

Texas Small Business Needs Assessment Poll

Federal Reserve Bank of Dallas | Community Development

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 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 improvement in Texas' small business community.

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

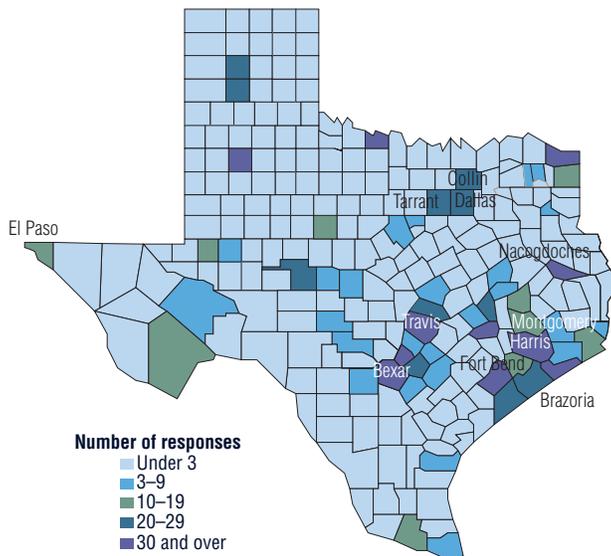
SURVEY

If you are an organization that works directly with small business owners and 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.

Second Annual Poll Reveals Continued Optimism for Texas Small Businesses

By Emily Ryder Perlmeter

CHART 1
Responses by County



Background

During the last three months of 2014, we polled small business owners across the state to find out about their firm's performance, their methods of financing, their largest challenges and their biggest employment needs, as well as the changes in these measures from 2013.

For comparison and baseline purposes, we also collected demographic data on these firms. For the current survey period, there were 1,403 completed responses. This is an 86 percent increase from the previous poll, which had 754 respondents. Representation of counties increased as well. Last year, the poll received responses from 68 counties in Texas; this year it reached 104. The representation of counties is found in Chart 1.

Demographic details of the sampled firms closely align with the sample from the last polling period. Once again, our sample is composed mostly of microbusinesses, or those with five or fewer employees, including the owner. About a third of businesses earned under \$100,000 last year, while 30 percent earned over \$1 million. Charts 2 and 3 show the distribution of firm sizes and earnings for the 2014 and 2013 polls.

As we found last survey period, there is a correlation between size of the establishment and gross revenues; firms with more employees tend to report more earnings on average. This year, however, we found a slight increase in the number of firms reporting higher reve-

CHART 2

Majority of Sample Are Microbusinesses

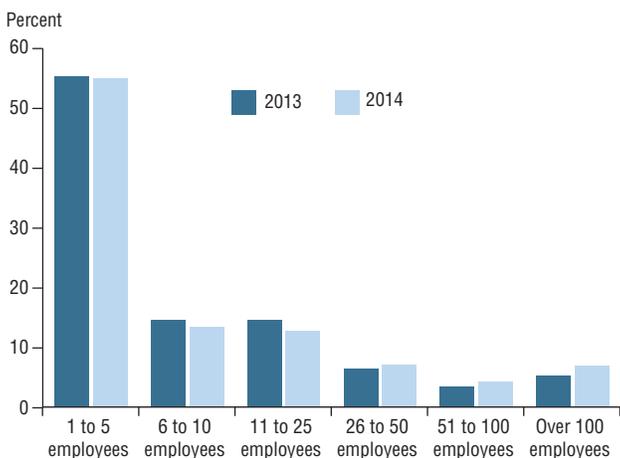


CHART 3

Gross Revenues Similar in Both Survey Periods

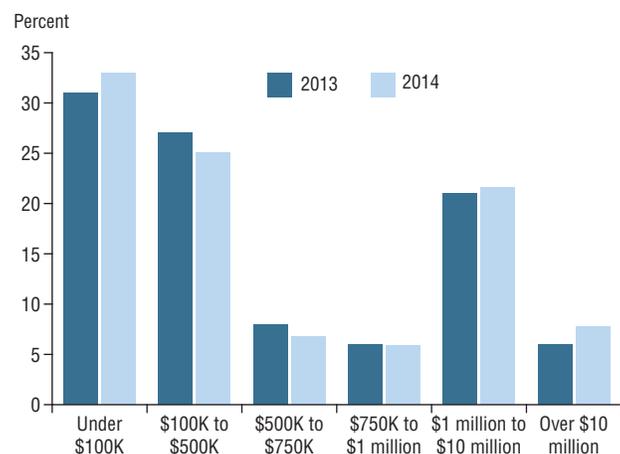


TABLE 1

Business Sectors of Survey Respondents

Services	38%
Other	18%
Finance/Insurance/Real Estate	13%
Retail	13%
Manufacturing	6%
Construction	5%
Wholesale	2%
Transportation	2%
Agriculture	1%

nues, particularly those with 6–10 and 51–100 employees. Reported earnings of microbusinesses remained essentially the same.

