

# The State of Small Business Report

## June 2010 Survey of Small Business Success

July 2010

Sponsored by: **Network Solutions, LLC and the Center for Excellence in Service at the University of Maryland's Smith School of Business**



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



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## Introduction

The recession has taken its toll on the overall health of small business, despite owners' underlying resiliency and continued satisfaction with their career choice. Compared to the past, they are struggling more with marketing and innovation and managing technology and their workforce. With expected improvements in their bottom lines in 2010, they remain cautiously optimistic about the economic environment and their futures.

Because of the importance of the small business sector, which accounts for over one out of every three jobs in the U.S., Network Solutions, LLC and the Center for Excellence at the University of Maryland's 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 four 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, the subject of this report, in June 2010 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 SBSI 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	✓
<b>OVERALL INDEX SCORE*</b>		<b>73</b>	<b>C-</b>	↓
<b>Sub-Indices</b>				
Capital Access	33	67	D+	↓
Marketing & Innovation	23	65	D	↓
Workforce	14	76	C	→
Customer Service	11	88	B+	↑
Computer Technology	11	73	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 the first drop seen in the SBSI over the past four waves starting in December 2008; until now, it has held steady at 75. Other data reported here suggest that the prolonged recession has restrained the ability of small businesses to improve their situation. Downward shifts are occurring on selective indicators of success within the index as well. For example, the critical area of marketing and innovation has experienced a drop in performance in the last six months primarily due to businesses coming up short with creative new ideas to grow their enterprises. This provides a glimpse into how deeply small businesses are struggling, as the sector is known for its ingenuity, but small businesses appear to be running out of ideas given the economic constraints affecting them.

This wave of the SBSI also provides depth on issues and opportunities for small businesses, including the rise of social media as a marketing and customer management tool, the global reach of small enterprises, and the role of owners' spouses in their success.

## Executive Summary

**Competitiveness slips.** As stated in the Introduction, the overall health of small business has declined over the past six months to a "C-" from a solid "C" rating for the first time. There are fewer "highly competitive" small businesses, which is defined as businesses that are highly successful in meeting their business goals (only 18 percent in June 2010 vs. 25 percent a year ago).

Marketing and Innovation, one of the most important dimensions contributing to competitiveness, has experienced the largest drop in performance (slipping from a "C-" to a solid "D"). Businesses are having trouble marketing and positioning themselves in a highly competitive market, but are having even more difficulty in coming up with new ideas to grow their businesses (declining from 47 percent who were "highly successful" in this area in June 2009, to only 37 percent a year later).

There have also been declines in the less critical areas of Computer Technology and Workforce. Small businesses are increasingly failing in making technology work effectively for their businesses (falling from 60 percent who were highly successful a year ago to 53 percent this year). Within Workforce, small businesses are not doing as well in training and developing their employees (a drop from 65 percent in June 2009 to 58 percent in June 2010).

**Cautious online technology spending.** The dramatic increase in adoption of social media by small businesses at the beginning of the year has tapered off and holds steady at 24 percent, which is still a significant increase compared to a year ago. Small businesses decreased their adoption of all other technologies over the past year though. Specifically, small businesses have slowed usage of online advertising, which dropped significantly from 25 percent a year ago to 20 percent in June 2010. Usage of search engine optimization (SEO) has also declined in the past year, from 26 percent to 20 percent.

Websites continue to have the broadest reach of online technologies, with 67 percent of small businesses having or likely to have a site in two years. Websites are also the fastest growing online solution, significantly higher this year than last (17 percent plan to get a website in June 2010 vs. only 10 percent a year ago).

**Social media holds promise.** Of the 20 percent who use social media in some way for their business, the majority use FaceBook (82 percent), and a lesser number use LinkedIn (38 percent) and Twitter (30 percent). Small businesses tend to have company pages on sites like FaceBook and LinkedIn (73 percent of those who use social media) and post status updates (65 percent) most.

Social media meets more than half (58 percent) of small businesses' expectations, which has not changed in the past six months. However, their expectations of what social media can do for their business has changed in the past six months, as now more small businesses expect social media to build awareness of their organization (77 percent) rather than attract leads (71 percent), a reverse of six months ago. They are also more likely to expect social media to keep them in touch with current customers (62 percent), and it is more likely to achieve this for them now than six months ago (65 percent in June 2010 vs. 46 percent in December 2009).

Social media has not provided a big payoff yet, but small businesses that use it remain optimistic it will in the next 12 months. More than half (57 percent) believe they will make a profit from social media in the next 12 months; this optimism is slightly higher (though not significantly so) than six months ago when it was 45 percent.

Portable devices help small businesses participate in social media. A third of owners who use social media (34 percent) use a portable device to participate in social media activities for their business. This is similar to the 39 percent who use their portable device for business email.

**Websites remain core to an online presence.** Despite the rise in social media adoption, small businesses have no intention of abandoning their websites in favor of a pure social media online strategy for their business. In fact, 30 percent of those using social media plan to increase their investment in their website because of social media, and another 60 percent do not plan to change their planned website investment in the next 12 months.

**A positive financial outlook.** Small businesses are expecting better bottom lines in 2010 than in the previous year and a half. For the first time, more businesses expect to gain revenue (31 percent) in the current year than lose revenue (23 percent). To further support their optimism, more small businesses (58 percent) expect to show a profit this year than just six months ago (47 percent in December 2009 expected to show a profit in the current year).

**More caution with the economy.** Despite the expectation of better bottom lines, small businesses remain cautious about the economy. Their feelings about the economic climate for their businesses have not changed much in the past year, as a third (34 percent) believe the economic climate is worsening, 38 percent believe it is staying the same, and a quarter (28 percent) think it is improving. The impact of the economic downturn on their businesses has also been consistent for the past year, with half of small businesses (49 percent) saying they have been highly impacted by the downturn in June 2010. Their expectations for the economy in the next 12 months are not as optimistic as they were a year ago, with only 30 percent of small businesses believing it will improve in June 2010 compared to 38 percent a year ago.

It is mixed news from small businesses, as they expect their bottom lines to be up, but the overall health of their businesses are slipping and the economic outlook is unclear. Even so, the majority of small businesses are still highly satisfied with being a small business owner and this has not changed over time (65 percent are highly satisfied, rating their satisfaction an 8, 9 or 10 on a 10 point scale, in June 2010 compared to 63 percent a year ago).

**Looking globally.** Only 7 percent of small businesses do the bulk of their business globally, but a greater number are tapping into the global marketplace in some capacity. Small businesses are more likely to purchase rather than sell globally, a reverse from 6 months ago. The incidence of global purchasing has increased in the past six months (from 11 percent of small businesses to 18 percent). A total of 14 percent of small businesses are selling their products and services globally, which is down from 19 percent but not significantly.

The Internet opens up the global marketplace to small businesses; 44 percent of small businesses doing business globally believe the Internet had a "major impact" on their ability to operate on this scale. Small businesses that do business globally use the Internet to communicate with global customers (41 percent), buy supplies (31 percent), and sell their products globally online (27 percent).

**Does spouse participation help or hurt a small business?** Many small businesses start with support from spouses or significant others, but their presence has no significant impact on the overall success of the small business at first (as measured with the SBSI). As the business takes

shape, a link emerges between the role of the spouse and the overall success of the business. Businesses that have spouses or significant others in a full-time role in the business are more successful (76 on the SBSI) than businesses where the spouse plays no role in the business (73) or acts as a silent partner (72).

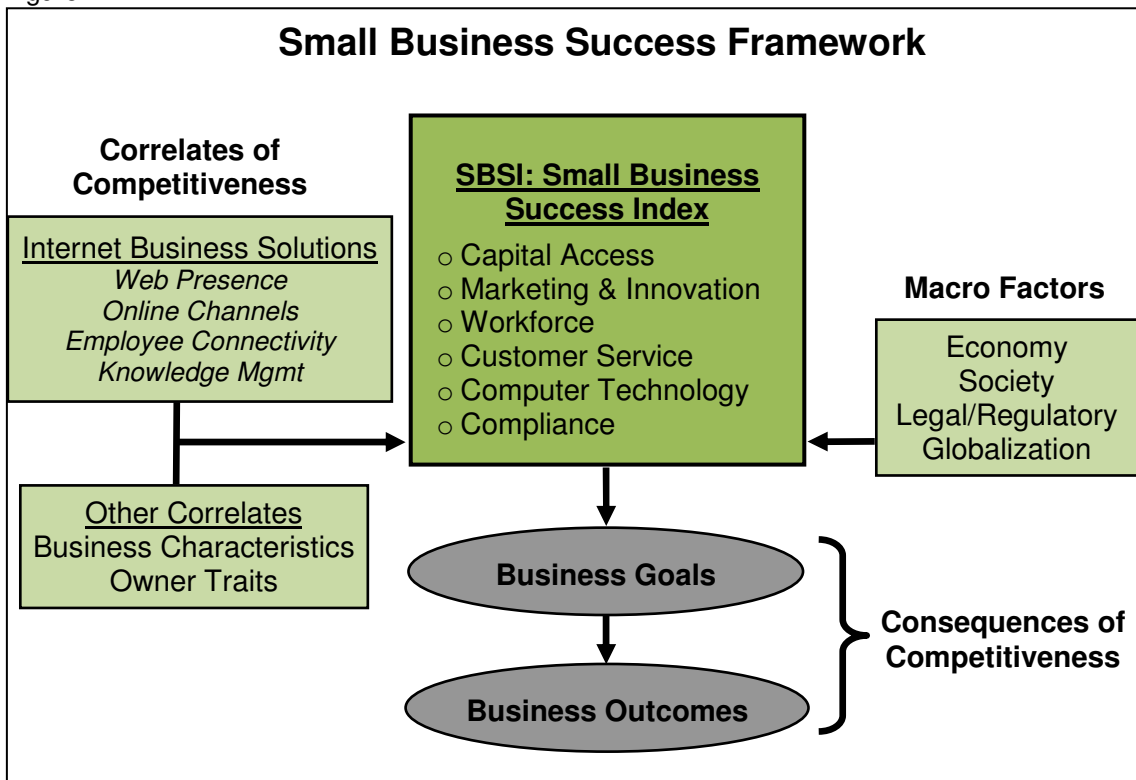
Even if the spouse is working full or part-time in the business, the primary owner usually retains primary responsibility for the functions of the business, or to a lesser extent, shares responsibility with the spouse. The only area where the spouse is more likely to have primary responsibility instead of sharing it with the primary owner is in accounting and finance (27 percent of spouses have sole control; 22 percent share), but it is still more likely the owner has primary responsibility (49 percent).

The following discussion presents the latest findings and trends on the SBSI, growth of Internet business solutions and social media, businesses' financial success, views on the economy, businesses' doing business globally, and spousal roles in small businesses.

