



# 2010 Year-End Economic Report

**NSBA**  
National Small Business Association





Started in 1937, NSBA is the nation's oldest small-business advocacy group representing employers in every state. As a strictly nonpartisan organization, NSBA reaches more than 150,000 employers in all sectors and industries of the U.S. economy from retail to trade to technology. Our members are as diverse as the economy that they fuel. NSBA's policy positions and priorities are strictly formulated through robust volunteer leadership and reflective of our nation's 29.6 million small businesses.

## Methodology

The 2010 Year-End Economic Report was conducted on-line December 20, 2011 through January 10, 2011 among 450 small-business members of NSBA representing every industry in every state in the nation. While the results in this survey can be extrapolated to the at-large small-business community, it is worth mentioning that NSBA members tend to be older, more well-established small businesses.



**“There have been modest gains in employment with 15 percent reporting they'd hired new employees in the last 12 months, up from just 11 percent in July.”**



Since 1937, NSBA has been the nation's leading small-business advocate. As part of NSBA's mission to address the needs and represent the concerns of the small-business community, we conduct a series of surveys and quick polls throughout the year. Among those are the two NSBA Economic Reports. The Mid-Year Economic Report, released late-July, and Year-End Economic Report, released late-January, use NSBA survey data to provide a snapshot of how small business is dealing with the current economic situation. The 2010 Year-End Economic Report shows a small-business community that is feeling slightly more optimistic about the outlook of their own business despite a continued negative outlook about the overall U.S. economy and ongoing challenges accessing credit and creating jobs.

Counter to the bleak outlook expressed in the 2010 Mid-Year Economic Report—the small-business outlook took a negative turn after slight gains in the 2009 Year-End Economic report—the most recent survey data shows small businesses have stopped the hemorrhaging in some key indicators including job and revenue cuts. Although still a net loss, there was a significant drop in the number of businesses who reported revenue decreases from a net loss of 27 percent in July to just 3 percent in December. There also were modest gains in employment with 15 percent reporting they'd hired new employees in the last 12

months, up from just 11 percent in July.

Despite practically no change in small-business owners' opinions of how the economy is faring today as compared to six months ago, there was a marked drop in the number of small businesses anticipating a recession in the coming 12 months, down from 29 percent to 13 percent between July and December. There also was a notable increase in the number of business owners expressing confidence about the future of their own business from 59 percent in July to 66 percent today.

Economic uncertainty, declines in customer spending, and health insurance costs continue to pose significant challenges to small businesses' future growth, and an inability to garner adequate financing for their business continues to plague more than one-third of small businesses. Although financing continues to be a concern for small businesses, there does appear to be a slight thawing as the number of businesses unable to get adequate financing and those that report being impacted by the credit crunch is at its lowest point since December 2008.

When it comes to small-businesses opinions on policy, the top issues they think Congress needs to address are: reducing the national deficit, reducing tax burdens, reigning in the cost of health care reform, reducing regulatory burden and increasing small-businesses access to capital.



## Small Business Confidence

Although the majority of small-business owners (65 percent) expect a flat U.S. economy in the coming year, there were two positive changes with regards to general economic outlook. The number of small businesses expecting a recession was more than halved from the previous survey in July, down from 29 percent to 13 percent, and those expecting economic expansion nearly doubled, from 13 percent in July to 22 percent in December.

Small-business owners were asked their opinions of the overall U.S. economy as compared to six months ago, one year ago and five years ago. Compared to the national economy six months ago, 27 percent said that today's national economy is better, 29 percent said it is worse and 43 percent said it is doing about the same. These responses are very similar to those given during the July 2010 survey. Interestingly, when compared with one year ago, 44 percent said the national economy today it is worse, 28 percent said it was better, and 28 percent said it is doing about the same. This is likely due to the slight increase in optimism found in the 2009 Year-End Report which was then followed by a still-lagging economy and decreases in optimism in the 2010 Mid-Year Report. Simply put: prognostications for economic growth toward the end of 2009 led to an inflated, and then quickly deflated, sense of confidence.

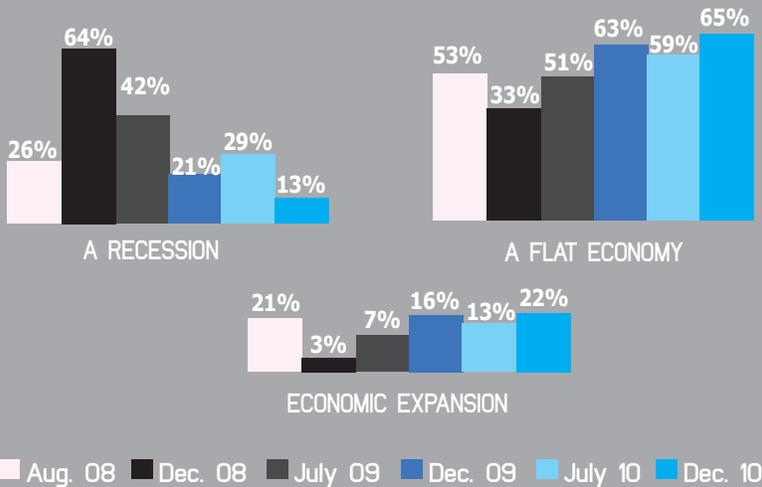
Understandably, the overwhelming majority (77 percent) said that today's national economy is far worse off than it was five years ago.

Given the ongoing economic difficulties the U.S. has faced over the past three years, small-business owners overwhelmingly cited economic uncertainty as the most significant challenge to the future growth and survival of their business. According to the December 2010 survey, 68 percent cited economic uncertainty as the number one challenge facing their business, followed by decline in consumer spending (42 percent), cost of health insurance benefits (37 percent), regulatory burdens (30 percent), federal taxes (27 percent), and lack of available capital (26 percent). The number of small businesses selecting federal taxes as a significant challenge actually dropped from 36 percent in July 2010 while those concerned with regulatory burdens increased from 28 percent in July to 30 percent today.

