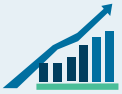


SMB CEO Projections for 2018

Data from the Vistage CEO Confidence Index forecasts economic performance and key decisions for small and midsize businesses this year.



SMB CEOs report record confidence in the economy and their business.



Talent, growth and hiring are among their top decisions for 2018.



54% of SMB CEOs plan to increase investments in 2018.

Looking ahead to the coming year, CEOs from high-growth small and midsize businesses (SMBs) know it's essential to understand the dynamics of the economy, markets, customers and competitors to make the right decisions to spur continued growth.

While there's no crystal ball for SMB CEOs, the Vistage CEO Confidence Index comes close. Since 2003, the Confidence Index has provided a quarterly comprehensive report of the opinions and projections of CEOs of small and midsize companies about the economy, their hiring and investment plans, and prospects for their revenues and profitability. The Confidence Index has been a proven predictor of GDP, two quarters in advance.

One of the reasons why the index is significant is because it looks at SMBs — a business segment that plays a vital role in economic growth. In the United States alone, **SMBs are responsible for creating 75% of all new jobs** and **generating 50% of the nation's revenues**. As a result, tracking the plans of SMB CEOs provides a snapshot of broader trends in markets and industries.

The most recent Confidence Index survey in December 2017 captured input from 1,377 SMB CEOs on their projections for 2018. Based on an analysis of the survey data, **Vistage identified the critical decisions that SMB CEOs face to grow their businesses**. Also discovered were key initiatives among SMBs for talent and customer management, plans for strategic investments, the operational implications of these investments, and leadership priorities for the year.

This report outlines seven key projections that we identified for 2018:

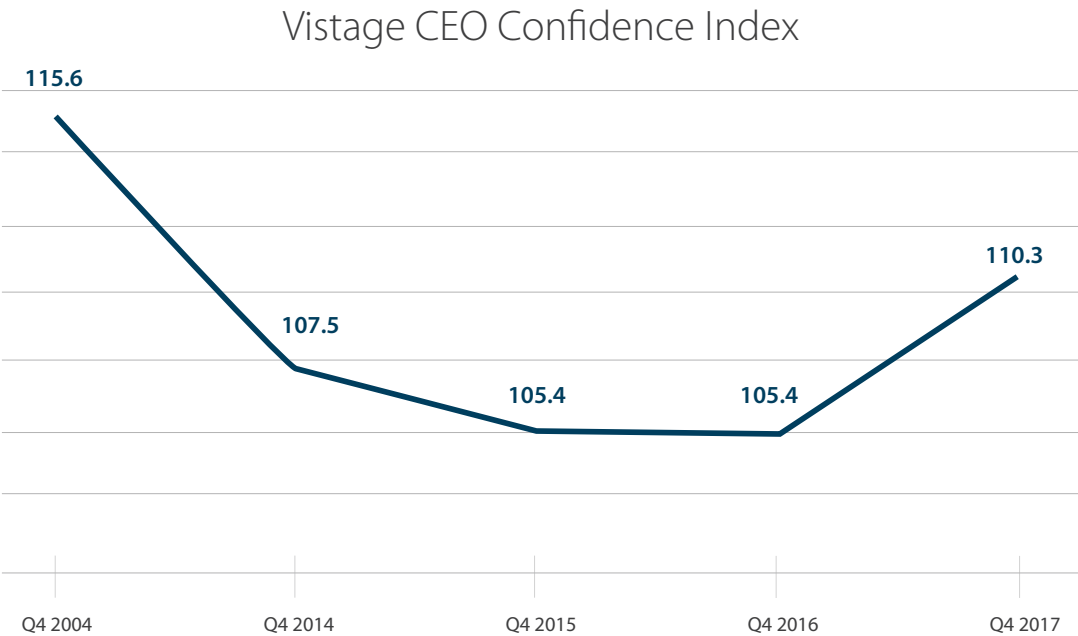
- Projection 1 | Economic growth
- Projection 2 | Key decisions
- Projection 3 | Talent management
- Projection 4 | Customer engagement
- Projection 5 | Financial investments
- Projection 6 | Business operations
- Projection 7 | Leadership development



Projection 1 | Economic growth

SMB CEOs project a robust economy in the year ahead.

