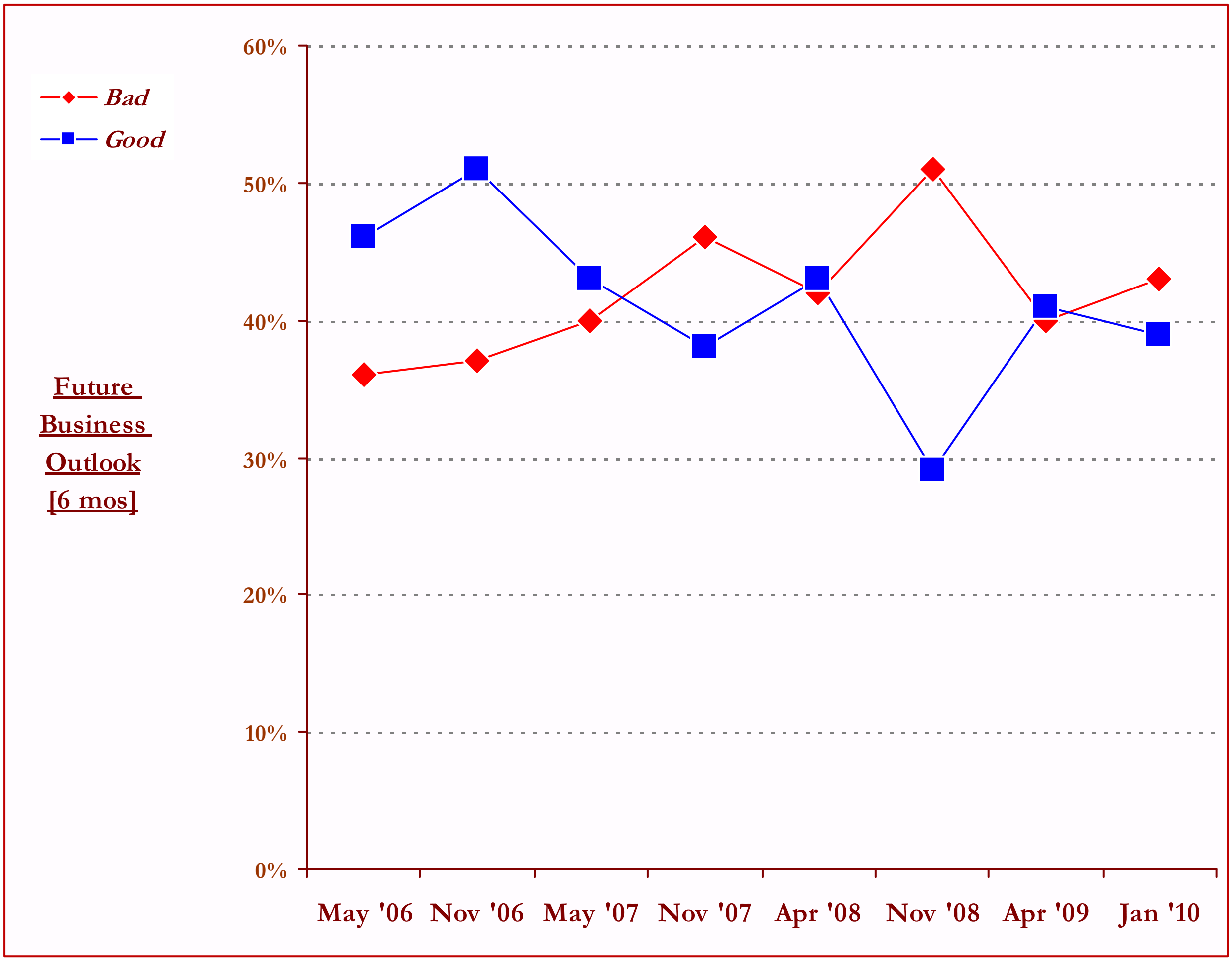


Figure 1: Satisfaction with the Michigan economy, 2006 – 2010

Business outlook holds relatively steady at pre-November '08 levels.

The slightly higher levels of dissatisfaction with the condition of the economy recorded in the prior question is likely responsible for a plurality of respondents indicating that the outlook for their business was bad – a reversal of the situation recorded in April of 2009, when the barest of pluralities reported that their outlook was "good". The turnaround in sentiment is not dramatic, however, and the 2010 numbers are still much better than those recorded in November of 2008, when a clear majority of businesspersons indicated that the six-month outlook for their business was either "Very" or "Somewhat" Bad.

