

Forbes

The State of Small Business

By Maureen Farrell and Sean Stonefield, June 29, 2011

Revenues have recovered, and credit has loosened. But entrepreneurs think this rebound could be stalling.



Twenty-four months after the end of the Great Recession, where does the U.S. economy stand? The good news: Stock prices are up some 20% in the last year and Ben Bernanke has taken his hand off the printing presses. But whither the country's 27 million small businesses--defined by the Small Business Administration as companies with fewer than 500 employees, including a large swath of sole proprietorships-- which account for nearly half the U.S. workforce and generate more than half of nonfarm-related output? Sales, payrolls and access to capital have bounced back (though not nearly to precrash levels), and the pace of companies filing for bankruptcy has slowed. Meanwhile, the regulatory burden remains heavy, and polls reveal that entrepreneurs (and their lenders) are growing skittish--a harbinger, perhaps, of more tough times ahead.

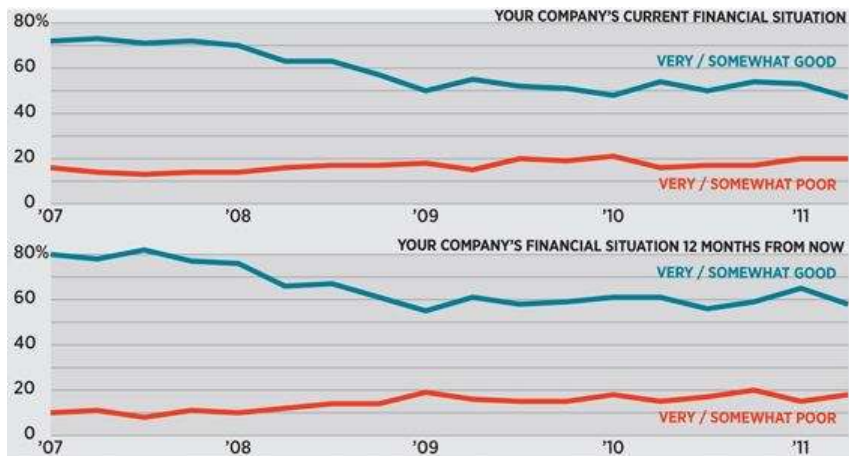
Where The Action Is

The recession took a bite out of small business inventory. The overall number of companies with up to 250 employees fell 3% between 2005 and 2010. These were the hottest and coldest places for net new business growth during that period.



Bracing For More Pain

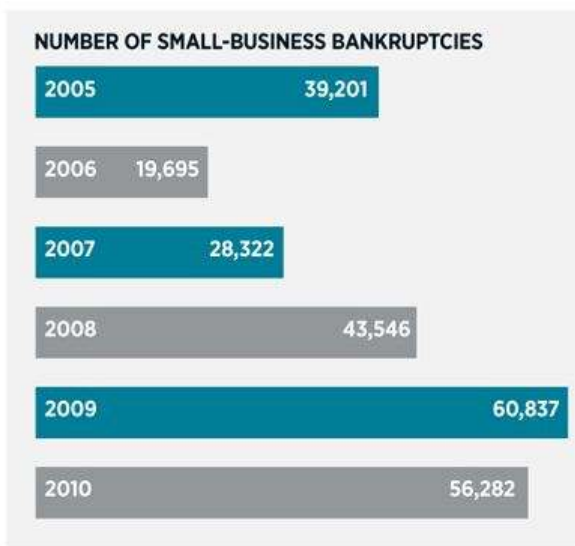
More small-business owners feel the recovery is losing momentum.



RESPONDENTS WHO SAID "NEITHER GOOD NOR POOR" NOT PLOTTED. SOURCE: WELLS FARGO/GALLUP SMALL BUSINESS INDEX (TELEPHONE INTERVIEWS CONDUCTED APR. 4-8 WITH 602 BUSINESSES WITH ANNUAL SALES LESS THAN \$20 MILLION).

The Final Chapter

After a hellacious ride, fewer small businesses are being forced to close their doors.



SOURCE: SMALL BUSINESS ADMINISTRATION.

Meaningful Metrics

Sometimes you have to look beyond GDP. These plugged-in players share their favorite indicators for monitoring the health of small businesses.

