

September Conference To Explore the Entrepreneurial Future

by Kathryn Tobias, Senior Editor

Fifty years ago, in the midst of the Cold War, the Space Age, and John F. Kennedy’s presidency, the 21st century was the stuff of dreams. In 1962, millions of dreamers converged on Seattle for the “Century 21 Exposition,” more widely known as the Seattle World’s Fair. Marking the 50th anniversary of this landmark event, the entrepreneurial city of Seattle is looking forward yet again, examining the progress made since 1962 and considering the “Next Fifty” in a wide array of public happenings.

The Office of Advocacy is very excited to have a part in this unique exercise in forward thinking. On September 19, Advocacy will host a daylong conference in Seattle as part of the “Next Fifty” celebration. “Small Business and Government: Maximizing Entrepreneurship, Driving Innovation” will examine small business’s role in fostering innovation and entrepreneurial development in our economy. Registration is now open at www.sba.gov/advocacy/7496/260591.

It’s mind bending to consider how much has changed since 1962. The room-sized mainframe computers of that era were the launchpads of today’s digital culture—everything from laptops and tablets to mobile technology handling all kinds of multimedia and apps. Unwieldy, bulky media—cutting edge in their day—have given way to pictures, music, voice, video, interactive mapping, social media, and other incarnations—unthinkable in 1962—that we pretty much take for granted now.

What will the next 50 years bring? Part of the answer will come from a new generation of entrepreneurs, academics, and policymakers whose creative minds are at work on the innovations that will shape the world of 2062. What is yet to be done? Are there strengths to be reclaimed from the past?

Advocacy has a unique role to play—speaking out within the federal government with the small business point of view. The “Next Fifty” visioning process is an excit-

ing opportunity to learn about innovators’ unique needs and convey this information to policymakers in Washington, D.C. This exchange of information will be front and center at the Seattle conference. A cast of entrepreneurs, startup accelerators, funders, and policymakers will lead the discussion, and Advocacy will bring the findings back to Washington, D.C.

Space is limited, so don’t wait to register. To do so, scan the QR code on this page or visit www.sba.gov/advocacy/7496/260591.

In This Issue

Advocacy Hosts Seattle Conference 1

Message from the Chief Counsel

Advocacy Innovation Initiative Takes Flight 2

Regulatory News

Patent Reform Update: First-To-File, Roundtables, Roadshow 7

EBSA Revises Position in Response to Small Business Input 7

Research Notes

Answers to Frequently Asked Questions About Small Business 3-6

Which Banks Lend to Small Business? 8



Join us in Seattle on September 19th!

Where: Playhouse/Intiman Theatre at Seattle Center, Seattle, WA

Admission: FREE, Registration required (space limited)

To register, visit <http://www.sba.gov/advocacy/7496/260591>



Message from the Chief Counsel

Advocacy Innovation Initiative Takes Flight

by Dr. Winslow Sargeant, Chief Counsel for Advocacy

Entrepreneurs are critical to our economy's growth. The Office of Advocacy recognizes that innovative businesses in high-growth sectors often face different challenges than other types of small businesses. At the same time, entrepreneurs in cutting-edge sectors may not be aware of the ways that their businesses are directly affected by government actions. These are just two of the reasons that Advocacy is embarking on an effort to ensure that the voices of America's innovators are heard in Washington. This brand new effort is called the Advocacy Innovation Initiative, or AII.

Advocacy's job is to listen to small business and bring their concerns to the attention of federal agencies, Congress, and the White House. Our office seeks to reduce barriers for all small businesses. AII gives us the opportunity to focus on innovators and entrepreneurs who might not typically reach out to us. Our Seattle conference, "Small Business and Government: Maximizing Entrepreneurship, Driving Innovation," will be an excellent opportunity to gather much-needed input from America's innovation sector.

On the most basic level, all Advocacy outreach involves making connections with small business stakeholders and their representatives to hear their concerns directly. Any entrepreneur in any field who is working with new and innovative products, technology, or business practices should have a voice on federal actions that affect them. Advocacy,

through the AII, will be the conduit for this feedback.

While entrepreneurs and innovators are affected by the full range of government activities, certain issues disproportionately affect them. Over the coming months, Advocacy will engage innovators to gain insight regarding the issues and barriers of particular concern.

