Fall 2018 Overview

Despite concerns about tax reform and labor shortages, small business owners are increasingly optimistic. In general, business owners feel positively about the economy, they are seeing business growth and they are hiring, according to Capital One’s Small Business Growth Index, an ongoing national survey of small business owners to gauge sentiment related to the economy, financial condition, hiring and other issues and challenges impacting growth.

For instance, 67 percent of small business owners think business conditions are good or excellent, up from 60 percent one year ago. Additionally, one-third (33 percent) of small business owners plan to hire workers in the next six months, an increase from 25 percent one year ago.

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 FINDINGS:

1. **67 percent** of small business owners think business conditions are good or excellent, up from 60 percent one year ago.

2. **33 percent** of small business owners plan to hire in the next six months, an increase from 25 percent one year ago.

3. Only **20 percent** of small business owners believe they will pay less in taxes following tax reform, down from 36 percent in spring 2018.
Key Findings

SMALL BUSINESS OPTIMISM REACHES POST-RECESSION HIGH DESPITE TAX AND HEALTHCARE CONCERNS

Two-thirds (67 percent) of small business owners think business conditions are good or excellent, up from 60 percent one year ago. This level of optimism is the highest yet since the survey began in 2009.

What’s driving small business owners’ positive feelings about business conditions?

I work with many businesses big and small, which gives me a unique perspective on what’s going on in the economy. During optimistic times, we see advertising agencies and other companies doing big, creative things - and we are seeing that right now.

– Robert Miller, founder and CEO, ScreenSound Alliance

For many, it’s the growth of their businesses (65 percent), national economic conditions (54 percent) and improved business operations (51 percent). Additionally, more than half (59 percent) of small business owners feel the change in presidential leadership has been positive for small businesses.

Despite their positivity, small business owners remain concerned about policy and legislation. And weakening economic conditions would cause their optimism to falter. They are most concerned about healthcare costs (49 percent), followed by taxes (43 percent) and economic growth (36 percent).

One-third (33 percent) of small business owners think new tariffs may have a negative impact on their business. And a majority say they’d be less optimistic if they experienced a decrease in sales (71 percent), weakening economic conditions (69 percent) or cash flow issues (52 percent).

65%
Business Growth

54%
National Economic Conditions

51%
Improved Business Operations

Top Drivers of Business Optimism
As economic conditions have improved, more small businesses are interested in hiring new employees. One-third (33 percent) plan to hire in the next six months, an increase from 25 percent one year ago.

Small business growth mirrors the rest of the economy: The most recent employment report from the Bureau of Labor Statistics marked 96 consecutive months of positive job gains, which is the longest-running period of positive growth since the 1930s. It also marked the lowest unemployment rate in 50 years.

Such strong employment numbers translate into a strong economy, but also mean that hiring and retaining employees can be increasingly challenging for employers. The top factor impacting small business owners’ ability to hire is the skills gap (34 percent), closely followed by competition from other businesses (30 percent), financial resources (30 percent) and the tight labor market (28 percent).

Six percent of small business owners have experienced an increase in voluntary attrition over the past six months.

Small business owners say their biggest competitors for talent are larger businesses, especially those that can offer more robust benefits packages.

Rather than bowing to the larger competition, small businesses can reframe their approach to recruiting and retaining employees. For instance:

**Offer creative perks.** While small businesses may not be able to offer robust benefits packages, they should focus on the flexibility they can offer. For instance, smaller, more nimble workplaces often find it easier than their larger counterparts to offer remote work options, better vacation offerings and flexible hours, which today’s workers highly value.

“When it comes to our customers, we’re seeing them offer a wide range of benefits to employees, with many business owners using credit card rewards or savings account interest to fuel health insurance, bonuses and other perks,” said Margaret Donnell, VP of marketing and customer experience, Capital One Small Business Bank.
**Focus on retention.** Retaining talent is just as important as hiring new team members, and keeping current employees often requires a little out-of-the-box thinking. For example, many Capital One customers use credit card rewards to fund employee parties, send employees and their families on trips, or give gift cards or bonuses. Similarly, small business owners may consider using a business savings account with a high APY to set aside funds for spot bonuses, which may make a difference to prospective job candidates when the company can’t offer larger benefit packages. You may also look for ways to offer training to ensure current employees have the right skill set.

“We’re a small company, and we treat our employees like part of the family. I think that helps a lot when it comes to retention,” said Sarah Binder Mehta, president of PianoPiano LLC.

**Hire carefully.** Retention starts with hiring the right people in the first place. It is important for business owners to hire employees who not only fulfill the job requirements, but also love what they do and are compatible with the business culture. Recognize that hard work also plays a valuable role in attracting and retaining talent.

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**Forty-three percent** of small business owners say that **taxes** are a top policy concern.

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Rewarding employees with paid vacation time, parental leave, 401(k) offerings to save for retirement, insurance, sales bonuses or recruitment bonuses, promotes positive morale among teams and helps to create an attractive work environment.

