An Overview of the Kauffman Firm Survey

Results from 2009 Business Activities

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March 2011

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2004 2005 2006 2007 2008 2009 2010 2011

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The Foundation of Entrepreneurship

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Although entrepreneurial activity is an important part of a capitalist economy, data about U.S. businesses in their early years of operation have been extremely limited. As part of an effort to gather more information on new businesses in the United States, the Ewing Marion Kauffman Foundation created the Kauffman Firm Survey (KFS), a panel study of new businesses founded in 2004 and tracked over their early years of operation. The KFS dataset provides researchers with a unique opportunity to study a panel of new businesses from startup to sustainability, with longitudinal data centering on topics such as how businesses are financed; the products, services, and innovations these businesses possess and develop in their early years of existence; and the characteristics of those who own and operate them.[1] This report highlights basic trends within the panel and some of the new questions that were added to the survey in 2009. Calendar year 2009 data on the firms' sixth year of operations are now available online, in the NORC Data Enclave, and at the Census Bureau's Research Data Centers.[2]

1. Questionnaires and other data documentation are available at www.kauffman.org/kfs/About-the-KFS.aspx.
2. More information on all versions is available at www.kauffman.org/kfs/Data-Files.aspx.

Customer Payment Problems Increasing Challenge

As in 2008, the most challenging problem reported by businesses in 2009 continued to be slow/lost sales. Unpredictable business conditions ranked second. Problems with customer payments were cited by 13 percent of firms, up from just 2 percent in 2008. Falling real estate values, inability to obtain credit, and the cost and/or terms of credit were cited by less than 10 percent of firms.

Most Challenging Problem Faced by Business (2008 and 2009)

	2009	2008
Slow or lost sales	44%	53%
The unpredictability of business conditions	22%	24%
Customers not making payments/paying late	13%	2%
Other	8%	10%
Falling real estate values	7%	5%
An inability to obtain credit	5%	4%
The cost and/or terms of credit	2%	2%

Source: Kauffman Firm Survey Microdata 2008–2009

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Loan Denials Increase

About a quarter of business owners who applied for new credit in 2009 said that their loan applications always were denied, a large increase over 2008. About 60 percent of firms who applied for credit in 2009 had their credit application(s) always approved, compared with 67 percent in 2008. For those who had some or all of their loan applications denied, multiple reasons often were indicated, but more than 90 percent of firms felt banks were putting tighter restrictions on the lending.[3] More than 21 percent of firms said they didn't apply for credit at some point when they needed it because they feared their loan application would be denied. This was up from less than 18 percent in 2008. About 5 percent of firms did not seek external equity financing (venture capital, angel financing) when they needed it because the feared their application would be denied.

Application and Borrowing Patterns (2008 and 2009)

	2009	2008
Loan Application Outcome		
Always approved	60%	68%
Sometimes approved and sometimes denied	17%	17%
Always denied	23%	15%
Reason for Loan Denial (if denied)		
Insufficient collateral	42%	42%
Loan too large	17%	28%
Inadequate documentation	5%	16%
Business credit history	35%	33%
Personal credit history	44%	45%
Business too new	14%	16%
Restrictions on lending	89%	n/a
Other	3%	15%
Did not apply for credit when needed for fear of denial	**21%**	**18%**
Did not seek external equity financing for fear of denial	**5%**	**n/a**

Source: Kauffman Firm Survey Microdata 2008–2009

3. This response category was added in 2009 and is not available for previous years.

External Support on Business Loans

New in 2009, two sets of questions regarding external support of loans were asked of firms. First, all firms were asked if they had any loans that were backed by the Small Business Administration (3 percent). In addition, firms receiving new loans in 2009 were asked about collateral required by commercial lending organizations in order to receive funding. Only 16 percent of firms that received a new loan stated that collateral was required, with the most common collateral pledged being personal real estate (43 percent), followed by accounts receivable (40 percent) and vehicles/equipment (36 percent).

Collateral Requirements for Loans (2009)

	2009
Loan Requiring Collateral	**16%**
Accounts receivable	40%
Vehicle/Equipment	36%
Security deposit	19%
Intellectual property	3%
Business real estate	20%
Personal real estate	43%
Other personal assets	17%
Other	5%
Loan with an SBA guarantee	**3%**

Source: Kauffman Firm Survey Microdata 2009

2008 and 2009 Financial Injections

Only about half of firms made new investments in their businesses from debt financing in 2009, and less than one-quarter of firms made new equity investments. While the percentage of firms investing through debt financing was similar to levels in 2008, there was a notable drop (eight percentage points) in firms investing through equity financing. Investment levels also dropped from 2008 to 2009. Less than 8 percent of firms made financial injections of more than $100,000 through debt financing in 2009, compared with 10 percent in 2008. Only about 7 percent made new financial injections of more than $25,000 from equity financing in 2009, compared with 9 percent in 2008.

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New Financial Capital Investments in 2008 and 2009 (Surviving Firms)

	2009		2008	
	Debt	Equity	Debt	Equity
None	50%	74%	47%	66%
$5,000 or less	14%	8%	14%	13%
$5,001 to $25,000	16%	11%	16%	12%
$25,001 to $100,000	13%	5%	14%	7%
$100,001 or more	8%	2%	10%	2%

Source: Kauffman Firm Survey Microdata 2008–2009

Investments in Future

Nearly half of firms had some spending on intangible assets, which are expenditures expected to produce long-term benefits for businesses, such as brand development and worker training. This was similar to the level in 2008. For those with some spending, the average spent was about $31,000, compared with $28,000 in 2008. About 13 percent of firms invested in research and development in 2009, similar to 2008 levels. However, investments averaged about $75,000 in 2009, up from about $54,000 in 2008.

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Sources of Advantage Vary Widely

Surprisingly, even though the surveyed firms are now in the sixth year of operations, less than half believe they have a comparative advantage in the products and/or services they offer. In terms of partnerships, partnering with another company was the most common for providing a comparative advantage. Overall, the most common source of comparative advantage was reputation, with 80 percent of firms that thought they had a comparative advantage stating that this was one source for that comparative advantage.

Comparative Advantage (2009)

	2009
Comparative Advantage	**47%**
Reasons for Comparative Advantage	
University partnership	6%
Company partnership	29%
Government lab partnership	2%
Patents	6%
Price	52%
Marketing	45%
Speed	57%
Reputation	80%
Cost	49%
Design	71%
Expertise	76%

Source: Kauffman Firm Survey Microdata 2009

Survival Follows Expected Patterns

The Kauffman Firm Survey tracks firms that began operations in 2004 and now covers the time period of the Financial Crisis. After six years of operation, the survival rate of the panel was at 56 percent, slightly above the historical average of U.S. employer firms of 50 percent, falling from 61 percent in 2008.[4,5]

4. http://www.sba.gov/advocacy/7495/8430.

5. Due to the KFS survey methodology, some firms started and failed within the first year that our survey didn't capture, pushing survival rates slightly higher than would be expected.

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