SEPTEMBER 2020

# **Emotional Metrics:** Small business mindsets during the pandemic

# Executive Summary

Running a small business can be the most rewarding and challenging thing anyone can do. One thing for sure is that the person who had the dream to start out on their own or follow a passion, quickly finds that the buck stops with them. Even in the best of times there are many pressures, from long hours and unpredictable cash flow, to customers and employees to look after. Faced with a global health and economic crisis, it's only natural that small business owners are feeling more of a strain than ever before.

It is vital that small businesses owners receive the right support through the COVID-19 pandemic. With small businesses making up over 50% of GDP in most OECD countries[1], economic recovery will depend on them. Our Xero Small Business Insights (SBI) report[2] shows that they are on the frontline experiencing downturns in revenue, loss of customers or having to let go of employees.

While data is critical to shaping the recovery of the small business sector, it's also vital to recognise the human impact behind the numbers. This paper goes beyond the statistics to take stock of how people in small business are feeling, what their biggest concerns are and what they hope for in the future. The mindset of small business owners is a key metric for policy makers to track, especially seeing the rise of mental health and well being issues for small business owners across the world.

By tailoring responses to communicate with them in a way which matches how they are feeling, and recognises that small business owners are only all too human ensures that they, their employees, customers and communities can have a seat at the table when policy response is developed and receive the right support to shape the most effective recovery.

[1]The Power of Small: Unlocking the potential of SMEs, ILO, Oct 2019

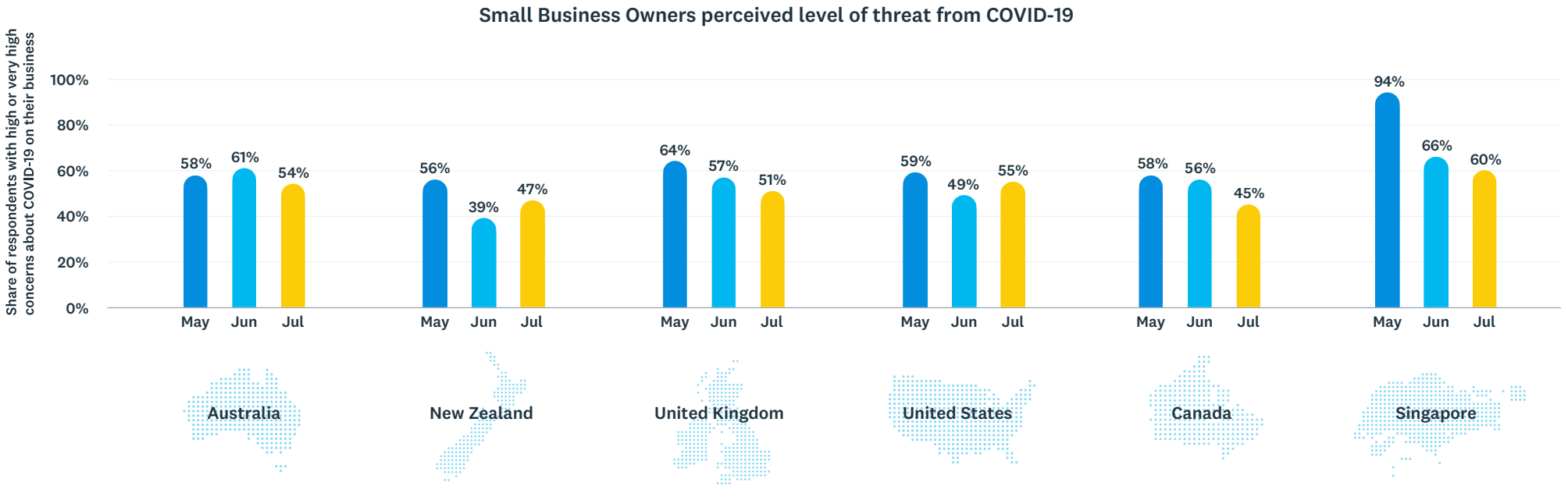
[2]Pandemic Insights: Small Business Experience

