

Concerns About Economy Hit All-Time High According to the American Express OPEN Small Business Monitor

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More than Half of Business Owners will Accept Lower Profits Rather than Raise Prices

One third of small business owners report the uncertain economy as the biggest challenge they face growing their businesses, the largest number in the seven-year history of the American Express OPEN(R) Small Business Monitor, a semi-annual survey of business owners. One-quarter of business owners are challenged by the rising costs of doing business.

Economic challenges coupled with rising energy costs appear to have caused a shift in entrepreneurs' outlook on near-term business prospects and priorities. Compared to last fall optimism is down significantly (48% vs. 64%), but has remained steady compared to six months ago (45%). Cash flow concerns have risen year over year, capital investment plans are at their lowest in the history of the Monitor and the number of business owners offering healthcare benefits to employees is also lower.

'The economic news of the last several weeks is shaking every business owners' view of the economy,' said Susan Sobott, president American Express OPEN. 'Entrepreneurs are nimble and have strategies in place to manage business challenges. They are decreasing investments, adjusting expansion plans to capital on-hand, cutting expenses and focusing on adapting to customer demand.'

Three quarters of business owners plan to grow their businesses over the next six months, but keeping and maintaining current business and sources of revenue has surpassed growth as the top priority for entrepreneurs. To help retain their current sources of business, entrepreneurs will place a heightened focus on better servicing customers to set their business apart from competitors.

In the survey conducted by Echo Research August 12-25, the economy is cited by four in ten small business owners (38%) as the issue that will most sway their decision on the next president of the United States, followed at a distance by tax policy (cited by 18%).

Manufacturing, Retail and Services Businesses

To gain deeper insight into the effects of the current economy on business owners, the survey also examined three key small business sectors that serve as an indicator for the economy: manufacturing, retail and services.

Among these industries, optimism and growth are not always linked. Business owners in the services sector are among the most optimistic (53%) and most likely to have hiring plans (44%), but least likely to have plans for growth. The biggest business challenge they face is the uncertain economy.

Given their reliance on consumer spending, it is no surprise that retailers are least optimistic (48%) among these business sectors.

The biggest business challenge they face is the rising costs of doing business and the uncertain economy (both 29%).

However retail entrepreneurs are also among the most likely to have plans for growth (81%), tied with their counterparts in the manufacturing sector.

Compared to the services and manufacturing sectors, retailers are the most likely to feel a significant impact as a result of higher gas and energy costs (69%), which includes having lost sales as a result of higher costs (56% vs. 40% of business owners overall and 37% of manufacturers and 33% of services companies).

They are also among the most likely to have experienced cash flow issues and least likely to have capital investment plans.

Business owners in the manufacturing sector are among the most likely to have plans for growth, (81%) tied with counterparts in the retail sector and compared to businesses overall (74%).

Half of manufacturers (52%) have an optimistic outlook.

The biggest business challenge they face is rising costs and the uncertain economy (33% and 31%, respectively).

The manufacturing sector is the most likely, when compared to both businesses overall and key business sectors, to make capital investments over the next six months (59%) and offer healthcare benefits to employees (58%).

They are more willing to take a financial risk to grow their business and the least likely to experience cash flow concerns.

Navigating through the Challenging Economy

Business owners will employ a variety of tactics as they manage their businesses through the current economy. Nearly six in ten entrepreneurs (56%) find themselves reducing or accepting lower profit margins, which is also the top tactic for business owners in the services sector (48%). Half of business owners (51%) find themselves working longer hours in an effort to

manage with retail business owners most likely to work longer hours (64%). Just under half will cut business or capital expenses (49%), will raise prices (48%) or will cut back or delay marketing expenses (46%). Business owners in the manufacturing sector are among the most likely to raise prices (63% vs. 60% of retailers and 40% of services companies).

The Cash Flow Crunch

Cash flow is a continuing area of concern for business owners. The number of entrepreneurs experiencing cash flow issues is up from the previous fall (55% vs. 49%) but remains on par with this spring (56%). Women business owners are somewhat more likely to have cash flow concerns (61% vs. 55% of men). Retailers are slightly more likely to experience a cash crunch (56% vs. 52% of services companies and 47% of manufacturers).

Among business owners experiencing cash flow issues, the biggest worry is the ability to pay bills on time (17%). One quarter of business owners in the retail sector are concerned about the ability to pay bills on time (vs. 16% of services companies and 12% of manufacturers). Additional concerns for businesses overall include accounts receivable (13%), the ability to accurately track cash flow (9%), having enough cash to win new business and the ability to meet payroll (both 8%).

As a tactic to improve cash flow, 27% of businesses overall are most likely to use personal or private funds. One in five (23%) will put off purchases. Others will use a credit or charge cards (11%), this tactic doubles among manufacturers (23% vs. 16% of retailers and 8% of services companies), lease rather than purchase business equipment (3%), or get a short-term loan in order to improve cash flow (2%).

Managing Healthcare Costs

As business owners examine areas to cut expenses, healthcare coverage has taken a hit. Nearly two-thirds of bosses (64%) agree it is important to offer healthcare coverage to their employees, down slightly from 69% in fall 2007. However, the number of business owners who are actually offering healthcare benefits to employees has dropped to 54% down from 66% this spring and 71% in fall 2007.

