

Small Business Growth Index Report



Executive Summary

Despite concerns about the impact a possible recession could have on their businesses, a majority of small business owners maintain an optimistic outlook about future conditions, according to Capital One's latest [Small Business Growth Index](#), a biannual survey of 500 small business owners (SBOs) gauging sentiment related to the economy, business conditions and plans for growth.

While nearly half (49 percent) of SBOs expressed concern that a recession could impact the overall success of their company in the next year, two-thirds (66 percent) say recent fluctuations in the stock market have not changed their business outlook. Additionally, 44 percent think their financial position will improve six months from now.

Since 2009, Capital One[®] Spark Business[®] has conducted its Small Business Growth Index (formerly Spark Business Barometer) to stay in touch with what's going on across the small business landscape. With a deeper understanding of the issues, challenges and opportunities small business owners face, Capital One works to better serve small businesses and innovate on their behalf.

KEY TAKEAWAYS

1. **49 percent** of small business owners think a recession may impact their company's success in the next year.
2. **20 percent** of small business owners would like to hire but are nervous to take on the added expense.
3. **51 percent** of small business owners say the tax plan has been positive for small business.

Key Findings

BUSINESS OWNERS THINK STOCK MARKET VOLATILITY WILL IMPACT THEIR BUSINESS, BUT MANY HAVE YET TO FEEL THE EFFECT

Fears over economic growth and slower earnings in key industries led to steep falls in stock market at the end of 2018. While the markets have rallied in early 2019, SBOs seem to be taking a cautious approach to business this year.

Forty-nine percent of SBOs expressed concern that a recession could impact the

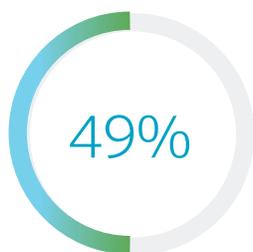
I think that the recession from 2007-2009 really forced folks to take a hard look at their business model and say, ‘Wow, what I just went through was incredibly painful. The business model that I have right now, is it going to survive going forward?’

– Troy Dye, VP Partnerships
Capital One

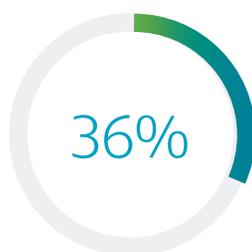
overall success of their company in the next year and more than a third (35 percent) of business owners expect tariffs and the ongoing trade wars to negatively impact their business. Despite this, 66 percent say recent fluctuations in the stock market have not changed their business outlook and 44 percent think their financial position will improve in the next six months.

While SBOs are cautiously optimistic, the stock market volatility is impacting business and SBOs’ decision making in a number of ways. For example, 49 percent say they will be more conservative when it comes to inventory or supply management, while 36 percent say it might decrease their sales, and 34 percent say it might impact their ability to expand and grow their business. Additionally, about a quarter (27 percent) say they may not be able to hire new employees and 23 percent say will not be able to provide bonuses or increase in pay to employees.

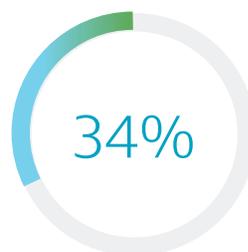
STOCK MARKET VOLATILITY IMPACTS BUSINESSES



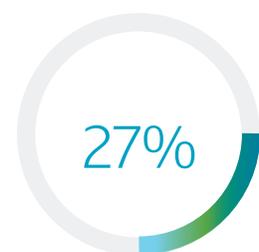
More conservative with inventory management



Might decrease sales



Impact ability to expand and grow



Won't be able to hire new employees

Female business owners (56 percent) are more likely to be conservative when it comes to inventory or supply management than their male counterparts (45 percent). Additionally, Millennials (48 percent) and GenX (42 percent) business owners are more likely to predict they will see a decrease in sales compared to 31 percent of Baby Boomers and 37 percent of Mature business owners. Millennials are defined as business owners between the ages of 21-38, Gen X are 39-54 years old, Baby Boomers are 55-73 years old and Mature business owners are 74 and older

OPTIMISM HAS DECREASED AMONG BUSINESS OWNERS.

