Perspectives from Main Street: COVID-19’s Impact on Small Business

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FOV
FLAGS OF VALOR

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Chairman Rubio, Ranking Member Cardin, and Members of the Committee: My name is Joe Shamess and I am a co-founder and owner of Flags of Valor based in Winchester, VA. Flags of Valor is both a manufacturer and retailer, and we are proud to be members of the U.S. Chamber of Commerce’s Small Business Council. The testimony I am presenting this morning is on behalf of the men and women at Flags of Valor and the U.S. Chamber of Commerce.

Since our start in 2015, Flags of Valor (FOV) grew from a two-person garage operation to a nationally-heralded veteran manufacturing company. Founded by two veteran special operations pilots, we specialize in hand built wooden products that showcase American values. From the beginning, we dedicated Flags of Valor to being American made, empowering veteran hands, and robustly giving back to charity. In less than five years we’ve proven this commitment by employing more than 65 veterans, raising $1,060,000 for veteran and first responder charities, and delivering over 97,000 hours of American manufacturing labor.

We share a fundamental belief that our nation’s war veterans are one of its greatest resources. Each of them entered military service lacking the technical skills of their military specialty, however they learned quickly and adapted to diverse environments. We’ve witnessed these strengths transferred to industry. A strong empathy for the veteran journey led us to purposely pursue the most troubled veterans who are dealing with Post Traumatic Stress or physical disabilities from their military service. The environment at Flags of Valor serves as a sanctuary for them, a place where they can convert raw materials into beautiful works of art. At Flags of Valor, we built a culture where camaraderie, shared mission, and love of country resonates deeply with every teammate.

Employing the nation’s heroes when they return home:

Our strategic vision is to become “The” Veteran Powered American Manufacturing Company, creating an increasingly broad spectrum of premium products and solutions for both consumers and businesses. Since our beginning, we’ve expanded from strictly wooden American flags, to a fully scaled operation that produces employee recognition gifts, commemorative items, furniture, and even experiential event hosting. We’ve been able to take on this level of expansion through the strength of our partnerships coupled with the dedication of our talented team of veterans. To many of our supporters,
our mission and products are a tangible expression of patriotism and service…a communication of shared values.¹

COVID-19’s Impact on Small Business:

The Chamber publishes a monthly Coronavirus Impact Poll with MetLife, and the latest report was issued this morning. I am including a complete copy of the report with my statement, but will summarize the top-line findings here.

The bad news is that 55% of small businesses believe it will take six months to a year before the U.S. business climate returns to normal. That sentiment has grown from 50% last month and 46% two months ago.² The good news is that as more small businesses re-emerge, they are relatively optimistic about the future even while still dealing with many ongoing challenges. 50% of small businesses expect next year’s revenues to increase, up from 47% last month. And, 19% expect next year’s revenues to decrease, which is a lower than last month’s 25%.³

Small Business and the Economic Recovery:

The importance of small business is not a mystery to this Committee, but it bears repeating here. Data from SBA’s Office of Advocacy show that small businesses accounted for 64.9% of net new job creation between 2000 and 2018. While most small businesses (81%) do not have employees, employer firms like Flags of Valor employ just under half (47.3%) of the private sector workforce and small businesses overall account for 43.5% of GDP. Last, but certainly not least, we are proud to be part of the 2.52 million veteran-owned small businesses in the United States.⁴

The positive attributes of small business are more than statistics and many of us realize how important small businesses are to the fabric of our communities when we have been prevented from visiting, frequenting, shopping, and experiencing small businesses throughout America when quarantined at home over the past 3-months. As small businesses are anxious to re-open, so too is the American public thirsty to experience normalcy by walking into shops, talking with small business owners, and eating out at restaurants again. Throughout our experience, there is a fear of what America would be like without Main Street small businesses.

³ Id.
**The Paycheck Protection Program (PPP):**

Let me begin my summary of the PPP by thanking this Committee. It is my understanding that you and your staff carried an overwhelming responsibility for the PPP. Additionally, I want to thank the White House, Treasury, and the SBA because we know that had it not been for the combined efforts of all of these departments we never would have experienced the rapidity and scope of this vital funding. In the first 9 weeks of the coronavirus small business lending program, about 4.5 million loans totaling $511 billion have been made, utilizing over 5,500 banking and lending partners. Data from the U.S. Census Bureau estimate that over 69% of small employers have received PPP funding.\(^5\) That is amazing. I will explain the difference a PPP loan has made for Flags of Valor, but I think it is valuable to understand that our experience can be multiplied by several million small business owners.

