

Innovative Small Business Owners Thrive in North Dakota

by Emily Mantz, Confidential Assistant

In March, Chief Counsel for Advocacy Dr. Winslow Sargeant traveled to Fargo, North Dakota, to speak to small business owners attending the Small Business Innovations Summit. The Red River Valley Research Corridor, along with co-hosts U.S. Senator Heidi Heitkamp (D-N.D.), U.S. Senator John Hoeven (R-N.D.), and U.S. Representative Kevin Cramer (R-at large), hosted the event. The theme of the summit was “Where Small Business Meets Big Possibilities” and focused on addressing the challenges, opportunities, and solutions related to small business policy. Attendees, which included business owners, innovators, entrepreneurs, and investors, had the opportunity to interact with experienced professionals from

the fields of business, government, education, and training.

At the event, Dr. Sargeant spoke about Advocacy’s Innovation Initiative and how it related to North Dakota’s growing technology sector. He asked the audience to share with him their best practices, big ideas and the barriers that they face in growing their businesses. Even though North Dakota has the lowest unemployment rate in the U.S., at 2.6 percent, it still struggles with attracting a qualified workforce to the rural, landlocked state. For this reason, the issues of international trade and recruiting a well-qualified workforce were examined during the discussion.

While North Dakota may have some barriers, the entrepreneurial spirit is alive and well all across the

state. Dr. Sargeant commented, “All of my discussions in Fargo yielded a common theme: innovation and creativity are thriving throughout North Dakota. The difficulty is helping those businesses succeed in a state that recently brought broadband from state line to state line, but still has unique challenges when it comes to growing their small businesses.”

While in Fargo, Dr. Sargeant also toured the Fargo Startup House with SBA Region VIII Administrator Matt Varilek, SBA North Dakota District Director Mike Gallagher, and a few local entrepreneurs. The Fargo Startup House is a project run by Emerging Prairie, an organization which

Continued on page 7.



From left: SBA North Dakota District Director Mike Gallagher, SBA Region 8 Administrator Matt Varilek, Chief Counsel for Advocacy Dr. Winslow Sargeant, Miguel Danielson of Danielson Legal, SBA Economic Development Specialist Brittany Sickler, and Jake Joraanstad of Myriad Mobile, tour the Fargo Startup House. Danielson and Joraanstad are founding members of Emerging Prairie. Photo by Maribeth Joraanstad.

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Advocacy's Legislative Blueprint for Small Business Economic Growth

by Dr. Winslow Sargeant, Chief Counsel for Advocacy

As lawmakers consider legislation this year, the Office of Advocacy hopes they will keep small businesses in mind. Advocacy developed a legislative blueprint to provide for small business economic growth. Advocacy's 2014 Legislative Principles continue to include ways to improve the Regulatory Flexibility Act (RFA) while addressing federal contracting, entrepreneurial innovation, a qualified workforce, and access to capital.

Legislation should provide flexibility to small business: Advocacy calls on Congress to craft legislation that provides small business flexibility and considers the small business impact. Legislation should not have a one-size-fits-all approach that could adversely affect small business. Instead, Advocacy encourages policymakers to write bills that allow agencies to give flexibility to small business to comply with rules.

Strengthen the RFA: Our office continues to advocate for ways to enhance the RFA which include some improvements mentioned in previous Advocacy legislative proposals. For example, Advocacy encourages legislators to modify Section 609 of the RFA to require more detailed notification in advance of a SBREFA panel and also allow for judicial review when a panel is not convened. In addition, Advocacy supports adding a section to the RFA analysis to include indirect effects by broadening the definition of "impact" in Section 601. And finally, Advocacy recommends that agencies do a mandatory follow-up on Section 610 to ensure that post-review necessary changes are made in a timely manner. Strengthening Section 610 to streamline public petitions for review and analyses of rules instead

of waiting for the current 10-year deadline would provide small businesses with alternatives to existing regulations that have a significant economic impact on them.

