

Business Outlook Study: Optimism Amid Headwinds



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There's reason for optimism although confidence in the economy is low

With the 2023 economy often characterized as a ball of contradictions with both caution signals and signs of growth, TASI® Bank and the *San Francisco Business Times* conducted a survey of primarily small to medium-sized businesses in the San Francisco and Los Angeles markets to assess attitudes, opportunities and concerns.

For many, the landscape remains unsettled. Inflation is still high even though the Federal Open Market Committee issued many interest rate increases in the past year, and more are likely on the way. Many investors are waiting for their portfolios to recover to their 2021 peaks. And “loud layoffs” among high-

profile companies, particularly in the technology sector, are triggering anxiety.

One major finding of the survey, conducted among more than 300 local business executives, is that confidence in the U.S. economy is low. Just 14% of survey respondents said they are very or extremely confident about the next 12 months. Their view of the state and local economy is only six percentage points higher.

At the same time, there's good reason for optimism. By February of 2023, there were [295,200 more people employed in California](#) compared to February

2020 during the early days of the Covid-19 shutdowns. At the end of [March 2023](#), the state had nearly 18 million payroll jobs, a gain of more than 3 million since the economic expansion began in April 2020.

This report dives deeper into what these executives expect in the coming year and the challenges they anticipate. It also includes insights from post-survey interviews with Dave Joves, TASI® Bank president, and Dr. Christopher Thornberg, Ph.D. and founder of Beacon Economics LLC.



Dave Joves
TASI® Bank President



Dr. Christopher Thornberg, Ph.D.
Founder of Beacon Economics LLC



Research objectives and methodology

TASI® Bank, a division of Bank of Guam®, partnered with *San Francisco Business Times* in this survey to create more awareness around the opportunities and challenges facing local business leaders, and also examined medium and long-term influences on their own success.

“As we’re coming out of Covid, there has been a lot of uncertainty within the marketplace,” said Joves. “We want to arm our customer base with relevant and current information.”

A total of 323 business professionals across San Francisco and Los Angeles participated in the survey in the first quarter of 2023, including business owners, executives and other local professionals. Their companies ranged in annual revenue from less than \$1 million to over \$50 million, with employment from less than 10 to more than 100. They represented a broad range of industries, including 26% in real estate, construction and architecture, 18% in professional or business services and more than two dozen others, including automotive and hospitality to cannabis business segments.

Key takeaways from survey

1. Despite having low confidence in the overall economy, most executives have strong confidence in the success of their businesses.
2. Business leaders are focused on growth.
3. Survey respondents believe inflation will have the biggest impact on their companies in the coming year.
4. Few executives in the survey are actively working on a succession plan.
5. Most executives surveyed agreed having a one-to-one relationship with their banker is important and they want to turn to them for advice outside of traditional banking services.

Thinking big: Local executives plan for growth despite economic uncertainty

Thornberg noted that waves of job cuts coupled with inflation and interest rate hikes tend to cause people to lose confidence in the economy. So, it's not surprising executives don't have a rosy view of the local, state or national economy.

Still, many businesses see positive signs ahead. Unemployment remains low and demand for goods and services is strong. However, Wall Street and Main

