Texas Small Business Needs Assessment Poll

ABOUT THE TEXAS SMALL BUSINESS NEEDS ASSESSMENT POLL

In September 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 that include 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 improvement 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.

Texas Small Businesses Remain Optimistic Despite Struggles Accessing Capital

By Emily Ryder Perlmeter

MAP 1
Responses by County

Background

During the last three months of 2016, the Dallas Fed polled small-business owners across the state to find out about their firm’s performance, methods of financing, biggest challenges and greatest employment needs and to gauge changes in these measures from 2015.

For comparison and baseline purposes, the Dallas Fed also collected demographic data on these firms. For the current survey period, 1,358 completed responses were received from 101 counties across the state (Map 1).

Firm demographics for this polling period closely mirror demographics from 2015. The distribution of microbusinesses (five or fewer employees including the owner) is slightly larger than in previous years. The distribution of firm size in the 2016 and 2015 polls is close to the share for the state as calculated by the Census Bureau (Chart 1).

Gross revenues are similar to the last survey period as well. The proportion of firms in the sample with over $1 million continued its decline of the past few years, while those making under $100,000 came in at 39 percent. Chart 2 shows the trend in the proportion of gross revenues through the past four years of the poll.

Regarding business sectors, this year the Dallas Fed expanded some of the options. “Services,” including professional services, once again topped the chart this year, followed by “other.” Busi-
nesses in the “other” category include cybersecurity, religious companies and art. Retail and construction were also high on the industry list, as noted in Table 1.

The proportion of minority or women-owned business enterprises (MWBEs, or MBE/WBE) continued to rise this survey period. While the percentage of MWBEs has hovered around a third of the sample for the history of the Small Business Needs Assessment Poll, this year it rose to 42 percent. Community Development is particularly interested in how Historically Underutilized Businesses (HUB) are faring and what specific challenges they may face. Understanding one’s status as a certified minority or women-owned firm can be very useful, as different programs have different certification benefits. The HUB certification is free and available through the state comptroller and can create certain advantages in statewide procurement processes. MBE or WBE certification is a separate process that can be done through local cities’ affiliates and often comes with a fee. These certifications give one access to different networking and business opportunities. Firm owners should check with the cities to ensure proper certification procedures. Additional information can be found through national organizations, the National Minority Supplier Development Council and the National Women Business Owners Corporation.

**Firm Performance and Strategy**

In addition to collecting basic demographic data, the Dallas Fed asked business owners to report changes in the following categories—sales, number of employees, spending and overall opportunities—over the past year. They were also asked what changes they expect for 2017. Table 2 summarizes their feedback.

For most of the business indicators, the attitudes of firm owners in 2016 were static relative to 2015. The share of respondents who saw increases in sales remained the same, at half. There was a slight dip in those reporting increased spending on equipment or facilities, from 41 percent in 2015 to 38 percent in 2016; however, the percent who decreased spending also declined (9 percent to 8 percent), which means the majority of responses selected were “no change.” The largest difference, though, can be seen in overall business opportunities: for the first time, the percentage of respondents seeing increases in opportunities declined to less than half. Still, only 13 percent saw a decrease, meaning that on the whole, small-business owners have not seen a large decline in opportunities.

Again, a diffusion index was used 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. As anticipated, the business opportunities index declined from the last survey period, from 69 to 66, though it is still in positive territory.
Historically, expectations for the coming year have exceeded the actual observations of that same year. For instance, in 2015, respondents were exceedingly positive on the outlook for 2016, putting the diffusion index for future sales at 84. At the end of 2016, however, the observed diffusion index was 66 (Chart 3). Expectations for sales historically remained high; what remains to be seen is how aligned the expectations for 2017 are with the reality.

Craig Bean, executive director of the Northwest Texas Small Business Development Center (SBDC) Network, discusses this optimism about 2017: “With the anticipation of reduced taxation and changes in regulatory policy, they are beginning to speak about expansion plans and hiring additional employees. Clients in the North Texas area have spoken about a 15 percent increase in sales in the service and retail industry due to growing consumer confidence.”

