

TODAY'S Business Scene

THE NEWSLETTER FOR PRIVATELY HELD BUSINESSES



**Mountain States
Business Brokers**

DO NOT LET THIS HAPPEN TO YOU!

Yet another business scam affecting business sellers has surfaced recently on the east coast. The modus operandi is to acquire a business by purchasing the company's stock with a low down payment, gain control of company assets, factor the businesses' receivables, terminate the employees (many with bad checks as severance), and not deposit withheld federal tax, state tax, medical insurance and other items. Most of the suppliers are either never paid or are paid with bad checks. Deposits are received from customers and orders never shipped. And, finally, they default on any seller financed promissory notes leaving the seller holding a very large (but empty) bag.

This is just one more good reason to engage the services of a professional intermediary when its time to sell. We know when a deal doesn't make sense and have no trouble saying so...to all parties. If you've been approached with a deal like this we'd love to hear about it.

**Ben Mahrle, CBI
Managing Broker**

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The State of the Privately-Held Business

Once a year we take a look at how the privately held business has fared during the year. This year we focus on the growth of small privately held businesses. Small is not what you might think it is, according to how the U.S. Government's Small Business Administration (SBA) looks at the size requirements for small business.

The "Official" Breakdown of U.S. Business

Here is the breakdown by size according to 2003 statistics (the latest available) from the Office of Advocacy. Although the Government does use several factors in their definition of just what a small business is, the main factor seems to be employee size.

US Business	Number of Employees	Percent of Total Number of Businesses
Very Small Business	19 or fewer employees	89.3%
Small Business	20 to 99 employees	9.3%
Medium-Size Business	100- 499 employees	<1%
Large Business	500+ employees	<1%

It should be noted that the Very Small Business category represents almost 90 percent of all businesses, where the other three categories comprise the remaining 10 percent.



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A Historical Look at Small Businesses

Let's take a look at how small business has evolved, or remained the same, over the years.

In reviewing some data from the Office of Advocacy (a branch of the SBA), we see that there really hasn't been any major shift in the growth of small businesses with under 20 employees. We looked at these statistics because we felt that if there were any significant growth of small business, it would be in this sector—those businesses with 19 employees or less.

Because these figures were so static, we also looked at those businesses with just 1 to 4 employees, thinking that maybe it took longer than we thought for small businesses to add employees. We found the same results as you can see below.

Percentage of the Total Number of Businesses with an Annual Payroll

Year	1-4 Employees	Under 19 Employees
2003	47.4%	89.3%
2002	47.3%	89.3%
2001	47.7%	89.0%
2000	47.3%	89.1%
1999	47.8%	89.3%

What does this tell us? It means that the only increase in small business is from the overall increase in the number of businesses in general. Here is the actual increase in the number of total businesses for the following periods.

2002-2003.....	69,368
2001-2002.....	39,985
2000-2001.....	5,230
1999-2001.....	44,801

These are not impressive figures. With all of the hoopla we hear about the growth of small business in general, according to the SBA's own numbers, there is no growth. The increase in the percentage growth of businesses from 2002 to 2003 is slightly over 1 percent.

These figures, if really accurate, are alarming. If the purpose of the SBA is to help businesses grow, something is wrong. The trend, unfortunately, seems to be that big business is getting bigger and small business may be growing smaller.



How Many Small Businesses Open and Close Each Year?

Year	New Firms	Firm Closures	Bankruptcies
1995	594,369	497,246	51,959
2000	574,300	542,831	35,472
2001	585,140	553,291	40,099
2002	589,700*	569,000*	38,500
2003	572,900*	554,800*	35,037

* = Estimate using percentage changes in similar data provided by the U.S. Department of Labor, Employment and Training Administration

Estimates for businesses with employees indicate that there were 572,900 new firms and 584,800 closures (both about 10 percent of the total) in 2003.

Source: The above numbers and comment are from SBA documents.

Looking at the statement above from the SBA, it looks as if the closures outnumbered the new firms by some 12,900. Looking at the numbers from 2000 through 2003, the closures outnumbered the new firms by 45,990.

So much for the growth of small business! Despite what we hear and read, it looks to us as if small business growth – a misnomer at best – is a negative number.

How Many Small Businesses Are There?

There are over 24.7 million business entities filing income tax returns (2004 figures from the Office of Advocacy, part of the U.S. Small Business Administration). However, approximately 77 percent of the 24.7 million businesses had no employees, and almost 60 percent had annual revenues of 25,000 or less. And 99.9 percent of the 24.7 million have 500 employees or less.

