



“How Federal Reserve Policies Add to Hard Times at the Pump”

Testimony of

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May 25, 2011

Before the

Committee on Oversight and Government Reform

**Subcommittee on Regulatory Affairs, Stimulus Oversight and Government
Spending**

United States House of Representatives

The Honorable Jim Jordan, Chairman

The Honorable Dennis Kucinich, Ranking Member

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Protecting Small Business, Promoting Entrepreneurship

Chairman Jordan, Ranking Member Kucinich and members of the subcommittee, thank you for holding this hearing today. High gas prices are causing pain for our nation's small business owners, and the issue remains a critical one for our country and the economy. Elevated gas prices are impacting small business operations and growth, which has the potential to more significantly undermine the economic recovery.

My name is Karen Kerrigan, President & CEO of SBE Council. SBE Council is a nonpartisan, nonprofit advocacy, research and training organization dedicated to protecting small business and promoting entrepreneurship. With nearly 100,000 members and 250,000 small business activists nationwide, SBE Council is engaged at the local, state, federal and international levels where we collaborate with elected officials, policy experts and business leaders on initiatives and policies that enhance competitiveness and improve the environment for business start-up and growth.

Small business owners are still struggling in their efforts to regain stable footing following the deep and historic recession. Revenue and sales growth remain weak in many sectors and regions of the country. Rising business costs continue to squeeze small-business cash flow. A recent *Business Journals* "SMB Insights" survey released in late April 2011 reveals the deep concerns small business owners have about the economy and rising costs. In the "SMB Insights" report, the same percentage of small business owners – 72 percent – are concerned about the state of the economy and rising health care and employee benefits costs. Fifty seven percent of small business owners express concern about higher business costs in general. Obviously, costs are a major issue for small business owners. Rapid increases in any number of cost areas are more challenging for small firms. Tight cash flow combined with slim profit margins limit the flexibility that small business owners have in responding to unexpected cost increases.

In general, small business confidence remains low given the slow recovery, policy uncertainty and the day-to-day reality of increasing business costs. Certainly, high gas prices erode confidence further, as well as the bottom line of many business owners.

Small business owners are in need of a period of stability and certainty in order to generate the type of positive momentum that will lead to robust job creation and sustained economic growth. Prior to the upward trajectory in gas prices, lingering uncertainty regarding the strength of the recovery and the direction of policies impacting business costs were already affecting business confidence and outlook, and thus plans for investment and expansion. The upward movement in gas prices is yet another hurdle preventing entrepreneurs from getting ahead and feeling secure enough to confidently build their businesses and create jobs.

A DollarDays.com survey released in mid-April found that 64 percent of business owners say their revenue is down as a result of rising gas prices. More than 25 percent fear they will have to lay off employees if prices continue at “current levels.” The results of the DollarDays.com survey align with recent SBE Council survey findings, along with information we are hearing from our members and small business owners across the country.

As SBE Council found in its latest “Entrepreneurs and the Economy Survey” (conducted by TechnoMetrica, April 21-27), small business owners are unquestionably feeling the pinch of higher gas prices. A substantial portion of small business owners (41 percent) have raised prices in response to higher gas costs. Of course, small business owners are loathe to raise prices because of competitive pressures. Especially in the current environment, they cannot afford to drive existing customers away. Still, many have no choice but to pass their cost increases onto customers and clients. Small businesses that have held back on increasing prices have employed other strategies; like cutting employee hours, forgoing investments, or scaling back marketing efforts. These strategies, however, affect their growth, their ability to compete and their ability to generate enterprise-wide momentum that enables a more stable and faster growth track.

As we see from the findings of the “Entrepreneurs and Economy Survey,” the specific ways that small business owners are responding to higher gas prices may have profound consequences for our economy, especially if these costs do not come down in the near future. According to the survey:

- 74 percent of small business owners report that higher gas prices are having an impact on their business.

- 47 percent report that higher gas prices are affecting their plans to hire new employees.
- 41 percent have already raised their prices due to high gas prices.
- 26 percent have had to cut employees or their hours worked.
- 38 percent believe if gas prices remain high or increase further their business will not survive.

The response of small business owners to higher gas prices not only impacts their own personal competitiveness and capacity to grow, but the overall health of the U.S. economy. If small business owners are not hiring, or if they are forced to cut back jobs or employee hours, our entire economy suffers. As committee members are well aware, our nation needs the job-creating prowess of small businesses in order to bring about full recovery and sustained growth. Likewise, if small business owners are putting fewer resources into investments and innovative projects, the vibrancy of the economy suffers along with our overall competitiveness.

