

How Small Businesses Are Faring Entering Year Two of the Pandemic

Jake Siewert: This is Exchanges at Goldman Sachs where we discuss developments currently shaping markets, industries, and the global economy. I'm Jake Siewert, global head of corporate communications here at the firm. Today we're going to talk about how small businesses in the US are faring now that we're headed into year two of the pandemic, god forbid. We'll start the episode hearing from Joe Wall, who works with me here at Goldman Sachs in office of government affairs. Joe's going to give us an overview of a survey we recently conducted of nearly 1,300 Goldman Sachs small business participants, or entrepreneurs. They answered questions about PPP funding, access to capital, affordable health care, and the personal toll of COVID-19 and much, much more.

Then we'll hear directly from two small business owners themselves to talk about how those themes are playing out for them personally. We're joined by Brent Reaves of Smoky John's Barbecue in Texas and Jo Ellen Hockenbraugh of Providence Power Yoga. Both Brent and Jo Ellen are graduates of the Goldman Sachs 10,000 Small Businesses program.

Joe, Brent, and Jo Ellen, welcome to the program.

Speaker: Thank you.

Speaker: Thank you. Thank you for having us.

Jake Siewert: All right. Before we get to the entrepreneurs, Joe, talk a little bit about the survey that I just mentioned. This is not the first survey we've done but the latest. What did the entrepreneurs who are running these small businesses have to say about the ongoing impact of the pandemic on their businesses? And what do they need to keep the lights on right now?

Joe Wall: Thank you, Jake. This is actually the seventh survey we've done dating back to last March. So we've been sort of doing tracking, you know, every 6-8 weeks or so to keep an eye on the small businesses and also measure, you know, the various relief programs that have been put in place.

So this latest survey, which took place last Monday and Tuesday took a look at the second PPP loan which of course Congress passed back in December just before the holidays. And on the

second PPP loan we found that two thirds of small businesses qualify for a second loan. Of those who qualify, 83% have applied for a second PPP loan, so just almost everyone. About half, 54%, of those who have applied have been approved and received funding. And then when it comes to sort of assessing the impact of the second loan already, a pretty incredibly number, 88%, say the second PPP loan has been absolutely vital or very important to helping their businesses survive. 55% say they've been able to rehire or hire new employees as a result of the second loan.

However, you know, what we do see in our data is that while the second PPP loan has no doubt been incredibly important in terms of keeping businesses, you know, on a sustainable path, 67% of small businesses who have taken a second loan do say that they will run out of funding in April or May. So again, about two thirds a round of funding in April or May. And the most worrisome data point I think is that only 11% of small businesses who have taken out a second PPP loan say they are very confident that they will be able to maintain payroll if no further government relief is provided.

And as an aside, 43% of small businesses say they don't think their operations are going to be back to normal until the fourth quarter of 2021 or 2022. So for most of them, right, they sort of see this as a long-term recovery, not something that's going to snap back in the spring or summertime.

And I would say the other, you know, few areas that we dug into which I thought were pretty insightful data points, number one on access to capital, just 30% of small business owners say they are very confident they could access a line of credit or loan for their business from a financial institution. In contrast, 54% were confident prior to the pandemic.

On health care, which I think is, you know, a consistent issue that we see in our survey data, about half of small businesses, 50% on the dot, provide health insurance to their employees. 79% of those who provide health insurance say their employer costs have increased in the past year.

And then the final, you know, two points I'll touch on as, you know, we also have seen in our data just the personal toll of COVID on small business owners and their employees. So 46% say they or their employees have faced mental health related issues stemming from COVID-19. 50% of small business owners have dipped into their personal savings. 58% have foregone paying

themselves at some point during the pandemic.

And then the final area I'll touch on before we hand it over to Brett and Jo Ellen is that our data going back to last April has tracked what has been an uneven recovery for Black small business owners. So in our most recent data set, we found that, you know, Black business owners, when it comes to both applying for PPP but also receiving the loan funding lagged the overall population. So 73% of eligible Black owners have applied for a second PPP loan in comparison to the overall number of 83%. 42% of Black business owners who have applied for a second loan have been approved and received funding. That's 12 points lower than the overall population. And on the access to capital issue, only 16% of Black business owners are very confident they would be able to access a line of credit or loan for their business from a financial institution. That compares to 30% from the overall population.

