Letter from Sharon Miller

We are pleased to share the spring 2017 Bank of America Small Business Owner Report, a semi-annual study that uncovers the perspectives, aspirations and concerns of small business owners around the country.

This spring, small business owners’ confidence in the economy has rebounded significantly from just six months ago and is at one of the highest levels recorded in the last five years. At the same time, the study uncovered that while confidence in the economy has jumped, entrepreneurs are cautious in their estimates for revenue growth and their plans to hire new employees in the coming year. Many were also modest when forecasting five-year business expansion plans.

Despite some caution, small business owners are experiencing less anxiety about several economic issues, including consumer spending, corporate tax rates, the strength of the U.S. dollar and the stock market. Health care remains the number one concern among small business owners, though the level of concern has also declined from six months ago.

While on average small business owners nationwide are taking a wait-and-see approach to hiring and expansion, millennial entrepreneurs, by contrast, indicate more ambitious plans to hire. Millennial small business owners also have higher expectations both for increased revenues in 2017 and business growth over the next five years.

Confidence in the economy hasn’t reduced stress levels among small business owners, who are reporting higher levels of stress compared to five years ago. In fact, one in four admit to having had a nightmare about their business failing. Despite this, entrepreneurs describe their jobs as fulfilling and satisfying, and feel they have achieved work-life balance.

When looking forward to the future of small business, entrepreneurs anticipate a workplace that is more virtual, automated and digital, with one in 10 saying they could see their business employing a robot within the next 20 years.

Whether you’ve been in business for 30 years or are just starting out, Bank of America is committed to helping provide you with a competitive advantage to sustain and grow your small business.

Sharon Miller, Managing Director, Head of Small Business, Bank of America

Methodology

GfK Public Communications & Social Science conducted the Bank of America Business Advantage Small Business Owner Report for spring 2017 online between February 21 and March 19, 2017 using a pre-recruited online sample of small business owners. GfK contacted a national sample of 1,001 small business owners in the United States with annual revenue between $100,000 and $4,999,999 and employing between 2 and 99 employees. Additionally, a total of 300 small business owners were surveyed in 10 target markets: Atlanta, Boston, Chicago, Dallas/Fort Worth, Houston, Los Angeles, New York, Miami, San Francisco and Washington, D.C. An oversample of 150 interviews was also completed among respondents in the technology and medical/health care fields. The final results were weighted to national benchmark standards for size, revenue and region.

Previous waves of the Small Business Owner Report before 2016 were conducted by telephone, and while best efforts were made to replicate processes, differences in sample, weighting and method suggests caution when making direct statistical comparisons to results from previous years.

Generational respondent breakdowns

• Millennials: Ages 18-37
• Gen-Xers: Ages 38-52
• Baby boomers: Ages 53-71
• Seniors: Ages 72+
Economic confidence rebounds

Economic confidence among small business owners is up significantly from six months ago and is among the highest in the past five years.

My local economy will improve over the next 12 months

- My local economy will improve over the next 12 months: 50%

The national economy will improve over the next 12 months

- The national economy will improve over the next 12 months: 52%

The global economy will improve over the next 12 months

- The global economy will improve over the next 12 months: 35%

Five-year snapshot: Small business economic confidence

While health care costs, consumer spending and government compliance top the list of economic concerns, other factors seem to be weighing less heavily compared to six months ago.
Growth plans and revenue outlooks flat, hiring at five-year low

While small business owners are more optimistic about the economy, their renewed confidence has yet to translate into improved expectations for business revenue in the year ahead or five-year growth outlook.

**Expect revenue to increase in the next 12 months**

<table>
<thead>
<tr>
<th></th>
<th>Spring 2016</th>
<th>Fall 2016</th>
<th>Spring 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>51%</td>
<td>52%</td>
<td>48%</td>
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</table>

**Plan to grow business in the next five years**

<table>
<thead>
<tr>
<th></th>
<th>Spring 2016</th>
<th>Fall 2016</th>
<th>Spring 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>55%</td>
<td>55%</td>
<td>56%</td>
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This spring, hiring plans for small business owners are at a five-year low. Despite a slowdown in plans to hire, more small business owners saw their revenue increase in 2016.