The breakdown of industries is also similar to last year, although this poll features a higher percentage of businesses reported as “other” (Table 1). This is largely due to an increase this year of firms that reported working in the medical field.

More than a third (35 percent) of the sample continues to come from minority or women-owned businesses (MWBs), providing an opportunity to analyze how challenges and needs differ for this historically underserved segment of the small business universe. Seven percent of respondents report being unaware of their qualifications for MWBE designation; the San Antonio region has the highest rates at 11.2 percent. Increasing awareness for these firms could help them gain access to potential certification benefits.

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.

This year, respondents are even more positive on key indicators of business performance. A majority saw sales and revenue increase in 2014, compared with 48 percent last survey period. A majority (54 percent) also pointed to improvements in overall business opportunities, a jump of 8 percentage points from the last poll. Looking at expectations, the largest increases are in number of employees and spending on equipment or facilities: The percentage of respondents pointing to increases in these categories is 35 percent and 44 percent, respectively. Although still a minority, these percentages represent a 6 and 7 percentage point increase from last year (29 and 37 percent, respectively).

We again use a diffusion index to summarize all three percentages (increase, no change and 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. This survey period, current and expectation diffusion indexes are all positive. They all increased from last year as well, with the exception of observations of number of employees for 2014, which remained the same. With expectations of sales at 83 and overall opportunities at 82, small business respondents are overwhelmingly optimistic about revenue and the business environment going forward.

We also asked respondents to select the three most important changes, if any, they made to their business operations during 2014. More than 1,300 respondents selected at least one change. Sixty-four percent of those who responded pointed to “cultivating new clients

TABLE 2

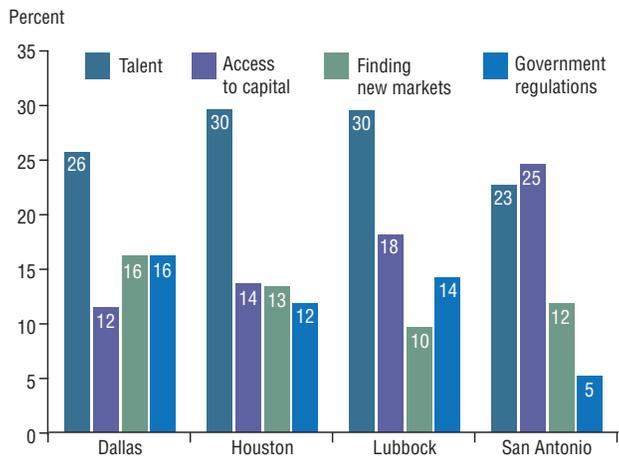
Business Performance Continues to Improve

	Past six months			Expectations for next six months			Diffusion index*	
	Percent increase	Percent no change	Percent decrease	Percent increase	Percent no change	Percent decrease	2014	2015
Sales/revenue	51	32	17	72	22	6	67	83
Number of employees	21	69	10	35	61	4	56	66
Spending on equipment/facilities	38	53	8	44	49	7	65	68
Overall business opportunities	54	37	9	69	26	5	73	82

*The diffusion index summarizes the three percentages (Increase/No change/Decrease) into one number for each question. It 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.

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

CHART 4
Top Four Business Concerns by Region



or markets,” making it the top action once again. This year, cutting costs fell to the fourth spot, with 35 percent of respondents selecting this option. In the second and third spots are increasing productivity and developing new products or services. These rankings may reflect the period of growing business opportunities shown in the diffusion indexes. “Other factors” came in last place, with 11 percent of respondents selecting this choice. The comments reveal that these firms increased advertising, moved locations or offices and took on new partners.

We also wanted to know the top factor affecting ability to grow one’s business. Overall, the most important issue businesses reported struggling with was talent, or finding the right employees (27 percent). This is followed by access to credit (15 percent), finding new markets (14 percent) and complying with government regulations (13 percent). Yet, breaking the answers down by firm demographic shows clear variations. Chart 4, for instance, highlights the differences in responses by Small Business Development Center (SBDC) region.

