

Texas Small Business Needs Assessment Poll

Federal Reserve Bank of Dallas | Community Development

New Survey Finds Optimism, Challenges Among Small Businesses in Texas

By Emily Ryder Perlmeter

CHART 1
Texas Small Business Needs Assessment Poll: Responses by County

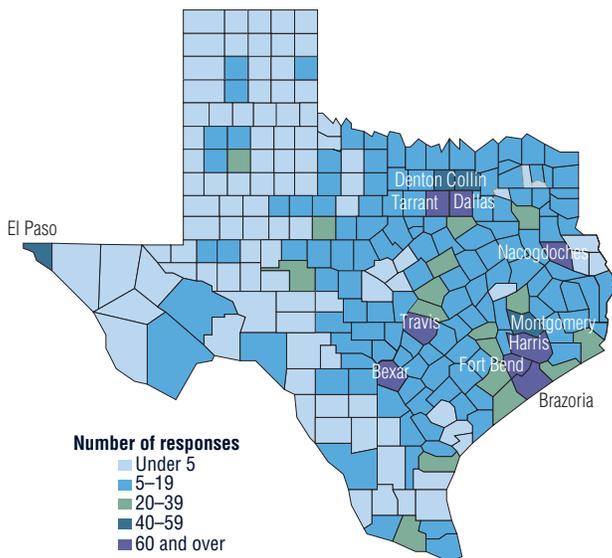


TABLE 1
Business Sectors of Survey Respondents

Services	45%
Finance/insurance/real estate	13%
Retail	13%
Other	13%
Construction	7%
Manufacturing	4%
Transportation	2%
Wholesale	2%
Agriculture	1%

Small businesses are a critical component of the Texas economy and are essential to the well-being of the nation. According to the Small Business Administration, small businesses in Texas employ 4.1 million workers—over 46 percent of the private-sector labor force in the state. In the aftermath of the Great Recession, small business growth declined nationwide at a disproportionately higher rate than larger businesses.¹ However, recent reports indicate that small businesses are rebounding, with Texas growth rates among the strongest.²

To learn more about the challenges and successes of small businesses across the state, the Federal Reserve Bank of Dallas' Community Development Office has launched the Texas Small Business Needs Assessment Poll, a partnership with the Texas Small Business Development Center Network. The poll, conducted from September to December 2013, asked small business owners across Texas about firm size, performance, financing and employee skills gaps. The over 750 responses come directly from clients of about 50 different organizations, including local small business development centers, workforce development boards, chambers of commerce and minority supplier development councils.

Within the state's small business community lie a diverse group of firms, industries, successes and challenges. Most businesses we polled indicated optimism about projected sales and opportunities heading into 2014. But they also pointed to barriers to sustaining and building growth, including access to credit and reliability of employees. This report highlights the poll findings in an effort to more deeply understand trends and emerging issues in the Texas small business community.

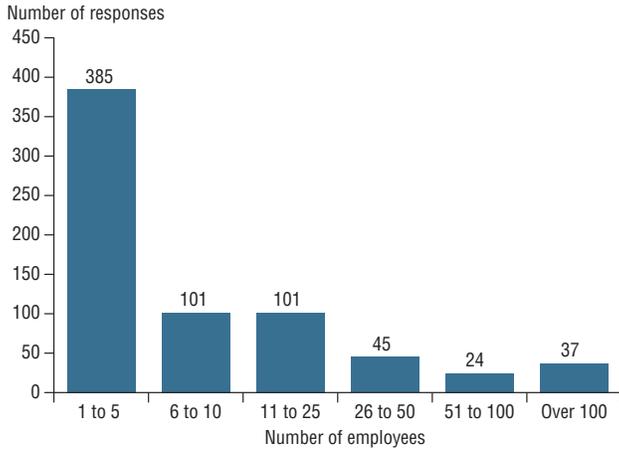
Background

To assess the diversity of respondents, we collected demographic information on the firms replying to the poll. Geographically, the 754 responses are concentrated most heavily in Dallas, Tarrant, Bexar, Harris, Travis, Nacogdoches, Fort Bend and Brazoria counties, though responses are spread throughout 68 counties across the state. Chart 1 indicates the density of responses by county.

