

## Letter from Robb Hilson



We are pleased to share the fall 2014 Bank of America Small Business Owner Report, a semi-annual study that uncovers the concerns, aspirations and perspectives of small business owners around the country.

Despite continued concerns about government leaders and health care costs, we're happy to say that the majority of small business owners we surveyed expect revenues to increase in the coming year, and their confidence in the local and national economies remains high.

There is also a notable shift occurring across the country and within the small business community – the youngest baby boomers turn 50 this year, Gen-Xers are maturing into middle age and Millennials are becoming a force in the small business world. Whether they are taking over their parents' companies or embarking on their own venture, Millennials are making their mark and doing it in their own unique way. As such, this report takes a look at Millennial small business owners and how their attitudes, management styles and skillsets compare to their older counterparts.

One of the most obvious implications of this shift is the adoption of technology, and the report takes a close look at both adoption trends and impact on running a small business. As expected, Millennial small business owners are embracing aspects of technology at a faster rate than their older peers, and the way small businesses are run on the whole is evolving right before our eyes – becoming more efficient, mobile and fast-paced.

As 2014 draws to a close, most small business owners across the country will end the year on a good note. We found that small business owners are optimistic about achieving their year-end revenue goals and many will celebrate by offering year-end bonuses and other special holiday perks to their employees.

At Bank of America, we know the resources that are crucial to a small business owners' success, both technologically and otherwise, which is why we have dedicated small business experts in local communities across the country. We have also committed to expanding our small business presence and will be hiring more than 200 new small business bankers in key markets throughout the nation by the end of 2014.

Whether you've been in business for 30 years or are just starting out, Bank of America is committed to providing you with the expertise to sustain and grow your small business.

**Robb Hilson**, Small Business Executive, Bank of America

## Methodology

Braun Research conducted the Bank of America Small Business Owner Report survey by phone in October 2014, 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: 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; the margin of error for the oversampled markets (where n=300) is +/- 5.7 percent; and the margin of error for the oversampled markets (where n=301) is +/- 5.6 percent, with each reported at a 95 percent confidence level.

## Generational Breakdowns

- Millennials: Ages 18-34
- Gen-Xers: Ages 35-49
- Boomers: Ages 50-68

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## Small business owners show continued confidence in their local economies

Looking to 2015, small business owners remain confident in their local economies, but are wary of those at the global and national level. Half of small business owners believe the local economy will improve over the next 12 months, up five percent from a year ago. Similarly, 45 percent believe the national economy will improve over the next 12 months, while 31 percent of small business owners believe the global economy will improve over the next 12 months, while confidence for the national economy is up four percent.

### Percentage of small businesses who say...

The **national** economy will improve over the next **12 months**



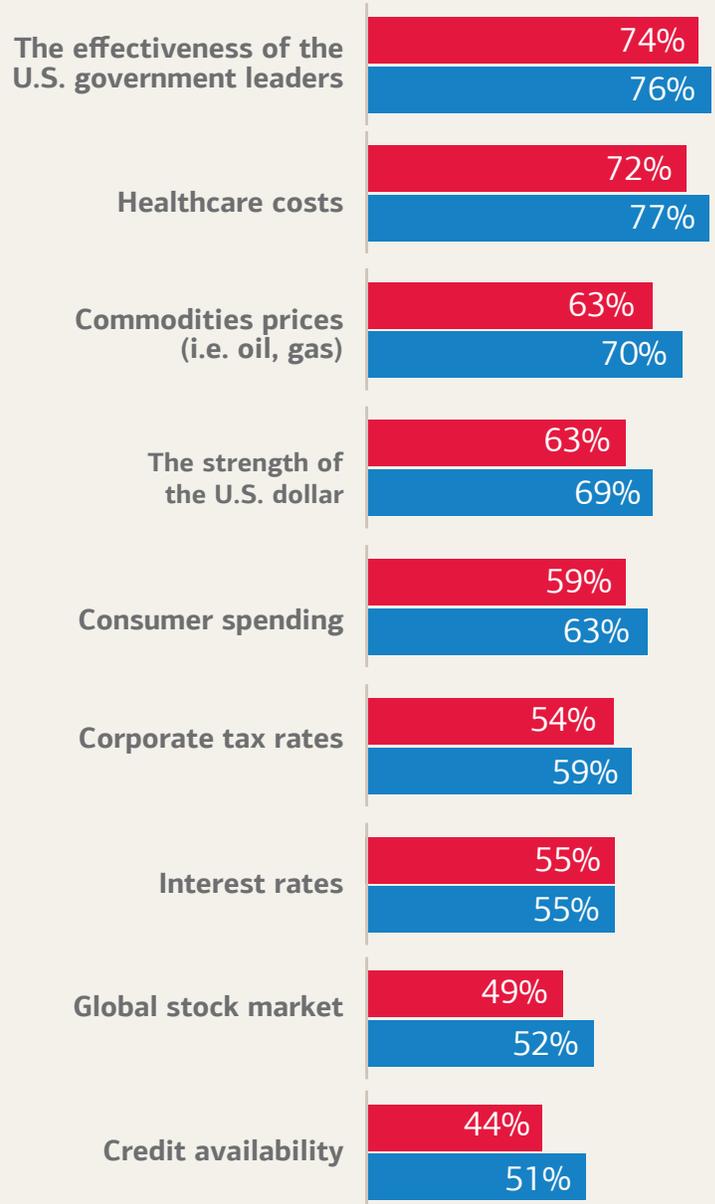
My **local** economy will improve over the next **12 months**