Simplify the tax code, increase access to capital: This piece in our legislative push encourages a predictable tax code and calls on Congress to address areas where small businesses can capitalize on financing and build strong resilient businesses. Small businesses constantly reach out to Advocacy about our nation's intricate tax code. Advocacy supports efforts to modify the tax code. In addition, our office is advocating for lawmakers to find ways to enable more startup businesses to grow at a faster pace through access to capital. Whether it is exempting small business from penalties related to deferred compensation, enabling small businesses to defer income for high growth lending, or simply creating crowdfunding rules that enable startups to raise capital without unnecessary regulations and restrictions that could impede their progress, Advocacy supports efforts to increase access to capital.

Improve federal contracting: This principle addresses one way to foster a competitive environment for business in federal contracting. Advocacy supports the creation of a federal-wide interactive database for the reporting of subcontracting dollars, actions, and characteristics of vendors. The database would be the official government source of subcontracting awards as is the current Federal Procurement Data System (FPDS) for prime contract awards.

Encourage innovation: To keep our country strong, Advocacy urges Congress to cultivate an environment for entrepreneurial innova-

tion. Small businesses consistently request strong, enforceable intellectual property rights. As the voice for small business, Advocacy encourages policymakers to continue to examine the impact of recent patent legislation and update the law by clarifying the grace period provisions of the America Invents Act. In addition, Advocacy will continue to follow the ever-changing manufacturing sector in our nation and to support efforts to boost small business manufacturing.

Increase access to a skilled workforce: Finally, Advocacy supports efforts to adopt policies that supply qualified workers for small business. Small businesses can grow their companies and create jobs if they can hire a skilled workforce. Advocacy encourages Congress to provide incentives to business owners, community colleges, and universities that teach the skills necessary for industry sectors struggling to find skilled workers. In addition, entrepreneurs must have access to vital foreign high-skilled and seasonal workers in industries with labor shortages to complement our American workers. Based on input from the small business and startup communities, Advocacy recommends streamlining the current immigration laws and rules for two distinct sectors: for small employers who need high-skilled workers and those that need seasonal workers.

With numerous avenues to improve the small business economic landscape, I hope these principles will highlight areas of prospective legislative activity for our nation's leaders.

What is a small business?

The Office of Advocacy defines a small business as an independent business having fewer than 500 employees. For the small business definition by industry used in government programs and contracting, see www.sba.gov/content/small-business-size-standards.

How many small businesses are there?

In 2011, there were 28.2 million small businesses, and 17,700 firms with 500 employees or more. Over three-quarters of small businesses were nonemployers; this number has trended up over the past decade, while employers have been relatively flat (figure 1).

Small businesses comprise what share of the U.S. economy?

Small businesses make up:

- 99.7 percent of U.S. employer firms,
- 63 percent of net new private-sector jobs,
- 48.5 percent of private-sector employment,
- 42 percent of private-sector payroll,
- 46 percent of private-sector output,
- 37 percent of high-tech employment,
- 98 percent of firms exporting goods, and
- 33 percent of exporting value.

Source: U.S. Census Bureau, SUSB, CPS; International Trade Administration; Bureau of Labor Statistics, BED; Advocacy-funded research, *Small Business GDP: Update 2002-2010*, www.sba.gov/advocacy/7540/42371.

What is small businesses' share of net new jobs?

Small firms accounted for 63 percent of the net new jobs created between 1993 and mid-2013 (or 14.3 million of the 22.9 million net new jobs). Since the end of the recession (from mid-2009 to mid-2013), small firms accounted for 60 percent of the net new jobs. Small firms in the 20-499 employee category led job creation.

Source: Bureau of Labor Statistics, BED. For the latest employment statistics, see Advocacy's quarterly reports, www.sba.gov/advocacy/10871.

How can small businesses' share of net new jobs be larger than their share of employment, yet their share of employment remain steady?

As firms grow, they change employment size classes. So as small firms grow, their growth counts toward small firm job gains; but if they pass the 500-employee mark, their employment is classified as large firm employment.

Which businesses create more jobs—startups or existing businesses?

In the last two decades about 60 percent of the private sector's net new jobs have been created by existing establishments and about 40 percent from the churn of startups minus closures. While firm births account for many new jobs, job losses from firm closures are equally important in accounting for net effects to employment levels.