A May 17, 2011 *Aol Small Business* article (“High Gas Prices: Who are the Biggest Winner and Losers”) reported on the various types of small businesses that are being hit the hardest from high gas prices. For example, retail stores, firms with sales staff, catering companies, trucking-related businesses, small oil companies, grocery/meal delivery businesses, IT/Tech consultants, florists, general contractors, and lawn care companies are some of the industries the article mentions. The story gives specific examples, including:

- **RETAIL:** According to the *Aol Small Business* story: “Sherri Comstock, who has three Grayslake, Ill.-based brick-and-mortar stores -- The Cheshire Cat, The Spotted Crocodile and the soon-to-open Foodie -- says gas prices ‘have caused the wholesale prices on many items to increase, and shipping costs like UPS surcharges have gone up due to the high cost of oil.’ But she adds the price goes beyond that: ‘There are the soft costs, like fuel costs driving from our warehouse to the stores.’ Comstock also says ‘the costs of employees’ airfare, meals and hotel to events like the gift show in Atlanta and other out-of-state vendor training events are eating away at my bottom line now.’”

SBE Council members report similar effects. They report less in-store traffic and lower sales volume, and they believe this is related to customers having less disposable income as a result of higher gas prices. As noted above, shipping charges have increased significantly, which means business owners are paying higher prices for goods and products being delivered to their shops. Many are being forced to absorb these costs, which mean fewer resources for adding workers, or increasing the pay of their existing workforce.

- **CATERING:** As noted by the *Aol Small Business* column: “‘The fluctuating gas prices substantially impact our company,’ says Tom Walter, CEO of Chicago-based Tasty Catering. ‘Our business relies on being able to deliver affordable, quality food to Chicago area corporations.’” While the company recently purchased new fuel-efficient vehicles and “tinkered” with its delivery schedule to cut back on driving time “they’ve been forced to raise their prices, on average by 8 percent, for the first time in two years.”

Higher prices make smaller firms less competitive, and their services (or goods) less desirable. But raising prices is a reality for many business owners who simply cannot afford to absorb another penny of costs. Of course, artificially induced higher prices mean consumers pay more.

- **FLORISTS:** As reported in the *Aol Small Business* story: “‘Everyone involved in this industry -- from growers to wholesalers to independent flower shops -- relies heavily on shipping to ultimately get flowers to customers. And because shipping costs can vary significantly even on a daily basis depending on gas prices, the cost trickles down to the customer. Scott McBride, manager of Toledo, Ohio-based florist Myrtle Flowers & Gifts, increased delivery rates last month in anticipation of the high volume of orders for Mother's Day. ‘If gas prices rise significantly, we might consider another hike,’ McBride says. ‘But we're going to try and keep them as low as we can for as long as we can.’”

- **MANUFACTURING:** Keeping prices “as low as we can for as long as we can” is more easily said than done for small business owners. An SBE Council member/manufacturer has had no choice but to raise prices because of significant increases in shipping costs related to high gas prices. But this move to cover his

costs may result in future business opportunities going overseas to China. As the manufacturer reports:

“We purchase raw material (molding compound) from suppliers as far away as Ohio. Last year we started to make oven handles for a very large and well-known company. The material used to make the handles is made in Perrysburg, Ohio. On 5/11/11 we received 16,270 pounds of material via Con-Way freight. The normal shipping cost for this shipment is \$623.62; however, there is a fuel surcharge of 32.10 percent or \$200.18 which results in a total cost of \$823.80. We look at everything through the prism of ‘cost-per-pound.’ Normal shipping is \$0.038 per pound. The fuel surcharge adds another \$0.0123 per pound. That may not sound like much but that is not the whole picture. Our supplier in West Chicago has already raised their price to us by 6 percent effective 5/1/11 -- claiming high cost of fuel and materials, which I believe. When we started the program with the major vendor the price of the compound was \$1.06 per pound. It is now \$1.12 per pound. Our total cost increase for material is \$0.06 plus \$0.0123 or \$0.07123 per pound. Each handle weighs 2 pounds so our material cost increased \$0.152 per part. We have notified the vendor that their price for the handles will increase effective 6/1/11. I expect a fight. Near term we may be okay, but the large vendor has all sorts of options -- one of which is sourcing this product in China or replacing it with a cheap metal version (also sourced in China). Welcome to the world market. If we lose the business we will have to lay off 12 employees -- we currently have a total of 60.”

- *LAWN CARE COMPANIES*: Again, as noted in *Aol Small Business*: “Gas prices make up about 15 to 20 percent of lawn care companies' budgets. Ultimately, many companies may have to decrease their service areas or give up some of the higher-paying customers who have bigger lawns or more complicated landscaping needs. And because cutting grass and planting/landscaping gets highly competitive, most small companies have very little wiggle room when it comes to increasing their rates to make up for inflated gas prices.”

- *STAFFING SERVICES*: Companies in the employee staffing business are also having a difficult time operating in the high-cost environment. For example, an SBE Council member located in the Midwest reports that he is finding it difficult for workers who live in more remote locations to agree to work on projects or a

worksite because the cost of driving is too expensive. Potential employees are also declining work because of high gas costs. According to the owner, “We are getting hammered, both by current employees quitting because the cost of driving has become so onerous, and by potential employees declining work because the distance is ‘too far’ when factoring in the high cost of gas.” As an aside, he adds that unemployment allows workers to sit home (thus bearing no travel costs) and collect \$384 a week, which may be cutting into his pool of available workers.