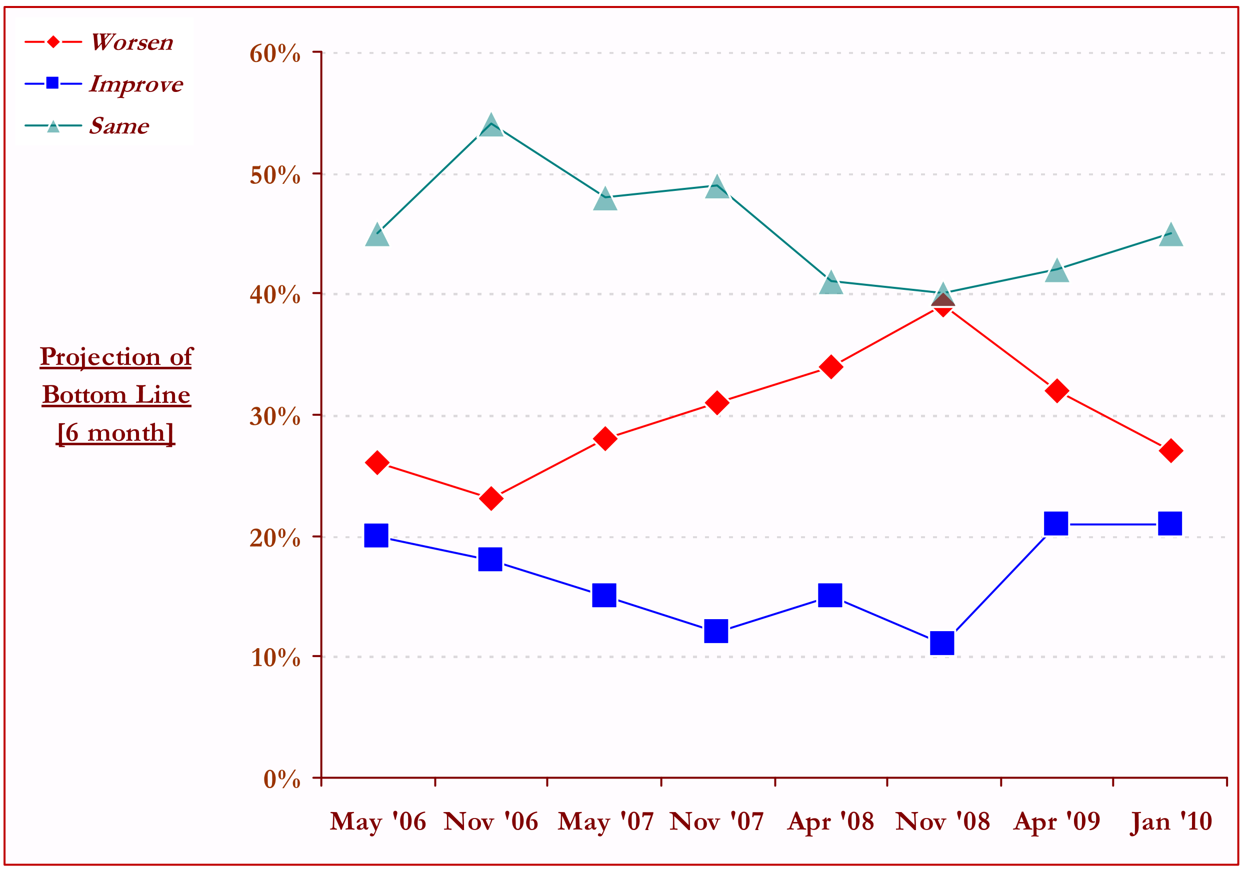
Figure 2: Business outlook, 2006 – 2010



Businesspersons slightly less pessimistic about the outlook for their bottom line.

April 2009 saw a reversal of the trend that began in May of 2007, when the percentage of respondents who said that their company's bottom line would "Worsen" was steadily increasing, hitting a high in November 2008 of thirty-nine percent. The 2010 data reveals a five point drop from the 2009 numbers in the proportion of respondents forecasting that their bottom line would "worsen". This drop in pessimism concerning profits is not, however, made up by an increase in the number of businesspersons projecting that their bottom line would "Improve", with the proportion in 2010 remaining at its 2009 level of twenty-one percent. Instead, the difference is mostly made up in the number of respondents who opined that their bottom line would "Remain the same". Taken together, these data suggest a perception that the economic downturn is not apt to deepen, but recovery is still not clearly in sight.

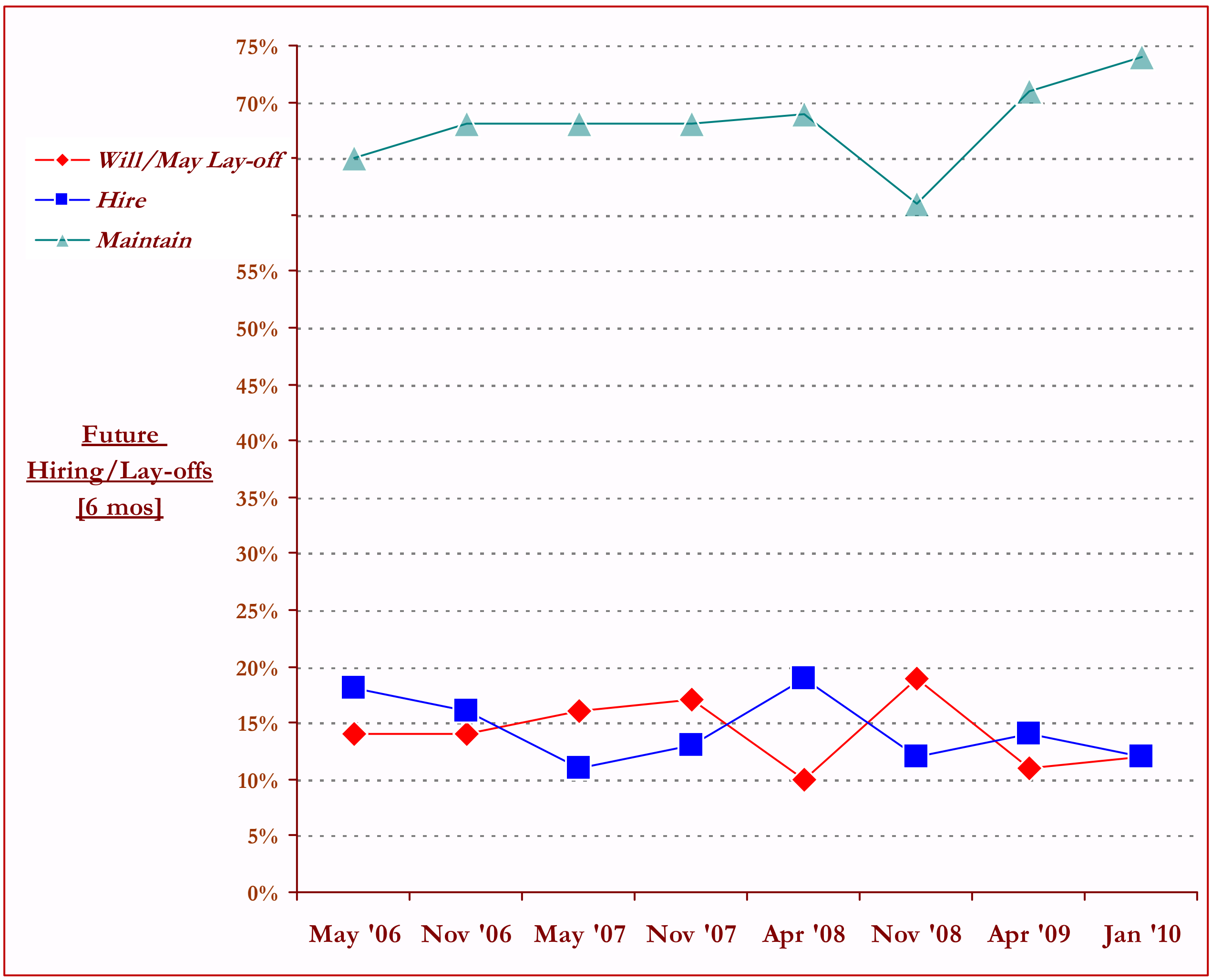
Figure 3: Expectations for growth of profit, 2006 – 2010