Robert Baldwin

President, Heartland Payment Systems, Credit card payment process

Same-Store Sales

Among Heartland's roughly 150,000 merchants (including some survivorship bias), same-store revenues were up only 1% in May, down from 2% to 4% increases in 2010 and early 2011. It's growth--but lower than we'd like to see.

Kevin Gilroy

Senior Vice President, SAP Americas

Hiring presales support engineers

The majority of SAP's estimated 400 resellers are starting to hire presales support engineers (at roughly \$250,000 apiece). In my 30-year career this has been the best predictor of optimism. Instead of asking for leads, they're asking for talent.

Eric Starks

President, FT Associates, Logistics consulting firm

Sales of class 4-7 trucks

Smaller-truck sales are not growing all that fast. Recent monthly sales: about 12,500--up from 8,200 at the bottom, in February 2009, but far below the 25,000 at the high in March 2007.

Owen Shapiro

Vice President of Economic Research, Leo J. Shapiro & Associates, Consumer research firm

Miles driven

Thanks to high gas prices, consumers are driving less (in April the number of miles dropped 2% year-over-year). That means fewer trips to big-box retailers and more spending at smaller, nearby stores.

Wally Gruenes

National Managing Partner, Grant Thornton, Management consulting firm

Large-company hiring in the next 3-6 months

Fewer than 40% of CEOs and CFOs we surveyed planned to hire in the next two quarters. (Anticipated hiring fell to 10% in the recession.) North of 50% reflects longer-term confidence.

Heavy Burden

Regulatory-compliance costs continue to crimp cash flow.

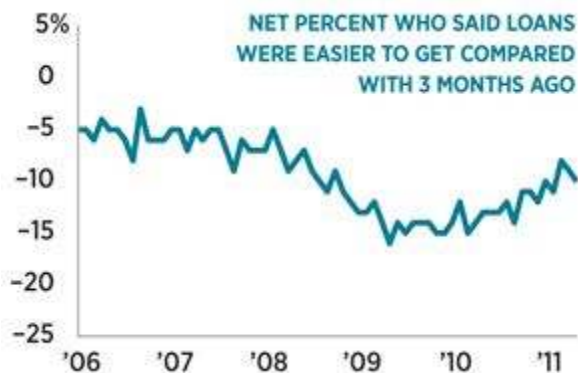
Call it the small squeeze. Between 2001 and 2008 the cost per employee to comply with federal regulations (see below) grew at a 6.1% clip for businesses with fewer than 20 employees, while inflation rose at 2.8%. Don't expect this trend to abate, says Holly Wade, senior policy analyst at the National Federation of Independent Business Research Foundation. Consolation: In 2001 small fry spent 56% more per head on regulatory costs than did companies with 500-plus employees; by 2008 that figure had fallen to 36%.

2001: \$6,975

2008: \$10,585

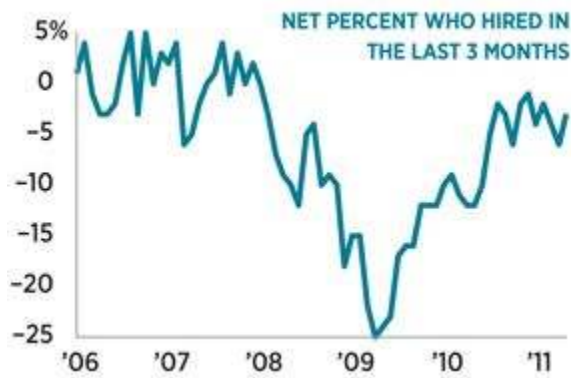
Skittish Lenders

The credit crunch may be behind us, but the capital spigots could be closing again.



Look Who's (Not) Hiring

Timid employers are starting to throttle back.



Top-Line Travails

Shellacked small-business revenues are on the mend--for now.



DATA DRAWN FROM FINANCIAL STATEMENTS FROM 346,000 COMPANIES WITH UP TO \$10 MILLION IN ANNUAL SALES THAT OPERATE IN THE 19 PRIMARY INDUSTRIES DEFINED BY THE NAICS; DATA WEIGHTED BY NUMBER OF COMPANIES IN EACH INDUSTRY. SOURCE: SAGEWORKS.

For the full article, featuring [Sageworks](#)' private company data, visit Forbes – [The State of Small Business](#).