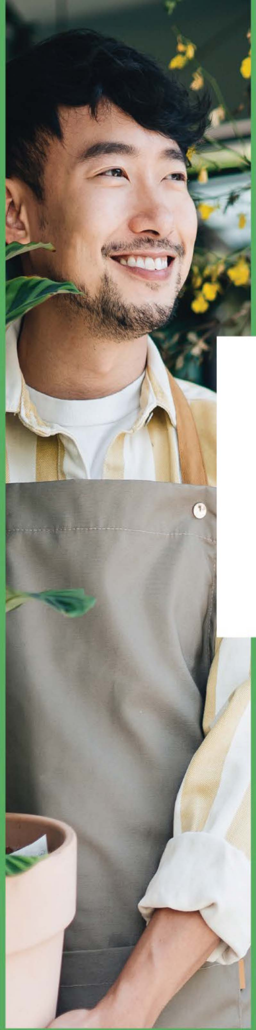

2023 Report on Nonemployer Firms:

Findings from the 2022 Small Business Credit Survey

Published May 2023

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The Small Business Credit Survey is made possible through collaboration with business and civic organizations in communities across the United States. The Federal Reserve Banks thank the national, regional, and community partners who share valuable insights about small business financing needs and collaborate with us to distribute and promote the survey.

Special thanks to colleagues within the Federal Reserve System, especially the community affairs officers, for their ongoing support. The 2022 Small Business Credit Survey is the result of the collaborative effort and input of individuals across the Federal Reserve System.

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About the Small Business Credit Survey

The Small Business Credit Survey (SBCS) is an annual survey of firms with fewer than 500 employees. The SBCS sample includes employer firms as well as nonemployers, which are firms with no paid employees except the owner(s). Respondents are asked to report information about their business performance, financing needs and choices, and borrowing experiences. Responses to the SBCS provide insights on the dynamics behind lending trends and shed light on various segments of the small business population. The SBCS is not a random sample; results should be analyzed with awareness of potential biases that are associated with convenience samples. For detailed information about the survey design and weighting methodology, please consult the Methodology section.

The 2022 SBCS was fielded September through November 2022 and yielded 5,755 responses from a nationwide convenience sample of nonemployer firms. This publication summarizes data for nonemployer firms that were currently operating or temporarily closed at the time of the survey, firms that recently closed are not included in the sample for this report. Estimates are shown only when the corresponding sample includes 50 or more observations.

For more Small Business Credit Survey content, visit FedSmallBusiness.org.

Nonemployer firms in the SBCS

There are **27 million** nonemployer firms in the United States—that is, firms with no paid employees except the owner(s). Approximately **80%** of small businesses are nonemployers.[1]

38% of nonemployers are startup firms that have been in business for 0—2 years

Share of nonemployers that…	Startup nonemployers	Older nonemployers
Are legally incorporated	81%	70%
Work as independent contractors for other businesses or agencies	37%	44%
Consider the work done for their business to be "gig" work[2]	17%	16%

1 US Census Bureau, Nonemployer Statistics, 2019.
2 Gig work is defined as a single project or task for which a worker is hired, sometimes through a digital marketplace, to work on demand.

Key findings

The SBCS provides helpful insights on firms in different stages of the business life cycle—from small startup nonemployer firms to well-established employer businesses. This report focuses on the nonemployer businesses and explores the differences between younger and older firms and between nonemployer and employer businesses.

- Almost half (46 percent) of startup nonemployers—those in business 0 to 2 years—plan to add employees in the next 12 months. A majority of startup nonemployers are not yet profitable, but they often report revenue growth and expect revenues to increase in the future. These firms have fewer financial challenges than older firms but are more reliant on the owner's personal funds when addressing those challenges.

- As startup nonemployers mature, some remain without paid employees. These older firms are more profitable than startup nonemployers, but they report less revenue growth. These firms rely less on funds from the owner and face fewer challenges obtaining credit. Their financial and operational challenges vary from those of startups, as these firms are more affected by inflation and supply chain issues.

- Some startups hire employees within their first 2 years in business. In many ways, these firms are similar to startup nonemployers in that they are far less profitable than more established firms. However, startup employer firms have the most pronounced financial challenges and are far more likely than other firms to report issues paying operating expenses. Their credit outcomes are better than nonemployers, but considerably worse than those of older employer firms. Those older employer firms, in contrast, are more profitable, less reliant on personal funds, and have more success obtaining financing.

By the numbers

Younger firms

Startup nonemployers
(0–2 years in business)

25% operated at a profit in 2021

46% expected to add employees in 2023

76% used personal funds in response to financial challenges

29% applied for financing; of those,
31% were fully approved by their lender

Startup employers
(0–2 years in business)

27% operated at a profit in 2021

56% expected to add employees in 2023

75% used personal funds in response to financial challenges

46% applied for financing; of those,
37% were fully approved by their lender

Nonemployers

Employers

Older nonemployers
(3+ years in business)

38% operated at a profit in 2021

26% expected to add employees in 2023

65% used personal funds in response to financial challenges

27% applied for financing; of those,
38% were fully approved by their lender

Older employers
(3+ years in business)

49% operated at a profit in 2021

35% expected to add employees in 2023

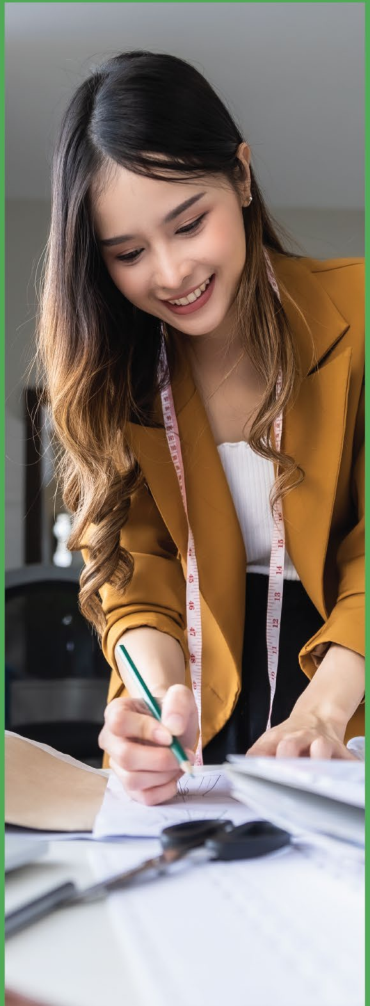
47% used personal funds in response to financial challenges

39% applied for financing; of those,
57% were fully approved by their lender

Older firms

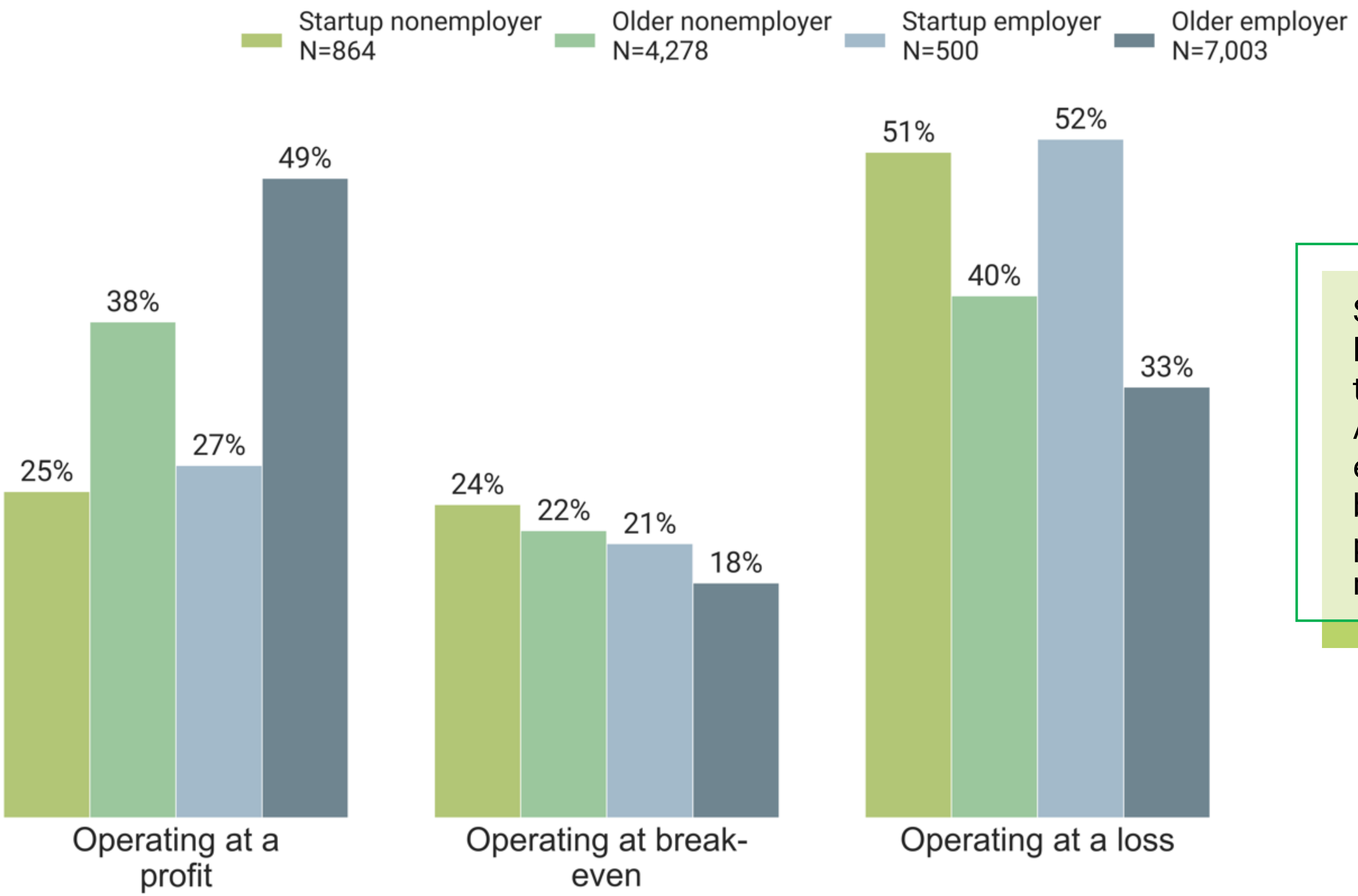
Firm Performance

Data on revenue and employment changes in the prior 12 months and expectations for the next 12 months



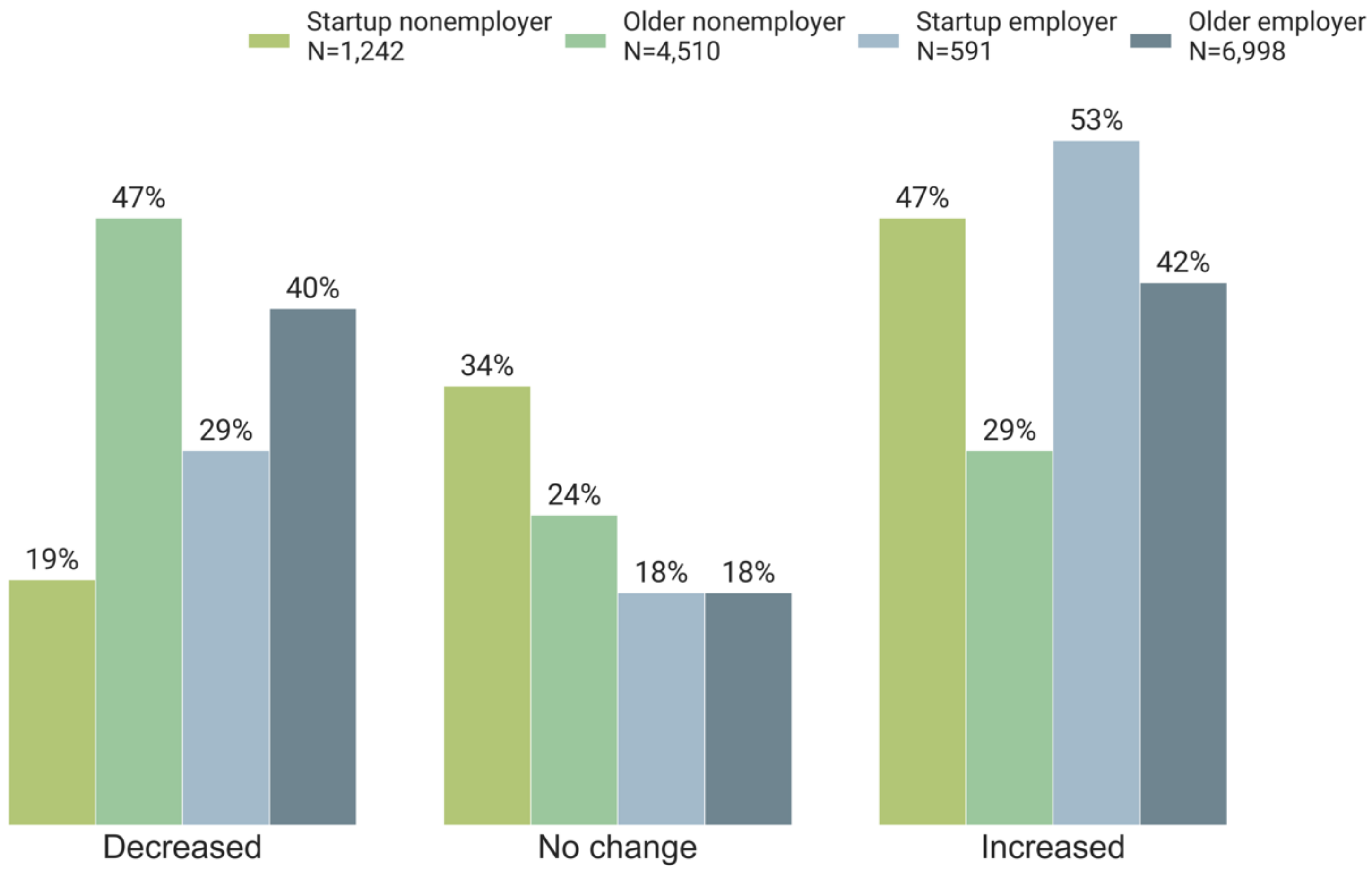
Profitability, end of 2021

(% of firms)