# **Pandemic Pressure:** The impact on small business, their priorities and the affect on their mental health

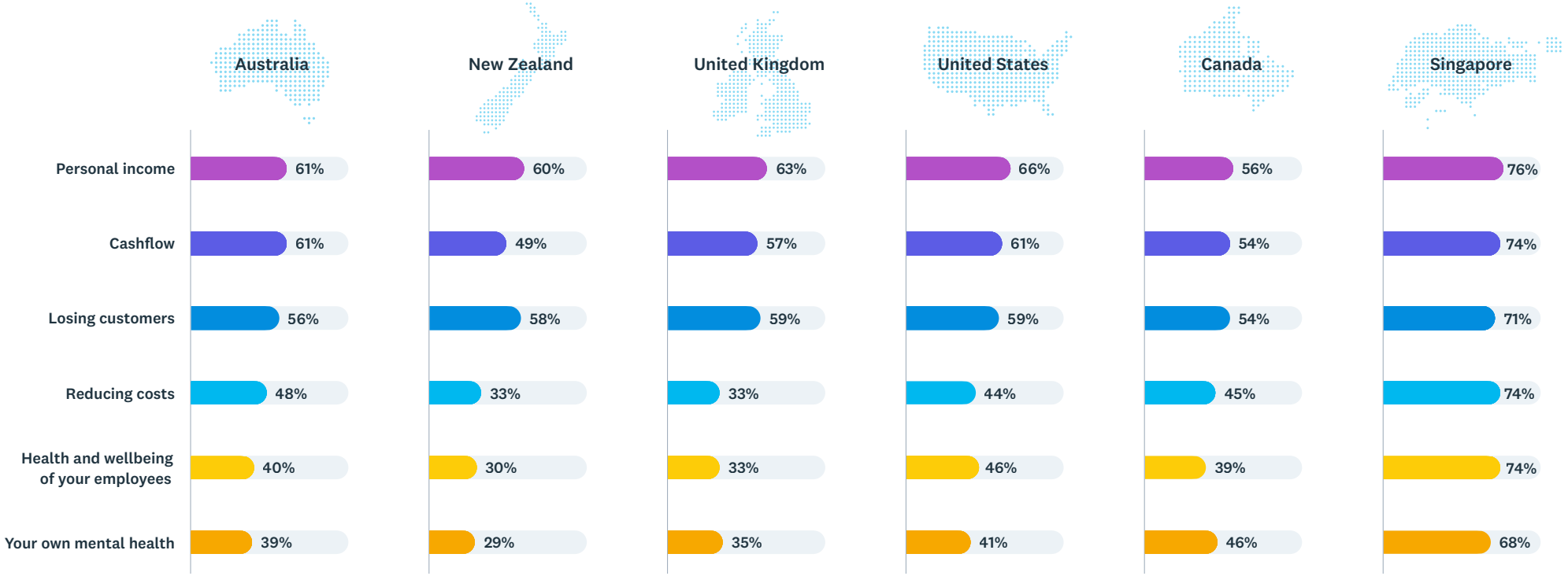
With the pandemic wreaking havoc across the world, governments have rightfully acted swiftly to make sure people's health is protected. Strict lockdowns, and physical distancing measures have meant many small businesses have had their daily operations interrupted or stopped completely. In this highly uncertain and quickly changing environment, understanding the shifting priorities of small businesses as the situation evolves is important so they receive the right support at the right time to bolster their recovery.

We expanded an on-going market representative small business study across Australia, New Zealand, the United Kingdom, the USA, Canada and Singapore, to track how small businesses' priorities changed as countries went into lockdown in mid March 2020.

In March, across all regions, 74% of small businesses perceived COVID-19 as a high to very high threat to their businesses but as various restrictions have been lifted this has eased to 53% in August, a slight increase from July. It is important to see how the threat risk has varied according to what stage of the pandemic each region is in.

