Letter from Sharon Miller

We are pleased to present the spring 2019 Bank of America Small Business Owner Report, a semiannual study that explores the perspectives, aspirations and concerns of small business owners around the country.

This spring, entrepreneurs are reporting diminished confidence in the economy and growing concern for a variety of key economic issues, including health care costs, interest rates and the stock market. A new concern factor measured this spring — the current political environment — ranked as a major issue for two-thirds of the business owners we surveyed, though entrepreneurs are split on exactly how policy outcomes are affecting their businesses. Half of business owners say the new tax code has impacted their business, and two out of five say they’ve felt the effects of recent changes to U.S. trade policy. Looking to the future, one-third say they’re concerned about the impact climate change could have on their business.

Despite their concerns, entrepreneurs remain largely optimistic about their business outlook, with revenue forecasts, growth and hiring plans holding steady since the fall of 2018. Over the next 12 months, two-thirds of small business owners plan to expand their businesses, and many anticipate continued revenue growth.

Overall, we found that most business owners are preparing for whatever the future may hold, creating continuity plans for their business in the case of a disaster and taking steps to prepare for a potential economic downturn.

Looking to the virtual realm, a strong majority of entrepreneurs are taking action to protect their customers’ data from cyber breaches. While many do not have a plan to manage reputational issues, most entrepreneurs report they respond to negative reviews as quickly as possible to mitigate any impact, and nearly all business owners recognize the importance of maintaining a positive online presence.

Finally, most business owners say technology is allowing them to better manage operations, build customer relations and compete with larger firms. Even so, classic business issues — including recruiting, unforeseen expenses and cash flow — continue to be a pain point.

Whether you’ve been in business for decades or are just starting out, Bank of America is committed to helping you with a competitive advantage to sustain and grow your small business.

Sharon Miller, Managing Director, Head of Small Business, Bank of America

Methodology

Ipsos Public Affairs conducted the Bank of America Small Business Owner Report Survey for spring of 2019 online between February 8 and February 24, 2019 using a pre-recruited online sample of small business owners. Ipsos contacted a national sample of 1,504 small business owners in the United States with annual revenue between $100,000 and $4,999,999 and employing between two and 99 employees. In addition, a total of approximately 300 small business owners were also surveyed in each of 10 target markets: Atlanta, Boston, Chicago, Dallas, Houston, Los Angeles, Miami, New York, San Francisco and Washington, D.C. The final results were weighted to national benchmark standards for size, revenue and region.

Prior to 2016, previous waves of the Small Business Owner Report Survey were conducted by telephone and while best efforts were made to replicate processes, differences in sample, weighting and method suggest caution when making direct statistical comparisons of the results from pre-2016 and post-2016.
Economic confidence down, economic concerns up

Small business owners’ confidence in the economy is down slightly from last fall. Though numbers show a downward trend, they fall in the middle of the range of economic sentiment over the last five years.

Over the next 12 months...

Concern over a variety of economic factors has ticked up over the last six months. Health care costs remain the top-ranking issue, with the political environment (first-year tracking) emerging as a close second. Meanwhile, business owners are divided in how significantly these issues impact their business.

Economic concerns increase

<table>
<thead>
<tr>
<th>Economic Concern</th>
<th>Spring 2019</th>
<th>6 Month Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care costs</td>
<td>66%</td>
<td>↑ 3%</td>
</tr>
<tr>
<td>Political environment</td>
<td>65%</td>
<td>N/A</td>
</tr>
<tr>
<td>Interest rates</td>
<td>48%</td>
<td>↑ 4%</td>
</tr>
<tr>
<td>Stock market</td>
<td>47%</td>
<td>↑ 6%</td>
</tr>
<tr>
<td>Consumer spending</td>
<td>47%</td>
<td>↑ 4%</td>
</tr>
<tr>
<td>Strength of U.S. dollar</td>
<td>46%</td>
<td>↑ 4%</td>
</tr>
<tr>
<td>Trade tariffs and policy</td>
<td>43%</td>
<td>-</td>
</tr>
<tr>
<td>International affairs</td>
<td>43%</td>
<td>N/A</td>
</tr>
<tr>
<td>Commodities prices</td>
<td>42%</td>
<td>-</td>
</tr>
<tr>
<td>Corporate tax rates</td>
<td>40%</td>
<td>↑ 3%</td>
</tr>
<tr>
<td>Minimum wage increase</td>
<td>32%</td>
<td>↑ 1%</td>
</tr>
<tr>
<td>Credit availability</td>
<td>31%</td>
<td>↑ 1%</td>
</tr>
</tbody>
</table>

Impact assessment

Major economic issues _____ impact my business decisions.

10% Never
11% Often
35% Rarely
44% Sometimes
Business growth indicators remain strong

Despite feeling slightly less confident in the economy, entrepreneurs project a strong business outlook, with revenue forecasts, growth and hiring plans holding steady year-over-year.

