

THE STATE OF SMALL BUSINESS IN GREATER WASHINGTON

Key findings from our 2020 survey
of area business leaders

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Sandy Spring Bank



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2020 has been a difficult year for the nation's economy, including the Greater Washington area. But many small business owners said the region is more resilient to the economic turmoil than the nation as a whole. Small business owners are adjusting and responding to the unprecedented challenges this year, but they are concerned that small businesses are likely to be worse off in six months.

That's according to The State of Small Business survey that the Washington Business Journal conducted in partnership with Sandy Spring Bank to gauge small business leaders' feelings about the state of the economy and the impact of Covid-19. The 2020 survey is a companion to research conducted in 2019. This year's survey group was 345 leaders of businesses under \$25 million in revenue in Greater Washington. The survey group included subscribers of the Washington Business Journal and the Baltimore Business Journal.

Here are the highlights of the survey.



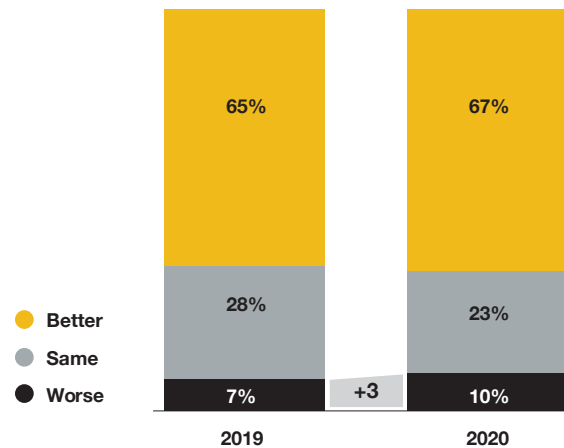
THE ECONOMY HAS BEEN HIT HARD NATIONALLY, BUT MUCH LESS IN D.C.



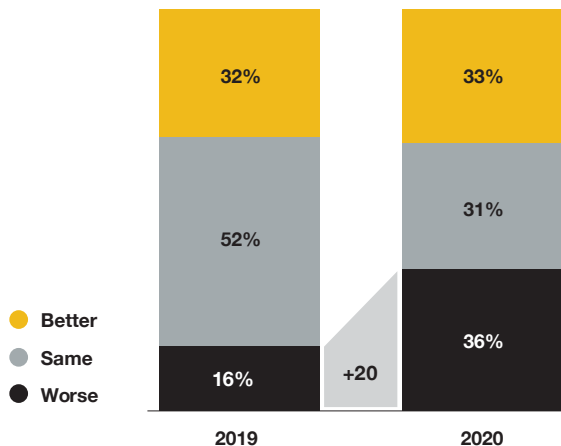
A year ago, almost half of small business owners described the U.S. economy as “good,” and just 16% said it was “bad.” But now the impact of Covid-19 has shrunk the positive outlook to just 4% and the pessimistic view surged to 88%. There also was a jump — from 26% to 36% — in those who think the national economy will be worse off looking six months out.

When asked about how the Greater Washington region compares with other parts of the country, the majority in both the 2019 and 2020 surveys said the region is doing better. Only 10% of respondents said that in 2020 the area is worse off.