“If you care about your employees, I think that is one of the most essential benefits you can offer,” said Bradford Rand, CEO of Rand Luxury and JobExpo.

**SMALL BUSINESSES PREPARE FOR THE IMPACT OF THE TAX CUTS AND JOBS ACT**

The Tax Cuts and Jobs Act, which went into effect in January 2018, represents an extensive tax reform package that will affect most small business owners’ tax liability. The majority (78 percent) of small business owners either have met or will meet with an accountant or financial advisor to discuss the tax plan.

Earlier this year, 36 percent of small business owners said they thought they would pay less in taxes with the new law in place, but those expectations have changed.
In the most recent survey, just 20 percent said they expect to pay less in taxes in 2019. About half (52 percent) of small business owners feel they will pay about the same in taxes, up from 41 percent in spring 2018.

“If I could offer one piece of advice to business owners, it would be to meet with an accountant to discuss the implications of tax reform as soon as possible,” said Gene Marks, president, The Marks Group.

Since small businesses have fewer resources and are less likely to have in-house teams to help navigate things like finances and taxes, changing regulations can be extremely challenging. Capital One Spark Business customers frequently report that when they first went into business, they had no idea that so much of their time would be taken up by operational tasks like managing taxes and benefits.

**MILLENNIALS ARE REDEFINING BUSINESS OWNERSHIP**

As mature business owners and baby boomers begin to retire, millennials will have a more pronounced role in shaping the business landscape of the future.

And research shows that millennial business owners view the economy and business ownership differently than do their older counterparts.

For instance, millennials are the most likely to think that business conditions are good or excellent (80 percent), compared to GenX (64 percent), baby boomers (67 percent) and mature (62 percent). Also, millennials are the most likely to expect an improvement in their financial position (58 percent), compared to GenX (49 percent), baby boomers (43 percent) and mature (31 percent).

More than any other generation of business owners, millennials are more likely to say innovation is driving business optimism (56 percent). Because millennials grew up with technology and the internet, innovation and digital savviness is important to them. These younger business owners see value in technology, and they’re willing to try new things to make their lives or managing their business easier.
While millennial business owners don’t necessarily expect long-term employee loyalty, they and GenX business owners are most likely to offer employee benefits (94 percent). Millennials are also most likely to offer perks such as flexible work hours, free snacks or meals, team outings, employee training and other benefits.

“Our executive director is under 30, so although my workplace offers 10 paid days off on paper, we have a policy that we all aim to use our time wisely rather than track time off closely,” said David Grasso Ortega, business editor at Bold Media.

MALE OPTIMISM SPIKES

Optimism among male business owners has spiked. Currently, men are more likely to think that business conditions are good or excellent, and more likely to expect continued business growth in the next six months. For instance, 69 percent of male SBOs say current economic conditions are good or excellent, up from 57 percent a year ago. Meanwhile, 64 percent of women believe conditions are good or excellent, compared to 63 percent one year ago.

Female business owners are more likely than male business owners to think they will pay more in taxes based on the new tax plan — 23 percent compared to 16 percent. And at 53 percent, female business owners are less likely than male business owners (63 percent) to say the change in presidential leadership has been positive.

But women business owners can take steps to face the future with confidence.

3 WAYS FOR WOMEN BUSINESS OWNERS TO INCREASE CONFIDENCE

1. Embrace a clear vision and goals. Setting and meeting goals can be inspiring. To be effective, vision and goals should be measurable, achievable and somewhat aspirational. When small business owners do reach their goals, they should take a well-deserved break and celebrate.

2. Take calculated risks. Playing it safe means small business owners are unlikely to progress. They should plan to do their homework and lay the groundwork. Once the hard work is done, they should have the confidence to take smart risks. Business owners need to be mindful not to let excessive preparation become a substitute for taking action.

3. Separate personal identity from business. The line between a business owner and his or her company can seem blurry. But there is a difference. While a challenge such as raising capital can feel personal, it’s really just business. Business owners can save their sanity by realizing they are much more than their company.
SURVEY METHODOLOGY
Capital One’s Fall 2018 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 501 for-profit small businesses in the U.S. Small businesses are defined as those with a total annual revenue of less than $10 million. Interviews were conducted from August 17 – September 13, 2018. One respondent per business was interviewed. The margin of error is +/- 4.38 percentage points at a 95% confidence level.

ABOUT CAPITAL ONE SPARK BUSINESS
Capital One® offers a broad spectrum of financial products and services to consumers, small businesses, and commercial clients. Spark Business® from Capital One offers a diverse suite of financial products, tools and services designed specifically for small businesses, including credit cards with unlimited rewards, banking products and services, in addition to retirement plans. Today, Spark Business works to address the unique needs of millions of business owners across the U.S., so they can focus on what they are most passionate about – running and growing their business.