



Outlook of California Small Business Owners
American Express OPEN Small Business Monitor
Spring 2010 Semi-Annual Monitor

The American Express OPEN Small Business Monitor, released each spring and fall since 2002, is based on a nationally representative sample of small business owners/managers of companies with fewer than 100 employees.

California Entrepreneurs Have a Mixed Outlook	Small Businesses Overall 2010	California Small Business Owners 2010	Western Small Business Owners 2010
Over Next Six Months, expect the Business to Grow Regardless of the Economy	33%	39%	38%
Plan to Hire Over the Next Six Months	28%	25%	25%
Have Cash Flow issues	60%	57%	54%
Have Capital Investment Plans	48%	43%	50%
Believe the Economy is in Recession	44%	46%	48%
Will Hire Employees in Marketing/sales First	34%	51%	49%
Recession has affected date planned to retire	43%	49%	40%
Believe the Economy Creates Opportunities	26%	29%	31%
Rising Healthcare costs Jeopardize Business	38%	46%	46%

California Entrepreneurs Have Varied Tactics to Deal with the Recession	Small Businesses Overall 2010	California Small Business Owners 2010	Western Small Business Owners 2010
Hiring freeze	48%	54%	50%
Salary freeze	43%	47%	44%
Allow employees to maintain a flexible schedule	33%	27%	32%
Reduce employee hours	40%	45%	41%
Tap personal assets	41%	45%	45%
Stop taking a salary	33%	36%	35%
Ask family member to work for no pay	29%	32%	32%
Renegotiate leases/contracts	26%	48%	38%
Lay off employees	22%	19%	23%
Work a second job	20%	16%	21%
Cut benefits	20%	22%	21%

California Business Owner Highlights

Noteworthy California business owner highlights are as follows:

- Three quarters (75%) are worried about their ability to save for retirement.
- Six in ten (62%) say they feel confident they can access the capital they need to grow their business

- Nearly half (46%) who offer healthcare say rising healthcare costs are jeopardizing the survival of their business
- One in four entrepreneurs (26%) describe their business as a “sinking ship”
- On average California business owners will need to postpone their retirement 9 years because of the economy

Business Outlook

According to the Monitor, less than half of California business owners have a positive outlook for their business prospects over the next six months (45%), compared with their counterparts in the West (51%). Over the next six months more than one third (36%) expect sales to be the same as this period last year. Based on their business performance, 46% of business owners would say we are still in recession, 27% say the economy is stagnant and only 26% say the economy is recovering. Two thirds (66%) don't think the worst of US economic woes are over and more than one in four entrepreneurs (26%) describe their business as a “sinking ship” saying the economy has had a negative effect on their business and its survival is in jeopardy.

Eighty five percent of California entrepreneurs describe themselves as optimists and generally see the glass as “half full”. Two thirds of California business owners say they are spending time with family/ friends, and that staying healthy and exercising helps (both 67%) them stay positive in a tough economy.

Managing the Recession

Nearly three in ten California business owners (29%) say the current economy creates opportunities for their business. Of these entrepreneurs, more than half (58%) say the current economy creates less direct competition.

Sixty two percent of California entrepreneurs say the current economy has caused them to make changes in their business. Entrepreneurs were most surprised by the effect reducing staff related expenses had on their business (47%) such as laying off employees, reducing employee hours, reducing employee salaries, taking on more work themselves, using staff more efficiently and cutting employee benefits. According to one Indian Wells business owner, “I work more myself. I had people that did work for me but now I have to do it”

Four in ten entrepreneurs were surprised by the effect cutting expenses had on their business (43%). Cuts ranged from purchasing less, using less and keeping less on-hand inventory, keeping a closer eye on expenses, cutting back on advertising marketing and promotions, offering more competitive pricing and reducing product lines/services. In one Westlake Village entrepreneurs' own words “I had to cut my product line. We used to carry twelve different designs and now we just carry five.”

Fewer (4%) were surprised that reevaluating matters in the area of financing such as collecting payments or partial payments upfront, extending or using lines of credit, giving up costly real estate or tapping into personal savings made a difference. In some cases it was as simple as “fiscal and financial prudence,” said one California business owner.

