



20th Annual Small Business Survey Executive Summary Report



Please note that the full, detailed report for the 20th Annual Small Business Survey will be available on the D&B Small Business Solutions Web site at www.dnb.com/smallbusiness around August 15, 2001.

Methodology & Sample

This is the twentieth consecutive year D&B has conducted a small business survey. The study is designed to give a broad overview of the issues and problems facing small businesses today as well as a brief look at expectations for the coming year.

Five hundred and forty (540), twenty-minute telephone interviews were conducted with owners, senior executives and key decision-makers of small businesses (1-25 employees). Calls were made in March/April, 2001.

The sample was randomly selected from D&B's database. The main sample subgroups include Industrial sectors, Businesses stratified by size, women-owned, minority-owned, home-based businesses and those companies that serve business or commercial accounts.

Key Findings - Headlines

Computer & Internet Penetration at High Levels

Over 80% of Small Businesses have at least one computer on site used for business purposes. In some industrial sectors, usage has reached virtual saturation.

Two thirds of all Small Businesses also have Internet access, and approximately half of those also have a web site. Sixty percent of those that have Internet access also plan to increase their use of the Internet in coming months.

Small Businesses characterize themselves as Leaders, Survivors...

Small business owners & managers were asked to characterize their business into one of four categories. A third felt they were *Survivors – facing strong competitive challenges*. More than a quarter said they were *Steady – content with current products, sales & profits*. Smaller groups, less than 20% each, accepted the characterizations of *Leader – leading the competition or gaining quickly on leaders* and *Innovator – constantly seeking and investing in new opportunities*.

Throughout the survey, these characterizations rang true – showing the *Innovators* and *Leaders* as generally more receptive to technology, more willing to invest, and take chances. Responses from the *Survivors* and *Steady* groups were generally more conservative in their outlook.

Small Business Outlook

When they were surveyed in March and April of this year, more than sixty percent of small business respondents were optimistic about the economy for the balance of 2001. The smallest of businesses (1-5 employees) and owners planning to run the business for the next decade or so, tended to be the most optimistic. Businesses who characterized themselves as *Survivors* were more pessimistic. In total, the

2001 survey responses were somewhat less positive than responses to the same question asked in the 2000 survey.

When asked about the outlook for their company through the balance of 2001, more than 80% were optimistic. These results are similar to last year. In 2001, those with plans to run their business more than 10 years are understandably more optimistic than their counterparts.

Other Key Findings

Biggest Opportunities & Problems

The biggest opportunities for small businesses in 2001 are predicted to be “increasing sales/getting more contracts,” “getting new customers, and “growth.”

As was the case in previous years, there were no overwhelming or consistently mentioned problems facing small businesses. “Finding/keeping qualified, reliable employees” is a frequently mentioned. Concerns about a “poor economy,” including “inflation and rising prices”, “cash flow” and “rising fuel costs” also were mentioned this year.

Comparisons of 2000 to 2001

When asked to compare 2000 to 2001 for several categories, respondents gave the following predictions:

- ✂✂ Two-thirds expect to pay suppliers more in 2001 than they did in 2000.
- ✂✂ Almost half expect employees’ wages to increase in 2001. (The subgroups that most firmly believed this included store and office-based businesses, those that serve business and commercial accounts and construction companies.)
- ✂✂ Less than 20% predicted that interest rates would be higher in 2001.
- ✂✂ Two-thirds of businesses interviewed expect to retain the same number of employees, only a quarter expect to increase the number of employees. (Those more likely to increase staff included those that serve business or commercial accounts and larger firms.)
- ✂✂ Predictions for profits, as compared to 2000, were down.
- ✂✂ Almost two-thirds expect to increase the number of customers – a notable improvement over predictions from last year.
- ✂✂ Revenue expectations are up this year as compared to last. Newer business owners and companies with Internet access were most likely to predict revenue growth in 2001.
- ✂✂ Almost 60% predicted profits would increase in 2001, as compared to 2000.
- ✂✂ Although predicted increases in supplier costs and wages would undoubtedly put an extra burden on small businesses, less than half indicated they would not increase their prices in 2001. (Those subgroups that were more likely to increase prices included larger businesses (6-25 employees), Store and Office-based Businesses, and those in the Retail sector.)

Change in Emphasis in 2001

Two-thirds of businesses interviewed said they would increase their emphasis on improving sales and controlling costs in 2001. More than half indicated they would also increase emphasis on controlling costs in 2001. Less than 20%, however, indicated they would increase emphasis on obtaining financing or lowering uncollected debt in 2001.