An analysis of the December survey determined that the Q4 2017 Vistage CEO Confidence Index — recognized by economists as a strong predictor of GDP growth — **soared to 110.3, the highest point since 2004.**



In the survey, SMB CEOs acknowledged the strength of current economic conditions and expressed plans to expand their workforce and make more fixed investments in 2018. They also predicted that their firms would have greater revenues and profits in 2018.

Across multiple categories, CEO optimism reached historic levels:

- The ratio of CEOs **planning to expand their workforce (72%)** was the highest of the past 12 years
- The ratio of CEOs **expecting increased revenues (83%)** was the highest of the past 12 years.
- The ratio of CEOs **anticipating profit growth (67%)** was the highest of the past 10 years.
- The ratio of CEOs **planning to increase investment expenditures (54%)** was the highest of the past 12 years.

"There's a lot to be optimistic about," says business strategist Marc Emmer, Vistage speaker and president of Optimize, Inc. "Consumer confidence is high: New home sales exceeded 600,000 in 2017, and consumer spending will likely surpass \$14 trillion in 2018. Inflation is in check. And the renewal of U.S. manufacturing offers strong prospects. In 2017, over 156,000 manufacturing jobs were added in the U.S., and orders for non-defense capital goods went up 7%."

Cautious optimism for future economic conditions

While optimism about future U.S. economic conditions increased between Q3 and Q4 in 2017, SMB CEOs expressed less optimism that this growth would be sustained or continued. Only 45% of CEOs anticipated economic gains in 2018, down from 58% one year ago.

"While many high-performing SMBs have seen consecutive years of double-digit growth, they also recognize that there are natural limits to growth," says Joe Galvin, chief research officer for Vistage.

What can account for this declining optimism in light of the elevated score of the Confidence Index?

"It may reflect the ability of CEOs to more quickly evaluate how economic conditions will impact their own firm's future prospects, versus the entire economy," says Dr. Richard Curtin, a research professor from the University of Michigan. "One might anticipate that, as the specifics of the tax reforms become more widely understood, firms would react even more positively."



Q. Did tax reform influence these results?

A: Vistage Research captured the data reflecting this surge in optimism before the tax reform measure passed in December. However, given that the tax bill was anticipated by many CEOs, it's likely that expectations for the passage of the bill did, in fact, impact survey responses.

- Joe Galvin, Vistage chief research officer

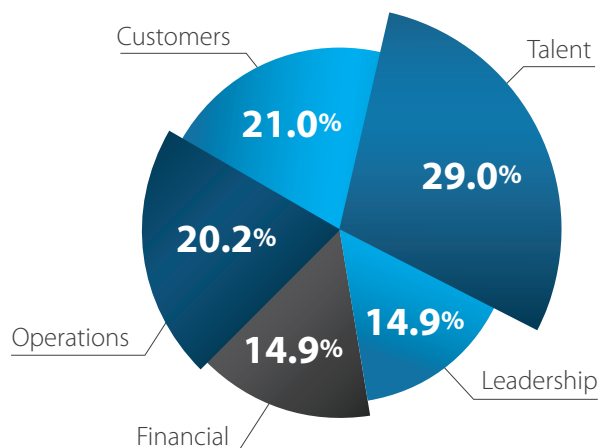
Looking ahead to key drivers of GDP growth, technology is expected to give the U.S. economy a boost in 2018 and beyond. As an example, "It's estimated that, by 2030, artificial intelligence [alone] will add a whopping \$16 trillion in GDP to the U.S. economy," says Emmer.

