



Survey Report

Survey Finds Considerable Optimism among Small Businesses on Boston's North Shore *North Shore small businesses projecting job increases in 2010*

Businesses in Essex County, Massachusetts—and particularly smaller businesses—are much more likely to be positive than negative about the coming year. Many of them expect to grow during that time. And 31% of businesses surveyed plan to add at least one employee during the next 12 months. These findings and others come from an on-line survey fielded by The Enterprise Center at Salem State College in October and November 2009.

The survey link was e-mailed to 3,693 businessmen and women on the Enterprise Center's mailing list. 459 responded in time to be included in the analysis. It is likely that the respondents are somewhat more optimistic than the business community as a whole:

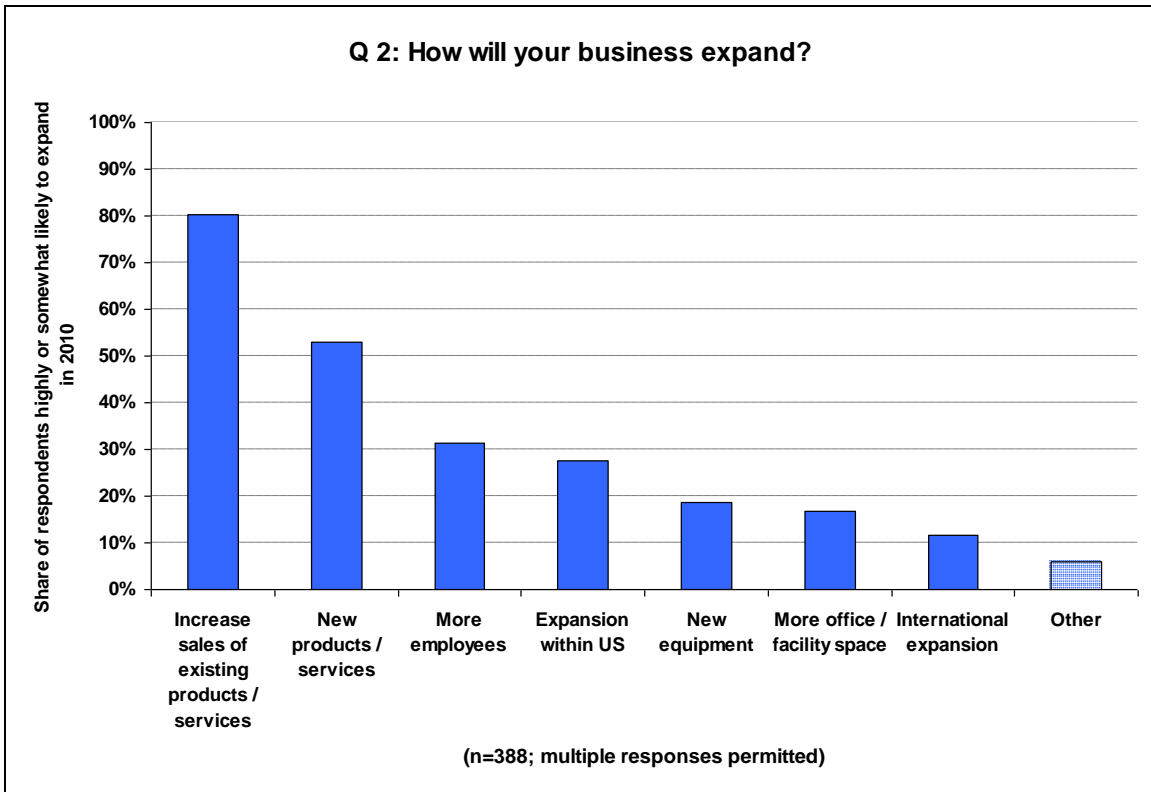
- first, because they have been in contact with the Enterprise Center—a provider of business seminars and other forms of education and advice;
- second, because they chose to respond; and
- third, because smaller businesses are overrepresented in the mailing list due to the Enterprise's focus. "Smaller businesses" is defined for purposes of this report as sole proprietors plus businesses employing 25 or fewer.

