

## Small businesses comprise what share of the U.S. economy?

Small businesses make up:

- 99.7 percent of U.S. employer firms,
- 64 percent of net new private-sector jobs,
- 49.2 percent of private-sector employment,
- 42.9 percent of private-sector payroll,
- 46 percent of private-sector output,
- 43 percent of high-tech employment,
- 98 percent of firms exporting goods, and
- 33 percent of exporting value.

Source: U.S. Census Bureau, SUSB, CPS; International Trade Administration; Bureau of Labor Statistics, BED; Advocacy-funded research, Small Business GDP: Update 2002-2010, [www.sba.gov/advocacy/7540/42371](http://www.sba.gov/advocacy/7540/42371).

## How many small businesses are there?

In 2010 there were 27.9 million small businesses, and 18,500 firms with 500 employees or more. Over three-quarters of small businesses were nonemployers; this number has trended up over the past decade, while employers have been relatively flat (figure 1).

## What is a small business?

The Office of Advocacy defines a small business as an independent business having fewer than 500 employees. For the small business definition by industry used in government programs and contracting, see [www.sba.gov/content/small-business-size-standards](http://www.sba.gov/content/small-business-size-standards).

## What percent of small businesses operate as . . . ?

The many kinds of small businesses are shown in table 1. The definitions overlap so the shares total more than 100.

**Table 1: Small Business Shares**

| Kind of Business                         | Share (percent) |
|--|-----------------|
| Home-based business                      | 52.0            |
| Franchise                                | 2.0             |
| Sole proprietor                          | 73.2            |
| Corporation                              | 19.5            |
| Employer business                        | 21.5            |
| Nonemployer (business without employees) | 78.5            |

Source: U.S. Census Bureau, SBO, SUSB.

## What is small businesses' share of net new jobs?

Small firms accounted for 64 percent of the net new jobs created between 1993 and 2011 (or 11.8 million of the 18.5 million net new jobs). Since the latest recession, from mid-2009 to 2011, small firms, led by the larger ones in the category (20-499 employees), accounted for 67 percent of the net new jobs.

Source: Bureau of Labor Statistics, BED. For the latest employment statistics, see Advocacy's quarterly reports, [www.sba.gov/advocacy/10871](http://www.sba.gov/advocacy/10871).

## How can small businesses' share of net new jobs be larger than their share of employment, yet their share of employment remains steady?

As firms grow, they change employment size classes. So as small firms grow, their growth counts toward small firm job gains; but if they pass the 500-employee mark, their employment is classified as large firm employment.

## Do the unemployed become self-employed?

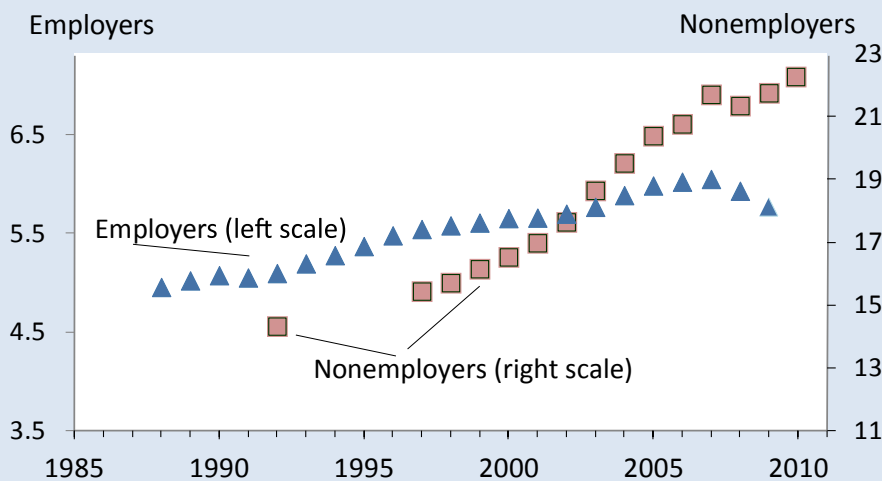
When finding work is difficult, starting a business can be just as difficult if not more so. But in March 2011, a significant number of the self-employed, 5.5 percent or about 900,000, had been unemployed in the previous year. This figure was up from March 2006 and March 2001, when it was 3.6 and 3.1 percent, respectively.

