America's economic engine
Breaking the cycle
A Deloitte Growth Enterprise Services report
February 2017
From November 28 to December 7, 2016, a Deloitte survey conducted by OnResearch, a market research firm, polled 525 executives at US private and mid-market companies about their expectations, experiences, and plans for becoming more competitive in the current economic environment. Respondents were limited to executives at companies with annual revenues between $50 million and $1 billion.

Eighty-one percent of the companies represented were privately held; 19 percent were public. Of the private companies, 34 percent were family-owned and 33 percent were closely (non-family) held; 33 percent were private-equity or venture capital-backed or had other ownership structures.

Half of the respondents were owners, board members, or C-suite executives; the remainder included vice presidents, department or business line heads, or managers. Industries were diverse: those with the largest representation were technology; media and communications; consumer and industrial products; life sciences and health care; financial services; and energy and resources.

The full survey results are included in a separate appendix, which can be found on our website at www.deloitte.com/us/dges/breakingthecycle; some percentages in the charts throughout this report may not add to 100 percent due to rounding, or for questions where survey participants had the option to choose multiple responses.
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Executive summary

For the past six years, Deloitte has been polling private company and mid-market executives about their thoughts on the business climate and investment intentions. During this time, the US economy has labored through its slowest recovery in the post-World War II era.1 The companies in our survey have still invested, but cautiously, waiting for signs of an economic breakout.

This year, their answers suggest the long wait may be over. The findings in our latest America’s economic engine survey capture a sense of rising optimism in the economy’s direction and their own business prospects, virtually across the board. What’s changed? For one, the executives report the past year has brought improving conditions as economic growth has accelerated—no small achievement given the fits and starts that have come to characterize the current recovery.

But many also point to a major development that will likely impact their spending plans going forward: the US presidential election. The findings in our post-election survey reveal that respondents are generally hopeful that a new administration in Washington will bring relief in key areas such as taxation and regulation, and they believe the economy will benefit directly from these actions. At the same time, they feel the election results have increased the level of uncertainty. The fact remains that there are key policy areas where the respondents are decidedly split on the right course of action.

With so much in flux, it’s clear that mid-market companies will need to be more nimble than usual in the coming months. Hires to fill skilled employment gaps, plans for overseas expansion, acquisitions to expand the customer base or product offerings—all of these initiatives will need to account for potential changes in policies and regulations. Throughout this report, we call on Deloitte colleagues to weigh in on these issues, and their insights are complemented by on-the-ground accounts from the leaders of privately-held companies and mid-sized firms. In some instances, we include “A closer look,” callout boxes to help you consider how to utilize the information by presenting several different dimensions of each issue.

In all, we hope you find this report to be a valuable resource as you make your own plans for the coming year, which is shaping up to be an eventful one. Whether or not private and mid-market companies achieve a new stage of growth in 2017, it’s certain they will continue to provide meaningful contributions to the communities they serve and the economy at large.

Roger Nanney
National Managing Partner,
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Growth spurs higher confidence

This year, it's a different story
Much has been written in recent years about the US economy’s sluggish recovery from the global financial crisis. The 2 percent annual growth rate the economy has averaged since bottoming out in June 2009 has made this recovery the slowest in the post-World War II period. By and large, our America’s economic engine surveys have captured a sense of caution, with scant evidence of a breakout in growth expectations.

This year, it’s a different story. Across the board, we see plenty of evidence that the respondent companies are finally expecting the long-awaited acceleration in growth.

The sea change starts with the respondents’ increasing confidence that the US economy will improve over the next 24 months, with 83 percent indicating they are confident, versus 65 percent a year ago. Much of this improvement is expected to come in the year ahead, when nearly four in 10 respondents expect GDP growth to be stronger than 3.5 percent.

At least part of this improvement likely stems from the strengthening of the US economy in 2016. While the year got off to a tepid start, US GDP accelerated in both the second and third quarters, finishing the third period at an annual rate of 3.5 percent, the strongest pace in two years. However, that growth was offset by fourth quarter results that reported GDP at 1.9 percent. The US labor market has continued to add jobs, consumer confidence returned to pre-recession levels, and year-over-year growth in corporate earnings in the third quarter was the strongest since the end of 2012.

