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FOREWORD

Despite an economy recently characterized by slow economic growth, women-owned businesses are making dramatic strides in the nation's business community. By the end of 1992, the more than 6.5 million women-owned businesses in the United States were estimated to employ more people than the Fortune 500 companies combined.¹

The 1992 National Association of Women Business Owners (NAWBO) Biennial Membership Survey² has uncovered some of the many avenues through which women-owned businesses are a powerful and expanding economic force. This report is a summary of one facet of that survey: the sources and types of financing used by women business owners.

The results of this survey demonstrate that, despite the significant growth seen in recent years among women-owned businesses, women business owners still face barriers in identifying and obtaining the financing necessary to operate and expand their businesses. Even given the successful and stable track records of women-owned firms, many of the women surveyed report serious concern about a range of financial issues. These issues and concerns will be explored in this report.

¹ Source: Women-Owned Businesses: The New Economic Force, a data report published by the National Foundation for Women Business Owners, 1992.

² The 1992 Membership Survey of Women Business Owners was conducted for the National Association of Women Business Owners by the National Foundation for Women Business Owners, and was sponsored by leading corporate supporters AT&T and IBM.

WOMEN-OWNED BUSINESSES: THE NEW ECONOMIC FORCE

Women-owned businesses are becoming an increasingly powerful economic force in the United States and an increasingly visible and powerful part of the marketplace, today employing more workers than the Fortune 500 companies combined.

The 1992 NAWBO membership survey clearly illustrates the expanding economic force of women-owned businesses. The survey found that women-owned businesses:

- boosted employment -- 25% added employees in the past year;
- increased sales -- 57% had increased sales over the previous year, with 23% of those surveyed reporting gross annual sales of over \$1 million;
- are not a new phenomenon -- three-quarters (77%) have been in business more than 4 years and 29% have been in business over 11 years.

1992 was a year of growth and expansion for women-owned businesses, even in the face of a slow national economy:

- 46% developed a new product or service line;
- 32% increased expenditures for equipment;
- 26% expanded into new domestic markets, 7% into new markets abroad.

Women business owners extended their optimism into the future as well:

- 66 percent expected sales to increase in 1992 over 1991 levels;
- 33 percent expected to add employees in 1992.

While women-owned businesses have shown significant growth in recent years and exhibit the potential for even greater growth in the future, they face financial barriers which could impede that growth. The availability of capital was cited by women business owners as one of the most significant barriers to their business' growth, second only to the "economic environment." Nearly four in 10 women business owners (39%) pointed to availability of capital as the most significant barrier to growth.

Business financing is thus one of the major issues that women business owners, public policy makers, and the financial community alike must address. Removing the barriers to access to capital is one of the surest ways to encourage growth not only among women-owned businesses, but all small businesses.

