

Texas Small Business Needs Assessment Poll

Federal Reserve Bank of Dallas | Community Development

ABOUT THE TEXAS SMALL BUSINESS NEEDS ASSESSMENT POLL

In 2013, the Federal Reserve Bank of Dallas, in partnership with the Small Business Development Centers of Texas, launched the Texas Small Business Needs Assessment Poll. The poll is an annual survey of small business owners consisting of 11 key questions on topics including firm size, performance, strategy, financing and the employee skills gap. The data collected will shed light on challenges, successes and changes for small business owners and help identify emerging issues, areas of strength and needed improvements in Texas' small business community.

The report also points to some practical help offered by Small Business Development Centers. For a list of locations, see americassbdc.org/home/find-your-sbdc.

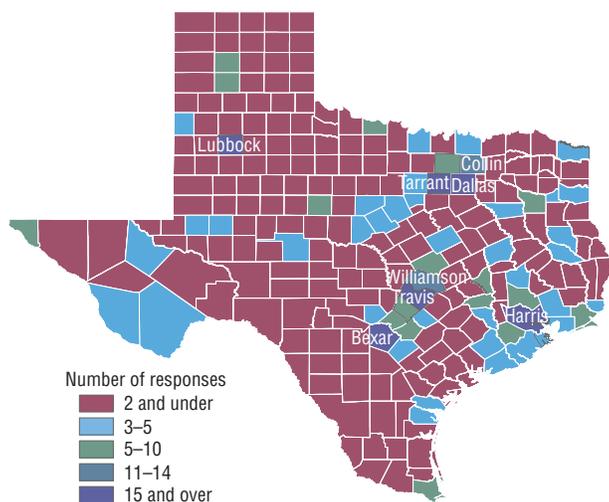
SURVEY

If your organization works directly with small business owners and you are interested in working as a partner with the Dallas Fed on the poll, please contact Emily Ryder Perlmeter at Emily.perlmeter@dal.frb.org.

Talent and Capital Concerns Temper Positive Outlook for Texas Small Businesses

By Emily Ryder Perlmeter

CHART 1
Responses by County



Background

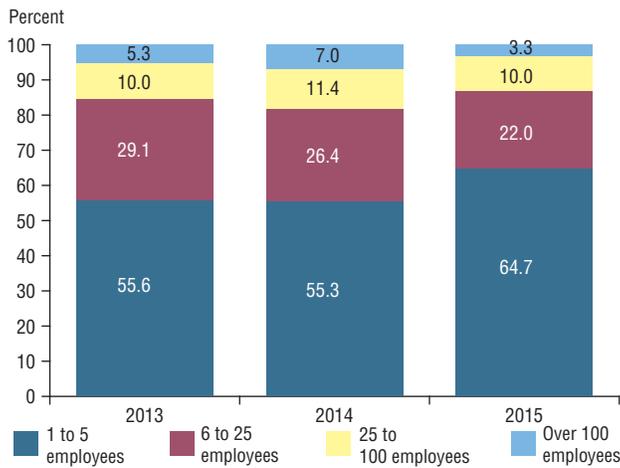
During the last three months of 2015, the Dallas Fed polled small business owners across the state to find out about their firms' performance, methods of financing, largest challenges and biggest employment needs as well as changes in these measures from 2014.

For comparison and baseline purposes, we also collected demographic data on these firms. For the current survey period, there are 1,580 completed responses. This is a marked increase from the previous poll, which drew 1,403 respondents. Representation of counties increased as well, rising to 136 from 104 last year (*Chart 1*).

Firm demographics of respondents are similar to the previous two polls, with a few exceptions. The percentage of micro-businesses (five or fewer employees including the owner), while consistently a majority, climbed an extra 10 percentage points this period (*Chart 2*). There was an 8 percentage-point increase in the proportion of businesses grossing under \$100,000 and a 7 percentage-point decrease in those making over \$1 million. *Charts 2 and 3* show the distribution of firm sizes and revenues across three polling periods.

As found in previous surveys, the correlation between size of establishment and gross revenues is strong; firms with more employees tend to report more revenues on average (correlation = .75).

CHART 2
Share of Microbusinesses in Sample Growing



NOTE: Microbusinesses are those with one to five employees.

