AMERICA'S SBDC CALIFORNIA LOS ANGELES NETWORK

EDC ECONOMIC DEVELOPMENT COLLABORATIVE

COVID-19 IMPACT ON CALIFORNIA'S ENTREPRENEURS

The Economic Development Collaborative hosts the Small Business Development Center and is funded in part through a cooperative agreement with the U.S. Small Business Administration.

AMERICA'S SBDC CALIFORNIA LOS ANGELES NETWORK

POWERED BY SBA U.S. Small Business Administration

SMALL BUSINESS IN THE TIME OF COVID-19:

A Survey of California's Small Businesses

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A NOTE FROM THE CA SBDC DIRECTORS

The COVID-19 pandemic has been unprecedented in its impact on small businesses. Most businesses have suffered both from the direct health impacts of the virus, as well as from the public health requirements and restrictions on business activity put in place to contain the spread of the disease. As part of the response, California's Small Business Development Centers (SBDCs) have come to play an essential role in providing assistance to ailing small businesses across the state.

Notably, since the start of the crisis in March and into August, California's SBDCs have counseled more than 44,000 clients over 172,000 hours, supporting over $1.27 billion dollars in small business funding, and have helped 938 entrepreneurs establish new startups. Between March and April alone, CA SBDCs client engagement increased by over 191 percent alone.

Furthermore, to better understand our work during the pandemic, we conducted an extensive survey that included 22,102 responses from California small businesses owners about their business activities between January 2020 and July 2020.

The survey conveyed three major findings that are impacting small businesses throughout the state, regardless of size or location. Ultimately, small business owners need; (1) access to additional capital or subsidies beyond the federal disaster loans, (2) the ability to pivot some portion of the business to create new sales channels, and (3) increased access to mentoring and consulting, coupled with access to current and accurate information for crisis management.

Of the small business owners surveyed and clients counseled, many either did not receive enough federal disaster funding through the Economic Injury Disaster Loan and Paycheck Protection Program, or they were completely shut out of the funding based on the state of their economic condition. Most small business owners have completely exhausted their initial round of PPP and EIDL funding and with limited revenue are now in need of additional capital. The average business prior to the start of COVID-19 had roughly 15 days of cash flow and we are now more than 270-days into the current pandemic.

Many small business owners expressed the lack of a mentor or consultant to help address the issues that they are facing during COVID. They also expressed the inability to know where to go to receive up-to-date and accurate information on regulations that impacted their business. For many businesses that did not know where to turn, they often had incorrect or partial information and either incorrectly filled out applications for funding and subsidies or missed out on them completely. Small businesses that were able to access mentoring and consulting were much more likely to receive federal funding and find ways to pivot their business during the COVID crisis.

In response to small business owner's needs, the California SBDC program has expanded its services, which include one-on-one consulting, training, access to capital and access to resources.

The California Small Business Development Center Network is the largest small business development program in the country. There are more than 65+ service centers spread across the state with an additional 50+ out-reach centers, so that there is a CA SBDC located within reach of every business owner in California.

With more than 2,000 small business consultants ranging in expertise from retail, restaurant, hospitality to angel investors, bank underwriters and web and SEO tacticians, the CA SBDC has the resources to assist business owners at every stage of their business. CA SBDCs work with local, county, state and federal partners to ensure that they have the reach to be an all-encompassing business development organization.

CA SBDCs focus on minority business industries that have been hardest hit, which include restaurant, retail and hospitality. The CA SBDCs have the ability to bring consulting and training expertise in multiple languages (i.e. Spanish or Vietnamese) to support businesses that are local to their neighborhoods. CA SBDC consultants collectively speak more than 15 languages including: English, Spanish, Chinese (Mandarin and Cantonese), Vietnamese, French, Arabic, Turkish, Korean, Tagalog and more.

EXECUTIVE SUMMARY

The Small Business Development Center (SBDC) Program is an extensive national network of close to 1,000 small business service centers leading the charge in providing no-cost tools and guidance needed to help entrepreneurs and small businesses realize their full potential. The California SBDCs include five regional networks covering the state, devoted to helping all industries and all levels of small businesses with accessing capital, human resources, marketing/social media, e-commerce, accounting, disaster resources and pivoting strategies and any other busines needs.

Since the start of the COVID-19 crisis, California's SBDCs have counseled more than 44,000 small business clients over 172,000 hours, supporting over $1.27 billion dollars in small business funding, and have helped 938 entrepreneurs establish new startups. Between March and April alone, CA SBDCs client engagement increased by over 191 percent. In order to continue this high level of disaster response service, the California SBDCs conducted an extensive survey of its contacts in the California SBDC database that asked 22,102 respondents about their business activities between January 2020 and July 2020, with the goal of understanding the specific needs of California's small businesses during the COVID-19 crisis.

CALIFORNIA SBDC IMPACT

COUNSELED MORE THAN
44,000 SMALL BUSINESS CLIENTS

SUPPORTED OVER
$1.27 BILLION DOLLARS IN SMALL BUSINESS FUNDING

ASSISTED
938 ENTREPRENEURS ESTABLISH NEW STARTUPS

THIS RESEARCH SERVES THREE GOALS:

1. **Profile the direct and indirect impacts of the pandemic by the type of business.**
2. **Examine the persisting gaps in access to assistance relative to the businesses most impacted.**
3. **Provide insight for developing policies that can deploy resources for recovery where the aid is needed most and will have the greatest benefit.**

- The economic impacts of the pandemic have been enormous and widespread. Over 6% of firms closed for good and 42% are only operating part time as of July. Revenue losses have also been large, declining on average by about 75% from January through July.
- Non-employers and the smallest and youngest firms have struggled the most through the recovery. 45% of non-employers and 28% of businesses with less than 5 employees, and 42% of businesses less than 2 years old had halted all operations as of July.
- Women-owned and minority-owned businesses have struggled more during the recovery but may not have received assistance in proportion to their acute need, loss in revenues, and the impact on their business operations.
- The impact and recovery have differed by industry sector with largest losses for businesses in industries where social distancing is difficult. Sales declines due to the crisis were largest for the "Arts, Entertainment, and Recreation" sector with businesses reporting average sales declines of over 70% between January and April alone.
- As strong as the federal loan programs, PPP and EIDL, performed, the data show imperfect alignment between the size of the impact and the size of the assistance awarded by industry. The fast rollout of these programs showed a preference for lending to more established businesses, which in our analysis also proved to be the less needy.
- Businesses in "Health Care and Social Assistance", "Educational Services", and "Transportation and Ware housing" suffered the most direct impacts of the health crisis with most business operations affected by concerns of worker and customer safety.
- Businesses in "Retail and Wholesale Trade" and "Transportation and Warehousing" were hit the hardest by disruptions in supply chains and challenges with storage and warehousing that were indirect effects of the health crises.
- The most cited challenge to business operations across all industries were the indirect effect of the economic slowdown on demand declines and the government-ordered lockdown.
- In face of unprecedented challenges rates of innovation and adaptation were high. Over 55% of businesses adapted how they service customers; 40% innovated product, service, or process; and 12 percent of businesses retrained or upskilled their workers.

INTRODUCTION

The ongoing COVID-19 pandemic has proven an unprecedented health crisis with devastating impacts on the economy. In response, the federal government issued a $2.2 trillion stimulus under the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March 2020 that included significant provisions for small businesses such as the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loan (EIDL) program, both administered through the Small Business Administration (SBA). Consequently, Small Business Development Centers (SBDCs), as the SBA's primary resource for providing management counseling and disaster assistance to distressed small businesses across the U.S., have come to play a critical role during the pandemic.

Since the start of the crisis, California's Small Business Development Centers (CA SBDCs) have counseled more than 44,000 clients over 172,000 hours, supporting over $1.27 billion dollars in small business funding, and have helped 938 entrepreneurs establish new startups. Between March and April alone, CA SBDCs client engagement increased by over 191 percent.[1]

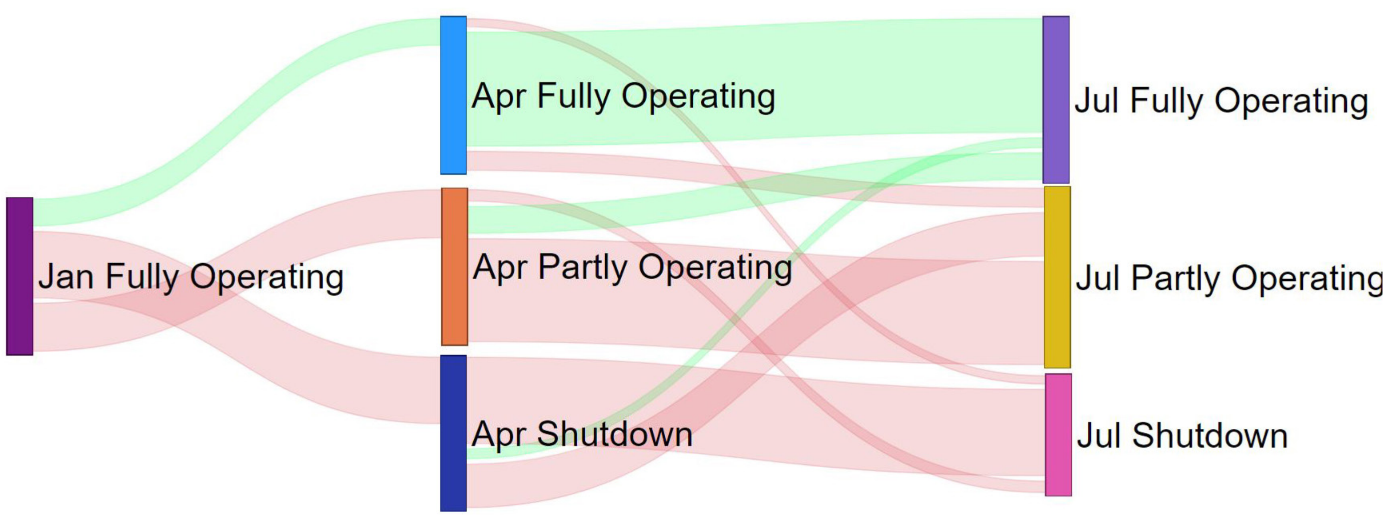
The impact of the crisis and the subsequent lockdowns was sudden, extensive, and affected nearly all sectors of the economy. The initial government response was similarly broad and sought to provide general support to all distressed businesses. However, not all businesses have found the same opportunities during the recovery and while most continue to struggle, many are still fighting for survival. For SBDCs to continue to provide the support their clients need most, we need better insight on which businesses were most impacted? if they were able to access financial assistance? who is underserved? what adjustments businesses made to survive the crisis? and, what are they greatest needs during the recovery?

To answer these questions, we conducted an extensive survey of 22,102 contacts in the California SBDC database that asked respondents about their business activities between January 2020 and July 2020. At the time of the survey, over 65 percent of respondents were active clients of SBDCs; 20 percent were inactive clients; and about 15 percent were prospective clients in the SBDC contacts database.

I. ECONOMIC IMPACT OF COVID-19 ON SMALL BUSINESSES

California businesses experienced a significant shock from the pandemic and the economic recovery in terms of business operations has been partial and limited. For instance, 46 percent of survey respondents fully operational in January had stopped all operations as of the last week of April, and 32 percent of businesses were still closed at the end of July. However, looking only at business operation status in April and July hides some important transitions during the first shock and the following recovery. Figure 1 shows these transitions in business operation status from January to the end of April and then at the end of July.

FIGURE 1. *Business Operation Status in April and July*



Note: "Shutdown" includes businesses both temporarily closed and permanently shut down.

[1] *Estimates reported from California SBDC Economic Impact Dashboard February 1, 2020 to October 15, 2020.*

In terms of recovery, 60 percent of businesses that had closed operations in April remained closed in July and 40 percent of businesses saw some return towards normalcy – 31 percent returned to partial operations and 9 percent opened fully after being closed in April. Additionally, 20 percent of businesses partly operating at the end of April were back to being fully operational by the end of July.

Yet, a significant number of businesses faced bigger challenges even after April. Of the businesses closed in July, 85 percent were already closed in April, however, the remaining 15 percent (or 939 businesses) operating to some degree in April closed by the end of July.

Nearly a third of businesses remain temporarily closed or have permanently shut operation and only 20 percent of those reducing operations during the initial crisis have returned to full operations. A little more than 40 percent of all respondents still operate only partially.

