



State of the Small Business Economy in the Era of COVID-19

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Testimony of

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Small Business Committee

United States House of Representatives

The Honorable Nydia Velazquez, Chairwoman

The Honorable Blaine Luetkemeyer, Ranking Member

Protecting Small Business, Promoting Entrepreneurship
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Introduction

Thank you for the invitation to participate in this important hearing today on the “State of the Small Business Economy in an Era of COVID-19.” The work of the House Small Business Committee has been vital to entrepreneurs, small business owners, and their employees over the course of the pandemic in 2020. We deeply appreciate the engagement and hard work of each and every committee member.

Chairwoman Velazquez and Ranking Member Luetkemeyer, our organization looks forward to working with you on advancing solutions that will help our nation’s entrepreneurs dig the economy out of the significant jobs and small business hole we are facing. America’s entrepreneurial sector is more important than ever, and SBE Council is hopeful and optimistic that our nation can rebound if policies and programs continue to provide relief and support for small businesses, and help our entrepreneurs transform and grow their businesses.

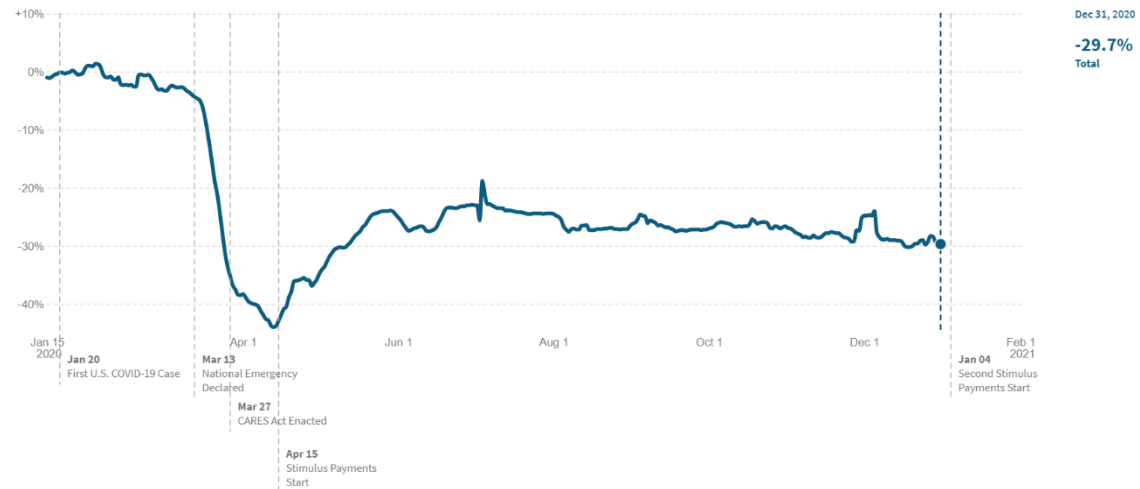
I am honored to be a part of this hearing today representing the Small Business & Entrepreneurship Council (SBE Council), an advocacy, research and education organization dedicated to promoting entrepreneurship and protecting small businesses. For more than 25 years SBE Council has worked on hundreds of policy and private sector initiatives to strengthen and improve the ecosystem for startups and small business growth. Our teams and leaders have worked alongside entrepreneurs and small business owners – and advocated on their behalf - during some of their most challenging periods over these years. This includes several economic downturns, the dot.com bust, the financial crises of 2008 and the Great Recession, periods of tough recovery, as well as a variety of other transformative events and trends that pushed small business owners to pivot and adjust.

The sudden onset of the pandemic and severity of COVID-19 induced shutdowns and restrictions - followed by continuous uncertainty about the course of the disease and when and if economic normalcy will return - shocked and deeply wounded the small business ecosystem. However, and not surprisingly, there have been countless stories of survival and resiliency. Many small business owners have discovered new tools and methods for operating in the COVID-19 economy. Moreover, there has been a surge in the number of individuals in 2020 who are pursuing entrepreneurial activity. [According to the U.S. Census Bureau’s](#) business formation data on “high-propensity” business applications (likely employers) that have been tracked on a weekly basis in 2020, over 1.5 million employer applications were filed in total in 2020, which is an increase of 16% compared to 2019.

