

## Letter from Sharon Miller



We are pleased to share the fall 2016 Bank of America Small Business Owner Report, a semi-annual study that uncovers the aspirations, perspectives and pain points of small business owners across the country.

This fall, small business owners' optimism that local, national and global economies will improve remains on par with the cautious outlook recorded in spring 2016. Small business owners are moderately optimistic about revenue growth in the year ahead, with plans to hire remaining relatively flat. Health care costs top small business owners' list of concerns, followed by the effectiveness of the U.S. government and consumer spending.

One exception to the dampened outlook is the newer subset of small business owners – those whose businesses are less than five years old, who are more optimistic about the economy and their business growth.

For this report, we also looked closely at the roles that family, friends and communities play in supporting small business owners. The vast majority of entrepreneurs depend on their family for emotional, operational and/or financial assistance, and more than one-third have at some point received financial support from family and/or friends to fund their business. Nearly two-thirds report that residents in their neighborhood actively support local businesses, while nearly half say the local community plays an important role in the success of their own individual enterprise.

Whether pursuing funding to grow their business or improve cash flow, small business owners turn to a number of sources. Upon starting out, a vast majority of entrepreneurs say they tended to use personal savings, followed by personal credit cards, bank loans and financial support from family and/or friends. Once owners' businesses are established, they rely most heavily on bank loans and personal credit cards.

Despite concerns over consumer spending, the holiday season represents a growth opportunity. Two-thirds of small business owners anticipate meeting year-end revenue goals, and two in five retail business owners expect their holiday sales to exceed last year's.

Going into the holiday shopping season, not all small business owners have implemented EMV chip technology, which adds a layer of security and consumer protection for payments. One-third of those who say they need it have chosen not to implement it. Furthermore, only one-third of those who have implemented EMV technology say they feel more secure.

Whether you've been in business for 30 years or are just starting out, Bank of America is committed to helping provide you with the expertise to sustain and grow your small business.

**Sharon Miller**, Managing Director, Head of Small Business, Bank of America

## Contents

**2**  
Economic confidence remains flat

**3**  
Growth and revenue steady, hiring delayed

**4**  
Heavy reliance on family, friends and community

**6**  
New small business owner perspectives

**7**  
Loan applications level off

**8**  
Lifecycle of small business financing

**9**  
End-of-year, holiday outlook

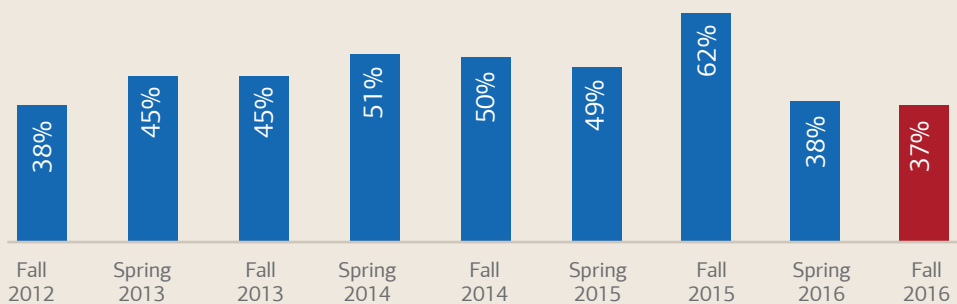
**10**  
EMV ambivalence, local market snapshot

**11**  
Client profile

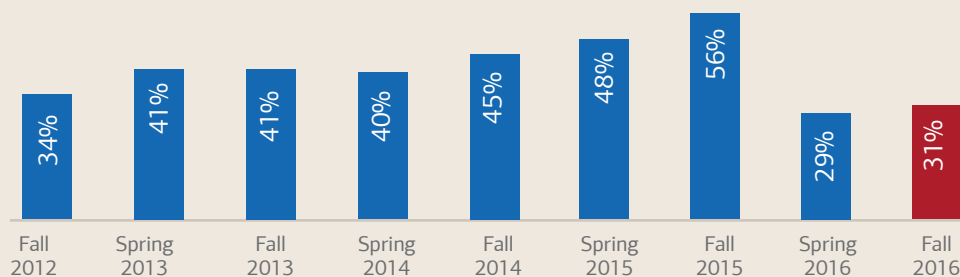
## Economic confidence remains flat

In fall 2016, small business owners' confidence that the national economy will improve remains on par with the lukewarm sentiment recorded in spring 2016 (31 percent in fall vs. 29 percent in spring). Confidence that local economies will improve also remained flat, with 37 percent reporting optimism this fall, compared with 38 percent in the spring.

