2010
SURVEY OF CONNECTICUT BUSINESSES
For the ninth consecutive year, BlumShapiro and the Connecticut Business & Industry Association (CBIA) have partnered to produce the Survey of Connecticut Businesses. This annual report examines the economic, financial, and regulatory climate in which Connecticut companies operate, gauging their business outlook and highlighting relevant policy issues.

Since we conducted our last survey, in the summer of 2009, the nation has begun to emerge from the longest, steepest recession in decades. While talk has turned to recovery, however, key indicators point to an economy that is still fragile, falling short on job growth and consumer spending. Small and midsize businesses, which historically have led labor market expansion in the aftermath of a downturn, remain skittish about increasing payroll or taking on added debt—as much as banks have been hesitant to increase loan volume.

“It’s going to be a slog,” says Mark Zandi, chief economist at Moody’s Economy.com.

Indeed, as this year’s survey shows, Connecticut businesses face a multitude of challenges, including the high cost of doing business and lingering uncertainty about the state’s fiscal health. Recovery is expected to be slow, and not necessarily steady, with businesses continuing a trend of bootstrapping, concentrating more on efficiencies than expansion.

Amid disappointing (if not surprising) news about Connecticut’s business climate, there are reasons for optimism as well. What emerges from this year’s survey is a picture of businesses achieving greater productivity with fewer resources. Conditions are improving, albeit slowly, and business owners’ outlooks are brightening too. Many firms that were downsizing just 12 months ago are planning to hire in the coming year, and more companies now (compared with last year) are planning to invest in research and development (R&D) and equipment in the next 12 months.
Other Key Findings of the 2010 Survey of Connecticut Businesses

- Most businesses (57%) describe current conditions as below average, with 39% describing them as fair and 18% as poor; however, only 9% of businesses believe conditions will remain poor 12 months from now.

- As further evidence of growing optimism, the number of respondents who believe conditions will be excellent for their business 12 months out is twice the number of those who describe conditions as excellent today.

- In anticipation of the 2010 elections, business leaders believe that resolving the state’s fiscal crisis and strengthening its economy are the most critical issues for candidates to address.

- Approximately one-third of businesses surveyed expect their company to fully recover from the recession sometime in 2011. Twenty percent expect to recover sooner, while nearly half (48%) anticipate a full recovery in 2012 or later.

- Nearly half of all businesses (47%) anticipate hiring new employees in 2010, up from 35% who actually hired employees in the previous year.

- Poor sales have now topped business costs as the single greatest challenge to operating a business. One-third of businesses (up from
20% last year) identify diminishing revenues/customer base as their greatest challenge.

- Healthcare benefits remain the most significant cost to operating a business in Connecticut, although by a much slimmer margin than last year. In 2010, respondents are nearly evenly divided on the burden of healthcare (43%) versus payroll (39%). Compare that to 2009, when 57% of respondents named healthcare as their greatest cost, with payroll a very distant second, cited by only 16%.

- The proportion of businesses offering health insurance to their employees has not changed significantly since last year. The vast majority (96%) still offer healthcare benefits to their full-time employees, though roughly half have increased employees’ share of the costs, raised the deductible, or changed healthcare plans/carriers/options in order to control costs.

- More businesses identified the personal income tax as their greatest business tax concern this year (38% of respondents) versus last year (28%). The same is true for property taxes on real estate, cited by 27% of respondents in 2010 versus 17% in 2009. Concerns about the corporate income tax, sales and use tax, and tax on personal property have not changed significantly since last year.
Business Climate: Challenges and Benefits

In 2009, slightly more than half of businesses surveyed recorded a net profit. More than a third (35%) recorded a net loss, while 14% broke even. Fewer (and more frugal) customers clearly translate into smaller profits—but declining revenues tell only part of the story.

