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News from the Small Business Front

The Mood in the Small Business Community in the USA is Depressed

Right now the small business remains skeptical and depressed about the future of the economy – at least according to the data supplied by the National Federation for Independent Business. In the last month the mood has improved just a little but remains near record lows, states *Chris Kuehl of Armada Corporate Intelligence.*

The role of small business in the US economy is controversial. Not in the sense that some think it is a positive role and some think it is negative. The controversy comes from the fact that small business is extremely diverse and very hard to poll. It is nearly the same as trying to get a read on the opinions of every last American.

The diversity of small business is reflected in almost every sense that one can imagine. The owners of small business are almost an exact replica of the nation's demography as far as ethnicity, gender and age. There is a correlation with education as well, not to mention immigrant status. In a very real sense the small business owners of the country represent the population of the US and that means that they have attitudes that are similar – roughly half identify themselves as Democrats and half as Republicans. Most are religious and most have families. The motivations to become a small business owner are very similar as well as 75% indicate that being independent means more than making a lot of money and fully 80% indicate that they started the business because that is what they love to do.

Defining a small business is not all that easy. Some assert that it is a business with less than 50 people and others assert that it is under 500. Some use revenue of under \$1 billion and others use under \$1 million. There are as many definitions as there are attempts to study and understand these many establishments.

Analysis: Depending on the definition that one employs the small and medium sized business accounts for between 45% and 80% of all the jobs offered in the US in the last six years. The small business is the most consistent source of training for new employees and it is the sector that accounts for the most hiring from the ranks of the unemployed. The large corporations generally hire the new college graduate or they hire people that already have jobs but the small business is more inclined to hire those who have been unemployed. They also hire older workers more often. The diversity of the workforce within the small business community is greater than in the larger companies as well. The small business will tend to hang on to workers longer during an economic crisis but they are also subject to abrupt economic reversals that force them to drastically reduce their staff numbers. Suffice it to say that small business and the entrepreneur are key to the expansion and survival of the overall economy.

If this is the case what is being done to bolster this community and could anything more be provided in the way of assistance? There are two broad schools of thought on this subject. One holds that the best thing for government to do is to stay out of the way and allow the small business to function with a minimum of regulatory and bureaucratic interference. The other approach holds that government has been very active in promoting the larger company and in the process has made success tougher for the small business. There should be a reordering of these priorities to favor the small and medium sized business.

Business Information Industry Association Asia Pacific – Middle East Limited

1101 Wilson House, 19-27 Wyndham Street, Central, Hong Kong

Telephone: +852 2525 6120; Fax: +852 2525 6171; E-mail: biainfoasia@gmail.com ; www.biaa.com

Registered Office: Unit B, 8th Floor, Jonsim Place, 228 Queen's Road East, Hong Kong

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In the State of the Union speech by President Obama the issue of minimum wage was reintroduced and for many small business people this is the classic example of government intervention where it is not wanted. The suggestion is that minimum wage be lifted from the current \$7.25 to \$9. The impact of a mandatory minimum wage divides economists. On the one hand it is obvious that a person being paid a little less than \$14,000 a year (minimum wage for all twelve months) is going to be in financial distress and will fall into the poverty category. Raising that to around \$17,300 doesn't really help all that much. The average hourly wage in the US is currently \$23.78 – an annual income of around \$45,000. That is a far cry from the current minimum wage or even the suggested one. The real question is who makes minimum wage?

The vast majority of those earning minimum wage are young workers holding their first jobs or those who have very limited skills. One has to separate out those who earn minimum wage in service industries where the bulk of the income earned is through tips and gratuities. The small business is often the ones that offer minimum wage jobs or those that are just above that line. This is because these are the businesses that will hire the first time job applicant and the ones with very limited skills. The small business is essentially the training ground for new employees. Study after study shows that when minimum wage is hiked the small business community fires many of the young and unskilled and replaces them with more qualified people who they pay twice as much as the ones they employed before. The hard fact is that young and unskilled workers are not worth paying all that much – until and unless their work skills improve. The small business dreads the next minimum wage demand and resents the involvement of the government on this issue.

Right now the small business remains skeptical and depressed about the future of the economy – at least according to the data supplied by the National Federation for Independent Business. In the last month the mood has improved just a little but remains near record lows. The sub-index data shows the problem. The expectation on earnings improved by three points and is now resting at a negative 26. The expectation for business index rose by 5 points and is now at negative 30. The biggest gains were seen in terms of labor. The overall hiring index was up by 2 points to 3% but the biggest jump was registered in the hard to fill jobs as there was a jump of 2 points to 18%. This latter number can be looked at in a couple of ways. Those jobs that are hardest to fill for a small business are those that deal with finances and operations and there is evidence that more people who lost their corporate jobs are electing to work or small business despite the substantial pay cuts.

Is There One Thing that Small Business Wants from the Government?

In truth there is no unanimity when it comes to what the small business wants from the system. Some are very reliant on the government directly and indirectly and many have taken full advantage of everything from small business loans to grants and subsidies.

There is one area that is mentioned almost universally however. It is the area of training and nearly all small and medium sized business needs assistance. The fact is that businesses with a small number of employees and narrow margins simply can't afford to take on training tasks that last years or even months. They need people in the hiring pipeline that can be brought on board with 80% to 90% of the skills they need. ***This goes for everything from operating machines and technology to financial management and marketing.***

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Analysis: The educational establishment is focused primarily on the needs of the larger corporation with courses that deal with the issues of middle management. There are more programs on entrepreneurship than in the past and there are certainly many community colleges and trade schools that focus on the needs of small and mid-sized business but the need is greater than these schools can meet with their current resources.

The small business community looks at the 20 million people out of work as a wasted resource. These are people who could be hired and could be contributing to the growth of these businesses but they have skills that don't match up with the needs of the business. If there is one universal wish it would be that nearly every one of those looking for work were being trained and educated for new careers. There is incentive for the business to contribute to this and there is certainly incentive for those out of work but there is just as much incentive for the government as getting twenty million people back to work would go a long way towards addressing the revenue issues of government.

Source: *Dr. Chris Kuehl, Armada Corporate Intelligence – BIIA contributing editor and a BIIA ex-officio director*

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