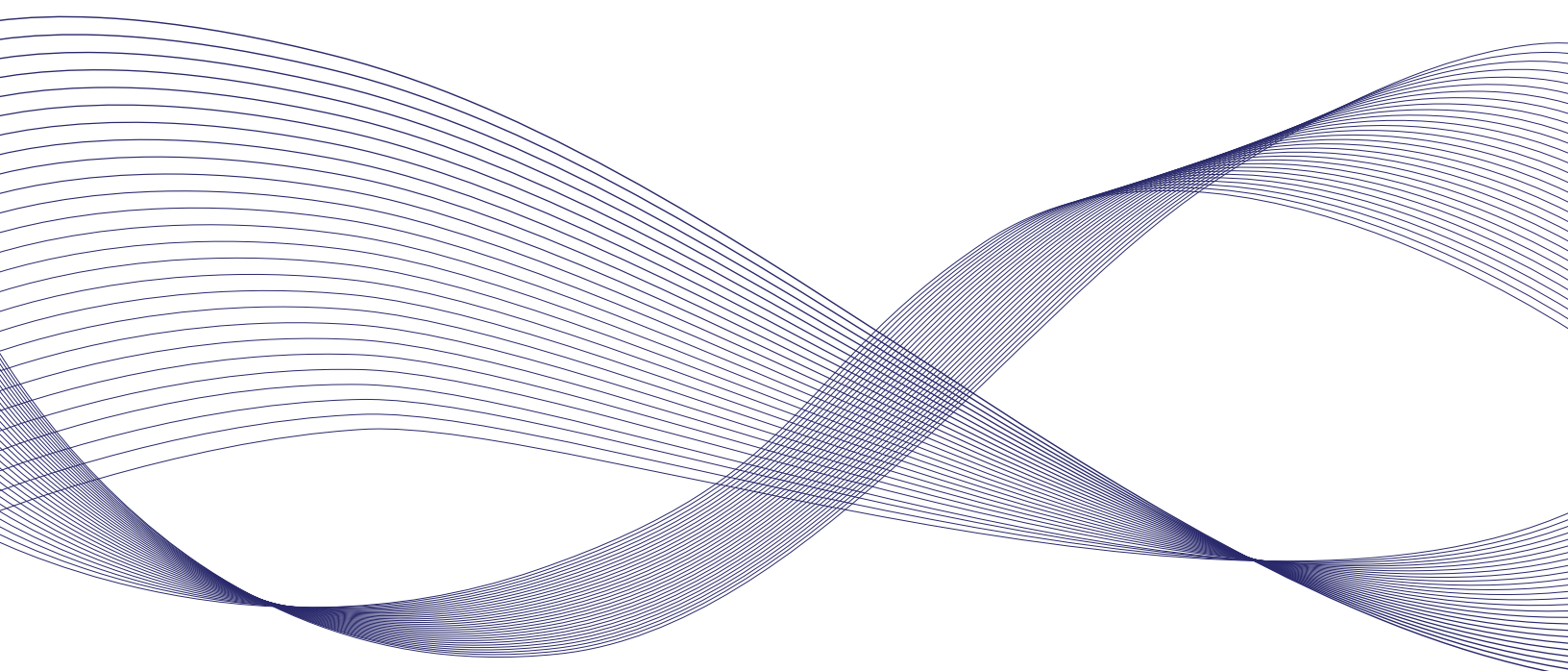


SMALL BUSINESS IN THE DIGITAL AGE

## **Helping the hardest hit:** Recovery and resilience for small business in the United States

**This paper examines the results of a survey of small businesses in the United States. We find that the pandemic simultaneously presented challenges and opportunities for US businesses. Digital capabilities have helped businesses weather the crisis and have expanded international trade opportunities. Digitization is key to helping small businesses, particularly minority-owned small businesses, attract and retain customers.**



## Synopsis

Greater digitization of commerce has brought enormous benefits to businesses and consumers. By using digital payment capabilities and online marketplaces, many micro, small, and medium enterprises (MSMEs) are better able to compete with larger firms through greater customer choice and reach. In May 2021, the Visa Economic Empowerment Institute surveyed more than 1000 business leaders at micro, small, and medium enterprises (MSMEs) across the United States. According to our research, firms that embraced digital commerce and cross-border capabilities before and during the pandemic have generally weathered the crisis better than those that did not. Survey responses indicate that more small businesses want improved internet connectivity, assistance with digital commerce, and digital payments than want direct financial support from governments. Finally, these firms, particularly diverse-owned ones are springboard into international trade, expanding their commercial reach. These findings help inform several recommendations to policymakers on measures they can take to help small businesses recover and thrive in the post-pandemic world.



Fostering Digital  
Equity and Inclusion

## **Helping the hardest hit:** Recovery and resilience for small business in the United States

October 2021



Visa Economic Empowerment Institute

**VISA**



## Acknowledgments

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## About the Visa Economic Empowerment Institute

The VEEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

The VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established the VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

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## Executive summary

**The survival of micro, small, and medium sized enterprises (MSMEs) during the COVID-19 health and economic crisis has demanded the attention of public and private sector leaders in the United States since early-2020. To better understand the essential factors required for small businesses to survive and thrive during and after the pandemic, the Visa Economic Empowerment Institute (VEEI) undertook a study of the current business environment and future outlook of small businesses in the United States. This study continues the VEEI's engagement at the intersection of small business resilience, payments and technology policy, and digital equity and inclusion. The VEEI study team hopes these insights assist policy makers with digitizing the small business experience.**

VEEI conducted an online survey of representatives from more than 1,000 businesses in the United States in May 2021, more than a year after the onset of the crisis in most of the world. The sample was made up of micro firms (ten employees or fewer), small firms (11 to 50 employees), medium-sized firms (51 to 250) and large firms (more than 250 employees). Nearly three quarters of the firms surveyed were MSMEs (micro, small and medium enterprises); nearly a third were micro firms.

The key findings from the survey can be found below. This executive summary concludes with three policy suggestions for empowering small businesses in the U.S. All sections of this executive summary are elaborated in more detail later in the paper.

### **Key findings from the VEEI's survey of US MSMEs:**

#### **The pandemic has simultaneously presented challenges and opportunities for US businesses**

- Of the surveyed firms, about 40 percent reported growth in revenues between 2019 to 2020, while 41 percent reported a decline. The remaining firms saw zero growth. Revenue declines were attributed to labor shortages and supply chain constraints. Overall, firms maintain a positive economic outlook for the upcoming year.

#### **MSMEs are prioritizing digital capabilities**

- When asked what they need most over the next three to six months, the majority of MSMEs indicated a need to attract new customers and convince old customers to return. In considering how to achieve this, respondents strongly prioritized digitization as the key to helping them get through the current crisis. MSMEs indicate needing better internet connectivity, digitized workflows, and digital payment capabilities. They prioritize these needs over grants or loans.

#### **Digital natives leveraged online tools to serve a remote customer base**

- Twenty percent of the firms surveyed were started during the pandemic. These new businesses were born from adversity or opportunity. They were more likely than those started pre-pandemic to be led by women. Most businesses utilized digital resources to meet evolving customer needs; MSMEs who used digital tools and online marketplaces exhibited greater resiliency and agility and were more equipped to manage economic ambiguity.



### **COVID-19 harmed Black- and minority-owned businesses most acutely**

- Black businesses were hit especially hard during the pandemic, closing at more than twice the rate of white-owned businesses. A concerted effort to help minority-owned businesses survive by addressing long-standing barriers is essential and has the potential to bring socio-economic benefits to individuals, communities, and the country as a whole.

### **Digital capabilities expanded international trade opportunities for MSMEs**

- Exporting MSMEs used online marketplaces to reach international markets. Firms with an online presence significantly increased online sales volume and export market reach. Minority-owned firms were more likely to export to a larger number and less-traditional markets, implying a strong role for digital trade policy in enabling minority business owners to succeed.

## **VEEI's Recommendations for MSME Empowerment:**

1. **Provide digital enablement assistance** to small businesses through improved internet access, digitized sales and workflow processes, or digital payment capabilities.
2. **Enable equitable access to capital**, with a particular focus on minority-owned and women-owned firms that may find themselves navigating an unequal and challenging capital access landscape.
3. **Promote a good digital trade policy** that enables small businesses to take advantage of the multiplier-market effects of cross-border digital trade.

# Introduction

Small businesses are the backbone of the US economy, supporting their local communities and the country in a myriad of ways. In recent decades, small businesses created about two-thirds of all new jobs. And in 2019 alone, they generated 1.6 million net new jobs, with firms employing fewer than 20 workers generating 1.1 million of those employment opportunities (SBA, 2020a).

As the pandemic continues to create challenging economic times, policymakers clearly need targeted and effective ways to enable small businesses' success and resilience, particularly for minority-owned businesses that serve underrepresented markets and populations.

To better understand the digital needs of small businesses, the Visa Economic Empowerment Institute (VEEI), with the assistance of Nextrade Group, conducted an online survey of representatives of more than 1000 US businesses in May 2021, a few months after the anniversary of the onset of the COVID-19 crisis in much of the world. The sample was made up of micro firms (ten employees or less), small firms (11 to 50), medium-sized firms (51 to 250) and large firms (more than 250 employees). Nearly three-quarters of the firms surveyed were MSMEs (micro, small and medium enterprises). Nearly a third of the firms surveyed were micro firms.<sup>1</sup>

In administering this survey, VEEI wanted to answer the following questions:

- What were the responses of MSMEs to the COVID-19 crisis?
- What previous trends in commerce and payments were revealed to be beneficial for MSMEs to perform better during the pandemic?
- How has the pandemic strengthened certain trends, especially the reliance on e-commerce marketplaces and digital payments?
- What are some challenges with moving to digital commerce and payments?
- What do MSMEs need in order to survive, thrive, and be resilient to future shocks?
- How are firms born during the pandemic performing in this climate?
- How did women-owned and minority-owned businesses fare compared to the overall population of firms?
- What particular needs do women-owned and minority-owned businesses identify and how can policymakers help them?

