Management

Ask SCORE

What is a Small Business?

I met a devoted reader of this column this past week. She said, “Dean, you keep writing about “small businesses”, but what is a small business and how many do we have in this area?” OK, that’s a good question. So I went to The Office of Advocacy in the US Small Business Administration and they define 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 U.S. Small Business Administration (SBA) Office of Size Standards. These standards vary by industry; and can be found at www.sba.gov/size.

Using that definition, we have a lot of small businesses in southeast Minnesota. In fact, according to the latest census data, there are 31,989 such businesses in the area that the Southeast Minnesota SCORE Chapter serves. Generally this area includes the southeast corner of the state, north from the Iowa border, along a line of counties from Albert Lea to Faribault and everything east to the Wisconsin border excluding the Red Wing area which has a SCORE Chapter.

The question about small businesses also included how important are they to the U.S. economy? The quick answer is that they are very, very important. Here are some of the most recent data that I can find from the U.S. Dept. of Commerce, Bureau of the Census and International Trade Administration.

Small businesses:

- Represent 99.7 percent of all employer firms.
- Employ just over half of all private sector employees.
- Pay 44 percent of total U.S. private payroll.
- Have generated 64 percent of net new jobs over the past 15 years.
- Create more than half of the nonfarm private gross domestic product (GDP).
- Hire 40 percent of high tech workers (such as scientists, engineers, and computer programmers).
- Are 52 percent home-based and 2 percent franchises.
- Made up 97.3 percent of all identified exporters and produced 30.2 percent of the known export value in FY 2007 (latest data I could find).
- Produce 13 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.

Recently we have seen Congress and the Administration focus a lot of attention and hope toward small businesses as a key factor in turning our economy around. So a fair question is what share of net new jobs do small businesses create?

We are seeing all kinds of predictions on this subject by politicians. But what has been the track record
in actual numbers? Here is what I found. Firms with fewer than 500 employees accounted for 64 percent (or 14.5 million) of the 22.5 million net new jobs (gains minus losses) between 1993 and 2008. Continuing firms accounted for 68 percent of net new jobs, and the other 32 percent reflect net new jobs from firm births minus those lost in firm closures (1993 to 2007). My source for these data is the U.S. Dept. of Labor, Bureau of Labor Statistics, Business Employment Dynamics. (Note that the methodology used for the figures above counts job gains or losses in the actual class size where they occurred.)

In conclusion, Southeast Minnesota is the home to thousands of small businesses and these entities play a major role in the economy of our area, state, and nation. That is why SCORE Counselors give their time to assist the success of these important firms and are dedicated to helping them thrive.

Remember that you can learn more about managing your small business, by contacting SCORE, America’s free and confidential source of small business mentoring and coaching.

__________

Dean L. Swanson
South East Minnesota SCORE
c/o Rochester Area Chamber of Commerce
220 South Broadway, Suite 100
Rochester, MN 55904
*Dean is a volunteer SCORE Counselor.