



OVERREGULATION: BURDENING AMERICA'S SMALL RETAILERS

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EXECUTIVE SUMMARY

America's 28 million small businesses represent a staggering 99.7% of all U.S. employers and provide half of all private-sector jobs. Within the small business sector, small retailers are a foundation of American entrepreneurship and serve as an indicator of the strength of the economy. Of the nearly 3.8 million retail establishments in the United States, the vast majority of businesses (98%) have fewer than 100 employees.

But this important sector of the American economy is still rebounding from the effects of the recession, which is stymieing small business growth across the country. Progress remains uneven and several trouble spots remain, paralleling the economy as a whole. The proof is in the data: Today, the absolute number of small businesses has not returned to pre-recession levels.

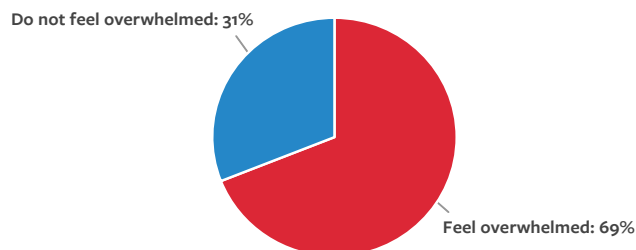
To further investigate today's business climate, the National Retail Federation recently commissioned a survey of small retailers to gauge their views on the business environment, the health of their businesses and whether public policies that affect their operations support or hinder prospects for growth.

Eight in 10 small business retailers (81%) believe that government regulations weaken the appeal of owning a business.

The survey revealed that while retail small business owners are generally optimistic about the future, they are increasingly concerned about the growing volume and costs of government regulations. In fact, eight in 10 small business retailers (81%) believe that government regulations weaken the appeal of owning a business. Left unchecked, these burdensome regulations threaten to stifle America's entrepreneurial spirit, lower the appeal of starting a small business and undermine growth. Implications for the U.S. economy would be profound.

Those regulations are worrying hard-working Americans — regardless of political ideology and age, with remarkably consistent responses among conservatives, liberals, Millennials and older generations. Nearly seven in 10 (69%) agreed across the board that they are “overwhelmed by regulations, rules and mandates such as labor regulations, health care mandates, tax codes and safety guidelines.” Compliance costs of these regulations are rising as well. Worst of all, many believe the regulations imposed on them aren't effective.

7 in 10 retail small business owners feel overwhelmed by regulations, rules and mandates.



The survey also showed that small business retailers are among the hardest working people in America, often keeping long hours, overcoming numerous challenges and making repeated sacrifices to pursue their dreams and make their businesses successful. The majority of respondents (69%) indicated that they had actually forgone pay to themselves in order to keep their business afloat. And despite their hard work and sacrifice, they are still troubled by the trauma of the recession, with two out of five (38%) seeing the economy (either the national or the local economy) as the most important challenge to their business — about twice as many as those who cite competition as their greatest challenge (17%).

Retail small businesses must compete in an environment where even the smallest details of their businesses are often subject to government regulation at the federal, state and local levels. Not surprisingly, many view government as unhelpful to their businesses, while only one in 10 (10%) see it as helpful. And more surprisingly, just about one in four (23%) view local government — usually considered more in-tune with communities — as helpful.

These survey results raise serious questions about the effectiveness of current regulations and should encourage lawmakers to adopt a regulatory approach that supports rather than inhibits small businesses in three broad areas of focus: freedom for a business to make its own decisions — particularly on labor issues, broad-based corporate tax reform to lower federal tax rates while eliminating loopholes and treating all types of corporations equally, and sensible reforms to the Affordable Care Act.

Lawmakers and policymakers need to rethink the nature, extent and enforcement of regulations. Otherwise, they risk further weakening the unique entrepreneurial spirit that defines America's economic dynamism and drives U.S. economic growth. The results of this survey offer a clear path forward for those who are committed to supporting small retail businesses in fulfilling their vital role in driving America's future.

