Goldman Sachs 10,000 small businesses

Voice of Small Business in America: 2019 Insights Report

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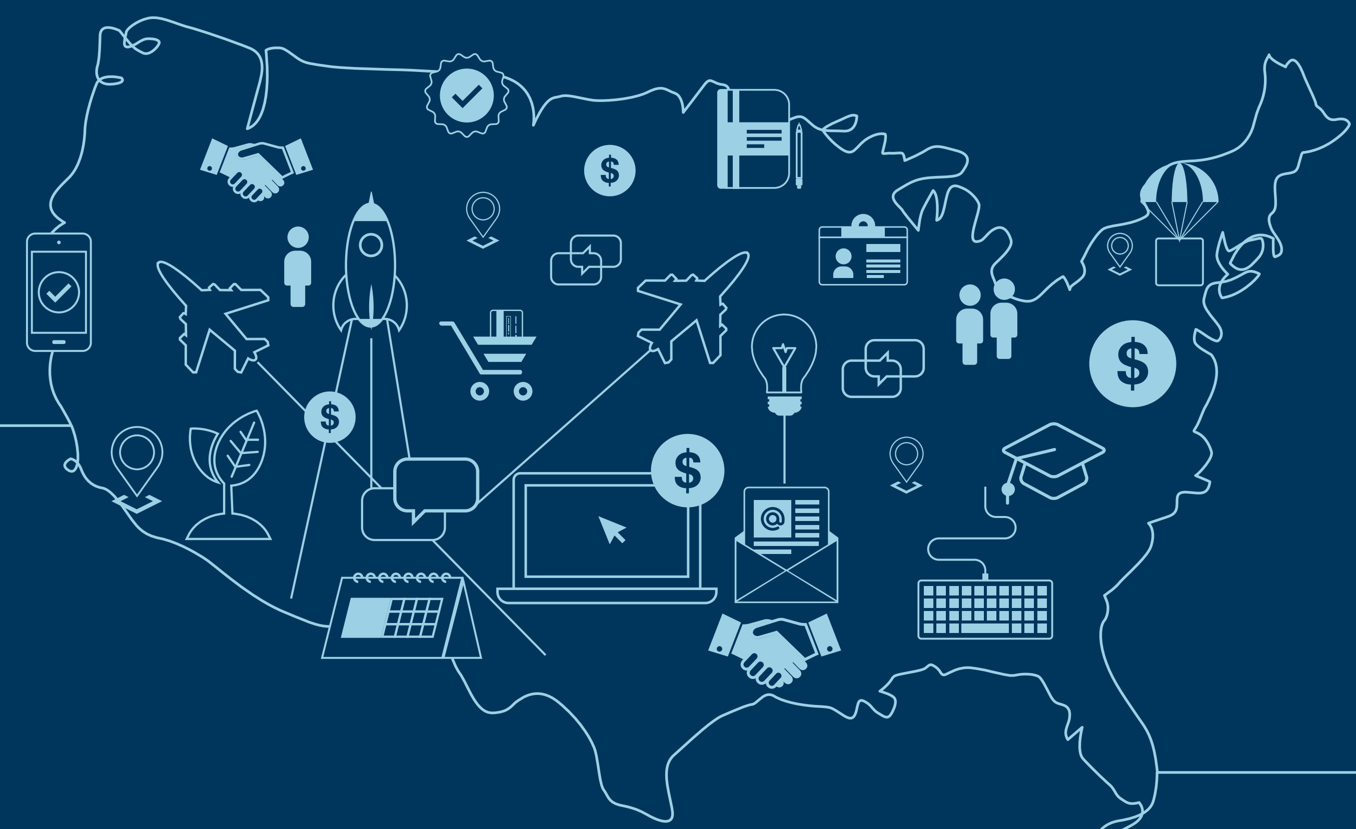
"Small businesses as a whole can deliver even more to the economy – there's untapped potential here, waiting to be unleashed."

David M. Solomon, Chairman & CEO, Goldman Sachs
Co-Chair, Goldman Sachs *10,000 Small Businesses* Advisory Council



VOICE OF SMALL BUSINESS IN AMERICA: 2019 INSIGHTS REPORT

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FOREWORD

DAVID M. SOLOMON
Chairman and CEO, Goldman Sachs
Co-Chair, Goldman Sachs
10,000 Small Businesses Advisory Council

When we launched Goldman Sachs *10,000 Small Businesses*, we were guided by a single concept. We knew that small businesses were catalysts of economic growth and job creation; by providing them with targeted resources and access to capital, we believed we could accelerate their trajectories on both of these fronts.

That thesis has now been proven many thousands of times over the last several years. Graduates of the program – and there are more than 8,600 today – have consistently reported stronger revenue growth and hiring rates than the national average.

This confirms that the basic framework of *10,000 Small Businesses* is the right one. It also tells us that small businesses as a whole can deliver even more to the economy – there's untapped potential here, waiting to be unleashed.

Realizing this potential will require continued partnership among policymakers, funders, and organizations on the ground. Though collective action is not easy, the potential payoff is significant.

In the following pages, we share results from a comprehensive survey highlighting the impact of graduates of *10,000 Small Businesses* as well as the barriers to growth our graduates continue to face. Though no one small business owner's experience is the same, common trends and views emerge across the regulatory, workforce, and funding landscapes. The findings illuminate how small businesses continue to invest in their people and create value in, at times, a resource scarce environment.

I have had the pleasure of meeting with numerous entrepreneurs in this program. I am continually inspired by their vision to grow and to innovate. This motivates us to elevate their perspectives and invite policymakers and leaders across sectors to collectively invest in the success of small businesses to maximize economic opportunity in the United States.

EXECUTIVE SUMMARY

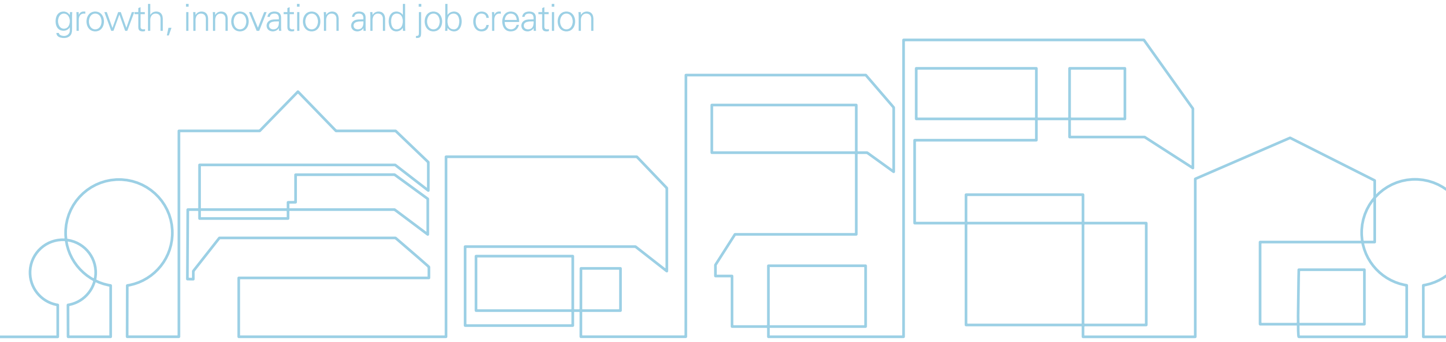
Small businesses are engines of economic growth and job creation in the United States. Yet, their role in advancing the American economy is often underestimated. Small businesses comprise 99% of all employer firms[1] and employ nearly half of the American workforce.[2] Growth-minded small business owners therefore offer us a critical perspective on how to foster entrepreneurial growth, innovation, and job creation.

Developed in partnership with Babson College, this report summarizes small business owners' insights collected through an online survey administered by an independent third-party market research firm.[3] Responses were collected from 2,285 business owners who have participated in the Goldman Sachs *10,000 Small Businesses* program since 2010.

The findings show that small businesses are at the forefront of investing in the workforce and driving growth, despite resource constraints. This is reflected in their willingness to support wage growth, provide healthcare, and invest in workforce training. And though their economic outlook is generally optimistic, data shows that respondents struggle to navigate regulations and find the right talent. The results also highlight the challenges experienced by women and entrepreneurs of color, namely reflected in their economic outlook and experiences accessing capital.

These findings reinforce the importance of dedicating resources to both new and growth-oriented existing small businesses. The data highlights the need for greater knowledge-sharing and dialogue between small business owners, capital providers, and policymakers to further improve efficiencies and unlock greater economic potential.

Growth-minded small business owners offer us a critical perspective on how to foster entrepreneurial growth, innovation and job creation



1. "2018 Small Businesses Profile." SBA, Office of Advocacy. Accessed June 10, 2019. https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf
2. Ibid.
3. Morning Consult based in Washington D.C.

KEY FINDINGS

In the U.S., small businesses comprise 99% of all employer firms[4] and employ nearly half of the American workforce.[5]

The purpose of this report is to elevate small businesses' perspectives on how the current business environment affects their growth, specifically focusing on regulation, workforce and capital.

Developed in partnership with Babson College and administered by an independent third-party market research firm,[6] this report summarizes findings from a survey of 2,285 respondents across the country who have participated in Goldman Sachs *10,000 Small Businesses*.