### 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

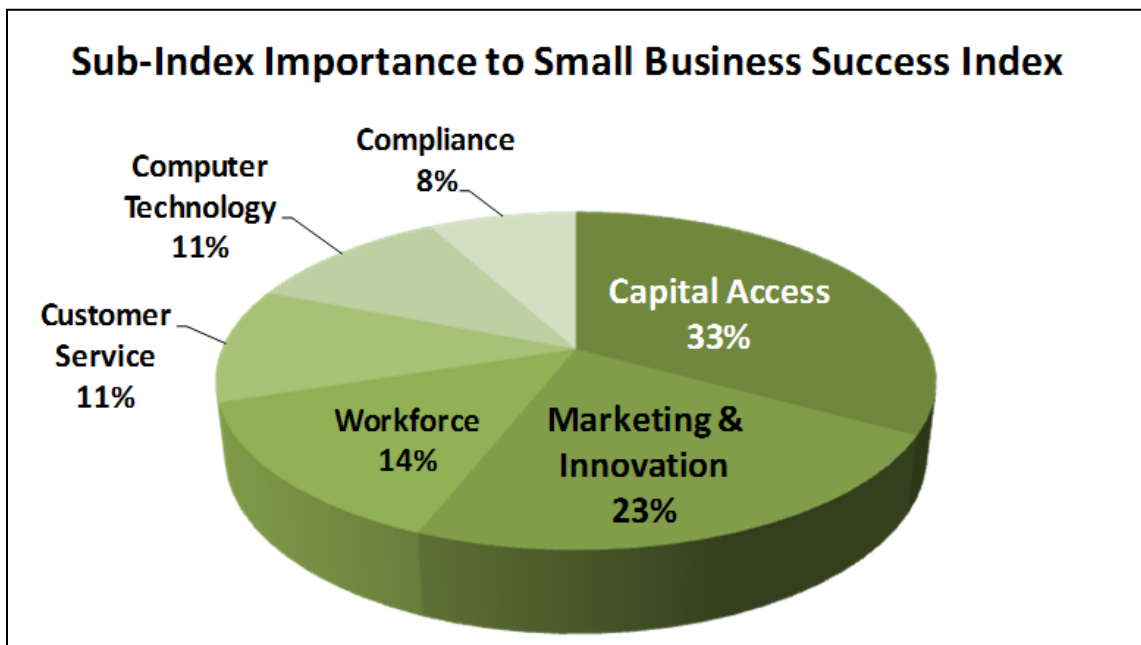


Small Business Success is measured on several dimensions and quantified on a scale of 0 to 100 (completely failing to completely successful). The SBSI is based on 28<sup>1</sup> measures, which capture the six dimensions (or sub-indices) below:

- **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

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

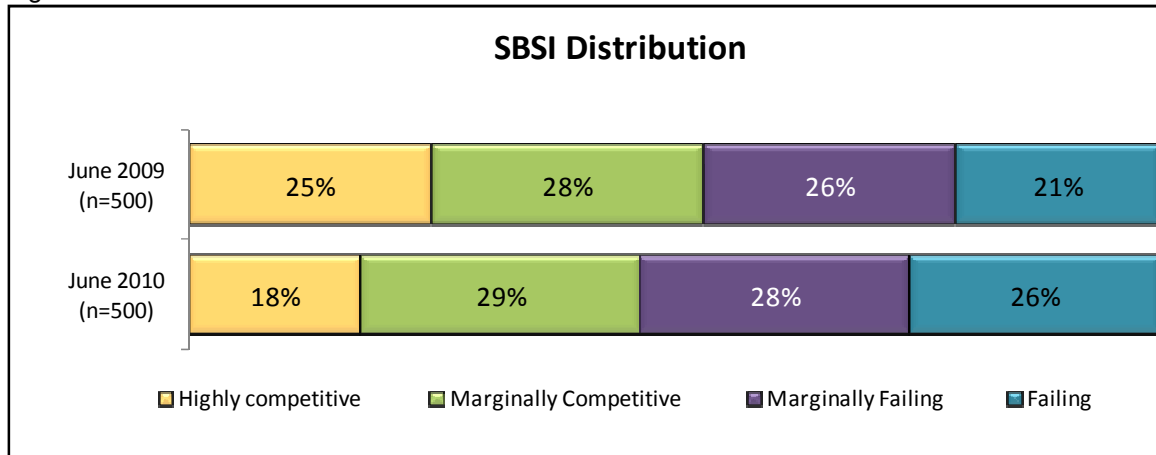


<sup>1</sup>In this wave, a shorter version with 14 items was used. Comparisons to the past are made using the short version, but the results are almost identical to using the full version.

**How competitive are small businesses today?** As of June 2010, when the most recent wave of the SBSI 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):

- 18% 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)
- 28% are **Marginally Failing** (an SBSI score of at least 65 but less than 75)
- 26% 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.

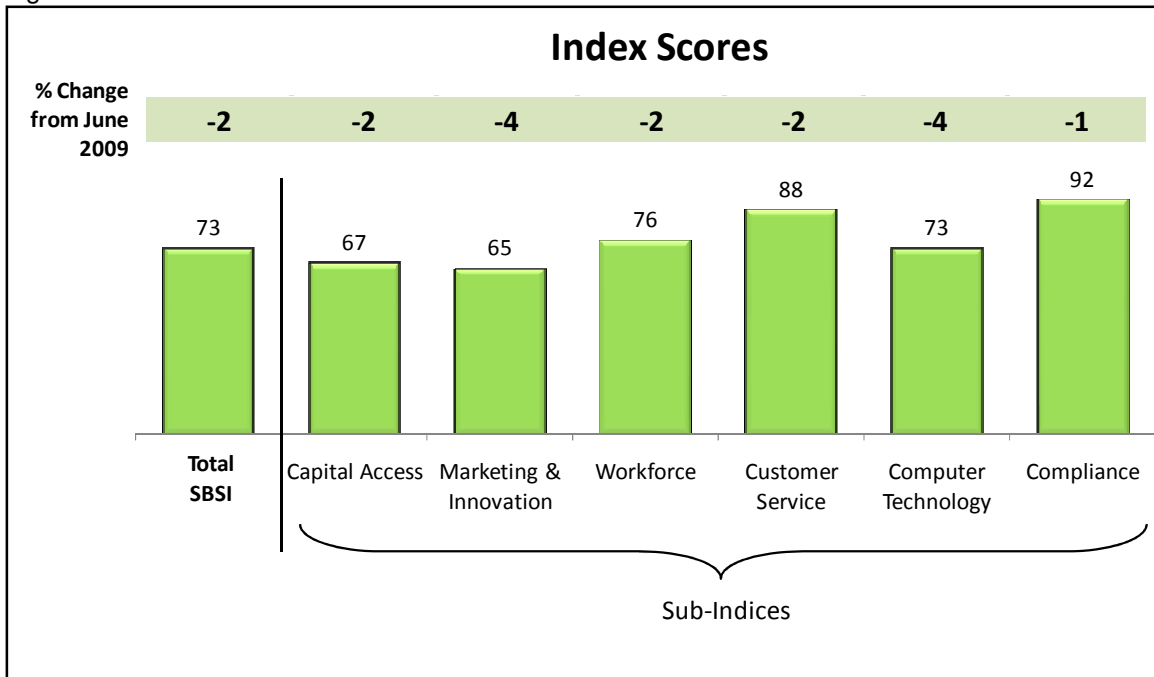
The SBSI has dropped slightly for the first time since the baseline wave a year and a half ago (December/January 2009). It held steady at a 75 through January 2010, but has dropped to a 73 in the most recent wave. There are fewer “highly competitive” businesses now, compared to a year ago (only 18 percent compared to 25 percent a year ago), showing the toll the recession has taken on small business. As of last month, over half of small businesses (54 percent) are now “failing” or “marginally failing”.



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 69 in June 2009 to a 65, showing that small businesses are running out of ideas to grow their businesses in these tough times. Two other areas have also experienced significant declines in the past year, Workforce and Computer Technology.

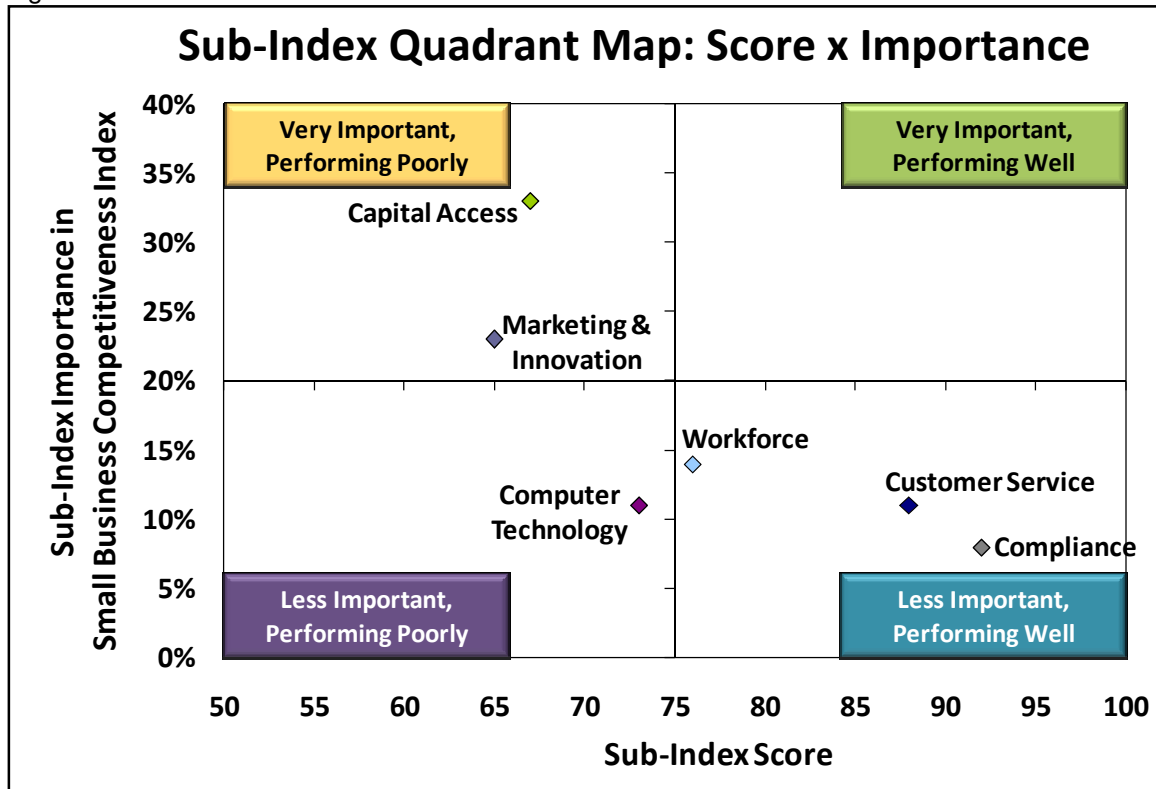
Several areas have experienced minimal (not significant) change over the last year, including a critical area where they are at a competitive disadvantage, Capital Access. At the other end of the spectrum, small businesses continue to excel at Compliance, and they do almost as well in Customer Service.

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 economy is likely sapping creativity in coming up with new ideas to grow their businesses. The later discussion reveals how small business is rapidly embracing social media as a new way to engage customers and that it expects it to pay off in the future.

The Workforce dimension is classified in the quadrant labeled "less important, performing well." As noted previously, it has begun to slip in performance, which may pose a problem as the economy recovers and hiring increases.

