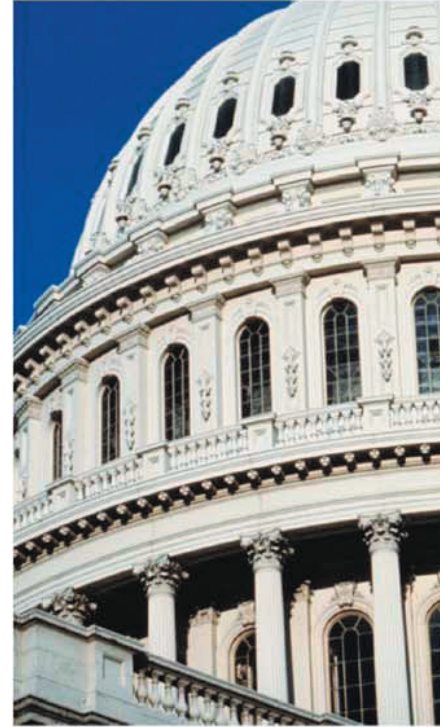
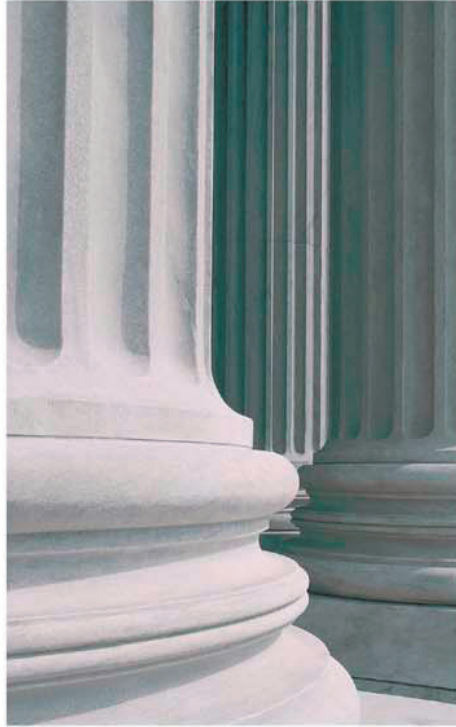


NSBA

National Small Business Association®



2007
NSBA SURVEY OF SMALL AND
MID-SIZED BUSINESSES

nsba.biz

FOREWORD

For 70 years, the National Small Business Association has been the leading advocate for the small business community. As part of the NSBA's mission to address the needs and represent the concerns of the small business community, we are pleased to provide you with the findings of the 2007 NSBA Survey of Small and Mid-Sized Businesses.

The scope of the survey is large, and the sample of businesses surveyed is diverse and representative of the entire small business community. Important research on business outlook, employee benefits, technology use, and other important benchmarks is catalogued. Information from this year's study is compared with studies from past NSBA surveys, providing a wealth of useful trend information.

While the 2007 survey finds that our smallest businesses are pessimistic about the economy as a whole, they remain optimistic about their own prospects. Clearly, the self-reliance necessary for entrepreneurial success is alive and well.

The survey also contains definitive proof that the small business community is ready and willing to grapple with one of the most challenging public policy issues of our time: national health care reform.

The findings of this survey are presented to members of the media and policy makers so that they can make informed decisions when working on key small business issues vital to our nation's continued growth and development. We hope you find it useful, and would welcome your feedback as we plan future surveys and research projects.

Todd McCracken
President
National Small Business Association

Grafton (Cap) Willey
2007 Chair
National Small Business Association

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EXECUTIVE SUMMARY

Economic Outlook

1. While the national economy is growing, America's small and mid-sized businesses are facing some challenging times.

Asked their view on the national economy today compared to five years ago, 36% believe the economy is getting better, 43% believe it is getting worse, and 21% say it is about the same.

- Women and minority businesses perceive a greater challenge. While just 33% of men believe the economy is getting worse, 53% of women and 48% of minorities believe the economy is getting worse today.
- America's smallest companies perceive the economy is getting worse as well: 51% of companies grossing less than \$100,000 last year say the economy is getting worse compared to the largest grossing companies in the survey, 35% of whom believe the economy is getting worse.
- There is also some regional disparity to the data. Businesses in the South were more likely to believe things are getting better (44% better/31% worse) while businesses across the rest of the country believe things are getting worse.

Compared to the data in 2000, the economic outlook of small businesses today is more pessimistic. Asked if they would forecast economic expansion, a flat economy, or a recession for the year 2007, only 29% projected economic expansion. In 2000, 62% of businesses anticipated economic expansion for the coming year. In the current survey, respondents are much more likely to project a flat economy (57%).

2. While pessimism about the national economy among the small and mid-sized business community definitely exists, respondents are much more confident about their own economic future.

Eighty-one percent (81%) of those surveyed expressed confidence about the future of their business from a financial perspective. This confidence is exhibited equally from America's smallest companies to the larger companies included in the study.

3. Economic uncertainty, the cost of health benefits, and the lack of available capital are the three biggest concerns facing the small and mid-sized business community today.

Asked to select the three biggest challenges to their business today, respondents select:

- Economic uncertainty 42%
- Cost of health benefits 39%
- Lack of available capital 31%
- State and local taxes 27%
- Federal taxes 25%
- Lack of qualified workers 23%

This is a very different set of concerns compared to NSBA data from 2000 when finding and retaining qualified workers, state and federal regulations, and economic uncertainty topped the list.

Employee Benefits and Labor Issues

4. The number of companies offering no benefits at all has increased from 2000.

In 2000, 24% of companies surveyed offered no employee benefits. In the current survey, 30% of companies surveyed offer no benefits at all.

This includes a significant drop over the last several years in the number of companies offering health benefits:

Percentage of companies offering health benefits

- 1995 67%
- 2000 51%
- 2007 41%

5. Companies have made changes in their health benefit programs in response to high costs.

While most companies are trying to get by without taking cost-cutting measures to health care benefits, over one-third (37%) have taken some cost-cutting action.

- It is the larger companies in the survey (20 or more employees) who are taking the more drastic action (possibly because they are more likely to offer health care benefits). In fact, 69% of these companies have taken cost-cutting steps that include: increasing employee contributions

EXECUTIVE SUMMARY

(37%), changing insurance companies (27%), instituting wellness programs (26%), and changing to policies with higher deductibles (26%).

Financing

6. A majority of companies can get the financing they need, but smaller companies struggle more in this regard.

- Sixty-seven percent (67%) of companies say they are able to secure adequate financing. This represents a drop from the 76% who said they could get adequate financing for their business from the 2000 NSBA survey.
- Among companies with four or fewer employees, 61% say that they are able to get adequate financing, but 39% are not. Among companies with 5–19 employees, 26% are not able to get adequate financing, and among companies with 20–99 employees, 20% are not able to get the financing they need.

7. Credit cards are a primary source of financing for America's smallest businesses.

We asked respondents what type of financing they have used in the last twelve months to finance their capital needs. Topping the list is credit cards (44%), followed closely by earnings of the business (43%), then dropping off to bank loans (29%), and private loans (22%), and other sources.

- For America's smallest businesses, credit cards are at the top of their list, followed by earnings of their business and private loans. Larger companies are much more reliant on bank loans and the earnings of their business.

Seventy-one percent (71%) of those who use credit cards as a source of financing are carrying a balance month-to-month. More companies today (71%) are carrying a balance than they were in 2000 (64%).

Businesses also perceive that the terms of their credit cards are getting worse. Among those using credit cards, 53% say that the terms of their business credit cards has gotten worse over the last five years. For those in the smallest business category, 57% say their terms have gotten worse.

8. Businesses would make changes if capital was more readily available.

When capital is not available, business is stymied. Forty percent (40%) of those surveyed say they have not been able to grow their business or expand operations without access to capital. Other companies have been unable to increase sales (15%), have had to reduce the number of employees (11%), or have had to reduce employee benefits (8%).

If capital were available, over three-quarters (77%) of those surveyed would take advantage and make changes, including: investing in advertising (40%), hiring additional employees (33%), investing in new plant or equipment (27%), and increasing benefits to employees (21%) among other things.

Technology

9. The web presence of small businesses has significantly increased.

Ten years ago, just 31% of companies in an NSBA survey had their own website. That figure has nearly doubled in the last ten years, and now 60% of companies surveyed have a website.

Today, over one-third of companies (37%) are engaged in e-commerce, including 52% of businesses in the retail industry and 50% of those in manufacturing.

Public Policy

10. Businesses express strong support for health care reform, but reject a government mandate for businesses to provide it for their employees.

Seventy-one percent (71%) of businesses support the following health care reform positioning:

Require that every individual in this country secure a basic health care package. To assist with this, insurance companies would be required to offer coverage to people with pre-existing conditions, and individuals and families would be provided with federal financial assistance to pay for health care premiums based on income.

But businesses entirely reject a mandate on businesses to provide coverage. An equal number oppose the following proposal (71%), including 50% who strongly oppose it:

EXECUTIVE SUMMARY

A requirement that all employers must provide health insurance benefits to all employees.

Presented an alternative that does not rely so heavily on business, those surveyed would prefer a “*federally funded, government administered health care system financed through higher taxes.*” Overall 60% favor this proposal, although the intensity of support is more tepid (29% strongly favor).

11. Asked what issues they would like to see the presidential campaigns address, the tax burden and health care costs top the list.

Overall, 31% of those surveyed want the presidential campaigns to address the issue of the tax burden on American businesses. This is a particularly critical issue to Republican business respondents, but also tops the list for Independents.

Thirty percent (30%) of respondents say health care costs is the most important priority. This was the biggest concern for Democrat respondents, and in a close second position among Independents.

Methodology

On behalf of the **National Small Business Association**, Public Opinion Strategies conducted a national Internet survey among 500 small and mid-sized businesses. The survey was conducted March 27–April 1, 2007. To ensure that the survey results represented a proper distribution by company size for the small and mid-sized business market, the results were weighted by 2004 U.S. Census Bureau of the Census data. The margin of error for this survey is $\pm 4.38\%$.