At Flags of Valor, we sell into three primary channels: direct to consumer online, retail, and business-to-business sales. In early May we lost 2 of these channels overnight. Stay at home orders coupled with the massive uncertainty for business buyers left our cash flows devastated. We took very aggressive actions early on based on the assumptions that the pandemic may be long term and that zero help was coming from the government. Every year we experience seasonality in our business and most recently we’ve seen our headcount fluctuate between 12 and 24 depending on the season. Circumstances from COVID-19 forced us to furlough half of our team of veteran craftsmen and all remaining staff took 50% reductions in compensation. This experience was gut wrenching and also inspiring. Our team understood what needed to be done and supported the necessary decisions for the good of saving our company and preserving our mission. We stayed in close contact with the furloughed members, helping them through the process of filing unemployment claims, and keeping everyone up to date on the status of prospective legislation.

In the following weeks, I personally participated in every conference call I could with political leaders, the Chamber, banks, and media outlets. We were supposed to be first in line for the Paycheck Protection Program through our primary lender, but due to internal confusion on their part (understandable due to the unprecedented nature of this time) and the rapid exhaustion of funds, we did not receive aid in the first round of funding. Thankfully we had good counsel through the Chamber that additional funding was likely. Sure enough, when the second round of funding was delivered, we were one of the many fortunate recipients.

Immediately upon confirmation of our PPP loan approval, we restored our entire team back to work (minus one employee who chose to become a stay at home parent who we replaced with a new veteran hire). Additionally, we were fortunate to restore staff salaries and become current with some of our landlords who we were previously unable to pay. The feeling of restoring the team was beyond up lifting. Despite additional looming uncertainties, our business is alive and we are able to continue our mission of creating opportunity for veterans, making it in America, and giving back to charity. I cannot

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express enough the significance PPP had on our business. Early on it gave us hope when it was simply being discussed. Since becoming a reality, it’s allowed us to keep fighting. We had slight concerns that some of our team may elect to forego a return to work due to increases in unemployment benefits. These concerns were unfounded. Every member returned eagerly. I am incredibly proud of them and the character that embodies our shared ethos of hard work and serving others.

There has been a lot of criticism in the media aimed at perceived deficiencies in the PPP, from stories of big companies that were approved to frustrations with the lending process. I want to dispel some of these criticisms. The PPP would have been impossible if it had to be perfect. From the perspective of a small business owner, this was an all hands on deck, build the parachute on the way down, whatever it takes time in our history. The fact that the federal government, led by this committee, was able to construct this program and get it into action so quickly is nothing short of commendable.

Another Small Business Council member, The Communication Center (TCC), which specializes in media training, executive communication, and training, based here in Washington, D.C., had a similar experience, but was lucky to have received a PPP loan in April. Our annual Small Business Council meeting occurred on March 10th and TCC’s President & CEO, Dean Jones Hinchey, left our meeting knowing her business would suffer when COVID-19 spread across the United States. Sure enough, all Dean’s contracts planned for April through June (their busiest months) cancelled in the next 2-weeks. Her bank, Sandy Spring Bank headquartered in Olney, MD, already had The Communication Center’s financials because Dean had inquired about a line of credit immediately after returning from the Small Business Council meeting. Dean’s application was submitted on April 3rd. Sandy Spring Bank received an SBA loan number on April 8th, and TCC received funding on April 24th. Because of the PPP loan, TCC has been able to keep all of its 11 employees on payroll. One trainer who decided to be a contractor instead of an employee in January was able to obtain her own PPP, aided by Dean’s team who helped prepare the financials and make the banking connection.

Innovating Through the Pandemic:

It is important to explain that government resources and help have provided us with a lifeline. However, there is a lot more to economic survival than grants, loans, and other governmental assistance. At a conference call in March when we were sorting through the impacts of the pandemic I said to our team “Stop talking about all the things we cannot do and focus exclusively on the things we can still affect.” Incredible innovations began to take shape. Our manufacturing process wouldn’t allow us to transition to making masks or respirators, so we chose to focus on a different problem. With schools closed and millions of American families living in isolation we knew there was a need for something meaningful to do with children. Led by fellow co-founder and owner, Brian Steorts, our team designed a brilliant solution, the “Kid’s American Flag Build Kit.” This product allows us to bring families together, build something beautiful, and share stories of American values. The response from our supporters has been overwhelming, with thousands of families participating.