Therefore their responses may be somewhat more optimistic than the views of the entire business community in Essex County.

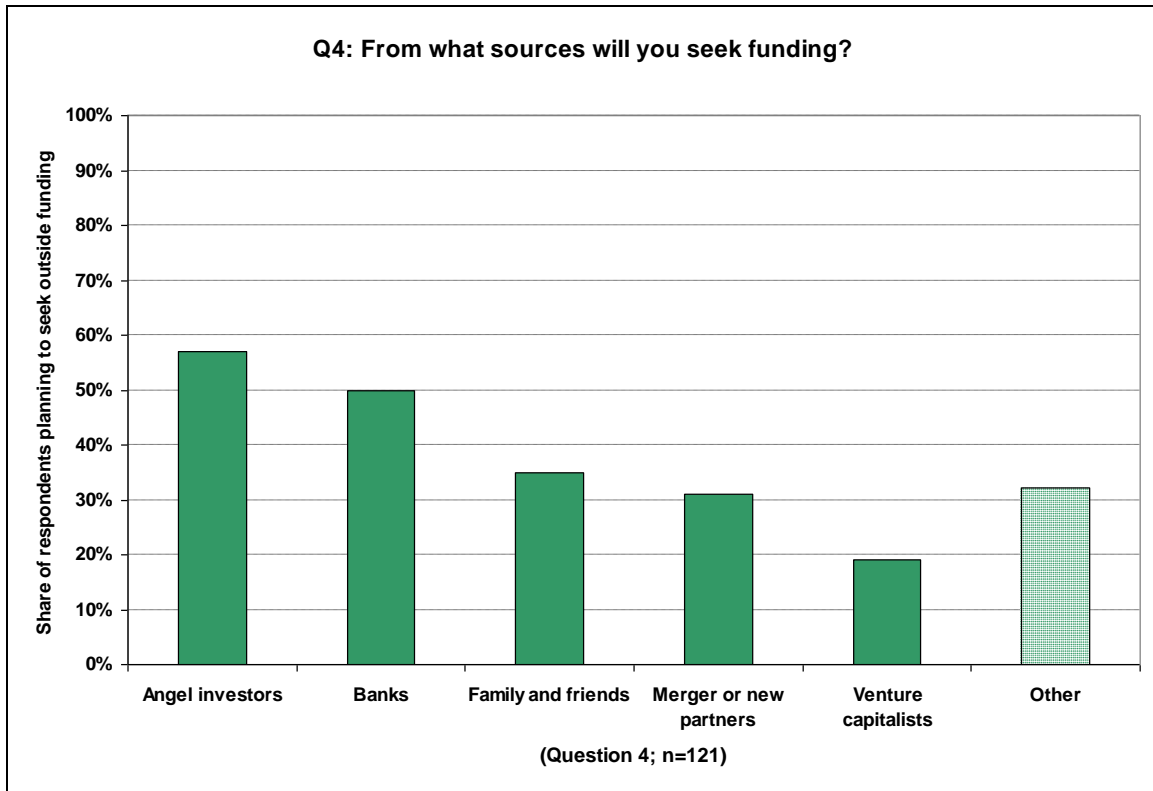
Most encouraging is the finding that 132 of the respondents plan to increase their workforce by one or more employees. Since employee numbers were reported in bands (e.g., 1-5, 6-10), precise counts are not possible, but an estimate of 500 new jobs to be created by these respondents is reasonable because a business moving from the 1-to-5 band to the 6-to-10 may add more than one new job. Even so, the conservative choice of using the smaller number—132—probably offsets completely the likely optimistic bias discussed above. That number, extrapolated to the county's entire workforce (and to smaller businesses only) produces an estimate of 13,000 new jobs—a remarkable 8% of

the smaller business workforce (roughly 160,000 in Essex County). Some expanding companies may be simply recovering all or part of their job losses in the past two years, but the survey show that quite a few have expansion in mind.

