



2016 Independent Business Survey

February 2016

AIB Advocates for Independent Business

ILSR INSTITUTE FOR
Local Self-Reliance

About AIB

Advocates for Independent Business (AIB) is a coalition of organizations that represent locally owned, independent businesses. AIB seeks to ensure a vibrant future for independent businesses by advocating for public policies that will create a level playing field and enabling its member groups to share information and programs. AIB's members include the American Booksellers Association, American Specialty Toy Retailing Association, Brixy, Independent Running Retailers Association, Independent We Stand, National Bicycle Dealers Association, North American Retail Hardware Association, Record Store Day, Society of American Florists, and Trimega.

www.indiebizadvocates.org

About ILSR

The Institute for Local Self-Reliance (ILSR) is a 41-year-old national nonprofit research and educational organization. ILSR's mission is to provide innovative strategies, working models and timely information to support strong, community rooted, environmentally sound and equitable local economies. To this end, ILSR works with citizens, policymakers and businesses to design systems, policies and enterprises that meet local needs; to maximize human, material, natural and financial resources; and to ensure that the benefits of these systems and resources accrue to all local citizens.

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Executive Summary of the Findings

Independent businesses experienced healthy sales growth in 2015, buoyed by their strong community roots and growing public awareness of the benefits of supporting locally owned businesses. That's one of the main findings of the *2016 Independent Business Survey*. Now in its 9th year, the survey was conducted over three weeks in January and gathered data from 3,259 independent businesses.

Among independent retailers, which comprised a little under half of the respondents, sales increased by an average of 4.7 percent, including a 3.1 percent gain during the holiday season. These figures contrast sharply with the performance of many national retail chains, including Walmart, Macy's, and Best Buy, which struggled last year, particularly in the 4th quarter. According to the U.S. Department of Commerce, overall retail sales rose just 1.6 percent in December.

Strong revenue growth at independent businesses led to a significant increase in hiring, the survey found. Overall **employment at the businesses surveyed expanded by 5.6 percent in 2015**, with more than 30 percent of respondents reporting the addition of at least one new employee.

The survey also found that the Local First movement is strengthening independent businesses, a finding in keeping with the results of eight previous annual surveys. **Two-thirds of respondents in cities with an active Local First, or "buy local," campaign said that the initiative is having a noticeable positive impact on their businesses**, with one-third reporting new customers and 40 percent reporting an increase in collaboration and mutual support among local businesses as a result of the initiative. These businesses experienced revenue growth of 7.4 percent in 2015, compared to 4.2 percent for those in places without such an initiative.

In another important finding, about one-third of businesses in Local First cities said that the initiative had led them to become **more engaged in advocating on public policy issues** and 44 percent said that the campaign had made elected officials more aware and supportive of independent businesses.

That's significant because the survey also found that independent businesses are facing a number of major challenges, many related to public policy.

One obstacle is a lack of credit for businesses seeking to grow. The survey found that **one in three independent businesses that applied for a bank loan in the last two years failed to secure one**.

That figure was a troubling 54 percent among minority-owned businesses, and 41 percent among young firms, whose expansion has historically been a major source of net job growth.

Competition from large internet companies is also a top challenge, particularly for independent retailers, 70 percent of whom ranked it as a very significant challenge. Amazon continues to operate without being required to collect sales taxes in nearly 20 states, and has also received more than \$430 million in public subsidies to fund its warehouse growth over the last two years. A majority of all businesses surveyed said they would **support legislation to cap the dollar value of the economic development tax breaks that large companies are eligible to receive.**

The rising cost of commercial space is another difficulty facing many independent businesses. Among the retailers surveyed, **59 percent reported being worried about the increasing cost of rent.** One-quarter of retailers described this as a top challenge.

Credit card swipe fees are another concern. With two card companies dominating the market, independent businesses have few choices and little leverage to negotiate better rates. Among the independent retailers surveyed, the median share of their total revenue spent on swipe fees was 3 percent. **A large majority favored government action to cap credit card swipe fees,** as the European Union, Australia, and other countries have done.

Other leading challenges included the high cost of health insurance and the fact that large competitors can use their market power to secure better pricing and terms from suppliers. **Sixty-one percent of respondents said they think that regulators should more vigorously enforce antitrust laws** against dominant companies, and just 7 percent disagreed.

