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Helping Small Business Get a Slice of the Procurement Pie

No matter how you slice it, small businesses continue to receive a minority portion of federal procurement dollars. While small business' overall share has eked upward, women-owned businesses continue to lag behind. In fiscal year (FY) 1997, for example, small firms received just over 21 percent of federal contract dollars (up from 20.8 percent in FY 1996). Women-owned firms received just about 2 percent and minority-owned firms received 5.7 percent. So what do these numbers indicate?

"Our research shows small businesses are starting to see prime contracts become larger and, therefore, unattainable," Chief Counsel for Advocacy Jere W. Glover said. "This trend will be particularly dif-

ficult for women- and minority-owned firms, which are traditionally smaller than other small businesses."

One arena in which small businesses have successfully competed is for the large number of federal contracts worth \$25,000 or less. "These smaller contracts are easier targets for small businesses. However, the Office of Advocacy is concerned that government streamlining could allow these contracts to be awarded with little notice to small businesses," Glover said. In FY 1997, small businesses received 46.9 percent of the contract actions at or under \$25,000. Women- and minority-owned businesses received 3.6 percent and 2.9 percent, respectively, in this contract size.

Continued on page 2

Tax Chairs Meet



The tax chairs of the 1995 White House Conference on Small Business met recently in Washington and met with Assistant Secretary of Treasury for Tax Policy Donald Lubick (not pictured). From L to R: Edith Quick, Joy Turner, Roy Quick, and Jim Turner. Look for a full report in the next issue of *The Small Business Advocate*.

Procurement, from page 1

In addition to smaller contracts, small businesses have traditionally won another 10 to 14 percent of the federal procurement pie in subcontracts. "While small businesses can serve the government well in this position, they often don't enjoy the benefits of prime contractor status, such as prompt payment," Glover said.

Minority-owned businesses are doing much better in contracts over \$25,000, having received 6 percent in FY 1997, but women-owned firms received only 1.7 percent. (Small businesses overall are receiving 18.6 percent of these contract dollars.)

To boost the share of larger contracts going to women-owned firms, SBA Administrator Aida Alvarez and Vice President Al Gore announced a plan this past July. The SBA program, which affects the pool of contracts for services ranging from \$25,000 to \$100,000, offers federal procurement officers a streamlined contracting process. If an officer solicits bid information from five small businesses, including one women-owned firm and one small disadvantaged business, a simplified procurement is allowed.

"This new streamlined approach to federal contracting places women-owned and small, disadvantaged businesses in a position to tap a pool of contracts that approaches \$20 billion," said Administrator Alvarez.

Another tool to help small businesses compete in the federal marketplace is the Procurement Marketing and Access Network (PRO-Net). Developed by the Office of Advocacy and launched by the SBA last year, this Internet-based list of nearly 200,000 firms includes small and women- and minority-owned businesses. With PRO-Net, a contracting officer can search for qualified companies using any number of criteria, including race and gender of ownership.

On the legislative front, several provisions were incorporated into the Small Business Reauthorization Act of 1997 (P.L. 105-135) that affect small business procurement. A provision on contract bundling is intended to restrict unnecessary contract consolidations and, therefore, make contracts more attractive to small businesses. Another provision, the HUBZone Act, is intended to provide federal contracting opportunities to small businesses located in historically underutilized business zones. The goal for small businesses' share of federal contracts was increased to 23 percent as result of this legislation.

"Getting access to federal contracts for small businesses and encouraging good buying habits from government procurement officers are critical," said Chief Counsel Glover, "Small businesses are 99 percent of all companies in this nation, and they deserve public policy that works for them and the taxpayer."

For more information, contact Major Clark, assistant chief counsel for procurement issues in the Office of Advocacy, at (202) 205-6533 or via e-mail at major.clark@sba.gov.

The Small Business Advocate

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For More Information

PRO-Net, the SBA's Internet-based small business listing service, can be accessed on-line at <http://www.pro-net.sba.gov>.

For a detailed look at some recent trends in federal contracting, see a research study by Eagle Eye Publishers, Inc., *Bundled Contract Study FY91-95*. This study, funded by the Office of Advocacy and released in July 1997, showed that contract consolidation by government agencies is increasing and causing harm to small businesses. Copies of *Bundled Contract Study*

are available for purchase from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161; tel. (800) 553-6847. Ask for publication no. PB 97-18031.

