

Transcript
FedTalk: Small Businesses as Economic Drivers
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Presentation

Speakers:

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- Maggie Horne, Director, Small Business Development Center at Gannon University
- Alfonso Cornejo, President, Hispanic Chamber of Cincinnati USA
- Russell Mills, Senior Regional Officer, Federal Reserve Bank of Cleveland

Russell Mills:

Good afternoon. Thank you for joining us and welcome to today's *FedTalk*. I'm Russell Mills, a senior regional officer at the Pittsburgh branch of the Federal Reserve Bank of Cleveland. It is my pleasure to kick off today's *FedTalk* session titled Small Businesses as Economic Drivers.

FedTalk is the Cleveland Fed speaker series in which we share research that is relevant to our community. Past events have covered such subjects as the racial wealth gap, access to the labor market and financial literacy. All of our past events can be found on our website at clevelandfed.org.

A few housekeeping items before we begin. During this event, your microphone and camera will be disabled. If you have questions, please type and submit those to our panelists in your chat box. In case the Zoom meeting drops, please use the dial-in info provided in the invitation to join the call. And before I begin our program, those of you who've attended past Fed events know, I would like to state that the views we share today by myself and our panelists are our own and not necessarily those of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

So with that, I'd like to introduce our esteemed panel today. First, I'd like to welcome Alfonso Cornejo, who's president of the Hispanic Chamber of Cincinnati USA, Maggie Horne, director of the Small Business Development Center at Gannon University in Erie, Pennsylvania, and Merissa Piazza, who's the lead policy analyst in our Community Development Department here at the Federal Reserve Bank of Cleveland. Thank you all very much for joining us today to discuss this important topic.

So let's begin by looking at the current state of small businesses across the United States. So the August 2024 small business economics trends report of the National Federation of Independent Businesses or NFIB, found that a net negative 16% of all owners reported higher nominal sales in the past three months and that the net percent of owners experiencing high real sales volumes fell nine points to a net negative 18% in August. So can you talk a bit about your observations of the current state of small businesses? Are you seeing businesses growing? Are you seeing businesses struggling out there? And really are there any specific industries that you see growing more than others? So Alfonso, why don't we start with you?

Alfonso Cornejo:

Okay, thank you. Thank you. Let me just mention something that to me is very important. There's a huge difference between a small business... A small business, the definition of a small business up to 500 people. And those by definition are not small businesses. We don't have a lot of small businesses that are that big in Cincinnati. In other cities is the same thing.

So the way we describe what I'm going to say is the business that are growing and doing well are micro businesses, micro businesses, three, four, five employees and they are... For example, you mentioned what industries are they're doing very, very well, construction. Why construction? Because nobody wants to be doing construction works. Everybody wants to be in a computer putting data, doing Zoom meetings like this, doing other things versus putting walls in a building or something like that. So that's the issue is that we have some economies, some industries that are growing very, very much and industries that in my opinion in the near future are going to be struggling for higher wages.

For example, if you have a job that is three times a week and remote, you can be in any part of the world and you can do this thing that you think you can do. A lot of people think they can do those things. And what happened is that if a lot of people want to do those jobs, they're not going to be well paid because it's just too easy to get one of those jobs. On the other hand, if people in the construction business that can get any business they want, they are making very, very good money and that's just the way things are.

Russell Mills:

Yeah. Maggie, I was wondering if you could pick up on what Alfonso was talking about in some of the specific industries where you're seeing maybe growth or slowing in the regional economy, but also any other trends related to small businesses overall, sort of the state of small businesses that you'd like to share.

Maggie Horne:

Sure. I believe that manufacturing is definitely seeing some increase. I think that after some sluggish years, there definitely has been some increase and some stabilization in the smaller manufacturers. Supply and demand has gotten much better in those industries. Where we're in that industry, I agree with construction is definitely another area. Where we are seeing some flat or declining are in more of the private sector healthcare, various agencies that may be providing specific kind of healthcare services, but for profit. We're seeing a little bit of a struggle in that particular area.

And on the retail side, that continues. It's been on a downturn for a while, but the specialty shops and when they are able to adjust their hours, adjust the types of products that they are providing, they able to at least sustain.

So it's great to see the manufacturing coming back stronger and continuing. And I know we'll talk a little bit more about that with some of the other questions. So I'll hold with that.

