

# Capitalizing on the small-business market

As big businesses look to attract new customers, a shift has begun over the past several years to make a conscious acquisition effort in the form of dedicated marketing plans and budgets to target small-business owners (fewer than 25 employees). Many large companies in very different industries are aggressively going after the small-business market to develop new sales and customers outside of their traditional consumer market. An unsaturated segment, the small-business market has a great deal of revenue-generating potential. According to the *Small Business Economy, A Report to the President* (December, 2006) small businesses generate more than half of the gross domestic product and employ more than 50 percent of the private work force. Moreover, small-businesses are very well financed. In 2005, small-business loans amounted to over \$600 billion — nearly \$24 billion more than the year before. Although the dollar value of the loans wasn't increasing, the number of loans increased to 19 million — up 25 percent over the previous year. Companies interested in increasing their bottom line have no choice but to pay attention to the income potential of the small-business market.

To find more information and obtain data on small businesses and their owners, these big businesses are turning to their consumer marketing data providers. However, business data and consumer data are very different animals, and these big businesses are quickly learning they can't market to these different prospects in the same manner.

First, the market size is much smaller than the consumer world, making the competition to acquire these customers more fierce. There are approximately 220 million consumers, which nets down to nearly 110 million occupied housing units in the United States. There are an estimated 26.5 million U. S. businesses, 99.7 percent of which have fewer than 500 employees. Of these businesses, 92 percent are small businesses that employ fewer than 25 employees, and 63 percent employ fewer than five employees. These businesses are often considered "microbusinesses."

Second, obtaining robust data and thorough coverage on all 26.5 million U.S. businesses cannot be accomplished by using one, two or even three data sources. A typical source for business data is phone directories such as yellow

pages listings. This source is easily obtainable and, it provides the business name, address, and phone number. The line of business can be inferred by using the advertising heading a business is listed under. Approximately 12 million to 13 million of the 26.5 million total U.S. businesses advertise in these directories. Another method to collect data used in the past couple of years is the mining of data from business Web sites. However, only a small number — an estimated 4 million businesses — have their own dedicated business Web site. So this highly profitable and highly desirable small-business customer base can be very hard to find via web searches.

Third, business data changes rapidly, and, staying on top of these changes is a full-time job. For example, according to the Small Business Administration (SBA) roughly half a million businesses fail every year, but in reality well over one million go out of business each year. The exact number is difficult to pinpoint because many were operating and flying under the SBA's radar. The data management practice of obtaining new data and verifying data on businesses is where we begin to learn a lot about these small-business owners. The findings can help big businesses better target these small businesses with the right offer at the right time or suppress undesirable business prospects.

Last year Experian® spoke with more than 10 million small-business owners. Of the 10 million businesses contacted, 54 percent had fewer than five employees, 36 percent had five to 24 employees and 9 percent had 25 or more employees. Beyond the data we obtained, verified and updated, which was the primary purpose of the call, we started to see interesting trends and behaviors of small businesses and their owners who made us dig deeper to learn more about them.

For example, we noticed a correlation between the number of employees and the title of the person who held the highest position in each company. Of the businesses we contacted that employed fewer than 25 employees, the person with the highest position in the company referred to himself or herself as the "owner" 43 percent of time. However, once the businesses employed 25 employees, that percentage dropped dramatically to 17 percent. In those businesses with more than

25 employees, the title of the highest position became “President” even though the underlying legal structure of the business had not changed. The title “CEO” remains largely unused by small to midsize companies. There were no instances of “CEO” used in the millions of calls Experian made to businesses with fewer than 25 employees, and only 2 percent of the businesses with more than 25 employees had CEOs.

Using the change in title concept, a further evaluation uncovered trends that could ultimately be used by big businesses to better understand and effectively reach out to small businesses. We looked for trends that involved where the “owner, president or CEO” lived versus where they worked, differences or similarities in their consumer demographic data, geographical trends and other possible correlations.

The title of the person with the highest position greatly affected consumer demographics and relationships to the businesses. For instance, when comparing similar businesses with the same number of employees that had “owners” and “presidents” in the highest positions, we found that 58 percent of the “owners” lived within the same ZIP code™ as their businesses, where the “president” lived farther away — only 4 percent lived within the same ZIP code as their businesses. Additionally, we learned that business owners and presidents were equally likely to own their homes and were above the national average for homeownership.

Other notable findings are that business owners who refer to themselves as the “owner” on average have a slightly lower education level than business owners who refer to themselves as “president,” but “owners,” “president s” and “CEOs” had achieved higher education levels than the national average.

Using the intelligence from Experian’s research findings, it’s clear that businesses that want to penetrate the small-business market must modify their marketing strategies to consider the size of the businesses that they are targeting and their decision makers. They must modify their marketing messages and product offers for each small-business segment — microbusinesses and small businesses. For example, companies might be

able to take a more personal approach to marketing to microbusinesses with fewer than five employees; however, this same tactic will not work with larger small businesses with employee sizes of fewer than 25. In addition, companies also may want to modify their product offers or customize them to fit the needs of microbusinesses and small businesses as the “one product fits all” approach that many companies use to target consumers may not garner the results they expected.

The competition is heating up as more and more big businesses are focusing on finding and acquiring small-business customers. With a smaller target market of about 12 percent of the consumer population, the need to understand small-business owners, how they view themselves and their business needs, when to contact them, how to reach them, their consumer behaviors and demographics must be factored in, as statistics prove small-business owners are not your average consumer.

## Key small business findings

- Employ greater than 50 percent of private work force
- Generate greater than half of U.S. GDP
- Companies with 25 or fewer employees — approximately 24.3 million
- Companies with five or fewer employees — approximately 16.6 million
- Difficult market to define via dedicated business Web site search
- “Owner” title most often found in companies with fewer than 25 employees
- “President” title most often found in companies with more than 25 employees
- “CEO” title virtually unused

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