Source: Bureau of Labor Statistics, BED.

How many businesses open and close each year?

About 10 to 12 percent of firms with employees open each year and about 10 to 12 percent close (table 1). Employer firm births and deaths were up in the most recently available data. Establishment birth figures from 2012 also showed gains (figure 2). Nonemployer firms have turnover rates three times as high as employer firms, mostly because it is easier for nonemployers to start and stop, as they tend to be smaller than employer firms. Business bankruptcies numbered 33,212 in 2013, a decline of about 7,000 over the previous year. Note that not all firm deaths are business bankruptcies, and many business owners file personal bankruptcy instead of business bankruptcy.

What is the survival rate for new businesses?

About half of all new establishments survive five years or more and about one-third survive 10 years or more.

Figure 1: Number of Businesses (millions)



Source: U.S. Census Bureau, SUSB and Nonemployer Statistics.

Table 1: Employer Firm Births and Deaths*

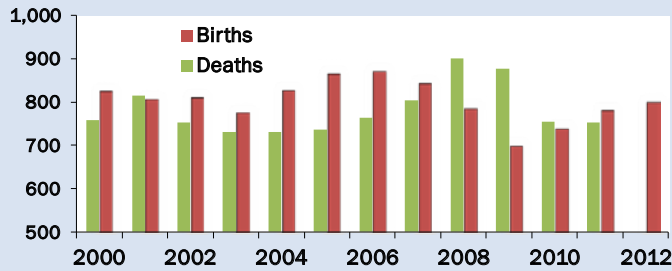
	2000	2009	2010	2011
Births	481,985	410,038	389,774	409,040
Deaths	407,947	508,668	446,944	470,736

*Figures are March to March.

Source: U.S. Census Bureau, BDS.

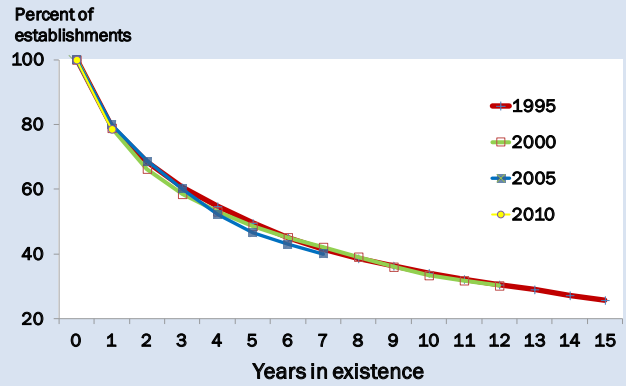
Figure 2: Startups and Closures

(thousands of establishments, seasonally adjusted)



Source: Bureau of Labor Statistics, BED.

Figure 3: Cumulative Survival Rates for Establishments by Birth Year



Source: Bureau of Labor Statistics, BED.

As one would expect, the probability of survival increases with a firm's age. Survival rates have changed little over time (figure 3).

Source: Bureau of Labor Statistics, BED.

How many businesses do women own?

Women-owned firms have increased as a share of total businesses over the years, but they remain smaller, on average, than male-owned firms. In 2012, 36 percent of business owners were women (table 2). The most recently available data on the number of women-owned businesses are from 2007. These data show there were 7.8 million women-owned firms, and they averaged \$130,000 in receipts in 2007 (table 3).

Source: U.S. Census Bureau, SIPP, SBO.

How many businesses do minorities own?

In 2012, nearly 15 percent of all U.S. business owners were non-white (table 2), and over 10 percent of owners were Hispanic. In table 3, data for 2007 on the number of businesses show:

- 1.6 million Asian-owned businesses with average receipts of \$290,000;
- 1.9 million African-American-owned businesses with average receipts of \$50,000;
- 2.3 million Hispanic-owned businesses with average receipts of \$120,000; and
- 0.3 million Native American/Pacific Islander-owned businesses with average receipts of \$120,000.

Source: U.S. Census Bureau, SIPP, SBO.

