

The State of Small Business Report

January 2011 Survey of Small Business Success

February 9, 2011

Sponsored by: **Network Solutions, LLC and the University of Maryland's Robert H. Smith School of Business**



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AT THE UNIVERSITY OF MARYLAND

Presented by: **Rockbridge Associates, Inc.**



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Introduction

The competitive health of America's small businesses is as low as it has been since the Small Business Success Survey began tracking at the onset of the recession. There continues to be a struggle to provide capital and find new customers, while there is an unprecedented lack of confidence in competing with big business. Yet, small businesses are starting to grow and return to the black. After reaching a low point in the summer, technology investment is on the rise and social media adoption continues to grow. Despite poor competitive health now, owners are becoming increasingly optimistic about the economy and their future business success. Over a quarter plan to add staff in 2011, and if they carry out their plans, will create 3.8 million jobs.








Because of the importance of the small business sector, which has traditionally accounted for over one out of every three jobs in the U.S., Network Solutions, LLC and the University of Maryland's Robert H. Smith School of Business have partnered to track the competitive health of small businesses over time. The survey is conducted by telephone every six months, and five waves of the survey have been conducted to date:

- Wave 1, the baseline survey wave, in December 2008 and January 2009 among 1000 small businesses
- Wave 2, in June 2009 with 500 small business owners
- Wave 3, in December 2009 with 500 small business owners
- Wave 4, in June 2010 with 500 small business owners
- Wave 5, the subject of this report, in January 2011, with 500 small business owners.

(The methodology is discussed in greater detail in the last section of this report, *About the Small Business Success Survey*.)

A central focus of the Small Business Success Survey is competitiveness, which is defined here as the level of success a small business achieves in conducting the organizational activities critical to its short and long term viability. The more competitive a small business is, the more likely it is to meet the personal and business goals of its owners and show positive financial results. The Small Business Success Index (SBSI) is composed of 6 distinct dimensions that capture competitiveness, as shown in the report card in Figure 1.

Figure 1

Small Business Success Report Card				
	Importance Score**	Index Score*	Grade	✓
OVERALL INDEX SCORE*		73	C-	
Sub-Indices				
Capital Access	33	67	D+	
Marketing & Innovation	23	65	D	
Workforce	14	76	C	
Customer Service	11	88	B+	
Computer Technology	11	75	C	
Compliance	8	92	A-	
*Index Score is calculated on a 0-100 scale				
**Importance Score is calculated proportionally, meaning that the total of the numbers across all the sub-indices is 100%.				

The SBSI ranges from 0 to 100, and is currently 73, which can be viewed as a "C-". This level is unchanged from June 2010, but remains at a low point since tracking began in December 2008 when it was 75. For the past two years, small businesses have consistently suffered from weaknesses in the critical areas of Capital Access and Marketing, while downward shifts have occurred on selective indicators of success within the index. Compared to approximately a year ago (December 2009), small businesses have experienced a significant drop in the critical area of Marketing and Innovation, particularly in their ability to identify new customers and to position

themselves effectively against bigger competitors. Small businesses have also experienced a decline in the past year in the Workforce Competitiveness dimension, with less success in training employees and maximizing productivity. Coupled with a perceived disadvantage in hiring good people, this could pose a problem in the coming year as businesses try to expand.

This wave of the Small Business Success Survey also provides depth on issues and opportunities for small businesses, including the deployment of technology, the continuing rise of social media, awareness and use of mobile technology, hiring outlook, and an in-depth look at who is best suited to work in a small enterprise.

Executive Summary

Competitiveness slips. As stated in the Introduction, the overall health of small business is unchanged since June 2010, and remains a “C-”, compared to a solid “C” just over a year ago. More businesses than ever are now classified as “failing” in competitive health based on their individual index score – the share of failing small businesses is now 28%, compared to 19% two years ago just at the onset of the recession.

Marketing and Innovation, one of the most important dimensions contributing to competitiveness, experienced a significant drop in performance. This area slipped from a “C-” a year ago to a solid “D” by June, and remains at this level as of January. A key challenge faced by small businesses now is positioning their enterprises as having the same capabilities as their larger competitors. Only a third (33 percent) feel they are successful competing with the big companies, compared to almost half (47 percent) a year ago.

The *Workforce* dimension is another area where small businesses experienced a significant drop in competitiveness in the past year. This area slipped from a “C+” last year to a solid “C” in June, and remains at this level. Compared to a year ago, small businesses face greater problems with training and developing staff, and maximizing staff productivity.

A positive financial outlook. Despite competitiveness hitting a low in the summer and remaining there throughout 2010, small businesses are starting to experience tangible improvement in their financial situation. In 2010, 38 percent experienced a gain in sales over the previous year, compared to only 15 percent who experienced a decline; in comparison, more businesses experienced a decline rather than a gain in 2009. In 2009, a quarter (26 percent) of small businesses lost money, while only a sixth (16 percent) lost money in 2010.

Optimism for the future is at an all-time high. For the first time in two years, more small business owners think the economic climate is “improving” rather than “worsening” (35 percent compared to 19 percent). A year ago, more thought it was worsening than improving. Small businesses are also more optimistic about the outlook for the economy *in the next 12 months* than a year ago, with only 15 percent believing the economy will decline compared to 26 percent who believed this a year ago. The percent who feel they were impacted by the recession hit a peak last year and is starting to decline.

Technology investments on the rise. One way that small businesses responded to improving sales last year was to return to investing in technology. The perceived importance of internet business solutions (IBS) such as websites grew in the past six months; 42 percent consider IBS’ highly important to their success, compared to only 33 percent back in June. The adoption of internet business solutions hit a low point in June, likely a result of recession-related cost cutting, but they surged back the second half of 2010. Over half of small businesses (56 percent) now have websites, up from 46 percent a year ago. Social media is now used by almost a third of small businesses (31 percent), up from 24 percent a year ago and 12 percent two years ago.

Over a quarter (27 percent) of small businesses have a Search Engine Optimization (SEO) plan, up from 19 percent a year ago. The only internet business solution in the survey that dropped is the purchase of online advertising in directories, a category that may be affected by the ability to use SEO and social media to find customers without spending. However, many small businesses plan to add online directory ads in the future.

The role of having an online presence in a small business has changed over time. The online channel is more important than a year ago as a way of generating leads for new customers, playing a primary role in this activity for 30 percent of businesses and a secondary role for another 16 percent. While websites are critical for small businesses, 55 percent update their sites less frequently than once a month, and 26 percent update them no more than once a year.

Small business continues to embrace social media. There is almost universal awareness among small business owners of Facebook and Twitter, while half are aware of LinkedIn. The most commonly used social media sites are Facebook (used by 27 percent of all small businesses) and LinkedIn (18 percent). The growth in social media is not cutting into investments in company websites, and is actually contributing to their expansion; 62 percent of social media users feel their use of this medium has no effect on their web investments, while 27 percent believe it will result in greater spending (only 9 percent would spend less or forgo their website).

Small businesses are still grappling with how to get the most out of social media, not surprising because so many users are “newbies.” Owners more often feel that their use of social media has fallen short of expectations (36 percent) than exceeded their expectations (9 percent), and this gap has increased over past survey waves. The main accomplishments from using social media include: staying engaged with customers, developing higher awareness of the company, and identifying and attracting new customers. When asked about their experiences to date with this medium, 63 percent of owners feel it has helped make their customers more loyal, but 56 percent feel it has taken up more time than they expected. Summing up the bottom-line, 25 percent of small business owners estimate that their investment in social media has made a profit while 15 percent estimate they have lost money; the remainder (46 percent) feel they broke even.

Owners are learning to deploy social media in a mobile context. Of those who use social media already, 47 percent use social media to send text messages to customers, while the same share (47 percent) use their mobile devices to respond to other people’s comments on social media sites.

Mobile marketing is still cutting-edge. Despite their use of mobile devices for routine interactions with social media, small businesses are skeptical that a broader use of mobile marketing can provide tangible value to their businesses right now. Most owners consider mobile marketing to be “ahead of its time” (24 percent) for small business or “cutting edge” (36 percent). Only 15 percent of small business owners believe that mobile marketing would be “extremely” or “very valuable” to their enterprise, and another 20 percent feel it would be “somewhat” valuable. This attitude is largely unchanged after owners hear more about detailed uses of mobile marketing.

Mobile marketing consists of a range of activities like texting information on promotions to customers, listing a business on a location based website, creating a mobile site, creating a mobile application, and advertising on mobile sites. The majority of owners are aware of each of these activities, but few use them or consider them valuable. The most relevant mobile marketing activity is listing a business on a location-based website. Almost half (48 percent) of owners consider this to be at least somewhat valuable to their business; 19 percent have already done this while 33 percent will have done so in two years if owners carry out their plans.

The future is hiring special people. While small businesses invested in technology in the second half of last year, hiring will become more important for 2011 to meet the growing demands of an improved economy. Many small businesses – 28 percent of the total – are planning on adding staff in 2011, while only 2 percent are considering reductions. The main reason for adding staff is to expand the business (73 percent), while 32 percent are trying to decrease the workload of existing staff who are struggling to keep up with the turnaround. If small businesses carry out their hiring plans, they will add a total of 3.8 million jobs to the U.S. economy in 2011.

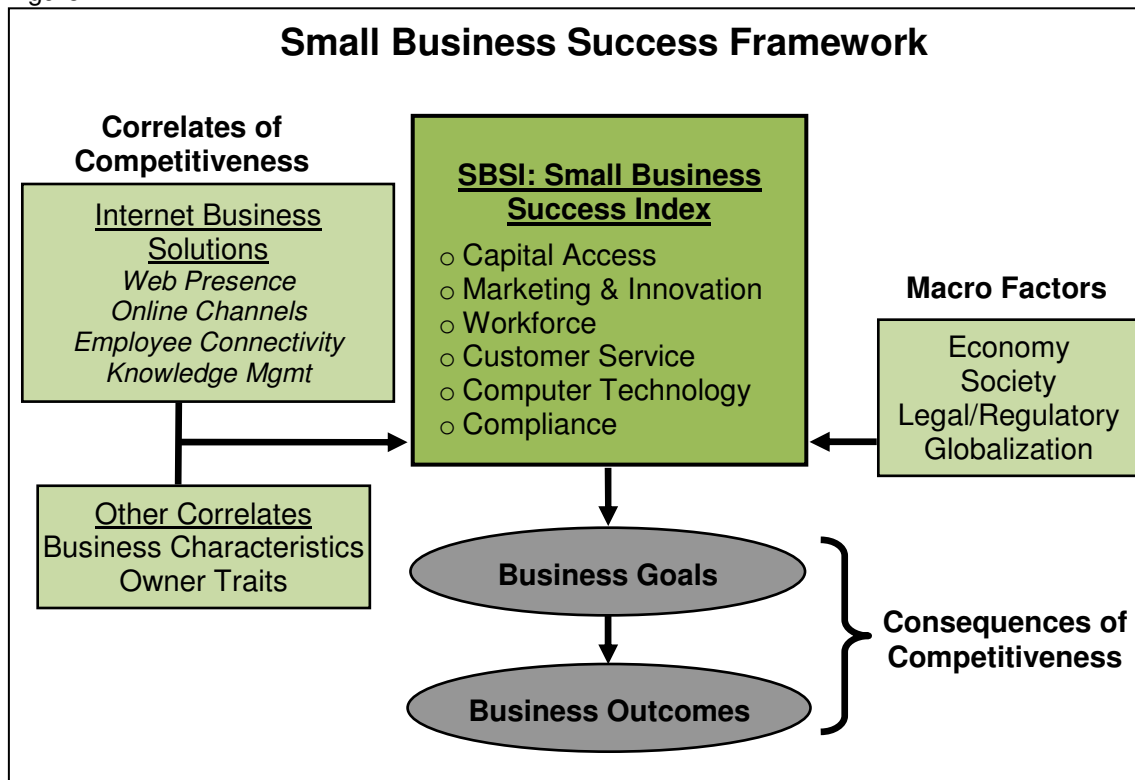
Hiring may be a challenge, as less than half (46 percent) of small businesses believe they are successful in competing with other companies for good employees. Not everyone should work for a small business. According to owners, the types of employees who are best suited for a small business environment rather than a large business environment possess the following qualities: experience working in other small businesses, flexible mindset, and a broad skill set. Workers who like structure are advised to consider bigger firms for employment.

2011: A Year of Renewal. The past waves of the Small Business Success Survey highlighted the struggles of small businesses throughout the recession. One constant is that most owners are satisfied with their vocation – 61 percent are highly satisfied with being a business owner, while only 7 percent are dissatisfied. This level has remained relatively high over past waves despite the trials of the economy. Owners hit a low in terms of their perceived competitive health and ability to vie against big business, but they have started to make money and are optimistic about the coming year. Technology has and will continue to play a critical role in their success, while challenges may turn from finding customers to rebuilding staff.

The Small Business Success Index

This research is based on a holistic approach to gauging the health of small businesses, as captured in the Small Business Success Framework (see Figure 2). At the heart of the framework is “competitiveness,” a multi-faceted construct that is measured with the Small Business Success Index (SBSI). The framework goes beyond the SBSI to also capture the outcomes or consequences of competitiveness, as well as other factors that relate to competitiveness, both internal (such as owner traits or technology usage) and external (like the economy or regulation). These areas are covered in the survey questionnaire, and their linkages were validated in the baseline study (December 2008/January 2009).