- Expect revenue to increase in the year ahead: 59% (2019), 60% (2018), 48% (2017)
- Plan to hire in the year ahead: 24% (2019), 22% (2018), 18% (2017)
- Plan to expand in the year ahead: 67% (2019), 69% (2018), 60% (2017)
- Intend to apply for a loan in the year ahead: 12% (2019), 9% (2018), 9% (2017)
- Plan to grow business in the next five years: 56% (2019), 60% (2018), 56% (2017)
Split on policy changes

Despite two-thirds of entrepreneurs identifying the current political environment as a top concern, they are divided on how major policy issues are directly impacting their business.

**Tax policy expectation vs. reality**

Reflecting on last year’s landmark tax reform, business owners are more measured in their view of its actual impact compared to initial expectations.

<table>
<thead>
<tr>
<th>Spring 2018 expectation</th>
<th>Spring 2019 reality</th>
</tr>
</thead>
<tbody>
<tr>
<td>I thought the tax policy would be...</td>
<td>The tax policy has been...</td>
</tr>
<tr>
<td>A game-changer for small business</td>
<td>35%</td>
</tr>
<tr>
<td>Positive for my business</td>
<td>28%</td>
</tr>
<tr>
<td>Neutral for my business</td>
<td>50%</td>
</tr>
<tr>
<td>Negative for my business</td>
<td>21%</td>
</tr>
</tbody>
</table>

**Trade tariffs and policy**

The majority of business owners say the implementation of new U.S. trade tariffs over the last several months has not impacted their business.

**Impact of climate change**

One-third of entrepreneurs are concerned climate change will directly impact their business.

- 67% Not concerned
- 33% Concerned
Planning for the unexpected

Business owners recognize the need to prepare for disruptive events such as economic downturns, natural disasters and cyber breaches. While a majority have continuity and preparedness plans in place, many do not and aren’t taking key actions to fully protect their businesses.

**Economic downturn**

In case of an economic downturn, I have...

- 69% Taken steps to protect my business
- 31% Not taken any steps to prepare my business

I have done the following to prepare for an economic downturn:

- Established an emergency fund: 37%
- Created an alternative business plan reducing expenses: 25%
- Opened a line of credit: 19%
- Obtained a second job: 13%
- Stress-tested my business: 9%

**Disaster preparedness**

In case my business is damaged by a flood, fire or other disaster, I...

- 61% Have a continuity plan in place
- 39% Do not have a continuity plan

I have done the following to ensure business continuity in case of a disaster:

- Purchased an insurance policy: 49%
- Backed up files: 40%
- Implemented a communication protocol for employees: 19%
- Made structural updates to my building: 14%

**Cybersecurity**

In case of a cyberattack, I have...

- 80% Taken steps to secure data
- 20% Not taken steps to secure data

I have done the following to prepare for a cyber breach:

- Installed security patches and updates: 47%
- Secured customer data: 44%
- Securedly disposed confidential documents: 42%
- Trained employees on confidentiality protocols: 27%
- Implemented a third-party security management program: 25%

**Reputation management**

Only 24% have a crisis-management plan in place to address reputational issues.
Millennial spotlight

Perhaps a result of growing up in a time of greater economic turmoil, millennials anticipate an impact from economic changes and are preparing their businesses for disruptive events.

- **Major economic issues impact my business decisions**: 68% (Millennials), 59% (Gen-Xers), 53% (Baby Boomers).
- **I have taken a step(s) to prepare for a potential economic downturn**: 79% (Millennials), 70% (Gen-Xers), 67% (Baby Boomers).
- **I have a crisis plan in place to address reputational issues**: 36% (Millennials), 28% (Gen-Xers), 19% (Baby Boomers).
The pros and cons of online reviews

Customer feedback holds tremendous sway in the digital era, with online reviews proving to be a powerful channel for sharing both compliments and criticisms.

63% of entrepreneurs say online reviews are important to the success of their business.

Overall, business owners recognize online reviews as more helpful than not, but also acknowledge the hazard of a negative write-up.

Which has more of an impact on your business?

62% Positive reviews

38% Negative reviews

80% say a positive review has led to a new business opportunity.

Of the 54% who have had a negative review:

66% Respond as soon as possible to mitigate impact.

32% Believe it led to a loss of business.
Tech unlocking greater efficiencies

Technology is playing an increasing role in helping business owners manage operations, enhance and build customer relations and compete with larger firms.

I currently use a tech platform, tool or app to manage...

<table>
<thead>
<tr>
<th>Technology</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax accounting</td>
<td>49%</td>
</tr>
<tr>
<td>Payment processing</td>
<td>46%</td>
</tr>
<tr>
<td>Payroll</td>
<td>45%</td>
</tr>
<tr>
<td>Cash flow management</td>
<td>33%</td>
</tr>
<tr>
<td>Setting financial goals and budgets</td>
<td>19%</td>
</tr>
<tr>
<td>Market research</td>
<td>16%</td>
</tr>
<tr>
<td>Recruiting and hiring</td>
<td>12%</td>
</tr>
<tr>
<td>Sales</td>
<td>32%</td>
</tr>
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<tr>
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<td>Cash flow management</td>
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</tbody>
</table>

81% of business owners use technology to build customer relationships.

