

## Letter from Robb Hilson



We are pleased to share the spring 2015 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.

We're happy to say that confidence in the economy remains steady compared with one year ago. In addition, small business owners are optimistic about the growth of their businesses over the next five years. Many owners, however, note that their businesses are still recovering from the "Great Recession" of 2008. Most have yet to reach a full recovery.

One of the notable findings of the survey is the tendency of small business owners to be self-sacrificing, putting the needs of employees above their own. Sacrifices include accumulating personal debt or delaying their own compensation versus laying off employees or delaying employee compensation.

Employee appreciation programs are widespread and offered by nearly all small business owners. Popular forms of expressing appreciation include team outings, spot bonuses, office recognition and extra time off. Small business owners also favor customer appreciation programs, feeling that repeat business stems from strong customer relationships. This sentiment is strongest among Baby Boomer owners.

Views toward government differ greatly by generation, with Gen-Xer and Millennial small business owners feeling more appreciated by policymakers than Baby Boomers. Many owners are concerned about potential policies, including mandated healthcare and sick leave for employees. Most, however, see expanded tax breaks for automatically enrolling employees into retirement savings accounts as a potential boon to business.

When determining where to set up shop, small business owners look to local communities where they already live and work. They feel supported by residents in these communities and give their residents high marks for regularly frequenting small businesses. Small business owners also pay it forward locally by making it a priority to shop at other small businesses in their community.

Small business owners are seeking more support through lending than they did a year ago. Citing difficulty in locating qualified candidates, small business owners' number one priority for using loan capital is training and developing existing staff. Other priorities include investing in new equipment, expanding operations and offering employees greater health and financial benefits.

At Bank of America, we know resources are crucial to a small business owner's success, which is why we have dedicated small business experts in local communities across the country. We have also recently expanded our small business presence by hiring more than 200 new small business bankers in key markets throughout the nation last year.

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

## Generational breakdowns

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

## Methodology

Braun Research conducted the Bank of America Small Business Owner Report survey by phone, from March 4, 2015 through March 27, 2015, 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 each of nine target markets: Atlanta, Boston, Chicago, Dallas, Los Angeles, Miami, New York, San Francisco, Washington D.C.. The margin of error for the national sample is +/- 3.1 percent; the margin of error for the oversampled markets is +/- 5.7 percent, reported at a 95 percent confidence level.

## Contents

### 2

Small business owners continue to have a positive outlook on growth and the economy

### 3

Seven years after the 'Great Recession,' only 1 in 5 small business owners say they have completely recovered

### 4

Making ends meet: how small business owners tackle financial challenges

### 5

Small business owners struggle to find qualified staff

### 6

Do small business owners appreciate employees?

### 7

Customer focus: how do small business owners stack up?

