
A Review of San Diego's Small Business Ecosystem

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Introduction

Small businesses are routinely extolled for being the ‘backbone’ of America’s economy, and policy makers and think tanks routinely talk of working harder to help support America’s small business. However, during my very real experience of running a small business, I did not come across many actual policies or resources to help us grow our small business. Because I heard people talk of supporting small businesses but not really experiencing much support, I actually thought our business was too small. When people talked of small businesses, I assumed they were talking about businesses with more employees than mine. With less than 50 employees, we were not a small business, we were a micro business, a tiny fraction of America’s small business ecosystem. Through this analysis, I discovered that I was wrong.

It is my hope that this brief review of San Diego’s small business ecosystem will demonstrate my desire to leverage the valuable role EDC plays in San Diego’s business community to become a vocal champion for the very large Micro/Small Businesses community. Many of these businesses are so small that they do not have the time to make their voice heard when government and civic leaders get together to build policies to maximize the region’s economic prosperity and global competitiveness.

Analysis

Data, Definitions and Assumptions

The EDD provides, on a yearly basis, a summary of Business Size by Industry Category for three variables, Number of Businesses, Number of Employees and Total Payroll. The data presented in this paper comes directly from California’s Employment Development Department, Labor Market Information Division and is focused only on the San Diego-Carlsbad-San Marcos MSA (referred to collectively as San Diego).

https://www.labormarketinfo.edd.ca.gov/LMID/Size_of_Business_Data.html

Reformatted excel sheets were processed in R. Some normalization took place as the EDD has changed the presentation of data slightly over the 18 years of available data on the website. Beginning in January 2017, the Size of Business Report started to use Average Monthly Employment (AME) instead of third-month employment.

The data includes only private ownership establishments. For 2018, the EDD reported a total number of San Diego employees at 1,238,541 which is slightly lower than the number represented by the Bureau of Labor Statistics, which for September 2018 was 1,546,792. (https://www.bls.gov/eag/eag.ca_sandiego_msa.htm) Because of this, some of the small business analysis in this paper may not correspond to other analysis which may use alternate data sources.

The EDD hides some information to protect the identity of companies. If there are too few businesses for a reporting category, the EDD will not report the data. Because of this, there are times when totals do not appear to sum accurately.

The EDD breaks size of business, based on number of employees, into the following groups:

0-4

5-9

10-19

20-49

50-99

100-249

250-499

500-999

1000+

And although the San Diego Regional Economic Development Corporation defines small business as having fewer than 100 employees, I am defining “Small Business” as a business with 0-49 employees for two reasons. Simply, it represents my experience running a small business. And secondly, once a business has 50 full time employees, many new state and federal regulations come into play.

