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COLORADO CHAMBER OF COMMERCE

For business. For Colorado. For tomorrow.

Colorado Competitive Landscape Report

2022 Sentiment and 2023 Outlook

Part I: Introduction

Dietrich Partners and the Colorado Chamber of Commerce are pleased to present the Colorado Competitive Landscape Report, the first of an annual series providing Colorado business owners and executives with relevant information, in order to:

- Understand the policies and experiences that have recently impacted or are currently impacting companies' decisions to expand or contract operations in Colorado.
- Gain insight into the competitive challenges employers face.
- Share perspectives from executives on how they are addressing challenges.
- Provide the Colorado Chamber with the information necessary to engage and develop policies that are front of mind in order to continue to support a sustainable and healthy business climate.

This report summarizes the findings from a qualitative survey of both public and private Colorado companies operating along the Front Range and Western Slope with revenues ranging from $8 million to $1.5 billion. Participating companies employ between 60 and 3,000 people and have been in business anywhere from two to 97 years. Respondent industries include:

- Architecture and Design
- Cannabis
- Construction
- Consumer Goods
- Financial Services
- Food and Beverage
- Hospitality
- Information Technology
- Insurance
- Logistics
- Manufacturing
- Non-profit
- Real Estate
- Transportation

A. Acknowledgments from Report Sponsors

Dietrich Partners and the Colorado Chamber of Commerce thank the Colorado business leaders who candidly shared their perspectives and insights during the in-depth information-gathering discussions. Without exception, all generously gave their time to this important project.

B. Methodology

In the second and third quarters of 2022, the Colorado Chamber of Commerce provided Dietrich Partners with a list of over 100 C-level executives from companies in Colorado's major industry sectors to participate in this survey. Thirty-one[1] agreed to participate in a confidential, multi-hour virtual interview focused on understanding what makes Colorado a destination for companies to do business or why they may have recently left Colorado. These executives provided information about various cross-functional topics impacting their companies as well as their perspectives on the transition decision and process.

Questions were asked around the following topics:

- **Workforce and talent**, including company culture, benefits and compensation and talent recruitment and retention.
- **Colorado's business climate**, such as the state's strengths, weaknesses, opportunities and threats (SWOT) and political and legislative issues.
- **Business operations** impacting revenue, profit, growth, supply chain hurdles, real estate, capital investment and Environmental, Social and Governance (ESG) issues.
- **2023 outlook and sentiment**, including priorities and anticipated challenges.

[1]As is common in the inaugural year of any report, the number of C-level executives who elect to participate is limited. The report sponsors anticipate the number of participants to increase moving forward as corporate leaders recognize the value and unique information this report provides, which will allow them to plan and/or align their experiences into regional, state and national context.

Part II: Key Findings

Colorado companies of all sizes and across industry sectors reported sales and production returning to or exceeding pre-pandemic levels in 2022 and having met their budget goals despite compressed margins and profitability due to increased costs of materials, human capital, equipment and supply chain issues. Proactive and creative adjustments learned during the pandemic and implemented in 2022 rendered survey respondents far more confident in their companies' performances than in previous years — notwithstanding rising inflation and interest rates. Respondents noted that Colorado's diverse and growing economy, technological innovation, sports teams, outdoor recreation and natural beauty continue to attract and retain a skilled and motivated workforce. The state remains a highly desirable location for business executives, thought leaders and policy experts.

However, significant — and even unprecedented — challenges threaten the future of Colorado's positive business climate. The state's low unemployment rate, worker burnout and shifting work-life values in the wake of the pandemic created a chasm between employer and employee expectations. Respondents specifically noted, financial compensation, health and company benefits, remote work and flexible schedules were all areas of focus. Many employers reported lower employee productivity, increased attrition and the phenomenon known as "quiet quitting," where an employee performs only the bare minimum job requirements.

Additionally, while Colorado has the well-earned reputation as a great place to live and work, many respondents reported that increased wages, sky-high cost of living expenses and the unintended consequences of state legislative policies (such as wage transparency, family and medical leave insurance and retail delivery fees) have pushed some Colorado companies to expand operations outside of the state and others to consider moving all their operations out of Colorado entirely.

Part III: Workforce and Talent

The unique combination of a low unemployment rate, rising inflation, shifting work-life values and a hybrid workplace presents an unprecedented mix of challenges for Colorado employers. At the time Dietrich conducted interviews, Colorado's unemployment rate was 3.7% — the lowest rate since February 2020 (pre-pandemic) when it was 2.8%.[2] Nationally, there were 1.9 job openings for every unemployed worker, and a record 4.5 million Americans had quit their jobs.[3]

Analysts from both ends of the political spectrum characterized the labor market as "tight," although they disagreed as to the causes. Those on the right blamed generous unemployment payments and participants "playing the [unemployment compensation] system" while those on the left cited early retirements to avoid COVID exposure, departures to care for elderly relatives and children, and racism.[4]

Almost every executive surveyed said the tight labor market resulted in some degree of employee entitlement or what is defined as "employee leverage." These are employees proactively demanding greater compensation, increased benefits, flexible work schedules and immediate opportunities for promotion with the willingness to leave a position if the terms are not largely agreed upon.[5] Further, these same executives have reported a noticeable loss of productivity and/or lower employee performance levels than experienced pre-pandemic. Many respondents were hesitant to move forward with performance measures or terminate a position given the fear of not finding an appropriate backfill in the talent market within the same cost parameters.

A. Great Expectations

The swift impact of inflation coupled with housing affordability challenges have significantly impacted employees' financial circumstances. As a result, employers are struggling to find balance between meeting employees' financial needs and sustaining company cash flow and profitability.

> *"More and more people are leaving metro Denver because of the cost of living. This is causing the talent pool to tighten as people and quality talent are driven out of the state. The next shoe to drop is corporations leaving because they cannot find the talent to support their businesses."*
>
> *- Matt Joblon, CEO of BMC Investments*

[2]https://cdle.colorado.gov/press-releases/press-release-colorado-employment-situation-march-2022
[3]Rockman, Olivia, U.S., Job Openings Rose Unexpectedly to Record 11.5 Million, Bloomberg, US Edition, May 3, 2022, https://www.bloomberg.com/news/articles/2022-05-03/u-s-job-openings-rose-unexpectedly-to-record-11-5-million
[4]Sojourner, Aaron and DiVito, Emily, The Labor Leverage Ratio: A New Measure That Signals a Worker-Driven Recovery, Roosevelt Institute, February 4, 2022, https://rooseveltinstitute.org/2022/02/04/%E2%80%8B%E2%80%8Bthe-labor-leverage-ratio-a-new-measure-that-signals-a-worker-driven-recovery/
[5]According to Mental Health America's 2021 Report, Mind the Workplace, pg. 2, "Over 56% of employees reported that they spend time looking for a new position, compared to 40% of Respondents in 2018." https://mhanational.org/get-involved/download-mind-workplace-2021-report

When asked about the overall compensation packages offered to employees, the respondents were proud of the packages their companies currently provided, describing them as “comprehensive” and “very solid.” At the same time, respondents were concerned about the ability to offer higher starting salaries and significant signing bonuses, given the impact on other operational cost pressures and ultimate profitability. In an attempt to solve this problem, many corporate leaders are educating their employees on corporate financial fundamentals: the connection between the financial sustainability and profitability necessary in support of company operations and the increasing cost of labor.

The CEO of a manufacturing company described his recent frustration of losing a talented employee. “Recently a larger company poached our director of product. When I hired him from a competitor several years ago, he assumed more responsibilities than he had historically held. A competitor from his prior industry recognized the new skills he had obtained and courted him heavily. Unfortunately, we could not match their offer. It’s pretty hard to beat an offer that includes 100% remote work, unlimited PTO, four-day work weeks, five paid hours a week to perform volunteer work and four weeks fully paid paternal / maternal leave. There’s just no way a small business can compete with an offer like that for an executive role.”

John Street, CEO of Pax8, says this about the value of happy employees: “In our culture, employees come first, even ahead of customers. Our philosophy is that if the employees are happy, the customer experience will be excellent.”

To address both employee financial concerns while balancing their company financial viability, survey participants:

- Enhanced their compensation packages within the last 12 months by focusing salary increases on entry-level positions, making across-the-board adjustments and increasing performance-based bonuses.
- Adjusted wages more frequently and monitored market rate salaries in their industries and by position. Some companies raised salaries 8% to 50% beyond traditional cost-of-living increases for certain positions.
- Augmented their benefit packages by offering more (or unlimited) paid time off, allowing employees to work remotely (when possible), increasing their 401(k) plan match rates, and picking up a greater share of health insurance premiums or co-pays.
- Strengthened non-monetary benefits including upgrades in equipment, connecting employees to the company’s mission and shared values through fun events, and adopting an “employee first” mentality.

Colorado’s employers are not the only ones feeling wage pressure. According to the global human resource consulting firm Robert Half and the US Department of Labor’s Bureau of Labor Statistics, employers across the US are increasing salaries and enhancing benefit packages to better meet or exceed employee expectations in order to retain or attract talent.