### 8

Small business owners feel supported by their community

### 9

Loan applications on the rise, with increased investment in employee development

### 10

Generations split on sentiment toward government

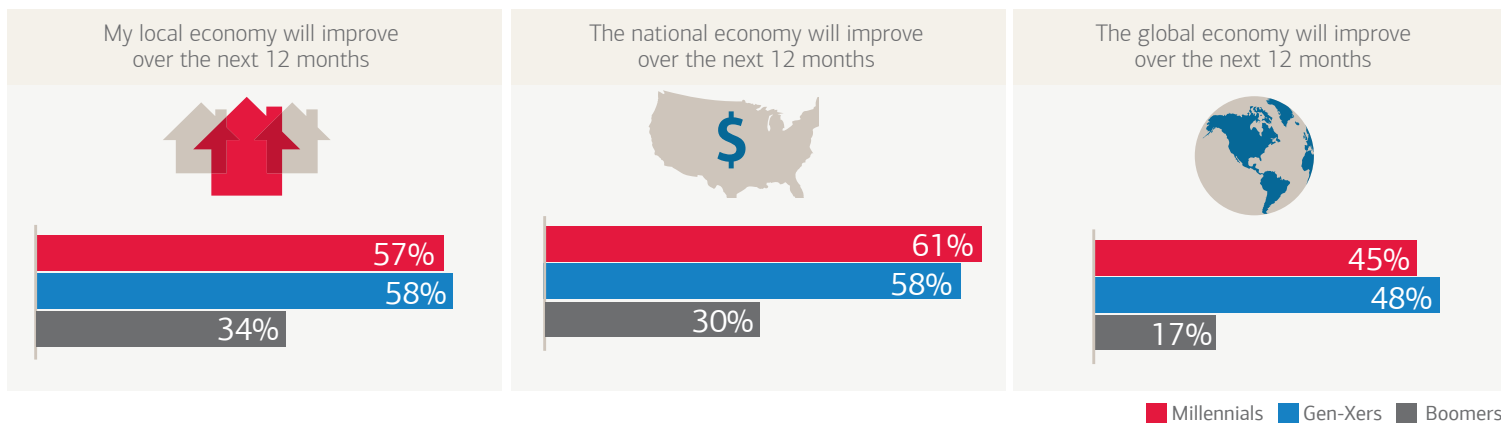
### 11

Client profile

## Small business owners continue to have a positive outlook on growth and the economy

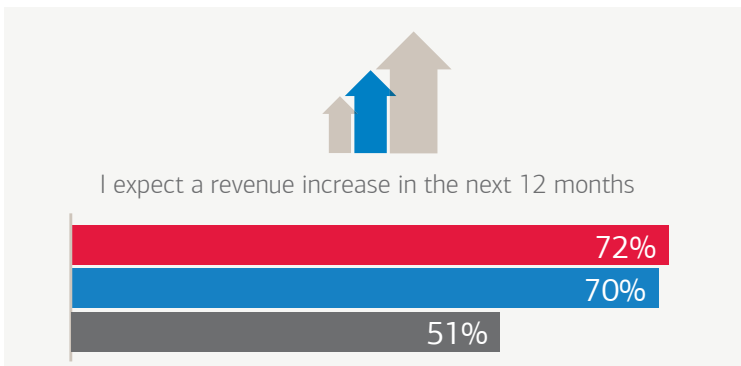
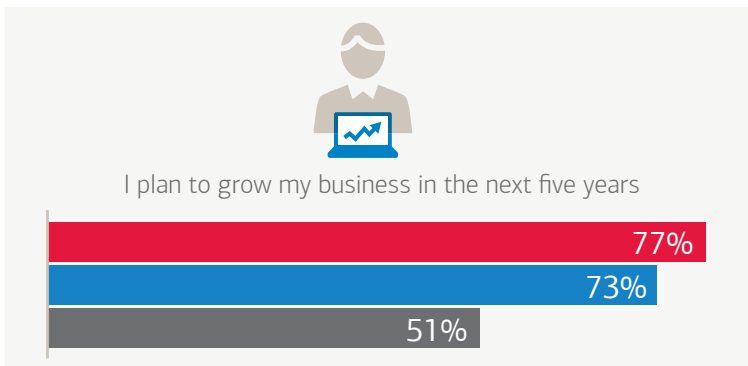
Small business owners' confidence in the national economy rose 8 percent year over year, from 40 percent in spring 2014 to 48 percent in 2015. Confidence in the global economy rose slightly, from 32 percent to 35 percent. Small business owners also remained confident in their local economy (at 49 percent versus 51 percent a year ago).

Compared with one year ago, Millennials are significantly less confident that local economies will improve in the next 12 months (57 percent versus 67 percent in spring 2014). However, Millennials (61 percent) are still more positive about the direction of the national economy than Baby Boomers (30 percent) and Gen-Xers (58 percent).



Despite struggles with the recent recession, two out of three small business owners plan to grow their business in the next five years, similar to sentiment in spring 2014. Compared to a year ago, Millennials (77 percent versus 80 percent in spring 2014) and Baby Boomers (51 percent versus 58 percent in spring 2014) are less likely to say they plan to grow their business. Gen-Xers' optimism around growing their business increased, from 70 percent in spring 2014 to 73 percent in spring 2015.

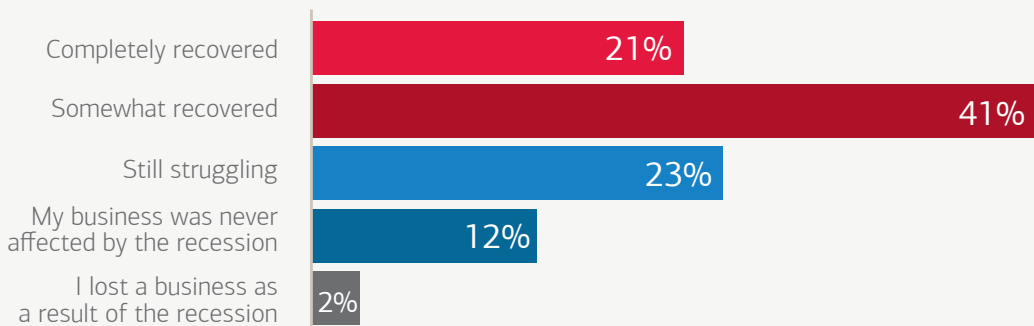
Nearly two-thirds (63 percent) of small business owners expect their revenue to increase in the next 12 months, compared with 68 percent a year ago. One in three small business owners (31 percent) expect their revenue to stay the same in the next 12 months, up from 26 percent a year ago. Baby Boomer small business owners are less optimistic about revenue growth than their younger counterparts, with only 51 percent of Boomers projecting growth compared with 70 percent of Gen-Xers and 72 percent of Millennials.



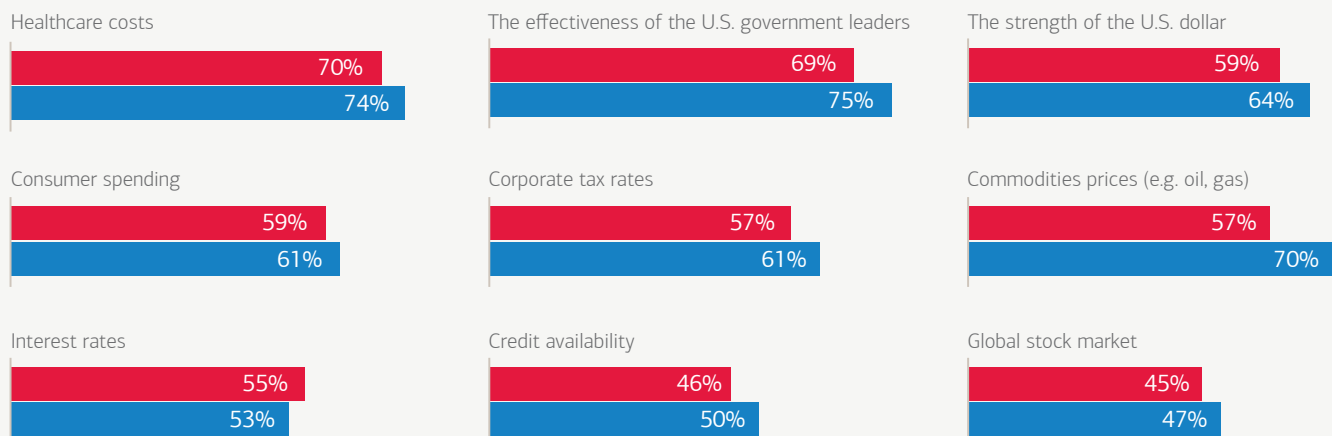
## Seven years after the ‘Great Recession,’ only 1 in 5 small business owners say they have completely recovered