Developing the product, building the manufacturing solution, branding, copywriting, and marketing all had to be done while part of our team worked remotely and
those in the workshop were following CDC guidelines. It was an immense undertaking. While generating income, it’s not a perfect fix with added shipping challenges, decreased margins, and supply chain uncertainty. However, it’s helped us stay alive and move forward. To further our effort to bring families together we launched a daily Pledge of Allegiance, delivered live every weekday at 9:00 AM EST from our workshop. It has allowed our supporters to hear stories of service from our veterans, to focus on national unity, and give children a small piece of daily rhythm. The innovation continues every day as we strive to be a better version of ourselves. In many ways, the pandemic has forced many businesses to dramatically expedite organizational change that normally takes years to take shape. We are no exception. Survival requires more than grants and traditional business practices. It requires the unmatched American ingenuity and zeal that has guided our national history of facing challenges and achieving victories.

Staring at a blank calendar, during her busiest season, Dean Jones Hinchey realized TCC needed to pivot quickly to survive. She pulled her team together and began the process of redesigning the organization’s face-to-face training sessions. All courses are now adapted to accommodate a virtual format. WebEx, Teams, and Zoom are the most popular platforms for coaching, but also the most exhausting. Dean’s company has rebounded from what could have been total disaster to 40% of its typical training capacity. The process has taken a toll on TCC employees. Face-to-face training sessions that were 8 hours in length are now reduced to 5 hours to reduce screen exhaustion. Dean’s trainers have admitted that 5 hours of virtual coaching is much harder than a full day of face-to-face training – but they feel lucky to have survived layoffs and furloughs.

Going forward, the future is more promising for TCC than expected, but their PPP loan runs out on June 15th. Although, salaries have remained intact up until now, TCC is only running at 40% capacity, so salary cuts and possible layoffs loom.

TCC’s executive team have committed to taking 20-30% salary cuts to try and save the rest of the staff, but further cuts are coming if business does not return to normal levels. The PPP loan was of great help for two months, but the effects of this crisis on small businesses will last much longer.

Resources Needed Going Forward:

Small business is hurting and while data from the MetLife & U.S. Chamber of Commerce’s Small Business Coronavirus Impact Poll shows encouraging signs of improvement, the same poll shows that more and more small businesses believe that we will not be back to normal operations in 6-months. There will be additional need for bridge funding for small businesses experiencing unanticipated costs during phased-in reopening plans. When this Committee considers resources to help, please understand that our focus on re-opening is to protect our employees and our customers while building back revenues. That means that additional efforts should be focused on certainty and simplicity so that we can proceed with confidence and without distraction.

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With regard to certainty, we need assurance that when we follow official advice on protecting our employees and our customers from COVID-19 infection we will be granted a safe harbor from lawsuits. Also, we need certainty that our support system will remain intact. This Committee has done a good job ensuring that Small Business Development Centers, Women Business Centers, Minority Business Development Agency’s Development Centers, and Veteran Business Outreach Centers are well positioned to help. However, hundreds of local chambers of commerce, that are connecting their businesses with legislators, health officials, SBA officials, and others, are at the brink of shutting down because they depend financially on large in-person events. They should be allowed to access PPP loans.

With regard to simplicity, sometimes well-intended government programs experience diminished results because of the complexity that is often compounded by government-speak. The PPP has encountered this problem and we encourage the Senate to follow the House’s lead in simplifying the program. It makes sense to extend the time period for spending PPP loan proceeds. And, it is a good idea to provide flexibility for the percentages governing how much of PPP loans can be spent on payroll and allowable. These straightforward changes would allow for the PPP to benefit more small businesses and their employees.

I want to close my statement by reiterating my gratitude for the efforts of this committee and for your work in a bi-partisan fashion to help the entire small business community get through the coronavirus pandemic. The U.S. Chamber of Commerce and our Small Business Council is committed to working with you, SBA, the Treasury Department, and other partners to make sure small businesses emerge from the pandemic in a way that benefits our families, our employees, our communities, and the United States of America.