



2020 Hiscox
Small Business Owner
Risk Study™



The important role played by small businesses in the US is well understood. They generate nearly two-thirds of net new jobs, drive growth and innovation and make their impact on the prosperity of their local communities.

The 2020 Hiscox Small Business Owner Risk Study™ takes the pulse of small business owners regarding current conditions – including their successes and their challenges. Our survey of 1,000 US small business owners with fewer than 50 employees found that they are confident about the future. This study explores the reasons for the optimism that small business owners are feeling, as well as the risks they need to be prepared for and how they plan to protect themselves.

Small business owners are optimistic and confident

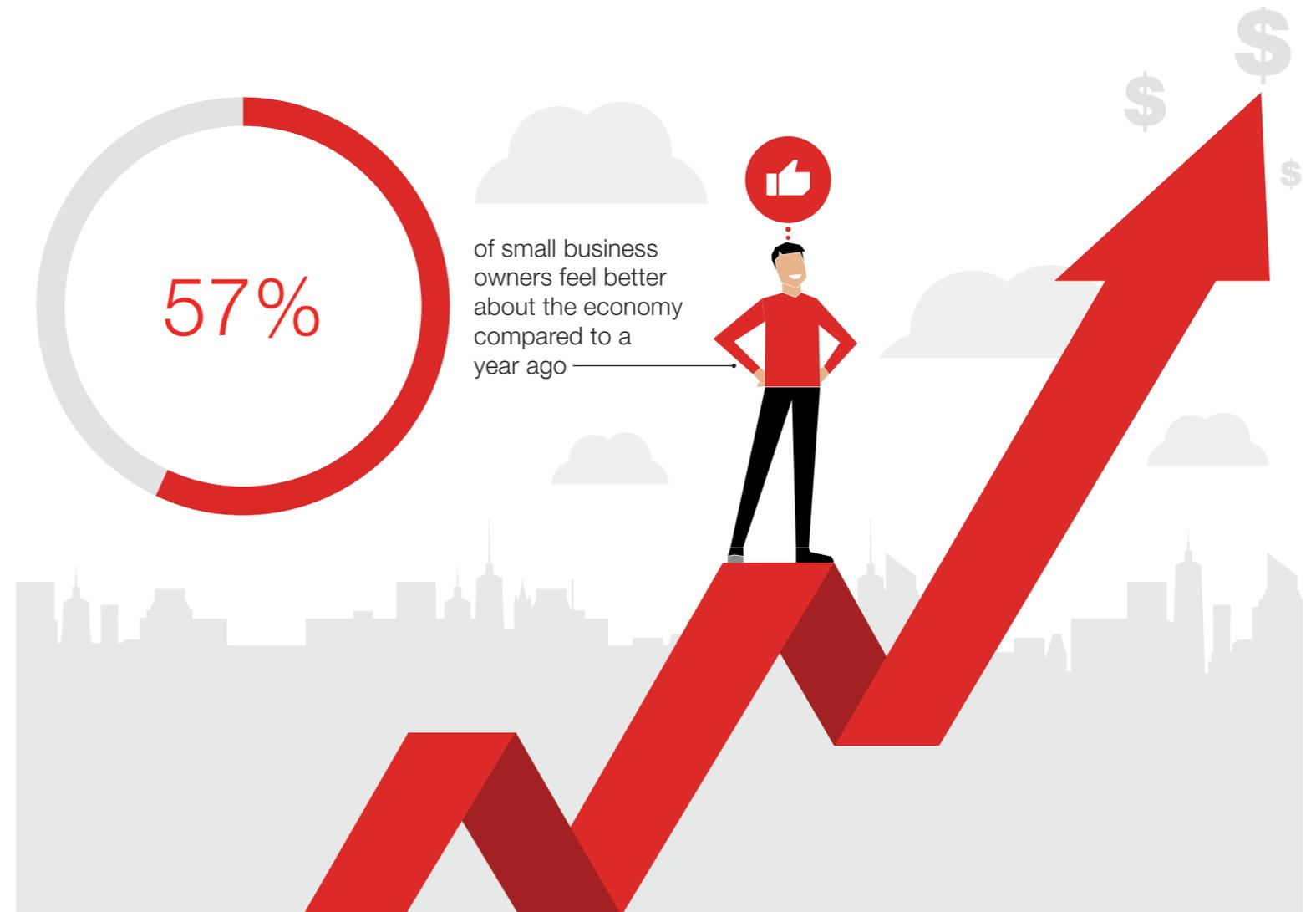
There is a sense of vibrancy and enthusiasm among small business owners that is apparent in their optimism about the economy. This confidence is reflected by the small business owners who expect their businesses to thrive over the next 12 months.

