



Data Collection Methods

The data for this survey report were collected for the NFIB Research Foundation by the executive research group of...

Employee Size of Firm	Interviews Expected	Percent Distribution	Viewed	Percent Distribution	Completed Interviews
1-9	593	79	350	57	350
10-19	82	11	300	26	
20-249	75	10	300		

National Small Business Poll

NFIB National

Volume 6, Issue 4
2006

Small Business Poll

Expenses

NFIB National Small Business Poll

The *National Small Business Poll* is a series of regularly published survey reports based on data collected from national samples of small-business employers. Eight reports are produced annually with the initial volume published in 2001. The *Poll* is designed to address small-business-oriented topics about which little is known but interest is high. Each survey report treats different subject matter.

The survey reports in this series generally contain three sections. The first section is a brief Executive Summary outlining a small number of themes or salient points from the survey. The second is a longer, generally descriptive, exposition of results. This section is not intended to be a thorough analysis of the data collected nor to explore a group of formal hypotheses. Rather, it is intended to textually describe that which appears subsequently in tabular form. The third section consists of a single series of tables. The tables display each question posed in the survey broken-out by employee size of firm.

Current individual reports are publicly accessible on the NFIB Web site (www.nfib.com/research) without charge. Published (printed) reports can be obtained at \$15 per copy or by subscription (\$100 annually) by writing the *National Small Business Poll*, NFIB Research Foundation, 1201 "F" Street, NW, Suite 200, Washington, DC 20004. The micro-data and supporting documentation are also available for those wishing to conduct further analysis. Academic researchers using these data for public informational purposes, e.g., published articles or public presentations, and NFIB members can obtain them for \$20 per set. The charge for others is \$1,000 per set. It must be emphasized that these data sets do NOT contain information that reveals the identity of any respondent. Custom cross-tabulations will be conducted at cost only for NFIB members on a time available basis. Individuals wishing to obtain a data set(s) should write the *Poll* at the above address identifying the prospective use of the set and the specific set desired.

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Small Business
Poll



Expenses

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National Small Business Poll



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Executive Summary

- More small employers report that employee wages, salaries, commissions, etc., is their single largest expense category than any other category. Still, just 19 percent say that employee pay is their single largest expense. Another 21 percent put the cost in their top two or three. A separate category, employee benefits excluding taxes such as FICA, resulted in an additional 10 percent who placed employee compensation costs in the top three business expenses. Employee health insurance falls in this expense category.
- Materials and supplies, and inventories (cost of goods sold) are two other categories of expense that are prominent. Combined, 20 percent of all small-business owners report these expenses as their single most important and another 25 percent put them in the top two or three. Twenty-six (26) percent have no inventory costs.
- Few small-business owners appear to go out on a limb investing in business equipment or vehicles. While 89 percent have business equipment expenses, just 13 percent report that they are among the top three costs. Similarly, 85 percent have vehicle expenses, though just 17 percent indicate they are in one of the most costly three categories.
- Business taxes, not including personal tax on business income, constitute an important expense, but typically are not among the largest. Forty-four (44) percent list business taxes among the top five expenditures and 46 percent say they are not in the top five. Such taxes could include real property, personal property, franchise, and corporate income. Business insurance expenses, excepting insurance as employee benefits, appear comparable.
- Interest expenses are modest, when they exist, for most small-businessmen and women. Two percent report interest is the largest single cost they have while 28 percent report that they have no interest costs. A healthy economy and low interest rates contribute greatly to this condition.
- Rent/lease of space is an important expense category when small-business owners have it. However, a substantial portion of the small-business population owns its space.
- The owner is the person most likely (47%) to keep the business's financial records on a day-to-day basis. However, that responsibility falls to a family member of the owner in 21 percent of cases, an employee in 20 percent, and someone else in 12 percent.
- The cash method of accounting is the one most frequently used by small-business owners (41%). Nineteen (19) percent use the accrual method and another 12 percent a hybrid of the two. But 28 percent are not certain of the method of accounting that they use.
- Most small-business owners cannot name the inventory accounting method they use. Of those with significant inventories (in their top five business expenses), just 16 percent report that they use FIFO and another 13 percent use LIFO. The remainder mention something else or do not know.
- Forty-one (41) percent of those with significant inventories have them tied to a point-of-purchase device or computer to automatically track them.

Expenses

An old adage cautions that it is not how much a business takes in, but how much it does not spend. That adage is obviously an exaggeration. Yet, it makes an important point that most successful small-business owners understand: controlling expenses is a must and demands constant owner attention. Controlling expenses is, of course, different than making minimal expenditures. Investments, that is, expenditures, to make the business more productive and competitive, are absolutely necessary. But the difference between necessary and unnecessary expenses is often the difference between profitability and not. Because controlling expenses is such an important part of most successful small businesses, this issue of the *National Small Business Poll* is devoted to Expenses.