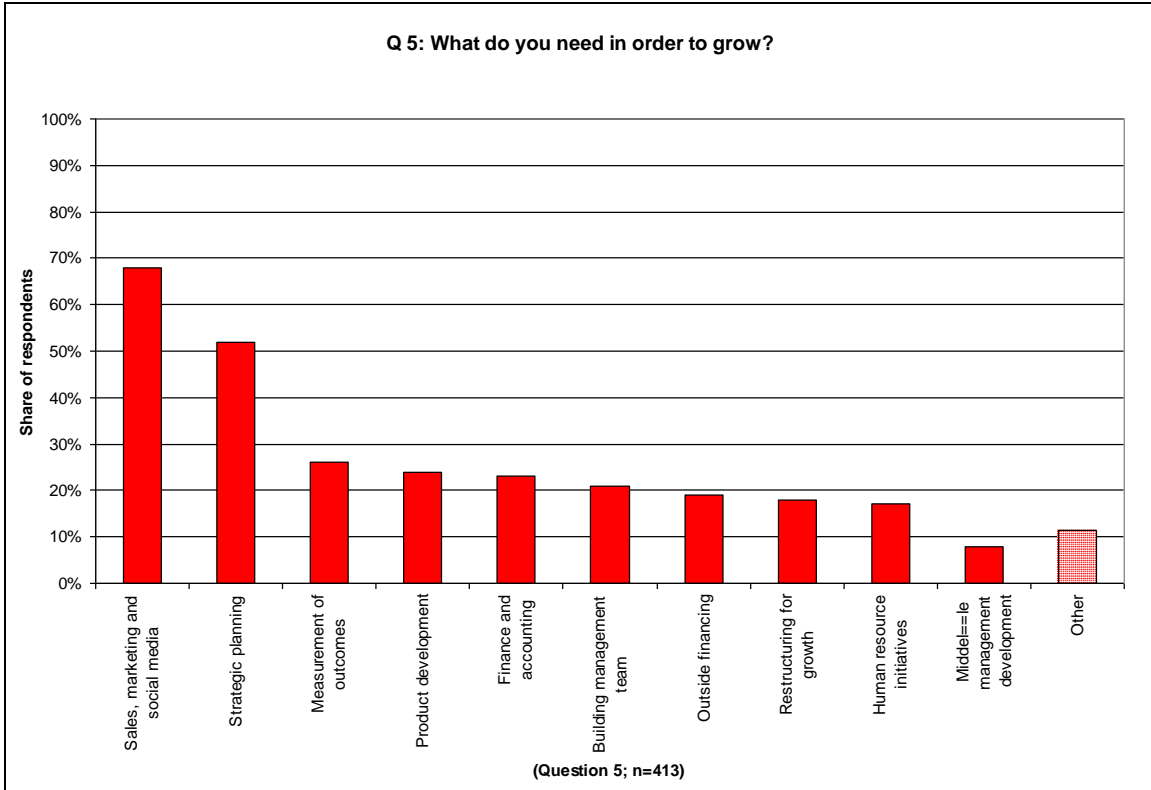
- 53% of the total sample respond that they are “highly likely” to “grow or expand” their businesses in 2010, while another 34% are “somewhat likely”. (Q 1)
- 34% say that they will “be seeking funding from outside sources”. (Q 3)