CHART 3
Portion of Firms Grossing Less than \$100,000 Rises

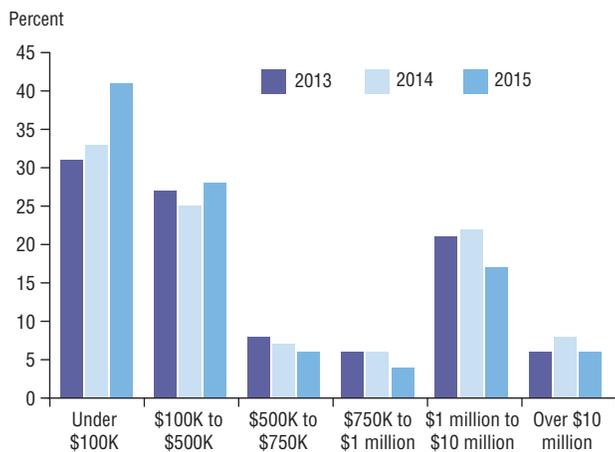


TABLE 1
Business Sectors of Survey Respondents

Sector	Percent
Services	38
Other	20
Retail	13
Finance/insurance/real estate	11
Manufacturing	6
Construction	5
Wholesale	2
Transportation	2
Agriculture	2
Number of firms	1,542

The breakdown of industries is also similar to last year (Table 1). However, there was a notable uptick in the number of organizations that reported they are in the education field. Education is found in the “other” category along with such fields as medical, hospitality, health care and entertainment.

The proportion of minority- and women-owned businesses (MWBs) grew another 2 percentage points this survey period and, at 37 percent, constitutes well over a third of the sample. This sizable portion of MWBEs allows analysis of how challenges and needs differ for this historically underserved segment of the small business universe. The survey revealed that 104 organizations didn’t know their MWBE status. Firms should be encouraged to seek eligibility information within their cities in addition to exploring requirements for Texas certification with the [state comptroller](#). Increasing awareness could help these firms gain access to potential certification benefits.

Firm Performance and Strategy

In addition to collecting basic demographic data, we asked business owners to report changes in the following categories: sales, number of employees, spending and overall opportunities over the past six months. We also asked what changes they expected for the next six months. Table 2 summarizes their feedback.

Compared to 2014, fewer respondents in 2015 reported increases in sales and overall business opportunities. In fact, there is no longer a majority experiencing increases; both sales/revenue and overall business changes stand at 50 percent. However, the decline was quite small from last survey period. In addition, there was an increase in respondents who added employees (23 percent versus 21 percent).

According to Mike Young, executive director of the Texas Gulf Coast Small Business Development Center (SBDC), improving sales can be a matter of “selling to city, state and federal government customers, considering international markets or identifying supply-chain opportunities of local emerging markets.” Assistance in identifying these markets can be found at local SBDC or city economic development offices.

Larger businesses—those with more than 25 employees—were more likely to see increases in sales than microbusinesses (57 percent versus 46 percent). Mid-sized businesses—those with between 5 and 25 employees—were the only group in which a majority saw increases in business opportunities (53 percent).

We again use a diffusion index to summarize all three percentages (increase/no change/decrease) into one number for each question. If the index is greater than 50, the attitudes of business owners are positive. If it is lower than 50, the attitudes of business owners are negative. If it is 50, there is no overall change. Despite the small drop in the percentage reporting increases in sales and business opportunities, the diffusion indexes on all measures

TABLE 2

Firm Performance Falters Slightly, but Expectations Still High

	During 2015			Expectations for 2016			Diffusion index	
	Percent increase	Percent no change	Percent decrease	Percent increase	Percent no change	Percent decrease	2015	2016
Sales/revenue	50	29	21	73	22	5	65	84
Number of employees	23	67	10	36	61	3	56	66
Spending on equipment/facilities	41	50	9	43	49	8	66	68
Overall business opportunities	50	38	12	68	27	5	69	82

NOTES: The diffusion index summarizes the three percentages (increase/no change/decrease) into one number for each question and is calculated by adding the percentage of the "Increase" responses to half of the percentage of the "no change" responses and multiplying that total by 100. If the index is greater than 50, the attitudes of business owners are positive. If it is lower than 50, the attitudes of business owners are negative. If it is 50, there is no overall change. Percentages may not add to 100 due to rounding.

