



# 2016 U.S. Bank Small Business Annual Survey

May 2016



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## About the survey

### BACKGROUND

The seventh annual U.S. Bank Small Business Survey monitors the attitudes, perceptions and outlook of small business owners across our 25 state national footprint. The survey was conducted by Market Probe via an online sample in January and February 2016 among 3,233 small business owners with less than \$10 million in annual revenue.

### METHODOLOGY

To facilitate differences in select U.S. Bank markets, the study was conducted in two phases. The first phase was comprised of 1,029 national responses to serve as a baseline across U.S. Bank’s 25 state footprint. The second phase represented an over-sample of 2,204 state level interviews in the following 11 markets:

- Arizona
- Northern California
- Southern California
- Colorado
- Illinois
- Minnesota
- Missouri
- Ohio
- Oregon
- Washington
- Wisconsin



Quotas were set to allow for no more than 50% with greater or less than \$200,000 in revenue. Green or red indicators are used throughout the study to identify statistically significant variance to national or prior year results at 95% confidence.

## Key findings

### ECONOMIC OUTLOOK

Improved conditions have lost momentum; not as confident in future outlook

### BUSINESS CONDITIONS

Businesses stronger over past two years than anytime in this decade

### HEALTHCARE IMPACT

Owners more accepting of new law, remain concerned about costs

### LEVERAGING TECHNOLOGY

Mobile plays a key role in their business, technology is major influencer of trust

### BANKING RELATIONSHIP

Owners expect accessibility, transparency, personalization, and simplicity; expect to use branch well into future

### RISING RATES

Owners are familiar with Fed increasing interest rates; could use assistance understanding what it all means

### PRESIDENTIAL ELECTION

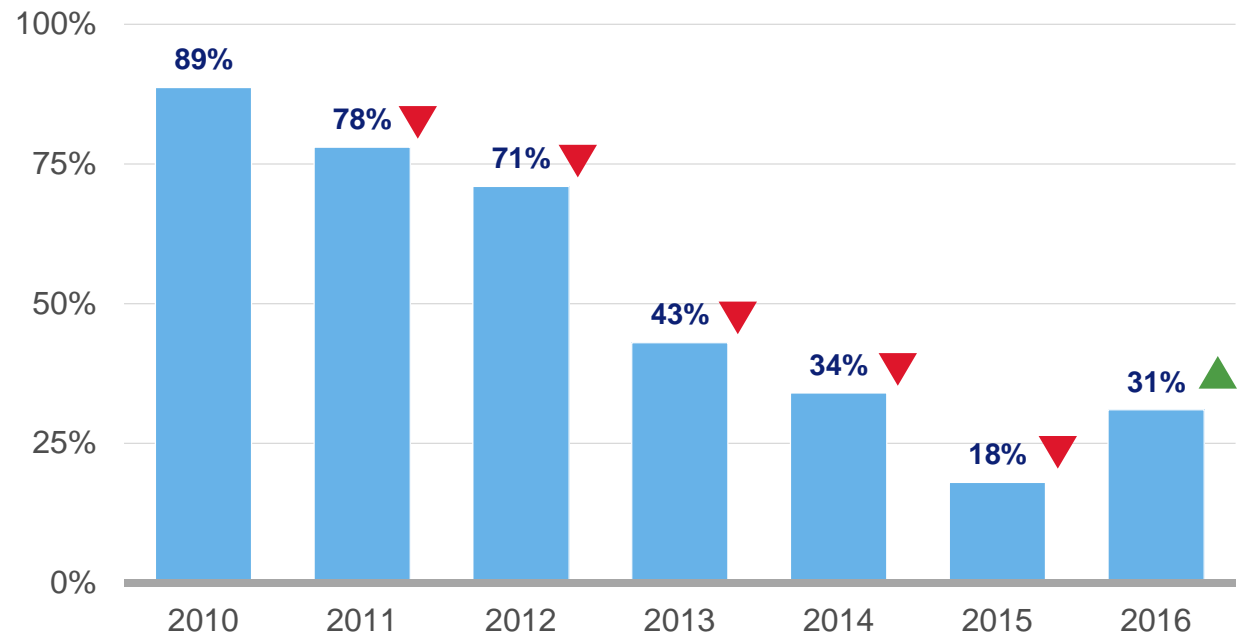
Healthcare, terrorism, national security, taxes, and immigration more important issues today than in 2012



## Improved conditions have lost momentum increasing to 2014 levels

*More owners today feel we are in a recession than a year ago, and are cautiously moving forward. The attention paid to the recent unpredictability in the stock market and lack of consistent market growth, is likely impacting owners perceptions and confidence on whether or not the U.S. economy is in a recovery, recession or expansion.*

Do you believe the U.S. economy is in a recession?

