SF Works Green Business Survey Results

Summary

In December of 2009 and January of 2010, SF Works conducted a survey of nearly 60 Bay Area businesses working in several green sectors. The main purpose of the survey was to identify the most important challenges facing green businesses in creating jobs. Businesses were also asked if certain types of services would be useful. Our findings were that the main challenge facing green businesses is a lack of demand for their services, as well as problems with securing financing and not knowing how to access tax credits and other incentives. Despite these obstacles, green businesses were optimistic about their growth prospects, particularly those in the energy efficiency and solar sectors, which had the highest expectations for increased demand. Regarding potential public services, businesses were most enthusiastic about wage subsidies, assistance with finance, and assistance with participation in tax incentive programs.

Methodology

Two hundred and thirty "green" businesses were contacted by phone, resulting in 57 one-on-one conversations. The survey was administered in December of 2009 and January 2010. To categorize these businesses, the survey asked what their main products and services were. Six sectors were reflected: energy efficiency, green building, remodeling/retrofitting, solar, waste/recycling, and environmental consulting. Energy efficiency firms reported specializing in electrical and HVAC systems. Green builders were general contractors and developers that performed a variety of different design, development, and construction functions, including new construction. Remodelers identified as general contractors or developers specializing in remodeling existing buildings. Solar firms reported specializing in solar energy system installation and manufacturing. Waste/recycling and environmental consulting firms self-identified their sectors.

Businesses were also asked how many employees they had, including part-time workers. In analyzing the survey results, we constructed five business size categories: 1-5 employees, 6-20, 21-100, and more than 100.

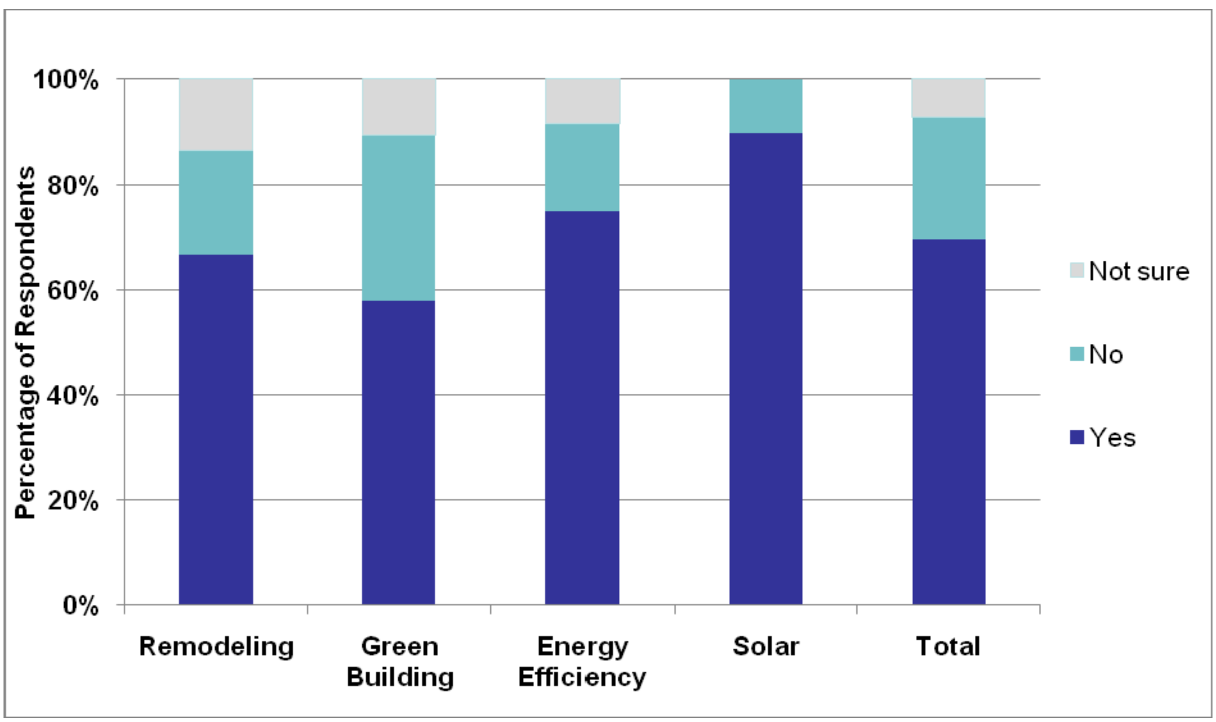
The survey instrument contained a mix of open-ended and ranking questions. Businesses were asked open-ended questions about what their most significant obstacles to growth were, as well as why they did or did not expect to grow in the near future. These responses were subsequently coded and analyzed. Following that, surveyors asked businesses to rate several different programs on a scale of "not useful," "helpful," or "extremely beneficial."

