National Small Business Poll

Volume 3, Issue 3
2003

NFIB National

Small Business Poll

Reinvesting in the Business

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.

NFIB National
Small Business
Poll

Reinvesting in the Business

Volume 3, Issue 3
2003
ISSN - 1534-8326

William J. Dennis, Jr.
NFIB Research Foundation
Series Editor

1201 “F” Street NW
Suite 200
Washington, DC 20004
nfib.com

National Small Business Poll

Reinvesting in the Business

Table of Contents

Executive Summary

- Forty-seven (47) percent of small-business owners made the largest share of their business investments over the last 12 months in replacement and maintenance. However, 23 percent made theirs primarily to expand into another business area while 21 percent made theirs primarily to extend existing products or services. Four percent directed most of their business investments to safety or environmental improvement. While relatively few businesses grow substantially, investment patterns suggest that many owners are trying to make them do so.

- Thirty-five (35) percent of small businessmen and women report that they invested in a technology or process in the last 12 months that was new to their business.

- Eleven (11) percent invested in another, privately-held business in the last year. About two-thirds of those invested in a business in which they were the principal and about one-third were "business angels."

- Small-business owners are over three times as likely to replace business equipment as needed than to replace it on a schedule. The ratio is somewhat smaller for the procurement of business vehicles among the 74 percent who report owning one. The vast majority prefer to procure new equipment and vehicles rather than used ones.

- Overwhelming majorities believe that purchasing is usually a better option when procuring business equipment and vehicles than leasing. Those preferring to purchase most frequently cite lower overall cost (36%), the ability to alter or treat an asset as the owner wills (29%), and the ability to hold and use an asset for an extended period (23%) as the primary reason for their view. Those who prefer to lease most frequently cite improved cash flow (38%), tax advantages (25%), and the ability to have the most up-to-date assets (21%) as their primary reasons.

- The sophistication of methods used to assess the financial viability of a potential investment varies enormously. The most frequently used technique is the rate-of-return (32%). The second most frequently used is "gut feel" (25%).

- Almost 70 percent make cash flow projections prior to making a major business investment. But only 31 percent have a written business plan projecting near-term major capital expenditures.

- There are tax implications when reinvesting. Fifty-nine (59) percent say that they "consider" the implications prior to making a major investment while 17 percent actually "calculate" them. Twenty-one (21) percent "ignore" tax implications.

- Many small-business owners approach investing in their business very cautiously. About one in five (22%) say that it is not appropriate to borrow to make a business investment. Almost twice that number would postpone making a profitable business investment if they did not have the cash on hand to make it.

- The most significant long-term concern about business investment is neither over-investment (23%) nor under-investment (19%). Rather, it is investment in the wrong things (42%). Thirteen (13) percent have no long-term concerns with their reinvestment.

Reinvesting in the Business

The reinvestment behavior of small-business owners and operators is important from two perspectives. First, owner investments and reinvestments in small businesses contribute to the nation's total capital outlays and its capital stock. While capital investments are obviously greater (absolutely and proportionally) in large firms than in small, the contribution of small enterprises is sizeable if unquantified. Equally important, wise investment in the owner's business gives it a better chance to survive and grow. Growth and to a lesser extent survival are signs of a healthy small business sector. However, reinvestment is often shaped by its tax treatment. A sound tax policy, therefore, is an important influence on smaller enterprises. To help policy-makers and others appreciate this point, they need to understand how small businessmen and women approach investing. Hence, this issue of the *National Small Business Poll* is devoted to the reinvestment behavior of small-business owners and operators.

Recent Investments

The survey on which this report is based was conducted during a period of tepid economic conditions and modest capital investment. Such conditions shape the types of business investments small-business owners make. Still, a review of the type of recent investments that they made over the past year is instructive.

Forty-seven (47) percent of small-business owners made the largest share (in dollar terms) of their business investments over the last 12 months in replacement and maintenance (Q#12). Though replacement may have improved productivity, these operations are essentially in a holding pattern. Yet, almost as many are in an expansion/growth mode. Twenty-three (23) percent report that the greatest share of their recent business investment was directed to expansion into a new business area. For example, someone in remodeling may have moved into home building, or someone in trucking may have moved into school bus transport. Almost as many (21%) indicate that their greatest investment was in extension of existing product or service lines. Four percent say that their greatest investments were channeled to environmental and/or safety improvement. Seven percent could not or would not specify a class. But whether or not their firms actually grow, it appears that a large number of small businessmen and women are investing for growth purposes.