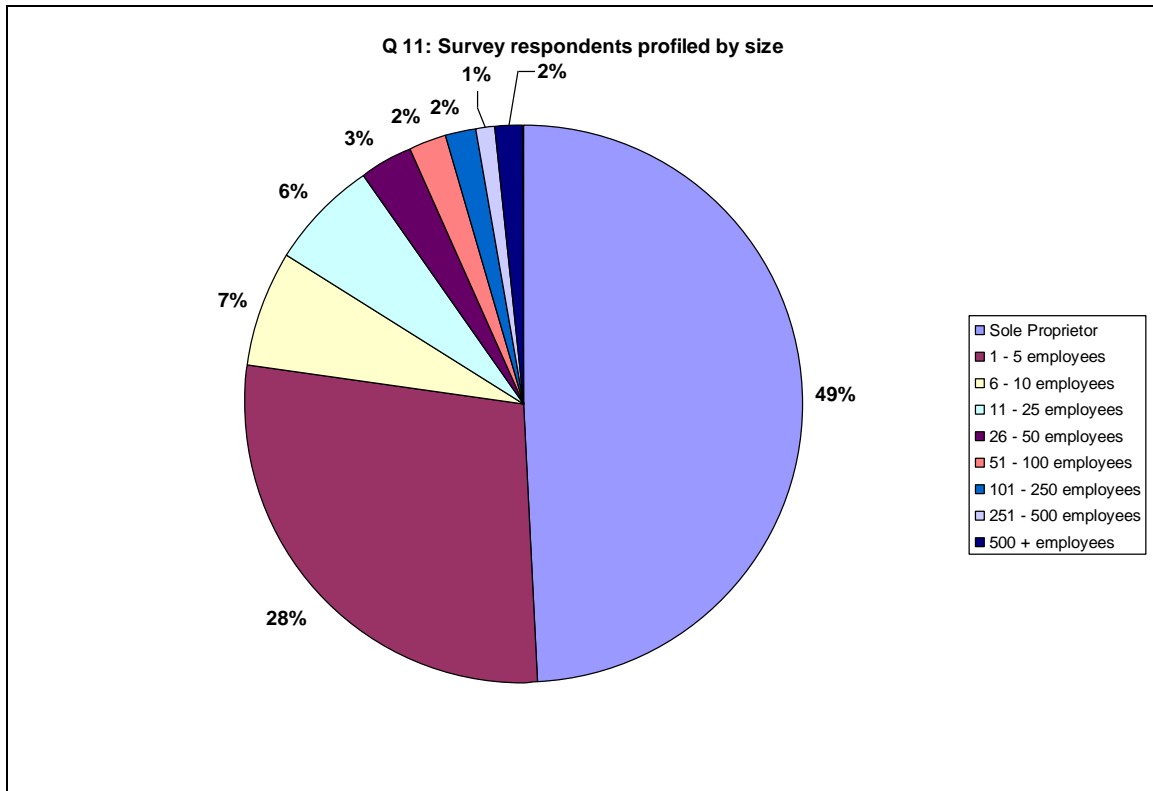
Responses to Question 2 (see chart) show that those who say they are highly or somewhat likely to expand have multiple strategies in mind. 80% plan to increase sales of existing products and services, while 53% will launch new products and services. A fair share would expand inside or outside the US (28% and 12%) but their strongest focus is clearly on selling in their traditional markets. 19% and 17% plan to buy more equipment or more office and facility space. *These numbers are high enough to make manufacturers and commercial property owners take notice; Essex County businesses will be buying or renting infrastructure.*



Question 4 (see chart) shows that those likely to seek outside financing will try to tap multiple sources, with angel investors and bank financing (57% and 50%) being the most popular. The level of interest in angels and venture capitalists (19%) is a tribute to the unusual strength of these sources of investment in Greater Boston and the North Shore and the awareness generated by regular meetings of 128 Venture North.



Responses to Question 5 (see chart) show these businesses think they have a lot of work to do in 2010, whether or not they think they are likely to grow. 68% will want more sales and marketing and there is a growing interest in social media as a marketing tool. Social media start with the Internet but have come to include Facebook, Linked-In, Twitter and other new media. The other needs: strategic planning (52%), product development (24%), finance and accounting (23%), restructuring (18%), and others show that these business people appreciate the importance of the basics. This is another point at which the Enterprise Center sample may give stronger responses than would all businesses in Essex County. The Enterprise Center specializes in these business skill building seminars and workshops addressing all these topics and more.



Responses to Question 11 (see pie chart) show clearly how the respondents reflect the focus and customer base of the Enterprise Center. Almost half are sole proprietors and more than a quarter have 1–5 employees. Smaller businesses (sole proprietors plus businesses employing 25 or fewer) account for 93% of the respondents.

One might ask whether these results, reflecting the views, concerns and plans of businesses accounting for less than half of the employment in Essex County can be helpful. The answer is that they can be very helpful, particularly if one bears in mind their focus and their limitations. Sole proprietors and small businesses are more important as segments of and contributors to the economy (and the community) than most realize.