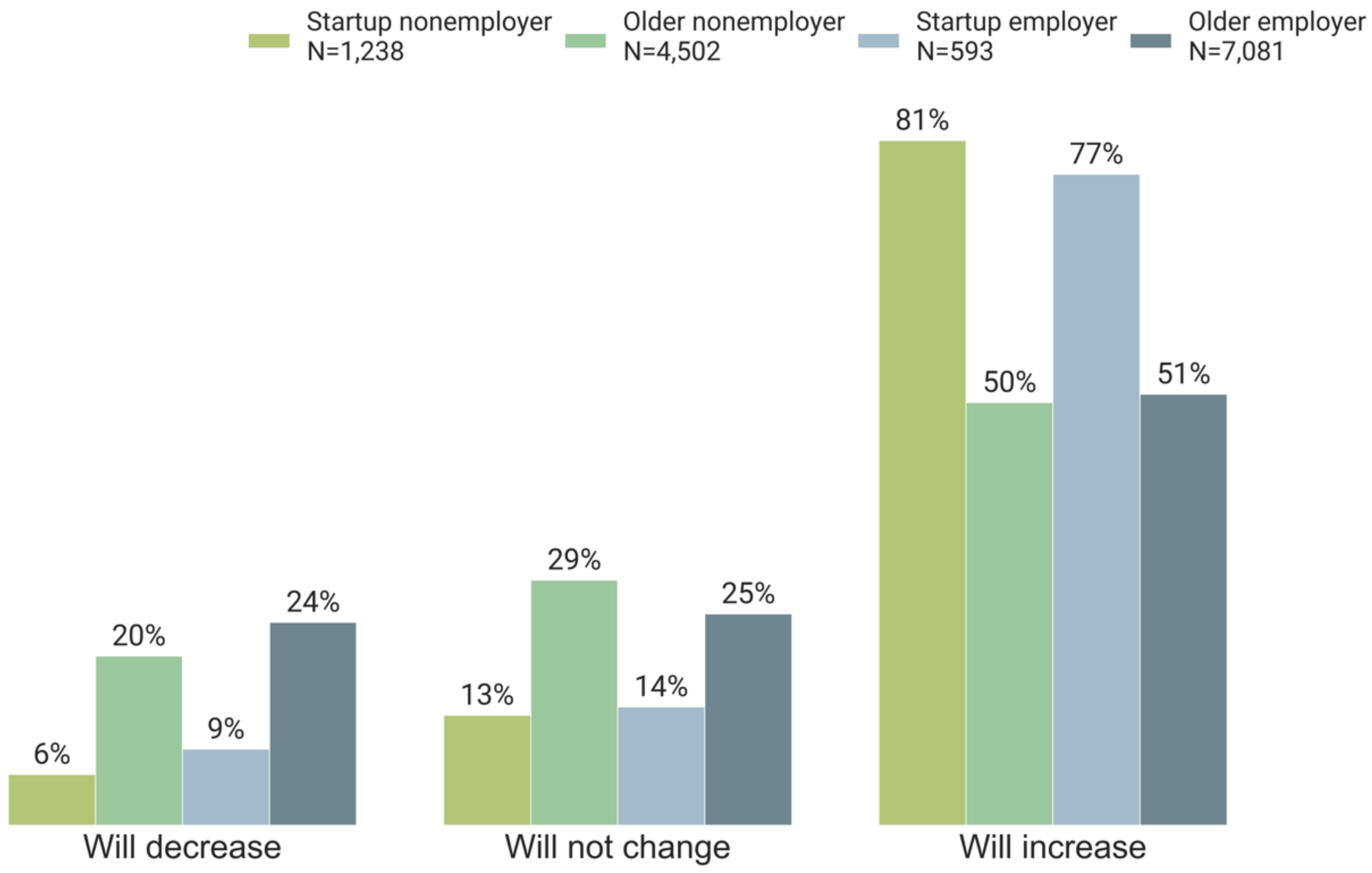
Startup firms are less profitable than older firms. As firms mature, employers become more profitable than nonemployers

Revenue change, prior 12 months
(% of firms)



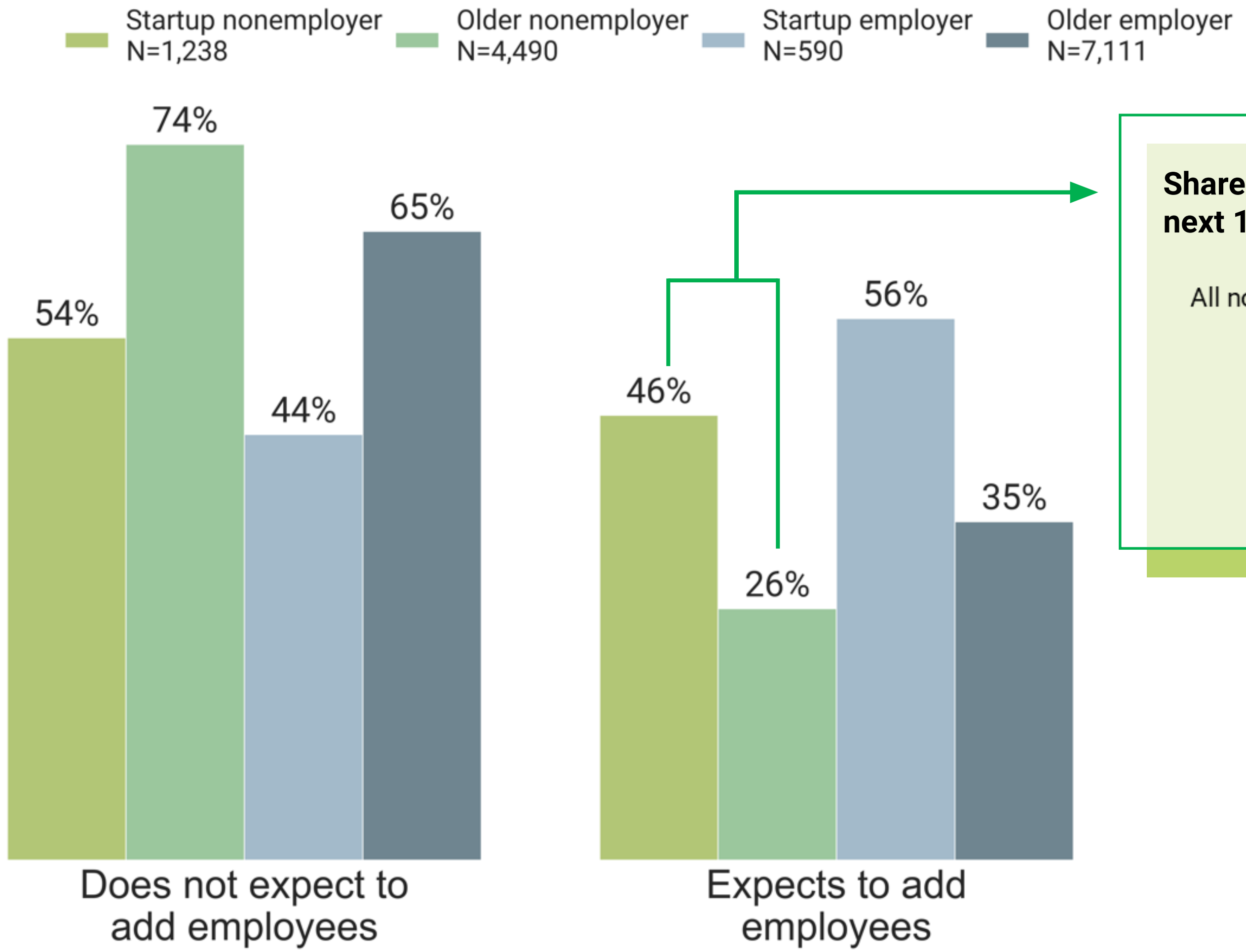
Note: See Definitions for definitions of SBCS time references.

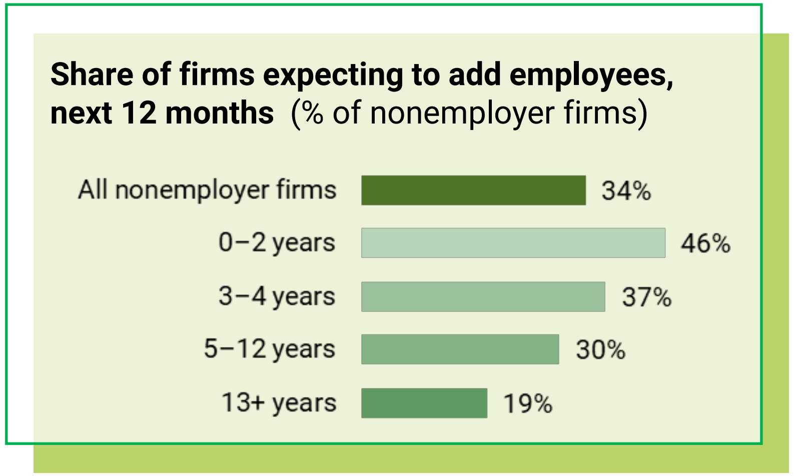
Expected revenue change, next 12 months
(% of firms)



Notes: Percentages across response options may not sum to 100 within firm categories because of rounding. See Definitions for definitions of SBCS time references.

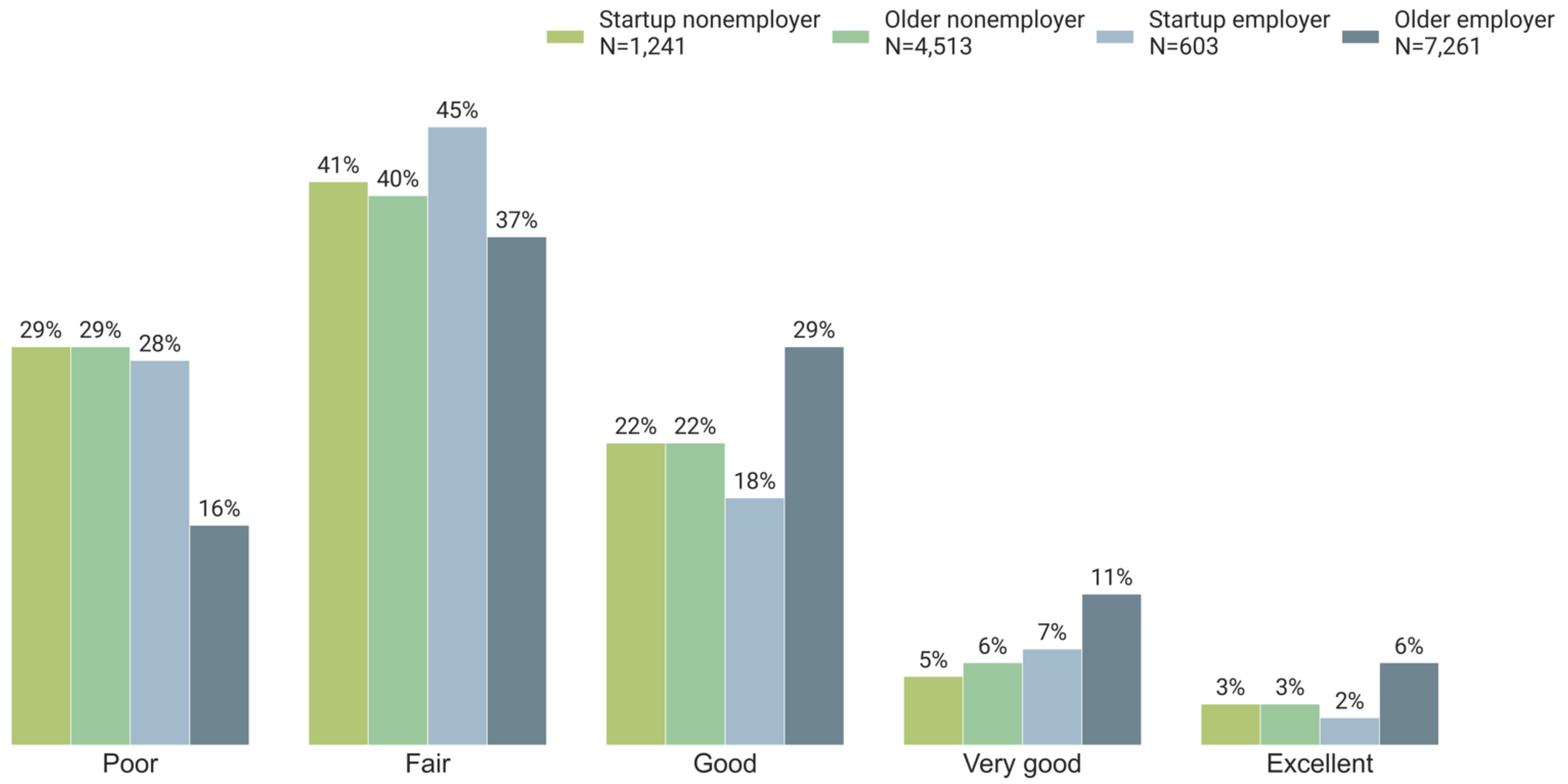
Expectations of adding employees, next 12 months
(% of firms)





Note: See Definitions for definitions of SBCS time references.

Financial condition, at time of survey
(% of employer firms)

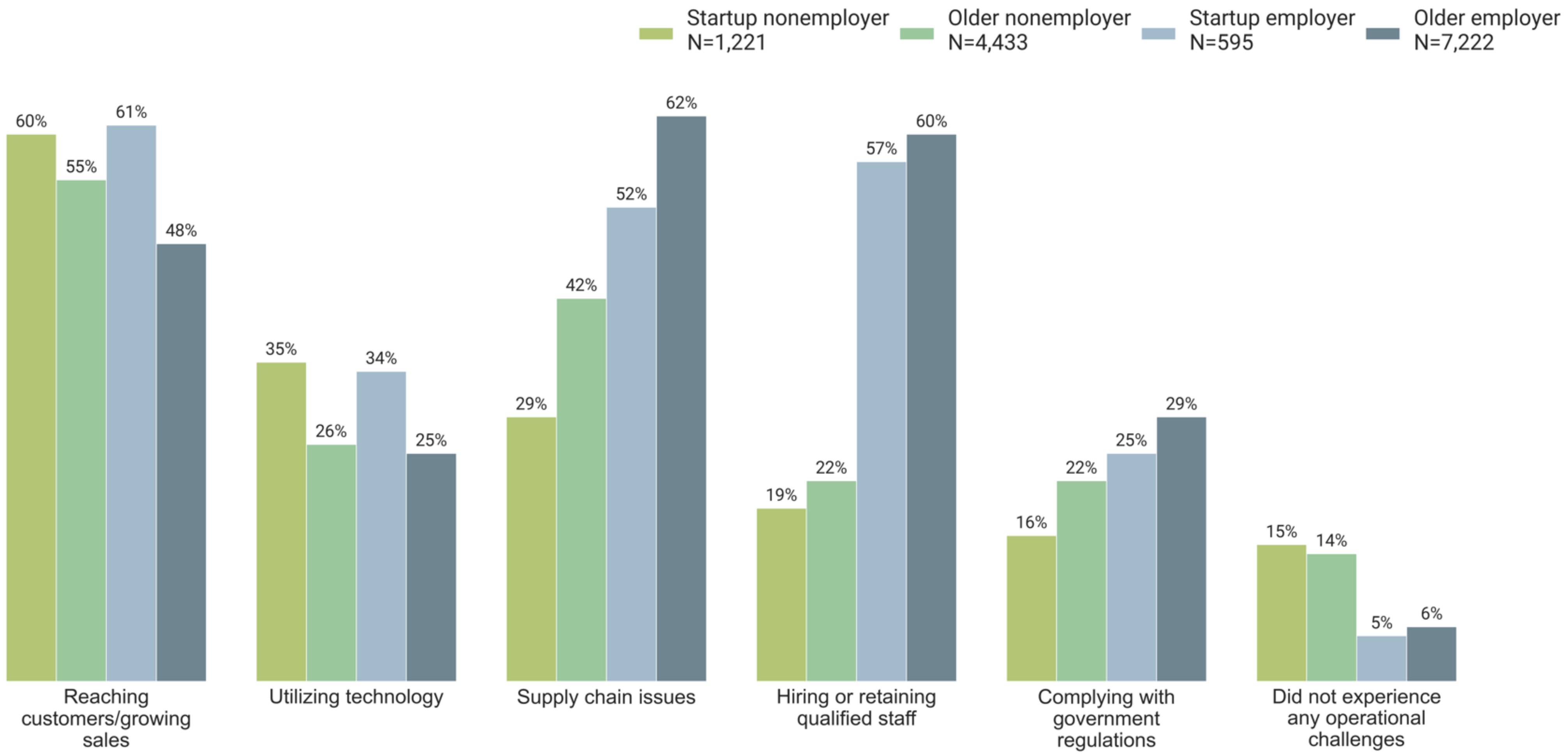


Notes: Percentages across response options may not sum to 100 within firm categories because of rounding. Self-reported financial condition at time of survey. See Definitions for definitions of SBCS time references.