The survey respondents also represent a variety of businesses throughout the state. Table 1 shows the breakdown of business

CHART 2

Microbusinesses Dominate Among Survey Respondents



NOTE: Number of employees includes the business owner.

CHART 3

Gross Revenues for Past Fiscal Year

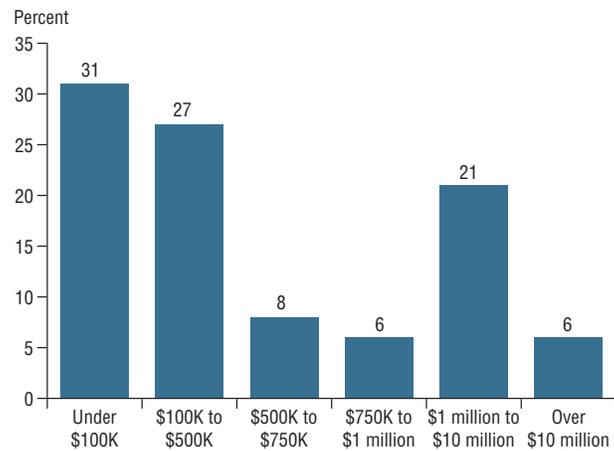
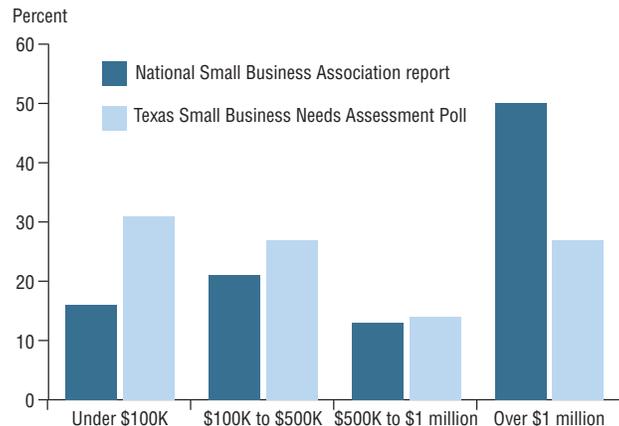


CHART 4

Gross Revenues for Past Fiscal Year Lower than in Other Survey Populations



categories reported by survey respondents. About 45 percent of small business owners in our survey are in the service field, which includes professional services, such as consulting. Thirteen percent are in finance, insurance or real estate, with another 13 percent in retail. An additional 13 percent of business owners report their industry to be “other,” about which they elaborated in the comments. These fields include the food industry, medical field and religious organizations.

Just over half of businesses in our sample have been operating for more than 10 years. We refer to these as mature firms. Only 8 percent of firms are new openings, that is, those that have been open for less than one year. The rest of the sample falls between one and 10 years, which we call young firms.

The majority, or 56 percent, of businesses in our sample are microbusinesses, defined as five or fewer employees, including the business owner (*Chart 2*).

Regarding earnings, most businesses in our sample made under \$500,000 in the past fiscal year (*Chart 3*). Relative to nationwide small business surveys, our poll sample contains a higher percentage of businesses with revenues under \$1 million. For example, about half of the response pool from the National Small Business Association’s (NBSA) mid-year 2013 report show gross revenues of over \$1 million, compared with just over a quarter in our sample (*Chart 4*).³

Perhaps some of this difference is due to the size of businesses in our sample. As noted earlier, the majority of businesses we sampled were microbusinesses. As Table 2 shows, there is a correlation in our sample between smaller businesses and lower revenues, as might be expected. Almost 90 percent of businesses that employ more than 50 people have gross revenues over \$1 million, while this is true for only 4 percent of microbusinesses.

Additionally, our poll samples a high percentage of minority-owned and woman-owned business enterprises (MWBEs), at 37 percent of the pool. These firms are of particular interest to the community development field and are crucial to understanding how historically underutilized businesses are faring in the economy. The advantages of business ownership for certain historically disadvantaged households can be large: According to the Association for Enterprise Opportunity, female-headed households in which there is a microbusiness owner generated between \$8,000 and \$13,000 more in annual income than female-headed households with no such business owner. For African-American females, this contrast is even starker: African-American female business owners have more than 10 times the median net worth of African-American female non-business owners.⁴ For these demographic groups that have disproportionately high poverty rates, this difference in income and wealth can be extremely significant.