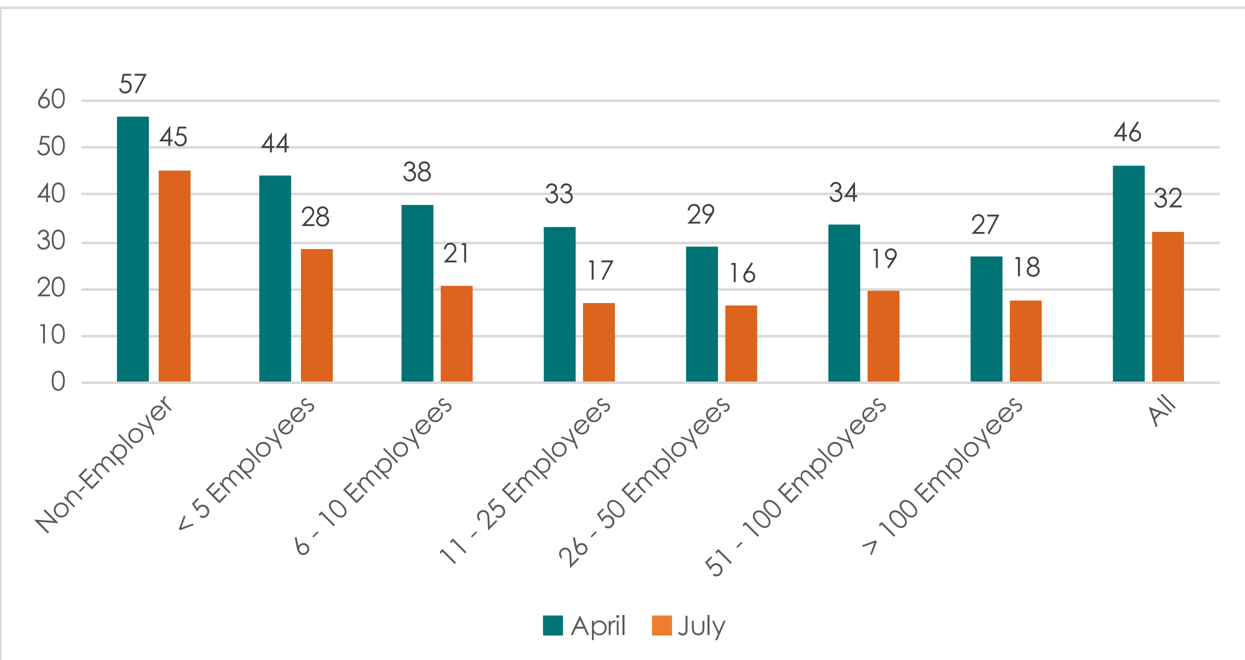
Examining these transitions between January, April, and July provide some insight on the depth of the impact of the crisis and speed of the recovery for the California's small business economy in general. We next examine the composition of businesses by size, age, and owner characteristics to detail who was impacted the most and who continues to struggle the most in the recovery.

Over 6% of firms have closed for good due to the economic impact of COVID-19.

a. Types of firms (age, size)

Notably, smaller and younger businesses were more impacted by the crisis and faced a tougher recovery than larger and older businesses. Figure 2 shows the proportion of businesses that were temporarily closed or had permanently shuttered operations by the end of April and July, by their number of employees in January.

FIGURE 2. *Business Closures (%) by Number of Employees*

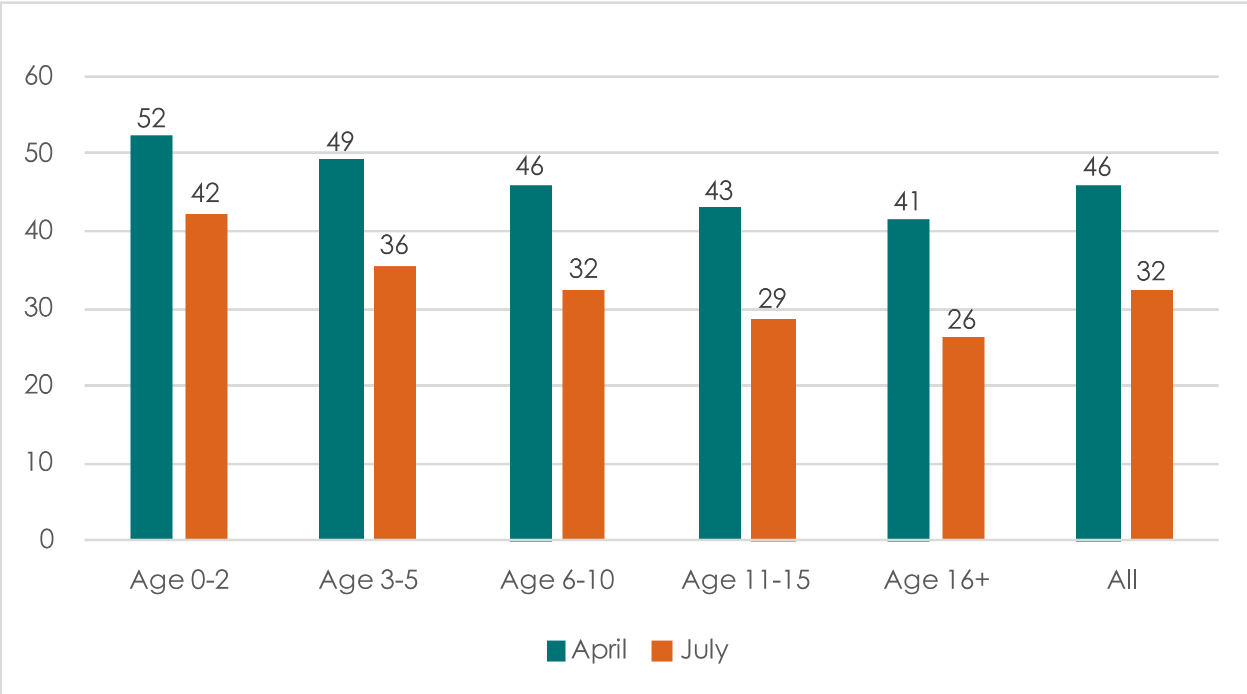


Note: Chart includes businesses temporarily closed and those permanently shut down.

The initial impact of the pandemic, measured by the proportion of business closures in April for each category, was the largest for businesses with no employees (57 percent closed). Businesses with 1 – 5 employees also felt the largest impact among employers with 44 percent business closures, and the smallest was for those with over 100 employees (27 percent closed). The persistence of the impact, as measured by the proportion of business closures in July, shows a similar pattern. Looking at the difference between proportion of businesses closed in April compared to those in July gives us an idea of the recovery for each category. Here we see the largest gains were for businesses with 6 – 10 employees (17 percentage point reduction in closures), and the smallest was for the largest businesses with over 100 employees (9 percentage point reduction in closures).

Figure 3 reports the business closures rates by business age categories, excluding businesses that have not yet been established.[2]

FIGURE 3. *Business Closures (%) by Business Age*



Note: Chart includes businesses temporarily closed and those permanently shut down. The "Age 0 – 2" category excludes businesses not yet established or those that closed before February 2020.

The patterns are similar in that start-ups and younger firms, less than 2 years old, felt the largest impact in April (52 percent closed) and continued to have the largest proportion of closures in July (42 percent closed). The oldest firms, over 16 years of age, even if the least impacted experienced 41 percent of businesses closures in April with 26 percent closures also at the end of July. In terms of recovery, firms over 16 years old reduced business closures the most between April and July (15 percentage point reduction) while the youngest firms reduced the least (10 percentage points).

b. Types of owners

Businesses owned by minorities and women were more susceptible to the pandemic crisis and have faced tougher challenges to recovery. Figure 4 shows the impact from business closures by owner characteristics.

Concerning the race of the business owner, black-owned business felt the impact the most with over 50 percent of their businesses closing by the end of April, and nearly 45 percent closed as of the end of July as well. Businesses owned by individuals of Native American, Native Alaskan, or Pacific Islander ancestry were the second most impacted with over 48 percent of their businesses closed at the end of April and over 40 percent closed in July as well. White-owned and Asian-owned businesses suffered lower but still large impacts on their business with about 45 percent of their businesses closing in April and about 30 percent remaining closed as of July.

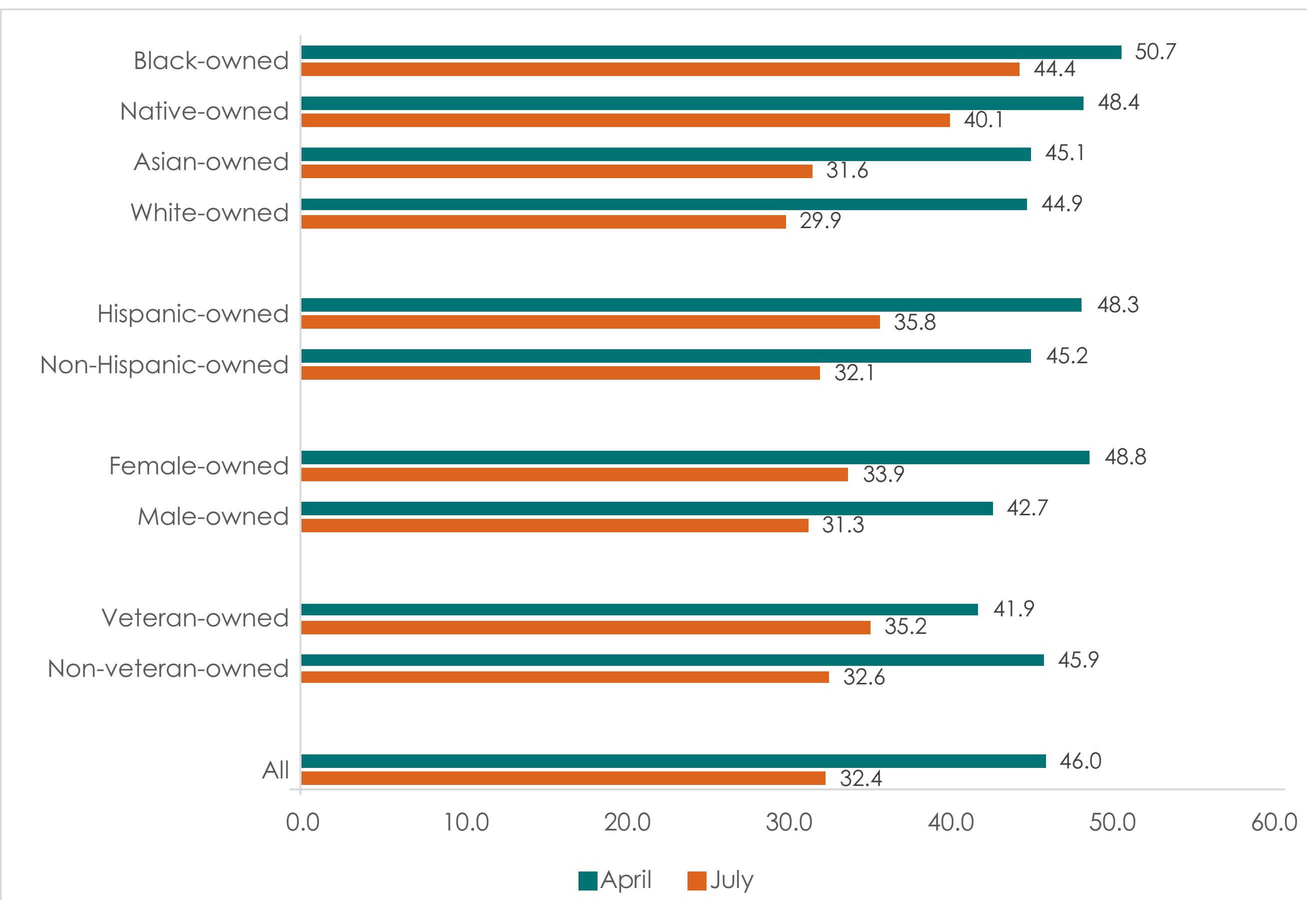
Hispanic-owned businesses saw higher rates of closures (48 percent) as compared to non-Hispanic owned businesses (45 percent) and by July closure rates for both declined similarly by about 13 percentage points.

Women-owned businesses, i.e. businesses with at least one female owner, were impacted more (49 percent closures in April) than businesses with only male owners (43 percent closures in April). However, the recovery has been stronger for women-owned businesses, reducing the percent of business closures by 15 percentage points from the end of April to the end of July, while those for male-owned business reduced by about 11 percentage points.

[2] *Our survey also asked respondents about their intent to start new businesses this year. About 68 percent of these latent entrepreneurs indicated they have deferred their decision to start a new business because of the pandemic crisis. The most cited reasons for their deferral were, the government-ordered lockdown (69 percent of latent entrepreneurs); reduced demand or cash flow unrelated to safety concerns (67 percent); and, customer safety (66 percent).*

Research demonstrates women and minority-owned businesses have received less assistance than others.