Assessment of Employment Conditions in the Greater Washington Area



Assessment of Small Businesses in Greater Washington Area Six Months From Now

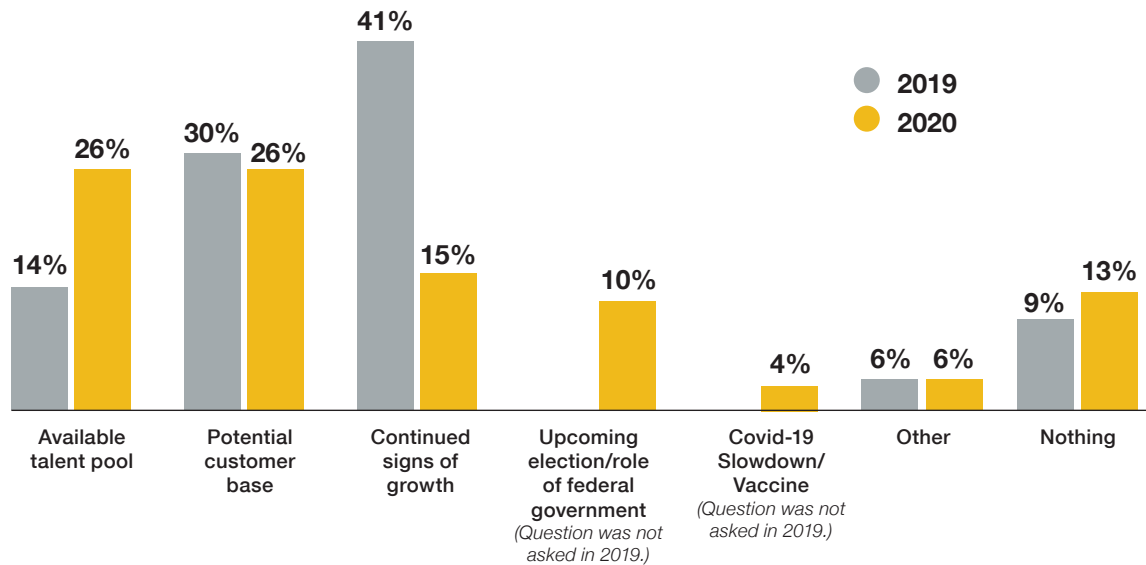


The concern about the economy was reflected in respondents’ feelings about how their businesses will compare with others in the U.S. in six months. In 2019, just 16% thought they’d be worse off, compared with 36% in 2020.



There was a big jump – from 8% to 21% – in those surveyed who think there will be fewer jobs in the region in six months. When asked about reasons to be optimistic about the future, the most significant improvement year-over-year – from 14% to 26% – is the available talent pool. Just 15% are bullish about their growth prospects, down from 41% a year ago. And only 4% are hopeful about a Covid-19 slowdown or vaccine benefitting the economy.

Reasons to be Optimistic About the Future Economy in the Greater Washington Area

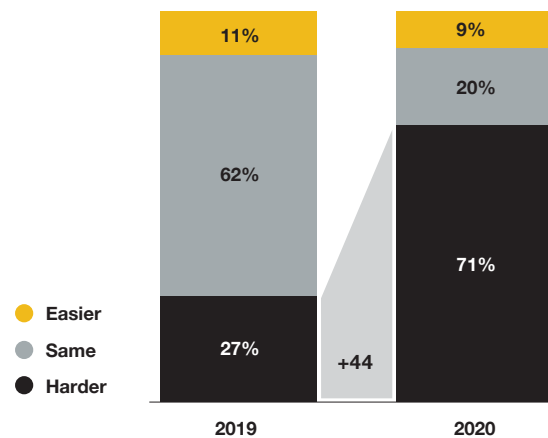


COVID-19 HAS IMPACTED BUSINESS GROWTH



Level of Difficulty Growing Business Vs. 6 Months Ago

(Base=Financial Decision Makers)

