



# Spend Insights

Q3 2008 REPORT | OCTOBER 2008



Visa Small Business Spend Insights monitors the economic confidence of U.S. small business owners by providing responses to a quarterly survey. Small businesses and those serving them can benefit from the trends and insights obtained from Visa's proprietary research.

## Quick Links

This report highlights **Concerns of Small Businesses** and assesses critical business drivers: **Top-line Revenue**, **Profit & Loss** and **Cash Flow**. Click on each link to go to the detailed findings.

[Overview >](#)

[Concerns of Small Businesses >](#)

[Top-line Revenue Outlook >](#)

[Profit & Loss Expectations >](#)

[Cash Flow Perspective >](#)

Small businesses that seek solutions to help manage their business can turn to Visa Business for support.

For information about Visa's small business solutions, visit [visa.com/smallbusiness](http://visa.com/smallbusiness).

For access to tools, best practices, or to network with other small businesses and to connect with new and existing customers, join [visabusinessnetwork.com](http://visabusinessnetwork.com) on Facebook.

## Overview

### Current economic crisis drives small business owners to reassess business practices

With ongoing instability in the financial markets, small business owners' confidence in a stronger U.S. economy over the next quarter remains low. More than one-third of small business owners surveyed believe they will have lower profits, difficulty accessing financing, difficulty with collections and less lenient credit terms. In the face of these challenges, some small businesses have chosen to cut prices and diversify product lines.

### Capital and cash flow concerns having an immediate impact

Small businesses are demonstrating the effects of economic stress with growing concerns in three key areas: *managing cash flow*, *staying in business* and *attracting new customers*. Business owners' optimism has also shifted since June, with confidence in rising energy prices stabilizing while those expecting lower profits and difficulty accessing financing have grown considerably. To illustrate how anxiety over capital is affecting them, some firms indicate they are having difficulty buying the supplies, tools and equipment they need without extending credit lines.

### Business owners find innovative solutions to cash flow problems

Better cash flow management remains the process improvement desired by a majority of small businesses. In addition to cutting costs to remedy their concerns, many small businesses are taking steps like these:

- Advertising more in less expensive channels
- Using credit to meet obligations
- Being more assertive in collections
- Searching for non-traditional loan options

### Small businesses are meeting economic challenges head-on

Always resilient in the face of a challenge, many small business owners are proactively responding to the current economy. Some innovations they've initiated to attract new customers and stay competitive include:

- Developing promotions and special offers, such as referral incentives
- Updating inventory to appeal to broader market segments
- Finding new ways to network — professional organizations, fairs, expos, conferences, seminars, online social media, etc.

**Quick Links**

[Overview >](#)

[Concerns of Small Businesses >](#)

[Top-line Revenue Outlook >](#)

[Profit & Loss Expectations >](#)

[Cash Flow Perspective >](#)

## Concerns of Small Businesses

### Rising taxes remain number one small business concern

While rising taxes continue to top surveyed small business owners' concerns, those reporting concern about the cost of healthcare jumped considerably since June. Attracting new customers remains a key concern as well.

Individual Small Business Concerns	Q4 07	Q1 08	Q2 08	Q3 08
Rising Taxes	61%	61%	62%	65%
Cost of Health Insurance	62%	60%	59%	64%
Attracting New Customers	62%	62%	60%	61%
Managing Cash Flow	49%	55%	50%	55%
Staying in Business	42%	45%	42%	48%

### Possible recession tops macroeconomic concerns

The possibility of a recession has replaced energy price increases as the primary economic concern for small businesses. Concerns over consumer confidence increased to their highest level in six quarters.