Figure 2



Small Business Success is measured on several dimensions and quantified on a scale of 0 to 100 (completely failing to completely successful). The full SBSI is based on 28¹ measures, which capture the six dimensions (or sub-indices) below:

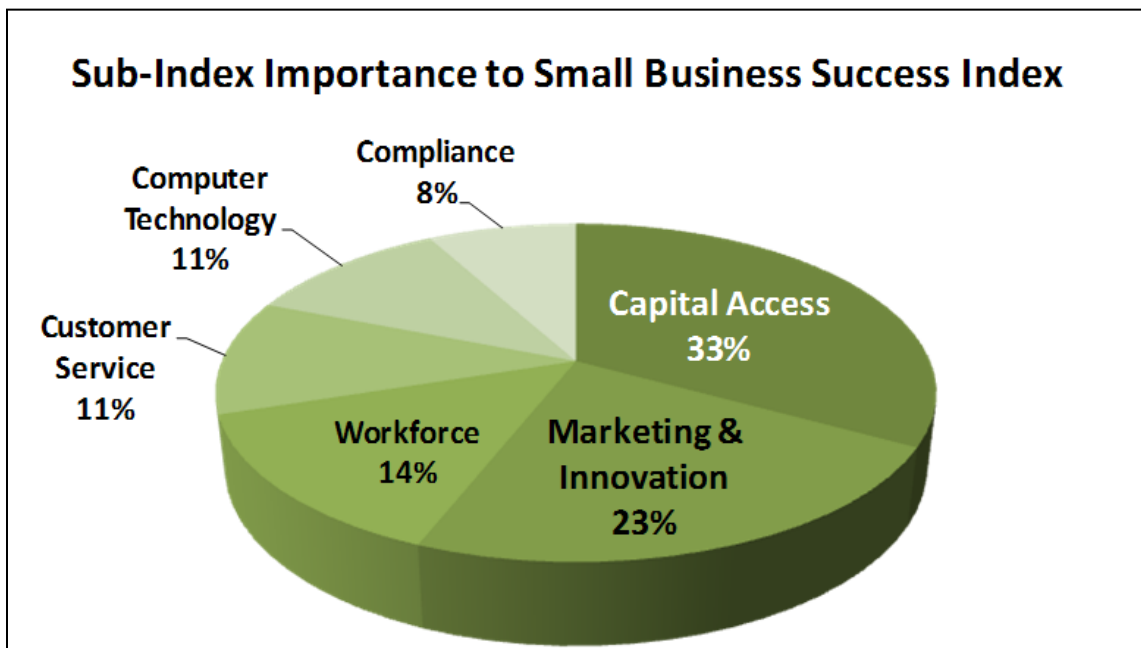
- **Capital Access**, including availability of working capital, capital for long term investments, and expert financial advice
- **Marketing and Innovation**, such as identifying new prospects, showing effective corporate positioning, converting leads, finding ways to efficiently advertise, and the ability to come up with new ideas
- **Workforce**, including the ability of small businesses to attract, retain, develop, motivate and deploy employees efficiently, as well as encourage creativity from them

¹In this wave, a shorter version with 14 items was used. Comparisons to the past are made using the short version, but the results are almost identical to using the full version. All comparisons to previous waves on the index are based on the shorter version, which may result in slight differences from past reports.

- **Customer Service**, which is the ability of small businesses to service their customers, show they care about them and grow their relationships
- **Computer Technology**, which includes making technology work effectively and efficiently in the organization
- **Compliance**, which is the ability of the small business to understand and comply with laws and regulations, including ensuring data security

These dimensions have varying importance in a small business's overall SBSI score. For example, performance in Capital Access has the most impact on overall competitiveness, accounting for one-third of the total competitiveness score (see Figure 3). Marketing and Innovation is also highly important, making up almost one-quarter of the SBSI score. These weighting factors, which sum to 100%, are based on the degree to which each sub-index is able to explain a small business's perceived success in meeting broad goals such as building wealth, growing, and providing an attractive income and lifestyle for the owners.

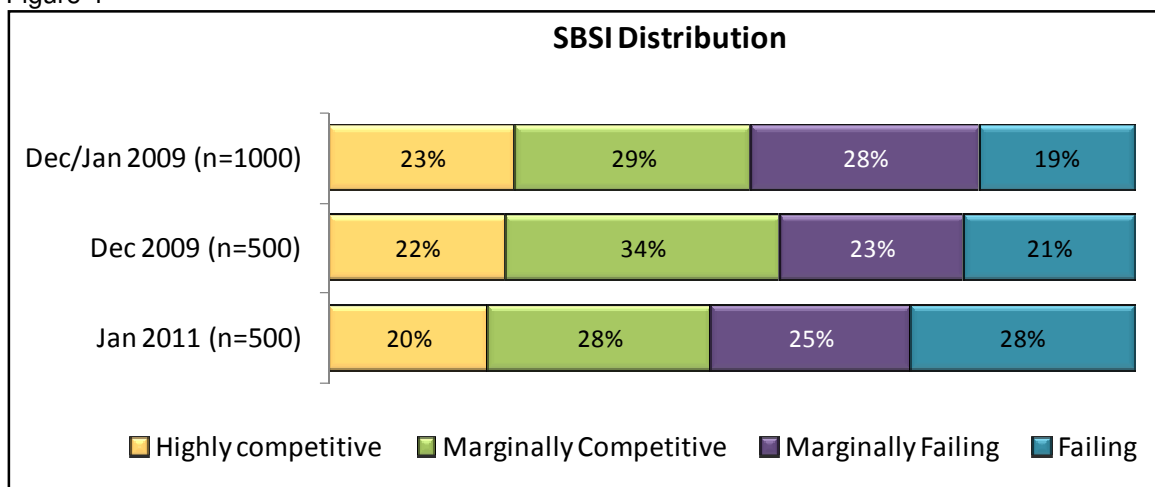
Figure 3



How competitive are small businesses today? As of January 2011, when the most recent wave of the Small Business Success Survey was completed, small businesses had an SBSI score of 73. This can be considered a middling rating, or the equivalent of a 'C-'. Based on their scores, individual small businesses can be classified into four competitiveness groups (see Figure 4):

- 20% of small businesses are **Highly Competitive** (an SBSI score of 85 or higher)
- 28% are **Marginally Competitive** (an SBSI score of at least 75 but less than 85)
- 25% are **Marginally Failing** (an SBSI score of at least 65 but less than 75)
- 28% are **Failing** (an SBSI score below 65).

Figure 4



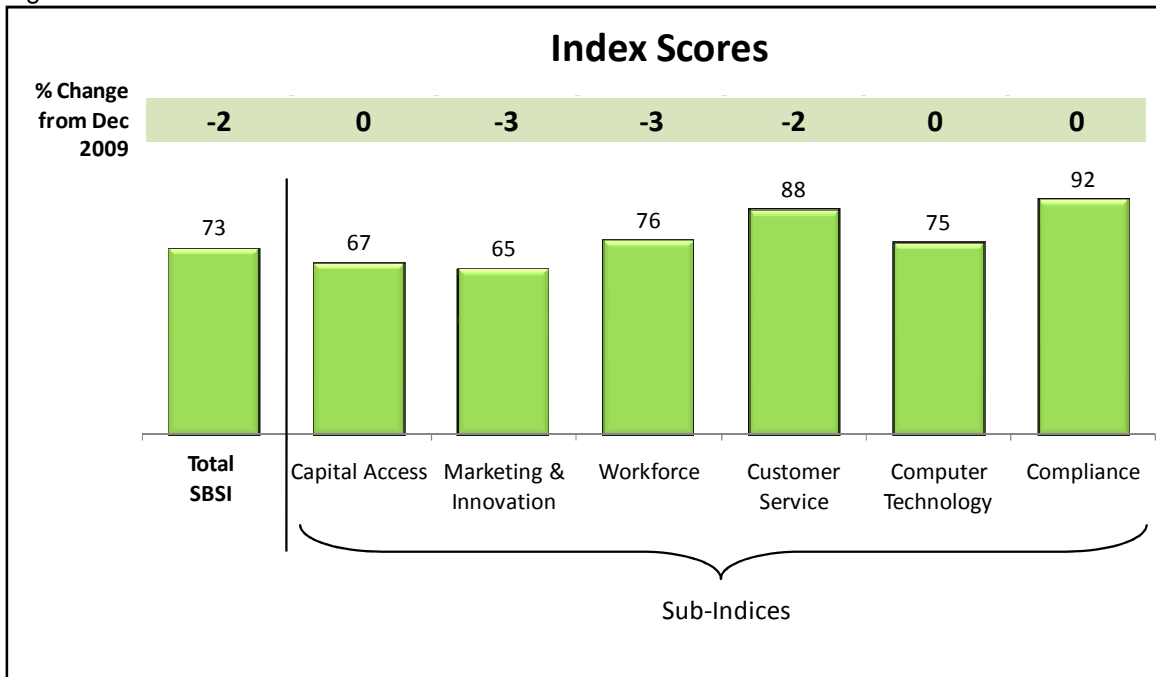
Competitiveness, as measured by the SBSI, relates strongly to the ability of a small business to succeed in meeting broad business goals. Owners of businesses in the “highly competitive” category largely believe they have successful businesses; for example, the businesses are growing, creating wealth, avoiding risk, and meeting the owners’ expectations for income and an attractive lifestyle. In contrast, those in the “failing” category tend to be failing in meeting these broader goals, and those that are “marginally failing” can be deemed as not in a crisis but clearly not successful in meeting the owners’ expectations.

The SBSI is currently at a low point since it was first quantified two years ago (December/January 2009). It held steady at 75 through January 2010, but dropped to 73 in June and remains at that level as of January 2011. There are fewer “highly competitive” or “marginally competitive businesses” than last year; in December of 2009 (13 months ago), 56 percent of small businesses fell into one of the competitive categories, but only 48 percent do so now. Perhaps of greater concern is the increasing share of small businesses classified as “failing”; failing businesses were 19 percent two years ago, 21 percent a year ago, and are now 28 percent.

By looking at how small businesses score on each sub-index of the SBSI, a more detailed picture emerges of their strengths and trouble spots. Small businesses are struggling the most with Marketing and Innovation, earning the equivalent of a ‘D’ on this sub-index (see Figure 5). This area has dropped significantly over the past year, from a 68 in December 2009 to 65 in June 2010, where it remains unchanged in January 2011. A major area of deterioration in Marketing and Innovation is a drop in the perceived ability of small businesses to compete with bigger companies (discussed later). The Workforce sub-index also experienced a decline in the past year, dropping from 79, the equivalent of a “C+”, to 76, the equivalent of a solid “C”. The Customer Service sub-index dropped as well, but is still a key strength of small business.

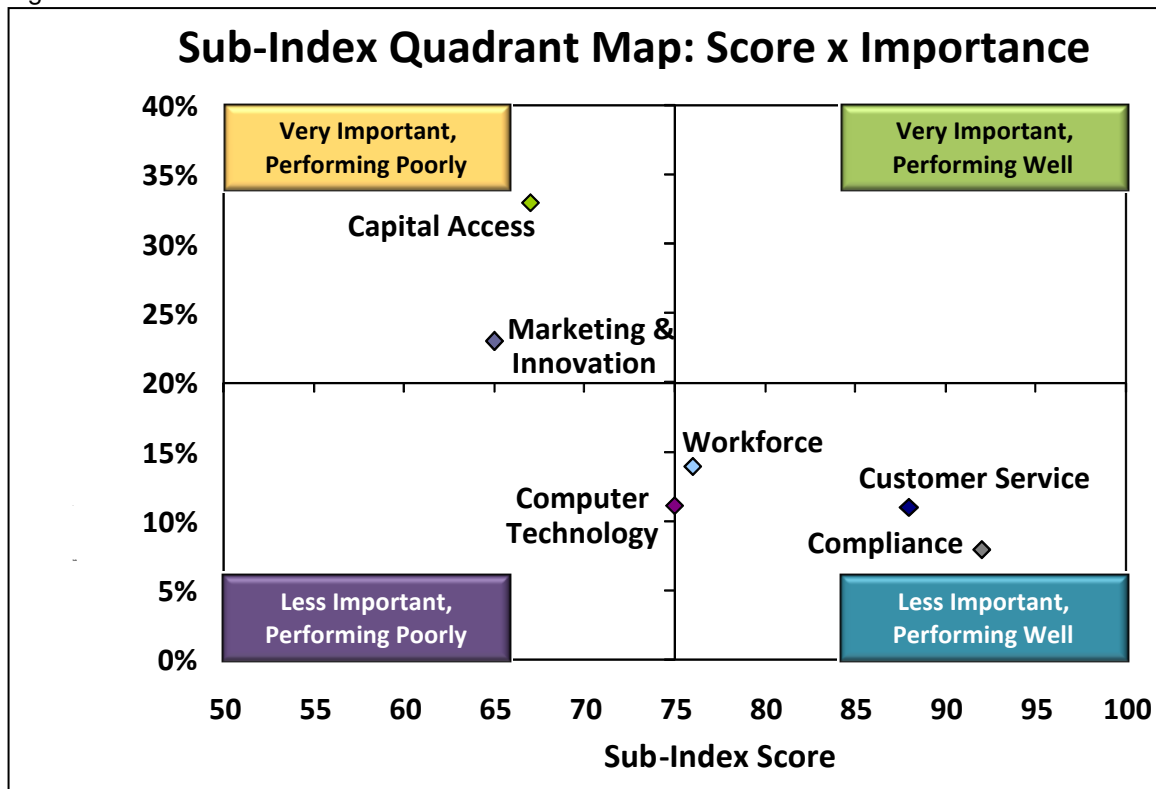
Other areas are unchanged from a year ago, including Capital Access, a critical area where small businesses are at a continued competitive disadvantage. At the other end of the spectrum, small businesses continue to excel at Compliance, and get by with Technology.

Figure 5



What are the top priorities for making small businesses more competitive? By comparing the importance of each sub-index with its overall score, it becomes apparent which strengths and weaknesses have the most impact on the ability of small businesses to succeed in the future. The quadrant below (Figure 6) provides this perspective by comparing performance on each index dimension with its importance.

Figure 6



The quadrant map reveals just how important Capital Access is in affecting the ability of small businesses to compete. The recession hampers small businesses' ability to secure funding for their short and long term needs, which in turn restrains their ability to grow and compete effectively. The map also reveals that Marketing and Innovation is not just a weak area, but a highly important one. The prolonged weak economy has finally started to undermine the confidence of small business owners to stand up to the big companies that compete in their industries. One solution may be technology-based marketing. The later discussion reveals how small business is rapidly embracing social media and reinvesting in internet business solutions as a way to attract new customers and engage existing customers.

The Workforce dimension is classified in the quadrant labeled "less important, performing well." As noted previously, it has slipped in performance, which may pose a problem as the economy recovers and hiring increases. Small businesses plan to add over three million jobs in 2011, but face challenges in competing for new people and ensuring existing staff are well trained and productive.

