

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 just over half of all private sector employees.
- Pay 44 percent of total U.S. private payroll.
- Have generated 64 percent of net new jobs over the past 15 years.
- Create more than half of the nonfarm private gross domestic product (GDP).
- Hire 40 percent of high tech workers (such as scientists, engineers, and computer programmers).
- Are 52 percent home-based and 2 percent franchises.
- Made up 97.3 percent of all identified exporters and produced 30.2 percent of the known export value in FY 2007.
- Produce 13 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.

Source: U.S. Dept. of Commerce, Bureau of the Census and International Trade Admin.; Advocacy-funded research by Kathryn Kobe, 2007 (www.sba.gov/advo/research/rs299tot.pdf) and CHI Research, 2003 (www.sba.gov/advo/research/rs225tot.pdf); U.S. Dept. of Labor, Bureau of Labor Statistics.

What share of net new jobs do small businesses create?

Firms with fewer than 500 employees accounted for 64 percent (or 14.5 million) of the 22.5 million net new jobs (gains minus losses) between 1993 and the third quarter of 2008. Continuing firms accounted for 68 percent of net new jobs, and the other 32 percent reflect net new jobs from firm births minus those lost in firm closures (1993 to 2007).

Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Business Employment Dynamics. Note that the methodology used for the figures above counts job gains or losses in the actual class size where they occurred.

How many businesses open and close each year?

An estimated 627,200 new employer firms began operations in 2008, and 595,600 firms closed that year. This amounts to an annual turnover of about 10 percent for entry and 10 percent for exit. Nonemployer firms have turnover rates three times as high as those of employer firms, mostly because of easier entry and exit conditions.

Starts and Closures of Employer Firms, 2004–2008

Category	2004	2005	2006	2007	2008
Births	628,917	644,122	670,058	663,100e	627,200e
Closures	541,047	565,745	599,333	571,300e	595,600e
Bankruptcies	34,317	39,201	19,695	28,322	43,546

Notes: e = Advocacy estimate. Bankruptcies include nonemployer firms. 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.

What is small firms' share of employment?

Small businesses employ just over half of U.S. workers. Of 119.9 million nonfarm private sector workers in 2006, small firms with fewer than 500 workers employed 60.2 million and large firms employed 59.7 million. Firms with fewer than 20 employees employed 21.6 million. While small firms create a majority of the net new jobs, their share of employment remains steady since some firms grow into large firms as they create new jobs. Small firms' share of part-time workers (21 percent) is similar to large firms' share (18 percent).

Source: U.S. Dept. of Commerce, Bureau of the Census: Statistics of U.S. Businesses, Current Population Survey.

How many small businesses are there?

In 2008, there were 29.6 million businesses in the United States, according to Office of Advocacy estimates. Census data show that there were 6.0 million firms with employees in 2006 and 21.7 million without employees in 2007 (the latest available data). Small firms with fewer than 500 employees represent 99.9 percent of the 29.6 million businesses (including both employers and nonemployers), as the most recent data show there were about 18,000 large businesses in 2006.

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.

What is the survival rate for new firms?

Seven out of ten new employer firms last at least two years, and about half survive five years. More specifically, according to new Census data, 69 percent of new employer establishments born to new firms in 2000 survived at least two years, and 51 percent survived five or more years. Firms born in 1990 had very similar survival rates. With most firms starting small, 99.8 percent of the new employer establishments were started by small firms. Survival rates were similar across states and major industries.

Source: U.S. Dept. of Commerce, Bureau of the Census, Business Dynamics Statistics. Note that the figures could be skewed slightly by the rare occurrence of new firms opening multiple establishments in their first few years.

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).

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).

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 National Ombudsman at ombudsman@sba.gov.

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

Of the 23 million nonfarm businesses in 2002, women owned 6.5 million businesses, generating \$940.8 billion in revenues, employing 7.1 million workers, and paying \$173.7 billion in payroll. Another 2.7 million firms were owned equally by both women and men. Also 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. Veterans made up 14 percent of all owners in 2002, and 7 percent of them were service-disabled.

In 2007, the overall rate of self-employment (unincorporated and incorporated) was 10 percent, and the rate was 7.1 percent for women, 7.4 percent for Hispanic Americans, 5.2 percent for African Americans, 10.1 percent for Asian Americans and Native Americans, and 14.4 percent for veterans. According to a recent study, service-disabled veterans were less likely than non-service-disabled veterans to be employed, and they had lower self-employment rates.

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); Open Blue Solutions, 2007 (www.sba.gov/advo/research/rs291tot.pdf), and Office of Advocacy: *The Small Business Economy, 2009* (Table A.13, www.sba.gov/advo/research/sbe.html).

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

For many years, the cost and availability of health insurance have been top small business concerns. These concerns are driven by 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.

A Kaiser Family Foundation study confirmed the connection between the size of a firm and whether it offers health insurance. The Kaiser 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 when offered.

Overall in 2007, small firm employees were almost twice as likely as large firm employees to be uninsured (24.6 percent vs. 12.6 percent, respectively).

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); and Office of Advocacy: *The Small Business Economy, 2009* (www.sba.gov/advo/research/sbe.html).

How can I get more information?

For more information, visit Advocacy's website:

www.sba.gov/advo. Specific points of interest include:

- Economic research: www.sba.gov/advo/research.
- Firm size data (U.S., state, and metropolitan static and dynamic data): www.sba.gov/advo/research/data.html.
- Small firm lending studies: www.sba.gov/advo/research/lending.html.
- Small business profiles by state and territory: www.sba.gov/advo/research/profiles.
- *The Small Business Advocate* newsletter: www.sba.gov/advo/newsletter.html.

For email delivery of Advocacy's newsletter, press, regulatory news, and research, sign up at <http://web.sba.gov/list>. For RSS feeds, visit www.sba.gov/advo/rsslibrary.html.

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

The SBA's Office of Advocacy was created by 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 small business resources, statistics, and research, visit the Office of Advocacy's home page at www.sba.gov/advo.