## Which businesses create more jobs—startups or existing businesses?

In the last two decades about 60 percent of the private sector's net new jobs have been created by existing establishments and about 40 percent from the churn of startups minus closures. While firm births account for many new jobs, job losses from firm closures are equally important in accounting for net effects to employment levels.

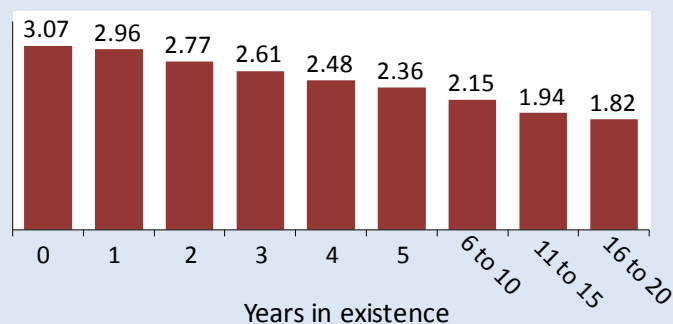
Source: Bureau of Labor Statistics, BED.

**Figure 1: Number of Businesses (millions)**



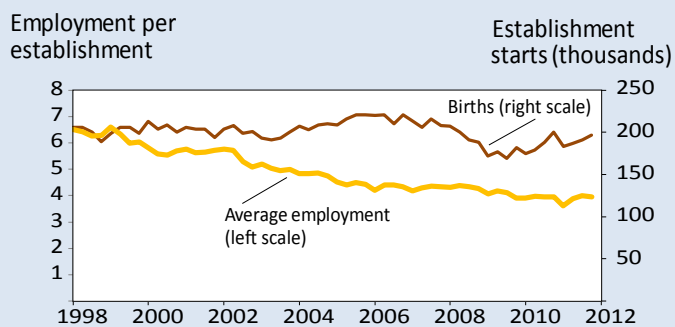
Source: U.S. Census Bureau, SUSB and Nonemployer Statistics.

**Figure 2: Mean Employment Level for Firm Birth Year, 1995–2010 (millions)**



Source: U.S. Census Bureau, BDS.

**Figure 3: Number and Size of Establishment Births**



Source: Bureau of Labor Statistics, BED.

### What happens to the jobs created by startups?

The total employment from a group of startups is highest at birth and declines as the firms age. Put another way, employment gains from growing businesses are less than employment declines from shrinking and closing businesses (figure 2).

### What is the status of the startup market?

While the number of new employer businesses has recovered from the recessionary dip, the average employment of these businesses has been declining over the past decade (figure 3).

### How many businesses do women own?

While women-owned firms have increased as a share of total businesses over the years, their size still remains smaller than national averages. The 7.8 million women-owned firms averaged \$130,000 in receipts in 2007 (table 2).

### How many businesses do minorities own?

Asian-owned businesses numbered 1.6 million in 2007 and have average receipts of \$290,000. African-American-owned businesses numbered 1.9 million in 2007 and have average receipts of \$50,000. Hispanic-American-owned businesses numbered 2.3 million in 2007 and have average receipts of \$120,000. Native American/Islander-owned businesses numbered 0.3 million in 2007 and have average receipts of \$120,000 (table 2).

### How many businesses do veterans own?

Veteran-owned businesses numbered 3.7 million in 2007, with average receipts of \$450,000 (table 2).

Source: U.S. Census Bureau, SBO.

### Is youth entrepreneurship increasing?

Self-employment among younger age groups has been dropping. From 2005 to 2010, self-employment among individuals age 25 and under decreased 19 percent (compared to a 7 percent drop in the overall population). In contrast, self-employment among those age 65 and over increased 24 percent over this period as their population grew. Self-employment rates increase with age; for

example, they were 2 percent for those 25 and under and 23 percent for those 65 and over in 2010.