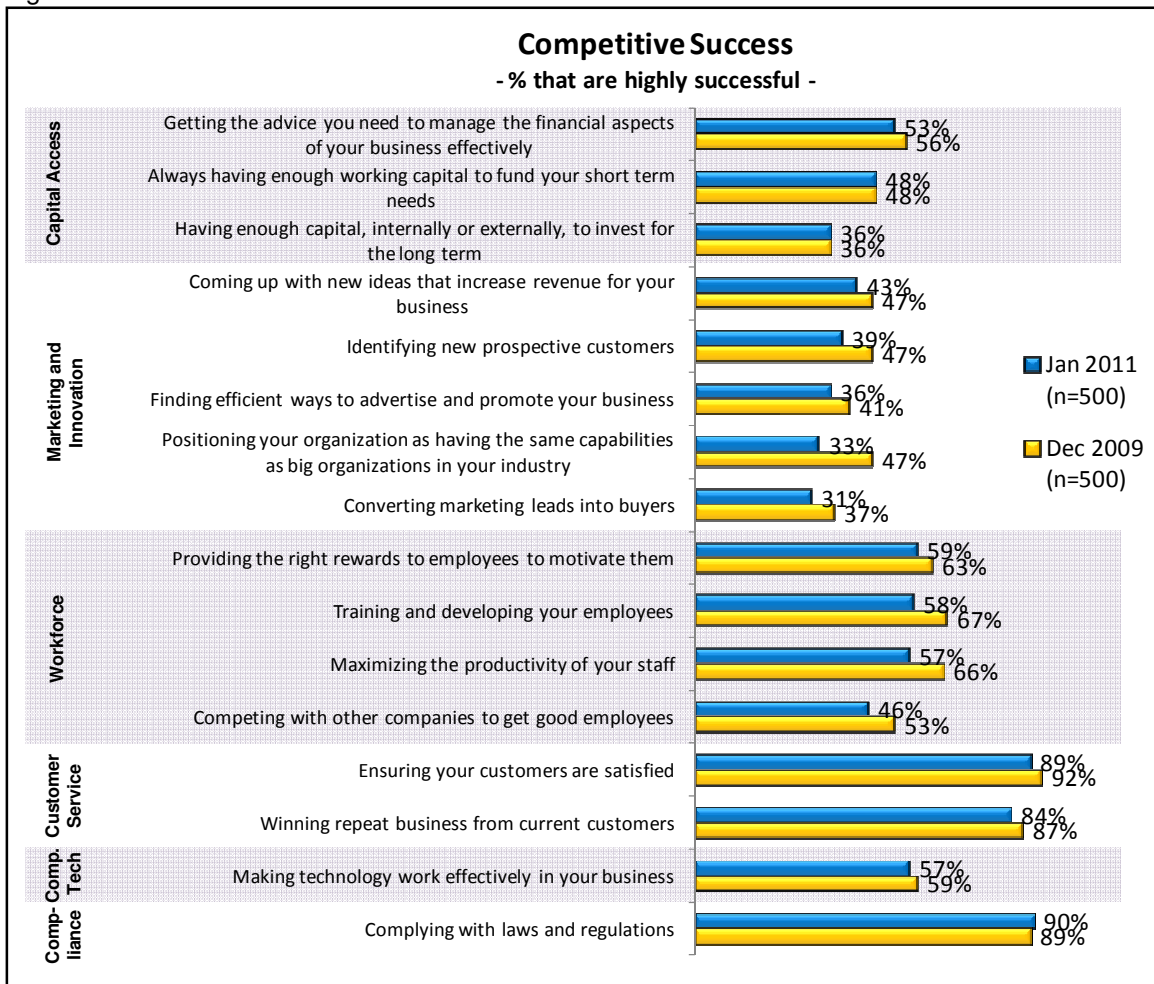
Computer Technology has borderline performance, though it is not the most important success driver. Small businesses continue to perform well in the less important areas of Customer Service and Compliance.

The next section takes a more in-depth look at the factors driving change in each of these six areas, which sheds light on the pain small businesses are feeling due to the economy and where they need to work to bounce back as the recovery commences.

Factors Contributing to Competitive Success

The six areas of the index include individual attributes that contribute to small business success on the dimension and shed light on where businesses are failing or doing well (see Figure 7). Within the important area of Capital Access, small businesses struggle to get enough capital to make investments (only 36 percent are highly successful) and fund day-to-day operations (48 percent), and this has not changed much over the last year as the recession took hold. Small businesses do better in getting financial advice for their businesses.

Figure 7



*Rated 8 to 10 on a 0 to 10 scale, where 10 = completely successful.

The second biggest indicator of small business success, Marketing and Innovation, dropped significantly over the last year because of declines on all attributes. The biggest decline was in the confidence of small businesses to position their companies as having the same capabilities as big organizations in their industry. A year ago, almost half – 47 percent – of owners believed they were successful in going up against big business, but now only 33 percent are so confident. As many large corporations are reporting record earnings, owners of small businesses are at a low point in vying for customers from big competitors. Other Marketing and Innovation areas also declined in the past year, including identifying new prospective customers (which dropped significantly from 47 percent to 39 percent in a year), and less steep (and not statistically significant) drops in finding efficient ways to advertise and converting marketing leads into buyers. There is one bit of good news: in June of last year, there had been a large drop in finding new ideas to increase revenue, but this area recovered by January 2011. Though innovation is still a weakness for small business, the situation is improving. The main challenges are now in communicating the strengths of small businesses, getting leads and converting them into sales.

Success in the Workforce area slipped this wave, as small businesses feel less successful in training and developing employees (only 58 percent are highly successful compared to 67 percent a year ago), and maximizing the productivity of staff (57 percent are highly successful, compared to 66 percent a year ago). Small businesses performance in rewarding and motivating employees remains at a mediocre level (59 percent are highly successful). A particularly weak Workforce area for small businesses is in the ability to compete with other companies to get good employees (46 percent are successful).² This weakness has been observed in the past, but will increase in relevance as small businesses seek to hire over 3 million new staff in the coming year (discussed later).

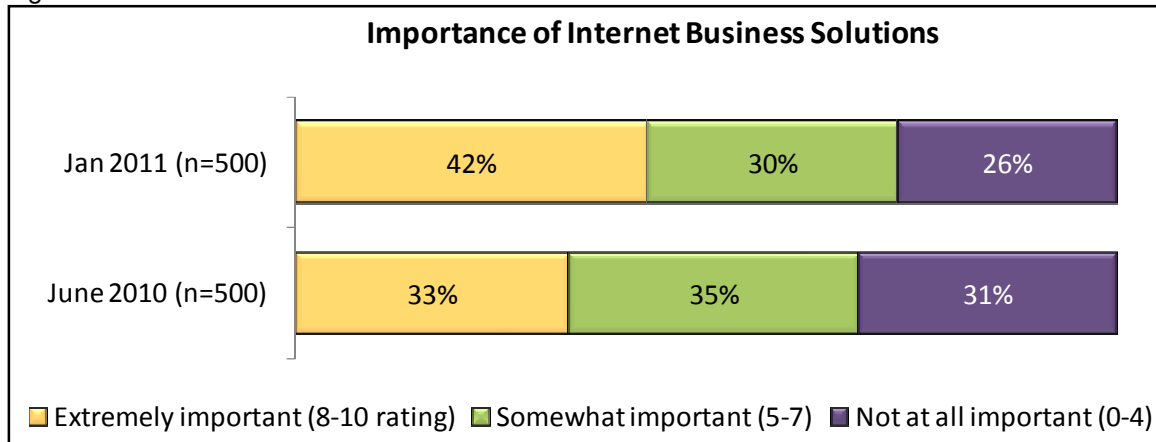
Customer Service is an area where small businesses continue to shine. They know how to keep their customers happy and win repeat business from them, which provides an important revenue base for small businesses in these tough times. Success in this area declined slightly since a year ago, although the drops are not statistically significant. Computer Technology is an area of frustration for small businesses, but the majority of small businesses (57 percent) are successful in making technology work for them. Small businesses do not have trouble with Compliance, as nine-in-ten small businesses are highly successful in complying with laws and regulations pertaining to their business.

² This area is tracked in the survey but is not a component of the Small Business Success Index.

Internet Business Solutions

The Small Business Success Survey measures the importance and adoption of Internet business solutions (e.g., websites) that help businesses market their brand, service their customers and run more efficiently and securely. Internet business solutions are becoming more important to small businesses, helping to attract new business in an improving economy. Now, 42 percent consider internet business solutions to be highly important, compared to only 33 percent in June 2010 (see Figure 8).

Figure 8

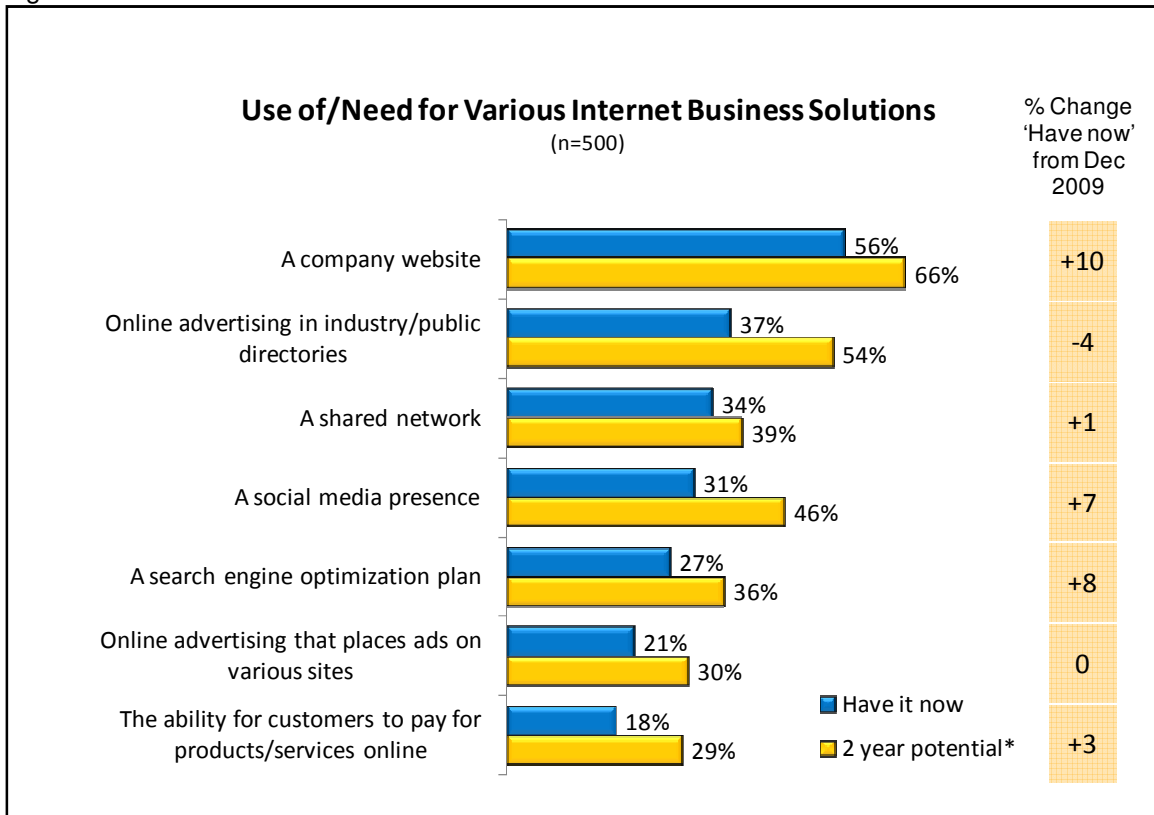


In the last survey wave in June 2010, usage of individual Internet business solutions had dropped to a low point, a trend we believe was driven by efforts to cut expenses in the throws of the recession. Even the burgeoning social media area had stabilized after almost doubling in 2009. A major turnaround occurred in the second half of 2010, so that adoption rates for various solutions are at a new high (see Figure 9 on next page). The biggest growth has been in company websites, which are now deployed by 56 percent of small businesses compared to just 46 percent a year ago in December 2009. Based on their future plans, two out three (66 percent) small businesses will have a website by 2013.

Another area of great interest is the adoption of social media by creating a page or presence on a site like Facebook or LinkedIn. Adoption is now at a new high – 31 percent – up from 24 percent a year ago and 12 percent two years ago. Based on current plans, almost half (46 percent) of small businesses will have a social media presence in two years. (A later section talks more about the use of social media).

Another internet business solution that has grown substantially in the past year is the use of a Search Engine Optimization plan, which grew from 19 percent a year ago to 27 percent. Online payment capabilities and shared computer networks also experienced slight growth.

Figure 9

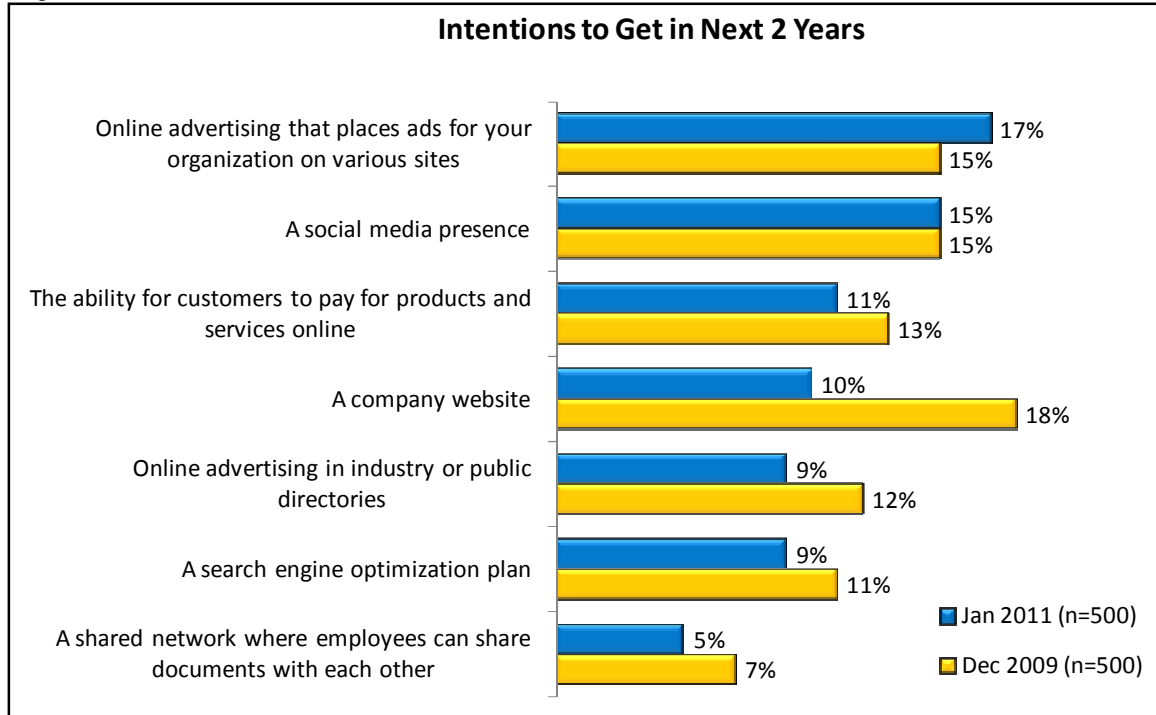


*Includes those who have now plus those planning to within 2 years.