FIGURE 4. *Business Closures (%) by Owner Characteristics*



Note: Includes businesses temporarily closed and those permanently shut down.

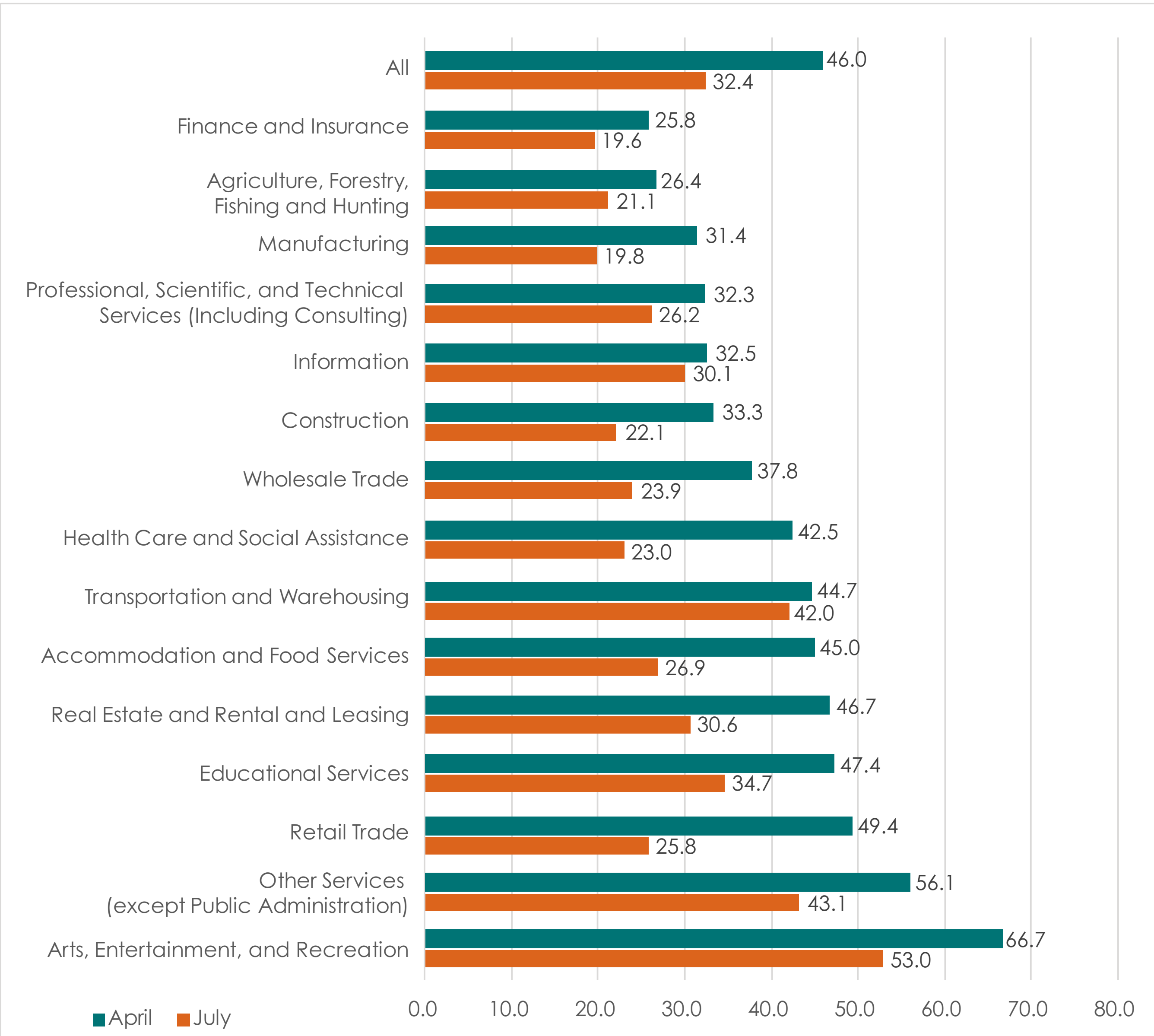
Veteran-owned businesses fared relatively better than nonveteran firms early in the crisis with 42 percent as compared to 46 percent of business closures respectively at the end of April. However, this gap reversed by July with over 35 percent of Veteran-owned businesses closed as of the end of July, as compared to about 33 percent of nonveteran-owned businesses being closed at the end of July.

c. Industries most impacted

Industries where businesses interacted most directly with clients were the most impacted by the crisis compared, yet the recovery has been more disparate.

Figure 5 reports proportion of business closures by client's industry of operation at the end of April and July. The "Arts, Entertainment, and Recreation" sector was the hardest hit with 67 percent of businesses closing by the end of April and over half of the sector was still closed even at the end of July. Agricultural activities and those relating to "Finance and Insurance" suffered closures to about a quarter of their businesses by the end of April and were relatively the least affected industries.

FIGURE 5. *Business Closures by Industry*



Note: Includes businesses temporarily closed and those permanently shut down. Utilities, Management of Companies, Administrative Services, Public Administration are excluded from this chart due to low response counts.

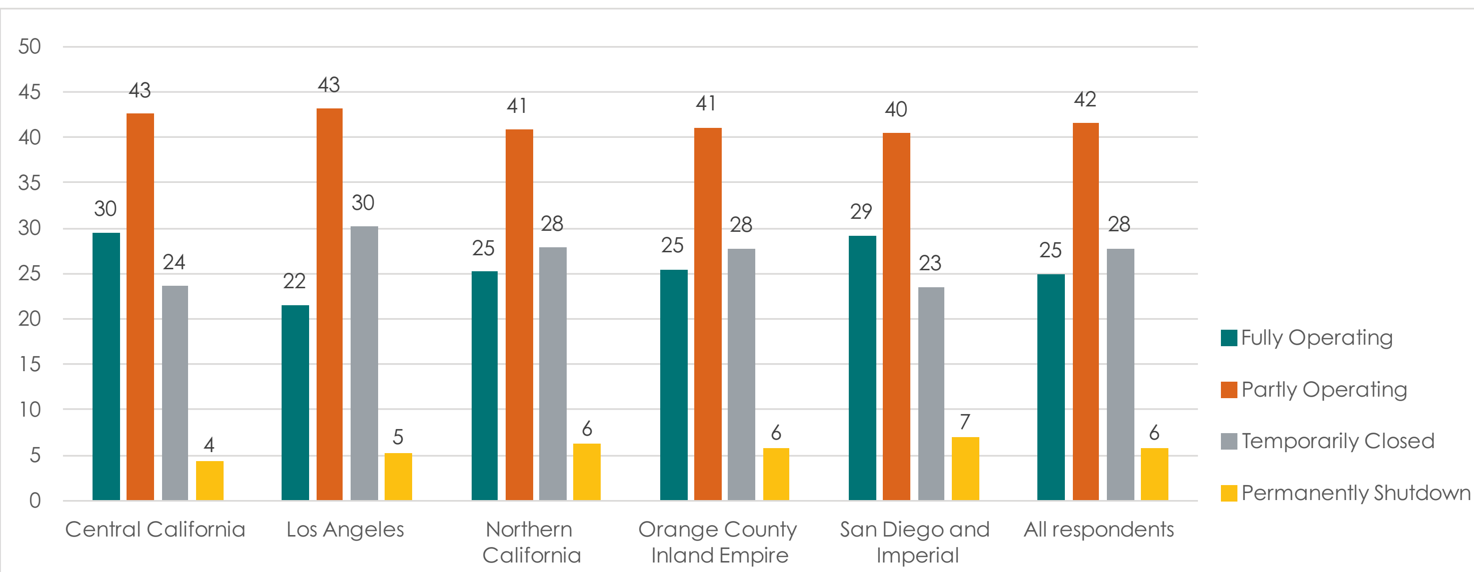
The largest losses have been reported in the Arts, Entertainment and Recreation sector with businesses reporting average sales declines of over 70%.

Comparing July to April closures however shows that some industries like "Retail Trade", "Accommodation and Food Services"; "Health Care and Social Assistance" reduced business closures by more than 20 percentage points, seeing some degree of a return likely with the adoption of social distancing and adjustments to recapture demand. However, the shock has persisted longer for other industries such as "Transportation and Warehousing";"Information";"Professional, Scientific, and Technical Services"; "Manufacturing"; and even "Finance and Insurance" that have reduced business closures by more than 10 percentage points.

d. Areas most affected

The direct impact of the pandemic was broad affecting all regions severely, however some small differences can be observed by California's Regional SBDC Networks. Figure 6 shows the business operating status at the end of July for all respondents by SBDC network.

FIGURE 6. *Business Operating Status (% of Businesses) as of July 2020 by SBDC Network*



Notably, the biggest difference is in the proportion of business that were "Fully Operating" at the end of July. The lowest proportion of these is reported for the Los Angeles region (22 percent) while the highest proportion of fully operating businesses concentrates in the Central California (30 percent) and San Diego (29 percent) regions. The Los Angeles region also reports the largest proportion of businesses (30 percent) that were "Temporarily Closed" at the end of July. A possible explanation for the Los Angeles region is that the regional economy has a higher concentration of businesses in sectors most impacted by the pandemic, such as the "Arts, Entertainment, and Recreation"; and the "Accommodation and Food Services" industries. However, these differentials are small relative to the size of the impact so inferences on cross-regional comparisons should be made carefully.

Nonetheless, a closer look at these distributions divided along businesses who were active clients of SBDCs at the time of the survey (Figure A1 in appendix), and comparing to inactive clients and businesses not in the SBDC network as of the survey (Figure A2 in appendix), paints an interesting picture. For example, comparing the "All Respondents" group in Figure A1 to the same in Figure A2 reveals that SBDC clients showed similar rates for businesses fully operating, but report 4 percentage points higher for business partly operating; and 3 percentage points lower for businesses temporarily closed. These differences vary by region but on the whole are suggestive that SBDC clients are managing the crisis a little better on average, at least in terms of maintaining their business operations.

2. WHAT WAS THE IMPACT? HOW WERE THEY AFFECTED?

a. Challenges / factors affecting businesses

Businesses with reduced operations between January and July 2020 were asked for the factors that significantly impacted their business. Over 68 percent of the 18,406 respondents whose operations were impacted cited the government-ordered lockdown as the factor affecting their regular operations. Over 63 percent also indicated "Reduced demand or cash flows unrelated to safety concerns"; followed by "Customer Safety" (53 percent), and "Worker Safety" (51 percent) to be among the most significant factors affecting regular operations. "Problems getting credit from suppliers" (26 percent) and "Difficulties with transportation, storage, or warehousing" (20 percent) were the least noted factors, and about a third of businesses reported "Problems accessing private bank credit" to be a significant factor affecting their operations.

Disaggregating these factors by business size and age provides some additional insight into different challenges faced by businesses. As shown in Table 1, compared to the average in the "All" columns, safety concerns were more severe for larger businesses with more employees than smaller business and non-employers. However, the reduced demand in the economy along with problems with financial access and supply chain were greater for smaller business than larger businesses. The government-ordered lockdown had a similar impact on all businesses.

TABLE 1. *Factors Most Affecting Usual Business Operations by Business Size*

Factors Most Affecting Business Operations	Non-Employers	< 10 Employees	11-50 Employees	> 50 Employees	All
Worker Safety	48%	50%	57%	63%	51%
Customer Safety	53%	52%	55%	57%	53%
Reduced demand or cash flow unrelated to safety concerns	63%	64%	60%	58%	63%
Problems accessing private bank credit	32%	33%	26%	28%	31%
Problems getting credit from suppliers	27%	27%	20%	23%	26%
Difficulties getting supplies or inputs	34%	37%	33%	33%	35%
Difficulties with transportation, storage, or warehousing	20%	20%	15%	16%	19%
Government ordered lockdown	69%	68%	68%	70%	68%
Number of Respondents	**6,308**	**7,921**	**2,003**	**280**	**16,512**

Table 2 reports these same factors affecting business operations by firm age. Comparing again to the averages in the "All" column, we see a pattern of young businesses being more susceptible to challenges relating to financial assistance and their supply chains while older more established business, with the exception of latent entrepreneurs, were more likely to cite safety concerns as affecting their business operations that most. Government-ordered lockdown was the most cited factor among all age categories.

These findings provide evidence that younger and smaller businesses faced different challenges during the crisis as compared to older and established firms. Young and small businesses were more susceptible to the indirect economic impacts from the slowdown in the economy and less so by the direct health and safety impacts of the pandemic.

