

Center for Economic and Business Research

Business Optimism Survey Report – Fall 2016

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Student Author(s)
Isabel Vassiliadis

In Collaboration With



COASTAL
COMMUNITY BANK

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Executive Summary

The 2016 Business Optimism Survey (Survey) is a collaboration between The Center for Economic and Business Research (The Center) and Coastal Community Bank to collect information related to the business environment primarily within Snohomish County. The survey represents the third report in a longitudinal series that makes inquiries of businesses from the perspective of employees in leadership roles within community businesses.

To familiarize readers with the content of this survey, here we make a few observations:

- While business owners remain relatively optimistic about the regional economy for the next 12 months, the results do indicate a decrease in optimism since the previous quarter. Overall optimism decreased from the previous study by about 3.6, averaging around 69.61 out of 100, where 100 represents the most optimistic view. Contributing factors remain similar to our previous findings which include, but are not limited to:
 - 93 percent of businesses expect *at least* economic stability for the next 12 months. However, expectations of growth have dropped from the previous study by 21 percent – now only 32 percent of businesses expect growth.
 - 64 percent of businesses expect revenues to rise from the previous year (previously 62 percent). Of those who expect revenue to rise...
 - 64 percent expect the growth to come from new customers.
 - 30 percent expect growth to come from increased sales from existing customers.
 - 53 percent of businesses expect to invest at the same level as last year while 33 percent expect to invest more than last year (previously 54 and 35 percent, respectively).
 - Over the next 5 years, 68 percent of businesses expect an increase in net profits, 53 percent expect growth in employment, 49 percent expect growth in equipment, and 40 percent expect increases in gross margins. Only 13 percent of businesses did not expect any growth.
- Revenue generated by the business and owners' personal cash remain the most accessible sources of funding, while borrowing from family or friends and selling business assets also remain the least accessible forms of funding for businesses.
- Retail and Construction are the highest represented industries at 20 percent and 19 percent of total respondents, respectively. Other notable industries include Professional/Scientific/Technical Services, representing 12 percent of total respondents, and Real Estate/Rental/Leasing, which represents 8 percent of total respondents. These same industries were also highly represented in the previous survey.
- 46 percent of businesses have been in operation for 20 years or less, while 11 percent of businesses have been in operation for more than 50 years (previously 58 and 11 percent).
- The average company in the region has 17 full time workers and 6 part time workers.
- 65 percent of respondents are owners, 15 percent are CEOs or Presidents, 6 percent are controllers or CFOs, 11 percent are managers, and 2 percent are other organizational leaders which suggests sufficient level of leadership represented across all reported organizations.

- A majority (67%) of respondents described their personal political leanings as Republican, with 26 percent identifying as strictly Republican while another 41 percent identified themselves as Independents who lean Republican.
- 87 percent of respondents predict that the upcoming Governor's race will have *at least* a slight impact on the economic outlook of Snohomish County. This indicates that in the short term, business owners may have more uncertainty about the regional economy.

Clarifying Notes

1. Percentages given are of the number responding to a question divided by the number asked that question. This denominator may contain fewer businesses than the total number of businesses responding to the survey due to question branching and survey attrition.
2. In some cases, percentages do not sum to one hundred because of rounding
3. A report of 0 percent indicates that the percentage of responses rounded down to, but is not equal with, zero.
4. This report presents responses from all businesses completing any question regardless of whether the respondent completed the entire survey or not.

Survey Results

Q1: What impact do you think the outcome of the Governor’s race will have on the economic outlook of Snohomish County?

87 percent of respondents predict that the Governor’s race will have *at least* a slight impact on the economic outlook of Snohomish County. Furthermore, almost one fifth of respondents believe that the outcome of the race will have a very strong impact on the economic outlook of Snohomish County. This indicates that in the short term, business owners may have more uncertainty about the regional economy.

Answer	Response	%
No Impact	13	13%
Slight Impact	36	37%
Moderately Strong Impact	31	32%
Very Strong Impact	18	18%
N =	98	100%

Q2: How would you describe your political leanings?

67 percent of respondents *at least* lean Republican, however, most respondents consider themselves Independent with certain political leanings.

It is also important to note that business owners indicated that they lean Republican. To account for this potential bias, we have examined Q3 and Q4 through the lens of political leanings to see if there are any significant differences.

Answer	Response	%
Democrat	10	10%
Independent, but lean Democrat	22	23%
Independent, but lean Republican	40	41%
Republican	25	26%
N=	97	100%

Q3: How would you rate the Snohomish County economy so far in 2016?

