

## SECTOR PROFILE

## SMALL BUSINESS EXPORT

### WHAT IS SMALL BUSINESS EXPORTING?

The Small Business Administration (SBA) defines a **small business** as one that is independently owned and operated, is organized for profit, and is not dominant in its field. Depending on the industry, size standard eligibility is based on the average number of employees or sales volume. However, for consistency, this profile uses the SBA's Office of Advocacy criterion that describes a small business as an establishment with less than 500 employees.

The federal definition of an **export** is any item that is sent from the U.S. to a foreign destination. Items include, but are not limited to, commodities, software or technology, retail software packages and technical information. Service can also be part of the export. The following sectors were identified as those with export potential:

- Agriculture and Forestry
- Mining
- Utilities
- Construction
- Manufacturing
- Wholesale Trade
- Retail Trade
- Transportation & Warehousing
- Information
- Finance/Insurance
- Prof., Scientific, and Technical Services
- Waste Management
- Educational Services

### WHY SMALL BUSINESS EXPORTING?

Export-oriented industries in California are one of the key drivers of the state's economic vitality and stable workforce. Nationwide, California is the leader in the amount of export activities of the small and medium-size enterprise (SME). Many economists contend that export-led growth is the only sustainable way to maintain living standards and secure long term economic success. In 2009, California led the country with over \$54 billion in export value.

#### quick facts about small business export

- ✓ Over the last 20 years, small business exporters have accounted for almost two-thirds of new jobs in the U.S.
- ✓ In California, 96% of all exporters are small and medium sized businesses.
- ✓ Despite ongoing economic challenges in the state and nation, exports in California increased by over 11% in 2011 compared to the previous year.
- ✓ In 2011, California exported \$159 billion to 227 foreign economies. The state's top export markets include Mexico, Canada, China, Japan, and South Korea.

### WHAT IS DRIVING GROWTH?

#### challenges

- Trade barriers are more burdensome for small businesses than larger firms.
- Identifying overseas partners to handle distribution can be quite difficult for small enterprises.
- Coordinating shipping logistics overseas creates an additional challenge.
- Many small businesses do not have the resources to prevent intellectual property theft.
- They also face difficulties in maintaining price competitiveness with larger companies.
- Securing funds to start a business can be an issue.

#### opportunities

- Small businesses, because of their size, can generally keep in touch with consumer needs and continually innovate to respond to their markets.
- A less complicated organizational structure allows small businesses to be creative in the way they do business.
- Recent federal tax policies have made owning a small business more attractive as billions of dollars in tax relief are offered to entrepreneurs.
- Small and medium enterprises benefit from U.S. initiatives to remove trade barriers for exports.