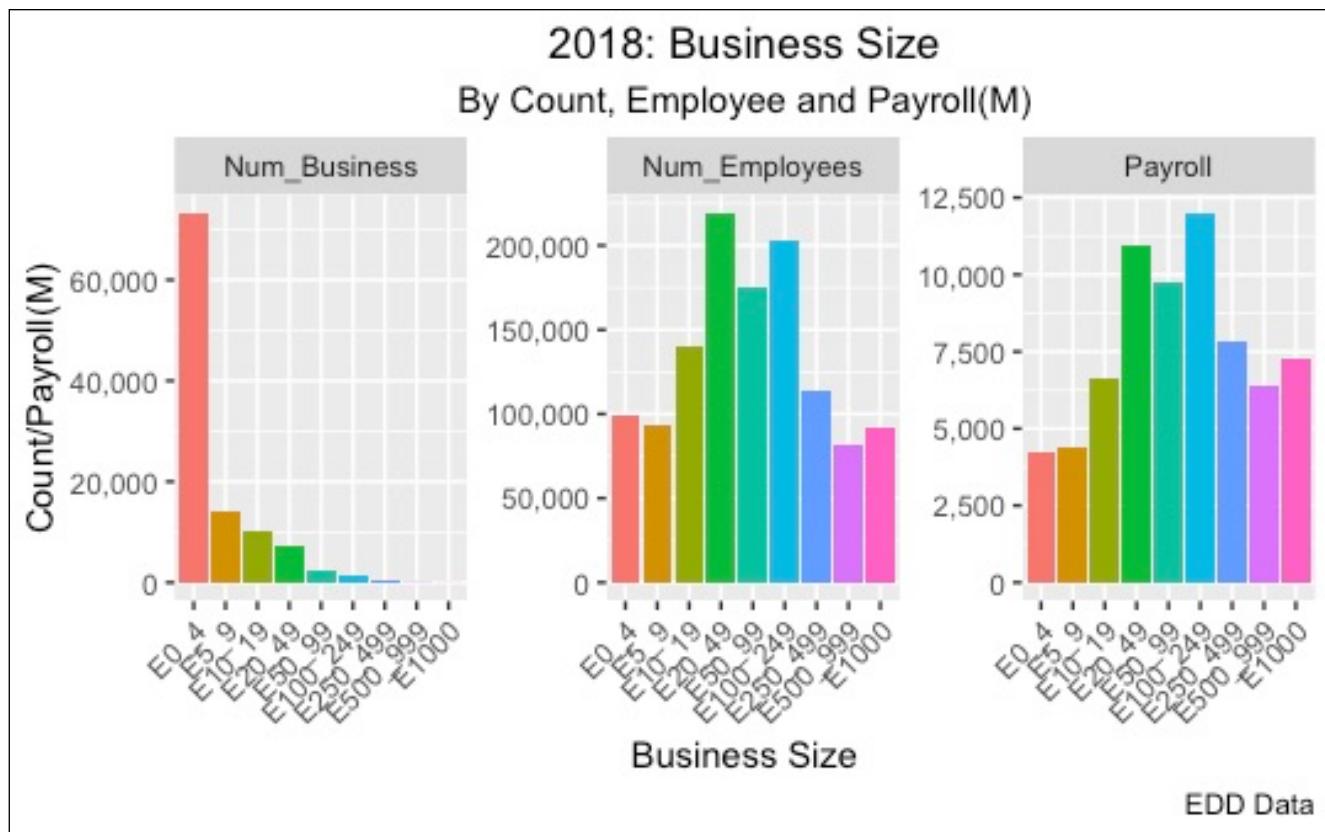
Overview

A 2018 snapshot of data shows that a majority of businesses in San Diego are very small. The 73,329 business with 0-4 employees represent 67% of all businesses in San Diego. Small Businesses (0-49 employees) represent 96% of all businesses.

Although 0-4 employee size businesses only employ 8% of San Diego