2011

HARTFORD-SPRINGFIELD BUSINESS SURVEY

Introduction

The Greater Hartford and Greater Springfield metropolitan areas together form one of the larger economic regions in the Northeast. Encompassing Hartford, Tolland and northern Middlesex counties in Connecticut and Franklin, Hampden and Hampshire counties in Massachusetts, the region is the second largest population, education, and economic center in New England. This survey represents the views of more than 600 companies in the region.

The Hartford-Springfield Economic Partnership (HSEP) is the region's primary driver for economic development and regional competitiveness. HSEP was officially formed by the governors of Connecticut and Massachusetts in 2000. Its members include 20 economic development, regional planning and workforce development organizations and institutions of higher education, all united in advancing economic expansion in the region. HSEP markets the region as New England's Knowledge Corridor.

In 2007, HSEP, in partnership with the Connecticut Business and Industry Association (CBIA), commissioned the first-ever survey of the perceptions, priorities and concerns of businesses in the interstate region. A subsequent survey was completed in 2009, which offered insight into the challenges faced by businesses in the region during one of the worst economic downturns in recent history. Our 2011 collaboration expanded to include the Associated Industries of Massachusetts (AIM), which offered further reach and diversity to those responding to the survey. This year's results offer a generally optimistic view of future business conditions in the region but also identify challenges that could derail the region's economic recovery.

Operations and Outlook

When asked what they think is the greatest challenge to operating a business in the Hartford-Springfield region, respondents' most common answer was the weak economy and decreased consumer spending, with

HSEP Steering Committee Member Organizations

- Affiliated Chambers of Commerce of Greater Springfield
- Associated Industries of Massachusetts
- Bradley International Airport
- Capital Workforce Partners
- Capitol Region Council of Governments
- Central Connecticut Regional Planning Agency
- Central Connecticut State University
- Connecticut Business & Industry Association
- Connecticut Light & Power/ Yankee Gas
- East of the River Chambers of Commerce Association (CT)
- Economic Development Council of Western Massachusetts
- Holyoke Community College
- MetroHartford Alliance
- Pioneer Valley Planning Commission
- Regional Employment Board of Hampden County
- Springfield Technical Community College
- University of Connecticut
- University of Hartford
- University of Massachusetts Amherst
- Western Massachusetts Electric Co.

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> **"These survey results indicate that Hartford-Springfield area businesses are cautious about expanding in the next 12 to 24 months but they recognize the opportunity and return on investment they receive from committing resources to things like new equipment, Internet and direct marketing opportunities, strategic alliances and employee training. In today's global economy, it is important for our regional businesses to continue to make even small strategic investments that will help them stay on the cutting edge and stand out from other companies offering similar products and services."**
>
> **Charlie Tzoumas**
> Vice President of Business Services for Comcast's Western New England Region

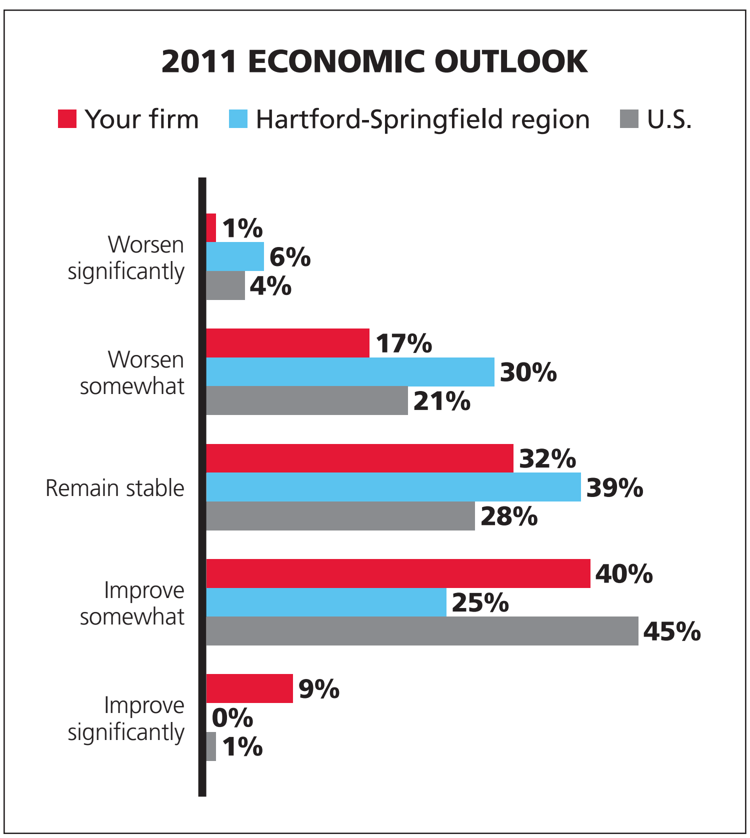
46% citing that issue. This was followed by the taxes levied in the area (34%) and regulatory climate (10%).