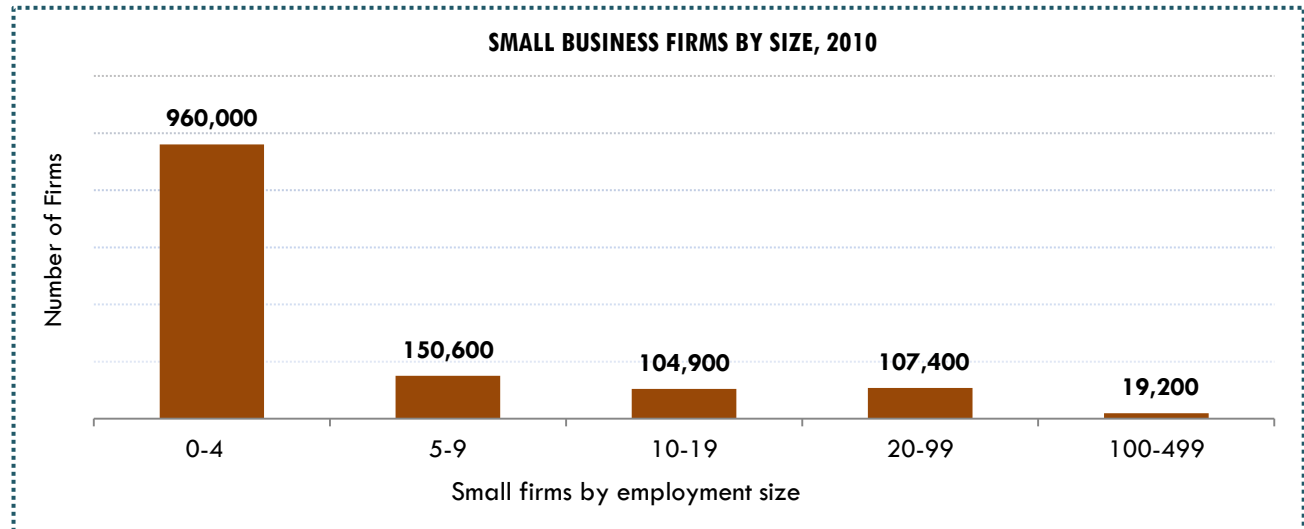
### EMPLOYER SAYS

*"Our export sales are 28% of our business. Because of the fluctuation of our market, export sales have at times carried the company in sales. Maintaining and increasing our export sales is vital to our growth..."*

- Art Burrows, General Manager  
Kirby Manufacturing, Inc.

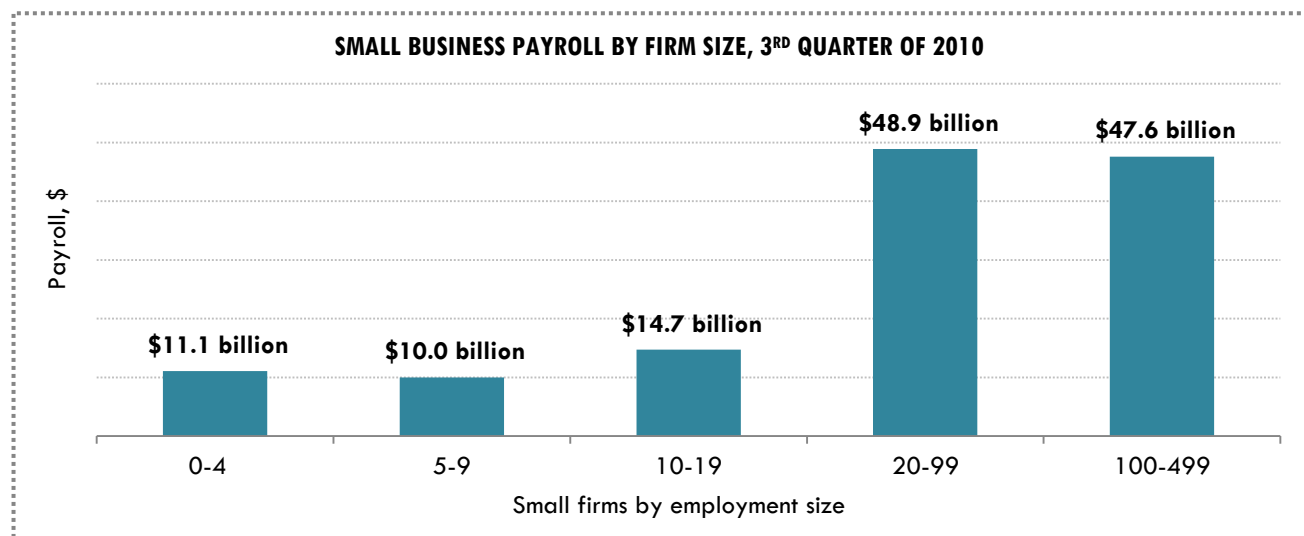
### HOW “SMALL” ARE SMALL BUSINESSES?

According to the State of California’s Employment Development Department, firms with less than 5 employees dominate the small business landscape in California, with nearly 960,000 establishments of this size in 2009. Small enterprises with more than 100 employees numbered only about 19,000 in the same year. Self-employed workers, those who work in their own non-incorporated offices, currently constitute close to 1.5 million individuals in the state’s workforce. While exports in California are largely in merchandise, the self-employed mostly work in the professional and business services sector.