1. The #1 challenge is still hiring and retention

- Despite eagerness to hire, 76% of respondents find it difficult to attract, hire and retain employees.
- The skills gap is widening – nearly two-thirds of respondents are not finding the right talent within the applicant pool, a 50% increase from 2016.
- In addition to technical skills and work experience, respondents highlight soft skills and attitudinal attributes like a positive attitude (59%), willingness to learn (49%) and integrity (46%) as important qualities in prospective hires over qualifications like education (6%).

2. Time spent on regulation climbs and compliance costs endure

- Over 60% report regulations negatively impact their growth, with labor laws being the greatest challenge.
- Cost, time spent, and complexity make regulations challenging, with over a third of respondents citing the cost as the biggest issue.
- Respondents spent an average of six hours per week on regulation, a 50% increase from last year.

4. "2018 Small Businesses Profile." SBA, Office of Advocacy. Accessed June 10, 2019. https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf
5. "Small Business Administration and Job Creation" Congressional Research Service, December 2018. Accessed June 12, 2019. https://fas.org/sgp/crs/misc/R41523.pdf
6. Morning Consult based in Washington D.C.

3. Small businesses support a higher minimum wage

- Nearly 8 in 10 respondents favor a higher local minimum wage, by an average of $2.48/hour.
- This remains even among the 39% who state an increase in minimum wage would negatively impact their business, with 65% of this group favoring a higher wage by an average of $1.24/hour.

4. Small businesses invest in their people through healthcare, training and retooling

- Though only 8% of respondents are legally required to provide healthcare, over 55% offer healthcare to at least some of their employees, largely because they believe "it's the right thing to do".
- 88% provide professional development and training opportunities to their employees.
- 71% have introduced some form of automation but only 5% have laid-off employees due to it, while 35% transitioned their existing employees into new positions and 32% hired new employees.

5. Gender and race differences are material

- Women respondents are less optimistic about the current economy than men (65% women vs 77% men), and respondents of color are less optimistic about the current economy than white respondents (65% people of color vs 73% white).
- Nearly one-fifth of women respondents report their gender has negatively affected their ability to secure financing versus just 2% of men who said the same.
- Business owners of color are more likely to apply for funding than white business owners (45% people of color vs 38% white), but are more than twice as likely to receive no funding (20% people of color vs 9% white).

6. Capital is often used to maintain operations, rather than fuel strategic growth

- Respondents rely heavily on personal finances to start (80%) and sustain (47%) their businesses.
- Among respondents who applied for external funding but did not receive the full request, nearly half report they experienced greater difficulty expanding into new markets, demonstrating the direct impact the lack of funding has on growth.
- A majority of those who successfully secured some or all of the funding utilized it to improve cash flow, manage working capital and maintain operations.

WHY SMALL BUSINESSES MATTER

Small businesses account for over 30 million businesses in America, comprise 99% of all employer firms,[7] and employ 58.9 million people,[8] nearly half of America's private workforce.[9]

The more than 8,600 small businesses within the Goldman Sachs *10,000 Small Businesses* network alone represent a large and growing economic force:[10]

8,600+ small businesses

175K+ total employees

$12B total revenues

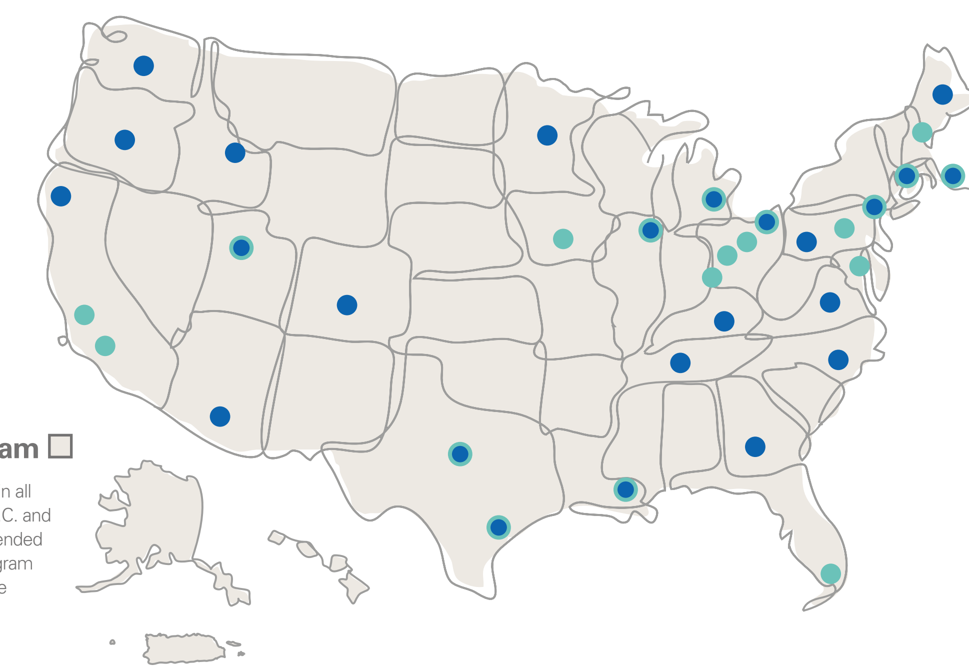
And despite the well-deserved surge in attention and investment in start-up businesses over the last decade, we cannot discount the role of existing small businesses in job creation and economic activity. Though new ventures are critical to sparking innovation and creating new jobs, nearly one-third of the 2% of firms that become "high-growth" (i.e., more than 70% employment growth over a three-year period) are ten years old or older.[11] At the same time, high-growth firms tend to be small – 76% of them have fewer than 20 employees at the outset of the (three-year) high-growth period. An emphasis on helping existing businesses scale to a greater degree offers enormous potential to create new jobs and generate economic development.

Measuring the revenue and job growth of small business owners who participated in *10,000 Small Businesses* provides a window into the economic impact of growth-minded small businesses. At six, 18 and 30 months after graduation, 67%, 72% and 75% respectively of alumni increase revenues. For job creation, the comparable six, 18 and 30-month numbers are 47%, 53% and 56% respectively.

ABOUT GOLDMAN SACHS *10,000 SMALL BUSINESSES*

Goldman Sachs *10,000 Small Businesses* is an investment to help entrepreneurs create jobs and economic opportunity by providing access to education, capital and business support services. The program fosters economic development by providing growth-oriented entrepreneurs with the tools they need to take their businesses to the next level.

Program Delivery Locations



National Program ☐

The program is available in all 50 states, Washington D.C. and Puerto Rico through a blended online and in-person program offered at Babson College

Capital Locations

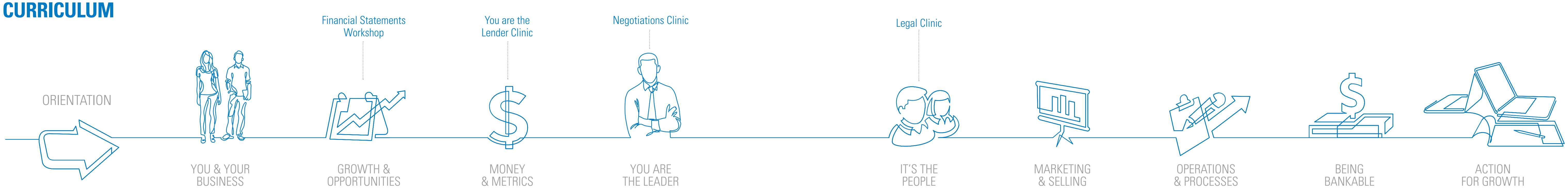
Arizona	Minnesota	San Francisco Bay Area
Colorado	Montana/Idaho	Tennessee
Georgia	North Carolina	Washington
Kentucky	Oregon	Virginia
Maine	Pittsburgh	

Education Program Locations

Baltimore	Dallas ●	Long Beach	New York City ●
Chicago ●	Dayton	Los Angeles	Philadelphia ●
Cincinnati	Detroit ●	Miami	Rhode Island ● *
Cleveland ●	Houston ●	New Hampshire*	Salt Lake City ●
Columbus	Iowa*	New Orleans ●	

● Indicates capital is also available at these locations * Indicates statewide offering

CURRICULUM



7. Defined as fewer than 500 employees. 2018 Small Businesses Profile." SBA, Office of Advocacy. Accessed June 10, 2019. https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf
8. Ibid.
9. "Small Business Administration and Job Creation" Congressional Research Service, December 2018. Page 4. Accessed June 12, 2019. https://fas.org/sgp/crs/misc/R41523.pdf
10. These 8,600 plus small businesses represent the "population" of all business owners that have either completed or were participating in the Goldman Sachs *10,000 Small Businesses* program at the time of the report. All data and results in Section 1 are based on this population
11. Clayton, Sadeghi, Talan, and Spletzer. "High-employment-growth firms: defining and counting them." Bureau of Labor Statistics, Monthly Labor Review, June 2013. Accessed June 10, 2019. https://www.bls.gov/opub/mlr/2013/article/clayton.htm