Although talent is the top factor among Dallas, Houston and Lubbock regions, respondents from San Antonio chose access to capital. This region is also less likely to report struggling with government regulations, especially compared with Dallas (5 versus 16 percent).

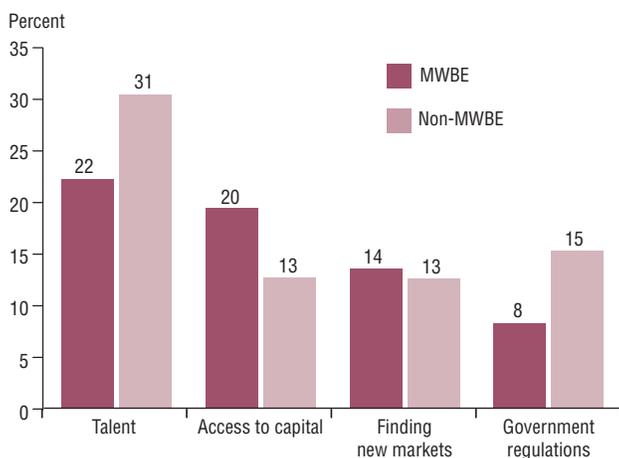
Taking a look just at overall figures also obscures some of the unique challenges MWBEs face and how they differ from non-MWBEs (Chart 5).

Talent was the top concern for both types of firms, but there is a 9 percentage point difference between the two. Minority or woman-owned firms were more likely to report access to capital as a considerable barrier to growth and less likely to indicate that government regulations are, compared with nonminority firms.

Financing and Access to Credit

Other differences between minority-owned and nonminority-owned firms are revealed in the financing section. Digging deeper

CHART 5
Growth Concerns Differ for Minority Businesses



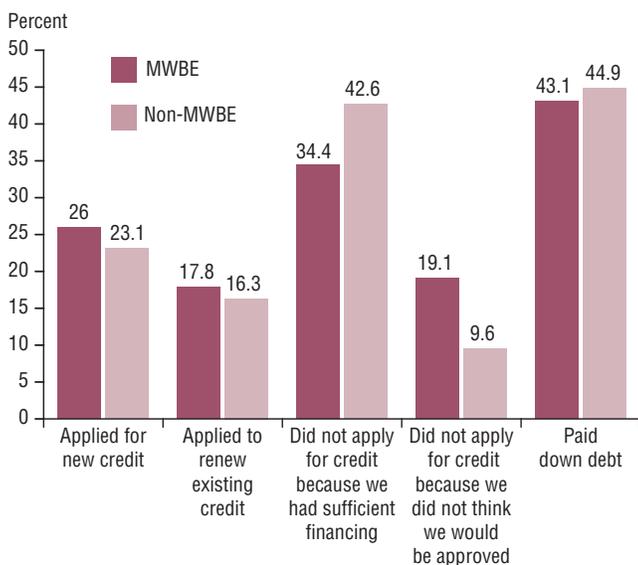
Breaking down the responses by minority or women-owned businesses (MWBE) designation, however, reveals nuances in financing mechanisms.

TABLE 3
Top 5 Financing Sources by MWBE Status

	MWBE	Non-MWBE
1	Business earnings (74%)	Business earnings (76%)
2	Personal savings (50%)	Bank line of credit (37%)
3	Credit card (47%)	Personal savings (33%)
4	Bank line of credit (32%)	Credit card (32%)
5	SBA-backed loan (10%)	Equity financing (14%)
Number of responses	458	760

NOTE: Respondents could select more than one option.

CHART 6
Fear of Credit Rejection Stronger for Minority Firms



in this area, the poll asked respondents to report the top three sources of financing for their firms. Overall, 76 percent of respondents indicated business earnings as a top financing source, an increase of 2 percentage points from last year. An increase in this option is in keeping with the optimistic business outlook for Texas firms.

Breaking down the responses by MWBE designation, however, reveals nuances in financing mechanisms. Although MWBEs and non-MWBEs both report business earnings as their top source, MWBEs are much more likely to rely on personal savings and credit cards than non-MWBEs (Table 3). Half of minority and/or female firm owners report personal savings as a top funding source, compared with just 33 percent of non-MWBEs. However, non-MWBEs report relying more heavily on bank lines of credit. SBA-backed loans rounds out the top five funding mechanisms for MWBEs, but for non-MWBEs it falls at the bottom (eighth out of nine places). These disparities may indicate the continuing differences in perception regarding qualifications for bank financing. As discussed previously, studies have shown that women or minority business owners more heavily rely on personal savings for fear they may be turned down for a loan.¹

We next asked business owners about credit shopping behaviors over the past 12 months. The top response was paying down debt, selected by 44 percent of respondents, followed closely by “did not apply for credit because of sufficient financing” with 39 percent. These are indicators of a positive and healthy credit environment for Texas small businesses.

