Community Economic Development

Wisconsin Small Business Survival Rates

Based on U.S. Census data we know that new business start-ups created 26.9% of all new jobs in Wisconsin in 2012. Compared to prior years and to other states, this is a relatively modest rate. Indeed, the Kauffman Institute for Entrepreneurship recently concluded that Wisconsin has one of the worst business start-up rates in the U.S. While the business start-up rate is only one indicator of entrepreneurial activity, it is perhaps the most commonly used and understood indicator. Entrepreneurship can include an existing business being the first to bring a new product line to market, adopting a new technology or introducing an innovative business strategy. Entrepreneurship is more than simply starting a business.

One argument against focusing attention on newly formed businesses is that their failure rates can be high thus losing any jobs that they may have created. An alternative would be to focus on firms that have survived some minimum length of time and are looking to expand. For example, a general rule stated within the entrepreneurship business literature is that if a business is not "turning a profit" at the end of its 3rd year of operation, the business is not viable and should be closed. This latter strategy of focusing on more established businesses (e.g., at least three years old), which is sometimes referred to as "economic gardening", is a viable option. The policy choice is whether to focus on strategies the foster new business formation or those that help grow established businesses.

To gain insights into this basic question it is important to understand the survival rates of Wisconsin businesses looking over the 1998 to 2007 time-frame. We purposely do not include the unique period of the Great Recession. For the U.S., 79.2% of the typical new start-ups survive to celebrate their first birthday, 66.4% their second year, 58.5% their third, but only 47.3% make it through their 5th year (Figure 1). Wisconsin's new business survival rates are generally higher than the US average and tend to be better than our neighboring states with the exception of Iowa where the survival rates are about the same. If the three year rule is applied, then 62.2% of new businesses in Wisconsin survive the three years and 51.6% survive five years.

