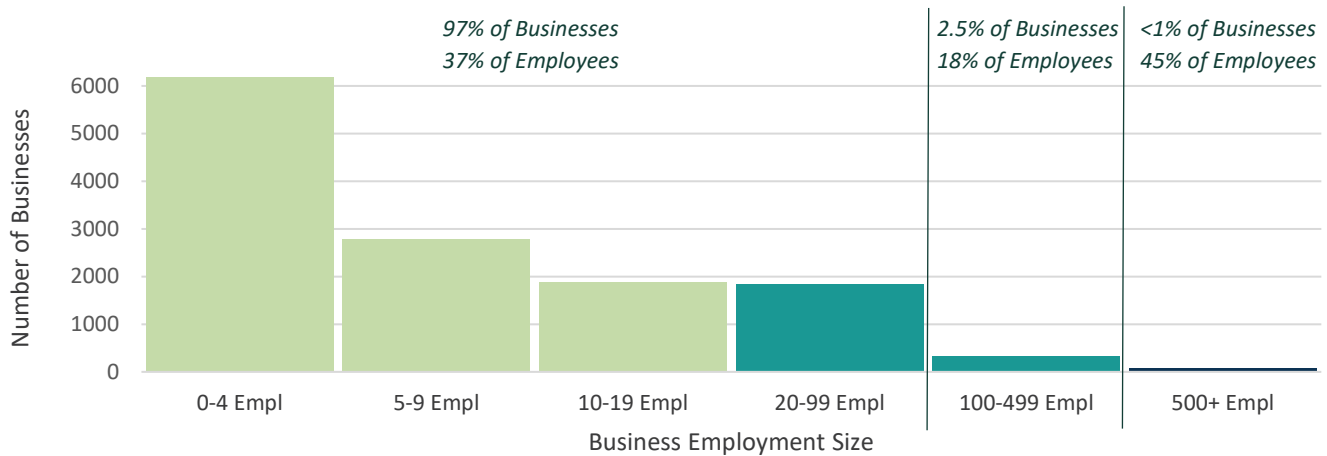




# SMALL BUSINESS IS THE BUSINESS OF LANCASTER COUNTY

Lancaster County Businesses by Number of Employees



Lancaster County’s economy is made up of small businesses. With over 13,000 businesses, all but 3% have fewer than 100 employees. These small businesses face the greatest risk of closure as the COVID-19 pandemic continues and the economy slips into a recession.

The term “small business” is often used loosely. By federal standards, small business is defined by the average number of employees over a 12-month period or the average annual receipts over the past three years. The threshold for either criteria will depend on the industry. While this type of standard matters for contracting with federal or state entities or accessing their financial assistance and loan programs, in a community sense, small business often implies a locally-based company with less than 500 employees.

This community-based definition makes a lot of sense in Lancaster County. A recent assessment of the business community by EDC and the Lancaster Chamber found almost 80% of businesses are locally-owned and nearly half have customers that are local

or regional. Based on federal data, fewer than 70 companies operating in Lancaster County have more than 500 employees. This means 99% of Lancaster businesses are small businesses.

*Small businesses face the greatest risk of closure - especially those with less than 100 employees.*

A recent article by the Brookings Institute reported small businesses are “often hit the hardest in economic downturns.”<sup>1</sup> In late March, a national survey of over 5,800 small businesses (with less than 500 employees) found that 41% of were temporarily closed due to the pandemic, confirming this vulnerability.<sup>2</sup> EDC and the Lancaster Chamber conducted their assessment of Lancaster County businesses around the same time and found Lancaster’s businesses are no exception to this vulnerability.

While business of all sizes are temporarily shuttering operations (in part or fully), the assessment found firms with less than 100 employees were the most impacted. During this time, almost 40% of the businesses participating in the assessment reported some closure of operations, that is shutting down operations as opposed to telecommuting or scaling



back production and services. Of these, 80% of the closures were with companies that have fewer than 100 employees; no participating company with more than 250 employees reported fully closing.

