

A Quick Read on the State of Small Business and the Small Business Success Index

2009 Baseline Study of Small Business Success

March 12, 2009

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

**Network
Solutions**[®]



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



Why do Small Businesses Matter?

According to the Census Bureau, the United States has 27 million businesses with fewer than 100 employees. This includes 6 million small businesses that maintain payrolls. Small businesses account for 98% of all businesses with payrolls, 27% of business receipts, and 36% of jobs. In the aggregate, the small business sector is responsible for over 40 million jobs and a staggering \$6 trillion in revenues¹. Just as important, they are a vital source of innovation and commitment that drives the U.S. economy, and provide a path to personal independence for millions of Americans.

Given the importance of the small business sector, Network Solutions, LLC and the University of Maryland's Robert H. Smith School of Business have partnered to conduct a baseline telephone survey of 1,000 small business owners in order to take the pulse of small businesses and track their competitive health over time.

How do you Measure Small Business Success?

Competitiveness in this context is defined 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. Because success is multi-faceted, an index is needed to adequately assess it. The Small Business Success Index (SBSI) provides one overall measure of success, based on several unique dimensions of competitiveness. Success can therefore be quantified on a scale of 0 to 100 (completely failing to completely successful). The SBSI is based on 28 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
- **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

¹ Source is the U.S. Census Bureau, including: 2002 Economic Census, 2006 Statistics of U.S. businesses (SUBB), 2006 Nonemployer Statistics. Business receipts and revenues are based on businesses with payrolls.

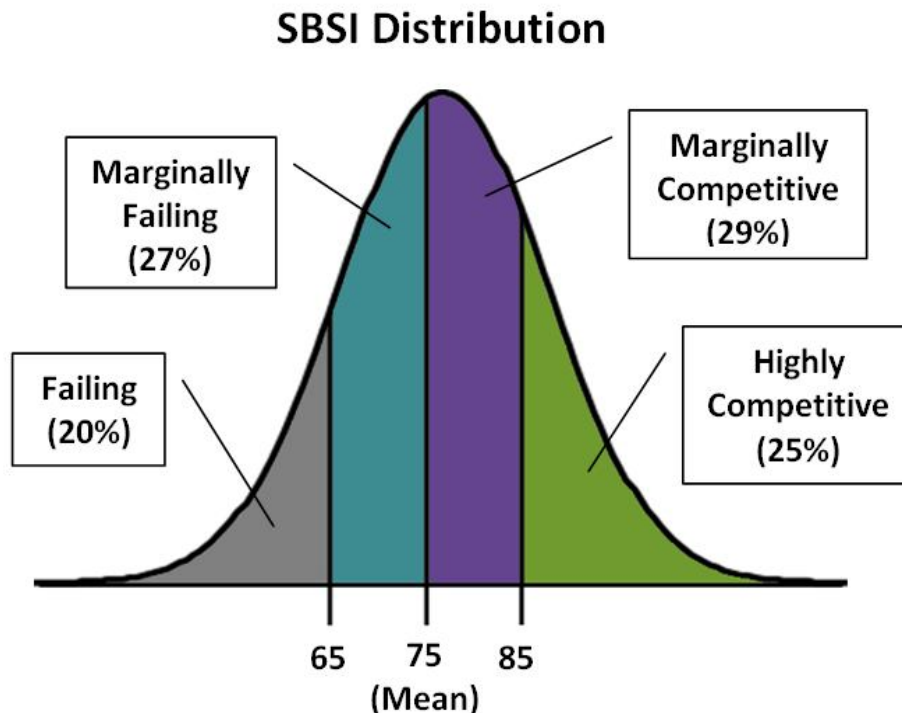
How Competitive are Small Businesses Today?

As of the beginning of 2009 when the baseline survey was completed, small businesses have an SBSI score of 75. 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 1):

- 25% of small businesses are **Highly Competitive** (an SBSI score of 85 or higher)
- 29% are **Marginally Competitive** (an SBSI score of at least 75 but less than 85)
- 27% are **Marginally Failing** (an SBSI score of at least 65 but less than 75)
- 20% are **Failing** (an SBSI score below 65)

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.

Figure 1



By looking at how small businesses score on each sub-index or dimension, a more detailed picture emerges of small businesses' strengths and trouble spots. The single biggest competitive disadvantage of America's small businesses today is in meeting their capital needs to grow their businesses; as shown in the report card below, they are struggling the most with Capital Access, earning the equivalent of a 'D+' on this sub-index (see Figure 2). The scarcity of capital may be costing the economy billions in profits and more than a million jobs. As the federal government considers where to direct the stimulus funds, a good bet for revitalizing the economy and creating new jobs would appear to be in targeting credit to America's small businesses.