85 percent of respondents rate the Snohomish County economy so far in 2016 as *at least good*, with only 1 percent of respondents rating the economy as extremely poor. This indicates a general level of satisfaction with the local economy so far this year.

Answer	Response	%
Extremely Poor	1	1%
Poor	14	14%
Good	74	75%
Extremely Good	10	10%
N=	99	100%

Political Influence

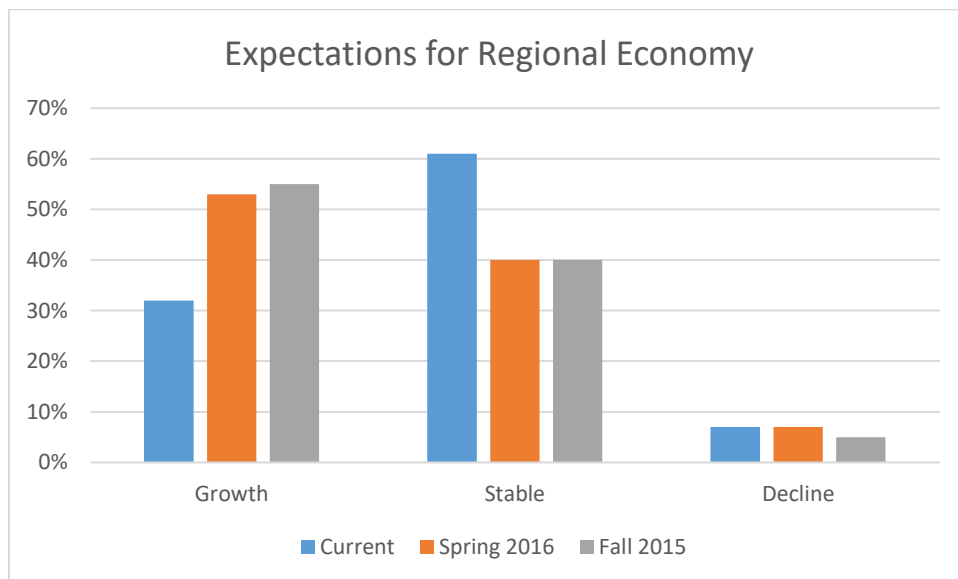
Of those who at least lean Democrat, 87 percent rated the local economy as *at least good*. This is comparable to the responses of those who at least lean Republican (83 percent). This suggests that political leanings have not influenced peoples' views of the local economy so far in 2016.

Q4: When thinking about the regional economy, what are your expectations for the next 12 months?

Approximately one-third (32 percent) of the respondents expect regional economic growth for the next 12 months, while 61 percent expect the local economy to remain stable over the same period. Only 7 percent of respondents expect the local economy to decline, which is consistent with previous studies. Overall, 93 percent of respondents expect *at least* economic stability in the region for the next 12 months which contributes to the optimistic outlook.

Compared to the previous periods, the percent of respondents who expect regional economic growth has declined by more than 20 percent, and those who predict a stable economy increased by slightly more than 20 percent. While 93 percent of respondents have a positive outlook overall (*at least* economic stability), this does indicate that business owners are less optimistic than previous periods.

Period	Growth	Stable	Decline	N
Current	32%	61%	7%	99
Spring 2016	53%	40%	7%	399
Fall 2015	55%	40%	5%	262



Political influence

Of those who at least lean Democrat, 43 percent expect regional economic growth and 53 percent expect stability. Of those who at least lean Republican, 27 percent expect regional economic growth, and 64 percent expect stability. This is slightly different from the sample populations, suggesting that political leanings do have a slight influence on economic expectations – it appears that business owners who lean Democrat are slightly more optimistic than those who lean Republican.

Q5: What is your level of optimism for your business prospects in the next 12 months?

The average level of optimism on a scale of 1 to 100, 100 representing the most optimistic, was reported as 69.61, suggesting the average business in Snohomish County is more optimistic than not about business prospects in the coming 12 months. While most respondents reflect optimism in business prospects, there are noted outliers in both directions. When looking at optimism based on industry, there seems to be no consistent relationship between type of industry and level of optimism.

These findings indicate that there has been a slight, but steady decrease in optimism for business prospects since the baseline period, with an overall decrease since the baseline period of 5.95.