Challenges

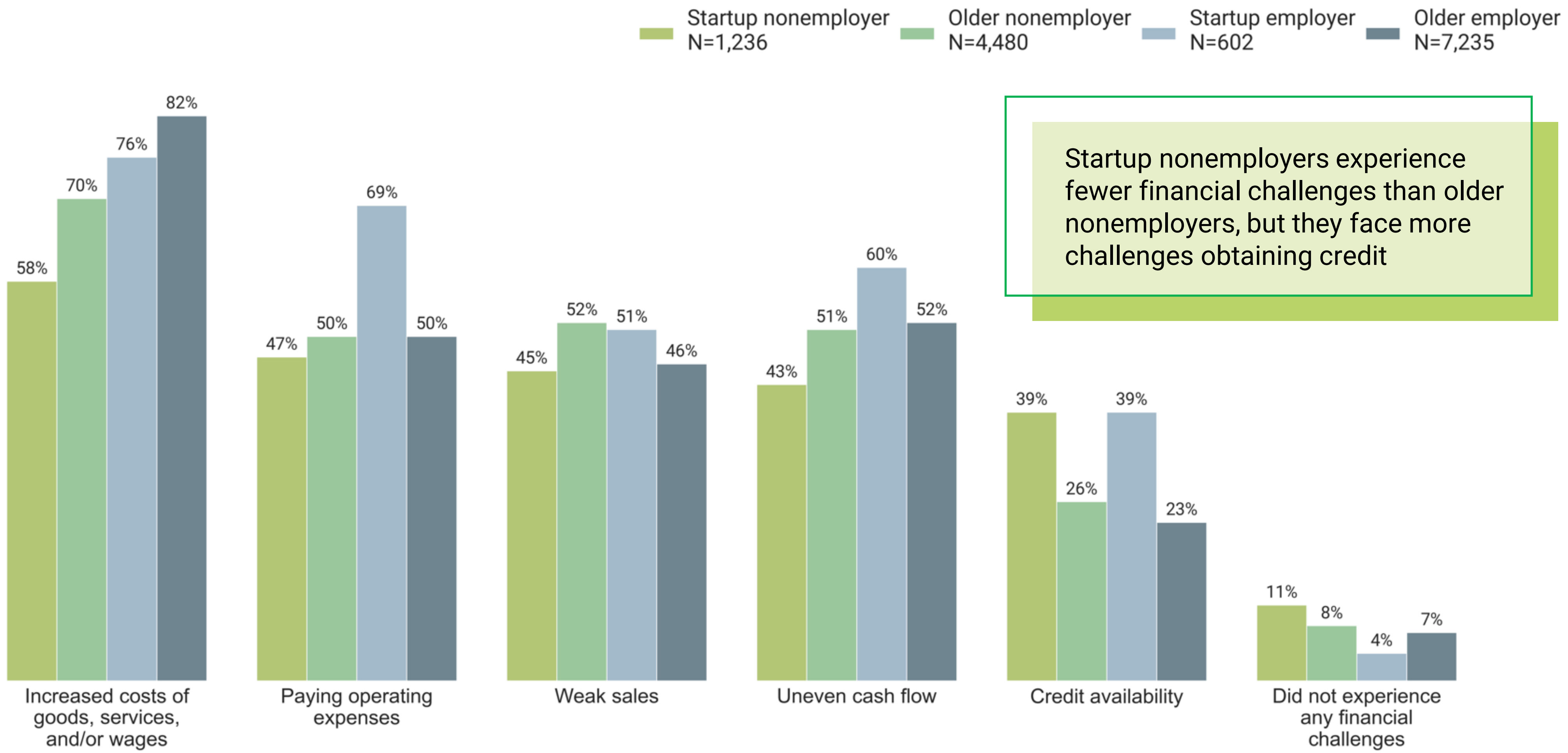
Data on financial challenges, operational challenges, and actions taken in response to challenges

Operational challenges, prior 12 months
(% of firms)



Notes: Respondents could select multiple options. Select response options shown. See Definitions for definitions of SBCS time references.

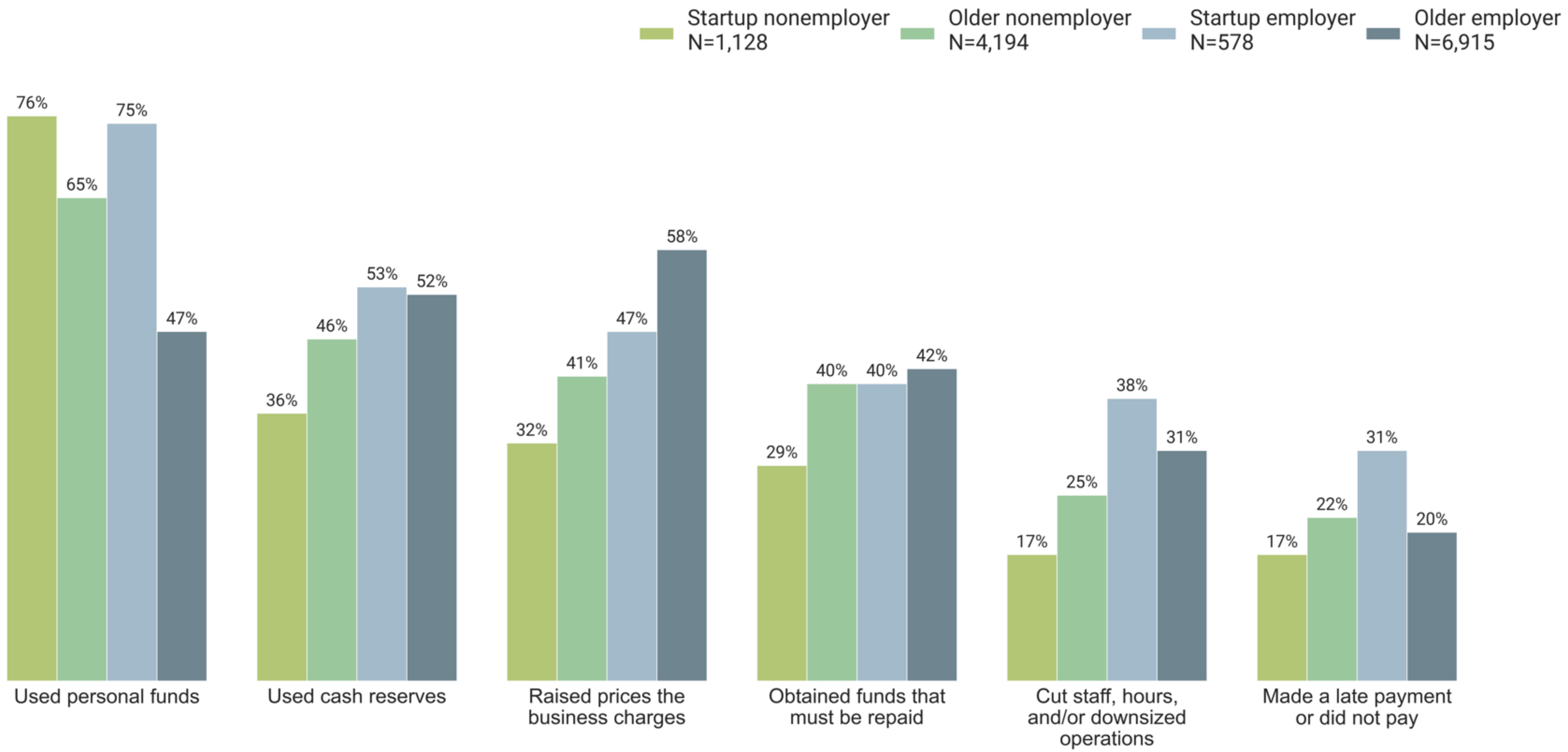
Financial challenges, prior 12 months
(% of firms)



Startup nonemployers experience fewer financial challenges than older nonemployers, but they face more challenges obtaining credit

Notes: Respondents could select multiple response options. Select response options shown. See Definitions for definitions of SBCS time references. Examples of operating expenses provided to respondents include wages, rent, and inventory costs.

Actions taken in response to financial challenges
(% of firms with financial challenges)

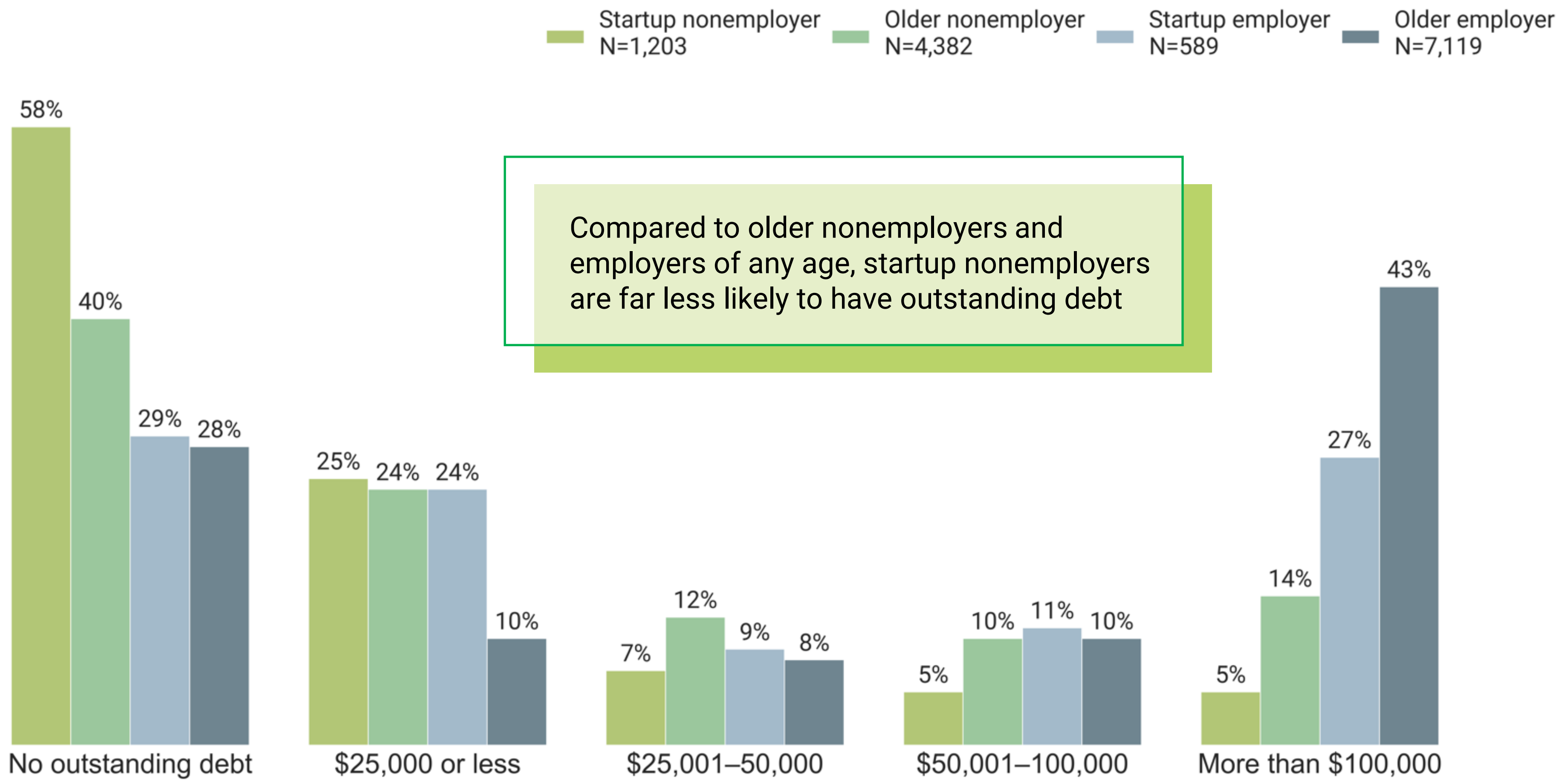


Notes: Respondents could select multiple response options. Select response options shown.

Debt and Financing

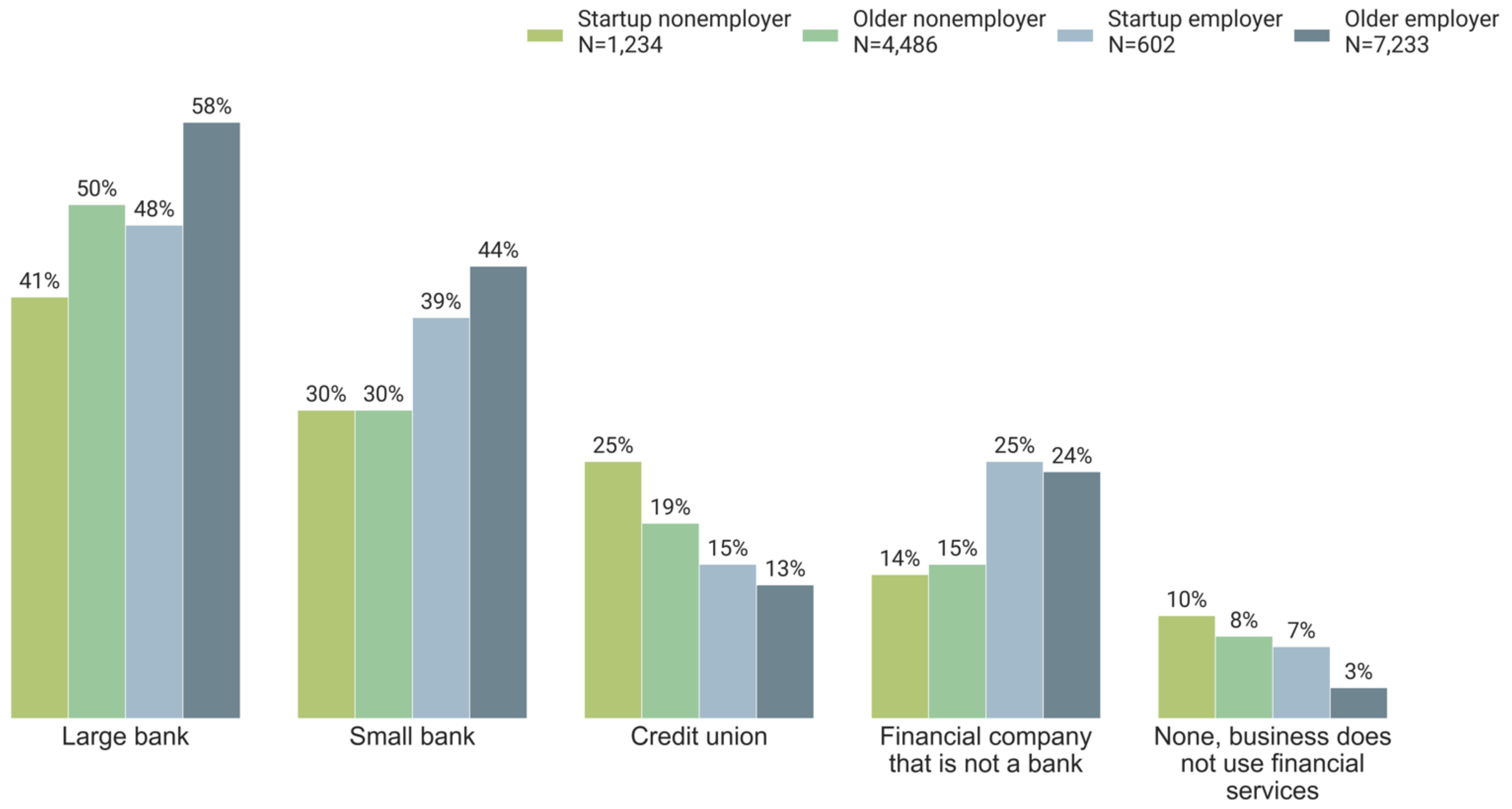
Data on outstanding debt,
use of financial services, and firms'
credit-seeking experiences

