
Small Business Threat Index

National study reveals the most damaging risks to U.S. small businesses

Entrepreneurship has always been inherently risky, but which threats are the most damaging to American local businesses? We polled nearly 2,300 small business owners in all 50 states to find out.

To create our Small Business Threat Index, we asked respondents to evaluate dozens of prominent business threats on the basis of how much damage they would inflict on their companies. These include threats to the physical business, exposure to legal liability, online hazards, and uncontrollable risks from the policy and political arenas.

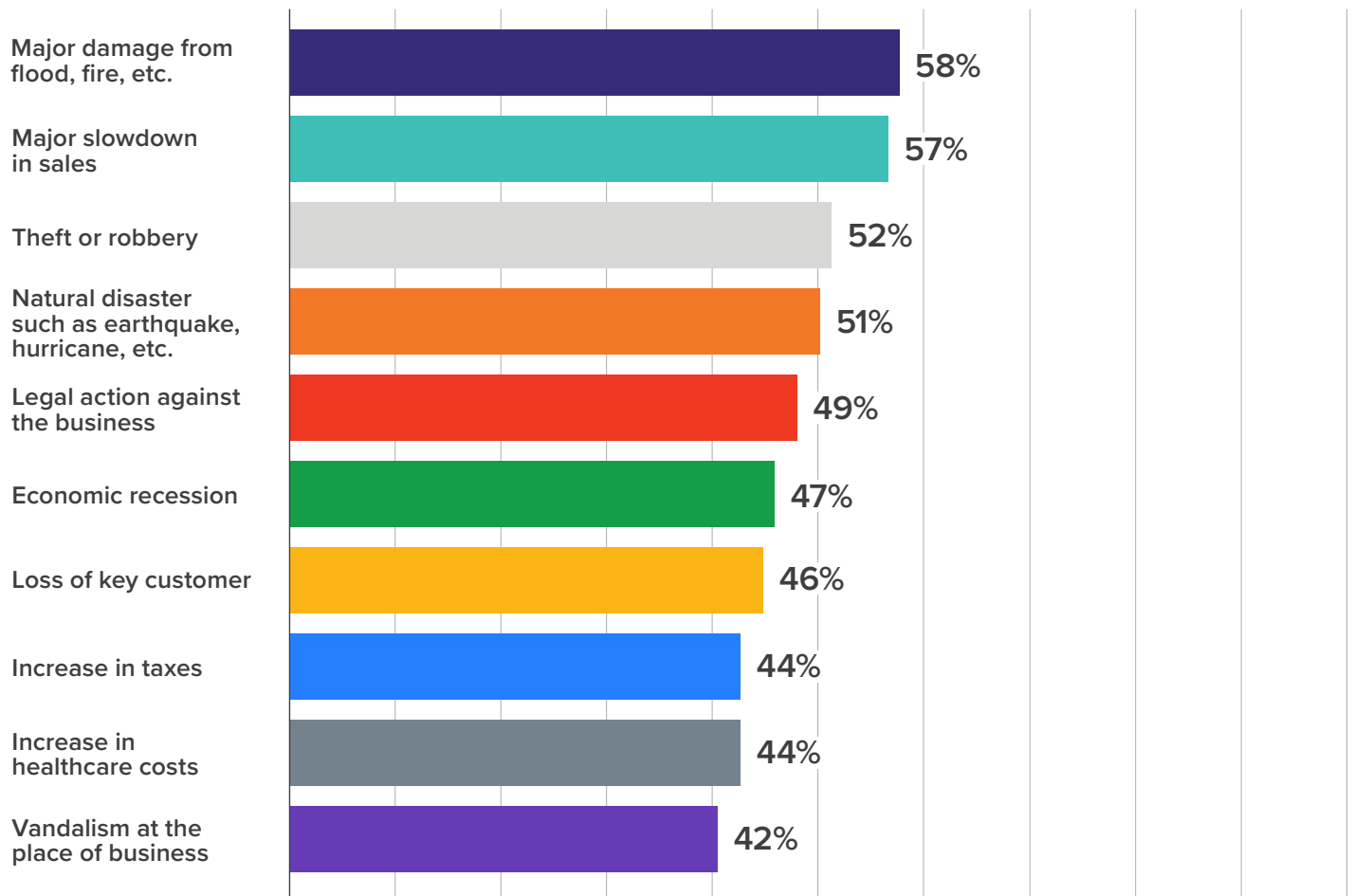
In addition to ranking threats according to damage potential, our study revealed how much financial runway local companies have (hint: it's not much), how they're mitigating against business hazards, and how resilient they are when big problems do occur. Read the full report below.



