

BACK TO BUSINESS IOWA PODCAST

A partnership of Iowa State University Extension and Outreach and America's SBDC Iowa

SEASON 1 | EPISODE 36: Small Business Insights from the NFIB Research Center

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Description: *Holly Wade, executive director of the Research Center for the National Federation of Independent Business (NFIB), speaks to host Steve Adams about recent results from a survey of their national membership regarding how COVID-19 is affecting their respective businesses.*



[music]

Steve Adams, host 00:10

Hello, and welcome to the Back to Business Iowa podcast from Iowa State University Extension and Outreach. This podcast is a collaboration between Iowa State University Extension and Outreach and the programs including Community and Economic Development, Farm, Food and Enterprise Development, and the Iowa Small Business Development Centers. These podcasts cover relevant topics for businesses and individuals related to education, research and technical assistance during and post COVID-19.

Steve Adams, host 00:55

In this podcast we'll be discussing the latest small business survey done by the National Federation of Independent Business, which was released on August 24. Our podcast guest today is Holly Wade, executive director of the research center for NFIB. Welcome to the show, Holly.

Holly Wade 01:15

Great, thank you for having me. It's wonderful to be with you.

Steve Adams, host 01:18

Well, it's wonderful to have you and I can't wait to dive into this. So Holly, could you tell our listeners a little bit about your role with NFIB?

Holly Wade 01:27

Sure, absolutely. So the National Federation of Independent Business is the largest small business advocacy association in the country, with roughly 300,000 members, all small business owners in most industry sectors. And our members are generally employers of roughly about an average of about five employees. So we're talking about the smaller employer demographic group. We do have a few that are non employers, so those who are self employed, about 10% of our membership are those.

Holly Wade 02:03

And in the research center, we've been around since the 70s. And the NFIB Research Center promotes a greater understanding of small businesses, and also how they operate their business and the conditions that impact them. So we're doing a lot of survey work right now on the impact from the health crisis as it impacts small business operations. And the center produces and disseminates surveys and studies on these small businesses. And we focus on areas related to public policy effects on a federal level and also in the states.

Steve Adams, host 02:45

So you're based out of Washington DC, is that where the main office of NFIB is located?

Holly Wade 02:51

Yes, it's one of our main offices. Our headquarters is in Nashville, Tennessee. We do have a large office downtown Washington, DC. And then we have an office and staff in each of the 50 states. So we do work a lot on state issues, as well as federal issues. But our two main offices are our headquarters in Nashville, and also our Washington, DC office.

Steve Adams, host 03:17

Oh, terrific. Well, we just mentioned that latest survey came out on August 24. And you also mentioned that you're doing these surveys regularly. Is this a direct result of the pandemic or is it something that's been kind of ongoing?

Holly Wade 03:32

So we do produce a number of surveys, they generally focus on small business operations. So how small businesses market their product or service, how they conduct payroll, if they're an employer, how they process payments, so credit cards if they accept cash, things like that. But since March, at the beginning of the pandemic, we thought that it would be a good idea to start asking a random sample of our members about what they're experiencing related to COVID-19 and some of the state executive orders that were coming through, and if they had started to be impacted by some of these policies, and because of the outbreak.

Holly Wade 04:21

So since early March, we've been surveying our members and then that transitioned to surveys that primarily focused on economic conditions in their area, but also the two small business loan programs, the paycheck Protection Program, PPP, better known as, and the Economic Injury Disaster Loan program that is facilitated through the SBA. Those two loan programs are the the largest kind of financial assistance programs available to small businesses. So we've asked a number of questions regularly about those programs and how small business owners using those programs and some of the challenges and benefits that are because of those programs. So we've done 11 of these surveys throughout the last 5-6 months. And we are following and tracking kind of how small business owners are doing throughout this health crisis and with these loan programs.

Steve Adams, host 05:27

Well, that's a perfect segue into my next question here. Are you as director of this research center recognizing any trends or patterns in small business behavior since the start of COVID?

Holly Wade 05:40

We are. So on top of the specific COVID 19-related surveys, we also produce a monthly small business economic trends survey that we've been producing since 1973. And both of them kind of give an overall picture of how small business owners are doing throughout this health crisis. The COVID-related survey is certainly showing that at the onset of the health crisis, and when the states were generally shut down for all of those businesses that were deemed non-essential, but also business restrictions, and sometimes very strict business restrictions on even businesses that were deemed essential, and how small business owners were dealing with that.