employees, expanding the group to our definition of Small Business shows that this group of businesses employ 556,131 employees, or 45% of the workforce.

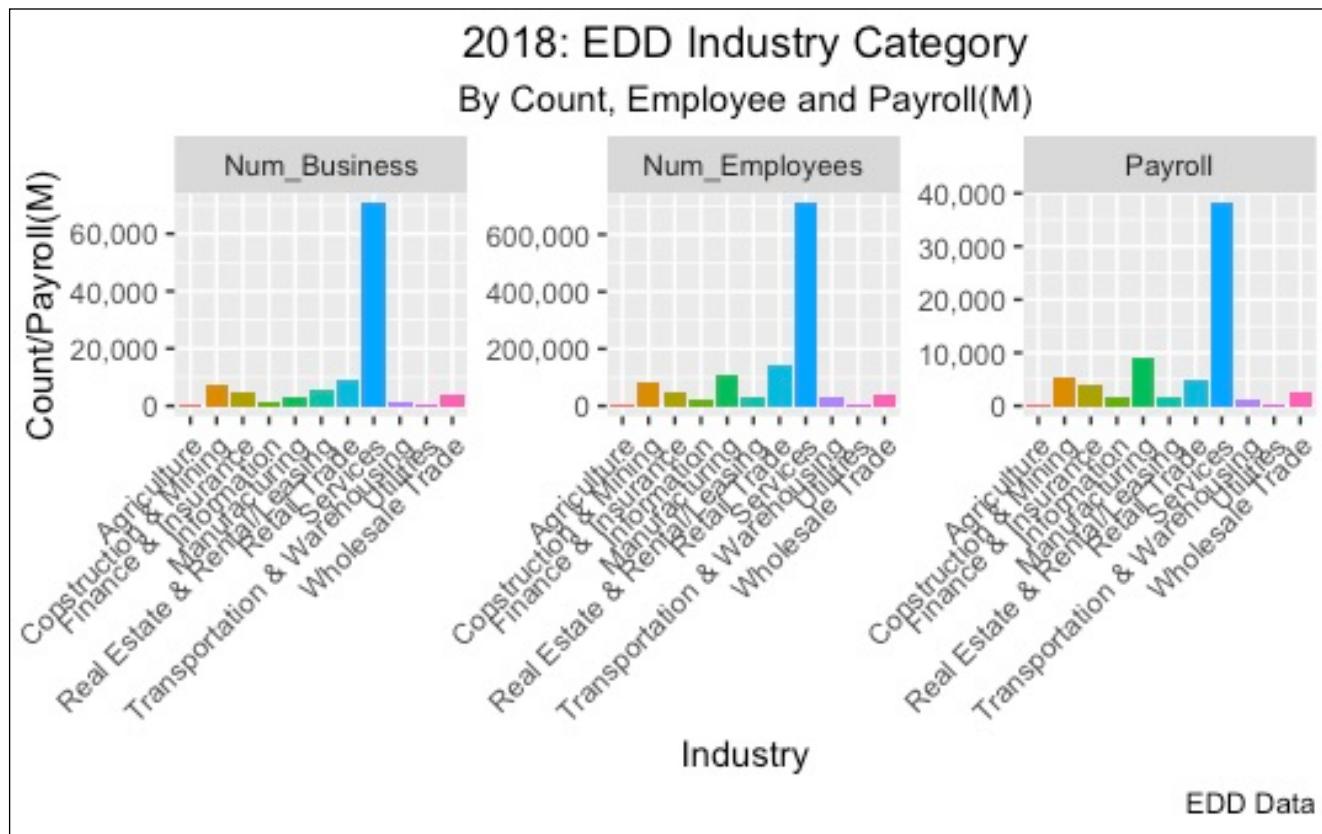
Finally, Small Businesses represent 37% of payroll. More than a third of wages, \$26.5 billion, are paid by Small Business owners with less than 50 employees.