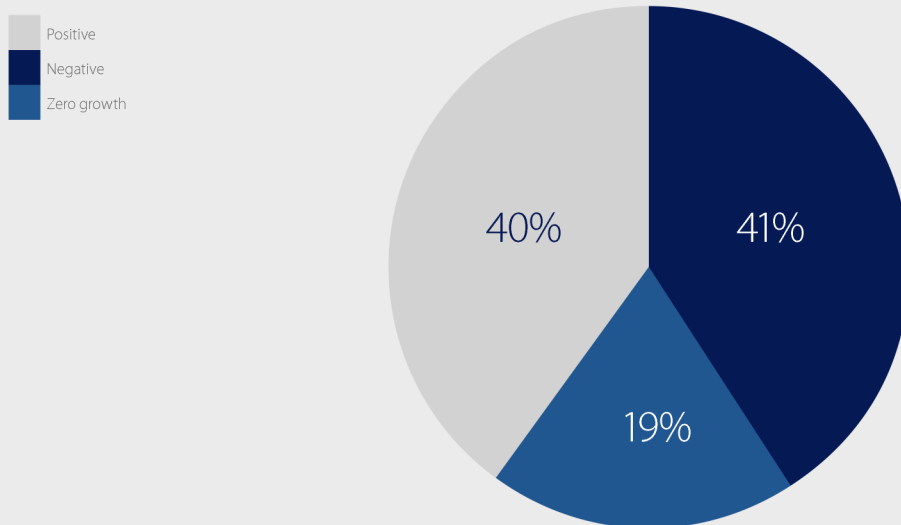
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<sup>1</sup> We recognize that there is a vibrant discussion about the correct way to define a small business. The US Census Bureau provides insight into the various ways to define a small business in 2021. For the questions we are exploring in our current research, we decided to use a definition based on employment numbers. In future research we may adopt other criteria as appropriate.

# Despite challenges, most US small businesses remain optimistic. But they need more digital support

The past 18 months have been challenging, with stay-at-home orders resulting in many businesses shutting down temporarily, and others closing permanently. Health issues affected both workers and customers. Nearly everyone faced general economic uncertainty. At the same time, the intensification of e-commerce activities unveiled new markets for small firms that were able to accelerate digitization, find new ways of doing business and adjust to new realities.

**Figure 1. Surveyed firms' revenue growth, 2020 vs 2019**



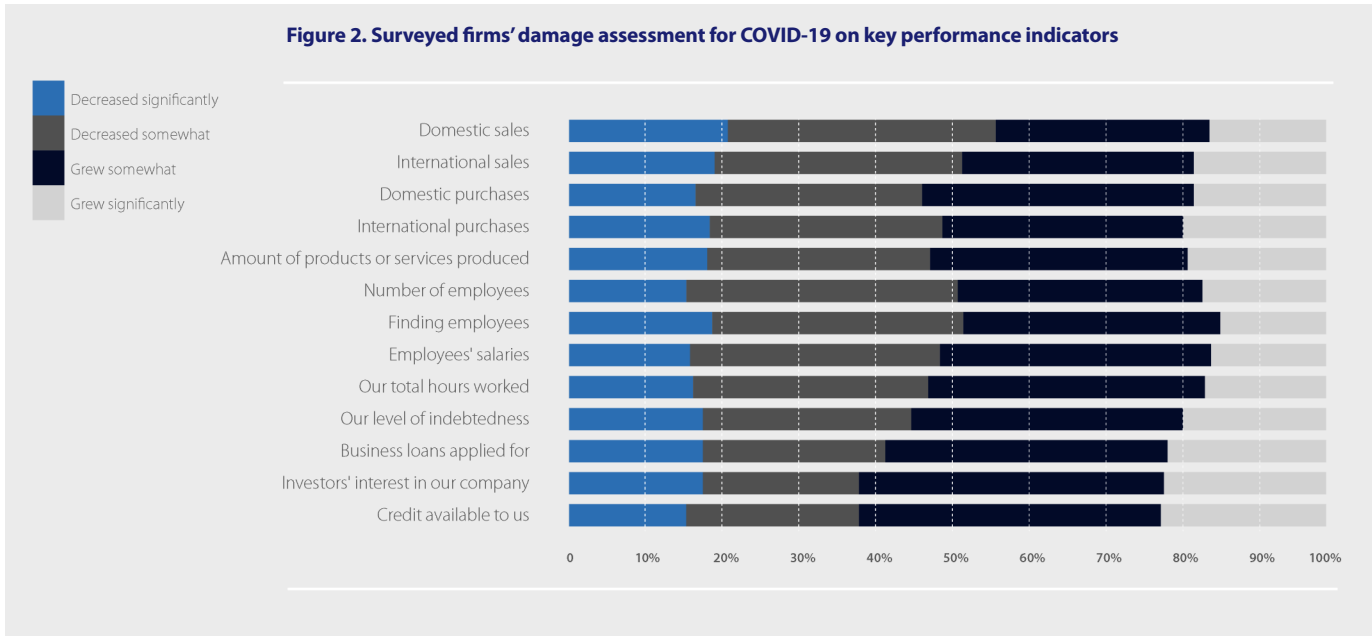
Source: VEEI US small business survey

Year-over-year performance of firms in our survey was mixed. Of the firms that existed in 2019, 41 percent experienced a decline in revenue during 2020, 19 percent saw no growth, and 40 percent saw their revenue grow. But more than a third of those that grew did so by more than 10 percent.

Figure 1 highlights both the difficulties and the opportunities that the public health crisis has presented for small firms. Just over a quarter of the firms in our study indicated that they had closed during COVID-19. This echoes findings from other studies. Bartik et al. (2020) found temporary closure rates of around 40 percent, and permanent closures around 2 percent. The authors point to the financial fragility of small businesses, many of which have enough cash on hand to operate for only two months or less. A more recent Federal Reserve study (Crane et al., 2021) suggests that the downturn effect on small business

closures may be more compositional than systemic; some sectors seeing higher than usual closures, but other sectors are seeing business exits lower than historical norms. As we will discuss in the next section, many entrepreneurs also saw new opportunities, either to start a business or to grow their existing business in new directions.

**Figure 2. Surveyed firms' damage assessment for COVID-19 on key performance indicators**



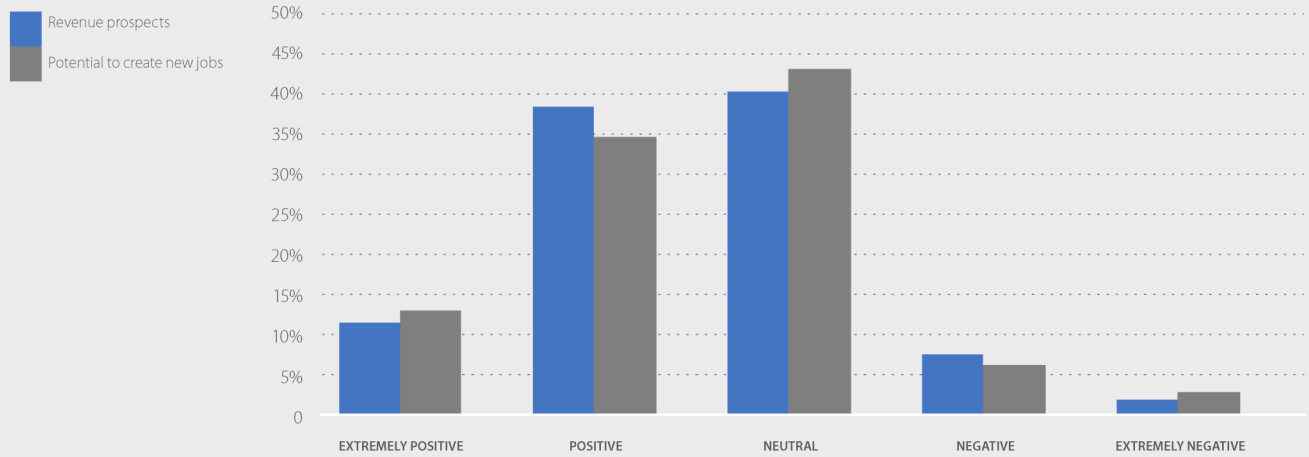
Source: VEEI US small business survey

Figure 2 illustrates how firms in our survey performed on key business indicators. In general, firms reported the greatest declines in their domestic sales; 56 percent reported a downturn. International sales also fell for 52 percent of firms, though 51 percent of firms saw increases in purchases from abroad, 12 percent of which were significant. As international supply chains shifted, leading to unexpected shortages and transport challenges, purchases from domestic and international suppliers were about even in terms of declines and increases. These differing dynamics reflect national and international supply chain issues, the scarcity of labor and the differing impacts the pandemic has had on different sectors.

Firms also faced challenges in finding and maintaining workers. Employees who retained their jobs worked hard during the pandemic; 44 percent of firms reported an increase in the number of hours employees worked. Businesses experienced a scarcity of labor as some said finding and retaining workers was difficult. More than one-third of our respondents indicated that their employees had decreased in number and that they were finding it difficult to hire new employees.

All in all, however, more firms reported a positive than a negative impact on their level of debt, on available credit and on investor interest in their company. Figure 3 shows that slightly more than half of the firms surveyed were positive or extremely positive about both their revenue and job creation prospects for the upcoming year.