SBE Council has long supported a national energy policy that leads to greater stability in energy prices. Especially as we work to emerge from the recession, it is more important than ever that small business owners operate in a more predictable environment. With sales revenues weak, and business costs still rising entrepreneurs cannot create the large-scale number of jobs that are needed in our economy.

The added burden of high gas prices is making a difficult environment much more challenging for small business owners. It is why SBE Council continues to support policies that encourage domestic exploration and development. It is also why our Chief Economist Raymond J. Keating believes mission creep at the Federal Reserve – that is, their foray into trying to manipulate economic growth – should be abandoned with efforts solely focused on maintaining price stability. As Keating recently wrote about this matter: “...being focused on maintaining price stability should be the only concern of any country’s monetary authority. Such focus will reduce inflation and inflation risks, strengthen the dollar, and have a positive effect on the price of oil and, therefore, gasoline.”

Thank you again for hosting this hearing, and I look forward to your questions.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: KAREN KERRIGAN

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

2010: U.S. STATE DEPARTMENT (U.S. SPEAKER AND SPECIALIST PROGRAM): \$4,679 - GRANT
2009: U.S. STATE DEPARTMENT (U.S. SPEAKER AND SPECIALIST PROGRAM): \$3,185 - GRANT

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

SMALL BUSINESS AND ENTREPRENEURSHIP COUNCIL (SBE COUNCIL) - KAREN KERRIGAN SERVES AS PRESIDENT OF THE ORGANIZATION

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

NONE

I certify that the above information is true and correct.
Signature: Karen Kerrigan

Date: 5/23/2011

Karen Kerrigan Bio

Karen Kerrigan is one of the world's leading experts on policies and initiatives that benefit entrepreneurs. Ms. Kerrigan is President & CEO of the Small Business & Entrepreneurship Council, a prominent and respected advocacy and research organization. She is Founder of Women Entrepreneurs Inc., an organization dedicated to helping women business owners succeed through education, networking and advocacy.

Ms. Kerrigan regularly testifies before the U.S. Congress on issues that impact America's small business and entrepreneurial sector. She meets often with delegations from around the world that wish to learn about public policy recommendations and Best Practices in entrepreneurial training that will enhance and sustain business start-up and growth. In June 2002 she was appointed to serve on the National Women's Business Council. In September 2002 she was appointed by the U.S. Treasury Secretary to serve on the Taxpayer Advocacy Panel (TAP). Kerrigan has presented at several White House Economic Summits. In July 2005, she was appointed as a member of the National Advisory Committee for Labor Provisions of U.S. Free Trade Agreements to represent the business community. In November 2007, she was appointed to the board of directors of the Center for International Private Enterprise, where she now serves as Chairman. She serves on the U.S.-Iraq Business Dialog and is an advisory board member of the National Association of Women Business Owners (NAWBO), Moms in Business, Enterprising Women magazine, Verizon's Consumer Advisory Board and the Economic Advisory Committee of Broadband for America. She is a founding member of the World Entrepreneurship Forum.

She helped construct the Women Entrepreneurship in the 21st Century conferences sponsored by the U.S. Department of Labor (DoL) and Small Business Administration, and helped to implement the National Women's Leadership Summit (Oct. 2004) and *Flex Options for Women* with the DoL's Women's Bureau. In May 2005, WE Inc. co-sponsored the first MidEast/North Africa Women's Business Summit in Tunis, Tunisia where Kerrigan also led a delegation of U.S. businesswomen to the groundbreaking event. In the February 2006 issue of *Inc. Magazine*, Kerrigan was listed on the "Best Friends in D.C." list for small business owners, profiled as a "**power broker and activist**" with "serious clout" for entrepreneurs. In May 2005 *The Hill* newspaper called Kerrigan "the hardest working woman in show business" and credited her leadership of the SBE Council for making it one of the top 5 influential groups representing small business. *Fortune Small Business* named Ms. Kerrigan to its Power 30 list of key advocates in Washington in September 2000. In 1995, *National Journal* named Ms. Kerrigan to its short list of "K Street" activists most likely to have an impact on Capitol Hill. *Campaigns and Elections Magazine* named her as one of its "Rising Stars in Politics" in its April 1996 issue.

Her commentary, analysis and written work have appeared in many of the nation's leading newspapers. For more than a decade she wrote a regular column for the *American City Business Journals* - an influential network of weekly business newspapers in 50 major markets. She has appeared on *ABC's Nightline*, The McLaughlin Group, *CNN*, *CNBC*, and *Fox News* Television among others. She has been a guest on hundreds of radio talk shows.

Ms. Kerrigan is a native of New York, and holds a BA degree in Political Science from Cortland College (SUNY). She resides in Northern Virginia.