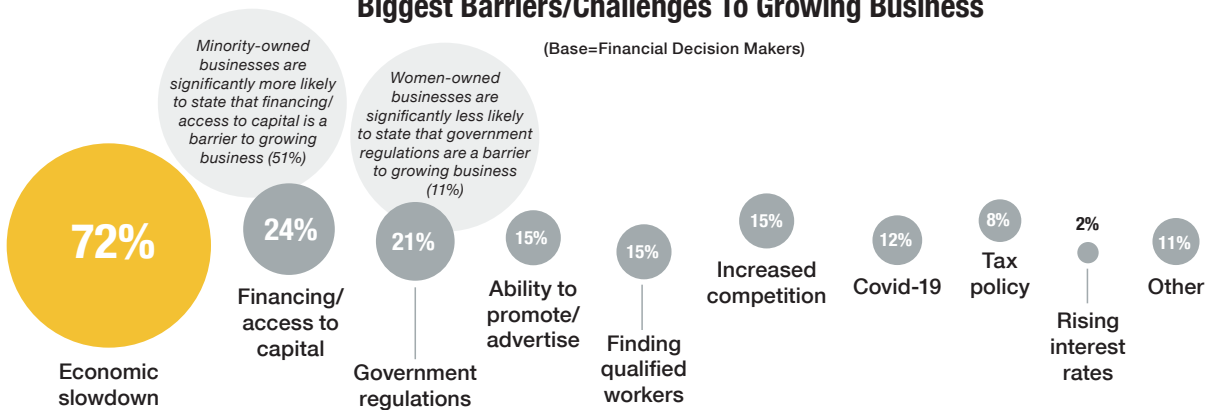


The pandemic has presented several challenges to businesses that have hindered their growth plans, including the ability to access capital and declining consumer confidence. In the 2019 survey, 27% of small business leaders said the level of difficulty in growing a business was harder than it was six months ago. That number soared to 71% in 2020.

The biggest barriers to growth, leaders said, are the economic slowdown, access to capital and government regulations. Minority-owned businesses were more likely to list access to capital as a barrier. Women-owned businesses ranked government regulations lower than others in the survey as a growth roadblock.

Biggest Barriers/Challenges To Growing Business

(Base=Financial Decision Makers)



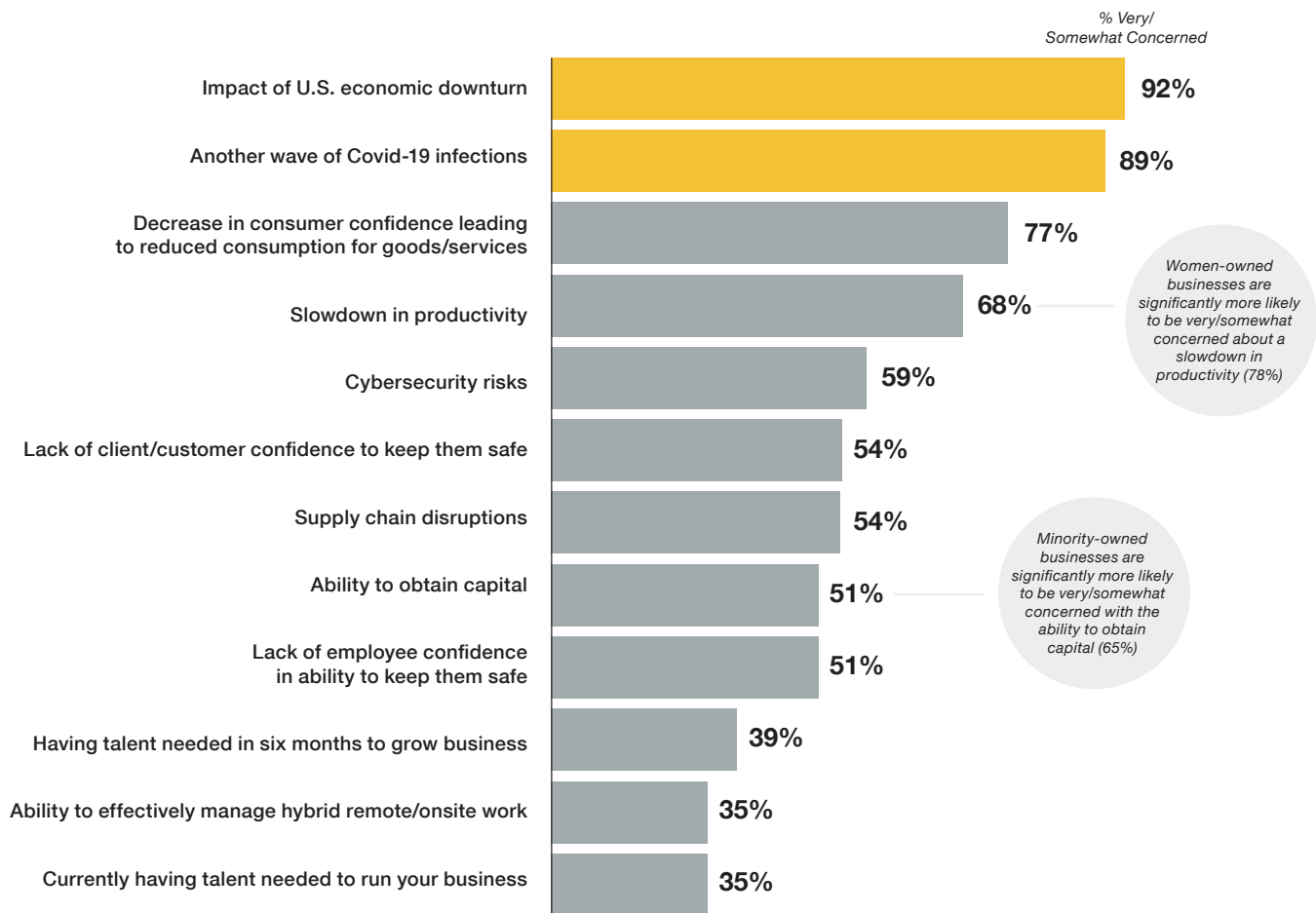
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The top areas of concern for small business leaders are the impact of the economic downturn, another wave of Covid-19, and consumer confidence impacting the consumption of goods and services. Among business owners, women are more likely to be concerned about a slowdown in productivity than business owners overall. And minority-owned business owners reported a higher degree of concern about the ability to obtain capital than the group as a whole.