Table 2. Demographics of Business Owners, 2012 (percent)

		Share of Owners
Age	Under 35	15.9
	35 to 49 ¹	33.2
	50 to 88 ¹	50.9
Gender	Male	64.0
	Female	36.0
Race	White	85.4
	Non-White	14.6
Ethnicity	Hispanic	10.3
	Non-Hispanic	89.7
Veteran¹	Veteran ¹	9.1
	Non-Veteran ¹	90.9

Source: Demographic Characteristics of Business Owners, www.sba.gov/advocacy/847/757305. U.S. Small Business Administration, Office of Advocacy.

1. Statistically significant to at least the 90 percent level.

How many businesses do veterans own?

In 2012, 9.1 percent of U.S. business owners were veterans (table 2). Veteran-owned businesses numbered 3.7 million in 2007, with average receipts of \$450,000 (table 3).

Source: U.S. Census Bureau, SIPP, SBO.

What percent of small businesses operate as . . . ?

The many kinds of small businesses are shown in table 4. The definitions overlap so the shares total more than 100.

Table 3: Number of Firms and Receipts by Demographic, 2007

Business Owner Demographic	Firms (millions)	Receipts per firm (\$1,000)
All businesses	27.1	1,070
Male	13.9	570
Female	7.8	130
Equally male/female	4.6	240
African-American	1.9	50
Asian	1.6	290
Hispanic	2.3	120
Native American/Pacific Islander	0.3	120
Veteran	3.7	450
Publicly held	0.8	23,860

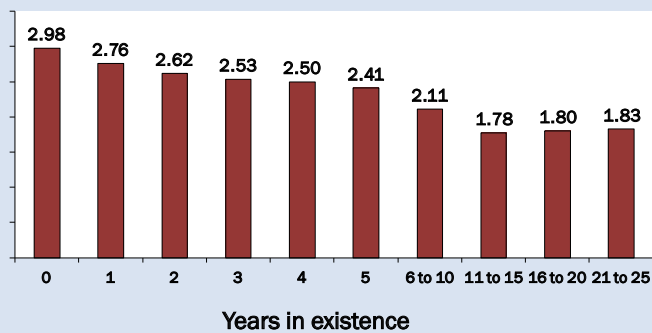
Source: U.S. Census Bureau, SBO.

Table 4: Small Business Shares

Kind of Business	Share of All Businesses (percent)
Home-based business	52.0
Franchise	2.0
Sole proprietor	72.1
Corporation	18.5
Employer business	20.1
Nonemployer (business without employees)	79.9

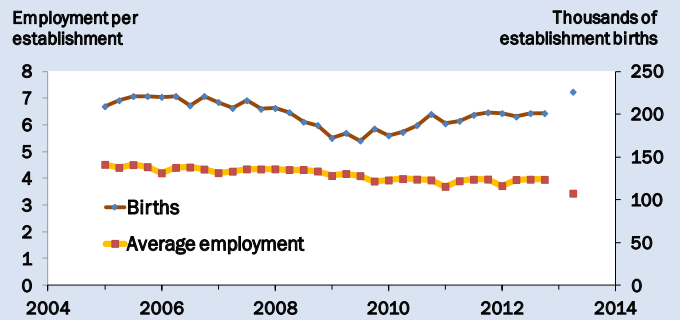
Source: U.S. Census Bureau, SBO, SUSB.

Figure 4: Mean Employment Level for Firm Birth Year, 2000-2011 (millions)



Source: U.S. Census Bureau, BDS.

Figure 5: Number and Size of Establishment Births



Source: Bureau of Labor Statistics, BED.

What happens to the jobs created by startups?

The total employment from a group of startups is highest at birth and declines as the firms age. Put another way, employment gains from growing businesses are less than employment declines from shrinking and closing businesses (figure 4).

Source: U.S. Census Bureau, SBO.

What is the status of the startup market?

While the number of new employer businesses has recovered from the recessionary dip, the average employment of these businesses has been declining over the past decade (figure 5).

Is youth entrepreneurship increasing?