"Our Seattle conference, 'Small Business and Government: Maximizing Entrepreneurship, Driving Innovation,' will be an excellent opportunity to gather much-needed input from America's innovation sector."

This effort will include meetings in Washington, D.C., and throughout the country. Advocacy's 10 regional advocates and headquarters staff are already actively engaging entrepreneurs in key sectors nationwide on such topics as visas, patents, SBIR (the Small Business Innovation Research program), and crowdfunding, to name just a few.

Following direct outreach to small business stakeholders, the AII's next step will be to work closely with the responsible federal agencies to address the small business concerns that come to the forefront. This process is similar to the office's efforts on other regulatory and procedural issues that stakeholders bring to our attention. The goal will be to raise awareness of such concerns at the relevant agencies and follow up by explor-

ing alternatives to increase flexibility and reduce barriers.

For the AII to be successful, Advocacy needs your ideas. Please share your thoughts on issues and regulations that are affecting innovators by reaching out to your regional advocate. Their contact information is on our webpage at www.sba.gov/content/regional-advocates. Or send a tweet to [@advocacysba](https://twitter.com/advocacysba) with the hashtag [#AdvoII](https://twitter.com/AdvoII).

I'm looking forward to hearing from you.

The Small Business Advocate

Editor Rebecca Krafft

Managing Editor Rob Kleinsteuber

Production Assistant Tymillia Johnson

The Small Business Advocate (www.sba.gov/advocacy/810) is published monthly by the U.S. Small Business Administration's Office of Advocacy and is distributed to SBA field staff, members of the U.S. Congress, and the public. *The Small Business Advocate* is available without charge from the Office of Advocacy, U.S. Small Business Administration, MC 3114, Washington, DC 20416; advocacy@sba.gov; (202) 205-6533. For delivery changes, send your current address label with your request to the above address. For electronic delivery of this newsletter, visit <http://www.sba.gov/updates>.

Federal Recycling Program
Printed on recycled paper.

Small businesses comprise what share of the U.S. economy?

Small businesses make up:

- 99.7 percent of U.S. employer firms,
- 64 percent of net new private-sector jobs,
- 49.2 percent of private-sector employment,
- 42.9 percent of private-sector payroll,
- 46 percent of private-sector output,
- 43 percent of high-tech employment,
- 98 percent of firms exporting goods, and
- 33 percent of exporting value.

Source: U.S. Census Bureau, SUSB, CPS; International Trade Administration; Bureau of Labor Statistics, BED; Advocacy-funded research, Small Business GDP: Update 2002-2010, www.sba.gov/advocacy/7540/42371.

How many small businesses are there?

In 2010 there were 27.9 million small businesses, and 18,500 firms with 500 employees or more. Over three-quarters of small businesses were nonemployers; this number has trended up over the past decade, while employers have been relatively flat (figure 1).

What is a small business?

The Office of Advocacy defines a small business as an independent business having fewer than 500 employees. For the small business definition by industry used in government programs and contracting, see www.sba.gov/content/small-business-size-standards.

What percent of small businesses operate as . . . ?

The many kinds of small businesses are shown in table 1. The definitions overlap so the shares total more than 100.

Table 1: Small Business Shares

Kind of Business	Share (percent)
Home-based business	52.0
Franchise	2.0
Sole proprietor	73.2
Corporation	19.5
Employer business	21.5
Nonemployer (business without employees)	78.5

Source: U.S. Census Bureau, SBO, SUSB.

What is small businesses' share of net new jobs?

Small firms accounted for 64 percent of the net new jobs created between 1993 and 2011 (or 11.8 million of the 18.5 million net new jobs). Since the latest recession, from mid-2009 to 2011, small firms, led by the larger ones in the category (20-499 employees), accounted for 67 percent of the net new jobs.

Source: Bureau of Labor Statistics, BED. For the latest employment statistics, see Advocacy's quarterly reports, www.sba.gov/advocacy/10871.

How can small businesses' share of net new jobs be larger than their share of employment, yet their share of employment remains steady?