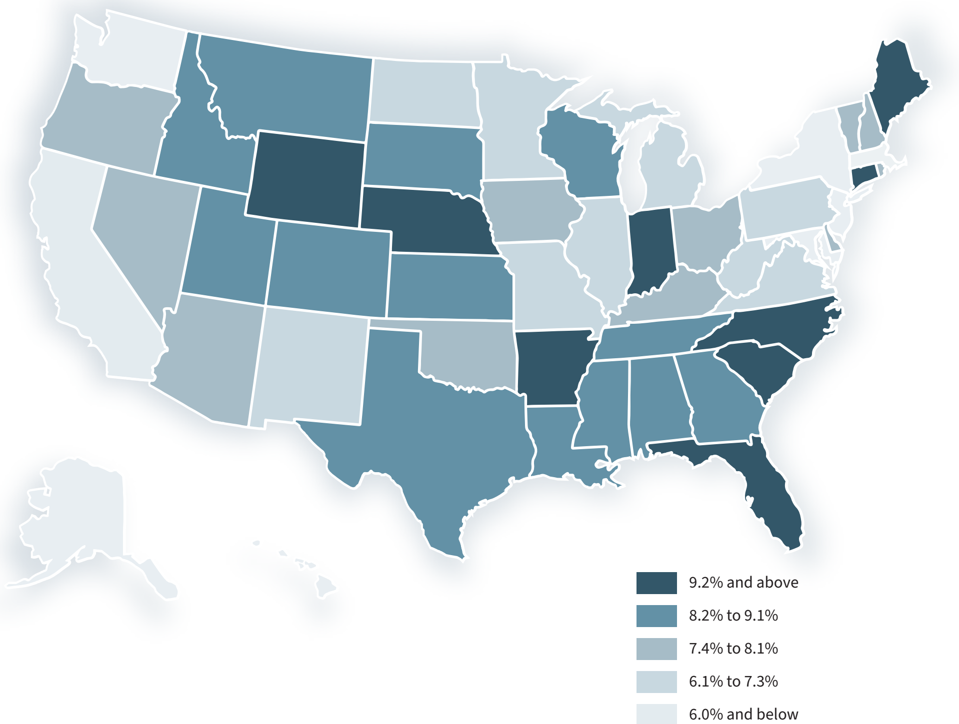
To recruit skilled professionals, 46% of employers are offering higher starting salaries. In addition, 83% of managers who increased base compensation for new hires in the past year have also made pay adjustments for current staff.[6] More than eight in 10 companies (83%) have added new perks in response to the challenging hiring market, the most common being:

1. Remote work opportunities (40%)
2. Mental health resources (36%)
3. Wellness programs (33%)[7]

“Despite overall salary growth in the United States, more than half of professionals (55%) feel underpaid and 48% will ask for a raise if they do not get one — or the amount is lower than expected — by year-end. Further, four in 10 workers (41%) would consider changing employers for a 10% increase in pay.”[8]

PERCENTAGE CHANGE OF AVERAGE WEEKLY WAGES BY STATE

Percent change of average weekly wages by state, total covered, March 2021 to March 2022 | Source: U.S. Bureau of Labor Statistics



https://www.bls.gov/charts/county-employment-and-wages/percent-change-aww-by-state.htm

Colorado was one of 12 states experiencing the second highest percentage increase in weekly wages between March 2021 (8.2%) and March 2022 (9.1%).

[6]2023 Salary Guide, Robert Half, as quoted by PRNewswire, September 27, 2022, U.S. Workers Share Salary Expectations and Priorities in Today’s Job Market
[7]Ibid.
[8]Ibid.

B. New Hires: Missing in Action

Providing more lucrative compensation packages is not the only challenge in a tight labor market. Employers described a new trend: Many new hires do not show up for work on the first day. "The first challenge is to get them to show up," and "it's amazing how many people take a job, then don't show up," were common observations — especially in industries that are labor intensive.

> The CEO of a multi-generation company in Colorado said the company leadership team is planning changes to its manufacturing facility to alleviate capacity issues and provide room for growth before the next generation of owners takes over. Beyond the fact that hiring workers for manufacturing has its own challenges, this CEO described the new challenges his company faces: "Finding people to work on the line, especially when changing to a two-shift model, is difficult. We will do group interviews and will have 12 people in the group interview, offer employment to eight of them and then only three of them will actually show up for their first day. We've had people interview for jobs, complete all the paperwork, order uniforms, and come starting day, 50% or more never show up."

Survey respondents attributed the "no-shows" to a number of factors, including:

- Applicants applying for multiple jobs with the purpose of "seeing what's out there," receiving multiple offers and then not communicating with the employers they did not select.
- Applicants "working the [unemployment compensation] system" by submitting applications only to qualify for continued unemployment benefits.
- Applicants willing to change industries or careers in exchange for slightly better wages, benefits or working conditions.

All respondents said their employees were either consistently looking for a new job or being courted by other employers both within and outside of their industries that offered better compensation and opportunities for advancement. At the time the survey was conducted, employers noted competing against companies outside of their industries.

However, survey respondents are beginning to sense a shift in the employer / employee power dynamic. At the time of the survey, respondents indicated the job market was "stabilizing," "leveling off" and "not as hot" as it had been just a few months before. Signs of this shift became evident in the construction industry, where job openings between May 2022 and June 2022 dropped by 71,000.[9] While the total number of US openings in construction was 334,000, analysts noted that ". . . demand for workers is clearly fading due to rising borrowing costs, increasingly pervasive pessimism and growing risk of inflation."[10]

As companies and employees alike prepare for a potential economic downturn in 2023, executives said they expect to see less turnover and more stabilization of salary and benefits related requests as uncertainty prompts employees to keep the jobs they have.

[9]Bureau of Labor Statistics, Job Openings and Labor Turnover June 2022, August 2, 2022, https://www.bls.gov/news.release/archives/jolts_08022022.pdf
[10]Associated Builders and Contractors, Construction Job Openings Decreased 71,000 in June; US Economy Poised to Slow, Says ABC, Construction Economic Update Press Release, August 2, 2022.
https://www.abc.org/News-Media/News-Releases/entryid/19531/construction-job-openings-decreased-by-71000-in-june-us-economy-poised-to-slow-says-abc

C. The Hybrid Workplace Continues to Evolve

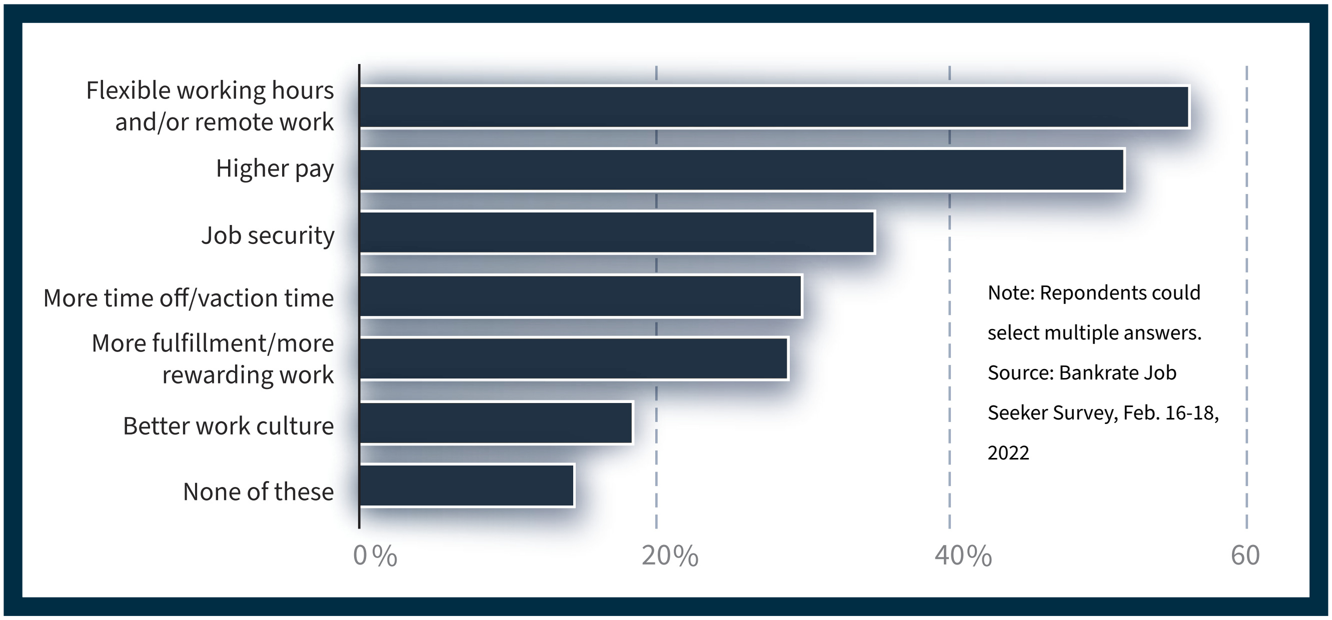
Over the past few years, operating in a hybrid workplace has been a challenge for most employers. Companies that primarily operated remotely and/or offered flexible hours before the pandemic continued to do business as usual. Those whose employees did not work remotely during the pandemic reported they were working to find the balance between their companies' operational needs and their employees' requests for flexible hours and remote work.

While some tasks require employees to work in-person, most companies have set remote work policies on an employee-by-employee or position-by-position basis. Few respondents have company-wide work from home policies. Instead, leaders have largely left decisions to department leads and middle managers. For some companies, this custom approach creates conflict when employees believed that work from home benefits have not been applied equally among teams and/or individuals.

Survey respondents' experience with employee demand for flexible hours and remote work mirrors findings by a Bankrate 2022 study: employees nationwide are putting more emphasis on these issues than they did prior to the pandemic.

Job seekers value flexible hours and remote work

We asked: Thinking of your employment moving forward, which, if any, of the following are more important to you now than they were prior to the COVID-19 outbreak? Please select all that apply.