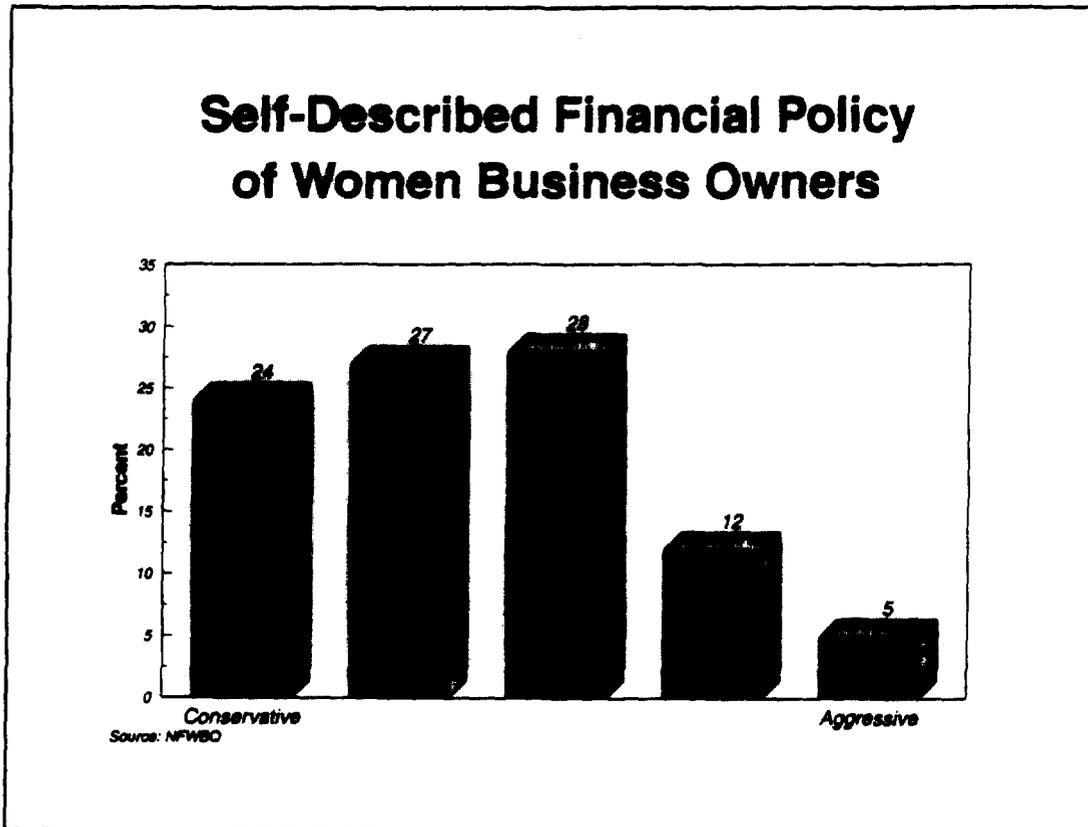
FINANCIAL PROFILE OF THE WOMAN BUSINESS OWNER

Women-owned businesses are represented throughout the economy -- in the business and professional services and retail trade sectors, as well as in manufacturing, finance/insurance/real estate and construction.

Other NFWBO research has shown that women-owned businesses grow somewhat more slowly and steadily than businesses at large. The NAWBO membership survey finds that women business owners tend to describe themselves as financially conservative in the management of their businesses, which would tend to promote a pattern of slow, steady growth over one of cyclical ups and downs.

When asked to describe their current financial policy on a scale of 1 (conservative/risk averse) to 5 (aggressive/highly debt tolerant), women business owners average 2.45.

Fully 51% rate themselves on the conservative end of the spectrum (1 or 2), 28% say they are in the middle, and only 17% classify themselves as financially aggressive (4 or 5).



MAJOR FINANCIAL BARRIERS

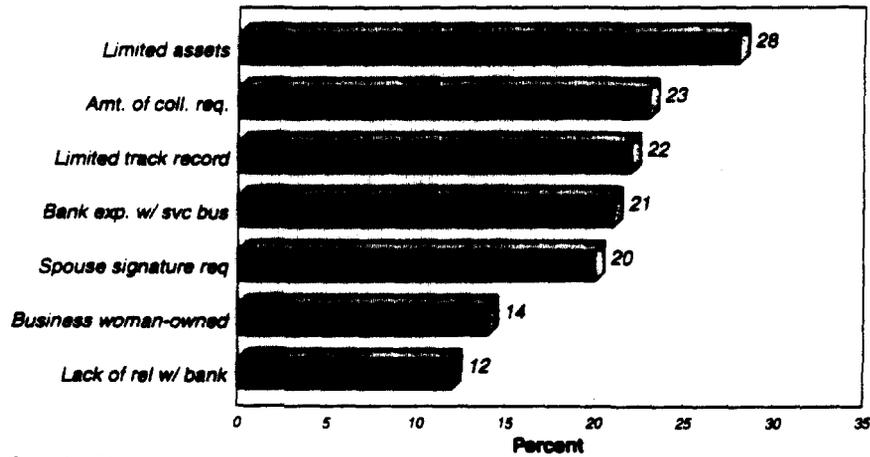
As previously indicated, the most serious self-described barrier to growth among women-owned businesses, next to overall economic conditions, is the availability of capital -- and fully two-thirds of women business owners report difficulties in working with their financial institutions. In fact, **women-owned businesses are 22% more likely to report problems dealing with their bank than are businesses at large.**³

The most common complaint women business owners have in working with their banks in order to obtain financing is the need for more assets (28%) and greater collateral (23%), followed by a limited track record (22%) and the limited experience of banks in dealing with service businesses (21%).

