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SMALL BUSINESS OPTIMISM GROWS, BUT ENTREPRENEURS SAY WORST OF ECONOMIC WOES NOT OVER YET, ACCORDING TO THE AMERICAN EXPRESS® OPEN SMALL BUSINESS MONITOR

Hiring plans hit all-time survey low, dropping below fall 2002 level

NEW YORK, Sept. 17, 2009 -- More than half (55%) of entrepreneurs have an optimistic outlook on near-term business prospects, up from 45% in March 2009, according to the American Express OPEN® Small Business Monitor, a semi-annual survey of business owners. One quarter (26%) report expanding opportunities for their business, up from 15% from a year ago, but six in ten (63%) do not think the worst of the U.S. economic woes are over, and nearly one in six (17%) say they risk going out of business in the next six months because of the economy.

“We see two clear stories being told by business owners. Many small businesses are seeing signs of improvement, yet other firms are still struggling to keep their enterprise afloat” said Susan Sobott, president American Express OPEN. “For the first time since 2007, the majority of small businesses are optimistic about the near-term future. However, some firms are dipping into cash reserves and personal assets to stem the tide of declining sales.”

Among those businesses reporting growth opportunities for their firms, 44% say these opportunities come as a result of less competition. The ability to renegotiate equipment leases and supply contracts (13%) and lower real estate costs (12%) also contributed to these firms’ growth mindset. Overall, when asked for the primary way they address cash flow issues, 32% of business owners said they use personal or private funds, up 9 percentage points from March. More than a third (35%) say the recession has caused them to tap personal assets, on-par with the March reading (37%).

Although small business optimism is on the upswing after hitting its all-time low a year ago, the American Express OPEN Small Business Monitor shows that business are not shifting to hiring mode. This fall, just under one quarter have plans to hire (23% vs. 28% this spring), which is the lowest reading in the history of the Monitor (falling below the fall 2002 recession level of 26%), and plans for capital investments equal the record setting low from Spring 2009 (42%).

With hiring and capital investment plans on hold for most, business owners are taking a conservative, back-to-basics approach to managing their firms:

- o **Concentrating on current customers.** Forty-one percent of small business owners say their top priority over the next six months is maintaining current sources of revenue. By

comparison, only one quarter (26%) say they are focused on growing their business, which is the lowest number for growth in Monitor history.

- **Avoiding risk.** Half (49%) say they are not willing to take on financial risk to grow their business, an all-time high for the Monitor.
- **Keeping employees happy.** In general, deteriorating employee morale has plateaued. Only twelve percent say employee morale has worsened over the last six months (down from 25% for the preceding six-month period.) Three-quarters say morale has stayed the same, and nine percent say it has improved. In addition, approximately one in three (28%) business owners see offering financial incentives such as bonuses and paid time off as a way to increase employee morale, and twenty-three percent see more regular communication about the business as the key to improving morale.

In addition, business owners continue to do everything they can to protect their employees. For example, thirty-five percent of small business owners have tapped personal assets as a result of the recession, twenty-seven percent have stopped taking a salary and seventeen percent are working a second job, comparable to six months ago. At the same time, fewer business owners are laying people off (15%, down from 23% in the spring) or cutting benefits (8%, versus 16% this spring).

Even as hiring plans are not in the cards for most business owners, the nearly one quarter planning to hire are upbeat. These business owners are more willing to think the economy creates new opportunities for their business (36% vs. 31% overall) and seek out alternative tactics to manage their business. In addition, more than three quarters (78%, compared to 65% overall) of those hiring will use online marketing techniques to boost business and nearly half (46%, vs. 39% overall) will negotiate flexible payment methods with their suppliers/vendors. On average, entrepreneurs with hiring plans work about one-half hour longer per day than business owners overall (more than 11 hours 45 minutes vs. 11 hours 15 minutes).

Regardless of hiring plans, one in ten business owners (11%) say they have recently hired someone who was laid off from another company because of the recession.

Economy takes toll on entrepreneurs

As business owners work to navigate their firms through the current economic climate, they are plagued by cash flow concerns and the overall stress a challenging economy creates. Nearly seven in ten entrepreneurs (68%) are “stressed out” by the economy and three in ten (31%) say that the current economy has caused them to question their decision to become an entrepreneur.

The number of entrepreneurs experiencing cash flow issues this fall (60%) is up slightly over both the previous fall (55%) and this spring (57%). The biggest cash flow worry for business owners is the ability to pay bills on time (26%). When cash flow concerns arise, business owners are most likely to dip into their own pockets: 32% of business owners will use personal or private funds, and one in four (25%) will put off purchases. Others will use credit or charge cards (13%), obtain and use a line of credit (12%), lease rather than purchase business equipment (4%), or get a short-term loan in order to improve cash flow (3%).

Looking beyond the basic issue of cash flow, nearly half of entrepreneurs (45%) are looking to access capital from external sources in order to run their businesses. One out of five business owners (19%) say they are experiencing difficulty accessing capital. To secure the funds they need, business owners are tapping a variety of sources, including using a bank loan (14%), using business or personal credit cards (each 13%), tapping personal savings (10%), borrowing from a friend or family member (3%), and private equity/venture capital or home equity (each 2%).