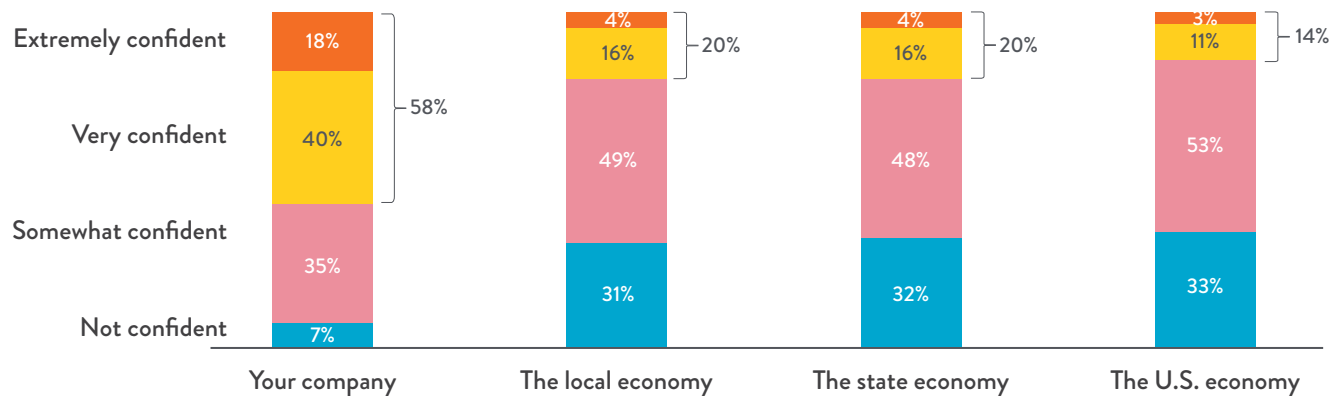
Street have very different views of the economy.

"What's interesting is this dichotomy between what we call the national opinion and the local situation," Thornberg said. "... When I talk to businesses about what's coming down the pike, I ask them, 'What do you think the problem is? Where is the change? What's unsustainable? What isn't going to work?' And if they think about it from their perspective, it is probably one

of the better forecasts we've seen."

Most of the survey respondents have strong confidence in the success of their businesses. When it comes to revenue, profitability, and growth, 58% said they are very or extremely confident in their business over the next 12 months. Just 7% reported not being confident.

Business confidence over next 12 months



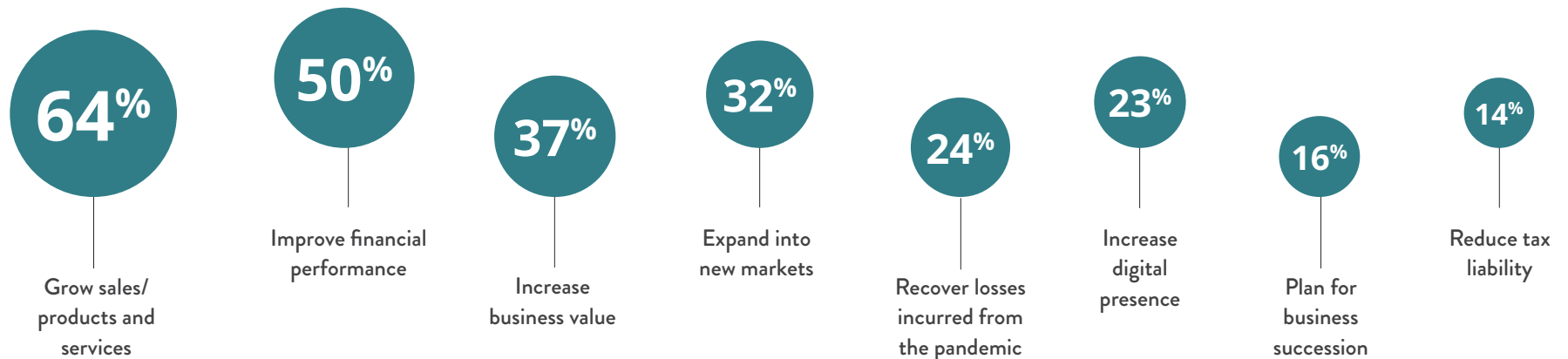
Business leaders also are setting their sights on growth. The top two goals among businesses in the survey are products and sales growth and improved financial performance.

“Everybody wants to do better than what they’re doing today,” Joves said when discussing the survey results. “There’s a level of optimism coming out of the pandemic.”