Period	Average Value	Standard Deviation	N
Current	69.61	18.52	87
Spring 2016	73.24	20.21	402
Fall 2015	75.56	19.03	248

Political Influence

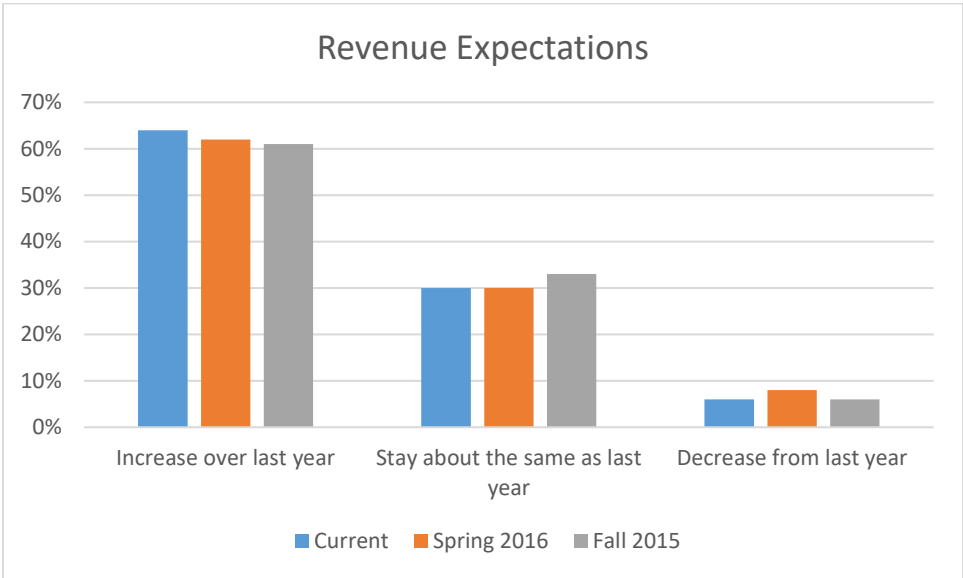
Of those who lean at least Democrat, the average level of optimism, 67.14, was fairly reflective of the sample population. This is also true for those who lean at least Republican, who reported an average level of optimism of 71.25. This indicates that political leanings do not have a significant influence on business optimism levels.

Q6: In thinking about your business in particular, do you expect your revenues to increase over the last year, stay about the same as last year, or decrease from last year?

64 percent of respondents expect revenues to increase over last year while 30 percent expect about the same level of revenue as last year. Only 6 percent of respondents expect a decrease in revenue from last year.

While business owners may not be as optimistic as last period about the regional economy, this indicates that businesses are just as optimistic about their *own* revenues as they were in previous periods.

Period	Increase over last year	Stay about the same as last year	Decrease from last year	N
Current	64%	30%	6%	98
Spring 2016	62%	30%	8%	399
Fall 2015	61%	33%	6%	262

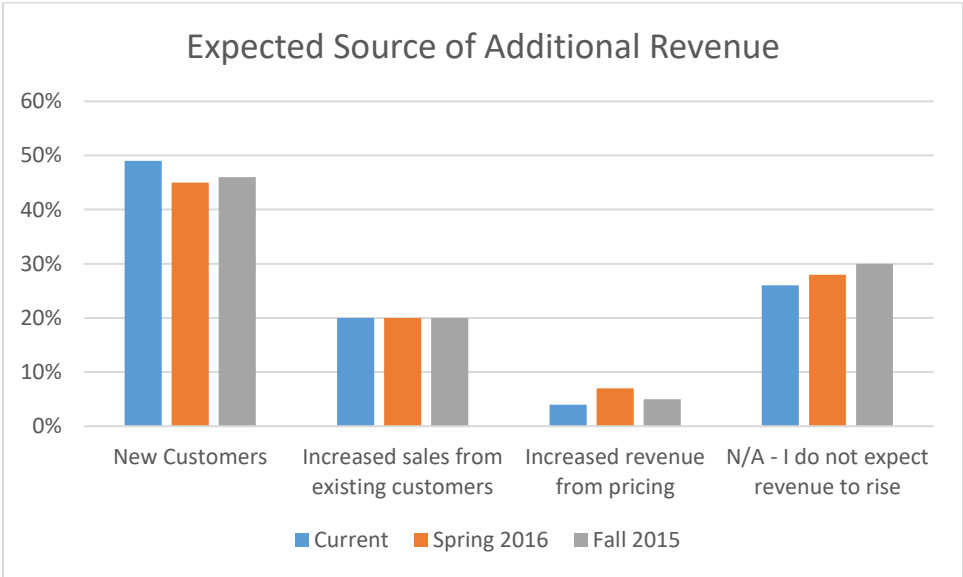


Q7: If you expect your revenue to rise from last year, where do you expect the majority of it to come from? New customers, increased sales from existing customers, increased revenue from pricing, or no expected rise in revenue.

