

Report - August 2012

Smarter Small Businesses

This report finds that far too many of NYCs small businesses still arent using websites, online ads and other technology tools, a huge missed opportunity at a time when small firms face increasing competition from national chains and online companies.

by Mark Foggin

This is an excerpt. Click here to read the full report (PDF).

New York City's small businesses today face more competition than ever, from national chains with deep pockets tooverseas companies with significantly lower costs. These new competitive pressures have made a challenging place to do business even more difficult for the city's small firms, many of which operate on slim profit margins and have little room for error.

Technology could help level the playing field for many of the city's small businesses. By adopting basic technologies that are taken for granted by large corporations—from Google ads and customer management software to digital payroll programs and point-of-sale systems—small businesses could expand their customer base, reduce their costs and become more efficient. Technology can springboard some small firms to the next level and help others simply improve their profit margins enough to survive.

Unfortunately, too few small businesses in New York are taking advantage of technology in a meaningful way. Across the city, countless neighborhood-based retail and services firms still do not have websites or engage in online marketing. Very few bodegas use technology to track changes in their inventory so they can make better decisions about which items to stock on their over-crowded shelves. A significant share of the city's small businesses haven't yet shifted to automated payroll systems and accounting software, which can save them both time and money.

The technology gap is particularly acute among neighborhood-based retail and services firms, especially those owned by low and moderate income New Yorkers and those located outside of Manhattan's central business districts. In many of these communities, our research suggests that fewer than 20 percent of small businesses are effectively capitalizing on technology.

This is not only a missed opportunity for countless small businesses across the five boroughs. It is a competitive threat for New York at a time when small businesses are only becoming more important to the city's economic future. Fortunately, as this report details, there are a number of things that that could be done—by small business owners themselves, as well as city economic development officials and nonprofit small business assistance organizations—to greatly increase the number of small firms that use technology to make them smarter, more resilient and better equipped to grow.

Small businesses may be the backbone of the nation's economy, but they are particularly crucial to New York City. Just over 90 percent of the businesses in the New York metropolitan area have fewer than 20 employees, a higher percentage than all but one of the 363 metro regions in the United States.

Beyond sheer numbers, small firms have been anchors of local economic growth in communities across the five boroughs. They also provide the goods and services that make New York unique. And they are sparking employment growth at a time when many large corporations are downsizing or opting to add new employees elsewhere.

But in recent years, it has become apparent that too many of these businesses have been struggling to compete in the changing 21st Century economic landscape. These struggles prompted us to examine whether technology has the power to help small businesses in New York become more competitive.

The latest in a long line of Center for an Urban Future studies focusing on opportunities to boost the competitiveness of New York's small businesses, this report documents the extent to which small firms across the five boroughs are incorporating technology into their daily operations; details the obstacles that keep more small businesses from taking advantage of technology; highlights how technology can aid small firms; and outlines a series of recommendations for what city and state government agencies—as well as the private sector and philanthropic interests—could do to help small firms implement these technologies. While our assessment looks broadly at small businesses across the five boroughs, the report includes a special focus on firms owned by low and moderate income New Yorkers, including immigrant and minority business owners.

The report, which was funded by Citi Community Development, is based on five months of research and interviews withmore than three dozen small business experts, including business owners, leaders of small business support organizations, small business lenders, IT consultants and officials from government agencies that work with small firms. Further, our research was greatly informed by an extensive survey we conducted with more than 230 small business owners located across the five boroughs, who were asked about their use of technology in daily business operations, and their perceptions of the role it plays in making them more competitive. We also conducted numerous on-the-ground interviews in three neighborhoods—East Harlem, Brownsville and Richmond Hill—to explore in greater depth the prevalence of technology in neighborhood businesses. Just over half of those who responded to our survey earned under $55,000 in annual household income, classifying them as low-to-moderate income (LMI) individuals.