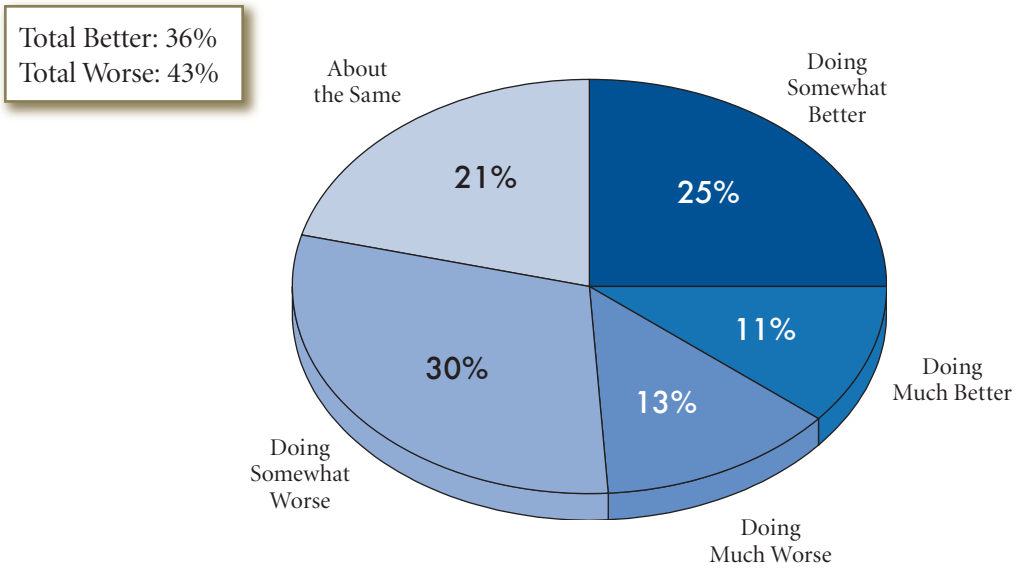
Profile of Respondents

Number of Personnel	
0	6%
1–4	55%
5–19	28%
20–99	9%
100–499	2%
Number of Years in Business	
Less than 1 year	3%
1–3 years	18%
4–6 years	19%
7–10 years	14%
11–15 years	12%
More than 16 years	33%
Revenues for Most Recent Fiscal Year	
Less than \$100K	33%
\$100K–\$500K	33%
\$500K–\$1M	11%
\$1M–\$5M	16%
\$5M–\$25M	5%
\$25M–\$75M	*
\$75M–150M	*
More than \$150M	2%
Location of Business	
Northeast	23%
Midwest	23%
South	30%
West	24%

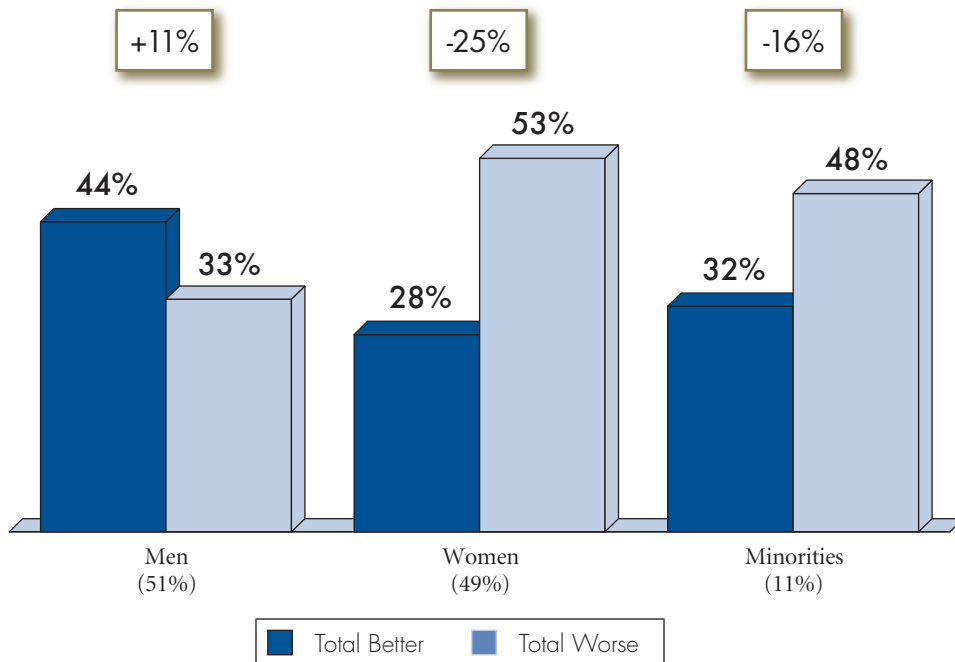
BUSINESS ENVIRONMENT

Women and minorities in small to mid-sized businesses are more disenchanted with the national economy.

“Compared to five years ago, would you say the national economy is...”



By Gender and Ethnicity

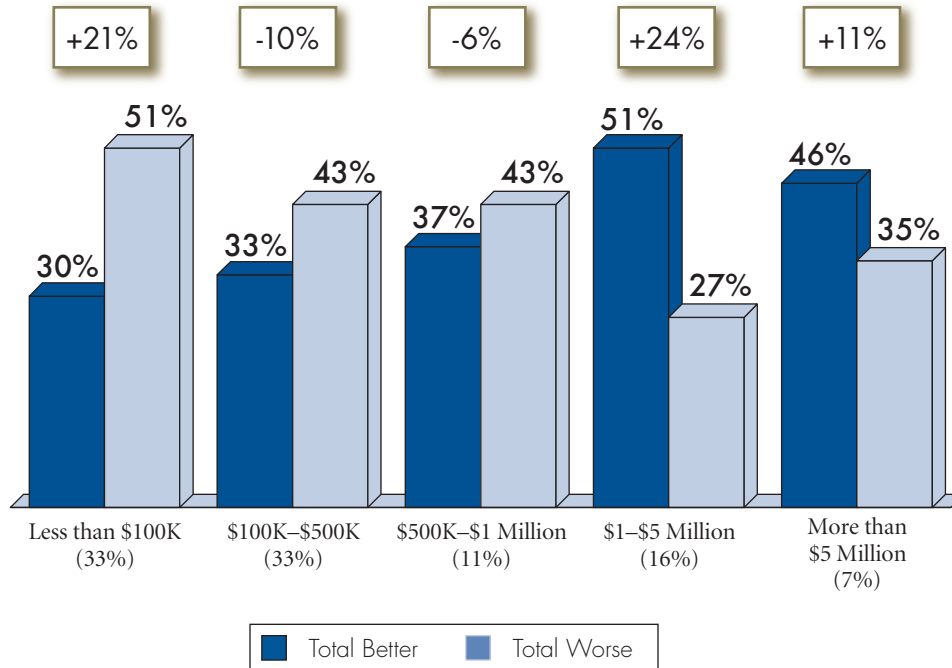


BUSINESS ENVIRONMENT

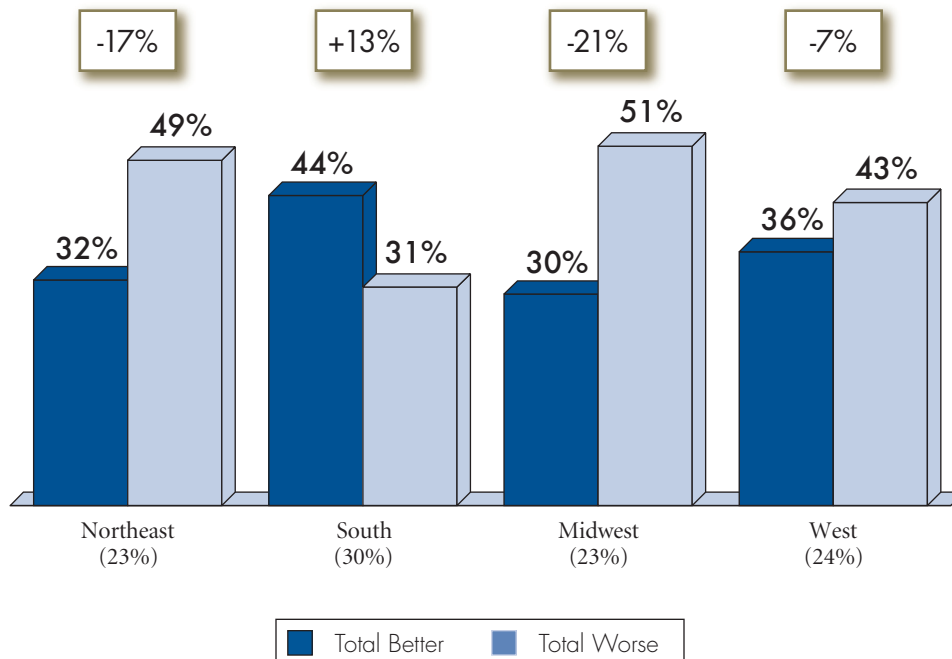
Companies with less revenue also perceive the economy to be worse.

“Compared to five years ago, would you say the national economy is...”

By Company Revenue



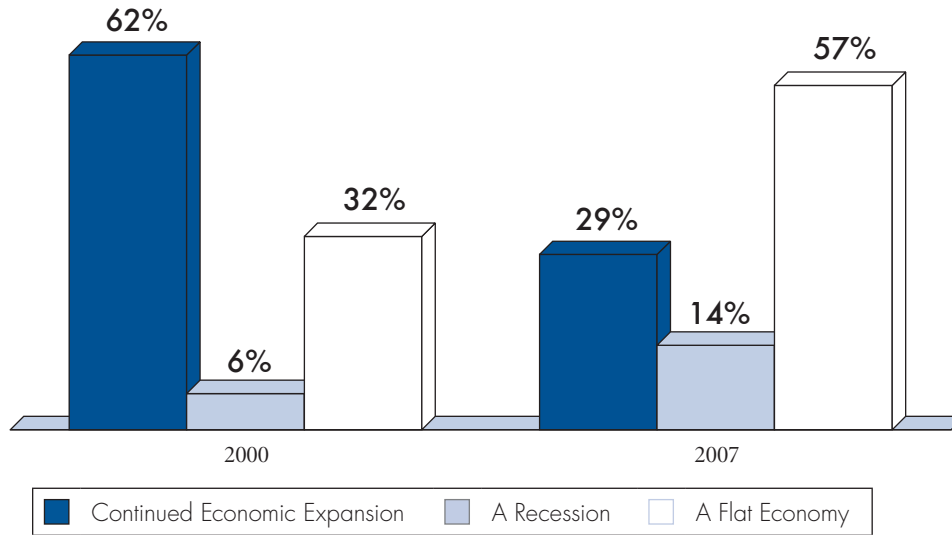
By Region



ECONOMIC OUTLOOK

Businesses expressed a great deal more optimism in 2000.