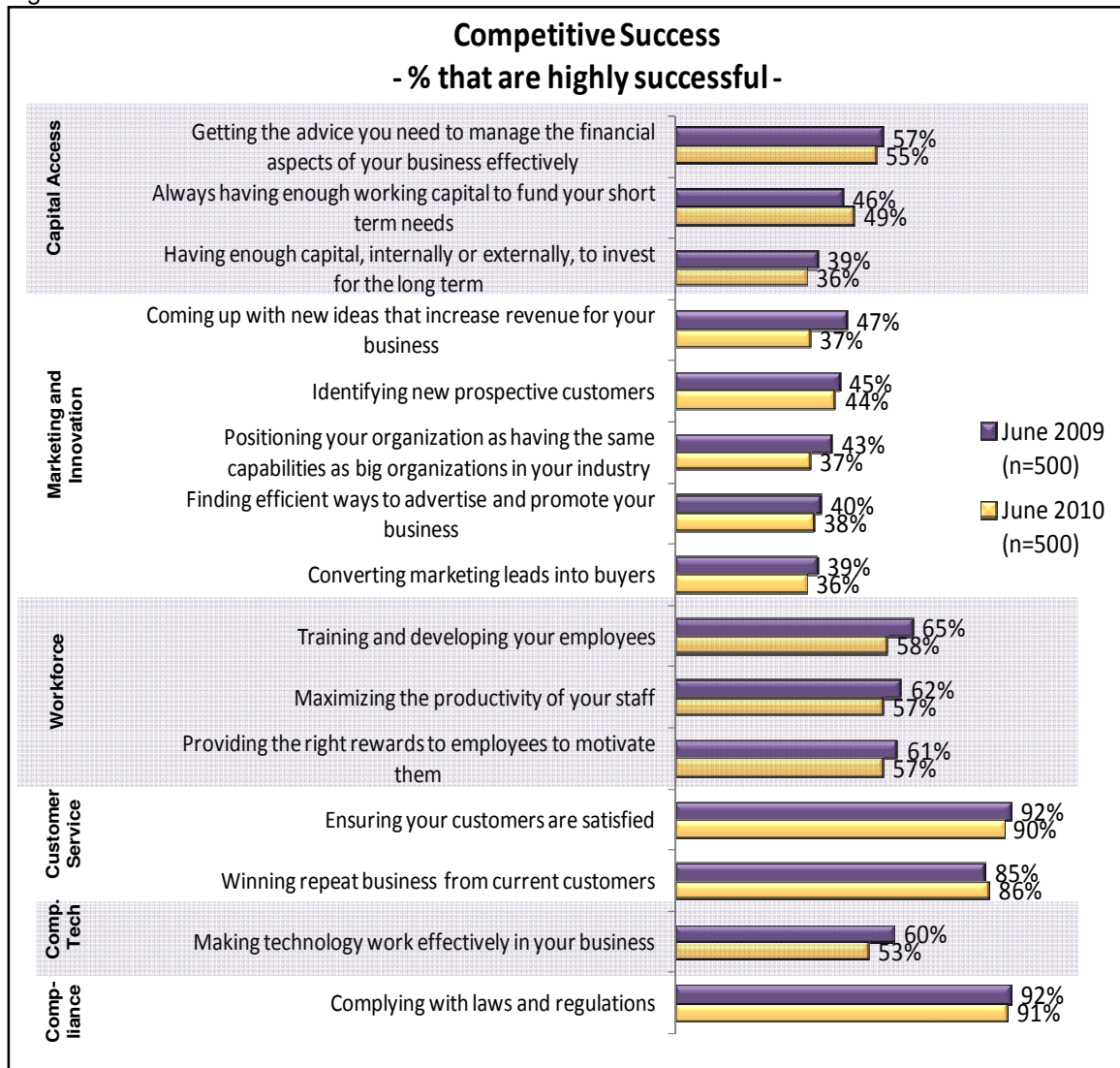
Computer Technology is another area that has slipped and needs improvement to move it back to "performing well". Small businesses continue to perform well in the less important areas of Customer Service and Compliance.

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 in time for the economic recovery.

## Factors Contributing to Competitive Success

The six areas of the index include individual attributes that contribute to small businesses' 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 (49 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 businesses are finding it harder to come up with new ideas to grow their businesses (only 37 percent are highly successful vs. 47 percent a year ago). This could be a sign of frustration as the recession lingers, and businesses run out of new ideas.

All other aspects of Marketing and Innovation remain fairly steady, but businesses continue to have difficulty promoting their businesses effectively to increase 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 65 percent a year ago). They do moderately well in maximizing employee productivity and rewarding employees.

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.

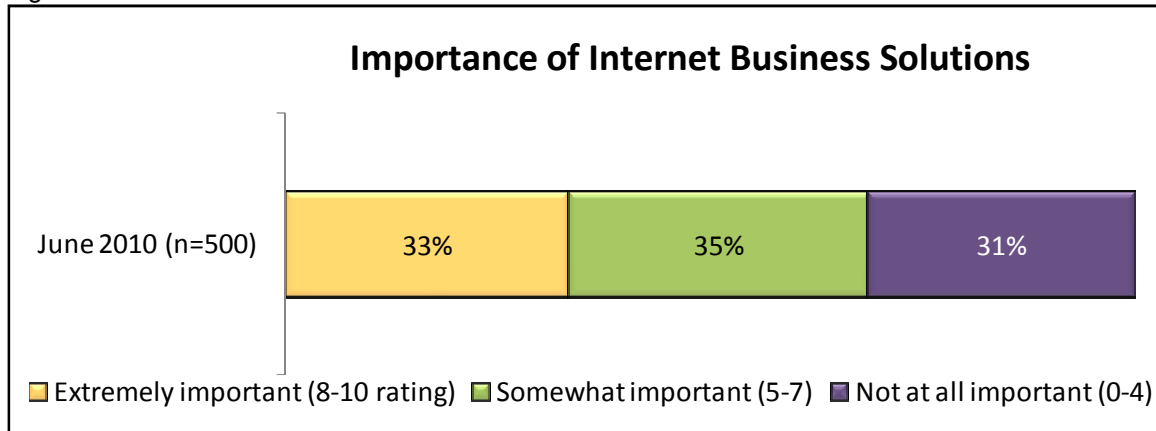
Computer Technology is an area of frustration for small businesses, as fewer small businesses this year are making technology work effectively for them (slipping from 60 percent to 53 percent).

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.

### Internet Business Solutions

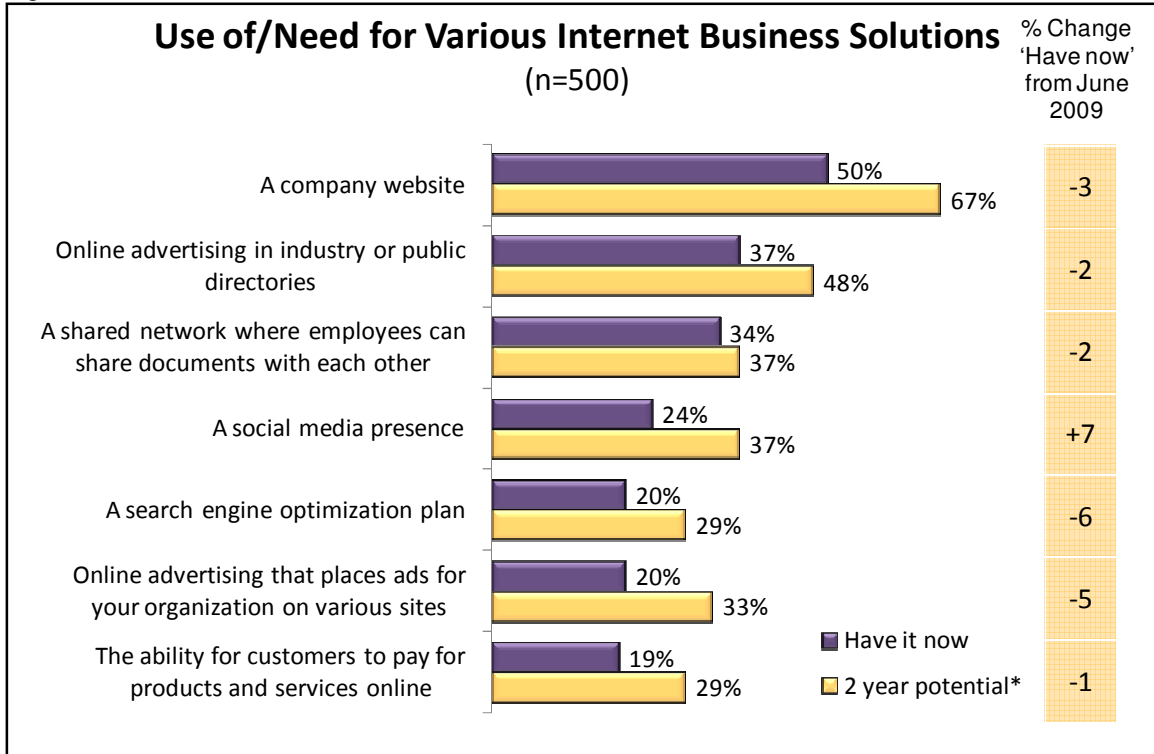
The SBSI measures the importance and adoption of Internet business solutions (e.g., websites) that help businesses market their brand, service their customers and run more efficiently and securely. Internet business solutions are extremely important to a third of small businesses, and somewhat important to another third (see Figure 8).

Figure 8



Usage of individual Internet business solutions has dropped over the past year for all technologies, except a social media presence (see Figure 9). The incidence of a social media presence for small businesses increased to 24 percent in January 2010 and remains at this level mid-year, which is a significant increase from a year ago. The most dramatic decreases in usage are with SEO plans, declining from 26 percent to 20 percent, and online advertising on other sites, dropping from 25 percent a year ago to 20 percent.

Figure 9



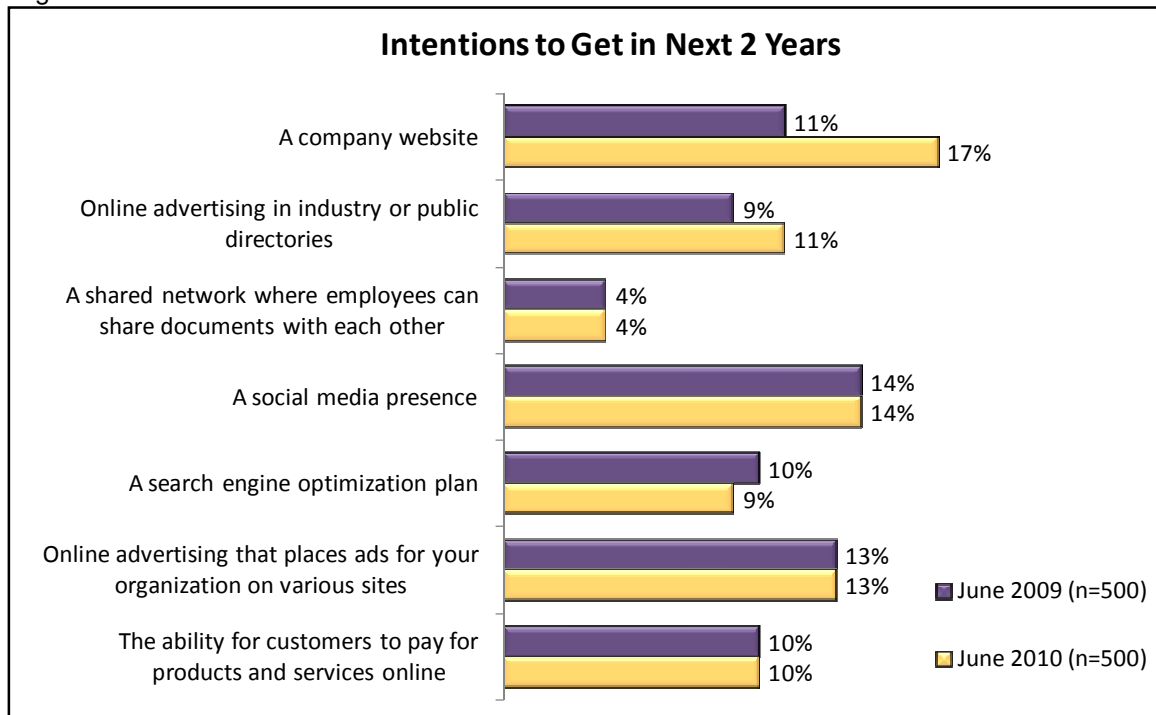
\*Includes those who have now plus those planning to within 2 years.

Figure 9 above also shows the long range potential of the various technologies. After taking into account current ownership plus intentions over the next two years, it is likely that by the middle of 2012, two-thirds of small businesses (67 percent) will have a website and nearly half (48 percent) will advertise in online industry or public directories.