Which internet business solutions did not grow? Online advertising in industry/public directories actually dropped in the past year and is now used by 37 percent of small businesses, while general online ad placements remained flat at 21 percent. One possible explanation may be that SEO and social media are providing alternative methods to direct traffic to small business websites, as opposed to more costly out of pocket advertising spending. This trend may change as small businesses improve their financial situation and are able to spend more.

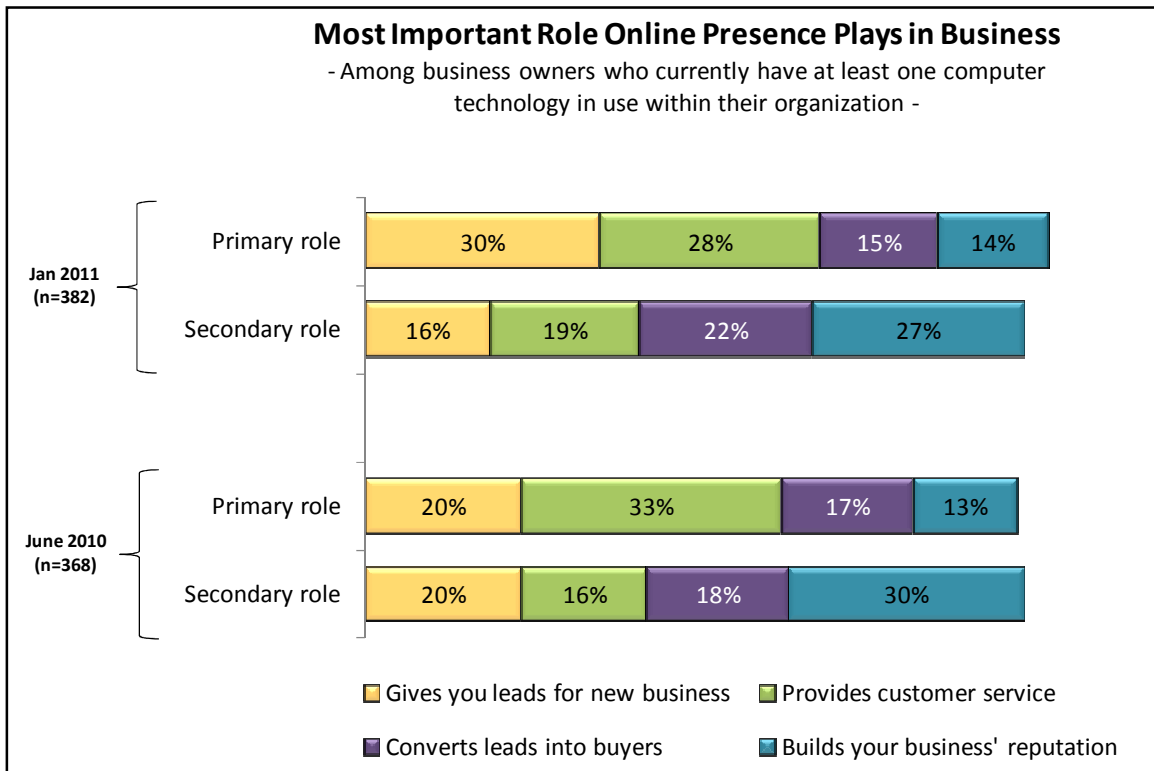
What are the fastest growing technologies among small businesses? Based on intention (see Figure 10), the fastest growing technology will be online advertising that places ads on various websites, and social media. The increase in general online advertising may be due to increased budgets, while social media growth may be part of a long range trend. Website adoption is starting to slow, but this is due to the fact that two-thirds of small businesses will have a site in two years.

Figure 10



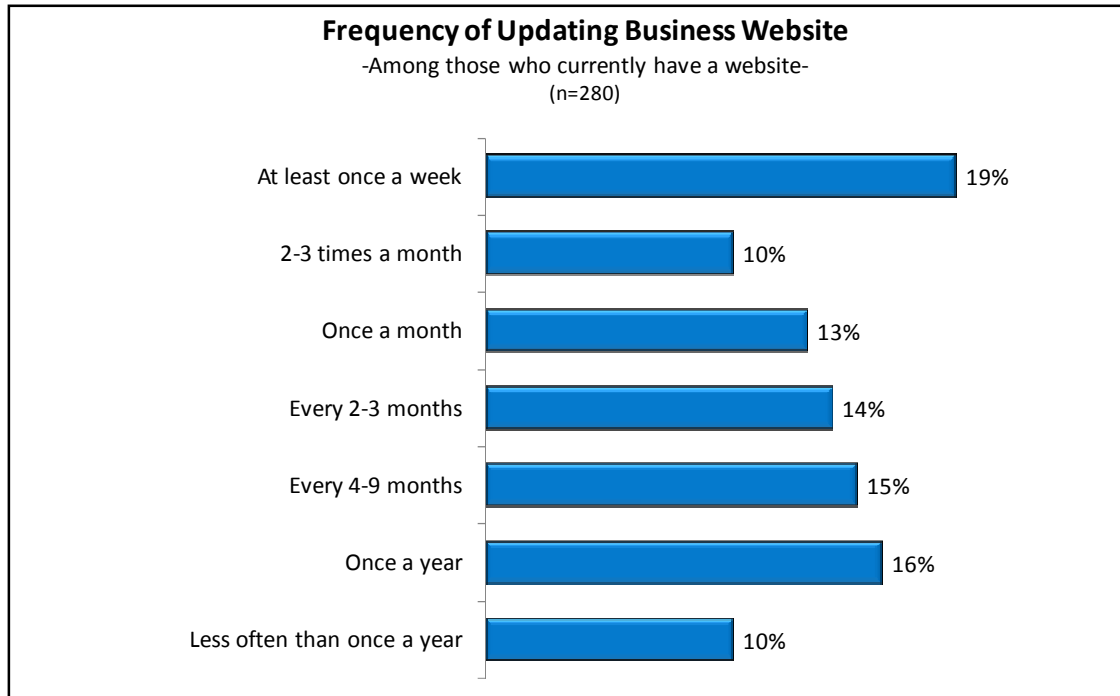
Small businesses maintain an online presence for their business for a variety of reasons. For a third of small businesses who have an online presence, the primary role is to provide leads for new business (30 percent) or provide customer service (28 percent) (see Figure 11). The lead generating role increased in importance since June 2010; now, almost half of small businesses (46 percent) consider this to be a “primary” or “secondary” role. As small businesses, short on staff and resources, start to see the economy improving, internet business solutions and an online presence may be critical to driving customer acquisition.

Figure 11



Businesses can benefit from continually updating their websites, particularly since this activity helps their rankings in search engines. Yet, only a fifth of small businesses update their sites weekly (see Figure 12). Over half of small businesses (55 percent) with websites update the sites less often than monthly, and 26 percent update their sites once a year or less often. Small businesses may find they can compete more effectively if they undergo a more disciplined process of updating their sites regularly.

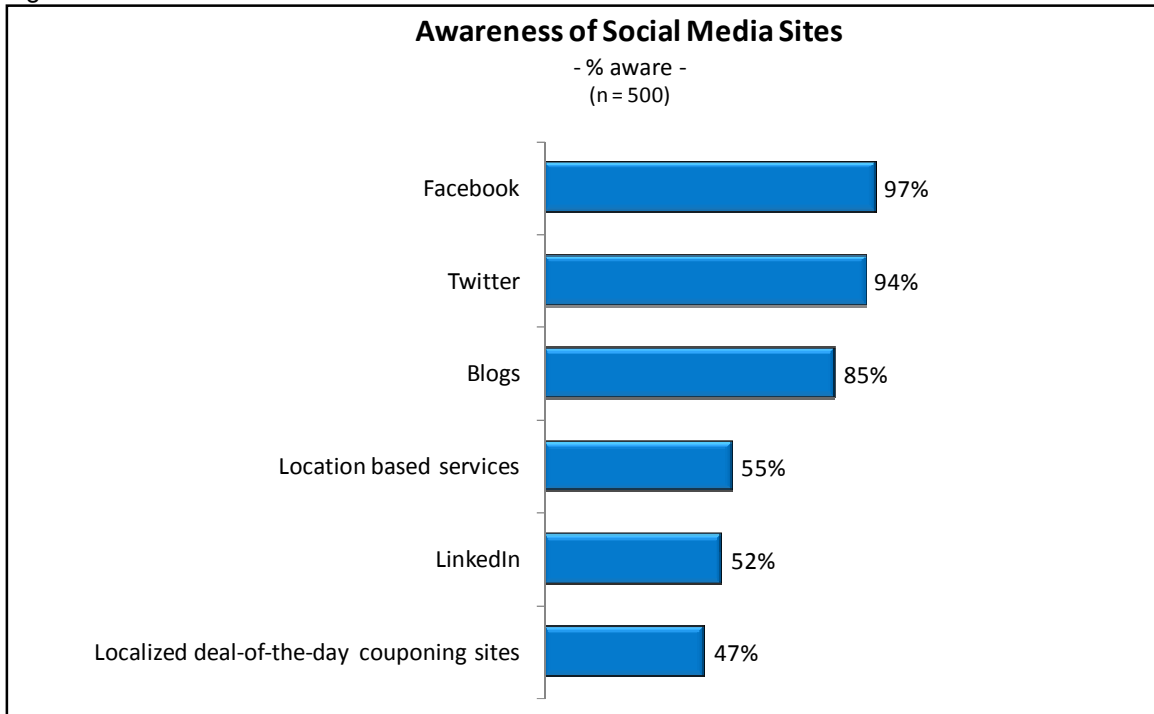
Figure 12



Social Media Use

After a lull the middle of last year, social media use by small businesses has started to grow again and is now used by almost one out of three enterprises. Awareness of social media sites is high among small businesses, with nearly everyone having heard of Facebook (97 percent) and Twitter (94 percent) (see Figure 13). Only half (52 percent) of small businesses are aware of professionally oriented LinkedIn. While most small businesses have heard of blogs, slightly more than half (55 percent) have heard of “location-based services, such as FaceBook Places, Foursquare, Gowalla and Yelp”, and less than half (47 percent) have heard of “localized deal-of-the-day couponing sites, like Groupon and Living Social”.

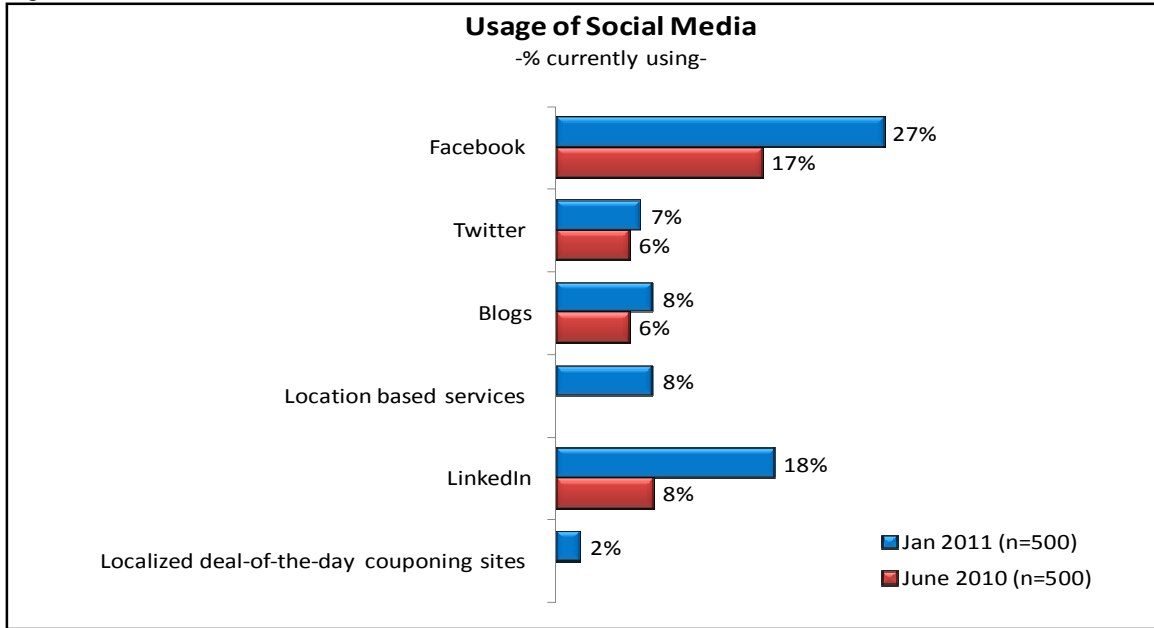
Figure 13



The most commonly used social media sites are Facebook and LinkedIn (see Figure 14). Facebook is now used for business purposes by 27 percent of small enterprises, up from 17 percent in June 2010. LinkedIn is used by 18 percent, up from 8 percent in June. While everyone knows about Twitter, small businesses are finding fewer uses for it. Only 7 percent of small businesses use Twitter for their business, not much changed since June. It is likely that the two mainstream sites have clearer business uses than Twitter, one for creating a venue for advocating and promoting their brand, the other for maintaining the networks so important to professional businesses.

