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Summary



We are pleased to share the first edition of the Bank of America Small Business Owner Report, a new semi-annual study uncovering the concerns, aspirations and perspectives of small business owners across the country. As part of our ongoing commitment to understanding the needs of small business owners, the study examines a broad spectrum of topics including the state of the economy, growth expectations, business management and lifestyle issues.

What we found will help shape the way we think about the challenges small businesses face, and the opportunities that are available to them. Small business owners are under a lot of stress, often making significant personal sacrifices so their businesses can succeed. But though they face headwinds in some respects — the economy, finding the resources they need, hiring and keeping the best people — they are also resilient, optimistic about their future.

We share their optimism, and we want them to be successful. So we are working hard, too, to be there with the right tools and advice to help them manage their credit and cash and stay ahead of their financial needs. As the business environment becomes more complex, we continue to expand and deepen our commitment to help small businesses thrive in every community we serve. That lets them do more of what they do best — build their business.

Dean Athanasia, Preferred and Small Business executive

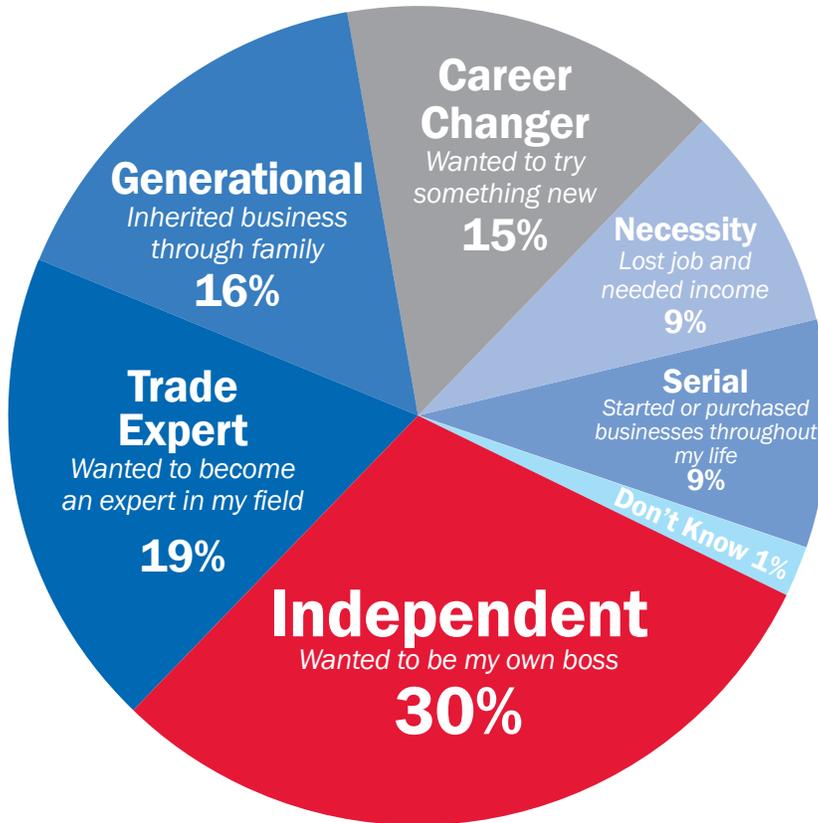
Methodology

Braun Research conducted the *Bank of America Small Business Owner Report* survey by phone between March 17 and April 9, 2012 on behalf of Bank of America. Braun contacted a nationally representative sample of 1,000 small business owners in the United States with annual revenue between \$100,000 and \$4,999,999 and employing between 2 and 99 employees. In addition, 300 small business owners were also surveyed in nine target markets including Los Angeles, Dallas, Washington, D.C., New York, Boston, Chicago, San Francisco, Atlanta and Miami. The margin of error for the national sample is +/- 3.1 percent, and +/- 5.7 percent for the oversampled markets, with both reported at a 95 percent confidence level.



Anatomy of the Small Business Owner

The report revealed that there is no one singular path to small business ownership. Contrary to common assumption, only a small percentage of small businesses are inherited. In fact, for the vast majority of small business owners, the decision was motivated by a desire for independence, different professional challenges or the opportunity to build their expertise. Despite the uncertain economic climate, fewer than 1 in 10 respondents were prompted to start a business by job loss.



