Letter from Sharon Miller

We are pleased to present the spring 2018 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.

In this spring’s report, we found some of the highest levels of optimism among U.S. entrepreneurs since we began surveying them in 2012. Confidence in the economy – both at the national and local levels – is the highest it’s been since 2015 and the second highest in the history of the report. Revenue projections, plans to expand and long-term growth are also up year-over-year. Hiring, too, is on the rise, with more business owners saying they intend to staff up in the year ahead.

Some of this optimism may be due in part to recent changes made to the U.S. tax law, which many entrepreneurs in our survey described as a “game-changer.” The majority say they plan to invest tax savings back into their business, including to expand operations, and reward and hire employees.

The report also looked at how digital and other emerging technologies are impacting, and even disrupting, the small business landscape. We found that nearly all small businesses manage some aspect of their business on their smartphone, while one-third use it to process digital payments. Digital payment adoption is moving full steam ahead, with most entrepreneurs believing that the conversion to cashless will happen within the next five years.

Other technologies – such as the Internet of Things, data analytics, 3D printing and even Artificial Intelligence – are set to transform the future of small business, with nearly half of entrepreneurs reporting they are using or currently exploring one such technology. We also found that blockchain, and its relevance to small businesses, is still largely an unknown.

Finally, we also see business owners grappling with the risk that comes with a greater reliance on digital technology as nearly one in 10 business owners said they were impacted by a data breach in the past year.

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 Small Business Owner Report Survey for Spring of 2018 online between February 12 and March 26, 2018 using a pre-recruited online sample of small business owners. GfK contacted a national sample of 1,031 small business owners in the United States with annual revenue between $100,000 and $4,999,999 and employing between two and 99 employees. In addition, a total of approximately 300 small business owners were also surveyed in each of ten target markets: Atlanta, Boston, Chicago, Dallas, Houston, Los Angeles, Miami, New York, San Francisco and Washington, D.C. The final results were weighted to national benchmark standards for size, revenue and region.

Prior to 2016, previous waves of the Small Business Owner Report Survey were conducted by telephone and while best efforts were made to replicate processes, differences in sample, weighting and method suggest caution when making direct statistical comparisons of the results from pre-2016 and post-2016.
Economic confidence highest since 2015

Small business owner optimism in the economy continues to climb, with confidence levels reaching their highest points since 2015.

My local economy will improve over the next 12 months

The national economy will improve over the next 12 months

The global economy will improve over the next 12 months

Although most entrepreneurs believe the economy is strengthening, entrepreneurs express rising concern over several economic factors.

Economic issues concerning small businesses

<table>
<thead>
<tr>
<th>Health care costs</th>
<th>Interest rates</th>
<th>Commodities prices (oil, gas, etc.)</th>
<th>Strength of the U.S. dollar</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="healthcare" /></td>
<td><img src="image" alt="interest_rates" /></td>
<td><img src="image" alt="commodities_prices" /></td>
<td><img src="image" alt="strength_of_dollar" /></td>
</tr>
<tr>
<td>64%</td>
<td>37%</td>
<td>36%</td>
<td>36%</td>
</tr>
<tr>
<td>75%</td>
<td>51%</td>
<td>50%</td>
<td>45%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consumer spending</th>
<th>Corporate tax rates</th>
<th>U.S. and/or global stock market</th>
<th>Credit availability</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="consumer_spending" /></td>
<td><img src="image" alt="corporate_tax_rates" /></td>
<td><img src="image" alt="stock_market" /></td>
<td><img src="image" alt="credit_availability" /></td>
</tr>
<tr>
<td>42%</td>
<td>39%</td>
<td>34%</td>
<td>25%</td>
</tr>
<tr>
<td>45%</td>
<td>44%</td>
<td>43%</td>
<td>32%</td>
</tr>
</tbody>
</table>
Small business growth indicators on the rise

The positive economic outlook is reflected in business owners’ 2018 revenue forecasts, plans to hire and expand in the year ahead, as well as long-term growth projections.

