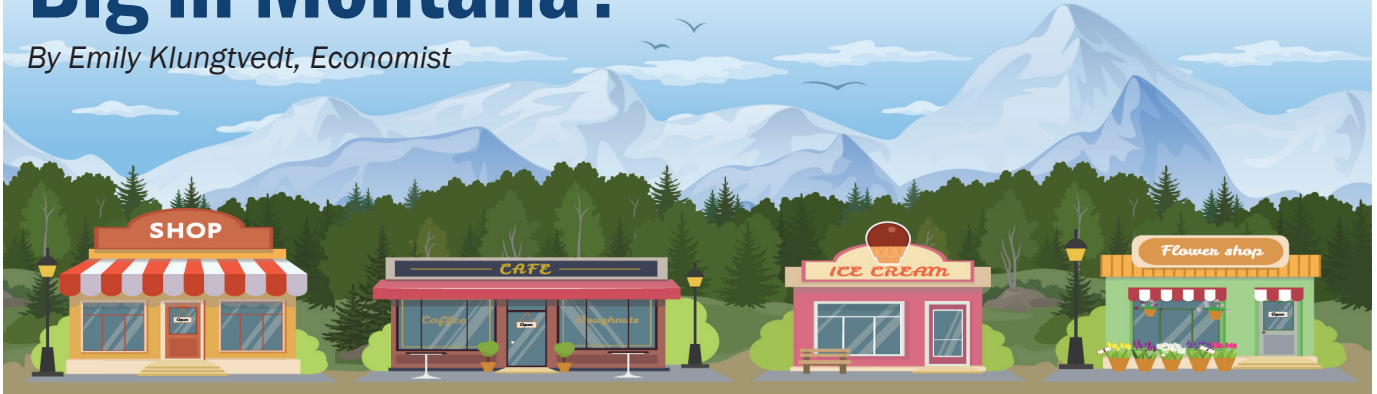


Is Small Business Big in Montana?

By Emily Klungtvedt, Economist



Many policy and economic debates center around small business and their role in the economy. State and community leaders often talk about how policies will help or hurt small business. Major labor and business regulations exempt small business. These discussions and policy decisions, especially in Montana, stem from the idea that small businesses provide a significant number of good-paying jobs and promote entrepreneurship. But how large a role do small businesses actually play in Montana's economy? What exactly does it mean to be a small business? What type of industry is best suited for small business? The answers to these questions are important for a full understanding of the role of small business in Montana.

Most Businesses in Montana are Small

It's common for people to think of a small business as one that only employs a handful of workers in one location, such as a local diner or a local ski shop. However, most standardized definitions define a small business as being larger. A common practice in federal government is to define a small business as any business with less than 50 employees. Alternatively, the Small Business Administration (SBA) lists 500 employees, with some adjustments based on industry.

Another common assumption people make when thinking of business size is that business chains, such as Starbucks and Walmart, are counted as large businesses. This assumption is only true if businesses are defined by the enterprise level, meaning that all of the employment in every

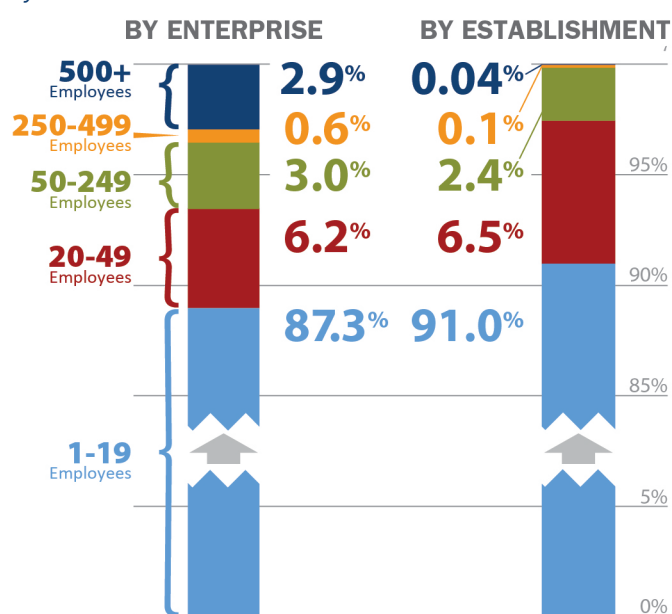
Walmart throughout the entire United States is counted towards business size. This definition also means that all Walmart stores are counted as one large business. Therefore, by enterprise, 97% of businesses in Montana are small by the Small Business Administration definition (less than 500 employees, nationwide), and 94% are small based on 50 employees or less (see **Figure 1**). Counting the number of businesses at the enterprise level is the best count of the stereotypical small business, where Starbucks and Walmart are large businesses, and the local brewery and downtown boutique are small businesses.¹

However, a business may be large on the national scale, but have a small presence in Montana. For example, a large national bank may have one small

¹ Enterprise data for number of businesses comes from the U.S. Census Bureau, *Business Dynamics Statistics*, 2014.
Enterprise data for number of employees and wages comes from the U.S. Census Bureau, *Quarterly Workforce Indicators*, 2015.

branch in Montana that employs 20 people. This bank would be considered small if counting based on establishment size, meaning that each physical location of a business is counted as a separate business. Using Walmart as an example again, Walmart is counted as one very large business when counting enterprises, but it's counted as many separate and smaller businesses if counting by establishments.

