

Wilmington Trust Business Owners Outlook **The rush to retire**

Many business owners are doubling down on digital investments, while others say it's time to move on to the next chapter of their lives

Second Quarter 2021



Executive Summary

Changes coming fast and furious

Welcome to the latest edition of our Business Owners Outlook.

More than a year into the COVID-19 pandemic that has devastated our country and economy, business owners are feeling the effects—for better or worse—and taking action.

Confidence declines

The Business Owners Confidence Index plummeted during the pandemic from 59 points at the end of 2019 to 42 this quarter. This report examines what might be on their minds today and the trends we are seeing across the country. Our financial planning experts and business leaders weigh in with guidance and insights that can make a difference for owners today as they navigate this new environment.

In addition to this report, we hosted a webinar with our clients to find out how they have pivoted to meet pandemic changes, and that webinar can be found at www.wilmingtontrust.com/business-owner-research.

Burnout leads to retirement

Many business owners are experiencing burnout and exhaustion, resulting in a high percentage moving to retire earlier or looking to sell their companies. Our survey shows the number of owners who anticipate retiring sooner than expected has doubled since last August.

The digital revolution paying off for many

Due to changing customer needs, many owners have accelerated investments in technology. Their spend is paying off, as 53% are experiencing business benefits from increased spend. Many are experiencing a resulting cost savings and plan to invest back in their businesses, including hiring, increasing salaries and adding more technology.

Disproportionate impact on entrepreneurs of color

While relief from the federal stimulus package and Paycheck Protection Program created a lifeline for many business owners, our survey found that entrepreneurs of color continue to experience greater challenges in the process. Entrepreneurs of color were found to be 43% more likely to experience problems when applying than non-minority owners.

For more information on how you can plan for your financial future, visit our [website](#) or call 410.244.4876.

Business Owners Confidence Index

The Index measures the overall optimism of owners regarding the macroeconomy and their business over the next 12 months.

Confidence remains at depressed level



► Confidence in the Future Declines

Uncertainty rises in long-term outlook for the U.S. economy and prospects for their own business

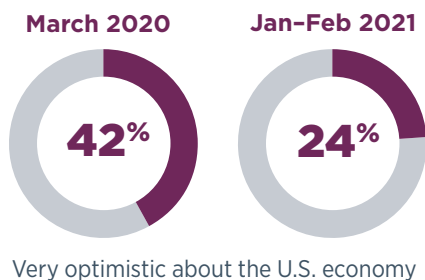
As noted on page 2, our Business Owner Confidence Index has fallen from 59 points just before the pandemic to 42 in our new survey. Equally concerning, our data shows that entrepreneurs are less optimistic about the future of the economy. When asked to rate their outlook on the U.S. economy over the next 12 months, only 24% of owners are very optimistic, nearly equal to the number who are pessimistic (19%).

Many business owners also are dubious about future revenue growth and the long-term negative financial impact of the pandemic. Nearly two-thirds of owners of smaller businesses and more than half of owners of larger businesses expect lower or flat revenue in 2021 versus pre-pandemic 2019 figures.

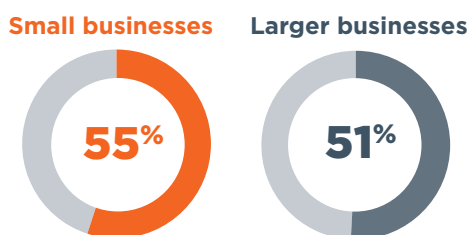
The above two factors are combining to make owners less sure about meeting their key objectives. When asked how sure they are that they will be able to achieve their business' long-term financial goals, only 34% are very optimistic. This figure has shown a steep and steady decline over the past year.

