

Exchanges at Goldman Sachs

How Small Businesses Are Adapting to an Evolving Economic Landscape

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Allison Nathan: Small businesses are the backbone of our communities and the life blood of the US economy, but today they're facing a number of headwinds in an increasingly challenging economic environment. I'm Allison Nathan, and this is Exchanges at Goldman Sachs.

It's Tuesday, July 19th, and we're recording from Goldman Sachs's 10,000 Small Businesses Summit in Washington, D.C., in what is the largest-ever gathering of small business owners in the United States. Joining me to discuss the challenges and opportunities facing small

business owners are Asahi Pompey, president of Goldman Sachs Foundation, and Joe Wall, a managing director in our office of government affairs. We're also thrilled to be joined by two small business owners who are graduates of Goldman Sachs's 10,000 Small Businesses program.

Natalie Kaddas is the CEO of Kaddas Enterprises, a plastics manufacturer based in Salt Lake City. And Merv Cutler is the president and CEO of Cutler Engineering and Technology Services, a business he founded in 2014 to service government clients.

So glad you could all join us here for this very special episode. Welcome to the program.

Asahi Pompey: Great to be with you.

Joe Wall: Good morning.

Merv Cutler: Thank you.

Natalie Kaddas: Thank you.

Allison Nathan: Asahi, let's start with you. There are more than 2,500 small business owners here at Goldman

Sachs's 10,000 Small Businesses Summit in Washington, D.C., so congratulations. It's such an accomplishment to get such an entrepreneurial and I would say inspiring group together. But give us a little bit of background. What led us to host this evening to begin with? And what do we hope to achieve from it?

Asahi Pompey: Allison, I really want to bring your entire audience right here to the summit. The energy in the air is pulsating. History is being made here.

Asahi Pompey (soundbite): Why are we here? Why have we gathered our country's best small businesses in none other than our nation's capital, Washington, D.C.? The reason is simple: To unlock the power of your voice, your vision, and your impact.

Asahi Pompey: Goldman Sachs is proud to host the 2022 Small Businesses Summit, and it's exactly what you said. It's the largest gathering ever in the history of this country of small business owners, and it's taken place where? In our nation's capital. And as you'll see, that's not by accident.

We have small business owners from Savannah to Seattle, from Boston to Boise, that have really converged here. And they're here for one simple reason: To meet with legislators to really advocate on behalf of small businesses. What are the solutions that they need to get their voices heard?

You and I know that old adage: If you're not at the table, you're on the menu. Well, we want to make sure that small business owners really have a voice at the table, and so that's the real reason that we're all here. So day one we're called Vision Day, and that's where they get to hear from luminaries -- Warren Buffet, Mike Bloomberg, Gwyneth Paltrow from GOOP, President George W. Bush. And that's really around inspiring these small businesses and really giving them a chance to hear from sort of the legends of the industry and of the world really.

The second day is Advocacy Day. Now, this is really where the meat is. They're going to be meeting with lawmakers, over 400 meetings in a single day. It kicks off the day at Nats Park where they'll hear from Secretary Buttigieg and others, so a really incredible, incredible moment, history making for business owners.

And, look, I'd like to say it's a powerful culmination of Goldman Sachs's commitment to this community over the last 13 years.

Allison Nathan: I for one can certainly attest to the excitement and energy here and just walking through the hallways of this summit has been just such an impressive experience, but let's turn and talk a little bit about the state of small businesses today. You know, we often think of small businesses as a leading indicator of the health of the economy, and they're the first to experience when prices go up. They're the first to experience when prices go down. They have been bearing the brunt of a lot of the supply chain issues that we have been hearing about since the pandemic. So, Joe, your team just released the findings of a new survey, and it shows that small business owners are increasingly worried about the economy and are facing bigger and bigger challenges. So, Joe, talk to us about some of the key findings.

Joe Wall: Yeah, so, you know, over the last two-plus years we've actually conducted 13 surveys, so every two months or so we're in the field to kind of get the pulse of the small business community. And we've obviously

seen the roller coaster of COVID and now, you know, the disruptions caused by the economic headwinds that businesses of all sizes and kinds are facing.

So in our most recent, which we conducted in late June, we found that, just in the past three months, 78% of small business owners say that the economy for them and their business has gotten worse. We found that, whether it's inflation, workforce, supply chain issues, they've all sort of edged into more negative territory over the last three months.

Interestingly enough, when we ask our small business community, “What's the number one issue you're facing right now between workforce, inflation, supply chain?” and we've asked this question in our January survey, April, and then of course again in June, it's workforce that's the number one issue. We found that about two thirds of small businesses are currently hiring full-time and part-time employees. Of those hiring, nearly 90% say they are having a really difficult time finding employees, whether those are for part-time or full-time positions.