San Diego's Small Businesses are a sizable piece of the economy, impacting employment and wages for a large portion of the working population.



Service Sector

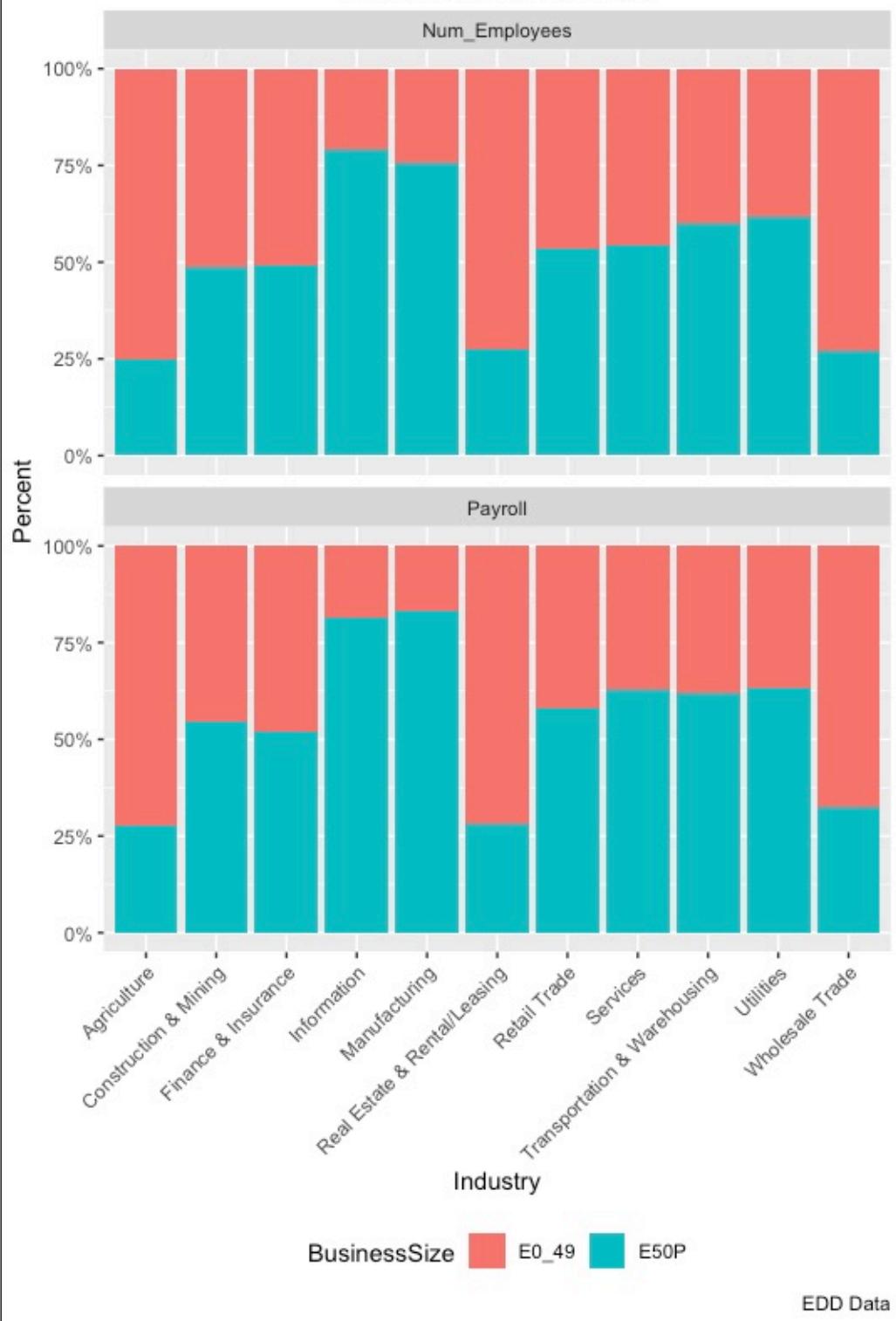
The vast majority of San Diego businesses are categorized as “Services”, which include Hotels, Healthcare, Legal, Educational and Social Services. A full list of the businesses in this category can be found at https://www.osha.gov/pls/imis/sic_manual.html. The Service sector dominates all three variables, number of businesses, number of employees and payroll.