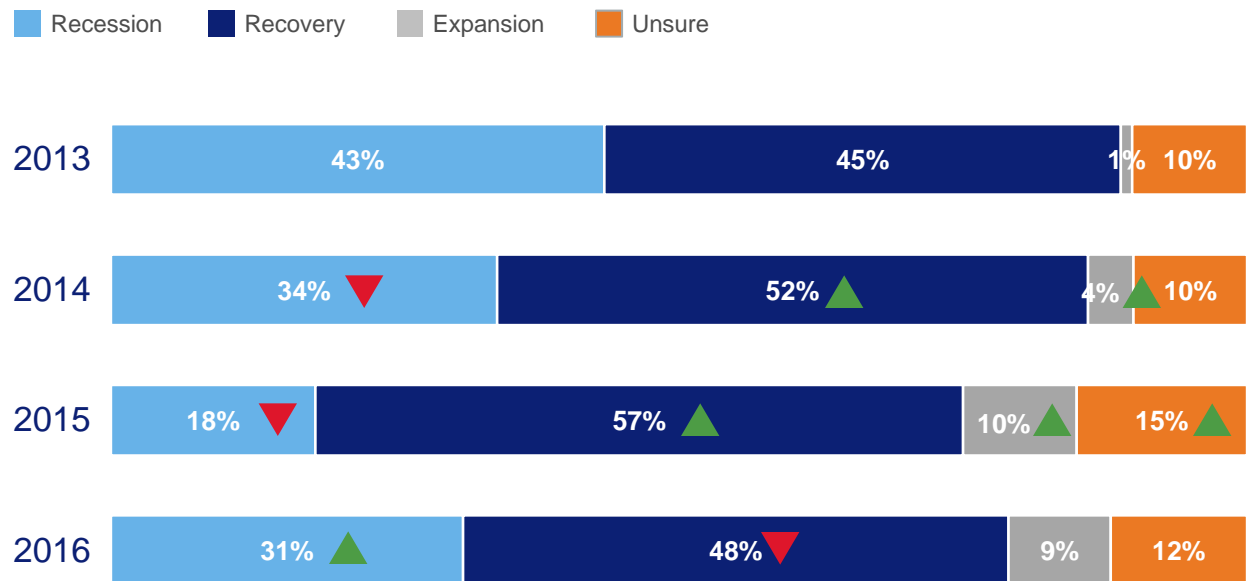


▲ ▼ Statistically significant change to prior year result at 95% confidence.

## Owners feel less confident about the economy's recovery

*Even though nearly half the owners feel the U.S. economy is in a recovery, this is a significant drop over last year. Again, this perception is likely due to the recent instability in the stock market and slow economic growth instilling uncertainty in the minds of small business owners.*

### What is the current state of the U.S. economy?



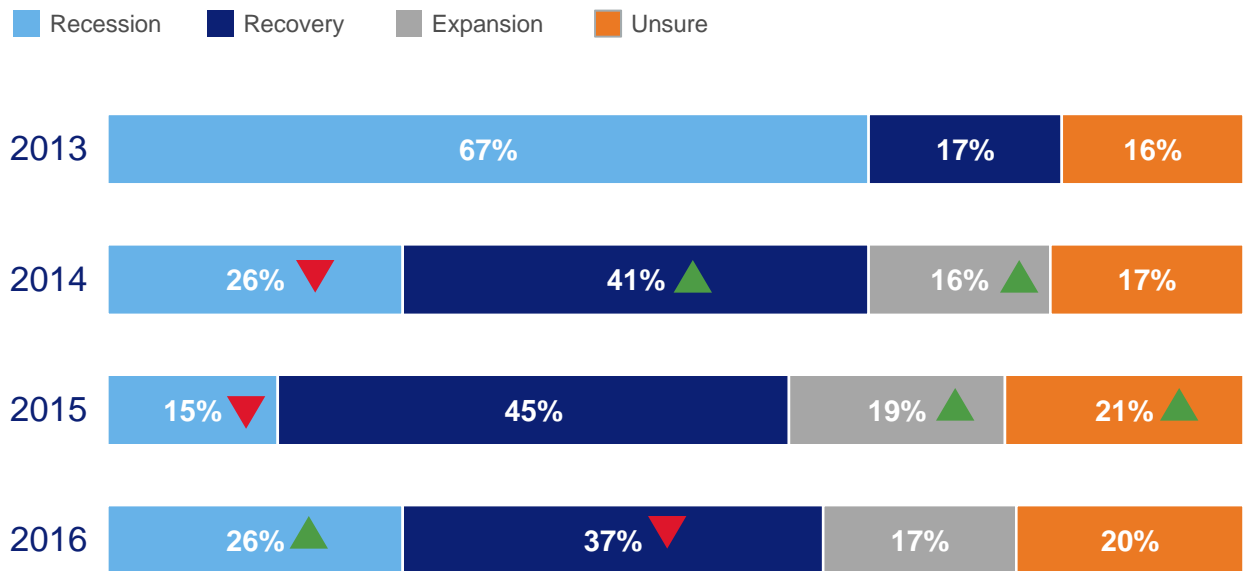
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## Owners less confident than a year ago about the future

Looking ahead to next year shows while more owners than a year ago feel the U.S. economy will be in a recession, there are still more than half believing the economy will continue to grow.

Rural owners are less confident believing we are currently in a recession and will continue to be next year.