The survey on which this report is based places a business's primary expenses into broad categories. These categories do not mirror an acceptable accounting statement. Accounting "buckets" would likely have been too complex given the respondent did not have his or her financial records immediately accessible at the time of the interview. Still, the business expense categories queried are familiar to most small employers and are generally understandable to the public.

Other issues arose in the survey. Depreciation is the most important example. Equipment, vehicles, and owned space should be depreciated to obtain an accurate portrayal of costs. A \$30,000 car depreciated over five years should be a \$6,000 annual expense (straight line). However, if the respondent paid for the car when purchased, the outlay would be \$30,000 in one year and nothing since. While the survey emphasized respondents should include depreciation, it is not always clear they considered such matters in their responses. The cost of building/structure ownership did not appear on the survey precisely in fear that depreciation issues would taint results. In addition, the recent, highly visible run-up of oil prices might have caused respondents to exaggerate energy costs. Interest costs might have been minimized for the oppo-

site reason. Expenses appear underestimated when totaled across expense categories. However, the distribution attributed to the major cost categories is the important element. Survey results clearly show which categories of business expense are more and less important.

The Largest Expenses

The greatest expense in small businesses is employee wages, salaries, commissions, etc. Nineteen (19) percent report that wages and salaries constitute the single largest expense that they have (Q#1L). The figure rises to 34 percent among those employing 20 people or more. Another 21 percent claim that wages and salaries are in the top two or three expense categories and 39 percent claim them in their top five. However, 7 percent say they do not have such costs. Those responses are difficult to understand given that only employers participated in the survey. Since all such reports originated among the very smallest, it is possible there are issues involving family members as employees, profit-sharing arrangements, or transitions between employing and non-employing firms.

Technically, employers in a corporation are employees. The result is that salaries of owners and/or officers will often be rolled

into the firm's wage and salaries account. It is highly doubtful that occurred here as owners do not consider themselves employees even when they own a corporate entity, and the survey question specifically addressed employee wages and salaries.

The numbers above include only wages, salaries, etc. They do not include the other portion of employee compensation, that is to say, employee benefits. Large firms often provide 20 to 30 percent of their total compensation in benefits. Small firms typically provide a much smaller portion of their total compensation in benefits. In fact, 23 percent report no employee benefit costs. The overwhelming portion of these own the very smallest enterprises. Just 2 percent of small-business owners report employee benefits excluding taxes such as FICA as their largest expense and another 7 percent say it is in the top two or three (Q#1E). However, 50 percent of those who employ 20 or more people say that employee benefits are among their highest five expense categories. Adding wages (salaries) and benefits, employee compensation becomes the largest single business expense for more small firms than any other.

Twelve (12) percent term materials and supplies their single greatest business expense (Q#1K). Another 16 percent list materials and supplies in the top two or three expenses. In accounting terminology, materials and supplies are not inventories that are resold or become products which are sold. Rather they are the items typically used in the business, including paper, pencils, and cleaning supplies. It is possible that some confusion arose between materials and supplies, and inventories (cost of goods sold).

Ten (10) percent claim energy, that is, electricity, gasoline, natural gas, etc., is their single largest business expense (see immediately prior Poll issue on Energy Consumption). Moreover, another 25 percent claim energy is in their top two or three and yet another 34 percent place it in their top five. There are several reasons for the significance attached to energy expenditures. The first is the recent run-up in energy prices which not only caused expenditures on energy to rise sharply, but the run-up also made those costs highly visible. The second is that most small busi-

nesses pay their heating, cooling, and lighting costs directly. Even when they rent/lease their physical facilities, they typically pay their energy costs directly. The third is that over 80 percent have business vehicles.

Eight percent report inventories (in accounting terminology the cost of goods sold) as their single largest business expense (Q#1G). Another 9 percent say that it is one of the two or three largest, and 21 percent say that it is in the top five. While 25 percent say that they expend nothing on inventories, the distribution of responses appears to understate the importance of inventories in many small firms. The proportion of inventory-intensive industries such as retail, wholesale, and manufacturing have numerically declined substantially as a portion of the total population over time. That means relatively fewer businesses carry large inventories. Further, the emphasis over the last few years has been to hold fewer inventories for shorter periods of time. There are even wholesale and retail businesses today that carry no inventory; they are effectively a display room/catalogue and simply match customer and manufacturer. Other firms are, of course, very different and still have very large inventory holdings and hence expenses.