Source: Office of Advocacy calculations using U.S. Census Bureau, CPS data.

**Table 2: Number of Firms and Receipts by Demographic, 2007**

| Business Owner Demographic       | Firms (millions) | Receipts per firm (\$1,000) |
|----------------------------------|------------------|-----------------------------|
| All businesses                   | 27.1             | 1,070                       |
| Male                             | 13.9             | 570                         |
| Female                           | 7.8              | 130                         |
| Equally male/female              | 4.6              | 240                         |
| African-American                 | 1.9              | 50                          |
| Asian                            | 1.6              | 290                         |
| Hispanic                         | 2.3              | 120                         |
| Native American/Pacific Islander | 0.3              | 120                         |
| Veteran                          | 3.7              | 450                         |
| Publicly held                    | 0.8              | 23,860                      |

Source: U.S. Census Bureau, SBO.

### What are the home-based business trends?

The share of firms that primarily operate out of the home was unchanged from 2002 to 2007 at 52 percent (the latest figure available). Employers had a lower share than nonemployers, 24 percent vs. 63 percent, respectively, in 2007. Of the major industries, construction had the highest share of home-based businesses, 70 percent. (Being home-based is not synonymous with working at home.) It is interesting to note that retail trade went from 49 percent home-based in 2002 to 44 percent in 2007 while the share of Internet retail sales went from 1 percent to 3 percent of total retail sales.

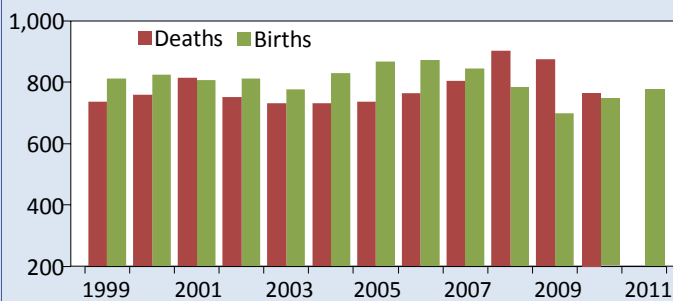
Source: U.S. Census Bureau, SBO and Quarterly E-Commerce Report.

### How does franchise survival compare with independent business survival?

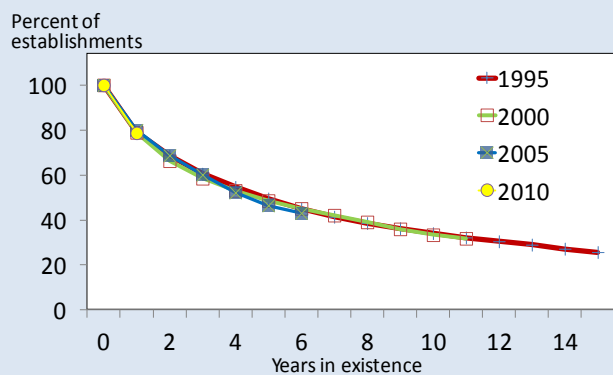
Survival among independent businesses and franchises appears to be similar, as they have similar age distributions. Of course each potential business owner debating an independent business or franchise arrangement will have unique factors to weigh, such as their managerial talent and sales abilities.

**Figure 4: Startups and Closures**

(thousands of establishments, seasonally adjusted)



Source: Bureau of Labor Statistics, BED.

**Figure 5: Cumulative Survival Rates for Establishments by Birth Year**

Source: Bureau of Labor Statistics, BED.

**Table 3: Employer Firm Births and Deaths\***

|               | 1999-2000 | 2004-2005 | 2007-2008 | 2008-2009 |
|---------------|-----------|-----------|-----------|-----------|
| <b>Births</b> | 574,300   | 644,122   | 597,074   | 518,500   |
| <b>Deaths</b> | 542,831   | 565,745   | 641,400   | 680,716   |

\*Figures are March to March.

Source: U.S. Census Bureau, SUSB.