While these obstacles are formidable, independent businesses have seen a remarkable increase in public awareness and support in recent years. In the hundreds of comments they volunteered as part of the survey, **many expressed a determination to expand the Local First message and rally elected officials to press for policies that would give small businesses a better opportunity to compete and thrive.** “It’s time for federal, state and local government to stop talking about supporting small business and actually devote... resources to the effort,” declared a business owner in Arizona. Another from New York said, “I see the ‘Buy Local’ movement as critical, and growing.”

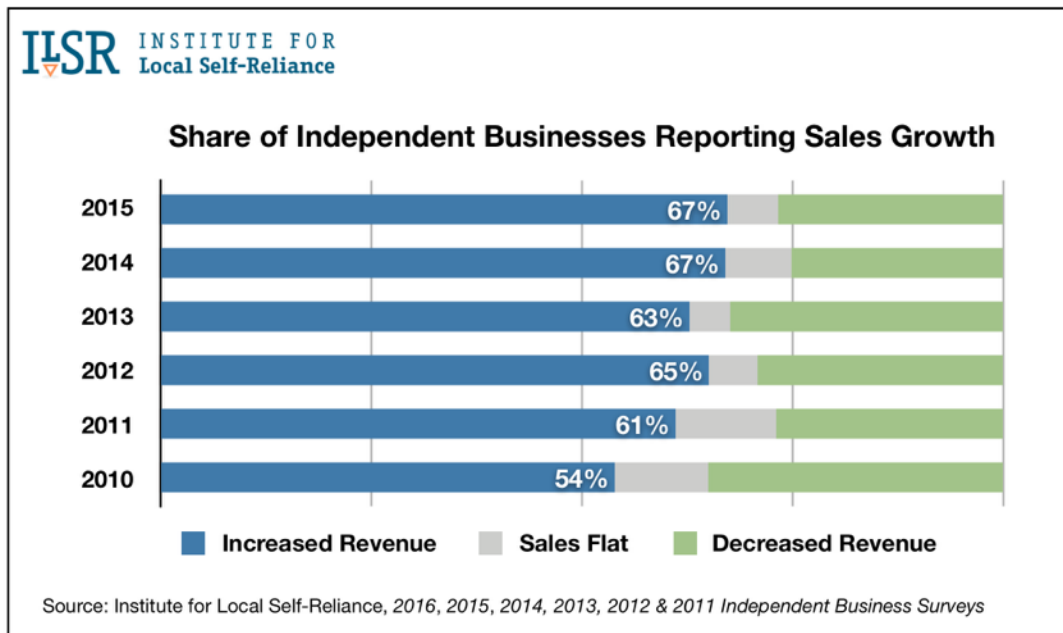
Who We Surveyed and How the Survey was Conducted

The Institute for Local Self-Reliance's **9th annual** Independent Business Survey gathered data from **3,259 independent, locally owned businesses**. The respondents encompass a range of business types. A little under half are retailers. The remainder include a mix of service providers, manufacturers, farmers, banks, restaurants, wholesalers, and others. These businesses **employ a total of 38,338 people, with a median of 5 employees per business**. They range in age from recent start-ups to businesses founded more than a century ago. The median business age is 12 years. Half of responding businesses are majority-owned by women and 8 percent by people of color.

The survey was conducted online in January in partnership with the Advocates for Independent Business. The survey was distributed to independent business owners by AIB's members and allied organizations, including the American Booksellers Association, American Independent Business Alliance, American Specialty Toy Retailing Association, Brixy, The Fabric Shop Network Inc., Independent Running Retailers Association, Independent We Stand, National Bicycle Dealers Association, North American Retail Hardware Association, Professional Association of Innkeepers International, Record Store Day, Society of American Florists, TriMega, and numerous local independent business groups.

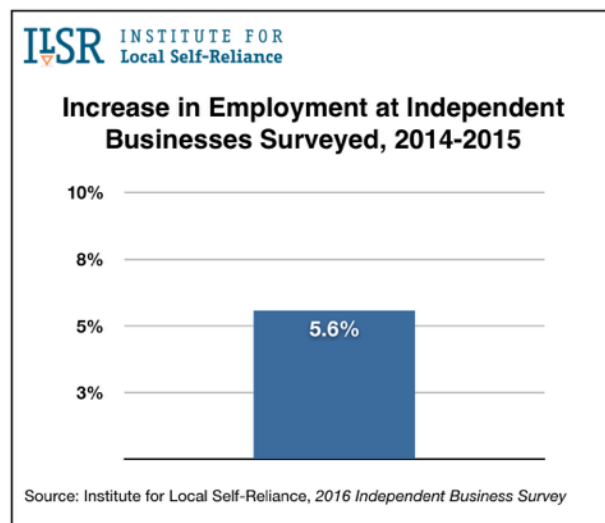
Independent Businesses Report Revenue and Hiring Growth

Independent businesses saw their revenue grow in 2015. Survey respondents reported an average increase in sales of 6.6 percent. The portion of respondents reporting sales gains held even with last year's high of 67 percent, up from the 2010 low of 54 percent as businesses were emerging from the recession.