Russell Mills:

Merissa, why don't we pivot and talk to you and see from a research perspective. Obviously you're working in a community development department here. From a research perspective, what are some of the trends that you're seeing as it relates to small business in the marketplace, both regionally and nationally? Merissa, I believe you're on-

Merissa Piazza:

Always one per [inaudible 00:06:34]. That's me. From the research side, we're seeing some interesting trends. Nationally, information from the small business credit survey shows us that during the pandemic, issues such as supply chain shortages are easing, firms are performing better, at least from the data last year that we see then during the pandemic, but there's still a lot of lag behind the pre-pandemic levels. Employers last year mostly anticipated increase in revenues. So we'll see what happens as we see new data come in, and had a positive outlook on employment. Many reported challenges, some of the same things that we hear, hiring and retaining staff, reaching customers and growing sales.

We've been hearing these challenges for a while. And to bring it closer to our district, we see Ohio is performing pretty closely to these national insights. Businesses of color report higher numbers of operating losses and are worse financial condition.

And one of the interesting things that small business credit survey team has researched is its relate to COVID economic industry disaster loans, so they're idle loans. And so they looked at how idle loans affect businesses in different ways.

So firms that took on this debt to stave off closure during the pandemic reported elevated amounts of outstanding debt and are in a more precarious financial condition than those without the loans. These firms are more likely to experience challenges making payments on their debt during the year leading up to the survey and were less likely to be profitable. So we're hearing some different things, some positive things and some negative things.

Russell Mills:

Great. And as everybody's probably noticed in the chat, we're putting links to the resources that some of the folks are mentioning it throughout their comments and so those will be available there for your reference.

Let's turn and talk a bit about the labor market, right? So Alfonso, Maggie and Merissa sort of commented a bit on demand in some industry's picking up for small businesses. But small businesses face a very fierce environment and competition, particularly from large employers who face... have economies of scale and can raise wages and benefit levels more rapidly to attract and retain workers. The same NFIB small business economic trend survey report that I mentioned earlier from August found that 40% of small business owners reported job openings that they still cannot fill. And that was particularly acute in some of the industries that Alfonso and Maggie mentioned that are growing, construction, manufacturing, but also transportation as well.

So the question I have for our panelists, and Maggie, we'll start with you in this particular question, is how do businesses compete in the labor market given some of these challenges or headwinds? And what are some examples of best practices or innovative approaches that you've seen from small businesses when they're competing for and retaining talent?

Maggie Horne:

Well, it's difficult in the manufacturing, construction to provide some of the benefits that are working well with smaller companies. Doing hybrid, allowing some hybrid work environment with working from home, that is definitely something that has been attractive to some employees and that helped to be able to fill some positions. Can't do that when you need to put the wall up,

right? That's not something that's going to work there, but it definitely can work in the service industry and other administrative jobs and positions.

So that has been something that has been better embraced by the smaller companies and they have been successful, at least at fulfilling some of the positions. But it's more than just money. There really are some benefits that employees are looking for that have been helpful in attracting. Better time off, better working environment, more of a teamwork environment. They love to hear about employee assistance programs, other types of incentives or ability to have benefits outside of just the pay.

They've also been able to be more lean and a lot of the small businesses are incorporating more technology, which has helped them to not have as much damage to their productivity without the human being there, without having people there. AI is being used quite a bit. We got to be careful how we use it, but it definitely has been beneficial. So I feel like they can compete with the larger companies because they can have unique benefits other than just the pay.

Russell Mills:

Yeah, I think that's an excellent point about the ability to be nimble and really tailor benefits to the employee, whereas in a larger company, that may not be the case. Merissa, before I turn to you to get your thoughts on that question, I want to remind folks that they can put their questions in the chat they may have for any of our panelists as we go on. So Merissa, from the research and global perspective, what are you seeing in terms of trends in the small business labor market?

Merissa Piazza:

Exactly what Maggie says, right? So there is a perception that small businesses can't compete for attracting and retaining workers, but there's a lot of flexibility that they have in their business and their business model that larger firms may not have.

So a lot of my research is actually in workforce development and I engage with workforce development providers across our district, and many report really great solutions that small businesses are creating, especially for individuals with barriers, so people who need flexible schedules. There's instances of small businesses accommodating mothers by shortening shifts. There was one instance I heard where an employer was across the street from a school and he would see all these parents drop their kids off and then he put up a flyer, "Come work while your kid's in school." And he had a lot of success with that.

So there's also flexibility as it relates to people who are justice involved and individuals who may or may not have transportation to work. So adjusting schedules to fit the bus or working with local transportation entities to create bus routes or ways to get to work.

Maggie mentioned on what employees want and so we've conducted some focus groups with workers and many discussed barriers to entry and that they're looking for a quality job, so one that has flexibility, one that has treatment, job security and engagement. And so it's important to employers balance what employees want as well as what they need from their employees. And small businesses can work with a variety of things to potentially solve these issues.