### What state will the U.S. economy be in at this time next year?

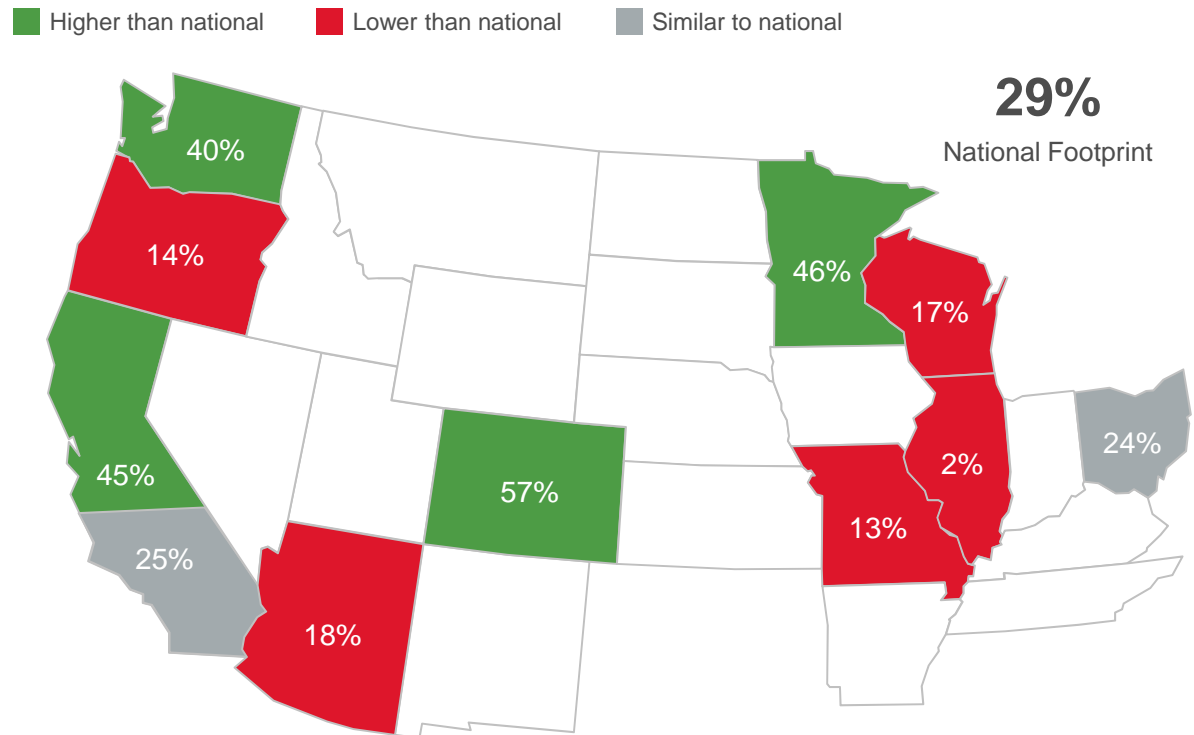


▲ ▼ Statistically significant change to prior year result at 95% confidence.

## Regional differences persist around views of local economic health

*California is showing improvement. Northern California owners now feel conditions are stronger there compared to the rest of the country, and Southern California and Ohio improved where their economy is on par with the rest of the country. More Californians feel better about their economic conditions partially due to incentive programs offered to encourage business development, not to mention property values are on the rise. Lower unemployment and higher wages are contributing to improved perceptions in Ohio.*

### Percent who say conditions for small businesses are stronger in their state than the rest of the country

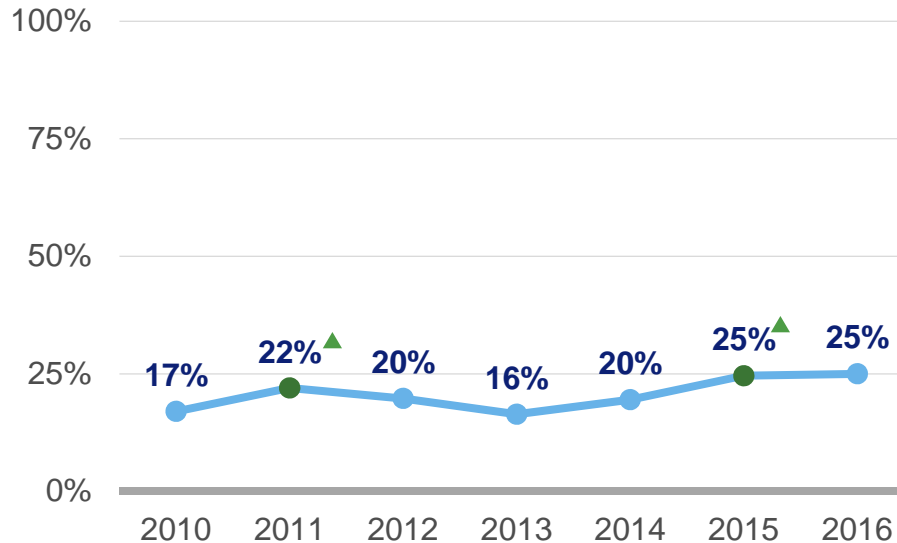


■ = Statistically significant change to national sample at 95% confidence.

## Owners outlook for adding staff remains stable at last year's levels

*While staffing remains stable, some segments are more likely to add employees than others. Businesses that are in an urban location, minority owned, and have a younger owner are more likely to add staff in the next year. Owners in these segments are more likely to have larger small businesses compared to their counterparts.*

Expect to increase the number of people working for them over the next 12 months



**32%**  
urban



**17%**  
rural



▲ ▼ Statistically significant change to prior year result at 95% confidence.

