

ABOUT THE 2014 SURVEYS

Paying It Forward highlights the results of two surveys that were conducted in 2014: a field survey of Bank of the West small business customers and prospects conducted by the bank, and an online survey administered by the professional research firm Harris Interactive, a Nielsen Company.

The Bank of the West field survey was conducted across the bank's footprint in person with 773 small business customers by Branch Managers, Financial Services Officers, Business Banking Officers, and SBA Business Development Officers from April 14 - 29, 2014. All participants were owners of businesses with:

- Two or more non-owner, full-time employees
- Less than \$10 million in annual revenue
- Two or more years of operation

The online survey was conducted from May 6-19, 2014 by Harris Poll® on behalf of Bank of the West. The participants were 504 U.S. residents, who have had an ownership role in a business for at least five years with:

- Two or more non-owner, full-time employees
- Less than \$10 million in annual revenue
- Five or more years of operation

Figures for company revenue were weighted where necessary to bring them into line with their actual proportions in the population.

HARRIS STUDY METHODOLOGY

All sample surveys and polls, whether or not they use probability sampling, are subject to multiple sources of error which are most often not possible to quantify or estimate, including sampling error, coverage error, error associated with nonresponse, error associated with question wording and response options, and post-survey weighting and adjustments. Therefore, the words "margin of error" are avoided, as they are misleading. All that can be calculated are different possible sampling errors with different probabilities for pure, unweighted, random samples with 100% response rates. These are only theoretical because no published polls come close to this ideal.

Respondents for this survey were selected from among those who have agreed to participate in our surveys. The data have been weighted to reflect the composition of US businesses with annual revenue of less than \$10 million. Because the sample is based on those who agreed to participate in the panel, no estimates of theoretical sampling error can be calculated.

These statements conform to the principles of disclosure of the National Council on Public Polls.

Note: In this report, the term "small business owners" refers to all qualified respondents of this survey, which are defined as US residents with at least five years experience in a business ownership role, who own a business with two or more non-owner full-time employees and less than \$10 million in annual revenue, and which has been in operation for at least five years.

For more information about these studies, please contact:



BANK OF THE WEST 

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Doing Business as Bank of the West California in South Dakota.

bankofthewest.com/business

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PAYING IT FORWARD:

Small business owners share their experiences and insight

2014 ANNUAL SMALL BUSINESS SURVEY

A survey of small business owners looking at the trends and forces that impact their business.

BANK OF THE WEST 

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PAYING IT FORWARD:

Small business owners share their experiences and insights

Paying it forward is a concept that has become synonymous with building community and moving towards a better future together since the book and film *Pay It Forward* caught the world's attention in 2000. Paying it forward is described as an obligation to do three good deeds for others in response to a good deed that one receives. The good deeds should accomplish things that the other person cannot accomplish on their own. When that happens, the practice of helping one another spreads geometrically at a ratio of three to one — creating a social movement with an impact of making the world a better place.

As we conducted our 2014 surveys, we realized there was an opportunity to pay it forward — sharing the experiences and insights we captured from the hundreds of small business owners nationwide who participated, and pass them on to other entrepreneurs who could benefit from them.

In this recap you'll find a wide range of best practices, interesting statistics, and potential pitfalls to avoid — all passed on to you from your peers. We invite you to leverage this valuable information from these mentors you've never met, and put it to work for your small business.

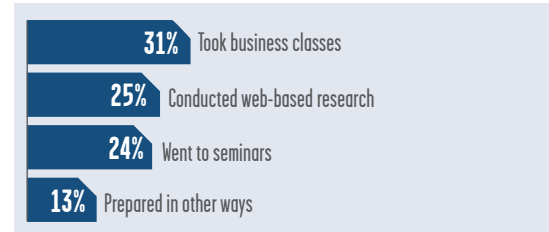
It's all part of our commitment at Bank of the West to put our customers at the center of everything we do. The more we understand the challenges and obstacles you face as small business owners, the more we can provide the solutions and service to help you overcome them — and achieve your goals.

55%

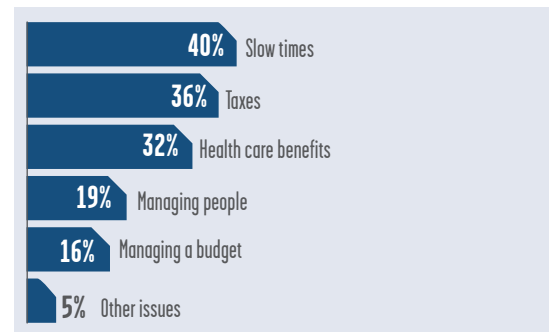
of small business owners say their business offers them the benefit of not feeling like a job

BEING PREPARED

Starting and building your own business is no small feat. So we asked survey participants what they did to prepare themselves. While 47% jumped right in and did nothing to prepare, 53% of small business owners did something.