Operational planning continues to point to a "holding pattern" for business activity among Michigan's small and mid-size businesses.

The November 2008 data for businesspersons plans for staffing showed a clear indication of a slowdown in that there was a sharp decline from the April 2008 figures in the number of respondents who reported plans to hire more staff in the months ahead and a sharp increase in the percentage indicating they would or may have layoffs. The April 2009 data showed a reversal, with a sharp decline in the number of businesses that will or might lay off employees and a mild uptick in the number that plan to hire more staff. Data from the January 2010 survey suggests plans for staffing have not changed much over the interim, with maintenance in the number of businesses indicating the possibility of layoffs (12%), a mild decline in the percentage reporting an intent to hire more staff, and a concomitant increase in the proportion reporting an intent to maintain current staff levels. The latter figure – at 74 percent – is the highest recorded since the survey has been conducted.

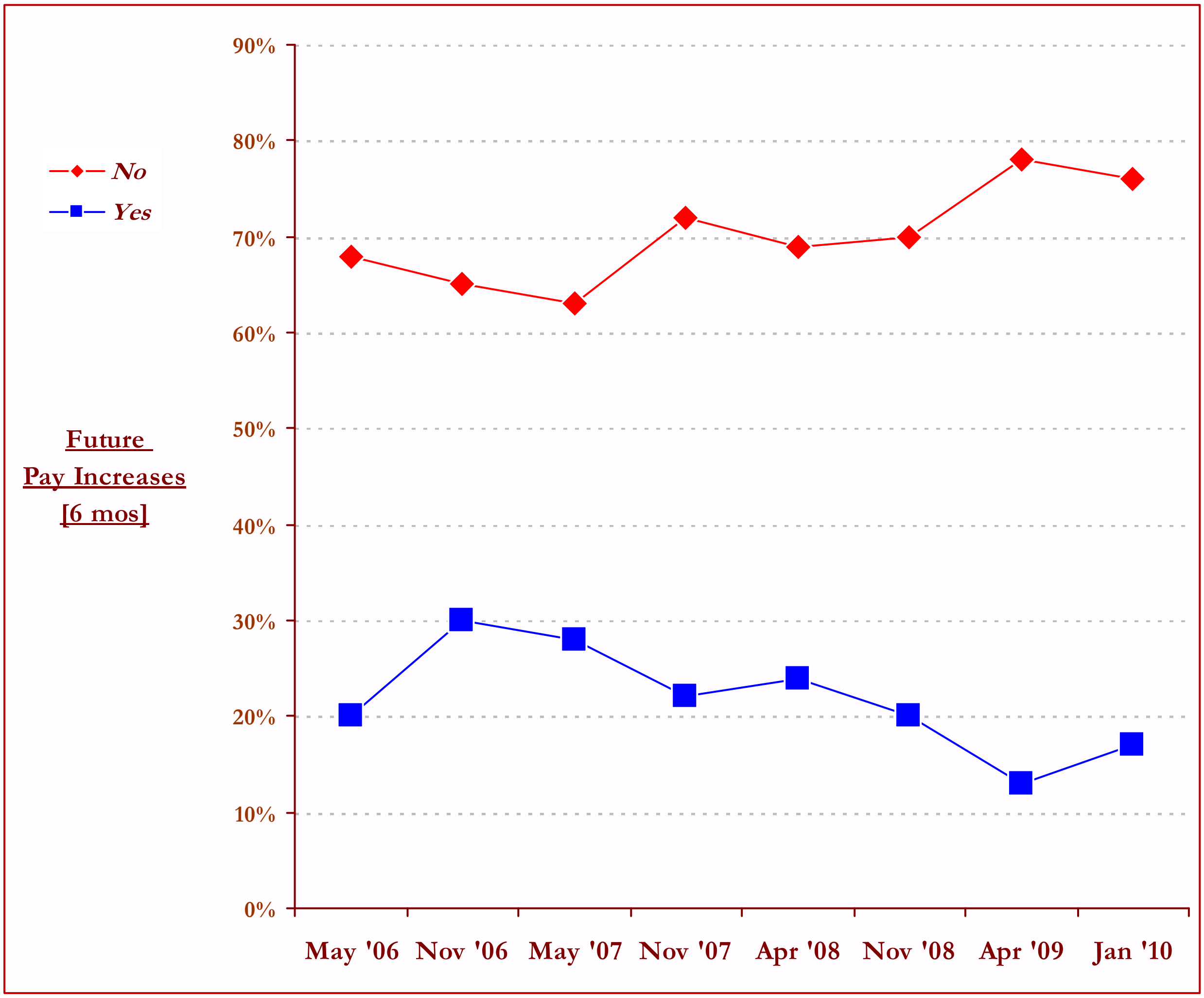
Figure 4: Staffing expectations, 2006 – 2010