What we learned is that technology is no longer an option, but an essential tool for businesses to remain competitive. This is not just the case for large corporations and high-tech startups, but for nearly all small businesses—from the corner bodega facing more competition from chain grocery and convenience stores and pharmacies to the neighborhood restaurant that needs to attract diners from outside the immediate neighborhood to survive.

Today, numerous tools exist for the average mom-and-pop storefront or small-scale services business to benefit from technology. However, not enough small businesses are employing technology in their day-to-day operations. Too few small business owners in New York understand the importance of technology adoption, and among those who do understand, many don't have a clear sense of what to do about it.

> "The vast majority of business owners [in Washington Heights] are not integrating technology into their business operations."

How pervasive is the problem? Experts vary in their assessment of the severity, but all agree it is stark—especially among businesses in low- and moderate-income communities.

Fewer than 10 of the 90 businesses along a stretch of Southern Boulevard in the Bronx are incorporating technology in a meaningful way, says Kerry McLean, director of community development for Women's Housing and Economic Development Corporation (WHEDco), a Bronx-based nonprofit that recently helped create the Southern Boulevard Merchants Association. "There is definitely untapped potential for the use of technology and websites and social media on Southern Boulevard. And I think that is symptomatic of the Bronx."

Only about five percent of small businesses in Washington Heights are tapping technology, according to Michelle Bhattacharyya, who until recently ran the Northern Manhattan Business Solutions Center (BSC). "The vast majority of business owners [in Washington Heights] are not integrating technology into their business operations. My staff estimates that 95 percent of folks that we see don't have the technology they need," she says. "When you're looking at the immigrant sector, technology is completely underutilized."

There is a similar disconnect in Chinatown. When asked how Chinatown businesses are integrating technology into their business operations, Wellington Chen, executive director of the Chinatown Partnership says, bluntly, "Poorly. A majority of our firms have no website. And when I offered to scan and post their menus on a business director website, a majority of them didn't want me to do that. They don't understand the importance or the potential payoff."

Eduardo Giraldo, a small business owner in Jackson Heights and former president of the Hispanic Chamber of Commerce of Queens, says that "not even 10 percent" of the members of the chamber are capitalizing on technology.

"I would say 60 to 80 percent of businesses in the neighborhood do not use the Internet to market their business," adds Edwin Nieves of the East Harlem Business Capital Corporation. "There are a lot of restaurants in the area that are run by the chefs. They don't necessarily know the business side of what they're doing. Maybe 70 to 80 percent of them don't have sufficient access to technology to help their businesses grow."

Our survey of more than 200 small business owners across the five boroughs generally confirms what we were hearing inthe field. Among the results of our survey:

- Most small businesses overall appear to be using computers, email and high-speed Internet, but low- to moderate-income (LMI) proprietors are far less likely to do so.
- Barely two-thirds of responding small businesses had a website, and LMI business owners were significantly less likely to feel like websites were even necessary for their businesses.

- Point-of-sale (POS) systems are used by fewer than 40 percent of retail and hospitality businesses that would benefit most by them.
- Very few of the small businesses who responded to our survey take advantage of accounting and customer relationship management (CRM) software, which can provide important information about how their business operates strategically.
- Social media is used by two-thirds of respondents, but by substantially fewer among LMI proprietors (55 percent) versus non-LMI (75 percent). While more small businesses could learn to leverage social media on the whole, there is a significant gap between LMI and non-LMI respondents.
- Among firms with three or more employees, just over half used an automated payroll service.
- Of those who used e-mail, only 60 percent reported using a professionalized domain name tied to their businessname (versus an address tied to their Internet service provider, like @aol.com, or a free service, like @yahoo.com).

Our survey does reveal that growing numbers of small businesses are integrating technology into their daily operations. But far too many are lagging behind at a time when technology has become increasingly critical to business success. “Business owners are more aware of technology now than they were ten years ago,” says Catherine Barnett, executive director of Project Enterprise, a microfinance organization that works with small-scale entrepreneurs. “But in terms of figuring out how to make it work for them, it’s still limited. If you don’t have your finger on the pulse of technology, you’re going to be at a disadvantage.”