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-Dave Joves, TASI® Bank President

Top goals for the company

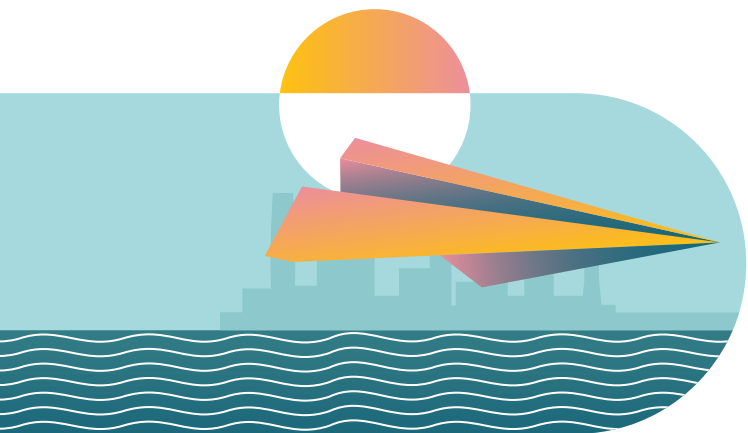


**Respondents were given the option to provide up to three top goals for their company*

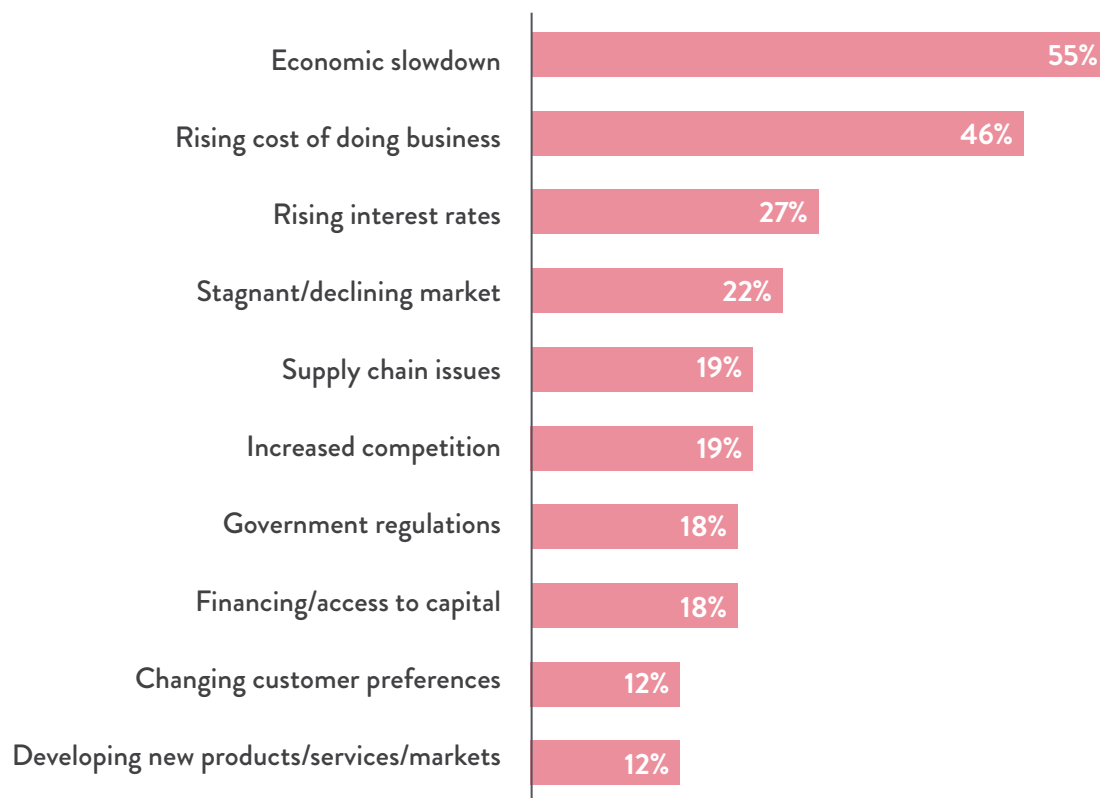
Top business challenges for local businesses

Business executives expect to face a sea of challenges as they build their plans to grow revenue and improve their financial performance. Two common barriers were cited, with 55% of survey participants naming the economy as a top concern, and 46% pointing to the rising cost of doing business.