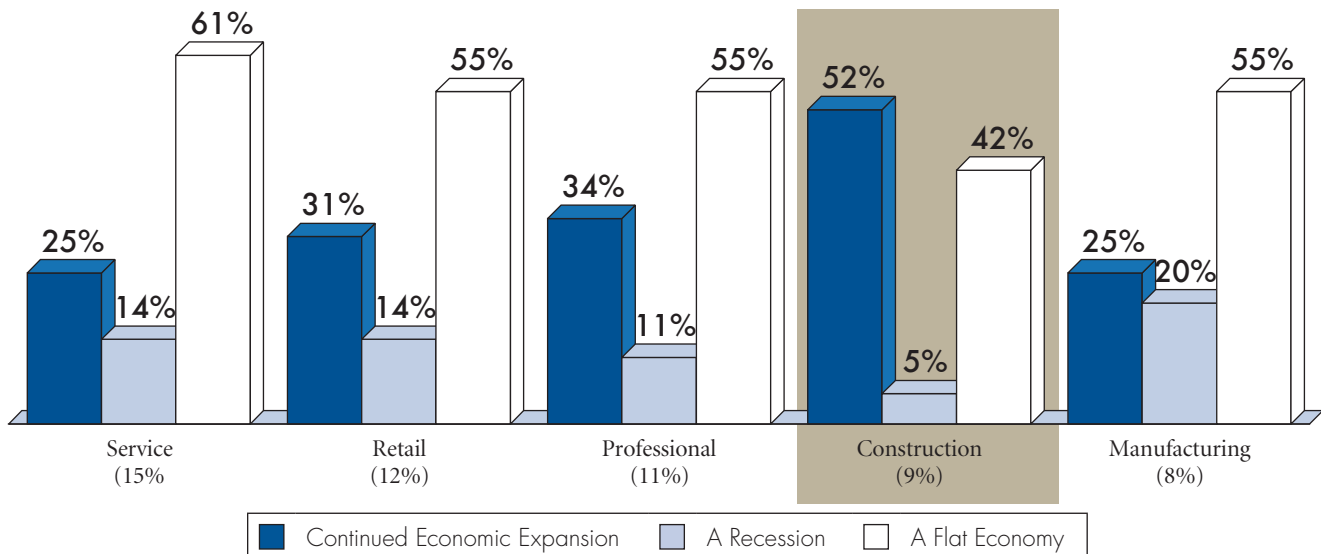
“Thinking about the upcoming year...do you anticipate continued economic expansion, a flat economy, or a recession?”



Only the construction industry expresses confidence in continued economic expansion.

“Thinking about the upcoming year...in 2007, do you anticipate continued economic expansion, a flat economy, or a recession?”

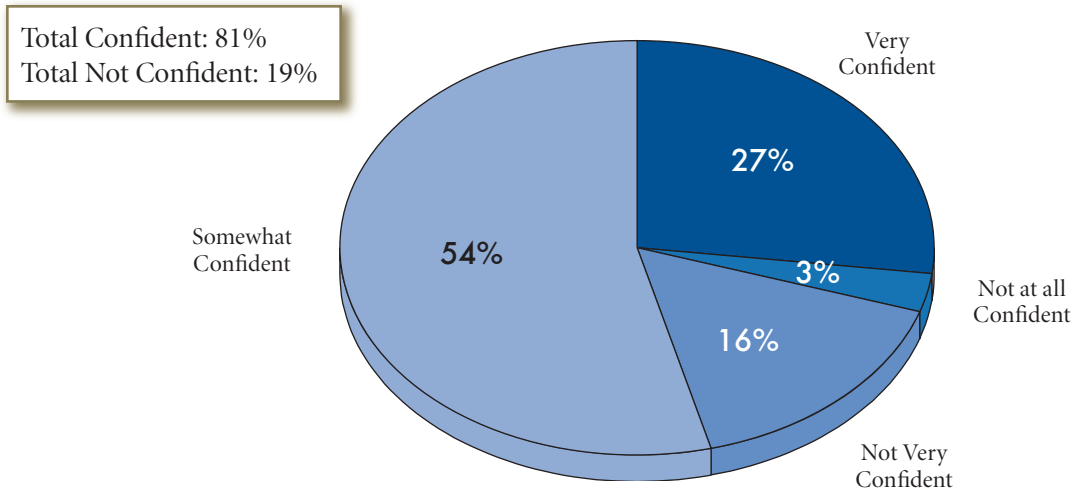
By Industry/Sector



ECONOMIC OUTLOOK

Despite some pessimism about the national economy, respondents express considerable confidence in a bright future for their own business.

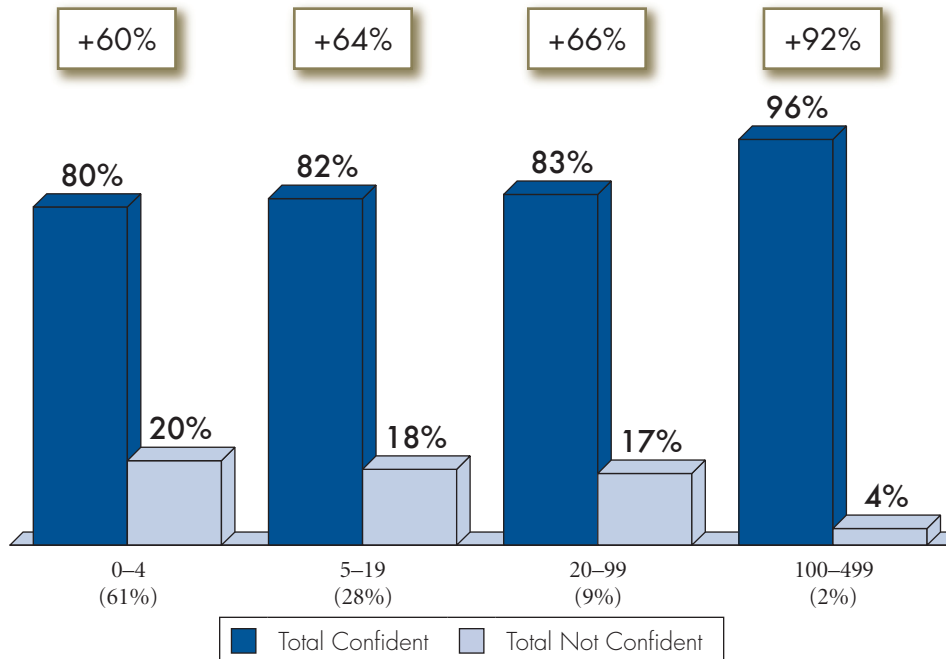
“From a financial perspective, how do you feel right now about the future for your business?”



Even the smallest companies expect good things in their future.

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

By Company Size

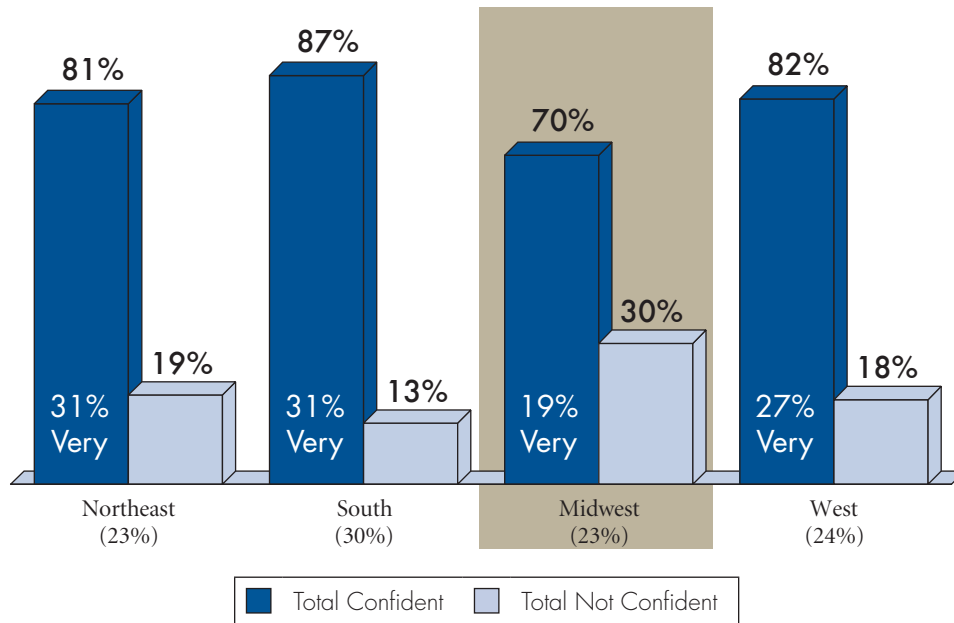


ECONOMIC OUTLOOK

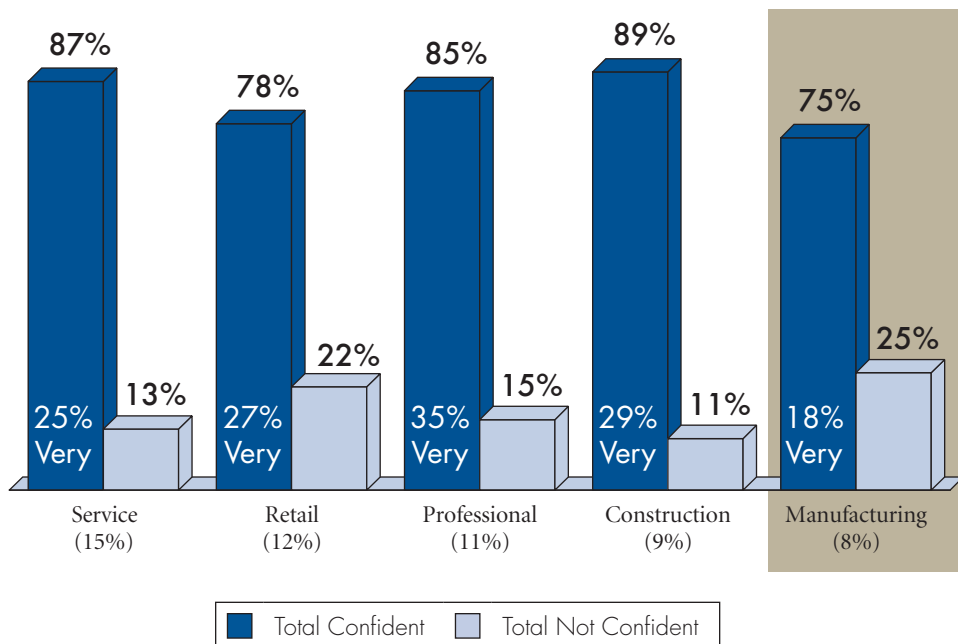
Businesses in the Midwest and in manufacturing are not brimming with quite the same level of confidence.

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

By Region



By Industry/Sector



ECONOMIC OUTLOOK

We asked respondents the following question regarding business planning and operations: *“What are the three most significant challenges to the future growth and survival of your business?”*

The challenges facing these businesses today are much different than they were in 2000. Economic uncertainty, the cost of health insurance benefits, and lack of available capital are big challenges to today’s small and medium-sized businesses.



ECONOMIC OUTLOOK

The smallest businesses are more affected by economic uncertainty and capital availability, while larger companies feel the impact of health care costs and workforce issues.