On the whole, respondents saw some increases in revenue as well as overall business opportunities during the past six months.

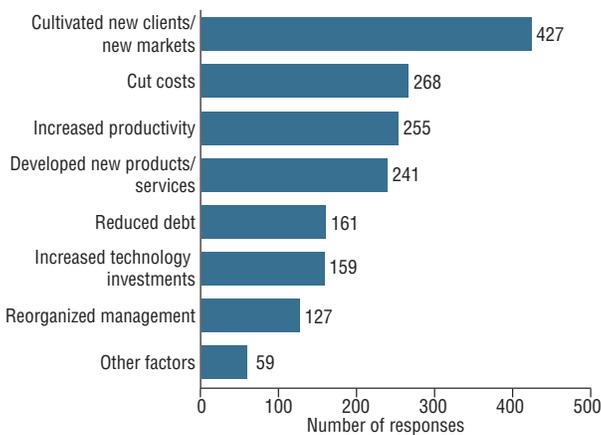
TABLE 2

Firms with More than 10 Employees More Likely to Have Revenues over \$1 Million

Gross revenues	Number of employees			
	1 to 5	6 to 10	11 to 50	Over 50
Under \$100K	55%	11%	2%	4%
\$100K to \$500K	33%	37%	11%	1%
\$500K to \$1 million	8%	33%	18%	6%
Over \$1 million	4%	19%	69%	89%

CHART 5

Most Important Changes to Business Operations



NOTE: Respondents could select more than one answer.

TABLE 3

Business Performance Expected to Improve

	Past six months			Expectations for next six months			Diffusion index*	
	Percent increase	Percent no change	Percent decrease	Percent increase	Percent no change	Percent decrease	First half of 2013	Second half of 2013
Sales/revenue	48	30	22	71	22	7	63	82
Number of employees	22	67	10	29	66	4	56	63
Spending on equipment/facilities	36	53	11	37	55	8	62	64
Overall business opportunities	46	39	14	66	27	7	66	80

*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 then 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 in attitudes.

NOTE: Percentages may not add to 100 due to rounding.

There are benefits to being officially certified as a woman-owned or minority-owned business, which may include an advantage when bidding for certain private or government contracts.⁵ Yet 46 companies in our polling group reported that they are unaware of their certification status as a MWBE. Washington County represents a disproportionately high percentage of these, with 17 percent of its respondents stating they are unaware of their status. This might suggest that outreach to small businesses, particularly in the Brenham/Washington County area, would help increase awareness of eligibility for MWBE status and the potential benefits of being certified.

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 3 summarizes their feedback.

On the whole, respondents saw some increases in revenue as well as overall business opportunities during the past six months. The majority of respondents indicated no changes in number of employees and spending on equipment or facilities (67 percent and 53 percent, respectively). Regarding the next six months, respondents are optimistic: 66 percent of business owners indicate that they expect overall business opportunities to improve and 71 percent expect sales and revenue to increase as well.

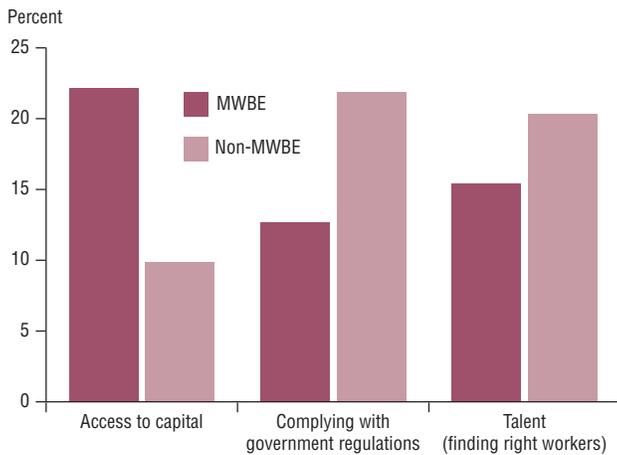
We use a diffusion index to summarize the three percentages (increase, no change, and decrease) into one number for each question. The index is calculated by adding the percentage of "Increase" responses to half of the percentage of "No change" responses and multiplying the total by 100. If the index 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. We can see that for all measures the diffusion index is positive, with expectations for sales and revenue over the next six months reaching a high of 82.