In June of this year the Enterprise Center released “Proprietor Employment Trends in Massachusetts and Essex County: 2001-2006”, written by Laurence E. Goss, Jr. PhD and Moumita DuttaGupta from the Department of Geography at Salem State College. They found that between 2001 and 2006 sole proprietors and small businesses (defined in the report as 1–4 employees because of the form in which data are available) were the only sector of the Massachusetts and Essex County economies that were growing jobs. What Goss and DuttaGupta found for the state as a whole applied as well to Essex County:

Enterprise Center Survey Report: Small Business Survey Finds Optimism
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“Total employment grew by 89,138 jobs between 2001 and 2006, despite the fact that statewide wage-and-salary employment decreased by 88,513 jobs. This means there were 177,651 more proprietors working in the state in 2006 than there were in 2001.The number of proprietors with wage-and-salary employees increased by an estimated 58,359 businesses between 2001 and 2006, up by 27.7 percent over this six-year period.”

This is the first of the two central points made by the report:

- That sole proprietors and small businesses have contributed a disproportionately large share of economic growth in Massachusetts and Essex County.

The second point is:

- That the traditional reliance upon unemployment insurance data by government reports and by researchers has understated and underestimated the importance of proprietors, who do not participate in the state’s unemployment insurance system.

The report has helped to build an appreciation of how sole proprietors and small businesses sustained economic and employment growth between 2001 and 2006—a time when larger businesses, in the aggregate, were shedding jobs.

With this understanding, the survey finding that sole proprietors and smaller businesses could add 13,000 jobs in just one year is more plausible. Pundits speak of a “jobless recovery”; so how can we explain the optimism of the survey respondents? If recent patterns persist, the 13,000 jobs added are likely to be offset in part by further job reductions by larger businesses – or diluted by the lack of growth by larger businesses.

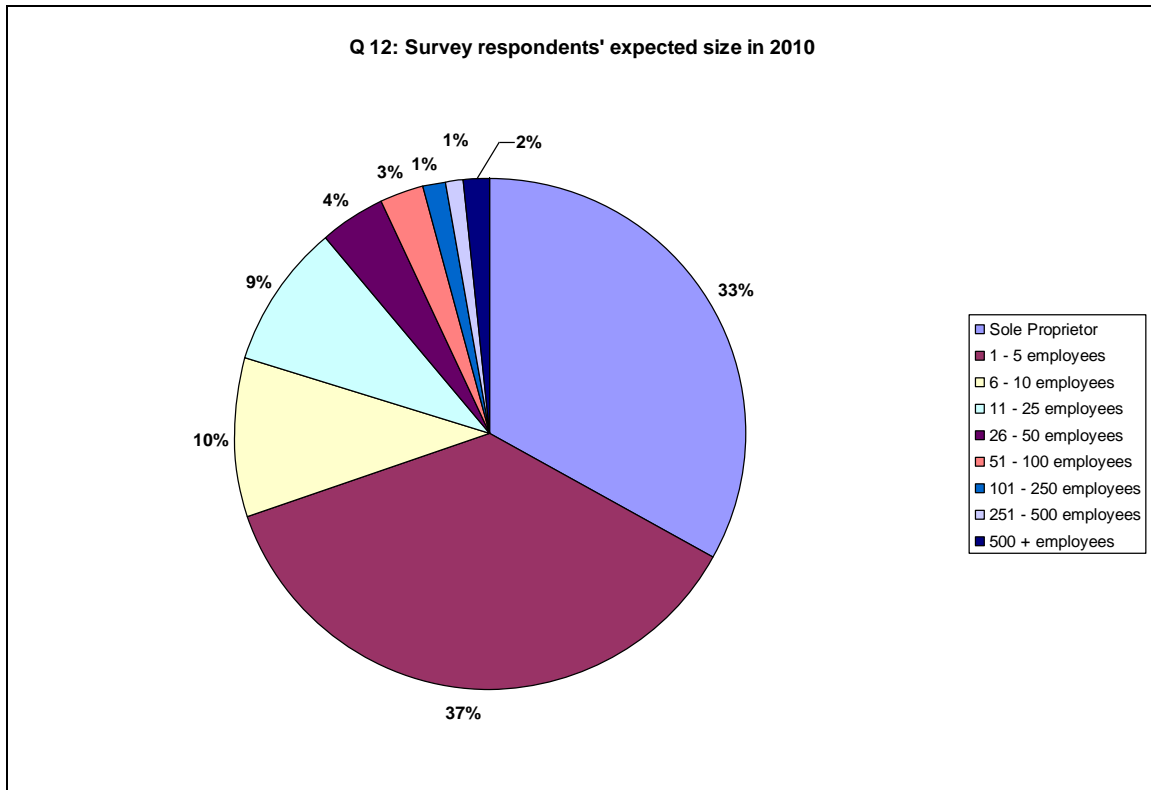
The insights provided by the “Proprietor Employment Trends” report make it possible to reconcile the cautious optimism of smaller businesses reflected in this survey with the gloom that still besets larger, higher-profile businesses. Smaller businesses can pull more than their weight and can play a major role in keeping the region and the nation from sliding back into recession and in sustaining the recovery.