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

By Company Size

0–4 Employees (61%)	
Economic uncertainty	44%
Lack of available capital	38%
Cost of health insurance benefits	30%

5–19 Employees (28%)	
Cost of health insurance benefits	49%
Economic uncertainty	42%
Lack of qualified workers	29%

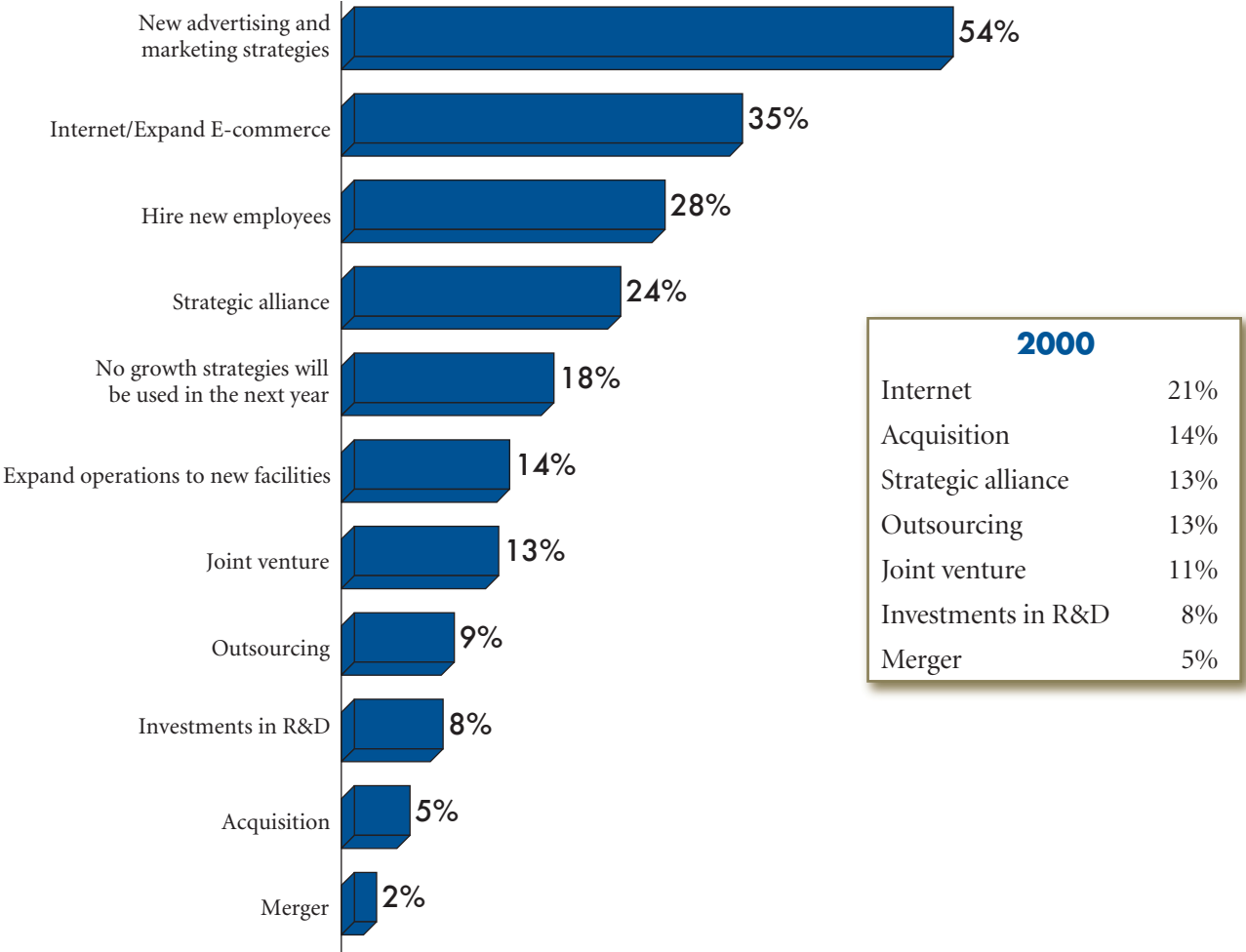
20–99 Employees (9%)	
Cost of health insurance benefits	59%
Lack of qualified workers	45%
Economic uncertainty	31%

100-499 Employees (2%)	
Cost of health insurance benefits	57%
Lack of qualified workers	47%
Cost of other employee benefits	31%

ECONOMIC OUTLOOK

Added as a new category this year “new advertising and marketing strategies” tops the list of growth strategies for small and medium sized businesses in the coming year.

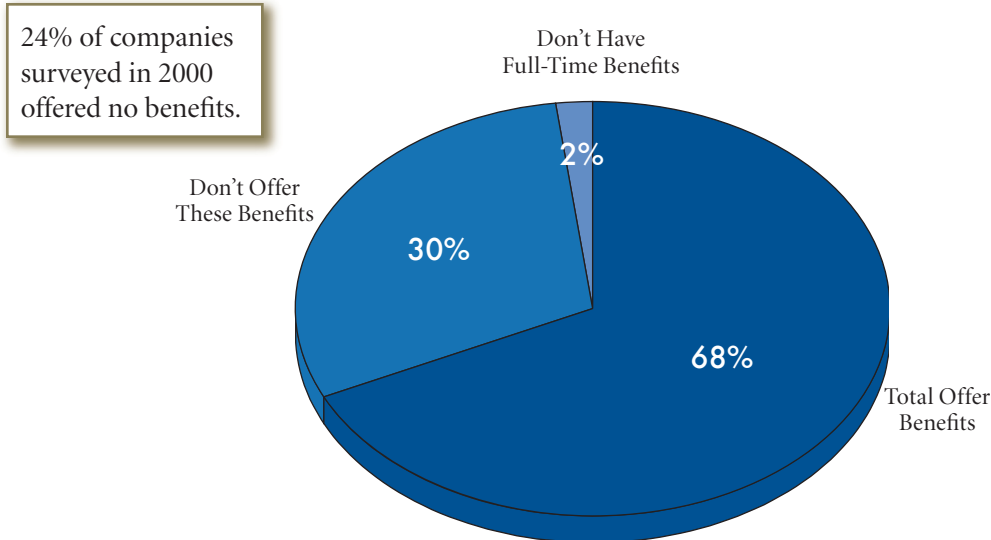
“Which of the following growth strategies will you use in the NEXT 12 MONTHS?”



EMPLOYEE AND LABOR ISSUES

Nearly seven out of ten companies offer some type of employee benefit. But 30% offer no benefits, up from 24% in 2000.

“Thinking now about employee benefits, which of the following do you offer to your full-time employees?”



Benefits Offered	
Paid vacation	44%
Health/medical insurance	41%
Bonus	39%
Flex-hours	35%
Paid sick leave	28%
Pension Plan/401(k)/SIMPLE Plan/SEP	22%
Employee leave	19%
Telecommuting/Work at home	19%
Dental insurance	17%
Profit-sharing plan	12%
Parental leave—unpaid	12%
Tuition reimbursement/College savings plan	8%
Parental leave—paid	4%
Stock ownership plan	3%
Child care reimbursement	1%
Elder care reimbursement	1%

EMPLOYEE AND LABOR ISSUES

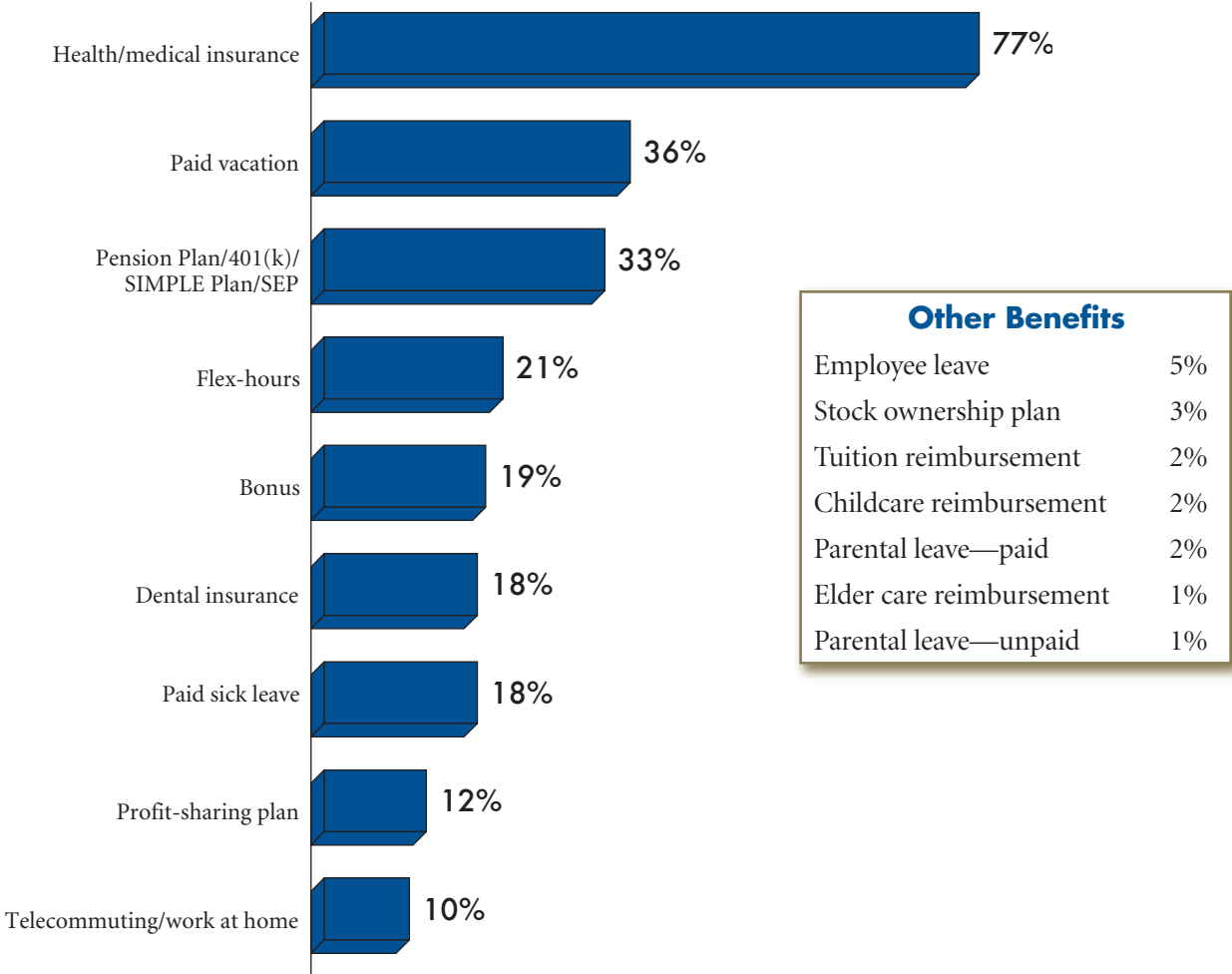
The drop-off since 1993 in companies offering health benefits is fairly stunning.

