



# SMALL BUSINESS

# RESEARCH SUMMARY

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## Small Business Share of NAICS Industries

by Joel Popkin and Company

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### Purpose

In 1997 the United States adopted a new system for classifying industries, the North American Industrial Classification System (NAICS), which replaced the Standard Industrial Classification (SIC) system. NAICS unifies the classification systems used in the United States, Canada, and Mexico, and it includes a more current and detailed accounting of industries, especially in services and high technology industries. Since the makeup of industries has changed under the NAICS definitions, the small business share of each industry has likewise changed. In this paper, the authors have recalculated the small business share of industry using the NAICS definitions.

### Overall Findings

The researchers estimated small business shares for most major NAICS categories. For industries in which there were only minor definitional changes, such as manufacturing and construction, the changes in share between the NAICS-based and SIC-based estimates were likewise small. Of greater interest though, is the more detailed picture of the services-producing sectors of the economy which the NAICS-based system provides. For example, under the SIC, a little less than half of the output of the finance, insurance, and real estate category was attributable to small businesses, but further detail was not available. Under the NAICS, it is evident that small businesses are concentrated in the real estate industry,

while large businesses predominate in the finance and insurance industries. Similarly, the small business-dominated SIC services division shows considerably more variation under the NAICS. While most of the NAICS sectors associated with services are still small business-dominated, there are a few qualifications. Educational services, for example, appears to be more heavily dominated by large businesses than the overall services category is.

### Highlights

The small business share of manufacturing and mining went from an estimated 27 percent under the SIC to an estimated 30 percent under the NAICS. This growth reflects changes in the NAICS category definition. Under NAICS, publishing has been moved from manufacturing and mining to the information sector. Publishing, which is large business-dominated, was the largest industry removed from the mining and manufacturing category. With this change, it is reasonable to expect that the small business share of mining and manufacturing would increase. Construction is very similar in definition in both classification systems, and its small business share reflects this, remaining unchanged at 90 percent.

Among the major definitional changes was the shift of food services from the wholesale and retail trade category (SIC) to the new accommodation and food services category (NAICS). Food service has a large labor component and is small business-domi-

nated; its removal from the SIC-based trade sector resulted in a small decline in the small business share of wholesale and retail trade output, and a slightly larger decline in its share of compensation (payroll and benefits). The small business share of trade went from 65 percent (SIC) to 64 percent (NAICS). The compensation (payroll and benefits) share of trade was reduced by a little bit more, from 65 percent (SIC) to 62 percent (NAICS).

Some things remain unexplained with these preliminary estimates. The small business share of many industries' noncompensation components (capital inputs, etc.) is much larger than their compensation components (payroll and benefits) tends to indicate. While this result may be perfectly valid, it may also be the result of either definitional differences in the new data sources or benchmarking issues.

### Small Business Shares by NAICS Industry

NAICS-Based Industry Sector	Small Business Share of Output
Mining and Manufacturing	30
Utilities	22
Construction	90
Trade (Wholesale and Retail)	64
Transportation and Warehousing	40
Information	25
Finance and Insurance	29
Real Estate, Rental and Leasing	74
Professional and Technical, Administrative, Support and Waste Management	65
Educational Services	43
Health and Social Services	57
Arts, Entertainment, and Recreational Services	76
Accommodation and Foodservices	57
Other Services	71

Source: *Small Business Share of NAICS Industries*, by Joel Popkin and Company, under contract to U.S. Business Administration, Office of Advocacy, 2002

## Scope and Methodology

Output figures were compiled from a variety of data sources. (1) Using Census data, the share of wages and salaries that can be allocated to each business size was determined; (2) using Census data, the share of corporate business receipts that can be allocated to large business was determined; (3) using the corporate receipts shares calculated in step 2, the IRS corporate Statistics of Income (SOI) data were used to calculate business size-shares for the non-compensation components of each industry; (4) the shares were benchmarked where necessary; (5) the benchmarked shares were applied to the appropriate component of each industry's gross product to produce the large and small business components for each industry.

## Ordering Information

The full text of this report and summaries of other studies performed under contract to the U.S. Small Business Administration's Office of Advocacy are available on the Internet at [www.sba.gov/advo/research](http://www.sba.gov/advo/research).

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