More plan to increase wages.

The April 2009 survey revealed a sharp decline in the number of employers reporting plans to increase wages for their employees. Indeed, the levels in that FBI were record proportions. The January 2010 data for wage increase plans show the beginnings of a return to pre-April 2009 levels. While the number of businesspersons reporting no plans to increase wages remains high in absolute terms (76%), the level is lower than in April 2009. Moreover, the percentage of businesspersons reporting an intent to increase wages bumps up by four percentage point from the immediately preceding record low of thirteen percent. Figure 5 shows the details.

Figure 5: Expectations for wage increases, 2006—2010

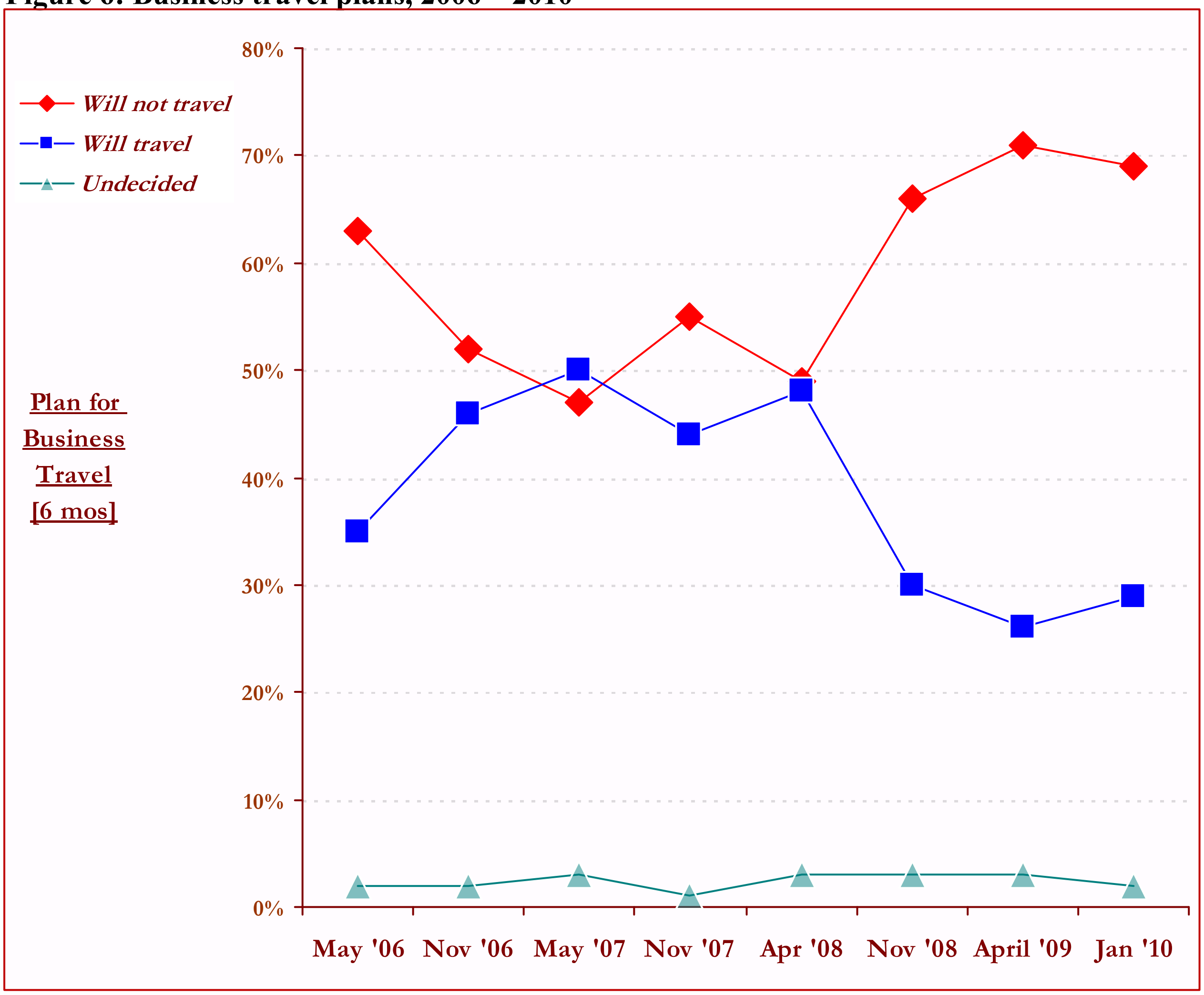


Mild recovery in number reporting upcoming business travel plans.