> “If you’re talking about commercial strips, you’re seeing a big void in technology being used on a day-to-day basis.”

One of the easiest steps a business can take to incorporate technology is to establish a website, but in many neighborhoods well under half of the local businesses have taken the plunge. For instance, we found that just 14 of the 177 businesses (8 percent) listed on the website of the Church Avenue Business Improvement District have their own website—and several of those that do are national retailers. The percentage of businesses with their own websites are also low in the Kingsbridge BID (31 percent of businesses list a website), Bay Ridge 5th Avenue BID (37 percent), 82nd Street Jackson Heights BID (40 percent) and White Plains Road BID (47 percent).

Websites and social media, along with online advertising, came up in almost every conversation we had with business owners and experts alike. While there are many other types of technology that can have a radical impact on the competiveness and bottom line of small businesses, being online plays an outsize role these days in helping small businesses—especially those in low- and moderate-income communities—get to the next level. Why? Because increasingly that’s where customers are found.

“Unless you have customers, you are going to collapse really quickly,” says Jack Hidary, a New York-based serial entrepreneur and mentor to low income entrepreneurs. “I was mentoring a guy starting a car service on Staten Island. He knows car services from being a driver. But what he didn’t know was how to get customers. He didn’t know how to advertise on Google or Facebook. That’s such an important tool. The more established small or medium sized businesses are doing that, but most of the folks in low-income communities are not yet connected.”

Jose Avila sees the same thing in the Bronx. He heads the Garifuna Coalition, which focuses on helping members of the Garifuna immigrant community in the Bronx, including providing business advice to first-time entrepreneurs moving into modest retail shops. Many have failed. “Most of the failures,” he said, “were due to lack of marketing. What they have had trouble learning is, how do you attract customers and keep them coming to your place?”

It’s not just neighborhood-based retail and services businesses that are behind the technology curve. Many local

manufacturers still rely primarily on faxes and phone calls instead of the Internet. Or they have e-mail addresses from AOL or G-mail instead of a more professional sounding domain name tied to their business name. “They’re 10 or 15 years behind,” says David Meade, executive director of the Southwest Brooklyn Industrial Development Corporation, of many of the industrial firms his organization works with daily. “It doesn’t necessarily impact the client base they have already built up. But it impacts their ability to develop new clientele, and to get their word out there more.”

For many small businesses owners—especially mom-and-pop retail shops—technology remains out of reach for many owners. In some cases, the upfront cost of implementing new technologies is the biggest barrier for small businesses operating on slim profit margins. “We do not have the money to upgrade many of our systems,” says the manager of Space Market, a bodega on 62nd Street in Manhattan.

While cost is clearly a key factor, our research suggests that the bigger barrier is a lack of understanding. And it’s not justthat a failure to embrace technology keeps small businesses from growing; it is increasingly putting them at risk of survival. “If you’re talking about commercial strips, you’re seeing a big void in technology being used on a day-to-day basis,” says Jeanette Nigro, vice president for economic development at the Brooklyn Chamber of Commerce. “There’s a disadvantage to those businesses who don’t adopt. Especially in communities where there is an influx of new businesses.”

That’s because not all small businesses are shunning technology. In fact, many younger businesses—often, but not always, launched by younger entrepreneurs who embrace technology as a given in their day-to-day lives—have a competitive advantage over older, more established firms. They are engaging their customers and potential customers head-on with tools like social media, and optimizing their finances and cash flow with tools like accounting software and computerized point-of-sale systems.

But this isn’t the norm in many neighborhoods, where the typical small business is owned by someone over the age of 40and much-less tech savvy. “We see tons of restaurants that are successful, but would never think to use Yelp to capitalize on their success,” says Bhattacharyya, speaking of businesses in Washington Heights. “Whereas a restaurant in a gentrifying neighborhood might start out on Yelp from the outset.”