Small Businesses: The Engine of U.S. Growth

Small businesses are the engine that drive U.S. economic growth and job creation. America's 28 million small businesses represent a staggering 99.7% of all U.S. employers and provide half of all private-sector jobs — nearly two out of three jobs created in the past 15 years were generated by small businesses.ⁱ

Retail represents more small businesses than almost any other industry in the United States. Of the nation's 1.1 million retail businesses, 98% employ fewer than 100 people; 95% of all retailers operate just one location.ⁱⁱ By almost every definition, retail powers small business in America.

The National Retail Federation recently commissioned a survey of small business retailers to gauge their views on the small business environment, the health of their individual businesses and whether the public policies that shape their operating environment support or hinder their prospects for growth.

The survey found that retail small business owners are generally optimistic about the future, but they are also concerned about the growing volume and costs of government regulations. Left unchecked, burdensome regulations threaten to stifle America's entrepreneurial spirit, lower the appeal of starting a small business and undermine small business growth. The implications for our economy are profound.

Despite these concerns, the survey also showed that small retailers continue to exemplify hard work, grit, determination and drive — setting the standard for American business and the economy. Without the daily dedication of millions of small retailers, communities would not be as strong as they are today, and America's economy would be weaker due to higher unemployment and slower growth.

The results of this survey offer a clear path forward for those who are committed to supporting small businesses in fulfilling their vital role in driving America's future.

The survey of 752 retail small business owners was conducted by GfK between December 2015 and January 2016. To qualify, small business owners had to meet Small Business Administration standards with regards to employee size and revenue category that define a small business for their specific North American Industry Classification System code. These respondents were balanced across a range of demographic factors including gender, age, political ideology (liberal, moderate or conservative) and geographic location.

Bouncing Back from the Great Recession

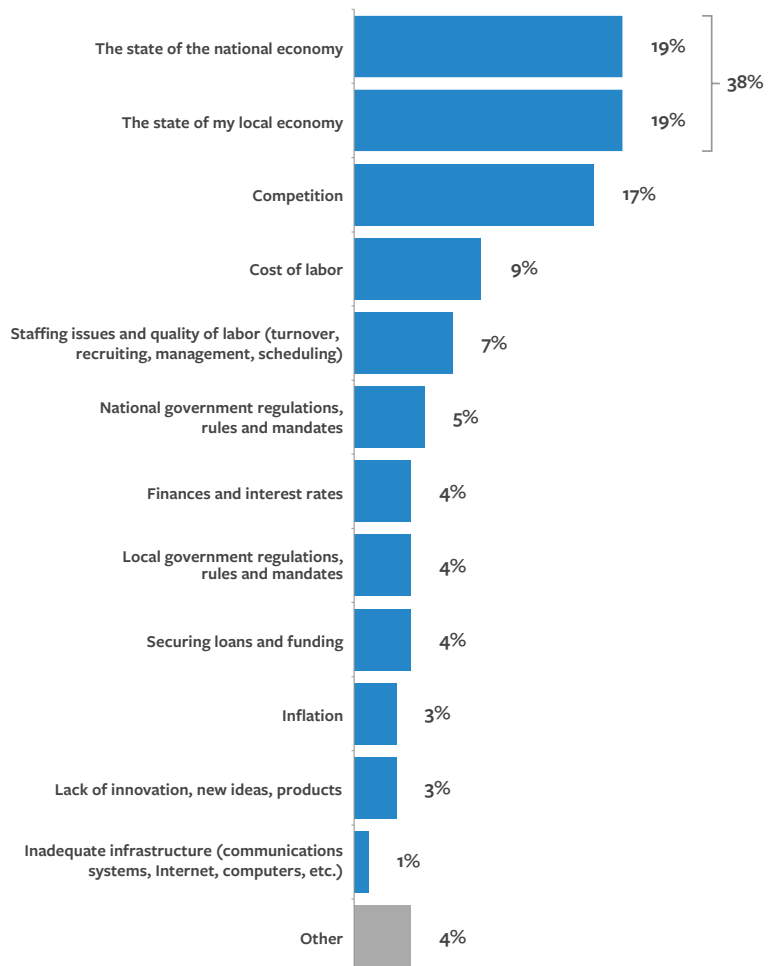
The Great Recession that followed the 2008 financial crisis was a watershed moment for the U.S. economy — especially for small businesses. While small businesses are still bouncing back from the depths of the recession, progress remains uneven and several trouble spots remain.

