



One year into the pandemic: How small businesses have weathered the storm and where their businesses stand today

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Introduction

As we approached the one-year mark of the initial public health shutdowns in the U.S. that sent shockwaves through our economy, Small Business Majority reviewed a year's worth of surveys conducted of our network of 85,000 small businesses, as well as other national polling we commissioned and additional research and qualitative feedback from our network, in order to better understand the state of small businesses.

Over the course of the pandemic, we conducted six surveys of our national network of small business owners. Each survey yielded between 500 and 1,000 responses from businesses around the country. About two-thirds of our survey respondents are women and half are entrepreneurs of color. Roughly 30% are self-employed firms, with another half employing fewer than 10 people. Following national trends, businesses owned by people of color and women in our network tend to employ fewer people than white, male-owned businesses. Additionally, Small Business Majority's network is more diverse than the national average, providing important insights into how the smallest businesses and those owned by women and people of color have fared over the past year and their success with accessing federal relief.

Our analysis finds that while some businesses have been able to adapt, pivot and survive the crisis, many small businesses have been left behind by policies intended to help, and additional aid is needed.

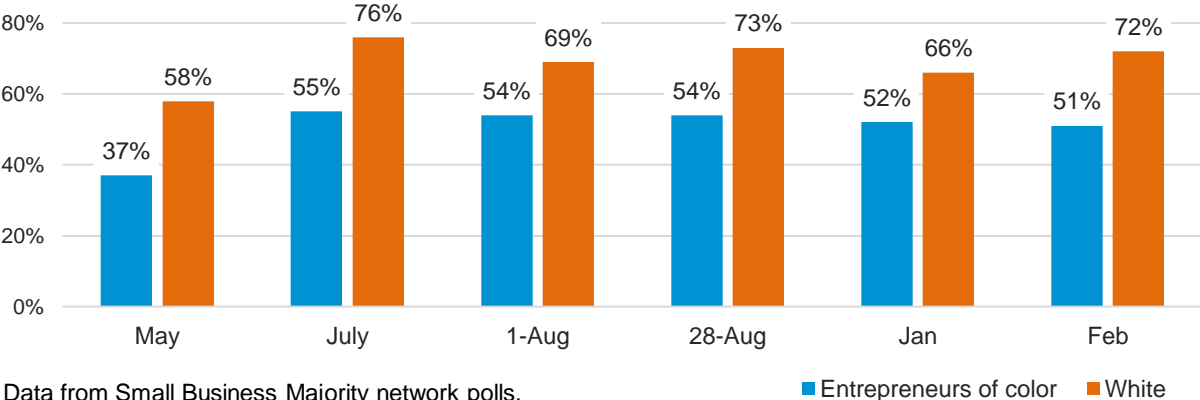
Key findings:

- Businesses owned by people of color continue to struggle, with key indicators of their stability stemming from their obtainment of Paycheck Protection Program (PPP) loans and their perceived ability to remain open throughout the year.
- Businesses in our network have been more successful obtaining federal relief compared to small businesses nationwide, but smaller businesses have been largely left behind.
- Support for direct grant assistance remains high a year into the pandemic, even after nearly \$1 trillion in federal small business relief has already been allocated.
- Businesses struggling with commercial rent and mortgage obligations points to a looming crisis.