Investing in new technology is obviously important for any business. However, a new technology for one business is not a new technology for another. Thirty-five (35) percent report that they invested in a technology or process that was new to their business during the last 12 months (Q#12a). This type of investment is modestly related to firm size. Owners of larger, small firms were somewhat more likely to invest in a new technology/process than were owners of smaller, small firms.

Not all investments made by small-business owners are made in their immediate firms. Some already own more than one venture; others are attempting to start another venture while still operating the first. Further, a share of them are so-called

"business angels." Angels are the most plentiful source of outside private equity for new and small businesses. The largest occupational category of angels is business owners and former business owners.

Eleven (11) percent of small employers say that they invested in another, different privately held business in the last 12 months whether or not they are the primary owner (Q#12b). Just over half or about 7 percentage points say that they are the primary owner of the different business in which they invested, and 4 percentage points are business angels (Q#12b1).

Investment Patterns in Equipment and Vehicles

Business equipment and vehicles are two major categories of investment. Even those operations that have relatively modest capital expenditures almost always invest in business equipment and about 75 percent invest in some type of vehicle(s). When small-business owners make these purchases, they tend to do so in patterns typically exhibiting one type of purchasing behavior rather than another.

Replacement

Small-business owners can choose to replace their business equipment on a regular basis or replace it as needed. The former option presents the owner greater predictability and allows him to routinely upgrade equipment and/or vehicles. Scheduled replacement seems to favor those who employ rapidly changing technologies and have a stable cash flow. The latter option allows an owner to use equipment until it is no longer functional. That implies a useful life in excess of what might be intended and allows replacement/up-grading when their financial situation is favorable.

Small-business owners are far more likely to replace their business equipment on an as needed basis. Seventy-eight (78) percent say they replace equipment as needed (Q#1); 40 percentage points say that they always use an as needed strategy. Somewhat fewer, 38 percentage points, say that they usually do. In contrast, 17 percent opt to replace their equipment on a schedule of which only 7 percentage points follow that strategy all of the time. These percentages mean that about four and one-half times as many replace equipment as needed as replace it on a schedule.

Owners of firms with more than 20 employees are notably more likely to use scheduled replacement than are those with fewer than 10. Still, only 26 percent owning larger, small firms use scheduled replacement compared to 69 percent using as needed replacement. The comparative figures for the smallest employee-size group are 15 percent and 80 percent respectively. It is not clear whether this gap is the result of planning capacity, cash flow, equipment type, or something else.

Small-business owners are somewhat more likely to replace vehicles on a scheduled basis than they are equipment. Still, a substantial majority of those with vehicles replace them as needed. Factoring out the (26) percent who report that they have no business vehicles (Q#2), 70 percent replace as needed and 30 percent replace on a schedule.

The purchase of equipment or vehicles often elicits a different needed/scheduled preference. Of those expressing a preference on both questions, 62 percent say they use as needed replacement for both types of investment; 8 percent use scheduled replacement for both types while 30 percent mix their choices. As a result, about 4 in 10 will at least usually employ a scheduled replacement strategy for either business equipment or vehicles.

New Versus Used

Most small-business owners prefer to obtain new rather than used equipment. Most also prefer to obtain new rather than used vehicles, but they are far more receptive as a group to used vehicles than used equipment. Employee size of firm appears unrelated to the new/used choice for either business equipment or vehicles.

Sixty-five (65) percent say that they are much more likely to obtain new business equipment than used (Q#4). With another 11 percent saying that they are somewhat more likely, over three in four prefer to obtain new business equipment. In contrast, just 14 percent are more likely to acquire used. Nine (9) percent volunteer that they do both in approximately equal amounts.

Sixty-five (65) percent are more likely to obtain a new vehicle than a used one

(Q#5), about 10 percentage points fewer than new equipment. Meanwhile, 29 percent are more likely to purchase a used vehicle and 6 percent volunteer that they split new and used purchases.

As with the scheduled/as needed decision, many small-business owners are likely to pursue one course procuring new/used equipment and another course procuring new/used vehicles. About two-thirds of owners consistently choose either new or used equipment and vehicles, while the other one-third choose different courses for each. No direct evidence appears in the survey results to suggest the reason for their choices.