Small business owners are still working their way toward a full recovery from the ‘Great Recession,’ with only 21 percent reporting a complete recovery and 41 percent saying they have somewhat recovered. Larger-revenue small business owners (25 percent) are more likely than smaller-revenue (18 percent) and medium-revenue (17 percent) small business owners to feel they have completely recovered. Longer-tenure companies are more likely to still be feeling the impact of the recession (32 percent) than shorter-tenure companies (16 percent).

### Small business owners continue to work toward recovery from 2008 recession



In addition, the top concerns of small business owners include healthcare costs (70 percent versus 74 percent in spring 2014) and effectiveness of U.S. government leaders (69 percent versus 75 percent in spring 2014). However, across the board, small business owners are less concerned about business factors than they were a year ago, with the exception of interest rates (55 percent in 2015 versus 53 percent in spring 2014).

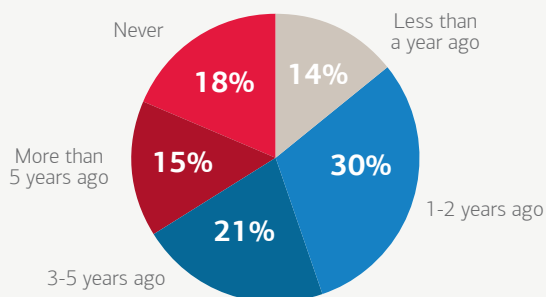


■ 2015 ■ 2014

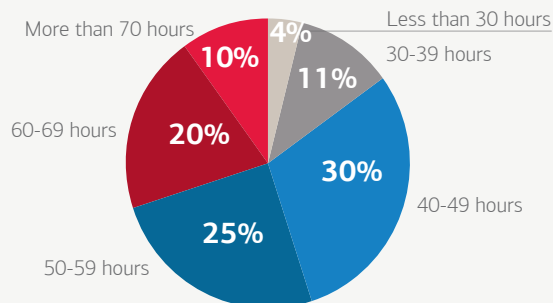
## Making ends meet: How small business owners tackle financial challenges

Small business owners generally place the welfare of their employees before their own, opting to carry personal debt and delay their own compensation, if needed. When asked what they would do if forced to make ends meet in a challenging financial situation, 67 percent of small business owners said they would delay or reduce their own compensation versus 9 percent who say they would delay or reduce employees' compensation. Also, 33 percent of small business owners have either never given themselves a raise or haven't done so for more than five years, and more women than men report having never given themselves a raise (23 percent of women versus 15 percent of men).

**When was the last time you gave yourself a raise?**

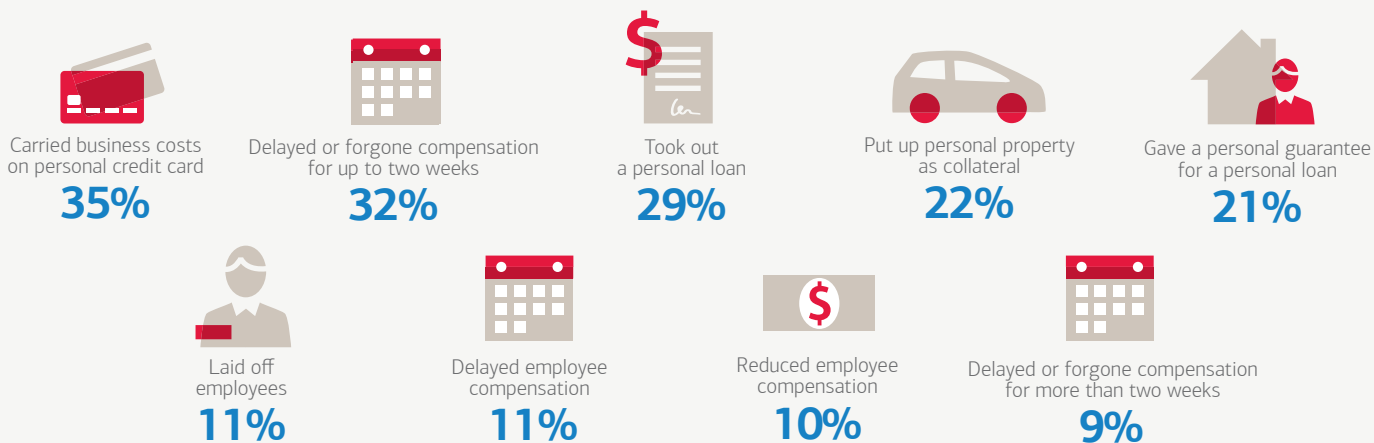


**On average, how many hours a week do you work?**



Of the financial sacrifices small business owners have made, 35 percent have carried business costs on a personal credit card, 32 percent have delayed or forgone compensation for up to two weeks, 29 percent have taken out a personal loan, 22 percent have put up personal property as collateral and 21 percent have given a personal guarantee for a personal loan. Only 11 percent have laid off employees or delayed employee compensation. Only 11 percent have laid off employees or delayed employee compensation.