TABLE 3

Top 3 Reasons for Increasing/Decreasing Staff

Reasons for increasing employees	Percent	Reasons for decreasing employees	Percent
Growing customer demand	55	Economic climate is bad/uncertain	29
Current staff member overworked	25	Wages and benefit costs too high	14
Need new skills	12	Current staff has needed skills	13

remain positive. Expectations for 2016 are also elevated. The sales/revenue index, at 84, is the highest it has ever been, indicating that despite the small decline in 2015, business owners remain optimistic about the future economic climate.

Hiring, Operational Changes

This year, we gathered additional information about hiring decisions. For respondents who indicated an increase or decrease in employees, we asked the reasons for the staffing changes.

The majority of businesses that hired additional employees in 2015 did so because they had growing customer demand (*Table 3*). For those that let staff go, the top reason was a negative or uncertain economic climate. Notably, employee skills were a top reason for both increases and decreases.

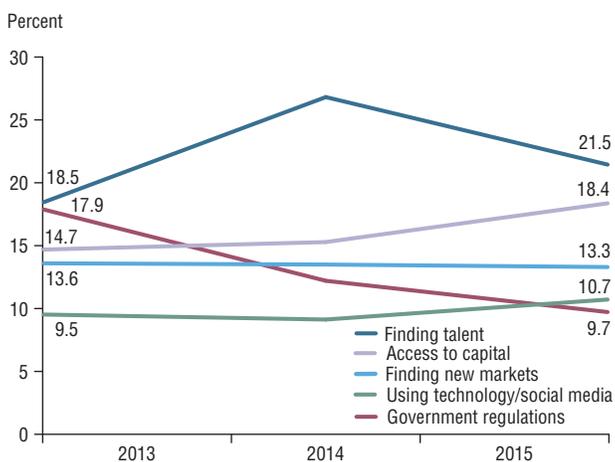
We asked respondents to select the three most important changes, if any, they made to their business operations during 2015. Nearly 1,500 respondents selected at least one change. Sixty-three percent of those pointed to "cultivating new clients or markets," making it the top action for three straight years. "Developed new products or services" jumped to the second spot this year, with 40 percent of respondents. For this survey period, a slightly smaller share indicated that they cut costs (30 percent versus 35 percent). Those who selected "other facts" revealed that these firms changed branding, completed building renovations and expansions, or altered marketing strategies.

We also wanted to know the top factor affecting the ability to expand the business. This is the third consecutive year that businesses reported talent acquisition as their top concern. Twenty-two percent of respondents selected finding talent as their top issue, down from 27 percent last year (*Chart 4*). This was followed by access to capital (18 percent), finding new markets (13 percent) and using technology (11 percent). Complying with government regulations slipped into the fifth spot overall, down from fourth last year and second in 2013.

Technology surpassed regulatory barriers this year and is at an all-time high, a trend reflected on the ground as well. "We have

CHART 4

Technology, Capital Concerns Rise for Texas Firms



What is clear is that the top challenges to growth are perceived very differently by MWBEs and non-MWBEs.

CHART 5

Access to Capital the No. 1 Concern for Minority Businesses

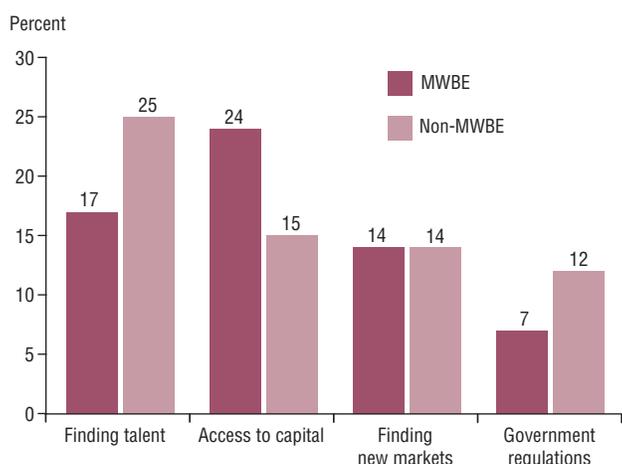


TABLE 4

Top 5 Financing Sources by MWBE Status

	MWBE (percent)	Non-MWBE (percent)
1	Business earnings (72)	Business earnings (71)
2	Personal savings (55)	Credit card (37)
3	Credit card (49)	Personal savings (37)
4	Bank line of credit (26)	Bank line of credit (33)
5	SBA-backed loan (7)	Equity financing (14)
Number of responses	564	840