**Table 2**

<table>
<thead>
<tr>
<th>Firm Performance Largely Unchanged in 2016</th>
<th>During 2016</th>
<th>Expectations for 2017</th>
<th>Diffusion index*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent increase</td>
<td>Percent no change</td>
<td>Percent decrease</td>
</tr>
<tr>
<td>Sales/revenue</td>
<td>50</td>
<td>33</td>
<td>18</td>
</tr>
<tr>
<td>Number of employees</td>
<td>23</td>
<td>69</td>
<td>8</td>
</tr>
<tr>
<td>Spending on equipment/facilities</td>
<td>38</td>
<td>54</td>
<td>8</td>
</tr>
<tr>
<td>Overall business opportunities</td>
<td>44</td>
<td>44</td>
<td>13</td>
</tr>
</tbody>
</table>

* 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.

**Chart 3**

Expectations of Sales Exceed Observations

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**Hiring, Operational Changes**

To get a better understanding of why companies hired or let staff go, the poll asked the reasons for doing so. The vast majority of firms (78 percent) that hired selected “growing customer demand” as their No. 1 answer. This was followed by 30 percent who pointed to current staff being overworked. For those who let employees go, most (58 percent) noted that the economic climate was not good/was uncertain. Wages/benefit costs (30 percent) and firm’s financial status (28 percent) came in at two and three, respectively. About 17 percent of those who decreased staff noted that they had searched for employees with the right skills but came up empty.

We next asked respondents to name the top three most important changes, if any, they had made to business operations during 2016. Similar to previous years, the majority of respondents indicated they had cultivated new clients, followed by developing new products/services and increasing productivity. These are promising indicators for Texas small businesses.
The poll also asked firm owners to name the most important struggle affecting their ability to grow their business. For the first time, access to capital was reported to be the No. 1 problem. “Access to capital” just edged out “talent,” or finding the right employees, with 264 and 259 responses, respectively. Chart 4 shows the four-year trends of these concerns.

As Chart 4 indicates, concerns about government regulations have been declining since the beginning of the survey. Meanwhile, the issue of accessing capital has risen from the third most pertinent concern to the first. Talent, still a very critical issue, has fallen to second place for the first time. These findings correspond with a recent Dallas Fed Economic Letter detailing the decline of community banks and small-business lending.1

Sue Rhodes, interim executive director of the Texas Gulf Coast SBDC Network, indicates that “obtaining capital can be quite challenging. Businesses are not just pursuing traditional sources such as banks but also alternative sources. Entrepreneurs and business owners are accessing online platforms to acquire debt to support funding needs. While access to online platforms has its advantages, in many instances, the result is very high repayment terms, which can adversely impact the business.” SBDC offices can help prepare business owners for financing. They can assist in evaluating funding needs to support growth and operations as well as identifying appropriate funding options.

Over 80 respondents selected an “other” category for their top concern. Some owners pointed to high taxes, others the price of oil. A large number of respondents also described the difficulties of competing with the internet market for customers.

Digging into these responses further, the Dallas Fed took a look at how MWBEs differ from non-MWBEs. As in previous years, there is a sizable gap between the top concerns for minority or women business owners versus those who are not. Twenty-four percent of MWBEs noted access to capital as their top problem, compared with just 15 percent of non-MWBEs. Regarding finding talent, 18 percent of MWBEs rank finding the right employees as their top issue, compared with 24 percent of non-MWBEs (Chart 5).

Financing and Access to Credit

As access to capital becomes the most prominent concern for Texas small businesses, the Dallas Fed wanted to know more information about their funding mechanisms. Table 3 shows the breakdown of the top sources of financing.

That 70 percent of firm owners fund their businesses from earnings is a positive signal about the health of the small-business economy. Still, these numbers differ for MWBEs and non-MWBEs. Although both groups have high rates of using business earnings (69 percent for MWBEs; 71 percent for non-MWBEs), stark dif-

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While access to online [funding] platforms has its advantages, in many instances, the result is very high repayment terms, which can adversely impact the business.
— Sue Rhodes, interim executive director, Texas Gulf Coast SBDC Network

### TABLE 3

<table>
<thead>
<tr>
<th>Source</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business earnings</td>
<td>70</td>
</tr>
<tr>
<td>Personal savings</td>
<td>47</td>
</tr>
<tr>
<td>Credit card</td>
<td>45</td>
</tr>
<tr>
<td>Banking line of credit</td>
<td>28</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
</tr>
<tr>
<td>Equity financing</td>
<td>8</td>
</tr>
<tr>
<td>Small-business administration</td>
<td>8</td>
</tr>
<tr>
<td>Non-SBA-backed loans</td>
<td>8</td>
</tr>
<tr>
<td>Crowd funding</td>
<td>1</td>
</tr>
</tbody>
</table>

NOTE: Respondents could check more than one box.
Just under 40 percent of the sample indicated some difficulty in receiving the amount of credit requested. To dig deeper into this, we asked respondents who did not receive the total credit they requested to identify the reasons they believed they were turned down. Responses varied by firm age and are found in Table 4.