**Figure 3. Surveyed firms' prospects (percent)**



Source: VEEI US small business survey

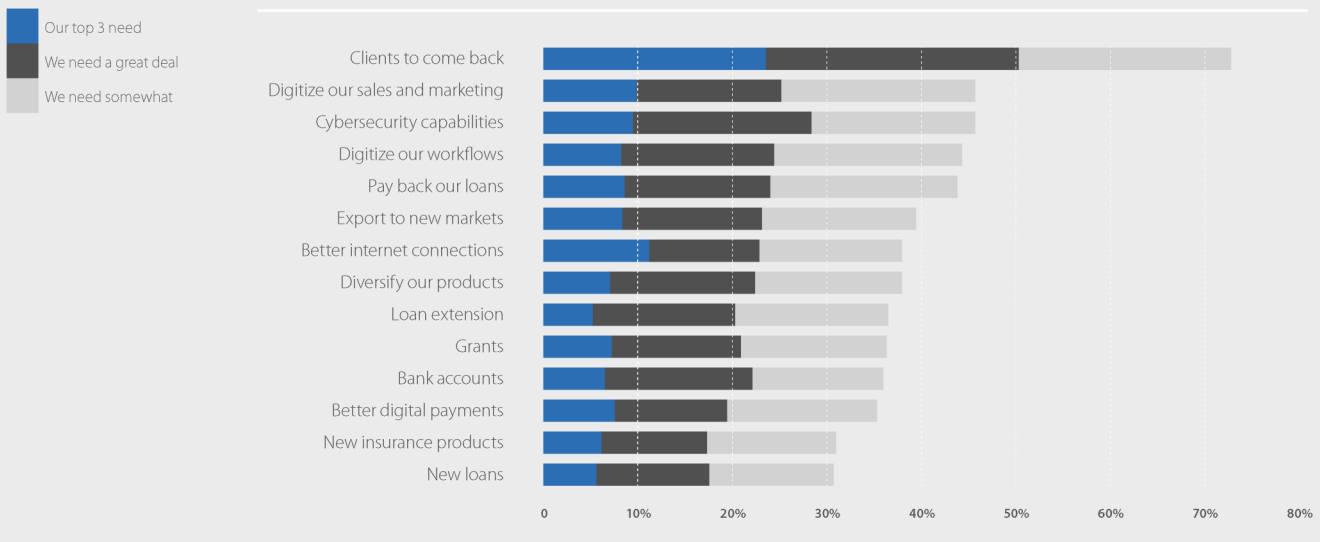
In sum, businesses in the United States have faced significant challenges during the pandemic, but overall retain an overall quite positive outlook for the next year.

# What do firms need to succeed in the new normal?

We asked firms what they most needed to manage the impact of the crisis in the next three to six months. We focused on the needs expressed by micro firms – those with fewer than ten employees – as well as small firms (those with up to 50 employees). Of course, what firms indicated they really needed was for their customers to come back or to attract new customers. In considering how to achieve this, respondents strongly prioritized digitization as the key to helping them get through the current crisis. About half of our respondents expressed a need for better internet connections, more support in digitizing their sales and workflow, and better digital payments capabilities. Somewhat surprisingly, respondents prioritized these needs over accessing grants or loans.

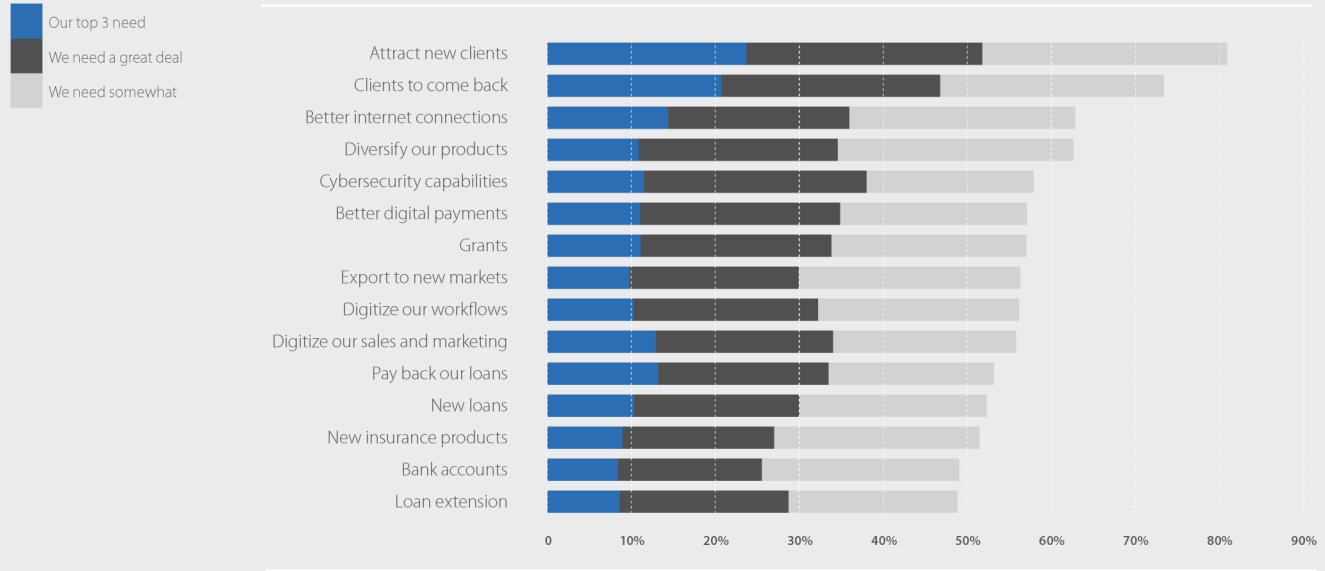
Both small and micro firms included better internet connections, cybersecurity capabilities, digitizing sales and marketing and exporting to new markets among their three top needs. As we will discuss in the following section, digitization also helps small firms reach new export markets.

**Figure 4. Micro businesses (10 or fewer employees): top needs**



Source: VEEI US small business survey

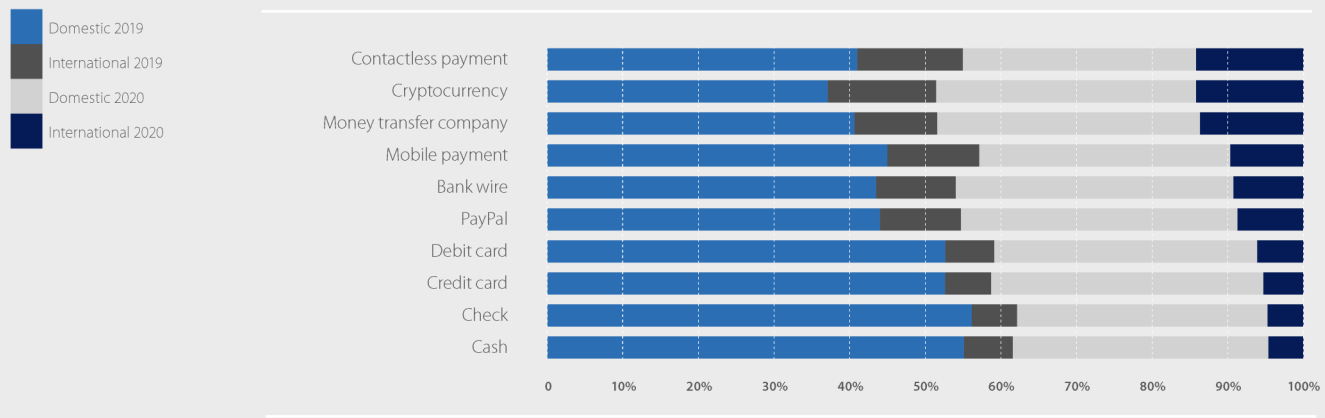
**Figure 5. Small businesses (11-50 employees): top needs**



Source: VEEI US small business survey

In addition to better internet connections and cybersecurity capabilities, respondents prioritized digital payments capabilities. Over half of small and over a third of micro firms shown in Figures 4 and 5 identified increasing digital payments as necessary for firm survival. As seen in Figure 6, many firms in the survey benefited from having access to digital payments already; others adopted digital payments during the pandemic. The main new acceptance form factors adopted in 2020 by the firms in our survey were contactless payments and cryptocurrency.

**Figure 6. Initiation of mode of payments acceptance**

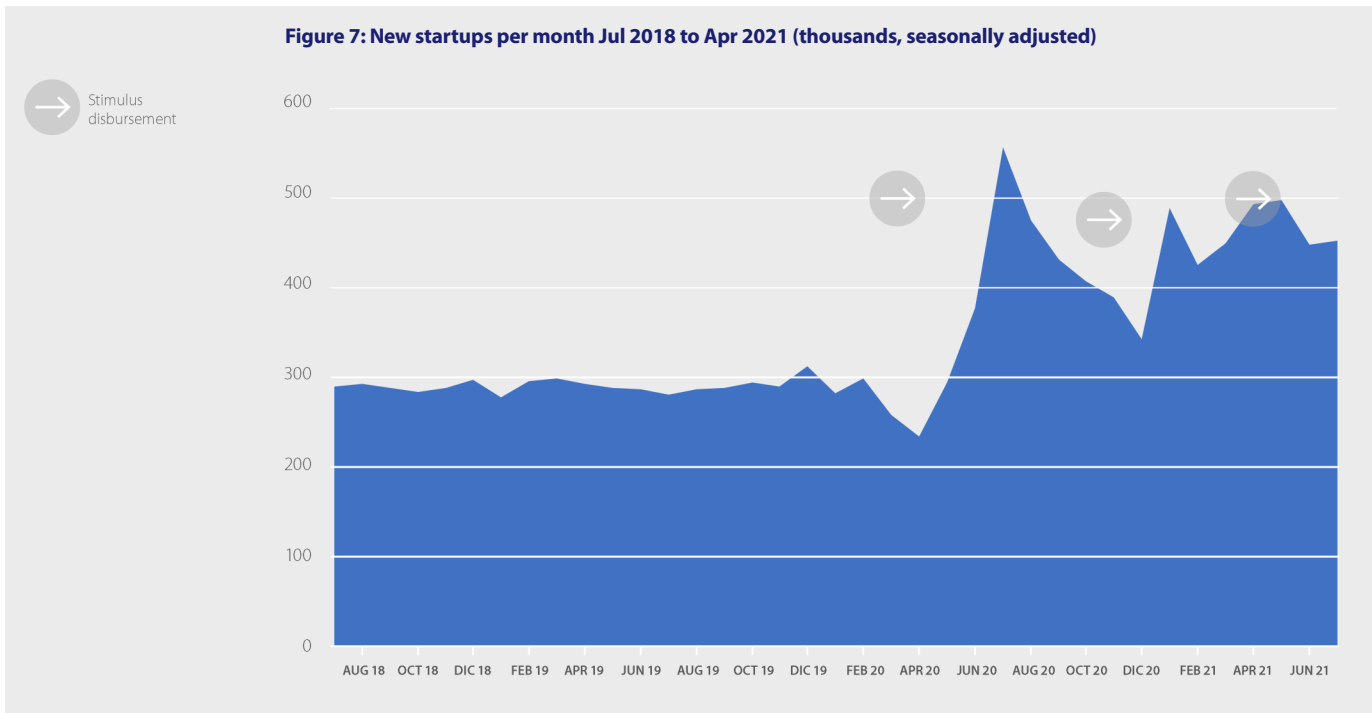


Source: VEEI US small business survey

Not only is it important for business resilience, but digital payments acceptance is often a gateway to international trade, as having the capacity to accept international payments is essential to successfully importing and exporting. This aspect of small business potential is explored in section IV.