For years, Connecticut employers have paid some of the steepest costs in the nation in areas such as wages, energy, industrial and office rent, workers’ compensation, taxes (corporate, personal income, property, sales, and gas), regulatory requirements, and healthcare coverage and mandates. The burden of those costs is reflected not only in the present survey but also in the findings of numerous studies that rate states’ business climates. In *Chief Executive* magazine’s national poll to determine which states are most business-friendly, Connecticut dropped seven places from 2009, making it the sixth worst state for business in 2010. *Forbes’* most recent Best States for Business, released in September 2009, ranks Connecticut’s business costs as the sixth highest in the nation, while 2010 *Facts and Figures,*

![Greatest business challenge, 2010](chart.png)

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“*This year’s report shows some encouraging signs, though there are concerns among business leaders over the high personal income tax rate. Businesses make it clear that this is the biggest tax challenge that they face. Connecticut’s elected leaders should be mindful of these concerns as they work together with the business community to build a stronger economic future.*”

Jay M. Sattler, CPA, MST
Partner, BlumShapiro
a report by the Tax Foundation, placed Connecticut in the unenviable number-one spot for state and local tax burden per capita.

Indeed, though a diminishing customer/revenue base was identified as the greatest challenge to operating a business in Connecticut (34% of respondents), it was followed closely by state and local taxes (25%) and legislative and regulatory uncertainty (22%). Nearly one in ten respondents identified other, often related, hardships—with most citing the aggregate cost of doing business: energy, healthcare, taxes, and other costs.

In a separate question specifically on business costs, healthcare benefits were identified by 43% of businesses as the most significant, followed by payroll, at 39%.

In terms of taxes, the personal income tax is the greatest burden for 38% of businesses, followed by property tax on real estate (27%) and the corporate income tax (15%). Sales and use tax and property tax on personal property were also concerns.

National economic uncertainties are the most pressing concern for businesses in the next 12 months (38% of

“Business leaders believe that solving Connecticut’s pending budget crisis is the most critical issue facing our state. Together, we must challenge the candidates in this fall’s election to explain how they will solve the state’s fiscal problems and attract the business investments that are needed to create jobs here. That’s why CBIA helped create the Partnership for Connecticut’s Future, which is committed to fighting for economic growth, good jobs, and an accountable state government. You can help change Hartford by joining the Partnership.”

John R. Rathgeber
President and CEO, CBIA
”Although Connecticut’s economic recovery is underway, this recovery and subsequent growth will be slower than the U.S. average unless Connecticut can reduce its above-average business costs, including energy costs and the tax burden on businesses. The tax burden in particular has increased substantially due to the budget effects of the past recession.”

Andres Carbacho-Burgos
Economist, Moody’s Analytics

"Although Connecticut’s economy and budget deficit combined rank a close second, with 32% of the votes. Concerns about tax increases over the next 12 months (cited by 9% of respondents) are expected to escalate—with 16% of respondents calling tax hikes their single greatest concern over the next three years. Similarly, worries about the cost of state and national regulatory compliance—now cited by only 4% of businesses as the single greatest source of concern—are expected to intensify in the next three years, with double the number of businesses (8%) calling it their top concern over the next three years.

Business Outlook

The National Federation of Independent Business (NFIB) predicted that poor sales, fewer customers, less inventory, decreased transportation needs, and a smaller payroll would make 2010 a subpar year for small businesses; Connecticut...
companies seem to agree with that assessment. On a scale ranging from poor to excellent, 39% of Connecticut businesses describe conditions for their firms as fair—slightly below average. Nearly equal proportions perceive current business conditions as poor (18%) or average (19%), while a somewhat higher number characterize them as good (21%).

Conditions are widely expected to improve over the next year, with 31% of Connecticut businesses anticipating average conditions 12 months from now and 31% expecting conditions will be good or excellent. Only 9% believe conditions will remain poor. Similarly, though 28% of businesses surveyed describe industrywide conditions as poor, only half as many (14%) expect that to be the case in 12 months. Most believe the forecast for their industries will improve somewhat, resulting in fair or average conditions in the next six to 12 months.

About half of all businesses surveyed foresee growth for their companies in the next 12 months: 46% anticipate moderate growth, and 3% expect rapid growth. The rest primarily believe business will remain flat (43% expect no growth); 9% predict further decline.

