NFIB Research Foundation

National Small Business Poll

Volume 5, Issue 8
2005

NFIB National Small Business Poll

Bank Competition

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.

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Small Business
Poll

Bank Competition

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Volume 5, Issue 8
2005
ISSN - 1534-8326

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NFIB
The Voice of Small Business.®

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Executive Summary

- A slight majority of small-business owners use two or more financial institutions when conducting their firm's financial affairs. Thirty (30) percent use two and 22 percent three or more financial institutions. However, 47 percent still use one exclusively. In almost all cases (94%), the principal financial institution is a bank.

- Forty-one (41) percent of the owners use a small bank (assets of $1 billion or less) with over 15 percent using very small banks (assets under $100 million). Thirty-eight (38) percent of the owners use very large banks (assets over $10 billion).

- Small-business owners perceive a median of seven different banks (not branches) operating in their local market areas. Only 7 percent report just one or two banks. Almost 70 percent indicate that the number of bank locations operating in their local market has grown over the last three years, adding to their choices.

- Small-business owners report that competition for their banking business has increased during the last three years. Forty-three (43) percent say that competition has increased; 45 percent say that it has not changed; and 8 percent think there has been a decline in competition.

- Small employers who believe that competition is greater today than three years ago cite as evidence more: mail solicitations and advertising (74%), banking locations (70%), phone calls soliciting their banking business (65%), financial products and services targeted to small business (65%), and in-person solicitations at events or in their firms (57%).

- Twenty-one (21) percent of owners shopped for a new principal financial institution in the last three years. The two most common reasons for shopping were (1) the hope that a better deal was possible elsewhere and (2) dissatisfaction with the current bank.

- The primary reason that small-business owners did not shop for a new principal bank in the last three years was that they were satisfied with their existing bank (70%). Eighteen (18) percent did not shop because they did not want the hassle of switching and only 5 percent did not shop because of too few alternatives.

- Those who shop the bank market do not necessarily change principal banks. Only one-third of those who shopped changed banks, but many of those who changed did not shop. About three of four who changed banks did so as a result of shopping.

- Ten (10) percent of small-business owners switched principal banks in the last three years. Service and credit issues were the primary reasons that owners give for switching banks. Sixty-four (64) percent say that a reason for change was to obtain better service quality and 47 percent say it was the number and type of services at the new bank. Among other reasons for changing banks, 50 percent mention an expectation that they could more easily satisfy credit needs at the new bank and 53 percent say the new institution would provide better loan terms and rates.

Bank Competition

The financial services industry, particularly banking, was one of the most stagnant industries in the country just over a generation ago. Bank product offerings and locations were legislatively determined. Price competition was so limited that banks sought to attract new customers by giving away toasters, and the services and products available to customers were few. Consequently, banks often behaved more like a regulated utility than a competitive business. Meanwhile, small-business owner complaints about bank services, especially credit availability, were pervasive. Over the years, a bi-partisan political coalition deregulated the financial services industry. The goal of deregulation was to stimulate competition and provide better service to all customer segments at better prices. Today, mail boxes full of solicitations from financial services companies are evidence that the banking industry is vastly more competitive than it once was. But did that competition, resulting from a generation of deregulation, benefit small businesses? This issue of the *National Small Business Poll,* Bank Competition, addresses the question.

The Competitive Environment

A slight majority of small-business owners (51%) report using more than one financial institution to conduct their firm's banking business (Q#5b). While 47 percent use one institution exclusively, 32 percent use two, 13 percent three, and 6 percent four or more. The size of a business appears unrelated to the number of financial institutions used by its owner(s).

The term "financial institution" includes more types of financial service providers than commercial banks; credit unions are an example. However, for most small-business owners, "financial institution" means a bank. Ninety-four (94) percent report their primary financial institution is a bank compared to just 6 percent who use a credit union (Q#5c). A handful of owners list other types of institutions (finance companies, co-operatives, investment banks).

Small-business owners have a wide choice of banks. They typically find six to 10 banks (not branches, but banks with different names) operating in the area where they do business. Forty-three (43) percent estimate the number between six and 10, while 37 percent estimate a lower number, and 17 percent a greater number (Q#5). Just 7 percent of owners say that they have just one or two choices; these firms are likely to be found in rural areas.