NOTE: Respondents could select more than one option. MWBE stands for minority- and woman-owned business enterprise.

seen an increase in serving ‘encore entrepreneurs’—those who tend to hold steadfast to traditional ways of doing business or may find it difficult, expensive and time consuming to engage in online business activities,” says Mark Langford, executive director of the North Texas SBDC. “The younger, or millennial, entrepreneur seems to have less apprehension with utilizing technology and online platforms.”

To further explore growth concerns, we broke the answers down by demographic. Chart 5 indicates the difference in responses between MWBEs and non-MWBEs.

What’s clear is that the top challenges to growth are perceived very differently by MWBEs and non-MWBEs. This is in line with previous surveys, but the contrast is more stark: Nearly a quarter of minority and women business owners reported that access to capital is their largest growth concern, compared with just 15 percent of non-MWBE owners. Access to capital is the top issue for MWBEs, up from the No. 2 spot last year.

Support for these diverse needs may be found at SBDC locations. “We provide hands-on assistance for clients working with traditional and nontraditional sources of capital. Preparing business owners for various stages of business financing will benefit all early-stage businesses, including minority- and women-owned businesses that are identified in this survey as more likely to need help with capital access,” says Al Salgado, executive director of the South-West Texas Border SBDC.

Financing and Access to Credit

Other differences between minority-owned and nonminority-owned firms are revealed in the financing section of the survey. The poll asked respondents to report the top three sources of financing for their firms. Across the sample, more than 71 percent pointed to business earnings as a top financing source (Table 4). Though this is still a majority, the number represents a 5 percentage-point decline from last year’s poll. These findings are consistent with the slight drop in Texas firms’ sales and business opportunities.

Breaking down the responses by MWBE designation reveals nuances in financing. Despite the fact that both groups rely on business earnings in equal rates, the rest of the financing picture looks quite different. A majority of minority-business owners also rely on personal savings—at a roughly 50 percent higher rate than their nonminority counterparts. They are also almost 10 percentage points more likely to use a credit card. Small Business Administration-backed loans round out the top five sources for MWBEs, but this financing mechanism doesn’t make the cut for non-MWBEs: They are more likely to rely on equity.

Previous polls and research have found similar trends. Access to financing and use of personal savings seem to differ for minority

More than twice the percentage of minority firms as nonminority firms did not apply for credit due to a perception that they would not be approved.

and women business owners.¹ The reasons are varied and complex. Still, perceptions of discrimination in lending continue to play some part. One of our respondents writes:

“When I approached a bank for a loan, I was told two things: ‘The only thing I know about Pinterest is that my wife wastes a lot of time on it’ and ‘Combining women and power tools is the dumbest idea I have ever heard.’ Needless to say, I walked out and started my business on my credit cards and with my own savings.”

Small business owners who believe they may have experienced discrimination or found a bank to be unfair, misleading or in violation of a law or regulation may file a claim through the Federal Reserve System. More information may be found on the [Consumer Help](#) page.

We also asked firms about credit shopping behaviors over the past 12 months. Forty percent of respondents indicated that they had paid down debt, followed closely by “did not apply for credit because of sufficient financing.” These are positive indicators of health for Texas’ small-business economy.

Breaking down these results by demographics, we find that while both groups reported applying for new credit at similar levels, a sizable gap lies within both “did not apply” selections (*Chart 6*). Thirty-two percent of MWBEs reported they didn’t apply for credit due to sufficient financing, compared with 41 percent of non-MWBEs. The starkest contrast concerns fears of rejection: More than twice the percentage of minority firms as nonminority firms did not apply for credit due to a perception that they would not be approved (24.1 percent versus 11.9 percent). The gap between these two populations has widened over past year by 3 percentage points.