Many small employers own the physical facilities in which they operate, particularly where the business is located in the home. Still, rent is usually a substantial expense for those who have it. Seventy-one (71) percent say that they pay rent on building or office space, though it may not be for the firm's primary location (Q#1C). Five percent report rent to be their primary business expense. Another 10 percent say rent is in their top two or three. Still, another 28 percent rank it in the top five. The cost of rent, therefore, is one of the five greatest business expenses in over 40 percent of all small enterprises.

Lesser Expenses

The remainder of the expense categories find relatively few listing them as their single greatest expense. More revealing is the number who have none of these expenses, or relatively few of them. A good example is interest expenses. Twenty-eight (28) percent report that they have no interest expenses and another 47 percent say that

interest is not in their top five expenses (Q#1F). While low interest rates and a healthy economy partially explain the relatively small amounts paid as interest, it also indicates that small-business owners do not typically accumulate large debt in the operation of their businesses. Just 2 percent report interest is their single greatest business expense and another 4 percent place it in their top two or three.

Since owners do not necessarily purchase vehicles or major pieces of equipment every year, depreciation becomes important when assessing the relative costs of these investments. And, while the survey asked that depreciation be included, it is not clear that respondents did so. Three percent claim that car, truck, and other vehicle expenses, including depreciation, is the single largest category of expense that they have (Q#1D). But another 14 percent place it in the top two or three. While about 85 percent of businesses have vehicles, only two to three percent of businesses are in the transportation industry. These firms would typically be the heaviest users of vehicles, and their numbers correspond closely to those reporting vehicles their single greatest expense. It is also important to note that while the overwhelming majority have a business vehicle(s), they usually represent a relatively small expenditure. Thirteen (13) percent report no expenditures on vehicles, including their depreciation, and another 40 percent say they are not in the top five expense categories.

Business equipment presents a similar situation. Three percent indicate their single greatest business expense is equipment, including depreciation (Q#1H). Another 10 percent say that it is in the top two or three expenditure categories. But 51 percent say that business equipment is not in their top five expenditure categories and another one in 10 (9%) say that they have no such costs.

Non-Productive Expenses

Small employers lodge persistent complaints over both the taxes they pay and the cost of their business insurance. Their complaints appear tied to the amount expended on each. However, the business insurance evaluation excluded incessantly rising health insurance expenses (costed as an employee

benefit) and the tax evaluation excluded income taxes (not technically a business tax except for about half of the limited and falling number of C-corporations).

Three percent say that business insurance is their largest business cost (Q#1B). The key to the immense small employer concern over business insurance can be found in the 13 percent who assign it to the top two or three expense categories and the other 31 percent who place it in the top five. Owner assessments exclude employee health and workers' compensation, two of the most expensive types of insurance. The critical point, however, is that these relatively large expenses have no direct productive value to the firm. They simply protect it or the owner and its assets from unforeseen events ranging from weather to lawsuits. Forty-five (45) percent indicate that business insurance costs are not in their top five expenditure categories and 7 percent indicate they have no such costs. The latter figure might be explained in some cases by coverage from household insurance when businesses are relatively simple and operated out of the home. But it also suggests that a small number are simply going bare.

The second of these two expense categories is business taxes. The exclusion of personal income taxes from this expense leaves FICA (Social Security), FUTA (unemployment), real property, corporate income, franchise, and in some locations personal property taxes as the principal specific imposts in the evaluation. Just 1 percent of small-business owners report these types of taxes are their single largest expense, but another 44 percent assign them to their top five expense categories (Q#1I). Four percent claim they have no such costs. Since all respondents are employers, by definition they cannot be correct or are evading the tax. More likely, they either did not think of payroll taxes as business taxes when answering the question.

Two Visible, But Typically Modest Expenses

About 85 percent of all small-business owners spend some money on promotion or advertising (Q#1A). However, promotional expenses tend to be a small portion of their budgets. Fifty-five (55) percent say it is not in their top five expenditure categories,

which when added to the 15 percent who have none, means that 70 percent place minimal emphasis on the paid promotion aspect of their businesses. Just 1 percent claim that it is the largest expenditure they have while another 7 percent report it in the top two or three.

This promotion category of expense illustrates an important small-business dilemma. It is vital in most instances that customers and potential customers be aware of a business and its offerings. The cost of raising awareness is high, but the resources available to small businesses to raise awareness are limited. Thus, owners of smaller enterprises must find low-cost means to nurture old customers and find new ones. A hefty dose of paid promotion does not appear to be one of them. Alternative, and lower cost, means must be found to promote the business. Hence, the dilemma, particularly for starters - the need to publicize the business with minimal means. It is curious, however, that the very smallest (fewer than 10 employees) are more likely to spend relatively more on paid promotion than are those that are larger, small businesses.