Compared with the prior two years, mature firms in 2016 were much more likely to be concerned about uneven cash flow and weak sales. Weak sales did not previously make the top three reasons for those operating 10 years or more. Fittingly, this year, mature firms were also more likely to indicate that sales or revenue had decreased than firms operating fewer than 10 years.

### Employee Skills and Needs

The Texas unemployment rate experienced small upticks over the course of 2016; the rate is 4.9 percent as of February 2017, well below the Great Recession highs of 8.4 percent. Furthermore, indications are that the Texas job growth was steady in 2016, with an annualized rate of about 1.1 percent. Therefore, how are Texas small businesses viewing hiring and retention?

We asked firm owners to select the top three skills employees need to possess. In line with last year’s findings, sales and marketing is once again the top sought-after skill for potential employees. This is trailed closely by interpersonal skills, with punctuality/reliability coming in third. There is a significant dropoff in popularity of responses after this. Chart 6 shows these findings.

This is the second year that sales and marketing has topped employer needs. Previously, “soft skills” such as interpersonal and punctuality/reliability took the No. 1 spot. Still, with 1,300 responses pointing to these qualities, soft skills clearly continue to be in high demand from Texas small-business employers.

While Chart 6 indicates the most sought-after skills, it does not reveal how easy it is for employers to find these skills in the workforce. So, we followed this up with a question: “How difficult has it been to find workers with the following skills?” Answers ranged from “very easy” to “very difficult” and are found in Chart 7.

While business owners indicated that sales and marketing was the top-needed employee skill, they report that finding workers who are punctual/reliable is the most challenging. Although the 2015 poll found sales and marketing as the most difficult skill to find, punctuality/reliability has once again supplanted it. This, in tandem with interpersonal skills at No. 3, indicates that the degree of challenge in locating employees with strong soft skills remains large.

In addition to the top three skills, employees with advanced technology, advanced computer, advanced math and foreign-language expertise are, on average, more challenging to hire: More

### Table 4

**Perceived Reasons for Being Denied Credit by Firm Age**

<table>
<thead>
<tr>
<th>New openings (percent)</th>
<th>Young firms (percent)</th>
<th>Mature firms (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business too young (64)</td>
<td>Business too young (32)</td>
<td>Uneven cash flow (28)</td>
</tr>
<tr>
<td>Low credit score (34)</td>
<td>Low credit score (30)</td>
<td>Banks not lending to my type of business (25)</td>
</tr>
<tr>
<td>Insufficient collateral (17)</td>
<td>Banks not lending to my type of business (26)</td>
<td>Weak sales (21)</td>
</tr>
</tbody>
</table>

NOTES: Respondents selected up to two choices. “New openings” designates firms in business less than one year; “Young firms” are those open more than one year but fewer than 10 years; “Mature firms” are those operating 10 or more years.

### Chart 6

**Sales and Marketing Skills Top Employer Needs**

<table>
<thead>
<tr>
<th>Skill</th>
<th>Number of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and marketing</td>
<td>655</td>
</tr>
<tr>
<td>Interpersonal skills</td>
<td>635</td>
</tr>
<tr>
<td>Punctuality/reliability</td>
<td>559</td>
</tr>
<tr>
<td>Basic computer skills</td>
<td>297</td>
</tr>
<tr>
<td>Advanced computer skills</td>
<td>269</td>
</tr>
<tr>
<td>Other, please specify</td>
<td>216</td>
</tr>
<tr>
<td>Basic English skills</td>
<td>183</td>
</tr>
<tr>
<td>Basic math skills</td>
<td>182</td>
</tr>
<tr>
<td>Advanced technology skills</td>
<td>177</td>
</tr>
<tr>
<td>Foreign-language skills</td>
<td>88</td>
</tr>
<tr>
<td>Advanced math skills</td>
<td>54</td>
</tr>
</tbody>
</table>

 NOTE: Respondents could select up to three options.
respondents indicated these skillsets were either somewhat difficult or very difficult to find than those who found them somewhat easy or easy. The other skills appear to pose far less trouble for hirers.