The National Women's Business Council, a bipartisan federal government advisory panel, will publish research on federal procurement from women-owned businesses in its upcoming annual report for 1998. To obtain a copy, contact the council at (202) 205-3850.

Message from the Chief Counsel

For Small Business, A Very Good Year

by Jere W. Glover

It's no secret that 1997 was a banner year for the U.S. economy. Gross domestic product (GDP) grew by a robust 5.9 percent, or 3.9 percent after factoring out inflation. Private sector non-farm employment climbed by 2.9 percent.

But was 1997 also a good year for small businesses? Were they in the forefront or left behind? Were small businesses still adding workers or did a nearly full employment economy mean workers were passing small employers by? Did the boom in business formations continue or stall?

Answers to these questions and more are provided in the latest edition of *Small Business Economic Indicators*, an annual statistical report compiled by Advocacy's Office of Economic Research. Showing small businesses as a strong participant in this thriving economy, the report gives a national picture and includes breakdowns by state and region (where available) with statistics that illustrate that small businesses continue to be a significant partner in our nation's economic equation.

One way to get a handle on whether small entities participated in the expansion is to look at the change in income of non-farm sole proprietorships and partnerships, almost all of which are small businesses. This income measure rose by 5.5 percent last year before inflation, in line with the growth of GDP. These businesses account for about 85 percent of all small firms, but only 20 percent of all small-firm receipts. The remaining 15 percent of small businesses are corporations. Because they are typically larger than non-corporate businesses, corporations account for 80 percent of receipts. (Unfortunately,

The Office of Advocacy's *Small Business Economic Indicators* shows that 1997 was a good year to start a small business, or keep one going, says Chief Counsel Jere W. Glover.

estimates of corporate receipts by size of corporation are not available on a timely basis.)

Overall job growth was strong in 1997, as the U.S. economy created nearly 3 million new jobs. Although numbers by firm size are not available yet, it appears that small firms held their own in attracting and adding workers. Six out of the 10 industries that added the most jobs

were ones historically dominated by small firms, and it is likely that small firms again produced most of the jobs in these industries in 1997. Examples of small-firm-dominated industries that created lots of jobs in 1997 include engineering and management services (which added 188,000 jobs) and special trade contractors (which gained 158,000 jobs).

Of the 10 industries with the highest percentage increase in jobs, three were small-firm-dominated, three were large-firm-dominated, and four were "indeterminate." The fastest growing small-firm-dominated industry was amusement and recreation services, which increased employment by 7.6 percent from 1996 to 1997. (The Office of Advocacy categorizes industries as small- or large-firm-dominated based on whether 60 percent or more of the industry's employment is in small or large firms. Industries with between 40 and 60 percent of employment in small and large firms are considered "indeterminate." A firm is defined as small if it has less than 500 employees.)

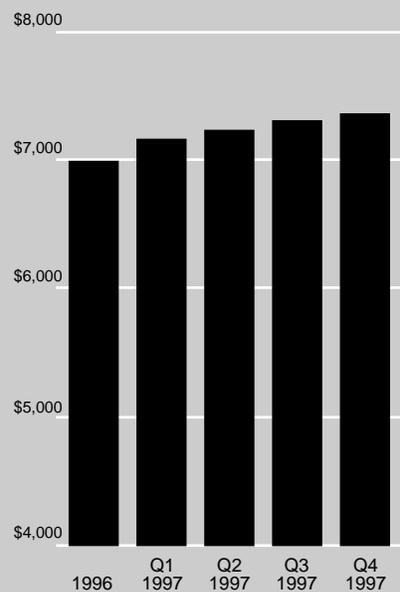
Most indicators of business health show that 1997 was a good year to start a small business or keep one going. The net number of firms with employees, most of them small businesses, rose by 140,000 or 2.2 percent last year. That's a little faster than the 1.8-percent average annual growth recorded from 1990 to 1996. Missouri and Nevada each had more than 6 percent growth in the number of employer firms, while the total fell by more than 1 percent in the District of Columbia and Minnesota.

The net number of people calling themselves self-employed inched

Continued on page 4

A Banner Year

Gross domestic product, 1996 through fourth quarter 1997 (billions of 1992 dollars)



Source: U.S. Department of Commerce.