Findings

First, the green businesses we surveyed tend to be small businesses, and most were in construction-related fields. In total, 19 businesses were categorized as being in green building, 15 were in remodeling, five were in both remodeling and green building, 12 were in energy efficiency, 10 were in solar, four were in waste/recycling, and two were in environmental consulting. Business ranged from 1 employee/owner to 1100 employees. Twenty-eight businesses had 1 to 5 employees, 17 businesses had 6 to 20 employees, four businesses had 21 to 100 employees, and eight businesses had more than 100 employees.

	Firm characteristics (# of employees)		Growth in number of employees in the next two years (%)			
			All companies		Companies expecting growth	
	Average	Median	Average	Median	Average	Median
Green Building	92-99	5	110-157%	33-39%	163-196%	46-63%
Remodeling	3	3	168-180%	37-58%	235-252%	175-225%
Energy Efficiency	8-10	5	105-144%	37-63%	98-182%	58-133%
Solar	70-71	14	43-112%	23-29%	72-140%	31 -43%
Total	**71-75**	**5**	**80-123%**	**25-40%**	**117-179%**	**50-67%**

Green businesses tend to be optimistic about future growth. Seventy percent of businesses expected that they would grow and hire new employees in the next two years, while 23.2 percent did not expect growth, and 7.1 percent were not sure. Green builders were the least likely to expect growth. Fifty-eight percent expected growth, 31 percent did not, and 10.3 percent were not sure. Energy efficiency companies were most likely to expect growth, with 75 percent reporting growth expectations, 16.7 percent not expecting growth, and 8.3 percent not being sure. Solar companies were the most confident in the future, with 90 percent expecting growth and 10 percent not expecting growth. Further, larger firms tended to be less likely to expect growth, whereas firms with 6 to 20 or 21 to 100 employees were more likely to expect growth.