Source: California Employment Development Department, 3<sup>rd</sup> quarter 2010

Although businesses with less than 5 employees make up about 70% of all small business enterprises in the state, they are only responsible for about 8.3% of the total small business payroll. This might be due to the fact that a significant proportion of these firms are self-employed individuals. Businesses with 20 to 99 employees reported the largest payroll amount among the firms of all sizes – about \$48.9 billion. Several experts agree that small businesses with more than 4 employees are critical to the economic growth and job creation. A special *Wall Street Journal*’s report on small businesses quoted Candida G. Brush, director of Babson College’s Center for Entrepreneurship saying that **“some small and new businesses do expect to create jobs, but job creation is tied to innovation. Growth is a choice – not all firms choose to grow. Some entrepreneurs may wish to keep their business manageable... But for those who do wish to grow, they are usually considering some type of innovation.”**



Source: California Employment Development Department, 3<sup>rd</sup> quarter 2010

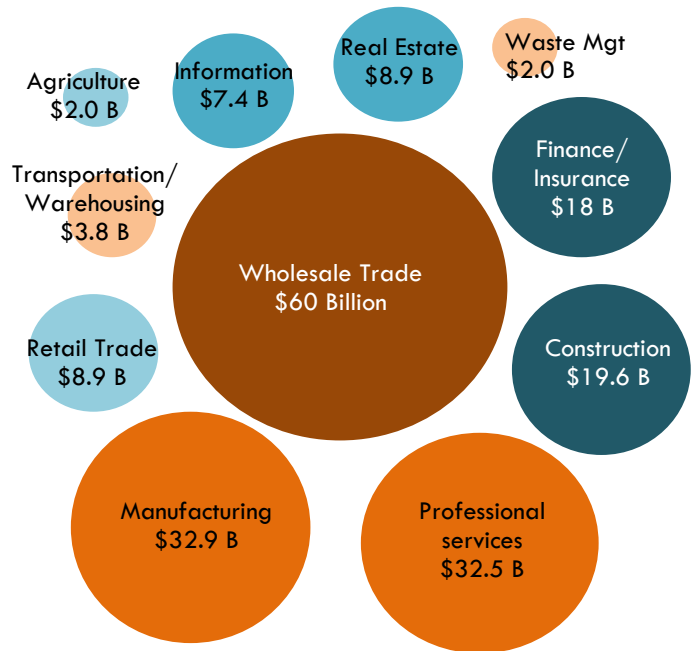
**WHAT SECTORS ARE DRIVING ECONOMIC ACTIVITY?**

Among the sectors identified as having export potential for the state, small businesses in **wholesale trade** posted the largest revenue in 2010 – about \$60 billion. Other sectors that generated significant sales revenues in small business segments included **manufacturing** (\$32.9 billion), **professional services** (\$32.5 billion), and **construction** (\$19.6 billion).