Small-business owners also report that the number of bank offices in their local market, in contrast to the number of branches, has grown over the last three years. Fifty-seven (57) percent observe increases compared to 32 percent who perceive no change (Q#5a). One in 10 (10%) report a decline. This reported increase likely means that larger banks are moving into new markets (most likely through branching), considering that the number of bank charters has been declining in the United States for the past 15 years.

Mergers and acquisitions within the banking industry are largely responsible for the decline in the total number of bank charters in the country. Since 2002, effectively post 9-11, one in four (26%) small-business owners has experienced a merger or acquisition of its principal bank (Q#6). Most owners have not greeted this change with enthusiasm. For example, 42 percent of those affected say that it caused minor transition problems, while another 27 percent say that it affected them negatively (Q#6a). However, bank mergers and acquisitions motivated only 8 percent of those experiencing them (or 2% of the entire population) to change banks. Twenty-three (23) percent believe mergers and acquisitions involving their primary bank have either had no effect or had a positive effect on their business.

A plurality of small employers (38%) use the largest banks in the country (assets exceeding $10 billion) as their principal financial institution (Q#7). Of the four bank size categories examined, none had fewer than 16 percent of small-business owners using a bank in the size group as their principal bank. With the consolidation of the banking industry during the past 15 years (especially in terms of share of deposits), small-business owners might be expected to shift their patronage toward larger banks. Still, a substantial share of them, including owners of larger enterprises, remains a customer of small financial institutions. Perhaps the availability of technology to small banks has enabled them to provide a wide range of services and to focus on customer service. As a result, smaller banks can effectively serve larger, small businesses.

Competition for Small Business' Banking Business

Small employers believe that banks are competing more for their business today than they were just three years ago. While 45 percent notice no change in competition for their banking business, 43 percent report an increase (Q#1). Eighteen (18) percent believe there is much more competition. In contrast, 8 percent indicate that there is less; under 4 percent say much less. The bottom line is that a net 34 percent think that competition for their banking business is on the rise.

Small-businessmen and women cite many reasons for their perspective on bank competition. It starts, but does not end, with banks' direct marketing efforts. Of the 43 percent who say they notice greater competition today than three years ago, three in four (74%) report that they have received more mail solicitations and advertising over the period (Q#2D). Owners of the smallest businesses, those with fewer than 10 employees, are most likely to have observed increased mail solicitations. Sixty-five (65) percent say that they recognize more competition existed, at least in part, because they have received more phone calls asking for their banking business (Q#2F). Owners of larger businesses, those with over 20 employees were more likely to receive a phone contact. Fifty-seven (57) percent mention that they have received more in-person solicitations at events or at their firm's office (Q#2A) with owners of larger firms again more likely to report this type of contact. Only 42 percent notice more radio and TV advertising focused on smaller enterprises (Q#2B) with no difference in the frequency by firm size.

These figures understate bank marketing efforts to reach potential small-business customers because they are only drawn from owners noticing more competition for their banking business. Owners who sense no change in competition may also have been positively affected by these marketing activities. Nevertheless, the banking industry's marketing efforts have attracted small-business owner attention and helped to stimulate a sense of greater competition.

Banks can generate competitive appeal to small employers in ways beyond direct advertising and solicitation. One of the most important is the array of products and services they offer. Sixty-five (65) percent of small-business owners who report greater competition agree that there are more financial products and services targeted to small business today than three years ago (Q#2E). Another way to generate interest among small firms is location: seventy (70) percent mention additional banking locations in their area (Q#2G). Finally, 54 percent find evidence of increased competition in their ability to get interest rate quotes from lenders all over the country, an indicator most frequently reported by owners of the smallest businesses. Overall, small-business owners point to no single reason that supports their reports of more competition for their business, but rather point to a series of bank actions that lead them to the conclusion.

Shopping for a New Bank

A behavioral indicator of the state of bank competition is small-business owners' willingness to shop for an alternative provider. If owners are dissatisfied with their current bank or they seek a more attractive package of products and services, a competitive environment encourages them to shop for a meaningful alternative. The results of this *Poll* show that they do shop and frequently do change banks as a result of shopping.

Twenty-one (21) percent of small-business owners report that within the last three years they or someone on their behalf shopped for a new principal financial institution (Q#3). Owners of the largest small firms were almost twice as likely to shop as owners of the smallest, perhaps because their service requirements are greater. The remaining 78 percent did not shop.