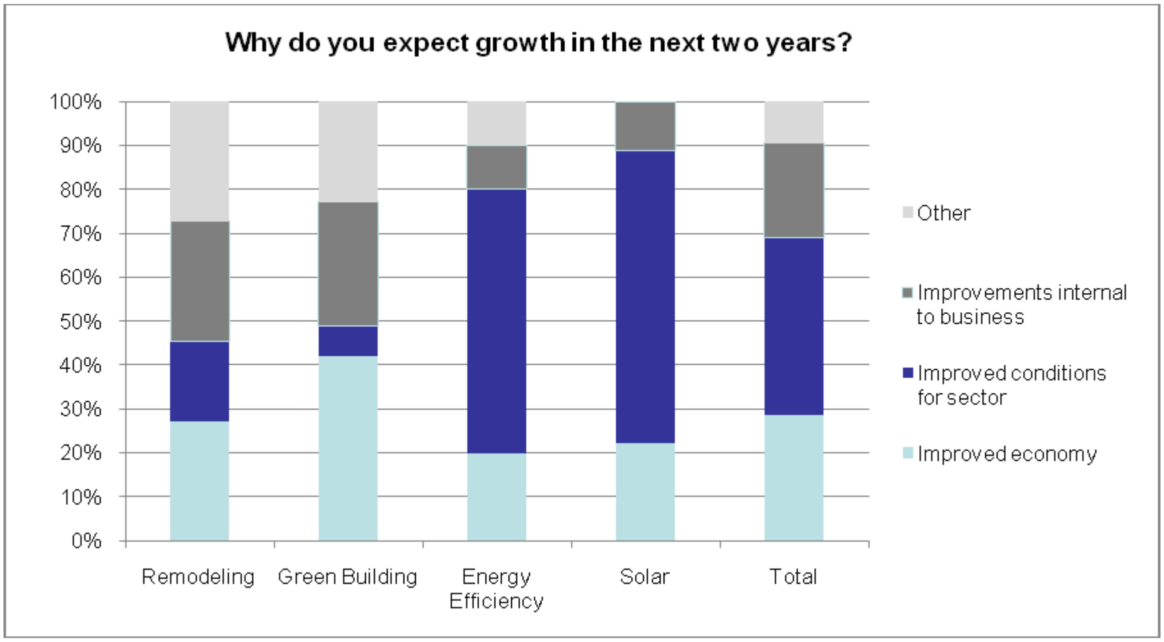


The magnitude of expected growth depended on the sector. Remodeling businesses expecting growth estimated that they would grow by 175 to 225 percent. This may be due to their small size, cyclical business, or reliance on a temporary workforce or subcontractors, although most remodeling businesses reported employing mostly full-time employees. Further, while solar businesses were the most likely to expect growth, they reported a lower estimated percentage of hiring than other sectors, and their median size was far larger than other sectors.

In an open-ended question, businesses were asked to give some of the reasons they expected growth. Typical responses included:

- "Construction industry is a lagging indicator. There's still a lot of existing stock. As economy recovers there will be more work. We can see more growth after 2011."
- "High demand for solar electric systems."
- "Economy is rebounding. The business is very dependent on the general state of the economy."
- "There's nowhere but up from now. Right now the biggest problem is that potential clients have difficulty accessing funds/capital."
- "The green industry is moving quickly. Demand and funding are increasing. Also cost (for example solar) is decreasing, and therefore increasing the demand."

These responses were coded, revealing variations between sectors. The coding included three types of reasons why companies expected growth: internal improvements in business, improvements in sectoral conditions, and improvements in general economic conditions. Businesses in the solar and energy efficiency sectors were far more likely to expect growth because of sectoral growth, as opposed to growth in the economy as a whole and internal improvements. Remodeling and green building businesses were more likely to cite the economy or internal improvements than sectoral growth. This suggests that these sectors may be more dependent on the economy at large and do not expect much growth resulting from sectoral expansion.



Interpreting these results is difficult, because respondents were not asked to distinguish between markets for “green” and traditional products. The differences between sectors may just be a reflection of the downturn in the market for traditional construction and remodeling, whereas energy efficiency and solar firms specializing in green products have received support from public policy. Indeed, some responses of energy efficiency companies show that their optimism is a product of their confidence in “green” sectors. One respondent in energy efficiency noted that “energy savings is a hot topic,” and another observed that that the “energy sector and green technologies are growing.” Still, energy efficiency and solar businesses also reported being affected by the business cycle in the housing markets, and energy efficiency companies are also likely to have traditional lines of business. Their traditional product lines may be faring just as bad as remodelers and builders, but their green products could be stronger. Thus, the results suggest that the market for green products in energy efficiency and solar may be more developed than the market for green construction and remodeling.