Amount of outstanding debt, at time of survey
(% of firms)



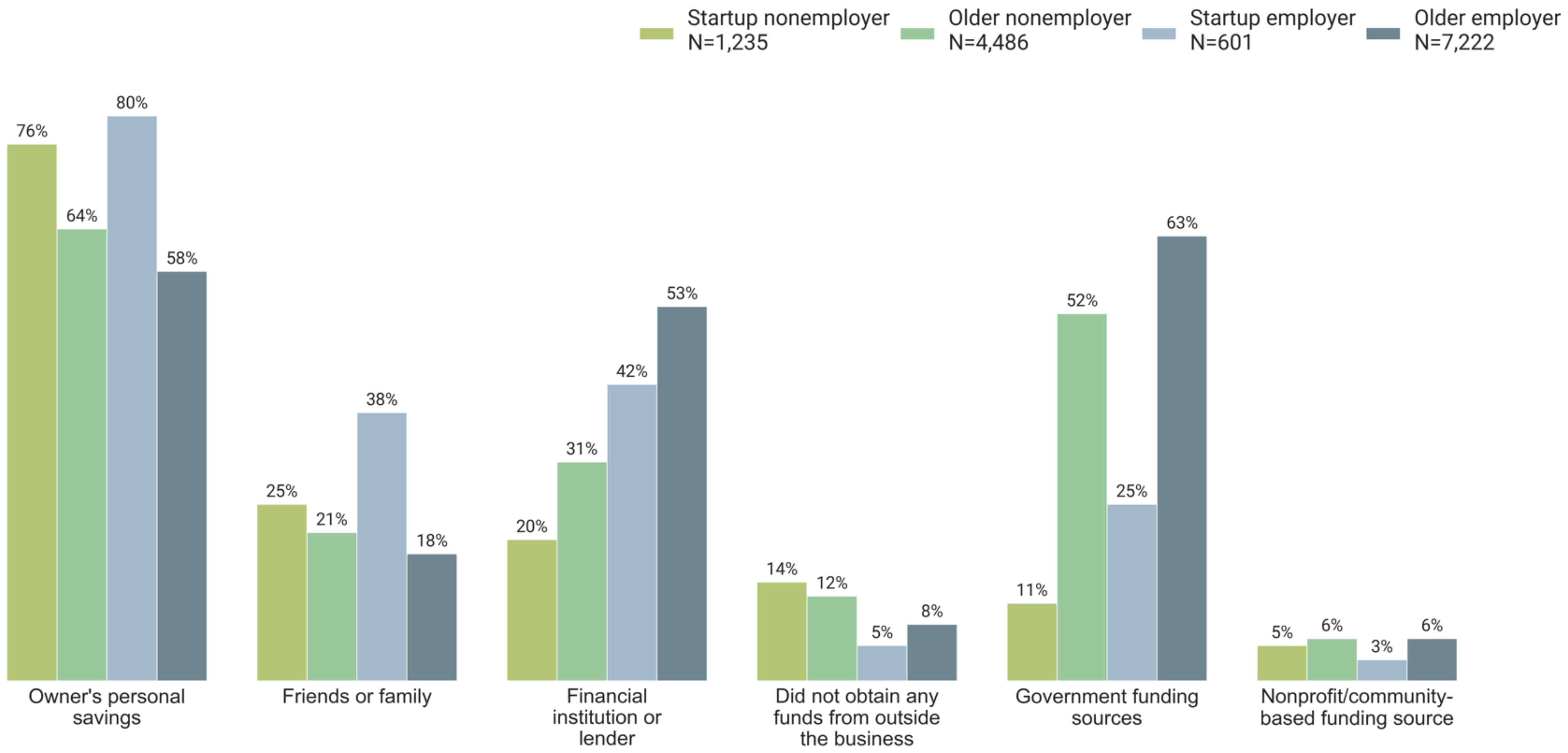
Note: Percentages across response options may not sum to 100 within firm categories because of rounding.

Use of financial services providers
(% of firms)



Notes: Respondents could select multiple response options. Select response options shown. Financial services providers are those at which the firm has an account or uses other financial services, including loans and payments processing. See Definitions for lender definitions.

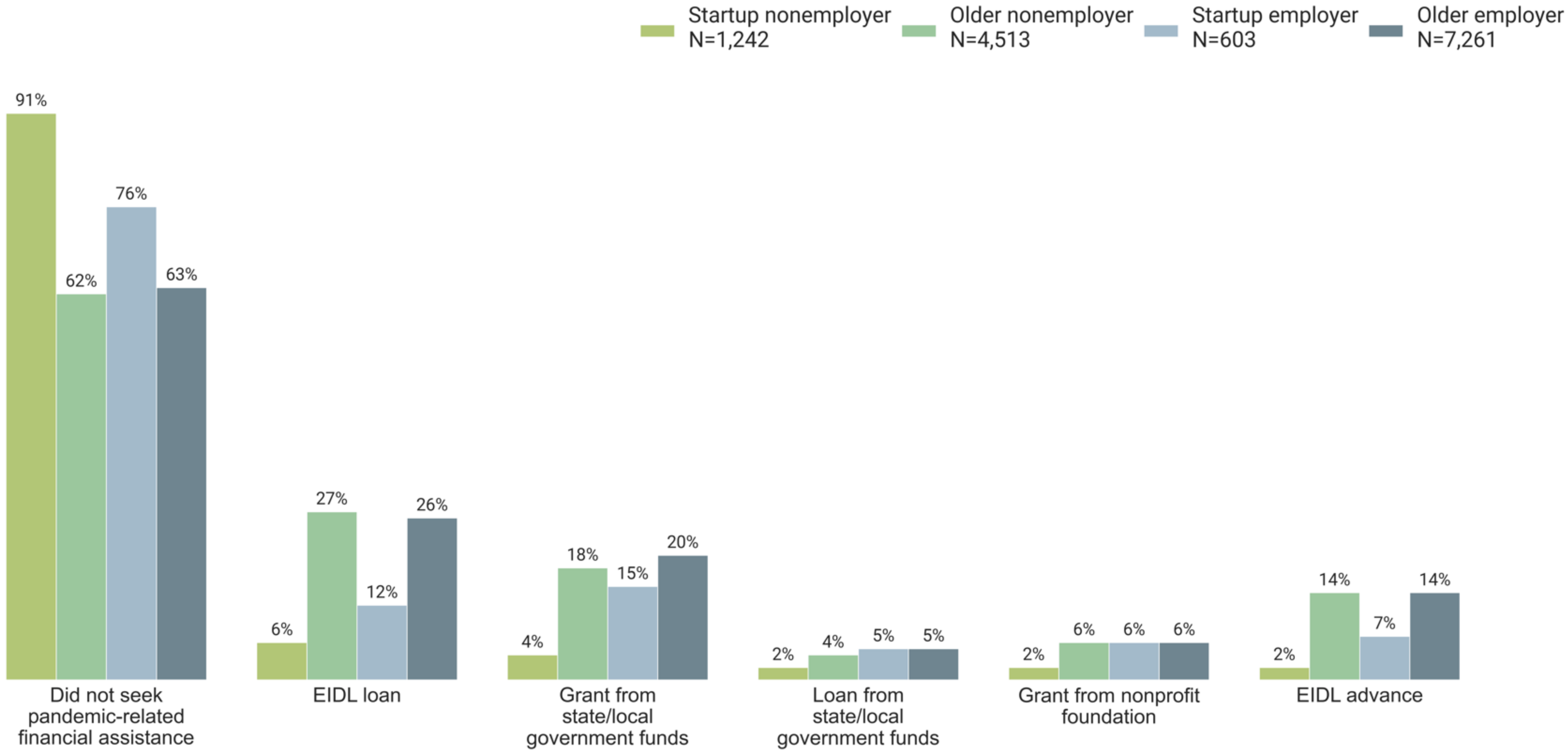
Sources of funding, past five years
(% of firms)



Notes: Respondents could select multiple response options. Select response options shown. See Definitions for lender and SBCS time reference definitions.

Types of pandemic-related financial assistance sought, prior 12 months

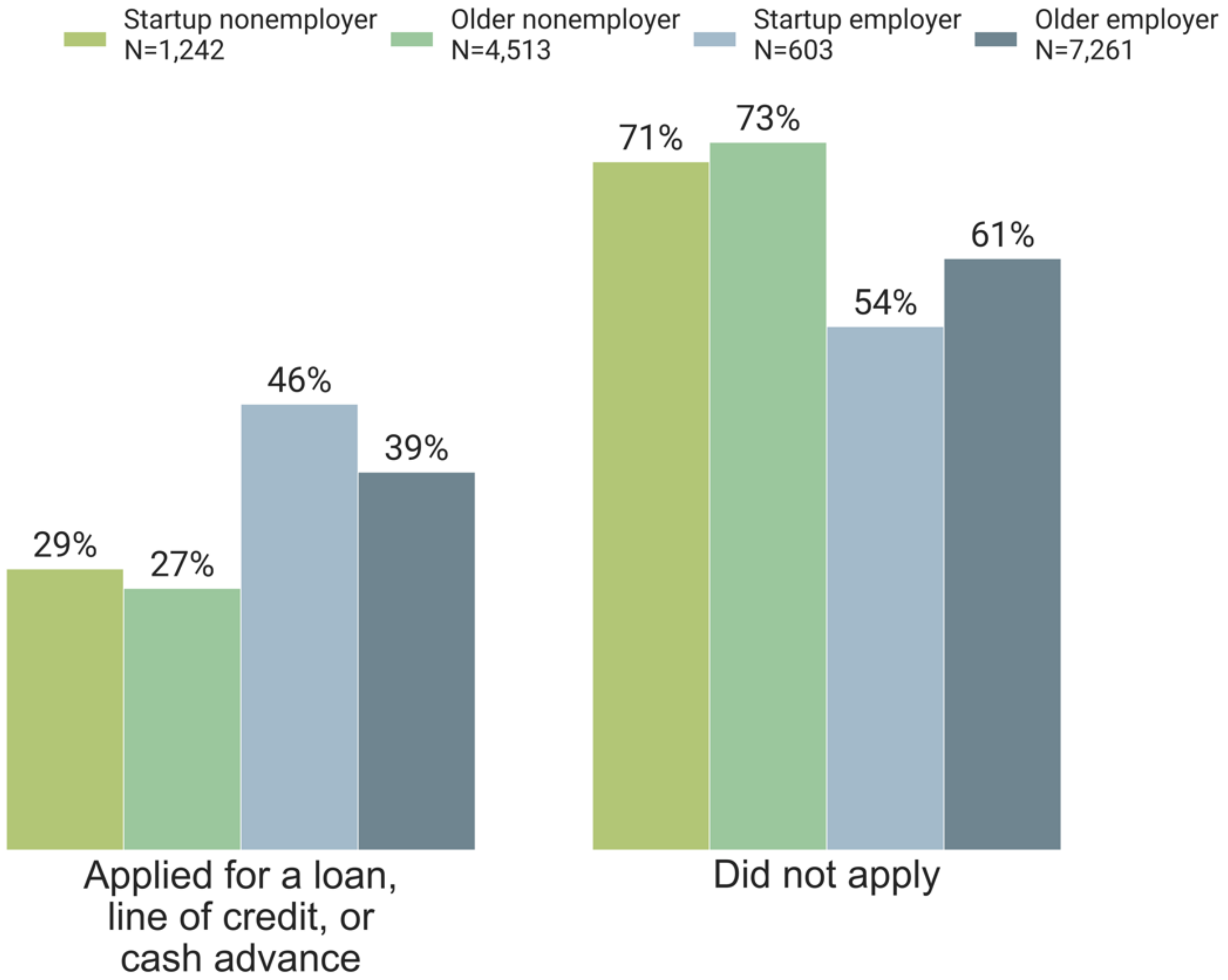
(% of firms)



Notes: Respondents could select multiple response options. "Financial assistance" includes all forms of pandemic-related financial assistance available in the 12 months prior to the survey. EIDL is the SBA's Economic Injury Disaster Loan program. See Definitions for definitions of SBCS time references.

Applications for loans, lines of credit, and merchant cash advances, prior 12 months

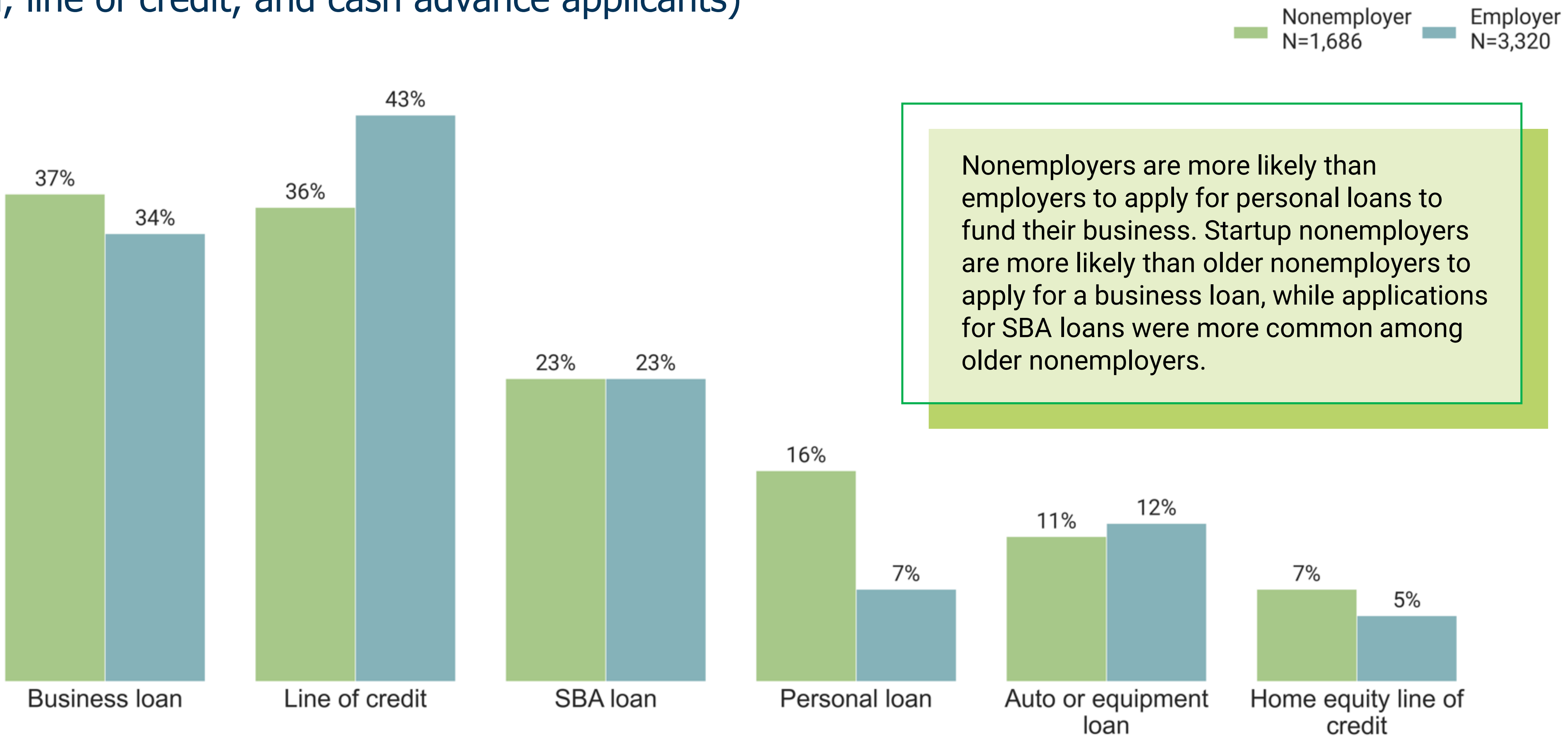
(% of firms)



Note: See Definitions for SBCS time reference definitions.