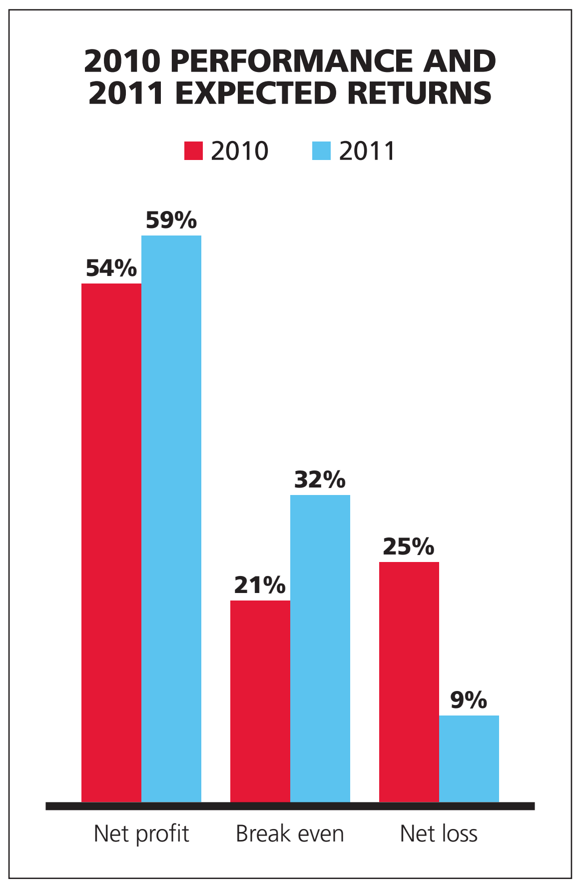
Nearly half (49%) of all respondents believe taxes will be the greatest challenge to operating a business here in the next five years, followed by a much lesser 14% who are worried about the shortage of skilled labor and 13% who are concerned about a potentially weak economy.

As for the positives, 43% cited the area's quality of life as the greatest benefit of running a business in the Hartford-Springfield region, followed by proximity to their customers (30%) and the skilled workforce available here (17%).

This survey also asked about the performance of respondents' businesses and their outlook for the coming year. Fifty-four percent of respondents reported a net profit in 2010, while a quarter of them reported a net loss. The remaining 21% broke even. For 2011, 59% expect a net profit, compared to only 9% who expect a net loss and 32% who expect to break even. When asked about the economic outlook for their firm in 2011, 49% of respondents said they believe the conditions for their business will improve, with 9% of all respondents saying they believe conditions will improve significantly.

This is in contrast to the 39% of respondents who believe the Hartford-Springfield economy will only remain stable and the 36% who think it will worsen in 2011. When it comes to the U.S. economy, 45% of respondents think it





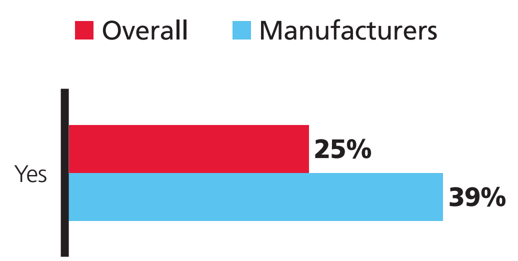
will improve slightly, while 28% believe it will remain stable. Overall, respondents have a relatively optimistic view of the coming year's growth.