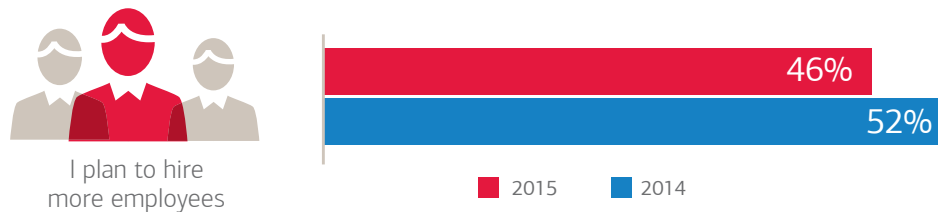
### Making ends meet



In addition, small business owners have become accustomed to working long hours, with 85 percent working more than 40 hours a week and 55 percent working more than 50 hours per week.

## Small business owners struggle to find qualified staff

Fewer small business owners (46 percent) plan to hire new staff in the next 12 months compared to one year ago (52 percent). Two out of five (41 percent) small business owners say it is difficult to find qualified candidates, with Gen-Xer small business owners expressing the greatest frustration (47 percent, compared with 39 percent of Baby Boomers and 36 percent of Millennials).



Among those who say it's difficult to find candidates, they cite a lack of necessary skills (59 percent) and unrealistic salary expectations (45 percent) as top pain points. Some small business owners also believe that qualified candidates would rather work for a large or midsize brand (29 percent) and are seeking benefits that they cannot provide (26 percent).

### Challenges of finding qualified candidates



Potential employees lack the skillset I'm looking for

59%



Potential employees salary expectations are too high

45%



Potential employees would rather work for a large or midsize brand

29%



Potential employees want benefits that my business does not provide

26%



Lazy/ lack of work ethic

2%

When asked about the top challenges small business owners have with employees, they cite not only finding talent (38 percent), but also salary or wage demands (28 percent), healthcare costs (28 percent), maintaining morale and productivity (19 percent) and employee turnover (16 percent).

