

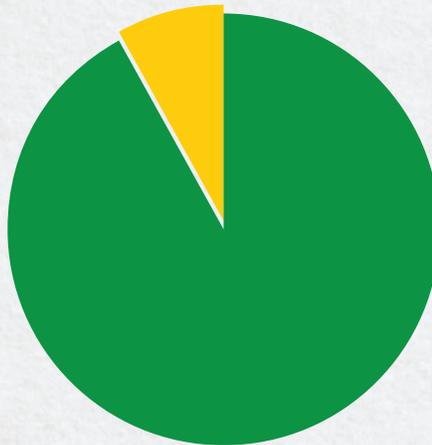
BIGGER THAN YOU THINK

The Economic Impact
of Microbusiness
In the United States

Microbusinesses
represent

92%

of all U.S.
businesses



The
Ripple
Effect

Direct
26m jobs

Indirect
1.9m jobs

Induced
13.4m jobs

41.3 Million
Jobs

Microbusinesses are
defined as enterprises
with fewer than five
employees, including
the owner



AEO Association for
Enterprise Opportunity
THE VOICE OF MICROBUSINESS

Acknowledgements

AEO sincerely thanks the W. K. Kellogg Foundation for their generous support of this study. We greatly appreciate the talent and skills of our research team at the Insight Center for Community Economic Development, and those of James H. Carr and Katrin B. Anacker. We especially appreciate the valuable insights for the methodology through interpreting the data and analysis provided by our Economic Impact Council of Advisors: Joy Anderson, John Arensmeyer, Keith Ernst, Dr. Robert Fairlie, Mary Houghton, Dr. Susan Jones, Dr. Barbara Robles, Dr. Lisa Servon, Bess Stephens, James Thomas, Gladys Washington, and Gina Wood.

We also want to thank Robin Currie, Susan Bentley, Kimberly N. Alleyne, Tammy Halevy, and Garvester Kelley for their participation in writing, editing, production and overseeing this effort.



About AEO

The Association for Enterprise Opportunity (AEO) is the voice of microbusiness in the United States. For two decades, AEO and its more than 400 member organizations have helped millions of entrepreneurs contribute to economic growth while supporting themselves, their families and their communities. AEO members and partners include a broad range of organizations that provide capital and services to assist underserved entrepreneurs in starting, stabilizing and expanding their businesses. Together, we are working to change the way that capital and services flow to underserved entrepreneurs so that they can create jobs and opportunities for all.

Preface

AEO has long recognized the substantial contributions made by microbusinesses—our country’s largest segment of small businesses—to local economies across the country. The onset of the Great Recession and its lingering consequences of unemployment and wealth stripping sounded a bell of urgency to generate the evidence behind our beliefs. We have now built the evidence base for a well-informed case that documents the economic impact of microbusinesses in the United States. As top policy experts and law makers, economists and business journalists, philanthropists and business leaders posit and debate ideas on what to do about the tens of millions of unemployed people and the growing number of children and families living in poverty, we urge them to learn more about the impact of microbusiness now. Microbusinesses are responsible for more than 41 million jobs in this country. Just imagine the potential impact microbusiness could have if we made more strategic investments in it as a deliberate strategy and solution to move our economy forward.

This report, ***Bigger than You Think: The Economic Impact of Microbusiness in the United States***, is one of a series of reports and forthcoming papers. Two other reports were produced from the two-year study (*Microbusinesses in the United States: Characteristics and Sector Participation*; and *Microbusinesses in Georgia: Characteristics and Economic Impact*), and are available on the AEO website (www.aeoworks.org). Additional data analysis by the Insight Center for Community Economic Development (ICCED) is contained in the unpublished report, *The Economic Impact of U.S. Microbusinesses*. This report and its 207-page Appendix can be made available to other researchers and analysts upon request.

The evidence gathered through AEO’s efforts goes far in filling the data gap on microbusinesses. The findings paint a compelling portrait of a remarkably vigorous microbusiness community that plays an outsized contribution to the economy, more so than the size of any single business would suggest. Microbusinesses are demonstrating great success in spreading business participation and ownership across underserved communities — they represent a path to economic opportunity for all.