The **global** economy will improve over the next **12 months**

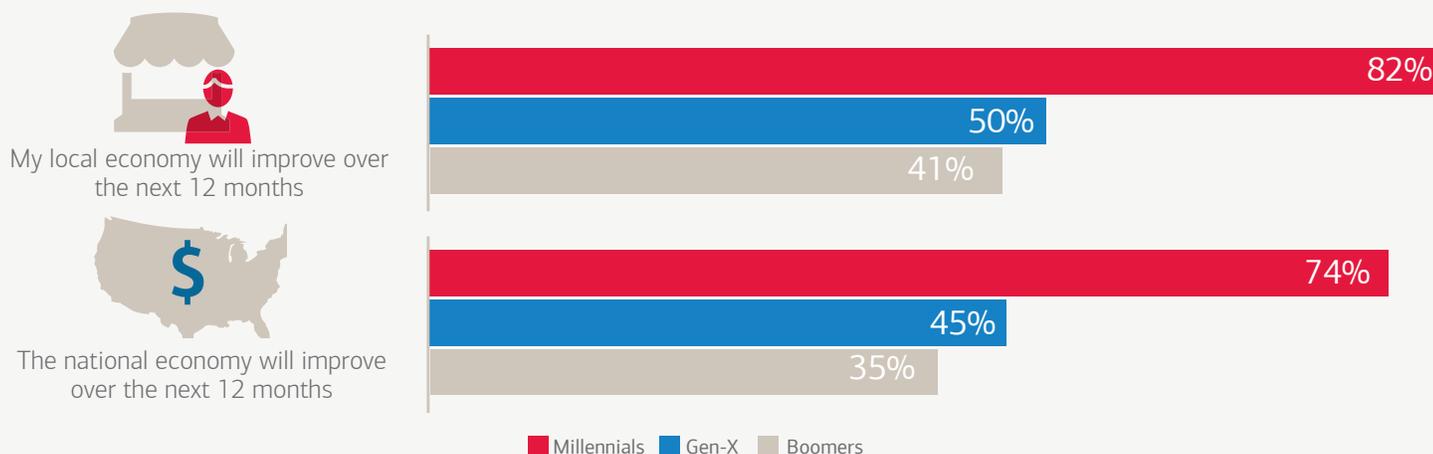


Overall, small business owners showed a decline in their concerns about various economic issues. When it comes to specific economic issues, small business owners are most concerned about the effectiveness of U.S. government leaders and health care costs.



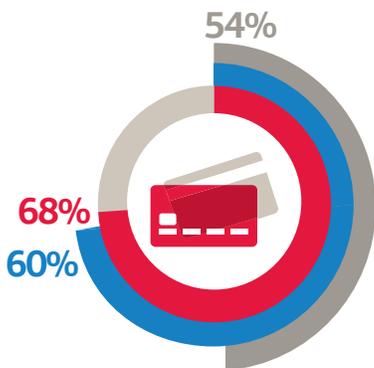
## Millennial optimism: Younger generations expect more economic growth, but show more concern about specific issues

Millennial small business owners are more optimistic about the economy than their Gen-X and Boomer counterparts. Eighty-two percent of Millennial small business owners feel their local economy will improve, compared to half (50 percent) of Gen-Xers and 41 percent of Boomers. Nearly three-quarters (74 percent) of Millennial small business owners think the national economy will improve, while only 45 percent of Gen-Xers and 35 percent of Boomers feel the same way.

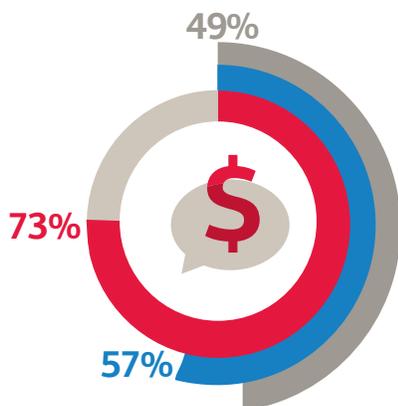


However, Millennials are more concerned than older generations about most economic issues, including...

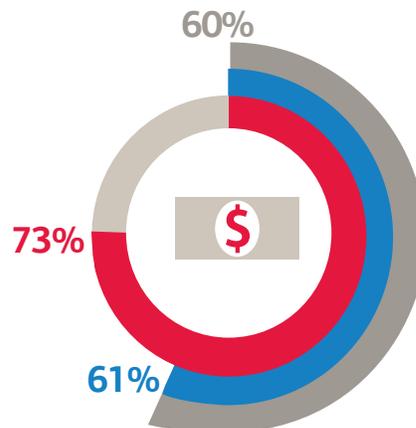
I am concerned that **consumer spending** will impact my business over the next 12 months



I am concerned that **corporate tax rates** will impact my business over the next 12 months

