



---

## SBA's Size Standards Analysis:

### An Overview on Methodology and Comprehensive Size Standards Review

Khem R. Sharma, Ph.D.  
Office of Size Standards  
Email: [khem.sharma@sba.gov](mailto:khem.sharma@sba.gov)

#### What Is A Small Business?



- A business concern operated for profit
- Independently owned and operated
- Not dominant in field of its operation
- U.S. based and makes significant contribution to the U.S. economy
- Meets ***small business size standard*** for its industry

## What Are Size Standards?



- Numerical definitions of what constitutes “small”
- A business concern is small if it is at or below a size standard
- Size standards are established by industry, as defined under the North American Industry Classification System (NAICS)
- Table of Size Standards is available on [www.sba.gov/size](http://www.sba.gov/size)

3

## How Business Size Is Measured?



- Average annual revenue - retail trade and most service industries
- Average number of employees - manufacturing, wholesale & some mining/transportation industries
- Assets (financial institutions)
- Electric output – electric generation, distribution and transmission
- Daily refining capacity – petroleum refiners

4

## Some Size Standards Trivia



- 1,141 industries (6-digit NAICS)
- 18 sub-industries (“exceptions”)
- 42 different size standards
  - 31 receipts based
  - 8 employee based
  - 3 others
- Lows and highs
  - Receipts based – \$0.75M to \$35.5M
  - Employee based – 50 to 1,500 employees

5

## Common Size Standards



- \$0.75 million for most agricultural industries (set by statute)
- \$33.5 million for heavy construction industries
- \$14.0 million for specialty trade contractors
- 500 employees for most manufacturing and mining industries (accounts for 75% of employee based standards)
- 100 employees for all wholesale trade industries
- \$7.0 million for most retail and service industries (accounts for 58% of receipts based standards)
- 500 employees for nonmanufacturers (non-manufacturer’s rule)

6

## % Small Under Current Standards



Sector	NAICS Title	%
21	Mining	95
22	Utilities	96
23	Construction	99
31-33	Manufacturing	96
42	Wholesale Trade	96
44-45	Retail Trade	96
48-49	Transportation	96
51	Information	96
52	Finance & Insurance	95
53	Real Estate Rental & Leasing	96
54	Professional, Scientific & Technical Services	97
56	Admin. Support & Waste Management Services	97
61	Educational Services	98
62	Health Care & Social Assistance	96
71	Arts, Entertainment & Recreation	97
72	Accommodation & Food Services	98
81	Other Services	99

7

## Use of Size Standards



- Federal small business procurement programs
- SBA loans
  - Industry standards or
  - Alternative size standards for 7(a) and 504 Loan Programs
- All other Federal programs

8

## What Triggers A Size Standards Review?



- Changes in industry structure
- Inflation
- Changes in the industry classification system
- Changes in Federal contracting marketplace and other small business assistance programs
- Requests/concerns/suggestions from industry groups and other Federal agencies
- Congressional mandates (e.g., Small Business Jobs Act of 2010)
- Economic events and disasters

9

## Current Issues and Concerns



- Size standards have not kept up with changes in
  - Industry structure
  - Federal contracting marketplace
  - Economic conditions
- Current size standards are too complex
- Current size standards are too low or too high for some industries
- Needs separate standards for Federal contracting
- Needs tiered standards – small, medium & large

10

## Comprehensive Size Standards Review



- Last done in 80s (SBA attempted to simplify size standards in 1992 and 2004)
- Since then, *ad hoc* adjustments – individual industries or groups of industries – and periodic inflation adjustments
- Began current comprehensive review in 2007
- Issued a “Size Standards Methodology” White Paper
- The methodology is available on the SBA website at [www.sba.gov/size](http://www.sba.gov/size) for public review and comments
- **Submit comments through [www.regulations.gov](http://www.regulations.gov) (Docket # SBA-2009-0008)**