# Born during the pandemic, digital natives have strong potential – but may need support

The pandemic ushered in a new business boom. As seen in Figure 7, an initial dip in new business applications— Census Bureau speak for startups — in the early months of 2020 was followed by a significant and sustained rise. After June 2020, monthly new startups rode to the highest level since 2007 — about 40 percent higher, on average, than during the same month in 2019. These startups include high-growth businesses funded by venture capitalists, but also many sole proprietorships and mom-and-pop establishments. Djankov and Zhang (May 2021) find that this growth was driven largely by startups in online retail, transportation, and personal services.



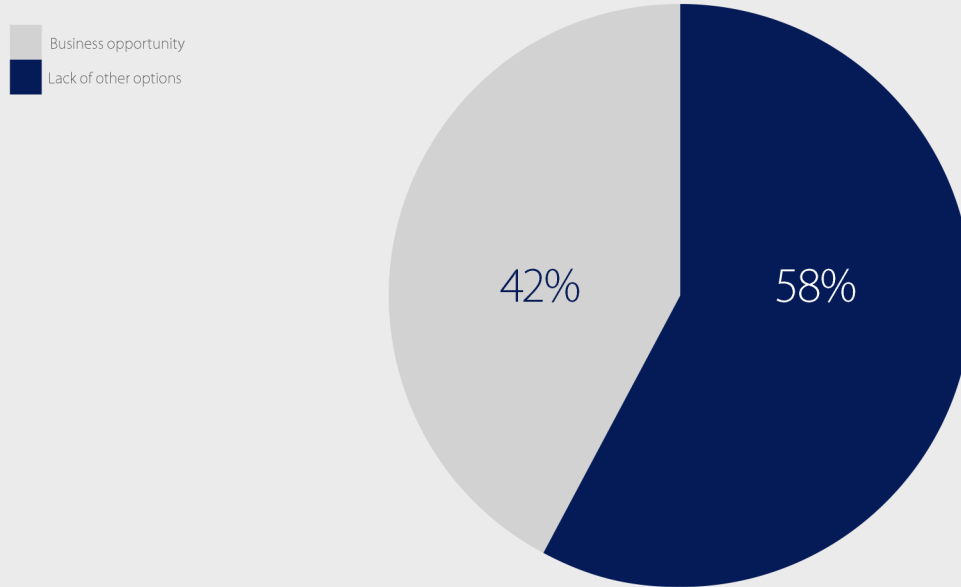
Source: US Census Bureau, Business Formation Statistics, time series data

Our survey's results mirrored this data. Nearly 20 percent of the firms we surveyed were started during COVID-19. As seen in Figure 8, these startups cited two main motivations for beginning a business during the pandemic. The majority, 58 percent, of new entrepreneurs started their business out of necessity. As people lost their jobs or were compelled to stay home to take care of children or other dependents due to the pandemic, they turned to online sales or other activities



tailored to pandemic conditions to recover income. The other 42 percent said that they started their business to take advantage of a new business opportunity.

**Figure 8. Startups during the pandemic: main motivation**

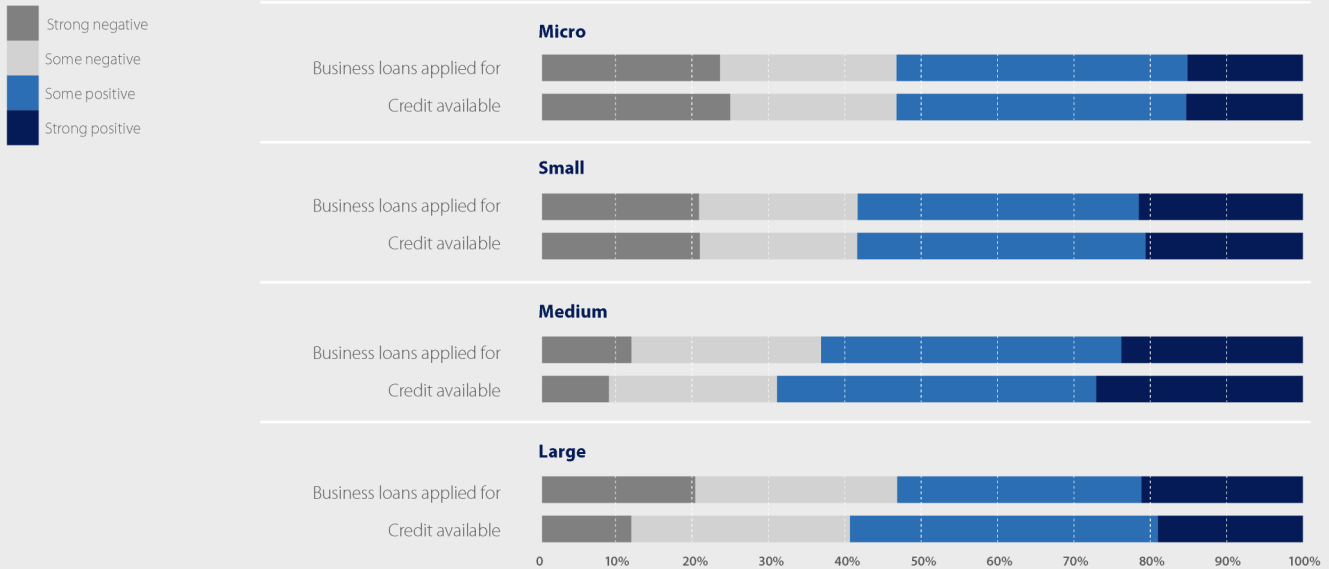


Source: VEEI US small business survey

These digital natives saw opportunities in the new markets created by shifting customer demand during the pandemic. Innovative entrepreneurs found new ways to cater to people working and studying from home who were unable or reluctant to travel to brick-and-mortar stores. They rose to the occasion, finding new and unexploited ways to use technology or developing new sales and delivery methods to meet evolving needs.

As did many other countries around the globe, the United States offered support to small businesses to help them weather the pandemic (OECD, 2021). The US Paycheck Protection Program (PPP) provided \$525 billion in forgivable loans to millions of small businesses (BEA, 2021). Visa (2020) highlights the importance of SBA-led federal aid programs on small business recovery, and Autor et al (2020) and Hamilton (2020) also found that the Paycheck Protection Program (PPP) had a material effect on employment, particularly for small firms. This influx of support was preceded by a years-long contraction in small business lending. Chen et al (2017) find that not only did large banks' lending to small businesses contract, but the number of community banks, often a key source of funding to small businesses, fell over the past decade, leaving small businesses with fewer financing options. Access to credit has long been cited as a main challenge for small businesses. Understanding and addressing the small business credit gap has become even more urgent with the current pandemic-led downturn.

**Figure 9. Pandemic impact on loans and credit per size category**



Source: VEEI US small business survey

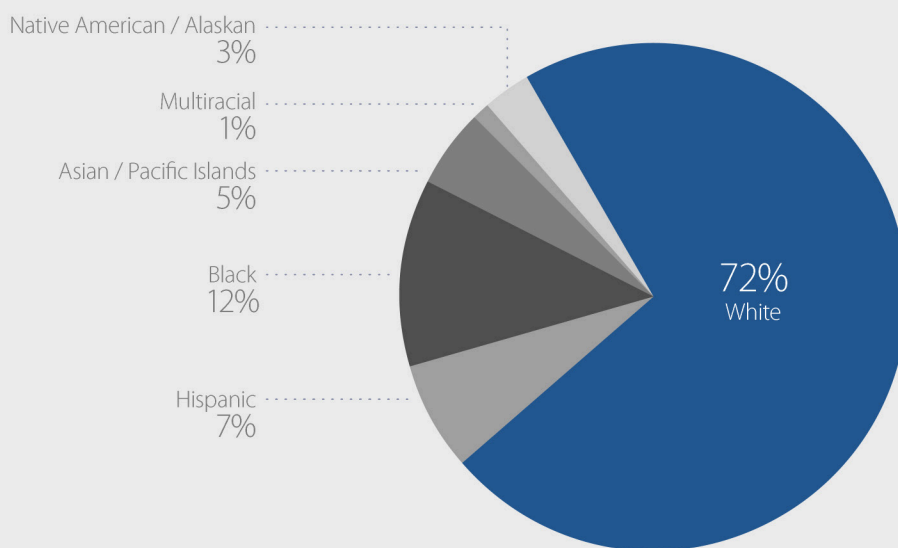
When asked in our survey how the pandemic affected the availability of credit and business loans, 40 percent of responding firms indicated that the pandemic had some negative or a strongly negative effect. However, 60 percent found that the pandemic had a positive or even strongly positive effect (Figure 9). The figures were a bit less optimistic for micro firms, among which 47 percent experienced a negative effect, and only 53 percent saw an increase. Some measure of the positive effect may be the availability of stimulus funds. Figure 7 shows that upticks in startups seem to follow stimulus fund disbursements.

Economic downturns often give rise to innovation: Djankov and Zhang (2021) and Fairlie (2013) examine other economic downturns and find that US locations with higher local unemployment rates saw a rise in entrepreneurship. But stimulus funds tapering off raises questions about what will happen to these startups in the longer run. Whether born out of adversity or opportunity, the micro and small businesses that emerged from the COVID-19 pandemic are joining the ranks of US small businesses and contributing to the pool of innovation and entrepreneurship that is so essential to the community and the economy. Further research is needed on how much the availability of stimulus funds incentivized entrepreneurs to start new businesses and what type of assistance would most help them thrive in the new normal.

# Black and women-owned businesses have been hardest hit

Research has long documented the higher barriers faced by minority-owned firms to securing the financial and human capital needed to survive and grow (e.g., Chatterji et al, 2012, Fairlie 2013, McKinsey 2019). Targeting support to these communities may be key to leveraging entrepreneurship as a catalyst for economic recovery.