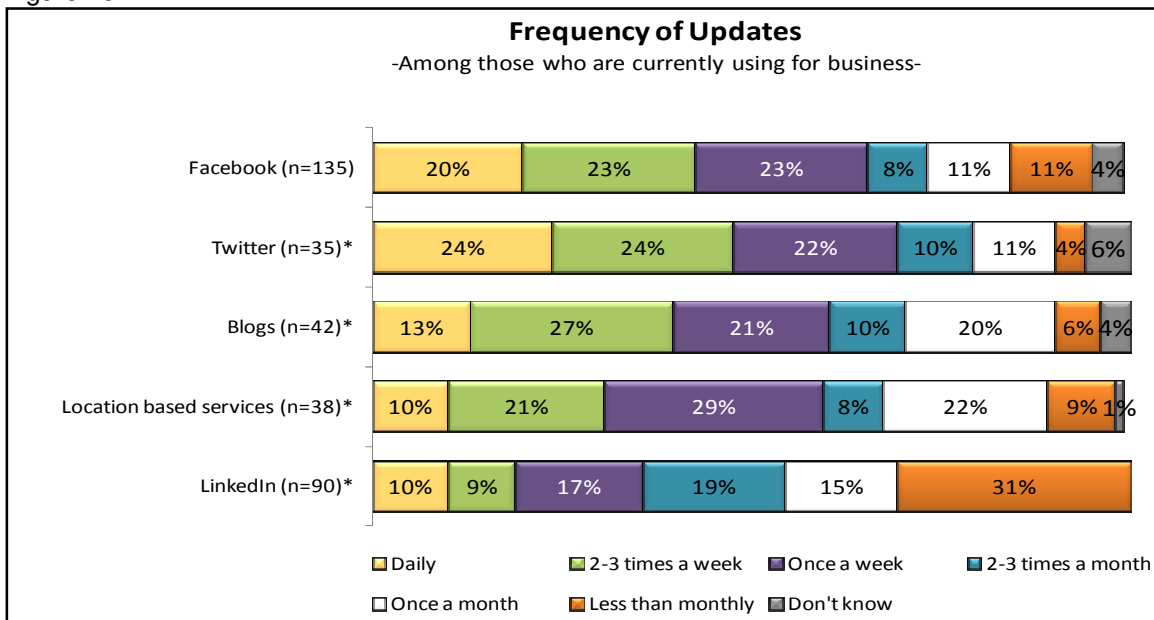
A handful of small businesses are using more specialized social media tools. This includes 8 percent who have use blogs and 8 percent who use location-based services.

Figure 14



Websites serve as an anchor for a business brand presence, but as noted earlier, small companies rarely update their sites. In contrast, there is a high level of interactivity with social media sites. Among businesses that use Facebook, 66 percent “update or interact with” the site for business purposes at least weekly (see Figure 15).

Figure 15

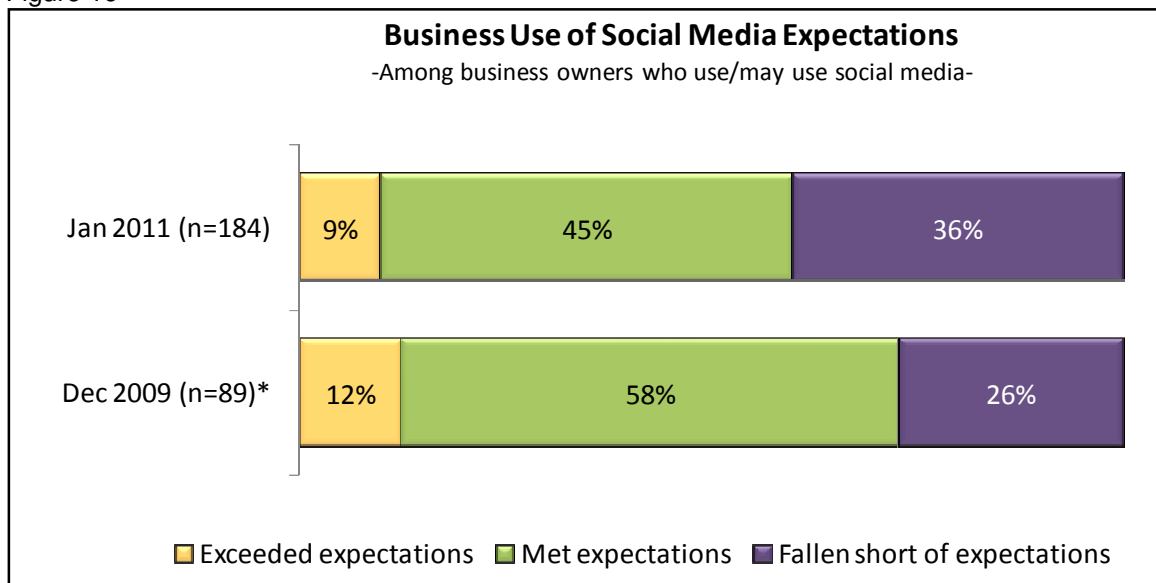


*Caution: small sample size

Small businesses also interact frequently with other sites like Twitter. An exception is LinkedIn; almost half (46 percent) update their presence or interact no more often than once a month. The gap in frequency of activity between websites and social media raises the question of whether more could be done to make websites themselves truly interactive through improved functionality – a change in a website should be as easy as updating a status on Facebook.

Many small businesses are finding that social media is not meeting their expectations; 36 percent feel that so far, their use of the medium has fallen short of expectations, while only 9 percent feel it has exceeded expectations (see Figure 16). Disappointment has grown over the past year when only 26 percent felt social media fell short of expectations.

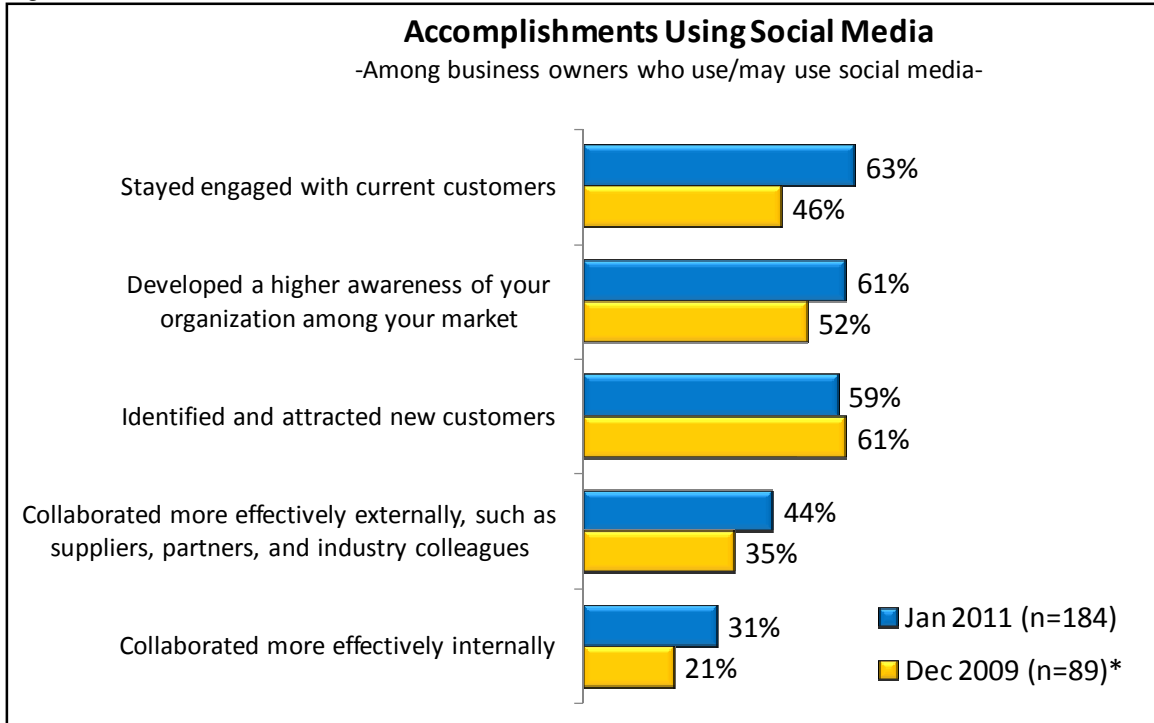
Figure 16



*Caution: small sample size

Even if social media use falls short of expectations for some, it does not mean that small businesses are not getting value from the medium. In the past 12 months, they have accomplished many things using social media, including: staying engaged with customers (63 percent), developing a higher awareness of the business in the market (61 percent), and identifying and attracting new customers (59 percent) (see Figure 17).

Figure 17



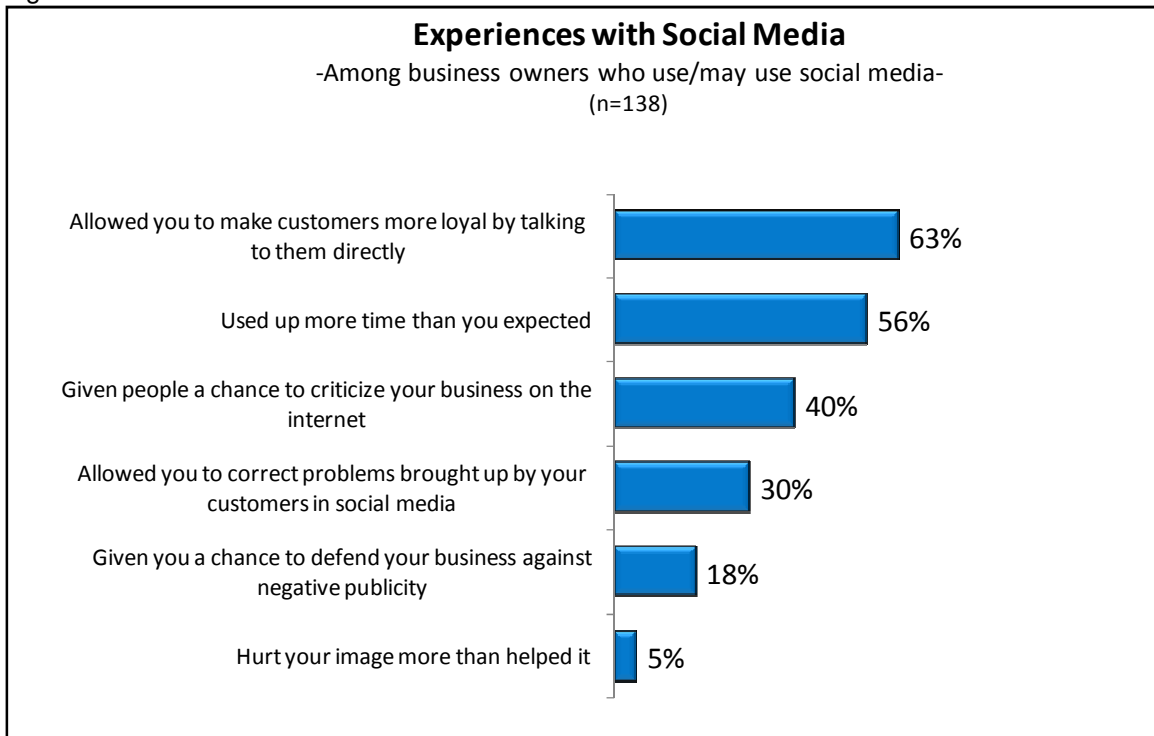
*Caution: small sample size

The role of social media has changed since a year ago. Social media has become more important as a way of engaging existing customers, compared to a year ago when it primarily helped small businesses identify and attract new customers. As society generally moves to social media as a way of communicating and engaging, small businesses may be learning of its value as a way of staying in touch with customers, offering an alternative to email, phone and direct mail.

Small businesses that use social media have a range of positive and negative experiences. On the positive side, 63 percent have found in the past 12 months that social media allowed them to create more loyal customers by talking to them directly (see Figure 18). On the negative, 56 percent have found in the past 12 months that it used up more time than they expected.

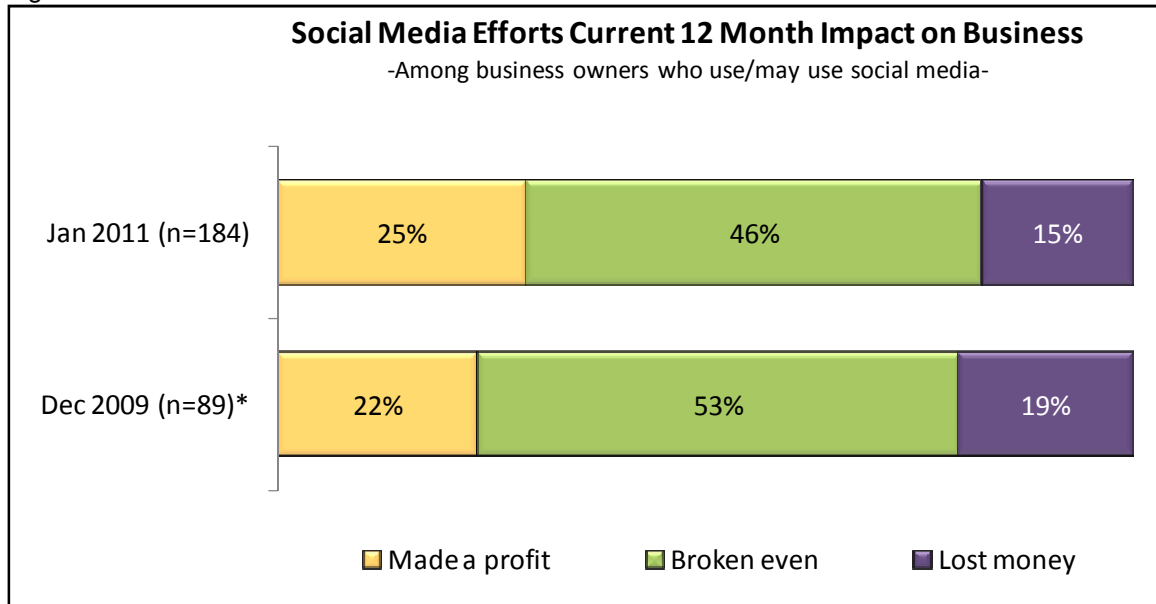
Another drawback experienced by 40 percent of small businesses when using social media in the past 12 months is that it has given people a chance to criticize their business on the internet. The silver lining is that social media provides a forum for addressing criticism as well as receiving it; 30 percent of small business owners found they were able to correct problems brought up by customers in social media, and 18 percent were given a chance to defend the business against negative publicity. Looking back over 12 months, only 5 percent of businesses feel that social media has hurt their image more than helped it. On the whole, businesses that learn to master social media and stay engaged can use it to manage their brands and defend against negative word of mouth that might go unnoticed or neglected in a lower tech environment.