**Hiring plans for the year at an all-time low**

<table>
<thead>
<tr>
<th></th>
<th>Spring 2012</th>
<th>Fall 2012</th>
<th>Spring 2013</th>
<th>Fall 2013</th>
<th>Spring 2014</th>
<th>Fall 2014</th>
<th>Spring 2015</th>
<th>Fall 2015</th>
<th>Spring 2016</th>
<th>Fall 2016</th>
<th>Spring 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan to hire</td>
<td>31%</td>
<td>31%</td>
<td>31%</td>
<td>31%</td>
<td>31%</td>
<td>31%</td>
<td>31%</td>
<td>29%</td>
<td>25%</td>
<td>18%</td>
<td>73%</td>
</tr>
<tr>
<td>Plan to keep employee count the same</td>
<td>56%</td>
<td>56%</td>
<td>55%</td>
<td>59%</td>
<td>52%</td>
<td>42%</td>
<td>51%</td>
<td>46%</td>
<td>59%</td>
<td>64%</td>
<td>73%</td>
</tr>
</tbody>
</table>

**Small business revenue in 2016 compared to 2015 was:**

- Lower in 2016: 20%
- Higher in 2016: 41%
- Stayed the same: 39%

**How did actual revenue in 2016 compare to your revenue expectations for the year?**

- Exceeded my expectations: 18%
- Met my expectations: 59%
- Was below my expectations: 23%
Loan plans focus on marketing and employees

Certain loan funding plans saw significant increases from a year earlier, including business marketing, expanding operations and providing employee training.

More than two in five small business owners report they have applied for a loan at some point, similar to reports from spring and fall 2016. Only 10 percent plan to seek financing outside of a bank loan.

Top alternative financing sources:

- **Personal credit cards**: 39%
- **Venture capital funding**: 30%
- **Angel investors**: 27%
- **Personal savings**: 26%
Health care anxiety driven by cost

When asked how health care has changed over the last five years, most entrepreneurs who provide employee health care coverage feel cost increases have worsened. Business owners are split on the quality and availability of health care, with many believing there’s been no change. Business owners in the health care sector who contribute to employee coverage are slightly more optimistic about changes to cost, availability and quality.

### Views on business health care changes for small business owners nationally

<table>
<thead>
<tr>
<th>Quality</th>
<th>Annual cost increases</th>
<th>Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved: 25%</td>
<td>Stayed the same: 46%</td>
<td>Worsened: 29%</td>
</tr>
<tr>
<td>Improved: 21%</td>
<td>Stayed the same: 29%</td>
<td>Worsened: 50%</td>
</tr>
<tr>
<td>Improved: 27%</td>
<td>Stayed the same: 48%</td>
<td>Worsened: 25%</td>
</tr>
</tbody>
</table>

### Views on business health care changes for small business owners in the health care sector

<table>
<thead>
<tr>
<th>Quality</th>
<th>Annual cost increases</th>
<th>Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved: 40%</td>
<td>Stayed the same: 35%</td>
<td>Worsened: 25%</td>
</tr>
<tr>
<td>Improved: 29%</td>
<td>Stayed the same: 35%</td>
<td>Worsened: 36%</td>
</tr>
<tr>
<td>Improved: 44%</td>
<td>Stayed the same: 32%</td>
<td>Worsened: 24%</td>
</tr>
</tbody>
</table>

27% of small business owners provide employee health insurance benefits; 50% of health sector small business owners offer insurance to their employees.
Despite stress, entrepreneurs claim work-life balance, job satisfaction

Small business owners report that managing their business is the most stressful aspect of their lives and more than four times more stressful than raising children. One-quarter report having had a nightmare about their business failing.

**Top personal stressors for small business owners**

- Managing my business: 41%
- Managing my personal finances: 18%
- Exercising: 15%
- Maintaining a relationship with my spouse/partner: 13%
- Raising children: 9%
- Maintaining a relationship with my employees: 4%

Despite their stress levels, small business owners say an average week of running their business is fulfilling, enjoyable and interesting.

**Entrepreneurs feel running their business is:**

- Fulfilling: 52%
- Interesting: 52%
- Enjoyable: 51%
- Inspiring: 15%
- Exhilarating: 12%
- Demanding: 47%
- Stressful: 30%
- Exhausting: 16%
- Mundane: 4%

While small business owners tend to work long hours, with 61 percent reporting work weeks in excess of 40 hours, the vast majority feel fulfilled with the flexibility they have.