“Necessity” (9%) and “Generational” (16%) each have the highest concentration of younger business owners 25-34 while “Serials,” “Independents” and “Trade experts” skew older – between the ages of 45 and 65.

SMALL BUSINESS BY THE NUMBERS

59%

have owned the business between 1-10 years

64%

employ between 2-10 people

60%

of small business are consumer products retail or wholesale and professional practices

74%

of small business owners are between 24-54 years old

42%

are female



Stressed but Optimistic About Success

Small business owners make substantial tradeoffs across the board to pursue their business dream. According to the findings, small business owners find managing the ongoing success of their business to be twice as stressful as maintaining a healthy relationship with a spouse/partner, nearly three times as stressful as raising children and more than four times as stressful as managing their own personal finances.



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Economic Outlook

Small business owners have more confidence in their local economy than the national economy.

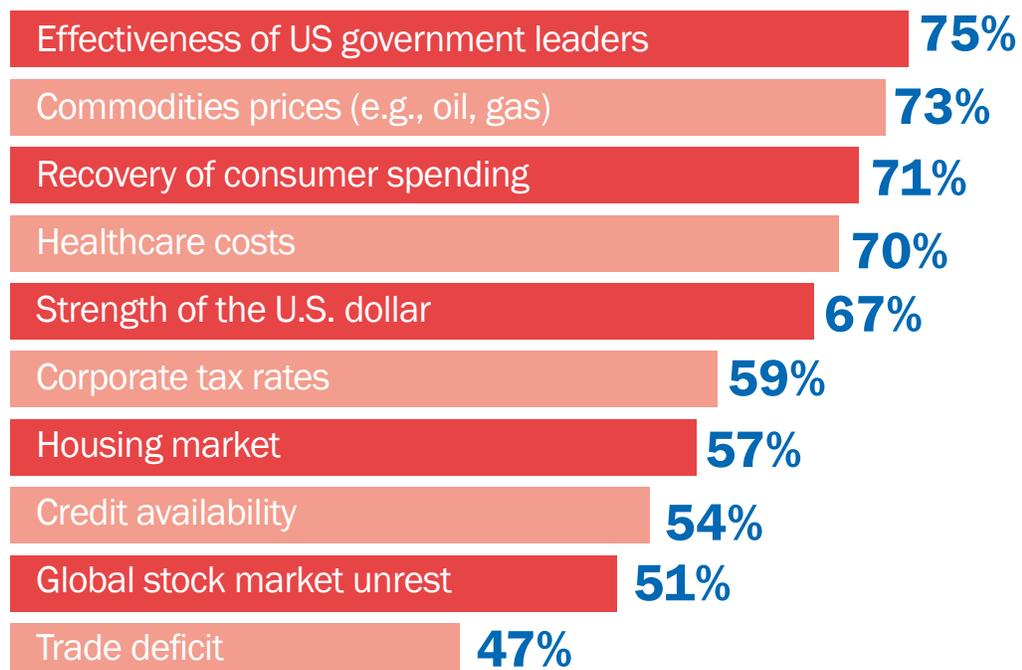
When asked about the next 12 months, 42 percent expect their own local economic conditions to improve compared to 35 percent who expect the national economy will improve. When asked what national issues concern them the most, the effectiveness of US government leaders topped the list, closely followed by commodities prices, the recovery of consumer spending and healthcare costs. Credit availability ranked at the bottom along with the trade deficit and the global stock market.

However, reservations about the state of the national economy did not dampen optimism among small business owners regarding their future business prospects. Nearly 7 of 10 (69%) small business owners view their local economy as critical to their business's success.

Moreover, reflective of the independent character that typifies most small business owners, the majority of respondents (53%) stated that their own decisions, rather than the overall health of the economy, are more likely to influence business outcomes.

This sentiment was particularly strong among women as well as "Necessity" and "Serial" small business owners.

How concerned are you with these economic factors?