Figure 18



The final evaluation for social media is the perception of whether it financially pays off. It is hard even for a big business to compute the ROI of social media, but most small business owners are comfortable estimating whether the medium has turned a profit (see Figure 19). In this most recent wave in January, 25 percent believe that their investments in social media “made a profit” in the past 12 months, 15 percent believe they “lost money,” and 46 percent believe they “broke even”. The trend, compared to a year ago, is towards greater profitability. While many have found social media use has fallen short of expectations, owners generally think the activity pays for itself.

Figure 19

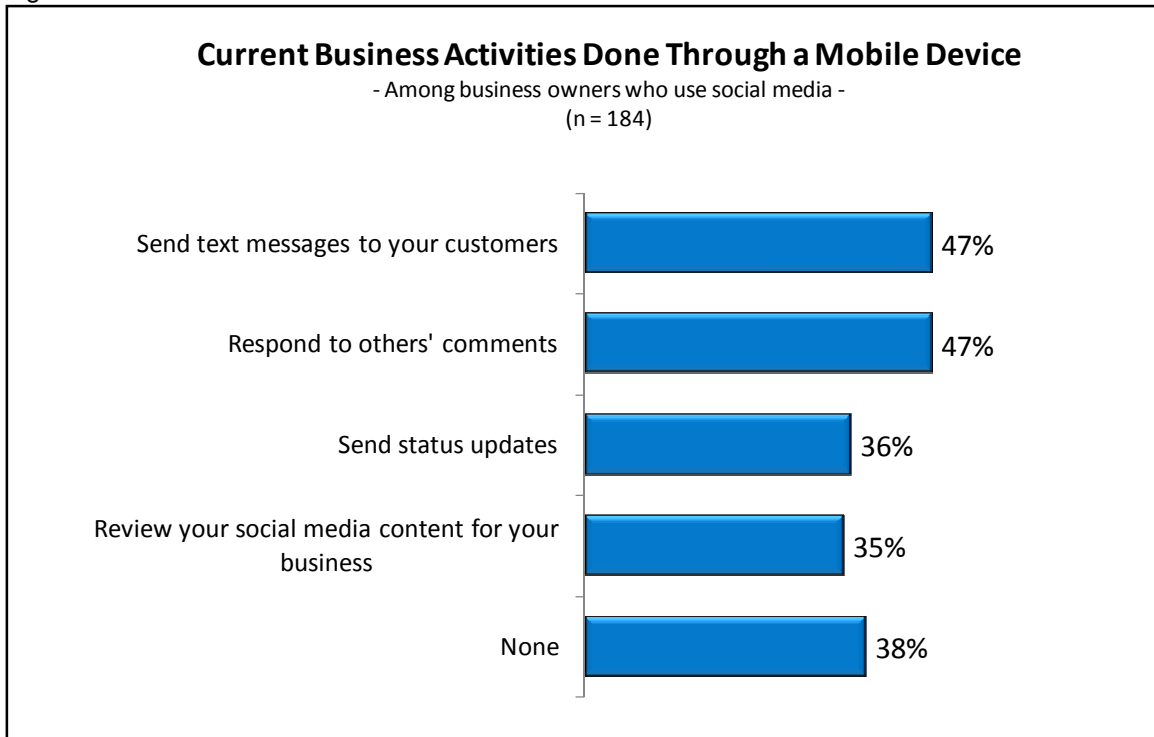


*Caution: small sample size

Will social media affect websites? According to small businesses, the result of using social media is more likely to be an increase in website investment rather than a decrease. Of those businesses using social media, 62 percent do not plan to change their investments in their corporate website in the next 12 months as a result of social media; in fact, 27 percent plan to increase their investment because of social media. Another 5 percent plan to spend less on their websites as a result of social media, and 4 percent will replace or forgo their site altogether. The negative impact from cutting or forgoing websites – 9 percent in total – seems quite small, but as a cautionary note, this impact was only 2 percent in June of last year. This is an important trend to watch in future waves, as businesses may start viewing social media as a new paradigm that can replace websites, just as consumers are shifting from email to social media.

Portable devices play a role in some small businesses' participation in social media. Almost half (47 percent) of small businesses that use social media have responded to comments on social media sites over their mobile devices, while the same share have used their mobile devices to send text messages to customers (see Figure 20). Other social media applications with portable devices include: sending status updates (36 percent) and reviewing content (35 percent).

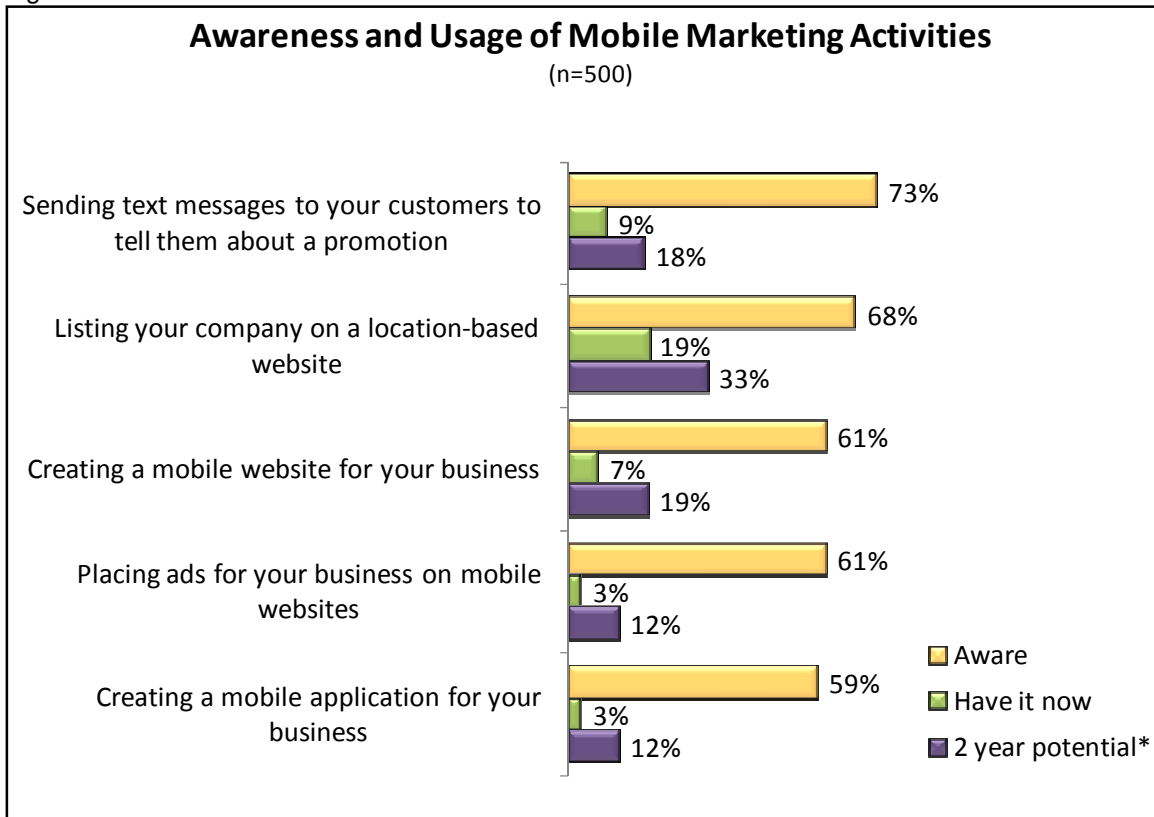
Figure 20



Mobile Marketing by Small Businesses

Small businesses are widely embracing the concept of marketing their products and services on the web and through social media, but a new frontier will be mobile marketing. Mobile marketing encompasses a range of activities ranging from sending text messages to creating mobile applications. Most small business owners are aware of various mobile marketing activities, the best known including: sending text messages to customers about a promo (73 percent) and listing the company on a location-based website (68 percent). Most owners are aware of other applications, including creating their own mobile website, placing ads on mobile websites, and creating their own apps for their business.

Figure 21



*Includes those who have now plus those planning to within 2 years

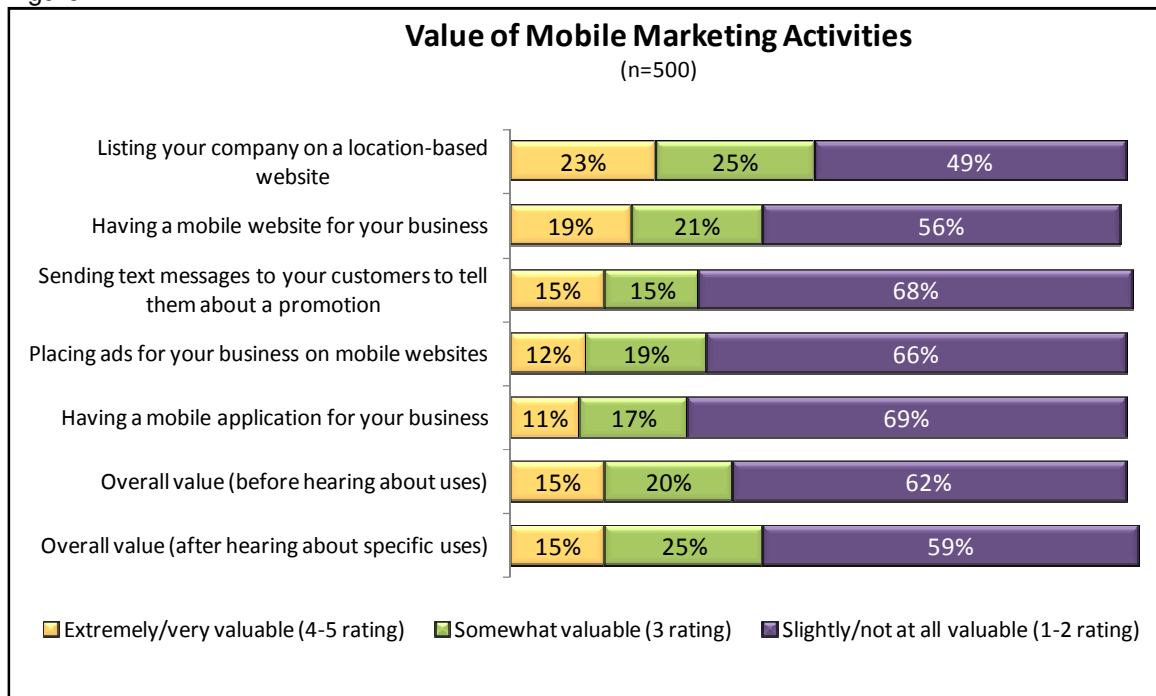
While awareness of mobile marketing activities is high, usage is low. The most common mobile marketing usage is listing the business on location-based websites, which is now done by 19 percent of businesses. This is also the area with the greatest long-range potential, with over 33 percent of small businesses expecting to engage in this activity within two years (current users plus intended users). A tenth (9 percent) of small businesses broadcast text messages to tell customers about promos, and it is expected that 18 percent will engage in this activity within two years.

One reason small businesses have not embraced mobile marketing is they view the concept as cutting edge rather than a practice they can engage in now. Most owners consider mobile marketing to be either “ahead of its time” (24 percent) for small business or “cutting edge” (36 percent), while only 19 percent consider it to be “mature and proven.” Another reason small businesses have not engaged in mobile marketing activities to a greater degree is that they do not see its value. Only 15 percent of small business owners believe that mobile marketing would be “extremely” or “very valuable” to their enterprise, and only another 20 percent feel it would be “somewhat” valuable (see Figure 22). Educating owners on the possibilities of mobile marketing does not change their attitude. After being read a list of various mobile activities as part of the survey, 15 percent still considered mobile marketing to be “extremely” or “very valuable”.

No specific mobile marketing activity is viewed as highly valuable by more than a minority of small businesses. The most valuable application is also the most widely used one, listing on a location-based website; 23 percent of small businesses consider this to be “extremely” or “very valuable,” and half consider it to be at least somewhat valuable. A mobile website specifically for the small business is the next most valuable application. All other applications are viewed as having limited value by two-thirds of owners.

Why is mobile marketing viewed as having such little value? To be fair, not all small businesses will benefit from mobile marketing the same way as from a website or social media. Some businesses have products/services or a customer base that is not well served in a mobile environment. There may also be concerns about texting to mobile devices that are similar to those that have existed in the past about mass emailing or telemarketing. Finally, as noted already, mobile marketing is a newer area for small businesses who are still trying master other technologies.