Whether or not they did anything to prepare themselves, 79% of all small business owners said they were unprepared for the reality of:



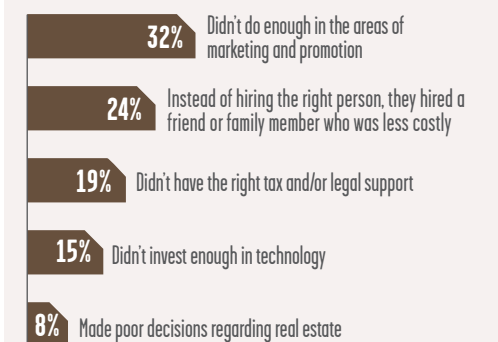
Interestingly, small business owners with five or more employees and over \$500K in annual revenue were significantly more likely to identify issues they were unprepared for, than those with less than five employees and less than \$500K in revenue (75%) — especially in the area of managing people.

Field survey participants added that they wish they had brought in a partner, learned more about their industry before starting, purchased office space instead of renting it, and bought more insurance.

“Research the industry, know your product, iron out all the details in what you’re trying to do, and know what the goal is. If hamburgers are going to be your mainstay, then how do you make the best hamburgers?”

If only I had...

In terms of business decisions they most regret and would have done differently:



“You have to figure out who your customer is, and how to reach them in your target demographics. You can’t get in a comfort zone in terms of how you reach them — or even who those people are — it’s always evolving.”

THE IMPORTANCE OF ADVICE AND GUIDANCE

As the saying goes, hindsight is always 20/20. When asked what advice they wish they had been given, field survey participants’ overwhelmingly cited the importance of saving and being prepared financially.

In the online survey, 76% of small business owners said they wished they had consulted with an expert when:



Of the 93% of small business owners who did seek expert advice and guidance, the type of professional they felt most important to consult with varied:



Age plays a difference in deciding which experts are more valuable. 58% of small business owners age 55+ consider a CPA or attorney the most important experts, while 50% of those younger than 45 consider a financial advisor among the most important.

Interestingly, the advice of personal networks ranked extremely/very important for 51% of small business owners — with 21% calling it extremely important. Field survey participants concurred that networking and playing the field is a must do these days.

WHO’S MOST IMPORTANT?

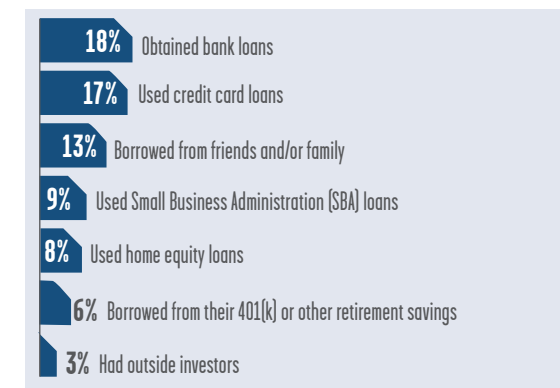
- Overall, the advice of their **accountant** is considered extremely/very important by **72%** of small business owners, while **40%** said it’s extremely important.
- **54%** consider the advice of their **financial advisor** to be extremely/very important, while **25%** said it’s extremely important.
- And **50%** considered the advice of their **attorney** to be extremely/very important, with **24%** saying it is extremely important.

MANAGING BUSINESS FINANCES

While most participants in both surveys cited business decisions they regretted, 89% of small business owners say that they had understood the financial implications of starting/acquiring a small business, while 46% had understood it completely/very well. Only 11% rated their understanding as not at all well. Interestingly, a majority of male (51%) small business owners report that they had understood the financial implications completely/very well — higher than the percentage of female (39%) owners who felt this way.

Funding business expenses

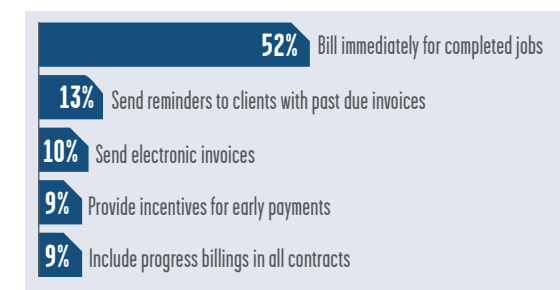
The majority of small business owners (62%) funded their business with personal assets or other household income, and:



Only 19% of small business owners had to postpone investments in their business due to an inability to get a loan, while 81% have not. And a significantly higher percentage of small business owners with annual revenue of \$500K - \$10 million reported funding their business through bank loans vs. companies with less than \$500K in annual revenue.