A large number of Connecticut businesses expect to fully recover from the recession sometime in 2011 (32%) or earlier (20%). One-quarter expect recovery in 2012; the remaining 23% believe it will take longer.

Fourteen percent of companies surveyed say they are somewhat or very likely to leave Connecticut because of poor business conditions in the next two years, while 21% are unsure. Despite the challenges to running a business in Connecticut, however, nearly two-thirds of companies surveyed plan on keeping their operations here, at least for the short term.

The high quality of life that historically has counted as one of Connecticut’s key assets remains the single greatest advantage of operating a business here, cited by 32% of respondents. Other advantages to doing business in Connecticut include the proximity of business facilities to owners’ residences (27%) and the state’s skilled/educated workforce (11%).

On the downside, 18% of businesses surveyed (up from 13% last year) said the greatest advantage of operating a business in Connecticut is “nothing”—an indication that dissatisfaction with Connecticut’s business...
climate has intensified. In open-ended remarks about business challenges, many Connecticut business owners characterized the state legislature as “hostile” to businesses, citing restrictive regulations, licenses, and fees, combined with a lack of focus on economic development. Indeed, only 1% of businesses surveyed considered tax credits and government incentives an advantage of operating a business in Connecticut.

About the same number of businesses that recorded a profit in 2009 expect to do so in 2010. Twice as many businesses that broke even in 2009 expect to break even in 2010. Only about half as many businesses expect to record a loss in 2010, compared with 2009.

Strategies for Growth

About half of all businesses (49%) maintain that current economic conditions have made it more difficult to compete for new customers, forcing them to reduce expenditures and/or personnel. Another 40% say conditions have encouraged them to focus on their core functions and most profitable customers. Only 11% view the current environment as an opportunity to develop new products, services, or lines of business. (Interestingly, half of all companies surveyed acknowledge that they have no business continuity plan for responding to disasters or other emergencies and avoiding disruption to their key operations—and that they have no intention of developing one.)

To position themselves for growth in the next six months, Connecticut companies are employing a number of tools and tactics. Web marketing, online sales, and other Internet-enabled strategies account for the largest share (40%), though it should be noted that social networking technologies do not appear to be highly valued for business purposes. At least half of Connecticut companies surveyed either do not believe social networking sites such as Facebook, LinkedIn, and Twitter have benefits for their organization or are unsure whether they do; another third of companies do not use social networking sites at all for business purposes.

In addition to the Internet, tools and strategies for growth include diversification into new markets (38%), direct marketing (34%), new product development (31%), strategic alliances (21%), new technology (15%), acquisition (13%), extended or enhanced distribution (9%), and international expansion (7%). Open-ended comments about growth strategies included taking a more aggressive approach to public policy, lowering prices, increasing staff, investing out of state, doing more television advertising, cutting nonproductive personnel and practices, and increasing services.

More than half of all companies surveyed have developed new products or services in the last 12 months, and even more (59%) expect to do so in the next year. Overall, however, projected investments in research and development remain relatively weak, with 71% of companies not planning to increase their investment in R&D in 2010 or 2011. (In fact, 19% plan to make
no investments of any kind in the near future.) On the other hand, most companies—nearly 56%—expect to purchase new equipment in that same time period. Over the next few years, 52% of companies intend to invest in their operations, and 38% expect to invest in information technology.

Developing products and building production capacity takes capital. The federal stimulus package passed in February 2009—which waived or lowered borrowing fees for small businesses and increased the U.S. Small Business Administration (SBA) guarantee on loans—was meant to tap more of that capital and get credit flowing. Indeed, according to the SBA, the total number of small business loans in Connecticut during the first half of the federal government’s fiscal year (ending March 31, 2010) increased 54% over the same period in the previous fiscal year. In terms of dollar volume, lending increased 65%—from $55 million to $90 million. SBA loans went to a variety of Connecticut enterprises, including home healthcare agencies, law offices, medical and dental practices, landscapers, small manufacturers, retailers, gas stations, child care centers, home heating oil dealers, restaurants, and dry cleaners. The terms and benefits of that package, however, expired at the end of May 2010, and lending slowed dramatically in June, when this survey entered the field.