Although many small business owners have adjusted their business models to better navigate the uncertainty and shifts in consumer behavior triggered or accelerated by COVID-19, countless others have not. Unfortunately, according to [Opportunity Insights Economic Tracker](#) (a project of Harvard University, Brown University and the Bill & Melinda Gates Foundation), as of December 31 2020, the number of small businesses open **decreased nearly 30%** compared to January 2020.

Percent Change in Number of Small Businesses Open*

In the United States, as of December 31 2020, the number of small businesses open decreased by 29.7% compared to January 2020.



*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.

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With regard to permanent business closures, we do not yet know the year-to-date total. In April 2020, [Main Street America estimated](#) that 3.5 million would close by June 2020, and possibly 7.5 million closures by September 2020 if pandemic conditions continued. For small businesses in certain parts of the country, business closure and pandemic conditions persisted, while in other parts of the country conditions had lifted or changed. Near the end of September 2020, 5% of businesses surveyed by the U.S. Census Bureau in the [Small Business Pulse Survey](#) (which provides weekly insight by measuring the effect of changing business conditions during the pandemic on small businesses) said they would not survive the next 6 months – which is approximately 1.2 to 1.5 million businesses.

In the latest Census Bureau survey conducted January 4-10, 2021, the percentage is 4.5%. Obviously, these future closures are on top of the number of permanent closures that have already occurred.

The Pain of the Pandemic Will Continue for Small Businesses

Some of the same difficult issues that small business owners endured during 2020 continue to challenge them in early 2021. Lost revenue is one of them. The Opportunity Insights Economic Tracker reported that small business revenue decreased 31.1% in 2020, and unfortunately there has not been much of a rebound to start the new year. According to the Census Bureau’s [Small Business Pulse Survey](#), 40% of small businesses experienced a decline in revenue during the first two weeks of January 2021. Only 5% saw an increase during the second week of January 2021.

Negative or low revenue growth has many small business owners concerned about their survival and ability to keep up with their bills, maintain employees, and operate effectively. In fact, an [Alignable January 2021 Rent Poll](#) revealed 33% of small business owners reported that they could not pay their rent in January (see chart below), which comes on the heels of a December

[Alignable Revenue Poll](#) that found 48% of small businesses feared they wouldn't generate enough money in Q4 2020 to stay afloat.

Share of small businesses that couldn't pay January rent

By type; Poll of 10,325 business owners, Jan. 9-12, 2021

Business type	Percentage
Restaurants/bars	57%
Yoga studios	46
Consumer retailers	44
Massage therapists	43
Beauty salons	42
Printers	42
Interior designers	42
Wedding planners	41
Manufacturing	41
Transportation	41
Gyms	36

Data: [Alignable](#); Chart: Axios Visuals

For minority-owned businesses, the rent problem was more acute, with 49% reporting they were unable to pay their rent on time, or in full.

As noted within the report: “More categories than ever are showing the lasting effects of dwindling customer counts, reclosures due to escalating COVID cases, cash flow crises, decreasing revenue, and related issues.”

Looking forward in terms of small business outlook, and what they identify as their needs, several reoccurring surveys identify common sentiment and the support they will need.

For example, the Met Life and U.S. Chamber of Commerce Small Business Index, [Q4 2020](#) finds:

- “Small businesses anticipate the worst of the pandemic is still ahead and most say they need further government assistance to weather the storm...62% of small business owners believe the worst of the pandemic is ahead of us.”