“EXTREMELY DAMAGING”

In analyzing the survey data, our primary gauge of perceived risk was the ratio of respondents who said a threat would be “extremely damaging” to their business.

Here are the top 10 responses:



Clearly, the perception among Main Street entrepreneurs is that dramatic events affecting the physical property are most damaging, likely because a preponderance of local businesses are brick-and-mortar storefronts.

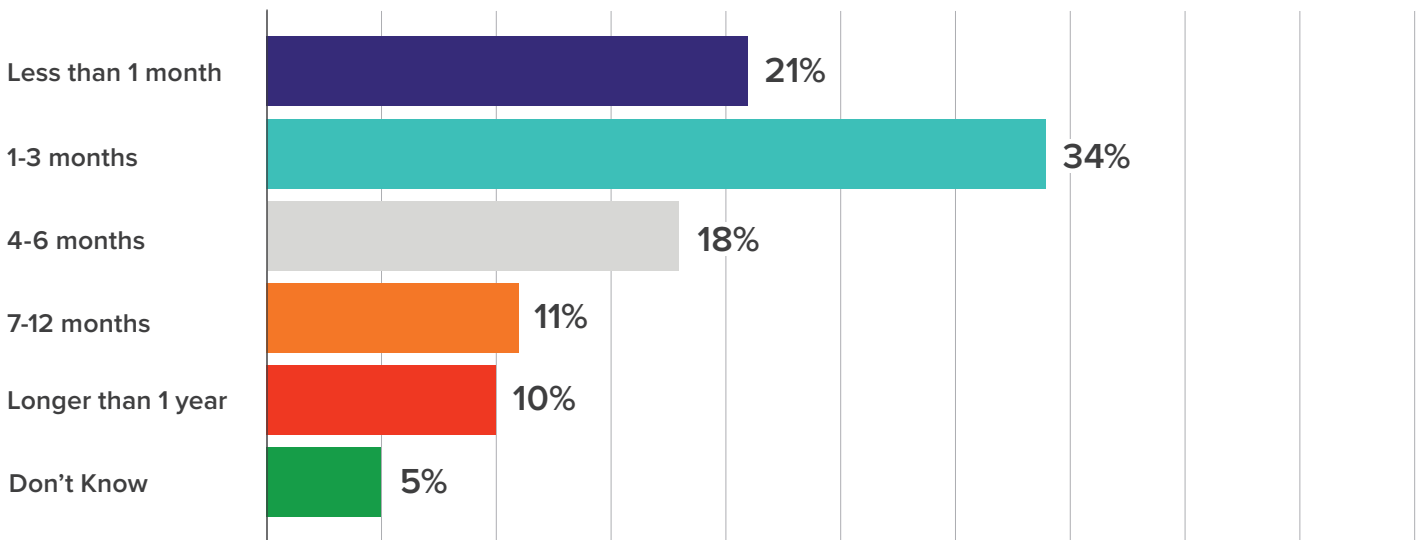
The fear over a slowdown in sales reinforces the finding in our [previous research](#) that revenue generation is a top concern for small businesses, and the revelation from this survey that most SMBs operate on a razor’s edge with regard to cash on hand (see the next section).

OPERATING HAND TO MOUTH

Access to cash is a classic problem for small business owners. To understand the relationship between cash on hand and risk assessment, we asked respondents how long they could stay in business without any cash flow.

Alarming, 1 in 5 American small businesses wouldn't even survive one month if sales completely stopped, and 3 in 4 would last less than 6 months.

Here's how long SMBs can survive without revenue:



1 in 5 American small businesses wouldn't even survive one month if sales completely stopped.

Not surprisingly, access to cash reserves has a profound impact on how a business owner views threat impact. In our analysis, we found a consistent pattern: the smaller the respondents' cash reserves, the more likely they were to see any given problem as potentially devastating.

To illustrate, see the following chart. In many cases, owners with a smaller safety net are 2-3 times more likely to consider a threat to be "extremely damaging" (and as high as 6 times).

Owners with a smaller safety net are 2-3 times more likely to consider a threat to be catastrophic.