*In the next issue of
The Small Business
Advocate. . .*

a full report on

Vision 2000: The States and Small Business Conference

- ✓ Detailed stories on the presentations and general sessions.
- ✓ Follow-up reports on the valuable information exchanged in the panel sessions.
- ✓ Information about the winners of the "models of excellence" awards for the state programs that have helped small business the most.
- ✓ Details on how participants plan to continue their exchange of information and action.

A Good Year, from page 3

up by just 19,000 or 0.2 percent, although there were huge state-to-state variations: for example, Arkansas's total shot up by over 16 percent, while Georgia's declined by the same percentage.

The fact that the number of businesses with employees increased while the number of self-employed stagnated suggests that working for somebody else was more attractive than going into business for oneself in 1997. One possible reason is that employers increased wages and benefits substantially in order to attract more workers in a full job market. Indeed, private-sector wage disbursements rose by 7.9 percent last year, far outstripping the 5.5-percent increase in non-farm proprietors' income.

A look at the large numbers of business formations and terminations behind the small net numbers gives a clue to the high level of "churning" in the economy. The number of new firms reporting employees climbed by 5.1 percent from 1996 to 1997. The number of businesses that incorporated was up 1.6 percent from 1996. Several states had increases or decreases of more than 10 percent in at least one of these indicators.

Meanwhile, the number of businesses that stopped reporting to state employment agencies (and thus presumably ceased operations)

rose by just 0.9 percent. The number of businesses that filed bankruptcy petitions also climbed by a modest amount, 1.2 percent, from 1996. But a third measure, business failures (provided by the Dun and Bradstreet Corporation) jumped by nearly 16 percent last year. All three of these measures again showed wide differences among states.

In short, preliminary numbers show that 1997 appears to have been a healthy year for small business as well as for the economy as a whole. The Office of Advocacy will continue to update its measures of small business performance in 1997 as more complete data become available. Tune in to www.sba.gov/ADVO/stats for the latest information.

For More Information

Copies of the latest edition of *Small Business Economic Indicators* are available for purchase from the National Technical Information Service, telephone (800) 553-6847. The data are also available on the Office of Advocacy's Web site at <http://www.sba.gov/ADVO/stats>.

When It Comes to Data, There Is More the Government Can Do

Of course the data are not the best we could wish for. In fact, we are limited by the way and frequency data are collected. However, the Office of Advocacy has made some strides with available data to describe the small business picture. But this is not enough. Public policy decisions must be supported by sound economic

research. This could be achieved by requiring data collection to encompass more details on the size of firms, their location, and their industries. With this in hand, we would make an even greater impact on the American business environment. — *JWG*

Regulatory Agencies

Dialogue between HCFA and the Home Health Care Industry Encouraged

In its efforts to cut overspending, fraud, and abuse from the Medicare/Medicaid program, the Health Care Financing Administration (HCFA) has begun a trend of bypassing administrative procedures. Although the agency may be within its authority to regulate in this manner, the Office of Advocacy raised concerns in a November 2, 1998, letter about the impact of these fast-track rules. The Office of Advocacy's main concern is that HCFA may be placing administrative convenience ahead of its analysis of the impact of regulations on the health care industry, which has put small health-care providers especially at risk.

The Balanced Budget Act of 1997 (BBA) contained numerous provisions that require HCFA to implement a series of cost-cutting

HCFA may be placing administrative convenience ahead of regulatory analysis in issuing directives that affect the home health care industry.

and anti-fraud measures designed to rein in physicians, home health care agencies, home health equipment suppliers, hospitals, nursing homes, and other service providers that participate in the Medicare/Medicaid program. In one such provision, the BBA expanded HCFA's "inherent reasonableness" authority. The authority was originally granted to HCFA in the mid-1980s to allow HCFA to change Medicare

reimbursements for durable medical equipment and other home health equipment supplies. The authority permitted HCFA to adjust (up or down) the reimbursements for individual items and services if the payments were found to be grossly deficient or excessive. These adjustments were subject to a public notice and comment period before becoming final. Now, under the expanded authority, public notice and comment are only necessary when an adjustment exceeds 15 percent in any one year.