Among retailers, who comprised just under half of the survey respondents, average revenue increased 4.7 percent. In the holiday season, retailers saw their sales grow by 3.1 percent over the 2014 season. Those figures beat overall holiday retail sales, which rose just 1.6 percent in December, according to the U.S. Department of Commerce.

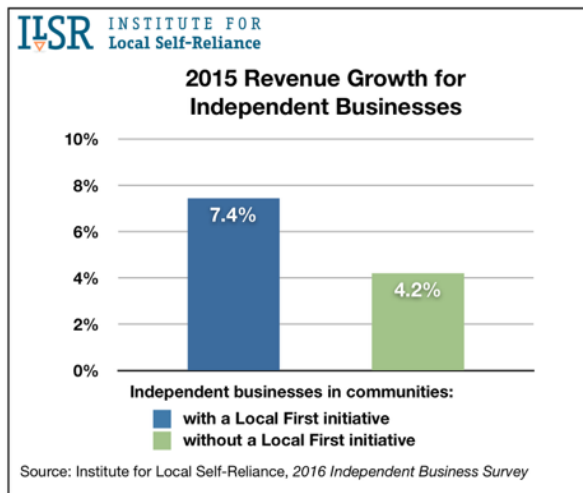
This revenue growth also fueled hiring. Businesses reported a 5.6 percent increase in employment, from 36,319 full-time and part-time employees in 2014 to 38,338 employees in 2015.



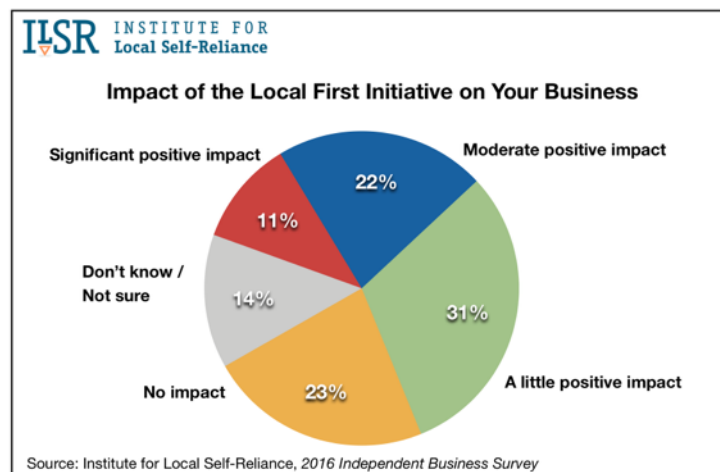
"Local First" Driving Customer Traffic

Independent businesses located in cities with Local First campaigns run by local business alliances outperformed those in cities without such a campaign, the survey found. This is consistent with our findings in each of our surveys over the past eight years.

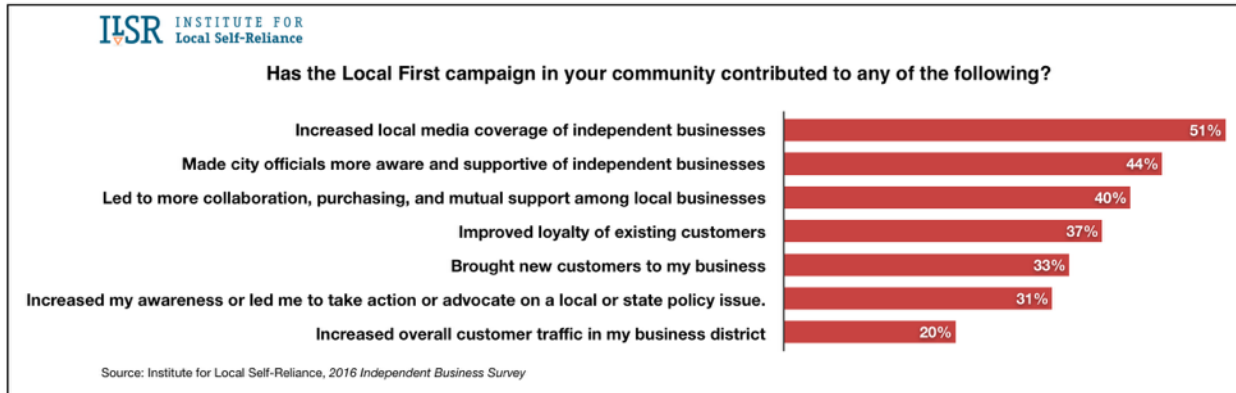
In places with a Local First initiative, businesses reported average revenue growth of 7.4 percent in 2015, compared with 4.2 percent for businesses in cities without a comparable initiative. The same was true among independent retailers. In cities with a Local First initiative, retailers experienced annual revenue gains of 5.2 percent, while retailers elsewhere saw lower gains of 4.2 percent. A similar, though smaller, difference was evident in holiday sales as well.