Degree of Concern About the Impact of the U.S. Economic Downturn and Another Wave of Covid-19 Infections



BUSINESS MODELS HAVE CHANGED

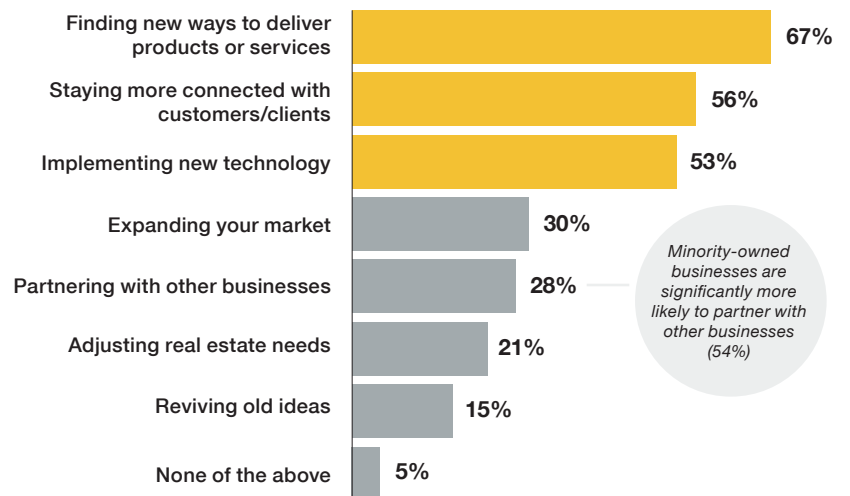


Business owners have moved into survival mode and are changing things up to stay afloat. That includes finding new ways to deliver products and services and boosting connections with their customers. Eighty-one percent of respondents, in fact, said they've made a change to their business model or strategy because of the pandemic.

The most prevalent changes involve products or services, connections with customers and implementing new technology. Minority-owned businesses are significantly more likely to partner with other businesses than the group as a whole.