Then finally on health care, 29% of Black business owners are able to provide their employees with health insurance coverage. That's 21 points lower than the overall population, which is 50% of the total population provides health insurance.

Jake Siewert: All right, Joe. Thank you for that comprehensive look at the data. It's helpful but a little sobering and a little scary. But now let's turn to some voices of hope. We want to hear directly from Brent and Jo Ellen about how that data relates to their own personal experience running a small business over the past year. Brent and Jo Ellen, let's start by introducing you and talking a little bit about your businesses.

Brent, you run Smoky John's Barbecue. I wish I were there now; I haven't had lunch. And Jo Ellen, Providence Power Yoga. That's another thing I could probably use today. Brent, you're based in Texas. How has it been holding up over the past couple weeks with the power outages there and more broadly over the course of the pandemic?

Brent: Yeah, so the last week and a half has been a roller coaster ride. You know, a lot of our team members have been affected not having water, not having electricity. I mean, it's been absolutely difficult for them to just enjoy normal life right now. We literally had team members that we have taken 5-gallon buckets and filled them with water for them to take home. So, you know, it's been a little bit challenging for that.

And coming off of experiencing COVID, I mean, this is, you know, it's like, bam. It's piled on pretty thick here in the past year. And I think we all have experienced that as well. But, you know, we've seen some moments of hope with people just rallying behind small businesses in general and trying to really support small businesses even through COVID, which has been great for us. Definitely a lot of challenges, a lot of pivoting that's taken place in this last year, but it really has made us grateful for so much that we took for granted, I think. And now it's making us become more creative. I think creativity is truly our way out of this situation.

Jake Siewert: Jo Ellen, you had just wrapped up the 10,000 Small Business program when the pandemic hit. I'm sure that wasn't part of the curriculum, getting ready for that. How have you adapted or pivoted your business over the past year given that a yoga studio is typically an in-person, intimate gathering?

Jo Ellen: Yes. Well, thanks for inviting us on today. Prior to COVID I had just finished up our cohort here in Providence and was well on my way with my growth plan with a fourth studio set to open and really some record revenue numbers whenever this all happened and we closed in March. We immediately closed the studio. We started offering some free yoga classes online, but, you know, free yoga classes is not a good business model. So once we were able to establish some of the IDA loan and the PPP that first round we were able to staff up and have some tech support to help us get online and offer virtual classes, which is something we'd always wanted to do. But, you know, we were busy serving people in the studio, so we didn't think that going virtual was what we needed to do at the time. So it's pushed us really to that point, and now we offer virtual classes.

Any class that we offer in the studio we're now able to stream. But planning for a pandemic was not part of that. I remember the disaster planning in the 10,000 Small Business program and contingency plans. And our biggest contingency plan was what would happen if we lost heat in New England, so a pandemic was not a contingency plan. Add it to the course.

Jake Siewert: Yeah, so Brent, you talked about the need for creativity. How have you switched your business model or pivoted Smoky John's over the past year to deal with the changed world that we're living in?

Brent: Oh, man, it's been a lot of changes. We really pride ourselves on connecting with the community. So we really love when our guests come in. We try to give it the *Cheers* feel where we almost know everybody's name, you know? And spend time hanging around everyone and "how are your kids" and that whole, you know, just makes people feel good. Makes people feel seen.

When we shut down our dining room, we went to basically take-out, to-go only. I mean, that really makes us really have a challenge on creating the experience and the warmth you try to give and provide. And so we had to figure out a way to still give that same warmth and love. And so we've had a lot of training with our staff to help them be even more engaging every day over the phone and in every way that we could have a touch point with our customers. We want to make them have a really good feeling.