Small Business Macroeconomic Concerns	Q4 07	Q1 08	Q2 08	Q3 08
Possibility of U.S. Entering Recession	30%	30%	24%	29%
Continued Increases in Energy Prices	25%	23%	35%	25%
Change in Consumer Confidence	10%	11%	9%	15%

### Upcoming presidential election prompts mixed reaction

In the most recent quarterly survey, Visa added a question to gauge small business owners' feelings on the current presidential race. Small business owners are evenly divided regarding their feelings on the impact of the 2008 election. Only 30 percent indicated they felt it would significantly impact their businesses, while 35 percent expect no impact and 35 percent expect only a moderate impact. Some of the varying observations of business owners included:

- "New leadership will instill more confidence in the consumer"
- "The president alone won't have too much of an impact"
- "The new president will have a real impact on how soon the economy corrects"

"We are maintaining our excellent credit record with our bank and making sure the local branch is aware of our business plans. We are also watching our receivables closely and making sure clients know it is important that we get paid on a timely basis."

- Small Business Owner

**Quick Links**

- [Overview >](#)
- [Concerns of Small Businesses >](#)
- [Top-line Revenue Outlook >](#)
- [Profit & Loss Expectations >](#)
- [Cash Flow Perspective >](#)

*"I continue to build inventory. I am offering free shipping. I think I have all the 'right stuff' — this is economy driven."*

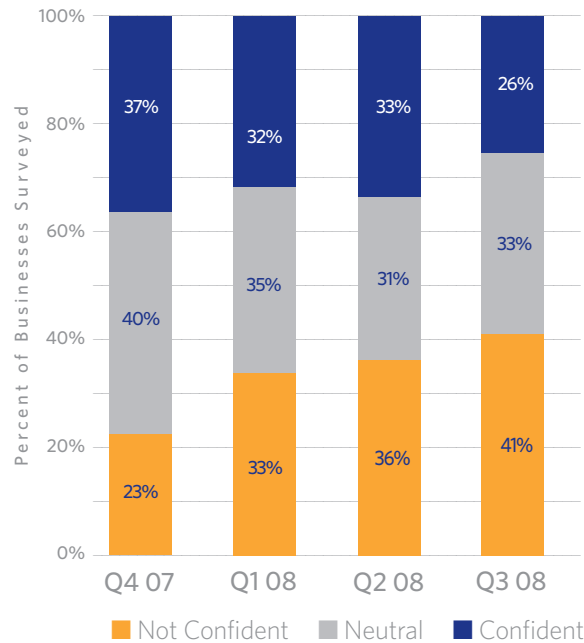
- Small Business Owner

## Top-line Revenue Outlook

### Revenue Outlook: Decreasing

In response to the current financial crisis, confidence in revenue increases fell substantially since last quarter, dropping from 33 percent to 26 percent. In fact, since Q4 07, small business confidence in this area has declined sharply from 37 percent.

### Confidence in Revenue Increase

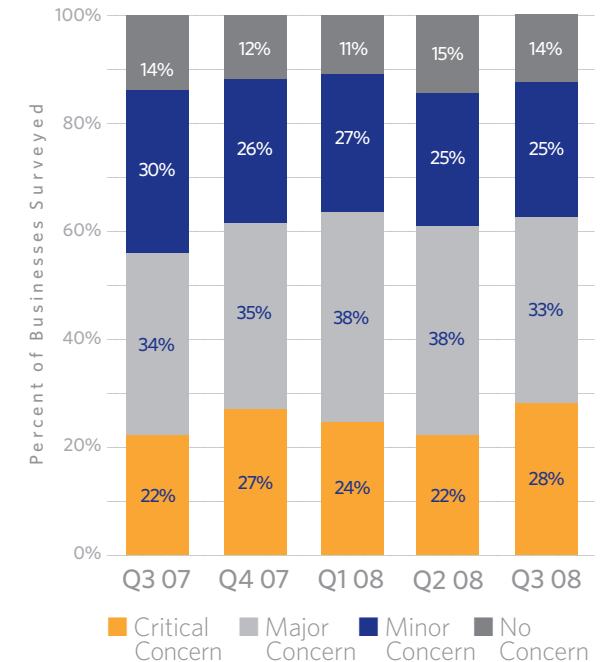


- Smaller-sized businesses reported the largest drop in confidence in revenue increases, declining from 35 percent to 23 percent since last quarter.\*
- Larger-sized small businesses, while declining in confidence, remain the most confident of revenue increases when compared to smaller- and medium-sized small businesses.\*

### Key Issue: Attracting New Customers

Over 60 percent of surveyed small businesses report attracting new customers as a major or critical concern. Since last quarter, there has been a substantial increase in small businesses reporting attracting new customers as a critical concern, up from 22 percent to 28 percent.