Self-employment among younger age groups has been dropping. From 2002 to 2012, self-employment among individuals age 25 and under decreased 23 percent (compared to a 1 percent increase in the overall population). In contrast, self-employment among those age 65 and over increased 66 percent over this period as their population grew. Self-employment rates increased with age; for example, they were 2 percent for those 25 and under and 22 percent for those 65 and over in 2012.

Source: Office of Advocacy calculations using U.S. Census Bureau, CPS data.

How are small businesses financed?

Small businesses are financed through owner savings; loans from family, friends, and commercial lenders; bonds; stocks; ownership stakes; and other arrangements. For detailed information, see Advocacy's *Frequently Asked Questions about Small Business Finance*, www.sba.gov/advocacy/9601. For up-to-date statistics on credit conditions for small firms, see Advocacy's *Quarterly Lending Bulletin*, www.sba.gov/advocacy/10871.

What are the home-based business trends?

The share of firms that primarily operate out of the home was unchanged from 2002 to 2007 at 52 percent (the latest figure available). Employers had a lower share than nonemployers, 24 percent vs. 63 percent, respectively, in 2007. Of the major industries, construction had the highest share of home-based businesses, 70 percent. (A home-based business is operated primarily out of one's home, but business activities may take place at other locations as well.)

Source: U.S. Census Bureau, SBO.

How does franchise survival compare with independent business survival?

Survival among independent businesses and franchises appears to be similar, as they have similar age distributions. Of course each potential business owner debating an independent business or

franchise arrangement will have unique factors to weigh, such as their managerial talent and sales abilities.

Source: Advocacy research, *Do Business Definition Decisions Distort Small Business Research Results?* <http://archive.sba.gov/advo/research/rs330tot.pdf>. Note that about half of the franchises in the data were nonemployers, which may not be the stereotypical franchise that individuals imagine.

How do small and large businesses compare on innovation?

Of high patenting firms (15 or more patents in a four-year period), small businesses produced 16 times more patents per employee than large patenting firms. Research also shows that increasing the number of employees correlates with increased innovation while increasing sales does not.

Source: Advocacy-funded research, *An Analysis of Small Business Patents by Industry and Firm Size*, <http://archive.sba.gov/advo/research/rs335tot.pdf>; *Innovation in Small Businesses: Drivers of Change and Value Use* www.sba.gov/sites/default/files/rs342tot_0.pdf.

What is small businesses' share of federal government procurement?

In fiscal year 2012, 22.3 percent of all contracting dollars went to small business. The Department of Defense accounted for the majority of small business procurement.

Source: *Small Business Goaling Report 2012*, www.fpdsng.com/downloads/top_requests/FPDSNG_SB_Goaling_FY_2012.pdf.

How are business churn and the economy related?

Business churn is defined as the sum of the firm birth and death rates. It tends to follow the change in GDP with an eight-quarter lag (figure 6). Recently, churn has been down, which may be a response to the general decline in output.

Table 5: Effective Tax Rates, 2013

Legal Form of Business Ownership	Effective Tax Rate (percent)
Non-farm sole proprietorship	15.1
Partnership	29.4
S corporation	31.6
C corporation	17.8

Source: *Entity Choice and Effective Tax Rates*. Quantria Strategies LLC, page 15, table 10. www.s-corp.org/wp-content/uploads/2013/08/Quantria_Study_ETR_8-6-13_Final_pm.pdf.

Note: These calculations include only businesses with positive net income.

What are the effective tax rates for small businesses?

The average effective tax rate for businesses organized as sole proprietorships was 15.1 percent in 2013, with small S corporations facing the highest rates (table 5). (An effective tax rate is usually defined as the amount of tax paid as a fraction of net income or profit.)

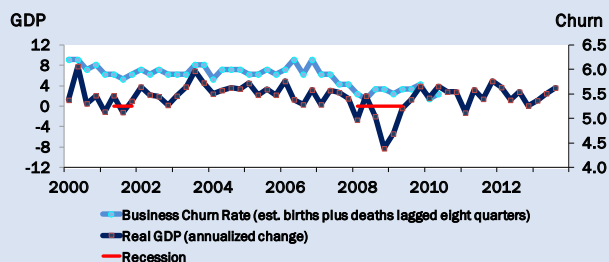
What legal form of organization are small businesses?