CONFIDENCE IN THE FUTURE OF THE U.S. ECONOMY HAS DROPPED SIGNIFICANTLY WITHIN ONE YEAR

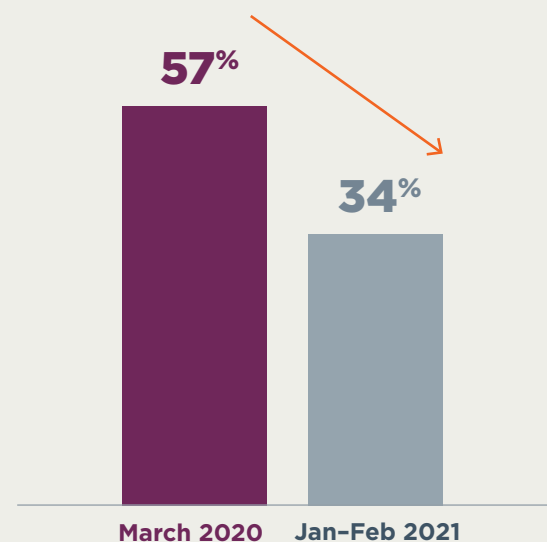
The number of owners who are highly confident about the future of the U.S. economy has dropped by nearly half.



A majority of business owners expect lower or flat revenue in 2021 versus 2019



Confidence has dropped by more than a third in less than one year



Believe they will achieve their business' long-term financial objectives

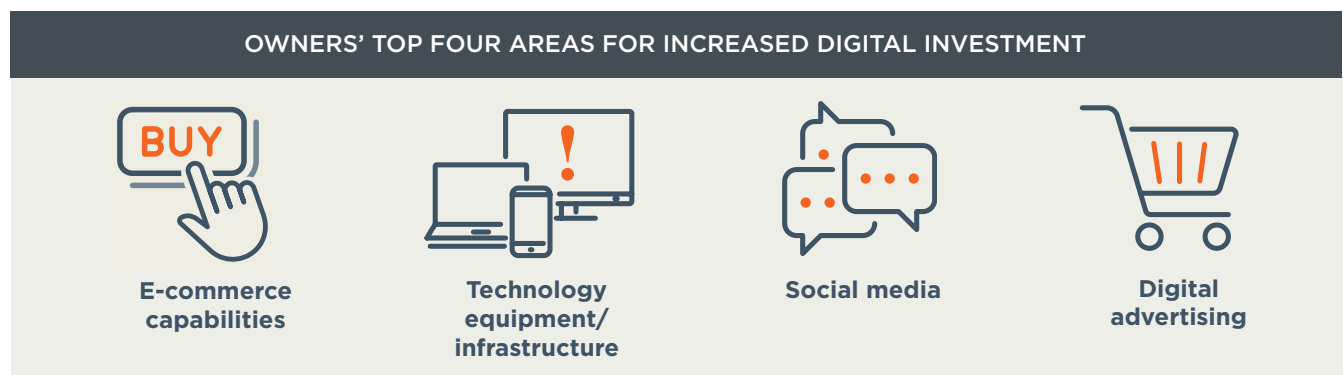
- Business owners with \$1M to \$4.9 million in annual revenue
- Business owners with \$5M+ in annual revenue

► The Digital Revolution Is Surging But Also Driving Burnout

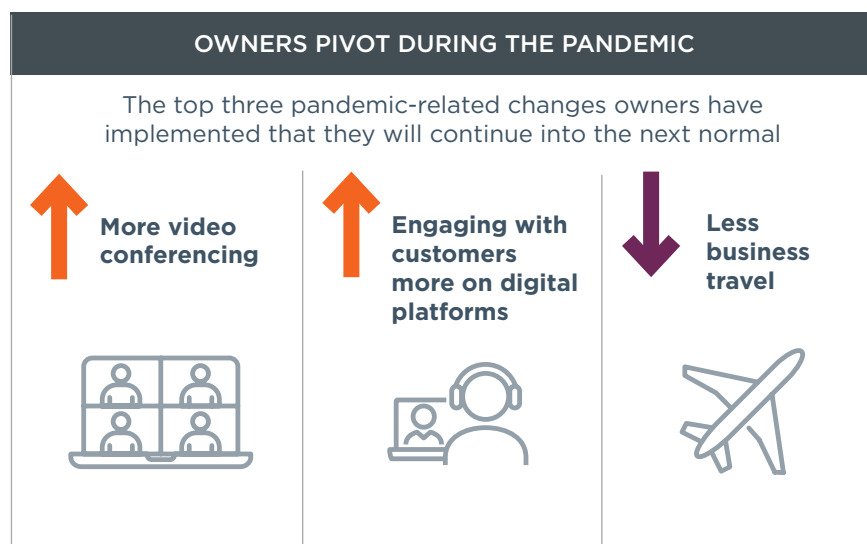
Owners lean into technology investments to respond to changing customer expectations

In addition to dealing with uncertainties about the economy and their financial prospects, many business owners are confronting questions about the future related to technology. While digital innovations were becoming inevitable in almost every sector of business, the pandemic has accelerated their emergence. This new reality suggests that all owners need to be more strategic about their future digital investments—or risk falling behind in the next normal.