Now, close to half of Connecticut businesses (49%) characterize the availability of credit from banks, credit unions, and other financial institutions as poor or fair; 27% consider it average. Non-bank lending was also rated average by 28% of companies, with another 58% of respondents rating it poor or fair. Government loans and assistance programs did not score well either, described as poor by 42% of respondents, fair by 29%, and average by 19%. Only 10% viewed government lending as a good or excellent source of capital. The availability of venture capital was weakest, with 71% of respondents rating it poor or fair.

“Integral to our state’s economic growth is the further utilization of technology as a core business strategy. Many Connecticut companies are implementing new or expanded IT infrastructure to improve efficiencies and productivity with fewer resources. IT is a key building block in working towards our economic recovery.”

Brian A. Renstrom
Partner, BlumShapiro
“Although Connecticut companies are slowly beginning to add jobs, job growth will continue to be restrained in the face of looming uncertainties at both the state and national levels. In light of that, the sooner we can begin to signal a more pro-business environment in our state, the sooner we will place ourselves on a path to getting more Connecticut residents back to work.”

Susan Coleman
Ansley Chair of Finance, University of Hartford; Member, Governor’s Economic Advisory Panel

Workforce

In 2009, just over one-third of Connecticut businesses surveyed hired at least one new full-time employee. In 2010, nearly half of the businesses surveyed expect to do so.

Among companies that did not make any full-time hires, poor business conditions—and no existing need for new employees—were cited as the top reasons in 2009 (81%) and 2010 (74%). National and state economic uncertainties were also a factor, cited by 21% of businesses that made no new hires in 2010. Lack of qualified labor—a major obstacle for most companies just two years ago1—was cited in only 2% of all cases where no new hires were made.

Widespread unemployment and slumping sales mean most companies have no positions open—nor any trouble finding qualified workers when vacancies arise. Those that are struggling to fill positions (29%) say the major reason is that applicants’ skills and credentials don’t meet the requirements of the job. Other barriers include Connecticut’s high cost of living,

1 In CBIA’s 2008 Availability of Skilled Workers in Connecticut survey, 82% of companies had trouble finding qualified workers. Today, that percentage has flipped, with only 28% experiencing difficulty finding qualified labor.
prohibitive health insurance costs, and extended federal jobless benefits, which some employers view as a disincentive for unemployed individuals to return to work.

In a break from past surveys—where entry-level employees were in greatest demand—mid-level professionals will be the most sought-after new hires in 2011, identified by 38% of companies. Line workers are a close second (at 34%), while only 24% of companies say entry-level employees will be in greatest demand.

Most businesses (73%) do not expect to lose any of their workforce to retirement in 2010, though a major shift is expected to occur between now and 2015. Over that period, nearly 70% of companies expect some percentage of their workforce to retire. Of those, two-thirds expect to lose as much as 10% of their workforce, while the rest anticipate losing more than 10% to retirement.

**Employee Benefits**

To avoid layoffs and retain as much of their workforce as possible, many employers over the last two years cut expenses instead of jobs, instituting travel restrictions, salary freezes, wage cutbacks, or furloughs. They also dialed back on company-sponsored social events, 401(k) matches, and other employee perks.

Businesses nationwide are gradually beginning to reverse reductions to compensation and are reinstating employee benefits. Most Connecticut employers, in fact, continue to offer full-time workers a wide range of benefits. Healthcare and paid vacation time top the list, offered by 96% of employers surveyed. Retirement plans, paid sick leave, and bonus compensation are popular as well, offered by 69%, 67%, and 58% of employers respectively. Additional perks include training/career development (53% of respondents), unpaid leave (45%), and short- and long-term disability (40% and 32%, respectively).

Reflecting a national trend, employee tuition reimbursement—which was offered by 39% of companies surveyed by CBIA in 2008—plummeted this year. Employers now have a widely available talent pool, commonly described as “overeducated and underemployed.” Not surprisingly, only 23% of companies today see the need (or have the resources) to offer tuition reimbursement to their employees.