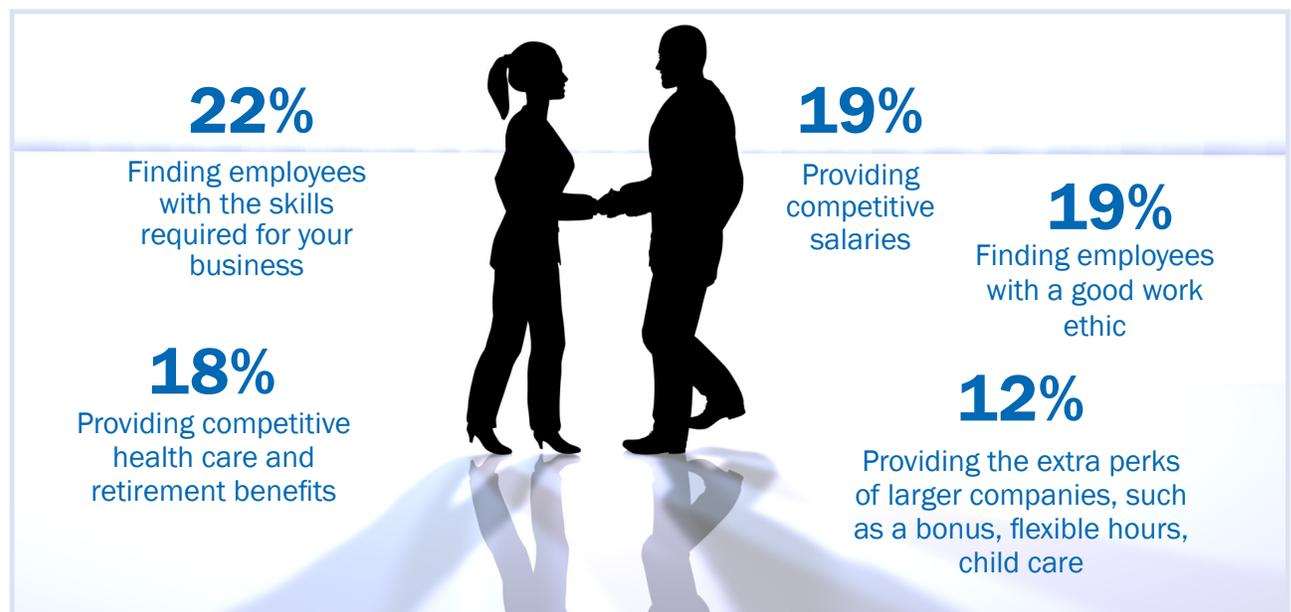


Talent Considerations and Hiring Expectations

Confidence in revenue growth extended to hiring projections with nearly a third (31%) of small business owners planning to expand their workforce in the next 12 months, while more than half (56%) plan to keep their staffing levels consistent year over year. Among those small businesses planning to hire, owners expect to increase the number of employees by an average of 25 percent.

While small businesses generally did not experience a high level of turnover in the past year, talent retention is top of mind for small business owners. Like their larger counterparts, small business owners are concerned with retaining talent. Twenty-two percent say finding employees with the right skills is their top challenge. However, despite acknowledging the importance of competitive salaries and benefits in attracting and retaining top candidates, nearly half (44%) of small businesses surveyed do not offer any type of financial benefits package and only 31 percent offer a 401(k) plan.

What is the number one challenge you face as you look to retain top talent?





Cash Management Tools Available but Underutilized

“One of the biggest ways we can help our small business clients be more successful is to help them maximize their cash flow. Helping a small business owner with a cash management strategy specific to their unique situation enables them to do more with the resources they have.”