- “(48%) report lower revenue this year when compared to the same time last year. Furthermore, half (50%) of small businesses see their operations continuing for a year or less before having to permanently shut down.”
- “Nonetheless, 40% (28% in late March) of small business owners believe their business can continue to operate indefinitely without having to shut down permanently. Two-thirds (67%) also say they have a business plan to adapt to a changing economy and a clear idea of how to change their business if they start to struggle. Some anticipate better times ahead: a majority (52%) anticipate revenue increases one year from now.”
- “With many anticipating worse times, it’s not surprising many small businesses see the need for temporary, targeted government assistance. Nearly three-quarters (74%) say additional federal relief funds would be important to their business’ ability to succeed in 2021. When asked what the next president and Congress should prioritize in 2021, the economy (44%) and combatting COVID-19 (44%) rise to the top of the list and are viewed as equally important.”
- “29% of small businesses describe the U.S. economy as good (up seven points from September). In Q4 2019, 57% said the national economy was good. 50% characterize the economy as poor (down from 58% in September).”
- “A majority (56%) of small business owners continue to believe it will take six months to a year for the small business climate to return to normal. That number has remained statistically unchanged since May.”

The latest **NFIB Small Business Optimism Index** pointed to similar worries, as it “declined 5.5 points in December to 95.9, falling below the average Index value since 1973 of 98. Nine of the 10 Index components declined and only one improved. Owners expecting better business conditions over the next six months declined 24 points to a net negative 16%.”

As noted by NFIB Chief Economist Bill Dunkelberg about the latest survey: “This month’s drop in small business optimism is historically very large, and most of the decline was due to the outlook of sales and business conditions in 2021.”

What Small Businesses Need and How they Will Target Resources in 2021

Policies and initiatives that support existing small businesses through the challenging months ahead along with support for individuals encouraging them to move forward with their intention of starting a business will be vital to breathing life into America’s small business ecosystem.

According to the most recent **Small Business Pulse Survey** (U.S. Census Bureau, January 4-10, 2021), there are a variety of actions identified by small business owners that they plan to take over the next 6 months, which can better help us meet their needs for weathering the uncertain period ahead:

- **Access to capital:** 33.5% report they will need to find additional capital or financial assistance. That percentage is higher for certain industries: 55.7% for accommodations and food services,

45.3% for educational services, 44% for arts, entertainment and recreation, and 35.2% for manufacturing.

- **Boost marketing and sales efforts:** 32.3% say they need to increase efforts that generate more revenue.

- **New supply chains:** An average of 12.3% of small businesses report they will need more options, which is higher for certain sectors – manufacturing (24%), wholesale trade (23%), and retail trade (21.7%).

- **Develop online sales and websites:** 13.3% of small businesses report they will need to more effectively use technology to meet future business needs. In certain sectors that need is higher: educational services (25.8%), accommodations and food services (19.6%), retail trade (23.7%), wholesale trade (21%), information services (20.1%), and manufacturing (16.3%).

- **Identify and hire new employees:** 23.6% plan to take this action, which is a bright spot, including accommodation and food services at 29.6%.

- **Learn how to better provide for the safety of customers and employees:** 13.3%.

- **Permanently close the business:** 4.5%, which is higher for accommodation and food services (8.8%); arts, entertainment and recreation (8.2%); transportation and warehousing (5.6%); mining, quarrying, and oil and gas extraction (5.6%); and educational services (5.6%).

Obviously, various federal government support programs have been critical for small businesses during the early days of the pandemic and thereafter. These programs will continue to be vital, as expressed by business owners in the various surveys noted above. According to the most recent Small Business Pulse Survey, a significant share of small businesses requested financial assistance and received support from these programs over the year:

- An average of 74.6% of small businesses requested a PPP loan from the start of the program in March 2020, and 73.6% reported receiving a PPP loan.

- An average of 25.9% of small businesses requested EIDL assistance, and 23.4% report receiving a loan.

- At this point in time, 17.1% report that they requested SBA loan assistance and 11.8% received that assistance.

Technology and Online Platforms Have Been a Lifesaver

The massive shift to “everything online” as a result of the pandemic pushed and allowed many small businesses to continue operating and drive revenue. A [June 2020 SBE Council/TechnoMetrica Technology and Cloud Services Survey](#) revealed just how important these tools became to small business survival: 76% of small business owners reported that cloud

services were critical to the survival and operation of their business during COVID-19. In addition:

- 79% of small businesses agree that cloud services have helped their businesses more effectively communicate with and/or better manage their customers amid COVID-19.
- 84% of small businesses say that cloud services have improved employee productivity and collaboration.
- 67% of small businesses agree that they are able to reopen more quickly and efficiently from the COVID-19 lockdown as a result of using cloud services.