Since the end of the recession, business loans above \$1 million have increased but the volume of small business loans below \$1 million has not returned to pre-recession levels, according to the FDIC.ⁱⁱⁱ A number of factors likely contributed to the stagnation of funding options, including the consolidation of financial institutions, tighter lending standards and new regulatory efforts under the Dodd-Frank Act. Whatever the cause, small business owners have yet to return to the financial flexibility and easier access to credit of pre-recession times.

The recovery has been slower and more challenging for small businesses than past recoveries, in some measure paralleling the economy as a whole. Small businesses now employ a smaller proportion of the workforce than at any point over the past decade.^{iv} Further, the absolute number of small businesses has not returned to pre-recession levels.

While retail small businesses' successes are largely based on the initiative of their owners, general economic conditions both in local communities and the country as a whole greatly affect performance. Historically, small businesses considered competition to be their greatest challenge; today, however, due to lingering effects of the economic downturn, their greatest challenge is the economy. Two out of five (38%) retail small business owners see the economy (either the national or the local economy) as the most important challenge to their business — about twice as many as those who cite competition as their greatest challenge (17%).

Nearly 4 in 10 retail small business owners cite the economy as the most important challenge facing their business.

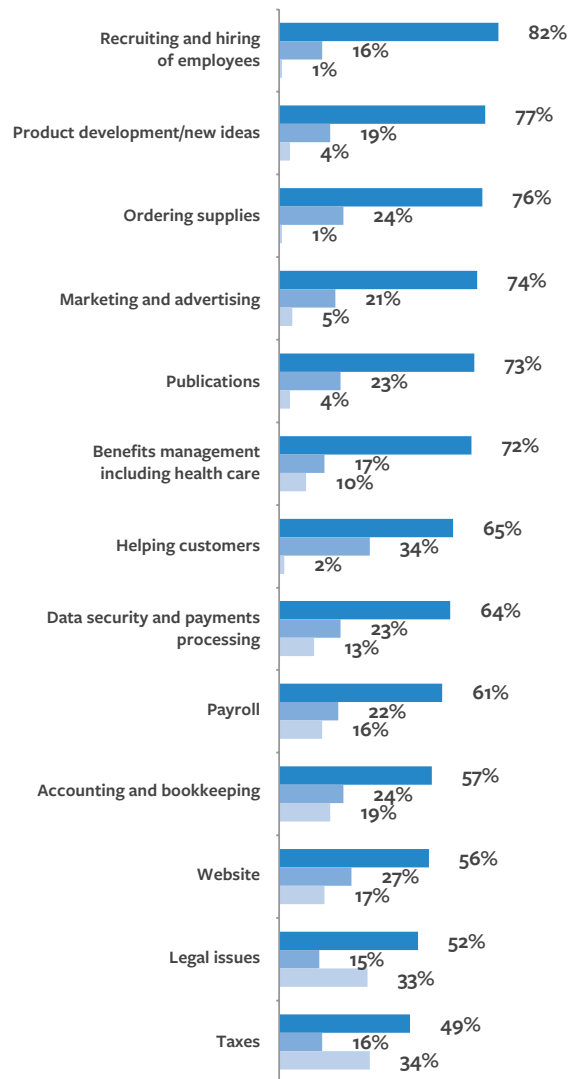


Some of the Hardest Workers in America

Small business retailers are among the hardest working people in America, often keeping long hours, overcoming numerous challenges and making repeated sacrifices to pursue their dreams and make their businesses successful. In fact, 69% indicated that they had actually forgone pay to themselves in order to keep their business afloat; one-fifth have worked 80 hours a week or more.

