

What is a small business?

The Office of Advocacy defines a small business for research purposes as an independent business having fewer than 500 employees. Firms wishing to be designated small businesses for government programs such as contracting must meet size standards specified by the U.S. Small Business Administration (SBA) Office of Size Standards. These standards vary by industry; see www.sba.gov/size.

How important are small businesses to the U.S. economy?

Small firms:

- Represent 99.7 percent of all employer firms.
- Employ about half of all private sector employees.
- Pay more than 45 percent of total U.S. private payroll.
- Have generated 60 to 80 percent of net new jobs annually over the last decade.
- Create more than half of nonfarm private gross domestic product (GDP).
- Supplied 22.8 percent of the total value of federal prime contracts in FY 2005.
- Hire 40 percent of high tech workers (such as scientists, engineers, and computer workers).
- Are 52 percent home-based and 2 percent franchises.
- Made up 97 percent of all identified exporters and produced 28.6 percent of the known export value in FY 2004.
- Small innovative firms produce 13 times more patents per employee than large patenting firms, and their patents are twice as likely as large firm patents to be among the one percent most cited.

Source: U.S. Dept. of Commerce, Bureau of the Census; Advocacy-funded research by Kathryn Kobe, 2007 (www.sba.gov/advo/research/rs299tot.pdf); Federal Procurement Data System; Advocacy-funded research by CHI Research, 2003 (www.sba.gov/advo/research/rs225tot.pdf); U.S. Dept. of Labor, Bureau of Labor Statistics, Current Population Survey; U.S. Dept. of Commerce, International Trade Administration.

How many small businesses are there?

In 2006, there were 26.8 million businesses in the United States, according to Office of Advocacy estimates. Census data show that there were 5.9 million firms with employees and 19.5 million without employees in 2004. Small firms with fewer than 500 employees represent 99.9 percent of the 26.8 million businesses (including both employers and nonemployers), as the most recent data show there were more than 17,000 large businesses in 2004.

Source: Office of Advocacy estimates based on data from the U.S. Dept. of Commerce, Bureau of the Census, and U.S. Dept. of Labor, Employment and Training Administration.

How do regulations affect small firms?

Very small firms with fewer than 20 employees annually spend 45 percent more per employee than larger firms to comply with federal regulations. These very small firms spend four and a half times as much per employee to comply with environmental regulations and 67 percent more per employee on tax compliance than their larger counterparts. For data broken out by industry, see www.sba.gov/advo/research/rs264tot.pdf.

Annual Cost of Federal Regulations by Firm Size, All Business Sectors (Dollars)

Type of Regulation	Cost per Employee for Firms with:	
	<20 Employees	500+ Employees
All Federal Regulation	\$7,647	\$5,282
Environmental	3,296	710
Economic	2,127	2,952
Workplace	928	841
Tax Compliance	1,304	780

Source: *The Impact of Federal Regulations on Small Firms*, an Advocacy-funded study by W. Mark Crain, 2005 (www.sba.gov/advo/research/rs264tot.pdf).

How many businesses open and close each year?

Estimates for businesses with employees indicate there were 649,700 new firms and 564,900 closures in 2006.

Starts and Closures of Employer Firms, 2002–2006

Category	2002	2003	2004	2005	2006
New Firms	569,750	612,296	628,917	653,100e	649,700e
Closures	586,890	540,658	541,047	543,700e	564,900e
Bankruptcies	38,540	35,037	34,317	39,201	19,695

e = Advocacy estimate. For a discussion of methodology, see Brian Headd, 2005 (www.sba.gov/advo/research/rs258tot.pdf).

Source: U.S. Dept. of Commerce, Bureau of the Census; Administrative Office of the U.S. Courts; U.S. Dept. of Labor, Employment and Training Administration.

How many new jobs do small firms create?

Over the past decade, small businesses created 60 to 80 percent of the net new jobs. In the most recent year with data (2004), small firms accounted for all of the net new jobs. Firms with fewer than 500 employees had a net gain of 1.86 million new jobs. Large firms with 500 or more employees lost more jobs than they created, for a net loss of 181,122 jobs. For information on employment dynamics by firm size from 1989 to 2004, see www.sba.gov/advo/research/data.html#us.

Source: U.S. Dept. of Commerce, Bureau of the Census.

What is small firms' share of employment?

Small businesses employ about half of U.S. workers. Of 115.1 million nonfarm private sector workers in 2004, small firms with fewer than 500 workers employed 58.6 million and large firms employed 56.5 million. Firms with fewer than 20 employees employed 21.2 million, and firms with 100 employees, 41.8 million. Although small firms create 60 to 80 percent of net new jobs, their share of employment remains steady since some firms grow into large firms as they create new jobs.

Source: U.S. Dept. of Commerce, U.S. Bureau of the Census.

What is the survival rate for new firms?

Two-thirds of new employer establishments survive at least two years, and 44 percent survive at least four years, according to a recent study. These results were similar for different industries. Firms that began in the second quarter of 1998 were tracked for the next 16 quarters to determine their survival rate. Despite conventional wisdom that restaurants fail much more frequently than firms in other industries, leisure and hospitality establishments, which include restaurants, survived at rates only slightly below the average. Earlier research has explored the reasons for a new business's survivability. Major factors in a firm's remaining open include an ample supply of capital, being large enough to have employees, the owner's education level, and the owner's reason for starting the firm in the first place, such as freedom for family life or wanting to be one's own boss.