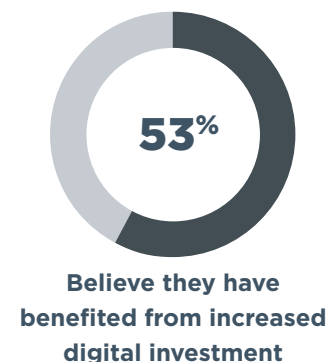
In fact, one-third of owners tell us they have increased their investments in technology solutions during the pandemic. Their top priorities include e-commerce, overall tech equipment/infrastructure, social media, and digital advertising.



Many businesses have increased their use of video conferencing and digital platforms to engage with customers. Moreover, they will continue to do so after the pandemic, with 30% of owners planning to maintain more videoconferencing and 23% doing more customer business via digital.



Overall, 53% of owners are seeing a benefit from technology, including nearly 60% of owners of small businesses.



One-third of those who plan to continue their technology-enhanced operations say they expect to gain a cost savings. More than half (58%) of those larger business owners who expect a savings, plan to invest into more digital capabilities, and 40% of smaller business owners say the same, a clear indication that digital investment and transformation will continue well into the future.

BUSINESS OWNERS SAVING MONEY WITH TECHNOLOGY — AND PLAN TO REINVEST IN MORE TECH

Roughly half of both small business entrepreneurs and larger business owners will double down on digital capabilities.

Intend to reinvest savings in digital capabilities



SMALL BUSINESSES

40%

LARGER BUSINESSES

58%

- Business owners with \$1M to \$4.9 million in annual revenue
- Business owners with \$5M+ in annual revenue

While digital transformation has great potential for helping businesses thrive, it is also adding additional layers of cost and anxiety onto some owners who either can't afford to or choose not to upgrade.



- After the pandemic took hold, the number of business owners experiencing daily worry jumped 59% and those experiencing daily stress increased 36%, according to a Gallup poll.



- This added focus on technology may be hampering older business owners. According to a study from AARP, while technology adoption is up, older Americans are slower and less likely to utilize newer solutions. This leaves them at a disadvantage over younger people adapting more rapidly to technological advancements.



- Rather than lead their companies into the digital age, our survey shows that an increasing number of older owners (age 45-plus) are planning to retire sooner than expected.

As Stuart A. Smith III, National Director, Business Value Strategies, M&T and Wilmington Trust Emerald Advisory Services® writes on page 8: “After making it through the pandemic, enough may be enough for some owners.” As we will explore in our next section, an increasing number of entrepreneurs seem to be planning to “harvest the business” earlier than they expected.

Nimbleness has led to success



Stephen Greer

Owner and CEO, SONCO Worldwide

We're investing in any and all technologies that make it easier to service our customers.



Milli Arakawa

CFO, EYA Homebuilders

The pandemic forced us to expedite initiatives that we always knew we needed and wanted to make.

Q&A

With Cecilia Hodges



Cecilia Hodges
Regional President, Greater
Washington and Virginia,
M&T Bank

Q: In what ways has the pandemic accelerated the digital transformation for business owners?

A: The pandemic has significantly accelerated digital adoption. Business owners across industries had to quickly meet their customers where they were. For example, real estate firms, traditionally running all in-person business, had to pivot and offer clients virtual walkthroughs and remote agent meetings. Although vaccine rollout is helping the country return to in-person business, owners will need to accommodate evolving customer expectations through digital implementation.

Digital banking also became a must-have for running a business smoothly and safely. In 2020, the U.S. notched significant growth in mobile check deposits, online account openings and e-payments as owners shifted their finances online.

Q: What is a good starting point for business owners who want to invest more in digital?

A: Because of the quick pace of innovation, owners may want to consider short-term financing or even leasing as starting points. Also, it is critical that owners understand their customers' journey, anticipating their needs so they can make the right investments for the business. At a restaurant, this may mean accommodating in-person dining with updated digital menus, while also continuing robust delivery/curbside pickup. Owners should work alongside advisors who understand their industry and can advise on the best plan of action to embrace and invest in digital.