Figure 22

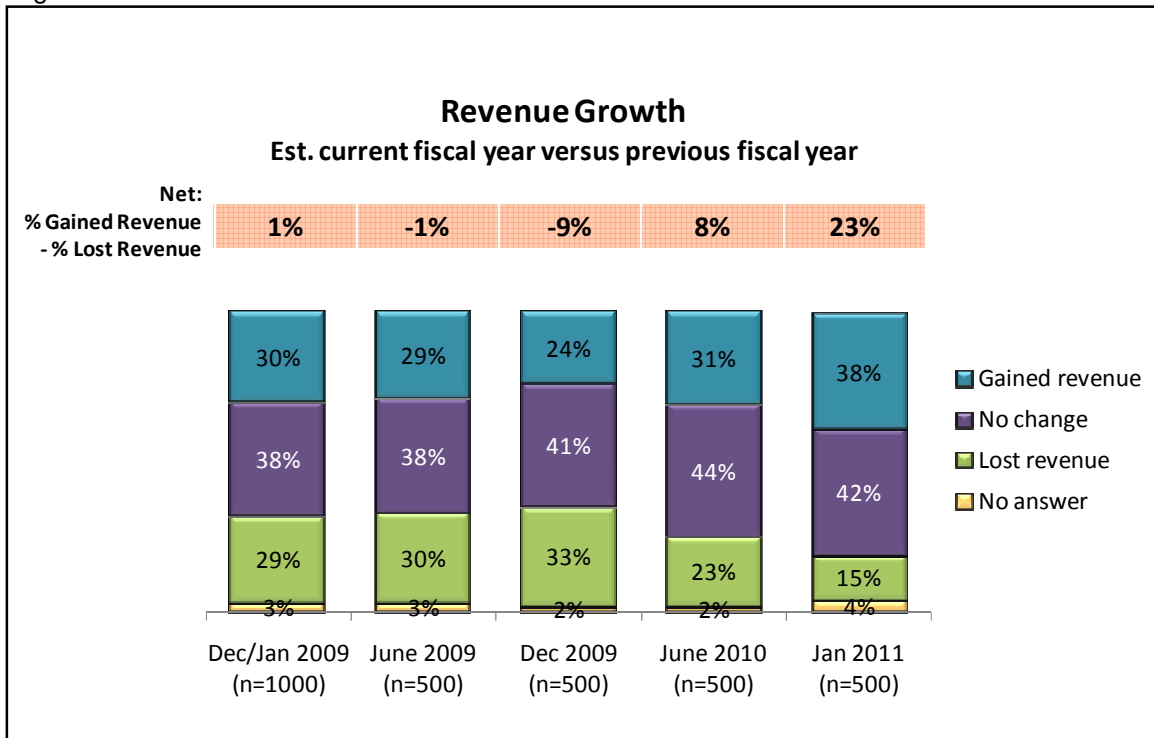


Small Business Financial Success

The year 2010 has proven to be much better for small business growth than 2009. And, the year finished better than *expected* when owners were asked to forecast how the year would turn out back in June. This situation is totally reversed from a year ago when businesses came in worse than the previous year, and the results were worse than expected.

Figure 23 reveals the share of businesses that indicated the revenue for the fiscal year did/would gain over the previous year, decline over the previous year, or remain unchanged. The Small Business Success Survey is updated about every 6 months, so when owners are asked this question in the middle of the year, they are asked to make a projection.³ *Comparing the middle-year projection with the end-of-year reality tells a story of how small businesses try to predict the future and adapt to unexpected change.* In June of 2010, 31 percent expected an increase in year-on-year sales and 23 percent expected a decrease (only 2 percent declined to answer). By January 2011, it was clear that the sales trend for 2010 came in much better than predicted by small businesses in June, with 38 percent reporting a gain and only 15 percent a drop in sales.

Figure 23



³ Owners may need to project sales when the survey is administered in December, and even in January if books are not yet reconciled; however, we believe they can compare sales with the previous year with a high level of confidence.

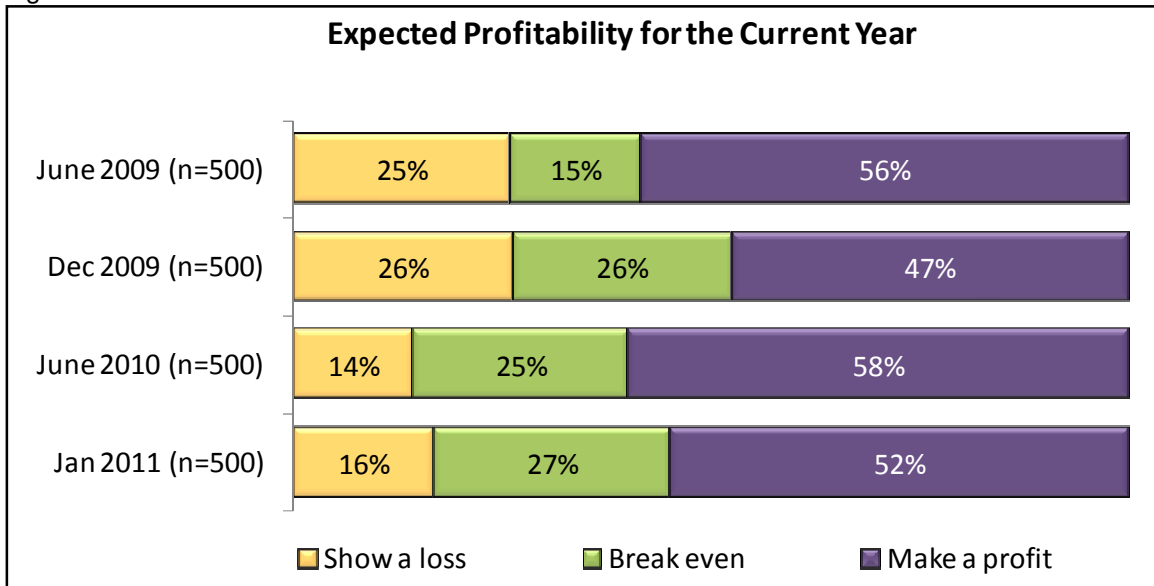
The implication of this gap between forecast and actual sales last year was that owners had to adapt to an unexpected uptick in sales. Based on past survey waves, we know that owners faced many challenges from the recession including: potentially being short-staffed from downsizing, drained financial reserves, and worry that the economy would not fully recover. We believe that one response to this unexpected but improving sales situation late last year was to return to technology investments: websites went up (for the first time, or being restored) and social media activity regained. The unexpected uptick may also explain why small businesses experienced problems with their workforce: they were trying to meet increased demand when staffing and morale were down.

The sales trends in Figure 23 (previous page) also reveal that small businesses are doing the best since the start of the recession. Comparing gainers with losers, the net sales performance for different years is as follows:

- 2008 was a *no-growth* year: 30 percent gained over 2007 and 29 percent lost revenue (see Dec/Jan 2009 Wave)
- 2009 was a *shrinkage* year: 24 percent gained over 2008 and 33 percent lost revenue (see Dec 2009 Wave)
- 2010 was a *growth* year: 38 percent gained over 2009 and 15 percent lost revenue (see Jan 2011 Wave).

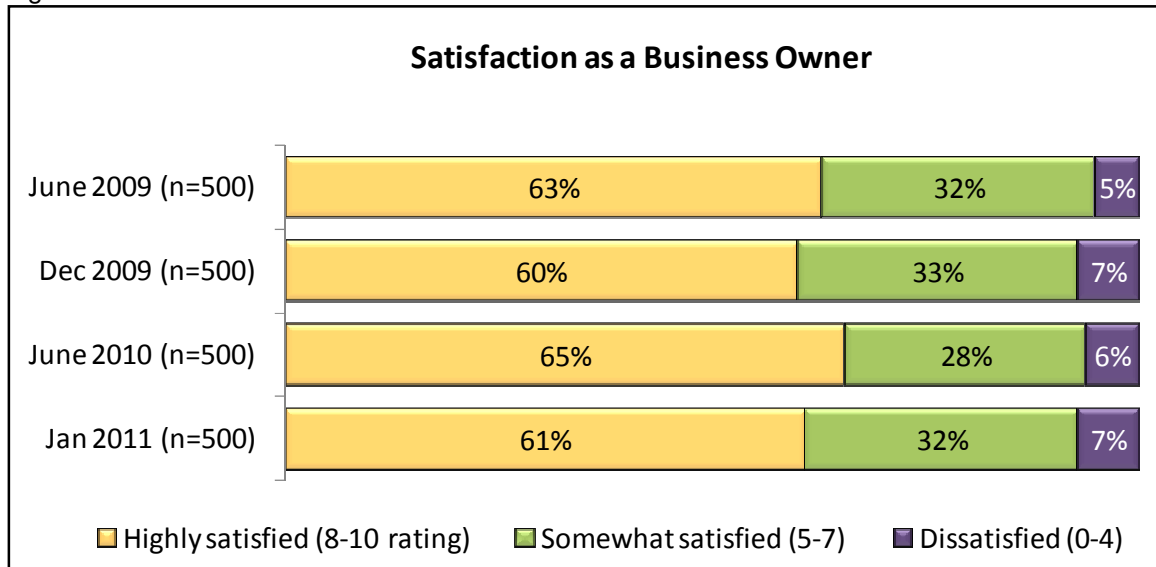
In 2010, 52 percent of small businesses made a profit and only 16 percent lost money (see Figure 24). This is better than a year ago when 26 percent indicated a loss for 2009. When comparing what business owners projected in the middle of the year with what actually happened, it appears that 2010 roughly matched what owners expected in June, while 2009 came in worse than expected.

Figure 24



While the economy and the financial prognosis fluctuated over the past two years, an area of constancy is the degree of satisfaction with being a small business owner. Small business owner satisfaction has remained steady over the past year, with 61 percent of owners being highly satisfied and only 7 percent being dissatisfied, almost identical to a year ago (see Figure 25).

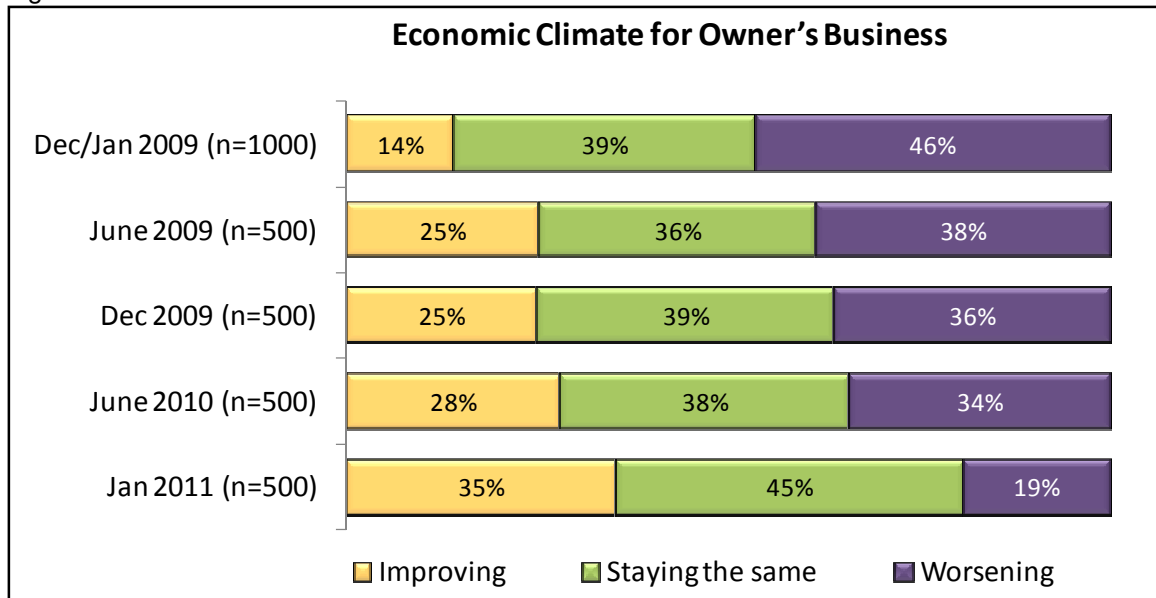
Figure 25



The Small Business Economic Climate

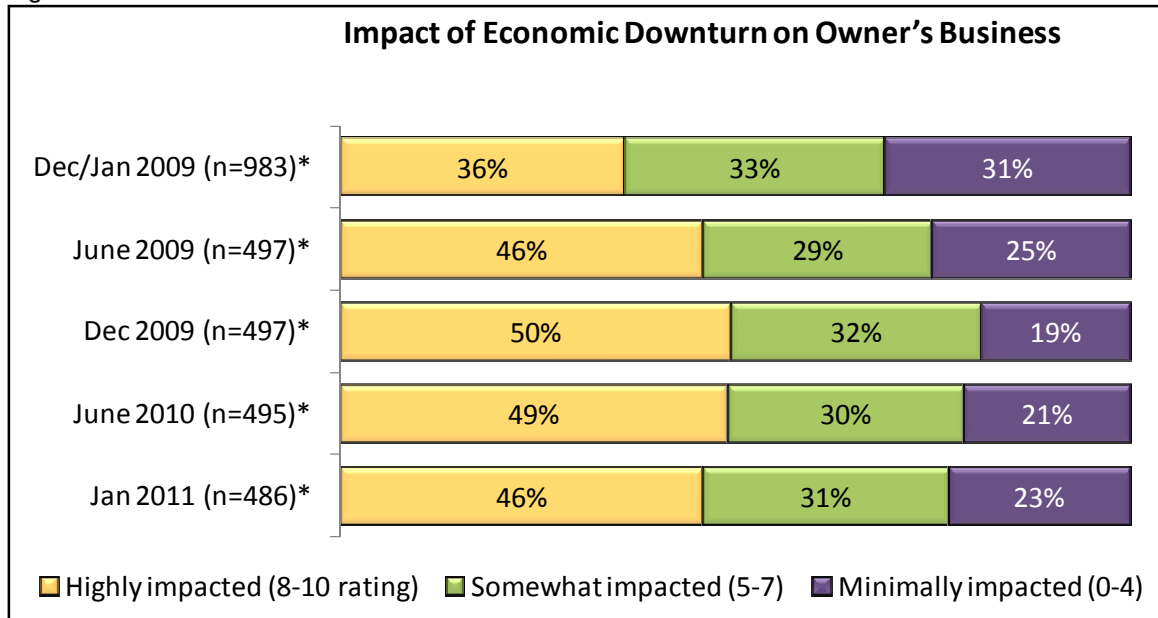
Just as sales improved more than expected in the second half of 2010, small business optimism took an upturn and is now at its highest level since the onset of the recession (see Figure 26). A third (35 percent) of small business owners now feel the economic climate for their business is improving, compared to 25 percent feeling this way a year ago and 14 percent two years ago. In contrast, only 19 percent now believe the climate is worsening, compared with 36 percent a year ago and 46 percent two years ago. This significant improvement in optimism is recent, and occurred since June of last year.

Figure 26



Almost half (46 percent) of small businesses feel they have been highly impacted by the recession in the past 12 months (see Figure 27). The impact of the recession reached its peak a year ago, when 50 percent felt they had been greatly impacted (see Figure 28). After minimal change in June, the share of impacted businesses edged down noticeably for the first time in January to 46 percent.