We also looked at respondents who saw increases in sales and overall business opportunities versus those who saw decreases. Those who reported increases in revenue were more likely to pay down debt and apply for new credit. Those who saw business opportunities decline in 2015 were more likely to report sufficient financing and not apply for credit than those who indicated that their opportunities increased.

For those who were not able to get all necessary credit, we asked why. Topping the list for those who selected a reason is “business is too young,” with 16 percent. Close behind is low credit score (15 percent) and third is insufficient collateral (12 percent). Here again, MWBEs differ from non-MWBEs: They are more likely to select low credit score, uneven cash flow and age of business.

As we discovered in previous polling periods, business age affects perceived reasons for credit denial. Forty-six percent

CHART 6
Fear of Credit Rejection Grows for Minority Firms

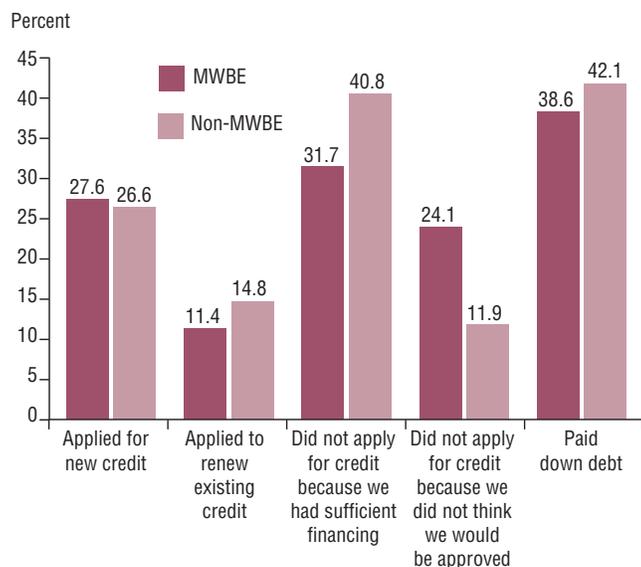


TABLE 5

Top 3 Barriers to Credit by Firm Age

	New openings (percent)	Young firms (percent)	Mature firms (percent)
1	Business is too young (46)	Business is too young (18)	Banks are not lending to my type of business (8)
2	Low credit score (20)	Low credit score (15)	Low credit score (8)
3	Insufficient collateral (16)	Uneven cash flow (13)	Uneven cash flow (7)

NOTE: New openings are less than 1 year old, young firms are at least 1 to 10 years old, and mature firms are over 10 years old.

of startups this time said their business is too young for credit, compared with fewer than 1 percent of firms in business over 10 years old. Less obvious, though, are other perceptions of denial. Insufficient collateral was a top concern for new businesses, while mature businesses were more likely to report that banks aren't lending to their type of firm (Table 5).

Employee Skills and Needs

Unemployment nationally is at a low—back to levels seen before the effects of the Great Recession.² Unemployment rates in Texas are even lower.³ However, concerns about the job-skills mismatch remain. To continue looking into this issue from the perspective of small business owners, we asked respondents about employee needs. Chart 7 shows the rankings for the following question: “What are the top three employee skills your business needs?”

In the previous two years, interpersonal skills had been the most sought-after skill set for Texas small businesses. This time, sales and marketing takes the No. 1 spot, while the “soft skills” of interpersonal skills and punctuality/reliability finish out the top three. In fact, a majority of respondents selected sales and marketing skills as a top employee need. However, the soft skills continue to be of considerable importance to small business owners. The rest of the skills track closely with prior years. Foreign-language skills are no longer at the bottom; a little more than 6 percent of respondents reported looking for foreign-language abilities.

We also researched the relative difficulty in addressing these needs, asking: “How difficult has it been to find workers with the following skills?” The answer choices ranged from “very easy” to “very difficult” (Chart 8).

Basic skills—English, math and computer—were the only skills that firms reported ease in finding. More than twice as many business owners reported some degree of ease in finding basic English and basic computer skills versus those reporting difficulty. For math skills, the difference was a bit lower, with 1.8 times more ease than difficulty reported.

The rest of the skills were harder to find. Almost 520 respondents indicated that sales and marketing skills were either “somewhat difficult” or “very difficult” to hire for. This was followed closely by the soft skills. Advanced technology, computer and math skills and foreign-language skills were all more difficult than easy to find for employers.

