

# Small Business - Frequently Asked Questions



August 2001

Office of Advocacy

## Small businesses . . .

- represent more than 99% of all employers
- employ 51% of private-sector workers, 51% of workers on public assistance, and 38% of workers in high-tech occupations
- represent nearly all of the self-employed, which are 7.0% of the work force
- provide about 75% of the net new jobs
- provide 51% of the private sector output
- represent 96% of all exporters of goods
- obtain 33.3% of federal prime and subcontract dollars
- are 53% home-based and 3% franchises

Sources: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; Advocacy-funded study by Joel Popkin & Company; U.S. Department of Commerce, International Trade Admin., SBA Office of Government Contracting.

## What is the definition of a small business?

Various definitions exist, but the Office of Advocacy often defines a small firm as a firm with fewer than 500 employees and provides information for firms of various sizes. For industry definitions, contact the SBA's Office of Size Standards at (202) 205-6618 or visit [www.sba.gov/size/](http://www.sba.gov/size/).

## How many businesses are there?

Several measures are used to estimate the number of businesses. In 2000, there were about 5.8 million nonfarm employer firms, 9.9 million people who were primarily self-employed, and 25.4 million nonfarm business tax returns (17.9 million sole proprietorships, 2.0 million partnerships, and 5.5 million corporations). Adding or comparing these measures is problematic: for example, self-employment includes farms, some self-employed have multiple businesses and/or employees, and some businesses file multiple tax returns. For 1998, Census reports there were 21.3 million employer and non-employer firms.

## How many small businesses are there?

In 1998, about 16,000 businesses had 500 or more employees and about 100,000 had 100 or more employees (U.S. Census Bureau, Statistics of U.S. Business). Subtracting either amount from the total results in a number of small businesses with fewer than 500 or fewer than 100 employees.

## How many firms are women- or minority-owned?

In 1999, 4.6 million women (39.3 percent of the total), 0.6 million Asians (4.7 percent of the total), 0.8 million blacks (6.8 percent of the total), and 0.8 million Hispanics (7.1 percent of the total) were self-employed. The number of women- and minority-owned businesses increased during the 1990s, while self-employment as a whole declined. Data for these businesses are available in more detail from the Economic Census (U.S. Census Bureau) with a time lag of a few years.

### Number of Firms by Various Measures, 1991-2000 (Millions)

	1991	1999	2000	Annual Change
<b>Nonfarm</b>				
<b>Employers</b>				
Total	5.05	5.69*	5.81*	2.1%
<100 Employees	4.97	5.09*	5.20*	-
<500 Employees	5.04	5.67*	5.80*	-
<b>Self-Employed</b>				
Total	12.38	11.63	NA	NA
Women	4.41	4.56	NA	NA
Asian	0.46	0.55	NA	NA
Hispanic	0.60	0.82	NA	NA
Black	0.61	0.79	NA	NA
<b>Nonfarm</b>				
Business Tax Returns	20.50	24.81*	25.39*	2.3%

\* Estimate

Note: The self-employed include those with any earnings during the year. Sources: Advocacy estimates using U.S. Census Bureau and U.S. Department of Labor data; U.S. Census Bureau, Statistics of U.S. Business (Advocacy funded) and Current Population Survey; Internal Revenue Service.

## Who can I contact about regulations and their impact?

Small businesses are encouraged to participate in the regulatory process by submitting their comments to regulating federal agencies, contacting the Office of Advocacy about proposed regulations, or contacting the SBA regulatory enforcement ombudsmen ([regfair@sba.gov](mailto:regfair@sba.gov)) about enforcement issues resulting from existing regulations. Advocacy monitors agencies' efforts to minimize regulatory impacts on small businesses and also is interested in regulatory or research initiatives that would benefit small 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/>.

## How many jobs did small firms create?

Small firms are generally the creators of jobs, as almost all firms begin small and often need to grow to compete. Small firms create about three-quarters to two-thirds of the net new jobs depending on the year studied. However, small firms' share of private sector employment stays at about 50 percent because firms change size classes over time. Of the 108.1 million private sector nonfarm workers in 1998, firms with fewer than 500 employees employed 55.1 million and firms with fewer than 100 employed 39.7 million (U.S. Census Bureau).

### Net New Jobs by Firm Size 1990-1998 (Millions)

Firm size	1990-1995		1997-1998	
	Amount	Percent	Amount	Percent
Total	6.85	100.0	2.81	100.0
<20 Employees	3.36	49.0	1.39	49.3
<500 Employees	5.24	76.5	1.73	61.7

Source: U.S. Census Bureau, Statistics of U.S. Business.

## What is the rate of survival for new businesses?

An Advocacy study of employer business starts from 1989 and 1992 finds that 66.0 percent of businesses remained open at least 2 years, 49.6 percent at least 4 years, and 39.5 percent at least 6 years.

## How many businesses open and close every year?

In 2000, the 612,400 new employer firms outnumbered the 550,000 employer business closures (Advocacy estimates). Bankruptcies dropped dramatically. Also in 2000, about 10.8 percent of all employer firms were new and about 9.7 percent closed (Advocacy estimates). Not all closures are failures, as 57.4 percent of owners of employer firms said the firm was successful at closure. The figure was 38.2 percent for firms without employees (U.S. Census Bureau, Characteristics of Business Owners).

### Business Turnover, 1991 - 2000

	1999	1999	2000	Annual change
New Employer Firms	541,141	587,100*	612,400*	4.3%
Employer Firm Closures	546,518	530,500*	550,000*	3.7%
Bankruptcies	70,605	37,639	35,219	-6.4%

\* Estimates

Sources: Advocacy estimates; U.S. Census Bureau; U.S. Department of Labor, Employment and Training Administration; Administrative Office of the U.S. Courts.

## How were small businesses financed?

About 55 percent of small firms (including non-employer firms) obtained credit lines, loans, and/or capital leases in 1998, and most of these firms had credit cards. (The percent of small firms that were denied credit or did not seek it is unknown).

### Small Firms using Financial Services, 1998

(Percent reporting use of various types of credit)

Credit Type	Total Small	Owner Type			
		Women	Asian*	Black	Hispanic
Credit lines, Loans,					
Capital Leases	55.1	46.1	46.4	48.2	52.7
Business Credit Cards	33.3	28.2	26.9	28.8	29.0
Personal Credit Cards	45.1	46.7	52.8	44.1	41.8

\* Includes Pacific Islander

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

## How much do small businesses spend?

Little information is available on small business spending on goods sold and capital; however labor cost data are available. Small businesses spent about \$1.5 trillion in annual payroll in 1998 (U.S. Census Bureau).

## How does Advocacy help small businesses?

By publishing economic research, monitoring the legislative process, and monitoring federal agencies' regulatory proposals, Advocacy encourages policies that support the development and growth of small business.

## Need more answers or want to contact the Office of Advocacy?

- For more detailed information, see <http://www.sba.gov/advo/>, e-mail [advocacy@sba.gov](mailto:advocacy@sba.gov), telephone (202) 205-6533, fax (202) 205-6928 or write to the Office of Advocacy, U.S. SBA, 409 3rd St., SW, M.C. 3114, Washington, D.C. 20416.
- For technical or financial business assistance, call the Small Business Answer Desk at 1-800-U-ASK-SBA.

**Last updated: August 2001**