Application rate by type of loan, line of credit, or merchant cash advance

(% of loan, line of credit, and cash advance applicants)

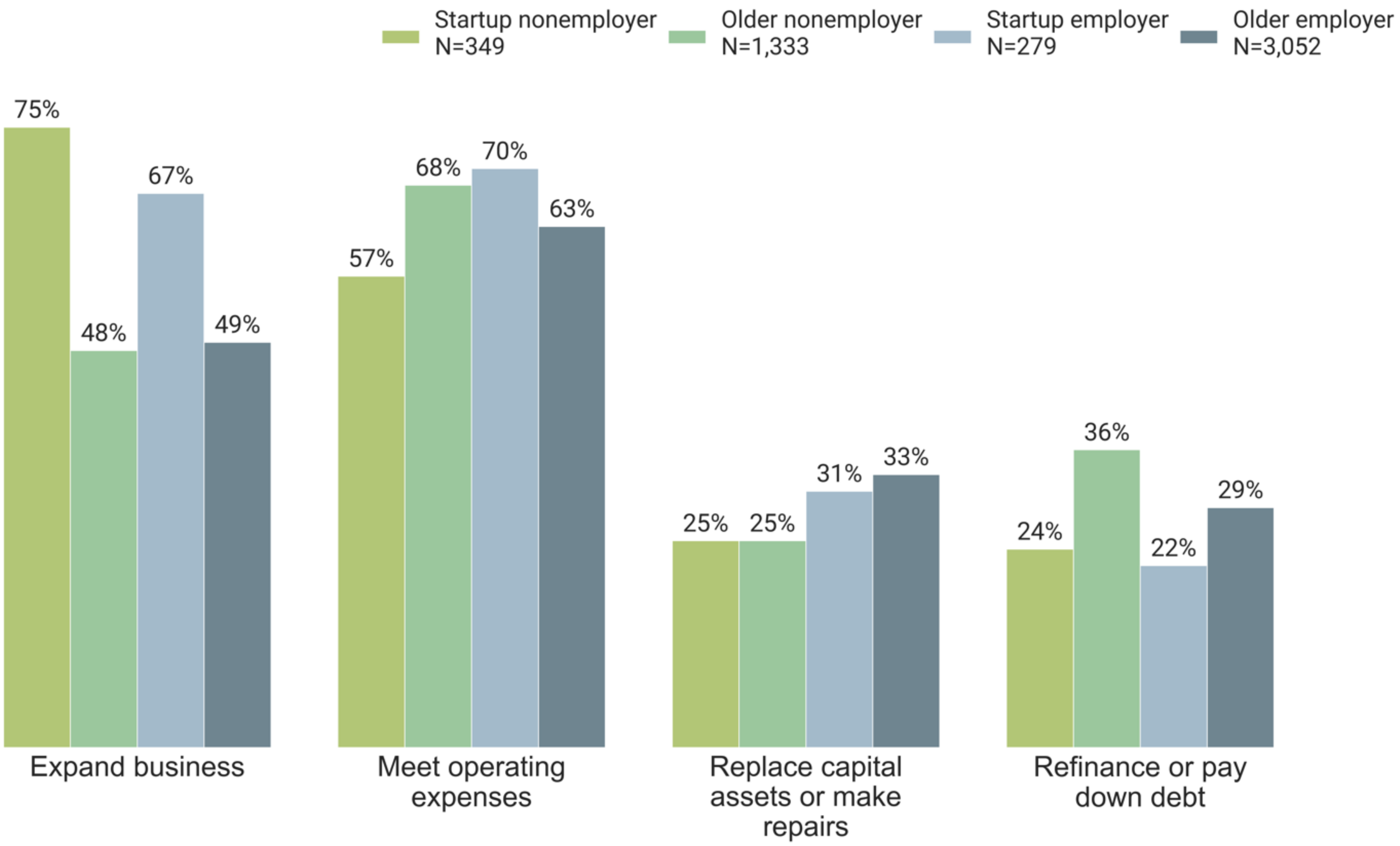


Nonemployers are more likely than employers to apply for personal loans to fund their business. Startup nonemployers are more likely than older nonemployers to apply for a business loan, while applications for SBA loans were more common among older nonemployers.

Notes: Respondents could select multiple response options. Select response options shown. Excludes pandemic-related financial assistance applications.

Reasons for applying for financing

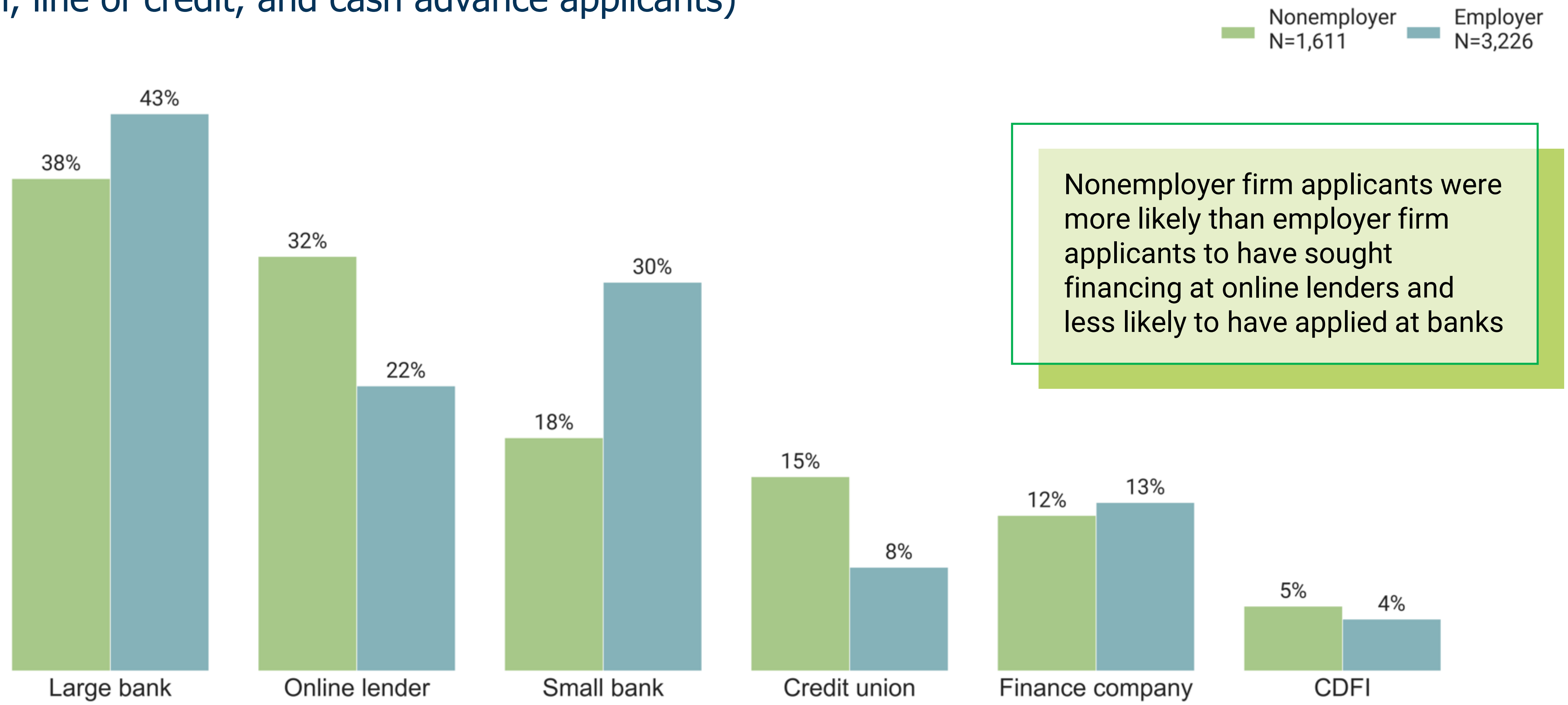
(% of loan, line of credit, and cash advance applicants)



Notes: Respondents could select multiple response options. Select response options shown. Excludes pandemic-related financial assistance applications. The full response option for "Expand business" is "Expand business, pursue new opportunities, or acquire business assets."

Loan, line of credit, and cash advance sources applied to

(% of loan, line of credit, and cash advance applicants)

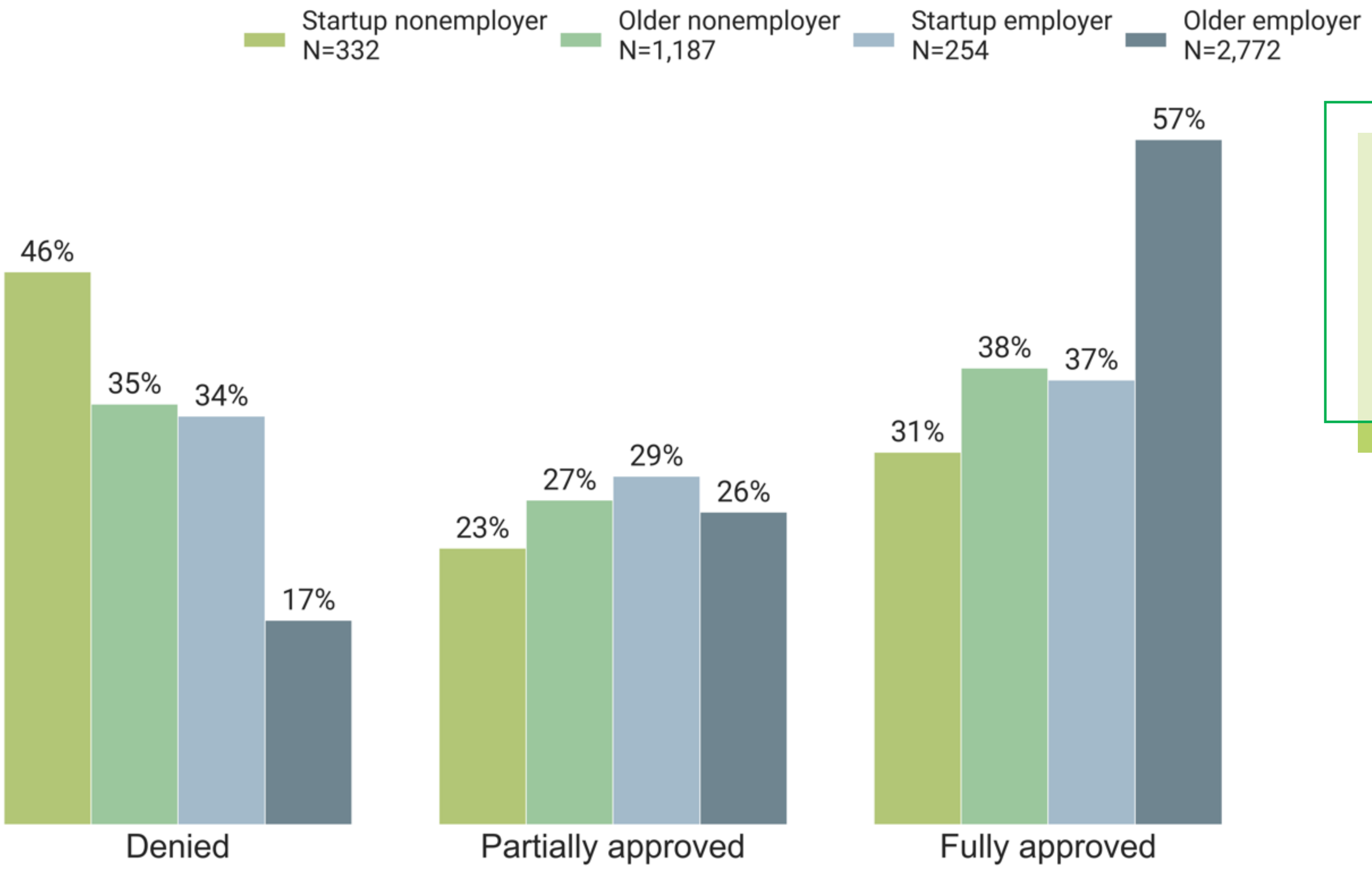


Nonemployer firm applicants were more likely than employer firm applicants to have sought financing at online lenders and less likely to have applied at banks

Notes: Respondents could select multiple response options. Select response options shown. See Definitions for lender definitions.