Sole proprietors and partnerships constituted 94 percent of nonemployers in 2011 and of the corporations, most were likely S corporations which are taxed at personal rates. Twenty-one percent of small employers were C corporations in 2010, with 72 percent taxed at personal rates and 7 percent nonprofits (figure 7).

Abbreviations & Sources

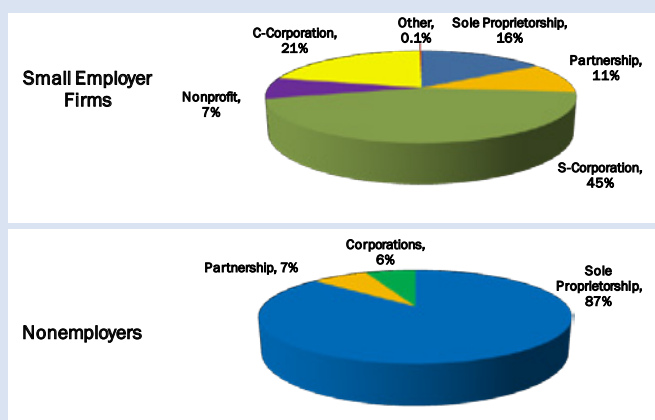
- BED Business Employment Dynamics. U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov/bdm.
- BDS Business Dynamics Statistics. U.S. Department of Commerce, Census Bureau, www.census.gov/ces/dataproducts/bds.
- CPS Current Population Survey. U.S. Census Bureau, and U.S. Department of Labor, Bureau of Labor Statistics, www.census.gov/cps.
- SBO Survey of Business Owners. U.S. Census Bureau, www.census.gov/econ/sbo.
- SIPP U.S. Census Bureau, 2008 Survey of Income and Program Participation, www.census.gov/programs-surveys/sipp.
- SUSB Statistics of U.S. Businesses, U.S. Census Bureau, www.census.gov/econ/susb.

Figure 6: Real GDP vs. Business Churn (lagged) (percent)



Source: Bureau of Labor Statistics, BED (business churn rate) and Bureau of Economic Analysis (real GDP).

Figure 7: Legal Form of Organization of Small Businesses



Source: U.S. Census Bureau, SUSB and Nonemployer Statistics.

About the Office of Advocacy and Small Business Data

The SBA's Office of Advocacy was created by Congress in 1976. The office's mission includes conducting policy studies and economic research on issues of concern to small businesses. The office also publishes data on small firm characteristics and contributions. Advocacy's website, www.sba.gov/advocacy, contains numerous databases and links to other sources. Two of the most comprehensive pages are the Data Resources page and the Firm Size Data page. Both are accessible from www.sba.gov/advocacy/847. For updates of many small business indicators, see Advocacy's quarterly bulletins on lending and employment at www.sba.gov/advocacy/10871. Two other often visited pages are Advocacy's Banking Study (www.sba.gov/advocacy/7540/719311) and the State Small Business Profiles (www.sba.gov/advocacy/848). Additional questions may be emailed to advocacy@sba.gov.

Maria Contreras-Sweet Confirmed as SBA Administrator

On March 27, the U.S. Senate voted to confirm Maria Contreras-Sweet as the new administrator of the Small Business Administration. Contreras-Sweet comes to the position with extensive experience in the field of small business. She is the executive chairwoman and founder of ProAmérica Bank, a southern California-based community bank specializing in small-business loans with a focus on the Latino community. She is also a founder of the venture capital firm Fortius Holdings, which invested in small businesses with an emphasis on Latino-owned and women-owned businesses.

Chief Counsel for Advocacy Dr. Winslow Sargeant commented,

“This is great news for the small business community. Maria comes to the table with a wealth of knowledge surrounding one of the biggest concerns to small business, namely access to capital. I look forward to working alongside Maria to cultivate a vibrant small business economy and continuing the strong relationship that the Office of Advocacy has with the SBA.”