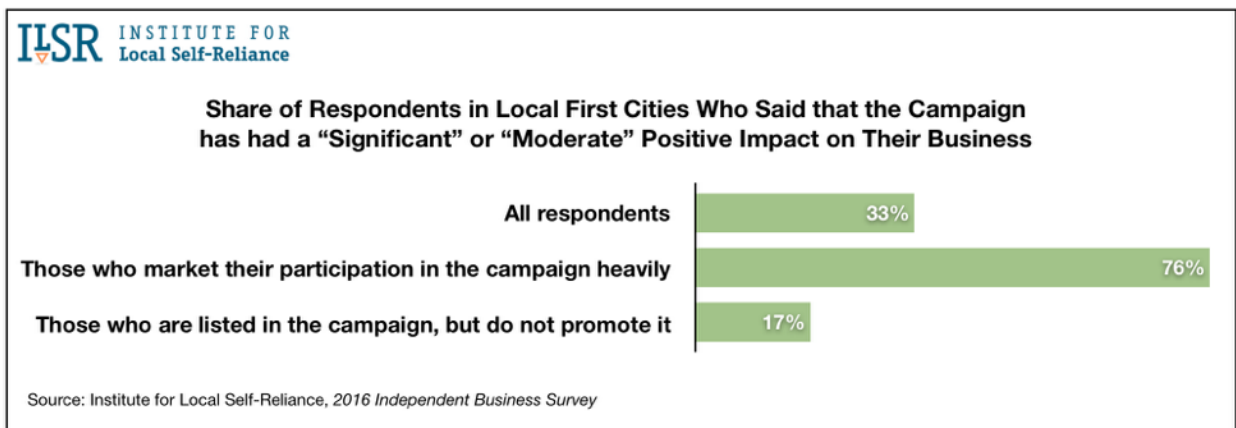
Respondents in cities with a Local First initiative also reported on the impact of the initiative, and 64 percent reported that the initiative had had a positive effect on their business. Thirty-three percent described that impact as “significant” or “moderate.”



Businesses also reported specific benefits from the Local First initiatives, including 51 percent who saw increased local media coverage of independent businesses, 37 percent who credited the campaign with increased customer loyalty, and 33 percent who said the campaign brought in new customers.

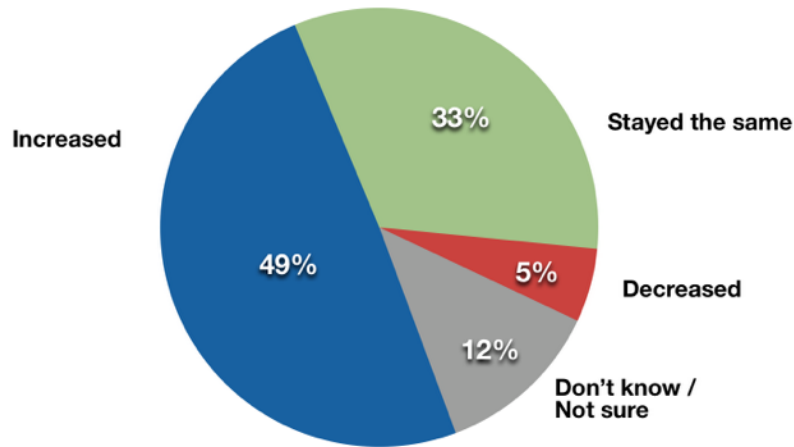


The businesses that more actively participated in their area’s Local First campaign reported a bigger impact from the campaign. Of those that heavily market their participation in the campaign, more than three-quarters said that the campaign has had a “significant” or “moderate” positive impact on their business.



Nearly half of survey respondents reported that public awareness of the benefits of supporting locally owned business increased in 2015. That figure was higher, 52 percent, for respondents in Local First cities, and a lower 39 percent among respondents in cities without Local First campaigns. Just 5 percent of all respondents reported a decrease in public awareness.