### Challenges with employees



Difficult to find qualified staff

38%



Salary or wage demands becoming too high

28%



Healthcare costs

28%



Maintaining morale and productivity

19%



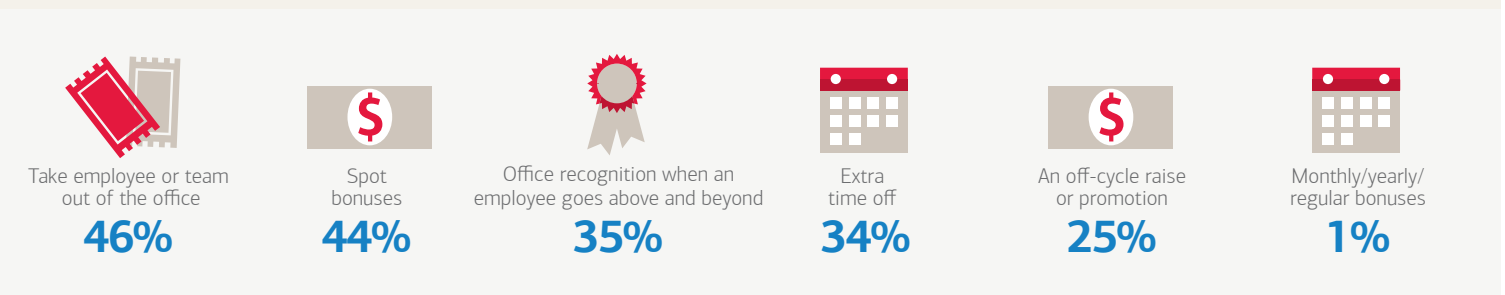
Employee turnover

16%

## Do small business owners appreciate employees?

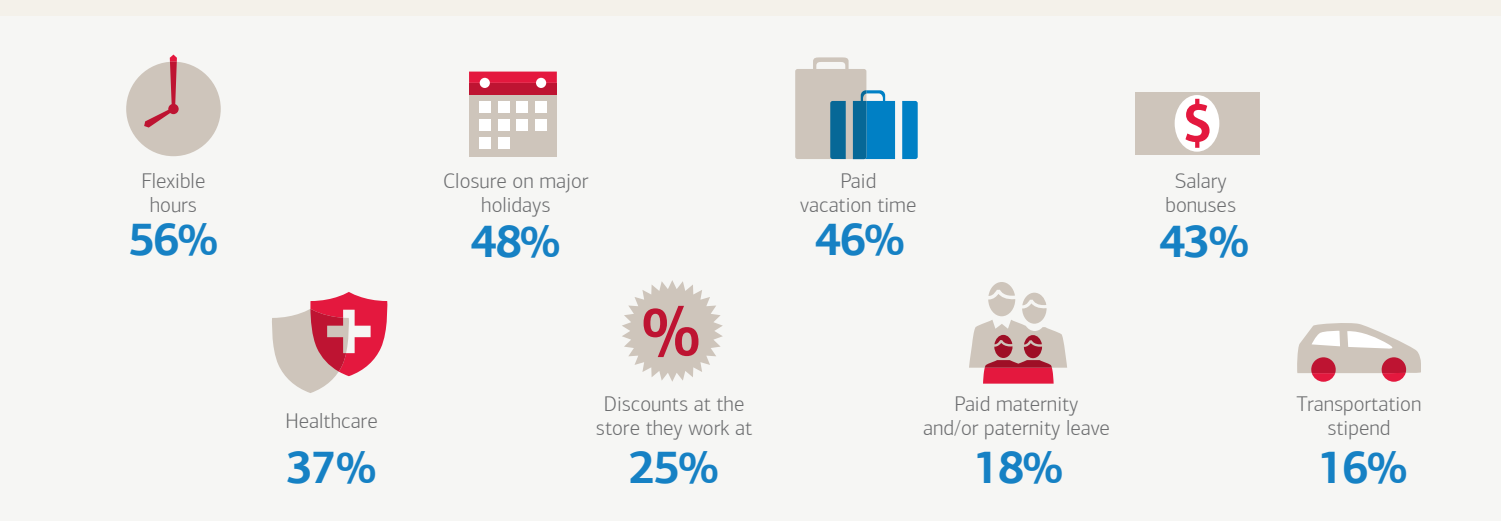
Despite their struggle to find talented employees, nearly all small business owners (94 percent) report that they have employee appreciation programs. Some of their favorite ways to express appreciation include taking an employee or team on an outing (46 percent), implementing spot bonuses (44 percent), showcasing accomplishments through internal office recognition (35 percent), giving employees extra time off (34 percent) and providing off-cycle raises and promotions (25 percent).

### Employee appreciation



These perks are in addition to more traditional benefits, which include flexible hours (56 percent), office closure on major holidays (48 percent), paid vacation time (46 percent) and healthcare benefits (37 percent). A quarter of small businesses offer store discounts where the employees work (25 percent), and a handful of small businesses offer paid maternity and/or paternity leave (18 percent) and transportation stipends (16 percent).

### Perks and benefits



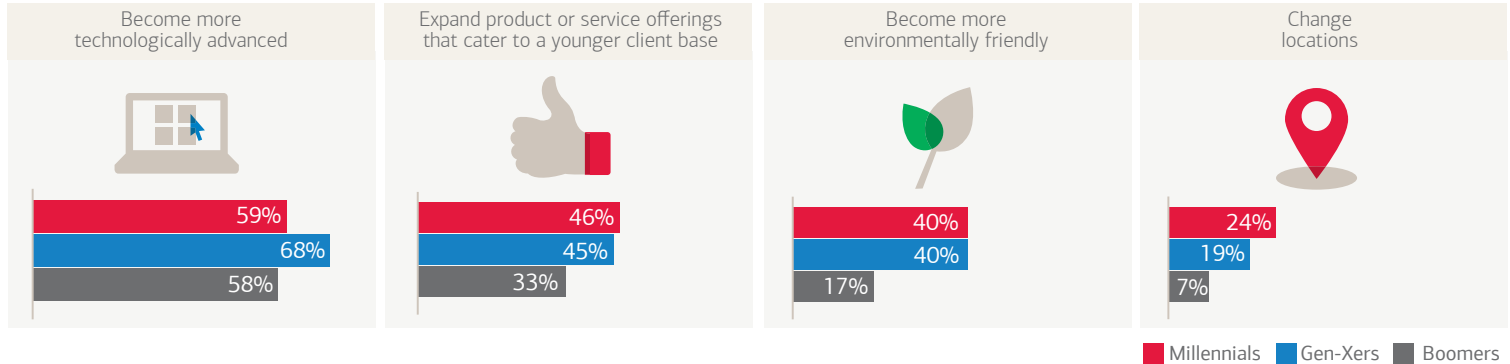
## Customer focus: how do small business owners stack up?

More than half (57 percent) of small business owners believe that strong customer relationships are a primary driver of repeat business. Baby Boomer small business owners are particularly likely to feel this way (71 percent) compared with 53 percent of Gen-Xers and 47 percent of Millennials.