Previously, Contreras-Sweet served as Secretary of the California Business, Transportation and Housing Agency under former California Governor Gray Davis.

During her career, Contreras-Sweet, whose family emigrated from Mexico when she was a child, has emphasized supporting minor-



ity- and immigrant-owned businesses. She was nominated to head the SBA by President Barack Obama in January 2014 and succeeds Acting Administrator Marianne O'Brien Markowitz.

New to Advocacy

The Office of Advocacy welcomed two new staff members in March.

Brooke Nelson, of Falls Church, Va., joins Advocacy as a writer/editor. Nelson most recently worked as a freelance web designer. Prior to that, she was a legislative and regulatory analyst for a Washington, D.C.-area public policy research firm. Nelson started her career as a reporter and copy editor for two Northern Virginia newspapers. She is a graduate of West Virginia University, where she earned a Bachelor of Arts degree in political science. Nelson can be reached at (202) 205-6938 or brooke.nelson@sba.gov.

Akira T. Loring joins

Advocacy as a program assistant in the Administrative Support Branch. Previously, she has worked in the Civilian Personnel Office at Bolling Air Force Base and in the Office of General Counsel at the Department of Agriculture. Loring is currently enrolled at the University of Maryland University College, majoring in East Asian Studies with a focus in Japanese. Loring enjoys

learning about different cultures, meeting people, and experiencing new things; she hopes to become an integral part of the Advocacy family. Loring can be reached at (202) 619-2310 or akira.loring@sba.gov.



Left: Akira T. Loring, right: Brooke Nelson.

North Dakota Entrepreneurs, from page 1.

seeks to highlight and empower entrepreneurs in the Midwest with a primary focus on startups, technology, and innovation. The house is a center where entrepreneurs can collaborate to build new companies while gaining access to world class small business resources. The entrepreneurs praised the Startup House project. They said they are happy to have high-speed broadband across the state and are hoping it will help North Dakota entrepreneurs stay connected with others and expand existing small technology businesses.

Regulatory News

Comments Sought on Cybersecurity Report

A request for comments was issued on March 12 seeking stakeholder input on how to implement the recommendations of the Final Report of the Joint Working Group on Improving Cybersecurity and Resilience through Acquisition.

The General Services Administration (GSA) and the Department of Defense (DOD) issued the final report on January 23. It makes six recommendations to improve cybersecurity and resilience in federal acquisitions. It recommends how cyber risk management and acquisition processes in the federal government can be better aligned, provides strategic guidelines for addressing relevant issues, suggests how challenges might be resolved, and identifies important considerations for the implementation of the recommendations.

The report was requested by the Executive Order for Improving Critical Infrastructure Cybersecurity (EO 13636), which was issued on February 12, 2013.

Comments on the report are due by April 28. The report can be

accessed at <http://www.gsa.gov/portal/content/176547>. For further information, please contact Major L. Clark, III, at (202) 205-7150 or major.clark@sba.gov.

Tax Help Available for Small Businesses

Because it is tax filing season, Advocacy is highlighting a list of resources that the IRS has available to assist small business owners:

- IRS Small Business and Self-Employed Tax Center: <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed>
- Small Business Tax Forms: <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Small-Business-Forms-and-Publications>
- IRS Publication 334, Tax Guide for Small Business: <http://www.irs.gov/pub/irs-pdf/p334.pdf>
- Small Business Tax Help from the Taxpayer Advocate Service of the IRS: <http://www.taxpayeradvocate.irs.gov/Businesses/Small-Business-Tax-Help-And-Resources>

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The Small Business Advocate

Editor Brooke Nelson

Managing Editor Rob Kleinsteuber

The Small Business Advocate newsletter is published by the U.S. Small Business Administration's Office of Advocacy. It is distributed electronically to 35,000 subscribers.

The Office of Advocacy is the independent voice for small business in the federal government. The office is the watchdog of the Regulatory Flexibility Act (RFA) and the source of small business statistics. Advocacy advances the views and concerns of small business before Congress, the White House, the federal agencies, the federal courts, and state policymakers.

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