11

## Objectives of Comprehensive Review



- Review all size standards on a sector by sector basis
- Address current issues and concerns
- Ensure that size standards
  - Reflect current market conditions and industry structure
  - More effectively target Federal assistance to intended beneficiaries
  - Are fewer, simpler and easier to use

12

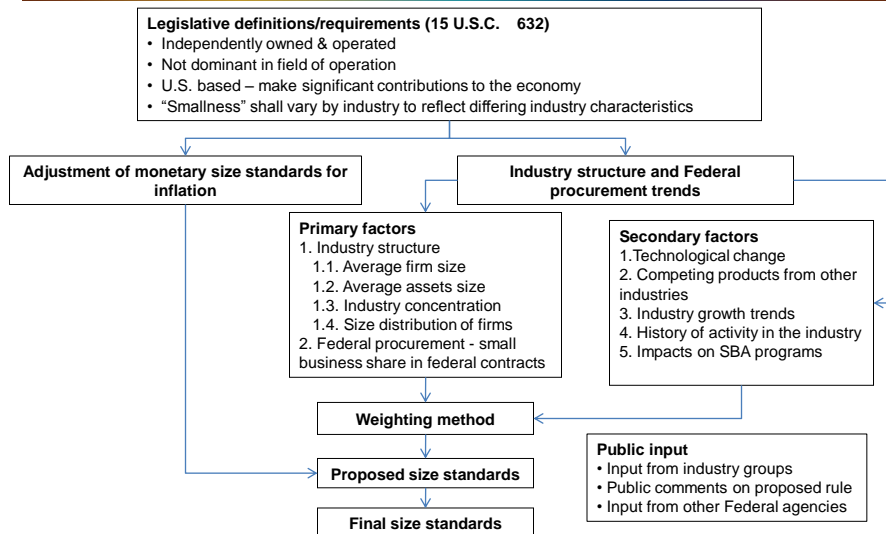
## Basic Premises to Establishing Size Standards



- Size standards should vary by industry, but not by program
- Help small and new businesses become competitive in their industries
- Ensure that small businesses get a fair share of Federal government purchases and sales
- Expand access to credit for small businesses

13

## An Overview of Size Standards Methodology



14

## Primary Factors



- Average firm size (simple and weighted average)
  - Receipts
  - Number of employees
- Average assets size (startup costs and entry barriers)
- Industry concentration
  - 4-firm concentration ratio ( $\geq 40\%$  - high concentration)
- Distribution of firms' market share by size
  - Gini coefficient
- Federal procurement
  - Small business share of Federal contract dollars

15

## Secondary Factors



- Technological change
- Industry growth
- Inter-industry competition
- Impacts on eligibility for SBA and other Federal programs
- Other industry specific factors, if any

16

## Public Input and Other Factors



- Suggestions from industries
- Suggestions from Federal agencies
- Public comments to the proposed rules
- Administration's (and SBA's) priorities and policy objectives
- Current economic conditions

17

## Size Standards Based on Industry Factors



- Establish comparison industry groups
  - "Anchor" size standard group
  - "Higher" size standard group
- Compare each industry factor of each industry with those of the comparison industry groups
  - If a specific industry's factor is similar to that of the anchor group, the anchor standard is adopted for that factor
  - Significant differences from the anchor group would support a size standard above or below the anchor
- Establish a set of fixed size standard levels

18

## Comparison Groups



### Receipts-based size standards

#### **Anchor group**

Industries with \$7 million size standard

#### **Higher-level size standards group**

Industries with size standards of \$23 million or higher (group average \$29 million)