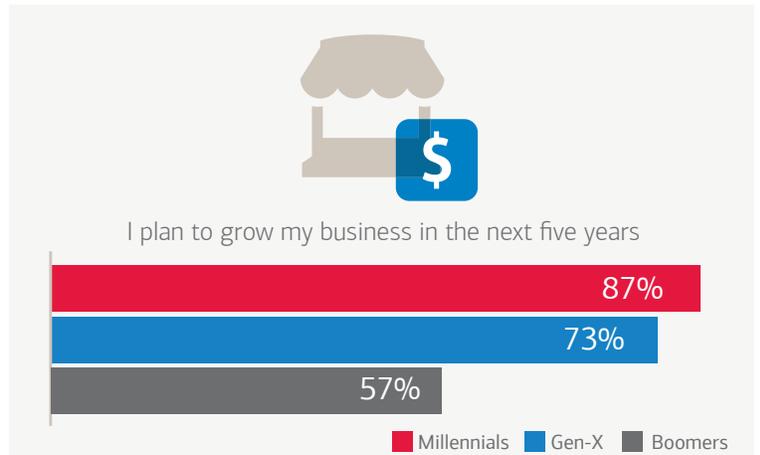
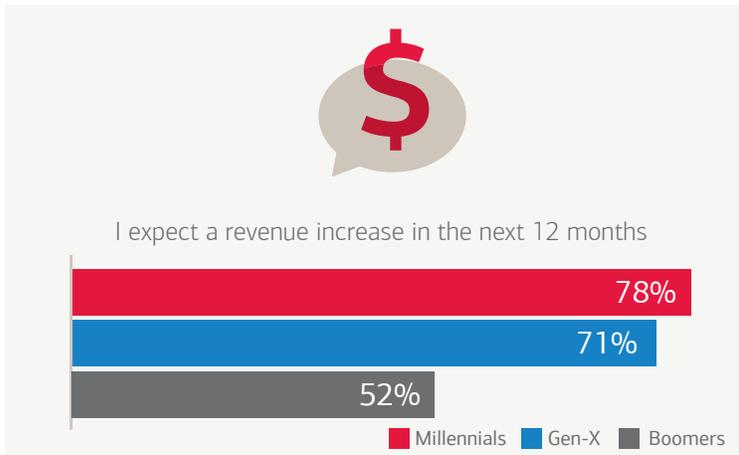


I am concerned that the **strength of the U.S. dollar** will impact my business over the next 12 months

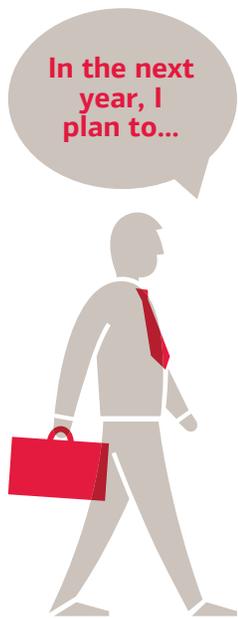


## Boomers cautious, younger generations more confident about growth

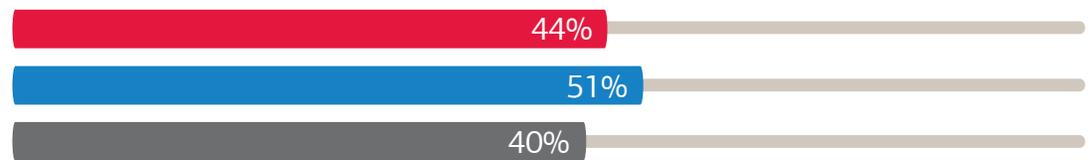
Concerns about economic issues aside, 78 percent of Millennial small business owners and 71 percent of Gen-Xers expect their revenue to increase over the next 12 months, compared to 52 percent of Boomers. Confidence for all generations is up from a year ago, when 75 percent of Millennials, 64 percent of Gen-Xers and 46 percent of Boomers expected a revenue increase. Nearly nine in 10 Millennials (87 percent) plan to increase the size of their business over the next five years, as do 73 percent of Gen-Xers and 57 percent of Boomers.



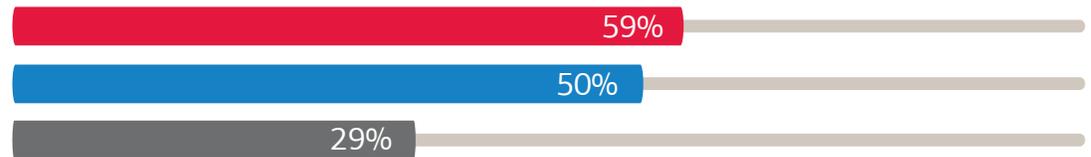
In terms of expansion plans in the next year, Gen-Xers are most likely to target new industries and customers (51 percent), while Millennials are most likely to hire additional staff (59 percent) and open new locations (53 percent).



