NFIB Research Foundation

National Small Business Poll

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NFIB National Small Business Poll

The Budget

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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

The Budget

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National Small Business Poll

The Budget

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Executive Summary

- Forty-three (43) percent of small, employing businesses operate with a written budget that projects revenues (sales) and expenses (costs) by category for the budgeting period.

- Four of five small employers without a budget rely on comparison with the past, typically a base period, to determine how well they are presently doing.

- The owner or manager prepares the budget in 73 percent of small, employing businesses that have a budget. In another 11 percent of cases, a second owner (partner) performs the task. The median time he/she takes to prepare a budget is about six hours.

- The first step in constructing the budget for a small, employing business typically involves estimates of either expected revenues (47%) or expected expenditures (43%). The second step typically involves estimating the other. Intended profit is a residual, that is, what is left over.

- Thirty-four (34) percent of those developing expenditure projections for a new budget re-estimate all costs (zero-based budgeting). Twenty-nine (29) percent simply add a percentage to each cost category from the prior budget. Another 29 percent re-estimate categories where they expect major changes to occur and add a percentage to the rest.

- Fifty-one (51) percent of those developing revenue projections for a new budget review sales trends, adjust for major expected changes, and examine outside factors that may directly or indirectly influence sales. Eighteen (18) percent simply add a percentage to each revenue category for inflation while 21 percent adopt a middle course.

- Revenue and expenditure projections in most small-business budgets appear realistic. Forty-two (42) percent have revenues within five percent of projections. Fifty-five (55) percent have expenditures in the same range. Those outside the plus five/minus five percent range are almost equally divided between those whose projections are too high and whose projections are too low.

- Sixty-two (62) percent of small employers who have a budget also make cash flow projections. The reasons most commonly given for not making cash flow projections are complexity (54%) and steady cash flows (33%).

- Most small-business owners and managers with a budget periodically compare budget projections with actual performance. The most common interval to compare them is once a month (43%). Weekly (16%) and quarterly (12%) are other common intervals.

- Small-business owners and managers more frequently consider their budget as a set of flexible guidelines (60%) than a set of rigid boundaries (37%).

- Seventeen (17) percent of all small, employing businesses have a capital budget. Few capital budgets project expenditures beyond five years.

- Six percent of small employers declared bankruptcy prior to entering their current business. The percentage is effectively the same as for the American population. Owners who previously declared bankruptcy are 50 percent more likely to have a budget than the population of owners.

The Budget

A budget is both a financial and a management tool. Its construction forces a small-business owner to plan business operations for the budget period and assign numbers to them, thereby establishing financial benchmarks against which to track current performance. Should the budget either identify areas of weakness or show unsatisfactory performance, the owner has basic information necessary to make appropriate changes. However, not all small, employing businesses operate with a budget. Nor do those operating with a budget necessarily incorporate important aspects that might prove particularly helpful to manage it. While experienced owners of the smallest firms may be able to leverage their tenure and memory sufficiently to control their venture, the lack of a budget or financial plan is unnecessarily risky, even under the best of circumstances. This issue of the *National Small Business Poll,* therefore, examines small employers' construction and use of The Budget.

Forty-three (43) percent of small, employing businesses operate with a written budget that projects revenues (sales) and expenses (costs) by category for the budgeting period (Q#1). Another 2 to 3 percent claim to have a general written budget, but don't break out revenue and expense categories or provide other detail. For the remainder of this discussion, the latter group is not included in the 43 percent who have a budget.

Smaller, small firms are less likely to operate under a budget (40%) than are larger, small firms (59%).

Since budgets are frequent, even in households where far less money is typically involved, the question is: without a budget, how do small employers keep track of how well their business is doing? The most frequent response to that question (50%) is that they keep track by measuring current performance against last year or some other base year (Q#1a). This response implies the business has some type of track record generated under the current management or a prior one. Another 3 percent compare current performance to less conventional frames, such as, last month. A corollary to base period comparisons is the second most frequently cited response – experience tells them (27%). Thus, about four of five without a budget rely on comparison to the past to determine how well they are presently doing. Another 4 percent compare their performance to industry standards. About one in 10 offer other explanations. Finally, 6 percent of those without a conventional budget claim to have a general written budget, but not broken out or otherwise developed (reference above).

Constructing the Budget

Small employers most frequently (49%) construct a budget once a year (Q#2). Owners of the largest are most likely to budget annually (64%). However, other schedules are common. Ten (10) percent construct theirs semi-annually and 14 percent construct theirs quarterly. Still, 22 percent just keep updating the old one. Owners of the smallest ventures are most likely to keep updating.