We also asked respondents to select the three most important changes, if any, they made to their business operations during 2013. Chart 5 shows that cultivating new markets was by far the most-cited

CHART 6
Factors Affecting Ability to Grow Business

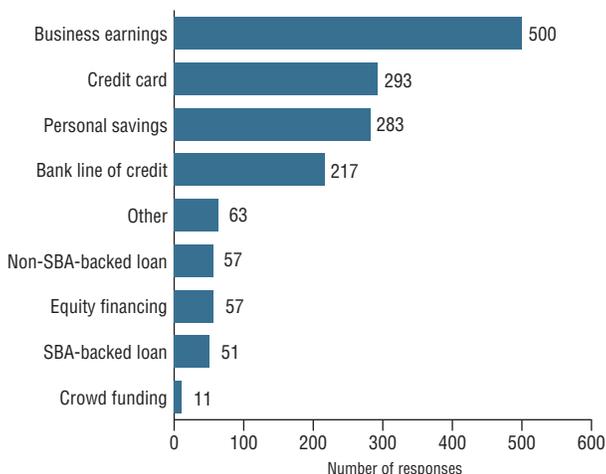


CHART 7
Access to Capital Is Top Concern for Minority Business



NOTE: MWBE = minority-owned or woman-owned business enterprise.

CHART 8
Top Types of Financing Used



NOTE: Respondents could select up to three options.

factor, with 63 percent of respondents selecting this option. Rounding out the top three are cutting costs and increasing productivity. Fifty-nine firms selected “other factors,” which included acquiring new property, using new methods of advertising and staff changes (either increases or decreases).

We were also interested in the top factor affecting ability to grow one’s business. The top concern for respondents was talent, followed closely by complying with government regulations (*Chart 6*). However, these factors vary by MWBE status.

Chart 7 shows the breakdown between minority-owned or woman-owned businesses and those that do not qualify for MWBE status. The starkest contrast between the two groups lies within access to capital; more than double the percentage of MWBEs reported that this is the largest concern in their business growth compared with non-MWBEs (22 percent versus 10 percent). This may indicate that businesses owned by women or minorities perceive more difficulties obtaining capital or credit than other businesses do. Indeed, multiple nationwide studies have shown that women-owned or minority-owned firms are less likely to have loan applications approved and indicate more difficulty in getting financing than non-minority firms.⁶ Even when controlling for credit ratings, owner net worth and other characteristics, black- and Latino-owned businesses gain less access to credit than white-owned firms.⁷

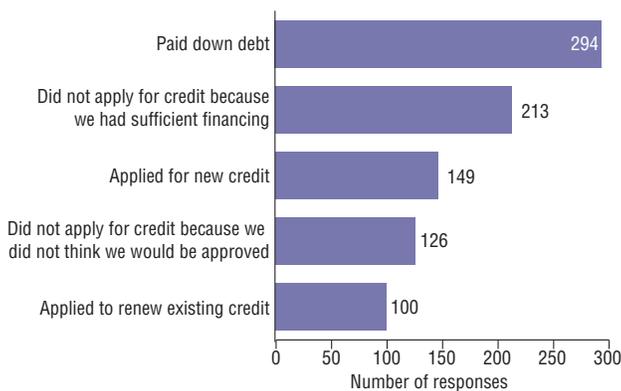
Financing and Access to Credit

Continuing the theme of credit, we asked respondents what their top sources of business financing are. Boding well for Texas small businesses, respondents indicated that business earnings are their top financing source (*Chart 8*). Credit cards and personal savings come in second and third, with bank line of credit close behind. Women-owned or minority-owned firms in our poll are more likely to rely on personal savings than nonminority firms: 51 percent versus 35 percent, respectively. Again, this is in keeping with other studies and reports that have shown that women and minority business owners are more likely to use personal savings to grow their businesses, often due to fear they will be turned down for bank financing.⁸