The second of these visible, but typically modest expenses, is professional services. Common professional services small-business owners use include: accounting, legal, design, engineering, and computer installation and/or programming. About 87 percent make expenditures on professional services in any year (Q#1J). Yet, just 4 percent, or fewer than one in 20, place professional services expenses in the top three expense categories. The bulk spend something on them, but in comparatively small amounts.

There is a business-size component to expenditures on professional services as well. While owners of the very smallest are more likely to spend no money on professional services than are owners of larger, small firms, owners of the smallest who do use them appear to spend relatively more.

The last expenditure category is utilities, including telephones. This category clearly overlaps with the energy category since most heating, cooling and lighting costs are almost all paid to utilities. However, just 1 percent say utilities is their most expensive cost category and another 9 percent place it in the top two or three (Q#1M). Fifty (50) percent report that they are not

in the top five categories. The juxtaposition of utility and energy costs in small-business owner evaluations is baffling. They should be similar, but are not. It is possible the reference to telephones in the question led respondents to forget the energy portion.

Financial Accounting

While a majority of small-business owners use outside accountants and other professionals to do their taxes and periodically review their financial records, the owner himself or herself most often is the one who does the day-to-day financial record-keeping. Owners complete it in 47 percent of cases (Q#2). Those with the smallest businesses (fewer than 10 employees) assume that function in 52 percent of enterprises compared to 26 percent with the largest (20 or more employees). A family member of the owner, most likely the spouse, is the person next most likely to do the books day-to-day (21%) followed by an employee (20%). Twelve (12) percent report another party performs the task.

There are three types of accounting methods used in small businesses: cash, accrual, and a hybrid of the two. Precision, complexity, and government requirements are the primary reasons why an owner might choose one over the other. Cash accounting is the simplest and one the Internal Revenue Service (IRS) allows most small-business people to apply. Forty-one (41) percent use this method, including 25 percent of owners employing 20 or more people (Q#3). The cognosi's preferred method due to its precision and capacity to provide a superior picture of a business's finances, is the accrual method. Seventeen (17) percent of the population including 32 percent of the largest use this method. Thirteen (13) percent report that they use a hybrid. That leaves over one-quarter (28%) who do not know what system they use. Those who do their own record-keeping are somewhat more likely to identify an accounting system than those who have someone do it for them. Some of the 28 percent "don't knows," therefore, are likely the result of not having a hands-on approach to financial record keeping. Still, given the importance of accounting to businesses, the number of owners who do not know the method of accounting they use seems quite high.

Inherently, there is nothing wrong with a small-business owner not knowing or remembering the method of accounting employed so long as it is consistent, documented, etc. However, a problem arises if there are tax implications, though these would be confined to larger, small firms. A second potential problem occurs when relatively large obligations or commitments are routinely made without a concurrent expenditure.

Inventory Accounting and Inventories

Those small employers who report that inventories are in their top five expenditure categories often cannot identify the inventory accounting system that they use. The primary methods to account for inventories for tax purposes are first-in, first-out (FIFO) and last-in, first-out (LIFO). Yet, only 28 percent of small employers with significant inventories can identify their use of one or the other (Q#3c). Thirteen (13) percent say that they use LIFO and 16 percent FIFO. Thirty-five (35) percent say they use a different method, and another 35 percent are not sure. Those who say “Other” likely mean the average cost method which cannot be used for tax purposes. Again, there is nothing inherently problematic by not knowing the name. It is the application of the knowledge that can create issues.

A proposal has been made in the Congress to eliminate use of LIFO and require that all inventory systems revert. Since LIFO effectively results in a deferral of income, those who use the method have accumulated a deferral amount known as a LIFO reserve. A change back to FIFO effectively means tax must be paid on the reserve in addition to regular tax. The hit could be very large (on a relative basis) and cause a severe cash flow problem for many LIFO-using, inventory-intensive businesses. So, the first issue is whether the owner has even heard of a LIFO reserve. The second is whether the owner knows the size of his LIFO reserves and hence his potential tax liability.

Too few small-business owners use LIFO, at least knowingly, to answer these two questions from the survey’s data. However, it would appear that LIFO reserves is a relatively unfamiliar term and virtually no

one can estimate theirs. That suggests a change would leave many current LIFO users very unpleasantly surprised.

The same set of owners appear reasonably informed about other aspects of their inventories. Eighty-eight (88) percent identify the number of days of inventory that they try to maintain on their most important items, though 15 percentage points say that it differs by item (Q#3a). Of the 73 percent who gave a specific time, 24 percentage points say that they try to maintain seven days of inventory or less on their most important items; 12 percentage points, eight to 14 days; 21 percentage points, 15 to 30 days; and, 16 percentage points, 31 days or more.