Sham, June, Survey: 55 percent of workers place greater importance on flexible or remote work options, March 14, 2022, Bankrate, https://www.bankrate.com/personal-finance/job-seekers-survey-march-2022/

As respondents sought to maintain or improve productivity, they noted the difficulty of accurately monitoring and effectively managing remote workers. The survey found that executives were evaluating the pros and cons of various management tools including keystroke or email activity, log-in time and cameras. Respondents agreed that trusting employees was a critical factor to success yet were looking for ways to ensure remote workers were as productive as in-office workers.

Another challenge is the misalignment and confusion surrounding pre-pandemic labor laws and the post-pandemic hybrid workplace. The COO of a transportation company provides an example of the challenges in the new hybrid workplace: "Distinguishing exempt employees from non-exempt in a hybrid remote working environment is extremely challenging. An employee might respond to a message at 8:00 p.m., so is that employee exempt or non-exempt? How do we clock the 30 seconds they spent answering a message when that's all the work they did in the prior five hours? Clearly, the labor laws need to adapt to a hybrid working environment."

Finally, there is the impact a hybrid workplace has on a company's culture and its ability to collaborate and mentor. Nearly every respondent cited the importance of its culture as a critical factor in employee engagement and company success yet struggled with how best to support culture in a hybrid environment. Employee engagement and the ability to attract and retain workers was among respondents' top priorities for 2023.

The CFO of a manufacturing company described the challenge of balancing remote and at-home work this way: "Our concern is the long-term impact of not having people in person. The relationships that you develop working with people in person, the ideation, innovation, and creativity all come from people having in-person interactions. You don't get that when somebody is working in their home office or from their kitchen table."

Despite the challenges of remote work and flexible hours, most employers acknowledged that remote work has become a permanent part of the workplace, and for some "it's become part of the culture." A 2022 survey of 25,000 Americans confirms that these employers were correct: Eighty-seven percent of employers offered at least some remote work and workers embrace the opportunity and spend an average of three days a week working from home.[11]

According to US Census Bureau's 2021 American Communities Survey (released in September 2022), "the number of people working primarily from home tripled from 5.7% (roughly nine million people) to 17.9% (27.6 million people)" between 2019 and 2021. In Colorado, the percentage of home-based workers in 2021 was 23.7%.[12]

[11]McKinsey & Company, American Opportunity Survey, Americans are embracing flexible work—and they want more of it, June 2022 https://www.mckinsey.com/industries/real-estate/our-insights/americans-are-embracing-flexible-work-and-they-want-more-of-it

[12]United States Census Bureau, The Number of People Primarily Working From Home Tripled Between 2019 and 2021, September 15, 2022, Press Release Number CB22-155. https://www.census.gov/newsroom/press-releases/2022/people-working-from-home.html

Many respondents shared common policies and practices they have used to minimize the growing pains of developing an effective hybrid workforce, including:

- Investing in better technology to enable remote work and productivity.
- Providing training on best practices for reporting, scheduling meetings and sharing documents.
- Encouraging active engagement and proactively planning opportunities for team members to collaborate.
- Implementing daily/weekly stand-up meetings with teams.
- Ensuring company celebrations and other “culture moments” include a virtual option.
- Providing coaching to employees related to meeting etiquette practices, such as announcing their names when they speak, signaling a desire to speak (raising a virtual hand), muting when not speaking and active listening.
- Reiterating what they consider to be appropriate workplace attire, even in the comfort of one’s home.

“Remote work sounds great, and it is: flexibility, no daily commute, and spending less on gas — employees are really enjoying that. Then after a while, they start thinking about things like, ‘Does anybody even know I exist anymore? How will not being in the office all the time having the hallway conversations and bumping into the leadership team impact my career advancement?’ In other words, it is on our management and our employees to make sure that employees stay engaged and invigorated and that they don’t feel like they’re not a part of the mechanism that is their career, are missing out on opportunities to advance their career and better themselves in the company.”

- President and CEO of a non-profit financial cooperative

D. The Lingering Effects of The Great Resignation

According to the US Bureau of Labor Statistics, more than 47 million American workers voluntarily quit their jobs in 2021 — a phenomenon that some analysts refer to as “the Great Resignation.”

Some analysts believe the Great Resignation was not a one-time event but will continue post-pandemic.[13] These analysts attribute the quit rate in today’s labor market to retirement, relocation, reconsideration, reshuffling and reluctance.

> “Workers are retiring in greater numbers but aren’t relocating in large numbers; they’re reconsidering their work-life balance and care roles; they’re making localized switches among industries, or reshuffling, rather than exiting the labor market entirely; and, because of pandemic-related fears, they’re demonstrating a reluctance to return to in-person jobs.”[14]

Survey participants who are experiencing higher-than-normal attrition rates credit them to employees leaving for higher compensation or being asked to return to work in office.

A 2022 study by the Pew Research Center surveyed over 9,000 randomly selected US adults and found that one-third identified the following major reasons for leaving their jobs:

- 63% quit because the pay was too low
- 63% quit because there were no opportunities for advancement
- 57% quit because they felt disrespected at work[15]

The founder of a manufacturing company that employs roughly 130 people described what happened when he brought employees back into the workplace: “Most employees, because it is manufacturing, reacted well because they knew they had to come back. It’s the few who had the option to work from home that have really not taken it well. Unfortunately, we had to move on from people who didn’t want to come in the office.” He explained his reasons for having employees return to work this way: “If employees — especially when they are new — are not visible, they don’t really have credibility. If you don’t have credibility, it’s hard to establish trust. Work from home only works when there’s a lot of trust among team members.”

[13] Fuller, Joseph and Kerr, William, The Great Resignation Did Not Start with the Pandemic, Harvard Business Review, March 23, 2022; https://www.pewresearch.org/fact-tank/2022/03/09/majority-of-workers-who-quit-a-job-in-2021-cite-low-pay-no-opportunities-for-advancement-feeling-disrespected/

[14] Ibid., Fuller, Kerr

[15] Parker, Kim and Menasce Horowitz, Juliana, Majority of workers who quit a job in 2021 cite low pay, no opportunities for advancement, feeling disrespected, Pew Research Center, March 9, 2022; https://www.pewresearch.org/fact-tank/2022/03/09/majority-of-workers-who-quit-a-job-in-2021-cite-low-pay-no-opportunities-for-advancement-feeling-disrespected/

As the Pew Research Center survey indicates, this assumption — that higher-than-normal attrition rates are a result of employees seeking more money or preferring remote work — tells only part of the story. According to a 2022 survey by McKinsey, of those respondents who reported having looked for a job in the last 12 months or were currently looking for a job or planned to do so in the next 12 months, the top five motivators for seeking a new job were:

47%
Greater pay or hours

27%
Better career opportunities

21%
Flexible working arrangement
(e.g., working remotely)

16%
Better health insurance
or access to it

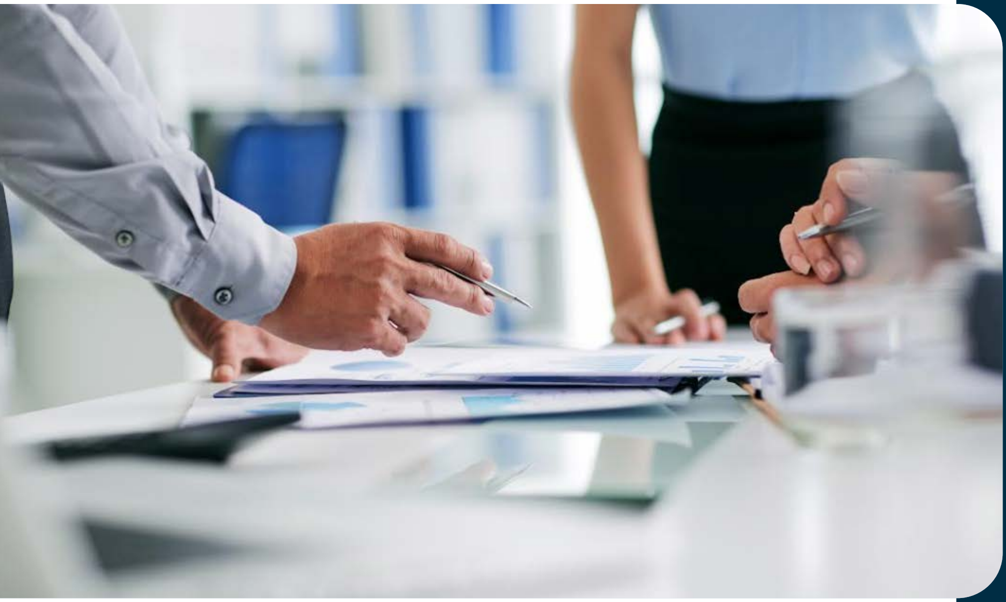
15%
Predictable hours and scheduling

Respondents stated among the most common reasons employees value flexible work arrangements are the ability to:

- Work during the hours they are most productive or support their lifestyle.
- Better balance their work and life commitments.
- Maintain better mental health.
- Expand their role as caregivers to children, elderly family members and pets.
- Spend less money on gas, professional clothing and meals.
- Spend more time pursuing "passion projects" or "side hustles."

"It has been a bit of a rollercoaster ride. When COVID first hit, all companies were in crisis mode. Every week I called (on Zoom) two or three team members just to say, 'How are you doing? How is everything going? What do you need?' Over the span of one year, I had talked to almost every employee. Those interviews allowed me to identify a real need that I didn't know existed: some people didn't have a desk, chair, or a place to work in their homes. So, we gave every employee a $500 credit for pretty much anything they needed to make their work setup at home workable."