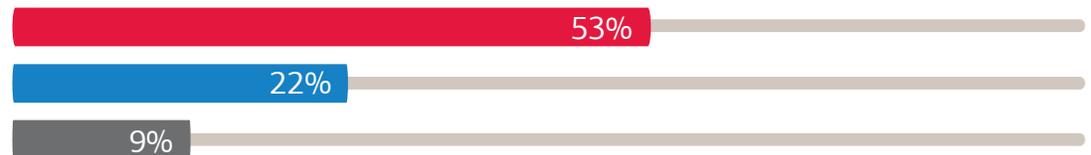
### Target new industries and customers



### Hire additional staff



### Open new locations



■ Millennials ■ Gen-X ■ Boomers

## Funding by generation: The changing nature of raising capital

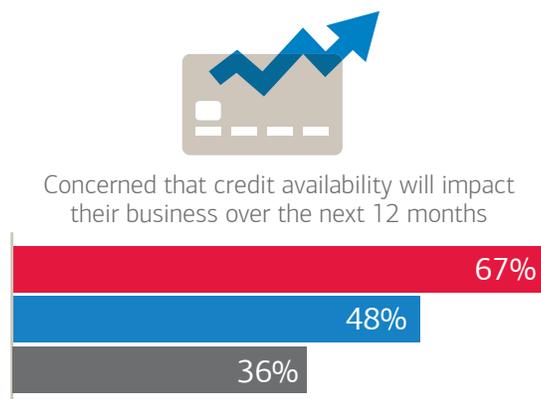
While only 29 percent of small business owners said they've applied for a business loan over the last two years, 90 percent of those who applied for a loan were approved. In addition, nearly a quarter (24%) of all small business owners surveyed plan to apply for a loan in 2015.

More than half (58 percent) of Millennial small business owners applied for a business loan within the last two years, nearly twice that of Gen-Xers (30 percent). Friends and family are an important source of funding for Millennial small business owners, with 30 percent saying they've received a loan from their loved ones in the past. Millennial small business owners are nearly five times as likely as Gen-Xers to have received past funding from a peer-to-peer network, while Boomers (25 percent) were more than twice as likely as Millennials (10 percent) to have received funding from a home equity loan/other personal debt.

### Breakdown by age of small business owners who applied for a business loan within the last two years



More than two-thirds (67 percent) of Millennial small business owners are concerned that credit availability will impact their business over the next 12 months, while fewer than half (48 percent) of Gen-Xers and 36 percent of Boomers showed concern.



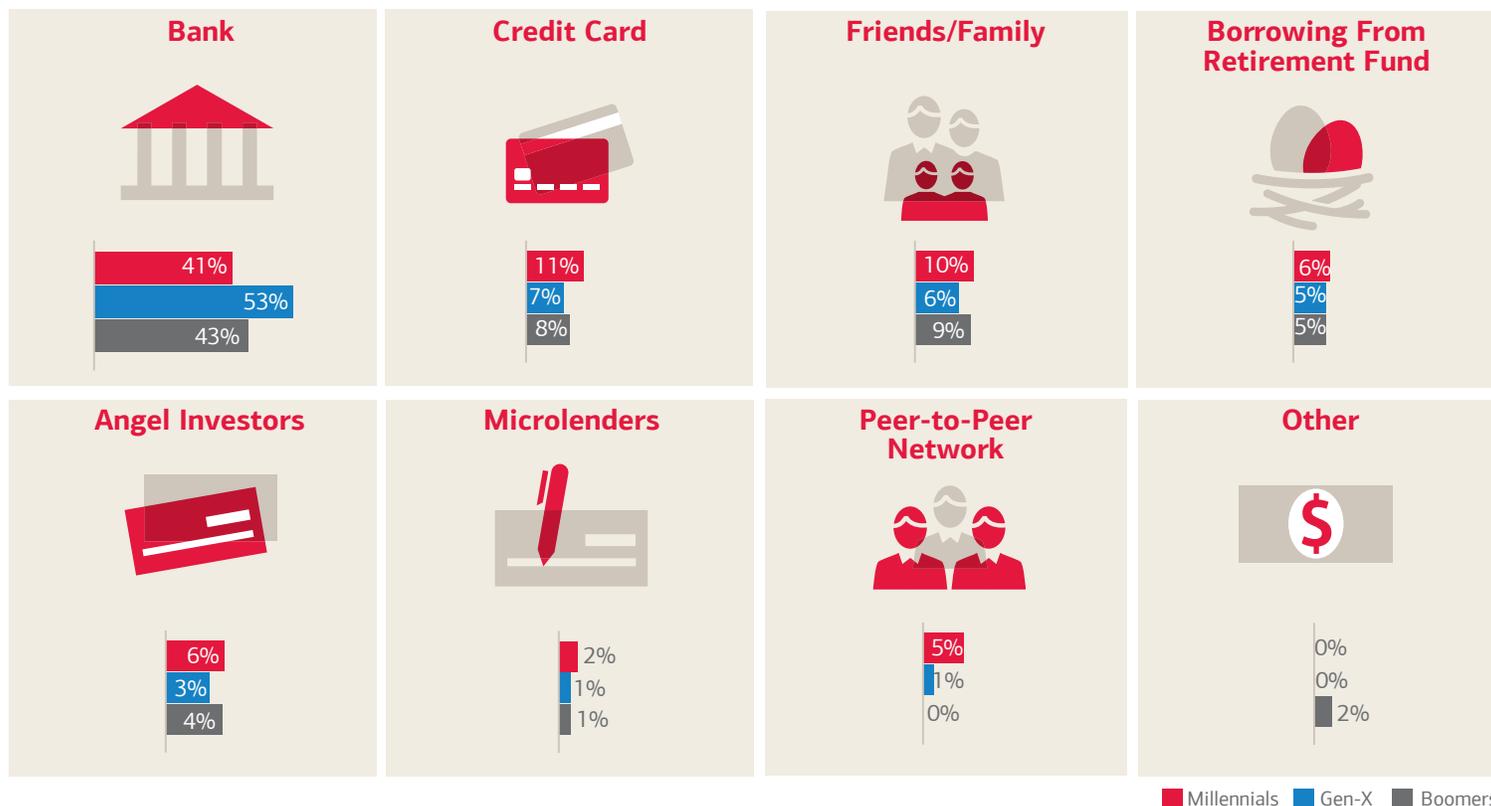
## Funding by generation: The changing nature of raising capital (cont.)