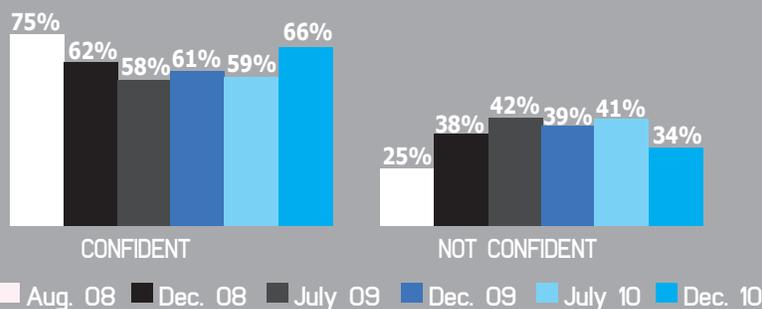
As is to be expected from any entrepreneur—individuals who are typically very upbeat and optimistic about the future of their business and their ability to make changes for the positive—a growing majority feel confident about the future of their own business. The number of small-business owners who are confident about the future of their own business, 66 percent, is at its highest point since August 2008. However, as with many indicators in this report, there is a downside: the number of small-business owners who report they are not at all confident about the future of their business has increased slightly from seven percent in July to nine percent in December.

The marked growth and seeming turnaround in confidence in their own business is a positive signal, yet it should not be glossed over that one-third (34 percent) of small-business owners have concerns about the ongoing viability of their business. This large chunk of small businesses ought to serve as a caution against the assumption that the U.S. has turned a corner and the sense that "our work is done." The small-business community is still struggling.

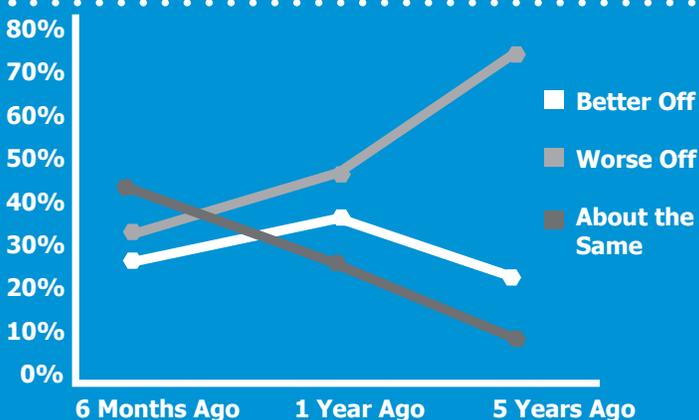
Thinking about the next 12 months, do you anticipate:



From a financial perspective, how do you feel right now about the future for your business?

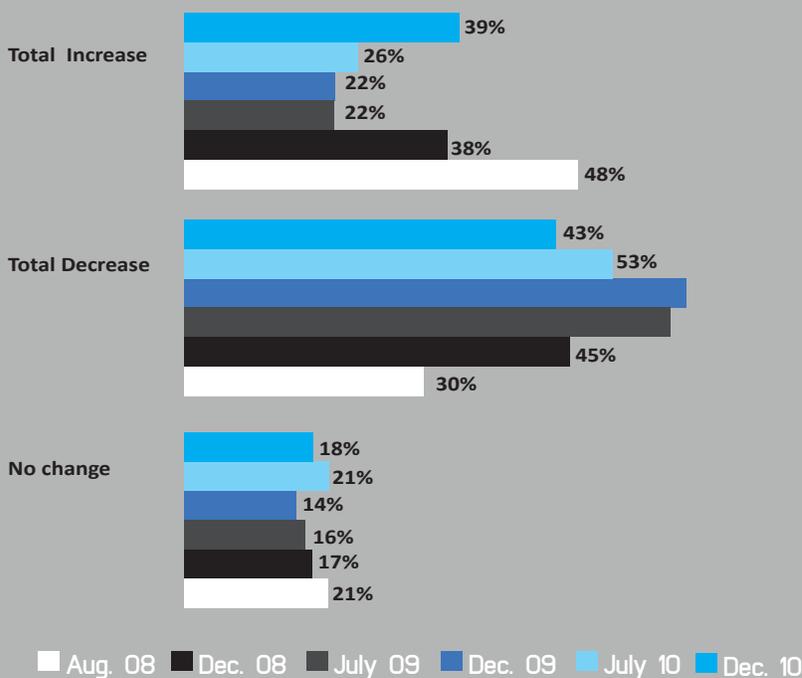


When comparing today's economy, would you say the national economy is:





## Changes in gross sales/revenues over the last 12 months:



**“The number of small businesses reporting an increase in revenues is at its highest point in more than two years.”**

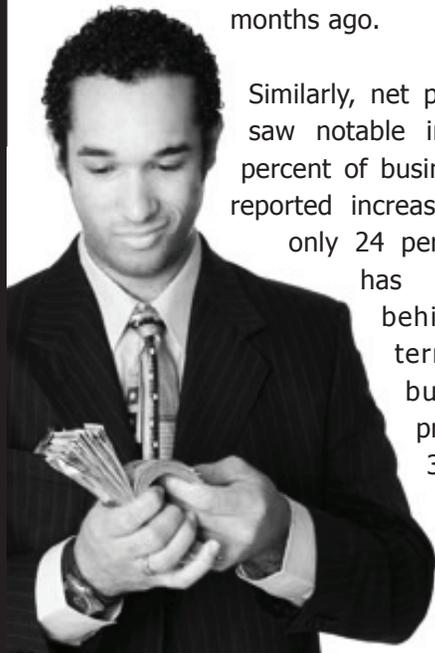
Do you believe there will be growth opportunities for your business...