As firms grow, they change employment size classes. So as small firms grow, their growth counts toward small firm job gains; but if they pass the 500-employee mark, their employment is classified as large firm employment.

Do the unemployed become self-employed?

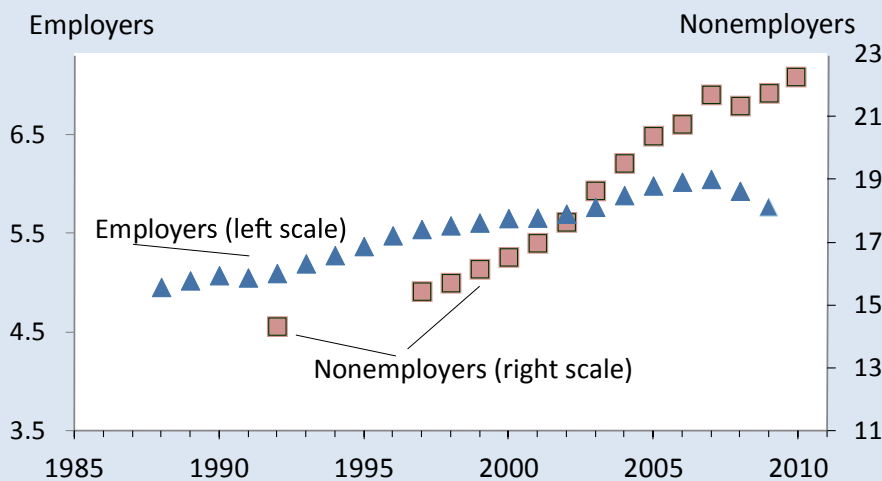
When finding work is difficult, starting a business can be just as difficult if not more so. But in March 2011, a significant number of the self-employed, 5.5 percent or about 900,000, had been unemployed in the previous year. This figure was up from March 2006 and March 2001, when it was 3.6 and 3.1 percent, respectively.

Which businesses create more jobs—startups or existing businesses?

In the last two decades about 60 percent of the private sector's net new jobs have been created by existing establishments and about 40 percent from the churn of startups minus closures. While firm births account for many new jobs, job losses from firm closures are equally important in accounting for net effects to employment levels.

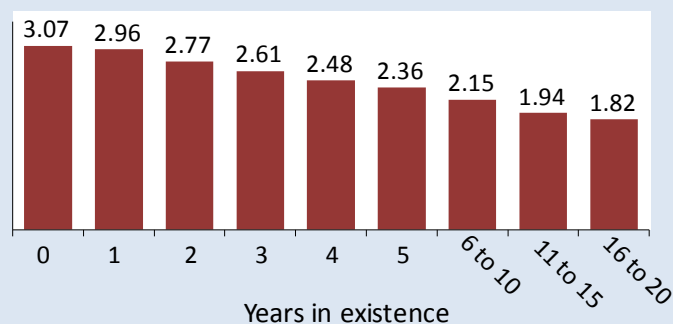
Source: Bureau of Labor Statistics, BED.

Figure 1: Number of Businesses (millions)



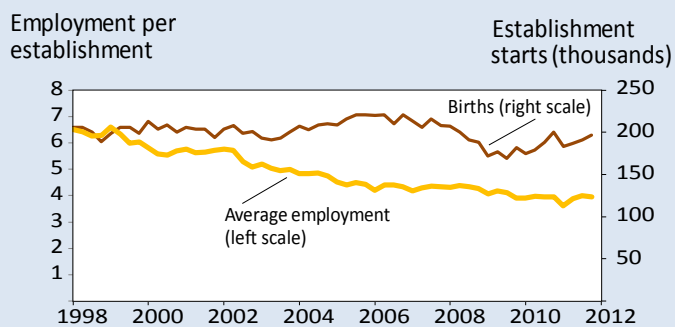
Source: U.S. Census Bureau, SUSB and Nonemployer Statistics.

Figure 2: Mean Employment Level for Firm Birth Year, 1995–2010 (millions)



Source: U.S. Census Bureau, BDS.

Figure 3: Number and Size of Establishment Births



Source: Bureau of Labor Statistics, BED.

What happens to the jobs created by startups?