One highlight was the Federal Reserve hosts every other year a policy summit and one manufacturer spoke and discussed how he works with individuals who are justice impacted. He provides legal and housing and transportation support and he spoke about how little attrition he has. So the amount of money he's allocating to support services or helping individuals, he's not

spending on onboarding only for them to leave. And he advocates these policies because it's good for his bottom line.

That being said, workforce issues may be overwhelming to small businesses, especially if the owner is doing everything, if they're the HR director, if they're the sales manager and everything else. But small businesses can reach out to wonderful partners like Maggie, running SBDCs to create their networks' chambers and service providers' chambers like Alfonso to find how some of the innovative practices that they know about can help the individual business.

Russell Mills:

Alfonso?

Alfonso Cornejo:

I'm okay, right? Yeah. Let me just say one thing. The way that I will describe it, how small companies can compete, the only way that small companies can compete with macro companies so your larger corporation is work and life balance. Everybody wants work and life balance. Everybody. If you are old, if you are young, if you are far away, everybody want... And I don't blame it. That is a competitive advantage that small companies can do because like everybody has said before, Melissa and Maggie, large companies cannot be that flexible and small companies can do, actually can write almost one policy for each employee, almost. I'm exaggerating, but I think work and life balance is the key. And now on top of that you put internet. If you don't have internet, you cannot do many things. So you have broadband technology and Zoom meetings like this one and it's a different world.

Russell Mills:

Yeah. We received one question from the chat on specific benefits and I think this is one challenge that a lot of small businesses face, is about planning for the future and retirement. And have you seen any... The question specifically was does the state, and I'm assuming this is Ohio, but it could be Pennsylvania and Maggie in your case, have facilitated retirement programs like they person put they have in Maryland, right? Do you know if there are any such programs that exist for small businesses out there, or heard of any resources like that to help with retirement benefits?

Maggie Horne:

I'm in Pennsylvania. I'm not aware of any government-led, but I will say that we have a couple of financial service providers that work with us or clients of ours or partners of ours, and they have been able to develop a level of retirement benefits that are very much tailored to the small business, even those businesses with less than five employees.

So I feel like some of the more innovative service providers like these particular financial service providers, they're their own small business. They know the importance of having benefits like the retirement benefits and other long-term benefits that the larger companies have.

And I think if you look or if you'd like more info on who does it, we're here to provide some information to you. At least in Pennsylvania, I am aware of several that have tailored programs specifically for the small firms, smaller companies, 10 and below and larger, but in particular, that's where I feel the need is. And that can be very beneficial for attraction and retention, when

you can provide something like that. And this financial service agency has created it and I hope that the government can be looking at something like that, but I'm just not aware at this point if there is.

Russell Mills:

Let's pivot and talk about access to credit for small businesses. So as many of you know, the financial crisis of 2008 as well as the COVID-19 pandemic brought about a significant reduction in credit availability for small business borrowers.

Bank lending to small firms dropped significantly and has been slow to recover, although non-bank lenders have entered the market in recent years to address that gap. So curious what you're hearing in the field from small businesses regarding access to capital who are trying to expand their businesses, and what are some of the emerging trends you're seeing relative to small business lending? Merissa, why don't we start with you this time?

Merissa Piazza:

Thanks. I'm going to talk a lot about the small business credit survey right now. I will tell you and everybody who is either touches small businesses, the small business credit survey surveys businesses with less than 500 employees. And it is the survey's currently in the field right now and so they're collecting information from businesses. This data is incredibly important for a variety of stakeholders, including the Federal Reserve to learn about small businesses and issues and access to credit. So please pass along if you found any of the reports that are dropped on the chat useful, please encourage businesses to take the survey.

But to the question, my pitch is over. About the access to capital. So the small business credit survey, we see that most common responses of businesses sought credit to expand and meet operating expenses while the second most common was they were looking to expand. So one was meeting expenses.

So there may be mixed messages. So some are kind of in survival mode and others are looking to expand. The survival aspect is in line with some research I've previously done a few years ago. So a majority of firms that were classified as high growth were really just firms that are hanging on from and surviving a one-time growth. And I think Alonso mentioned that earlier in the webinar. But it's also good to see that businesses are seeking credit to expand.

It's important to mention that Black firms and particularly noted credit availability was an issue more so than any other race and ethnicity. Moreover, the top reason Black borrowers didn't apply for credit, because they felt discouraged from applying for credit.