Holly Wade 06:33

At the onset, it was pretty broad, the negative impact of those shutdowns, not surprisingly, as consumers were told to stay home and businesses were told to either cease operations or limit operations. And since then, though, as states have opened up, and have allowed more business

activity, we've seen a shift now to those businesses that are still very negatively impacted and then those businesses that had been able to ramp up business operations, either somewhere near back to normal, pre-COVID levels, some even exceeding pre-COVID levels, depending on the shifts in consumer demand for their product or service.

Holly Wade 07:24

You know, we've seen a huge swing, as far as what consumers and businesses are looking for, as far as you know, those products and services for staying at home and working from home. And, you know, there's a huge demand for outdoor activities and things like that. So there, it's a bit more disconnected, it's not so uniform. Now, there are those businesses who are still largely negatively impacted, and those that are less so. And so we're tracking those trends and how business owners are shifting and trying to navigate their new environment.

Steve Adams, host 08:04

Well, I got a kind of a quote here, a Constance Hunter, who's the chief economist at KPMG. And I wasn't familiar with these terms. She said, normally, humans are driven by FOMO, the fear of missing out, but with the virus, they're driven by FOGO, the fear of going out. So you kind of touched on that. Are we as a society into that FOGO fear of going out trend, do you think?

Holly Wade 08:34

Yes, so this is one of the areas that we will continue to look at is, as far as the general population, how risk-averse they are in going out. You know, there's social distancing and wearing masks, and that is, you know, right now our best tools as far as dealing with, you know, trying to stem the outbreaks of the virus and looking at, you know, how risk-averse those folks are in going out and spending money. Certainly, it has shifted to online retail versus in-store retail. And while restaurants have been able to open up a bit because of the good weather and summer months, which has been hugely helpful for many who have outdoor space, as the weather shifts, you know, we'll see how that changes, how risk-averse consumers are in going inside and and spending money.

Holly Wade 09:40

But definitely the consumer spending shift has geared towards those activities that are outdoors and still very limited for those activities that are indoors, some still remain closed. But yes, so Constance's quote there, that makes perfect sense. That's what we're measuring as far as how our business owners are doing in adjusting their activity. Many small business owners have adjusted, they've tried to adjust to accommodate for more outdoor-type accessibility. And you know, cities and towns have adjusted their regulations and zoning to allow for more outdoor activity. And so all of those are helpful. But what that looks like, as I said, going forward as the weather changes for much of the country kind of remains to be seen. But the risk assessment for the general population, you know, will continue to shift and hopefully will broaden as we you know, as the medical community develops better therapies and eventually a vaccine.

Steve Adams, host 10:54

Well, after reviewing the results of this latest survey, first of all, just let me say, yikes, as some of these responses did not look good for small business. The first thing that really jumped out at me, though, was that your respondents noted that one in five small businesses will close if economic conditions did not improve in the next six months. Did that surprise you at all and why or why not?

Holly Wade 11:20

So unfortunately, it was not a surprise, I wish it was different. But there are a number of businesses, you know, who are still very limited in operations, any business that is connected to entertainment, sporting venues, theaters, any indoor type of activity that would draw crowds, is still pretty much on

the sidelines. And so, and even restaurants, so you know, with the restaurant industry, a lot of retailers, it has been hugely challenging. The loan programs have been a support for them. But as those loan programs have start easing, as far as, you know, adding financial stimulus to, or stimulus money to the small business sector, and there are so many businesses that still have fixed costs that they aren't able to negotiate.

Holly Wade 12:24

And, you know, those expenses will start, you know, kind of eroding their bottom line. And that's where we see about a fifth saying that they might not survive, if they aren't, you know, if they aren't offered or if there isn't additional financial support available to them. So those businesses that are most negatively impacted or those who are struggling the most will certainly need additional financial support to make it through to the other side of this.

Steve Adams, host 12:58

Well Holly, I also see that you noted that, and I'm quoting you here, the health crisis is not impacting small business equally. Could you explain that in a little more detail for our listeners?

Holly Wade 13:13

Sure. So yes, as I mentioned, at the onset of the health crisis, it was more uniform that most small businesses were negatively impacted at the beginning. Since then, it has been a bit more disconnected. There are those businesses that, again, are either restricted by the state or cities in business operations, whether it's, you know, salons, or retail, theaters, and restaurants, all of those type of businesses are still hugely regulated by many states and cities. And so business activity has remained the same throughout, whereas other industries have improved significantly since the beginning, even some, as I mentioned, exceeding the pre-COVID, their pre-COVID sales.

