

Trends in Microbusinesses 2007

Editor's Note: The following is a transcript of a podcast interview conducted by Anita Campbell, Editor of *Small Business Trends*, with guest Dawn Rivers Baker, Editor of the *MicroEnterprise Journal*, on the topic of trends affecting microbusinesses in 2007.

Anita Campbell:

Welcome to this special edition *Small Business Trends* podcast. It is December 2006. I am talking with Dawn Rivers Baker, who is the Editor of the *MicroEnterprise Journal*.

Dawn, I wonder if you could tell us a little about your business and where it is located?

Dawn Rivers Baker:

Sure. I actually run a publishing business – four media properties plus a book publishing business. I operate out of upstate New York, a little village called Sidney.

Anita Campbell:

Your publishing business and your online properties, do they follow a theme or a certain market, or are they all different?

Dawn Rivers Baker:

The media properties that I publish are all focused on microbusinesses. That's businesses with fewer than five employees, that's the standard definition. I generally comment on public policy and economic trends specifically as they impact those very small businesses in the United States.

My definition tends to be a little bit less precise than the numeric definition, because I find you can have a business with four employees that isn't a microbusiness.

Micros are generally defined by how they function, from my observation.

What it comes down to is that a microbusiness is a business that's small enough that nobody in the business does just one thing.

Anita Campbell:

I see. Now does it *have* to be a certain size to be considered a microbusiness?

Dawn Rivers Baker:

Not really. I think that concept of nonspecific labor division, if you will, is really what defines a microbusiness. Because it's an operational reality that's very different from a larger business where you have one person that does administrative work and that's all that they do, and somebody else does sales and marketing and that's all that they do, and where one person does design production and that's all that they do. It's a very very different operational reality when you have the person who is doing administrative work, sales and marketing, and maybe a little bit of PR, too. It just makes for, like I said, a different day-to-day operational reality in terms of the way the business is structured and the way it has to be run.

Anita Campbell:

How long have you been following the microbusiness market in the U.S.?

Dawn Rivers Baker:

I have been doing this for about seven years now. It doesn't seem like that long. And I guess in Internet years that makes me about 2000.

Anita Campbell:

That's something like dog years, hmm?... [Laughter from both]

We're here today to talk about trends in microbusinesses. So, the big question I have for you is: As we are about to enter 2007, do you expect the ranks of microbusinesses to grow, decline or stay the same?

Dawn Rivers Baker:

Oh, absolutely, I think that microbusinesses are going to grow. One of the most interesting things that I've been watching for the last few years has been the positive explosion in the number of non-employer businesses. The data that we get from the Census Bureau is ... unfortunately, there's a huge data lag, so that the 2004 numbers just came out this year. And in those numbers we've seen another jump of about 4.7%. The year before that the jump was about close to 6%. The non-employers themselves are probably going to be growing by something in the vicinity of 5% per year, and I really don't see any reason for that to slow down anytime soon.

Anita Campbell:

And when you say a "non-employer business," would you just describe, perhaps for anyone who may not be familiar with that term, what does that really mean?

Dawn Rivers Baker:

That is the term that they use to describe a firm that has no paid employees outside the owner of the business. A non-employer business could have more than one owner, but there's no one paid to work in the business that doesn't own a piece of it. The other thing about non-employer businesses is that Census doesn't count them if they make less than \$1,000 a year. And this I find quite interesting, they stop counting them if they make more than \$1,000,000 a year, because they assume that a single person business couldn't possibly make a million dollars a year.

Anita Campbell:

Talk about lowered expectations! [Laughter]

Dawn Rivers Baker:

Yes, I think that's one of those assumptions that's going to have to change as people take a closer look at non-employers in the near future.

Anita Campbell:

So, just to recap, you believe that we're looking at a 5% growth rate in 2007 by all indications for microbusinesses?

