

## 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 about half of all private sector employees.
- Pay nearly 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).
- 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 97.3 percent of all identified exporters and produced 28.9 percent of the known export value in FY 2006.
- 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 Administration; Advocacy-funded research by Kathryn Kobe, 2007 ([www.sba.gov/advo/research/rs299tot.pdf](http://www.sba.gov/advo/research/rs299tot.pdf)) and CHI Research, 2003 ([www.sba.gov/advo/research/rs225tot.pdf](http://www.sba.gov/advo/research/rs225tot.pdf)); Federal Procurement Data System; U.S. Dept. of Labor, Bureau of Labor Statistics.

## How many new jobs do small firms create?

**Since the mid-1990s, small businesses have created 60 to 80 percent of the net new jobs.** In the most recent year with data (2005), employer firms with fewer than 500 employees created 979,102 net new jobs, or 78.9 percent. Meanwhile, large firms with 500 or more employees added 262,326 net new jobs or 21.1 percent. For an in-depth look at employment dynamics by firm size from 1989 to 2005, see [www.sba.gov/advo/research/data.html#us](http://www.sba.gov/advo/research/data.html#us).

## What is small firms' share of employment?

**Small businesses employ about half of U.S. workers.** Of 116.3 million nonfarm private sector workers in 2005, small firms with fewer than 500 workers employed 58.6 million and large firms employed 57.7 million. Firms with fewer than 20 employees employed 21.3 million. While 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, Bureau of the Census.

## How many small businesses are there?

**In 2007, there were 27.2 million businesses in the United States, according to Office of Advocacy estimates.** Census data show that there were 6.0 million firms with employees and 20.4 million without employees in 2005. Small firms with fewer than 500 employees represent 99.9 percent of the 27.2 million businesses (including both employers and nonemployers), as the most recent data show there were slightly more than 17,000 large businesses in 2005.

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 many businesses open and close each year?

The number of nonemployer firms has risen steadily in this decade, from 16.5 million in 2000 to an estimated 21.1 million in 2007. An estimated 637,100 new employer firms began operations in 2007 and 560,300 firms closed that year.

### Starts and Closures of Employer Firms, 2003–2007

Category	2003	2004	2005	2006	2007
New Firms	612,296	628,917	644,122	640,800e	637,100e
Closures	540,658	541,047	565,745	587,800e	560,300e
Bankruptcies	35,037	34,317	39,201	19,695	28,322

e = Advocacy estimate. For a discussion of methodology, see Brian Headd, 2005 ([www.sba.gov/advo/research/rs258tot.pdf](http://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 the survival rate for new firms?

**Two-thirds of new employer establishments survive at least two years, 44 percent survive at least four years, and 31 percent survive at least seven years, according to a recent study.** These results were constant for different industries. Firms that began in the second quarter of 1998 were tracked for the next 28 quarters to determine their survival rate. Of special interest, the research found that businesses that survive four years have a better chance of surviving long-term. After the fourth year, the rate of firm closings declines considerably.

Earlier research has found that the major factors in a firm's survivability 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.

Source: "Business Employment Dynamics Data: Survival and Longevity, II," by Amy E. Knaup and Merissa C. Piazza, *Monthly Labor Review*, vol. 30, no. 9 (Sept. 2007), pp. 3-10; "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](http://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](http://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](http://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](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 inquire about unfair regulatory enforcement, contact SBA's Office of the National Ombudsman at [ombudsman@sba.gov](mailto: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. 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](http://www.sba.gov/advo/research/rs280.pdf)) and *Minorities in Business* ([www.sba.gov/advo/research/rs298.pdf](http://www.sba.gov/advo/research/rs298.pdf)); Advocacy-funded research by Robert Fairlie, 2004 ([www.sba.gov/advo/research/rs243.pdf](http://www.sba.gov/advo/research/rs243.pdf)) and Waldman Associates, 2004 ([www.sba.gov/advo/research/rs242.pdf](http://www.sba.gov/advo/research/rs242.pdf)).

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

For many years, the cost and availability of health insurance has been a top small business concern. Aspects of insurance that drive small business concerns 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](http://www.sba.gov/advo/research/rs224tot.pdf)); Joel Popkin and Company, 2005 ([www.sba.gov/advo/research/rs262tot.pdf](http://www.sba.gov/advo/research/rs262tot.pdf)); and Econometrica, Inc., 2007 ([www.sba.gov/advo/research/rs295tot.pdf](http://www.sba.gov/advo/research/rs295tot.pdf)).

## 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 Advocacy's newsletter, press, regulatory news, and research. For RSS feeds, visit [www.sba.gov/advo/rsslibrary.html](http://www.sba.gov/advo/rsslibrary.html). Economic research by the Office of Advocacy can be found at [www.sba.gov/advo/research](http://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](http://www.sba.gov/advo/research/data.html)
  - Small firm lending studies (1994–present): [www.sba.gov/advo/research/lending.html](http://www.sba.gov/advo/research/lending.html)
  - Small business profiles by state and territory (1995–present): [www.sba.gov/advo/research/profiles](http://www.sba.gov/advo/research/profiles)
  - *The Small Business Advocate* monthly newsletter (2000–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).

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](http://www.sba.gov/advo).