There are regional differences in terms of concerns. For example, the survey found that executives in San Francisco are more likely to say a stagnant or declining market will be a challenge for them than those in Los Angeles.



Top barriers/challenges for the company



**Respondents were given the option to provide up to three of the biggest barriers hindering the growth of their company*

Survey respondents frequently cited various types of inflation when asked a similar question about what would have the biggest impact on their business in the coming year. Nearly half say they anticipate it will have a fairly large or great impact on their company over the coming year, and specific components of inflation were noted, including the cost of labor, energy, and real estate.

As a result of the inflation concerns, Joves said he is seeing hospitality, hotel, gas station, apartment complex and commercial real estate clients raise wages to keep pace in a competitive labor market.

“It’s a much different expectation than pre-pandemic,” he said. “... Nobody wants to negatively impact an employee who stays with the firm, so they have to keep up with inflation. That means this round of (labor cost) increases is coming around 5% to 6%, which is a bigger number than what they’re used to, and that’s just to keep the guys that are inside the house. If you try to recruit people from other businesses or other industries, you’re going to have to pay a premium.”

The survey revealed San Francisco respondents are more likely to say the labor shortage will have a fairly large or great impact on their business in the coming

year than those in LA. On the flip side, executives in Los Angeles are more likely to be concerned about tax changes hurting their business than their counterparts in San Francisco.

“They are reflecting ground-level realities,” Thornberg said. “The labor shortage is not quite as prevalent in Southern California as it is in the Bay Area. Housing is in short supply in Southern California but not quite as short as in the Bay Area. Southern California is just trying to keep up with overall demand.”

Specific areas of inflation that will have the largest impact on the company



**% will have fairly large/great impact*



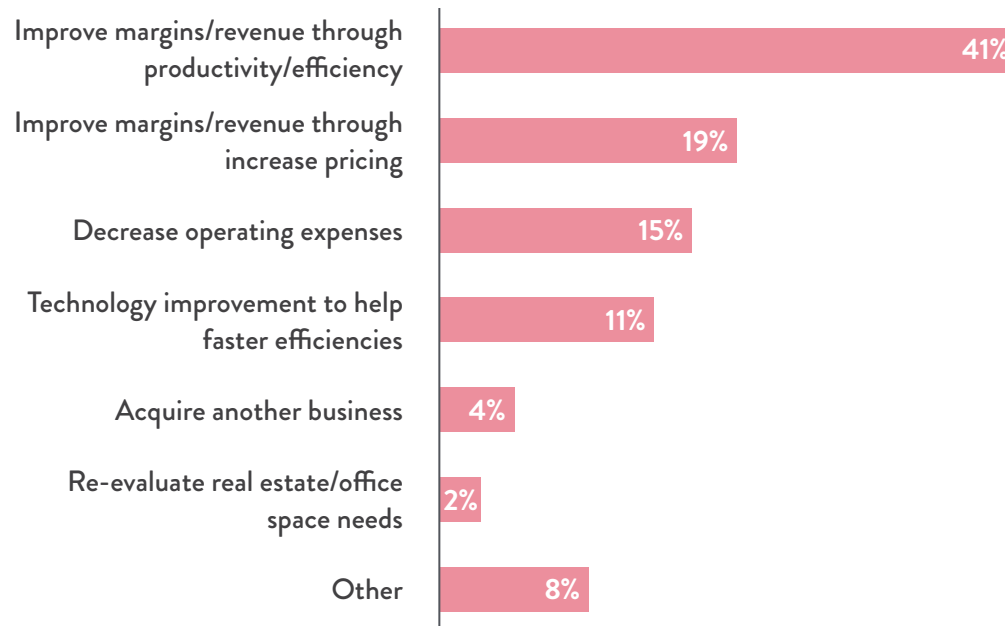
Strategies focused on profitability

Executives are taking a cautious, cost-centered approach to reach their growth goals in an uncertain economy.