Source: "Survival and Longevity in the Business Employment Dynamics Database" by Amy E. Knaup, *Monthly Labor Review*, vol. 128, no. 5 (May 2005), pp. 50-6; "Redefining Business Success: Distinguishing Between Closure and Failure" by Brian Headd, *Small Business Economics*, vol. 21, no. 1 (August 2003), pp. 51-61.

How are small businesses financed?

Commercial banks and other depository institutions are the largest lenders of debt capital to small businesses. They accounted for almost 65 percent of total traditional credit to small businesses in 2003. (This includes credit lines and loans for nonresidential mortgages, vehicles, equipment, and leases.) Credit cards account for much of the growth in small business lending over the past few years. For more information, see Advocacy's annual publication, *Small Business Lending in the United States* (www.sba.gov/advo/research/lending.html).

What is the role of women, minority, and veteran entrepreneurs?

- Of the 23 million nonfarm businesses in 2002, women owned 6.5 million businesses. These firms generated \$940.8 billion in revenues, employed 7.1 million workers, and had \$173.7 billion in payroll. In addition, another 2.7 million firms were owned equally by both women and men; these firms added another \$731.4 billion in revenues and employed another 5.7 million workers.
- In 2002, minorities owned 4.1 million firms that generated \$694 billion in revenues and employed 4.8 million people. Hispanic Americans owned 6.6 percent of all U.S. businesses; African Americans, 5 percent; Asian Americans, 4.6 percent; American Indians or Alaska Natives, 0.8 percent; and Native Hawaiian or other Pacific Islanders, 0.1 percent.
- Male veterans' self-employment rates were higher than those of non-veterans from 1979 to 2004. The rate was 13.7 percent in 2003, compared to 12.2 percent for non-veterans.

- According to a study on veteran business ownership, about 22 percent of veterans in the U.S. household population were either purchasing or starting a new business or considering purchasing or starting one in 2004, and almost 72 percent of these new veteran entrepreneurs planned to employ at least one person at the outset of their new venture.

Source: U.S. Dept. of Commerce, Bureau of the Census, Survey of Business Owners; Office of Advocacy: *Women in Business* (www.sba.gov/advo/research/rs280.pdf) and *Minorities in Business* (www.sba.gov/advo/research/rs298.pdf); Advocacy-funded research by Robert Fairlie, 2004 (www.sba.gov/advo/research/rs243.pdf) and Waldman Associates, 2004 (www.sba.gov/advo/research/rs242.pdf).

What research exists on the cost and availability of health insurance?

According to a National Federation of Independent Business membership survey, the cost and availability of health insurance are a top small business issue. Aspects of insurance that drive small business concern are premium increases and administrative costs. Advocacy research shows that: (1) insurers of small health plans have higher administrative expenses than those that insure larger group plans, and (2) employees at small firms are less likely to have coverage than the employees of larger entities.

These results are confirmed by the Kaiser Family Foundation, which also finds that firm size is an important indicator of whether a firm offers health insurance. This survey shows that about half of businesses with fewer than 10 workers offer health benefits to their employees. The ratio grows to about three-fourths for firms with 10–24 employees, to almost 90 percent for firms with 25–49 employees, and to 98 percent for firms with 200 employees or more. Two-thirds of workers in firms of all sizes take health insurance coverage if offered.

Source: National Federation of Independent Business; Kaiser Family Foundation; Advocacy-funded research by Rose C. Chu and Gordon R. Trapnell, 2003 (www.sba.gov/advo/research/rs224tot.pdf); Joel Popkin and Company, 2005 (www.sba.gov/advo/research/rs262tot.pdf); and Econometrica, Inc., 2007 (www.sba.gov/advo/research/rs295tot.pdf).

Whom do I contact about regulations?

To submit comments on proposed regulations, send email to advocacy@sba.gov or visit Advocacy's regulatory alerts page at www.sba.gov/advo/laws/law_regalerts.html.

To inquire about unfair regulatory enforcement, contact SBA's Office of the Ombudsman at ombudsman@sba.gov.

How can I get more information?

For more detailed information, visit www.sba.gov/advo. Sign up at <http://web.sba.gov/list> for email delivery of Advocacy's newsletter, press, regulatory news, and research. For RSS feeds, visit www.sba.gov/advo/rsslibrary.html. Economic research by the Office of Advocacy can be found at www.sba.gov/advo/research. Specific points of interest include:

- Firm size data (U.S., state, and metropolitan static and dynamic data): www.sba.gov/advo/research/data.html
 - Small firm lending studies (1994–present): www.sba.gov/advo/research/lending.html
 - State economic profiles (1995–present): www.sba.gov/advo/research/profiles
 - *The Small Business Advocate* monthly newsletter (2000–present): www.sba.gov/advo/newsletter.html
- Direct questions to (202) 205-6533 or advocacy@sba.gov.