And on the inflation front, which is obviously in the

headlines every day, we found 97% of small businesses say that inflation has either gotten worse or the same compared with three months ago. And I think the most worrisome data point -- and this is something we did not see in April -- is that consumers are starting to change their behavior. So about 38% of small businesses say that they've seen a decline in demand and sales as a result of inflation. So I think that consumer behavior, you know, narrative when we're seeing that in other public data is something that's unfortunately taking a toll, and I think, broadly speaking, with the kind of headline of the survey was that 93% of small businesses are worried about a recession hitting over the next 12 months. And, you know, a lot will say, "Gosh, that's a lot higher than perception in the markets," or I would say 12 months we started spotting inflation and we heard the same thing from economists saying, "Oh, this is transitory. It's not that big of a risk."

So to your point, I think small businesses are often at the tip of the spear of these cycles, and they're feeling it right now.

Allison Nathan: Let's grab onto that workforce issue that was so prominent in the latest survey. We've all stories of

the Great Resignation and how companies of every size really are finding it difficult to hire qualified workers and finding them, retaining them, all challenges we're struggling with. So give us some more detail about what's behind those challenges, Joe. Were you able to dig into it in the survey?

Joe Wall: Yeah, so, you know, a lot of small businesses are struggling, quite honestly, to compete with larger businesses. And they can try to compete when it comes to wages. Where they have an incredibly difficult time competing is when it comes to benefits. So we found in our prior survey data that only 41% of small businesses are able to offer retirement benefits to their employees, and that number drops down to the mid 20s among Black small business owners.

So when it comes to that competition with large employers, more often than not, small businesses are on the losing side when it comes to trying to hire new employees and also retain existing employees. And we asked a new question in our most recent survey in late June, and that was, "How long does it take you to hire someone?" And we found 55% of small businesses say it takes over two

months to fill a single opening. And you can talk to countless small businesses about they're hiring head hunters, they're doing everything they can to try to find people. And even so, it's not making a huge difference. The talent pool, particularly for Natalie and Merv who are looking for very specific types of candidates, is all the more difficult.

Allison Nathan: So Merv, talk to us a little bit more about that challenge that you're facing, especially because you're in such a technical field, where labor is very tight.

Merv Cutler: Yeah, even today, I have requisitions out. So glad you mentioned that, Joe. It is extremely hard for a small business to find the resource to get out and get after this talent pool that you're looking for in a market where larger businesses are able to have their recruiting machine internally. Small businesses have to rely on those other industry human resource outfits that help us go find the talent.

I still have two months -- two and a half now -- I'm still looking for an IT engineer for a project I have now, and my challenge has been how much money do I spend? How

much of what I plan to make can I afford to do this? I mean, you go into too much, and it also drives on -- Natalie, you may attest to this -- I got to take my time to interview these people, to put them on a job site. So it's really, really challenging for the small business community to keep up with that kind of demand when I'm going against large businesses that have that resource internally. So that's been my experience.

Allison Nathan: And Natalie, you are facing similar issues?

Natalie Kaddas: Yeah, we're absolutely facing workforce issues. I mean, just attracting, retaining, and then developing them as well. So there's a lot of training that has to happen, and that ties up your internal resources to do those trainings. So that's been a challenge. For example, I have had an HR management position open for over four months now, and that's hard to manage your business when we have 76 employees without that key position.

Allison Nathan: And Joe, I mean, a lot of this difficulty in finding workers, qualified workers in particular, is just

how interconnected this is with other big, complicated issues -- immigration, child care. So what can policymakers do to help alleviate this burden for small businesses and address these challenges?

Joe Wall: Yeah, and it's a multifaceted issue. There's not sort of a silver bullet that's going to fix it, per se. The number one issue in our agenda is that the Small Business Administration, the federal agency that is charged with providing small businesses with the resources they need, has not been reauthorized by Congress in the past 22 years. So the last time it was reauthorized, Bill Clinton was president. We were printing off Mapquest directions. The iPhone was seven years away from being introduced. And for a lot of small businesses, right, they are operating light-year speeds from them, and they need an agency that is responding to the small businesses of today, not the small businesses from 2000.

And so we kind of view that as the umbrella to fix a lot of the problems, whether it's providing more workforce-related resources to small business, child care resources, retirement benefits. It fits under the access to capital issue as well. So we think of that as our main focus legislatively,

and that's what we're going to be driving ahead not only tomorrow but in the months ahead as well.