Projection 2 | Key decisions

High-performing SMB CEOs expect to focus on talent, customers and operations in 2018.

The top business decisions SMB CEOs anticipate making in 2018 fall into three primary categories:

1. Talent (29%)
2. Customers (21%)
3. Operations (20.2%)



This high emphasis on operations is somewhat anticipated, explains Galvin. "Talent and customers are routinely among the top decisions of SMB CEOs. The emphasis on operations is driven by greater investments in infrastructure, technology and equipment to support continued growth."

Top 10 categories for SMB CEOs' decisions for 2018

Rank	CEO decision	No. of CEOs
1	Talent	931
2	Growth/acquisition/expansion	345
3	Hiring	219
4	Market development	209
5	Staff/employees/personnel	176
6	Investments	175
7	Sales	160
8	Strategy	150
9	Capital/cash	149
10	Management	146

Based on 3,045 open-ended responses to the question "What are the three major decisions you'll have to make regarding your business in 2018?"

Vistage Decision Model

The Vistage Decision Model highlights the key decisions CEOs must make — decisions about themselves as leaders, about how they will lead and about the elements of their businesses they seek to optimize. We use the Decision Model to provide a common framework and language to focus on the decisions that optimize businesses and enhance leadership.

Within each of the areas of the model, there are specific areas of focus. The next section of this report explores how talent management, customer engagement, business operations and financials are key areas of focus, while leadership is critical to developing and executing strategies.



Projection 3 | Talent management

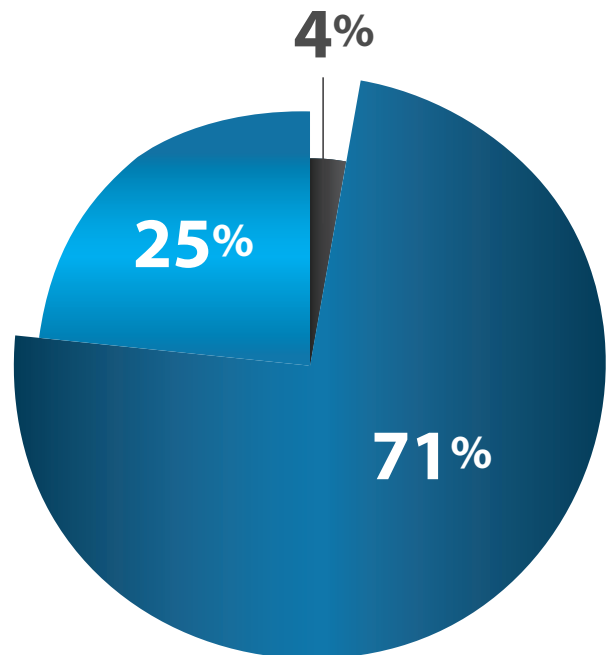
Most SMB CEOs plan to hire more employees in 2018 and expect fierce competition for top talent.

To better understand the talent decisions that CEOs expect to make in 2018, Vistage analyzed participants' responses to open-ended questions about decisions. Through this analysis, five subcategories of talent decisions emerged:

1. Hiring, recruitment and sourcing
2. Retention and engagement
3. Employee development and training
4. Performance management, human resources and compensation
5. Succession planning



This aligns with other data gathered in the Confidence Index survey about talent management plans for 2018. More than 70% of SMB CEOs plan to increase the total number of employees in their firms this year. About 25% of those hiring in the next 12 months will focus on hiring in the first quarter, while 53% percent will hire throughout the rest of the year. Increasing headcount is a challenge for all SMBs.



“It is possible that the tax reform legislation will result in more jobs and more capital investments — a very positive outcome. The difficulties in increasing the current workforce will necessitate higher wages; those wage gains may spark higher inflation and added interest rate hikes.”

