

Small Business by the Numbers

Answers to Frequently Asked Questions

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 half of all private sector employees.
- Pay 44.3 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 50 percent of nonfarm private gross domestic product (GDP).
- Supplied more than 23 percent of the total value of federal prime contracts in FY 2003.
- Produce 13 to 14 times more patents per employee than large patenting firms. These patents are twice as likely as large firm patents to be among the one percent most cited.
- Are employers of 39 percent of high tech workers (such as scientists, engineers, and computer workers).
- Are 53 percent home-based and 3 percent franchises.
- Made up 97 percent of all identified exporters and produced 29 percent of the known export value in FY 2001.

Sources: U.S. Bureau of the Census; Advocacy-funded research by Joel Popkin and Company (Research Summary #211); Federal Procurement Data System; Advocacy-funded research by CHI Research, Inc. (Research Summary #225); Bureau of Labor Statistics, Current Population Survey; U.S. Department of Commerce, International Trade Administration.

How many small businesses are there?

In 2003, there were approximately 23.7 million businesses in the United States, according to Office of Advocacy estimates. The Internal Revenue Service (IRS) estimates there were 27.0 million nonfarm business tax returns in 2003; however, this number may overestimate the number of firms, as one business can operate more than one taxable entity.

IRS estimates the number of sole proprietorships (roughly equal to nonemployers) increased 2.4 percent in 2002 and is expected to increase 1.9 percent in 2003. Census data show there were 5.7 million firms with employees and 17.0 million without employees in 2001. Applying the sole proprietorship growth rates to the nonemployer figures and similar Department of Labor growth rates to the employer figures produces the 23.7 million figure. Small firms with less than 500 employees represent 99.7 percent of the 23.7 million businesses.

How many businesses open and close each year?

Estimates for businesses with employees indicate there were 572,900 new firms and 554,800 closures (both about 10 percent of the total) in 2003.

Starts and Closures of Employer Firms, 1995-2003

Category	1995	2000	2001	2002	2003
New Firms	594,369	574,300	585,140	589,700e	572,900e
Firm Closures	497,246	542,831	553,291	569,000e	554,800e
Bankruptcies	51,959	35,472	40,099	38,500	35,037

e = Estimate using percentage changes in similar data provided by the U.S. Department of Labor, Employment and Training Administration
Sources: U.S. Bureau of the Census; Administrative Office of the U.S. Courts; U.S. Department of Labor, Employment and Training Administration.

How many new jobs do small firms create?

In 2000-2001 (according to the most recent data), small businesses created all of the net new jobs in the U.S. Firms with less than 500 employees saw a net increase in employment of 1,150,875; however, large business employment decreased on net by 150,905. Overall net employment increased 999,970.

The small business share varies from year to year and reflects economic trends. Over the decade of the 1990s, small business net job creation fluctuated between 60 and 80 percent. Having small businesses account for all of the net new jobs is not unique to 2000-2001. During an economic downturn in the early 1990s, a similar result occurred.

Source: U.S. Bureau of the Census.

The SBA's Office of Advocacy was created by an act of Congress in 1976 to protect, strengthen, and effectively represent the nation's small businesses within the federal government. As part of this mandate, the office conducts policy studies and economic research on issues of concern to small business and publishes data on small business characteristics and contributions. For instant access to small business resources, statistics, and research, visit the Office of Advocacy's home page at <http://www.sba.gov/advoc>.

What is small firms' share of employment?

The small business share of employment remains around 50 percent. Although small firms create more than half—and sometimes all—of the net new jobs, some firms will become large firms as new jobs are created. Of 115.1 million nonfarm private sector workers in 2001, small firms with fewer than 500 workers employed 57.4 million and large firms, 57.7 million. Smaller firms with fewer than 100 employees employed 41.0 million.

What is the survival rate for new firms?

Two-thirds of new employer firms survive at least two years, and about half survive at least four. Owners of about one-third of firms that closed said their firm was successful at closure. Major factors in a firm's remaining open include an ample supply of capital, the fact that a firm is 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.