Reasons for shopping could be stimulated either by banks reaching out to attract small-business customers ("pulling") or by banks offering poor services and pushing them out the door. Differing from the past, it now appears that the primary motivation for shopping is better deals offered elsewhere. Forty-two (42) percent report that their primary reason for shopping was to test the waters and see what was "out there" in terms of service and/or product opportunities (Q#3a). Another 18 percent say they knew that they could get a better situation elsewhere and went to find it. In contrast, 38 percent were not happy with their financial institution at the time, motivating their search.

No single reason spurred small-business owners to look for a new principal bank. Dissatisfaction was tied to a variety of issues with an average of three reasons given. The two most frequent reasons were poor quality of service (62%) (Q#3bF) and being treated like a stranger (57%) (Q#3bE). But there were other reasons as well. Forty (40) percent attribute their dissatisfaction to bank fees getting out of hand (Q#3bI); 37 percent say that the reason for shopping was that they wanted better loan terms or interest rates (Q#3bD); 33 percent claim that they were dissatisfied because they needed more or different services (Q#3bC); 32 percent cite turnover in account managers (Q#3bA); the same number mention that their credit needs were not satisfied (Q#3bB). The two reasons least often cited for dissatisfaction with their bank (and hence the motivation to look for a new one) were a merger or acquisition (21%) (Q#3bH) and an inconvenient location (20%) (Q#3bG).

The sample size for this series of questions is small (N = 67). As a result, the two most frequently cited reasons are not statistically different from one another, as are the middle five and the bottom two. It is best to think of the individual reasons in terms of the most common, the least common reasons, and those in the middle.

Seventy-eight (78) percent of small employers did not shop for a new bank in the last three years. The primary reason for inaction, cited by 70 percent of those who did not shop, is they were satisfied with their current bank (Q#3c). That means over half (55%) of all small-business owners did not shop because they were happy where they were. The second most important reason for not shopping was the hassle and inconvenience of changing (18%). Owners apparently believed that any marginal benefit they could obtain by switching would be more than offset by the transaction costs of changing banks. Only 5 percent report that there were no real alternatives with owners of the largest firms reporting this reason twice as often as owners of the smallest firms.

Not all shoppers change banks. Only one-third of those who shopped changed; two-thirds did not. And many who changed banks did so without shopping for a new one. About three of four who changed banks shopped; one in four did not.

Changing Banks

Only one in 10 small-business owners changed their principal financial institution during the last three years (Q#4). Owners of the largest were twice as likely to have changed as were owners of the smallest. Bank changes were spread almost evenly distributed over the last three 12-month periods (#4a), suggesting no intervening event influenced switches to alternative banks. It also suggests that the number of owners who change is not very large during a relatively stable and healthy economic period. Since the survey was conducted in the early part of the year, 2006 has fewer cases than the years 2005, 2004, or 2003.

The distribution of reasons for making a change will likely differ from the reasons for shopping or the reasons for dissatisfaction. For example, not all people who are dissatisfied will switch banks; they might not find anything better. Or, generally well-satisfied people may change because another bank has something even more attractive to offer or because they have been actively solicited.

The two categories of reasons that small-business owners most often cite for switching their principal financial institution are service and credit issues. Sixty-four (64) percent report that a reason for changing was that the new bank had a better quality of service (Q4bF). A similar reason involves more and different services than offered by the old bank. Of those switching, 47 percent changed to get more and different services (Q4bC).

Credit needs/terms is also a reason for a high proportion of switches. Half (50%) say that a reason for their change was the expectation that they could more easily satisfy their credit needs at the new institution (Q#4bB). Fifty-three (53) percent also believe that the new institution would provide them better loan terms or interest rates (Q#4bD).

Other issues were less frequently cited as the primary reason for changing principal banks. However, all reasons listed on the survey draw more than marginal interest. Thirty-eight (38) percent note that the new bank charged more reasonable bank fees (Q#4bH). Thirty-six (36) percent say that the new bank had a better location (Q#4bG). Two other reasons - it actively solicited your business and you were treated like a stranger at the old bank - draw positive responses from 35 percent (Q#4bJ) and 34 percent (Q#4bE) of switching owners respectively. As described above, small-business owners were frequently solicited, but relatively few switched and not all of those attribute the change, even in part, to solicitation. That means bankers must call on many owners (probably many times) before enticing one to change their principal bank.