Business ownership comes with significant responsibility. The survey showed that when it comes to managing a multitude of daily tasks to keep a business up and running, the buck usually stops on the retail small business owner's desk. A majority of retail small business owners (82%) handle recruiting and hiring themselves, 74% do their own marketing and advertising, 72% tackle benefits management, including employee healthcare and 56% maintain their own website, showing both the variety of challenges in running a small business and the constant need to adapt in a changing economy and society. The retail small business owner is a true jack-of-all-trades: multitasking to improve the business and create great experiences for customers.

Retail small business owners are jacks-of-all-trades: managing a multitude of responsibilities.



- I do it myself
- Someone on my staff is responsible for this
- I have hired consultants/outside help to do this

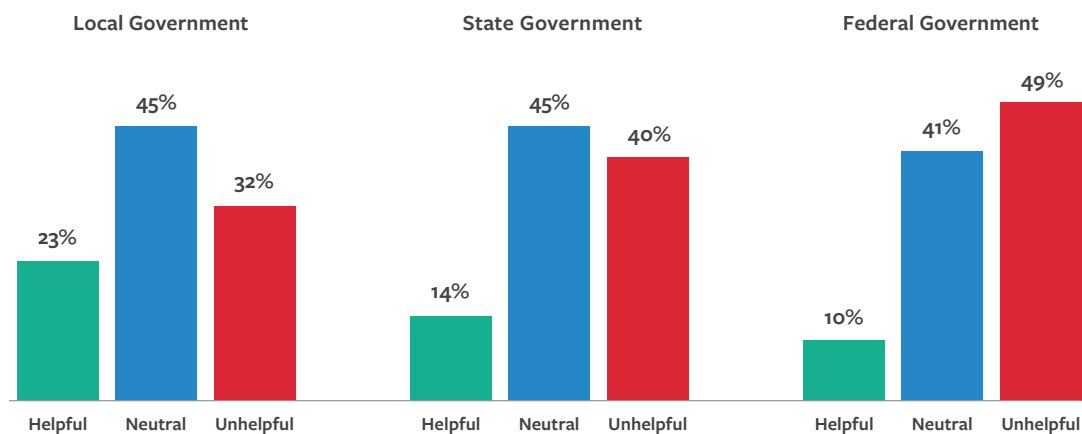
Government Regulation is a Heavy Burden on Small Business

According to the survey, many retail small business owners view government as unhelpful to their businesses. Attitudes vary, but with respect to the federal government in particular, retail small business owners are concerned.

These retailers do not operate in a vacuum. They must compete in an environment where even the smallest details of their businesses can be subject to government regulation. In addition to trying to navigate the tricky currents and headwinds of the national economy, they must also maneuver through the difficult shoals of government regulation at the federal, state and local levels.

Each level of government can have a major impact on a business's ability to thrive — or even survive. Not surprisingly, many retail small business owners view government as unhelpful to their businesses. Only 10% see it as helpful. Even local government, which receives the highest level of support, is viewed as helpful by just 23% of retail small business owners. The bottom line? Government — national, state and local — clearly has a large opportunity to improve its work supporting small businesses and aiding them in understanding how to apply those regulations in their businesses.

A majority of retail small business owners do not see government as helpful toward their business.



