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Small Business Success

A blueprint for turning more of New York City's small businesses into medium-sized and large businesses.

by Mark Foggin, Nadia Zonis, Jonathan Bowles, Adam Forman, David Giles and Eva Bein

The below is the introduction to Smarter Small Business. Click here to read the full report (PDF).

Small businesses arguably have never been more important to New York City's economy. Just over 90 percent of the businesses in the New York metropolitan area have fewer than 20 employees, a higher percentage than all but one of the 363 metro regions in the United States. Small firms contribute to the city's unique identity, and have helped revitalize neighborhoods from the South Bronx to Sheepshead Bay. They also have been sparking employment growth at a time when many large employers have been treading water or cutting jobs. Indeed, an analysis we conducted for this report shows that businesses with 0 to 4 employees had a net gain of 31,421 jobs between 2000 and 2013 while businesses with more than 500 employees had a net loss of 5,022 jobs.

Our analysis shows that companies with fewer than 50 employees accounted for 97.7 percent of the growth in businesses citywide between 2000 and 2013. Much of this is the result of a spectacular spike in entrepreneurial ventures, ranging from digital startups and artisanal food manufacturers to new retail and services firms, like restaurants, wine stores and healthcare clinics. Indeed, nearly twice as many new businesses were incorporated in the city in 2011 than in 1991.

The problem, however, is that too few of the city's small businesses are growing into medium-sized and large businesses.

Over the last 13 years, the bulk of the growth in new businesses in New York has been in firms with fewer than five employees. In 2013, 66.7 percent of the city's private sector businesses had fewer than five employees, up from 65.2 percent in 2008 and 63.9 percent in 2000. While these micro-businesses now make up roughly two-thirds of the city's companies, they accounted for 82.1 percent of the growth in new businesses between 2000 and 2013.

While a number of tech startups have experienced meteoric growth, the vast majority of small businesses in the city never expand in a meaningful way. It's not hard to fathom why most small businesses in the city stay small—if they survive at all. New York is one of the most expensive places to do business, and competition is fierce.

Yet, turning more of the city's very small businesses into even modestly larger businesses is one of New York's greatest opportunities for economic and employment growth in the next several years. If just one-third of the city's 165,000 microbusinesses added one new employee, it would mean 55,000 additional jobs citywide.

This report details how New York could get there.

New York City has no shortage of amazing small businesses. But interviews with a number of small business experts underscores what our data suggests: relatively few of the city's restaurants or retail businesses ever open a second location; most vendors never give up their pushcart in favor of becoming a store owner; and many manufacturers don't expand into markets outside of New York.

The good news is that, as this report details, numerous small businesses across the five boroughs have managed to expand. Their individual successes provide some clear lessons for what the de Blasio administration could do in the months and years ahead to support the expansion of more of the city's small businesses.

This report, the latest in a series of Center for an Urban Future studies focusing on the importance of small businesses and entrepreneurs to New York's economy, takes a comprehensive look at how the de Blasio administration can ensure that more of New York's small businesses grow into larger businesses. Rather than focusing on the hurdles facing the city's small businesses—as the Center and others have done in the past—this report takes a new approach and examines what has worked for small businesses that have successfully expanded in the five boroughs.

The centerpiece of our report is a series of 21 profiles of New York City-based small businesses that have managed to grow in recent years. They include: Bareburger, an organic burger chain that grew from a single restaurant in Astoria into a mini-empire with 17 stores and 600 employees; Nate's Pharmacy, which has proven that independent pharmacies can expand even in an environment where national chain stores are exploding; Arepa Lady, a longtime street vendor in Jackson Heights that opened her first storefront business this year; Urban Martial Arts, a martial arts school that increased revenues by 30 percent after expanding into the vacant storefront next door; IDL Communications & Electric, a Staten Island-based contractor that has grown from one employee and $24,000 in annual sales to 29 employees and $10 million in sales; and Xi'an Famous Foods, a Chinese restaurant that expanded beyond its Flushing base to 7 locations across the city.

Based on interviews with the company's founders or current executives, each profile details the most important factors, decisions and supports—in essence, the secret sauce—that led to the firm's successful expansion.

The report, which was funded by Citi Community Development, also features our Small Business Success Blueprint, a roadmap with more than a dozen achievable recommendations for scaling up the city's small businesses. The ideas in our blueprint are drawn from what we learned in our small business profiles, as well as input from roughly two dozen additional small business assistance providers, microfinance experts, economic development officials and others we interviewed over the past six months.

There is much to take away from our interviews with small business owners. While it's clear that there's no magic formula to

help small businesses grow, many of the same things came up again and again when we asked business owners to help us pinpoint the steps they took that were most important to their firm's growth.

For several of the companies profiled in this report, landing a big corporate client or a government contract proved to be a critical springboard to new opportunities and a new level of revenues. A number of firms trace their growth to specific strategies to reach new markets outside their comfort zone. For others, it was their decision to invest in new technology and modernize their operations that gave them a lift. Some say that seeking out mentors was pivotal to their expansion, while many credit their willingness to plan for growth from the very beginning.