– Dr. Richard Curtin

Talent war: Competition for qualified employees grows fierce

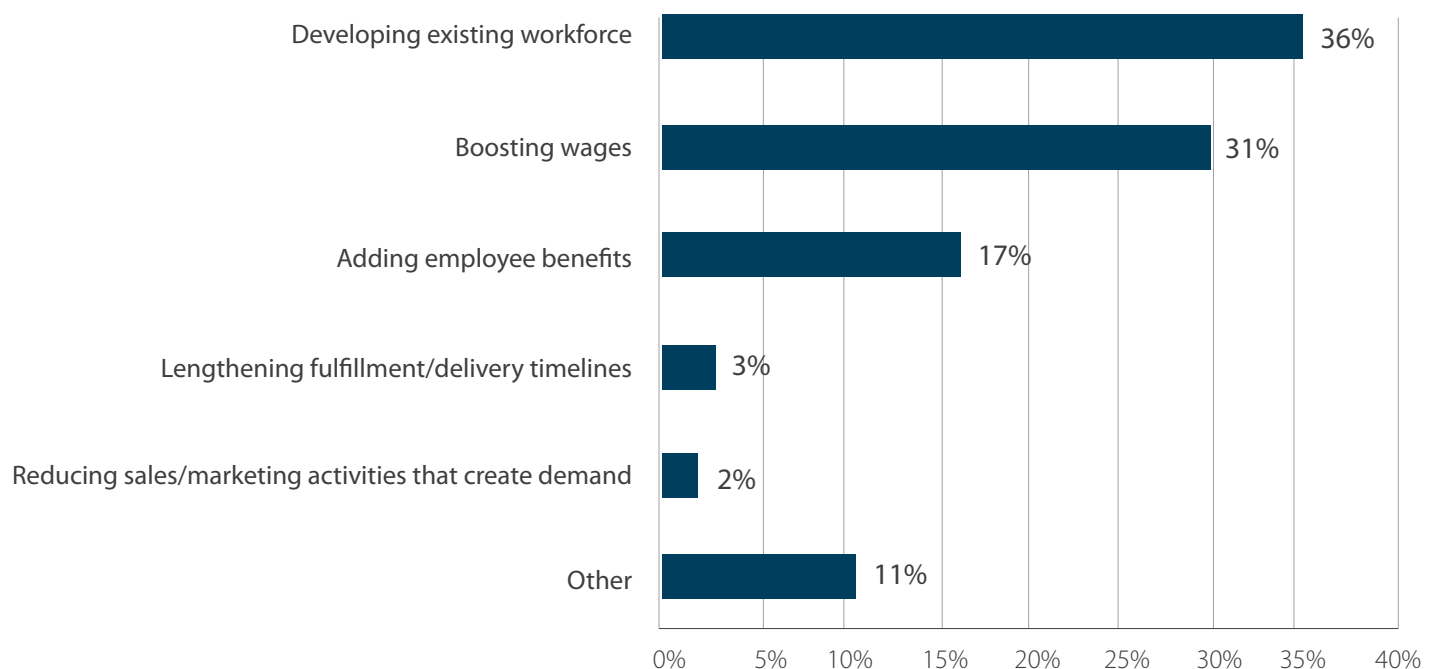
A tight labor market, coupled with expectations for increased hiring, means that recruiting and retaining top talent will be increasingly difficult in 2018.

However, technology shows promise for managing some recruitment and retention challenges. “Artificial intelligence is being used to filter employee applications,” notes Emmer. “For example, some companies are using an algorithm that can filter social media profiles of applicants to assess their suitability. Employers are also using new payroll applications that allow employees to get paid more quickly.”

“While adding headcount is essential to growth, retaining, developing and engaging existing talent is critical,” says Galvin. “It forms a foundation for adding new people. Just as you are looking for the best talent, so is everyone else — and they are looking at your people, too.”

In fact, data indicates that SMB CEOs plan to address talent challenges using a variety of strategies — first and foremost by developing the people they already have in order to improve productivity and support retention. This suggests that they are recognizing that investments in training and development are critical. They’re responding to the hypotheticals, “What if we train them and they leave? What if we don’t and they stay?”