“The economic data have been fairly strong, consumer spending has performed well, and we continue to have relatively low inflation,” says Ira Kalish, chief global economist, Deloitte Touche Tomatsu Limited. “All of these things are leading to expectations of decent economic growth.”
Improving business conditions
The companies we surveyed are equally optimistic about their respective company’s prospects. Nine in ten of the respondents (91 percent) are confident of their company’s success over the coming 24 months, compared to 79 percent a year ago. In fact, 34 percent expect their company’s revenue growth to top 25 percent in the year ahead, nearly double the number of respondents who projected that level of growth in last year’s survey.

Other responses indicate the companies surveyed will be growing from a stronger base in 2017. The past year saw marked improvement across nearly every business metric, with a greater number of respondents citing improvement in eight of 10 key measures. Capital investment, pricing, and profits recorded some of the biggest gains.

Looking ahead to the coming year, a greater proportion of respondents believe all 10 key business metrics will improve. Employment, productivity, and profits are among the metrics reporting the biggest increases in respondent expectations.
Growth-related challenges
A stronger economy is likely going to present a range of challenges for mid-sized companies in the year ahead, according to the survey responses.

One development on the respondents’ radar screens is rising interest rates, and the impact higher borrowing costs are likely to have on their business. For much of 2016, the Federal Reserve was on hold, leaving interest rates steady while awaiting further evidence of economic strengthening. Then, as expected, the central bank went ahead with a quarter-point hike at its December 2016 meeting. Projections released by the Federal Reserve at the time lay out a case for three additional rate increases in 2017.

In the survey polling, which concluded before the December rate decision, 58 percent of the respondents expected interest rates to rise in the coming 12 months. The availability and cost of credit saw a significant uptick on the executives’ list of obstacles to their company’s growth, and 22 percent said keeping interest rates low was one step the government could take to support US mid-sized businesses in the year ahead.

Higher rates

Asset-based borrowing
While most private businesses use their assets and cash flow to secure growth capital, the strengthening economy has helped boost the value of that collateral. As a result, businesses may have additional capacity to expand their use of asset-based loans.

Fixed rate vs. floating rate
Many asset-based loans and cash-flow financed offerings are tied to floating rates, which means they cost more as market rates rise. But since rates are starting from such a low base, they still may be competitive compared to fixed-rate debt alternatives.

Recapitalization
With borrowing rates poised to rise, now may be a good time to consider a business recapitalization, particularly if there are potential changes to the organization structure such as the buyout of an existing partner.
With US unemployment at or below 5 percent for nearly a year, many companies are grappling with how to find skilled workers. A full third of the respondents listed skills shortages as a top obstacle to the economy’s growth, while 27 percent listed the issue as a challenge impeding the growth of their business. Nearly a quarter—23 percent—strongly agree that it is difficult to find new employees with the right skills and education, up from 17 percent a year ago.

Some of the companies surveyed are expecting labor market conditions to ease a bit in 2017, though, as half predict the jobless rate will end the year higher (up from 30 percent a year ago). This may be a function of how low unemployment has fallen—at 4.7 percent, the rate is close to what economists consider full employment—as well as the fact that the economy needs to add around 145,000 jobs a month just to absorb the flow of new workers entering the labor force.

Finally, inflation is another challenge creeping up on the companies’ worry lists. Rising input prices were higher for a greater proportion of the respondents’ companies the past 12 months, and they are expected to keep rising in the year ahead along with the US inflation rate. While these executives expect to be able to pass on rising costs through higher prices, as four in 10 did last year, rising inflation was cited by more than a third as a growth concern going into 2017.

Attracting talent

Culture fit
According to recent research from Bersin by Deloitte, business leaders rate culture as an urgent talent issue, yet the overwhelming majority don’t know how to address it. Leading companies are using data and behavioral information to manage and influence their culture and help engage and retain employees.

Training
A tight labor market is one factor pushing companies to develop in-house training resources that give new and existing employees the skills they need to succeed. Increasingly, advances in technology are enabling businesses to put employees in charge of the learning experience, leading to increased engagement.

Technology
The future of work isn’t simply using technology to replace people. As Josh Bersin, principal, Deloitte Consulting LLP, recently concluded, the real “future of work” issue is about making jobs “more human” by redesigning them so businesses can make the most of technology while enriching the “people side.”
Looking abroad

Mid-sized companies are poised to rely on international markets for addressing some of these challenges as they expand their base of operations and attempt to reach new customers.