Do you think public awareness of the benefits of supporting locally owned businesses has increased or decreased in the last year?



Source: Institute for Local Self-Reliance, 2016 *Independent Business Survey*

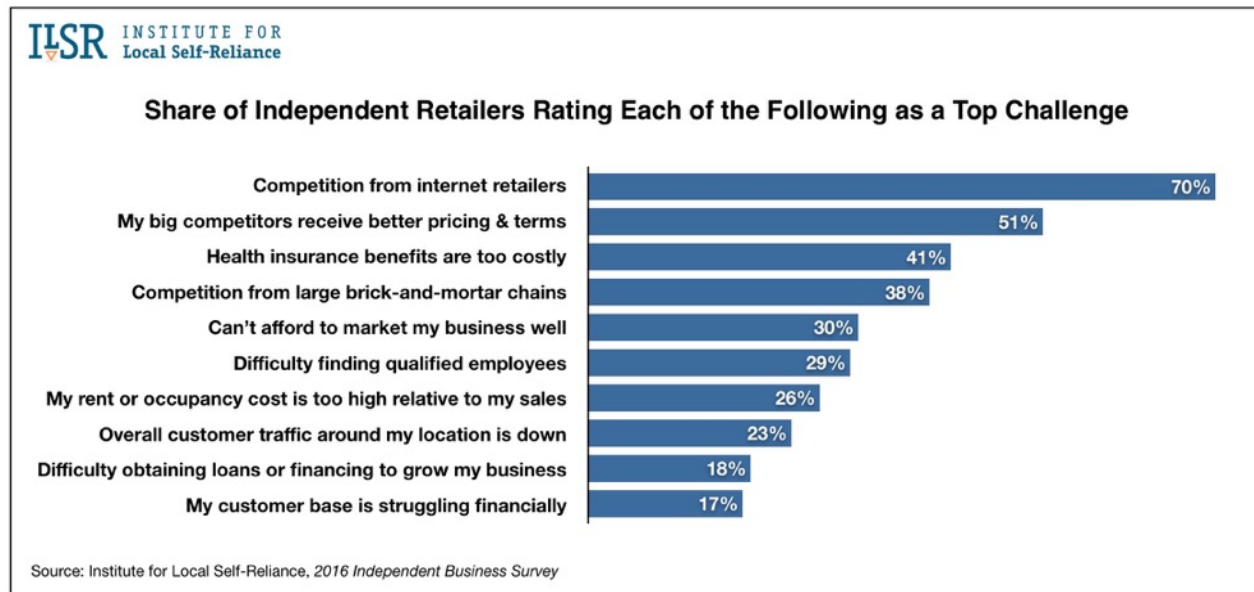
In the comments section of the survey, business owners expressed additional optimism about the momentum of buying local.

“Over the 10 years I’ve been in business the shift to support local business efforts has been significant. There is a rebirth of small, independent shops in our area and that comes from the heightened interest and support,” wrote a business owner in Minneapolis. “I see this as only growing in the next few years!”

Challenges and Policy Issues for Independent Businesses

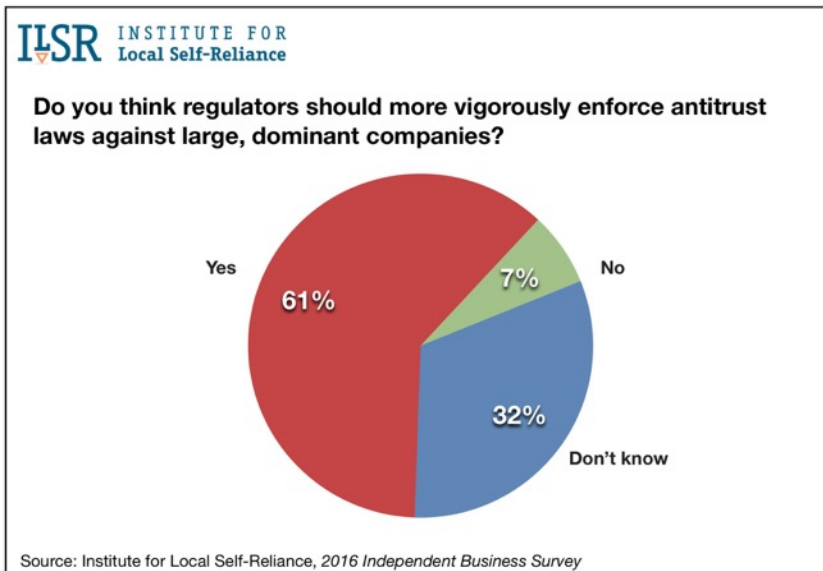
The survey asked respondents to rate the significance of various challenges to their business on a scale of 1 to 5, with 1 being not at all challenging and 5 being extremely challenging.