Breaking down this question by MWBE status highlights a few differences. Chart 6 shows that although levels for paying down debt and applying for new credit are relatively similar for both firm types, a sizable gap lies within the “did not apply” options. About a third of MWBEs report not having applied for credit due to sufficient financing, compared with 43 percent of non-MWBEs. Most notably, twice the percentage of minority firms did not apply for credit due to concerns of not being approved, compared with nonminority-owned firms (19.1 versus 9.6 percent).

As an important follow-up question for those who have not been able to get all necessary credit, we asked why. Topping the list for those who selected a reason was “business is too young,” with 27 percent. This is followed closely by insufficient collateral (24 percent) and low credit score (23 percent). MWBEs and non-MWBEs do not vary widely within this measure; the main differences are that a greater share of MWBEs selected “business is too young” (16 versus 13 percent) and “insufficient collateral” (15 versus 11 percent).

Local SBDCs across Texas may be able to provide help in the areas mentioned specifically by MWBEs. The centers work with all businesses to help connect them with appropriate markets and lenders. According to Al Salgado, South-West Texas Border SBDC

What's clear is that for many small businesses, employees' lack of formal training is often secondary to a lack of more basic skills of professionalism and reliability.

director, SBDCs “maintain a working relationship with local and community banks and regional and national banks as well as community development financial institutions (CDFIs) and a host of nonbank lenders who have a mission of providing financing in small business markets including underserved markets.”

Regarding the age of the firm, businesses that have opened within the past year are much more likely to point to the young age of their firm as the No. 1 barrier to credit. In fact, new openings are two and a half times more likely to cite their business' age than are young firms (those operating for at least a year but less than 10) and are almost 16 times as likely to cite this reason than are mature firms (those operating 10 or more years). The contrast is even starker in this polling period relative to last year. Mature firms selected level of outstanding debt and uneven cash flow as their top two barriers (*Table 4*).

Breaking down answers by firm demographic highlights the unique challenges minority or young firms face versus nonminority or mature firms. Again, small business development centers exist in part to help combat some of these perceived barriers. According to Craig Bean, director of Northwest Texas SBDC, “advisers are particularly strong working with young and start-up businesses and growing firms, helping them with budgeting, cash flow and financing strategy. Some ways in which SBDCs help clients are through analyzing cash needs, traditional and alternate sources and cost of capital, potential collateral, credit scores and credit history, ability to repay and lender requirements. Advisers help clients develop a viable business/strategic plan, financing approach and, if appropriate, a financing package or application, along with coaching for meetings with potential lenders or investors.”

TABLE 4
Top Three Barriers to Credit by Firm Age

	New openings (operating <1 year)	Young firms (operating 1–10 years)	Mature firms (operating >10 years)
1	Business is too young (39%)	Business is too young (16%)	Level of outstanding debt (15%)
2	Insufficient collateral (18%)	Banks are not lending to my type of business (14%)	Uneven cash flow (14%)
3	Low credit score (8%)	Low credit score (14%)	Banks are not lending to my type of business (13%)
N	120	397	279

NOTE: Does not include firms that reported “N/A”.

Employee Skills and Needs

While unemployment continued to fall in Texas and the nation during the survey period,² conversation and debate about the job-skills mismatch endures.³ To assess this issue from the perspective of small business owners, we asked respondents about employee needs. Chart 7 shows the rankings for the question: “What are the top three employee skills your business needs?”

As we found in last year’s poll, interpersonal skills are the No. 1 sought-after skill by small business employers. This is again followed by sales/marketing and punctuality/reliability. Two of the top three are considered the “soft skills” that employers reported seeking in 2013 as well. A majority of respondents selected “interpersonal skills” as their top concern.

