



GUARDIAN[®]

**The Guardian Life Index:
What Matters Most to America's
Small Business Owners**

Special Economic Report
Small Business Owners Achieved
Better than Expected 2009 Financial Results
and Forecast Higher Revenues and Profits in 2010

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The Guardian Life Insurance Company of America, New York, N.Y.

Executive Summary

America's small business owners are considerably more upbeat about the financial performance of their businesses than they were a year ago, according to a new special economic report by The Guardian Life Small Business Research Institute. Fifty-one percent of small business owners surveyed in June of this year anticipate their 2010 revenues will exceed their 2009 sales. A year ago, only 32 percent expected better financial performance in 2009 than the prior year.

The Institute's analysis is based on a comprehensive study, The Guardian Life Index: What Matters Most to America's Small Business Owners, which surveyed 1,200 small business owners with 2-99 employees across 12 key industry sectors, including: Accounting and Financial Services, Arts and Entertainment, Environmental, High-Tech, Hotels and Restaurants, Manufacturing, Personal Services, Professional and Technical Services, Real Estate, Retail and Wholesale Trade, Traditional/Discretionary Health and Other. In 11 of these sectors, small businesses comprise 50 percent or more of U.S. gross domestic product; in one case, Environmental, they represent a fast-growing component of an emerging industry.

The Institute's findings reveal that America's small business owners outperformed their own revenue estimates for 2009. When asked to look back at their businesses' actual performance in 2009, 39 percent reported a revenue increase over 2008. However at mid-2009, only 32 percent expected their businesses to outperform 2008.

In line with their promising financial prospects, 45 percent of small business owners say they plan to expand their business in the next 12 to 24 months. This finding is significantly higher than the 38 percent of small business owners who foresaw business expansion a year earlier.

Looking at individual sectors of the U.S. economy, the Guardian Life Index reports that owners of Environmental companies (65 percent) and Traditional/Discretionary Health providers (60 percent) have the highest expectation that their 2010 revenues will exceed 2009. In contrast, Hotels and Restaurants (58 percent), Retail and Wholesale Trade (57 percent) and Accounting and Financial Services (57 percent) have the highest percentage of small business owners who anticipate the same or lower revenues in 2010 vs. 2009.

Special Economic Report

According to the most recent data from the Guardian Life Index, revenues for 2009 were higher than small business owners originally anticipated and will likely be even better in 2010. Fifty-one percent of small business owners surveyed in June 2010 anticipate their 2010 revenues will exceed their 2009 sales. A year ago, only 32 percent expected better financial performance in 2009 than 2008.

The Institute's analysis is based on a comprehensive study, *The Guardian Life Index: What Matters Most to America's Small Business Owners*, which surveyed 1,200 small business owners with 2-99 employees across 12 key industry sectors, including: Accounting and Financial Services, Arts and Entertainment, Environmental, High-Tech, Hotels and Restaurants, Manufacturing, Personal Services, Professional and Technical Services, Real Estate, Retail and Wholesale Trade, Traditional/Discretionary Health and Other. In 11 of these sectors, small businesses comprise 50 percent or more of U.S. gross domestic product; in one case, Environmental, they represent a fast-growing component of an emerging industry. (Note: For a detailed explanation of the methodology employed, please see Appendix)

Significantly, the number of responding firms that expect revenue increases in 2010 rose from roughly one-third in 2009 to half in 2010. The greatest positive increases projected occurred in the "up to 10 percent greater than 2009" range, rising from 15 percent for 2009 to 24 percent for 2010.

The total number of small business owners anticipating revenue decreases dropped from 41 percent in 2009 to 17 percent in 2010, while the number of companies expecting either flat or increased revenues rose from 59 percent in 2009 to 83 percent in 2010.

Guardian Life Index 2009			Guardian Life Index 2010		
Compared to 2008, what do you anticipate your revenues will be for 2009?	Total		Based on your current and projected sales, what do you anticipate your revenue will be for 2010?	Total	
More than 25% greater than 2008	6%	32% Higher	More than 25% greater than 2009	8%	51% Higher
10% - 25% greater than 2008	12%		10% - 25% greater than 2009	18%	
Up to 10% greater than 2008	15%		Up to 10% greater than 2009	24%	
About the same as 2008	27%	27% Same	About the same as 2009	32%	32% Same
Up to 10% lower than 2008	16%	41% Lower	Up to 10% lower than 2009	9%	17% Lower
10% - 25% lower than 2008	17%		10% - 25% lower than 2009	6%	
More than 25% lower than 2008	8%		More than 25% lower than 2009	2%	

*Because of rounding, percentages may not add up to 100 percent

The Institute's findings also reveal that America's small business owners outperformed their own revenue estimates for 2009. When asked to look back at their businesses' actual results in 2009, 39 percent reported a revenue increase over 2008. However at mid-2009, only 32 percent expected their businesses to outperform 2008, a seven percentage point difference.