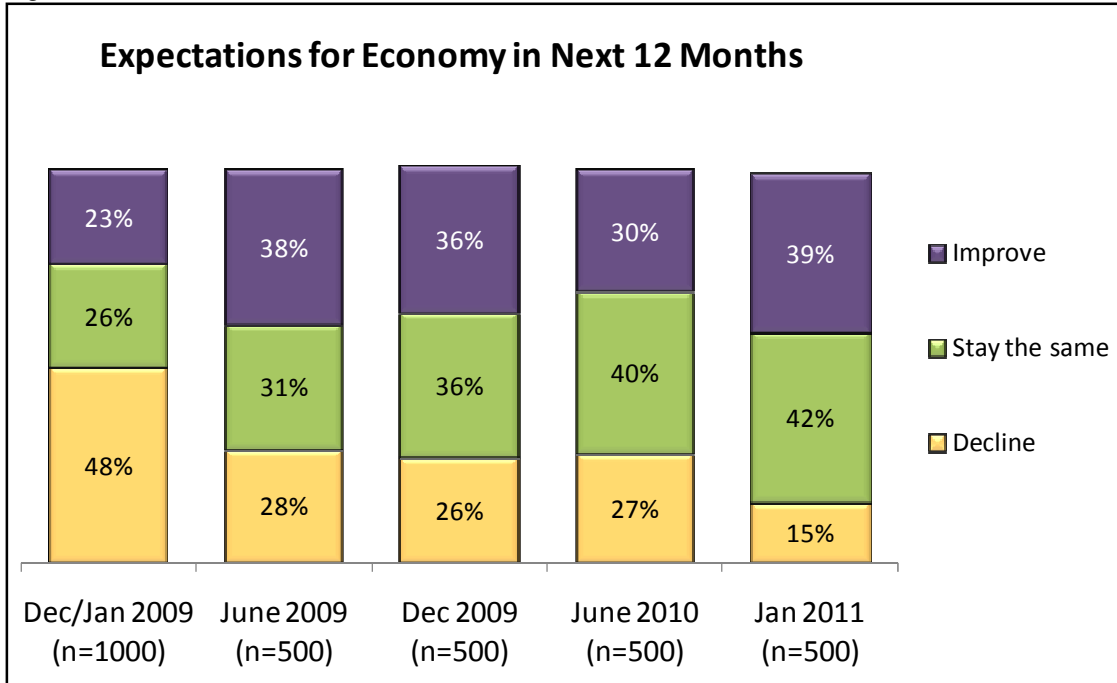
Figure 27



*Note: Non-response not included in sample.

Small business owners' optimism about the economy in the next 12 months is now at its highest level since the baseline wave at the end of 2009 (see Figure 28). In January, more than twice as many owners expect the economy to improve in 2011 than decline (39 percent compared to 15 percent). The 15 percent expecting a decline can be compared with a year ago when it was 26 percent, and two years ago when it was 48 percent. As with other indicators of optimism reported here, this improvement is recent and occurred since June.

Figure 28



Job Creation by Small Businesses

As the economic outlook improves, small businesses are now poised to hire up for 2011. Based on their hiring plans, the small business sector is expected to add 3.78 million jobs to the U.S. economy in the next 12 months (detailed below).

When asked about their hiring plans for 2011, 28 percent of small business owners expect to “increase staffing,” 2 percent expect to “decrease staffing,” and 69 percent expect no change. The primary reason for increasing staff is to expand the business (73 percent), while other reasons include reducing the workload of existing employees (32 percent) and replacing employees who left (10 percent).

Among small businesses planning to add staff, 50 percent plan to hire new permanent full-time employees, 39 percent plan to hire new permanent part-time employees, and 52 percent plan to hire temporary employees such as consultants, temps, etc. The number of additional staff varies, but if the quantity is expressed as “full-time equivalents⁴,” the typical business will add just 1 full-time job. However, many businesses are planning to add more than one job, so the average (mean) across businesses is conservatively computed as 2.3 full-time jobs.⁵

It is possible to aggregate the numbers in the survey to provide an estimate of the total increase in employment from small businesses in 2011. The total across the nearly 6 million small enterprises is 3.78 Million. Assumptions behind this estimate include⁶:

- 5,945,000 businesses that have payrolls with 0 to 99 employees (Census Bureau, most recent estimate from 2007)
- 27.8 percent add staff, an average of 2.34 each
- 2 percent reduce staff, an average of 0.83 each.

All surveys have a margin of error, or 95 percent confidence interval, because they are based on a random sample rather than a census. Taking into account this margin or error, the actual growth in employment could be as low as 2.90 million and as high as 4.65 million.

A final caution is that the employment totals assume small business owners carry out their intentions as reported in this survey. As shown in this report, confidence can change quickly, so owners may revise their plans based on the direction of the economy in the coming year.

The implications of this small business hiring surge can be great – 3.8 million jobs would reduce the unemployment rate by 2.4 percentage points. For the U.S. to realize this economic benefit, small businesses will need help to overcome obstacles that include a shortage of capital, efficiently marketing and positioning their brands, and managing and increasing their workforces. This help can come from many sources, including government, trade associations, big business, service providers, and small businesses helping each other.

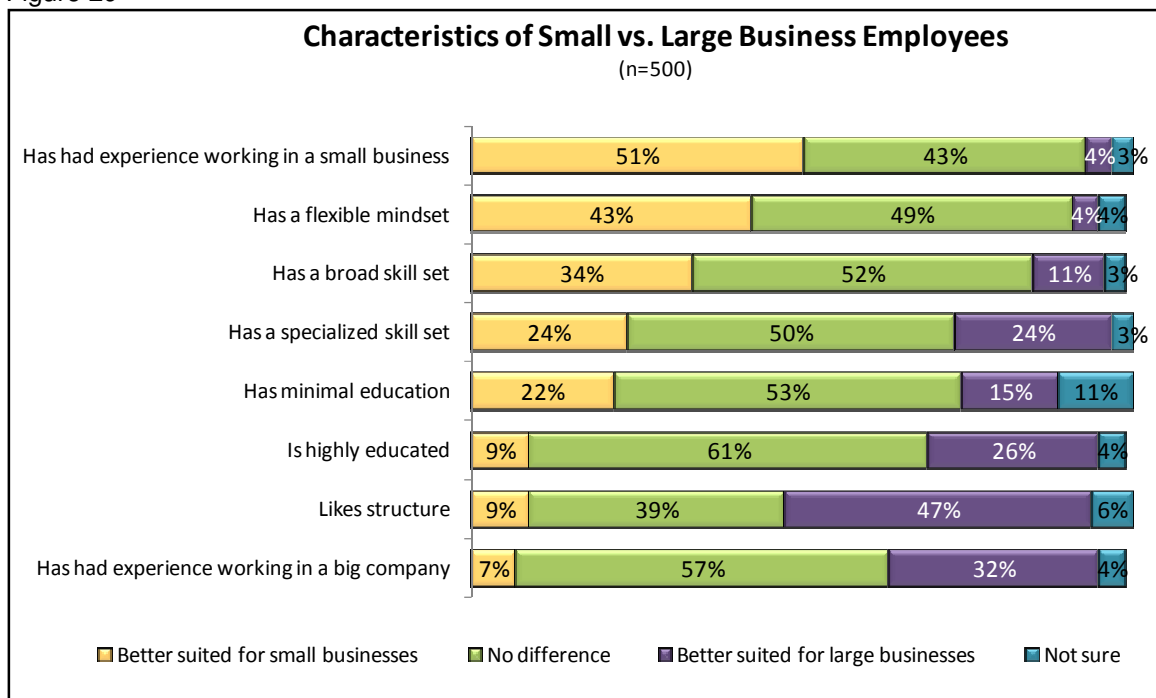
⁴ A full-time equivalent converts temporary and part-time jobs into a single number that equals the number of full-time jobs; respondents who were hiring in categories other than permanent full-time were asked to make this conversion for all their staff.

⁵ 5.1 percent of those hiring plan to add 10 or more jobs, with some reporting as many as 50 new hires. To improve the stability of estimates, businesses hiring more than 10 were treated as hiring 10 in mean calculations.

⁶ Actual estimate is computed with software, so minor rounding differences exist.

Not everybody is suited to work in a small business, at least according to the men and women who own them. Small business owners offered their views on which employee traits are better suited for a small business, which are better suited for a large business, and which make no difference (see Figure 29). The ideal characteristics for a small business employee include: experience working in a small business, a flexible mindset, and a broad skill set. Many more owners feel that people with these traits are better suited for a small business than a large business – for example, 51 percent feel a person who has worked in a small business before is better suited for this kind of enterprise, while only 4 percent feel they are better suited for a big concern. With their smaller staffs, small businesses depend on employees to take on different roles and have the mindset and capabilities to do so; those who have worked in a small business already know this and will not be surprised.

Figure 29



Some traits are felt to be better suited for a large company than a smaller one. According to owners, people who like structure are best suited for a big organization – 47 percent agree with this, while only 9 percent believe such employees would be better suited for a small business. Again, anything can happen in a workday in a small business, so an employee has to be prepared to step out of their assigned role to do things they may not have expected or been prepared to do. There is less consensus about other traits: 61 percent of owners believe that a person with a high level of education could be suited for either small or big businesses; similarly, 57 percent believe that big company experience makes no difference in where a person should work.

The Small Business Owners and their Businesses

What do small businesses in America look like? Who is the typical small business owner?

The Small Business Success Survey provides a wealth of information on owner and business characteristics based on reports by the owners themselves. The definition of a small business will vary from source to source. In this study, a small business is defined as either having a payroll and/or providing half of the owner's household income, which leaves out the minor side-businesses that account for a small share of U.S. output and jobs. "Small" is defined as having fewer than 100 employees. There are about 6 million small businesses in the U.S. that have a payroll and under 100 employees.

The Small Business. The Small Business Success Survey has compiled the traits of small businesses over the past two years, providing a profile of their characteristics and structure. The picture that emerges of a typical small business is that it has a single owner, operates within a local area, has a single location, and has sales in the low six figures. A profile is as follows:

- 30 percent have just one employee (the owner), and the median number of employees is 3
- 43 percent are home-based businesses
- On average, small businesses have 1.7 owners; 57 percent have a single owner, 32 percent have two owners, and 11 percent have 3 or more owners
- 13 percent are minority-owned – 30 percent are African-American, 22 percent are Hispanic, 17 percent are of Asian/Pacific origin
- 30 percent are women-owned (over 50 percent of the business is owned by women)
- 86 percent have just a single location
- The median age of small businesses is 15 years, and 22 percent have operated 5 years or less
- Over a third of small businesses are just getting started:
 - 5 percent are start-ups and 34 percent are early growth businesses
 - 48 percent consider themselves mature businesses
 - 10 percent are in various phases of closing or being sold or transferred
- The median annual revenue is \$186,200; among those reporting their sales, 38 percent gross less than \$125,000.

The Small Business Owner. Small business owners cross a wide spectrum of demographic groups, so it is not possible to describe a "typical" owner. Compared to the general population, however, the small business owner is older, more likely to be male, highly experienced, and relatively affluent. The following is a summary of owner traits quantified in this study:

- Small Business owners are slightly older than the U.S. population; 76 percent are at least 45 years of age, and 17 percent are 65 years or older
- 72 percent are male and 28 percent are female
- Half have a college education, but not all:
 - 17 percent have only a high-school degree and 2 percent have less than a high school degree
 - 29 percent have attended trade school, have some college, or a two year degree
 - 50 percent have at least a four year college degree
- Owners have considerable industry experience; 60 percent have worked in their industry for 20 or more years
- 80 percent of owners started the business

- Among those willing to share the information about their annual income, 39 percent earn at least \$100,000 per year, and 10% earn at least \$200,000 a year

Who are the most competitive small businesses? Competitiveness correlates with characteristics of the business and the owner, but the success factors may change over time due to economic circumstances. Some of the factors that track with competitive success (and a few that are not currently important) are shown in Figure 30. One driver of small business success remains consistently strong: the phase of the business. Established businesses have a clear advantage as evidenced by 61 percent of “highly competitive” businesses being mature businesses, compared to only 35 percent of “failing” businesses.

Company size is also a success factor for small businesses. For instance, “highly competitive” small businesses have a higher percentage of businesses with 10 or more employees and have higher median revenues.

Just as striking as the differences in competitiveness by business traits is the lack of difference along the lines of education, age and gender. Anyone can succeed (or fail) in running a small business.

Figure 30

Characteristics of Small Businesses and Their Owners by Level of SSBI Competitiveness				
	Highly Competitive (n=649)	Marginally Competitive (n=911)	Marginally Failing (n=784)	Failing (n=656)
Business Characteristics				
Multiple owners in business	46%	45%	38%	41%
Women-owned business	34%	29%	28%	31%
Minority-owned business	12%	12%	13%	14%
Start-up or early-growth business	29%	36%	45%	45%
Mature business	61%	54%	44%	35%
10 or more employees	18%	17%	11%	10%
Median Annual Revenue (\$000)	\$220	\$224	\$154	\$142
Home-based business	44%	41%	44%	46%
Owner Characteristics				
Owner is college graduate	52%	50%	50%	51%
Owner is 45 years or older	79%	75%	76%	73%
Owner is < 45 years old	21%	25%	24%	27%
Owner is female	33%	31%	24%	26%



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About the Small Business Success Survey

The baseline (Wave 1) for the Small Business Success Survey was conducted in December 2008 through January 2009. A total of 1,000 small business owners were interviewed by telephone. A second wave (Wave 2) was conducted in June 2009 among 500 small business owners. The third wave (Wave 3) was conducted in December 2009 among 500 small business owners. The fourth wave (Wave 4) was conducted in June 2010 among 500 owners. The fifth wave (Wave 5), reported here, was conducted in January 2011 among 500 owners. Small businesses included in the study were privately owned (not publicly traded), for-profit, had fewer than 100 employees, and had a payroll and/or contributed to at least 50% of the owner's household income. The data are weighted to ensure representativeness to the entire population of small businesses in the U.S.

The survey is longitudinal in nature, and tracks trends in Small Business Success over time. These are the results from the fifth wave of data collection.

The survey is sponsored by Network Solutions, LLC and the University of Maryland's Robert H. Smith School of Business. Rockbridge Associates, Inc., an independent marketing research firm, conducted the survey.

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