### Concerns with Attracting New Customers



- Small businesses reporting minor or no concern over attracting new customers remain stable at 39 percent.
- Small businesses are taking proactive means to attract new customers, including cutting prices, increasing ad spending, creating or updating the company Web site and extending their geographic region.

**Quick Links**

- [Overview >](#)
- [Concerns of Small Businesses >](#)
- [Top-line Revenue Outlook >](#)
- [Profit & Loss Expectations >](#)
- [Cash Flow Perspective >](#)

*"We are investing money ... to reduce energy costs and trying to cut unnecessary household expenses."*

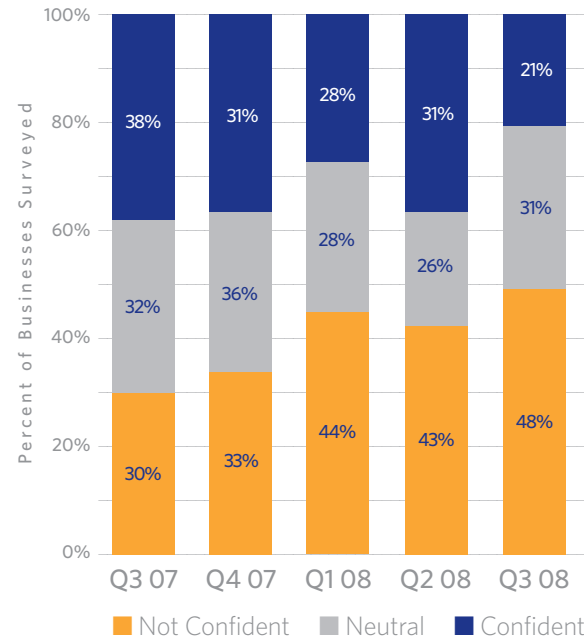
- Small Business Owner

## Profit & Loss Expectations

### Profit Outlook: Decreasing

Confidence in greater profits took a considerable drop in Q3 08, from 31 percent to 21 percent since Q2. This dramatic shift is in part because confidence had risen slightly in Q2, showing signs of an improved economic outlook. Recent developments erased those gains with this metric falling to a new low.

### Confidence in Greater Profits

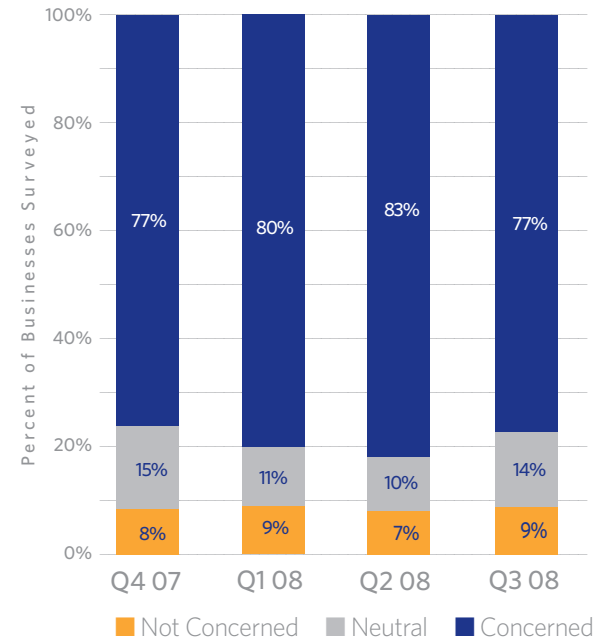


- Smaller-sized businesses saw the largest drop in confidence in greater profits in Q3 08, dropping from 34 percent to 14 percent.\*
- Larger-sized small businesses' confidence in greater profits dropped from 36 percent to 27 percent since Q2.\*
- Medium-sized small businesses maintained their level of confidence in greater profits from Q2 08.\*

### Key Issue: Energy Spending

The rising cost of energy expenses remains the main concern of small business owners at 77 percent. However, this number did drop in Q3 08, returning to its same level as in Q4 07, reflecting rising concerns in other areas, such as lower profits, difficult access to financing and difficulty with collections.