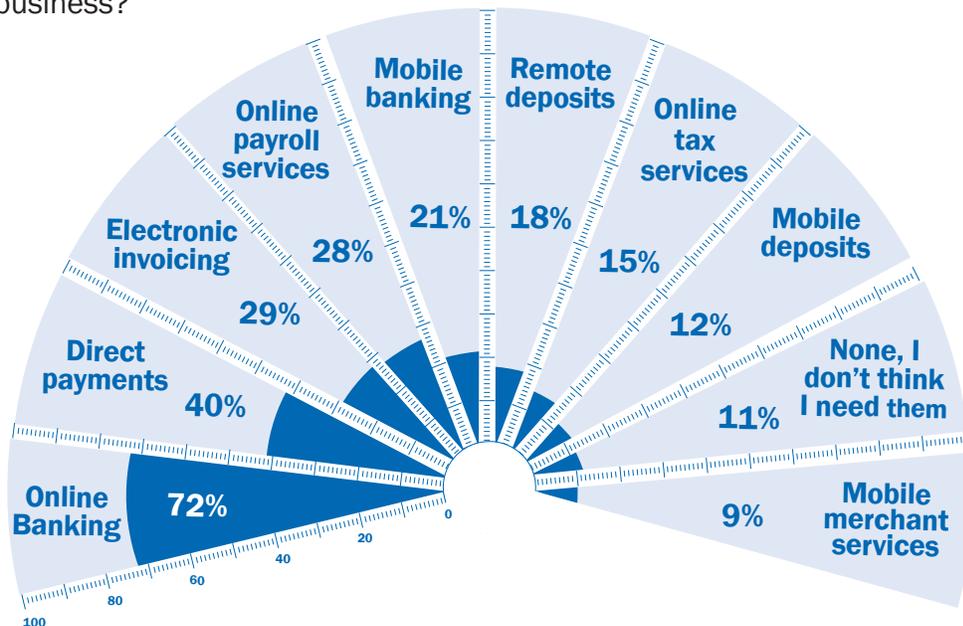
Robb Hilson, Small Business executive

When asked their biggest challenge in managing cash flow, small business owners cited:



Though nearly two thirds of survey participants (64%) wish they took better advantage of technology innovations to help manage their business, survey findings suggest a good number of small business owners may not be using readily available tools and resources to make these kinds of investments in their business. For example, even though 45 percent of small business owners cited not being paid on time as their biggest impediment to cash flow, less than one third (31%) sought guidance from their bank on best practices for expediting collections. Even fewer recognized the importance of electronic invoicing, remote deposit and mobile deposit to speed up payments processing and managing cash flow.

Which of the following tech tools are most useful for managing cash flow for your small business?

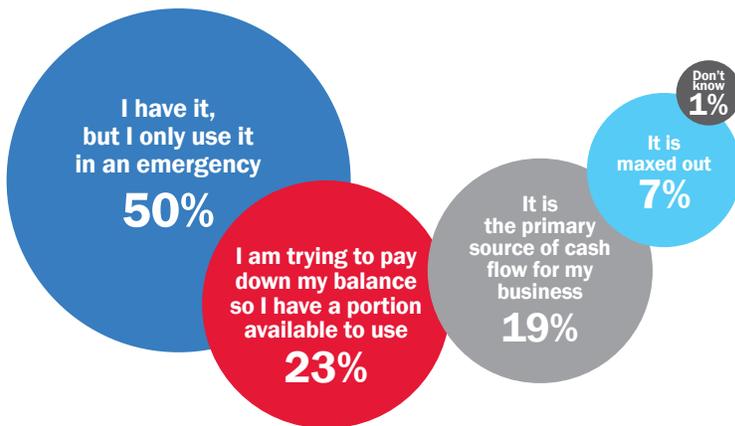




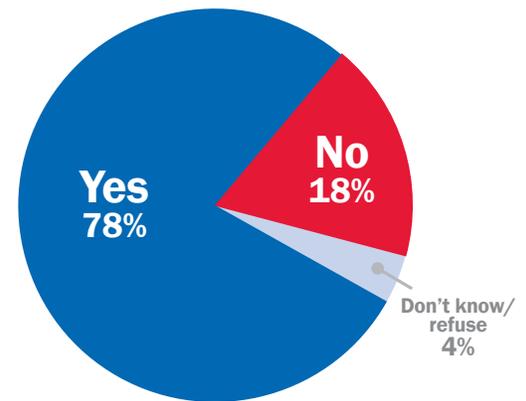
Credit Landscape

While credit appears to be available — more than three quarters of applicants who applied for a loan within the past two years were approved — small business owners may not be taking advantage of their lines of credit to meet business objectives. Of the 64 percent of small business respondents holding an open line of credit today, 50 percent earmark the money for emergency purposes only, rather than using it as day-to-day capital.

Which of the following best describes how you use/manage your line of credit?