A very small percentage of entrepreneurs (1%) were surprised how improvements in the business including using more aggressive sales and promotional tactics, paying more attention to customer

service or making better use of technology made an effect. One Rosemead entrepreneur said, “I invest in technology software so that staff can be more productive.”

The most common tactics business owners use to manage through the recession include instituting a hiring freeze (54%) or renegotiating leases or supply contracts (48%). More than four in ten have instituted a salary freeze (47%), are tapping personal assets or have reduced employee hours (each 45%). More than one third has actually stopped taking a salary (36%). Three in ten have a spouse or family member working in the business for no pay (32%). Slightly fewer allow employees to maintain a flexible schedule (27%) and cut benefits (22%). Less than one in four have laid off employees (19%) or actually work a second job as a result of the recession (16%).

Investments in the Company

More than four in ten California business owners (43%) will make capital investments over the next six months. For California entrepreneurs technology investments lead the category (30%). Additional investments include manufacturing/production equipment (10%), office equipment (9%), office furnishings (5%) and real estate investments (4%).

Six in ten business owners (62%) say the current economy is preventing them from making investments in their business. The number one investment area that is suffering is capital investments (43%); followed by marketing and sales (41%), real estate (33%) and R&D (21%).

Accessing Capital

Six in ten California business owners (62%) say they feel confident they can access the capital they need to grow their business. To secure the funds they need, business owners are using various ways including tapping personal savings (37%), using business credit cards (28%), using personal credit cards (20%), private equity/venture capital (15%), borrowing from a friend or family member (10%), home equity (7%), an angel investor (4%) or securing a bank loan (2%).

Addressing Cash Flow Issues

Fifty seven percent of California business owners report having cash flow issues. The biggest worry among entrepreneurs is the ability to pay bills on time (18%), followed by the ability to meet payroll (17%), accounts receivable (12%), having enough cash to win new business (6%) and the ability to accurately track cash flow (4%),

More than half of business owners (58%) are concerned about having enough cash available to pay bills in the next six months.

As a tactic to improve cash flow, nearly half of California entrepreneurs are most likely to put off purchases (46%). Others will use a credit card (14%), obtain and use a line of credit (12%), get a short-term loan (10%), use personal or private funds (8%) or lease rather than purchase business equipment (4%) in order to improve cash flow.

Hiring Plans

One in four California business owners (25%) are planning to hire within the next six months. Half of business owners will hire in the area of sales/marketing first (51%). More than one in five business owners (23%) say they plan on using more non full-time staff instead of hiring full-time employees over the next six months. Of those planning to use non full-time staff, nearly two thirds (64%) will do so to save on benefits costs.

Healthcare

Forty five percent of California entrepreneurs offer healthcare benefits to employees. Nearly the same number of these business owners (46%) say rising healthcare costs are jeopardizing the survival of their business.

Marketing

Four in ten California business owners (42%) say creative marketing has helped them insulate their business from the broader downturn. However, more than half (54%) say they are challenged finding innovative and creative ways to market their business. Virtually all (99%) say word of mouth is more important than ever in marketing their business. For those business owners that use social networking sites, the main reason they use it is to save money on marketing (13%) and offer customers exclusive deals (11%). On average California business owners will spend \$3,235 on search engine marketing in 2010.

Retirement

Three quarters of California entrepreneurs (75%) are worried about their ability to save for retirement. One third (33%) of these business owners say they “are very worried”. Nearly half of entrepreneurs say (49%) the recession has affected the date they planned to retire. On average California business owners will need to postpone their retirement 9 years because of the economy.

Survey Methodology

American Express OPEN Small Business Monitor, released each spring and fall, is based on a nationally representative sample of 734 small business owners/managers of companies with fewer than 100 employees. The anonymous survey was conducted via telephone by Echo Research from February 9- February 22, 2010. The poll has a margin of error of +/- 3.6%.

States within the West include Montana, Wyoming, Idaho, Nevada, Utah, Colorado, Arizona, New Mexico, Washington, Oregon and California.

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