

Small businesses and entrepreneurs are driving innovation and job creation in today's recovering economy. In the U.S., there are over 23 million small businesses that employ nearly 81 million workers and produce annual sales in excess of \$6 trillion. Small businesses, however, still face many challenges including the continued housing market slump, wavering consumer confidence and slow job growth across all business segments. There has been some increase in the number of small businesses in the U.S. and growth among small business industries. Despite these positive trends, small business failure rates have increased by 40% from 2007 to 2010.

### Small Business Industries: 2007 vs. 2010

#### Largest Small Business Industries

Within the small business segment, Other Services, Business Services and Retail remained the largest industries from 2007 to 2010, with Other Services and Business Services switching positions in 2010. Although Other Services moved to second position, annual sales increased by 7.5% while the number of employees decreased. In addition, Business Services' annual sales increased nearly 30% from 2007 to 2010.

2007 Largest SMB Industries			
	No. of SMBs	Annual Sales	No. of Employees
<b>Other Services</b>	3,231,576	\$ 647,016,003,205	15,224,404
<b>Business Services</b>	2,971,214	\$ 732,733,841,217	11,620,657
<b>Retail</b>	2,531,585	\$ 926,645,218,709	13,737,132

2010 Largest SMB Industries			
	No. of SMBs	Annual Sales	No. of Employees
<b>Business Services</b>	6,031,244	\$1,024,857,408,163	15,682,553
<b>Other Services</b>	3,273,958	\$699,760,949,197	14,729,095
<b>Retail</b>	2,151,016	\$801,092,611,901	10,932,295

#### Fastest Growing Small Business Industries

Business Services, Natural Resources and Transportation had the largest percentage increase from 2007 to 2010 among small business industries. Business Services increased by a staggering 103%, far outpacing the growth of Natural Resources and Transportation industries, both of which increased by 7%.

Low consumer confidence continues to plague the Retail industry as the number of small businesses declined by 15%. The Manufacturing and Insurance industries followed with declines of 8% and 5% respectively.

Small Business Industries	Percentage Change 2007 vs. 2010
Business Services	103%
Natural Resources	7%
Transportation	7%
Utilities	4%
Construction	3%
Other Services	1%
Telecom	0%
Government	0%
Unknown	0%
Financial Services	-3%
Wholesale	-3%
Real Estate	-4%
Insurance	-5%
Manufacturing	-8%
Retail	-15%

## Minority Owned Small Businesses: 2007 - 2010

Minority owned small businesses are mostly concentrated in the Business Services, Other Services and Retail industries, making up approximately 60% of all minority owned small businesses. From 2007 through 2010, the distribution of minority owned small businesses remained steady, whereas small businesses as a whole fluctuated across a larger concentration.

Distribution of Minority Owned Small Businesses

Industries	2007	2008	2009	2010
Business Services	23%	24%	25%	28%
Other Services	23%	23%	22%	21%
Retail	20%	19%	19%	16%
Construction	9%	9%	9%	11%
Wholesale	7%	7%	7%	7%
Manufacturing	6%	6%	6%	6%
Transportation	4%	4%	4%	4%
Real Estate	3%	3%	3%	3%
Natural Resources	2%	2%	2%	2%
Financial Services	1%	1%	1%	1%
Insurance	1%	1%	1%	1%
Telecom	1%	1%	1%	1%
Government	0%	0%	0%	0%
Utilities	0%	0%	0%	0%

Distribution of All Small Businesses

Industries	2007	2008	2009	2010
Other Services	22%	22%	32%	35%
Business Services	20%	20%	19%	19%
Retail	17%	17%	14%	12%
Construction	11%	11%	10%	10%
Real Estate	6%	6%	5%	5%
Natural Resources	5%	5%	4%	5%
Wholesale	5%	5%	4%	4%
Manufacturing	5%	4%	4%	4%
Financial Services	3%	3%	3%	3%
Transportation	3%	3%	3%	3%
Insurance	2%	2%	1%	1%
Telecom	1%	1%	1%	1%
Utilities	0%	0%	0%	0%
Government	0%	0%	0%	0%

## Failures by State: 2007 - 2010

### States with Highest Small Business Failure Rates

2007 Failure Index	
Tennessee	1.74
Alabama	1.54
Michigan	1.41
Mississippi	1.41
South Carolina	1.38
All States	1.00

2008 Failure Index	
Louisiana	3.05
Mississippi	2.58
Alabama	1.80
Tennessee	1.70
Georgia	1.36
All States	1.00

2009 Failure Index	
Nevada	1.52
Tennessee	1.52
California	1.42
Alabama	1.26
South Carolina	1.24
All States	1.00

2010 Failure Index	
California	1.69
Nevada	1.65
New Hampshire	1.38
Tennessee	1.36
Colorado	1.33
All States	1.00

Highest Increase in Failure Rates 2007 vs. 2010	
California	149%
Hawaii	128%
Oregon	122%
Washington	112%
New Mexico	97%
All States	40%

- From 2007 through 2010, the states with the highest small business failures were scattered across the country, while states in the West had the highest increase in failure rates from 2007 to 2010.
- California and Nevada have the highest failure rates in 2009 and 2010. California had the highest increase in failure rates, 149%, from 2007 to 2010. This aligns with the continued instability in the residential housing market and drop-off in the tourism, travel and hospitality sectors.
- Tennessee has been home to the highest small business failure rates for four years in a row.

### States with Lowest Small Business Failure Rates

2007 Failure Index	
Utah	0.48
North Dakota	0.51
Hawaii	0.57
Iowa	0.57
Wyoming	0.59
All States	1.00

2008 Failure Index	
North Dakota	0.37
Hawaii	0.42
Wyoming	0.43
Iowa	0.52
Arkansas	0.54
All States	1.00

2009 Failure Index	
North Dakota	0.36
Wyoming	0.40
Iowa	0.48
Vermont	0.59
Connecticut	0.60
All States	1.00

2010 Failure Index	
North Dakota	0.33
Vermont	0.53
Iowa	0.60
Wyoming	0.60
Kansas	0.61
All States	1.00

Biggest Decline in Failure Rates 2007 vs. 2010	
Mississippi	-37%
Vermont	-15%
Louisiana	-14%
North Dakota	-11%
North Carolina	-10%
All States	40%

- North Dakota, Wyoming and Iowa have appeared in the top five states with the lowest business failure rates in 2007, 2008, 2009 and 2010. In addition, North Dakota fell among the top five states with the biggest decline in failure rates from 2007 to 2010.
- Mississippi had the largest decline, 35%, in small business failure rates from 2007 to 2010 although it fell in the top five states for highest small business failure rates in 2007 and 2008. However, this improvement may be short lived as the economic impact from the recent natural disasters in Mississippi is still unknown.

## **Looking Forward**

Small businesses navigating through today's economy need to be aware of the risks and opportunities presented by the recession. Most recently, the tornado outbreaks in the South have added additional stress to already challenged areas for small businesses. Alabama, Georgia, Tennessee and Mississippi were the hardest hit and are home to 323,860 businesses, of which 307,921 or 95% are small businesses with less than 10 employees. These states already have the highest failure rates among small businesses and the damage done will further exacerbate these numbers.