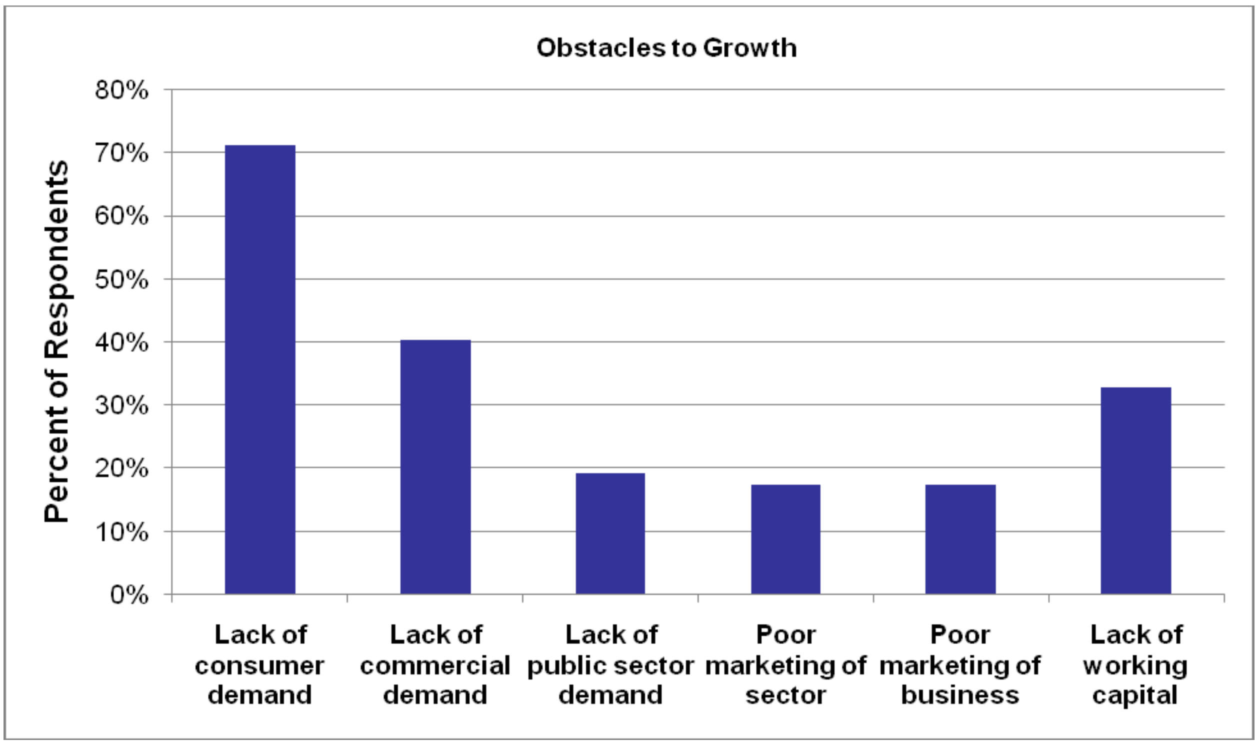
Obstacles to Growth

In an open-ended question, businesses were asked what they thought their most significant obstacles to growth were. These answers were coded into the following categories:

- Lack of consumer demand
- Lack of commercial demand
- Lack of public sector demand
- Poor marketing of sector
- Poor marketing of business
- Poor marketing of neighborhood
- Lack of working capital
- Poor returns on investment
- Investment capital inaccessible
- Workforce: Basic Skills
- Workforce: Short-term training (on the job training)
- Workforce: Long-term training (vocational skills, certification)

- Workforce: Hiring Costs
- Workforce: Cost of benefits (health or pension)
- Workforce: Soft Skills/Job readiness
- Inter-industry coordination: knowledge not spreading (about markets, technology)
- Inter-industry coordination: need for advocacy
- Access to available public resources: difficulty filling out paperwork
- Access to available public resources: difficulty with regulation or permitting
- Access to available public resources: not understanding what's available
- Access to available public resources: difficulty with program eligibility or process.

Inadequate consumer demand was far and away the most important obstacle to growth for green businesses. Seventy-one percent of all respondents cited a lack of demand from consumers, while 40 percent referenced a lack of demand from businesses, and 19 percent lack of demand from government. Thirty-two percent of respondents cited a lack of access to working capital as one of its significant obstacle to growth. Marketing and education also ranked as an important obstacle, with 17 percent citing it.