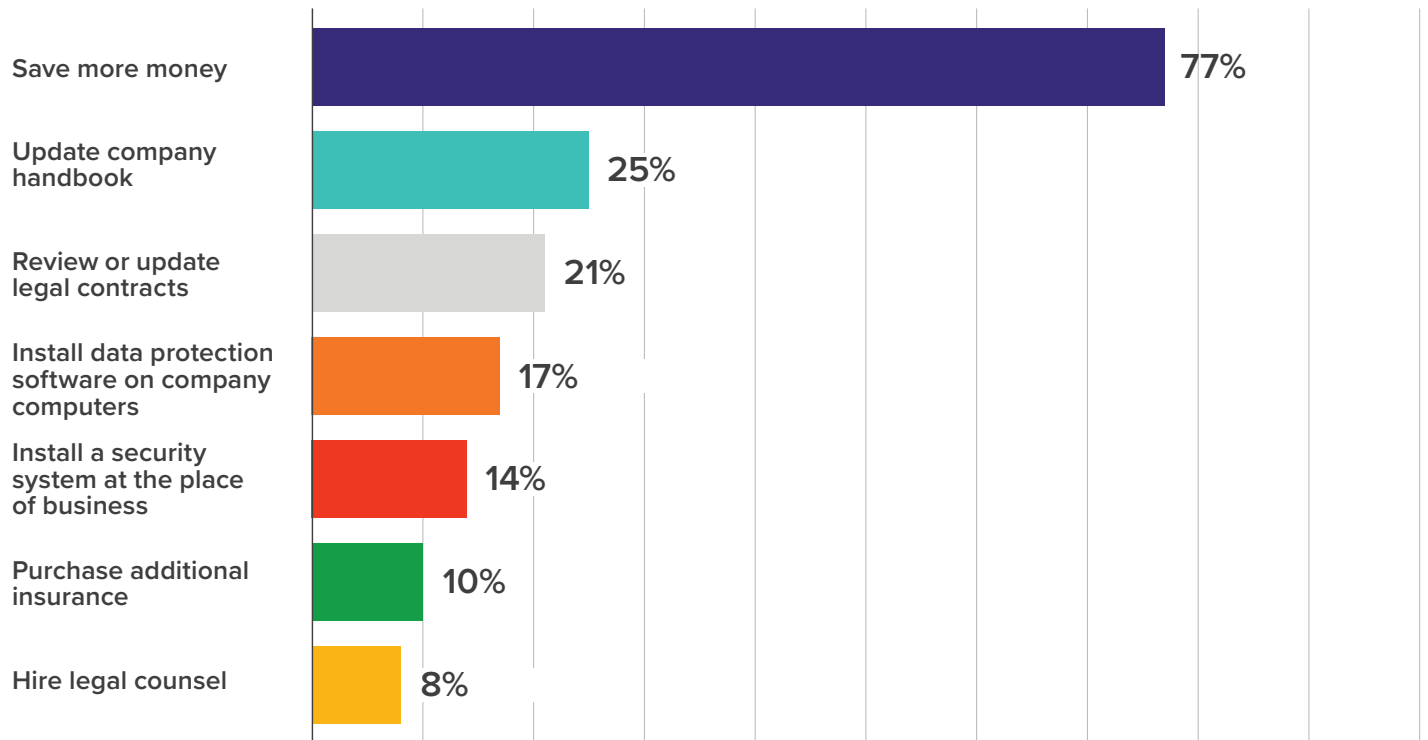
Percentage who consider the threat “extremely damaging”

	< 1 month cash	> 1 Year cash
Major slowdown in sales	75%	36%
Legal action against the business	68%	33%
Major damage from flood, fire, etc.	67%	44%
Major theft or robbery	67%	41%
Natural disaster	63%	39%
Loss of key customer	58%	34%
Economic recession	57%	19%
Vandalism at place of business	52%	30%
Increase in healthcare costs	51%	40%
Increase in taxes	50%	35%
Significant workplace injury to employee	44%	24%
Increased cost of supplies	42%	22%
Mandatory paid leave	38%	26%
Electronic data breach	38%	30%
Inability to obtain financing	36%	8%
Loss of key partner or supplier	34%	17%
Increased interest rates	33%	16%
New competitive products/services	30%	13%
Extended mandatory overtime pay	29%	14%
Strong competitor moves in	29%	13%
Increase in minimum wage	27%	24%
New restrictions on immigrant workers	11%	9%