What are the fastest growing technologies among small businesses? Based on intention (see Figure 10), the fastest growing technology will be company websites, and small business intentions are significantly higher this year than last. This may be because businesses are looking for ways to increase their marketing presence, either through building a website for the first time or expanding to multiple sites, in a more competitive environment.

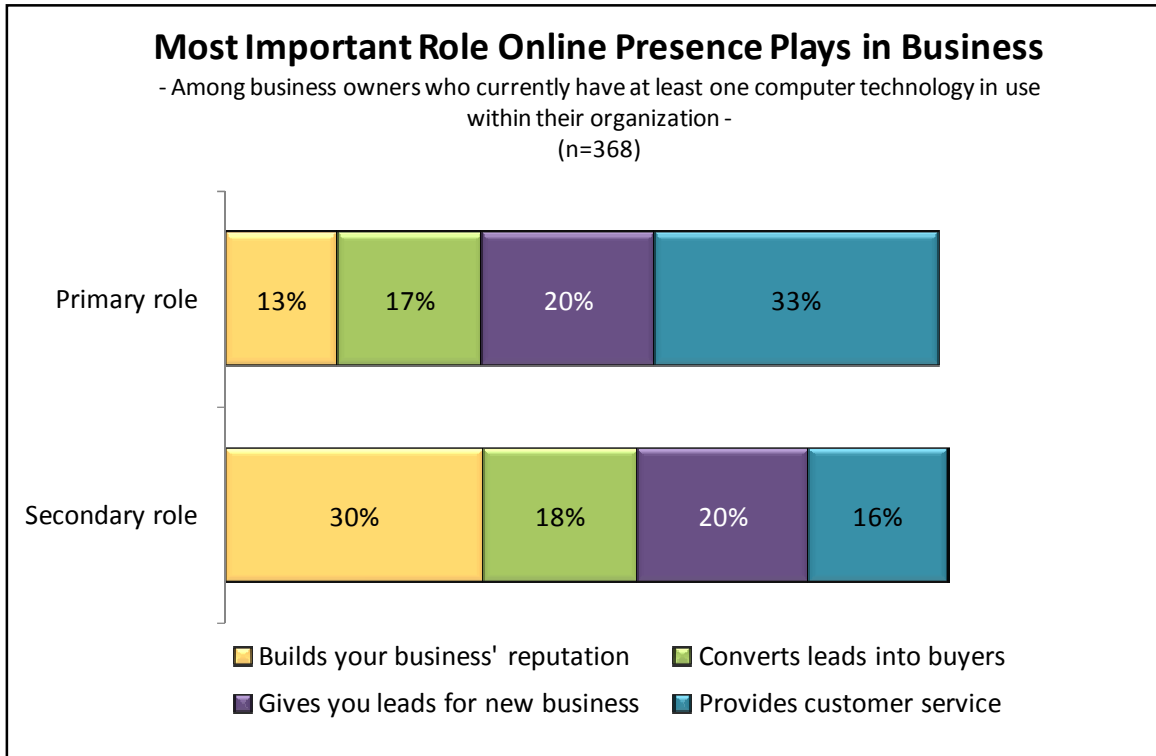
Other fast growing technologies are a social media presence and online advertising that places ads on other sites. Intentions for these technologies have not changed in the past year.

Figure 10



Small businesses have 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 of it is to provide customer service (see Figure 11). Another two-in-ten small businesses task their online presence with providing new customer leads. Secondly, businesses look to their online presence to build their business' reputation most.

Figure 11



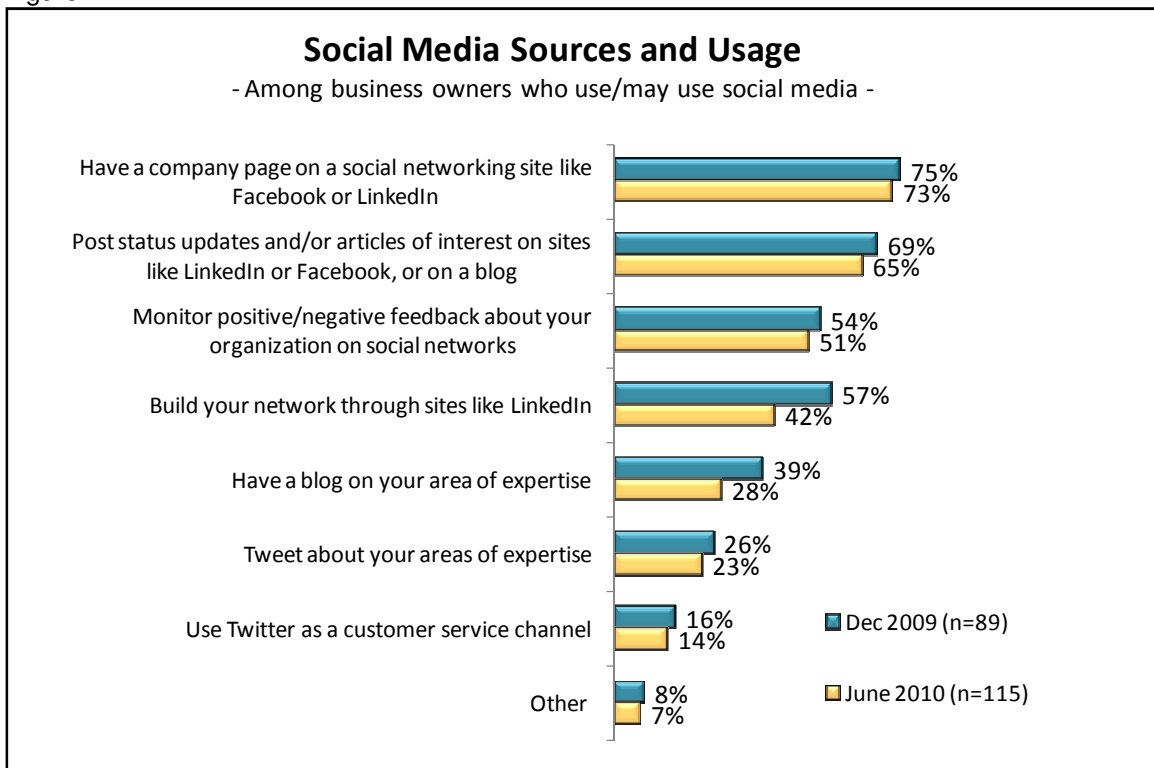
## Social Media Use

The social media trend is affecting small business as they look for new ways to communicate with customers and reach out to potential new markets. A full 20 percent say they actively use social media for their business which is similar to the incidence six months ago (18 percent). Of those who use social media, the most common sites used include the following:

- FaceBook (82 percent)
- LinkedIn (38 percent)
- Twitter (30 percent).

The most popular way to take advantage of social media is to have a company page and post status updates which are done by about three-quarters of those using social media for their business (see Figure 12). About half of those who use social media monitor comments made about their business on social media sites. Other less frequent activities include building networks on LinkedIn, blogging, tweeting, and using Twitter as a customer service channel. Incidence of social media activities has not changed much in the past six months.

Figure 12

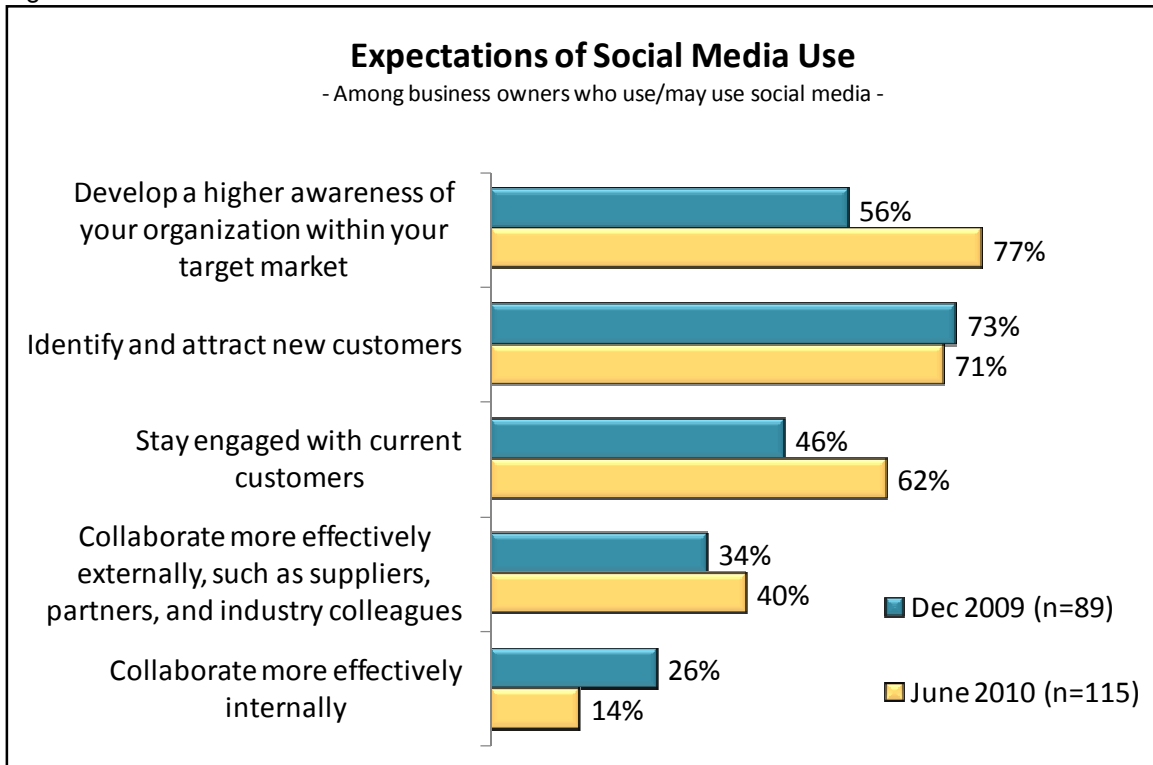




For more than half of small businesses (58 percent), their social media efforts meet their expectations. Over a quarter (28 percent) feel their expectations have not been met, and 8 percent feel social media exceeds their expectations. This has not changed much in the past six months.