Outlook varies by industry, age, gender, and region

Examining business owners by generation, industry sector, region and gender provides further perspective on the economy. The American Express Small Business OPEN Monitor studies three key industry sectors: retail, manufacturing and services as well as the three generational age groups: Generation Y (18-28), Generation X (29-44) and Baby Boomers (45-63), entrepreneurs by gender and by geographic region.

As the holiday shopping season approaches, businesses in the retail sector are the least optimistic group of business owners across these industries. This fall, more than half of services businesses (58%, up from 53% last fall) maintain a positive outlook, versus just half of manufacturers (51%, on par with 52% in fall 2008) and just under half of retailers (47% on par with 48% last fall). The effect of the economy can be seen to have varying effects across industries:

- Retailers are more likely to have hiring plans, due to the upcoming holiday season, (27%, on par with 28% last fall) when compared to other industry sectors (22% of manufacturers down from 30% last fall and 17% of services businesses down substantially from 44% last fall)
- Services businesses are more concerned with cash flow issues (63% vs. 52% last fall) versus other industries (60% of retailers up from 56% last fall, and 61% of manufacturers up significantly from 47% last fall)
- The services sector is more likely than other industry sectors to have capital investment plans (39% down from 45% last fall) compared to 36% of manufacturers down from 59% last fall and 34% of retailers down from 37% last fall
- The manufacturing sector is more likely to say that the worst of US economic woes are not over compared to other industry sectors (68%, vs. 64% of retailers and 56% of services)
- Manufacturers and retailers are the most likely to be willing to take a financial risk (each 55%) when compared to services businesses (40%)

Gen Y geared for growth, Gen X most “stressed out” and Boomers are cash strapped

Generally speaking, the experience of older and more seasoned entrepreneurs puts them in a better position than younger entrepreneurs to manage through downturns. According to the American Express OPEN Small Business Monitor, however, the tables have turned, and it's younger business owners who are geared for growth.

The survey found that Gen Y is the most optimistic group of entrepreneurs when compared to other age groups and to the overall sample of business owners. More than three-quarters (80%) of these entrepreneurs have a significantly more positive outlook on business prospects versus Gen X and business owners overall (each 55%), and Baby Boomers (52%).

The optimism of Gen Y entrepreneurs extends across a number of areas:

- They're most likely to hire (36%, vs. 25% of Gen X and 20% of Boomers)
- They're most likely to have capital investment plans (58%, vs. 41% of Gen X and 39% of Boomers)
- They're most willing to take a financial risk (67%, vs. 52% of Gen X and 47% of Boomers)
- They're least likely to have cash flow issues (53% versus 59% for Gen X and 64% of Baby Boomers)
- They're least stressed out by the economy (57% versus 72% of Gen X'ers and 71% of Boomers)

- They're most likely to implement employee-friendly policies to battle the recession. Gen Y will allow employees to maintain a flexible schedule (44%), Baby Boomers will institute a hiring freeze (41%) and Gen X entrepreneurs will institute a salary freeze (39%)

Women more upbeat than their male counterparts

No less revealing than examining the mindset of entrepreneurs by age, gender also plays a role in shaping the outlook of a business owner.

- Women are more likely to have a positive outlook on business prospects considering the economic climate (60%, vs. 50% of men)
- Women are more likely to have cash flow concerns (62%, vs. 57% of men)
- Women are also more likely to have difficulty accessing the capital they need to run their business (26%, vs. 16% of men)
- Men are more willing to take financial risks (47%, vs. 40% of women)
- One third of men say the current economy creates new opportunities for business (34%, vs. 29% of women)

Businesses in the Northeast struggling to stay afloat; West is most optimistic

Along with age, gender and industry sectors, geography plays a significant role in business owners' outlook on business prospects and the economy:

- The west is most optimistic (60%, vs. 54% in north central states, 53% in the northeast and 52% in the south); businesses in the northeast are most at risk of going out of business (24%, vs. 19% in north central states, 17% in the west and 13% in the south)
- The south is most willing to hire (31%, vs. 22% in the west, 17% in the northeast and 15% in north central states)
- The south is also most likely to take on a financial risk (55%, vs. 50% in north central states, 44% in the west and 38% in the northeast)
- The north central states are most likely to make capital investments (48%, vs. 43% in the west, 41% in the south and 36% in the northeast)
- The northeast is most likely to have cash flow issues (69%, vs. 60% in the south, 58% in the west and 55% in north central states)
- The northeast is also most likely to question their decision to become an entrepreneur (39%, vs. 31% in the south, 30% in the west and 25% in north central states)

Additional survey results are available by contacting American Express OPEN. Fact sheets on regional data, women entrepreneurs, by generation and key business sectors are available on request.

Survey Methodology

American Express OPEN Small Business Monitor, released each spring and fall, is based on a nationally representative sample of 763 small business owners/managers of companies with fewer than 100 employees. The anonymous survey was conducted via telephone by Echo Research from August 11- August 25, 2009. The poll has a margin of error of +/- 3.6%.

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