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AI's Implications for Small Business



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Over half of small business owners in America have said they work six or more days a week, and almost two-in-three clock 50+ hours a week.¹ That's because small business owners are often juggling *everything*—they may be overseeing sales and marketing, IT, human resources, design, procurement, and even backing up a store's cashier. These small businessowners are seeing the rise of artificial intelligence (AI) technologies and many wonder: is AI technology going to make my life easier or harder?

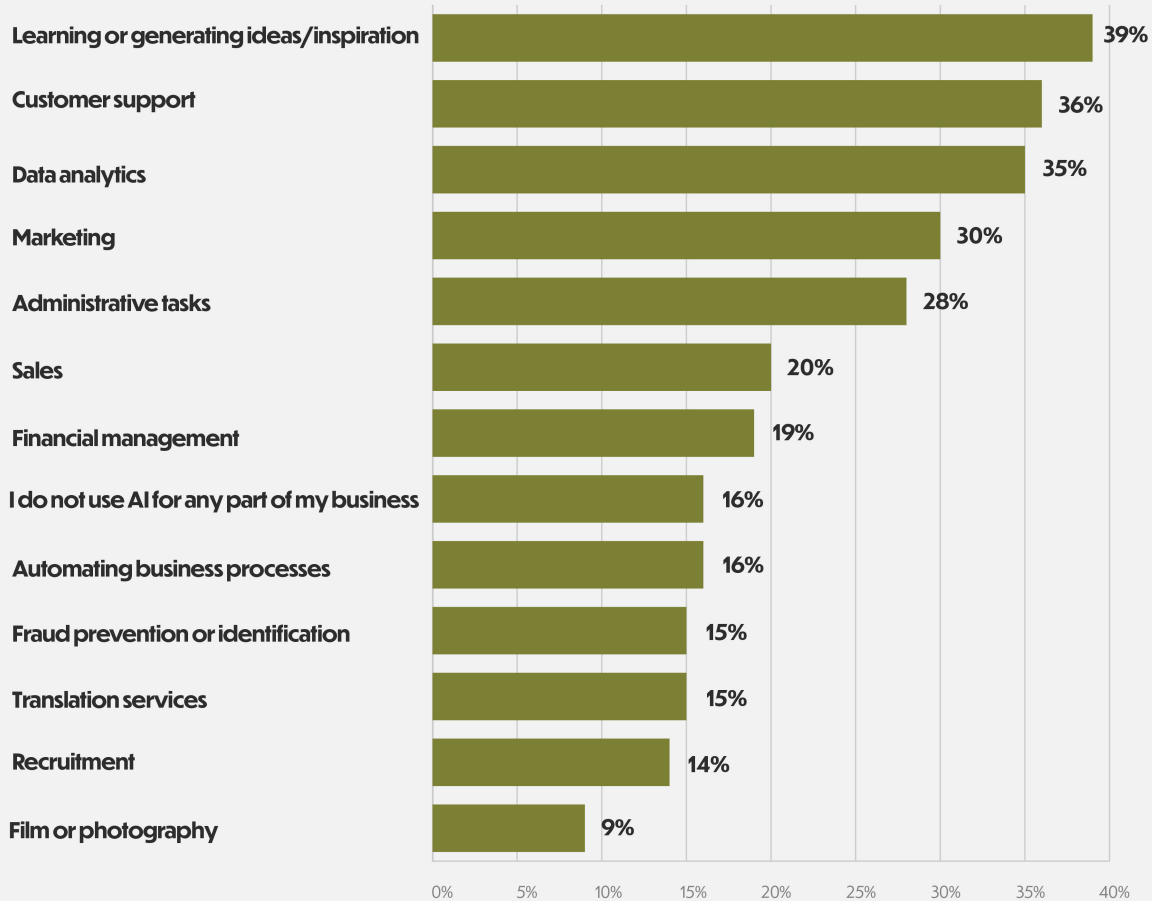
In the report below, we explore six implications of AI on small businesses, with a focus on minority-owned firms. We look at where smaller firms have reason to be optimistic and find that AI can help alleviate labor shortages, increase competitiveness, and reduce costs. But there are reasons small businesses should be wary as well, from bias in lending decisions to issues surrounding privacy and adaptability.