Leasing/Purchasing

Other factors equal, small-business owners overwhelmingly prefer to purchase their business equipment rather than to lease it. Eighty-seven (87) percent feel purchasing is the better option and 63 percentage points say that they always prefer to purchase (Q#3). Just 12 percent choose the lease option. But, there is no consensus about the major advantages of purchasing or leasing.

The most important advantage of purchasing over leasing according to 36 percent who prefer to purchase is that purchasing is cheaper overall (Q#3b). Twenty-nine (29) percent who favor purchasing cite the major advantage as the ability to alter or treat an asset as the owner wills. Another 23 percent believe the major advantage is the ability to own an asset until he wants to get rid of it. In other words, the owner can hold an asset for as long (or short) a period as the asset remains productive. A small number note other major advantages.

The most frequently cited major advantage of leasing over purchasing is improved cash flow. Thirty-eight (38) percent of those preferring to lease give cash flow as the major advantage (Q#3a). Another 25 percent feel that leasing provides tax advantages and 21 percent believe that it lets the business always have the most up-to-date equipment. Fifteen (15) percent list other major advantages to leasing.

Calculating Investment Profitability

Small-business owners invest in their businesses expecting that it will yield a profit over time. One important issue is how they calculate the financial viability of such an investment, at least on major investments. (A major investment for purposes of the survey means an investment equal to five percent or more of annual gross receipts; that amounts to at least a $25,000 investment in a firm with one-half million dollars in gross.) Accountants and other finance professionals have devised sophisticated procedures to obtain the information required to make a rational investment decision. However, these procedures are often too complex for the untrained or inexperienced, or the data to apply them are simply unavailable. Other methods become necessary. But, the further one moves from the optimal, the less economically informed the investment decision.

The most sophisticated means of assessing the financial viability of an investment is to use the rate-of-return. Simply described, the rate-of-return tells the investor, in this case the small-business owner, the percent of annual return on the investment. A surprisingly high 32 percent of small-business owners say that they use a rate-of-return calculation to assess a potential major investment in their enterprise (Q#6).

Of that 32 percent using a rate-of-return calculation, 42 percent or 14 percent of all respondents indicate that they use the accounting rate-of-return (Q#7c), i.e., the average net income divided by average book value of the investment. Thirty-seven (37) percent or 12 percent of the entire population say that they use the discounted cash flow method, i.e., yield to maturity on the project based on cash outlays and after-tax cash flows. The remainder (21%) did not know. Given that many owners are likely to have their accountant or a specialist employed in the firm making the actual calculation, the lack of detailed knowledge on the precise method is to be expected.

The middle level of sophistication in terms of the options on the survey is a payback period method. This method/procedure implies that the owner calculates the period of time it takes to get his money back, effectively ignoring the time value of money and opportunity cost. Though less sophisticated, it provides investors with a measure to value their potential investment. Nineteen (19) percent indicate that they

use a payback period calculation to assess a major investment. If owners use the pay-back period when making a major investment in business equipment, about half say that the maximum number of years it should take for the investment to pay for itself is just under four years (Q#7a). The other half say that the maximum is longer. However, only 11 percent believe it should be more than five years. The Internal Revenue Service traditionally has allowed business equipment to be depreciated over five years, a somewhat longer period than small-business owners consider appropriate. But they expect a much faster return on land and structures than IRS allows. The median expected pay-back period for land and structures is 7-8 years (Q#7b). While over one-fifth of all respondents say that they have not made a major investment in structures or land, only two percent say that the maximum number of years for pay-back should be more than 20. IRS allows 39½ years on structures.

Finally, about one in four (25%) go with "gut feel." They use their judgment or instinct rather than any systematic method. The size of the business owned is unrelated to this less formal investment calculation.

Seventeen (17) percent say that they use a combination of methods or another method. Nothing further is known about the financial calculations this rather large group employs prior to making a major investment decision.

Further Investment Considerations

Though the actual financial evaluation of a potential business investment is of paramount importance, several specific factors about which little is currently known enter the decision. One of the most important is cash flow. While a potential investment may appear highly attractive, the firm's cash flow may be inadequate to finance the outlay. So, an immediate question is whether the owner typically makes cash flow projections prior to a major investment. Almost 70 percent do, including 85 percent of those owning larger, small firms (Q#8). As a general rule, the more sophisticated the procedure used to calculate the return on investment, the more likely the individual is to also make cash flow projections.