The budget year typically begins in January. Two of three (67%) report their budget begins in the first calendar month of the year (Q#2a). The second most frequent month is July (9%). The remainder are scattered across the other 10 months. These outliers likely represent the month the business was formed or began using a budget.

The respondent (owner/manager) is the person who prepares the budget in 73 percent of small, employing businesses that operate under a budget (Q#3). Another owner prepares it in 11 percent of cases. An employee performs the task 7 percent of the time and another person does so 8 percent of the time. Those other persons are likely to be spouses or accountants. But, it is difficult to think of a well-constructed and influential budget prepared without considerable management input. Thus, managers who do not personally construct the budget either have considerable influence over it or are not likely to pay much attention to it.

The reported amount of time owners and/or managers take to prepare the budget varies considerably. While the median time is about six hours, 16 percent spend more than two days on it (Q#3a). If time spent reflects importance, small employers who construct budgets appear to give theirs weight and are likely to be influenced by it.

Budgets in pencil and paper (even pen and ink) have yielded to the computer. Today, 80 percent of small businesses house their budget on some type of computer program, such as Quicken (Q#11). Nineteen (19) percent do not. Part of the reason for the 19 percent is that some businesses, presumably larger ones, have outside accountants who maintain their financial records, including budgets. Presumably, small-business owners in this situation receive budget updates periodically to examine and act upon.

a. First Steps

Construction of a budget begins with three elements – revenues, expenses, and profit. Most small employers focus on either revenues or expenses first and look on profit as a residual. For example, 47 percent first build expected revenues/sales into their budget (Q#4). Another 43 percent start with expected expenses/costs. Only 7 percent start with intended profit. The second factor small employers build into their budgets is expected expenses (44%) and expected sales (40%) (Q#4a). Sixteen (16) percent build in intended profit as their second element. That means just less than four in five constructing a budget relegate intended profit to the least important (or controllable) element in their budget.

The number of major expense and revenue categories provides insight into the complexity of the business and the detail of its budget. The simple structure of most small businesses is likely to lead to budgets with relatively few expense categories and even fewer revenue categories.

The median number of major expense categories in a small-business budget is about eight (Q#7). However, one-third (33%) have five or fewer while another 13 percent claim more than 20. Ten (10) percent of small employers could not provide an estimate. The number of major revenue categories is substantially smaller. The median number is two and a fraction (Q#8). Twenty (20) percent have only one major revenue category in their budget and 21 percent have two. Eight percent have more than 10.

b. Budget Projections

If done conscientiously, projecting revenues and expenses is the difficult part of constructing a budget. There are always changing conditions and uncertainties that undermine the most careful preparation. The two extreme approaches are starting from scratch every budgeting period and re-estimating everything as if it were the first budget ever constructed (zero-based budgeting) and simply adjusting last year's (or other time frame's) budget for inflation.

Thirty-four (34) percent of small employers claim that they go back to the beginning and re-estimate all expenses every budget period (Q#5). Owners of the smallest firms appear more likely to employ this approach. Twenty-nine (29) percent adopt the opposite tack. They simply adjust for inflation by multiplying budget items by a fixed percentage. The result is their new budget. Four percent volunteer that they base their projections on last year's budget, suggesting that they also project their expenses in an inflation-adjusted manner. Finally, another 29 percent fall in the middle. They, too, add a percentage to last period's budget to adjust for inflation, but they also adjust for major new costs (or cost reductions). The key for them is to focus on expected major new, higher, or lower expenditures, rather than all items or none.

Small employers as a group appear more careful projecting revenues. Fifty-one (51) percent adopt the most sweeping approach (Q#6). They review sales trends over the last few years, adjust for major expected changes, and review outside influences that may indirectly affect sales, such as the changing state of the local economy. This group considers things they can control as well as things that they cannot. The lack of control over many items that go into the revenue projection is likely the cause for the added attention. A second group of small employers (21%) focus on direct major factors, such as a new line of products, which may influence sales, and build them in along with an inflation adjustment. Finally, 18 percent simply add an inflation adjustment to last year's sales figures. If the business is unchanging, the simple inflation adjustment approach would appear effective. The number of businesses not subject to change is likely small, however, as is the proportion using this revenue projecting technique.

c. Cash Flow Projections

Cash flow projections simply chart actual revenues and expenditures by month or week over the budget cycle. Their purpose is to identify "lumpy" revenue in-flows and lumpy expenditure out-flows. The projections inform owners and managers of periods in the budget cycle when cash will run low. Such knowledge allows owners and managers to adjust accordingly and avoid finding themselves with sticky, unanticipated cash flow problems. The projections also inform them when cash will run high, requiring its reinvestment. These problems often occur in businesses where sales fluctuate greatly throughout the year, such as in a highly seasonal business.