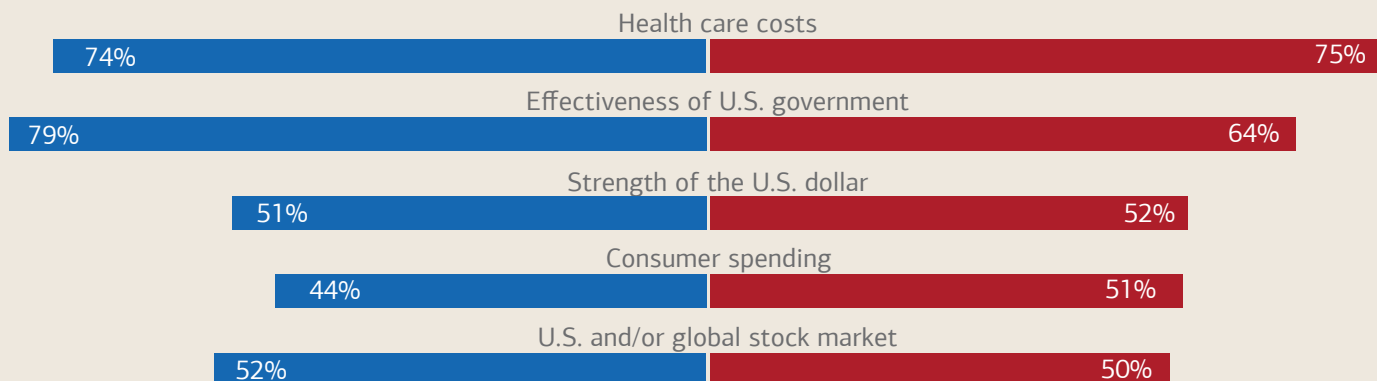
**My local economy will improve over the next 12 months**



**The national economy will improve over the next 12 months**



**Small business top economic concerns**



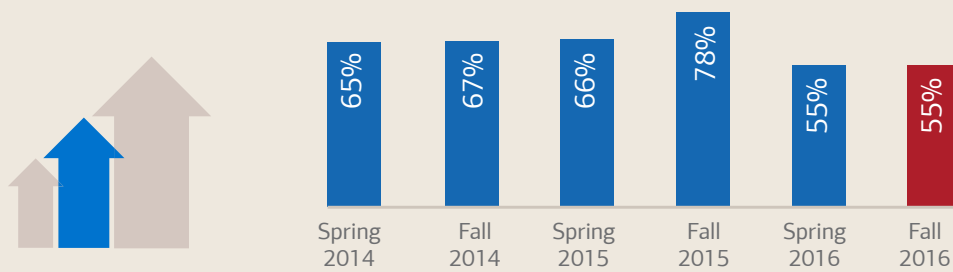
■ Spring 2016 ■ Fall 2016

## Growth and revenue steady, hiring delayed

When asked about business growth plans over the next five years and revenue expectations for the year ahead, small business owners' responses were similar to those in spring 2016, but lower compared with prior years.

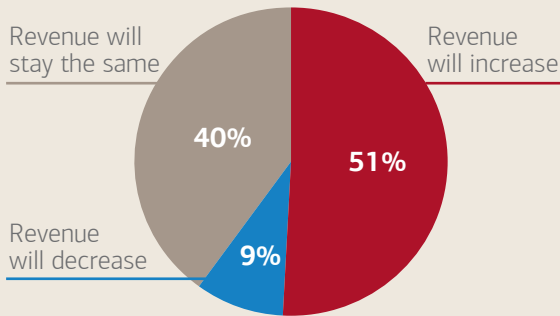
Plans to hire are up slightly, from 22 percent in spring 2016 to 25 percent in the fall, although still among the lowest levels since the inception of the survey in spring 2012.