Small business optimism has dropped eight percentage points in the past six months. Fifty-nine percent of SBOs say that business conditions are good or excellent, down from 67 percent in Fall 2018.

Younger generations are disproportionately driving business optimism. Sixty-seven percent of Millennials and 68 percent of GenX business owners say business conditions are good or excellent, compared



59% of small business owners think business conditions are good or excellent.

to 55 percent of Baby Boomers and 37 percent of Mature business owners. Additionally, male business owners continue to be slightly more optimistic than female owners, with 60 percent of men saying business conditions are good or excellent, compared to 57 percent of women.

“Small business owners remain cautiously optimistic,” said Jenn Flynn, head of small business bank at Capital One. “While we saw a slight dip in optimism compared to Fall 2018, small business owners are still making strategic investments in their businesses, while paying close attention to the uncertainty in the stock market and evaluating the potential impact of a recession.”

Not surprisingly, weakening economic conditions (72 percent) and decreases in revenue or sales (70 percent) would cause business owners to be less optimistic. Additionally, business owners say government policies (59 percent), cash flow issues (56 percent) and challenges in hiring and retention (39 percent) would also lower their optimism.

On the other hand, business growth (69 percent), national economic conditions (51 percent) and improved business operations (51 percent) would drive optimism among business owners. Government policies (42 percent), building or growing a team (37 percent) and innovation (33 percent) also factor into business optimism.

BUSINESS OWNERS ARE SPLIT ON THE IMPACT OF TAX REFORM.

Taxes are always a top concern for business owners, and when the Tax Cuts and Jobs Act was introduced in late 2017 it was unclear how exactly it would impact small businesses.

Now that they have had time to understand the implications, half (51 percent) of SBOs say the tax plan has been positive for small business. Male business owners are more likely to say the plan has been positive for small business (57 percent), compared to 41 percent of female business owners.

At the same time, 21 percent of SBOs expect to pay more in taxes this year, up from 19 percent who expected to pay more in Fall 2018 and 11 percent one year ago. Fifty-three percent of business owners think they will pay about the same.

51% of small business owners believe the **tax plan has been positive** for small business.

In recent years it has become increasingly more difficult to find and hire the right staff, which makes growing the business a challenge. We are always looking to grow our team, but today's tight labor market can make it feel like an uphill battle.

– Stan Shumbo, president
Eastern Refrigeration

ECONOMIC UNCERTAINTY AND A TIGHT LABOR MARKET ARE MAKING HIRING A CHALLENGE.

Twenty-nine percent of SBOs plan to hire in the next 6 months, down from 33 percent in Fall 2018. Sixty-six percent of these new hires will be full-time employees.

Of SBOs who do not plan to hire, 29 percent say they would like to but are nervous to take on the added expense due to economic conditions, while 28 percent say they cannot find the right talent and 24 percent say they don't have the financial resources to do so. Twenty-five percent say they are investing in other areas of their business.

The majority of SBOs are competing for talent with their pocketbooks, with 76 percent noting they are providing industry leading or competitive salaries. When it comes to pay, the majority (81 percent) of business owners say they do not have a gender pay gap in their company.

Forty-seven percent of SBOs say they are providing more benefits to employees and 43 percent say they are marketing their business as a great place to work.

Millennial business owners (66 percent) are much more likely to offer more benefits than their older counterparts. Thirty-eight percent of GenX, 53 percent of Baby Boomers, and 15 percent of Mature business owners say they compete for talent with benefits. Businesses with \$1-\$10 million in revenue (68 percent) are more likely to offer benefits compared to those with less than \$1M in revenue (35 percent).

Only 35 percent of business owners say they are investing in differentiated or modern office perks and 29 percent say they are providing an option for flexible work environments to compete for talent - a potential missed opportunity for business owners.

According to Capital One's 2018 Work Environment Survey, office professionals value flexibility and design, particularly when evaluating whether to stay at their current job or considering a new employment opportunity.