The Office of Advocacy commented in 1998 on several HCFA regulations and interpretations of the BBA that have affected small business. In a letter to HCFA in November, Chief Counsel for Advocacy Jere W. Glover expressed his concern that the agency has

Continued on page 6

Only Partial Relief for Home Health Care Firms Seen in Latest Revisions

Some small home health care providers may be able to hang on to their livelihoods thanks to revisions to the Medicare/Medicaid payment system in October's budget act (P.L. 105-277). In March, the Health Care Financing Administration (HCFA) issued a final rule, with no input from the public, which severely limited Medicare/Medicaid payments to home health care agencies. (See the June 1998 issue of *The Small Business Advocate* for details.) The Office of Advocacy filed comments with HCFA and testified before the Senate Small Business Committee on the harmful effects of the rule. Sen. Christopher Bond (R-Mo.) proposed a moratorium for the payment system in response to recommendations by the industry. The

moratorium would have forced HCFA to cease enforcing the interim payment regulations altogether; however, Congress's reform package falls short of this moratorium and may only mean the difference for many small home health care providers between hanging on by a thread and filing for bankruptcy.

The provisions of the new budget act provide only some of the relief sought by Medicare/Medicaid certified home health care agencies such as:

- delaying the 15-percent, across-the-board reduction in home health payments (scheduled for cost reporting beginning on or after October 1, 1999) until October 2000, and
- raising the per-visit and per-beneficiary reimbursement limits

for the majority of home health care agencies that receive an increase.

"Unfortunately, the changes still do not allow for regional differences in costs; nor do they provide relief for home health care agencies with a high percentage of medically complex patients, because the per-beneficiary cap is still unreasonably low and reimburses home health agencies below their actual costs," said Assistant Chief Counsel for Advocacy Shawne Carter McGibbon.

Congress paid for the \$1.7 billion budget proposal by adding a gaming tax and reducing payments to Medicare health maintenance organizations.

Simple Retirement Solutions for Small Business



Learn how your business can set up an easy-to-administer retirement savings plan. The details are contained in a series of booklets that are available at no charge from the U.S. Department of Labor's Publications Hotline, 1-800-998-7542. Or visit the Pension and Welfare Benefits Administration's Web site at <http://www.dol.gov/dol/pwba>.



U.S. Department of Labor
Pension and Welfare
Benefits Administration
Washington, DC 20210

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used its expanded "inherent reasonableness" authority to bypass administrative due process. The chief counsel's top concern was that HCFA has interpreted its inherent reasonableness authority to mean that if the agency wants to impose a reduction greater than 15 percent, it has only to spread the reduction over successive years in order to avoid notice and comment requirements. For example, a 25-percent reduction could be accomplished in two years by applying 15 percent the first year and 10 percent the following year.

According to Glover, "Although Congress may have had good intentions when drafting the Balanced Budget Act of 1997, HCFA now has virtually unfettered discretion to make drastic payment reductions

without public notice and comment or input by the affected industry."

Since the BBA does not specifically state that notice and comment is not required for fee reductions of less than 15 percent, the Office of Advocacy believes that HCFA should subject such reductions to notice and comment as a matter of good administrative policy.

Chief Counsel Glover believes HCFA's goals could be achieved just as well by following the rules of administrative procedure and laws designed to enhance and preserve the regulatory process. "Everyone benefits from dialogue and meaningful input — the regulators and the regulated."

Annual Report, Web Site Offer Details on Regulatory Activity

A detailed overview of the Office of Advocacy's involvement in federal regulatory activity that affects small business is available in an annual report to Congress and the President, the *Annual Report of the Chief Counsel for Advocacy on Implementation of the Regulatory Flexibility Act*.

As required by the Regulatory Flexibility Act (RFA), the Office of Advocacy regularly comments on federal agencies' proposed rules and compliance with the act. The most recent edition, covering calendar year 1997, contains a complete description of the Office of Advocacy's activities and agencies' compliance with the RFA. Copies are available for purchase from the National Technical Information Service, 5285 Port

Royal Road, Springfield, VA 22161; tel. (800) 553-6847. Ask for publication no. PB99-114621. The complete text is also available on the Office of Advocacy's Web site at <http://www.sba.gov/ADVO/laws/flex>.

In addition to the annual report on the RFA, the complete text of official comment letters and the chief counsel for advocacy's testimony about the impact of proposed regulations on small business are posted on the Office of Advocacy's Web site at <http://www.sba.gov/ADVO/laws/comment.html>.