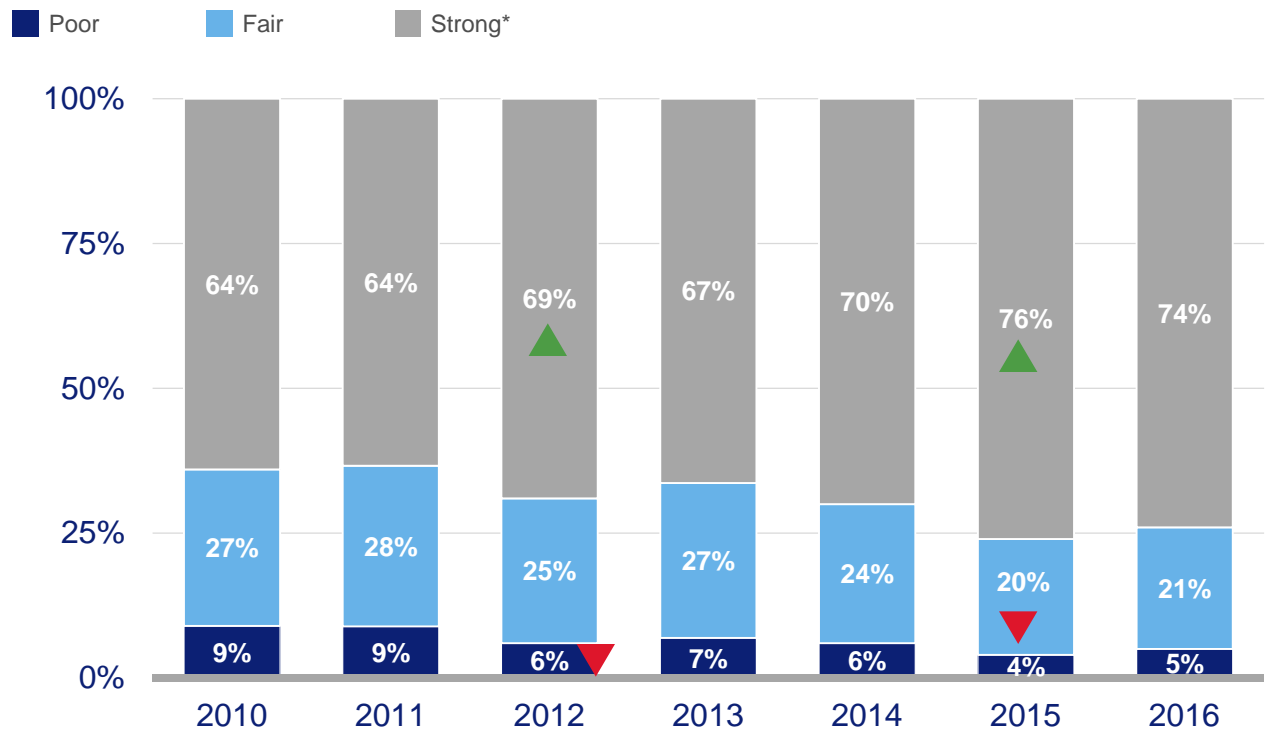


Survey Overview	Economic Outlook	<b>Business Conditions</b>	Healthcare Impact	Leveraging Technology	Banking Relationship	Rising Rates	Presidential Election	Market Profiles
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## Small businesses remain financially strong

*Owners are more confident about their business than they are about the economy overall. They feel certain about the strength of their business' health. They are growing, and expect continued growth in 2016.*

How would you describe the financial health of your business?



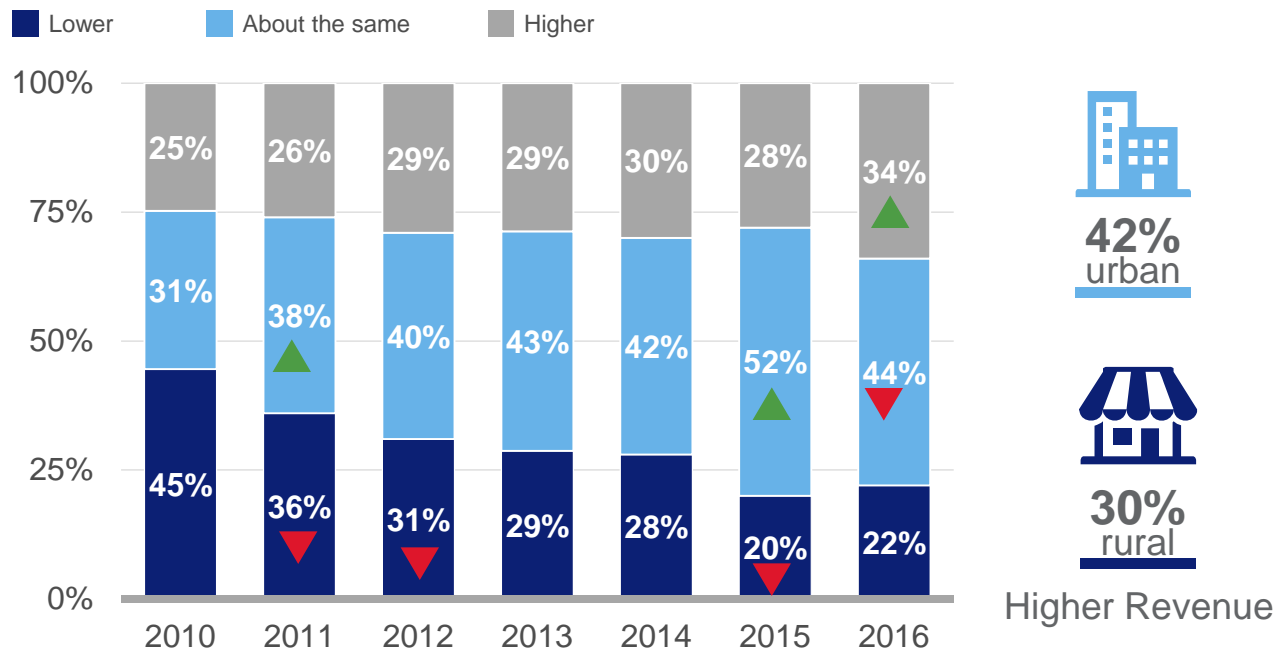
▲ ▼ Statistically significant change to prior year result at 95% confidence.  
 \* Represents answers of "Good", "Very Good" or "Excellent".

Survey Overview	Economic Outlook	<b>Business Conditions</b>	Healthcare Impact	Leveraging Technology	Banking Relationship	Rising Rates	Presidential Election	Market Profiles
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## Small businesses enjoyed strong revenue growth in 2015 ...

*Even though business owners are less optimistic about the U.S. economy, businesses are strong with many experiencing revenue growth in 2015. Urban, minority, younger owners with larger businesses are more likely to be experiencing revenue growth.*

How has your business' revenue changed compared to this time last year?

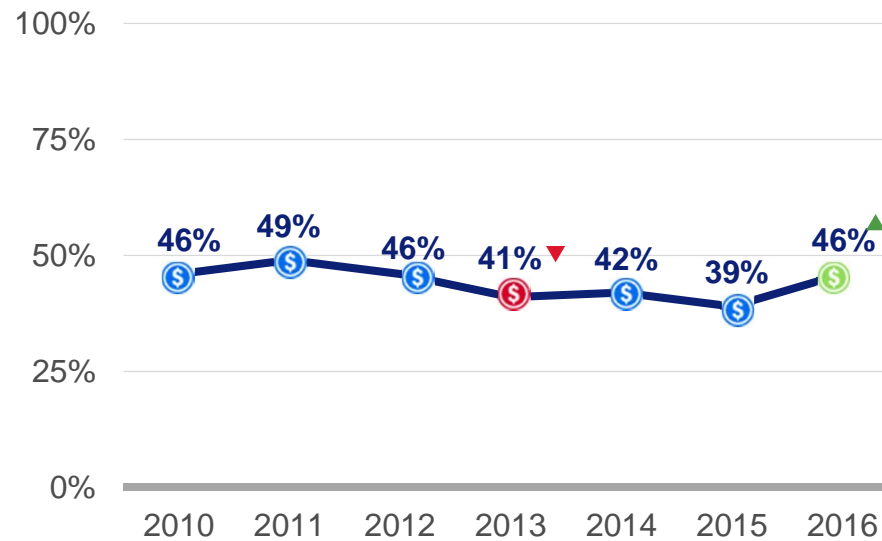


▲ ▼ Statistically significant change to prior year result at 95% confidence.