Expansion

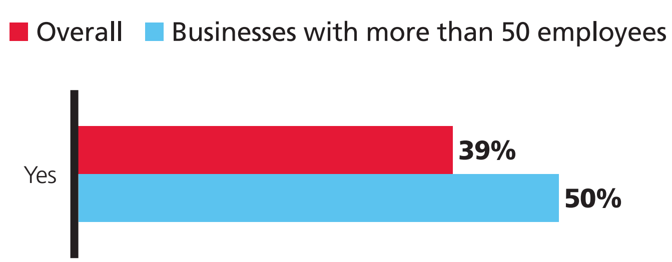
The survey then asked respondents about their plans to expand their business over the next several years. Fifty-five percent do not plan to expand their business in the next 12 to 24 months, compared to 45% who plan to expand during the same period. The top ways of expanding their business cited by respondents are investment in equipment (46%), Internet marketing (45%), strategic alliances (43%), direct marketing (40%), and employee training (36%). Barriers preventing the 55% of companies from expanding include economic uncertainties (64%), the cost of doing business (60%), decreased consumer spending (37%), and credit availability (21%).

An often cited anecdotal concern around competitiveness relates to businesses in the region being lured away to competing states. When asked, 25% of respondents said

APPROACHED BY OTHER STATES FOR EXPANSION/RELOCATION OPPORTUNITIES



CONSIDERED MOVING OR EXPANDING OUT OF THE STATE, PAST FIVE YEARS



> **"Costs of doing business are cited as a challenge to expansion by 60% of the respondents. It's imperative that policy makers listen and understand that they need to work to change policies to lower business costs if they really want growth and maximized economic vitality in the region."**
>
> **Peter Gioia**
> Vice President and Economist, CBIA

they have been approached by other states about relocating or expanding their business in those states. The top five states cited are North Carolina (34%), South Carolina (27%), Massachusetts (26%)*, Virginia (18%), and Georgia (17%). On the other side, businesses were asked whether they ever considered moving to or expanding their business in another state. Sixty-one percent said they have not considered anything over the past five years, but of the 39% that have, 30% considered Massachusetts, 25% considered Florida, and 24% considered North Carolina.

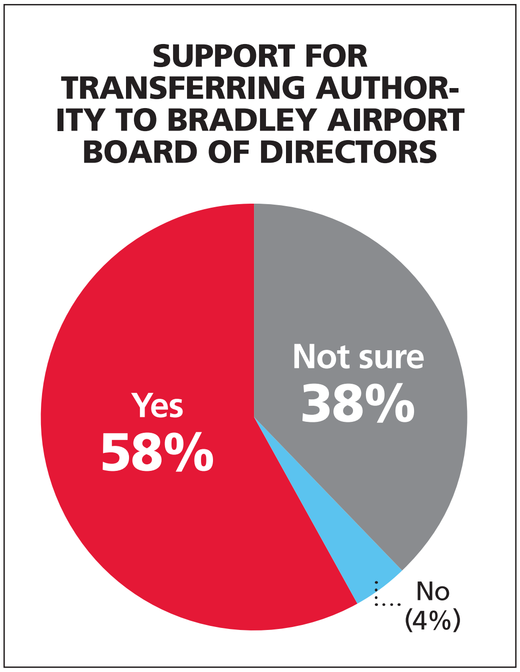
** It should be noted that only 12% of the businesses included in this survey operate exclusively in Massachusetts, with three-quarters located only in Connecticut and 13% in both. Those approached about relocating to Massachusetts were based in Connecticut.*

Location, Location, Location

Next, the survey asked respondents about their proximity to the Boston and New York City markets. Here, 24% of businesses said their companies benefit from being near both major markets, while another 10% experienced benefits in one of the two markets. Of those who saw benefits, 55% said their primary benefit was the customer base provided, 49% cited the business connections it afforded, and a quarter cited the area airports. Twenty-two percent said they gain the benefits of business services such as marketing, IT, and accounting, while 19% cited a greater access to a potential workforce.

Airports and Ground Transportation

A vital component of and connection for the Hartford-Springfield region is Bradley International Airport. When