Fifty-seven percent of respondents feel better about the current state of the US economy compared to a year ago. That outlook is strongest among millennials with 65% feeling this way, compared to 53% of Gen X and 52% of baby boomers. Among the 54% of survey respondents who “agree strongly” that they are optimistic about their business in the coming year, millennials once again show the highest percentage of optimism with 66% feeling this way, compared to 47% of Gen X and 46% of boomers.

Small business owners also have a positive outlook when it comes to their financials. Over half of survey respondents (51%) expect profits to increase in the next 12 months, and 45% report that they expect profits to stay consistent. Only 3% expect profits to decrease in the next 12 months, and 1% do not expect to be in business.

Among those who expect to be in business for the next 12 months, 93% are optimistic about the year ahead. The top three reasons for optimism are new customers (60%), steady/improved demand (47%) and new products (30%).

When we asked small business owners how they expect profit will change in the next 12 months:



Keys to running and growing the business

Raising capital remains a critical component of growth and success for businesses. This is especially true for small business owners who often leverage personal finances to keep their businesses up and running. To learn more about how small business owners approach this challenge, we asked survey respondents about the sources of funding they sought (if any) in 2019 – and if they were going to seek funding in 2020.

The majority of small business owners (66%) expect to seek funding in 2020; however, this is slightly less than the amount that sought funding in 2019 (72%). Millennials are most likely to look for capital in the next 12 months at 76%, followed by Gen X (68%) and baby boomers (52%).

Credit cards (27%), bank loans (26%) and personal savings (23%) are the sources of funding that small business owners most commonly expect to tap into in 2020. These sources come with benefits and risks. While credit cards are easy to use and offer the convenience of revolving credit, they can be expensive in the long term and generally include unlimited liability. Bank loans can offer the best rates, but banks often require excellent credit, healthy financials and may only loan to established businesses. Using personal savings to fund the operation can mean you don't need to raise capital from outside investors; however, you lose whatever you put into the business if it fails.

The confidence that small business owners have is feeding their ambitions to optimize and grow operations. The top areas of focus of small business owners in the next 12 months will be retaining/growing the customer base (55%), increasing productivity (48%) and improving customer service (35%).

Top areas of focus for small business owners:



Recognizing risk

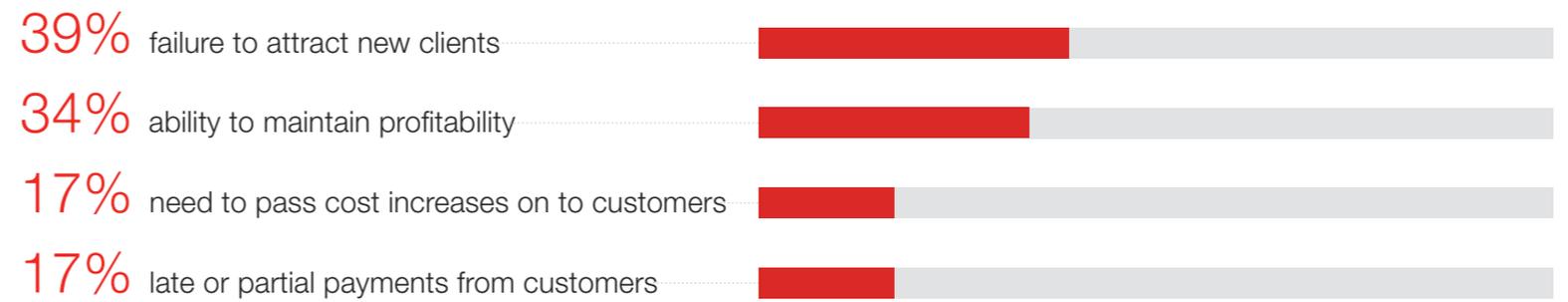
Small business owners recognize there are numerous risks to their operations despite their optimism. While there are internal risks that small business owners can manage, there are also external factors that can impact a business and be harder to predict.

When it comes to internal risks, small business owners are concerned about attracting new clients (39%), maintaining profitability (34%), passing cost increases on to customers (17%) and timely payments from customers (17%). Although attracting new clients is the top risk, it was also cited as a key focus in the next 12 months, suggesting that small business owners are getting ahead of this risk.