Stability of account managers has been a small-business owner complaint for some time. Yet, it does not appear to have had a major influence on bank switches. Just 28 percent say that a reason for change was that the owners wanted more stability in account managers (Q#4bA). Similarly, considerable merger and acquisition activity has been occurring in the financial services industry. Yet, only 22 percent of those switching mention merger or acquisition as a reason (Q#4bI).

The sample size in this series of questions is also small (N = 70). The results, therefore, have a high margin of error and only can suggest relative frequencies. Still, some classes of reasons are clearly more important than others.

Final Comments

The evidence presented shows that banks vigorously compete for the business of smaller enterprises. Moreover, small-businessmen and women believe that competition is more vigorous than in the past, despite the dramatic consolidation in the banking industry. New charters as well as branching by larger banks into new markets has increased direct marketing and personal solicitations in the battle for market share of small firm financial business.

About one in five small-business owners shopped for a different principal bank within the last three years. The substantial number who shopped implies that a very large proportion of the population believes enough difference exists among institutions to make shopping worthwhile. Their efforts suggest that they perceive a potentially large return from changing banks, especially considering that change is a time consuming process for time-pressed owners. Yet, small-business owners could be shopping because they are unhappy with their current institution or because someone else offered them a better deal. The reasons owners give for shopping suggest a combination of the two, with more being pulled from their current institution than pushed. Moreover, 25 percent of those switching changed principal banks without shopping - an indication that they were enticed from their old bank by a better offer.

The primary reason that over three-quarters did not shop is that they are satisfied with their bank. For the remainder, only a few (5%) cite a reason that is related to a lack of competition. Overall, the relatively low frequency of shopping on the part of owners should be viewed as a positive, not a negative. The consolidation of the banking industry through merger and acquisition continues and small-business owners typically find such changes disruptive. However, only two percent of the population changed banks in the last three years for that reason. More common reasons for change by the one in 10 changing are tied to loan availability and terms as well as availability of services.

Half of small businesses patronize more than one bank or financial institution. The motives for these divided loyalties are not clear. Perhaps, some owners are just hedging their bets. For others, one institution performs better on one aspect of the relationship and another performs better on a different aspect. But the fact that small-business owners can (and do) play one bank off against another suggests that a highly competitive market of great value to owners of small enterprises currently exists in the American economy.

Bank Competition

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

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

1. Compared to three years ago, is there much more, slightly more, about the same, slightly less, or much less competition for your firm's banking business?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Much more competition	17.0%	24.4%	21.1%	18.2%
2. Slightly more competition	24.1	24.4	30.3	24.7
3. No change in competition	47.0	38.4	39.5	45.3
4. Slightly less	4.5	7.0	3.9	4.7
5. Much less	3.5	3.5	3.9	3.5
6. (DK/Refused)	4.0	2.3	1.3	3.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

2. What makes you say that competition for your firm's banking business has increased? Is it because: ? (If more competition in Q#1.)

A. You have received more in-person solicitations at events or in your firm

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	51.6%	66.7%	76.9%	56.5%
2. No	47.6	33.3	23.1	42.9
3. (DK/Refuse)	0.8	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	146	97	102	345

B. You have noticed more radio and TV advertising focused on smaller firms

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	41.1%	46.3%	43.6%	42.1%
2. No	56.0	53.7	56.4	55.8
3. (DK/Refuse)	2.8	—	—	2.1
Total	100.0%	100.0%	100.0%	100.0%
N	146	97	102	345

C. You can get rate quotes over the Internet from lenders all over the country

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	57.7%	41.5%	46.2%	54.3%
2. No	36.3	51.2	51.3	39.9
3. (DK/Refuse)	6.0	7.3	2.6	5.5
Total	100.0%	100.0%	100.0%	100.0%
N	146	97	102	345

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

D. You have received more mail solicitations and advertising

1. Yes	77.1%	65.9%	64.1%	74.2%
2. No	22.9	34.1	35.9	25.8
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	146	97	102	345

E. There are more products and services targeted to small business

1. Yes	66.5%	57.1%	66.7%	65.3%
2. No	27.4	38.1	28.2	28.9
3. (DK/Refuse)	6.0	4.8	5.1	—
Total	100.0%	100.0%	100.0%	100.0%
N	146	97	102	345

F. You have received phone calls asking for your business

1. Yes	64.1%	64.3%	69.2%	64.7%
2. No	35.9	35.7	30.8	35.3
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	146	97	102	345