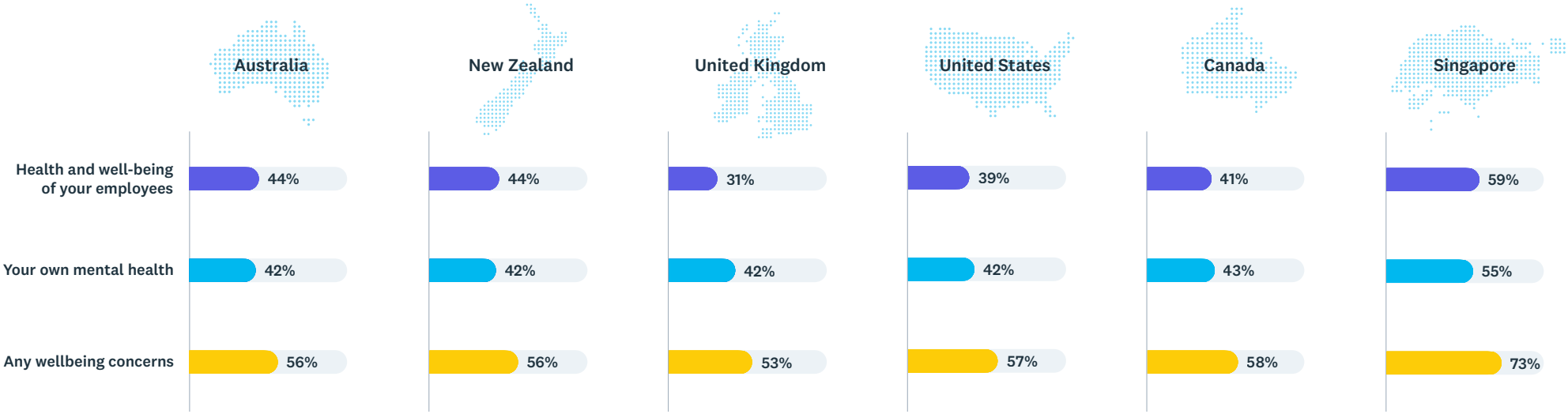


## The biggest concerns of small business owners, July 2020




However, as some cities were placed back in lockdown in July and August and cases spiking, uncertainty prevailed and proliferated globally. Small businesses faced another wave of cash flow concerns, declines in personal income and further loss of customers, and this time began to show signs of fatigue.

## Small Business Owners' concern about mental health & wellbeing, August 2020




Mental health is now becoming an increasing worry of small business owners with two thirds of employing businesses and almost half of sole traders reporting concerns about mental health or wellbeing in some way or another. Across the majority of markets, mental health was flagged as an issue for all business owners themselves but the health and well being of their employees was even more of a concern for employing businesses. In the US, this has increased by 7% from July to August but decreased by 12% in Singapore where covid-19 is under better control.

# **A personal reflection:** The shadow cost of covid-19

"What we all hoped would be a few weeks of lockdown to get ahead of the virus has turned into months. Months of uncertainty, anxiety and thankfully, reflection. It's clear it has taken a toll on me, my team and my clients. The virus is everywhere, we are in lockdown. The relentless daily count of new cases and deaths is hard to escape, despite the fact that I've chosen to steer clear of the news and focus on what I can control. How I manage my business through this minefield.

More than ever before, I've realised that my role is to support my team. This no longer means giving them the tools and encouragement to do their jobs, this is now about managing through a global pandemic and their day to day wellbeing. I check-in with the team, individually or as a group, every day. Listen to what they're saying and try to read between the lines to assess how they're coping. When it's clear they're struggling, I listen some more, reassure them and try to put a little positivity into their day.

I'm also very open about where I am at, letting them know if I am feeling particularly anxious today and to share what's going on in my life. This has been really important in opening the conversation about the impact of the virus and learning coping mechanisms from each other. I get as much support, if not more, than I give.