TABLE 2. *Factors Most Affecting Usual Business Operations by Business Age*

Factors Most Affecting Business Operations	Latent Entrep.	Start Ups	11-50 Employees	> 50 Employees	All
Worker Safety	59%	49%	52%	51%	51%
Customer Safety	66%	49%	54%	53%	53%
Reduced demand or cash flow unrelated to safety concerns	67%	65%	66%	61%	63%
Problems accessing private bank credit	49%	41%	37%	28%	32%
Problems getting credit from suppliers	45%	36%	32%	22%	26%
Difficulties getting supplies or inputs	46%	43%	40%	32%	36%
Difficulties with transportation, storage, or warehousing	39%	26%	24%	17%	20%
Government ordered lockdown	68%	70%	71%	66%	68%
Number of Respondents	**368**	**1,954**	**4,688**	**11,738**	**18,380**

Note: "All" does not include "Latent Entrepreneurs" as they were asked the same question separately in the context of their biggest challenges to opening in business during the crisis.

b. Industries

Businesses in "Retail and Wholesale Trade" and "Transportation and Warehousing" were hit the hardest by disruptions in supply chains and challenges with storage and warehousing that were indirect effects of the health crises."

The impact of the pandemic has been large across all industries. Given the nature of the health crisis, it is expected that industries where businesses need more face-to-face interaction will struggle more than industries where businesses can more easily socially distance. Yet, little is known about the secondary effects of the pandemic on different sectors of the economy. We asked respondents how different factors, those directly related to health and safety concerns, and indirect factors, to do with demand slowdown, supply chains, and financing, have affected their operations.

TABLE 3.1. *Factors Most Affecting Usual Business Operations by Industry(continued in Table 3.2)*

Factors Most Affecting Business Operations	Worker Safety	Customer Safety	Reduced demand or cash flow unrelated to safety concerns	Problems accessing private bank credit	Number of Respondents
Agriculture, Forestry, Fishing and Hunting	40%	34%	48%	26%	235
Construction	48%	46%	54%	33%	933
Manufacturing	37%	30%	61%	31%	906
Wholesale Trade	39%	40%	66%	35%	526
Retail Trade	49%	53%	64%	33%	2,057
Transportation and Warehousing	61%	59%	71%	48%	391
Information	43%	41%	58%	32%	226
Finance and Insurance	47%	53%	47%	35%	312
Real Estate and Rental and Leasing	54%	61%	62%	40%	458
Professional, Scientific, and Technical	43%	44%	58%	27%	1,821
Educational Services	60%	66%	60%	27%	810
Health Care and Social Assistance	64%	66%	61%	26%	1,328
Arts, Entertainment, and Recreation	52%	60%	70%	32%	1,410
Accommodation and Food Services	55%	59%	69%	36%	1,407
Other Services	52%	55%	65%	33%	3,846
All Industries	**51%**	**53%**	**63%**	**32%**	**16,970**

Note: Orange highlighted cells indicate factor intensity 10 percentage points greater than the average across all industries. Total of industries does not sum because industries with fewer than 100 respondents are excluded.

Tables 3.1 and 3.2 report the incidence of these factors most affecting business operation by industry of the respondent. The bottom row in both tables reports the averages for all industries across all factors and provides a comparative basis. For ease of interpretation, highlighted cells indicate a 10 percentage points higher incidence of that factor than the average across all industries.

Overall, the biggest factors impacting business operations were the government-ordered lockdowns (68 percent) and reduced demand or cash flow unrelated to safety concerns (63 percent). The least cited factors include difficulties with transportation, storage, or warehousing (20 percent), and problems getting credit from suppliers (26 percent). About a third of respondents reported difficulties getting supplies or inputs (35 percent), and problems accessing private bank credit (32 percent), and half of all respondents notes worker or customer safety to be have significantly affected their business operations. This tells us that the indirect effects of the health crisis were more severe than the direct concerns of health safety.

Furthermore, the variance of these incidences across industries is lowest for the factors most impacting business operations, the government-ordered lockdown, and reduced demand in the economy. Industries most impacted by the direct health effects of the pandemic, thus most concerned with worker and customer safety, include “Educational Services”; and “Health Care and Social Assistance”, with businesses in “Transportation and Warehousing” also very concerned about worker safety. “Real Estate and Rental Leasing” along with “Transportation and Warehousing” had the most difficulty accessing bank credit; and finally, the “Retail

TABLE 3.2. *Factors Most Affecting Usual Business Operations by Industry (continued from Table 3.1)*

Factors Most Affecting Business Operations	Problems getting credit from suppliers	Difficulties getting supplies or inputs	Difficulties with transportation, storage, or warehousing	Government ordered lockdown	Number of Respondents
Agriculture, Forestry, Fishing and Hunt	20%	33%	18%	48%	235
Construction	25%	35%	21%	55%	933
Manufacturing	25%	38%	22%	50%	906
Wholesale Trade	34%	45%	34%	60%	526
Retail Trade	30%	45%	25%	72%	2,057
Transportation and Warehousing	46%	44%	44%	71%	391
Information	21%	26%	18%	53%	226
Finance and Insurance	22%	24%	13%	51%	312
Real Estate and Rental and Leasing	29%	34%	17%	71%	458
Professional, Scientific, and Technical	21%	25%	15%	57%	1,821
Educational Services	22%	33%	16%	72%	810
Health Care and Social Assistance	20%	39%	14%	67%	1,328
Arts, Entertainment, and Recreation	24%	28%	18%	79%	1,410
Accommodation and Food Services	28%	38%	20%	77%	1,407
Other Services	28%	36%	18%	75%	3,846
All Industries	**51%**	**53%**	**63%**	**32%**	**16,970**

Note: Orange highlighted cells indicate factor intensity 10 percentage points greater than the average across all industries. Total of industries does not sum because industries with fewer than 100 respondents are excluded.

and Wholesale Trade" industries and again "Transportation and Warehousing" faced the biggest challenges in supply chain and warehousing.

In relative terms, "Agriculture, Forestry, Fishing, and Hunting"; "Professional, Scientific, and Technical Services"; and "Information" sectors faced the least challenges. Businesses in Education and "Health Care and Social Assistance" suffered the most direct impact of the pandemic, while businesses in "Transportation and Warehousing" were the most affected overall.

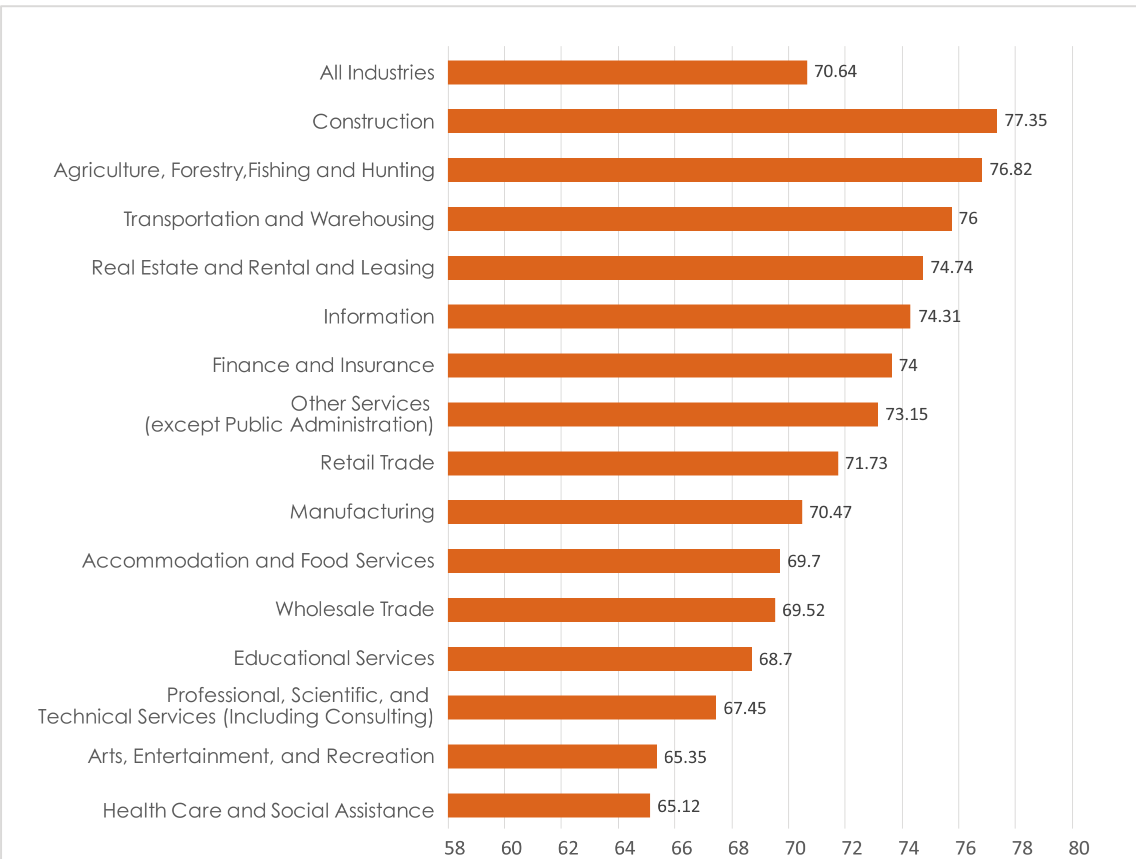
In summary, an evaluation of the challenges faced by businesses in different industries during the crisis reveals significant direct and indirect impacts across all industries. Examining the differences in the incidence across industries indicates the services sectors were hit harder with the direct impacts from health concerns of the pandemic, while both production and services were impacted by the indirect effects of the pandemic. Government lockdowns affected most sectors evenly but were cited less often as most affecting businesses

The most cited challenge to business operations across all industries were the indirect effect of the economic slowdown on demand declines and the government-ordered lockdown.

operations for "Agriculture, Forestry, Fishing and Hunt"; "Manufacturing"; "Information"; and "Finance and Insurance" activities.

In addition to asking respondents about the challenges they faced to business operations, we specifically asked respondents whose businesses were not fully operating, "if not for the government shelter-in-place (lock-down) order, would your business have remained operating as usual despite Coronavirus?" These results are reported in Figure 7 by industry.

FIGURE 7. *Businesses That Would Have Operated Normally Except for Lockdown, by Industry*



Note: Utilities, Management of Companies, Administrative Services, Public Administration are excluded from this chart due to low response counts.

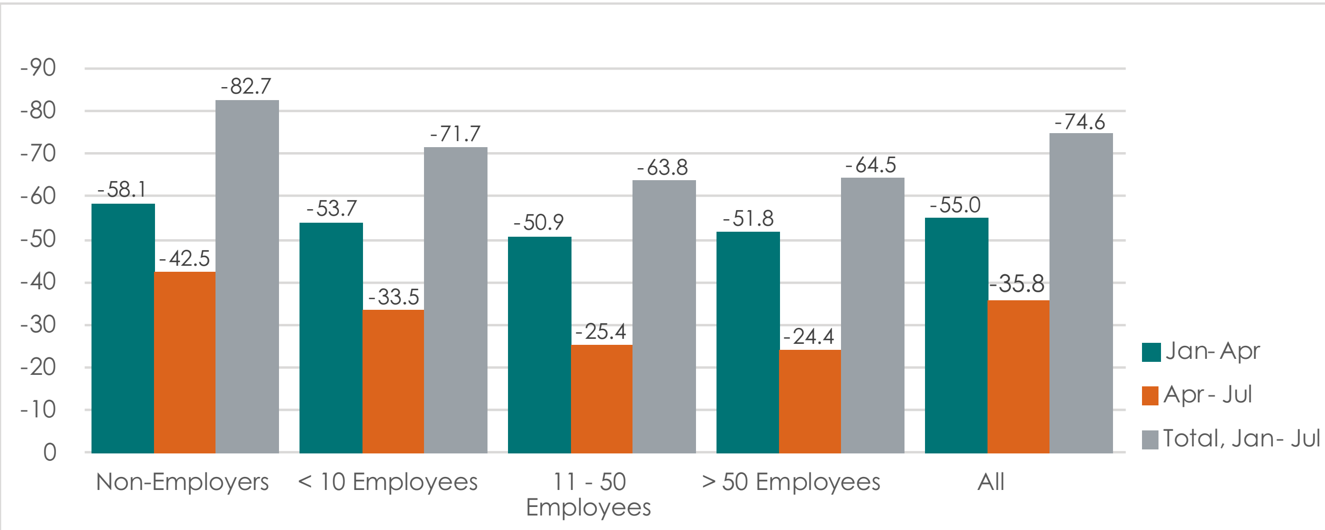
Notably, over 70 percent of businesses responded they would have operated as usual if not for the lockdown order. Also, the variation across industries is small, with the lowest incidence of 65 percent for businesses in "Health Care and Social Assistance", and the highest incidence of 77 percent for businesses in "Construction".