Connie E. Evans,
President and CEO, Association for Enterprise Opportunity

BIGGER THAN YOU THINK:

The Economic Impact of Microbusiness in the United States

*Ninety-two percent
of all U.S. businesses
are microbusinesses.*

Executive Summary

How great of an impact does microbusiness have on our new economy? A lot greater than many previously thought. As summarized in AEO's new report, *Bigger than You Think: The Economic Impact of Microbusiness in the United States*, microbusinesses are an increasingly feasible and attractive option to those for whom a precarious economy and mercurial labor market no longer serve. Beyond affording their owners freedom and flexibility to forge paths to job stability and self-sufficiency, these enterprises also wield an inherently boundless power to resuscitate America's employment and economic health.

In fact, data from AEO's earlier report, *The Power of One in Three: Creating Opportunities for All Americans to Bounce Back*, showed that "If one in three Main Street microbusinesses hired a single employee, the United States would be at full employment." This statement has taken the nation by storm, yet many did not fully recognize the transformative nature of U.S. microbusiness. AEO's current research details the potential of microbusiness by examining the characteristics of microbusiness types and exploring the ways in which microbusinesses can take advantage of non-standard work arrangements and recent technological advances.

As the U.S. economy evolves, microbusinesses are well-poised to capitalize on that evolution in our labor market and broader economy. While individually small in scale, as a whole, microbusinesses play a significant role. Ninety-two percent of all U.S. businesses are microbusinesses, and in 2011, the direct, indirect, and induced effects of microbusinesses on employment amounted to 41.3 million jobs, or 31 percent of all private sector employment. Direct sales and receipts and indirect and induced economic output of microbusinesses combined to result in an almost \$5 trillion economic impact. Correspondingly, microbusinesses contributed \$135.5 billion in tax and fee revenues to federal, state, and local governments.

Microbusinesses, defined as enterprises with fewer than five employees, including the owner, are the small businesses on Main Streets and cross streets all over this country and they cover the full gamut of economic activity. From the local dry cleaner to the online financial consultant or the contractor inspecting water pipes, microbusiness activity is everywhere. To better understand these 25.5 million businesses, AEO developed a typology to separate microbusiness owners into five categories, based on common business characteristics. See typologies [here](#).

From **newcomers, with no previous business experience and less than four years in operation**, to **full-timers with \$50,000+ in sales and receipts**, microbusiness owners are committed to succeeding in business. The biggest group of microbusinesses includes owners who work **full time, with less than \$50,000 in sales and receipts**. These owners account for more than 30 percent of microbusinesses. The next largest type- is **full time, \$50,000+ in sales and receipts** (28.6 percent) and **part time, not primary income** (25.8 percent). Another 10.9 percent of microbusiness owners were categorized as **part timers whose microbusiness provided their primary source of income**.

The characteristics of the **newcomer** type (younger median age, more likely to be women and people of color) reflect what we know about microbusiness: it can be an especially significant economic activity for those demographic groups that have not always shared fully in economic good times and have suffered most during times of recession and sluggish economies.

In today's economy, starting a microbusiness is often a necessary and increasingly viable option because of relatively low barriers to entry. For example, a college degree is not required, most business owners who utilize start-up capital, finance their businesses with personal savings, and all ages are represented in microbusiness, with a median age of 50+ for owners. Furthermore, median microbusiness wages are greater than – often double – the minimum wage level. Many microbusinesses do not offer traditional employee benefits such as paid holidays and retirement plans. However, non-quantifiable benefits, such as flexible hours, convenient locations, and alternative work options (such as telecommuting) may be quite advantageous to some owners and employees.

By their very nature, microbusinesses are flexible and resilient; moreover, microbusinesses create a variety of positive social impacts by providing income, wealth and upward mobility across racial, ethnic, and gender lines. Strategies to promote the expansion of successful microbusinesses can create greater equality and economic inclusion while seeding new businesses and jobs. Historically regarded as too small to count, microbusinesses are bigger than once thought of—and too important to ignore.

5 TYPES OF MICROBUSINESS OWNERS

30.4%

Full time —

Owner works full time in microbusiness that generates less than \$50k in annual sales and receipts.

28.6%

Full time —

Owner works full time in microbusiness that generates more than \$50k in annual sales and receipts.

25.8%

Part time —

Microbusiness does not provide primary source of income.

10.9%

Part time —

Microbusiness provides primary source of income.

4.4%

Newcomer —

No previous business ownership experience and in current business less than four years. Business may be part or full time, representing owner's primary source of income.