### Plans to grow over the next five years hold steady

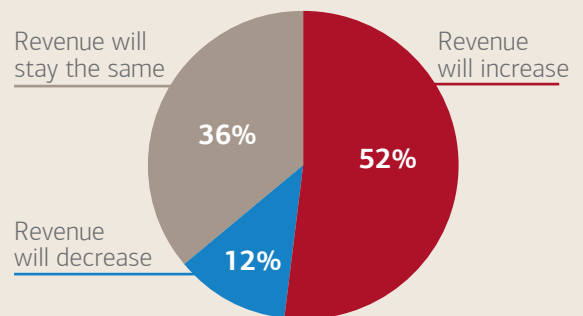


### Revenue expectations for the year ahead remain flat

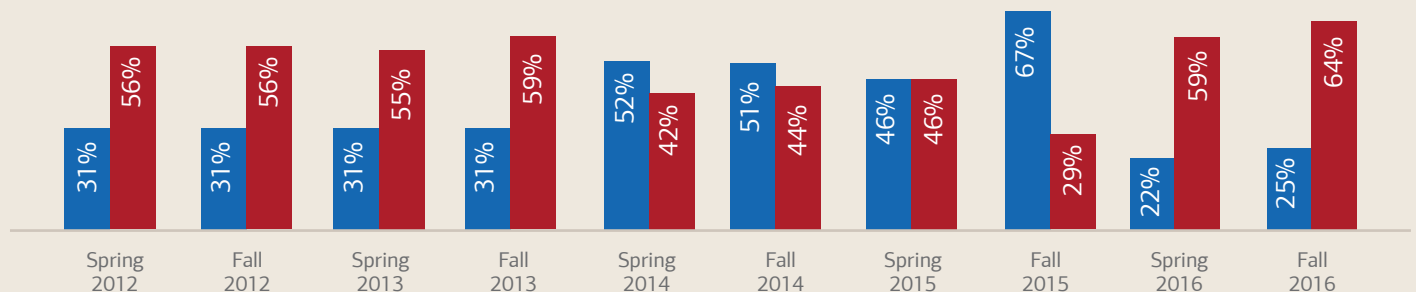
#### Spring 2016



#### Fall 2016



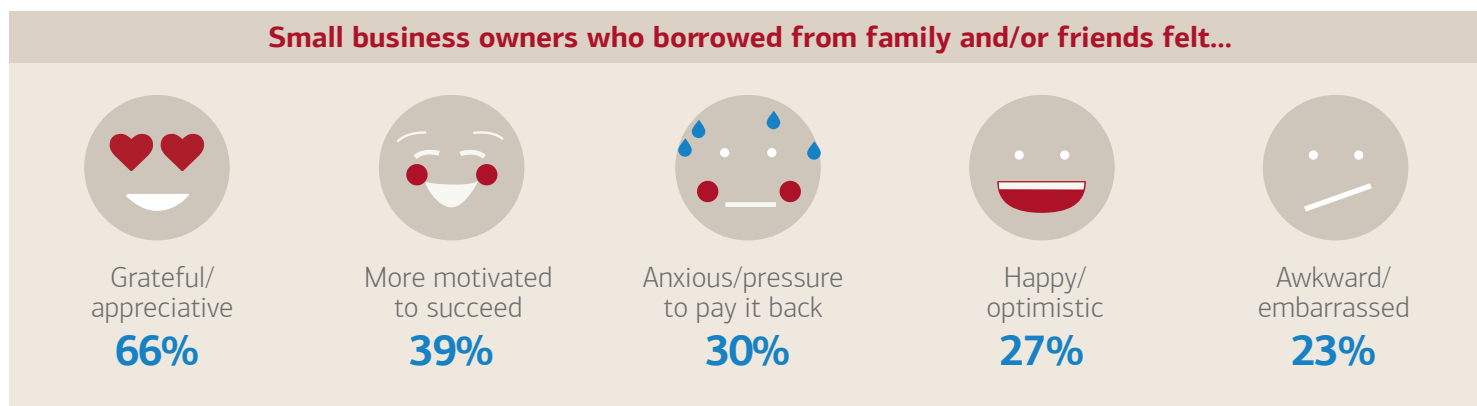
### Most plan to hold off on hiring over the next 12 months



■ Keep employee count the same ■ Hire more employees

## Heavy reliance on family, friends and community

Small business owners are getting by with a little help from their friends, family and community. Thirty-eight percent of entrepreneurs report having received a financial gift or loan from family and/or friends at some point to fund their business. However, their emotions about this help are mixed.

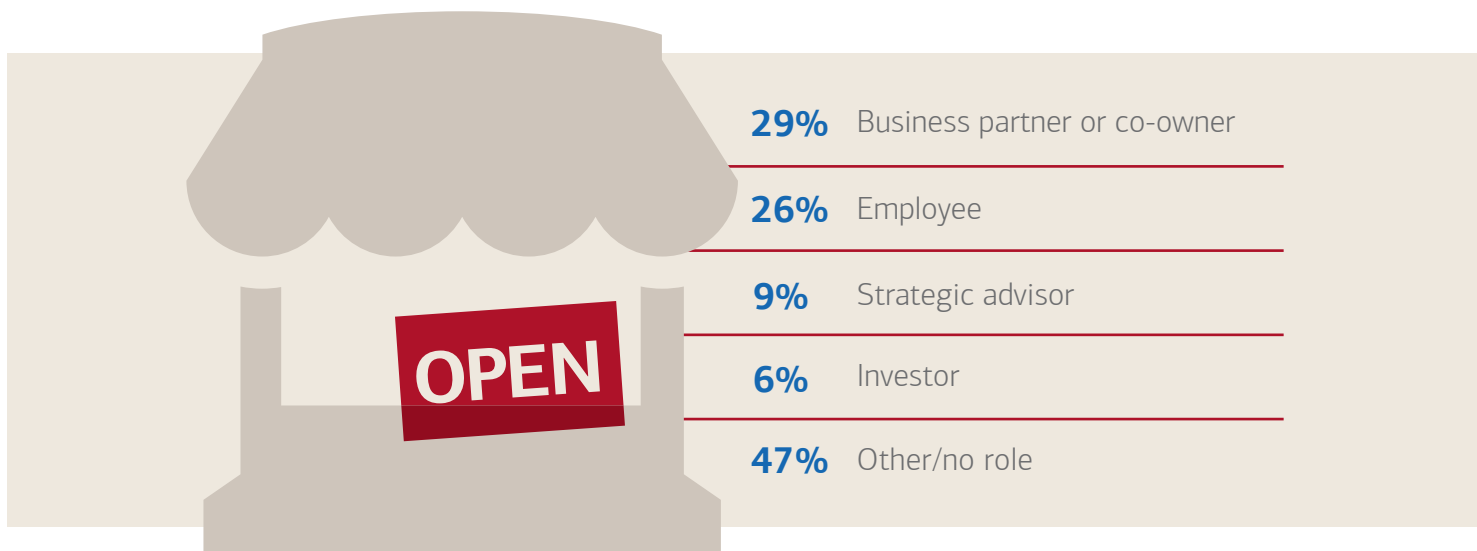


A strong majority (83 percent) of small business owners report they receive some form of emotional, operational and/or financial assistance from their family.