That’s a huge missed opportunity for those restaurants in neighborhoods like Washington Heights, Flushing or Woodside, to attract additional customers from outside of their neighborhoods. More and more New Yorkers are interested in exploring neighborhoods new to them, especially for ethnic food. Cultivating a following online is one sure way to get noticed by the restaurant reviewers in the New York Times, for example, who are looking for off-the-beaten-track options. The only reason they know about destination restaurants is because of social media buzz. Restaurants that know how to tap into that stand to benefit greatly. Otherwise, they’re missing out on a big piece of what could be coming their way.

Newer firms almost always have a web presence, which increasingly is where consumers go both to shop, and to find basic information about where to shop—information they might have been more likely to retrieve from the Yellow Pages just 10 years ago. Many newer small business owners also embrace social media. And embracing it means not just having a page on Facebook or ensuring that the company is listed on Yelp; it means actively monitoring those pages to see what customers are saying, engaging them in dialog to share information and find out what they want, and keeping the messaging fresh in order to remain at the top of followers’ newsfeeds. Those are marketing activities that many mom-and-pop shops didn’t even think to engage in 10 or 15 years ago when competition was less aggressive from both national chains as well as newer, more adroit small businesses. Today, they have to not only learn to embrace new ways to engage their customers; they have to also learn how to do it online.

There are other important opportunities for small businesses to streamline their operations with technological solutions, like accounting software and inventory management systems that help business owners gain a clearer sense of what’s happening from a business perspective in their firms: such as how much cash is tied up in inventory and which inventory units sit on shelves the longest costing them the most. Many small business owners may have an intuitive feel for these sorts

of things—or believe that they do. But most experts agree that systematizing the process yields significant cost savings for firms. “Using software to monitor daily inventory in and out cuts down on waste from spoilage, says C.K. Chung, who until recently was director of the city’s Lower Manhattan Business Solutions Center, which has delivered several workshops to restaurant owners on cost control strategies. “When the economy dipped a few years ago, restaurants that were able to improve their margins just a bit found it to be a critical differentiator in their survival. In a restaurant’s cost structure, if food runs from 25-30 percent of total costs, that’s quite good. One chef was able to leverage his management skills with an inventory control system to move his food costs to as low as 10 percent.”

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In one of the biggest ironies that small business owners face with respect to technology, many in our survey pointed toward the cost of technology as being one of the main impediments to their adopting it more widely. Yet it is often an owner’s lack of a tech-enabled accounting system that prevents them from getting capital. Lack of organized records showing a sufficient and steady cash flow is one of the biggest challenges to very small firms’ bankability. In fact, Seedco Financial, a significant player in the alternative lending space for small businesses in New York City, often requires its loan recipients to attend QuickBooks training in order to begin moving toward better financial record keeping and decision-making. But education isn’t as easy as that, Bhattacharyya says. “To my knowledge, I don’t know anyone who offers training for QuickBooks in Spanish for free.”

Given the lack of understanding of technology by many small business owners, it would seem that there would be no shortage of technology information and training opportunities for them. Unfortunately, that’s not the case—at least not for the very small business owner. New York has a number of great small business assistance organizations, but few of them provide meaningful opportunities for proprietors to learn how to adopt technology. And those that offer workshops or counseling are generally doing so at a small scale.

The NYC Business Solutions Centers, which are overseen by the New York City Department of Small Businesses (SBS), do offer regular programs on QuickBooks and Website Fundamentals. At times throughout the year, the centers also offer additional courses for proprietors on technology issues, from learning about e-commerce to ensuring that their websites come up in customers’ web searches. And SBS has awarded grants to a handful of small businesses for training employees on new technologies. But while these are important efforts, officials at the business solutions centers acknowledge that what they offer on technology education and training for small business owners is fairly limited.

New York has much at stake in ensuring that more of its small businesses are able to compete and grow. As such, there is a clear role for city, state and federal government agencies—from SBS to the United States Small Business Administration (SBA)—to promote technology adoption and assist small business owners incorporating technology into their daily operations.

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