A second consideration is whether the potential investment fits the firm's overall investment plan. That is often difficult to gauge. Just 31 percent report having a written business plan projecting major expenditures over the next few years (Q#9). The figure is 11 percentage points higher for those owning larger, small businesses than those owning the smallest. But clearly, most small-business owners do not have a long-term investment plan on paper.

A third consideration is the tax implications. Tax policy can either raise or lower the cost of a business investment and/or speed or retard cash flow. The former consideration would be part of any systematic method of calculating the financial viability of an investment while the latter would be part of any cash flow projection. In an effort to determine how carefully small-business owners treat the tax implications of an investment, they were asked if they calculate, consider, or ignore the tax implications prior to making a major investment. The most frequent response is that they consider the tax implication. Fifty-nine (59) percent factor in the tax consequences when making their decision (Q#10). Seventeen (17) percent actually calculate the tax impact. At the other end of the spectrum, 21 percent ignore it. The reason this 21 percent ignore tax considerations is not evident, but obviously theirs is not a decision on the margin. The potential return of their investment must either be so high and existing cash flow so flush that tax considerations make no difference in their behavior, or the business is so marginal that they pay little or no income tax.

Borrowing to Invest

Investing in ones business carries inherent risk. One way to examine an owner's tolerance for risk is to review his use of borrowed money to finance an investment. The survey presented respondents two scenarios that showed small-business owners, as a group, to be quite cautious about borrowing for business investment purposes.

The first hypothetical scenario presented a situation where an investment would allow earnings to rise 25 percent over the next two years at minimal risk. The downside was that the owner did not have enough cash to make the investment at the

time. Would they borrow and make the investment? Or, would they hold on until they accumulated enough cash? The population split almost evenly. A plurality, 48 percent say that they would borrow and make the investment (Q#6). But 42 percent say that they would wait until they had accumulated enough cash. Five percent indicate that they would try to recruit outside investors, and 5 percent were not sure.

The group notably more inclined to borrow and make the investment are those owning the largest businesses, businesses employing over 20 people. Almost twice as many in this group opt to make the investment while the choices made by those owning smaller firms are more cautious. This raises the question – are larger, small firms larger simply because their owners are not afraid to accept a somewhat higher risk than are their smaller counterparts?

A second question asked respondents when is it appropriate to borrow in order to make a business investment? A 45 percent plurality believe borrowing is appropriate only to expand, diversify, or make the business more productive (Q#11). Another 30 percent are less cautious. They consider it appropriate to borrow for any cost-effective investment including replacement. But, 22 percent believe that it is not appropriate to borrow to make a business investment.

Investing Concerns

Small-business owners must invest and reinvest continuously in their businesses. Decisions about what to invest in, when to invest in it, and how much to spend are not easy. Making the correct decisions can often mean the difference between business prosperity and not, even survival and not. So, in the long-term what investing mistake are they particularly worried about making, and are they really concerned about it?

The most common concern is neither under-investment nor over-investment, but investment in the wrong things. Forty-two (42) percent say that their primary investment concern is making the wrong investments compared to 23 percent primarily concerned about over-investment and 19 percent concerned about under-investment (Q#13). Factoring those out who are not concerned and those who did not provide a response, half are most concerned about bad investment choices while 27 percent are most concerned about spending too much and 23 percent are most concerned about spending too little.

Not all small-business owners are deeply concerned about these matters, however. Thirteen (13) percent volunteer that they have no long-term concern about their business investment behavior. Another 40 percent say that their concerns are minor. Yet, 42 percent express major concern with aspects of long-term business investment.

Conclusion

Most small-business owners and operators appear to take a measured approach toward investing and reinvesting in their businesses. They are skittish about borrowing to invest; they usually invest only as needed (rather than on a schedule); they overwhelmingly prefer to purchase (rather than lease) indicating an intent to hold the asset for a comparatively lengthy period. As a result, current profitability seems to be particularly important in the decision to invest.

The formality of the methods that owners use to assess the financial viability of an investment vary enormously. A large segment - perhaps a third of the population - go by the book. They use sophisticate methods to assess the value of an investment; they examine its impact on cash flow; they have a written business plan that specifies major investments at least a few years out. But there is another large segment - almost as populous as the first segment - who seem to revel in rejecting the more formal approaches. They invest by gut feel; do not conduct a cash flow analysis; and certainly do not have a written business plan that outlines something as large and critical as major investments. The survey contains little data that will let us examine the logically critical questions flowing from these findings – which of the two groups is more profitable and by how much?