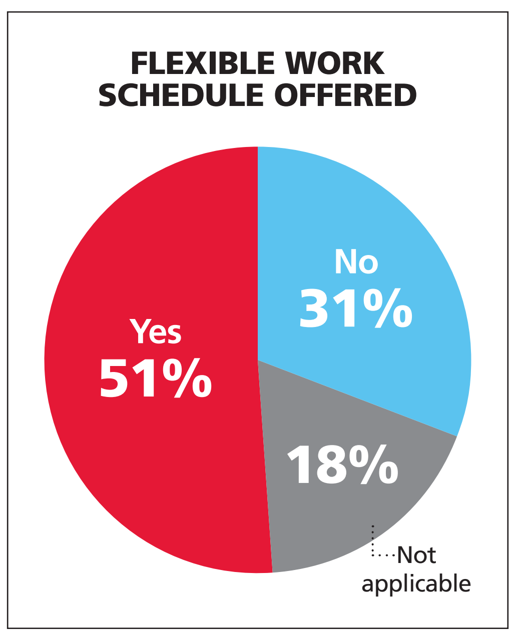
it comes to Bradley and other major airports in the area, 21% of respondents use Bradley International Airport two to three times per year for business transportation, while 35% use it six or more times. A quarter of respondents said they do not use this airport for business transportation. A significant majority (67% of respondents) said they do not use Logan International Airport in Boston, and the same number said they do not use New York City airports. Another 86% said they do not use T.F. Green Airport in Providence for business transportation. When we break out manufacturers, the use of Bradley significantly increases, with 52% using it six or more times annually, compared to Logan (14%), N.Y. airports (16%), and T.F. Green (4%).

> "Some promising developments will address the traffic congestion that respondents say is a major transportation issue in the region. More than a billion dollars will be invested to allow hourly direct trains to New York City's vibrant economy and to construct the region's first bus rapid transit line along I-84 west of Hartford, the most congested freeway corridor in the region."
>
> **Lyle Wray**
> Executive Director, Capitol Region Council of Governments

The relatively high use of the local airport (Bradley) by all respondents for business transportation does not, in general, translate into freight usage. Overall, 77% of respondents said they do not use the airport for freight services. However, this must be considered in light of the fact that 73% of all respondents have fewer than 50 employees, and 79% of all respondents are not manufacturers. Among manufacturers, 46% do utilize Bradley's freight services.

When asked about restoring direct international service to Europe from Bradley Airport, 77% of all respondents said it is not important. But the manufacturing sector is, again, the exception, with 41% saying they would like to see direct international service restored. Also of note, when asked whether they would support transferring authority from the state of Connecticut to the Bradley Airport board of directors to make the airport more independent and autonomous, 58% of respondents said they support the concept and 38% were unsure. Only 4% did not support the transfer of authority. (During the 2011 legislative session, a bill was passed replacing Bradley's board of directors with a Connecticut Airport Authority and placing airport operations in the hands of the authority.)

The survey then asked about general transportation issues. Forty-five percent of respondents cited traffic congestion and poor existing infrastructure as the most pressing transportation issues facing the Hartford-Springfield region. Another 30% cited a lack of mass transit options as cause for



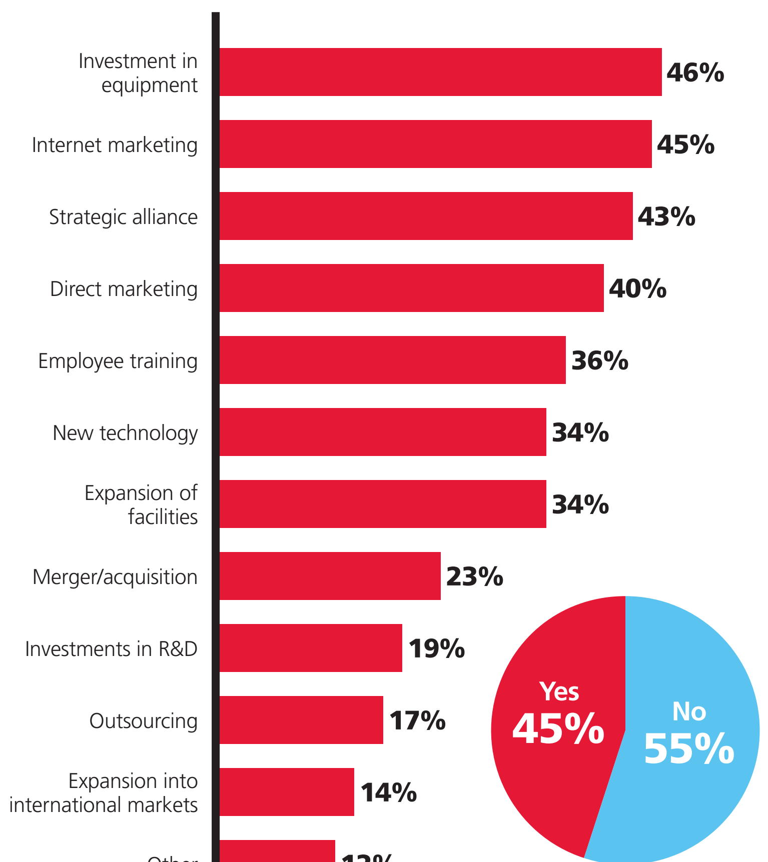
concern. In light of this, 63% of respondents believe an inter-city (New Haven-Hartford-Springfield) higher-speed commuter rail would benefit the region, despite the fact that 59% do not believe it would benefit their business. Businesses did indicate some residual benefit to a rail line, with 30% of respondents indicating it would give them access to cities more than 100 miles away, and another 29% saying it would give them access to smaller towns within 100 miles. Of some note, 20% believe a higher-speed commuter rail would give them greater access to labor outside of their current pool.