WHO ARE THE *10,000 SMALL BUSINESSES?*

BUSINESSES

2-164
business age range, with a median age of 14

$724K
median revenues reported by program participants

10
median number of employees

44%
of businesses are family-owned

PARTICIPANTS

46%
women

22-84
years old, with a median age of 48

Millennials	18%
Gen X	49%
Baby Boomers	29%
Traditionalists	1%

63% White

14% Black

13% Hispanic

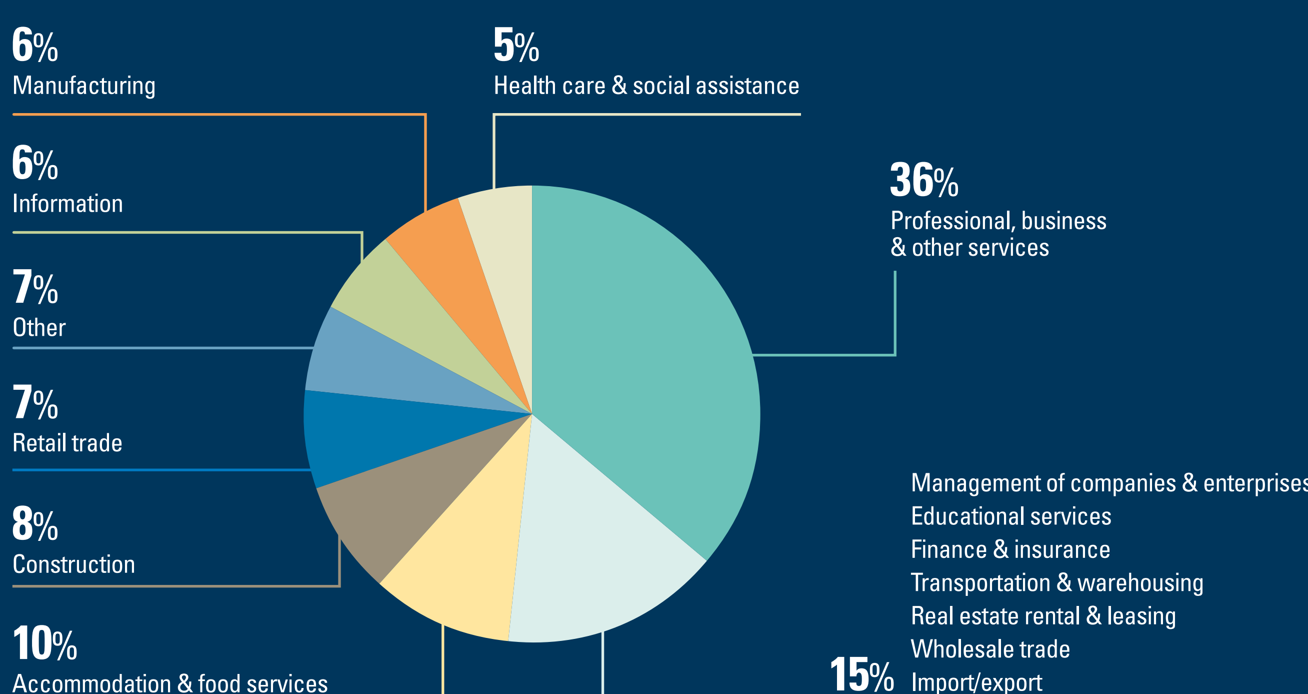
6% Asian & Native Hawaiian or Other Pacific Islander

2% Multi-racial

0.2% American Indian or Alaskan Native

Note: The Census Annual Survey of Entrepreneurs (ASE) from 2016 cites the following national statistics for the race and ethnicity of small business owners in the United States: White: 84.9%, Asian & Native Hawaiian or Other Pacific Islander: 10.4%, Hispanic: 6.3%, Black: 2.3%, American Indian or Alaskan Native: 0.5%

INDUSTRY DISTRIBUTION



REVENUE GROWTH

% of *10,000 Small Businesses* alumni who increased revenues post program completion

6 Months	67%
18 Months	72%
30 Months	75%

53%
53% of U.S. small businesses increased revenues in 2017[12]

JOB CREATION

% of *10,000 Small Businesses* alumni who created jobs post program completion

6 Months	47%
18 Months	53%
30 Months	56%

30%
30% of U.S. small businesses created jobs in 2017[13]

PROGRAM STAYING POWER

98%
program completion rate

+92
the program has a Net Promoter Score of +92, which is considered "world class"[14]

86%
of alumni do business with other *10,000 Small Businesses* firms

66%
of alumni mentor other small business owners after completing the program

12. "2017 Year End Economic Report." National Small Business Association. Accessed June 10, 2019. https://nsba.biz/wp-content/uploads/2018/02/Year-End-Economic-Report-2017.pdf
13. Ibid.
14. Net Promoter Score (NPS) is one way to measure customer satisfaction and loyalty. Scores range from -100 to +100 and NPS scores greater than 50 are considered excellent Reichheld, Frederick F. The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World. Boston, Mass.: Harvard Business Press, 2011

ECONOMIC OUTLOOK & GROWTH

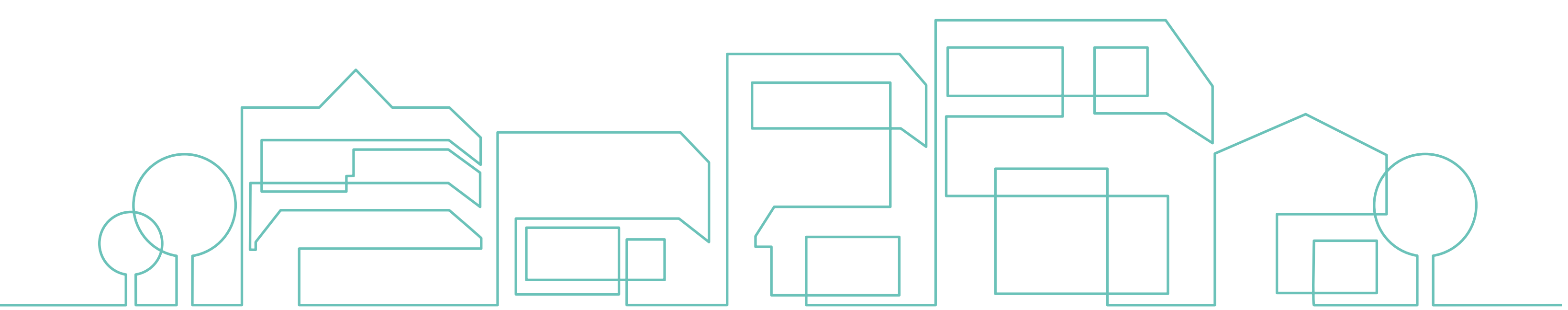
This report outlines findings from a survey of 2,285 small business owners across the United States who have participated in Goldman Sachs *10,000 Small Businesses*.

Growth-oriented small businesses offer a critical perspective on the unique – and often overlooked – realities of being an entrepreneur in the United States. The collective voice of small business owners is essential to informing the national discussion on fostering a business environment that enables and encourages growth and job creation.

The following sections provide a lens into how small businesses view the current economy and the business environment, and how they navigate challenges and opportunities within the regulatory, workforce and financing landscapes.

71% are optimistic about the current economy

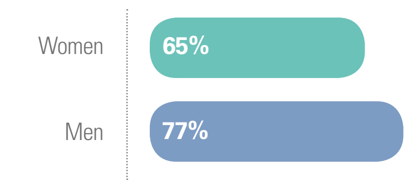
61% are optimistic about the future economy



How do respondents feel about the economy?

Commensurate with strong hiring patterns and falling unemployment that have characterized the U.S. economy in recent months,[15] 71% report optimism about the current performance of the economy. However, optimism declined to 61% when asked about the future, reflecting respondents' sense of ambivalence about economic conditions ahead, potentially informed by tightening labor markets and geopolitical uncertainty.

Moreover, views on the economic outlook varied by gender and race. Women respondents were less optimistic about the current economy than men (65% women vs 77% men), and respondents of color reported feeling less optimistic than white respondents. (65% people of color vs 73% white). After controlling for industry, geography, and other factors that affect performance, the odds of respondents of color being hopeful in the current economy were 67% less than white respondents. Despite general levels of optimism on the whole, gender and race differences in outlook reflect potential barriers and challenges women and people of color face in running a small business and in navigating the entrepreneurial ecosystem.



Are small businesses growing?

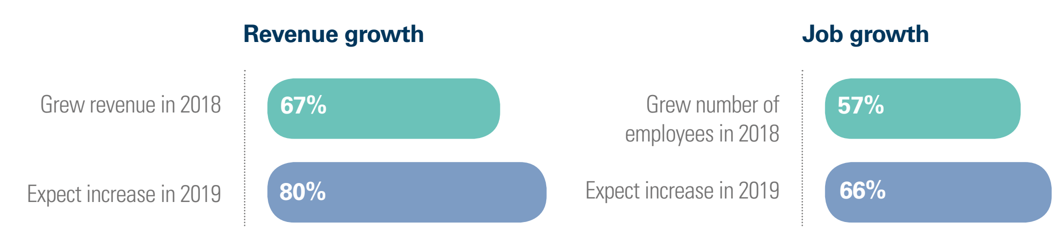
On the whole, survey respondents reported strong growth in 2017 and 2018, as well as plans for growth in the remainder of 2019, confirming the growth mindset of *10,000 Small Businesses* participants. Consistent with the broader program impact metrics, two-thirds (67%) said that their business revenue increased between 2017 and 2018, and the majority (57%) said that their employee base increased during that period as well. Further, a substantial majority reported that they expect to grow both their revenue (80%) and workforce (66%) in 2019.