Many are closely focused on profitability. The top strategy mentioned in the survey is increasing productivity/efficiency, an approach that's more than twice as popular as raising prices.



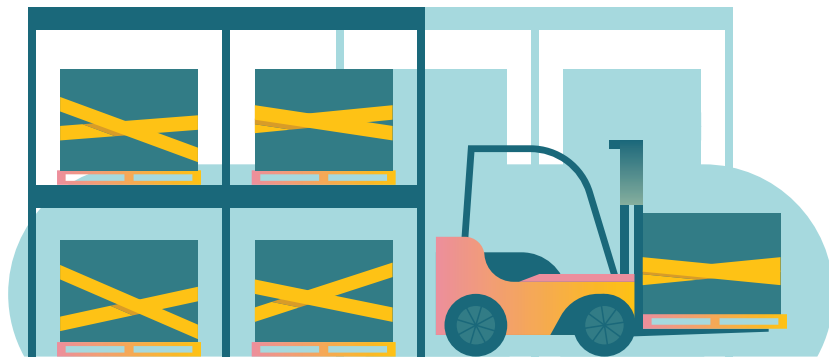
Primary strategy for increasing profitability



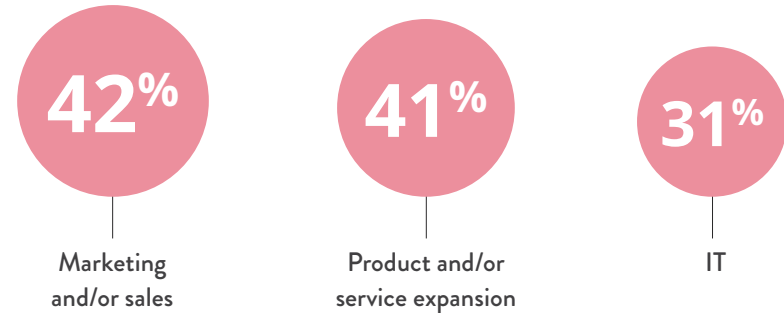
Other responses include: expanding customer base, adding new services, acquiring new funding source, and conducting more marketing

For example, many gas stations are investing in inventory management and technology systems that help improve efficiencies at their stores, Joves said, while property management companies are increasing their use of remote monitoring systems. “Along the same lines, we have seen some hotels and home manufacturing companies that have moved into modular production,” he said. “During the pandemic, the cost of labor plus the cost of materials pushed them into looking for different solutions.”

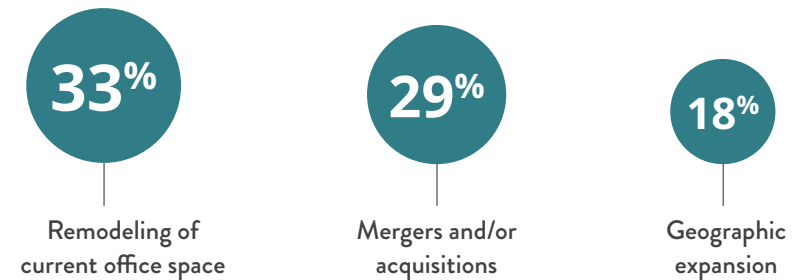
Most executives also say they are taking a cautious approach to spending. Four of 10 of survey respondents say they will increase their investment in marketing/sales and product/service expansion over the next one to two years. Still, most will keep their level of investment across various categories steady.