Many businesses, particularly inventory-intensive businesses, tie their inventory to a point of purchase device or a computer that allows small employers to keep up-to-the-minute records of the inventories they have on hand. Of those who have significant inventories, 41 percent possess an electronic inventory accounting system (Q#3c). However, the figure differs substantially in ventures above and below 10 employees. The latter have them in 57 percent of cases while the former have them in just 35 percent of cases.

Final Comments

The data from the survey is often inconsistent and sometimes even contradictory underscoring the difficulty of obtaining reliable financial information from small-business owners about their firms. However, several important points without question emerge: the largest expense categories in small businesses are far and away employee compensation, inventories (cost of goods sold), and materials and supplies. Within the employee compensation category, the cost of wages and salaries overwhelms the cost of employee benefits due both to the relative difference in expense and to the smaller numbers providing benefits. Rent or lease payments are also often significant for those having them, but a large number own their facilities and do not pay rent.

Smaller expense categories include business insurance, not including employee benefits such as health insurance, and business taxes, not including personal tax on business income. Perhaps the most misunderstood business expense, however, is

interest. Interest expenses are a significant business expense in relatively few firms. While the evaluation of interest costs could have become snared in the larger issue of depreciation and therefore underestimated, the principal interest issue for most small-business owners is customers who purchase larger items on credit. Higher interest costs for them result in higher prices for customers and lower sales for small businesses.

The accounting/financial record-keeping has never been one of the more popular parts of a small-business owner's time allocation. That resoundingly appears in small-business owner familiarity or lack thereof with some of the more basic concepts of accounting. While a sophisticated understanding of accounting is not required by owners of most smaller firms, they should understand basic concepts if for no other reason than to keep themselves out of trouble with tax authorities. It is possible, perhaps even highly likely, that a substantial number of small-business owners have had their accounting systems set-up by professionals who informally check their application at tax time. The responsible person in the firm simply maintains the records as he or she has been instructed to do. None of this suggests any type of misrepresentation or misappropriation. But it does suggest that owners may not be using all the management tools available to them and that, on occasion, they could be subject to unpleasant surprises.

Expenses

(Please review notes at the table's end.)

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
I. Businesses have many costs. Please tell me if the following costs are _____ ? How about:				
A. Promotion, advertising, meals, entertainment				
1. The single largest business cost you have	1.1%	1.2%	—%	1.0%
2. One of the two or three largest business costs you have	7.6	2.4	3.9	6.7
3. One of the five largest business costs you have	23.2	17.9	14.5	21.8
4. Not in the top five business costs you have	50.6	69.0	71.1	54.5
5. Don't have any of these costs	16.4	9.5	10.5	15.1
6. (DK/Refuse)	1.1	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751
B. Business insurance, not including employee benefits such as life or health insurance				
1. The single largest business cost you have	2.5%	3.5%	1.3%	2.5%
2. One of the two or three largest business costs you have	13.8	12.9	10.5	13.4
3. One of the five largest business costs you have	29.4	35.3	36.8	30.8
4. Not in the top five business costs you have	45.0	44.7	47.4	45.2
5. Don't have any of these costs	8.4	2.4	2.6	7.2
6. (DK/Refuse)	0.8	1.2	1.3	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

C. Building or office rent

1. The single largest business cost you have	5.1%	3.6%	1.3%	4.6%
2. One of the two or three largest business costs you have	11.4	4.8	6.5	10.2
3. One of the five largest business costs you have	27.9	26.2	29.9	27.9
4. Not in the top five business costs you have	24.8	39.3	39.0	27.7
5. Don't have any of these costs	30.3	23.8	22.1	28.8
6. (DK/Refuse)	0.5	2.4	1.3	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D. Car, truck, and other vehicle expenses, including depreciation

1. The single largest business cost you have	3.3%	1.2%	2.6%	3.0%
2. One of the two or three largest business costs you have	14.8	10.8	5.3	13.5
3. One of the five largest business costs you have	29.3	28.9	27.6	29.1
4. Not in the top five business costs you have	38.0	42.2	53.9	40.0
5. Don't have any of these costs	13.2	15.7	9.2	13.1
6. (DK/Refuse)	1.4	1.2	1.3	1.4
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

E. Employee benefits, not including taxes such as FICA

1. The single largest business cost you have	2.1%	2.4%	5.3%	2.4%
2. One of the two or three largest business costs you have	7.2	9.4	6.6	7.3
3. One of the five largest business costs you have	21.6	25.9	38.2	23.7
4. Not in the top five business costs you have	41.0	50.6	42.1	42.2
5. Don't have any of these costs	27.2	10.6	5.3	23.3
6. (DK/Refuse)	1.0	1.2	2.6	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