The “other” category crept up a spot from last year, selected by over 18 percent of respondents. Some of the open-ended responses collected here pertain to industry-specific needs such as “accounting experience” or “physical therapy licensure.” However, of the

CHART 7
Soft Skills Top Employer Needs Again

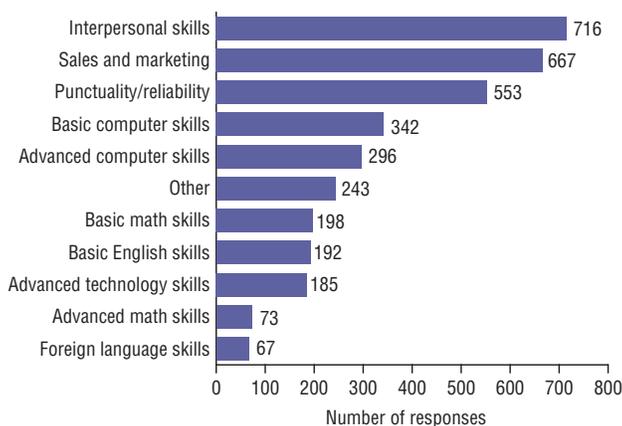
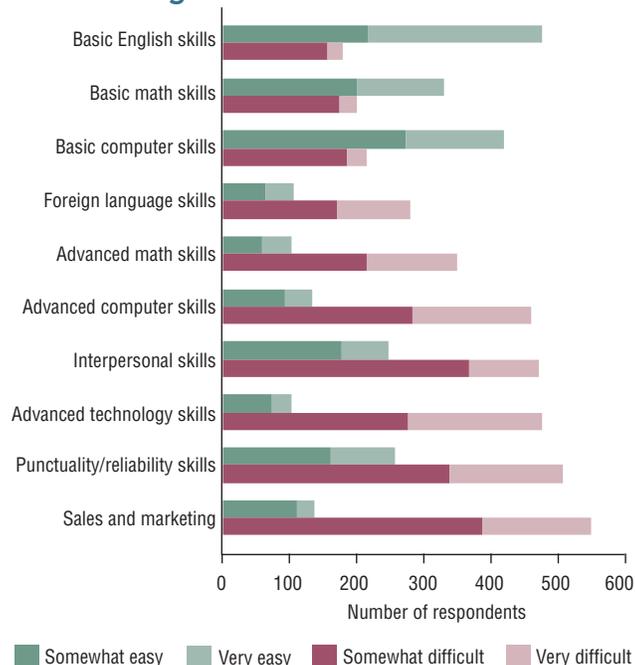


CHART 8

How Difficult Has it Been to Find Workers with the Following Skills?



90 total comments received through this question, 30 of them pointed to some type of soft skill, including “basic work ethic,” “common sense” and “desire to learn and improve.” This is in addition to the 716 people who selected “interpersonal skills” as a top business need. There is little difference between MWBEs and non-MWBEs on this measure. What’s clear is that for many small businesses, the lack of formal training is often secondary to a lack of more basic skills of professionalism and reliability.

Pairing these needs with the relative difficulty in finding qualified workers, we asked: “How difficult has it been for you to find workers with the following skills?” The answer choices ranged from “very difficult” to “very easy,” with a certain percentage replying “N/A” to each option. Chart 8 represents the responses to this question.

Firm owners report that basic English skills have given them the least amount of trouble—they have the highest rates of ease and lowest rates of difficulty. In fact, there are only three measures for which small business owners indicated more ease than difficulty in finding employees: basic English, basic math and basic computer skills. For the other skills, the “difficult” scales outweigh the “easy” scales. Sales and marketing is reported to be the hardest

to find, with almost 550 respondents indicating some degree of difficulty. This is closely followed by punctuality/reliability, a soft skill.

Punctuality/reliability and interpersonal skills have both moved up in difficulty from last year’s survey. Basic computer skills also jumped a few spots, although this indicator is, on average, still among the “easier” skills to find. Considering Charts 7 and 8 in tandem, sales and marketing skills, followed by punctuality/reliability, are areas representing the skills gap—those key abilities that business owners deem most needed yet hardest to find. Indeed, in the open-ended responses that follow, respondents continued to expound upon these skill concerns.

Additional Insights From Poll Respondents

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?*

Broken down by category, issues about employees were most frequently cited. These responses ranged from concerns about keeping up with wages to specific skills needed (for example, welding, bilingualism, technical knowledge) to worries about willingness to work and soft skills. The comments in this section have been edited for publication. Regarding soft skills, two firm owners explain:

- There is no good labor pool in the area. We hire some of the brightest and best the high school has (honor students, valedictorians, etc.), but they can’t count change, can’t remember their job, and are totally unmotivated even though we train them and have everything written down for reference. It’s amazing; common sense is not common.
- I am not seeking rocket scientists, just people who want to work. My business is simple. I can teach them the skills needed in creating the product we deliver. The job force available seems to think they only need to show up, not actually do anything. Manners would be nice to see. I would love to teach some young employees the skills, but I ask that they come with social skills and a desire to become a good employee. Good old-fashioned work ethics are hard to find.

