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The 2015 State of Small Business Report: Small Business and Its Impact on Florida was developed by the Florida SBDC Network in collaboration with the University of West Florida Center for Research and Economic Opportunity.

The Florida SBDC Network is funded in part through cooperative agreements with the U.S. SBA, Defense Logistics Agency, State of Florida, and other private and public partners, and headquartered at the University of West Florida and hosted at partner state universities, state colleges, and other partners. All opinions, conclusions or recommendations expressed are those of the author(s) and do not reflect the views of the SBA, DLA, State of Florida or other host or funding partners. All facts presented, unless otherwise referenced, are from the U.S. SBA Office of Advocacy, including the Florida Small Business Profile reports (2014-2015).

The Florida SBDC Network would like to thank the North Carolina SBTDC and Georgia SBDC for their contributions in preparing this report.
Florida is a big small business state and our state’s leaders understand that, without them, there would have been no economic recovery.

The Sunshine State is home to nearly 405,000 small business employers, accounting for 98.9 percent of all employers, who employ over three million Floridians, or 43 percent of our state’s private-sector workforce. This is in addition to the 1.8 million self-employed small business owners who create a job for themselves. It is these small businesses who have contributed to over 70 percent of the nearly one million private-sector jobs that have been created in Florida since December 2010, helping drive down one of the nation’s highest unemployment rates to one of the nation’s best we enjoy today.

Florida’s remarkable economic turnaround story was not by chance. Our story is a testament to our state’s leadership, willingness to remain diligent, and the collaborative culture of public-private partners who share in the mission and commitment of making Florida the best state for small business. To aid our state’s small businesses, and ensure their continuing success, the state arguably offers one of the nation’s best ecosystems for businesses to start, grow, and succeed. Recently, Chief Executive magazine named Florida the second-best state in the nation for business for the second year in a row. With the best business tax climate in the Southeast, fourth largest economy in the nation, pro-business policies, and no personal income tax, it’s not a surprise that nearly 2.2 million small businesses call Florida home.

On behalf of the Florida SBDC Network—the state’s designated principal provider of small business assistance and thought leader for Florida’s small businesses—I am pleased to present the inaugural 2015 State of Small Business Report: Small Business and Its Impact on Florida. The purpose of this report is to provide an overview of the size, scope, and well-being of our state’s small businesses. Our hope is that this report will serve as a primary index on the state of Florida’s small businesses and be used by policymakers and administrators for future policy and decision-making to ensure Florida remains on top as the best state for small business.
Seven years into recovery from the Great Recession, Florida continues to gain jobs faster than the nation as a whole. Sustained growth rates of over three percent since June 2014 have helped Florida nonfarm employment finally recover the pre-recession highs reached in early 2007. This is far from trivial considering that employment fell by a cumulative 11.5 percent by the time Florida job growth began again in early 2010. In contrast, the U.S. had recovered the pre-recession high by April 2014 (see Figure 1).

The leading index for Florida, a predictor of economic activity over the coming six months, suggests that economic growth will continue at a higher rate than in the nation overall (see Figure 2). Much of this uptick is due to the revival of inbound migration to our state. However, the recession hit Florida particularly hard, and challenges remain.

The high employment associated with the housing boom was important for purchasing power. Median household income, adjusted for inflation, peaked in Florida in 2006. U.S. Census statistics released this month show Florida’s 2014 inflation adjusted median household income 14 percent below its 2006 peak.

Data from EMSI, a national provider of employment information, show that from 2006 to 2014, there were six occupations that gained more than 10,000 jobs statewide. Four were in leisure and hospitality, two were in health care. The four leisure and hospitality occupations accounted for an estimated 133,341 net new jobs, while the two healthcare occupations accounted for 29,930 net jobs. Average annual earnings in 2014 for those 133,341 jobs were projected to have been $26,036 per job.