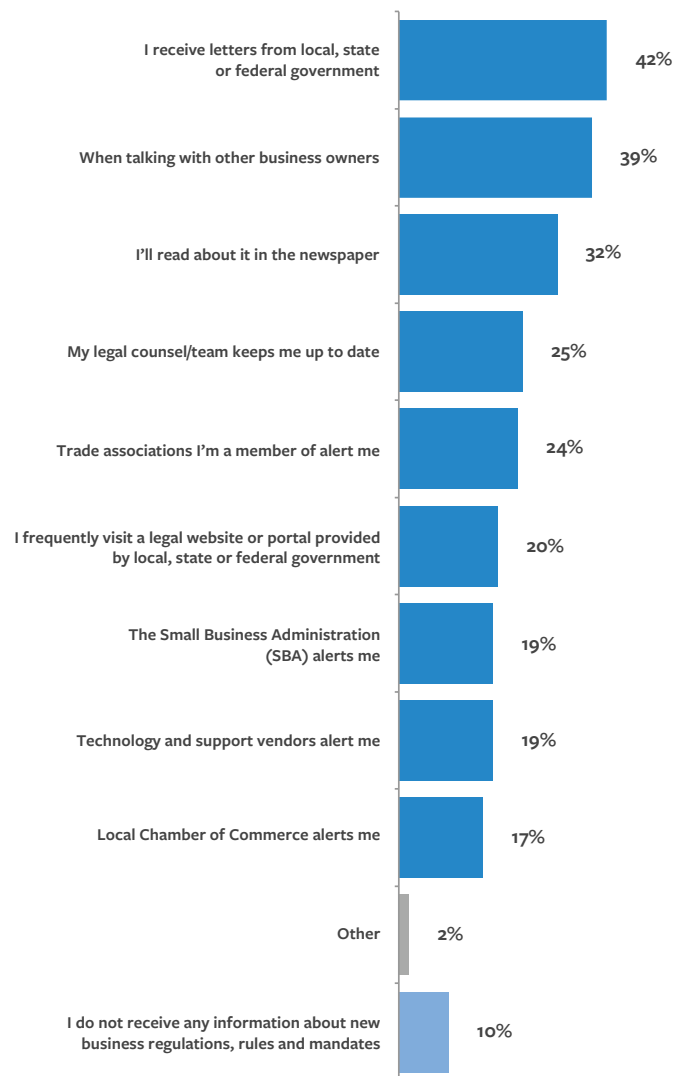
Retail small business owners already face tremendous challenges in managing, marketing and overseeing their businesses; the spread of regulations adds a new and growing burden to their workload. A majority of retail small business owners (79%) worry about maintaining compliance with regulation, and a quarter (24%) do not believe they are even aware of all the regulations affecting their business.

It is no surprise so many smaller retailers do not believe they are up to date on regulations. There are three principal reasons for this: the complexity of regulations, the sheer volume of them and government's failure at keeping small businesses informed.