The total employment from a group of startups is highest at birth and declines as the firms age. Put another way, employment gains from growing businesses are less than employment declines from shrinking and closing businesses (figure 2).

What is the status of the startup market?

While the number of new employer businesses has recovered from the recessionary dip, the average employment of these businesses has been declining over the past decade (figure 3).

How many businesses do women own?

While women-owned firms have increased as a share of total businesses over the years, their size still remains smaller than national averages. The 7.8 million women-owned firms averaged \$130,000 in receipts in 2007 (table 2).

How many businesses do minorities own?

Asian-owned businesses numbered 1.6 million in 2007 and have average receipts of \$290,000. African-American-owned businesses numbered 1.9 million in 2007 and have average receipts of \$50,000. Hispanic-American-owned businesses numbered 2.3 million in 2007 and have average receipts of \$120,000. Native American/Islander-owned businesses numbered 0.3 million in 2007 and have average receipts of \$120,000 (table 2).

How many businesses do veterans own?

Veteran-owned businesses numbered 3.7 million in 2007, with average receipts of \$450,000 (table 2).

Source: U.S. Census Bureau, SBO.

Is youth entrepreneurship increasing?

Self-employment among younger age groups has been dropping. From 2005 to 2010, self-employment among individuals age 25 and under decreased 19 percent (compared to a 7 percent drop in the overall population). In contrast, self-employment among those age 65 and over increased 24 percent over this period as their population grew. Self-employment rates increase with age; for

example, they were 2 percent for those 25 and under and 23 percent for those 65 and over in 2010.

Source: Office of Advocacy calculations using U.S. Census Bureau, CPS data.

Table 2: Number of Firms and Receipts by Demographic, 2007

Business Owner Demographic	Firms (millions)	Receipts per firm (\$1,000)
All businesses	27.1	1,070
Male	13.9	570
Female	7.8	130
Equally male/female	4.6	240
African-American	1.9	50
Asian	1.6	290
Hispanic	2.3	120
Native American/Pacific Islander	0.3	120
Veteran	3.7	450
Publicly held	0.8	23,860

Source: U.S. Census Bureau, SBO.

What are the home-based business trends?

The share of firms that primarily operate out of the home was unchanged from 2002 to 2007 at 52 percent (the latest figure available). Employers had a lower share than nonemployers, 24 percent vs. 63 percent, respectively, in 2007. Of the major industries, construction had the highest share of home-based businesses, 70 percent. (Being home-based is not synonymous with working at home.) It is interesting to note that retail trade went from 49 percent home-based in 2002 to 44 percent in 2007 while the share of Internet retail sales went from 1 percent to 3 percent of total retail sales.

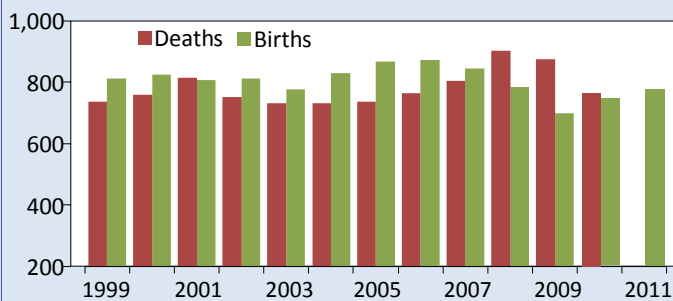
Source: U.S. Census Bureau, SBO and Quarterly E-Commerce Report.

How does franchise survival compare with independent business survival?

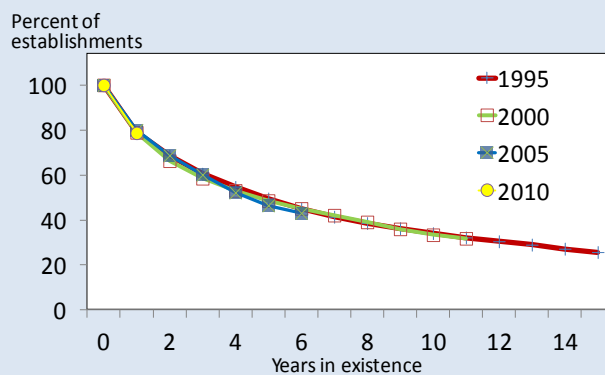
Survival among independent businesses and franchises appears to be similar, as they have similar age distributions. Of course each potential business owner debating an independent business or franchise arrangement will have unique factors to weigh, such as their managerial talent and sales abilities.