Outcomes on loan, line of credit, and merchant cash advance applications

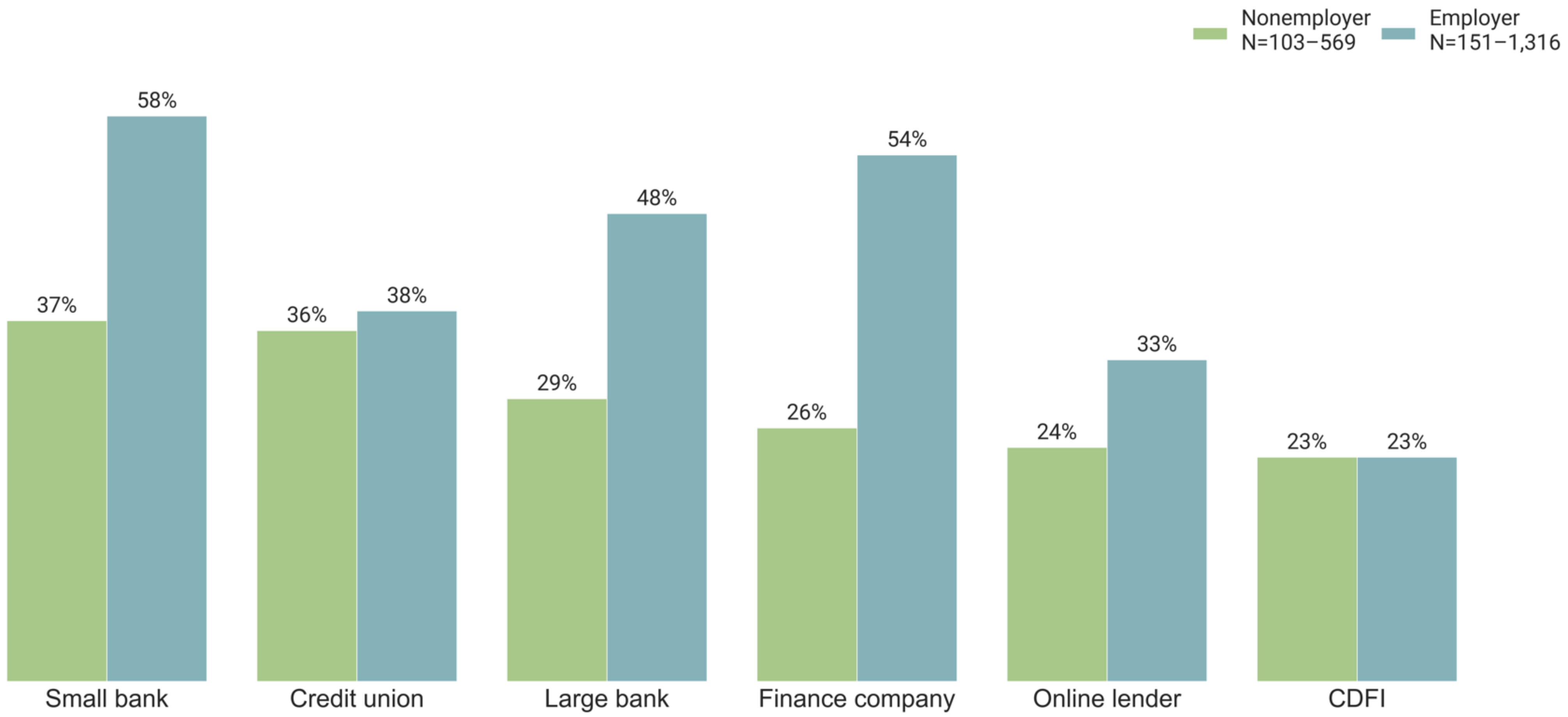
(% of loan, line of credit, and cash advance applicants)



Approval rates for startup nonemployer applicants were lower than those for older nonemployers and employers of any age

Share of applicants fully approved, by source

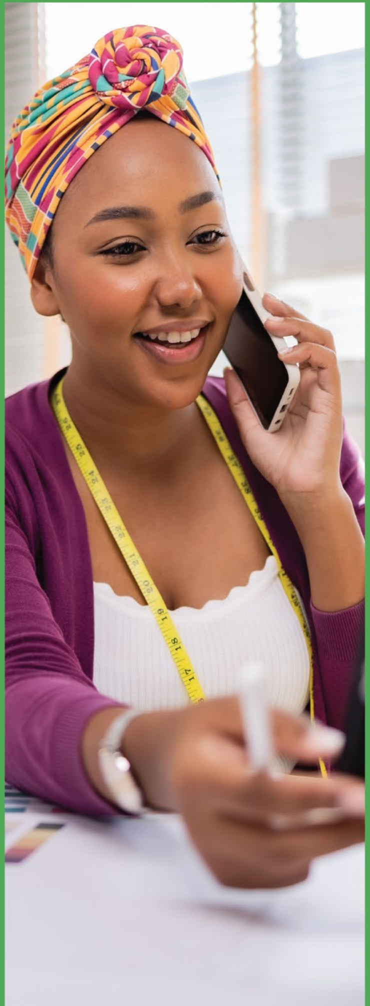
(% of loan, line of credit, and cash advance applicants)



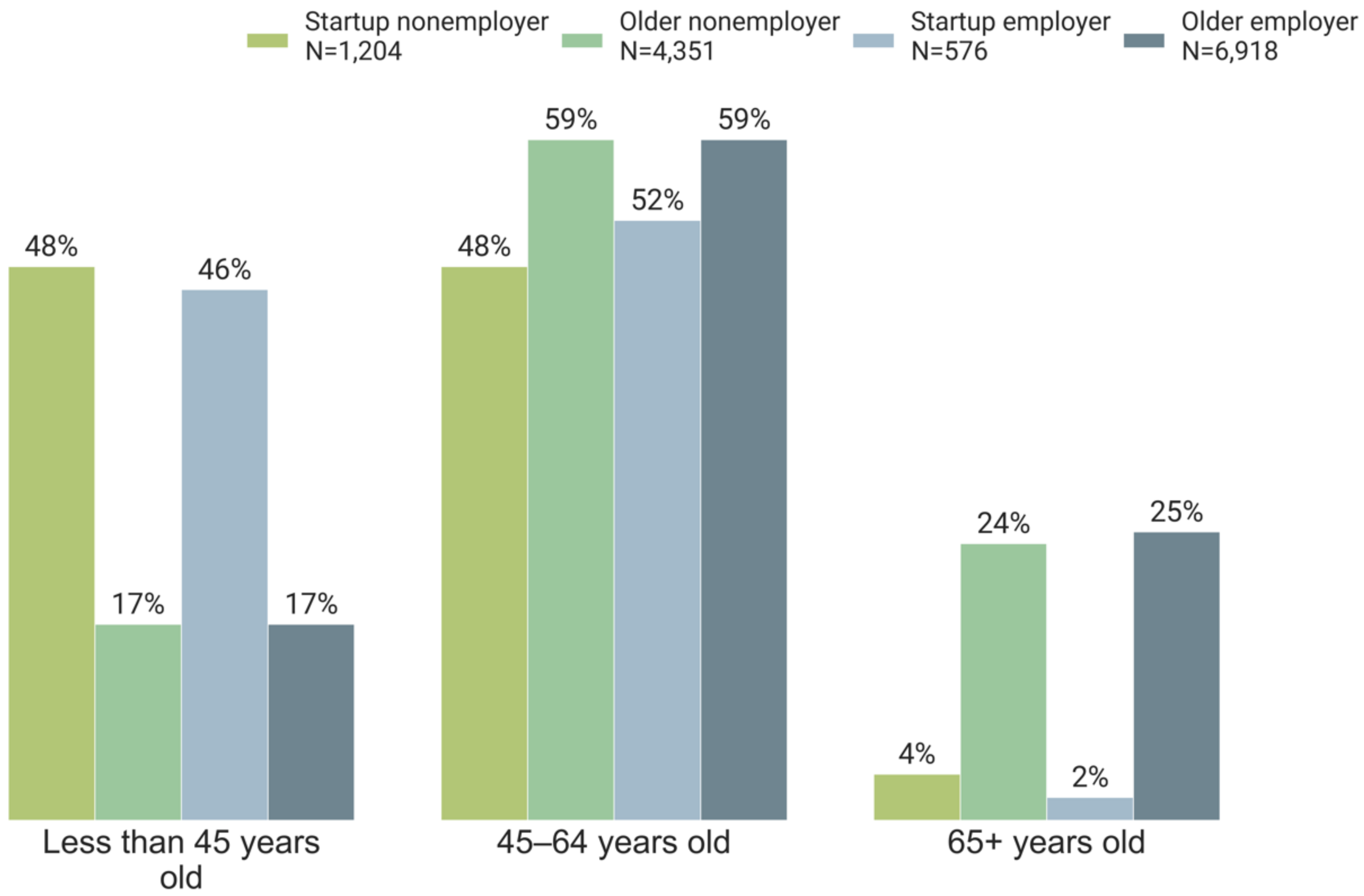
Notes: Respondents could select multiple response options. Select response options shown. See Definitions for lender definitions. Number of observations varies by source. See Data Appendix for more details.

Demographics

Data on firm and
owner characteristics

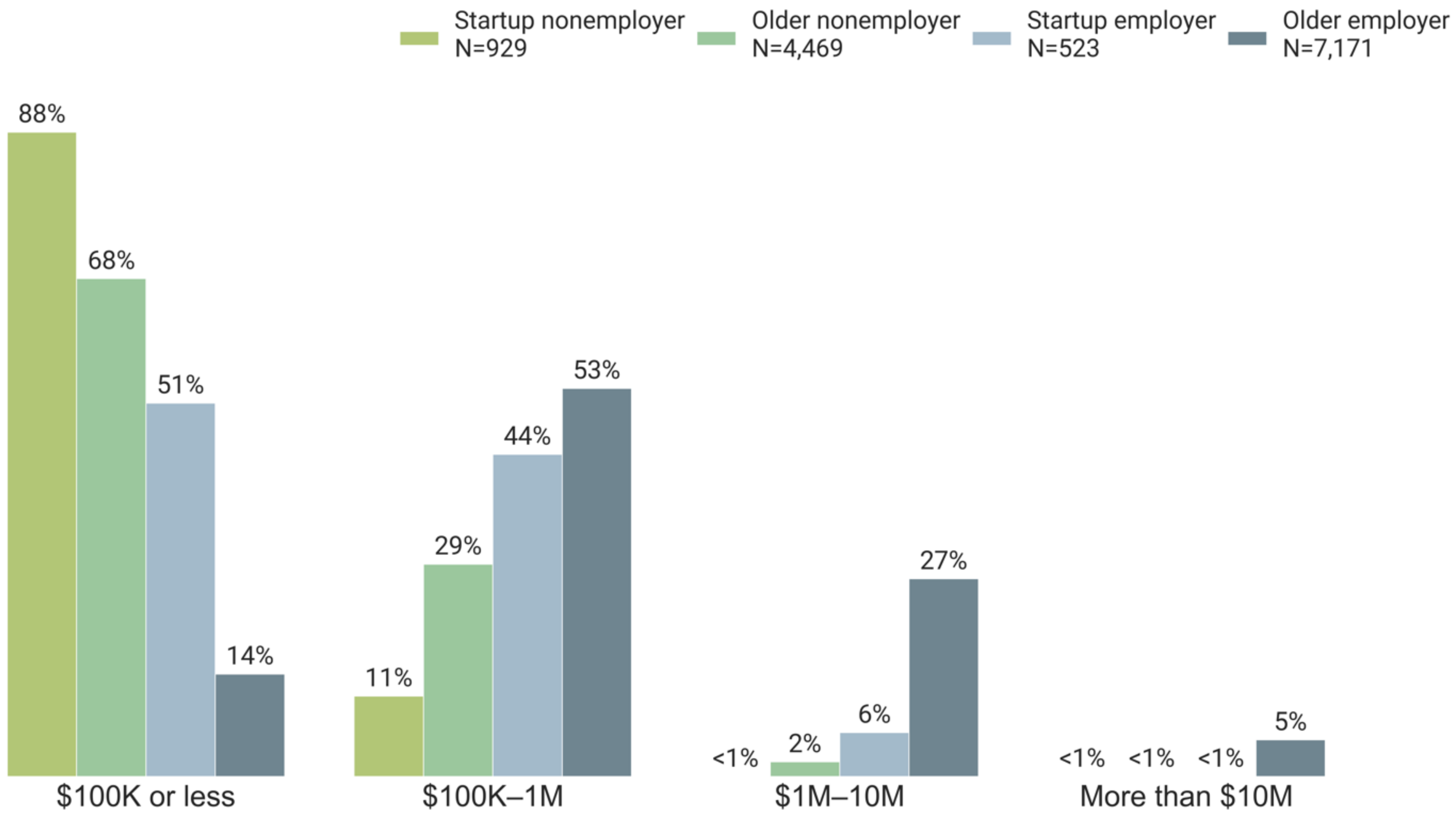


Age of primary owner
(% of firms)



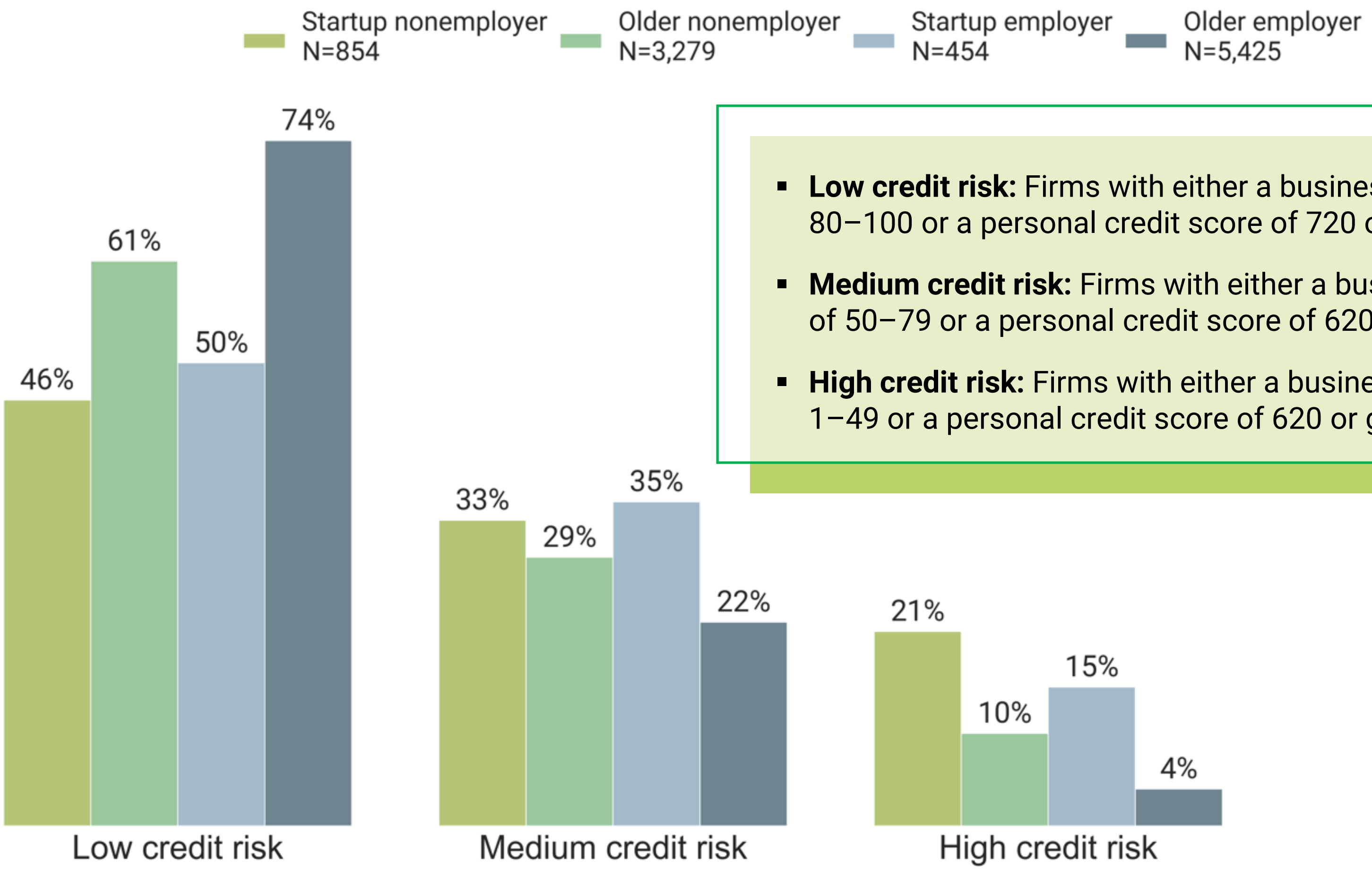
Note: Percentages across response options may not sum to 100 within firm categories because of rounding.