Strategies to address hiring challenges



Projection 4 | Customer engagement

SMB CEOs plan to invest more in growing their customer base.

83% of CEOs surveyed indicated that they anticipated increased revenues for their businesses in the next 12 months, mainly by growing their customers through marketing, sales and customer service.

"This is consistent with findings from the recent [Vistage study on SMB Customer Growth](#) that looked at the key differentiators of fast-growing companies," says Galvin. "We discovered that high-growth businesses are involved in more initiatives in marketing, sales and customer service than no-growth businesses. They're also better at executing those initiatives and tend to have dedicated leadership in place to drive them."

In the past, B2C companies have spent more on marketing than B2B companies, but that's starting to change. "The tide is turning due to the efficiencies provided by digital assets such as the web and SEO," says Emmer. "B2B service companies are expected to spend 11% more on marketing in 2018 than they did in 2017."

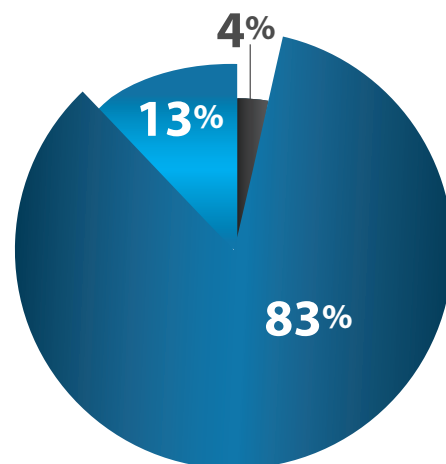
Growth strategies

The data suggests that, in 2018, SMB CEOs plan to build their customer base by focusing on five strategic areas:

Strategic area	Potential tactics
1. Market development	Expand into new markets and geographies
2. Sales	Build a stronger and bigger salesforce
3. Marketing	Invest in marketing initiatives and appoint designated leadership
4. Customer service	Use technology to enhance customer service capabilities
5. Product and pricing	Develop new products or services or change pricing strategy

"Continuous improvement in customer engagement demands a relentless focus on talent, training and technology. The SMBs that invest in and leverage technology the best have a competitive advantage, allowing them to find more, win more and retain and grow more customers," says Galvin.

Do you anticipate that your firm's sales revenues will increase, remain about the same, or decrease during the next 12 months?*



Projection 5 | Financial investments

Fixed investment expenditures are expected to increase in 2018.

With access to record amounts of capital, SMB CEOs are making more financial decisions — particularly in relation to operational investments required to keep up with high growth. For 2018, 54% of CEOs say they plan to increase their fixed investment expenditures.

This percentage is historically significant. “This is the highest percentage who plan increased investment spending in more than a dozen years, and just shy of the 57% peak recorded in the closing quarter of 2004,” says Curtin.

Technology tops list of investments

Among the top 10 investments planned for 2018, technology easily took the No. 1 spot.

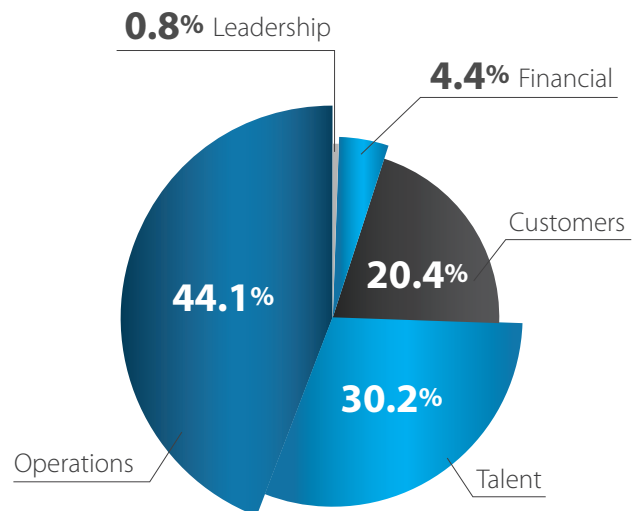
This doesn’t come as a surprise to Emmer. “In 2018, the promise of many emerging technologies will be unleashed. Machine learning — a mashup of the Internet of Things, augmented reality, virtual reality, mixed reality and cloud/edge computing — will dominate technology.”