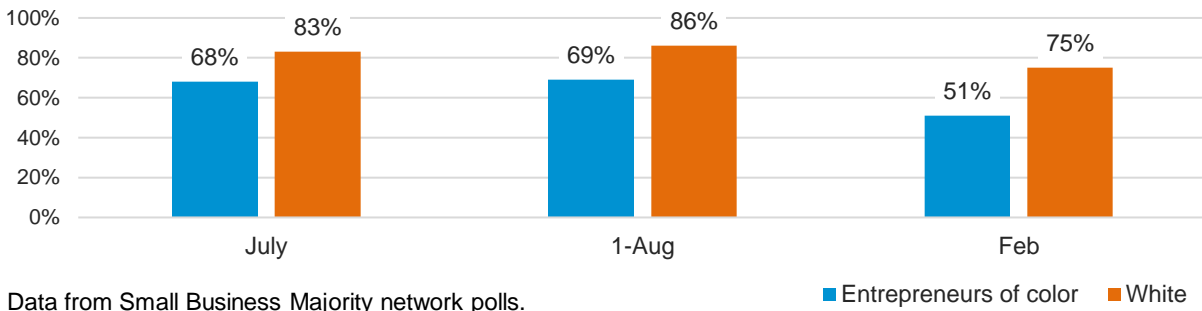
Federal relief and capital

As PPP winds down, we see some encouraging signs that the program has been more effective in its final months by reaching more of the smallest businesses that were previously left behind by the program; however, troubling trends persisted throughout the past year. Chiefly, businesses owned by people of color in our network consistently lagged behind their white counterparts in their ability to access PPP. And, when they did get a loan, they were more likely to receive less funding than they applied for.

Percent of business owners surveyed who received a Paycheck Protection Program loan



Percent of those business owners who received a PPP loan who say they received the full amount they applied for



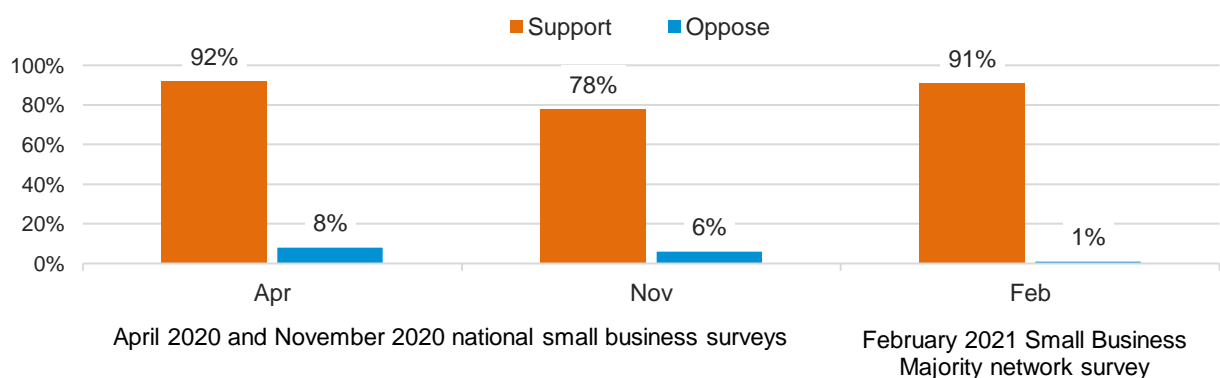
Entrepreneurs of color faced systemic barriers accessing PPP because the program relies on our traditional banking system that favors well-heeled businesses over smaller, women and minority-owned firms. In our November poll conducted by Lake Research Partners, we found that before the pandemic hit, more than 1 in 5 (21%) small businesses did not have a business banking relationship with a bank or credit union. For those who were self-employed that number doubles to 40%, compared to just 13% of larger small businesses (10-100 employees) who did not have a business banking relationship. Small business owners of color were also much less likely to have a business banking relationship pre-pandemic.

Challenges accessing PPP were also particularly pronounced for the self-employed, who comprise roughly 24 million of the 30 million businesses in the U.S. Rules governing PPP eligibility for sole proprietors were not released until a week after the program first launched in 2020, when funds were already running out quickly, and rules restricting eligibility based on net profits for sole proprietors prevented many from applying. In our November survey conducted by Lake Research Partners, we found a mere 7% of self-employed had applied for PPP.

While more first-time PPP borrowers in this last round have 10 or fewer employees, many are still struggling to access this relief. And changes announced by the White House in February to better serve self-employed small business owners came too late to help those who previously applied or those whose banks already started winding down their PPP applications. In our most recent network survey released in late February, we found nearly all of the Black self-employed entrepreneurs we surveyed did not receive the full PPP loan amount they requested.