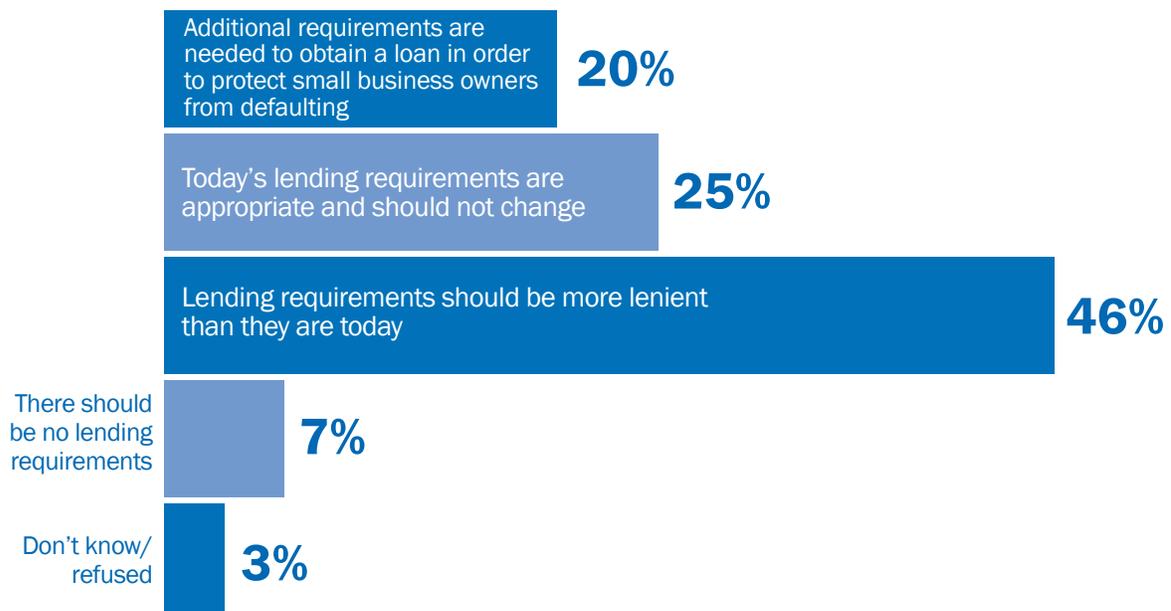


If you applied for a business loan within the last two or more years, were you approved?



When asked to describe their point of view on lending criteria and requirements to obtain a line of credit, a quarter (25%) of respondents said that today's lending requirements are appropriate and should not change, while an additional 20 percent believe that additional requirements should be put in place to obtain a loan in order to protect small business owners from defaulting.

What best describes your point of view on lending criteria?

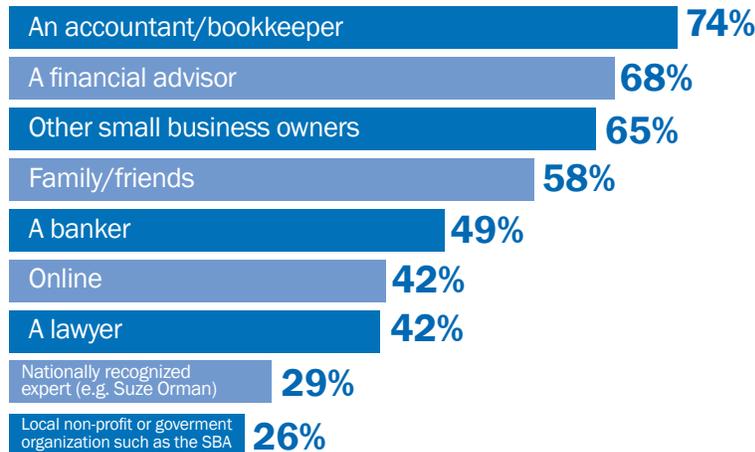




Small Business Owners Value Professional Expertise

Despite running their own businesses, slightly more than a quarter (27%) of respondents consider themselves to be very financially savvy, while the remainder of small business owners admit to needing occasional or ongoing support. When seeking financial guidance, small business owners predominantly rely on their accountant/bookkeeper and financial advisor for guidance.

Where do you go for financial advice?



When selecting their bank, small business owners prioritize convenient location (20%), relationship rewards (18%) and access to local expertise (17%). Small business owners turn to their banker for a wide spectrum of counsel ranging from the benefits of an SBA loan to managing a payroll, setting up a retirement plan, and defending against fraud.

What type of financial advice would you expect to receive from your banker about your small business?