Adds Galvin, “Up from No. 3 in our 2017 analysis, technology powers productivity across all aspects of a business. For SMBs, this becomes a force multiplier, allowing them to compete with larger companies and scale more quickly. Investments in equipment and facilities are also needed to support and scale the operational infrastructure,” says Galvin.

Top 10 investments planned by SMB CEOs in 2018

Rank	Investments for 2018	No. of CEOs
1	Technology	552
2	Equipment	341
3	People	318
4	Marketing	293
5	Staff/personnel/employees	271
6	Training	228
7	Sales	183
8	Facilities/office/building	162
9	Talent/HR/hiring	128
10	Growth/expansion/acquisition	123

Based on 3,473 open-ended responses to the question “What are the top 3 areas of your business you’ll invest in during 2018?”



Analyzing investment decisions and financial issues

In this area, Vistage Research identified several subcategories of investment decisions. They were, by order of importance: operations, talent, customers, financial and leadership.

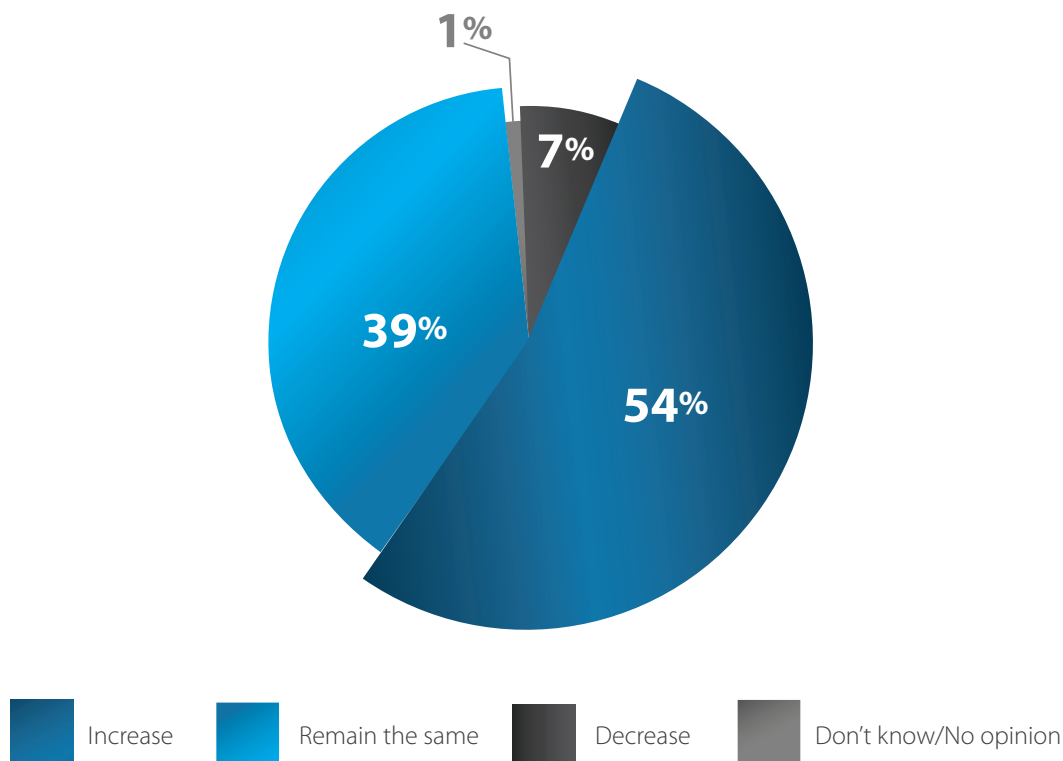
The survey also revealed the top five financial areas that CEOs plan to focus on in 2018:

1. Financial management
2. Capital and cash management
3. Economic trends
4. Ownership and governance
5. Mergers and acquisitions

“Our data indicates that spending in operations is expected to exceed spending in talent in 2018. This suggests an interest among CEOs to invest more on technology that will improve operational efficiencies, and essentially, do more with less people.”