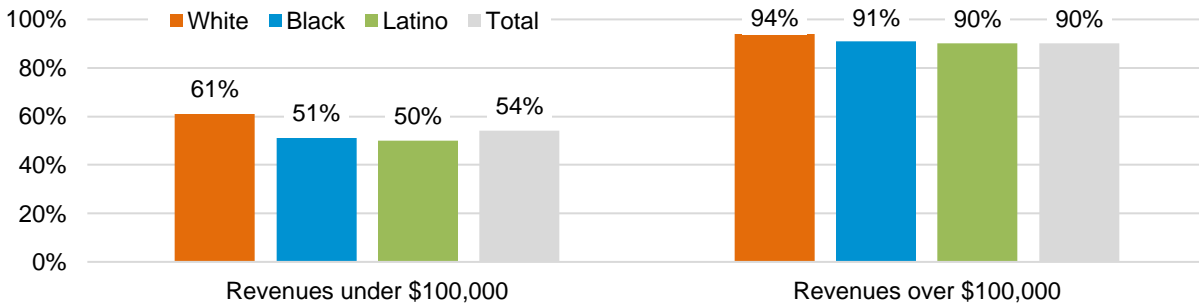
While the SBA’s new Shuttered Venue Operator and Restaurant Relief Fund grant programs should provide relief to businesses in these targeted industries, we know that businesses in other hard-hit sectors are still struggling. That’s why it’s not surprising to see that small businesses have consistently called for direct grant assistance throughout the course of the pandemic. Three in 10 business owners in our February survey said PPP was helpful, but that less restrictive capital was needed to support their business, while 15% said PPP was not helpful for their business at all.

Small business support policies to provide direct grant assistance



The smallest businesses still need direct grant assistance because they are more likely to have been left behind by federal relief programs. Our joint survey with our partner Start Small Think Big found that just more than half of small businesses with under \$100,000 in revenues (54%) were able to receive funding of *any* kind, compared to 90% of larger businesses. Smaller businesses owned by white business owners were more likely to obtain funding (61%), compared to Black (51%) and Latino-owned businesses (50%).

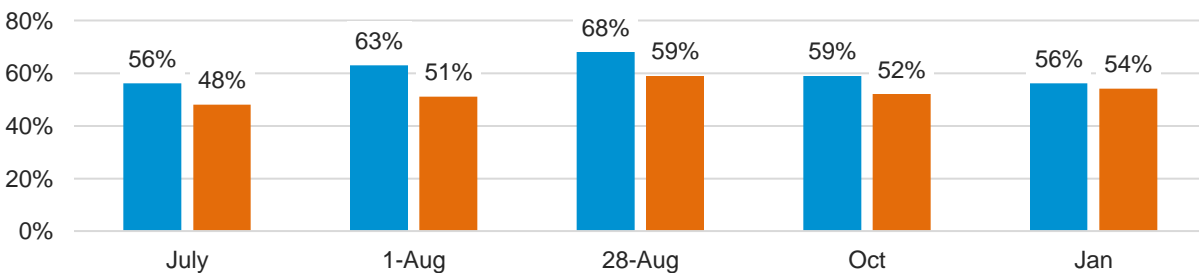
Smaller businesses less likely to have accessed funding



Struggles with commercial rent and mortgage payments

Small businesses aren't just struggling to access capital: We have consistently heard from our network about their challenges paying rent or mortgages. These problems were compounded for smaller businesses that owned or rented commercial space, as PPP restricted how much of their funds could be spent on non-payroll expenses. Our ongoing surveys have shown entrepreneurs of color in particular are still struggling with their commercial rent or mortgage obligations, even a year into the pandemic.

Percent of businesses surveyed that are struggling with their commercial rent or mortgages



Data from Small Business Majority network polls.

■ Entrepreneurs of color ■ White

What's more, our joint survey with Start Small Think Big found that nearly half (46%) of businesses with under \$100,000 in revenue with commercial space are one or more months behind on rent, compared to 36% of larger firms.

This joint survey also found that 1 in 6 small businesses plan to exit their mortgage or lease in the coming year. The Federal Reserve, in a report to Congress in February, warned that high commercial real estate prices and an increase in business debt during the pandemic could lead to a wave of commercial foreclosures and evictions. Some local jurisdictions have acted to help struggling businesses; for instance, many counties in California still have commercial eviction moratoriums in place through June 30. However, there is no federal moratorium to protect small businesses that are still struggling to pay their rent or mortgage due to continued losses in revenue.