One trend also that's worth mentioning is the relationship between bank branches closings and small business growth. So commercial bank branches have been on the climb for the last 10 years and research from the Federal Reserve Board of Governors shows that closures of nearby bank branches decrease small business employment growth and starts. If you're interested in this topic, there's a new tool the Federal Reserve has on examining bank branch deserts. And so it's a tool, it's a clickable map and you can see the different areas. And this can be a tool to examine where you are and what type of, if you're in a banking desert, if you will.

Russell Mills:

Why don't we go to Alfonso next? What are you seeing and hearing from small businesses in your area regarding access to capital and sort of emerging trends?

Alfonso Cornejo:

Yes. I think we have seen a clear difference between the people who do work with their hands and working in the field and versus people who are working at home. And the difference is that, let me give you an example. For example, the construction companies in our area have adopted mini macro enterprises and they don't let them go to another building. Once they fill in one floor, they go to another floor. Once they fill another floor, they go to another floor. And once they finish the three floor, they move it to another building. Why? Because it's very difficult to have a schedule and a well-built building without people with that experience to do it.

So that's what we're doing, what we have seen in the people who do physical work. And in the other hand, I mean it's very difficult to get loans when you are competing with 10,000 other companies who have three people and they are all putting that in internet. It's just two different things.

Russell Mills:

Two different scales there. Maggie, I'm wondering what you're seeing in Erie and sort of in Northwest Pennsylvania with regard to access to capital. And really, have things recovered any faster in that part of the district?

Maggie Horne:

I definitely saw it. Last week, we had one of our events called the Meet the Lenders, and that's when we bring a variety of lending partners, banks, traditional banks as well as non-traditional and some local lending organizations. And we had the most people attend that from the community than we've had in the last two. So what I feel is that people are much more comfortable on where the banking... where the position is to be able to obtain some funding and seeking out.

But why I think, and I feel like maybe I'm wrong but I don't think I am is there's competition now with the banks. Because there are less people looking for funding, there are more opportunities for the banks to be competitive, which is good for the companies. They're going to get better interest rates, they're going to get better terms and it causes that competition we all love.

Competition is good. When there's competition in the banking, they're able to get the best loan for their needs. And so I've seen, we have seen, the SPDC with our clients and the general community who can come to those events, definitely an increase in interest in getting some type of funding. It was a specific example, we have a manufacturer we work with and they shopped for the first time in years to do different banks to find the best terms for them as they spent it was like \$1.2 million in some new equipment and they were able to get a better term and that is something that they never even thought to do, but because they felt more comfortable in the environment that was becoming competitive, people are wanting to support the small business community. It's a good thing, in my opinion. Competition is always good. So when you have more people looking for loans now, the banks are definitely providing the best terms that they have. Not that everybody's getting it, but they are providing a better opportunity for companies to feel more comfortable taking on that debt.

Russell Mills:

Yeah, I want to explore that topic in a bit more detail here in a second, but Merissa sort of touched on this already, but I would not be a good employee of the research department. Also, I'd be remiss if I didn't mention that our 2024 small business credit survey is now open. I'd encourage any small business owners who may be joining us today to provide your feedback. There's a QR code there on the slide that Christian just put up.

Your anonymous survey response will help the Federal Reserve System share vital information on the current small business climate. The survey takes about 10 to 12 minutes to complete and is open for all for-profit small businesses with fewer than 500 employees. And so you have the QR code there and I believe that we also had put a link to the survey in the chat.

So pivoting, staying on this subject of credit and lending for small businesses. The small business credit survey 2024 firms and focus found that 56% of African American-owned firms, 43% of Hispanic-owned firms, and then 31% of women-owned firms respectively reported credit availability as being a financial challenge. Maggie, you mentioned there's more people than ever, you're noticing an uptick in people looking for this and looking for access to credit. How do we ensure... What are you seeing in terms of programs and organizations that exist to help minority and women-owned small businesses with their credit needs, particularly if there are more people than ever applying for small business credit?

Maggie Horne:

Yeah. I do believe that the SBA has done a good job in providing different programs specifically for women, minorities and vets. They have specific lending programs for those different demographics and more of the lenders are willing to offer those. And I think you'll have, but there are still some that are not as aggressive with that. But I do believe that there are programs you need to shop, they need to shop around. I do believe that there are programs available. Not everybody's doing it, but the SBA definitely any SBA-preferred lender, and you can find out what those lenders are through the Lenders Match at the SBA.gov website and you'll be able to be matched to a lender that will be open to and have the types of products that you may need if you're in a demographic such as the women, minority or veteran because they have those specific programs knowing the challenge in the banking environment for those particular demographics.