We interpret these results as businesses most directly impacted by the health crisis are less likely to feel the lock-down to be an additional constraint, while businesses indirectly impacted by the pandemic, i.e., not directly related to safety concerns, are more likely to find the government lockdown as an additional constraint.

c. Lost revenues

"Reduced demand and cash flows not related to safety concerns" were amongst the highest cited challenges facing businesses during the crisis. When we asked respondents about their sales change between January and April, and between April and July, about 85 percent reported a decline in sales for one or both periods. On average, client sales declined by 55 percent between January and April and another 36 percent between April and July, for a total decline on average of 75 percent of sales between January and July.

FIGURE 8. *Average Sales Change (%) by Number of Employees*

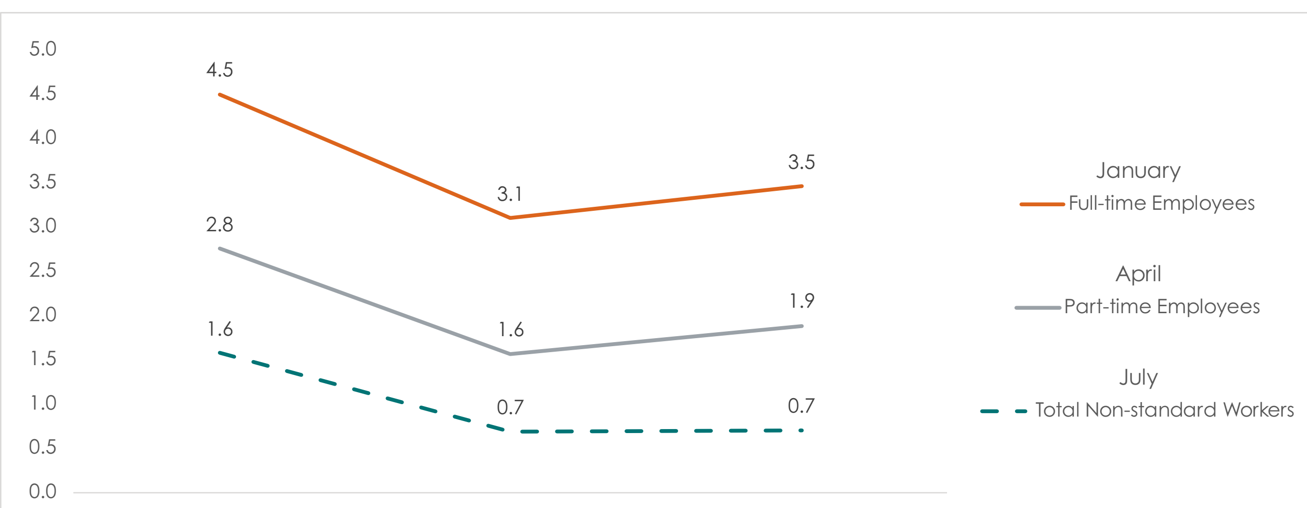


Furthermore, as shown in Figure 8, non-employers and small firms were impacted more in terms of sales loss than larger businesses, losing on average 83 percent and 72 percent of their sales between January and July, respectively. Our analysis also showed that the pandemic's impact on sales differed little by the age of the business.

d. Jobs lost

Facing significant reduction in sales and high uncertainty in the economy, many businesses had to lay off workers and reduce operations to survive. As reported in Figure 9, before the crisis began at the end of January, SBDC clients employed on average 7.5 employees (5 full-time and 2 part-time) and about 1.6 non-standard workers.[3]

FIGURE 9. *Average Employment by Job Type in January, April, and July 2020*



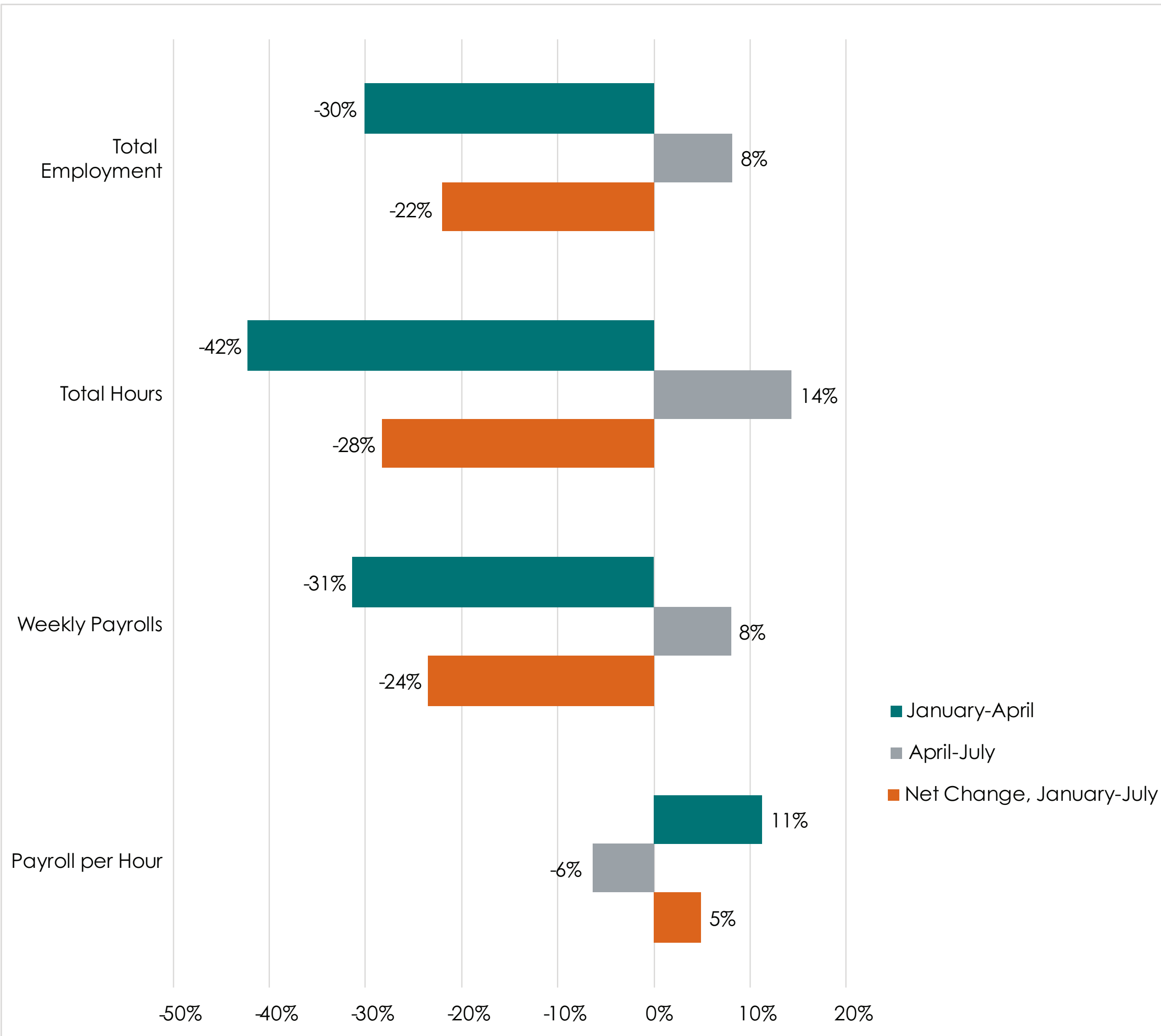
[3] *Non-standard employees include contractors, leased workers, temporary workers, and day laborers.*

By the end of April SBDC clients had reduced their average employment by more than a third, with a larger proportionate adjustment in part-time workers (about 40 percent) than full-time workers (about 30 percent). Businesses increased their employment from April to July, but only by a fraction of the jobs lost from January through April.

As such, the net change in employment from January through July for the average respondent suggests a contraction of full-time employment by a nearly a quarter (22 percent), part-time employment by about a third (32 percent), and non-standard workers by more than half (56 percent).

Figure 10 additionally reports adjustments made by businesses in terms of their weekly employment, total hours of work, payrolls per hour, and total weekly payrolls. The initial decreases in employment, hours, and payrolls were substantial between January and April at 30 percent, 42 percent, and 31 percent decline, respectively.

FIGURE 10. *Labor Adjustments (% changes) January - April and April - July 2020*



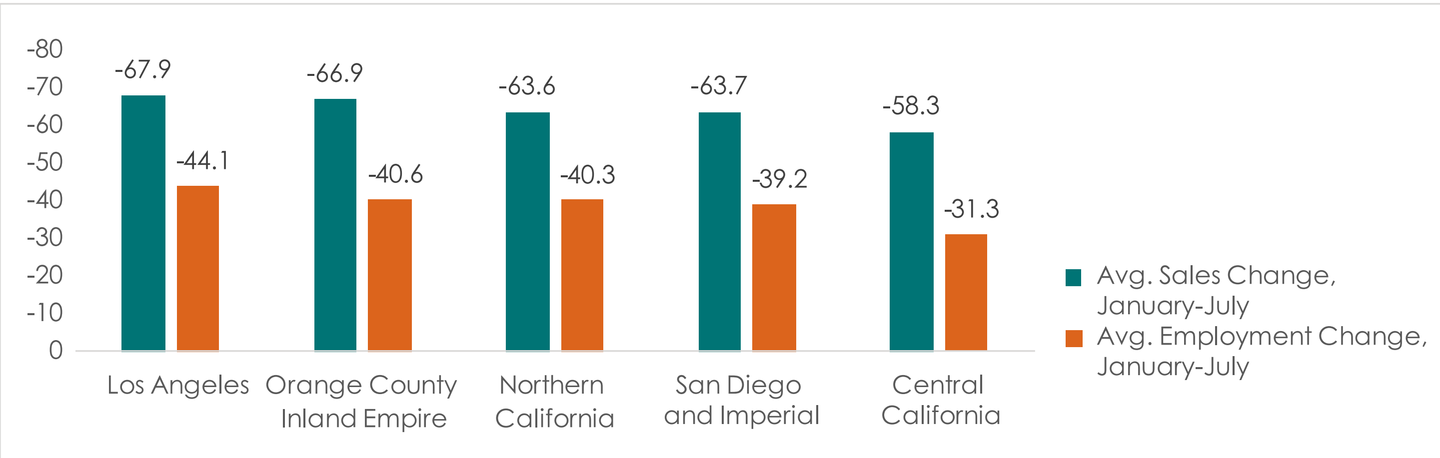
Between April and July, we see some return to work with employment, hours, and weekly payrolls increasing 8 percent, 14 percent, and 8 percent, respectively. However, in net, from January through July businesses have reduced employment by 22 percent; hours by 28 percent; and payrolls by 24 percent. These are large downward adjustments.

However, an interesting pattern is visible in Figure 10. Between January and April payrolls per employee increased about 11 percent as total employment, hours, and payrolls declined. Then, between April and July, as employment, hours, and weekly payrolls increased, payrolls per employee declined about 6 percent, for a net change of 5 percent increase since January.

One explanation for this pattern is that lower-wage workers were laid off initially and not all of them have returned to regular work through the recovery, suggesting high wage earners are doing better through the recovery. Another explanation is that the shifts in payrolls per hour are capturing workers being paid but not working during the crisis.

Finally, as reported in Figure 11 the impact of the crisis on sales and employment did not vary much by region or SBDC network. From January to July businesses in the Los Angeles region experienced the greatest losses in sales and employment each contracting by 68 and 44 percent, respectively while businesses in the Central California region experienced relatively smaller but still large losses in revenue and employment, decreasing by 58 and 31 percent, respectively.

FIGURE 11. *Average Sales and Employment Change (%) from January – July, by SBDC Network*



3. WHO RECEIVED ASSISTANCE? WHO DID NOT?

Most clients, over 71 percent, received some type of financial assistance since the start of the crisis. Over 48 percent received a PPP loan and about 43 percent received an EIDL award, with 20 percent of respondents also receiving some other form of financial assistance. Table 4 details the proportion of respondents that received any funding, by source of funding, during the crisis.