– Joe Galvin, Vistage chief research officer

Are your firm’s total fixed investment expenditures likely to increase, remain about the same, or decrease during the next 12 months?*



Projection 6 | Business operations

SMB CEOs plan to spend more on technology, equipment and facilities.

In addition to the top investment, technology tops the list, followed by equipment and facilities.

“Note the circular nature in which these investments relate to other areas of talent and customers,” says Galvin. “To grow their customer base, SMBs need additional talent in the areas of sales and production. And to support the success of that talent, SMBs need to have the right infrastructure in place — including adequate workspace and systems for communicating across the organization.”

In other words, **operational investments are driven by the need to boost productivity and improve execution.** “Technology, equipment and facilities are, therefore, critical investments for SMBs that want to drive growth,” Galvin explains.

Emmer feels that data infrastructure specifically will play a central role in growth. “Companies will move from quantity to quality as they become better at capturing data and driving better customer experiences,” he says. “Marketing automation, for example, enables companies to target customers with relevant content in real time.”



“Technology, equipment and facilities are critical investments for SMBs that want to drive growth.”

– Joe Galvin, Vistage chief research officer

Challenges expected in 2018

The operational challenges that SMB CEOs anticipate in 2018 follow a similar pattern. Once a company has made investments in areas, such as new technologies and equipment, effective use of those investments is critical, so processes and implementation become a key focus. By combining change management strategies with strong leadership, CEOs enable their company to evaluate, address and overcome barriers as they arise.

The top five challenges identified by these leaders are:

- 1. Technology
- 2. Infrastructure
- 3. Productivity and execution
- 4. Manufacturing and distribution
- 5. Risk management

Top 3 areas of planned investments in operations

Ranking	Investment type
1	Technology
2	Equipment
3	Facilities

Projection 7 | Leadership development

Top focus areas for leadership include strategic planning, culture and communication.

Leadership is as much art as it is science. It's a combination of talent, training and experience. Even the "natural-born leader" must continue to develop themselves if they expect their organization to continue to grow. Although lower in importance in comparison to the other areas, data shows that SMB CEOs continue to value leadership development. Good leaders tend to focus on others before themselves, while great leaders recognize they must continue to work on their own development as well as the leadership capabilities of their teams.

Leadership decisions were categorized as the fifth-most important decision that SMB CEOs expected to address in 2018. Leadership development was also ranked as No. 5 on CEO lists of planned investments.

At the end of the day, it's about execution, says Galvin. "Execution is the fundamental leadership discipline for how a leader translates their vision into a strategy for managing talent, connecting with customers, optimizing operations and managing the financials that calibrate the business. Leadership is how a leader prioritizes and aligns those strategies into a culture prepared and willing to deliver."

"CEOs are at the center of key business decisions," Galvin says. "High-performing CEOs recognize that and prioritize leadership development to constantly broaden their capabilities. They need to sharpen their competencies for making investment decisions, communicating effectively with teams, building a strong culture and executing on strategy."



Key areas of focus

1. Strategic planning
2. Organizational culture and values
3. Communication and alignment
4. Mission, vision and purpose
5. Innovation

Indeed, a number of recent social, political and environment events are likely to influence the types of decisions that leaders have to make. Sexual misconduct in the workplace is expected to be a top issue.

