

# San Francisco Chronicle

## **Small firms' struggles keep employment weak**

Tom Abate, July 27, 2010

Lagging small-business revenues may explain why job creation remains so weak.

Small businesses - firms with 500 or fewer employees - generated nearly two-thirds of all new jobs over the past 15 years, according to the Small Business Administration.

But Main Street firms seem to be suffering as consumer spending remains weak, while many Wall Street giants benefit from growth in Asia and the developing world, said Brian Pretti, senior investment manager at Mechanics Bank in Richmond.

"The really big blue chip guys have a lot of business in Asia and their earnings are good," he said. "The economic story is not so good for the local businesses."

Up-to-date facts about small-business performance are hard to come by because small, private firms don't report their earnings each quarter as do publicly traded companies.

But new data from the North Carolina accounting software firm Sageworks offers a lens into small-business finance.

Based on its analysis of thousands of anonymous financial returns from firms throughout the country with \$10 million or less in annual sales, Sageworks estimates that revenues for small businesses fell 5 percent in 2009 and continued to shrink by 6 percent midway through 2010.

Sageworks Chief Financial Officer Drew White said that as sales fell owners reacted quickly to cut expenses to maintain their profit margins. "Unfortunately that means cutting salaries and jobs," White said.

The notion that small firms face a revenue squeeze is corroborated by the most recent monthly survey of the National Federation of Independent Business.

More than a third of respondents told the group that their revenues were down from the prior quarter. Nearly one-fourth that said revenue rose while the rest said sales were more or less flat.

Federation economist William Dunkelberg said until small firms see a pronounced upturn in sales, they are unlikely to do much hiring.

He said the current economic situation differs from past rebounds. It used to be that small businesses led the nation out of recession because they were the first to benefit from rising consumer spending and the recovery of the housing market.

Once small-firm sales turned around, they picked up hiring, helping to fuel the general recovery, he said.

But in this economic cycle consumer spending and housing both remain weak, while global factors like stimulus spending in China and the speedier growth of developing economies benefit multinationals.

As a result, the nation's small-business job engine is stalled in a way that is not easy for government to influence.

"How do you stimulate revenue growth?" asked White at Sageworks, framing the question he thinks policy makers should be asking.

### **Small-business revenues down, hiring stalled**

This chart summarizes the finances of thousands of businesses with \$10 million or less in annual revenues. Still waiting for revenue growth midway through 2010, small firms are holding down payroll expenses to maintain profitability.

<b>Metric</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sales, percent change	7%	5%	3%	-5%	-6%
<b>Net pretax profit margin</b>	6	6	5	5	6
Payroll as % of sales	18	18	17	14	14

Source: Sageworks