In addition, businesses cited a number of challenges associated with public policy. One participant cited a major challenge in keeping up with changes in tax credits and suggested building a regional website to disseminate information. Another said that tax credit programs were slow in giving out reimbursements, forcing businesses to pay upfront for much of their work. Others cited a *lack* of supportive public policy, including subsidies and regulations that encouraged green building. A few respondents noted the need for power-purchasing agreements and financing options for solar and remodeling work.

Businesses of different sizes tended to cite different obstacles. Perhaps the most striking example of this is that for businesses with 6 to 20 employees, the most commonly cited obstacle to growth was access to capital. Sixty-four percent of responses by businesses of this size cited the need for access to working capital. In contrast, only 25 percent of responses by businesses with 1 to 5 employees cited this, while none of the businesses with 21 to 100 employees cited it, and only one of seven responses from businesses with over 100 employees cited this. Further, businesses with 1 to 5 employees were somewhat more likely than other businesses to cite a need for marketing or education, particularly for their individual business. 25 percent of responses by these businesses cited marketing their business as a significant obstacle.

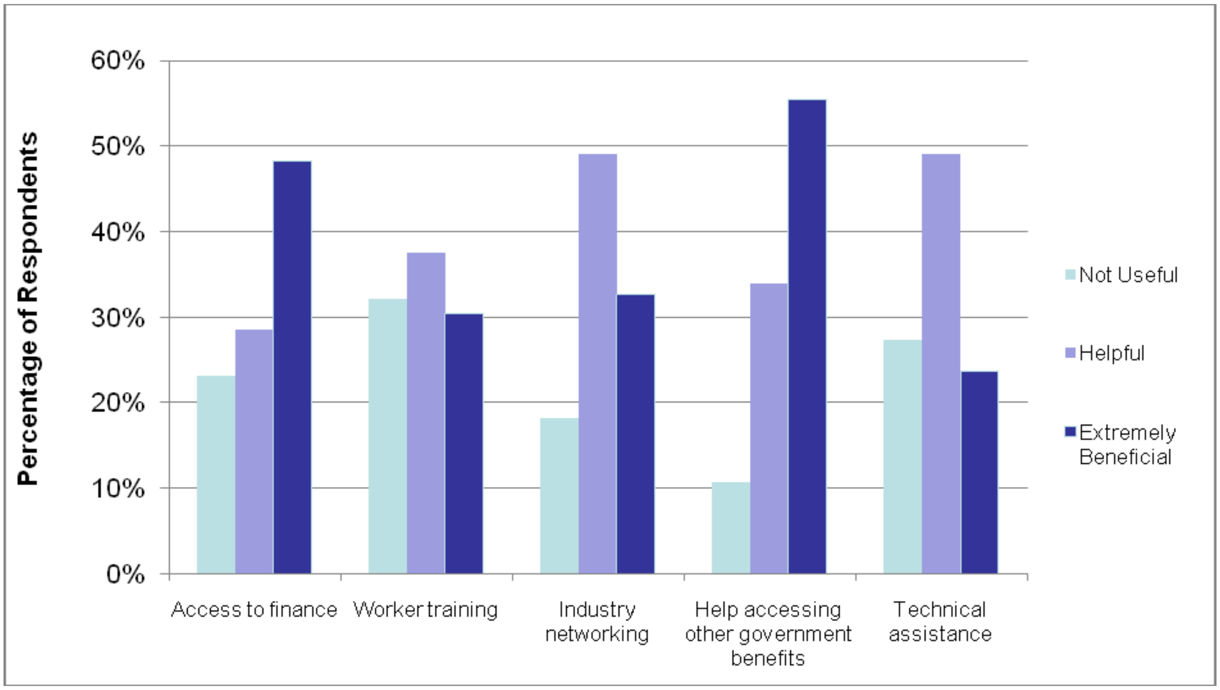
Only a few businesses cited workforce assistance or inter-industry coordination. This may be taken as an indication that demand, access to capital, public policy and marketing resources are foremost on the minds of businesses in Bay Area green industries. At the same time, categories like workforce assistance, inter-industry coordination and access to government resources are also a tool to achieve the objectives that businesses cited. It is reasonable to suspect that if business owners were questioned further, they may see these factors as a problem insofar as they represent solutions that have been inadequately implemented. Indeed, the receptivity that business people had to certain types of services suggests that businesses may see these categories not as obstacles but as ways of addressing obstacles.