Their timing may be opportune, as the economies of major international markets have shown signs of stabilizing in recent months. Early concerns about Great Britain’s exit from the Eurozone have dissipated some in the face of improving business activity on the continent. Optimism over the growth outlook in China is increasing, at least for now. And a rebound in commodity prices this year has buoyed the outlook for emerging markets in Latin America and Asia.

These positive developments are increasingly important to the companies in our survey. The proportion of revenue they generate outside the United States is expected to grow in the coming year, particularly among companies generating 26 percent to 40 percent of their revenues in international markets. Markets credited with the biggest jump in contributions to revenues over the past year include Canada, Western Europe, Mexico, Brazil, and other parts of Latin America; notably, these same markets top the list for expected growth in the coming year.

The survey also captures a significant increase in companies expecting to rely more on overseas workers in the next 12 months. A full 58 percent of respondents expect to have 11 percent or more of their workforce outside of the United States, up from 42 percent in last year’s survey. Finally, an overwhelming majority—84 percent—said global trade is important to their company’s supply chain; more than a quarter characterized it as “extremely important.”

The global talent pool should continue to play an important role for mid-sized firms as US firms grapple with a host of demographic and marketplace factors. “There is a growing labor shortage in this country,” says Kalish. “Participation among less skilled workers has declined, and there are fewer job opportunities for people with lower levels of skills. Those factors may necessitate companies having to hire overseas.”
Parsing the US election

Rising optimism amid higher uncertainty
Along with actual conditions on the ground, the results of the recent US election appear to be contributing to the rising optimism among mid-market executives. But they also feel as a group that uncertainty is higher than a year ago. And, in some cases, that sentiment is translating into delays of major investments.

On the campaign trail and in the aftermath of the election, President Trump made it clear that some of his immediate priorities would be enacting tax cuts and other measures that could benefit American businesses, as well as ramping up government spending on infrastructure projects. Shortly after Trump was elected, the Organization for Economic Cooperation and Development cited those proposals in increasing its forecast for US GDP in both 2017 and 2018.13

The executives in our survey are largely of the same mind: two-thirds feel the US election results will boost the US economy, and nearly seven in 10 believe they will have a positive impact on their company’s operations.
Tax policy

Internal modeling
Deloitte’s Jonathan Traub says many tax teams have already begun to prepare for potential changes in US tax law that could impact their company’s operations and strategy. Such advance planning might incorporate internal modeling that examines the prospects for accelerating deductions or deferring income in advance of different tax treatment.

Transfer pricing
Increasing globalization is accelerating the pace of change in transfer pricing regimes around the world. Companies who conduct business abroad need to assess the impact of new regulations and inconsistent application of existing laws as part of their regular risk assessments.

Tax data analytics
Business leaders are increasingly asking their tax counterparts to provide strategic tax viewpoints and additional value to the broader organization, and this demand is unlikely to abate at a time when tax policy is in such a state of flux. Tax data analytics can help address these expanding requirements and open new avenues for tax executives and their teams to engage with the broader business.

Shared concerns
These findings also are likely rooted in the fact that the new administration has promised to address many of the growth obstacles that are commonly cited by private company executives and mid-market leaders.

For the second year in a row, rising health care costs are viewed by the respondents as the greatest obstacle to the economy’s growth. Nearly a third say health care costs are among the issues keeping their company from growing at full potential, and 22 percent want to see the federal government roll back health care reform to help alleviate this pressure.

As in years past, taxes and regulations also rank highly on the executives’ worry lists. High tax rates are cited by nearly half the respondents (45 percent) as an obstacle to US growth, and 24 percent want to see them reduced in the year ahead. Increased regulatory compliance shows up on a third of the respondents’ lists of obstacles to their company’s growth. Other steps the respondents want to see the government take in the year ahead include supporting increased infrastructure investment (22 percent) and easing bank lending practices (15 percent).

Jonathan Traub, managing principal, Tax Policy, Deloitte Tax LLP, says government fixes for addressing these obstacles almost always prove more difficult than people realize. “I hear a lot of uncertainty from mid-market companies about how all of this is going to happen,” Traub says. “It costs money to lower corporate tax rates, and tax reform requires hard choices.”
Potential tug-of-war
In other policy areas, the interests of mid-sized companies come into conflict with one another, setting the stage for potential disappointment for some.