Holly Wade 14:14

So all of those businesses that are directly related to say, outdoor activity—I know the bike shop down the street from me, they have had lines out the door of customers looking to buy a bike, you know, kind of changing up their outdoor activity a bit. As you know, the weather still is accommodating for that here in DC. But so it is very kind of disconnected now, of those businesses that still have limited business operations and those businesses that their goods or services are in higher demand.

Holly Wade 14:54

But also we do have for manufacturers, you know, or some of those retailers of goods that you would think would be in high demand are still having a problem because of supply chain disruptions. So because, you know, there is this demand by consumers. You know, we all saw that, at the beginning, say paper products were a scarce resource at the beginning of this, even some areas still not quite back to what your grocery store looked like before. But those supply chain disruptions had been also very problematic for some businesses. So it just depends what industry you're in and how consumer spending or the supply chain has disrupted business.

Steve Adams, host 15:41

Well, it was interesting that you should mention supply chains. I got into a conversation day before yesterday with one of our local grocery store managers. And I happened to comment, I said, I haven't seen Clorox wipes on the shelf for about four months. He said, we're not expecting to see Clorox wipes back in the store until maybe 2022. So that, obviously, is one of those supply chain disruption type things that you've talked about.

Holly Wade 16:06

Absolutely. Yeah.

Steve Adams, host 16:09

And we talked a little bit about it. We touched on it, I just want to kind of revisit this a little bit, when we talked about these stimulus systems coming out of Congress. Do you see that one in five closure ratio going up significantly if there's not further stimulus money coming out of Congress?

Holly Wade 16:27

Well, I wouldn't be surprised. Hopefully not. We've heard, you know, there has been some progress with negotiations when talking about the small business sector. The Paycheck Protection Program was by far the most helpful small business financing assistance program available to them. About 80% of small employers took advantage of the program, took out one of these PPP loans. Obviously, the big advantage for these loans is the forgiveness element, that if you use it correctly, if you spend those dollars on expenses that are eligible for forgiveness, you can apply for forgiveness and not pay anything back. And so that was Congress's way of supporting small businesses, getting them kind of through this. And it was hugely helpful from the onset of the health crisis.

Holly Wade 17:28

However, the spending of that loan program, you were only able to access one loan per business. And those funds have basically run out for small businesses, most of them received their loan at the beginning of April, if not into May, and businesses, you know, use those dollars the way they were supposed to. And, but most of them have used up their loan. And many of them who are still negatively impacted, who haven't been able to adjust business operations to balance, you know, their expenses, kind of their fixed costs versus, you know, increasing sales as they can figure out how to increase sales to do that. They are in desperate need of additional financing. And there's 130 some odd billion dollars still left in the program.

Holly Wade 18:25

And so NFIB, among other trade ... or other business associations are strongly encouraging Congress to quickly pass legislation that allows for a second loan for these businesses that are most negatively impacted. And you know, they're negatively impacted not by anything that they did, but because of business restrictions, and changes in consumer spending, because of the health crisis, so we hope that these dollars can get out there and support more small businesses. And hopefully quickly, because as you mentioned, our survey is showing that there are about one in five businesses that are in desperate need of continued help to get through this.

Steve Adams, host 19:15

Well, with monies leftover in that PPP program, I know the deadline was August 8, is there any movement on extending that deadline out maybe to the end of October or something like that to access those remaining funds?

Holly Wade 19:30

We are hopeful. So one of the areas we're hoping for is for Congress to allow businesses to access a second loan. For the most part, it does seem that most small businesses have, who were interested in accessing a PPP loan at the beginning, had done so. So there were a handful of businesses who were not interested in one of these loans. Some businesses, unfortunately—and we did try to reach out to those sectors, who didn't believe that they qualified for one of these loans—specifically, independent contractors and those who are self employed. So you didn't have to have, you didn't have to be an employer to be eligible for one of these loans.

Holly Wade 20:19

And so we tried to make sure that all of our members, all small business owners, regardless if they were an employer or non-employer, knew about the program and if they weren't interested to access one of these loans before the August 8 deadline. For the most part, it did seem that most business owners did access the program who were eligible and interested. So right now it is a strong push to allow for a second loan, that seems to be the the need out there for those small businesses that are most negatively impacted.

Steve Adams, host 21:02

Yeah, I would definitely agree with that. And you mentioned this as well, that—and I think this is in your survey—that the number of people that have used up all of their PPP money was about 84%. And it was 71% in July. So with only 16% of those borrowers, I guess, out there still having some of that money left, again, that just raises red flags with me. Is that another warning sign for you as well.?