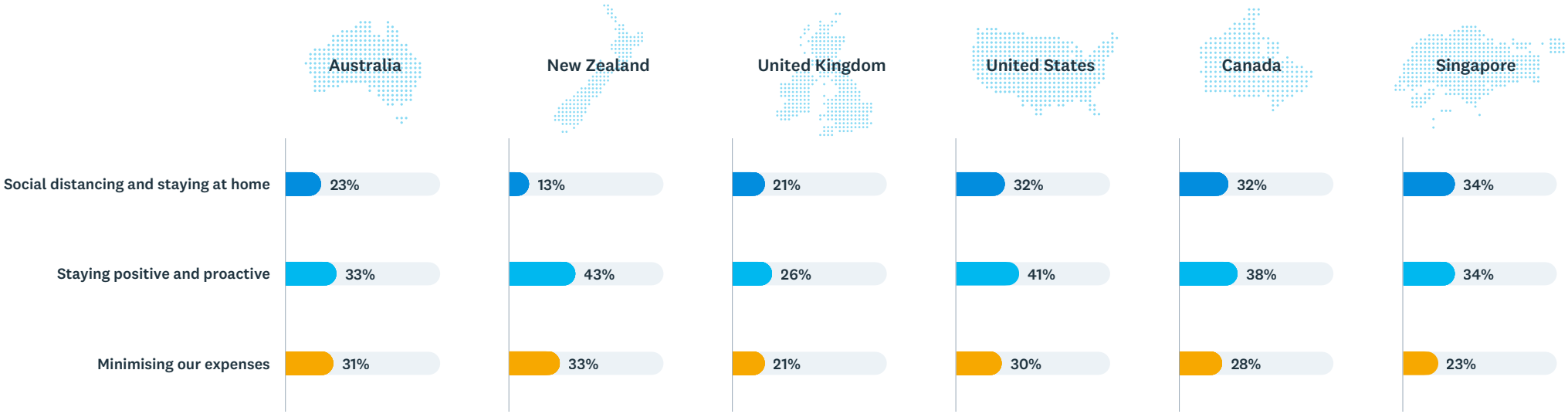
The normal highs and lows of running a business have been magnified, as our physical world has collapsed into our living rooms or spare bedrooms. While it isn't easy, I am hopeful that we will come out of this period stronger and more connected as a team."

> ***Todd Beavis, Founder and Principal of i.e. community,***
> ***a Melbourne based community and stakeholder engagement consultancy,***
> ***www.ie.community***



From left: Todd Beavis and team member Theo Carroll

## Key actions on minimising the impact of COVID-19, July 2020




Even in this uncertain and stressful time, small business owners are looking for how they can be proactive throughout this crisis. In July, there was a shift away from managing physical distancing towards keeping the business operating and minimising expenses; there was also a notable increase in small businesses looking for alternative ways to grow, with many looking at opportunities to expand sales online or pivot in other ways.

# **Emotional States:** Small business mindsets in crisis

To complement our understanding of the main issues small businesses are facing during the pandemic, we also generated an online analysis of how they are feeling. Using a unique social media search and analysis technique, we analysed public discussions small business owners have been having on social media and other online sources, around the world.

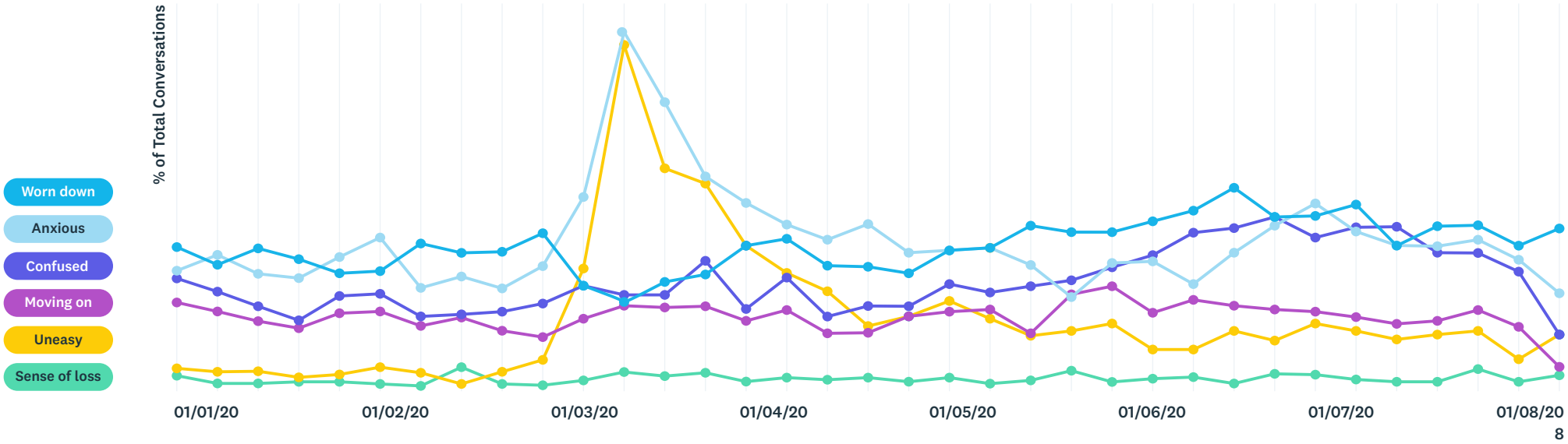
The sentiment tracking tool, Mindset.AI, was designed to discover six crisis-focused emotional states, and was deployed across six regions: Australia, New Zealand, the United Kingdom, the USA, Canada and Singapore.
This enabled us to get an understanding of the emotional states that small business owners have been going through since the beginning of the pandemic until now. This was then mapped across a crisis lifecycle that charts the mindsets of small business owners.