Q: How can owners protect themselves from the vulnerabilities that come with digital adoption?

A: Engaging in digital business processes inevitably invites new cyber threats. Owners can help mitigate these risks with the support of trusted advisors to educate themselves in cybersecurity. For example, using dedicated business-only devices and implementing strong passwords with multi-factor authentication are immediate ways to curtail threats.

Q: Looking ahead, are these digital changes here to stay or just serving the current moment?

A: There is definitely a permanence to digital adoption among small and mid-sized businesses as customer demands have changed. The digital offerings available to improve finance, operations, and marketing continue to open the door for new, exciting opportunities. If done right, initial investments will be well worth it long-term in improving efficiency, productivity and a business' bottom line.

**U.S. companies
have spent an additional**

\$15 billion

**per week on technology to
respond to the pandemic, per a recent
[Harvey Nash/KPMG survey.](#)**

▶ Number of Owners Who Plan to Retire Sooner Has Doubled in Less Than a Year

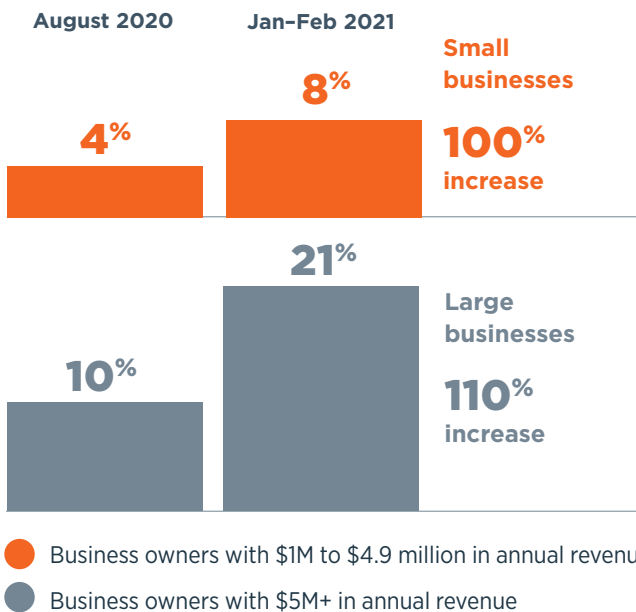
Insecurity over the future and changes in the business landscape seem to be accelerating their exit planning

The foundation seems to be shifting for many business owners. The pandemic has made them more unsure about their economic future, while simultaneously accelerating the digital revolution for almost every business. Amid this backdrop of change, an increasing number of entrepreneurs appear to want out, either by accelerating their retirement plans or selling their business

Our data indicates that the number of owners who say they plan to retire sooner than expected has doubled since our last survey. Among owners of larger businesses, we note a 110% increase since last August; the number of owners of smaller businesses who plan to retire sooner has jumped 100%. In that same time frame, the number of owners of larger businesses who say the pandemic has spurred them to sell their business sooner than expected has increased 31%.

EXIT STRATEGY: DRAMATIC JUMP IN NUMBER OF OWNERS LOOKING FOR AN OFFRAMP

Plan to retire sooner because of COVID-19



Simultaneously, their certainty that their wealth will be successfully stewarded if they are unable to do so is eroding. In March 2020, half of all entrepreneurs were very confident that their personal and business assets would be well managed if they were to die or become unable to manage them. In our latest survey, only 34% said the same.

CONFIDENCE THEIR ASSETS WILL BE WELL-MANAGED IN THEIR ABSENCE DROPS SHARPLY



These statistics beg the question: If so many owners want to accelerate their exits, yet they are concerned about how their wealth will be managed in the future, have they considered how to properly plan for the success of the professional and personal assets for the rest of their lives and beyond?

Q&A

With Stuart A. Smith III



Stuart A. Smith III
National Director,
Business Value Strategies
Wilmington Trust | M&T Bank
Emerald Advisory Services®

31%

**Increase in owners
of larger businesses
who want to sell
their business earlier
than expected
because of COVID 19**

Q: Why are more business owners looking to make a transition?