	DEC. 10	JULY 10	DEC. 09
In the next 3 months	5%	3%	4%
In the next 3 to 6 months	11%	9%	11%
In the next 6 to 12 months	29%	35%	37%
None in the coming year	40%	44%	41%
My business is already growing	15%	9%	7%

## Past Business Growth

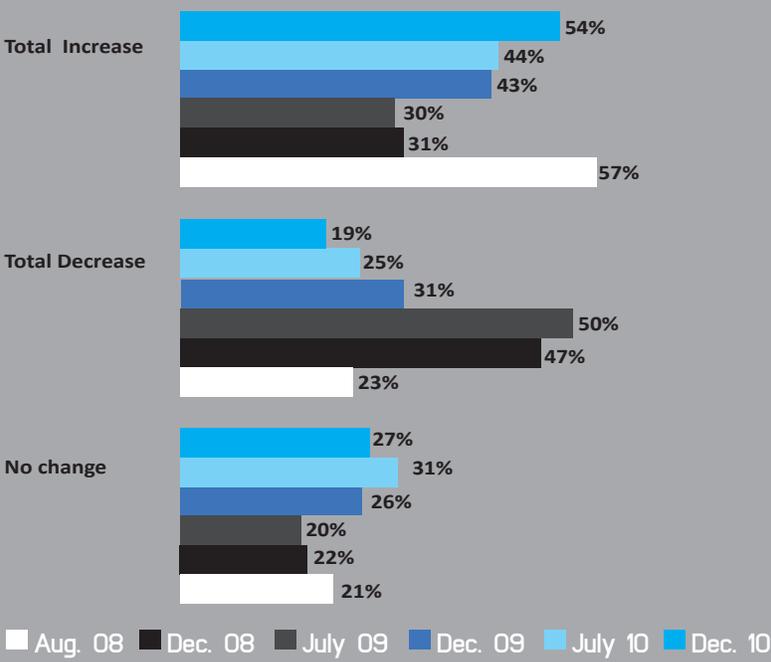
The 2010 Year-End Economic survey took a close look at how small businesses fared over the past 12 months. Small-business owners were asked how much change their businesses had experienced in gross sales/revenues and net profits, and the results show modest gains from the previous survey. Although both indicators continue to show a net decrease, it was a much smaller decrease than in the previous survey.

There was a significant jump in the number of small businesses reporting an increase in revenues from 26 percent in July to 39 percent in December. This represents the highest number of small-business revenue increases since the 2008 Mid-Year Economic Report, and stops the year-and-a-half trend of a majority of businesses reporting revenue decreases. Admittedly, there still exists a net revenue decrease of three percent, but that is down drastically from the net decrease of 27 percent just six months ago.



Similarly, net profits in businesses saw notable increases. Thirty-six percent of businesses in December reported increases in profit versus only 24 percent in July. Profit has routinely lagged behind revenues in terms of growth, but the drop in net profit decreases from 35 percent in July to just 10 percent today is another promising sign.

**Changes expected in gross sales/revenues over the next 12 months:**



**Projected Business Growth**

Small-business owners also were asked to rate their level of expected business growth for the coming 12 months. For the first time since the 2008 Mid-Year Economic Report, a majority of respondents (54 percent) are projecting an increase in revenues. With 19 percent projecting decreases in revenues and 27 percent projecting no change whatsoever, the result is a 35 percent projected net gain in revenue in the coming 12 months.

With regards to profits, there were similar increases in the number of small businesses projecting profit gains. Although similar to the past activity, profit projections lag behind revenue in terms of increases with only 44 percent—just shy of a majority—projecting profit increases. This gain in profit projections is the highest since February 2008, and represents a notable 20 percent net gain in profit projections.

Since 1993 when NSBA began asking these questions, small businesses have projected net increases in both revenues and profits. However, beginning in December 2008, both indicators showed net decreases among small businesses. In December 2009, revenue projections actually resulted in net gains, but profit remained a net decrease. Today, both indicators are back on the side of net positives for small businesses.

When asked about which future growth strategies they plan to implement in the coming 12 months, the top three responses were: new advertising and marketing strategies (42 percent, up from 37 percent in July), expanded Internet presence and e-commerce (34 percent), and strategic alliances (24 percent, down from 30 percent in July). Unfortunately, “no growth strategies planned” tied for third at 24 percent and was up two percentage points from 22 percent back in July 2010. A notable change from past surveys was the increase from 14 percent to 20 percent among those small-business owners who selected “hire new employees” as a growth strategy in the coming year.

The timing of growth is another important component of the survey. Forty-five percent expect growth opportunities in the coming year. Among those, five percent expect such opportunities in the next three months, 11 percent expect growth opportunities in three to six months, and 29 percent project growth opportunities in six to twelve months. Fifteen percent—up from nine percent just six months ago—report that their business is already growing. A significant number, 40 percent, don’t believe there will be any growth opportunities for their business in the coming year.

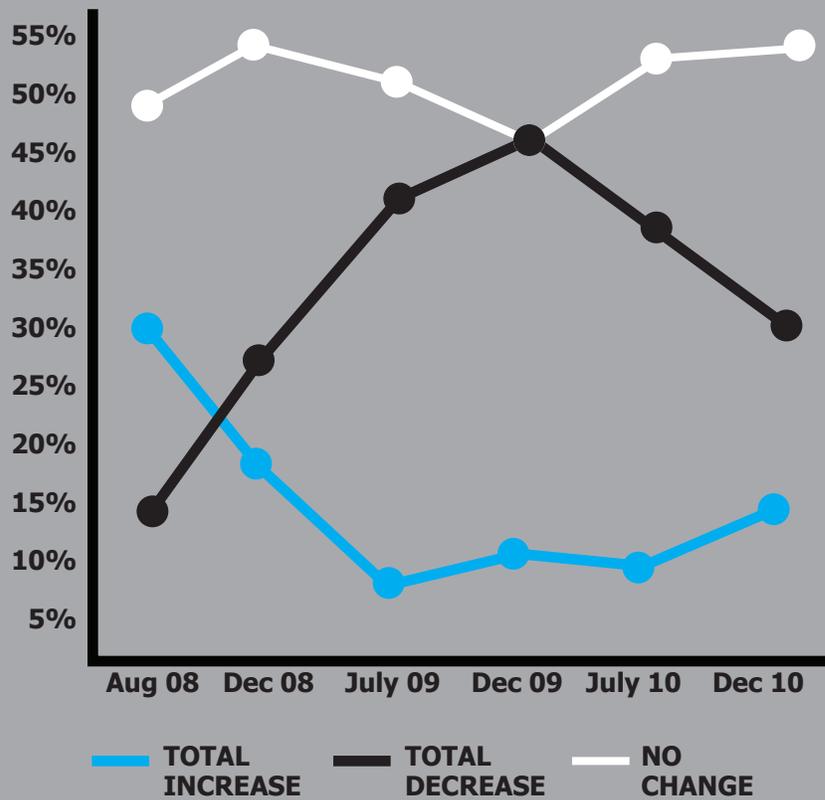
**“Since 1993, small businesses have projected net increases in both revenues and profits, and today, both indicators are back on track after two years of net decreases.”**