## ... and, expect momentum to continue through 2016

*Business owners are optimistic about the future and expect their business to continue growing over the next year. Urban, minority, younger owners with larger businesses are more positive about the future.*

Percent who expect revenue to be higher at this time next year



**57%**  
urban



**38%**  
rural



**62%**  
younger



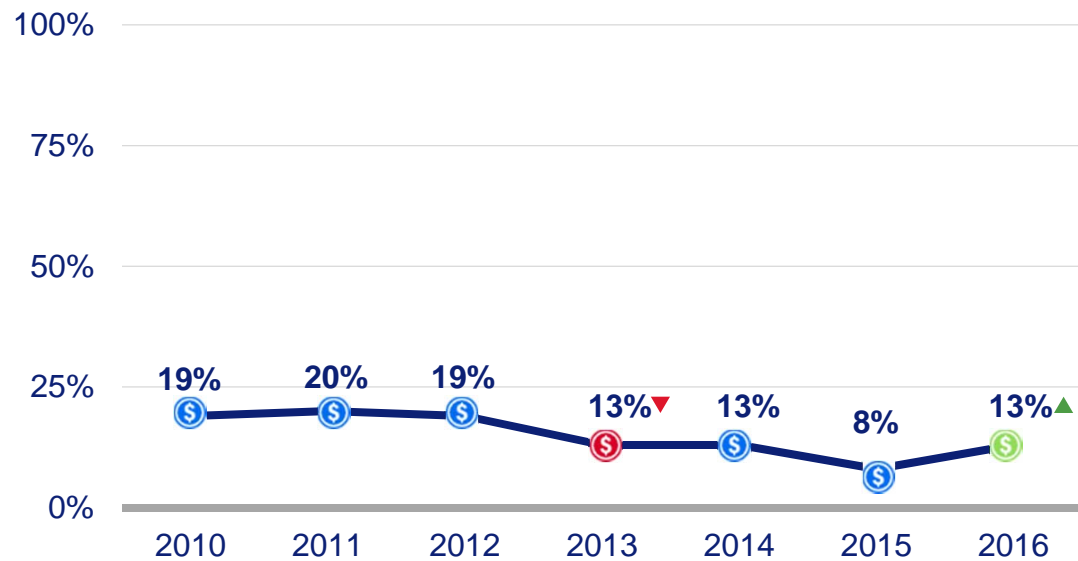
**32%**  
older

▲ ▼ Statistically significant change to prior year result at 95% confidence.

## More owners are borrowing money than a year ago ...

*With strengthening financial health and expected continued growth, more business owners are gaining confidence and looking to borrow money.*

Percent who have borrowed money or tried to borrow money for business purposes in the last 6 months



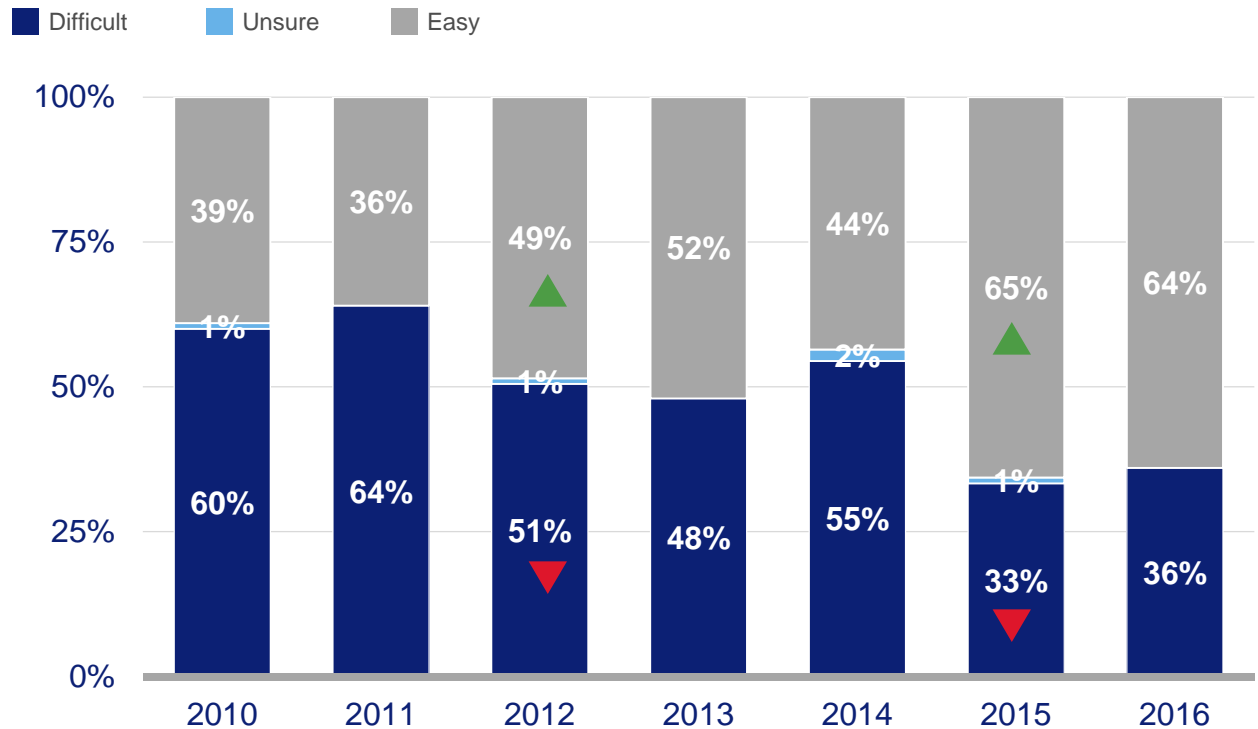
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Survey Overview	Economic Outlook	<b>Business Conditions</b>	Healthcare Impact	Leveraging Technology	Banking Relationship	Rising Rates	Presidential Election	Market Profiles
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## ... and borrowing remains easier than any time in this decade ...