Also, many of the cited obstacles did not fall into coded categories. They tended to address a lack of financing options for consumers, including the following:

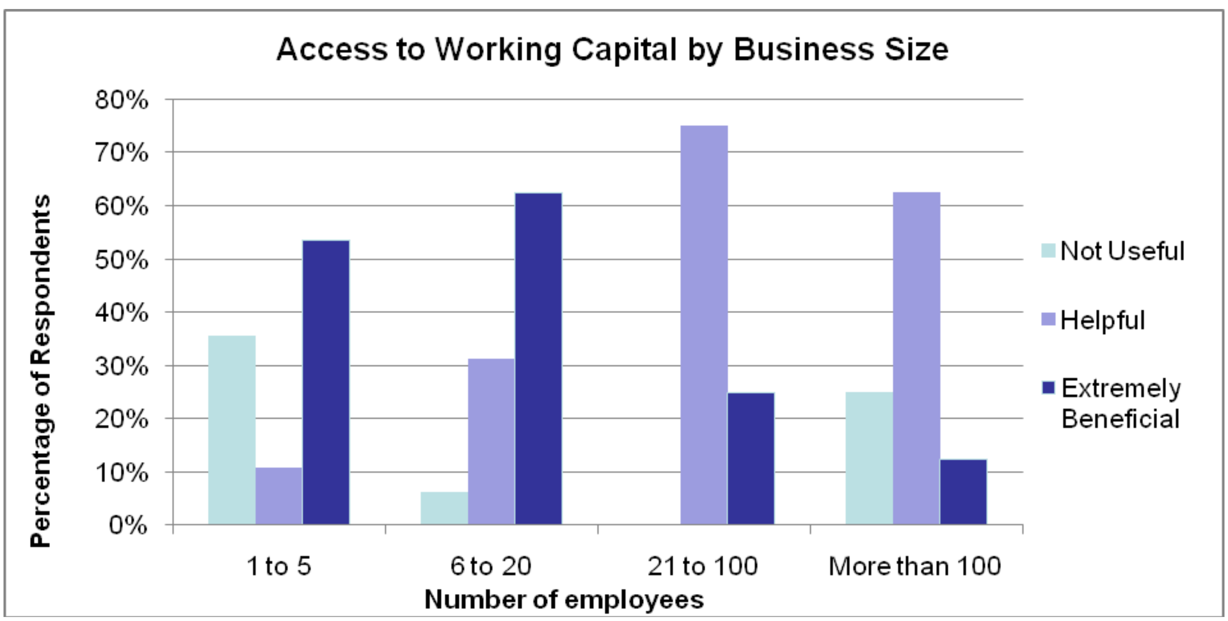
- “Loans for consumers to purchase solar need to be expanded.”
- “[There is] a huge problem with people not being able to borrow because of lack of equity on their homes.”
- “My ability to hire is dependent on the availability of financing mechanisms for consumers.”