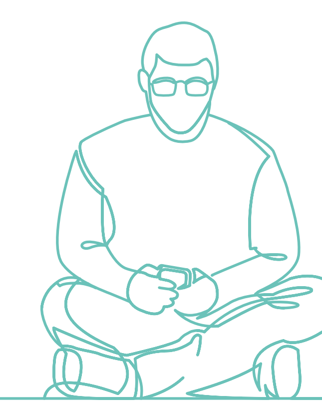
Although a majority of the sample anticipated growth in 2019, a unique group of respondents, totaling 35% of the sample population, reported that they grew both revenue and employees in 2018 and anticipate continued growth in 2019. This group was more likely to be optimistic about the economy and more likely to be millennials than other generation categories. Even after controlling for firm age, millennials were 34% more likely to be in this category than other generations, illuminating a measurable difference in growth-orientation among millennials.

Despite this, the small business environment is not without challenges. The remainder of this report takes a close look into three of these challenges – regulatory requirements, workforce, and access to capital – and finds a common theme: despite potential resource constraints and environmental headwinds, small business owners are focused on investing in their workforce and creating value.

Millennials are more likely to be optimistic about the economy and experience revenue and job growth than other generational groups

Revenue and Job Growth





15. "News Release." Bureau of Labor Statistics, U.S. Department of Labor. Accessed July 8, 2019. https://www.bls.gov/news.release/pdf/empsit.pdf

"Access to capital remains the number one concern and challenge that small businesses face today. I do believe that there has been an improvement in the banking system where they are more open to lending to small businesses than they were 9 or 10 years ago."

Haleema Shafeek
Green Office Furniture Solutions, LLC
Columbus, Ohio
10,000 Small Businesses Graduate

BUSINESS ENVIRONMENT & REGULATORY LANDSCAPE

As small businesses comprise more than 99% of all employer businesses in the United States, a business environment and regulatory landscape that promotes small business growth and innovation is crucial.

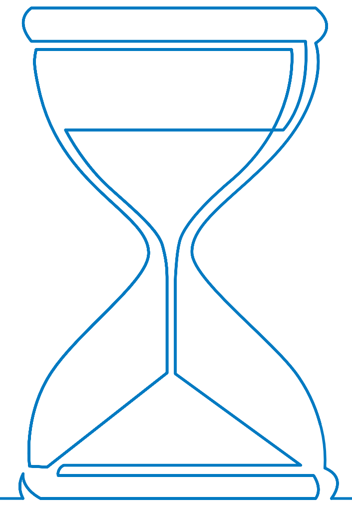
Small business owners spend substantial time and resources managing regulations, from navigating licenses and certifications to complying with labor laws and healthcare requirements. It is critical to understand the extent to which small businesses see rules and regulations as supporting or challenging growth, and equip them with the right mix of resources and knowledge to thrive.

How prepared are they?

The majority of respondents (55%) stated they were only "somewhat" to "not at all" prepared to comply with regulations and laws that affect their business. On average, respondents spent six hours per week managing and complying with regulations – the equivalent of nearly an entire day each week. This translates to over 300 hours per year spent managing government regulations. This is a 50% increase from 2016, when respondents stated spending on average four hours per week on managing regulation.[16]

On average respondents spent

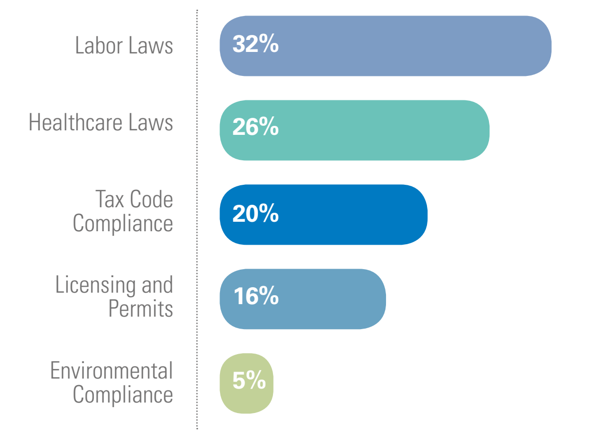
6hrs per week managing regulation



this translates to

300hrs per year

Which regulation or law presented the biggest challenge in the past year?



60% of respondents reported regulations negatively impacted their growth

Which regulations are the most challenging and why?

Over 60% of respondents reported regulations negatively impacted their growth, and of the various types of regulations, labor laws (e.g., wage requirements, benefits, visas, etc.) rose to the top as a challenge area (32%), followed by healthcare laws (26%), and tax compliance (20%). Respondents in the Accommodation & Food (40%), Construction (36%), and Retail (30%) industries expressed that labor laws were most challenging to their growth compared to other industries, while business owners in the Professional Services (34%) and Manufacturing (30%) industries reported healthcare compliance as their greatest regulatory challenge.

When asked why specific regulations were challenging to growth, 43% of respondents reported that cost, complexity, and time spent are all reasons for why regulation is a big challenge for them. Further, over a third indicated that cost alone, beyond complexity and time spent, was the biggest challenge they faced when managing regulation.

Prior research conducted by Goldman Sachs *10,000 Small Businesses* found that 85% of small business owners are personally responsible for ensuring their business complies with local, state, and federal requirements and stated that they find the process of learning all the various requirements affecting their business at the local, state and federal level challenging.[17] Factors that make managing regulations challenging to navigate include: difficulty learning about the various local, state, and federal level requirements that impact their business, overly dispersed information, frequently changing requirements, lack of clarity on specific rules and questions, and unreliable information.[18]

Thirty-six percent of respondents stated that their time was a key constraint to growing their business. Given the relative time and cost small business owners spend managing regulations, policymakers may consider the potential for disproportionate impact on small businesses,[19] relative to large institutions, when approaching new regulation. Engaging small businesses that would be impacted during the process of developing new regulations and policies can help inform a more supportive regulatory framework.

43% of respondents reported that cost, complexity and time spent are all reasons for why regulation is a big challenge for them

16. "The State of Small Business in America." Babson College, 2016. Accessed June 21, 2019. https://www.goldmansachs.com/citizenship/10000-small-businesses/US/news-and-events/babson-small-businesses/#sec-2
Note: respondents in the 2016 State of Small Business in America report may differ from 2019 respondents

17. "The Big Power of Small Businesses Summit." Goldman Sachs *10,000 Small Businesses*, 2018. Accessed June 10, 2019. goldmansachs.com/citizenship/10000-small-businesses/US/2018-summit/multimedia/10ksb-summit-summary.pdf
18. Ibid.
19. For example, in the February 2018 report by GMI titled "Reinvigorating Small Business" reported that small businesses, which generally have fewer or less effective alternatives to bank credit have paid the largest price for increased, bank regulation