Although San Diego is primarily a Service economy, these services are not necessarily driven by Small Businesses, which represent only one-third of Service businesses. Below is a graph for 2018 where businesses are categorized into two groups by the number of employees they have, 0-49 or 50 plus. The numbers below are forced into 100% columns such that the ‘salmon’ colored part of the histogram represents businesses with 0-49 employees and the ‘aqua’ color, 50 plus employees.

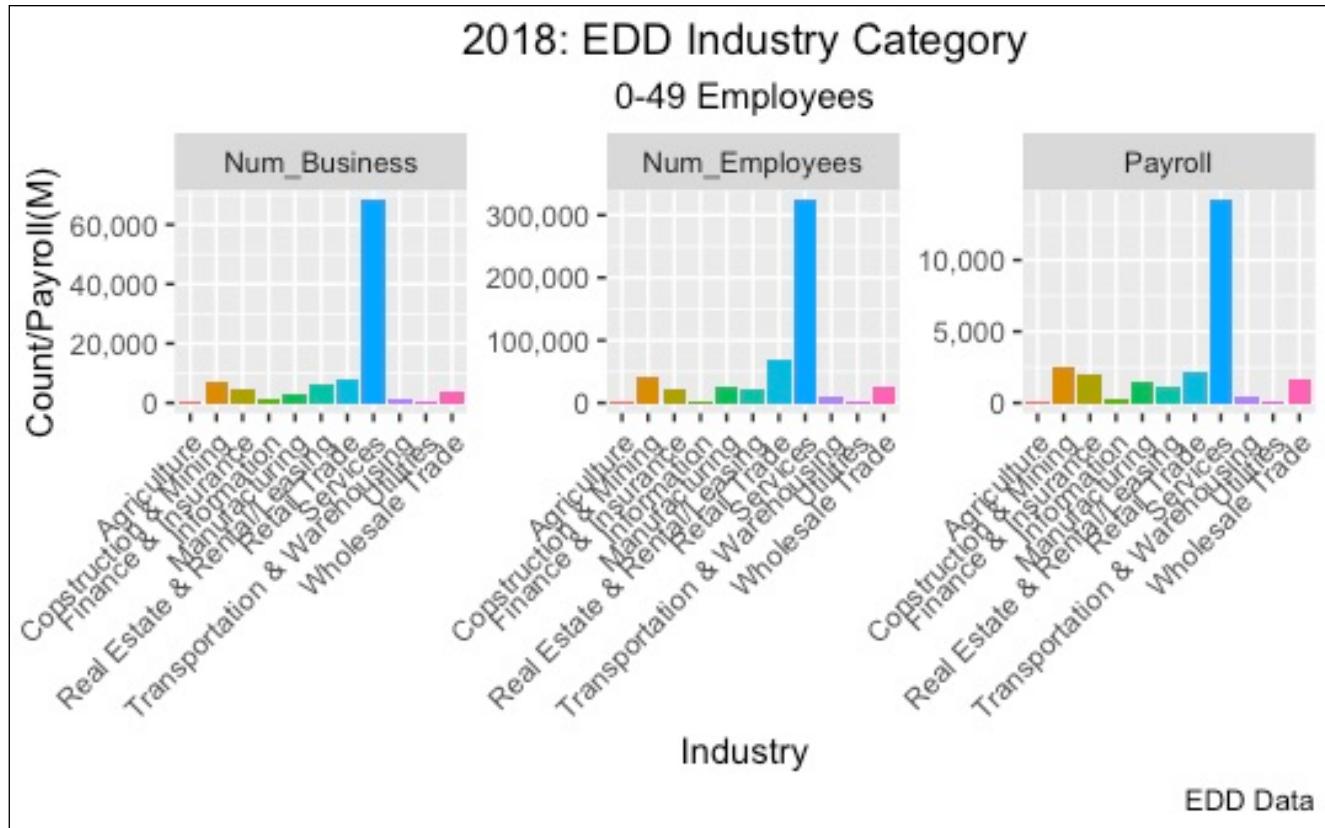
Three industries are dominated by Small Businesses in the number of people they employ and the wages they contribute to the industry sector. Small Businesses employ almost 75% of workers in Agriculture, Real Estate & Rental/Leasing and Wholesale Trade.