> **"This survey again confirms that our region's economic and employment success is determined by our ability to compete aggressively for jobs, capital and talent. A major component of that competitive ability is a tax and regulatory environment that supports private-sector investment and job retention. Such an environment will help the Hartford-Springfield corridor achieve economic expansion and provide meaningful opportunities for its residents."**
>
> **Oz Griebel**
> CEO, MetroHartford Alliance

Higher Education and Skilled Workers

The Hartford-Springfield region benefits from one of the highest concentrations of colleges and universities in the country, second only to the Boston area nationally. With that said, it is somewhat surprising that respondents are evenly split (50/50) on taking advantage of these institutions. Of those who do capitalize on the higher education institutions in the area, 59% use them to find interns, 52% recruit their future workforce there, 41% use them for employee training or retraining, and 26% use the higher education institutions as sources of expertise or consulting.

BUSINESS EXPANSION METHODS



Percentage of companies planning to expand in 2011-2012

After assessing respondents' usage of higher education institutions to improve their businesses, the survey asked about their future business needs in terms of finding and retaining qualified workers. This is important because, though 56% of respondents expect no retirements by the end of 2012, 35% believe up to 5% of their workforce will retire by the end of 2014. More importantly, 50% believe up to 10% of their workforce will retire by 2014. When asked how they plan to prepare for these impending retirements, 43% of respondents said they have not addressed the issue, while the remainder plan to utilize leadership succession plans (39%), increase recruitment (21%), and enhance job training (20%).

Given the current state of the economy and amount of surplus labor in the marketplace, it is still surprising that 36% of respondents reported they were having trouble finding qualified workers. Of those respondents, 62% cite applicants' lack of required skills/education, while 16% blame the overall cost of living in the region for diminishing their hiring pool. When it comes to trouble retaining employees, some reasons cited

> "These results point out the region's great quality of life and the value of our institutions of higher education, especially in planning to replace retiring employees. That said, the challenges presented by today's economy and higher costs and taxes remind us of the delicate position many businesses find themselves in and how important it is that we continue our efforts to improve the region's economy."
>
> **Jeffrey Ciuffreda**
> President, Affiliated Chambers of Commerce of Greater Springfield

include the overall cost of the region (19%) and competition from employers within the region (18%). When asked about the skills new employees most need to ensure their success at their business, nearly three-quarters (72%) of respondents said they need professional/soft skills such as punctuality, interpersonal skills, the ability to work in a team, leadership skills, and work ethic. An additional 44% said technical (job-specific or vocational) skills; 36% highlighted core basic skills like reading, writing, math, and problem-solving; and 29% said their employees needed advanced skills such as engineering or scientific skills.

Changes in the Workplace

The survey next asked about respondents' opinions on the assets of the Hartford-Springfield region that might attract young professionals to the area. Sixty-three percent cited the recreational/cultural activities in the area, 36% said the availability of housing was an asset, 33% said the area had an affordable cost of living, and 31% said the number and variety of job opportunities were attractions.