The attitudes and practices of loan officers are another significant financial barrier to women-owned businesses. A surprising 20% of women business owners reported that their loan officer insisted upon their spouse's signature in order to obtain a loan, and another 14% believe that the mere fact that their business was woman-owned was an impediment to obtaining financing. **Thus, fully one-third of women business owners perceive some degree of gender-based discrimination.**

³ Two-thirds (67%) of NAWBO survey respondents cite barriers encountered when working with their bank, while a lesser 55% of all small to medium-sized firms report difficulties in obtaining financing. The latter figure (and all other comparative figures cited in this report) is obtained from a 1992 survey of firms with less than 500 employees conducted for National Small Business United and Arthur Andersen's Enterprise Group by The Gallup Organization. See Survey Results of Small and Middle Market Businesses: Attitudes, Issues, and Outlook, Arthur Andersen & Co., SC and NSBU, July, 1992, p. 10.

Barriers Between Women Business Owners and Their Banks



Source: NFWBO
Note: multiple responses allowed

SHORT-TERM CAPITAL NEEDS: TYPES AND SOURCES OF FINANCING

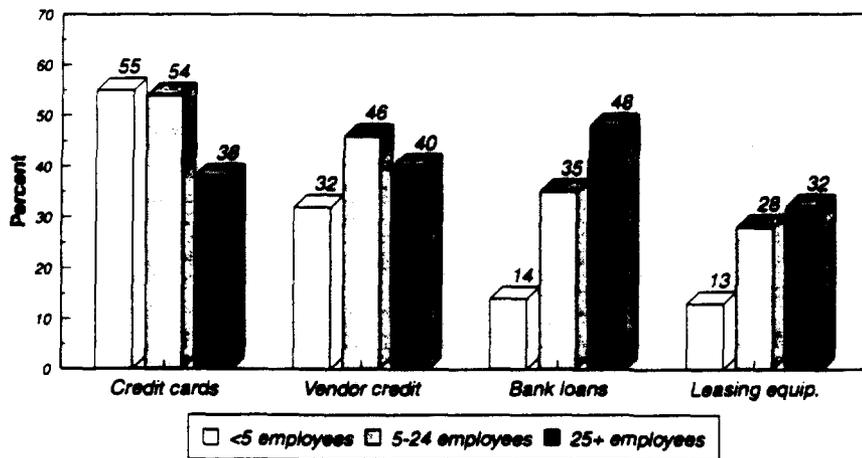
Three-quarters of all women-owned businesses have sought short-term financing within the past year. By far, the largest single type of short-term financing used by women business owners is credit cards. This varies significantly from the findings of the Arthur Andersen/NSBU study, in which more small businesses use bank loans and vendor credit than credit cards for short-term financing.

- One half (52%) of women-owned firms have used credit cards for short-term financing within the past year, compared with 18% of all small to medium-sized firms.

- Other types of short-term financing used by women-owned firms are: vendor credit (38%), commercial bank loans (26%), leasing equipment (21%) and personal bank loans (18%).

- Credit cards are used most frequently by smaller firms (both women- and men-owned), while the use of bank loans and leasing equipment is higher among larger firms.