Over 70 percent of respondents expect revenue growth from either new customers, increased sales from existing customers, or from pricing, while 26 percent do not expect revenue to rise from last year. This is consistent with the positive outlook on revenue growth, as was found in Q4, and likely contributes to the elevated level of optimism, as was found in Q1.

These findings are similar to the baseline study with at most a 3 percent difference in each answer.

Year	New Customers	Increased sales from existing customers	Increased revenue from pricing	N/A - I do not expect revenue to rise	N
Current	49%	20%	4%	26%	93
Spring 2016	45%	20%	7%	28%	384
Fall 2015	46%	20%	5%	30%	254

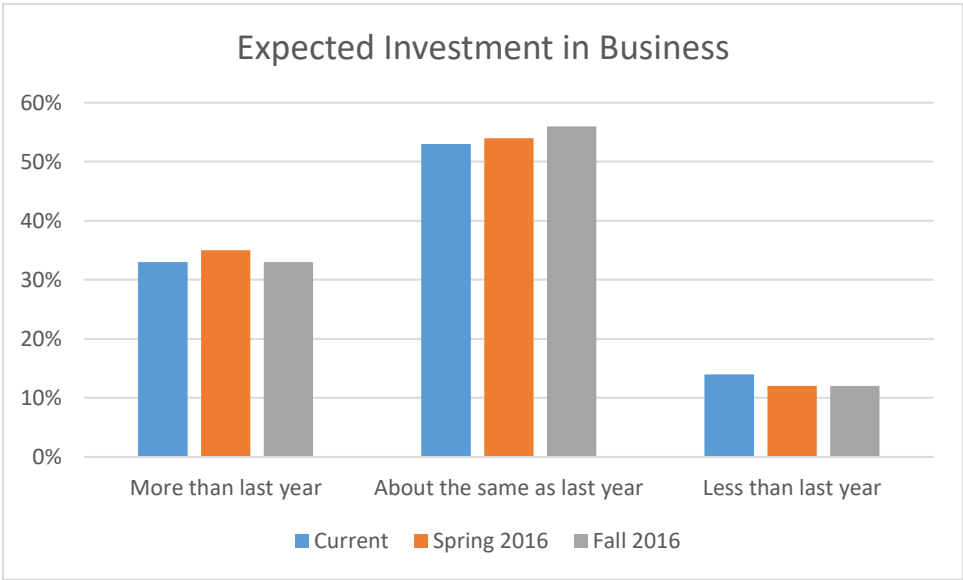


Q8: In thinking about your business in particular, do you expect to invest in the business more than last year, about the same as last year, or less than last year?

Over half, or 53 percent of respondents expect to invest about the same as last year while 33 percent expect to invest more than last year. This suggests at least stable investment into local businesses in the near future and potential growth in revenue due to the 33 percent of respondents who expect capital injection to increase.

These findings are similar to the previous periods with at most a 3 percent difference in each answer.

Period	More than last year	About the same as last year	Less than last year	N
Current	33%	53%	14%	98
Spring 2016	35%	54%	12%	399
Fall 2016	33%	56%	12%	264