2018: EDD Industry Category
By Employee and Payroll(M)



However, from the graphs below, Services is still the largest industry sector for Small Businesses. Agriculture barely shows up on the distribution graphs for Small Business, employing only 4,059 workers, or less than 1% of all Small Business employees. In other words, Small Businesses represent less than half of the total workers employed in Services, however, the Service sector employs 58% of all Small Business employees.

Services are a driving force for the San Diego economy, supporting both Small Businesses and large corporations.

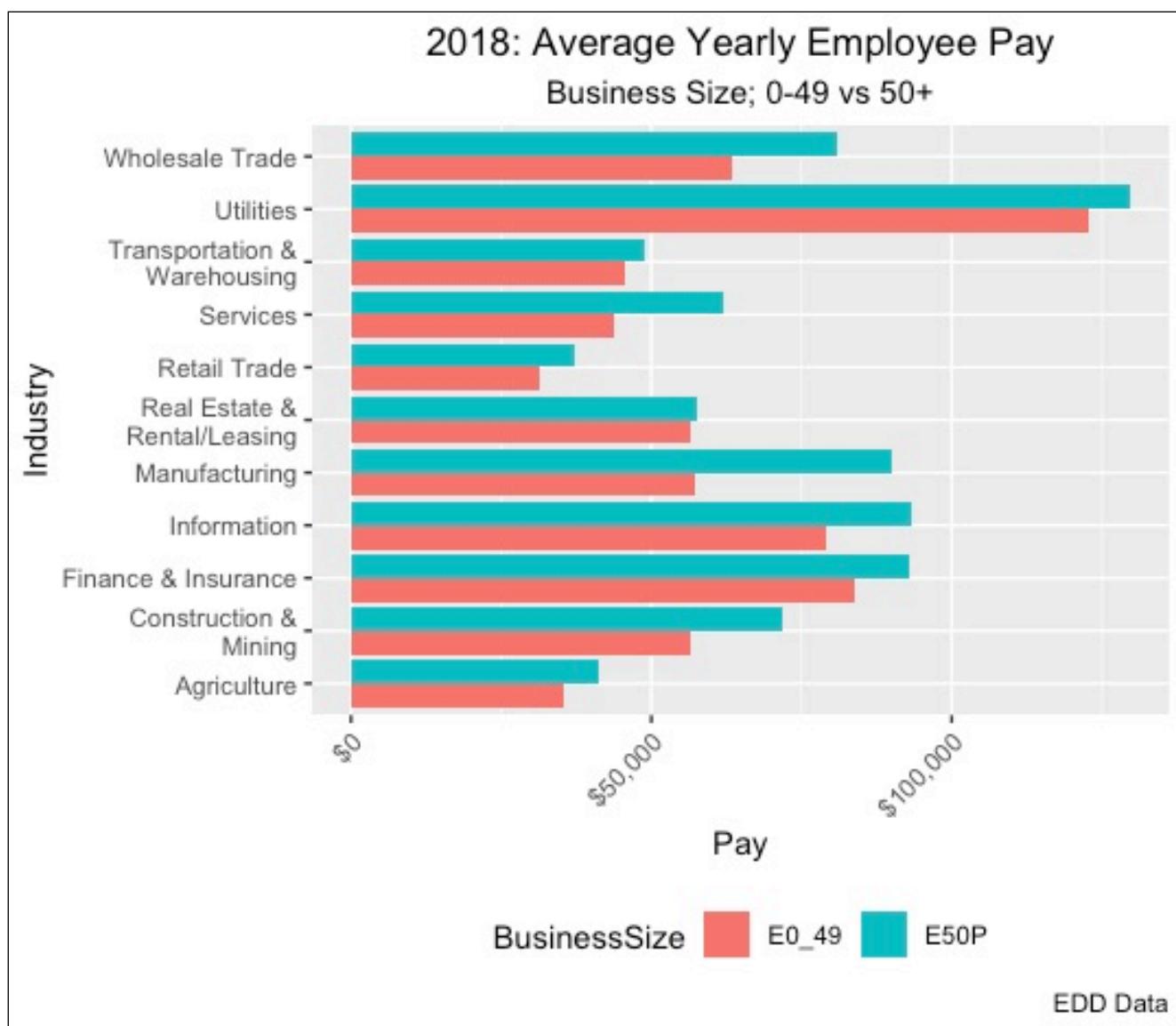


Wages

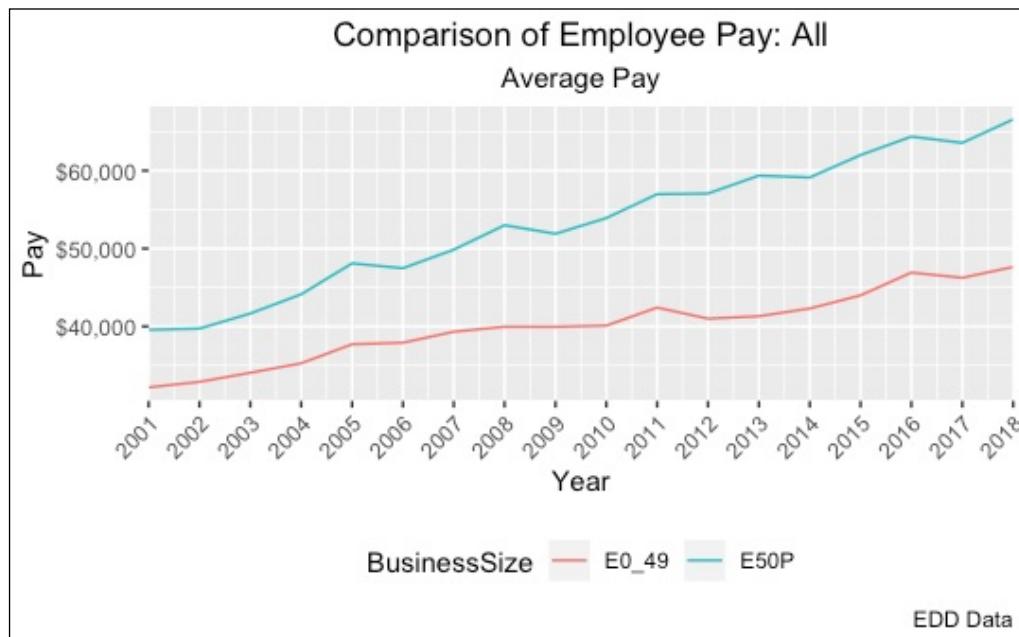
One can work through the logic of going from 96% of all San Diego businesses having 0-49 employees, with the Small Business community only representing 45% of total employees. A company like Qualcomm with its 1,000s of employees can quickly overwhelm a large % of San Diego employees. But why do the wages fall to 37%? Higher wages are not necessarily correlated with Big Business.

From the graph below, working for a Small Business has negative implications for employee pay across all sectors.

