

# THE GALLUP ORGANIZATION

## The Wells Fargo/Gallup Small Business Index

First Quarter 2006

*Survey of Small Business Owners*

Reported March 2006

Submitted by:

THE GALLUP ORGANIZATION  
502 Carnegie Center, Suite 300  
Princeton, New Jersey 08540

## Part I

# Small Business Index

### Index Score Bullets

---

- Small Business Index Remains Flat
- The Present Situation Index Increased by Two Points
- The Future Situation Index Is Unchanged

### Index Score Discussion

---

The Index has shown a slight, but not statistically significant, increase over the past three months, from 106 to 109. Both the Present Situation and the Future Expectations measures have fluctuated within a small envelope of 45-48 and 58-62, respectively. Statistically, these changes are well within the margin of error of the poll, and are thus not significant.

### Small Business Index – Definition

---

The Small Business Index consists of two dimensions: 1) Owners' ratings of the current situation of their businesses and, 2) Owners' ratings of how they expect their businesses to perform over the next 12 months.

The overall Index is the sum of the two dimensions.

The Present dimension and the Future Expectation dimension each rate the following six areas for their company:

- Overall financial situation (now and expected 12 months from now)
- Revenues (over the past 12 months and expected over the next 12 months)
- Cash flow (over the past 12 months and expected over the next 12 months)
- Capital spending (over the past 12 months and expected over the next 12 months)
- Number of jobs or positions (over the past 12 months and expected over the next 12 months)
- Ease of obtaining credit (over the past 12 months and expected over the next 12 months)

Index Scores Compared by Individual Questions

---

| INDIVIDUAL CONTRIBUTION<br>OF EACH QUESTION TO THE INDEX |          |          |        |
|--|----------|----------|--------|
|  | Dec 2005 | Mar 2006 | Change |
| <b>Overall Index</b>                                     | 107      | 109      | 2      |
| <b>Present Situation</b>                                 | 45       | 47       | 2      |
| Q1 Financial situation today                             | 14       | 15       | 1      |
| Q3 Revenues past year                                    | 5        | 6        | 1      |
| Q5 Cash flow past year                                   | 11       | 11       | 0      |
| Q7 Capital spending past year                            | 2        | 3        | 1      |
| Q9 Number of jobs past year                              | 1        | 1        | 0      |
| Q11 Credit availability past year                        | 12       | 11       | -1     |
| <b>Future Expectations</b>                               | 62       | 62       | 0      |
| Q2 Financial situation future                            | 17       | 18       | 1      |
| Q4 Revenues next year                                    | 11       | 11       | 0      |
| Q6 Cash flow next year                                   | 14       | 14       | 0      |
| Q8 Capital spending next year                            | 3        | 3        | 0      |
| Q10 Number of jobs next year                             | 4        | 4        | 0      |
| Q12 Credit availability next year                        | 13       | 12       | -1     |

## Index Methodology

---

The Small Business Index is calculated as follows:

There are 12 questions, 6 that are used to calculate a Present Situation Index, and 6 that are used to calculate a Future Expectations Index.

All questions are scored from +2 to -2, with the first answer (the most positive) scored as the +2 and the last answer as a -2. The “don't know” and “refused” categories are scored as 0, along with the middle response (option 3) of each question.

Each person receives a score on the Present Situation Index by summing the scores on the 6 questions (all that deal with current ratings or ratings over the past 12 months) and then dividing by 6, to get an average. The resulting number is multiplied by 100.

The same process is used for the Future Expectations Index, using the 6 questions that deal with the future.

Each sub-index can, in theory, range from a high of +200 to a low of -200, though in practice the range is considerably more limited.

The Overall Small Business Index is the sum of the Present Situation Index and the Future Expectations Index.

In theory, the Overall Index can range from +400 to -400, though again, the actual range is more limited.

### **Survey Specifics:**

- 603 small business owners surveyed
- Survey conducted March 1-15, 2006
- Margin of error:  $\pm 4\%$  (standard for any Gallup poll of this size sample)

## Part II

# Minimum Wage

### Attitudes and Experience with Minimum Wage

---

- Most small business owners who might be thinking about hiring a new employee would not hire at the minimum wage – just 14% say they would, while 80% say they would not.
  - Among those hiring at the minimum wage, 67% say they would keep the new employee at that level for just one year, while 28% say they would consider doing so for longer than a year.
  - Among those hiring a new employee at a higher-than-minimum wage, 65% say they would hire on a permanent basis, rather than a temporary one (32%).
- Overall, small business owners seem supportive of a minimum wage.
  - In fact, 46% would favor an increase in the minimum wage.
  - Another 34% believe it is at the appropriate level right now.
  - Just 16% want to see the minimum wage either reduced (2%) or eliminated altogether (14%).
- Still, most small business owners say the minimum wage has no effect on them – 86% express this view. Another 5% say it has a positive effect; 8% say negative.
- If the minimum wage were raised by 10%, still most small business owners, 75%, say there would be no effect on them. Another 6% say the increase would have a positive effect; 17% say negative.
- Among the small number of owners who say the increase would be positive, the vast majority agree with each of the following:
  - A higher minimum wage would attract and retain better workers.
  - It would improve the employment situation in their area.
  - It is “the right thing to do” for their employees.
- Among owners who think the increase would be negative:
  - Sixty-nine percent say it would reduce the amount they can spend on investments, like inventory or equipment
  - Sixty-six percent say a higher minimum wage at the entry level would push up wages at the higher levels
  - Sixty-five percent say a higher minimum wage would reduce the amount of benefits they could offer employees
  - Sixty-one percent say it would reduce the number of employees they could hire
  - And 46% say it would make their businesses less competitive.