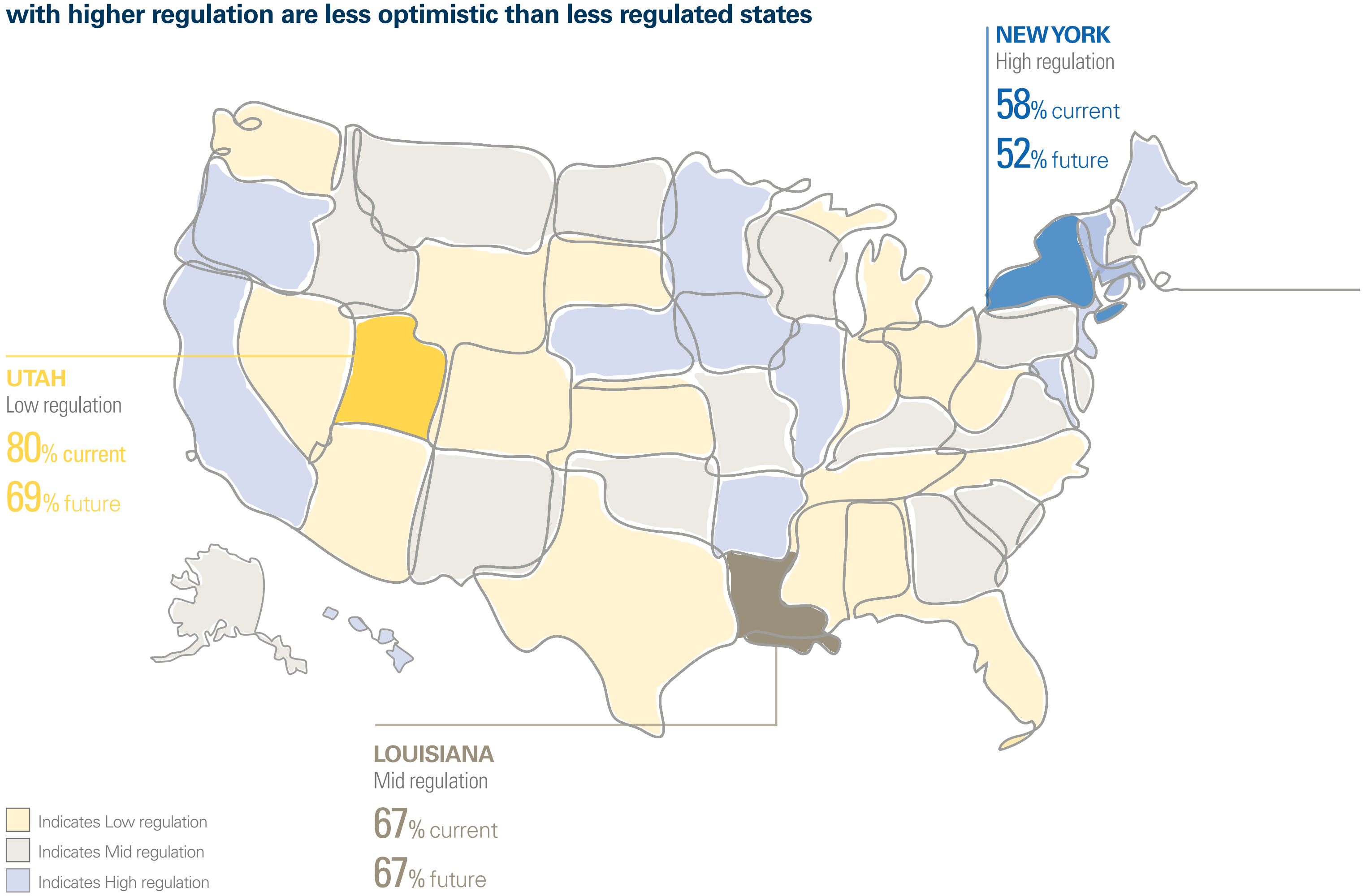
DIFFERENCES IN ECONOMIC OUTLOOK

Differences in the economic outlook of small businesses were also analyzed by the level of regulatory requirements in different states. The 50 United States were divided into thirds based on the level of regulation using the Small Business Policy Index 2019 published by the Small Business & Entrepreneurship Council.[20] The analysis showed that respondents operating in lower regulation states were significantly more optimistic about their current economic outlook than the business owners in states with higher levels of regulation.

75% of respondents located in low regulated states reported being optimistic in the current economy compared to 66% of respondents in the highest regulated states.[21]

Research shows that a highly regulated business environment can disproportionately impact small businesses. An average small business owner spends at least $12,000 every year on regulations, and nearly one-in-three spends more than 80 hours each year dealing with federal regulation alone.[22] Further, the Small Business Administration (SBA) estimates the annual cost of federal regulations in the United States is at $1.75 trillion and finds that the regulatory cost on small businesses is 36% higher than for large businesses on a cost per employee basis.[23] Given the significant responsibility small businesses owners bear from a regulation management standpoint, the differences in economic outlook may partly reflect the varying levels of regulatory requirements they may need to manage.

Optimism about the current and future economy: respondents from states with higher regulation are less optimistic than less regulated states



20. "Small Business Policy Index 2018." Small Business & Entrepreneurship Council. Accessed June 10, 2019. https://sbecouncil.org/resources/publications/small-business-policy-index-2018/
21. This 9% difference between the highest and lowest regulated states is statistically significant
22. "Small Businesses Regulations Survey." Accessed July 2, 2019. https://nsba.biz/wp-content/uploads/2017/01/Regulatory-Survey-2017.pdf
23. "The Impact of Regulatory Costs on Small Firms." SBA, Office of Advocacy, 2010. Accessed July 10, 2019. https://www.sba.gov/sites/default/files/The%20Impact%20of%20Regulatory%20Costs%20on%20Small%20Firms%20(Full).pdf

SPOTLIGHT ON KEY ISSUES

Tax Reform

Respondents had mixed views on the impact of tax reform, with a large share indicating a lack of familiarity. When asked about the Tax Cuts and Jobs Act of 2017, 46% reported they did not know how the policy would impact business growth. 35% reported it has not led to growth for their business and did not expect it to, while 20% stated it has either already led or is expected to lead to growth for their business.

Trade Policy

Nearly half of the respondents reported they were either negatively impacted or unsure about how changes in trade policy would impact their business. For example, by hindering their ability to export, import, or manage supply chain costs. Respondents in Wholesale (73%), Retail (68%) and Manufacturing (65%) industries were significantly more likely to be negatively impacted by changes in tariffs and trade policies than other industries.

Government Shutdowns

Of the respondents who contract with the federal government (16%), nearly 40% reported they were negatively impacted by the government shutdown in late 2018 and early 2019. Further, 45% reported that future shutdowns would negatively impact their business. As expected, respondents who rely more on government contracts (i.e., 50% or more of revenues from government contracts) were more likely to report that shutdowns have hurt their business.

Goldman Sachs 10,000 small businesses

"Professional development is key to our success as an organization. We take training and development seriously. Therefore, we budget time and money for it, and offer both internal and external training. Internal is mostly focused on team building and client relations. External is typically industry-specific or required for our licensure."

Izaah Knox
Urban Dreams
Des Moines, Iowa
10,000 Small Businesses Graduate

WORKFORCE

Respondents reported finding the right talent as the biggest challenge to their business, for the third consecutive year.

Despite respondents' optimistic attitudes about their ability to grow and hire new employees, the vast majority of respondents (76%) shared it was difficult to find and keep employees with the skills and experience they need. This finding was consistent across all demographic groups, and a continuing trend from prior research.[24]

What's more, 80% of respondents said their staff is at least somewhat comprised of individuals from diverse backgrounds and social identities. Small firms often hire from a wide band of age groups and educational backgrounds and serve as a critical "safety net" for individuals finding or shifting between jobs, or even careers.[25]

Finding the right talent: why is it so hard?

What makes hiring so challenging? First, respondents identified labor market supply constraints, where there are not enough candidates with the right skills for the business: nearly two-thirds (65%) of respondents stated they are not finding the right talent within the applicant pool. This represents an increase of over 50% from 2016 research.[26]

Difficulty meeting wage or salary expectations (41%) and competition with larger companies (39%) were other leading reasons that contribute to hiring challenges. The broader economic context also imposes headwinds for small businesses when it comes to hiring: a tight labor market with low unemployment[27] drives up labor costs and competition, reducing small business owners' ability to compete for talent, further intensifying the challenges they face.

In order to attract and retain talent in a competitive market, respondents reported implementing various strategies, such as offering flexible hours or offering higher salaries and benefits. Compared to men, women were more likely to use the following as hiring strategies: provide flexible hours and emphasize the impact of their business on the community. More specifically, women were 17% more likely to use flexible hours as a hiring strategy than men, and 22% more likely to emphasize the impact of their business on the community than men.

How small businesses stay competitive

59% Offer flexible hours

48% Provide professional development

34% Emphasize community impact

32% Offer higher salaries

26% Offer more benefits

76% find it difficult to find and keep employees with the right skills and experience

What kind of skills gap?

Our research suggests that the reported "skills gap" is not just an absence of technical skills in the workforce. When evaluating prospective employees, respondents highlighted soft skills and attitudinal attributes as well as technical skills and work experience. The three most important qualities respondents looked for in job candidates were: a positive attitude (59%), willingness to learn (49%) and integrity (46%), while technical skills and work experience were selected by 29% of respondents. Remarkably, "education" was selected by just 6% of all respondents.

Soft skills and attitudinal orientation are especially important to small businesses for two reasons. First, for small businesses with a median of 10 employees, which represents the *10,000 Small Businesses* population, there is often a need for individuals to take on multiple roles and demonstrate flexibility and a willingness to learn new competencies. Second, these qualities are often considered a proxy for "fit," which is one of the key aspects of company culture – critical in a thriving, growing business.

From a policy perspective, combining these findings with broader labor market trends and technological changes impacting the future workforce, a renewed focus should be placed on education and training that promotes a "learning to learn" mindset. Teaching young people to be adaptable, flexible, and open to learning, rather than specializing in a specific technical or hard skill better equips the workforce to adapt to a dynamic employment landscape.

Which qualities are most important when deciding whether to hire an employee?

59% Positive attitude

49% Willingness to learn

46% Integrity

39% Communication skills

29% Technical skills

Creating a talent pipeline to small business

Internships and apprenticeships are another way small businesses can find and cultivate talent. Approximately one-half of respondents offer some form of paid or unpaid internship or apprenticeship with the most common being paid (31%) and unpaid (25%) internships. For those who did not offer these opportunities, 32% stated not knowing where to find the talent as the primary reason. This highlights a clear market opportunity to connect small businesses seeking trainable talent with young people seeking practical experience and opportunities for employment.

A stronger ecosystem of partners dedicated to matching interns and apprentices with opportunities at small businesses can cultivate a pipeline of talent and foster a future workforce with pathways in entrepreneurship.