Dawn Rivers Baker:

That's what it's looking like. I think that if I want to be conservative I'd put it between 3% and 5%. The interesting thing about it is, like I said, there's been this ... 5% doesn't sound like a lot to most people. But in the context of these particular numbers when you figure that the overall population of U.S. businesses usually grows by around 2% to 3% a year, for the numbers of non-employers to be growing 5% a year, that's fairly huge, especially given the fact that they account for (at least in the most recent numbers we have) they account for more than three quarters of all the businesses in the country.

Anita Campbell:

I'd like to switch gears for just a moment, and I'd like to talk about some public policy issues relating to public policy at the Federal level of the United States. I noticed in a recent newsletter you said that you expect the incoming House and Senate chairs of the Small Business Committees of the U.S. Congress -- who are I believe respectively Nydia Velazquez in the House and John Kerry in the Senate -- to be "barking up whole forests of wrong trees." [Laughter] I may have paraphrased that a little bit, but that's the gist of what I got.

Is that an accurate paraphrasing of what you said in your newsletter? And what did you mean by that?

Dawn Rivers Baker:

Well, I think that that is going to be more true of the House committee than the Senate committee.

From what I've seen, and this is a tendency on Capitol Hill anyway, there really is a poor understanding of the differences between microbusinesses and large or small businesses. So, Federal lawmakers have a tendency from a public policy point of view to assume that anything that they do that will be good for large or small businesses would be helpful to microbusinesses. That's often not the case. The things that they do on Capitol Hill do not necessarily help, er hurt, excuse me, microbusinesses. They are *not* injurious to microbusinesses. They just don't help.

And that matters just because most of the small businesses are microbusinesses. I mean, let's bear in mind, microbusinesses are 90% of all the businesses in the country.

If you have a tax break, let's say -- let's say the Section 179 expensing increase to \$100,000. That's great stuff for large or small businesses. I wouldn't take that away from them in a million years. But let's just understand, most *microbusinesses* weren't even hitting the \$25,000 cap. That didn't hurt them, the expensing increase, but it didn't help them either.

Anita Campbell:

And that example you just gave, you're talking about expensing capital equipment purchases such as buying computers and so on?

Dawn Rivers Baker:

Right. So what I'm saying is that the very small businesses.... The cap used to be \$25,000. It got raised to \$100,000. That's a good thing. I'm not saying it's not a good thing. I'm just saying, let's look at *who* it's helping -- and let's look at the vast sea of who, if you want to do something nice for them, you're going to have to do something else because that's not going to help them.

So, along those lines, I'll give you an example about our incoming House Small Business Committee chair Nydia Velazquez. She has been complaining **for years** about the 7a SBA guaranteed loan program because, she says, the average loan size is getting smaller. And she thinks that that's a bad thing.

What's funny about that is when Hector Barreto came into the SBA, one of the things that he told me early on was that when he took over the average loan size was around a quarter of a million dollars. He said to me, "Most small businesses don't need a quarter million dollar loan." And he's right! [Laughter from both]

So one of the things that he did through the SBA Express and the Community Express programs was to steer those lending programs to making smaller loans that are more a long lines of what small businesses really **need**.

Congresswoman Velazquez is coming into this position complaining that the SBA isn't making as many \$2 million loans as they used to. But given the rise in the number of microbusinesses, and the relative decline in the number of non-micro small businesses, that trend makes perfect sense.

So I don't know if it's that she doesn't realize that or that her constituents have been complaining that they haven't been able to get those \$2 million loans, or if it's one of those situations where she's a Democrat and this is something that happened under Republicans so she's going to complain about it – I don't know which of those things it really is. But if she's going to make the push for the SBA to start making those larger 7a loans again, that is absolutely not the direction you want to go in with microbusinesses who are already having major trouble with access to capital. That's the kind of thing I'm talking about. There are a lot of people on Capitol Hill whose thinking about small businesses is stuck in the 1950s somewhere. That could be a problem.

Anita Campbell:

What do you think the Congress has in store for small businesses in 2007? If you could name one or two things, what would they be? Or **do** you think we will make any progress when it comes to microbusinesses?