So they are there. Also, look in your local community, look at where you are because often the municipalities will have some lending programs that are specifically for a particular demographic. And in Erie, Bridgeway Capital and the City of Erie, they have specific programs for minorities that don't have as many barriers as they may experience in the traditional banking area.

Russell Mills:

Great. Alfonso, any similar programs that you have in the Cincinnati region?

Alfonso Cornejo:

Yes, we do have them. And I just going to make a comment. I think when you are in a community that is a relationship-based community and for example the veterans, they are very, very united. One person tell the other one, the other one tell the other one, the other tells the

other one, and then you have a good product. And the service organizations that are providing that service are going to get more client because, one, we pass the voice to one to one to one.

The same thing happened with the African American group. The same thing happened with the Hispanic group and we do an occasions networking meetings where the whole subject is who do you know that can do this for me? People stand in front of the audience and, "I'm trying to do this, this, this and nobody can help me." And then people raise their hand, "No, no, do this or do that." And I think that's part of the solution, I mean try to learn from each other.

Russell Mills:

Yeah, that's a really good point, the impact of social capital and networks and particularly in minority communities and how that affects recommendations for particular resources. Merissa, we'll sort of pivot back to you on this. What kind of programs have you seen either in our district but also maybe from a national perspective that have really provided credit for women-owned or minority-owned firms?

Merissa Piazza:

Yeah, so as mentioned earlier, the SBA and SBDCs do some really great work in this space. I think one thing that wasn't mentioned is that SBDCs and Chambers know who they serve and look like the individuals they serve, and that can be really important either through language barriers or a variety of stigmas associated with access to credit. So having people on the ground doing that I think is important.

One thing that wasn't mentioned by my panelists is the role of community development finance institutions. I don't think a lot of people outside of the banking sphere know about them. So CDFIs are mission-driven lenders. There's about 1,500 CDFIs across the country and they work in areas and communities of color and low to moderate income communities. And so they're kind of known as patient capital, so they can be a little more flexible or understanding. They also provide technical assistance.

So Alfonso talked about the importance of networks. There's also organizations that don't... well, they can provide capital, but technical assistance and networking providers through especially the startup phase. So networking can be sometimes just as important as capital if you're getting the business off the ground, because you might think, "Oh, I need a loan right now." And then you get a really great mentor and the mentor's like, "Maybe you need a business plan and you need some other holistic thinking around the business before, because you might get denied." And then that kind of creates a competence problem.

So nonprofits like SCORE, Urban League, Chambers, there's a variety in the high-tech space, I know at least in the state of Ohio like JumpStarts and Z-Tech, Rev1 Ventures, they help businesses grow but in a holistic sense. So they help you with the idea, they help you with the business plan, and then from there they kind of cultivate that into, "Well, what kind of capital do you need and how can we help make those connections?"

And a lot of these non-profits that I've talked about have a lot of specific programming for a variety of different individuals. So as much as we talk about credit is important, and I'm not underlying that from the Federal Reserve, but I'm also saying that or as Merissa Piazza, I am also saying that access to networks and knowing that you have a community and that community

can help you just like Alfonso talked about, can really make the difference for a particular business.

Russell Mills:

Great. I think that's a really important point, Merissa and well said.

One of the things that I think you brought up really early on in our conversation about credit was this idea of whether credit was being taken out for operational expenses versus being taken out for capital expansion. And one of the pressures on why small businesses may be taking out or seeking credit for operational expenses is because of cost pressures and inflation. And so I'd like to talk, explore that a bit here in the conversation.

So inflation has moderated in recent months, and the latest reading of the headline PCE price index saw an annual increase with an annual rate of 2.5%. And as many of you know last week, the Federal Open Market Committee cut the federal funds rate by 50 basis points to a target range now of four and three quarters percent to 5%.

So I guess this is a two-part question. What has been the impact of high interest rates and high costs in an inflation more broadly on small businesses? And then what impact, if any, do you anticipate the recent cuts in the federal funds rate and interest rates having on small businesses moving forward? So Maggie, why don't we start with you on this question?

Maggie Horne:

Sure. Definitely the higher interest rates were stopping people from being as aggressive in doing some expansion, considering potentially having a larger product line, developing some new products. It was just not comfortable for them at that higher interest rate. And we have already seen a larger number of people who we might've spoken to six months ago and they're like, "Well, I'm thinking about this but I'm not quite ready," are already starting to come and say, "All right, let's get things together, get ready to go ahead. I'm more encouraged now. I'm more comfortable now in considering this expansion and this purchase of this equipment, et cetera."

So I do feel like it made an impact. I do feel like there will be just because it's also going into the third quarter, people like to make sure that they are doing some expenditures for tax purposes. And I feel like this has definitely helped them to be more comfortable with that.