Which of the following growth strategies will you use in the next 12 months? (Please check all that apply)

	Dec. 10	July 10
New advertising and marketing strategies	42%	37%
Internet / Expand E-commerce	34%	34%
Strategic alliance	24%	30%
No growth strategies will be used in the next 12 months	24%	22%
Hire new employees	20%	14%
Joint Venture	13%	14%
Investments in R&D	11%	11%
Other (please specify)	11%	7%
Expand operations to new facilities/ add additional stores	8%	7%
Acquisition	8%	8%
Outsourcing	7%	10%
Merger	3%	5%



Changes in number of employees over the last 12 months:



### Past Job Growth

As the leading contributor of net new jobs to the U.S. economy, small-business job growth has been a critical piece of NSBA’s surveys and polls. In the NSBA Economic Surveys, small-business owners are asked how their business has fared over the past 12 months regarding number of employees. Unfortunately, small-business owners continue to be financially stymied and unable to grow their business, thereby restricting their ability to create jobs.

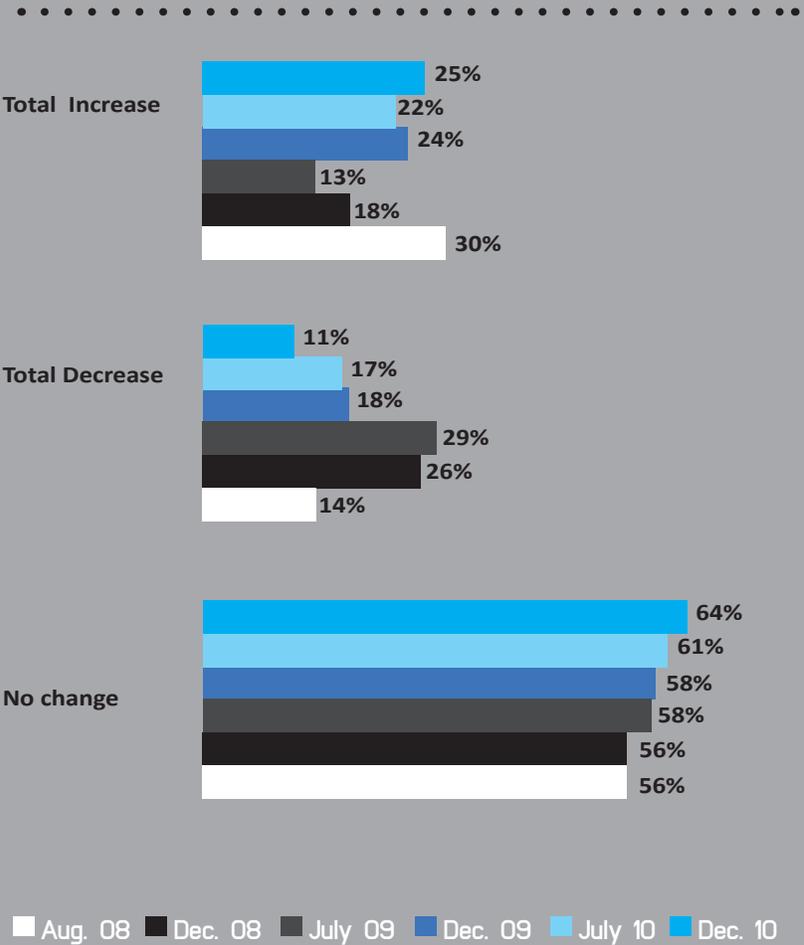
Although there were notable gains in employment, this indicator was similar to revenues and profits over the past 12 months, resulting in a net decrease. The gains in employment were modest—15 percent in December reported employment gains up from just 11 percent in July. Accordingly, there was a drop in the number of small businesses cutting employment from 36 percent in July down to 31 percent. Unfortunately, this resulted in a net employment loss of 15 percent. Certainly smaller than the net loss of 25 percent six months ago, this net loss is still far too high to support the kind of job creation small business has historically achieved following a recession.

One silver lining as it relates to past job growth is the increase in employee compensation. For the first time in two years, small-business owners reported net increases in employee compensation with 36 percent reporting increasing employee compensation and only 17 percent reporting decreases to employee compensation. This signals that, although small-business owners aren’t achieving enough gains and securing enough financing to afford new employees, they are trying to compensate their existing employees who likely have had to take on additional roles and tasks during the economic downturn.





Changes expected to the number of employees over the next 12 months:



### Projected Job Growth

Over the past year-and-a-half, job growth projections have fluctuated markedly. In July 2009, 13 percent of small-business owners projected employment increases; then in December 2009, 24 percent projected increases followed by a drop to 22 percent in July 2010. Today, 25 percent of small-business owners are projecting employment increases in the coming 12 months. Since July 2009, projected job growth has made a steady climb from net decreases of 16 percent to today's net increase of 13 percent.

Unfortunately, those small-business owners that project no change whatsoever in employment hovers near two-thirds, and is at its highest point today (64 percent) since February 2008. Given the historic role small business has played in job creation, this stagnation underscores the strong need to support small-business growth and ensure impediments, such as an inability to finance growth, are removed. Creating an environment where small businesses can start, thrive and grow surely will enable the U.S. to continue more promptly toward lasting economic recovery.