### Confidence in Energy Spending Increase



- All sizes of small businesses reported similar decreases in confidence over the rising cost of energy. The category that saw the largest increase in Q3 08 was confidence in difficult access to financing, which rose from 29 percent to 34 percent.

**Quick Links**

[Overview >](#)

[Concerns of Small Businesses >](#)

[Top-line Revenue Outlook >](#)

[Profit & Loss Expectations >](#)

[Cash Flow Perspective >](#)

*"We are continuing to find non-traditional loan options (credit cards, family money, etc.) and managing our cash flow on a daily basis."*

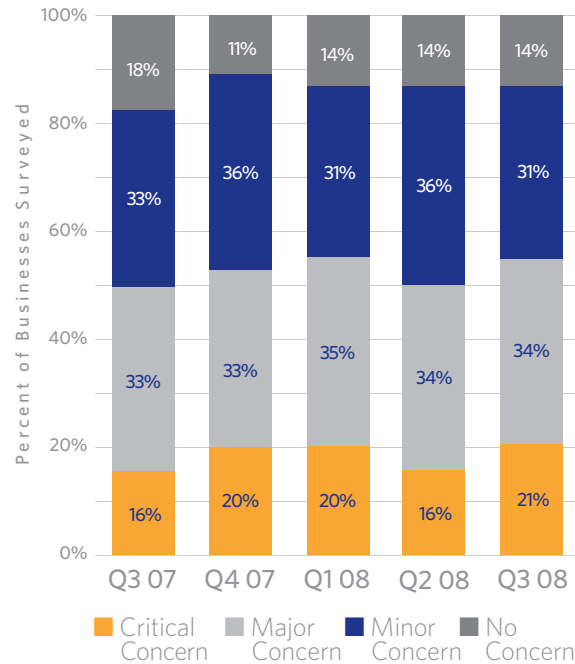
- Small Business Owner

## Cash Flow Perspective

### Managing cash flow grows increasingly important

Managing cash flow remains a priority in Q3 08, increasing to 21 percent of small businesses surveyed. Considering the increasingly challenging economic outlook, this is a relatively small increase and marks a return to slightly above its Q1 08 level.

### Concern with Managing Cash Flow

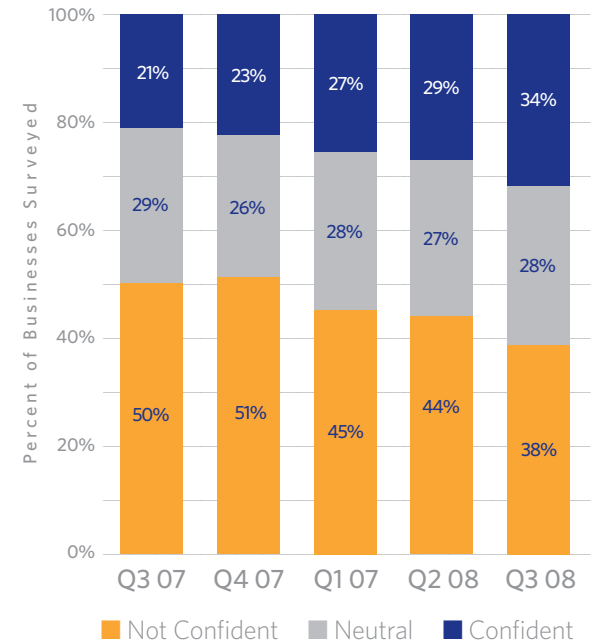


- Struggling to manage cash flow can result in other problems for small businesses, including difficulty making payroll, undergoing hiring freezes and late or unpaid insurance premiums.