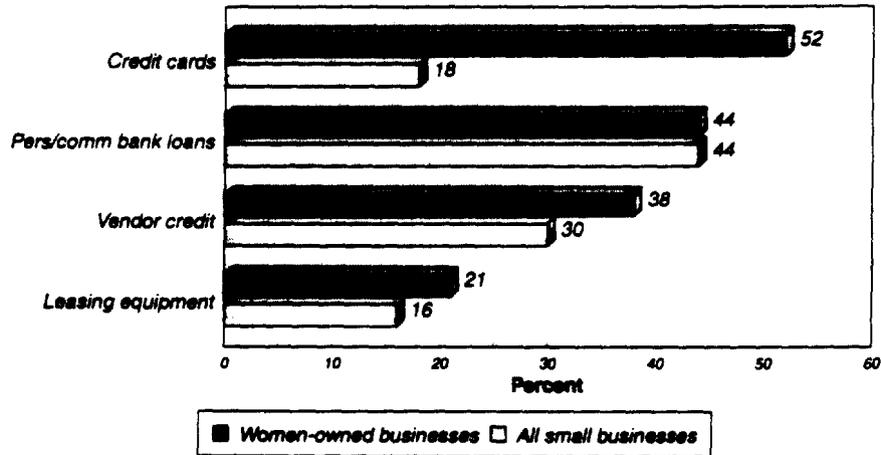
Types of Short Term Capital



Source: NFWBO

Note: Multiple responses allowed

Comparison of Types of Short Term Financing Used



Source: NFWBO and NSBU
Note: Multiple responses allowed

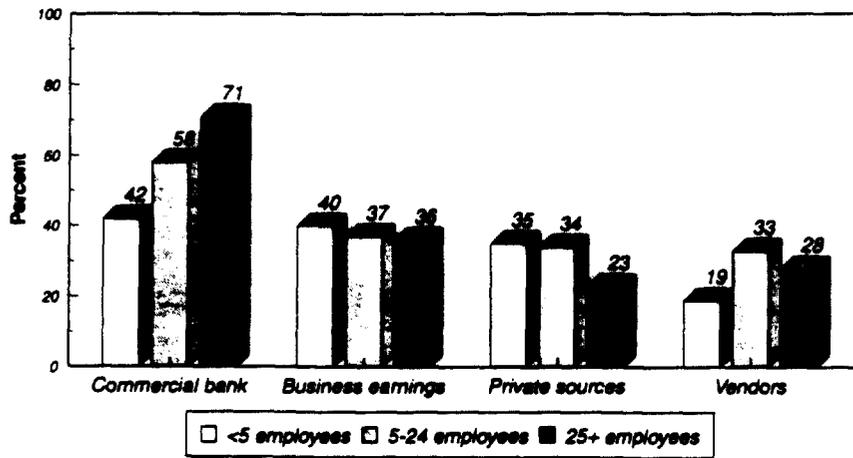
Despite the problems encountered when seeking financing for their business, banks are the most popular source of short-term financing for women and men business owners alike. However, a larger proportion of women business owners rely on private sources for financing than do their male counterparts.

- Just over half (52%) of women-owned businesses have used a commercial bank for short-term financing within the past year, and usage increases with the size of the business -- from 42% among those with fewer than 5 employees to 71% among those businesses with 25 or more employees. Similarly, 51% of all small to medium-sized businesses have used a bank for short-term capital needs.

- Other sources of short-term capital for women business owners include business earnings (38%), private sources such as personal savings, family and friends (33%), and vendors (25%).

- While 33% of women business owners utilize private sources for short-term capital needs, only 10% of all businesses seek short-term capital from private sources.

Sources of Short Term Capital



Source: NFWBO

Note: Multiple responses allowed

LONG-TERM CAPITAL NEEDS: TYPES AND SOURCES OF FINANCING

Just over six in 10 women business owners (61%) state that they have long-term capital needs, somewhat less than the 75% cited by all small- to medium-sized firms. The types of long-term capital sought within the past year or that women business owners plan to seek in the next 12 months include term loans from a financial institution and equipment leasing.

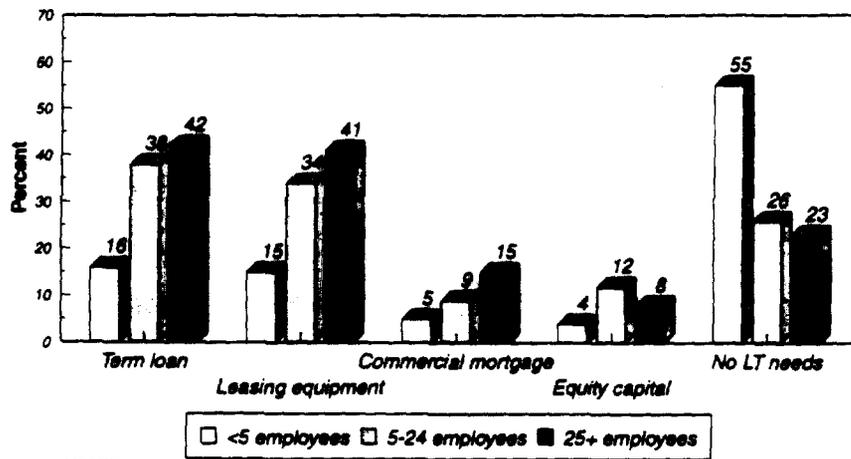
- **Larger businesses are much more likely to be in the market for long-term financing than small firms. Only 45% of women-owned firms with less than five employees say they have or plan to seek long-term financing, while fully 75% of those with 25 or more employees are in the market.**

- **Forty-five percent (45%) of women-owned firms in the market for long-term financing (28% overall) have used or plan to use a term loan from a financial institution.**

