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Live Small and Prosper: The State of Small Business

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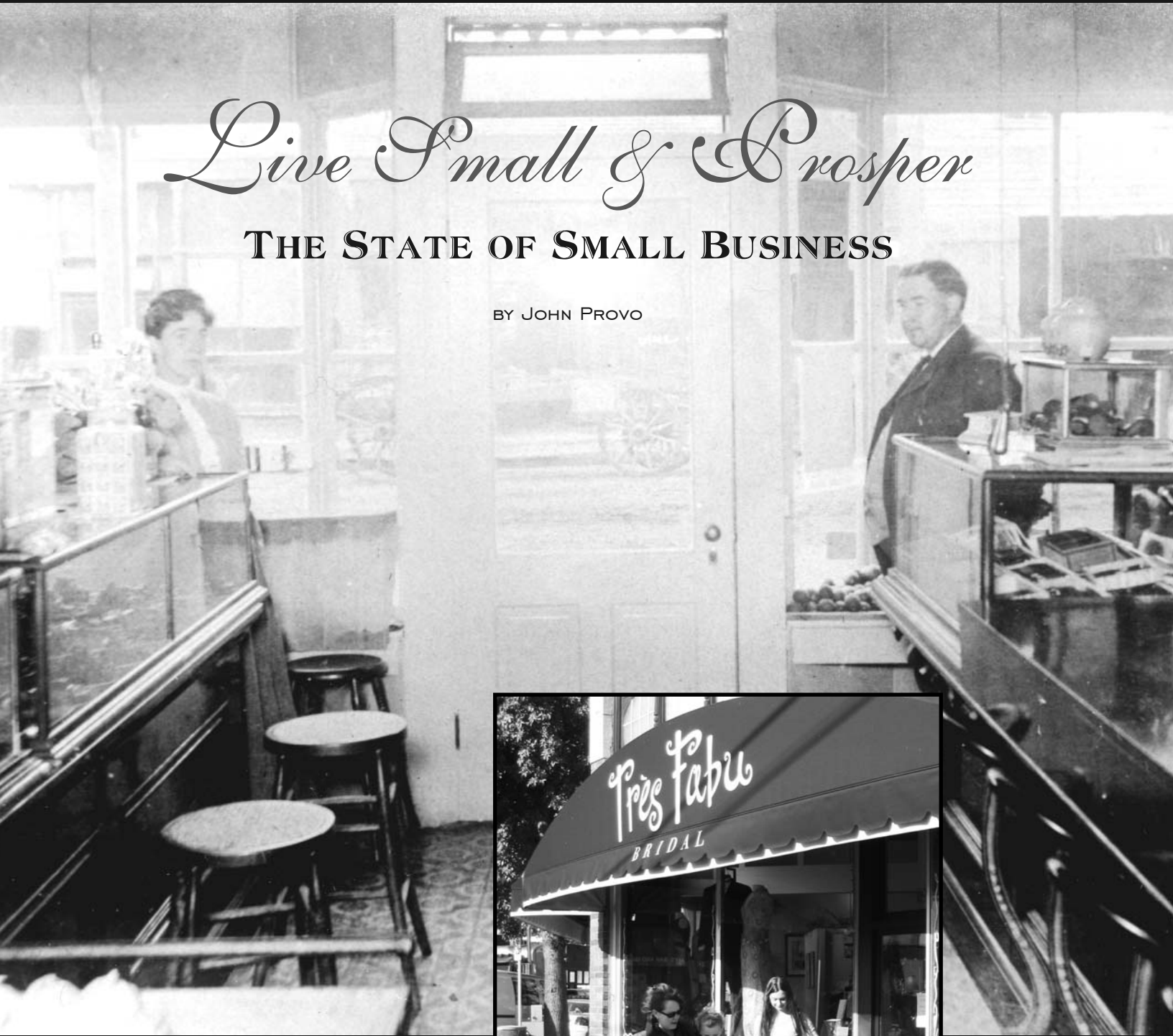
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Live Small & Prosper

THE STATE OF SMALL BUSINESS

BY JOHN PROVO



Above. Geneva and Lauren Pamateer, proprietors of Pamateer's Confectionary Store in the late 1800s. Courtesy of the Washington County Historical Society.

Right. Tres Fabu Bridal in Westmoreland. This building was for many years a Rexall Drug Store. Photograph by Nathan Meszaros



Think back just a few years to the go-go days of the New Economy in the 1990s. Entrepreneurship and self-employment were in. Small start-ups dreamed of and sometimes even succeeded in getting big booking for niche markets on the cutting edge of technology. We were becoming what Daniel Pink describes as a “Free Agent Nation,” one that no longer viewed lifetime employment with a major corporation as the norm.