**Revenue**

- Expect revenue to increase in the next 12 months:
  - Spring 2016: 48%
  - Spring 2017: 51%
  - Spring 2018: 60%

**Hiring**

- Plan to hire in the next 12 months:
  - Spring 2016: 22%
  - Spring 2017: 18%
  - Spring 2018: 22%

**Expansion**

- Plan to expand in the year ahead:
  - Spring 2016: 69%
  - Spring 2017: 60%
  - Spring 2018: 63%

**Growth**

- Plan to grow business in the next five years:
  - Spring 2016: 60%
  - Spring 2017: 56%
  - Spring 2018: 55%
Spotlight on tax reform

One of the greatest opportunities for business owners in the near term may be recently enacted changes to U.S. tax policy.

**Business owners say the new tax policy...**

- **58%** Is a game-changer for small business overall
- **37%** Caused me to adjust my business plan for 2018
- **63%** Makes me more optimistic about my business outlook
- **34%** Will significantly alter my business trajectory

71% expect savings from the tax policy changes.

**Entrepreneurs plan to apply those savings to...**

- **37%** Invest back into their business
- **34%** Increase profits
- **21%** Reward employees with raises and bonuses
- **14%** Hire new employees
- **14%** Expand operations
- **12%** Pay off a loan
- **12%** Make capital improvements
Technology disrupting small business

Business owners see great opportunity in the potential of new technology, and are investing in frequent upgrades as well as emerging innovations.

**The future success of my business is...**

- **77%** Dependent on technology
- **23%** Threatened by technology

**Nearly four in five entrepreneurs make technology updates at least annually**

- **43%** Annually
- **17%** Quarterly
- **12%** Monthly
- **5%** Weekly
- **1%** Daily

Almost half (44%) of entrepreneurs are using or exploring at least one advanced technology for their business.

**I am currently using or exploring...**

- **24%** Internet of Things
- **11%** 3D printing
- **7%** Artificial Intelligence
- **5%** Drones
- **7%** Virtual reality
- **15%** Data analytics
- **2%** Robots

**One in ten** business owners have eliminated employee positions due to efficiencies made possible by technology.
Digital payments set to dominate as smartphone use expands

Business owners predict all payments will be conducted digitally within the next five years, while there is much uncertainty around blockchain and cryptocurrency.

52% of business owners predict all payments will be digital within five years.

Two-thirds of business owners do not know what blockchain is.

65% Unfamiliar with blockchain

19% of business owners foresee accepting cryptocurrency within five years.

13% Believe blockchain will be relevant to their business

22% Don't believe blockchain will be relevant to their business

Business owners use smartphones for...

<table>
<thead>
<tr>
<th>Activity</th>
<th>Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic tasks</td>
<td>79%</td>
</tr>
<tr>
<td>Business management</td>
<td>44%</td>
</tr>
<tr>
<td>Digital banking</td>
<td>41%</td>
</tr>
<tr>
<td>Social media updates</td>
<td>38%</td>
</tr>
<tr>
<td>Digital payments</td>
<td>29%</td>
</tr>
<tr>
<td>Comprehensive financial tracking</td>
<td>11%</td>
</tr>
</tbody>
</table>

89% of business owners use smartphones for business operations.

Two decades into the Internet era, the role of the business website is less significant.

Only 59% of business owners have a website.

Websites are predominantly used to...

<table>
<thead>
<tr>
<th>Activity</th>
<th>Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share info</td>
<td>60%</td>
</tr>
<tr>
<td>Drive sales</td>
<td>31%</td>
</tr>
<tr>
<td>Customer service</td>
<td>9%</td>
</tr>
</tbody>
</table>
Digital risks facing small businesses

Increased dependence on digital tools and platforms can also lead to increased risks for entrepreneurs if systems fail or technology is lost or compromised.

**If I lost my smartphone I would...**

- Be greatly inconvenienced: 46%
- Be annoyed: 31%
- Not be impacted: 18%
- Shut down my business: 4%

**If the internet crashed for a week my business would...**

- Suffer: 46%
- Lose revenue: 34%
- Lose customers: 25%
- Lose employees: 3%

8% of entrepreneurs experienced a data breach in the last year.

Of those affected by a breach, more than three-fourths reported damaging consequences, including...

- 48% Compromised business information
- 42% Financial setback
- 27% Compromised customer data
Generational tech divide

While all generations rely heavily on mobile devices in their role as business owners, Gen-Xers and millennials report greater use for digital banking, payments and social media. Millennials are also more likely to use devices for complex business functions, such as hiring.