F. Interest

1. The single largest business cost you have	2.1%	1.2%	1.3%	1.9%
2. One of the two or three largest business costs you have	4.0	4.8	3.9	4.1
3. One of the five largest business costs you have	16.2	16.9	15.8	16.2
4. Not in the top five business costs you have	45.2	47.0	56.6	46.5
5. Don't have any of these costs	29.7	27.7	17.1	28.3
6. (DK/Refuse)	2.9	2.4	5.3	3.0
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

G. Inventories

1. The single largest business cost you have	7.1%	9.6%	10.7%	7.7%
2. One of the two or three largest business costs you have	9.2	8.4	12.0	9.4
3. One of the five largest business costs you have	20.0	28.9	22.7	21.2
4. Not in the top five business costs you have	33.8	34.9	38.7	34.4
5. Don't have any of these costs	27.9	16.9	14.7	25.5
6. (DK/Refuse)	1.9	1.2	1.3	1.7
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

H. Business equipment, including depreciation

1. The single largest business cost you have	3.3%	2.4%	1.3%	3.0%
2. One of the two or three largest business costs you have	10.2	7.1	6.6	9.5
3. One of the five largest business costs you have	24.3	28.2	32.9	25.6
4. Not in the top five business costs you have	49.8	57.6	52.6	50.9
5. Don't have any of these costs	10.3	2.4	5.3	9.0
6. (DK/Refuse)	2.1	2.4	1.3	2.0
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

I. Business taxes, not including personal income taxes

1. The single largest business cost you have	1.4%	—%	1.3%	1.3%
2. One of the two or three largest business costs you have	14.4	12.0	6.5	13.4
3. One of the five largest business costs you have	29.2	36.1	33.8	30.4
4. Not in the top five business costs you have	45.1	47.0	50.6	45.8
5. Don't have any of these costs	5.9	2.4	3.9	5.3
6. (DK/Refuse)	4.0	2.4	3.9	3.8
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

J. Professional services, such as accounting, computer programming, legal

1. The single largest business cost you have	—%	—%	1.3%	0.1%
2. One of the two or three largest business costs you have	3.8	1.2	2.6	3.4
3. One of the five largest business costs you have	19.6	20.2	15.6	19.2
4. Not in the top five business costs you have	61.4	70.2	76.6	63.8
5. Don't have any of these costs	14.3	8.3	2.6	12.5
6. (DK/Refuse)	1.0	—	1.3	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

K. Materials and supplies

1. The single largest business cost you have	12.4%	11.9%	6.4%	11.8%
2. One of the two or three largest business costs you have	15.4	19.0	16.7	15.9
3. One of the five largest business costs you have	29.4	33.3	33.3	30.2
4. Not in the top five business costs you have	35.1	32.1	35.9	34.9
5. Don't have any of these costs	6.2	2.4	5.1	5.7
6. (DK/Refuse)	1.5	1.2	2.6	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

L. Employee wages, salaries, commissions, etc.

1. The single largest business cost you have	16.5%	27.4%	34.2%	19.4%
2. One of the two or three largest business costs you have	18.8	27.4	27.6	20.5
3. One of the five largest business costs you have	39.7	39.3	35.5	39.3
4. Not in the top five business costs you have	15.6	6.0	2.6	13.3
5. Don't have any of these costs	8.6	—	—	6.8
6. (DK/Refuse)	0.8	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

M. Utilities, including telephones

1. The single largest business cost you have	1.0%	2.4%	1.3%	1.1%
2. One of the two or three largest business costs you have	10.2	7.1	5.3	9.4
3. One of the five largest business costs you have	36.5	29.8	28.9	35.0
4. Not in the top five business costs you have	47.8	59.5	61.8	50.4
5. Don't have any of these costs	3.5	—	—	2.8
6. (DK/Refuse)	1.1	1.2	2.6	1.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

2. Who does the day-to-day financial record-keeping for your business?

1. You (respondent)	51.7%	34.5%	26.3%	47.4%
2. Owner family member	21.0	20.2	18.4	20.7
3. An employee	14.9	33.3	44.7	19.8
4. Someone else	11.6	11.9	10.5	11.5
5. (DK/Refuse)	0.8	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

Employee Size of Firm
 1-9 emp 10-19 emp 20-249 emp All Firms

3. Does your business use the cash method of accounting, also known as the cash basis, the accrual method of accounting, also known as the accrual basis, a hybrid of the two, or are you not really sure?