Sources: www.bizstats.com, and the Small Business Administration (SBA) data

A Word About the Figures

Several sources have been used for the data below: Bizstats.com, a wonderful site for all sorts of information on business in general; the Small Business Administration and its Office of Advocacy is also a very informative site and one that we relied on for a lot of statistics; InfoUSA is a mailing list firm that produces an informative catalog.

Of course each year brings new numbers, figures, and statistics. However, in comparing the years 1999 to 2003 there doesn't seem to be as much of a change as one would have thought. The same holds true for other data. The problem is that when you cite 2003 data (the latest we could find from the Office of Advocacy), it sounds dated. However, unless you want to round percentages off to the "nth" degree or numbers to the "5th" decimal, the figures remain fairly constant. So, for ballpark purposes, this data, we feel, will provide as accurate an overall picture as possible.



Some Overall Observations

Using these percentages we can see in broad brush strokes about the size of businesses in the U.S.

- Approximate 19 million had no employees, leaving only 5.7 million with one employee or more.
- 14.8 million had annual sales/revenues of \$25,000 or less, leaving only 9.9 million that had annual sales/revenues of more than \$25,000.
- Only about 25,000 businesses had 500 or more employees.

The Breakdown of Business with One Employee or More

# of Employees	# of Businesses	% of Total
0 (See note Below)	77,325	13.4%
1-4	2,734,133	47.4%
5-9	1,025,497	17.8%
10-14	408,652	7.1%
15-19	211,735	3.8%
20-24	130,748	2.3%
20-50	392,284	6.8%
50-100	122,772	2.1%
100-500	84,829	1.5%
500+	16,926	<1%
<20	5,150,316	89.3%
<50	5,542,600	+/- 1%

Note: "Employment is measured in March, thus some firms (start-ups after March, closures before March, and seasonal firms) will have zero employment and some annual payroll. Excludes farms."

The percentages are misleading. The firms with 500+ employees may represent way less than 1% of the total number of firms, but they do have 14 percent of the total number of establishments. And, more importantly, this less than 1 percent of all businesses contributes over 50 percent of the total U.S.'s annual payroll.

Breakdown of the Legal Structure

Bizstats data, as of July 2004, based on government figures, shows that there are 25,007,505 (25 million rounded) businesses filing income tax returns. The breakdown is as follows:

Legal Structure	Number of	% of Total # of Businesses
Sole Proprietorships	17,904,731	71.5%
Partnerships	1,338,796	5.4%
Limited Liability Companies	718,704	2.9%
Corporations	5,045,270	20.2%

The interesting thing about the number of businesses in the U.S. is that it can be almost anything that anyone wants, depending on their wishes. Some people or companies may tell the world that there are over 25 million businesses, and others will say that there are only 5.7 million—and they will both be right.



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- THE "OFFICIAL" BREAKDOWN OF US BUSINESS
- HOW MANY BUSINESSES ARE THERE?

A Breakdown by Number of Employees, Average Revenues, and Average Number of Employees, and the Percentage of the Total Number of Businesses

Number Of Employees Range	Sales Value Amount	Average # Employees	% of Total # Businesses
1-4.....	Less than \$500,000	2.1	47.4%
5-9.....	\$500,000-\$1 million	6.6	17.8%
10-19.....	\$1-\$2.5 million	13.4	10.9%
20-49.....	\$2.5-\$5 million	30.0	6.8%
50-99.....	\$5-\$10 million	64.7	2.1%
100-249.....	\$10-\$20 million	148.7	**
250-499.....	\$20-\$50 million	346.8	**
500-999.....	\$50-\$100 million	688.3	**

Note: We did not include those businesses that had some payroll such as seasonal businesses and business closures: total number was 770,299 firms, which represented 13.4 percent of the total number—5,767,127. The ** represents less than 2 percent of all businesses; however, the actual percentage is much less. In order to arrive at the above percentages, we had to combine some categories, thus altering the percentages, but only slightly.

If we look at the 1-4 employee category, the average number of employees is actually 2.1 employees—a far cry from 4 employees. In fact, the average number of employees in each category is considerably less than the top number used. This is not some sleight of hand math trick, but rather just a division of the number of businesses by the total number of employees for the category. No matter how you structure the employee size, the average would work out to be considerably less. The sleight of hand is the way we look at each category. When we look at the 1-4 employee category, we tend to think 4 employees, when the actual average is only 2.1. Just as when one looks at the average number of employees for all businesses with under 100 employees—it's only 7.2. When the 1-4 category represents 47 percent of all businesses and the average is only 2.1, the numbers can be skewed.