Knowing this can guide what type of communications and engagement they're looking for and how to emotionally support them.

Globally, the feeling of being "worn down" is dominant across all regions reflecting the wave of second lockdowns, racial and political unrest and uncertainty around government mandates which may restrict or shutter their businesses temporarily.

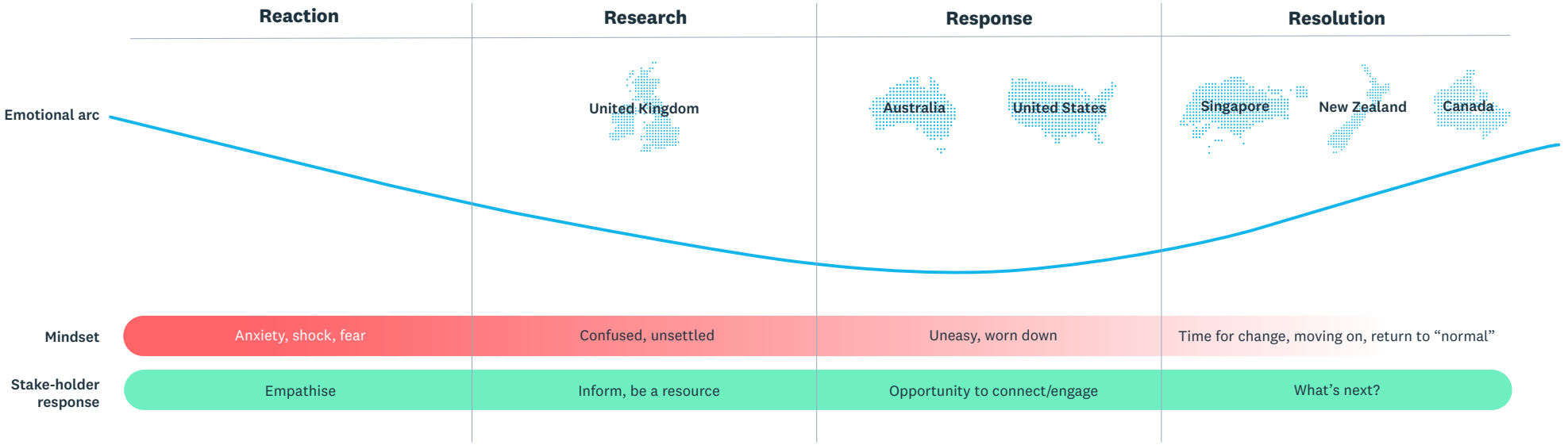
When the first lockdowns were introduced in March and April, anxiety and unease exploded across all regions for this group in equal measure. While anxiety levels are nearly back to pre-pandemic levels, unease is still persisting and remains at higher levels than usual. Small business owners, as a group, are generally optimistic and proactive, so this is particularly important to note as unease is normally extremely low for this audience.