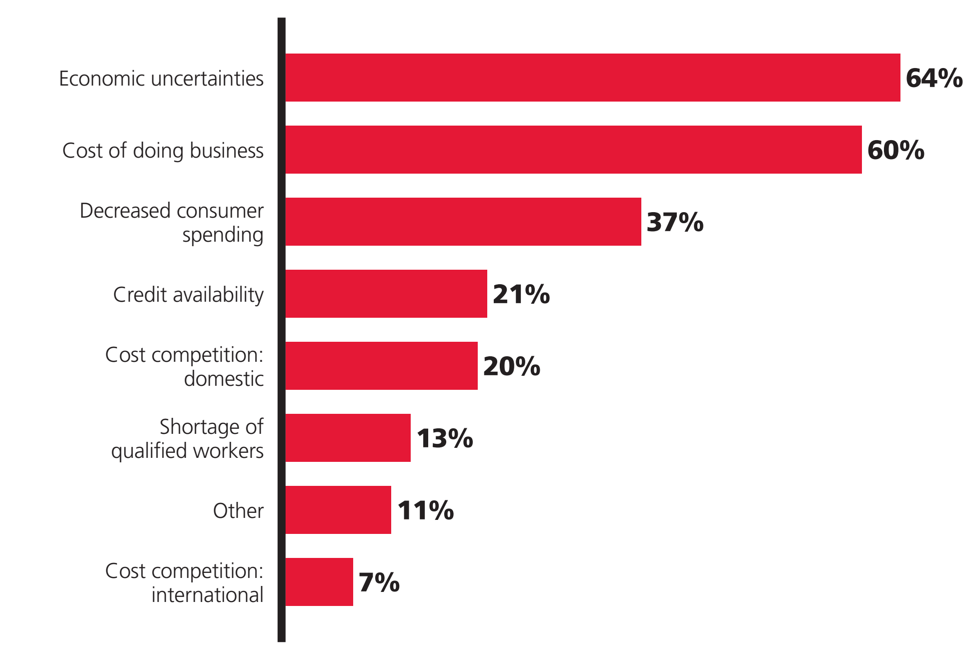
Roughly half of the businesses surveyed (51%) offer their employees flexible work schedules, and slightly fewer than one-third (31%) provide the option to telecommute at least one day a week.

Most believe telecommuting is important or very important as a means of enhancing employee satisfaction and retention (83% of respondents) and increasing employee efficiency and productivity (79%). The majority also believe it's important or very important in attracting a broader range of employees (64%), attracting younger workers (61%), reducing workplace costs (57%), and improving green/sustainable business practices.

Looking Back

Taxes remain a sticking point with business owners in the region, as has been the case in the past two surveys. Recently, economic conditions were seen as the greatest challenge to conducting business in the area. The one constant for respondents is that the greatest benefit of the region is the area's above-average quality of life. Economic outlooks for respondents' firms, the region, and the U.S. as a whole are all on an upswing since the last survey in 2009, with a more positive outlook for the country than that of the 2007 survey. Not all trends are positive, however. The number of

BARRIERS TO EXPANDING



companies reporting a profit, though substantial, is still lower than it was four years ago, and plans to expand businesses have shrunk over the years, from 74% expecting to expand in 2007, to only 45% expecting to do so in 2011. The area's high cost of doing business is a common barrier to expansion for the region's companies.

Companies continue to take advantage of the proximity to the larger markets of Boston and New York City. Local airports are still somewhat underutilized in the area, while infrastructure/traffic congestion remains the most common transportation concern for the region. Support for a New Haven-Hartford-Springfield commuter rail has grown over the years.

When it comes to higher education and workforce issues, respondents realize the importance of the area's higher education institutions and the benefits they bring to their companies, but most do not use them, and of those who do, they only use them for minor recruiting practices. Companies expect a growing number of retirements in years to come, and many companies continue to forgo preparing for impending retirements in the next five years. Applicants not having the required skills or education are the primary reason companies report having issues in finding workers, and professional/soft skills are the most lacking. Finally, these regional surveys have provided an excellent glimpse into the businesses during the start, middle and end of a significant structural recession.

> **"Companies are increasingly recognizing the importance of flexible work hours and other options to increase employee satisfaction and productivity, as evidenced by the rapidly increasing numbers of those reporting the use of telecommuting from home or other remote locations. This growing trend has profound implications for the region as technology continues to transform the way people will work and interact with one another in years to come. Our region's Internet access and connectivity—well above average for the U.S. and the world—should provide us with a competitive advantage here."**
>
> **Douglas G. Fisher**
>
> Manager, Economic Development & Community Relations, Northeast Utilities (Connecticut Light & Power/Yankee Gas)

> **"Although this year's survey results indicate a modest increase in business confidence, it's clear that the region must focus on reducing the cost of doing business to assure its ability to compete."**
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> **Allan W. Blair**
>
> President and CEO, Western Massachusetts Economic Development Council