24. 70% of respondents from 2018 Big Power of Small Business research reported hiring challenges and 72% from 2016 State of Small Business in America did the same
25. "Reinvigorating Small Businesses: Identifying Obstacles and Finding Solutions to Drive Growth and Job Creation." Global Markets Institute, 2018. Accessed July 11, 2019. www.goldmansachs.com/insights/public-policy/regulatory-reform/reinvigorating-small-businesses.html
26. "The State of Small Business in America." Babson College, 2016. Accessed June 21, 2019. www.goldmansachs.com/citizenship/10000-small-businesses/US/news-and-events/babson-small-businesses/#sec-2
    Note: respondents in the 2016 State of Small Business in America report may differ from 2019 respondents
27. "Unemployment rate in the U.S. 1990-2018." Statista. Accessed July 12, 2019. U.S. unemployment rate was 4.9% in 2016, 4.4% in 2017, 3.9% in 2018 and 3.6% in April 2019. www.statista.com/statistics/193290/unemployment-rate-in-the-usa-since-1990/

SMALL BUSINESSES WILL TRAIN THEIR PEOPLE – IN FACT, 88% ALREADY DO

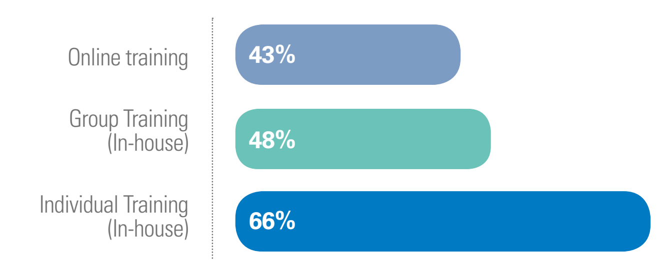
The survey data reflects two findings unambiguously: the biggest challenge to hiring is a lack of applicants with the right skills (65%), and most respondents value soft skills and attitudinal orientation in addition to technical knowledge or previous experience. To overcome the reported skills gap, small business owners are willing to train their staff and invest in their development.

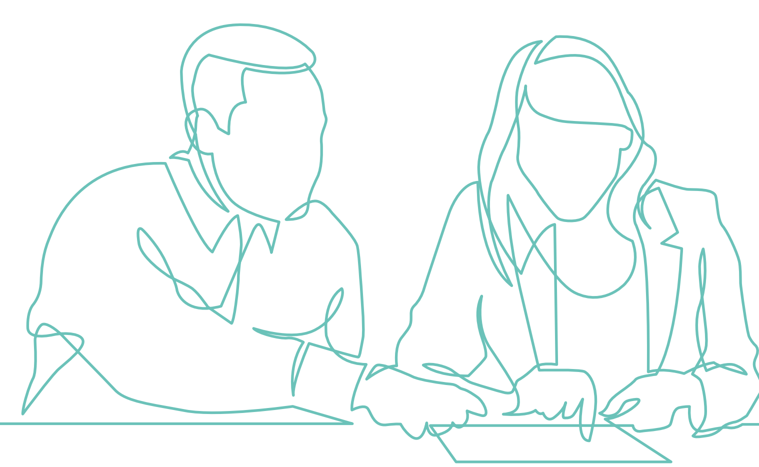
Small businesses consistently upgrade the skills and knowledge of their employees, with 88% of respondents offering training or other professional development opportunities to their employees. Respondents that offered training to 'all' or 'most' of their employees were more likely to report a higher rate of revenue growth than program alumni generally.[28] These opportunities range from in-house, online and off-site training, to conferences and partnerships with educational institutions. The most common training approach is on-site, one-on-one training (66%). Off-site training or conferences and in-house group training were offered by almost half of business owners, and 43% used online training.

The data confirmed that those who reported having a hard time finding skilled workers were more likely to provide training across all categories (individual, group, and online) than those who reported not having a hard time finding the right employees.

Of the 12% who stated they did not provide training for their employees, 36% cited that the cost of training was the largest impediment. These findings imply that the near-term costs often outweigh the expected long-term benefits.

Types of employee training and professional development provided





28 "Stimulating Small Business Growth: Progress Report on Goldman Sachs *10,000 Small Businesses*." Accessed June 10, 2019 https://www.goldmansachs.com/citizenship/10000-small-businesses/US/news-and-events/multi-media/10ksb-impact-report-2018.pdf

Small businesses will adapt to automation

Tight labor markets and technological advancements often lead to automation breakthroughs that can increase the productivity of existing employees and reshape demand for specific skills. Examples include automatic teller machines, manufacturing robots, voice recognition software, and CRM systems, among others. While automation is often associated with large corporations, the majority of respondents (71%) say that their companies have started using new technologies that automate tasks over the last five years.

Only 5% of respondents who have embedded new technologies into their business said that employees have been laid off as a result. Instead, respondents were more inclined to transition their existing employees into new positions (35%), or to hire new employees (32%) with corresponding skills. For almost half (47%) of respondents the new automation had no impact on their workforce. This pragmatic approach for adapting to new technology is reflected in respondents' attitudes towards skill development for their employees, as well. These findings show that not only are small businesses open to new technologies, but that in most cases their adoption has a positive impact on the company's workforce.

> In the face of technological advancement, small business owners are proactively seeking to grow and develop their pre-existing employee base, rather than replacing them

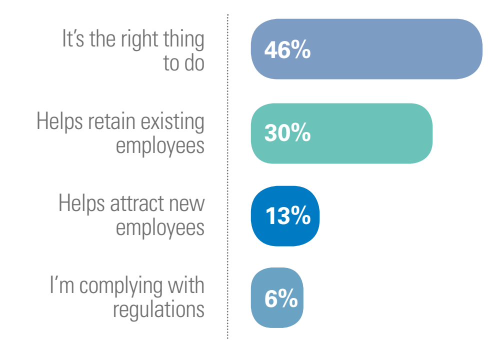
Small businesses offer healthcare, regardless of requirements

A core strategy to attract and retain strong talent is often through a comprehensive benefits package, which may include a healthcare plan. Legally, businesses with fewer than 50 employees are not required to provide health insurance to employees under current healthcare laws. This employee threshold means that 92% of survey respondents and almost 96% of all U.S. employer businesses are exempt from complying with the Affordable Care Act (ACA) requirements.[29] While a large majority of respondents had fewer than 50 employees, more than half (55%) offer health insurance to at least some of their employees.

But when navigating healthcare laws, only 20% of respondents reported it was easy to manage healthcare laws for their business, and of those who stated healthcare laws as the biggest challenge to business growth (26%), nearly half (49%) stated the challenge was due to the cost of compliance.

Why do small businesses provide health care, if it's not a legal requirement and despite costs that impact business growth? Almost half of small business owners (46%) said because "it's the right thing to do." Thirty percent shared that "it helps retain existing employees," and 13% reported that "it helps attract new employees," which has been a consistent finding since 2016. Many small business owners are not only utilizing healthcare as a hiring and retention tool for their businesses, but also view investing in employees through comprehensive benefits like healthcare, as aligned with their management values.

Almost half say they provide health insurance because it's the right thing to do



55%

of respondents offer healthcare to some or all of their employees

29. "Annual Survey of Entrepreneurs." U.S. Census. Accessed June 15, 2019. Data: 95.7% of employer firms have fewer than 50 employees. www.census.gov/programs-surveys/ase/data/tables.html

RESPONDENTS FAVOR A HIGHER MINIMUM WAGE

On the whole, respondents felt the minimum wage should be higher than their local prevailing minimum wage. This was true even for respondents who reported that they would be negatively impacted by an increase. The findings reflect the underlying tension small business owners face: paying employees a robust wage while managing the bottom line.

39% of respondents stated that an increase in the minimum wage would negatively impact their business. Of these, 65% stated they would increase their prices if the minimum wage increases, followed by decreasing employee hours (40%), investing in automating technologies (31%), and delaying future growth plans (24%). A small percentage (10%) said they would take no action as a result.

But what's a "fair wage"?

Respondents were asked "what do you think is a fair minimum wage?" Recognizing that statutory minimum wages vary widely across geographies, responses were compared to the prevailing minimum wage in the respondent's city or state.[30] 77% reported a figure higher than their mandated local minimum wage by an average of $2.48 per hour. Among the 2,285 respondents, the average minimum wage was $11.82 and the median was $12 per hour. Approximately a quarter of respondents reported the minimum wage should be at least $15 per hour.

Even respondents who said they would be negatively affected by an increase thought by a significant margin (65%) that the minimum wage should be higher than their local prevailing minimum wage. However, the difference among those most negatively impacted was smaller than those who were not, with an average differential of $1.24 per hour.

These findings should be interpreted with care as multiple factors are at play. In many markets, the prevailing or market wage for low-skilled entry-level jobs is already well above the legally mandated minimum wage.[31] For example, in New Hampshire, where the federal minimum wage of $7.25 per hour applies, one respondent shared that McDonald's was offering $12 – $13 per hour for entry level jobs and was still unable to attract enough applicants. At the same time, respondents recognized the significance of pay in attracting and retaining quality employees and highlighted the importance of offering a "livable" wage to ensure a certain quality of life for their employees.

Respondents' perception of how much higher the minimum wage should be also varied by industry. Fair minimum wage perception ranges were the lowest in the retail industry (business owners in retail reported that the minimum wage should be $1.85 higher than their local prevailing wages) to the highest in the information sector ($3.88 higher than their local prevailing wages). Differences between industries may reflect the relative reliance each industry has on a high or low skilled labor force.

$2.48

Average increase to local minimum wage

30. Analysis was conducted to benchmark against prevailing minimum wages at either the city or state level, depending on which was higher. There are 42 cities in the United States that have a higher minimum wage law than that of the state
31. This was a consistent finding from approximately ten follow-up telephone calls with respondents that said they were impacted by the minimum wage

Top industries where small business owners say that minimum wage impacts their businesses

64% Accommodation and food

46% Arts and entertainment

47% Retail trade

44% Educational services

What would small business owners do if the minimum wage increased?