We have seen more people looking at startups a little bit more aggressively, maybe is a way to say it, where maybe they would start six months ago, say, "Well about 50,000 I'm comfortable with." Now they may be more comfortable at 75 or 100 to take that risk because they're more comfortable with the payback. And it's important for the understanding of the use of it. We go back to, is there operations or is it the expansions? And it's very comforting for us to see that the expansions, it's more comfortable for them and they're ready to do that because that means growth, and that's always a good thing to see.

Russell Mills:

Yeah, that's great. And on the overall cost side, other than sort of the borrowing environment, what were some of the major cost drivers? Obviously labor's one, but were there other things that you were hearing from and continue to hear from small businesses that are really driving their cost pressures in the environment today?

Maggie Horne:

The supplies, I mean it's definitely been where they've had to up their prices and so that has caused them to be less desirable, especially if you are depending on people for non-need, the disposable. Income there wasn't as much because we are all suffering in some way or another from higher costs, from food, et cetera. But the supply chain was definitely something that was causing some angst, but it also allowed them to consider other sources and to be able to be more innovative. So I see it on both sides, but that definitely was an issue. Inventory was an issue, no matter what industry it was.

Russell Mills:

Great. Alfonso, on your side, what are you seeing in terms of cost pressures?

Alfonso Cornejo:

I totally agree with Margie, but I think there's another thing that is happening. People are trying to look for strategic alliances. "I don't know how to do this, but this guy that is 15 miles from our plant is doing this and let's get together and let's talk how we can help each other." Because getting a technology is not easy. It's easy to say, but you got 10, 15 years of somebody doing this special piece to a pump or to whatever. And if you make a mistake in one of those pumps, you ruin your own business. So I think those cost pressures pushes you, pushes small firms to be more creative. Like Maggie said, "I try to find something."

Russell Mills:

To follow up on that a bit, Alfonso, I mean to what extent, and Maggie as well, feel free to jump in on this, what extent are you hearing from companies that they're really going all in on technology? And we hear a lot about AI and AI is, I heard somebody say the other day that AI is an outcome. There's these processes that are in the middle and then the outcome is artificial intelligence, which I thought was a really interesting way of thinking about it. But are you seeing small businesses really making investments in this? And if so, what? Or are they sort of just on the outside seeing, exploring, having conversations? What's sort of the sentiment out there around technology adoption at this point?

Alfonso Cornejo:

Let me make a comment. Just last week, I went to an AI conference and I came so scared because these things and these, quote, "experts" were telling me, "You can do this, you can do that, you can do that, but then they can do this to you if you don't do this, do this, do this." So I think it is a very delicate balance between how much you want to do by yourself and how much somebody can do to you. So it's scary. That's what I'm-

Russell Mills:

Alfonso, you're in the relationship business. That's not easily automated, I'll say. Maggie?

Maggie Horne:

But I totally agree. The concern about AI is definitely prevalent in the small business world, but I feel like where they're a little bit more comfortable is in creating some opportunities within the

operations administratively, using AI to create content for their social, for their marketing, using it for that, creating documentation. Those kinds of automations with AI, I feel like, they're comfortable with.

But where I feel the technology has been very beneficial in the small business is more in the processes, using technology in a manufacturing environment in the processes. So some new software programs or various pieces of equipment that are more efficient. I feel like that is where technology has been very beneficial to the smaller companies and they're much more comfortable with that. And with the opportunity to have those at the lower base, the lower price, we always thought new technology comes out, the price is up here. It's around for a while, it begins to go down, making it more affordable for the small businesses to incorporate that into their processes and operations.

And so I feel like that is, but I think AI, yeah, we have probably a way to go before people are much more comfortable with what it can do and the possibilities of what can happen. But we do it in small pieces, we do it right, we're comfortable with it, we use it to make our day more efficient, that is more efficient than overall for the business.

Merissa Piazza:

Yeah, I mean technology for small businesses, its adoption isn't new. Like manufacturers have been using variety of different sensors for maintenance and a variety of different automation types of things. So I think it's whatever fits their business model.

Russell Mills:

I think that's really well put. Before I pivot into the last part of our conversation today, which is probably the most important for small businesses who may be listening today on resources available for our small business, I want to encourage people to put some more questions into the chat. Merissa, we did get a question for you about the business organizations that you mentioned who can develop business plans and financials. So if you could just repeat those or?