*Those borrowing money felt last year was somewhat of the turning point where borrowing became easier. We remain at those same levels today.*

How would you describe your business' ability to borrow money?



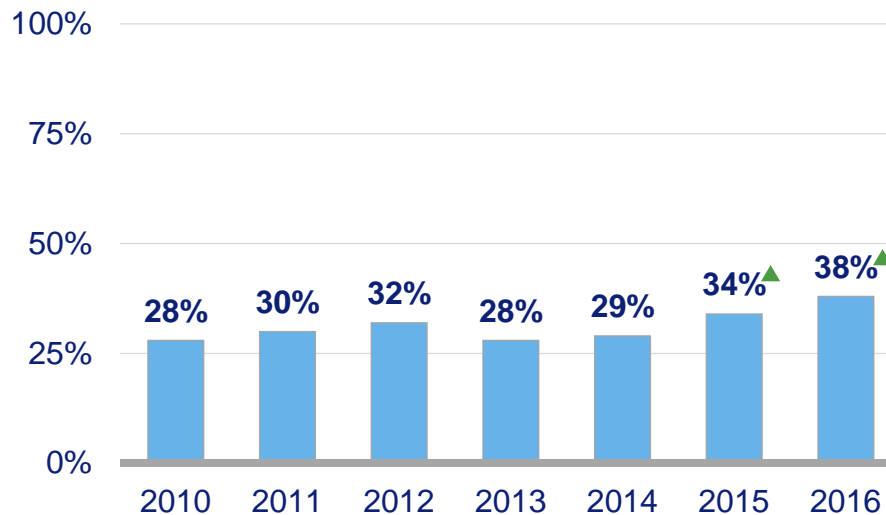
▲ ▼ Statistically significant change to prior year result at 95% confidence. Asked only of those who tried to borrow money in the last 6 months

## ... and they're more likely than anytime this decade to make capital expenditures

*At the same time, we continue to see more owners making capital expenditures to expand their business showing increased confidence they have in the health of their business.*

*When economic certainty aligns with individual business strength, we should see capital expenditures grow even further.*

Percent who are likely to make a capital expenditure to expand their business in the next year



**47%**  
urban



**31%**  
rural



**57%**  
younger



**21%**  
older

▲ ▼ Statistically significant change to prior year result at 95% confidence.

Survey Overview	Economic Outlook	<b>Business Conditions</b>	Healthcare Impact	Leveraging Technology	Banking Relationship	Rising Rates	Presidential Election	Market Profiles
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## Healthcare and cost of labor less of a concern

*While healthcare costs and cost of labor are less of a concern, economic uncertainty, competition, poor sales, government regulations, and taxes remain top challenges for small business owners.*

### What is the most significant challenge facing your business today?

Top Challenges	2013	2014	2015	2016
Economic uncertainty	30%	26%	17% ▼	16%
Competition from large business	10%	11%	16% ▲	13%
Government regulations/red tape	14%	14%	13%	11%
Healthcare costs	5%	8%	12% ▲	6% ▼
Poor sales	15%	12%	10%	13%
Taxes	12%	9% ▼	10%	11%
Cost of labor	2%	4% ▲	9% ▲	5% ▼

▲ ▼ Statistically significant change to prior year result at 95% confidence.

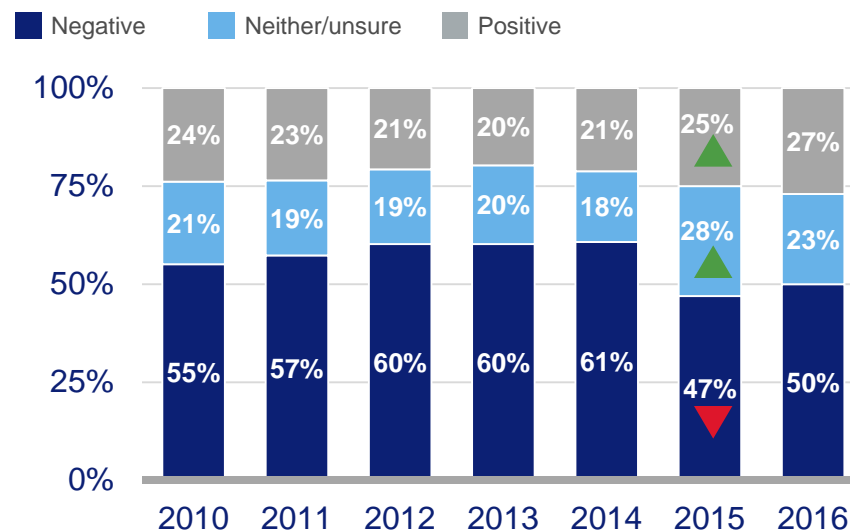
Survey Overview	Economic Outlook	Business Conditions	<b>Healthcare Impact</b>	Leveraging Technology	Banking Relationship	Rising Rates	Presidential Election	Market Profiles
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## Owners turning the corner on attitudes towards healthcare ...

Last year owners shifted their view on the long term impact of the current healthcare system on small businesses. Today owners remain split on whether the long term impact will be positive/neutral or negative.

Businesses that are in an urban location, minority owned, have a younger owner, and are larger are more likely to believe the long-term impact of our current healthcare system will be positive.

### What long-term impact will our current healthcare system have on your small business?



**37%**  
urban



**19%**  
rural

Positive Impact



**37%**  
younger



**11%**  
older

Positive Impact

▲ ▼ Statistically significant change to prior year result at 95% confidence.