Sixty-two (62) percent of small, employing businesses with a budget also make cash flow projections (Q#9). Thirty-six (36) percent do not and the remainder do not know. Assuming those without a budget do not make cash flow projections either, just over one in four small-business owners make them.

Since cash flow projections are rather simple to prepare, the question becomes: why doesn't everyone who prepares a budget also prepare an accompanying cash flow statement? The most common reason (54%) for not preparing one is that it is too complicated (Q#9a). That rationale is suspect. More likely complexity implies lack of familiarity with cash flow projections rather than difficulty making them. The second most frequent reason (33%) is that small-business owners typically do not have irregular cash flows throughout their budget cycle. Three percent think cash flow projections are not relevant to the business. This assertion may translate into never having a cash flow issue. The remaining answers were scattered.

Use of the Budget

A business budget is most useful (some might argue, only useful) when the firm's manager periodically reviews it and compares projected to actual performance. Presumably, the manager can then identify any issues or opportunities that appear and act upon them.

The most frequent interval (43%) that small-business managers compare projections and performance is monthly (Q#12). The second most frequent interval is weekly (16%) followed by quarterly (12%). Nine percent use their budget to make the comparison irregularly with 3 percent admitting they do so only when something unusual happens. But on balance, it appears that small employers use the budgets they produce.

Failing to accurately project either revenues or expenditures in the budget is not necessarily a bad thing. Most small-business owners would be pleased if sales rose substantially above budget revenue projections even if it raised expenses somewhat above budget cost projections as well. Still, realistic budgeting likely will yield results near projections. In fact, a large proportion of small-business budgets are reasonably close to performance. Such calculations are complicated by time factors, such as when the budget year begins (usually January), when the comparison is made, in this case, when the survey was conducted (July/August), unknown seasonal considerations, etc. But, on balance, the small-business budget numbers usually appear realistic.

a. Accuracy of Expenditure Projections

Fifty-five (55) percent of small employers have current expenditures that are within five percent of budget (Q#13). While less accurate, the remainder do not prove systematically optimistic or systematically pessimistic. Twenty-two (22) percent have expenditures more than five percent above budget of which 3 percent are more than 25 percent above. In contrast, 17 percent have expenditures more than five percent below budget of which 3 percent have them more than 25 percent below.

The most frequently cited reason for expenses below budget is weaker sales than expected (26%) (Q#13a). Slower sales mean that the cost of sales also falls. Thirteen (13) percent indicate that certain anticipated expenditures did not materialize. No detail was collected on the type of potential expenditures that were avoided. Thus, it is not clear if these developments were favorable or unfavorable to the firm. Eight percent report that they were able to institute cost-cutting moves. If these translate into productivity increases, the steps are positive. Prices can also fall, or fall more than expected. Seven percent think their expenditures were below budget for this reason. However, 43 percent cite a variety of reasons that were lumped under "Other." A double digit component of this number is something vaguely referred to as "economy/market/industry factors," a meaningless term that is also lumped into "Other" in subsequent responses on projections.

Small-business owners provide more concrete reasons for being over their expenses budget than they do for being under it. Perhaps that is because they are more accustomed to searching for reasons to be above than below budget. In any event, 28 percent were over budget due to prices rising on important inputs, or rising more than expected (Q#13b). Energy and raw materials likely head the culprit list, but skilled employees could be there as well. Another 23 percent had unanticipated expenses. Fifteen (15) percent experienced stronger sales than forecast, meaning their cost of sales rose as well. Seven percent had weather issues. Two percent encountered a business opportunity they could not pass. Scattered and uncategorized answers amounted to 16 percent and 9 percent did not or could not provide an answer.

b. Accuracy of Revenue Projections

Revenue projections do not prove as accurate as expense projections. Forty-three (43) percent have revenues that are within five percent of budget (Q#14), 12 percentage points lower than expenditures within that range. Those missing projections by a larger margin again do not prove systematically optimistic or systematically pessimistic, with one exception. Twenty-four (24) percent projected their revenues too low of which 3 percent had sales more than 25 percent above budget. Twenty-eight (28) percent projected their revenues too high. But 8 percent found themselves with sales more than 25 percent below budget.

The primary reason sales performance did not meet projections was poorer general economic conditions than expected. Thirty-six (36) percent offer the economic conditions rationale (Q#14a). Another 11 percent unexpectedly lost a major customer or customers. Since many small businesses are heavily dependent on sales to a minimal number of customers, the loss of even one can have a significant impact. Eleven (11) percent more blame weather issues. Few mention either new competitors or lower selling prices as the primary reason for their sales being below budget. "Other" is again the most frequently cited reason (37%). The category consists of all types of unclassifiable circumstances and issues.