60% Charge higher prices

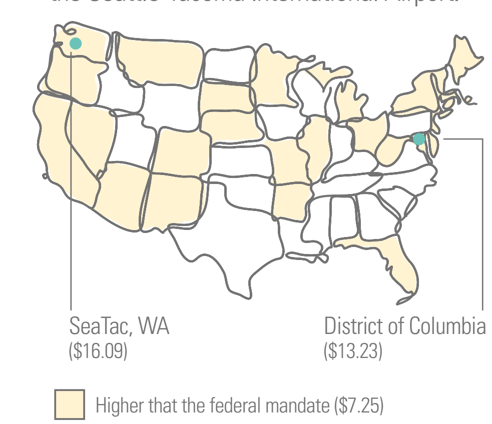
35% Decrease employee hours

28% Invest in automation

23% Delay future business plans

Minimum Wages Across the US:

Minimum wage laws show significant geographic variability. Twenty-nine states and three U.S. territories have higher minimum wage requirements than the federal mandate of $7.25 per hour, which has been in place since 2009. At $13.23 per hour, the District of Columbia's is the highest. Eighteen states increased their minimum wage to start the year. Minimum wage laws at the local level also play a role, with 42 municipalities having minimum wages above their state level as of May 2019.[32] In the last year alone, there have been at least seven localities that have passed or amended their minimum wage ordinances to increase over the next one to five years. Currently, the highest minimum wage nationally is $16.09 per hour in SeaTac, WA, the city surrounding the Seattle-Tacoma International Airport.



32. "2019 Federal and State Minimum Wage Rates." The Balance Careers. Accessed July 12, 2019. According to the Economic Policy Institute, there are 42 municipalities in the United States that have a higher minimum wage law than their state. https://www.thebalancecareers.com/2018-19-federal-state-minimum-wage-rates-2061043

Goldman Sachs 10,000 small businesses

"Making sure that you can pay people a fair wage and ultimately have the types of programs and systems that grow them – that's a really big challenge. We don't believe in minimum wage; we always pay more than minimum wage because we want the best people. That is no doubt our largest expense, our biggest challenge."

Jill Bommarito
Ethel's Baking Co.
St. Clair Shores, Michigan
10,000 Small Businesses Graduate

ACCESS TO CAPITAL

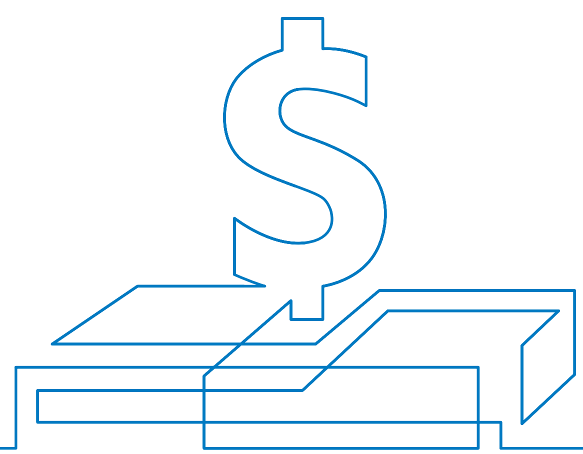
Access to capital is fundamental to small businesses' formation and growth. However, securing external capital that enables strategic expansion and innovation is a consistent challenge for small businesses.

Though the majority of respondents who applied for financing in the last twelve months[33] were successful in receiving the full amount requested, a third of respondents received less than the full amount requested or none at all.[34]

Respondents relied heavily on personal finances to start and continue operations, often utilized external financing to maintain – rather than grow – their business, and infrequently used equity funding to finance growth. Furthermore, women used different funding sources than men, and had more negative perceptions of the funding application process. Business owners of color also utilized different funding sources and were less likely to secure funding than white respondents.

1 in 3

who applied for funding did not receive the total amount requested

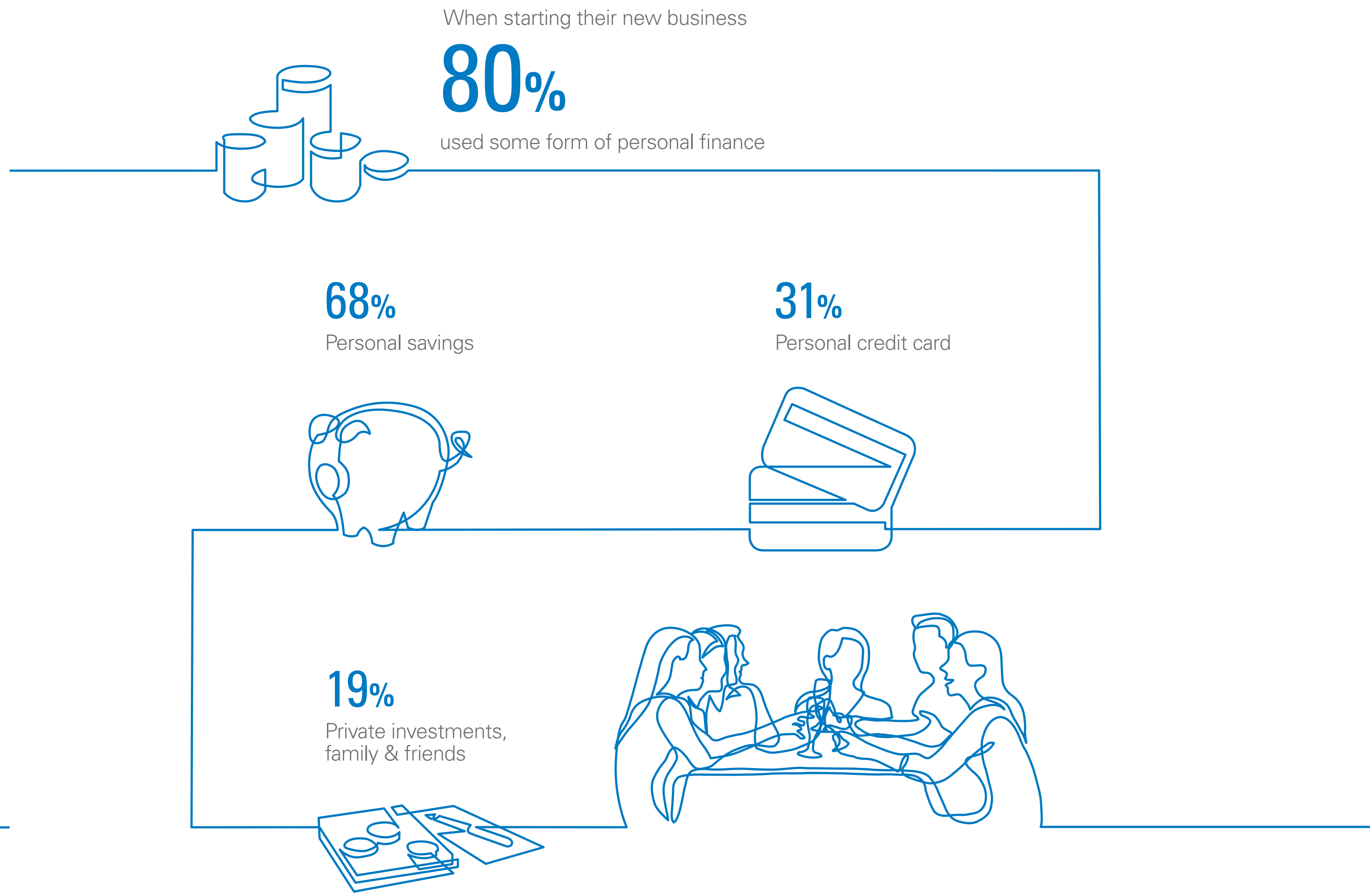


How are small businesses funding their businesses?

For many entrepreneurs, personal finances are essential to starting and growing a small business. To use personal savings, collateralize a home, or draw on retirement funds to start and keep up a business demonstrates the personal investment and risk entrepreneurs are willing to take. At the start of their business, 80% of respondents reported using at least one form of personal sources of funding, through personal savings, personal credit cards, home equity loans, or retirement funds.

Further, 2018 survey data found that 70% of respondents found their personal credit score was important when securing financing to start their business, and 80% believed their personal credit score would be a factor in their ability to secure new financing for their business.[35] These collective findings reflect not only the level of personal liability small businesses assume, but also highlight the importance of consumer credit rules to small business formation and growth.

As the business matures, small business owners utilize additional funding options, but almost half continue to rely on some form of personal financing. Business credit cards (43%) overtake personal savings as the most important resource, and respondents indicated equal use of business bank loans and personal savings, and greater use of business loans (56%) and supplier credit (17%). However, uses of personal savings (29%), personal credit cards (19%), home equity (14%), and support from friends and family (14%) still remained as funding sources, reflecting that even with established businesses, respondents still support their company with personal assets.



