

Economic Development Report



Summary Report of:
Proprietor Employment Trends in Massachusetts
and Essex County: 2001-2006

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Key Research Findings

Despite the current recession, there may, in fact, be a high-potential growth sector in Massachusetts and throughout the nation. It is flourishing beneath the radar, overlooked and ignored. It offers Massachusetts communities a strong focus for economic development effort, yet there are few programs to support it. We're talking about proprietors.¹

This just-completed study commissioned by the Enterprise Center at Salem State College, reveals some surprising facts.²

1. Massachusetts is not necessarily losing jobs. While wage-and-salary employment dropped between 2001 and 2006, the most recent date for which comprehensive data are available, proprietorships grew so much that there was actually a net gain in jobs during that time period. In many cases, jobs shifted to the proprietor sector.

2. Proprietors are critical to the Massachusetts economy. Nearly one in every five jobs in Massachusetts in 2006 was a proprietorship.

3. Proprietorships are growing in number and size. Proprietors may start as one-person shops, but many of them grow and hire wage-and-salary employees.



Between 2001 and 2006, new proprietorships grew 33 percent in Massachusetts. An average of 35,000 new proprietorships were formed each year. This growth is not visible, in part, because many proprietors opt not to incorporate.

4. Professional and technical services lead the way. Many of these businesses are in the professional and technical services sector; they are well-paid, high-quality jobs. While the report also identifies construction and real estate as growth sectors, more current data would show that the decline in these industries is more than offset by the unsubstantiated but intuitively positive growth of internet-based businesses, and by the fact that self-employment tends to go up in a recession. Professional and technical services, along with education, health care and creative economy sectors, appear to hold the most promise for the immediate future.

5. Essex County MA findings are a call to action. The report has particular relevance for Essex County; 25 percent of all jobs are proprietors, 16 percent higher than the national average. Out of 72,047 corporations, partnerships and proprietorships in Essex County in 2006, sole proprietors comprised 74.3 percent of all businesses.

¹ A proprietor, also commonly referred to as a proprietorship, is not legally separate from the individual. It enjoys no corporate legal protections, and all profits or losses are those of the individual.

² The data on proprietors used in the report appeared on the U.S. Census Bureau website (www.census.gov) in 2008; all other data appeared on the website of the U.S. Bureau of Economic Development (www.bea.gov) in 2008. Because data are revised regularly by the federal agencies, differences in data for the same category occasionally appear, depending on when the data were posted.

The relevance of these findings is clear.

Both the state and local communities stand to benefit by focusing economic development efforts on proprietors. The Enterprise Center and others working with these businesses can attest to the need for support in key areas such as health insurance, tax laws and skill building.

The nature of work in Massachusetts is changing. Even before the current recession was fully recognized, more people were opting for self-employment, and even more are considering it now in the face of job losses. As the study shows, these proprietors contribute significantly to the economy. We need to value their efforts and the positive impact they are having.

Even more, we need to recognize the tremendous potential they offer to reinvigorate our communities. It is not often that a win/win proposition comes along, especially in a recession, but acknowledging and fostering the growth of Massachusetts' proprietorships can fuel the engines of economic success at individual, community and state levels.

Why do these findings come as a surprise to so many?

Proprietorships have gone largely undetected for several reasons:

1. Many Massachusetts economic reports are based on wage-and-salary data only. This data does not include proprietors, whose revenues are reported on a Schedule C attached to their tax return. In other words, we only count employees, and not self-employed business owners.

2. Many proprietorships have a low profile. They may be an Internet business and/or be home based and have no physical visibility, especially in towns where the prohibition on home-based businesses has never been changed. They may not have filed a DBA, so that their town or city does not know they exist.



3. Their customer base may not be local, so they have little incentive to join a chamber of commerce or other community business group. But these are exactly the kinds of companies we want to grow as they bring new dollars into the region and enhance its economic strength.

4. They have no voice. These are small operations that cross all industries, operate in isolation, and have no single organization to advocate for them.