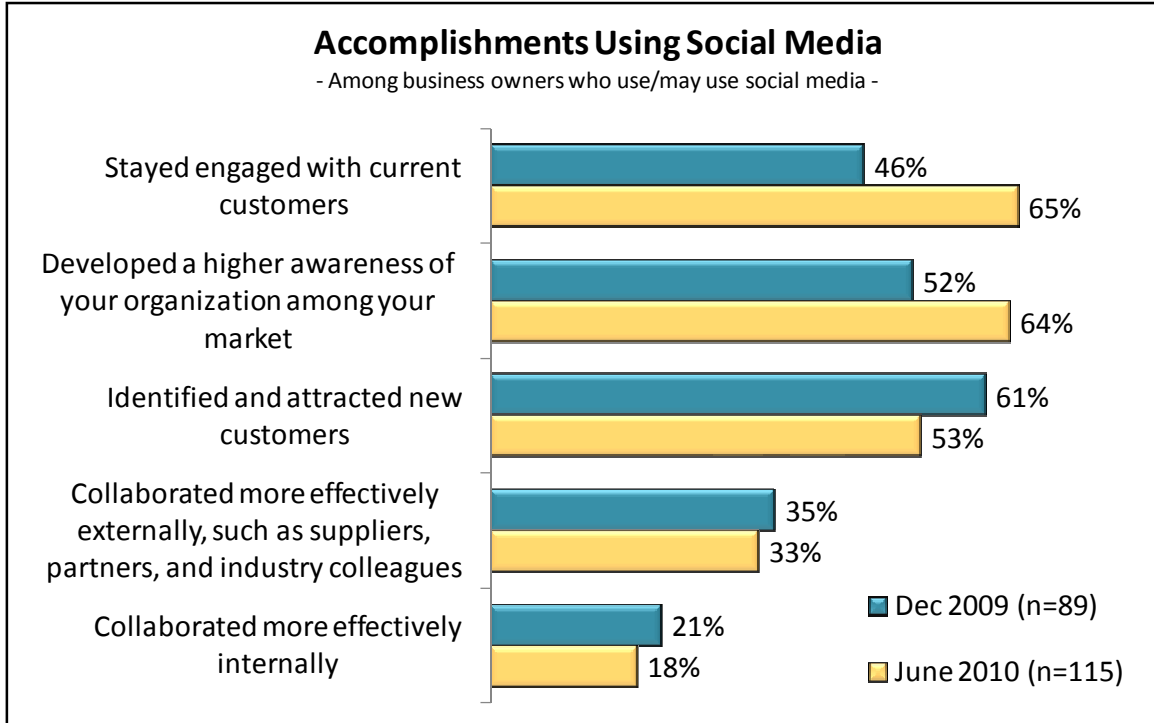
What has changed is what small businesses' expect to achieve with social media. Instead of the lofty goal of social media identifying and attracting new customers, small businesses' biggest expectation from social media now is just to raise awareness of their business. A full 77 percent of small businesses look to social media to raise awareness of their business in June 2010, compared to barely half (56 percent) just six months ago (the change is statistically significant – see Figure 13). About seven-in-ten small businesses continue to expect social media to get them leads, so they are still hoping for more than just an increase in awareness. Another change in the past six months is that small businesses are looking more to social media to be a communications channel to help them stay engaged with their customers (62 percent in June 2010 compared to 46 percent in December 2009, a statistically significant change).

Figure 13



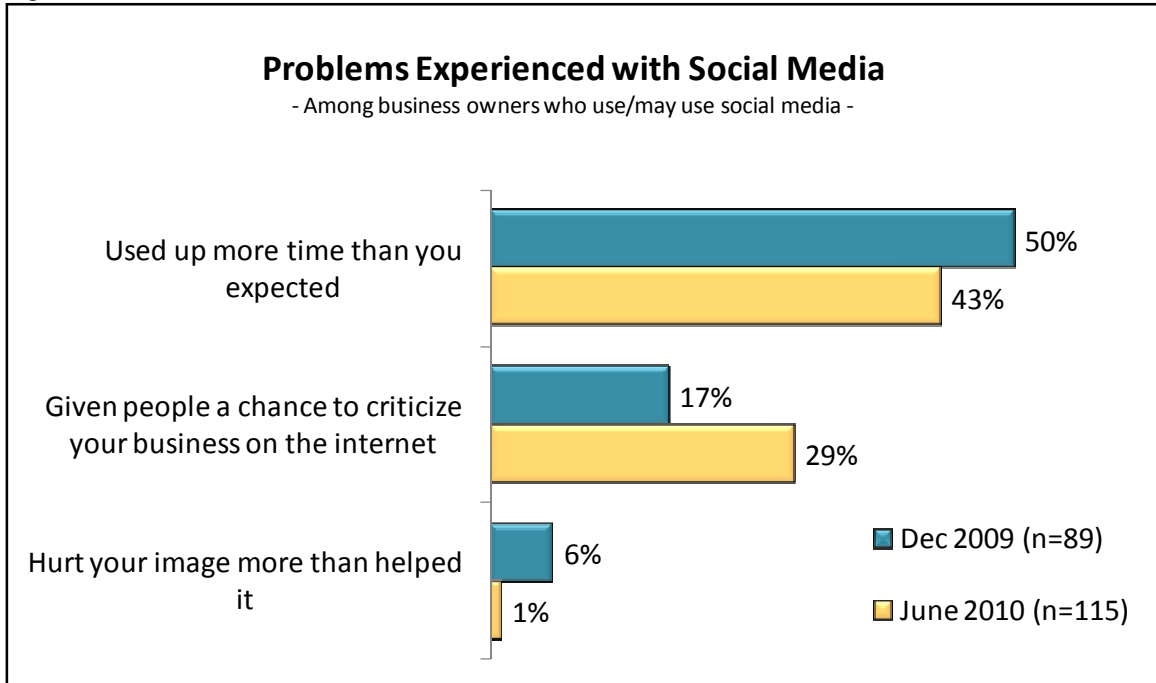
Given their effort, small businesses expected social media to help them stay in touch with customers, and it has achieved this for 65 percent of them, up significantly from 46 percent six months ago (see Figure 14). They also feel that social media has raised awareness of their business and attracted new customers.

Figure 14



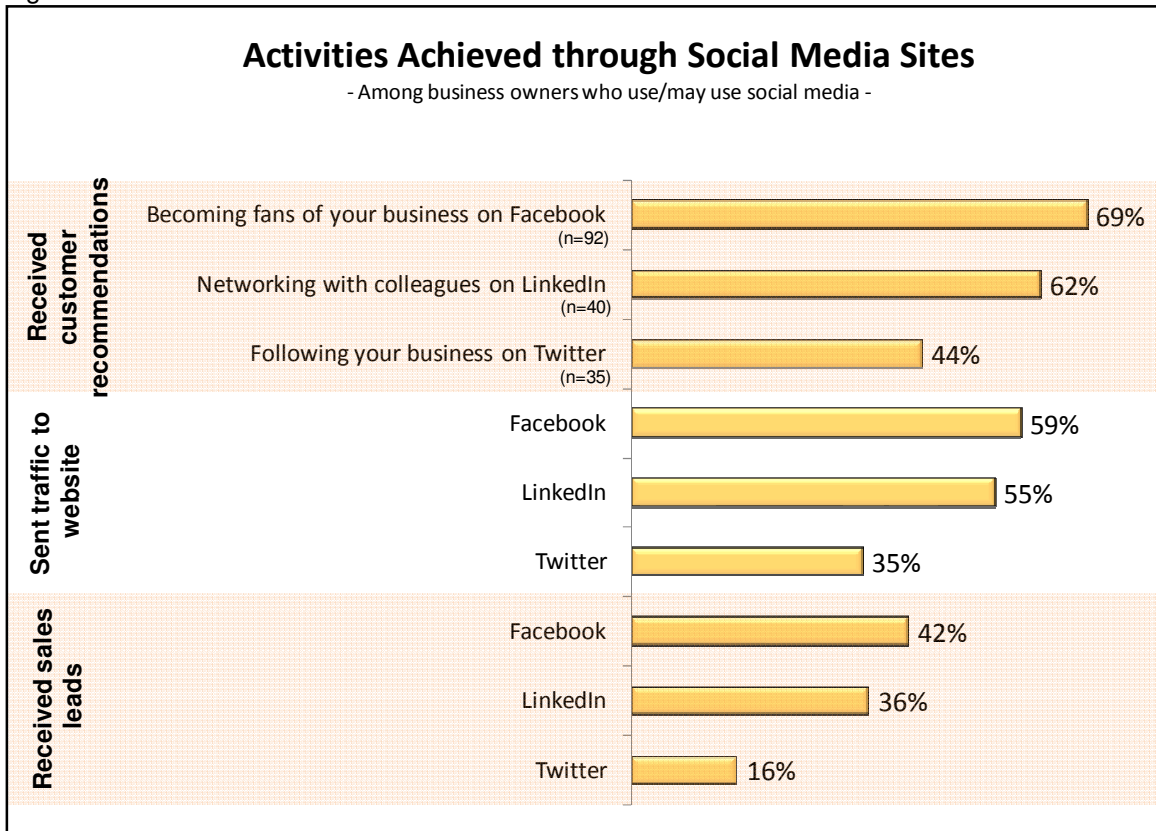
Small businesses' biggest issue with social media is that it takes more of their time to manage it than they expected (see Figure 15). To a lesser extent, small businesses feel it offers a forum for people to criticize their business.

Figure 15



The top social media sites are credited most with providing customer recommendations to small businesses in the form of customers becoming fans, followers, or networking on the sites (see Figure 16). To a slightly lesser extent, FaceBook, LinkedIn, and Twitter also send traffic and leads to small businesses. FaceBook leads in all activities, which is likely why it is the most used social media site among small businesses.

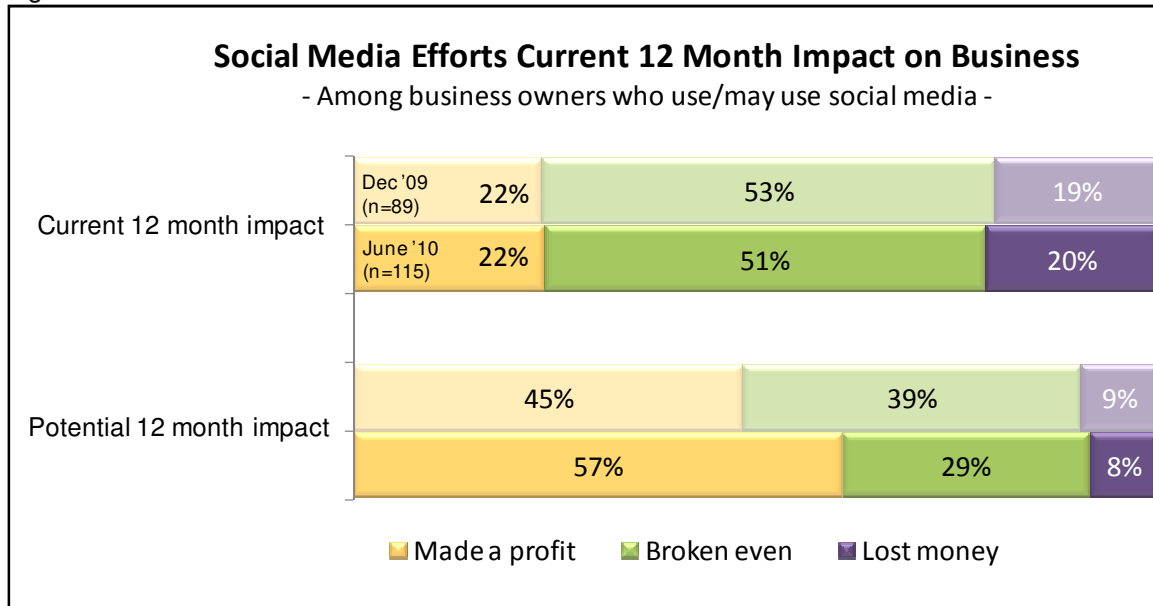
Figure 16



So far, social media is not providing a big payoff to small businesses given their investment. Half of small businesses (51 percent) are breaking even, with about an equal number making a profit (22 percent) or losing money (20 percent) on their investment (see Figure 17). This has not changed in the past six months.

Small businesses are more optimistic about their investment in social media for the next 12 months. More than half (57 percent) predict they will see a profit from their efforts, 29 percent expect to break even, and only 8 percent think they will lose money. Their optimism is slightly higher than six months ago, although the change is not statistically significant.

Figure 17



Small businesses' optimism about social media is confirmed further by the fact that two-thirds of them (62 percent) believe social media will become more important as a sales and marketing tool for their business over the next year. A third (36 percent) feel it will maintain its current importance, and virtually no small businesses who use social media for their businesses currently believe it will be less important.