- **Forty-two percent (42%) of those in the market (26% overall) have leased or plan to lease equipment on a long-term basis.**

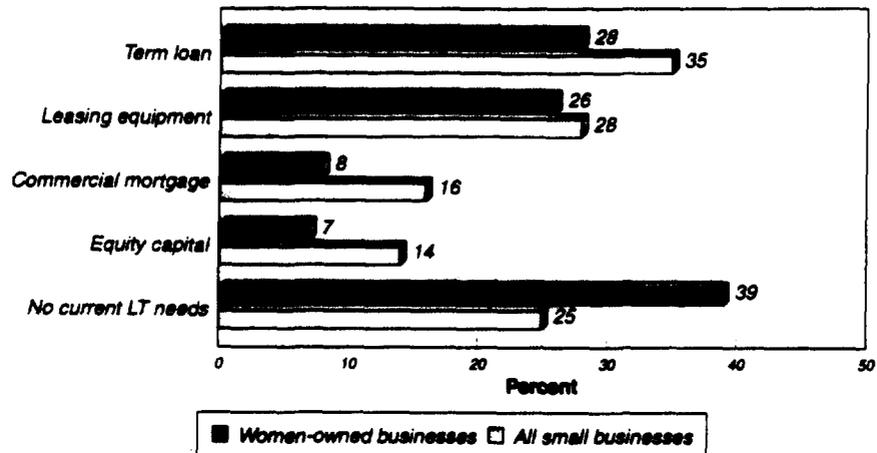
- **Women-owned firms are less likely to use equity capital for long-term financing needs. Only 12% of those in the market (7% overall) have sought or plan to seek equity capital, compared to 19% and 14%, respectively, of all small- to medium-sized firms.**

Types of Long Term Capital



Source: NFWBO
Note: Multiple responses allowed

Comparison of Types of Long Term Financing Used

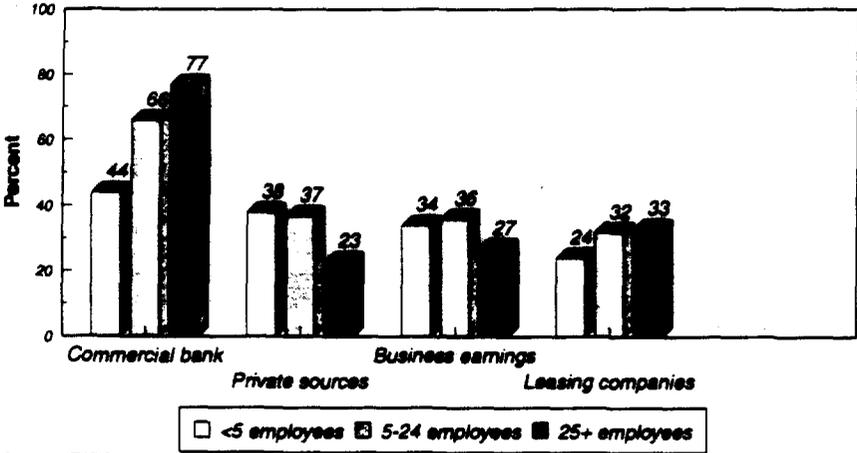


Source: NFWSO and NSBU
Note: Multiple responses allowed

Although the long-term capital needs of women-owned businesses are similar to most businesses, a greater proportion of women-owned firms are turning, or are forced to turn, to private sources of funding -- and *multiple* sources of funding -- rather than to banks for their long-term capital needs.