"In 2018, companies will need to take a far more aggressive and proactive stance toward workplace harassment," notes Emmer. "Leaders will want to consider policies that include more expansive training and new workplace practices that protect employees. Not only does society expect this from business, it is the right thing to do."

Environmental issues are another area that leaders are likely to face. "More than 300 global companies have already committed to reducing emissions," says Emmer. Emmer also notes that in the age of social media, companies should also consider how to "embrace a new culture of transparency and be more forthcoming with information."

"Leadership is the art of execution. It's the art of getting things done. Leaders must be highly conscious of this if they want to make the right business decisions that lead to the best business outcomes."

– Joe Galvin, Vistage chief research officer

Key takeaways: SMB CEO projections for 2018

With SMB CEO confidence surging to its highest peak in more than a decade, high-performing CEOs are projected to take advantage of current economic factors to make the critical decisions and strategic investments that will propel growth for their businesses in 2018 and beyond.

The combination of a strong economy, SMB-friendly regulatory and tax changes, and ready access to capital provides a rare platform to make 2018 a strong year for SMBs. Capitalizing on these factors will test the CEO's decision-making ability as well as the leadership disciplines and competencies required to drive execution. Those CEOs who fully realize these opportunities can positively impact the fate and fortune of their business.

In light of these projections, here are five actionable recommendations for SMB CEOs in 2018:

1. Talent management

Projection: Most SMBs plan to hire more employees in 2018 and expect fierce competition for top talent.

Action: Improve retention by developing and engaging your existing people. This will set the foundation for finding the right people to add to your team. High performers want to work with other high performers.

2. Customer engagement

Projection: CEOs plan to invest more in growing their customer base.

Action: High-performing SMBs source a higher percentage of their business from new customers. To that end, focus on attracting, engaging and closing new customers to drive growth this year and increase your revenue base next year.

3. Financial investments

Projection: Fixed investment expenditures are expected to increase in 2018.

Action: Take advantage of historically low interest rates and access to capital. This presents a rare opportunity to scale your business to address current and future growth.

4. Business operations

Projection: CEOs plan to spend more on technology, equipment and facilities.

Action: To maximize return on investment in infrastructure, leaders must ensure effective implementation, execution and process innovation.

5. Leadership development

Projection: Top focus areas for leadership include strategic planning, culture and communication.

Action: Continuous improvement begins with the leader. Invest in your leadership development and processes to fully realize the potential of your team and business.

Contributors



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Dr. Richard Curtin is a research professor and has been the director of the Surveys of Consumers at the University of Michigan since 1976. Dr. Curtin's monthly report on consumer confidence is one of the most closely followed economic indicators, with findings from his research extensively reported in the media. His research is widely used by businesses and financial institutions as well as by federal agencies responsible for monetary and fiscal policies. Data from the Surveys of Consumers is an official component of the Index of Leading Economic Indicators.



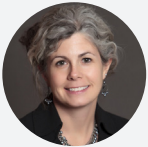
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About Vistage Worldwide

Vistage Worldwide is an organization designed exclusively for high-integrity CEOs and executive leaders who are looking to drive better decisions and better results for their companies. Our members — 21,000 strong in more than 20 countries — gather in trusted, confidential peer advisory groups where they tackle their toughest challenges and biggest opportunities. CEOs who joined Vistage in the past five years grew their companies 2.2 times faster than average small and midsize U.S. companies, according to a 2017 analysis of Dun & Bradstreet data.

Learn more at vistage.com.

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Vistage curates subject matter from our community and collaborates with top thought leaders to create unique content. Vistage executives access actionable, thought-provoking insights from the Wall Street Journal/Vistage Small Business CEO Survey and Vistage CEO Confidence Index results, as well as national and local economic trends. Since it began in 2003, the Vistage CEO Confidence Index has been a proven predictor of GDP, two quarters in advance. Vistage provides the data and expert perspectives to help you make better decisions. Visit vistage.com/confidenceindex and vistageindex.com to learn more.

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