### Key Issue: Collections

Facing an economic crisis, the number of small business owners surveyed expecting difficulty with collections has continued to increase, reaching a new high of 34 percent this quarter.

### Confidence in Difficulty with Collections



- In response to increased concern over collections, many small businesses are offering incentives to customers who pay early or in full.

**Quick Links**

- [Overview >](#)
- [Concerns of Small Businesses >](#)
- [Top-line Revenue Outlook >](#)
- [Profit & Loss Expectations >](#)
- [Cash Flow Perspective >](#)

### About Spend Insights Methodology

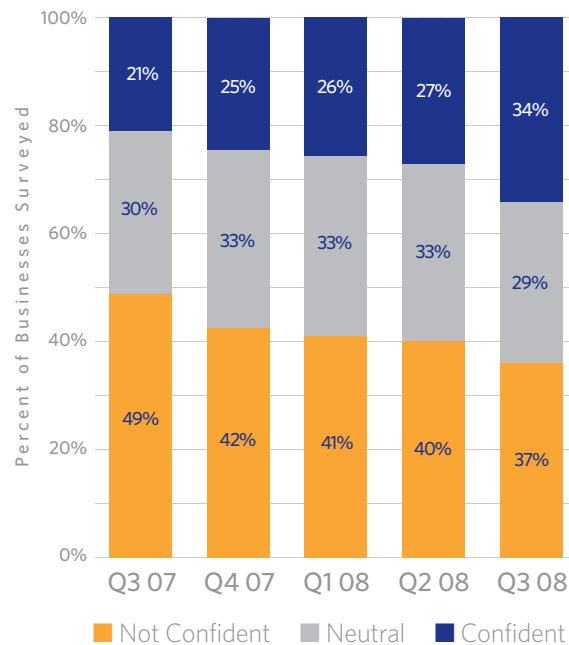
Visa® Small Business Spend Insights monitors the economic confidence of small business owners with responses to a quarterly survey exclusively commissioned from TNS by Visa. This study of businesses with \$50,000-\$25,000,000 in annual revenue was based on small business survey data from July 2007 through September 2008 and also consists of 602 online surveys conducted September 22-26, 2008.

## Cash Flow Perspective (cont'd)

### Key Issue: Payment Terms

The number of small business owners who expect less lenient payment terms has continued its steady rise over the last year. This quarter saw a sizable increase from 27 percent to 34 percent, reaching a new high in this category.

### Confidence in Less Lenient Payment Terms



### Spend Insights Outlook

In this latest survey the current economic environment continues to present significant challenges for Small Business. The increasing costs of energy & healthcare coupled with the expectation of rising taxes remain a major concern for small business owners. Declining consumer confidence & a challenging economy mean that more so now than ever small business owners are reviewing their business operations to improve their management of costs and cashflow.

Despite these challenges Small Business Owners continue to be resilient and optimistic focusing on activities that drive their business forward.

*Raghav Lal*  
Head of Global Small Business, Visa Inc.

### Additional resources:

Grow, manage and connect your small business at [visabusinessnetwork.com](http://visabusinessnetwork.com) on Facebook

For more on small business strategies to manage your money, go to **Visa Podcasts** at [http://www.usa.visa.com/business/resource\\_center/podcasts.html](http://www.usa.visa.com/business/resource_center/podcasts.html)

For more ways to manage and grow your business, go to **Visa Online Workshops** at [http://www.usa.visa.com/business/resource\\_center/workshops.html](http://www.usa.visa.com/business/resource_center/workshops.html)

For more small business resources to grow your business, go to **Visa Small Business Resource Center** at [http://www.usa.visa.com/business/resource\\_center/index.html](http://www.usa.visa.com/business/resource_center/index.html)

### \*Small Business Categories

- Small: 1 employee
- Medium: 2+ employees/\$50,000-\$499,999 in revenue
- Large: 2+ employees/\$500,000-\$25,000,000 in revenue

