

Exercise 1-2a – Answer Key: The definition of a small business

PART 1: Below are two examples of businesses, using the NAICS chart, answer the following questions:

Company A: Employment agency. What is the maximum size this agency could be according to the Small Business Administration? Refer to the NAICS chart.

Maximum size = \$6,000,000

Company B: Food service contractor. What is the maximum size the company could be, according to the Small Business Administration, and still be considered a "small business"?

Maximum size = \$17,500,000

PART 2: Below is additional detail about Company A and Company B. Is the size of the business more important to one of the companies? Please explain.

Company A: An employment placement agency.

- Revenues: \$7 million.
- Clients: Services primarily other small businesses.
- Client vendor / procurement policies: None. The clients enjoy working with the placement agency because it is a small business, but there are no formal rules in place.

Answer/Takeaway: The placement agency does not need to focus a great deal on tracking size requirements set forth by the state, government, or large corporations who might follow size standards in their contracting efforts.

Company B: A food service contractor.

- Revenues: \$10 million.
- Clients: K-12 schools and universities.
- Client vendor / procurement policies: Small business set-asides. Many of the institutions with which Company B works have contracts specifically for small businesses. The client uses the SBA definition of small business.

Answer/Takeaway: The food service contractor is well below the SBA size limit for its category. Thinking ahead, Company B will have to plan for additional client sources as it grows. At the extreme, Company B could get involved from a policy standpoint and contact the SBA Office of Size Standards to understand whether there is a planned increase in the revenues cap.

Examples of North American Industry Classification System

NAICS Code	Industry	Annual sales or number of employees (maximums allowed)
111110	Soybean Farming	\$750,000
212221	Gold Ore Mining	500 employees
423420	Office Equipment Merchant Wholesalers	100 employees
561740	Employment Placement Agencies	\$6,000,000
611110	Elementary and Secondary Schools	\$6,000,000
621111	Offices of Physicians (except Mental Health Specialists)	\$8,500,000
622110	General Medical and Surgical Hospitals	\$29,000,000
722310	Food Service Contractors	\$17,500,000

Source: Small Business Administration, Small Business Size Standards matched to North American Industry Classification System, Effective January 28, 2004.

HOMEWORK:

On your way home today...

- Pick three businesses you see (that you think might be small businesses).
- Write down the three businesses (below).
- Look up the businesses on the SBA size chart, write down the industry category and size limit (below). Use the following link: <http://www.sba.gov/size/index.html>

Business	NAICS Industry and Size from SBA site
1.	
2.	
3.	