Rating Services

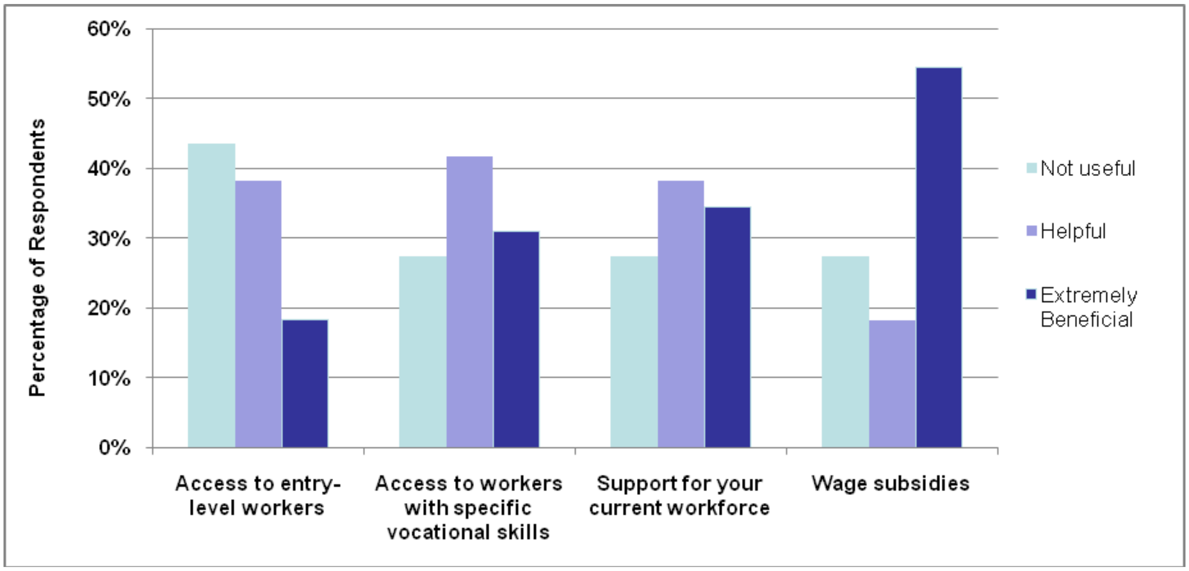
Businesses were also asked to respond to a series of different options and rate how helpful they would be to their business, on a scale of “not useful,” “helpful,” and “very beneficial.” Respondents were most positive about “access to finance” and assistance with accessing government benefits and tax credits.



Smaller businesses tended to be more supportive of the "access to finance" option. Fifty-four percent of businesses with 1 to 5 employees said access to finance would be extremely beneficial; 63 percent of businesses with 6 to 20 employees said it would be extremely beneficial. This result is consistent with the tendency of smaller businesses to cite access to finance as a significant obstacle to growth. Firms expecting growth were also much more positive about access to finance, with only 13 percent reporting it would be not useful. On the other hand, support for help to access government benefits was uniform across business size, sector, and whether or not a business expected growth.



Finally, business were asked to rate a series of options for workforce supports. The rating was on the same scale as the question regarding different types of services. Businesses rate "wage subsidies" the highest. Of all the training options, “retraining” received the strongest support, rating slightly higher than “vocational training” and much higher than “basic skills training.” Businesses that said they expected growth were more positive about all options than businesses that were not expecting growth or were unsure. Energy efficiency firms were less enthusiastic than other sectors about wage subsidies. Some differences existed among sectors in support for retraining, with solar companies being the most enthusiastic, but other sectors showed similar level of support for basic skills and vocational skills training.



Conclusion

- The energy efficiency and solar sectors present exciting job growth opportunities.
  - This is partly due to the supportive public policy environment and growing public awareness of the benefits of solar systems.
  - Remodeling and Green Building sectors, despite product differentiation, appear to be tied to the traditional housing market.
- The need for access to finance persists, particularly among smaller businesses.
- Most businesses want assistance accessing government benefits. There was no substantial variation between sectors and business sizes in their enthusiasm for this service.
- Wage subsidies and incumbent employee retraining are the workforce development services most in demand.
- Demand for access to entry-level workers is limited to the waste management and recycling sector.