Annual revenues
(% of firms)



Notes: Percentages across response options may not sum to 100 within firm categories because of rounding. Revenue size categories have been condensed and simplified for readability. Actual categories are ≤$25K, $25,001–$50K, $50,001–$100K, $100,001–$250K, $250,001–$500K, $500,001–$1M, $1,000,001–$5M, $5,000,001–$10M, and >$10M.

Credit risk
(% of firms)

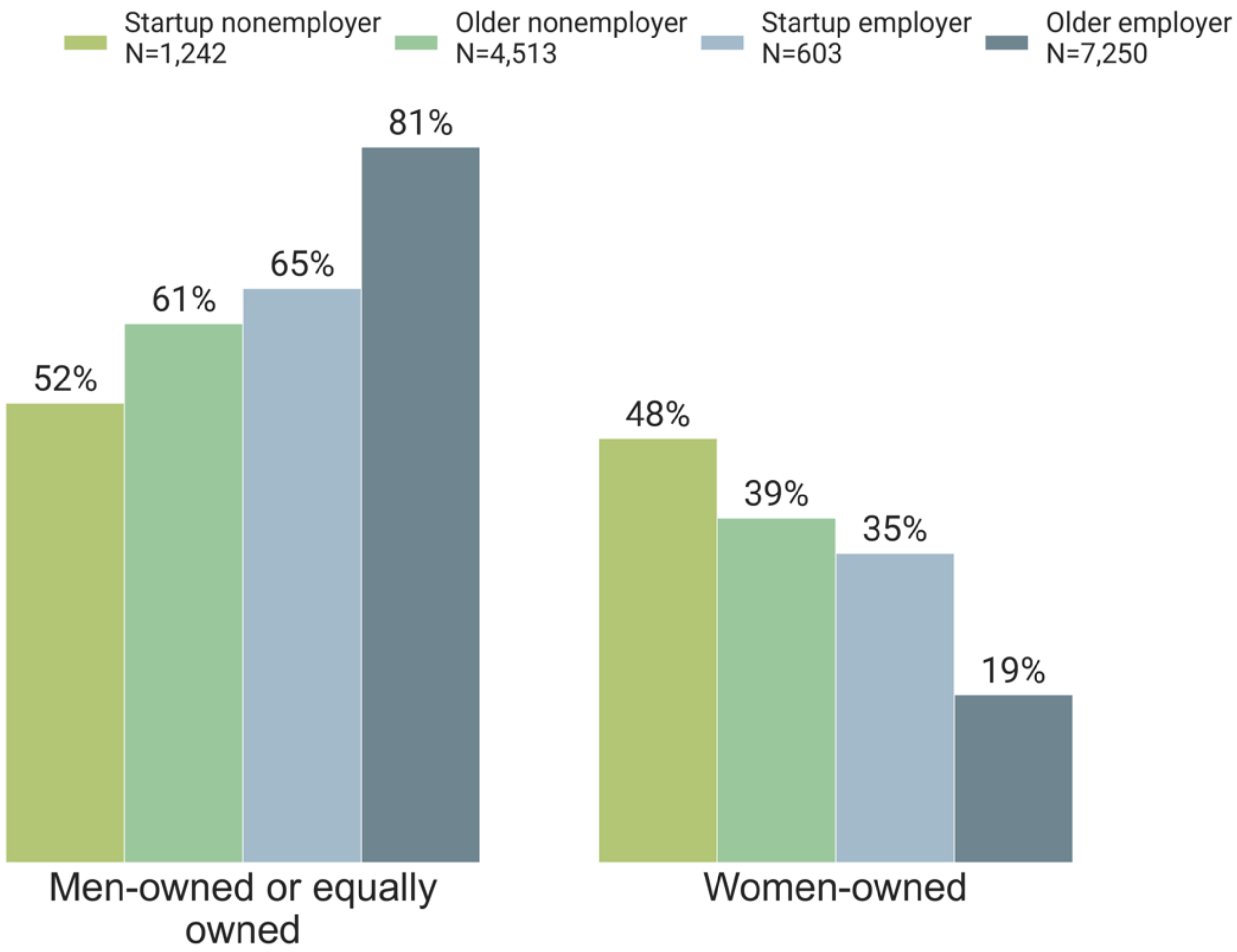


- **Low credit risk:** Firms with either a business credit score of 80–100 or a personal credit score of 720 or greater
- **Medium credit risk:** Firms with either a business credit score of 50–79 or a personal credit score of 620–719 or greater
- **High credit risk:** Firms with either a business credit score of 1–49 or a personal credit score of 620 or greater

Notes: In the SBCS, "credit risk" refers to a self-reported business credit score or personal credit score, depending on which is used to obtain financing for the business. When firms use both, the weaker credit score is used to categorize the firm

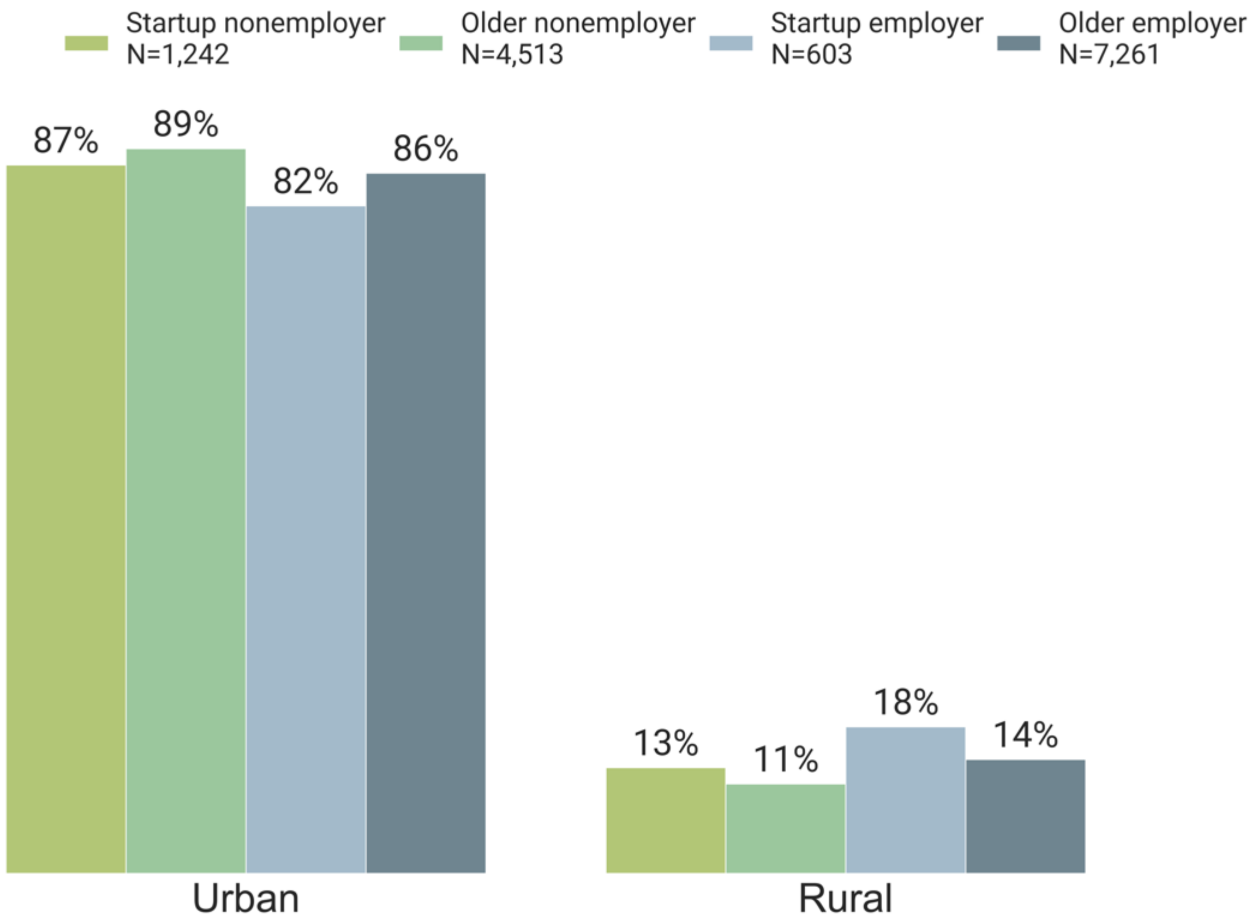
Gender of owner(s)

(% of firms)



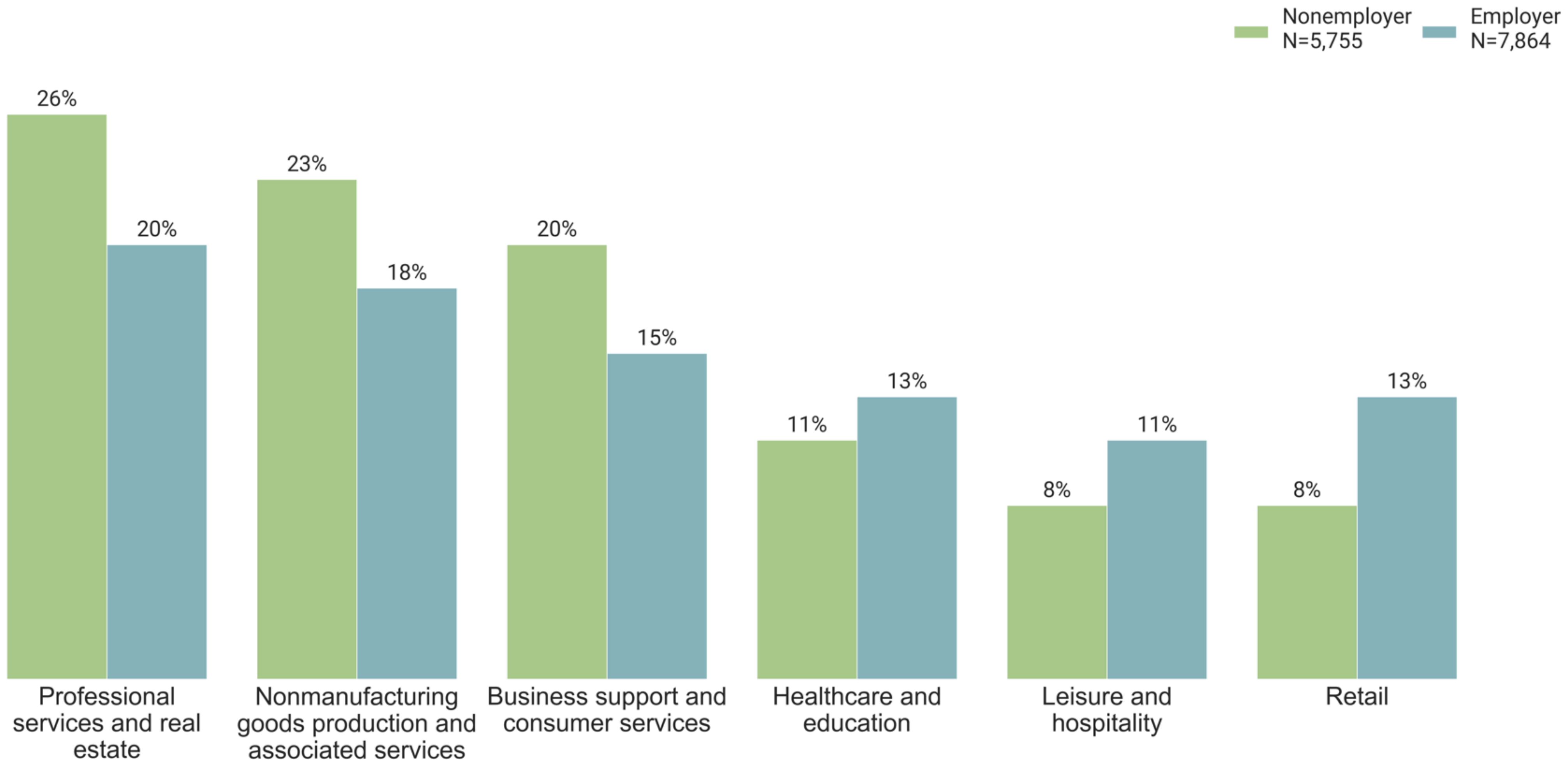
Notes: SBCS responses throughout the report are weighted using census data to represent the US small employer firm population on the following dimensions: firm age, number of employees, industry, geography, race/ethnicity of owner, and gender of owner.

Geographic location
(% of firms)



Notes: Urban and rural definitions come from US Department of Agriculture Rural-Urban Commuting Area codes. SBCS responses throughout the report are weighted using census data to represent the US small employer firm population on the following dimensions: firm age, number of employees, industry, geography, race/ethnicity of owner, and gender of owner.

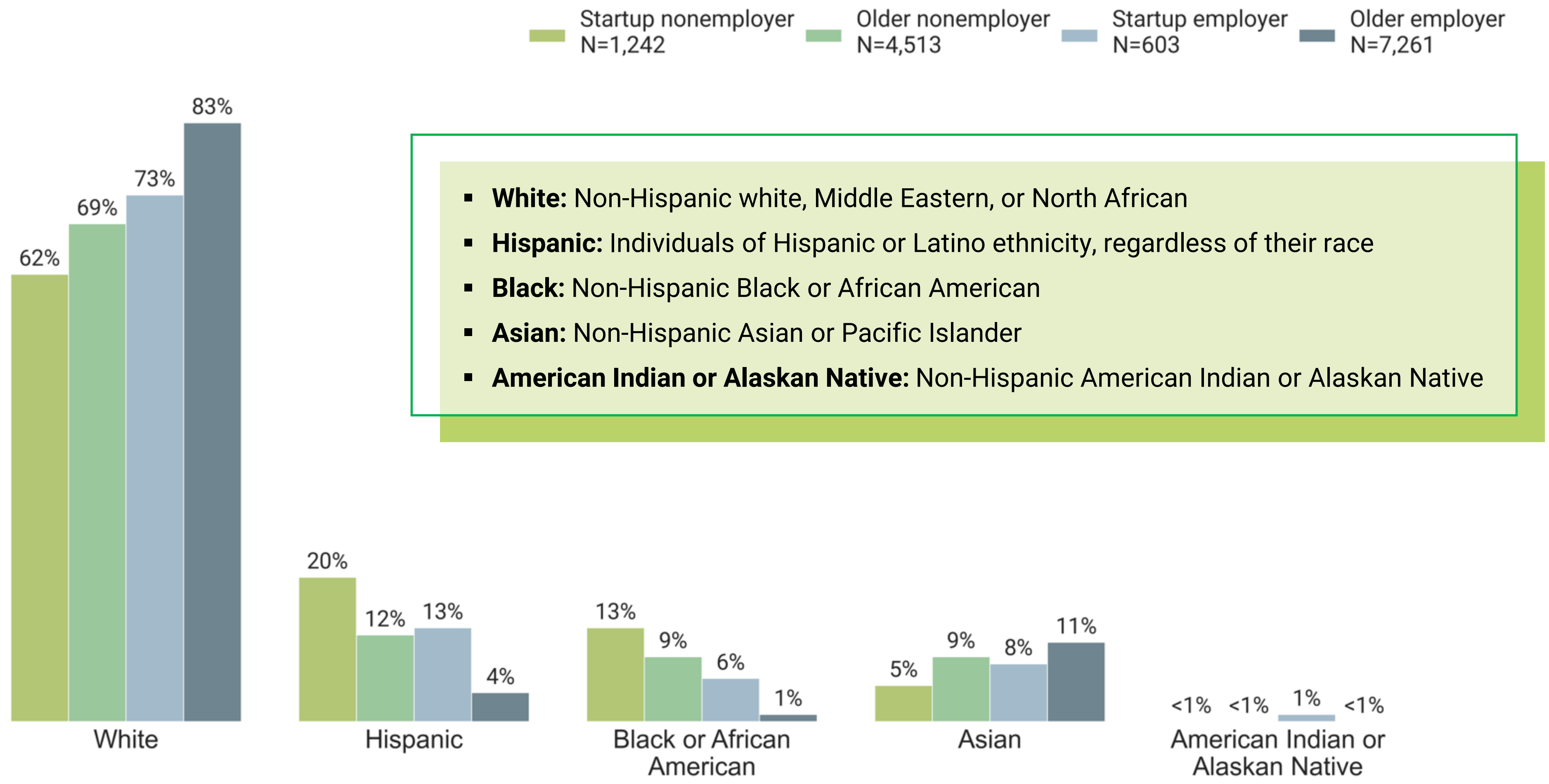
Industry
(% of firms)



Notes: Select industries shown. See Definitions for industry definitions. SBCS responses throughout the report are weighted using census data to represent the US small employer firm population on the following dimensions: firm age, number of employees, industry, geography, race/ethnicity of owner, and gender of owner.