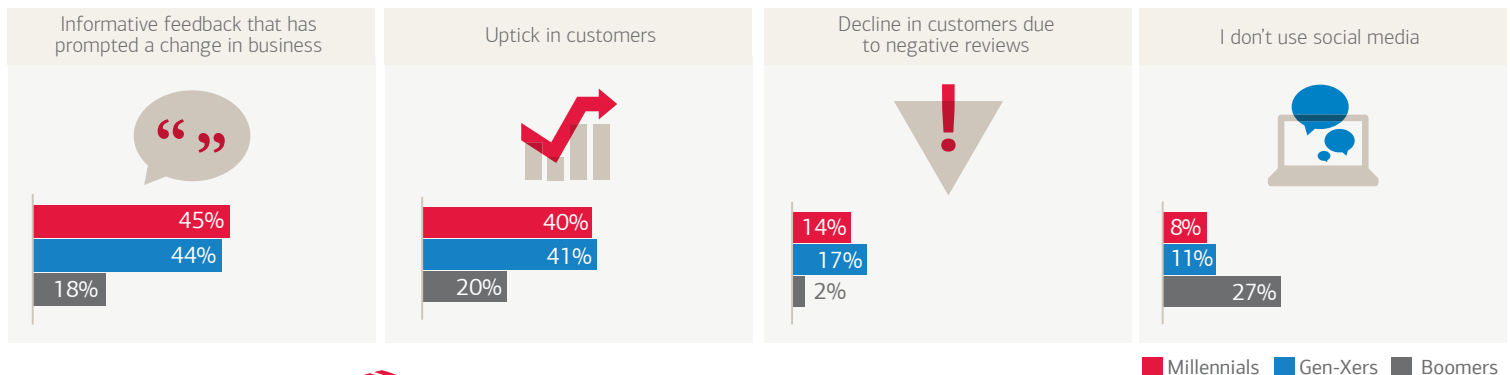
Small business owners are adopting different ways to keep up with customer demands including becoming more technologically advanced (62 percent), expanding product or service offerings that cater to a younger client base (41 percent), becoming more environmentally friendly (32 percent) and changing locations (16 percent).

### Adapting to customer demands



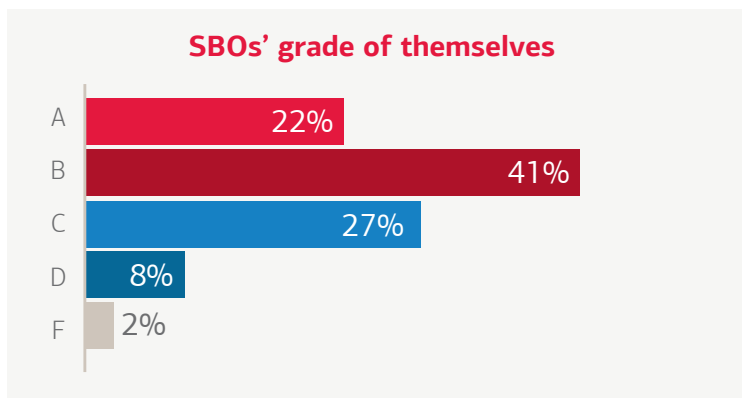
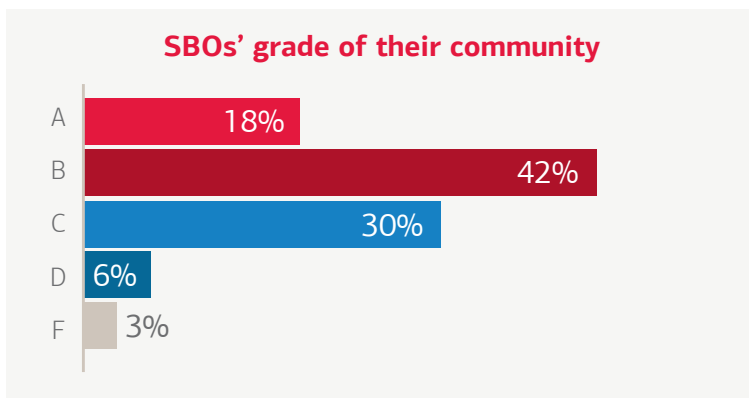
When looking at social media, only 16 percent say they do not use social media, including 27 percent of Baby Boomers, 11 percent of Gen-Xers and 8 percent of Millennials. One in three (35 percent) say social media has provided informative feedback that prompted a change in business.

### Impact of social media



## Small business owners feel supported by their community

Small business owners feel supported by residents in their local communities, with 60 percent giving their residents high marks for regularly frequenting small businesses. Baby Boomer small business owners feel the least supported, with 52 percent giving residents high marks versus 65 percent of Gen-Xers and 67 percent of Millennials. When looking in the mirror, 63 percent of SBOs rate themselves highly for supporting small businesses in their area.



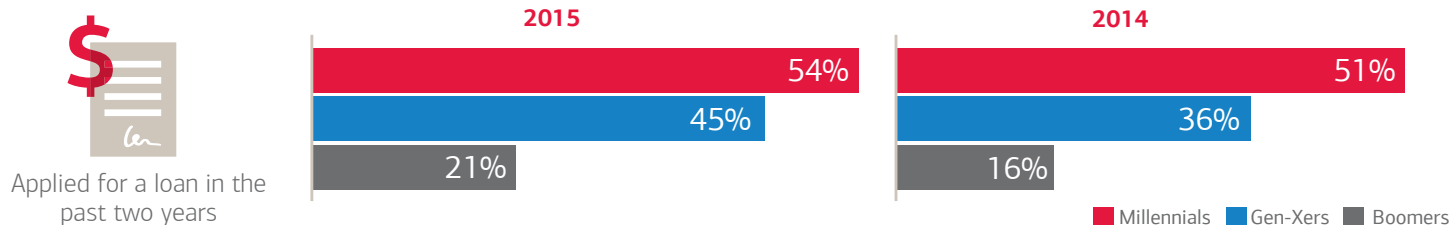
When determining where to locate their businesses, owners favor local communities where they already live and work. Other top factors involved in choosing a location include a community's potential for growth (67 percent) and proximity to customer base (66 percent). One in two owners (49 percent) also say tax rates for businesses have a large impact on where they do business.