The earlier on part of COVID, I mean, with the first three weeks, we dropped 55% in revenue. We lost \$45,000 in catering that was immediately canceled when COVID hit. I mean, it was devastating for us. You know, being blessed that the PPP loan came through for us. That's really [UNINTEL]. And then the other thing, my brother and I decided to get on Facebook and Instagram and we went live every night to just stay connected to our customer base. And then we made a decision to actually start doing delivery all around the metro place, all in the suburbs, everywhere. And my brother and I would actually do some of the deliveries ourselves, just to say hi to some of our customers we missed. It made it easy for us to figure out where the market was because they were all at home. So we just catered to them being at home and connected with them at being at home.

And when people saw us fighting, it's so amazing to see how people rally behind you when they see you fight this. Like, they want to help.

Jo Ellen: Yeah.

Brent: So people would start getting family meals and family packs and just really, really supporting us. And so it was really an opportunity to go through something very tough but to see how the community came together to try to help us stay afloat. And that was a beautiful sight to see.

Jake Siewert: So let's talk a little bit about funding. Jo Ellen, you mentioned it wasn't exactly in your business plan to offer free classes. Hard to sustain a business that way. How did PPP loans and the kind of liquidity challenges you face, how did you deal with those over the course of the year?

Jo Ellen: The PPP loan came in extremely handy for us. It was a bit challenging in the beginning because we were not set to reopen. So we had the money in hand for staffing, but yet our state was not able to reopen for probably about three months. We were closed on March 15th, and we didn't open until the first week of July. So we were kind of pushed to use that money as quickly as we could, but we got a little creative with it.

I was able to bring back some staff that could work, trying to get our new studio ready to open. Like I said, we were in the midst of opening a new studio, so we were able to bring staff in and continue to pay our staff even though we didn't quite have the hours for everyone. We were running a startup.

And then I was also able to use the money to hire some video help, get someone to help us to get our online presence up. Like Brent said, you know, keeping the community together as a small business is huge. You close your doors and you don't know that you're going to -- you don't know when you're going to reopen. You don't know who's going to come back when you do reopen. So so much a part of what we did in those early months was just trying desperately to keep our communities open so that when we do open our doors fully we have the clients there and it's not starting over from the beginning.

So we used the PPP loan for that, for our staff, as many people as we could even though we weren't really open. And then also looking for some tech help to get us moving into a new direction. We've continued to do that.

We reopened the second week of July. Then we had another shutdown in October or November, I'm sorry. November to December we were shut down for another three weeks. When we applied for the second round, which we just got, that's going to be helpful to carry us through until -- you mentioned this statistic -- until April, I think if we're lucky will be May, that money will last.

Jake Siewert: Yeah. So Brent, I mean, you talked about losing catering, losing in-person dining, as we now call it. In-person

dining, a COVID phrase. Talk about how you used the PPP money or how you managed the business model through the past year or so.

Brent: Yeah, so it was great for us being an essential business. And, you know, early on we didn't know what that meant when they said "essential businesses." We were like, well, we didn't know if that meant restaurants or are we going to be essential or not, you know? So that was a whole learning experience. It's so funny now to see what we now understand now that we didn't when all of it first started. I mean, we were, like, really concerned, like, you know, are we even going to be open, you know?

And so once we realized we were an essential business we pretty much kept our staff on hand, but we were able to start providing the full-time hours, just keeping everybody afloat. And it was great. Kind of took us through all of the summer months. And then again, kind of what changed for us was kind of the incidents that happened over the summer with the whole George Floyd incident that really brought some awareness to Black-owned businesses. So that rallied from the community, really from the country to begin to support Black-owned business really was a saving grace for our company because people of all areas started to patronize us. And it really was, I mean, it was just amazing to see how the country pulled together. And we really benefited from that.

That with the PPP loan really is what kept us afloat.

Jake Siewert: So at Goldman for years now, when we talk about the workforce, we've talked about resilience. And it seemed like kind of an abstract concept at some level. But I think really the questions around, we saw the survey around mental health, are much more front and center now for all businesses, for all people. Talk a little bit about what it was like to be a small business owner and how your employees have been coping. Let's start with Jo Ellen.