G. There are more banking locations in the area

1. Yes	70.4%	69.0%	61.5%	69.2%
2. No	26.7	31.0	38.5	28.7
3. (DK/Refuse)	2.8	—	—	2.1
Total	100.0%	100.0%	100.0%	100.0%
N	146	97	102	345

3. Within the last three years did you or someone on your behalf shop for a new primary financial institution?

1. Yes	18.9%	24.7%	32.9%	20.9%
2. No	80.1	75.3	65.8	78.2
3. (DK/Refuse)	1.0	—	1.3	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

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

3a. Why did you shop for a new primary financial institution? Was the most important reason because you: ? (If shopped in Q#3.)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Know you could get a better situation elsewhere	18.4%	—%	16.0%	18.2%
2. Thought you might test the waters and see what was out there	42.1	—	40.0	41.5
3. You were not satisfied with your financial institution at the time	39.5	—	32.0	38.4
4. (DK/Refuse)	—	—	12.0	1.9
Total	100.0%	100.0%	100.0%	100.0%
N	68	48	65	181

3b. Why weren't you satisfied with your primary financial institution? Was ________ a reason for your dissatisfaction? (If "Not Satisfied" in Q#3a.)

A. Turnover in account managers

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	—%	—%	—%	31.7%
2. No	—	—	—	63.3
3. (DK/Refuse)	—	—	—	5.0
Total	100.0%	100.0%	100.0%	100.0%
N	26	18	23	67

B. Your credit needs not satisfied

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	—%	—%	—%	31.7%
2. No	—	—	—	68.3
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	26	18	23	67

C. You needed more or different services than offered

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	—%	—%	—%	33.3%
2. No	—	—	—	66.7
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	26	18	23	67

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
D. You wanted better loan terms or interest rates				
1. Yes	—%	—%	—%	36.7%
2. No	—	—	—	63.3
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	26	18	23	67
E. You were treated like a stranger				
1. Yes	—%	—%	—%	56.7%
2. No	—	—	—	43.3
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	26	18	23	67
F. Poor quality of service				
1. Yes	—%	—%	—%	62.3%
2. No	—	—	—	37.7
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	26	18	23	67
G. Inconvenient location				
1. Yes	—%	—%	—%	19.7%
2. No	—	—	—	80.3
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	26	18	23	67
H. A merger or acquisition				
1. Yes	—%	—%	—%	21.3%
2. No	—	—	—	78.7
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	26	18	23	67

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

l. Bank fees were getting out of hand

1. Yes	—%	—%	—%	40.0%
2. No	—	—	—	60.0
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	26	18	23	67

3c. Was the most important reason that you did not shop because: ? (If "No" in Q#3.)

1. You were satisfied with your financial institution	68.7%	75.0%	72.5%	69.7%
2. You had more pressing matters	6.4	7.8	3.9	6.4
3. There are no real alternatives; banks are pretty much alike	4.3	4.7	7.8	4.7
4. You didn't want the costs and hassles of changing	19.8	10.9	13.7	18.1
5. (DK/Refuse)	1.0	1.6	2.0	1.2
Total	100.0%	100.0%	100.0%	100.0%
N	279	153	132	564

4. Within the last three years, have you changed your principal financial institution?

1. Yes	9.1%	8.1%	19.7%	10.0%
2. No	90.9	91.9	80.3	90.0
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

4a. In what year did you change? (If "Yes" in Q#4.)

1. 2006	—%	—%	—%	18.4%
2. 2005	—	—	—	32.9
3. 2004	—	—	—	22.4
4. 2003	—	—	—	23.7
5. (DK/Refused)	—	—	—	2.6
Total	100.0%	100.0%	100.0%	100.0%
N	31	17	39	87

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

4b. Was a reason for changing to a new institution that:

A. You wanted more stability in account managers

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	—%	—%	—%	28.4%
2. No	—	—	—	71.6
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	29	21	20	70

B. You could more easily satisfy your credit needs

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	—%	—%	—%	50.0%
2. No	—	—	—	48.5
3. (DK/Refuse)	—	—	—	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	29	21	20	70

C. You needed more or different services than offered by your old bank

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	—%	—%	—%	47.1%
2. No	—	—	—	52.9
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	29	21	20	70

D. It offered better loan terms or interest rates

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	—%	—%	—%	53.0%
2. No	—	—	—	40.9
3. (DK/Refuse)	—	—	—	6.1
Total	100.0%	100.0%	100.0%	100.0%
N	29	21	20	70