EMSI shows 12 occupations that lost more than 10,000 jobs over that same period, with construction and real estate being hit particularly hard. Average annual earnings for the 227,658 jobs lost in those 12 occupations were $39,148 per job, or 50 percent higher than the wages in the occupations gaining the most jobs. The challenge for Florida is not so much job quantity, but job quality.

However, Florida’s construction sector, where employment declined by over 50 percent during the recession, has turned in a solid performance recently, growing at 6.4 percent from August 2014 to August 2015. Strong overall job creation rates in 2015 will allow Florida inflation adjusted personal income to rise at a faster pace than in the last several years. This bodes well for continued business revenue growth and hiring.

Two thousand and fifteen may also be a turning point for small and medium-sized businesses more generally. The new Kauffman Index of Entrepreneurship, which tracks startup rates and other forms of entrepreneurial activity, found that startup activity rose in 2015 after having fallen since 2010. The index breaks out business startup activity on several dimensions, including gender, ethnicity, education, and other descriptors.
A principal driver of the uptick is the recovery of perceptions of economic opportunity in forming a new business. This is a shift away from entrepreneurship by necessity, which results from having lost a job or facing inadequate wage employment opportunities. Kauffman finds that 2015 data showed new business startups driven by increases in opportunity that pull already working people into forming a new business to exploit that opportunity.

The Fed’s September decision to maintain its zero interest rate policy appears to be driven mainly by weakness in China and in the global economy more generally. Florida will clearly not be immune to these effects. However, substantial increases in payroll jobs in Florida, coupled with perceptions of increased opportunity for success via innovation and entrepreneurship, paint a positive picture for the near term.

Dr. Rick Harper is the Associate Vice President for the Center for Research and Economic Opportunity at the University of West Florida. UWF is the proud host of the Florida SBDC Network State Office.
Florida Business Rankings

#1
Most Innovative State
(Fast Company - May 2013)

#2
Best Place to Do Business
(CEO Magazine)

#4
Largest Economy in the U.S.
19th largest in the world
(BEA and IMF)

#5
Best Small Business Policy Climate
(SBEC Index - 2013)

#5
Best State for Future Job Growth
(CEO Magazine)

#1
Best Tax Climate in the Southeast for Business
(Tax Foundation)

#2
Highest Business Birth Rate
(U.S. Chamber of Commerce)
Florida’s Economic Overview

$769.7 Billion
Real Gross Domestic Product

31,578
New Business Establishments
1st Quarter 2014

11th fastest annual growth rate in real GDP; 3rd highest gain of the ten most populous states

1st Quarter 2014

Of the 53,186 Businesses that opened in 2013
78.5% survived through 2014

Unemployment Rate

5.9% to 5.3%
from August 2014 to August 2015

261,500
New Jobs added since August 2014

+3.3%
Private-Sector Employment Growth

Source: GDP & Personal Income. (2014). U.S. Department of Commerce, Bureau of Economic Analysis; Regional Data

Source: U.S. Department of Labor, Bureau of Labor Statistics
Florida’s Demographic Profile

Florida’s demographic profile has changed substantially. This changing landscape offers important implications for planning and policymaking as the changes affect the number of people in the labor force, the demand for education, transportation, and a myriad of other goods and services and industry sectors.

In December 2014, the U.S. Census Bureau reported that Florida’s population had reached 19.9 million, surpassing that of New York to make the Sunshine State the third most populous state in the country. The Census Bureau also found that from July 1, 2013 to July 1, 2014, an average of 803 new residents moved to Florida each day. This population increase of 293,000 new residents for the year was the third largest in the country.

According to the Bureau of Economic and Business Research (BEBR) at the University of Florida, the state’s population is expected to reach 26,081,392 in 2040, an over 30 percent increase from 2014.

Demographics of Business Owners

According to preliminary data released by the U.S. Census Bureau’s 2012 Small Business Ownership Survey, male-owned businesses continue to own the majority of Florida businesses, at 52.2 percent. However, female-owned businesses and minority-owned businesses were gaining, respectfully.