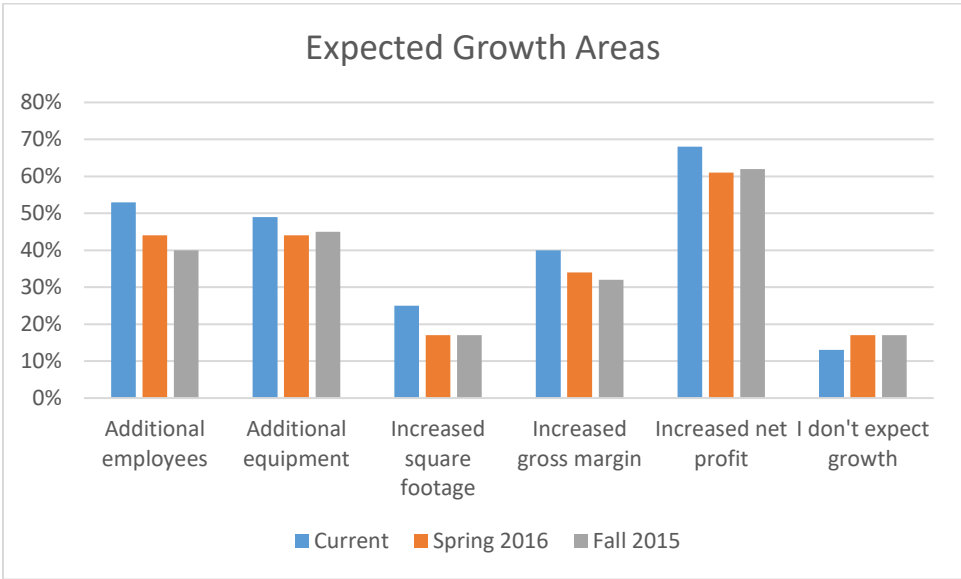


Q9: When thinking about the next five years, what type of growth, if any, do you expect? (Check all that apply)

Respondents became even more optimistic about growth in net profit in the next 5 years, with 68 percent of respondents reporting expected growth in this area. The expected increase in net profit is likely the result of the expected revenue growth (Q1) since 53 percent of respondents expect to add new employees to their business while 49 percent expect to add more equipment, both of which are added costs.

These findings are much more optimistic than the previous periods, in every category of expected growth.

Period	Additional employees	Additional equipment	Increased square footage	Increased gross margin	Increased net profit	I don't expect growth	N
Current	53%	49%	25%	40%	68%	13%	97
Spring 2016	44%	44%	17%	34%	61%	17%	395
Fall 2015	40%	45%	17%	32%	62%	17%	260



*Numbers are greater than 100 due to the allowance of multiple responses

Q10: When your business needs additional capital, how would you rank these sources of funding as most accessible to you? (Ranked on scale from 1 to 5)

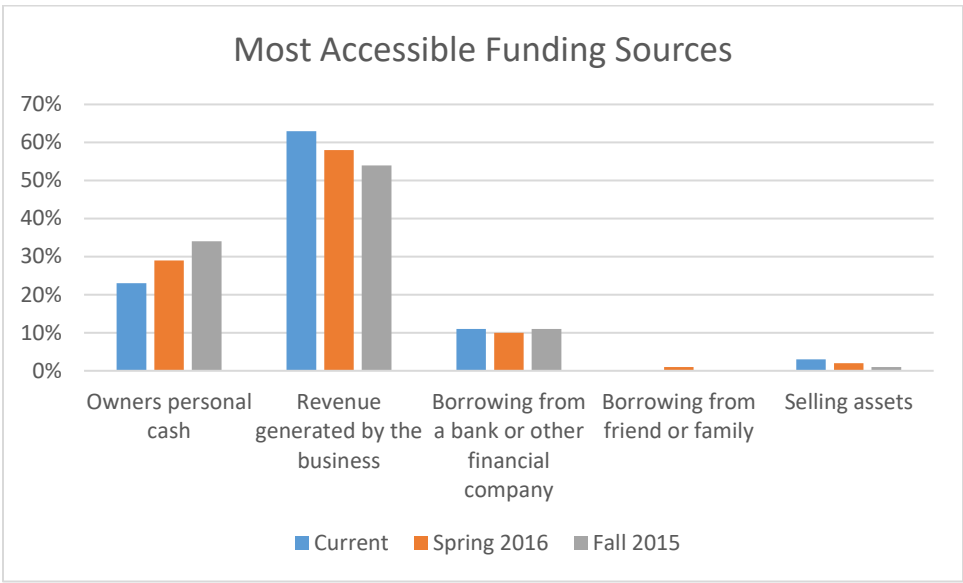
A majority of the respondents, 63 percent, reported revenue generated by the business to be the most accessible source of additional capital. Personal funding by the owner or borrowing from a bank or other financial company are also reported as being easy sources of funding. Borrowing from friends or family or selling assets were reported as the least accessible amongst the options.

Compared to the previous period, 5 percent more of the respondents list revenue generated by the business as their most accessible source of additional funding, while 6 percent less of the respondents list owners personal cash as the most accessible source. This reflects a fairly optimistic view of both current and future business revenues.