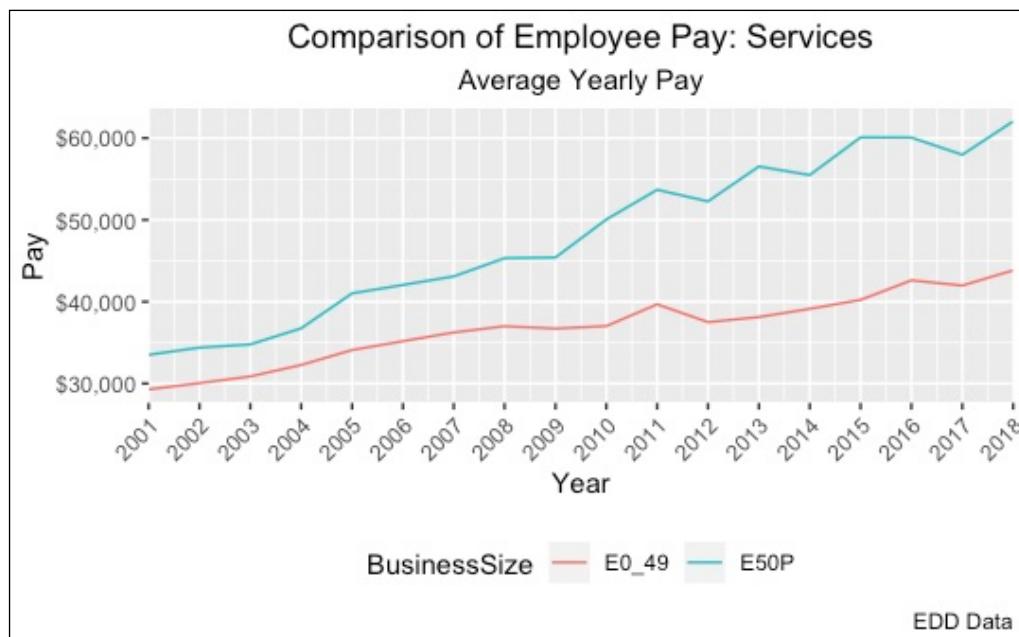
Looking at the Service sector, we see a large differential in average pay between Small Businesses and Large Businesses. In fact, working for a large company leads to a 42% higher wage in the Service sector. Given the size of the Service sector in San Diego, this is a wage gap that affects a large portion of San Diego's employees.



The next two graphs look at average pay over time, first for all sectors, then specifically for the Service sector. Since 2008, employees working for larger companies are making much bigger wage gains, while employees at Small Business are experiencing a more tedious climb in their take home pay. It is unclear if there was a more consistent growth rate for both Small and Large Businesses before 2008, but it is undeniable that the rate of growth in average pay has been much weaker for employees at Small Businesses.



The Service sector reflects this same dynamic, strong wages for larger businesses and stagnate wages for Small Business, but to an even bigger degree.



Another way to examine the wage gap is to calculate the rate of change over the 18 year period.

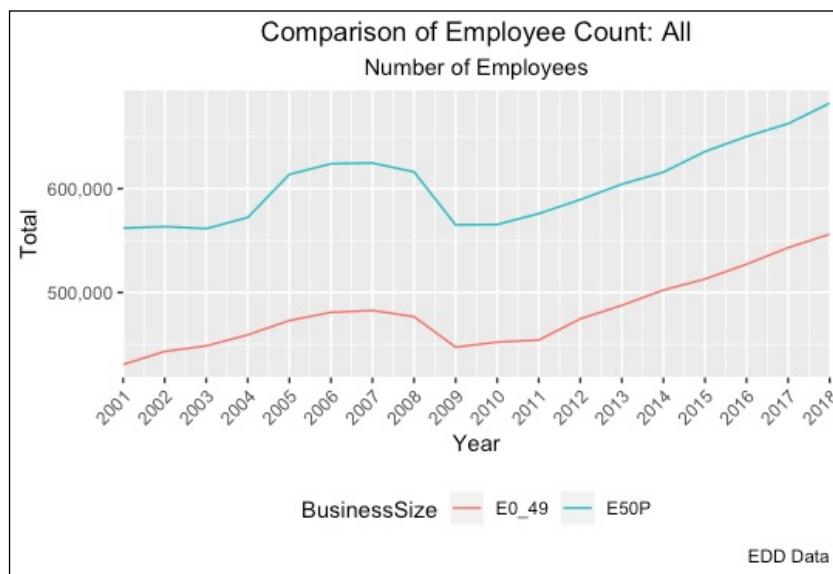
Avg Pay - All Sectors	E0_49	E50P	Business Size Differential
2001	\$32,173	\$39,560	23.0%
2018	\$47,635	\$66,582	39.8%
18 Year Growth Rate	48.1%	68.3%	
Avg Pay - Services	E0_49	E50P	Business Size Differential
2001	\$29,279	\$33,506	14.4%
2018	\$43,833	\$62,046	41.6%
18 Year Growth Rate	59.7%	85.2%	

The data above clearly shows that average pay is increasing at a slower rate for Small Businesses leading to a pay gap of 40% in 2018 for both the Service sector and across the board. The pay discrepancy in Services for Small Businesses has seen an almost tripling in discrepancy. Service workers at Small Businesses in 2001 were paid just 14% less than their peers at businesses with 50 or more employees. But this gap grew substantially to 42% in 2018.