Over much the same period artisan movements in a variety of fields from micro-brewed beers to small organic farms went national. The premium prices these products drew appealed both to the rising disposable incomes of the decade but also to the entrepreneurial urges of many. This urge was hardly new. From Ben Franklin's print shop to Jefferson's idealized yeoman farmer, entrepreneurship and small business have been an iconic part of America's economic landscape. But what do we know about small business today?

We know small businesses today as the well-spring of most jobs created in the country. Small businesses made up 99.7% of all employers, creating 109 million jobs or 50% of the private nonfarm workforce in the final quarter of 2002. Such figures may be in the mind of public officials and others as discussion of Oregon's economic recovery turns from looking for the next Intel to focusing on recruiting and retaining small-to medium-sized firms, as developer Jim Mark's Campaign for Oregon, a business recruiting partnership between the private and public sectors, is doing.

We also know small business as a pathway to the American dream, especially for many families that are new to this country. In fact, the rapid growth in the nation's minority (particularly Latino) population in the 1990s coincided with a 30% increase in minority-owned small businesses. Small business opportunities for minorities in the metroscape will become more important as our population continues to diversify.

And we also know that small businesses face numerous challenges that lead to high failure rates, which were up in 2002. While many of these challenges obviously stem from the national recession, the public sector is engaged in a great deal of soul-searching about whether government is helping or hurting small business. In particular, media accounts have harshly criticized the City of

Portland over issues addressed in the recently released *Portland Small Business Prosperity Strategy*, a report spearheaded by the Portland Development Commission (PDC) and Portland Business Alliance following a recommendation last year by Mayor Katz's Blue Ribbon Economic Development Commission.

The prospects for small businesses are frequently discussed in political circles as metropolitan Portland looks for a path through the current reces-

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sion. How are small businesses faring in today's metroscape? Addressing this question requires us to consider an even more obvious one – just what is a small business? In our region, it may be a self-employed artist showing at local galleries, a flower stand at a farmer's market employing a few unpaid family members, a professional office providing services to another small business that employs dozens of workers at hourly wages, or a small manufacturer with dozens of highly paid salaried employees producing specialized machinery for export.

While all the region's small businesses may share common concerns, unique problems vary according to industry, community, and owner experience. This article identifies some of the diversity and focuses particularly on the response of some of the region's local governments and non-profits.

The Face of Small Business: By the Numbers

According to the Small Business Administration (SBA) some 22.9 million small businesses in the United States accounted for \$9.5 billion dollars of Real Gross Domestic Product in the fourth quarter of 2002. In 2002, for the first time in 10 years the country experienced an actual decrease in the net number of small business employers, with a 9.6% increase in firm formation and a 10.4% increase in firm terminations. At the same time in 2002, the number of non-employer small businesses increased. This increase in self-employment is typical in a downturn, as laid-off workers or entrepreneurs looking to exploit niches created by closures of larger firms open low overhead “one-person shops.” In Oregon, firm formation in 2002 outpaced



The John Wiltse Fuel Yard at 82nd and Burnside, circa 1900. OrHi #020931

the nation at 13.2%, while unfortunately firm terminations also outpaced the nation at 14.8%.

Greater meaning may attach to those numbers if we understand just what qualifies as a small business. The SBA Office of Size Standards produces a 44-page table describing the federal government's definition in every industry by either maximum size in average annual receipts or average annual employment. Examples of small businesses range from 500 employees in machine tool manufacturing to 1,000 in computer terminal manufacturing, or from annual receipts of \$750,000 in nursery products to \$6 million in timber operations.

Notwithstanding these maximum sizes, nationally most small businesses employ fewer than 20 employees. More than five million firms – that is, some 89% of all small business employer firms – are in that size class. Add to that an additional 16.5 million non-employer firms, and the very smallest by far make up the bulk of the total number of firms identified as small businesses. However, in terms of employment and payroll, the smallest firms provide only 18% and 15%, respectively, of the national totals (U.S. Census Bureau, *Census of U.S. Businesses*, 2000).

How does the six-county Portland-Vancouver Metropolitan Statistical Area figure in terms of these characteristics? In 2000, the region's 47,944 small businesses employed 866,032 workers and generated \$31.7 billion in payroll. Close to the national average, 85% of metroscape firms employed fewer than 20 workers. The industry mix also resembles the national profile. Construction and professional services lead the Portland region in the share of small firms, with manufacturing leading in terms of employment and payroll.