*Small businesses across all sectors are more susceptible to demand side factors such as consumer weakness, poor sales and uncertainty.*

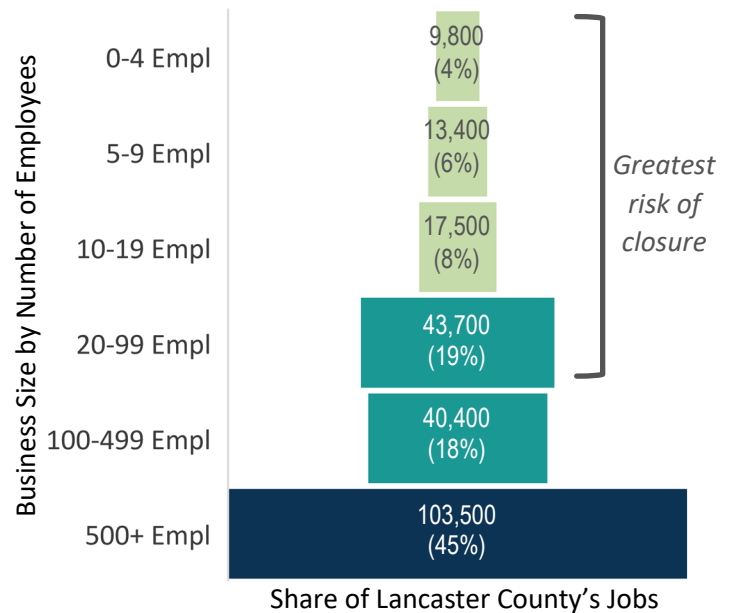
During the Great Recession, smaller businesses were more strongly hit and slower to recover. Research by the Federal Reserve of New York found that sales conditions played an important role to the recovery of small businesses.<sup>3</sup>

The Lancaster County business assessment highlights that across the economy, Lancaster’s businesses are reporting demand and sales disruptions. These impacts are a direct result of the Governor’s Order to close nonessential businesses and maintain social and physical distancing. The longer they last, the greater the risk that small business closures will become permanent.

Approximately half of small businesses in a national survey said they had enough cash reserves to handle between one and two months of expenses.<sup>4</sup> As the restrictions on social and business operations extend in to May, many small businesses are facing revenue losses over a period longer than their cash reserves can manage.

The national survey also found that the longer COVID-19 disruptions lasted, the less hopeful small businesses were of being open at the end of the year. This national survey was conducted in late March when restrictions were just beginning to be rolled out. With a one-month disruptions, 70% of the businesses expected to be open in December. The percent dropped to 38% if the disruptions lasted six months. The expected survival rate is even more stark for businesses at the frontline of social and physical distancing requirements. Only 15% of restaurants and 35% of businesses in the arts and entertainment sector thought they could navigate 6 months of restrictions to be open at the end of the year.

EDC and the Chamber are rolling out an economic recovery plan that pays close attention to small businesses. It is taking it cues from these early insights about the essential role of small businesses and the financial stress they are facing. These findings highlight that economic assistance will not be a one size fits all for small businesses. Small businesses give our community its identity. As a community, we need to rally around our most vulnerable businesses and find creative ways to support them as the economy reopens.



<sup>1</sup> Liu, Sifan and Joseph Parilla. (2020) "What the Great Recession can tell us about the COVID-19 small business crisis." *The Avenue*, Brookings Institute, March 25. [www.brookings.edu/blog/the-avenue/2020/03/25/what-the-great-recession-can-tell-us-about-the-covid-19-small-business-crisis/](http://www.brookings.edu/blog/the-avenue/2020/03/25/what-the-great-recession-can-tell-us-about-the-covid-19-small-business-crisis/)

<sup>2</sup> Alexander W. Bartik, Marianne Bertrand, Zoë B. Cullen, Edward L. Glaeser, Michael Luca and Christopher T. Stanton. (2020) How are Small Businesses Adjusting to COVID-19? Early Evidence from a Survey. NBER Working Paper No. 26989, April. [www.nber.org/papers/w26989.pdf](http://www.nber.org/papers/w26989.pdf)

<sup>3</sup> Sahin, Aysegul, Sagiri Kitao, Anna Cororaton, and Sergiu Laiu. (2011) "Why Small Businesses Were Hit Harder by the Recent Recession." *Current Issues in Economics and Finance*, Federal Reserve Bank of New York, vol 14, no. 42011. [www.newyorkfed.org/research/current\\_issues/ci17-4.html](http://www.newyorkfed.org/research/current_issues/ci17-4.html)

<sup>4</sup> Bartik et al, 2020.