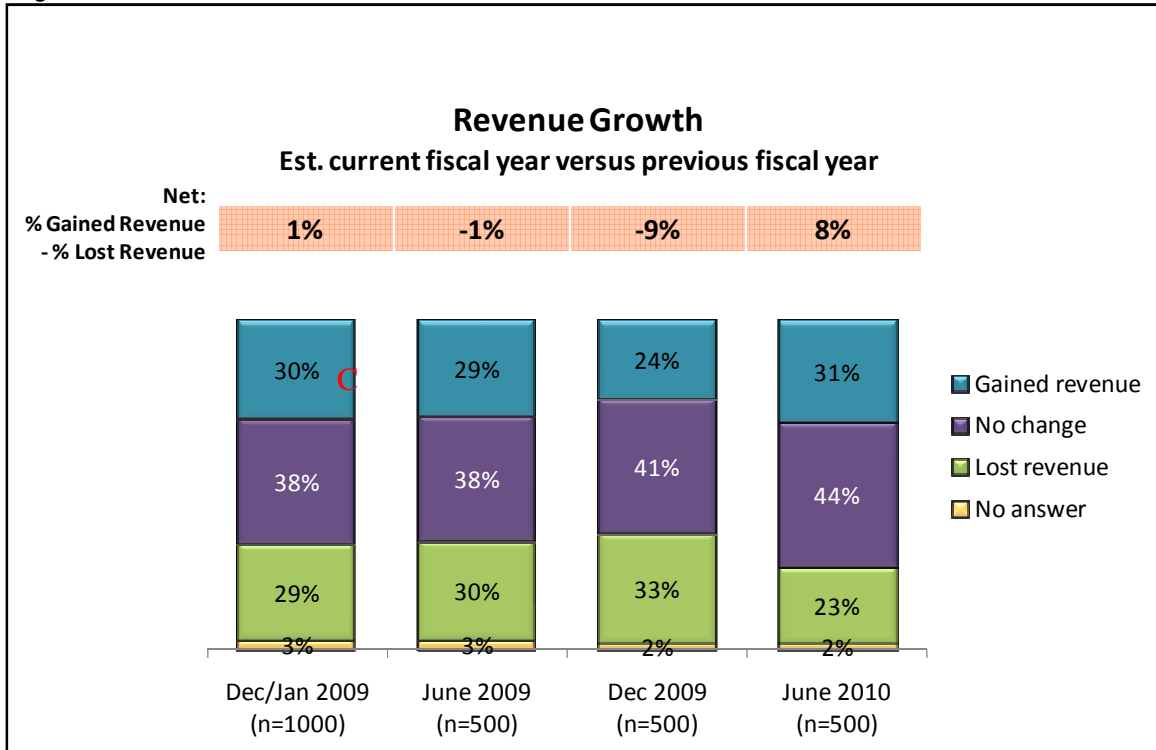
Social media will not overshadow small businesses' investment in their corporate websites though. Of those businesses using social media, 60 percent do not plan to change their investments in their corporate website in the next 12 months; in fact, 30 percent plan to increase their investment because of social media.

Portable devices play a role in some small businesses' participation in social media. A third of small businesses who use social media (34 percent) use a portable device to participate in social media activities for their business. This is only slightly lower than the number of small businesses who use a portable device to check their business email (39 percent).

### Small Business Financial Success

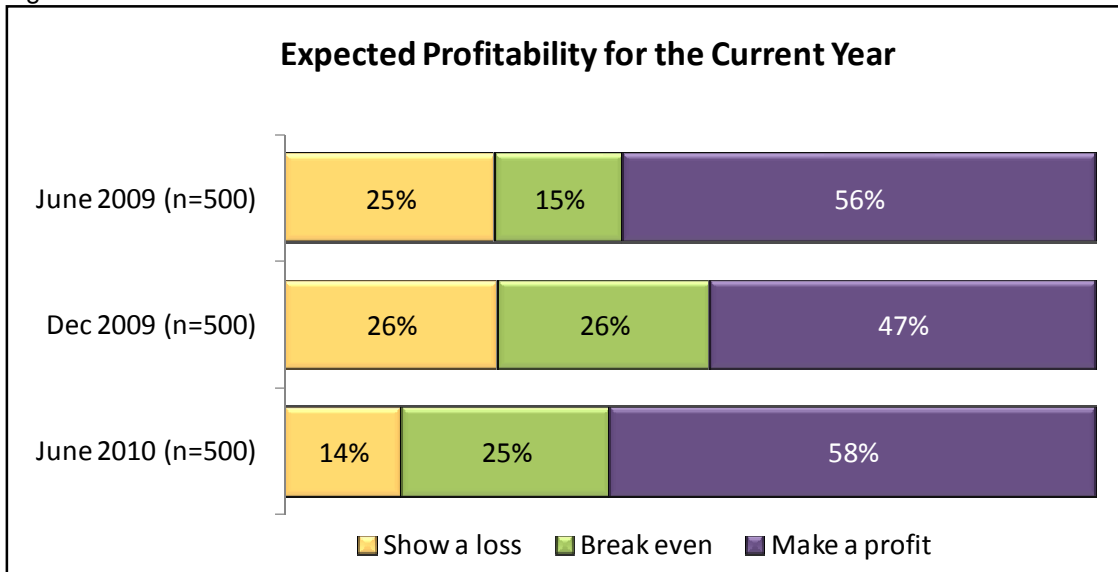
Small businesses are more optimistic about 2010 revenue growth than just six months ago, showing positive net revenue growth for the first time in a year and a half (see Figure 18). Significantly fewer small businesses believe they will lose revenue in 2010 compared to all three previous waves of the survey. More small businesses (31 percent) plan to grow their revenues in 2010 compared to six months ago (24 percent).

Figure 18



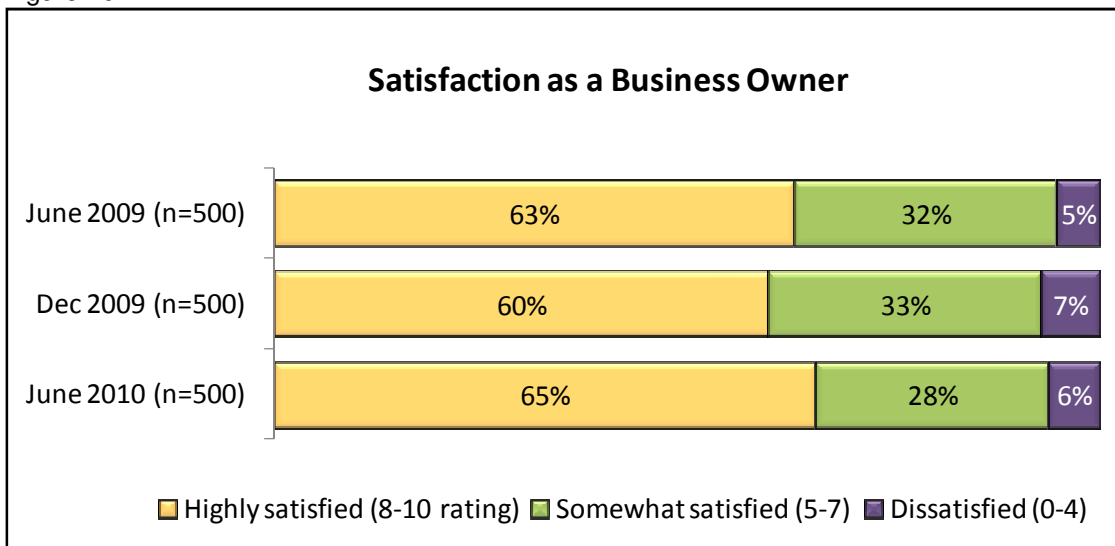
Following the positive momentum in revenues, small businesses are significantly more likely to expect their business to show a profit in 2010 as well. More than half of small businesses (58 percent) expect a profit compared to 47 percent six months ago (see Figure 19). Fewer small businesses (14 percent) in June 2010 expect to show a loss for the year, which is the lowest level seen in the last year.

Figure 19



All this good financial news has not greatly impacted small business owners' satisfaction with owning their own businesses. Small business owner satisfaction has remained steady over the past year, with 65 percent of small business owners being highly satisfied and 28 percent being somewhat satisfied in June 2010 (see Figure 20).

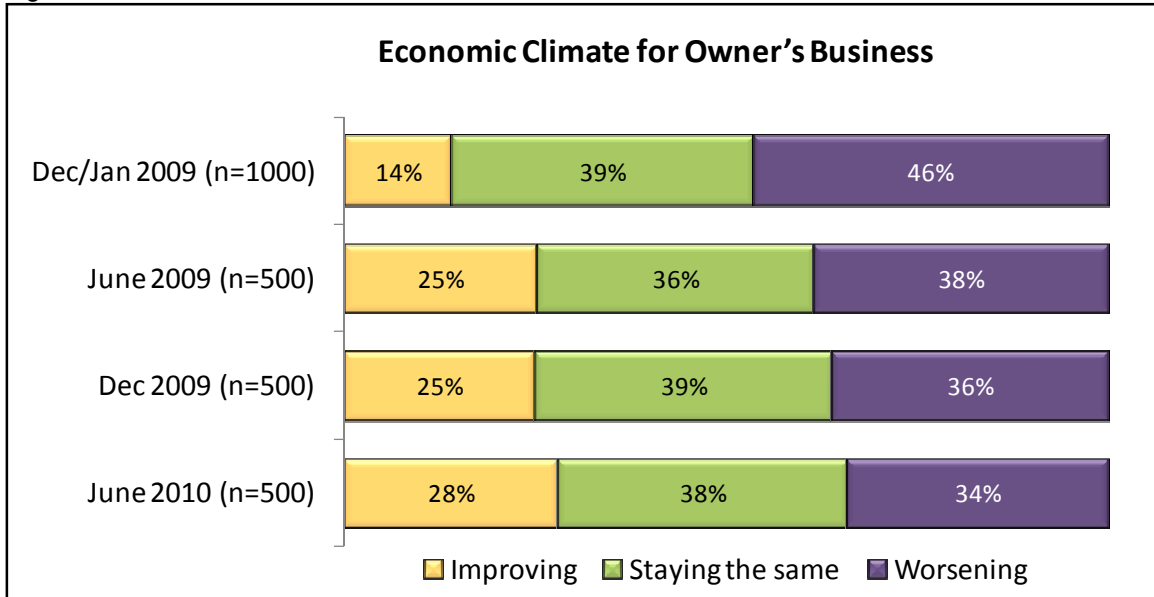
Figure 20



### The Small Business Economic Climate

Despite expected improvements in their bottom lines this year, small businesses continue to feel uneasy about the economy. Slightly more than a third of small businesses (38 percent) believe the economic climate for their business is not changing, and another third (34 percent) believe it is worsening (see Figure 21). Only a quarter (28 percent) see a break from the recession for their business. This sentiment has not changed significantly since the beginning of 2009 when businesses were more pessimistic. More owners still see the climate worsening than improving.