Trade policy is one such area. Seventeen percent of the respondents argue for relaxing export and import regulations while another 12 percent want to see them tightened. As far as currently pending free trade agreements go, 13 percent want to see them passed while 11 percent believe they should be rejected.

“We have a very good trade environment currently,” says Kalish. “Trump has suggested the possibility of imposing punitive tariffs, and those types of policies might give companies pause in expanding abroad.”

17% argue for relaxing export and import regulations
12% want to see them tightened
Greater uncertainty
These inherent conflicts may help explain the mixed messages mid-market executives are sending about the impact of uncertainty on their business plans.

Seventy percent of the respondents feel uncertainty has increased from a year ago, compared to just 44 percent in the fall of 2015, while 17 percent believe the level of uncertainty is now “much higher.” Interestingly, an uncertain economic outlook dropped significantly when respondents were asked to list the top obstacles to their company’s growth (28 percent versus 41 percent).

“This very well could be a case of seeing the bright side of the big picture, but recognizing that the components of the economy need help,” Kalish says. “We simply don’t know what the policy environment will be.”

The survey captures a significant jump—63 percent compared to 39 percent a year ago—among those who say their company is holding off on making major investments because of uncertainty in the business environment. In a separate question, capital spending is listed as an investment priority by 26 percent of the respondents, down from 31 percent a year ago.

Yet, while big expenditures may be delayed, some respondents suggest the election has given them a green light to pursue longer-term strategic investments and plans. Among those who deferred strategic plans pending the outcome of the election, 79 percent said they are now prepared to implement those plans. Hiring is one area, in particular, where companies expect to ramp up their efforts now that the election is behind them (62 percent versus 35 percent who expect no change).
Access to capital is a key determinant of success for most businesses, but franchisors are particularly vulnerable. During the global financial crisis, the growth of many franchise-based companies came to a screeching halt because banks stopped lending and prospective franchisees couldn’t obtain financing.

That was the case for Nothing Bundt Cakes, a Las Vegas-based baked goods retailer that started in its co-founders’ kitchens in 1997. The two started franchising in 2005, when they sold their first unit in San Diego. About two dozen more followed. But then the credit crisis hit in late 2008, and suddenly potential partners started getting turned down for the credit they needed to buy into the company’s growth.

“We were just barely scratching the surface with the franchising model when we were forced to slam on the brakes,” says Dena Tripp, one of the co-founders and currently the company’s chairperson. “We were really kind of handcuffed just because of the lack of financing that was available.”

Fast forward to today, and you would be a hard-pressed to find a franchise company that is growing at a faster clip. The Nothing Bundt Cakes footprint spans nearly 200 units across the United States. Tripp says they sold 40 units in 2016, and plan to sell another 40 units in 2017.

“We’re really not seeing any problems at all in terms of financing,” she says. “We have strict minimum wealth requirements for our franchisees, and we can still be really picky about who we partner with. The interest in our brand keeps growing every year. This past year we had over 3,000 inquiries without doing any outside marketing to solicit franchisees. We’re very fortunate that way.”

Last year also marked Nothing Bundt Cake’s first foray into an international market, when it sold a unit in Toronto. Like so many others that came before them, the company decided to start in Canada because of its proximity to the US market. Issues that needed to be worked out included trademarking the brand in an overseas market and distribution of the company’s custom-blended dry ingredients from Las Vegas.

As far as government policies go, Tripp wants to see the new administration focus on job creation and bringing outsourced employment back to the United States. While Nothing Bundt Cakes sources a lot of its raw materials domestically, it relies on low-cost manufacturers in China for supplies such as cake decorations. Extending its supply chain to Asia means the company has less control over the lead times for parts of its supply chain, which has created “some stress” in the past, she says. But Tripp is quick to add that any US-made equivalent has to be “price competitive.”

“It’s a tough balancing act,” Tripp says. “We have two controllables in this business: our cost of goods and our cost of labor. When either of those is rising, we have to raise our prices and that might take away from our customer base’s ability to afford the product.”