**“Twenty-five percent of small-business owners are projecting employment increases in the coming 12 months.”**

## Small-Business Financing

As NSBA repeatedly has said over the last three years, small-business access to capital is a significant problem; however there does appear to be a slight easing of credit among respondents. When asked what are the most significant challenges facing their business, one fourth (26 percent) said lack of available capital—that's down from 29 percent in July 2010.

The prospect of getting financed for a small business—even in a growing economy—is very difficult simply due to the fact that many small businesses lack the assets necessary for a traditional bank loan, making them a riskier lending option for banks. Over the last three years, the number of small businesses able to obtain adequate financing for their business had steadily decreased. That trend, however, has come to a halt according to the December 2010 survey.

Today, 64 percent of small businesses are able to obtain adequate financing for their business. That number is up from just 59 percent in July 2010—the lowest it's been since NSBA began asking this question back in 1993. This modest gain is a positive step, however lending still has not fully recovered – the long term average is 68 percent of small businesses who are able to obtain adequate financing. It is worth pointing out that fully one-third (36 percent)—which translates into more than 10 million—of the nation's small businesses are not able to get adequate financing.

NSBA has been asking small-business owners if their business

had been impacted by the credit crunch since early 2008. In February 2008, 55 percent responded that they had been impacted. In August 2008 that number jumped to 67 percent, and continued to rise to 69 percent in December 2008 and hit a high of 80 percent in July 2009. Despite a slight easing in December 2009 down to 78 percent, the number skyrocketed in July 2010 to its highest point of 80 percent. Today, that has dropped down to 75 percent, the lowest point in two years.

The availability of capital is a critical component to business growth and job creation for small businesses. Since NSBA has been asking these questions back in 1993, there has been a direct correlation between access to capital and job growth—when capital flows more freely, small businesses add new jobs. Today is no different: over the past 12 months, small businesses reported a four-point increase in employment while at the same time there was a five-point increase among small businesses who reported being able to garner adequate financing for their business.

Among small-business owners for whom capital availability has been a problem, 41 percent state that they have been unable to grow or expand the business, and 24 percent state that they have been forced to reduce their number of employees. Of particular concern was the high number of small businesses who reported being unable to increase inventory to meet demand (13 percent) and those unable to finance increased sales (18 percent.) This means that, although growth opportunities exist for these businesses, they are being held back by a lack of capital. A substantial number of small businesses were forced to reduce employee benefits as a result of their inability to garner financing.

In the last six months, there has been a slight increase in small-business use of bank loans (up from 43 percent to 45 percent,) business earnings (up from 42 percent to 45 percent,) and vendor credit (up from 20 percent to 23 percent.) Conversely, there was a drop in the number of small businesses relying on credit cards from 39 percent in July 2010 to 36 percent today. The number of small businesses using no financing options remained steady at 21 percent.

Prior to the December 2009 survey, credit cards had been the number one source of financing for small-business owners. Today, however, they have dropped to the number three slot, just behind traditional bank loans at number one and earnings of the business at number two. Although reports have shown a higher rate of approvals among credit card applicants, many small businesses are hesitant to take on credit-card debt given the volatility associated with them, and the fact that credit card reform legislation failed to explicitly protect the cards used for small-business purposes.

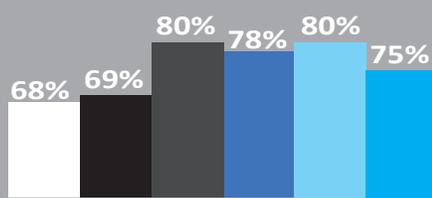
### Loans

While the number of small businesses relying on traditional bank loans increased slightly to 45 percent today, many small businesses have anecdotally reported being turned down for traditional bank loans. In addition to banks' unwillingness to loan to small businesses, the fact that terms continue to worsen for small businesses is likely part of the reason small-business owners have been seeking fewer bank loans. Twenty-two percent of small-business owners reported less

What types of financing has your company used within the past 12 months to meet your capital needs?

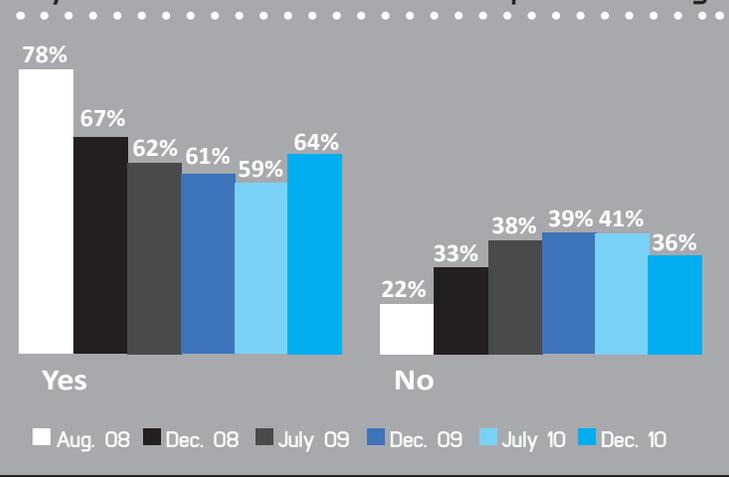
	Aug. 08	Dec. 08	July 09	Dec. 09	July 10	Dec. 10
Bank loan	50%	44%	53%	46%	43%	45%
Earnings of the business	49%	51%	43%	43%	42%	45%
Credit cards	41%	49%	43%	41%	39%	36%
Used no financing	17%	22%	16%	21%	21%	21%
Vendor credit	22%	27%	29%	24%	20%	23%
Private loan (friends or family)	12%	16%	20%	18%	19%	15%
Leasing	9%	8%	9%	8%	10%	9%
Other (please specify)	8%	8%	6%	7%	7%	7%
Small Business Administration loan	5%	3%	4%	4%	4%	4%
Private placement of debt	2%	4%	3%	2%	4%	2%
Selling/pledging accounts receivable	2%	3%	3%	3%	3%	4%

Small-business owners reporting being impacted by the credit-crunch.