## Loan applications on the rise, with increased investment in employee development

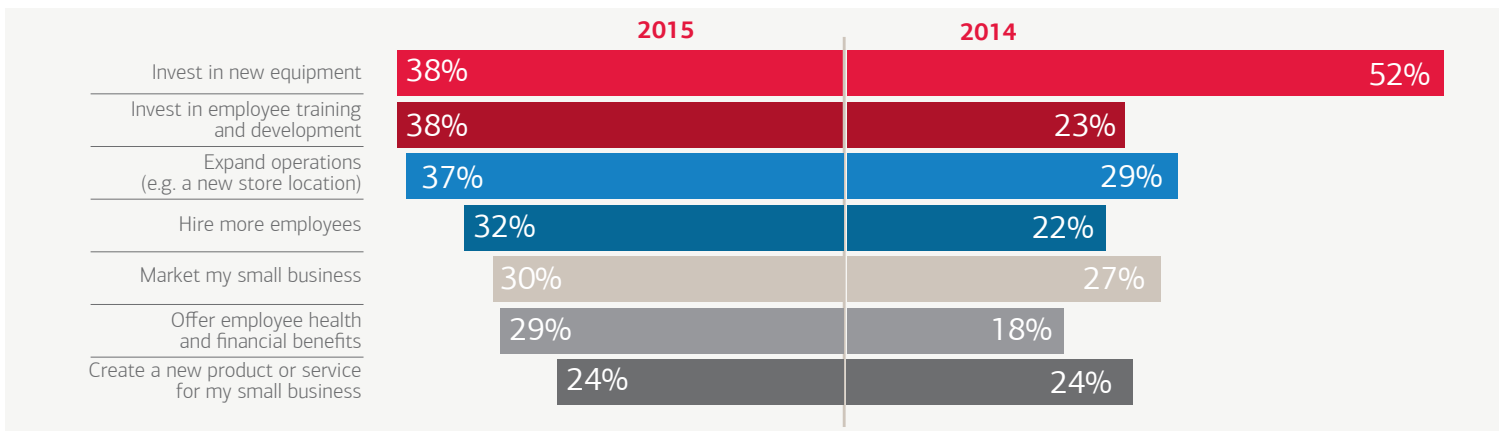
Loan applications and intent to apply for loans have increased, with more than a third (39 percent) of small business owners reporting that they have applied for a loan in the past two years, up from 28 percent a year ago in spring 2014. Loan applications over the last two years among Gen-Xer small business owners are up the most (from 36 percent to 45 percent), compared with Baby Boomers (16 percent to 21 percent) and Millennials (51 percent to 54 percent).



Nineteen percent of small business owners intend to apply for a loan in 2015, compared with 14 percent a year ago in spring 2014. This was primarily driven by growth among Gen-Xer small business owners, 23 percent of whom intend to apply for a loan versus 17 percent a year ago. Numbers for Baby Boomers (9 percent in both years) and Millennials (28 percent in spring 2014 versus 27 percent in 2015) remained flat.



When asked how funds will be used, small business owners expressed an increase in plans to invest in employee training and development (38 percent versus 23 percent in spring 2014), expanding operations (37 percent versus 29 percent in spring 2014) and hiring more employees (32 percent versus 22 percent in spring 2014). The only reported decline was an intention to use funds for investing in new equipment (38 percent versus 52 percent in spring 2014).

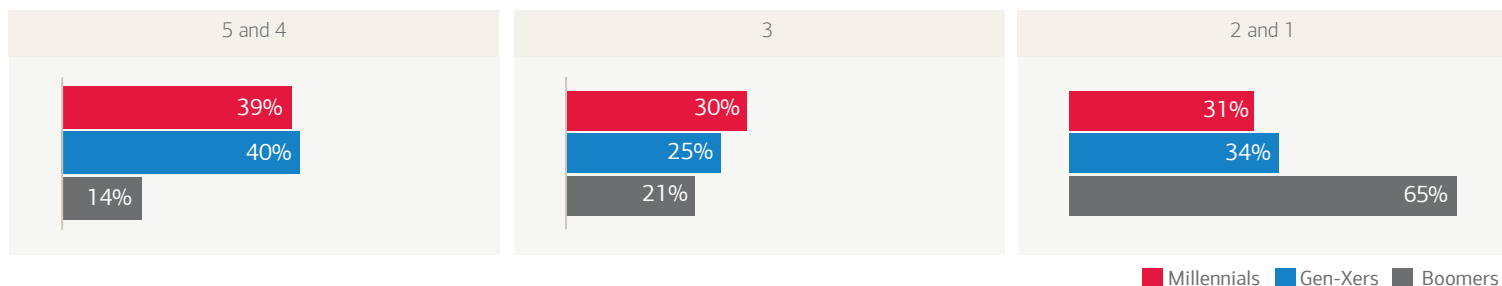


## Generations split on sentiment toward government

Views toward government differ greatly by generation, with only 14 percent of Baby Boomer small business owners feeling appreciated by policymakers, compared with 40 percent of Gen-Xers and 39 percent of Millennials.