Among independent retailers, “Competition from internet retailers” received by far the highest average score (3.96), and was ranked as a top challenge, a score of 4 or 5, by 70 percent. Only 38 percent ranked “Competition from large brick-and-mortar chains” at the same level of significance.

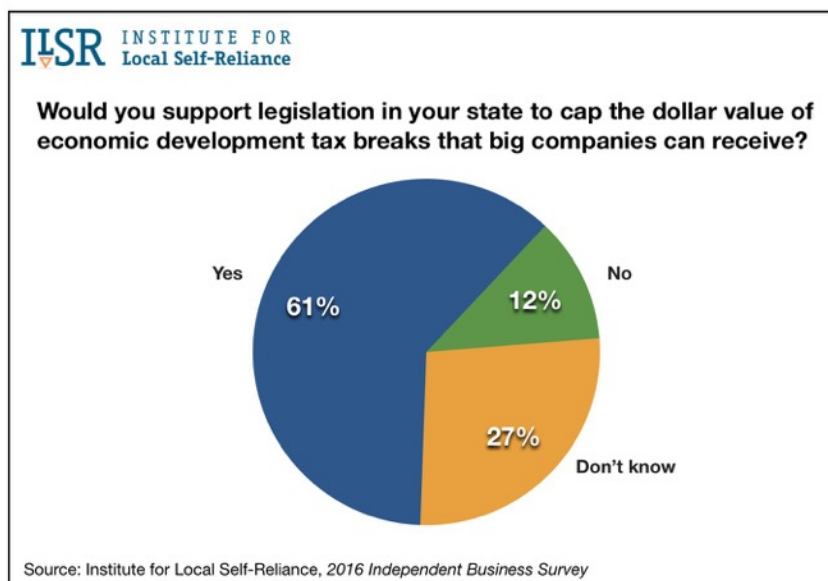


“Internet sales and their lack of sales tax hurts the most,” wrote a retailer in Chicago. A fabric store owner in Colorado commented: “Amazon is wiping out local and indie-owned retail in almost every category. How many more jobs have to be lost before something is done to control this monopoly?”.

On the policy side of this challenge, 61 percent of all respondents said they think that regulators should more vigorously enforce antitrust laws against dominant companies, and just 7 percent disagreed. That figure rose to 66 percent among retailers, and 83 percent among booksellers.



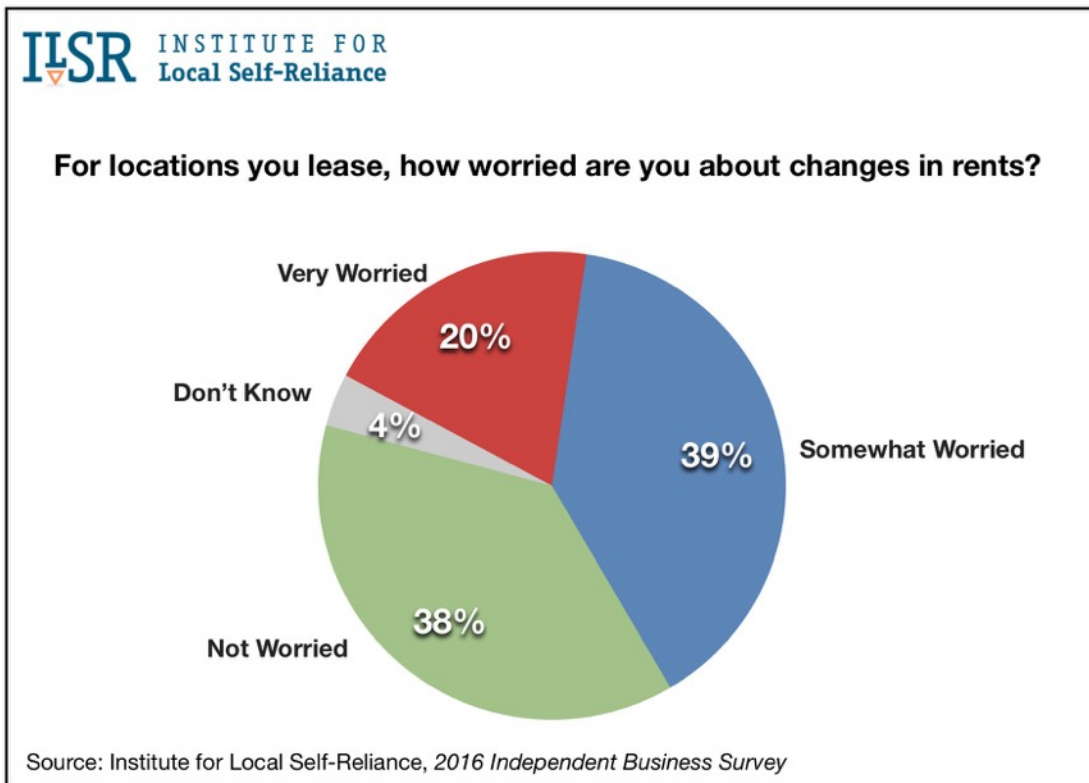
Business also expressed strong stances on economic development incentives, which are disproportionately awarded to their big competitors. Of all survey respondents, 61 percent said they would support legislation in their state to cap the dollar value of the economic development tax breaks that companies can receive, while only 12 percent were opposed. “There is a tremendous amount of economic support for big business,” wrote an independent business owner in North Carolina.