Early in the COVID-19 crisis, we saw that many small businesses made the shift to online operations and commerce. A [May 2020 State of Small Business Report](#), co-sponsored by Facebook and the Small Business Roundtable, found that: 51% of small businesses increased their online interactions with customers, 36% of personal businesses using online tools said they were conducting all their sales online, and 35% expanded the use of digital payments.

The latest [Small Business Pulse Survey](#) affirms the vital role of technology and online platforms in helping small businesses keep their “doors” open and drive revenue: 24.8% reported an increase in the business’s use of online platforms to offer goods and services, which is higher in educational services (65.5%), accommodations and food services (38.5%), information (38.1%), finance and insurance (36.7%), and retail trade (32.3%).

Policy Conversations Moving Forward

Obviously, access to broadband is central to being able to access the digital tools that have become even more vital during the pandemic. And that is why SBE Council has long supported policies that encourage investment and the buildout/deployment of broadband. With the acceleration of the digital economy due to the pandemic, and the promising developments and opportunities that will arrive with 5G, entrepreneurial opportunities will grow exponentially. As the committee reviews support and educational programs provided by the SBA, technology training needs to be at the core of these programs, and that they reach rural and disadvantaged communities.

Moreover, online platforms have served as a lifeline for small businesses, and policies need to provide certainty to ensure they continue to innovate and affordably serve small businesses. These platforms provide access to new markets, communications tools that allow small businesses to operate more efficiently and effectively, and payment options that help small businesses close sales more quickly, which means faster access to the capital to invest, grow and innovate.

Although this hearing today is focused on the State of Small Business in the Era of COVID-19, I look forward to discussing other policy options and solutions that can provide small business owners with the assurance they need to continue operating, and taking risks, and those that will provide entrepreneurs additional relief so they can dig out of the revenue hole of the past year.

Access to capital will continue to remain important – for existing businesses and startups alike – and we continue to monitor the rollout of this next phase of PPP and EIDL to ensure that all small businesses that are eligible receive the capital and assistance they need during the next few precarious months of the economy.

SBE Council is also pleased that investment crowdfunding (regulated crowdfunding) is being utilized by a greater number of local businesses and startups, and new SEC changes set to take effect in March should help to supercharge this method of raising capital. From the very beginning of our efforts to make regulated crowdfunding a reality during President Obama’s term in office, we maintained that it would democratize access to capital and that has certainly been the case. In fact, the [latest study by Crowdfund Capital Advisors finds](#):

- Of the SMEs that successfully raised the maximum \$1M from Regulation Crowdfunding:
 - 45.5% had female founders
 - 40.9% had minority founders
 - 100% said that they would have raised \$5M if that amount would have been available to them.
- Offerings by all types of businesses in all 50 states and Puerto Rico successfully raised more capital.
- Offerings were up 61% year over year.
- The number of new Issuers (SMEs) of all sizes increased 58% and raised more in 2020 than any prior year.
- Local investors are deploying rational amounts of money into local businesses in areas outside of Venture Capital.
- Regulation crowdfunding investments continues to grow at a compound annual growth rate of 88% with high unrealized returns.
- Demographics: 1,085 Cities, 447 industries, and 750,000 investors have engaged in Regulation Crowdfunding
- Distributes capital to local economies across the United States despite geographical biases from the Venture Capital industry.
- Provides local investors a legal structure to support the local entrepreneurs they believe in, with a limited amount of risk capital.

And over the last 4 years, with appropriate investor protections, these investments have been made with no reported fraud.

SBE Council looks forward to working with all members of the committee to ensure small business owners and entrepreneurs have the tools and support they need to help our economy recover. Small business health and growth will play an enormously important role in the recovery, and entrepreneurs and their employees are counting on common-sense, bipartisan initiatives to help them succeed.

Thank you again for your invitation to be a part of this important hearing today.