FCC Urged to Consider Needs of Small Telecom Carriers

Congress and the Federal Communications Commission (FCC) want Americans to have access to the latest advanced telecommunications services sooner rather than later. However, in its enthusiasm to ensure that all providers deploy advanced telecommunications services in a reasonable and timely manner, the FCC overlooked the impact of its proposed rulemaking on small telephone companies as well as small new competitors. Last September, the Office of Advocacy reminded the FCC of its oversight and requested that the agency level the regulatory playing field for these small businesses.

Advanced telecommunications services include high-speed Internet access, video telephony, and feature-length movies on demand. The ability of Americans to access these new technologies in a timely manner will likely spur the nation's growth and development. However, the legal monopoly that local telephone companies have over the current telecommunication networks could stifle the competition in this market and therefore slow the availability of new technologies.

Aware of this possible delay, Congress passed the Telecommunications Act of 1996 to promote innovation and investment by all participants in the telecommunications industry and to stimulate competition for advanced telecommunications services. Taking its cue from Congress, the FCC proposed regulation to ensure that the market is conducive to investment and competition. The regulation proposed in August (published in the *Federal Register* at 63 FR 45140) contained the following provisions:

- Incumbent local exchange carriers (that is, local telephone companies) may offer advanced ser-

In issuing proposed regulations this past August governing advanced telecommunications services, the FCC failed to fully consider their impact on small carriers.

vices through a separate affiliate. The separate affiliate would not be considered an incumbent and therefore would not be subject to the same requirements as an incum-

A Telecom Lexicon

Definitions for some terms of art used in telecommunications regulation.

collocation space: access to interconnection equipment that must be provided to third-party providers (such as long-distance carriers) by a local telephone company.

competitive local exchange carrier (CLEC): a new-entrant telephone company that provides local telephone service, in competition with the "incumbent" local exchange carrier.

incumbent local exchange carrier (ILEC): local telephone company that is the existing, primary provider of local telephone service.

unbundled network elements: local telephone interconnection equipment that competing carriers may lease or purchase from a local exchange carrier independently from any other network equipment.

video telephony: the simultaneous combination of voice and video connections that certain carriers make available via telephone lines.

bent. Furthermore, this separate affiliate would negotiate with the incumbent carrier for interconnection, like any other competitive carrier.

- To reduce barriers to entry for new entrants, the incumbent must give the entrants access to the incumbent's office to install equipment (so-called "collocation space") and lease unbundled network elements to the new entrants as well, including equipment that provides advanced telecommunications services.

By requiring the incumbent to treat all competitors in the same manner as its affiliate, the FCC hopes to give the incumbent an incentive to deploy advanced services while providing network elements and collocation space as quickly and cheaply as possible to all competitors.

"The Office of Advocacy applauds the FCC for taking the initiative to expedite the availability of advanced telecommunications services; however, the FCC apparently wrote this proposed regulation with only the large carriers in mind, since the agency failed to analyze the economic effect the rules would have on small carriers," said Chief Counsel for Advocacy Jere W. Glover. In official comments on the proposed rules, Glover noted the following statutory deficiencies in the FCC's proposed regulation:

- The FCC failed to identify and undertake an analysis of all small entities affected by the proposed regulation. So far the FCC has identified only incumbents and new competitors as classifications of carriers under the regulation, which fails to account for the multiple effects the regulation could have on the varying size classes within these two groups.

Continued on page 8

IRS Extends Deadline for Electronic Filing

The Internal Revenue Service (IRS) announced November 18 that businesses will have an additional six months, until July 1, 1999, before they must file employment tax deposits through the Electronic Federal Tax Payment System (EFTPS). At the same time, the IRS said that 2 million taxpayers already are using EFTPS, and the agency encouraged small businesses that are not required to use the system to enroll and get familiar with it.

All businesses must deposit withheld employee income and social security taxes as well as employer's social security and federal unemployment taxes. EFTPS is a replacement for the paper-based federal tax deposit coupons previously required for payment. In general, employers with more than \$50,000 per year of employment

The IRS has again extended its deadline for businesses to begin filing their tax deposits electronically through its Electronic Federal Tax Payment System, or EFTPS.

tax deposits must use EFTPS, and smaller employers may do so if they elect to. However, the IRS announcement means taxpayers that continue to use paper coupons will not incur the 10-percent penalty that would otherwise apply as long as deposits are made on time.