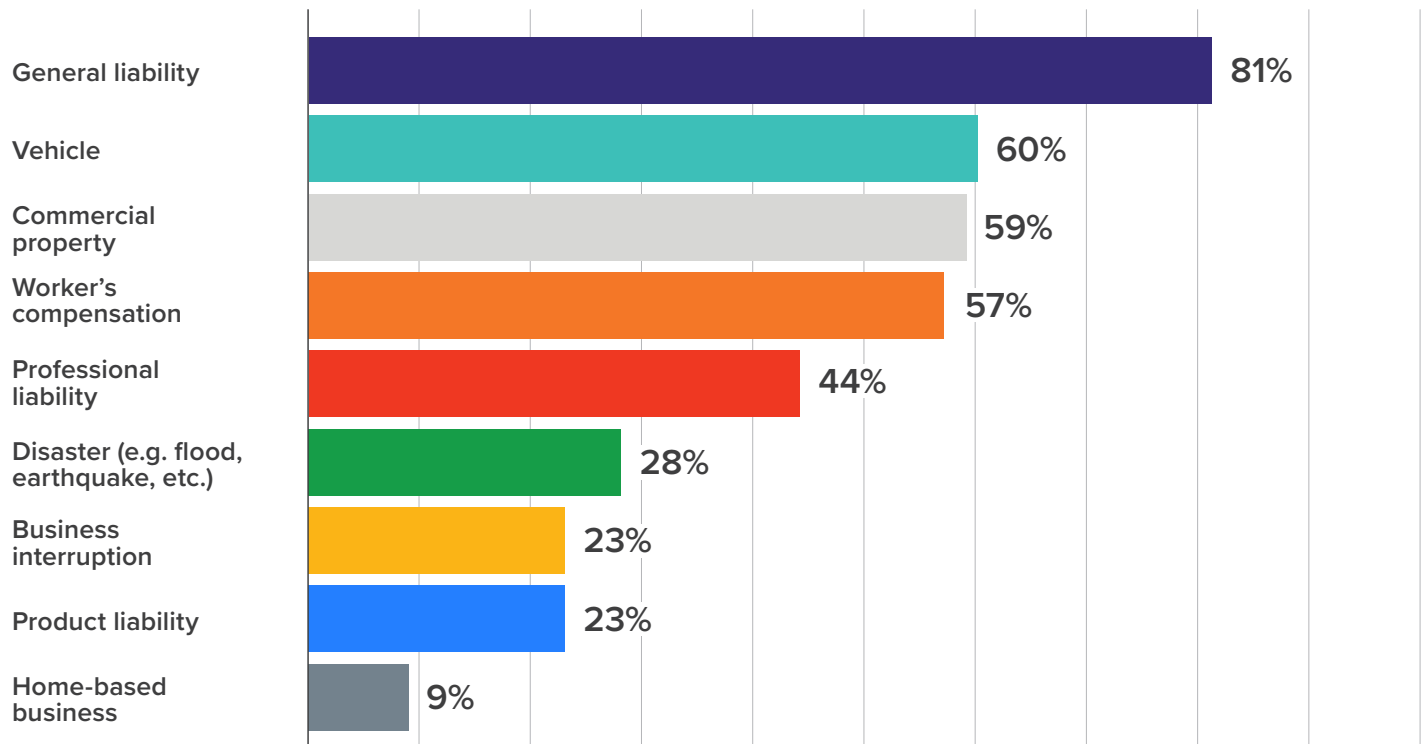
THREAT MANAGEMENT

We wanted to understand what, if anything, small business owners are doing to reduce the impact of potential threats. In addition, we were curious to know if their preparations match the threats they consider most damaging.

First, we asked what respondents plan to do in the next 12 months to reduce their risk:



Next, we asked respondents which insurance policies they currently have:



In general, small business owners aren't insuring themselves sufficiently against the threats they consider most damaging. For example, 67% of owners with less than a month of reserves consider floods, fires, and other disasters "extremely damaging," but only 21% have insurance for these threats directly, and only 14% have business interruption insurance to maintain cash flow during a stoppage.

To further illustrate, we isolated respondents who said a natural disaster would be "extremely damaging" to their business. Here's what we found:

- **27%** would last less than 1 month if sales stopped, and **78%** less than 6 months
- **55%** have overcome a natural disaster that impacted their business in the past
- Yet only **28%** have disaster insurance, and **23%** have business interruption insurance

