

# State of Small Business and Entrepreneurship

a report of small business  
activity and promise  
in North Carolina

The University of North Carolina's



North Carolina's Business and  
Technology Extension Service

The SBTDC is administered by  
NC State University on behalf of  
The University of North Carolina System  
and operated in partnership with the  
US Small Business Administration

## Small Businesses Will Weather the Economic Downturn and Lead Our Recovery

Small businesses play a critical role in our economy. They provide nearly 50% of all private sector employment and contribute half of the state's private, non-farm gross domestic product. They also contribute to business innovation and creativity.

Despite the decline in the national economy, we expect our highly diverse and energetic small businesses to continue their historic success here. North Carolina recently was recognized as having the country's top business climate for the fourth year in a row, and for seven of the past eight years. This positive business climate extends to our entrepreneurial companies as well. A recent *American Business Journal* study recognized Raleigh and Charlotte as the top two major cities in which to start a business, and many of our smaller metro areas also are among the best places to live and work in America.

Our commitment to education and workforce development, as well as our natural and cultural resources, should help us continue this trend. We are blessed, as well, with an excellent network of business growth and development resources. These include:


- The One North Carolina Small Business Fund - providing incentive matching awards to small businesses that secure federal R&D contracts - administered by the Board Science and Technology.
- The Green Business Fund - launched under my direct support, providing grants to small firms with innovative renewable energy and clean technology products - administered by the Board of Science and Technology.
- The IMAF Family of Funds - providing very early-stage capital through angel investor funds at six locations across North Carolina - established with the direct support of the Small Business and Technology Development Center.
- The Rural Venture Fund - providing equity and near-equity growth capital for existing businesses in low-wealth counties - administered by the North Carolina Rural Center.
- Management counseling, training and technical assistance for businesses of all sizes from the Community College Small Business Center Network, the University system's SBTDC and the NCSU Industrial Extension Program.
- The NC Department of Commerce's Business Service Center.

The NC Department of Commerce recently launched "Business Link North Carolina" (BLNC). Developed with a team from the Commerce Department, the Small Business and Technology Development Center (SBTDC), NC State and other organizations, BLNC will optimize collaboration among service resources and significantly enhance public awareness of these resources and quick access to the right resource for individual business needs.

I know we can continue to count on the talent and energy of our innovative and hard-working small business owners and employees, and the outstanding services that support them, for North Carolina's future growth and prosperity.



**Bev Perdue**  
Governor

Sincerely,  
  
Bev Perdue

# High Impact Firms Important to Our Economy

Lee Cornelison and Scott Daugherty



**Lee Cornelison**  
District Director  
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**H**igh-impact firms are important in North Carolina as they contribute to the majority of overall economic growth. According to the SBA Office of Advocacy study, *High-Impact Firms: Gazelles Revisited*, on average, these firms represent between 2 and 3 percent of all firms, exist in all industries, and account for almost all employment and revenue growth in the economy. While some industries have a higher percentage of these firms, they are not limited to high-technology industries. The study defines high-impact firms as an enterprise whose sales have doubled over the most recent four-year period and have an employment growth quantifier of two or more. On average, high-impact firms are smaller and younger than other firms.

From 2002 to 2006 there were 376,605 high-impact firms in the United States. From 1994-2006, businesses with less than 20 employees represented almost 94% of high-impact firms and 33.5% percent of job growth among high-impact firms. Firms with 20 to 499 employees represented 5.9% and 24.1% respectively. In the four years after a high-impact firm undergoes high-growth, only 3% fail.

North Carolina contributed 11,253 firms (3%) to this number and ranked 16<sup>th</sup> in the nation for distribution of high-impact firms. Of the nation's 52 largest metropolitan areas, Raleigh-Durham-Chapel Hill and Charlotte-Gastonia-Rock Hill ranked 2<sup>nd</sup> and 5<sup>th</sup>, respectively, in the nation for high-impact firm distribution. The Greensboro-Winston-Salem-High Point area ranked 22<sup>nd</sup>.

High-impact firms are fairly strong resulting in high growth and lower job losses during economic downturns. They interact with the economy through innovation, productivity growth, or employment change. Data from the study suggests that local economic development officials would benefit from recognizing the value of cultivating high-growth firms versus trying to increase entrepreneurship overall or utilizing resources to attract relocating companies.