Considering Chart 7 together with Chart 6, we note that sales and marketing, punctuality/reliability and interpersonal skills are the top three most needed, as well as the three most difficult to find. Here is where the skills gap lies: soft skills and sales and marketing. SBDCs can advise small-business clients on finding and maintaining the right employees. Al Salgado, executive director of the South–West Texas Border SBDC, suggests that small-business owners should strategically look forward and “encourage and or invite prospective employees to acquire the training necessary to successfully match job needs. The Texas Workforce Commission, community colleges [and] vocational schools offer short-term training for many job classifications. Plan ahead and get the right person for the job.”

**Additional Insights**

The Dallas Fed solicited open-ended responses from all owners, asking “Is there anything else you would like to add that would help us better understand the issues your business faces?” The following are responses we received.

- The internet via both legitimate and counterfeit web pages is now a huge competitor with local, small business in every field. If trends continue, many small businesses will close and consumers will no longer be able to enjoy a local, small-business shopping experience! As a fashion boutique, every week we lose sales to what consumers think might be a better deal; however, many of the consumers are highly disappointed in the poor quality, counterfeit products they receive, if they receive them at all. Amazing how many “problems” we try to fix and/or replace for those customers. We do this trying to let them know in a nice way, that local business will always do a better job helping with their needs!

- We are located in Laredo and the Texas Department of Transportation is my best customer, but we are still in a small town. In 2017, we are planning to move business activities to San Antonio, Texas, in order to increase the number of
opportunities. By the way, we are a Historically Underutilized Business (HUB).

• We face a multitude of issues. However, the biggest issue is working capital, and since my credit score is not the best, it’s been very, very difficult. We were able to obtain a small-business loan through LiftFund but we had to have collateral. That money was not enough and now we are stuck with some unfinished items that are necessary for my business to continue and for growth. I wish there were more funding options for my business.

• This country doesn’t teach good work ethic. Our schools only teach test taking; they are zapping the desire to work and do a good job, be drug-free and show up on time every day ready for work. We, the business community, will do the rest. New employees just need to know the basics; we will train them.

• We have developed on-the-job training for our employees because of not being able to find skilled equipment operators. We have initiated an education program within the company to help bring our employees into legal compliance with the many and varied local, county, state and federal laws. We have found that by being proactive to the extent an employee will allow, we can save them money and we can keep them on the job earning, paying taxes and being productive for us instead of missing work, going to court and paying fines and fees. To the extent that they can, our governmental groups, from the courts to tax authorities, have been a great help. Bringing in underskilled marginal-income earners is a challenge, but brings loyal employees with skills with wages from $12–$20 per hour into our country’s workforce.

• The customer base has reduced to almost three-quarters of what it used to be. Small gift stores are a dying breed. No one likes to shop. Only buy online. Amazon is the way to go. Makes shopping so easy. Will be out of business by the end of the year. We cannot survive without customers.

• A large challenge is internet and social media marketing and the costs associated with it.

Finding qualified, committed personnel is the biggest challenge.

• As business owners, we may certainly be subject matter experts in our respective fields; however, when it comes to the actual acumen of operating a successful business, many of us have a huge learning curve. What would be most beneficial would be a replicable business model that applies across industries that would allow for us all to plug in our businesses no matter what stage they may be in and hit the ground running, armed with information that can positively change our bottom lines. We shouldn’t all have to struggle or figure things out as we go.

Employees, regulations and access to capital came up repeatedly in the comments. In addition, for many, concerns about competing against internet retailers is strong—perhaps even greater than worries about brick-and-mortar big-box stores.

Businesses grappling with the above problems—and others—should know they do not have to struggle alone. As they prepare for the rest of 2017, firms may seek help from a wide array of resources across the state, including SBDCs, economic development offices and the many microlenders found in the Dallas Fed’s Technical Assistance Resource Guide for Entrepreneurs in the Eleventh Federal Reserve District.

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

Notes