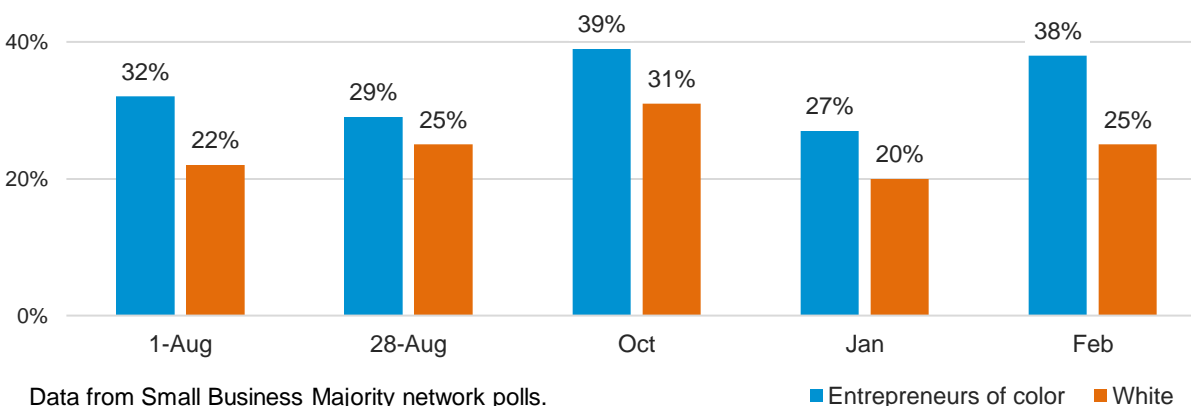
"I have not paid my rent for one of my retail stores in five months. Sales have slowed and my landlord has not yet presented an acceptable amendment to our lease that we can survive on given the current pandemic."

Owner of retail store in Imperial County, California, August 2020

Survivability and adaptability

Despite the availability of federal relief programs, businesses in our network have consistently expressed concern about their ability to survive the ongoing economic crisis, with entrepreneurs of color more likely to say they would survive less than three months without additional capital relief.

Percent of business owners who say they can only survive up to three months without additional capital



These troubling signals are reinforced by our November poll and other external surveys. Our national poll by Lake Research Partners in November revealed that more than half of small businesses (52%) say that revenues are still down today compared to a year ago. The same survey found that 40% of small businesses will need grants or zero interest loans this year to survive, and the numbers were even higher for entrepreneurs of color.

Meanwhile, the Federal Reserve's Small Business Credit Survey found that among firms with employees, businesses owned by people of color are in substantially worse financial shape than their white counterparts (79% AAPI firms, 77% Black firms, 66% Latino firms, 54% white firms).

Despite these challenges, small firms are doing everything they can to adapt and pivot their businesses. In November, more than 1 in 5 small businesses reported they had already dramatically changed their business model, and 31% said they planned to transform their business model in the next three months. Business owners of color were more likely to say they planned to change their business model dramatically (48% Black, 40% Latino and 41% AAPI). When asked about areas in which they need help right now to survive and grow during the pandemic and economic crisis, 37% said it would be extremely useful to have help in attracting new customers and 26% needed help building an online presence.

Additionally, our joint survey with Start Small Think Big conducted at the beginning of this year found smaller businesses were more likely to take one or more action to pivot their business, such as adding new products or services, establishing or growing their online presence, or changing their business model entirely, compared to larger businesses.

"I design and manufacture wedding gowns—the pandemic severely affected the wedding industry. My revenue decreased 58% from 2019 to 2020. Fabric and materials supply chain was also affected. The few contract seamstresses I had working for me have all found other work or are stuck at home managing virtual school for their children. I am also juggling my daughter's online classes while working to keep my business afloat. Orders are slowly starting to come in again as people are getting vaccinated and couples are more confident their weddings will actually happen. I am hoping for a big swing up in the next few months to be able to stay in business."

Owner of clothing business in Milwaukee
March 2021

Workforce and benefit reductions

As the months have gone by, most owners have yet to bring back all of their workers. In our national November survey, 60% reported that they had not restored their employee headcount to pre-pandemic levels. Women entrepreneurs were less likely than men to have brought back staff: nearly three-fourths (73%) say they haven't restored their employee headcount, compared to 55% of men.

Small business owners surveyed in November anticipated even more cuts in the next three months as the third wave of the pandemic began gripping the country. Overall, small business owners said they were likely to cut employee hours (32%), reduce wages (27%) or close temporarily (22%).