Jo Ellen: Well, I think back to those first days in March whenever we closed and the incredible sadness of closing your doors. And you lock up, and you're really not quite sure when you're going to come back or if you're going to come back. And it's not been a break. Certainly since last March I think I've worked harder this past year than I did probably the first year we were open. And it's been depressing some days. Some days you really pat yourself on the back and you say, "Oh, my

god, I can't believe we're actually doing this and we've survived and we're still here."

But some days it's just really devastating to think, like, all of the work that you put into it. And then the sense of loss. You know, I had to close two studios as a result of the shutdowns. And that was challenging because they were my first studios that I opened. So I think on business owners, the toll is pretty heavy duty. And I do believe every small business owner that I've talked to here in the Providence area that I'm connected with, they're exhausted. Absolutely exhausted.

And you care about your staff. Your staff are like family members. And you're exhausted, but then you also see your staff struggling. Parents who are trying to work from home and school their children and many of our staff are women and several of them have had to leave full-time jobs in order to stay home with their children and home school. And the toll it's taken on our staff and business owners I think is pretty heavy because we care.

You can't help when you're a small business owner to not think of every single person that works for you as a family member. And those days were hard. The day that I had to call and tell three of my managers that they needed to go on unemployment because I couldn't afford to pay them was devastating. That was a hard day.

Jake Siewert: Yeah. I mean, big companies like ours have a lot of resources. Brent, when you're dealing with some of these similar issues, how do you think about what you can afford to provide the families that work for you and the people who work for you when they're confronting some of the challenges Jo Ellen mentioned?

Brent: It's difficult. You know, I think us as business owners, as entrepreneurs, we must be cut from a different cloth. We must be probably the craziest people in the world as well --

Jo Ellen: Yes.

Brent: -- to take on the burden and the responsibility, you know, to say, well, you know what? I think I'm going to go ahead and take this risk. And, you know what? It's okay, I'll take all of the responsibility and the burden as well. I'll take all of that and hope that I make a profit this

year. It's really got to be the craziest thing in the world.

But I think the thing -- and Jo Ellen can attest to this -- that your heart for people is your motivation in the morning. You know, it's like you want to provide a service. You want to provide something that you think is going to make a difference. With her yoga studio, you know, I mean, people making a difference every day in someone's life. And that's why we get up in the morning. And it starts with our team members.

So when they're hurting or when they're struggling, it hurts me. Like, it hurts me. And to ever have to lay someone off, I mean, it's like a piece of you is going away, especially, you know, if they're a valuable part of the team. I mean, you're going to figure out whatever you can do to keep people on your team, you know? And that's what our heart is. And I'm sure she can attest to that. I mean, it weighs on you. Like, it's hard to sleep at night at times, and it's hard to plan and strategize because you know that one decision that you make could affect several families. It's like that burden of walking with that burden can definitely weigh on you.

But that also for me turns into motivation. That's where the creativity comes. I think to myself, like my dad believed in his team, and he would give it all for everyone to stay on the team. And that's the heart that I now have. And no matter what, we're going to figure out how to keep everybody. But it definitely takes a toll on you.

Jake Siewert: So Brent, you mentioned, you know, out of the great tragedy of George Floyd and Breonna Taylor and others that there's been a new spotlight on Black-owned businesses and there's been a little positive momentum that comes out of those awful events of the last year. Talk about what that's meant to you personally, and tell us the story of Shoebox Lunches, which is just a really cool thing that you've done.

Brent: Yeah, you know, so it's meant a lot to us, just to see how people have supported us specifically, personally. We've been supported by people all around the community. When the whole incident with George Floyd happened, it really shined a light on some dark places for our country. But the beauty and the hope was the response and the reaction that people had. And they started to want to give back to different communities, which was amazing.

You know, and then after that happened, you know, like anything,

things kind of wear off and die down a little bit. And so, you know, for Black History Month, my brother and I decided, hey, we're going to do this Shoebox Lunch. And we did it last year.

So the Shoebox Lunch, basically, in the South, Black people would travel and there are a number of restaurants that they could no longer go to. So they would get a nice pair of shoes and sometimes they would come in a really nice shoebox. And so they would take that shoebox and pack their lunch and use it to travel across the country. And so they knew they couldn't go to the restaurants, so they had to pack their own food.