Minority- and women-owned businesses represent an important area where we lack timely and detailed

national data that can be compared across regions. The latest available figures are from the 1997 *U.S. Census Survey of Minority Owned-Business Enterprises* and the 1997 *Census Survey of Women-Owned Businesses*. While minorities made up 30.9% of the total U.S. population in 2000, they owned just over 14% of all non-farm U.S. businesses in 1997. While 50% of the U.S. population is female, in 1997 they owned 26% of all non-farm businesses, or 5.4 million firms. In the metroscape, the minority population was 13% of the total, and minority-owned firms made up 8% of businesses. The region's 47,904 women-owned businesses in 1997 represented one-third of the region's total number of firms.

Nationally, 20% of these firms had employees, while the figure for all small U.S. firms was 26%, with an average of seven per firm and average payrolls of \$21,160. Average figures for the metroscape were 21 employees and \$28,742 in annual payroll for all businesses. As was the case with all small businesses, leading industry sectors were in services, retail, and construction. Of the women-owned businesses nationally, 847,000 were employer firms employing a total of 7.1 million employees and generating \$818.7 billion in revenues. Leading industry sectors were retail trade and services. Within the metroscape, retail trade and services led industry sectors for all minority groups and women. Growth in minority- and women-owned businesses in the 1990s was sizeable, with increases between 1992 and 1997 of 30% for minorities and 16% for women, compared with a 6% increase in the number of all U.S. firms. In the case of minority-owned businesses, these figures have tracked with or often exceeded the growth in population for all minority groups. So, the dramatic minority population growth evidenced in the 2000 Census may signal

continued growth in minority-owned small businesses. This hypothesis can be tested when the Census Bureau releases figures from the 2002 Survey of Minority-Owned Business Enterprises.

In addition to the lag time between Census surveys of minority- and women-owned businesses, other significant limitations affect the data presented above. It is important to note that the data exclude agriculture. The state's \$500 million nursery products industry is centered within the metro-scape and consists of more than 1,000 mostly small and locally owned firms employing more than 10,000 workers. Further, Census figures from 2000 do not capture recent regional economic turmoil.

Business Challenges in the Metro-scape

Among the top challenges identified in the Portland Small Businesses Prosperity Strategy were working capital and cash flow as well as health care costs and accessibility. The national recession has eroded the revenues of large and small firms alike, making the cost of health insurance a particular challenge for small businesses that lack the bargaining power of larger firms. The Portland Business Alliance, which emerged in 2002 from the merger of the downtown-based Association for Portland Progress and the Metropolitan Portland Chamber of Commerce, is currently looking at ways to address this issue as well as others. One of its recommendations is to organize and build a voice for small business, in part through the creation of a new area-wide council representing a range of existing stakeholders, a merger of separate Portland Development Commission and Office of Neighborhood Involvement positions into a new Mayor's Office of Small Business, and various efforts to raise the profile of small business within the Portland Business Alliance.

The Prosperity Strategy also identified sources of strength for small business including community support, the business owner's own personal choice to live in the region, and the presence of certain target markets within the region. Tye Steinbach, owner of Thinker Toys and President of the Multnomah Village Business Association, noted that Portland small business has done well historically. Javier Dias, owner of Cha! Cha! Cha! Mexican Taquerias, chose to stay in the area after attending school at Portland State. He complimented the neighborhood associations in his several locations for "bringing flowers when we open, advertising the opening in their newsletter, and bringing their friends by to come and eat." Gary Livermore, who owns the Livermore and Associates structural engineering firm, cited the

region's population growth and high tech industry as sources of activity in the construction industry, which his firm serves.

Portland City government has received some of the harshest criticism about its handling of small business issues. Respondents to the Prosperity Strategy survey cited business taxes as a key challenge, and focus groups characterized the City's approach to interactions as regulatory. Steinbach noted the occasional case of regulatory overkill, arguing that "the city is more involved in nitpicking



A soon-to-be-opened Cha! Cha! Cha! taqueria in the Westmoreland neighborhood in southeast Portland. Photography by Nathan Meszaros

details than they should be.” But he takes issue with critics of the recent business license fee surcharge, identifying support targeted for schools as important. Javier Dias described dealing with the city as a nightmare. “Every time I go there I deal with someone different, and they tell me something different.”