Everyone likes sales higher than expected. Thirty-one (31) percent identify an increase in sales and sales projects, presumably promotions and expansions, for their sales being above budget (Q#14b). Many of these responses were unfortunately redundancies or tautologies. However, 14 percent attribute their sales performance to economic conditions better than forecast. Another 14 percent cite their over budget performance to a major new customer or customers. Five percent each mention a hot selling product/service they did not expect, weather issues, increased staff (the supply side phenomenon), and the business being run well. Fourteen (14) percent fit the "Other" category and 8 percent did not respond.

c. The Budget as a Management Tool

The budget is a business tool to help owners and managers know how well they are doing and if changes are necessary or desirable. The purpose of major categories in the budget is to determine how distinguishable and meaningful components of the business are faring. Thus, the budget can be used as a document embodying flexible guidelines that offer general direction. Alternatively, the budget can serve as a strict plan establishing firm boundaries from which the businesses should not stray barring emergency.

Small-business owners and managers view their budgets from very different perspectives. Sixty (60) percent adopt the flexible guideline perspective. Thirty-eight (38) percent feel strongly about budget flexibility, though the other 22 percent favoring flexibility do not feel strongly about it (Q#10). Thirty-seven (37) percent adopt the opposite management perspective. They see their budget as a set of firm boundaries. Twenty-nine (29) percent believe that strongly and 8 percent not strongly. If one assumes that small employers who do not develop a written, categorized budget have no structured plans, then 55 percent employ ad hoc and/or subconscious budget decision-making, 26 percent use planned budget guidelines, and 15 percent have planned budget boundaries.

A Capital Budget

Small-business owners and managers make capital expenditures, typically large, well-spaced (often irregular) outlays on business equipment, vehicles, land, and buildings. A capital budget allows them to project when those capital expenditures will be necessary in order to plan for their financing. In this manner, small employers avoid facing a necessary large expenditure for which they are unprepared.

Seventeen (17) percent of small employers have a capital budget (Q#15). The fewer and the smaller the capital outlays that need to be made, the more likely owners can tacitly factor them into their finances and, therefore, will not need one. Yet, only 32 percent of the largest, small businesses, that is, those employing 20 people or more, have one.

There is an overlap between small businesses with written budgets and businesses with capital budgets. Seventy-one (71) percent with a capital budget also have a written budget, meaning comparatively few have a capital budget exclusively. Meanwhile, only 29 percent with a written budget also have a capital budget.

Capital budgets typically extend several years into the future simply because capital assets have extended useful lives. But, capital projections made by small employers are almost always made for five years or less. The most common term (29%) is five years (Q#15a). Yet, 20 percent project them for just a year (typically the term of the regular written budget); another 20 percent for two years; and 19 percent for three years. Given that capital equipment for tax purposes is typically depreciated over three years or more and plant over decades, it appears a large share of the capital budgets prepared are not as useful as they might be. However, a capital budget that projects at least three years provides the owner some actionable intelligence.

Bankruptcy

Folklore surrounding entrepreneurs and business owners asserts that a person must have gone bankrupt at least once before forming a successful venture. While foolish on its face, such a myth still raises questions about current business owners having faced bankruptcy relatively more often than non-business owners.

Six percent of small, employing business owners filed for bankruptcy at least once prior to entering their current firm (Q#16). Ninety-four (94) percent did not. Only one of 645 owner respondents did not answer the question. In comparison, the Federal Reserve's *Survey of Consumer Finances* indicates that 11 percent of families have someone in the household who has declared bankruptcy. Translating 11 percent of families into a percentage of individuals yields a 7 – 8 percent figure. The two groups, current owners of small, employing businesses and adult Americans, effectively have the same bankruptcy rate.

Those who had filed for bankruptcy prior to owning their current business are notably more likely to own smaller, small businesses, typically less entrepreneurial as a group, than those owning larger, small businesses, typically more entrepreneurial as a group. Just 3 percent of owners with businesses having 20 or more employees have encountered bankruptcy.

Bankruptcy apparently teaches lessons to those who experience it. Those who previously declared bankruptcy are 20 percentage points more likely to have a written budget in their current business than those who have not.

Final Comments

A relatively small proportion (43%) of employing, small businesses operate with a budget. But for the most part, those who do, appear to have real budgets, broken into a reasonable number of categories that contain realistic revenue and expenditure projections. Most consult their budget on a routine basis. While the survey did not establish that action resulted from the knowledge gained from budgeting and comparison of budget projections to business performance, it is difficult to imagine that it did not. Thus, the budget, for those who have them, appears to serve its purpose.