AI Uses Among Small Business

The term "AI" has become a blanket term for all kinds of automation, computerization, and augmentation. Some of the most specific advancements, however, have come within the field of **generative AI**, which is technology that can be used to create new content—from images to music and text. **Large language models**, a subset of generative AI, learn through interaction, specifically with large datasets, and help users understand vast amounts of information.

A 2023 poll from the Bipartisan Policy Center and Morning Consult found that one-in-three small business owners are early adopters of new technology, and 58% plan to invest in AI over the next year.² AI can be used by small businesses across industry sectors for things such as customer service chatbots and virtual assistants, content creation of things like product descriptions and promotion materials, and sales and marketing support by processing vast amounts of customer and market data. Intuit QuickBooks recently surveyed over 2,000 Black-owned small businesses to see how they were specifically using AI, and the results showed a wide variety of use cases.³

How are Black-owned Small Businesses Using AI?



Source: Brown, Jamerlyn. "Black History Month Survey: Innovation thriving, but signs of economic uncertainty." QuickBooks Blog, Intuit, 1 Feb. 2024, <https://quickbooks.intuit.com/r/small-business-data/black-history-month-survey-2024/>. Accessed 14 May 2024.



The Upside: Where Small Businesses Can Benefit

Whether or not small businesses are using AI, the technology offers a series of potential benefits for small business owners throughout the country. For example:

Alleviating Labor Shortages

It can be incredibly hard to hire workers—especially if you're a small business who most likely doesn't have a dedicated recruitment team. The US Chamber of Commerce estimates that even if every unemployed person in the country found a job, we'd still have 2.4 million job openings.⁴ Businesses handling financial activities, professional and business services, and leisure and hospitality have been the most impacted with vacancy rates ranging from 25–55%.⁵ Notably, about a third of all minority-owned businesses were in industries with labor shortages.⁶ Due to labor issues, a quarter of small businesses have reported reduced hours or services.⁷

So how can AI help? As discussed in our deeper dive on [AI and the US Economy](#), the technology is poised to have big impacts on labor productivity.⁸ For instance, 12% of minority-owned businesses are involved in administrative support.⁹ This often means taking calls, scheduling appointments, data collection, and service support. When entry level workers were paired with generative AI, they often saw substantial gains in efficiency.¹⁰ Since 9-in-10 minority-owned businesses employ fewer than 20 people, AI could be a substantial tool in helping these businesses be more competitive. Overall, improving productivity for workers will let firms be more competitive in their services and reduce operating costs.¹¹

Increasing Competitiveness

Data analytics have often helped large businesses be more competitive by lowering costs, tapping new markets, and reducing risks.¹² The catch? Analytics can be expensive. Effectively incorporating data often requires analysts, statistical software, databases—all of which can be costly and time consuming to deploy.¹³ This leaves many small businesses unable to use these tools.

AI is changing that. Advances in cloud computing will allow more businesses to gain access to storage and digital tools at reduced costs.¹⁴ AI will assist businessowners in forecasting inventory levels, evaluating customer preferences, and determining worker performance metrics.¹⁵ For example, about 16% of minority-owned businesses are involved in the warehousing and transportation industry.¹⁶ A business in that sector could use AI to monitor their inventory management system and accurately plan for seasonal inventory changes—accurately meeting customer needs and reducing risk of overstock. Overall, there is a strong correlation between the implementation of AI and a business' overall success. A report by Constant Contact found that 91% of small business owners who are currently using AI say it has made their business more successful.¹⁷

Reducing Costs

Recent inflation significantly disrupted business operations—capital is more costly, and margins are stretched from rising costs. Luckily, AI can help put downward pressure on costs now and in the future. Generative AI and 3D printing allow manufacturers to design and produce more unique products at scale. AI-generated product descriptions and promotional materials reduce marketing costs. Further, AI tools help workers do more productive tasks, allowing greater value to be generated at lower costs.¹⁸

Take, for example, the health care sector, where 11% of minority business owners are represented.¹⁹ Generative AI will be able to help providers accurately diagnose issues sooner. AI will also allow workers to spend more time supporting patients and less time on administrative or repetitive tasks.