TABLE 4 – *Sources of Financing During the COVID-19 Crisis*

Sources of Financing	All Clients	Non-Employer	Employer
Applied for PPP	64%	37%	80%
PPP Awarded	48%	19%	67%
Applied for EIDL	65%	53%	73%
EIDL Awarded	43%	31%	50%
Received Other Financing	20%	24%	18%
Main Street Lending Program	0%	0%	1%
Other Federal Programs	5%	7%	4%
State and Local Programs	10%	12%	8%
Commercial Bank Loans	1%	1%	1%
Owner Financing	2%	2%	3%
Friends and Family	5%	6%	4%
Venture Capital	0%	0%	0%

Notably, non-employers have received significantly less funding during the crisis than business with employees. Only 37 percent of non-employers applied for the PPP and 19 percent of all non-employers received a PPP while more non-employers applied for (53 percent) and received an EIDL (31 percent). In contrast, PPP application rates were more than double for businesses with employees (80 percent) and almost a third higher for EIDL (73 percent). Also, two thirds of all employer respondents received a PPP and about half received an EIDL loan.

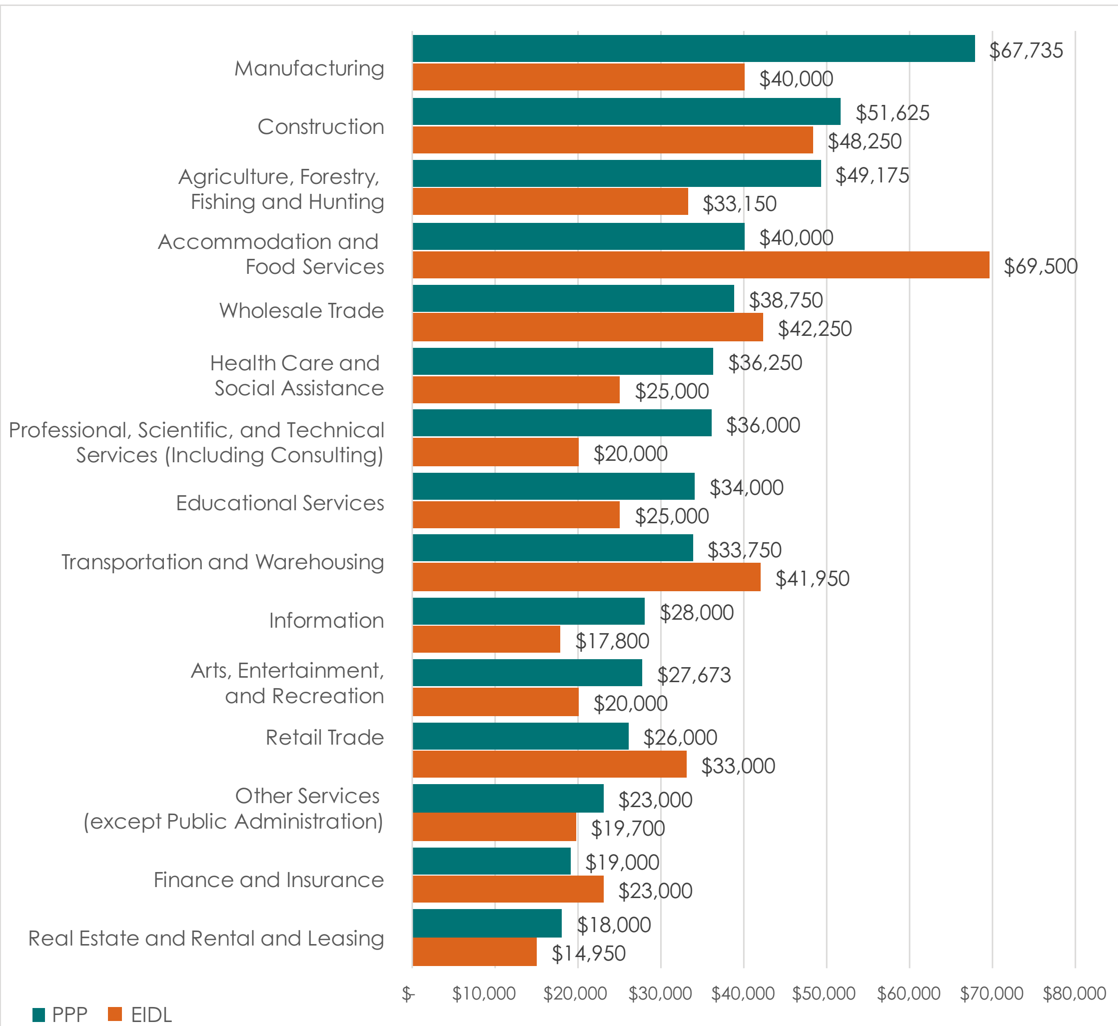
Table 5 reports the median size of the PPP and EIDL award by firm size. As expected, larger businesses received larger PPP loans, and except for businesses with more than 50 employees, the EIDL loan sizes were larger than the PPP loans for each business size category.

TABLE 5 – *Median PPP and EIDL Awards by Business Size*

Firm Size	PPP	EIDL
Non-Employers	$ 7,500	$ 12,500
1 - 10 Employees	$ 20,833	$ 30,000
11 - 50 Employees	$ 110,000	$ 150,000
50+ Employees	$ 525,000	$ 150,000
All Respondents	$ 24,397	$ 25,000

Note: Median loan sizes in this table are reported only for those respondents receiving the loan. Respondents that applied for the loan but did not receive it are excluded.

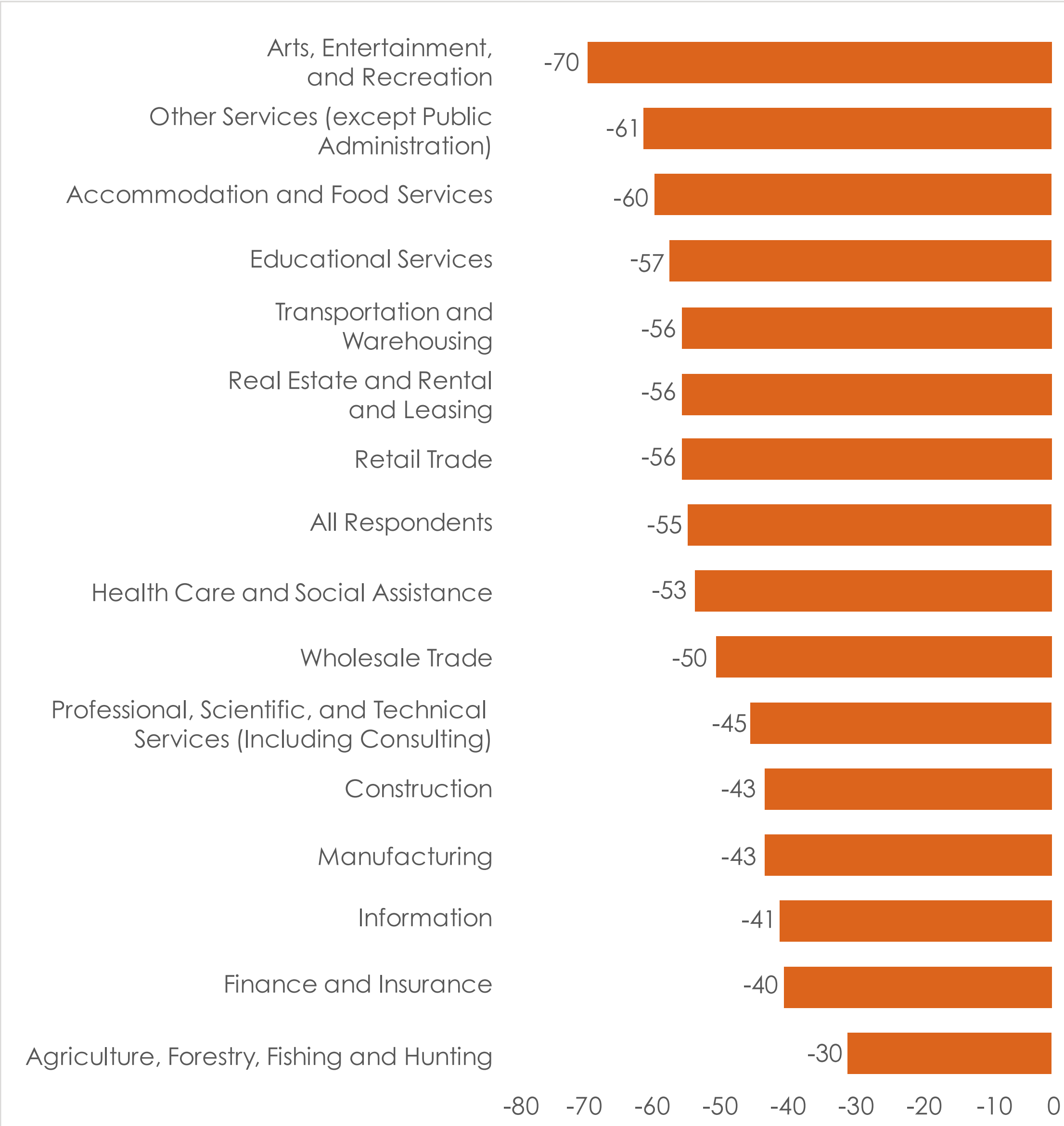
FIGURE 12. *Median PPP & EIDL Award by Industry*



Note: Utilities, Management of Companies, Administrative Services, Public Administration are excluded from this chart due to low response counts.

Along with business size, the size of the PPP and EIDL loans varied by industry. Figure 12 reports the median size of these loans by industry sector. At the median loan size, the largest PPPs were made to businesses in "Manufacturing" ($67,735) and the smallest to businesses in "Real Estate and Rental and Leasing" ($18,600). On the other hand, the largest EIDL loans were made to businesses in "Accommodation and Food Services" ($69,500) while the smallest EIDLs were made to "Real Estate and Rental and Leasing" ($14,950).

FIGURE 13. *Mean Sales Change by Industry*

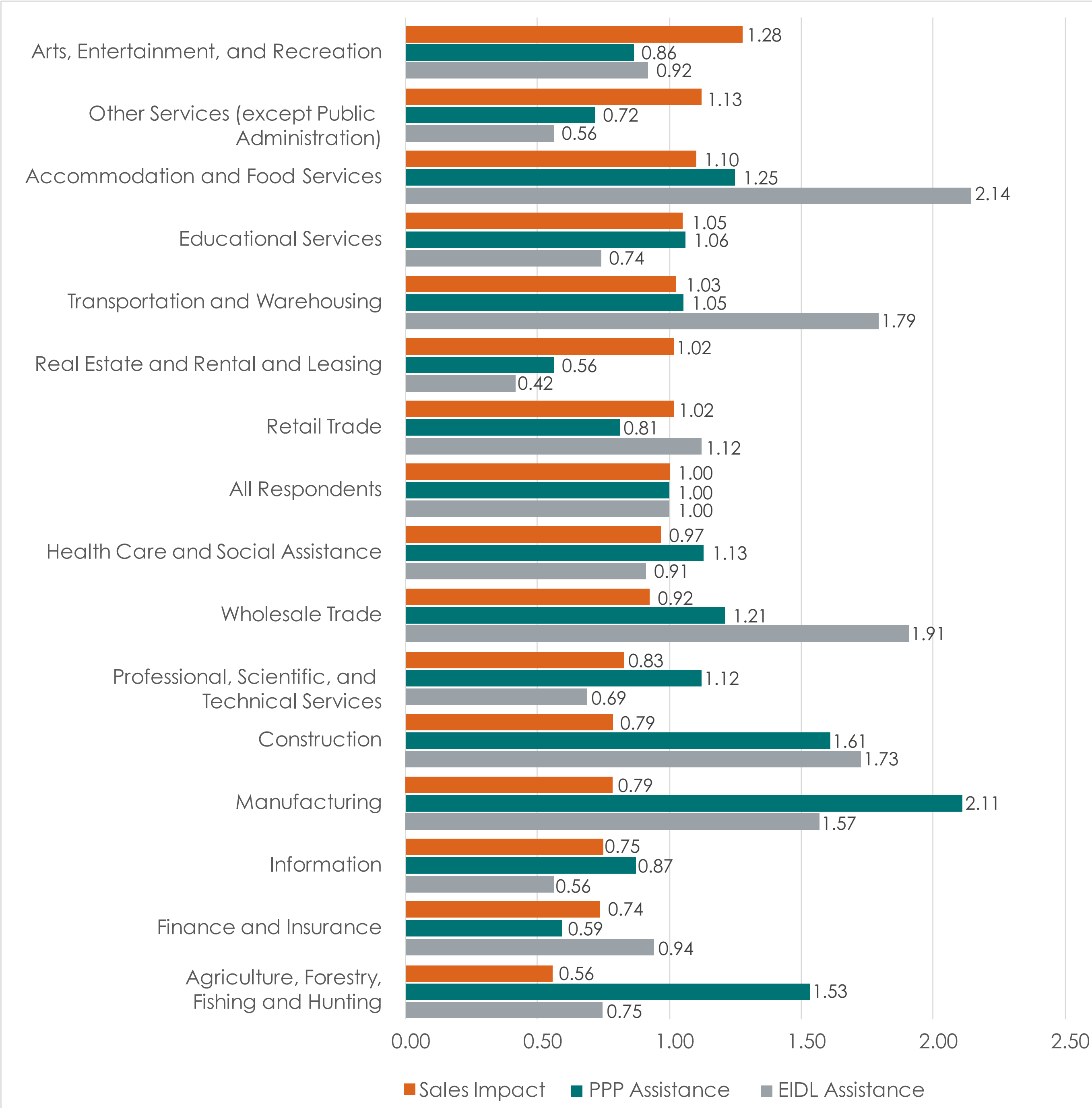


Note: Utilities, Management of Companies, Administrative Services, Public Administration are excluded from this chart due to low response counts.

