

What Role Do Small and Midsize Businesses Play in Philadelphia?

Key takeaways from Pew's report on these companies in the city compared with other locales

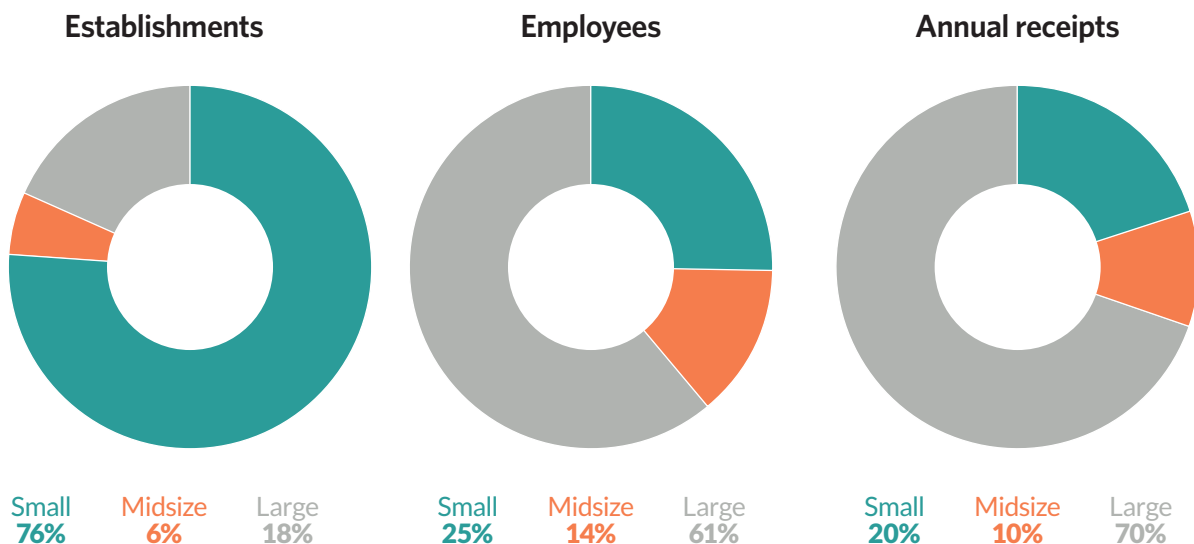
Overview

Small businesses (those with one to 99 employees) and midsize businesses (those with 100-499 employees) play a crucial role in Philadelphia as employers, taxpayers, neighborhood institutions, innovators, and wealth builders. In August 2020, The Pew Charitable Trusts examined these companies and compared data from Philadelphia with that of other large U.S. cities in a detailed report titled "[Philadelphia's Small and Midsize Business Landscape](#)." This fact sheet provides some of the key findings from that research.

At last count before the COVID-19 pandemic, the number of small and midsize businesses in Philadelphia was at its highest point since 1990 and still growing. These businesses accounted for 82% of all establishments and generated 39% of all jobs, 30% of sales receipts, and roughly half of local business tax revenues.

Figure 1

Business Establishments, Employment, and Receipts by Company Size in Philadelphia



Note: Establishments and employment for 2016, receipts for 2012.