The manner in which most small-business owners and managers construct their budget offers an important insight into their perspective on control and profitability. In virtually all cases, they begin constructing a budget with either revenues or expenses. The second step in the process is usually building in the other. Profit is the residual, that is, the amount that is left after revenues and expenses. (While owner salary in corporations is technically expenses, in reality it is profit for a small business.) So, rather than starting with desired profitability and working expenses and revenues to reach it, the opposite occurs. That does not mean the residual is small; it can be very large. But it embodies the idea that the business owner gets what is left over.

The Budget

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

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

1. Do you have a written budget for your business listing projected revenues or sales by sources, projected expenditures or costs by categories, etc.?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	40.3%	52.9%	59.2%	43.4%
2. No	58.0	45.9	40.8	55.1
3. (DK/Refuse)	1.8	1.2	—	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

1a. How do you keep track of how well the business is doing? (If "No" in Q#1.)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Compare current performance to how the business did last year or some base year	47.3%	61.1%	64.3%	49.5%
2. Experience tells me	27.8	16.7	21.4	26.5
3. Compare to industry standards	2.7	8.3	7.1	3.5
4. Have a general written budget, not broken out or detailed	5.4	5.6	7.1	5.5
5. (Check bank balance)	2.4	—	—	2.1
6. (Compare current performance to prior month, week, day)	3.0	2.8	—	2.8
7. (Other)	7.0	8.0	—	6.4
8. (DK/Refuse)	4.4	—	—	3.7
Total	100.0%	100.0%	100.0%	100.0%
N	207	90	80	377

2. How often do you prepare a budget for this business? (If "Yes" in Q#1.)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Annually	45.5%	57.1%	63.6%	49.2%
2. Semi-annually	11.0	10.2	6.4	10.4
3. Quarterly	13.4	14.3	10.6	13.7
4. Keep updating the old one	24.8	14.3	10.6	21.8
5. (Monthly)	3.1	2.0	2.1	2.8
6. (Other)	0.7	—	—	0.5
7. (DK/Refuse)	1.3	2.0	2.1	1.6
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

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

2a. What is the first month of your current budget?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. January	66.6%	72.3%	66.0%	67.2%
2. February/March	4.1	—	2.1	3.3
3. April	1.4	2.1	2.1	1.6
4. May/June	2.4	2.1	4.3	2.6
5. July	10.1	4.3	10.6	9.4
6. August/September	4.8	2.1	8.6	5.2
7. October	1.7	6.4	4.3	2.6
8. November/December	2.1	4.2	—	2.2
9. (DK/Refuse)	6.2	6.4	2.1	5.8
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

3. Do you, another owner, an employee or someone else prepare the budget?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Owner or manager	77.5%	64.6%	56.3%	73.2%
2. Another owner	10.0	12.5	14.6	10.9
3. An employee	6.2	6.3	12.5	7.0
4. Someone else	6.2	14.8	12.5	8.1
5. (DK/Refuse)	—	2.1	4.2	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

3a. About how many hours does it typically take you to prepare the budget? An estimate is fine. (If "Owner or manager" in Q#3.)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. One – four hours	41.8%	38.5%	26.9%	40.4%
2. Five – eight hours	26.8	15.4	23.1	25.0
3. Nine – 16 hours	16.8	19.2	36.2	17.6
4. 17+ hours.	13.6	19.2	13.8	15.8
5. (DK/Refuse)	0.9	3.8	—	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	117	73	70	260

4. When you start preparing your budget, what is the first factor you usually build into it? Is it:?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Expected profit	7.6%	4.2%	2.1%	6.5%
2. Expected revenues/sales	43.6	52.1	59.5	46.6
3. Expected expenses/costs	45.0	35.4	36.2	42.7
4. (DK/Refuse)	3.8	8.3	2.1	4.2
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

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

4a. What is the second factor you usually build into the budget? Is it:?

1. Expected profit	17.2%	9.3%	13.3%	15.8%
2. Expected revenues/ sales	41.2	37.2	31.1	39.5
3. Expected expenses/ costs	41.2	53.5	55.6	44.4
4. (DK/Refuse)	0.4	—	—	0.3
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

5. How do you typically project expenses for the next budget? Do you typically:?

1. Add a percentage to current expenses	29.7%	27.7%	22.9%	28.6%
2. Add a percentage to current expenses and adjust for major expected new costs	27.6	34.0	33.3	29.1
3. Start from scratch and re-estimate all important expenditures	34.8	27.7	31.3	33.5
4. (Base on previous year)	3.8	2.1	4.2	3.6
5. (Other)	—	2.1	2.1	0.6
6. (DK/Refuse)	4.1	6.4	6.3	4.7
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