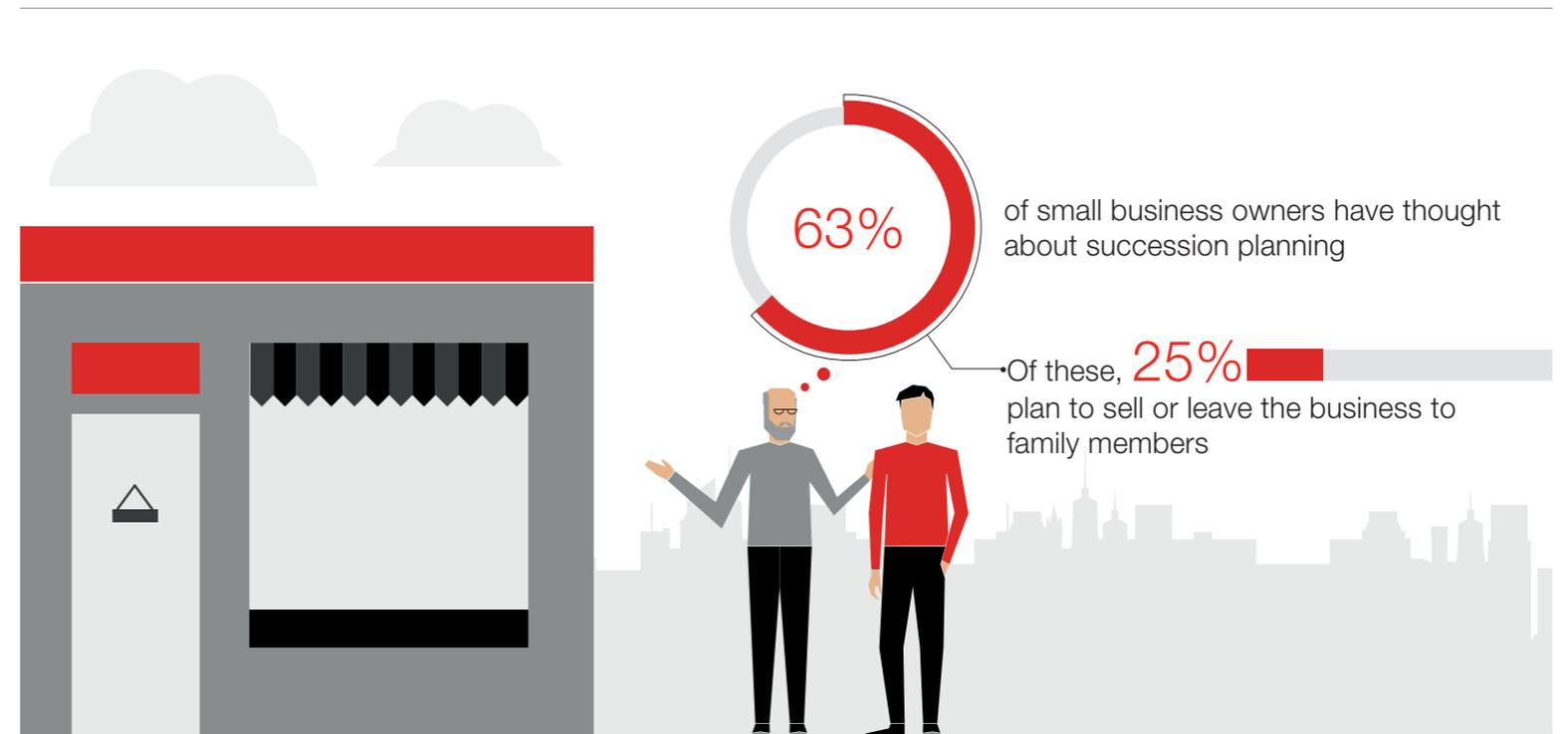
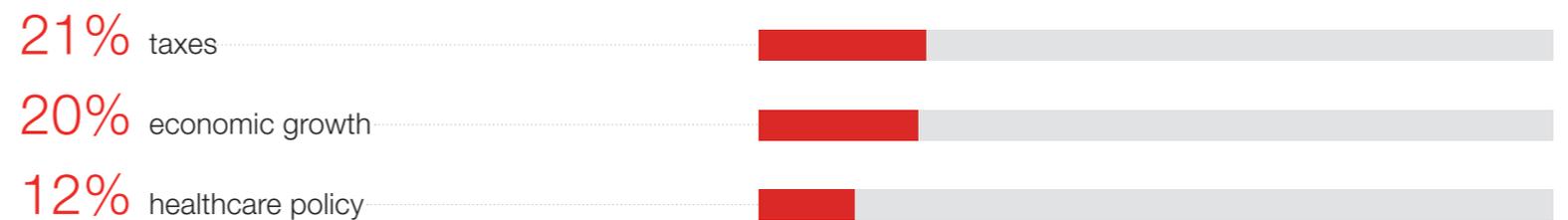
In looking at the most frequently talked about government issues facing small businesses, the top three concerns of business owners are taxes (21%), economic growth (20%), and healthcare policy (12%).