**Source** - *High-Impact Firms: Gazelles Revisited*, SBA Office of Advocacy, June 2008

<http://www.sba.gov/advo/research/rs328tot.pdf>



**Scott Daugherty**  
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Large MSAs	State	Rank	# of High-Impact Firms	Total Firms	% High-Impact Firms
Norfolk-Virginia Beach-Newport News	VA-NC	1	1,813	70,323	2.58
<b>Raleigh-Durham-Chapel Hill</b>	<b>NC</b>	<b>2</b>	2,124	84,618	2.51
Phoenix-Mesa	AZ	3	4,932	197,548	2.50
Pittsburgh	PA	4	2,675	109,040	2.45
<b>Charlotte-Gastonia-Rock Hill</b>	<b>NC-SC</b>	<b>5</b>	2,389	97,753	2.44

*Of the nation's 52 largest metropolitan areas, Raleigh-Durham-Chapel Hill and Charlotte-Gastonia-Rock Hill ranked 2<sup>nd</sup> and 5<sup>th</sup>, respectively, in the nation for high-impact firm distribution.*

# Small Business Employment

in North Carolina

## How many small businesses are located in North Carolina and how many people do they employ?

There were an estimated 757,349 small businesses in North Carolina in 2005. There were 173,854 employer businesses, and 98 percent were small (with fewer than 500 employees).

In 2005, small businesses (those with fewer than 500 workers) employed 48.4 percent of the state's 3,469,968 non-farm-sector employees.

In 2005, North Carolina had 22,335 new firms with employees, 5.0 percent more than the previous reporting period.

Between 2004 and 2005, small businesses in North Carolina added a net total of 26,767 employees.

SOURCE: US Department of Commerce, Census Bureau

## Are rural businesses successful?

North Carolina's 85 rural counties contribute significantly to the state's economy: between 1998 and 2002, rural businesses with fewer than 50 employees (95 percent of all rural small businesses) generated \$14.5 billion in wages annually and provided jobs for 614,000 people.

Businesses with fewer than 50 employees in North Carolina's 85 rural counties created 26,760 new jobs and added \$2.3 billion to their payrolls between 1998 and 2002.

SOURCE: North Carolina Rural Economic Development Center (2003)

selected North Carolina INDUSTRIES	NON-EMPLOYER ESTABLISHMENTS	EMPLOYER FIRMS			EMPLOYMENT		
		Total	<500	Percentage of "small" firms	Total	<500	Percentage of "small" firms
Construction	96.4	27.6	27.4	99.3%	242.1	207.3	85.6%
Manufacturing	9.0	8.9	8.2	92.1%	535.7	187.3	34.9%
Wholesale trade	10.8	9.9	9.3	93.9%	170.3	97.3	57.1%
Retail trade	54.0	22.7	22.2	97.8%	467.1	181.3	38.8%
Finance, Insurance, & Real Estate	90.6	15.3	14.8	96.7%	240.2	81.1	33.7%
Professional, scientific, and technical services	71.3	20.5	20.1	98.0%	196.3	123.0	62.6%
Healthcare/social assistance	38.6	16.3	16.0	98.2%	488.0	243.1	49.8%
Accommodation/food services	7.1	12.9	12.6	97.7%	331.4	199.4	60.1%
Other services	161.7	33.3	32.3	97.0%	580.0	281.3	48.5%
All other industries	65.1	11.9	11.4	95.8%	267.6	104.8	39.1%
<b>TOTAL</b>	604.6	179.3	174.3	97.2%	3,518.7	1,705.9	48.5%

**Small firms (<500 employees) play a significant role in several key North Carolina industries**

*Firms and employment in North Carolina by industry and firm size (in thousands)*

SOURCE: US Department of Commerce, Census Bureau

## The Annual State of Small Business and Entrepreneurship

Please address comments or suggestions to the editor at SBTD, 5 West Hargett Street, Suite 600, Raleigh, NC 27601-1348.



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## CREDITS:

All facts — unless otherwise referenced — are from the US Small Business Administration's Office of Advocacy.

SBA publications used in this report include:

- 2008 Small Business Profile: North Carolina
- Frequently Asked Questions (2007)

# Women and minority business ownership

# High-tech businesses

## WOMEN-OWNED BUSINESSES

Women-owned businesses totaled 173,921 of which 14.6 percent (25,539) had employees (as of 2002, the latest year for which these preliminary estimate statistics are available).

