

Testimony of  
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On

“Inspiring Entrepreneurs and Learning from the  
Experts”

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The Honorable Steve Chabot, Chairman  
The Honorable Nydia Velazquez, Ranking Member

Good morning Chairman Chabot, Ranking member Velazquez and members of the committee. Thank you for the invitation and opportunity to provide testimony and to share my experiences working with small business owners and entrepreneurs. It is an honor to be with you today.

Let me share with you a little bit about my entrepreneurial background. My mother was a pioneering entrepreneur. She opened her first business after her husband died in World War II and it was one of several she launched throughout the years. By the way, she also got her pilot's license in 1944. I still have her log book, which shows when she took her first solo flight.

After she married my father, they opened a funeral home in a small, rural Missouri town and I grew up working in the family-owned business. Personally, I started my first business when I was 15 years old. I taught 75 little girls how to twirl a baton for \$1.00 each on Saturday mornings in the high-school gym. Soon, I expanded to teaching dance classes in my basement. When I left for college, one of my star students took over and paid me 10 percent of the revenue for the first year. I guess you could say entrepreneurship is in my genes.

I've also worked successfully in the corporate world becoming the first female executive in the financial services division of a Fortune 50 company. Additionally, I'm a licensed attorney, but my heart has always been in entrepreneurship and at this point in my life, I guess you could say I'm totally unemployable. I like calling the shots, making deals happen, running my own show, and bringing in money. I'm fortunate because my business is prospering, but the picture is not the same for millions of other small business owners in this country.

Small businesses are struggling in the U.S. – as I'm sure you're aware. The number of small business closures is out-pacing startups for the first time in 30 years. According to the Capital One Spark Business Barometer, small business confidence has dropped nearly 10 points since the same time last year.

However, there are bright spots for small businesses. Thanks to technology, the barrier to entry is greatly reduced compared to when I started my first business decades ago. Resources rest at your fingertips to help you do everything from establishing your legal entity to learning how to manage and grow your business. Additionally, cloud-based solutions give small firms the ability to access sophisticated software solutions affordably, allowing them to compete more effectively with bigger companies. And, technology allows small businesses to do business around the globe from their garage or spare bedroom.

Yet even with these developments, startup founders who begin with passion and a sparkle in their eye now tell me their business dream has turned into a nightmare. However, we know many great companies have launched in the midst of difficult economic eras and have risen to the top echelons of business, so I encourage small businesses to focus on what they can control, rather than external pressures they can't control. In other words, don't point fingers and place blame. Focus on building a great company that brings true value to the market.

As such, I've created a methodology called *The One Percent Edge: The Critical Difference That Will Make or Break Your Business*. The business world is changing rapidly today. What's new and cool today is obsolete tomorrow. Therefore, businesses that survive and thrive are the ones that have innovation in their DNA. They are constantly looking for enhancements and opportunities to bring something unique to the marketplace.

In my own experience, I launched one of the first video-based Internet companies that provided news and information to the small business market. While there were other companies that provided similar content in a text format, we delivered the information via streaming video. We recognized small business owners are time and resource constrained. Statistics show that while it takes several minutes to read a 2,000-word document, it can be delivered in a much shorter amount of time via video and/or audio. Plus, while watching content on our site, owners could multi-task. And, unlike our larger competitors that had made huge capital investments in print publications, equipment and personnel, we were completely digital with a small staff. So when the recession hit, we were able to remain profitable while many of our competitors closed their doors.

A number of years ago I taught an MBA class on growth strategies for entrepreneurs. Because of my travel schedule the university provided me with a co-teacher who was finishing his PhD in entrepreneurship. During our class time, my co-professor would discuss case studies and write formulas on the board. Once he finished, I'd stand up and tell the class how things work in the real world. The bottom line is that if you're following case studies or textbook formulas you are already behind in the game. There is no blueprint for success in today's dynamic business world. My motto is if you're jumping on the bandwagon now, you're too late. The window of opportunity has passed.

Small business owners, not only need to make product and service enhancements, but they also need to embrace technology for greater productivity and profitability. Companies with the 1 percent edge, constantly re-evaluate their operations, plan accordingly and adjust in a timely fashion. They are proactive, not reactive. Small businesses have a tremendous advantage when it comes to this process because they are agile. Large businesses often fail in adjusting to market needs because they are too large to make timely adjustments to their business models. That's why only 71 of the original Fortune 500 companies remain today. The others have gone to the grave, often simply because they failed to recognize market trends.

One positive note, I've seen is an increased use of social media by small businesses. More and more small companies are using social media to broadcast their brands, engage with customers and increase their sales. Many years ago, I owned a boutique PR and advertising agency. Our clients complained about not having enough money to market their businesses. Today, the major complaint I hear from small business owners is that they don't have the time to market. The myriad social platforms often confuse them and they don't understand how to take advantage of this game-changing technology.

