

## 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](http://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 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 50 percent of nonfarm private gross domestic product (GDP).
- Supplied more than 23 percent of the total value of federal prime contracts in FY 2004.
- 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 41 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 26 percent of the known export value in FY 2002.

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 2004, there were approximately 24.7 million businesses in the United States, according to Office of Advocacy estimates. The Internal Revenue Service (IRS) estimates there were 29.3 million nonfarm business tax returns in 2004; however, this number may overestimate the number of firms, as one business can operate more than one taxable entity.

Census data show there were 5.7 million firms with employees and 17.6 million without employees in 2002 (and 18.6 million without employees in 2003). Applying the sole proprietorship growth rates to the nonemployer figures and similar Department of Labor growth rates to the employer figures produces the 24.7 million figure. Small firms with fewer than 500 employees represent 99.9 percent of the 24.7 million businesses, as the most recent data show there are 17,000 large businesses.

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/advo/>.

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## How do regulations affect small firms?

Very small firms with fewer than 20 employees spend 45 percent more per employee than larger firms to comply with federal regulations. These very small firms spend 4½ 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 down by industry, see [www.sba.gov/advo/research/rs264tot.pdf](http://www.sba.gov/advo/research/rs264tot.pdf).

### 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	829	698
Tax Compliance	1,304	780

Source: *The Impact of Federal Regulations on Small Firms*, an Advocacy-funded study by W. Mark Crain, September 2005 (Research Summary #264).

## How many businesses open and close each year?

Estimates for businesses with employees indicate there were 580,900 new firms and 576,200 closures (both about 10 percent of the total) in 2004.

### Starts and Closures of Employer Firms, 2000-2004

Category	2000	2001	2002	2003	2004
New Firms	574,300	585,140	569,750	553,500e	580,900e
Firm Closures	542,831	553,291	586,890	572,300e	576,200e
Bankruptcies	35,472	40,099	38,540	35,037	34,317

e = Estimate. For more information, see "Business Estimates from the Office of Advocacy: A Discussion of Methodology," a working paper by Brian Headd, June 2005 (Research Summary #258).

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?

Over the past decade, small business net job creation fluctuated between 60 and 80 percent. For a more complete look at employment dynamics by firm size from 1989 to 2002, see [www.sba.gov/advo/research/data.html#us](http://www.sba.gov/advo/research/data.html#us).

Source: U.S. Bureau of the Census.

## What is small firms' share of employment?

The small business share of employment remains around 50 percent. Although small firms generally create 60 to 80 percent of the net new jobs, some firms will become large firms as the new jobs are created. Of 112.4 million nonfarm private sector

workers in 2002, small firms with fewer than 500 workers employed 56.4 million and large firms, 56.0 million. Smaller firms with fewer than 100 employees employed 40.5 million.

Source: 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 new 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 would 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, 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.

Sources: "Survival and Longevity in the Business Employment Dynamics Database" by Amy E. Knaup, *Monthly Labor Review*, Volume 128, Number 5 (May 2005), pp. 50-6; "Redefining Business Success: Distinguishing Between Closure and Failure" by Brian Headd, *Small Business Economics*, Volume 21, Number 1 (August 2003), pp. 51-61.

## How are small businesses financed?

**Commercial banks are the most important suppliers of debt capital to small firms, supplying more than 80 percent of lending in the credit line market and more than 50 percent in other markets, such as commercial mortgages and vehicle, equipment, and other loans.** In June 2004, small business loans outstanding owed to commercial banks amounted to \$522 billion, but small firms are not just receiving loans from smaller, relationship-driven banks. Very large banks with assets of at least \$10 billion are making a significant percentage of small loans of less than \$100,000.

### Shares of the Number and Amount of Small Business Loans by Banks and BHCs by Asset Size, June 2004

	Bank/BHC Asset Size (\$)			All Banks & BHCs
	<500M	500M-10B	<10B	
Number of Banks/BHCs	5,706	645	72	6,423
SBLs <\$100K				
Share of Amount	31.1%	19.2%	49.7%	\$125.3B
Share of Number	11.0%	21.5%	67.5%	13.6M
SBLs \$100K-<\$1M				
Share of Amount	26.8%	28.2%	45.0%	\$397.0B
Share of Number	27.2%	28.2%	44.6%	1.7M
SBLs >\$1M				
Share of Amount	27.8%	26.0%	46.2%	\$522.3B
Share of Number	12.8%	22.3%	65.0%	15.3M

Abbreviations: BHC, Bank Holding Company; SBL, Small Business Loan

Sources: Federal Reserve Board, Survey of Small Business Finances; special tabulations of the June call reports (Consolidated Reports of Condition and Income for U.S. Banks) prepared for the Office of Advocacy by James Kolari, Texas A&M University.

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

• Women owned 6.5 million businesses that generated \$950.6 billion in revenues, employed 7.2 million workers, and

had \$179.6 billion in payroll in 2002. In addition, another 2.7 million firms are owned equally by both women and men; these firms add another \$731.1 billion in revenues and employ another 5.7 million workers.

- Of the 23 million firms in 2002, 6.9 percent were owned by Hispanic Americans, 5.2 percent by African Americans, 4.8 percent by Asian Americans, 0.9 percent by American Indians and Alaskan Natives, and 0.14 percent by Native Hawaiian and other Pacific Islanders. In 2002, minorities owned 4.1 million firms that generated \$694.1 billion in revenues and employed 4.8 million workers.
- Male veterans' self-employment rates were higher than those of nonveterans from 1979 to 2003. The rate was 13.7 percent in 2003.
- 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, and almost 72 percent of these new veteran entrepreneurs planned to employ at least one person at the outset of their new venture.

Sources: Preliminary data from the 2002 Survey of Business Owners from the U.S. Census Bureau; Advocacy-funded research by Robert Fairlie (Research Summary #243); Advocacy-funded research by Waldman Associates (Research Summary #242).

## What research is there on the cost of health insurance?

According to a National Federation of Independent Business membership survey, the number one small business issue is the cost and availability of insurance. Aspects of insurance that may drive small business concern are premium increases and administrative costs. Advocacy research shows that insurers of small health plans have higher administrative expenses than those that insure larger group plans.

Sources: National Federation of Independent Business; Kaiser Family Foundation; Advocacy-funded research by Rose C. Chu and Gordon R. Trapnell (Research Summary #224)

## Whom do I contact about regulations?

To submit comments on proposed regulations, send email to [advocacy@sba.gov](mailto:advocacy@sba.gov) or visit Advocacy's regulatory alerts page at [www.sba.gov/advo/laws/law\\_regalerts.html](http://www.sba.gov/advo/laws/law_regalerts.html). To follow up on regulatory enforcement issues, email [ombudsman@sba.gov](mailto:ombudsman@sba.gov).

## How can I get more information?

For more detailed information, visit [www.sba.gov/advo/](http://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/research](http://www.sba.gov/advo/research). Specific points of interest include:
- Firm size data (static/dynamic for the U.S., states and metropolitan statistical areas): [www.sba.gov/advo/research/data.html](http://www.sba.gov/advo/research/data.html)
  - Small firm lending studies (1994-present): [www.sba.gov/advo/research/lending](http://www.sba.gov/advo/research/lending)
  - State economic profiles (1998-present): [www.sba.gov/advo/research/profiles](http://www.sba.gov/advo/research/profiles)
  - *The Small Business Advocate* monthly newsletter (1996-present): [www.sba.gov/advo/newsletter.html](http://www.sba.gov/advo/newsletter.html)
- Direct questions to (202) 205-6533 or [advocacy@sba.gov](mailto:advocacy@sba.gov).