Holly Wade 21:32

It is, it's, you know, it's a warning sign in that there is still a lot of small business out there struggling to keep the doors open, to keep their employees on staff. I mean, we know that going into the health crisis that, you know, the labor market was extraordinarily tight. Business owners, a lot of time and effort went into training employees, and getting them integrated into business operations. And they, you know, they're very interested in keeping as many employees as they can, so they don't have to kind of start from scratch as far as increasing employment. We know that many small business owners had to let go of many employees at the onset, they weren't able to keep folks on payroll, that is generally one of the biggest expenses that business owners have in operating their business.

Holly Wade 22:37

But many are trying to, you know, hire those employees back, or those former employees back, they're having a bit of a difficult time. Certainly there are a lot of those folks out there who are resistant, they're nervous about, you know, going back to work with a health crisis still, you know, very much alive in many areas of the country. And so all of these dynamics are having, are causing a lot of stress on small businesses. And you know, these owners are trying to navigate as best they can. But it is difficult on many fronts.

Steve Adams, host 23:19

Well another grim number that just kind of jumped out of this latest survey was that it says that sales levels remain at 50% or less than they were pre-COVID. For small business. I just got to ask, how does one survive when sales are running at about half of normal?

Holly Wade 23:38

Good question. So that is one of those areas where, you know, those small businesses that are still operating at those reduced levels, you know, many of them likely don't have a lot of fixed costs. So you know, if you are limited in just what you need to buy to operate your business, and you don't have kind of fixed mortgages or rents, that you have to pay. But even those who do have those kind of larger expenses, you know, they've been able to scale down as much as possible. And also, you know, negotiating with their banks, hopefully to either defer those payments or reduce those payments to some level that they can then manage.

Holly Wade 24:29

But it is definitely a struggle for many small businesses in adjusting all of this. For the most part, all of these decisions are on the shoulder of the owner. So not only are they trying to, you know, deal with how to best market the product and service, how to adjust to the new economic conditions in their area, but also you're managing all of these expenses going forward and, you know, what that looks like.

It's a juggling act, it is very stressful. But you know, and some small businesses, unfortunately are having to deal with more of this than others.

Holly Wade 25:11

We certainly hope that, you know, going forward, it gets a bit easier as your business increases. But, you know, in our monthly survey or monthly economic trends survey that I mentioned that we've been doing since 1973, we see trends or levels shifting in capital spending and regular borrowing. And those are areas where business owners have absolutely scaled back on capital spending purchases. So if they don't have to spend money, they're not. They are trying to limit costs as much as possible. They're generally speaking not interested in incurring more debt. And so they're doing all of these things to get themselves in the best situation possible to navigate through this.

Steve Adams, host 26:04

Well, were you at all surprised to see that 14% of those small businesses in your survey reported sales levels that exceeded their pre-COVID sales? What do you attribute to that?

Holly Wade 26:17

Well, that is likely due to shifting in consumer spending. So for instance, as I mentioned, the, you know, the bike store down the street, as much as they can stock inventory, they are selling those bikes. But also for residential construction, while commercial construction is definitely getting hit. And you know, that industry sector has, you know, has been trying to navigate this and isn't good. But for the residential construction scene, it is a whole different story. And so our members who are in residential construction have been seeing a huge spike in business, as you know, as those out there looking to either buy a house, knowing that they have to, you know, they're likely going to telecommute for quite an extended amount of time.

Holly Wade 27:14

They have more time to think about these things or just construction of, you know, renovating their current home, you know, switching out durable goods in their home, their refrigerator, or their microwave, things like that. So there are certain businesses that are doing much better than we might have otherwise thought because of kind of the shifting dynamics of the general population.

Steve Adams, host 27:43

I think we can kind of see that around here too in the Midwest. I have a good friend that has a summer home at the Lake of the Ozarks, and he said try to find any fishing tackle between Des Moines and Lake of the Ozarks. He says there isn't. He says there aren't any boats, there aren't any a canoes or kayaks, camper sales are going through the roof. So I guess it really just depends on the business sector, right, Holly?