According to SBDC Director for North Texas Mark Langford, “hiring the right employees starts with a clear understanding of the job, job responsibilities, critical job skills and business culture.” These are areas in which SBDCs provide assistance to help combat some of the talent concerns: “SBDCs can help clients access research on job descriptions, hiring processes and HR protocols. Many SBDCs offer training designed to help employers hire the most-qualified staff or identify successful marketing and sales techniques,” he adds.

Also on respondents' minds are, once again, government regulations. Some expressed frustration with federal regulation, while others pointed to local problems, such as lack of infrastructure or poor quality roads surrounding their storefronts. One commenter explains the counterintuitive and sometimes ineffective nature of too many regulations:

- Governmental overreach involves ridiculous restrictions and requirements. My industry is mandated by the state down to a level of where our name badge must be placed on required uniform shirts, yet then they mandate that we wear a vest that covers the required name badge. Also, the state will impose fines and then, almost always, retrospectively say they should not have been assessed.

Still others point to financing barriers and the overall economic climate.

- As a business owner, I've found it difficult to get any type of financing if you have had credit issues not related to business. I have a profitable consulting business, where I have a 50–60 percent profit margin, and I have to use a factoring company to help with cash flow. There needs to be some kind of second-chance banking service.
- My business is based on people's disposable income. When that tightens (gas prices increase or job layoffs occur), my business decreases, but my taxes and my insurance keep increasing.
- Our business downsized in 2009–10 due to national, state and local economic conditions. The Texas economy and opportunities have been rapidly increasing, and we operate at the limits of our downsized capacity. The question: Do we upsize to meet and increase our capacities, with faith that the current robust economic conditions will be sustained?

Finally, one respondent's comments echo concerns of not only many small business owners, but middle-class families across the country:

- It's hard being a small business. You aren't making the millions like big business, just making enough to pay the bills and employees and get by. You don't always have access

to the funds it takes to advertise and market your business to bring in more business. Big or small, it doesn't matter; there are still taxes to pay. You sometimes make too much to be "poor" but not enough to be "rich."

Resources are available at local centers to help small business owners navigate these issues. They include market research resources at no cost to the client that can help pinpoint their competitors, customers and suppliers in preparation for starting or expanding a business. "SBDCs also help small business clients become proactive rather than reactive by providing relevant and current industry data to better prepare them to understand the industry they operate within and the requirements of relevant regulatory agencies," explains Mike Young, Texas Gulf Coast SBDC.

With assistance from economic and small business development centers, local governmental programs, and others in the field, small business owners in Texas hope to overcome the problems with regulations and employees in order to grow and expand. They remain optimistic about business opportunities through 2015, despite the many challenges they may face.

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

Notes

¹ "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/.

² "Texas Adds 35,200 Jobs in October, Unemployment Rate Falls to 5.1 Percent," by Sheryl Jean, *Biz Beat* (blog), *Dallas Morning News*, Nov. 24, 2014, <http://bizbeatblog.dallasnews.com/2014/11/texas-adds-35200-jobs-in-october-unemployment-rate-falls-to-5-1-percent.html/>; Texas Employment Update, Federal Reserve Bank of Dallas, Dec. 19, 2014, www.dallasfed.org/research/employment/2014/1412.cfm.

³ See "Missing Workers" and the Labor Force: Research on Unemployment and Getting Back to Work," by John Wihbey, Journalist's Resource, Jan. 9, 2015, <http://journalistsresource.org/studies/economics/workers/missing-workers-labor-force-participation-unemployment-research-review#>; "Getting Credit for What You Know," by Tamar Jacoby, *The Atlantic*, Jan. 29, 2015, www.theatlantic.com/education/archive/2015/01/getting-credit-for-what-you-know/384919/; and "Lack of Skilled Workers Threatens Economic Growth," by Chauncy Lennon, *U.S. News and World Report*, Oct. 30, 2014, www.usnews.com/news/stem-solutions/articles/2014/10/30/lack-of-skilled-workers-threatens-economic-growth-in-stem-fields.