Less than half (41 percent) of Millennial small business owners indicated they would rely on banks first for their lending needs, while 9 percent said they would look to credit unions and 10 percent would rely on friends/family as sources for their capital needs in the future.

Also, the data indicates that Boomers have been more likely to take on personal debt for their business - 25 percent of Boomers have funded their business through a home equity loan or personal debt in the past (compared to just 10 percent of Millennials and 18 percent of Gen-Xers).

On the contrary, Millennials have been taking advantage of alternative lending sources such as peer-to-peer networks and microlenders. Fourteen percent of Millennials having received funding in the past from a peer-to-peer network (vs. just one percent of Boomers who have done so and three percent of Gen-Xers). In addition, almost three times as many Millennials have gone to a microlender as have their Gen-X counterparts (11 percent vs. 4 percent). No Boomers surveyed had received funding from a microlender in the past.

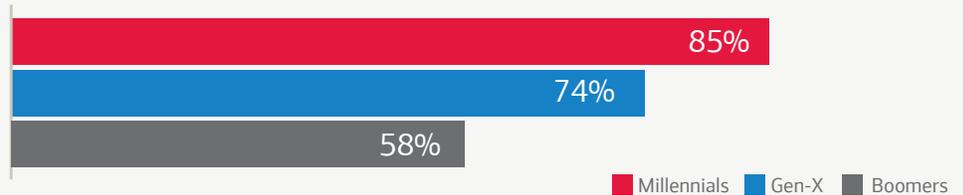
### When asked about future funding sources, small business owners said they would consider the following:



## Making the grade in technology: How do small business owners stack up?

More than half (58 percent) of Boomers gave themselves an “A” or “B” when asked to grade the tech savviness of themselves or their business. Despite this, only 15 percent of Boomer respondents are creating or using apps for their business (compared to 25 percent of Gen-Xers and 28 percent Millennials), only 32 percent are selling products and services online (compared to 40 percent of Gen-Xers and 44 percent of Millennials) and just 12 percent are replacing cash registers with mobile tablets or cloud-based POS solutions (vs. 22 percent of Gen-Xers and 29 percent of Millennials).

Not surprisingly, Millennial small business owners gave themselves the highest grades on tech savviness, with 85 percent giving themselves an “A” or “B.” Gen-Xers aren’t far behind with 74 percent answering “A” or “B.”



While Millennials and Gen-Xers rely heavily on smartphones and tablets to run their businesses (44 percent of Millennial and Gen-X small business owners said they could not run their business without these devices for more than a day) many are not reliant on smartphone technology.

### Percentage of SBOs who said they could “indefinitely” run their business without a smartphone or tablet



When asked about technology as it relates to managing the day-to-day aspects of their business, 58 percent of small business owners responded that it allows them to feel more in control. Additionally, 71 percent of all small business owners believe that technology saves them time. Millennials are most likely to say technology allows them to feel in control (77 percent), while Boomers are most likely to say that technology allows them to feel balanced with work and personal life (43 percent).



**77%**

Millennials say:  
“Technology allows me to feel more in control.”