	1993	1994	1995	1996	1997	2000	2007	Change from 2000–2007
Health/medical insurance	61%	63%	67%	63%	58%	51%	41%	–10
Bonus	43%	47%	49%	53%	55%	*	39%	n/a
Flex-hours	34%	34%	32%	35%	36%	41%	35%	–6
Paid sick leave	44%	48%	52%	45%	45%	*	28%	n/a
Pension Plan/401(k)	21%	29%	28%	29%	28%	28%	22%	–6
Employee leave	18%	21%	22%	15%	19%	27%	19%	–8
Work at home	*	*	*	9%	12%	16%	19%	3
Dental insurance	22%	25%	25%	26%	*	*	17%	n/a
Profit-sharing plan	16%	20%	20%	23%	19%	15%	12%	–3
Parental leave—unpaid	17%	20%	18%	17%	16%	16%	12%	–4
Tuition reimbursement	15%	17%	19%	19%	14%	*	8%	n/a
Parental leave—paid	5%	5%	7%	6%	*	*	4%	n/a
Stock ownership plan	4%	6%	6%	4%	3%	3%	3%	0
Child care reimbursement	2%	3%	2.5%	1.8%	3%	3%	1%	–2
Elder care reimbursement	*	1%	0.5%	0.1%	0.3%	1%	1%	0

EMPLOYEE AND LABOR ISSUES

Being able to provide health/medical insurance is the most important benefit companies feel they can offer.

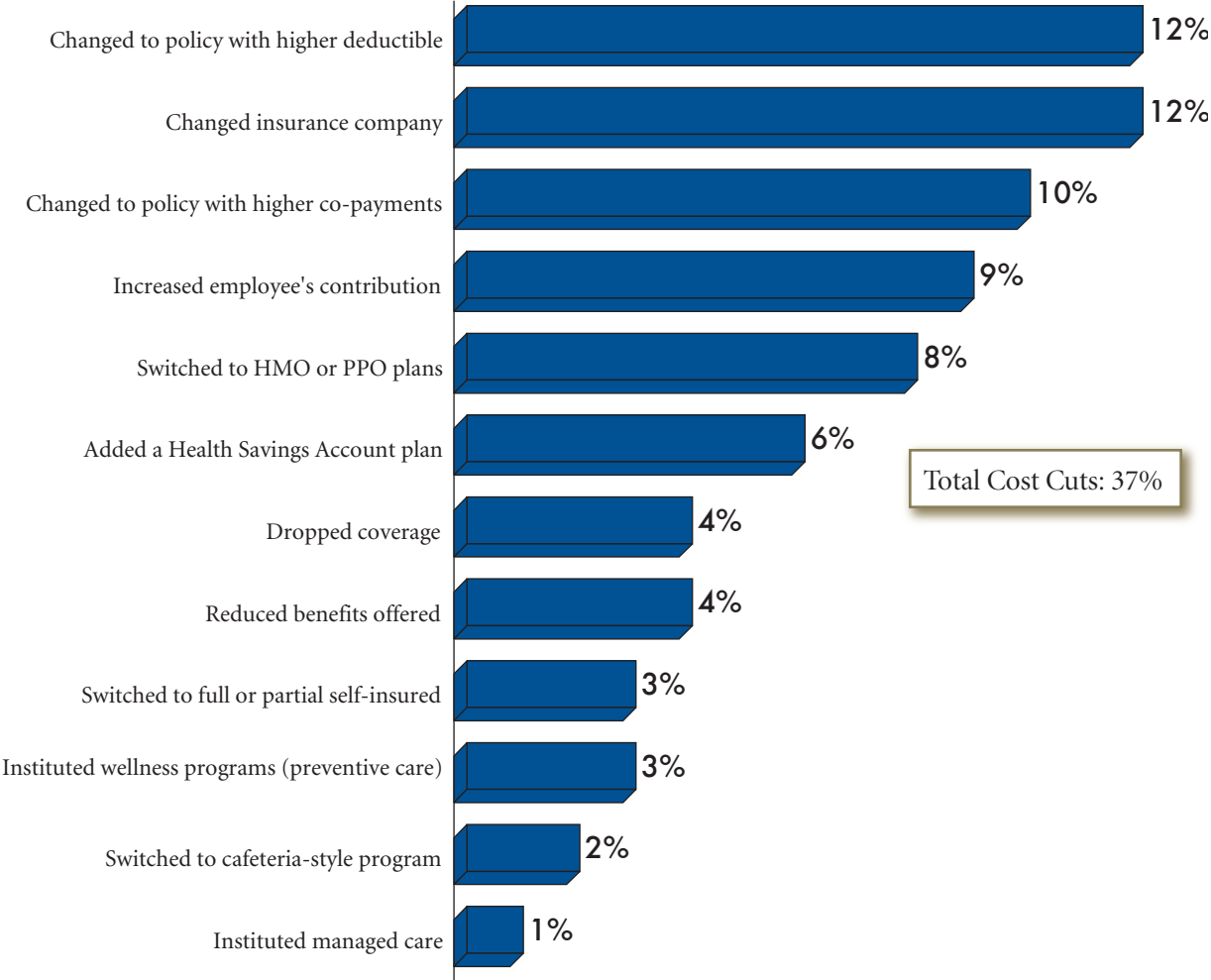
“Thinking some more about employee benefits...what would you say are the two or three most important benefits, regardless of whether your company is currently able to provide the benefit, to prospective employees at your company?”



EMPLOYEE AND LABOR ISSUES

Companies are trying to get by without taking any cost-cutting measures with respect to health care, but over one-third have had to take some action.

“In order to better manage health care costs, has your company done any of the following within the LAST 12 MONTHS?”

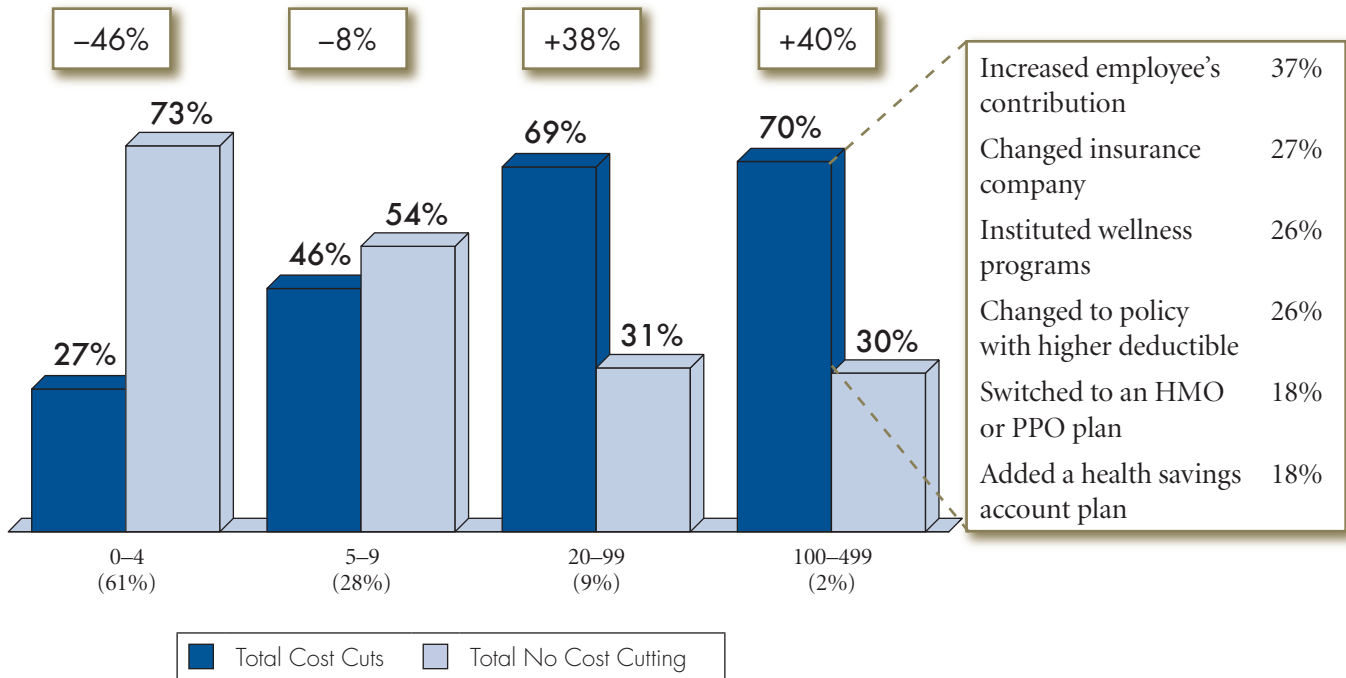


EMPLOYEE AND LABOR ISSUES

Bigger companies are the ones taking more drastic steps.

“In order to better manage health care costs, has your company done any of the following within the LAST 12 MONTHS?”

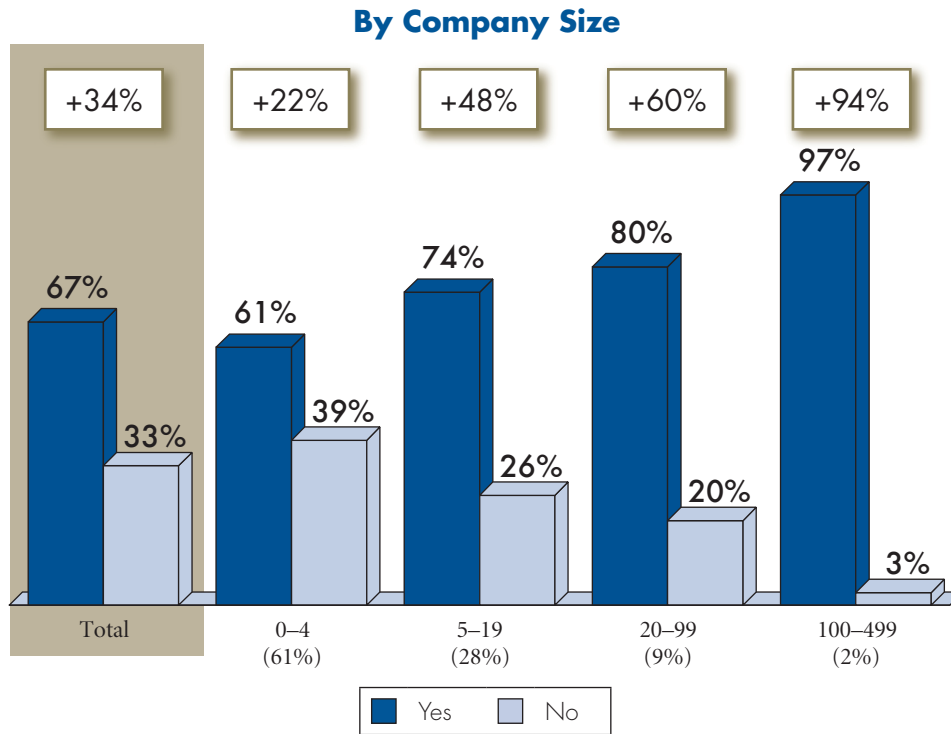
By Company Size



FINANCING

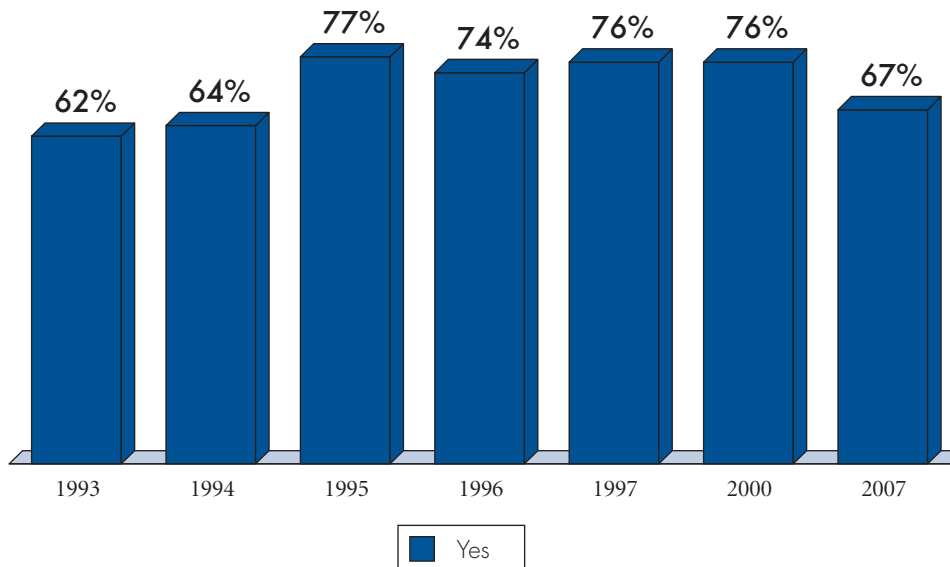
Naturally, the smallest businesses struggle a bit more to get financing.