6. How do you forecast or project revenues for the next budget? Do you typically:?

1. Add a percentage to current sales	19.4%	19.1%	10.4%	18.3%
2. Add a percentage to current sales and adjust for major expected events or trends	22.2	14.9	16.7	20.6
3. Review sales trends over the last few years, adjust for expected major events or trends, and factor in potential indirect influences on sales	48.6	55.3	58.3	50.7
4. (Other)	6.7	4.3	6.2	6.2
5. (DK/Refuse)	3.1	6.4	8.4	4.2
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

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

7. Approximately, how many major expense categories does this business's budget have?

1. One – two categories	4.5%	4.4%	4.2%	4.4%
2. Three – four categories	19.3	19.5	12.5	18.5
3. Five – six categories	20.1	13.0	16.7	18.8
4. Seven – 10 categories	16.2	10.9	8.3	14.6
5. 11 – 15 categories	12.8	10.9	6.3	11.7
6. 16 – 20 categories	8.3	13.0	12.5	9.4
7. > 20 categories	9.1	15.2	33.3	12.8
8. (DK/Refuse)	9.6	13.0	6.3	9.7
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

8. Approximately, how many major "source of revenue" categories does this business's budget have?

1. One – two categories	42.0%	33.2%	38.3%	41.7%
2. Three – four categories	23.6	22.7	21.3	23.2
3. Five – six categories	10.4	18.2	12.8	11.6
4. Seven – 10 categories	8.3	4.5	12.8	8.4
5. 11 – 15 categories	4.5	2.3	2.1	4.0
6. 16 – 20 categories	2.1	—	2.1	1.8
7. > 20 categories	2.8	2.3	6.4	3.2
8. (DK/Refuse)	6.3	6.8	4.3	6.2
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

9. Does your budget have cash flow projections that account for expected seasonality or ups and downs in either revenues or expenditures?

1. Yes	60.9%	61.2%	68.1%	61.8%
2. No	37.4	34.7	29.8	36.1
3. (DK/Refuse)	1.7	4.1	2.1	2.1
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

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

9a. Is that because you don't expect seasonality or other irregular cash flows, or because it makes your budget too complicated? (If "No" in Q#9.)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. No seasonality/ irregularity	31.8%	—%	—%	33.1%
2. Too complicated	57.0	—	—	54.4
3. (Not relevant to the business)	1.9	—	—	2.9
4. (Other)	9.3	—	—	8.1
5. (DK/Refuse)	—	—	—	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	57	43	37	137

10. Do you consider the expenses in your budget more like flexible spending guidelines or strict spending boundaries? Do you feel that strongly or not so strongly?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Flexible guidelines, strongly	36.8%	43.8%	39.6%	38.0%
2. Flexible guidelines, not so strongly	22.2	20.8	18.8	21.6
3. Strict boundaries, not so strongly	7.3	6.3	12.5	7.8
4. Strict boundaries, strongly	30.9	22.9	22.9	28.9
5. (DK/Refuse)	2.8	6.3	6.3	3.6
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

11. Do you keep your budget on some type of computer program, such as Quicken or Quick Books?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	79.9%	80.9%	81.3%	80.2%
2. No	20.1	17.0	16.7	19.3
3. (DK/Refuse)	—	2.1	2.1	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

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

12. How often do you typically review the budget and compare your projections to what is actually happening?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Daily	8.7%	6.4%	10.4%	8.6%
2. Weekly	17.7	8.5	10.4	15.7
3. Monthly	38.5	55.3	58.3	43.1
4. More than monthly	6.9	8.5	6.3	7.0
5. Irregularly	10.1	6.4	4.2	8.9
6. When something important or unusual happens	4.5	—	—	3.4
7. (Quarterly)	12.5	10.6	6.3	11.5
8. (DK/Refuse)	1.0	4.3	4.2	1.8
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

13. At this time, how close are your expenditures or costs running to those you originally projected in your budget? Are they:

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. > 25 percent below budget	3.1%	2.0%	4.1%	3.1%
2. Between 6 and 25 percent below budget	15.2	12.2	10.2	14.2
3. Within 5 percent of budget either way	53.8	59.2	59.2	55.2
4. Between 6 and 25 percent over budget	20.3	12.2	16.3	18.8
5. > 25 percent over budget	3.1	4.1	4.1	3.4
6. (DK/Refuse)	4.5	10.2	6.1	5.4
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

13a. What is the primary reason for variance from your cost projections? (If below budget in Q#13.)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Sales weaker than anticipated	—%	—%	—%	26.3%
2. Able to make some cost-cutting moves	—	—	—	8.2
3. Prices on important inputs fell or fell more than planned	—	—	—	6.6
4. Certain anticipated expenditures did not materialize	—	—	—	13.1
5. (Other)	—	—	—	42.5
6. (DK/Refuse)	—	—	—	3.3
Total	100.0%	100.0%	100.0%	100.0%
N	29	18	18	65