In contrast to a national trend toward more flexible work schedules, telecommuting, and compressed work weeks, Connecticut employers are less likely now than in the pre-recession period to offer those benefits. Flex time was offered by only 35% of companies surveyed this year, down from 50% in 2008. While 82% of employers surveyed in 2008 planned to offer telecommuting as an option or increase their number of telecommuters over the next year, only 24% surveyed today expect to do so. Just over one-quarter of employers (26%) give their employees the option to work from home at least one day per month, and 75% expect to make no increases to their telecommuting options; 1% have said they will actually decrease their telecommuting options. Only 15% of Connecticut companies surveyed
have a business continuity plan that includes telecommuting.

Nearly half of all survey respondents believe telecommuting can increase employee satisfaction and reduce turnover. Most (64%) maintain, however, that they have no job tasks suitable to telecommuting. In addition, more than one in ten cite concerns about employee performance and dependability as obstacles to telecommuting, and fewer than 20% believe telecommuting can result in measurably greater employee output and efficiency.

Healthcare

Healthcare is both the greatest benefit offered by employers (96% of those surveyed) and the greatest financial burden shouldered by them.

To address the rising cost of coverage, more than half of businesses surveyed (54%) have added or changed healthcare plans, carriers, or options over the last year. Almost as many have increased deductibles (47% of respondents) and employees’ share of the costs (45%). For every Connecticut employer that has reduced healthcare benefits (20% of those surveyed), another has absorbed the additional cost of care, with no added burden or reduced benefits for workers (19%). (In open-ended remarks about additional strategies for addressing rising healthcare costs, a number of employers indicated a switch to tax-advantaged health savings accounts, or HSAs, for their employees.)

Issues surrounding healthcare—specifically, federal healthcare reform—dominated the headlines in the early months of 2010, and they are sure to be a centerpiece of midterm election campaigns later in the year. The historic Patient Protection and Affordable Care Act, signed into law on March 23, expands Medicaid eligibility, prohibits denial of coverage for pre-existing conditions, and creates myriad other reforms to our current system of healthcare. Though its intent and impact have been hotly debated, the law—which comprises 2,000 pages and numerous provisions—is not well-understood.
Fewer than half of our survey respondents believe they have a general grasp of the scope and nature of the reforms and their impact on businesses and individuals. While 12% claim a strong understanding of the law, the largest majority of businesses surveyed, 45%, say their understanding of federal healthcare reform is tenuous or incomplete.

Whether or not they fully comprehend the intent and implications of the healthcare act, 63% of respondents believe the federal reforms will up their business costs, 21% are unsure, and 13% expect no impact on their bottom line.

**The Role of Government**

By the time the 2010 Connecticut General Assembly session ended on May 5, little had been done to secure the state’s long-term fiscal health or strengthen its economic competitiveness. Few of the 100,000 jobs the state lost in the downturn had been recovered.

“Connecticut businesses are now talking about a recovery, and we see them investing in new equipment, operations, and information technology. They expect more stability and growth over the next year. This shows, as in previous recessions, the ability of Connecticut’s businesses, including its well-known manufacturing sector, to adapt, maintain and eventually grow in very difficult economic conditions.”

**Expected impact of healthcare reform on business costs**

- Costs will increase: 63%
- No impact: 13%
- Unsere: 21%
- Costs will decrease: 3%

**Brett Bushnell, CPA**
Partner, BlumShapiro
While a modest economic recovery appears to be underway in Connecticut, and state businesses are expecting better growth over the next year, there remains a high degree of uncertainty and anxiety among the firms surveyed. Improving the state’s fiscal condition and providing a more business-friendly environment would go a long way toward reducing this uncertainty.

Tax revenues were far below pre-recession levels, the state’s bond rating had been downgraded by three major Wall Street rating agencies, and enormous budget deficits were projected for the next two fiscal years.

Though infusions of federal stimulus money have fueled multiple projects in energy, economic development, defense, transportation, and other areas, 77% of Connecticut businesses surveyed say they have not benefited in any way from stimulus funding. On the other hand, 9% have benefited directly, 4% have benefited indirectly, and 10% are unsure.