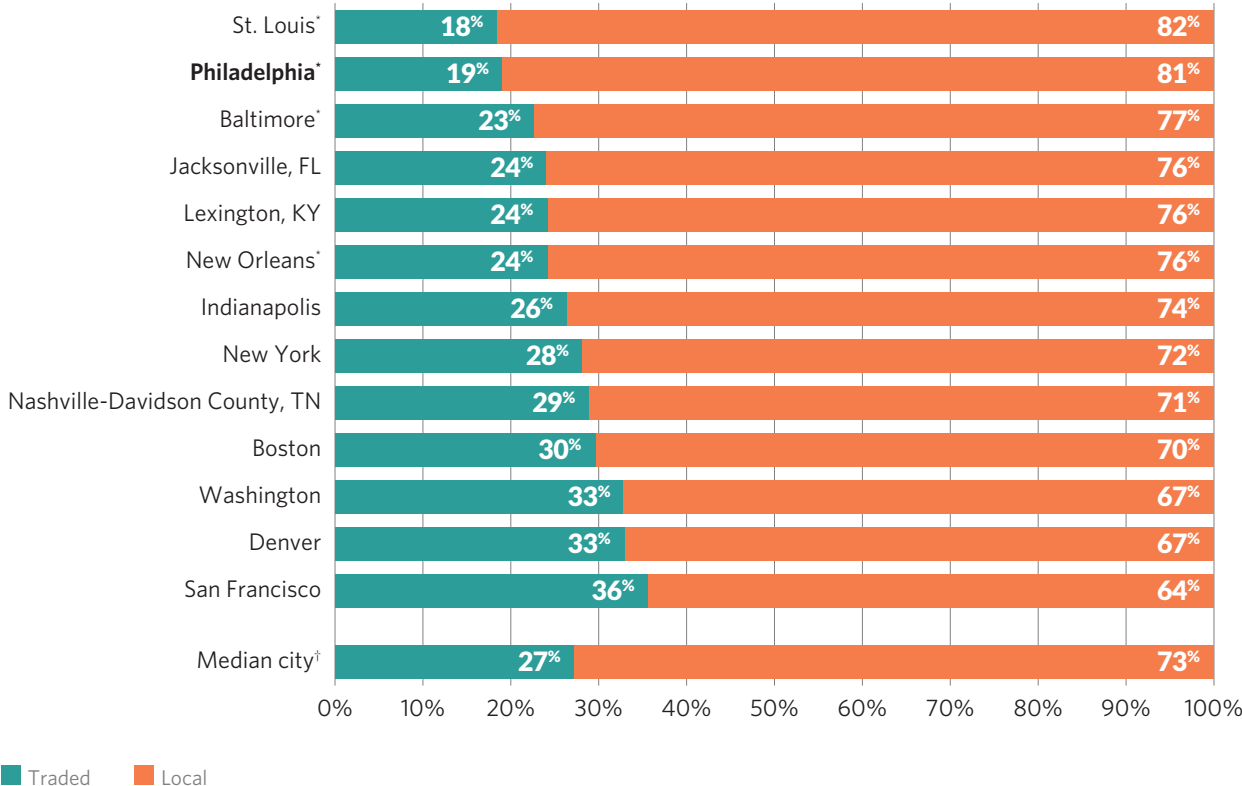
Source: U.S. Census Bureau, Statistics of U.S. Businesses

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The report compared Philadelphia with Baltimore; Boston; Denver; Indianapolis; Jacksonville, Florida; Lexington, Kentucky; Nashville-Davidson County, Tennessee; New Orleans; New York; San Francisco; St. Louis; and Washington. In Philadelphia, employment at small and midsize businesses was highest and growing—even more than in the 12 other cities—in the health care and social assistance sector, which accounted for 23% of jobs. Next highest was accommodation and food services, at 16.2%.¹ The slowest growth was in the finance, information, and manufacturing sectors.

As for market reach, 81% of small and midsize businesses in Philadelphia depended on customers within the region (known as “local” business activity). Other cities, especially those with lower poverty rates, tended to have a higher share of businesses with customers outside their home regions (“traded” activity); only 19% of small and midsize businesses in Philadelphia fell into this category.² Economists say the former activity keeps dollars circulating locally, while the latter is more likely to grow the local economy.

Figure 2
Small and Midsize Businesses in Traded or Local Category, 2015



* At least 20% of residents live below the poverty line.

† Median excludes Philadelphia.

Source: Pew analysis of County Business Patterns data, based on categorizations developed at Harvard Business School and the Massachusetts Institute of Technology

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Before the recent economic shock, the rate at which business owners opened new establishments or created new companies in Philadelphia—the business “birth rate”—was generally below the rate in the comparison cities. Still, it was slightly higher than the business “death” rate, which was mostly the same as elsewhere.