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

13b. What is the primary reason for variance from your cost projections? (If over budget in Q#13.)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Sales stronger than anticipated	—%	—%	—%	14.7%
2. Had business opportunity couldn't pass	—	—	—	2.4
3. Prices on important inputs rose or rose more than planned	—	—	—	28.3
4. Had unanticipated expenditures	—	—	—	23.2
5. (Weather issues)	—	—	—	7.3
6. (Other)	—	—	—	15.6
7. (DK/Refuse)	—	—	—	8.5
Total	100.0%	100.0%	100.0%	100.0%
N	36	19	24	79

14. At this time, how close are your revenues or sales running to those you originally projected in your budget? Are they:?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. > 25 percent below budget	10.0%	2.0%	4.3%	8.3%
2. Between 6 and 25 percent below budget	20.8	14.3	17.0	19.5
3. Within 5 percent of budget either way	41.9	42.9	46.8	42.6
4. Between 6 and 25 percent over budget	19.4	26.5	21.3	20.5
5. > 25 percent over budget	2.4	8.2	4.3	3.4
6. (DK/Refuse)	5.5	6.1	6.4	5.7
Total	100.0%	100.0%	100.0%	100.0%
N	154	116	125	395

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

14a. What is the primary reason for variance from your revenues or sales projections? (If below budget in Q#14.)

1. General economic conditions weaker than anticipated	—%	—%	—%	35.9%
2. Lost a major customer(s) unexpectedly	—	—	—	10.7
3. Forced to lower prices or lower them more than planned	—	—	—	1.9
4. A new competitor(s) entered the market	—	—	—	1.9
5. Weather issues	—	—	—	10.7
6. (Other)	—	—	—	36.9
7. (DK/Refuse)	—	—	—	3.9
Total	100.0%	100.0%	100.0%	100.0%
N	48	20	27	95

14b. What is the primary reason for variance from your revenues or sales projections? (If over budget in Q#14.)

1. General economic conditions stronger than anticipated	—%	—%	—%	14.0%
2. Added a major customer(s) unexpectedly	—	—	—	14.0
3. Hot selling product/ service didn't expect	—	—	—	4.7
4. Increase in sales and projects	—	—	—	31.4
5. Business well-run	—	—	—	4.7
6. Weather issues	—	—	—	4.7
7. Increased staff	—	—	—	4.7
8. (Other)	—	—	—	13.7
9. (DK/Refuse)	—	—	—	8.1
Total	100.0%	100.0%	100.0%	100.0%
N	33	37	33	103

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

15. Do you have a capital budget, that is, a budget that projects future capital expenditures and acquisition dates for major pieces of business equipment, land, vehicles and things of that nature? It may or may not be tied to your current operating budget.

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	14.9%	23.5%	31.6%	17.4%
2. No	83.7	72.9	65.8	80.9
3. (DK/Refuse)	1.4	3.6	2.6	1.8
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

15a. How many years out do you project capital needs? (If "Yes" in Q#15.)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. One year	16.0%	—%	33.3%	19.7%
2. Two years	21.3	—	12.5	19.7
3. Three years	17.0	—	25.0	19.0
4. Four – five years	33.0	—	25.0	30.7
5. > 5 years	8.5	—	—	5.8
6. No specific time	1.1	—	4.2	2.2
7. (DK/Refuse)	3.2	—	—	2.9
Total	100.0%	100.0%	100.0%	100.0%
N	52	49	63	164

16. Before entering this business, had you ever declared bankruptcy? (If "Owner" or "Owner/Not Manager" in Q#D1.)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	6.6%	1.4%	3.2%	5.8%
2. No	93.4	97.3	96.8	94.1
3. (DK/Refuse)	—	1.4	—	0.1
Total	100.0%	100.0%	100.0%	100.0%
N	321	166	158	645

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

Demographics

D1. Which best describes your position in the business?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Owner/manager	87.3%	78.8%	77.6%	85.5%
2. Owner, but NOT manager	5.2	7.1	2.6	5.1
3. Manager, but NOT owner	7.5	14.1	19.7	9.4
4. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

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

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Agriculture, forestry, fishing	3.1%	2.5%	1.3%	2.9%
2. Construction	9.8	11.1	7.9	9.8
3. Manufacturing, mining	10.9	8.6	17.1	11.3
4. Wholesale trade	5.0	7.4	9.2	5.6
5. Retail trade	13.4	16.0	10.5	13.4
6. Transportation and warehousing	1.7	3.7	2.6	2.0
7. Information	3.7	2.5	2.6	3.5
8. Finance and insurance	3.0	3.7	5.3	3.3
9. Real estate and rental/leasing	3.9	2.5	—	3.4
10. Professional/scientific/ technical services	18.4	8.6	5.3	16.2
11. Admin. support/waste management services	5.1	3.7	3.9	4.9
12. Educational services	—	—	—	—
13. Health care and social assistance	5.6	7.4	6.6	5.9
14. Arts, entertainment or recreation	1.9	1.2	2.6	1.9
15. Accommodations or food service	4.1	14.8	19.7	6.6
16. Other service, incl. repair, personal service	10.3	6.2	5.3	9.4
17. Other	—	—	—	—
18. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

