SBA Office of Advocacy www.sba.gov/advo

Small Business Research Summary

Advocacy: the voice of small business in government

August 2009 No. 350

Startup Business Characteristics and Dynamics: A Data Analysis of the Kauffman Firm Survey

An Office of Advocacy Working Paper
by Ying Lowrey, Office of Advocacy, 2009. [59] pages.

The purpose of the report is to contribute to a better understanding of American business startups and their dynamics. The American economy relies upon vigorous and pervasive business startups for its growth that is key to our nation's long-term prosperity. The report is a sample data analysis based on the Kauffman Firm Survey (KFS), a panel study created from a stratified random sample of all start-ups in 2004 from the Dun & Bradstreet database with follow-up surveys on these firms for 2005 and 2006. The results of this report are not meant to be extrapolated to the national startup-population, as much of the analysis uses unweighted data. The firms studied tend to be clustered in the high- and medium-technology sectors.

Overall Findings

Startup businesses in the KFS sample created an average of 5.5 jobs per firm in 2004; this includes not only 4.1 paid employee positions, but also 1.4 entrepreneurial positions. Firms in the KFS sample generated an estimated value of more than $575 million in revenue in 2004 when starting their businesses. By 2006, the total estimated revenue of KFS sample firms had increased to $879 million, or 53 percent; the payroll per KFS sample employee grew 56 percent between 2004 and 2006.

Highlights

- Half of KFS sample firms were home-based between 2004 and 2006. Around 40 percent operated their business at rented or leased places, and 5-7 percent of them operated at their own purchased spaces.
- About 59 percent of KFS sample startups in 2004 reported zero employees; the remainder had 1 or more employees.
- Overall, employer firms had a stronger financial profile than nonemployer firms. Moreover, the share of employer firms in the total KFS sample increased from 41 percent in 2004 to 62 percent in 2006.
- In 2004, most of the jobs in the KFS sample were generated by LLCs (33 percent), S corporations (33 percent), and C corporations (17 percent). Less than 9 percent of total KFS sample firms were C corporations.
- By 2006, 34 percent of existing businesses in the KFS sample had changed their legal form. On average, firms that changed their legal status had higher revenues than others.
- By 2006, the share of single owners had increased in all firms except those organized as C corporations, compared with 2004. More than 75 percent of general partnerships had two owners.
- In 2005, 41 percent of all firms in the KFS sample added workers; 31.1 percent in 2006. Businesses with multiple owners had a higher rate of growth than those with single owners.
- C corporations, S corporations and limited partnerships had higher rates of growth than other kinds of businesses in the KFS sample. Sole proprietors had lower rates of growth. In 2005, 42.4 percent of limited partnerships increased employment. This percentage rose to 50 percent in 2006.
- About half of non-home based businesses in the KFS sample expanded employment in 2005 and about 40 percent of these firms grew in 2006;

33 percent of home-based businesses added employees in 2005, and 25 percent in 2006.

- About 45 percent of employer firms in the KFS sample and 44 percent of nonemployer firms reported revenue growth in 2005; these two numbers were 23 percent and 28 percent, respectively, in 2006.
- About 60 percent of all employer firms in the KFS sample with expanding revenues had more than $100,000 revenue in both 2005 and 2006; about half of the nonemployer firms with expanding revenues were in the $10,001-to-$100,000 revenue category.
- Six percent of the KFS sample firms went out of business either temporarily or permanently in 2005, and an additional 7 percent in 2006. In 2005, 13 percent of these were sold or merged with other companies, and 16 percent were in 2006.
- Two-thirds of closed firms had no paid employees in 2005; in 2006, this figure was 51.5 percent. Among all firms in the KFS sample with expanding employment, nearly 30 percent were in the manufacturing industry and 21 percent in real estate, rental or leasing industries.
- Four industries accounted for the largest share of home-based KFS sample startups in 2004: professional services (31 percent), manufacturing (13 percent), construction (10 percent), and administrative services (10 percent). For non-home-based startups, the top four industries were: manufacturing (23 percent), professional services (17 percent), retail trade (14 percent), and administrative services (6 percent).

Scope and Methodology

The Kauffman Firm Survey data was downloaded from **http://sites.kauffman.org/kfs/resources.cfm?user_id=4439&cat=data**. The KFS used a simple stratified sampling design. The final chosen universe of the KFS data includes 4,928 businesses started in 2004. The database includes 2,166 variables for each case. It oversampled substantially the businesses in the high technology stratum. It also oversampled the medium technology businesses relative to the non technology ones. Therefore the sampling weights take this oversampling into account to remove the potential bias in the estimates of KFS population relative to unweighted estimates. Also, the response rate differed by factors like legal status, ownership, and age and education of the owner. The nonresponse adjustments were designed to minimize potential nonresponse bias in the estimates. Most tables in the report used unweighted respondent firm data (or sample count). Weighted information is also provided from time to time to remind readers about the existence of certain distortions due to over- or under-sampling. Readers should not interpret figures or tables in this report as estimates of the national business startup population.

This report was peer reviewed consistent with the Office of Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at **advocacy@sba.gov** or (202) 205-6533.

Ordering Information

The full text of this report is online at **www.sba.gov/advo/research/rs350tot.pdf.** The text and summaries of other working papers and studies performed under contract with the U.S. Small Business Administration's Office of Advocacy are available on the Internet at **www.sba.gov/advo/research.** Copies are available for purchase from:

National Technical Information Service
5285 Port Royal Road
Springfield, VA 22161
(800) 553-6847 or (703) 605-6000
TDD: (703) 487-4639
www.ntis.gov
Order Number: PB2009-111417
Paper A05 ($48.00)
Microfiche A05 ($33.00)
CD-ROM A00 ($30.00)
Download A00 (15.00)

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