Business survival also varies by industry and demographics. The highest 1992–1996 survival rate for firms owned by white non-Hispanics was in oil and gas extraction (82 percent). African Americans were most successful in legal services (79 percent), and Hispanic and Asian Americans in health services (66 percent and 76 percent, respectively).

Sources: *Business Success: Factors Leading to Surviving and Closing Successfully* by Brian Headd, Center for Economic Studies, U.S. Bureau of the Census, Working Paper #CES-WP-01-01, January 2001; Advocacy-funded research by Richard J. Boden (Research Summary #204).

How are small businesses financed?

About 82.5 percent of small firms used some form of credit in 1998. Small firms use many different sources of capital, including their own savings, loans from family and friends, and business loans from financial institutions. Credit cards, credit lines, and vehicle loans are most often used. Commercial banks are leading suppliers, followed by owners and finance companies. Data from the Federal Reserve Board Survey of Small Businesses Finances, 2003 are currently being prepared.

Small Firms using Financial Services, 1998
(Percent reporting use of various types of credit)

Credit Type	Total Small Business	Women-Owned	Minority- and Hispanic-Owned
Any Credit	82.5%	78.2%	76.9%
Traditional			
Credit Types	55.0	46.1	49.0
Business			
Credit Cards	34.1	28.8	28.6
Personal			
Credit Cards	46.0	47.5	45.5

Source: Federal Reserve Board, Survey of Small Business Finances, 1998.

What role do women, minority, and veteran entrepreneurs play in the economy?

- Women owned 5.4 million businesses that generated \$819 billion in revenues, employed more than 7 million workers, and had nearly \$150 billion in payroll in 1997. About three-

quarters were sole proprietorships with receipts under \$50,000.

- Of U.S. firms in 1997, 5.8 percent were owned by Hispanic Americans, 4.4 percent by Asian Americans, 4.0 percent by African Americans, and 0.9 percent by American Indians. Of total minority-owned business receipts, Asian American-owned businesses earned more than 51 percent; Hispanic Americans, 31 percent; African Americans, 12 percent; and American Indians, 6 percent.
- Veteran self-employed people numbered about 1.6 million or 14 percent of all U.S. self-employed in 2001.
- More current data from the Census Bureau Survey of Business Owners, 2002 are not yet in.

Sources: Advocacy publications – *Women in Business, 2001*; *Dynamics of Women-Operated Sole Proprietorships, 1990-1998*; *Minorities in Business, 2001*; veteran self-employment data from a special tabulation of the Current Population Survey.

How do regulations affect small firms?

Very small firms with fewer than 20 employees spend 60 percent more per employee than larger firms to comply with federal regulations. Small firms spend twice as much on tax compliance as their larger counterparts.

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	\$6,975	\$4,463
Environmental	3,328	717
Economic	1,616	2,485
Workplace	829	698
Tax Compliance	1,202	562

Source: *The Impact of Regulatory Costs on Small Firms*, an Advocacy-funded study by W. Mark Crain and Thomas D. Hopkins, August 2001 (Research Summary #207).

Whom do I contact about regulations?

To submit comments on proposed regulations, send email to advocacy@sba.gov. To follow up on regulatory enforcement issues, email regfair@sba.gov.

How can I get more information?

For more detailed information from the Office of Advocacy, visit www.sba.gov/advo/. Sign up at <http://web.sba.gov/list> for email delivery of news releases, *The Small Business Advocate* newsletter, small business research findings and statistics, and regulatory communications.

Office of Advocacy economic research can be found at www.sba.gov/advo/stats. Specific points of interest include:

- Firm size data (static/dynamic for the U.S., states and metropolitan statistical areas): www.sba.gov/advo/stats/data.html
- Small firm lending studies (1994-present): www.sba.gov/advo/stats/lending
- State economic profiles (1998-present): www.sba.gov/advo/stats/profiles
- *The Small Business Advocate* monthly newsletter (1996-present): www.sba.gov/advo/news/

Direct questions to (202) 205-6533 or advocacy@sba.gov.