“Is your business able to obtain adequate financing?”



Businesses in 2007 are less likely to get adequate financing than they were ten years ago.

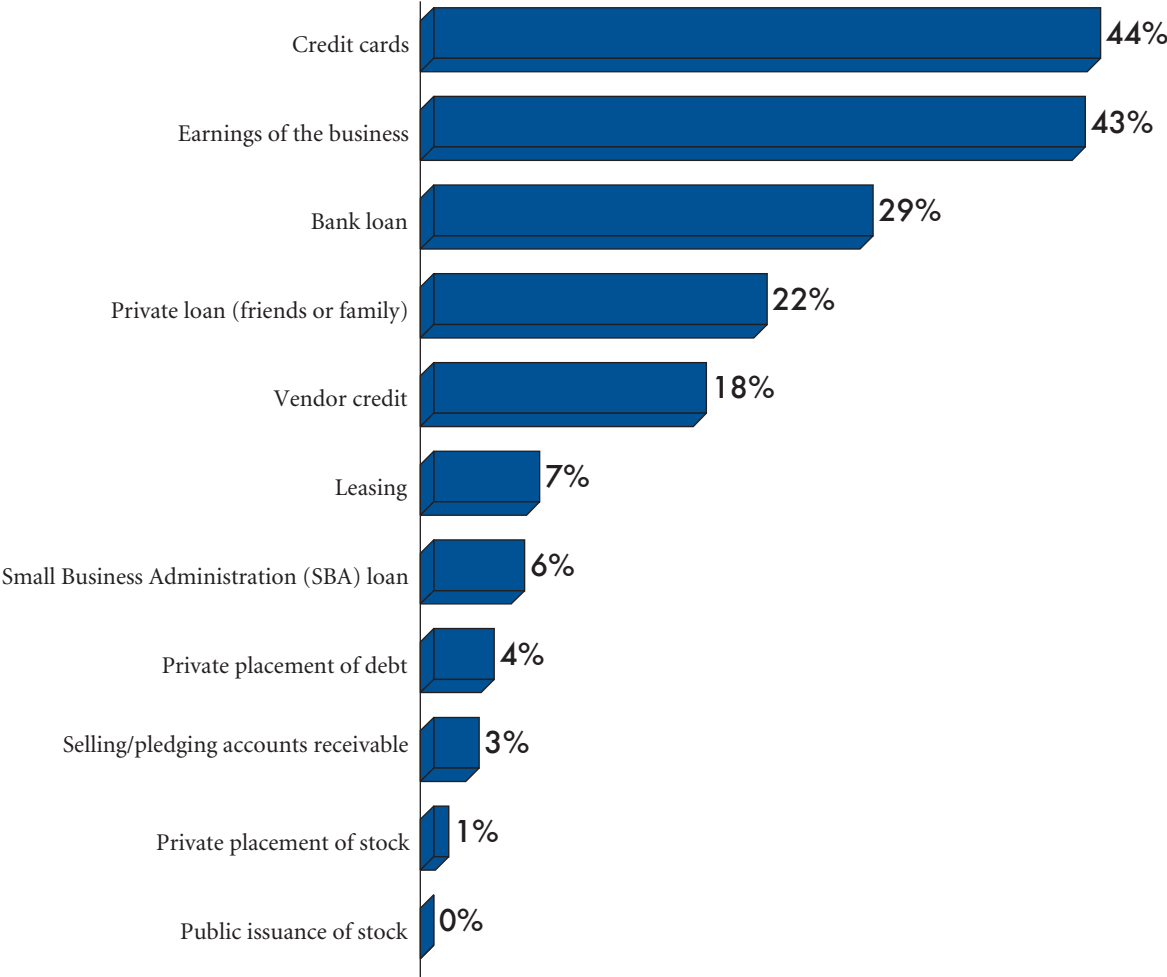
“Is your business able to obtain adequate financing?”



FINANCING

Businesses use a multitude of financing options to meet their capital needs, with credit cards topping the list.

“What types of financing has your company used within the LAST 12 MONTHS to meet your capital needs?”



FINANCING

Bigger businesses can rely on bank loans and their earnings, while smaller companies come to depend more on credit cards and private loans.

“What types of financing has your company used within the LAST 12 MONTHS to meet your capital needs?”

By Company Size

0–4 Employees (61%)	
Credit cards	43%
Earnings of the business	37%
Private loan	23%

5–19 Employees (28%)	
Earnings of the business	50%
Credit cards	45%
Bank loan	41%

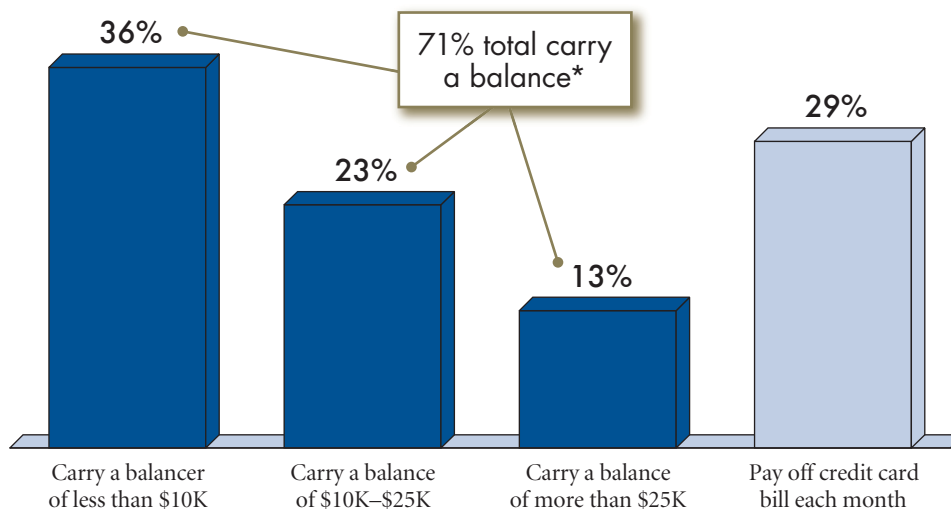
20–99 Employees (9%)	
Bank loan	55%
Earnings of the business	55%
Credit cards	51%

100–499 Employees (2%)	
Bank loan	57%
Earnings of the business	47%
Small business administration loan	31%

Companies using a credit card are carrying pretty substantial balances month-to-month.

“Thinking about your business’ credit cards...”

Do you carry a balance of less than \$10,000, carry a balance of \$10,000–\$25,000, carry a balance of more than \$25,000, or pay off your credit card bill each month?”



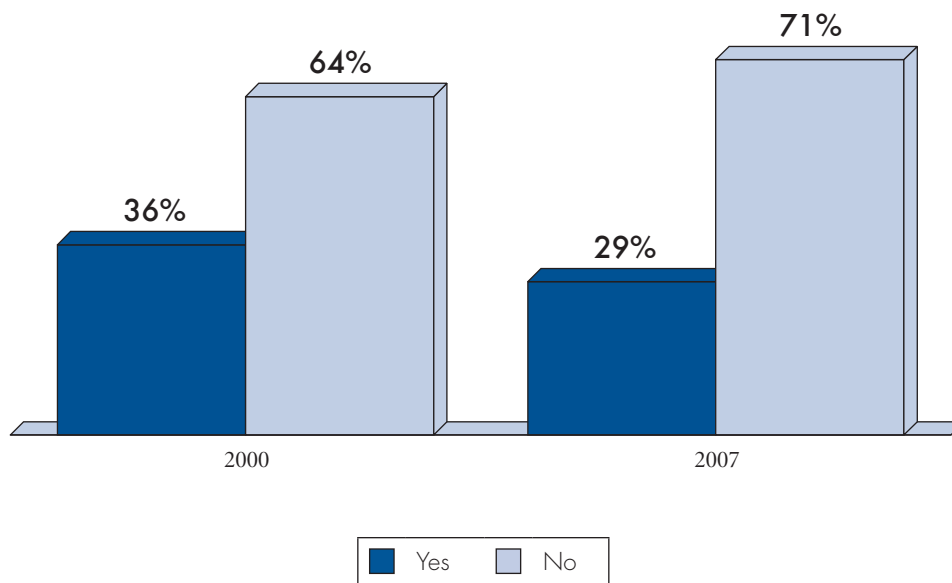
N = 221.

* Denotes rounding.

FINANCING

Fewer companies using credit cards today are paying them off each month than they were seven years ago.

“Thinking about your business’ credit cards...Do you pay off your credit card bill each month?”

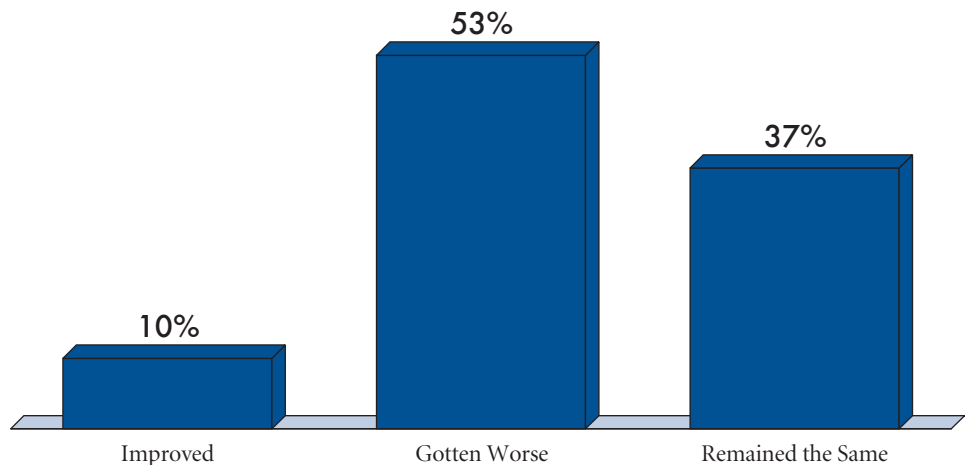


Perceptions are that credit card terms are also getting worse.