Merissa Piazza:

Sure. So there's a variety of different organizations. Some are state level and some are national. SCORE is an acronym. Google SCORE, like business advice or something. SCORE is retired business professionals who help individuals work with business plan financials. So they're a great resource. The Urban League does a lot of small business technical support. And then there's what's called Entrepreneurial Service Providers. If you're in the state of Ohio, if you just look that up, the state of Ohio has their own network and they've done it regionally. So JumpStart's in Cleveland, Z-Tech's in Cincinnati and Rev1 Ventures are in Columbus. They some mostly operate in the high-tech space, but JumpStart does a variety of different help for startups. They started off as biotech, but now they're in a variety of different spaces.

So yeah, I think those are some really great places to start. Find your local chamber on the SBA's website. You find your local small business development center. We've been calling them SBDCs. That's what Maggie does. They're great. They will point you in a lot of different directions. So if you're out there, either thinking about starting a business or in the formation stages, there are people out there that can be your support, they can be your network. So reach out, people would love to talk to you.

Russell Mills:

Great. So what I'd like to do now is let each of our panelists highlight some of the different resources and capacities that their organizations or their own research, in Merissa's, case could bring to bear for small businesses.

So Maggie, I think we will start with you. You represent obviously Gannon University Small Business Development Center, and you don't just represent Erie, but you represent all of Northwest, Pennsylvania. So can you talk about, and this might give folks a better sense of the scope of everything you do, some of the programs, services that people or the small businesses seek most from your center? And then from everybody else as well, what are some of the services and support that you observe small businesses needing in the environment in which we operate today?

Maggie Horne:

Sure. Yeah. So the SBDC is a national network. And in Pennsylvania, which I'm part of the network in Pennsylvania, there are 15 centers and all of us are with a higher ed organization. So I'm with Gannon and we do Northwest, we service Northwest Pennsylvania. Ohio has an SBDC network. There is an SBDC right at YSU right across close to where I'm sitting right now.

And what we are here for and why we were created by the federal government was to provide an opportunity for small businesses to have consulting resources and support that the larger corporations have in-house. So we do everything from helping a start-up from pulling resource information so they can see what the industry's like, they can be more comfortable on demographics, what the market is doing, helping them to develop their business plan. We don't write their plan. Nobody should write a plan for you. You need to know your business.

So as much as it's great to think about, well let them write your own business plan, I promise it'll be very beneficial to you. But we can help you to fill out and get the content, provide you with some of that research and support to be able to develop your business plan. We help to develop financial projections and package those pieces of those documents to help you then identify a potential funding source. We don't just say, "Go here," we give you a list of whatever works for you. And that's about half of what we do in startup,

The other half of the people we work with, and at Gannon, we work with about 600 different companies and individuals every year. The other half are existing businesses and they'll come to us with everything from marketing, which is huge. That's probably the top need that we see is marketing and sales.

We can help them to understand marketing campaigns, help them to determine what is their target market, how do you reach them, what's the best way, and then even down to some financial analysis and succession planning, strategic planning. So from beginning to end, we will be able to help you. If we can't internally do it, we have a lot of resources like SCORE, Merissa spoke about SCORE. They're a sister agency of the SBDC. And we have a lot of other good resources, both locally but also nationally that that's what we look to be, a resource. We're here to do some of the things to help you to do them, but we're a network.

And as Merissa said, reach out to whoever you find first. They're going to get you hopefully to the right organization. We are collaborative. We want to make sure that whoever comes to us is getting the help and the right pathway to take their idea to market or their succession in the right place on legal aspects. I just saw the pop-up. Shall I answer it? So the SBDC-

Russell Mills:

Yes, since you work for one.

Maggie Horne:

Yeah. So the SBDC stands for Small Business Development Center.

Alfonso Cornejo:

Center.

Maggie Horne:

And it was through an act of Congress in 1980 that this organization was created, and it exists all across the United States. Every state has an SBDC network, and we're all here for that same purpose, to help support and provide resources and referrals to the appropriate agencies or organizations to help our small business community.

Russell Mills:

So we asked folks when they registered, if they would submit any questions in advance, and there was one question that really caught my attention and the discussion we were having about resources really brought it to mind. And the question was, how can the support that's provided for small businesses, for a lot of them, it's really difficult because they don't have the capacity to even find or to locate or to even start down the path. What recommendations do you have for let's say a single one person, maybe two-person business who's just starting off to really begin this process?

I think that might be the barrier for a lot of people. Hopefully today a program like today's is one that will provide some resources and illustrate to people the range of resources that exist. But what just some quick things that you might recommend folks to do to be able to start taking advantage of this? So Alfonso, I saw you had your hand raised.