Manufacturers are far more likely to offer healthcare benefits. More than half (58%) offer healthcare coverage to their employees (vs. 54% of services companies and 49% of retailers). Manufacturers are also more likely to have shopped for a new insurance carrier (24% vs. 15% of services companies, 14% of business owners overall and 10% of retailers) or required their employees to pay a larger share of healthcare costs (13% vs. 5% of business owners overall and 4% of both retailers and services companies).

Capital investments are another area that entrepreneurs have slashed in an effort to combat a challenging economy. This fall, 43% of all business owners plan to make investments as a way to grow their business over the next six months, which is down significantly from 59% last fall and is, in fact, the lowest number in the history of the Monitor. Investment plans are not on the back burner for all entrepreneurs. The number planning to make capital investments is considerably higher among manufacturers (59% vs. 45% of services companies and 37% of retailers).

Rising Gas and Energy Costs are a Concern, Retailers Feel the Pinch

Rising energy and gas costs are taking center stage as business owners confront a challenging economy. Virtually all business owners feel the impact of higher energy and gas costs (83%), up significantly from fall 2007 (74%) but down slightly from this spring (87%).

Two out of three retail business owners report that higher gas and energy costs have had a significant impact on their business (69% vs. 56% of business owners overall, 54% of manufacturers and 44% of services companies). The number of business owners reporting that they have lost sales as a result of these higher costs has more than doubled to 40% from 17% in fall 2007.

More entrepreneurs also report having to pay more for the materials and products they need (76% up from 65% in fall 2007), including the majority of business owners in the retail (91%) and manufacturing sectors (90% vs. 63% of the services sector), along with women (87% vs. 69% of men).

In response to rising energy and gas costs, one third of business owners overall (31% up from 26% in fall 2007), and four in ten business owners in the manufacturing sector (43%) raised prices (vs. 40% of retailers and 23% of services companies). Nearly half (47%) of business owners overall are using energy saving practices to help cut energy costs. Nearly six in ten (59%) of manufacturers use energy saving practices to help cut energy costs (vs. 49% of retailers and 45% of services companies).

Outlook on Near Term Business Prospects and Priorities Shifts

This fall, nearly half of business owners report a positive outlook (48%) on par with 45% this past spring but, down dramatically from a year ago (64%). More than half of business owners in the services sector share a positive outlook on the economy (53% vs. 52% of manufacturing business owners and 48% of retail business owners). The number of business owners expecting the current economy to negatively affect business prospects is similar to the spring (35% vs. 37%) but up significantly from last fall (22%). Four in ten business owners in the retail sector (44%) have a negative outlook on the economy (vs. 41% of business owners in the services sector and 40% of manufacturing business owners).

The current economy has also caused a shift in priorities. The number one priority for business owners is maintaining their current business and sources of revenue (35%, up from 26%, second place, last fall). This percentage rises for business owners in the retail sector (40% vs. 39% of manufacturers and 28% of service businesses). Growth, previously in first place, is next on the list of business owner priorities (29%), followed by managing cash flow issues (11%), cutting expenses (10%),

and making the company more innovative (7%).

According to Sobott, 'This realignment in priorities can be linked to business owners' move to cost-cutting measures. While there are many costs associated with business growth, there is considerably less in cultivating more business with current clients.'

Hiring Plans are Up, Business Owners in Services Sector Most Likely to Recruit

Hiring plans are part of the game plan for one-third of entrepreneurs this fall (36%), on par with 38% this spring and up from 31% last fall. Four in ten business owners (44%) in the services sector have plans to hire over the next six months (vs. 30% of business owners in the manufacturing sector and 28% of businesses in the services sector).

Overall, seven in ten entrepreneurs with hiring plans (72%) say they need to hire to handle their growing business. More than half of these entrepreneurs with hiring plans (57%) will hire to help increase business volume. Nearly four in ten businesses overall will hire because they need seasonal help (38%), one-in-three say they will hire because they have a new business venture (34%) or they have finally found the right candidate for the position (31%).

Growth is Still in the Cards, Prioritized Most By Retailers & Manufacturers

Three out of four business owners (74%) plan to grow their business over the next six months, on par with 75% in fall 2007. Eight in ten business owners in the retail and manufacturing sectors report plans for growth (each 81% vs. 67% of services companies).

As business owners overall look to grow their companies, the majority (86%) still rank differentiating their businesses by offering exceptional customer service as the number one management tactic, up from 77% last fall. Women are even more likely to focus on customer service over the next six months (96% vs. 80% of men). In an effort to retain customers in the current economic environment, 32% of business owners institute loyalty programs, 28% offer discounts and 9% offer special payment.

About half of all entrepreneurs (49%) are willing to take a financial risk to grow their businesses, which is on par with this spring (51%) but down from fall 2007 (57%). Business owners in the manufacturing sector are the most willing to take a financial risk to grow (57% vs. 48% of retailers and 42% of service companies).

Additional survey results are available by contacting American Express OPEN. Fact sheets on regional data, women entrepreneurs and key business sectors are available on request.

Survey Methodology

American Express OPEN Small Business Monitor, released each spring and fall, is based on a nationally representative sample of 768 small business owners/managers of companies with fewer than 100 employees. The survey was conducted via telephone by Echo Research from August 12 - August 25, 2008. The poll has a margin of error of $\pm 3.5\%$.

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