When EFTPS was set to begin in 1996, the Office of Advocacy and other parties intervened with the IRS and Congress to allow a

smoother transition and help inform businesses of their obligations. Since then, the deadlines for mandatory use of EFTPS have been waived several times.

According to the IRS, more than 4,000 businesses per week are continuing to sign up for EFTPS. Employers can learn more about EFTPS through the IRS Web site at <http://www.irs.ustreas.gov>.

FCC, from page 7

- The FCC did not adequately disclose all compliance requirements in the regulation such as reporting and recordkeeping requirements. In addition, the compliance burdens of these requirements on all classes of incumbent and competitive carriers should have been analyzed by the agency.

- The FCC failed to consider significant alternatives to the proposed reporting, recordkeeping, and other compliance requirements that could minimize the significant economic impact of the proposed rules on small carriers.

The Office of Advocacy also offered several industry-backed alternatives to the compliance requirements of the proposed regulation that would achieve the desired effect with the large incumbent carriers while not overburdening the small incumbents and small

new competitors:

- Differing compliance or reporting requirements or timetables that take into account the resources available to small entities;
- Clarification, consolidation, or simplification of compliance requirements; or
- Exemption from part, or all, of the rule.

The FCC has not yet issued an order resolving the issues raised in its proposed rulemaking; however, the Office of Advocacy will continue to represent the interests of all small entities affected by this regulation.

For more information, contact Eric Menge, assistant chief counsel, at (202) 205-6949 or via e-mail at eric.menge@sba.gov.

For More Information

The full text of the chief counsel's official comments on this proposed rulemaking by the FCC is available on the Office of Advocacy's Web site at <http://www.sba.gov/ADVO/laws/comments/fcctest.html>. The text of the FCC's proposed rule is available on the *Federal Register's* Internet site at <http://www.nara.gov/fedreg/>.

The Office of Advocacy's comments on other proposed telecommunications regulations are also available on the Internet at <http://www.sba.gov/ADVO/laws/comment.html#Telecommunications>.

Economic News

Small Business Sector of the States Profiled in New Publication

The latest one-stop reference source for state-by-state economic statistics on small business is now available with the publication of the 1998 edition of *Small Business Profiles*. Compiled by the SBA's Office of Advocacy, *Small Business Profiles* is a collection of 51 three-page statistical briefs for each of the 50 states and the District of Columbia.

Published annually, *Small Business Profiles* has established itself as the standard statistical reference source for small business information on the state level.

The information in the individual state profiles includes such baseline economic data as:

- the number of small businesses;
- small business income;
- the number of minority- and women-owned small businesses;
- the number of jobs created by small firms by industry;
- the top small business lending banks; and
- the fastest growing industries.

"The *Small Business Profiles*," said Chief Counsel for Advocacy Jere W. Glover, "are the only documents published that give such a rich and detailed portrait of each state's small business sector. They show the importance of small businesses to the economic lifeblood of each and every state."

The profiles draw on a wide range of statistical sources — from business data collected by the Bureau of the Census, to employment data collected each year by the U.S. Department of Labor, to a ground-breaking study of bank lending produced by the Office of Advocacy. Additional information comes from such sources as the

Federal Reserve Board (for information on lending), the Dun and Bradstreet Corporation (for information on business incorporations and failures), the National Foundation for Women Business Owners (for information on businesses owned by women), and the Administrative Office of the U.S. Courts (for data on bankruptcies).

How to Get Copies

The individual state profiles that constitute the 1998 *Small Business Profiles* are available on the Office of Advocacy's Web site at <http://www.sba.gov/ADVO/stats/profiles/>.

Paper or microfiche copies of the complete 50-state set of *Small Business Profiles* are available for purchase from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161; tel. (800) 553-6847, TDD (703) 487-4639. Ask for publication no. PB99-102436. The cost is \$35 for a paper copy, \$14 for a microfiche copy, plus postage and handling.