**Average weekly hours worked by small business owners:**

- 4% 71+ HOURS
- 29% 51-70 HOURS
- 28% 41-50 HOURS
- 24% 31-40 HOURS
- 15% 30 HOURS OR LESS
- 4% 30 HOURS OR LESS
Healthy habits drive work-life balance

Nearly all small business owners are satisfied with their work hours and flexibility. Despite working long hours, business owners are satisfied with:

<table>
<thead>
<tr>
<th>Flexibility of work location</th>
<th>Flexibility of work hours and schedule</th>
<th>Time with family and friends spent outside of work</th>
<th>Number of hours worked in a week</th>
</tr>
</thead>
<tbody>
<tr>
<td>93%</td>
<td>92%</td>
<td>83%</td>
<td>81%</td>
</tr>
</tbody>
</table>

While 77 percent of small business owners say their work life interferes with their home life, many have taken on habits to improve personal relationships, such as putting away their mobile device while eating with others.

...but for 18% who don’t have balance, the top roadblocks are:

- Administrative tasks: 46%
- Customer needs: 44%
- Not enough financial resources to hire: 38%
- Too few employees: 34%

When you sit down for dinner with friends or family, how often do you typically check your business email on your mobile device?

- At least once every 5 minutes: 1%
- At least once every 15 minutes: 5%
- At least once every 30 minutes: 6%
- At least once every hour: 15%
- I typically don’t check my mobile device: 72%
Innovation driving business and 20-year predictions

Small business owners overwhelmingly cite innovation as a workplace priority and contributor to the success of their business, with nearly three-quarters reporting they have taken some form of innovative action in the last two years.

| Entrepreneurs who have taken an innovative action within the past two years have: |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| 47%                             | 26%             | 24%             | 18%             | 14%             |
| Upgraded business technology    | Created a new product or service | Added a new process that achieved operational efficiency | Created a way for employees to contribute new ideas | Done something new in their industry |

Asked about the future of innovation in business in the next 20 years, there were some key differences between small business owners generally and those in the technology sector.

**Top predictions for small businesses in 20 years**

- More offices will be virtual: 49% (All small business owners) 49% (Tech sector small business owners)
- Businesses will go paperless: 42% (All small business owners) 35% (Tech sector small business owners)
- Operations will be automated: 42% (All small business owners) 49% (Tech sector small business owners)
- Cash will disappear: 36% (All small business owners) 24% (Tech sector small business owners)
- Hours of operations will be obsolete: 19% (All small business owners) 24% (Tech sector small business owners)
- Businesses will employ a robot: 10% (All small business owners) 18% (Tech sector small business owners)

**For innovators, the single biggest contributor is:**

- Technology: 36% (All small business owners) 43% (Tech sector small business owners)
- Deep industry knowledge: 30% (All small business owners) 20% (Tech sector small business owners)
- Employees: 13% (All small business owners) 17% (Tech sector small business owners)
- Work culture: 13% (All small business owners) 14% (Tech sector small business owners)
- Financial resources: 6% (All small business owners) 6% (Tech sector small business owners)

53% of entrepreneurs consider themselves innovative business leaders, but entrepreneurs in the tech industry are more likely to say their business is “industry leading” or “ahead of the curve.”
Millennial owners optimistic, conflicted on work-life balance

While all generations report confidence in the economy, millennials are far more optimistic about their revenue increasing and plans to hire in the year ahead, as well as five-year growth plans.

Majority of millennials expecting revenue to increase in the year ahead

<table>
<thead>
<tr>
<th>Generation</th>
<th>65%</th>
<th>62%</th>
<th>43%</th>
<th>33%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millennials</td>
<td>Gen-X</td>
<td>Baby boomers</td>
<td>Seniors</td>
<td></td>
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</tbody>
</table>

Nearly all millennials are planning for growth over the next five years

<table>
<thead>
<tr>
<th>Generation</th>
<th>80%</th>
<th>68%</th>
<th>50%</th>
<th>48%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millennials</td>
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</tbody>
</table>

Millennials are more likely to plan to hire in the year ahead

<table>
<thead>
<tr>
<th>Generation</th>
<th>45%</th>
<th>26%</th>
<th>13%</th>
<th>6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millennials</td>
<td>Gen-X</td>
<td>Baby boomers</td>
<td>Seniors</td>
<td></td>
</tr>
</tbody>
</table>

While all generations say they have achieved a work-life balance, millennials are more likely to report their work causes tension with personal relationships and that they have had nightmares about their business failing.