Dawn Rivers Baker:

Eeeeh... [Laughter] I think that they're going to come in with renewed focus on lower and middle income folks, which is where you're going to find a lot of – especially in the middle income group – a lot of microbusiness owners. For that reason, with that orientation, they **might** be more open to looking at microbusiness as opposed to those larger small businesses, in terms of what can we do to help you prosper.

Whether or not they will actually be able to acquire a clue is questionable because microbusinesses do good things for the economy that don't seem to be obvious to people on Capitol Hill. For some reason, the people on Capitol Hill think that it's better to have one business create 10 new jobs than it is to have 100 little microbusinesses create one job each. I have not figured out why, but that seems to be their orientation.

Anita Campbell:

I've noticed something similar, just in general, that people tend to talk about creating jobs yet don't seem to realize that **the business owner has a job** in that business, when they've started a business and they're the only person in it. It's the craziest thing....

Dawn Rivers Baker:

Well, absolutely, and let's not forget when we talk about microbusinesses, if you want to talk about job creation there's a few different avenues you can pursue here. For one thing, as you say, every business including every non-employer business – all 19.5 million of them there were in 2004 – every time somebody creates a new non-employer business they've created another job. That's one thing.

But if you stop and think about it, if you want to create more jobs let's look at those non-employers. And let's ask ourselves, "why do so many of those non-employers resist transitioning into employer businesses? What is it that stops non-employers from making that transition? And what can we do to make it easier for them to make that transition?" As far as I know, nobody on Capitol Hill is asking those questions.

At the same time, a lot of non-employer businesses don't hire people in the traditional sense. But they outsource a lot of their work to other microbusinesses and to independent contractors who could be viewed as non-employer businesses or who could be viewed as freelancers, depending on which government agency you're talking to.

But the point is that they might not be creating **jobs** in the traditional sense that the government is used to counting but they are creating **work** and they are generating economic activity.

And that's worth policy brownie points. And they don't get credit for that. [Laughter]

Anita Campbell:

Bingo! Yes, I think you've really hit the nail on the head when you talk about this.... It's almost like there's this **hidden economy** of microbusinesses who hire other microbusinesses on a project basis or an independent contractor basis.

Dawn Rivers Baker:

Absolutely. And when you just look at the economy in the terms and terminology and context of what the government measures, you miss a lot of stuff. I am not an economist but I really do believe that what we're looking at are some real structural changes that are happening in the economy, that are being brought about sort of as a concatenation of technology and just ... the mood of the time.

I like to think of it as people **taking back their economic freedom**.

Essentially what it is, is that people are taking their lives back. Most of us don't stop to think about how much control over your life you give somebody when you go to work for them. From where I sit it's exciting to watch all of these people saying, "Enough of this. Enough of the office politics. Enough of the slave driver mentality. Enough of the every man is in it for himself as opposed to mutual loyalty that used to characterize the employer-employee relationship. I want to go and create my own business that is going to be part of my whole life rather than being compartmentalized over there when I'm at the job." It's exciting to watch.

Anita Campbell:

I'd like to jump into some specific trends that you see affecting small businesses – actually microbusinesses -- in 2007, Dawn. Do you have a list of some of the key trends that you would anticipate and that anyone who is either selling or marketing to microbusinesses needs to be aware

of, or trends that microbusinesses would want to be aware of because they present opportunities they might want to take advantage of?

Dawn Rivers Baker:

One of the things that is starting to happen is that there are a lot of people in business, both large and small, that are really starting to look **very hard** at the microbusiness market. It is just so gigantic. It would be uncharacteristic of marketers and people in business not to look at this market and salivate. You have had folks in IT who have been running after microbusinesses for some time. What you have there once again is: We want those dollars but we can't figure out: (a) what you need and (b) where you are.