Figure 1: New Business Survival Rate 1998-2007

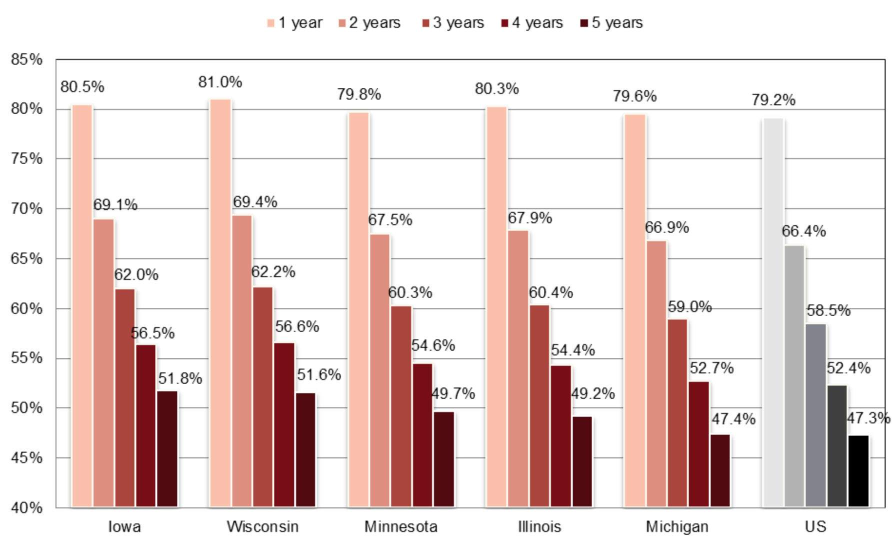


Figure 2: Job Creation and Loss by Age Class, Wisconsin 2012

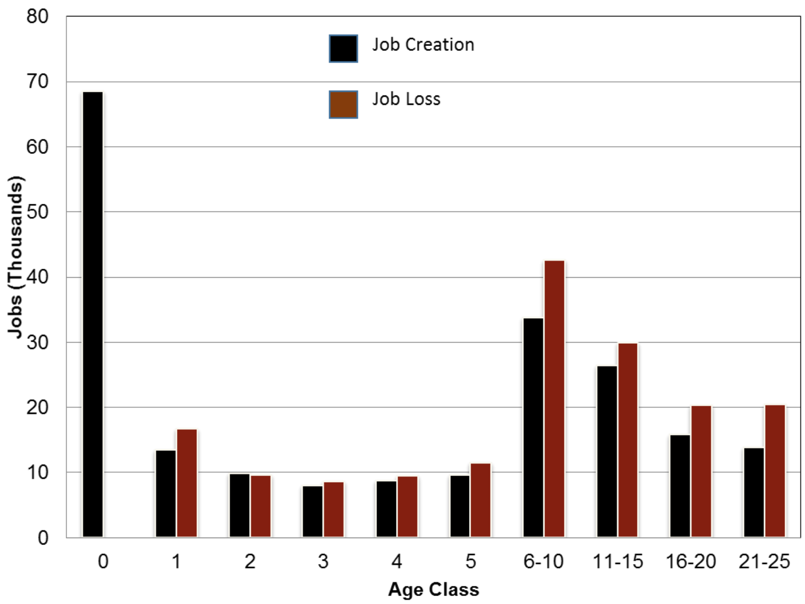
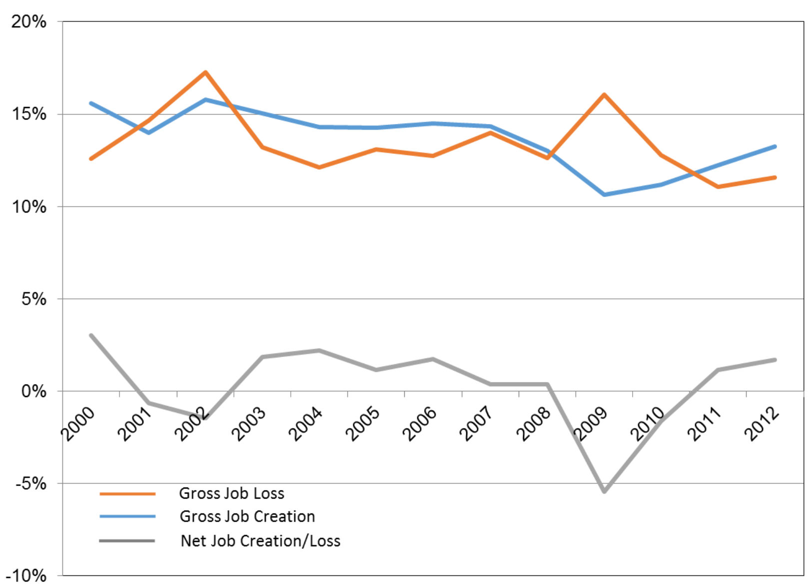


Figure 3: Job Creation and Loss as a Share of Total Employment



But what happens to employment patterns as firms open and close? Clearly new start-ups are "job creators" by definition but what happens over time. As they age they can close (or scale back operations) which makes them "job destroyers" or they can grow and remain "job creators". For 2012 in Wisconsin, we show gross job creation and job loss for new businesses, for each age from one through five, and then in five-year increments thereafter (Figure 2). In 2012, new businesses (age 0) were the only establishments that generated substantial job creation, aside from the very narrow gains from age two establishments. Indeed, it appears that firms of all ages were "destroying" more jobs than they were creating: if it were not for new business start-ups net job gains (created minus lost jobs) would have been negative.

If we track gross job creation and gross job loss over the 2000 to 2012 period we see that they generally track closely (Figure 3). In most years, gross job creation narrowly exceeds job loss resulting in a small margin that is net job creation. During the Great Recession, gross job creation decreased which might be due to start-up activity, or new business formation, that typically drives gross job creation. In other words, the significant decline in new business start-ups during the Great Recession explains a significant proportion of limited new jobs.

The policy implication is clear: more attention must be paid to new business start-ups.

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