CURRENT PERIOD	Most Accessible		Somewhat Accessible		Least Accessible	Total Responses
Owners personal cash	23%	34%	27%	14%	2%	97
Revenue generated by the business	63%	29%	6%	2%	0%	97
Borrowing from a bank or other financial company	11%	33%	35%	11%	9%	97
Borrowing from friend or family	0%	1%	13%	38%	47%	97
Selling assets	3%	3%	18%	34%	41%	97

SPRING 2016	Most Accessible				Least Accessible	Total Responses
Owners personal cash	29%	35%	24%	8%	4%	368
Revenue generated by the business	58%	32%	7%	2%	1%	368
Borrowing from a bank or other financial company	10%	25%	37%	18%	10%	368
Borrowing from friend or family	1%	4%	12%	40%	43%	368
Selling assets	2%	4%	21%	31%	42%	368

FALL 2015	Most Accessible				Least Accessible	Total Responses
Owners personal cash	34%	35%	21%	7%	3%	241
Revenue generated by the business	54%	37%	7%	1%	1%	241
Borrowing from a bank or other financial company	11%	21%	37%	19%	12%	241
Borrowing from friend or family	0%	4%	14%	41%	40%	241
Selling assets	1%	3%	22%	31%	43%	241



PLEASE NOTE THAT THIS GRAPH ONLY DEPICTS RESPONDENTS' CHOICES FOR THE *TOP* SOURCE OF ADDITIONAL FUNDING

Q11: From the pull down list, please choose the industry group your company is most closely identified with.

Retail and Construction are the highest represented industries at 20 percent and 19 percent of total respondents, respectively. Other notable industries include Professional/Scientific/Technical Services, representing 12 percent of total respondents, and Real Estate/Rental/Leasing, which represents 8 percent of total respondents.

There are some industries that stand out as being associated predominantly with particular political leanings. Industries whose respondents predominantly leaned at least Democrat were Education Services, and Healthcare/Social Assistance. Industries with respondents that predominantly lean at least Republican were Construction, Wholesale Trade, and Real Estate and Rental and Leasing.

Compared to the Snohomish County’s employment data from the Employment Security Department, the survey respondents are representing more than the average share of the Retail industry (8.26 percent), and under representing the average share of the Health Care and Social Assistance industry (23.92 percent).

Industry Group	%	Count
42 Wholesale Trade	5.88%	5
22 Utilities	0.00%	0
48-49 Transportation and Warehousing	1.18%	1
44-45 Retail Trade	20.00%	17
53 Real Estate and Rental and Leasing	8.24%	7
92 Public Administration	0.00%	0
54 Professional, Scientific and Technical Services	11.76%	10
81 Other Services, except Public Administration	2.35%	2
21 Mining, Quarrying, and Oil and Gas Extraction	0.00%	0
31-33 Manufacturing	7.06%	6
55 Management of Companies and Enterprises	0.00%	0
51 Information	0.00%	0
62 Health Care and Social Assistance	7.06%	6
52 Finance and Insurance	3.53%	3
61 Educational Services	2.35%	2
23 Construction	18.82%	16
71 Arts, Entertainment, and Recreation	4.71%	4
11 Agriculture, Forestry, Fishing and Hunting	4.71%	4
56 Administrative and Support and Waste Management and Remediation Services	0.00%	0
72 Accommodation and Food Services	2.35%	2
Total	100%	85

Q12: What ZIP code is your business headquartered in?

The survey screened respondents to include only businesses that have a significant presence in Snohomish County.

The majority of businesses, or 61 out of the 98 respondents, are located in ZIP codes that correspond to parts of, or all of, Everett, Stanwood, Snohomish, Arlington, Monroe, Darrington, and Lake Stevens. This distribution is believed to be representative of businesses which have a significant presence in Snohomish County.