	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	10.8%	10.6%	13.0%	11.0%
2. Increased by 20 to 29 percent	12.5	8.2	13.0	12.1
3. Increased by 10 to 19 percent	28.9	35.3	26.0	29.3
4. Increased by < 10 percent	18.1	22.4	23.4	19.1
5. Decreased by < 10 percent	14.4	7.1	6.5	12.6
6. Decreased by 10 percent or more	5.3	3.5	5.2	5.1
7. (DK/Refuse)	10.0	13.0	13.0	10.6
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

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

1. Yes	29.2%	7.0%	5.2%	24.5%
2. No	70.0	91.9	93.5	74.6
3. (DK/Refuse)	0.8	1.2	1.3	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

D5. How long have you operated this business?

1. < 6 years	22.9%	22.1%	18.4%	22.4%
2. 6 – 10 years	24.0	18.6	15.8	22.7
3. 11 – 20 years	27.3	17.4	27.6	26.3
4. 21 – 30 years	14.2	24.4	19.7	15.8
5. 31+ years	10.9	15.1	17.1	12.0
6. (DK/Refuse)	0.6	2.3	1.3	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

D6. What is your highest level of formal education?

1. < H.S.	3.1%	—%	1.3%	2.6%
2. H.S. diploma/GED	17.7	17.6	10.4	17.0
3. Some college or associate's degree	22.4	23.5	19.5	22.3
4. Vocational or technical school degree	3.4	4.7	3.9	3.6
5. College diploma	33.1	32.9	39.0	33.6
6. Advanced or professional degree	19.3	18.8	24.7	19.8
7. (DK/Refuse)	1.0	2.4	1.3	1.2
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

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

D7. Please tell me your age

1. < 25 years	0.3%	—%	1.3%	0.4%
2. 25 – 34 years	9.7	5.9	6.6	9.0
3. 35 – 44 years	16.4	20.0	18.4	17.0
4. 45 – 54 years	37.6	29.4	31.6	35.7
5. 55 – 64 years	24.7	30.6	28.9	25.7
6. 65+ years	9.5	11.8	10.5	9.9
7. (Refuse)	2.3	2.4	2.6	2.4
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

D8. What is the zip code of your business? (Regions)

1. East (zips 010-219)	14.8%	15.3%	22.1%	15.6%
2. South (zips (220-427)	20.4	17.6	19.5	20.0
3. Mid-West (zips 430-567, 600-658)	26.8	28.2	19.5	26.3
4. Central (zips 570-599, 660-898)	22.8	25.9	26.0	23.4
5. West (zips 900-999)	13.4	10.6	10.4	12.8
6. (DK/Refuse)	1.7	2.4	2.6	1.9
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

D9. Urbanization (Derived from zip code.)

1. Highly Urban	13.1%	12.9%	12.8%	13.1%
2. Urban	19.4	15.3	20.5	19.1
3. Fringe Urban	17.7	18.8	26.9	18.7
4. Small Cities/Towns	17.3	21.2	15.4	17.6
5. Rural	27.3	24.7	16.7	26.0
6. (Not Known)	5.2	7.1	7.7	5.6
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

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

D10. Compared to your competitors over the last three years, do you think the overall performance of your business in terms of sales and net profits makes it a:?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. High performer	15.3%	24.1%	27.6%	17.5%
2. Somewhat high performer	18.9	21.8	26.3	20.0
3. Moderate performer	41.9	42.5	34.2	41.3
4. Somewhat low performer	5.0	2.3	3.9	4.6
5. Low performer	12.1	2.3	2.6	10.1
6. (Haven't been in business three years)	1.1	—	1.3	1.0
7. (DK/Refuse)	5.7	6.8	3.9	5.6
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

D11. Sex

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Male	82.7%	82.6%	85.5%	82.9%
2. Female	17.3	17.4	14.5	17.1
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	200	752

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 10 - August 31, 2007 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

	Expected from Random Sample*		Obtained from Stratified Random Sample			
Employee Size of Firm	Interviews Expected	Percent Distribution	Interview Quotas	Percent Distribution	Completed Interviews	Percent Distribution
1-9	593	79	350	47	351	46
10-19	82	11	200	27	201	27
20-249	75	10	200	27	200	27
All Firms	750	100	750	101	752	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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