However, did the industries most impacted by the crisis receive the most financial assistance? Figures 13 and 14 provide some insight for this question. In Figure 13 we report the average sales decline from January through April by industry. This shows us the first impact of the crisis on business revenues. The declines were largest in the service industries and, while large, less so in the production industries which parallels our earlier discussion on the factors impacting business operations in different industries. The chart is rank ordered by sales decline so the average decline of 55 percent across all industries is reported in the middle under "All Respondents."

In Figure 14, we combine the information in Figures 12 and 13 by normalizing the loan sizes and sales declines to the averages across all industries. This allows for an interpretation of the relative size of financial assistance received to the relative size of the impact experienced by the average business in the industry. For instance, as reported for the "Arts, Entertainment, and Recreation" industry, a normalized sales change of 1.28 indicates a sales decline of 28 percent greater than the average, or 1.28 times the average sales decline of 55 percent across all respondents (figure 13). Similarly, a normalized PPP assistance of 0.86 indicates a PPP award size 86 percent, or 0.86 times, the median PPP of $24,397.

FIGURE 14. *Crisis Impact vs Assistance Received by Industry*



Note: Utilities, Management of Companies, Administrative Services, Public Administration are excluded from this chart due to low response counts.

The results of Figure 14 suggest that aid amounts may have been imperfectly aligned with the size of the impact. Businesses in industries such as "Agriculture, Forestry, Fishing and Hunt"; "Manufacturing"; and "Construction" received PPP assistance relatively much larger than their relative sales declines whereas "Accommodation and Food Services"; "Manufacturing"; "Transportation and Warehousing"; and "Wholesale Trade" received EIDL assistance relatively larger than their sales declines. By these measures businesses in the industries of "Arts, Entertainment, and Recreation"; "Other Services"; and "Real Estate and Rental and Leasing" are potentially underserved.

a. Types of owners

Next, we examined the uptake of PPP and EIDL loans by business owner characteristics, such as race, ethnicity, gender, and veteran-owner status. Table 6 reports the median PPP and EIDL loans for non-employers and employers by the type of owner. For both the PPP and EIDL, minority, women-owned, and veteran-owned businesses received smaller loan sizes.

TABLE 6. *Median PPP and EIDL Loan Amounts Awarded by Owner Characteristics*

	PPP		EIDL	
Ownership Type	**Non-Employer**	**Employer**	**Non-Employer**	**Employer**
Race				
White-owned	$8,000	$33,000	$15,000	$48,900
Black-owned	$7,500	$15,713	$8,500	$18,900
Asian-owned	$5,833	$29,593	$10,000	$46,500
Native-owned	$8,296	$27,545	$11,000	$50,000
Ethnicity				
Hispanic-owned	$7,300	$23,000	$13,800	$30,000
Non-Hispanic-owned	$7,868	$32,000	$12,000	$44,450
Gender				
Female-owned	$7,550	$28,402	$11,000	$39,000
Male-owned	$8,000	$35,000	$14,800	$58,000
Veteran Status				
Veteran-owned	$6,725	$35,000	$14,750	$44,000
Nonveteran-owned	$7,500	$32,000	$11,700	$45,000
All Respondents	**$7,500**	**$32,000**	**$12,500**	**$45,000**

Note: Native-owned category includes individuals with Native American, Native Alaskan, or Pacific Islander ancestry.

This table does not account for business size, age, or industry of operation and presents the raw median loan sizes. Nonetheless, it provides important insight into the median financial assistance received by minorities, women-owned, and veteran owned businesses.

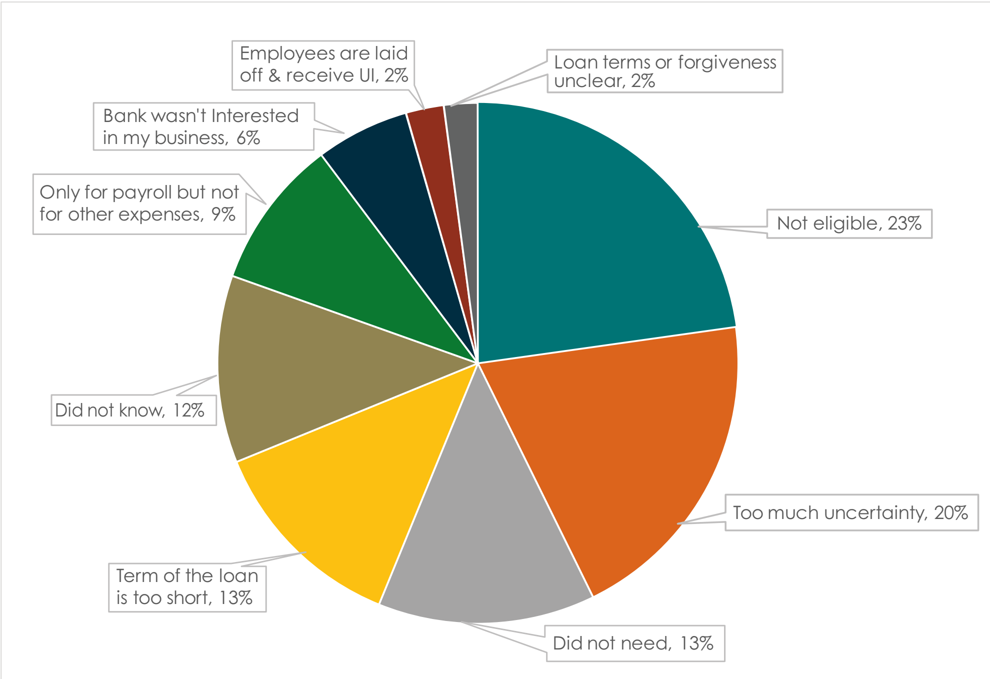
b. Businesses without any assistance

Another important consideration we were able to address though this survey was to examine the respondents that did not receive any financial assistance during the crisis. Specifically, a total 4,086 respondents (about 29 percent of respondents) reported not applying for, or not receiving any PPP, EIDL, or any other type of financial support during the crisis. Over 92 percent of these businesses are either non-employers (63 percent) or had less than five employees as of January 2020 (29 percent).

Furthermore, about 35 percent are minority-owned; 56 percent have at least one female-owner; and, about 6 percent are veteran-owned. The largest shares of these business are in “Other Services” (21 percent); “Retail Trade” (13 percent); and “Professional, Scientific, and Technical Services” (12 percent).

These businesses not receiving any financial assistance during the crisis reported an average 51 percent decline in revenues January through April, but reduced employment only by 16 percent which is less than half the average employment decline for all businesses. Furthermore, most of these businesses, or their owners, were not already indebted before the crisis with over 70 percent of these respondents reporting no current personal or business loans.

FIGURE 15. *Reasons for Not Applying for a PPP Loan*



Additionally, as reported in Figure 15, the most common reasons cited by these businesses not receiving any aid, for not applying for a PPP included, "Not eligible" (30 percent); "Too much uncertainty" (26 percent); and "PPP not needed" (17 percent). They also report similar risk levels as the entire survey sample for how long they expect to operate through the crisis, suggesting most of these businesses may not be at a higher risk of closure, or in greater need of financial assistance.

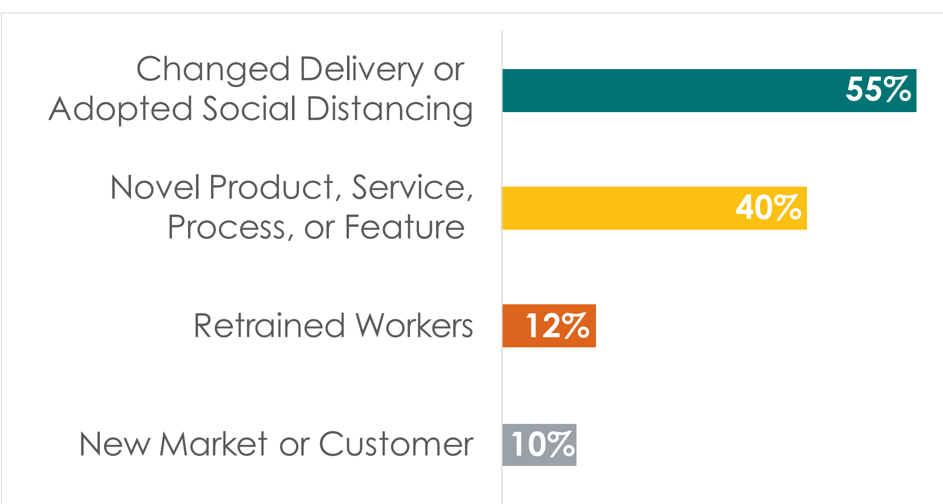
Note: Percentages are based on the number of responses and add to greater than 100.

4. HOW DID BUSINESSES ADAPT TO THE CRISIS?

Another salient feature of our survey was to assess how businesses may have responded creatively to the ongoing crisis. Here we found high rates of innovation and adaptation. Figure 16 summarizes innovative activity by SBDC clients through the crisis.

In face of unprecedented challenges rates of innovation and adaptation were high. Over 55% of businesses adapted how they service customers; 40% innovated product, service, or process; and 12 percent of businesses retrained or upskilled their workers.

FIGURE 16. *Innovation and Adjustments by SBDC Clients in Response to the COVID-19 Crisis*

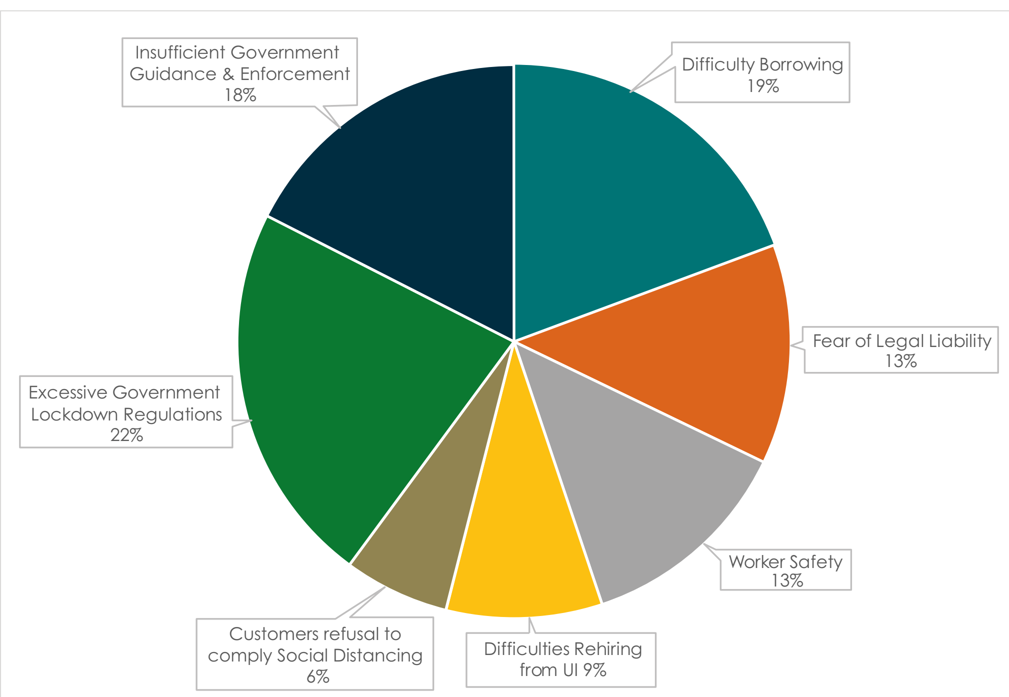


Over 55 percent of respondents changed how they delivered their products or services, including adopting social distancing to recapture lost demand. Additionally, 40 percent of respondents innovated a novel product, service, process, or feature to capture new demand arising in the market even during a crisis and another 12 percent of businesses retrained or upskilled their workers. This demonstrates a high degree of awareness to changing market conditions and a strong capacity to adapt though the crisis. Finally, 10 percent of respondents entered a new market or targeted a new customer segment, a rate comparable to non-crisis times, suggesting that the crisis did not dampen innovation in the economy, but has likely driven businesses to become more agile and competitive.