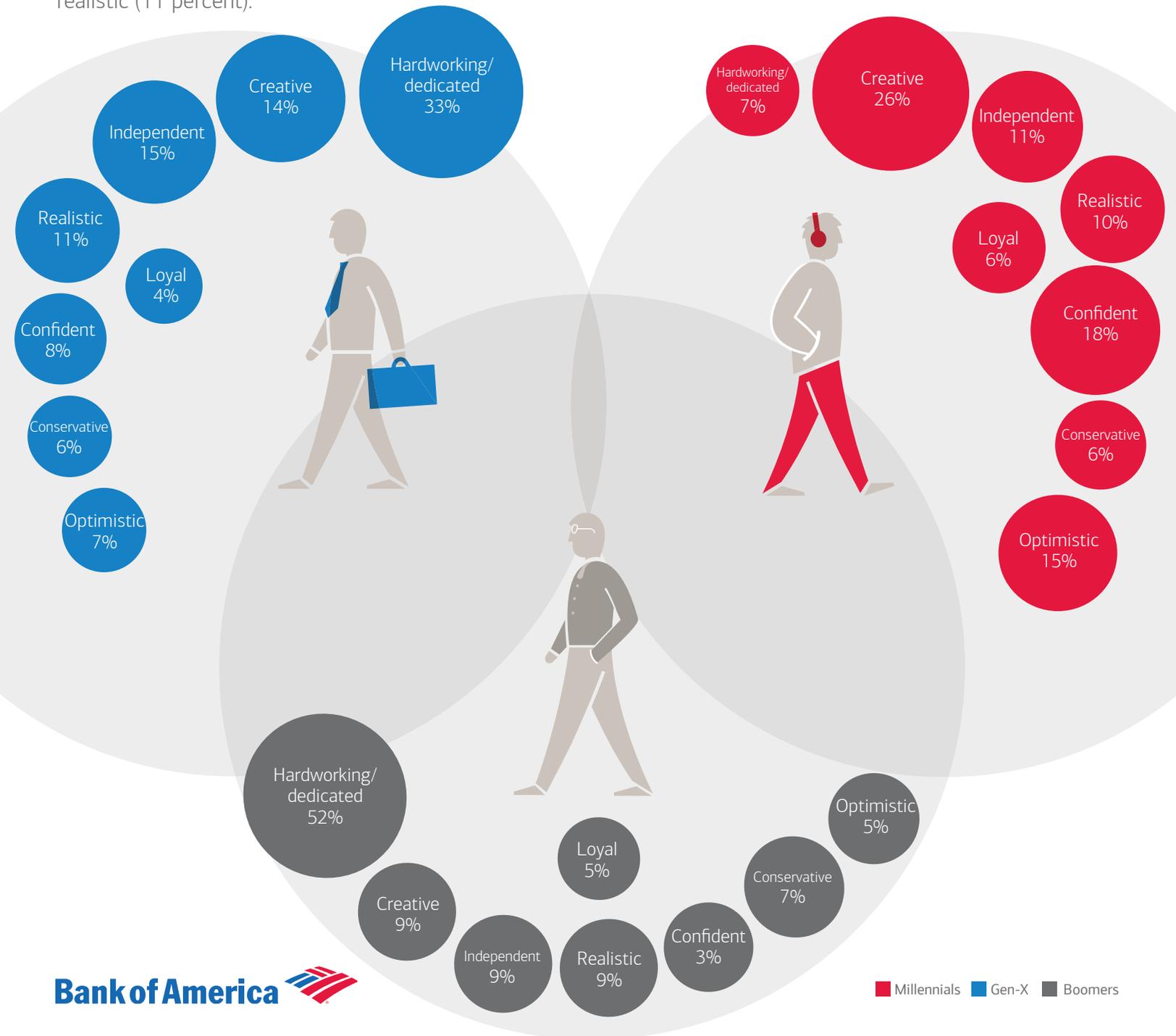


**43%**

Boomers say:  
“Technology allows me to balance work and personal life”

## Mirror, mirror: Gen-Xers and Boomers call themselves “hardworking”; Millennials see themselves as “creative”

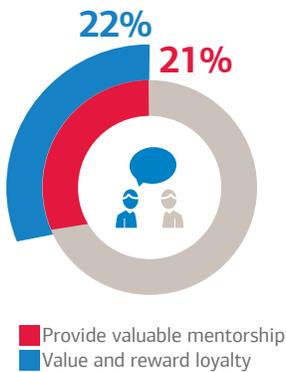
More than half (52 percent) of Boomer small business owners and one-third (33 percent) of Gen-X small business owners describe their generation as hardworking and dedicated, while only 7 percent of Millennials responded as such. In contrast, Millennial small business owners see themselves as creative (26 percent), confident (18 percent) and optimistic (15 percent). Gen-Xers are most likely to describe themselves as independent (15 percent) and realistic (11 percent).



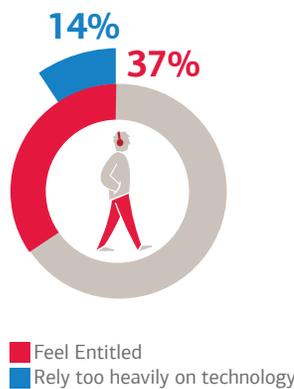
## Through the looking glass: Generations vocal about working hard, entitlement, mentorship

Small business owners aged 18-34 believe that Gen-Xers and Boomers both value and reward loyalty (22 percent) and provide valuable mentorship (21 percent). However, 37 percent of Gen-Xers and 38 percent of Boomers believe Millennials feel entitled and want success without enough hard work. Additionally, 18 percent of Boomers and 14 percent of Gen-Xers think that Millennials rely too heavily on technology.

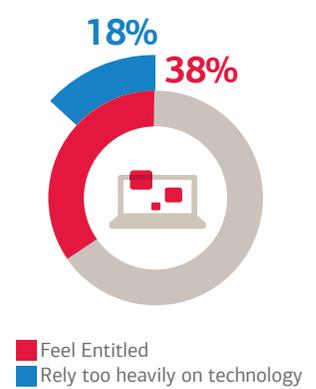
**According to Millennials, Gen-Xers and Boomers...**