FIGURE 1:
Number of Enterprises vs. Establishments
by Size



Source: Enterprise data: U.S. Census Bureau, Business Dynamics Statistics, 2014.
Establishment data: Quarterly Census of Employment and Wages, 2015.

Figure 1 also shows the number of establishments by establishment size. Over 99.9% of all establishments have fewer than 500 employees, and 98% have fewer than 50 employees.² Comparing the two different measures of business size, establishment counts make small businesses appear to play a larger role in Montana's economy, despite the fact that some small establishments are simply smaller branches of a larger corporation.

No matter the definition, Montana's businesses are small; especially because the statistics shown in **Figure 1** only include private businesses with at least one employee. They do not include the 86,000 self-employed or family-owned firms in Montana that would add even more to the number of small firms.³ This article will focus on businesses with at least one employee.

Employment and Wages of Small Businesses

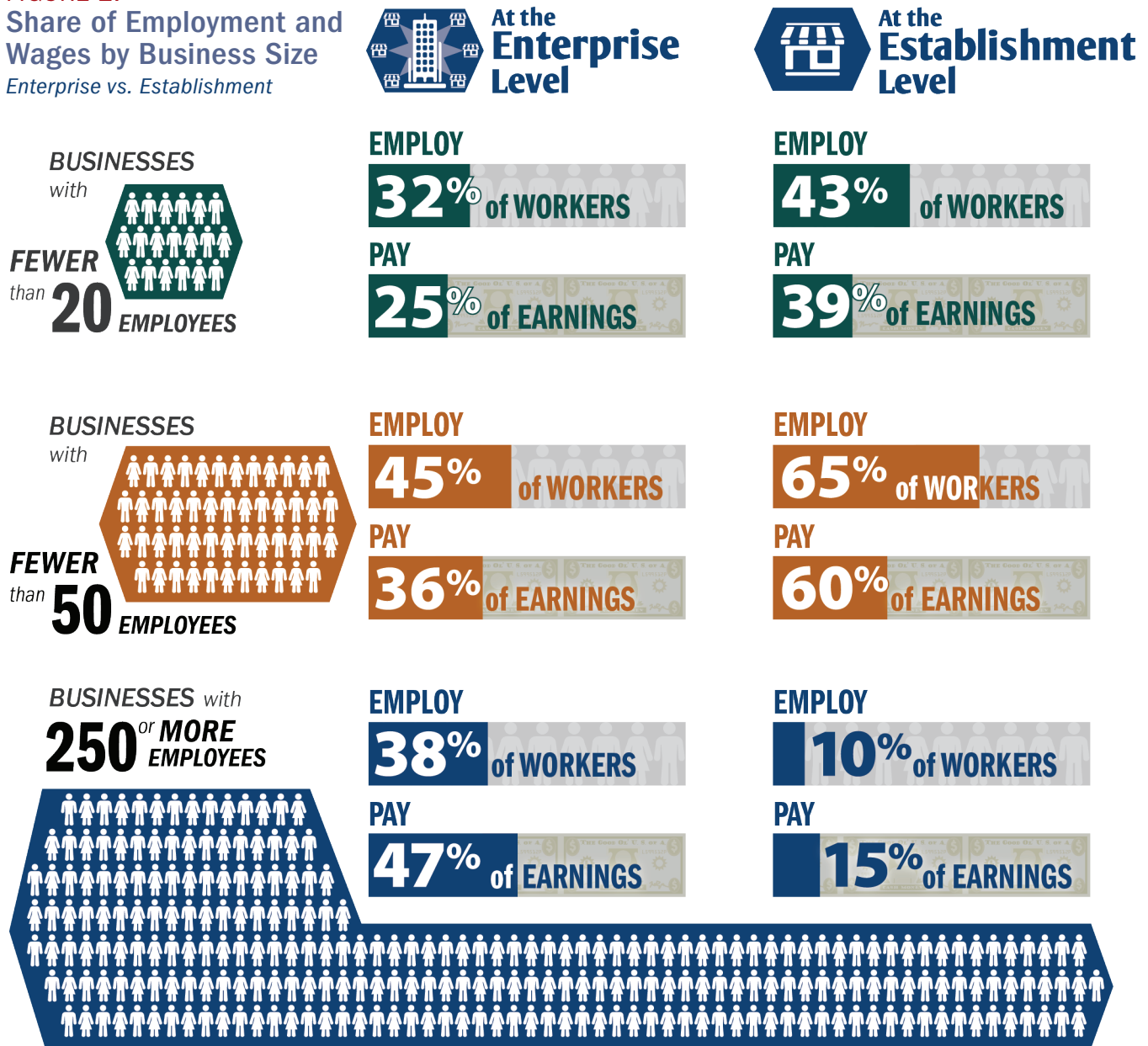
Although it may seem as though small businesses drive Montana's employment and wages, only 32% of people work in businesses where the enterprise has fewer than 20 employees, and these businesses pay 25% of all earnings. Enterprises with fewer than 50 employees make up 45% of all Montana jobs and pay 36% of all earnings. Both statistics suggest that small businesses provide lower wages on average. In fact, 2015 average annual earnings in Montana were \$28,464 for jobs in small enterprises (less than 20 employees) compared to \$46,077 for large enterprises (greater than 250 employees).