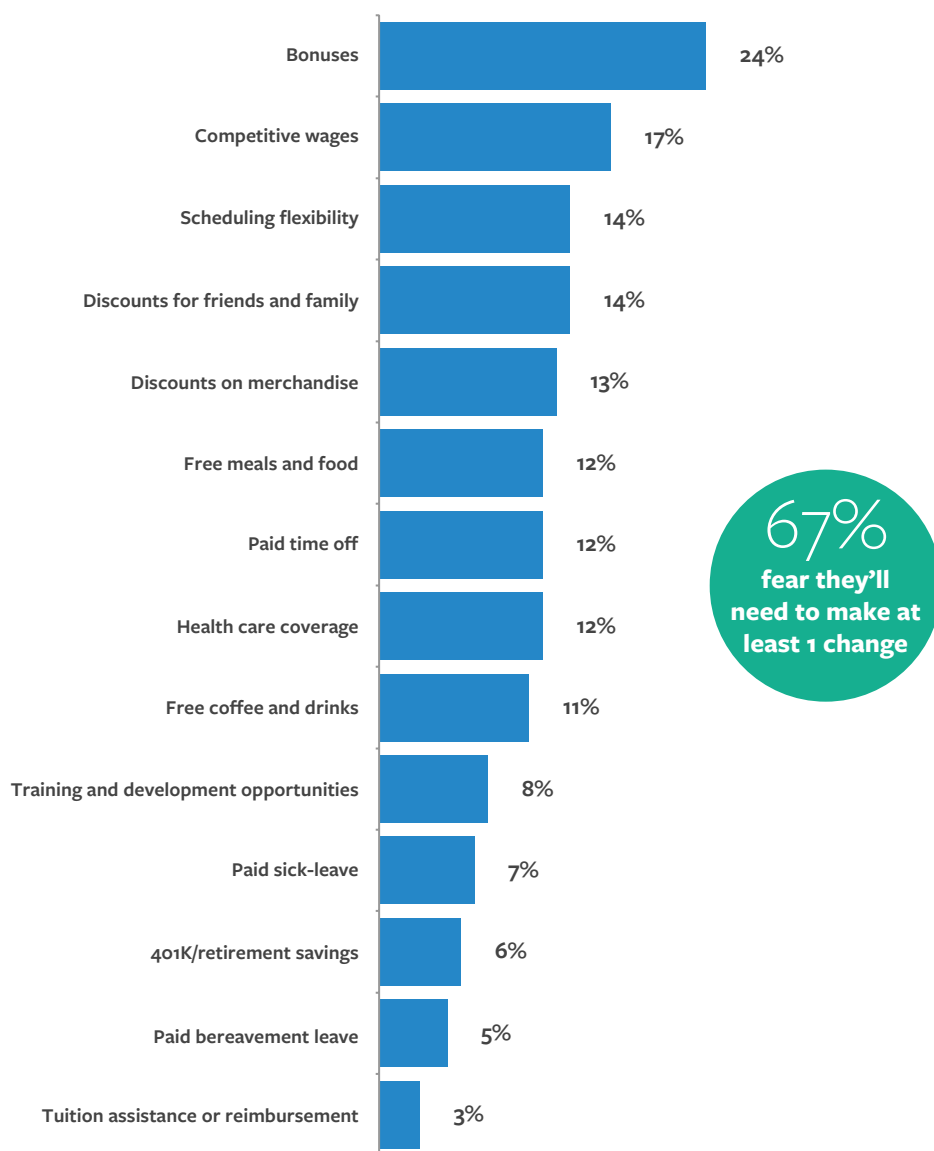
The complexity and sheer volume of regulations are serious concerns for retail small business owners. Two-thirds (66%) say regulations are not easy to understand, and seven in 10 feel "overwhelmed" by regulations, rules and mandates such as labor regulations, health care mandates, tax codes and safety guidelines. In addition, less than two-fifths (39%) agree that government keeps them adequately informed about the implementation and enforcement of regulations.

Keeping track of all these regulations isn't just a nuisance to small retailers — it diverts retailers from their principal task of running a successful business. As the compliance burden grows, they worry that employees will suffer. Two-thirds of retail small business owners fear they will have to cut benefits for workers because of the increasing costs of regulatory compliance.

Retail small business owners receive information on new regulations from a variety of sources.



Retail small business owners fear they would no longer be able to afford providing benefits to their employees because of compliance costs.
Asked only of those who voluntarily provide benefits.

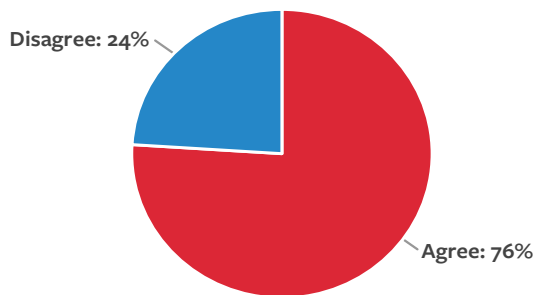


Regulation: Growing Faster than Businesses Can Keep Up

Not only are retail small businesses burdened by increasing regulation — three in four (75%) say regulations have increased in the past several years — but they are also getting hit with the higher compliance costs associated with these regulations. A majority (64%) said that the compliance costs tied to government regulation have risen over the past few years as well.