**Figure 10. Ethnicity of CEO**

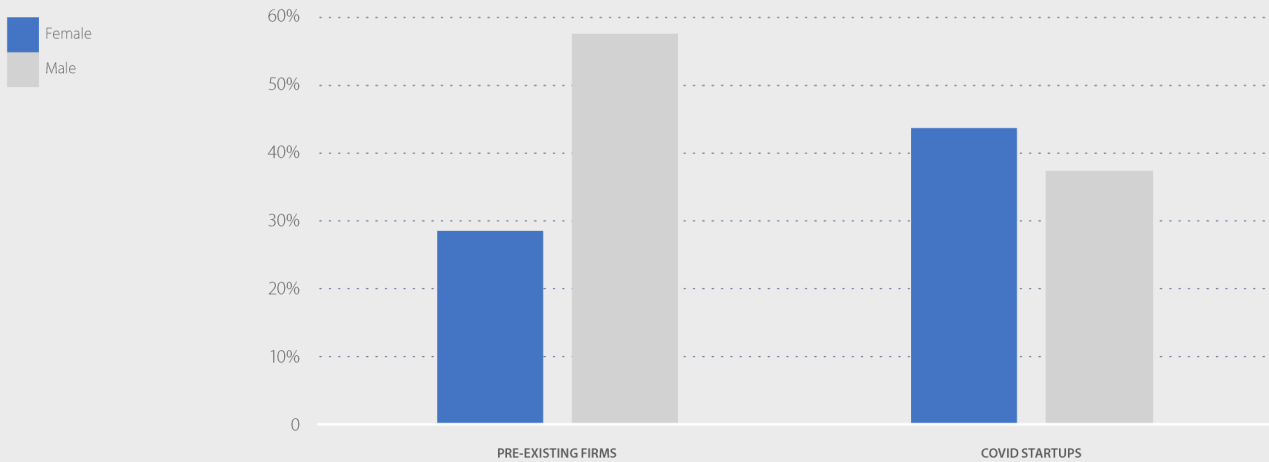


Source: VEEI US small business survey

For example, research shows that when women business owners pitch their ideas to investors for early-stage capital, they receive significantly less — on average, \$1 million less — than men. Yet businesses founded by women ultimately deliver higher revenue — more than twice as much per dollar invested — than those founded by men (BCG, 2018).

In our survey, more than 60 percent of responding firms were headed by men, 30 percent were women-led, and 10 percent identified as co-led. In terms of racial and ethnic demographics, nearly three-quarters of the firms that identified the ethnicity of the CEO (95 percent of the sample) were led by a white person; 12 percent had Black or African-American CEOs; 7 percent Hispanic/Latinx; 5 percent Asian/Pacific Islander and 2 percent Native American Figure 10).

**Figure 11. Gender distribution of CEO: pre-existing firms vs COVID startups**



Breaking down the leadership of firms that started up during the pandemic (Figure 11) revealed an interesting gender finding. Whereas firms that were established before the pandemic were almost twice as likely to be headed by men as women, this trend reversed somewhat during the pandemic, with startups during COVID-19 slightly more likely to be headed by women.

According to the State of Women-Owned Businesses Report (2018), Black women have, over the past decade, started businesses at a higher rate than any other demographic. Thirty-six percent of all Black-owned businesses are owned by women, compared with 19 percent of all businesses. Yet Federal Reserve data (2016) show that Black women are more likely than non-minority peers to identify access to credit as a challenge. Even after controlling for factors such as credit score, the Small Business Administration (SBA) finds that women and minority businesses are denied loans more and pay higher interest rates than their counterparts (Robb, 2013 and 2017).

This is a worrying continuation of an already concerning trend. Before the pandemic, Black business owners made up only about 2.2 percent of the nearly 32 million small businesses in the United States (SBA, 2020), although Black Americans make up more than 13 percent of the US population (US Census Bureau, 2019). Black-owned small businesses in the US are highly concentrated in retail, restaurants, and other service industries, which have been among the most affected by shutdowns and social distancing. In 2017, about half of Black-owned microbusinesses (firms with five or fewer employees) were in three sectors: “other” services, healthcare and social assistance, and administrative and support services.

Pre-pandemic, minority-owned businesses were less likely to receive a bank loan. A survey by the 12 Federal Reserve banks (2020) shows that only 23 percent of Black-owned businesses, compared to 46 percent of white-owned businesses, have received a bank loan in the last five years. The Federal Reserve Bank of New York (Kramer Mills and Battisto, 2020) cites structural barriers that influence their Black and Latinx-owned firms’ financial health, for example, these firms

are more likely to report higher credit risk ratings than white-owned firms. A study by Bone et al (2017), showed that banks were twice as likely to offer white entrepreneurs help with their small business loan applications compared with Black entrepreneurs. This study also found that bankers were three times as likely to invite follow-up appointments with white borrowers than better-qualified Black borrowers.

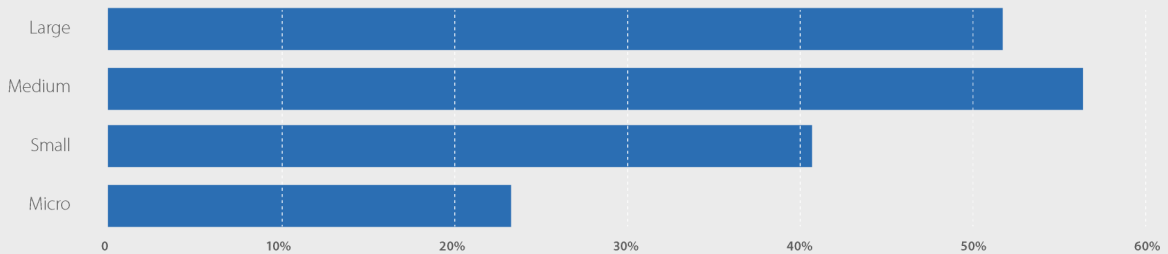
Why is this important? For one, Black Americans overall are experiencing a disproportionate share of the pandemic's disruption and have experienced greater levels of morbidity and mortality as well as unemployment and bankruptcy, making even more urgent the imperative to seek societal solutions to alleviate their plight. Black-owned businesses were hit especially hard – closing by 41 percent -more than double the 17 percent of white-owned businesses that closed. The number of Latinx business owners fell by 32 percent and Asian/Pacific Islander business owners by 26 percent. Women-owned businesses were also disproportionately hit, closing by 25 percent during this period, 5 percentage points more than male-owned businesses (Fairlie, May 2020).

Advancing racial equity is not just a moral imperative. The economic return on racial equity is also significant. According to a May 2020 McKinsey study (Dua et al), for example, minority-owned businesses are more likely than the average business to support their community and employees. A 2014 paper by the USC Program for Environmental and Regional Equity (PERE) estimates that US 2014 GDP would have been 14 percent higher — a \$2.1 trillion increase — with racial equity. This is an awfully large amount of GDP to leave on the table — especially during a crisis. A concerted approach to helping minority-owned small businesses now could pave the way to mitigating these inequities and to enhancing opportunities for these businesses going forward. This could bring economic benefits to individuals, communities and the country as a whole.

# Digitization expands small business market reach internationally

Small businesses that export their products and services grow faster, add jobs faster, and pay higher wages (USTR, 2021). In fact, small businesses account for 98 percent of all identified US exporters, supporting nearly four million jobs in communities across the United States through both direct and indirect exports. Top export destinations for US small business are Canada, Mexico, China, Japan, and the United Kingdom. In 2018, the most recent year for which data has been made public, small businesses (defined by the US Department of Commerce as having fewer than 100 employees) and medium businesses (those having 100 to 499 employees) made up more than 97 percent of exporters in the United States (SBA 2020b).

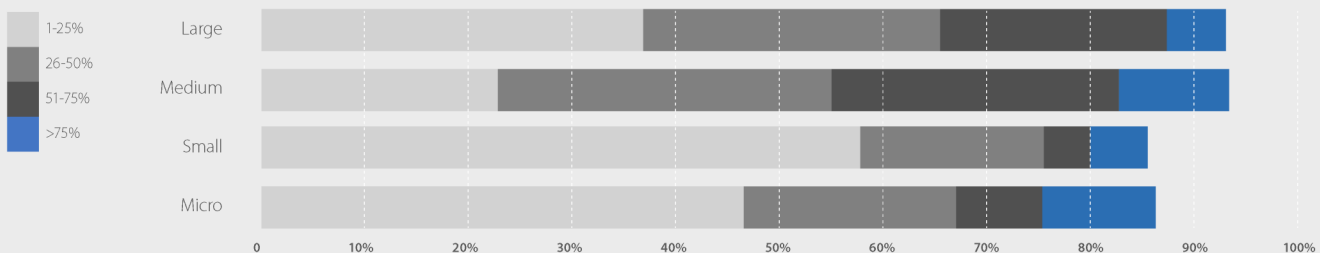
**Figure 12. Firms that export by size category**



Source: VEEI US small business survey

On average, just over 40 percent of firms in our survey export. As seen in Figure 12, medium-sized firms (with between 51 and 250 employees) are the most likely to export, followed by large firms (over 251 employees) and small firms (between 11 and 50 employees). Micro firms (those with fewer than 11 employees) are the least likely to export; just shy of a quarter of the micro firms in our sample export.