5. WHAT CHALLENGES DO BUSINESSES FACE TO RE-OPENING?

Nonetheless, most business continue to face significant challenges to re-opening and returning to full operations. Figure 17 reports the proportion of respondents citing their difficulties to re-opening.

FIGURE 17. *Challenges Clients Continue to Face in Reopening*



Note: Percentages are based on the number of responses and add to greater than 100.

The most reported reason is "Excessive government lockdown regulations" (22 percent) followed by "Insufficient government guidance and enforcement" (18 percent), while the least important challenges include "Customer's refusal to comply with social distancing" (6 percent) and "Difficulties rehiring employees because they are receiving unemployment insurance" (9 percent).

6. POLICY RECOMMENDATIONS

Our survey requested a high detail of information from respondents about their employment levels, payrolls, and financing and we received a high response rate with 22,102 responses in total. The survey was conducted in two waves, the first in May for the Los Angeles and San Diego SBDC networks and encouraged by the attention our survey attracted, we extended the second wave to cover the entire state of California in July. We interpret this high response rate on survey as detailed as ours as a call to action, that small businesses in the California SBDC network want to be heard and are concerned about their recovery.

Based on insights derived from this survey, we propose the following recommendations for advising clients on some essential strategies for surviving this unprecedented crisis.

a. Better Alignment of Financial Assistance with Need

Our analysis finds that non-employers, the youngest and smallest businesses, as well as those run by minority and women-owners received less financial assistance during the crisis. Although the PPP was initially designed for employers, and later extended to non-employers to allow borrowers to cover other business expenses, these groups remained underserved by federal assistance. A provision of an extended EIDL at a lower interest rate is likely to reduce the risk of closures for the most vulnerable of these businesses without substantially increasing their debt burdens.

Non-employer, small and young, and minority-owned businesses are an important source of employment and economic security. Provision of essential assistance targeting these groups has potential to help drive the economy where it is most vulnerable and boost regional economic recovery.

We also find that 20 percent of respondents relied on sources of financing other than the PPP and EIDL, most common among these were the state and local programs underscoring the importance of EDOs and CDFIs in bridging critical financing gaps at the local level. We recommend extending federal capital through the CDFI and EDOs to improve local alternative lenders and putting more emphasis on the Community Reinvestment Act (CRA) to make additional capital available to local alternative lenders.

Our comparison of the impact of the crisis and the consequent uptake of PPP and EIDL loans by industry revealed the potential of imperfect alignment of policy with need. We recommend improving financial assistance to those businesses underserved and still struggling also be targeted taking industries into consideration. Specifically, we find businesses in the "Arts, Entertainment, and Recreation" and "Real Estate and Rental and Leasing" industries to be very vulnerable given the continuing crisis and uncertainty.

b. Financial Management Strategies

About two thirds of clients with no debt obligations leading into the crisis are now indebted with a PPP loan of $57,000 and a EIDL of $49,000 on average. Over 30 percent of these businesses now have both a PPP and an EIDL, and about 15 percent also received some other form of financial assistance. As of the end of July, 80 percent of all respondents were financially leveraged. As such, the provision of financial management training and assistance is critical during this time of crisis and we recommend provision of strategic training and assistance that focuses on:

- Developing, maintaining, and improving relationships with banks to improve financial access and planning.
- Understanding loan requirements and developing plans for repayment.
- Debt and cash flow management during COVID-19.

c. Business Process Adaptation and Innovation

We find high rates of innovation in small businesses during this crisis. These innovations crossed the gamut of inventing new products and services, to adapting business practices to a new normal such as implementing social distancing practices. However, over a third of respondents reported no innovations or adjustments to their operations. These non-innovators were less likely to see a sales increase in the recovery and a greater proportion of non-innovators are temporarily or permanently closed as of the end of July. Accordingly, we encourage helping clients develop new strategies to pivot for the new normal by:

- Focusing on innovation as a strategic skill set.
- Helping clients develop pivot-strategies instead of waiting for a return to normal.
- Advising clients on devising strategies for change management.

d. Gaps and Underserved areas

Our analysis of the survey has provided invaluable insight on the impact of the pandemic and subsequent regulation on California businesses of different sizes, age, industry, and region. We found that non-employers, young businesses, and small businesses were impacted a lot harder than more established and larger firms.

We also found that the services sectors have struggled more than goods-producing businesses, and we were able to further decompose the most salient factors of the initial shock, and the biggest challenges during the subsequent recovery to identify unique details on industries. For example, a unique insight our analysis uncovered was that businesses in "Transportation and Warehousing" have suffered significantly from both the direct impact and indirect impact of the crisis and face a unique combination of challenges to recovery unrelated to financing concerns. In terms of the size of financial assistance received compared to the size of the initial impact, we also found evidence that the policies may have been misaligned.

As such, while we find that the crisis impacted all sectors of the economy, there has been differences in how businesses have experienced the crisis. Here we find the SBDCs to be uniquely positioned to support policies and provide counseling and assistance that can be tailored for the specific needs and experiences of small businesses.

e. Future Research

This study has provided invaluable insight into how the COVID-19 pandemic has impacted SBDC clients and the California small business economy. In this report we covered the most salient findings from our analysis. Yet, the detail and quality of information gathered through this survey can provide deeper insight into many different dimensions of the impact of this crisis and its recovery. We encourage continuing research and analysis of this survey dataset to uncover more causal relationships and impacts of SBDC advisement on client outcomes.

f. Expanded funding for the SBDC Program

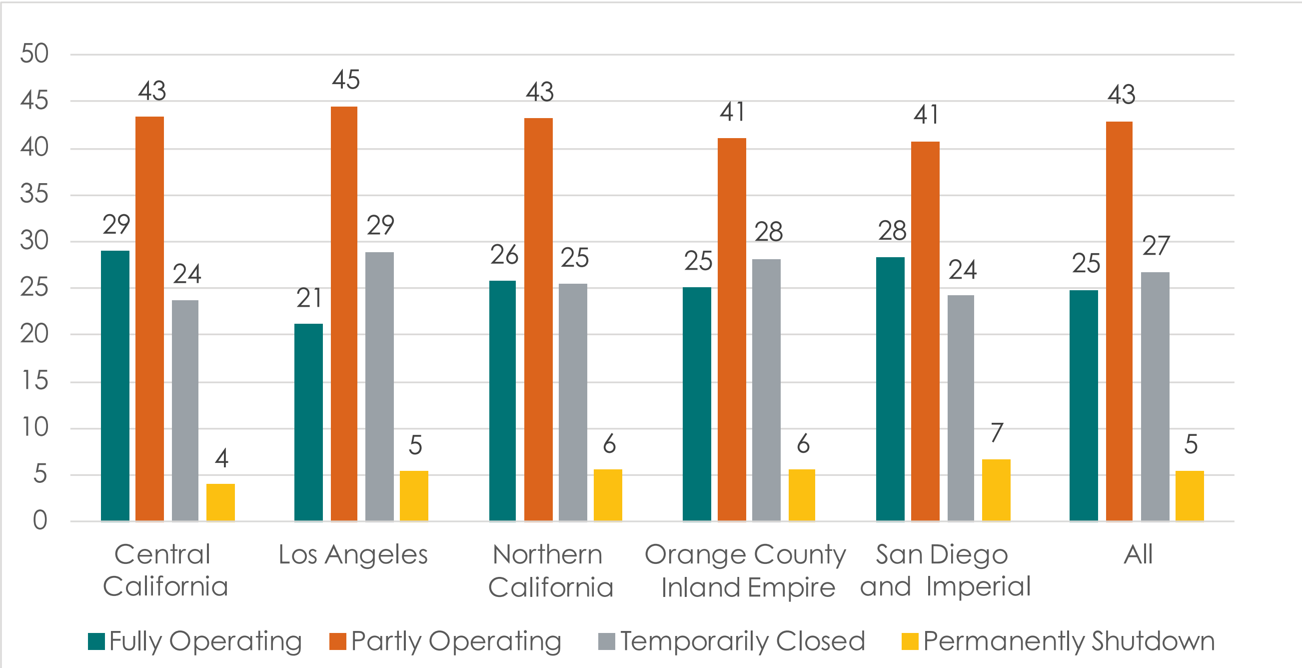
We recommend increased funding and further expanding the California SBDC program. Their collaborative model connecting talented advisors with businesses committed to learning and adaptation while engaging local partners make SBDCs an invaluable resource during crises.

Our analysis found evidence that SBDCs provided an important and essential service to small businesses in distress from the pandemic. Respondents receiving counseling from SBDCs were more likely to apply for programmatic assistance and less likely to report they were unaware of the federal assistance programs, or that they found them too complicated to access. SBDC clients also have a higher representation in minority-owned, female-owned businesses, and businesses in underserved areas than in the California economy at large indicating their reach to businesses often hard to reach.

The value SBDCs provide to their local economies is only underscored by the fact that their caseloads increased by 191 percent between mid-March to mid-April and most of the new clients have stayed engaged through the crisis. With the pandemic ongoing, SBDCs will continue to play an outsized role in supporting California's small businesses with critical strategies for a robust economic recovery and re-adjustment to a new normal.

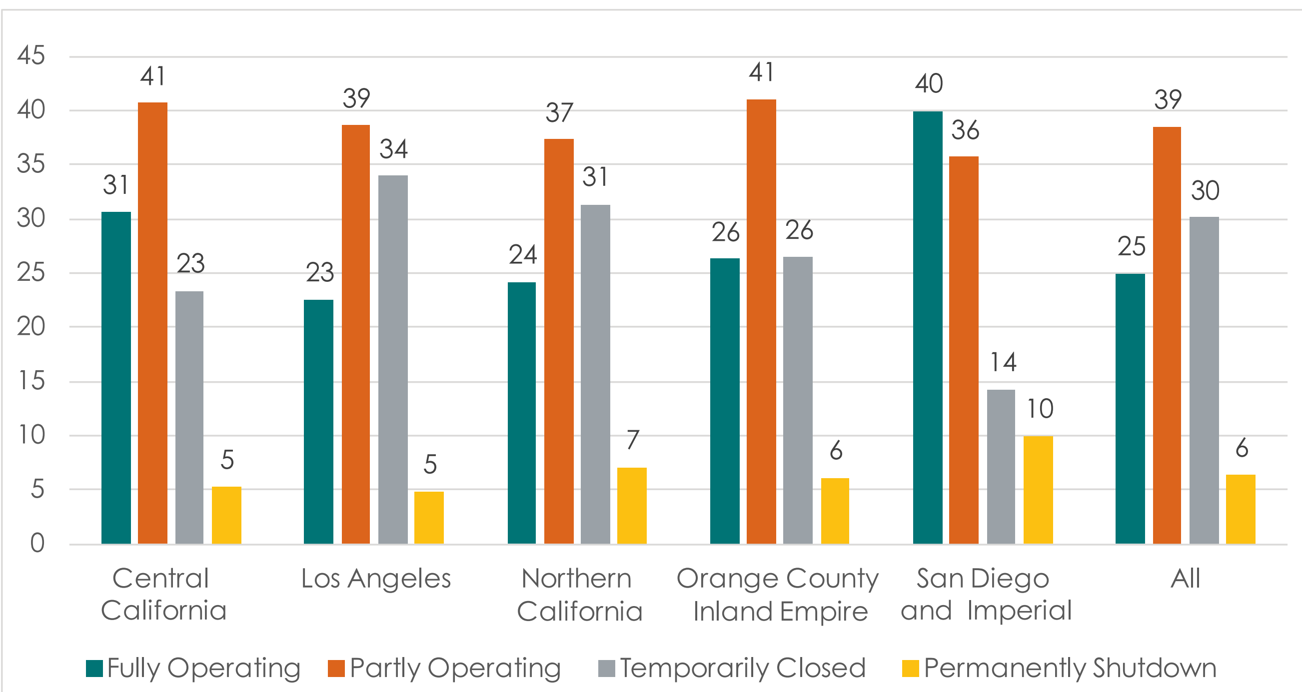
APPENDIX

FIGURE A1. *Business Operating Status in July by SBDC Network for Active Clients*



Note: Chart only includes business that were Active clients of pre-clients at the time of the survey.

FIGURE A2. *Business Operating Status in July by SBDC Network for Inactive or Non-Clients*



Note: Chart only includes businesses that were not active clients or pre-clients at time of survey.

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