Employment and wages based on establishment size again suggest a greater importance on small business activity in Montana compared to the enterprise statistics. Forty-three percent of employees work in establishments with less than 20 employees, and 65% work in establishments with fewer than 50 employees. These statistics reemphasize that some small business establishments are connected to a larger corporation. **Figure 2** shows the share of employees and wages by business size grouped by both the enterprise and establishment level. The remainder of this article will focus on establishments, and small establishments will be defined as fewer than 20 employees.

² Quarterly Census of Employment and Wages (QCEW), 2015. Business size is based on average employment over the year.

³ United States Census Bureau. 2014 Nonemployer Statistics.

FIGURE 2:
Share of Employment and Wages by Business Size
Enterprise vs. Establishment



Source: Establishment data from Quarterly Census of Employment and Wages, 2015. Enterprise data from U.S. Census Bureau. Quarterly Workforce Indicators, 2015.

Business Size by States

Montana has a larger share of small businesses compared to other states. By state, only Wyoming has a higher share of establishments with fewer than 20 employees, at 91.3% of all establishments. Montana's share of small business is 91.2% of all establishments. California is third, at 90.9%. However, there is a relatively small difference between all fifty states as the lowest share is 84% in Ohio.⁴

⁴ All state comparisons and industry statistics for establishments from the Bureau of Labor Statistics, Quarterly Census of Employment and Wages. 2016. The BLS calculates business size based on employment in March.

While small business establishments make up less than half of Montana's overall employment, that share is significant compared to other states. In the U.S. as a whole, small businesses account for only 27% of total employment, compared to 43% in Montana. Small businesses in Montana also pay 39% of all wages, compared to 21% in the U.S. While Montana's small businesses account for an outsized share of the state's employment and wages, on average they are much smaller and pay less than U.S. establishments. **Figure 3** shows the number of small establishments and their employment and wages for the five states with the highest share of small establishments, for nearby states, and for the U.S.

The rural nature of Montana is one explanation for a high share of small business employment. As a large state with small cities and towns, Montana's consumers are less concentrated. In a single city, there are a limited number of customers that an accounting firm, coffee shop, or other business can serve. Colstrip and other rural towns have small populations with a very small customer base. Even Billings and Montana's larger cities have significantly fewer customers than Denver and Seattle. However, the rural nature of Montana does not completely explain why Montana has a relatively high share of small businesses compared to other states. Other factors contribute to the lack of employment in large businesses in Montana.

FIGURE 3:
Number of Establishments with Fewer than 20 Employees

	TOTAL ESTABLISHMENTS			EMPLOYMENT		WAGES	
	Number	Percent	Rank	Percent	Rank	Percent	Rank
FIVE STATES WITH THE HIGHEST SHARE OF SMALL ESTABLISHMENTS							
Wyoming	22,413	91.3%	1	44.2%	1	38.9%	1
Montana	39,337	91.2%	2	41.8%	2	38.5%	2
California	1,280,659	90.9%	3	28.3%	23	20.0%	39
Maine	44,205	90.5%	4	33.9%	4	30.2%	6
Washington	213,553	89.9%	5	28.0%	24	19.0%	45
SELECT STATES							
Idaho	49,030	89.8%	7	33.5%	5	31.0%	3
Oregon	124,948	89.2%	11	32.9%	8	25.5%	17
S. Dakota	26,889	88.7%	18	33.2%	7	30.2%	7
Colorado	165,199	88.4%	21	29.1%	17	25.5%	18
Nevada	70,788	88.0%	28	25.3%	39	25.7%	15
N. Dakota	26,253	87.9%	29	32.4%	9	28.7%	9
Utah	79,385	87.8%	30	27.4%	27	24.0%	24
U.S. TOTAL	8,222,941	88.2%		26.5%		21.0%	

Source: Bureau of Labor Statistics, *Quarterly Census of Employment and Wages*, 2016.