E. You were treated like a stranger at the old bank

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	—%	—%	—%	34.3%
2. No	—	—	—	65.7
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	29	21	20	70

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
F. It had a better quality of service				
1. Yes	—%	—%	—%	64.2%
2. No	—	—	—	35.8
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	29	21	20	70
G. It had a better location				
1. Yes	—%	—%	—%	36.4%
2. No	—	—	—	63.6
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	29	21	20	70
H. It charged more reasonable bank fees				
1. Yes	—%	—%	—%	37.9%
2. No	—	—	—	59.1
3. (DK/Refuse)	—	—	—	3.0
Total	100.0%	100.0%	100.0%	100.0%
N	29	21	20	70
I. A merger or acquisition occurred				
1. Yes	—%	—%	—%	22.4%
2. No	—	—	—	77.6
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	29	21	20	70
J. It actively solicited your business				
1. Yes	—%	—%	—%	34.8%
2. No	—	—	—	65.2
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	29	21	20	70

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

5. How many different banks, those with different names, not just branches, are you aware of that operate in the area where you do business?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. One to two	7.8%	3.6%	2.8%	6.9%
2. Three to five	29.7	27.7	30.6	29.6
3. Six to 10	41.2	53.0	48.6	43.2
4. 11 - 20	14.8	9.6	15.3	14.7
5. 21 or more	2.5	2.4	—	2.2
6. (DK/Refuse)	4.0	3.6	2.8	3.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

5a. Compared to three years ago, has the number of banks, not bank branches, ______ ?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Grown a lot	16.4%	17.4%	16.9%	16.6%
2. Grown some	40.2	48.8	35.1	40.7
3. Not changed	30.5	26.7	32.5	30.2
4. Declined some	9.3	4.7	11.7	9.0
5. Declined a lot	1.0	—	1.3	0.9
6. (DK/Refuse)	2.6	2.3	2.6	2.6
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

5b. How many different banks or financial institutions does your firm use for loans or services?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. One	46.8%	46.4%	45.9%	46.6%
2. Two	32.3	34.5	29.7	32.2
3. Three	12.9	13.1	14.9	13.1
4. Four or more	5.0	4.8	8.1	5.5
5. (DK/Other)	3.0	1.2	1.4	2.6
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

5c. Is your primary financial institution a bank or some other type of institution, such as a credit union?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Bank	93.1%	98.8%	94.8%	93.9%
2. Credit union	6.6	1.2	2.6	6.0
3. Other	0.3	—	2.6	0.1
4. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

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

6. Since 2002, essentially post 9-11, has your principal financial institution merged or been acquired by another?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Yes	25.5%	26.7%	23.7%	25.5%
2. No	71.4	72.1	73.7	71.7
3. (DK/Refuse)	3.1	1.2	2.6	2.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

6a. Has the merger or acquisition change affected your banking activities: ? (If "Yes" in Q#6.)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Positively	1.9%	18.2%	—%	5.2%
2. Had no effect	17.5	18.2	—	17.5
3. Caused minor transition problems	42.9	36.4	—	42.3
4. Negatively	29.9	13.6	—	26.8
5. Changed to a new financial institution as a result	7.8	13.6	—	8.2
6. Too soon to judge	—	—	—	—
7. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	92	55	48	195

7. What is the size of your current primary financial institution? (Would you tell me its name, so I can look up its size in a directory of banks?)

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. $10 billion and higher	37.9%	37.2%	43.4%	38.4%
2. $1-$10 billion	15.6	16.3	15.8	15.7
3. $100 million - $1 billion	25.8	24.4	22.4	25.3
4. Under $100 million	15.7	17.4	15.8	15.9
5. Other (e.g., credit union)	2.0	1.2	1.3	1.8
6. (DK/Refuse)	3.0	3.5	1.3	2.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