Percentage of small business owners across generations who believe they have achieved a work-life balance

<table>
<thead>
<tr>
<th>Generation</th>
<th>77%</th>
<th>78%</th>
<th>82%</th>
<th>91%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millennials</td>
<td>Gen-X</td>
<td>Baby boomers</td>
<td>Seniors</td>
<td></td>
</tr>
</tbody>
</table>

Despite this, millennials are most likely to say time spent at work creates tension with their personal relationships

<table>
<thead>
<tr>
<th>Generation</th>
<th>60%</th>
<th>50%</th>
<th>32%</th>
<th>12%</th>
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42% of millennials report having had a nightmare about their business failing, compared to only 28% of Gen-Xers, 23% of baby boomers and 8% of seniors.
Bank of America Business Advantage

Snapshot of small businesses across the U.S.

Local market superlatives

San Francisco
Most likely to use loan funding to invest in employee training and development

Los Angeles
Most likely to say technology is the most important contributor to business innovation

Dallas/Fort Worth
Most likely to say they plan to grow their business over the next five years

Austin
Most confident that the local and national economy will improve over the next 12 months

Chicago
Most concerned about health care costs

New York
Most likely to say that running their business is "exhilarating"

Greater Washington
Most likely to say they are "ahead of the curve" with innovation

Miami
Most likely to feel like they have a work-life balance

Boston
Least likely to care about having a work-life balance

Client profile

A knack for problem solving is an invaluable talent for the best small business owners and a prerequisite for all successful doctors. For Dr. Cheng Ruan, a self-described “physician entrepreneur” operating at the intersection of economics and medicine, problem solving is a mission.

“I’ve always been an innovator,” Dr. Ruan said. “Once I find a problem, I figure out how many people are having the same problem and I try to fix it.”

Dr. Ruan is a Houston-based doctor, business owner, motivational speaker and author, specializing in the practice of lifestyle modification designed to solve the issues facing his industry. His current problem—finding a way to alleviate the weight of major healthcare expenditures hamstringing both doctors and patients—is a big one. But so is his innovative solution.

Three-quarters of entrepreneurs we surveyed say encouraging innovation is a priority and a key contributor to success, and Dr. Ruan epitomizes that philosophy. He champions the science of lifestyle modification, a branch of medicine that focuses on the prevention and treatment of illnesses caused by lifestyle factors, including physical activity, nutrition and stress. Dr. Ruan is launching the Texas Center for Lifestyle Medicine, a medical center with several private care practices and a gym incorporating the principles of lifestyle modification medicine within the traditional clinical model.

When patients visit the center for a check-up, they won’t simply be told, “see you next year.” Instead, they’ll leave with a plan for healthy living.

“Lifestyle modification saves people’s lives and helps them live longer,” Dr. Ruan said. “We need to use food as medicine, we need to exercise and we need to communicate.”

The concept is simple—ease the economic and physical burden of sickness by teaching lifestyle changes that will keep people healthy—but the reality of the situation is more complex. Dr. Ruan says part of the problem he faces is rooted in a knowledge gap. Medical schools don’t prioritize lifestyle modification, resulting in an approach predominantly based on treatment of symptoms with medications (some of which can be very costly) rather than a focus on preventing the root causes of sickness, such as unhealthy lifestyle habits. To address this awareness gap, Dr. Ruan designed a health coaching package that educates doctors and patients alike.

“The public needs to take control of their health, but they also need the guidelines to do it,” Dr. Ruan said. “It will take innovators like me and others, and this is the first step. This is not a new concept, but it’s the first time it’s being taken seriously with scientific research.”

The Texas Center for Lifestyle Medicine is just one phase of Dr. Ruan’s lifestyle modification mission. With the goal of expanding his business and spreading lifestyle modification to a wider audience, Dr. Ruan is working to open additional medical centers and expand beyond Houston, bringing more doctors into the fold. With healthcare concerns riding high on the minds of many Americans, Dr. Ruan believes his work is coming at a crucial time. For the innovative physician entrepreneur, the medical centers of lifestyle modification are more than an idea, they’re the future.