Consistent with other measures of operational planning, the January 2010 FBI exhibits a slight uptick in the number of businesspersons reporting upcoming plans for business travel. In the April 2008 FBI, companies were almost evenly split, with 49 percent saying they had no travel plans and 48 percent saying they did have travel plans. In the November 2008 FBI, a record 67 percent of business persons said their companies planned no business travel during the upcoming six months, as against a record low of 30 percent who said their companies had plans for travel. The April 2009 FBI re-set the bar established in November 2008, with 71 percent of small and mid-sized business managers reporting no plans for business travel, "in the next six months" and a mere 26 percent indicating that they and/or their employees would be engaged in travel.

The January 2010 survey reveals a slight movement back toward more business travel, with 29 percent reporting that they, their employees, or both would be travelling for business purposes in the next six months. Figure 6 shows the details.

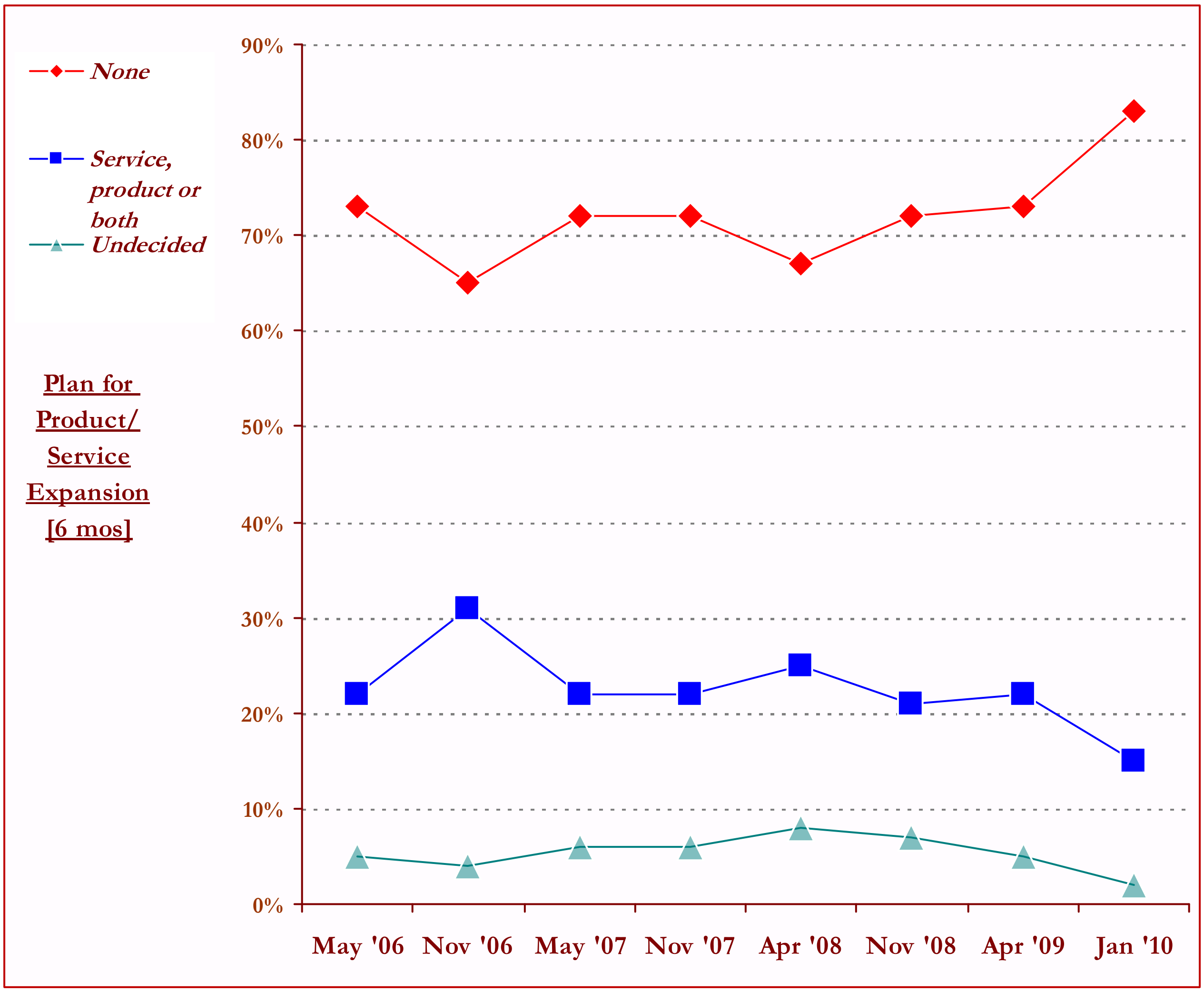
Figure 6: Business travel plans, 2006 – 2010



Ten point jump in the number of those who WILL NOT be introducing new products/services.

Managers of small to medium size businesses report with greater certainty than ever, no intention of introducing a new product or service line in the next six months. This sentiment reverses the slight increase seen in the April 2009 and marks a record high for the percentage of businesspersons indicating no plans for introducing new lines. In total, only 15 percent of respondents reported an intention to introduce any new product or service, a sharp decline of seven points from the preceding survey. This survey's respondents are more certain than ever about their respective plans, with only two percent saying they were undecided on the matter. See Figure 7.