**Small Business Owners Mindsets January - August 2020**




Source: Global Mindset.AI Tracker, August 2020

## Mindset.AI Crisis Lifecycle




Source: Mindset.AI Tracker, August 2020

The sentiment of wanting to move on from this crisis was rising in June and July across all regions. However, this has now waned in the US, UK and Australia as they have been pulled back into feeling confused, uneasy or worn down.

Any crisis is inherently scary and confusing given the uncertainties faced by those impacted but can be significantly compounded by the difficulty in accessing timely and clear information.

In the UK, the emotion of being confused has been dominant, peaking in May. The ongoing Brexit saga is also likely to be contributing to the confusion and unease that persists there.

Australia is a unique case as it came into 2020 already in crisis due to a summer of bushfires that engulfed a large part of the country with devastating consequences. Feelings of unease have shot up far beyond anything experienced during the black summer of 2019/2020 and with new lockdowns in place in Victoria, anxiety is back on the rise as well.

The US is in a particularly hard spot as only last month they were beginning to move on with feelings of anxiety, confusion and unease beginning to ease. However, in August, this group has now slipped back into feelings of being worn down which could be attributed to a mix of factors including COVID-19, ongoing racial unrest and protests as well as the start of a highly contentious and negative presidential election.

We've seen that in countries where small businesses are feeling optimistic and looking towards what comes next like New Zealand, Canada and Singapore, communication and leadership appears to have been decisive. Messages about what must be done to maintain public health and how that relates to business restrictions have been clear and direct.

# Looking for a light at the end of the tunnel

Our Xero SBI data shows that when health restrictions are lifted and clear guidelines provided from the government, there are signs of small business recovery in economic markers such as revenue and employment. An important lesson we are seeing from countries who are successfully moving on from the worst of the crisis, is that clear and direct communication is vital to ensure that small businesses are ready to face whatever comes next. By targeting communications to mirror the mindset and priorities of small businesses, policy makers can support them more effectively.

As the pandemic endures, tracking these emotional metrics will be necessary as even though small businesses have their eyes looking towards the future, they will need some help getting there.



# Why Good Communications is key for a fair and equitable US recovery



Every country is in a unique situation in responding to the pandemic and economic crisis.

As the world's largest economy, the US has delivered one of the biggest economic stimulus packages with financial support specifically for small businesses. The Paycheck Protection Program (PPP) as well as grants and loans run by the Small Business Administration, including the Economic Injury Disaster Loans, have been crucial in saving small businesses from permanently shutting their doors. With around US$518 billion provided over a 3 month period[3], it was an impressive rollout that protected around 2.3 million small business jobs[4].

However, as the pandemic rolls on and with another stimulus package in the works, there are a number of issues that need to be addressed. To understand the effectiveness of the PPP, we carried out a survey in the US to see how useful they thought the program had been and what else could be done to help.

[3]Paycheck Protection Program Report, 17 July 2020

[4]An Evaluation of the Paycheck Protection Program Using Administrative Payroll Microdata.

40% of respondents said the PPP had been successful while 48% felt that it had not. The reasons for this were mainly based on access to the loans, confusion about the application process and the lack of communication from loan providers.

One of the major issues flagged was communications about the loan process and application status. With some small businesses not having relationships with banks, it became much more difficult to apply or receive the loan. Additionally, with many lenders restricting early applications to existing customers, the smallest of small businesses, which tend to be minority or women owned, had particular difficulty in accessing this finance.

Moving ahead, communication needs to be clear and direct not only to small businesses about what is available to them and how they can apply but also to lenders who distribute loans or other financial support. The process must be streamlined to make it easy for any small business, no matter their size or structure, to be able to access support to keep their doors open until the health situation improves.

"Our clients for the most part have not been able to be approved in time by their local banks before the funds ran out, or the bank they bank at regularly stopped taking applications. That forces our clients to go to banks that they do not have a relationship with, making it more difficult to go through the process."

"Clients submitted the application to have the paperwork sitting on a desk in a bank. When they finally received word that the bank could not process, the funds had run out."

"Biggest issue is non response from SBA, slow or no communication from PPP program providers and then finding out funds are no longer available."