Anita Campbell:

Right! "What do you need?" "And even if we knew what you needed, how do we find you to sell it to you?" [Laughter from both]

Dawn Rivers Baker:

The big thing in IT has been convincing those companies that microbusinesses are not just really small enterprise clients. They have different needs. That's starting to take hold now. We're starting to see some companies who are creating products specifically for microbusinesses, or at least that's what they tell me. What's interesting about those is that one that a lot of companies still don't seem to get is that microbusinesses as a market are extraordinarily price sensitive. Extremely price sensitive.

They are also really really hard to reach. They're not the *Entrepreneur* [magazine] crowd. They're not the *Inc* crowd or the *Fast Company* crowd. Because of that they're, I don't know, they're so dispersed and tucked into every crevice and nook and cranny that trying to market to the whole of the microbusiness market really defeats a lot of these companies. There isn't just one media outlet or one organization or one **anything** that they can do outreach to and think they're going to get to all these tiny little businesses. So that leaves them scratching their heads saying, "how do we do this?" and "where do they hang out?"

What's interesting about that is that micros tend to buy more according to their networks and word of mouth than probably anything else. You had an excellent piece of research on *Small Business Trends* about that, as a matter of fact.

They're an interesting group, actually, because they are a hybrid between a business owner and a consumer. They can be as susceptible to consumer issues – in the context of consumer protection I'm talking now – as consumers, but at the same time they are businesses, of course, which creates a certain set of expectations about them in terms of risk management and so on that aren't always accurate.

What that means... the bottom line is that they do buy like consumers in a lot of ways. And certainly they ... I don't know if I would say they are susceptible to buzz marketing but what I would say is that recommendations from colleagues and friends rank really really high to reach this particular market. I think the financial services market is going to be the next big group that's going to be chasing after the microbusiness market. Along with all kinds of service providers that help with e-commerce solutions, because microbusinesses are extremely **extremely active online**.

Anita Campbell:

That's very interesting that you would say that about being active online. Because every time I turn around I read something that quotes this statistic that I frankly question: it says "half of small businesses do not have a website." The implication is, well they don't have a website; therefore, they're really in the dark ages and they're just Web laggards.

Of course, you can always find some businesses that are going to fall into that camp.

But, you know, it is rare these days that I encounter anyone in the small business realm – whether it is a microbusiness or otherwise – who doesn't use email, who doesn't have some kind of a website or at least is planning some kind of a website or a blog or something. Would you agree with that, or do you have some other viewpoint, Dawn?

Dawn Rivers Baker:

I think you're right. Jupiter just came out with some research about small businesses and they found, what was it, something like 69% of small businesses currently have websites. They expect that number to be up to 82% Those percentages are higher I believe for microbusinesses. They are due to have a report out specifically about microbusinesses doing business online within the next month or two. I am eagerly awaiting that report. When I talked to the senior analyst who was working on that report one of the things she mentioned to me was that of all of the groups – business owners or consumers -- online microbusinesses are *the* most active. As a group very comfortable buying online, selling online, communicating electronically – all of these things. They are more active than consumers and they are more active participants in the Internet than larger businesses.

Anita Campbell:

Interesting. They are really ahead of the curve. They are leaders.

Dawn Rivers Baker:

Yes, absolutely, it's a hoppin' online market as far as microbusinesses are concerned.

Well that, of course, has all kinds of implications in terms of things like telecommunications policy which was getting a lot of real and virtual ink at the end of the 109th Congress. The rewrite of the Telecommunications Act was kind of put on hold. They never did finish with that. There were issues like Net Neutrality that have very big implications for small businesses.

There are other online issues. Email issues – email deliverability issues which can be such a headache for microbusinesses particularly. Because when you're Amazon you don't have to worry about your email being blocked or getting accused of being a spammer or anything, but when you're some tiny little business that nobody's ever heard of and they sign up for your newsletter and then forget next month that they signed up, it's their word against yours unless of course you operate smart e-mail marketing policy and do things like keep a log of those who signed up for your newsletters so you can prove they did it and things like that.