Changes Made to Business Model/Strategy

(Base=Those Who Made Changes)

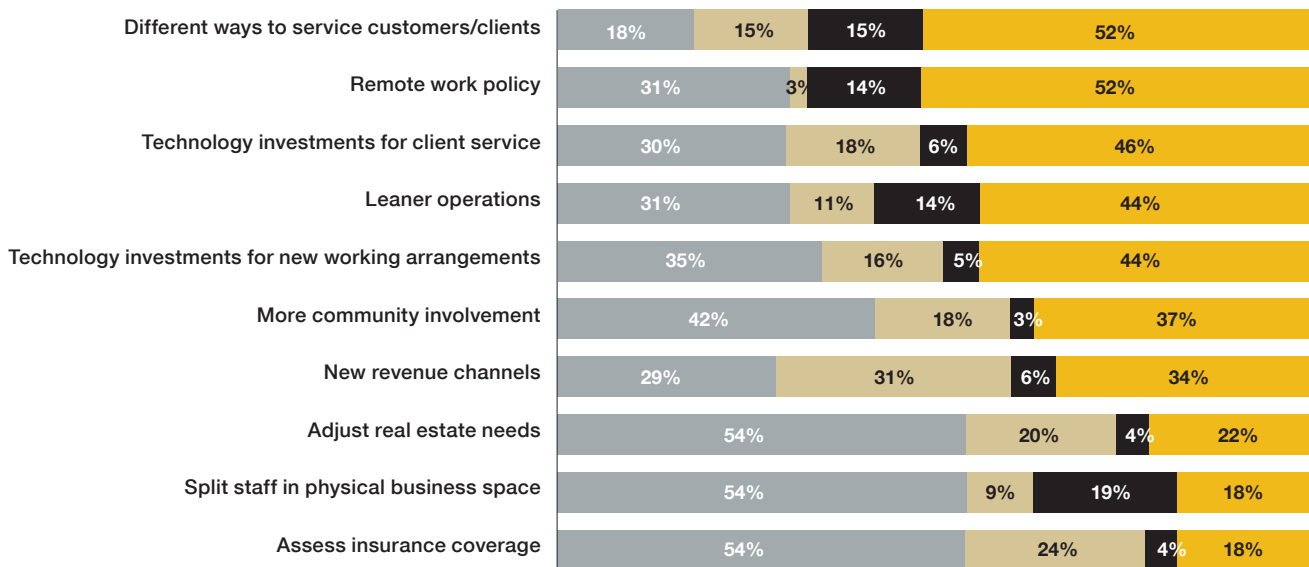




The top changes that have been made that will continue after the pandemic are different ways to serve customers and clients, remote work policies and technology investments for client service. Respondents added other changes the business has made as comments in their answers, including these, which are edited for clarity:

- Learning new marketing ways (social media) to connect with the younger consumer.
- The available labor pool of service workers has expanded, which we can now tap into, providing hundreds of jobs and benefits.
- We're basically fully virtual now. All our interactions, all meetings, all employees are working remotely. We have more fully embraced telework and the technologies that enable it.

Changes Made to Business



- Have no plans to implement
- Have not implemented yet but plan to
- Have already implemented but will eliminate when pandemic is over
- Have already implemented and will keep after pandemic is over



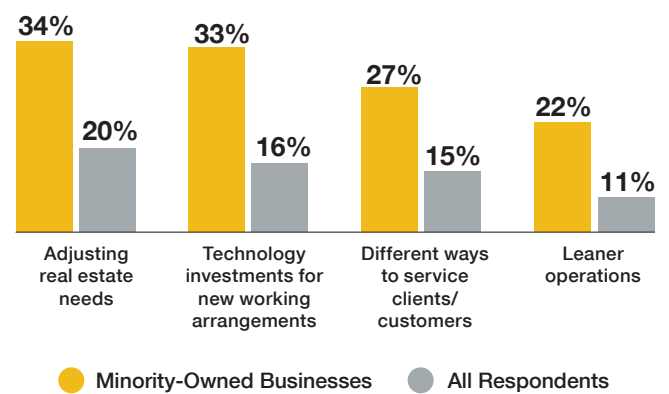
Businesses are planning but have not implemented changes such as adjusting their real estate needs and technology investments reflecting new working arrangements. Other changes being planned come from comments to the survey question such as these, which are edited for clarity:

- As a Black-owned business, it is vital to improve the business and to be able to hire within the community a staff paid a living wage to improve the operation of the business and the community that will allow the firm to grow from a business to an enterprise.
- Talent will gravitate to those employers that are most aware of and most atop of diversity matters. We are already rather diverse, but our outreach, our policies, and our visibility as a leader that embraces diversity will likely have a strong impact on our ability to attract and retain top-quality talent.

Minority-owned businesses are significantly more likely to have planned changes for their businesses that they haven't yet implemented, including adjusting real estate needs, technology investments for new working arrangements and different ways to service clients and customers.

Business model changes have yielded positive results for 38% of the survey respondents, while 45% don't yet know what the impact is. The remaining 17% said the changes they made had no or a negative impact.

Changes Not Implemented Yet But Plan To

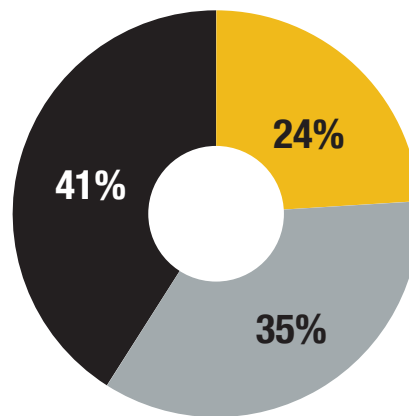


INVESTMENTS AND FUTURE HIRING



Many business owners have deferred or canceled planned investments for 2020, especially around workforce hiring and general capital expenditures. Many, however, said they plan to make those investments in 2021.

Just 24% percent of respondents said they plan to expand investments in 2020. Minority-owned business leaders, 46%, were significantly more likely to expand by investing more capital in 2020.



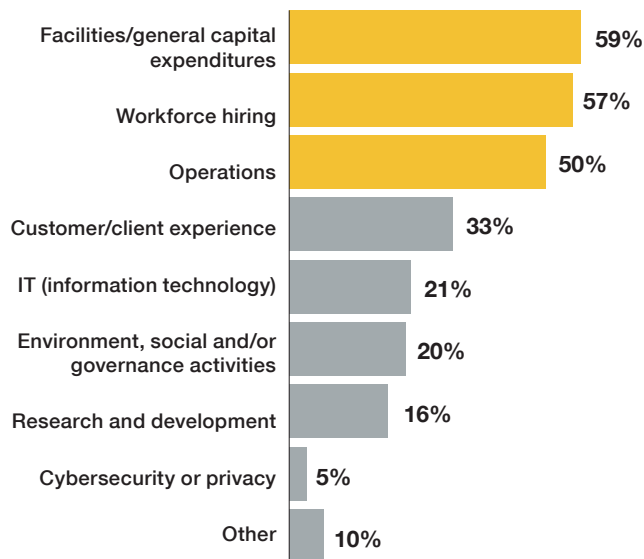
2020 Business Plans

(Base=Financial Decision Makers/
Business Model/Strategy Makers)

- Expand Investments
- No Change to Investments
- Reduce Investments

Types of Investments Deferred/Canceled Due To COVID-19

(Base=Those Who Considered Deferring Or Canceling Investments)