Appendix: Derivation of Job Growth Estimates from the Survey Results

Our assumption of job growth derives from comparison of responses to Questions 11 and 12:

Q 11: How many employees do you have now?

Q 12: How many employees will you have (or plan to have) in 2010?



The responses to the second question are strikingly different. (see chart Q12) A full third of current sole proprietors expect to have one or more employees a year from now. The shrinkage of sole proprietors' piece of the pie is offset by growth of every sector between 1 – 5 and 51 – 100. This result will require many additional jobs.

To generate these results:

- 73 of 221 current sole proprietors (33%) must each hire one or more employees. [221 current SPs (Q 11) – 148 future SPs (Q 12)= 73 moving up to 1-5]
- 33 of 126 current 1-5 employee businesses (27%) must each hire one or more employees and move up to the 6-10 group. [165 future 1-5s (Q 12) – 73 SPs moving up (previous step) = 92 future 1-5s that are also current 1-5s. 126 current 1-5s (Q 11) – 92 = 34 moving up to 6-10(33 with rounding)]

- 20 of 30 current 6-10 employee businesses (65% with rounding) must each hire one or more employees and move up to the 11-25 group. [44 future 6-10s (Q 12) – 33 1-5s moving up (previous step) = 11 future 6-10s that are also current 6-10s. 30 current 6-10s (Q 11) – 11 = 19 moving up to 11-25(20 with rounding)]
- 6 of 28 current 11-25 employee businesses (21%) must each hire one or more employees and move up to the 26-50 group. [42 future 11-25s (Q 12) – 20 6-10s moving up (previous step) = 22 future 11-25s that are also current 11-25s. 28 current 11-25s (Q 11) – 22 = 6 moving up to 26-50]

Because the five larger segments have such small cell sizes and because in the aggregate they project essentially no job growth, we have focused, for purposes of projecting job growth upon sole proprietors and businesses with 25 or fewer employees. In the aggregate 131 (with rounding) of these 405 businesses (32%) project job growth. We use the conservative assumption that each would add only one job.

We then estimate the current number of employees in those 405 businesses, using the following assumptions and calculations:

- Sole proprietors each have 1 employee x 221 = 221
- 1-5 employee businesses each have 3 employees x 126 = 378
- 6-10 employee businesses each have 8 employees x 30 = 240
- 11-25 employee businesses each have 18 employees x 28 = 504

The aggregate total of employees in smaller businesses responding to the survey is 1,353.

The “Proprietor Employment Trends” report found that sole proprietors plus businesses with 1-4 employees accounted for 30% of all jobs in Essex County. We assume that the addition of businesses with up to 25 employees bring the share up to at least 40% -- or roughly 160,000 employees. Rounding the employee totals of the smaller business survey respondents up to 1,600, we need to multiply the survey results by 100 to generate a hiring estimate for all smaller businesses in the county.

The survey results imply that sole proprietors and businesses with 25 or fewer employees will generate 13,000 new jobs in Essex County in the next year.