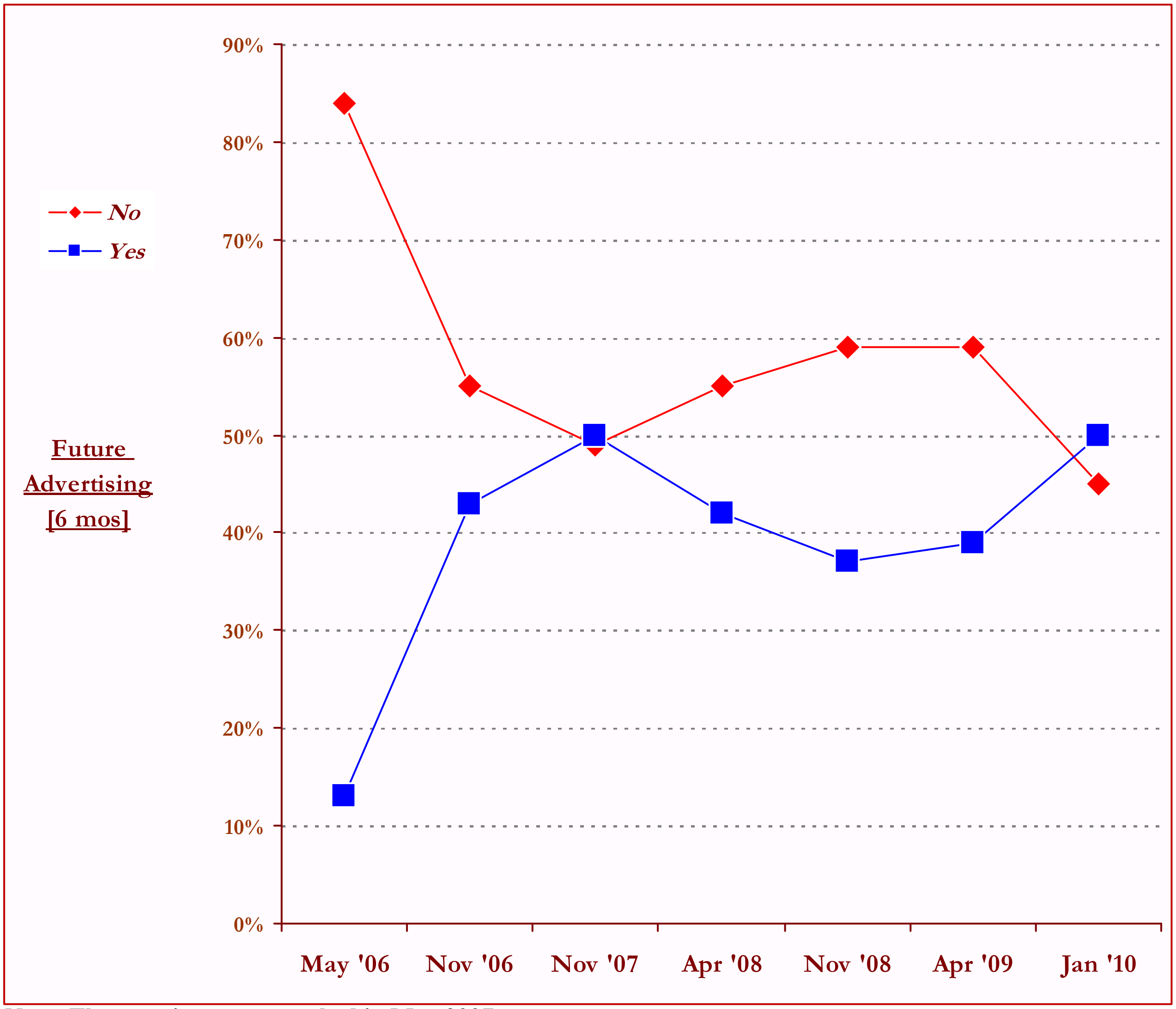
Figure 7: Expectations for new product/service introductions, 2006 – 2010



Upsurge in plans for expenditures on advertising.

Perhaps in lieu of introducing a new product or service, businesspersons in the January 2010 survey report the intent to purchase advertising in the next six months at levels matched only by those in the November 2007 study. An even half of the respondents said they intend to advertise, representing an eleven point increase over the April 2009 numbers. There is potential for this to be an even higher number since the lowest percentage to date (45%) unequivocally responded "no", with five percent being "undecided". Figure 9 shows the trends.