One of the key takeaways from our research is that technical assistance and peer-to-peer advice often provide a significant boost. Many of the successful small business owners we interviewed had access to specific business advice that they were able to leverage at key times in their maturation cycle. Most described this not as formalized training or business assistance education, but as access to peers who had succeeded before them, or an expert who provided perspective on a specific challenge or opportunity—like preparing for a loan, navigating a permitting process, making their first managerial hire or weighing the pros and cons of investing in the automation of a key function. While general business education was appreciated, it was the specific information, obtained at exactly the moment it was relevant, that was particularly meaningful.

All of the business owners we spoke with have moved beyond fetishizing their product to confidently embracing the business itself—what many experts refer to as working on the business instead of wholly in the business. These entrepreneurs understand how much their product or service costs to produce at different scales and how to price their product competitively against their peers. And they understand their market well enough to know who their peers are—and who they aren't.

Some hit their success by paying close attention to the trends in their sector, finding a niche to differentiate themselves, and steering their business in the direction of growing opportunities before most of their competition did. In some cases, it meant jumping into a related, but different line of business altogether when they saw a new market emerge or an old one fade.

The owners of the firms we've profiled understand what their inherent strengths are and leverage them. They alsounderstand their weaknesses and how to compensate for them. Indeed, many of the business owners we interviewed say that hiring the right staff and partnering with the right people was instrumental to their success. Too many business owners launch their firms without being able to afford to hire the right complementary skills sets. Most then never adapt to think about how to hire when they're finally in a position to grow. Successful and growing business owners aren't necessarily great at everything, but they're great at recognizing what they need,then planning for and getting it.

Along those lines, the most successful firms we spoke with indicated that they envisioned growth almost from the moment they started their businesses. This was critical because the vision led to the development of a plan, which provided the entrepreneurs with a framework for making the thousands of decisions small business owners have to make while they're starting up and scaling.

Not surprisingly, many of the takeaways from our profiles point to specific decisions that businesses owners must make and strategies that they must implement on their own. But it's also clear that there is an important role for small business assistance programs, both those run by government and by intermediaries. Indeed, three of the companies featured in this report—Active World, Leading Niche and International Asbestos—took advantage of Strategic Steps for Growth, a highly effective program run by the city's Department of Small Business Services. Other business owners we interviewed credited SBS's Division of Business Acceleration and FastTrac, a partnership between SBS and SUNY's Levin Institute, while one company got a boost after winning a grant from the Business Innovation Challenge, a program run by the NYC Economic Development Corporation (NYC EDC).

New York City certainly has no shortage of small business assistance programs. SBS oversees a network of seven NYC

Small Business Solutions Centers, with at least one in every borough. SBS programs like NYC Small Business Express and the Division of Business Acceleration help companies navigate the process of applying for permits and licenses and understand rules and regulations. Earlier this year, SBS launched the Immigrant Business Initiative, a partnership with Citi Community Development that works with community based organizations to help immigrant-owned businesses start and expand. Meanwhile, NYC EDC has expanded its focus on small businesses in recent years, including its pioneering Competition Thrive, which provides grants to organizations that help immigrant-run businesses.

The city is also home to eight Small Business Development Centers, which are funded by the United States Small Business Administration (SBA) and located at colleges and universities across the five boroughs—from Lehman College in the Bronx to York College in Queens. Meanwhile, the city boasts an array of small business intermediaries, from chambers of commerce and local development corporations to microfinance organizations like the Business Center for New Americans, Accion, Business Outreach Center, Project Enterprise and TruFund.

While many of these programs provide valuable services to small businesses, a disproportionate share of them are geared toward entrepreneurs starting new businesses. “If you divided technical assistance providers into pre-startup and post-startup, there is far more at startup,” says Paul Quintero, CEO of the microfinance lender Accion East. “But the biggest bang for the buck is from existing businesses. They hire more people and pay more in taxes as opposed to the dreamers, where one in 100 might make it.”

While it undoubtedly makes sense to have programs that support new enterprises, especially at a time when a growing number of New Yorkers are turning to entrepreneurship, this report concludes that the de Blasio administration should refocus its toolkit of small business programs to include more initiatives that help existing businesses to grow. At the same time, it should scale up some of the programs it already has geared toward existing firms, such as SBS’s Strategic Steps for Growth.

The blueprint on pages 10 to 20 of this report offers more than 20 specific recommendations for what the de Blasio administration—as well as borough-wide economic development organizations, small business assistance groups and micro-enterprise organizations—could do to help more of the city’s small businesses grow to the next level. Our ideas include sending counselors to more of the city’s existing small businesses (rather than expecting small business owners to come to a handful of locations where technical assistance is provided), sponsoring opportunities for peer-to-peer learning, developing programs that help more small firms break into the corporate supply chain, expanding efforts to get small businesses to adopt technology, launching new programs to help immigrant-run firms reach customers outside of their own ethnic communities and expanding open-air markets, food festivals and other supports for food entrepreneurs.

Adopting these and other recommendations could help ensure that more of the city’s great small businesses grow into medium-sized and large businesses, and spark a new wave of economic growth.

Click here to read the full report (PDF).

This report was written by Mark Foggin, Nadia Zonis, Jonathan Bowles, Adam Forman, David Giles and Eva Bein; and edited by Jonathan Bowles. Additional research support from Eva Bein. Design by Ahmad Dowla.

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