Biggest increases: Investment plans in next 1-2 years



Biggest decreases: Investment plans in next 1-2 years



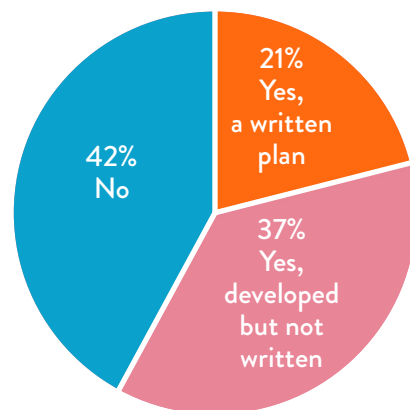
One of the biggest risks for businesses: succession planning

The survey also called attention to an issue (succession planning) many small and medium-sized businesses traditionally view as a “back burner” concern, but often becomes a major issue when it is avoided. Succession planning is an important step to take when future proofing a business. Yet, few executives in the survey are actively working on one. Slightly more than half reported having a succession plan in place, though more than half of those haven’t yet put that plan in writing. Of those with a plan, the majority say their plan won’t go into effect for at least three years.

The need for succession planning is increasing as the Baby Boom generation continues to retire. The oldest Boomers turned 65 in 2011, and [roughly two million](#) have retired from the labor force each year since, according to a Pew Research Center analysis. For the small business owners among them, this means creating an exit strategy.

“Figuring out how that succession or liquidity event happens is going to be top of mind for a lot of these Boomer owners,” Joves said. “They work their whole lives to get where they are, and to have that just fade away would be horrible.”

Does business have succession plan in place?

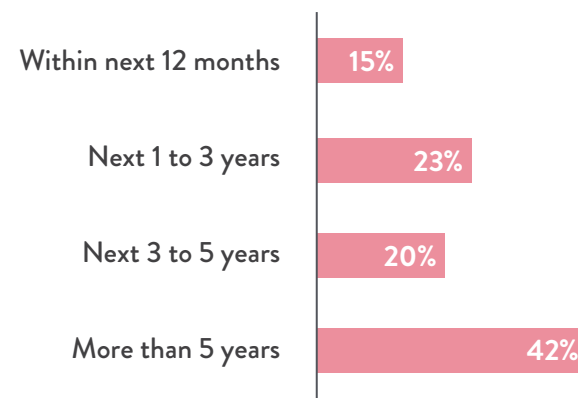


Even if a business has a successor identified, a solid succession plan takes three to five years to execute, Joves said, while a sale could be completed more quickly.

“The dynamics around family businesses are much different than a typical C corporation,” he said. “There might be two or three kids, and there might be a fight over that. And not every next generation is going to want to be in the business.”

Timing of succession

Base=those with succession plan



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-Dave Joves, TASI® Bank President

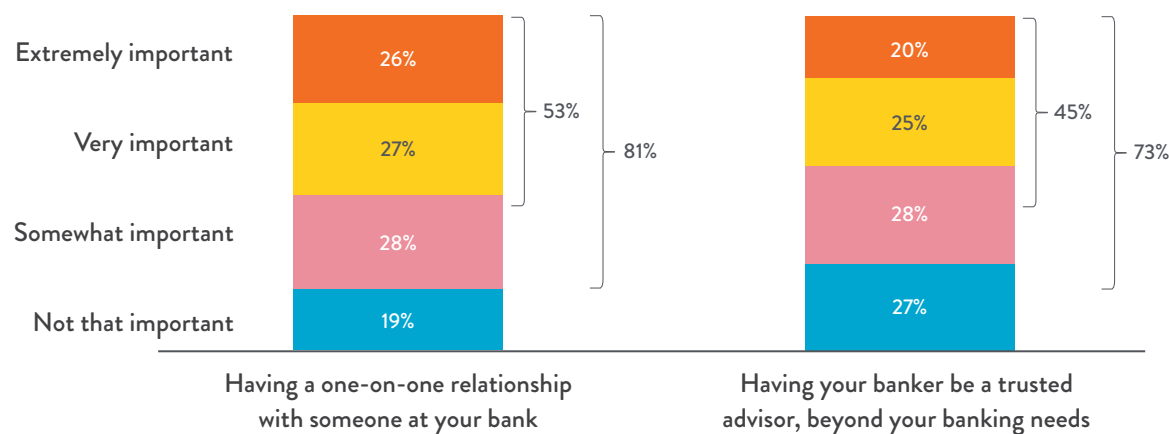
Build your business for success with trusted advisors