## Heavy reliance on family, friends and community (cont.)

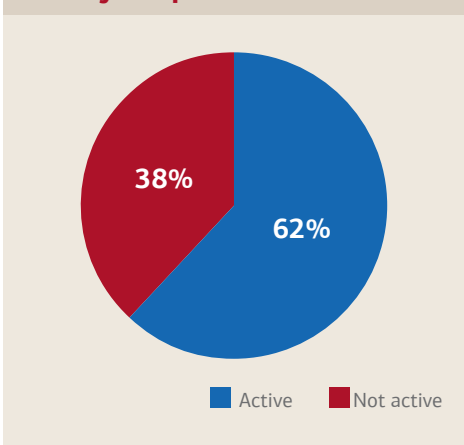
A majority (53 percent) of entrepreneurs currently rely on their family to serve at least one important role in their business.



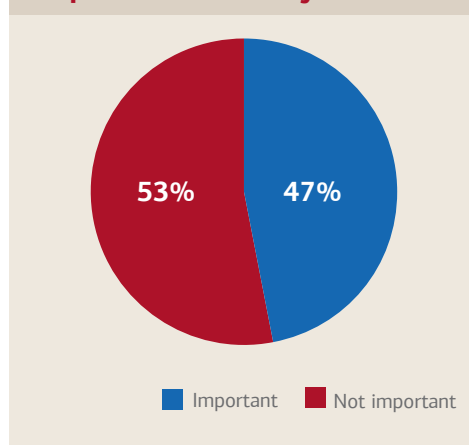
Nearly two-thirds of small business owners report that residents in their community actively support small businesses, with nearly half saying their local community plays an important role in the success of their individual enterprise. To show their gratitude, two-thirds of entrepreneurs invest back in their communities by supporting local charitable and/or non-profit organizations.

### Small business owners and local communities rely on each other

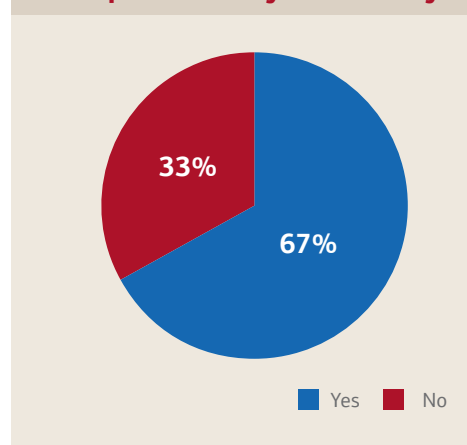
Residents in my community actively shop at small businesses