Succession planning is also critical to the future of a business, and small business owners are generally prepared. Sixty-three percent of small business owners have thought about succession planning, and 25% of those respondents plan to sell or leave the business to family members. Conversely, 37% of small business owners have not thought about succession planning.

Small business owners' greatest risks:



Top government-related concerns of small business owners:



Preparing for an economic downturn

Small business owners are confident in their businesses and the economy, but there is still speculation about the possibility of a downturn. A majority of respondents indicated they are prepared if the economy slows, but a surprising number said they are not.

Overall, 66% of respondents feel their business is prepared for an economic downturn, with just 20% of survey respondents feeling “very prepared.” However, this leaves one-third of respondents feeling unprepared.

Twenty-seven percent of millennials consider their businesses “very prepared” for an economic downturn compared to 14% of Gen X and 18% of baby boomers.

Ninety-percent of survey respondents have taken measures to prepare for an economic downturn, instituting steps that include: reducing expenses (43%), setting up an emergency savings fund (38%) and increasing marketing efforts (31%).

Among the 34% of small business owners who are not prepared for an economic downturn, 61% say they don't expect their business profitability to increase in the next 12 months. This lack of preparedness combined with the expectation of flat profitability may signal increased risk for these companies.

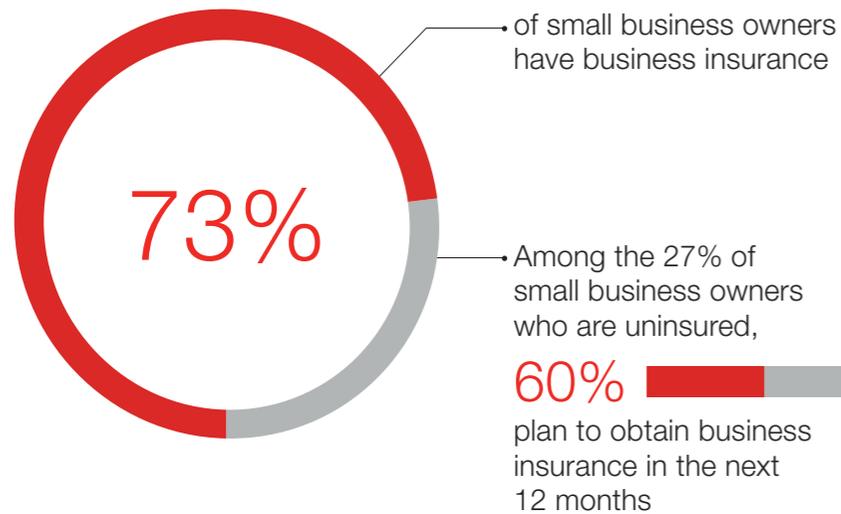
Interestingly, and a sign of the times, 22% of respondents have set up a side hustle to earn extra income.



Mitigating risks

The optimism and enthusiasm small business owners have for the year ahead is clear. But the prosperity they anticipate can be at risk if someone gets hurt, property gets damaged or a mistake is made. Claims and lawsuits are costly, even if the business is found not to be at fault. Every business faces these risks, but they can be mitigated by the right insurance coverage.

Small business owners understand that insurance is important to protecting the business they've worked hard to build. Nearly three quarters (73%) have business insurance. Among those who don't, 60% say they plan to obtain it in the next year.



In order to help mitigate the risks of operating a business, it's important to understand each specific risk to the business and the different kinds of insurance that are available, which include the following:



General Liability

This is the most common form of liability insurance, providing a broad spectrum of protection, such as coverage for unexpected and unintentional bodily injury, property damage and personal/advertising injury.



Professional Liability

Also known as errors and omissions (E&O) coverage, this type of business insurance protects you from claims of negligence while conducting business.

A claim of negligence can be brought against you even if you haven't made a mistake; this insurance will protect your business from such damage.



Business Owner's Policy

This covers the tools and equipment you need to do your work and keep your business up and running in addition to general liability coverage.

This type of policy can also cover lost business income that results from damage to business property. If you work from home or rent your space, your renter's insurance or landlord's policy will not cover these losses.

Survey Methodology

The survey was conducted by Wakefield Research among 1,000 US small business owners with fewer than 50 employees, between November 20, 2019 and December 4, 2019 using an email invitation and an online survey. Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results. For the interviews conducted in this particular study, the chances are 95 in 100 that a survey result does not vary, plus or minus, by more than 3.1 percentage points from the results that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

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