In comparison to data from the 2007 Small Business Ownership Survey, the biggest increase in Florida business ownership occurred among minorities. Minority business ownership increased from 33.8 percent to 44.4 percent. The second most significant increase in Florida business ownership occurred among female-owned businesses, which increased from 28.9 percent to 38.7 percent between 2007 and 2012. Veteran business ownership remained stable at just below 9 percent for the same period.

The 2015 Small Business Profile for Florida, a report conducted annually by the U.S. Small Business Administration, highlights the top industries for nine business owner demographics. The report showed that the majority of female business owners (38.4 percent)
were categorized in the other services industry (e.g. equipment and machine repairing, grant making, and advocacy) and the majority of males (74.1) were listed in construction. Nationwide, this distribution followed suit with 40.1 percent of females and 74.6 percent of males falling in these industries, respectively.

According to the U.S. Small Business Administration, veterans are 45 percent more likely to start a business than those with no prior active duty experience. The U.S. Census Bureau shows that, as of 2012, there were more than 2.5 million veteran-owned businesses in the United States. Florida ranked among the top states with the highest number of veteran-owned businesses with 187,074, or 8.9 percent of all businesses in the state. By industry, 12.6 percent of veterans were in the professional, scientific, and technical services industry.

The composition of the self-employed sector is reflected in the figure to the right. In the sector, men comprise the highest percentage of self-employed individuals, at 14 percent. This is higher than the national rate of 11.4 percent. Veterans comprise the second-highest percentage of self-employed individuals at 12.8 percent, also higher than the national rate of 10.9 percent.

Florida Small Business

JOB IMPACT

2,180,556 Small Businesses
404,951 Small Businesses with Employees

Small Businesses Make Up 98.9% of All Florida Employers

3,000,167 Workers Employed by Small Businesses

1 Out of Every 3 Working Floridians is Employed by a Small Business with < 50 Employees
To get a sense of the top industries for Florida’s small businesses, the tables represent the top business categories by the number of small employer firms. The top two industries are professional, scientific, and technical services with 65,952 total employer firms, followed by healthcare and social assistance with 46,029 employer firms.

The first table shows the top five categories of business within the professional, scientific, and technical services industry. As the table demonstrates, the majority of small firms fall under the Offices of Lawyers, totaling 16,250. Management Consulting Services has the second-highest number of small firms, totaling 13,509.

The second table shows the top five categories of business within the healthcare and social assistance industry. The majority of small firms fall under the Offices of Physicians, totaling 19,252. Dentists trail significantly with the second-highest number, totaling 7,820.

Collectively, 27.7 percent of all small businesses with employees in Florida fall under the professional, scientific, and technical services and healthcare and social assistance industries.
According to the U.S. Small Business Administration’s Office of Advocacy, the number of small businesses in Florida with employees totaled 404,951 with total employment of just over three million workers. The number of small businesses without employees (self-employed individuals) was 1,775,605. Combined, Florida’s small businesses accounted for 56 percent of all business employment; the vast majority represented by businesses with fewer than 50 employees, as shown in the figure below.

Recently, the Institute for Economic Competitiveness at the University of Central Florida released an economic forecast for the state and Central Florida region. The report highlighted that construction; professional and business services; trade, transportation, and utilities; education and health services; and leisure and hospitality are expected to be the strongest performing job growth sectors during 2015-2018. Construction, which between 2008 and 2010 was the worst performing sector for job growth, is projected to be the best performing at 7.9 percent. Over the next three years, professional and business services is projected to be the state’s second fastest-growing job sector, averaging 4.1 percent growth. Manufacturing, which expanded at a rate of 2.5 percent in 2014, however, is expected to lose momentum to an average of 0.4 percent during 2015-2018.