So far, so good in that respect: the company’s same-store sales growth came in at about 14 percent last year. “We’ve been very fortunate,” Tripp says. “Now it’s just a matter of making sure that as we continue to add new bakeries, we’re providing all of the support our existing bakeries need.”
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Investment areas of focus

Hire more, borrow more, and invest in tech
Regardless of how federal policy shakes out in the year ahead, the mid-market companies in our survey say they will be keenly focused on increasing their productivity. In support of that goal, they plan to hire more, invest more in technology, and borrow more to fund these priorities.

Increased productivity and the development of new products and services are tied atop the list of respondents’ main growth strategy over the next 12 months. In addition, 54 percent of those surveyed expect their company’s productivity to rise over that time, up from 46 percent a year ago.

**Talent and technology**

The survey captures a significant increase—46 percent versus 36 percent a year ago—in those who expect their companies to increase their full-time headcount over the coming year. One third of all respondents believe their workforce will grow in excess of 5 percent.

Training remains the top investment the companies are likely to make in talent in the year to come, while a third say their company is likely to boost compensation. Nearly an equal proportion say their company will increase their use of part-time workers (28 percent) or ask existing employees to log more hours (27 percent).
Technology will clearly play a role in many mid-sized companies’ efforts to boost productivity. Upgrading existing systems and implementing new systems are tied at the top of the respondent companies’ investment priorities over the coming 12 months. More than a quarter predict technology investments their company makes will seek to improve business processes, while a fifth say new technologies will be geared to helping workers be more efficient or increase customer engagement.

The vast majority—85 percent—are using emerging digital technologies to transform their organizations. Despite a high preponderance of technology and communications firms among the survey respondents, other sectors were nearly as prolific in their deployment of digital technologies—across a wide spectrum of solutions.
If you’re making flight reservations through a smartphone app, TIBCO is likely the brains behind the booking. The Palo Alto, California-based firm provides a suite of technology infrastructure products that, among other things, helps airlines retrieve seat availability and promptly push the information out to reservation seekers.

For two decades, TIBCO has worked in industries from aerospace to utilities, serving as the “plumbing” that connects applications to operating systems. Tom Berquist, the company’s chief financial officer, says the Internet-connected marketplace is having more impact on his business and that of his customers than perhaps any other facet of the economy.

“Look at the increasing amount of software that is being delivered alongside other products, your smartphone, or automobile systems like navigation or entertainment. Then you look at what’s happening with Internet of Things, as companies track data about the use of their equipment,” Berquist says. As a result of these increasingly widespread digital connections, “software is becoming a bigger part of the economy.”

While Berquist says private equity-owned TIBCO reported a strong finish to 2016, the beginning of the year was anything but encouraging. The economy barely nudged, with 1.1 percent GDP growth in the first quarter of the year, down from 1.4 percent in the fourth quarter of 2015. Add in the strong dollar and its adverse impact on companies that depend in part on the buying power of foreign customers—the currency challenges took a toll on TIBCO, which does about half of its business outside the country, according to Berquist.

Yet TIBCO’s clients do not appear to have put investment decisions on hold because of these economic indicators or even the US presidential election. In fact, Berquist has found strong sentiment around the need to invest in technology infrastructure that will boost companies’ ability to compete in the device-driven environment. Berquist says investments in integration tend to fall within two broad camps: boosting software capabilities for on-premises software, or building capacity within the cloud.

There’s plenty of on-premise software still around, Berquist notes, offering the example of the enterprise software that supports the check-in kiosks at airports or on smartphones. “While many of our customers are very focused on rolling out a cloud strategy for new mobile applications, if you look at the amount of on-premise software that is being connected to these applications, it’s gigantic,” Berquist says.

Meanwhile, transitioning to a cloud-focused commercial model has brought big changes to TIBCO’s strategy. In the past the firm sold software upfront through perpetual licenses and ongoing maintenance, generating front-loaded revenue. By contrast, cloud solutions run on a subscription model, generating recurring revenue but lacking the initial influx of capital, Berquist says.
Cloud computing/software as a service takes the top spot in technology investments again this year, with data analytics/business intelligence close behind. But more than a fifth of the companies are also now investing in customer relationship management (CRM), automation of business processes, and the Internet of Things (IoT). In addition, emerging technologies such as robotics, augmented reality, additive manufacturing (3D printing), and blockchain (distributed ledger) technologies are primed to capture a significant share of investment dollars.