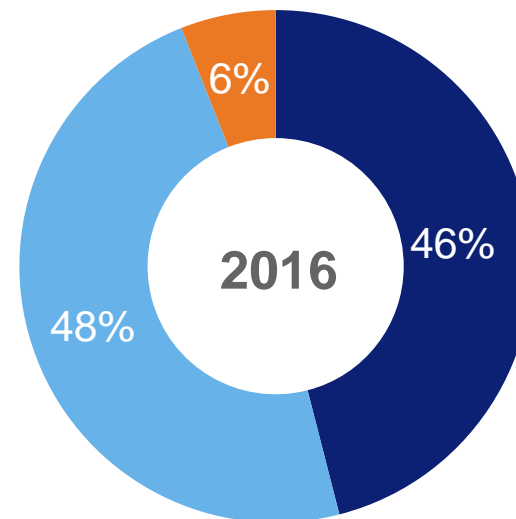


## ... but remain split on its impact on premiums

*More than half the owners continue to say the current healthcare system has resulted in no premium hikes, while the other half say they are paying higher rates. Those paying higher premiums will likely continue to feel a negative sentiment towards the current healthcare system and its long-term impact on their business.*

What impact has the current healthcare system had on your business' health insurance premiums?

■ Higher Premiums   ■ No Impact   ■ Lower Premiums



▲ ▼ Statistically significant change to prior year result at 95% confidence.

## Majority are integrating mobile and social media into overall strategy

Top ways owners are integrating mobile technology into their business strategy:

- Accessing bank accounts ▲
- Making payments ▲
- Accessing social media sites
- Accepting payments
- Depositing checks
- Offering a mobile friendly site
- Using mobile apps designed to organize and help manage their business
- Using text alerts for marketing products, services and promotions
- Communicating via video

### Mobile



**76%** have integrated a mobile solution into their overall business strategy

### Social Media



**85%** maintain a social media presence to make connections, find talent or market their business



Younger compared to 60% older owners integrated a mobile solution .



Younger owners find Facebook more effective compared to 31% older owners .



Older owners find LinkedIn most effective versus 8% younger owners .

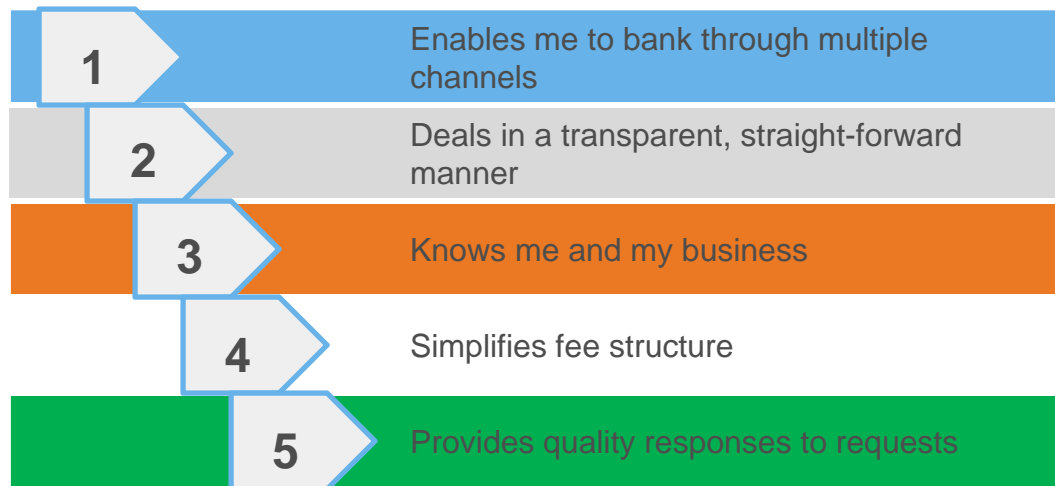
▲ ▼ Statistically significant change to prior year result at 95% confidence.

## Accessibility, transparency, personalization, and simplicity top expectations

*Owners perception of their bank being helpful to their business continues to improve and is the highest it's been this decade.*

*While accessibility, transparency, personalization, and simplicity are most important expectations, some of these items are more important to certain segments. For example, accessibility is more important to smaller businesses, while knowing me and my business rises to the top for rural owners.*

What are the top 5 most important things you expect from your business bank?



▲ ▼ Statistically significant change to prior year result at 95% confidence.

## Branches will continue to play a role; technology is major influencer of trust

*Most owners expect in five years they will continue to do some banking at the branch. This is true regardless of age, location, size, gender, etc. Owners want the option to talk with a person when they have the need, trust the relationship with their banker, and have needs that are better met at the branch.*

*Even so, technology plays a major role in building trust. This is particularly true among young owners.*

### Branch Banking



**89%** will do at least some of their banking at physical branch in five years

### Banking Technology



**77%** feel banks offering the most up-to-date technology are more trustworthy

▲ ▼ Statistically significant change to prior year result at 95% confidence.

## Familiarity with rising rates exists; assistance understanding it is needed

Seven of 10 owners have heard news over the past couple of months about the Fed altering rates, particularly older owners. Of those who are aware, most have heard rates will start to rise gradually in the first half of 2016. The number one source of information is television, particularly with older owners. Social media, word of mouth and their bank player a bigger role for the younger generations. Regardless of age, less than half completely understand the information.

### Where are you hearing information about the Fed altering interest rates?



▲ ▼ Statistically significant change to prior year result at 95% confidence. Asked only of those who had heard news over the past couple of months..

## Healthcare and taxes having greatest impact on Presidential election

Healthcare and taxes are the top two issues impacting the upcoming presidential election.

Healthcare, terrorism, national security, taxes, and immigration are more important concerns today than in 2012.

Younger owners feel topics, such as jobs, environment, education, housing, cost of living, and energy are more crucial than in 2012, while older owners feel items, like national security, immigration and terrorism are more critical issues than four years ago.