The good news, even in a period of tepid economic performance, is that nearly half made their largest business investments in what can only be termed entrepreneurial activity. They invested either to grow their own product or services lines, or to expand those that they already have. Moreover, one in three invested in a technology or process that is new to their business. The bad news

is that all of these numbers are difficult to interpret without additional information. In the case of investment to grow, the data do not tell us the relative size of their investments or the reason for pushing into new areas. In the case of new technologies, the data do not show the starting technological point or how the newly adopted technology or process holds up against competitors. Still, it appears that many are trying to grow and become more productive even if the number of growth firms is limited.

Reinvesting in the Business

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

1. Do you replace your business equipment on a regular schedule or do you use it until it wears out or becomes obsolete? Is that always the case or usually the case?

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Scheduled replacement - always	5.9%	8.2%	9.2%	6.5%
2. Scheduled replacement - usually	9.5	12.9	17.1	10.6
3. Replacement as needed - usually	38.3	35.3	38.2	38.0
4. Replacement as needed - always	42.0	36.5	30.3	40.3
5. (Don't have business equipment)	1.1	1.2	—	1.0
6. (DK/Refuse)	3.2	5.9	5.3	3.7
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

2. Do you replace your business vehicles on a regular schedule or do you use them until they wear out or become obsolete? Is that always the case or usually the case?

1. Scheduled replacement - always	12.1%	17.9%	19.2%	13.4%
2. Scheduled replacement - usually	8.3	10.7	9.0	8.6
3. Replacement as needed - usually	17.8	19.0	23.1	18.4
4. Replacement as needed - always	35.6	22.6	23.1	33.0
5. (Don't have business vehicles)	25.6	27.4	23.1	25.8
6. (DK/Refuse)	0.5	2.4	2.6	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
3. Other factors equal, do you prefer to lease your business's equipment or do you prefer to purchase it? Is that always your preference or usually your preference? (If invests in business equipment in Q#1.)				
1. Lease - always	5.9%	6.0%	1.3%	5.5%
2. Lease - usually	5.8	6.0	7.8	6.0
3. Purchase - usually	20.4	27.4	33.8	22.5
4. Purchase - always	65.8	54.8	51.9	63.2
5. (DK/Refuse)	2.1	5.9	5.2	2.8
Total	100.0%	100.0%	100.0%	100.0%
N	346	197	200	743
3a. What is the ONE most important advantage of leasing over purchasing? Is it that leasing:? (If "Lease" in Q#3.)				
1. Let's you try new things without a long-term commitment	—	—	—	6.3%
2. Improves your cash flow	—	—	—	37.8
3. Let's you always have the most up-to-date things	—	—	—	20.7
4. Offers tax advantages	—	—	—	25.2
5. Results in better service from the seller	—	—	—	3.6
6. (Other)	—	—	—	5.4
7. (DK/Refused)	—	—	—	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	45	35	27	107
3b. What is the ONE most important advantage of purchasing over leasing? Is it that purchasing:? (If "Purchase" in Q#3.)				
1. Let's you own an asset until you want to get rid of it	23.5%	14.7%	24.2%	22.7%
2. Is cheaper overall	34.1	41.2	45.5	36.0
3. Let's you avoid disputes over residual value	3.0	1.5	—	2.5
4. Puts assets on your books	5.0	7.4	6.1	5.4
5. Let's you alter or treat an asset as you wish	30.4	26.5	19.7	29.0
6. (DK/Refused)	3.9	8.8	4.5	4.4
Total	100.0%	100.0%	100.0%	100.0%
N	301	162	173	636

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

4. When you invest in business equipment, are you more likely to obtain new items or used items? Is that much more likely or somewhat more likely? (If invests in business equipment in Q#1).

1. New - much more likely	64.5%	69.9%	67.5%	65.4%
2. New - somewhat more likely	11.2	12.0	13.0	11.5
3. Used - somewhat more likely	4.0	3.6	7.8	4.3
4. Used - much more likely	9.6	10.8	5.1	9.3
5. (50-50; half and half)	9.8	3.6	6.5	8.8
6. (DK/Refuse)	0.8	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	346	197	200	743

5. When you invest in business vehicles, are you more likely to obtain new items or used items? Is that much more likely or somewhat more likely? (If invests in business vehicles in Q#2).