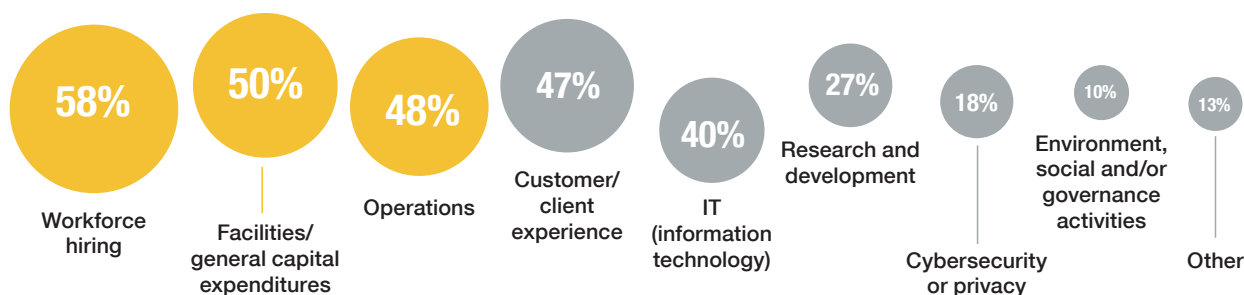
Sixty-two percent of small business leaders have deferred or canceled planned investments in the near future because of Covid-19. The most popular investments that have been deferred or canceled are facilities/general capital expenditures, workforce hiring and operations.



In 2021, the top planned investments are workforce hiring, facilities/general capital expenditures and operations.

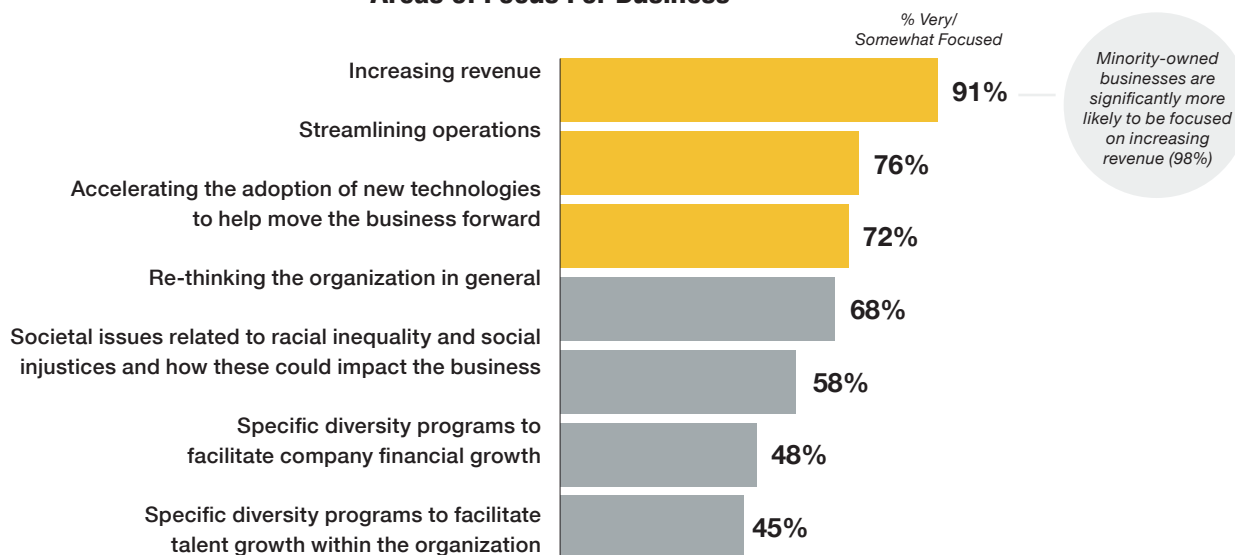
Planned Investments for 2021

(Base=Those Who Considered Deferring Or Canceling Investments)



The main areas of focus for small business owners are increasing revenue, streamlining operations and accelerating the adoption of new technologies to help move the business forward. Minority-owned business leaders are significantly more likely to be focused on increasing revenue than the group as a whole.

