



## **CAPITAL INVESTMENT AND HIRING PLANS SHOW HINTS OF RECOVERY, BUT OPTIMISM ABOUT THE ECONOMY WEAKENS, ACCORDING TO AMERICAN EXPRESS OPEN SMALL BUSINESS MONITOR**

### **One in Five Businesses say They've Thrived in Spite of the Rough Economy; Positive Cash Flow Separates These Growth Firms from the Rest of the Pack**

NEW YORK, March 24, 2010 – This spring, some hopeful signs are emerging among small business owners, who remain skittish about the overall economic climate. Nearly half (48%) plan to make capital investments in their businesses, up from 42% last fall and nearing spring 2008 levels (53%) when investment plans began a steady decline amid the worsening economy. In addition, more than one-quarter have plans to hire (28%), edging higher from fall 2009 (23%), according to the American Express OPEN® Small Business Monitor, a semi-annual survey of business owners now in its ninth year.

However, small business owners remain skeptical about business prospects. The number of small businesses that see the current economic climate negatively affecting business prospects rose from 24% six months ago to 29% and the number of entrepreneurs who see the economy improving with expanding opportunities for their businesses fell from 26% last fall to 18%. One bright spot on the subject of sentiment is younger entrepreneurs (ages 19 – 29), 72% of whom are optimistic about their business prospects and the economy.

“The economy has certainly taken its toll on business owners, and with only one-in-four characterizing the economy as ‘recovering’ based on their own business performance, the recent upturn has eluded many of them,” said Susan Sobott, president of American Express OPEN. “Our survey has revealed a subset of entrepreneurs, whose success in spite of the down economy underscores the importance of managing cash flow, including getting paid faster by customers, as a means to generating investment dollars and driving growth.”

### **Which Entrepreneurs are Poised for Growth?**

While the spring survey points to genuine concerns among business owners, it also reveals a group of entrepreneurs who are flourishing in spite of the challenging economy.

When asked to describe the impact of the economy on their businesses, more than half (58%) of businesses said they were “staying afloat,” and 21% described their firms as “sinking ships.” However, an additional 21% said either the economy had not adversely affected their companies or they have grown their firms in the rough economy.

Interestingly, the survey found that these growth-oriented business owners had less tenure and were running moderately sized companies compared to their peers. In fact, those

currently thriving have been in business for fewer years (average 18 years, compared to 22 years for both “staying afloat” and “sinking ships”) and have moderate revenues (average \$513K per year, compared to \$439K for “sinking ships” and \$745K for “staying afloat”).

There are also several interesting distinctions that set these growth companies apart from the “staying afloat” and “sinking ship” firms:

- **Industry Matters.** The business and personal services sector appears to have best weathered the recession. A majority of growth companies (52%) are in business or personal services industries compared to 46% and 29% for “staying afloat” and “sinking ship.” In addition, “staying afloat” and “sinking ship” firms are twice as likely to be in retail (25% for both vs. 12% for growth firms), and even more likely to be in construction (8% of “staying afloat” and 17% of “sinking ship” compared to just 3% of growth firms).
- **Cash Flow is King.** A majority of growth firms (56%) generate enough revenue to cover working capital needs compared to 33% of “staying afloat” and just 13% of “sinking ship.” This is likely helping fuel business investments: two-thirds of growth companies say this economy has had no impact on their ability to invest in their firms, compared to 33% of “staying afloat” and 12% of “sinking ship.”
- **Getting Paid Faster Helps Drive Cash Flow.** Despite the economy, just 13% of growth firms say customers have taken more time to pay compared to 34% of “staying afloat” and 47% of “sinking ship.” One contributing factor may be the Internet: growth firms are almost twice as likely to use online payment solutions such as PayPal (19%) compared to 11% of both “staying afloat” and “sinking ship.”

### **Streamlining Operations and Getting Creative**

Trying times are causing business owners overall to take a sharp look at operations, specifically costs, and get creative about where to pull back. Nearly two-thirds (64%) say the economy has caused them to make changes in their operations and management practices, and 70% will cut expenses over the next six months. Four-in-ten (39%) say the current economy is preventing them from spending on marketing and sales, which is the area hardest hit by business owners who are making decisions about business investments.

### **A Closer Look at Hiring**

While hiring is showing signs of improvement (28% versus 23% six months ago), most small business owners are looking to part-time or freelance help rather than full-timers: Part-time hiring has increased from 12% in the fall to 18% while full-time hiring is on par with six months ago (5% versus 6%). Sixty-two percent of the business owners looking to hire part-time help say they will do so to save on the cost of benefits typically given to fulltime workers.

### **Tech Investments Drive Spending**

The aforementioned entrepreneurs looking to invest in their businesses are most eager to spend on technology (37%). Essential technology investments include computer systems and software, including additional software licenses and new computers. Office equipment

(20%), office furnishings (11%), manufacturing or production equipment (8%), and real estate (5%) are less important investments.

### **Generation Y Buoyant Sentiment and Spending**

Although more seasoned entrepreneurs are often thought of as more optimistic than their younger counterparts because they have seen it all before, Gen Y business owners (ages 19 – 29) are most likely to have a positive outlook on their business prospects and the economy (72%). In addition, two thirds (66%) of Gen Y have capital investment plans, compared to six-in-ten (59%) of Gen X (ages 30 – 45) and 47% of Baby Boomers (ages 46 – 63). Hiring plans are also highest among the youngest generation with nearly half of Gen Y entrepreneurs (46%) planning to hire, compared to just 39% of Gen X entrepreneurs and one-quarter of Baby Boomers (25%).

Additional survey results are available by contacting American Express OPEN. Fact sheets on Florida, Texas, California and New York, as well as fact sheets on women entrepreneurs and by generation 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 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%.

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