So what we thought was let's do that and create that same experience. We actually got true shoeboxes and we packed the lunches. And we sold those lunches, and it was a hit last year. And so this year we decided to take it up a notch. There was a lot of support for Black-owned businesses, so what we thought was partnering with other small businesses, or other 10kSB graduates that we have partnered with. And so we have created a Black-owned entrepreneur shoebox lunch because back then we couldn't go to restaurants but now we're owning restaurants. And so we wanted to show the evolution of what has happened with the African American community and highlight that through this shoebox lunch.

So now we partner with Urban Hydration and Mama Moore's Popcorn. They're all grads of 10kSB. And so it's been really cool to see the impact that it's actually had on our community.

Jake Siewert: Well, I've ordered mine and I'm looking forward to getting it.

Jo Ellen: I did, too.

Jake Siewert: But I'm also looking forward to telling my kids the story behind the shoebox because I can see that resonating in some ways that other stories necessarily haven't.

So it's been a super challenging year for both of you, but talk about one thing you're optimistic about as you look to the future. We'll start with Jo Ellen.

Jo Ellen: We are so looking forward to having people in our studios again. The thought of hugging people that come in our door. You know, Brent talked about you know your clients' names. You know their family members. You ask how they are. You give them a hug. And we cannot wait for that to

happen. So I am optimistic about our ability to really make this change.

I mean, I do think in some aspects of the virtual platform is going to be here to stay for us. And what has surprised me so much is our ability to have shifted and to be able to take yoga teachers who are so accustomed to teaching people in class to not only teach virtually but right now, because of our restrictions, they're not only teaching virtually but they're teaching virtually with a mask on. And they're teaching to, you know, 10 people in a room that typically holds 55. So I'm optimistic that we are an incredibly resilient group of people not just in my studio but other small business owners like Brent and the community, the 10,000 Small Business Community, I've seen such an outpouring of support for each other and a sense of resiliency just to be able to go forward. And I think we're all really looking forward to opening up our businesses again and welcoming people in our doors.

It may be a while before it's 50 people in a room, but we'll be really grateful when we can have 20 or 25. But I'm looking forward to this summer and hoping that we'll be able to have people in and just so encouraged by my ability, our staff's ability, and other small business owners' ability to pivot and redirect and be resilient.

Jake Siewert: All right, great. Brent, what do we have to look forward to this year?

Brent: You know, I'm really looking forward to the events, you know? I just love the catered events, you know? Online is great and that's wonderful. And I know everybody's, you know, we're used to it now. We're getting beyond the glitches and all those different things. But you know what doesn't glitch? Humans. When we welcome contact with each other, it's just a beautiful feeling to just be able to look in someone's eyes, see their smile, you know?

I miss smiles, you know? I miss just looking at people and being able to, like, "Hey, how's it going?" You know? I miss that. And the beauty of food, you know, we do barbecue and we do soul food. The beauty of soul food is it makes you smile. And to be robbed of the smile is just a disgrace, you know? So I'm excited about that.

I'm excited, you know, we're heavily involved in the state fair of Texas. We do the huge turkey legs. And I'm just really

optimistic that this year we'll be able to at least see people social distancing in areas that they can actually take the mask off and take big bites of the turkey leg. You know, that's the stuff that I'm excited about, and I'm ready for it, you know? I can't wait to see smiles walking around again. That's the big thing I'm looking forward to.

Jake Siewert: All right, Brent, me too. Thank you so much for giving us a little, injecting a little optimism. And thanks for joining us today, Jo Ellen, Brent, and Joe.

Jo Ellen: Thank you so much.

Brent: Thank you. Thank you for having us.

Jake Siewert: That concludes this episode of Exchanges at Goldman Sachs. Thank you very much for listening. And if you enjoyed the show, we hope you subscribe on Apple Podcasts and leave a rating or a comment. This podcast was recorded on February 22nd in the year of 2021. Thanks for listening.

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