Asahi Pompey: I think this point around reauthorizing the SBA is really important, but I want to make sure everyone understands what that means, which is a real top-to-bottom review of the agency, right? Is the agency of 20 years ago, does it have the proper policies, procedures to really address small businesses of 2022, 2032, and 2042? And so that's why this point that Joe makes on the reauthorization is so important is because it triggers that full review that's necessary.

Merv Cutler: I just wanted to piggy back on Joe's comment about what we can do legislatively. One of the things I think that I've learned through the Goldman Sachs program that we were taught to look for are industry partnering with colleges and universities. Maybe the SBA or our legislators can think about how they can help feed a pipeline for training our workforce that we need.

I've got contracts where I need people certified in operating systems and security, plus cybersecurity is big today, and everybody is going there, I imagine. But I think if we can

get the legislators together to understand how important it is that they help provide incentives for colleges to help small businesses kind of incubate training and internships, things that we couldn't afford to do on our own.

As Natalie mentioned, she's got to spend time training. And if you lose someone, now that person starts over and over again. By the way, though, for the colleges, the JCs in the nation, to take that responsibility up and partner with us, give us a way to go into those agencies or those educational industries, and find ways to bring folks to the employment opportunity we have for them.

Natalie Kaddas: We've done that, Kaddas Enterprises, we've partnered with the Salt Lake Community College, and they do all of our on-boarding now. So our team, before they even start on our floor, they go through a week of training. They get formalized safety shop skills training that they can take anywhere with them, but that frees up an internal resource for me. And they have now the real safety tools because we work with power tools, and that's a risk. So they do that training that's formalized, and they get accredited hours for that. And that's in a partnership with the Salt Lake Community College to do

that.

And it helps also then take them to another level, so we're training front-line leaders as well.

Allison Nathan: So interesting. And that is something that you, though, had to be proactive --

Natalie Kaddas: Yes.

Allison Nathan: -- and put in place as opposed to getting support from our government.

Natalie Kaddas: Yes. I said, "I need help," and we're manufacturing so I think that there's a real need to excite people about manufacturing because we need to make things here in our country. And so we're going to younger and younger students. We're going into high schools and even junior high schools and educating on what is manufacturing because it's pretty cool. It's robotics, it's automation, it's programming, and so we're trying to get to a younger group of people to say, "Hey, manufacturing is a great -- you can have a career there, and you can have a family and your home, and you can do some really cool

things.” And we make things, so I get pretty excited about that.

Asahi Pompey: Well, Natalie, I have to tell you, I have a middle schooler at home who loves robotics.

Merv Cutler: That's awesome.

Asahi Pompey: So you may have someone in the making.

Allison Nathan: Excellent. Well, I love this optimism, and let's stick with that for a second because, Joe, if you pick through your survey, there were some signs of optimism as well. And the stat that stood out to me was that 65% of small business owners are optimistic about the financial trajectory of their businesses in 2022. I mean, that does seem a little counterintuitive based on, you know, a lot of the concerns we discussed in terms of the economy and the labor force, so what do you think is driving that broader optimism?

Joe Wall: Well, I think, as you'll see in the room today and at the baseball stadium tomorrow, small

businesses are just optimistic by nature. And they have to be because, in order to start your own small business, right, you have to think somewhat counterintuitively. It's a huge risk, right? And for someone like Merv, who had a job at a very big corporation, was doing just fine, he decided to take a big risk and start his own business, which I'm sure some of his friends and family are like, "Merv, what are you thinking?" But that's the small business community, right? They are the most resilient, dynamic, in terms of pivoting on a moment's notice. And --

Asahi Pompey: And passionate.

Joe Wall: And passionate. Nothing is getting in their way of succeeding. But even so, they're naturally very worried about the signs that they're seeing in their business just from an economic perspective, but that's not holding them back from innovating and sort of thinking forward. And I think they also realize COVID created a lot of opportunities for businesses, right, to pivot and whether it was moving online or, you know, improvise their business. And so opportunities also come in economic conditions like this, and so I think for a lot of them they're trying to kind of make a pivot and think about, okay, how

can I leverage this moment and perhaps make the best of it?

Allison Nathan: I couldn't have said that better, Joe. I mean, that is exactly why it is so fun and great to be here because there is no one else like a small business owner who has the drive, the passion, and is a doer. I think we need more of that in our society broadly, and we have seen -- and as you just said, Joe -- so many instances where small business owners have adapted. They have been agile, resourceful in getting through the challenges and taking advantage of the opportunity.

So Asahi, talk to us a little bit from a high level about some of the pivots and strategies small business owners have been taking advantage of during this period to get through these challenges.