Women-owned businesses with employees generated an estimated \$23.5 billion in revenues in 2002, the most recent year for which statistics are available.

SOURCE: US Department of Commerce, Census Bureau

In 2003, self-employed women totaled 85,117, or 33.8 percent of self-employed workers in North Carolina.

SOURCE: US Department of Labor, Bureau of Labor Statistics

## MINORITY-OWNED BUSINESSES

Of the 81,059 minority-owned businesses in North Carolina, 14.8 percent had employees as of 2002, the latest date for which these figures are available (preliminary estimate).

SOURCE: US Department of Commerce, Census Bureau

Minority-owned businesses represented 12.6 percent of North Carolina's businesses and generated \$6.7 billion in revenues in 2002 (preliminary estimate).

North Carolina employs 145,200 high-tech workers (16th nationally). The tech industry gained 2,900 new jobs between 2005 and 2006.

High-tech firms in North Carolina employed 44 of every 1,000 private-sector workers in 2006 (25<sup>th</sup> nationwide).

North Carolina's high-tech workers earned an average wage of \$72,300 (or 94 percent more than the average private-sector worker's wage) in 2006.

North Carolina's high-tech payroll (\$10.5 billion in 2006) ranked 15<sup>th</sup> nationally.

Nationally, North Carolina ranked 6<sup>th</sup> in communications equipment manufacturing with 8,200 jobs; 6<sup>th</sup> in computer and peripheral equipment with 14,000 jobs; and 11<sup>th</sup> in Internet services with 11,800 jobs.

SOURCE: *Cyberstates 2007: A State-by-State Overview of the High-Technology Industry* (American Electronics Association, 2007)

EMPLOYMENT SIZE	# OF FIRMS	PERCENTAGE OF TOTAL FIRMS	PAID EMPLOYEES	ANNUAL PAYROLL (thousands)
0-4 employees	101,763	59.8%	167,714	\$5,508,538
5-9 employees	30,918	18.1%	202,931	\$5,479,381
10-19 employees	18,624	10.9%	247,591	\$6,547,738
20-99 employees	16,088	9.4%	578,071	\$17,231,774
100-499 employees	3,549	2.1%	455,769	\$14,553,375
500+ employees	3,310	1.9%	1,757,892	\$65,933,273
ALL FIRMS	173,854	N/A	3,409,968	\$115,740,410

**Small firms account for 98% of total firms, 49% of paid employees, and 43% of annual payroll in North Carolina**

*Employment size of enterprise for all North Carolina industries*

SOURCE: US Department of Commerce, Census Bureau (2005)

**North Carolina's high-tech payroll in 2006 ranked 15<sup>th</sup> nationally.**

## Job creation

### Small businesses create most new jobs in North Carolina

*Job gains and losses by firm size (in thousands) for non-farm establishments (2004-2005)*

	TOTAL EMPLOYEES	EMPLOYMENT BY FIRM SIZE		
		1-19 employees	1-499 employees	500+ employees
<b>GAINS:</b>				
New establishments	193.4	58.2	106.1	87.2
Expanding establishments	333.2	87.3	190.7	142.5
<b>LOSSES:</b>				
Downsized establishments	-316.9	-67.9	-177.6	-139.3
Closed establishments	-160.8	-47.6	-92.5	-68.3
<b>NET CHANGE in employment</b>	48.9	30.0	26.7	-22.1

Over the past decade, small business net job creation fluctuated between 60 and 100 percent.

## Investment and R&D funding

The North Carolina District Small Business Administration (SBA) office processed 1,454 small business loans totalling \$346 million in FY 2008.

SOURCE: North Carolina's SBA District Office

In 2007, NC companies raised over \$900 million (7th highest nationally) in venture capital, a nearly 72% increase over 2004.

SOURCE: CED, PriceWaterhouseCoopers / Thomas Venture Economics / National Venture Capital Association Survey (2007)

With R&D expenditures of \$6.5 billion in 2004, North Carolina ranked 14<sup>th</sup> nationwide.