Areas of Focus For Business



BUSINESSES ARE ADDRESSING DIVERSITY AND EQUALITY POLICIES



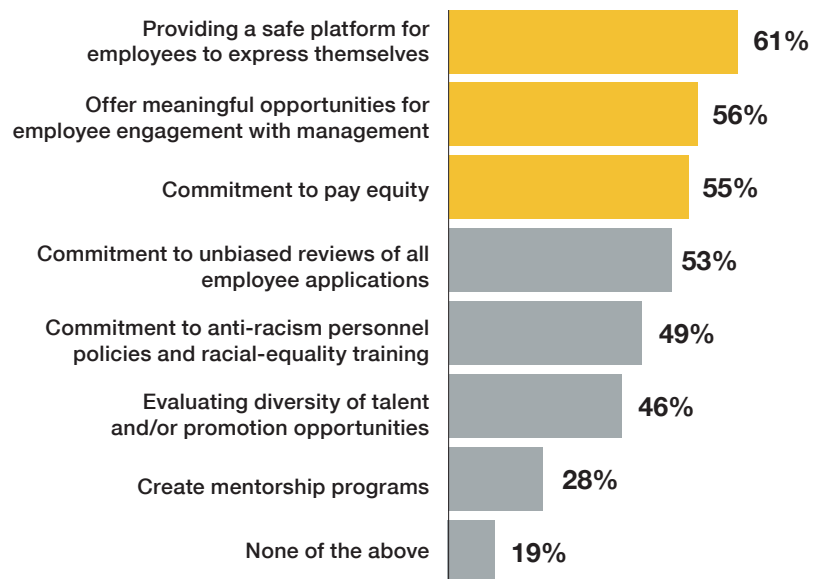
In light of recent national and local events around race and equality, some businesses have re-evaluated their organizational policies and are making more effort to give employees a safe platform to express themselves. Even so, 56% of those surveyed said they had not re-evaluated race and equity within the organization.

For businesses that are committed to finding ways to promote diversity and equality, the most popular efforts are providing a safe platform for employees to express themselves, offering meaningful opportunities for employee engagement with management and a commitment to pay equity. And a majority, 53%, are committing to ensure unbiased reviews of all employee applications.

Businesses are taking other actions as well. Some respondents added comments in the survey on actions they are taking. These comments are edited for clarity.

- Removing gender identities from resumes.
- Supporting and collaborating with minority-owned firms, such as providing information on opportunities and useful resources to those firms.
- Supporting nonprofits that focus on improving diversity, equity, and inclusion.
- Advertising more job openings at historically Black colleges and universities.
- Holding weekly team meetings to review and discuss ways to improve our quality of services, company environment, and employee opportunities for growth.

Efforts Made to Promote Diversity and Equality



The next six months will be an important time for small business owners in the Greater Washington region. They expect the region to outperform the rest of the nation, and they have made many adjustments since spring 2020 to bolster opportunities to grow and prepare for the months ahead. There are concerns as the small business owners think ahead toward spring 2021. They expect more challenges to arise whether it be from another wave of Covid-19 infections, the impact of an economic downturn or other concerns, which could lead to further delays of planned investments. A larger percentage of minority-owned businesses compared with all small businesses plan to expand through more capital investment, and delaying those investments could slow their growth. Women-owned businesses are more concerned that another wave of Covid-19 infections would slow down productivity.

Even while facing many challenges, the small businesses in the 2020 State of Small Business survey said they are aggressively looking for new revenue opportunities, while also seeking ways to enhance and diversify their workforce.

Small businesses play a pivotal role in fueling the economy by creating jobs and investing in local communities. That's why Sandy Spring Bank partnered with the Washington Business Journal again this year to better understand and respond to the needs of these businesses. For more information about how Sandy Spring Bank can help your small business grow, please contact Jeff Weidley at 443-570-6773 or jweidley@sandyspringbank.com.