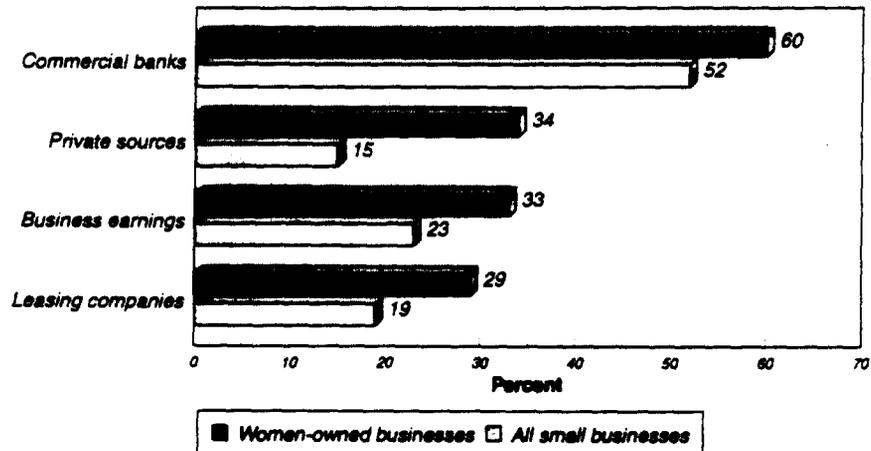
- The largest single source of long-term capital, for both women- and men-owned businesses, are financial institutions. Banks are the source of 60% of the long-term capital needs of women-owned firms, while they supply 52% of the long-term capital needs for small- and medium-sized businesses as a whole.
- Other important sources for long-term capital needs are private sources (34% for women-owned firms, 15% in general), business earnings (33% women-owned firms, 23% in general), and leasing companies (29% for women-owned firms, 19% for all firms).
- Larger women-owned businesses are more likely to use banks for long-term capital requirements, while smaller firms turn to private sources to nearly the same extent as they do to banks. However, regardless of business size, women business owners are tapping private sources, and a wider variety of sources, at a greater rate than are other business owners.

Sources of Long Term Capital



Source: NFWBO
Note: Multiple responses allowed

Comparison of Sources of Long Term Financing Used



Source: NFWBO and NSSU
Note: Multiple responses allowed

SUMMARY AND CONCLUSIONS

Women-owned businesses are a growing and increasingly significant sector of the nation's economy. They provide employment for more people in the United States than the Fortune 500, increased sales and employment last year despite slow economic growth, and are poised for continued expansion and growth in the coming years.

Unfortunately, there are barriers to this continued growth. Financing their business' growth remains a key concern to women business owners, and access to capital is identified by them as one of the most significant barriers to their business' growth.

Among the key findings of this analysis of the types and sources of financing among women business owners:

- **Women business owners rate themselves as somewhat conservative in their financial policies, placing themselves an average 2.45 on a 1 to 5 scale. Fully 51% place themselves on the conservative end of the scale, 28% in the middle, and 17% classify themselves as aggressive financially. Women-owned businesses neither expand nor contract as rapidly as other businesses, making them a safer risk for investors and lenders.**
- **Fully two-thirds of women business owners report difficulties in working with their financial institutions; women-owned businesses are 22% more likely to report problems dealing with their bank than are businesses at large.**

- **Three-quarters of all women-owned businesses have sought short-term financing within the past year; the largest single type of short-term financing used by women business owners is credit cards. Women-owned firms are much heavier credit card users than other small firms, most of whom use bank loans and vendor credit for short-term financing.**
- **Despite the problems encountered when seeking financing for their business, banks are the most popular source of short-term financing for women and men business owners alike. However, a larger proportion of women business owners rely on private sources for financing than do their male counterparts.**
- **Just over six in 10 women business owners state that they have long-term capital needs, a lower percentage than all small- to medium-sized firms. The types of long-term capital sought within the past year or that women business owners plan to seek in the next 12 months include term loans from a financial institution and equipment leasing.**
- **Although the long-term capital needs of women-owned businesses are similar to most businesses, a greater proportion of women-owned firms are turning, or are forced to turn, to private sources, and to a wider variety of sources, to fulfill their long-term capital needs.**

Business financing is one of the most important issues facing small businesses today. It is a key concern among women business owners, who are encountering significant barriers to access to capital. These barriers are hindering the growth of these businesses -- businesses that are growing at a faster rate than the national average despite these hindrances. Removal of these financial barriers would encourage even stronger growth in this important sector, and would result in much greater economic growth throughout the economy.

METHODOLOGY

In November 1992, the National Foundation for Women Business Owners (NFWBO) mailed 3,855 questionnaires to members of the National Association of Women Business Owners (NAWBO). Of the 3,855 questionnaires sent out, 1,071 completed questionnaires were returned -- for an impressive 28% response rate.

A respondent base of 1,071 yields statistical reliability of plus or minus 3.2% at the 95% confidence level. This means that, 95 times out of 100, survey responses will be within 3.2% of true population values.

The completed questionnaires were tabulated and analyzed by C.J. Olson Market Research in Minneapolis, MN, a woman-owned research firm. Carolyn Olson, President of C.J. Olson Market Research, also assisted NFWBO in the design of the survey.