"Only companies with previously established payrolls have been able to apply, this doesn't take into consideration many companies that only have payrolls as of Jan 1, 2020 because of state law changes for independent contractors."

# **The Expert Perspective:** Small business needs a seat at the table



***Karen Mills, is a leading authority on small business policy, entrepreneurship and innovation. She was a former Administrator of the US Small Business Administration and a member of President Barack Obama's cabinet. She is currently a Senior Fellow at Harvard Business School. Here she discusses how important small businesses are to the US economy and how we can see an equitable and effective recovery.***

Small businesses are a big part of the U.S. economy: Almost half the people who work in this country own or work for a small business. They account for 99.9% of businesses and provide the foundation of our middle class, as well as a path to economic mobility and access to the American dream.

Yet small business doesn't figure in most macroeconomic models, and as a group, they don't have a seat at the policymaking table. As we seek a recovery from the current crisis, the voice of small businesses and their diverse needs must be front and center, directly informing policy and the design of support packages from the government.

In this pandemic, without support, 20 to 30% of our small businesses might not make it through. Many of them are already teetering on the edge because of low cash buffers. At greatest risk of being in this category are the smallest of small businesses, which tend to over-index in women and minority-owned businesses. Policymakers should be especially focused on how to ensure that these most vulnerable businesses have a bridge to better times.

Fundamentally, the PPP was well designed, in that it was large, there was a lot of money, it included sole proprietorships (which very often small business aid programs don't), and it was in the form of forgivable loans, with the money getting out relatively quickly. But there are still some small business needs that the PPP could have done a better job of addressing. We need to understand what barriers and frictions there are to applying for and receiving these government loans, particularly for minority business owners, or very small business owners without a banking relationship.

Fintechs and some banks did create customer-friendly automated solutions for PPP loan application and processing, which helped over 70 percent of small businesses surveyed by the U.S. Census Bureau during the last week of August receive assistance from the program. Fintechs, in particular, helped tremendously in reaching the smallest businesses with the smallest dollar loans. But as the pandemic continues, we need additional government aid that is simple and flexible, as well as support for bank credit markets so that they stay active in lending. These actions will allow firms to access the capital they need to survive and recover as the economy eventually opens.

We also need some targeted programs for economically-challenged areas and underserved entrepreneurs, along with business advice and counselling. We've seen this crucial pairing of capital and information with programs like 'Our Fair Share,' started by Sean Combs, which helped Black-owned businesses apply for PPP and navigate through the process.

In the next phase, we will need programs for restarting America that balance public health concerns with economic needs. For example, new funding for business plan competitions could excite entrepreneurs who have been displaced by the crisis and encourage them to start something new. These programs can be effective and low-cost, but must be run at the local level.

Today, however, putting more money and resources into good, viable businesses that need a 3 to 6 month bridge would be far better than trying to restart them 6, 8 or 12 months down the road. It's easier to save the ones you have than to let them fail and wait for the next small business to open.

Small businesses accounted for half the jobs in America. If we let too many fail, it will significantly slow down the country's economic recovery. They must be front and center on the economic stage as we battle this current crisis.

# Methodology

## Xero Voice of Customer research

Xero has partnered with Perceptive to complete an anonymous and unbranded, nationally representative market small business study across Australia, New Zealand, the United Kingdom, the United States, Canada and Singapore.
The study has been running since May 2018, and has transitioned into an 'always on' study since December 2019.
The study measures Xero brand health performance vs. our competitors, and understands brand perceptions over time.
The study respondents are all small business decision makers for businesses with less than 50 employees.

## PepperComm Mindset.AI Study

Fueled by advanced AI designed specifically to derive crisis-focused emotional states, Mindset.AI, operated by Peppercomm - an integrated marketing and communications firm, analyses millions of conversations drawn from thousands of varied sources across the internet.