For independent retailers, other top-ranked challenges included supplier pricing that favors their big competitors, and high costs for health insurance. “The greatest threat to our business is from Internet sellers who are able to offer pricing at or below our wholesale cost,” commented a bicycle shop owner in Pennsylvania.

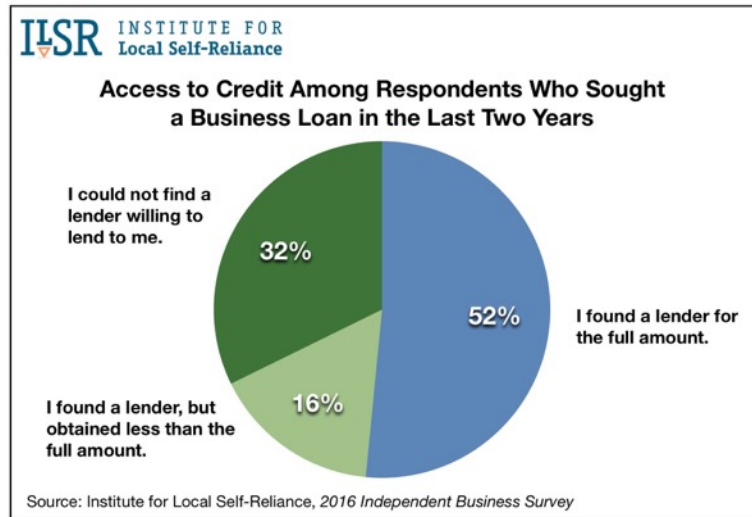
Another notable challenge was the rising cost of commercial rents. Among all independent retailers, 26 percent rated this as a top challenge. In a separate question, asked only of retailers that lease at least one location, 59 percent reported being “very” or “somewhat” worried about commercial rents rising faster than their sales.

“Rents are getting out of control. We’ve been priced out of a zip code that we’ve been in for the past 18 years. When I say priced out I don’t mean rents slowly creeping up; I mean we would be paying more than double,” wrote a retailer in Austin. “The biggest obstacle that small businesses face in our community is the increasing and inflated prices for rent. Development agencies are tearing down the buildings that once were affordable and building new structures where rent is outrageous,” commented an independent business owner in Salt Lake City.



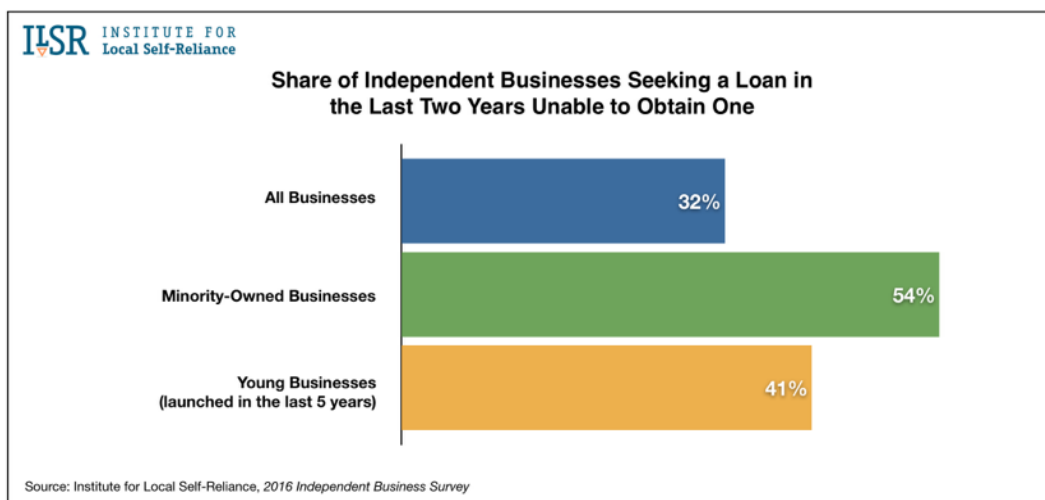
While overall, 18 percent of independent retailers rated obtaining financing to grow their business as a top challenge, access to credit emerged as an even more serious challenge among respondents who had recently sought a loan. Among all businesses that sought a loan within the last two years, 32 percent were unable to obtain one.