Florida’s Business Employment By Industry

56%
- or -
4.8 Million
of Florida’s Private-Sector Workforce are Employed by Small Businesses

Five Strongest Performing JOB GROWTH SECTORS Forecasted During 2015-2018

- Construction +7.9%
- Professional & Business Services +4.1%
- Trade, Transportation & Utilities +3.4%
- Education & Health Services +2.2%
- Leisure & Hospitality +1.9%

Florida Employment by Business Size (including self-employed)
The report also highlighted that Florida has been one of the nation’s leading states for job creation for the past several years. According to the most recent BLS data, the employment rate in the U.S. was up 2.1 percent. In Florida, 261,500 jobs were added between August 2014-2015, an increase of 3.3 percent. The Institute for Economic Competitiveness at UCF forecasts that the state’s employment rate will continue to outpace national job growth, at 3.1 percent in 2015 and 2.2 percent in 2016.

The UCF report concluded that stronger economic growth in Florida is expected for the next several years. This growth, however, will face a rising labor force participation rate as encouraged job seekers re-enter the labor force. This will result in a slower decline in the unemployment rate, which, as of August 2015, stood at 5.3 percent, just slightly higher than the national unemployment rate of 5.1 percent. The unemployment rate is expected to fall to 5.1 percent between 2016 and 2017 before rising again in 2018.
As the Great Recession wanes, a number of studies have been conducted to determine the recession’s impact on entrepreneurship. The Kauffman Foundation found that establishment births remained constant over time, though the death rate increased during the recession period. Additionally, research has shown that an increase in the number of firm deaths correlated to an increase in entrepreneurship.

The U.S. Bureau of Labor Statistics found that since the recession began in December 2007, the number of establishment births has experienced the sharpest decline since the inception of the data series in 1994. In utilizing six-year survival data for firms established in 2007, a better assessment can be conducted as it also includes companies that began before the recession.1

In the U.S., prior to the start of the recession in 2007, 46.3 percent of companies survived until 2013. According to the Bureau of Labor Statistics’ Business Employment Dynamics (BED) series, Florida had one of the lowest survival rates in the country at 35.2 percent, ranking 50th just ahead of Idaho, which had the lowest six-year survival rate of all states.

The figure below shows the trend of private-sector establishment births and deaths in Florida. Though the number of firm deaths has experienced a decline, new establishments are only gradually being formed compared to the levels seen before the recession began.

The figure to the right highlights the survival rates of Florida’s establishments opened in 2002 compared to those opened in 2010. As the data shows, since the recession firms are experiencing a greater rate of survival. Of the 50,110 firms opened in 2002, only 29 percent survived until 2012 as compared to 66 percent of the 44,160 firms that opened in 2010.2
Florida’s Small Business Pulse

Florida’s economic conditions appear to be improving and the state’s small businesses are optimistic, according to the September 2015 Florida Chamber Small Business Index Survey released in conjunction with the Florida SBDC Network.

The results showed that 59 percent of respondents expect the economy to improve within the next year. Additionally, 49 percent of respondents reported higher sales over the last three months, with 77 percent expecting an increase over the next year. Also, 48 percent indicated that their business was in a better position today than six months ago.

The survey results also showed that 43 percent of respondents plan to hire in the next six months, with an additional 40 percent planning to maintain their current workforce. Two percent expect to lay off employees in the next six months, down from four percent in the previous survey. Small businesses reported that the top obstacles preventing them from hiring new employees are economic uncertainty, lack of sales, and uncertainty about state government.

Overall, respondents indicated that the top small business challenges are access to capital (23 percent), economic uncertainty (18 percent), growth management process (14 percent), government regulations (12 percent), and workforce quality (12 percent). Interestingly, access to capital has returned as the top issue as previous survey results had indicated that capital access showed signs of improvement.