Alfonso Cornejo:

Yes. In a few words, networking, networking and network. Because if you are one or two people person, you think you know things, but you don't know things. And just for example, this SCORE organization we have in Cincinnati and Columbus and Dayton, et cetera, as they are doing an outstanding job because now using this technology, Zoom technology, you can be trained on how to do everything via computer, via the image of the computer.

And I think that one was not available when I grew up. And I think you are doing networking virtually via Zoom. And then you do, for example, we do two networking meetings a month, the second Tuesday and the fourth Tuesday of every month. And let me tell you, when we don't do it, people get mad at us. So we don't want them to get mad at us.

Russell Mills:

Yeah. I was going to call out Alfonso's organization, the Hispanic Chamber at Cincinnati hosts monthly networking programs. What is it? Business Leads Lunch that you all do, which gives businesses and community leaders an opportunity to get together and talk about doing business

in the Hispanic community. And so again, I think your point, Alfonso about networking is very well taken and the importance of that, at least to find where resources exist. Merissa?

Merissa Piazza:

I also just want to say that yes, you will need a business plan, all of these things, but you don't need to... Starting small, you can become self-employed and there's different levels. So people think, "I'm going to start my own business and there's going to be all this administrative paperwork I'm going to have to do." But it doesn't have to be that way. You can be self-employed and just file your taxes as a self-employed person.

But if you talk to Maggie, she'll tell you exactly how to do that. But I don't know how to do that. But it's an example of let your ideas grow, reach out. You're not in this alone. It takes a village to raise a child. It takes a village to start a business. So yeah, there's lots of resources in the chat, so use them.

Maggie Horne:

Yes, and everybody has access in some way or another. Well, I shouldn't say 100%, but the majority of people, even if they do not have access at home, they do have a library nearby, I'm hoping. I believe we still have libraries in all of our communities. They have internet access. Simply going on to Google, whatever search engine you want to use as a small business startup, starting my small business, you're going to find a host of organizations and links that are going to show up.

And the Small Business Administration has been mentioned a lot here. They partially fund the SBDC along with other organizations. On their website, they have all of the SCORE. Alfonso mentioned SCORE. As I said, they're a sister agency of ours. You can find all of the locations, you can click. And again, what Alfonso said about using the internet, if you have your rule, you have transportation, you have a job, and you only have so much time, the Zoom meetings can happen. We do them every day with clients. So reach out, find the resource that meets your needs. If it doesn't, we will find you one if you are reaching out to one of our organizations.

Russell Mills:

And Maggie, I think that's an important point and one that I'd sort of like to begin really wrap up and end our conversation. Merissa, I know you've written a lot about digital equity over the year and particularly availability of broadband. And so we've talked a lot about today how Teams is important and internet and a lot of these resources are available online.

Obviously, there's been a lot written about rural access to broadband, but also in many urban environments there's still a lack of high-speed broadband, as we found out during the pandemic. Now there's obviously been a lot of programs in place since then to try to address some of those issues. But just curious, Merissa, on the role that technology, particularly broadband might play in the success of small businesses going forward.

Merissa Piazza:

There's a lot of studies that have shown that... Well, there's one in particular that shows that access to broadband can restrict their growth. And previous research I had done shows that

almost 12% of households in our Fourth District don't have access to the internet in general, not even broadband. And this increases to 20% in rural areas.

So there's a lot of different programs that are out there, programs, there's historic amounts, lots of federal funding coming through on all of this, whether it's digital equity or it's laying the broadband cable. So all of that is in the works. If you're interested in this issue, stay tuned because the next *FedTalk* is going to be on broadband digital equity and access across the board.

A lot of people... not a lot, but I get asked, "Well, why does the Federal Reserve care about broadband?" But we have a dual mandate of price stability and maximum employment. And so if everything is online now, whether we buy things, healthcare, running your businesses online, we want to make sure that people are maximizing employment, and that people have access to the economy.

So yeah, I think there's a lot going on in the broadband space, whether it's access or equity. So stay tuned on that front.

Russell Mills:

Yeah. And obviously a lot of people work remotely now, and so access to broadband can enable employment from everywhere, right? So a big part of our dual mandate.

So with that, I'd like to begin to wrap up. So I wanted to thank very much Alfonso, Maggie, and Merissa for the great and informative discussion today. Again, information about today's program will be sent in a follow-up email with a lot of the different resources that were provided in the chat. We'll also have a recording of the event. Also be posted on clevelandfed.org.

Merissa previewed the point. But join us, I believe it's October 16th at 3 P.M. which will be our next *FedTalk* on the digital divide. So I hope to see many of you there. Thank you all for joining us today. And again, thank you to our panelists. And everybody, have a great day.