Race/ethnicity of owner(s)

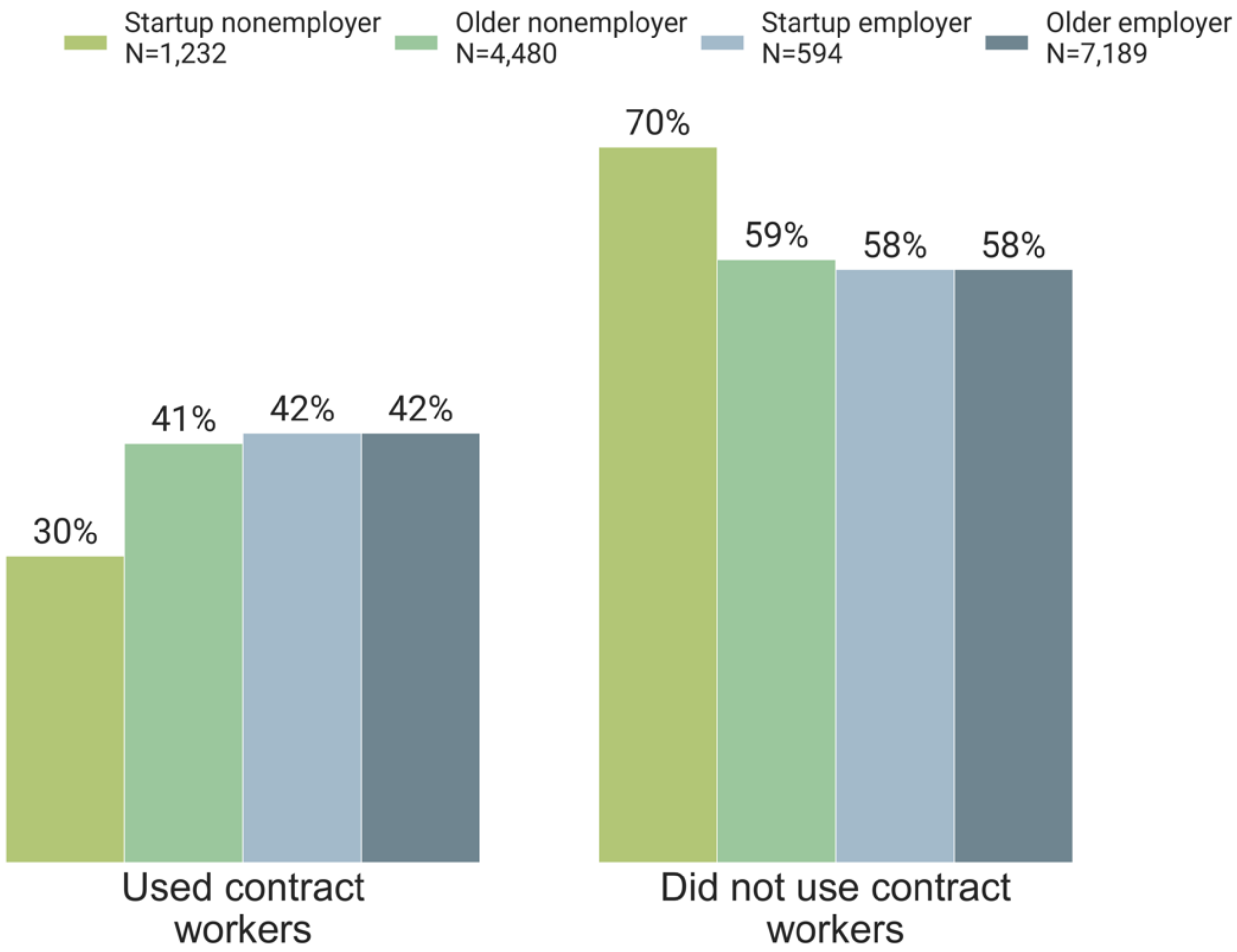
(% of firms)



- **White:** Non-Hispanic white, Middle Eastern, or North African
- **Hispanic:** Individuals of Hispanic or Latino ethnicity, regardless of their race
- **Black:** Non-Hispanic Black or African American
- **Asian:** Non-Hispanic Asian or Pacific Islander
- **American Indian or Alaskan Native:** Non-Hispanic American Indian or Alaskan Native

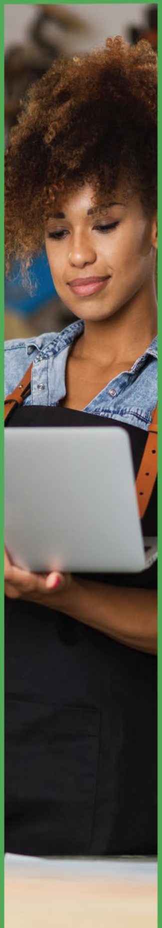
Notes: Percentages across response options may not sum to 100 within firm categories because of rounding. SBCS responses throughout the report are weighted using census data to represent the US small employer firm population on the following dimensions: firm age, number of employees, industry, geography, race/ethnicity of owner, and gender of owner. The SBCS uses US Census-defined categories of race and ethnicity. We use simplified, mutually exclusive race/ethnicity labels to indicate that more than 50% of the business is held by owner(s) of the given race/ethnicity.

Use of contract workers
(% of firms)



Appendix

Data table, definitions, and methodology



Data by year

(% of nonemployer firms)

	2017	2018	2019	2020	2021	2022
Share operating at a profit, end of previous year	43%	45%	43%	53%	28%	34%
Share with revenue growth, prior 12 months	41%	43%	44%	14%	31%	36%
Share with expectations of revenue growth, next 12 months	71%	68%	69%	43%	64%	62%
Share that expect to add employees over the next 12 months	--	--	--	26%	35%	34%
Share in poor or fair financial condition	--	--	--	70%	72%	69%
Share with outstanding debt	44%	46%	50%	58%	57%	53%
Share that applied for a loan, line of credit, or merchant cash advance	18%	20%	22%	15%	17%	28%
Share of applicants that were at least partially approved for a loan, line of credit, or merchant cash advance	61%	59%	63%	56%	52%	61%
Share that applied for pandemic related financial assistance	--	--	--	65%	62%	27%

Definitions: Financial services providers and lenders

Questions in the SBCS ask respondents about their use of and experiences with lenders and other financial services providers. Because respondents may not have a uniform understanding of the terms used in the SBCS, the questionnaire provides examples and explanatory information about the response options. The financial services providers, lenders, and lender categories referenced in the survey are defined as follows:

Category	Definition
Large bank, small bank	Large banks are defined as those with at least $10B in total deposits; small banks are those with less than $10B in total deposits. For applicable questions, respondents are shown a list of large banks operating in their state to assist them with proper classification of their institution.
Finance company	Finance companies are nonbanks that provide loans, leases, and other financial services. Examples include mortgage companies, equipment dealers, insurance companies, and auto finance companies.
Finance company that is not a bank	Examples include payroll services and payments processing companies, fintech lenders, and finance companies.
Financial institution or lender	This category includes all bank or nonbank financial intermediaries, such as banks, finance companies, online lenders, and credit unions.
Government funding sources	Examples include the Small Business Administration (SBA), the US Department of Agriculture (USDA), and state agencies.
Online lender/fintech lender	Online lenders/fintech lenders are nonbanks that operate online. Examples include OnDeck, CAN Capital, Paypal Working Capital, and Kabbage.
CDFI	Community development financial institutions, or CDFIs, are financial institutions that provide credit and financial services to underserved markets and populations. CDFIs are certified by the CDFI Fund at the US Department of the Treasury.

Definitions: Industry categories

Business support and consumer services

Includes NAICS codes: 56, 81

Examples of businesses: Barbers, business event planning, cleaning services, repair services, salons, spas, travel agencies

Finance and insurance

Includes NAICS codes: 52

Examples of businesses: Loan brokers, portfolio management firms

Healthcare and education

Includes NAICS codes: 61, 62

Examples of businesses: Counseling, day cares, dentists, professional training, sports instruction, tutoring

Leisure and hospitality

Includes NAICS codes: 71, 72

Examples of businesses: Bars, caterers, fitness centers, gyms, hotels, performing arts venues

Manufacturing

Includes NAICS codes: 31, 32, 33

Examples of businesses: Electronics manufacturers, engraving, packaging, print shops, textile manufacturers

Nonmanufacturing goods production and associated services

Includes NAICS codes: 11, 21, 22, 23, 42, 48, 49

Examples of businesses: Construction, farming, logistics, mining, taxis, wholesale suppliers and distributors, warehousing

Professional services and real estate

Includes NAICS codes: 51, 53, 54, 55

Examples of businesses: Book publishers, consulting, notaries, real estate agents, vehicle rentals

Retail

Includes NAICS codes: 44, 45

Examples of businesses: Boutiques, craft stores, ecommerce, grocers, hardware stores

Definitions: Time references

Survey questions in the SBCS ask respondents to reference specific time periods. Most questions ask about respondents' experiences in the 12 months prior to the time of their response. In some cases, questions ask about conditions at the time of their response. Finally, some questions ask about respondents' expectations in the 12 months following the time of their response. The time periods referenced in the survey are defined as follows throughout this report:

Prior 12 Months

The 12 months prior to the fielding of the survey. For the 2022 SBCS, this is approximately September–November 2021 through September–November 2022.

At Time of Survey

September through November 2022.

Next 12 Months

The 12 months following the fielding of the survey. For the 2022 SBCS, this is approximately September–November 2022 through September–November 2023.

Past 5 Years

The 5-year period leading up to the survey. For the 2022 SBCS, this is approximately September–November 2017 through September–November 2022

Methodology

DATA COLLECTION

The SBCS uses a convenience sample of establishments. A diverse set of partner organizations that serve the small business community contact businesses by email.[1] The Federal Reserve Banks also directly contact prior SBCS participants, and, in the past, have contacted other small businesses on publicly available email lists. The survey instrument is an online questionnaire that typically takes 6 to 12 minutes to complete, depending on the intensity of a firm's search for financing. The questionnaire uses question branching and flows based on responses to survey questions. For example, financing applicants receive a different line of questioning than nonapplicants. Therefore, the number of observations for each question varies by how many firms receive and complete a particular question.

WEIGHTING

A sample for the SBCS is not selected randomly; thus, the SBCS may be subject to biases not present with surveys that do select firms randomly. For example, there are likely firms not on our contact lists, and this may lead to a noncoverage bias. To control for potential biases, the sample data are weighted so that the weighted distribution of firms in the SBCS matches the distribution of the nonemployer firm population in the United States by age, industry, geographic location (urban or rural location), gender of owner(s), and race or ethnicity of owner(s). We first limit the sample in each year to only nonemployer firms.[2] We then post-stratify respondents by their firm characteristics. Using a statistical technique known as "raking," we compare the share of businesses in each category of each stratum (for example, within the industry stratum, the share of firms in the sample that are manufacturers) to the share of nonemployer businesses in the nation that are in that category.[3] As a result, underrepresented firms are up weighted, and overrepresented businesses are down weighted. We iterate this process several times for each stratum to derive a sample weight for each respondent. This weighting methodology was developed in collaboration with the National Opinion Research Center (NORC) at the University of Chicago. The data used for weighting come from data collected by the US Census Bureau.[4]

1 For more information on partnerships, please visit www.fedsmallbusiness.org/partnership.

2 Weights for employer firms are computed separately, and a separate report on employer firms is issued annually.

3 Age strata are 0–2 years, 3–4 years, 5–12 years, and 13+ years. Industry strata are nonmanufacturing goods production and associated services, manufacturing, retail, leisure and hospitality, finance and insurance, healthcare and education, professional services and real estate, and business support and consumer services. Race/ethnicity strata are Hispanic, non-Hispanic Asian, non-Hispanic Black or African American, non-Hispanic Native American, and non-Hispanic white. Gender strata are men-owned or equally owned and women-owned.

4 Data on industry and urban/rural location come from the US Census Bureau's 2019 Nonemployer Statistics (NES). USDA Rural-Urban Commuting Area codes are used to classify ZIP codes as urban or rural. Data on firm age come from the US Census Bureau's 2012 Survey of Business Owners. Data on the race, ethnicity, and gender of business owners are derived from the US Census Bureau's 2018 NES-D release.

Methodology (continued)

RACE/ETHNICITY AND GENDER IMPUTATION

Not every respondent provided complete information on the gender, race, and/or the ethnicity of their business's owner(s). We need this information to correct for differences between the sample and the population data. To avoid losing these observations, we use a series of statistical models to impute the missing data. Generally, when the models predict with an accuracy of around 80 percent in out-of-sample tests, we use the predicted values from the models for the missing data.[5] When the model outcomes are less certain, those data are not imputed, and the responses are dropped. After the models impute the data, we compare descriptive statistics of key survey questions with and without imputed data to ensure stability of estimates. In the final sample, five percent of nonemployer firm observations have imputed values for the gender, race, or ethnicity of a firm's ownership.

COMPARISONS TO PAST REPORTS

Changes to the questionnaire and weighting methodology limit over-time comparability on certain metrics. For example, the COVID-19 pandemic brought about substantial changes in funding needs and sources for small businesses. With changes in the small business credit environment, the Small Business Credit Survey questionnaire has evolved to better assess small firms' financing experiences. See the methodology of the Report on Employer Firms for a complete explanation of changes in the 2022 questionnaire.

5 *Out-of-sample tests are used to develop thresholds for imputing the missing information. To test each model's performance, half of the sample of nonmissing data is randomly assigned as the test group, while the other half is used to develop coefficients for the model. The actual data from the test group are then compared with what the model predicts for the test group. On predicted probabilities that are associated with an accuracy of around 80% are used, although this varies slightly, depending on the number of observations that are being imputed.*