A: Exhaustion may be playing a significant role in the growing interest in transition. After making it through the pandemic, enough may be enough for some owners. Dealing with two major economic events in less than 15 years may have them wondering if it's time to take money off the table, especially as they near retirement. This financial consideration gives rise to the second narrative. Major economic events invariably drive fundamental changes in how businesses compete. In the past year, we've seen that with broad-based technology adoption across nearly all business sectors. Business owners can face a real choice: invest to remain competitive or harvest the business.

Q: How has the pandemic affected transition planning?

A: We're seeing a growing desire to accelerate a sale, especially among larger businesses. However, a speedy transition can negatively affect sale price and deal structure. A quick-and-dirty sales process is often exactly that. A savvy business owner doesn't wake up one morning and decide to sell their business, because a sale isn't a standalone event—it's one step in a multi-year plan. The smartest owners engage in a regimented preparation plan that positions the company for maximum appeal to buyers, while also addressing all objectives and meeting a range of goals.

Even if an owner has comprehensively planned, the pandemic has changed much. It's particularly important to help a buyer understand any COVID effects on the company's financial performance. What's temporary and what's lasting? To their detriment, some owners don't invest in that success by building solid management teams or investing in the right technologies so that the business can hold and increase its value after the owner steps away.

Q: How is the economic outlook shifting for business owners?

A: Many business owners have resisted selling because they felt they could earn a better return on their business than they could on a diversified portfolio. In the past year, a hot stock market and a challenging economy have flipped that logic. Many owners are waking up to the fact that they're really playing a market consisting of one security—their own private stock! To fund their retirement and maintain their lifestyle, it's probably wise to diversify.

For owners contemplating selling, this could be an opportune time. After contracting significantly in the first half of 2020, the mergers & acquisitions market has rebounded as people figured out how to navigate the changed environment. In 2021, strong public equity market valuations, record levels of private equity capital, readily available debt financing and a rebounding economy should bring buyers out in force.

Q: What is a typical misconception around transition planning?

A: Private equity is misunderstood because most business owners confuse economic control of a business with day-to-day operating control. Private equity funds want to own and grow great businesses, but they need great managers. If a business owner is willing to stay in the game with a meaningful minority stake over a reasonable time horizon, a private equity deal can help them obtain money, keep them leading the business and introduce additional financial horsepower to drive significant growth. It's a longer transition, but a very powerful one.

► Taxes Are Biggest Concern Among Majority of Owners

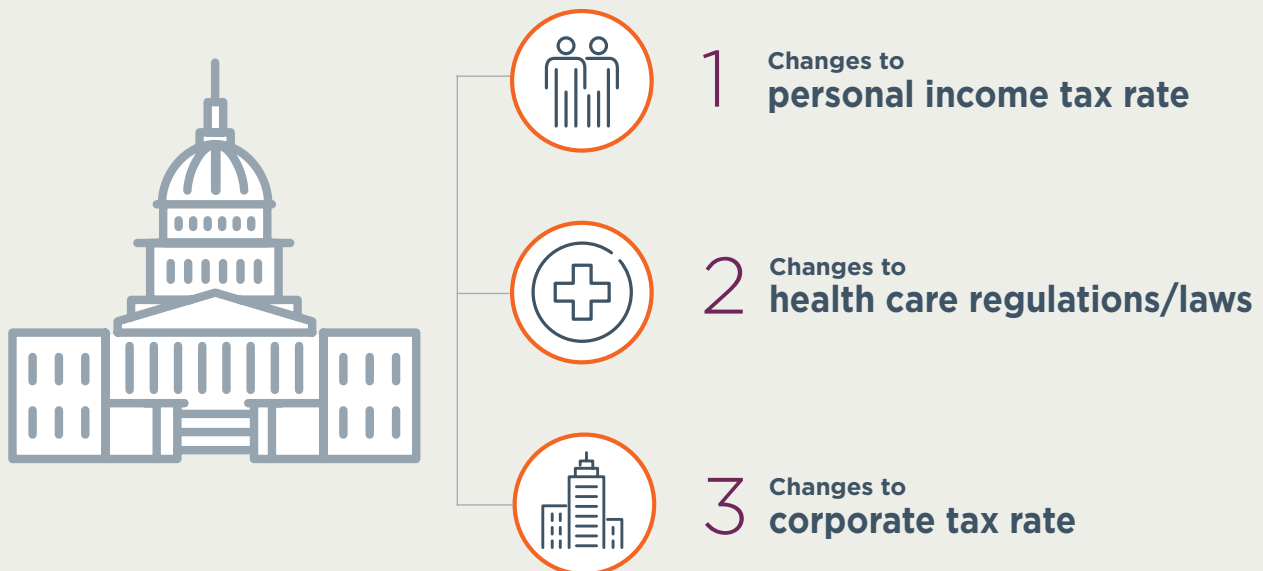
85% are anxious about rising personal tax rates and 78% worried about corporate taxes