My community plays an important role in my business



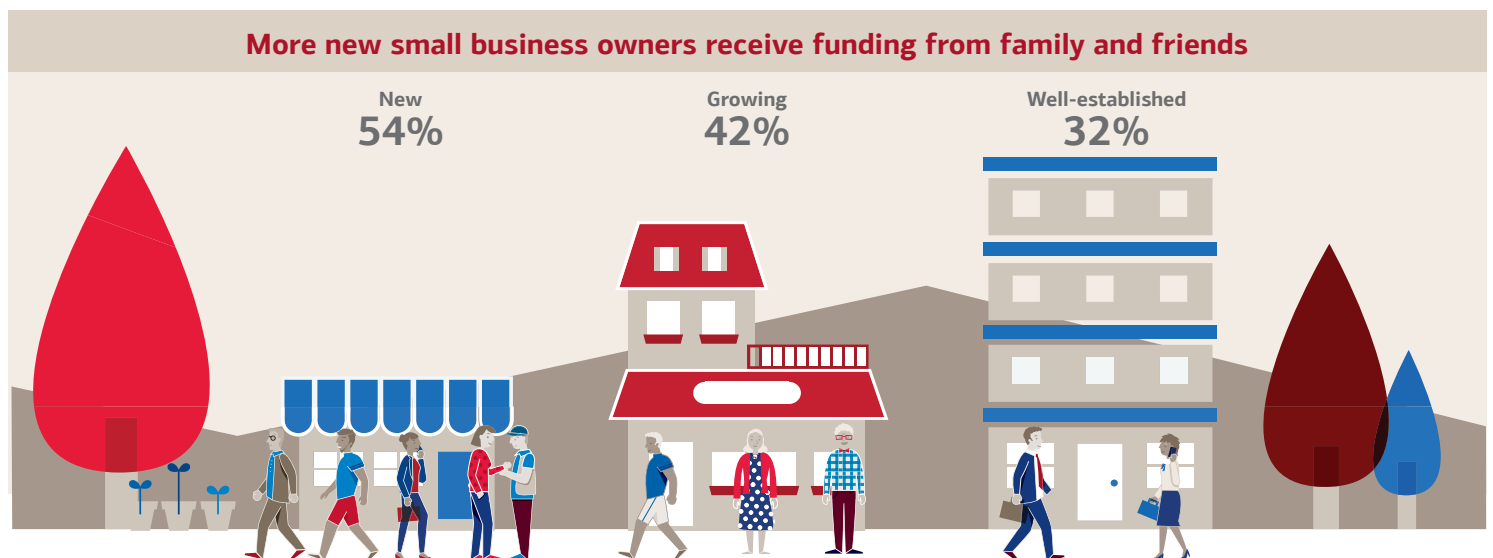
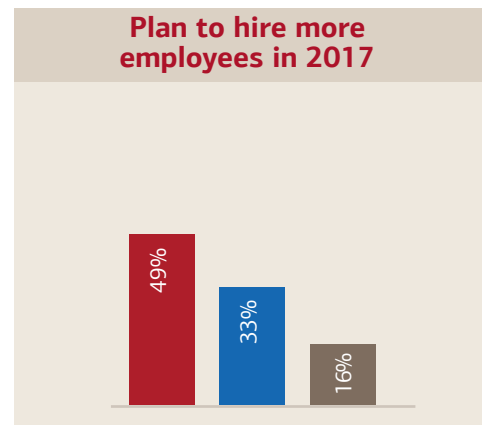
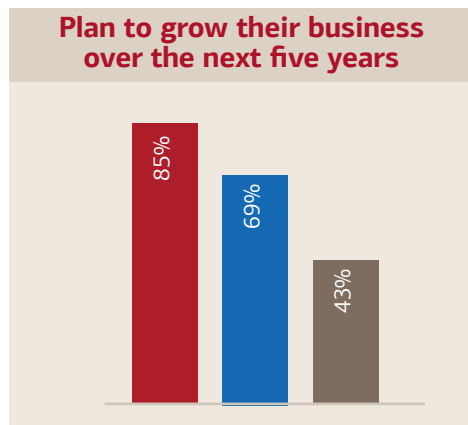
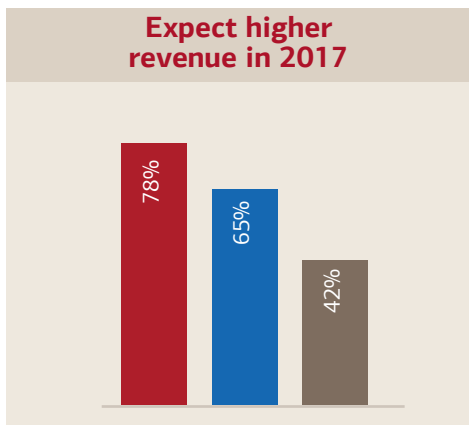
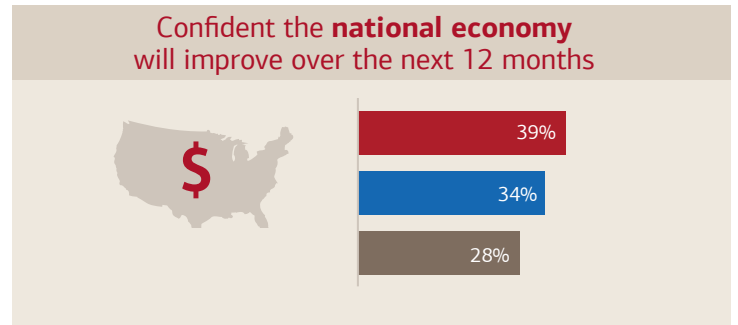
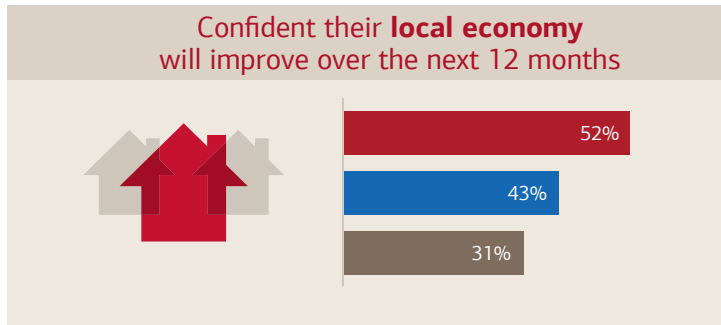
I support charitable or non-profits in my community