1. New - much more likely	56.6%	60.7%	59.3%	57.3%
2. New - somewhat more likely	6.8	4.9	11.9	7.3
3. Used - somewhat more likely	7.9	6.6	3.4	7.3
4. Used - much more likely	22.2	21.3	20.3	21.9
5. (50-50; half and half)	6.0	4.9	5.1	5.8
6. (DK/Refuse)	0.4	1.6	—	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	252	142	152	546

6. Suppose you had the opportunity to make an investment in your business that would allow earnings to rise 25 percent within the next two years. The project had minimal risk, but you did NOT have the cash right then to make the investment. Would you most likely:?

1. Wait until you had accumulated enough cash	44.2%	40.5%	29.9%	42.4%
2. Borrow the money and make the investment	46.9	45.2	58.4	47.9
3. Seek an outside investor for your business	4.4	8.3	5.2	4.9
4. (DK/Refuse)	4.5	6.0	6.5	4.8
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

When I use the term MAJOR investment in your business, I mean an investment or series of investments where the total purchase price amounts to around 5 percent or more of your annual gross receipts.

7. When you consider making a MAJOR investment in your business, how do you assess its financial viability? Do you primarily use:?

1. The payback period	18.4%	20.0%	19.7%	18.7%
2. The rate-of-return	32.9	30.6	28.9	32.3
3. Gut feel	25.6	23.5	25.0	25.3
4. (Combination)	10.4	9.4	11.8	10.5
5. (Other)	6.2	7.0	5.2	6.1
6. (Not applicable – no major investments)	2.1	4.7	5.3	2.6
7. (DK/Refuse)	4.5	4.7	4.0	4.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

7a. When you make a MAJOR investment in business equipment, what is the maximum number of years it should take for the investment to pay for itself? (If "Payback Period" in Q#7.)

1. One year or less	1.8%	—	—	1.4%
2. Two years	28.1	—	—	24.5
3. 3 - 4 years	24.6	—	—	27.3
4. 5 years	23.7	—	—	25.2
5. More than 5 years	11.4	—	—	10.5
6. (Varies)	3.5	—	—	5.6
7. (DK/Refuse)	7.0	—	—	5.6
Total	100.0%	100.0%	100.0%	100.0%
N	62	39	38	139

7b. When you make a MAJOR investment in land or structures for your business, what is the maximum number of years it should take for the investment to pay for itself?

1. 5 years or less	25.3%	—	—	22.2%
2. 6 - 10 years	28.7	—	—	29.9
3. 11 - 20 years	13.9	—	—	16.0
4. More than 20 years	1.7	—	—	2.1
5. (Varies)	2.6	—	—	2.1
6. (Not applicable - haven't made such an investment)	22.6	—	—	22.2
7. (DK/Refuse)	5.2	—	—	5.6
Total	100.0%	100.0%	100.0%	100.0%
N	62	39	38	139

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

7c. Do you use the accounting rate-of-return or the discounted cash flow method? (If "Rate-of-Return" in Q#7.)

1. Accounting rate-of-return	40.9%	48.0%	47.8%	42.2%
2. Discounted cash flow	36.5	36.0	39.1	36.7
3. (DK/Refuse)	22.6	16.0	13.0	21.1
Total	100.0%	100.0%	100.0%	100.0%
N	111	61	58	230

8. Do you typically make cash flow projections prior to making a MAJOR investment in your business? (If make a major investment in Q#7.)

1. Yes	67.0%	73.8%	84.9%	69.4%
2. No	31.1	26.3	15.1	29.1
3. (DK/Refuse)	1.9	—	—	1.6
Total	100.0%	100.0%	100.0%	100.0%
N	342	189	190	721

9. Do you have a written business plan projecting the MAJOR investments you plan to make in your business over the next few years?

1. Yes	30.3%	28.4%	41.1%	31.1%
2. No	69.0	71.6	58.9	68.4
3. (DK/Refuse)	0.6	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	342	189	190	721

10. Do you typically calculate the tax implications, consider the tax implications, or ignore the tax implications PRIOR to making a MAJOR investment in your business?