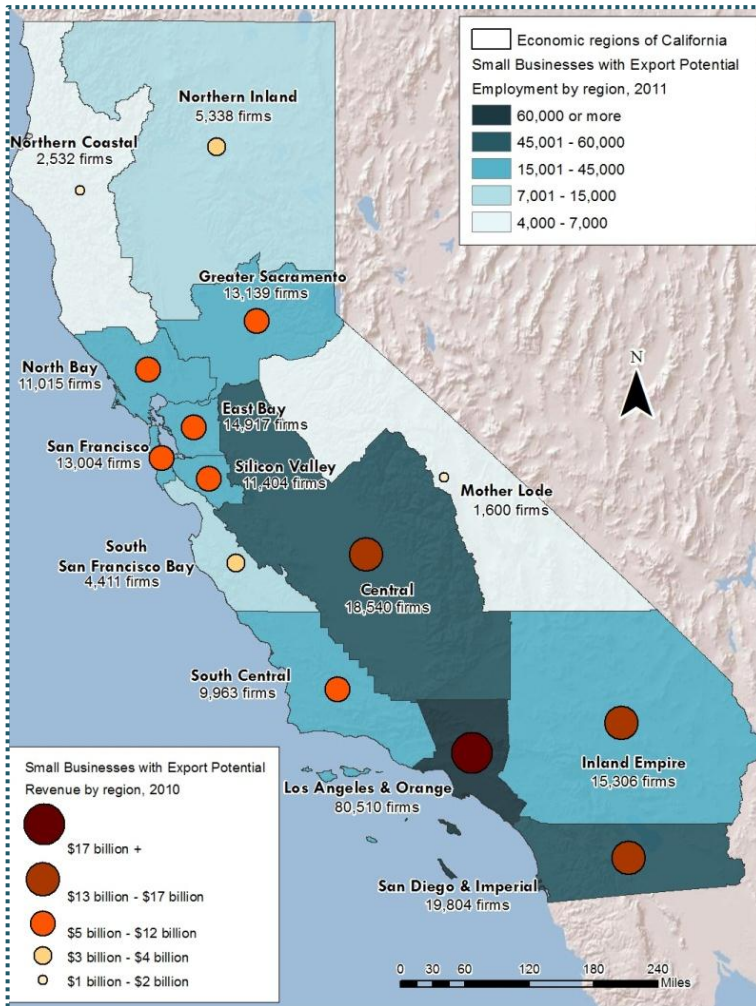
**WHERE ARE THE “HOT SPOTS”?**

In the state, the regions showing the strongest promise for small business exporting include Los Angeles, San Diego, Orange and San Francisco. These densely populated coastal counties are home to the largest pool of firms with zero to four employees and have generated some of the highest sales in 2010. Another stand-out region for small businesses is the Central Valley, which closely rivals the San Diego/Imperial region in terms of the number of small business employment and revenue in the sectors with export potential.

**2010 REVENUE BY INDUSTRY FOR SMALL BUSINESSES WITH EXPORT POTENTIAL**



**SMALL BUSINESS EXPORTING: EMPLOYMENT & REVENUE BY REGION**



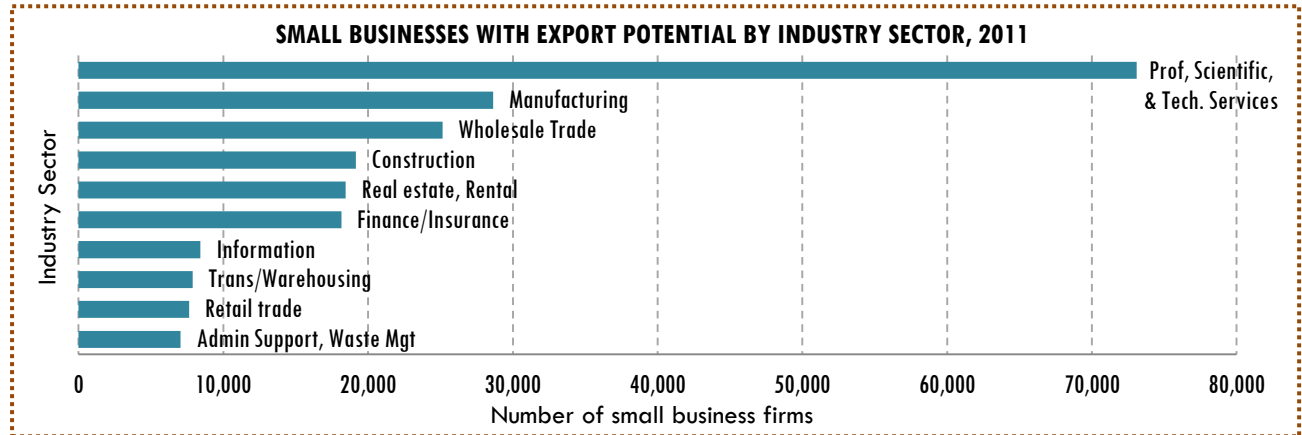
The table below illustrates the top 10 counties in the state according to the number of firms with 0 to 4 employees. In 2010, Los Angeles County led the state in the number of firms with 4 or less employees (330,000 firms), followed by San Diego (66,000 firms) and Orange Counties (65,000 firms). Other counties with large concentration of all small business firms are Santa Clara, San Francisco, Alameda, and Sacramento.

**TOP 10 COUNTIES BY NUMBER OF SMALL FIRMS**

County	Size of Firms (# of employees)				
	0-4	5-9	10-19	20-99	100-499
Los Angeles	330,751	37,737	25,543	26,491	5,061
San Diego	66,070	12,331	8,736	8,526	1,615
Orange	65,345	13,897	9,596	10,516	1,884
Santa Clara	40,880	7,692	5,390	5,650	995
San Francisco	39,700	5,535	3,824	3,528	625
Alameda	38,353	6,211	4,451	4,640	885
Sacramento	36,385	6,116	4,805	4,694	850
San Bernardino	34,040	5,668	4,200	4,692	821
Riverside	32,779	5,650	4,140	4,293	769
Fresno	21,176	3,249	2,446	2,734	436