- CEO of an insurance company



[16] McKinsey & Company, American Opportunity Survey, Americans are embracing flexible work—and they want more of it, June 2022
https://www.mckinsey.com/%20industries/real-estate/our-insights/americans-are-embracing-flexible-work-and-they-want-more-of-it

E. The “Quiet Quitting” Phenomenon

“Quiet quitting” became a common workplace buzzword in 2022 as massive upheaval in the labor market strained employers and employees alike. Perceptions of the phenomenon vary, but the trend is real: A Gallup poll found that by the second quarter of 2022, “quiet quitters” made up at least 50% of the workforce, with the balance either engaged (32%) or actively disengaged (18%).[17] The drop in employee engagement began during the second half of 2021 and, according to Gallup, “was especially related to clarity of expectations, opportunities to learn and grow, feeling cared about, and a connection to the organization’s mission or purpose.”[18]

This disconnect between employer and employee is especially pronounced among those below age 35 (Gen Z and younger millennials). Between 2019 and 2022, an increasing percentage of these employees reported feeling their managers cared less about them and offered them fewer development opportunities.

In response to employee disengagement, survey participants implemented new practices such as:

- Renewing their focus on improving the employee experience. This included evaluating recruiting and onboarding processes and developing a “first-year plan” for employee engagement.
- Evaluating assumptions about employees and recognizing generational shifts in values relative to work. For example:
  - Younger employees tend to change jobs more often compared to older generations. While some view “job hopping” as being disloyal or only being interested in short-term gain, members of younger generations see changing jobs an opportunity to gain a broad base of experience and earn enough money to manage the rising cost of living.
  - Younger employees are focused on living a balanced life rather than attaching their identities to their jobs, titles or promotions.
  - Some people have no interest in “climbing the corporate ladder.” They are satisfied continuing to do what they do well.
- Ensuring employees are connected to the broader company mission through consistent communication, events and personal engagement.

F. Many Employees Continue to Feel Stressed from COVID and Economic Uncertainty

When asked whether their employees were “more” or “less” engaged than they were 12 months before, most survey participants initially stated they believed their employees are as engaged or more. During these conversations, leaders acknowledged that their employees were experiencing “burnout” or “COVID fatigue” and productivity had decreased.

Leaders were also keenly aware of their employees’ feelings of uncertainty due to factors beyond their control such as inflation, political uncertainty, rising interest rates, the war in Ukraine and the possibility of a recession. While workloads had returned to normal and business was largely being conducted as usual, productivity continued to be volatile as companies navigated the many human capital challenges.

[17] Harter, Jim, Is Quiet Quitting Real? Gallup Workplace, September 6, 2022, https://www.gallup.com/workplace/398306/quiet-quitting-real.aspx
Ibid, Harter
[18] Ibid, Harter

Some employers described how factors beyond their control affected employees at work. The president of a food and beverage company noted: “The hardest thing for our production workforce is being able to leave their personal challenges at home. For some of our employee groups, the only family they have is their fellow employees. When you are in a business like ours, you end up doing a lot of counseling and helping employees through their work day, through their life. We manage a lot of the emotional strife people have to deal with.” All participants recognized the stress of the last few years and appreciated how employees are feeling. They were addressing the issue by using a variety of strategies including:

- Putting greater weight on cultural fit criteria during the hiring process.
- Bringing humor into the workplace.
- Creating community through team organization and supporting team activities.
- Increasing investing in training programs for employees.
- Upgrading equipment.
- Providing informal counseling and referring employees to mental health resources.
- Supporting or providing opportunities for employees to participate in corporate or individual charitable giving.

Colorado employers have addressed the challenges of a low unemployment rate, shifting work-life priorities and a hybrid workplace by implementing various strategies to attract and retain talent, including increasing compensation and time off and permitting work from home. However, employers continue to struggle to find the balance between meeting employees’ financial needs and sustaining company cash flow and profitability.

> ***“Now that the world is normalizing a bit, there are a lot of requests for teams to get together and for the company to pay for a few days where they can meet in one office and have some team bonding activities. We’ve generally been really supportive of those requests because we’d love to have teams come back together and see each other in person.”***
>
> ***– Confidential technology company***

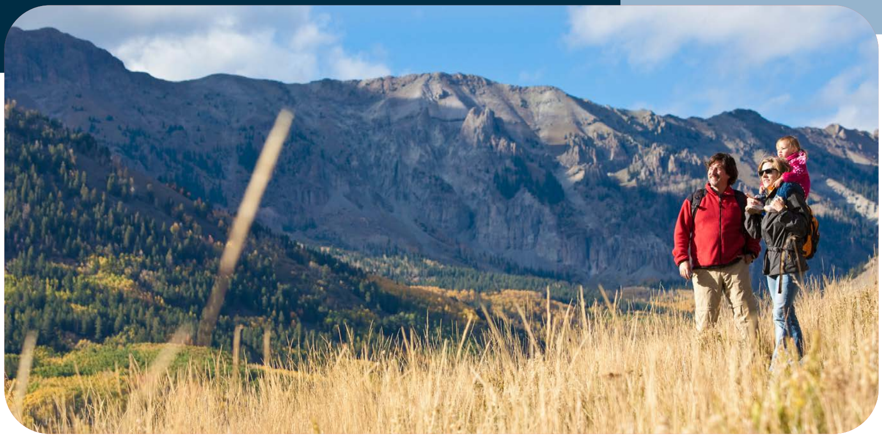
A. Colorado's Strengths

It was widely anticipated that 2022 was to be the year business operations began to truly normalize. However, as the year unfolded, recovery was much more nuanced. While revenue and production levels for most companies had returned to pre-pandemic levels, inflation and the unexpected rising material and human capital costs rapidly narrowed margins resulting in profitability below forecasted targets. Further, with increasing concerns on rising interest rates and the impending recession, business leaders started to take a more cautious stance in the execution of their plans, while also re-engaging some of the innovative and dynamic cost containment activities implemented during 2020 and 2021 to ensure operational preparedness and contingency planning.

Respondents were passionate about what Colorado has to offer. In their opinion, natural beauty, climate, outdoor recreation and open space top the list of Colorado's assets. Respondents also pointed to the diverse industry base, continued innovation in the technology sector, successful sports teams, competitive business-friendly environment, and the positive, hardworking people of Colorado.

> *"Here people are so active hiking and skiing. A lot of the employees who are in the Denver office really have a great balance: They work, but they also get to be outside and get to do all these fun activities. I think that is something that has really attracted employees to move out to Denver from some of our other office locations."*
>
> *- Confidential company*

> *"Colorado is going to attract new industries because it has something very unique in my opinion: the perfect blend of nice people with a Midwestern, conservative work ethic and West Coast cool."*
>
> *- John Street, CEO of Pax8*



Beyond the benefits cited by respondents, CNBC reviewed multiple elements of a business ecosystem and ranked **Colorado #4 on its list of Top States for Business for 2022**.[19]

- **#1** in Workforce (A+)
- **#16** in Infrastructure (B-)
- **#36** in Cost of doing business (C)
- **#11** in Economy (B)
- **#12** in Life, Health, and Inclusion (C+)

- **#9** in Technology and Innovation (A-)
- **#16** in Business Friendliness (B-)
- **#11** in Education (B+)
- **#22** in Access to Capital (C-)
- **#34** in Cost of Living (D+)

GDP Growth (Q1 2022) **-1.9%**

Top corporate tax rate **4.55%**
(One of 8 states with rates at or below 5%)

Top individual income tax rate **4.55%**

Gas tax **$.22/gallon**

B. Colorado's Vulnerabilities

Responses were not nearly as consistent when participants were asked about Colorado's weaknesses. Unprompted answers ranged from traffic congestion and unmaintained road conditions to the lack of adequate social services and law enforcement. An overwhelming majority of respondents agreed that onerous employment regulations and "too much government" were top concerns. (Please see Regulations and Policies Impacting Colorado Businesses.) Executives shared the following issues that they felt negatively impact business in Colorado:

- Increasing wages and benefit affordability.
- Employee recruitment and retention.
- Housing supply and affordability.
- Public safety.
- Disconnect between state regions.

> *"Too much government. We have all the government we do not need."*
>
> *- President of a food and beverage company*

Increasing Wages and Benefit Affordability

There is a direct link between respondents' greatest concerns and the reasons they are expanding operations outside of Colorado. Leaders expanding outside of Colorado explained that they chose to do so in order to take advantage of better labor conditions, either in the form of a larger pool of semi-skilled workers or the ability to manage the overall cost of labor and benefits. When asked why his company chose to expand in Europe rather than in Colorado, the CEO of a manufacturing company answered: "Number one was manufacturing costs. Abroad, we can negotiate a set amount of overtime hours with employees. Number two is access to Europe for distribution."

[19] CNBC, America's Top States for Business: 2022: The full rankings, July 13, 2022, https://www.cnbc.com/2022/07/13/americas-top-states-for-business-2022-the-full-rankings.html

Employee Recruitment and Retention
The challenges Colorado employers face are discussed in detail in Part II, Workforce and Talent.

"Cheyenne's metro area population is only about 100,000 people, but we feel it will be easier to attract the 100 workers we will need there than in Denver. We don't see the same worker commitment to their employer in the Denver market that we have experienced in the past. Constantly training new employees significantly impacts our manufacturing efficiencies."