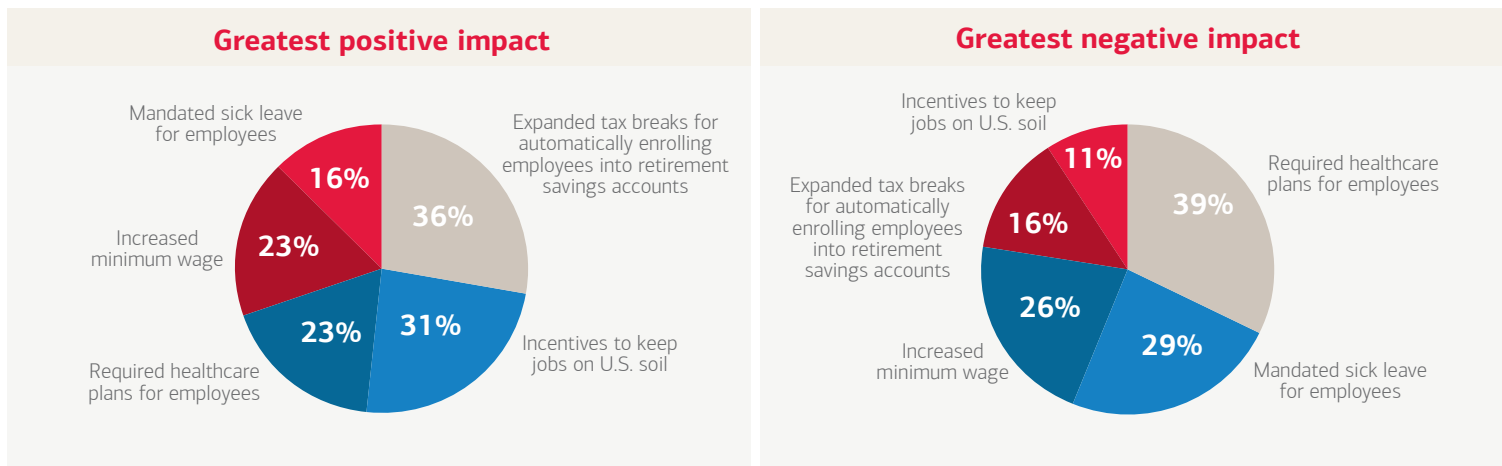
### How well do you believe policy makers appreciate small business owners?

(With 5 being 'very much' and 1 being 'not at all')



Many owners are concerned about potential policies negatively impacting their businesses, including required healthcare (39 percent), mandated sick leave for employees (29 percent) and an increased minimum wage (26 percent).

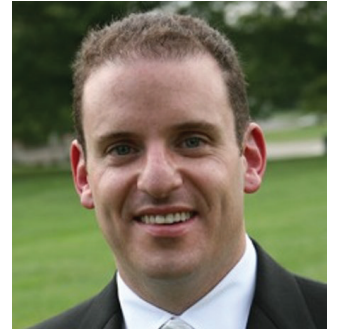
When asked which policies would have the greatest positive impact on their business, small business owners cited expanded tax breaks for automatically enrolling employees into retirement savings accounts (36 percent) and incentives to keep jobs on U.S. soil (31 percent). While 39 percent view mandated healthcare as a potential threat to their business, 23 percent see this as a potential boon.



## Client profile

Marc Zwerdling has a passion for sports. He's an avid runner and sports fan, and that passion served as the inspiration for starting his business. Nearly eight years ago, Marc founded Generation Z Marketing, a company that focuses on youth sports and grassroots marketing programs on behalf of large brands. From its offices in New York, Generation Z Marketing helps brands foster and grow relationships in local communities.

As in many small businesses, the employees of Generation Z Marketing serve critical roles in the company, and Marc feels strongly about showing appreciation for all their hard work. In his words, "My employees are the key to everything that I do, and I wouldn't have been able to attain the level of success that I have without them." The Small Business Owner Report found that almost all (94 percent) of small business owners have employee appreciation programs. To show his appreciation, Marc hosts team outings and events, including a big steak dinner every year. His employees also enjoy flexible hours, a casual work environment and occasional tickets to sporting events.



As important as his employees are to his business, Marc also relies on his family to keep things running at home and at work. His family has helped Marc's business weather the storm of the Great Recession, which began just a year after Marc started Generation Z Marketing. He notes that Bank of America has supported him every step of the way through the growth and challenges his business has experienced. "The Great Recession is significant both professionally and personally to me," he said. "It actually began the day of my wedding. I've had a great relationship with Bank of America for many years, and I know my small business banker is always on call."

Marc is highly optimistic about the economic climate and outlook for his business. When he speaks to clients nationally, and in his work with local communities, he senses their optimism too. "I feel that my business now is as strong as it's ever been, and I hope to grow it over the next few years," he said. Beyond his business interest, Marc cares greatly about youth sports, especially now that his two young children are beginning to compete. "Being able to work with brands that share the same hometown sentiment of helping kids play sports is an amazing opportunity for everyone involved, and it's fulfilling to be able to make a business out of it."

## 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 3 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.

In 2014, Bank of America extended nearly \$10 billion in new credit to small businesses. The bank's combined new and renewal small business lending totaled nearly \$23.5 billion.