SOURCE: *Cyberstates 2007: A State-by-State Overview of the High-Technology Industry* (American Electronics Association, 2007)

Between 2004 and 2007, North Carolina's federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) awards have seen continuous increases. Phase 1 awards have increased from 43 to 61, and win rates have steadily increased to 17.6%. SBIR Phase 1 and 2 awards across all agencies totaled \$31 million, and STTR NIH awards were \$5.3 million with an increase of 85% over 2006. Forty-five of the 61 SBIR award winners for 2007 were SBTDC Clients (74%).

North Carolina had the best business climate nationally in 2007. *Site Selection* magazine surveyed corporate real estate executives and decision makers across the country, and tracked new and expanded business facility activity to determine this.

SOURCE: *Site Selection* magazine (Conway Data, Inc., November 2007)

NC had the best business climate nationally in 2007. (#1 for the 7th time in the last 8 years)

# The Current State of the Economy

Each year in this publication the SBTDC publishes a State of the State's Economy, authored by a renowned North Carolina economist. The purpose is generally to illustrate how North Carolina's small business economy has functioned relative to the rest of the United States and what can be expected in the year ahead. However, at the time of this year's release, the state of North Carolina's small business economy is, well... uncertain.

North Carolina like the rest of the country, and the world for that matter, is in the midst of a global credit crisis whose full effects have not yet been realized. The energy market, particularly oil prices, remains volatile and subject to international conflicts and surging demand from developing countries. Current consumer, business, and investor confidence is down and as long as this remains so, the chance of a swift recovery diminishes. However, there are a few things that we do know: small businesses across the board are feeling the effects of the credit crunch and declining disposable income; typically, there is a bump in the number of new businesses as jobs are cut, but this year difficulties accessing credit may adversely affect the number of new firms. Small businesses will be critical in the recovery.

In the 2007 State of Small Business, Dr. James Kleckley proclaimed "the outlook for the North Carolina economy remains strong, but is heavily dependent upon the economy of the United States as a whole." While a year later we may be hard pressed to find an economist that would call our state's current economy "strong," Dr. Kleckley's assessment of our dependence on the economic health of nation is fully evident. A similar statement could safely be made again this year. So given the unusual level of uncertain this year, we have decided to examine some recent opinion surveys to gauge the feelings of the general public and small business community. The following are excerpts from recent studies and publications:

## **"Americans Believe Entrepreneurs Will Revive Economy, According to Kauffman Foundation Survey. Current financial Crisis deters people from becoming entrepreneurs themselves."**

Americans see entrepreneurship as the answer to the current financial crisis-but worries about the economy are deterring them from taking the first step on that path, according to survey findings released by the Ewing Marion Kauffman Foundation.

"Americans in big numbers are looking to entrepreneurs to rally the economy," said Carl Schramm, president and chief executive officer of the Kauffman Foundation. "More than 70 percent of voters say the health of the economy depends on the success of entrepreneurs, and a full 80 percent want to see the government use its resources to actively encourage entrepreneurship in America."

Despite this confidence in entrepreneurship, Americans personally are reluctant to start their own companies. Seventy-one percent of Americans believe that the economic crisis has made it more difficult to become an entrepreneur. The study shows a gulf between those who see opportunities and those willing to seize them; 49 percent of respondents see opportunities for entrepreneurial ideas in the current economy, but only 26 percent said they would actually consider starting a business within the next five years.

The impact of the current financial situation is hitting people personally:

Only 7 percent of Americans believe that "nothing is at risk" for them personally during this economic meltdown. More than one in three people polled (34 percent) see everything - jobs, homes and investments - as equally vulnerable and at risk during the crisis.

- One in four (26 percent) said the impact of the financial crisis will be "very bad" or "devastating" with another 34 percent saying it will be "pretty bad" for them personally.
- Sixty-four percent of Americans think that Main Street will suffer the most severe consequences from the economic crisis; 16 percent think Wall Street will be hardest hit.