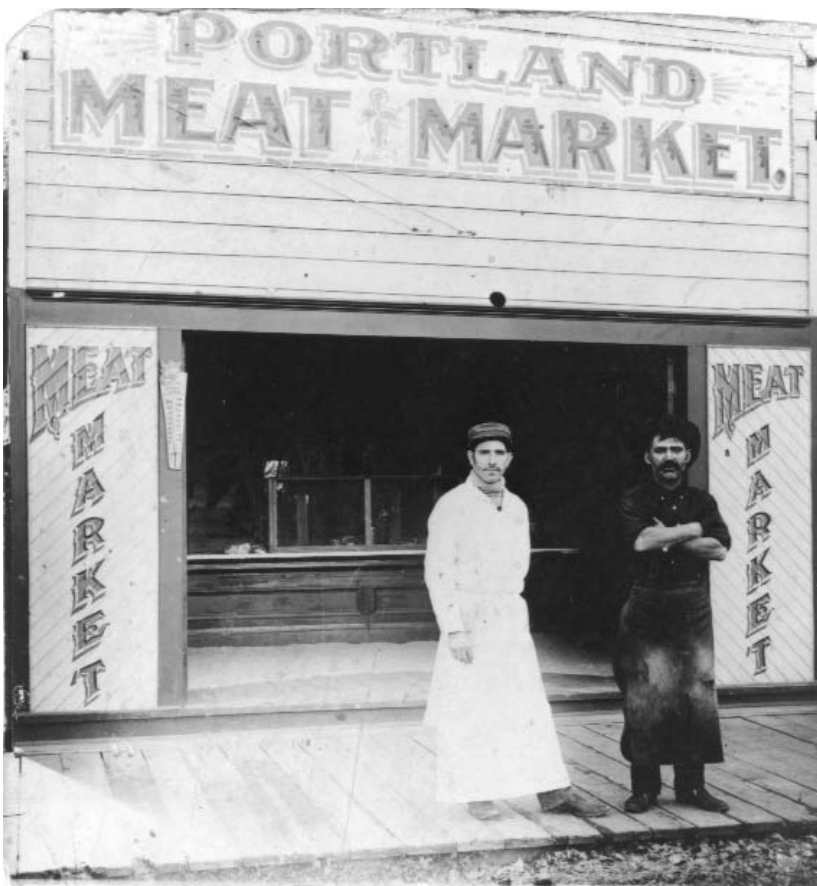
The Prosperity Strategy survey results note that suburban localities do not feel the need to differentiate between large and small business, as they focus on providing excellent service across the board. Shelly Parini, Business and Industry Affairs Manager for the City of Gresham, manages programs to assist small manufacturers and to target small commercial businesses in the economically distressed Rockwood neighborhood for outreach and assistance. She describes a pro-active partnership with businesses. While most of the firms that her department has worked with are small, she notes that even small firms are becoming more discriminating customers of government services because they realize that there is competition for their business.

Roy Jay, Chairman of the African American Chamber of Commerce and a small business liaison for City Commissioner Randy Leonard, expressed skepticism about the ability of any one organization to represent distinct voices and to provide services that would be valued by members not just of minority chambers but of outlying business districts as well. Questioning Portland's proclivity to commission studies, he is looking to Commissioner Leonard to “come in and take the bull by the horns” on business climate issues.

The Prosperity Strategy leaves it up to organizations to identify themselves as “small businesses.” The full breadth of recommendations within the document (available on line at www.portlandalliance.com) includes issues related to voice or advo-

cacy, areas of technical assistance, marketing/networking, contract opportunities, alternative financing, cash flow, and permitting/regulation. Following these recommendations can provide benefits for small businesses as broadly defined, while providing the greatest return for the smallest businesses.

Other efforts have explicitly focused on business of a particular scale or industry. The Oregon Microenterprise Network (www.oregonmicrobiz.org/) connects statewide organizations



A Mr. Peter Davis (left) in front of the Portland Meat Market, date unknown. OrHi #72183

with fewer than five employees and with capital needs under \$35,000, including several in the metroscape that provide technical assistance or working capital to businesses, often home-based or part-time. These businesses provide an opportunity for low-income households to become more self-sufficient.

An industry focus that has sometimes intersected with small businesses typifies much of the region's economic development dialogue since the 1990s. With a few notable exceptions, such as the advertis-



Shopping in Westmoreland a small business district that has a mix of old and new businesses.
Photograph by Nathan Meszaros