Asked specifically where these digital technologies were being put into practice, the respondents point to customer service, marketing, and social media as the top three uses. But, here again, technologies are being deployed across a wide spectrum of applications.

Doug Beaudoin, principal, Deloitte Consulting LLP, says digital, robotic automation and analytics are among the innovations with the most attractive returns on investment for mid-sized companies in the current climate. These technologies help companies get to an “ideal state where they can anticipate supply chain delays, peak demand, costs, and staffing needs, with the ultimate goal of getting closer to customers,” Beaudoin says. “When technology allows companies to do those things, they can achieve much better efficiency.”
Financing

The companies in our survey plan to borrow more in the year ahead to help finance their investments. They are most likely to pursue cash-flow financing; this funding source gets a noticeable jump, cited by 40 percent of respondents compared to 31 percent a year ago. Thirty-five percent said their companies would likely tap private sources or secured loans, and 33 percent cited internal funding sources. There is also a significant drop—to 11 percent from 18 percent a year ago—in the number of respondents who don’t expect their companies to use financing at all.

Many more respondents in this year’s survey say their company may pursue a public stock offering in the next 12 months, a potentially surprising development after a year in which IPOs were at their lowest since 2003. The biggest factors the respondents cite in considering a public offering include broadening the exposure of the company’s brand and products, the cost-effectiveness of equity capital, and the need for additional capital to fuel growth.

In addition, companies look to the stock market’s performance and believe they can achieve higher multiples by going public than they can through an outright sale, says Jamie Lewin, principal, Deloitte Corporate Finance LLC. “Valuations across multiple sectors are strong, and access to capital is inordinately strong relative to any historical content I’ve seen,” Lewin says.

Despite these conditions, many companies choose to remain private. According to our survey, the top factor for remaining private continues to be the desire for control and flexibility in decision-making, but the response was cited by only 60 percent of respondents this year compared to 76 percent a year ago. Companies also continue to cite a number of obstacles involved with going public. Moving up that list were operational requirements that could make the shift to a public entity burdensome. Some companies also continue to have a general preference for tapping private funding sources.
Most companies take months if not years to integrate a big acquisition. Not Allied Universal. The company took its name from the two companies involved in the August 2016 merger that brought Allied Barton Security Services and Universal Protection Service together. Overnight, the combination created the largest US provider of private security services, but the company didn’t stop there. Between August and December 2016, Allied Universal acquired four more security companies.

“This is an industry ripe for consolidation, with more than 10,000 companies competing,” says Steve Jones, the company’s chief executive officer. “Other service industries have already gone through this kind of consolidation wave, and there are similar efficiencies of scale to be won in private security.”

Allied Universal’s buying binge comes at a time when demand for private security services—at venues ranging from airports to office buildings to shopping malls—is robust. The private security business isn’t so much cyclical as it is events-driven. Demand for security services spikes every time there’s a high-profile security breach. The rash of major incidences in recent years has happened as police budgets have stagnated, and Allied Universal’s business has experienced significant growth. That’s one big reason why private-equity firm Warburg Pincus invested in Universal in 2015, and continues to advise the combined company.

“We invested in Universal to support the growth of a leading national player in security services, at a time when more and more companies continued to outsource their security needs to national providers due to increasing security and technology complexity,” says Warburg Pincus Managing Director Chandler Reedy. “Given Allied Universal’s strong market position today and best-in-class operations, we believe the company will continue to achieve industry-leading growth.”

Jones says the acquisitions have positioned the company to better meet that demand and dramatically reduce its real estate costs. Most of the target companies have overlapping operations in existing domestic markets, and, in the case of Allied and Universal, both companies shared the same enterprise resource management system, which made integrating the companies a lot easier.

But acquisitions can only go so far in meeting increased demand. The industry still relies heavily on low-cost workers, and the tight labor market has made it exceedingly tough to find qualified talent. Efforts around the country to boost the minimum wage have a costly ripple effect on companies like Allied Universal that have always offered higher pay to service employees.

“All the time, job candidates can flip burgers for just a few dollars less an hour and with far fewer job requirements,” Jones says. Allied Universal spends a hefty portion of its talent budget each year training new employees on issues such as how to address an active shooter, when to make arrests, and how to administer cardiopulmonary resuscitation (CPR). All of that training adds up, given that the company now employs more than 150,000.