Similarly, when I had my agency, we worked hard to get our clients booked on traditional radio and TV shows or mentioned in a newspaper or magazine. The value of the news coverage was a huge boost for small companies. Today, small businesses can become

their own media company by creating video content, podcasts, hosting a radio program and blog posts. One financial services advisor I know has become a well-loved and respected resource in his community because of a weekly radio show and a self-produced cable television show. The bottom line: Small business owners can create a celebrity brand position with the simple tools available today giving them a significant advantage.

I was an early adopter of social media. After I sold my Internet business, I began working independently building my own brand. My husband would question why I was wasting time on social media instead of getting on the phone making sales calls. Today, he has to eat those words as I am consistently ranked in the top five of small business experts to follow on Twitter. I do zero out-bound marketing as business opportunities come to me. It's an excellent position to be in and one I primarily attribute to my social media presence.

Small business owners still need assistance and mentoring. I get hundreds of emails every week from business owners seeking advice on every aspect of their business development. This tells me that even with all the great resources on the Internet, business owners still like the one-to-one, personal touch.

I'd be remiss if I didn't mention small business capital needs. Traditional lending is down, and most startups use personal assets, credit cards and loans from family or friends. Crowdfunding is helping some small companies get off the ground and I am optimistic that the equity crowdfunding, including the new Title III regulations to the JOBS Act that will go into effect of May 16, will open up a new source of funds for small firms. Will it be enough? The jury is still out.

Growth organizations need access to venture capital, and that is an area of concern for me in terms of being a woman in business. I wrote a book called "The Girls' Guide to Power and Success" in 2001. Sadly, in the 15 years since its publication the statistics have barely changed – particularly when it comes to VC funding of women-owned businesses. That is partly the reason fewer than 2 percent of women-owned firms ever gross over \$1 million in revenue.

Having gone through the VC process myself, I can verify that the bias against women-owned businesses is real. There are myriad research studies that will also confirm it, but I experienced it firsthand. Being the only women-owned CEO selected to present at a venture forum, one of the organizers said he was glad I was attractive. I ask you, do you think he said that to any of the men?

Training programs that focus on helping women understand how to pitch to the VC community and the addition of more female VCs is beginning to make small improvements in this area. But it's only the tip of the iceberg; we have a long way to go to level the playing field.

While there are many positive developments for small business, there are a significant number of obstacles resulting in a stifling affect. I'd be remiss if I didn't touch on some of those. Politicians praise the importance of small business in producing jobs and innovation on one hand, yet continue to impose regulations and laws that create an environment that makes it nearly impossible for them to thrive.

The regulatory burden in this country is in the trillions of dollars and small businesses pay 36 percent more than larger enterprises.

Could small businesses in the U.S. eventually become extinct? In my opinion, if we continue down this path of hyper-regulation, they will certainly become an endangered species. How can we protect this important market sector? As one long-time entrepreneur said to me when I asked what needs to be done: Get out of our business.

I truly believe that most governmental policies are passed with the best intentions in mind, and of course some regulations are necessary to protect our citizenry. Unfortunately, the consequences are not always understood and the results wreak havoc on small business owners. As former Senator George McGovern said after his business venture in Stratford, Connecticut failed, "I ... wish that during the years I was in public office I had had this firsthand experience about the difficulties business people face every day. That knowledge would have made me a better U.S. senator and a more understanding presidential contender."

In my role as a small business expert, I speak to thousands of small business owners from around the country. They are discouraged and disheartened. So I'm asking you to walk a mile in our shoes today so you can better understand what is happening to small businesses and why they are slowly dying off.

The average sole-proprietor in the U.S. grosses annual revenues of \$44,000 and works 52 hours a week. She or he most likely has put their personal finances at risk to start and run his business. He or she sacrifice family time, holidays, weekends and vacations. There is no family medical leave for the entrepreneur. If they don't work, they don't get paid. There is no overtime, and if their businesses don't make it, no one is there to help bail them out or offer him an unemployment check.

Small business owners are not the captains of industry from the industrial age. They aren't slave drivers requiring their employees to work long hours with little pay in poor working conditions. They are individuals who are trying to provide a living for their families, to give back to the community, and to treat their employees with respect – often going without a salary themselves in order to pay their employees during tight times. We aren't money-hungry greed mongers, and those who make a profit put a larger share of that back into the business. But I ask: When did it become a crime to want to better yourself and build wealth in this country? After sacrificing so much to build our businesses without governmental assistance, should we be penalized for this effort? Should the government tell us how to run our companies?

Allow me to share a personal story. My parents grew up in the depression. My father served in the Navy in World War II. Neither one had any education to speak of, but they knew how to work hard. In 1963, they launched a funeral home in the small town in southern Missouri where I grew up. At that time, our business, like most funeral homes offered ambulance service to aid the community. In the '70s, the DOL audited my parents for wage and hour violations. The auditor spent two days examining their books and talking with employees. His conclusion: When our vehicles were used as hearses overtime did not apply, but if the vehicle was used as an ambulance, then overtime did apply. The auditor extrapolated over a two-year period how much back pay my parents owed. When my parents refused to pay it because they thought the decision was unfair

and arbitrary, the auditor met with our three or four employees and explained to them they had a right to sue and how to do it. Thankfully none of them did. But my parents quit the ambulance business, which was never a profit center, because trying to comply with the regulations was too costly and complex. As a result, our small community was left with no ambulance service until much later when the hospital began to provide it.