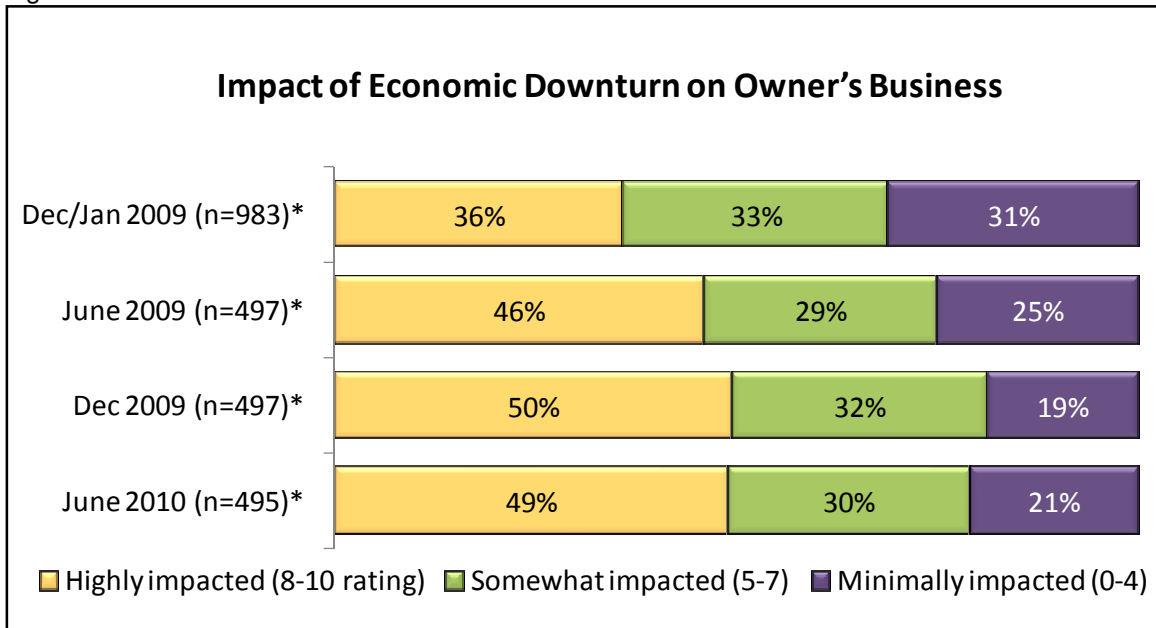
Figure 21





Small businesses continue to be heavily impacted by the recession, similar to 2009. Half of small businesses have been highly impacted by the recession in the past 12 months, and another 30 percent have been somewhat impacted (see Figure 22). Only 21 percent have not been affected much by the recession. This is positive in the sense that the cumulative impact has not spread in the past 6 months.

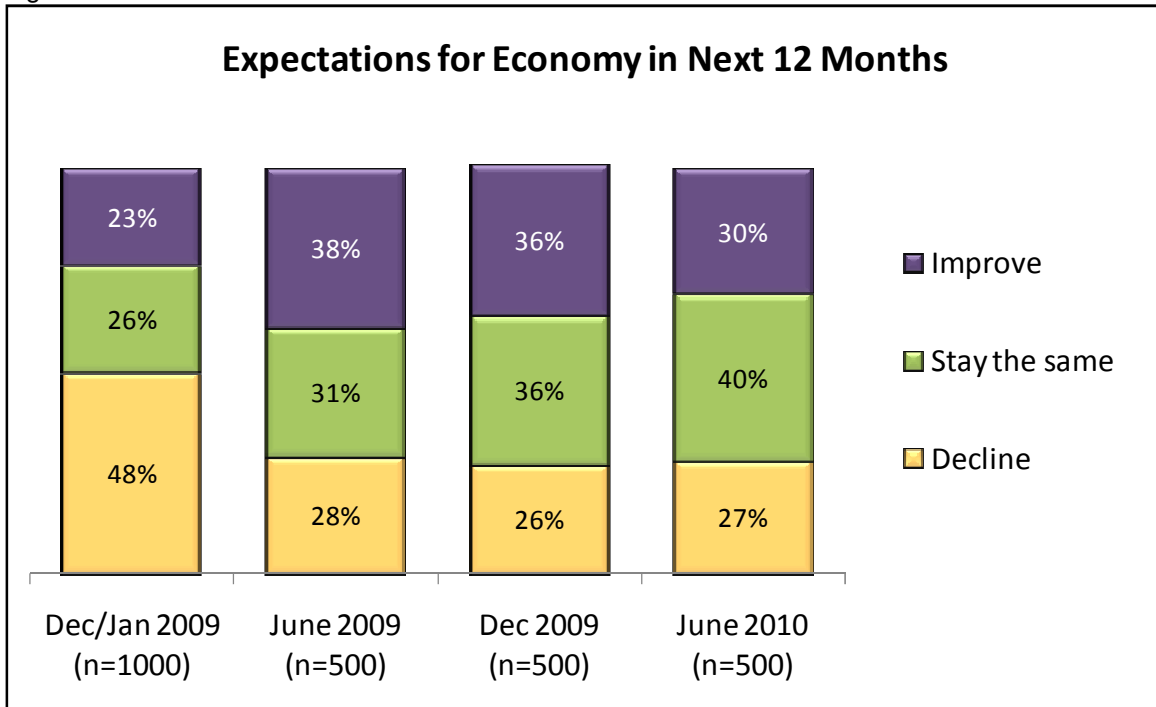
Figure 22



\*Note: Non-response not included in sample.

Small businesses are cautious about the future given the current economic climate. Only 30 percent of small businesses believe the economy will improve in the next 12 months, compared to 38 percent a year ago, which is a statistically significant drop (see Figure 23). However, it remains higher than the all time low experienced in January 2009.

Figure 23

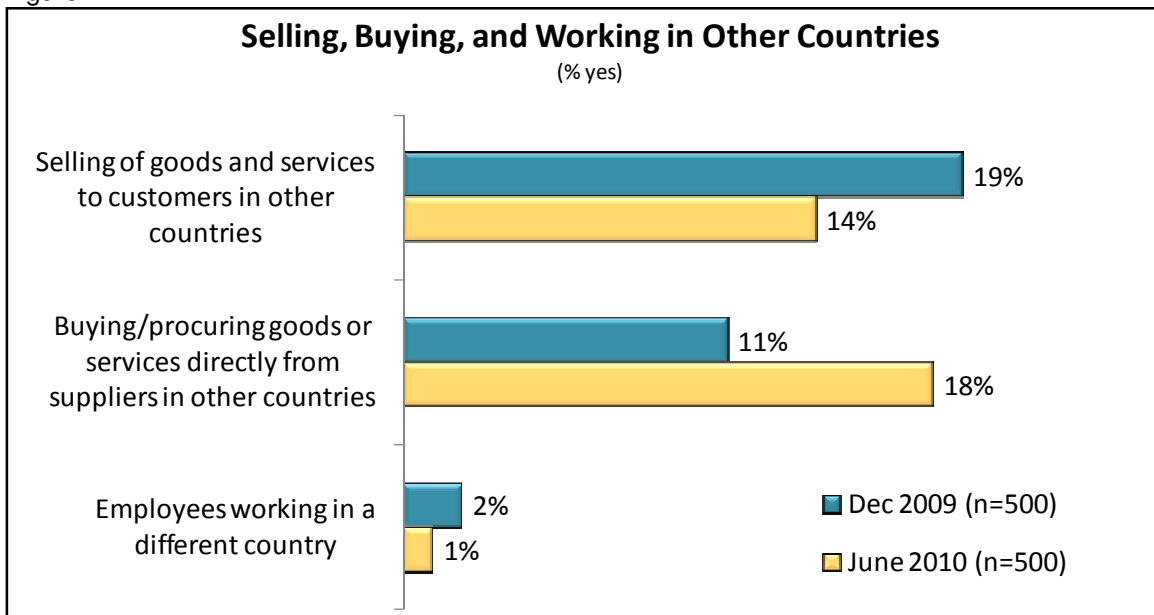


## Global Business

Expanding business globally can potentially offer many advantages to small businesses, including increasing their customer base, providing low cost suppliers, and expanding their workforce. It can be challenging though, which may be why only 7 percent of small businesses get the bulk of their business from the global marketplace; the majority of small businesses (66 percent) continue to operate primarily in their local metro area. This has not changed much over the past six months (9 percent did business globally in December 2009).

There have been changes in *how* small businesses do business globally over the past six months. Significantly more businesses are buying supplies globally (18 percent in June 2010 vs. 11 percent six months ago), which is now the most popular way to do business globally (see Figure 24). Fewer businesses are selling products and services globally, but the decrease is not significant.

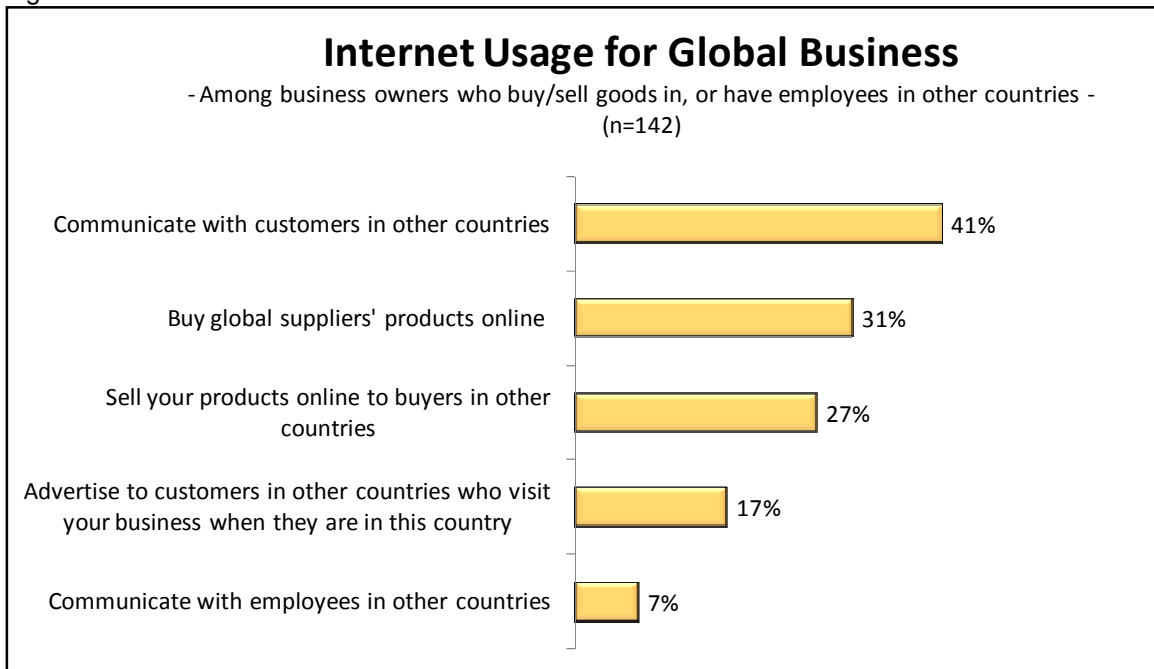
Figure 24



The Internet makes global business easier and creates opportunities by providing an infrastructure for global reach. Of those businesses operating beyond the U.S., four-in-ten (44 percent) believe the Internet has had a major impact on their ability to do business globally, and nearly a quarter (23 percent) feel it has had a minor impact. A third (32 percent) believe it has had no impact.

Small businesses that do business globally use the Internet for a variety of activities, including communicating with customers outside the U.S., buying suppliers' products, selling products, and advertising (see Figure 25). Of those global small businesses that have a website or social media presence, 11 percent communicate on their website or through social media in another language besides English.