	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	83.8%	77.6%	68.4%	81.6%
2. Owner but NOT manager	3.6	5.9	5.3	4.1
3. Manager but NOT owner	12.6	16.5	26.3	14.4
4. (DK/Refuse)				
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	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	4.0%	1.2%	2.6%	3.5%
2. Construction	9.7	11.8	7.9	9.8
3. Manufacturing, mining	7.4	10.6	11.8	8.3
4. Wholesale trade	6.9	5.9	3.9	6.5
5. Retail trade	12.5	22.4	13.2	13.7
6. Transportation and warehousing	3.5	3.5	5.3	3.7
7. Information	2.5	1.2	1.3	2.2
8. Finance and insurance	4.6	3.5	2.6	4.3
9. Real estate and rental leasing	2.6	1.2	3.9	2.6
10. Professional/scientific/ technical services	16.5	7.1	7.9	14.6
11. Adm. support/waste management services	4.0	2.4	1.3	3.5
12. Educational services	1.0	—	2.6	1.0
13. Health care and social assistance	4.1	5.9	7.9	4.7
14. Arts, entertainment, or recreation	2.1	3.5	5.3	2.6
15. Accommodations or food service	5.4	10.6	14.5	6.9
16. Other service, incl. repair, personal care	9.7	7.1	5.3	9.0
17. (Other)	2.5	2.4	2.6	2.2
18. (DK/Refuse)	1.0	—	—	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	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	15.4%	21.2%	29.5%	17.4%
2. Increased by 20 to 29 percent	20.0	16.5	11.5	18.8
3. Increased by 10 to 19 percent	21.7	23.5	28.2	22.5
4. Changed less than 10 percent one way or the other	25.1	28.2	19.2	24.9
5. Decreased by 10 percent or more	12.6	7.1	7.7	11.5
6. (DK/Refuse)	5.3	3.6	3.9	5.0
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

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

1. Yes	29.4%	9.3%	5.3%	24.8%
2. No	69.6	90.7	93.4	74.3
3. (DK/Refuse)	1.0	—	1.3	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

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

1. < 6 years	22.7%	26.2%	22.4%	23.0%
2. 6-10 years	18.5	19.0	15.8	18.3
3. 11-20 years	23.0	25.0	23.7	23.3
4. 21-30 years	22.7	19.0	19.7	22.0
5. 31 years+	12.3	10.7	15.8	12.4
6. (DK/Refuse)	0.8	—	2.6	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

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

D6. What is your highest level of formal education?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Did not complete high school	2.2%	2.4%	1.3%	2.1%
2. High school diploma/GED	19.2	21.2	14.3	18.9
3. Some college or an associates degree	23.8	16.5	19.5	22.6
4. Vocational or technical school degree	3.3	3.5	1.3	3.1
5. College diploma	25.3	41.2	41.6	28.7
6. Advanced or professional degree	25.5	15.3	20.8	23.9
7. (DK/Refuse)	0.7	—	1.3	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

D7. Please tell me your age.

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. <25	1.0%	—%	1.3%	0.9%
2. 25-34	7.4	5.9	6.6	7.2
3. 35-44	15.5	24.7	22.4	17.2
4. 45-54	34.4	35.3	31.6	34.2
5. 55-64	27.1	22.4	27.6	26.6
6. 65+	12.1	9.4	7.9	11.4
7. (DK/Refuse)	2.5	2.4	2.6	2.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

D8. What is the zip code of your business?

	1-9 emp	10-19 emp	20-249 emp	All Firms
1. East (zips 010-219)	20.8%	18.8%	22.4%	20.8%
2. South (zips 220-427)	18.0	20.0	22.4	18.7
3. Mid-West (zips 430-567, 600-658)	21.8	23.5	23.7	22.2
4. Central (zips 570-599, 660-898)	22.1	25.9	22.4	22.6
5. West (zips 900-999)	15.0	10.6	7.9	13.8
6. (DK/Refuse)	2.1	1.2	1.3	2.0
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752

	1-9 emp	10-19 emp	20-249 emp	All Firms
	Employee Size of Firm			
D9. Urbanization (Derived from zip code.)				
1. Highly Urban	12.7%	11.8%	11.8%	12.5%
2. Urban	20.0	17.6	19.7	19.7
3. Fringe Urban	18.7	21.2	18.4	18.9
4. Small Cities/Towns	19.5	25.9	18.4	20.1
5. Rural	21.7	18.6	23.7	21.5
6. (Not Known)	7.4	4.7	7.9	7.2
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	200	752
D10. Sex				
Male	76.2%	82.6%	83.1%	77.6%
Female	23.8	17.4	16.9	22.4
Total	100.0%	100.0%	100.0%	100.0%
N	350	202	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 February 2 - March 8, 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

	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	46
10-19	82	11	200	27	202	27
20-249	75	10	200	27	200	27
All Firms	750	100	750	101	752	101

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

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.

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