### Issues having greatest impact on Presidential election vote.

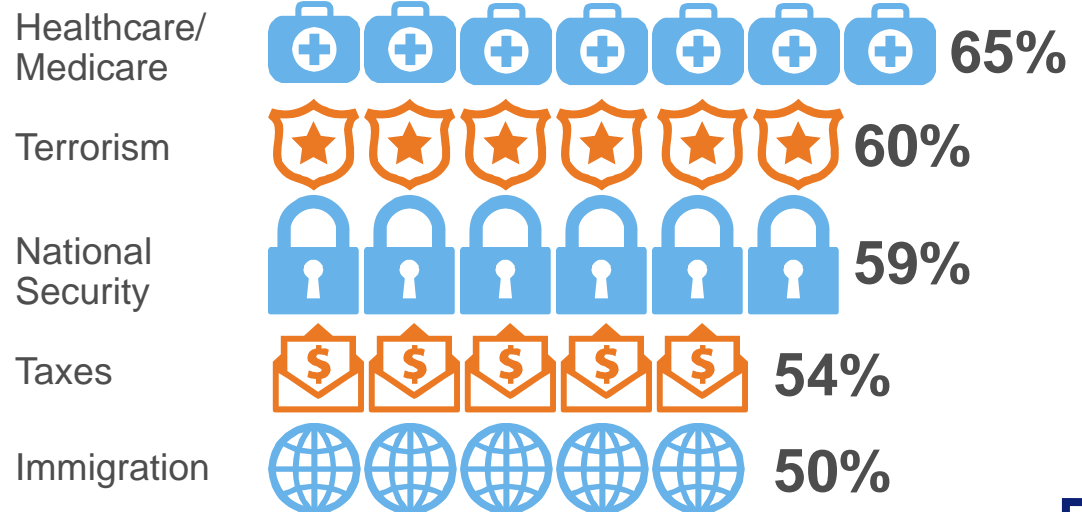


**50%**  
Healthcare/  
Medicare



**49%**  
Taxes

### Top issues more important today than in 2012.



▲ ▼ Statistically significant change to prior year result at 95% confidence.

Survey  
Overview

Economic  
Outlook

Business  
Conditions

Healthcare  
Impact

Leveraging  
Technology

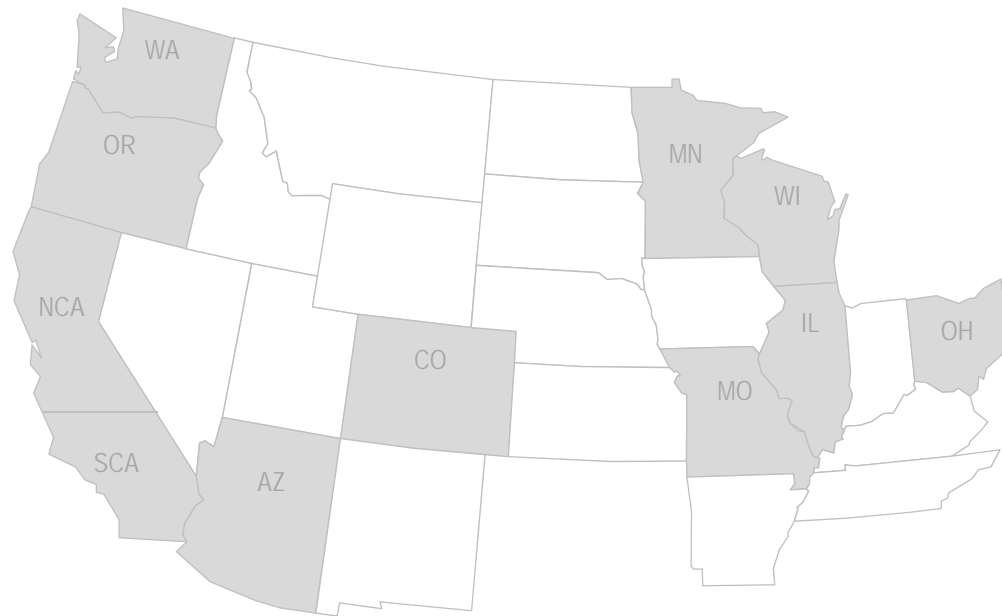
Banking  
Relationship

Rising  
Rates

Presidential  
Election

**Market  
Profiles**

- Arizona
- Northern California
- Southern California
- Colorado
- Illinois
- Minnesota
- Missouri
- Ohio
- Oregon
- Washington
- Wisconsin



## Survey demographics

### Years in Business

1-2 years	9%
3-4 years	14%
5-9 years	21%
10-19 years	29%
20 or more years	28%

### Number of Employees

Sole proprietors	31%
2-4 employees	26%
5-19 employees	23%
20-49 employees	9%
50-99 employees	4%
100 or more employees	6%

### Annual Revenue

Less than \$100,000	37%
\$100,000-\$499,000	35%
\$500,000-\$999,000	11%
\$1.0-\$4.9 million	14%
\$5.0 million or more	3%

### Type of Business

Sales	15%
All Other	15%
Financial Services	14%
Personal Services	12%
Hospitality	12%
Consulting	12%
Large Trades	9%
Computer Technology	4%
Marketing	3%
Agricultural/Farming	2%
Small Trades	1%

### Military Service

No Military Service	88%
Military Veterans	12%

### Employment Type

100% Part-Time	5%
More Part-Time than Full-Time	28%
More Full-Time than Part-Time	35%
100% Full-Time	31%

### Location

Suburban	48%
Urban	34%
Rural	17%

### Age

18-34 years	24%
35-44 years	15%
45-54 years	21%
55-64 years	25%
65 years and over	15%

### Gender

Male	53%
Female	47%

### Race\*

White	89%
Asian	5%
Hispanic	8%
African American	4%
Other	3%

\* Multiple responses allowed. Other includes American Indian and Native Hawaiian or Pacific Islander.