In addition, millennial business owners are embracing new technologies at higher rates than their older counterparts.

Using or exploring cutting-edge tech (Internet of Things, 3D printing, virtual reality, etc.)

Believe blockchain will be relevant to their business in the near future

In the next five years, business owners...

Predict all payments will be digital

Foresee accepting cryptocurrency

However, more millennials reported a data breach in the past year than other generations, indicating that greater reliance on technology brings greater risk.
“Would you rather…”
Perspectives on digital disasters vs. other business blunders

In three out of four scenarios, business owners believe a digital disaster would be worse than other setbacks and blunders experienced in the small business workplace.

I would rather...

65% vs. 35%
Have a top-performing employee resign vs. Lose my work computer

89% vs. 11%
Forget an employee’s birthday vs. Forget to save changes to an important document

61% vs. 39%
Lose my smartphone vs. Lose electricity

64% vs. 36%
Be late to an important client meeting vs. Accidentally delete an important file

Snapshot of business owners around the country

San Francisco
Double digit increase in optimism toward their local economy

Los Angeles
Most likely to use a smartphone for business operations

Dallas/Fort Worth
Most likely to say the new tax policy is a game-changer for small businesses overall

Chicago
Most likely to believe Artificial Intelligence will positively impact their business

Atlanta
Most likely to predict increased revenue in 2018

Houston
Most confident in their local economy

Greater Washington
Most familiar with blockchain

Boston
Least likely to have been impacted by a data breach

New York
Most likely to believe advanced tech will impact the future of small business

Miami
Most likely to hire in the next 12 months
Kevin Duong, Shaking Crab

As a Bay Area native and owner of the East Coast eatery Shaking Crab, Kevin Duong is no stranger to great seafood. Growing up surrounded by the Pacific Ocean and a renowned food scene, Duong celebrated family events, special occasions and milestones with crab boils: fresh, spicy seafood meals shared with family and friends. The casual atmosphere, bold flavors and great company always made for a winning combination.

When Duong moved to Massachusetts to pursue a career as a data analyst, he discovered that New England’s butter-based approach to seafood differed from the spice-driven sauces he was used to on the West Coast. He was inspired by the opportunity to bring those familiar flavors of his upbringing to the Boston area.

In December 2015, Duong and his partner opened the first Shaking Crab in Newton, Mass., immediately drawing in hungry customers with an array of crustacean delicacies such as Argentinian shrimp, little-neck clams and Alaskan king crab, served in the plastic bags they’re prepared in filled with spicy sauce. Once the seafood and sauce were combined, all that was left to do was to shake, eat and enjoy.

Shaking Crab was soon fulfilling Duong’s vision as a place where customers could kick back and enjoy New England classics in a West Coast way. A year after opening their doors, Shaking Crab expanded to a second location in Flushing, New York, and has since launched seven locations in the Boston and New York metro regions, with more on the way in 2018.

Growing a business is always an uncertain proposition, but Duong has anchored his expansion strategy with data insights. He credits sales data collection, combined with the team’s analytical skills, for his ability to respond to the market and create a brand that resonates with New England and New York clientele in search of a new favorite.

“We don’t make any decisions without first looking at the sales data from Clover, our point-of-sale system,” Duong said. Relying on real-time updates viewed directly on the Clover mobile app, Duong is constantly checking sales to see how certain menu items are selling and when customers are dining. By analyzing trends and making adjustments in Shaking Crab’s day-to-day operations, Duong is able to create a better work environment for his staff, anticipate demand and better serve his customers.

Even as Shaking Crab has experienced rapid growth, Duong knows that the past and present success of the brand is due to his ability to authentically reference his West Coast roots in a way that creates a unique experience for his East Coast clientele. Looking to the future of his business, it’s evident that the real secret to success continues to lie in the perfect combination of data-driven insights, a true passion for fresh seafood, and, of course, a little spice.

Knowing the recipe for success in the food business requires more than just a standout dish, Duong appreciates the role of technology and data insights in elevating his business and allowing him to expand at such a rapid clip. In terms of what’s next, Duong is eager to introduce more people to Shaking Crab’s spin on seafood while keeping his current customer base coming back for more.