- Mike Jackson, President of Wright & McGill Company

Housing Supply and Affordability
Respondents expressed significant concerns about the affordability of housing along the Front Range and across Colorado. Even with increases in wages, the price of housing and lack of inventory continues to negatively impact the opportunity to purchase a home.
The following facts support their concerns:

- In May 2022, Denver was fifth on the list of Top 10 Unaffordable Markets with a median sold price of $585,000, a 17% increase in 12 months. The Colorado Springs-Pueblo area was not far behind with its median home price of $460,000.[20]
- For the year 2022, Colorado was fifth on the list of highest median home prices, trailing only Hawaii, California, the District of Columbia, and Washington.[21]

"The only way to solve the housing crisis is by adding more supply . . . period. If we do not, and demand continues to outpace supply, then the prices (rent) will continue to go up. No government regulation can appropriately address this issue and regulations often have unintended negative consequences. Exacerbating the problem is that developers face continued challenges in dealing with cities and counties — mostly because they are understaffed and cannot hire people. Permitting costs, tap fees and utility fees are all going up materially (because they are trying to balance their budgets), and cities and counties are significantly backed up in processing applications, making the wait 50% to 100% longer than it was years ago. Add rising construction costs, increasing land and soft costs, and mandates for affordable housing and it is clear why costs to build housing are skyrocketing. The only way to counter these really high costs is to raise the rents or home sale prices to make these projects financially feasible — without that, no one could raise the capital to build these projects. If we can't build these projects, then there is no supply to accommodate the demand, and prices will continue to go up."

– Matt Joblon, CEO of BMC Investments

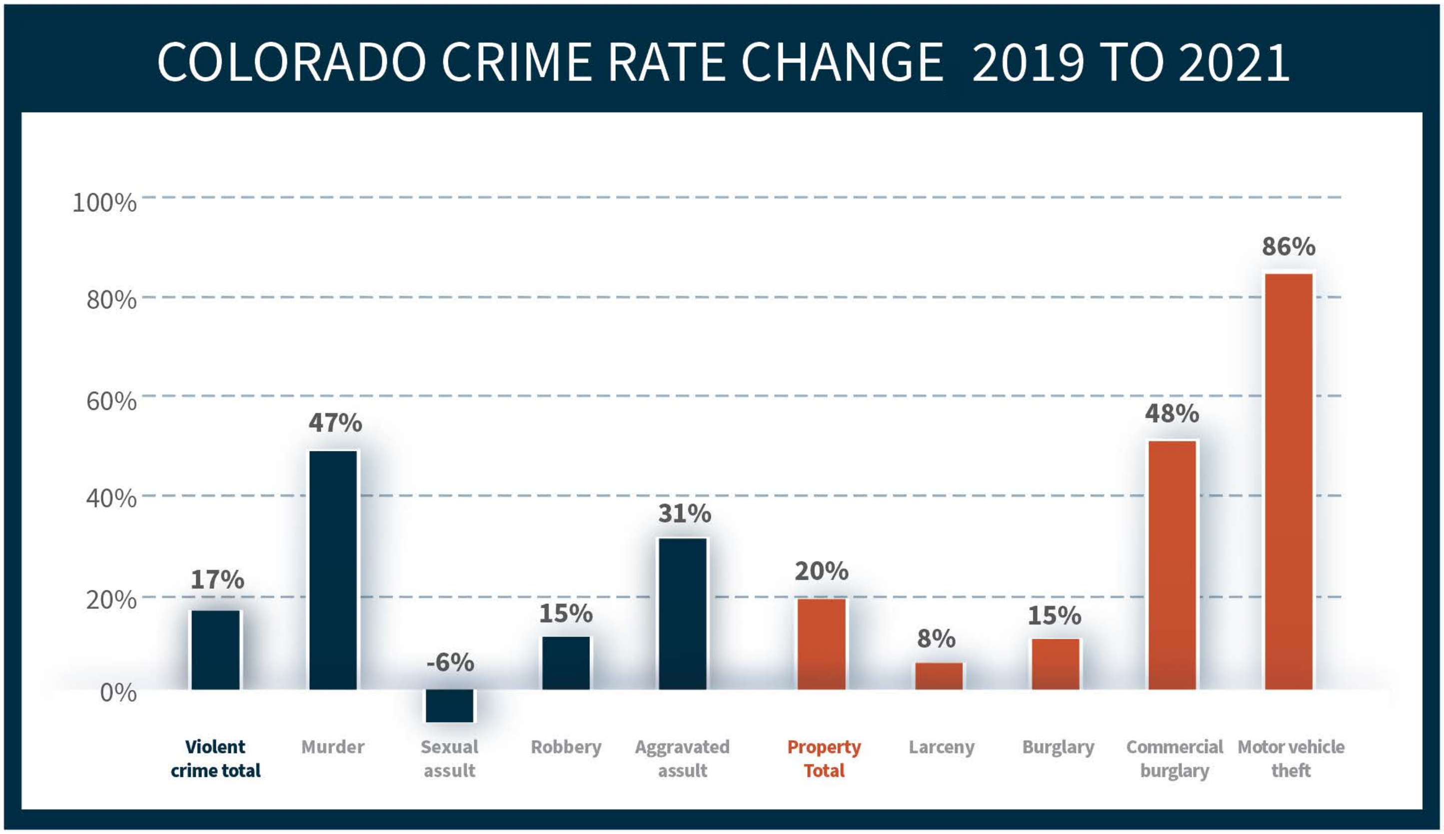
[20] Ojo Labs. The unaffordability score is a ratio derived from monthly median housing prices and median household income.
https://info.ojo.com/hubfs/affordability-JUN-9-long-table-2022.pdf?utm_campaign=Data%20Storytelling&utm_source=hs_email&utm_medium=email&_hsenc=p2ANqtz--5fIZSr_ukEFlOVjShJA2J9dloPaXkBfjiJvYb3o9yES2oRSksgSFxQsbA1Rj5CJTzoh1k
[21] https://worldpopulationreview.com/state-rankings/median-home-price-by-state

Colorado counties with less than 70 affordable units per 100 households[22]

County	Moderate Income 80% - 100% of AMI	Low Income 50% - 80% of AMI
Garfield	49	39
San Miguel	54	40
Douglas	56	35
San Juan	57	45
Elbert	59	48
Gilpin	60	48
Park	62	50
Mineral	62	66
Eagle	62	44
Gunnison	62	53
Teller	64	54
Clear Creek	64	57
Broomfield	66	45
Custer	66	69
Grand	66	48
Summit	68	48

Of the 64 counties in Colorado, one quarter have fewer than 70 units per 100 households that are affordable to families with moderate incomes (i.e., 80% to 100% of area median income). The percentage of affordable homes is even smaller for families in the low-income category. Of the 64 counties, only 24 (or 37.5%) have 70 or more homes per 100 households affordable to families with moderate incomes.

[22] Colorado Department of Local Affairs, Division of Housing, Colorado Housing Affordability Data Explorer https://public.tableau.com/app/profile/connor.everson5568/viz/ColoradoHousingAffordabilityDataExplorer/Introduction



Source: Colorado Bureau of Investigation, Colorado Crime Statistics
Source: Addressing Crime in Colorado, Paul M. Pazen, former Denver Chief of Police, September 2022

Several respondents expressed great concern about trends in law enforcement and public safety. Anecdotally, their comments reflected the disturbing trends noted in former Denver Chief of Police Paul M. Pazen's September 2022 report: "Addressing Crime in Colorado." As the following chart from that report illustrates, crime rates have increased (in all categories except sexual assault) across Colorado between 2019 and 2021.

- In 2020, only two states had higher property crime rates than Colorado. In 2010, that number was 27.
- Colorado leads the nation in the rate of auto thefts per 100,000 people.
- In 2020, only three states had higher total crime rates than Colorado. In 2010, 28 states had higher rates.
- The number of overdose deaths due to synthetic opioids mentioning fentanyl has risen from 38 in 2010 to 912 in 2022. Overdose deaths due to methamphetamines has followed a similar trajectory, increasing from 38 deaths in 2010 to 749 in 2021.
- Homicides in the state have increased over 300% between 2010 and 2021.
- Colorado's rate of recidivism is higher than all but three states.

Public Safety - Homelessness
Nearly every respondent mentioned homelessness in the Denver metro area as a significant or substantial concern. Respondents noted increased frustration with the city's lack of response to the rising number of homeless people living in encampments on the streets or in parks. Many suffer from mental illnesses and/or drug problems, creating actual and perceived safety issues that deter customers and employees from going downtown.

Disconnect Between State Regions
Respondents on the Western Slope added another weakness: the disconnect between the Front Range and the rest of the state. They pointed to a difference between rural and urban (specifically Denver's) culture and beliefs. In the opinion of John Gibson, CEO of Secret Creek, "Decisions are being made on behalf of people that don't have a voice right now."

> *"It's the reality of homelessness in large cities. Our stance is not to get rid of them, but to address it with services and law enforcement. Better in this industrial neighborhood than across the street in Globeville, which is mainly family housing. It is interesting. If the city [of Denver], which has a $90 million budget on services, put it where it is happening, and if they applied it, it would be a different situation. But it goes unserviced and it's tragic."*
>
> *– President of a manufacturing company*

> *"Homelessness is worse than it's ever been."*
>
> *- COO of a moving and logistics company*

C. Colorado's Opportunities and Economic Development

Respondents are optimistic and generally supportive of the state's ability to strike a balance for smart growth. Respondents are passionate about seeing Colorado succeed, and many mentioned the state should balance activities (i.e., support and incentives) dedicated to attracting new businesses with those to support the growth and prosperity of existing Colorado businesses. Respondents believe both are needed for the state to succeed and view it as opportunity for lawmakers and the chambers of commerce to help strike that balance.