Unfair and misguided regulations such as these, not only affect the operations of a small business, but also hurt communities and jobs.

Speaking of overtime regulations, the increase in the overtime threshold to nearly \$50,000 is one such back-breaking regulation. First, it is extremely complicated for small business owners to determine precisely which employees are exempt and which are not. Culling through the guidelines, which are almost as thick as the tax code, is just an added headache for an owner who is already stressed by simply trying to keep up with daily business operations. Therefore, the risk of misclassifying an employee is significant. Small business owners don't have the funds to hire labor lawyers to help them navigate the complexity of the system. This puts them at risk for audits and even worse, lawsuits, which could be more costly than the overtime itself.

Additionally, an arbitrary amount doesn't take in account the differences in geographic economies. For example, \$50,000 in the little town I grew up in is a big amount of money. I recently sold my family home, which was over 5,000 square feet, 4 bedrooms, 3 full-baths and two half-baths, finished basement and an extra-large lot for \$116,000. On the other hand, \$50,000 in Manhattan wouldn't allow me to come close to affording my apartment there.

Increasing the overtime regulations means small business owners will have to reduce the number of employees, convert full-time to part-time positions, or increase the price of their products. Most small businesses find themselves competing on price with larger providers or big-box stores, therefore, price increases are not truly an option. Because profit margins have already been whittled away during the last recession, cutting operational costs – employees – is the logical answer.

The same result occurs with the increase in the minimum wage. Small businesses simply can't absorb the increase so they will cut the number of employees. One businessman from Ohio told me how he has been squeezed so much that more costs are something he can't absorb. He plans to raise his prices, which he says the consumer doesn't want to hear but the money has to come from somewhere. It doesn't grow on trees. Another restaurant owner from the East Coast said he simply plans to close some of his locations because it is impossible to operate them profitably.

The Affordable Care Act has also had a dampening effect on job creation. Many small business owners have held their employee count down to avoid the employer mandate.

Mandatory family leave sounds good in theory, but let's apply it to a typical small business. What do you do when a team member takes leave for 12 weeks? You still have to pay at least part of his or her salary so you can't afford to bring on someone else. Even if you could afford it, how do you train replacements quickly, invest money in them, and then let them go when your original employee comes back? The only other option is to ask your remaining staff to pick up the slack. Employee morale and

productivity is sure to wane impacting your bottom line. You may lose existing customers and business opportunities. Most small businesses have family-friendly work environments to accommodate personal needs. Isn't it better to allow the business owner to manage in way that is appropriate for his business?

What about the business owner himself who has a medical issue? For example, my mother had Alzheimer's. My father became her primary caregiver, which left no one to manage our family business other than me – an only child. I had to juggle commuting back and forth to my hometown to keep the business running while still trying to manage the demands of my own company until I was able to sell our family business.

The same is true for equal pay. I have been the victim of pay disparity when I was an executive with a Fortune 50 company. When I was elevated to the executive level, I was paid about \$20,000 less than my male predecessor. I understand how unfair it is and it is an issue that should be addressed, but not legislated. Business owners need the flexibility to establish wages based on experience and skills, not mandated by law. A man and woman who come to a job with the very same credentials should be paid equally, but if one has less experience and fewer skills then a business owner should have the flexibility to establish wages accordingly.

The tax code is also problematic for small businesses. While I think it is important to lower corporate tax rates to stay competitive internationally, most of us are pass-through entities, therefore, we are just as interested in a less complicated and lower personal tax rate. Because of the complexity of the tax code, many small businesses don't take advantage of available tax credits and deductions. The cost of complying with the tax code is 206 percent higher than a larger company.

While we're on the subject of taxes, let's discuss the death tax. For many small business owners, their business is their greatest asset and they want to pass it on to their heirs. Yet having paid taxes on it for years, when the owner passes away it becomes part of an estate that may be taxed at a rate as high as 55 percent by the government. Unfortunately, most small business owners don't have the money in their estates to pay the taxes so the business must be sold or liquidated to pay the tax. There goes the business and there goes the jobs.

There are still many bright spots for small business owners. America remains a great country with opportunity, which is why so many want to leave their homelands to come here. Our country was built on the spirit of entrepreneurship. Let's not extinguish this important characteristic of our culture. Let's create a pro-business environment that gives entrepreneurs the ability to start, grow, and build great companies that provide jobs and continue to drive our economy.

Thank you again for the opportunity to testify. I am grateful the great bipartisan work of this committee, which has led to important legislative victories and progress for America's small business owners and entrepreneurs. I look forward to our discussion today.

