

# Most small businesses fail in the first five years



The Small Business Administration's web site seemed to be the logical place to verify this statement. The statistics there, unfortunately, do not split out small businesses from large businesses, but they do show the statistics for ALL businesses, of which the overwhelming majority is small businesses.

At the end of 1993, the IRS reported there was approximately 21.5 million Nonfarm Business Tax Returns, of which over 15 million were sole proprietorships. In 1994, the number of Nonfarm Business Tax Returns was 22.1 million.

The number of new businesses in 1994, as reported by Dun & Bradstreet and the U.S. Department of Labor was over 1.5 million, a 6% increase from 1993. New business formation reached another record level in 1995. There were 819,477 new employer firms in 1995 - the highest ever and a 2 percent increase over the record 806,885 in 1994.

The number of businesses that failed in 1994, as reported by the U.S. Courts, Dun & Bradstreet, and the U.S. Department of Labor

Bankruptcies 52,256 (15.4% decrease from 1993)

Failures 71,520 (17.0% decrease from 1993)

Terminations 803,127 (0.3% increase from 1993)

If you add-up the bankruptcies, failures, and terminations and divide them by the sum of existing and new businesses in 1994, you get a 4% failure rate. It should also be noted that the number of terminations include people who may have retired, moved, or closed their business for any reason.

In 1995, business failures declined by 0.5 percent to 71,194 and bankruptcies also declined by 0.5 percent to 50,516. The SBA did not give a number for terminations in 1995.

The SBA also states that the number of small businesses in the United States has increased 49% since 1982 and that only one in seven businesses who shut their doors, actually fails - that is, leaves unpaid obligations.



[www.sbaonline.sba.gov](http://www.sbaonline.sba.gov)

Want more proof? Knight-Ridder Newspaper in San Jose, CA in an article from Mar, 1995 reported that an analysis by Dun & Bradstreet of 800,000 small businesses show that 70% were still in business after 8.5 years.



[www.skyenet.net/~jackie](http://www.skyenet.net/~jackie)

A second source that can verify this is a former Senior Analysis from Dun & Bradstreet, Fugi Saito,

who worked on the above report. His analysis showed that of those businesses that do fail, 85% do so in the first five years. But this does not mean that 85% of all small businesses fail! Fugi has left D&B to form his own company and has a web page which also contains an excellent analysis of MLM's in general.



[www.oanet.com/homepage/fugi](http://www.oanet.com/homepage/fugi)

So if you hear a distributor tell you that most small businesses fail in the first five years, ask them where they got their information, OK?



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