Although American small businesses are admired for their ingenuity and aggressiveness, this is another area where they struggle, earning the equivalent of a 'C-' in the Marketing and Innovation sub-index. Small businesses are not as successful as they would like to be in effectively marketing themselves to grow their businesses beyond their current size. They also fight to think of new innovations, but often come up short.

The bright spot for American small businesses is in the impeccable service they provide their customers. They have what it takes to retain current customers and treat them with care. This is reflected in the 'A-' they earn in Customer Service.

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. Marketing and Innovation is also especially 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 2

Small Business Success Report Card				
	Importance Score**	Index Score*	Grade	✓
OVERALL INDEX SCORE*		75	C	➔
Sub-Indices				
Capital Access	33	68	D+	⬇️
Marketing & Innovation	23	71	C-	⬇️
Workforce	14	78	C+	⬆️
Customer Service	11	90	A-	⬆️
Computer Technology	11	75	C	➔
Compliance	8	89	B+	⬆️
*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%.				

How can small businesses improve their competitiveness in the marketplace? Use the Internet.

Assuming that a venture capitalist is not going to suddenly appear and shore up most small businesses, a sound investment a small business can make is in ramping up its Internet business solutions, or so it would seem based on the experiences of those small businesses who have done it. This means more than just building a website, but making a commitment to online advertising, allowing customers to view and order products online, providing email customer service and self-service options to customers. It also involves improving internal communications by having a shared network for employees to collaborate on projects and providing the means for them to communicate online with each other.

By doing these things, small businesses can improve their overall competitiveness grade, going from a low C to a C+, and improve in one of the most important drivers of competitiveness, **Marketing and Innovation**. It affects the bottom-line too. Small businesses that invest in Internet business solutions have a higher likelihood of meeting their business goals. For example, small businesses with a commitment to Internet business solutions feel they are highly successful in improving their profit margins 16% more often than small businesses that employ minimal Internet business solutions.

The most “plugged-in” small businesses are more competitive compared to those using fewer Internet business solutions (see Figure 3). Nearly one in three small businesses that are “Internet tech-powered” (using 6-14 of the Internet technologies included in this survey) are “highly competitive,” compared to one in four of those with moderate Internet technology usage (2-5 Internet business solutions), and just one in five of those with minimal Internet technology (using 1 or no Internet business solutions). This trend holds true even among very small businesses; among businesses with fewer than 5 employees, 60% of “Internet tech-powered” businesses are “marginally” or “highly competitive” versus less than half (48%) of very small businesses that have minimal Internet technology.

Figure 3

Competitiveness by Internet Technology Usage			
	Internet Tech-Powered (n=313)	Moderate Internet Tech (n=376)	Minimal Internet Tech (n=311)
Highly Competitive	31%	24%	19%
Marginally Competitive	32%	25%	29%
Marginally Failing	25%	30%	25%
Failing	14%	20%	24%
Tech-Powered=using 6-14 Internet business solutions in their organization Moderate=2-5 Internet business solutions; Minimal=0-1 Internet business solutions			

More Insights on the SBSI

The full report provides more detail on the topics discussed here. In addition, it covers the following areas:

- **The Sub-Indices:** A detailed look at how small businesses perform on the 6 dimensions of success, including performance on the individual measures that make up each sub-index
- **The Consequences of Competitiveness:** Are small businesses meeting business goals like minimizing costs, meeting income objectives, and increasing the company's value? Do they have better business outcomes? How does competitiveness affect their performance?
- **Internet Business Solutions:** Small businesses' use of and need for Internet business solutions and the effect of technology on their success
- **The Correlates of Competitiveness:** How do other characteristics of a small business and its owner relate to its success? What types of small businesses are more competitive? Do macro factors like globalization, regulation, and industry trends play a role?
- **Small Businesses in the Current Economy:** How has the economic downturn affected small business, and what does it mean for their future?

About the Small Business Success Survey

The baseline 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. 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 will track trends in Small Business Success over time. These are the results from the first wave of data collection.

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

Network Solutions, LLC
13861 Sunrise Valley Dr.
Suite 300
Herndon, VA 20171

**Robert H. Smith School of Business,
University of Maryland**
3461 Van Munching Hall
College Park, MD 20742

Media Inquiries:

Susan Wade, Director of Public Relations
for Network Solutions, LLC
703-668-5057
swade@networksolutions.com

Carrie Handwerker, Public Relations Associate
for Robert H. Smith School of Business
301-405-5833
chand@rhsmith.umd.edu