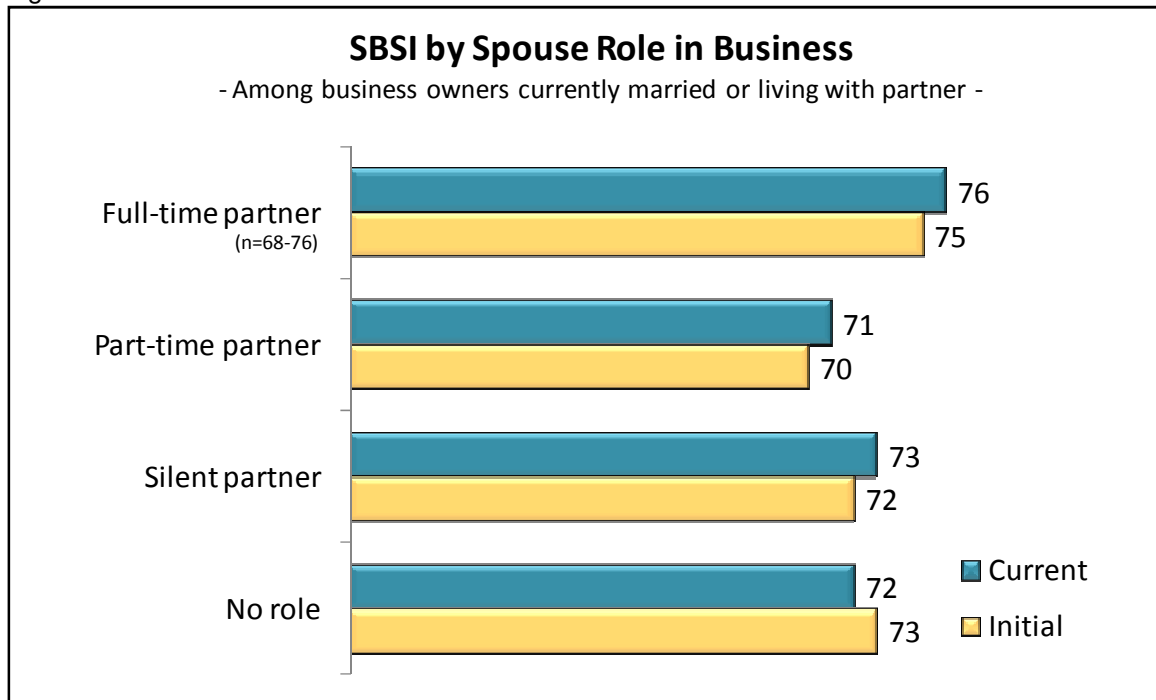
Figure 25



## The Role of Spouses in Small Business

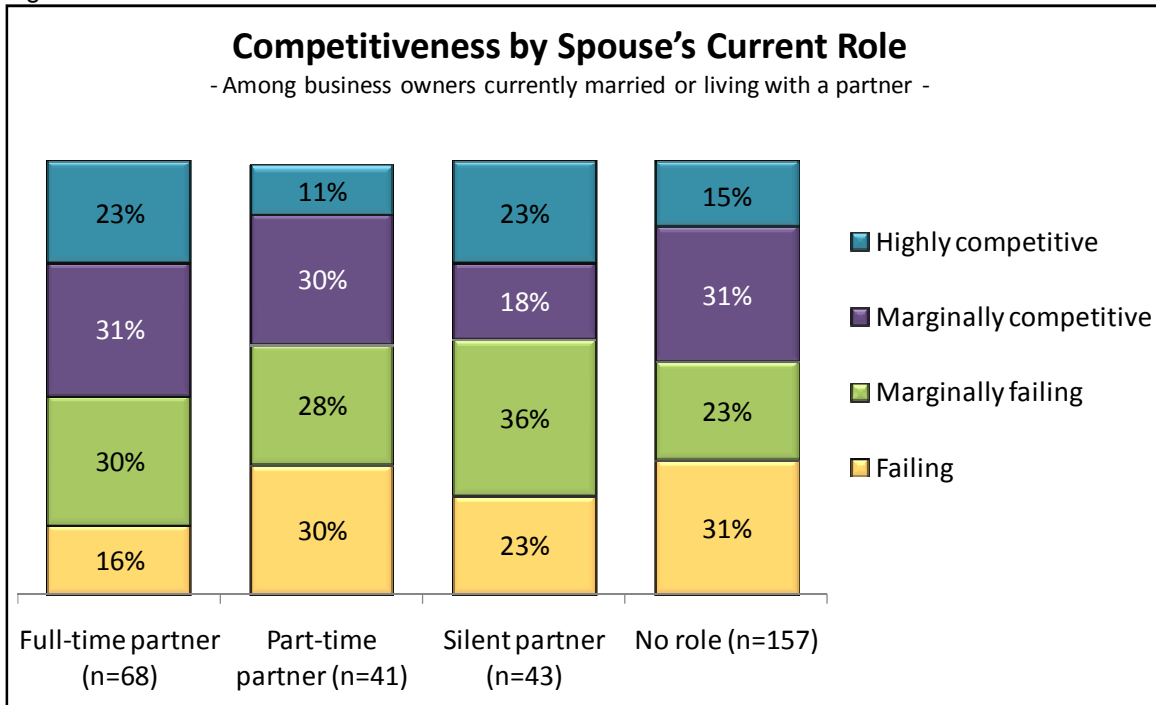
Many small businesses rely on their family's support to get the business off the ground and running successfully. How does the role of one's family, specifically the spouse or significant other, affect the overall success of the business? Looking at the SBSI, the role of the spouse does not make much of a difference in the success of the business when the business is started; the SBSI, a measure of competitive success, is similar no matter what the role is played by a spouse (see Figure 26). However, the role of the spouse *after* initial start-up does affect the success of the business. Businesses that have spouses/significant others in a full-time role in the business are more successful (76 on the SBSI) than businesses where the spouse plays no role (72) or acts as a silent partner (73), and these are statistically significant differences.

Figure 26



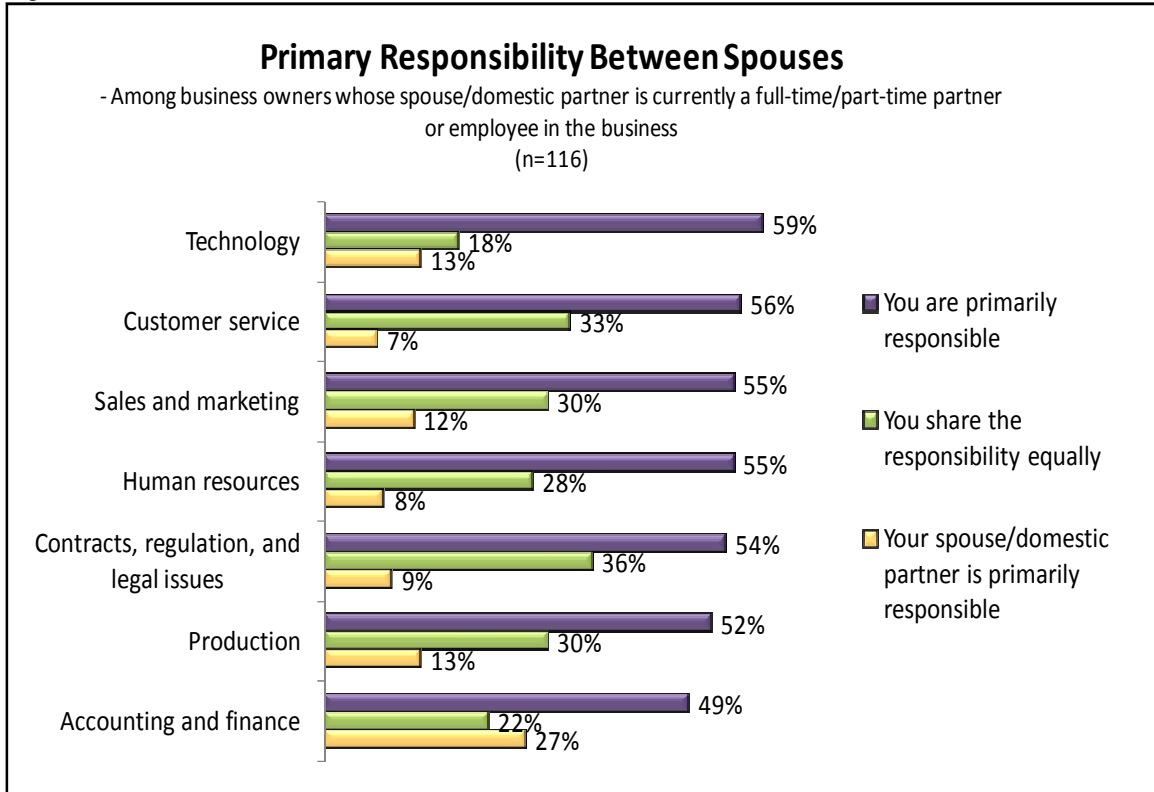
Considering their competitiveness, small businesses that currently have a spouse in a full-time role in the business are more competitive, with 54 percent either highly or marginally competitive, versus 41 percent with part-time spouses, 41 percent with spouses who are silent partners, and 46 percent with spouses in no role in the business (see Figure 27).

Figure 27



In businesses where the spouse is working full or part-time, the owner still tends to be responsible for most activities, or at least be involved in the decisions (see Figure 28). A spouse who is working full-time or part-time in the business is most likely to have sole control of accounting and finance (27 percent).

Figure 28



If the spouse was not working in the small business when it began, they are likely to have had a paid position within another organization (67 percent). The spouse worked because they wanted a career (53 percent), wanted the additional income (19 percent), or less often, needed the health benefits for the family (10 percent). As the business gets off the ground, spouses who are not working in the small business are a little less likely to have a paid position (only 60 percent).

## The Small Business Owners and their Businesses

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

The SBSI 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 the SBSI, 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 study provides an up to date profile on the typical small business. Not much has changed since the last survey wave; the typical small business 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:

- 33 percent have just one employee (the owner), and the median number of employees is 2
- 43 percent are home-based businesses
- On average, small businesses have 1.7 owners; 60 percent have a single owner, 30 percent have two owners, and 10 percent have 3 or more owners
- 13 percent are minority-owned
- 32 percent are women-owned (over 50 percent of the business is owned by women)
- 87 percent have just a single location
- The median age of small businesses is 14 years, and 24 percent have operated 5 years or less
- Over a third of small businesses are just getting started:
  - 4 percent are start-ups and 31 percent are early growth businesses
  - 48 percent are considered mature businesses
  - 13 percent are in various phases of closing or being sold or transferred
- The median annual revenue is \$176,700; among those reporting their sales, 40 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; 79 percent are at least 45 years of age, and 21 percent are 65 years or older
- 71 percent are male and 29 percent are female
- Over half have a college education, but not all:
  - 15 percent have only a high-school degree and 1 percent have less than a high school degree
  - 31 percent have attended trade school, have some college, or a two year degree
  - 53 percent have at least a four year college degree
- Owners have considerable industry experience; 61 percent have worked in their industry for 20 or more years
- 82 percent of owners started the business
- Among those willing to share the information about their annual income, 35 percent earn at least \$100,000 per 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 29. One driver of small business success remains consistently strong: the phase of the business. Established businesses have a clear advantage as evidenced by 56 percent of “highly competitive” businesses being mature businesses, compared to only 34 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.

In terms of characteristics of small business owners, gender plays a role in success. There are more highly competitive businesses that are women-owned than marginally failing and failing businesses.

Figure 29

<b>Characteristics of Small Businesses and Their Owners by Level of SSBI Competitiveness</b>				
	<b>Highly Competitive (n=90)</b>	<b>Marginally Competitive (n=148)</b>	<b>Marginally Failing (n=135)</b>	<b>Failing (n=127)</b>
<b>Business Characteristics</b>				
Multiple owners in business	43%	43%	36%	38%
Women-owned business	36%	29%	30%	33%
Minority-owned business	14%	13%	11%	14%
Start-up or early-growth business	33%	27%	44%	38%
Mature business	56%	61%	42%	34%
10 or more employees	16%	15%	6%	8%
Median Annual Revenue (\$000)	\$200	\$227	\$140	\$152
Home-based business	49%	35%	44%	47%
<b>Owner Characteristics</b>				
Owner is college graduate	50%	57%	50%	55%
Owner is 45 years or older	84%	78%	80%	75%
Owner is < 45 years old	16%	20%	20%	22%
Owner is female	38%	25%	24%	33%



## 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), which is reported here, was conducted in June 2010. 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 third wave of data collection.

The survey is sponsored by Network Solutions, LLC and the Center for Excellence in Service at the Smith School of Business, University of Maryland. Rockbridge Associates, Inc., an independent marketing research firm, conducted the survey.

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