Computers and the Internet

As highlighted earlier, computers and the Internet now play essential roles in the daily operations of small businesses and reliance on them is expected to increase in the coming year. Internet access is still predominantly through telephone modems, but high-speed access (DSL, cable modems) is beginning to make in-roads. As in the past, e-mail and business research are the main applications for the Internet, with e-commerce gaining in popularity.

Websites have grown in popularity, and this survey showed that the number of small businesses with their own Web page has risen notably over last year. The main use of these web sites appears to be for sales, informational or customer service purposes. No matter how used, the majority of those small businesses

with a web site feel the money spent on developing and maintaining it is justified by an increase in sales and/or customer service.

Although 40% of those with web sites claim they do not receive any (monthly) orders via the site, almost half say they get at least one or more orders per month.

While seven in ten claim that the money spent on developing and maintaining the web site is justified, most expect their spending to remain stable rather than increase over the remainder of 2001.

Productivity

For the most part, small businesses do not feel acquiring new computer software or hardware, or using new services on the Internet will effect employee productivity. They did indicate that productivity might be improved somewhat by providing employee training and purchasing new (non-computer) equipment.

Outsourcing

In the 2001 survey, respondents were asked how they handle a variety of functions; whether it was internally—using their own employees, through outside specialists, or using resources found on the Web. Respondents indicated that their companies outsource a variety of functions to external specialists. The most popular are legal, technical support, financial advisement, Web-related functions and accounting/tax preparation. As of yet, few companies handle functions using resources found on the Internet. Currently the only Internet resource of some note is used for employee recruiting and hiring (5%).

Larger businesses and companies that service business of commercial accounts are most likely to outsource business functions. Minority-owned businesses are more likely than their counterparts to outsource collections and bookkeeping functions.

Investments

Asked which areas they planned to invest in during 2001, respondents from these small businesses indicated that equipment, advertising product improvements and new or improved facilities were top priorities. It was interesting that despite the increase in Internet use and web site proliferation, investments in this area were similar to years past and definitely a secondary priority.

Financing

Asked about financing sources, responses were varied. Around 15% will rely on trade credit and investing money from their own personal savings. About 10% will count on Company Credit Cards, Commercial Bank Loans and Personal Bank Loans. Five percent or less will look to Personal Credit Cards, Loans from family or friends and loans taken against Receivables.

More than half of the respondents felt that the availability of financing would be similar to that of 2000, and a quarter felt it would be more available than in the year past. As to the expense of borrowed money, and a third felt it would be the same, almost 30% said it would be less expensive.

As to the amount they plan to borrow in 2001, almost 40% said it would be about the same amount, while only about 10% said it would increase. It was interesting that 35% said they didn't borrow money.

Small Business Work life- The Work Week

On average a small business owner/key decision-maker works 45.5 hours per week. It was interesting that about 15% reported working less than 30 hours per week – this approximately twice the number that had reported working 30 hours or less in the 2000 survey. As you might expect, home-based businesses are those most likely to work a shorter week.

Of all the activities related to running a business, “operations” takes up most of an owner’s time, while “human resources” and “credit & finance” get the least attention.

BENEFITS

In regard to healthcare benefits, just slightly more than one-third of small businesses offer their employees coverage. Women-owned, minority and home-based businesses are less likely than their counterparts to provide these benefits. One reason for not providing healthcare benefits may be the high cost of the insurance premiums – more than 70% report that premiums have increased. Most small businesses have either assumed the extra cost or have shopped around for a new insurance carrier.

Only 17% of small businesses offer their employees retirement benefits. In this area, women-owned and home-based businesses continue to lag behind their counterparts. Among those companies providing retirement benefits, 401K and IRA/Keogh accounts are the most popular. As in past years, few companies provide childcare assistance.

Demographics

The bulk of the respondents in this study (70%) are in the smallest businesses (1-5 employees). The very smallest businesses (1-2 employees) tend to be women-owned (43%), home-based (64%) or owned by someone with less than 10 years of business experience (46%).

Almost 3 out of 10 businesses in our sample claim to be women-owned. Just over 5% say they are minority-owned.

About a quarter of the businesses in the sample report serving commercial or business accounts (B-to-B) exclusively. A third report catering to only consumers, and the balance serve both businesses and consumers,

There is also a good distribution of revenues, with approximately one-quarter having under \$10,000 in monthly revenue, about 30% reporting \$10,000 to under \$50,000, and another quarter reporting \$50,000 or more.

There were also a wide range of industries represented, with Business Services (28%) and Retail establishments (28%) topping the list.

In terms of self-defined segments, the sample is apportioned as follows: "Survivor" (33%), "Steady" (26%), "Innovator" (18%), and "Leader" (18%).

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