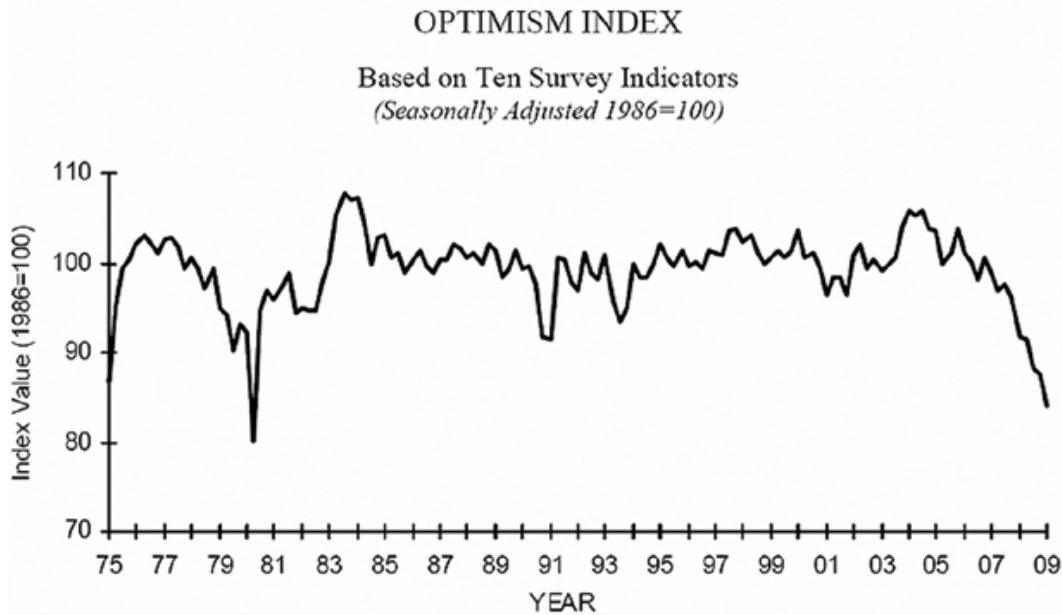
The economic crisis has not dampened American optimism, however. Seventy-five percent of those surveyed said that they are or someday will be living the America Dream.

Because they understand the role of entrepreneurship as a creator of jobs, Americans are looking to business leaders instead of government, by a two-to-one margin, to lead the way out of the economic mess. A majority of people (56 percent) trust small business owners to guide the economy, compared with only 14 percent who trust members of Congress.

While, more than 60 percent of people surveyed support the federal government increasing its regulation of the market, more than a third think Congress is in danger of creating too much regulation as it reacts to this crisis.

"History has repeatedly demonstrated that new companies and entrepreneurship are the way to bolster a flagging economy. The American people understand this," Schramm said.

### NFIB's Small Business Economic Trends, February 2009



### SBA's "Looking Ahead: Opportunities & Challenges for Entrepreneurship & Small Business Owners"

The most obvious challenge facing small business owners right now is the economy. While an official recession has not been declared by the National Bureau of Economic Research, the U.S. economy has been weak and is expected to remain so after the election. Real gross domestic product grew by an annualized 2.8 percent in the second quarter of 2008, mostly due to a sharp increase in exports and increased consumer spending because of economic stimulus checks. Yet, this growth has been one bright spot in an otherwise downbeat economic situation in 2008. As of this writing, we have lost 760,000 nonfarm payroll jobs since December 2007, with losses in each month so far this year, and the unemployment rate has risen to 6.1 percent. Behind the scenes, a series of factors have contributed to extreme levels of individual and small business anxiety, such as rising oil prices, sharp declines in the housing sector, and a weakened financial position of banks and other financial institutions.

For their part, small business owners have struggled, along with their larger counterparts, to weather the economic downturn. The National Federation of Independent Business (NFIB) continues to show that owners are less willing than in previous years to expand their small businesses, to hire additional workers, to invest in new plant and equipment, or to borrow money. In a shift from recent years, their top concern is now inflation (it had been the high cost of health insurance for the past few years). Small businesses have taken a wait-and-see approach to the challenging economic environment, with most postponing the exploration of any new opportunities at least until there are signs that the economy is improving. In the meantime, many firms are looking for ways to streamline their operations or to re-evaluate their business model, paying closer attention to their balance sheet.

Moving forward, it is important to get the economy moving again. Small businesses will be a large part of that, as entrepreneurs will spur new innovation and employment in the coming years. These small firms will continue to be the job-generators that we have become accustomed to.

Within every economic downturn lies a wealth of opportunity; and as in the past, many small businesses and entrepreneurs will seize their chances and emerge more successful. However in an interdependent world, our state's small businesses and North Carolina as a whole are still heavily reliant on the economic conditions facing the rest of the nation. The timing of the US's economic rebound will greatly affect how North Carolina performs in 2009 - and so in a word, the state of the North Carolina's economy is... uncertain.