There are some very specific challenges that face these little unbranded businesses. And I think that they're very gallant in the way that they try to address those challenges making sure that they operate – most of them, there are a few bad apples of course – but most of them operate with a tremendous amount of integrity. At the same time I think that small businesses in general and certainly microbusinesses in particular, if there's one thing that they're really spectacular at it's customer service. In an age when people wonder how they can get a real live person

on the phone, that's one of the best parts about doing business with these little tiny businesses. When you're that small, of course, every customer's important. You know it when you deal with them. There are pluses and minuses, of course, in any situation.

Anita Campbell:

Any other trends that you would anticipate that are worth remarking on?

Dawn Rivers Baker:

I think that one of the things that – getting back to the public policy for a few minutes – one of the things that's going to be interesting to watch is whether or not – or the degree to which, I'll put it that way – the focus that Speaker Elect Pelosi has on the middle class will translate in terms of policies that impact small businesses. For example, the health insurance issue is going to be really interesting to see what happens with that. It's going to be interesting to see which of the proposals get the hearing this time because what gets a hearing depends on who is calling the shots about what makes it to the floor and so on.

I think that it will be interesting to see what happens with ... if there's going to be any changes to the bankruptcy legislation – if there are going to be additional regulations placed on banks in terms of credit card policies which could have a tremendous and huge impact on microbusinesses. The Treasury Department just released the latest survey of small business finances, where they found that the primary source of financing for most really small businesses, if in the smallest size classes, is *plastic*.

The larger banks want to get into the microbusiness market, of course, just like everybody else. The biggest difficulty that they had was figuring out how to make these really tiny loans that microbusinesses needed and the way that they have found to do that has been the trusty credit card. If the incoming Congress is going to come in and scrutinize credit card policies and enact a bunch of consumer protection legislation, that will probably be a good thing for consumers. But if they gallop off the ends of the Earth than what that's going to do is close a financing door for microbusinesses that's the very important for them.

Credit cards are very expensive. They are not the best solution necessarily. But they have two things microbusinesses love: (1) They are relatively easy to get with minimal amounts of information needed. (2) You get fast turnaround time. Those two things matter so much to microbusinesses according to some research that was published by the Aspen Institute, that they don't care that it costs more. And that should tell the financial services industry something right there. It should also for that matter tell the people on Capitol Hill a thing or two, too. I'm hoping that whatever consumer protection impulses they have, they don't carry them to the extreme that it closes a financing door in the faces of microbusinesses because micros have a lot a problem with access to capital.

Anita Campbell:

Great point. I don't want to take up a tremendous amount of your time here, Dawn, so I want to see if there is anything else that you feel is worth remarking on as far as trends in microbusinesses for 2007?

Dawn Rivers Baker:

Not that I can think of. I think those are going to be the big ones:

- Growth in size.

- A slight increase in focus from Capitol Hill, which remains clueless but at least they're looking. A few specific issues that I think are going to take shape for microbusinesses in the coming year.

- More focus from the business products and services in various markets as they look at this microbusiness market and see all of these little trends and try to understand how they work so that they can serve them better.

Anita Campbell:

Good points. Dawn, where can you be found on the Web? What is your main Web property?

Dawn Rivers Baker:

That would be the *Microenterprise Journal*, which can be found online at www.microenterprisejournal.com. That is my subscription newsletter. I also have a **free** subscription newsletter at the www.microbusinessnewsbriefs.com. And the *Microbusiness News Briefs* is sort of an abbreviated version for microbusiness owners **on the go**, as I like to say,

Anita Campbell:

And you have a blog, also.

Dawn Rivers Baker:

Yes, The Journal Blog which is at www.microenterprisejournal.com/JournalBlog/. Yes, my Blog is fun. I'll just put it that way. [Laughter]

Anita Campbell:

I enjoy reading all of your publications, but I like the blog in particular. Well, thank you so much, Dawn. This has been very very informative. As always, someone like you who spends most of her working hours focused on the microbusiness market really brings a lot to the table. So I thank you.

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