Our survey uncovered widespread worry over potential policy shifts coming from Washington, D.C., with 85% of owners either very or somewhat concerned about rising personal income tax rates. Second on the list are changes to health care regulations (81%), closely followed by changes to corporate tax rates and debt/deficit spending (both 78%).

When we ask owners to cite the biggest exogenous risks to their business, we note that finding funding has become a much larger factor during the pandemic. In our most recent survey, 28% of owners cite this as a concern, compared to only 20% last March. This issue is steadily rising in importance to challenge for a place in the top three risks cited by owners: a recession, change in control in the White House/Congress and consumer demand.

On a positive note, we see significant drops in several risk factors that have been keeping business owners awake at night over the past year. Last March, 26% of owners cited U.S. trade policy as a major concern; that figure has fallen to 18%. Similarly, 39% of owners were worried about competition last March; that number has decreased to 27%.

BUSINESS OWNERS' CONCERNS RISING BECAUSE OF POLICY CHANGES



► Entrepreneurs of Color (EOCs) Faced More Hurdles in PPP Than Non-Minority Owners (NMOs)

43% of EOCs more likely to experience challenges when applying for relief

The Paycheck Protection Program (PPP) has been a lifeline for some businesses, providing much-needed capital for salaries and rent. One of the biggest differences in the PPP experience was between entrepreneurs of color and non-minority owners (NMOs). When it came to generating documentation for loan applications and forgiveness, entrepreneurs of color have been 43% more likely to experience problems when applying than NMOs.

While overall many business owners did not experience negative issues during the loan application process, with nearly half saying that the process was not difficult, that's not to say that it has not come with challenges. Business owners ranked their top three issues as generating documents for loan applications and forgiveness; accessing the application online; and difficulty understanding the requirements for loan forgiveness.

SMALL BUSINESS OWNERS EXPERIENCE PPP CHALLENGES

More than one-quarter of smaller businesses found the PPP process either extremely or very difficult

Biggest challenges include generating documentation, online access, and understanding requirements



Found the PPP process extremely or very difficult

26%

Found the PPP process not very or not at all difficult

49%



46%

Had trouble generating documentation for loan applications and forgiveness



45%

Had issues with online access to application



43%

Had difficulty understanding the requirements for loan forgiveness

Q&A

With Detra Miller



Detra Miller

Head of Minority- & Women-Owned Business Banking,
M&T Bank

Q: What unique challenges have women and entrepreneurs of color (EOCs) faced gaining access to PPP funds?

A: The challenges faced by women and EOCs were, unfortunately, not unique to PPP. In normal times, these groups have historically faced obstacles in gaining equitable access to capital, career connections and a strong banking relationship. Because of the unconscious and conscious biases that persist in society, many of these businesses have struggled to build the financial cushion to survive the economic impact of the pandemic. [Seventy percent of businesses without employees](#) (sole proprietors, independent contractors and self-employed individuals) are owned by women and people of color, but due to how the PPP was structured and calculated, these owners were excluded from or only approved for little funding. While there were funds set aside to be lent exclusively by Community Development Financial Institutions for businesses in rural, minority or underserved communities, eligibility and lack of resources created significant hurdles for these groups.

Q: Looking ahead, how can banks better support minority groups, both during normal times and in times of great need?

A: During a recent fireside chat with entrepreneurs, I heard that they want to be engaged, be empowered and have access to educational resources. By better understanding the communities where we live and work through forums and conversations, bankers can offer entrepreneurs tools to help them navigate complex loan programs like PPP and other financial resources. During good times and bad, bankers can help minority groups by proactively helping them to identify solutions to optimize cash flow, establish new and extended lines of credit, set up payment deferrals and explore alternative funding options if needed and introduce them to new networks. Ensuring they receive support on their entrepreneurial journey and that bankers are meeting them where they are is what we should be striving for daily.