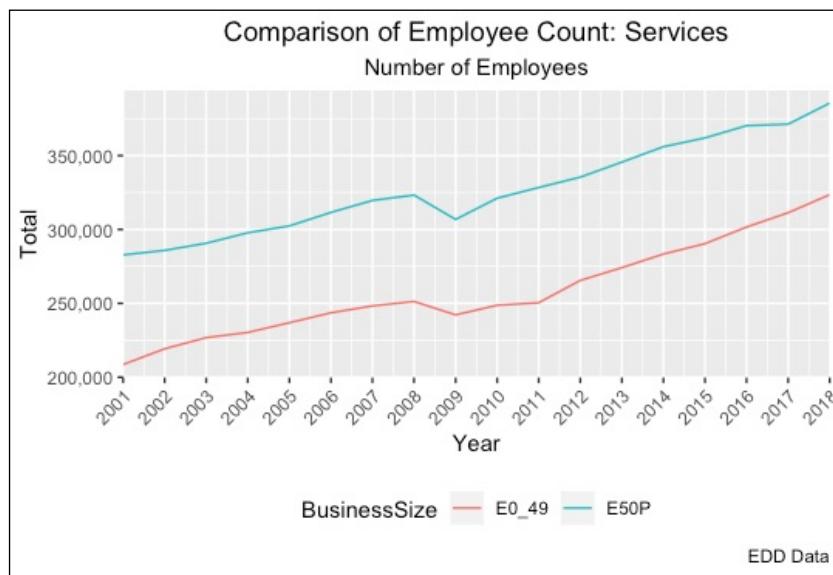
The EDD data is compelling and the size of this pay difference is something that should be studied in greater detail. Some areas to consider include finding data to better segment the Service sector since it does include Healthcare, Legal and Education. Healthcare could encompass large hospitals with doctor salaries driving a higher average pay. On the flip side, Healthcare could also include small in-home care companies, where workers tend to earn the minimum wage.

Recession

Larger businesses were more impacted by the Great Recession of 2008, where the number of employees fell back to 2001 levels. Small Businesses saw a less severe drop in employees and were able to return to 2008 levels of employment about a year before their larger counterparts. Surprisingly, businesses with 50+ employees still had an employee growth rate of 21% from 2009 to 2018. Small Business grew at 24% over this same time period, slightly less than the 29% from 2001.



Compared to the overall employment numbers, the Service sector in San Diego jumped back to 2008 employment levels in about 2 years. Although the growth trends in employees for Small Businesses seems to be holding to historic patterns, there appears to be a recent slight dip in numbers of employees at larger businesses. This may be a reflection of the recent recession fears that the Federal Reserve has reported.



Converting the yearly data into percent change numbers, we have the following trends in employment for All sectors and the Service sector for the two business sizes.

Num of Employees All Sectors	E0_49	E50P	Business Size Differential
2001	430,629	561,973	30.50%
2018	556,131	682,410	22.71%
18 Year Growth Rate	29.14%	21.43%	
Num of Employees Services	E0_49	E50P	Business Size Differential
2001	208,610	282,781	35.55%
2018	323,514	385,500	19.16%
18 Year Growth Rate	55.08%	36.32%	

Small Businesses in San Diego managed to jump back from the Great Recession of 2008 faster than their larger counterparts, perhaps providing a stabilizing force in the economic ecosystem.

Conclusion

San Diego has a large Small Business ecosystem that is dominated by the Service sector across all variables - number of businesses, number of employees and payroll.

Working with EDD data provided some valuable insights, but a deeper study surely needs to be done to investigate the drivers of Small Business wage stagnation.

It would also be valuable to understand how Small Business handled the Great Recession of 2008. It appears they experienced less of a shock and seemed to bounce back sooner.

The growth in Small Business is strong and recent changes to laws, such as the in home food prep law, will lead to even more Small Businesses. San Diego Regional Economic Development Corporation (EDC), as it continues to foster civic and government engagement, would surely benefit from a better understanding of Small Businesses and stronger ties to the Small Business community.