■ Aug. 08 ■ Dec. 08 ■ July 09 ■ Dec. 09 ■ July 10 ■ Dec. 10

## Is your business able to obtain adequate financing?



favorable terms on their loans in the last year, and only six percent report that the terms of their loans have become more favorable. One positive note: in July 2010, a mere two percent reported improving terms on their outstanding loans.

Underscoring this very slight thawing, the most recent Federal Reserve Senior Loan Officer Opinion Survey (October 2010) found that about 13 percent of large banks eased their lending standards for small-businesses for the first time since late 2006. There still exists a huge discrepancy between large and small companies, however. That same survey showed that 14 percent of all banks eased the cost of credit lines for small firms whereas more than double (30 percent) eased the same cost for larger businesses. Similarly, only 4 percent eased the limits on maximum size for credit lines for small businesses whereas 21 percent did so for larger businesses.

The implications of the collapsed housing market continue to haunt the small-business community. In August 2008, 12 percent of small-business owners leveraged their business loans with a second home mortgage. That number has been steadily decreasing since that time hit an all-time low of six percent in July 2010. Today, that number is higher than it has been in several years at 17 percent.

In addition to using a second mortgage, small-business owners also use business savings (37 percent,) personal savings (37 percent,) accounts receivable (37 percent,) and credit cards (35 percent) to leverage their business loans.

### Credit cards

Given the events of the last year, in which interest rates on credit cards remained high, credit-card limits were arbitrarily cut, and credit-card accounts were eliminated entirely by the credit-card companies, it is not surprising that the gradual decrease in credit-card usage has continued. Although the number of small-businesses relying on credit cards has dropped slightly from 39 percent to 36 percent, they still account for one of the largest sources of financing for NSBA's members.

A major piece of legislation, the Credit CARD Act, went into effect in early-2010 and put a stop to some of the most egregious practices of the credit-card industry. Unfortunately that legislation didn't expressly include the cards used exclusively or primarily for small-business use despite the best efforts of NSBA and some key advocates on Capitol Hill. Given that the majority of small businesses use either business cards only or a combination of business and personal cards, the potential for mistreatment of these cards and its impact on small business is significant.

Despite Congress' failure to explicitly protect small-business credit cards—and the industry warnings that the legislation would create an even more unstable and expensive credit card market—small businesses reported lower incidences of worsening terms than they have in more than two years. Although still an overwhelming majority (58 percent) report worsening terms on their credit cards over the last five years, that number is down from 64 percent in July 2010 and 68 percent a year ago.

When asked to describe how the terms of their credit cards have changed in just the last six months—the duration of which was under the new credit-card protections—there was a

notable change from previous surveys in the number of small businesses who cited worsening terms, 48 percent. Back in December 2009—before the legislation ever took effect, 64 percent reported worsening terms.

The interest rates small-business owners are subject to continue to be high, though not as high as they have been. Today the average rate is 14 percent, down from 16 percent six months ago. There also was a marked decrease in the number of small businesses paying more than 15 percent interest from 50 percent in July 2010 to 37 percent today.

There was also a significant decrease in those paying the highest interest rates – in July 2010, 23 percent of small-business owners report paying more than 20 percent interest, but today only 14 percent do. When asked if they carry a balance month-to-month, there was a slight decrease in respondents who pay off their bill in its entirety each month from 56 percent to 54 percent.

One particularly problematic trend that began in late-2008 was credit-card companies arbitrarily reducing the credit limit on a card—or shutting down the card entirely. For a small-business owner carrying a balance, this unexpected reduction results in a diminished credit score, as the owner suddenly is utilizing more of his/her available credit. With banks increasingly reliant on personal credit scores in their underwriting practices, this credit score hit can be quite problematic. Compounding matters, these reductions are typically due simply to the fact that, as a small business, they are viewed as a more risky credit option.

When asked in December 2008, 28 percent of small-business owners responded that they had experienced a decrease in their line(s) of credit or a credit-card limit in the past six months. In July 2010, that number had increased to 36 percent. Today, only 24 percent of small-business owners report being subjected to such a decrease in the last six months.

The number of positive developments in the credit-card market indicate both that the new law is working and that credit markets are easing slightly for small businesses. It is important to note, however, that banks are not legally obligated to extend the credit-card protections to small-business cards although some of them have voluntarily done so for the time being. Furthermore, the fact that nearly half of all small businesses reported worsening terms on their credit cards over the last six months surely indicates that more needs to be done to improve and make more fair this critical source of financing for small businesses.



## Exporting

The economic difficulties over the past two years have put small businesses at a distinct disadvantage in the global economy, however exporting remains an untapped marketplace for small businesses at a time when they need it most. According to the December 2010 survey, 35 percent of small businesses have exported goods or services to a customer outside the U.S. Among the 65 percent who never have exported goods or services, 12 percent said they would be more likely to consider doing so in the last six months. This is likely due to a renewed attention to enhancing exporting opportunities for small businesses, particularly through programs such as the National Export Initiative.

What do you consider the largest challenges to selling your goods and/or services to foreign customers? (Check all that apply)

	Dec. 10
I have limited goods and/or services that are exportable	31%
I worry about getting paid	30%
It is confusing and difficult to do	22%
It is very costly	12%
It takes time away from my regular, domestic sales	12%
I can't get financing to offer foreign customers	7%

Among the various challenges of exporting cited by small businesses are: limited goods and/or services available to export (31 percent,) concerns over getting paid (30 percent,) confusing and difficult nature of exporting (22 percent,) and costs associated with exporting (12 percent.)



## Public Policy

Among the issues small-business owners placed ranked as top issues for Congress and the administration should address were reducing the national deficit (23 percent,) reducing tax burden (19 percent,) reigning in the costs of health care reform (17 percent,) reducing the regulatory burden (17 percent,) and increasing access to capital for small businesses (15 percent.)