D. Colorado's Political Leadership

The majority of business leaders had mixed opinions when asked whether Colorado's political leaders were effective. The affirmatives approved of Governor Jared Polis for his "inclusiveness" and "bipartisan" approach relative to his social, business and legislative activities. As one respondent put it, "[he] does a great job of walking the middle line."

Respondents held a more negative view of the state legislature and were critical of Colorado lawmakers' ability to manage the upward trends of homelessness and crime. They also cited a lack of faith in the legislature due to what they perceived to be tax-dollar waste, lack of accountability, and more specifically, the passage of the Collective Bargaining for Counties law.

Please note responses received in the second and third quarters of 2022 do not reflect any subsequent political issue or race.

E. Regulations and Policies Impacting Colorado Businesses

Rather than provide a thumbs-up or thumbs-down response, participants took the opportunity to identify specific policies and regulations that they believe negatively affect Colorado's business climate including:

- Colorado's Family and Medical Leave Insurance Program (FAMLI).
- Equal Pay for Equal Work (Wage Transparency).
- Retail Delivery Fee.
- Recordkeeping Requirements.

Colorado's Paid Family and Medical Leave Insurance Program (FAMLI) [23]

Federal law currently provides unpaid family and medical leave protection for employees. In 2020, Colorado voters approved Proposition 118 which, as of January 1, 2024 "entitles eligible employees who work for covered employers [those with at least one employee] to take unpaid, job-protected leave in a defined 12-month period for specified family and medical reasons."[24]

Equal Pay for Equal Work Act (Wage Transparency)

Under the state Equal Pay for Equal Work Act that took effect January 2021, all Colorado employers with one or more employees are required "to announce to all employees' employment advancement opportunities and job openings and the pay range for the openings. Employers are also required to maintain records of job descriptions and wage rate history for each employee while employed and for 2 years after the employment ends."[25] To avoid the salary posting requirement, some companies outside of Colorado responded by excluding Coloradans from consideration for remote jobs.[26, 27]

> *"I think that folks in areas along the Front Range need to remember that there's another part of the state out here that actually is a very strong part of the state. There's a real opportunity, I think, for our government to remember the importance of the businesses that are already here and really focus on helping them maintain, expand and improve all the things that they want new companies to do. It seems unfair for somebody to move here and get all the benefits when we're already here hiring people and helping our communities. It's like, 'Hey, what about us? We do it here already!'"*
>
> *- President of a food and beverage company*

[23] Always consult your tax and / or payroll professional for accurate and up-to-date information about this — and any — payroll-related regulation.
[24] https://dhr.colorado.gov/state-employees/time-off-leave/family-medical-leave-act-fmla
[25] C.R.S. § 8-5-101 et seq. Equal Pay for Equal Work Act. https://leg.colorado.gov/sites/default/files/2019a_085_signed.pdf
[26] Cutter, Chip, Many Companies Want Remote Workers—Except from Colorado, The Wall Street Journal, June 17, 2021, https://www.wsj.com/articles/many-companies-want-remote-workersexcept-from-colorado-11623937649?mc_cid=810512548a&mc_eid=e75328db4e
[27] Desai, Saahil, Companies Want Remote Workers in All States by 1, The Atlantic, July 28, 2021, https://www.theatlantic.com/politics/archive/2021/07/remote-jobs-colorado-equal-pay/619581/

While respondents readily endorsed and agreed with the intent of the legislation, they observed and are absorbing the unintended consequences found in implementation and day-to-day practice. For example, this regulation inhibited the ability to hire "star players," created employee morale issues and (for employers with offices outside Colorado) led to discrimination against Colorado workers. These problems acutely affect companies in the technology industry and those recruiting subject matter experts and C-level executives.

Further, publicizing every element of a compensation package left little room for employers to negotiate with prospective employees and provided too much information to competitors — which does no favors in a tight labor market. They acknowledged that it was not legislators' intent to place Colorado employers and employees at a disadvantage with those in other states. However, until all states enact similar legislation, this Act handicaps both employers and employees.

Retail Delivery Fee[28] and Recordkeeping Requirements

When asked to cite any state regulations that were particularly bothersome, survey participants pointed to the new retail delivery fee and recordkeeping requirements, especially for smaller businesses. Beginning July 1, 2022, Colorado imposed a $0.27 fee on every order delivered by motor vehicle in Colorado of a retail item (or items) that are subject to state sales or use tax. Wholesalers, purchasers outside of Colorado, sellers from other states, and items that are non-taxable are exempt from this fee. Sellers must file an additional tax return and include the fee on their invoices.

> *"It is a law that was well intended, but it affects the competitiveness of companies in IT. To attract high-level superstars — ones who are stronger than anyone currently on our team — we have to put together a package that's lucrative enough to lure them away from other jobs. When that package is public, it's really counterproductive and is not intended to be discriminatory against women."*
>
> *- CEO of a technology company*

> *"When we have to publicize the compensation package with a wage range — even if it is an internal promotion — then everyone internally, whether they're applying for the job or just curious, looks only at the top of the range and thinks they deserve that pay too. Posting a range causes a mismatch between the job and people's expectations."*
>
> *- CEO of a confidential company*

[28] Ibid.

> *"The recordkeeping requirements for a small business are identical to those for a large business, but the small business does not have the same resources. It does not matter how big your business is, you're required to do the same paperwork."*
>
> *- John Gibson, CEO of Secret Creek*

> *"Our company was involved with the Office of Outdoor Recreation in the Governor's Office. We were involved in the legislation for the Outdoor Industry Act, making that a permanent reporting requirement, as a percent of GDP at the federal level with our state congressmen and senators. We didn't go through a chamber, they just came to us and said, 'Will you help?' And we said, 'Sure.'"*
>
> *- CEO of a manufacturing company*

While respondents were able to directly point to legislation effecting their business, few were confident in their ability to advocate for the changes they'd like to see, much less so about how to secure invitations to the table or make their voices heard.

When asked about their companies' membership in organizations that advocate for business, most cited participation in industry-specific organizations. They did not understand how best to engage with chambers to make an impact on the issues that concern them. Specifically, respondents cited a desire for:

- An opportunity to engage with peers outside their industries.
- Thought leadership and other value-added content.
- A list of Colorado's most pressing issues and guidance about how to make their voices heard.
- A point of contact for their business climate concerns and questions.
- Opportunities to make personal connections that could drive business and revenue.

> *"It is paramount for us to help guide some of the decisions that are being made. Being a community-minded employer and being active in the community all comes back to you. You're helping develop and create the culture of your community but you're also sharing your talent and perspective as much as you can with everybody that may need it."*
>
> *- President of a food and beverage company*

It was widely anticipated that 2022 was to be the year business operations began to truly normalize. However, as the year unfolded, recovery was much more nuanced. While revenue and production levels for most companies had returned to pre-pandemic levels, inflation and the unexpected rising material and human capital costs rapidly narrowed margins resulting in profitability below forecasted targets. Further, with increasing concerns on rising interest rates and the impending recession, business leaders started to take a more cautious stance in the execution of their plans, while also re-engaging some of the innovative and dynamic cost containment activities implemented during 2020 and 2021 to ensure operational preparedness and contingency planning.

With few exceptions, participating companies emerged from the COVID-19 pandemic poised for growth. All but one company (involved in Series B financing) predicted growth in sales, revenue and/or number of employees throughout 2022 and into 2023 — even those who had recently experienced their "best year ever" in 2021.

A. Revenue, Profit, Growth Forecasts

When surveyed, the annual revenue of nearly all respondents had returned to or exceeded pre-pandemic levels. Similarly, their companies were meeting budget goals for 2022. Not all companies, however, were meeting their profitability goals due to the increased costs associated with materials, human capital and equipment, and supply chain issues. This resulted in compressed margins and profitability. Maintaining or increasing margins was at or near the top of almost every leader's priority list for the remainder of 2022 and 2023.

B. Supply Chain

Most companies had been affected by supply chain interruptions. Those reporting the greatest impact were in construction, transportation, and companies whose products or product components were produced offshore. Industries largely within service areas such as banking, insurance and technology were affected by long delays in acquiring computer equipment and office furniture.

> *"A typical lead time for commercial building HVAC equipment was four to six weeks. Throughout the year we have had some units arrive early, but most units are arriving between 26 to 30 weeks."*
>
> *- Patrick McFarlen, CFO of Haynes Mechanical*

> *"The cost to ship a container overseas used to be approximately $3,000 to $3,800. Now the cost is about $20,000, if you can even get the container on a ship since the ports are so backed up. They do not have enough people or drivers to maintain a healthy supply chain."*
>
> *- Stuart Smith, CEO of Buehler Companies*

> *"If we have an opportunity to purchase, we will consider it."*
>
> *- Dave Guetig, CEO of Galloway*

Most companies have addressed supply chain issues by:

- Repairing rather than replacing old equipment.
- Identifying second, third and fourth layers of backup suppliers, including using domestic rather than international suppliers when possible.
- Using the spot market more frequently for road transportation.
- Keeping more items and products in stock.
- Re-evaluating long-term contracts.
- Air shipping products to avoid ports.
- Improving their relationships with vendors.
- Communicating supply issues to their customers.

C. Capital Investment / Mergers & Acquisition Activity

With most companies coming out of the pandemic with large cash balances and little to no debt, strong revenues gave confidence to provide direct capital or significant investments in new equipment, labor and technology. For those in the food and beverage spaces, the investment was made to open new production facilities, update lines for efficiency driven by new technology and expand product offering.