Source: Advocacy research, Do Business Definition Decisions Distort Small Business Research Results? <http://archive.sba.gov/advo/research/rs330tot.pdf>. Note that about half of the franchises in the data were nonemployers, which may not be the stereotypical franchise that individuals imagine.

### How many businesses open and close each year?

About 10-12 percent of firms with employees open each year and about 10-12 percent close (table 3). Employer firm births were down and deaths were up in the most recent available data because of the downturn. But establishment birth figures from 2011 show gains (figure 4). Nonemployer firms have turnover rates three times as high as employer firms, mostly because it is easier for nonemployers to start and stop, as they tend to be smaller than employer firms. Business bankruptcies numbered 48,000 in 2011, a decline of the about 60,000 over the previous two years. Note that not all firm deaths are business bankruptcies, and many business owners file personal bankruptcy instead of business bankruptcy.

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

About half of all new establishments survive five years or more and about one-third survive 10 years or more. As one would expect, the probability of survival increases with a firm's age. Survival rates have changed little over time (figure 5).

### How do small and large businesses compare on innovation?

Of high patenting firms (15 or more in a four-year period), small businesses produced 16 times more patents per employee than large patenting firms. Research also shows that increasing the number of employees correlates with increased innovation while increasing sales does not.

Source: Advocacy-funded research, An Analysis of Small Business Patents by Industry and Firm Size, <http://archive.sba.gov/advo/research/rs335tot.pdf>; Innovation in Small Businesses: Drivers of Change and Value Use, [www.sba.gov/sites/default/files/rs342tot\\_0.pdf](http://www.sba.gov/sites/default/files/rs342tot_0.pdf).

### How are small businesses financed?

Small businesses are financed through owner savings; loans from family, friends, and commercial lenders; bonds; stocks; ownership stakes; and other arrangements. For detailed financing information, see Advocacy's *Frequently Asked Questions about Small Business Finance*, [www.sba.gov/advocacy/9601](http://www.sba.gov/advocacy/9601).

### How are credit conditions for small firms?

For up-to-date statistics, see Advocacy's quarterly reports, [www.sba.gov/advocacy/10871](http://www.sba.gov/advocacy/10871).

### What is small businesses' share of federal government procurement?

In fiscal year 2011, 21.7 percent of federal government small-business-eligible purchases went to small businesses. The Department of Defense accounted for the majority of small business procurement.

Source: Small Business Goaling Report, 2012, [www.fpdsng.com/downloads/top\\_requests/FPDSNG\\_SB\\_Goaling\\_FY\\_2010.pdf](http://www.fpdsng.com/downloads/top_requests/FPDSNG_SB_Goaling_FY_2010.pdf).

### How are business churn and the economy related?

Business churn (the sum of the firm birth and death rates) tends to follow the change in GDP with a six-quarter lag (figure 6). Recently, churn has been down, which may be a response to the general decline in output.

## What are the effective tax rates for small businesses?

The average effective tax rate for businesses organized as sole proprietorships was 13.3 percent in 2004, with small S corporations facing the highest rates (table 4). (An effective tax rate is usually defined as the amount of tax paid as a fraction of net income or profit.)

**Table 4: Effective Tax Rates, 2004**

| Legal form of business ownership | Effective tax rate (percent) |
|----------------------------------|------------------------------|
| Non-farm sole proprietorship     | 13.3                         |
| Partnership                      | 23.6                         |
| S corporation                    | 26.9                         |
| C corporation                    | 17.5                         |

Source: Advocacy-funded research, Effective Federal Income Tax Rates Faced By Small Businesses in the United States, [www.sba.gov/sites/default/files/rs343tot.pdf](http://www.sba.gov/sites/default/files/rs343tot.pdf).

## What legal form of organization are small businesses?

Sole proprietors and partnerships constituted 94 percent of nonemployers in 2010 and of the corporations, most were likely S corporations which are taxed at personal rates. Twenty-two percent of small employers were C corporations in 2009, with 71 percent taxed at personal rates and 7 percent nonprofits (figure 7).