Further, 50 percent of respondents indicated they planned to invest in plants or equipment, up from 39 percent in the last quarter. Overall, Florida’s small businesses are optimistic but business owners remain cautious as access to capital, economic uncertainty, and growth management process comprise the majority of the top concerns for survey respondents.

77% of Small Business Owners Expect an Increase in Sales over the next year

Top Five Challenges Facing Florida Small Businesses

1. Access to Capital | 23%
2. Economic Uncertainty | 18%
3. Growth Management Process | 14%
4. Government Regulations | 12%
5. Workforce Quality | 12%

Percent of Businesses That Believe They Are Better Off Today Than 6 Months Ago
Small Business Lending in Florida

The U.S. SBA defines a small business as one with fewer than 500 employees. Small businesses borrow for four primary reasons: starting a business, purchasing inventory, expanding their business, and strengthening their company.1

Though the economy continues to improve, small firms’ recovery has been much slower than that of larger firms. Lending is riskier to small businesses as they are more sensitive to economic uncertainty and recessions. (A small business loan is typically considered to have a value of $1 million or less.) This is illustrated in comparing delinquency rates at banks that primarily do small business lending versus those at other banks. According to the Federal Reserve, the loan delinquency rate in the U.S. at small business lending-intensive banks peaked at nearly seven percent in 2009, compared to about four percent at other banks. While delinquency rates have subsided, the level remains considerably higher for small business lending-intensive banks than pre-recession levels.2

Additionally, the transaction costs associated with underwriting small loans are very high. As a result, many banks have reduced or, in some cases, eliminated small loan offerings below a certain amount—typically $100,000 or $250,000.3 This is problematic as, according to the Federal Reserve in its 2013 Small Business Credit Survey, over 50 percent of small business loan applications were for loans less than $100,000.4

To combat lending challenges, there are a number of existing federal, state, and local programs available for small businesses. The SBA has a number of established loan programs, including the 7(a) Loan Program, Microloan Program, and the CDC/504 Loan Program. Additionally, the state offers a number of capital assistance programs, including the Microfinance Loan Program and the Microfinance Guarantee Program.

Further, the Community Reinvestment Act (CRA) encourages FDIC institutions to support local communities. Using funds made available through this program, lending institutions in Florida made 383,144 small business loans in 2012 totaling over $10.2 billion. Of these loans, 366,245, or 96 percent, were microloans less than $100,000.5

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Small Businesses Borrow for 4 Main Reasons1

With more than 95 percent of the world’s population and 80 percent of the world’s purchasing power outside the United States, Florida’s future economic growth depends on expanding trade opportunities.

Last year, the state’s international trade, including imports and exports, totaled $153 billion. Florida’s total exports helped contribute to the United States’ record-setting value of goods and services exports in 2014 of $2.34 trillion. In 2014, goods exports from the state supported 270,473 U.S. jobs.2

According to the U.S. International Trade Administration, 61,489 companies exported goods from the state in 2013. Of these, 95.3 percent were small and medium-sized enterprises with fewer than 500 employees. Further, these firms generated over two-thirds, or 66 percent, of the state’s total export value.

In 2013, Florida companies sold their products in 225 countries and territories. In 2014, Brazil was the state’s largest export market, representing nearly $5.1 billion or 8.7 percent of the state’s total merchandise exports. Brazil was followed by Canada, representing over $4 billion, followed by Colombia at $3.1 billion.

The state’s largest merchandise export category was computer and electronic products, which accounted for $14.0 billion of the state’s total merchandise exports. This category was followed by transportation equipment ($8.8 billion); chemicals ($7.2 billion); machinery, except electrical ($5.6 billion); and primary metal manufacturers ($3.8 billion).