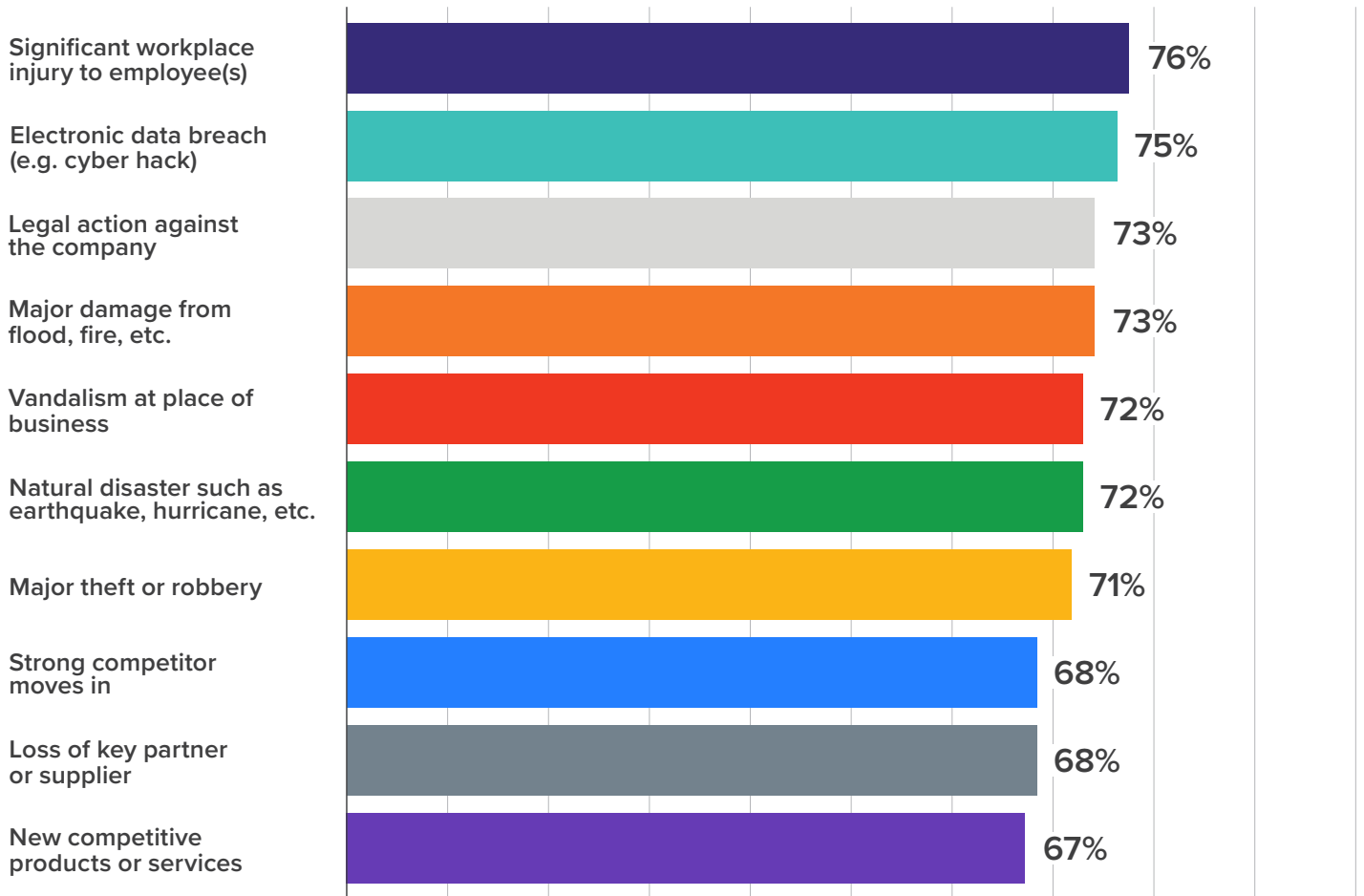
Only 14% of owners with less than a month of cash reserves have business interruption insurance.

These companies are at high risk of shutting down if a major weather event caused flooding, fire, or other significant damage to their businesses. Nevertheless, their threat mitigation preparations aren't in line with how they evaluate risk, particularly considering their financial exposure.

SMB RESILIENCY

When threats do happen, how do small businesses bounce back? We asked respondents to identify which hazards their businesses had overcome over the years as a measure of resiliency.

Here are the 10 threats small businesses are most likely to have overcome:

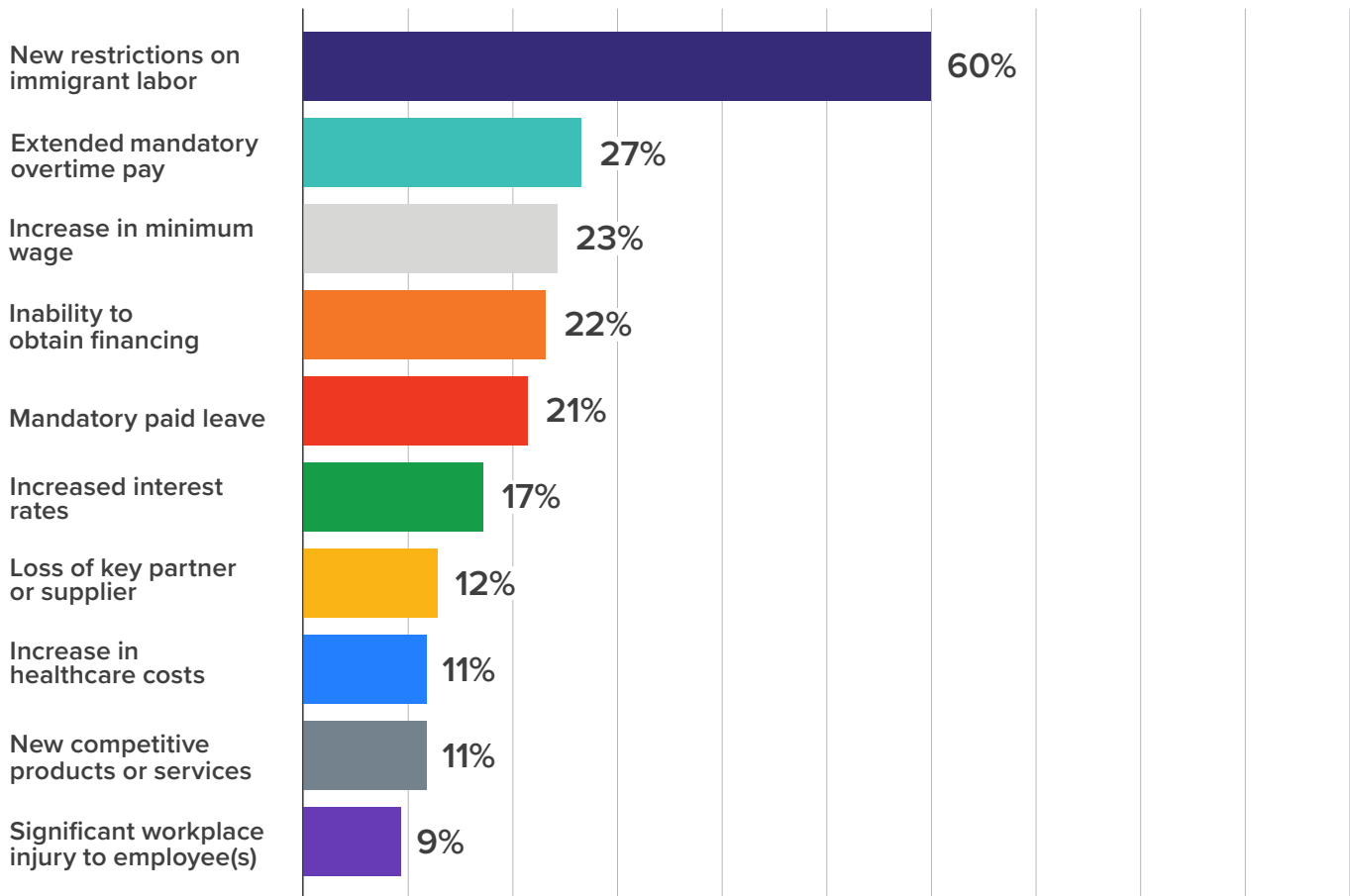


It's noteworthy that many of the most commonly overcome obstacles are also those that strike the most fear into respondents. Familiarity with these threats seems to intensify fear of them rather than providing a been-there-done-that confidence.