Holly Wade 28:09

Absolutely. It is very industry-specific which of those companies are doing well, which are not doing well. And you know, as your, you know, example, anything related to the outdoors, generally doing okay. Those businesses that are confined to indoor activities, they're doing less okay. So it is very specific. You know, again, at the beginning of the health crisis, it was fairly uniform across sectors at the very beginning. But as we've kind of evolved into our new normal and consumer spending has picked up in various sectors, it is much more disjointed as far as those businesses who have exceeded you know, pre-health crisis levels versus those who are still far from it.

Holly Wade 29:08

But even those businesses who, you know, have lower sales than kind of pre-crisis levels, say 25% less, 30% less, you know, many of those businesses are still struggling and trying to navigate, because many

have those fixed costs that I mentioned earlier, and are trying to you know, manage what they can pay, and with, you know, less money coming in the front door and navigating those hurdles. But yes, residential construction, finding anybody as far as home renovations is certainly challenging. You know, likely the local REIs or the, you know, outdoor sporting goods businesses are doing quite well. But then right next to them, their local restaurants are still hurting.

Steve Adams, host 30:06

Well I see here too that 52% of those that responded said that they do not expect business conditions to improve until sometime in 2021, while 20% are not expecting an improvement or a return until 2022. Do you share that opinion as well?

Holly Wade 30:27

You know, that is probably a good estimate of where we are, as far as you know, kind of getting back to normal. It was such a huge disruption and it is all determined by improved therapies and, and eventually a vaccine, determining how business, you know, conditions return to normal. So business owners are generally, you know, very realistic about what this looks like going forward. And so, you know, they're navigating, or trying to adjust for the long term, in many situations, because it is all dependent on, you know, on these, the medical community coming up with better therapies and a vaccine, because, you know, for the general population, that risk is going to be out there, it is going to persist until that happens. And so we will continue to live in this environment for the foreseeable future. And business owners are trying to do the best they can to prepare for that.

Steve Adams, host 31:41

So Holly, when can we expect to see your next set of data points come out?

Holly Wade 31:46

Well, we are putting together the questionnaire over the last few days, we had drafted it up. And so hopefully, it'll be out next week. And we'll have the results in a report ready to release the following week. So probably two more weeks, we'll have an update on where small business owners are. As far as the loan programs right now, we are in full board on the forgiveness element of the PPP loan. And so while the program has been hugely helpful in supporting small business owners through the health crisis, as important as the loan itself is the forgiveness part of it. And so now owners or borrowers of a PPP loan are trying to navigate how to make sure they get those dollars, those loan dollars forgiven.

Holly Wade 32:47

And many are, not surprisingly, fairly stressed about making sure that they're kind of checking all the boxes, dotting i's and crossing T's to have that those loan dollars forgiven. And it's a quite complicated program for many. So we have spent a lot of time in NFIB making sure that our member small business owners who have one of these loans are best situated to get those loans forgiven. So that's our focus right now. And then also, obviously, making sure Congress understands how important it is for those businesses most negatively impacted to continue with financial assistance through the remaining funds in the program and allow them a second loan.

Steve Adams, host 33:41

Well, sadly, it seems as if those negotiations have broken down in Congress, and I think most folks are predicting now that they may not see an additional stimulus package until after the election, which is going to put it out a good six or seven weeks for folks. So hey, listeners, it's been a really special pleasure to have Holly Wade, who's the executive director of the NFIB Research Center, and really providing us with some wonderful if not a little bleak survey results. So hey, Holly, if someone was interested in contacting you for additional questions, how might they reach you?

Holly Wade 34:20

Sure, absolutely. The easiest way to reach me is by email and my email address is Holly.Wade@nfib.org.

Steve Adams, host 34:36

That is quite simple, I hope everyone can remember that. Holly, thanks again, and would you come back again some time as my guest?

Holly Wade 34:43

Absolutely. It was a pleasure to be with you.

Steve Adams, host 34:44

I appreciate your time as well. Well, folks, I've not done this yet on any of our podcasts, but I think it's about time to give a special shout out to the folks that really make these podcasts happen. As you can imagine, this is not possible without a little help from my friends. And I would like to personally thank my producers, Brian Tapp of the Farm, Food and Enterprise Development unit at Iowa State University Extension and Outreach, and Brett Middendorf, who is on loan to us from the Iowa SBDC. And I also want to give a special thanks to our media marketing gurus, Susan Erickson and Sandy Overbroeking from the Community and Economic Development unit, Leigh Adcock of the Farm, Food and Enterprise Development unit, and Brianna Hall of the Iowa SBDC. Without these folks, this wouldn't be possible. So thanks again for all you do behind the scenes.

Steve Adams, host 35:12

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Steve Adams, host 36:10

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