**According to Gen-Xers, Millennials..."**



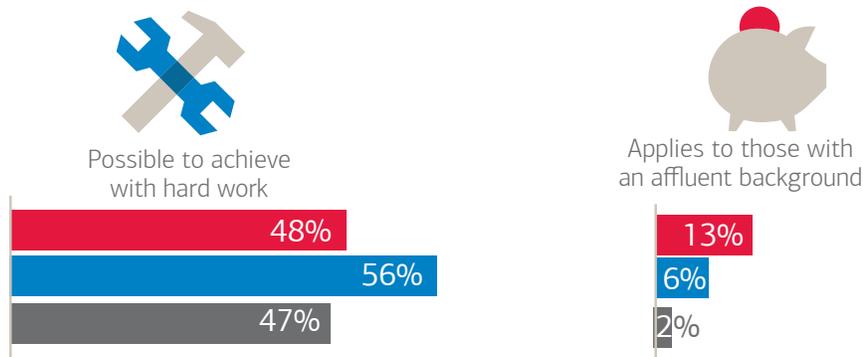
**According to Boomers, Millennials..."**



## The American Dream re-examined: Small business owners say life, liberty and the pursuit of happiness alive and well

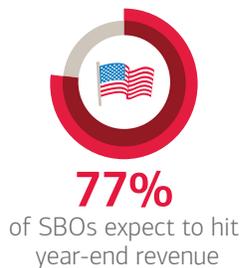
Gen-X small business owners are the most likely (56 percent) to believe that anyone can achieve the American Dream with hard work, compared to 48 percent of Millennials and 47 percent of Boomers. Millennials are most likely to believe that the American Dream is only possible for those from an affluent background (13 percent). They are also most likely to say that they have achieved the American Dream (88 percent) compared to Gen-Xers (79 percent) and Boomers (76 percent).

### Achieving the American Dream



## Holiday cheer shining bright in 2014: A look at year-end perks

Small business owners are successfully rounding out Q4. More than three-quarters (77 percent) of small business owners expect to hit their year-end revenue goals. Once again, Millennials are the most optimistic, with 93 percent believing they will meet their revenue target.



### I expect to hit my year-end revenue goal



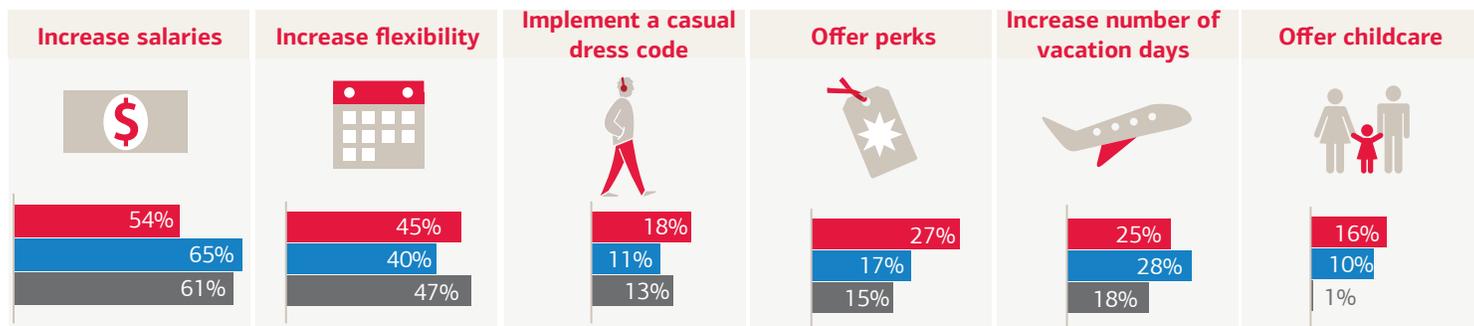
Holiday cheer is a bit brighter in 2014 than it was in 2013. More than half (52 percent) of small business owners plan to offer holiday salary bonuses to their employees, compared to 49 percent last year. In addition, 49 percent plan to throw a party for their employees, up from 43 percent last year.

### This holiday season, I plan to...



All SBOs agree that salary increases and flexibility are key factors in retaining talent. Beyond this, Millennials are most likely (27 percent) to think perks such as free meals or gym memberships are important, compared to 17 percent of Gen-Xers and 15 percent of Boomers. Sixteen percent of Millennials think childcare is an important perk vs. 10 percent of Gen-Xers and just one percent of Boomers.

### In order to retain top talent, I need to...



## Small business owners weigh-in: Surprising views on Black Friday and Cyber Monday

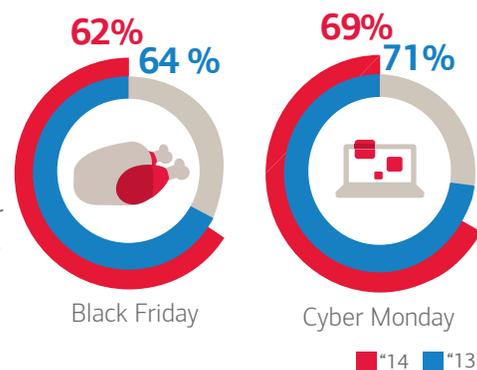
While there's often consumer frenzy around post-Thanksgiving shopping holidays, small business owners feel that Black Friday (62 percent) and Cyber Monday (69 percent) do not have a significant impact on their bottom line.

Yet these numbers have declined from last year, when 64 percent and 71 percent viewed Black Friday and Cyber Monday, respectively, as having no significant impact on their bottom line.

