Small Business Equals Big Opportunities

Explore the current US small business climate and see where to capture more market share
Small businesses have sizable impacts on the US economy

Small business growth has been on a steady uptick in recent years. Economic conditions and reductions in government oversight and tax burdens have combined to create a favorable environment for expansion. Small businesses play a formidable role in fueling the US economy:

- In 2018, 30.2 million small businesses were operating in the US.\(^1\)
- Small businesses employ 47.5% of private sector employees, accounting for 59 million employees.\(^2\)
- 66% of net new job creation from 2000-2017 can be attributed to small businesses.\(^3\)
- 99.7% of all firms with paid employees are small businesses.\(^4\)
- 40.8% of the private-sector payroll is driven by small businesses.\(^5\)

Small businesses are flourishing and represent a significant amount of new market share for your institution. In this e-book we’ll take a closer look into the small business outlook and explore the factors that influence their decisions to seek capital for further expansion.

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1. and 2. US Small Business Administration, Office of Advocacy, “Frequently Asked Questions about Small Business,” August 2018
4. US Small Business Administration, Office of Advocacy, “What’s new with Small Business,” August 2018
5. US Small Business Administration, Office of Advocacy, “What’s new with Small Business,” August 2018
Small businesses feel confident about a strong economic outlook

Despite recent market volatility and lingering unknowns on the trade front, most small business owners still feel confident about their prospects for continued growth in the year ahead. Plans to expand their business, grow their market share and hire additional employees top the list of 2019 goals for many small business owners.

78% of small business owners are expecting economic conditions to stay about the same or improve in the coming year.

66% of small business owners feel they are better off financially compared to a year ago.

57% of small business owners expect revenues to increase over the next 12 months.

67% of small businesses plan to expand in the year ahead.

56% of small businesses plan to grow over the next five years.

Expansion outlooks are positive, but tempered with realistic concerns

While most small business owners are confident about their economic standing for the year ahead, several challenges impact their ability to quickly scale and grow. A tight labor market and global trade uncertainty create obstacles for expansion. Small businesses must balance these challenges with day-to-day operations in order to thrive.

27% of small businesses plan to hire in the next 12 months but 55% report difficulty finding qualified candidates to fill vacant roles.

28% of small business owners are very or extremely concerned about potential challenges due to a limited supply of qualified candidates.

28% of small businesses say the latest tariffs and US trade policy have had mixed impact or negative impact on their business.

46% of small business owners say consumer confidence is the most important economic indicator.

38% of small businesses are optimistic about the global economic outlook for 2019.

1. and 4. Bank of America, “Fall 2018 Small Business Owner Report,” December 6, 2018
2. and 5. JPMorgan Chase, “2019 Business Leaders Outlook,” January 7, 2019
New sources of capital help small businesses capture growth opportunities and achieve stronger levels of sustainability.

The old adage it takes money to make money, rings very true for small businesses. Additional capital often determines whether a business goes big or goes broke. The ability to quickly scale up to meet burgeoning demand or add employees to serve a specific market need is critical to long-term sustainability, yet many small businesses face constraints that prevent them from being as agile as new opportunities demand.
Small businesses carefully weigh variables when seeking funding

As you would expect, financial institutions represent the main source of capital for small businesses.

48% of small business owners applied for a business loan at a large bank in 2017¹

47% of small business owners applied for a business loan at a small bank in 2017²

24% of small business owners applied for a business loan with an online lender in 2017³

The chance of being funded, cost of credit and decision-speed are three major factors in determining where small businesses choose to seek additional capital.

**Factors influencing where firms apply**¹²

( % of loan/line of credit and cash advance applicants)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Large bank (N=1,144)</th>
<th>Small bank (N=1,277)</th>
<th>Online lender (N=428)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chance of being funded</td>
<td>43%</td>
<td>46%</td>
<td>62%</td>
</tr>
<tr>
<td>Speed of decision</td>
<td>28%</td>
<td>34%</td>
<td>70%</td>
</tr>
<tr>
<td>Cost or interest rate</td>
<td>37%</td>
<td>33%</td>
<td>20%</td>
</tr>
<tr>
<td>No collateral required</td>
<td>18%</td>
<td>14%</td>
<td>47%</td>
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<tr>
<td>Flexibility of product</td>
<td>26%</td>
<td>24%</td>
<td>31%</td>
</tr>
<tr>
<td>Recommendation or referral</td>
<td>29%</td>
<td>27%</td>
<td>15%</td>
</tr>
</tbody>
</table>

The path to increased funding is not without challenges and detours

Small businesses often have short windows to capitalize on new opportunities, which puts pressure on lenders to speed up decision cycles. In securing funding, small businesses come up against common challenges.

**Challenges with lenders** (\% of loan/line of credit and cash advance applicants)

- **Long wait**: 33% (Large bank: 25%, Small bank: 28%, Online lender: 33%)
- **Difficult application process**: 25% (Large bank: 24%, Small bank: 24%, Online lender: 20%)
- **Lack of transparency**: 14% (Large bank: 10%, Small bank: 9%, Online lender: 15%)
- **Unfavorable repayment terms**: 10% (Large bank: 9%, Small bank: 10%, Online lender: 33%)
- **High interest rate**: 20% (Large bank: 12%, Small bank: 10%, Online lender: 52%)

Successfully capture your share of the small business market

The outlook for the small business market can be summed up as opportunity. Opportunities to capture greater market share, increase profits and build valuable long-term relationships.

Discerning a viable opportunity from a risky opportunity is where the real challenge comes in for most lenders. Many small businesses have a limited credit footprint and accurate and timely decisioning intelligence for small businesses is often difficult to find.

LexisNexis® Risk Solutions offers integrated decisioning and scoring tools that can help you understand the creditworthiness of a small business and uncover derogatory events, areas of risk and specific intelligence on authorized representatives associated with the business. Our small business solutions deliver a comprehensive view of a business that expands risk visibility and increases decision efficiency—so you can extend more offers, optimize terms and avoid risk.

Contact us to learn more
Contact us at 800.897.1644 or visit risk.lexisnexis.com/SMBRisk