There is also a growing sense of alienation between small business owners and government. A majority of small retailers — irrespective of political ideology — believe government does not have a good understanding of their businesses. Worst of all, many believe the regulations imposed on them are not effective — in fact, less than half (44%) agree that government regulations achieve their objectives.

A majority of retail small business owners believe regulatory uncertainty makes it difficult to make plans to grow or expand business.



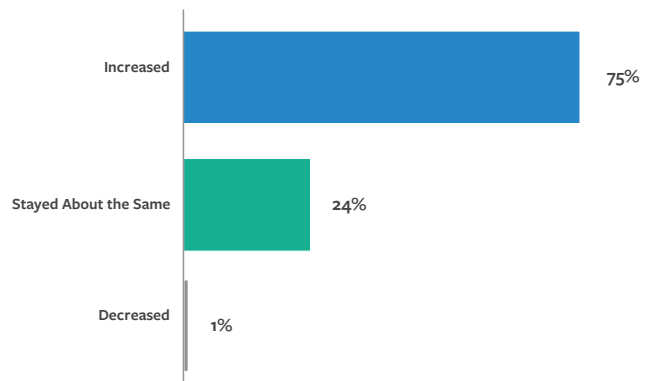
Nearly three in four (73%) cited concerns about complexities in the tax code; more than half (64%) expressed concern about the Affordable Care Act and a majority (60%) cited safety and similar occupational regulations.

This angst has profound implications, not least because both the pace and volume of regulations continue to overwhelm retail small business owners. Most survey respondents (93%) believe they comply with government regulations, but the direct — and perhaps more important, indirect — costs of regulations are staggering.

Believe the amount of regulations have increased by ideology

Liberal	67%
Moderate	69%
Conservative	86%

Most retail small business owners believe the amount of government regulations has increased over the past few years.



The Need to Change Course

When strong majorities of small business owners say they are overwhelmed and more than eight in 10 say the regulatory burden weakens the appeal of owning their own business, it is time for a change.

Lawmakers and policymakers at all levels of government need to rethink the nature, extent and enforcement of regulation. Otherwise, they risk further damaging the unique entrepreneurial spirit that defines America's economic dynamism and drives U.S. economic growth and job creation.

Roadmap for Policymakers

For policymakers, the results of this survey offer an opportunity to understand the concerns of small business owners and adopt a regulatory approach that supports rather than inhibits small businesses. Such an approach would include:

1. Allowing businesses to make their own decisions

To fulfill their role in driving America's economy, small businesses must be empowered to make the decisions that make sense for them, instead of being required to submit to a one-size-fits-all mandate. This applies particularly in the area of workforce management.

Retail is already a narrow margin industry — with profit margins of less than 3% across the industry — so it's no surprise that 62% of small business retailers anticipate struggling if the minimum wage were raised to \$15. These business owners are not sure where the money for this drastic labor cost increase would come from. In fact, **37% of small retailers say raising the minimum wage to \$15 would threaten the very existence of their business or cause their business to fail.** Those most likely to shut their doors in response to a \$15/hour minimum wage are retailers with fewer than 50 employees, retailers with one location and retailers in rural areas.

Another proposed regulation would penalize businesses with fines for allowing flexible schedules due to changing employee needs or business demands. Unfortunately, it is just one more tax on business owners' time and profit margins (both of which are slim), so it's not surprising that three out of five (59%) foresee negative business consequences if this regulation were implemented. An employee's schedule is between the employee and their manager; and the government should not inject itself in the middle of that conversation.