## Do you have any newer data?

For updates of many quarterly small business indicators, see [www.sba.gov/advocacy/10871](http://www.sba.gov/advocacy/10871). For more details and information, visit Advocacy's general website, [www.sba.gov/advocacy](http://www.sba.gov/advocacy). Two of the most comprehensive pages are the Data Resources page and the Firm Size Data page. Both are accessible from [www.sba.gov/advocacy/849](http://www.sba.gov/advocacy/849). Two other often visited pages are the Banking Study ([www.sba.gov/advocacy/7540/173967](http://www.sba.gov/advocacy/7540/173967)) and the State Small Business Profiles ([www.sba.gov/advocacy/848](http://www.sba.gov/advocacy/848)). Additional questions may be emailed to [advocacy@sba.gov](mailto:advocacy@sba.gov).

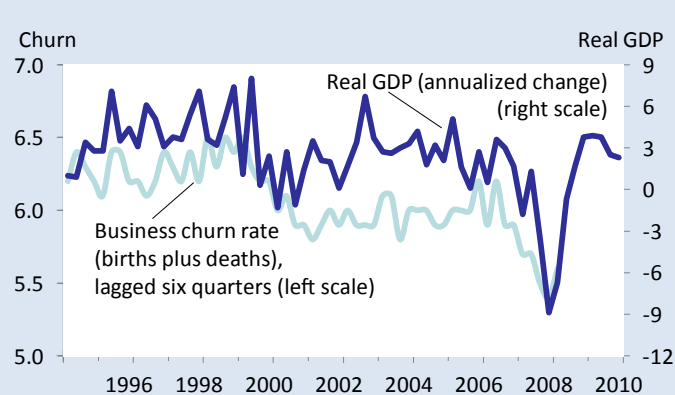
## Abbreviations & Sources

- BED Business Employment Dynamics. U.S. Department of Labor, Bureau of Labor Statistics, [www.bls.gov/bdm](http://www.bls.gov/bdm).
- BDS Business Dynamics Statistics. U.S. Department of Commerce, Census Bureau, [www.census.gov/ces/dataproducts/bds](http://www.census.gov/ces/dataproducts/bds).
- CPS Current Population Survey. U.S. Census Bureau, and U.S. Department of Labor, Bureau of Labor Statistics, [www.census.gov/cps](http://www.census.gov/cps).
- SBO Survey of Business Owners. U.S. Census Bureau, [www.census.gov/econ/sbo](http://www.census.gov/econ/sbo).
- SUSB Statistics of U.S. Businesses, U.S. Census Bureau, [www.census.gov/econ/susb](http://www.census.gov/econ/susb).

## About the Office of Advocacy

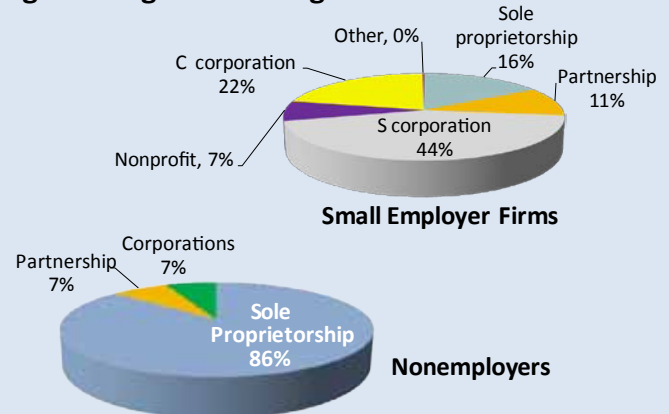
The SBA's Office of Advocacy was created by Congress in 1976. Part of the office's mission includes conducting policy studies and economic research on issues of concern to small businesses. The office also publishes data on small firm characteristics and contributions. For further data and research information, visit the Office of Advocacy's website at [www.sba.gov/advocacy/847](http://www.sba.gov/advocacy/847).

**Figure 6: Business Churn versus Output (percent)**



Source: Bureau of Labor Statistics, BED (churn); Bureau of Economic Analysis (GDP).

**Figure 7: Legal Form of Organization of Small Business**



Source: U.S. Census Bureau, SUSB and Nonemployer Statistics.