“What is the approximate annual interest rate you are charged on your primary business credit card?”

“Do you believe that the terms on your business credit cards, including interest rates, late fees, time to pay in full, etc., have improved, gotten worse, or remained about the same over the last five years?”

Mean: 13.0
Median: 12.0



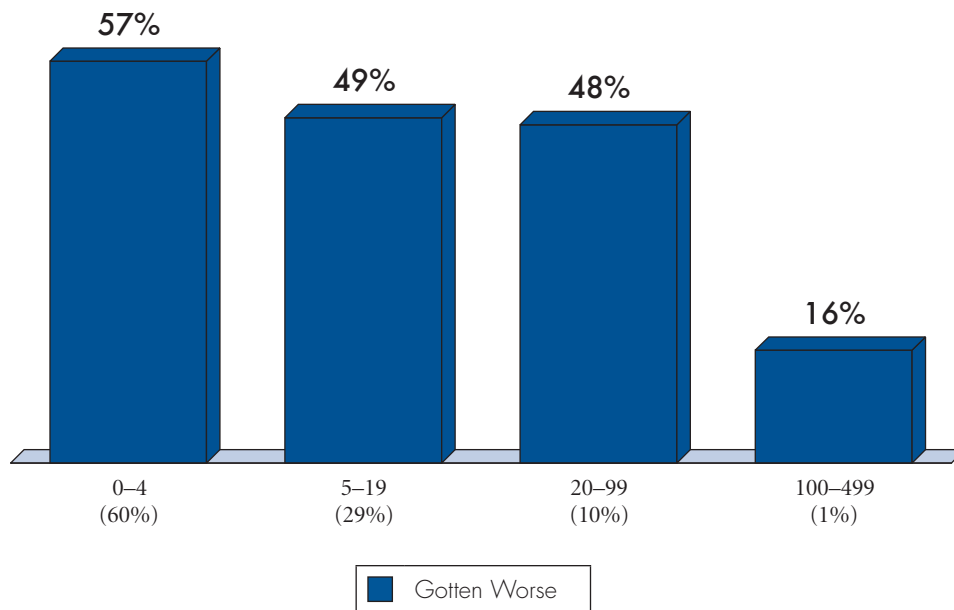
N = 221.

FINANCING

And for the smallest companies who are most likely to finance their capital needs with credit cards, their terms are definitely getting worse.

“Do you believe that the terms on your business credit cards, including interest rates, late fees, time to pay in full, etc., have improved, gotten worse, or remained about the same over the last five years?”

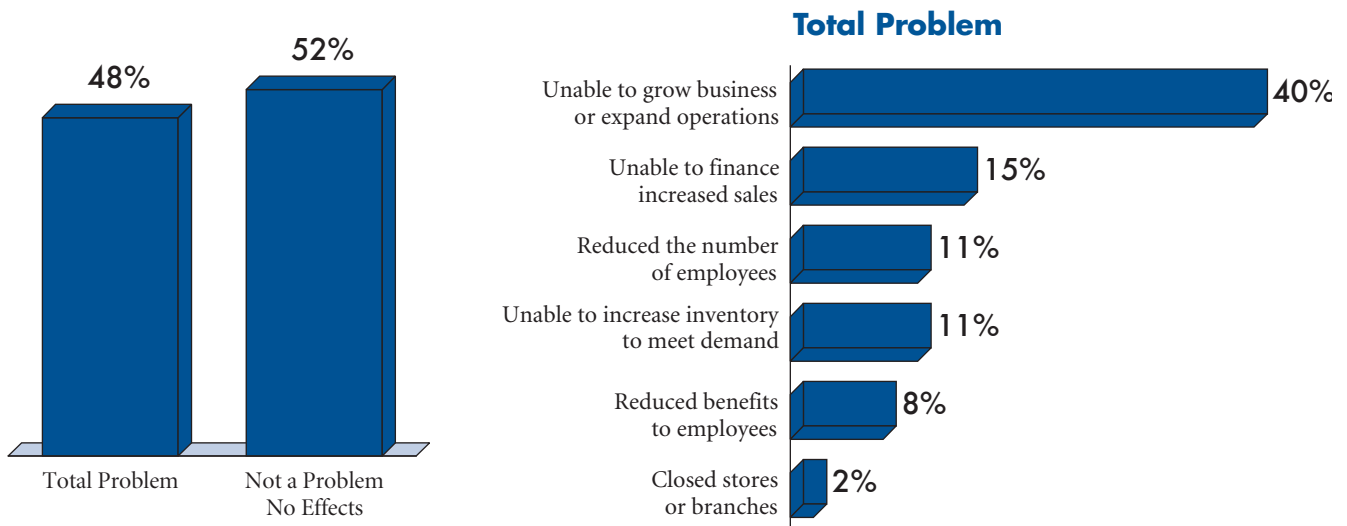
By Company Size



N = 221.

When capital is not available, business expansion is stymied.

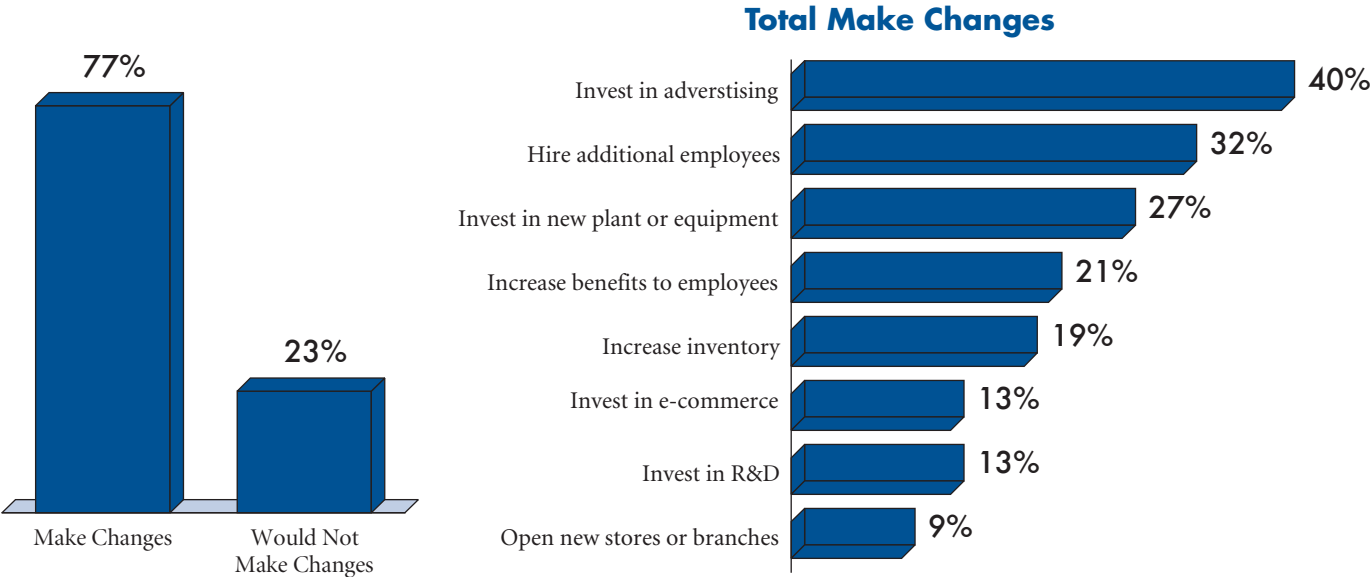
“If capital availability is a problem for your business, what is the effect on your operations?”



FINANCING

Businesses would make changes and look to grow if additional capital was available.

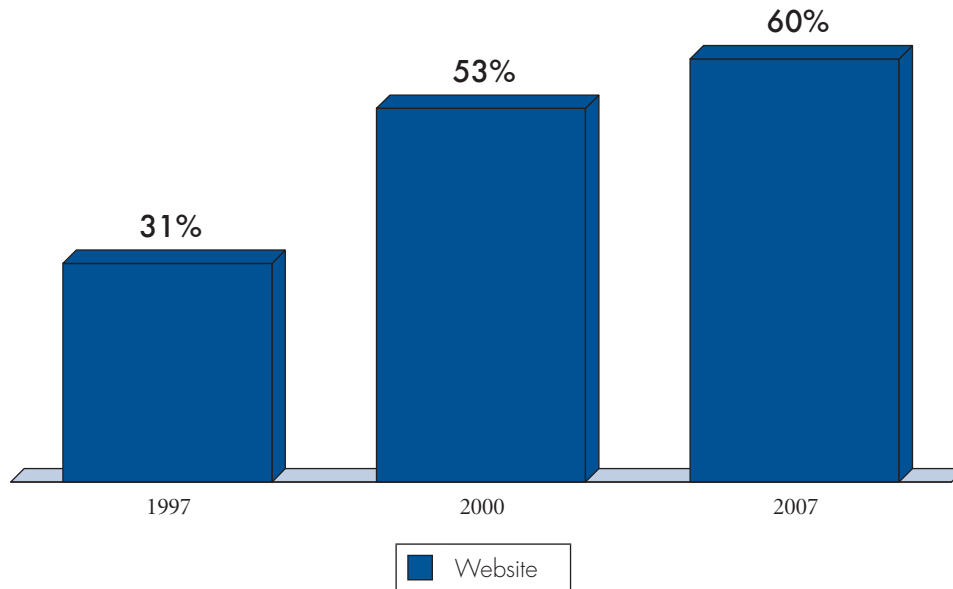
“If you were able to obtain additional capital for your business, what are the first three actions that you would take?”



TECHNOLOGY/E-COMMERCE

Trend for Website Use

“Do you have a website for your business? That is, do you have a domain name such as www.mycompanyname.com or www.mycompanyname.net that is used by your business as a company website?”

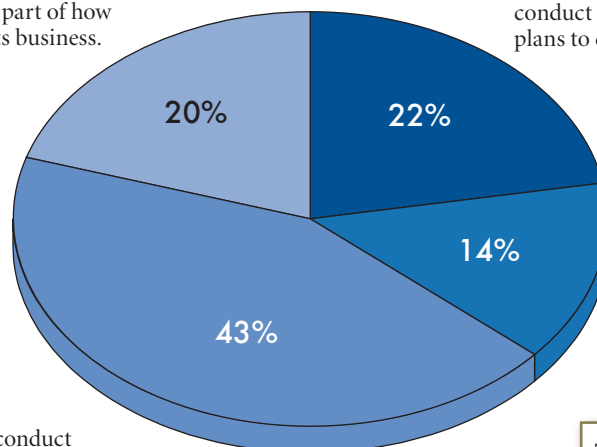


Just over one-third of small businesses surveyed are using e-commerce.