Considering Charts 7 and 8 in tandem, sales and marketing skills, interpersonal skills and punctuality/reliability are areas in which the skills gap lies. Indeed, in the open-ended responses that follow, respondents expound upon these skills concerns.

CHART 7

Sales and Marketing Skills Top Employer Needs

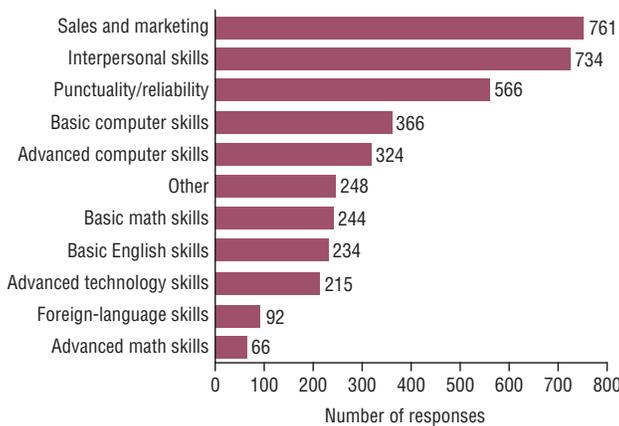
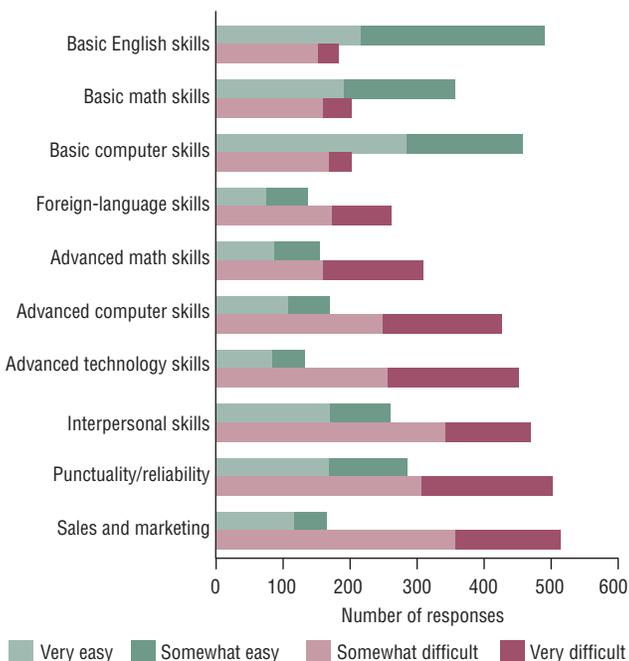


CHART 8

Sales and Marketing, Soft Skills Hardest to Find



Additional Insights

We also solicited responses from all owners, asking: “Is there anything you would like to add that would help us better understand the issues your business faces?”

Many firms cited concerns about hiring. Some comments focus on skills particular to the respondent’s industry, such as mechanics, musicians and health care professionals. Soft skills—those such as punctuality, customer service and work ethic—drew quite a bit of discussion. The comments in this section have been edited for publication:

- Finding and training the right staff is probably the hardest part—we can’t grow unless we expand our business hours, and we can’t expand hours without people—but our reputation is built on quality customer service, and the candidates just don’t have the skills, or care.
- There are two classes of employees at our firm: professional and support staff. It has been relatively easy to find support staff and very difficult to find capable professional staff.
- The talent pool is thin on basic math, language and interpersonal skills. Computer skills no longer can be just basic; they have to be a little more advanced as business is moving to everything paperless.
- We have needs for both skilled labor and degreed biotechnologists. The skilled labor we find is generally not dependable. Degreed folks are difficult to find. Most don’t want to leave the Austin area.
- Finding good, qualified employee candidates—both those who already possess the necessary skills and those who can be trained—will be the biggest issue the construction industry faces in the next 10 years.
- The cost of insurance is too high, and availability of qualified technicians is extremely low. We have to train our techs from basically zero.