Lacking sufficient capital, local entrepreneurs struggle to establish their businesses with the right scale, staffing, and cash flow for success. “We were never able to borrow enough to get our business the way we really should have it,” wrote a catering business in New Mexico. “I’m now at the point where my business is growing and I do not need a loan, but I could still use the money to (significantly) accelerate growth,” wrote a business owner in Chicago who has “given up” trying to obtain a loan.

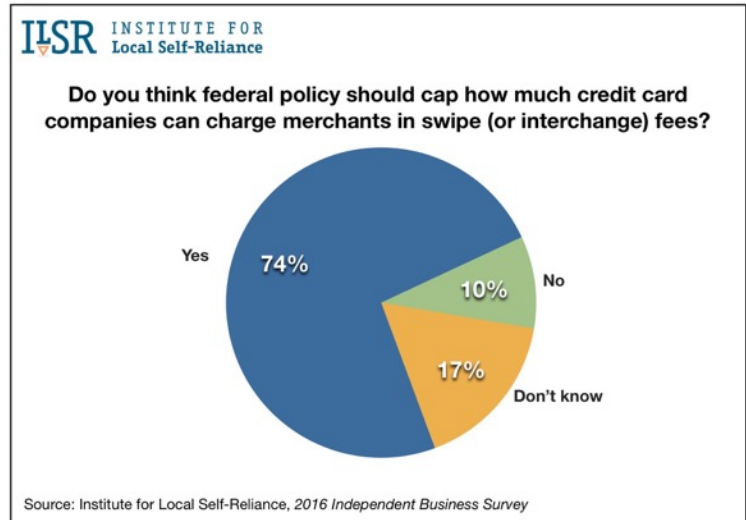
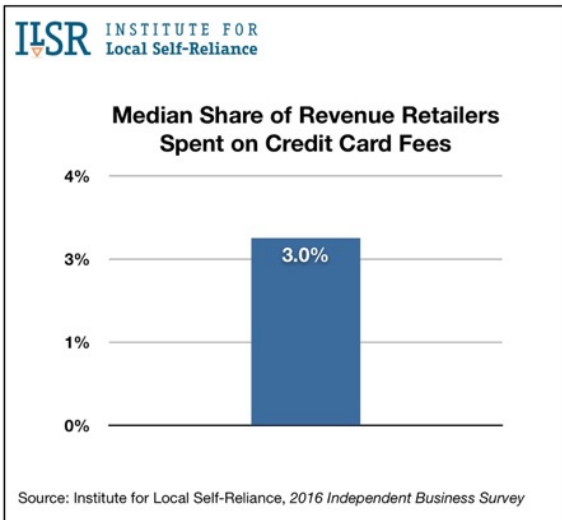


For some types of businesses, the share that couldn’t get a loan was significantly higher. Among young businesses, which are critical for job creation and economic growth, the figure was 41 percent. Among businesses owned by people of color, an alarming 54 percent sought a loan and were unable to obtain one. An additional 16 percent were only able to obtain one for less than the amount they needed.

“I’m stuck not being able to grow because I have no capital, and having no capital because I can’t grow,” wrote a minority-owned business in Kentucky.



Retailers reported spending a median of 3 percent of their revenue on the fees paid to credit card companies. Three-quarters of respondents reported that they thought federal policy should cap how much credit card companies can charge merchants in swipe fees, also known as interchange fees, as other countries have done.



Overall, many independent business owners advocate on public policy issues that affect locally owned businesses. When asked about the frequency of their advocacy, 45 percent reported advocating “frequently” or “occasionally.”