## National Deficit

For the first time in these NSBA Economic Surveys, the response, "reduce the national deficit" was included and handily took the top spot. Although that effectively shifted down the list the remaining top four responses, those four have routinely been the top-ranked choices for action by small businesses for several years.

Among the top rated fixes for the national deficit, small businesses supported reform and reduce entitlement spending (70 percent,) an across the board budget cut (70 percent,) eliminate all credits and deductions with a significantly lower income tax (40 percent,) and greater authority of the administration to make cuts (29 percent.)

## Taxes

Small business consistently ranks reducing the tax burden among their top issues for Congress and the administration to address. Although the actual out-of-pocket cost is a huge issue, the sheer complexity of the tax code has been an ever-increasing thorn in the sides of America's small businesses. When asked how much time and money per year is spent just on the administration of taxes, 43 percent said they spend more than \$5,000 and 60 percent said they spend more than 40 hours.

These numbers have shifted slightly in the last six months to show an increasing number of small businesses spending more time and fewer spending high dollar amounts. This indicates that, in extremely tough times as we currently exist, small businesses are increasingly taking on a larger burden of handling their taxes. Given the complexity of the tax code and IRS's increase in enforcement activities, including audits on small businesses, this is very concerning.

In recent weeks there have been proposals to ease the corporate tax rate. President Barack Obama, in his State of the Union Address acknowledged the complexity and competitive disadvantage posed by the tax code. However the corporate tax rate is just one small piece of the equation—the overwhelming majority of small businesses are pass-through entities and therefore pay business taxes through their individual income tax. America's small businesses need broad, comprehensive and fair tax reform.

NSBA has been very outspoken in urging Congress to repeal the expanded 1099 reporting provision that was included as a pay-for in the Patient Protection and Affordable Care Act (PPACA). It would require any business that purchases more than \$600 of goods or services from another business to submit a 1099 form to the IRS and to the company being reported.

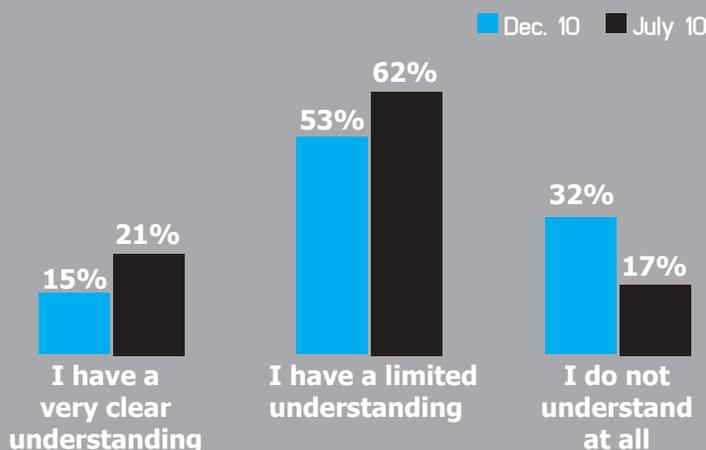
Currently, businesses only have to file a 1099 for service-providing non corporations with which they spend more than \$600 per year. Under the new law, a small business would have to report on ALL companies – services and goods, corporations and non corporations – with which they spent in excess of \$600 annually. This would increase the number of companies small businesses would be required to file 1099 reports on from an average of 10 companies to 86.



## If you qualify for the small-business health care tax credits, how much will they help your business?

	Dec. 10
Significantly	3%
Moderately	6%
Just a little	11%
Not at all	17%
I do not qualify	20%
I'm not sure if I qualify	43%

## How well would you say you understand how the new health care reform law is going to impact your business?



## Which one of the following issues do you believe Congress and President Obama's administration should address first?

	Dec. 10
Reduce the national deficit	23%
Reducing the tax burden	19%
Reign-in costs of health care reform	17%
Reducing the regulatory burden on businesses	17%
Increase small business access to capital	15%
Reform the estate tax	4%
Improving education to provide a qualified domestic workforce	3%



**“One fourth of small businesses held off on hiring a new employee due to rising health insurance costs.”**



Furthermore, it will have a chilling effect on business-to-business transactions. Firms will look to ease the new requirement by consolidating their business purchases, which will give a huge advantage to big-box companies such as Costco which offer a broad array of products over small businesses that are more specialized.

### **Health Care**

Since the passage of the health care reform law—legislation which NSBA ultimately opposed due to its inability to truly address rising costs—small business owners have expressed significant confusion about how the new health care law will impact their business.

Somewhat surprisingly, more small-business owners today express confusion over the new law than did six months ago. Today, only 15 percent of small businesses—down from 21 percent—said they have a clear understanding of how the new law will impact their business. Meanwhile, 85 percent today said they have a limited or no understanding at all of how their business will be impacted, up from 79 percent in July 2010.

When asked—if their business is eligible for the small-business health care tax credit—how much the credit will help their business, the most common response (43 percent) was that they weren't sure if they qualify. Twenty percent responded that they don't qualify and the remaining 37 percent reported mixed levels of assistance from the credit. Among those that said they are eligible, only three percent said the credit will help their business significantly, six percent said it will help moderately, 11 percent said it will help just a little and 17 percent said it will not help at all.

Unfortunately, regardless of the health care reform law, small businesses continue to report dire consequences of rising health insurance costs. When asked how the cost of their health insurance had changed since the law passed, 46 percent reported increases of more than 11 percent, among those, 18 percent experienced an increase in excess of 20 percent. That means nearly one in five businesses in this economy had to absorb a 20 percent increase in one of their most significant employee benefit costs.

To address these costs, small businesses have implemented the following changes: 55 percent increased the deductible, 45 percent held off on employee compensation increases, 42 percent increased the employee share of the premium, 37 percent reduced employee benefits, 25 percent switched insurance carriers, 24 percent held off on hiring a new employee, and 18 percent held off on implementing new growth strategies.