Caution Flags: Where Small Business Should Be Wary

While there is significant upside for small businesses, AI also comes with a series of issues of which small business owners need to be aware. For example:

Algorithmic Bias and Transparency

AI is more involved in financial decision-making than ever before.²⁰ Many banks, government agencies, and lenders have celebrated the efficiency at which AI could reduce risk and match loans to potential lenders.²¹ While AI can help expand access to capital by using alternative data to offer more personalized loans, there are deep concerns about equity and fairness. Increasingly, experts warn of programmer bias continuing the discriminatory lending practices of the past.²² The Consumer Financial Protection Bureau (CFPB) has issued guidance warning customers about the potential for discrimination by creditors that implement AI tools in their underwriting processes. In response, CFPB is working with federal partners to develop new tools to reduce the risk of AI bias in lending.²³

Specifically, AI is susceptible to bias in decision making due to two factors. First, the quality of the data can reinforce or teach biased reasoning to AI machines.²⁴ For example, AI may generate its own biases in loan decision-making due to incomplete or skewed data. Low-quality data could make the AI deny a person's loan application due to characteristics unrelated to the loan (e.g. gender, race, ethnicity, etc.).²⁵ Second, programmers themselves may be susceptible to biases when designing models. Programmers may choose to weigh characteristics based on their own experiences, values, or practices which may lead to AI's eventual discrimination. These concerns make it critical for AI developers and deployers to have rigorous AI and data-governance policies in place, customers to have the ability to flag concerns, and other safeguards to be built into regulations—ensuring AI decision-making bias and discrimination does not become further entrenched.

Privacy Concerns

AI tools often require access to a large amount of data—some of which can be extremely sensitive, from health to financial information. With the prevalence of so many cloud-based AI services, businesses granting access to unknown or unvetted vendors increase the risk of fraud or information theft.²⁶ Some in the public are weary of how companies use and access their personal data. And there is also risk around how intellectual property could be used by AI companies to train their models without consent.

Amid these privacy concerns, lack of nationwide privacy regulation, and risks to intellectual property, small businesses could find themselves facing significant uncertainty about deploying AI in their business. According to Intuit QuickBooks, the top concern about AI implementation for Black-owned businesses was privacy risks.²⁷ Further, changing privacy requirements could lead to new data handling regulations such as anonymization—things small businesses will need to stay on top of.²⁸ The numerous ethical and legal questions on how to responsibly use AI in business are still being sorted out—as are their implications on small businesses.

Practicality and Adaptability

The world is gripped in AI-mania. But does that mean we should embrace it for all needs? Maybe not. Experts from Deloitte found that firms which implemented AI systems in a patchwork or ad hoc system often performed worse than businesses where AI aligned with their strategy.²⁹ AI is a tool which will integrate better with some firms and provide less value in others. For example, around 10% of minority-owned businesses are involved in construction.³⁰ Construction firms may benefit from AI adaptation at high level planning stages, but it is more difficult to see where AI will augment physically demanding labor. Adapting AI without a comprehensive overview of your business model could lead to a situation which affects the performance of your workforce and overall productivity.

Instead, firms which naturally incorporate data into their business strategy may be better positioned to reap the advantage of AI adaptation. Industries such as finance, administration, health care, and professional services may naturally align with AI use, and 1-in-3 minority owned businesses are in these sectors alone.³¹ These firms are already likely to incorporate technology, data metrics, and goal orientation, all markers of beneficial AI adaptation.³²

Conclusion

Policymakers are actively grappling with how to keep pace with AI's rapid evolution. The Biden Administration released an AI Bill of Rights as well as a landmark executive order on AI.³³ Numerous bills have been introduced in Congress, and the topic has been the subject of numerous committee

hearings on both sides of the Capitol. As lawmakers think through smart regulation, they should work to ensure more small businessowners can tap into the advantages AI offers, protect against the myriad risks, and ensure regulation evolves as the technology advances.

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