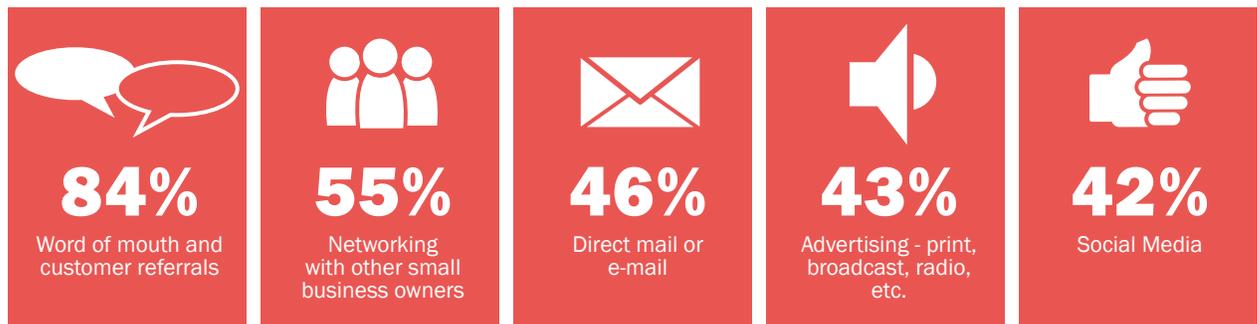
Small business owners seem to be generally satisfied with their bank services. Interestingly, when asked what aspect of their banking service they would change, 18% opted for more investing options. Notably, lowering costs associated with the financial services they receive (1%) and making it easier to get a loan (1%) ranked extremely low on the priority list.



Marketing—the Key to Growth

For nearly half of survey respondents (47%), increasing the marketing of their business to acquire new customers is the most important action they plan to take to generate additional revenue, surpassing a combination of increasing sales to existing customers (14%), better cash flow management (12%), and acquiring additional capital (8%). When asked about their marketing approach, three quarters (74%) of small business owners say they are actively implementing one or more initiatives and find the approaches shown below to be most effective.

How effective do you find the following in marketing your business?



Small Business Owners —The New Generation

Findings reveal that small business owners between the ages of 18-34 are somewhat of a different breed from their older counterparts ages 35-50 and 51-64. Notably, there are more women in this group (60%) and generally they are more optimistic about both the local and national economy as well as their own opportunities for revenue growth.

Despite fewer years of experience, 18-34 year olds exhibit significantly more confidence than the other two age brackets about their own financial savvy and the impact of their decisions (rather than the economic environment they work in) on business results. This confidence, however, does not prevent 18-34 year olds from relying on virtually every source of financial guidance much more frequently than the other two age groups.

Moreover, 18-34 year olds are committed to pushing forward despite the substantial toll on their personal lives as evidenced by the fact that this group is more likely to make sacrifices in every category across the board.



Summary

Despite how hard running a business is, small business owners are determined to keep building their businesses and are optimistic about the potential for future success. A cautious outlook on the national economy driven mainly by concerns about the effectiveness of U.S. government leaders, commodity prices and health care costs has not impacted revenue growth and hiring projections. Optimism is fueled by the overriding perception that the local economy and business decisions are more instrumental to results than the general health of the national economy.

Marketing their business to acquire new customers is a leading priority for small business owners and is considered the quickest route to achieving revenue goals, while the dominant source of revenue pressure comes from late payments. Despite recognizing the value of technological innovations and professional guidance to managing their business more effectively, small business owners aren't always fully leveraging available tools, counsel, or lines of credit to their fullest potential.

As the economic environment becomes more complex, small business owners should consider taking advantage of specialized advice from local experts who intimately understand the full range of their business and personal financial needs.

Bank of America and its Commitment to Small Business

With nearly 4 million small business customers, Bank of America understands the vital role of small businesses in the U.S. economy. At Bank of America, we have a long history of serving our small business community. We help business owners by providing cash management, borrowing, deposit and investment solutions and bringing the best of our franchise to meet their specific needs. Highlights of our commitment include:

- *Extending more than \$1.7 billion in new credit to small businesses (less than \$20 M in annual revenue) in the first quarter of 2012 - an increase of 21% over the same period last year*
- *Participating as one of 13 banks that have pledged to the White House and the SBA to increase small business lending by a total of \$20 billion over the next three years. In 2011, the bank reached its pledge to increase new small business lending by \$1 billion*
- *Serving as the leading bank supporting Community Development Financial Institutions (CDFIs) and unlocking low-cost capital for small businesses through the CDFI grant program. This has allowed CDFIs to access more than \$102 million to support more than 9,000 local businesses and help create and retain more than 14,000 jobs*
- *Adding 800 Small Business Bankers to help bring our small business expertise closer to our clients in local markets*
- *Providing free advice to more than 68,000 members through our **Small Business Online Community***