In a difficult economy, a business's bank can be vital. Business owners need to be able to rely on their bank for secure transactions and sound advice, as well as for support navigating challenges around cash flow, payroll, and debt.

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Importance of banking relationship



The business leaders listed a variety of ways their bank or financial institution can help them succeed, including more easily accessing credit or capital, finding a way to work within the limitations of small business and providing services that align with the business's needs.

Having a one-on-one relationship with a banker can be especially valuable in times of uncertainty, said Joves, pointing to the number of worried calls he received from business owners when the news of Silicon Valley Bank's failure broke in March.

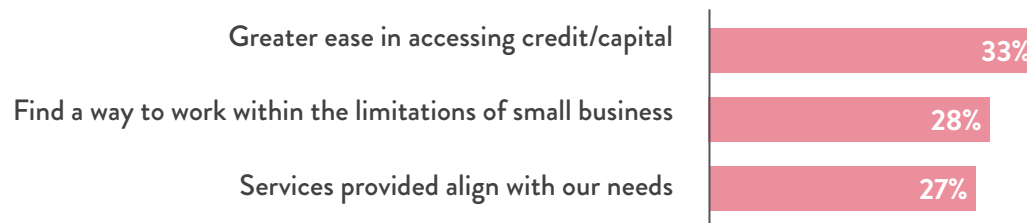
"I was fielding a ton of questions," Joves said. "Customers have my cell phone number, and we can walk through it."

Businesses have many choices when it comes to selecting a banking partner. In Los Angeles, for example, executives are more likely to work with a large regional or national bank than in San Francisco, where relationships with local community banks are more common.

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How bank/financial institution can help businesses succeed



**Respondents were given the option to provide top three ways banks/financial institutions could help their business succeed in 2023*



Unlike some larger banks, community banks often invest more time in listening to customers to understand their unique challenges and circumstances. This allows their bankers to serve as trusted advisors

who can recommend strategies for managing resources and maintaining growth strategies during tough times. Executives in the survey gave local community banks higher marks across six categories: personalized

attention, fast decision-making, products, and services with the local market in mind, access to business loans and credit, the availability of a variety of services and products, and lower fees.

Type of bank/institution used for business

	Los Angeles	San Francisco
Large regional/ national bank	84%	65%
Local community bank	20%	36%
Credit union	16%	14%

**Data with darkened background reflects a result that is significantly higher for that segment than for the other segment*



Experience working with different types of banks rated good/excellent

	Local community bank	Large regional/ national bank
Relationship based banking with personalized attention	71%	40%
Fast decision-making ability	67%	41%
Bank has products/services developed with the local market in mind	63%	36%
Access to business loans/credit	59%	41%
Availability of a variety of services/products	59%	55%
Lower fees	51%	35%

About TASI® Bank

“At TASI® Bank, we consider ourselves a maverick in community banking,” Joves said. “As a Minority Depository Institution (MDI), we work with small businesses and are able to call on resources and

provide innovative solutions that larger banks often avoid. “The results of the survey reinforce our understanding of the economy and the concerns of business owners,” he said. “Because our approach

is client-focused, we believe that we are in an ideal position to incorporate the results of the survey and be approachable experts to act on the information to meet client needs.”



The data and commentary provided within this report is for informational and educational purposes only, and should not be relied upon for banking, investment, accounting, legal, or tax advice.