In 2009, six percent of small businesses grew their revenues more than 25 percent over the prior year, 15 percent saw increases of between 10 percent and 25 percent, and nearly one in five (19 percent) saw their 2009 revenues rise by up to 10 percent over 2008. The number of businesses with revenues of "about the same (as 2008)" dropped from 27 percent to 22 percent.

Guardian Life Index 2009 - Revenues			Guardian Life Index 2010 - Revenues		
Compared to 2008, what do you <u>anticipate</u> your revenues will be for 2009?	Total		Compared to 2008, how did your revenues change in 2009?	Total	
More than 25% greater than 2008	6%	32% Higher	More than 25% greater than 2008	6%	39% Higher
10% - 25% greater than 2008	12%		10% - 25% greater than 2008	15%	
Up to 10% greater than 2008	15%		Up to 10% greater than 2008	19%	
About the same as 2008	27%	27% Same	About the same as 2008	22%	22% Same
Up to 10% lower than 2008	16%	41% Lower	Up to 10% lower than 2008	15%	39% Lower
10% - 25% lower than 2008	17%		10% - 25% lower than 2008	17%	
More than 25% lower than 2008	8%		More than 25% lower than 2008	7%	

**Because of rounding, percentages may not add up to 100 percent*

Small business owners tend to operate in a ledger economy, in which their income must cover their outlays. They view borrowing to cover the difference between income and outlays as undesirable. Functioning within this conservative perspective, small business owners, according to anecdotal evidence, tend to understate their revenue expectations. That may explain the differences between their financial estimates and their actual performance, as quantified in the Institute's research. If this assumption regarding understatement holds true, Small Business America is truly beginning to feel a turning of the economic tide.

Consistent with this upbeat outlook is the fact that nearly half of all small business owners who participated in the study now anticipate some form of expansion over the next 12-24 months (38 percent in 2009 vs. 45 percent in 2010). Small business owners also anticipate a better climate for “actively looking to sell the business” – a perspective that nearly doubled from 5 percent in 2009 to 9 percent in 2010.

Guardian Life Index 2009 - Business Plan		Guardian Life Index 2010 - Business Plan	
Which of the following best captures the plan for your business over the next 12-24 months?	Total	Which of the following best captures the plan for your business over the next 12-24 months?	Total
Maintain business as usual	54%	Maintain business as usual	51%
Plan to expand the business	38%	Plan to expand the business	45%
Plan to downsize the business	8%	Plan to downsize the business	7%
Actively looking for someone else to manage the business	3%	Actively looking for someone else to manage the business	5%
Actively looking to sell the business	5%	Actively looking to sell the business	9%

According to the 2010 Guardian Life Index data, 60 percent of small business owners polled showed a positive profit picture in 2009. Nearly one in five (18 percent) posted profits exceeding 20 percent, and one in three (36 percent) posted profits of more than 10 percent. Eighteen percent broke even for the year, and 21 percent showed a loss.

Guardian Life Index 2010 - Profits		
Which of the following describes your net profit or net loss range for 2009?	Total	
More than 30% profit	8%	60% Profitable
21% to 30% profit	10%	
11% to 20% profit	18%	
2% to 10% profit	23%	
We basically broke even in 2009	18%	18% Broke even
-2% to -10% loss	11%	21% Unprofitable
-11% to -20% loss	6%	
-21% to -30% loss	2%	
More than -30% loss	2%	
I don't exactly know what our net profit/loss was	2%	

*Because of rounding, percentages may not add up to 100 percent

Projections for 2010 point to an increasingly positive profit picture. Eighty-three percent of small business owners look to a year in which profits will be either stable or increase. At the same time, the total number of companies expecting business losses dropped from 21 percent in 2009 to 16 percent in 2010.

Guardian Life Index 2010 - Projected Profits		
Based on your current and projected sales, what do you anticipate your net profit or net loss will be for 2010 as compared to 2009?		
More than 25% greater than 2009	6%	48% Higher
10% - 25% greater than 2009	14%	
Up to 10% greater than 2009	28%	
About the same as 2009	35%	35% Same
Up to 10% lower than 2009	9%	16% Lower
10% - 25% lower than 2009	5%	
More than 25% lower than 2009	2%	
I don't exactly know what our net profit/loss was	1%	

**Because of rounding, percentages may not add up to 100 percent*

The Guardian Life Index also looked at projected 2010 revenues and profitability by key economic sectors where small business owners represent 50 percent or more of U.S. Gross Domestic Product. The owners of Environmental companies (65 percent) and Traditional/Discretionary Health providers (60 percent) have the highest expectation that their 2010 revenues will exceed 2009. In contrast, Hotels and Restaurants (58 percent), Retail and Wholesale Trade (57 percent) and Accounting and Financial Services (57 percent) have the highest percentage of small business owners who anticipate the same or lower revenues in 2010 vs. 2009.