Figure 9: Expectations for purchase of advertising, 2006 – 2010

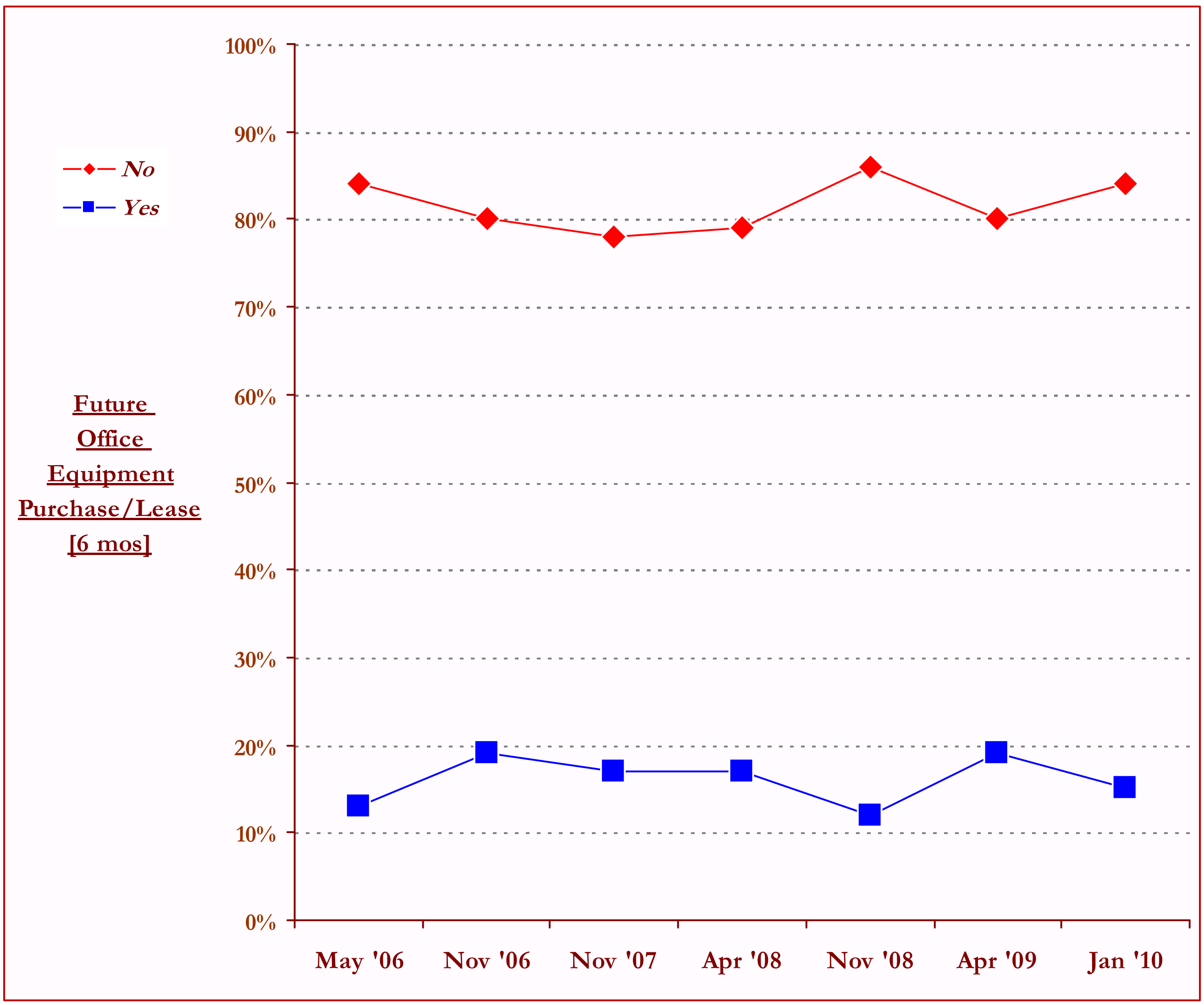


Note: The question was not asked in May 2007.

Number who report plans for purchase/lease of office equipment slides back.

The April 2009 survey showed a significant seven point increase over the prior survey in the number of business persons reporting the intent to spend on office equipment. At 19 percent reporting an intent to purchase or lease office equipment, the April 2009 FBI data match the record high for this measurement set in November of 2006. The taste for this sort of expenditure seems to have waned, however, with the January 2010 data showing a decline in the number of managers of small to medium sized businesses reporting an intent to purchase or lease office equipment in the next six months. While not reaching the record low figures of November 2008, the January 2010 survey reveals a four point decline from April 2009 on this measure. Figure 8 shows the details.

Figure 8: Expectations for office equipment expenditures, 2006 – 2010

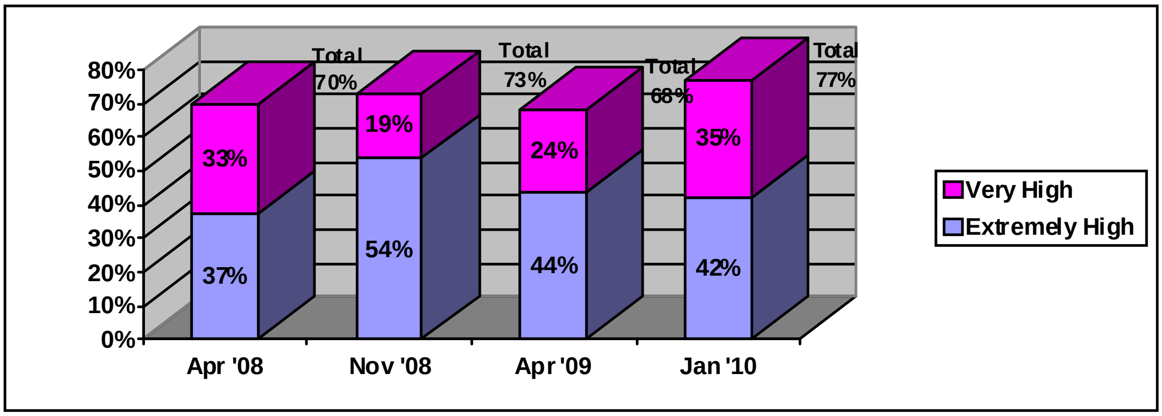


Note: The question was not asked in May 2007.

Importance of workplace safety at an all-time high.