## New small business owner perspectives

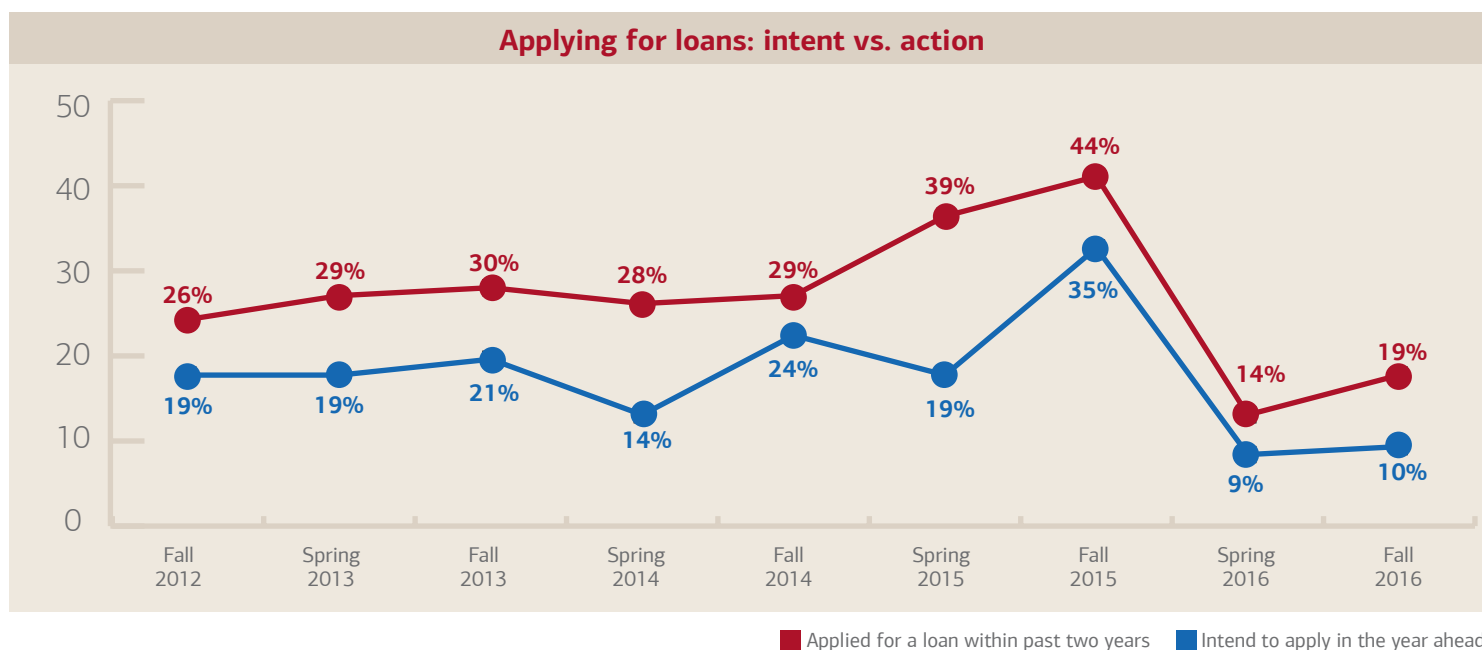
Owners of new (0-5 years) small businesses are more optimistic about the economy, growth, revenue and hiring plans than owners of growing (6-10 years) and well-established (11+ years) businesses, and are more likely to receive financial support from family and friends.

- New small business owners (0-5 years)
- Growing small business owners (6-10 years)
- Well-established small business owners (11+ years)



## Loan applications level off

Loan applications rose modestly between spring and fall 2016, from 14 percent to 19 percent of small business owners indicating that they have applied for a loan within the past two years. Approval rates remained steady, with 84 percent reporting loan approval in fall 2016 compared with 89 percent in the spring. Intent to apply for a loan also remained steady between spring (9 percent) and fall (10 percent). While stable, these numbers are the lowest since the question was first posed in fall 2012.



Those who intend to apply for a loan in 2017 primarily plan to invest in new equipment, expand operations and create a new product or service for their business.