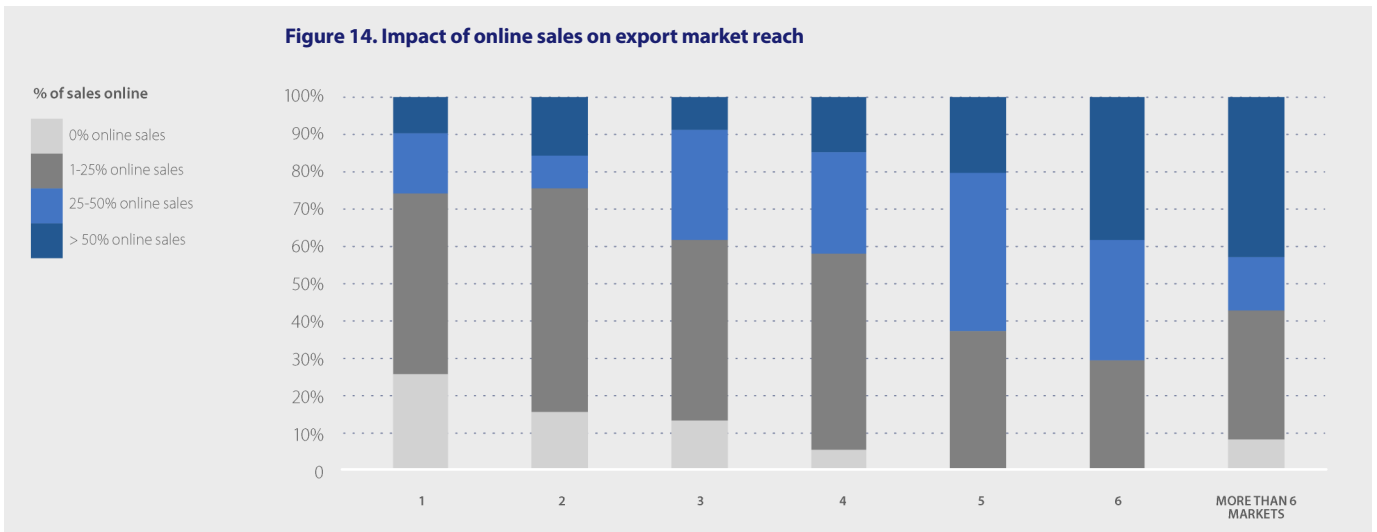
**Figure 13. Exports that come from online sales by size category**



Source: VEEI US small business survey

Of the firms that do export, however, most use online marketplaces. Figure 13 illustrates the importance of online sales in helping firms leapfrog to international markets. Although micro firms are less likely than others to export, digitization and use of online sales helps those that do want to export: in our sample, 90 percent of micro exporters use online sales to export and among all the micro firms, more than 10 percent report that 75 percent of their exports come from online sales. This truly demonstrates that in a digital economy, a network that can connect buyers and sellers in many different markets can significantly amplify an individual firm's potential.

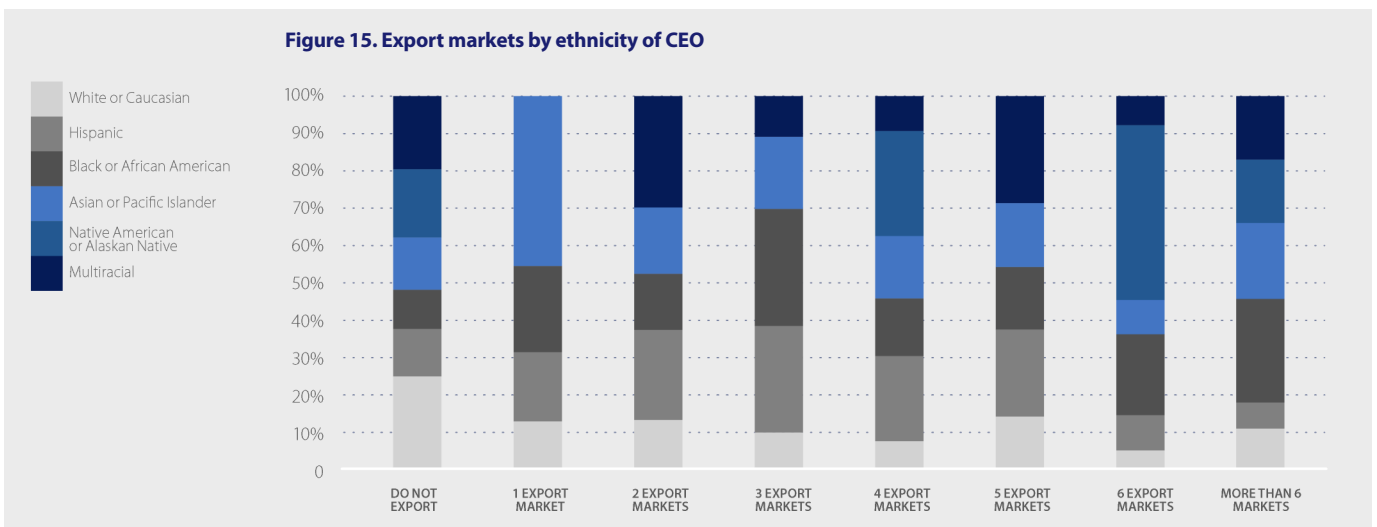
**Figure 14. Impact of online sales on export market reach**



Source: VEEI US small business survey

Our survey also shows that firms that increase their online sales also increase their export market reach. As seen in Figure 14, firms with sales that are more than 50 percent online are also selling to additional markets. Firms with limited online sales tend to sell to four or fewer markets. Firms with no online sales are much less likely to sell to other markets. Online exports go largely to traditional US trading partners, with Canada and Mexico ranking as the top markets across size categories, followed by the United Kingdom, Germany, and France.

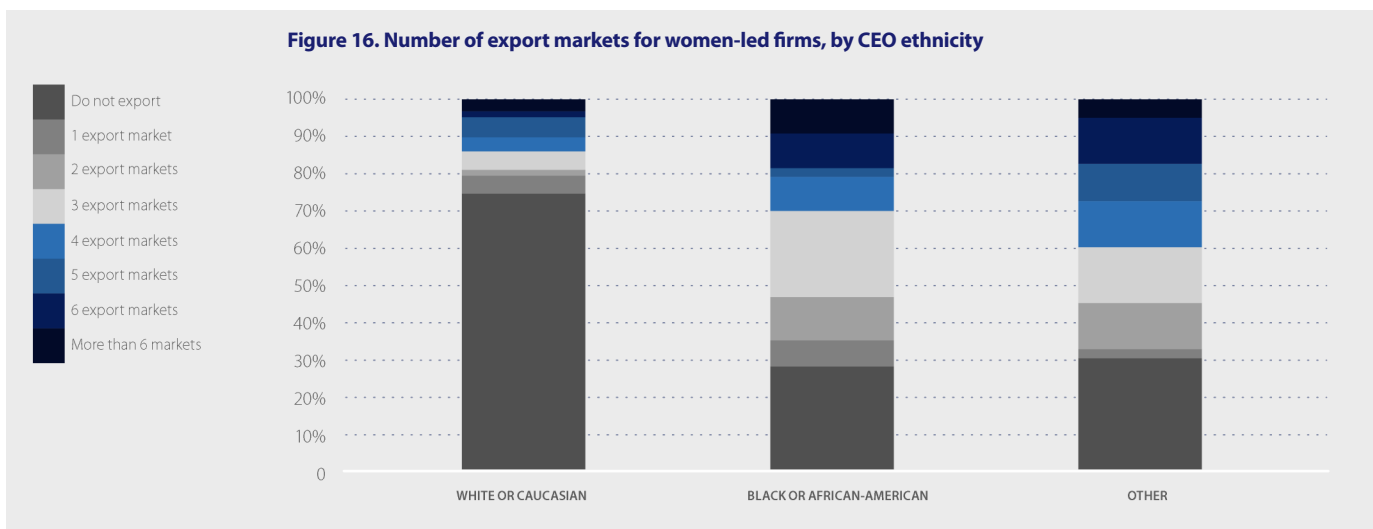
**Figure 15. Export markets by ethnicity of CEO**



Source: VEEI US small business survey

Disaggregating our results to see how minority-owned firms fare yields some interesting results (Figure 15). White-led firms are the most likely to report that they do not export, perhaps reflecting a particular industry concentration or establishment in the domestic market. Firms led by Asian /Pacific Islanders tend to trade and to concentrate on a single principal export market. Black- and Hispanic/Latinx-owned businesses are more robustly represented in the categories of firms that trade with three or more countries.

Multiple firm-level surveys, including ones conducted by the eTrade Alliance, suggest that women-led firms are just as likely as comparable male-led firms to use e-commerce and digital technologies. Women-led firms are also just as likely to benefit from digital technology in terms of new customers, increased revenues, higher margins, and—particularly in the case of larger firms—export opportunities. Women-led firms that sell online are more likely to export than women-owned firms that do not sell online.



Source: VEEI US small business survey

Figure 16 disaggregates this a bit, revealing that trade intensity becomes even more concentrated among Black-owned firms when we look at women-led firms. Minority women-owned firms in our sample are much more intense exporters than others, exporting more and to more markets. In fact, while all firms exported about a third of their products to North America (Canada and Mexico), Black women-led firms were more likely to export to Africa than any other firms (15 percent of their exports). Those in the Other category were also more likely to export to Latin American or Asian countries. This implies a strong role for digital trade policy in empowering Black women-owned businesses and other minority women-owned businesses.

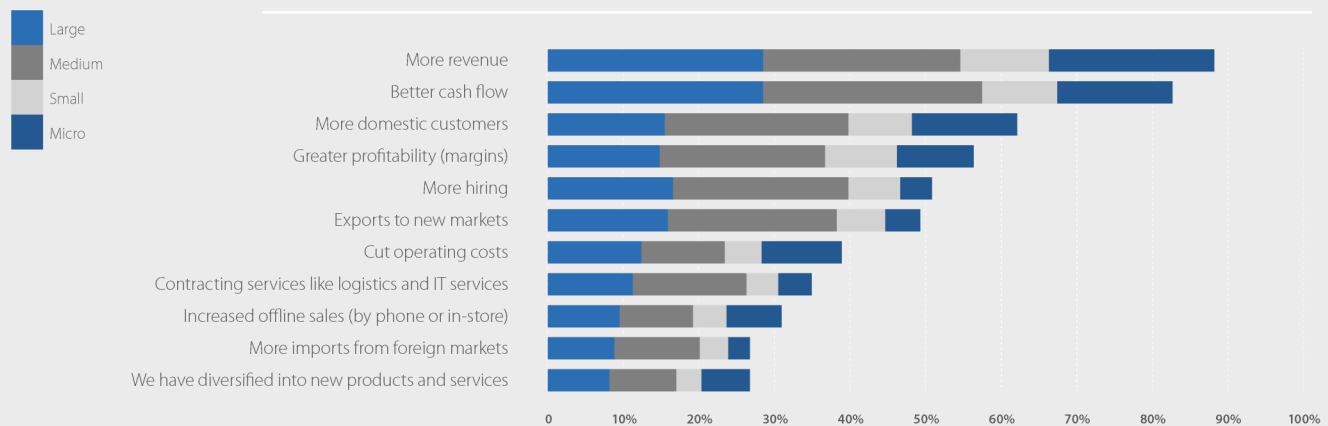


# Digitization can help empower small businesses

Greater understanding of the nature of the new businesses founded during the pandemic and the challenges they face in terms of growth is vital for policymakers seeking to leverage entrepreneurship as a pathway for economic recovery. Supporting this recovery will require ensuring that very small but dynamic businesses have the means necessary to survive.