M&A activity continued in 2022, with some companies initiating and closing their own transactions, given the strength of their balance sheets. For some respondents, the acquisitions made were part of their long-term growth or diversification strategies; however, the market conditions opened previously unthought-of opportunities. For others, acquisitions would only be considered if the right opportunities presented themselves.

D. Environmental, Social and Governance (ESG) Policies

In 2021, Environmental, Social and Governance (ESG) policies were at the forefront of business conversations. Companies began an organized, concerted effort to regularly measure and report its ESG-related activities ahead of any formal requirements.

In this survey, only the largest companies (1000+ employees) had designated committees that were actively implementing ESG policies and reports. Most respondents indicated that these policies were "baked into" their companies. As examples, they cited efforts to minimize plastic in packaging, local sourcing of materials, minimizing travel, converting their fleets to electric vehicles, investing in solar power, and donating time and/or a percentage of sales to local environmental projects. Regardless of size, respondents unanimously agreed that these policies were "the right thing to do" yet expressed doubts about the value of creating formal policies and the cost of publishing reports.

"We don't have a formal program, but it is part of our whole mission, especially on the sustainability side. It is something that we are working toward. Our production facility is 100% solar powered. We were one of the first ones in the market who used cardboard wrapping for our packages instead of plastic toppers. We are using benchmarking tools to figure out where we can improve our use of natural gas and electricity. We want to do an initiative around composting and sustainability. We feel that this is an important topic to a lot of consumers, and we want to make sure that we are consistent with that."

- Chief Financial Officer of a beverage company

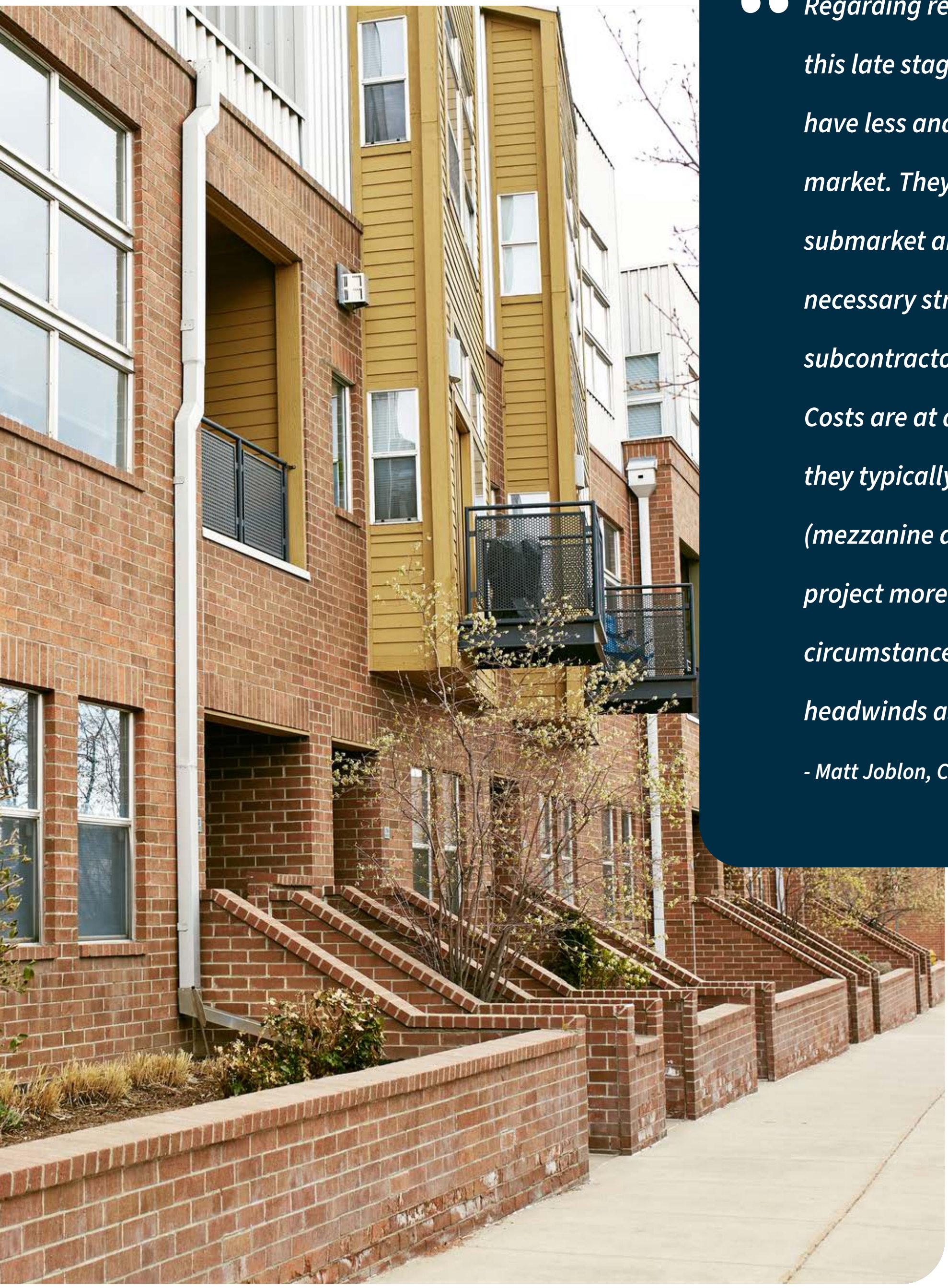
"We are working on our formal ESG strategy which will incorporate the more informal environmental and social strategies we have developed so far. Given the size of the company, I'm not sure how much documentation would be needed to be considered a robust program or if formal documentation would truly bring a competitive advantage. You do it because it is the right thing to do — a true ESG strategy is just like your culture. It evolves as you uncover more things about it. It is much harder to have a final plan, it will continue to evolve."

- Carla Dore, Owner of Workplace Resource Colorado

Given the comments stemming from the survey, there is a need for a governing body with a compliance deadline to assist in understanding why it is important to measure and communicate the strategies underlying ESG. Most do not believe this is a current concern to their organization and remain hesitant to divert resources to develop policies in order to maintain focus on growth, cost containment and trying to forecast the economic environment. For now, formal ESG policies are on the "nice to have" list rather than on the "need to have" list.

E. Real Estate

Apart from companies already in the process of building new facilities, given the uncertainty of the economic and social environment, leaders reported they were not looking to make real-estate related changes. Several respondents expressed frustration with finding suitable spaces which would be attractive to the employee base, the inability to sublease current excess capacity and increasing rents and/or navigating a landlord unwilling to renegotiate terms.



"Regarding real estate development, what is happening in this late stage of the cycle, as it does every cycle, is that you have less and less experienced developers coming into the market. They do not understand the nuances of each submarket and respective sites, and they don't have the necessary strong relationships with general contractors, subcontractors, city officials, and local stakeholders. Costs are at an all-time high, and because of all of that, they typically need to use some type of structured finance (mezzanine debt or preferred equity) which makes their project more complex and riskier. Most projects under those circumstances either will not get built or will face real headwinds as we head into a recession."

- Matt Joblon, CEO of BMC Investments

F. Strategic and Continuity Planning

Despite pressure on their profit margins due to increased costs and capital investments, Colorado companies had emerged from the COVID-19 pandemic poised and ready for growth. Lessons learned during the pandemic in 2020 and 2021 provided business leaders the foresight and tools to focus on strategic planning, cost efficiency, operational preparedness and contingency planning. Holding such strategies which are clear across the management team and organization, remain critical to navigating an ever-changing business landscape.

Respondents' strategic plans varied in duration from one to 10 years. Leaders of companies with shorter planning durations believed that longer-term plans would become obsolete, given the many variables. Those with longer-duration plans believed they provided increased focus on the multi-year goals they were trying to accomplish.
Among the priorities included in the respondents' strategic plans were:

- Trimming expenses.
- Improving employee engagement.
- Maintaining financial stability and strength.
- Expanding geographic footprint.
- Increasing / diversifying the number of product lines.
- Integrating IT with marketing.
- Improving processes and controls.
- Improving client satisfaction.
- Implementing an enterprise resource planning (ERP) system.
- Preparing to scale.
- Stabilizing supply chains.
- Evaluating succession plans.

Most companies considered the topic of succession planning although their approaches varied widely. One respondent reported having a succession plan in place for every employee — from senior leadership to hourly employees — that anticipates retirement for the next two years. Others focused on bringing up the next generation of leadership.

Part VI: 2023 Outlook and Sentiment

Predictions of a recession and rising inflation and interest rates continue to drive the 2022 themes of uncertainty and volatility. Survey respondents were far more confident in their companies' performance through 2022 compared to previous years. At the same time, all participants reported pressure on their margins due to increased costs and some to capital investments. In response, companies that had not segmented customers by margin planned to do so, and all had either already increased prices or planned to do so before the start of 2023.

A. Ongoing Pandemic Responses

Most companies reported that sales and production had returned to pre-pandemic levels. Still, given the lag effects of the pandemic, several issues continued to present challenges. Respondents in technology-related-industries and some in manufacturing reported that the pandemic had "created a tailwind" for them or forced changes to compress growth into a shorter timeframe. Company leaders described several adjustments that they had made based on lessons learned during 2020 and the first part of 2021:

- As a result of supply chain interruptions, they were working to replace international vendors with local and regional partners. One tech company stockpiled laptops so new employees would have them on their first day of work.
- Some on-site customer-related services are now performed remotely as standard practice.
- The ability to shift to producing alternative products was not only financially necessary, but it helped to retain employees during and beyond the pandemic.
- They were conducting forecasts more frequently and putting more emphasis on their worst- and best-case scenarios.