We further explored issues of financing by asking respondents what credit actions, if any, they had taken in the past year. Chart 9 shows these reported credit actions. Paying down debt is the most frequently reported action, surely a positive sign for Texas small businesses. About a third of firms did not apply for loans because they had no credit needs, while about 20 percent of firms in our sample did not apply due to perceptions that they would not be approved for a loan. To deeper analyze those who had problems obtaining the necessary credit, we also asked them to report what they believed were barriers to doing so (*Chart 10*). About one-third of poll respondents selected at least one barrier, indicating that

CHART 9

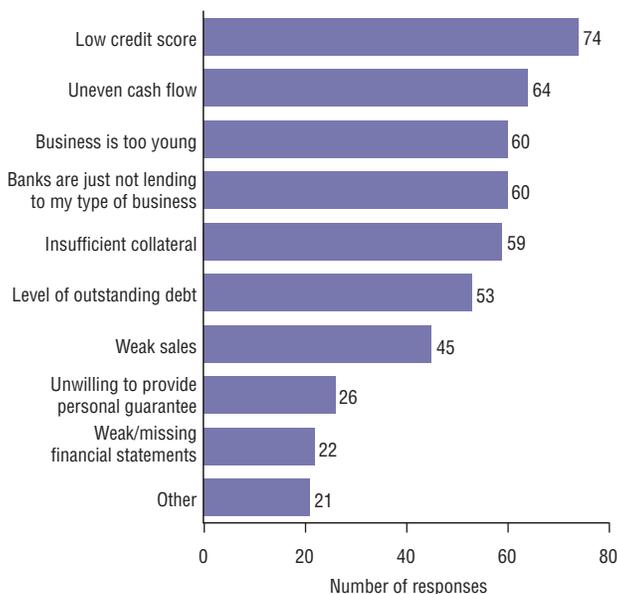
Credit Actions Taken in Past 12 Months



NOTE: Respondents could select more than one answer.

CHART 10

Reasons for Not Obtaining Enough Credit



NOTE: Respondents could select up to two options.

TABLE 4

Top Three Barriers to Credit by Firm Age

	New openings	Young firms	Mature firms
1	Business is too young	Low credit score	Uneven cash flow
2	Low credit score	Insufficient collateral	Banks are just not lending to my type of business
3	Weak sales	Business is too young	Level of outstanding debt

about a third have had some degree of trouble obtaining sufficient financing. On the whole, low credit scores are the reason most often cited.

To further analyze financing methods, we took a look at access to credit by age of business. We found that the age of the firm impacts the type of trouble reported in accessing loans (*Table 4*). As might be expected, newly opened firms chose “business is too young” as their top reason for not receiving financing, while firms that have existed at least a year but less than 10 years most frequently reported low credit scores. Mature firms have strikingly different rankings; they were more likely to report uneven cash flow or that banks are not lending to their type of business. Effectively addressing credit concerns in the small business community necessitates an understanding of the different challenges young firms face compared with those of more established firms.

Employee Skills and Needs

One of the largest concerns for business owners, job seekers and the economy as a whole relates to employees and the job-skills mismatch. As of November 2013, there were 4 million job openings nationwide, yet the unemployment rate hovered around 7 percent.⁹ Education levels and technical or specialty skills should be responsible for some of this incongruity, and they often receive most attention in the news and in government-sponsored job training programs.¹⁰ However, soft skills, which are often described as people skills, social skills, personal responsibility or critical thinking, have also become a concern. In fact, a recent *Time* article suggested that a salient reason college graduates aren’t getting jobs is that “they can’t even show up on time in a button-down shirt and organize a team project.”¹¹ To assess which abilities were most needed and most lacking for the Texas small businesses in our sample, we included multiple questions on hiring and the skills gap.