48% of business owners say technology has enabled them to compete better with larger firms.

I use the following technologies to communicate with customers:

- Email response to inquiries: 63%
- Social media: 37%
- Website feedback portal: 27%
- Newsletter updates: 22%

I believe the following technologies have directly contributed to my business’ growth:

- Social media: 41%
- Digital payment and point-of-sale systems: 23%
- Customer relationship management tools: 22%
- Online marketplaces: 17%
Business management challenges and local market findings

Sales, research and financial management rank highest in tasks business owners find difficult to manage.

The top-ranked business management tasks judged as difficult include:

- Sales: 76%
- Market research: 75%
- Tax accounting: 75%
- Cash flow: 74%
- Setting financial goals: 73%
- Payment processing: 68%
- Payroll: 68%
- Recruiting and hiring: 68%
- Benefits management: 66%
- Market research: 75%
- Sales: 76%
- Payroll: 68%
- Recruiting and hiring: 68%
- Benefits management: 66%
- Setting financial goals: 73%
- Payment processing: 68%
- Cash flow: 74%
- Tax accounting: 75%
- Sales: 76%
- Market research: 75%
- Tax accounting: 75%
- Cash flow: 74%
- Setting financial goals: 73%
- Payment processing: 68%
- Payroll: 68%
- Recruiting and hiring: 68%
- Benefits management: 66%

Many business owners report cash flow management as the foundation of operating a successful business, yet they are split on whether they can effectively manage their cash flow.

I manage my cash flow effectively:

- Yes: 54%
- No: 46%

Snapshot of business owners around the country

San Francisco: Least optimistic about recent policy changes
Los Angeles: Most likely to predict revenue growth in 2019
Dallas/Fort Worth: Most likely to offer training and professional development
Houston: Most likely to have a continuity plan in case of a natural disaster
Chicago: Least concerned over the political environment
Atlanta: Most confident in their local economy
Greater Washington, D.C.: Most likely to report a business boost from positive online reviews
Boston: Least concerned about the impact of a negative online review
New York: Most likely to say they manage cash flow effectively
Miami: Most likely to hire in the next 12 months
Client profile

Inspired by innovative homebrewers across the country, Barebottle Brewing Company co-founder Michael Seitz started making his own beer back in 2008. One year later, Seitz established a partnership with Lester Koga, a buddy from his days at Cornell University, to turn their passion for brewing into a business venture. Over the course of the next five years, Seitz and Koga embarked on comprehensive planning, research and participation in beer competitions across the country — all while maintaining their full-time jobs.

Seitz and Koga moved to San Francisco in 2014, and began working to secure funding for their business. They started by raising money from friends and family, and then turned to Bank of America as their business banking partner. With years of planning coming to fruition, Seitz and Koga both quit their jobs by the end of 2015 and built out a former granite-cutting warehouse to serve as the brewery headquarters and a public taproom. In July 2016, Barebottle Brewing Company officially opened for business with a rotation of five beers featuring their most successful recipes from years of competitions.

“To start, for the business itself, we needed to create a really engaging atmosphere that we ourselves would want to come to,” Seitz said. “And second, we wanted to create a platform to demonstrate all of the knowledge we’d accumulated.”

Embracing their new locale, Seitz and Koga launched a competition of their own to create a recipe for a Muir Woods-inspired IPA that would capture the essence of the redwood forests of Northern California. This bold approach generated considerable buzz, and just seven months after opening, Barebottle began turning a profit.

Fast forward to today: bolstered by a unique business approach — Barebottle has helped pioneer a ‘fast fashion’ model where the brewery releases up to five new beers every week without creating a flagship beer — Seitz and Koga continue to hold competitions and encourage their customers to submit recipes. With 12 employees and over 400 distinct beers produced, Seitz and Koga are also expanding to a second taproom in the Santa Clara area while continuing to inspire the next generation of homebrewers.

“Brewing is a very cool community to be a part of. It’s one of the oldest industries to work in — and also one of the most personally rewarding and enjoyable,” Seitz said. “No one really takes themselves too seriously, and they’re all willing to share.”

Barebottle now offers a homebrewing class and hosts a monthly charity night with all proceeds going to local non-profits. Taking the time to create a welcoming and interactive customer experience — including paying attention to their online reviews and customer feedback — has helped Seitz and Koga to cement themselves and their beers as a mainstay in the Bay Area. Learn more about their story by watching this video.

Bank of America is committed to providing entrepreneurs with solutions to ignite and accelerate their potential, providing access to capital, mentoring, education and training through our business and partnerships.