We also continue to monitor the negative impacts of the pandemic on businesses' ability to offer workforce benefits. Our November poll found some small business owners reduced or eliminated employee benefits since the start of the pandemic. Among the benefits affected are those that are most needed if an employee becomes ill or has to provide care for a sick family member: sick days (reduced or eliminated by 18% of small business owners), family leave (15%) and health insurance (14%). Among other benefits reduced or eliminated are workers' compensation (16%), disability insurance (15%) and retirement benefits (16%). Additionally, more than 1 in 3 (34%) small businesses reported it's been a challenge to obtain health insurance coverage for themselves and their employees during the pandemic. Black, Latino and AAPI small business owners were more likely to list this as a challenge than white small business owners (50% Black, 44% AAPI and 43% Latino small businesses).

Critically, small business owners anticipated having to make even more cuts in order to sustain their businesses. Overall, small business owners said they are likely to cut employee hours (32%), reduce wages (27%) or close temporarily (22%).

Conclusion

A year into the pandemic, the smallest, hardest-hit businesses continue to hang on by a thread. With nearly \$1 trillion dollars allocated to federal relief programs to help small businesses, it's clear that relief has not been evenly distributed. While continued modifications to the PPP have helped, much more needs to be done.

In addition to ensuring that remaining PPP dollars are allocated solely to the smallest business, the administration and Congress must act to ensure the successful rollout of its current grant programs, and consider additional grant relief and other policy interventions. This should include a plan for commercial rent/mortgage relief, loan forgiveness for certain businesses that accessed funds through the EIDL program, and additional policies to address healthcare costs, in order to help stave off further economic hardship.

Appendix

Small Business Majority network poll reports:

“Survey: 3 in 10 Small Businesses Won’t Survive Past the Next Three Months, Need Immediate Grant Assistance,” Small Business Majority, Feb. 2021, <https://smallbusinessmajority.org/our-research/access-capital/survey-3-10-small-businesses-won-t-survive-past-next-three-months-need-immediate-grant-assistance>

“Survey: More Than 1 in 3 Small Businesses Won’t Survive Past the Next Three Months Without Additional Financial Relief,” Small Business Majority, Oct. 2020, <https://smallbusinessmajority.org/our-research/survey-more-1-3-small-businesses-won-t-survive-past-next-three-months-without-additional-financial-relief>

“Survey: State of Small Business Six Months into the Covid-19 Pandemic,” Small Business Majority, Aug. 2020, <https://smallbusinessmajority.org/our-research/state-of-small-business-six-months-into-covid-19-pandemic>

“Survey: Small Business Owners at Their Breaking Point, Need Additional Stimulus Relief,” Small Business Majority, Aug. 2020, <https://smallbusinessmajority.org/our-research/small-business-owners-at-their-breaking-point-need-additional-stimulus-relief>

“Survey: Small Business Owners Continue to Struggle Despite PPP Funds,” Small Business Majority, July 2020, <https://smallbusinessmajority.org/our-research/small-business-owners-continue-to-struggle-despite-ppp-funds>

“Survey: Small Business Owners Worried About PPP Loan Forgiveness,” Small Business Majority, May 2020, <https://smallbusinessmajority.org/our-research/small-business-owners-worried-about-ppp-loan-forgiveness>

National small business survey reports:

“Small Businesses Struggling to Access Capital, Harming Their Financial Recovery,” Small Business Majority, Feb. 2021, <https://smallbusinessmajority.org/our-research/access-capital/small-businesses-struggling-access-capital-harming-their-financial-recovery>

“Small Businesses Continue to Face Closures In 2021,” Small Business Majority, Jan. 2021, <https://smallbusinessmajority.org/our-research/small-businesses-continue-face-closures-2021>

“Small Business Owners Report Devastating Impacts of Covid-19, Need Immediate Cash Assistance To Survive,” Small Business Majority, Apr. 2020, <https://smallbusinessmajority.org/our-research/entrepreneurship/small-business-owners-report-devastating-impacts-covid-19-need-immediate-cash-assistance>

Other surveys:

“Small Business Credit Survey,” Federal Reserve, Feb. 2021, <https://www.fedsmallbusiness.org/medialibrary/FedSmallBusiness/files/2021/2021-sbcs-employer-firms-report>

Forthcoming report on joint survey conducted by Small Business Majority and Start Small Think Big, fielded in January 2021