

7.12: Understanding Small Businesses

Learning Objectives

- Define small business

The US Small Business Association, referred to as the “SBA,” is the go-to source for all things small business—including the statutory definition of a small business. Classification as a small business is determined by size standards—either number of employees or revenue—based on industry. Specifically, size standards are based on the 6-digit “NAICS” or North American Industry Classification System code that describes a business’s economic activity. Note that the form or legal structure of a business (e.g., sole proprietor, limited liability corporation (LLC), partnership, or corporation) is not a factor in determining whether an enterprise is a small business.



For manufacturing businesses, the standard is generally the number of employees, with maximums ranging from 500 to 1,500. For example, the employee maximum for a commercial bakery is 1,000 and for a business brewery, it’s 1,250. For non-manufacturing industries—think retailers and wholesalers—the standard is based on a three-year average of annual revenue, with the maximum ranging from \$750,000 for agriculture enterprises to \$38,500,000 for Electronic Shopping and Mail-Order Houses, Hospitals and Building Material and Garden Home Centers.

The small business size standard for professional services (NAICS prefix 541) ranges from \$7,500,000 for Architectural Services to \$38,500,000 for Military and Aerospace Engineering. Research activities are subject to an employee standard. Financial institutions are an exception to the employee or revenue rule; commercial banks, savings institutions and credit unions are subject to a \$550 million asset limitation. Clearly, small is relative! Note that size standards change periodically (above data is current as of October 2018). For the most recent criteria information, refer to the source: [Code of Federal Regulations \(eCFR\) Part 121-Small Business Size Regulations](#), Section 121.201; direct link: [Small Business Size Standards by NAICS Industry](#)

Another determination option is to use the [SBA’s interactive Size Standards Tool](#). This tool is designed to answer the question “Are you a small business eligible for government contracting?” The tool provides a determination of either Yes (“you may be”) or No, with the relevant small business size standard. To use this tool, you need to know your NAICS code or codes (multiple selections allowed). You can use the search tool on the census.gov site to determine the NAICS code(s) associated with your primary business activity (activities).

As alluded to above, classification as a small business matters because the SBA size standard is used to determine whether a business, including any affiliates or subsidiaries, is eligible to participate in SBA and federal contracting programs. This eligibility can have significant financial implications, from obtaining [access to small business financing](#), including access to loans, investment capital and grants to preferential access to government contracts, totaling \$392.4B (billion!) in eligible dollars in 2018.

In addition to meeting the relevant numerical size standard, a business must also meet the following criteria in order to be eligible for SBA and government contracting programs:

- For-profit enterprise
- Independently owned & operated
- Physically located & operating in the United States or its territories
 - If located outside the United States, it must maintain a US operation and make a significant contribution to the US economy through the payment of taxes or use of American labor, materials, or products
- Not in a dominant market position nationally

? Practice Question

<https://assessments.lumenlearning.co...essments/11026>

? Try It

For perspective, the value of small business contracts rose from \$100.1 billion in fiscal 2016 to \$105.9 billion in fiscal 2017. To see data by year and category (e.g., Women Owned, Small Disadvantaged Business, Service Disabled Veteran) view the source at Small Business Dashboard. For additional information on federal contracting, visit the [SBA's Federal Contracting page](#).

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