Handling cash flow

89% of small business owners identified actions they took to handle cash flow issues. Here’s what they did:



“In the beginning, you really need capital to get started. I recommend interviewing banks way ahead of time to find those that are serious about helping and partnering with you to grow your business — and get it off the ground.”

93%

of small business owners sought out expert advice and guidance

Really look at your expenditures and keep your budgets tight. Get a true understanding of the revenue being generated and your expenses. Know what goals need to be met each month to cover those expenses.

Field survey participants also cited having credit available to bridge gaps, reducing overhead, and engaging professional collection services when needed.

Although large majorities in either group have done this, a significantly higher percentage of owners of companies with annual revenues of \$500K to less than \$10M (94%) report having done any actions to handle cash flow issues compared to those with companies with less than \$500K (86%).

In terms of specific actions, there are also key differences in terms of sending a reminder to the client once an invoice goes beyond the scheduled due date (50% among \$500K to less than \$10M in revenue, vs. 40% among less than \$500K in revenue) and providing incentives for early payments (25% vs. 16%, respectively).

Achieving financial peace of mind

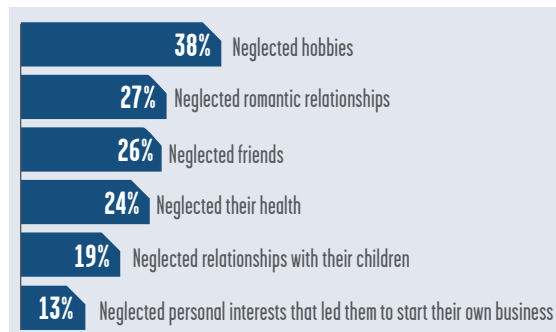
55% of small business owners report that their business offers them the benefit of not feeling like a job, yet only 52% say they have financial peace of mind. The percentage of small business owners who say they have financial peace of mind trends downward with age:



Interestingly, those under age 45 are significantly more interested in creating a legacy to pass on than those age 45-54 or 55+.

BALANCING BUSINESS WITH YOUR PERSONAL LIFE

While 28% reported that no aspects of their lives were neglected due to their business ownership, the majority (72%) felt otherwise:



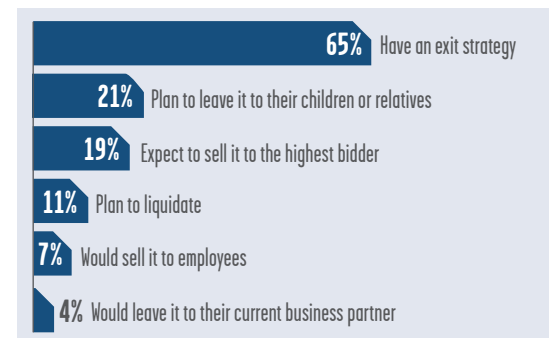
ADVICE FROM YOUR PEERS

- 31% of small business owners say their best advice is to separate your business finances from your personal finances
- 27% recommend maintaining a healthy cash reserve
- 25% say focus on managing cash flow
- 17% say create a budget and stick with it

Field survey participants added that they neglected attending more social events, having children, and taking more vacations.

WHAT'S YOUR EXIT STRATEGY?

Having peace of mind includes knowing what you want to do with your business when you're ready to retire. In the survey, only 16% didn't have any exit strategy, while



Age doesn't seem to play a part when it comes to having an exit strategy: 69% of small business owners age 45 - 54 have an exit strategy vs. 68% age 55 or older.

Several field survey participants were concerned about how their business would continue — some going so far to say they want to sell to someone who would continue to run the business the way they do, and care for their customers.

WOULD YOU DO IT ALL OVER AGAIN?

88% of small business owners would do it again, based on their experience starting and running a business. Only 4% would not, and 7% are not sure. Although both genders have a large majority who say that they would do it all over again, a significantly higher percentage of males (91%) than females (85%) feel this way.

Field survey respondents had a wide range of answers when asked what their business offers them:

- Self-fulfillment
- Freedom
- Autonomy
- More control over my life
- A sense of pride and accomplishment

89%

of small business owners say that they took action to handle cash flow issues

I don't see what I'm doing as a job — it's a passion. I've always thought if you love doing something enough so that it's not a job, then why would you ever think about retiring?