1. Cash method	43.6%	33.7%	25.0%	40.7%
2. Accrual method	16.9	26.5	31.6	19.3
3. Hybrid	11.4	12.0	13.2	11.7
4. Not really sure	27.7	27.7	28.9	27.8
5. (Refuse)	0.5	—	1.3	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

3a. Approximately, how many days of inventory do you try to maintain on your most important items? (If inventories are among the five largest business expenses in Q#1 G.)

1. 7 days or less	24.0%	19.4%	24.2%	23.5%
2. > 7 days to < 14 days	11.4	16.7	15.2	12.4
3. > 14 days to < 30 days	21.4	16.7	18.2	20.5
4. 31 days or more	14.4	22.2	24.2	16.4
5. Differs by item	16.2	13.9	6.1	14.8
6. (DK/Refuse)	12.6	11.1	12.1	12.4
Total	100.0%	100.0%	100.0%	100.0%
N	129	94	90	313

3b. Is your inventory tied to a point of purchase device, such as a cash register, or some type of computer software that allows you to keep an up-to-the-minute status of your inventories?

1. Yes	34.9%	57.5%	57.1%	40.5%
2. No	64.6	42.5	40.0	58.9
3. (DK/Refuse)	0.4	—	2.9	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	129	94	90	313

3c. Do you use LIFO, FIFO, another method, or are you not sure of the method used to account for your inventories?

1. LIFO	12.2%	12.8%	14.3%	12.5%
2. FIFO	12.2	25.6	28.6	15.8
3. Other	37.6	28.2	22.9	34.7
4. Not sure	35.8	33.3	31.4	35.0
5. (DK)	2.2	—	2.9	2.0
Total	100.0%	100.0%	100.0%	100.0%
N	129	94	90	313

Demographics

D1. Which best describes your position in the business?

1. Owner/manager	87.9%	79.8%	73.7%	85.7%
2. Owner but NOT manager	4.3	3.6	5.3	4.3
3. Manager but NOT owner	7.8	16.7	21.1	10.0
4. (DK/Refuse)				
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D2. Is your primary business activity: (NAICs code)

1. Agriculture, forestry, fishing	4.0%	1.3%	1.3%	3.4%
2. Construction	9.9	8.8	10.7	9.8
3. Manufacturing, mining	8.4	13.8	12.0	9.3
4. Wholesale trade	3.8	5.0	9.3	4.5
5. Retail trade	16.6	13.8	10.7	15.7
6. Transportation and warehousing	3.0	3.8	5.3	3.3
7. Information	1.6	2.5	—	1.5
8. Finance and insurance	5.6	1.3	2.7	4.9
9. Real estate and rental leasing	4.9	2.5	4.0	4.6
10. Professional/scientific/ technical services	13.7	11.3	6.7	12.8
11. Adm. support/waste management services	2.9	1.3	2.7	2.7
12. Educational services	0.2	1.3	—	0.3
13. Health care and social assistance	3.2	3.8	8.0	3.7
14. Arts, entertainment, or recreation	3.0	1.3	4.0	2.9
15. Accommodations or food service	3.5	16.3	13.3	5.7
16. Other service, incl. repair, personal care	10.0	6.3	2.7	8.9
17. (Other)	4.9	6.3	6.7	5.2
18. (DK/Refuse)	0.8	—	—	0.7
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

D3. Over the last two years, have your real volume sales?:

1. Increased by 30 percent or more	12.4%	16.5%	19.7%	13.5%
2. Increased by 20 to 29 percent	14.1	9.4	11.8	13.4
3. Increased by 10 to 19 percent	24.3	28.2	26.3	24.9
4. Increased by less than 10 percent	18.6	23.5	21.1	19.3
5. Decreased by less than 10 percent	13.5	4.7	6.6	11.9
6. Decreased by 10 percent or more	5.1	2.4	3.9	4.7
7. (DK/Refuse)	12.1	15.3	10.5	12.2
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D4. Is this business operated primarily from the home, including any associated structures such as a garage or a barn?:

1. Yes	31.3%	7.1%	6.5%	26.3%
2. No	68.2	90.5	92.2	72.9
3. (DK/Refuse)	0.5	2.4	1.3	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D5. How long have you owned or operated this business?:

1. < 6 years	24.8%	16.9%	14.5%	23.0%
2. 6-10 years	18.3	19.3	18.4	18.4
3. 11-20 years	23.7	31.1	23.7	24.5
4. 21-30 years	19.2	16.9	22.4	19.3
5. 31 years+	12.9	14.5	18.4	13.6
6. (DK/Refuse)	1.1	1.2	2.6	1.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D6. What is your highest level of formal education?