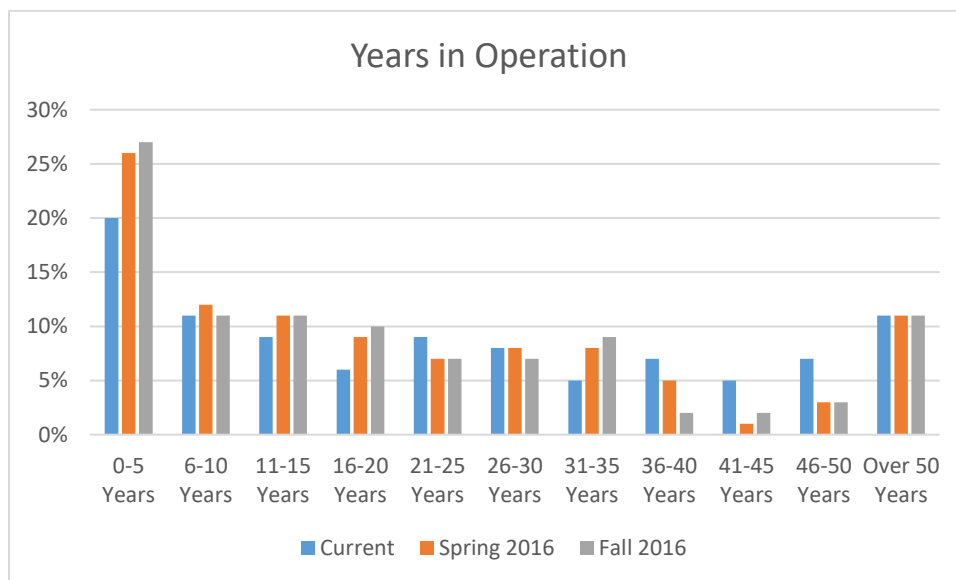
Zip	Count	%
98201	12	12.24%
98292	11	11.22%
98290	8	8.16%
98223	7	7.14%
98272	6	6.12%
98203	5	5.10%
98241	4	4.08%
98258	4	4.08%
98270	4	4.08%
98036	3	3.06%
98204	3	3.06%
98275	3	3.06%
98282	3	3.06%
98294	3	3.06%
98012	2	2.04%
98208	2	2.04%
98296	2	2.04%
98019	1	1.02%
98021	1	1.02%
98026	1	1.02%
98027	1	1.02%
98053	1	1.02%
98070	1	1.02%
98072	1	1.02%
98112	1	1.02%
98118	1	1.02%
98133	1	1.02%
98221	1	1.02%
98251	1	1.02%
98256	1	1.02%
98259	1	1.02%
98271	1	1.02%
98392	1	1.02%

Q13: How many years has your business been in operation?

Almost 50 percent of businesses in Snohomish County have been in operation for 25 years or less. While a majority of the businesses are new and relatively young, about 23 percent of businesses have been in operation for over 40 years. The data collected may be more reflective of the numerous newer businesses while not as reflective of the older ones, even though they represent 16 percent of businesses in the region.

These findings are similar to the previous periods, although we do see a slight decrease in the percentage of respondents who are newer businesses, and an increase in the percentage of respondents with businesses maturing to the 36-45 year bracket.

Years in Operation	Current	Spring 2016	Fall 2016
0-5 Years	20%	26%	27%
6-10 Years	11%	12%	11%
11-15 Years	9%	11%	11%
16-20 Years	6%	9%	10%
21-25 Years	9%	7%	7%
26-30 Years	8%	8%	7%
31-35 Years	5%	8%	9%
36-40 Years	7%	5%	2%
41-45 Years	5%	1%	2%
46-50 Years	7%	3%	3%
Over 50 Years	11%	11%	11%
N =	98	385	251