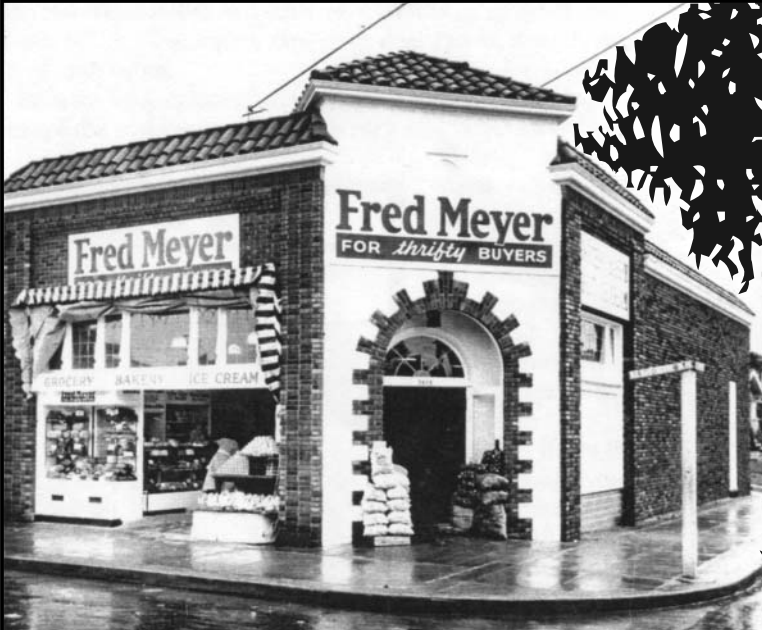
ing firm Weiden and Kennedy, the region's creative services industry cluster consists of many self-employed. Creative services was a target for Portland Development Commission (PDC) support, including construction of a Creative Services Center. Regionally the industry suffered with the drop in demand for advertising and related services during the recession, and the PDC is considering relocating its headquarters to save funds. The nursery products industry cluster, which consists almost exclusively of small firms, has a long regional and statewide history. Their industry group, the Oregon Association of Nurserymen, has one of the better-organized lobbies in Salem. Demand remains strong for Oregon nursery products, which are shipped nationwide.

Combining scale and industry focus, Starve-Ups (www.starveups.com) is a Portland-based organization that has been featured nationally in Entrepreneur Magazine. Member firms are in "idea" industries, providing on-line services, content, and software development. Unlike many business associations, membership is only open to the founders, management, and core team members of the companies. Eliminating vendors and suppliers from their membership creates an atmosphere of confidentiality and trust where members can exchange ideas and critique business plans and proposals with candor.

Another area of concern for small business development has been a focus on racial or ethnic minorities or specific geographic areas that are economically distressed. Recent examples in the Portland region include work by the Seattle-based Cascadia Revolving Loan fund, which partnered with Albina Community Bank, TriMet, and others to offer loans and technical assistance to businesses in the Interstate Corridor during light rail construction. Another area of concern in the region has been the west Gresham neighborhood of Rockwood. The City of Gresham's business assistance program specifically targets commercial enterprises in that area, and the East County One Stop has worked on self-employment projects in Rockwood.

A number of organizations, such as the Oregon Association of Minority Entrepreneurs, and various minority chambers of commerce provide a variety of technical assistance and networking services to their member small businesses. The African American, Metropolitan Hispanic, and Filipino Chambers of Commerce gained national media attention after winning an open bidding process against the Portland Business Alliance for a contract to manage the city-owned Smart Park

THEN & NOW



The Fred Meyer Grocery Store at SE 36th and Hawthorne in 1936. The building now houses the Bread and Ink Cafe. OrHi #005936

Photograph by Nathan Meszaros

Garages. The African American Chamber's Roy Jay sees this as a message that private sector may have underestimated the capacity of the region's minority businesses. The Metropolitan Hispanic Chamber's Gale Castillo described Oregon as "10-to-15 years behind most western states in understanding what working in a diverse community means." However, she sees strength in the region, observing that "people see Oregon as a great place to institute programs and best practices." The City of Hillsboro and the Hillsboro Chamber of Commerce also have made an effort to respond to the rapid growth of the Hispanic community in western Washington County. Along with targeted outreach to Latino business people, they are making existing services available in ways that are linguistically and culturally accessible.

We know that the current economic climate for small business is nothing like it was in the 1990s. With a recession hitting this tech heavy region harder than most, economic development professionals often speak of a return to fundamentals. By this they mean that policy discussions are focusing on basic business climate issues like taxes and permitting processes. The diverse nature of the region's small businesses may mean that priorities and details of specific proposals, such as revisions to Portland's business license tax, are liable to raise differences among small businesses of different scale or in different industries. At the same time, local governments in the region obviously differ in scale. Thus, while some suburbs whose business community consists primarily of small business can more uniformly address concerns, the City of Portland has to face the problem of sorting out the needs of its diverse population of individual firms and the thick institutional infrastructure that has grown up around them. In either case, the place of small business in the regional economy likely will remain a focus of attention for policymakers and planners in good times or bad. ■

John Provo is a Ph.D. candidate in Urban Studies at Portland State University.