Asahi Pompey: You know, one of the most interesting things that we're seeing as I talk to business owners across the country is that we've moved beyond the pivot to the permanent. And what I mean by that is business owners who pivoted as a result of the pandemic are finding that a lot of the changes that they made, those

new products that they introduced, those new services that they're offering, they in fact are pretty good, they're working well, and they want to keep them permanently. And so that's one of the sort of macro changes that we've seen.

Interestingly enough, I was talking to a business owner this morning as I was walked into the conference, and she said that they were having supply chain issues getting wood -- she's a hardwood floor manufacturer. The Ukraine and Russia had been their primary source for European oak, which was the number one seller. Well, she says we've now switched to American oak. We've been doing that for some time. They come in smaller lengths. Did that know that. Fun fact for your audience. But they're working incredibly, incredibly well.

And so you see the agility, you see really the sort of movement, the nimbleness of this small business community time and time again. Another example is Parella [sp?] in Des Moines. She runs a construction company. Similar to Merv, similar to Natalie, having trouble finding people in the construction industry. She said, "You know what? I'm going to open a construction school. I'm going to teach people the tools that they need

and skill them up.”

So we're seeing these kinds of stories emerging from our business owners from state to state across the board. However, they're still saying that they're concerned about the recession. They're still saying workforce continues to be a big challenge. And a number of them in particular have had to increase their prices. 62% have said, “Look, I've been forced to increase my prices because of inflationary pressures.” So we've got this optimism on the one hand and belief and conviction in themselves and their ability, but we've got this uncertainty that they're facing. And so these changes that they made to their business is one of the key strategies that they've employed to sort of deal with what's going on.

Small business owners, we know, tend to be the canary in the mine, right? They are the economy's early warning system, and they are speaking and we fail to listen to their voices at our peril.

Allison Nathan: Well, raising prices is not necessarily a bad strategy if your consumers will pay them, but let's talk about some first-hand experience with people in the room

here. Merv, you deal with a lot of government contracts, so it's more challenging for you to pass on the inflation. How are you navigating that?

Merv Cutler: Well, one of the things that we decided to do in my business is I had started to go down the path of getting more office space, for instance, since the pandemic. And with inflation, you know, with government contracts, you're locked into a price and a fee that you're going to get. So you're not going to get any more than that. So what we did was implemented the distributed workforce -- teleworking basically, if you will. And so my employees, my support staff is happy. We were able to negotiate, even with some of my government contracts, that those guys get to work from home as is practice when they can. So that's helped us cut some costs that helped me be, at least on par, profitable at the end of the day than I would have been had I had that large overhead of an infrastructure to sustain.

Now, that may be hurting the guys in the commercial real estate area because, as more small businesses do their distributed workforce, they may be losing opportunities there. So what may have been great for me as I pivot may

not be so great for the commercial industry owners. So it's give and take. So we're all adjusting.

Allison Nathan: Right, trade-offs.

Merv Cutler: Yeah, trade-offs, yes.

Allison Nathan: And Natalie, I'm sure your material costs are rising as well. Have you had to raise prices? Are you absorbing those costs? What does it look like?

Natalie Kaddas: Yes, to both. So we have had to raise our prices. We've also absorbed quite a bit of costs. We, you know, from a supply chain perspective, we're purchasing differently. So we're intentionally purchasing a lot more inventory, and we're carrying that.

Now, the good side to that is we've been able to win business because others haven't been able to deliver, so we have won some contracts that way. But it does tie up your cash flow, and it's a balancing act that we're looking at on a daily basis.

Joe Wall: And Allison, one interesting nugget from

our survey was that, and Asahi pointed this out, that north of 60% have raised prices. But when we asked them, “Well, how much have you raised them by?” north of 60% say less than 10%. So if you look at the inflation data nationally -- and in the *Wall Street Journal* last week, they had it sorted by every sector industry -- and it's well over 10% across just about everywhere. But I think small businesses have actually been increasing their prices by much less than larger business.

Merv Cutler: You don't want to increase pricing such that you price yourself out of the market. In the DOD industry, for instance, I've got to compete with large businesses, and they're able to bring to bear more resources and drive their costs down. So what will really impact me may not impact them as much, but I got to still compete with them. So I'm not going to raise my prices, my profit margins or anything to cause me to lose contract opportunities. So I'm going to be a little bit more reluctant as a small business to increase by that much. But believe me, we are all feeling that we need to be able to increase. And like I said, in DOD, government contracting, you've got a contract that says here's how much you're going to charge for the life of this contract.