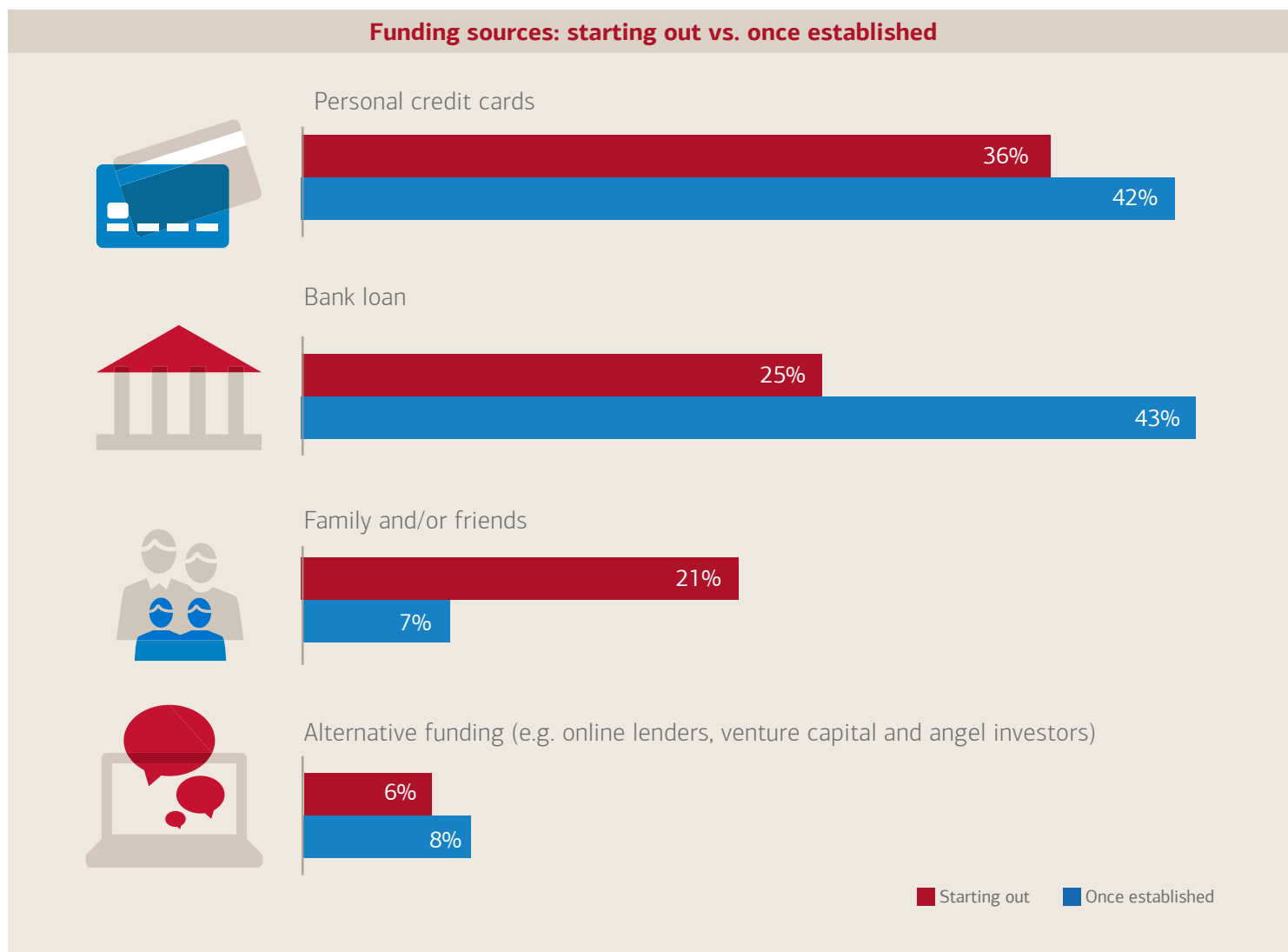
## Lifecycle of small business financing

When starting their business, the vast majority of entrepreneurs used personal savings (76 percent), followed by personal credit cards (36 percent), bank loans (25 percent) and financial support from family and/or friends (21 percent).



**76%** used personal savings when starting their business

Once a business is established, bank loans and personal credit cards become the top sources of capital. To a much smaller degree, entrepreneurs also report using new, alternative sources, such as online lenders, venture capital and angel investors.





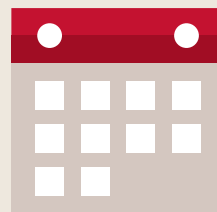
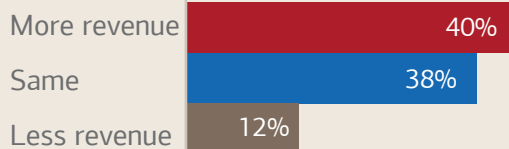


## End-of-year, holiday outlook

Despite their cautious economic outlook for the year ahead, more than two-thirds (68 percent) of all small business owners expect to meet their year-end revenue goals.

### Holiday season revenue expectations compared to 2015

In the retail sector specifically, more small business owners are expecting to beat last year's holiday season revenue.



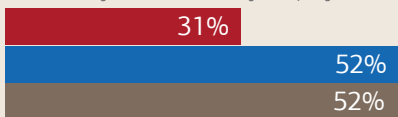
Surprisingly, **two-thirds** of retail small business owners report Black Friday (**68 percent**) and Cyber Monday (**67 percent**) are not important to their bottom line.

While the majority (72 percent) of small business owners plan to reward employees around the holidays, they appear to be tightening their belts on offering perks compared to previous years (vs. 92 percent in fall 2015 and 89 percent in fall 2014).