“Which of the following best describes your company’s use of e-commerce?”

Your company conducts e-commerce, but it is not an integral part of how your company conducts business.

Your company does not currently conduct e-commerce, nor do you have plans to conduct e-commerce next year.



E-commerce is an integral part of how your company conducts business.

You do not currently conduct e-commerce, but are implementing e-commerce applications in the next year.

Total E-Commerce: 36%
Total No E-Commerce: 64%*

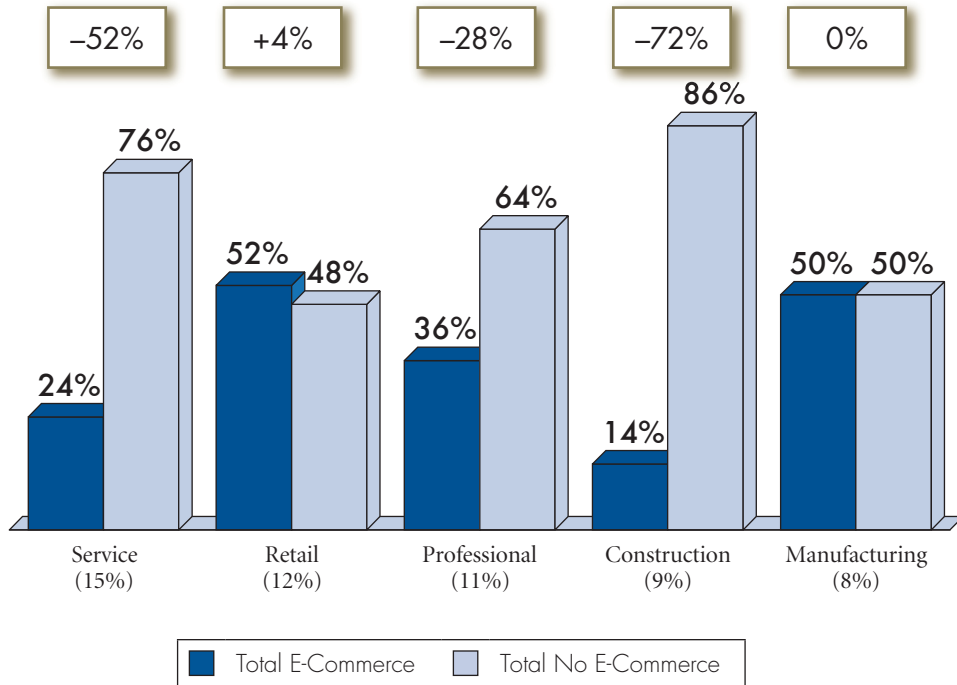
* Denotes rounding.

TECHNOLOGY/E-COMMERCE

E-commerce is a more natural fit for some of these industries compared to others.

“Which of the following best describes your company’s use of e-commerce?”

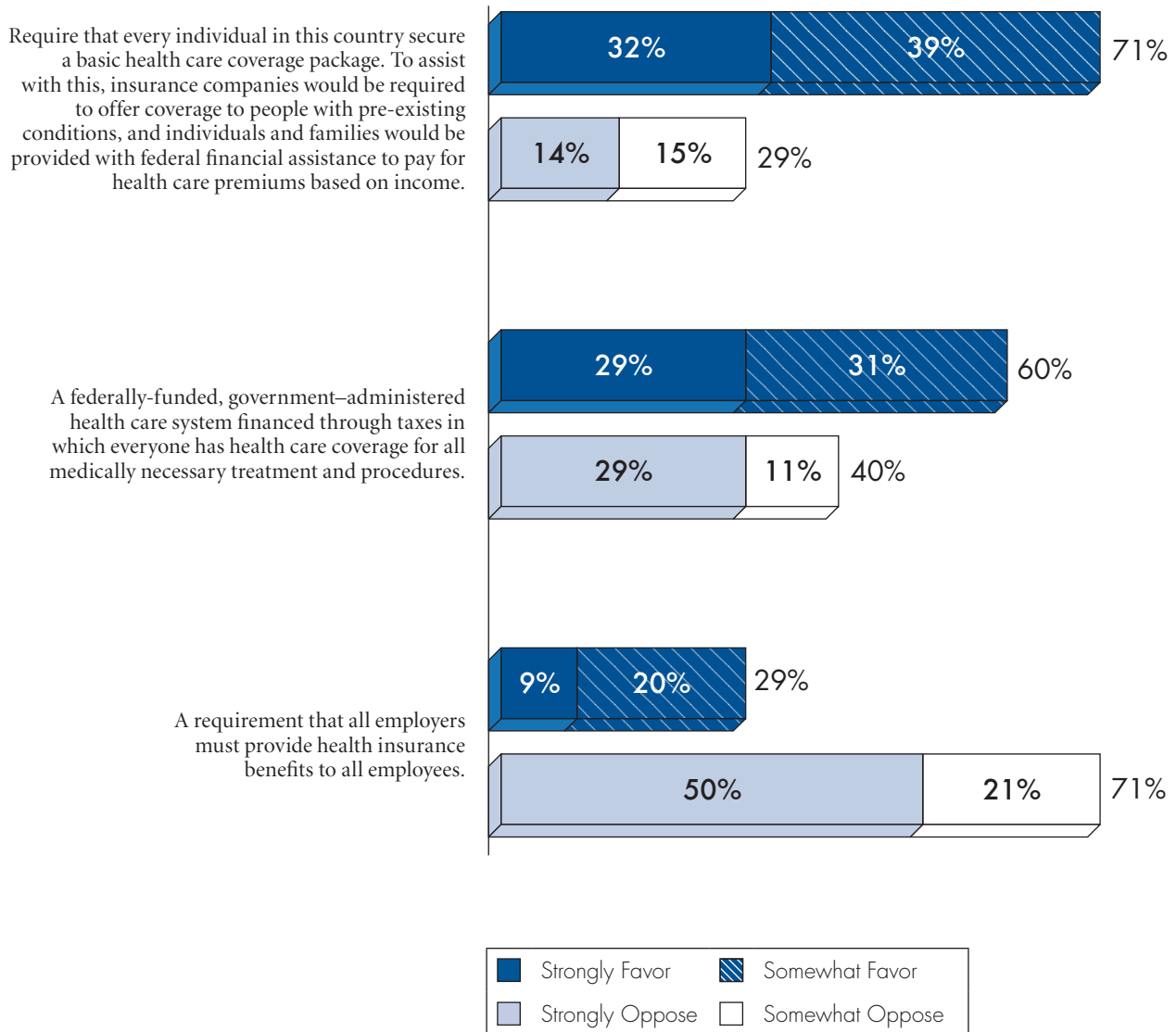
By Industry/Sector



PUBLIC POLICY

Businesses express their support for ensuring every individual has health coverage, but reject a government mandate on businesses to provide it.

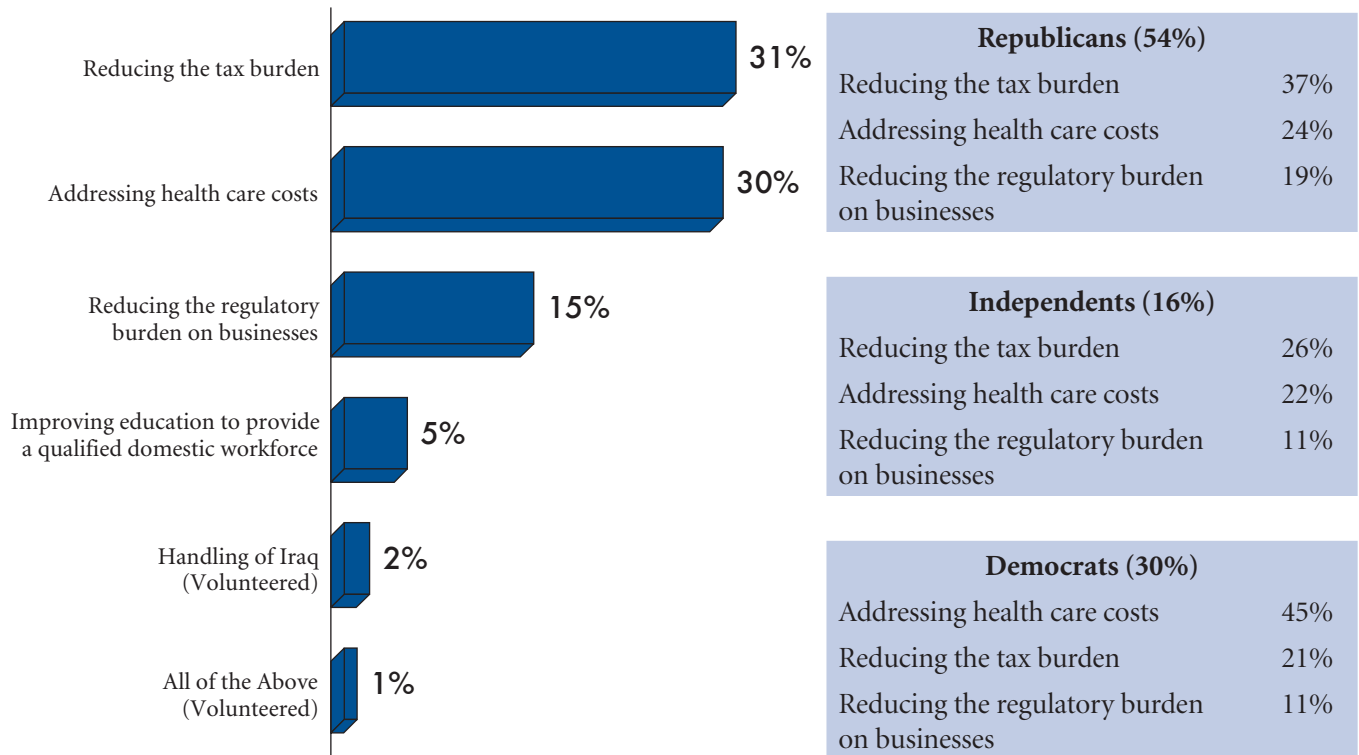
“Thinking some more about health care reform. Please read the health care reform proposals listed below. After I read each one, please check off if you strongly favor, somewhat favor, somewhat oppose, or strongly oppose that proposal.”



PUBLIC POLICY

Health care and taxes are issues the small and mid-sized business communities would like to see addressed in the next presidential election.

“And, which one of the following issues would be most important to your business as you consider who you might vote for in the next election for President?”



N=447 (results shown off of total base N=500).



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