Q: Is there anything women and EOCs can do proactively to ensure they have access to critical resources and aren't left behind?

A: Be empowered and recognize that you are deserving of a strong support system that will help you succeed. Establish a strong banking relationship and create an unofficial "board of directors" with mentors and peers who can offer advice crucial for your success. Identify opportunities to connect with other entrepreneurs who can speak about their experiences. It's important to recognize that you're not alone.



of businesses without employees

(sole proprietors, independent contractors and self-employed individuals)

are owned by women and people of color, but due to how the PPP was structured and calculated, these owners were excluded from or only approved for little funding.

► Large Gaps Remain Between Entrepreneurs of Color (EOCs) and Non-Minority Owners (NMOs) on Diversity and Inclusion

EOCs outpace NMOs in valuing diversity and inclusion actions, as well as wanting the businesses they work with to prioritize diversity

In the wake of last summer's worldwide re-examination of issues related to racial discrimination and social justice, we asked business owners in our August 2020 survey for their thoughts on diversity, equity, inclusion and access. We found meaningful gaps between how entrepreneurs of color (EOCs) and NMOs were approaching these issues and making changes within their businesses.

In our new survey, we continue to see noteworthy differences between these two groups.

While EOCs feel more strongly about the need for their businesses to take action to address diversity, a significant portion of their NMO counterparts agree. In fact, 92% of EOCs cite it as either very or somewhat important but 70% of NMOs owners feel the same.

EOCs also state it is important for the businesses they work with to take action. Moreover, more EOCs than NMOs hold a stronger belief that customers care that businesses are taking meaningful steps to address diversity. Across the board, our data shows that roughly one-third of NMOs say that addressing diversity is not very or not at all important.

DIVERSITY AND VALUES LEAD FOR BUSINESS OWNERS

Entrepreneurs of color far outpace non-minority business owners in valuing diversity and taking a stand on social issues

Important issues for business owners:

Diversity in their business



Diversity in their partners / vendors



Taking a clear position on social issues



John Campbell

Director of Business Owner Engagement,
Wilmington Trust, N.A.

Driving diversity for the future



By continuing to drive diversity among their business, vendors and clients, entrepreneurs of color are embracing an unparalleled opportunity to both create wealth and advance diversity within the business ecosystem.

View our recent live webinar, [The Business Owner Digital Revolution](#), for insights and advice from two business owner clients and our internal experts on how some business owners are doubling down on the digital experience for customers and employees... while others have decided it's time to retire.

Moderator



Aarthi Murali
Chief Customer
Experience Officer,
M&T Bank

Speakers



Alvina Lo
Chief Wealth Advisor,
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Owner & CEO, SONCO
Worldwide, Service
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Milli Arakawa
CFO, EYA Homebuilding

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Survey Methodology

Owners of business with revenue of \$1M+ were asked to complete an Internet-based questionnaire to ascertain their views on the U.S. economy, the state of their business, future plans for their business and impacts of the Covid-19 pandemic. The survey took place January 25 through February 10 among 1,007 business owners, with 228 of these identifying as people of color. Survey data utilized for comparison purposes was fielded from owners of businesses with revenue of \$5M+, and feedback was provided by 802 owners.

Business Owner Confidence Index Methodology

Wilmington Trust questioned business owners on their outlook on the “U.S. economy” and the outlook “for your business” over the next 12 months using a 5-point scale: “very optimistic,” “somewhat optimistic,” “neither optimistic nor pessimistic,” “somewhat pessimistic,” “very pessimistic.” Scores were then averaged using the top-2 box scores and the bottom-2 box scores:

• Top-2 box scores = “very optimistic” + “somewhat optimistic” • Bottom-2 box scores = “very pessimistic” + “somewhat pessimistic”

Finally, the following equation was used to create a single score: • (Very optimistic + ½ somewhat optimistic) – (very pessimistic + ½ somewhat pessimistic) • Average of the two scores

Wilmington Trust traces its roots to the founding of WTC in 1903.

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