Small businesses across the United States have faced a variety of challenges, but there are many reasons to be heartened. As Collins and Tirana (2021) point out, COVID-19 has shown that digitized businesses indeed exhibit greater resilience by being able to diversify sales and revenues, decrease costs, get a better handle on the day-to-day performance of their business, and show an ability to pivot. We asked the companies in our survey the main benefits they gained after they began to sell and buy online. Figure 17 summarizes the ways in which being part of a digital network helps empower micro and small businesses. Whether in terms of increasing revenue, improving cash flow, increasing customers and profits, or gaining even more customers by exporting, being able to seamlessly and securely sell online has been a key factor in these businesses' success.

**Figure 17. What companies gained by selling online**



Source: VEEI US small business survey

Respondents to our survey verify these findings. Across size categories, firms saw greater revenue, better cash flow, more customers and more employees as well as an expansion in reach to new, foreign markets as a result of online sales. Digitization has helped companies not only survive the pandemic but expand their reach.

As policymakers look for ways to help maintain the innovation role small businesses have typically played, they should keep this in mind. Policies and programs designed to help small businesses should provide an enabling ecosystem for digital commerce and help businesses, digitize in ways that fit their needs, particularly those of minority and women-owned businesses.

This includes undertaking a holistic approach to digitization, as called for in Collins and Tirana (2021). The process of digitization should be seen as a journey. Small businesses often face the challenge of “incomplete” digitization. However, digitization is most impactful when there is integration among all aspects, rather than undertaken ad hoc, digital product by product, along specific business needs.

It also includes addressing barriers to equal digital access. Although women-led firms gain the same benefits from digitization as others (see Suominen, 2021), and minority-led firms gain the same benefits as white-owned firms, considerable gaps persist between groups in access to education, technology, credit, employment, and opportunities for starting a business. These gaps have widened during the COVID-19 pandemic. At the same time, the COVID-19 crisis has moved buyers around the world online, expanding the opportunities for small firms to reach new customers, markets, suppliers, and services. There is an urgent need for policymakers to eliminate these barriers and to offer opportunities to all small firms to not only recover from the crisis, but grow through e-commerce.

## Conclusion: Three ways policymakers can empower small businesses

Already, we've seen the power, resilience, innovation, and persistence of small business owners. Now, let's enable them to do even more in the coming years by putting the right policies in place. Using the results of our survey, these are the three key recommendations for empowering US small businesses.

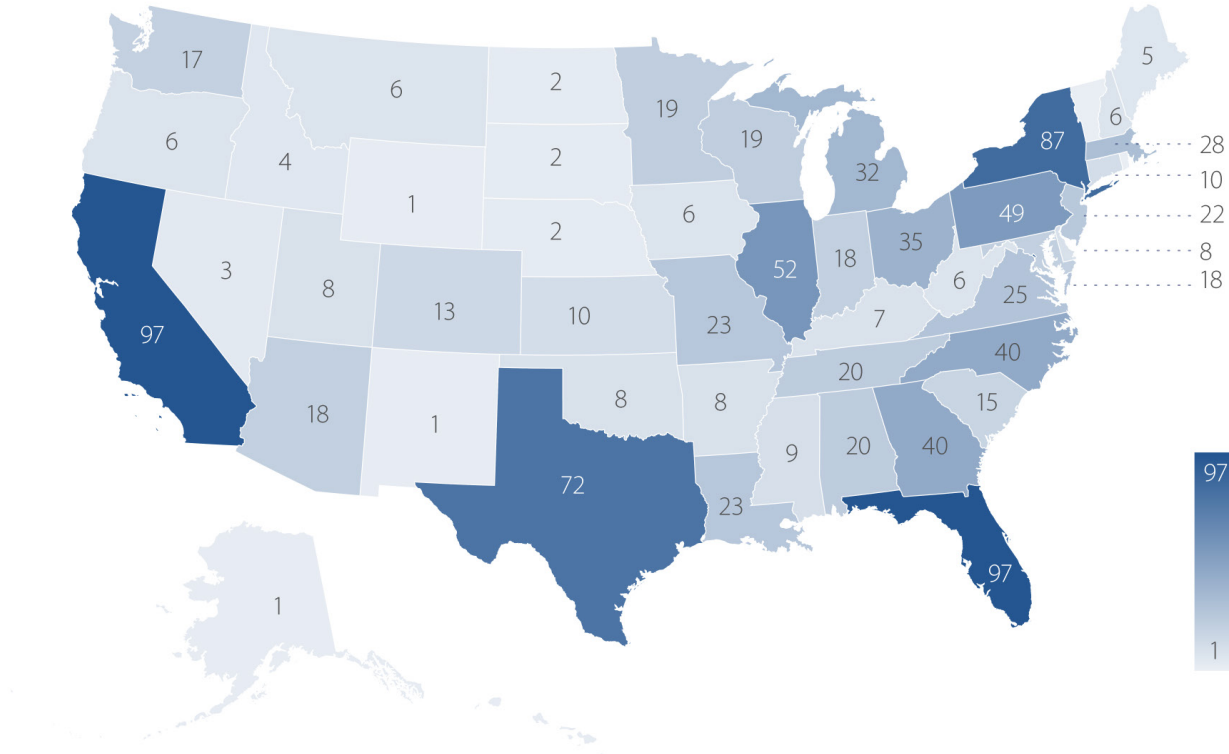
- **Increase and enhance digital enablement assistance.** When asked what they most needed to pull through the next 3 to 6 months, the majority of small businesses identified digital enablement measures, even above access to loans or grants. This points to the importance of digital technologies, whether they take the form of better internet access, digitized sales and workflow processes, or more efficient digital payment capabilities.
- **Provide more equitable access to capital.** Small firms that were born in the pandemic may have been nourished by stimulus funds and other types of government assistance. As these assistance funds begin to taper off, some firms, particularly small and minority-owned firms, may find themselves facing an unequal and challenging capital access landscape. Enabling access to capital that will allow these pandemic survivors, as well as those firms that come after them, to thrive will benefit not only these firms, but also their communities and society as a whole.
- **Promote a good digital trade policy as a pro-small business policy.** Results indicate that micro and small firms and particularly micro and small minority-owned firms are taking advantage of the multiplier-market effects of digital trade. Keeping markets open to enable the goods, services, and data that is necessary to their success is an essential part of a pro-small business economic policy.



# Annex 1: Description of the methodology and composition of the survey sample

By surveying more than 1,000 leaders of small businesses representing each of the 50 states and the District of Columbia in May 2021, we aimed to identify what small businesses most need. Figure 1 illustrates the geographic distribution of our respondents.

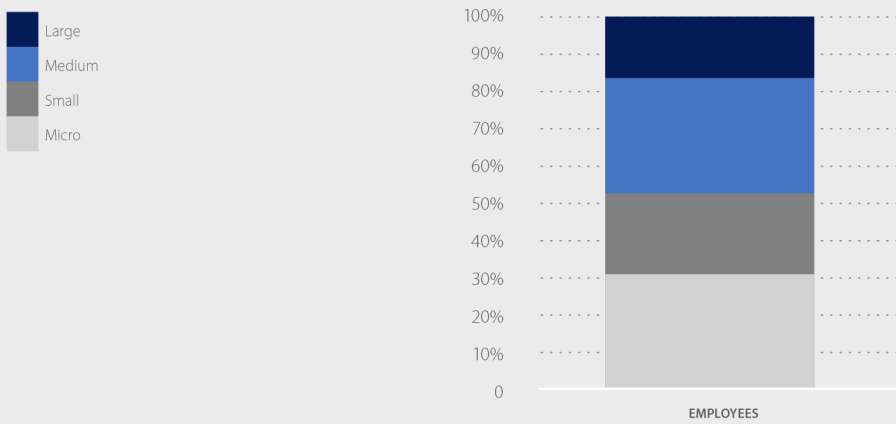
**Figure A1. Geographic location of responding firms (# of firms)**



Source: VEEI US small business survey

The firms in our sample are predominantly on the small side, though we did not limit the survey to a particular size category. The US SBA defines a small business as “a privately owned corporation, partnership, or sole proprietorship that has fewer employees and less annual revenue than a corporation or regular-sized business.” This criterion varies across industries.

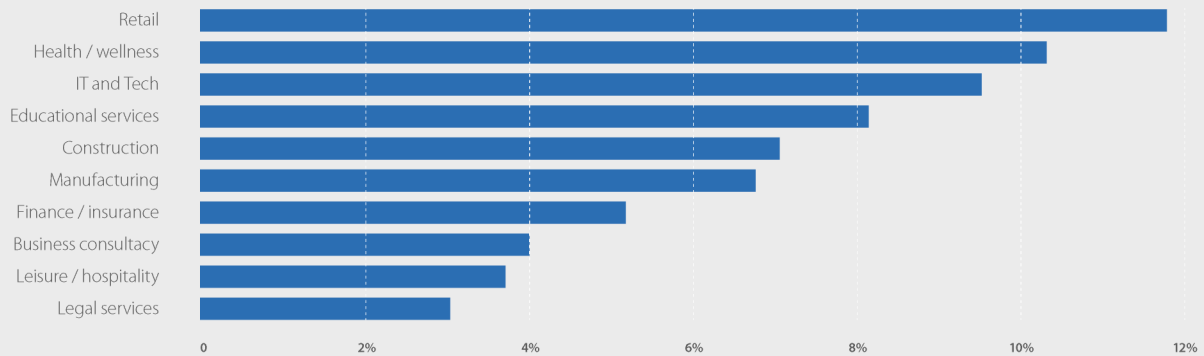
**Figure A2. Distribution by firm size**



Source: VEEI US small business survey

There are many different criteria for what constitutes a small business. For simplicity, in this analysis, we roughly follow the categories set out in VEEI’s international business survey (Harper, 2021) as set out in Figure 2. Micro firms have one to ten employees, small firms have 11 to 50 employees, medium firms have 51 to 250, and large firms have more than 250 employees. Most firms in our sample (73 percent) are small or micro, with the micro category making up 31 percent of the respondents.