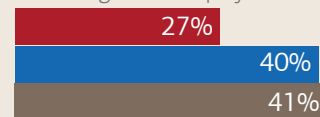
### Holiday perks down from previous years



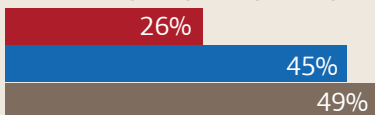
Give salary bonuses to my employees



Give out gifts to employees



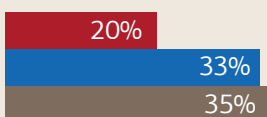
Hold a holiday party for my employees



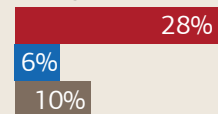
Close the office during the holidays



Offer flexible hours or vacation time



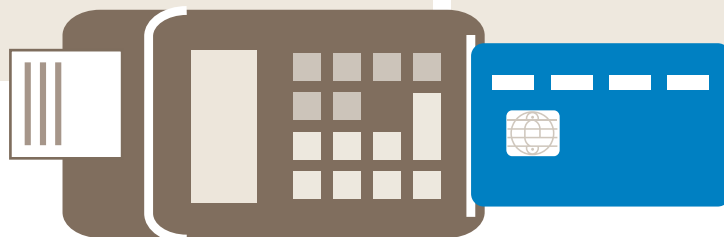
I do not intend to offer any holiday-related perks



■ Fall 2016 ■ Fall 2015 ■ Fall 2014

## EMV ambivalence

October 2015 marked the deadline for businesses to implement EMV technology into payment systems. The technology adds a layer of security and consumer protection to the payment process. A year later, many small business owners report they missed the deadline.



## Snapshot of small businesses across the U.S.: local market superlatives



## Client profile

Richard Pyles, President and Chief Creative Officer of Made in Mars Inc., knew that succeeding in the skate, surf and lifestyle industry would take a unique strategy. He understood the company would need a steady focus on building relationships, leveraging networks of family, friends and social communities, and listening to customers to stand out.

Founded in 2010 in City of Industry, California, Made in Mars broke into the action sports scene wanting to create a quality product that was affordable for their target customer — the recreational skater who understands and appreciates craftsmanship, but doesn't want to spend a fortune. They also wanted to shake up the industry by offering enthusiasts more than just a sporting product, but a means to build a lifestyle around their interests. According to Pyles, they've done just that. Whether someone identifies as a surfer, a writer or a musician, Made in Mars wants to fit in as an adjunct to their lifestyle.

"We always strive to integrate into our customers' experience and be a small part of their life story and adventure," Pyles said. "Everyone wants to be catered to and have an ongoing and interactive experience. That's what we deliver."

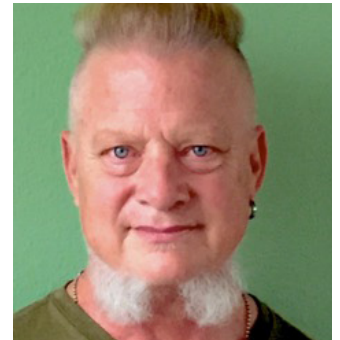
Still located in City of Industry, but now reaching customers across the country, much of Made in Mars' success is owed to a practice of listening and responding to its avid customer base, many of whom the company has cultivated into a community of social media ambassadors. Pyles and his associates work closely with these ambassadors to consult on prototypes and to promote products and the brand on social media — both of which help Made in Mars lower advertising and overhead costs to keep its boards affordable.

"Working with our social media ambassadors is a wonderful way to develop product relatively inexpensively, and it gives us insight into what customers are doing with their boards," Pyles said. "Our ambassadors have essentially co-created this company with their excellent observations and suggestions."

In addition to its active social community, Made in Mars frequently turns to family and friends, which Pyles calls the company's "board of advisors," for feedback and inspiration. For example, after Pyles noted his daughter and her friends' growing interest in music festivals, he began engineering camping and other outdoor gear designed specifically for young concertgoers. As a result, Made in Mars has discovered a new market segment with an opportunity to expand — and it started with a tip from home.

"Many of our employees have teenage children who give us a lot of input," Pyles said. "My daughter, for instance, helps me a lot with art and graphics. They have such a grasp and broad knowledge base because of technology—it's unbelievable what they come up with!"

When your business is the crowded, competitive world of Southern California action sports, bringing your family, friends and community along for the ride can make all the difference.



## Bank of America: Commitment to Small Business

Bank of America has a nationwide network of banking centers and professionals that are committed to its more than three million small business clients and their local communities. The personal connection of small business bankers, client managers and practice solutions specialists contribute to the success of small businesses and their communities by making expertise more accessible. The resources of Bank of America help Small Business owners succeed by offering convenient interactions and comprehensive banking, credit and cash management solutions.

In the first six months of 2016, Bank of America originated more than \$5.9 billion in new small business lending, for a 16% increase over last year.

GfK Public Affairs and Corporate Communications conducted the Bank of America Small Business Owner Report survey for fall of 2016 online between August 7 and October 4, 2016 using pre-recruited online sample of small business owners. GfK contacted a national sample of 1,000 small business owners in the United States with annual revenue between \$100,000 and \$4,999,999 and employing between 2 and 99 employees. In addition, small business owners were surveyed in 10 target markets: Atlanta, Boston, Chicago, Dallas/Fort Worth, Houston, Los Angeles, Miami, New York, San Francisco and Washington, D.C. A total of 300 small business owners were surveyed in Atlanta, Boston, Chicago, Dallas/Fort Worth, Los Angeles, Miami, New York, San Francisco and Washington, D.C., and 100 small business owners were surveyed in Houston. The final results were weighted to national benchmark standards for size, revenue and region.