Additionally, proposed radical changes to the federal overtime laws would have these owners add one more item to their list: time micromanager. If this regulation

is implemented, all employees making less than \$50,440 annually would be required to receive overtime wages for all hours worked over 40 per week. About half of small business owners identified this regulation as a threat to their survival. Those who anticipate the most negative impact from this rule are those who rely on managers and colleagues to run their stores. The proposal will also be particularly devastating to those in lower-cost regions of the country — imposing the same wage threshold for small rural towns like Hoover, Ala., as in urban centers like New York City.

The implications are clear: More regulations mean less control for small business owners. They know what is best for their businesses — and they should retain the freedom to make the decisions that reflect their bottom-line reality.

2. Passing broad-based tax reform

Business tax reform has bipartisan support in Congress — and from retailers across America. Retail small business owners want fair treatment — not special treatment — and overwhelmingly favor eliminating loopholes and equalizing tax rates without discriminating against certain forms of business. Eight in 10 small retailers support reforms to lower federal tax rates while eliminating tax loopholes. It is time to support retailers, our engine of growth, to help their businesses continue to create more jobs and stimulate local economies.

Nearly three-quarters of retail small business owners support federal tax reform that would tax pass-through entities such as Subchapter S Corporations or Partnerships at the same rate as C Corporations; 74% of retail small business owners support this fairer system, regardless of political ideology (76% Liberal, 72% Moderate, 75% Conservative). The results are clear: Small businesses owners want to be free to choose the corporate organizational structure that is best for their business without having to worry about the tax consequences.

3. Adopting sensible changes to the Affordable Care Act

Retail small business owners have largely moved beyond the contentious debate over the enactment and implementation of the Affordable Care Act. Nevertheless, it has clearly posed a challenge to small businesses: Nearly three-fifths of retail small business owners report that implementation of the ACA has been either extremely or very complex for them, and a quarter (26%) were forced to raise prices in response.

The Affordable Care Act did not only affect small retail owners — employees have also been impacted: 25% of small retailers reported they have limited or slowed the pace of hiring; 17% have decreased hours; 15% have decreased or eliminated benefits to employees; and 14% have delayed capital investments or eliminated or reduced bonuses.

The Affordable Care Act has shown the adaptability of our small business economy — but has also shown how well-intended regulations often have unintended, negative consequences.

Making 2016 Another Year of Small Business Growth

Despite everything that retail small business owners are putting up with from their government, they remain optimistic about the future of their businesses and of the American economy. Even with a regulatory burden that is often complex and overwhelming, national small businesses continue to be the driving force behind American economic growth.

ENDNOTES

ⁱ “Fast Facts on Small Business.” House Committee on Small Business. Available at: http://smallbusiness.house.gov/uploadedfiles/april_recess_small_biz_talking_pts.pdf

ⁱⁱ 2012 Economic Census of the United States

ⁱⁱⁱ FDIC Call Report data set, 2014

^{iv} Bureau of Labor Statistics, Business Employment Dynamics, Table F. Distribution of private sector employment by firm size class: 1993/Q1 through 2015/Q1, not seasonally adjusted

About NRF

NRF is the world's largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants and Internet retailers from the United States and more than 45 countries. Retail is the nation's largest private sector employer, supporting one in four U.S. jobs — 42 million working Americans. Contributing \$2.6 trillion to annual GDP, retail is a daily barometer for the nation's economy. NRF's This is Retail campaign highlights the industry's opportunities for life-long careers, how retailers strengthen communities, and the critical role that retail plays in driving innovation. nrf.com

About GfK

GfK is the trusted source of relevant market and consumer information that enables its clients to make smarter decisions. More than 13,000 market research experts combine their passion with GfK's long-standing data science experience. This allows GfK to deliver vital global insights matched with local market intelligence from more than 100 countries. By using innovative technologies and data sciences, GfK turns big data into smart data, enabling its clients to improve their competitive edge and enrich consumers' experiences and choices.



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