**Figure A3. Industry distribution of firms**

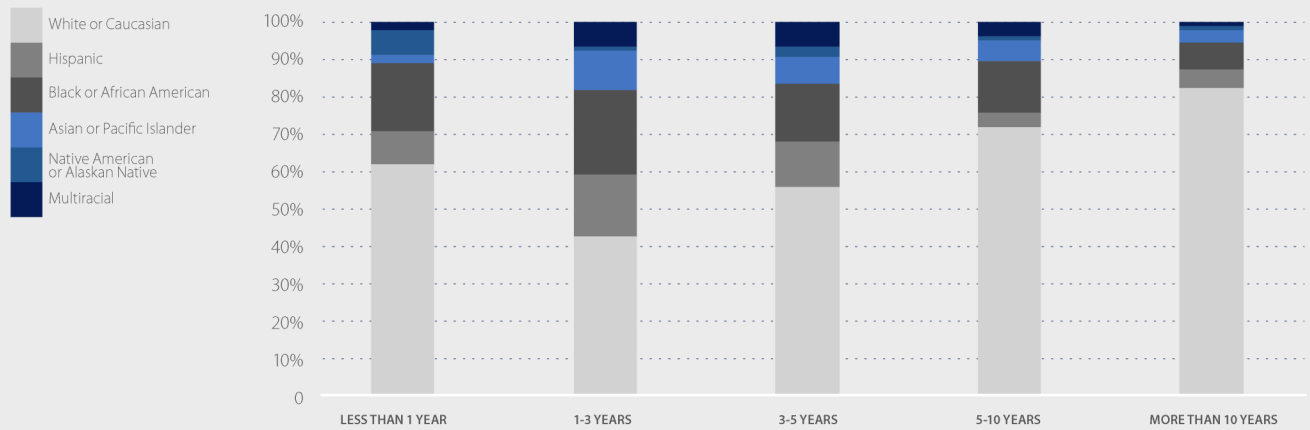


Source: VEEI US small business survey.

**Note:** the figure depicts only firms for which a sector was specified. Nearly 23 percent of firms specified “other” and are not depicted in this figure for the sake of illustrative clarity.

We surveyed firms from a variety of industries. As illustrated in Figure A3, most of the businesses we surveyed operate in the services sectors; 7 percent of the firms responding to the survey are in manufacturing. The largest services category represented is retail (12 percent), followed by health and wellness services (11 percent), IT and tech services (10 percent), and educational services (8 percent).

**Figure A4. Age of firms in the survey by ethnicity of CEO**



Source: VEEI US small business survey.

In the survey we also looked at the age of the firms and the ethnicity of the CEO or leader of the firm (Figure A4). Older firms, those that had been in existence for more than ten years, were predominantly headed by white CEOs, whereas CEOs of younger firms, those that were started up within the last three years, were as likely to be from another racial or ethnic group.

While the survey results highlight several challenges faced by MSMEs, the online nature of the survey means that respondents already have access to electronic means of communication and are more likely to have access to the technologies necessary for digitization. Thus, the issues highlighted in the results could be more pronounced in the general business population.

## Annex 2: Text descriptions of figures and tables

### Figure 1. Surveyed firms' revenue growth, 2020 vs 2019

Figure 1, entitled "Surveyed firms' revenue growth, 2020 vs 2019" shows a pie chart with 19 percent of firms experiencing zero growth; 40 percent with positive growth and 41 percent with negative growth from 2019 to 2020.

### Figure 2. Surveyed firms' damage assessment for COVID-19 on key performance indicators

Figure 2, entitled Surveyed firms' damage assessment for COVID-19 on key performance indicators, is a 100 percent stacked bar graph showing across a range of key performance indicators whether these have decreased or increased. The indicators include: domestic sales, international sales, domestic purchases, international purchases, amount of products or services produced, number of employees, firing employees, salaries, total hours worked, level of indebtedness, business loans applied for, investors' interest in our company and credit available to us. Interesting observations include: domestic sales were more net negative than international sales; both domestic and international purchases decreased for about half the sample and increased for about half; business loans and available credit grew for about 62 percent of the sample, as did investor interest in the company.

### Figure 3. Surveyed firms' prospects

Figure 3 depicts how firms feel about their prospects in the next year. This is a regular bar graph that shows the percent of firms that felt extremely positive, positive, neutral, negative or extremely negative about their revenue prospects and their potential to create new jobs. Most firms fell into the neutral category, about 40 percent for both revenue and job creation prospects. The second highest category is positive, with about a third of firms feeling positive about revenue and job creation prospects. About 10 percent are extremely positive. Only about 5 percent identify as negative, and about 2 to 3 percent as extremely negative.

### Figure 4. Micro businesses (10 or fewer employees): top needs

Figure 4 shows what micro businesses identified as top needs (these are divided into "top-3 need, great need and need). These are, in order (according to the sum of all three needs): attract new clients and clients to come back, both with around 70 percent; diversify product and better internet connections (about 40 percent); digitize sales and marketing and better digital payments, cybersecurity and digitize workflows, all around 35 percent; grants, bank accounts and new loans, around 30 percent export to new markets, new insurance products received just under 30 percent, pay back our loans at about 25 percent and loan extension at around 20 percent.



### **Figure 5. Small businesses (11-50 employees): top needs**

Figure 5 shows what small businesses identified as top needs (these are divided into “top-3 need, great need and need). These are, in order (according to the sum of all three needs): attract new clients(80 percent) and clients to come back, 75 percent; better internet connections and diversify product (about 60 percent); cybersecurity and better digital payments, close to 60 percent; grants, export to new markets, digitize workflows and digitize sales and marketing, and all at just over 60 percent; grants, pay back our loans and new loans, around 50 percent, new insurance products, bank accounts and loan extension at just under 50 percent.

### **Figure 6. Initiation of mode of payments acceptance**

Figure 6 ranks the payments methods firms used for domestic payments in 2019 and international payments in 2019 and 2020. The main payments acceptance mechanisms in 2020 are contactless payments, cryptocurrency, money transfer company and mobile payments.

### **Figure 7: New startups per month Jul 2018 to Apr 2021**

Figure 7 plots new US startups per month from January 2019 to April 2021. The graph shows that the number of businesses started each month dipped in April 2020 and spiked thereafter, particularly in periods right after stimulus funds were disbursed. The source of this data is the US Census Bureau’s business formation statistics.

### **Figure 8. Startups during the pandemic: main motivation**

Figure 8 is a pie graph showing the stated motivations of firms in our sample that were started during the pandemic. Fifty eight percent indicated that they started as a result of a lack of other options; 42 percent were formed to take advantage of a business opportunity.

### **Figure 9. Pandemic impact on loans and credit**

Figure 9 shows the pandemic’s impact on loans and credit. The effect on both loans and credit was seen as net positive for medium and small firms for both loans and credit; no net effect for micro firms and a somewhat negative effect for large firms.

### **Figure 10. Ethnicity of CEO**

Figure 10 is a pie graph that plots the ethnicity of the CEOs of the firms in the sample. These are White (72 percent); Black (12 percent); Hispanic (7 percent); (Asian/Pacific Islander 5 percent); Native American/Alaskan (3 percent) and multiracial (1 percent).

### **Figure 11. Gender distribution of CEO: pre-existing firms vs COVID startups**

Figure 11 is a bar graph showing the gender of the CEO of firms that were formed during the pandemic versus preexisting firms. For preexisting firms, males made up nearly 60 percent of CEOs and nearly 30 percent were females. For COVID startups, there 42 percent were led by female CEOs versus about 38 percent men. Some firms were led by mixed teams or did not respond so the figures do not total 100.

### **Figure 12. Percent of firms that export by size category**

Figure 12 is a bar graph showing the percent of firms in each size category that export. Medium firms tend to export more: nearly 60 percent of the medium firms in our sample are exporters. Next are large firms with about 50 percent. About 40 percent of small firms export, and just over 20 percent of micro firms are exporters.

### **Figure 13. Percent of exports that come from online sales, by size category**

Figure 13 is a stacked line graph that shows the percent of exports derived from online sales, by size of company. Firms that do export use online sales for at least part of their sales. Large and medium firms tend to make more use of online sales, while the largest percentage of small and micro firms export up to a quarter of their sales through online means.

### **Figure 14. More online sales lead to more export markets**

Figure 14 is a 100 percent stacked bar graph which shows the percent of online sales on the vertical axis and the number of export markets on the horizontal axis. Companies that have a larger percentage of online sales tend to export to more markets. For example, the first bar, showing one export market, is about 75 percent populated by firms that have zero or 1 to 25 percent online sales. The bar for more than six export markets has about 45 percent firms that sell more than 50 percent online.

### **Figure 15. Export markets by ethnicity of CEO**

Figure 15 is a 100 percent stacked bar graph showing the propensity to export by ethnicity of the CEO. White-led are the largest portion of the firms that do not export; Hispanic-led and Black-led firms are clustered in 3, 4 or more than 6 export markets. Asian and Pacific Islander led firms predominate in the category of 1 export market.

### **Figure 16. Number of export markets for women-led firms, by CEO ethnicity**

Figure 16 is a 100 percent stacked bar graph that disaggregates the data in Figure 15 and focuses only on women-led firms. About 75 percent of white women-led firms do not export. Eighty percent of Black women-led firms export, and more than half export to 3 markets or more. For all other firms, which includes Hispanic, Asian and Pacific Islander and Native American and Alaskan, about 25 do not export and about half export to 3 markets or more.

### **Figure 17. What companies gained by selling online**

Figure 17 shows what small and micro firms consider their top gains in a 100 percent stacked line graphs. These include more revenue, better cash flow, more domestic customers, greater profitability, cutting operating costs, increased offline sales, exports to new markets, more hiring, greater product diversification, more contracting services and more foreign imports.



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## About Visa Inc.

Visa Inc. (NYSE:V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable and secure payment network – enabling individuals, businesses and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network and scale to reshape the future of commerce.

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