NON-THREATS

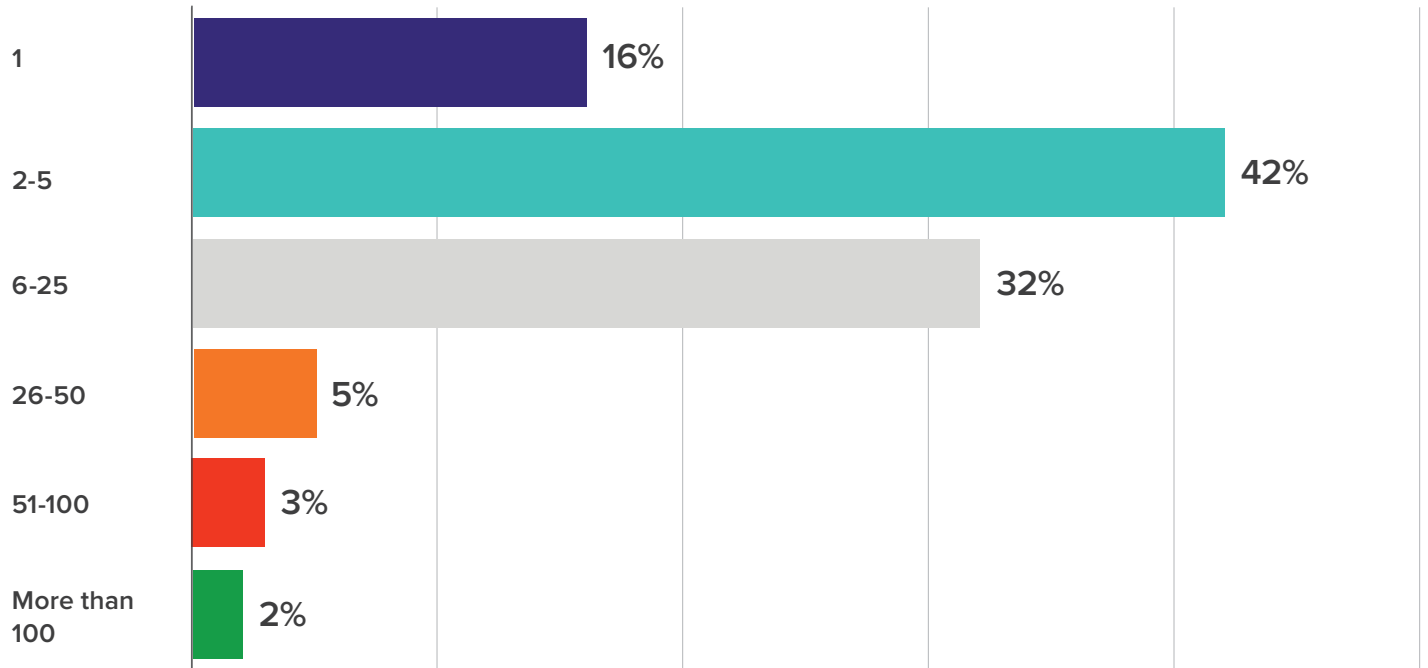
Another way to evaluate how small business owners think about threats to their livelihood is to ask them what they're not worried about. We ranked business hazards according to how many respondents said they would be "not damaging at all" to their companies.

Here are the top 10 "non-threats" to small businesses:



At least half of these responses deal with employees, which makes sense considering that many U.S. small businesses are either sole proprietorships or very small operations with a few employees.

Here's how many employees respondents' businesses have, including the owner:



Beyond employees, we found it curious that 22% of respondents said inability to obtain financing wasn't a concern, considering the cash flow issues we outlined previously. In further analysis, however, we found that owners who said financing is a non-issue are:

- **50% more likely** to have at least a year of cash reserves
- **29% less likely** to have less than one month's cash on hand

Owners who aren't worried about financing are 50% more likely to have a year of cash reserves.

GENERATION GAP

We filtered respondents by age to look for trends among Millennials, Gen X'ers, and Baby Boomers. We found surprising alignment in many areas, with a few notable exceptions, which are laid out in the chart below:

	Millennials	Gen X	Baby Boomers
Biggest threat	Slowdown in sales	Slowdown in sales	Flood, fire, etc.
Less than 1 month reserves	30%	25%	17%
More than 1 year reserves	6%	7%	13%
General liability insurance	71%	82%	81%
Business interruption insurance	10%	20%	28%

While owners from different generations view business threats similarly, they do tend to approach threat mitigation differently. This could partly be attributed to older entrepreneurs running more established businesses with steadier cash flows.

