



How Many Businesses Are There?

We suspect that it depends on whom you ask! The Internal Revenue Service (IRS) reports that they received some 24.8 million business tax returns for the year 1999. We can hear the joyful sounds emanating from new business brokers and those considering the profession. Wow almost 25 million businesses we can hear them adding up the commission dollars. This is a very misleading figure. Many of these are hobby-type businesses, one-person consultants, writers, artists and the like. In fact, one source reports that there are 18 million non-employee businesses, and they account for only 2 percent of total sales. INC, in their Small Business issue reports that Sole Owners generate only 3.3 percent of all revenues and have annual sales of about \$38,000.

Home-Based Businesses

According to INC magazine 61 percent of the firms in their 500 fastest-growing companies list started out as home-based. And, on average 15 months after they started, they moved to outside space.

We don't want to take anything away from these non-employee businesses, many of which are home-based, as obviously some of them will grow to be large businesses. Quite a few of these businesses rather than have actual employees use independent contractors or outsource work needed. Many others are making an excellent living for the owner, and still other owners are quite content with the results of their business. However, they are not the kind of businesses that business brokers and intermediaries normally sell. Certainly there are a few exceptions some one-person businesses generate sufficient revenues that would be quite salable. And, its not that business brokers couldn't sell them or that people wouldn't buy them quite frankly, they are just not commissionable.

Most business brokers, out of necessity, have a minimum fee and adding \$10,000 to a selling price of \$10,000 would price many small businesses out of the marketplace. There may be a way of handling them, but these small businesses cant afford full-service brokerage services. This is coupled with the fact that obviously many, many of these non-employee businesses don't generate enough profit, if any, to make them salable. Total annual sales of \$38,000 aren't going to create a lot of excitement among prospective business buyers.

What Is A Real Business?

As we have discussed earlier we are really only interested in those businesses that have at least one employee. When we are asked how many businesses there are, we assume that they mean how many possible businesses are available for sale. The above figures give a false impression of the overall marketplace of businesses that might be for sale at some point. Certainly many of the businesses that have no employees might be available for sale, most will not and secondly, business brokers and intermediaries will most likely not be involved in a sale if one does occur. Since most people who call are interested in the business brokerage profession, very few of the businesses that file business income tax returns are really businesses that would sell, especially by business brokers.

Our feeling is that to qualify as a real business, it must have at least one employee. As we mentioned above, we suspect that some no employee businesses use outsourcing rather than go through all of the red tape required by governmental agencies to have even one employee.

An article in the Boston Globe March 4, 2001 stated that there were 7.7 million small businesses with less than 100 employees. Last years Business Reference Guide reported that there were 5.5 million businesses with one employee or more. INC in their Small Business issue said that there were 5.8 million with at least one employee. One other source reported 7.2 million.

BizStats reported that there were 5.547 million businesses with at least one employee. We're going with that figure.

Here Is A Further Breakdown:

4,467,900 represent 80.5% of the total and have sales under \$1 million

790,600 represent 14.3% of the total and have sales of \$1-5 million

265,600 represent 4.8% of the total and have sales of \$5-100 million

23,311 represent 0.4% of the total and have sales of \$100 million +

Total Businesses =5,547,400

****Courtesy: BizStats***

Here's A Breakdown By Type of Business:

Services - 40% (87.8% Of Those Have Revenues Under A Million)

Retail - 19.8% (80.3% Of Those Have Revenues Under A Million)

Wholesale - 7.5% (50.7% Of Those Have Revenues Under A Million)

Manufacturing - 6.0% (61% Of Those Have Revenues Under A Million)

Construction - 12% (81% Of Those Have Revenues Under A Million)

Finance, Insurance & Real Estate - 8.3% (83% Of Those Have Revenues Under A Million)

Transportation/Utilities - 3.9% (81.3% Of Those Have Revenues Under A Million)

Agriculture & Mining - 2.4% (89.8% Of Those Have Revenues Under A Million)

8780 19th Street, Suite 379, Alta Loma, CA 91701