



The Facts About:

Small Business



Without a doubt, small business is the backbone of commerce and industry in the U.S. You have probably heard this before. The facts behind the story may be somewhat less familiar, yet they are truly impressive. Consider the following facts about small business published by The U.S. Small Business Administration (SBA, <http://www.sba.gov>). SBA reports, small businesses ..."

- ◆ ... Represent 99.7% of all employer firms.
- ◆ ... With fewer than 500 employees represent 99.9% of the 25.8 million businesses in the U.S.
- ◆ ... Employ half of all private sector employees.
- ◆ ... Pay more than 45% of total U.S. private payroll.
- ◆ ... Have generated 60% to 80% of net new jobs annually over the last decade.
- ◆ ... Create more than 50% of non-farm private gross domestic product (GDP).
- ◆ ... Supplied more than 23% of the total value of federal prime contracts in FY 2005.
- ◆ ... 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 41% of high tech workers (such as scientists, engineers, and computer workers).
- ◆ ... Are 53% home-based and 3% franchises.
- ◆ ... Made up 97% of all identified exporters and produced 28.6% of the known U.S. export value in FY 2004.

It is clear that government, businesses of every size, and consumers across the nation depend on small business. But, did you know there is a dark side to small business? The following facts tell another story:

- ◆ 25% of businesses will fail in the next three years. 99.9% of all business have fewer than 500 employees. This means that more than 90% of all business failures are small business failures.
- ◆ Small businesses with up to 20 employees spend 4½ times as much per employee to comply with environmental regulations and 67% more per employee on tax compliance than their larger counterparts.
- ◆ Two-thirds of new employer establishments survive at least two years, and only 44% survive at least four years.
- ◆ According to a National Federation of Independent Business membership survey, the number one small business issue is the cost and availability of insurance.
- ◆ Advocacy research shows that insurers of small health plans have higher administrative expenses than those that insure larger group plans.
- ◆ For businesses with employees, the 2005 estimate is the creation of 671,800 new firms and 584,001 failures.

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White Paper Series

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The creation-to-failure ratio varies somewhat from one year to the next. As might be expected, during recessions there can be more failures than creations. For example, compare 2001-2002 to 2003-2005 in the following SBA data (the suffix, e, means "estimated"):

	2001	2002	2003	2004	2005
New Firms	585,140	569,750	612,296	642,600e	671,800e
Firm Closures	553,291	586,890	540,658	544,300e	544,800e
Bankruptcies	40,099	38,540	35,037	34,317	39,201

In more than 20 years of working with small businesses, we have found that their huge natural advantages are the inherent agility and quickness to occupy and exploit specialty niches. Yet, as the data also shows, stability, benefits cost-efficiency, and low cost of regulatory compliance are not hallmarks of the nation's commerce and industry backbone. We have isolated the critical success factors that affect the odds for small business. In our experience, successful companies develop bullet-proof capabilities for the following six critical success factors:

1. Corporate Process
2. Administration
3. Bookkeeping and Financial Controls
4. Marketing and Sales
5. Organization and Management Process
6. Project Management and Workflow Controls

Typically, survivors of the turbidity in the small business sector work on these things until they simply cannot get them wrong. It is not expensive to do this, although the work is not always easy. The first step is a game plan for the business, which specifies the company's broad objectives, how they will be funded, and the effort needed to achieve them. From there, it is a matter of assigning work and holding people accountable. Small businesses, possessing extraordinary agility and quickness, have fewer problems with execution when all concerned know what to do and when it needs to get done. Small companies can "move the needle" toward greater stability and lower administrative cost. Suggestions, ideas and solutions for doing this are abundant.

There are many professional out-sources that can bring the know-how, the tactical resources and the financing solutions. Input to the focused and achievable game plan can be created by consulting the resources and comparing recommendations and suggestions. The planning process need not consume very much time and money. With that, the success-oriented businesses will take control and get started on the improvements. To complete the mission of getting to the next level, the business will have to sustain the will to move. A process for managing change will also be needed to keep the program on track.

Permanent solutions to the problems caused by instability and disproportionate administrative costs begin with the identification of the improvements with the largest benefit-to-cost ratio. Checklists of the company's practices and corporate capability assessments can reveal accurate snapshots of where the most effort needs to be applied. Skills inventories and leadership assessments can show managers how to lead the team to the goal more rapidly with vanishing cost of errors. These tools are readily available, free for the asking. Contact us for more information. Or, visit us online: <http://www.ChesapeakeBayAssociates.com>.

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