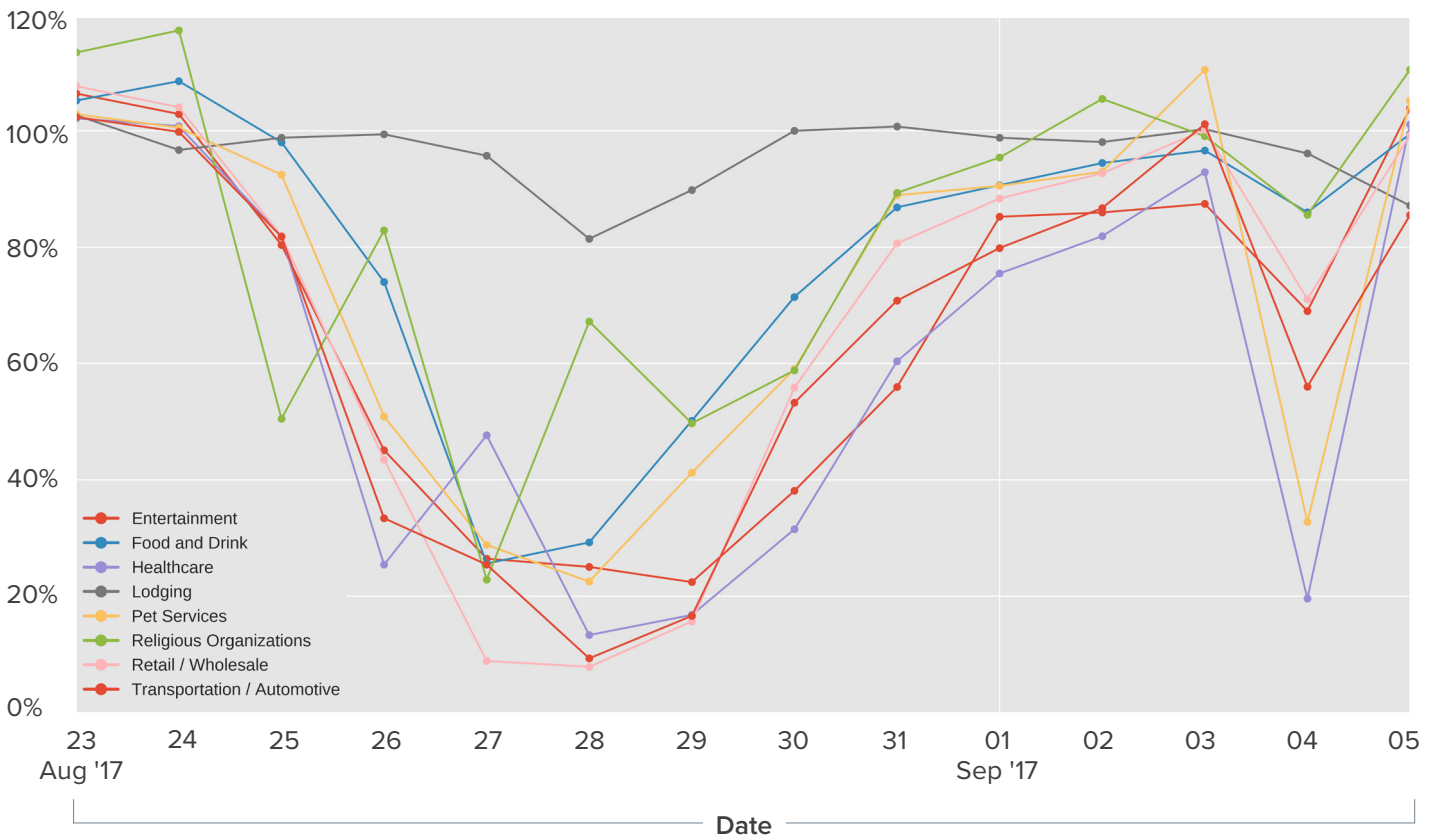
A major sales slowdown is the biggest threat to Millennial business owners.

CASE STUDY: HARVEY'S IMPACT ON HOUSTON

When we designed this survey, we didn't know Hurricane Harvey was coming, much less that it would become one of the costliest natural disasters in U.S. history. Because Womply curates transaction data for millions of SMBs, we decided to see what impact the storm had on revenue for local businesses in Houston.

We analyzed the revenue of 5,800 small businesses in Houston during the 10-day period around the storm's landfall. To qualify for our sample, the businesses had to have consistent revenue for at least the three months prior to the Hurricane. We then normalized the data to identify a typical day's revenue and charted the percent change during the storm. Take a look:

Percentage of businesses transacting compared to daily mean by segment



A few interesting takeaways:

- **Across the board, revenue plummeted on August 25, but all industries saw an uptick in revenue starting August 29**
- **Most returned to 80-100% of typical daily revenue within a week, although many briefly saw a second trough on Labor Day**
- **As measured by reduction in average revenue, the industries hardest hit were retail/wholesale, entertainment, and healthcare**
- **Lodging was least affected, never dipping below 80% of typical daily revenue**

While the storm's physical damage is a concern, this analysis suggests that Harvey's impact on business revenue was quite temporary. That's good news for local businesses that needed income to stay afloat as the floodwaters receded.

CONCLUSION

American small business owners perceive threats to their physical business and revenue to be the most damaging, likely because they run thin-margin companies with little room for error. Due to small financial buffers and risk mitigation strategies that are out of line with self-described catastrophic threats, potentially millions of small businesses are a disaster away from shutting down forever.

ABOUT WOMPLY

Womply is a software-as-a-service (SaaS) provider to small and medium businesses and one of the fastest growing software companies in America. Our mission is to use technology and data to grow, protect, and simplify small business. Every day we serve over 100,000 merchants, across 400+ business verticals, in every corner of America.

METHODOLOGY:

Womply polled 2,261 small business owners in all 50 U.S. states via an online survey in August 2017. For the hurricane analysis, Womply analyzed credit card transactions at 5,812 local businesses in Houston, Texas between August 23 and September 5, 2017.