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## Sales, Profitability Are Up For Small Businesses As 2016 Ends

By Mary Ellen Biery, December 28, 2016

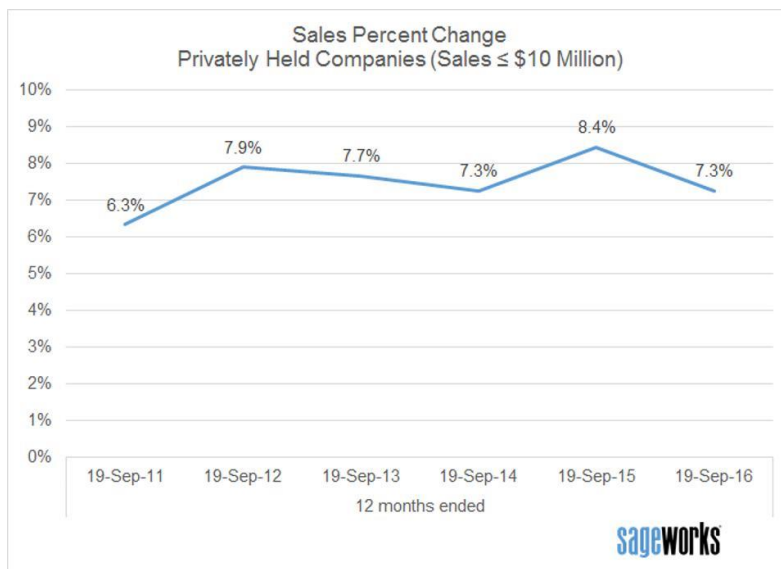
U.S. small businesses are wrapping up 2016 with stronger sales and improved profitability.

Businesses with less than \$10 million in annual revenues have experienced, on average, 7.3 percent annual sales growth during 2016, according to a financial statement analysis by [Sageworks](#), a financial information company. That represents the fifth consecutive year that sales have grown more than 7 percent.

Meanwhile, net profit margin stands at around 8.1 percent, on average, for businesses in Sageworks' database that filed a financial statement during the 12 month period ended Sept. 19. [Profitability](#) by this measure is about a percentage point higher than a year earlier and is double the net margin for the 12 months ended Sept. 19, 2011.

Many small businesses, which are the engine of U.S. job growth, have hired more staff and boosted spending on other growth initiatives as sales have risen. Even so, they've been able to increase profitability steadily.

Sageworks Chairman Brian Hamilton says the improving profitability likely reflects a cautious view on spending that owners assumed following the last recession.



Business owners over the last seven or eight years have taken a conservative approach toward borrowing and other moves that could help them ramp up operations as sales increase. They aren't hiring as much as they could, based on sales, even though unemployment has decreased in recent years. These owners are saying, "I don't want a lot of structural overhead in my business where if there is a recession, I don't have as much of a cushion," Hamilton says. "That's why the net profit margin of businesses has almost

doubled. Because the sales have increased, but they're not taking on as [many expenses]. I think it's just prudent.”



Through its cooperative data model, Sageworks collects and aggregates financial statements for private companies from accounting firms, banks and credit unions. Net profit margin has been adjusted to exclude taxes and include owner compensation in excess of their market-rate salaries. These adjustments are commonly made to private company financials in order to provide a more accurate picture of the companies' operational performance.

Business owners, even in good times, operate with a fairly thin cushion of profit, so it makes sense that owners would remain cautious, even more than seven years after the recession officially ended in June 2009.

A recent study by the JPMorgan Chase Institute of a sample of 597,000 businesses with Chase Business Banking deposit accounts uncovered some stark statistics on how thin the safety cushion is for most small businesses, which are usually defined by the Small Business Administration as those with fewer than 500 employees.

Small businesses by that definition account for 99 percent of all business establishments in the U.S., accounted for nearly two-thirds of the new jobs created between 1993 and mid-2013, and provide nearly half of private-sector employment.

[JPMorgan Chase Institute](#) said that small businesses in its sample had a median daily income that was just \$7 more than the median daily expenses (\$381 vs. \$374), and that difference was even smaller for small businesses in the personal services, retail and repair and maintenance industries.

Most small businesses are operating with a [cash buffer](#) (i.e., the number of days of cash outflows a business could pay out of its cash balance if inflows stopped) of under one month, according to the study. Specifically, average daily cash balances at half of all small businesses would represent 27 cash buffer days or fewer. In addition, 1 in 4 small businesses is even more vulnerable, holding reserves that would last 13 days or fewer if inflows stopped, JPMorgan Chase Institute said.

For the full story featuring Sageworks, visit [Forbes - Sales, Profitability Are Up For Small Businesses As 2016 Ends](#)