Conclusion

As businesses and consumers continue down the slow road to economic recovery, this year's survey captures the challenges within the Hartford-Springfield region. Though respondents are generally optimistic about the economic outlook for the remainder of 2011 for their firm and the region, over half have no plans to expand in the next 12 to 24 months. When it comes to transportation, Bradley Airport is used most frequently for business transportation. This is especially true for manufacturers, with 46% using it for freight services and more than 40% saying they'd like to see direct service to Europe restored. Additionally, the business community supports giving more autonomy to the governance of Bradley, which could make it more of an economic driver for the region.

Respondents also cite traffic congestion as the biggest transportation issue facing the area, and two-thirds of respondents believe a higher-speed commuter rail will benefit the region, even if it does not benefit their business. Businesses admit higher education institutions are somewhat underutilized, but those that do utilize them are most commonly finding interns and future employees. Respondents expect a growing number of retirements by the end of 2014, but even in this economy, they are having trouble recruiting qualified workers, based in large part on applicants' lack of skill or education. The telecommuting option is growing but is not yet widely embraced as a "green" initiative or one that could attract and/or retain employees. Overall, the Hartford-Springfield region is resilient, but despite weathering the economic storm, has challenges that must be confronted to ensure its competitive advantage in the world marketplace. ■

METHODOLOGY

The survey was emailed in March 2011 to businesses in the Hartford-Springfield region; 606 businesses responded.

The Hartford-Springfield region is defined as Hartford, Tolland, and northern Middlesex counties in Connecticut as well as Hampden, Hampshire, and Franklin counties in Massachusetts.

The percentages quoted in this report relate to the number of respondents answering each question; thus the sample size for each question varies. In addition, all figures are rounded to the nearest whole number and may not total 100%. The margin of error is +/-3.5%.

For more information or additional copies of this report, please contact Jason J. Giulietti at CBIA (860.244.1900 or jason.giulietti@cbia.com) or visit cbia.com/business to download the report.

"In light of the very slow economic recovery, it is encouraging to see that almost half of the businesses responding to the survey plan to expand their business over the next 12-24 months. Business investment is vital to growing the regional economy while also making the region more attractive to younger, skilled workers. The survey also highlighted how global and local competition could threaten the region's success. With a significant number of companies having been approached by other states or considered moving over the last several years, our elected officials must realize the importance of a business-friendly environment."

Jason J. Giulietti
Research Economist, CBIA

DEMOGRAPHICS

Respondents were fairly representative of the regional make-up of businesses in the region. Seventy-six percent of respondents were located in Connecticut, 12% in Massachusetts and 13% of businesses have locations in both states.

Various types of business are represented:

- Manufacturing—21%
- Professional services—16%
- Finance, Insurance and Real Estate—13%
- Service—12%
- Construction—7%
- Retail—7%
- Education—6%
- Nonprofit/association—5%
- Internet/technology—4%
- Healthcare—4%
- Wholesale—4%
- Energy—1%
- Life sciences (biotech/medical)—1%

Most are smaller companies, employing fewer than 10 people (36% of survey respondents) or 10 to 49 employees (37%). Nine percent of companies employ 50 to 99 people, and 7% employ 100 to 249; 5% of companies responding have 250 to 499 employees, and 6% have 500 or more employees.

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The Hartford-Springfield Economic Partnership (HSEP) was founded in September 2000. HSEP is an interstate collaborative of 20 economic development, planning, business and educational institutions that work together to advance the region's economic progress. The area transcends political boundaries, comprising the Hartford, Conn., and Springfield, Mass., metropolitan areas. It centers on six counties, three in each state, linked by a shared industrial history, economy and workforce, as well as key features such as Bradley International Airport, rail lines, Interstate 91 and the Connecticut River. The group markets the region as "New England's Knowledge Corridor," emphasizing the area's rich history of innovation, invention and world-class educational assets. For more information, visit hartfordspringfield.com.

The Connecticut Business & Industry Association (CBIA) is the largest, most representative business organization in the state. Our members include businesses of all sizes from nearly all industries in Connecticut. We are the leading voice at the State Capitol and before regulatory agencies for policies that promote economic growth, a fiscally responsible state government, and a dynamic business climate. For more information, visit cbia.com.