Beginning with the April 2008 FBI, a series of questions pertaining to workplace safety issues was introduced. Responses to that inquiry uniformly showed that representatives of Michigan's small and mid-size businesses take workplace safety seriously. In its asking in the January 2010 survey, that sentiment is expressed by the widest margin to date, with 77 percent of respondents professing workplace safety as being an extremely high or very high, priority. Moreover, Michigan's small and mid-sized business managers continue to express this opinion with a high degree of intensity. Figure 10 demonstrates the trend over the past two years.

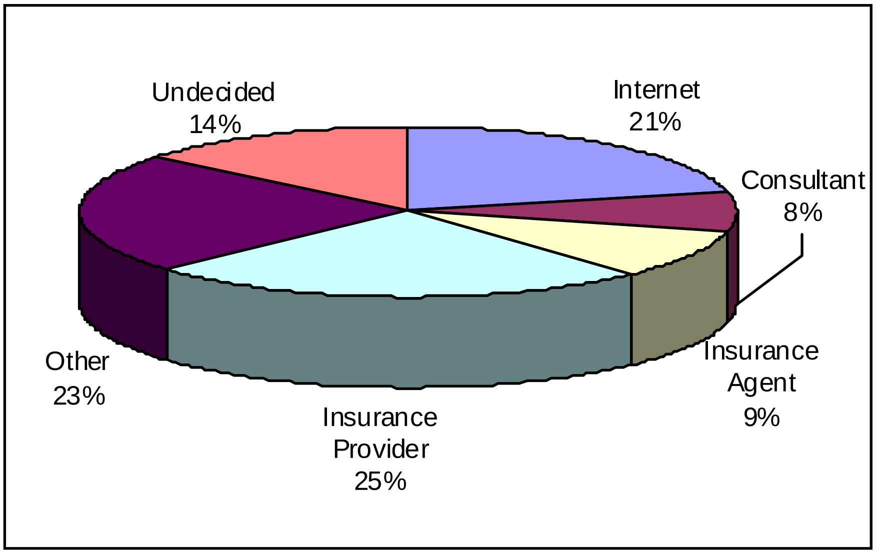
Figure 10: Priority of workplace safety



Insurance agents and providers remain the single most cited source of information.

In November of 2008, respondents were first asked to indicate the source of the majority of their workplace safety information. In the April 2009 FBI, respondents exhibited considerable certainty about their sources of workplace safety information, with fewer than one-in-five reporting "Undecided" (17%) and only 16 percent citing scattered "Other" sources. At a combined 39 percent of responses, "Insurance agents" and "Insurance providers" joined to form a clear plurality of responses. The January 2010 study continues to reflect a high degree of certainty regarding sources of workplace safety information, with only 14 percent of respondents reporting being "Undecided", a three point drop from the prior FBI. The latest study also reflects an increased use of the Internet as an information source, moving up three points to 21 percent, and, as with the prior FBI, more than a third of all respondents cite an insurance agent or provider as the primary source of safety information. Figure 11 illustrates the distribution:

Figure 11: Sources of workplace safety information



Conclusions

Pessimism regarding the current state of the economy persists among Michigan's small and mid-size businesses.
Since May 2007, dissatisfaction with the economy has hovered in the 80 percent vicinity. The 2010 FBI shows a continuation of this sentiment, with overall dissatisfaction levels hitting an all-time high of eighty-two percent. The April 2009 data suggested that managers of small and mid-size businesses were approaching the future with a sense of guarded optimism, holding a belief that the worst of the economic downturn was over and that there were fledgling signs that the economy would improve. It is perhaps a sense of frustration and impatience over the persistent economic doldrums that are reflected in many of the results of the January 2010 survey.

This outlook is not so much that the respondents see things as getting worse, it is just that they do not see them as getting any better in the short term. Evidence of this is found in the fact that there is a decline in the number of small and mid-size business managers who expect their bottom line to worsen, but the number who report that profits will improve has remained static. Similarly, the optimism reflected in April 2009 findings regarding respondents' assessment of the outlook for their business -- when a plurality reported that it was "good" – flags slightly in the January 2010 study, with a plurality now assessing their business outlook as being "bad". These data and others suggest that businesspersons are hunkering down to ride out a currently stagnant economy.

Operational planning gives evidence of a "wait-and-see" posture.
The responses in the January 2010 FBI to questions going toward operational planning reveal that business managers are adopting a very cautious approach when it comes to making expenditures in the coming six months. In the area of hiring, the data show an increase in the number of respondents reporting an intention to maintain current employee levels. In addition, there is a fairly large increase in the number of small and mid-size business managers who say

that they will not be introducing any new product lines or services in the coming six months, and a retreat from the April 2009 level of respondents who express an intent to purchase or lease office equipment. While there are increases in the number of businesspersons reporting the intent to increase wages and engage in more business travel, they are fairly minor. The only area where a substantial increase is noted is in the reported intention to advertise, where a ten point increase was observed; Perhaps as the only counterweight to the other measures that were static or in decline. However, the latter increase only returns to the November 2007 level after seeing two straight periods of decline and a more recent period of very minor increase.

Michigan's small and mid-size businesses take workplace safety seriously.
At 77 percent "Important", the great majority of representatives of Michigan's small and mid-size businesses continue to say workplace safety is a high priority, with overall importance being the highest of the four tests since the question has been introduced. The certainty about where workplace safety information comes from for business persons, as shown in the April 2009 study continues in the relatively small proportion of respondents who are uncertain, and the maintenance of the number of businesspersons specifically citing insurance agents, consultants and insurance providers as their sources of information.