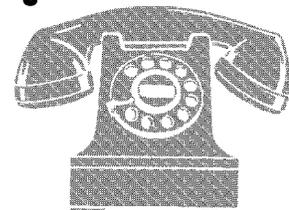
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The Small Business Answer Desk

Gazelles and High Tech: An Under-Measured Growth Sector

by Terry Bibbens

So-called “gazelles” — the fastest growing small businesses — are important to the U.S. economy, creating over 75 percent of all of the new jobs since the 1991 recession according to a study for the Office of Advocacy by Dr. David Birch of Cognetics, Inc. Dr. Birch defines a gazelle as a company that doubles its size in four years or less, with a beginning revenue of \$100,000 or more. Currently there are slightly over 350,000 gazelles in the United States. The technology sector accounts for about 25 to 30 percent of the gazelles, according to this study.

That many gazelles are in the technology sector should not be surprising, since it has been one of the major contributors to the job creation engine of the United States in the past few years. In fact, the need for qualified employees in the technology sector is evidenced by the recruitment ads placed in magazines and newspapers throughout the country.

Unfortunately, many of the latest technologies are so new that they are not accurately reflected in the information published by the Census Bureau as part of its Economic Census. This is because the Standard Industrial Classification (SIC) codes that are used in the collection of economic data were not designed to include the technology sector. Even the important improvements included in the new North American Industrial Classification System (NAICS) that will be used in future economic data gathering only partly remedy this situation. Therefore, official U.S. business statistics tend to understate the importance of the technology sector, often hiding it in other industrial classifications.

The rapidly evolving nature of the technology sector has led to the underreporting of its growth by many statistical agencies. Here's a look at some places that have tracked its growth.

In an effort to improve this situation, many technology trade associations and economic researchers have provided information on sectors of interest to them. Here is a look at some of the information they have made available. (In looking at these numbers, it is important to note that while small firms account for a significant share of these associations, the data are not always broken out by firm size.)

The Pharmaceutical Research and Manufacturers Association (PHRMA) reports that sales of research-based pharmaceutical companies in the United States will be \$81 billion in 1998, up 13 percent from the 1997 level of \$72 billion. (The PHRMA's Web site is at <http://www.phrma.org>.) Since the pharmaceutical industry is mature, accurate information on its size and growth can be found at the Web site of the Department of Commerce's Bureau of Economic Analysis (BEA) at <http://www.bea.doc.gov>.

The newer biotechnology industry represents one of the emerging technology businesses that is not yet fully captured in the BEA reports. The Biotechnology Industry Organization (BIO) reports that the biotech industry had sales of \$17.4 billion in 1997 versus \$14.6 billion in 1996, a growth of 19 per-

cent. Employment in this industry was 140,000 in 1997 versus 119,000 in 1996, also an increase of 19 percent (from the BIO Web site at <http://www.bio.org>).

The electronics industry is a mature industry that is well captured by the SIC/NAICS codes. The Electronic Industries Alliance reports that 1997 sales in the U.S. electronics sector was \$460 billion, up from \$415 billion in 1996, an 11 percent gain (from their Web site at <http://www.eia.org>). These figures include consumer products, industrial electronics, defense items, and components.

The rapidly growing software industry, particularly the shrink-wrap business, is not captured by the SIC codes (though the NAICS codes will include it when the next Economic Census reports are completed). The Software Publishers Association (SPA) represents the rapidly growing packaged software industry, and it reports that the worldwide revenues of packaged software businesses were \$120 billion in 1997, a 15-percent increase from 1996. According to the SPA, the United States is estimated to hold approximately a 70-percent share of sales. Their analysis shows that the packaged personal computer software market in the United States is estimated at nearly \$30 billion. Of this, they report that \$24 billion is business software, \$5 billion is home use products, and \$800 million is software designed for schools. The employment level reported by the SPA is expanding rapidly — at about 9 percent per year. In 1996, employment stood at 200,000 people, with an annual payroll of \$14 billion. The SPA's

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Web site is at <http://www.spa.org>.