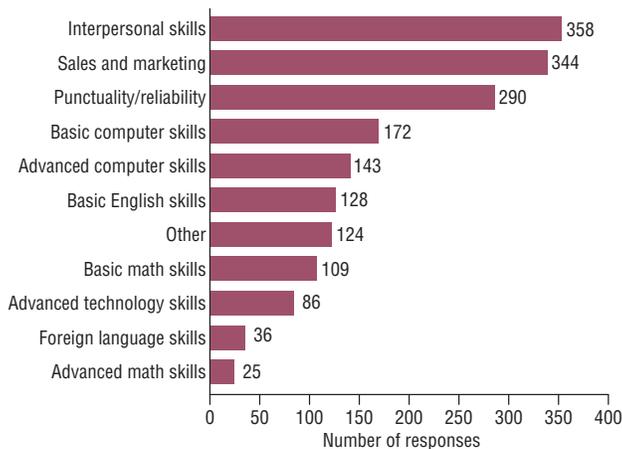
Chart 11 shows the rankings for the following question: *What are the top three employee skills your business needs?* Interpersonal skills come in at No. 1—in fact, the majority of respondents selected this option. Sales and marketing is in second place, which is not surprising given that many small businesses attempt to grow or achieve economies of scale. Rounding out the top three employee skills needed is punctuality or reliability, another type of soft skill.

The “other” category was selected by 124 respondents. Some of their comments pointed to specialized, industry-specific needs (for example, woodworking or upholstery), but many revealed more examples of soft-skill concerns. One business owner elaborated on the importance of trustworthiness of staff, another on work ethic, and another indicated that the biggest firm staffing need is “willingness to be held accountable for results.”

To identify which skills had been easiest and hardest to find, we asked small business owners to evaluate their ability to find workers

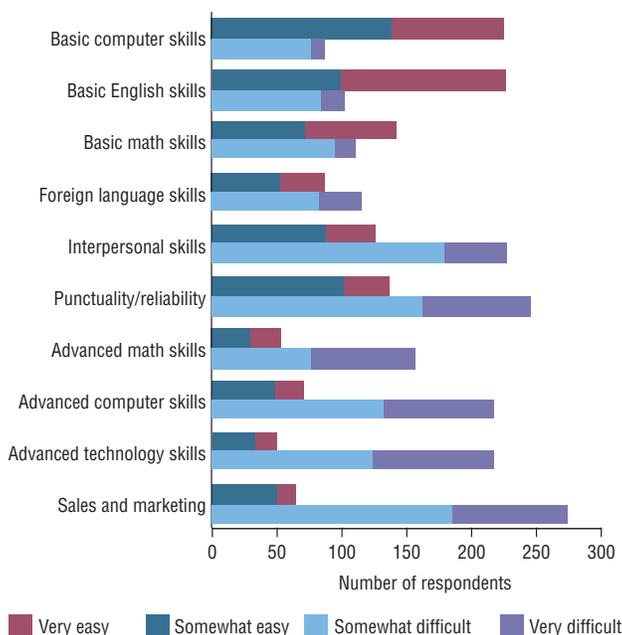
Overall, the difficulty of government uncertainty permeates the responses. Companies also worry about employees and the skills gap.

CHART 11
Top Employee Skills Needed



NOTE: Respondents could select up to three options.

CHART 12
How Difficult Has It Been to Find Workers with the Following Skills?



with skills in 10 distinct areas, ranking them from very easy to very difficult. Chart 12 shows the breakdown of their responses. Basic English and basic computer skills appear to be the easiest qualities to find, with almost half of respondents indicating either “very easy” or “somewhat easy.” Conversely, sales and marketing and advanced technology skills are reported to be the most difficult qualities; a majority of respondents indicated that people with those skills were either “somewhat difficult” or “very difficult” to find.

Looking at these numbers further, we can see that interpersonal skills and punctuality/reliability also are reported to be more challenging to find; only about a quarter of respondents selected some degree of ease in finding these qualities.

Considering Charts 11 and 12 together, the “skills gap” lies most heavily within sales and marketing, interpersonal skills and punctuality/reliability. These three skills are the ones employers reported needing most, yet having the most difficulty finding.

Additional Insights From Poll Respondents

Finally, we solicited open-ended responses from business owners, asking: *Is there anything you would like to add that would help us better understand the issues your business faces?* We received over 200 responses. The majority pointed to concerns about government regulation: federal, state and local. Others cited worries about understanding new health care requirements and how these may impact their companies. Overall, the difficulty of government uncertainty permeates the responses. Below are selected comments that have been edited for publication:

- The biggest inhibiting factor in the ability of my company to grow is the inability of our congressional leaders to compromise and move forward. The polarization in Washington has got to stop. The budget crisis will cause our business to flatten for the next six to nine months due to the nationwide retailers putting development on hold.
- Uncertainty of changing government regulations is a huge problem in making decisions for the future.
- The lack of clarity in upcoming regulations and reduced reimbursements make it difficult for us to adapt to meet the needs of our constituency.
- Difficult times within the federal government make it hard for businesses to know how to plan. Washington is somewhat out of touch.