Figure 4: Startups and Closures

(thousands of establishments, seasonally adjusted)



Source: Bureau of Labor Statistics, BED.

Figure 5: Cumulative Survival Rates for Establishments by Birth Year

Source: Bureau of Labor Statistics, BED.

Table 3: Employer Firm Births and Deaths*

	1999-2000	2004-2005	2007-2008	2008-2009
Births	574,300	644,122	597,074	518,500
Deaths	542,831	565,745	641,400	680,716

*Figures are March to March.

Source: U.S. Census Bureau, SUSB.

Source: Advocacy research, Do Business Definition Decisions Distort Small Business Research Results? <http://archive.sba.gov/advo/research/rs330tot.pdf>. Note that about half of the franchises in the data were nonemployers, which may not be the stereotypical franchise that individuals imagine.

How many businesses open and close each year?

About 10-12 percent of firms with employees open each year and about 10-12 percent close (table 3). Employer firm births were down and deaths were up in the most recent available data because of the downturn. But establishment birth figures from 2011 show gains (figure 4). Nonemployer firms have turnover rates three times as high as employer firms, mostly because it is easier for nonemployers to start and stop, as they tend to be smaller than employer firms. Business bankruptcies numbered 48,000 in 2011, a decline of the about 60,000 over the previous two years. Note that not all firm deaths are business bankruptcies, and many business owners file personal bankruptcy instead of business bankruptcy.

What is the survival rate for new businesses?

About half of all new establishments survive five years or more and about one-third survive 10 years or more. As one would expect, the probability of survival increases with a firm's age. Survival rates have changed little over time (figure 5).

How do small and large businesses compare on innovation?

Of high patenting firms (15 or more in a four-year period), small businesses produced 16 times more patents per employee than large patenting firms. Research also shows that increasing the number of employees correlates with increased innovation while increasing sales does not.

Source: Advocacy-funded research, An Analysis of Small Business Patents by Industry and Firm Size, <http://archive.sba.gov/advo/research/rs335tot.pdf>; Innovation in Small Businesses: Drivers of Change and Value Use, www.sba.gov/sites/default/files/rs342tot_0.pdf.

How are small businesses financed?

Small businesses are financed through owner savings; loans from family, friends, and commercial lenders; bonds; stocks; ownership stakes; and other arrangements. For detailed financing information, see Advocacy's *Frequently Asked Questions about Small Business Finance*, www.sba.gov/advocacy/9601.

How are credit conditions for small firms?

For up-to-date statistics, see Advocacy's quarterly reports, www.sba.gov/advocacy/10871.

What is small businesses' share of federal government procurement?

In fiscal year 2011, 21.7 percent of federal government small-business-eligible purchases went to small businesses. The Department of Defense accounted for the majority of small business procurement.

Source: Small Business Goaling Report, 2012, www.fpdsng.com/downloads/top_requests/FPDSNG_SB_Goaling_FY_2010.pdf.

How are business churn and the economy related?

Business churn (the sum of the firm birth and death rates) tends to follow the change in GDP with a six-quarter lag (figure 6). Recently, churn has been down, which may be a response to the general decline in output.

What are the effective tax rates for small businesses?

The average effective tax rate for businesses organized as sole proprietorships was 13.3 percent in 2004, with small S corporations facing the highest rates (table 4). (An effective tax rate is usually defined as the amount of tax paid as a fraction of net income or profit.)

Table 4: Effective Tax Rates, 2004

Legal form of business ownership	Effective tax rate (percent)
Non-farm sole proprietorship	13.3
Partnership	23.6
S corporation	26.9
C corporation	17.5

Source: Advocacy-funded research, Effective Federal Income Tax Rates Faced By Small Businesses in the United States, www.sba.gov/sites/default/files/rs343tot.pdf.

What legal form of organization are small businesses?

Sole proprietors and partnerships constituted 94 percent of nonemployers in 2010 and of the corporations, most were likely S corporations which are taxed at personal rates. Twenty-two percent of small employers were C corporations in 2009, with 71 percent taxed at personal rates and 7 percent nonprofits (figure 7).