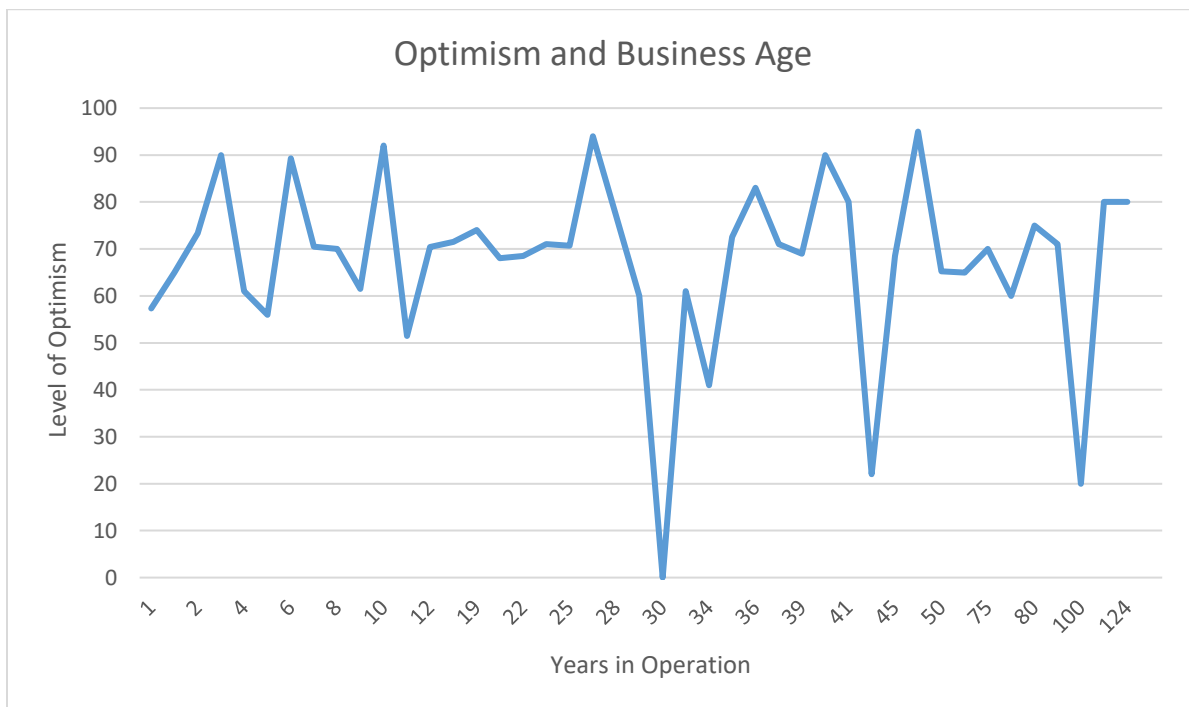


Optimism and Business Age

When comparing years of business operation to the level of optimism, it appears that younger businesses (in operation for 30 years or less) are more optimistic about their business prospects in the next 12 months (on a scale of 0 to 100). While some older businesses are still optimistic, the only pessimistic responses (reporting optimism as 50 or less) came from businesses that were at least 30 years old.

When evaluating this data it is critical to understand the data limitations that exist. A single company may represent any one business age creating a data point that reflects only one person's opinion. While the following figure is interesting it offers only a snapshot of the data collected and not any type of statistical sample of all businesses within Snohomish County of that age.

In general, we would expect a soft U shaped data representation where newer businesses are very optimistic, decline in optimism and then recover their level of optimism as they go through a transition of becoming stable through a number of years. The process of becoming stable is challenging for many businesses which leads owners to be stressed which may manifest itself as lower optimism. Many businesses fail in this transition process as well. While the following figure does not appear as a soft U the general trend of this data does except for a slightly lower initial level of optimism of newer businesses.



Q14: How many Employees does your company have? (Estimates are acceptable)

Information regarding the number and type of employees in a community are useful in the long term. The type of employment and shifts over time reveals the health of the overall economy and industries represented in the survey.

Q14A: Full Time - Company Wide

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Fall 2015	1	2500	42.96	261.61	101
Spring 2016	1	23400	115.67	1380.40	292
Current	1	1000	30.91	112.74	81

Q14B: Full Time – Snohomish County

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Fall 2015	1	2000	47.43	234.48	101
Spring 2016	1	400	21.06	53.74	192
Current	1	200	17.23	31.4	73

Q11C: Part Time – Company Wide

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Fall 2015	1	220	12.3	32.87	101
Spring 2016	1	3000	42.60	274.84	178
Current	1	200	8.42	26.06	64

Q11D: Part Time – Snohomish County

Period	Min Value	Max Value	Average Value	Standard Deviation	N
Fall 2015	1	1600	30.6	195.56	101
Spring 2016	1	530	11.15	51.90	118
Current	1	200	6.1	26.22	58

Q15: Which of the following functions is the closest to your role within this business?

Determining the respondents’ role within the business is a useful tool to understand their demographics. Similar to the last study, most (65 percent) respondents are the business owners themselves. Other respondents are still primary decision makers within their companies, indicating that the responses obtained in this survey are reliable and informed.

Period	Owner	CEO or President	Controller or CFO	Manager	Other primary organizational leader	N
Spring 2016	65%	13%	5%	9%	7%	255
Current	65%	15%	6%	11%	2%	98

Survey Methodology

The Center for Economic and Business Research, located within the College of Business and Economics at Western Washington University, conducted the research and analysis services for this survey.

The Survey is designed with three purposes in mind: (1) to provide on-going observations of the current business environment, to be compared with baseline observations previously gathered; (2) to collect data that can be used to forecast the future business environment; (3) to assess business needs based upon self-reported characteristics, perceptions, and concerns. To accomplish these, the Survey integrates questions dealing with the businesses’ current condition with questions regarding the future of the business. Current condition questions include business location (ZIP Code), years of operations, and number of employees. Future oriented questions include level of optimism for the local economy as well as the business in particular, revenue changes, investment changes, and different growth areas within the business. Since this is an election period study, the Survey also includes politically oriented questions. This report lists all questions and reports basic descriptive statistics.

The Center utilized an online survey methodology to obtain responses from local businesses. A web based survey was e-mailed to an estimated 3,432 business contacts primarily located in Snohomish County, but with a sample set throughout the region. We screened respondents so that we only surveyed those whose businesses have a significant presence in Snohomish County *and* are primary decision makers in their businesses. Up to four reminder e-mail notices were sent to the business contacts. The survey was left open for approximately three weeks.