B. 2023 Priorities

Not only were respondents working to strengthen or neutralize vulnerabilities in their supply chains because of their pandemic experience, they were also planning to implement various growth strategies, including:

- Classifying customers by profit margin.
- Reorganizing sales and marketing departments, allowing sales to drive marketing.
- Building new manufacturing plants or retail outlets.
- Reviewing compensation structures to meet industry standards for companies their size.
- Right-sizing technology, automating processes, and taking advantage of telematics.
- Fine-tuning financial forecasting.
- Hiring more employees.
- Seeking ways to improving company culture.

C. Sentiment: Pessimistic, Neutral, Optimistic

Opinions were mixed when participants were asked whether they had an “optimistic, neutral, or pessimistic view of the next six months.”

Respondents who were optimistic:

- Run companies that perform services or produce products that tend to remain in demand during difficult economic times.
- See normalization in supply chain and industry demands.
- Believe in Colorado’s spirit of innovation and momentum in the tech industry.
- Believe any recession would be short-lived.
- Continue strong business capital expense spending.

“I think that the things that we’ve gone through and the issues we’ve handled successfully demonstrate that we can weather a lot of storms.”

- Stuart Smith, CEO of Buehler Companies

Respondents who were neutral about the next six months cited:

- Strong revenue projections but ongoing concerns about the impacts of inflation.
- Wage pressure and the Federal Reserve Board's monetary policies. They believed these would negatively impact their business, yet recognized Colorado's spirit of innovation, and specifically, momentum in the technology industry.

Those who were pessimistic cited several areas of concern including the:

- Impacts of ongoing social unrest and the increased expectations for companies to provide a public response.
- Increased expense of capital, limiting companies' abilities to move forward with various opportunities (i.e., mergers and acquisitions, real estate changes, capital expenditures, etc.).
- Ongoing labor challenges, including shortage of qualified candidates, increased human capital expenses, and evolving employee expectations.
- Increased cost of materials and companies' inabilities to absorb or pass along higher costs, including the rising price of gasoline.
- Ongoing concerns about the impacts of inflation.
- Impacts of geopolitical issues (e.g., war in Ukraine).

> *"I think the economy's in for some real growing pains as inflation works itself out and as labor shortages continue. But I think all of that results in really unique opportunities. You have to be able to take advantage of those."*
>
> *- Andy Cullen, Partner and Managing Director of Tributary Real Estate*

Part VII: Setting a Foundation for Success — An Action Plan for Leaders

Insights from the Colorado Chamber of Commerce

The Colorado Chamber of Commerce represents businesses of all sizes and industry sectors from a statewide perspective to improve Colorado's economic climate. Our goal is to make Colorado a preferred place, nationally and internationally, where dynamic business leaders choose to invest and innovate, creating opportunities and prosperity for Coloradans.

In support of this vision, the Chamber convenes business executives, owners, thought leaders, and policy experts to make Colorado the best state for business. Chamber members have access to advocacy, policy intelligence, data like that found in this report, connections, and branding opportunities designed to help them thrive in a competitive business climate.

This report exposes some important themes and pressure points that business leaders and state lawmakers should consider moving forward:

A. While Colorado remains a highly desirable home for business and employees, trending concerns cited by business leaders reveal threats to Colorado's momentum.

We're proud to live and work in a state with such a diverse economy, skilled and motivated workforce, vibrant business community, and natural beauty. While the State of Colorado has experienced growth that has positioned it to be competitive with neighboring states, recent policies have also started to make it harder to do business here. The stories in this report of Colorado business leaders choosing to leave the state or expand elsewhere should deeply concern those responsible for shaping the policies influencing these decisions. Now more than ever, we need lawmakers to ensure stability and regulatory certainty to allow business to thrive.

B. Colorado's regulatory climate stands out — in a bad way.

In October 2022, the Colorado Chamber released the results of a quantitative survey of 150 CEOs to better understand the issues impacting job creators across the state. Many of the results validate the stories told in this report, from sentiments about labor and workforce issues to future economic outlook. We also identified one issue in particular that unfortunately sets us apart from other states: Colorado's regulatory climate. Specifically, the costs associated with new environmental and employment regulations from recent years were identified as a top concern in the survey.

C. Business leaders can impact state-level policy to drive our state forward with a unified voice.
A fragmented business voice makes it hard to know and do what's best for Colorado. Our state is home to more than 160 business groups, associations and local chambers of commerce, all which importantly serve their constituencies. But when policymakers want to understand what's best for our economy and business community from a statewide perspective, they come to the Colorado Chamber. As an organization, we have the tools and infrastructure to serve as the unifying voice for the state's business community.

State economic and regulatory policymaking will only become more important moving forward. With significant polarization, inaction and gridlock at the federal level, major policy initiatives are increasingly happening at the state level through state legislatures. In Colorado, few state lawmakers have hands-on experience running a business — making the Chamber's input and expertise even more critical.

Choosing to invest in the Colorado Chamber of Commerce is an investment in the future of our state. That investment allows members of the business community to directly impact the policies affecting their companies' growth, operations and financial future.

D. The Colorado Chamber is charting the path to a more competitive Colorado.
Using the results of our annual reports and the expertise of our staff, we're crafting strategies that will foster growth and keep Colorado competitive. Engaged members have a long history of getting results for business, and the Chamber unites its members toward innovative and bipartisan solutions to thoughtfully address our short- and long-term problems.

The Chamber recently released its 2023 legislative agenda, which focuses on improving the state's regulatory climate, preparing the workforce to fill in-demand jobs, and promoting economic growth. Many of the items on our agenda directly address the issues mentioned in this report, for example:

- Providing clarity to the state's equal pay law.
- Allowing for more time to implement and prepare for the paid family and medical leave insurance program.
- Creating an independent regulatory review process and time-out period.
- Supporting policies to increase the affordability and availability of housing in Colorado.
- Opposing tax hikes that increase the cost of doing business.
- Bolstering Colorado's talent pipeline to address critical workforce needs.

A full list of legislative priorities can be found at www.cochamber.com.

Insights from Dietrich Partners

Dietrich Partners, a Colorado-based business consulting firm, notes the findings in this report are consistent with its experiences with clients in Colorado and across the United States. Dietrich encourages executives to use the findings from this report to consider the following activities as they prepare for the year ahead.

A. Conduct an Operational Assessment

An operational assessment is a cross-functional evaluation of how a company conducts business on a day-to-day basis. By outlining the staffing model, policies and procedures, current challenges, and interdependencies of a given department, the company can identify efficiencies that may be gained throughout the organization.

This assessment has value for companies in all stages of growth. For fast-growing companies, the assessment highlights the areas hindering growth and provides solutions aligned with long-term growth plans. For tenured companies, it emphasizes opportunities for innovation and associated change management activities. Regardless of the stage of growth, an operational assessment gives executives the tools to truly understand operations at a deeper level and pivot profitably in response to changes in the business environment.

B. Perform a Cost Containment Analysis

As businesses continue to prepare for an economic downturn, performing a third-party cost containment analysis is critical to ensuring financial stability. Cost containment is not a euphemism for "slashing" jobs or budgets. In Dietrich's experience, it is quite the opposite. A cost containment analysis aligns spending with strategic objectives — especially those tied to revenue-driving and critical business operations.

C. Provide Middle Management Leadership Training

As companies navigate ongoing workforce challenges, Dietrich has identified the strength of middle management as a key to success. Middle managers' responses to these challenges vary widely, given the generational differences in working styles, norms, value sets, and perceptions. Companies should consider training that encompasses the following areas:

- Effectively leading teams in a hybrid workplace.
- Executing a "first-year plan."
- Supporting multiple employee career paths.
- Strengthening company culture.
- Recognizing and addressing burnout.

D. Evaluate Strategic Planning Processes

More than ever, an effective strategic plan is critical to navigating ever-evolving business challenges. While strategic planning looks different for every company, Dietrich guides clients in understanding their one-, three-, and five-year plans that incorporate:

- Alignment of long-term goals to company mission and vision.
- Staffing models and succession planning.
- Evaluation of current and potential revenue streams.
- Change management and company communications.
- Current challenges and roadmap for solutions.
- SWOT analysis by functional area.

Effective strategic plans enable a company to pivot when the business environment changes, while maintaining alignment to a long-term vision. Through experience, Dietrich has learned that companies tend to fall short on implementing strategic initiatives due to a lack of resources and accountability. As part of the strategic planning process, companies should outline an accountability matrix, conduct quarterly review meetings, and consider third-party providers to help ensure successful implementation and meaningful progress.

About Dietrich Partners

Dietrich Partners is a nationally recognized business consulting firm providing a leader-to-leader approach to delivering transformational programs, guiding efficient M&A transactions, developing ESG strategies and enhancing operational performance to maximize company value. Dietrich's client roster encompasses a variety of industries in the public sector, private equity and large public and private companies ranging in size from the middle market to Fortune 100. They are proud to be a certified woman-owned business, an Inc. 5000 Fastest Growing Company, a 2021 Colorado Company to Watch and is officially recognized as a Great Place to Work.

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About the Colorado Chamber of Commerce

The Colorado Chamber of Commerce is a unifying voice for business and champions a healthy economic climate to secure Colorado's future. The core of the Chamber's work is leading Colorado to be a preferred place, nationally and internationally, where dynamic business leaders choose to invest and innovate, creating opportunities and prosperity for all Coloradans. It is the only business association that works to improve the business climate for all sizes of business from a statewide, multi-industry perspective. It was created in 1965 based on the merger with the Colorado Manufacturers' Association.

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