Do you have any newer data?

For updates of many quarterly small business indicators, see www.sba.gov/advocacy/10871. For more details and information, visit Advocacy's general website, www.sba.gov/advocacy. Two of the most comprehensive pages are the Data Resources page and the Firm Size Data page. Both are accessible from www.sba.gov/advocacy/849. Two other often visited pages are the Banking Study (www.sba.gov/advocacy/7540/173967) and the State Small Business Profiles (www.sba.gov/advocacy/848). Additional questions may be emailed to advocacy@sba.gov.

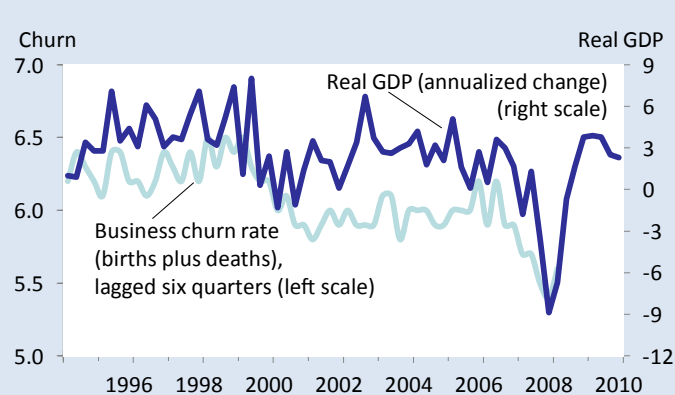
Abbreviations & Sources

- BED Business Employment Dynamics. U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov/bdm.
- BDS Business Dynamics Statistics. U.S. Department of Commerce, Census Bureau, www.census.gov/ces/dataproducts/bds.
- CPS Current Population Survey. U.S. Census Bureau, and U.S. Department of Labor, Bureau of Labor Statistics, www.census.gov/cps.
- SBO Survey of Business Owners. U.S. Census Bureau, www.census.gov/econ/sbo.
- SUSB Statistics of U.S. Businesses, U.S. Census Bureau, www.census.gov/econ/susb.

About the Office of Advocacy

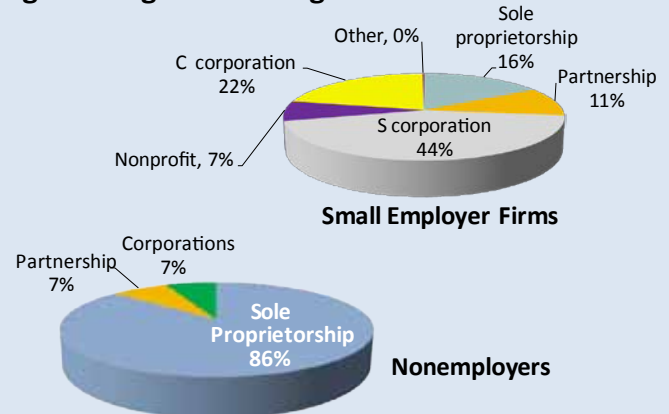
The SBA's Office of Advocacy was created by Congress in 1976. Part of the office's mission includes conducting policy studies and economic research on issues of concern to small businesses. The office also publishes data on small firm characteristics and contributions. For further data and research information, visit the Office of Advocacy's website at www.sba.gov/advocacy/847.

Figure 6: Business Churn versus Output (percent)



Source: Bureau of Labor Statistics, BED (churn); Bureau of Economic Analysis (GDP).

Figure 7: Legal Form of Organization of Small Business



Source: U.S. Census Bureau, SUSB and Nonemployer Statistics.

Regulatory Update

Patent Reform Update: PTO Implements First-to-File Provisions of the America Invents Act, Hosts Roundtables, Launches Roadshow

by Jamie Saloom, Assistant Chief Counsel for Advocacy

Over the past year, the U.S. Patent and Trademark Office (PTO) has been busily implementing provisions of the Leahy–Smith America Invents Act (AIA) in advance of the effective dates of the law’s most significant changes to the U.S. patent system. Several earlier proposed rules are now final and will be effective in September. Other proposed rules are now out for public comment and will be effective by March 2013.