Companies also worry about employees and the skills gap. Echoing the sentiments in the earlier section, comments focus mainly on lack of soft skills or inability to pass drug tests.

Future Issues

Results from the Texas Small Business Needs Assessment Poll indicate that despite optimism about growth, business owners still confront obstacles. Indeed, as Al Salgado, director of the South-West Texas Border SBDC Network, explains, “The Texas economy continues to expand at a moderate pace; however, many challenges face our state’s small businesses. The Texas Small Business Needs Assessment provides first-hand evidence that access to capital, difficulty sustaining and building growth, workforce availability and government regulations are persistent barriers to success.”

These challenges affect job seekers, employers and the economy as a whole. An emphasis on understanding regulatory burdens and soft-skill development as well as how the Affordable Care Act will impact different organizations may be useful for small business owners as they compete in 2014 and beyond.

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

Notes

¹ See “Small Businesses Hit Hard by Weak Job Gains,” by Elizabeth Laderman, Federal Reserve Bank of San Francisco *Economic Letter*, no. 2013-26, 2013; and “Why Small Businesses Were Hit Harder by the Recent Recession,” by Aysegül Sahin, Sagiri Kitao, Anna Cororaton and Sergiu Laiu, Federal Reserve Bank of New York *Current Issues in Economics and Finance*, vol. 17, no. 4, 2011.

² “Small Business Hiring Is Better Than Before the Recession,” by John Tozzi, *Businessweek*, Aug. 8, 2013, www.businessweek.com/articles/2013-08-08/small-business-hiring-is-better-than-before-the-recession; and “Texas Small Businesses Added Jobs in July, While U.S. Lost Jobs,” by Sheryl Jean, *Dallas Morning News*, Biz Beat Blog, Aug. 2, 2013, <http://bizbeatblog.dallasnews.com/2013/08/intuit-payroll-texas-small-businesses-added-jobs-in-july-while-u-s-lost-jobs.html/>.

³ Also see the “Business Revenues” chart under Methodology section of Small Business Survey, Federal Reserve Bank of Atlanta, Third Quarter, 2013, available at www.frbatlanta.org/research/smallbusiness/sbsurvey/.

⁴ “Bigger than You Think: The Economic Impact of Microbusiness in the United States,” Association for Enterprise Opportunity, available at www.aeoworks.org/index.php/site/page/bigger_than_you_think_the_economic_impact_of_microbusiness_in_the_united_st.

⁵ “Business Certification Programs for Women-Owned, Minority-Owned, and Socially Disadvantaged Firms,” Texas Continuing Legal Education, available at www.texasbarcle.com/CLE/site/LawOfficeMgmtPracticeMaterials/Business%20Certificatons.pdf

⁶ “Access to Capital Among Young Firms, Minority-Owned Firms, Women-Owned Firms, and High-Tech Firms,” by Alicia Robb, Marin Consulting LLC, for Small Business Administration Office of Advocacy, no. 403, April 2013, available at www.sba.gov/advocacy/7540/584931; and “Access to Capital,” National Association of Women Business Owners, available at http://nawbo.org/content_10354.cfm.

⁷ “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 for *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/.

⁸ See note 6.

⁹ Data from Job Openings and Labor Turnover Survey Database, Bureau of Labor Statistics, www.bls.gov/jlt/ (accessed February 2014).

¹⁰ For a list of training programs, see Education and Training Finder, CareerOneStop, U. S. Department of Labor, Employment and Training Administration, available at www.careeronestop.org/EducationTraining/EduTraining.aspx.

¹¹ “The Real Reason New College Grads Can’t Get Hired,” by Martha C. White, *Time*, Nov. 10, 2013, <http://business.time.com/2013/11/10/the-real-reason-new-college-grads-cant-get-hired/>.