In 2014, merchandise exports from Florida’s metropolitan areas included: Miami-Fort Lauderdale-West Palm Beach ($38.0 billion); Tampa-St. Petersburg-Clearwater ($5.8 billion); Orlando-Kissimmee-Sanford ($3.1 billion); Jacksonville ($2.5 billion); and Lakeland-Winter Haven ($2.2 billion).
Federal Government Contracting in Florida

Federal government contract awards continue to be a source of sustainment and growth for many businesses, and a key economic driver in their respective states. Last year (FY2014), Florida had the fifth highest federal contract action by state (companies located in Florida), at a value of $14.6 billion, or 3.39 percent of total federal contract action of $430.3 billion.¹

Small Business Participation
In FY2014, Florida also ranked fifth highest nationwide in federal contract actions for small businesses, with a total value of $4.2 billion.² Of that amount, the highest value of contract awards were from (in order of value): Army, Navy, Air Force, Defense Logistics Agency, Veterans Affairs, Homeland Security, and U.S. Army Corps of Engineers (Civil Programs).³

Trends
Since its wartime peak in 2009, U.S. government prime contract obligations have fallen. The overseas drawdown and spending caps enacted in the 2011 Budget Control Act have driven the decline. The rate of federal contract spending decline tempered in 2014 as the impact of the one-time 2013 budget sequester wore off. Contract spending will likely continue to fall due to budget caps and the continuing military drawdown in Afghanistan.⁴ War-related contracting categories such as logistics services and food fell the most from 2013 to 2014. Health categories had increases despite an overall decline in federal contracting. Nearly two-thirds of government contract obligations are spent on services such as IT support and facilities management rather than on products such as ammunition and food.⁵

Small Business Spike
The Federal Procurement Data System identifies vendors as small business or “other than” small business. Small business contracting share showed a noticeable increase in 2014, possibly as agencies awarded more work via set-asides encouraged by the 2010 Small Business Jobs Act.⁶ Small business set-aside usage is growing, helping agencies meet their small business contracting goals (23 percent for the government as a whole). Dollars set aside for 8(a) and Service-Disabled Veteran-Owned Small Businesses grew from 2013 to 2014, as total contracting dollars fell.⁷

Small Business Challenges
Industry sectors with the highest level and value of contract awards are the industries where large contractors are most heavily concentrated and where the small business participation rate is low. Industries with higher small business procurement rates tend to have more small business contractors (and therefore, more small business competition) and are smaller markets overall in terms of contract award values.⁸

Small Business Opportunities
Inadequate market research is a major barrier to small business procurement. Good market research is essential to determine if small business capabilities match procurement requirements. This is true for all industries, but particularly acute in industries with high concentrations of procurements from large firms. Market research analyzes large contracts and breaks off pieces that may be suitable for small contractors and investigates federal procurement subcontracting opportunities.⁹

State designated as “Florida’s Principal Provider of Business Assistance” [§ 288.001, Fla. Stat.], the Florida SBDC Network provides tools, resources, and expertise to help small businesses grow and succeed. As the only statewide provider of entrepreneurial and business development services, the Florida SBDC Network serves the needs of Florida’s business community in all 67 counties—from Pensacola to Key West—and throughout all stages of business.

At no cost to the business owner, the Florida SBDC Network provides access to one-on-one professional business consulting specifically targeted to help businesses succeed. The network’s professional expertise is focused on areas vital to accelerating business growth, including business and strategic plan development, access to capital, and strategic market research and market growth development—including expanding internationally and doing business with the government.

Since its inception in 1976, the Florida SBDC Network has grown to a vibrant statewide partnership of 45 centers, including the state’s universities, colleges, and dozens of other public and private organizations. The synergistic effect of this partnership has resulted in a long history of positive revenue and economic growth for Florida and invaluable support to more than 1.1 million existing and emerging small business owners.

The Florida SBDC Network is funded in part by the U.S. Small Business Administration (SBA), Defense Logistics Agency, State of Florida and other private and public partners, with the University of West Florida serving as the Network’s designated lead host institution. The Florida SBDC Network is nationally accredited by the Association of SBDCs.

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Helping Businesses Grow & Succeed

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FloridaSBDC.org