Most recently, the PTO issued a notice of proposed rulemaking and examination guidelines for the first-inventor-to-file (FITF) provisions of the AIA. The law converts the system under which PTO examines and approves patent applications from a first-to-invent system to a first-to-file system, which more closely aligns with international patent systems. All patent applications filed after March 2013 will be subject to the new system.

The Office of Advocacy has been monitoring the rulemaking and conducting outreach with patent experts, small businesses, trade organizations, and university tech-transfer officers to determine where PTO has been granted discretion to tailor its rules to ensure that small entity stakeholders transition smoothly to the new patent system. PTO is also conducting significant outreach with the patent community and is hosting a roundtable

to discuss the FITF rulemaking at its Alexandria headquarters on September 6.

Additionally, PTO is bringing a roadshow to eight cities in September to share information about several final rules implementing the AIA which become effective on September 16. The final rules relate to provisions for an inventor’s oath/declaration, preissuance submissions, citation of patent owner statements, supplemental examination, *inter partes* review, post grant review, and covered business method

review. The roadshow kicks off in Minneapolis and ends in New York City, with stops in Atlanta, Denver, Detroit, Houston, Los Angeles, and the PTO’s campus in Alexandria, Virginia. At these events, PTO officials will explain the final rules and answer audience questions. The agency has also indicated that it will be discussing the proposed FITF rules at the roadshow events.

For more information, contact Janet Gongola, patent reform coordinator, at (571) 272-8734, or janet.gongola@pto.gov.

EBSA Responds to Small Business Input, Revises Position on Brokerage Windows

The Office of Advocacy applauds the Employee Benefits Security Administration (EBSA), the agency that oversees retirement, health and other workplace benefits, for listening to the concerns of small businesses and revising its position on “brokerage windows.” (A brokerage window allows retirement plan participants to control some of the investments made with their contributions.)

Earlier this year, on May 7, EBSA announced a new position on brokerage windows that concerned small plan providers. Small business stakeholders advised Advocacy of their concerns—that EBSA appeared to have changed longstanding participant fee disclosure policies and created new obligations related to brokerage windows. Yet the agency had not provided the public with an opportunity to comment on these apparent changes.

Advocacy shared these concerns with the Office of Information and Regulatory Affairs, which subsequently worked with EBSA on them. On July 30, EBSA issued a revised bulletin that addressed the small business concerns. It can be found on the agency’s website at www.dol.gov/ebsa/regs/fab2012-2R.html.

—Dillon Taylor, Assistant Chief Counsel

Research Notes

Which Lenders Make Small Business Loans in your State?

The Office of Advocacy's latest small business lending report shows which lenders are making small business loans in all 50 states, the District of Columbia, and most of the territories. Since there are several ways to measure lending, it's not quite accurate to say that any one lender is number one. So the report provides several rankings at the national and state levels.

Small businesses interested in finding the banks with proven track records of making smaller loans can find useful information in the report's tables. And financial institutions seeking to compare their small business lending performance with other institutions will also find relevant data here.

Small Business Lending in the United States, 2010-2011, by Advocacy Economist Victoria Williams, relies on the 2010 and 2011 Call Reports and Community Reinvestment Act reports, the most

recent data available.

This handy reference tool is available on the Advocacy website at www.sba.gov/advocacy/7540/173967.

—Kathryn Tobias, Senior Editor

Look Inside for Frequently Asked Questions

How many small businesses are there?

How many jobs do they create?

How many firms do women own? Do minorities? Do veterans?

At the Office of Advocacy, we are asked these questions and more, many times a day. And we keep all the answers in one very convenient place: *Frequently Asked Questions About Small Business*.

Advocacy Economist Brian Headd has just finished updating this popular publication for September 2012, and we've included the newly expanded edition inside this newsletter on pages 3–6. It's also online at www.sba.gov/advocacy/7495/29581.

—Rebecca Krafft, Editor

U.S. Small Business Administration
Office of Advocacy
Mail Code 3114
409 Third Street, S.W.
Washington, DC 20416

Official Use
Penalty for Private Use, \$300

Return Service Requested