Clearly, the skills gap is on the minds of employers as they try to make the right hires. And this concern is backed up by research and data. One common measure of low-skilled workers is educational attainment: Those who have low levels of education tend to be low skilled in the workforce. In Texas, 65 percent of people 25 and older have no associate’s or four-year degree. Yet research shows that by 2018, a majority of jobs will require at least some college education.⁴

Government regulations plague many small business owners as well. Some are concerned with overreach and others with health care and taxes.

- Government bodies make decisions/regulations without actually knowing how they affect everyone involved. You cannot invent a car if you do not know how to drive!
- Small businesses like mine need more support from our state and local government officials. Our leaders need to pass e-fairness laws so that persons shopping online pay sales tax— just as they would at my shop. Small businesses can also benefit from tax breaks! Please give us a chance to grow. We contribute a significant amount of time, resources and money to our community, yet we are taxed so heavily (property taxes for business, self-employment taxes, etc.). It’s challenging enough for single-storefront owners of specialty retailers to stay in business. I work harder and longer than anyone I know. Dear government officials: Please help us help ourselves.
- The economy is going through flux, hampered by governmental policies that were poorly conceived (well meaning) and implemented in banking, health and the environment.

Others point to financing barriers and the overall economic climate.

- Credit card fees: Monthly finance charges and the fees associated with accepting credit cards are a huge financial drain. I’m not a small business; I’m a microbusiness. There does not seem to be as much support for a really, really small business.
- Our main issues are due to the fall of the oil and gas industry. This is where most of our business comes from. We have lost several clients because of layoffs and closing facilities.
- We need financial backing/support to get us off the ground level. We have the know-how, experience and most of the equipment we need to get the work done. The quality of work and our personalized service have gotten us many jobs, but we need to grow our staff. We have the skills and know-how to take in a greater part of the marketplace but lack the financing to do so.

Some of these concerns may be mitigated by resources available to small businesses across the state. A list of nonprofits, government agencies and microlenders serving small business clientele can be found in the [Dallas Fed's Technical Assistance Resource Guide](#). Local SBDC offices, which are included in the guide, are also equipped to help firms at different stages of financing.

As Craig Bean, executive director of the Northwest Texas SBDC explains, "Many new small businesses are financed through personal savings, credit cards, and friends and family. To make the leap to more conventional funding, entrepreneurs must work on increasing their credit score, establishing a two- to four-year history of operations with stable or increasing revenues, making on-time payments, remaining current in all tax obligations and maintaining sufficient cash flow to service any debt."

Looking Forward

Small businesses in Texas saw performance weaken in 2015. Many paid down debt but continued to struggle to find the right employees. The majority of firms focused on reaching new customers. This year, sales and marketing jumped to the top of their talent needs. Additionally, minority- and

women-owned businesses had greater trouble accessing credit than their nonminority counterparts. Despite these challenges, most respondents expressed optimism for 2016 and beyond.

Questions regarding the Texas Small Business Needs Assessment Poll can be addressed to Emily Ryder Perlmeter at emily.perlmeter@dal.frb.org.

Notes

¹ See "Minority-Owned Businesses Come Up Short in Access to Capital: It's Time to Change the Equation for MBEs," by Timothy Bates and Alicia Robb, *Forbes*, July 30, 2012, www.forbes.com/sites/kauffman/2012/07/30/minority-owned-businesses-come-up-short-in-access-to-capital-its-time-to-change-the-equation-for-mbes/#558422ee73ef; and "Access to Capital for Women-Owned Businesses," National Association of Women Business Owners, www.nawbo.org/advocacy/policies-and-positions/access-capital-women-owned-businesses.

² See "Unemployment Falls to 4.9%, Lowest in 8 Years," by Patrick Gillespie, CNNMoney, Feb. 5, 2016, <http://money.cnn.com/2016/02/05/news/economy/us-economy-january-jobs-report>.

³ Data from Local Area Unemployment Statistics: Unemployment Rates for States, Bureau of Labor Statistics, February 2016, www.bls.gov/web/laus/laumstrk.htm.

⁴ See "Help Wanted: Projections of Jobs and Education Requirements Through 2018," by Anthony P. Carnevale, Nicole Smith and Jeff Strohl, Center on Education and the Workforce, Georgetown University, June 2010, <https://cew.georgetown.edu/wp-content/uploads/2014/12/fullreport.pdf>.