“I share some of the optimism around the new president and what he’s promising to do for the country, because more buildings and infrastructure means more things that have to be protected,” Jones says. “But every time I hear the words ‘new jobs’ I wonder where the people are going to come from to fill those jobs.”

In a bid to make employment at Allied Universal more attractive, the company is “looking at everything and anything we can do to differentiate ourselves” from other service-based employers. Recently, it partnered with a client childcare education company to begin offering Allied employees subsidized childcare in certain locations.

Technology investments have also helped address worker shortages. Across the industry, static security cameras that recorded all day onto a local taping mechanism have been replaced with more sophisticated versions that can be monitored live in a remote location. Combined with data analytics, these improvements yield alerts in real time when security lapses occur, such as when an unauthorized person accesses an area that requires security clearance.

“Technology has enabled us to take a much more integrated approach to providing security,” Jones says. “It means we can employ fewer guards for a specific job without compromising security.”
M&A
Many mid-market companies in the survey were acquisitive over the past year and likely will be again in the coming year. Forty-one percent of respondents indicate their company completed a merger or acquisition over the past year, up significantly from a year ago when only 28 percent said they had. Those that were acquisitive were far more likely to do multiple deals.

While fewer respondents listed M&A as one of their top two investment priorities over the next 12 months, more expect their company to be an acquirer than they did a year ago (53 percent versus 39 percent). Forty-five percent say it’s either likely or highly likely that their company will be the target of an acquirer, up from just 21 percent in our last survey. Both sets of responses were driven by industries in the midst of rapid consolidation, including financial services; technology, media and telecommunications; and energy and resources.

While a direct US competitor remains the most likely counterparty in a transaction, private equity firms and domestic and foreign companies seeking to enter the business saw noticeable increases as probable interested parties.

Mark Garay, chief of staff, M&A Services, Deloitte Services LP, says the increase in willingness among mid-sized companies to be acquired echoes the findings of Deloitte’s year-end 2016 M&A trends report, in which 75 percent of respondents expected deal activity to increase in 2017. Garay believes the middle market is well positioned to benefit from acquisitive companies’ continuing interest in smaller, strategic deals.

“These larger companies have a lot of cash on their balance sheets that they say will go towards acquisitions, even more so than will be allocated to organic investment,” Garay says. Among the hottest targets are companies that can boost the digital proficiency of the purchasers. “The emphasis on acquiring technology assets is making people look outside of their own areas of expertise in search of value,” Garay says.
Conclusion

Breaking the cycle
This year's survey captures a sense of broad optimism across the US middle market. Growth, already showing signs of acceleration before the US election, is widely expected to receive a positive jolt from the outcome as pro-business policies pave the way for further reinvestment. But decided notes of caution continue to color the operating environment. Much is left to be decided as the new administration takes power and tries to implement its policy priorities.

Intelligent risk-taking among business leaders can be a valuable trait—it has kept many private and mid-market companies from extending themselves too much in a recovery that has been very weak by historical standards. And now it’s injecting discipline into the planning process as company spending ramps up. As we have highlighted in this report, leaders may need to reassess their company’s stance across a host of dimensions, whether because of changes in the macroeconomic environment or due to pending developments in Washington.

Among the business issues we encourage company leaders to assess:

• Consider how potential changes in taxation and regulation could benefit your business or cause you to adjust your strategies.
• Anticipate how your funding mix should change if interest rates continue to rise.
• Consider the steps you can take to maintain an appealing profile for would-be lenders and investors.
• Evaluate strategies for attracting the talent your organization needs to keep growing.
• Assess how your company can combine the best of the talent and technology resources you have at your disposal to help accomplish your strategic objectives.
• Routinely weigh the benefits of a public offering against the potential drawbacks.

Companies that implement this type of thinking can invariably be leaders in their industries. And as our survey indicates, the time appears ripe for private companies and mid-market organizations to magnify their impact on the economy.
Notes

2 Ibid.


For more information
If you’d like to discuss the outcomes of the survey findings in more depth, or address how they might apply specifically to your business, please contact us at DGES@deloitte.com.
Perspectives
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