1. Calculate	17.5%	14.8%	17.8%	17.2%
2. Consider	58.4	63.0	57.5	58.8
3. Ignore	21.0	17.3	21.9	20.7
4. (DK/Refuse)	3.1	5.0	2.7	3.3
Total	100.0%	100.0%	100.0%	100.0%
N	342	189	190	721

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
11. Which BEST describes when it is appropriate to borrow to make a business investment?				
1. Any cost-effective investment in your business including replacement	28.4%	34.9%	32.9%	29.5%
2. Only to expand, diversify, or make the business more productive	45.2	45.3	51.3	45.8
3. Not appropriate to borrow for business investment	24.4	15.1	13.2	22.3
4. (DK/Refuse)	2.1	4.6	2.6	2.4
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751
12. Measured in dollars, what was the purpose of the largest share of the investments made in your business over the last 12 months?				
1. Replacement and maintenance	45.1%	45.9%	50.0%	45.6%
2. Extension of existing product or service lines	22.1	17.6	18.4	21.2
3. Expansion into new business areas	22.5	23.5	25.0	22.9
4. Safety or environmental improvement	3.3	4.7	3.9	3.5
5. (DK/Refuse)	7.0	8.2	2.6	6.7
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751
12a. In the last 12 months, did you invest in a technology or process that was new to your business?				
1. Yes	33.1%	38.8%	41.6%	34.6%
2. No	66.7	61.2	58.4	65.3
3. (DK/Refuse)	0.2	—	—	0.1
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

12b. Did you also invest in another, different privately-held business in the last 12 months whether or not you were the primary owner?

1. Yes	9.7%	13.1%	17.1%	10.8%
2. No	89.8	86.9	82.9	88.9
3. (DK/Refuse)	0.5	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

12b1. Were you the primary owner of that other business? (If "Yes" in Q#12b.)

1. Yes	—	—	—	62.1%
2. No	—	—	—	37.9
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	31	26	34	91

13. Is your greatest long-term concern about reinvesting in your business possible over-investment, possible under-investment, or possible investment in the wrong things? Is that a major or minor concern?

1. Over-investment - major concern	10.6%	9.4%	13.2%	10.7%
2. Over-investment - minor concern	11.4	11.8	18.4	12.1
3. Under-investment - major concern	9.2	3.5	2.6	8.0
4. Under-investment - minor concern	11.9	8.2	5.3	10.9
5. Wrong investment - major concern	24.3	24.7	21.1	24.0
6. Wrong investment - minor concern	17.8	16.5	23.7	18.2
7. (Not concerned)	11.4	22.4	10.5	12.5
8. (DK/Refuse)	3.3	3.6	5.2	3.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751

Demographics

D1. Which best describes your position in the business?