Concerns about the Connecticut legislature’s tendency to raise anti-business bills run high, with 77% of businesses claiming it affects their confidence in making strategic investments here. Forty percent believe the outcome of this year’s elections for U.S., statewide, and local offices will not change the current business climate; 24% believe the climate will improve, 13% believe it will get worse, and 23% are unsure.

Resolving the state’s fiscal crisis (40% of respondents) and enhancing its economy and business climate (34%) are seen as the most critical issues for candidates to address. Reducing unemployment (8%) and the regulatory burden on businesses (9%) are also priorities. Open-ended responses to this question highlighted the need to reduce the size and

**Expected impact of elections on Connecticut’s business climate**

- Somewhat better (2%)
- Somewhat worse (4%)
- Significantly better (2%)
- Significantly worse (4%)
- About the same (40%)
- Unsure (23%)

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cost of state government and align public sector salaries and benefits more closely with those of the private sector. In a separate open-ended question, respondents overwhelmingly articulated the need to address upcoming state budget deficits “by running the government like a business,” that is, reducing spending and eliminating redundancy and waste.

**Conclusion**

Like last year’s survey, the 2010 Survey of Connecticut Businesses reports on an extremely difficult time for companies throughout our state. Though we are in the beginning stages of recovery, with businesses expecting more stability and growth over the next year, progress has been slow, consumer confidence is shaky, and the risk of a double-dip recession is, by some accounts, still very real.

By documenting the challenges and concerns of business leaders, we hope that this study provides direction for policymakers to ensure and accelerate our state’s recovery by providing tax relief and easing the regulatory burden on businesses, restructuring state government, reining in state spending, and ultimately helping the economy grow and produce jobs.

“This research corroborates that Connecticut’s economy is at a critical junction. We now have some serious long-term fiscal issues as well as legitimate concerns about a business climate that’s increasingly difficult to navigate. If we are not proactive with policies to vastly improve business competitiveness, my primary concern is that our state could easily develop a “slow bleed,” where businesses and residents leave Connecticut and undermine its long-term economic vitality.”

**Don Klepper-Smith**
Chief Economist and Director of Research, DataCore Partners LLC; Chairman, Governor’s Council of Economic Advisors
Methodology

This survey was e-mailed in June 2010 to approximately 4,800 Connecticut businesses. There were 682 surveys completed, for a 14% response rate with a margin of error of +/- 2.6%. All figures are rounded to the nearest whole number and may not total to 100%.

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Demographics

Executives from 682 Connecticut companies representing a wide variety of industries responded to this survey. They include manufacturing (34%), professional services (23%), retail (10%), construction (8%), wholesale distribution (7%), social services/nonprofits (6%), finance, insurance, and real estate (6%), medical (4%), and hospitality and tourism (2%). A significant share describe their company as privately held (42%), family owned (39%), and/or incorporated (36%). In addition, 12% are limited liability corporations (LLCs), 5% are minority-owned, 4% are publicly held, and 2% are foreign-owned.

Of the 437 businesses indicating the age of their company, almost 18% have been in business between 50 and 99 years. Another 7% have been in business for 100 years or longer, while 8% have been in business less than 10 years, including one company that started last year.
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.

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Connecticut Business & Industry Association

CBIA is Connecticut’s largest business organization, with 10,000 member companies. Our public policy staff works with state government to help shape specific laws and regulations to make Connecticut’s business climate competitive and support job creation. Our councils, committees, and roundtables give our members forums in which to become involved in the legislative and regulatory processes.

One of the most important functions of CBIA is to provide our members with information that can help them better manage their businesses. We conduct training seminars and workshops; arrange for consulting services; and hold conferences on environmental regulations, health and safety, human resources, compensation and benefits, taxes, energy, 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 benefits plans, discount programs, and group purchasing opportunities. These include innovative health and dental insurance programs as well as other insurance lines, retirement plans, a COBRA continuation program, an eyewear savings plan, group energy purchasing, and member discounts on everything from packaging materials to background checks.

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