33. 40% of respondents applied for funding within the last year; for the 60% of survey respondents that did not apply for funding in the prior year, 67.7% said it was because their business did not need new funding
34. It appears that overall, 10KSB respondents are well prepared to access capital which is not surprising as a key tenet of 10,000 Small Businesses is to address the capital divide. The program immerses business owners in a finance-heavy curriculum so that they graduate with a completed growth plan and are better positioned for capital; 67% of survey respondents received the full amount of funding requested, 20% received some, and 13% received no funding. In a recent Federal Reserve survey, 47% of Fed respondents were fully funded, while 33% got some funding, and 21% received no funding
Source: Small Business Credit Survey: Report on Employer Firms, 2019." Federal Reserve Banks of New York, Atlanta, Boston, Cleveland, Philadelphia, Richmond, St. Louis. Accessed June 5, 2019

35. "The Big Power of Small Businesses Summit." Goldman Sachs *10,000 Small Businesses*, 2018. Accessed June 10, 2019. https://www.goldmansachs.com/citizenship/10000-small-businesses/US/2018-summit/multimedia/10ksb-summit-summary.pdf
Note: respondents from the 2018 Big Power of Small Business Summit research were different

USES OF CAPITAL: MAINTAINING THE BUSINESS OR FUELING STRATEGIC GROWTH?

For respondents who received some or all of the funding they requested, the most common use of new funding was to improve cash flow and/or working capital (54%) followed by the purchasing of new equipment or vehicles (29%) and hiring of new employees (27%). Longer term investments in growth, such as increasing R&D spending (6%) and employee training (7%) were far less frequent uses of new funding. This finding indicates that small business owners are utilizing external capital to primarily keep up with day to day operations, rather than accelerate competitiveness and catapult growth.

Consequences of lack of capital

Of the respondents that applied for funding in the last twelve months, two-thirds received the full amount requested, while 20% got some funding, and 13% received no funding. Among the respondents who did not receive full funding, 42% took on more work themselves and 29% reduced owner's compensation. Other consequences reported included greater difficulty expanding into new markets (48%) and delayed or cancelled investments in technology and equipment (29%), demonstrating the direct impact lack of funding has on a business' ability to grow. While funding shortfalls were much less likely to impact current employees in the form of reduced compensation (13%), fewer hours (13%) or layoffs (11%), those shortfalls are likely to impact hiring increases, given the reported difficulty of expanding into new markets.

How are small business utilizing new funding?

54% Improved cash flow or working capital

23% Paid debt

29% Bought new equipment

18% Increased marketing spend

27% Hired new employees

17% Bought or leased new land or buildings

Capital access for women and people of color

The survey data showed that women and people of color faced greater challenges securing capital for their businesses, both at the outset and later on. More women respondents relied on non-bank sources of funding than did men (e.g., private investments or loans from friends and family, or retirement funds), and people of color were less likely to successfully secure funding than white respondents. A deeper look into the financing landscape experienced by women and people of color highlights opportunities to drive more equitable access to capital.

On the whole, men and women selected the same types of funding sources to start and grow their businesses, though men were somewhat more likely to obtain traditional sources of financing than women after starting their business (e.g., bank loans: 32% men vs 26% women; supplier credit: 20% men vs 14% women). Further, women were more likely to rely on private investments from friends and family and utilize their retirement funds at a higher rate to fund their business (i.e., friends and family: 16% women vs 12% men; retirement funds 9% women vs 6% men).[36]

Of the respondents who did not apply for new funding in the last 12 months, 73% of men said their business did not need new funding compared to 64% of women. In terms of funding outcomes, 69% of men said they received the total amount of funding requested versus 65% of women who said the same.[37] This compares with 18% of men who said they did not receive the total amount of funding requested versus 22% of women. An equivalent share of men and women respondents (13%) did not receive any funding requested.

Nearly one-fifth of women (18%) said their gender has had a "somewhat negative" or "very negative" effect on their ability to obtain financing while just 2% of men perceived that their gender has had a "somewhat negative" effect on their ability to do the same. More than half of these women said they felt the process to obtain financing was made more difficult (56%) and that they did not have the right relationships to obtain financing (51%) because of their gender. In comparison, more than half of the men who felt negatively affected by their gender said they felt disadvantaged in accessing specific types of financing (55%).

Looked at more closely, relatively to men, the biggest challenges women flagged were related to the concepts of capital and personal networks.[38] Five times more women than men – a 29 percentage point difference – felt they received less money because of their gender (36% women vs 7% men). Approximately three times more women than men – a 33 percentage point difference – felt they didn't have the right relationships to obtain financing (51% women vs 18% men).

The data reflected differences in funding applications and outcomes between white and business owners of color. Most notably, business owners of color were more likely to apply for funding than white business owners (45% people of color vs 38% white) but obtained full funding at significantly lower rates (60% people of color vs 71% white). Further, data showed that business owners of color were a little over two times more likely than white business owners to receive no funding at all (20% people of color vs 9% white).

In starting their businesses, white business owners more frequently used home equity loans (10% white vs 7% people of color) and business credit cards (18% white vs 15% people of color). After start-up, white business owners were significantly more likely to use business credit cards (45% white vs 39% people of color) and non-SBA bank loans (32% white vs 24% people of color) while business owners of color utilized personal credit cards (22% people of color vs 18% white) more often.

Business owners of color were two times more likely to receive no funding at all

Women relied more on non-bank sources of funding such as friends and family and retirement funds than men

36. Gender difference in use of retirement funds was not statistically significant
37. Gender difference in funding outcomes was not statistically significant
38. Hindlian, A. and Cohen, S. "Advancing Women Entrepreneurs." LinkedIn, 2019. https://www.linkedin.com/pulse/advancing-women-entrepreneurs-amanda-hindlian/ https://www.linkedin.com/pulse/advancing-women-entrepreneurs-amanda-hindlian/

METHODOLOGY

This report encompasses data from two separate survey administrations commissioned by Goldman Sachs *10,000 Small Businesses.*

Section 1: Measurement & Evaluation

10,000 Small Businesses utilizes a robust Measurement and Evaluation (M&E) platform to provide evidence of program impact, facilitate continuous learning and improvement, and promote accountability and transparency. Section 1 of the report includes data from a series of surveys collected from *10,000 Small Businesses* participants administered at "baseline" (i.e., prior to entering the program), graduation, 6 months after graduation, 18 months after graduation, and 30 months after graduation.

The key metrics for businesses in the program are revenue growth and job creation. These are used to assess the program's overall goal of economic development, while other data are collected to ensure *10,000 Small Businesses* has a strong and positive impact on both participants and their communities. Program participants complete a detailed online questionnaire when they begin the program (the "baseline" survey), upon graduation, and then approximately 6 months, 18 months, and 30 months after their completion of the program. Baseline survey data establishes the business owner's circumstances prior to entering the program and includes questions about employees, business management, business planning, and access to capital, networking, and business challenges. The results of the baseline survey are also used in the first curriculum module to help business owners identify their strengths, weaknesses, and areas for improvement. The subsequent surveys at graduation and then 6, 18, and 30 months after graduation assess *10,000 Small Businesses*' long-term impact and also provide the business owners with a consistent record of their progress and ongoing challenges.

In order to ensure the accuracy of the survey data, data validation is performed by the local program staff after each survey is administered. The target validation rate of survey respondents is 100% for baseline and graduation surveys and 50% for follow-up surveys. This validation is combined with standard data cleansing techniques to help ensure that the reported results are representative of the actual performance of the businesses and that the overall impact of *10,000 Small Businesses* is accurately assessed.

The baseline data is based on the 8,591 responses collected from the possible 8,597 survey respondents resulting in a response rate of 99.9%. Similarly, the graduation survey achieved a response rate of 99.3% (8,126 out of 8,186 possible respondents). The 6-month data was collected from 6,037 respondents (out of 7,335 possible respondents) for a response rate of 82.3%; the 18-month data was collected from 3,801 respondents (out of 5,998 possible respondents), resulting in a response rate of 63.4%; and the 30-month data was collected from 2,461 respondents (out of 4,576 possible respondents), resulting in a response rate of 43.8%.

Sections 2 – 5: 2019 Insights Report

The Insights Report utilizes data from a separate survey developed by Babson College and administered by Morning Consult, a third party, independent research firm over a two-week period between April 12 – 25, 2019 to all current scholars and graduates of *10,000 Small Businesses*.

The survey was administered via a convenience sampling method to 8,800+ *10,000 Small Businesses* program participants, which is a population of business owners who are actively seeking growth.[39] We received a total of 2,285 responses, approximately a 25.7% response rate, yielding an overall margin of error of 2% at a 95% confidence interval.

The online survey was designed to take about 20 minutes to complete and Babson and Morning Consult conducted pretests prior to field work to ensure that proper wording, question sequencing, and informational objectives were met.

Comparisons between the sample and the population show a slight oversampling of females, white non-Hispanics, other race, and business owners with younger firms. Distribution by generation in the sample was comparable to the population.

A number of statistical methods were used in the policy portion of the report to analyze sub-group differences (e.g., gender, generation, race/ethnicity etc.). These methods include, though are not limited to, chi-square tests, z-test of proportions, and logistical regressions for dichotomous outcomes. Majority of Likert-Scales response categories were collapsed into dichotomous variables for ease of interpretation and analyses. In addition, t-tests and ordinary least square regressions were utilized for continuous outcomes. Differences reported all meet the standard p-value of less than .05 threshold. Outliers were also removed on continuous outcomes when necessary to account for data entry errors.

39. The survey was administered to all *10,000 Small Businesses* participants while the Measurement and Evaluation (M&E) data was evaluated for only traditional cohorts Approximately 200 cases were removed from cohorts that did not follow the traditional curriculum to keep impact analyses and findings consistent

Goldman Sachs 10,000 small businesses