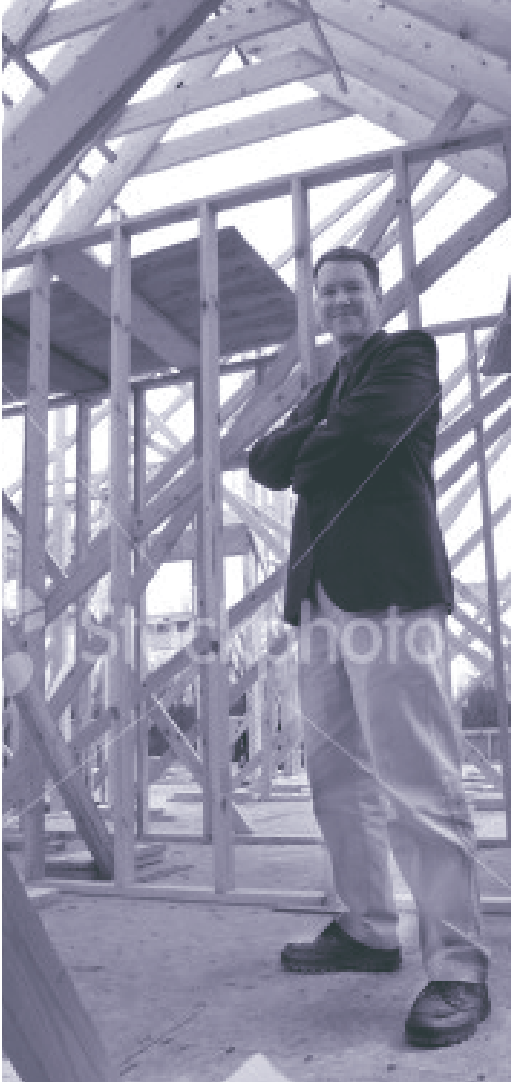
Implications for The Enterprise Center

Because The Enterprise Center reaches entrepreneurs and small businesses across the state and is the state's preeminent provider of services to this critical economic sector, it has developed substantial firsthand knowledge of proprietors and small businesses. The Enterprise Center commissioned the proprietor study to ascertain whether, in fact, the growth seen by the Center represented an unrecognized economic opportunity. Obviously, it does.

The Enterprise Center will act on these findings. It will:

- 1.** Assume a greater advocacy role.
- 2.** Promote current programs to a broader audience.
- 3.** Develop new initiatives targeted to proprietors and
- 4.** Coordinate with educational, governmental and other organizations to help these businesses succeed and flourish.

We invite you to join us in promoting the following agenda for action.



Agenda for Action

What do proprietors need?

Health insurance:

Most small businesses pay considerably more than other groups for health insurance. New York State has recently passed sole proprietor legislation that prohibits insurers from charging proprietors more than groups. We need to do the same in Massachusetts, and we need to make group-based programs more available.

Tax relief:

Although proprietors can claim a deduction on Federal taxes, no such deduction exists at the state level. While we recognize that this is a tough economic time in Massachusetts we urge that a parallel deduction be considered when the economy improves.

Skills:

Many proprietors are experts in a key aspect of their business, but may lack other skills needed to run a business successfully. The Enterprise Center has found that 34 percent of people taking its workshops report that they have increased revenues to their businesses as a result of what they learned.

Access:

Proprietors and micro-businesses need ways to be heard by their local and state governments. They need opportunities to connect with each other, with prospective collaborators and clients.

Education:

The Enterprise Center, colleges, and other organizations offering programs targeted to small business needs are filling a critical need... and it's not enough. It is a common understanding that today's young people are likely to have multiple careers, including one or more periods of self-employment. We need more courses, more programs, and more institutions supporting small business.

Awareness:

That the statistics reported in this study are surprising to many people highlights the need for greater awareness of the importance of proprietors to our local and state economies. Awareness encompasses PR and marketing, but it also calls for more research, and, in turn, changes in state data collection to make relevant data more available.