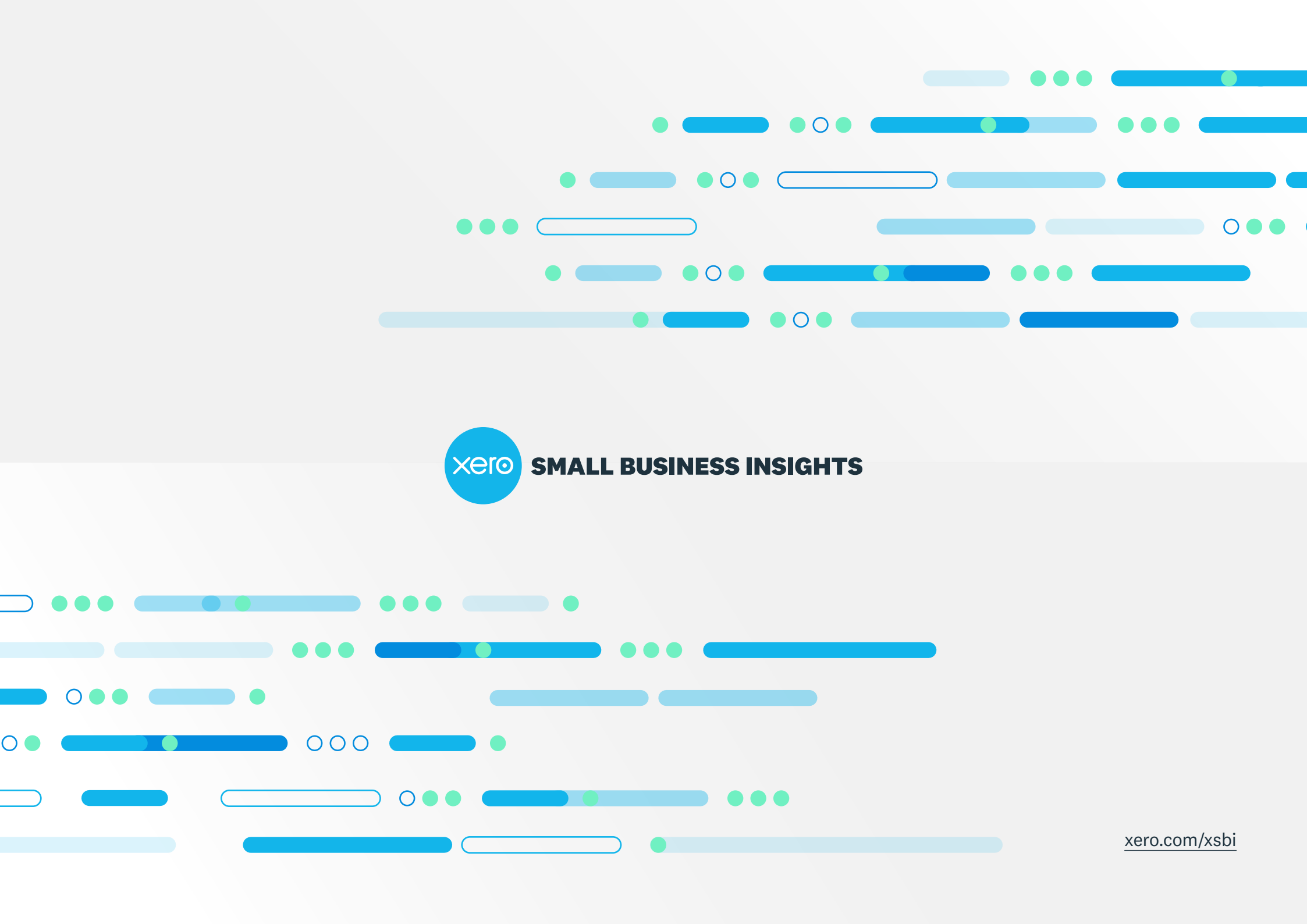
All of this is passed through natural language processing algorithms to clean, analyse, and segment findings that can transform your understanding of your most important stakeholders on a granular, nearly day-to-day basis

**Data sources:**

- Social Media (Publicly available)
- Forums (Publicly available)
- Traditional Online Media

Mindset.AI, identifies members of target audience segments through publicly-available bios and related posts on social media accounts and related posts.

As such, we can only track posts from a section of all a country's small business owners, notably those who are active online (not just their businesses, but the owner themselves) and able to be identified by the tool through their bio and posts.




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