Some of the support industries associated with the technology sector are growing rapidly but, when counted, are often hidden in the service sector, not the technology sector. A good example is the rapid growth of specialized computer businesses. These small businesses are defined as those companies that design, install, support, and manage networked computers. According to a study conducted by Nathan Associates for Microsoft Corp., *The New High-Tech Entrepreneurs*, this industry has grown dramatically, to a value-added revenue level of \$134 billion in 1997, and employment of 2.2 million. (The reported revenue does not include the computer hardware or packaged software reported in the SPA or EIA studies.) This is more than 1.5 times the \$85 billion reported in 1997 by the Commerce Department for the motor vehicles and equipment industry (SIC 37) (see <http://www.bea.doc.gov/bea/dn2/gpoc.htm>). According to Nathan Associates, most of these computer support businesses were reported in SIC industry group 737, which consolidates them into the SIC major group 73, business services. (The text of the report is

available on Microsoft's Web site at <http://www.microsoft.com/statefacts/>.)

The Office of Advocacy has worked closely with the technology trade associations and their members to ensure that the new NAICS codes improved the classification and reporting of the technology sectors and the small business share of them. Until such time as the NAICS is used for the collection and reporting of economic data, Advocacy's Office of Economic Research will be working to provide alternative solutions to measuring this very important sector. For additional information, contact Bruce Phillips at (202) 205-6975 or via e-mail at bruce.phillips@sba.gov.

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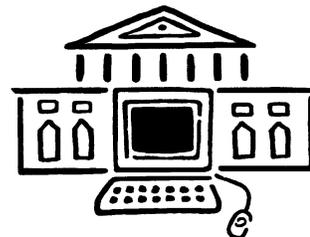
Counting in the Future

Over the next few years a new industrial classification system, the North American Industrial Classification System (NAICS), will be used by federal statistical agencies, beginning with the release of the first data from the 1997 Economic Census. The NAICS replaces the old U.S. Standard Industrial Classification (SIC) system that was last revised in 1987. The new classification system was jointly developed by the three signatories to the North American Free Trade Agreement — the United States, Canada, and

Mexico. One of the advantages of the NAICS will be how, according to its compilers, it better reflects "the enormous changes in technology and in the growth and diversification of services that have marked recent decades."

The NAICS is available on the Census Bureau's Web site at <http://www.census.gov/naics>. It is also available for purchase in book and CD-ROM formats. For information, contact the National Technical Information Service at (800) 553-6847.

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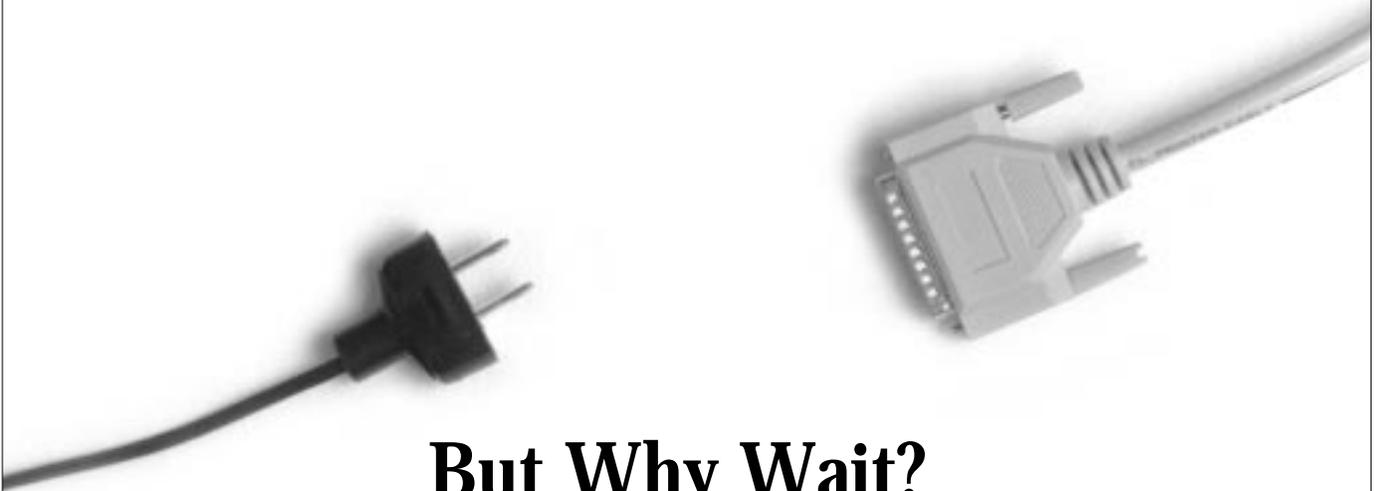
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