Based on your current and projected sales, what do you anticipate your revenue will be for 2010?	Real Estate Development	Personal Services	Professional and Technical Services	Arts and Entertainment	Hotels and Restaurants	Retail and Wholesale Trade	Accounting and Financial Services	Environmental	Hi-Tech	Traditional/Discretionary Health	Manufacturing	Other
More than 2009	46%	51%	46%	55%	43%	43%	43%	65%	52%	60%	57%	55%
About the same	36%	35%	30%	26%	36%	39%	38%	23%	32%	23%	29%	32%
Lower than 2009	18%	14%	24%	18%	22%	18%	19%	13%	17%	17%	14%	13%
Same + lower than 2009	54%	49%	54%	44%	58%	57%	57%	36%	49%	40%	43%	45%

When it comes to projected 2010 profitability, small business owners in the Environmental sector expect to post the highest gains over 2009 (63 percent), followed by those in small business Manufacturing (58 percent) and Arts and Entertainment (54 percent).

Based on your current and projected sales, what do you anticipate your net profit or net loss will be for 2010 as compared to 2009?	Real Estate Development	Personal Services	Professional and Technical Services	Arts and Entertainment	Hotels and Restaurants	Retail and Wholesale Trade	Accounting and Financial Services	Environmental	Hi-Tech	Traditional/Discretionary Health	Manufacturing	Other
More than 2009	42%	48%	43%	54%	40%	42%	46%	63%	47%	51%	58%	45%
About the same	37%	34%	39%	30%	43%	43%	35%	18%	40%	27%	30%	37%
Lower than 2009	18%	16%	17%	15%	16%	13%	19%	18%	12%	20%	11%	18%

In at least one sense, bigger appears to be doing better: Owners of companies with 10 or more employees have consistently higher expectations for improved revenue growth in 2010 than their smaller counterparts. Forty-six percent of small business owners with two to nine employees anticipate increased revenues in 2010 over 2009. In contrast, owners of larger businesses have the following, higher expectations: 53 percent (10-24 employees), 57 percent (25-49 employees) and 57 percent (50-99 employees).

Based on your current and projected sales, what do you anticipate your revenue will be for 2010?	2-9 Employees	10-24 Employees	25-49 Employees	50-99 Employees
More than 2009	46%	53%	57%	57%
About the same	34%	32%	27%	29%
Lower than 2009	20%	16%	16%	13%

The same held true for profitability projections, with owners of larger companies anticipating better profits in 2010 vs. 2009 than their smaller counterparts.

Based on your current and projected sales, what do you anticipate your net profit or net loss will be for 2010 as compared to 2009?	2-9 Employees	10-24 Employees	25-49 Employees	50-99 Employees
More than 2009	44%	48%	56%	56%
About the same	35%	37%	31%	30%
Lower than 2009	20%	13%	12%	13%

Male-owned businesses held a slight, but minimal edge in revenue projections from 2009 to 2010. While women-owned businesses were somewhat more likely to project flat revenues for this period, both men and women small business owners shared approximately the same number of companies expecting lower 2010 revenues.

Based on your current and projected sales, what do you anticipate your revenue will be for 2010?	Male	Female
More than 2009	52%	48%
About the same	31%	35%
Lower than 2009	18%	17%

When it comes to profitability, women-owned small businesses lag behind their male counterparts, with fewer women-owned businesses projecting increased profits in 2010 (43 percent vs. 50 percent male), and a greater number of women anticipating lower profitability for the same period (19 percent vs. 15 percent male).

Based on your current and projected sales, what do you anticipate your net profit or net loss will be for 2010 as compared to 2009?	Male	Female
More than 2009	50%	43%
About the same	34%	35%
Lower than 2009	15%	19%

Appendix

Methodology for The Guardian Life Index: What Matters Most to America's Small Business Owners

- Polled more than 1,200 small business owners representing:
 - 12 small business industry sectors
 - Accounting and Financial Services
 - Arts and Entertainment
 - Environmental
 - High-Tech
 - Hotels and Restaurants
 - Manufacturing
 - Personal Services
 - Professional and Technical Services
 - Real Estate
 - Retail and Wholesale Trade
 - Traditional/Discretionary Health
 - Other
 - 9 geographic regions
 - 4 key states (California, Texas, New York and Florida)
 - 2 major DMA's (New York and Los Angeles)
- Fielded in June 2010
- Based on a 21-point scale (from +10 to -10) that measures the positive and negative intensity of responses to a vast battery of issues
 - Positive intensity numbers above 3 are highly significant and indicate strong feelings
 - Intensity numbers above seven are rarely seen for matters other than family or religion
 - Negative intensity numbers, even slightly negative ones, are highly significant and indicate strong passions
- Employed an online survey of 25 minutes' duration covering over 150 questions, as well as an extensive battery of industry sector and small business owner profile questions
- Obtained sample of U.S. small business owners from the Harris Interactive panel of 6 million U.S. respondents. From this large pool, a representative sample of 1,200 small business owners with 2-99 employees was recruited utilizing a specific set of screening questions