### Employee-based size standards

#### **Anchor group**

Industries with 500-employee size standard

#### **Higher-level size standards group**

Industries with size standards of 1,000 employees

19

## Size Standards - 8 Fixed Levels



### Receipts-based fixed levels

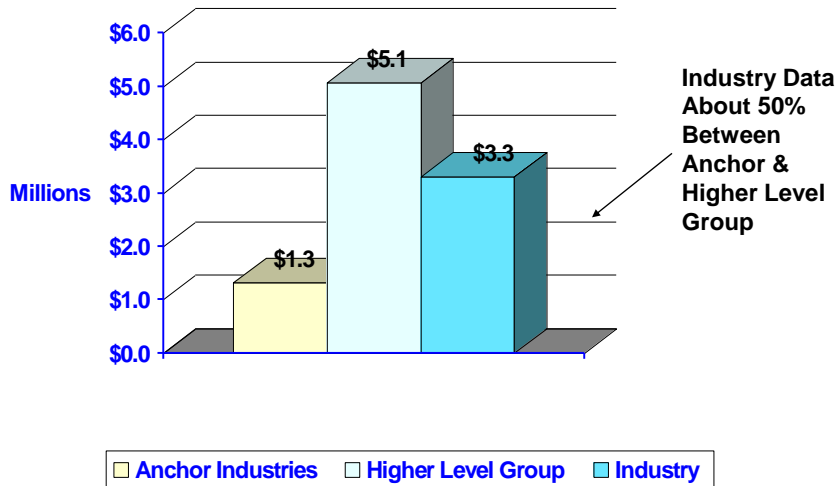
- \$5.0 million
- \$7.0 million (anchor)
- \$10.0 million
- \$14.0 million
- \$19.0 million
- \$25.5 million
- \$30.0 million
- \$35.5 million

### Employee-based fixed levels

- 50 employees
- 100 employees (wholesale anchor)
- 150 employees
- 200 employees
- 250 employees
- 500 employees (mfg anchor)
- 750 employees
- 1,000 employees

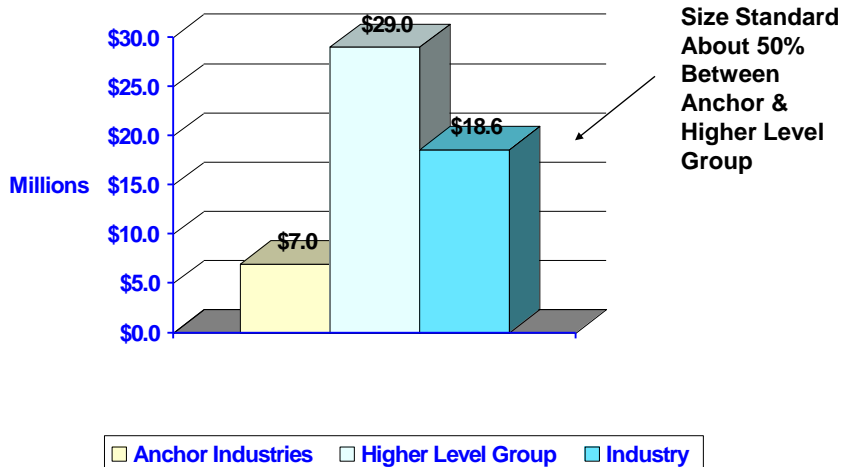
20

**Example:  
Size Standard Based on Average Firm Size**



21

**Example – Contd.  
Size Standard Based on Average Firm Size**



22

## Size Standards Based on Federal Contracting Factor



- Apply to industries with  $\geq$  \$100 million in Federal contracts annually
- Compare small business share of Federal contract dollars to small business share of industry's total sales
- If the difference between the industry and contract shares is
  - 10% to 30% , use one fixed size level above the current standard
  - > 30% , use two fixed size levels above the current standard

23

## Average Size Standard - Example



Factor	Value
Average firm size	\$19 million (Rounded from \$18.6 million)
Average assets size	\$10.0 million
Industry concentration	\$35.5 million
Size distribution	\$35.5 million
Federal contracting	\$25.5 million
Average of factors	\$25.5 million (Rounded from \$25.1 million)

24

## Rulemaking Process



1. Analysis and preparation of a proposed rule
2. Internal clearance of the proposed rule in SBA
3. Review of the proposed rule by OMB
4. Publication of the proposed rule in *Federal Register* for comments
5. Analysis of public comments and preparation of a final rule
6. Repeat (1) and (2) above and publish the final rule in *Federal Register*