### **Regulatory Burden**

Small-business owners face unique challenges in navigating federal regulations. Since NSBA has been conducting these surveys, reducing the regulatory burden has consistently

been ranked a top issue for Congress and the administration to address. According to the December 2010 survey, regulatory burdens represent the fourth largest challenge to the future growth and survival of small firms—even before federal taxes.

There exists among the small-business community growing concern about regulations and the burdens they impose. Despite some key progress—including passage of the Plain Language Act and a recent move by the administration to more closely examine federal regulations—small businesses are increasingly voicing their concern with regulatory burden. The number of small-business owners who picked regulatory burdens as both a challenge (up from 28 percent to 30 percent) and a key issue for Congress to fix (up from 14 percent to 17 percent) increased slightly in the last six months.

Regulatory burdens represent the fourth largest challenge to the future growth and survival of small firms.

### Access to Capital

Although many of the financing indicators in this survey point to a slight thawing of credit markets for small businesses, it is important that the efforts to expand access to capital not be abandoned. More than one third (36 percent) of small businesses still cannot obtain adequate financing for their business, which has drastic implications on business growth, or lack thereof.

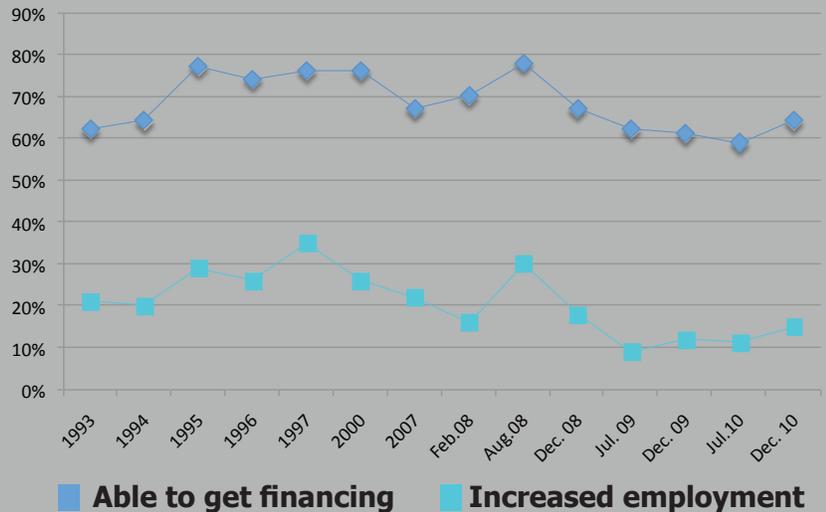
In late-2010, Congress passed, and the president enacted, sweeping legislation, the Small Business Jobs and Credit Act which included myriad provisions to improve small-business access to capital. Specifically, the bill created the NSBA-supported Small Business Lending Fund which is just now getting under way and is expected to enhance small-business lending at the nation's smallest banks.

Unfortunately, one of the most successful lending initiatives in the past few years—reducing the up-front borrower fees and increasing the guarantee for U.S. Small Business Administration 7(a) loans—continues to come up short the funding needed to meet small-business demand. This shortfall has repeatedly forced small businesses into the Recovery Loan Queue and is serving as a huge roadblock to those businesses that are looking to grow now.

**“More than one third of small businesses still cannot obtain adequate financing for their business.”**



### Correlation Between Availability of Capital and Employment Growth



If capital availability is a problem for your business, what is the effect on your operations?

	Dec. 10
Unable to grow business or expand operations	41%
Reduced the number of employees	24%
Unable to finance increased sales	18%
Reduced benefits to employees	17%
Unable to increase inventory to meet demand	13%
Closed stores or branches	4%
Other	4%

## What are the three most significant challenges to the future growth and survival of your business?

	JULY 10	DEC. 10
 ECONOMIC UNCERTAINTY	73%	68%
 DECLINE IN CUSTOMER SPENDING	47%	42%
 COST OF HEALTH INSURANCE	37%	37%
 REGULATORY BURDENS	28%	30%
 FEDERAL TAXES	36%	27%
 LACK OF AVAILABLE CAPITAL	29%	26%
 GROWING NATIONAL DEBT*	N/A	19%
 STATE AND LOCAL TAXES	22%	18%
 COST OF EMPLOYEE BENEFITS, NOT INCLUDING HEALTH INSURANCE	7%	10%
 COST OF EMPLOYEE SALARIES	8%	10%
 FOREIGN COMPETITION	10%	9%
 LACK OF QUALIFIED WORKERS	8%	8%
 COST OF TRAINING WORKERS	0%	3%
 COST OF TECHNOLOGY	5%	2%
 NO MAJOR CHALLENGES	1%	2%

\* NOT OFFERED AS OPTION IN JULY 2010.

## CONCLUSION

Small employers comprise 99.7 percent of all employer firms in the U.S. One in two workers in the private workforce run or work for a small business, and one in four individuals in the total U.S. population is part of the small business community (equaling 23 percent of the population.) Firms with fewer than 500 employees accounted for 64 percent of net new jobs between 1993 and the third quarter of 2008. Thirty-two percent of those gains came from the creation of new, small firms.

According to SBA's Small Business Economic Indicators for 2003, when the economy gained momentum after the previous downturn in the early 1990s, firms with fewer than 500 employees increased their net employment in the first year after the recession, while large firms continued to shrink. From March 2000 to March 2001, small firms added 1.15 million net new jobs while large firms lost 0.15 million net new jobs.

Although small business has continued to struggle in the last few years during the economic downturn and has struggled to create the number of jobs similar to past recessions, there appears a light at the end of the tunnel. Many of the key indicators in this report show progress and growth for the first time in two years. Small-business owners are feeling more confident about the future of their own business, and many expect a less-dire state of the U.S. economy than they did just six months ago.

These positive attitudes and modest beginnings of growth must, at the very least, not be hindered, and at best, be fostered. NSBA believes more can, and must be done to ensure entrepreneurship remains a viable, attainable option for every American.



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