

Small Business by the Numbers

Answers to Frequently Asked Questions

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 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 employers.
- Employ half of all private sector employees.
- Pay 44.3 percent of total U.S. private payroll.
- Generate 60 to 80 percent of net new jobs annually.
- Create more than 50 percent of nonfarm private gross domestic product (GDP).
- Supplied 22.8 percent of the total value of federal prime contracts (about \$50 billion) in FY 2001.
- 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 39 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 29 percent of the known export value in FY 2001.

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 2002, there were approximately 22.9 million businesses in the United States, according to Office of Advocacy estimates. The Internal Revenue Service (IRS) estimates there were 26.4 million business tax returns in 2002; however, this number may overestimate the number of firms, as one business can operate more than one taxable entity.

IRS estimates the number of sole proprietorships (roughly equivalent to nonemployers) increased by 1.9 percent in 2001 and by 2.7 percent in 2002. Census data show there were 5.7 million firms with employees and 16.5 million without employees in 2000. Applying the sole proprietorship growth rates to the nonemployer figures and similar Department of Labor growth rates to the employer figures produces the 22.9 million figure.

How many businesses open and close each year?

Estimates for businesses with employees indicate there were 550,100 new firms and 584,500 closures (both about 10 percent of the total) in 2002.

Starts and Closures of Employer Firms, 1990-2002

Category	1990	1995	2000	2001	2002
New Firms	584,892	594,369	574,300	545,400e	550,100e
Firm Closures	531,892	497,246	542,831	568,300e	584,500e
Bankruptcies	63,912	50,516	35,472	39,719	38,155

e = Estimate using percentage changes in similar data provided by the U.S. Department of Labor, Employment and Training Administration

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?

In 1999-2000 (according to the most recent data), small businesses created three-quarters of U.S. net new jobs (2.5 million of the 3.4 million total). The small business share varies from year to year and reflects economic trends. Over the decade of the 1990s, small business net job creation fluctuated between 60 and 80 percent.

Moreover, according to a new Bureau of the Census working paper, start-ups in the first two years of operation accounted for virtually all of the net new jobs in the economy.

Sources: U.S. Bureau of the Census; Administrative Office of the U.S. Courts; *Endogenous Growth and Entrepreneurial Activity in Cities* by Zoltan J. Acs and Catherine Armington, Center for Economic Studies, U.S. Bureau of the Census, Working Paper #CES-WP-03-2, January 2003.

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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What is small firms' share of employment?

The small business share of employment has remained steady at 50 percent. Although small firms create more than half of net new jobs, some small firms will become large firms as new jobs are created. Of 114.1 million nonfarm private sector workers in 2000, small firms with fewer than 500 workers employed 57.1 million, large firms, 56.9 million. Smaller firms with fewer than 100 employees employed 40.9 million.

What is the survival rate for new firms?

Two-thirds of new employer firms survive at least two years, and about half survive at least four years. Owners of about one-third of the firms that closed said their firm was successful at closure. 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.

Business survival also varies by industry and demographics. The industry with the highest 1992–1996 survival rate for firms owned by white non-Hispanics was oil and gas extraction (82 percent survival rate over the four-year period). African Americans were most successful in legal services (79 percent), and Hispanic and Asian Americans in health services (66 percent and 76 percent, respectively).

Sources: *Business Success: Factors Leading to Surviving and Closing Successfully* by Brian Headd, Center for Economic Studies, U.S. Bureau of the Census, Working Paper #CES-WP-01-01, January 2001; Advocacy-funded research by Richard J. Boden (Research Summary #204).

How are small businesses financed?

About 82.5 percent of small firms used some form of credit in 1998. Small firms use many different sources of capital, including their own savings, loans from family and friends, and business loans from financial institutions. Credit cards, credit lines, and vehicle loans are the most often used types of credit. Commercial banks are the leading suppliers of credit, followed by owners and finance companies.

Small Firms using Financial Services, 1998
(Percent reporting use of various types of credit)

Credit Type	Total Small Business	Women-Owned	Minority- and Hispanic-Owned
Any Credit	82.5%	78.2%	76.9%
Traditional Credit Types	55.0	46.1	49.0
Business Credit Cards	34.1	28.8	28.6
Personal Credit Cards	46.0	47.5	45.5

Source: Tabulation from Survey of Small Business Finances, 1998, from the Federal Reserve Board.

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

- Women owned 5.4 million businesses that generated \$819 billion in revenues, employed more than 7 million workers,

and had nearly \$150 billion in payroll in 1997. About three-quarters were sole proprietorships with receipts under \$50,000.

- Of U.S. firms in 1997, 5.8 percent were owned by Hispanic Americans, 4.4 percent by Asian Americans, 4.0 percent by African Americans, and 0.9 percent by American Indians. Of total minority-owned business receipts, Asian American-owned businesses earned more than 51 percent; Hispanic Americans, 31 percent; African Americans, 12 percent; and American Indians, 6 percent.
- Veteran self-employed people numbered about 1.6 million or 14 percent of all U.S. self-employed in 2001.

Sources: Advocacy publications – *Women in Business, 2001*; *Dynamics of Women-Operated Sole Proprietorships, 1990-1998*; *Minorities in Business, 2001*; veteran self-employment data from a special tabulation of the Current Population Survey.

How do regulations affect small firms?

Very small firms with fewer than 20 employees spend 60 percent more per employee than larger firms to comply with federal regulations. Small firms spend twice as much on tax compliance as their larger counterparts.

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	\$6,975	\$4,463
Environmental	3,328	717
Economic	1,616	2,485
Workplace	829	698
Tax Compliance	1,202	562

Source: *The Impact of Regulatory Costs on Small Firms*, an Advocacy-funded study by W. Mark Crain and Thomas D. Hopkins, August 2001 (Research Summary #207).

Whom do I contact about regulations?

To submit comments on proposed regulations, send email to advocacy@sba.gov. To follow up on regulatory enforcement issues, email regfair@sba.gov.

How can I get more information?

For more detailed information from the Office of Advocacy, visit 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/stats. Specific points of interest include:

- Firm size data (static/dynamic for the U.S., states and metropolitan statistical areas): www.sba.gov/advo/stats/data.html
- Small firm lending studies (1994-present): www.sba.gov/advo/stats/lending
- State economic profiles (1998-present): www.sba.gov/advo/stats/profiles
- *The Small Business Advocate* monthly newsletter (1996-present): www.sba.gov/advo/news/

Direct other questions to (202) 205-6533 or via e-mail to advocacy@sba.gov.