25

## Anticipated Sequence of Sectors



NAICS	Name
44-45	Retail Trade
72	Accommodation & Food Services
81	Other Services
54	Professional, Scientific & Technical Services
48-49	Transportation and Warehousing
22	Utilities
56	Administrative Support & Waste Management
51	Information
53	Real Estate, Rental & Leasing
61	Educational Services
62	Health Care & Social Assistance
71	Arts, Entertainment & recreation
23	Construction
42	Wholesale Trade
52	Finance & Investment
55	Management of Companies
21	Mining
11	Agriculture, Forestry, Fishing & Hunting
31-33	Manufacturing

26

## Update on Comprehensive Size Standards Review

- **Final rules published** (Oct 6, 2010)
  - NAICS 44-45: Retail Trade
  - NAICS 72: Accommodation and Food Services
  - NAICS 81: Other Services
- **Proposed rules published in *Federal Register* for comments**
  - NAICS 54: Professional, Scientific & Technical Services
    - Published on March 16, 2011
    - Comment period ended on June 15, 2011 (more than 1,400 comments received)
    - **View comments through [www.regulations.gov](http://www.regulations.gov) (RIN 3245-AG07)**
  - NAICS 48-49: Transportation and Warehousing
    - Published on May 13, 2011
    - Comment period ends on July 12, 2011
    - **Submit comments through [www.regulations.gov](http://www.regulations.gov) (RIN 3245-AG08)**

27

## Update on Comprehensive Size Standards Review – Contd.

- **Proposed rules under review**
  - NAICS 51: Information
  - NAICS 56: Admin Support and Waste Mgmt Services
  - NAICS 53: Real Estate, Rental and Leasing
  - NAICS 61: Education Services
- **Proposed rules in progress**
  - NAICS 22: Utilities
  - NAICS 62: Health Care and Social Assistance Services
- **For latest updates**, please check on “**What’s New**” on SBA website at [www.sba.gov/size](http://www.sba.gov/size)

28

## Challenges



- Lack of historical information on some size standards
- Lack of up-to-date data on industry structure, especially at a sub-industry level (“exceptions”)
- Economic Census (industry data)- 4 to 5 years old
- Risk Management Association (average assets data) – some industries are not covered
- FPDS (Federal procurement data system) – lacks specific size of individual contractors
- Rulemaking process (takes about two years to publish a final rule)

29

## Challenges – Contd.



- Enabling businesses that are about to exceed or have just exceeded size standards to continue participating in Federal government programs without causing unfair competitive disadvantage to those small businesses that need Federal assistance the most
- Meeting Federal procurement needs without breaching the public perception of “what is small” and without adding complexity to size standards

30

## Policy Questions



- What should be the largest size to be considered small?
- Should SBA consider using a single measure of business size for all industries, such as receipts, employees, or some other measure?
- Should size standards be lowered for some industries, either based on data or public perception?
- Should SBA consider establishing separate size standards for procurement and non-procurement programs, even if it would mean more complexity?

31

## Policy Questions – Contd.



- How can SBA best simplify size standards without breaching the requirement that size definitions should vary by industry?
- Should SBA adjust (lower) employee based standards for labor productivity growth as it adjusts (increases) receipts based size standards for inflation?
- Should SBA consider establishing tiered size standards?
- If yes, how can SBA enforce/monitor small government contracting goals under tiered standards?

32

## Conclusion



- SBA is committed to completing the ongoing comprehensive size standards review
- Small Jobs Act of 2010 has further reinforced this effort
- SBA is committed to improving its size standards methodology and making size standards more relevant and simple
- SBA highly encourages public to participate in this process by providing feedback, suggestions, or relevant data for your industry

33

## Our Contact Information



**Mail:** Small Business Administration  
Office of Size Standards  
409 3<sup>rd</sup> Street, SW., 8<sup>th</sup> Floor  
Washington, DC 20416

**Email:** [SizeStandards@sba.gov](mailto:SizeStandards@sba.gov)

**Website:** <http://www.sba.gov/size>

**Phone:** 202-205-6618

34