I'd love to -- can't wait to talk tomorrow to our congressional representatives to say, "Hey, you've got to find a way, with the SBA, first of all, reauthorizing them. And then allowing them to help us go back to the negotiating table as inflation continues to rise." I've got to be able to recoup some of that cost so that I remain in business and can continue to employ American citizenry. It's important.

Allison Nathan: And because these contracts are -- I mean, how long are they typically in length?

Merv Cutler: So for most of our small business contracts, it's about a 5-year contract. But in that five year, I get a 3% escalator. Joe just told you how much inflation is increasing by, right? We're at 9%. How can I keep up with that year over year? I mean, I'm really kind of taking a loss, my employees are taking a loss because I can't afford to give them raises to keep up with inflation at this point.

Allison Nathan: Right. The world looks a lot different today than it did five years ago when those contracts were

negotiated.

Merv Cutler: Yes, for certain.

Allison Nathan: So tomorrow is an exciting day, as Asahi mentioned, moving to Nats Park to talk to our congressional leaders about what can be done. Joe, what do small business owners really want to hear from the administration, from lawmakers? And what are they saying about how DC can step up? We've already heard some good suggestions from Merv and Natalie, but what else are you expecting it to be discussed tomorrow?

Joe Wall: Yeah, well, so just to kind of set the scene for tomorrow, we decided to rent out the baseball stadium, which is a little unconventional. I don't think anyone's rented it out for this purpose before in terms of bringing Congress to us. But the reality is, on Capitol Hill, for the listeners, is that it's very tough to still navigate Capitol Hill, given the security constraints that are in place post January 6th.

So we decided, you know, we've got to do something different, so we are renting out the baseball stadium and

bringing Congress to us. And by the way, the DNA of most members of Congress is that you come to them. They can't leave their office. They're obviously very busy. The only people I think that they would go see en masse is the small business community because they realize how important they are not only to the vibrancy of the economy, but they're also constituents in their communities. So we're really excited for tomorrow.

In terms of what I think the small business community wants to hear is they want to hear that there's going to be action. I think there's a level of frustration, particularly, you know, that they're facing all of these challenges and they're just not seeing any movement when it comes to supply chain issues, for instance, that have not really improved at all, at least for small businesses, in the last nine months.

On inflation is obviously a complicated issue. On workforce, there's no solutions in mind to try to help these business owners recruit, retain when it comes to offering benefits. There's nothing on the table. We've talked about the SBA reauthorization, but, you know, most government agencies are reauthorized not necessarily every year like

the department of defense is but every few years. The fact that it's been 22 years just goes to show that they haven't been prioritizing small businesses, and now is the time. And tomorrow's a big day, but tomorrow's just not going to be a one-day event. We're going to keep the noise level up for the next several months, and we are committed to getting it done.

Allison Nathan: So just to wrap up, as we have discussed, small business owners are collectively facing a more challenging economic environment, but they are incredibly and impressively, I should say, resilient. And again, judging by the mood of everyone around this table and at this conference more broadly, very optimistic about the future. So Asahi, what is your prognosis of the state of small business in America? What is your vision? Where do we go from here?

Asahi Pompey: So the prognosis, I'd say, is cautiously optimistic. It's never been easy running a small business. No one said, "I'm going to open a small business because I want the easy route," but it's really never been this hard. And so there's a real sense of unease and uncertainty that's really in the air. And we see our

business owners really running between the raindrops to move, pivot, to really work through the challenges that their businesses are facing.

But here's what I'd say. Small business owners know that opportunity does knock twice, and they're taking advantage of the windows that they're seeing to grow their business. So we're seeing growth. A lot of them say, “Give me the manpower, and the business is there for me to grow this business.” That's what any economy wants. That's what the American economy wants and needs is business owners, small business owners who are saying, “I'm going to seize that opportunity,” and we're seeing our business owners do that time and time again.

You know, I love that saying: The best way to predict the future is to create it. Small business owners are creating that future, and I think this opportunity here where history is being made, meeting with lawmakers about what needs to change, tangible solutions are going to be really what the economy needs.

Allison Nathan: Asahi, Joe, Merv, and Natalie, this has been such a great and inspiring conversation. Thank you

so much for joining us, and enjoy the rest of the conference.

Natalie Kaddas: Thank you.

Asahi Pompey: Thank you.

Merv Cutler: Thank you very much.

Allison Nathan: Thanks so much for joining us for another episode of Exchanges at Goldman Sachs. If you enjoyed this show, we hope you follow on your platform of choice and tune in later in the week for another episode. Make sure to like, share, and leave a comment on Apple Podcasts, Spotify, Stitcher, Google, or wherever you listen to your podcasts.

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