Should Microbusinesses Matter to Your Local Community?

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Microbusinesses are, by definition, small enterprises. But in sum, they form a sizable portion of the country’s economic growth, according to a report released by the Association for Enterprise Opportunity, or AEO, which is titled Bigger Than You Think: Economic Impact of Microbusinesses in the United States. The report posits that the size and impact of the microbusiness sector deserves attention, and that local communities should seek to foster the growth of their own microbusiness sectors.

We're speaking today with Kim Alleyne, senior director of communications and marketing at the Association for Enterprise Opportunity. AEO is a national membership organization for microbusinesses, and it supports the development of U.S. microbusiness initiatives to assist underserved entrepreneurs in starting, stabilizing, and expanding businesses. Welcome, Kim.

Let's start with a little clarification of terminology. What is AEO's definition of a "microbusiness," and how has the landscape of microbusinesses across the United States evolved?

Kim Alleyne: AEO defines microbusinesses as enterprises with five or fewer employees, including the owner, and actually 92 percent of all U.S. businesses are microbusinesses. What we've observed is that microbusiness continues to be a feasible and often necessary solution for individuals who are part of the long-term-unemployed population, or for whom the nation's precarious economy and mercurial labor market simply no longer serve. We've also noted that microbusiness is an attractive option for any business owner, as it cuts across racial, ethnic, and gender lines, and also age. In fact, all ages are represented in microbusiness with a median age of 50-plus.

Grover: Kim, can you provide some background on the report? What was the impetus for this report?

Alleyne: AEO released a report in 2011 titled The Power of One in Three: Creating Opportunities for All Americans to Bounce Back, and that report showed that if one in three Main Street microbusinesses hired a single employee, the United States would reach full employment. Now, that's a very powerful and it's also a very accurate statement, and we’ve known that microbusinesses make substantial contributions to local economies across America and also to the country's economic employment health. At the same time, we recognized that there was a substantial data gap on microbusinesses. So the report Bigger Than You Think is actually our answer to that data gap.

Grover: What were the key findings in the report? And, maybe you could talk too about some of the segmentation that the report uses to look at microbusinesses. Can you describe that typology and why it's maybe helpful for us to learn and think about how to categorize microbusinesses?

Alleyne: First, I'll answer the question about the key report findings. Our report offers evidence that microbusinesses create a variety of economic impacts producing residual effects on families that cut across racial, ethnic, and gender lines. As I mentioned, based on previous insights, we’ve long understood that microbusinesses are very vital vehicles that put the unemployed to work and help families achieve economic self-sufficiency, and they also help to narrow America's wealth gap. But this new report really serves to buttress our existing knowledge and field experience.

We did develop a typology for the report to categorize microbusiness owners using common characteristics. There're five segments there. The typology does a great job of identifying unique traits, particularly related to sales and receipts and income. For an example, the biggest group of microbusinesses includes owners who work full-time with less than $50,000 in annual sales and receipts. These owners actually account for more than 30 percent of microbusinesses in the country. The next largest type is full-time who make more than $50,000 in annual sales and receipts, and that accounted for 28.6 percent in that segment of our typology.

The typology gives us a very clear and definitive picture of who America's 25.5 million microbusiness owners are and how they are faring in terms of entrepreneurship, and that is extremely helpful, particularly for policy and advocacy efforts.

Grover: Not everyone has the skills and expertise to become an entrepreneur and maybe take a business from concept to reality. What does the report show in terms of success rates based on entrepreneur type?

Alleyne: The great thing that we learned from the Bigger Than You Think report is that there are very low barriers to entry for microbusiness, and so the field for microbusiness owners is very level, it's very even. Main Street microbusiness owners tend to come from an underserved community or groups such as women, African-American, Latino, veterans, or residents of rural communities.

We see that the outcomes are really dependent on how much time an owner is investing in his or her enterprise, such as the part-time or full-time segments that I referenced with the typology. For some, their enterprise is a primary source of income while for others it’s a secondary source of income. So it really depends on the goals and needs of the entrepreneur. But we did learn that it really doesn't matter what type of background you come from, particularly with education, you can be a college graduate or not. You can still own a microbusiness, and you can still succeed.
Grover: The Federal Reserve community development function is focused on solutions and best practices related to workforce development. What did the report uncover in terms of how microbusinesses can provide viable job opportunities, and are there certain population segments that benefit the most from these types of employment arrangements?

Alleyne: As I mentioned before, more often than not microbusiness owners typically represent underserved populations. For these populations, microbusiness offers a very solid path to financial independence. It gives them an opportunity to find self-sufficiency, opportunities to create wealth, and, perhaps the most important, job creation. Microbusiness is a job creation agent.

We see, and with particular populations that are benefiting, women heads of households and also families who tend to be vulnerable to social inequities, these groups can find success in microbusiness. Self-employment offers job stability and financial autonomy for economically deprived families. So those who don't necessarily or have not historically benefited from economic gains when the economy was doing very well, we see that these people reap great benefits from entrepreneurship. And according to our typology, the characteristics of the newcomer type, which is a younger median age, more likely are women and people of color. And so microbusiness can be an especially significant economic activity for these particular demographic groups that have suffered most during times of recession and sluggish economies.

Grover: I have two questions to wrap up with: What are the implications of this report for local governments and economic development professionals? And how can these groups better support microbusinesses in their own communities?

Alleyne: First, and another piece of data that the report revealed, is that in 2011 microbusinesses contributed $135.5 billion in tax and fee revenues to federal, state, and local governments. So clearly America's microbusinesses, all 25.5 million of them, comprise a very vibrant and vigorous community, and that community actually plays a very outsized contribution to our national economy, but also to local economies.

I think this report really hits home that microbusiness warrants the attention and investment of local governments and also economic development professionals simply because it's important that they ensure that there are programs in place locally and also opportunities in place that bolster equity and inclusion. That looks like access to contract opportunities, that looks like relationships in the community with lenders and other microbusiness and entrepreneurship professionals, and it looks like access to affordable capital. Essentially, when equity and inclusion are the norm, we see business growth locally, we see vibrant local economies; everybody wins, and most important, Main Street U.S.A. wins.

Grover: Kim, I want to thank you for speaking with us today. This concludes our podcast. We've been speaking with Kim Alleyne with AEO.

Strategies around small business creation will be one of the topics covered at the International Economic Development Council's annual conference on October 19-22 in Fort Worth, Texas. More information is available on the IEDC website. We hope you will join us there.

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