1. Did not complete high school	2.7%	1.2%	—%	2.3%
2. High school diploma/GED	21.8	20.2	13.2	20.8
3. Some college or an associates degree	21.5	22.6	15.8	21.0
4. Vocational or technical school degree	3.3	1.2	1.3	2.9
5. College diploma	33.5	35.7	51.3	35.5
6. Advanced or professional degree	16.1	17.9	15.8	16.2
7. (DK/Refuse)	1.1	1.2	2.6	1.3
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D7. Please tell me your age.

1. <25	0.5%	1.2%	—%	0.5%
2. 25-34	7.3	8.2	7.7	7.4
3. 35-44	16.1	21.2	19.2	16.9
4. 45-54	29.4	30.6	34.6	30.1
5. 55-64	26.6	24.7	24.4	26.1
6. 65+	17.0	11.8	10.3	15.8
7. (DK/Refuse)	3.2	2.4	3.8	3.2
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D8. What is the zip code of your business?

1. East (zips 010-219)	16.2%	12.9%	18.4%	16.1%
2. South (zips 220-427)	20.3	18.8	22.4	20.4
3. Mid-West (zips 430-567, 600-658)	22.4	30.6	25.0	23.5
4. Central (zips 570-599, 660-898)	24.6	24.7	22.4	24.4
5. West (zips 900-999)	14.8	11.8	9.2	13.9
6. (DK/Refuse)	1.6	1.2	2.6	1.6
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

Employee Size of Firm
1-9 emp 10-19 emp 20-249 emp All Firms

D9. Urbanization (Derived from zip code.)

1. Highly Urban	10.2%	10.7%	7.8%	10.0%
2. Urban	17.8	19.0	20.8	18.2
3. Fringe Urban	18.9	16.7	16.9	18.5
4. Small Cities/Towns	22.4	25.0	22.1	22.7
5. Rural	26.2	26.2	26.0	26.2
6. (Not Known)	4.5	2.4	6.5	4.4
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

D10. Sex

Male	81.1%	82.1%	83.1%	81.4%
Female	18.9	17.9	16.9	18.6
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

Table Notes

1. All percentages appearing are based on **weighted** data.
2. All "Ns" appearing are based on **unweighted** data.
3. Data are not presented where there are fewer than 50 unweighted cases.
4. ()s around an answer indicate a volunteered response.

WARNING – When reviewing the table, care should be taken to distinguish between the percentage of the population and the percentage of those asked a particular question. Not every respondent was asked every question. All percentages appearing on the table use the number asked the question as the denominator.

Data Collection Methods

The data for this survey report were collected for the NFIB Research Foundation by the executive interviewing group of The Gallup Organization. The interviews for this edition of the *Poll* were conducted between July 24 - August 25, 2006 from a sample of small employers. “Small employer” was defined for purposes of this survey as a business owner employing no fewer than one individual in addition to the owner(s) and no more than 249.

The sampling frame used for the survey was drawn at the Foundation’s direction from the files of the Dun & Bradstreet Corporation, an imperfect file but the best currently available for public use. A random stratified sample design is typically employed to compensate for the highly

skewed distribution of small-business owners by employee size of firm (Table A1). Almost 60 percent of employers in the United States employ just one to four people meaning that a random sample would yield comparatively few larger small employers to interview. Since size within the small-business population is often an important differentiating variable, it is important that an adequate number of interviews be conducted among those employing more than 10 people. The interview quotas established to achieve these added interviews from larger, small-business owners are arbitrary but adequate to allow independent examination of the 10-19 and 20-249 employee size classes as well as the 1-9 employee size group.

Table A1
Sample Composition Under Varying Scenarios

Employee Size of Firm	Expected from Random Sample*		Obtained from Stratified Random Sample			
	Interviews Expected	Percent Distribution	Interview Quotas	Percent Distribution	Completed Interviews	Percent Distribution
1-9	593	79	350	47	350	46
10-19	82	11	200	27	200	27
20-249	75	10	200	27	201	27
All Firms	750	100	750	101	751	100

* Sample universe developed from the Bureau of the Census (2002 data) and published by the Office of Advocacy at the Small Business Administration.

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The **NFIB Research Foundation** is a small-business-oriented research and information organization affiliated with the National Federation of Independent Business, the nation's largest small and independent business advocacy organization. Located in Washington, DC, the Foundation's primary purpose is to explore the policy related problems small-business owners encounter. Its periodic reports include *Small Business Economic Trends*, *Small Business Problems and Priorities*, and now the *National Small Business Poll*. The Foundation also publishes ad hoc reports on issues of concern to small-business owners. The Foundation's functions were recently transferred from the NFIB Education Foundation.



Employee Size of Firm	Interviews Expected	Percent Response	Interviews Completed	Percent Distribution	Completed Interviews
1-9	593	79%	468	79%	468
10-19	42	11	5	12%	5

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