The increased significance of Black Friday could be driven by Millennial small business owners, 41 percent of which feel this holiday is one of many significant factors that impact their business's bottom line. Perhaps due to their tech-saturated lives, they are also most likely to feel the same way about Cyber Monday (63 percent).

Nearly three-quarters (74 percent) of small business owners in the consumer products, retail or wholesale industries felt this way about Black Friday, up from 69 percent last year. In addition, 57 percent of small business owners in those industries think Cyber Monday is similarly overhyped, just two percent lower than last year.

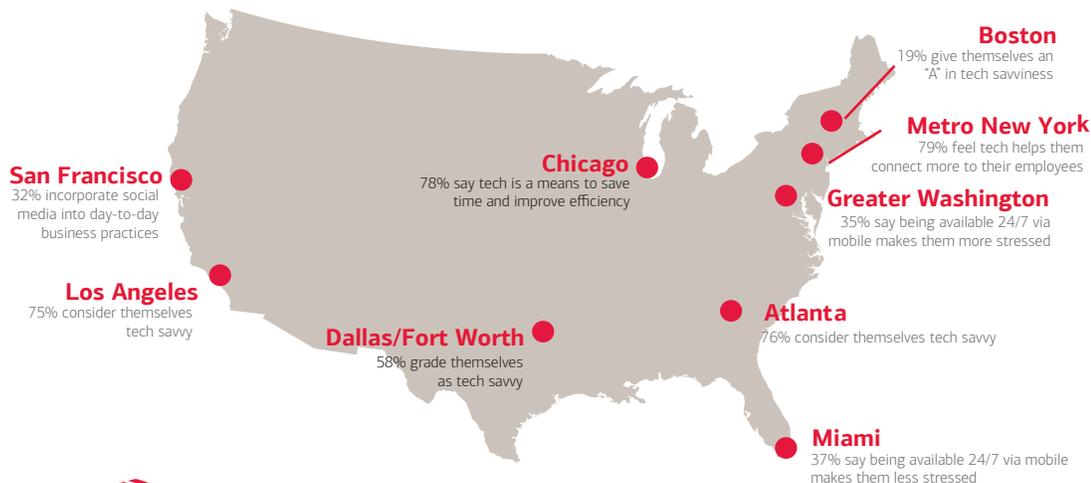
**Black Friday and Cyber Monday do not have a significant impact on my bottom line**



## Tech savviness city-by-city

Most small business owners feel confident in their tech abilities, but some regions rate themselves higher than others. Small business owners in Atlanta (76 percent) rate themselves the highest when it comes to tech know-how, while only 58 percent those in Dallas give themselves an "A" or "B."

At least 80 percent of small business owners across surveyed regions have incorporated some type of digital method into their operations including social media, digital security software, or selling product and services online. New York small business owners are most likely to have incorporated tech into their daily routines, including 53 percent who have incorporated social media.



## Client Profile

Based in California's Bay Area, Casa Azteca has been serving Mexican food to the local community for more than 35 years. The restaurant's owner, Harihar Dahal, believes he has been living the American Dream since he bought the restaurant from its previous owner in 2012.

Harihar Dahal grew up in Nepal and came to the United States in 2004 with almost nothing. He started working in restaurants as a busboy and eventually worked his way up to become a manager at the popular Mexican restaurant, Casa Azteca, in Milpitas, California. During his tenure at the restaurant, the owner decided to sell, but had reservations as he wanted to preserve its 35 year history and strong ties to the community. When thinking about a potential buyer, the owner became more and more impressed by Harihar's passion and work ethic and eventually decided to sell the business to him.



Harihar needed capital. He went to Bank of America, which supported him with a \$94,000 loan from Opportunity Fund, a microfinance provider in California with a mission to help advance the economic well-being of working people in the community. That loan, along with help and support from friends and family, allowed Harihar to buy Casa Azteca and retain its 16 employees. Aside from a few upgrades, including a new bar, new artwork and an updated space, Casa Azteca remains the same as it did when the restaurant first opened in 1980. "I could be the perfect example of the American Dream," said Harihar, who also notes that owning a small business does come with its fair share of challenges.

As a member of the Gen-X generation, Harihar knows how hard it is to keep up with today's ever-changing technology as he is challenged every day to keep up with younger, more technology-focused businesses. "Technology is changing so fast. Younger people are more high-tech and have different ways of thinking about marketing, whereas older workers are more likely to avoid new technology." Harihar is trying to incorporate technology into the restaurant by taking orders with iPads to improve efficiency and attract younger customers, while still keeping the original traditions engrained in the roots of Casa Azteca.

Looking ahead, Harihar is excited about his growing his business, and he is especially optimistic about growth in Milpitas. "Having a business is not just about the money, it's about being part of the community. The community needs to support small businesses, and small businesses should help the community."

## Bank of America Commitment to Small Business

Bank of America has a nationwide network of banking centers and professionals that are committed to its more than three million small business clients and their local communities. The personal connection of small business bankers, client managers and practice solutions specialists contribute to the success of small businesses and their communities by making expertise more accessible. The resources of Bank of America help Small Business owners succeed by offering convenient interactions and comprehensive banking, credit and cash management solutions.

Through the first half of 2014, Bank of America extended more than \$5 billion in new credit to small businesses. The bank's combined new and renewal small business lending totaled nearly \$11 billion.