Small Businesses by Industry

By industry, Retail trade (6.4% of all employment), Accommodation and food services (4.8%), and Construction (4.2%) have the greatest number of people working in small businesses. These industries are some of the top employing industries in the state, so it makes sense that they also make up a large share of small business employment. However, these industries also make up a higher share of small business employment than the U.S., suggesting these industries are more reliant on smaller business in Montana. **Figure 4** shows the comparison.

FIGURE 4:
Small Business Share of Employment by Industry
As a Percentage of Total Employment and of Total Industry Employment

Industry	Total Employment	Small Business Share of Total Employment	Small Business Share of Industry Employment		
			MT	US	Difference
Health care and social assistance	65,521	4.0%	22.1%	22.5%	-0.4%
Retail trade	57,773	6.4%	39.8%	31.9%	7.9%
Accommodation and food services	49,276	4.8%	34.5%	25.0%	9.6%
Construction	23,493	4.2%	64.2%	39.0%	25.3%
Professional, scientific, and technical services	21,420	3.6%	59.9%	35.6%	24.3%
Manufacturing	19,137	1.7%	32.6%	10.6%	21.9%
Wholesale trade	17,191	2.5%	51.4%	34.3%	17.1%
Other services (except public administration)	17,070	*	*	57.5%	*
Administration and support and waste management and remediation services	15,595	2.0%	46.0%	18.3%	27.7%
Finance and insurance	15,060	2.2%	52.1%	30.9%	21.2%
Transportation and warehousing	12,057	1.3%	39.4%	16.9%	22.5%
Arts, entertainment, and recreation	11,041	1.4%	46.2%	21.1%	25.1%
Mining, quarrying, and oil and gas extraction	6,452	0.4%	22.4%	19.4%	3.0%
Information	6,311	*	*	16.7%	*
Educational services	5,279	0.5%	32.5%	14.0%	18.5%
Real estate and rental and leasing	5,222	1.1%	78.6%	53.8%	24.9%
Agriculture, forestry, fishing and hunting	4,769	1.0%	78.0%	34.2%	43.8%
Utilities	3,012	0.2%	24.6%	12.1%	12.5%
Management of companies and enterprises	2,046	0.2%	37.7%	9.1%	28.5%
Total, all industries	357,885	41.8%	41.8%	26.5%	15.3%

Note: small businesses defined as establishments with 1-20 employees.
Source: Bureau of Labor Statistics. Quarterly Census of Employment and Wages. 2016.

*confidential data

Montana's industries that comprise the most small businesses are Real estate (small business employment makes up 79% of all Real estate employment), Agriculture (78%), and Construction (64%). Compared to the U.S., these industries have a much higher share of small businesses in Montana. For example, only 54% of all U.S. real estate employment is within a small business.

Figure 4 shows these comparisons as well.

There are many explanations for Montana's greater reliance on small business in these particular industries. As already discussed, Montana's rural nature and widely dispersed population does not always allow for large Real estate, Construction, and Accommodation and food service businesses to thrive in smaller towns due to the limited number of customers. The rural nature could also mean a greater share of construction projects are on a smaller scale.

Entrepreneurialism also plays a role in the number of small businesses, as Montana is one of the top states for entrepreneurial activity. For example, Montana is ranked first in the nation for the rate of business openings, at 7.4% of existing businesses in 2015.⁵ Entrepreneurialism combined with low startup costs, particularly in construction and real estate, lead to more small businesses. Small businesses in the Retail trade and Accommodation and food services industries also flourish due to

Montana's tourism. National parks and abundant recreation activities provide a great opportunity for entrepreneurs to open local restaurants and specialty "Made in Montana" retail shops.

Montana's larger businesses come from Mining, Utilities, and Health care. These industries generally have higher startup and fixed costs, making it harder for small, startup businesses to enter the industry. Increasing economies of scale in these industries lead to the formation of larger and larger businesses.

Conclusion

Montana's businesses are small, especially when compared to other states. These small businesses provide more jobs and wages than other states, implying that Montana has a higher reliance on small business than elsewhere. This higher reliance is partially because of Montana's rural nature and widely dispersed population, and partially due to Montanan's high level of entrepreneurialism. However, while small businesses play a key role in Montana's economy, large businesses also provide a significant amount of jobs and tend to pay higher average wages. Overall, Montana's businesses are small, and having this basic understanding of what they are, how many jobs they provide, the amount of wages paid, and what type of businesses they are, can help guide policy discussions.

⁵ Bureau of Labor Statistics. *Business Employment Dynamics*, 2015.