Part III

# Competitiveness and Innovation

## Primary Competitors

---

When asked who their major competitors are, small business owners are about evenly divided between citing other small businesses that are local (35%), and citing both large and small businesses (34%). Another 17% of small business owners say that larger businesses that operate nationally or internationally are their major competitors. Just 9% cite small businesses that are regional or national.

*Your business may face different kinds of competition. Which type of firm is your primary competitor – 1) other local small businesses, 2) other regional or national small businesses, 3) larger businesses that operate nationally or internationally, or 4) both small and larger businesses?*

|        | Other local small businesses | Other regional or national small businesses | Larger businesses that operate nationally or internationally | Both small and larger businesses | (OTHER) | Don't know/ref |
|--------|------------------------------|---|--|----------------------------------|---------|----------------|
|        | %                            | %   | %  | %                                | %       | %              |
| 06 Mar | 35                           | 9   | 17   | 34                               | 2       | 3              |

## Types of Innovations

---

Small business owners were also asked to name whether they had made specific types of changes or innovations in recent years. If they had not made them, they were asked if they intended to do so in the future.

- The most popular innovative steps taken by small business owners include:
  - Adopting new procedures to improve quality assurance (75% have done that; another 12% say they will in the future)
  - Trying new or different ways to see and market their products (71% and 13%)
  - Increasing the amount they spend on technology, such as computerized book-keeping and newer computers and computer systems (71% and 8%).
  - Altering the pricing of goods or services (67% and 11%).

- The second tier level of innovative steps taken by small business owners include:
  - Creating new or improved products or services (60% have done that; another 16% say they will in the future)
  - Taking course or other training to improve their own skills for business (59% and 12%)
  - Specifically allocating time for idea generation or creative exploration (57% and 14%)
  - Providing more skills training for employees (55% and 15%)
  - And cutting internal cost to increase competitiveness (56% and 11%).
- The least popular step measured in the survey is subcontracting or outsourcing services. Just 47% say they have done that, and 7% say they will. Close to half, 46%, say they have not done that and do not plan to do so.

**Have Small Business Owners Done Each of the Following in the Past Several Years?**

**If Not, Do They Plan To Do So In the Future?**

|   | Yes,<br>has done that<br>% | No, but<br>expect to<br>% | No, and do not<br>expect to<br>% |
|---|----------------------------|---------------------------|----------------------------------|
| D. Adopted new procedures to improve the quality assurance of your products and services  | 75                         | 12                        | 13                               |
| F. Tried new or different ways to sell and market your products and services  | 71                         | 13                        | 16                               |
| A. Increased the amount you spend on technology in your business, like computerized book-keeping and newer computers or systems | 71                         | 8                         | 21                               |
| G. Altered your pricing   | 67                         | 11                        | 22                               |
| E. Created new or improved products or services   | 60                         | 16                        | 24                               |
| B. Taken courses or other training to improve your own skills for business  | 59                         | 12                        | 29                               |
| H. Allocated time for idea generation or creative exploration   | 57                         | 14                        | 29                               |
| C. Provided more skills training for employees  | 55                         | 15                        | 30                               |
| I. Cut your internal costs to increase competitiveness  | 56                         | 11                        | 33                               |
| J. Subcontracted or outsourced services   | 47                         | 7                         | 46                               |

Why do small business owners not adopt some innovations that they think might be useful? The main reason is not money – but time and expertise. Just 22% say the main reason is lack of money, but 29% say they don't have enough time to become informed about the new innovations, and another 10% say they lack the expertise. Nine percent say it's a combination of time, money and expertise. Twenty-six percent cite some other reason.

*Thinking more generally about the reasons why you don't adopt changes or innovations that you think might be useful to your business, what is the MAIN REASON you would not make those changes? Is it primarily because of 1) lack of money, 2) lack of special expertise needed to implement the innovations, or 3) lack of time to become informed about new innovations?*

|        | Lack of money<br>% | Lack of special expertise<br>needed to implement the<br>innovations<br>% | Lack of time to become<br>informed about new<br>innovations<br>% | (COMBIN-<br>ATION)<br>% | None/<br>Other<br>% | Don't<br>know/ref<br>% |
|--------|--------------------|--|--|-------------------------|---------------------|------------------------|
| 06 Mar | 22                 | 10   | 29   | 9                       | 26                  | 4                      |