	Employee Size of Firm 1-9 emp	10-19 emp	20-249 emp	All Firms
1. Owner/manager	85.6%	74.1%	74.0%	83.2%
2. Owner but NOT manager	5.5	7.1	9.1	6.1
3. Manager but NOT owner	8.9	18.8	16.9	10.7
4. (DK/Refuse)	—	—	—	—
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	4.8%	1.2%	2.6%	4.2%
2. Construction	11.0	11.1	7.9	10.7
3. Manufacturing, mining	7.6	12.3	17.1	9.0
4. Wholesale trade	7.6	7.4	2.6	7.1
5. Retail trade	17.5	21.1	13.2	17.4
6. Transportation and warehousing	2.1	1.2	1.3	1.9
7. Information	1.9	1.2	1.3	1.8
8. Finance and insurance	6.2	2.5	1.3	5.3
9. Real estate and rental leasing	5.7	1.2	2.6	5.0
10. Professional/scientific/ technical services	14.1	12.3	9.2	13.5
11. Adm. support/waste management services	1.9	1.2	5.3	2.2
12. Educational services	0.8	1.2	1.3	0.9
13. Health care and social assistance	3.0	2.5	9.2	3.6
14. Arts, entertainment, or recreation	1.6	1.2	2.6	1.7
15. Accommodations or food service	2.1	12.3	14.5	4.3
16. Other service, incl. repair, personal care	10.3	7.4	5.3	9.5
17. (Other)	1.3	2.6	2.6	1.5
18. (DK/Refuse)	0.6	—	—	0.5
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	14.1%	15.3%	14.1%	14.2%
2. Increased by 20 to 29 percent	10.0	12.9	9.0	10.2
3. Increased by 10 to 19 percent	22.5	22.4	21.8	22.4
4. Changed less than 10 percent one way or the other	24.1	25.9	33.3	25.3
5. Decreased by 10 percent or more	25.1	18.8	16.7	23.7
6. (DK/Refuse)	4.1	4.7	5.1	4.2
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	26.8%	8.2%	3.9%	22.6%
2. No	72.7	91.8	94.8	76.9
3. (DK/Refuse)	0.5	—	1.3	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751
D5. What is the legal form of your business? Is it a:?				
1. Proprietorship	28.2%	8.2%	5.1%	23.8%
2. Partnership	9.5	5.9	2.6	8.4
3. Sub-S Corporation	22.3	28.2	37.2	24.4
4. Limited Liability Corporation	10.9	8.2	12.8	10.8
5. Corporation	28.2	48.2	38.5	31.4
6. (DK/Refuse)	0.8	1.2	3.9	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751
D6. How long have you owned or operated this business?				
1. < 6 years	24.4%	17.9%	17.1%	23.0%
2. 6-10 years	22.4	17.9	21.1	21.8
3. 11-20 years	25.4	34.5	31.6	27.0
4. 21-30 years	17.9	21.4	18.4	18.4
5. 31 years+	9.0	8.3	9.2	9.0
6. (DK/Refuse)	0.8	—	2.6	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
D7. What is your highest level of formal education?				
1. Did not complete high school	2.4%	—%	1.3%	2.0%
2. High school diploma/GED	24.2	17.9	11.8	22.4
3. Some college or an associates degree	25.0	22.6	17.1	24.0
4. Vocational or technical school degree	4.3	2.4	2.6	3.9
5. College diploma	30.3	41.7	44.7	32.9
6. Advanced or professional degree	12.0	15.5	21.1	13.3
7. (DK/Refuse)	1.7	—	1.3	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751
D8. Please tell me your age.				
1. <25	1.6%	—%	—%	1.3%
2. 25-34	8.9	8.2	10.4	9.0
3. 35-44	24.7	23.5	23.4	24.5
4. 45-54	30.3	32.9	32.5	30.8
5. 55-64	24.6	25.9	24.7	24.7
6. 65+	7.9	8.2	6.5	7.8
7. (DK/Refuse)	2.1	1.2	2.6	2.0
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751
D9. What is the zip code of your business?				
1. East (zips 010-219)	15.1%	17.6%	14.7%	15.3%
2. South (zips 220-427)	15.2	22.4	16.0	16.1
3. Mid-West (zips 430-567, 600-658)	24.0	23.5	32.0	24.7
4. Central (zips 570-599, 660-898)	27.6	20.0	21.3	26.2
5. West (zips 900-999)	18.1	16.5	16.0	17.7
6. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	350	200	201	751
D10. Sex				
Male	81.3%	82.4%	84.2%	81.7%
Female	18.7	17.6	15.8	18.3
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 April 30 - May 29, 2003 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 was 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 were 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	350	47
10-19	82	11	200	27	200	27
20-249	75	10	200	27	201	27
All Firms	750	100	750	101	751	101

**Sample universe developed from special runs supplied to the NFIB Research Foundation by the Bureau of the Census (1997 data).*

Previous Publications in This Series

Volume 1,	Issue 1	*The Changing Search for Employees*
	Issue 2	*The Use and Value of Web Sites*
	Issue 3	*The Cash Flow Problem*
	Issue 4	*Adjusting to Cost Increases*
	Issue 5	*Coping with Regulation*
	Issue 6	*Success, Satisfaction and Growth*
	Issue 7	*Getting Paid*
	Issue 8	*Privacy*
Volume 2,	Issue 1	*Workplace Safety*
	Issue 2	*Liability*
	Issue 3	*Postal Rates*
	Issue 4	*Administering the Sales Tax*
	Issue 5	*Advice and Advisors*
	Issue 6	*Families in Business*
	Issue 7	*Business Insurance*
	Issue 8	*Pre-ownership Experience*
Volume 3,	Issue 1	*Contacting Government*
	Issue 2	*Compensating Employees*

The Sponsor

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. Included are analyses of selected proposed regulations using its Regulatory Impact Model (RIM). The Foundation's functions were recently transferred from the NFIB Education Foundation.

1201 "F" Street NW
Suite 200
Washington, DC 20004
nfib.com