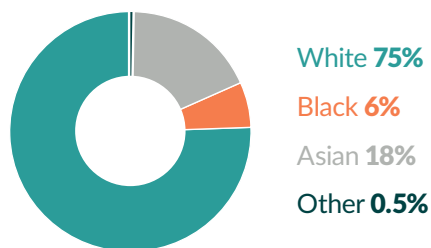
On the whole, businesses' financial condition was generally more tenuous in Philadelphia than in the other cities: Their average gross receipts, commercial credit ratings, and on-time payment ratings were generally lower than elsewhere in the period between the Great Recession and the pandemic.

In a 2017 Census Bureau survey, 5.6% of adults in Philadelphia described themselves as self-employed at a small business they owned. The median for the other cities studied was 6.8%.³ In Philadelphia, about 6.9% of white residents were self-employed, compared with 3.5% of Black residents.

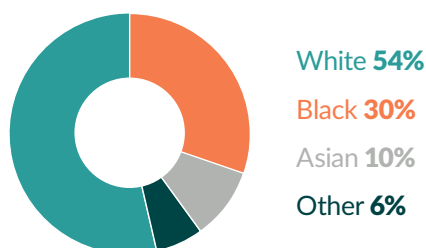
Most businesses with employees in Philadelphia are owned by white people; those without employees, such as "gig" contracting businesses, have higher ownership by other racial and ethnic groups, and have been the main locus of entrepreneurship for Black and Hispanic residents. City officials have made boosting entrepreneurship by underrepresented groups a focus of their economic development programs.

Figure 3
Philadelphia Businesses by Race of Owner

With employees

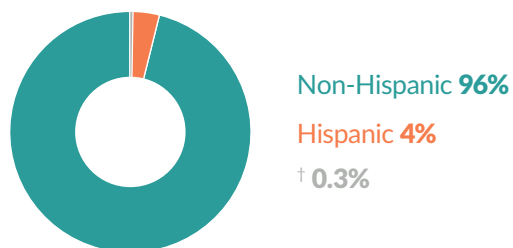


Without employees

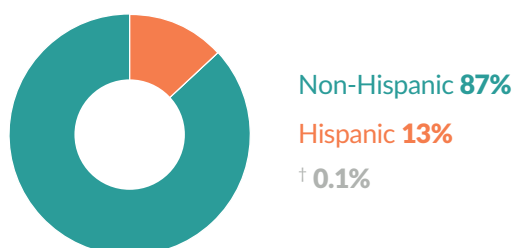


Philadelphia Businesses by Ethnicity* of Owner

With employees



Without employees



* The U.S. Census Bureau provides two categories for "ethnicity": Hispanic and non-Hispanic. Business owners who identify as one or the other may be of any race.

† Equally Hispanic and non-Hispanic. Ownership race or ethnicity is based on people who own 51% or more of the business's equity, interest, or stock.

Note: Numbers may not add up to 100% due to rounding.

Sources: U.S. Census Bureau, Annual Business Survey, 2017 ("With employees" data); U.S. Census Bureau, Survey of Business Owners and Self-Employed Persons, 2012 ("Without employees" data)

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Understanding the status of the city's small and midsize businesses before the COVID-19 pandemic and ensuing recession should help policymakers and the public chart the local economy's course for recovery.

Endnotes

- 1 U.S. Census Bureau, Longitudinal Employer-Household Dynamics.
- 2 Pew analysis of County Business Patterns data using classifications by Porter et al. In these classifications, health care is considered local, even though Philadelphia and other cities do have institutions—usually large ones—serving many patients from outside the region.
- 3 U.S. Census Bureau, American Community Survey microdata, 2017 five-year sample, processed and provided by University of Minnesota Institute for Social Research and Data Innovation, IPUMS USA, Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas, and Matthew Sobek, accessed 2020, <https://usa.ipums.org/usa>.

For further information, please visit:
pewtrusts.org/philaresearch

Contact: Elizabeth Lowe, communications officer
Email: elowe@pewtrusts.org
Project website: pewtrusts.org/philaresearch

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