In fact, 85 percent of office professionals surveyed believe flexible workplace design is important and 83 percent said they have their best ideas when working in flexible space options. Flexible schedules are also important for attracting and retaining talent, with 73 percent of workers noting that a flexible schedule is in their top two reasons to stay with a company, and flexible hours were the number one thing workers cited when asked what they expect from their next employer (58 percent).

DIVERSITY DRIVES BUSINESS INNOVATION

Innovation, whether it be new technologies or new ways to work, is important to the growth of every business. The Small Business Growth Index shows that 53 percent of business owners feel a diverse workforce drives more innovation than a non-diverse workforce.

Female business owners (57 percent) are more likely to say diversity drives more innovation, compared to 50 percent of male business owners.

Millennials (67 percent) also see the importance of diversity for innovation, compared to 56 percent of GenX, 46 percent of Baby Boomers and 59 percent of Mature business owners.

Despite the importance of innovation, only a quarter (23 percent) of all SBOs feel pressure to change aspects of their business, like customer experience, based on industry innovation driven by large companies like Amazon. Businesses with \$1-\$10 million in revenue (30 percent) feel more pressure than those with less than \$1M in revenue (21 percent).

BUSINESS OWNERS ARE SPLIT ON HOW THEY'LL BE IMPACTED BY AI AND MACHINE LEARNING

Machine learning (ML) and Artificial Intelligence (AI) are not just for large enterprises. More and more businesses are looking at how they can put their data to work to improve customer service or save time and resources to complete functions at scale.

More than half (53 percent) of SBOs with \$1-\$10 million in revenue believe AI and ML is already impacting or will impact their industry. Additionally, half (48 percent) of SBOs with \$1-\$10 million in revenue are concerned about their ability to hire the right tech talent to help advance their business into the future.

However, most business owners with \$1-10 million in revenue do not think that some of their employees' roles will be replaced by AI and ML-based technologies the roles will be replaced in ten years.

Only 8 percent feel that some of their employees' roles will be replaced in the next five years, and 19 percent feel that some of the roles will be replaced in ten years.

Following are some important best practices to keep in mind for business owners when it comes to implementing ML in their organization.

BEST PRACTICES

Be Clear About the Goal and Whether it Truly Requires Machine Learning

Is a ML solution the right approach to achieve the outcome you envision? Sometimes you may just need to clean up your data or solve a business intelligence problem. Among the most common reasons to apply ML to business processes is the ability of the technology to perform certain functions at scale, which would otherwise require vast amounts of time and resources.

Do Your Data Due Diligence

Data is the fuel that drives a ML solution, so without the right quality, diversity, and breadth of data, it's nearly impossible to get an ML solution to work properly.

Take a Holistic View

Another common pitfall in implementing ML is taking too narrow a view by creating point solutions that only work for a singular use case. As we all know, the world changes, and those changes can leave narrowly-focused solutions behind, or at least limit their value in the organization.

Understand the Risks

You can't talk about ML without discussing the risks involved. Do you understand what this algorithm is doing? Is there the potential for unintended consequences, like bias or unequal outcomes? It's imperative to have a well-managed infrastructure with risk mitigation solutions in place.

Recognize it's Early and Machine Learning Will Continue to Evolve

Today, we're still a long way from ML that's totally automated and plug-and-play. It still requires highly skilled people and humans to play a role, and a great degree of diligence for each phase of the life cycle.

SURVEY METHODOLOGY

Capital One's Spring 2019 Small Business Growth Index Survey was conducted by the market research and business intelligence firm Engine (formerly ORC International). For this telephone study, Engine interviewed a national sample of 500 for-profit small businesses in the U.S. Small businesses are defined as those with a total annual revenue less than \$10 million. Interviews were conducted from February 4-25, 2019. One respondent per business was interviewed. The margin of error is +/- 4.38 percentage points at a 95% confidence level.

Engine also interviewed a national sample of 200 for-profit small businesses in the U.S. These small businesses are defined as those with a total annual revenue of \$1 million to less than \$10 million. Interviews were conducted from February 26- March 11, 2019. One respondent per business was interviewed. The margin of error is +/- 6.93 percentage points at a 95% confidence level.

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