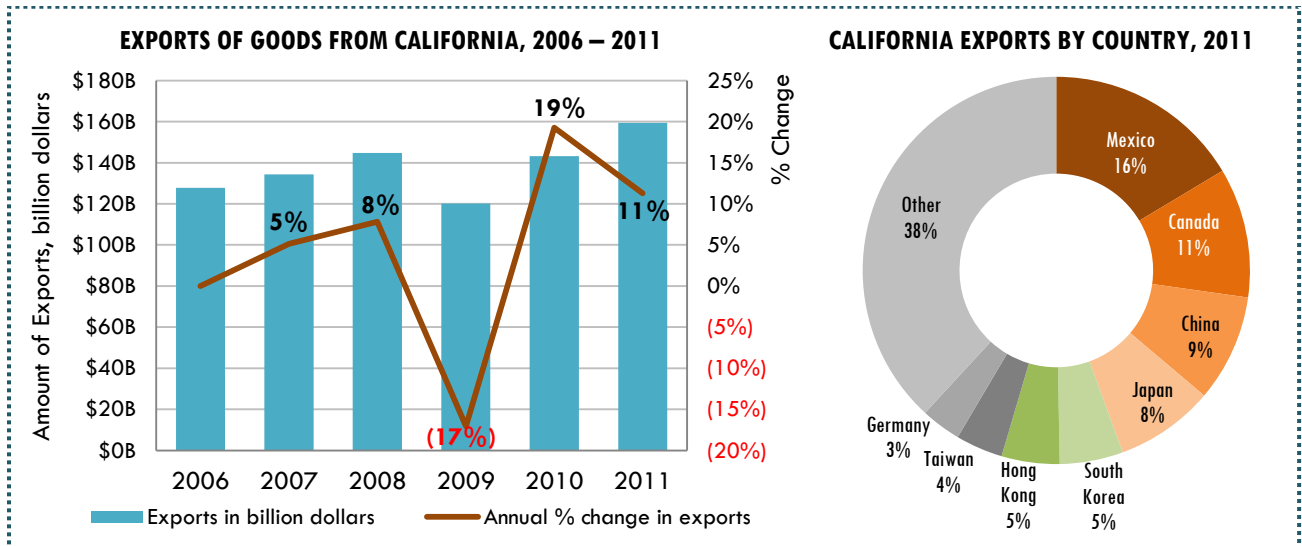
**WHAT IS CALIFORNIA’S EXPORT LANDSCAPE?**

The graph below represents the top ten industry sectors with the largest number of small enterprises with export potential. Firms that provide professional, scientific, and technical services, such as engineering or biotechnology, outnumber all other sectors. In the field of professional services, the two largest occupational groups for the self-employed are manager and professional specialty occupations as well as service occupations. Together, they make up one-fifth of the state’s self-employed populations.



Source: Data was generated using business database provided by InfoUSA, Inc. and dated October 2011.

Due to economic downturn in the world, the amount of exports from California experienced a decrease in 2009. However, thanks to a favorable currency exchange rate, the exports have rebounded rather quickly in 2010. Currently, California is exporting close to \$160 billion in goods a year. Most of these good are shipped to Mexico (16% of all state’s exports), Canada (11%), China (9%), and other Asian countries.



Source: U.S. Dept. of Commerce, International Trade Association.

**WHAT IS THE ROLE OF COMMUNITY COLLEGES?**

In 2011, the California Community Colleges Chancellor’s office received a \$2.54 million grant from the U.S. Small Business Administration for the promotion of small businesses and exports. The funds are slated to be utilized for growing the number of small business exports and job creation. The State Trade and Export Promotion (STEP) grant funds will support the building of partnerships for marketing, identifying potential customers, training, and support services for small businesses. The Centers for International Trade Development (CITD), an initiative of the community college system, act as the grant coordinators.

**DATA NOTES AND SOURCES**

Data and information included in the Sector Profile were compiled from the following public and proprietary sources: California Community College Chancellor’s Office, Press Release, 09/27/11; CA Employment Development Department, California Labor Market Trends, August 2010; Lindegaard, Stefan, Three Innovation Drivers for Small Business, March 4, 2012; Small Business Administration (SBA); U.S. Dept. of Commerce, International Trade Association; Economic Modeling Specialists, Inc.; InfoGroup, Inc.